MEDIOBANCA

Interim Report

for the six months ended 31 December 2019

MEDIOBANCA

LIMITED COMPANY
SHARE CAPITAL € 443,608,088.50
HEAD OFFICE: PIAZZETTA ENRICO CUCCIA 1, MILAN, ITALY

REGISTERED AS A BANK. PARENT COMPANY OF THE MEDIOBANCA
BANKING GROUP. REGISTERED AS A BANKING GROUP

Interim Report

for the six months ended 31 December 2019

(as required pursuant to Article 154-ter of the Italian Consolidated Financial Act)

BOARD OF DIRECTORS

		Term expires
Renato Pagliaro	Chairman	2020
* Maurizia Angelo Comneno	Deputy Chairman	2020
Alberto Pecci	Deputy Chairman	2020
* Alberto Nagel	Chief Executive Officer	2020
* Francesco Saverio Vinci	General Manager	2020
Marie Bolloré	Director	2020
Maurizio Carfagna	Director	2020
Maurizio Costa	Director	2020
Angela Gamba	Director	2020
Valérie Hortefeux	Director	2020
Maximo Ibarra	Director	2020
Alberto Lupoi	Director	2020
Elisabetta Magistretti	Director	2020
Massimo Tononi	Director	2020
* Gabriele Villa	Director	2020

* Member of Executive Committee

STATUTORY AUDIT COMMITTEE

Natale Freddi	Chairman	2020
Francesco Di Carlo	Standing Auditor	2020
Laura Gualtieri	Standing Auditor	2020
Alessandro Trotter	Alternate Auditor	2020
Barbara Negri	Alternate Auditor	2020
Stefano Sarubbi	Alternate Auditor	2020

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Massimo Bertolini	Secretary of the Board of Directors
Emanuele Flappini	Head of company financial reporting

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REVIEW OF OPERATIONS

REVIEW OF GROUP OPERATIONS

In the six months ended 31 December 2019, the Mediobanca Group delivered a net profit of €467.6m, 3.8% higher than the €450.5m posted last year, and in line with the growth path outlined in the Group's 2019-23 strategic plan. This result has been achieved by leveraging the Group's business model built on highly profitable, highly specialized and growing activities. During the period under review, assets, revenues and profitability all grew: in assets, loans were up 4.2% and TFAs up 10%; in revenues, total income rose by 3.8%; and in profitability, the ROAC on banking activities reached 15.4%. These results were achieved with both the substantial capital position (CET1 in excess of 14%) and cost efficiency (cost/income ratio 44.6%) unchanged.

The healthy scenario overall and the strong commercial activity were reflected in the top-line performance, with revenues increasing from €1,276.6m to €1,325.2m, with the main income items performing as follows:

- Net interest income rose by 3%, from €700.6m to €721.5m, with increasing contributions from Wealth Management (up 8.1%) and Consumer Banking (up 5.3%), on higher volumes, which offset the 2% reduction in net interest income earned from Corporate and Investment Banking (-2%), the division which is most exposed to the reduction in spreads; the contribution from Holding Functions was stable;
- Net treasury income totalled €91.5m, slightly lower than the €97.6m posted at the same stage last year, due to lower amounts being collected from funds held as part of Principal Investing, of €5.3m (31/12/18: €9m); Capital Market Solutions activity with clients contributed €58.2m (€58.5m), whereas the proprietary portfolio (banking and trading book) added income of €27.2m (€23.2m), a clear improvement on 1Q;
- Net fee and commission income rose by 5%, from €312.9m to €328.5m, with Wealth Management in particular contributing €158m (up 12.4%). This result reflects the growth in managed assets for Affluent clientèle (up 20.2%, from €41.6m to €50m), and in Private Banking (up 29.9%, from €49.2m to €63.9m). Net fees generated from Corporate and Investment Banking activities were basically flat at €121.9m, whereas Consumer

Banking posted a slight reduction, of 8.7%. The heading includes a modest amount of performance fees in funds and asset management totalling €12.3m (€1.2m), and also reflects the consolidation of Messier Maris et Associés, which added €23.5m and drove the increase in fees from advisory business, which were up 35% (from €47.9m to €64.6m);

– The net profit earned by the equity-accounted companies rose from €165.5m to €183.7m, due to gains realized by Assicurazioni Generali in 1Q as a result of asset disposals, in part offset by non-recurring costs in connection with the liabilities management operations reported in 2Q.

Operating costs rose by 5.3%, from €561.6m to €591.1m, in particular labour costs which were up 7.5%, reflecting development of the commercial network in Wealth Management (with 36 new additions), plus the consolidation of Messier Maris et Associés (€15.4m); the growth in administrative expenses was lower, at 2.9%, despite the launch of Compass Quinto and the recruitment of 107 new FAs. The cost/income ratio remained below 45%, one of the best levels in Europe.

Loan loss provisions were unchanged at €109.5m, and given the increase in lending volumes, mean that the cost of risk for the Group fell from 52 bps to 48 bps. During the six months under review net writebacks of €30m were credited in Corporate and Investment Banking, chiefly due to the Sorgenia exposure returning to performing status; while Consumer Banking reported provisioning of €128m, which translates to a cost of risk of 190 bps, slightly higher than last year when the figures were €113.9m and 180 bps respectively (the lowest-ever figures reported by the division).

The results for the period were impacted by net contributions to the Deposit Guarantee Scheme totalling €11.4m, stable versus last year (€11.2m), and a €4.7m fine handed out to Compass by the antitrust authority for improper commercial practices in the distribution of insurance products bundled with loans. Compass will appeal the fine with the regional court of Lazio, on the grounds that Compass's conduct in relations with its clients has been entirely transparent and in line with the best market practice.

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Turning to the balance-sheet data, total financial assets grew during the period from €78.2bn to €82.5bn, on a 4.2% increase in customer loans, from

€44.4bn to €46.3bn, and higher trading assets (up from €9.8bn to €12.5bn), matched by an equivalent rise in liabilities (from €8bn to €10.3bn). The main balance-sheet items performed as follows:

– Loans and advances to customers rose from €44.4bn to €46.3bn, with higher contributions from Consumer Banking (from €13.2bn to €13.7bn), CheBanca! mortgage lending (from €9bn to €9.8bn), and CMB (from €1.2bn to €1.6bn); NPLs remained unchanged as a percentage of total loans, at 3.9%; [1]

– Funding increased, from €51.4bn to €52.1bn, due to higher debt security funding (up from €18.5bn to €19.4bn), stable Private Banking deposits (€7.4m), offset by lower retail deposits of €14.5bn (€15bn); the cost of funding remained stable at 80 bps;

– Banking book securities remained stable at €6.8bn, while net treasury assets decreased from €5.3bn to €3.9bn, which offset the increase in applications of funds as a result of the liquidity buffer optimization.

Total financial assets in Wealth Management (TFAs) rose from €61.4bn to €63.7bn, on €1.3bn in net new money (NNM [2]). AUM/ AUA grew from €39bn to €41.8bn, on NNM of €1.9bn, 60% of which from the Affluent segment and 40% from Private Banking; while direct funding decreased from €22.4bn to €21.9bn (mainly at CheBanca!). CheBanca! TFAs totalled €26.5bn, €14.5bn of which in deposits; whereas TFAs in Private Banking closed at €26bn, €18.5bn of which in AUM/AUA. The product factories manage a total of €21.4bn, €10bn of which within the Group.

The capital ratios, calculated by weighting the Assicurazioni Generali investment at 370%, and including the profit for the six months minus the estimated dividend (calculated pro rata in line with the 2020 proposal of €0.52 per share), remain at high levels and comfortably higher than the regulatory limits. The Common Equity Tier 1 ratio stood at 14.14% (30/6/19: 14.09%) and the Total Capital ratio at 17.14% (17.46%): most of the retained earnings for the six months (equal to approx. 55 bps) were absorbed by the higher Assicurazioni Generali stake deduction (which accounted for 30 bps) and the organic growth (20 bps), concentrated mostly in Consumer Banking and CIB.

[1] NPLs here do not include the non-performing accounts acquired by MBCredit Solutions as part of its business, which totalled €351.1m (€368.6m).

[2] Growth in TFAs also reflects a positive market effect of approx. €1bn.

Fully-loaded, i.e. without the Danish Compromise, that is, with the Assicurazioni Generali investment deducted in full (which accounted for 105 bps) and with the IFRS 9 effect also fully applied (accounting for 16 bps), the ratios stand at 12.93% (CET1 ratio) and 16.15% (total capital ratio).

The divisional results for the six months may be summarized as follows:

- Wealth Management delivered a 35% increase in net profit, from €35.7m to €48.2m; this performance was due in part to the commercial network enhancement (in the 2019 calendar year, the number of private bankers increased from 126 to 127, the number of Affluent and Premier relationship managers from 418 to 453, and the number of FAs from 288 to 395), driving a 10% increase in TFAs, from €57.9bn to €63.7bn (with AUM up 13.1%, from €36.9bn to €41.8bn), and 9.8% growth in revenues (from €272.2m to €298.9m), against a more modest rise in costs (4.5%), driving a reduction in the cost/income ratio from 79% to 75.2%; the ROAC for the division rose accordingly, from 14% to 23%;
- Consumer Banking posted a net profit of €167.2m (down 4.1% on last year), on revenues of €531.7m (up 3.6%) due to the healthy trend in lending (loan stock up 7.3%; new loans up 11.2%), with the cost/income ratio basically unchanged at 28.1%. Compared to last year, when a net profit of €174.4m was earned, there have been increases in the cost of risk (to 190 bps, from an all-time low of 180 bps last year), and non-recurring charges of €4.7m (the fine from the antitrust authorities). The ROAC for the division remained at high levels, at 30%, [3] albeit slightly lower than last year (32%);
- Corporate and Investment Banking reported a net profit of €144.1m for the six months, virtually unchanged from last year, on revenues of €331.5m and costs totalling €143.7m; the addition of Messier Maris et Associés (which contributed €23.5m in advisory fees) offset the reduction in revenues from lending business and ECM and the slowdown in specialty finance; the impact of the consolidation in terms of costs (which were up 10.5%, from €130m to €143.7m, €15.4m of which attributable to MMA) was entirely offset by higher net writebacks of €30m (€14.3m). The ROAC for the division remained above 15%, with lending volumes stable;
- Principal Investing recorded a net profit of €186.9m, an improvement on the €158.7m reported last year, due to the gains earned by Assicurazioni Generali as mentioned above;

[3] 29% not including the non-recurring charge referred to above.

– Holding Functions posted a net loss of €76.5m, worse than the €65.8m loss posted last year, on account of the reduction in net interest income (hit in particular by the declining returns on banking book securities).

* * *

As well as the approval of the Group's new strategic plan (for details of which see the press release issued on 12 November 2019), other significant events that took place during the six months under review were as follows:

– In October 2019, an agreement was reached with the Italian revenue authority regarding the dispute over application of transfer pricing between Mediobanca S.p.A. and Mediobanca International S.A. (based in Luxembourg) for the financial years from 2012-13 to 2016-17. The agreement resulted in a payment of €21m, plus interest but no penalties. At the same time, a new transfer pricing methodology has been agreed with the revenue authority which should minimize the tax risks going forward. Mediobanca took the opportunity to voluntarily free up profit reserves for a total of €42m deriving from Mediobanca International's activities prior to 2002, i.e. when the transparency taxation mechanism for companies with registered offices in countries with privileged taxation regimes (i.e. blacklisted countries) was not in place. The impact on earnings was largely absorbed by amounts released from the provision for risks and charges resulting from the analysis of the tax risk subsequent to the agreement being defined; Mediobanca International S.A. is preparing an application to the Luxembourg tax authority to recover the higher taxes paid in relation to the taxable revenues attributed by the Italian revenue authority to Italy;

– On 25 November 2019, Mediobanca received the results of the supervisory review and evaluation process carried out by the ECB (the "SREP 2019 Decision"), which confirmed the quantitative parameters set the previous year: the authority has asked Mediobanca to maintain a CET1 ratio of 8.25% on to consolidated basis (Total SREP Capital Requirement - "TSCR" - 11.75%), which includes a Pillar 2 Requirement ("P2R") of 1.25%, among the lowest in Italy;

– On 4 December 2019 the Bank of Italy issued new operating guidelines to all financial intermediaries on the early repayment of loans to consumers (including salary-backed finance); the revision was necessary following the

[4] Court of Justice of the European Union, 11 September 2019, case C-383/18.

"Lexitor" [4] ruling by the European Court of Justice. Starting from 5 December 2019, if a loan is repaid early, the client is reimbursed the expenses incurred when the loan was taken out (including any fee paid for brokerage activity) pro rata to the duration of the contract. Compass and Futuro currently include these components in the amortized cost of the single transactions, and they pass through profit and loss only at the point when the early repayment is actually made, i.e. there is no impact on the previous accounting treatment;

– At a Board meeting held on 19 December 2019, the Directors of Mediobanca approved a long-term incentive plan for the Chief Executive Officer of Mediobanca, the General Manager of Mediobanca, and the CEO of Compass/CheBanca!. The objectives are both financial and non-financial, in line with those set in the 2019-23 strategic plan: they include growth in EPS and ROTE at Group level, solidity in terms of CET1 (even factoring in shareholder remuneration), and meeting the CSR/ESG objectives set, with assessment of the Mediobanca stock market performance. The amount of the bonus awarded, which will be 20-40% of the value of the beneficiary's individual gross annual compensation for each year (in line with the Group Remuneration Policies in force) will be paid when the plan has been completed. As required by Article 84-bis of Consob resolution no. 11971/99 (Regulations for Issuers), a maximum number of 338,841 Mediobanca shares (performance shares) has been allocated to the recipients of the long-term incentive plan, to be awarded in the course of the five-year period subsequent to the LTI plan's completion, from the performance share scheme approved by the Bank's shareholders at the Annual General Meeting held on 28 October 2019;

– With reference to the acquisition by Compass of a 19% stake in BFI, the processes to obtain authorization from both the Indonesian authorities and the European Central Bank necessary for closing have still to be launched;

– At the start of 2020, the Bank of Italy, at the proposal of the Single Resolution Board ("SRB"), informed the Group that its MREL limit, i.e. the amount of its own funds and eligible liabilities that can be converted to equity as part of the bail-in, had been set at 13.13% of total liabilities and own funds ("TLOF") and 21.60% of RWAs. The figures, which amount to approx. €9.5bn, are virtually unchanged from last year. However, as from this year Mediobanca, like the other non-systemic banks subject to supervision, is subject to a subordination requirement of 10.05% of TLOF, or 16.53% of RWAs (equal to approx. €7bn of own funds or other subordinated liabilities, net of the 2.2% senior allowance), which is met by the existing total capital.

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Consolidated profit-and-loss/balance-sheet data *

The consolidated profit and loss account and balance sheet have been restated – including by business area – according to the new divisional segmentation, in order to provide the most accurate reflection of the Group's operations.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

(€m)

	6 mths ended 31 December 2018	12 mths ended 30 June 2019	6 mths ended 31 December 2019	Chg. (%)
Profit-and-loss data				
Net interest income	700.6	1,395.6	721.5	3.0
Net treasury income	97.6	196.7	91.5	-6.3
Net fee and commission income	312.9	611.2	328.5	5.0
Equity-accounted companies	165.5	321.2	183.7	11.0
Total income	**1,276.6**	**2,524.7**	**1,325.2**	**3.8**
Labour costs	(282.2)	(581.7)	(303.5)	7.5
Administrative expenses	(279.4)	(580.2)	(287.6)	2.9
Operating costs	**(561.6)**	**(1,161.9)**	**(591.1)**	**5.3**
Loan loss provisions	(109.5)	(222.6)	(109.5)	n.m.
Provisions for other financial assets	(10.9)	(2.1)	8.7	n.m.
Other income (losses)	(11.1)	(54.0)	(15.8)	42.3
Profit before tax	**583.5**	**1,084.1**	**617.5**	**5.8**
Income tax for the period	(129.6)	(256.5)	(146.1)	12.7
Minority interest	(3.4)	(4.6)	(3.8)	11.8
Net profit	**450.5**	**823.0**	**467.6**	**3.8**
Gross operating profit from banking activities	**437.1**	**812.9**	**441.3**	**1.0**

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

CONSOLIDATED BALANCE SHEET

(€m)

	31/12/18	30/6/19	31/12/19
Assets			
Financial assets held for trading	9,315.4	9,765.7	12,526.8
Treasury financial assets and cash	10,220.8	10,170.2	9,089.3
Banking book securities	7,697.5	6,695.9	6,774.9
Customer loans	42,936.2	44,393.7	46,250.4
Equity Investments	3,737.1	3,980.3	4,608.4
Tangible and intangible assets	1,024.8	1,187.6	1,405.8
Other assets	1,599.3	2,051.3	1,803.5
Total assets	**76,531.1**	**78,244.7**	**82,459.1**
Liabilities and net equity			
Funding	50,752.4	51,393.2	52,093.5
Treasury financial liabilities	6,541.3	6,565.6	7,429.2
Financial liabilities held for trading	8,087.7	8,027.8	10,331.1
Other liabilities	1,643.0	2,168.9	2,097.2
Provisions	212.6	190.3	166.0
Net equity	8,754.4	8,986.2	9,782.8
Minority interests	89.2	89.7	91.7
Profit for the period	450.5	823.0	467.6
Total liabilities and net equity	**76,531.1**	**78,244.7**	**82,459.1**
Tier 1 capital	*6,586.6*	*6,524.4*	*6,660.5*
Regulatory capital	*8,268.8*	*8,085.6*	*8,072.8*
Risk-weighted assets	*47,487.6*	*46,309.9*	*47,089.2*
Tier 1 capital/risk-weightes assets	*13.87%*	*14.09%*	*14.14%*
Regulatory capita/risk-weighted assets	*17.41%*	*17.46%*	*17.14%*
No. of shares in issue (million)	*887.0*	*887.2*	*887.2*

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

(€m)

6 mths ended 31/12/19	Wealth Management	Consumer Banking	Corporate and Investment Banking	Principal Investing	Holding Functions	Group
Profit-and-loss						
Net interest income	138.1	474.0	136.1	(3.5)	(30.7)	721.5
Net treasury income	2.8	—	73.5	5.3	12.1	91.5
Net fee and commission income	158.0	57.7	121.9	—	7.2	328.5
Equity-accounted companies	—	—	—	183.7	—	183.7
Total income	**298.9**	**531.7**	**331.5**	**185.5**	**(11.4)**	**1,325.2**
Labour costs	(118.4)	(50.0)	(75.6)	(1.7)	(57.7)	(303.5)
Administrative expenses	(106.3)	(99.6)	(68.1)	(0.5)	(22.3)	(287.6)
Operating costs	**(224.7)**	**(149.6)**	**(143.7)**	**(2.2)**	**(80.0)**	**(591.1)**
Loan loss provisions	(7.7)	(128.0)	30.0	—	(3.8)	(109.5)
Provisions for other financial assets	0.6	—	(0.3)	8.3	(0.1)	8.7
Other income (losses)	1.8	(4.7)	—	—	(11.8)	(15.8)
Profit before tax	**68.9**	**249.4**	**217.5**	**191.6**	**(107.1)**	**617.5**
Income tax for the period	(20.0)	(82.2)	(71.5)	(4.7)	31.9	(146.1)
Minority interests	(0.7)	—	(1.9)	—	(1.3)	(3.8)
Net profit	**48.2**	**167.2**	**144.1**	**186.9**	**(76.5)**	**467.6**
Cost/Income (%)	*75.2*	*28.1*	*43.3*	*n.m.*	*n.m.*	*44.6*
Balance-sheet data						
Loans and advances to customers	12,627.5	13,698.4	18,041.4	—	1,883.1	46,250.4
Risk-weighted assets	4,692.2	12,936.9	20,332.7	5,746.3	3,381.1	47,089.2
No. of staff	1,963	1,432	633	11	807	4,846

Notes:

1) Divisions comprise:
   - *Wealth Management (WM)*, cthis division brings together all asset management services offered to the various client segments. It includes CheBanca!, which targets the Affluent & Premier client bracket, offering traditional banking services as well; the MBPB and CMB private banking networks, and the asset management companies (Cairn Capital, Mediobanca SGR, Mediobanca Management Company, and RAM Active Investment), plus Spafid;
   - *Consumer Banking (CB)* this division provides retail clients with the full range of consumer credit products, ranging from personal loans to salary-backed finance (Compass Banca, Futuro and Compass RE);
   - *Corporate & Investment Banking (CIB)* this division brings together all services provided to corporate clients in the following areas: investment banking (lending, advisory, capital markets activities) and proprietary trading (businesses performed by Mediobanca and Mediobanca International, Mediobanca Securities and Messier Maris & Associés); and Specialty Finance, which in turn consists of factoring and credit management (including NPL portfolio acquisitions and management) performed by MBFACTA and MBCredit Solutions;
   - *Principal Investing (PI)* division which brings together the Group's portfolio of equity investments and holdings;
   - *Holding Functions* division which houses the Group's Treasury and ALM operations (as part of Mediobanca S.p.A.) with the objective of optimizing management of the funding and liquidity processes; it also includes all costs relating to Group staffing and management functions based at Mediobanca S.p.A.; and continues to include the leasing operations (headed up by SelmaBipiemme) and the services and minor companies (MIS and Prominvestment). Since 1 January 2019 the Holding Functions division has also been home to the corporate services area (performed by Spafid Connect).

2) Sum of divisional data differs from Group total due to adjustments/differences arising on consolidation between business areas (equal to minus €2.3m).

(€m)

6 mths ended 31/12/18	Wealth Management	Consumer Banking	Corporate and Investment Banking	Principal Investing	Holding Functions	Group
Profit-and-loss						
Net interest income	127.8	450.2	138.9	(3.6)	(23.5)	700.6
Net treasury income	3.8	—	71.9	9.0	12.3	97.6
Net fee and commission income	140.6	63.2	122.5	—	4.6	312.9
Equity-accounted companies	—	—	—	165.5	—	165.5
Total income	**272.2**	**513.4**	**333.3**	**170.9**	**(6.6)**	**1,276.6**
Labour costs	(109.2)	(48.6)	(66.7)	(2.0)	(55.7)	(282.2)
Administrative expenses	(105.9)	(93.3)	(63.3)	(0.5)	(25.6)	(279.4)
Operating costs	**(215.1)**	**(141.9)**	**(130.0)**	**(2.5)**	**(81.3)**	**(561.6)**
Loan loss provisions	(6.6)	(113.9)	14.3	—	(3.3)	(109.5)
Provisions for other financial assets	—	—	0.8	(10.8)	(0.6)	(10.9)
Other income (losses)	0.2	—	—	—	(11.3)	(11.1)
Profit before tax	**50.7**	**257.6**	**218.4**	**157.6**	**(103.1)**	**583.5**
Income tax for the period	(13.4)	(83.2)	(72.3)	1.1	39.1	(129.6)
Minority interests	(1.6)	—	—	—	(1.8)	(3.4)
Net profit	**35.7**	**174.4**	**146.1**	**158.7**	**(65.8)**	**450.5**
Cost/Income (%)	*79.0*	*27.6*	*39.0*	*1.5*	*n.m.*	*44.0*
Balance-sheet data						
Loans and advances to customers	10,725.7	12,766.2	17,400.6	—	2,043.7	42,936.2
Risk-weighted assets	5,696.5	12,041.1	19,819.2	6,004.1	3,926.7	47,487.6
No. of staff	1,897	1,432	571	10	798	4,708

Balance sheet

The Group's total assets increased by 5.4%, from €78.2bn to €82.5bn. The main balance-sheet items, of which Mediobanca S.p.A. contributes 54.1%, showed the following trends for the six months under review (comparative data as at 30 June 2019):

Funding – this item increased to €52.1bn (€51.4bn), due to Private Banking deposits (stable at €7.4bn) and higher debt security funding of €19.4bn (€18.5bn), both of which comfortably offset the reduction in retail deposits to €14.5bn (€15bn). New deals worth €2.9bn were issued during the six months (of which six institutional placements, including to €600m securitization of consumer receivables and the €750m issue of covered bonds), against repayments and market buybacks totalling €2.1bn. The average cost of funding remained stable at 80 bps.

	30/6/19		31/12/19		Chg.
	(€m)	%	(€m)	%	
Devt securities (incl. ABS)	18,531.3	36%	19,361.7	37%	4.5%
CheBanca! retail funding	15,032,0	29%	14,459.6	28%	-3.8%
Private Banking deposits	7,417.6	14%	7,445.6	14%	0.4%
Interbank funding	5,484.4	11%	5,850.7	11%	6.7%
T-LTRO	4,322.4	9%	4,311.4	9%	-0.3%
Other funding	605.5	1%	664.5	1%	9.7%
Total funding	**51,393.2**	**100%**	**52,093.5**	**100%**	**1.4%**

Loans and advances to customers – customer loans rose by 4.2%, from €44.4bn to €46.3bn, with all business segments contributing positively: Consumer Banking loans were up 3.6% (from €13.2bn to €13.7bn, €7.6bn of which in personal loans, and €2bn in salary-backed finance), with new loans of €3.9bn (up 11.2%), more than 50% of which personal loans. Wealth Management delivered an 11.2% increase in lending to €12.6bn, with growing contributions from CheBanca! mortgage lending (stock up 9% to €9.8bn, new loans up 58% to €1.3bn), and Private Banking loans (stock up 19.6% to €2.8bn, 58% of which attributable to CMB). CIB lending levels remained basically flat at €18bn, helped by Specialty Finance (up 21.5 % to €2.7bn), with factoring up from €1.9bn to €2.4bn (six-month turnover up from €3.3bn to €4.1bn).

	30/6/19		31/12/19		Chg.
	(€m)	%	(€m)	%	
Corporate & Investment Banking	17,865.3	40%	18,041.4	39%	1.0%
Consumer Banking	13,223.0	30%	13,698.4	30%	3.6%
Wealth Management	11,353.8	26%	12,627.5	27%	11.2%
Holding Functions (leasing)	1,951.6	4%	1,883.1	4%	-3.5%
Total loans advances to customers	**44,393.7**	**100%**	**46,250.4**	**100%**	**4.2%**

Gross non-performing loans, calculated using the new definition of default,[5] were up 2.8%, from €1,782.3m to €1,831.8m, but unchanged in relative terms at 3.9% of total loans.[6] Virtually all of the increase is due to the effect of the one-time restatement from performing to non-performing due to the new definition of default, over 90% of which is attributable to Consumer Banking. This reclassification, however, has not impacted materially on earnings in terms of provisions being taken through profit and loss, as the exposures concerned were already covered. Similarly, net NPLs increased from €806m to €844,4m, and represent 1.8% of total loans (unchanged), with the coverage ratio at 53.9% (54.8%); there was a decrease in CIB from €394.6m to €322.1m, due to the Sorgenia position returning to performing status. Net bad loans declined to €76.2m (€79.8m), and represent 0.17% of total loans (0.18%), with a coverage ratio of 79.7% (unchanged). This item does not include NPLs acquired by MBCredit Solutions, which decreased from €368.6m to €351.1m during the six months, following disposals of certain minor portfolios (carried at €11.3m) plus some further, relatively small purchases (in a nominal amount of €0.1bn, involving an outlay of €12.2m).

[5] Starting from the reports on the results as at 30 September 2019 the Mediobanca Group has applied a new definition of default, on a voluntary basis and subject to prior authorization for the AIRB segments. The new definition is fully aligned with the EBA Guidelines in this area (EBA/GL/2016/07), with the provisions of Commission Delegated Regulation (EU) 2018/171 of 19 October 2017, and of Regulation (EU) 2018/1845 of the ECB of 21 November 2018. The new regulations govern the classification of credit obligations as in default based on stricter criteria for obligations which show non-payments or are overdrawn on an ongoing basis, "past due or overdrawn", and for the mechanisms for return to a non-default status.

[6] The Finrep gross NPL ratio (calculation of which does not include any NPLs acquired) was unchanged at 3.2%; for further details, please see Part E of the Notes to the Accounts.

	30/6/19		31/12/19	
	(€m)	Coverage ratio %	(€m)	Coverage ratio %
Corporate Investment Banking	394.7	41.2%	322.1	41.6%
Consumer Banking	189.0	74.4%	295.3	66.9%
Wealth Management	110.5	44.3%	110.4	46.3%
Holding Functions (leasing)	111.8	35.9%	116.6	35.6%
Total net non-performing loans	**806.0**	**54.8%**	**844.4**	**53.9%**
– of which: bad loans	79.8		76.2	
As % of total loans and advances	**1.8%**		**1.8%**	
As % of gross total loans and advances	**3.9%**		**3.9%**	

(€m)

	31/12/19			
	Stage 1	Stage 2	Stage 3	Total
Corporate & Investment Banking	16,887.2	481.0	673.2	18,041.4
Consumer Banking	12,312.3	1,090.8	295.3	13,698.4
Wealth Management	11,911.9	605.2	110.4	12,627.5
Holding Functions (leasing)	1,660.9	105.6	116.6	1,883.1
Total loans and advances to customers	**42,772.3**	**2,282.6**	**1,195.5**	**46,250.4**
As % of total	**92.5%**	**4.9%**	**2.6%**	
Total loans and advances to customers (excluding NPLs purchased by MBCredit Solutions)	**42,772.3**	**2,282.6**	**844.4**	**45,899.3**
As % of total	93.2%	5.0%	1.8%	100.0%

Investment holdings [7] – during the six months under review, investments in associates (IAS 28) increased from €3,259.8m to €3,830.8m, and consist almost entirely of the Assicurazioni Generali investment (unchanged at 12.9%), the book value of which has increased from €3,219.3m to €3,789.9m as a result of the Generali group's profit for the period (€183.3m), increases in the valuation reserves (€409.9m), and reductions in other reserves (€22.8m). The Group's stake in the Istituto Europeo di Oncologia (unchanged at 25.4%) reflects a value of €40.9m (€40.5m), as a result of its pro rata share in the Institute's profits (€0.4m). Listed equities increased in value, from €102.6m to €114m, due exclusively to upward adjustments to reflect the shares' fair value at end-December (up €11.3m); unlisted equities also increased in value, from €36m to €38.8m, following a €3m increase in the valuation reserves. Investments in the Group's funds by way of seed capital reflect net redemptions totalling €31.3m,

[7] This heading brings together investments covered by IAS 28, investments measured at fair value through other comprehensive income (formerly AFS), and funds (including seed capital) that must be recognized at fair value through profit and loss.

in part offset by the effect of the adjustments made at the period-end (which added €10.2m, taken through profit and loss); other holdings in funds (most of which private equity) increased from €168.4m to €232m, as a result of new net investments totalling €64.3m against net writedowns of €-0.7m (also taken through profit and loss).

(€m)

	30/6/19		31/12/19	
	Book value	**HTC&S reserve**	**Book value**	**HTC&S reserve**
IAS28 investments	3,259.8	n.a.	3,830.8	n.a.
Listed shares	102.6	52.6	114.0	64.0
Other unlisted shares	36.0	12.2	38.8	15.1
Seed capital	413.5	—	392.8	—
Private equity	66.1	—	68.9	—
Other funds	102.3	—	163.1	—
Total equity holdings	**3,980.3**	**64.8**	**4,608.4**	**79.1**

The Group's investment in Assicurazioni Generali at 30 December 2019 had a stock market value of €3,728.9m, slightly lower than the book value at which the investment is carried.

(€m)

	% share capital	30/6/19	31/12/19
Assicurazioni Generali	12.92	3,219.3	3,789.9
Burgo	22.13	—	—
Istituto Europeo di Oncologia	25.37	40.5	40.9
Total IAS28 investment		**3,259.8**	**3,830.8**

Banking book debt securities [8]

(€m)

	30/6/19		31/12/19	
	(€m)	**%**	**(€m)**	**%**
Hold to Collect	2,892.0	43%	2,839.4	42%
Hold to Collect & Sell	3,748.2	56%	3,879.9	57%
Other (Mandatorily measured at FV)	55.7	1%	55.6	1%
Total banking book securities	**6,695.9**	**100%**	**6,774.9**	**100%**

[8] This heading comprises both debt securities recognized at cost and those measured at fair value through other comprehensive income (OCI), plus those bonds which under IFRS 9 must be measured at fair value through profit and loss.

The portfolio shows a value of €6.8bn, basically unchanged from the balance-sheet date (30/6/19: €6.7bn); during the six months under review there were purchases of €2.4bn (concentrated in Italian government securities in the Hold To Collect & Sell portfolio), offset entirely by disposals and redemptions (€2.3bn). The OCI reserve increased from €36.2m to €45m, as a result of adjustments to fair value as at end-December 2019 (up €20.8m), which were far higher than the reversals taken due to sales (€-12.3m).

Government securities represent approx. three-quarters of the total and amount to €4.8bn; more than half of them (i.e. €2.8bn) are Italian and have a duration of three-years.

The hold-to-collect securities recognized at cost reflect unrealized gains of €70m, higher than the €52m reported at end-June 2019.

	30/6/19			31/12/19		
	Book value		OCI reserve	Book value		OCI reserve
	HTC	HTC&S		HTC	HTC&S	
Italian government bonds	1,088.6	1,161.3	4.8	1,190.6	1,570.4	18.0
Foreign government bonds	644.9	1,701.8	5.0	622.5	1,464.9	0.1
Bond issued by financial institutions	710.9	663.3	15.6	630.7	603.4	15.1
Corporate bonds	294.3	221.8	10.8	261.8	241.2	11.8
Asset Backet Securities (ABS)	153.3	—	—	133.8	—	—
Total banking book securities	**2,892.0**	**3,748.2**	**36.2**	**2,839.4**	**3,879.9**	**45.0**

Net treasury funds – these decreased from €5,342.5m to €3,855.8m, representing the difference between funding and lending movements in a scenario reflecting lower volatility and uncertainty levels on the domestic market; the net balance of cash and deposits fell from €3.6bn to €1.7bn, against growth in the financial instruments component (from €1.7bn to €2.2bn), in particular equities (from €2.6bn to €3.7bn), only in part offset by the rising shortfall on valuations of derivatives of €290.1m (€82.5m) and higher liabilities attributable to certificates (from €0.9bn to €1.2bn).

	30/6/19	31/12/19	Chg.
	(€m)	(€m)	
Financial assets held for trading	9,765.7	12,526.8	28.3%
Treasury financial assets and cash	10,170.2	9,089.3	-10.6%
Financial liabilities held for trading	(8,027.8)	(10,331.1)	28.7%
Treasury financial liabilities	(6,565.6)	(7,429.2)	13.2%
Net treasury assets	**5,342.5**	**3,855.8**	**-27.8%**

	30/6/19	31/12/19	Chg.
	(€m)	(€m)	
Equities	2,620.4	3,680.0	40.4%
Bond securities	66.3	37.5	-43.4%
Derivative contract valuations	(91.3)	(290.1)	n,s,
Certificates	(864.4)	(1,240.5)	43.5%
Trading loans	6.9	8.8	27.5%
Financial instruments held for trading	**1,737.9**	**2,195.7**	**26.3%**

	30/6/19	31/12/19	Chg.
	(€m)	(€m)	
Cash and current accounts	878.1	1,336.2	52.2%
Cash available at BCE	632.1	69.6	-89.0%
Deposits	2,094.4	254.3	-87.9%
Net treasury	**3,604.6**	**1,660.1**	**-53.9%**

	30/6/19		31/12/19	
	(€m)		(€m)	
	Assets	Liabilities	Assets	Liabilities
Italian government bonds	2,356.9	(2,126.9)	2,857.4	(2,551.3)
Foreign government bonds	1,041.5	(2,021.0)	1,428.1	(2,926.3)
Bond issued by financial institutions	563.0	—	925.7	(3.8)
Corporate bonds	161.4	—	235.4	—
Asset Backet Securities (ABS)	91.4	—	72.3	—
Equities	2,770.1	(149.7)	3,804.5	(124.5)
Total securities	**6,984.3**	**(4,297.6)**	**9,323.4**	**(5,605.9)**

	30/6/19		31/12/19	
	(€m)		(€m)	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps	819.1	(650.5)	741.1	(559.7)
Foreign exchange	383.2	(258.0)	162.7	(270.8)
Interest rate options/futures	10.4	(20.5)	4.1	(6.6)
Equity swaps and options	1,071.4	(1,387.0)	1,526.8	(1,813.9)
Credit derivatives (others)	490.5	(549.9)	760.1	(833.9)
Derivative contract valuations	**2,774.6**	**(2,865.9)**	**3,194.8**	**(3,484.9)**

	30/6/19 (€m)		31/12/19 (€m)	
	Assets	Liabilities	Assets	Liabilities
Securities lending/repos deposits	6,360.8	(4,005.1)	5,899.2	(5,330.1)
Stock lending deposits	672.3	(948.9)	570.2	(1,570.8)
Other deposits	1,626.8	(1,611.5)	1,667.5	(981.7)
Deposits	**8,659.9**	**(6,565.5)**	**8,136.9**	**(7,882.6)**

Tangible and intangible assets – this item increased from €1,187.6m to €1,405.8m, as a result of first-time adoption of the new IFRS 16. [9] This has resulted in €213m being added to the value in use, chiefly in connection with property rentals generating €24.5m for the six months. Tangible assets increased as a result of acquisitions of moveable assets and electronic equipment (€7.5m), plus capitalized improvement expenses (€0.9m). Intangible assets, meanwhile, reflect the adjustment made to goodwill in currencies other than the Euro, to reflect changes in the prevailing exchange rate (adding €5.8m), as well as new software purchases (€11.8m). Depreciation and amortization charges for the six months amounted to €39.4m, €18.3m of which for assets deriving from IFRS16 and €13.9m for intangibles.

No item presents any evidence of impairment.

	30/6/19		31/12/19		Chg.
	(€m)	%	(€m)	%	
Land and properties	256.7	22%	456.6	32%	77.9%
- of which: core	*181.8*	*15%*	*181.5*	*13%*	*-0.2%*
buildings RoU ex IFRS16	*n.a.*	*n.a.*	*201.8*	*18%*	*n.m.*
Other tangible assets	29.1	3%	43.5	3%	49.5%
- of which: RoU ex IFRS16	*n.a.*	*n.a.*	*11.2*	*1%*	*n.m.*
Goodwill	772.4	65%	778.2	55%	0.8%
Other intangible assets	129.4	10%	127.5	9%	-1.5%
Total tangible and intangible assets	**1,187.6**	**100%**	**1,405.8**	**100%**	**18.4%**

(€m)

Transaction	30/6/19	31/12/19
Compass-Linea	365.9	365.9
Spafid	9.0	9.0
Cairn Capital	41.4	43.6
MB Private Banking	52.1	52.1
RAM	155.0	158.6
Messier Maris et Associés	149.0	149.0
Total Goodwill	**772.4**	**778.2**

[9] For further details on the first-time adoption of IFRS 16, please see Part A of the Notes to the Accounts.

Provisions [10] – these fell from €190.3m to €166m, and consist of provisions set aside to meet commitments and guarantees (which rose from €10.5m to €11.6m), the staff severance and post-retirement provisions which totalled €30.1m (€29.7m), and provisions for risks and charges totalling €124.3m (€150.1m). The latter item in particular regards Mediobanca (where the provisioning decreased from €96.2m to €69.2m), CheBanca! (down from €32.9m to €29.2m), SelmaBipiemme (down from €10.3m to €10.9m), Compass (where the provisioning rose from €2.3m to €7.2m) and CMB (down from €4.5m to €2.7m). Significant movements during the six months include the release of €25.7m from the Mediobanca provision, mostly as a result of tax risk analysis after agreement was reached with the Italian revenue authorities, and the use of €2.7m to settle an old dispute involving CMB. [11] Conversely, the provisioning was increased at Compass (by €4.7m, as a result of the fine handed out by the antitrust authorities at end-December 2019) and SelmaBipiemme (by €0.5m).

	30/6/19		31/12/19		Chg.
	(€m)	%	(€m)	%	
Commitments and financial guarantees given	10.5	6%	11.6	7%	10.5%
Provisions for risks and charges	150.1	79%	124.3	75%	-17.2%
Staff severance indemnity provision	29.7	15%	30.1	18%	1.3%
of which: staff severance provision discount	*3.7*	—	*3.8*	—	*2.7%*
Total provision	**190.3**	**100%**	**166.0**	**100%**	**-12.8%**

Net equity – net equity increased from €9,809.2m to €10,250.4m, chiefly due to increases in the valuation reserves; the movements in the various components were as follows:

– Distribution of the dividend for FY 2018-19 (€408.5m), more than offset by the profit for the six months (€467.6m);

– Higher valuation reserves (up from €597.5m to €1,045.6m), reflecting the increase in financial assets recognized at fair value through OCI (up €19.1m), those set aside in connection with the Assicurazioni Generali investment being equity-accounted, which virtually doubled (from €560.6m to €964.8m), and the reduction in the liability on the cash flow hedge reserve (from €-41.2m to €-20.2m);

– The increase in the impact of the buyback of treasury shares,[12] which increased to €18.9m (or 2.1% of the share capital), as a result of acquisitions totalling €5.3m (for an outlay of €49.9m), and uses in connection with the performance share scheme totalling €1.7m (with no impact on equity).

[10] This heading includes provisions for risks and charges, the staff severance indemnity and post-retirement benefit provisions, plus provisions set aside to meet commitments to disburse funds and financial guarantees issued.

[11] For further details on the disclosure of provisions for risks and charges, see Part B of the Notes to the Accounts.

[12] Under the resolution adopted by shareholders at the annual general meeting held in October 2018, buybacks can be made up to 3% of the company's share capital, for a total of 26.6 million shares.

(€m)

	30/6/19	31/12/19	Chg.
Share capital	443.6	443.6	n.m.
Other reserves	7,945.1	8,293.6	4.4%
Valuation reserves	597.5	1,045.6	75.0%
- of which: Other Comprehensive Income	*84.6*	*103.7*	*22.6%*
cash flow hedge	*(41.2)*	*(20.2)*	*-51.0%*
equity investments	*560.6*	*964.8*	*72.1%*
Profit for the period	823.0	467.6	-43.2%
Total Group net equity	**9,809.2**	**10,250.4**	**4.5%**

The Group's OCI reserve involves equities as to €79.1m and bonds and other debt securities as to €44.9m (€18m of which Italian government securities), net of the tax effect of €20.3m.

(€m)

	30/6/19	31/12/19	Chg.
Equity shares	64.8	79.1	22.1%
Bonds	36.2	44.9	24.0%
of which: Italian government bonds	*4.8*	*18.0*	*n.m.*
Tax effect	(16.4)	(20.3)	23.8%
Total OCI reserve	**84.6**	**103.7**	**22.6%**

Profit and loss account

Net interest income – the 3% increase in net interest income, from €700.6m to €721.5m, reflects the trend in customer loans. These climbed 7.7%, the increase being concentrated in consumer and mortgage loans in particular: both are products which have managed to preserve margins (even net of the cost of funding) while increasing volumes (up 7% and 17% respectively). Net interest income in Consumer Banking was up 5.3% (from €450.2m to €474m), and now accounts for two-thirds of the aggregate, while Wealth Management saw growth of 8.1% in this income source (from €127.8m to €138.1m), and reflects higher contributions from CheBanca! (up 4.2%) and CMB (up 18%). Net interest income earned from Corporate and Investment Banking operations was basically flat, down just 2% (from €138.9m to €136.1m), reflecting the slight reduction in margins on loans with volumes stable. A more pronounced reduction was reported by the Holding Functions division, where net interest expense increased from €16.3m to €26.7m, due to lower contribution from securities, with the portfolio of liquid assets performing in line with the trend in market interest rates.

(€m)

	31/12/18	31/12/19	Chg.
Consumer Banking	450.2	474.0	5.3%
Wealth Management	127.8	138.1	8.1%
Corporate and Investment Banking	138.9	136.1	-2.0%
Holding Functions and other (including IC)	(16.3)	(26.7)	63.8%
Net interest income	**700.6**	**721.5**	**3.0%**

Net treasury income – this item decreased from €97.6m to €91.5m, with the contributions of Capital Market Solutions and the proprietary portfolio (banking and trading books) basically unchanged at €58.2m and €27.2m respectively (31/12/18: €58.5m and €25.4m). Conversely, dividends and other income from funds declined to €5.3m (€9m), as did other items (Wealth Management, residual contributions from other Group companies, and entries made upon consolidation), from €4.4m to €0.6m.

(€m)

	31/12/18	31/12/19	Chg.
Corporate Investment Banking	71.9	73.5	2.2%
Principal Investing	9.0	5.3	-41.1%
Holding Functions	12.3	12.1	-1.6%
Other (including Intercompany)	4.4	0.6	-86.4%
Net treasury income	**97.6**	**91.5**	**-6.3%**

Net fee and commission income – fee income rose by 5%, reflecting a healthy performance by the Wealth Management division, where fees were up 12.4% (from €140.6m to €158m, roughly 50% of the total), the Affluent and Private Banking segments in particular. The former saw growth of 20.2%, from €41.6m to €50m, and the latter of 29.7%, from €49.2m to €63.8m, with a smaller but growing performance fee component (€12.3m, up from €1.2m). The contribution from CIB was stable at €121.9m (€122.5m), due to the addition of Messier Maris & Associés (€23.5m), which drove a 35% increase in advisory fees (from €47.9m to €64.6m). The reduction in fees earned from Consumer Banking chiefly reflects lower income from the sale and management of insurance products.

(€m)

	31/12/18	31/12/19	Chg.
Wealth Management	140.6	158.0	12.4%
Corporate & Investment Banking	122.5	121.9	-0.5%
Consumer Banking	63.2	57.7	-8.7%
Holding Functions and other (including intercompany)	(13.4)	(9.1)	-32.1%
Net fee and commission income	**312.9**	**328.5**	**5.0%**

Equity-accounted companies – the revenue attributable to equity-accounted companies, which totalled €183.7m (€165.5m), reflects the results of Assicurazioni Generali, where net profit rose from €165.1m to €183.3m, helped by gains realized on disposal in the company's first quarter, offset in part by non-recurring costs in respect of the liabilities management operation booked to the accounts for 2Q.

Operating costs – operating costs rose from €561.6m to €591.1m (up 5.3%), with labour costs in particular increasing by 7.5% (from €282.2 to €303.5m), reflecting the addition of Messier Maris (€12m), but also the increasing weight of Wealth Management costs (up 8.4%, from €109.2m to €118.4m) due to development of the distribution network. The increase in overheads was lower, up 2.9%, from €279.4m to €287.6m, driven in particular by Consumer Banking, where costs were up 6.8% (from €93.3m to €99.6m). The Group's cost/income ratio remained below 45%, one of the best levels in Europe.

(€m)

	31/12/18	31/12/19	Chg.
Labour costs	282.2	303.5	7.5%
of which: directors	*4.3*	*6.1*	*41.9%*
stock option and performance share schemes	*4.5*	*4.8*	*6.7%*
Sundry operating costs and expenses	279.4	287.6	2.9%
of which: depreciations and amortizations (incl. IFRS16)	*21.4*	*39.4*	*84.1%*
administrative expenses	*257.5*	*248.3*	*-3.6%*
Operating costs	**561.6**	**591.1**	**5.3%**

(€m)

	31/12/18	31/12/19	Chg,
Legal, tax and professional services	9.7	10.5	8.2%
Other consultancy expenses	21.7	16.5	-24.0%
Credit recovery activities	26.5	29.4	10.9%
Marketing and communication	19.6	19.7	0.5%
Rent and property maintenance *	25.7	10.3	-59.9%
EDP	59.9	60.7	1.3%
Financial information subscriptions	20.0	22.5	12.5%
Bank services, collection and payment commissions	10.2	11.9	16.7%
Operating expenses	31.6	33.0	4.4%
Other labour costs *	11.6	9.1	-21.6%
Other costs	12.9	12.6	-2.3%
Direct and indirect taxes	8.1	12.1	49.4%
Total administrative expenses	**257.5**	**248.3**	**-3.6%**
Depreciations and amortizations ex IFRS16		18.3	n.m.

(*) The reduction as at 31/12/19 is due to the effects of first-time adoption of IFRS 16 which has resulted in additional depreciation/amortization charges of €18.3m being taken.

