MEDIOBANCA

Quarterly review of operations

(31 March 2016)

MEDIOBANCA

LIMITED COMPANY
SHARE CAPITAL € 435,510,047
HEAD OFFICE: PIAZZETTA ENRICO CUCCIA 1, MILAN, ITALY

REGISTERED AS A BANK
PARENT COMPANY OF THE MEDIOBANCA BANKING GROUP

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REVIEW OF GROUP OPERATIONS
31 MARCH 2016

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The Mediobanca Group's results for the nine months reflect stable revenues of €1,519m, following an impressive 7.8% increase in net interest income which offset the reduction in revenues from treasury operations from €181.4m to €97.4m due to the strong market turmoil. The substantial reduction in loan loss provisions (down from €410m to €318.8m) in all business segments, only partly offset by rising operating costs (up from €603.9m to €642.7m), drove an improvement in gross operating profit, up 5%, from €606m to €637m; while the contributions made to the Bank Resolution Fund (which totalled €85.8m, including the estimated share for 2016) cut the net profit from €465.6m to €442.4m.

Looking at the performance by business line, there was strong growth in the net profit earned by retail and consumer banking (from €52.8m to €119m), which offset the reduction in wholesale banking (from €157.5m to €100.1m) which was impacted by the fall in trading income (from €181.4m to €97.4m); while the result posted by principal investing improved from €233.2m to €266.3m. The main income items performed as follows:

– net interest income showed a 7.8% increase, from €839.9m to €905.7m, bearing out the same trend witnessed in recent quarters: consumer business up 13.3% (from €510.4m to €578.4m) due to higher volumes with profitability resilient, and wholesale banking declining (from €160m to €142.5m), due to the lower returns on assets outweighing the trend in the cost of funding;

– net treasury income of €97.4m (€181.4m), with €43.7m added by fixed-income trading in the third quarter;

– net fee and commission income totalled €336.4m, down on the €361m reported at the same stage last year, due to a reduction in fees generated by wholesale business (down from €198.2m to €172.4m) and consumer business (from €115.1m to €91.2m), reflecting the less favourable market trend than last year;

– the contribution from equity-accounted companies increased from €133.3m to €179.5m, due to the higher profits earned by Assicurazioni Generali in the third quarter totalling €41m (31/3/15: €10m).

Operating costs grew by 6.4%, from €603.9m to €642.7m, due to strengthening the risk management system and expansion of the Group's retail and consumer businesses.

Loan loss provisions fell by 22.2%, from €410m to €318.8m: €18.1m (€56.5m) in corporate and private banking, €290.5m (€342m) in retail and consumer finance, and €10.6m (€12.4m) in leasing. Provisioning for the third quarter totalled €95m, with the wholesale segment's contribution virtually nil as a result of several reversals. The reduction in the cost of risk from 174 bps to 126 bps did not affect the NPL coverage ratio, which rose to 54% (31/12/15: 53%), near the highest levels seen in the last three-year period.

Net gains on the securities portfolio of €98m (€117.5m) include the gain realized on tendering the Bank's investment in Pirelli in connection with the public tender offer for the company (€87.7m), whereas writedowns to AFS securities of €17m (€13.6m) chiefly reflect the RCS MediaGroup stake being adjusted to reflect its fair value (€15.1m).

Other provisions and charges of €91.3m consist of the €57.3m one-off contribution to the Bank Resolution Fund for the action taken in respect of Banca delle Marche, Banca Popolare dell'Etruria e del Lazio, Cassa di Risparmio di Chieti and Cassa di Risparmio di Ferrara; €25.3m by way of ordinary contributions to the Bank Resolution Fund (including the estimated amount for 2016), and €3.2m in respect of the Italian interbank deposit guarantee fund for 2H 2015.

Turning now to the individual areas of activity:

Corporate and private banking reported a €125.3m net profit (€184.6m), on a 20.3% reduction in revenues, reflecting the weak investment banking activity, offset only in part by the decrease in loan loss provisions (down from €56.5m to €18.1m). Both business segments delivered lower profits than last year: with wholesale banking down from €157.5m to €100.1m, although with a higher contribution for the third quarter (up from €39.9m to €43.4m), and private banking down from €27.1m to €25.2m.

Retail and consumer banking reflects a net profit of €119m, more than double the €52.8m posted last year, on higher revenues of €813.1m (€746.5m) and lower loan loss provisions of €290.5m (€342m).

Principal investing reported a net profit of €266.3m (€233.2m), due to a higher contribution from Assicurazioni Generali of €178.6m (€133.7m).

The Corporate centre (including leasing) showed a loss of €67.3m (-€9.2m) due primarily to the contributions to the Bank Resolution Funds referred to above. Leasing operations show a net profit of €4.9m (€2m), with revenues up from €40.3m to €42.3m, and loan loss provisions down from €12.4m to €10.6m.

Turning to the balance-sheet aggregates, loans and advances to customers reflect an increase from €33bn to €34.8bn, as do banking book bonds (from €8.7bn to €10.1bn), covered by lower net treasury assets (down from €6.4bn to €4.5bn) and the increase in funding (from €44.3bn to €45.5bn). Assets managed in private banking declined from €18.3bn to €18.1bn due to the market effect, and include approx. €2bn in credit funds managed by Cairn Capital; CheBanca! indirect funding rose from €3.6bn to €3.8bn.

The Group's capital ratios as at 31 March 2016, based on the phase-in regime and including the profit for the nine months net of the estimated pay-out, remain at high levels and comfortably above the regulatory limits: the Common Equity Tier 1 ratio stood at 12.48% (31/12/15: 12.40%) and the Total Capital ratio at 15.70% (16.06%). The fully-phased ratios (i.e. with full application of CRR – in particular the right to include the whole AFS reserve in the CET1 calculation – and the Assicurazioni Generali investment weighted at 370%) rise to 13.24% for the CET1 ratio and to 16.15% for the Total Capital ratio.

* * *

Significant events that took place during the three months under review include:

– affirmation by Fitch Ratings of Mediobanca's rating at BBB+ with stable outlook;

– completion of the mergers of Group companies Telco MB Srl and Sinto MB Srl into Mediobanca S.p.A., with effect in accounting terms from 1 July 2015;

– Massimiliano Fossati, Group Chief Risk Officer of Unicredit, was co-opted to the Board of Directors in place of Alessandro Decio; the Directors wish to place on record their thanks to Mr Decio for his tireless contribution to the Board's deliberations.

Consolidated financial statements*

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

CONSOLIDATED PROFIT AND LOSS ACCOUNT

(€ m)

	9 mths ended 31/3/15	6 mths ended 31/12/15	9 mths ended 31/3/16	Chg. %
Profit-and-loss data				
Net interest income	839.9	604.3	905.7	7.8
Treasury income	181.4	45.8	97.4	-46.3
Net fee and commission income	361.0	227.4	336.4	-6.8
Equity-accounted companies	133.3	138.8	179.5	34.7
Total income	**1,515.6**	**1,016.3**	**1.519.0**	**0.2**
Labour costs	(299.5)	(209.7)	(319.8)	6.8
Administrative expenses	(304.4)	(210.1)	(322.9)	6.1
Operating costs	**(603.9)**	**(419.8)**	**(642.7)**	**6.4**
Gains (losses) on AFS, HTM and L&R	117.5	92.5	98.0	-16.6
Loan loss provisions	(410.0)	(224.4)	(318.8)	-22.2
Provisions for financial assets	(13.2)	(12.8)	(18.5)	40.2
Other profits (losses)	—	(71.5)	(91.3)	—
Profit before tax	**606.0**	**380.3**	**545.7**	**-10.0**
Income tax for the period	(138.3)	(57.2)	(100.1)	-27.6
Minority interest	(2.1)	(2.0)	(3.2)	52.4
Net profit	**465.6**	**321.1**	**442.4**	**-5.0**

* For a description of the methods by which the data has been restated, see also the section entitled "Significant accounting policies".

RESTATED BALANCE SHEET

(€ m)

	30/6/15	31/12/15	31/3/16
Assets			
Treasury funds	4,920.3	6,360.4	4,496.5
AFS securities	8,063.1	8,109.7	8,755.6
of which: fixed-income	*6,950.5*	*7,181.6*	*7,822.3*
equities	*1,081.1*	*877.9*	*878.9*
Fixed financial assets (HTM & LR)	1,793.9	1,515.3	2,269.6
Loans and advances to customers	32,889.6	33,002.3	34,827.0
Equity investments	3,411.4	3,113.0	3,219.6
Tangible and intangible assets	718.9	765.2	759.1
Other assets	1,411.9	1,335.4	1,331.1
of which: tax assets	*954.2*	*869.9*	*873.7*
Total assets	**53,209.1**	**54,201.3**	**55,658.5**
Liabilities and net equity			
Funding	42,711.3	44,266.7	45,471.9
of which: debt securities in issue	*19,671.1*	*20,763.6*	*21,123.8*
retail deposits	*9,634.8*	*10,402.2*	*10,389.1*
Other liabilities	1,446.1	1,214.9	1,267.4
of which: tax liabilities	*625.0*	*512.6*	*541.0*
Provisions	184.6	181.2	183.1
Net equity	8,277.3	8,217.4	8,293.7
of which: share capital	*433.6*	*435.2*	*435.5*
reserves	*7,735.7*	*7,693.6*	*7,768.8*
minority interest	*108.0*	*88.6*	*89.4*
Profit for the period	589.8	321.1	442.4
Total liabilities and net equity	**53,209.1**	**54,201.3**	**55,658.5**
Tier 1 capital	*7,137.5*	*7,288.1*	*7,490.8*
Regulatory capital	*8,882.6*	*9,437.2*	*9,425.8*
Tier 1 capital/risk-weighted assets	*11.98%*	*12.40%*	*12.48%*
Regulatory capital/risk-weighted assets	*14.91%*	*16.06%*	*15.70%*
No. of shares in issue (millions)	*867.2*	*870.4*	*871.0*

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

(€ m)

