MEDIOBANCA

Quarterly review of operations

(31 March 2014)

MEDIOBANCA

LIMITED COMPANY
SHARE CAPITAL € 430,703,356
HEAD OFFICE: PIAZZETTA ENRICO CUCCIA 1, MILAN, ITALY

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

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www.mediobanca.it

translation from the Italian original which remains the definitive version

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The Mediobanca Group's results for the nine months reflect a net profit of €395.3m, up significantly on the €37.2m posted at the same stage last year, due to a positive contribution from principal investing (€340.4m, compared with a €193.9m loss) and a good performance by net interest income. Revenues reflect a 5.8% increase, from €1,199.4, to €1,268.4m, as a result of growth of 6% in net interest income, and a higher contribution from the equity-accounted companies totalling €174.7m (compared with a loss of €71m last year), while the contribution from treasury operations continues to be minor (€9.5m, compared with €206.8m last year). The various income items performed as follows:

– net interest income was up 6%, from €763.4m to €809.2m, bearing out the trends witnessed in the last quarters, with the substantial, 12.9% increase in consumer finance offsetting the 4.8% reduction in wholesale banking;
– net fee and commission income fell from €300.2m to €275m, reflecting the weak corporate scenario on reference markets (with wholesale banking fees declining from €146.1m to €124.2m);
– the result from treasury activity reflects weak fixed-income trading;
– the contribution from the equity-accounted companies, which added €174.7m, was almost entirely attributable to Assicurazioni Generali.

Operating costs were virtually flat, at €563m (€561.5m), helped by a 6.2% reduction in labour costs.

Loan loss provisions were up 26.5%, from €363.7m to €460.2m. These involve corporate and private banking as to €133.5m, retail and consumer banking as to €299m, and leasing as to €28.2m. The increase reflects the ongoing difficulties encountered by corporates and households, writeoffs and disposals in the corporate segment, as well as the objective of maintaining an adequate coverage ratio for impaired assets (overall 45%), *inter alia* in view of the new classifications required under the ECB's Asset Quality Review process.

Equity disposals during the nine months generated net gains of €221.3m, with €68.8m added in the third quarter alone, and value adjustments totalling €26.2m (virtually unchanged).

Turning to the individual areas of activity:

- CIB delivered a profit of €18m, down sharply on the €205.9m posted last year, due to the reduction in revenues (€387.8m, compared with €612.4m, chiefly because of the reduction in treasury income) and higher loan loss provisions (up from €83.9m to €133.5m);
- RCB showed a profit of €57.2m (€38.9m), on higher revenues (up 8.9%) partly offset by the increase in loan loss provisions (up 14.1%);
- PI reported a €340.4m profit (compared with a €193.9m loss last year), due to the improved contribution from equity-accounted companies (chiefly Assicurazioni Generali, which earned €173.7m, as opposed to the €63.9m loss reported last year), gains on disposals totalling €219.8m (compared with €14.6m), and lower writedowns (down from €107.1m to €24.6m);
- the Corporate Centre, which includes leasing, shows a loss of €16.6m (€13.8m), following writedowns to leasing receivables totalling €28.2m (€18.1m), and costs attributable to Mediobanca S.p.A. amounting to €18.2m (€17.8m).

Turning to the balance-sheet aggregates, in the third quarter there was a reduction in funding, from €53.3bn to €48.1bn, due in particular to bond redemptions (€4.5bn), matched by lower treasury assets of €9.7bn (€13.3bn) and a reduced bond portfolio totalling €9.2bn (€10.4bn), while loans and advances to customers remained flat at €32.3bn. Assets under management in private banking were also stable, at €14.5bn (€14.6bn).

* * *

Significant events that took place during the third quarter include:

- the new capital requirements regulations and directive (CRR/CRD IV) came into force on 1 January 2014, enacted at national level through Bank of Italy circulars nos. 285 and 286 released on 17 December 2013, which include provision for a phase-in period and allow for the possibility, under certain conditions, of stakes of under 15% in insurance companies being weighted at 370% rather than deducted from regulatory capital. Mediobanca has applied to the authorities for permission to exercise this option in respect of its investment in Assicurazioni Generali. Given that some issues remain to be clarified regarding the calculation of the ratios, for which enquiries are still pending, the EBA has notified the banking system that delivery of the supervisory reporting guidelines (COREP) for the situation as at 31 March has been postponed until 30 June 2014;

– execution of a retail loan distribution agreement between Compass and the Montepaschi group;

– merger between Creditech and Cofactor following the launch of a new factoring platform;

– disposal of equity stakes in accordance with the Bank's 2014/16 business plan; in the third quarter sales were completed for a total of €252.6m, yielding gains of €68.8m.

Consolidated financial statements*

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

CONSOLIDATED PROFIT AND LOSS ACCOUNT

(€m)

	9 mths to 31/3/13	6 mths to 31/12/13	9 mths to 31/3/14	Y.o.Y. Chg (%)
Profit-and-loss data				
Net interest income	763.4	535.1	809.2	6.0
Treasury income[1]	206.8	16.7	9.5	-95.4
Net fee and commission income	300.2	192.1	275.0	-8.4
Equity-accounted companies	(71.0)	131.1	174.7	n.m.
TOTAL INCOME	**1,199.4**	**875.0**	**1,268.4**	**5.8**
Labour costs	(291.6)	(179.0)	(273.6)	-6.2
Administrative expenses	(269.9)	(191.0)	(289.4)	7.2
OPERATING COSTS	**(561.5)**	**(370.0)**	**(563.0)**	**0.3**
Gains (losses) on AFS, HTM and L&R	(11.1)	152.5	221.3	n.m.
Loan loss provisions	(363.7)	(302.0)	(460.2)	26.5
Provisions for financial assets	(88.8)	(23.3)	(26.2)	-70.5
Other profits (losses)	—	—	(3.2)	n.m.
PROFIT BEFORE TAX	**174.3**	**332.2**	**437.1**	**n.m.**
Income tax for the period	(138.9)	(30.3)	(44.9)	-67.7
Minority interest	1.8	2.8	3.1	72.2
NET PROFIT	**37.2**	**304.7**	**395.3**	**n.m.**

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

[1] Treasury income includes dealing profits and gains realized on the AFS and HTM fixed-income security portfolios; the previous figures have therefore been restated accordingly.

RESTATED BALANCE SHEET

(€m)

	30/6/2013	31/12/13	31/3/14
Assets			
Treasury funds	8,199.7	13,346.0	9,679.4
AFS securities	11,489.8	9,672.7	8,331.1
of which: fixed-income	*9,967.1*	*8,259.6*	*7,050.7*
equities	*1,507.8*	*1,401.9*	*1,269.3*
Fixed financial assets (HTM & LR)	2,053.5	2,137.1	2,173.1
Loans and advances to customers	33,455.4	32,272.0	32,294.3
Equity investments	2,586.9	2,649.2	2,708.4
Tangible and intangible assets	707.7	703.2	705.5
Other assets	1,247.3	1,214.8	1,210.2
of which: tax assets	*896.1*	*856.5*	*872.0*
Total assets	**59,740.3**	**61,995.0**	**57,102.0**
Liabilities and net equity			
Funding	51,287.8	53,262.3	48,071.4
of which: debt securities in issue	*25,856.4*	*26,842.3*	*23,520.8*
retail deposits	*11,874.2*	*13,288.4*	*11,825.5*
Other liabilities	1,312.1	1,125.7	1,218.9
of which: tax liabilities	*608.0*	*476.1*	*537.7*
Provisions	192.2	189.9	189.9
Net equity	7,128.0	7,112.4	7,226.5
of which: share capital	*430.6*	*430.6*	*430.6*
reserves	*6,589.9*	*6,576.0*	*6,690.7*
minority interest	*107.5*	*105.8*	*105.2*
Profit for the period	(179.8)	304.7	395.3
Total liabilities and net equity	**59,740.3**	**61,995.0**	**57,102.0**

