Basel III pillar 3
Disclosure to the public

Situation as at 30 September 2023

MEDIOBANCA

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

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Introduction

Banking supervision is governed by the Capital Requirements Directive IV and Capital Requirements Regulation (the “CRD IV/CRR/CRR2 Package”) enacted in Italy under Bank of Italy circular no. 285 issued in 2013 as amended. The body of regulations on prudential supervision and corporate governance for banks reflects the “Global Regulatory Framework for More Resilient Banks and Banking Systems” issued by the Basel Committee.

With reference to the Pillar III guidance provided by the European Banking Authority (EBA), there have been no material updates or revisions since the 30 June 2023 balance-sheet. Please refer to the “Introduction” of the “Basel III Pillar 3 Disclosure to the public” document as at 30 June 2023, published on the Bank’s website at www.mediobanca.com for further details.

This document published by the Mediobanca Group (the “Group”) has been drawn up by the parent company Mediobanca on a consolidated basis with reference to the prudential area of consolidation, including information regarding capital adequacy, exposure to risks and the general characteristics of the systems instituted in order to identify, measure and manage such risks. The contents of this document are consistent with the reporting used by the senior management and Board of Directors in their risk assessment and management.[1]

Figures are in €’000, unless otherwise specified.

The Group publishes an updated version of this document on its website at www.mediobanca.com.

[1] The documentation is available on the Bank's website at www.mediobanca.com.

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References to EBA requirements

(Regulation (EU) 637/2021, EBA/GL/2020/07 and EBA/GL/2020/12)

Regulation (EU) 637/2021, EBA/GL/2020/07 and EBA/GL/2020/12		**Pillar III as at 30/9/23**
Templates	**Type of disclosure**	**Section (qualitative/quantitative disclosure)**
EU KM1 EU OV1	Quantitative Quantitative	Section 1 – Capital adequacy
EU LIQ1	Qualitative/quantitative	Section 2 – Liquidity risk
EU CR4 EU CR8	Qualitative/quantitative	Section 3 – Credit risk
EU MR1	Qualitative	Section 4 – Market risk

Section 1– Capital adequacy

Qualitative information

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

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

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

Capital adequacy in respect of pillar 1 risks is also monitored by the Chief Financial Office through checking the capital ratios according to the rules established by the Capital Requirements Regulation (CRR/CRR2) - Circular 285.

[2] The most recent stress testing exercise confirmed the Group's solidity, with an adverse impact on CET1 fully loaded of 478 bps, aligned with the majority of EU banks and among the lowest among Italian banks.

Qualitative information

Template EU KM1: key metrics template (1/2)

		a	b
		09/30/2023	06/30/2023
Available own funds (amounts)			
1	Common Equity Tier 1 (CET1) capital	7,649,149	8,177,639
2	Tier 1 capital	7,649,149	8,177,639
3	Total capital	8,705,615	9,217,028
Risk-weighted exposure (amounts)			
4	Total risk-weighted exposure amount	50,127,112	51,431,549
Capital ratios (as a percentage of risk-weighted exposure amount)			
5	Common Equity Tier 1 ratio (%)	15.2595 %	15.9000 %
6	Tier 1 ratio (%)	15.2595 %	15.9000 %
7	Total capital ratio (%)	17.3671 %	17.9210 %
Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)			
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	1.6800 %	1.6800 %
EU 7b	of which: to be made up of CET1 capital (percentage points)	0.9450 %	0.9450 %
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	1.2600 %	1.2600 %
EU 7d	Total SREP own funds requirements (%)	9.6800 %	9.6800 %
Combined buffer requirement (as a percentage of risk-weighted exposure amount)			
8	Capital conservation buffer (%)	2.5000 %	2.5000 %
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	—	—
9	Institution specific countercyclical capital buffer (%)	0.1309 %	0.0944 %
EU 9a	Systemic risk buffer (%)	—	—
10	Global Systemically Important Institution buffer (%)	—	—
EU 10a	Other Systemically Important Institution buffer	—	—
11	Combined buffer requirement (%)	2.6309 %	2.5944 %
EU 11a	Overall capital requirements (%)	12.3109 %	12.2744 %
12	CET1 available after meeting the total SREP own funds requirements (%)	7.6871 %	8.2410 %
Leverage ratio			
13	Leverage ratio total exposure measure	97,937,127	97,270,380
14	Leverage ratio	7.8103 %	8.4071 %
Additional own funds requirements to address risks of excessive leverage (as a percentage of leverage ratio total exposure amount)			
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	—	—
EU 14b	of which: to be made up of CET1 capital (percentage points)	—	—
EU 14c	Total SREP leverage ratio requirements (%)	3.0000 %	3.0000 %
Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)			
EU 14d	Leverage ratio buffer requirement (%)	—	—
EU 14e	Overall leverage ratio requirement (%)	3.0000 %	3.0000 %
Liquidity Coverage Ratio			
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	9,516,211	9,478,729
EU 16a	Cash outflows - Total weighted value	8,542,700	8,766,906
EU 16b	Cash inflows - Total weighted value	2,826,122	2,882,133
16	Total net cash outflows (adjusted value)	5,716,578	5,884,773
17	Liquidity coverage ratio (%)	167.0313%	161.0830%
Net Stable Funding Ratio			
18	Total available stable funding	60,444,308	63,677,289
19	Total required stable funding	51,728,394	53,364,548
20	NSFR ratio (%)	116.8494%	119.3251%