31 March 2016	Corporate & Private Banking	Principal Investing	Retail & Consumer Banking	Corporate centre	Group
Profit-and-loss data					
Net interest income	170.0	—	691.3	40.7	905.7
Treasury income	87.3	15.9	—	0.2	97.4
Net fee and commission income	239.1	—	121.8	8.6	336.4
Equity-accounted companies	—	178.6	—	—	179.5
Total income	**496.4**	**194.5**	**813.1**	**49.5**	**1,519.0**
Labour costs	(168.2)	(5.7)	(125.6)	(20.5)	(319.8)
Administrative expenses	(124.0)	(1.1)	(199.8)	(28.6)	(322.9)
Operating costs	**(292.2)**	**(6.8)**	**(325.4)**	**(49.1)**	**(642.7)**
Gain (losses) on disposal of AFS shares	1.1	96.9	—	—	98.0
Loan loss provisions	(18.1)	—	(290.5)	(10.6)	(318.8)
Provisions for financial assets	(1.5)	(17.0)	—	—	(18.5)
Other profits (losses)	—	—	(5.5)	(85.8)	(91.3)
Profit before tax	**185.7**	**267.6**	**191.7**	**(96.0)**	**545.7**
Income tax for the period	(60.4)	(1.3)	(72.7)	31.9	(100.1)
Minority interest	—	—	—	(3.2)	(3.2)
Net profit	**125.3**	**266.3**	**119.0**	**(67.3)**	**442.4**
Cost/Income ratio (%)	58.9	3.5	40.0	99.2	42.3
Balance-sheet figures					
Treasury funds	5,519.6	—	8,782.4	13.8	4,496.5
AFS securities	7,563.7	870.3	534.2	—	8,755.6
Fixed financial assets (HTM & LR)	5,174.0	—	369.7	—	2,269.6
Equity investments	—	3,123.9	—	—	3,219.6
Loans and advances to customers	26,757.8	—	16,587.8	2,581.6	34,827.0
of which: to Group companies	*10,590.3*	*n.m.*	*n.m.*	*n.m.*	*n.m.*
Funding	(42,098.9)	—	(25,101.3)	(2,516.9)	(45,471.9)
Risk-weighted assets	33,526.6	11,383.7	12,881.9	2,233.3	60,025.5
No. of staff	1,125*	—	2,568	456	4,009

* Includes 140 staff employed by Banca Esperia pro-forma, not included in the Group total.

Notes:

1) Divisions comprise:
   - *CIB (Corporate and Private Banking):* comprises wholesale banking (WSB), which includes lending, structured finance and investment banking activity, and private banking (PB), which includes Compagnie Monégasque de Banque, Spafid, Cairn Capital and 50% of Banca Esperia pro forma;
   - *Principal Investing:* brings together all equity investments in associates (IAS 28) and AFS assets;
   - *Retail and Consumer Banking:* consumer credit and retail banking activities; the division includes Compass Banca, Futuro, Compass RE, Creditech and CheBanca!;
   - *Corporate Centre:* brings together the other Group companies (including leasing) and certain centralized Group costs (including in respect of the Board of Directors).

2) Sum of divisional data differs from Group total due to:
   - Banca Esperia being consolidated pro-rata (50%) rather than equity-accounted;
   - adjustments/differences arising on consolidation between business areas (minus €0.9m as at 31 March 2016 and €4.2m as at 31 March 2015).

(€ m)

31 March 2015	Corporate & Private Banking	Principal Investing	Retail & Consumer Banking	Corporate centre	Group
Profit-and-loss data					
Net interest income	185.3	—	612.4	40.1	839.9
Treasury income	176.3	10.4	0.2	—	181.4
Net fee and commission income	261.2	—	133.9	7.0	361.0
Equity-accounted companies	—	133.7	—	—	133.3
Total income	**622.8**	**144.1**	**746.5**	**47.1**	**1,515.6**
Labour costs	(160.8)	(6.7)	(115.5)	(25.3)	(299.5)
Administrative expenses	(108.1)	(1.5)	(211.1)	(17.6)	(304.4)
Operating costs	**(268.9)**	**(8.2)**	**(326.6)**	**(42.9)**	**(603.9)**
Gain (losses) on disposal of AFS shares	1.3	116.5	—	—	117.5
Loan loss provisions	(56.5)	—	(342.0)	(12.4)	(410.0)
Provisions for financial assets	0.4	(13.6)	—	—	(13.2)
Other profits (losses)	(2.7)	—	—	—	—
Profit before tax	**296.4**	**238.8**	**77.9**	**(8.2)**	**606.0**
Income tax for the period	(111.8)	(5.6)	(25.1)	1.1	(138.3)
Minority interest	—	—	—	(2.1)	(2.1)
Net profit	**184.6**	**233.2**	**52.8**	**(9.2)**	**465.6**
Cost/Income ratio (%)	43.2	5.7	43.8	91.1	39.8
Balance-sheet figures					
Treasury funds	6,029.0	—	7,472.8	132.4	6,006.4
AFS securities	5,896.1	1,340.7	690.5	—	7,627.2
Fixed financial assets (HTM & LR)	4,902.5	—	1,255.9	—	1,756.8
Equity investments	—	3,063.4	—	—	3,160.8
Loans and advances to customers	25,029.8	—	15,125.6	2,813.8	32,278.8
of which: to Group companies	*10,282.7*	*n.m.*	*n.m.*	*n.m.*	*n.m.*
Funding	(39,274.0)	—	(23,549.9)	(2,849.6)	(42,831.7)
Risk-weighted assets	34,751.8	11,908.4	11,663.1	2,419.8	60,743.1
No. of staff	1,009*	—	2,429	388	3,690

* Includes 136 staff employed by Banca Esperia pro-forma, not included in the Group total.

Balance Sheet

The main balance-sheet items, of which Mediobanca S.p.A. contributes approx. 50%, showed the following trends for the six months under review (comparative data as at 31 December 2015):

Funding – this item rose from €44.3bn to €45.5bn, due to increases in all items (short-term funding in particular), with the exception of retail funding which remained stable at €10.4bn.

	31/12/15		31/3/16		Chg. %
	(€ m)	%	(€ m)	%	
Debt securities	20,763.6	47%	21,123.8	46%	1.7%
CheBanca! retail funding	10,402.2	24%	10,389.1	23%	-0.1%
Interbank funds	4,064.2	9%	4,277.7	9%	5.3%
T-LTRO/LTRO	5,478.0	12%	5,478.0	12%	—
Other funds	3,558.7	8%	4,203.3	10%	18.1%
Total funding	**44,266.7**	**100%**	**45,471.9**	**100%**	**2.7%**

Loans and advances to customers – these climbed 5.5%, from €33bn to €34.8bn, with increases in wholesale lending (up 11.4%), consumer finance (up 2.5%, including factoring) and mortgage loans (up 1.6%), while the decline in leasing business continued (down 2.4%). Non-performing loans fell by 1.9%, from €1,075.4m to €1,055.2m, and now account for 3% (3.3%) of the total loan book with the coverage ratio up to 54% (near the highest levels seen in the last three years, with the ratio for consumer business in particular above 75%). Bad debts totalled €248.4m (€258.1m), and represent 0.71% (0.78%) of the total loan book.

	31/12/15		31/3/16		Chg. %
	(€ m)	%	(€ m)	%	
Wholesale Banking	13,181.9	40%	14,688.7	42%	11.4%
Private Banking	951.2	3%	971.7	3%	2.2%
Consumer	11,399.9	35%	11,683.7	34%	2.5%
- of which: factoring	*782.1*	*2%*	*904.5*	*3%*	*15.7%*
Retail Banking	4,823.6	15%	4,901.7	14%	1.6%
Leasing	2,645.7	7%	2,581.2	7%	-2.4%
Total loans and advances to customers	**33,002.3**	**100%**	**34,827.0**	**100%**	**5.5%**

	31/12/15		31/3/16		Chg. %
	(€ m)	%	(€ m)	%	
Wholesale Banking	403.0	37%	399.4	38%	-0.9%
Private Banking	2.6	—	4.4	—	69.2%
Consumer	252.2	24%	243.6	23%	-3.4%
Retail Banking	150.0	14%	148.5	14%	-1.0%
Leasing	267.6	25%	259.3	25%	-3.1%
Total net non performing loans	**1,075.4**	**100%**	**1,055.2**	**100%**	**-1.9%**
- of which: bad loans	*258.1*		*248.4*		*-3.8%*

Equity investments – these increased from €3,113m to €3,219.6m, on profits of €40.8m for the quarter and other increases in the equity reserves totalling €65.8m. Based on prices as at 31 March 2016, the book value of the Assicurazioni Generali investment rises from €3,011.4m to €3,117.4m, above the market value, translating to a potential €452.6m loss based on current values.

	% share capital	31/12/15	31/3/16
Assicurazioni Generali	13.24	3,011.4	3,117.4
Banca Esperia	50.0	95.7	96.3
Burgo Group	22.13	—	—
Athena Private Equity	24.27	5.9	5.9
Total Investments		**3,113.0**	**3,219.6**

Fixed financial assets – these rose from €1,515.3m to €2,269.6m, due to the increase in holdings in Italian and non-Italian government securities. The portfolio reflects an unrealized gain at the reporting date of €90.6m (€82.5m).

	31/12/15		31/3/16		Chg. %
	(€ m)	%	(€ m)	%	
Financial assets held to maturity	1,189.0	78%	2,054.4	91%	72.8%
Unlisted debt securities (stated at cost)	326.3	22%	215.2	9%	-34.0%
Total fixed financial assets	**1,515.3**	**100%**	**2,269.6**	**100%**	**49.8%**

	31/12/15		31/3/16		Chg. %
	Book Value	%	Book Value	%	
Italian government securities	257.6	17%	732.7	32%	n.m.
Foreign countries securities	—	0%	410.2	18%	n.m.
Other government securities	535.7	35%	502.4	22%	-6.2%
of which: Italian	*303.0*	*20%*	*288.9*	*13%*	*-4.7%*
Corporate bonds	722.0	48%	624.3	28%	-13.5%
Total debt securities	**1,515.3**	**100%**	**2,269.6**	**100%**	**49.8%**

AFS securities – this portfolio increased from €8,109.7m to €8,755.6m, exclusively in the fixed-income component (approx. €640m).