The 3.6% reduction in administrative expenses reflects the decrease in use of consultants in connection with project activities, which covered the addition of Messier Maris et Associés (€3.3m) and the structural increase due to the higher volumes in banking activity; in particular, there were higher recovery costs in connection with the Group's non-performing loans and the other NPLs acquired, increased use of info provider platforms (used mainly by the central functions and by CIB), and an increase in the cost of stamp duty (indirect taxation) only part of which was recovered through being passed on to Wealth Management and Consumer Banking clients.

Loan loss provisions – these stood at €109.5m, unchanged versus last year (€109.5m), with the cost of risk at historically low levels (48 bps, versus 52 bps last year). In CIB, net writebacks of €30m were credited (€14.3m) in respect of the Sorgenia exposure, plus lower collective writedowns charged to the portfolio of NPLs acquired, consistent with the reduced levels of activity. In Consumer

Banking provisions set aside increased from €113.9m to €128m, with a cost of risk of 190 bps, higher than the all-time-low recorded last year (180 bps), and higher than the level seen at end-June 2019 as well (185 bps). In Wealth Management provisioning was increased from €6.6m to €7.7m, with a cost of risk of 13 bps (30/6/19: 11 bps; 31/12/18: 13 bps).

(€m)

	31/12/18	31/12/19	Chg.
Corporate & Investment Banking	(14.3)	(30.0)	n.m.
Consumer Banking	113.9	128.0	12.4%
Wealth Management	6.6	7.7	16.7%
Holding Functions (leasing)	3.3	3.8	15.2%
Loan loss provisions	**109.5**	**109.5**	**n.m.**
Cost of risk (bps)	**52**	**48**	**-7.7%**

Provisions for other financial assets [13] – The valuations of other financial assets mandatorily recognized at fair value (investments in Group funds and other private equity and real estate funds) were positive this year, at €10.1m (compared with minus €9.8m last year). Meanwhile, the contribution from other assets was basically unchanged, at €-1.4m.

(€m)

	31/12/18	31/12/19	Chg.
Hold-to-Collect securities	(0.4)	(0.8)	n.m.
Hold-to-Collect & Sell securities	(0.7)	(0.6)	-14.3%
Financial assets mandatorily FVTPL	(9.8)	10.1	n.m.
Provisions for other financial assets	**(10.9)**	**8.7**	**n.m.**

Income tax – income tax for the period totalled €146.1m, at an effective tax rate of 23.7%, slightly higher than last year's figure (€129.6m and 22.2% respectively).

Mediobanca (as consolidating entity) has adopted tax consolidation, which includes Compass Banca, SelmaBipiemme Leasing, MIS, CheBanca!, MBCredit Solutions, Spafid Connect and Futuro. Relations between the consolidating and consolidated entities are governed by bilateral agreements regulating cash flows, exchanges of information and the individual companies' responsibilities versus the revenue authorities.

[13] Under IFRS 9, the impairment process applies to all financial assets (securities, repos, deposits and current accounts) recognized at cost (the "Hold to collect" model) and to all bonds recognized at fair value through other comprehensive income (the "Hold to collect and sell" model).

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

WEALTH MANAGEMENT

This division brings together all asset administration and management services offered to the following client segments:

– *Affluent & Premier* (CheBanca!); [14]

– Private Banking (Mediobanca Private Banking and Compagnie Monégasque de Banque in Monaco);

– Asset Management (i.e. the product factories: Mediobanca SGR, Cairn Capital, RAM Active Investment and Mediobanca Management Company);

– Others (including the fiduciary business previously attributable to Spafid, plus Spafid Family Office SIM and Spafid Trust).

(€m)

	6 mths ended 31/12/18	12 mths ended 30/6/19	6 mths ended 31/12/19	Chg. (%)
Profit-and-loss				
Net interest income	127.8	260.2	138.1	8.1
Net trading income	3.8	6.2	2.8	-26.3
Net fee and commission income	140.6	280.9	158.0	12.4
Total income	**272.2**	**547.3**	**298.9**	**9.8**
Labour costs	(109.2)	(221.8)	(118.4)	8.4
Administrative expenses	(105.9)	(212.2)	(106.3)	0.4
Operating costs	**(215.1)**	**(434.0)**	**(224.7)**	**4.5**
Loan loss provisions	(6.6)	(11.8)	(7.7)	16.7
Provisions for other financial assets	—	0.3	0.6	n.m.
Other income (losses)	0.2	0.6	1.8	n.m.
Profit before tax	**50.7**	**102.4**	**68.9**	**35.9**
Income tax for the period	(13.4)	(28.7)	(20.0)	49.3
Minority interest	(1.6)	(2.5)	(0.7)	-56.3
Net profit	**35.7**	**71.2**	**48.2**	**35.0**
Cost/Income (%)	*79.0*	*79.3*	*75.2*	

[14] For further information the results of CheBanca! for the six months under review, please see the press release issued by the bank itself on 31 January 2020.

	31/12/18	30/6/19	31/12/19
Balance-sheet data			
Loans and advances to customers	10,725.7	11,353.8	12,627.5
of which:			
Chebanca! mortgage loans	8,381.5	9,001.9	9,814.2
Private Banking	2,344.2	2,351.9	2,813.3
New loans	829.0	1,782.6	1,312.7
Risk-weighted assets	5,696.5	4,533.8	4,692.2
ROAC	14%	16%	23%
No. of staff	1,897	1,936	1,963

	31/12/18	30/6/19	31/12/19	Chg.
Commercial data				
Relationship managers	418	445	453	8.4%
Financial advisors	288	335	395	37.2%
No. of branches/agencies CheBanca!	169	180	190	12.4%
Private Banker	126	127	127	0.8%

In a favourable market scenario, which mitigated the impact of the stricter regulations (MiFID II and the Insurance Distribution Directive), the Wealth Management division delivered a clear improvement in results.

In the Affluent segment, CheBanca! performed near the best sector levels in terms of net new money in asset management, with approx. €1.4bn gathered (€0.8bn of which in 2Q), well balanced between the proprietary network and the FAs; the 35% increased compared to last semester allows CB! to reach a market share of 10%.[15] These results are particularly impressive it is considered that the leading Italian asset gatherers posted growth of 15% in the 2019 calendar year, with inflows concentrated in the first six months especially (15% outflows in 2H).[16] In the six months under review CheBanca! further enlarged its distribution, increasing its sales force to 850 professionals (up 20% YoY), with 60 FAs recruited in 6M (who now total 395) and eight Relationship Managers (now 453 overall).

Mediobanca Private Banking also impressed by its continuing growth in managed assets, outperforming the sector: compared with 12% growth by the market for the first nine months of 2019,[17] MBPB posted a 14% increase, equal to €0.9bn, achieved in the last six months in particular and reaching a market share of some 9%.[18] A careful selection process was launched to ensure that

[15] Source: Assoreti (figures for September-November 2019).

[16] Source principal competitors' press releases.

[17] Source AIPB. Figures refer to specialized banks in the period from December 2018 to September 2019.

[18] Source AIPB data as at 30 September 2019.

highly-qualified professionals are recruited, so the sales force remains focused on its target UHNWI and HNWI clients,[19] promoting cross-selling and co-operation with investment banking activities (around ten such mandates have been signed or executed in the six months).

The client product offering has also been enhanced further, as follows:

- Dedicated placement of the Mediobanca Active Allocation fund (which raised a total of €185m in two months between November and December 2019);
- Introduction of three new Mediobanca Global Multimanager funds of funds, which together have raised €50m since the start of the financial year);
- Cairn successfully launched its first multi asset credit UCITS fund. Both Cairn Multi Asset Credit and Cairn European Leveraged Loan strategies were placed within the upper quartile of their universes over 3 and 5 years as per Q3 2019 MercerInsight Report;
- The range of pension products for affluent clients has been completed with the co-operation of leading sector operators Amundi and Anima SGR;
- In line with the bank's increasing commitment to sustainability issues, November also saw the launch of "green" mortgages, i.e. the offering of loans to acquire energy class A and B properties;
- leadership position in alternative investment solutions consolidated, with the placement of Mediobanca Private Markets II, the second edition of its private markets fund, and Milan Trophy Re Fund I, its first real estate fund involving prestigious properties in Milan.

Loans and advances to customers in Wealth Management were up 11.2%, from €11.4bn to €12.6bn, with the mortgage loan component equal to €9.8bn (up 9% on the €9bn reported at end-June 2019), on new loans of €1.3bn (up 58.3% on the first six months of last year). Private Banking contributed €2.8bn (up 19.6%, from €2.4bn), with CMB in particular reporting loans of €1.6bn (up 36.6%). Gross NPLs[20] remain at very low levels in relative terms, representing just 1.6% of total loans (compared with 1.7% at the balance-sheet date) and equal to €205.5m (30/6/19: €198.6m), the majority of which involve CheBanca!

[19] Of the AUM, some 75% are attributable to clients with assets of more than €10m , and 50% to clients with assets of more than €30m.

[20] Adoption of the new definition of default as provided by the EBA Guidelines, applied for the first time from 30 September 2019, did not entail any significant changes. The effect of the new definition of default may be quantified at approx. €3.6m.

mortgage loans (€184.5m, or 1.9% of the total). Net NPLs account for less than 1% of total loans, amounting to €110.4m (basically unchanged since the balance-sheet date), with a coverage ratio of 46.3% (44.3%). Meanwhile, net bad loans total €42.3m (0.3% of total loans), with a coverage ratio of 61.8%.

Total financial assets managed on behalf of clients (TFAs) amount to €63.7bn (€26.5bn of which in the Affluent segment and €26bn in Private Banking), with €2.3bn added in the six months which rises to €5.7bn for the year as a whole; whereas highly profitable AUM/AUA rose to €41.8bn (€12bn of which in the Affluent segment and €18.5bn in Private Banking), up 7.3% in the six months and 13.1% in the last twelve months.

Growth in the six months was driven by the market effect, i.e. the increase in values at the period-end, which added €1bn, and net new money (NNM) of €1.3bn. NNM represents the balance of outflows totalling €612m (€-572m in the Affluent segment and €-40m in Private Banking, the latter amount representing the difference between €465m inflows at CMB and €505m outflows at MBPB) and inflows in AUM/AUA totalling €1,896m, as follows: inflows in the Affluent segment (€1,368m) and Private Banking (€923m), less net outflows in asset management (€-394m).

Growth in Private Banking has been concentrated on the Italian market, which has begun to see the first results of the conversion process of the liquidity accumulated by clients last year. Conversely, asset management reflects the reduction in the institutional component in RAM (down €506m, in line with the sector trend) and Mediobanca SGR (down €416m, as a result of the process of repositioning towards profitable clients), in part offset by the growth posted by Cairn (€528m, €418m of which in relation to the new CLO XI); the intense activity with the Group network is also worth noting, with €1.4bn more funds placed in the last six months.

Net TFA	31/12/18	30/6/19	31/12/19	Chg. % dec 19 / dec 18	Chg. % dec 19 / june 19
Affluent Banking	23,326	25,366	26,465	13.5%	4.3%
Private Banking	22,276	24,392	25,968	16.6%	6.5%
Asset Management	20,813	20,336	21,374	2.7%	5.1%
Intercompany	(8,478)	(8,681)	(10,091)	19.0%	16.2%
Wealth Management	**57,937**	**61,414**	**63,716**	**10.0%**	**3.7%**
Net New Money	**3,693**	**5,316**	**1,284**	**-65.2%**	**n.m.**

Deposits	31/12/18	30/6/19	31/12/19	Chg. % dec 19 / dec 18	Chg. % dec 19 / june 19
Affluent Banking	14,414	15,032	14,460	0.3%	-3.8%
Private Banking	6,563	7,417	7,446	13.4%	0.4%
Asset Management	—	—	—	n.m.	n.m.
Wealth Management	**20,977**	**22,450**	**21,906**	**4.4%**	**-2.4%**
Net New Money	**1,948**	**3,393**	**(612)**	**-131.4%**	**n.m.**

AUM/AUA	31/12/18	30/6/19	31/12/19	Chg. % dec 19 / dec 18	Chg. % dec 19 / june 19
Affluent Banking	8,911	10,334	12,005	34.7%	16.2%
Private Banking	15,713	16,975	18,522	17.9%	9.1%
Asset Management	20,813	20,336	21,374	2.7%	5.1%
Intercompany	(8,478)	(8,681)	(10,091)	19.0%	16.2%
Wealth Management	**36,960**	**38,964**	**41,811**	**13.1%**	**7.3%**
Net New Money	**1,745**	**1,923**	**1,896**	**8.7%**	**-1.4%**

The Wealth Management division delivered a net profit of €48.2m in the six months,[21] up 35% on last year (€35.7m), on revenues up 9.8% (from €272.2m to €298.9m), a modest, 4.5% increase in costs (from €215.1m to €224.7m), and loan loss provisions increasing from €6.6m to €7.7m, offset, however, by other €2.4m in other income (€0.2m).

Thus the cost/income ratio improved from 79% to 75.2%,[22] the cost of risk stood at 13 bps (compared with 11 bps at 30 June 2019 and 13 bps at the same stage last year), and the ROAC posted by the division increased to 23% (from 14% twelve months previously).

Revenues	31/12/18	30/6/19	31/12/19	Chg. %
Affluent	146.2	297.1	159.1	8.8%
Private Banking	76.3	159.1	95.8	25.6%
Asset Management	39.9	77.0	39.9	0%
Other	9.8	14.1	4.1	-58.2%
Total revenues	**272.2**	**547.3**	**298.9**	**9.8%**

[21] The division's net profit breaks down as follows: CheBanca! €19m, MBPB approx. €10.5m, CMB €13.5m, RAM €1.8m, and MBSGR (including Management Company) €5.8m; the Spafid group basically broke even for the year, whereas Cairn again posted a loss.

[22] The cost/income ratio for the Affluent segment was 77.4%.

The main income items performed as follows:

– Net interest income rose by 8.1%, from €127.8m to €138.1m, split equally between the affluent segment (up 4.2%, from €104.2m to €108.6m) and Private Banking (up 26.2%, from €23.7m to €29.9m), almost all of which was contributed by CMB (where net interest income increased from €19.8m to €23.4m);

– Net fee and commission income was up 12.4%, from €140.6m to €158m, with increasing contributions in Private Banking (up 29.9%, from €49.2m to €63.9m) and the affluent segment (up 20.2%, from €41.6m to €50m); while asset management was stable at €40.1m, with the contribution from Mediobanca SGR (up 41%) offsetting the 26% reduction reported by RAM. The recurring fee component increased from €130.5m to €141.6m (approx. 90% of the total), together with the upfront fees generated from the placement of products (up 52%, from €11.9m to €18m); performance fees remained low, albeit higher than last year, at €12.3m (€1.2m);

Commissions per segment	**31/12/18**	**30/6/19**	**31/12/19**	**Chg. %**
Affluent	41.6	85.7	50.0	20.2%
Private Banking	49.2	103.8	63.9	29.9%
Asset Management	40.0	77.2	40.1	0.2%
Other	9.8	14.2	4.0	-59.2%
Total commissions	**140.6**	**280.9**	**158.0**	**12.4%**

Commisions by type	**31/12/18**	**30/6/19**	**31/12/19**	**Chg. %**
Management fees	152.6	307.5	165.0	8.1%
- of which: upfront feess	*11.9*	*28.0*	*18.0*	*52.0%*
Performance Fees	1.2	2.9	12.3	n.m.
Fees passive	(13.2)	(29.5)	(19.3)	46.0%
Total commissions	**140.6**	**280.9**	**158.0**	**12.4%**

– Operating costs rose by 4.5%, from €215.1m to €224.7m, reflecting the increase in labour costs (from €109.2m to €118.4m) due to the strengthening of the CheBanca! distribution network (the number of Affluent and Premier relationship managers increased from 418 to 453, plus the 395 FAs working in 107 branch offices and 83 POS), and the reorganizations implemented in CMB and Cairn; meanwhile, the administrative expenses component was basically unchanged.

Costs	**31/12/18**	**30/6/19**	**31/12/19**	**Chg. %**
Affluent	(115.5)	(236.3)	(123.1)	6.6%
Private Banking	(58.4)	(118.8)	(64.5)	10.4%
Asset Management	(28.6)	(60.5)	(31.4)	9.8%
Other	(12.6)	(18.4)	(5.7)	-54.8%
Total costs	**(215.1)**	**(434.0)**	**(224.7)**	**4.5%**

CONSUMER BANKING

This division provides retail clients with the full range of consumer credit products: personal and special-purpose loans, and salary-backed finance (Compass Banca and Futuro). The division also includes Compass RE, which reinsures risks linked to insurance policies sold to clients.

(€m)

	31/12/18	30/6/19	31/12/19	Chg. (%)
Profit-and-loss				
Net interest income	450.2	898.8	474.0	5.3
Net fee and commission income	63.2	128.1	57.7	-8.7
Total income	**513.4**	**1,026.9**	**531.7**	**3.6**
Labour costs	(48.6)	(99.4)	(50.0)	2.9
Administrative expenses	(93.3)	(194.1)	(99.6)	6.8
Operating costs	**(141.9)**	**(293.5)**	**(149.6)**	**5.4**
Loan loss provisions	(113.9)	(237.8)	(128.0)	12.4
Other income (losses)	—	—	(4.7)	n,s,
Profit before tax	**257.6**	**495.6**	**249.4**	**-3.2**
Income tax for the period	(83.2)	(159.2)	(82.2)	-1.2
Net profit	**174.4**	**336.4**	**167.2**	**-4.1**
Cost/Income (%)	*27.6*	*28.6*	*28.1*	

	31/12/18	30/6/19	31/12/19
Balance-sheet data			
Loans and advances to customers	12,766.2	13,223.0	13,698.4
- of which:			
Personal loans	*7,191.2*	*7,393.0*	*7,573.3*
Salary-backed finance	*2,013.9*	*2,039.3*	*2,045.1*
New loans	3,492.8	7,350.0	3,885.3
Risk-weighted assets	12,041.1	12,564.1	12,936.9
ROAC	32%	30%	30%
No. of staff	1,432	1,427	1,432

	31/12/18	30/6/19	31/12/19	Chg. %
Commercial data				
Branches Consumer	172	172	172	0%
Agencies Consumer	20	27	34	70.0%

The Italian consumer credit market continues to grow. New loans in 2019 totalled €66.3bn, up 6.3% (following growth of 6.2% in 2018), with a particularly impressive performance in special purpose loans (up 10.3%) and personal loans (up 5.1%), and a more modest one in salary-backed finance (up 2.1%).

Compass delivered above-average growth rates, overall (up 8%) and in its individual segments of operation (special purpose loans up 16%, personal loans up 6.2%, and salary-backed finance up 4.2%), as enabled by the investments it has made in its direct distribution channels, and as reflected in the initiatives realized in the six months under review:

– Launch of the Compass Quinto project, with the objective of setting up a network of agencies specializing in salary-backed finance products marketed under the Compass brand; in July the rebranding of the Equilon agencies commenced (involving a total of 41 agencies throughout Italy) and in November the TV advertising campaign for the project was launched;
– Strengthening geographical coverage nationwide also continued, with seven new Compass-branded agencies opened, bringing the total number to 34, alongside the 172 branch offices (unchanged since the balance-sheet date at 30 June 2019), with a direct distribution network of 905 employees;
– Consolidation of market share in special purpose loans, the main channel by which new clients are acquired, through the development of new partnerships with large-scale distribution (telephony and electronics in particular) and the signing of agreements managed locally by the network;
– Further development in the internet channel, with volumes managed in the six months reaching €172m, up 41% on last year, and accounting for 16% of the personal loans generated through the direct channel.

New loans in the six months grew by 11% year-on-year, to €3.9bn (10% for the 2019 calendar year), posting a record €2bn in the final quarter; special purpose loans were up 20% year-on-year, personal loans up 10% (direct channel up 14%), salary-backed finance up 3%. As at end-December 2019 Compass's market share had consolidated at 11.7%.

Net loans totalled €13.7bn, up 3.6% on the figure reported at end-June 2019 and 7.3% higher than the total reported at end-December 2018, with an increase in all products consistent with the trend in flows financed, some 55% of which were personal loans. The loan stock in salary-backed finance was slightly over €2bn.

Asset quality remained at high levels: application of the new definition of default [23] drove an increase in gross NPLs of approx. €160m, from €737.7m to

[23] Under the new definition of default applied as from 30 September 2019, gross loans with fewer than three instalments in arrears have been reclassified from performing (stage 2) to non-performing status.

€893.3m, remaining low in relative terms at 6.1% of total loans (5.2%). Equally, net NPLs rose from €189m to €295.3m (2.2% of total loans), with a coverage ratio of 66.9%(74.4%). Net bad debts totalled €14,8m, represent 0.1% of total loans (unchanged), with a coverage ratio of 93.4% (94.3%). NPLs worth a total of €120m were disposed of externally to the Group during the six months under review (compared with €114.1m last year). The coverage ratio for performing loans decreased slightly, from 3% to 2.7%, after certain low-quality assets (i.e. those with the highest coverage) were reclassified as non-performing as a result of the new definition of default, matched by the reduction in the incidence of exposures classified as stage 2, from 8.6% to 8%.

Compass delivered a net profit of €167.2m in the six months, after revenues of €531.7m (up 3.6%), with the cost/income ratio unchanged at 28.1%. Unlike last year (when a profit of €174.4m was recorded), the results for the six months were impacted by the higher cost of risk and by non-recurring expenses of €4.7m (the fine handed down by the antitrust authorities, which, incidentally, is tax-deductible). The ROAC for the division was unchanged at 30% (29% including the non-recurring charge mentioned above).

The main income sources performed as follows in the six months:

- Net interest income rose by 5.3%, from €450.2m to €474m, in line with the trend in volumes; the diverse business mix plus a slight reduction in the cost of funding more than offset the lower returns on lending;
- Net fee income decreased, from €63.2m to €57.7m, reflecting the less favourable performance in fees from placement and management of insurance policies which totalled €32.4m (€38m);
- Operating costs were up 5.4%, from €141.9m to €149.6m, due to strengthening of the distribution network, the launch of several business projects (marketing, communications and IT investments), and higher credit recovery expenses (which rose from €26.6m to €29m) in order to protect the cost of risk;
- Loan loss provisions rose by 12.4%, from €113.9m to €128m, reflecting an annual cost of risk of 190 bps, slightly higher than last year (185 bps) and the all-time low recorded during that year (180 bps);
- Non-recurring expenses totalled €4.7m, and refer to the fine handed down by the antitrust authorities mentioned above.

CORPORATE AND INVESTMENT BANKING

This division provides services to customers in the following areas:

- *Wholesale Banking:* CIB client business (lending, capital market activities and advisory services) and proprietary trading, performed by Mediobanca, Mediobanca International, Mediobanca Securities and Messier Maris & Associés);
- Specialty Finance, factoring and credit management (including acquisition and management of NPL portfolios), performed by MBFACTA and MBCredit Solutions.

(€m)

	6 mths ended 31/12/18	12 mths ended 30/6/19	6 mths ended 31/12/19	Chg. (%)
Profit-and-loss				
Net interest income	138.9	272.7	136.1	-2.0
Net treasury income	71.9	126.8	73.5	2.2
Net fee and commission income	122.5	227.6	121.9	-0.5
Total income	**333.3**	**627.1**	**331.5**	**-0.5**
Labour costs	(66.7)	(139.4)	(75.6)	13.3
Administrative expenses	(63.3)	(129.9)	(68.1)	7.6
Operating costs	**(130.0)**	**(269.3)**	**(143.7)**	**10.5**
Loan loss provisions	14.3	36.2	30.0	n.m.
Provisions for other financial assets	0.8	0.9	(0.3)	n.m.
Profit before tax	**218.4**	**394.9**	**217.5**	**-0.4**
Income tax for the period	(72.3)	(129.1)	(71.5)	-1.1
Results attributable to minorities	—	—	(1.9)	n.m.
Net profit	**146.1**	**265.8**	**144.1**	**-1.4**
Cost/Income (%)	*39.0*	*42.9*	*43.3*	

	31/12/18	30/6/19	31/12/19
Balance-sheet data			
Loans and advances to customers	17,400.6	17,865.3	18,041.4
of which: Corporate	*14,809.8*	*15,560.8*	*15,302.2*
Factoring	*2,245.3*	*1,935.4*	*2,387.9*
Credit Management - NPLs	*345.5*	*369.1*	*351.3*
Corporate new loans	3,571.6	5,777.3	3,117.9
Factoring turnover	3,288.2	6,579.0	4,072.1
NPLs purchased	75.0	117.9	12.2
Risk-weighted assets	19,819.2	20,065.8	20,332.7
ROAC	16%	15%	16%
No. of staff	571	621	633
Front Office	256	250	256

The European investment banking market remains challenging: the CIB division's principal reference markets (i.e. Italy, Spain and France) saw a reduction of over 30% in M&A transactions, Equity Capital Market (ECM) deals with less than half the value seen before 2018, and the Italian syndicated debt market shrinking by 60% due to the lack of acquisition finance deals.

Despite the difficult scenario, the CIB division confirmed its position as domestic market leader, with senior roles in the majority of the most important M&A deals in Italy and cross-border. The division is also developing a growing presence in the financial sponsors, mid corporate and capital market segments in its reference markets.

Revenues were stable, (at €331.5m €333.3m), due to the diversification of the business models. In particular, there was an increase of over one-third in revenues from advisory business (from €47.9m to €64.6m), reflecting the addition of Messier Maris et Associés (€23.5m), with which an integration process has been launched to cover the whole range of CIB products. Capital markets saw fees for the six months in line with those of last year (€14.5m), some two-thirds of which in DCM activities.

By contrast, fees from lending activities were down 12%, from €112m to €98m in corporate lending, and from €68m to €60m in specialty finance), due to narrowing margins and selective approach to lending. Loans and advances to customers were virtually unchanged during the six months, at €18bn (€17.9bn), split between Large Corporate (€15.3bn), factoring (€2.4bn), and non-recourse NPL purchases (€351.1m). Compared to the situation at the balance-sheet date, the contribution from Large Corporate loans was down €258.6m, following repayments of €3.5bn, virtually double last year (€1.3bn of which early repayments), on new loans totalling €3.1bn. Factoring posted turnover of €4.1bn, up 23.8% on the €3.3bn reported last year, increasing the stock for the six months by 23.4%; in contrast, NPL purchases were very low at €12.2m (with a nominal value of €0.1bn), as reflected in the reduction of the stock by 4.7%.

	31/12/18		30/6/19		31/12/19		Chg.
	(€m)	%	(€m)	%	(€m)	%	
Italy	9,255.2	53%	10,188.5	57%	9,706.6	54%	-4.7%
France	1,574.3	9%	1,558.9	9%	1,628.6	9%	4.5%
Spain	1,103.4	6%	941.2	5%	677.6	4%	-28.0%
Germany	980.9	6%	904.8	5%	1,236.6	7%	36.7%
U.K.	1,167.8	7%	1,131.3	6%	1,385.7	7%	22.5%
Other non resident	3,319.2	19%	3,140.6	18%	3,406.3	19%	8.5%
Total loans and advances to customers CIB	**17,400.6**	**100%**	**17,865.3**	**100%**	**18,041.4**	**100%**	**1.0%**
- of which: Specialty Finance	2,590.8	15%	2,304.5	13%	2,739.2	15%	18.9%

Asset quality remains at high levels: gross NPLs were down from €671.7m to €551.9m, [24] due to movements in the large corporate portfolio: the Sorgenia exposure, with gross book value of €108m, returned to performing status, while a smaller position of approx. €20m was classified as non-performing; gross NPLs now account for 3.1% of total loans (compared with 3.8%); meanwhile, net NPLs were down in absolute terms (down 18%, from €394.7m to €322.1m [25] and in relative terms, to 1.8% of total loans (2.3%); the coverage ratio was higher at 41.6% (41.2%).

The CIB division posted a net profit of €144.1m [26] for the six months, basically flat versus last year. Messier Maris et Associés contributed revenues of €23.5m and costs of €15.4m, €12m of which were labour costs. The cost/income ratio for the division was higher than last year at 43.3% (39%), near the levels reported at end-June 2019. Higher net writebacks were credited of €30m (€14.3m), as a result of the improvement in the Large Corporate loan book, meaning that the ROAC posted by the division was unchanged at 16%.

Revenues too were basically flat, at €331.5m (€333.3m): the 2% drop in net interest income, from €138.9m to €136.1m, reflects the lower returns on corporate lendings (with volumes stable), and was offset by the performance in net trading income (up from €71.9m to €73.5m), with client trading flat at €58.2m (€58.5m), and the contribution from proprietary trading recovering from 1Q. Fees were basically unchanged at €121.9m, despite significant growth in the advisory platform (up 35%, from €47.9m to €64.6m, €23.5m of which from

[24] The new definition of default has been applied starting from 30 September 2019. The large corporate loan book was unaffected, hence the quality of the assets is confirmed.

[25] NPLs here do not include the non-performing accounts acquired by MBCredit Solutions as part of its business, which decreased from €368.6m to €351.1m, concentrated in the retail unsecured segment (over 83%).

[26] The various divisions' contributions to the total break down as follows: WSB €127.9m; MMA €3.7m; MBCredit Solutions €6.2m; and MBFacta €10m.

MMA) which was offset by the lower contributions from lending (down 23%, from €25.8m to €19.7m) and Specialty Finance (down 32.4%, from €27.5m to €18.6m, due to lower revenues from the acquired NPLs portfolio).

Revenues	**31/12/18**	**30/6/19**	**31/12/19**	**Chg. %**
Capital Market	16.3	30.4	14.5	-10.7%
Lending	112.4	208.9	98.5	-12.4%
Advisory M&A	47.9	87.5	64.6	34.7%
Trading Prop	16.0	12.5	23.3	45.6%
Market, Sales and other gains	72.4	155.7	70.9	-2.1%
Specialty Finance	68.3	132.2	59.8	-12.5%
Total Revenues	**333.3**	**627.1**	**331.5**	**-0.5%**

Commissions	**31/12/18**	**30/6/19**	**31/12/19**	**Chg. %**
Capital Market	21.3	47.8	19.0	-10.7%
Lending	25.8	43.3	19.7	-23.4%
Advisory M&A	47.9	87.5	64.6	34.7%
Specialty Finance	27.5	49.0	18.6	-32.5%
Total CIB Commissions	**122.5**	**227.6**	**121.9**	**-0.5%**

The increase in operating costs, from €130m to €143.7m, reflects the addition of Messier Maris et Associés, in particular with reference to labour costs (contributing €12m in the six months), and the trend in Specialty Finance in connection with management of collections on the NPL portfolios (where costs rose from €15.1m to €18.3m).

Financial assets (loans and banking book securities) reflect net writebacks totalling €29.7m, virtually double the amount credited last year (€15.1m), due to the Sorgenia exposure being reclassified as performing (with a positive impact of over €40m).

	31/12/18	**30/6/19**	**31/12/19**	**Chg. %**
Lending	31.2	63.2	38.5	23.4%
Specialty Finance	(16.1)	(26.1)	(8.8)	-45.3%
Total provisions	**15.1**	**37.1**	**29.7**	**n.m.**

* * *

With reference to M&A activities, a total of over forty deals were completed during the six months under review, roughly one-quarter of which by Messier Maris et Associés. These include acting as financial advisor to PSA in the merger with FCA, acquisition of a French firm by holding company Dentressangle, and the refinancing of Canadian renewable energy company Boralex's French activities. By industry, significant contributions were made by FIG, with eight deals) including the strategic partnership between Prelios and Intesa Sanpaolo to manage UTP receivables, the sale by Piraeus Bank of its subsidiary Piraeus Bulgaria, and the agreement between Crédit Agricole and Banco BPM in the consumer credit sector), real estate, where six deals were completed (including as advisor to Castello SGR in the disposal of assets to the Oaktree fund, and the acquisition of a property in Via Santa Margherita in Milan from Kryalos through a club deal in private banking), and energy, where five deals were completed (including as advisor to Snam in its acquisition of a 49% stake in OLT, and assisting DAAM in its disposal of Spanish company Arenales). Coverage of the financial sponsor sector also remained stable, with a total of nine deals completed, five of which with Large Corporate clients (these include: advisor to Bain Capital in the acquisition of non-performing loans from MPS, and as previously mentioned, assisting DAAM in its disposal of Spanish company Arenales) and four with Italian mid-corporate clients (including assisting Clessidra in acquiring L&S). Also in the mid-corporate area, more than ten deals were concluded in support of disposals processes (e.g. Laminam) and funds investing in Italian companies (e.g. CBG Acciai and AMF).

With reference to capital markets activity, the Bank has managed around forty placements concentrated in Italy, Spain/Portugal, France, Austria and the United Kingdom, with leading roles in deals involving Banco Santander, Unicaja Banco, Banco Bilbao, Unicredit, Raiffesen Bank, Virgin Media, Italgas, Iren, Compagnie de Financement Foncier, and in some of the largest domestic ECM transactions, such as the ABOs by Cellnex and Unieuro, and the capital increase by Juventus.

PRINCIPAL INVESTING

The Principal Investing (PI) division administers the Group's portfolio of equity investments and holdings, including the stake in Assicurazioni Generali in particular.

(€m)

	6 mths ended 31/12/18	12 mths ended 30/6/19	6 mths ended 31/12/19	Chg. (%)
Profit-and-loss				
Other incomes	5.4	11.2	1.8	-66.7
Equity-accounted companies	165.5	321.2	183.7	11.0
Total income	**170.9**	**332.4**	**185.5**	**8.5**
Labour costs	(2.0)	(3.9)	(1.7)	-15.0
Administrative expenses	(0.5)	(1.2)	(0.5)	n.m.
Operating costs	**(2.5)**	**(5.1)**	**(2.2)**	**-12.0**
Net loss provisions	(10.8)	(3.3)	8.3	n.m.
Profit before tax	**157.6**	**324.0**	**191.6**	**21.6**
Income tax for the period	1.1	(9.8)	(4.7)	n.m.
Net profit	**158.7**	**314.2**	**186.9**	**17.8**

	31/12/18	30/6/19	31/12/19
Balance-sheet data			
Banking book equity securities	630.1	656.7	645.6
IAS28 investments	3,056.5	3,259.8	3,830.8
Risk-weighted assets	6,004.1	5,641.6	5,746.3

Principal investing delivered a net profit for the six months up from €158.7m last year to €186.9m, on value adjustments deriving from use of the equity method totalling €183.7m (€165.5m), dividends and other income collected from equities and funds totalling €5.3m (€9m), and value adjustments to holdings in funds [27] adding €8.3m (compared to minus €10.8m last year).

The book value of the Assicurazioni Generali investment increased from €3,219.3m to €3,789.9m, on net profit of €183.3m, increases in the valuation reserves (€409.9m), against reductions posted by the other reserves (€22.8m).

As for banking book securities, positions held in funds decreased from €520.4m to €495.4m, on net disinvestments totalling €33.2m, €22.6m of which in seed capital, and €8.3m in upward value adjustments at the period-end; holdings in equities increased from €136.3m to €150.2m, due fair value being higher at end-December 2019.

[27] Under IFRS 9, changes in fair value for the period are taken through profit and loss.

HOLDING FUNCTIONS (CENTRAL, TREASURY AND LEASING)

The centralized Holding Functions division houses the Group's the leasing operations, Spafid Connect,[28] the Treasury and ALM activities (with the objective of optimizing management of the funding and liquidity process at consolidated level), and all costs relating to central Group functions.

(€m)

	6 mths ended 31/12/18	12 mths ended 30/6/19	6 mths ended 31/12/19	Chg. (%)
Profit-and-loss				
Net interest income	(23.5)	(47.1)	(30.7)	-30.6
Net trading income	12.3	45.0	12.1	1.6
Net fee and commission income	4.6	7.4	7.2	-56.5
Total income	**(6.6)**	**5.3**	**(11.4)**	**-72.7**
Labour costs	(55.7)	(117.1)	(57.7)	-3.6
Administrative expenses	(25.6)	(60.5)	(22.3)	12.9
Operating costs	**(81.3)**	**(177.6)**	**(80.0)**	**1.6**
Loan loss provisions	(3.3)	(9.0)	(3.8)	-15.2
Provisions for other financial assets	(0.6)	0.1	(0.1)	83.3
Other income (losses)	(11.3)	(54.8)	(11.8)	-4.4
Profit before tax	**(103.1)**	**(236.0)**	**(107.1)**	**-3.9**
Income tax for the period	39.1	70.6	31.9	18.4
Minority interest	(1.8)	(2.1)	(1.3)	27.8
Net profit	**(65.8)**	**(167.5)**	**(76.5)**	**-16.3**

	31/12/18	30/6/19	31/12/19
Balance-sheet data			
Loans and advances to customers	2,043.7	1,951.6	1,883.1
Banking book securities	6,480.8	5,550.5	5,631.2
No. of staff	798	810	807
Risk-weighted assets	3,926.7	3,504.7	3,381.1

The loss posted by Holding Functions at the gross operating level increased from €103.1m to €107.1m, due to higher net interest expense of €30.7m (€23.5m), with trading income flat at €12.1m, and fees up slightly (from €4.6m to €7.2m). Operating costs were basically unchanged at €80m (€81.3m), with central costs contributing just over 9%; contributions to the Deposit Guarantee Scheme amounted to €11.4m, basically unchanged since last year (€11.2m). The increase in the net loss posted, from €65.8m to €76.5m, is explained also by the higher taxation.

[28] As from 1 January 2019, following the sale of the Market Connect business unit.

The various segments performed as follows:

– Group Treasury and ALM delivered a net loss of €34.7m, higher than the loss posted last year (€31.8m), due to an increase in net interest expense (from €43m to €49.6m) which reflects the effect of the reduction in interest rates on the banking book securities portfolio and the liquidity position, – despite the optimization measures implemented in 2Q – only in part offset by lower costs and fees payable; during the six months the process of transforming funding into diversified forms continued in order to keep the cost of funding down (compared to last year it reduced from 90 bps to 80 bps); six bond issues were made during the period, including a securitization of consumer credit receivables and a covered bond, while many of the secured financing transactions falling due were replaced, and the duration of the bank debt was extended further;

– Leasing delivered a lower net profit than last year, down from €2.6m to €1.9m, on a 6.6% reduction in revenues (from €21.3m to €19.9m), only in part offset by the reduction in overheads to €11m (€12.4m), plus one-off provisions of €0.5m; loan loss provisions totalled €3.8m, slightly higher than last year (€3.3m). Amounts leased to customers reduced from €1,951.6m to €1,883.1m, with new business down to €165m (€239m). Gross NPLs rose from €174.3m to €181.1m, and represent 9.3% (8.6%) of total leases; [29] similarly, net NPLs rose by 4.3%, to €116.6m (€111.8m), and account for 6.2% (5.7%) of total leases. Net bad loans totalled €19m (€24.1m), and represent 1% (1.2%) of total leases, with a coverage ratio of 51% (46.8%).

* * *

[29] Application of the new definition of default as from 30 September 2019 has meant that accounts worth approx. €8m have been reclassified from performing to non-performing status.

Mediobanca S.p.A.

RESTATED PROFIT AND LOSS ACCOUNT

(€m)

	31/12/18	30/6/19	31/12/19	Chg. (%)
Profit-and-loss data				
Net interest income	48.2	91.8	46.7	-3.1%
Net treasury income	92.2	184.9	89.7	-2.7%
Net fee and commission income	124.4	231.1	120.8	-2.9%
Dividends on investments	—	332.4	2.9	n.m.
Total income	**264.8**	**840.2**	**260.1**	**-1.8%**
Labour costs	(118.1)	(240.8)	(112.9)	-4.4%
Administrative expenses	(87.7)	(178.8)	(86.7)	-1.1%
Operating costs	**(205.8)**	**(419.6)**	**(199.6)**	**-3.0%**
Loan loss provisions	27.4	58.6	48.7	77.7%
Provisions for other financial assets	(12.5)	(4.8)	7.2	n.m.
Impairment on investments	(1.9)	(4.2)	(4.6)	n.m.
Other income (losses)	(0.4)	(29.0)	(0.3)	-25.0%
Profit before tax	**71.6**	**441.2**	**111.5**	**55.7%**
Income tax for the period	(21.0)	(55.0)	(41.1)	n.m.
Net profit	**50.6**	**386.2**	**70.4**	**39.1%**

RESTATED BALANCE SHEET

(€m)

	31/12/18	30/6/19	31/12/19
Balance-sheet data			
Assets			
Financial assets held for trading	9,354.3	10,047.3	12,763.2
Treasury financial assets	11,199.1	11,517.4	11,011.1
Banking book securities	11,808.8	10,779.3	10,320.3
Customer loans	27,124.1	28,671.0	28,542.2
Equity Investments	3,741.1	3,876.5	4,102.1
Tangible and intangible assets *	151.1	147.6	174.0
Other assets	565.3	869.0	725.9
Total assets	**63,943.8**	**65,908.1**	**67,638.8**
Liabilities and net equity			
Funding	42,109.7	42,753.7	42,471.7
Treasury financial liabilities	8,027.0	8,636.2	8,910.7
Financial liabilities held for trading	8,141.7	8,280.3	10,563.5
Other liabilities *	717.7	925.1	767.7
Provisions	128.6	126.0	103.6
Net equity	4,768.5	4,800.6	4,751.2
Profit of the period	50.6	386.2	70.4
Total liabilities and net equity	**63,943.8**	**65,908.1**	**67,638.8**

* Includes the effects of adoption of IFRS 16, i.e. €26.4m (Tangible and intangible assets) and €28.5m (Other liabilities).

Mediobanca S.p.A. delivered a net profit of €70.4m for the six months, up on the €50.6m reported last year, after higher net writebacks were credited in respect of the loan book totalling €48.7m (€27.4m), mostly in connection with the Sorgenia exposure returning to performing status. Total income was basically unchanged (down 1.8%, from €264.8m to €260.1m) against a more substantial reduction in operating costs, of 3% (from €205.9m to €199.6m). The main income items performed as follows:

- Net interest income decreased by 3.2%, from €48.2m to €46.7m, reflecting the lower returns on corporate loans and the banking book securities, with volumes virtually unchanged;
- Net treasury income decreased from €92.2m to €89.7m, with the contribution from CMS client business virtually stable at €58.2m, and that of the proprietary portfolio (trading and banking books) up slightly at €26.2m (€23.3m), offsetting the lower dividends and other income from funds of €5.3m (€8.9m);

– Net fee and commission income declined from €124.4m to €120.8m, with a substantial contribution from Private Banking (up from €24.7m to €37m, only €5.1m of which in performance fees) which, however, was more than offset by the lower contribution from investment banking activity, generating fees of €73m (€92.6m), a result which reflects the slowdown in advisory and acquisition finance transactions;

– Dividends for the six months, of €2.9m, involve a one-off distribution by Group company Spafid during the period;

– Labour costs reduced from €118.1m to €112.9m, due to the reduced incidence of non-recurring items (provisions for variable remuneration and incentives), with an increase in the number of staff from 984 to 989 in the course of the twelve months;

– Administrative expenses decreased from €87.7m to €86.7m, reflecting the decrease in use of consultants in connection with project activities.

Net writebacks of €48,7m (€27,4m) were credited to the loan book and chiefly consist of the effect of one significant Large Corporate UTP exposure returning to performing status (Sorgenia, with a gross book value of €108m) with a consequent net release of €42m in funds; the heading also includes writebacks on loans to Group companies totalling €6m (against €6.4m in provisions last year).

Provisions for financial assets resulted in €7.2m being credited to earnings, as opposed to the €12.5m charge taken last year. This represents the difference between positive valuations of investments in funds totalling €9.3m (as compared with the €9.5m writedowns charged last year), and impairment charges for other items following application of IFRS 9 totalling €2.1m; in addition there were also writedowns of €4.5m to cover the losses made by Cairn Capital.

With regard to the main balance-sheet items:

– Loans and advances to customers were basically stable at €28.5bn (30/6/19: €28.7bn), €10.9bn of which were loans to Large Corporates (€11.1bn), €1.1bn to Private Banking clients (€1.1bn) and €16.4bn to Group companies (€16.5bn). Gross loan loss provisions [30] declined from €643.2m to €500.9m, whereas net loan loss provisions decreased from €386.7m to €302.6m;

[30] The new definition of default came into force on 30 September 2019. Mediobanca S.p.A. was unaffected, hence the quality of the assets is confirmed.

- Banking book debt securities decreased slightly, from €10.8bn to €10.3bn, €6.4bn of which booked as Hold to collect (€4.1bn of which intercompany), €3.9bn of which as Hold to collect and sell, and €56m in securities mandatorily recognized at fair value;
- Investment holdings increased from €3.9bn to €4.1bn, as a result of subscribing to the AT1 bond issued by Group company CheBanca! (€160m);
- Net treasury assets decreased from €4.6bn to €4.3bn, on reductions in deposits (from €1.8bn to €1.6bn) and liquid assets (from €1bn to €0.5bn);
- Funding declined from €42.8m to €42.5bn due to lower CheBanca! funding of €10.3bn (€11.4bn) and Private Banking deposits of €3.5bn (€4bn), only in part offset by reduced recourse to interbank loans; the debt securities component increased from €15.8bn to €16.9bn, following new issues of €2.3bn;
- Net equity fell from €5,186.8bn to €4,821.6m following distribution of the 2019 dividend (€408.5m), and further acquisitions of treasury shares (€49.8m), only in part offset by positive movements in the six months totalling €93.1m (profit for the six months, higher valuation reserves and other changes to equity);
- AUM/AUA in the Private Banking segment rose by 5%, from €13.9m to €14.6bn, helped by NNM of €401m, and the positive market effect which added €305m.

* * *

The financial highlights for the other Group companies in the six months under review are shown below:

(€m)

Company	Percentage shareholding	Business Line	Total assets	Loans and advances to customers	Total net equity [1]	No. of staff
Mediobanca Securities (data in USDm)	100%	Corporate and Investment Banking	6.8	—	5.7	4
Mediobanca Funding Luxembourg	100%	Corporate and Investment Banking	11.1	—	0.9	—
Messier Maris et Associés S.C.A. *	100%	Corporate and Investment Banking	42.0	—	15.2	35
Messier Maris et Associés L.L.C. (data in USDm)*	100%	Corporate and Investment Banking	0.4	—	-1.2	5
Mediobanca International	100%	Corporate and Investment Banking / Holding Functions	6,887.8	—	341.5	19
MBFACTA	100%	Corporate and Investment Banking	2,431.5	—	151.8	33
MBCredit Solutions	100%	Corporate and Investment Banking	414.9	—	151.6	223
Compass Banca	100%	Consumer Banking	14,230.4	—	1,779.3	1,362
Futuro	100%	Consumer Banking	1,700.9	—	146.5	70
Quarzo S.r.l.	90%	Consumer Banking	0.4	—	0.0	—
Quarzo CQS S.r.l.	90%	Consumer Banking	0.5	—	0.0	—
Compass RE	100%	Consumer Banking	398.5	—	172.3	1
CheBanca!	100%	Wealth Management	21,375.2	20.8	505.5	1,391
Mediobanca Covered Bond	90%	Wealth Management	0.6	—	0.1	—
Compagnie Monégasque de Banque	100%	Wealth Management	5,061.8	0.2	806.4	231
Spafid	100%	Wealth Management	56.1	—	46.6	45
Spafid Family Office SIM	100%	Wealth Management	1.9	—	0.9	—
Cairn Capital Group Limited (data in GBPm) *	100%	Wealth Management	18.9	1.7	9.1	56
CMB Wealth Management UK (data in GBPm) (under liquidation)	100%	Wealth Management	0.1	—	0.1	—
RAM Active Investments (data in CHFm) *	89,3%	Wealth Management	33.6	—	24.3	42
RAM Active Investments (Luxembourg) (data in CHFm)	100%	Wealth Management	9.0	—	3.6	7
Compagnie Monégasque de Gestion	100%	Wealth Management	9.7	—	1.7	9
Spafid Trust S.r.l.	100%	Wealth Management	1.6	—	1.4	3
Mediobanca SGR S.p.A.	100%	Wealth Management	43.0	—	28.8	48
Mediobanca Management Company S.A.	100%	Wealth Management	14.1	—	6.8	6
Mediobanca International Immobilière	100%	Holding Functions	1.8	—	1.8	—
SelmaBipiemme Leasing	60%	Holding Functions	2,024.2	—	210.5	125
Prominvestment (under liquidation - under arrangement with creditors)	100%	Holding Functions	0.4	—	(0.6)	—
Mediobanca Innovation Services	100%	Holding Functions	117.6	—	37.5	123
Ricerche e Studi	100%	Holding Functions	2.0	—	0.1	14
Spafid Connect	100%	Holding Functions	17.4	—	14.4	8

[1] Does not include profit for the period.