Template EU KM1: key metrics template (2/2)

		c	d	e
		03/31/2023	12/31/2022	09/30/2022
Available own funds (amounts)				
1	Common Equity Tier 1 (CET1) capital	7,792,732	7,952,591	7,772,263
2	Tier 1 capital	7,792,732	7,952,591	7,772,263
3	Total capital	8,881,224	8,815,257	8,700,388
Risk-weighted exposure (amounts)				
4	Total risk-weighted exposure amount	51,006,378	52,573,562	51,941,615
Capital ratios (as a percentage of risk-weighted exposure amount)				
5	Common Equity Tier 1 ratio (%)	15.2780 %	15.1266 %	14.9635 %
6	Tier 1 ratio (%)	15.2780 %	15.1266 %	14.9635 %
7	Total capital ratio (%)	17.4120 %	16.7675 %	16.7503 %
Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)				
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	1.6800 %	1.5800 %	1.5800 %
EU 7b	of which: to be made up of CET1 capital (percentage points)	0.9450 %	0.8888 %	0.8888 %
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	1.2600 %	1.1850 %	1.1850 %
EU 7d	Total SREP own funds requirements (%)	9.6800 %	9.5800 %	9.5800 %
Combined buffer requirement (as a percentage of risk-weighted exposure amount)				
8	Capital conservation buffer (%)	2.5000 %	2.5000 %	2.5000 %
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	—	—	—
9	Institution specific countercyclical capital buffer (%)	0.0655 %	0.0546 %	0.0143 %
EU 9a	Systemic risk buffer (%)	—	—	—
10	Global Systemically Important Institution buffer (%)	—	—	—
EU 10a	Other Systemically Important Institution buffer	—	—	—
11	Combined buffer requirement (%)	2.5655 %	2.5546 %	2.5143 %
EU 11a	Overall capital requirements (%)	12.2455 %	12.1346 %	12.0943 %
12	CET1 available after meeting the total SREP own funds requirements (%)	7.7320 %	7.1875 %	7.1703 %
Leverage ratio				
13	Leverage ratio total exposure measure	97,374,969	97,091,818	94,732,558
14	Leverage ratio	8.0028 %	8.1908 %	8.2044 %
Additional own funds requirements to address risks of excessive leverage (as a percentage of leverage ratio total exposure amount)				
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	—	—	—
EU 14b	of which: to be made up of CET1 capital (percentage points)	—	—	—
EU 14c	Total SREP leverage ratio requirements (%)	3.0000 %	3.0000 %	3.0000 %
Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)				
EU 14d	Leverage ratio buffer requirement (%)	—	—	—
EU 14e	Overall leverage ratio requirement (%)	3.0000 %	3.0000 %	3.0000 %
Liquidity Coverage Ratio				
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	9,058,043	8,538,573	7,675,732
EU 16a	Cash outflows - Total weighted value	8,929,307	8,908,444	8,763,037
EU 16b	Cash inflows - Total weighted value	3,144,587	3,467,424	3,708,220
16	Total net cash outflows (adjusted value)	5,784,720	5,441,019	5,054,816
17	Liquidity coverage ratio (%)	156.4409%	156.5643%	152.0742%
Net Stable Funding Ratio				
18	Total available stable funding	61,478,643	63,687,682	62,533,883
19	Total required stable funding	53,187,229	54,622,821	54,841,752
20	NSFR ratio (%)	115.5891%	116.5954%	114.0260%

As at 30 September 2023, the Common Equity Ratio – CET1 as a percentage of total risk-weighted assets with application of the Danish Compromise – amounted to 15.3% (calculated without including the profit earned during the period net of the 70% payout ratio); the approx. 60 bps reduction compared to the 30 June 2023 balance-sheet (15.90%) is due to the deduction in respect of the share buyback scheme being brought forward (which accounted for 45 bps) and to the introduction of the AIRB models in Consumer Finance[3] (which accounted for 25 bps); the CET1 ratio also reflects the reduction in RWAs (adding 55 bps, due to the reduction in lending and higher risk mitigation for the CIB portfolios) and the other prudential adjustments (which accounted for 40 bps, including the higher deductions for the Assicurazioni Generali investment and the completion of the IFRS 9 phase-in period).

Similarly, the Total Capital ratio also fell, to 17.6%, due to the prudential amortization of Tier 2 instruments.