	31/12/15		31/3/16		Chg. %
	(€ m)	%	(€ m)	%	
Debt securities	7,181.6	88%	7,822.3	89%	8.9%
Equities	877.9	11%	878.9	10%	0.1%
Others	50.2	1%	54.4	1%	8.4%
Total AFS securities	**8,109.7**	**100%**	**8,755.6**	**100%**	**8.0%**

	31/12/15			31/3/16		
	Book Value	**%**	**Total AFS reserve**	**Book Value**	**%**	**Total AFS reserve**
Italian government securities	4,138.0	58%	101.1	4,610.6	59%	94.5
Other government securities	1,338.7	19%	0.2	1,326.3	17%	10.9
Financial bonds	1,127.2	16%	31.3	1,287.2	16%	38.5
of which: Italian	*660.9*	*9%*	*18.3*	*821.3*	*10%*	*27.8*
Corporate bonds	577.7	7%	16.7	598.2	8%	22.6
Total debt securities	**7,181.6**	**100%**	**149.3**	**7,822.3**	**100%**	**166.5**

On the equity side, there were investments worth €25.1m, against disposals and collections from private equity funds totalling €7.8m which generated €5.5m in profits, along with other downward adjustments to reserves and writedowns amounting to €16.1m.

	31/12/15			31/3/16		
	Book value	**% ord.**	**Total AFS reserve**	**Book value**	**% ord.**	**Total AFS reserve**
Atlantia	548.1	2.71	245.1	545.2	2.71	243.2
Italmobiliare	88.7	9.5	54.1	82.9	9.5	48.3
RCS MediaGroup	20.2	6.2	—	15.4	6.2	—
Other listed companies	47.4	—	22.8	42.7	—	19.7
Other unlisted companies	173.5	—	36.3	192.7	—	32.4
Total equities	**877.9**		**358.3**	**878.9**		**343.6**

The valuation reserve remained virtually unchanged, edging up from €507.6m to €510.1m, of which €166.5m (€149.3m) involves the bond component and €343.6m (€358.3m) the equity component.

Treasury assets – the decrease in this item from €6.4bn to €4.5bn, due to a decrease in money market assets and a reduction in the held-for-trading portfolio (debt securities and equities) in favour of the banking book.

	31/12/15		31/3/16		Chg. %
	(€ m)	**%**	**(€ m)**	**%**	
Debt securities	1,671.0	26%	1,442.9	32%	-13.7%
Equities	3,234.9	51%	1,853.4	41%	-42.7%
Derivative contract valuations	(385.0)	-6%	(461.8)	-10%	19.9%
Stock lending	(1,324.5)	-21%	(164.4)	-4%	-87.6%
Others (cash, repos, time deposits)	3,164.0	50%	1,826.4	41%	-42.3%
Total net treasury assets	**6,360.4**	**100%**	**4,496.5**	**100%**	**-29.3%**

	31/12/15		31/3/16		Chg. %
	Book Value	%	Book Value	%	
Italian government securities	1,294.5	78%	54.8	4%	n.m.
Other government securities	(1,342.3)	-80%	50.0	3%	n.m.
Financial bonds	1,209.3	72%	1,021.0	71%	-15.6%
of which: Italian	*533.0*	*32%*	*376.0*	*26%*	*-29.5%*
Corporate bonds	509.5	30%	317.1	22%	-37.8%
Total debt securities	**1,671.0**	**100%**	**1,442.9**	**100%**	**-13.7%**

Net equity – net equity rose by 2.3%, from €8,449.9m to €8,646.7m, up €196.8m, due to profit for the quarter totalling €121.3m and a €62m increase in the valuation reserves due principally to the share relating to Assicurazioni Generali (which was up €58.9m). The share capital increased from €435.2m to €435.5m, due to 655,000 stock options being exercised in an amount of €4.3m, including the share premium.

(€ m)

	31/12/15	31/3/16	Chg. %
Share capital	435.2	435.5	0.1%
Other reserves	6,632.4	6,645.6	0.2%
Valuation reserves	1,061.2	1,123.2	5.8%
of which: AFS securities	*436.0*	*432.7*	*-0.8%*
cash flow hedges	*(15.7)*	*(3.6)*	*-77.1%*
equity investments	*632.5*	*691.4*	*9.3%*
Profit for the period	321.1	442.4	37.8%
Total Group net equity	**8,449.9**	**8,646.7**	**2.3%**

The AFS reserve involves equities as to €343.6m and bonds and other securities as to €172.1m (€94.5m of which Italian government securities), net of the €83m tax effect.

(€ m)

	31/12/15	31/3/16	Chg. %
Equities	358.3	343.6	-4.1%
Bonds and other debt securities	154.8	172.1	11.2%
of which: Italian	101.2	*94.5*	-6.6%
Tax effect	(77.1)	(83.0)	7.7%
Total AFS reserve	**436.0**	**432.7**	**-0.8%**

Profit and loss account

Net interest income – the 7.8% increase in this item, from €839.9m to €905.7m, reflects the trend witnessed in recent quarters, both in terms of amount (around €300m per quarter) and contribution, with increases in consumer finance (13.3%), retail lending (up 10.7%) and private banking (up 8.7%), which managed to defend margins on lendings despite the reduced cost of funding, while the 10.9% reduction in net interest income earned by corporate banking reflects this segment's greater exposure to asset repricing.

(€ m)

	9 mths ended 31/3/15	9 mths ended 31/3/16	Chg. %
Wholesale banking	510.4	578.4	13.3%
Private banking	160.0	142.5	-10.9%
Consumer	102.0	112.9	10.7%
Retail banking	25.3	27.5	8.7%
Others (including intercompany accounts)	42.2	44.4	5.2%
Net interest income	**839.9**	**905.7**	**7.8%**

Net treasury income – net treasury income fell from €181.4m to €97.4m, due to the lower gains on forex trading (€20.5m, compared to €79.6m last year) and on the banking book (€7.8m, as against €63.7m), in part offset by gains of €28.8m on fixed-income trading. By contrast equity trading showed a reduction, despite the higher dividends on the AFS portfolio.

(€ m)

	9 mths ended 31/3/15	9 mths ended 31/3/16	Chg. %
Dividends	10.4	16.0	53.8%
Fixed-income trading profit	114.2	57.1	-50.0%
Equity trading profit	56.8	24.3	-57.2%
Net trading income	**181.4**	**97.4**	**-46.3%**

Net fee and commission income – the 6.8% reduction in this item reflects the lower contribution from wholesale banking in this area (down 13% for the nine months) despite a good performance in the third quarter with approx. €51m being earned. The 62.8% growth in fees earned from retail operations reflects the increase in asset management and insurance business by CheBanca!, which more than doubled from €8.3m to €18.4m.

			(€ m)
	9 mths ended 31/3/15	**9 mths ended 31/3/16**	**Chg. %**
Wholesale banking	198.2	172.4	-13.0%
Private banking	63.0	66.7	5.9%
Consumer	115.1	91.2	-20.8%
Retail banking	18.8	30.6	62.8%
Others (including intercompany accounts)	(34.1)	(24.5)	-28.2%
Net fee and commission income	**361.0**	**336.4**	**-6.8%**

Operating costs – the 6.4% increase in operating costs, up from €603.9m to €642.7m, is chiefly attributable to strengthening the headcount in the corporate, consumer and retail banking segments. Administrative expenses rose from €274.1m to €292.8m, due to the cost of projects in the risk management, treasury and asset management areas, as well as the higher consumer finance volumes, in part offset by reductions in spending on marketing and advertising.

			(€ m)
	9 mths ended 31/3/15	**9 mths ended 31/3/16**	**Chg. %**
Labour costs	299.5	319.8	6.8%
of which: directors	*5.9*	*6.4*	*8.5%*
stock option and performance share schemes	*7.6*	*5.9*	*-22.4%*
Sundry operating costs and expenses	304.4	322.9	6.1%
of which: depreciation and amortization	*28.7*	*28.5*	*-0.7%*
administrative expenses	*274.1*	*292.8*	*6.8%*
Operating costs	**603.9**	**642.7**	**6.4%**

			(€ m)
	9 mths ended 31/3/15	**9 mths ended 31/3/16**	**Chg. %**
Legal, tax and professional services	8.8	10.7	21.6%
Other professional services	16.7	23.3	39.5%
Credit recovery activities	32.1	31.9	-0.6%
Marketing and communication	41.0	36.7	-10.5%
Rent and property maintenance	28.0	28.6	2.1%
EDP	43.1	47.3	9.7%
Financial information subscriptions	20.4	22.6	10.8%
Bank services, collection and payment commissions	13.5	13.3	-1.5%
Operating expenses	38.0	38.5	1.3%
Other labour costs	15.6	15.2	-2.6%
Other costs	7.2	11.2	55.6%
Direct and indirect taxes	9.7	13.5	39.2%
Total administrative expenses	**274.1**	**292.8**	**6.8%**

Loan loss provisions – these reduced by 22.2%, from €410m to €318.8m, due to a general improvement in the loan book. In particular the cost of risk in consumer finance came in at 328 bps, down on both the figure reported at 31 December 2015 (341 bps) and the one posted at the same time last year (426 bps). Provisioning in wholesale banking (17 bps, compared to 57 bps last year), was helped by reversals of some €7m during the three months. Conversely, net NPLs declined from €1,075.4m to €1,055.2m, with the coverage ratio at the consolidated level up further to 54%, near the highest levels seen in the past three years.

(€ m)

	9 mths ended 31/3/15	9 mths ended 31/3/16	Chg. %
Wholesale banking	55.6	17.6	-68.3%
Private banking	0.9	0.5	-44.4%
Consumer	327.7	278.0	-15.2%
of which: factoring	*7.8*	*8.8*	*12.8%*
Retail banking	14.3	12.5	-12.6%
Other	11.5	10.2	-11.3%
Loan loss provisions	**410.0**	**318.8**	**-22.2%**
Cost of risk (bps)	**174**	**126**	**-27.6%**

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

A review of the Group's performance in its main areas of operation is provided below, according to the customary segmentation.