* Taking into account the put and call option; see Part A1 – Section 3 – Area and methods of consolidation, p. 89.

(€m)

Company	Percentage shareholding	Business Line	Total income	Operating costs	Loss provisions	Gain/(loss) for the period
Mediobanca Securities (data in USDm)	100%	Corporate and Investment Banking	1.4	(1.3)	—	0.1
Mediobanca Funding Luxembourg	100%	Corporate and Investment Banking	0.2	(0.2)	—	—
Messier Maris et Associés S.C.A. *	100%	Corporate and Investment Banking	23.5	(14.6)	—	6.1
Messier Maris et Associés L.L.C. (data in USDm) *	100%	Corporate and Investment Banking	—	(0.9)	—	(0.6)
Mediobanca International	100%	Corporate and Investment Banking / Holding Functions	8.8	(6.8)	(2.1)	0.8
MBFACTA	100%	Corporate and Investment Banking	26.0	(5.5)	(6.7)	9.4
MBCredit Solutions	100%	Corporate and Investment Banking	34.3	(22.4)	(2.8)	6.8
Compass Banca	100%	Consumer Banking	487.0	(145.6)	(126.1)	142.7
Futuro	100%	Consumer Banking	21.6	(8.3)	(1.7)	7.9
Quarzo S.r.l.	90%	Consumer Banking	0.1	(0.1)	—	—
Quarzo CQS S.r.l.	90%	Consumer Banking	—	—	—	—
Compass RE	100%	Consumer Banking	23.0	(0.4)	—	16.7
CheBanca!	100%	Wealth Management	160.1	(123.2)	(3.9)	14.1
Mediobanca Covered Bond	90%	Wealth Management	—	—	—	—
Compagnie Monégasque de Banque	100%	Wealth Management	48.7	(33.8)	(0.1)	12.9
Spafid	100%	Wealth Management	4.0	(4.4)	(0.7)	0.1
Spafid Family Office SIM	100%	Wealth Management	0.8	(0.5)	—	0.2
Cairn Capital Group Limited (data in GBPm) *	100%	Wealth Management	7.6	(11.4)	—	(3.1)
CMB Wealth Management UK (data in GBPm) (under liquidation)	100%	Wealth Management	—	—	—	—
RAM Active Investments (data in CHFm) *	89,3%	Wealth Management	14.3	(10.9)	—	2.4
RAM Active Investments (Luxembourg) (data in CHFm)	100%	Wealth Management	1.7	(1.2)	—	0.4
Compagnie Monégasque de Gestion	100%	Wealth Management	3.3	(1.3)	—	1.4
Spafid Trust S.r.l.	100%	Wealth Management	0.3	(0.4)	—	—
Mediobanca SGR S.p.A.	100%	Wealth Management	14.4	(7.3)	—	5.0
Mediobanca Management Company S.A.	100%	Wealth Management	2.2	(1.2)	—	0.8
Mediobanca International Immobilière	100%	Holding Functions	0.1	(0.1)	—	—
SelmaBipiemme Leasing	60%	Holding Functions	19.9	(11.1)	(3.8)	3.2
Prominvestment (under liquidation - under arrangement with creditors)	100%	Holding Functions	—	—	—	—
Mediobanca Innovation Services	100%	Holding Functions	(0.1)	2.0	—	1.5
Ricerche e Studi	100%	Holding Functions	1.5	(1.5)	—	—
Spafid Connect	100%	Holding Functions	1.1	(1.6)	—	(0.1)

* Taking into account the put and call option; see Part A1 – Section 3 – Area and methods of consolidation, p. 89.

Finally, it should be noted that:

– Compagnie Monégasque de Banque approved its individual financial statements for the twelve months ended 31 December 2019, which reflected a net profit of €13.3m, higher than the previous year (31/12/18: €12.3m) with revenues increasing from €94m to €103m only partially offset by the increase in costs (+12%, from €59m to €66.1m) reflecting the new management team recruited and the reinforcement of the sale structure. In particular net interest income and fee income were up 14.6% (from €37.7m to €43.2m) and 4.8% (from €58.3m to €61.1m) respectively, reflecting the increase in balance-sheet items: customer loans increased during the period, from €1,250m to €1,633m, as did bank deposits (from €2,339m to €2,740m) and funding raised from clients (from €3,257m to €3,952m). Net AUM/AUA rose from €6.7bn to €7.5bn with TFAs totaling €11.4bn (€10bn last year).

Other information

Related party disclosure

Financial accounts outstanding as at 31 December 2019 between companies forming part of the Mediobanca Group and related parties, and transactions undertaken between such parties during the financial year, are illustrated in Part H of the notes to the accounts, along with all the information required in terms of transparency pursuant to Consob resolution 17221 issued on 12 March 2010.

All such accounts form part of Group companies' ordinary operations, are maintained on an arm's length basis, and are entered into solely in the interests of the companies concerned. No atypical or irregular transactions have been entered into with such counterparties.

Article 15 of Consob's market regulations

With reference to Article 15 (previously Article 36) of Consob resolution 16191/07 (Market Regulations) on the subject of prerequisites for listing in respect of parent companies incorporated or regulated by the laws of EU member states and relevant to the preparation of the consolidated accounts, Compagnie Monégasque de Banque is the only Group company affected by this provision, and adequate procedures have been adopted to ensure full compliance with it.

Principal risks facing the Group

In addition to the customary information on financial risks (credit, market, liquidity and operational risks), the notes to the accounts contain to description of the other risks to which the Group is exposed in the course of its business, as they emerged from the ICAAP process now required by the regulations in force.

In particular, this involves concentration risk in the Group's Corporate Finance activities towards the leading Italian industrial groups, its presence in Consumer Banking and Affluent & Premier businesses on the domestic market, and its exposure to market volatility in respect of its securities portfolio in the Wholesale Banking, Principal Investing and Holding Functions divisions.

Section 12 of the Liabilities in the Notes to the Accounts also contains information on the most relevant litigation involving the Mediobanca Group still pending and the principal disputes outstanding with the Italian revenue authorities.

Consolidated non-financial statement

The Group's consolidated non-financial statement is published annually on the Bank's website at www.mediobanca.com (in the section entitled "Sustainability"), and is drawn up in accordance with the provisions of Italian Legislative Decree 254/16 and with the core option of the Global Reporting Initiative Sustainability Reporting Standards (the "GRI Standards") published in 2016 by the Global Reporting Initiatives (GRI), which are currently the most widely used and internationally recognized standards in non-financial reporting.

The Group is structuring its sustainability pathway by adopting an integrated strategy, which can combine growth in business and financial solidity with social and environmental sustainability, creating value over the long term. The 2019-23 strategic plan includes the Groups CSR targets, with the intention of delivering on six out of the 17 main objectives comprised in the Sustainable Development Goals [31].

[31] See press release issued on 12 November 2019.

At the same time, our commitment to initiatives with social impact has continued, featuring the increasing involvement of Mediobanca Group staff members as volunteers. The social impact initiatives realized during the six months under review include the following:

– Second edition "The prisoners ask why?", a project which aims at promoting reading among inmates at various institutions in Lombardy;

– Third edition of the Mediobanca Group Sport Camp at the "Cesare Beccaria" Institute for young offenders;

– Involvement in the "CheBanca! Academy of Woodworking", run in partnership with the Cometa social co-operativ;

– Start of the "INSIEME/TOGETHER" sports courses, the project run in conjunction with CUS Milano Rugby and the Milan city council in certain suburbs of Milan;

– Third edition of *Crescere, che impresa!*, run in partnership with Junior Achievement to promote financial education among young people of middle school age.

Research

R&S has continued with its analysis of companies and capital markets as in the past. The company produced the forty-fourth edition of its Annual Directory, which includes analysis of leading Italian listed companies, a survey of the main local utilities operating the leading Italian municipalities, which are examined both in terms of their earnings/financial profile, and of the quality and efficiency of the services provided by them, and a new edition of its survey of the leading international banks.

Rating

Before the summer break of 2019, S&P Global Ratings confirmed its "BBB" long-term and "A-2" short-term ratings with negative outlook for Mediobanca, which were reiterated again after the 2019-23 strategic plan was published in

November; Moody's, too, has confirmed its Baa1 rating for long-term debt and P-2 rating for short-term debt with stable outlook. In July, Fitch Ratings, in view of the change in the rating criteria, downgraded the rating for short-term debt from F2 to F3, leaving the others unchanged (BBB for long-term debt and BBB+ for long-term deposits with negative outlook).

Outlook

Global growth is likely to slow in the next six months, with a further slowdown in international trade and the main economic areas' weak cycles converging increasingly. In the Italian market, the main risks are linked to the likely stagnation in growth and in spending on investments due to companies' expectations of weak demand, which could impact on new loans in the corporate sector in particular. Financial markets should continue to be driven by monetary policies that remain accommodative, and by fiscal policies devoting renewed attention to sustainable growth, without prejudice to the risks related to the recent coronavirus outbreak in China, which at present are difficult to estimate but which could potentially slow growth further.

For Mediobanca, the next six months should see the trends witnessed thus far continue: loans should carry on growing, in Consumer Banking and mortgage lending in particular, with continued growth in TFAs as well, in both the Affluent and Private Banking segments, driving increases in net interest income and fees, albeit smaller than those recorded in the first six months due to lower performance fees (which are concentrated in December). In CIB, the trends in fees from investment banking and trading activities should also continue. Costs will reflect the strengthening in commercial structures already recorded in the first six months, along with the customary increase in project activity (due to business development and regulatory requirements). The cost of risk should remain at levels compatible with modest growth.

Reconciliation of shareholders' equity and net profit

(€m)

	Shareholders' equity	Net profit (loss)
Balance at 31/12 as per Mediobanca S.p.A. accounts	4,751,243	57,197
Net surplus over book value for consolidated companies	14,822	222,055
Differences on exchange rates originating from conversion of accounts made up in currencies other than the Euro	(396)	—
Other adjustments and restatements on consolidation, including the effects of accounting for companies on an equity basis	5,017,145	188,384
Dividends received during the period	—	—
Total	**9,782,814**	**467,636**

Milan, 6 February 2020

THE BOARD OF DIRECTORS

DECLARATION BY HEAD OF COMPANY FINANCIAL REPORTING

Declaration in respect of interim financial statements as required by Article 81-ter of Consob resolution no. 11971 issued on 14 May 1999 as amended

1. The undersigned Alberto Nagel and Emanuele Flappini, in their respective capacities as Chief Executive Officer and Head of Company Financial Reporting of Mediobanca, hereby declare, and in view inter alia of the provisions contained in Article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree 58/98, that the administrative and accounting procedures used in the preparation of the interim financial statements:
   - were adequate in view of the company's characteristics;
   - were effectively applied during the six months ended 31 December 2019.
2. Assessment of the adequacy of said administrative and accounting procedures for the preparation of the consolidated financial statements as at 31 December 2019 was based on a model defined by Mediobanca in accordance with benchmark standards for internal control systems which are widely accepted at international level (CoSO and CobiT frameworks).
3. It is further hereby declared that

   3.1 the consolidated interim review:
   - has been drawn up in accordance with the International Financial Reporting Standards adopted by the European Union pursuant to EC regulation no. 1606/02 issued by the European Parliament and Council on 19 July 2002;
   - corresponds to the data recorded in the company's books and account ledgers;
   - is adequate for the purpose of providing a truthful and accurate representation of the capital, earnings and financial situation of the issuer and the group of companies included within its area of consolidation.

   3.2 the interim review of operations contains reliable analysis of the most important events to take place in the first six months of the financial year and their impact on the interim financial statements, along with a description of the main risks and uncertainties for the remaining six months. The interim review of operations also contains reliable analysis of information on major transactions involving related parties.

Milan, 6 February 2020

Chief Executive Officer	*Head of Company Financial Reporting*
Alberto Nagel	Emanuele Flappini

EXTERNAL AUDITORS' REPORT

pwc

Review report on consolidated condensed interim financial statements

To the shareholders of
Mediobanca SpA

Foreword

We have reviewed the accompanying consolidated condensed interim financial statements of Mediobanca SpA and its subsidiaries (the Mediobanca Group) as of 31 December 2019, comprising the consolidated balance sheet, the consolidated profit and loss account, the consolidated comprehensive profit and loss account, the statement of changes to consolidated net equity, the consolidated cash flow statement and related notes to the accounts. The directors of Mediobanca Group are responsible for the preparation of the consolidated condensed interim financial statements in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these consolidated condensed interim financial statements based on our review.

Scope of Review

We conducted our work in accordance with the criteria for a review recommended by Consob in Resolution No. 10867 of 31 July 1997. A review of consolidated condensed interim financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than a full-scope audit conducted in accordance with International Standards on Auditing (ISA Italia) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the consolidated condensed interim financial statements.

pwc

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated condensed interim financial statements of Mediobanca Group as of 31 December 2019 are not prepared, in all material respects, in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Milan, 7 February 2020

PricewaterhouseCoopers SpA

Raffaella Preziosi
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

Consolidated Balance Sheet

(€'000)

Assets	31/12/19	30/6/19
10. Cash and cash equivalents	196,669	738,362
20. Financial assets at fair value with impact taken to profit and loss	13,249,951	10,622,973
a) Financial assets held for trading	*12,526,807*	*9,765,653*
b) Financial assets designated at fair value	*51,993*	*51,976*
c) Other financial assets mandatorily at fair value	*671,151*	*805,344*
30. Financial assets at fair value with impact taken to comprehensive income	4,032,574	3,886,771
40. Financial assets at amortized cost	57,939,794	56,599,859
a) Due from banks	*8,516,739*	*7,961,932*
b) Due from customers	*49,423,055*	*48,637,927*
50. Hedging derivatives	341,899	412,234
60. Adjustment of hedging financial assets (+/-)	—	—
70. Equity investments	3,830,857	3,259,777
80. Reinsured portion of technical reserve	—	—
90. Property, plant and equipments	500,171	285,849
100. Intangible assets	905,602	901,758
of which:		
goodwill	*778,238*	*772,427*
110. Tax assets	755,207	806,033
a) current	*104,307*	*146,550*
b) deferred	*650,900*	*659,483*
120. Assets classified as held for sale	—	22,168
130. Other assets	706,339	708,945
Total assets	**82,459,063**	**78,244,729**

(€'000)

Liabilities and net equity	31/12/19	30/6/19
10. Financial liabilities at amortized cost	59,739,794	57,936,936
a) Due to banks	*14,983,707*	*13,870,858*
b) Due to customers	*23,772,308*	*23,987,882*
c) Debt securities in issue	*20,983,779*	*20,078,196*
20. Trading financial liabilities	10,331,063	8,027,751
30. Financial liabilities designated at fair value	54,074	55,859
40. Hedging derivatives	323,371	414,241
50. Adjustment of hedging financial liabilities (+/-)	—	—
60. Tax liabilities	487,063	600,938
a) current	*153,881*	*281,766*
b) deferred	*333,182*	*319,172*
70. Liabilities included in disposal groups classified as held for sale	—	—
80. Oher liabilities	845,610	948,958
90. Staff severance indemnity provision	27,374	27,808
100. Provisions	138,590	162,515
a) commitments and financial guarantees	*11,582*	*10,536*
b) post-employment and similar benefits	*2,728*	*1,840*
c) other provisions	*124,280*	*150,139*
110. Insurance reserves	170,004	170,838
120. Revaluation reserves	1,045,563	597,504
130. Redeemable shares repayable on demand	—	—
140. Equity instruments repayable on demand	—	—
150. Reserves	6,273,885	5,891,473
160. Share premium reserve	2,195,606	2,195,606
170. Share capital	443,608	443,608
180. Treasury share (-)	(175,848)	(141,989)
190. Minority interests (+/-)	91,670	89,658
200. Profit/(loss) for the period (+/-)	467,636	823,025
Total liabilities and net equity	**82,459,063**	**78,244,729**

Consolidated Profit and Loss Account

(€'000)

Items	31/12/19	30/6/19	31/12/18
10. Interest and similar income	1,005,815	1,885,990	969,201
of which: interest income calculated according to the effective interest method	*824,528*	*1,618,642*	*839,524*
20. Interest expense and similar charges	(262,056)	(481,792)	(243,925)
30. Net interest income	**743,759**	**1,404,198**	**725,276**
40. Fee and commission income	327,750	584,923	297,903
50. Fee and commission expense	(74,602)	(144,455)	(71,373)
60. Net fee and commission income	**253,148**	**440,468**	**226,530**
70. Dividends and similar income	38,686	105,803	29,128
80. Net trading income	(12,694)	(12,148)	14,241
90. Net hedging income (expense)	(701)	5,426	2,517
100. Gain (loss) on disposal/repurchase:	45,151	79,359	29,672
a) financial assets measured at amortized cost	*8,550*	*2,365*	*6,631*
b) financial assets valued at fair value with impact taken to comprehensive income	*38,387*	*66,799*	*21,989*
c) financial liabilities	*(1,786)*	*10,195*	*1,052*
110. Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	34,970	16,399	4,853
a) financial assets and liabilities designated at fair value	*586*	*(28)*	*190*
b) other financial assets mandatorily valued at fair value	*34,384*	*16,427*	*4,663*
120. Total income	**1,102,319**	**2,039,505**	**1,032,217**
130. Net write-offs (write-backs) for credit risk:	(133,503)	(210,291)	(112,875)
a) financial assets measured at amortized cost	*(132,945)*	*(209,512)*	*(112,225)*
b) financial assets valued at fair value with impact taken to comprehensive income	*(558)*	*(779)*	*(650)*
140. Gains (losses) from contractual modifications without derecognition	20	(199)	(657)
150. Net income from financial operations	**968,836**	**1,829,015**	**918,685**
160. Premiums earned (net)	29,522	59,173	29,773
170. Other income (net) from insurance activities	(8,148)	(12,715)	(5,045)
180. Net profit from financial and insurance activities	**990,210**	**1,875,473**	**943,413**
190. Administrative expenses:	(591,422)	(1,233,763)	(573,512)
a) personnel coss	*(304,679)*	*(581,141)*	*(282,206)*
b) other administrative expenses	*(286,743)*	*(652,622)*	*(291,306)*
200. Net transfers to provisions:	17,169	(23)	(1,597)
a) commitments and financial guarantees	*(1,045)*	*3,707*	*1,970*
b) other sums set aside (net)	*18,214*	*(3,730)*	*(3,567)*
210. Net adjustments to tangible assets	(25,491)	(13,890)	(6,839)
220. Net adjustments to intangible assets	(13,949)	(30,274)	(14,574)
230. Other operating income (expense)	77,211	163,891	70,076
240. Operating costs	**(536,482)**	**(1,114,059)**	**(526,446)**
250. Gain (loss) on equity investments	183,726	321,157	165,523
260. Net result from fair value valuation of tangible and intangible assets	—	—	—
270. Goodwill write-offs	—	—	—
280. Gain (loss) on disposal of investments	159	166	93
290. Profit (loss) on ordinary activity before tax	**637,613**	**1,082,737**	**582,583**
300. Income tax for the year on ordinary activities	(168,457)	(256,529)	(129,601)
310. Profit (loss) on ordinary activities after tax	**469,156**	**826,208**	**452,982**
320. Gain (loss) of ceded operating assets, net of tax	—	—	—
330. Net profit (loss) for the period	**469,156**	**826,208**	**452,982**
340. Net profit (loss) for the period attributabe to minorities	(1,520)	(3,183)	(2,463)
350. Net profit (loss) for the period attributable to Mediobanca	**467,636**	**823,025**	**450,519**

Consolidated Comprehensive Profit and Loss Account

(€'000)

		31/12/19	31/12/18
10.	Profit (Loss) for the period	469,156	452,982
	Other income items net of tax without passing through profit and loss	**(15,686)**	**1,802**
20.	Equity securities designated at fair value with impact taken to comprehensive income	14,017	2,008
30.	Financial liabilities at fair value with impact taken to profit and loss (variation of own credit risk)	—	—
40.	Hedging of equity securities designated at fair value with impact taken to comprehensive income	—	—
50.	Property, plant and equipments	—	—
60.	Intangible assets	—	—
70.	Defined benefit schemes	(1,079)	54
80.	Non-current assets held for sale	—	—
90.	Share of valuation reserves attributable to equity-accounted companies	(28,624)	(260)
	Other income items net of tax passing through profit and loss	**464,859**	**(328,541)**
100.	Foreign investments hedges	—	—
110.	Exchange rate differences	4,684	2,097
120.	Cash flow hedges	21,374	(2,565)
130.	Hedging instruments (non-designated elements)	—	—
140.	Financial assets (other than equity securities) valued at fair value with impact taken to comprehensive income	5,925	(16,949)
150.	Non-current assets held for sale	—	—
160.	Share of valuation reserves attributable to equity-accounted companies	432,876	(311,124)
170.	**Total other income items, net of tax**	**449,173**	**(326,739)**
180.	**Comprehensive income (Heading 10 +170)**	**918,329**	**126,243**
190.	**Consolidated comprehensive income attributable to minorities**	**1,849**	**2,797**
200.	**Consolidated comprehensive income attributable to Mediobanca**	**916,480**	**123,446**

Statement of Changes to Consolidated Net Equity

(€'000)

	Total Group net equity at 30/6/19	Modification of start-of-period amounts [1]	Amounts at 1/7/19	Allocation of profit for previous period		Changes during the reference period									Total net equity at 31/12/19	Net equity attributable to the group at 31/12/19	Net equity attributable to the minorities at 31/12/19
							Transactions involving net equity							Overall consolidated profit for the 6 mths ended 31/12/19			
				Reserves	Dividends and other fund applications	Changes to reserves	New shares issued	Treasury shares acquired	Extra-ordinary dividend payouts	Changes to equity instruments	Treasury shares derivates	Stock options [2]	Changes to investments				
Share capital:	460,237	—	460,237	—	—	—	—	—	—	—	—	—	—	—	460,237	443,608	16,629
a) ordinary shares	460,237	—	460,237	—	—	—	—	—	—	—	—	—	—	—	460,237	443,608	16,629
b) other shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Share premium reserve	2,197,454	—	2,197,454	—	—	—	—	—	—	—	—	—	—	—	2,197,454	2,195,606	1,848
Reserves:	5,962,296	(513)	5,961,783	826,208	(408,548)	(20,246)	—	(15,979)	—	—	—	4,836	—	—	6,348,054	6,273,885	74,169
a) retained earnings	5,821,906	—	5,821,906	826,208	(408,548)	(21,031)	—	—	—	—	—	—	—	—	6,218,535	6,144,993	73,542
b) others	140,390	(513)	139,877	—	—	785	—	(15,979)	—	—	—	4,836	—	—	129,519	128,892	627
Valuation reserves	594,679	—	594,679	—	—	(785)	—	—	—	—	—	—	—	449,173	1,043,067	1,045,563	(2,496)
Equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Treasury shares	(141,989)	—	(141,989)	—	—	—	—	(33,859)	—	—	—	—	—	—	(175,848)	(175,848)	—
Profit (loss) for the period	826,208	—	826,208	(826,208)	—	—	—	—	—	—	—	—	—	469,156	469,156	467,636	1,520
Total net equity	9,898,885	(513)	9,898,372	—	(408,548)	(21,031)	—	(49,838)	—	—	—	4,836	—	918,329	10,342,120	X	X
Net equity attributable to the group	9,809,227	(513)	9,808,714	—	(408,548)	(21,194)	—	(49,838)	—	—	—	4,836	—	916,480	X	10,250,450	X
Net equity attributable to minorities	89,658	—	89,658	—	—	163	—	—	—	—	—	—	—	1,849	X	X	91,670

[1] Includes the effects of the first application of IFRS16 accounting standard deriving from sub-leasing contracts.

[2] Represents the effects of the stock options and performance shares related to the ESOP schemes.

Statement of Changes to Consolidated Net Equity

(€'000)

	Total Group net equity at 30/6/18	Modifications of start-of-period amounts [1]	Balance at 1/7/18	Allocation of profit for previous period		Changes during the reference period									Total net equity at 31/12/18	Net equity attributable to the group at 31/12/18	Net equity attributable to the minorities at 31/12/18
							Transactions involving net equity										
				Reserves	Dividends and other fund applications	Changes to reserves	New shares issued	Treasury shares acquired	Extra-ordinary dividend payouts	Changes to equity instruments	Treasury shares derivates	Stock options [2]	Changes to investments	Overall consolidated profit for the 6 mths ended 31/12/18			
Share capital:	459,918	—	459,918	—	—	(14)	246	—	—	—	—	—	—	—	460,150	443,521	16,629
a) ordinary shares	459,918	—	459,918	—	—	(14)	246	—	—	—	—	—	—	—	460,150	443,521	16,629
b) other shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Share premium reserve	2,139,591	—	2,139,591	—	—	—	2,973	—	—	—	—	—	—	—	2,196,564	2,194,716	1,848
Reserves:	5,559,032	(67,091)	5,491,941	867,726	(411,229)	3,039	—	(19,594)	—	—	—	4,559	—	—	5,936,442	5,865,576	70,866
a) retained earnings	5,412,494	(67,091)	5,345,403	867,726	(411,229)	1,799	—	—	—	—	—	—	—	—	5,803,699	5,733,460	70,239
b) others	146,538	—	146,538	—	—	1,240	—	(19,594)	—	—	—	4,559	—	—	132,743	132,116	627
Valuation reserves	761,276	(17,733)	743,543	—	—	(1,240)	—	—	—	—	—	—	—	(326,739)	415,564	418,209	(2,645)
Equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Treasury shares	(109,338)	—	(109,338)	—	—	—	—	(58,270)	—	—	—	—	—	—	(167,608)	(167,608)	—
Profit (loss) for the period	867,726	—	867,726	(867,726)	—	—	—	—	—	—	—	—	—	452,982	452,982	450,519	2,463
Total net equity	9,732,205	(84,824)	9,647,381	—	(411,229)	1,785	3,219	(77,864)	—	—	—	4,559	—	126,243	9,294,094	X	X
Net equity attributable to the group	9,644,305	(79,773)	9,564,532	—	(411,229)	(1,730)	3,219	(77,864)	—	—	—	4,559	—	123,446	X	9,204,933	X
Net equity attributable to minorities	87,900	(5,051)	82,849	—	—	3,515	—	—	—	—	—	—	—	2,797	X	X	89,161

[1] Includes the effects of reclassification and revaluations of financial assets and liabilities in consequence of IFRS9 accounting standard first time adoption and effects of IFRS15 first time adoption, as described in dedicated paragraphs of Part A of Consolidated Accounts.

[2] Represents the effects of the stock options and performance shares related to the ESOP schemes.

Consolidated Cash Flow Statement Direct Method

(€'000)

	Amount	
	31/12/19	**31/12/18**
A. Cash flows from operating activity		
1. Operating activity	**45,275**	**194,648**
- interest received (+)	947,187	1,216,128
- interest paid (-)	(394,884)	(628,349)
- dividends and similar income (+)	32,521	25,562
- net fees and commission income (+/-)	85,240	88,294
- cash payments to employees (-)	(265,136)	(248,003)
- net premium income (+)	27,771	29,113
- other premium from insurance activity (+/-)	(84,298)	(56,577)
- other expenses paid (-)	(203,322)	(181,128)
- other income received (+)	41,072	32,877
- income taxes paid (-)	(140,876)	(83,269)
- Expenses/income from group of assets being sold (+/-)	—	—
2. Cash generated/absorbed by financial assets	**(2,310,466)**	**(1,880,105)**
- financial assets held for trading	(611,950)	91,624
- financial assets valued at fair value	—	218,984
- financial assets mandatorily valued at fair value	168,998	(51,686)
- financial assets valued at fair value with impact taken to profit and loss	(100,102)	—
- financial assets valued at amortized cost	(1,488,305)	(2,073,990)
- other assets	(279,107)	(65,037)
3. Cash generated/absorbed by financial liabilities	**2,203,003**	**1,033,302**
- financial liabilities valued at amortized cost	2,381,550	1,068,972
- financial liabilities held for trading	(109,758)	(55,359)
- financial liabilities designated at fair value	—	—
- other liabilities	(68,789)	19,689
Net cash flow (outflow) from operating activities	**(62,188)**	**(652,155)**
B. Cash flows from investment activity		
1. Cash generated from:	**1**	**8,746**
- disposal of shareholdings	—	3
- dividends received in respect of equity investments	—	—
- disposals of tangible assets	1	243
- disposals of intangible assets	—	—
- disposals of subsidiaries or business units	—	8,500
2. Cash absorbed by:	**(28,939)**	**(10,239)**
- purchases of shareholdings	—	—
- purchases of tangible assets	(16,596)	(3,886)
- purchases of intangible assets	(12,343)	(6,353)
- purchases of subsidiaries or business units	—	—
Net cash flow (outflow) from investment activity	**(28,938)**	**(1,493)**
C. Cash flows from funding activity	**(450,567)**	**(485,875)**
- issuance/acquisition of treasury shares	(49,838)	(74,645)
- issuance/acquisition of capital instruments	—	—
- distribution of dividends and other purposes	(400,729)	(411,230)
- purchases/acquisition of minorities	—	—
Net cash flow (outflow) from funding activities	**(450,567)**	**(485,875)**
Net cash flow (outflow) during the period	**(541,693)**	**(1,139,523)**

Reconciliation of movements in Cash Flow during the period

(€'000)

Accounting items	Amount	
	31/12/19	31/12/18
Cash and cash equivalents: balance at start of period	738,362	1,238,001
Total cash flow (ouflow) during the period	(541,693)	(1,139,523)
Cash and cash equivalents: exchange rate effect	—	63,237
Cash and cash equivalents: balance at end of period	196,669	161,715

NOTES TO THE ACCOUNTS

NOTES TO THE ACCOUNTS

Part A - Accounting Policies

A.1 - General Policies

SECTION 1

Statement of conformity with IAS/IFRS

The Mediobanca Group's interim financial statements for the period ended 31 December 2019 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. The financial statements for the period ended 31 December 2019 have also been prepared on the basis of IAS 34 on interim financial reporting, the "Instructions on preparing statutory and consolidated financial statements for banks and financial companies which control banking groups" issued by the Bank of Italy in its circular no. 262 on 22 December 2005 (sixth update issued on 30 November 2018), which lay down the structure to be used in compiling and preparing the financial statements and the contents of the notes to the accounts.

SECTION 2

General principles

These consolidated financial statements comprise:

- Balance sheet;
- Profit and loss account;
- Comprehensive income statement;
- Statement of changes to net equity;
- Cash flow statement (direct method);
- Notes to the accounts.

All the statements have been drawn up in conformity with the general principles provided for under IAS and the accounting policies illustrated in part A.2, and show data for the period under review compared with that for the previous financial year in the case of balance-sheet figures or the corresponding period of the previous financial year for profit-and-loss data.

IFRS 16 came into force on 1 January 2019, has been incorporated into the Group's accounting policies, and will apply starting from 1 July 2019.

For completeness of disclosure, it should be noted that during the six months under review, the European Commission has approved Regulation (EU) 2019/2075 [1] and Regulation 2019/2104 [2] of 29 November 2019, providing specifications and clarifications for certain IAS and IFRS already in force. For the Mediobanca Group, all such amendments and additions will apply starting from 1 July 2020.

New IFRS 16: Leasing

Regulatory provisions

In 2016, the IASB issued the new IFRS 16 on "Leasing" to replace IAS 17 previously in force and its respective interpretations. [3] IFRS 16 was adopted by the European Commission under Commission Regulation (EU) 1986/2017 and as far as the Mediobanca Group is concerned, takes effect from the new financial year starting on 1 July 2019.

The main changes introduced by the new reporting standard are a change in the definition of leasing and a single accounting model for operating and financial contracts. Under the new standard, a lease is defined as a contract that conveys the right to use an asset for a period of time in exchange for a consideration, which means that long-term rental or hire contracts are also included.

[1] The regulation entails amendments to the following standards: IAS 1 – Presentation of financial statements; IAS 8 – Accounting policies, changes in accounting estimates and errors; IAS 37 – Provisions, contingent liabilities and contingent assets; IAS 38 – Intangible assets; IFRS 2 – Share-based payment; IFRS 3 – Business combinations; IFRS 6 – Exploration for and evaluation of mineral resources; IFRIC 12 – Service concession arrangements; IFRIC 19 – Extinguishing financial liabilities with equity instruments; IFRIC 20 – Stripping costs in the production phase of a surface mine; IFRIC 22 – Foreign currency transactions and advance consideration; SIC 32 – Intangible assets – website costs.

[2] The regulation entails amendments to the following standards: IAS 1 – Presentation of financial statements;IAS 8 – Accounting policies, changes in accounting estimates and errors; IAS 10 – Events after the reporing period; IAS 34 – Interim financial reporting; IAS 37 – Provisions, contingent liabilities and contingent assets.

[3] IIFRIC 4 "Determining Whether an Arrangement Contains a Lease", SIC 15 "Operating Leases – Incentives", and SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease".

The new standard requires the lesse to represent the amount of the “right of use” for the asset covered by the leasing/rental agreement in its accounts, matched by the future instalments due on it discounted as at the reporting date. Thereafter the “right of use” asset will be ammortized throughout the useful life of the contract and the obligation will be paid off through payments of the instalments due on the lease plus interest expenses accruing. The impact on profit and loss does not change across the life of the contracts as a whole, but does reflect a different distribution in terms of timing. As provided by the new standard, the Annual Report will include the additional disclosure in a specific section.

With regard to the accounting model for the lessor, there are no substantial changes as the distinction in treatment between operating and financial leases continues to apply in continuity with the existing IAS 17.

The IFRS 16 project

The Mediobanca Group has launched a project to manage transition to the new reporting standard, which involves analysis of the contracts, definition of the choices, assessment of the estimated impact and adaptation of the internal regulations.

The Group has adopted an IT solution to manage the new reporting standard in terms of quantifying and accounting for amounts payable and receivable in respect of leases, based on the application currently used to manage such contracts.

Mediobanca Group choices

The Mediobanca Group has decided to:

– Use the “modified retrospective approach”, i.e. recording the effect of first-time adoption cumulatively, without restating the comparative data, by calculating the value of the obligation as at the date of first-time adoption;

- Adopt some of the simplifications permitted by the new reporting standard, thus excluding from the representation contracts with a duration of twelve months or less calculated at FTA, contracts involving amounts of less than €5,000 (“low value”), and contracts for intangible assets;
- Not to strip out the service components from the leases themselves, and so to account for the entire contract as a lease, and to extrapolate the rate for discounting future cash flows from the Funds Transfer Pricing (FTP) curve in force as at the date in question;
- If the original contract has been sub-leased to a counterparty, the liability in respect of the original list is balanced by an amount receivable from the subscriber rather than by the value in use;
- The lease’s duration is estimated on the basis of the contract, experience acquired and information available at the date of first-time adoption regarding the exercise of options to extend or repay the lease early.

Effects of First-Time Adoption (FTA)

Since the new principle has come into force and basedon the transition choices that have been made, the Group’s assets have increased by €205m, due to the right of use over properties, vehicles and other core goods being recognized under heading 90, “Property, plant and equipment”.

This was matched by an equivalent increase in heading 10 “Financial liabilities recognized at amortized cost”, representing the payment obligations in respect of future instalments on the leases.

As required by the reporting standard, sub-leasing contracts are recored in heading 40 “Financial assets recognized at amortized cost” in an amount of approx. €5m; the difference between the instalment collected from the sale and the one paid in the leasing contract, approx. €500,000, was taken to Net equity.

A table reconciling the balance-sheet entries at 30 June 2019 pursuant to IAS 17 and at 1 July 2019 pursuant to IFRS 16 is shown below.

(€'000)

Items		**30/06/19**	**Transition effects**	**IFRS 16**
			IFRS16 impacts	**01/07/19**
10	Cash and cash receivables	738,362	—	738,362
20	Financial assets valued at fair value with impact taken to profit and loss	10,622,973	—	10,622,973
	a) trading financial assets	*9,765,653*	—	*9,765,653*
	b) financial assets designated at fair value	*51,976*	—	*51,976*
	c) financial assets mandatorily valued at fair value	*805,344*	—	*805,344*
30	Financial assets valued at fair value with impact taken to comprehensive income	3,886,771	—	3,886,771
40	Financial assets valued at amortized cost	56,599,859	4,754	56,604,613
50	Hedging derivatives	412,234	—	412,234
60	Adjustments to hedged financial assets (+/-)	—	—	—
70	Equity interests	3,259,777	—	3,259,777
80	Technical reserves of reinsurers	—	—	—
90	Tangible assets	285,849	205,346	491,195
100	Intangible assets	901,758	—	901,758
110	Tax assets	806,033	—	806,033
120	Held for sale financial assets	22,168	—	22,168
130	Other assets	708,945	(492)	708,453
	Total assets	78,244,729	209,608	78,454,337

(€'000)

Items		30/06/19	Transition effects IFRS16 impacts	IFRS 16 01/07/19
10	Financial liabilities valued at amortized cost	57,936,936	210,121	58,147,057
20	Trading financial liabilities	8,027,751	—	8,027,751
30	Financial liabilities designated at fair value	55,859	—	55,859
40	Hedging derivatives	414,241	—	414,241
50	Adjustments to hedged financial liabilities (+/-)	—	—	—
60	Tax liabilities	600,938	—	600,938
70	Liabilities associated to held for sale financial assets	—	—	—
80	Other liabilities	948,958	—	948,958
90	Staff severance payment	27,808	—	27,808
100	Provisions	162,515	—	162,515
110	Technical reserves	170,838	—	170,838
120	Evaluation reserves	597,504	—	597,504
130	Repayable shares	—	—	—
140	Equity instruments	—	—	—
150	Reserves	5,891,473	(513)	5,890,960
160	Share premiums	2,195,606	—	2,195,606
170	Share capital	443,608	—	443,608
180	Treasury shares (-)	(141,989)	—	(141,989)
190	Minority interests	89,658	—	89,658
200	Gain (loss) for the period	823,025	—	823,025
	Total liabilities and net equity	78,244,729	209,608	78,454,337

The overall value in use (recognized to Property, plant and equipments) is €205.3m, made up as follows:

– Value in use of properties: €195.6m;
– Value in use of vehicles: €8.5m;
– Value in use of other assets: €1.2m.

The increase in assets also affects the RWAs with an approx. 6 bps impact on the capital ratios.

The table below shows a reconciliation of future commitments in respect of leases pursuant to IAS 17 with the liabilities recorded in respect of leases in the financial statements.

The difference is due to the effect of discounting the amount payable at the marginal financing rate. As at the FTA date, the weighted average marginal financing rate used for liabilities in respect of leasing was 1.2%. The curve is revised on a regular monthly basis.

(€'000)

Leasing-related commitments (ex IAS17)	Financial liabilities (ex IFRS16)	Difference
220,235	210,121	10,114

During the six months under review, Mediobanca continued to record new operating leases and contract renewals falling within the IFRS 16 scope of application by making use of the exemptions used in a FTA scenario.

SECTION 3

Area and methods of consolidation

The consolidated financial statements comprise the financial/earnings results of associate companies and the companies directly or indirectly controlled by them, including those operating in sectors dissimilar to the one in which the parent company operates.

Based on the combined provisions of IFRS 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.

The following events in the six months should be noted:

- A capital increase by Cairn Capital Group Limited was completed in December 2019. Mediobanca subscribed for its own share plus other rights not taking up, meaning its investment in the Group company increased to 63.5%; [4]
- Activities in connection with the liquidation of subsidiaries Prominvestment and CMB Wealth are ongoing.

[4] Other call options were also exercised during January 2020, increasing the stake further to reach 70.93%.

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

Name	Registered office	Type of relationship [1]	Shareholding		% voting rights [2]
			Investor company	Quota %	
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. - under liquidation and arrangement with creditors	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.1.5	100.0	100.0
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.	Montecarlo	1	A.1.1	100.0	100.0
7. C.M.G. COMPAGNIE MONEGASQUE DE GESTION S.A.M.	Montecarlo	1	A.1.6	99.92	99.92
8. CMB ASSET MANAGEMENT S.A.M.	Montecarlo	1	A.1.6	99.0	99.0
9. CMB WEALTH MANAGEMENT LIMITED - under liquidation	London	1	A.1.1	100.0	100.0
10. MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.	Luxembourg	1	A.1.1	99.0	99.0
		1	A.1.11	1.0	1.0
11. COMPASS BANCA S.P.A.	Milan	1	A.1.1	100.0	100.0
12. CHEBANCA! S.P.A.	Milan	1	A.1.1	100.0	100.0
13. MB CREDIT SOLUTIONS S.P.A.	Milan	1	A.1.11	100.0	100.0
14. SELMABIPIEMME LEASING S.P.A.	Milan	1	A.1.1	60.0	60.0
15. MB FUNDING LUXEMBOURG S.A.	Luxembourg	1	A.1.1	100.0	100. —
16. RICERCHE E STUDI S.P.A.	Milan	1	A.1.1	100.0	100.0
17. MEDIOBANCA SECURITIES USA LLC	New York	1	A.1.1	100.0	100.0
18. MB FACTA S.P.A.	Milan	1	A.1.1	100.0	100.0
19. QUARZO S.R.L.	Milan	1	A.1.11	90.0	90.0
20. FUTURO S.P.A	Milan	1	A.1.11	100.0	100.0
21. QUARZO CQS S.R.L.	Milan	1	A.1.20	90.0	90.0
22. MEDIOBANCA COVERED BOND S.R.L.	Milan	1	A.1.12	90.0	90.0
23. COMPASS RE (LUXEMBOURG) S.A.	Luxembourg	1	A.1.11	100.0	100.0
24. MEDIOBANCA INTERNATIONAL IMMOBILIERE S. A R.L.	Luxembourg	1	A.1.10	100.0	100.0
25. CAIRN CAPITAL GROUP LIMITED	London	1	A.1.1	100.0 *	63.5
26. CAIRN CAPITAL LIMITED	London	1	A.1.25	100.0	100.0
27. CAIRN CAPITAL NORTH AMERICA INC.	Stamford (U.S.A.)	1	A.1.25	100.0	100.0
28. CAIRN CAPITAL GUARANTEE LIMITTED (non operating)	London	1	A.1.25	100.0	100.0
29. CAIRN CAPITAL INVESTMENTS LIMITED (non operating)	London	1	A.1.25	100.0	100.0
30. CAIRN INVESTMENT MANAGERS LIMITED (non operating)	London	1	A.1.25	100.0	100.0
31. AMPLUS FINANCE (non operating)	London	1	A.1.25	100.0	100.0
32. SPAFID FAMILY OFFICE SIM	Milan	1	A.1.3	100.0	100.0
33. SPAFID TRUST S.R.L.	Milan	1	A.1.3	100.0	100.0
34. MEDIOBANCA MANAGEMENT COMPANY S.A.	Luxembourg	1	A.1.1	100.0	100.0
35. MEDIOBANCA SGR S.P.A.	Milan	1	A.1.1	100.0	100.0
36. RAM ACTIVE INVESTMENTS S.A.	Geneva	1	A.1.1	89.3 **	69.0
37. RAM ACTIVE INVESTMENTS (LUXEMBOURG) S.A.	Luxembourg	1	A.1.36	100.0	100.0
38. MESSIER MARIS & ASSOCIES S.C.A.	Paris	1	A.1.1	100.0 ***	66.4
39. MESSIER MARIS & ASSOCIES L.L.C.	New York	1	A.1.38	100.0 ***	50.0

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

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

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

Legend

[1] Type of relationship:

1 = majority of voting rights in ordinary AGMs.

2 = dominant influence in ordinary AGMs.

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

2. Considerations and significant assumptions used to determine consolidation area

The area of consolidation is defined on the basis of IFRS 10, "Consolidated financial statements", which provides that control occurs when the following three conditions apply:

– When the investor has power over the investee, defined as having substantive rights over the investee's relevant activities;

– When the investor has exposure, or rights, to variable returns from its involvement with the investee;

– When the investor has the ability to exert power over the investee to affect the amount of the variable returns.

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

Investments in associates and joint arrangements are consolidated using the equity method. Associates are companies which are subject to dominant influence, a concept which is defined as the power to participate in activities which are significant for the company without having control of it. Dominant influence is assumed to exist in cases where one company holds at least 20% of the voting rights of another. In establishing whether or not dominant influence exists, account is also taken of potential rights, rights still to be exercised pursuant to options, warrants or conversion rights embedded in financial instruments; consideration is also given to issues of ownership structure, e.g. voting rights owned by other investors, etc.

The definition of joint arrangements used is that provided in IFRS 11, which involves the twofold requirement of the existence of a contractual arrangement and that such an arrangement must provide joint control to two or more parties.

For equity-accounted companies, any differences in the carrying amount of the investment and the investee company's net equity are reflected in the book value of the investment. This value is also reduced if the investee company distributes dividends.

The profit made or loss incurred by the investee company is recorded in the profit and loss account, as are any long-term reductions in value or reversals.

The financial statements of the consolidated companies represented in currencies other than the Euro are converted by applying the exchange rate prevailing at the end of the accounting period to the balance-sheet items, and the average exchange rates for the same period to the profit-and-loss items. All exchange rate differences arising as a result of conversion are recorded in a specific net equity valuation reserve which, as and when the investment is sold, is eliminated and the relevant amount is debited from or credited to the profit and loss account as the case may be.

Investee company Assicurazioni Generali, meanwhile, will continue to use IAS 39 rather than IFRS 9 adopted by the Mediobanca Group since 1 July 2018, having opted for the deferred approach provided by IFRS 9 as governed by IFRS 4. Accordingly, in the Mediobanca Group's consolidated financial statements, the figures shown under "Value reserves for investments accounted for using the equity method" will be calculated in accordance with IAS 39. Such amounts will therefore be classified in the Other Comprehensive Income statement based on IAS 39 with no adjustments.

3. Investments in subsidiaries with significant minority interests

Nothing to report.

4. Significant restrictions

The Group considers that no restrictions currently in force, under the terms of its Articles of Association, shareholders' agreements or external regulations, would prevent it or otherwise limit its ability to access its assets or settle its liabilities.

The Group also considers that no rights are in force to protect the interest of minority or third parties.

5. Other information

The reporting date for the consolidated financial statements is the date on which the parent company's financial year ends. In cases where Group companies have reporting periods ending on different dates, these companies are consolidated based on financial and earnings situations prepared as at the reporting date for the consolidated financial statements.

The financial statements of all subsidiaries have been drawn up based on the same accounting principles used at Group level.

Associates which have reporting periods ending on different dates compared to the Group prepare a pro forma accounting situation as at the consolidated reporting date, or alternatively send a statement relative to a previous date as long as it is not more than three months previously; such an arrangement is permitted (IAS 28, paragraphs 33-34), provided that account is taken of any significant transactions or events which take place between this date and the consolidated reporting date. As mentioned previously, Assicurazioni Generali has opted for the deferred approach governed by IFRS 4, and will therefore continue to apply IAS 39 until 1 January 2021.

SECTION 4

Events subsequent to the reporting date

Since the end of the six months, no events have taken place that would cause the results presented in the consolidated report for the period ended 31 December 2019 to be amended.

SECTION 5

Other information

The interim financial statements have been audited by external auditors PricewaterhouseCoopers S.p.A. as required by Italian Legislative Decree 39/10 and under the resolution adopted by shareholders at the Annual General Meeting held on 27 October 2012, for the 2013-21 financial years.

A.2 - Significant accounting policies

Financial assets recognized at amortized cost

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

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

This heading also includes receivables originated from financial leasing transactions, the valuation and classification rules for which are governed by IFRS 16 (cf. below), even though the impairment rules introduced by IFRS 9 apply for valuation purposes.

