MEDIOBANCA

Quarterly Report

for the three months ended 30 September 2004

MEDIOBANCA

LIMITED COMPANY
SHARE CAPITAL € 389,418,332.50 FULLY PAID UP - RESERVES € 3,037.1m
HEAD OFFICE: PIAZZETTA ENRICO CUCCIA 1, MILAN, ITALY
Registered as a Bank. Parent Company of the Mediobanca Banking Group

Quarterly Report

for the three months ended 30 September 2004

REVIEW OF GROUP OPERATIONS

In the first three months of its new financial year, the Mediobanca Banking Group recorded top-line growth in excess of 20%, up from € 214.2m to € 259.7m, and earned a profit from ordinary operations of € 175.5m, up 17.3% from the € 149.6m posted in the quarter ended 30 September 2003. This bears out the growth recorded by all the main areas of Group operations during the past financial year. In wholesale banking, revenues increased by 9.7% from € 136.3m to € 149.5m, and profit from ordinary operations rose by 8.4% from € 110.4m to € 119.7m. In retail financial services, the Compass group posted an increase of approximately 25% in lending volumes, which contributed to growth in the region of 20% for both revenues and profit from ordinary operations, from € 78.4m to € 93.4m in the case of the former and € 42.5m to € 50.9m in the case of the latter. The performance recorded by the Group's private banking operations reflects the inclusion of Compagnie Monégasque de Banque (CMB), which was not consolidated at this stage last year, and which added € 18.3m in revenues and € 7.6m in profit from ordinary operations. The Group's equity investment portfolio reflects a slight downward adjustment of € 11m based on average prices in the six months to 30 September 2004, compared with writebacks of € 70.3m at the same time last year. Unrealized gains on the portfolio grew by € 24.4m, which rises to approximately € 300m based on current prices, and translates to a total surplus of market over book value in the region of approx. € 3.3bn.

Pre-tax profit attributable to the Group for the period amounts to € 119.4m (30/9/03: € 164.5m), after writedowns of € 19m to securities and derivatives held in treasury (€ 33.4m), value adjustments to receivables of € 17.6m (€ 18.6m), and depreciation and amortization of € 1.5m (€ 0.4m).

CONSOLIDATED FINANCIAL STATEMENTS

The Group's profit and loss account and balance sheet have been condensed and compared in the usual way and are set out below. Tax credits on dividends received in the year ended 30 June 2004 have been taken to the item *Provision for income tax*:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	3 mths to 30/9/03	12 mths to 30/6/04	3 mths to 30/9/04
	€ m	€ m	€ m
Interest income	145.6	797.1	198.6
of which: dividends	*0.1*	*119.4*	*0.5*
Commissions received and other income	68.6	253.6	61.1
General costs and expenses	(64.6)	(362.6)	(84.2)
GROSS MARGIN FROM ORDINARY OPERATIONS	**149.6**	**688.1**	**175.5**
Net writedowns to securities and derivatives held in treasury	(33.4)	(7.0)	(19.0)
Net gain (loss) on disposal of investment securities	—	40.4	—
Net writebacks (writedowns) to investment securities	70.3	132.0	(11.0)
Bad debts written off	(18.6)	(88.4)	(17.6)
Gain (loss) on investments stated on net equity basis	—	4.4	0.5
PROFIT BEFORE TAX AND PROVISIONS	**167.9**	**769.5**	**128.4**
Provision for liabilities and charges	—	(1.5)	—
Depreciation and amortization	(0.4)	(7.1)	(1.5)
Profit attributable to minority shareholders	(3.0)	(17.4)	(7.5)
PROFIT BEFORE TAX AND PROVISIONS	**164.5**	**743.5**	**119.4**
Provision for income tax	—	(207.1)	—
NET PROFIT	—	**536.4**	—