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

(€m)

31 March 2014	Corporate & Private banking	Principal Investing	Retail & Consumer Banking	Corporate center	Group
Profit-and-loss data					
Net interest income	205.5	—	571.3	34.6	809.2
Treasury income	0.8	7.0	0.4	(0.1)	9.5
Net fee and commission income	181.5	—	126.4	5.3	275.0
Equity-accounted companies	—	171.1	—	—	174.7
TOTAL INCOME	**387.8**	**178.1**	**698.1**	**39.8**	**1,268.4**
Labour costs	(140.8)	(6.6)	(110.8)	(24.0)	(273.6)
Administrative expenses	(90.8)	(1.3)	(205.3)	(16.9)	(289.4)
OPERATING COSTS	**(231.6)**	**(7.9)**	**(316.1)**	**(40.9)**	**(563.0)**
Gain (losses) on disposal of AFS shares	8.9	219.8	—	—	221.3
Loan loss provisions	(133.5)	—	(299.0)	(28.2)	(460.2)
Provisions for financial assets	(4.6)	(24.6)	—	—	(26.2)
Other profits (losses)	—	—	(5.3)	2.1	(3.2)
PROFIT BEFORE TAX	**27.0**	**365.4**	**77.7**	**(27.2)**	**437.1**
Income tax for the period	(9.0)	(25.0)	(20.5)	7.5	(44.9)
Minority interest	—	—	—	3.1	3.1
NET PROFIT	**18.0**	**340.4**	**57.2**	**(16.6)**	**395.3**
Cost/Income ratio (%)	59.7	4.4	45.3	n.m.	44.4
Balance-sheet figures					
Treasury funds	11,091.0	—	8,933.2	118.9	9,679.4
AFS securities	6,696.9	1,256.2	698.4	—	8,331.1
Fixed financial assets (HTM & LR)	5,140.1	—	1,784.2	—	2,173.1
Equity investments	—	2,612.5	—	—	2,708.4
Loans and advances to customers	24,340.8	—	14,109.7	3,105.6	32,294.3
of which: to Group companies	*8,804.4*	—	—	—	—
Funding	(45,105.3)	—	(24,465.9)	(3,098.4)	(48,071.4)
No. of staff	971*	—	2,345	347	3,539

* Includes 124 staff employed by Banca Esperia pro-forma, not included in the Group total.

Notes:

1) Divisions comprise:
   - *CIB (Corporate and investment banking)*: comprises wholesale banking (WSB)), which includes lending, structured finance and investment banking activity, and private banking (PB), which includes Compagnie Monégasque de Banque, Spafid and Prudentia, plus 50% of Banca Esperia pro-forma;
   - *Principal Investing:* brings together all equity investments in associates (IAS 28) and AFS assets;
   - *Retail and Consumer Banking:* consumer credit and retail banking activities; the division includes Compass, Futuro, Compass RE, Cofactor, Creditech and CheBanca!;

     Corporate Centre: brings together the other Group companies (including leasing) and certain centralized Group costs (including in respect of the Board of Directors).

2) Sum of divisional data differs from Group total due to:
   - Banca Esperia being consolidated pro-rata (50%) rather than equity-accounted;
   - adjustments/differences arising on consolidation between business areas (€4.1m as at 31 March 2014 and €0.1m as at 31 March 2013).

31 March 2013	Corporate & Private banking	Principal Investing	Retail & Consumer Banking	Corporate center	Group
					(€m)
Profit-and-loss data					
Net interest income	213.5	—	516.5	34.4	763.4
Treasury income	200.9	10.7	(0.4)	—	206.8
Net fee and commission income	198.0	—	125.0	6.0	300.2
Equity-accounted companies	—	(72.7)	—	—	(71.0)
TOTAL INCOME	**612.4**	**(62.0)**	**641.1**	**40.4**	**1,199.4**
Labour costs	(163.0)	(7.6)	(110.8)	(24.6)	(291.6)
Administrative expenses	(84.5)	(1.2)	(188.0)	(17.5)	(269.9)
OPERATING COSTS	**(247.5)**	**(8.8)**	**(298.8)**	**(42.1)**	**(561.5)**
Gain (losses) on disposal of AFS shares	13.3	(14.6)	—	—	(11.1)
Loan loss provisions	(83.9)	—	(262.0)	(18.1)	(363.7)
Provisions for financial assets	15.3	(107.1)	—	—	(88.8)
Other profits (losses)	(1.2)	—	—	—	—
PROFIT BEFORE TAX	**308.4**	**(192.5)**	**80.3**	**(19.8)**	**174.3**
Income tax for the period	(102.5)	(1.4)	(41.4)	4.2	(138.9)
Minority interest	—	—	—	1.8	1.8
NET PROFIT	**205.9**	**(193.9)**	**38.9**	**(13.8)**	**37.2**
Cost/income ratio (%)	40.4	n.m.	46.6	n.m.	46.8
Balance-sheet figures					
Treasury funds	14,303.5	—	7,790.1	163.4	10,700.1
AFS securities	9,256.9	1,033.1	881.8	—	10,750.7
Fixed financial assets (HTM & LR)	2,247.5	—	2,095.9	—	2,238.0
Equity investments	—	3,248.8	—	—	3,336.8
Loans and advances to customers	26,905.2	—	13,497.1	3,606.9	33,701.2
of which: to Group companies	*9,860.9*	—	—	—	—
Funding	(51,426.1)	—	(23,181.2)	(3,277.9)	(53,803.0)
Risk-weighted assets	35,667.4	4,521.2	10,412.7	3,370.5	53,971.8
No. of employees	978 *	—	2,330	312	3,491

* Includes 129 staff employed by Banca Esperia pro-forma, not included in the Group total.

Balance sheet

The main balance-sheet items, of which Mediobanca contributes almost 60%, showed the following trends for the three months (comparative data as at 31 December 2013):

Funding – with liquidity abundant and the loan book remaining stable, funding declined from €53.3bn to €48.1bn, due to the debt securities falling due (which totalled €4.5bn) being only partly offset by €1.4bn in new issuance, and also to the reduction in CheBanca! retail deposits (from €13.3bn to €11.8bn), some of which (€1.3bn) were converted to indirect deposits, as well as to repayment of a further €500m tranche of the LTRO to the ECB.

	31/12/13		31/3/14		Chg (%)
	(€m)	%	(€m)	%	
Debt securities	26,842.3	50%	23,520.8	48%	-12.4%
CheBanca! retail funding	13,288.4	25%	11,825.5	25%	-11.0%
Interbank funds	2,650.5	5%	2,715.8	6%	2.5%
LTROs	7,000.0	13%	6,500.0	14%	-7.1%
Other funds	3,481.1	7%	3,509.3	7%	0.8%
Total funding	**53,262.3**	**100%**	**48,071.4**	**100%**	**-9.7%**

Loans and advances to customers – these were virtually unchanged at €32.3bn, with a slight, 0.7% reduction in wholesale lending and 1.9% growth in consumer finance. Net non-performing loans rose from €1,013.4m to €1,356.9m, including as a result of the new EBA classifications for the Asset Quality Review. NPLs thus also increased from 3.1% to 4.2% of the total loan book, with a coverage ratio of 45% (46%).