The ratios fully loaded, without application of the Danish Compromise, i.e. with the Assicurazioni Generali stake fully deducted (which accounted for €1,281.2m including the indirect effects) were 14.3% (CET1 ratio) and 16.6% (total capital ratio) respectively. Starting from 2025, when CRR III comes into force (the final version of which was recently approved), the Danish Compromise will become a permanent rule, enabling the 370% weighting to be definitively applied rather than deduction from own funds.

[3] Further details on the introduction of the AIRB Models for the Consumer Finance loan book are shown in Section 3 – Credit risk.

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Template EU OV1 - Overview on risk-weighted exposures (RWA)

		RWA		Capital requirements
		a	b	c
		09/30/2023	06/30/2023	09/30/2023
1	Credit risk (excluding CCR)	41,327,470	42,617,107	3,306,198
2	of which the standardized approach	19,968,908	30,692,355	1,597,513
3	of which the foundation IRB (FIRB) approach	—	—	—
4	of which: slotting approach	—	—	—
EU 4a	of which: equities under the simple risk-weighted approach	—	—	—
5	of which the advanced IRB (AIRB) approach	21,358,562	11,924,752	1,708,685
6	Counterparty credit risk - CCR	1,907,475	1,935,774	152,598
7	of which the standardized approach	516,274	544,453	41,302
8	of which internal model method (IMM)	—	—	—
EU 8a	of which exposures to a CCP	8,167	11,340	653
EU 8b	of which credit valuation adjustment - CVA	406,728	400,347	32,538
9	of which other CCR	976,306	979,634	78,104
15	Settlement risk	—	—	—
16	Securitization exposures in the non-trading book (after the cap)	101,407	101,702	8,113
17	of which SEC-IRBA approach	—	—	—
18	of which SEC-ERBA (including IAA)	49,705	43,764	3,976
19	of which SEC-SA approach	51,702	57,938	4,136
EU 19a	of which 1250%/ deduction	—	—	—
20	Position, foreign exchange and commodities risks (Market risk)	2,106,623	2,092,828	168,530
21	of which the standardized approach	2,106,623	2,092,828	168,530
22	of which IMA	—	—	—
EU 22a	Large exposures	—	—	—
23	Operational risk	4,684,138	4,684,138	374,731
EU 23a	of which basic indicator approach	4,684,138	4,684,138	374,731
EU 23b	of which standardized approach	—	—	—
EU 23c	of which advanced measurement approach	—	—	—
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	832,964	838,382	66,637
29	**Total**	**50,127,112**	**51,431,549**	**4,010,169**

Section 2 – Liquidity risk

Qualitative information

As at 30 September 2023, eligible reserves held at the European Central Bank totalled €15.7bn, €9.8bn of which in securities exchangeable for cash by the ECB; the balance of the collateral established at the European Central Bank amounted to approx. €11.1bn, approx. €6.6bn of which available in cash but not used. During the three months there was a reduction in the Counterbalancing Capacity, following the T-LTRO repayment and the overall reduction of the ECB pool.

Scope of consolidation (consolidated)	Unencumbered (net of haircuts)	
Currency and units (million Euro)	09/30/2023	06/30/2023
TOTAL GROUP LIQUIDITY RESERVES	**15,722**	**16,606**
Total high-quality liquid assets (HQLA)	**8,672**	**9,728**
Cash and deposits held with central banks (HQLA)	5,901	4,076
Highly liquid securities (HQLA)	2,771	5,652
of which:		
Level 1	2,548	*5,625*
Level 2	223	*0,027*
Other eligible reserves	**7,050**	**6,878**

During the three months under review, all the earnings indicators have shown that the Group continues to maintain an adequate level of liquidity on a stable basis. As for the regulatory indicators, the European Union has introduced a minimum short-term requirement, known as the Liquidity Coverage Ratio (LCR), under Commission Delegated Regulation (EU) No 2015/61 as amended and supplemented, of 100% as from 1 January 2018. The following table shows the quantitative information for the Group's Liquidity Coverage Ratio (LCR), measured in accordance with the EU regulations (in particular the CRR and CRD IV) reported monthly to the competent national supervisory authority (the indicator includes the prudential estimate of "additional liquidity outflows for other products and services" in compliance with Article 23 of Commission Delegated Regulation (EU) No. 2015/61). The data shown have been calculated as the simple average of month-end readings recorded in the twelve months prior to the end of each quarter.