CONSOLIDATED BALANCE SHEET

	30/9/03	30/6/04	30/9/04
	€ m	€ m	€ m
Assets			
Treasury funds employed	9,848.2	9,723.0	9,756.4
Loans and advances to customers	16,544.9	16,280.9	16,322.5
Investment securities	3,593.8	3,154.8	3,314.2
Intangible assets	1.4	1.5	1.3
Property	122.1	260.5	263.2
Furniture and fixtures	5.0	11.1	13.2
Other assets	2,230.6	2,407.3	2,399.1
Total assets	32,346.0	31,839.1	32,069.5
Liabilities			
Deposits and loans	25,439.5	24,596.6	24,725.6
Provision for liabilities and charges	307.5	386.6	390.4
Other liabilities	1,609.4	1,476.9	1,764.1
Loan loss provisions	13.4	13.4	13.4
Equity attributable to minority shareholders	62.7	184.3	189.4
Shareholders' equity	4,749.0	4,644.9	4,867.2
Profit for the year	164.5 [1]	536.4	119.4 [1]
Total liabilities	32,346.0	31,839.1	32,069.5

(1) Pre-tax.

REVIEW OF KEY ITEMS

BALANCE SHEET

The following is a review of movements in the major balance sheet items during the quarter:

Deposits and loans – this item remained at levels recorded at the balance sheet date. Back-to-back funding for customer loans fell by € 463.5m during the three months, offset by an increase in funds raised via debt securities from € 16,214.3m to € 16,655.3m

Loans and advances to customers – these also remained stable at € 16.3bn, with 5% growth in lendings to households offsetting a slight 0.8% decline in loans to corporates and a 0.4% fall in leasing. At 30 September 2004, 64% of the Group's loan book consisted of corporate lending and structured finance (30/6/04: 65%), 18% of consumer credit (17%) and 16% of leasing, with the remaining 2% made up of finance disbursed by CMB.

Investment securities – these rose by € 159.4m, after net writedowns of € 11m and gains of € 0.5m on holdings stated on a net equity basis, in this case in Banca Esperia. Movements during the quarter involved purchases worth € 175.3m, mostly due to the transactions described in the annual report, notably € 121.7m to acquire a 3.8% stake in RCS Mediagroup, € 36.2m to acquire shares in Telecom Italia, € 8.3m to acquire shares in Assicurazioni Generali, and € 7.7m to acquire Pirelli & C. shares and warrants. The € 171m bond issue convertible into Ferrari shares amounting to a 7.5% stake in that company was repaid at maturity on 13 September 2004, and was replaced by a new issue, also convertible into Ferrari shares, falling due on 30 September 2007. At 30 September 2004, the portfolio reflected a surplus of market over book value of € 2,987.4m, which based on current prices rises to € 3,284.5m. At the same date, the Group's interest in Assicurazioni Generali amounted to 14.12% (30/6/04: 14.09%), 12.80% of which is owned by Mediobanca and the other 1.32% by Compass, MB Finstrutture - Intersomer and Spafid. The entire shareholding is carried at € 1,260.6m.

Treasury funds – these rose by € 33.4m from € 9,723m to € 9,756.4m. The item comprises € 1.9bn in cash and short-term lendings, including forward and spot transactions, and € 7.9bn in securities, almost all of which are fixed income. Net writedowns charged to these securities, which include derivatives, at 30 September 2004 amounted to € 19m, after which the Group's treasury securities portfolio reflects unrealized gains of € 186.3m.

Provisions for liabilities and charges – these include the provision for taxation amounting to € 305.5m, the staff severance indemnity provision totalling € 33m, and the provision for liabilities and charges of € 51.9m, mostly in connection with the Compass group's operations.

Shareholders' equity – Group shareholders' equity rises by € 222.3m compared with 30 June 2004, upon payment of the proposed dividend.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Interest income

This rose by 36.4% to € 198.6m (30/9/03: € 145.6m), slightly over half of which is attributable to Mediobanca. The increase reflects higher profits from treasury management, which rose from € 37.2m to € 81.5m, and higher interest income on lendings, which grew from € 108.3m to € 116.6m, principally due to the increase in lendings by the Compass group, as well as the contribution of CMB.

Commissions received and other income

These fell by 10.9% from € 68.6m to € 61.1m, reflecting the sluggishness currently affecting the investment banking market. The item comprises:

— € 33.8m in fees earned by Mediobanca;

— € 12.3m in income generated by the Compass group;

— € 15.0m earned by other Group companies, including CMB (€ 12.4m), MB Finstrutture - Intersomer (€ 1.4m) and Spafid (€ 0.7m).