Corporate and Private Banking (Wholesale Banking and Private Banking)

(€ m)

	9 mths ended 31/3/15	6 mths ended 31/12/15	9 mths ended 31/3/16	Chg. %
Profit-and-loss data				
Net interest income	185.3	117.8	170.0	-8.3
Treasury income	176.3	35.5	87.3	-50.5
Net fee and commission income	261.2	164.0	239.1	-8.5
Total income	**622.8**	**317.3**	**496.4**	**-20.3**
Labour costs	(160.8)	(108.5)	(168.2)	4.6
Administrative expenses	(108.1)	(80.4)	(124.0)	14.7
Operating costs	**(268.9)**	**(188.9)**	**(292.2)**	**8.7**
Gain (losses) on disposal of AFS shares	1.3	1.1	1.1	-15.4
Loan loss provisions	(56.5)	(18.8)	(18.1)	-68.0
Provisions for financial assets	0.4	(1.0)	(1.5)	n.m.
Other profits (losses)	(2.7)	—	—	n.m.
Profit before tax	**296.4**	**109.7**	**185.7**	**-37.3**
Income tax for the period	(111.8)	(35.1)	(60.4)	-46.0
Net profit	**184.6**	**74.6**	**125.3**	**-32.1**
Cost/Income ratio (%)	43.2	59.5	58.9	

	30/6/15	31/12/15	31/3/16
Balance-sheet data			
Treasury funds	5,090.4	6,703.3	5,519.6
AFS securities	6,603.7	6,926.6	7,563.7
Fixed financial assets (HTM & LR)	5,133.7	4,781.5	5,174.0
Loans and advances to customers	25,121.0	24,493.1	26,757.8
of which: to Group companies	*10,015.2*	*9,852.2*	*10,590.3*
Funding	(39,033.5)	(40,072.6)	(42,098.9)

Wholesale Banking

(€ m)

	9 mths ended 31/3/15	6 mths ended 31/12/15	9 mths ended 31/3/16	Chg. (%)
Profit-and-loss data				
Net interest income	160.0	99.4	142.5	-10.9
Treasury income	162.8	29.7	78.4	-51.8
Net fee and commission income	198.2	121.4	172.4	-13.0
TOTAL INCOME	**521.0**	**250.5**	**393.3**	**-24.5**
Labour costs	(119.6)	(80.7)	(123.5)	3.3
Administrative expenses	(80.6)	(59.8)	(91.9)	14.0
OPERATING COSTS	**(200.2)**	**(140.5)**	**(215.4)**	**7.6**
Loan loss provisions	(55.6)	(18.5)	(17.6)	-68.3
Provisions for financial assets	0.6	(0.9)	(1.4)	n.m.
PROFIT BEFORE TAX	**265.8**	**90.6**	**158.9**	**-40.2**
Income tax for the period	(108.3)	(33.9)	(58.8)	-45.7
NET PROFIT	**157.5**	**56.7**	**100.1**	**-36.4**
Cost/Income ratio (%)	38.4	56.1	54.8	

	30/6/15	31/12/15	31/3/16
Balance-sheet data			
Treasury funds	3,488.0	5,019.0	3,606.7
AFS securities	5,831.2	6,264.3	6,955.6
Fixed financial assets (HTM & LR)	4,946.3	4,638.2	5,032.7
Loans and advances to customers	23,719.6	23,034.0	25,279.0
of which: to Group companies	*10,015.2*	*9,852.2*	*10,590.3*
Funding	(35,863.6)	(36,923.1)	(38,780.0)
No. of staff	654	665	674

This division earned a net profit of €100.1m (€157.5m) in the nine months under review, reflecting a 24.5% reduction in revenues, in a scenario where the reference market remains weak and despite a healthy contribution of €43m (€39.9m) for the third quarter. In particular:

– net interest income fell by 10.9%, from €160m to €142.5m, due to the ongoing repricing of assets, treasury in particular, which has translated to consecutive reductions in this item for the last three quarters (€52.2m, €47.2m and €43.1m);

– net trading income fell from €162.8m to €78.4m due to lower gains on forex trading of €17.9m (€76.5m) and on banking book securities of €6.7m (€62.8m), despite a good performance being posted for the third quarter (€48.6m) chiefly in relation to capital market solutions trading;

– net fee and commission income declined to €172.4m (€198.2m), on reduced contributions from equity capital market activity (from €87.5m to €52.8m) and lending (from €61.1m to €40.4m); meanwhile there is increases in fees from M&A (from €23.1m to €46.2m).

The 7.6% increase in operating costs, from €200.2m to €215.4m, reflects the growth in size and also non-recurring costs due to specific projects.

Loan loss provisions stood at roughly one-third of the total recorded twelve months previously, at €17.6m (€55.6m), boosted in the third quarter by the lack of new additions to this category along with reversals of previous provisions totalling some €7m; the coverage ratio remains stable at 47%.

On the balance-sheet side, the third quarter saw recoveries in loans and advances to customers (up from €13.2bn to €14.7bn) and banking book securities (from €10.9bn to €12bn), covered by the increase in funding (from €36.9bn to €38.8bn) and the reduction in net treasury assets (from €5bn to €3.6bn).

	31/12/15		31/3/16		Chg. %
	(€ m)	%	(€ m)	%	
Italy	7,030.5	53%	7,562.5	51%	7.6%
France	1,242.3	9%	1,123.2	8%	-9.6%
Spain	794.8	6%	1,050.5	7%	32.2%
Germany	630.5	5%	949.9	6%	50.7%
UK	619.9	5%	630.6	4%	1.7%
Other non-resident customers	2,863.8	22%	3,372.0	24%	17.7%
Total loans and advances to customers	**13,181.8**	**100%**	**14,688.7**	**100%**	**11.4%**

	31/12/15		31/3/16		Chg. %
	(€ m)	%	(€ m)	%	
Debt securities	20,763.4	56%	21,154.3	55%	1.9%
Interbank funding	9,435.1	26%	10,200.8	26%	8.1%
of which: intercompany	*8,011.8*	*22%*	*8,176.6*	*21%*	*2.1%*
T-LTRO/LTRO	5,478.0	15%	5,478.0	14%	—
Securitizations and other funds	1,246.6	3%	1,946.9	5%	56.2%
Total funding	**36,923.1**	**100%**	**38,780.0**	**100%**	**5.0%**

	31/12/15		31/3/16		Chg. %
	(€ m)	%	(€ m)	%	
AFS debt securities	6,264.3	57%	6,955.6	58%	11.0%
Financial assets held to maturity	1,175.9	11%	2,042.5	17%	73.7%
Unlisted debt securities (stated at cost)	3,462.3	32%	2,990.2	25%	-13.6%
Total fixed and AFS securities	**10,902.5**	**100%**	**11,988.3**	**100%**	**10.0%**

	31/12/15			31/3/16			Chg. (%)
	Book Value	%	Total AFS reserve	Book Value	%	Total AFS reserve	Book Value
Italian government securities	3,873.3	36%	96.5	4,822.8	40%	91.3	24.5%
Other government securities	1,283.6	12%	0.2	1,717.9	14%	10.7	33.8%
Financial bonds	4,525.6	42%	27.2	4,300.2	36%	35.0	-5.0%
of which: Italian	*4,058.4*	*37%*	*15.4*	*3,844.5*	*32%*	*24.4*	*-5.3%*
Corporate bonds	1,220.0	10%	17.5	1,147.4	9%	22.5	-6.0%
Total debt securities	**10,902.5**	**100%**	**141.4**	**11,988.3**	**100%**	**159.5**	**10.0%**

	31/12/15		31/3/16		Chg. %
	(€ m)	%	(€ m)	%	
Debt securities	808.6	16%	427.2	12%	-47.2%
Equities	3,230.4	64%	1,834.3	51%	-43.2%
Derivative contract valuations	(364.1)	-7%	(435.5)	-12%	19.6%
Stock lending	(1,324.5)	-26%	(164.4)	-5%	-87.6%
Others (repos, time deposits, derivatives etc.)	2,668.6	53%	1,945.1	54%	-27.1%
Total net treasury assets	**5,019.0**	**100%**	**3,606.7**	**100%**	**-28.1%**

Private Banking

(€ m)

	9 mths ended 31/3/15	6 mths ended 31/12/15	9 mths ended 31/3/16	Chg. (%)
Profit-and-loss data				
Net interest income	25.3	18.4	27.5	8.7
Treasury income	13.5	5.8	8.9	-34.1
Net fee and commission income	63.0	42.6	66.7	5.9
Total income	**101.8**	**66.8**	**103.1**	**1.3**
Labour costs	(41.2)	(27.8)	(44.7)	8.5
Administrative expenses	(27.5)	(20.6)	(32.1)	16.7
Operating costs	**(68.7)**	**(48.4)**	**(76.8)**	**11.8**
Gain (losses) on disposal of AFS shares	1.3	1.1	1.1	-15.4
Loan loss provisions	(0.9)	(0.3)	(0.5)	-44.4
Provisions for financial assets	(0.2)	(0.1)	(0.1)	-50.0
Other profits (losses)	(2.7)	—	—	n.m.
Profit before tax	**30.6**	**19.1**	**26.8**	**-12.4**
Income tax for the period	(3.5)	(1.2)	(1.6)	-54.3
Net profit	**27.1**	**17.9**	**25.2**	**-7.0**
Cost/Income ratio (%)	67.5	72.5	74.5	

	30/6/15	31/12/15	31/3/16
Balance-sheet data			
Treasury funds	1,602.4	1,684.3	1,912.9
AFS securities	772.5	662.3	608.1
Fixed financial assets (HTM & LR)	187.4	143.3	141.3
Loans and advances to customers	1,401.4	1,459.1	1,478.8
Funding	(3,169.9)	(3,149.5)	(3,318.9)
Assets under management [1]	16,578.9	18,321.1	18,071.9
Securities held on a fiduciary basis [1]	2,168.1	14,332.8	9,000.2
No. of staff	380	442 [2]	451 [2]

[1] Includes Cairn Capital.
[2] Includes 60 staff employed by Cairn Capital.

Private banking delivered a net profit of €25.2m (€27.1m), with revenues up slightly, from €101.8m to €103.1m, on 8.7% growth in net interest income and a 5.9% rise in fees and commissions, in part offset by lower treasury income of €8.9m (€13.5m). Operating costs were up 11.8%, reflecting the consolidation of Cairn Capital (adding €4.8m for the three months). Assets under management on a discretionary and/or non-discretionary basis at the reporting date totalled €18.1bn (31/12/15: €18.3bn), €7.6bn (€7.8bn) of which for CMB and €8.5bn (€8.6bn) for Banca Esperia and €2bn of credit funds managed by Cairn Capital. Securities held on a fiduciary basis comprehend €6.1bn of Long Term Advice and Legacy Assets, managed by Cairn Capital.