Template EU LIQ1 – Liquidity Coverage Ratio (1/2)

Data in millions of euros		a	b	c	d
		Total unweighted value (average)			
EU 1a	Quarter ending on	09/30/2023	06/30/2023	03/31/2023	12/31/2022
EU 1b	Number of data points used in the calculation of averages	12	12	12	12
	HIGH-QUALITY LIQUID ASSETS				
1	**Total high-quality liquid assets (HQLA)**				
	CASH - OUTFLOWS				
2	Retail deposits and deposits from small business customers, of which:	20,885	20,947	20,914	20,918
3	*Stable deposits*	11,911	12,071	12,207	12,340
4	*Less stable deposits*	7,862	8,081	8,211	8,320
5	Unsecured wholesale funding	6,617	7,026	7,365	7,376
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	—	—	—	—
7	Non-operational deposits (all counterparties)	*6,289*	*6,666*	*6,871*	*6,883*
8	Unsecured debt	*328*	*360*	*494*	*492*
9	Secured wholesale funding				
10	Additional requirements	10,037	10,162	10,016	9,685
11	Outflows related to derivative exposures and other collateral requirements	*446*	*437*	*399*	*376*
12	Outflows related to loss of funding on debt products	—	—	—	—
13	Credit and liquidity facilities	*9,591*	*9,725*	*9,617*	*9,309*
14	Other contractual funding	2,342	2,258	2,075	1,964
15	Other contingent funding obligations	3,669	3,965	4,323	4,595
16	**TOTAL CASH OUTFLOWS**				
	CASH – INFLOWS				
17	Secured lending (e.g. reverse repos)	2,101	2,124	2,426	2,780
18	Inflows from fully performing exposures	2,081	2,019	1,987	2,002
19	Other cash inflows	2,113	2,198	2,207	2,158
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)				
EU-19b	(Excess inflows from a related specialised credit institution)				
20	**TOTAL CASH INFLOWS**	**6,295**	**6,342**	**6,620**	**6,940**
EU-20a	*Fully exempt inflows*	—	—	—	—
EU-20b	*Inflows subject to 90% cap*	—	—	—	—
EU-20c	*Inflows subject to 75% cap*	*6,218*	*6,229*	*6,507*	*6,807*
	TOTAL ADJUSTED VALUE				
EU-21	LIQUIDITY BUFFER				
22	TOTAL NET CASH OUTFLOWS				
23	LIQUIDITY COVERAGE RATIO (%)				

Template EU LIQ1 – Liquidity Coverage Ratio (2/2)

Data in millions of euros		e	f	g	h
		Total weighted value (average)			
EU 1a	Quarter ending on	09/30/2023	06/30/2023	03/31/2023	12/31/2022
EU 1b	Number of data points used in the calculation of averages	12	12	12	12
	HIGH-QUALITY LIQUID ASSETS				
1	**Total high-quality liquid assets (HQLA)**	**9,516**	**9,479**	**9,058**	**8,539**
	CASH - OUTFLOWS				
2	Retail deposits and deposits from small business customers, of which:	1,696	1,699	1,684	1,680
3	*Stable deposits*	*596*	*604*	*610*	*617*
4	*Less stable deposits*	*1,101*	*1,095*	*1,074*	*1,063*
5	Unsecured wholesale funding	3,504	3,668	3,860	3,868
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	—	—	—	—
7	Non-operational deposits (all counterparties)	*3,176*	*3,309*	*3,366*	*3,376*
8	Unsecured debt	*328*	*360*	*494*	*492*
9	Secured wholesale funding	*315*	*380*	*524*	*610*
10	Additional requirements	1,767	1,860	1,853	1,814
11	Outflows related to derivative exposures and other collateral requirements	*446*	*437*	*399*	*363*
12	Outflows related to loss of funding on debt products	—	—	—	—
13	Credit and liquidity facilities	*1,322*	*1,423*	*1,454*	*1,452*
14	Other contractual funding	925	815	629	565
15	Other contingent funding obligations	335	345	380	371
16	**TOTAL CASH OUTFLOWS**	**8,543**	**8,767**	**8,929**	**8,908**
	CASH – INFLOWS				
17	Secured lending (e.g. reverse repos)	341	347	587	869
18	Inflows from fully performing exposures	1,530	1,497	1,482	1,501
19	Other cash inflows	955	1,038	1,076	1,097
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)	—	—	—	—
EU-19b	(Excess inflows from a related specialised credit institution)	—	—	—	—
20	**TOTAL CASH INFLOWS**	**2,826**	**2,882**	**3,145**	**3,467**
EU-20a	*Fully exempt inflows*	—	—	—	—
EU-20b	*Inflows subject to 90% cap*	—	—	—	—
EU-20c	*Inflows subject to 75% cap*	*2,826*	*2,882*	*3,145*	*3,467*
	TOTAL ADJUSTED VALUE				
EU-21	LIQUIDITY BUFFER	9,516	9,479	9,058	8,539
22	TOTAL NET CASH OUTFLOWS	5,717	5,885	5,785	5,441
23	LIQUIDITY COVERAGE RATIO (%)	167.0313%	161.0830%	156.4409%	156.5643%

The factors driving the LCR trend may be split into the following categories: drivers with significant influence on the amount of HQLAs, cash outflows and cash inflows. The trend in HQLAs is impacted by the amount of Level 1 assets (Article 10 of Commission Delegated Regulation (EU) No. 2015/61), the most important aggregate among which is made up of the free reserves held with the European Central Bank, to which temporary payments of excess liquidity have been made. Among the inflows/outflows, cash movements linked to secured operations always have a material and variable impact over time, which is due to the fact that operations of this kind are used as the main risk mitigation and control instrument by Group Treasury. The stress scenario contemplated by Commission Delegated Regulation (EU) No. 2015/61 and the Group's business model, which also takes great care to diversify the forms of funding equally between retail and institutional, reflect a higher impact on outflows from wholesale funding, which is considered to be less stable than retail funding in this operating scenario. Also significant in this respect is the outflow from credit lines, this too a consequence of the Group's business model.