General costs and expenses

The increase in this item from € 64.6m to € 84.2m reflects, as to approx. € 10.7m, the consolidation of CMB, and costs incurred in connection with the Compass group's higher business volumes and branch network expansion, which has seen six new branches opened during the three months under review. The most significant items that go to make up this heading are:

— labour costs of € 40.7m (30/9/03: € 30.9m), almost half of which are attributable to Mediobanca;

— bank charges and commissions of € 13.7m (€ 11.5m), including € 10.5m in fees paid to agents by the Compass group (€ 8.9m), which are charged to profit and loss in full as and when the underlying loan is disbursed, rather than being amortized over its estimated life;

— sundry items totalling € 29.8m (€ 22.2m), including € 25.1m (€ 19.5m) in administrative expenses, € 3m (€ 1.8m) in ordinary depreciation charges, and € 1.7m (€ 0.9m) in sundry other charges. The key items under administrative expenses, € 8m of which were attributable to Mediobanca, are as follows:

  - EDP and financial information subscriptions of € 6.1m (€ 5.2m);
  - outside service and consultancy fees of € 3.9m (€ 2.4m);
  - fees incurred in respect of recovering bad debts and legal fees, which amounted to € 3.6m (€ 2.4m);
  - rent and equipment leasing and maintenance charges of € 3.4m (€ 2.5m);
  - stationery, publication costs and utilities of € 2.1m (€ 1.7m);
  - advertising costs of € 1.3m (€ 0.7m), travel and entertainment costs of € 1.0m (€ 0.8m).

Bad debt written off

This item involves almost exclusively the Compass group, and performed largely in line with the figure recorded for the three months to 30 September 2003.

Review of group businesses

A review of the quarterly performance delivered by the different areas in which the Group operates is given below, based on the same format as that adopted in presenting the annual report and accounts.

Wholesale banking

	3 mths to 30/6/03	12 mths to 30/6/04 (*)	3 mths to 30/9/04
	€ m	€ m	€ m
Treasury funds employed	9,686.4	8,727.5	8,738.5
Loans and advances to customers	13,785.5	13,010.7	12,827.7
Deposits and loans	22,500.5	20,469.4	20,404.5
Total revenues	136.3	550.1	149.5
General costs and expenses	(25.9)	(139.7)	(29.8)
Gross margin from ordinary operations	110.4	410.4	119.7
Pre-tax profit	77.0	398.5	98.1

(*) Net of tax credit on dividends received.

A gross margin of € 119.7m was earned from ordinary operations during the quarter, up 8.4% from last year, on the back in particular of higher income from treasury operations, which rose from € 37.2m to € 81.8m. Commissions and other income reflect the reduction linked to the sluggishness affecting the investment banking market referred to earlier.

The Group's loan book reflects a slight decline from € 13,010.7m to € 12,827.7m, chiefly as a result of the € 463.5m reduction in back-to-back loans. Stable levels of funding also reflect this reduction in back-to-back loans, offset by new issues amounting to € 444m. Treasury accounts were virtually unchanged from the figure recorded at 30 June 2004, and include € 128.7m in cash and bank balances, € 8.1bn in fixed income securities, € 0.3bn in equities, and a € 0.2bn surplus of sundry other funds, this last item being largely comprised of repo transactions and technical shortfalls.

Equity investment portfolio

	3 mths to 30/9/03	12 mths to 30/6/04 (*)	3 mths to 30/9/04
	€ m	€ m	€ m
Securities held in portfolio	3,299.7	3,134.5	3,293.3
Dividends	—	99.9	—
Gains (losses) on disposals	—	40.4	—
Net writebacks (writedowns)	70.3	132.0	(11.1)
Pre-tax gain (loss)	66.4	257.1	(14.5)
Unrealized gain vs preceding period	23.3	422.1	24.4
Total gain	89.7	679.2	9.9

(*) Net of tax credit on dividends received.