Principal Investing (equity investment portfolio)

(€ m)

	9 mths ended 31/3/15	6 mths ended 31/12/15	9 mths ended 31/3/16	Chg. (%)
Profit-and-loss data				
Treasury income	10.4	14.8	15.9	52.9
Equity-accounted companies	133.7	138.4	178.6	33.6
Total income	**144.1**	**153.2**	**194.5**	**35.0**
Labour costs	(6.7)	(3.8)	(5.7)	-14.9
Administrative expenses	(1.5)	(0.7)	(1.1)	-26.7
Operating costs	**(8.2)**	**(4.5)**	**(6.8)**	**-17.1**
Gain (losses) on disposal of AFS shares	116.5	91.5	96.9	-16.8
Provisions for financial assets	(13.6)	(11.9)	(17.0)	25.0
Profit before tax	**238.8**	**228.3**	**267.6**	**12.1**
Income tax for the period	(5.6)	(0.1)	(1.3)	-76.8
Net profit	**233.2**	**228.2**	**266.3**	**14.2**

	30/6/15	31/12/15	31/3/16
AFS securities	1,071.5	869.0	870.3
Equity investments	3,318.1	3,017.2	3,123.9

This division delivered a net profit of €266.3m for the nine months, representing an improvement on the €233.2m posted at the same stage last year, due chiefly to a higher contribution from Assicurazioni Generali (up from €133.7m to €178.6m). In the nine months under review there have been gains on disposals totalling €96.9m (€87.7m of which in respect of the Pirelli investment) and value adjustments totalling €17m (chiefly to the RCS MediaGroup stage).

Retail and Consumer Banking (financial services to households)

(€ m)

	9 mths ended 31/3/15	6 mths ended 31/12/15	9 mths ended 31/3/16	Chg. (%)
Profit-and-loss data				
Net interest income	612.4	456.3	691.3	12.9
Treasury income	0.2	0.1	—	n.m.
Net fee and commission income	133.9	80.3	121.8	-9.0
Total income	**746.5**	**536.7**	**813.1**	**8.9**
Labour costs	(115.5)	(83.3)	(125.6)	8.7
Administrative expenses	(211.1)	(130.5)	(199.8)	-5.4
Operating costs	**(326.6)**	**(213.8)**	**(325.4)**	**-0.4**
Loan loss provisions	(342.0)	(198.1)	(290.5)	-15.1
Other profits (losses)	—	(5.1)	(5.5)	n.m.
Profit before tax	**77.9**	**119.7**	**191.7**	**n.m.**
Income tax for the period	(25.1)	(48.3)	(72.7)	n.m.
Net profit	**52.8**	**71.4**	**119.0**	**n.m.**
Cost/Income ratio (%)	43.8	39.8	40.0	

	30/6/15	31/12/15	31/3/16
Balance-sheet data			
Treasury funds	7,248.8	8,591.8	8,782.4
AFS securities	700.1	539.0	534.2
Fixed financial assets (HTM & LR)	1,264.5	368.9	369.7
Loans and advances to customers	15,512.1	16,225.0	16,587.8
Funding	(23,730.9)	(24,627.3)	(25,101.3)

Consumer Banking

				(€ m)
	9 mths ended 31/3/15	**6 mths ended 31/12/15**	**9 mths ended 31/3/16**	**Chg. (%)**
Profit-and-loss data				
Net interest income	510.4	380.6	578.4	13.3
Treasury income	0.2	0.1	—	n.m.
Net fee and commission income	115.1	59.8	91.2	-20.8
Total income	**625.7**	**440.5**	**669.6**	**7.0**
Labour costs	(71.1)	(50.7)	(76.5)	7.6
Administrative expenses	(140.0)	(82.9)	(127.8)	-8.7
Operating costs	**(211.1)**	**(133.6)**	**(204.3)**	**-3.2**
Loan loss provisions	(327.7)	(190.1)	(278.0)	-15.2
Other profits (losses)	—	(5.1)	(5.5)	n.m.
Profit before tax	**86.9**	**111.7**	**181.8**	**n.m.**
Income tax for the period	(25.2)	(45.6)	(69.2)	n.m.
Net profit	**61.7**	**66.1**	**112.6**	**82.5**
Cost/Income ratio (%)	33.7	30.3	30.5	

	30/6/15	**31/12/15**	**31/3/16**
Balance-sheet data			
Treasury funds	612.6	584.7	519.8
AFS securities	87.9	77.4	73.6
Fixed financial assets (HTM & LR)	0.9	0.9	0.6
Loans and advances to customers	10,906.3	11,399.9	11,683.7
of which: factoring	*450.7*	*713.5*	*842.7*
Funding	(10,884.4)	(11,234.0)	(11,414.5)
New loans	6,235.3	3,071.7	4,707.4
No. of branches	164	164	164
No. of staff	1,540	1,572	1,593

This division reported a net profit of €112.6m for the nine months, virtually double the €61.7m posted last year, on higher revenues which climbed 7%, from €625.7m to €669.6m, and lower loan loss provisions (down 15.2%, from €327.7m to €278m) and despite €24.1m in non-recurring charges paid to settle a tax dispute. Net interest income rose by 13.3%, from €510.4m to €578.4m, due to higher volumes and stable margins against a further reduction in the cost of funding. The reduction in loan loss provisions reflects the lack of new additions to the NPL category and the continual improvement in credit recovery performances: hence the cost of risk for the quarter fell from 341 bps to 328 bps (374 bps), despite coverage ratios being near the highest levels witnessed in recent years (75% for NPLs and 1.6% for performing loans). Loans and advances to customers as at 31 March 2016 were up 2.5% (from €11,399.9m to €11,683.7m), to which factoring business contributed €842.7m (€713.5m), on higher new loans of €4,707.4m (€4,590m). Non-performing items declined from €252.2m to €243.6m.

Retail Banking

(€ m)

	9 mths ended 31/3/15	6 mths ended 31/12/15	9 mths ended 31/3/16	Chg. (%)
Profit-and-loss data				
Net interest income	102.0	75.7	112.9	10.7
Net fee and commission income	18.8	20.5	30.6	62.8
Total income	**120.8**	**96.2**	**143.5**	**18.8**
Labour costs	(44.4)	(32.6)	(49.1)	10.6
Administrative expenses	(71.1)	(47.6)	(72.0)	1.3
Operating costs	**(115.5)**	**(80.2)**	**(121.1)**	**4.8**
Loan loss provisions	(14.3)	(8.0)	(12.5)	-12.6
Profit before tax	**(9.0)**	**8.0**	**9.9**	**n.m.**
Income tax for the period	0.1	(2.7)	(3.5)	n.m.
Net profit	**(8.9)**	**5.3**	**6.4**	**n.m.**
Cost/income ratio (%)	95.6	83.4	84.4	

	30/6/15	31/12/15	31/3/16
Balance-sheet data			
Treasury funds	6,636.2	8,007.1	8,262.6
AFS securities	612.2	461.6	460.6
Fixed financial assets (HTM & LR)	1,263.6	368.0	369.1
Loans and advances to customers	4,605.8	4,825.1	4,904.1
Assets under management	2,853.0	3,604.0	3,796.0
Retail funding	(9,634.8)	(10,402.2)	(10,389.1)
New loans	656.3	513.6	767.0
No. of branches	57	57	57
No. of staff	941	971	975

The €6.4m profit for the nine months compares with an €8.9m loss last year, following an 18.8% increase in revenues driven by net interest income (up 10.7%) and to fees and commissions (which rose from €18.8m to €30.6m), including those earned on asset management and insurance products, for which AUM reached €2,856m (30/6/15: €1,946.2m; 31/12/15: €2,682m). Loan loss provisions of €12.5m (€14.3m) reflect a cost of risk of 35 bps (43 bps) and a stable coverage ratio of 48.9%. In the third quarter retail funding remained virtually unchanged at €10.4bn, helped by the new promotion on three-month tied products and growth in current accounts (up from €2,927m to €3,210m). The increase in loans and advances, from €4,825.1m to €4,904.1m reflect the strong growth in new loans (from €444m to €767m) and also the resumption in mortgage subrogations.

Leasing

(€ m)

	9 mths ended 31/3/15	6 mths ended 31/12/15	9 mths ended 31/3/16	Chg. (%)
Profit-and-loss data				
Net interest income	40.2	27.7	40.7	1.2
Treasury income	—	0.1	0.2	n.m.
Net fee and commission income	0.1	0.8	1.4	n.m.
Total income	**40.3**	**28.6**	**42.3**	**5.0**
Labour costs	(10.6)	(6.7)	(10.3)	-2.8
Administrative expenses	(10.0)	(7.1)	(10.1)	1.0
Operating costs	**(20.6)**	**(13.8)**	**(20.4)**	**-1.0**
Loan loss provisions	(12.4)	(7.8)	(10.6)	-14.5
Profit before tax	**7.3**	**7.0**	**11.3**	**54.8**
Income tax for the period	(3.2)	(2.0)	(3.2)	—
Minority interest	(2.1)	(2.0)	(3.2)	52.4
Net profit	**2.0**	**3.0**	**4.9**	**n.m.**
Cost/income ratio (%)	51.1	48.3	48.2	

	30/6/15	31/12/15	31/3/16
Balance-sheet data			
Treasury funds	138.2	29.6	12.8
Loans and advances to customers	2,760.8	2,646.2	2,581.6
Funding	(2,775.5)	(2,591.1)	(2,499.3)
New loans	480.0	201.0	290.0
No. of staff	144	143	145

Leasing recorded a €4.9m profit for the nine months under review, an improvement on the result posted last year (€2m) due to higher revenues (which were up 5%), declining costs (down 1%) and lower loan loss provisions (down 14.5%). The latter in particular reflect the ongoing improvement in the quality of the loan book, on higher coverage ratios for non-performing items (31.2%, compared with 30.3% as at 31 December 2015). Accounts outstanding declined from €2,646.2m to €2,581.6m, due to lower new business for the period of €290m (€373m); net non-performing items decreased from €267.6m to €259.3m.