The LCR has remained stable at an average value of approx. 167% in the past twelve months, higher than the annual average reading for last year. The increase in the annual average is primarily due to the pre-funding activity carried out by Group Treasury to enable approx. €4bn of the T-LTRO to be repaid during the twelve months. The annual average result is in line with the regulatory limits, internal target value and risk appetite expressed by the governing bodies. This stability has been achieved through careful management by Group Treasury, and in part also of the substantial portfolio of HQLAs consisting of reserves held with the ECB and high-quality debt securities and equities. The unit, as has already been mentioned, performs active and centralized management of this portfolio guided by internal forward-looking instruments. From a forward-looking perspective, an estimate of the liquidity coverage ratio is defined, and the estimated value is brought back towards the internal target, primarily through securities financing transaction instruments to lend or borrow high-quality assets.

Although the portfolio of highly liquid assets is the main instrument used to control and stabilize the ratio, Group Treasury also has other tools at its disposal. These include diversifying funding sources and liquidity reserves, which are fundamental. The Group Liquidity Risk Management Policy (the "Policy") approved by the Board of Directors of Mediobanca S.p.A. defines the target in terms of the level of liquidity reserves (high-quality liquid assets, and highly liquid assets) to be maintained in order to cover the cash flows anticipated in the short and medium/long term. It also provides for regular monitoring of concentration analysis both for funding (by counterparty/product/duration/currency) and liquidity reserves (by issuer/counterparty).

The adequacy of the structure and cost of funding, which is defined from a forward-looking perspective through the Funding Plan, is assured through ongoing diversification. The Group's main sources of funding are: (i) deposits from the domestic retail market, (ii) funding from institutional clients, split between collateralized (secured financing transactions, covered bonds and ABS) and non-collateralized (debt securities, CD/CP, and deposits from institutional clients); and (iii) refinancing operations with the Eurosystem. As for the liquidity reserves, we have already demonstrated the effectiveness deriving from maintaining them at an adequate level. The average level of High-Quality Liquid Assets (HQLA) for the twelve months immediately available to the Group amounted to €9.3bn, and approx. 98% of them are Level 1.

The amount of HQLA held includes:

- A share held to cover potential outflows that could result from the exposures in derivatives and potential collateral call deriving from them. The Mediobanca Group executes derivative contracts (both with central counterparties and OTC) sensitive to different risk factors. Changes in market conditions, influencing potential future exposures to such derivative contracts, could introduce commitments in terms of liquidity which would require collateral to be paid in cash or other financial instruments in the event of adverse market movements occurring. The Historical Look Back Approach is adopted in order to quantify any increases in the collateral required;
- A share held in USD to cover potential currency conversion risks. To manage and monitor the misalignment of currencies, the Group carries out regular checks to ascertain if the liabilities held in a given currency are equal to or higher than 5% of its total liabilities. If this limit, set by Regulation (EU) 575/2013, is breached for a given currency, it means that the currency concerned qualifies as "significant" and that the LCR must be calculated in that currency. As at 30 September 2023, the "significant" currencies for the Mediobanca Group were the Euro (EUR) and the US Dollar (USD). Monitoring of possible currency misalignments between liquid assets and net cash outflows shows that the Group is able to manage any such imbalances, partly through holding HQLA in USD, and partly because of ability to tap the FX market easily in order to transform excess liquidity in EUR into USD.

The LCR is not the only regulatory short-term indicator used, as it is unable to measure the intraday liquidity risk that is manifested when a bank does not have sufficient funds available to meet its payment and settlement obligations falling due in the course of the same trading day. The Bank therefore monitors this risk using the instruments specified by the Basel Committee on Banking Supervision (BCBS – "Monitoring tools for intraday liquidity management", April 2013). Apart from through ongoing monitoring, to cover this risk the Policy provides for a minimum level of liquidity

reserves to be available at the start of the day, and requires that these reserves' composition must be such as to ensure they can be used in the final hours of the business day as well.

Section 3 – Credit risk

3.1 ECAIs

Qualitative information

Mediobanca uses the following ECAIs in order to determine risk weightings in connection with the standardized method: [4]

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

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

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

[4] External Credit Assessment Institution.