	31/12/13		31/3/14		Chg (%)
	(€m)	%	(€m)	%	
Wholesale banking	14,409.1	45%	14,308.9	45%	-0.7%
Private banking	759.7	2%	770.3	2%	1.4%
Consumer	9,583.5	30%	9,767.6	30%	1.9%
Retail banking	4,318.8	13%	4,342.1	13%	0.5%
Leasing	3,200.9	10%	3,105.4	10%	-3.0%
Total loans and advances to customers	**32,272.0**	**100%**	**32,294.3**	**100%**	**0.1%**

	31/12/13		31/3/14		Chg (%)
	(€m)	%	(€m)	%	
Wholesale banking	196.3	19%	528.6	39%	n.m.
Private banking	2.9	0%	9.5	1%	n.m.
Consumer	399.4	40%	394.3	29%	-1.3%
Retail banking	137.7	14%	142.3	10%	3.3%
Leasing	277.1	27%	282.2	21%	1.8%
Total net non-performing loans	**1,013.4**	**100%**	**1,356.9**	**100%**	**33.9%**
– of which: bad loans	*287.6*		*292.4*		*1.7%*

Equity investments – these increased from €2,649.2m to €2,708.4m, following gains of €43.7m, changes to the valuation reserve totalling €30m and repayments totalling €14.5m (in respect of the Athena Private Equity investment).

	% share capital	31/12/13	31/3/14
Assicurazioni Generali	13.24	2,534.5	2,604.7
Banca Esperia	50.0	92.3	95.9
Burgo Group	22.13	—	—
Athena Private Equity	24.27	21.7	7.2
Fidia	25.0	0.7	0.6
Total Investments		**2,649.2**	**2,708.4**

Based on prices as at 31 March 2014, the Assicurazioni Generali investment reflects a surplus of market over book value totalling €730m (approx. €820m based on current prices).

Fixed financial assets – the slight increase in this item, from €2,137.1m to €2,173.1m, regards the corporate segment (€543.1m, compared with €496.6m). The portfolio shows an unrealized gain as at end-March totalling €103.7m (€81.6m).

	31/12/13		31/3/14		Chg (%)
	(€m)	%	(€m)	%	
Financial assets held to maturity	1,480.9	69%	1,516.7	70%	2.4%
Unlisted debt securities (stated at cost)	656.2	31%	656.4	30%	n.m.
Total fixed financial assets	**2,137.1**	**100%**	**2,173.1**	**100%**	**1.7%**

	31/12/13		31/3/14		Chg (%)
	(€m)	%	(€m)	%	
Italian government securities	360.9	17%	361.4	17%	0.1%
Other government securities	1,279.6	60%	1,268.6	58%	-0.9%
– of which: Italian	*422.3*	*20%*	*419.0*	*19%*	*-0.8%*
Corporate bonds	496.6	23%	543.1	25%	9.4%
Total debt securities	**2,137.1**	**100%**	**2,173.1**	**100%**	**1.7%**

AFS securities – the reduction in this item, from €9,672.7m to €8,331.1m, involves bond redemptions and equity disposals. In particular, on the fixed-income side holdings in Italian government securities decreased from €5.2bn to €4.4bn, while on the equity side the disposals continued, with €252.6m collected yielding €68.8m in gains. The latter chiefly involved the sale of the Group's entire holding in Atlantia (formerly Gemina), which at end-December 2013 was carried at a book value of €95.3m) and the sales of the UniCredit CASHES (for €93.8m) and the RCS MediaGroup stake (for €24m). The Edipower investment was also written down partially in the third quarter, in a €2.9m adjustment, in order to bring its value in line with the pro rata share in the company's net equity following impairment charges taken on certain assets.

	31/12/13		31/3/14		Chg (%)
	(€m)	%	(€m)	%	
Debt securities	8,259.6	85%	7,050.7	85%	-14.6%
Equities	1,401.9	15%	1,269.3	15%	-9.5%
Others	11.2	0%	11.1	0%	-0.9%
Total AFS securities	**9,672.7**	**100%**	**8,331.1**	**100%**	**-13.9%**

	31/12/13			31/3/14		
	Book value	% *	AFS reserve	Book value	% *	AFS reserve
Pirelli & C.	275.8	4.61	80.8	249.9	4.61	54.9
RCS MediaGroup	78.1	13.92	5.0	65.7	9.35	16.6
Italmobiliare	51.7	9.5	17.1	61.4	9.5	26.8
Cashes UCI	131.7		15.6	40.1		10.1
Atlantia	95.3	0.71	26.8	—		—
Other listed equities	55.8		8.6	53.2		10.6
Sintonia S.p.A.	343.6	5.94	40.7	396	5.94	93.0
Telco[1]	95.2	7.34	51.5	122.9	7.34	79.2
Edipower	60.2	5.13	—	57.3	5.13	—
Santè S.A.	30.0	9.92	—	30.0	9.92	—
Other unlisted equities	184.5		19.2	192.8		29.1
Total equities	**1,401.9**		**265.3**	**1,269.3**		**320.3**

* Percentage of shares held in respective category.

[1] Includes loan subscribed for pro rata by Telco shareholders.

	31/12/13			31/3/14		
	Book Value	%	AFS reserve	Book Value	%	AFS reserve
Italian government securities	5,215.8	63%	62.2	4,365.6	62%	80.2
Other government securities	490.5	6%	2.1	420.1	6%	3.1
Financial bonds	2,017.1	24%	35.4	1,683.3	24%	47.5
– of which: Italian	*1,257.4*	*15%*	*8.9*	*752.0*	*11%*	*27.8*
Corporate bonds	536.2	7%	31.9	581.7	8%	32.9
Total debt securities	**8,259.6**	**100%**	**131.6**	**7,050.7**	**100%**	**163.7**

The valuation reserve increased from €396.9m to €484m, as a result of the positive market trend and despite the disposals for the period; €119m of which in respect of listed equities, €201.3m of unlisted equities, €80.2m Italian government securities, and €83.5m other bonds.

Treasury assets – the reduction in this item, from €13.3bn to €9.7bn, chiefly involves the bond redemptions. The increase in equities reflects short-term transactions hedged by derivatives.

	31/12/13		31/3/14		Chg (%)
	(€m)	%	(€m)	%	
Debt securities	4,438.2	33%	3,378.5	35%	-23.9%
Equities	1,107.1	8%	1,779.7	18%	60.8%
Derivative contract valuations	(472.7)	-3%	(650.6)	-6%	37.6%
Others (cash, repos, time deposits)	8,273.4	62%	5,171.8	53%	-37.5%
Total net treasury assets	**13,346.0**	**100%**	**9,679.4**	**100%**	**-27.5%**

	31/12/13		31/3/14	
	(€m)	%	(€m)	%
Italian government securities	1,118.3	25%	472.0	14%
German government securities	1,187.1	27%	1,078.5	32%
Other government securities	514.4	12%	268.9	8%
Financial bonds	1,335.3	30%	1,308.5	39%
– of which: Italian	*577.9*	*13%*	*647.5*	*19%*
Corporate bonds	283.1	6%	250.6	7%
Total debt securities	**4,438.2**	**100%**	**3,378.5**	**100%**

Net equity – the increase in net equity reflects the result for the period and the improvement in the valuation reserves, in particular the AFS reserve.

(€m)

	31/12/13	31/3/14	Chg (%)
Share capital	430.6	430.6	—
Other reserves	6,067.7	6,067.2	0.0%
Valuation reserves	508.3	623.5	22.7%
– of which: AFS securities	*339.5*	*412.8*	*21.6%*
cash flow hedges	*(65.2)*	*(56.0)*	*-14.1%*
equity investments	*219.9*	*253.1*	*15.1%*
Profit for the period	304.7	395.3	29.7%
Total Group net equity	**7,311.3**	**7,516.6**	**2.8%**

(€m)

	31/12/13	31/3/14	Chg (%)
Equities	265.3	320.3	20.7%
Bonds and other debt securities	141.8	173.4	22.3%
Tax effect	(67.6)	(80.9)	19.7%
Total AFS reserve	**339.5**	**412.8**	**21.6%**

Profit and loss account

Net interest income – this item rose by 6%, continuing the trend seen in recent quarters: the positive performance in consumer finance (up 12.9%), which reflects both the increase in average volumes and the reduction in the wholesale segment (down 4.8%), offsetting early repayments of corporate loans totalling approx. €1.5bn and a cost of funding which remains at high levels.