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

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

The business model is based on expected reasonable scenarios (without considering "worst case" and "best case" scenarios), and in the event of cash flows differing from those estimated at initial recognition, the Group is not bound to change the classification of financial instruments forming part of the portfolio, but uses the information for deciding the classification of new financial instruments. [5]

[5] These considerations are stated in the internal management policies, which reiterate the link between business model and accounting treatment, and introduce frequency and materiality thresholds for movements in portfolios of assets recognized at amortized cost.

At initial recognition, the Group analyses contractual cash flows for the instruments to check whether the instrument, product or sub-product passes the SPPI test. In this connection, the Group has developed a standardized process for performing the test, which involves analysing the loans using a specific tool developed internally which is structured on the basis of decision-making trees, at the level of the individual financial instrument or product based on their different degrees of customization. If the test is not passed, the tool will show that the assets should be recognized at fair value through profit and loss (FVTPL). The method by which loans are tested differs according to whether or not the asset concerned is a retail or corporate loan: at product level for retail loans, individually for corporate loans. An external info-provider is used to test debt securities; if, however, the results of the test are unavailable, the instrument is analysed using the SPPI tool. When contractual cash flows do not represent solely payments of principal and interest on the outstanding amount, the Group therefore mandatorily classifies the instrument at fair value through profit and loss.

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

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

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

The original effective interest rate for each 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.

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

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

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

- Stage 1: this includes exposures at their initial recognition date for as long as there is no significant impairment to their credit standing; for such instruments, the expected loss is to be calculated on the basis of default events which are possible within twelve months of the reporting date;
- Stage 2: this includes exposures which, while not classified as impaired as such, have nonetheless experienced significant impairment to their credit standing since the initial recognition date; in moving from stage 1 to stage 2, the expected loss must be calculated for the outstanding life of the instrument;
- Stage 3: this category consists of impaired exposures according to the definition provided in the regulations. In moving to stage 3, exposures are valued individually, that is, the value adjustment is calculated as the difference between the carrying value at the reference date (amortized cost) and the discounted value of the expected cash flows, which are calculated by applying the original effective interest rate. The cash flow estimates factor in the expected collection times, the probable net realizable value of any guarantees, and costs which are likely to be incurred in order to recover the credit exposure from a forward-looking perspective which takes account of alternative recovery scenarios and developments in the economic cycle.

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

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

Financial assets recognized at fair value through profit and loss

These include financial assets held for trading and other financial assets that must be recognized at fair value. [6]

Financial assets held for trading are assets which have been acquired or issued principally for the purpose of being traded. 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).

Financial assets that must be recognized at fair value are assets which are not held for trading but must compulsorily be recognized at fair value through profit and loss on the grounds that they do not meet the requisites to be recognized at amortized cost. In particular, after clarification from the IFRS Interpretation Committee, mutual funds are also classified in this category. [7]

[6] See Part A – Information on fair value on pp. 115-127.

[7] The IFRS Interpretation Committee's clarification rules out any possibility of treating such instruments as equity instruments.

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. Following their initial recognition they continue to be recognized at fair value, and any changes in fair value are recorded in the profit and loss account. Interest on instruments that must be recognized at fair value is recorded on the basis of the interest rate stipulated contractually. Dividends paid on equity instruments are recorded through profit and loss when the right to collect them becomes effective.

Equities and linked derivatives for which it is not possible to reliably determine fair value using the methods described above are stated at amortize 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 respective headings.

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

Financial assets are measured at fair value upon initial recognition. In such cases, financial assets are recognized irrevocably at FVPL if, and only if, their being included in this category eliminates or significantly reduces an inconsistency in terms of valuation.

Financial assets recognized at fair value through other comprehensive income

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

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

Financial assets recognized at fair value through other comprehensive income (FVOCI) are recognized fair value, including transaction costs and income directly attributable to them. Thereafter they continue to be measured at fair value. Changes in fair value are taken through other comprehensive income, while interest and gains/losses on exchange rates are taken through profit and loss (in the same way as financial instruments recognized at amortized cost).

Financial assets recognized at fair value through other comprehensive income (debt securities and equities) must have their expected losses calculated (as per the impairment process), in te same way as financial assets recotnized at amortized cost, with the resulting value adjustment taken through profit and loss.

Retained earnings and accumulated losses recorded in other comprehensive income are taken through profit and loss when the instrument is removed from the balance sheet.

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

Derecognition of assets

A financial asset must be derecognized from the balance sheet if, and only if, the contractual rights to the cash flows deriving from it have expired, or if the asset has been transferred in accordance with IFRS 9. In such cases the Group checks if the contractual rights to receive the cash flows in respect of the asset have been transferred, or if they have been maintained while a contractual obligation to pay the cash flows to one or more beneficiaries continues to exist. It is necessary to check that basically all risks and benefits have been transferred, and any right or obligation originated or maintained as a result of the transfer is recorded separately as an asset or liability where appropriate. If the Group retains virtually all risks and benefits, the financial asset must continue to be recorded.

If the Group has neither transferred nor maintained all risks and benefits, but at the same time has retained control of the financial asset, this continues to be recognized up to the residual interest retained in that asset.

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.

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

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

Leasing (IFRS 16)

An agreement is classified as a leasing contract (or contains a leasing element) based on the substance of the agreement at the execution date. An agreement is, or contains a lease if its performance involves the use of a specific good (or goods) and confers the right to use such good(s) – the "Right of Use" ("RoU") – for an agreed period of time and in return for payment of a fee. This definition of leasing therefore also includes long-term rentals or hires.

From the date on which the contract takes effect, that is, the date on which the asset becomes available to the lessee, the lessee records the right of use among its tangible assets, matched by a liability which incorporates all future payment commitments.

Right of use is calculated as the sum of the discounted value of future payments (which is equal to the current value of the liability booked in respect of it), of the initial direct costs, any instalments received in advance or at the date from which the lease is effective (jumbo instalment), any incentives received from the lessor, and estimates of any costs of removing or restoring the asset underlying the lease itself.

The liability, which is booked under "Financial liabilities recognized at amortized cost", is equal to the discounted value of the payments due in respect of the lease; and the marginal financing rate is equal to the Funds Transfer Pricing rate (FTP) as at the date concerned.

The Mediobanca Group has availed itself of the option granted under IFRS 16 to not consider short-term leases (i.e. expiring in under twelve months) or low value leases (i.e. those involving assets worth less than €5,000). For both these categories, the costs of the instalments are taken directly through profit and loss at the date of expiry.

The duration of a leasing contract takes into consideration the period during which the lease cannot be cancelled (as provided by the contract) and also any options for extending which it may reasonably be assumed will be used. In particular, where automatic renewal is provided for, account must be taken of previous behavior, the existence of company schemes for disposing of assets leased, and every other circumstance that would point towards the existence of reasonable certainty of renewal.

Afther initial recognition, RoU is amortized over the lease's duration, and written down as appropriate. The liability is increased as the interest payable accrues, and decreases gradually in line with the instalments being paid. If there are changes to the payments due in respect of the lease, the liability is recalculated against the asset recognized by way of RoU.

Leasing contracts in which Mediobanca is the lessor are split between finance and operating leases.

A lease is categorized as a finance lease if all the risks and benefits associated with ownership of the asset are transferred to the lessee.

Such leases are accounted for using the financial method, with a receivable being booked as an asset in an amount equal to that paid net of the instalments due and paid by the lessee, and the interest income being recognized through profit and loss.

For operating leases, where the risks and benefits associated with ownership are not transferred in full but continue to apply to the lessor, the leasing instalments are recognized through profit and loss based on the accrual principle.

For sub-leasing, i.e. when an original renting contract has been replicated with a counterparty, and there are grounds for classifying it as a finance lease, the liability in respect of the original lease is matched by an amount receivable from the sub-lessee rather than the value in use.

Hedges

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

Two types of hedge are used by the Group:

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

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

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

Hedge derivatives are 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.

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

– The effect of the credit risk does not prevail over the changes in value resulting from the economic relationship;
– The coverage provided by the hedging relationship is the same as the coverage which results from the quantity of the item hedged which the entity effectively hedges, and the quantity of the hedge instrument which the Bank actually uses to hedge the same quantity of the item hedged. However, this designation must not reflect a mismatch between the weightings of the

item hedged and the hedging instrument which would result in the hedge becoming ineffective (regardless of whether the ineffectiveness is observed), which could give rise to a result in accounting terms which is in contrast with the purpose of accounting for hedging transactions.

Fair value hedges

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

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

Cash flow hedges

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

– The gain or loss on the hedge instrument in relation to the effective part of the hedge is taken through OCI in the cash flow reserve, whereas the ineffective part is taken directly through profit and loss.
– The cash flow reserve is adjusted to reflect the lower amount of
    - The gain or loss accumulated on the hedge instrument since the hedge's inception; and

- The cumulative change in fair value (versus the present value) of the item hedged (i.e. the present value of the cumulative change in the estimated future cash flows hedged) since the hedge's inception;

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

Equity investments

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

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

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

Following application of the net equity method, if there is objective evidence that the value of an investment may have reduced, estimates are made of its recoverable value, taking into account the value of the discounted cash flows which the investment might generate, including the final sale value of the investment itself.

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

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

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

Property, plant and equipment

This heading comprises land, core and investment properties, plant, furniture, fittings, equipment and assets of any type. It does not, however, include the RoU acquired under leases and related use of tangible assets (for lessees) and/or assets granted under operating leases (for lessors), despite the fact that such assets remain the legal property of the lessor rather than the lessee.

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

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

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

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

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

Intangible assets [8]

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

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

[8] Mediobanca has adopted a Group Impairment Policy in line with the guidance issued by the Italian organization for valuation (OIV, or Organismo Italiano di Valutazione) on "Impairment testing on goodwill in financial and real crisis situations" of 14 June 2012, "Italian valuation standards" published in 2015, the discussion paper issued on 22 January 2019), ESMA's recommendations contained in the document entitled "European common enforcement priorities for 2013 financial statements", the joint document issued by the Bank of Italy, Consob and IVASS (document no. 4 of 3 March 2010), and Consob's communications (no. DIE/17131 of 3 March 2014 and no. 3907 of 19 January 2015).

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, [9] 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.

Financial liabilities recognized at amortized cost

These include the items ***Due to banks***, ***Due to customers and Debt securities in issue*** less any amounts bought back. The heading also includes amounts receivable in respect of finance leasing transactions, the valuation and classification rules for which are governed by IFRS 16 but which are also affected by the IFRS 9impairment rules. For a description of the rules for valuing and classifying leasing receivables, see the relevant section.

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

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

[9] Under IAS 36, impairment testing, i.e. tests to ascertain whether or not there has been a loss in the value of individual tangible and intangible assets, must be carried out at least once a year, in conjunction with preparation of the financial statements, or more frequently if events have taken place or materialized that would indicate there has been a reduction in the value of such assets (known as “impairment indicators”).

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 an dthe changes are taken through the profit and loss account.

They include the value of financial liabilities recognized at fair value through profit and loss based on the fair value option permitted under IFRS 9 and in accordance with the cases permitted under the regulation itself.

Provisions for liabilities and charges

These regard risks linked to commitments to disburse funds and guarantees issued, and to the Group's operations which could lead to expenses in the future (cf. below).

In the first case (provisions for liabilities and charges to cover commitments and guarantees issued), the amounts set aside are quantified in accordance with the rules on impairment introduced by IFRS 9. In the other cases the rules of IAS 37 apply, i.e. the potential charge must be estimated reliably; if the time effect is material, provisions are discounted using current market rates; and the provision is recognized in the profit and loss account.

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

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

As permitted by IAS 37, para. 92, no precise indication has been given of any potential liabilities where this could compromise the company in any way.

Staff severance indemnity provision and post-retirement schemes

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

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

The post-retirement scheme provisions have been instituted under company agreements and also qualify as defined benefit schemes. In this case the discounted value of the liability is adjusted by the fair value of any assets to be used under the terms of the scheme.

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

Foreign currency transactions

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

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

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

Tax assets and liabilities

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

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

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

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

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

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

Stock options, performance shares and long-term incentives

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

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

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

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

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

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

Treasury shares

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

Fees and commissions receivable in respect of services

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

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

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

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

Dividends

Dividends are recorded through profit and loss in the year in which their distribution is approved. They refer to distributions deriving from equities not issued by companies qualifying as associates and/or joint ventures which are valued on the basis of the provisions of IAS 28.

Recognition of costs

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

Related parties

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

a) Individuals or entities which directly or indirectly, are subject to joint control by Mediobanca, shareholders with stakes of 3% or more in Mediobanca's share capital;

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.

A.3 - Information on transfers between portfolios of financial assets

A.3.1 1 Reclassified financial assets: change in business model, book value and interest income

(€'000)

Type of instrument	Transferred from	Transferred to	Reclassification date	Reclassified book value	Interests income booked during the period (pre-tax)
Debt securites (ABS)	Available for sale securities	Financial assets valued at amortised cost	FY 2010/11	13,173	1,189
Total				13,173	1,189

A.4 - Information on fair value

QUALITATIVE INFORMATION

This section provides the disclosure on fair value stipulated by IFRS13 paragraph 24, which defines fair value as the price which would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market.

For financial instruments listed on active markets, fair value is determined on the basis of the official prices prevailing on the principal market, or alternatively the most advantageous market to which the Group has access; such instruments are thus said to be marked to market. A market is defined as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

For instruments not listed on an active market or in cases where the market is not functioning properly, that is, it does not have a sufficient and continuous number of transactions, or sufficiently low bid-ask spreads and volatility, valuation models using market inputs are used instead, such as:

– Valuations of instruments with similar characteristics,
– Discounted cash flow calculations,
– Option price calculation models, values recorded in recent comparable

transactions, prudentially adjusted to reflect the illiquid nature of some market data and other risks associated with specific transactions (reputational risk, replacement risk, etc.).

If no market inputs are available, valuation models based on data estimated internally are used.

As a further guarantee that the valuations deriving from the measurement models the Group uses remain objective, independent price verification processes (IPVs) are also carried out, in which a unit unrelated to the one assuming the risk checks the prices of the individual financial instruments on a daily basis, using data provided by information providers as its reference.

Fair value is reported according to rankings based on the quality of the input parameters used to determine it. [1]

In accordance with the provisions of IFRS 13 as enacted in Bank of Italy circular no. 262, the fair value hierarchy assigns decreasing priority to measurements based on different market parameters. The highest priority (level 1) is assigned to measurements based on prices quoted (un-adjusted) on an active market for identical assets or liabilities; while the lowest of priority (level 3) is assigned to valuations deriving predominantly from unobservable inputs.

The fair value ranking level assigned to an asset or liability is defined as the lowest-level input that is significant to the entire measurement. Three levels are identified:

– Level 1: quoted prices (single and unadjusted) in active markets for the individual financial instrument being measured.
– Level 2: inputs other than the quoted prices referred to above, that are observable on the market either directly (prices) or indirectly (price derivatives). In this case fair value is measured via a comparable approach, or by using a pricing model which leaves little scope for subjective interpretation and is commonly used by other financial operators.

[1] Cf. IFRS 13, paragraph 73: "the fair value measurement is categorized in its entirety in the level of the lowest level input that is significant to the entire measurement"; and paragraph 74: "The fair value hierarch ranks fair value measurements based on the type of inputs; it does not depend on the type of valuation techniques used". For further details see IFRS 13, paragraphs 72-90.

– Level 3: significant inputs which are either unobservable on the market and/ or reflect complex pricing models. In this case the fair value is set based on assumptions of future cash flows, which could lead to different estimates by different observers of the value of the same financial instrument.

In cases where the input data used to value an asset or liability have different levels, the choice of fair value level is guided by the significance of the input data (IFRS 13, paragraph 74).

As a rule Mediobanca uses market prices (level 1) or models based on observable inputs (level 2). In cases where level 3 instruments are used, additional price verification procedures are set in place, including: revision of relevant historical data, analysis of profits and losses, individual measurement of each single component in a structured component, and benchmarking. This approach involves the use of subjective parameters and judgements based on experience, and adjustments may therefore be required to valuations to take account of the bid-ask spread, liquidity or counterparty risk, and the type of measurement model adopted. All models in any case, including those developed internally, are verified independently and validated by different Bank units, thus ensuring an independent control structure. Similarly, the Bank has instituted an independent unit for validating the parameters used, comparing them with similar input from difference sources, but which must in any case comply with the observability criteria.

Fair value adjustment

Fair value adjustment is defined as the quantity that has to be added to the price observed on the market or the theoretical price generated by the model, to ensure that the fair value reflects the price that can be realized in a market transaction which is effectively possible. The following adjustments in particular should be noted:

– Credit/debt valuation adjustment;

– Other adjustments.

Credit/debt valuation adjustment (CVA/DVA)

Credit and debt value adjustments (CVA and DVA respectively) are incorporated into the valuation of derivatives to reflect the impact respectively of the counterparty's credit risk and the Bank's own credit quality on the fair value, as follows:

– CVA is a negative quantity which takes into account the scenarios in which the counterparty might fail before the Bank does while amounts are still receivable (positive MTM) by the Bank from the counterparty;

– DVA is a positive quantity which takes into account the scenarios in which the Bank itself might fail before the party does while amounts are still payable (negative MTM) to the counterparty.

CVA and DVA are calculated taking into consideration any counterparty risk mitigation agreements that have been entered into, in particular collateral and netting agreements for each individual counterparty.

The CVA/DVA methodology used by Mediobanca is based on the following inputs:

– Expected positive exposure (EPE) and expected negative exposure (ENE) of the valuation of the derivatives, deriving from simulation techniques;

– PD (probability of default (PD), derived from historical PD readings or those implied in market prices for credit default swaps or bond securities;

– Loss given default (LGD) based on the estimated value of recovery in the event of the counterparty going bankrupt, as defined in specific analysis conducted by the Bank itself or the default rates conventionally utilized for credit default swap prices.

Other adjustments (FVA)

Other adjustments of fair value not included in the categories described above, may be taken into consideration in order to align the valuation with the exit price inter alia on the basis of market liquidity levels or valuation parameters and to take account of the cost of funding.

With reference to this latter point, the fair value of non-collateralized derivatives may be influenced by the Bank's cost of funding, for those linked to these transactions. To take account of this aspect, some cost of funding adjustments are calculated (Funding Value Adjustments), by using a discount curve representative of the average funding level of banks participating in the European corporate derivative market.

A.4.1 Fair value levels: measurement techniques and inputs used

Assets and liabilities measured at fair value on a recurring basis

This section provides disclosure on the measurement techniques and inputs used for assets and liabilities measured at fair value on a recurring basis, sub-divided according to fair value levels

Level 1

This level comprises all instruments traded on listed markets or for which market quotations exist on an ongoing basis. The former consist of cash equity instruments, funds and listed derivatives (futures and options, with equities, interest rates and government securities as the underlying instrument) traded in regulated markets for which there is always an official closing price. The latter consist of liquid debt securities for which quotations are available on an ongoing basis, and asset-backed securities/CLOs for which enforceable quotations are available at the observation date.

Level 2

– Bonds: securities exchanged on less liquid markets that show bid/ask spreads above adequate levels are classified as Level 2, as are instruments not traded on active markets that are marked to model using the implied credit spread curves obtained from Level 1 or Level 2 instruments, to which a further spread is added to reflect their illiquidity. The model makes maximum use of observable inputs and minimum use of non-observable inputs. In this way, only in cases where the credit spread curve applied is representative, bonds are categorized as either Level 2 or Level 3 (the latter in cases where non-observable credit spreads are used). In fair value measurement, fair value adjustments can be used in cases where there is reduced liquidity and model risk, to compensate for the lack of observable market inputs;

– Derivatives: the fair value of derivatives not traded on an active market derives from application of mark-to-model measurement techniques. Based on the definitions provided in paragraphs 3, 61 and 67 of IFRS 13, Mediobanca gives priority to the use of models that maximize the use of observable inputs, seen as preferable to models in which the use of non-observable inputs are prevalent. Where there is an active market for the inputs to the valuation model for the derivative's various components, the fair value is established on the basis of the market quotations for them. So an OTC derivative that uses primarily observable inputs deriving from Level 1 instruments (listed prices as established in paragraphs 76-80 of IFRS 13) or Level 2 instruments (interest rate curves, implicit volatilities and credit spreads, as described in paragraph 82 of IFRS 13) is classified as Level 2. Such derivatives include:

– Plain vanilla instruments, such as options with equity or exchange rates, interest rate swap, cap and floor, credit default swap and credit default indexes as underlying instrument;

– Exotic instruments which use more complex models such as exotic equity options, structured forex including derivatives embedded in bonds issued by Mediobanca whose characteristics are equivalent to those listed above;

– Certificates with credit derivatives or equities (basket or single name) as underlying instrument, including the issuer credit risk which is factored into the total fair value calculation.

The instruments referred to above are classified as Level 2 when the fair value component determined using models that are based on observable inputs is adjudged to be predominant.

The observability of an input depends on both the type of product and involved and the adequacy of the parameters being used. In both cases the availability of quotes, the expiry date and the level of moneyness are all relevant.

Level 3

- Bonds: instruments whose fair value is determined using prices that cannot be enforced, and instruments not traded on active markets that are marked to model using the implicit credit spread curves derived from Level 1 or Level 2 instruments to which a spread is then added to factor in their non-observable illiquidity, are classified as Level 3. In the fair value measurement, FVAs (Fair Value Adjustments) may be applied in view of the low liquidity levels, to compensate for the absence of observable market inputs for Level 3 positions;
- Asset-backed securities, CLOs and loans: the measurement process relies on information providers which effectively collect market prices. Basically ABS are categorized as Level 3, with the exception of those for which a bid/ask contribution can be provided with the respective quantities on an ongoing basis, in which case they are categorized as Level 1.
- Credit exposures which, based on the characteristics of their cash flows, are recognized at fair value (IFRS 9, SPPI criteria - Solely Payments of Principal and Interest): specific valuation methodologies are adopted to represent the individual exposure's characteristics, seeking to maximize use of observable market data;
- Equities: equities are categorized as Level 1 when quoted prices are available on an active market considered to be liquid, and Level 3 when there are no quoted prices or when quoted prices have been suspended indefinitely and for which an internal model is used in order to determine the fair value. Some residual equities for which fair value cannot be established reliably using the methods described above are recognized at cost;
- Investment funds: Mediobanca owns holdings in investment funds which publish the net asset value (NAV) per stock unit. Such funds include mutual funds, private equity funds, hedge funds (including funds of funds) and real estate funds. Investments in funds are usually classified as Level 1 in cases where the NAV is available on a daily basis and considered to be active; otherwise they are categorized as Level 3;
- Derivatives: when the valuation of an OTC derivative is materially influenced by non-observable parameters, the instrument is categorized as Level 3.

Such derivatives include:

- Plain vanilla instruments such as such as options with equities with long maturity and options on equity baskets (indexes and single name) as the underlying instrument;
- Exotic instruments which use more complex models such as exotic options or certain payoffs on exchange rates for which the valuation inputs are not directly observable, including derivatives embedded in bonds issued;
- Bespoke CDO tranches.

The instruments listed above are categorized as Level 3 because, as stipulated in IFRS 13, paragraphs 73 and 75, the component of their fair value attributable to non-observable inputs (such as implied volatility above certain observation thresholds, correlation – both equity an credit, etc.) is prevalent, or if it contains adjustments that materially alter the more liquid inputs used.

All the inputs use to determine the fair value of the principal risk positions, regardless of their hierarchy, are subject to an independent price verification process based on criteria whereby the data are validated using input supplied by other info-providers.

Assets and liabilities measured at fair value on a non-recurring basis

Financial instruments measured at fair value on a non-recurring basis (including amounts payable to and receivable from customers and banks) are not accounted for on the basis of fair value.

In such cases the fair value is calculated solely for the purpose of meeting the Bank's responsibilities in terms of providing market disclosure, and the calculation does not impact in any way on the book value of the investment and has no effect on the profit and loss account. Such instruments are not normally traded, and their fair value is thus measured on the basis of inputs compiled internally rather than directly observable on the market.

For loans to corporates, fair value is measured via the discounted cash flow method, using rates and/or flows adjusted to reflect credit risk in each case. Loans to counterparties with official ratings are categorized as Level 2, and in all other cases as Level 3. The same applies to retail loans (i.e. mortgage loans and consumer credit).

Bonds issued by Mediobanca are categorized as fair value Level 1 if quoted on an active market (using the market price as the input); if not, i.e. in cases where there are no quoted prices, the fair value is categorized as Level 2 and is calculated via the expected discounted cash flow using a market interest rate adjusted for the Bank's issuer risk (with a distinction being made between senior and subordinated risks). The fair value of the naked components of Mediobanca's own structured issues are categorized as Level 2. For such issues the Bank strips out the embedded derivative and assigns levels to them in accordance with the principles described earlier.

A.4.2 Measurement processes and sensibilities

As required by IFRS 13, quantitative information on the significant non-observable inputs used in measuring the fair value of Level 3 instruments is provided below.

Uncertainties inherent in inputs and impact on mark-to-market for equity products

Non-observable inputs	**Quantification of uncertainty inherent input**	**+/- delta vs MtM (€'000) 31/12/19**	**+/- delta vs MtM (€'000) 30/06/19**
Implicit volatility	On average equal to 50 bps for volatility surface points falling outside the contribution of Totem application (maturity > 3Y for single stocks and maturity > 5Y for indexes)	670	460
Equity-equity correlation	Equal to 1% between two indexes and 2% between two single stocks	570	612

Measurement techniques used for equity, credit and interest rate products

Product	**Measurement technique**	**Non-observable inputs**	**Fair value * Assets 31/12/19 (€m)**	**Fair value * Liabilities 31/12/19 (€m)**	**Fair value * Assets 30/06/19 (€m)**	**Fair value * Liabilities 30/06/19 (€m)**
OTC equity single name options, variance swap	*Black-Scholes/ Black model*	Implicit volatility [1]	1.08	(5.36)	0.81	(3.89)
OTC equity basket options, best of/ worst of, equity auto-callable multi-asset options	*Black-Scholes/ Black model, local volatility model*	Implicit volatility Equity-equity correlation [2]	17.72	(10.83)	9.85	(9.40)

* Values are shown net of reserves booked.

1 Volatility in a financial context is a measurement of how much the price of an instrument underlying a derivative may vary over time. The higher the volatility of the underlying instrument, the greater the risk associated with it. In general terms long positions in options benefit from increases in volatility, whereas short positions in options lose out from them. For equity derivatives, the implicit volatility surface may be obtained from the price of the call and put options, as there are regulated markets for these. The uncertainty inherent in this input is attributable to one of the following scenarios: illiquidity of quoted prices (wide bid/ask spreads, typically present on long maturities or moneyness far from the at-the-money spot), concentration effects and non-observable market data (here too present when maturities are considered too long or moneyness too far from the at-the-money spot).

2 Equity-equity correlation is a measurement of the correlation between two equity financial instruments underlying a derivative. Variations in the correlation levels may impact favourably or unfavourably, depending on the correlation type, on an instrument's fair value. Equity-equity correlations are less observable than volatilities, because correlation products are not quoted on any regulated markets. For this reason correlations are more prone to input uncertainty.

A.4.3 Fair value ranking

Transfers between fair value ranking levels

The main factors contributing to transfers between the different fair value levels include changes in market conditions and refinements in the measurement models and/or the non-observable inputs.

An instrument is transferred from fair value Level 1 to Level 2 (or vice versa) mainly as a result of the loss or increase in the significance of a price expressed by the reference active market for the instrument concerned.

Conversely, transfers from Level 2 to Level 3 (or vice versa) are decided on the basis of the significance of the input data, in particular the weight which non-observable data have in the inputs compared to observable data.

A.4.4 Other information

The Mediobanca Group has availed itself of the exception provided under IFRS 13, paragraph 48 from measuring fair value on a net basis for financial assets and liabilities with positions compensating for the counterparty's market or credit risks.

QUANTITATIVE INFORMATION

A.4.5 Fair value ranking

A.4.5.1 Assets and liabilities recognized at fair value on a non-recurring basis, by fair value ranking

(€'000)

Financial assets/liabilities measured at fair value	31/12/19			30/6/19		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets measured at fair value with impact taken to profit and loss	9,713,593	2,647,008	889,350	7,393,508	2,575,250	654,215
a) financial assets held for trading	9,389,109	2,595,015	542,683	7,054,588	2,321,359	389,706
b) financial assets designated at fair value	—	51,993	—	—	51,976	—
c) other financial assets mandatorily valued at fair value	324,484	-	346,667	338,920	201,915	264,509
2. Financial assets measured at fair value with impact taken to other comprehensive income	3,925,902	71,274	35,398	3,613,361	240,572	32,838
3. Hedging derivatives	—	341,899	—	—	412,234	—
4. Tangible assets	—	—	—	—	—	—
5. Intangible assets	—	—	—	—	—	—
Total	13,639,495	3,060,181	924,748	11,006,869	3,228,056	687,053
1. Financial liabilities held for trading	6,237,338	3,673,265	420,460	4,948,023	2,829,951	249,777
2. Financial liabilities valued at fair value	—	54,074	—	—	55,859	—
3. Hedging derivatives	—	323,371	—	—	414,241	—
Total	6,237,338	4,050,710	420,460	4,948,023	3,300,051	249,777

The Level 3 instruments held for trading include options traded, i.e. contracts with the same underlying instrument but executed with different counterparties, totalled €403.7m (30/6/19: €236m), plus €0.6m (€0.5m) in options linked to bonds issued and hedged on the market. Net of these items, the Level 3 assets decreased from €153.2m to €138.4m, following net sales of €15.6m (including the transfer of Belvedere securities to the Negentropy fund in an amount of €59m), transfers from other levels totalling €5.5m, and other reductions, including downward movements, amounting to €4.7m (chiefly in fair value).

Financial assets compulsorily recognized at fair value, which mostly consist of investments in funds (including seed capital) increased from €264.5m to €346.7m, chiefly due to the Negentropy fund, plus other positive changes of €23.4m. Financial assets recognized at fair value through other comprehensive income, consisting of holdings in unlisted companies (valued on the basis of internal models), rose from €32.8m to €35.4m.

A.4.5.2 Annual changes in financial assets measured at fair value on a recurring basis (level 3 assets)

(€'000)

	Financial assets valued at fair value with impact taken to profit and loss				Financial assets valued at fair value with impact taken to other comprehensive income	Hedging derivatives	Tangible assets	Intangible assets
	Total	of which: a) financial assets held for trading [1]	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily valued at fair value				
1. Opening balance	450,562	153,215	—	264,509	32,838	—	—	—
2. Increases	234,206	81,566	—	149,090	3,550	—	—	—
2.1 Purchases	195,001	74,207	—	120,794	—	—	—	—
2.2 Profits recognized in:	33,678	1,841	—	28,287	3,550	—	—	—
2.2.1 profit and loss	2,733	1,841	—	107	785	—	—	—
- of which, gains	*1,411*	*1,411*	—	—	—	—	—	—
2.2.2 net equity	2,765	X	X	X	2,765	—	—	—
2.3 Transfers from other levels	5,518	5,518	—	—	—	—	—	—
2.4 Other increases	9	—	—	9	—	—	—	—
3. Decreases	164,296	96,374	—	66,932	990	—	—	—
3.1 Disposals	152,923	89,854	—	62,079	990	—	—	—
3.2 Redemptions	1,618	1,618	—	—	—	—	—	—
3.3 Losses recognized in:	7,913	3,060	—	4,853	—	—	—	—
3.3.1 profit and loss	7,913	3,060	—	4,853	—	—	—	—
- of which, losses	*3,060*	*3,060*	—	—	—	—	—	—
3.3.2 net equity	—	X	X	X	—	—	—	—
3.4 Transfers to other levels	—	—	—	—	—	—	—	—
3.5 Other decreases	1,842	1,842	—	—	—	—	—	—
4. Closing balance	520,472	138,407	—	346,667	35,398	—	—	—

[1] Net of market value of options covering those attached to bonds issued (30/6/19: €0.5m) and options traded (€236m), the values of which are recorded as both assets and liabilities for the same amount.

A.4.5.3 Annual changes in liabilities recognized at fair value on a recurring basis (Level 3 liabilities)

(€'000)

	FINANCIAL LIABILITIES		
	Held for trading [1]	Designated at fair value	Hedging derivatives
1. Opening balance	13.285	—	—
2. Increases	7.099	—	—
2.1 Issuance	3.173	—	—
2.2 Losses recognized in:	3.926	—	—
2.2.1 profit and loss	3.926	—	—
- of which, losses	*3.926*	—	—
2.2.2 net equity	X	—	—
2.3 Transfers from other levels	—	—	—
2.4 Other increases	—	—	—
3. Decreases	4.198	—	—
3.1 Redemptions	1.489	—	—
3.2 Buybacks	—	—	—
3.3 Profits recognized in:	2.709	—	—
3.3.1 profit and loss	2.709	—	—
- of which, gains	*2.709*	—	—
3.3.2 net equity	X	—	—
3.4 Transfers to other levels	—	—	—
3.5 Other decreass	—	—	—
4. Closing balance	16.186	—	—

[1] Net of market value of options covering those attached to bonds issued (31/12/19: €0.6m; 30/6/19: €0.5m) and options traded (€403.7m and €236m respectively), the values of which are recorded as both assets and liabilities for the same amount.

A.4.5.4 Assets and liabilities not recognized at fair value or recognized at fair value on a non-recurring basis, by fair value ranking

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	31/12/19				30/6/19			
	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
1. Financial assets valued at amortised cost	57,939,794	2,499,905	19,065,369	39,848,185	56,599,859	2,487,696	19,157,722	38,229,986
2. Tangible assets held for investment purposes	65,258	—	—	140,687	66,883	—	—	141,764
3. Non-current assets and groups of assets being sold	—	—	—	—	22,168	—	—	22,168
Total	58,005,052	2,499,905	19,065,369	39,988,872	56,688,910	2,487,696	19,157,722	38,393,918
1. Financial liabilities valued at amortised cost	59,739,794	1,517,010	57,770,328	44,279	57,936,936	1,109,322	57,136,709	48,237
2. Liabilities held in respect of assets being sold	—	—	—	—	—	—	—	—
Total	59,739,794	1,517,010	57,770,328	44,279	57,936,936	1,109,322	57,136,709	48,237

A.5 - Information on "day one profit/loss"

For Level 3 transactions, the fair value derived from the model may differ from the price of the transaction itself. If the difference is positive (day one profit), it is amortized over the outstanding life of the financial instrument; if it is negative (day one loss), it is taken directly to the profit and loss account, on prudential grounds. Any subsequent changes in fair value will therefore be linked to the trends in the various risk factors to which the instrument is exposed (interest rate/exchange rate risk, etc.) and recorded directly in the profit and loss account.

The only transaction of this kind involved the approx. €12m surplus generated on an arbitrage transaction between the acquisition of a financial instrument convertible into listed equities (starting from year 5) and the sale of the corresponding listed equities in FY 2016-17. This difference was generated from the use of an internal model to value the unlisted instrument which, under paragraphs B5.1.2A and B5.2.2A of IFRS 9, was suspended and will be released to the profit and loss account pro rata throughout the duration of the transaction (five years). The share remaining totals approx. €4.6m, and the portion that passed through profit and loss during the period totalled €1.25m.

The Bank also categorizes other operations as Level 3, but for which the initial profit has not had to be deferred, as the deals were negotiated with other market counterparties, hence no material upfront difference was generated.

Part B - Notes to Consolidated Balance Sheet *

Assets

SECTION 1

Heading 10: Cash and cash equivalents

1.1 Cash and cash equivalents: composition

	31/12/19	30/6/19
a) Cash	127,037	106,260
b) Demand deposits with Central Banks	69,632	632,102
Total	196,669	738,362

* Figures in €'000, save in footnotes, where figures are provided in full.

SECTION 2

Heading 20: Financial assets at fair value with impact taken to profit and loss

*2.1 Financial assets held for trading: composition **

Items/values	31/12/19			30/6/19		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Balance-sheet assets						
1. Debt securities	5,225,584	252,004	41,161	3,857,970	297,582	58,831
1.1 Structured securities	14,870	9,126	—	17,251	10,451	—
1.2 Other securietes	5,210,714	242,878	41,161	3,840,719	287,131	58,831
2. Equity securites [2]	3,662,460	—	73,024	2,441,048	—	76,336
3. UCITs	63,609	3	5,431	245,002	3	7,385
4. Loans	8,840	—	—	6,894	—	—
4.1 REPOs	—	—	—	—	—	—
4.2 Others	8,840	—	—	6,894	—	—
Total (A)	8,960,493	252,007	119,616	6,550,914	297,585	142,552
B. Derivative instruments						
1. Financial derivates	428,616	1,582,941	423,067	503,674	1,533,275	247,154
1.1 trading	428,616	1,546,197	422,881 [2]	503,674	1,488,740	246,957 [2]
1.2 related to the fair value option	—	—	—	—	—	—
1.3 others	—	36,744	186 [3]	—	44,535	197 [3]
2. Credit derivates	—	760,067	—	—	490,499	—
2.1 trading	—	760,067	—	—	490,499	—
2.2 related to the fair value option	—	—	—	—	—	—
2.3 others	—	—	—	—	—	—
Total (B)	428,616	2,343,008	423,067	503,674	2,023,774	247,154
Total (A+B)	9,389,109	2,595,015	542,683	7,054,588	2,321,359	389,706

* For the criteria used to determine fair value and classification of financial instruments within the three fair value ranking levels, see Part A – “Accounting Policies”.

[1] Equities include shares committed in securities lending transactions totalling €2,175,853,000.

[2] Respectively €403,694,000 and €235,984,000 in options traded, with the matching amount booked as financial instruments held for trading.

[3] Includes the market value of options (31/12/19: €0.6m; 30/6/19: €0.5m) matching those associated with bond issues booked as financial instruments held for trading.

2.3 Financial assets designated at fair value: composition

Items/Values	Total 31/12/19			Total 30/6/19		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1.Debt securities	—	51,993	—	—	51,976	—
1.1 Structured securities	—	—	—	—	—	—
1.2 Other debt securities	—	51,993	—	—	51,976	—
2. Loans	—	—	—	—	—	—
2.1 Structured	—	—	—	—	—	—
2.2 Others	—	—	—	—	—	—
Total	—	51,993	—	—	51,976	—

2.5 Other financial assets mandatorily at fair value: composition

Items/Values	31/12/19			30/6/19		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	325	—	3,286	489	—	3,146
1.1 Structured securities	—	—	—	—	—	—
1.2 Others	325	—	3,286	489	—	3,146
2. Equity instruments	—	—	2,383	—	—	2,330
3. Units investment funds	324,159	—	298,310	338,431	—	241,161
4. Loans	—	—	42,688	—	201,915	17,872
4.1 REPO	—	—	—	—	—	—
4.2 Others	—	—	42,688	—	201,915	17,872
Total	324,484	—	346,667	338,920	201,915	264,509

SECTION 3

Heading 30: Financial assets at fair value with impact taken to comprehensive income

3.1 Financial assets at fair value with impact taken to comprehensive income: composition *

Item/Values	31/12/19			30/6/19		
	Level 1	Level 2	Level 3 (1)	Level 1	Level 2	Level 3 [1]
1. Debts securities	3.808.603	71.274	—	3.507.591	240.572	—
1.1 Structured securities	—	—	—	—	—	—
1.2 Other	3.808.603	71.274	—	3.507.591	240.572	—
2. Equity instruments	117.299	—	35.398	105.770	—	32.838
3. Loans	—	—	—	—	—	—
Total	3.925.902	71.274	35.398	3.613.361	240.572	32.838

* For the criteria used to determine fair value and classification of financial instruments within the three fair value ranking levels, see Part A – "Accounting Policies".

[1] Includes investments in unlisted companies valued based on internal models.

SECTION 4

Heading 40: Financial assets at amortized cost *

4.1 Financial assets at amortized cost: composition of due from banks

Type of transaction/Values	Total 31/12/19						Total 30/6/19					
	Balance value			Fair value			Balance value			Fair value		
	First and second stage	Third stage	of which: impaired acquired or originated	Level 1	Level 2	Level 3	First and second stage	Third stage	of which: impaired acquired or originated	Level 1	Level 2	Level 3
A. Receivables to Central Banks	566,238	—	—	—	566,241	—	259,120	—	—	—	211,382	—
1 Deposits to Maturity	312,100	—	—	X	X	X	—	—	—	X	X	X
2 Compulsory reserves	254,138	—	—	X	X	X	259,120	—	—	X	X	X
3 Repos	—	—	—	X	X	X	—	—	—	X	X	X
4 Others	—	—	—	X	X	X	—	—	—	X	X	X
B. Receivables to banks	7,950,501	—	—	252,280	7,499,801	230,266	7,702,812	—	—	275,178	6,625,844	853,304
1 Loans	7,520,566	—	—	6,396	7,494,535	31,068	7,232,563	—	—	—	6,469,971	669,363
1.1 Current accounts and demand deposits	1,098,070	—	—	X	X	X	898,595	—	—	X	X	X
1.2. Time deposits	5,018	—	—	X	X	X	63,653	—	—	X	X	X
1.3 Other loans:	6,417,479	—	—	X	X	X	6,270,315	—	—	X	X	X
- Repos Finance leases	5,262,142	—	—	X	X	X	4,482,055	—	—	X	X	X
- Finanziamenti per *leasing*	4,125	—	—	X	X	X	4,634	—	—	X	X	X
- Others	1,151,211	—	—	X	X	X	1,783,626	—	—	X	X	X
2 Debts securities	429,935	—	—	245,884	5,266	199,198	470,249	—	—	275,178	155,873	183,941
2.1 Structured securities	—	—	—	—	—	—	—	—	—	—	—	—
2.2 Other debt securities	429,935	—	—	245,884	5,266	199,198	470,249	—	—	275,178	155,873	183,941
Total	8,516,739	—	—	252,280	8,066,042	230,266	7,961,932	—	—	275,178	6,837,226	853,304

* For the criteria used to determine fair value and classification of financial instruments within the three fair value ranking levels, see Part A – "Accounting Policies".

4.2 Financial assets at amortized cost: composition of due from customers

Type of transaction/ Values	Total 31/12/19						Total 30/6/19					
	Balance value			Fair value			Balance value			Fair value		
	First and second stage	Third stage	of which: impaired acquired or originated	Level 1	Level 2	Level 3	First and second stage	Third stage	of which: impaired acquired or originated	Level 1	Level 2	Level 3
1. Loans	45,831,512	1,182,062	351,051	—	10,949,487	39,458,998	45,059,134	1,156,867	368,637	—	11,068,820	37,202,323
1.1 Deposits from customers	1,443,772	70,745	70,745	X	X	X	1,294,359	74,928	74,913	X	X	X
1.2 . REPOs	1,207,234	—	—	X	X	X	2,550,975	—	—	X	X	X
1.3 Mortgages	24,495,163	422,138	17,330	X	X	X	23,317,445	489,194	17,690	X	X	X
1.4 Credit cards, personal loans and wage assignemnt losses	10,073,300	486,322	236,607	X	X	X	9,947,099	406,187	248,550	X	X	X
1.5 Lease loans	1,718,077	142,093	26,369	X	X	X	1,810,589	138,369	27,484	X	X	X
1.6 Factoring	2,358,858	11,218	—	X	X	X	1,915,630	10,018	—	X	X	X
1.7 Other loans	4,535,108	49,546	—	X	X	X	4,223,037	38,171	—	X	X	X
2. Debt securities	2,408,775	706	—	2,247,625	49,840	158,921	2,421,926	—	—	2,212,518	1,251,676	174,359
2.1 Structured securities	—	—	—	—	—	—	—	—	—	—	—	—
2.2 Other debt securities	2,408,775	706	—	2,247,625	49,840	158,921	2,421,926	—	—	2,212,518	1,251,676	174,359
Total	48,240,287	1,182,768	351,051	2,247,625	10,999,327	39,617,919	47,481,060	1,156,867	368,637	2,212,518	12,320,496	37,376,682

The column headed "of which: impaired items acquired" contains the non-performing loans (NPLs) acquired by Group company MBCredit Solutions.

SECTION 5

Heading 50: Hedging derivatives

5.1 Hedging derivatives: by hedge type and level

	Fair Value			Notional value	Fair Value			Notional value
	31/12/19				30/6/19			
	Level 1	**Level 2**	**Level 3**	**31/12/19**	**Level 1**	**Level 2**	**Level 3**	**30/6/19**
A. Financial derivatives								
1. Fair value	—	341,071	—	18,709,697	—	410,675	—	15,223,497
2. Cash flows	—	828	—	60,000	—	1,559	—	30,000
3. Net investment in foreign subsidiaries	—	—	—	—	—	—	—	—
B. Credit derivatives								
1. Fair value	—	—	—	—	—	—	—	—
2. Cash flows	—	—	—	—	—	—	—	—
Total	—	341,899	—	18,769,697	—	412,234	—	15,253,497

5.2 Hedging derivatives: by portfolio hedged and hedge type

Transaction / Type of hedging	Fair Value							Cash-flow hedges		Net Investments on foreign subsidiaries
	Micro						Macro	Micro	Macro	
	debt securities and interest rates	equity securities and stock indexes	currencies and gold	credit	commodities	others				
1. Financial assets vslued at fair value with impact taken to other comprehensive income	—	—	—	—	X	X	X	—	X	X
2. Financial assets valued at amortised cost	918	X	—	—	X	X	X	—	X	X
3. Portfolio	X	X	X	X	X	X	—	X	—	X
4. Others	—	—	—	—	—	—	X	—	X	—
Total assets	918	—	—	—	—	—	—	—	—	—
1. Financial liabilities	340,153	X	—	—	—	—	X	617	X	X
2. Portfolio	X	X	X	X	X	X	—	X	—	X
Total liabilities	340,153	—	—	—	—	—	—	617	—	
1. Highly probable transactions (CFH)	X	X	X	X	X	X	X	211	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	—	X	—	—

SECTION 7

Heading 70: Equity investments

7.1 Equity investments: disclosure on relationships

Company name	Legal office	Operating office	Control type	Ownership		Voting rights %
				Controlling entity	% shareholding	
A. Entities under significant influence						
1. Assicurazioni Generali S.p.A.	Trieste	Trieste	2	Mediobanca S.p.A.	12.9	12.9
2. Istituto Europeo di Oncologia S.r.l.	Milan	Milan	2	Mediobanca S.p.A.	25.4	25.4
3. Burgo Group S.p.A.	Altavilla Vicentina (VI)	Altavilla Vicentina (VI)	2	Mediobanca S.p.A.	22.1	22.1

Legend:

1 Joint control.

2 Subject to significant influence.

3 Exclusively controlled and not consolidated.

The criteria and methods for establishing the area of consolidation are illustrated in "Section 3 — Part A — Accounting Policies" to which reference is made.

7.2 Significant investments: book values, fair values and dividends received

Company name	Book value	Fair Value (*)
A. Entities under significant influence		
1. Assicurazioni Generali S.p.A.	3,789,911	3,728,915
2. Istituto Europeo di Oncologia S.r.l.	40,894	n.a.
3. Burgo Group S.p.A.	—	n.a.
Total [1]	3,830,805	

[1] The amount stated here differs from that represented in the balance sheet because of other investments which are minor in terms of both percentage share owned and amount (€52,000).

* Available only for listed companies.

The investments subject to significant influence have been accounted for using the equity method, and the calculation of their value includes treasury shares owned, dividends collected, and any Mediobanca shares owned by the investee companies.

Under the international financial reporting standards in force (IAS 28, IAS 36, IFRS 10 and IFRS 11), the value of the investments must be tested for impairment at least once a year, or more often if events occur or evidence emerges that might indicate that there has been a reduction in their value. The Mediobanca Group performs impairment testing in conjunction with the preparation of its financial statements for the twelve months ending 30 June each year; as at 31 December 2019 no evidence of impairment had emerged.

SECTION 9

Heading 90: Property, plant and equipment *

9.1 Core tangible assets stated at cost

Activities/Values	Total 31/12/19	Total 30/6/19
1. Owened assets	216,848	210,949
a) lands	84,894	84,895
b) buildings	98,904	96,912
c) furniture	14,015	12,994
d) electronic system	9,275	9,042
e) other	9,760	7,106
2. Right-of-use assets	210,048	—
a) lands	—	—
b) buildings	199,586	—
c) furniture	—	—
d) electronic system	—	—
e) other [1]	10,462	—
Total	426,896	210,949
of which: arising from the recovery of guarantees received	*75*	*76*

[1] Mainly company cars.