Qualitative information

Template EU CR4 – Standardized approach: credit risk exposure and CRM effects

	Exposures class	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
		On-balance sheet exposures	Off-balance sheet exposures	On-balance sheet exposures	Off-balance sheet exposures	RWAs	RWA density
		a	b	c	d	e	f
1	Central governments or central banks	14,991,737	38,531	15,863,833	44,207	49,850	0.3134 %
2	Regional governments or local authorities	192	—	192	—	38	19.9996 %
3	Public sector entities	130,017	8	130,017	2	60,374	46.4349 %
4	Multilateral development banks	—	—	—	—	—	—
5	International organisations	—	—	—	—	—	—
6	Institutions	3,150,954	1,983,740	2,711,206	44,760	1,211,402	43.9556 %
7	Corporates	8,626,286	2,214,915	6,043,545	569,182	5,225,416	79.0206 %
8	Retail*	2,912,391	973,621	2,544,291	167,416	1,355,935	50.0030 %
9	Secured by mortgages on immovable property	1,200,581	42,545	1,167,607	21,135	446,594	37.5686 %
10	Exposures in default	349,359	498	319,694	498	335,856	104.8922 %
11	Higher-risk categories	3,327	111,664	3,327	111,664	172,487	150.00%
12	Covered bonds	54,606	—	54,606	—	14,429	26.4241 %
13	Institutions and corporates with a short-term credit assessment	—	—	—	—	—	—
14	collective investments undertakings	568,283	165,964	568,283	109,328	1,449,696	213.94%
15	Equity	2,507,298	—	2,507,298	—	7,916,669	315.7451 %
16	Other items	1,987,638	—	1,987,638	—	1,730,163	87.0462 %
17	**Total as at 09/30/2023***	**36,482,669**	**5,531,485**	**33,901,536**	**1,068,191**	**19,968,908**	**57.1034 %**
	Total as at 06/30/2023	**47,134,884**	**7,876,143**	**44,589,094**	**1,155,145**	**30,692,355**	**67.0956 %**

* Compared 30 June 2023, the retail exposures included in the Consumer Finance portfolio have been excluded from the scope for template CR4 following the introduction of the AIRB model.

3.2 Credit risk: disclosure on portfolios subject to AIRB methods

Qualitative information

3.2.1 Scope of application of IRB model

As part of the process of progressively extending the use of AIRB models in order to calculate the regulatory capital requirements for credit risk (the "Roll Out Plan"), the Group has been authorized to use internal models for reporting purposes for the Mediobanca and Mediobanca International corporate lending portfolios, for the CheBanca! Italian loan book, and, from the reporting at 30 September 2023, for the Compass Banca credit cards and consumer credit portfolio.

From 30 September 2023 the new credit card and consumer credit PD and LGD AIRB models for Compass Banca have come into force. The transition from standard to AIRB methodology for Compass Banca has involved approx. €15.5bn in exposures, on- and off-balance-sheet, and some €10.5bn in RWAs, including an extra approx. €900m RWAs compared to the previous figure calculated using the standard methodology.

During 2024 the Group will submit an application for a model change for the Corporate PD model to be extended to include the MBFACTA corporate portfolio as well.

As regards the process of aligning the currently approved models to the new regulations (ECB Guide to internal models. ECB Guidelines on the application of the definition of default, ECB Guidelines on the estimation of LGD under an economic downturn), the following developments should be noted:

- In June 2023 the ECB concluded its Internal Model Investigation for the approval of a material model change to the Mediobanca Corporate LGD Corporate model, and the Group is waiting to receive the final decision;
- In the course of 2024, the Group will submit an application for a material model change for the Corporate PD model, revised to extend the model's application to the MBFACTA corporate model as well, and to resolve the findings issued following the authorization in 2022;
- During FY 2022-23 CheBanca! was involved in the Internal Model Investigation for the advanced LGD model change application submitted in June 2020 and supplemented in July 2021. At the start of October 2023, the bank received the Final Decision Letter containing the results of the inspection, in which the ECB stated that the requirements for authorization to be granted had been met. The Bank intends to use the new version of the AIRB models, which has enabled the methodology to be aligned to the EBA guidelines, the parameters to be calibrated to the new definition of default, and the sale of the mortgages granted by Micos

Banca classified as bad loans to be included in the model framework starting from the regulatory reporting as at 31 December 2023.

As at 30 September 2023, the following companies are using internal models:

- Mediobanca and Mediobanca International, for the Wholesale Banking division's corporate loan book only. The internal models also cover extraordinary financing transactions, but are not applied to the specialized lending and real estate sub-portfolios which, in view of their non-material nature, have been authorized to receive standard treatment on a permanent basis;
- CheBanca!, for the Italian mortgage loan book;
- Compass Banca, for the credit cards and consumer credit portfolio.

3.2.2 Corporate rating system structure

The Corporate PD model has been developed based on a shadow rating approach, using external ratings assigned by ratings agencies (ECAIs) as the target variable. The approach is in line with the internal practices historically adopted by the Bank's credit analysts.