The Group's equity investment portfolio closed at € 3,293.3m, up € 158.8m as a result of movements during the quarter described above. At 30 September 2004 a net downward adjustment of € 11.1m was made, broken down as follows:

	€ m
Writebacks	
Fiat	2.2
Gemina	1.6
Capitalia	1.4
	5.2
Writedowns	
Mediolanum	(6.6)
Commerzbank	(4.9)
Finmeccanica	(4.3)
Other listed securities	(0.5)
Total	(16.3)

The book value of listed securities held in portfolio compared with average prices in the six months to 30 September 2004 reflects a net surplus of € 2,987.4m, up € 24.4m on the figure recorded at 30 June 2004; based on prices and holdings at the time of writing the surplus rises to € 3,284.5m.

Retail financial services: consumer credit and leasing

	3 mths to 30/9/03	12 mths to 30/6/04	3 mths to 30/9/04
	€ m	€ m	€ m
Loans to customers	4,757.9	5,338.9	5,468.1
Securitized lendings	1,112.2	1,112.2	1,112.2
Amounts disbursed	685.6	3,080.6	853.6
Total revenues	78.4	342.9	93.4
General costs and expenses	(35.9)	(173.2)	(42.5)
Gross profit from ordinary operations	42.5	169.7	50.9
Pre-tax profit	20.6	73.9	29.9

The Compass group's consolidated highlights as at 30 September 2004 reflect an improvement of 19.8% in the gross margin earned on ordinary operations, which rose from € 42.5m to € 50.9m, on the back of higher interest income, up from € 68m to € 81.1m as a result of higher average volumes in the consumer credit segment particularly. Commissions and other income rose by 18.3% from € 10.4m to € 12.3m, and comprise € 4.6m (€ 3.6m) in income from recovered loans, € 4.3m (€ 4.1m) in income and recovered financing costs from consumer credit, and € 3.4m (€ 2.7m) in net income from leasing. The increase in overheads from € 35.9m to € 42.5m is due to higher fees paid to agents in connection with the increase in lending volumes, up from € 8.9m to € 10.7m, as well as to expenses incurred in respect of the group's geographical and operational expansion referred to above. The € 29.9m pre-tax profit (30/9/03: € 20.6m) includes bad debts writeoffs and transfers to loan loss and other provisions amounting to € 17.6m (€ 18.6m).

As at 30 September 2004, lendings to customers totalled € 5,468.1m (30/6/04: € 5,338.9m), shared almost equally between the leasing and consumer credit businesses.

Private banking

	3 mths to 30/9/03	12 mths to 30/6/04 (*)	3 mths to 30/9/04 (*)
	€ m	€ m	€ m
Assets under management /administration	2,004.0	9,378.7	9,575.1
Securities held in trust	1,068.9	1,008.7	1,031.6
Total revenues	7.4	91.5	24.4
Profit from ordinary operations	3.0	28.1	9.0
Profit attributable to the Group	3.0	19.1	7.1

(*) Includes CMB.

The aggregate figures include the Group's 48.5% share in Banca Esperia's profits on a pro-forma basis, as well as CMB as from the twelve months ended 30 June 2004.

During the three months under review, this business area delivered a pre-tax profit of € 7.1m, € 6.3m of which was attributable to CMB, and generated management fees of € 18m. Assets under management and administration rose by € 196.4m during the three months.

REVIEW OF GROUP COMPANIES

Mediobanca

	3 mths to 30/9/03	12 mths to 30/6/04	3 mths to 30/9/04
	€ m	€ m	€ m
Treasury funds employed	9,297.2	8,427.8	8,505.9
Loans and advances	14,019.6	13,324.4	13,192.3
Investment securities	3,191.7	2,987.7	3,146.4
Deposits and loans	22,426.9	20,561.2	20,620.9
Shareholders' equity	4,361.1	4,383.1	4,496.3
Total revenues (1)	133.2	626.0	147.4
General costs and expenses	(29.1)	(148.3)	(31.4)
Gross margin on ordinary operations	104.1	477.7	116.0
Profit for the year	129.1 (2)	427.6	83.3 (2)

(1) Net of tax credit on dividends received.

(2) Pre-tax.

Mediobanca earned a gross margin of € 116m from ordinary operations during the three months under review, up 11.4% versus the same stage last year (30/9/03: € 104.1m). This increase is largely due to interest income, which was boosted by higher dealing profits from treasury operations, up from € 36.4m to € 81.1m, whereas commissions and other income declined from € 54.4m to € 34.1m.