Review of Group companies' performances

Mediobanca

RESTATED PROFIT AND LOSS ACCOUNT

(€ m)

	9 mths ended 31/3/15	6 mths ended 31/12/15	9 mths ended 31/3/16	Chg. (%)
Profit-and-loss data				
Net interest income	136.1	84.7	120.5	-11.5
Treasury income	175.5	35.3	93.1	-47.0
Net fee and commission income	193.8	122.1	174.2	-10.1
Equity-accounted companies	—	—	—	—
Total income	**505.4**	**242.1**	**387.8**	**-23.3**
Labour costs	(135.6)	(90.6)	(138.4)	2.1
Administrative expenses	(86.8)	(67.9)	(103.6)	19.4
Operating costs	**(222.4)**	**(158.5)**	**(242.0)**	**8.8**
Gain (losses) on disposal of AFS shares	116.5	91.5	96.9	-16.8
Loan loss provisions	(56.0)	(18.2)	(17.4)	-68.9
Provisions for financial assets	(13.1)	(12.8)	(18.4)	40.5
Impairment charges to equity investments	(2.1)	—	—	n.m.
Other profits (losses)	—	(63.7)	(82.8)	n.m.
Profit before tax	**328.3**	**80.4**	**124.1**	**-62.2**
Income tax for the period	(100.0)	(8.0)	(22.5)	-77.5
Net profit	**228.3**	**72.4**	**101.6**	**-55.5**

RESTATED BALANCE SHEET

(€ m)

	30/6/15	31/12/15	31/3/16
Assets			
Treasury funds	3,183.3	4,944.3	3,187.0
AFS securities	6,407.1	6,585.2	7,825.9
Fixed financial assets (HTM & LR)	4,946.3	4,638.2	5,032.7
Loans and advances to customers	22,522.9	21,553.8	23,751.5
Equity investments	3,159.7	3,191.9	2,704.7
Tangible and intangible assets	132.2	130.8	129.9
Other assets	470.3	394.2	421.6
Total assets	**40,821.8**	**41,438.4**	**43,053.3**
Liabilities and net equity			
Funding	34,656.2	35,674.7	37,145.1
Other liabilities	826.6	587.5	619.9
Provisions	149.3	147.3	148.7
Net equity	4,856.7	4,956.5	5,038.0
Profit for the period	333.0	72.4	101.6
Total liabilities and net equity	**40,821.8**	**41,438.4**	**43,053.3**

A net profit of €101.6m (€228.3m) was earned in the nine months, following €82.8m in contributions made to the Bank Resolution Fund and a 23.3% reduction in revenues, from €505.4m to €387.8m with the main items reflecting the following trends:

- net interest income fell by 11.5%, from €136.1m to €120.5m, due to the ongoing negative repricing of returns on assets;
- net treasury income fell from €175.5m to €93.1m, due to lower gains on forex trading of €16.1m (€77.8m) and on the banking book of €6.7m (€62.8m) despite a good contribution for the third quarter (€57.8m);
- net fee and commission income decreased from €193.8m to €174.2m, on lower contributions from capital market and lending activities.

The 8.8% increase in operating costs, from €222.4m to €242m, chiefly reflects 19.4% growth in administrative expenses due to expanding the operational structure and the risk management and treasury projects being implemented.

Loan loss provisions decreased by two-thirds, from €56m to €17.4m, due to the absence of new non-performing items and reversals of approx. €7m for the quarter; the NPL coverage ratio was stable at 47%.

Management of the AFS shares portfolio generated gains of €96.9m (€116.5m), €87.7m of which in respect of Pirelli; value adjustments to other AFS shares totalling €17m (€13.6m) include €15.1m in adjusting the RCS MediaGroup stake to reflect fair value.

The other losses totalling €82.8m involve the contributions to the Bank Resolution Fund referred to above, including the estimated amount for 2016 (€19.1m).

With regard to the main balance-sheet items, in the third quarter there was a recovery in loans and advances to customers (which climbed from €21.6bn to €23.8bn) and new investments in the corporate bonds portfolio (up from €10.9bn to €12bn), covered by the increase in funding (up from €35.7bn to €37.1bn) and the reduction in net treasury assets (down from €4.9bn to €3.2bn).

	31/12/15		31/3/16		Chg. %
	(€ m)	**%**	**(€ m)**	**%**	
Debt securities	19,163.6	54%	19,373.9	52%	1.1%
Interbank funding	9,840.1	28%	10,214.4	27%	3.8%
of which: CheBanca! intercompany	*8,011.8*	*22%*	*8,176.6*	*22%*	*2.1%*
T-LTRO/LTRO	5,478.0	15%	5,478.0	15%	—
Other funding	1,193.0	3%	2,078.8	6%	74.2%
Total funding	**35,674.7**	**100%**	**37,145.1**	**100%**	**4.1%**

	31/12/15		31/3/16		Chg. %
	(€ m)	**%**	**(€ m)**	**%**	
Corporate customers	10,190.1	47%	11,604.2	49%	13.9%
Group companies	11,363.7	53%	12,147.3	51%	6.9%
Total loans and advances to customers	**21,553.8**	**100%**	**23,751.5**	**100%**	**10.2%**
- of which: non performing loans	*398.7*		*395.7*		*-0.8%*

	31/12/15		31/3/16		Chg. %
	(€ m)	**%**	**(€ m)**	**%**	
Debt securities AFS	6,264.3	57%	6,955.6	58%	11.0%
Securities held to maturity	1,175.9	11%	2,042.5	17%	73.7%
Unlisted debt securities (stated at cost)	3,462.2	32%	2,990.2	25%	-13.6%
Total financial liabilities	**10,902.4**	**100%**	**11,988.3**	**100%**	**10.0%**

	31/12/15		31/3/16		Chg. %
	(€ m)	**%**	**(€ m)**	**%**	
Debt securities	814.1	16%	433.7	14%	-46.7%
Equities	3,097.3	63%	1,706.3	54%	-44.9%
Derivative contract valuations	(230.4)	-5%	(311.4)	-10%	35.2%
Stock lending	(1,324.5)	-27%	(164.4)	-5%	-87.6%
Others (cash, repos, time deposit)	2,587.8	53%	1,522.8	47%	-41.2%
Total net treasury assets	**4,944.3**	**100%**	**3,187.0**	**100%**	**-35.5%**

The financial highlights for the other Group companies in the six months under review are shown below, divided by business area:

Company	Percentage shareholding	Business line	Total assets	Loans and advances to customers	Total net equity [1]	No. of staff
Mediobanca International	100%	WSB	5,012.9	3,466.5	288.7	7
Prominvestment (under liquidation)	100%	WSB	5.2	4.5	(1.1)	6
Mediobanca Securities (data in USD/1000)	100%	WSB	7.5	—	3.8	4
Consortium	100%	WSB	0.2	—	0.2	—
Mediobanca Immobiliere	100%	WSB	2.0	—	1.7	—
Mediobanca Turkey (data in TRY/1000)	100%	WSB	1.9	—	5.3	8
Mediobanca Mexico (data in MXN/1000) (under liquidation)	100%	WSB	11.6	—	14.2	—
Cairn Capital Group Limited (data in GBP/1000) *	100%	PB	11.0	—	8.3	60
Compagnie Monégasque de Banque	100%	PB	3,598.7	971.8	692.5	209
Banca Esperia	50%	PB	1,815.4	1,014.0	187.1	141
Spafid	100%	PB	52.7	—	41.7	42
Spafid Connect *	100%	PB	1.6	—	0.5	10
Compass Banca	100%	Consumer	10,812.4	9,373.7	1,222.2	1,320
Futuro	100%	Consumer	1,480.0	1,405.5	68.5	78
Creditech	100%	Consumer	943.8	904.5	82.5	203
Quarzo	90%	Consumer	0.2	—	—	—
Quarzo CQS	90%	Consumer	0.1	—	—	—
Compass RE	100%	Consumer	234.6	—	68.7	1
CheBanca!	100%	Retail	14,155.1	4,904.1	224.3	973
Mediobanca Covered Bond	90%	Retail	0.3	—	0.1	—
SelmaBipiemme Leasing	60%	Leasing	2,809.8	2,552.0	162.3	144
Teleleasing (under liquidation)	60%	Leasing	122.2	29.7	110.8	2
Quarzo Lease	90%	Leasing	0.2	—	—	—
Mediobanca Innovation Services	100%	Other	67.5	—	37.6	180
Ricerche e Studi	100%	Other	1.0	—	0.1	14

[1] Does not include profit for the period.

* Taking into account the put and call option, on which see Part A1 – Section 2 – Area of consolidation, p. 40.

Company	Percentage shareholding	Business line	Total income	Operating costs	Loss provisions	Gain/(loss) for the period
Mediobanca International	100%	WSB	24.4	(5.4)	(0.3)	13.0
Prominvestment (under liquidation)	100%	WSB	0.1	(0.6)	—	(0.5)
Mediobanca Securities (data in USD/1000)	100%	WSB	3.4	(2.3)	—	0.8
Consortium	100%	WSB	—	—	—	—
Mediobanca Immobiliere	100%	WSB	0.1	(0.1)	—	—
Mediobanca Turkey (data in TRY/1000)	100%	WSB	0.2	(4.1)	—	(3.9)
Mediobanca Mexico (data in MXN/1000) (under liquidation)	100%	WSB	0.1	(10.1)	—	(10.1)
Cairn Capital Group Limited (data in GBP/1000) *	100%	PB	2.5	(3.8)	—	1.1
Compagnie Monégasque de Banque	100%	PB	62.7	(38.4)	—	25.3
Banca Esperia	50%	PB	61.5	(55.7)	(0.9)	1.9
Spafid	100%	PB	5.7	(3.9)	—	1.4
Spafid Connect *	100%	PB	0.7	(0.9)	—	(0.2)
Compass Banca	100%	Consumer	593.6	(188.1)	(266.2)	105.7
Futuro	100%	Consumer	34.4	(10.8)	(3.0)	14.0
Creditech	100%	Consumer	41.8	(18.7)	(9.1)	9.7
Quarzo	90%	Consumer	0.1	(0.1)	—	—
Quarzo CQS	90%	Consumer	—	—	—	—
Compass RE	100%	Consumer	24.8	(0.4)	—	(5.9)
CheBanca!	100%	Retail	143.6	(120.4)	(12.5)	5.2
Mediobanca Covered Bond	90%	Retail	—	—	—	—
SelmaBipiemme Leasing	60%	Leasing	39.3	(19.5)	(12.0)	5.2
Teleleasing (under liquidation)	60%	Leasing	4.1	(2.0)	1.3	3.0
Quarzo Lease	90%	Leasing	—	—	—	—
Mediobanca Innovation Services	100%	Other	38.9	(38.4)	—	0.8
Ricerche e Studi	100%	Other	1.4	(1.4)	—	—

* Taking into account the put and call option, on which see Part A1 – Section 2 – Area of consolidation, p. 40.