The model consists of:

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

Both modules are based on a statistical approach, and the two returned scores are then combined in a way such that the resulting single synthetic risk indicator optimizes the model's ranking capability. The final rating is the result of a calibration phase where the alignment between the external ratings and the ratings returned by the model is maximized.

At the application phase, a rating is assigned at counterparty level, taking into account Group dynamics whereby the parent company could influence the counterparty's own final rating.

The credit analyst can override the rating returned by the model, taking into account all information available resulting inter alia from the analysts themselves liaising directly with the management of the borrower counterparties. This override process is governed by a set of internal rules, including a notch-limit for rating upgrades.

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

The LGD model is different for the performing portfolio and for defaulted assets: for performing exposures, the model returns different Loss Given Default values according to type of transaction involved (i.e. different values are assigned to bonds and loans), taking into account the level of seniority of the debt and the possible existence of real or financial guarantees (alternatively, in cases where financial guarantees are involved, the substitution method is used instead) and the counterparty's industrial sector and two financial variables representing the counterparty's profitability and capital structure.

Under the model adopted for the non-performing exposures, coverage is used as the Expected Loss Best Estimate and to quantify the Unexpected component based on the variability between the coverage value recorded each month and the final LGD, taking into account the amount of time the position has been in default status (vintage positions).

There is at present a regulatory floor on the LGD which has been set at 45% and which is used solely in order to calculate the capital requirements.

3.2.3 Mortgage rating system structure

The CheBanca! mortgage rating system is applied to exposures to individuals secured by property. In particular, the AIRB scope includes exposures to private customers secured by residential and non-residential real estate guarantees eligible for Credit Risk Mitigation purposes. The AIRB scope of application does not include exposures to French customers, a portfolio currently in run-off and with non-material size (these are exposures were originated by the CheBanca! French branches, which ceased operations in 2009). Accordingly, for French mortgage portfolio, permanent exemption from application of the AIRB method has been applied for and obtained.

The CheBanca! internal rating is applied at the transaction level, and consists of the three following models:

- Acceptance PD model for exposures with a seniority of less than 6 months;
- Behavioural PD model for exposures with a seniority over 6 months;
- LGD model.

The PD acceptance model was developed at single-credit transaction level, following a statistical approach based on observed historical defaults. The PD acceptance model was developed on a sample including only mortgages originated by CheBanca!, divided into the following macro-categories:

- Accepted category: this consists of the exposures actually originated by CheBanca!;
- Rejected category; this consists of rejected practices and therefore has no observed performance;
- Declined category; this consists of those practices that, although approved by CheBanca!, were not originated and therefore do not have an observed performance.

The PD Acceptance model was estimated by combining the various information sources, relating to loans granted and not granted in line with the scope of application of the model, which includes the entire population of applicants.

In the application phase of the model, in order to have a smooth transition from the PD acceptance to the behavioural model, the respective scores are combined with a linear weighting mechanism from the first to the sixth month of the loan seniority.

The PD behavioural model was developed at single transaction level, following a statistical approach based on observed historical defaults. The model differs for the loans originated by CheBanca! and those acquired by the Barclays Italian branch; both models are made up of elementary modules, which take into account the features of the different information sources considered. The scores of the single elementary modules are combined into an overall score and then calibrated to reflect the long-term central tendency of the observed default rates. On the basis of the calibrated score, a rating class is assigned to each transaction (the same rating scale is used for the CheBanca! and former Barclays model). Finally, the rating assigned following the model is automatically downgraded if specific anomalies relating to the customer (obligated and co-obligated) are reported in Bank of Italy's risks database ("Centrale Rischi").

The LGD model was estimated using only the internal information relating to the recovery process for defaulted exposures.

LGD estimates are determined by combining different model components, which depend on the status of the exposure (performing or non-performing). In particular, two main modules for the LGD performing status were estimated: "LGD Sofferenza" (econometric estimate) which provides the expected economic loss for bad loan positions; the danger rate and the Q factor of exposure variation that capture the phases preceding bad loan status, and aim respectively at estimating the probability of migrating from a performing status to a default one (through empirical observations)

and the change in exposure when a position moves among the different statuses. The LGD in default model is developed for multiple time periods (i.e. annual vintage) and derives from the LGD performing model.

3.2.4 Credit cards and consumer credit rating system structure

The Compass Banca rating system covers activities in credit cards and consumer credit, i.e. The various products underlying personal loans, special purpose loans and automotive finance, but not the salary-backed finance component. These products are included in the "Other retail exposures", "Other SME Retail Exposures", and "Qualified revolving retail exposures" regulatory asset classes.

The Compass internal rating system has been developed using an approach at the individual lending transaction level, by following a statistical approach based on data 100% observed internally.