(€m)

	31/3/13	31/3/14	Chg (%)
Wholesale banking	183.3	174.5	-4.8%
Private banking	30.2	31.0	2.6%
Consumer	412.1	465.4	12.9%
Retail banking	104.4	105.9	1.4%
Others (including intercompany accounts)	33.4	32.4	-3.0%
Net interest income	**763.4**	**809.2**	**6.0%**

Treasury income – the reduction in this item reflects the performance by the fixed-income income segment, which despite the gains realized on the disposals from the banking book, reflects the lack of volatility on markets and the price effect on the securities held for trading, with coupons exceeding the low market returns.

(€m)

	31/3/13	31/3/14	Chg (%)
Dividends	10.7	7.0	-34.6%
Fixed-income trading profit	152.9	(40.1)	n.m.
Equity trading profit	43.2	42.6	-1.4%
Net treasury income	**206.8**	**9.5**	**-95.4%**

Net fee and commission income – the 8.4% decrease in this item was due to the reduced contributions from both wholesale banking (down 15%) and consumer finance (down 4.8%); while private banking and retail operations both bucked this trend, up 10.4% and 65.7% respectively.

(€m)

	31/3/13	31/3/14	Chg (%)
Wholesale banking	146.1	124.2	-15.0%
Private banking	51.9	57.3	10.4%
Consumer	114.5	109	-4.8%
Retail banking	10.5	17.4	65.7%
Others (including intercompany accounts)	(22.8)	(32.9)	44.3%
Net fee and commission income	**300.2**	**275.0**	**-8.4%**

Equity-accounted companies – the improvement in this item was due to positive contributions from Assicurazioni Generali (€173.7m, compared with a €63.9m loss at the same stage last year), Banca Esperia (up from €1.8m to €3.6m) and Athena Private Equity (€1.9m, compared with a €2.9m loss).

Operating costs – these were virtually stable, showing a further reduction of 6.2% in labour costs, partly offset by a 7.2% in administrative expenses, chiefly due to higher EDP costs (up €6.1m) and marketing and communication expenses (up €10.8m).

(€m)

	31/3/13	31/3/14	Chg (%)
Labour costs	291.6	273.6	-6.2%
of which: directors	*5.2*	*5.9*	*13.5%*
stock option and performance share schemes	*11.7*	*8.3*	*-29.1%*
Sundry operating costs and expenses	269.9	289.4	7.2%
of which: depreciation and amortization	*31.1*	*28.1*	*-9.6%*
administrative expenses	*236.8*	*259.7*	*9.7%*
Operating costs	**561.5**	**563.0**	**0.3%**

(€m)

	31/3/13	31/3/14	Chg (%)
Legal, tax and professional services	21.7	22.6	4.1%
Credit recovery activities	26.3	28.2	7.2%
Marketing and communication	34.4	45.2	31.4%
Rent and property maintenance	27.0	28.0	3.7%
EDP	26.6	32.7	22.9%
Financial information subscriptions	20.3	20.4	0.5%
Bank services, collection and payment commissions	15.7	13.2	-15.9%
Operating expenses	36.2	38.9	7.5%
Other labour costs	13.7	13.0	-5.1%
Other costs	7.1	6.8	-4.2%
Direct and indirect taxes	7.8	10.7	37.2%
Total administrative expenses	**236.8**	**259.7**	**9.7%**

Loan loss provisions – the 26.5% increase in this item, from €363.7m to €460.2m, involves all segments, and shows the following quarterly trend: wholesale (€51.3m at end-March 2014, €59.1m at end-December 2013 and €25.8m at end-September 2013), consumer finance (€91.9m, €95.1m, and €91m respectively), retail (€6.5m, €7.3m and €7.2m respectively), leasing (€8.5m, €14.9m and €4.9m respectively). The cost of risk, 187 bps, is still in line with the 184 bps recorded at end-December 2013.

(€m)

	31/3/13	31/3/14	Chg (%)
Wholesale Banking	82.6	136.2	64.9%
Private Banking	1.1	(3.2)	n.m.
Consumer	245.7	278.0	13.1%
Retail Banking	16.3	21	28.8%
Other	18.0	28.2	56.7%
Loan loss provisions	**363.7**	**460.2**	**26.5%**
Cost of risk (bps)	**139**	**187**	**34.5%**

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

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

CORPORATE AND PRIVATE BANKING (WHOLESALE BANKING AND PRIVATE BANKING)

(€m)

	31/3/13	31/12/13	31/3/14	Chg (%)
Profit-and-loss data				
Net interest income	213.5	140.4	205.5	-3.7
Treasury income	200.9	7.8	0.8	n.m.
Net fee and commission income	198.0	124.1	181.5	-8.3
TOTAL INCOME	**612.4**	**272.3**	**387.8**	**-36.7**
Labour costs	(163.0)	(91.5)	(140.8)	-13.6
Administrative expenses	(84.5)	(60.0)	(90.8)	7.5
OPERATING COSTS	**(247.5)**	**(151.5)**	**(231.6)**	**-6.4**
Gain (losses) on disposal of AFS shares	13.3	5.3	8.9	-33.1
Loan loss provisions	(83.9)	(82.3)	(133.5)	59.1
Provisions for financial assets	15.3	(2.2)	(4.6)	n.m.
Other profits (losses)	(1.2)	—	—	n.m.
PROFIT BEFORE TAX	**308.4**	**41.6**	**27.0**	**-91.2**
Income tax for the period	(102.5)	(13.5)	(9.0)	-91.2
NET PROFIT	**205.9**	**28.1**	**18.0**	**-91.3**
Cost/income ratio (%)	40.4	55.6	59.7	

	30/6/13	31/12/13	31/3/14
Balance-sheet data			
Treasury funds	10,111.2	14,707.1	11,091.0
AFS securities	9,408.4	7,914.0	6,696.9
Fixed financial assets (HTM & LR)	5,017.4	5,104.9	5,140.1
Loans and advances to customers	25,802.9	24,534.2	24,340.8
of which: to Group companies	*9,047.2*	*8,898.1*	*8,804.4*
Funding	(49,018.0)	(50,320.8)	(45,105.3)

WHOLESALE BANKING

(€m)

	31/3/13	31/12/13	31/3/14	Chg (%)
Net interest income	183.3	118.2	174.5	-4.8
Treasury income	189.5	4.2	(7.7)	n.m.
Net fee and commission income	146.1	84.9	124.2	-15.0
TOTAL INCOME	**518.9**	**207.3**	**291.0**	**-43.9**
Labour costs	(120.9)	(66.6)	(103.4)	-14.5
Administrative expenses	(61.5)	(43.7)	(66.4)	8.0
OPERATING COSTS	**(182.4)**	**(110.3)**	**(169.8)**	**-6.9**
Loan loss provisions	(82.6)	(84.9)	(136.2)	64.9
Provisions for financial assets	19.0	—	—	n.m.
PROFIT BEFORE TAX	**272.9**	**12.1**	**(15.0)**	**n.m.**
Income tax for the period	(100.1)	(11.5)	(5.7)	-94.3
NET PROFIT	**172.8**	**0.6**	**(20.7)**	**n.m.**
Cost/income ratio (%)	35.2	53.2	58.4	

	30/6/13	31/12/13	31/3/14
Balance-sheet data			
Treasury funds	9,252.9	13,832.7	10,160.7
AFS securities	8,825.5	7,266.3	5,972.9
Fixed financial assets (HTM & LR)	5,004.3	5,091.8	5,127.0
Loans and advances to customers	24,549.5	23,306.4	23,113.3
of which: to Group companies	*9,047.2*	*8,898.1*	*8,804.4*
Funding	(46,883.4)	(47,892.1)	(42,690.2)
No. of employees	636	638	633

This division reported a net loss of €20.7m for the nine months, the result of a 43.9% reduction in revenues and 64.9% growth in loan loss provisions, reflecting:

- a 4.8% reduction in net interest income, from €183.3m to €174.5m, due to the ongoing reduction in margins on lending rates;
- a €7.7m net loss from treasury activities, reflecting the short-term profile of the investments;
- a 15% reduction in net fee and commission income, affected by the weak advisory and lending markets (the former down 35%), whereas capital market business remained stable.

