

MEDIOBANCA

LIMITED COMPANY

SHARE CAPITAL € 321,168,057.50 FULLY PAID UP

RESERVES € 2,961.6 MILLION

HEAD OFFICE: PIAZZETTA ENRICO CUCCIA 1, MILAN, ITALY

REGISTERED AS A BANK AND BANKING GROUP

PARENT COMPANY OF THE MEDIOBANCA BANKING GROUP

Quarterly Report

for the three months ended 30th September 2001

www.mediobanca.it

REVIEW OF GROUP OPERATIONS

The Group's consolidated accounts for the three months ended 30th September 2001 reflect a margin before tax of € 347.9m compared with € 175.3m in the first quarter of our previous financial year. This result was arrived at after provisions totalling € 2.3m (€ 3.1m).

Profit from ordinary operations during the three-month period under review was € 77.3m, a decrease of € 15.7m. This is mainly attributable to a drop in fee income from € 46m to € 28.5m only partially offset by an increase in interest margin of € 3.1m which occurred despite dividends received falling by € 6.6m.

Extraordinary operations reflect the gain of € 428.6m on the sale of our holding in Montedison, as against bad debt writeoffs, which again mainly involved consumer credit and factoring, and to a small extent the Group's leasing activities. Interim net writedowns in our securities portfolio, based on average prices in the six months ended 30th September, totalled € 99.6m, or € 225.7m if based on the three months to 30th September. This compares with writebacks of € 42.4m last year.

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The following is a review of major asset headings:

Funding – This increased during the quarter by just under € 300m. Certificates of deposit, bonds, notes and reverse convertibles rose by € 527.3m, partially offset by a decrease of € 231.8m in deposits raised through banks. Mediobanca International’s contribution to aggregate funding was € 2,820.7m (30/6/01: € 3,104.5m).

Customer loans – These reduced from € 16,998.1m at 30th June to € 16,263.6m. At 30th September 68% of the Group’s loan book consisted of corporate finance, 19% leasing transactions and 13% consumer credit and mortgage finance. At the end of the quarter, significant exposures in terms of concentration according to the permitted risk weightings (i.e., in excess of 10% of consolidated net equity as determined under Bank of Italy regulations), totalled € 9,763.7m, or 22.6% of the aggregate limit of € 43,259.9m. The funds concerned have been lent to ten “groups of connected clients”, exposure to none of which exceeds the currently permitted individual threshold.

Investment securities – These fell by € 230.5m compared with 30th June. Interim net writedowns totalled € 71.3m. The net surplus of market price over book value, based on average prices in the six months ended 30th September 2001, was € 4,116.1m. Based on market prices and holdings as at 26th October 2001, this surplus fell to € 3,145.2m.

Liquid assets – Including the net contribution from forward transactions, these rose by € 1,420.3m compared with 30th June. The item includes securities worth € 4,083m, which underwent net interim writedowns of € 28.3m, based on average quotations in September. Taking account of these writedowns, the securities portfolio reflects a net surplus of € 53.7m based on market prices as at 26th October 2001.

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A consolidated financial statement and profit and loss account are set out below in the usual restated format:

CONSOLIDATED FINANCIAL STATEMENT

	30/9/00	30/6/01	30/9/01
	€ m	€ m	€ m
Assets			
Treasury funds employed	2,012.8	4,601.7	6,022.0
Loans and advances	17,334.4	16,998.1	16,263.6
Investment securities	3,416.4	3,333.7	3,103.2
Intangible assets	1.9	1.5	1.4
Net fixed assets	68.3	67.2	66.4
Other assets	1,611.0	1,648.4	1,978.8
Total assets	<u>24,444.8</u>	<u>26,650.6</u>	<u>27,435.4</u>
Liabilities			
Deposits and loans	17,691.2	19,170.9	19,467.9
Provision for liabilities and charges	459.0	375.5	377.8
Consolidated provision for future liabilities and charges	6.6	6.8	6.4
Other liabilities	2,157.1	2,460.2	2,699.4
Credit risks provisions	13.4	13.4	13.4
Shareholders' equity attributable to minorities	45.7	49.0	52.8
Shareholders' equity	3,896.5	4,277.6	4,469.8
Profit	175.3 ⁽¹⁾	297.2	347.9 ⁽¹⁾
Total liabilities	<u>24,444.8</u>	<u>26,650.6</u>	<u>27,435.4</u>