9.2 Properties held for investment purposes stated at cost

Activities/Values	Total				Total			
	31/12/19				30/6/19			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Owened assets	65,258	—	—	140,687	66,883	—	—	141,764
a) lands	29,144	—	—	84,804	29,054	—	—	84,398
b) buildings	36,114	—	—	55,883	37,829	—	—	57,366
2. Right-of-use assets	—	—	—	—	—	—	—	—
a) lands	—	—	—	—	—	—	—	—
b) buildings	—	—	—	—	—	—	—	—
Total	65,258	—	—	140,687	66,883	—	—	141,764
of which: arising from the recovery of guarantees received	*40,481*		—	*46,725*	*41,999*	—	—	*47,590*

* The Mediobanca Group has applied IFRS 16 since 1 July 2019.

9.5 Inventories pursuant to IAS 2: composition *

Items/Values	Total 31/12/19	Total 30/6/19
1. Inventories of tangible assets arising from the recovery of guarantees received	8,017	8,017
a) lands	1,100	1,100
b) buildings	6,917	6,917
c) furnitures	—	—
d) electronic systems	—	—
e) others	—	—
2. Other tangible assets	—	—
Total	8,017	8,017
of which: valued at fair value less costs to sell	—	—

* Includes leased assets collected, which were originally recorded as Assets held for investment purposes (under IAS 40), and have now been restated as Property, plant and equipment in accordance with IAS 2, with reference only to assets involving negligible amounts, which it is not convenient to lease out and which accordingly are expected to be sold within three or four years

SECTION 10

Heading 100: Intangible assets

10.1 Intangible assets: composition

Activities/Values	31/12/19		30/6/19	
	Definite life	Indefinite life	Definite life	Indefinite life
A.1 Goodwill	X	778,238	X	772,427
A.1.1 attributable to the group	X	778,238	X	772,427
A.1.2 attributable minorities	X	—	X	—
A.2 Other intangible asset	56,643	70,721	59,233	70,098
A.2.1 Assets valued at cost:	47,984	70,721	47,976	70,098
a) intangible assets generated internally	—	—	—	—
b) other assets	47,984	70,721	47,976	70,098
A.2.2 Assets valued at fair value:	8,659	—	11,257	—
a) intangible assets generated internally	—	—	—	—
b) other assets	8,659	—	11,257	—
Total	56,643	848,959	59,233	842,525

Information on intangible assets and goodwill

Intangible assets include the effects of transactions executed by the Group.

During the six months under review, activities relating to the purchase price allocation process for Messier Maris et Associés (MMA) continued, which is expected to be completed within twelve months of the acquisition date.

The tables below show a list of the intangible assets acquired [1] as part of M&A transactions and summarizing the goodwill recognized in the accounts as broken down both by deal and cash-generating unit (CGU).

Table 1: Other intangible assets acquired as a result of M&A transactions

Type	Deal	31/12/19	30/6/19
Customer relationship		18,672	22,201
	IFID	*158*	*208*
	Spafid	*335*	*390*
	Barclays	*8,813*	*11,258*
	MB Private Banking	*2,257*	*2,705*
	CMB	*5,540*	*5,865*
	RAM Active Investments	*1,569*	*1,774*
Brand		53,219	53,219
	MB Private Banking	*15,489*	*15,489*
	RAM Active Investments	*37,730*	*37,730*
Acquired Software	Spafid Connect	2,693	3,005
Total		**74,584**	**78,425**

Table 2: Goodwill

Deal	31/12/19	30/6/19
Compass-Linea	365,934	365,934
Spafid-IFID	3,540	3,540
Spafid Connect	2,342	2,342
Spafid- Fiduciaria	3,080	3,080
Cairn Capital	43,641	41,414
MB Private Bamking	52,103	52,103
RAM Active Investments	158,558	154,974
Messier Maris & Associés *	149,040	149,040
Total	**778,238**	**772,427**

* First estimates of goodwill; PPA to be completed within 12 months of the acquisition date.

[1] See the financial statements for the year ended 30 June 2019 for further details on the main acquisitions made by the Mediobanca Group in recent years.

Table 3: Cash Generating Units

CGU	Deal	31/12/19	30/6/19
Consumer credit	Linea	280,634	280,634
Credit cards	Linea	73,400	73,400
Salary-backed finance	Linea	11,900	11,900
Fiduciary services	IFID	3,540	3,540
Fiduciary services	Fiduciaria	3,080	3,080
Corporate services	Spafid Connect	2,342	2,342
Cairn Capital		43,641	41,414
Mid corporate	ex Esperia	22,650	22,650
MBPrivate Banking	ex Esperia	29,453	29,453
RAM		158,558	154,974
Messier Maris & Associés *		149,040	149,040
Total goodwill		**778,238**	**772,427**

* First estimates of goodwill; PPA to be completed within 12 months of the acquisition date.

Information on impairment testing

As stated in the Accounting Policies section, IAS 36 requires any loss of value, or impairment, of individual tangible and intangible assets to be tested at least once a year, in preparing the annual financial statements, or more frequently if events or circumstances occur which suggest that there may have been a reduction in value (known as “impairment indicators”).

During the six months under review, the Group’s new 2019-23 strategic plan was approved. The new plan has in some cases revised the long-term earnings projections used in the 2019 impairment test downwards, in part as a result of the challenging market conditions for certain types of funds. As part of the customary impairment testing activity, as well as the normal checks on earnings performances, changes in the principal macroeconomic indicators and aggregates, a new estimate has been made on a prudential basis of the value in use of the Cairn Capital cash generating unit (which contributes goodwill of €43.6) and the RAM CGU (goodwill of €158.6m plus the brand worth €37.3m).

The results have confirmed that there is no evidence of impairment for any of the intangible assets. The situation will continue to be closely monitored during the next six months ahead of the annual impairment test.

SECTION 11

Asset heading 110 and Liability heading 60: Tax assets and liabilities

11.1 Advance tax assets: composition

	Total 31/12/19	Total 30/6/19
- Balancing to the Profit and Loss	609,888	612,627
- Balancing to Net Equity	41,012	46,856
Total	**650,900**	**659,483**

11.2 Deferred tax liabilities: composition

	Total 31/12/19	Total 30/6/19
- Balancing to the Profit and Loss	300,306	292,302
- Balancing to Net Equity	32,876	26,870
Total	**333,182**	**319,172**

11.3 Changes in advance tax during the period (against profit and loss)

	Total 31/12/19	Total 30/6/19
1. Opening balance	612,627	614,153
2. Increases	8,533	47,119
2.1 Deferred tax assets for the year	8,199	47,111
a) relating to previous years	—	32
b) due to changes in accounting policies	—	—
c) writebacks	—	—
d) others	8,199	47,079
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	334	9
3. Decreases	11,272	48,646
3.1 Deferred tax assets derecognised in the year	11,186	47,915
a) reversals of temporary differences	11,151	47,515
b) writedowns of non-temporary items	—	—
c) changes in accounting policies	—	—
d) others	35	400
3.2 Reduction in tax rates	—	—
3.3 Other decreases:	86	731
a) conversion into tax receivables pursuant to Italian Law 214/201 [1]	—	—
b) others	86	731
4. Closing balance	609,888	612,627

([1]) No changes have been recorded as a result of the provisions introduced by the 2020 budget law.

11.5 Changes in deferred tax during the period (against profit and loss)

	Total 31/12/19	Total 30/6/19
1. Opening balance	292,302	284,242
2. Increases	9,956	105,501
2.1 Deferred tax liabilities of the year	1,938	1,095
a) relating to previous years	—	—
b) due to changes in accounting policies	—	—
c) others	1,938	1,095
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	8,018	104,406
3. Decreases	1,952	97,442
3.1 Deferred tax liabilities derecognised in the year	1,756	95,774
a) reversals of temporary differences	206	93,789
b) due to changes in accounting policies	—	—
c) others	1,550	1,985
3.2 Reductions in tax rates	—	32
3.3 Other decreases	196	1,636
4. Closing balance	300,306	292,302

11.6 Changes in advance tax during the period (against net equity)

	Total 31/12/19	Total 30/6/19
1. Opening balance	46,856	69,542
2. Increases	10,961	37,358
2.1 Deferred tax liabilities of the year	8,809	37,269
a) relating to previous years	—	—
b) due to changes in accounting policies	—	942
c) others	8,809	36,327
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	2,152	89
3. Decreases	16,805	60,044
3.1 Deferred tax liabilities derecognised in the year	16,559	52,923
a) reversals of temporary differences	14,871	39,056
b) writedowns of non-recoverable amounts	—	—
b) due to changes in accounting policies	—	—
c) others	1,688	13,867
3.2 Reductions in tax rates	—	39
3.3 Other decreases	246	7,082
4. Closing balance	41,012	46,856

11.7 Changes in deferred tax during the period (against net equity)

	Total 31/12/19	Total 30/6/19
1. Opening balance	26,870	59,782
2. Increases	53,491	95,855
2.1 Deferred tax liabilities of the year	53,488	95,836
a) relating to previous years	—	—
b) due to changes in accounting policies	—	—
c) others	53,488	95,836
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	3	19
3. Decreases	47,485	128,767
3.1 Deferred tax liabilities derecognised in the year	47,485	128,767
a) reversals of temporary differences	47,485	128,577
b) due to changes in accounting policies	—	—
c) others	—	190
3.2 Reductions in tax rates	—	—
3.3 Other decreases	—	—
4. Closing balance	32,876	26,870

SECTION 13

Heading 130: Other assets

13.1 Other assets: composition

	31/12/19	30/6/19
1. Gold, silver and precious metals	695	695
2. Accrued income other than capitalized income from financial assets	36,481	26,024
3. Trade receivables or invoices to be issued	262,294	172,536
4. Amounts due from tax revenue authorities (not recorded under Heading 140)	169,147	179,658
5. Other items	237,722	330,032
- bills for collection	44,112	158,064
- amounts due in respect of premiums, grants, indemnities and other items in respect of lending transactions	35,012	22,634
- advance payments on deposit commissions	3,484	2,859
- other items in transit	77,176	128,099
- amounts due from staff	424	390
- sundry other items [1]	76,061	16,244
- improvements on third parties' assets	1,453	1,626
- group VAT	—	116
Total other assets	706,339	708,945

[1] Includes accrued income .

Liabilities

SECTION 1

Heading 10: Financial liabilities at amortized cost

1.1 Financial liabilities at amortized cost: composition of due to banks

Type of transaction/Values	Total 31/12/19				Total 30/6/19			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Loans from central banks	4,311,368	X	X	X	4,367,257	X	X	X
2. Loans from banks	10,672,339	X	X	X	9,503,601	X	X	X
2.1 Other current accounts and demand deposits	712,419	X	X	X	637,250	X	X	X
2.2 Time deposits	149,955	X	X	X	52,759	X	X	X
2.3 Loans	9,761,771	X	X	X	8,307,212	X	X	X
2.3.1 Repurchase agreement	6,094,815	X	X	X	4,482,590	X	X	X
2.3.2 Other	3,666,956	X	X	X	3,824,622	X	X	X
2.4 Liabilities in respect of commitments to repurchase own equity instruments	—	X	X	X	—	X	X	X
2.5 Lease payables [1]	71	X	X	X	—	X	X	X
2.6 Other liabilities	48,123	X	X	X	506,380	X	X	X
Total	14,983,707	—	14,983,707	—	13,870,858	—	13,870,858	—

[1] This heading includes obligations in respect of future instalments payable on leases as provided IFRS 16 and Bank of Italy circular 262, sixth update

1.2 Financial liabilities at amortized cost: composition of due to customers

Type of transaction/Value	Total 31/12/19				Total 30/6/19			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Deposits from customers and on demand deposits	18,238,587	X	X	X	17,379,865	X	X	X
2. Deposits to maturity	4,252,806	X	X	X	5,813,091	X	X	X
3. Loans	933,436	X	X	X	676,049	X	X	X
3.1 Reverse repos	806,132	X	X	X	471,387	X	X	X
3.2 Other	127,304	X	X	X	204,662	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments	—	X	X	X	—	X	X	X
5. Lease payables [1]	217,969	X	X	X	—	X	X	X
6. Other liabilities	129,510	X	X	X	118,877	X	X	X
Total	23,772,308	—	23,772,308	—	23,987,882	—	23,987,882	—

[1] This heading includes obligations in respect of future instalments payable on leases as provided by IFRS 16 and Bank of Italy circular 262, sixth update.

1.3 Financial liabilities at amortized cost: composition of debt securities in issue

Type of securities/Values	Total 31/12/19				Total 30/6/19			
	Book value	Fair Value*			Book value	Fair Value*		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Debts securities								
1. bonds	19,511,197	1,517,010	17,585,996	—	18,724,942	1,109,322	17,972,952	—
1.1 structured	4,061,768	—	4,194,380	—	4,058,647	—	4,238,889	—
1.2 other	15,449,429	1,517,010	13,391,616	—	14,666,295	1,109,322	13,734,063	—
2. other securities	1,472,582	—	1,428,303	44,279	1,353,254	—	1,305,017	48,237
2.1 structured	—	—	—	—	—	—	—	—
2.2 other	1,472,582	—	1,428,303	44,279	1,353,254	—	1,305,017	48,237
Total	20,983,779	1,517,010	19,014,299	44,279	20,078,196	1,109,322	19,277,969	48,237

* The fair values are shown net of Mediobanca issuer risk; if this item is included, the fair value at 31 December 2019 would show a gain of €187.6m (30/6/19: €295.5m).

SECTION 2

Heading 20: Trading financial liabilities

2.1 Trading financial liabilities: composition

Operation type/Values	31/12/19					30/6/19				
	Notional value	Fair Value			Fair Value *	Notional value	Fair Value			Fair Value *
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
A. Cash liabilities										
1. Due to banks	3,003,189	3,398,214	—	—	3,398,214	2,602,390	2,903,263	—	—	2,903,263
2. Due to customers	1,950,959	2,207,580	—	—	2,207,580	1,249,673	1,394,230	—	—	1,394,230
3. Debt securities	—	—	—	—	—	—	—	—	—	—
3.1 Bonds	—	—	—	—	—	—	—	—	—	—
3.1.1 Structured	—	—	—	—	X	—	—	—	—	X
3.1.2 Other bonds	—	—	—	—	X	—	—	—	—	X
3.2 Other securities	—	—	—	—	—	—	—	—	—	—
3.2.1 Structured	—	—	—	—	X	—	—	—	—	X
3.2.2 Other	—	—	—	—	X	—	—	—	—	X
Total (A)	4,954,148	5,605,794	—	—	5,605,794	3,852,063	4,297,493	—	—	4,297,493
B. Derivative instruments										
1. Financial derivatives	—	631,544	1,599,023	420,460	—	—	650,530	1,415,615	249,777	—
1.1 Trading	X	631,544	1,546,886	418,730 [1]	X	X	650,530	1,357,118	247,959 [1]	X
1.2 Related to the fair value option	X	—	—	—	X	X	—	—	—	X
1.3 Other	X	—	52,137	1,730 [2]	X	X	—	58,497	1,818 [2]	X
2. Credits derivatives	—	—	2,074,242	—	—	—	—	1,414,336	—	—
2.1 Trading	X	—	2,074,242	—	X	X	—	1,414,336	—	X
2.2 Related to the fair value option	X	—	—	—	X	X	—	—	—	X
2.3 Other	X	—	—	—	X	X	—	—	—	X
Total (B)	X	631,544	3,673,265	420,460	X	X	650,530	2,829,951	249,777	X
Total (A+B)	4,954,148	6,237,338	3,673,265	420,460	5,605,794	3,852,063	4,948,023	2,829,951	249,777	4,297,493

* Fair value calculated excluding variations in value due to changes in the issuer's credit standing.

[1] Respectively €403,694,000 and €235,984,000 for options traded, matching the amount booked as financial assets held for trading.

[2] Includes the market value (31/12/19: €0.6m; 30/6/19: €0.5m) of options covering those attached to bonds issued, matching the amount booked as financial assets held for trading.

SECTION 3

Heading 30: Financial liabilities designated at fair value

3.1 Financial liabilities designated at fair value: composition

Type of transaction/ Values	Total 31/12/19					Total 30/6/19				
	BV	Fair value			Fair value	BV	Fair value			Fair value
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
1. Debts to banks	—	—	—	—	—	—	—	—	—	—
1.1 Structured	—	—	—	—	X	—	—	—	—	X
1.2 Others	—	—	—	—	X	—	—	—	—	X
of which:						—				
- obligation to distribute funds	—	X	X	X	X	—	X	X	X	X
- financial release warranties	—	X	X	X	X	—	X	X	X	X
2. Debts to clients	—	—	—	—	—	—	—	—	—	—
2.1 Structured	—	—	—	—	X	—	—	—	—	X
2.2 Others	—	—	—	—	X	—	—	—	—	X
of which:					—					
- obligation to distribute funds	—	X	X	X	X	—	X	X	X	X
- financial release warranties	—	X	X	X	X	—	X	X	X	X
3. Debt securities	50,000	—	54,074	—	54,074	50,000	—	55,859	—	55,859
3.1 Structured	50,000	—	54,074	—	X	50,000	—	55,859	—	X
3.2 Others	—	—	—	—	X	—	—	—	—	X
Total	50,000	—	54,074	—	54,074	50,000	—	55,859	—	55,859

The above financial liabilities recognized at fair value are matched by equivalent financial assets also recognized at fair value.

SECTION 4

Heading 40: Hedging derivatives

4.1 Hedging derivatives: by hedge type and level

	31/12/19				30/6/19			
	Fair value			Nominal value	Fair value			Nominal value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives	—	323,371	—	20,124,555	—	414,241	—	17,381,786
1) Fair value	—	292,030	—	12,932,755	—	349,007	—	12,536,786
2) Financial flows	—	31,341	—	7,191,800	—	65,234	—	4,845,000
3) Foreign investments	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value	—	—	—	—	—	—	—	—
2) Financial flows	—	—	—	—	—	—	—	—
Total	—	323,371	—	20,124,555	—	414,241	—	17,381,786

4.2 Hedging derivatives: by portfolio hedged and hedge type

Transactions/Type of hedge	*Fair Value*							Cash flow		Foreign invest.
	Specific						Generic	Specific	Generic	
	debt securities and interest rates	equities and equity index	currencies and gold	credit	commodities	others				
1. Financial assets valuated at fair value with impact taken on comprehensive income	35,687	—	—	—	X	X	X	—	X	X
2. Financial assets valued to amortized cost	224,972	X	—	—	X	X	X	—	X	X
3. Portfolio	X	X	X	X	X	X	—	X	—	X
4. Other operations	—	—	—	—	—	—	X	—	X	—
Total assets	260,659	—	—	—	—	—	—	—	—	—
1. Financial liabilities	31,371	X	—	—	—	—	X	31,341	X	X
2. Portfolio	X	X	X	X	X	X	—	X	—	X
Total liabilities	31,371	—	—	—	—	—	—	31,341	—	—
1. Expected transactions	X	X	X	X	X	X	X	—	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	—	X	—	—

SECTION 6

Heading 60: Tax liabilities

Please see asset section 11.

SECTION 8

Heading 80: Other liabilities

8.1 Other liabilities: composition

	31/12/19	**30/6/19**
1. Payment agreements (IFRS 2)	—	—
2. Impaired endorsements	—	—
3. Working capital payables and invoices pending receipt	273,154	327,037
4. Amounts due to revenue authorities	71,570	76,186
5. Amounts due to staff	177,475	227,706
6. Other items:	323,411	318,029
- bills for collection	26,941	26,719
- coupons and dividends pending collection	10,191	2,564
- available sums payable to third parties	36,338	44,959
- premiums, grants and other items in respect of lending transactions	29,178	29,951
- credit notes to be issued	—	—
- other [1]	220,763	213,836
7. Adjustments upon consolidation	—	—
Total	845,610	948,958

[1] Includes the liability in respect of the put-and-call agreements entered for RAM AI, MMA and Cairn Capital.

SECTION 9

Heading 90: Staff severance indemnity provision

9.1 Staff severance indemnity provision: changes during the period

	31/12/19	30/6/19
A. Opening balance	27.808	27.510
B. Increases	4.184	9.093
B.1 Provision of the year	3.429	6.394
B.2 Other increases	755	2.699
C. Reductions	4.618	8.795
C.1 Liquidations performed	1.361	2.742
C.2 Other decreases [1]	3.257	6.053
D. Closing balance	27.374	27.808
Total	27.374	27.808

[1] Includes €2,040,000 in transfers to external, defined contribution pension schemes (30/6/19: €3,904,000).

The staff severance indemnity provision is for those of the Group companies headquartered in Italy. For a detailed description of the accounting standards used, please see Part A – Accounting Policies.

SECTION 10

Heading 100: Provisions

10.1 Provisions: composition

Items/Components	31/12/19	30/6/19
1. Funds for credit risk related to financial obligations and warranties [1]	11,582	10,536
2. Funds on other obligations and warranties release	—	—
3. Funds of business retirement [1]	2,728	1,840
4. Other funds for risks and obligations	124,280	150,139
4.1 legal and fiscal controversies	—	—
4.2 obligations for employees	4,434	3,889
4.3 others	119,846	146,250
Total	138,590	162,515

[1] These regard the Swiss company RAM AI, in line with Swiss regulations.

IAS 37 requires provisions to be set aside in cases where there is an obligation, whether actual, legal or implicit, the amount of which may be reliably determined and the resolution of which is likely to entail a cash outflow for the company. The amount of the provision is determined from the management's best estimate, based on experience of similar operations or the opinion of independent experts. The provisions are revised on a regular basis in order to reflect the best current estimate.

As at 31 December 2019, the heading "Other provisions" totalled €138.6m, and includes €11.6m in commitments to disburse funds and financial guarantees issued, €7.2m in staff-related expenses and post-retirement provisions and €119.8m for litigation and other contingent liabilities. The provisions chiefly involve Mediobanca as to €75m (€100.8m), CheBanca! as to €29.4m (€33m), and SelmaBipiemme as to €10.9m (€10.3m).

The most significant litigation still pending against the Mediobanca Group consists of the two requests for damages made respectively by:

- Fondazione Monte dei Paschi di Siena ("FMPS"): against the former directors of FMPS and Mediobanca, jointly with thirteen other banks. The liability with which the banks are charged is non-contractual, and consists of participation in the alleged damages caused by execution of the Term Facility Agreement on 4 June 2011 and the consequent breach of FMPS's Articles of Association (20% limit on debt/equity ratio) in a total amount of €286m. Judgement is currently pending at the court of Florence, and the next hearing has been set for 10 March 2020;
- Lucchini S.p.A. in extraordinary administration ("Lucchini"): against twelve banks, including Mediobanca, for their alleged involvement in the financial disaster which affected the company on account of their having compiled and implemented a business and financial plan for Lucchini based on estimates alleged to have been unrealistic as well as a restructuring agreement pursuant to Article 182-bis of the Italian bankruptcy law which included unduly favourable guarantees in favour of the banks, leading to a delay in Lucchini entering the extraordinary administration procedure. Judgement is currently pending at the court of Milan; the next hearing – for the taking up of any means of test – has been set for 3 March 2020.

– With reference to the cases pending with the Italian revenue authorities, during the six months under review an inspection by the authorities started in 2018 with reference to the 2014-15 and 2015-16 financial years was completed, in the course of which three main charges had emerged: failure to apply the tax on controlled foreign companies (CFCs) required by the regulations in force to revenues generated by Compagnie Monégasque de Banque and Compagnie Monégasque de Gestion for years 2013, 2014 and 2015, as follows:
  - Notice of assessment regarding alleged failure by Mediobanca to pay tax in FY 2013-14 on 2013 earnings, in an amount of €21.3m (plus fines and interest), notified at end-2018;
  - Notice of assessment for FY 2014-15 (on 2014 earnings), for a disputed amount of €16.1m (plus fines and interest), notified at end-December 2019;
  - A formal notice of assessment was issued in October 2019 with regard to FY 2015-16 (on 2015 earnings), for which no notice of assessment has yet been issued;
– Alleged failure to apply withholding tax on interest payable as part of a secured financing transaction, as disputed by means of notice with reference to 2014 (involving tax of €2.3m, plus fines and interest), and included again with reference to 2015 in the formal notice of assessment received in October 2019;
– Dispute over the application of transfer pricing between Mediobanca S.p.A. and Mediobanca International SA (based in Luxembourg) in the financial years from 2012-13 to 2016-17. With regard to this case, in October 2019 an agreement was reached with the Italian revenue authority which resulted in a payment of €21m, plus interest but no fines ("penalty protection"). At the same time, a new transfer pricing methodology has been agreed with the revenue authority, which should minimize the tax risks going forward. Mediobanca took the opportunity to voluntarily free up profit reserves for a total of €42m deriving from Mediobanca International's activities prior to 2002, i.e. when the transparency taxation mechanism for companies with registered offices in countries with privileged taxation regimes (i.e. blacklisted countries) was not in place. For its part, is preparing an application to the Luxembourg tax authority to recover the higher taxes paid in relation to the taxable revenues attributed by the Italian revenue authority to Italy.

With reference to the first two charges, the company is convinced there has been no wrongdoing, and has challenged the rulings, and the appeal presented by Mediobanca against the 2018 CFC charge was discussed by the Milan Province Tax Commission in November 2019, for which the ruling is now pending.

Apart from the developments described above, there have been no significant changes in the Group's other tax disputes with the revenue authorities from the situation reported at 30 June 2019; however, the tax collection notice issued by the Italian revenue authority following an automatic check carried out on Banca Esperia's Unico tax return for 2015 was nullified by internal review.

The enquiries launched by the French and German tax authorities into the Mediobanca Paris and Frankfurt branches were completed in December 2019. In both cases the enquiries focused on analysis of the branch offices' transfer pricing policies in force with the parent company, and resulted in the policies being refined and settlement agreements being signed without incurring any further charges in terms of taxes of fines (save for a very minor amount payable by way of interest).

The provision for risks and charges is comfortably adequate to cover any charges due in connection with all the cases that have been brought against Mediobanca and the other Group companies (for which no other significant litigation is pending).

10.2 Provisions: movements during the period

	Funds on other commitments to disburse funds and guarantees given	**Provision to retirement payments and similar**	**Staff expenses**	**Other provisions**	**Total**
A. Initial existence	—	1,840	3,889	146,250	151,979
B. Increases	—	888	993	8,969	10,850
B.1 Reserve of the fiscal year	—	888	993	8,969	10,850
B.2 Variation due to pass of time	—	—	—	—	—
B.3 Variation due to modifies of discount rate	—	—	—	—	—
B.4 Other variations	—	—	—	—	—
C. Decreases	—	—	448	35,373	35,821
C.1 Use in the exercise	—	—	448	35,373	35,821
C.2 Variations due to modifies of discount rate	—	—	—	—	—
C.3 Other variations	—	—	—	—	—
D. Final surplus	—	2,728	4,434	119,846	127,008

10.3 Provisions for credit risk related to commitments and financial guarantees given

	Provisions for credit risk related to financial obligation and warranties release			
	First stage	**Second stage**	**Third stage**	**Total**
Obligation to distribute funds	6,710	874	3,173	10,757
Financial warranties release	378	447	—	825
Total	7,088	1,321	3,173	11,582

SECTION 11

Heading 110: Technical reserves

11.1 Technical reserves: composition

	Direct business	**Indirect business**	**31/12/19**	**30/6/19**
A. Non-life insurance	—	170,004	170,004	170,838
A.1 Premium reserves	—	160,617	160,617	162,203
A.2 Accident reserves	—	9,387	9,387	8,635
A.3 Other reserves	—	—	—	—
B. Life insurance	—	—	—	—
B.1 Mathematical reserves	—	—	—	—
B.2 Reserves for sums to pay	—	—	—	—
B.3 Other reserves	—	—	—	—
C. Technical reserves when investment risk is supported by insureds	—	—	—	—
C.1 Reserves related to contract which performance are connected to investment funds and market index	—	—	—	—
C.2 Reserves originated by retirement funds management	—	—	—	—
D. Total technical reserves	—	170,004	170,004	170,838

11.2 Technical reserves: movements during the period

	31/12/19	30/6/19
A. Non-life business		
Balance at start of period	170,838	175,853
Combinations involging group companies	—	—
Changes to reserves (+/-)	(834)	(5,015)
Other additions	—	—
Balance at end of period	170,004	170,838
B. Life business and other reserves		
Balance at start of period	—	—
Combinations involging group companies	—	—
Changes do to premiums	—	—
Changes do to sums to be paid out	—	—
Changes do to payments	—	—
Changes due to income and other bonuses recognized to insured parties (+/-)	—	—
Changes to other technical reserves (+/-)	—	—
Other reductions	—	—
Balance at end of period	—	—
C. Total technical reserves	170,004	170,838

SECTION 13

Headings 120, 130, 140, 150, 160, 170 and 180: Net equity

13.1 "Capital" and "treasury shares": composition

For the composition of the Group's capital, please see part F of the notes to the accounts.

In November 2018, the share buyback programme authorized by shareholders at the annual general meeting held on 27 October 2018 and by the European Central Bank pursuant to Articles 77-78 of Regulation (EU) 575/2013 (the "CRR") on 23 October 2018. The buyback involves a maximum of 3% of the share capital (or some 26.6 million shares), for use in connection with possible acquisitions or to implement share-based compensation schemes, current or future. As at 31 December 2019, a total of 18.9 million shares have been purchased, for an outlay of €175.8m. Since the year-end a further 230,000 shares have been purchased, for an outlay of €2.3m.

13.2 Share capital: changes in no. of parent company shares in issue during the period

Item/Type	**Ordinary**
A. Shares in issue at start of period	887,216,177
- entirely unrestricted	887,216,177
- with restrictions	—
A.1 Treasury shares (-)	(15,346,295)
A.2 Shares in issue: balance at start of period	871,869,882
B. Additions	1,742,502
B.1 New shares issuance as a result of:	—
- rights issued	—
- business combinations	—
- bond conversions	—
- exercise of warrants	—
- others	—
- bonus issues	—
- to staff members	—
- to Board members	—
- others	—
B.2 Treasury shares' disposals	1,742,502
B.3 Other additions	—
C. Reductions	(5,318,122)
C.1 Cancellations	—
C.2 Treasury shares' buybacks	(5,318,122)
C.3 Disposals of businesses	—
C.4 Other reductions	—
D. Shares in issue: balance at end of period	868,294,262
D.1 Add: treasury shares	(18,921,915)
D.2 Shares in issue at end of period	887,216,177
- entirely unrestricted	887,216,177
- with restrictions	—

13.4 Profit reserves: other information

Item	**31/12/19**	**30/6/19**
Legal reserve	88.722	88.704
Statutory reserve	1.085.279	1.157.437
Treasury shares	175.848	141.989
Others	4.924.036	4.503.343
Total	6.273.885	5.891.473

SECTION 14

Heading 190: Minority interests

14.1 Heading 210: Minority interests: composition

Company name	31/12/19	30/6/19
1. SelmaBipiemme S.p.A.	85,479	83,792
2. RAM Active Investments S.A.	6,181	5,856
3. Other minor interests	10	10
Total	91,670	89,658

Other information

1. Commitments and financial guarantees given

	Nominal value of commitments and financial guarantees given			31/12/19	30/6/19
	First stage	Second stage	Third stage		
1. Commitment to disburse funds	10,086,503	40,471	20,610	10,147,584	12,608,418
a) Central Banks	—	—	—	—	—
b) Public Administration	1,270,320	—	—	1,270,320	4,069,828
c) Banks	52,694	—	—	52,694	82,745
d) Other financial companies	1,295,716	—	—	1,295,716	1,043,680
e) Non-financial companies	5,776,002	29,724	19,283	5,825,009	5,881,153
f) Families	1,691,771	10,747	1,327	1,703,845	1,531,012
2. Financial guarantees given	575,402	14,415	—	589,817	282,264
a) Central Banks	—	—	—	—	—
b) Public Administration	—	—	—	—	—
c) Banks	11,220	—	—	11,220	26,407
d) Other financial companies	185,658	1,418	—	187,076	166,763
e) Non-financial companies	355,327	12,997	—	368,324	70,634
f) Families	23,197	—	—	23,197	18,460

2. Other commitments and guarantees given

	Nominal value Total 31/12/19	Nominal value Total 30/6/19
1. Other guarantees issued	128,549	123,463
of which: impaired credit exposures	—	—
a) Central Banks	—	—
b) Public Administration	—	—
c) Banks	5	5
d) Other financial companies	28,533	19,494
e) Non-financial companies	32,399	28,188
f) Families	67,612	75,776
2. Other commitment	146,330	129,299
of which: impaired credit exposures	—	—
a) Central Banks	—	—
b) Public Administration	—	—
c) Banks	123,361	111,319
d) Other financial companies	—	—
e) Non-financial companies	22,969	17,980
f) Families	—	—

5. Assets managed and traded on behalf of customers

Type of service	31/12/19	30/6/19
1. Order execution on behalf of client		
a) purchases	11,699,775	14,820,923
1. settled	11,678,196	14,711,791
2. non settled	21,579	109,132
b) sales	11,340,919	14,199,338
1. settled	11,319,340	14,090,206
2. non settled	21,579	109,132
2. Portfolios management		
a) individuals	13,158,526	12,358,038
b) collectives	17,258,531	16,117,972
3. Bonds custody and management		
a) bonds of third parties in depository	10,528,829	11,191,064
1. Bonds issued by companies included in consolidation process	166,164	160,049
2. other bonds	10,362,665	11,031,015
b) bonds of third parties in depository: others	17,070,982	16,182,829
1. Bonds issued by companies included in consolidation process	148,741	164,398
2. other bonds	16,922,241	16,018,431
c) Bonds of third parties in own depository	24,413,514	23,131,120
d) own bonds in depository at third parties	8,977,955	9,922,561
4. Other operations	1,205,743	1,702,426

Part C - Notes to consolidated profit and loss account

SECTION 1

Headings 10 and 20: Net interest income

1.1 Interest and similar income: breakdown

Items/Technical forms	Debt securities	Loans	Other operations	Total 6 mths ended 31/12/19	Total 6 mths ended 31/12/18
1. Financial assets valued to fv with impact to P&L:	19,630	628	—	20,258	17,990
1.1 Financial assets held for trading	17,760	264	—	18,024	15,546
1.2 Financial assets designated to fv	702	—	—	702	—
1.3 Other financial assets mandatorly valued to fv	1,168	364	—	1,532	2,444
2. Financial assets valued to fv with impact on overall profitability	22,183	—	X	22,183	31,664
3. Financial assets valued to amortize cost:	28,115	865,739	X	893,854	880,531
3.1 Credits to banks	9,298	8,380	X	17,678	18,208
3.2 Credits to clients	18,817	857,359	X	876,176	862,323
4. Hedging derivatives	X	X	60,071	60,071	29,319
5. Other assets	X	X	59	59	579
6. Financial liabilities	X	X	X	9,390	9,118
Total	69,928	866,367	60,130	1,005,815	969,201
of which: income interests on deteriorated financial assets	—	*36,916*	—	*36,916*	*31,420*
of which: interest income on finance lease	—	*23,629*	—	*23,629*	*n.m.*

1.3 Interest expense and similar charges: breakdown

Items/Technical forms	Debts	Securities	Other operations	Total 6 mths ended 31/12/19	Total 6 mths ended 31/12/18
1. Financial liabilities valued at amortized cost	(45,928)	(209,786)	X	(255,714)	(239,590)
1.1 Debts to central banks	(163)	X	X	(163)	(381)
1.2 Debts to banks	(11,298)	X	X	(11,296)	(12,947)
1.3 Debts to customers	(34,484)	X	X	(34,469)	(37,928)
1.4 Securities in circulation	X	(209,786)	X	(209,786)	(188,324)
2. Financial trading liabilities	—	—	—	—	—
3. Financial liabilities designated at fair value	—	(1,235)	—	(1,235)	(1,235)
4. Other liabilities and funds	X	X	(4,205)	(4,222)	(200)
5. Hedging derivatives	X	X	—	—	—
6. Financial assets	X	X	X	(885)	(2,897)
Total	(45,928)	(211,021)	(4,222)	(262,056)	(243,922)
of which: interest expenses related to lease liabilities	*(1,223)*	—	—	*(1,223)*	*n.m.*

SECTION 2

Headings 40 and 50: Net fee and commission income

2.1 Fee and commission income: breakdown

Type of service/Values	6 mths ended 31/12/19	6 mths ended 31/12/18
a) guarantees given	1,963	974
b) credit derivatives	—	—
c) management, brokerage and consultancy income:	182,406	163,505
1. securities trading	8,178	6,579
2. currency trading	—	—
3. portfolio management	70,944	59,818
3.1. individual	26,539	14,781
3.2. collective	44,405	45,037
4. custody and administration of securities	8,585	5,763
5. custodian bank	—	—
6. placement of securities	37,035	34,330
7. reception and transmission of orders	8,361	5,490
8. advisory services	2,825	2,765
8.1 related to investments	2,825	2,765
8.2 related to financial structure	—	—
9. distribution of third parties services	46,478	48,760
9.1 porfolio management	7,153	13,848
9.1.1 individual	6,707	13,467
9.1.2 collective	446	381
9.2 insurance products	37,855	33,128
9.3 other products	1,470	1,784
d) collection and payment services	6,576	6,502
e) securitization servicing	231	254
f) factoring services	3,277	3,094
g) tax collection services	—	—
h) management of multilateral trading facilities	—	—
i) management of current account	3,554	3,219
j) other services	129,743	120,355
Total	327,750	297,903

This heading includes €23.5m from Messier Maris et Associés, in connection with advisory activity (other services).

2.2 Fees and commissions expenses: breakdown

Services/Amounts	6 mths ended 31/12/19	6 mths ended 31/12/18
a) guarantees received	(27)	(17)
b) credit derivatives	—	—
c) management and brokerage services	(10,592)	(10,671)
1. trading in financial instruments	(3,799)	(3,855)
2. currency trading	—	—
3. portfolios management:	(5,476)	(5,100)
3.1 own portfolio	(15)	(103)
3.2 third parties portfolio	(5,461)	(4,997)
4. custody and administration securities	(1,260)	(1,421)
5. financial instruments placement	(57)	(295)
6. off-site distribution of financial instruments, products and services	—	—
d) collection and payment services	(7,260)	(6,365)
e) other services	(56,723)	(54,320)
Total	(74,602)	(71,373)

SECTION 3

Heading 70: Dividends and similar income

3.1 Dividends and similar income: breakdown

Items/Incomes	6 mths ended 31/12/19		6 mths ended 31/12/18	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	32,964	262	20,176	—
B. Other financial assets that are duly measured at fair value	—	5,157	8,916	13
C. Financial assets measured at fair value with impact on overall profitability	303	—	23	—
D. Shareholdings	—	—	—	—
Total	33,267	5,419	29,115	13

SECTION 4

Heading 80: Net trading income

4.1 Net trading income: breakdown

Transactions / Income	Unrealized profit (A)	Realized profit (B)	Unrealized losses (C)	Realized losses (D)	Net Profit [(A+B) = (C+D)]
1. Financial assets held for trading	296,500	189,481	(125,019)	(83,157)	277,805
1.1 Debt securities	78,185	21,670	(40,375)	(11,550)	47,930
1.2 Equity	215,709	161,726	(84,093)	(67,308)	226,034
1.3 Units in investments funds	2,567	5,839	(532)	(4,297)	3,577
1.4 Loans	38	246	(19)	—	265
1.5 Others	1	—	—	(2)	(1)
2. Financial liabilities held for trading	—	—	—	—	—
2.1 Debt securities	—	—	—	—	—
2.2 Deposits	—	—	—	—	—
2.3 Other	—	—	—	—	—
Financial assets and liabilities in foreign currency: exchange differences [1]	X	X	X	X	5,043
3. Derivatives	1,361,074	970,501	(1,641,943)	(985,926)	(295,542)
3.1 Financial derivatives:	798,619	648,095	(1,002,577)	(670,852)	(225,654)
- on debt securities and interest rates [2]	305,890	249,997	(324,759)	(292,104)	(60,976)
- on equity securities and shares indexes	493,038	398,098	(677,818)	(378,748)	(165,430)
- on currencies and gold	X	X	X	X	752
- other	—	—	—	—	—
3.2 Credit derivatives	562,146	322,406	(639,366)	(315,074)	(69,888)
of which: natural hedges connected to fv option	X	X	X	X	—
Total	1,657,575	1,159,982	(1,766,962)	(1,069,083)	(12,694)

[1] This item contains valuations for banking book positions based at current exchange rates totalling €7,008,000.

[2] Of which €28,396,000 in negative margins on interest rate derivatives (31/12/18: minus €27,155,000).

SECTION 5

Heading 90: Net hedging income (expense)

5.1 Net hedging income (expense): breakdown

Income elements/Amounts	**6 mths ended 31/12/19**	**6 mths ended 31/12/18**
A. Income from:		
A.1 Fair value hedging instruments	42,770	50,947
A.2 Hedged asset items (in fair value hedge relationship)	25,489	37,066
A.3 Hedged liability items (in fair value hedge relationship)	74,784	19,065
A.4 Cash-flows hedging derivatives	6	4
A.5 Assets and liabilities denominated in currency	—	—
Total gains on hedging activities (A)	143,049	107,082
B. Losses on:		
B.1 Fair value hedging instruments	(82,121)	(23,022)
B.2 Hedged asset items (in fair value hedge relationship)	(38,437)	(15,182)
B.3 Hedged liability items (in fair value hedge relationship)	(23,192)	(66,359)
B.4 Cash-flows hedging derivatives	—	(2)
B.5 Assets and liabilities denominated in currency	—	—
Total losses on hedging activities (B)	(143,750)	(104,565)
C. Net profit from hedging activities (A-B)	(701)	2,517
of which: result of hedges on net exposures	—	—

SECTION 6

Heading 100: Gain (loss) on disposals/repurchases

6.1 Gain (loss) on disposals/repurchases: breakdown

Items / Income	6 mths ended 31/12/19			6 mths ended 31/12/18		
	Gains	Losses	Net profit	Gains	Losses	Net profit
A. Financial assets						
1. Financial assets at amortized cost	10,291	(1,741)	8,550	8,160	(1,529)	6,631
1.1 Loans and receivables with banks	680	(6)	674	1,543	(116)	1,427
1.2 Loans and receivables with customers	9,611	(1,735)	7,876	6,617	(1,413)	5,204
2. Financial assets at fair value with impact taken to comprehensive income	39,229	(842)	38,387	27,908	(5,919)	21,989
2.1 Debt securities	39,229	(842)	38,387	27,908	(5,919)	21,989
2.2 Loans	—	—	—	—	—	—
Total assets (A)	49,520	(2,583)	46,937	36,068	(7,448)	28,620
B. Financial liabilities valued at amortized cost						
1. Deposits with banks	—	—	—	—	—	—
2. Deposits with customers	—	—	—	—	—	—
3. Debt securities in issue	2,774	(4,560)	(1,786)	3,301	(2,249)	1,052
Total liabilities (B)	2,774	(4,560)	(1,786)	3,301	(2,249)	1,052

Gains on financial assets recognized at amortized cost and those recognized at fair value through other comprehensive income include exchange rate valuations of €1.3m and €5.7m respectively.

SECTION 7

Heading 110: Net result of other financial assets and liabilities valued at fair value with impact taken to profit and loss

7.1 Net variation in the value of other financial assets and liabilities valued at fair value with impact taken to profit and loss: composition of financial assets and liabilities designated at fair value

Operation/Income item	Gains (A)	Proceeds (B)	Losses (C)	Minus from disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	15	—	—	—	15
1.1 Debt securities	15	—	—	—	15
1.2 Loans	—	—	—	—	—
2. Financial liabilities	571	—	—	—	571
2.1 Debt securities in issue	571	—	—	—	571
2.2 Due to banks	—	—	—	—	—
2.3 Due to customers	—	—	—	—	—
3. Foreign-currency denominated financial assets and liabilities: exchange rate differences	X	X	X	X	—
Total	586	—	—	—	586

7.2 Net variation in the value of other financial assets and liabilities valued at fair value with impact taken to profit and loss: composition of other financial assets mandatorily valued at fair value

Operation/Income item	Gains (A)	Proceeds from disposal (B)	Losses (C)	Minus from sale (D)	Net result [(A+B) - (C+D)]
1. Financial assets	52,186	891	(19,404)	(104)	33,569
1.1 Debt securities	152	—	(169)	—	(17)
1.2 Equity securities	—	—	—	—	—
1.3 UCITS	14,379	891	(5,877)	(104)	9,289
1.4 Loans [1]	37,655	—	(13,358)	—	24,297
2. Financial assets: exchange rate differences	X	X	X	X	815
Total	52,186	891	(19,404)	(104)	34,384

[1] Includes chiefly a plus related to the reclassification of an Unlikely To Pay position into performing exposures.

SECTION 8

Heading 130: Net writeoffs (writebacks) for credit risk

8.1 Net writeoffs for credit risk related to financial assets valued at amortized cost: breakdown

Transactions/Income	Writedowns [1]			Writebacks [2]		6 mths ended 31/12/19	6 mths ended 31/12/18
	First and second stage	Third stage		First and second stage	Third stage		
		Writeoff	Others				
A. Loans and receivables with banks	(539)	—	—	771	—	232	(302)
- Loans	(518)	—	—	463	—	(55)	(209)
- Debt receivables	(21)	—	—	308	—	287	(93)
of which: financial assets purchased or originated credit impaired	—	—	—	—	—	—	—
B. Loans and receivables with customers	(220,520)	(26,434)	(169,594)	161,708	121,663	(133,177)	(111,923)
- Loans	(220,489)	(26,434)	(168,022)	160,396	121,663	(132,886)	(111,705)
- Debt receivables	(31)	—	(1,572)	1,312	—	(291)	(218)
of which: financial assets purchased or originated credit impaired	—	*(24,479)*	*(71)*	—	*28,044*	*3,494*	*9,248*
Total	(221,059)	(26,434)	(169,594)	162,479	121,663	(132,945)	(112,225)

8.2 Net writeoffs for credit risk related to financial assets valued at fair value with impact taken to comprehensive income: breakdown

Transactions/Income	Writedowns [1]			Writebacks [2]		6 mths ended 31/12/19	6 mths ended 31/12/18
	Stage 1 and stage 2	Stage 3		Stage 1 and stage 2	Stage 3		
		Writeoff	Others				
A. Debt securities	(558)	—	—	—	—	(558)	(650)
B. Loans	—	—	—	—	—	—	—
- to customers	—	—	—	—	—	—	—
- to banks	—	—	—	—	—	—	—
of which: financial assets purchased or originated credit impaired	—	—	—	—	—	—	—
Total	(558)	—	—	—	—	(558)	(650)

SECTION 9

Heading 140: Gains (losses) from contractual modifications without derecognition

9.1 Gains (losses) from contractual modifications: breakdown

At 31/12/19 the item closed at €20,000 (31/12/18: -€675,000), and includes the impact of modifications to contracts for financial assets, which, as they do not constitute substantial modifications under IFRS 9 and the Group's own accounting policies, do not entail derecognition of the assets but require the modifications to the cash flows provided for contractually to be taken through the profit and loss account.