Costs were down 6.9% overall, driven by a 14.5% reduction in the variable labour cost component.

On the balance-sheet side, funding declined from €47.9bn to €42.7bn, due to bond maturities, matched by the reductions in treasury assets (down from €13.8bn to €10.2bn) and debt securities (down from €12.4bn to €11.1bn); whereas loans and advances to customers were virtually stable, at €14.3bn (€14.4m). NPLs increased from €196.3m to €528.6m, due to one, €342.5m exposure being reclassified as sub-standard NPLs now account for 3.7% (1.4%) of the loan book, and the coverage ratio is 36% (42%).

	31/12/13		31/3/14		Chg (%)
	(€m)	%	(€m)	%	
Debt securities	28,561.9	60%	25,243.1	59%	-11.6%
Interbank funding	10,947.9	23%	9,418.2	22%	-14.0%
– of which: intercompany	*10,361.5*	*22%*	*8,832.7*	*21%*	*-14.8%*
LTRO	7,000.0	15%	6,500.0	15%	-7.1%
Other funds	1,382.3	2%	1,528.9	4%	10.6%
Total funding	**47,892.1**	**100%**	**42,690.2**	**100%**	**-10.9%**

	31/12/13		31/3/14		Chg (%)
	(€m)	%	(€m)	%	
Italy	8,857.7	61%	8,676.6	61%	-2.0%
France	1,521.9	11%	1,584.8	11%	4.1%
Germany	921.3	6%	795.8	6%	-13.6%
U.K.	796.8	5%	791.2	5%	-0.7%
Spain	701.0	5%	730.4	5%	4.2%
Other non-resident customers	1,609.6	12%	1,730.1	12%	7.5%
Total loans and advances to customers	**14,408.3**	**100%**	**14,308.9**	**100%**	**-0.7%**

	31/12/13		31/3/14		Chg (%)
	(€m)	%	(€m)	%	
Debt securities AFS	7,266.3	59%	5,972.9	54%	-17.8%
Securities held to maturity	1,467.2	12%	1,503.0	14%	2.4%
Unlisted debt securities (stated at cost)	3,624.6	29%	3,624.0	32%	0.0%
Total fixed financial assets	**12,358.1**	**100%**	**11,099.9**	**100%**	**-10.2%**

	31/12/13		31/3/14		Chg (%)
	(€m)	%	(€m)	%	
Debt securities	3,813.5	28%	2,638.5	26%	-30.8%
Equities	1,105.2	8%	1,775.0	17%	60.6%
Derivative contract valuations	(410.0)	-3%	(598.7)	-6%	46.0%
Other (repos, time deposit, derivatives etc.)	9,324.0	67%	6,345.9	61%	-31.9%
Total net treasury assets	**13,832.7**	**100%**	**10,160.7**	**100%**	**-26.5%**

PRIVATE BANKING

	31/3/13	31/12/13	31/3/14	Chg (%)
Net interest income	30.2	22.2	31.0	2.6
Treasury income	11.4	3.6	8.5	-25.4
Net fee and commission income	51.9	39.2	57.3	10.4
TOTAL INCOME	**93.5**	**65.0**	**96.8**	**3.5**
Labour costs	(42.1)	(24.9)	(37.4)	-11.2
Administrative expenses	(23.0)	(16.3)	(24.4)	6.1
OPERATING COSTS	**(65.1)**	**(41.2)**	**(61.8)**	**-5.1**
Gain (losses) on disposal of AFS shares	13.3	5.3	8.9	-33.1
Loan loss provisions	(1.3)	2.6	2.7	n.m.
Provisions for financial assets	(3.7)	(2.2)	(4.6)	24.3
Other profits (losses)	(1.2)	—	—	n.m.
PROFIT BEFORE TAX	**35.5**	**29.5**	**42.0**	**18.3**
Income tax for the period	(2.4)	(2.0)	(3.3)	37.5
NET PROFIT	**33.1**	**27.5**	**38.7**	**16.9**
Cost/income ratio (%)	69.6	63.4	63.8	

	30/6/13	31/12/13	31/3/14
Balance-sheet data			
Treasury funds	858.3	874.4	930.3
AFS securities	582.9	647.7	724.0
Fixed financial assets (HTM & LR)	13.1	13.1	13.1
Loans and advances to customers	1,252.9	1,227.8	1,227.5
Funding	(2,134.6)	(2,428.7)	(2,415.1)
Assets under management	13,771.5	14,641.0	14,509.0
Securities held on a fiduciary basis	1,357.7	1,434.5	1,449.6
No. of employees	344	341	338

Private banking recorded a €38.7m profit (€33.1m), reflecting higher revenues (up 3.5%) on the one hand, and lower costs (down 5.1%) and adjustments (€1.9m, compared with €5m last year) on the other. The reduced treasury income, of €8.5m (€11.4m), was offset by the increases in net fee and commission income (up from €51.9m to €57.3m) and net interest income (up from €30.2m to €31m). Assets under management as at 31 March 2014 totalled €14.5bn (31/12/13: €14.6bn), €7bn (unchanged) of which with CMB and €7.5bn (€7.6bn) with Banca Esperia.

PRINCIPAL INVESTING (EQUITY INVESTMENT PORTFOLIO)

	31/3/13	31/12/13	31/3/14	Chg (%)
Profit-and-loss data				
Treasury income	10.7	4.6	7.0	-34.6
Equity-accounted companies	(72.7)	128.2	171.1	n.m.
TOTAL INCOME	**(62.0)**	**132.8**	**178.1**	**n.m.**
Labour costs	(7.6)	(4.4)	(6.6)	-13.2
Administrative expenses	(1.2)	(0.8)	(1.3)	8.3
OPERATING COSTS	**(8.8)**	**(5.2)**	**(7.9)**	**-10.2**
Gain (losses) on disposal of AFS shares	(14.6)	151.2	219.8	n.m.
Provisions for financial assets	(107.1)	(21.7)	(24.6)	-77.0
PROFIT BEFORE TAX	**(192.5)**	**257.1**	**365.4**	**n.m.**
Income tax for the period	(1.4)	(11.7)	(25.0)	n.m.
NET PROFIT	**(193.9)**	**245.4**	**340.4**	**n.m.**

	30/6/13	31/12/13	31/3/14
AFS securities	1,493.8	1,388.8	1,256.2
Equity investments	2,500.1	2,556.8	2,612.5

Principal investing recorded a profit of €340.4m for the nine months, compared with a €193.9m loss at the same stage last year, due to increased profits earned by Assicurazioni Generali (€173.7m, compared with a €63.9m loss last year), gains on disposals (€219.8m, compared with €14.6m in losses), and a reduction in writedowns, from €107.1m to €24.6m. The profits for the period include €68.8m in respect of the disposals for the period, in particular Atlantia, the Unicredit CASHES and RCS MediaGroup.