Outlook

Estimates for the fourth quarter suggest the trends seen in net interest income and the cost of risk will continue, with the former increasing compared to last year and the latter declining. Conversely, the weak market performances are likely to impact on the other income sources, in particular net treasury income.

Milan, 10 May 2016

THE BOARD OF DIRECTORS

ACCOUNTING POLICIES

Accounting policies

A.1 – General policies

SECTION 1

Statement of conformity with IAS/IFRS

The balance sheet and profit-and-loss account for the period ended 31 March 2016 have, as required by Italian Legislative Decree 38/05, been drawn up in accordance with the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB), and the respective interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), which were adopted by the European Commission in accordance with the procedure laid down in Article 6 of regulation CE 1606/02 issued by the European Parliament and Council on 19 July 2002. Adoption of the new accounting standards with respect to financial reporting by banks is governed by Bank of Italy circular no. 262 issued on 22 December 2005 (fourth update issued on 15 December 2015). This report has also been drawn up in conformity with the provisions of Article 154 ter of the Italian finance act (Italian legislative decree 58/98).

SECTION 2

Area and methods of consolidation

The consolidated financial statements comprise the balance-sheet data and earnings figures of the Group's subsidiaries and the other companies directly or indirectly controlled by it, including companies operating in sectors different to those in which the parent company operates.

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

Since 31 December 2015, the area of consolidation now includes the earnings results of Cairn Capital Group Ltd (for three months), after the company was acquired in December.

Group companies Telco MB Srl and Sinto MB Srl have also been merged into Mediobanca S.p.A., with effect from 1 July 2015.

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

Company name	Registered office	Type of relationship[1]	Shareholding		% voting rights[2]
			Investor company	% interest	
A. COMPANIES INCLUDED IN AREA OF CONSOLIDATION					
A.1 *Line-by-line*					
1. MEDIOBANCA - Banca di Credito Finanziario S.P.A.	Milan	1	—	—	—
2. PROMINVESTMENT S.P.A. - in liquidation	Milan	1	A.1.1	100.0	100.0
3. SPAFID S.P.A	Milan	1	A.1.1	100.0	100.0
4. SPAFID CONNECT S.P.A.	Milan	1	A.1.3	100.0*	70.0
5. MEDIOBANCA INNOVATION SERVICES - S.C.P.A..	Milan	1	A.1.1	100.0	100.0
6. COMPAGNIE MONEGASQUE DE BANQUE - CMB S.A.M.	Monte Carlo	1	A.1.1	100.0	100.0
7. C.M.G. COMPAGNIE MONEGASQUE DE GESTION S.A.M.	Monte Carlo	1	A.1.6	99.92	99.92
8. SMEF SOCIETE MONEGASQUE DES ETUDES FINANCIERE S.A.M.	Monte Carlo	1	A.1.6	99.96	99.96
9. CMB ASSET MANAGEMENT S.A.M.	Monte Carlo	1	A.1.6	99.30	99.30
10. CMB WEALTH MANAGEMENT LIMITED	London	1	A.1.6	100.0	100.0
11. MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.	Luxembourg	1	A.1.1	99.0	99.0
		1	A.1.12	1.0	1.0
12. COMPASS BANCA1 S.P.A.	Milan	1	A.1.1	100.0	100.0
13. CHEBANCA! S.P.A.	Milan	1	A.1.1	100.0	100.0
14. CREDITECH S.P.A.	Milan	1	A.1.12	100.0	100.0
15. SELMABIPIEMME LEASING S.P.A.	Milan	1	A.1.1	60.0	60.0
16. TELELEASING S.P.A. - IN LIQUIDATION	Milan	1	A.1.15	100.0	100.0
17. RICERCHE E STUDI S.P.A.	Milan	1	A.1.1	100.0	100.0
18. MEDIOBANCA SECURITIES USA LLC	New York	1	A.1.1	100.0	100.0
19. CONSORTIUM S.R.L.	Milan	1	A.1.1	100.0	100.0
20. QUARZO S.R.L.	Milan	1	A.1.12	90.0	90.0
21. QUARZO LEASE S.R.L.	Milan	1	A.1.15	90.0	90.0
22. FUTURO S.P.A	Milan	1	A.1.12	100.0	100.0
23. QUARZO CQS S.R.L.	Milan	1	A.1.22	90.0	90.0
24. MEDIOBANCA COVERED BOND S.R.L.	Milan	1	A.1.13	90.0	90.0
25. COMPASS RE S.A.	Luxembourg	1	A.1.12	100.0	100.0
26. MEDIOBANCA INTERNATIONAL IMMOBILIERE S. A R.L.	Luxembourg	1	A.1.11	100.0	100.0
27. MB ADVISORY KURUMSAL DANISMANLIK HIZMETLERI ANONIM SIRKETI	Istanbul	1	A.1.1	100.0	100.0
28. MB MEXICO S.A. C.V. IN LIQUIDATION	Bosques De Las Lomas	1	A.1.1	100.0	100.0
29. CAIRN CAPITAL GROUP LIMITED	London	1	A.1.1	100.0**	51.0
30. CAIRN CAPITAL LIMITED	London	1	A.1.1.29	100.0	100.0
31. CAIRN CAPITAL NORTH AMERICA INC.	London	1	A.1.1.29	100.0	100.0
32. CAIRN CAPITAL GUARANTEE LIMITED (NOT OPERATIVE)	London	1	A.1.1.29	100.0	100.0
33. CAIRN CAPITAL INVESTMENTS LIMITED (NOT OPERATIVE)	London	1	A.1.1.29	100.0	100.0
34. CAIRN INVESTMENT MANAGERS LIMITED (NOT OPERATIVE)	London	1	A.1.1.29	100.0	100.0

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

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

*** Since 1 October 2015 Compass has been authorized by the Bank of Italy to operate as a bank and changed its name accordingly to "Compass Banca S.p.A.".

Legend

1 Type of relationship:
1 = majority of voting rights in ordinary AGMs.
2 = dominant influence in ordinary AGMs.

2 Effective and potential voting rights in ordinary AGMs.

A.2 – Significant accounting policies

Financial assets held for trading

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

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

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

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

AFS securities

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

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

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

Financial assets held to maturity

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

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

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

Loans and receivables

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

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

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

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

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

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

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

Leasing

IAS 17 stipulates that for finance leases, interest income should be recorded based on methods which reflect a constant, regular return on the lessor's net investment.

In accordance with this principle, in the event of changes to contracts one these have become effective, any difference arising from comparison between the outstanding principal amount prior to renegotiation and the value of the new future flows discounted at the original interest rate have been taken through the profit and loss account for the period[1].

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;

[1] As required by the amortized cost rules under IAS 39.

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

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

Hedge derivatives are recognized at fair value as follows:

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

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

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, with the effects taken through the profit and loss account.

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 investments in:

– associates, which are equity-accounted. Associates are defined as companies in which at least 20% of the voting rights are held, and those in which the size of the investment is sufficient to ensure an influence in the governance of the investee company;

– jointly-controlled companies, which are also equity-accounted;

– other investments of negligible value, which are recognized at cost.

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

Property, plant and equipment

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

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

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

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

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

Intangible assets

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

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

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

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

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

Derecognition of assets

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

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

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

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

Payables, debt securities in issue and subordinated liabilities

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

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

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

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

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

Trading liabilities

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

Staff severance indemnity provision

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

Since 1 July 2013, conversely, actuarial gains and/or losses are recorded in a net equity valuation reserve, i.e. in the other comprehensive income statement (OCI) and no longer in the profit and loss account as required by the new IAS 19 revised (Employee Benefits), which was approved by the IASB on 16 June 2011 and incorporated into EU law under regulation EE 475/12.[2]

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

Provisions for liabilities and charges

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

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

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

Foreign currency transactions

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

Assets and liabilities denominated in currencies other than the Euro are translated into Euros using exchange rates ruling at the dates of the transactions.

[2] These items may therefore no longer be accounted for under labour costs as was the Group's previous practice.

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 entity's international assets and liabilities which are consolidated line-for-line are converted at the exchange rate as at the reference date for the financial situation, whereas profit-and-loss items are converted at the average exchange rate for the period. The differences arising from the use of closing interest rates, average exchange rates and revaluation of the net initial balance of the net assets of a non-Italian company based on the closing rate are booked directly to the valuation reserves in net equity.

Tax assets and liabilities

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

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

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

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

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

Stock options and performance shares

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

Treasury shares

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

Dividends and commissions

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

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

Related parties

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 2% 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.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated balance sheet (IAS/IFRS-compliant)

(€ m)

	Assets	IAS-compliant 31/3/16	IAS-compliant 31/12/15	IAS-compliant 30/6/15
10.	Cash and cash equivalents	131.0	48.2	49.0
20.	Financial assets held for trading	10,139.6	13,108.2	11,860.8
30.	Financial assets recognized at fair value	—	—	—
40.	AFS securities	8,755.6	8,109.7	8,063.1
50.	Financial assets held to maturity	2,054.4	1,189.0	1,311.7
60.	Due from banks	5,739.0	7,596.4	6,078.3
	of which:			
	other trading items	*4,270.9*	*6,202.1*	*4,955.3*
	securities	—	—	—
	other items	*33.1*	*31.3*	*25.8*
70.	Due from customers	37,302.7	35,658.1	37,122.5
	of which:			
	other trading items	*3,525.0*	*3,608.4*	*4,773.3*
	securities	*215.2*	*326.3*	*482.2*
	other items	*54.1*	*67.6*	*54.0*
80.	Hedging derivatives	875.7	727.6	754.9
	of which:			
	funding hedge derivatives	*858.4*	*710.3*	*737.2*
	lending hedge derivatives	—	*11.3*	*17.4*
	cash flow hedge derivatives	*17.3*	*6.0*	*0.4*
90.	Value adjustments to financial assets subject to general hedging	—	—	—
100.	Equity investments	3,219.6	3,113.0	3,411.4
110.	Total reinsurers' share of technical reserves	—	—	—
120.	Property, plant and equipment	308.6	309.7	308.6
130.	Intangible assets	450.5	455.6	410.3
	of which:			
	goodwill	*419.4*	*422.9*	*374.1*
140.	Tax assets	873.7	869.9	954.2
	a) current	*134.9*	*138.8*	*218.6*
	b) advance	*738.8*	*731.1*	*735.7*
150.	Other non-current and Group assets being sold	—	—	—
160.	Other assets	359.8	363.5	385.8
	of which:			
	other trading items	*6.8*	*2.9*	*8.3*
	Total assets	**70,210.2**	**71,548.9**	**70,710.6**

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

– *Treasury funds* comprise asset headings 10 and 20 and liability heading 40, plus the "other trading items" shown under asset headings 60, 70 and 160 and liability headings 10 and 20, with the latter chiefly consisting of repos, interbank accounts and margins on derivatives;

– *Funding comprises* the balances shown under liability headings 10, 20 and 30 (excluding amounts restated as trading items in respect of repos and interbank accounts), plus the relevant amounts in respect of hedging derivatives;

– *Loans and advances to customers* comprise asset headings 60 and 70 (excluding amounts restated as *Treasury funds*), the relevant amounts in respect of hedging derivatives shown under asset heading 80 and liability heading 60, and the impairment charges taken under liability heading 100.