SECTION 10

Heading 160: Net premium

10.1 Net premiums: breakdown

Premium for insurance	Direct business	Indirect business	6 mths ended 31/12/19	6 mths ended 31/12/18
A. Life business				
A.1 Gross premiums written (+)	—	—	—	—
A.2 Reinsurance premiums paid (-)	—	X	—	—
A.3 Total	—	—	—	—
B. Non-life business				
B.1 Gross premium written (+)	—	27,936	27,936	27,700
B.2 Reinsurance premiums paid (-)	—	X	—	—
B.3 Change in gross value of premium reserve (+/-)	—	1,586	1,586	2,073
B.4 Change in provision for unearned premiums ceded to reinsures (+/-)	—	—	—	—
B.5 Total	—	29,522	29,522	29,773
C. Total net premiums	—	29,522	29,522	29,773

SECTION 11

Heading 170: Other income (net) from insurance activities

11.1 Other income (net) from insurance activities: breakdown

Items	6 mths ended 31/12/19	6 mths ended 31/12/19
1. Net change in insurance provisions	—	—
2. Claims paid pertaining to the year	(5,400)	(2,162)
3. Other income and expense from insurance	(2,748)	(2,883)
Total	(8,148)	(5,045)

11.3 Breakdown of sub-heading "Claims paid out during the year"

Changes for claims	6 mths ended 31/12/19	6 mths ended 31/12/18
Life-business: expense related to claims, net of reinsurers' portion		
A. Amounts paid out	—	—
A.1 Gross annual amount	—	—
A.2 Amount attributable to reinsurers (-)	—	—
B. Change in reserve for amount payable	—	—
B.1 Gross annual amount	—	—
B.2 Amount attributable to reinsurers (-)	—	—
Total life-business claims	—	—
Non-life business: expense related to claims, net of amounts recovered from reinsurers		
C. Claims paid	(4,647)	(4,083)
C.1 Gross annual amount	(4,647)	(4,083)
C.2 Amount attributable to reinsurers (-)	—	—
D. Change in recoveries net of reinsurers portion	—	—
E. Change in claims reserves	(753)	1,921
E.1 Gross annual amount	(753)	1,921
E.2 Amount attributable to reinsurers (-)	—	—
Total non-life business claims	(5,400)	(2,162)

SECTION 12

Heading 190: Administrative expenses

12.1 Personnel costs: breakdown

Type of expense/Amounts	6 mths ended 31/12/19	6 mths ended 31/12/18
1) Employees	(291,425)	(272,409)
a) wages and salaries	(212,893)	(197,136)
b) social security contributions	(48,371)	(46,041)
c) severance pay (only for Italian legal entities)	(1,885)	(4,014)
d) social security costs	—	—
e) allocation to employees severance pay provision	(6,630)	(3,230)
f) provision for retirement and similar provisions:	(86)	—
- defined contribution	(86)	—
- defined benefits	—	—
g) payments to external pension funds:	(8,052)	(8,374)
- defined contribution	(8,052)	(8,374)
- defined benefits	—	—
h) expenses resulting from share based payments	(4,783)	(4,467)
i) other employees' benefits	(8,725)	(9,147)
2) Other staff	(3,691)	(3,159)
3) Directors and Statutory Auditors	(8,848)	(4,274)
4) Early retirement costs	(715)	(2,364)
Total	(304,679)	(282,206)

The heading includes €12m from the consolidation of Messier Maris et Associés, starting from 1 April 2019.

12.2 Average number of staff by category

	6 mths ended 31/12/19	6 mths ended 31/12/18
Employees:		
a) Senior executives	431	409
b) Executives	1,932	1,830
c) Other employees	2,382	2,403
Other staff	239	236
Total	4,984	4,878

The figure for 1H FY 2019-20 includes Messier Maris et Associés (47 staff).

12.5 Other administrative expenses: breakdown

Type of expense/amounts	6 mths ended 31/12/19	6 mths ended 31/12/18
OTHER ADMINISTRATIVE EXPENSES		
– legal, tax and professional services	(27,720)	(31,439)
– loan recovery activity	(35,539)	(32,609)
– marketing and communications	(19,681)	(19,638)
– property [1]	(10,267)	(25,696)
– EDP	(60,687)	(59,871)
– info-provider	(22,522)	(20,027)
– bank charges, collection and payment fees	(11,889)	(10,200)
– operating expenses	(32,982)	(31,590)
– other staff expenses	(9,769)	(12,146)
– other costs [2]	(20,152)	(19,140)
– indirect and other taxes	(35,535)	(28,950)
Total other administrative expenses	(286,743)	(291,306)

[1] The decrease for the first half 2019/2020 is related to the application of the new IFRS16 standard.

[2] The item includes contributions to the various resolution funds: €12.5m for the sixth months ended 31/12/19 and €11.5m for the sixth months ended 31/12/18.

This heading includes €3.4m from Messier Maris et Associés, which has been consolidated since 1 April 2019.

SECTION 13

Heading 200: Net transfers to provisions

13.1 Net transfers for credit risk related to commitments to disburse funds and financial guarantees given: breakdown

	6 mths ended 31/12/19			6 mths ended 31/12/18
	Provisions	Reallocation surplus	Total	Total
Loan committments	(5,035)	4,122	(913)	3,552
Financial guarantees given	(185)	53	(132)	(1,582)
Total	(5,220)	4,175	(1,045)	1,970

13.3 Net transfers to other provisions: breakdown

	6 mths ended 31/12/19			6 mths ended 31/12/18
	Provisions	Reallocation surplus	Total	
1. Other provisions				
1.1 Legal disputes	—	—	—	—
1.2 Staff costs	(153)	—	(153)	(200)
1.3 Other	(8,817) [1]	27,184	18,367	(3,367)
Total	(8,970)	27,184	18,214	(3,567)

[1] Includes the €4.7m provision related to the fine handed down to Compass Banca S.p.A. by the Italian Antitrust authority.

SECTION 14

Heading 210: Net adjustments to tangible assets

14.1 Net adjustments to tangible assets: breakdown

Asset/Income	Depreciation (a)	Impairment losses (b)	Write-backs (c)	Net result (a + b - c)
A. Property, equipment and investment property				
1 For operational use	(24,555)	—	—	(24,555)
- Owned	(6,535)	—	—	(6,535)
- Licences acquired through leases	(18,020)	—	—	(18,020)
2 Held for investment purpose	(936)	—	—	(936)
- Owned	(936)	—	—	(936)
- Licences acquired through leases	—	—	—	—
3 Inventories	X	—	—	—
Total	(25,491)	—	—	(25,491)

SECTION 15

Heading 220: Net adjustments to intangible assets

15.1 Net adjustments to intangible assets: breakdown

Asset/Income	Depreciation (a)	Impairment losses (b)	Write-backs (c)	Net result (a + b - c)
A. Intangible assets				
A.1 Owned	(13,949)	—	—	(13,949)
- Internally generated by the company	(6,731)	—	—	(6,731)
- Others	(7,218)	—	—	(7,218)
A.2 Right of use related to leases	—	—	—	—
Total	(13,949)	—	—	(13,949)

SECTION 16

Heading 230: Other operating income (expense)

16.1 Other operating expense: breakdown

Income-based components/Values	6 mths ended 31/12/19	6 mths ended 31/12/18
a) Leasing activity	(4,905)	(5,273)
b) Sundry costs and expenses	(4,954)	(5,046)
Total	(9,859)	(10,319)

16.2 Other operating income: breakdown

Income-based components/Values	6 mths ended 31/12/19	6 mths ended 31/12/18
a) Amounts received from customers	30,823	27,535
b) Leasing activity	3,788	4,662
c) Other income [1]	52,459	48,201
Total	87,070	80,398

[1] It includes the gain related to the valuation of the Cairn put&call option, in connection with the capital injection.

SECTION 17

Heading 250: Gain (loss) on equity investments

17.1 Gain (loss) on equity investments: breakdown

Income/Value	6 mths ended 31/12/19	6 mths ended 31/12/18
1) Joint venture		
A. Incomes	—	—
1. Revaluation	—	—
2. Gains on disposal	—	—
3. Writebacks	—	—
4. Other gains	—	—
B. Expenses	—	—
1. Write-downs	—	—
2. Impairment losses	—	—
3. Losses on disposal	—	—
4. Other expenses	—	—
Net profit	—	—
2) Companies subject to significant influence		
A. Incomes	183,726	165,523
1. Revaluation	183,726	165,523
2. Gains on disposal	—	—
3. Writebacks	—	—
4. Other gains	—	—
B. Expenses	—	—
1. Write-downs	—	—
2. Impairment losses	—	—
3. Losses on disposal	—	—
4. Other expenses	—	—
Net profit	183,726	165,523
Total	183,726	165,523

SECTION 20

Heading 280: Gain (loss) on disposal of investments

20.1 Gain (loss) on disposal of investments: breakdown

Income/Value	6 mths ended 31/12/19	6 mths ended 31/12/18
A. Assets	4	(73)
- Gains on disposal	4	—
- Losses on disposal	—	(73)
B. Other assets	155	166
- Gains on disposal	155	166
- Losses on disposal	—	—
Net result	159	93

SECTION 21

Heading 300: Income tax for the year on ordinary activities

21.1 Income tax for the year on ordinary activities: breakdown

Income components/Sectors	6 mths ended 31/12/19	6 mths ended 31/12/18
1. Current tax expense (-)	(164,657)	(129,991)
2. Changes of current tax expense of previous years (+/-)	(976)	608
3. Reduction in current tax expense for the period (+)	1,138	191
3.bis Reductions in current tax expense for the period due to tax credit related to Italian Law 214/2011 (+)	—	—
4. Changes of deferred tax assets (+/-)	(4,084)	(52,027)
5. Changes of deferred tax liabilities (+/-)	122	51,618
6. Tax expense for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(168,457)	(129,601)

SECTION 23

Heading 340: Net profit (loss) attributable to minorities

23.1 Breakdown of Heading 340, "Net profit (loss) for the year attributable to minorities"

Company name	6 mths ended 31/12/19	6 mths ended 31/12/18
1. SelmaBipiemme S.p.A.	1,275	1,765
2. RAM Active Investments S.A.	245	700
3. Others	—	(2)
Totale	1,520	2,463

SECTION 25

Earnings per share

25.1 Average number of ordinary shares on a diluted basis

	6 mths ended 31/12/19	6 mths ended 31/12/18
Net profit	467,636	450,519
Avg. no. of shares in issue	868,243,576	860,117,762
Avg. no. if potentially diluted shares	5,272,723	5,163,815
Avg. no. of diluted shares	873,516,299	865,281,577
Earnings per share	0.54	0.52
Earnings per share, diluted	0.54	0.52

Part E - Information on risks and related hedging policies

INTRODUCTION

With regards to the Bank's risks governance process, a key role is played by the Risk Management division, which identifies, measures and monitors all the risks to which the Group is subject and manages and mitigates them in coordination with various business areas. Aspects relating to the division's duties and responsibilities, its independence characteristics and the role of different corporate units structures in the risks mitigation process are described below.

SECTION 1

Banking Group risks

1.1 CREDIT RISKS

QUALITATIVE INFORMATION

1. General aspects

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

Risk Management is organized around local teams based at the various Group companies, in accordance with the principle of proportionality, under the co-ordination of the Risk Management unit at parent company Mediobanca S.p.A. (the Group Risk Management unit), which also performs specific activities for the parent company scope of risk, in the same way that the local teams do for their own companies. The Group Risk Management unit, which reports directly to the Chief Executive Officer under the Group Chief Risk Officer's leadership, consists of the following sub-units: i) Group Enterprise Risk Management & Supervisory Relations, which manages the integrated Group processes (ICAAP, RAF, Recovery Plan, support in planning, etc.) and relations with the supervisory authorities, develops the quantitative methodologies for measuring and managing credit, market and counterparty risks, formulates the credit risk management policies, and carries out second-level controls; ii) Credit Risk Management, responsible for credit risk analysis, assigning internal ratings to counterparties and the loss-given default indicator; iii) Market and Liquidity Risk Management, which monitors market, counterparty, liquidity and interest rate risk on the banking book; iv) Operational Risk Management, responsible for developing and maintaining the systems for measuring and managing operational risks; v) Group Internal Validation, which defines the methodologies, processes, instruments and reporting for use in internal validation activities, and is responsible for validating the Group's risk measurement systems; vi) Wealth Risk Management, which manages risks related to the investment products and services offered to clients by the Wealth Management division; vii) Risk Management London Branch, which is responsible for controlling risks and co-ordinating operations between the London front office teams and the various risk management sub-units based at Mediobanca S.p.A.

With reference to the authorization process to use AIRB models in order to calculate the regulatory capital requirements for credit risk, the Group has been authorized by the supervisory authorities to calculate its capital requirements using its own internal rating system (based on the Probability of Default and Loss Given Default indicators) for the Mediobanca and Mediobanca International corporate loan books and for the CheBanca! Italian mortgage loan book. As an integral part of the above process, in accordance with the regulatory provisions in force on prudential requirements for credit institutions (Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 – the "CRR"), the Group has compiled a roll-out plan for the gradual adoption of the internal models for the various credit exposures (the "Roll-Out Plan"). With regard to such exposures, for which the standardized methodology for calculating regulatory capital is still used, the Group has in any case instituted internal rating models for credit risk used for managerial purposes.

2. Credit risk management policies

2.1 Organizational aspects

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

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

The Executive Committee is responsible for the ordinary management of the Bank and for co-ordination and management of the Group companies, without prejudice to the matters for which the Board of Directors has sole jurisdiction. The Risks Committee assists the Board of Directors in performing duties of monitoring and instruction in respect of the internal controls, risk management, and accounting and IT systems. The Statutory Audit Committee supervises the risk management and control system as defined by the RAF and the internal controls system generally, assessing the effectiveness of the structures and units involved in the process and co-ordinating them.

Within the framework of the risk governance system implemented by Mediobanca S.p.A., the following managerial committees have specific responsibilities in the processes of taking, managing, measuring and controlling risks: the Group Risk Management committee, responsible for issuing guidance in respect of credit, issuer, operational and conduct risk, and with powers of approval on market risks; Lending and Underwriting committee, for credit, issuer and conduct risk; Group ALM committee for monitoring the Group's ALM risk-taking and management policy (treasury and funding) and approving the methodologies for measuring exposure to liquidity and interest rate risk and the internal fund transfer rate; the Investments committee for equity investments owned and banking book equities; the New Operations committee, for prior analysis of new operations and the possibility of entering new sectors, new products and the related pricing models; the Operational Risks committee, for management of operational risks in terms of monitoring risk profiles and defining mitigation actions; the Group Wealth Investments committee, for defining market views and monitoring their track record; the Private Investments committee, for defining strategic and tactical asset allocation, and for selecting investment houses, funds and other financial instruments.

2.2 Management, measurement and control systems

In the process of defining its Risk Appetite Framework ("RAF"), Mediobanca has established the level of risk (overall and by individual type) which it intends to assume in order to pursue its own strategic objectives, and identified the metrics to be monitored and the relevant tolerance thresholds and risk limits. The RAF is the framework which sets the risks due to the company strategy (translating mission and strategy into qualitative and quantitative risk variables) in relation with the risk objectives of its operations (translating risk objectives into limits and incentives for each area).

As required by the prudential regulations, the formalization of risk objectives, through definition of the RAF, which are consistent with the maximum risk that can be taken, the business model and strategic guidance is a key factor in establishing a risk governance policy and internal controls system with the objective of enhancing the Bank's capability in terms of governing its own company risks, and also ensuring sustainable growth over the medium and long term. In this connection, the Group has developed a Risk Appetite Framework governance model which identifies the roles and responsibilities of the corporate bodies and units involved, with co-ordination mechanisms instituted to ensure the risk appetite is suitably bedded into the management processes.

In the process of defining its risk appetite, Mediobanca:

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

For the purposes of defining the RAF, based on the strategic positioning and risk profile which the Group has set itself the objective of achieving, the risk appetite statement is structured into metrics and risk thresholds, which are identified with reference to the four framework risk pillars, in line with best international practice: capital adequacy; liquidity; bank-specific factors; conduct/operational risk. The Board of Directors has a proactive role in defining the RAF, guaranteeing that the expected risk profile is consistent with the strategic plan, budget, ICAAP and recovery plan, and structured into adequate and effective metrics and limits. For each dimension analysed, the risk assumed is set against a system of objectives and limits representative of the regulatory restrictions and the Group's general attitude towards risk, as defined in accordance with the strategic planning, ICAAP and risk management processes.

In addition to identifying and setting risk appetite parameters, Mediobanca also governs the mechanisms regulating the governance and processes for establishing and implementing the RAF, in terms of updating/revising it, monitoring, and escalating reporting to the Committees and corporate bodies. Based on its operations and the markets in which it operates, the Mediobanca Group has identified the relevant risks to be submitted to specific assessment in the course of the reporting for the ICAAP (Internal Capital Adequacy Assessment Process), in accordance with the Bank of Italy instructions contained in circular no. 285 issued on 17 December 2013, "Supervisory instructions for banks" as amended, appraising its own capital adequacy from both a present and future perspective which takes into account the strategies and development of the reference scenario. As required by the provisions of the Capital Requirements Directive IV ("CRD IV"), the Mediobanca Group prepares an Internal Liquidity Adequacy Assessment Process document (ILAAP), describing the set of policies, processes and instruments put in place to govern liquidity and funding risks. The Group's objective is to maintain a level of liquidity that enables it to meet the payment obligations, ordinary and extraordinary, which it has taken on while minimizing costs at the same time. The Group's liquidity management strategy is based on the desire to maintain an appropriate balance between potential inflows and potential outflows, in the short and the medium/long term, by monitoring both regulatory and management metrics, in accordance with the risk profile defined as part of the RAF.

2.3 Methods for measuring expected losses

The internal rating models are the baseline instrument for establishing the risk parameters to be used in calculating the expected losses, subject to the regulatory indicators in particular being adjusted for aspects which are not suitable for direct use in an accounting environment (for example, reconverting the data to reflect a point-in-time approach). Indeed, the calculation of expected losses required under IFRS 9 derives from the product of the PD, LGD and EAD metrics. The calculation is based on the outstanding duration of the instruments for which the risk has undergone significant increase in credit risk ("Stage 2") or which show objective signs of impairment ("Stage 3") and on a time horizon over twelve months for the instruments not included in the previous two categories ("Stage 1").

The Group adopts qualitative and quantitative criteria to establish whether there has been a significant increase in credit risk, using backstop indicators, such as accounts which are thirty or more days overdue or have been classified as forborne, to assess whether or not they should be treated as Stage 2. Cases of low-risk instruments at the recording date are also identified, compatible with classification as Stage 1 (low credit risk exemption), where there is a BBB- rating on the Standard & Poor's scale, or a corresponding internal PD estimate. In accordance with the provisions of IFRS 9, a change in forward-looking twelve-month PD is used as the benchmark quantitative metric for identifying positions to be classified as Stage 2. The Group has verified that twelve-month PD is a reasonable proxy of increases in risk on a lifetime basis, and monitors the validity of this assumption over time. The change in PD selected to determine reclassification to Stage 2 is specific to each Group company but on average reflects the reading at least trebling since the initial recognition date.

The qualitative factors considered by the Group for reclassification to Stage 2 include: a) Mediobanca Corporate and Financial Institutions counterparties being classified in the watchlist as "amber" and "red"; b) indicators of a delay in payments for retail exposures.

The provisioning reflects the sum of the expected credit losses (over a time horizon of twelve months or to the contractual expiry date of the relevant exposure, depending on which Stage it is classified in) discounted at the effective interest rate. The expected loss is the result of the combined valuation of three scenarios (baseline, mild-positive and mild-negative), weighted according to their likelihood of occurring. The scenarios, determined at Group level, are updated once every six months. In particular, the Group defines the estimates for the baseline scenario, compiling the economic variables using an external macroeconomic model which factors in the internal expectations regarding interest rates. Levels of deviation from the baseline scenario are defined in order to determine the mild-negative and mild-positive scenarios.

2.4 Credit risk mitigation techniques

The Group has put in place a system for managing credit risk mitigation techniques, which covers the entire process of obtaining, assessing, supervising and implementing the mitigation instruments in use. The requisites for eligibility of collateral are set out in in Regulation (EU) 575/2013 of the European Parliament and of the Council as amended (the "CRR"). The Group has also compiled specific criteria by which collateral not recognized for regulatory purposes may in any case be recognized at the operating level as effective to mitigate credit risk.

The use of financial instruments or of moveable and immoveable assets as collateral and of personal guarantees is widespread in lending activity, in particular as follows:

- Mortgage guarantees: when mortgages are taken out, valuations are required from independent experts; specific procedures are also in place to calculate the fair value of the asset and monitor it at regular intervals, based on market indicators furnished by external information providers; further valuations are also required in cases where significant departures are noted from the most recent valuation available;
- Pledges: pledges are valued according to the market value for listed financial instruments, or on the basis of their expected realizable value; prudential haircuts are then applied to the values thus calculated which differ according to the financial instruments over which the pledge has been made.

The Group also adopts risk mitigation policies through entering into netting and collateral agreements, checking to ascertain that the agreements are legally valid and meet the regulatory criteria in force to be recognized for prudential purposes.

Credit risk mitigation activities are governed by specific directives adopted by the Group companies concerned. The specific nature of the products originated by the individual businesses and the forms of collateral securing them, as well as the different organizational models necessarily adopted by the various Group companies, means that different CRM processes must coexist within the Group as a whole. In particular, the phases of obtaining the collateral, checking, reporting on and assessing its eligibility may be performed by different units. However, the role of Risk Management in establishing eligibility criteria for regulatory and management purposes remains central, with Group Risk Management responsible for supervising consistency overall. Controls on the mitigation instruments are included in the general risk control and management framework.

3. Non-performing credit exposures

The Mediobanca Group is distinguished by its prudent approach to risk, which is reflected in the fact that its NPL levels are among the lowest seen in the Italian national panorama. Our management of non-performing loans also helps to keep the level of them on the books low, including the use of different options typically available, such as disposals (of both individual assets and portfolios), collateral enforcement activity, and negotiating restructuring agreements.

The Group has combined the concepts of "default" provided for by the regulatory capital requisites, "non-performing" required for the supervisory statistical reporting, and "stage 3 (or credit-impaired) assets" instituted by the accounting standards in force into a single, standardized definition. The definition incorporates the following documents in this connection: EBA Guidelines on the definition of default (EBA/GL/2016/07), Commission Delegated Regulation (EU) 2018/171 of 19 October 2017, and Regulation (EU) 2018/1845 of the European Central Bank of 21 November 2018. This approach is then adopted differently within the individual Group companies, which, depending on the specific monitoring processes they have implemented, may choose to detect non-performing before the 90 days past due status by execution of individual analysis or by application of automatic algorithms. Equally, the quantification of the accounting adjustment of non-performing exposures may either reflect analysis of individual positions, or be based on identifying clusters of similar positions, depending on the specific nature of the Group company's own business.

At the monitoring stage the possible need to write off positions is also assessed, i.e. cases in which the credit may not be recoverable, in part or in whole. Accounts may be written off even before legal action to recover the asset is completed, and this does not necessarily entail waiving the Group's legal right to recover the amount due to it.

4. Financial assets subject to commercial renegotiations and concessions

Financial assets may be subject to contractual amendments based primarily on two different needs: to maintain a mutually satisfactory commercial relationship with clients, or to re-establish/improve the credit standing of a customer in financial difficulty, or about to become so, to help them meet the commitments they have entered into.

The former case, defined here as a commercial renegotiation, recurs at the point where the client might look to end the relationship, as a result of its own high credit standing and of favourable market conditions. In a situation such as this, changes can be made at the client's initiative or on a preventative basis with a view to maintaining the relationship with the client by improving the commercial terms offered, without having to forfeit a satisfactory return on the risk taken and in compliance with the general strategic objectives set (e.g. in terms of target customers).

The second case, which corresponds to the notion of forbearance measure, is detected in accordance with the specific regulations when contractual amendments are made, refinancing arrangements entered into, or when clauses provided for in the contract are exercised by the client.

For an exposure to be classified as forborne, the Group assesses whether or not, such concessions (typically rescheduling expiry dates, suspending payments, refinancings or waivers to covenants) occur as a result of a situation of difficulty which can be traced to the accumulation, actual or potential (in the latter case if the concessions are not granted), of more than thirty days past due. Assessment of the borrower's financial difficulties is based primarily on individual analysis carried out as part of corporate banking and leasing business, whereas certain predefined conditions apply in the case of consumer credit activities (e.g. whether the borrower has been made unemployed, cases of serious illness and/or divorce and separation).

Both non-performing exposures and exposures for which the difficulties recorded are still compatible with their being treated as performing may be classified as forborne. However, as represented in the previous sections, an account being assigned the status of “forborne” is considered to be incompatible with its being classified as Stage 1. For this reason, the minimum periods of time that an exposure can be assigned the “forborne” status stipulated in the regulations in force on supervisory statistical reporting are reflected in the prudent transitions between Stages 1, 2 and 3. For instance, when concessions have been made in respect of exposures at Stage 2, the exposures in question cannot return to Stage 1 in less than two years, in line with the minimum duration of two years provided for the “forborne performing exposure” status (during this period, the status can only be downgraded to reflect the exposure’s transition to non-performing). Similarly, exposures in Stage 3 cannot be returned to Stage 1 in less than three years, in line with the requirement for “non-performing forborne exposure” to retain this status for at least one year, followed (unless the non-performing status requires to be prolonged) by the minimum duration of two years for the “forborne performing exposure” status.

To return to Stage 1, exposures must give proof of having fully recovered their credit quality and the conditions requiring them to be classified as “forborne” must have ceased to apply. Accordingly, the monitoring to detect any new needs for exposures to transition back to Stages 2 or 3 is no different from the monitoring reserved to exposures which have not moved from Stage 1. Nonetheless, “forborne” exposures that have returned from Stage 3 to Stage 2 are subject to enhanced monitoring, for which, if there is a delay of more than thirty days in payment or if a new forbearance measure is applied, the exposure concerned returns immediately to Stage 3 on prudential grounds.

5. Details by individual business segment

Corporate activity

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

With reference to the correct application of credit risk mitigation techniques, specific activities are implemented to define and meet all the requirements to ensure that the real and personal guarantees have the maximum mitigating effects on the exposures, inter alia to obtain a positive impact on the Bank's capital ratios.

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

Loans originated by the business divisions are assessed by the Risk Management unit and regulated in accordance with the powers deliberated and the policy for managing most significant transactions, through the different operating levels.

The Credit Risk Management unit also carries out a review of the ratings assigned to the counterparties at least once a year. Approved loans must also be confirmed by the approving body with the same frequency.

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

Provisions are calculated individually for non-performing items and based on PD and LGD indicators for the performing portfolio. For individual provisioning, valuations based on discounted cash flows and balance-sheet multiples are applied to businesses which constitute going concerns, while asset valuations are used for companies in liquidation. For provisioning in respect of performing loans, the PD parameters are obtained starting from through-the-cycle matrices used to develop the internal rating model, which are then converted to point-in-time versions. The forward-looking component is factored in by applying the internal scenarios defined to the PD estimates. LGD readings are calculated based on the modelling used for the regulatory calculation, with the downturn effect removed.

Leasing

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

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

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

With a view to aligning risk management with the current complex financial and market scenario, the approval rights have also been revised and the measurement and control processes enhanced through the institution of regular valuations of performing loans, including from an early warning (i.e. watch list) perspective. Sub-standard accounts are managed in a variety of ways which prioritize either recovery of the amount owed or the asset under lease, according to the specific risk profile of the account concerned.

The quantification of provisions for non-performing accounts requires individual analysis to establish the estimated loss, taking into account inter alia the value of the assets resulting from regularly updated expert valuations, revised downwards on a prudential basis, and/or any other form of collateral. Scenarios for sales strategies are also factored in. The portfolio of performing accounts is measured on the basis of internal PD and LGD parameters. To define the PD parameters, through-the-cycle transition matrices for the management models based on internal data are used, which are then converted to point-in-time versions. The forward-looking component is factored in by applying the internal scenarios defined to the PD estimates. The LGD estimates for the exposures differ according to type of product (vehicle leasing, core goods, yachts and property), and are subjected to the same macroeconomic scenarios defined internally to obtain forward-looking data.

Consumer credit

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

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

Provisioning is determined collectively on the basis of PD and LGD metrics which are estimated using internal models. To estimate the PD parameters, the through-the-cycle transition matrices based on management models are used. The matrices have been calculated separately by product type, according to the specific internal management process involved (e.g. credit cards, special purpose loans, low-risk personal loans, high-risk personal loans, small tickets and salary-backed finance to public entities, private individuals or pensioners). The forward-looking component is factored in using a specific macroeconomic model based on scenarios internal to the Group. The LGD parameters are defined based on the internal models estimated on the basis of internal rates of recovery experienced.

Factoring

Factoring, a business in which MBFACTA specializes, includes both traditional factoring (i.e. acquisition of short-term trade receivables, often backed by insurance cover) and instalment factoring (acquiring loans from the selling counterparty, to be repaid via monthly instalments by the borrowers whose accounts have been sold, which in virtually all cases is a retail customer).

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

Non-performing exposures to corporate counterparties are quantified analytically, while non-performing exposures to retail counterparties are based on the identification of clusters of exposures with similar characteristics. The portfolio of performing assets is valued on the basis of PD and LGD parameters. PD parameters are defined by using the revised parameters supplied by external providers or internal estimates based on the retail portfolio. For transactions valued by Mediobanca S.p.A. as part of its corporate business, the parameters set in the parent company's process apply.

NPL business

This business is performed by MBCredit Solutions, which operates on the NPLs market, acquiring non-performing loans on a no recourse basis at a price well below the nominal value. Credit risk is managed by a series of consolidated regulations, structures and instruments in line with the Group policies.

The company pursues the objective of splitting up the client portfolio according to selective criteria which are consistent with the objectives in terms of capital and risk/return indicated to it by Mediobanca S.p.A.

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

Private banking

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

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

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

Provisioning for all non-performing contracts is made on an individual basis, and takes into account the value of the collateral. Provisions set aside in respect of the performing loan book are based on the estimated PD and LGD values distinguished by counterparty and whether or not there are guarantees.

Mortgage lending

Mortgage lending is provided primarily by CheBanca!, and processing and approval exposures in this area are performed centrally at head office. The applications are approved, using an internal rating model, based on individual appraisal of the applicant's income and maximum borrowing levels, as well as the value of the property itself. Risks are monitored on a monthly basis, ensuring the company's loan book is regularly assessed.

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

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

Non-performing accounts are managed, for out-of-court credit recovery procedures, by a dedicated organizational structure with the help of external collectors. In cases where a borrower becomes insolvent (or in fundamentally similar situations), the property enforcement procedures are initiated through external lawyers. Internal procedures requires that cases with four or more unpaid instalments (not necessarily consecutive), or cases with persistent irregularities or interest suspended at the legal rate, are designated as unlikely to pay accounts, and classified as bad loans once the ineffectiveness of the recovery actions has been certified.

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

Provisioning is determined analytically for bad loans and based on clusters of similar positions for unlikely to pay, other overdue and performing accounts. The analytical provision for bad loans takes account the of expert valuations of the assets (deflated on a prudential basis) as well as the timing and costs of the recovery process. The PD parameters are obtained starting from through-the-cycle matrices used to develop the internal model, which are then converted to point-in-time versions. The forward-looking component is factored in by applying the internal scenarios to the PD estimates. The LGD parameters are calculated based on the modelling used for the regulatory calculation, with the downturn effect removed. The inclusion of forward-looking elements in this case is based on satellite models.

QUANTITATIVE INFORMATION

SECTION 1 – CONSOLIDATED ACCOUNTING RISKS

The accounting consolidation area includes the line-by-line consolidation of controlled entities Compass RE (a reinsurance company) and Ricerche e Studi (other company), which under the banking group method of consolidation are accounted under the equity method.

A. Credit quality

A.1 Non-performing and performing accounts: amounts, adjustments, trends and segmentation by earnings

A.1.1 Financial assets by portfolio and credit quality (book value)

Portfolios/quality	Bad loans *	Unlikely to pay *	Non performing overdue exposures (NPLs)	Performing overdue exposures (performing) [1]	Other performing exposures (performing)	Total
1. Financial assets at amortized cost	425,116	611,957	145,695	333,037	56,423,989	57,939,794
2. Financial assets at fair value with impact taken to comprehensive income	—	—	—	—	3,879,877	3,879,877
3. Financial assets designated at fair value	—	—	—	—	51,993	51,993
4. Other financial assets mandatorily at fair value	181	13,247	—	—	32,871	46,299
5. Financial assets being sold	—	—	—	—	—	—
Total 31/12/19	425,297	625,204	145,695	333,037	60,388,730	61,917,963
Total 30/6/19	468,625	670,166	57,990	465,977	58,982,830	60,645,588

[1] Regarding the net exposure in overdue performing loans, the gross value of the unpaid instalments is €89.4m, €59.6m of which is attributable to leasing (0.11% of the performing loans in this segment), and €59.3m to factoring (0.11%). The item also includes net exposures being renegotiated under the terms of collective agreements in amounting to €8.2m, consisting primarily of mortgage loans totalling €7.9m.

* Includes the NPLs held by MBCredit Solutions in an amount of €351.1m, €349.2m of which bad loans.

A.1.2 Financial assets by portfolio/credit quality (gross/net values)

Asset portfolio/ quality	Non-performing loans				Performing loans			Total (net exposition)
	Gross exposure	Accumulated impairment	Net exposure	Overall partial write-off	Gross exposure	Accumulated impairment	Net exposure	
1. Financial assets at amortized cost	2,086,634	903,866	1,182,766	6,023	57,242,609	485,583	56,757,026	57,939,794
2. Financial assets at fair value with impact taken to comprehensive income	—	—	—	—	3,881,902	2,025	3,879,877	3,879,877
3. Financial assets designated at fair value	—	—	—	—	X	X	51,933	51,993
4. Other financial assets mandatorily at fair value	98,607	85,179	13,428	—	X	X	32,871	46,299
5. Financial assets being sold	—	—	—	—	—	—	—	—
Total 31/12/19	2,185,241	989,045	1,196,196	6,023	61,124,511	487,608	60,721,767	61,917,963
Total 30/6/19	2,279,854	1,083,073	1,196,781	9,948	59,709,827	518,672	59,448,807	60,645,588

Asset portfolio/quality	Assets with obviously poor credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	—	—	8,660,119
2. Hedging Derivatives	—	—	341,899
Total 31/12/19	—	—	9,002,018
Total 30/6/19	—	—	7,363,462

The non-performing items include €351.1m attributable to MBCredit Solutions, i.e. acquisitions of non-performing loans, with a nominal amount of €5.3bn as at 31 December 2019. Of these items, €5.7m (with a nominal value of €516.3m) involve assets acquired from other Group companies, mostly those operating in consumer banking.

Information on sovereign debt exposures

*A.1.2a Exposures to sovereign debt securities by state, counterparty and portfolio **

Portfolio/quality	Non performing loans				*Performing*			Total net exposure [1]
	Gross exposure	Individual adjustments	Collective adjustments	Net exposure	Gross exposure	Collective adjustments	Net exposure	
1. Financial assets held for trading	—	—	—	—	X	X	(1,191,274)	(1,191,274)
France	—	—	—	—	X	X	(737,792)	(737,792)
Italy	—	—	—	—	X	X	306,149	306,149
Germany	—	—	—	—	X	X	(771,864)	(771,864)
UK	—	—	—	—	X	X	6,060	6,060
Others	—	—	—	—	X	X	6,173	6,173
2. Financial assets designated with impact taken to other comprehensive income	—	—	—	—	3,035,294	—	3,035,294	3,035,294
Italy	—	—	—	—	1,570,358	—	1,570,358	1,570,358
Germany	—	—	—	—	750,728	—	750,728	750,728
United States	—	—	—	—	439,438	—	439,438	439,438
France	—	—	—	—	151,728	—	151,728	151,728
Others	—	—	—	—	123,042	—	123,042	123,042
3. Financial assets at amortized cost	—	—	—	—	1,813,113	—	1,813,113	1,813,113
Italy	—	—	—	—	1,190,625	—	1,190,625	1,190,625
France	—	—	—	—	366,941	—	366,941	366,941
Spain	—	—	—	—	110,612	—	110,612	110,612
United States	—	—	—	—	62,459	—	62,459	62,459
Others	—	—	—	—	82,476	—	82,476	82,476
Total 31/12/19	—	—	—	—	4,848,407	—	3,657,133	3,657,133

* Does not include financial or credit derivatives.

[1] The net exposure includes positions in securities (long and short) recognized at fair value (including the outstanding accrual) except for assets held to maturity which are stated at amortized cost, the implied fair value of which is €31.3m.

A.1.2.b Exposures to sovereign debt securities by portfolio

Portfolio/quality	*Trading Book* [1]			*Banking Book* [2]			
	Nominal value	Book value	Duration	Nominal value	Book value	Fair value	Duration
Italy	356,428	306,149	1.83	2,740,884	2,760,983	2,779,390	3.53
Germany	(724,250)	(771,864)	4.16	790,000	800,909	801,123	1.55
Spain *	15,000	16,374	10.27	180,000	182,129	184,410	2.79
United States	—	—	—	498,487	501,896	503,134	0.44
France	(671,928)	(737,792)	3.29	515,400	518,669	521,319	1.62
Others	(4,905)	(4,141)	—	86,377	83,821	90,349	—
Total 31/12/19	(1,029,655)	(1,191,274)		4,811,148	4,848,407	4,879,725	

* The figure does not include forward sales with a notional amount of €80m.

[1] Does not include sales of €76m on *Bund/Bobl/Schatz* futures (Germany), with a positive fair value of €1.1m; or sales of €36.9m on the *BPT* future (Italy) with a positive fair value of €0.3m. Net hedge buys of €855m have also not been included (virtually all of which allocated to France country risk).

[2] Item does not include Greek GDP-linkers securities in a notional amount of €127m.

B. Information on structured entities

In accordance with the provisions of IFRS 12, the Group treats the companies it sets up in order to achieve a limited or well-defined objective, which are regulated by contractual agreements often imposing narrow restrictions on the decision-making powers of its governing bodies, as structured entities (special purpose vehicles or entities). Such entities are therefore structured to ensure that the voting rights (or similar) are not the main factor in establishing who controls them (the activities are often governed by contractual agreements provisions agreed when the entity itself is structured and are therefore difficult to change).

B.1 Consolidated structured entities

As stated in Part A – Section 3 of the Notes to the Accounts, the securitization SPVs instituted pursuant to Italian law 130/99 – namely Quarzo S.r.l. and Quarzo CQS S.r.l. – are included in the Group's area of consolidation, as is MB Funding Lux S.A., a company incorporated under Luxembourg law and 100%-owned by Mediobanca S.p.A..

B.2 Structured entities not consolidated in accounting terms

The Group has no other interests in structured entities to report, apart from the stock units held in UCITs in connection with its activity as sponsor and as investor in seed capital, the following investments in particular:

– Funds distributed by CheBanca! (€5m invested in the four Yellow Funds SICAV segments);
– Funds managed by Cairn Capital in a total amount of €186.8m, as follows: Cairn Loan Investments I and II, Cairn European Loan Fund, Cairn Strata Credit Fund and Cairn Mediobanca Strata UCITS, plus direct investments totalling €2m;
– Funds managed by RAM Active Investments in a total amount of €166.6m (as part of the Seed Capital Agreement in place with Mediobanca S.p.A.) in the following funds: RAM Global Sustainable Income Equities, RAM Asia Bond Total Return, RAM Global Multi-Asset, and RAM Systematic IO, plus direct investments totalling €0.3m;
– Funds in the funds managed by Mediobanca SGR in a total amount of €32.4m (Mediobanca Fondo per le Imprese II, Mediobanca CoCo Credit Fund, Mediobanca Social Impact and Mediobanca Global Multimanager 15 and 35).

B.2.1 Structured entities consolidated for regulatory purposes

As at 31 December 2019 there was no disclosure to be made as no instances of this type of interest apply in the case of Mediobanca.

B.2.2 Other structured entities

The process of delegating and sub-delegating investment activity, along with the broad powers of discretion afforded to delegates and the temporary nature of the investments (24 months) means that the ability to impact on returns stipulated by IFRS 10 as a precondition for establishing control of SICAVs does not apply in these cases; hence Mediobanca does not have direct control.

Asset-backed SPEs

The entities in this case have been set up to acquire, build or manage actual or financial assets, for which the prospect of recovering the credit concerned depends largely on the cash flows to be generated by the assets.

As part of its ordinary lending operations, the Group finances asset-backed SPEs but without holding any form of direct equity stake or interest in them, hence this does not qualify as acting as sponsor.

Hold to Collect lending transactions, recorded under asset heading 40, "Financial assets recognized at amortized cost – due from customers: composition", in which the Group is the sole lender, involve an amount of €402.5m, plus €3.8m in notes booked as Hold to Collect and Sell, and €52m in notes mandatorily recognized at fair value.

D.3 Leveraged finance transactions

The definition of leveraged finance transactions is aligned with that provided in the Guidance on leveraged transactions issued by the ECB in May 2017, and has been shared with and reviewed by the regulator. The definition comprises deals with at least one of the following characteristics:

- Credit exposures to parties for which the total gross debt (on balance sheet and committed off balance sheet) to Ebitda ratio is more than 4x;
- Credit exposures to Group companies (with more than 50% of the share capital owned or possessed) by a financial sponsor (i.e. an investment company which carries out acquisitions of companies, inter alia financed by debt, with a medium-term time horizon).

As at 31 December 2019 the Group's exposure to this type of transaction amounted to €5,378.7m [1], lower than the €5,690.8m (-5.5%) reported at end-June 2019, and accounting for just under one-third of the corporate loan book. Of this total, only 11.5% were pure LBOs (€616m), while 8.6% deals were classified as non-performing (four deals worth €461m). During the period under review, there were repayments totalling €1,699.1m (with 19 deals being

([1]) Plus off-balance-sheet exposures (commitments and derivatives) totalling €878m (30/6/19: €776m).

closed), against investments of €1,386.9m (€866m of which in respect 18 new deals opened and the remainder calls on previous commitments). The portfolio continues to be concentrated on domestic transactions (40% of the total) and transactions with clients from other EU member states (43%).

SECTION 2 - PRUDENTIAL CONSOLIDATED RISKS

A. Credit quality

A.1 Non-performing and performing accounts: amounts, adjustments, trends and segmentation by earnings

A.1.3 Prudential consolidation - financial assets, commitments to end-funds and financial guarantees given: transfers between different stages of credit risk (gross and nominal values)

Portfolios/Risk stages	Gross exposure / Par value					
	Passages from stage 1 and stage 2		Passages from stage 2 and stage 3		Passages from stage 1 and stage 3	
	From stage 1 and stage 2	From stage 2 and stage 1	From stage 2 and stage 3	From stage 3 and stage 2	From stage 1 and stage 3	From stage 3 and stage 1
1. Financial assets valued at amortized cost	1,108,319	617,238	308,641	104,653	115,036	3,278
2. Financial assets valued at fair value with impact taken to other comprehensive income	—	—	—	—	—	—
3. Financial assets held for sale	—	—	—	—	—	—
4. Commitments to disburse funds and financial guarantees given	9,675	9,627	202	239	720	389
Total 31/12/19	1,117,994	626,865	308,843	104,892	115,756	3,667
Total 30/6/19	1,543,091	597,975	262,074	76,184	199,436	2,918

A.1.4 Prudential consolidation - Cash and off-balance-sheet exposures to banks: gross and net values

Type of exposure/assets	**Gross exposures**		**Accumulated impairment and provisions**	**Net Exposure**	**Total partial write-off**
	Non-performing loans	**Performing loans**			
A. Cash credit exposures					
a) Bad loans	—	X	—	—	—
- of which: forborne exposures	—	*X*	—	—	—
b) Unlikely to pay	—	X	—	—	—
- of which: forborne exposures	—	*X*	—	—	—
c) Overdue exposures (NPLs)	—	X	—	—	—
- of which: forborne exposures	—	*X*	—	—	—
d) Overdue exposures (performing)	X	—	—	—	—
- of which: forborne exposures	*X*	—	—	—	—
e) Other exposures (performing)	X	9,720,445	(2,618)	9,717,827	—
- of which: forborne exposures	*X*	—	—	—	—
Total (A)	—	9,720,445	(2,618)	9,717,827	—
B. Off-balance-sheet exposures					
a) Non-performing	—	X	—	—	—
b) Performing	X	8,437,064	—	8,437,064	—
Total (B)	—	8,437,064	—	8,437,064	—
Total (A+B)	—	18,157,509	(2,618)	18,154,891	—

A.1.5 Prudential consolidation - Cash and off-balance-sheet exposures to customers: gross and net values

Type of exposure/Amounts	Gross exposures		Total value adjustments and total provisions	Net exposure	Total Write-off
	Non-performing	Performing			
A. Credit exposures for cash					
a) Bad loans*	724,830	X	(299,533)	425,297	5,572
- of which: forborne exposures	*90,260*	*X*	*(79,233)*	*11,027*	*204*
b) Unlikely to pay*	1,158,197	X	(532,994)	625,203	451
- of which: forborne exposures	*754,525*	*X*	*(319,511)*	*435,014*	—
c) Overdue exposures (NPLs)	302,215	X	(156,519)	145,696	—
- of which: forborne exposures	*65,480*	*X*	*(39,527)*	*25,953*	—
d) Overdue exposures (performing)	X	380,837	(47,801)	333,036	—
- of which: forborne exposures	*X*	*19,759*	*(3,048)*	*16,711*	—
e) Other performing exposures	X	56,385,293	(437,188)	55,948,105	—
- of which: forborne exposures	*X*	*376,916*	*(29,756)*	*347,160*	—
Total (A)	2,185,242	56,766,130	(1,474,035)	57,477,337	6,023
B. Non-balance sheet credits exposures					
a) Impaired	20,609	X	(3,173)	17,436	—
b) Not impaired exposures	X	18,576,905	(8,408)	18,568,497	—
Total (B)	20,609	18,576,905	(11,581)	18,585,933	—
Total (A+B)	2,205,851	75,343,035	(1,485,616)	76,063,270	6,023

* Includes NPLs acquired by MBCredit Solutions.

As at 31 December 2019 non-performing forborne loans amounted to €472m (30/6/19: €526.7m), with a coverage ratio of 48.1% (47.4%), while performing loans qualifying as forborne reduced to €363.9m (€605.2m) with a coverage ratio of 8.3% (7.3%).

Overall the non-performing forborne positions represent 1% (1.14%) of the total customer loan book, and the performing forborne exposures 0.77% (1.31%).