⁽¹⁾ Before tax.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	3 months to 30/9/00	12 months to 30/6/01	3 months to 30/9/01
	€ m	€ m	€ m
Interest margin	106.2	530.1	109.3
<i>of which: dividends</i>	6.9	152.1	0.3
Commissions received and other income	46.0	219.0	28.5
General expenses	(59.2)	(266.8)	(60.5)
GROSS MARGIN FROM ORDINARY OPERATIONS	93.0	482.3	77.3
Net gain (loss) on sale of investment securities	43.6	101.7	432.4
Net writebacks (writedowns) in securities and investments	42.4 (A)	(109.0)	(99.6) (A)
Gain (loss) on exchange and derivative contracts	9.6	14.4	(45.0)
Bad debts written off	(6.8)	(42.7)	(11.1)
Gain on investments stated on equity basis ..	—	0.2	—
MARGIN BEFORE TAXATION AND PROVISIONS	181.8	446.9	354.0
Transfer to provision for liabilities and charges	(2.4) (A)	(12.5)	(1.7) (A)
Accelerated depreciation and amortization ..	(0.7) (A)	(4.7)	(0.6) (A)
(Profit)/loss attributable to minority interests	(3.4)	(6.3)	(3.8)
PROFIT BEFORE TAX	175.3	423.4	347.9
Transfers to provisions for income taxes and asset tax	—	(126.2)	—
NET PROFIT	—	297.2	—

(A) Interim provisions.

* * *

A review of the main developments in Group companies is given below.

Mediobanca

Profit before tax and provisions for the three months ended 30th September 2001 was € 336.7m (30/9/00: € 161m) after net gains on disposal of investment securities amounting to € 430.2m (most of which represented the gain on the sale of our holding in Montedison) and interim writedowns of € 97.5m in our securities portfolio (as against writebacks of € 42.9m). In our ordinary operations, the interest margin was down from € 64.3m to € 49.4m as a result of dividends declining from € 6.9m to € 0.3m and the results of our trading in securities and derivatives, which reflect the drop in share prices. Fee income also fell from € 33.9m to € 17.8m.

Funding (including loans from banks and EIB funds) rose by € 665m during the quarter, whereas loans and advances were € 668.6m lower. Liquid assets thus increased by € 1,786.8m, taking account of forward transactions.

Investment securities show a net decline of € 274m, as a result of new investments of € 207.2m being more than offset by divestments of € 410m and net interim writedowns of € 71.2m. Details are as follows:

- we purchased 77.4m *Olivetti* shares for an outlay of € 125.7m;
- we purchased 1.3m *Commerzbank* shares for an outlay of € 36.7m;
- we took up stock in *Dieci S.r.l.* worth a nominal € 12.5m for an outlay of € 18.8m;
- we paid in a capital call of € 15.5m from our subsidiary *Sade Finanziaria*;
- we sold our entire holding in *Montedison*, involving a divestment of € 403.1m and yielding a gain of € 831.7m.

Interim adjustments were made to the stocks listed below as follows:

Writebacks

	€ m
<i>AMB</i>	0.8
	<u>0.8</u>

Writedowns

	€ m
<i>Banca di Roma</i> ordinary.....	21.1
<i>Mediolanum</i>	13.3
<i>Intesa BCI</i>	12.2
<i>Finmeccanica</i>	9.4
<i>Commerzbank</i>	7.6
<i>Olivetti</i>	3.7
<i>Gemina</i>	2.9
<i>Others</i>	1.8
	<u>72.0</u>

Since 30th September a further € 26.3m has been invested in *Commerzbank* shares.