The sub-modules are structured as follows:

- PD acceptance model, further sub-divided into five sub-modules for different products or lending channels with different risks, financial characteristics and available information. It factors in the product's characteristics, socio-demographic features, and previous internal or internal behaviour, and is the sole driver considered for exposures with less than three months' seniority. The development process also includes a step based on statistical inference of performances based on historical unsettled positions;
- PD behavioural model, further sub-divided into five purely behavioural sub-modules, in turn distinguished between consumer credit/credit cards, amount, and whether or not they show delays in payment. These sub-modules are then combined with the PD acceptance score after the first three months, as the latter, although it decreases in terms of statistical relevance, still remains important through the entire life of the position;
- Performing LGD model, which distinguishes risk differentiation and calibration for both the consumer credit and credit cards scopes. The performance, fully obtained from the internal recovery processes, is the behaviour observed throughout the entire recovery cycle considered as a single span, and regressed relative to the risk drivers observed in the months preceding the default;
- Non-performing LGD model, which too distinguishes between consumer credit and credit cards, and is constructed from a cross between the purely statistical dimension and a significant state concept which uses the different stages of the internal recovery process as opposed to the vintage in timing terms, from each of which the single-span performance until the end of the credit recovery process can be observed;

- EAD model, which applies an estimated CCF to the credit cards portfolio only, that works differently on positions with exposures depending on how near or otherwise they are to the maximum credit limit granted.

The various parameters are then calibrated to long-term metrics, although a lower weighting is introduced for the older default cycles on the LGD side as a precautionary measure. On the PD side, a single masterscale is populated by realigning the default rates observed in the various segments. There are no cases of overrides given the product's characteristics.

The downturn too is estimated exclusively on the basis of data available internally on both the LGD and the EAD sides. The ELBE is obtained by means of an adjustment made by applying the long-term metric based on the same satellite model used for provisioning.

Template EU CR8: flow statements of credit risk exposures under the IRB approach

The table below shows the changes in RWAs calculated with application of the IRB in the three months ended 30 September 2023, plus a breakdown by the reasons for such changes.

The amount of AIRB RWAs almost doubled in three months, due to the Compass Banca credit cards and consumer credit portfolios transitioning to the AIRB approach. The entire amount of the Compass Banca RWAs for this scope (approx. €10Bn) has been classified as model update, as it refers to the first AIRB report.

For the "Other companies" segment, there has been a reduction in RWAs due primarily to a reduction in the exposure following debt repayments and a slight improvement in credit quality. There were no material changes for the "Mortgage loans" segment.

		a	b
		RWA	Capital requirements
1	**Risk weighted exposure amount as at the end of the previous reporting period (06/30/2023)**	**11,924,752**	**953,980**
2	Asset size	(758,122)	(60,650)
3	Asset quality	(301,913)	(24,153)
4	Model updates	10,465,801	837,264
5	Methodology and policy	—	—
6	Acquisitions and disposals	—	—
7	Foreign exchange movements	14,716	1,177
8	Other	—	—
9	**Risk weighted exposure amount as at the end of the reporting period (09/30/2023)**	**21,345,234**	**1,707,619**

Section 4 – Market risk

Qualitative information

4.1 Market risk with management methodology

During the three months, the aggregate value-at-risk on the trading book ranged from a low of €4.3m to a high of €8.7m, with an average reading of around €6.4m, well below the average reading recorded in FY 2022-23 (€8.4m).

The point-in-time reading for VaR at 29 September 2023 was €4.9m, lower than the figure recorded at 30 June 2023 (€6.7m); the main risk factors were interest rates and credit spreads (for Italian government bonds in particular) for the Proprietary Trading division, and equity risk, linked to positions in equity-linked certificates held by the Markets Division.

The expected shortfall showed an average reading for the three months of €12.8m.

The results of the daily back-testing on the trading book (based on comparison with the theoretical profits and losses) showed no departures from the VaR.

Template EU MR1 - Market risk (standardized approach)

		09/30/2023	06/30/2023
		a	a
		RWEAs	RWEAs
	Outright products		
1	Interest rate risk (general and specific)	1,555,456	1,561,197
2	Equity risk (general and specific)	143,907	92,441
3	Foreign exchange risk	—	—
4	Commodity risk	—	—
	Options		
5	Simplified approach	—	—
6	Delta-plus approach	352,905	369,961
7	Scenario approach	—	—
8	Securitization (specific risk)	54,354	69,229
9	**Total**	**2,106,623**	**2,092,828**

The risk-weighted assets for market risk, calculated according to the standardized approach, were stable in the three months: the €180m increase in RWAs due to generic interest rate risk was offset by the reduced requirement for specific interest rate risk for debt securities resulting from the progressive use of the banking book as part of the new business model for hedging the risk related to the certificates activity. The other risks remained virtually stable.

Declaration by Head of company financial reporting

As required by Article154-bis, paragraph 2 of Italian Legislative Decree 58/98, the undersigned hereby declares that the stated accounting information contained in the report conforms to the documents, account ledgers and book entries of the company.

Milan, 16 November 2023

Head of company
Financial Reporting

Emanuele Flappini