B. Exposures distribution and concentration

B.1 Prudential consolidation - Cash and off-balance sheet exposures to customers by sector

Exposures/Counterparts	Public administration		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Families	
	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment
A. Balance sheet credit exposures										
A.1 Bad loans	—	—	570	(9,111)	—	—	78,142	(24,058)	346,585	(266,364)
- of wich: forborne exposures	—	—	*181*	*(7,075)*	—	—	*6,524*	*(7,022)*	*4,322*	*(65,136)*
A.2 Unlikely to pay	11,306	(3,875)	2,269	(1,205)	—	—	391,244	(233,532)	220,384	(294,382)
- of wich: forborne exposures	—	—	*87*	*(205)*	—	—	*313,297*	*(203,360)*	*121,630*	*(115,946)*
A.3 Overdue exposures (NPLs)	4,624	(449)	242	(122)	—	—	25,456	(5,427)	115,374	(150,521)
- of wich: forborne exposures	—	—	—	—	—	—	*381*	*(217)*	*25,572*	*(39,310)*
A.4 Performing exposures	9,378,765	(2,204)	6,592,915	(6,367)	946,907	(1,403)	15,413,948	(52,132)	24,895,513	(424,286)
- of wich: forborne exposures	—	—	*32,278*	*(581)*	—	—	*166,991*	*(8,380)*	*164,602*	*(23,843)*
Total (A)	9,394,695	(6,528)	6,595,996	(16,805)	946,907	(1,403)	15,908,790	(315,149)	25,577,856	(1,135,553)
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	—	—	—	—	—	—	16,300	(2,993)	1,136	(180)
B.2 Performing exposures	1,300,998	—	6,040,127	(711)	459,577	—	*9,437,711*	(3,923)	1,789,661	(3,774)
Total (B)	1,300,998	—	6,040,127	(711)	459,577	—	9,454,011	(6,916)	1,790,797	(3,954)
Total (A+B) 31/12/19	10,695,693	(6,528)	12,636,123	(17,516)	1,406,484	(1,403)	25,362,801	(322,065)	27,368,653	(1,139,507)
Total (A+B) 30/6/19	12,292,681	(6,525)	12,947,022	(18,933)	1,574,703	(1,846)	25,020,633	(365,341)	25,777,187	(1,218,944)

B.2 Prudential consolidation - Cash and off-balance sheet exposures to customers by geography

Exposure / Geographical	Italy		Other european countries		United States		Asia		Rest of the world	
	Net exposures	Accumulated impairment	Net exposures	Accumulated impairment	Net exposures	Accumulated impairment	Net exposures	Accumulated impairment	Net exposures	Accumulated impairment
A. Balance sheet credit exposures										
A.1 Bad loans	421,423	(296,506)	2,979	(2,871)	355	(13)	59	(15)	481	(128)
A.2 Unlikely to pay	566,859	(516,298)	58,102	(16,591)	242	(105)	—	—	—	—
A.3 Overdue exposures (NPLs)	142,605	(156,376)	3,031	(130)	60	(13)	—	—	—	—
A.4 Performing exposures	42,411,300	(454,444)	11,476,838	(16,294)	2,066,671	(8,133)	95,634	(4,777)	230,698	(1,341)
Total (A)	43,542,187	(1,423,624)	11,540,950	(35,886)	2,067,328	(8,264)	95,693	(4,792)	231,179	(1,469)
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	17,436	(3,173)	—	—	—	—	—	—	—	—
B.2 Performing exposures	7,941,876	(4,961)	9,622,130	(3,047)	763,420	(151)	158,332	(249)	82,739	—
Total (B)	7,959,359	(8,134)	9,622,130	(3,047)	763,420	(151)	158,332	(249)	82,739	—
Total (A+B) 31/12/19	51,501,499	(1,431,758)	21,163,080	(38,933)	2,830,748	(8,415)	254,025	(5,041)	313,918	(1,469)
Total (A+B) 30/6/19	53,399,786	(1,564,201)	18,809,502	(34,131)	3,303,772	(8,728)	246,356	(453)	278,107	(2,230)

B.3 Prudential consolidation - Cash and off-balance sheet exposures to banks by geography

Exposures / Geographical Area	Italy		Other european countries		United States		Asia		Rest of the world	
	Net exposures	Total write-downs	Net exposures	Total write-downs	Net exposures	Total write-downs	Net exposures	Total write-downs	Net exposures	Total write-downs
A. Balance sheet credit exposures										
A.1 Bad loans	—	—	—	—	—	—	—	—	—	—
A.2 Unlikely to pay	—	—	—	—	—	—	—	—	—	—
A.3 Overdue exposures (NPLs)	—	—	—	—	—	—	—	—	—	—
A.4 Performing exposures	3,325,828	(2,269)	6,330,508	(338)	56,864	(9)	3,533	(2)	1,094	—
Total (A)	3,325,828	(2,269)	6,330,508	(338)	56,864	(9)	3,533	(2)	1,094	—
B. Off-balance sheet credit exposures										
B.1 Non performing exposures	—	—	—	—	—	—	—	—	—	—
B.2 Performing exposures	601,193	—	7,835,871	—	—	—	—	—	—	—
Total (B)	601,193	—	7,835,871	—	—	—	—	—	—	—
Total (A+B) 31/12/19	3,927,021	(2,269)	14,166,379	(338)	56,864	(9)	3,533	(2)	1,094	—
Total (A+B) 30/6/19	3,830,385	(1,656)	15,730,689	(871)	49,739	(11)	5,357	(2)	399	(3)

B.4a Credit risk indicators

	31/12/19	30/6/19
a) Gross bad loans/total loans	1.40%	1.72%
b) NPLs/cash exposures	3.80%	4.09%
c) Net bad loans/regulatory capital [1]	5.27%	5.80%

[1] This item includes the NPL portfolios acquired and held by MBCredit Solutions, which decreased from €366.6m to €349.2m.

(€ '000)

	30/6/19	31/12/19
	Gross value (prudential scope of consolidation)	
Loans	43,731.1	45,535.6
NPLs	1,782.3	1,831.8
Loans and advances to customers	45,513.4	47,367.4
NPLs purchased by MBCredit Solutions	368.6	351.1
Treasury financial assets *	10,105.0	8,944.7
Total Loans and Receivables (FINREP)	55,987.0	56,663.2
Gross NPL ratio Finrep %	3.84%	3.85%

* In line with the EBA Risk Dashboard guidance, the definition does not include cash but includes untied deposits held at central banks.

At 31 December 2019, the Mediobanca Group reported a Finrep gross NPL ratio [2] of 3.85%, basically unchanged since 30 June 2019 (3.84%) and in line with the EBA average [3], confirming the Group as leader in the Italian market and one of the best players in Europe [4]. The Finrep gross NPL ratio calculated without the NPLs acquired by MBCredit Solutions totalled 3.23% (30/6/19: 3.18%).

[2] The gross NPL ratio is calculated as defined in the EBA Risk Dashboard, as the ratio between the gross book value of the NPLs (loans and advances) and the total amount of loans and advances. Source: EBA Risk Dashboard, Risk Indicators in the Statistical Annex (AQT_3.2).

[3] The weighted average of NPL ratios for banks included in the EBA panel is 2.9%. Source: EBA Risk Dashboard (data as at 3Q 2019). The Mediobanca Group uses a more conservative definition than the EBA in terms of NPLs as a percentage of total loans, as the denominator used does not include treasury loans which are performing but highly volatile.

[4] Source: EBA Transparency Exercise, June 2019.

B.4b Large risks

	31/12/19	30/6/19
a) Book value	12,859,424	11,220,374
b) Weighted value	8,260,547	7,767,800
c) No. of exposures	8	8

At the reporting date, aggregate exposures (including market risks and equity investments) to a total of eight groups of clients (unchanged from last year) were in excess of 10% of the regulatory capital, for a gross exposure of €12.9bn (€8.3bn, taking into account guarantees and weightings), higher than the figures at end-June 2019 (which were €11.2bn and €7.8bn respectively). In detail the eight exposures are to two industrial groups, one insurance company and five banking groups.

C. Securitization

QUALITATIVE INFORMATION

The Group's portfolio of securities deriving from securitizations by other issuers totalled €239.5m, €136.9m of which as part of the banking book (almost all HTC recognized at amortized cost) and €102.6m as part of the trading book (recognized at fair value through profit and loss).

The banking book decreased from €156.4m to €136.9m, and consists of €132.8m in senior deals, the main ones of which were: Unicredit-FINO, (€46.9m), Towers, with Intesa receivables as the underlying instrument (€43.5m), Menorca (€18.8m) and Belvedere (€14.5m). The banking book also includes mezzanine deals worth €3.3m and junior deals of €0.8m, which are the retention shares of transactions in which Mediobanca acted as sponsor.

The trading book increased in value from €91.4m to €102.6m: during the six months under review virtually the whole book was renewed (acquisitions totalling €151.9m, sales and redemptions of €142.9m), including transfer of the Belvedere securities in the Negentropy fund organized by Mediobanca. The senior tranches amount to €44.8m, the main ones of which include Banna (UK performing loans of €14.8m) and Sunri (Italian performing loans of €10m); the mezzanine securities total €20.2m (mainly Italian performing loans), while the junior securities are worth €5.8m (€3.4m of which domestic and €2.4m by Spanish issuers). The total includes a portfolio of CLOs amounting to €31.8m (€28.7m of which in the form of mezzanine and €3.1m junior tranches).

Mediobanca also has exposures to:

- Cairn Loan Investments LLP (CLI and CLI II), a Cairn-branded CLO management company, which, in order to comply with the prudential regulations (Article 405 of Regulation (EU) 585/2013), invests in the junior tranches of the CLOs it manages, with an initial investment of approx. €34m, €4m of which paid in during the six months under review;
- Italian Recovery Fund, a closed-end alternative investment fund (AIF) incorporated under Italian law and managed by Quaestio Capital Management SGR, which is currently invested in four securitizations (Valentine, Berenice, Cube and Este) with Italian banks' NPLs as the underlying instrument; the €30m commitment has to date been drawn as to €28m;
- Negentropy RAIF – Debt Select Fund, an alternative investment fund instituted under Luxembourg law and managed by Negentropy Capital Partners Limited, to which the shares in the senior Belvedere tranches held by Mediobanca were transferred (€110m) in order to expand the investor base; as at 31 December 2019 the direct investment in the fund had reduced to €75.6m.

QUANTITATIVE INFORMATION

C.2 Prudential consolidation - exposures from main customer securitizations by asset type/ exposure

Type of securitized assets/Exposure	Cash exposure					
	Senior		Mezzanine		Junior	
	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks
A. Italy NPLs (residential mortgages and real estates)	61,326	—	2,000	—	640	—
B. Spain NPLs (residential mortgages and real estates)	18,778	—	—	—	—	—
C. Ireland NPLs (residential mortgages and real estates)	9,950	194	—	—	—	—
D. Italy Performing Loans	63,574	31	17,622	108	3,351	—
E. Netherlands Performing Loans	9,159	—	1,287	—	193	(5)
F. Spain Performing Loans	—	—	2,602	2	2,402	2
G. UK Performing Loans	14,842	—	—	—	—	—
I. Other receivables	—	—	28,684	61	3,099	(8)
Total 31/12/19	177,629	225	52,195	171	9,685	(11)
Total 30/6/19	220,594	103	26,434	(6)	841	—

C.3 Prudential consolidation - Interests in vehicle companies

Name	Head office	Type of consolidation	Assets			Liabilities		
			Receivables	Debt securities	Other items	Senior	Mezzanine	Junior
Quarzo 6 - Quarzo S.r.l.	Milan	Accounting	2,529,630	—	315,692	2,147,486	—	672,012
Quarzo 7 - Quarzo S.r.l.	Milan	Accounting	1,405,774	—	100,810	1,215,000	—	290,900
Quarzo 8 - Quarzo S.r.l.	Milan	Accounting	664,914	—	114,113	619,951	—	156,735
Quarzo 9 - Quarzo S.r.l.	Milan	Accounting	860,773	—	50,195	783,000	—	120,915
Quarzo CQS S.r.l. (2015)	Milan	Accounting	94,000	—	32,000	17,000	—	82,000
Quarzo CQS S.r.l. (2018)	Milan	Accounting	428,000	—	25,000	386,000	—	52,000
MB Funding Lux S.A.	Luxembourg	Accounting	978,877	—	—	850,207	—	—

C.5 Prudential consolidation – servicing – collecting securitized receivables and redeeming securities issued by vehicle companies

Servicer	Vehicle company	Securitized assets (31/12/19)		Receivables collected during the year		Percentage share of securities repaid (31/12/19)					
						Senior		Mezzanine		Junior	
		Non performing	Performing	Non performing	Performing	Non performing	Performing	Non performing	Performing	Non performing	Performing
Futuro	Quarzo CQS (2015)	4,395	93,565	2,449	31,927	—	97.73	—	—	—	—
Futuro	Quarzo CQS (2018)	7,839	456,150	3,837	92,465	—	35.39	—	—	—	—
Compass	Quarzo Srl	297,363	5,502,854	—	1,663,197	—	35.67	—	—	—	—

C.6 Prudential consolidation – Consolidated securitization-related SPVs

Accounts between the originator and the SPVs during the period under review were as follows:

SPV	Receivables ceded	Amounts collected	Servicing fees	Interest on junior amounts	Additional return accrued
Quarzo CQS S.r.l.	—	130.4	0.4	0.6	21.4
Quarzo S.r.l.	1,610.8	1,675.9	5.5	11.9	189.5
MB Funding Lux	207.1	129.9	—	—	1.1

D. Disposals

B. Financial assets sold and fully derecognized with continuing involvement recorded

D.4 Prudential consolidation – Covered bond issues

A new issue of covered bonds was made in July 2019 for a nominal amount of €750m, at a fixed rate of 0.5% and expiring in seven years, rated AA by Fitch and also placed with institutional investors.

The following events also took place, as part of ordinary operations:

- On 1° September 2019, assets worth €149.7m were sold to SPV Mediobanca Covered Bond;
- On 1° December 2019, assets worth €182m were sold to SPV Mediobanca Covered Bond, with €31.7m in assets bought back at the same time;

Al 31 December 2019, the amount of the mortgages used as collateral in the covered bond transaction was €5,199.9m, against five covered bonds issued for a total amount of €3,750m.

E. Prudential consolidation – credit risk measurement models

The Mediobanca Group uses the Advanced IRB (PD and LGD parameters) in order to quantify the capital requirement for the credit risk entailed by the di Mediobanca and Mediobanca International Corporate loan book and the CheBanca! Italian mortgage loan book. The Group has compiled a roll-out scheme for the gradual adoption of the internal models for the various credit exposures (the "Roll-Out Scheme"). With regard to such exposures, for which the standardized methodology for calculating regulatory capital is still used, the Group has in any case instituted internal rating models for credit risk. The Group has also adopted a portfolio model for calculating the economic capital for credit risk, which enables it to take into account the effects of concentration and diversification by sector. For further information, please see "Section 1.1 Credit risks" above.

1.2 MARKET RISK

1.2.1 INTEREST RATE RISK AND PRICE RISK – SUPERVISORY TRADING BOOK

QUALITATIVE INFORMATION

Mediobanca has instituted a set of controls for calculating metrics used to monitor the Bank's exposure to the financial risks generated by the positions held as part of the trading book on a daily basis.

This monitoring is focused on two main indicators:

– Sensitivity – which measures the change in value of financial assets and derivatives following changes in the main risk factors, providing a static representation of the market risk faced by the portfolio;
– Value-at-risk calculated using a methodology based on historical simulation weighted with scenarios that are updated daily, assuming a disposal period of a single trading day and a confidence level of 99%.

The risk control carried out through VaR and sensitivity is calculated daily to ensure that the operating limits governing the risk appetite established for the Bank's trading book are complied with. Stress tests are also carried out daily (for specific positions) and monthly (for the book as a whole) on the main risk factors, to show the impact which more substantial movements in the main market variables might have, such as share prices and interest or exchange rates, calibrated historically.

Other complementary risk metrics are also calculated in addition to VaR and sensitivity, in order to capture other risks that are not fully measured by these indicators more effectively. In the six months under review, the positions which required the use of such metrics were extremely limited compared to the overall size of Mediobanca's trading book.

The aggregate value-at-risk on the trading book and General Manager's book showed an average reading of €3.8m in the six months, down sharply on the preceding six-month period (when the average reading was €5.2m, compared with a point-in-time reading of €6.3m at end-June 2019). In the month of July and the first half of August, the high risk levels witnessed during the previous six months continued, with readings of between €6m and €7m. Midway through August, however, some substantial management positions for the most part linked to interest rates were closed as a result of the stop-loss limits being breached, triggering a material reduction in the VaR reading from approx. €6m to just €2m. The VaR reading then varied between €2m and €4m for the rest of the period, with an point-in-time reading at end-December 2019 of €2.4m.

The expected shortfall also showed a sharp reduction in the average reading, from €6.7m to €4.6m, after the positions referred to above were reduced.

The results of the daily back-testing on the trading book (based on comparison with the theoretical profits and losses) did not show any departures from VaR during the six months under review.

Table 1: Value-at-risk and expected shortfall: trading book (€ m)

Risk factors (€ '000)	**6 mths to 31/12/19**				**II H 2018/19**
	31/12	**Min**	**Max**	**Avg.**	**Avg.***
Interest rates	545	478	4,773	1,532	2,807
Credit	943	865	1,933	1,258	1,035
Share prices	1,635	815	3,053	2,110	1,641
Exchange rates	578	465	1,415	880	2,271
Inflation	144	125	289	187	245
Volatility	1,747	935	2,855	1,486	1,694
*Diversification effect ***	*(3,223)*	*(2,167)*	*(5,973)*	*(3,666)*	*(4,440)*
Total	2,369	1,917	7,348	3,787	5,255
Expected Shortfall	**3,018**	**2,488**	**14,649**	**4,626**	**6,651**

* Refers to six months ended 30/6/19.

** Due to mismatch between risk factors.

Apart from the general VaR limit on aggregate trading positions, a system of sub-limits is also in place, reflecting a greater degree of granularity for the individual business units involved. Each trading desk also has limits in terms of sensitivities to movements in the various risk factors (1 basis point for interest rates and credit spreads, 1 percentage point for equities, exchange rates and equity volatility) which are monitored daily. Average exposures have generally decreased during the six months under review, with the exception of the equity component, which reflects pronounced swings between highs and lows consistent with the directional positions taken. The delta on interest rates also ranged from minus €283,000 and €806,000, with an average value of around €66,000, while the equity delta was stably long during the six months under review, ranging from a low of €187,000 to a high of €1.1m per percentage point. The fluctuation in the exchange rate delta was also pronounced, ranging from a low of minus €187,000 to a high of €587,000 per percentage point.

Table 2: Overview of trends in main sensitivities for trading book

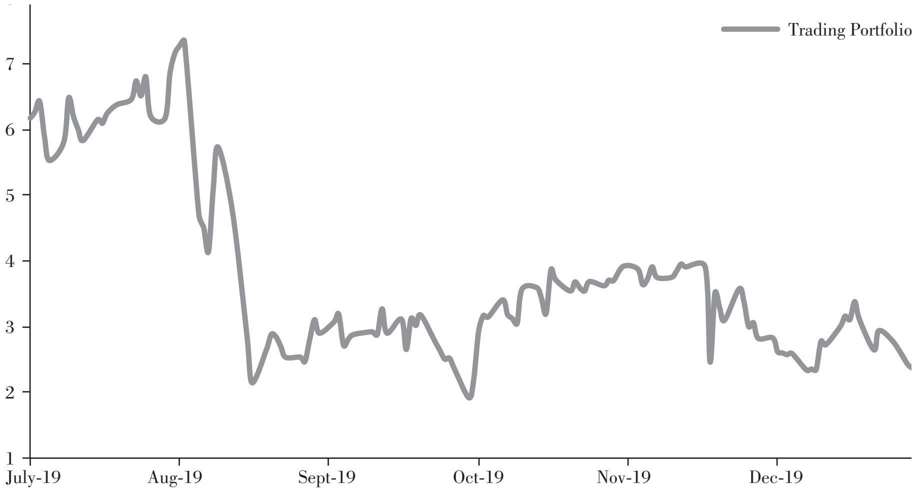
(€ m)

Risk factors (€ '000)	**6 mths to 31/12/19**				**II H 2018/19**
	31/12/19	**Min**	**Max**	**Avg.**	**Avg.***
Equity delta (+1%)	468	187	1,086	699	599
Equity vega (+1%)	1,079	(26)	1,478	853	1,083
Interest rate delta(+1bp)	(124)	(283)	806	66	456
Inflation delta (+1 bp)	30	13	53	32	26
Exchange rate delta (+1%) **	177	(187)	587	346	1,162
Credit delta (1 bp)	501	315	1,314	611	875

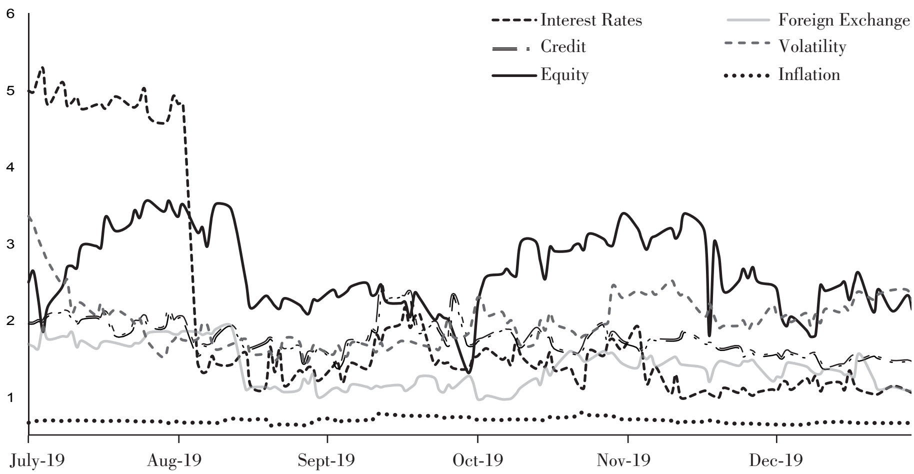
* Refers to six months ended 30/6/19.

** Refers to the Euro gaining versus other currencies.

Trading Book VaR Trend



VaR Components Trend by Asset Class (Trading)



1.2.2 INTEREST RATE AND PRICE RISK – BANKING BOOK

QUALITATIVE INFORMATION

The Mediobanca Group monitors and manages interest rate risk through two indicators:

– Sensitivity testing of net interest income, which quantifies the impact of parallel and simultaneous 200 bps shocks in the interest rate curve on current earnings. In this testing, the asset stocks are maintained constant, renewing the items falling due with the same financial characteristics and assuming a time horizon of twelve months; and
– Sensitivity testing of economic value, which measures the impact of future flows on the current value in the worst case scenario of those contemplated in the Basel Committee guidelines (BCBS); all the scenarios present a floor set by the EBA guidelines (EBA/GL/2018/02) at minus 1% on the demand maturity with linear progression up to 0% at the twenty-year maturity.

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

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

With reference to the Group's banking book positions at 31 December 2019, in the event of a parallel and simultaneous 200 basis point reduction in interest rates ("parallel down"), there would be no reduction in estimated net interest income due to the impact of the floor introduced by the EBA, unlike six months ago and one year previously, when the reductions would have been €35m and €34m respectively.

As for the analysis of the discounted value of future cash flows on the Group's banking book, the shock that determines the worst scenario occurs if short-term rates increase and long-term rates decline ("flattener"). In this scenario, estimated net interest income would reduce by some €73m, due chiefly to the reduction by CheBanca! (€-32m) and Mediobanca (€-45m), against an increase by Compass of €5m. In the previous half-year period, the maximum reduction in a "parallel up" scenario would have been €-65m.

The data above has been summarized in the following table:

(€ m)

Data at 31/12/19	**Banking Book**					
	Maximum level scenario	**Group**	**Mediobanca S.p.A.**	**CheBanca!**	**Compass**	**Others**
Net interest income sensitivity	Parallel Down	27	56	(7)	(11)	(11)
Discounted value of expected cash flows sensitivity	Steepner	(73)	(45)	(32)	5	(1)

At Group level, the values obtained in both scenarios continue to remain within the limits set by the Group policy on managing interest rate risk on the banking book, which are respectively 11.5% (net interest income sensitivity/estimated Group net interest income) and 3.5% (economic value sensitivity/CET1).

Hedging

Hedges are intended to neutralize possible losses that may be incurred on a given asset or liability, due to the volatility of a certain financial risk factor (interest rate, exchange rate, credit or some other risk parameter), through the gains that may be realized on a hedge instrument which allow the changes in fair value or cash flows to be offset. For fair value hedges in particular, the Group seeks to minimize the financial risk on interest rates by bringing the entire interest-bearing exposure in line with Euribor (generally Euribor 3 months).[1]

A. Fair value hedges

Fair value hedges are used to neutralize exposure to interest rate, price or credit risk for particular asset or liability positions, via derivative contracts entered into with leading counterparties with high credit standings. It is principally the fixed-rate, zero coupon and structured bond issues that are

[1] This target is maintained even in the presence of hedging contracts with market counterparties with netting agreements and CSAs (collateralized standard agreements) have been entered into, the valuation of which is made on the basis of Eonia interest rates.

fair-value hedged. If structured bonds in particular do not show risks related to the main risk, the interest-rate component (hedge) is stripped out from the other risks represented in the trading book, and usually hedged by trades of the opposite sign.

Fair value hedges are used by Mediobanca S.p.A. to hedge fixed-rate transactions involving corporate loans and securities recognized at fair value through other comprehensive income or at amortized cost, and also to mitigate price risk on equity investments recognized at FVOCI. Like-for-like books of fixed-rate mortgage loans granted by CheBanca! are also fair value-hedged.

B. Cash flow hedges

These are used chiefly as part of certain Group companies' operations, in particular those operating in consumer credit and leasing. In these cases the numerous, generally fixed-rate and relatively small-sized transactions are hedged by floating-rate deposits for large amounts. The hedge is made in order to transform floating-rate deposits into fixed rate positions, correlating the relevant cash flows. Normally the Group uses the derivative to fix the expected cost of deposits over the reference period, to cover floating-rate loans outstanding and future transactions linked to systematic renewals of such loans upon their expiring.

Counterparty risk

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

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

1.2.3 EXCHANGE RATE RISK

QUALITATIVE INFORMATION

A. General aspects, operating processes and measurement techniques

B. Exchange rate risk hedging

The trend in the exchange rate component of VaR shown on p. 208 is an effective representation of changes in the risks taken on the forex market, in view of the fact that exposures to foreign exchange rates are managed globally within the Finance area of Mediobanca S.p.A.

As at 31 December 2019, the exchange rate effect of the CHF 165m investment acquired in RAM was hedged in accordance with the accounting standards in force on net investment of foreign operation, in order to neutralize volatility in the net equity reserve due to exchange rate differences arising on consolidation compared to the historical rate used for first-time recognition of the investment and the related goodwill. The hedge was made through the issue of a bond in Swiss francs used as a hedge instrument for which the changes in value due to the exchange rate effect are suspended in a net equity reserve, to offset the impact of consolidating the company and the goodwill. The reserve will remain suspended in net equity until such a time as the investment is sold.

QUANTITATIVE INFORMATION

2. Internal models and other methodologies used for sensitivity analysis

The VaR on the exchange rate risk component at the aggregate level saw only occasional abrupt movements and was basically in line with the exposure undertaken. For the most part the average VaR reading was concentrated at around €8m. There was a sudden reduction in the exposure to foreign currencies between mid-August and end-September, before normal levels were returned to near the end of the six-month period. Exchange rate volatility levels were also modest during the half-year: the average VaR reading was €8.2m, lower than the average reading for the previous six-month period (€10.9m), and the point-in-time reading as at 31 December 2019 was also €8.2m (30/6/19: €9.2m).

1.3 DERIVATIVE FINANCIAL PRODUCTS AND HEDGING POLICIES

1.3.1 TRADING DERIVATIVES

A. Financial derivatives

A.1 Trading financial derivatives: average and reporting-date notional values

Underlying assets / Type of derivatives	31/12/19				30/6/19			
	Over the counter			Established markets	Over the counter			Established markets
	Central Counterparts	Without central counterparties			Central Counterparts	Without central counterparties		
		With clearing arrangements	Without clearing arrangements			With clearing arrangements	Without clearing arrangements	
1. Debt securities and interest rate	28,257,575	31,111,470	2,170,106	39,898,412	24,330,615	38,947,552	1,767,838	99,014,423
a) Options	—	8,822,566	410,000	39,656,085	—	8,025,805	280,000	96,703,913
b) Swap	28,257,575	20,001,784	1,760,106	—	24,330,615	22,811,367	1,487,838	—
c) Forward	—	501,120	—	—	—	124,380	—	—
d) Futures	—	—	—	242,327	—	—	—	2,310,510
e) Others	—	1,786,000	—	—	—	7,986,000	—	—
2. Equities and stock indexes	—	16,938,298	2,564,157	15,559,428	—	14,396,817	2,182,737	14,159,122
a) Options	—	13,706,719	2,564,157	15,148,928	—	12,277,206	2,182,737	13,822,601
b) Swap	—	3,114,430	—	—	—	2,002,462	—	—
c) Forward	—	117,149	—	—	—	117,149	—	—
d) Futures	—	—	—	410,500	—	—	—	336,251
e) Others	—	—	—	—	—	—	—	—
3. Currencies and gold	—	8,688,648	452,830	—	—	9,087,175	112,866	—
a) Options	—	2,172,871	7,934	—	—	1,534,191	—	—
b) Swap	—	2,784,556	384,906	—	—	2,912,799	105,448	—
c) Forward	—	3,731,221	59,990	—	—	4,640,185	7,418	—
d) Futures	—	—	—	—	—	—	—	—
e) Others	—	—	—	—	—	—	—	—
4. Commodities	—	—	—	—	—	—	—	—
5. Other	—	—	—	—	—	—	—	—
Total	28,257,575	56,738,416	5,187,093	55,457,840	24,330,615	62,431,544	4,063,441	113,173,545

A.2 Trading financial derivatives: positive and negative fair values by product

Types of derivatives	31/12/19				30/6/19			
	Over the counter			Established markets	Over the counter			Established markets
	Central Counterparts	Without central counterparties			Central Counterparts	Without central counterparties		
		With clearing arrangements	Without clearing arrangements			With clearing arrangements	Without clearing arrangements	
1. Positive fair value								
a) Options	—	1,084,883	4,115	424,409	—	568,610	6,427	487,169
b) Interest rate swap	1,693	659,873	79,523	—	2,489	743,161	73,492	—
c) Cross currency swap	—	116,212	11,405	—	—	323,693	10,067	—
d) Equity swap	—	13,353	—	—	—	9,181	—	—
e) Forward	—	34,818	265	—	—	43,299	6,165	—
f) Futures	—	—	—	4,074	—	—	—	10,352
g) Others	—	—	—	—	—	—	—	—
Total	1,693	1,909,139	95,308	428,483	2,489	1,687,944	96,151	497,521
2. Negative fair value								
a) Options	—	997,689	72,532	624,734	—	677,049	60,315	629,169
b) Interest rate swap	194,310	357,361	8,007	—	228,968	413,582	7,946	—
c) Cross currency swap	—	101,947	3,702	—	—	97,932	—	—
d) Equity swap	—	118,917	—	—	—	20,436	—	—
e) Forward	—	164,771	412	—	—	159,058	988	—
f) Futures	—	—	—	6,648	—	—	—	20,479
g) Others	—	—	—	—	—	—	—	—
Total	194,310	1,740,685	84,653	631,382	228,968	1,368,057	69,249	649,648

A.3 OTC trading financial derivatives: notional values, positive and negative fair values by counterparty

Underlyings	Central Counterparts	Banks	Other financial companies	Other entities
Contracts not included in clearing agreement				
1) Debt securities and interest rate				
- notional value	X	180,000	1,087,467	902,639
- positive fair value	X	66,838	7,553	6,290
- negative fair value	X	323	7,210	19,126
2) Equities and stock indexes				
- notional value	X	1,034,340	1,529,794	22
- positive fair value	X	2,107	752	106
- negative fair value	X	53,868	4	157
3) Currencies and gold				
- notional value	X	705	13,387	438,737
- positive fair value	X	2	81	11,582
- negative fair value	X	—	24	3,940
4) Commodities				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
5) Others				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
Contracts included in clearing arrangements				
1) Debt securities and interest rate				
- notional value	28,257,575	16,958,051	8,483,344	5,670,076
- positive fair value	1,693	513,207	183,064	257,308
- negative fair value	194,310	356,361	315,979	31,800
2) Equities and stock indexes				
- notional value	—	9,884,461	5,281,604	1,772,234
- positive fair value	—	425,712	232,532	117,112
- negative fair value	—	527,227	335,165	10,533
3) Currencies and gold				
- notional value	—	4,650,418	2,560,688	1,477,542
- positive fair value	—	49,154	58,151	72,899
- negative fair value	—	108,634	16,287	38,699
4) Commodities				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
5) Others				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—

B. Credit derivatives

B.1 Trading credit derivatives: reporting-date notional values

Type of transaction	Trading derivatives	
	with a single counterparty	with more than one counterparty (basket)
1. Protection purchases		
a) Credit default products	3,286,666	19,615,057
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Other [1]	1,206,038	—
Totale 31/12/2019	4,492,704	19,615,057
Totale 30/6/2019	5,365,395	17,549,942
2. Security sales		
a) Credit default products	2,491,579	19,413,894
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Other [1]	—	—
Totale 31/12/2019	2,491,579	19,413,894
Totale 30/6/2019	3,380,660	17,549,944

[1] Of which certificates totalling €1,206,038,000.

The column headed "Basket" shows the positions on credit indexes matched by positions on single names which go to make up the index in skew issues. The derivative embedded in the issues, for the hedge buys, is represented by individual constituents, with notional value equal to the nominal value of the issues.

B.2 Trading credit derivatives: positive and negative fair values by product

Types of derivatives	31/12/19	30/6/19
1. Positive fair value		
a) Credit default products	760,067	490,498
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Other	—	—
Total	760,067	490,498
2. Negative fair value		
a) Credit default products	833,716	549,896
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Other [1]	1,240,527	864,440
Total	2,074,243	1,414,336

[1] Of which certificates totalling €1,240,527,000 as at 31/12/19 and €864,440,000 as at 30/6/19.

B.3 OTC trading credit derivatives: notional values, gross positive and negative fair values by counterparty

	Central counterparts	Bank	Other financial companies	Other subjects
Contracts not covered by clearing agreements				
1) Purchase protection				
– notional value [1]	X	3,219,604	300,000	—
– positive fair value	X	24,368	3,753	—
– negative fair value [1]	X	1,294,894	—	—
2) Protection sale				
– notional value	X	14,526	—	—
– positive fair value	X	37,121	—	—
– negative fair value	X	5,046	—	—
Contracts covered by clearing agreements				
1) Purchase protection				
– notional value	3,895,999	8,281,837	8,410,321	—
– positive fair value	—	21,484	10,129	—
– negative fair value	15,499	320,008	366,789	—
2) Protection sale				
– notional value	3,606,734	10,223,014	8,061,198	—
– positive fair value	—	331,323	331,889	—
– negative fair value	—	67,382	4,622	—

[1] Of which certificates with a notional value of €1,206,038,000 and a fair value of €1,204,527,000.

1.3.2 ACCOUNTING HEDGES

A. Hedge financial derivatives

A.1 Hedge financial derivatives: average and reporting-date notional values

Underlying assets / Type of derivatives	31/12/19				30/6/19			
	Over the counter			Established markets	Over the counter			Established markets
	Central Counterparts	without central counterparties			Central Counterparts	without central counterparties		
		with clearing arrangements	without clearing arrangements			with clearing arrangements	without clearing arrangements	
1. Debt securities and interest rate	33,777,615	4,774,192	30,000	—	26,470,556	5,821,291	35,000	—
a) Options	—	675,781	—	—	—	230,000	—	—
b) Swap	33,777,615	4,038,411	30,000	—	26,470,556	5,591,291	35,000	—
c) Forward	—	60,000	—	—	—	—	—	—
d) Futures	—	—	—	—	—	—	—	—
e) Others	—	—	—	—	—	—	—	—
2. Equities and stock indexes	—	—	—	—	—	—	—	—
a) Options	—	—	—	—	—	—	—	—
b) Swap	—	—	—	—	—	—	—	—
c) Forward	—	—	—	—	—	—	—	—
d) Futures	—	—	—	—	—	—	—	—
e) Others	—	—	—	—	—	—	—	—
3. Currencies and gold	—	312,444	—	—	—	308,436	—	—
a) Options	—	—	—	—	—	—	—	—
b) Swap	—	312,444	—	—	—	308,436	—	—
c) Forward	—	—	—	—	—	—	—	—
d) Futures	—	—	—	—	—	—	—	—
e) Others	—	—	—	—	—	—	—	—
4. Commodities	—	—	—	—	—	—	—	—
5. Other	—	—	—	—	—	—	—	—
Total	33,777,615	5,086,636	30,000	—	26,470,556	6,129,727	35,000	—

A.2 Hedge financial derivatives: gross positive and negative fair values by product

Types of derivatives	Positive and negative fair values								Change in the value used to calculate the ineffectiveness of the hedge	
	31/12/19				30/6/19					
	Over the counter			Established markets	Over the counter			Established markets	31/12/19	30/6/19
	Central Counterparts	Without central counterparties			Central Counterparts	Without central counterparties				
		With clearing arrangements	Without clearing arrangements			With clearing arrangements	Without clearing arrangements			
1. Positive fair value										
a) Options	—	5,605	—	—	—	6,505	—	—	—	—
b) Interest rate swap	249,437	84,939	617	—	305,510	98,618	463	—	30,944	356,619
c) Cross currency swap	—	1,089	—	—	—	1,138	—	—	—	—
d) Equity swap	—	—	—	—	—	—	—	—	—	—
e) Forward	—	211	—	—	—	—	—	—	—	—
f) Futures	—	—	—	—	—	—	—	—	—	—
g) Others	—	—	—	—	—	—	—	—	—	—
Total	249,437	91,844	617	—	305,510	106,261	463	—	30,944	356,619
2. Negative fair value										
a) Options	—	14,067	—	—	—	14,209	—	—	—	—
b) Interest rate swap	40,814	263,540	4,950	—	50,302	343,986	5,643	—	81,718	57,495
c) Cross currency swap	—	—	—	—	—	101	—	—	—	—
d) Equity swap	—	—	—	—	—	—	—	—	—	—
e) Forward	—	—	—	—	—	—	—	—	—	—
f) Futures	—	—	—	—	—	—	—	—	—	—
g) Others	—	—	—	—	—	—	—	—	—	—
Total	40,814	277,607	4,950	—	50,302	358,296	5,643	—	81,718	57,495

A.3 OTC hedge financial derivatives: notional values, gross positive and negative fair values by counterparty

Underlyings	**Central Counterparts**	**Banks**	**Other financial companies**	**Other entities**
Contracts not included in clearing agreement				
1) Debt securities and interest rate				
- notional value	X	30,000	—	—
- positive fair value	X	617	—	—
- negative fair value	X	4,950	—	—
2) Equities and stock indexes				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
3) Currencies and gold				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
4) Commodities				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
5) Others				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
Contracts included in clearing arrangements				
1) Debt securities and interest rate				
- notional value	33,777,615	4,324,861	449,331	—
- positive fair value	249,437	84,413	6,342	—
- negative fair value	40,814	276,542	1,065	—
2) Equities and stock indexes				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
3) Currencies and gold				
- notional value	—	297,312	15,133	—
- positive fair value	—	1,023	66	—
- negative fair value	—	—	—	—
4) Commodities				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
5) Others				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value				

1.4 LIQUIDITY RISK

QUALITATIVE INFORMATION

Banks are naturally exposed to liquidity risk as a result of the role they perform in the maturity transformation process.

In defining liquidity risk, a distinction is usually made between risks which refer to the short term (known as “liquidity risk”) and risks which refer to the long term (“funding risk”):

– Liquidity risk is the current or potential risk of the entity not being able to manage its own liquidity needs effectively in the short term;
– Funding risk is the risk of the entity not having stable sources of financing in the medium or long term, generating a current or potential risk of it not being able to meet its own financial requirements without incurring an excessive increase in the cost of financing.

An adequate liquidity and funding risk management system is fundamental to ensure the stability of the Mediobanca Group and the financial system in general, given that a single bank’s difficulties would affect the system as a whole. The liquidity and funding risk management system is developed as part of the Risk Appetite Framework and the risk tolerance levels contained in it. In particular, one of the management objectives contained in the Risk Appetite Framework is to maintain a liquidity position which is sufficient to cope with a period of severe stress (combining Bank-specific and systemic stress factors) lasting three months.

To meet this objective, the Group Liquidity Risk Management Policy (the “Regulations”) approved by the Board of Directors of Mediobanca S.p.A. stipulates that an adequate level of highly liquid assets must be maintained to cover the cash flows anticipated in the short and medium/long term.

The Regulations set out the roles and responsibilities of the company units and governing bodies, the risk measurement metrics in use, the guidelines for carrying out the stress testing process, the funds transfer pricing system, and the contingency funding plan.

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

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

The Regulations assign various important duties to the Board of Directors, including definition and approval of the guidelines and strategic direction, responsibility for ensuring that the risk governance system is fully reliable, and monitoring the trends in liquidity and funding risk and the Group's Risk Appetite Framework over time.

The issues most relevant to liquidity risk are discussed by the Group ALM Committee which defines the asset and liability structure and related risk taking, directing management in line with the commercial and financial objectives set in the budget and the Group's Risk Appetite Framework.

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

- Group Treasury, which is responsible at Group level for managing liquidity, funding, collateral and the funds transfer pricing system;
- Business & Capital Planning, which supports Risk Management and Group Treasury in drawing up the Group Funding Plan which is consistent with the budget objectives;
- Risk Management which, in accordance with the principles of separation and independence, is responsible for the Group's integrated control system for current and future risks, in accordance with the Group's regulations and governance strategies.

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

The Group's objective is to maintain a level of liquidity that will allow it to meet the payment obligations it has undertaken, ordinary and extraordinary, at the established maturities, while at the same time keeping the costs involved to a minimum and hence without incurring non-recurring losses. The Mediobanca Group short-term liquidity policy is intended ensure that the mismatch between cash inflows and outflows, expected and not expected, remains sustainable in the short term, even over an intra-day time horizon.

The metric adopted for monitoring is the net liquidity position, obtained from the sum of the counterbalancing capacity (defined as the cash, bonds, receivables eligible for refinancing with the ECB and marketable securities available post-haircut) and cumulative net cash flows.

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

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

– Italy downgrade: a crisis scenario is assumed similar to the one witnessed in 2011-13, impacting negatively on the Group's ability to raise funds on the bond and interbank markets. A reduction in cash inflows is also assumed, due to a default flows scenario, along with a drawdown on uncommitted credit lines. The counterbalancing capacity is impacted by the adverse changes to Italian government securities observed during the crisis period referred to;
– Name crisis: a crisis scenario is assumed similar to the one witnessed in 2011-13, impacting negatively on the Group's ability to raise funds on the bond, retail and interbank markets. Major outflows from demand deposits are also assumed. The counterbalancing capacity is impacted by the adverse change to the securities issued by Mediobanca (ABS and covered bonds) during the crisis period;

– Combined: combined name crisis-Italy downgrade scenario.

In addition to the above, the Group also prepares the weekly liquidity position update required by the Bank of Italy. The maturity ladder report, prepared in accordance with the authority's guidelines, lists the principal maturities falling due in the months following the reference date, and contains a summary of the Group's assets eligible for refinancing with the European Central Bank.

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

Throughout the six months under review, both indicators, short- and long-term, showed that the Group has stably maintained an adequate level of stability at all times.

The stress testing exercise performed last year (LiST 2019) confirmed that liquidity and funding risk management is solid, with a survival period even in severe stress scenarios which is comparable to the time horizon represented by the financial year.

In accordance with the Regulations, the Group monitors and records the LCR (Liquidity Coverage Ratio), ALMM (Additional Liquidity Monitoring Metrics) and NSFR (Net Stable Funding Ratio) regulatory indicators. Throughout the period under review, both the LCR and the NSFR, which form part of the Group's Risk Appetite Framework, remained above the limits set under the regulation in force of 100% at all times. In particular, the LCR indicator measured in accordance with the provisions of Commission Delegated Regulation (EU) 2015/61 was 193% (30/6/19: 143%), and the NSFR indicator was 103% (107%). The LCR includes the prudential estimate of "additional liquidity outflows for other products and services" as required by Article 23 of Commission Delegated Regulation (EU) 2015/61.

As the above indicators are included in Group Risk Appetite Framework, their sustainability is also analysed in preparing the Group Funding Plan, through future analysis over a three-year time horizon, with monitoring and half-yearly updates.

Alongside the previous indicators, an event governance model has also been provided known as the Contingency Funding Plan (described in the Regulations) to be implemented in the event of a crisis by following a procedure approved by the Board of Directors.

The objective of the Contingency Funding Plan is to ensure prompt implementation of effective action to tackle a liquidity crisis, through precise identification of stakeholders, powers, responsibilities, communication procedures and reporting criteria, in order to increase the likelihood of coming through the state of emergency successfully. This objective is achieved primarily by activating an extraordinary operational and liquidity governance model, supported by consistent internal and external reporting and a series of specific indicators.

In order to identify a "contingency" state in timely manner, a system of early warning indicators (EWIs) has been prepared, to monitor situations that could lead to deterioration in the Group's liquidity position deriving from external factors and/or from situations which are specific to the Banking Group itself.

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

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

In the six months under review, against redemptions of securities totalling €2.1bn, issues were placed in an amount of some €2.9bn, €1.5bn of which senior unsecured, €600m in securitizations of Compass receivables, and €750m in covered bonds with CheBanca! mortgages as the underlying instrument. Bank funding of over €600m was used, with maturities of at least 24 months, €386m of which secured. Funding raised by refinancing assets with the European Central Bank was unchanged at €4.3bn.

As at 31 December 2019, the counterbalancing capacity stood at €5.4bn, €4.7bn of which in the form of bonds exchangeable for cash from the ECB; the balance of liquidity reserves established at the European Central Bank amounted to €4.4bn, some €100m of which in the form of cash not used, and hence qualifying as part of the counterbalancing capacity.

1.5 OPERATIONAL RISKS

Definition

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

Capital requirements

To manage operational risk, Mediobanca has adopted the Basic Indicator Approach (BIA) in order to calculate the capital requirement for covering operating risk, applying a margin of 15% to the three-year average for the relevant indicator. Based on this method of calculation, the capital requirement as at 31 December 2019 was €321.6m (unchanged from the balance-sheet date at end-June 2019).

Risk mitigation

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

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

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

The operating losses recorded in the course of the six months under review account for 1.4% of the Group's total revenues.

As for the different classes of operational risk, the percentage composition of the Group's Basel II event types is shown in the table below.

Event Type	% on Total Loss
Clients, products and business practices	63%
Execution, delivery and process management	31%
External fraud	3%
Employment practices and workplace safety	2%
Other	1%

During the six months under review, more than half of the operating losses due to the "Clients, products and business practices" event type, which includes losses deriving form complaints or litigation by retail clients in connection with financial terms or interest rates applied to financing products, in particular in cases which involve early repayments (where there have been changes to the regulations). More than one-quarter of the losses were due to instances relating to process risk ("Execution, delivery and process management"); the remainder were due to external fraud on retail financing products (fake documentation and/or cards) and the employment relationship.

Potential operational risks (based on estimates) will continue to be relevant as a result of growth in the Wealth Management and Consumer businesses, the commercial networks and the acceleration of new types of risk, notably cyber. The Group continues to be exposed to the potential risk of lowfrequency/high severity inherent in businesses which feature non-standard and large-sized transactions, such as CIB and Wealth Management. Operational risks are mitigated on an ongoing basis by enhanced governance and first-level controls, and by continuously adapting the frameworks used for valuation and monitoring.

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

* * *

Other risks

As part of the process of assessing the current and future capital required for the company to perform regular banking activity (ICAAP), the Group, in addition to the risks described above (i.e. credit and counterparty, market, interest rate, liquidity and operational risks), has identified the following main types of risk as relevant:

– Concentration risk, i.e. risk deriving from a concentration of exposures to individual counterparties or groups of counterparties ("single name concentration risk") or to counterparties operating in the same economic sector or which operate in the same business or belong to the same geographical area (geographical/sector concentration risk);

– Strategic risk, i.e. exposure to current and future changes in profits/margins compared to estimated data, due to volatility in volumes or changes in customer behaviour (business risk), and of current and future risk of reductions in profits or capital deriving from disruption to business as a result of adopting new strategic choices, wrong management decisions or inadequate execution of decisions taken (pure strategic risk);

– Risk from equity investments held as part of the "Hold to collect and sell" banking book ("HTC&S"), deriving from the potential reduction in value of the equity investments, listed and unlisted, which are held as part of the HTCS portfolio, due to unfavourable movements in financial markets or to the downgrade of counterparties (where these are not already included in other risk categories);

– Sovereign risk, in regard to the potential downgrade of countries or national central banks to which the Group is exposed;

– Compliance risk, attributable to the possibility of incurring penalties, financial losses or damages to the Bank's reputation as a result of breaches of external laws and regulations or self-imposed regulations;

– Reputational risk, defined as the risk, current or future, of reductions in profits or capital deriving from a negative perception of the Bank's image by customers, counterparties, shareholders, investors or regulatory authorities.