RETAIL AND CONSUMER BANKING (FINANCIAL SERVICES TO HOUSEHOLDS)

	31/3/13	31/12/13	31/3/14	Chg (%)
Profit-and-loss data				
Net interest income	516.5	376.5	571.3	10.6
Treasury income	(0.4)	0.4	0.4	n.m.
Net fee and commission income	125.0	84.7	126.4	1.1
TOTAL INCOME	**641.1**	**461.6**	**698.1**	**8.9**
Labour costs	(110.8)	(73.7)	(110.8)	n.m.
Administrative expenses	(188.0)	(135.0)	(205.3)	9.2
OPERATING COSTS	**(298.8)**	**(208.7)**	**(316.1)**	**5.8**
Loan loss provisions	(262.0)	(200.5)	(299.0)	14.1
Other profits (losses)	—	(2.0)	(5.3)	n.m.
PROFIT BEFORE TAX	**80.3**	**50.4**	**77.7**	**-3.2**
Income tax for the period	(41.4)	(10.6)	(20.5)	-50.5
NET PROFIT	**38.9**	**39.8**	**57.2**	**47.0**
Cost/income ratio (%)	46.6	45.2	45.3	

	30/6/13	31/12/13	31/3/14
Balance-sheet data			
Treasury funds	9,028.4	10,392.8	8,933.2
AFS securities	871.8	691.5	698.4
Fixed financial assets (HTM & LR)	1,747.0	1,772.0	1,784.2
Loans and advances to customers	13,694.2	13,902.3	14,109.7
Funding	(24,384.2)	(25,824.5)	(24,465.9)

CONSUMER CREDIT

	31/3/13	31/12/13	31/3/14	Chg (%)
Net interest income	412.1	306.1	465.4	12.9
Net fee and commission income	114.5	72.8	109.0	-4.8
TOTAL INCOME	**526.6**	**378.9**	**574.4**	**9.1**
Labour costs	(65.3)	(44.1)	(66.5)	1.8
Administrative expenses	(126.0)	(88.7)	(132.9)	5.5
OPERATING COSTS	**(191.3)**	**(132.8)**	**(199.4)**	**4.2**
Loan loss provisions	(245.7)	(186.0)	(278.0)	13.1
PROFIT BEFORE TAX	**89.6**	**60.1**	**97.0**	**8.3**
Income tax for the period	(38.6)	(10.0)	(21.2)	-45.1
NET PROFIT	**51.0**	**50.1**	**75.8**	**48.6**
Cost/income ratio (%)	36.3	35.0	34.7	

	30/6/13	31/12/13	31/3/14
Balance-sheet data			
Treasury funds	429.5	346.9	374.9
AFS securities	60.2	104.4	105.2
Fixed financial assets (HTM & LR)	0.7	0.6	0.6
Loans and advances to customers	9,427.7	9,583.5	9,767.6
Funding	(9,301.7)	(9,413.9)	(9,569.1)
New loans	5,006.5	2,511.7	3,874.3
No. of branches	163	158	158
No. of employees	1,435	1,459	1,465

Consumer credit operations posted a €75.8m profit for the nine months ended 31 March 2014, considerably higher than the €51m reported last year, reflecting the reduced tax burden among other things. The 9.1% increase in revenues reflects the growth in net interest income (up 12.9%), but was partly offset by a 4.2% rise in operating costs, reflecting higher credit recovery charges, and a 13.1% increase in loan loss provisions (with the cost of risk stable at 386 bps). Loans and advances to customers outstanding at the reporting date had risen from €9.6bn to €9.8bn, with new loans up from €3.6bn to €3.9bn. Net NPLs were down from €399.4m to €394.3m, and account for 4% (4.2%) of the total loan book.

RETAIL BANKING

	31/3/13	31/12/13	31/3/14	Chg (%)
Net interest income	104.4	70.4	105.9	1.4
Treasury income	(0.4)	0.4	0.4	n.m.
Net fee and commission income	10.5	11.9	17.4	65.7
TOTAL INCOME	**114.5**	**82.7**	**123.7**	**8.0**
Labour costs	(45.5)	(29.6)	(44.3)	-2.6
Administrative expenses	(62.0)	(46.3)	(72.4)	16.8
OPERATING COSTS	**(107.5)**	**(75.9)**	**(116.7)**	**8.6**
Loan loss provisions	(16.3)	(14.5)	(21.0)	28.8
Other profits (losses)	—	(2.0)	(5.3)	n.m.
PROFIT BEFORE TAX	**(9.3)**	**(9.7)**	**(19.3)**	**n.m.**
Income tax for the period	(2.8)	(0.6)	0.7	n.m.
NET PROFIT	**(12.1)**	**(10.3)**	**(18.6)**	**53.7**
Cost/income ratio (%)	93.9	91.8	94.3	

	30/6/13	31/12/13	31/3/14
Balance-sheet data			
Treasury funds	8,598.9	10,045.9	8,558.3
AFS securities	811.6	587.1	593.2
Fixed financial assets (HTM & LR)	1,746.4	1,771.4	1,783.6
Loans and advances to customers	4,266.5	4,318.8	4,342.1
Retail funding	(11,874.2)	(13,288.4)	(11,825.5)
New loans	289.0	222.6	333.0
No. of branches	45	45	56
No. of employees	911	899	880

Retail banking showed a net loss of €18.6m (€12.1m). The 8% growth in revenues was offset by an 8.6% rise in operating costs linked to product development projects, and a 28.8% increase in loan loss provisions. There were also non-recurring charges of €5.3m as a result of the bank's contribution to the interbank deposit protection fund in connection with the Banca Tercas bail-out. Mortgage loans were virtually stable, at €4.3bn; while net NPLs rose from €137.7m to €142.3m and accounted for 3.3% (3.2%) of the total loan book. Retail deposits amounted to €11,825.5m, down on the €13,288.4m reported at end-December 2013 due to withdrawals of deposits made in response to the promotional campaign launched last summer. Indirect funding totalled €1,275.8m (€993m) and includes €207.7m in asset management.

LEASING

	31/3/13	31/12/13	31/3/14	Chg (%)
Net interest income	34.6	22.6	34.7	0.3
Treasury income	—	—	(0.1)	n.m.
Net fee and commission income	1.0	(0.5)	0.1	-90.0
TOTAL INCOME	**35.6**	**22.1**	**34.7**	**-2.5**
Labour costs	(12.9)	(7.7)	(11.4)	-11.6
Administrative expenses	(9.8)	(6.0)	(9.1)	-7.1
OPERATING COSTS	**(22.7)**	**(13.7)**	**(20.5)**	**-9.7**
Loan loss provisions	(18.1)	(19.7)	(28.2)	55.8
Other profits (losses)	—	2.1	2.1	n.m.
PROFIT BEFORE TAX	**(5.2)**	**(9.2)**	**(11.9)**	**n.m.**
Income tax for the period	0.4	1.8	3.3	n.m.
Minority interest	1.8	2.8	3.1	72.2
NET PROFIT	**(3.0)**	**(4.6)**	**(5.5)**	**83.3**
Cost/income ratio (%)	63.8	62.0	59.1	

	30/6/13	31/12/13	31/3/14
Balance-sheet data			
Treasury funds	117.3	134.9	117.8
Loans and advances to customers	3,453.4	3,201.2	3,105.6
Funding	(3,454.3)	(3,202.7)	(3,089.6)
New loans	250.4	158.0	268.4
No. of employees	160	149	144

Leasing operations showed a loss of €5.5m (-€3m), reflecting a 2.5% reduction in revenues, and a 55.8% increase in loan loss provisions partly offset by the reduction in costs (down 19%, including non-recurring items). As at 31 March 2014 customer accounts had fallen from €3,201.2m to €3,105.6m, whereas new loans had risen from €179.3m to €268.4m. NPLs had risen from €277.1m to €282.2m, and now represent 9.1% of the total loan book.

Review of Group company performances

Mediobanca

RESTATED PROFIT AND LOSS ACCOUNT *

(€m)

	9 mths to 31/3/13	6 mths to 31/12/13	9 mths to 31/3/14	Chg (%) 3/13 - 3/14
Net interest income	168.1	105.6	155.7	-7.4
Treasury income[1]	200.5	9.1	(0.2)	n.m.
Net fee and commission income	145.8	83.5	122.5	-16.0
Equity-accounted companies	—	0.1	0.1	n.m.
TOTAL INCOME	**514.4**	**198.3**	**278.1**	**-45.9**
Labour costs	(138.4)	(77.6)	(119.9)	-13.4
Administrative expenses	(69.8)	(49.2)	(74.5)	6.7
OPERATING COSTS	**(208.2)**	**(126.8)**	**(194.4)**	**-6.6**
Gain (losses) on disposal of AFS shares	(14.4)	151.3	219.8	n.m.
Loan loss provisions	(82.5)	(82.6)	(134.0)	62.4
Provisions for financial assets	6.8	(3.1)	(6.0)	n.m.
Impairment charges to equity investments	(99.5)	(19.0)	(19.0)	-80.9
PROFIT BEFORE TAX	**116.6**	**118.1**	**144.5**	**23.9**
Income tax for the period	(90.0)	(17.0)	(21.0)	-76.7
NET PROFIT	**26.6**	**101.1**	**123.5**	**n.m.**

* The financial statements are also reported in accordance with the recommendations made by the Bank of Italy in the annex hereto, along with further details on how the various items have been restated.