Compass

This company's profit from ordinary operations before tax, net write-downs in investments and adjustments to receivables was € 16.4m in the first three months of the financial year (€ 10.9m). Loans outstanding at 30th September were 2% higher than at 30th June 2001.

SelmaBipiemme Leasing

Profit from ordinary operations before tax and adjustments to receivables and other provisions was € 5.4m for the first three months of the financial year (€ 4m). The volume of business was 2.9% higher than at 30th June 2001.

Palladio Leasing

Profit from ordinary operations in the first three months before tax and adjustments to receivables and other provisions was € 3.3m (€ 3.6m). The net value of goods on or pending lease was 5% higher than at 30th June 2001.

Teleleasing

In the first quarter of the financial year, this company's profit from ordinary operations before tax, adjustments to receivables and other provisions was € 4m (€ 1.2m). The net value of goods on or pending lease showed a reduction of 1.1% compared with 30th June 2001.

Micos Banca

Profit from ordinary operations before tax, adjustments to receivables and other provisions was € 604,000 in the first three months of the financial year (€ 585,000). Mortgage loans outstanding were 9% higher than at 30th June 2001.

MB Finstrutture - Intersomer

Pre-tax profit before provisions for the first nine months of the financial year amounted to € 716,000 (€ 767,000).

Lendings fell by 0.9% compared with 30th June 2001.

Spafid

Pre-tax profit before writedowns in securities was € 351,000 (€ 1.3m). Securities and value items held in trust amounted to € 1,414.4m (€ 1,470.6m).

Mediobanca International

Profit for the quarter was USD 308,000 (USD 612,000). Total funding amounted to USD 2,575.6m (30/6/01: USD 2,632.6m).

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Prospects

The current economic situation does not materially affect our forecast of an increase in interest margin over the year as a whole. As stated in the annual report for the year ended 30th June 2001, developments on the market will affect our securities trading operations, fee income from investment banking, and adjustments to the book value of our securities portfolio.

Milan, 29th October 2001

THE BOARD OF DIRECTORS

Methods of consolidation and accounting policies

The financial statement and profit and loss account for the three months ended 30th September 2001 have been prepared on a consolidated basis and in reclassified form consistent with the accounts for the year ended 30th June 2001 and those for the three months ended 30th September 2000.

Scope of consolidation

The consolidated accounts as at 30th September 2001 comprise the results of the Parent Company and those of its directly or indirectly controlled subsidiaries engaged in banking or financial services or solely or principally in activities of a substantially similar nature. The Bank's other significant equity investments have been consolidated using the net equity method.

Basis of consolidation

Group subsidiaries have been consolidated on the line-by-line basis by combining their earnings, expenses, assets and liabilities, and by eliminating equity and intra-group accounts against the carrying value of the underlying investments.

Net differences arising when the accounts were first consolidated as at 30th June 1994 have been recorded in the item *Negative goodwill on consolidation*. No positive goodwill on consolidation has been attributed to any assets.

The portion of net equity and share of profit for the period attributable to minority interests has been stated as *Net equity attributable to minority shareholders*.

Accounts expressed in foreign currencies

Accounts of subsidiaries denominated in currencies other than the Euro have been translated into Euros at exchange rates ruling on 30th September 2001. Exchange differences against net equity arising when the accounts were first consolidated have been taken to *Other reserves*.

Accounts used for consolidation

The consolidated accounts have been prepared from the financial statements of the individual subsidiaries as at 30th September 2001, restated where appropriate on a basis consistent with the format adopted for the Parent Company's accounts, and also adjusted to eliminate amounts charged to the profit and loss account solely to achieve tax benefits.

Leasing companies have been consolidated on the basis of their accounts prepared according to the finance lease method.

Accounting policies

The accounting policies are the same as those used in presenting the consolidated accounts.

The profit for the three months ended 30th September 2001 is stated before tax.