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

* * *

The Mediobanca Group continues to operate as normal in the United Kingdom, through the London branch office of Mediobanca S.p.A. (which provides investment banking services) and Group company Cairn Capital (alternative fund manager). The contribution of our UK operations to total revenues is relatively minor, at around 3% of the total. Mediobanca is monitoring the state of progress in negotiations, and the potential impact on regulations, through an internal working group co-operating with the competent authorities. The United Kingdom officially left the European Union on 31 January 2020, but a transitional period is in force until 31 December 2020. Throughout this transitional period, Mediobanca will continue to implement the plan to adjust to the UK's leaving the European Union, in accordance with the recommendations made by the European Central

Part F - Information on consolidated capital

SECTION 1

Consolidated capital

QUANTITATIVE INFORMATION

*B.1 Consolidated net equity: breakdown by type of company **

Net equity items	Prudential consolidation	Insurance companies	Other companies	Consolidation adjustments and eliminations	Total	Of which: minorities
1. Share capital	460,240	—	—	—	460,240	16,629
2. Share premium reserve	2,197,454	—	—	—	2,197,454	1,848
3. Reserves	6,348,051	—	—	—	6,348,051	74,169
4. Equity instruments	—	—	—	—	—	—
5. Treasury shares	(175,848)	—	—	—	(175,848)	—
6. Valuation reserves:	1,043,067	—	—	—	1,043,067	(2,496)
- Equity instruments valued at fair value with impact taken to comprehensive income	73,647	—	—	—	73,647	—
- Hedging of equity instruments valued at fair value with impact taken to comprehensive income	—	—	—	—	—	—
- Financial assets (other than equity instruments) valued at fair value with impact taken to comprehensive income	30,086	—	—	—	30,086	—
- Tangible assets	—	—	—	—	—	—
- Intangible assets	—	—	—	—	—	—
- Hedging of foreign investments	(3,838)	—	—	—	(3,838)	—
- Hedging of cash flows	(22,557)	—	—	—	(22,557)	(2,314)
- Hedging instruments [not designated instruments]	—	—	—	—	—	—
- Exchange differences	(402)	—	—	—	(402)	(6)
- Non-current assets and group of assets being sold	—	—	—	—	—	—
- Financial liabilities designated at fair value with impact taken to profit and loss (variation of own credit risk)	—	—	—	—	—	—
- Actuarial gains (losses) on defined benefits pension schemes	(8,348)	—	—	—	(8,348)	(176)
- Valuation reserves share of equity-accounted interests	964,847	—	—	—	964,847	—
- Extraordinary revaluation laws	9,632	—	—	—	9,632	—
7. Net profit (loss) for the period (+/-) of Group and minorities	469,156	—	—	—	469,156	1,520
Total	10,342,120	—	—	—	10,342,120	91,670

* Includes Compass RE (insurance) and R&S, equity-consolidated consolidated pro rata (Other companies).

B.2 Valuation reserves for financial assets recognized at FVOCI: composition

Assets/Values	Prudential consolidation		Insurance companies		Other companies		Consolidation adjustments and eliminations		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	34,464	(4,378)	—	—	—	—	—	—	34,464	(4,378)
2. Equity securities	74,361	(714)	—	—	—	—	—	—	74,361	(714)
3. Loans	—	—	—	—	—	—	—	—	—	—
Total at 31/12/19	108,825	(5,092)	—	—	—	—	—	—	108,825	(5,092)
Total at 30/6/19	91,644	(7,068)	—	—	—	—	—	—	91,644	(7,068)

B.3 Valuation reserves for financial assets recognized at FVOCI: movements during the period

	Debt securities	Equity securities	Loans
1. Opening balance	24,161	60,415	—
2. Additions	20,667	13,265	—
2.1 Increases in fair value	19,716	13,265	—
2.2 Writedowns for credit risk	611	X	—
2.3 Profit and loss reversal of negative reserves from realize	340	X	—
2.4 Transfers to other equity components (equity instruments)	—	—	—
2.5 Other variations	—	—	—
3. Reductions	14,742	33	—
3.1 Reductions in fair value	5,653	33	—
3.2 Writebacks for credit risk	487	—	—
3.3 Profit and loss reversal from positive reserves: - from disposal	8,602	X	—
3.4 Transfers to other equity components (equity instruments)	—	—	—
3.5 Other reductions	—	—	—
4. Closing balance	30,086	73,647	—

SECTION 2

Own funds and supervisory capital requirements for banks

Since its inception one of the distinguishing features of the Mediobanca Group has been the solidity of its financial structure, with capital ratios that have been consistently higher than those required by the regulatory guidelines, as shown by the comfortable margin emerging from the Internal Capital Adequacy Assessment Process (ICAAP) and the process performed by the regulator as part of the SREP 2019.

At 31 December 2019, the authority asked Mediobanca to maintain a CET ratio of 8.25% on a consolidated basis (Total SREP Capital Requirement – TSCR – 11.75%), which includes an additional Pillar 2 ("P2R") requisite of 1.25%, unchanged from last year, with a capital conservation buffer of 2.50%.

2.1 Scope of application for regulations

Based on the new body of supervisory and corporate governance rules for banks which consists of Capital Requirements Directive IV (CRD IV) and Capital Requirements Regulation (CRR/CRR2 [1]) issued by the European Parliament starting from 2013 and enacted in Italy in Bank of Italy circular no. 285, the Group has applied the phase-in regime, and in particular, having received the relevant authorizations, has weighted the Assicurazioni Generali investment at 370% as permitted by Article 471 of CRR2, which extended the effectiveness of the phase-in period until 31 December 2024. [2]

Furthermore, in order to mitigate the effect of the new accounting standards on banks' prudential ratios, Regulation (EU) 2017/2395, "Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds", which updates Regulation (EU) 575/2013 ("CRR") by incorporating a new version of Article 473a "Introduction of IFRS 9", offers banks the possibility of spreading the impact of introducing IFRS 9 on own funds over a transitional period of five years, by including a decreasing amount of loan loss provisions in CET1 over that time. The Mediobanca Group has applied the static approach to neutralize the effect of the increase in loan loss provisions starting from last year (IFRS 9 FTA) and for the next five years thereafter. [3]

[1] The new Regulation was approved by the European Parliament on 16 April 2019 after being published in the Official Journal of the European Union.

[2] Application of Article 471 is limited to the book value as at December 2012 and to compliance with the concentration limit versus the insurer, i.e. 20% of the limit versus related parties.

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

2.2 Bank equity

QUALITATIVE INFORMATION

Common Equity Tier 1 (CET1) capital consists of the share attributable to the Group and to minority shareholders of capital paid up, reserves (including €1,258.7m of the positive FVOCI financial assets reserves, €12.1m of which in government securities and €1,154.8m deriving from Assicurazioni Generali being equity-consolidated) and the profit for the period (€467.6m) net of the dividend accrued in the six months (€234, pro rata in line with the proposed €0.52 per share dividend for 2020). The deductions regard: treasury shares (€234m), including €166m already owned as at 31 December 2019 and commitments to buy back shares totalling €68m to reach the maximum limit authorized by the ECB and approved by shareholders in the annual general meeting in October 2018, intangible assets (€131m), goodwill of €778.2m and other prudential adjustments of €48.3m (AVAs and DVAs). Interests in financial companies (banking and insurance) worth €2,477.2m were deducted, €2,209m of which in respect of the Assicurazioni Generali investment and €139.2m of Compass RE (30/6/19: €1,704m and €121.2m respectively).

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

Tier 2 capital includes subordinated liabilities, down in the six months from €1,522.7m to €1,373.3m due to amortization. No subordinated tier 2 issue benefits from the grand-fathering permitted under Articles 483ff of the CRR.

Issue	31/12/19		
	ISIN	Nominal value	Calculated amount *
MB Subordinato Mar 29	XS1579416741	50,000	48,505
MB Secondo Atto 5% 2020 Lower Tier 2	IT0004645542	615,046	104,926
MB OPERA 3.75 2026	IT0005188351	299,750	291,624
MB Quarto Atto a Tasso Variabile 2021 Lower Tier 2	IT0004720436	394,260	112,397
MB Valore a Tasso Variabile con minimo 3% annuo 2025	IT0005127508	499,715	490,476
MB CARATTERE 5,75% 2023 Lower Tier 2	IT0004917842	496,451	325,344
Total subordinated debt securities		2,355,222	1,373,272

* The value calculated differs from the book value due to the items recognized at fair value and amortized cost and to buyback commitments entered into.

Tier 2 also includes the buffer which results from the writedowns to book value being higher than the prudential expected losses calculated using the advanced models. The surplus of €39.2m is slightly higher than the €38.5m buffer reported last year.

QUANTITATIVE INFORMATION

	31/12/19	30/6/19
A. Common equity tier 1 (CET1) prior to application of prudential filters	9,994,749	9,351,118
of which: CET1 instruments subject to phase-in regime	—	—
B. CET1 prudential filters (+/-)	(15,949)	7,317
C. CET1 gross of items to be deducted and effects of phase-in regime (A +/- B)	9,978,800	9,358,435
D. Items to be deducted from CET1	(4,312,819)	(3,834,987)
E. Phase-in regime - impact on CET1 (+/-), including minority interests subject to phase-in regime	994,561	1,000,929
F. Total common equity tier 1 (CET1) (C-D+/-E)	6,660,542	6,524,377
G. Additional tier 1 (AT1) gross of items to be deducted and effects of phase-in regime	—	—
of which: AT1 instruments subject to temporary provisions	—	—
H. Items to be deducted from AT1	—	—
I. Phase-in regime - impact on AT1 (+/-), including instruments issued by branches and included in AT1 as a result of phase-in provisions	—	—
L. Total additional tier 1 (AT1) (G-H+/-I)	—	—
M. Tier 2 (T2) gross of items to be deducted and effects of phase-in regime	1,412,473	1,561,228
of which: T2 instruments subject to phase-in regime	—	—
N. Items to be deducted from T2	(182)	—
O. Phase-in regime - Impact on T2 (+/-), including instruments issued by branches and included in T2 as a result of phase-in provisions	—	—
P. Total T2 (M-N+/-O)	1,412,291	1,561,228
Q. Total own funds (F+L+P)	8,072,833	8,085,605

2.3 Capital adequacy

QUALITATIVE INFORMATION

As at 31 December 2019, the Group's Common Equity Ratio, calculated as tier 1 capital as a percentage of total risk-weighted assets, amounted to 14.14%, in line with the ratio posted at 30 June 2019 (14.09%). The growth attributable to retained earnings for the six months (€234,7m) was offset by the higher reductions relating to Assicurazioni Generali (€117.7m, net of the higher positive reserve for assets recognized at fair value through other comprehensive income) and by growth of approx. €700m in RWAs, chiefly due to the higher business volumes in CIB (up €270m, €165m of which in factoring), Consumer Banking (up €370m) and Wealth Management (up €160m, split between CheBanca! and Compagnie Monégasque de Banque).

The total capital ratio reduced from 17.46% to 17.14%, in part due to the amortization of the tier 2 instruments.

Fully-loaded and without application of the Danish Compromise, i.e. with the Assicurazioni Generali stake fully deducted (which accounted for €-908.5m, including the indirect effects) and with full application of the IFRS 9 effect (which accounted for €-86.1m, considering the higher deductions), the CET1 ratio was 12.93% and the total capital ratio 16.15%, lower than the figures reported at end-June last year, which were 12.83% and 16.46% respectively.

The other indicators performed as follows during the six months under review:

– The Leverage Ratio too decreased from 8.4% to 8.2%, but once again was well above the regulatory limit set (3%);
– The MREL ratio was above 40%, considerably higher than the minimum level set by the Single Resolution Board for 2019, which was 21.43%.

QUANTITATIVE INFORMATION

Categories/Amounts	Unweighted amounts [5]		Weighted amounts/requirements	
	31/12/19	30/6/19	31/12/19	30/6/19
A. RISK ASSETS				
A.1 Credit and counterpart risk	68,790,503	66,599,488	39,820,204	39,194,427
1. Standard methodology	41,882,577	40,763,545	28,624,743	27,909,222
2. Internal rating methodology	26,817,918	25,679,325	11,133,088	11,165,086
2.1 Basic	—	—	—	—
2.2 Advanced	26,817,918	25,679,325	11,133,088	11,165,086
3. Securitization	90,008	156,617	62,373	120,120
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			3,185,616	3,135,554
B.2 Credit valuation risk			36,354	42,695
B.3 Settlement risk			—	—
B.4 Market risk			223,521	204,897
1. Standard methodology			223,521	204,897
2. Internal models			—	—
3. Concentration risk			—	—
B.5 Other prudential requirements			321,647	321,647
1. Basic Indicator Approach (BIA)			321,647	321,647
2. Standard methodology			—	—
3. Advanced methodology			—	—
B.6 Other calculation elements			—	—
B.7 Total prudential requirements			3,767,138	3,704,793
C. RISK ASSETS AND REGULATORY RATIOS				
C.1 Risk-weighted assets			47,089,225	46,309,918
C.2 CET1 capital/risk-weighted assets (CET1 capital ratio)			14.14%	14.09%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 capital ratio)			14.14%	14.09%
C.4 Regulatory capital/risk-weighted assets (total capital ratio)			17.14%	17.46%

[5] For the standardized methodology, the “unweighted amounts”, as provided by the regulations in force, correspond to the value of the exposure taking into account the prudential filters, risk mitigation techniques and credit conversion factors. For the AIRB ratings methodology, the “unweighted amounts” correspond to the “exposure at default” (EAD). For guarantees issued and commitments to disburse funds, credit conversion factors are also included in the EAD calculation .

Part G - Combinations involving Group companies or business units

SECTION 1

Transactions completed during the period

No transactions have been completed during the period under review.

The purchase price allocation process relating to the acquisition of a 66.4% stake in Messier Maris et Associés completed on 10th April 2019, is ongoing.

SECTION 2

Transactions completed since the reporting date

No transactions have taken place since the reporting date.

SECTION 3

Retrospective adjustments

No adjustments have been made to the accounts in connection with previous business combinations for the period under review.

Part H - Related party disclosure

2. Related party disclosure

In January 2011 the Group adopted its own related parties procedure, in pursuance of Consob resolution no. 17221 issued on 12 March 2010. The purpose of the procedure is to ensure that transactions with related parties executed directly by Mediobanca or via subsidiaries are managed transparently and fairly. The Board of Directors of Mediobanca, having received favourable opinions from the Bank's Related Parties and Statutory Audit Committees, has incorporated the Bank of Italy's most recent instructions on this subject to this procedure, which introduce prudential limits for risk activities versus related parties. The new version of the procedure came into force on 31 December 2012 and was updated in June 2019. The full document is published on the Bank's website at www.mediobanca.com.

For the definition of related parties adopted, please see part A of the notes to the accounts (Accounting Policies).

Accounts with related parties fall within the ordinary operations of the Group companies, are maintained on an arm's length basis, and are entered into in the interests of the individual companies concerned. Details of Directors' and strategic management's compensation are provided in a footnote to the table.

2.1 Regular financial disclosure: most significant transactions

During the six months under review, one transaction has been carried out, classified as most significant. The counterparty was INWIT (owned by TIM, an associate of the Bolloré group); the transaction was a loan, with other credit institutions forming part of the syndicate, for which Mediobanca has approved a €600m commitment. The transaction has been regulated on an arm's length basis due to the presence of unrelated parties and to a pricing opinion provided by third parties. The risk actually assumed by Mediobanca after the syndication process was completed amounted to €350m.

2.2 *Quantitative information*

The exposure (representing the sum of assets plus guarantees and commitments) decreased from €1.4bn to €0.7bn (less than 1% of Group assets), the decrease is due to the exit of Unicredit S.p.A. and the other group companies from the scope after the sale of their stake in the Mediobanca Group. Net interest income contribution decreased from 1.1% to 0.7% of the total.

Situation as at 31 December 2019

(€m)

	Directors, statutory auditors and strategic management		**Associates**	**Other related parties**	**Total**
Assets	1.2		276.1	452.4	729.7
of which: other assets	—		*71.4*	*194.7*	*266.1*
loans and advances	*1.2*		*204.7*	*257.7*	*463.6*
Liabilities	22.7		13.1	43.2	79.0
Guarantees and commitment	—		14.0	—	14.0
Interest income	—		4.1	2.9	7.0
Interest expense	—		—	(0.8)	(0.8)
Net fee income	—		0.8	31.1	31.9
Other income (costs)	(21.9)	1	0.1	(13.8)	(35.6)

[1] Of which: short-term benefits amounting to €20.2m and performance shares worth €1.6m

Situation as at 30 June 2019

(€m)

	Directors, statutory auditors and strategic management		**Associates**	**Other related parties**	**Total**
Assets	1.3		355.8	1,059.9	1,417.0
of which: other assets	—		*138.8*	*787.5*	*926.3*
loans and advances	*1.3*		*217.0*	*272.4*	*490.7*
Liabilities	18.0		0.1	393.4	411.5
Guarantees and commitment	—		10.0	—	10.0
Interest income	—		9.1	15.5	24.6
Interest expense	(0.1)		—	(2.5)	(2.6)
Net fee income	—		0.6	64.6	65.2
Other income (costs)	(41.6)	1	0.3	(38.6)	(79.9)

[1] Of which: short-term benefits amounting to €37.5m and performance shares worth €4m.

Part I - Share-based payment schemes

A. QUALITATIVE INFORMATION

1. *Information on capital increases for use in share-based payment schemes using the Bank's own equity instruments*

The increases in the Bank's share capital for use in connection with the stock option, performance stock option and performance share schemes approved by shareholders in extraordinary general meetings reflect the following situation:

Extraordinary general meeting	No. of shares approved	Awards expire on	Deadline for exercising options	No. of options and performance shares awarded
For use in connection with Stock Option Schemes				
28 October 2004	15.000.000	28 October 2009	1 July 2020	12.765.000
of which directors [1]	4.000.000	28 October 2009	1 July 2020	3.375.000 [2]
27 October 2007	40.000.000	27 June 2012	1 July 2022	15.536.000
For use in connection with performance share schemes				
28 October 2015	20.000.000	X	28 October 2020	5.272.723 [3]

[1] At a general meeting held on 27 June 2007, shareholders approved a proposal to grant stock options to Board members.

[2] Of these, 2,000,000 were granted to one former director.

[3] In respect of awards made in 2015, 2016, 2017, 2018, 2019 and 2020.

2. *Description of stock option and performance stock option schemes*

The stock option and performance stock option schemes approved pursuant to Article 2441, paragraphs 8 and 5, of the Italian Civil Code, provide for a maximum duration of eight years and a vesting period of thirty-six months.

The schemes were launched with a dual purpose: encouraging loyalty retention among key staff members, i.e. persuading employees with essential and/or critical roles within the Group to stay with Mediobanca; and making the remuneration package offered to them more diversified and flexible.

The choice of beneficiaries and decisions as to the number of options to be allocated are taken in view of the role performed by the person concerned with the company's organization and their importance in terms of creating value.

Awards of stock options finished with the financial year ended 30 June 2012, and the vesting period ended in June 2015; hence the remaining shares from the resolution adopted by shareholders in general meeting cannot be used.

3. Description of performance share scheme

As part of its use of equity instruments for staff remuneration purposes, Mediobanca has also chosen to adopt a performance share scheme, which was approved by the Bank's shareholders at the annual general meeting held on 28 October 2019 (in renewal of the scheme approved by shareholders in annual general meeting on 28 October 2015).

Under the terms of the scheme, in certain conditions Mediobanca shares may be awarded to staff free of charge at the end of a vesting period. The rationale for the scheme is to:

– Bring the Bank's remuneration structure into line with the regulations requiring that a share of the variable remuneration component be paid in the form of equity instruments, over a time horizon of several years, subject to performance conditions and hence consistent with results sustainable over time;
– Align the interests of Mediobanca's management with those of shareholders to create value over the medium/long term.

In connection with this proposal, a resolution to increase the company's share capital was adopted by shareholders at the annual general meeting held on 28 October 2015, with up to 20 million new Mediobanca shares being issued; the 18,921,915 treasury shares owned by the Bank may also be used for this purpose.

On 19th December 2019, the Directors of Mediobanca approved a long-term incentive plan linked to achievement of the objectives set in the 2019-23 strategic plan approved on 12 November 2019. The beneficiaries of the plan are the Chief Executive Officer of Mediobanca, the General Manager of Mediobanca, and the CEO of Compass/CheBanca!. A maximum number of 338,841 Mediobanca shares (performance shares) have been allocated to the recipients of the long-term incentive plan, to be awarded in the course of the five-year period subsequent to the LTI plan's completion, from the scheme approved by the Bank's shareholders at the Annual General Meeting held on 28 October 2019.

During the sixth months under review, a total of 1,964,004 performance shares were awarded, 338,841 of which in relation to the LTI plan from 2019 to 2023, 50,635 in respect to new hirings to the Group and 1,574,528 related to the variable remuneration for the 2019 financial year; the shares, which are conditional upon certain performance targets being met over a three- or four-year time horizon, will be made available (for Board members and other employees with more strategic duties) in tranches expiring in November 2021 (up to 30,381), November 2022 (up to 770,156), November 2023 (up to 436,784), November 2024 (up to 304,522) and November 2025 (up to 83,320).

On 30 November 2019, a total of 1,742,502 shares were granted via treasury share distribution.

QUANTITATIVE INFORMATION

1. Changes in performance share scheme during the year

	31/12/19		30/6/19	
	No. of performance shares	Avg. price	*No. of performance shares*	Avg. price
A. Opening balance	5,081,612	6.84	5,096,209	6.69
B. Increases				
B.1 New issues	1,964,004	7.71	1,835,703	6.78
B.2 Other additions	—	—	—	—
C. Decreases				
C.1 Performance shares cancelled	—	—	—	—
C.2 Performance shares made available	1,742,502	7.01	1,850,300	6.35
C.3 Performance shares expired	—	—	—	—
C.4 Other reductions	30,391	6.80	—	—
D. Closing balance	5,272,723	7.11	5,081,612	6.84

Part L - Segmental reporting

A. PRIMARY SEGMENTAL REPORTING

A.1 Profit-and-loss figures by business segment

(€m)

Profit-and-loss figures	Wealth Management	Consumer Banking	Corporate & Investment Banking	Principal Investing	Holding Functions	Writeoffs [1]	Group
Net interest income	138.1	474.0	136.1	(3.5)	(30.7)	7.5	721.5
Net trading income	2.8	—	73.5	5.3	12.1	(2.2)	91.5
Net fee and commission income	158.0	57.7	121.9	—	7.2	(16.3)	328.5
Share in profits earned by equity-accounted companies	—	—	—	183.7	—	—	183.7
Total income	**298.9**	**531.7**	**331.5**	**185.5**	**(11.4)**	**(11.0)**	**1,325.2**
Personnel costs	(118.4)	(50.0)	(75.6)	(1.7)	(57.7)	(0.1)	(303.5)
Administrative expenses	(106.3)	(99.6)	(68.1)	(0.5)	(22.3)	9.2	(287.6)
Operating costs	**(224.7)**	**(149.6)**	**(143.7)**	**(2.2)**	**(80.0)**	**9.1**	**(591.1)**
Loan loss provisions	(7.7)	(128.0)	30.0	—	(3.8)	—	(109.5)
Provisions for other Financial Assets	0.6	—	(0.3)	8.3	(0.1)	0.2	8.7
Other income (losses)	1.8	(4.7)	—	—	(11.8)	(1.1)	(15.8)
Profit before tax	**68.9**	**249.4**	**217.5**	**191.6**	**(107.1)**	**(2.8)**	**617.5**
Income tax for the period	(20.0)	(82.2)	(71.5)	(4.7)	31.9	0.4	(146.1)
Minority interest	(0.7)	—	(1.9)	—	(1.3)	0.1	(3.8)
Net profit	**48.2**	**167.2**	**144.1**	**186.9**	**(76.5)**	**(2.3)**	**467.6**
Cost/income ratio (%)	75.2	28.1	43.3	n.m.	n.m.	n.m.	44.6

Notes:

[1] Divisions comprise:

- *Wealth Management (WM)*: this division brings together all asset management services offered to the various client segments. It includes CheBanca!, which targets the Affluent & Premier client bracket, offering traditional banking services as well; the MBPB and CMB private banking networks, and the asset management companies (Cairn Capital, Mediobanca SGR, Mediobanca Management Company, and RAM Active Investment), plus Spafid;
- *Consumer Banking* (*CB*): this division provides retail clients with the full range of consumer credit products, ranging from personal loans to salary-backed finance (Compass Banca, Futuro and Compass RE;
- *Corporate & Investment Banking (CIB*): this division brings together all services provided to corporate clients in the following areas: investment banking (lending, advisory, capital markets activities) and proprietary trading (businesses performed by Mediobanca and Mediobanca International, Mediobanca Securities and Messier Maris & Associés); and Specialty Finance, which in turn consists of factoring and credit management (including NPL portfolio acquisitions and management) performed by MBFACTA and MBCredit Solutions;
- *Principal Investing (PI):* division which brings together the Group's portfolio of equity investments and holdings;
- *Holding Functions:* division which houses the Group's Treasury and ALM operations (as part of Mediobanca S.p.A.) with the objective of optimizing management of the funding and liquidity processes; it also includes all costs relating to Group staffing and management functions based at Mediobanca S.p.A.; and continues to include the leasing operations (headed up by SelmaBipiemme) and the services and minor companies (MIS and Prominvestment). Since 1 January 2019 the Holding Functions division has also been home to the corporate services area (performed by Spafid Connect).

[2] Sum of divisional data differs from Group total due to adjustments/differences arising on consolidation between business areas (equal to minus €2.3m).

A.2 Balance-sheet data by business segment (net contributions)

(€m)

Balance-sheet data	**Wealth Management**	**Consumer**	**Corporate & Investment Banking**	**Principal Investing**	**Holding Functions**	**Group**
Financial assets held for trading	6.5	—	12,520.3	—	—	12,526.8
Treasury financial assets and cash	—	—	3,779.0	—	5,310.3	9,089.3
Banking book debt securities	370.9	230.5	541.3	—	5,632.2	6,774.9
Customers loans	12,627.5	13,698.4	18,041.4	—	1,883.1	46,250.4
Equity investments	25.4	2.5	75.6	4,476.5	28.4	4,608.4
Tangible and intangible assets	253.4	440.5	178.1	—	533.8	1,405.8
Other assets	344.1	579.3	88.0	—	792.1	1,803.5
Total assets	**13,627.8**	**14,951.2**	**35,223.7**	**4,476.5**	**14,179.9**	**82,459.1**
Funding	(22,082.1)	(2,066.5)	—	—	(27,944.9)	(52,093.5)
Treasury Financial liabilities	—	—	(3,187.6)	—	(4,241.6)	(7,429.2)
Financial liabilities held for trading	—	—	(10,331.1)	—	—	(10,331.1)

ANNEXES

Consolidated financial statements

Comparison between restated balance sheet and format recommended by Bank of Italy circular no. 262/05, sixth update

As for Assets, the balance sheet shown in the Review of operations reflects the following restatements:

- The heading "Treasury financial assets" includes "Cash and cash equivalents" (heading 10); receivables in respect of current accounts and untied deposits, repos and other deposits in connection with securities lending operations and derivatives booked as "Financial assets at amortized cost: due from banks and due from customers" (headings 40a and 40b respectively), plus certain items booked as "Other assets" (heading 130);
- The heading "Banking book securities" includes the debt securities booked as "Financial assets recognized at fair value with impact taken to comprehensive income" (heading 30), as "Financial assets at amortized cost" (heading 40c) and as "Financial assets recognized at fair value with impact taken to profit and loss" both designated at fair value and classified compulsorily as such (headings 20b and 20c);
- The balance of "Equity investments" includes the equities accounted for as "Financial assets recognized at fair value with impact taken to comprehensive income" (heading 30), the "Equity investments" (heading 70) themselves, and the funds mandatorily recognized at fair value of heading 20c "Financial assets recognized at fair value with impact taken to profit and loss";
- The heading "Customer loans" includes loans and receivables booked as "Financial assets at amortized cost: due from banks and due from customers" (headings 40a and 40b respectively) including those recognized mandatorily at fair value with impact taken to profit and loss booked under heading 20c) net of the "Adjustment of hedging financial assets" (heading 60) for loans and receivables;
- The heading "Other assets" includes the amounts booked under headings 130 "Other assets", 110 "Tax assets" and 50 "Hedging derivatives", and the sundry debtor items booked as "Financial assets at amortized cost: due from banks and due from customers" (headings 40a and 40b);

As for Liabilities:

- The heading "Funding" includes the "Financial liabilities at amortized cost – Due to banks, Due to customers and Debt securities in issue (headings 10 a), 10 b) and 10 c) respectively)" different from those amounts booked as "Treasury financial liabilities", "Other liabilities" and "Financial liabilities designated at fair value" (heading 30);
- The heading "Treasury financial liabilities" includes amounts payable in respect of current accounts and untied deposits, repos and other deposits in connection with securities lending operations and derivatives booked as "Financial liabilities at amortized cost – a) Due to banks" and "b) Due to customers" (headings 10 a) and 10 b) respectively);
- The heading "Other liabilities" includes the headings 40 "Hedging derivatives", 60 "Tax liabilities" and 110 "Insurance reserves", plus the sundry creditor items booked as "Financial liabilities at amortized cost".

Balance sheet as at 31 December 2019 - Assets

(€m)

Format recommended by Bank of Italy circular no. 262/05 5th update

	Restated balance sheet							
Assets	**Financial assets held for trading**	**Treasury financial assets and cash**	***Banking book securities***	**Customer loans**	**Equity Investments**	**Tangible and intangible assets**	**Other assets**	**Total assets**
10. Cash and cash equivalents	—	196.7	—	—	—	—	—	**196.7**
20. Financial assets at fair value with impact taken to profit and loss	12,526.8	—	55.6	42.7	624.9	—	—	**13,250.0**
a) Financial assets held for trading	*12,526.8*	—	—	—	—	—	—	***12,526.8***
b) Financial assets designated at fair value	—	—	*52.0*	—	—	—	—	***52.0***
c) Other financial assets mandatorily at fair value	—	—	*3.6*	*42.7*	*624.9*	—	—	***671.2***
30. Financial assets at fair value with impact taken to comprehensive income	—	—	3,879.9	—	152.6	—	—	**4,032.5**
40. Financial assets at amortized cost	—	8,892.6	2,839.4	46,207.7	—	—	—	**57,939.7**
50. Hedging derivatives	—	—	—	—	—	—	341.9	**341.9**
60. Adjustment of hedging financial assets (+/-)	—	—	—	—	—	—	—	—
70. Equity investments	—	—	—	—	3,830.9	—	—	**3,830.9**
80. Reinsured portion of technical reserve	—	—	—	—	—	—	—	**—**
90. Property, plant and equipments	—	—	—	—	—	500.2	—	**500.2**
100. Intangible assets	—	—	—	—	—	905.6	—	**905.6**
110. Tax assets	—	—	—	—	—	—	755.2	**755.2**
120. Assets classified as held for sale	—	—	—	—	—	—	—	—
130. Other assets	—	—	—	—	—	—	706.4	706.4
Total assets	**12,526.8**	**9,089.3**	**6,774.9**	**46,250.4**	**4,608.4**	**1,405.8**	**1,803.5**	**82,459.1**

Balance sheet as at 31 December 2019 - Liabilities

(€m)

	Restated balance sheet						
Liabilities and net equity	**Funding**	**Treasury financial liabilities**	**Financial liabilities held for trading**	**Other liabilities**	**Provisions**	**Net equity and minority interests**	**Total liabilities and net equity**
10. Financial liabilities at amortized cost	52,039.4	7,429.2	—	271.2	—	—	**59,739.8**
a) Due to banks	*8,733.8*	*6,235.4*	—	*14.5*	—	—	***14,983.7***
b) Due to customers	*22,322.0*	*1,193.8*	—	*256.6*	—	—	***23,772.4***
c) Debt securities in issue	*20,983.6*	—	—	*0.1*	—	—	***20,983.7***
20. Trading financial liabilities	—	—	10,331.1	—	—	—	**10,331.1**
30. Financial liabilities designated at fair value	54.1	—	—	—	—	—	**54.1**
40. Hedging derivatives	—	—	—	323.4	—	—	**323.4**
50. Adjustment of hedging financial liabilities (+/-)	—	—	—	—	—	—	**—**
60. Tax liabilities	—	—	—	487.1	—	—	**487.1**
70. Liabilities included in disposal groups classified as held for sale	—	—	—	—	—	—	**—**
80. Oher liabilities	—	—	—	845.5	—	—	**845.5**
90. Staff severance indemnity provision	—	—	—	—	27.4	—	**27.4**
100. Provisions	—	—	—	—	138.6	—	**138.6**
110. Insurance reserves	—	—	—	170.0	—	—	**170.0**
120. Revaluation reserves	—	—	—	—	—	1,045.6	**1,045.6**
130. Redeemable shares repayable on demand	—	—	—	—	—	—	**—**
140. Equity instruments repayable on demand	—	—	—	—	—	—	**—**
150. Reserves	—	—	—	—	—	6,273.8	**6,273.8**
160. Share premium reserve	—	—	—	—	—	2,195.6	**2,195.6**
170. Share capital	—	—	—	—	—	443.6	**443.6**
180. Treasury share (-)	—	—	—	—	—	(175.8)	**(175.8)**
190. Minority interests (+/-)	—	—	—	—	—	91.7	**91.7**
200. Profit/(loss) for the period (+/-)	—	—	—	—	—	467.6	**467.6**
Total liabilities and net equity	**52,093.5**	**7,429.2**	**10,331.1**	**2,097.2**	**166.0**	**10,342.1**	**82,459.1**

Format recommended by Bank of Italy circular no. 262/05 5th update

Comparison between restated profit and loss account and format recommended by Bank of Italy circular no. 262/05, sixth update

The profit and loss account shown on p. 15 reflects the following restatements:

- "Net interest income" includes the items stated under headings 10 "Interest and similar income", 20 "Interest and similar expense", the margins on derivatives trading stated under heading 80 "Net trading income", and the net profit or loss on hedges of customer loans and funding stated under heading 90 "Net hedging income";
- "Net treasury income" contains the amounts stated under heading 70 "Dividends and similar income", heading 80 "Net trading income" (except for amounts booked as Net interest income and considering that the heading includes €7m of Banking Book changes in Forex), the net profit or loss on banking book securities stated under heading 100 "Net gains (losses) on disposals/repurchases", the share of securities lending transactions stated under headings 40 "Fee and commission income" and 50 "Fee and commission expense", and the share of heading 110 "Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss" not related to lending funds;
- The heading "Net fee and commission income" contains the amounts stated under heading 60 "Net fee and commission income", the operating income stated under heading 230 "Other operating income (expense)", and the writebacks due to collections on NPLs acquired stated under heading 130 "Net write-offs (write-backs) for credit risk" and the "Net profit from insurance activities" of headings 160 and 170;
- The heading "Loan loss provisions" contains the amounts relating to loans stated under headings 130 "Net value adjustments for credit risk" (net of the writebacks to NPLs), 100 "Net gains (losses) on disposals/repurchases", 110 "Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss" and 140 "Gain (losses) from contractual modifications without derecognition" and the share of heading 200 "Net transfers to provisions – a) commitments and guarantees issued" related to leasing;

– The heading "Gains (losses) on disposal of equity holdings" contains the earnings effects of the Group's holdings in equity investments stated under headings 250 "Gains (losses) on equity investments" while the effects of securities and funds stated under heading 110 "Net gains (losses) on other financial assets and liabilities recognized mandatorily at fair value" are reclassified under heading "Provisions for other financial assets";

– The heading "Operating costs" includes amounts booked under heading 190 "Administrative expenses", net transfers to provisions (heading 200), net adjustments to tangible and intangible assets and other operating income or expenses of heading 230, excluding those amounts reclassified as net fee and commission income;

– The heading "Other income (losses)" contains contributions to the Single Resolution Fund and Deposit Guarantee scheme and some other non-recurring costs stated under heading 190 "Administrative expenses", in particular, amounts set aside in respect of refurbishments and depreciation/amortization of tangible and/or intangible assets.

Profit and loss account as at 31 December 2019

(€m)

Profit-and-loss account	Net interest income	Net treasury income	Net fee and commission income	*Equity-accounted companies*	Operating costs	Loan loss provisions	Provisions for other financial assets	Other income (losses)	Income tax for the period	Minority interest	Net profit
	Restated balance sheet										
10. Interest and similar income	1,005.0	(0.2)	—	—	—	—	—	1.0	—	—	1,005.8
20. Interest expense and similar charges	(254.9)	(3.8)	—	—	—	—	—	(3.3)	—	—	(262.0)
30. Net interest income	750.1	(4.0)	—	—	—	—	—	(2.3)	—	—	**743.8**
40. Fee and commission income	0.5	7.4	319.8	—	—	—	—	—	—	—	327.7
50. Fee and commission expense	—	(5.0)	(69.6)	—	—	—	—	—	—	—	(74.6)
60. Net fee and commission income	0.5	2.4	250.2	—	—	—	—	—	—	—	**253.1**
70. Dividends and similar income	—	38.7	—	—	—	—	—	—	—	—	38.7
80. Net trading income	(28.4)	15.7	—	—	—	—	—	—	—	—	(12.7)
90. Net hedging income (expense)	(0.7)	—	—	—	—	—	—	—	—	—	(0.7)
100. Gain (loss) on disposal/repurchase	—	38.1	—	—	—	7.0	—	—	—	—	45.1
110. Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss	—	0.6	—	—	—	24.3	10.1	—	—	—	35.0
120. Total income	721.5	91.5	250.2	—	—	31.3	10.1	(2.3)	—	—	**1,102.3**
130. Net write-offs (write-backs) for credit risk	—	—	7.7	—	—	(139.8)	(1.4)	—	—	—	(133.5)
140. Gains (losses) from contractual modifications without derecognition	—	—	—	—	—	—		—	—	—	—
150. Net income from financial operations	721.5	91.5	257.9	—	—	(108.5)	8.7	(2.3)	—	—	**968.8**
160. Premiums earned (net)	—	—	29.4	—	—	—	—	—	—	—	29.4
170. Other income (net) from insurance activities	—	—	(8.1)	—	—	—	—	—	—	—	(8.1)
180. Net profit from financial and insurance activities	721.5	91.5	279.2	—	—	(108.5)	8.7	(2.3)	—	—	**990.1**
190. Administrative expenses	—	—	(0.1)	—	(577.6)	—	—	(13.7)	—	—	(591.4)
200. Net transfers to provisions	—	—	—	—	(2.3)	(1.0)	—	20.5	—	—	17.2
210. Net adjustments to tangible assets	—	—	—	—	(25.5)	—	—	—	—	—	(25.5)
220. Net adjustments to intangible assets	—	—	—	—	(13.9)	—	—	—	—	—	(13.9)
230. Other operating income (expense)	—	—	49.4	—	28.2	—	—	1.9	—	(2.3)	77.2
240. Operating costs	—	—	49.3	—	(591.1)	(1.0)	—	8.7	—	(2.3)	**(536.4)**
250. Gain (loss) on equity investments	—	—	—	183.7	—	—	—	—	—	—	183.7
260. Net result from fair value valuation of tangible and intangible assets	—	—	—	—	—	—	—	—	—	—	—
270. Goodwill write-offs	—	—	—	—	—	—	—	—	—	—	—
280. Gain (loss) on disposal of investments	—	—	—	—	—	—	—	0.2	—	—	0.2
290. Profit (loss) on ordinary activity before tax	721.5	91.5	328.5	183.7	(591.1)	(109.5)	8.7	6.6	—	(2.3)	**637.6**
300. Income tax for the year on ordinary activities	—	—	—	—	—	—	—	(22.4)	(146.1)	—	(168.5)
310. Profit (loss) on ordinary activities after tax	721.5	91.5	328.5	183.7	(591.1)	(109.5)	8.7	(15.8)	(146.1)	(2.3)	**469.1**
320. Gain (loss) of ceded operating assets, net of tax	—	—	—	—	—	—	—	—	—	—	—
330. Net profit (loss) for the period	721.5	91.5	328.5	183.7	(591.1)	(109.5)	8.7	(15.8)	(146.1)	(2.3)	**469.1**
340. Net profit (loss) for the period attributabe to minorities	—	—	—	—	—	—	—	—	—	(1.5)	(1.5)
350. Net profit (loss) for the period attributable to Mediobanca	**721.5**	**91.5**	**328.5**	**183.7**	**(591.1)**	**(109.5)**	**8.7**	**(15.8)**	**(146.1)**	**(3.8)**	**467.6**

Format recommended by Bank of Italy circular no. 262/05 6th updat

Mediobanca S.p.A.: comparison between restated balance sheet and format recommended by Bank of Italy circular no. 262/05, sixth update

Balance sheet as at 31 December 2019 - Assets

(€m)

Restated balance sheet

Format recommended by bank of italy circular no. 262/05 6th update

Assets	Financial assets held for trading	Treasury financial assets and cash	Banking book securities	Customer loans	Equity Investments	Tangible and intangible assets	Other assets	Total assets
10. Cash and cash equivalents	—	70.2	—	—	—	—	—	**70.2**
20. Financial assets at fair value with impact taken to profit and loss	12,763.2	—	55.6	47.2	599.4	—	—	**13,465.4**
a) Financial assets held for trading	*12,763.2*	—	—	—	—	—	—	*12,763.2*
b) Financial assets designated at fair value	—	—	*52.0*	—	—	—	—	*52.0*
c) Other financial assets mandatorily at fair value	—	—	*3.6*	*47.2*	*599.4*	—	—	*650.2*
30. Financial assets at fair value with impact taken to comprehensive income	—	—	3,879.8	—	310.2	—	—	**4,190.0**
40. Financial assets at amortized cost	—	10,940.9	6,384.9	28,495.0	—	—	—	**45,820.8**
50. Hedging derivatives	—	—	—	—	—	—	340.9	**340.9**
60. Adjustment of hedging financial assets (+/-)	—	—	—	—	—	—	—	**—**
70. Equity investments	—	—	—	—	3,192.5	—	—	**3,192.5**
80. Property, plant and equipments	—	—	—	—	—	143.5	—	**143.5**
90. Intangible assets	—	—	—	—	—	30.5	—	**30.5**
100. Tax assets	—	—	—	—	—	—	157.8	**157.8**
110. Assets classified as held for sale	—	—	—	—	—	—	—	—
120. Other assets	—	—	—	—	—	—	227.2	**227.2**
Total assets	**12,763.2**	**11,011.1**	**10,320.3**	**28,542.2**	**4,102.1**	**174.0**	**725.9**	**67,638.8**

Balance sheet as at 31 December 2019 - Liabilities

(€m)

Restated balance sheet

Format recommended by Bank of Italy circular no. 262/05 6th update

Liabilities and net equity	Funding	Treasury financial liabilities	Financial liabilities held for trading	Other liabilities	Provisions	Net equity and minority interests	Total liabilities and net equity
10. Financial liabilities at amortized cost	42,417.6	8,910.7	—	43.3	—	—	**51,371.6**
a) Due to banks	*20,514.7*	*7,716.8*	—	*14.1*	—	—	***28,245.6***
b) Due to customers	*4,870.3*	*1,193.9*	—	*29.0*	—	—	***6,093.2***
c) Debt securities in issue	*17,032.5*	—	—	*0.1*	—	—	***17,032.6***
20. Trading financial liabilities	—	—	10,563.5	—	—	—	**10,563.5**
30. Financial liabilities designated at fair value	54.1	—	—	—	—	—	**54.1**
40. Hedging derivatives	—	—	—	144.7	—	—	**144.7**
50. Adjustment of hedging financial liabilities (+/-)	—	—	—	—	—	—	**—**
60. Tax liabilities	—	—	—	333.2	—	—	**333.2**
70. Liabilities included in disposal groups classified as held for sale	—	—	—	—	—	—	**—**
80. Oher liabilities	—	—	—	246.5	—	—	**246.5**
90. Staff severance indemnity provision	—	—	—	—	7.7	—	**7.7**
100. Provisions	—	—	—	—	95.9	—	**95.9**
110. Revaluation reserves	—	—	—	—	—	102.9	**102.9**
120. Redeemable shares repayable on demand	—	—	—	—	—	—	**—**
130. Equity instruments repayable on demand	—	—	—	—	—	—	**—**
140. Reserves	—	—	—	—	—	2,184.9	**2,184.9**
150. Share premium reserve	—	—	—	—	—	2,195.6	**2,195.6**
160. Share capital	—	—	—	—	—	443.6	**443.6**
170. Treasury share (-)	—	—	—	—	—	(175.8)	**(175.8)**
180. Profit/(loss) for the period (+/-)	—	—	—	—	—	70.4	**70.4**
Total liabilities and net equity	**42,471.7**	**8,910.7**	**10,563.5**	**767.7**	**103.6**	**4,821.6**	**67,638.8**

Profit and loss account as at 31 December 2019

(€m)

Profit-and-loss account	*Restated balance sheet* Net interest income	Net treasury income	Net fee and commission income	Dividends on investments	Operating costs	Gains (losses) on disposal of equity holdings	Loan loss provisions	Provisions for other financial assets	Impairment on investments	Other income (losses)	Income tax for the period	Net profit
10. Interest and similar income	363.7	(0.2)	—	—	—	—	—	—	—	—	—	363.5
20. Interest expense and similar charges	(319.7)	(3.8)	—	—	—	—	—	—	—	(3.3)	—	(326.8)
30. Net interest income	**44.0**	**(4.0)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(3.3)**	**—**	**36.7**
40. Fee and commission income	3.6	7.4	122.3	—	—	—	—	—	—	—	—	133.3
50. Fee and commission expense	—	(6.3)	(12.5)	—	—	—	—	—	—	—	—	(18.8)
60. Net fee and commission income	**3.6**	**1.1**	**109.8**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**114.5**
70. Dividends and similar income	—	38.5	—	2.9	—	—	—	—	—	—	—	41.4
80. Net trading income	0.3	14.6	—	—	—	—	—	—	—	—	—	14.9
90. Net hedging income (expense)	(1.2)	—	—	—	—	—	—	—	—	—	—	(1.2)
100. Gain (loss) on disposal/repurchase	—	38.9	—	—	—	—	—	—	—	—	—	38.9
110. Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	—	0.6	—	—	—	—	24.6	9.3	—	—	—	34.5
120. Total income	**46.7**	**89.7**	**109.8**	**2.9**	**—**	**—**	**24.6**	**9.3**	**—**	**(3.3)**	**—**	**279.7**
130. Net write-offs (write-backs) for credit risk	—	—	—	—	—	—	28.9	(2.1)	—	—	—	26.8
140. Gains (losses) from contractual modifications without derecognition	—	—	—	—	—	—	—	—		—	—	—
150. Net income from financial operations	**46.7**	**89.7**	**109.8**	**2.9**	**—**	**—**	**53.5**	**7.2**	**—**	**(3.3)**	**—**	**306.5**
160. Administrative expenses	—	—	(0.2)	—	(192.7)	—	—	—	—	(0.3)	—	(193.2)
170. Net transfers to provisions	—	—	—	—	—	—	(4.8)	—	—	25.7	—	20.9
180. Net adjustments to tangible assets	—	—	—	—	(4.4)	—	—	—	—	—	—	(4.4)
190. Net adjustments to intangible assets	—	—	—	—	(2.0)	—	—	—	—	—	—	(2.0)
200. Other operating income (expense)	—	—	11.2	—	(0.5)	—	—	—	—	—	—	10.7
210. Operating costs	**—**	**—**	**11.0**	**—**	**(199.6)**	**—**	**(4.8)**	**—**	**—**	**25.4**	**—**	**(168.0)**
220. Gain (loss) on equity investments	—	—	—	—	—	—	—	—	(4.6)	—	—	(4.6)
230. Net result from fair value valuation of tangible and intangible assets	—	—	—	—	—	—	—	—	—	—	—	—
240. Goodwill write-offs	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
250. Gain (loss) on disposal of investments	—	—	—	—	—	—	—	—	—	—	—	—
260. Profit (loss) on ordinary activity before tax	**46.7**	**89.7**	**120.8**	**2.9**	**(199.6)**	**—**	**48.7**	**7.2**	**(4.6)**	**22.1**	**—**	**133.9**
270. Income tax for the year on ordinary activities	—	—	—	—	—	—	—	—	—	(22.4)	(41.1)	(63.5)
280. Profit (loss) on ordinary activities after tax	**46.7**	**89.7**	**120.8**	**2.9**	**(199.6)**	**—**	**48.7**	**7.2**	**(4.6)**	**(0.3)**	**(41.1)**	**70.4**
290. Gain (loss) of ceded operating assets, net of tax	—	—	—	—	—	—	—	—	—	—	—	—
300. Net profit (loss) for the period	**46.7**	**89.7**	**120.8**	**2.9**	**(199.6)**	**—**	**48.7**	**7.2**	**(4.6)**	**(0.3)**	**(41.1)**	**70.4**

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