[1] Treasury income includes dealing profits and gains realized on the AFS and HTM fixed-income security portfolios; the previous figures have been restated accordingly.

RESTATED BALANCE SHEET*

(€m)

	30/6/13	31/12/13	31/3/14
Assets			
Treasury funds	9,138.6	13,721.6	9,683.7
AFS securities	10,319.3	8,655.1	7,229.1
Fixed financial assets (HTM & LR)	5,004.3	5,091.8	5,127.0
Loans and advances to customers	23,003.6	21,694.9	21,746.9
Equity investments	2,717.6	2,699.0	2,719.1
Tangible and intangible assets	131.9	131.2	132.6
Other assets	419.3	317.6	374.4
Total assets	50,734.6	52,311.2	47,012.8
Liabilities and net equity			
Funding	45,369.3	46,805.0	41,366.8
Other liabilities	712.6	562.9	609.6
Provisions	160.5	160.0	159.2
Net equity	4,727.2	4,682.2	4,753.7
Profit for the period	(235.0)	101.1	123.5
Total liabilities and net equity	50,734.6	52,311.2	47,012.8

For the nine months ended 31 March 2014, Mediobanca reported a net profit of €123.5m (€26.6m), due to gains on disposals of AFS equities totalling €219.8m (compared with €14.4m losses last year) and lower writedowns to equity investments of €19m (compared with €99.5m). Revenues, by contrast, halved from €514.4m to €278.1m, due to the unfavourable performance in treasury operations, and loan loss provisions were up from €82.5m to €134m. In particular net interest income was down 7.4%, and net fee and commission income down 16%, while the contribution from treasury management was wiped out, with a loss of €0.2m.

Turning to balance-sheet aggregates for the quarter, funding, treasury assets and AFS securities all fell, from €46.8bn to €41.4bn, from €13.7bn to €9.7bn and from €8.7bn to €7.2bn respectively, while loans and advances to customers were more or less stable at €21.7bn.

* The financial statements are also reported in accordance with the recommendations made by the Bank of Italy in the annex hereto, along with further details on how the various items have been restated.

	31/12/13		31/3/14		Chg (%)
	(€m)	%	(€m)	%	
Debt securities	27,935.9	60%	24,671.7	60%	-11.7%
Interbank funding	11,256.7	24%	9,713.6	23%	-13.7%
- of which: CheBanca!, intercompany	*10,361.5*	*22%*	*8,832.7*	*21%*	*-14.8%*
LTROs	7,000.0	15%	6,500.0	16%	-7.1%
Other funding	612.4	1%	481.5	1%	-21.4%
Total funding	**46,805.0**	**100%**	**41,366.8**	**100%**	**-11.6%**

	31/12/13		31/3/14		Chg (%)
	(€m)	%	(€m)	%	
Corporate customers	11,839.8	54.6%	12,019.6	55.2%	1.5%
Group companies	9,855.1	45.4%	9,738.6	44.8%	-1.2%
Total loans and advances to customers	**21,694.9**	**100.0%**	**21,758.2**	**100.0%**	**0.3%**
- of which: non performing loans	*180.7*	*0.8%*	*522.1*	*2.4%*	*n.m.*

	31/12/13		31/3/14		Chg (%)
	(€m)	%	(€m)	%	
Debt securities AFS	7,266.3	59%	5,972.9	54%	-17.8%
Securities held to maturity	1,467.2	12%	1,503.0	14%	2.4%
Unlisted debt securities (stated at cost)	3,624.6	29%	3,624.0	33%	0.0%
Total fixed financial assets	**12,358.1**	**100%**	**11,099.9**	**100%**	**-10.2%**

	31/12/13		31/3/14		Chg (%)
	(€m)	%	(€m)	%	
Debt securities	3,836.8	28%	2,665.3	28%	-30.5%
Equities	1,105.0	8%	1,775.0	18%	60.6%
Derivative contract valuations	(418.8)	-3%	(613.1)	-6%	46.4%
Others (cash, repos, time deposit)	9,198.6	67%	5,856.5	60%	-36.3%
Total net treasury assets	**13,721.6**	**100%**	**9,683.7**	**100%**	**-29.4%**

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

Company	Percentage shareholding	Business Line	Total income	Operating costs	Provisions	Profit for the period
MB Sec. USA	100%	WSB	1.4	(1.3)	—	0.1
Mediobanca International	100%	WSB	24.6	(4.1)	(1.7)	14.7
Prominvestment (in liquidation)	100%	WSB	0.2	(0.7)	—	(0.5)
Prudentia	100%	PB	2.3	(1.9)	—	0.2
Spafid	100%	PB	3.3	(2.2)	—	0.7
CMB	100%	PB	69.3	(33.1)	3.2	37.9
Banca Esperia	50%	PB	54.7	(50.0)	(1.0)	7.2
CheBanca! S.p.A.	100%	Retail	123.6	(116.4)	(21.0)	(18.5)
Compass S.p.A.	100%	Consumer	516.9	(181.0)	(270.7)	56.5
Futuro S.p.A.	100%	Consumer	19.6	(7.7)	(1.2)	6.1
Creditech S.p.A. (new)	100%	Consumer	25.8	(14.1)	(6.7)	2.7
Compass RE S.A.	100%	Consumer	16.7	(0.3)	—	11.1
SelmaBPM	60%	Leasing	15.2	(13.7)	(19.4)	(10.7)
Palladio Leasing	60%	Leasing	15.5	(5.6)	(9.5)	0.1
Teleleasing S.p.A. (in liquidation)	48%	Leasing	5.4	(2.5)	0.7	2.1
R&S	100%	Other	1.5	(1.3)	—	0.2
Mediobanca Innovation Services	100%	Other	19.4	(19.1)	—	—

Company	Total assets	Loans and advances to customers	Total net equity	No. of employees
MB Sec. USA	2.9	n.m.	1.0	4
Mediobanca International	3,544.5	2,670.9	245.8	6
Prominvestment (in liquidation)	5.2	4.4	(2.2)	6
Prudentia	3.7	n.m.	2.3	16
Spafid	37.3	n.m.	32.8	16
CMB	2,403.3	770.3	608.9	192
Banca Esperia	1,710.5	915.1	181.0	248
CheBanca! S.p.A.	15,426.6	4,342.1	267.5	891
Compass S.p.A.	9,813.4	8,456.8	1,148.7	1,246
Futuro S.p.A.	1,092.5	1,072.1	37.8	68
Creditech S.p.A. (new)	278.9	240.0	63.7	96
Compass RE S.A.	195.9	n.m.	165.5	—
SelmaBPM	1,876.2	1,544.5	77.7	88
Palladio Leasing	1,432.4	1,407.5	107.8	57
Teleleasing S.p.A. (in liquidation)	146.3	143.6	104.2	2
R&S	1.1	n.m.	0.1	14
Mediobanca Innovation Services	61.7	n.m.	37.6	114

Outlook

The estimated results for the current financial year continue to look positive, due largely to the Principal Investing division's expected contribution, although the size of the profit will continue to be affected by the weak domestic market. With reference to the business plan targets, the Group has completed around 50% of the equity investment sales envisaged, while lending in the large corporate segment continues to be impacted by the low demand for credit and by a risk/return profile which is still penalized by the high cost of funding. On the earnings side, net interest income is expected to continue showing resilience, driven by consumer business, and fee income from capital markets and private banking activities is expected to perform well. However, trading income remains weak, and the cost of risk is expected to increase, due, among other things, to considerations relating to the Asset Quality Review process still ongoing.