This translates to a pre-tax profit for the quarter of € 83.3m (€ 129.1m), after net writedowns to investment securities amounting to € 11.2m, which were calculated on the basis of average stock market prices in the six months to 30 September 2004, compared with net writebacks of € 70.3m this time last year, plus a further € 21.3m in writedowns to securities and derivatives held in treasury (€ 33.9m).

The performances by the main asset headings reflects the descriptions given in the section on wholesale banking.

Measures to implement what is referred to as "fiscal cleansing" under Italian Legislative Decree 6/03 (otherwise known as the "Vietti reform") shall be applied as from this financial year, and will result in the loan loss provision, which at 30 June 2004 totalled € 319.6m, being taken to shareholders' equity, subject to prior allocation of extraordinary items to profit and loss, and calculation of the related tax burden where applicable.

Compass

This company earned a gross profit from ordinary operations (i.e. before tax and adjustments to receivables) of € 38.5m (30/9/03: € 29.2m). Customer lendings were 5% higher than at 30 June 2004.

Micos Banca

Gross profit from ordinary operations (i.e. before tax, adjustments to receivables and other provisions) amounted to € 2.7m (€ 2.3m). Mortgage loans outstanding were 6% higher than at the balance sheet date.

SelmaBipiemme Leasing

Gross profit from ordinary operations (as defined above) in the first three months of the new financial year amounted to € 4.3m (€ 5.4m). The net value of goods leased or pending lease was largely in line with that recorded at 30 June 2004.

Palladio Leasing

This company earned a gross profit from ordinary operations (as defined above) of € 3.7m (€ 3.3m). The net value of goods leased or pending lease was 2.3% higher than at the balance sheet date.

Teleleasing

During the first three months of its new financial year, Teleleasing earned a gross profit from ordinary operations (as defined above) of € 6.5m

(€ 7.7m). The net value of goods leased or pending lease had grown by 4.8% since 30 June 2004.

MB Finstrutture - Intersomer

Profit for the quarter before tax and value adjustments to securities totalled € 0.3m, compared with € 0.7m pro-forma for the three months to 30 September 2003, after commissions received totalling € 1.3m (€ 1.8m). Lendings outstanding at the quarter-end were € 845.1m (30/6/04: € 899.1m).

Mediobanca International

Profit for the three months totalled € 778,000 (€ 1.8m). Total deposits amounted to € 1,823.8m (30/6/04: € 1,798.7m).

Compagnie Monégasque de Banque

This company earned a profit of € 19.6m in the first nine months of its financial year (30/9/03: € 15.6m), generating management fees of € 17.7m (€ 13.3m), and had assets under management/administration totalling € 6.6bn (€ 6.7bn).

Spafid

Profit before tax and value adjustments to securities amounted to € 244,000 (€ 442,000). Securities and value items managed on a non-discretionary basis amounted to € 1,162.7m (30/6/04: € 1,175m).

Prospects

As was stated in the annual report and accounts, the ongoing weakness of the economic climate should continue this year to impact negatively on the Group's corporate finance activities in particular, whereas growth in consumer credit and private banking should be borne out.

Milan, 28 October 2004

THE BOARD OF DIRECTORS

Methods of consolidation and accounting principles

The financial situation and profit and loss account for the three months ended 30 September 2004 have been prepared on a consolidated basis and in reclassified form consistent with the accounts for the year ended 30 June 2004 and the three months ended 30 September 2003.

Scope of consolidation

The consolidated accounts as at 30 September 2004 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. Compagnie Monégasque de Banque has been consolidated since the interim accounts for the six months ended 31 December 2003.

Basis of consolidation

Group subsidiaries have been consolidated on the line-by-line basis by combining their earnings, expenses, asset 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 have been recorded in the assets and liabilities of the companies concerned. Other negative net differences have been taken to the items *Negative goodwill on consolidation* or to the *Consolidated provision for future liabilities and charges*. Positive net differences have been taken to *Positive goodwill on consolidation* and amortized over a period of five years.

The portion of net equity and share of profit for the period that are attributable to minority interests have 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 30 September 2004. 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 30 September 2004, restated where appropriate on a basis consistent with the format adopted for the Parent Company's accounts.

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

Accounting policies

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

Profit for the period ended 30 September 2004 is shown before tax.