(€ m)

	Liabilities and net equity	IAS-compliant 31/3/16	IAS-compliant 31/12/15	IAS-compliant 30/6/15
10.	Due to banks	13,002.4	15,240.8	14,304.0
	of which:			
	other trading items	*3,227.6*	*5,692.2*	*4,986.7*
	other liabilities	*15.3*	*3.4*	*1.4*
20.	Due to customers	17,646.4	16,302.5	16,873.4
	of which:			
	other trading items	*3,054.3*	*2,341.1*	*3,140.6*
	other liabilities	*3.5*	*3.4*	*8.4*
30.	Debt securities	21,758.2	21,251.3	20,154.5
40.	Trading liabilities	7,294.7	8,559.8	8,598.9
50.	Liabilities recognized at fair value	—	—	—
60.	Hedging derivatives	339.7	301.8	291.2
	of which:			
	funding hedge derivatives	*224.1*	*222.7*	*253.9*
	lending hedge derivatives	*97.7*	*7.3*	*20.3*
	cash flow hedge derivatives	*17.9*	*71.8*	*17.0*
70.	Value adjustments to financial liabilities subject to general hedging	—	—	—
80.	*Tax liabilities*	*541.0*	*512.6*	*625.0*
	a) current	*172.0*	*145.0*	*259.9*
	b) deferred	*369.0*	*367.6*	*365.1*
90.	Liabilities in respect of Group assets being sold	—	—	—
100.	*Other liabilities*	*565.4*	*522.5*	*684.0*
	of which:			
	other trading items	*0.2*	*16.3*	—
	loan loss provisions	*18.7*	*20.5*	*17.7*
110.	Staff severance indemnity provision	27.8	26.3	26.7
120.	*Provisions*	*155.4*	*154.9*	*157.9*
	a) post-employment and similar benefits	—	—	—
	b) other provisions	*155.4*	*154.9*	*157.9*
130.	Technical reserves	143.2	137.8	127.9
140.	Valuation reserves	1,123.3	1,061.2	1,435.5
150.	Shares with right of withdrawal	—	—	—
160.	Equity instruments	—	—	—
170.	Reserves	4,690.9	4,681.8	4,354.4
180.	Share premium reserve	2,152.8	2,148.9	2,144.5
190.	Share capital	435.5	435.2	433.6
200.	Treasury shares	(198.3)	(198.3)	(198.7)
210.	Net equity attributable to minorities	89.4	88.7	108.0
220.	Profit (loss) for the year	442.4	321.1	589.8
	Total liabilities and net equity	**70,210.2**	**71,548.9**	**70,710.6**

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

(€ m)

	Profit and loss account	31/3/16	31/12/15	31/3/15
10.	Interest and similar income	1,433.7	966.0	1,499.5
20.	Interest expense and similar charges	(533.0)	(364.4)	(663.8)
30.	**Net interest income**	**900.7**	**601.6**	**835.7**
40.	Fee and commission income	304.3	205.5	322.8
50.	Fee and commission expense	(61.0)	(42.2)	(38.8)
60.	**Net fee and commission income**	**243.3**	**163.3**	**284.0**
70.	Dividends and similar income	35.5	29.0	14.0
80.	Net trading income	57.1	9.9	114.8
90.	Net hedging income (expense)	5.6	3.3	—
100.	Gain (loss) on disposal of:	103.5	100.2	153.5
	a) loans and receivables	*6.9*	*2.4*	*(15.3)*
	b) AFS securities	*100.6*	*98.9*	*153.0*
	c) financial assets held to maturity	*(0.9)*	*1.8*	*22.4*
	d) other financial liabilities	*(3.1)*	*(2.9)*	*(6.6)*
120.	**Total income**	**1,345.7**	**907.3**	**1,402.0**
130.	Adjustments for impairment to:	(338.1)	(238.3)	(402.1)
	a) loans and receivables	*(318.9)*	*(222.8)*	*(390.1)*
	b) AFS securities	*(17.1)*	*(11.9)*	*(13.8)*
	c) financial assets held to maturity	*(1.1)*	*(0.8)*	*0.9*
	d) other financial liabilities	*(1.0)*	*(2.8)*	*0.9*
140.	**Net income from financial operations**	**1,007.6**	**669.0**	**999.9**
150.	Net premium income	34.1	22.4	31.1
160.	Income less expense from insurance operations	(11.8)	(7.7)	(13.7)
170.	**Net income from financial and insurance operations**	**1,029.9**	**683.7**	**1,017.3**
180.	Administrative expenses:	(747.3)	(489.3)	(623.6)
	a) personnel costs	*(319.8)*	*(209.7)*	*(299.5)*
	b) other administrative expenses	*(427.5)*	*(279.6)*	*(324.1)*
190.	Net transfers to provisions for liabilities and charges	(1.6)	(1.1)	(1.6)
200.	Net adjustments to property, plant and equipment	(14.6)	(9.7)	(14.1)
210.	Net adjustments to intangible assets	(13.9)	(9.2)	(14.6)
	of which: goodwill		—	—
220.	Other operating income (expenses)	113.7	67.1	109.4
230.	**Operating costs**	**(663.7)**	**(442.2)**	**(544.5)**
240.	Profit (loss) from equity-accounted companies	179.5	138.8	133.2
270.	Gain (loss) on disposal of investments	—	—	—
280.	**Profit (loss) before tax on ordinary activities**	**545.7**	**380.3**	**606.0**
290.	Income tax on ordinary activities for the year	(100.1)	(57.2)	(138.3)
300.	**Profit (loss) after tax on ordinary activities**	**445.6**	**323.1**	**467.7**
310.	Net gain (loss) on non-current assets being sold	—	—	—
320.	**Profit (loss) for the year**	**445.6**	**323.1**	**467.7**
330.	Profit (loss) for the year attributable to minorities	(3.2)	(2.0)	(2.1)
340.	**Net profit (loss) for the year attributable to Mediobanca**	**442.4**	**321.1**	**465.6**

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

- *Net interest income* includes the result of funding and lending hedging activity (€5.6m, €3.3m, and €1m respectively), plus the margins on swaps reported under heading 80 (minus €0.5m, minus €0.6m, and €3.2m respectively);
- amounts under Heading 220 have been restated as *Net fee and commission income*, save for amounts refunded/recovered totalling €43m, €17.8m and €58.9m and €49.1m respectively which net operating costs; the amounts stated under headings 150 and 160 have also been accounted for as *Net fee and commission income*;
- *Net treasury income* also includes the amounts shown under headings 70 and 80, the gains (losses) on disposal of bonds (respectively €7.8m, €9.6m and €63.7m), as well as financial liabilities reported under heading 100, in addition to the fees payable in respect of securities lending transactions (of €0.4m, €0.3m and €0.3m, taking into account the items already stated;
- *Provisions for other financial assets* include both the AFS securities and HTM financial assets accounted for here under heading 130 and the equity investments shown under heading 240;
- *Loan loss provisions* include the remaining amount under Heading 130, along with the losses incurred as a result of the disposal of receivables to third parties under Heading 100 totalling €0.8m, €1.1m and minus €21m respectively;
- *Other gains (losses)* includes the contributions paid to the Single Resolution Fund and the Deposit Guarantee System booked here as Other administrative expenses, in amounts of €91.3m as at 31 March 2016 and €71.5m at 31 December 2015.

Consolidated comprehensive profit and loss account

(€ m)

	Headings	31/3/16	31/12/15	31/3/15
10.	Gain (loss) for the period	445.6	323.1	467.7
	Other income items net of tax not taken through profit and loss account	**109.6**	**129.9**	**(97.0)**
20.	Property, plant and equipment	—	—	—
30.	Intangible assets	—	—	—
40.	Actuarial gains (losses) on defined-benefit pension schemes	(1.1)	0.2	(1.9)
50.	Non-current assets being sold	—	—	—
60.	Share of valuation reserves for equity-accounted companies	110.7	129.7	(95.1)
	Other income items net of tax taken through profit and loss account	**(420.1)**	**(504.1)**	**456.4**
70.	Foreign investment hedges	—	—	—
80.	Exchange rate differences	(2.3)	(0.1)	0.4
90.	Cash flow hedges	15.7	4.1	(22.4)
100.	AFS securities	0.1	3.4	100.5
110.	Non-current assets being sold	—	—	—
120.	Share of valuation reserves for equity-accounted companies	(433.6)	(511.5)	377.9
130.	**Total other income items net of tax**	**(310.5)**	**(374.2)**	**359.4**
140.	Aggregate profit (Heading 10 + Heading 110)	135.1	(51.1)	827.1
150.	Overall consolidated profit attrubutable to minorities	2.7	2.0	1.4
160.	Overall consolidated profit attributable to Mediobanca	132.4	(53.1)	825.7

DECLARATION BY HEAD OF COMPANY FINANCIAL REPORTING

Declaration by Head of company financial reporting

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

Head of
Company Financial Reporting
Massimo Bertolini

Mercurio GP - Milan