Milan, 8 May 2014

THE BOARD OF DIRECTORS

ACCOUNTING POLICIES

Accounting policies

A.1 – General

SECTION 1

Statement of conformity with IAS/IFRS

The Mediobanca Group's interim consolidated financial statements for the period ended 31 December 2013 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), which were adopted by the European Commission in accordance with the procedure laid down in Article 6 of regulation CE 1606/02 issued by the European Parliament and Council on 19 July 2002. Adoption of the new accounting standards with respect to financial reporting by banks is governed by Bank of Italy circular no. 262 issued on 22 December 2005 (second update released on 21 January 2014). The condensed interim report has been drawn up in conformity with the provisions of Article 154 ter of the Italian consolidated finance act (Italian legislative decree 58/98).

SECTION 2

Area and methods of consolidation

Subsidiaries are consolidated on the line-by-line basis, whereas investments in associates and jointly-controlled operations are consolidated and accounted for using the equity method.

When a subsidiary is fully consolidated, the carrying amount of the parent's investment and its share of the subsidiary's equity 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.

For equity-accounted companies, any differences in the carrying amount of the investment and investee company's net equity are reflected in the book value of the investment, the fairness of which is tested at the reporting date or when evidence emerges of possible impairment. The profit made or loss incurred by the investee company is recorded pro-rata in the profit and loss account under a specific heading.

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

	Name	Registered office	Type of relation-ship [1]	Shareholding		% voting rights [2]
				Investor company	% interest	
A.	COMPANIES INCLUDED IN AREA OF CONSOLIDATION					
A.1	*Line-by-line*					
1.	MEDIOBANCA - Banca di Credito Finanziario S.p.A.	Milan	1	—	—	—
2.	PROMINVESTMENT S.p.A. - in liquidation	Milan	1	A.1.1	100.0	100.0
3.	PRUDENTIA FIDUCIARIA S.p.A.	Milan	1	A.1.1	100.0	100.0
4.	MEDIOBANCA INNOVATION SERVICES - S.C.P.A.	Milan	1	A.1.1	100.0	100.0
5.	SPAFID S.p.A.	Milan	1	A.1.1	100.0	100.0
6.	COMPAGNIE MONEGASQUE DE BANQUE - CMB S.A.M.	Monte Carlo	1	A.1.1	100.0	100.0
7.	C.M.G. COMPAGNIE MONEGASQUE DE GESTION S.A.M.	Monte Carlo	1	A.1.6	99.89	99.89
8.	SMEF SOCIETE MONEGASQUE DES ETUDES FINANCIERE S.A.M.	Monte Carlo	1	A.1.6	99.96	99.96
9.	CMB ASSET MANAGEMENT S.A.M.	Monte Carlo	1	A.1.6	99.30	99.30
10.	MEDIOBANCA INTERNATIONAL (Luxembourg) S.A.	Luxembourg	1	A.1.1	99.0	99.0
			1	A.1.11	1.0	1.0
11.	COMPASS 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.	CREDITECH 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.	PALLADIO LEASING S.p.A.	Vicenza	1	A.1.14	95.0	100.0
				A.1.15	5.0	
16.	TELELEASING S.P.A. - in liquidation	Milan	1	A.1.14	80.0	80.0
17.	SADE FINANZIARIA - INTERSOMER S.r.l. - in liquidation	Milan	1	A.1.1	100.0	100.0
18.	RICERCHE E STUDI S.p.A.	Milan	1	A.1.1	100.0	100.0
19.	MEDIOBANCA SECURITIES USA LLC	New York	1	A.1.1	100.0	100.0
20.	CONSORTIUM S.r.l.	Milan	1	A.1.1	100.0	100.0
21.	QUARZO S.r.l.	Milan	1	A.1.11	90.0	90.0
22.	QUARZO LEASE S.r.l.	Milan	1	A.1.14	90.0	90.0
23.	FUTURO S.p.A.	Milan	1	A.1.11	100.0	100.0
24.	MEDIOBANCA COVERED BOND S.r.l.	Milan	1	A.1.12	90.0	90.0
25.	COMPASS RE (Luxembourg) S.A.	Luxembourg	1	A.1.11	100.0	100.0
26.	MEDIOBANCA INTERNATIONAL IMMOBILIÉRE S.a.r.l.	Luxembourg	1	A.1.10	100.0	100.0
27.	MB ADVISORY KURUMSAL DANISMANLIK HIZMETLERI ANONIM SIRKETI	Istanbul	1	A.1.1	100.0	100.0
28.	MEDIOBANCA SICAV *	Luxembourg	1	A.1.1	100.0	100.0

Legend

[1] Type of relationship:
1 = majority of voting rights in ordinary AGMs.
2 = dominant influence in ordinary AGMs.
3 = agreements with other shareholders.
4 = other forms of control.
5 = unity of direction as defined in Article 26, paragraph 1 of Italian Legislative Decree 87/92.
6 = unity of direction as defined in Article 26, paragraph 2 of Italian Legislative Decree 87/92.
7 = joint control.

[2] Effective and potential voting rights in ordinary AGMs.
* Non-operative company.
^ Deriving from merger between Creditech S.p.A. and Cofactor S.p.A. with effect in accounting terms from 1 July 2013.

SECTION 3

Events subsequent to the reporting date

Since the reporting date, no events have taken place that would cause the results presented in the consolidated report for the three months ended 31 March 2014 to require adjustment.

For a description of the most significant events since the reporting date, please refer to the relevant section in the Review of Operations.

A.2 – Significant accounting policies

Financial assets held for trading

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

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

After initial recognition they continue to be measured at fair value, which for listed instruments is calculated on the basis of market prices ruling at the reporting date (Level 1 assets). If no market prices are available, other valuation models are used (Level 2 assets) based on market-derived data, e.g. valuations of listed instruments with similar features, discounted cash flow analysis, option price calculation methods, or valuations used in comparable transactions[1] or alternatively valuations based on internal estimates (Level 3 assets). Equities and linked derivatives for which it is not possible to reliably determine fair value using the methods described above are stated at cost (these too qualify as Level 3 assets). If the assets suffer impairment, they are written down to their current value.

[1] Prudentially adjusted to reflect the illiquidity of some market data and other risks related to specific transactions (e.g. reputational risk, replacement risk, etc.).

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

AFS securities

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

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

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

Financial assets held to maturity

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

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

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

Loans and receivables

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

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

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

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

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

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

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

Leasing

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

In accordance with this principle, in the event of changes to contracts one these have become effective, any difference arising from comparison between the outstanding principal amount prior to renegotiation and the value of the new future flows discounted at the original interest rate have been taken through the profit and loss account for the period.[2]

Hedges

There are two types of hedge:

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

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

Hedge derivatives are recognized at fair value as follows:

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

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

A hedge is considered to be effective when the changes in fair value or cash flow of the hedging instrument offset those of the hedged item within a

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

range of 80-125%. The effectiveness of a hedge is assessed both *prospectively* and *retrospectively* at annual and interim reporting dates, the former to show expectations regarding effectiveness, the latter to show the degree of effectiveness actually achieved by the hedge during the period concerned. If an instrument proves to be ineffective, hedge accounting is discontinued and the derivative concerned is accounted for under trading securities.

Equity investments

This heading consists of investments in:

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

Where there is objective evidence that the value of an investment may be impaired, estimates are made of its current value using market prices if possible, and of the present value of estimated cash flows generated by the investment, including its terminal value. Where the value thus calculated is lower than the asset's carrying amount, the difference is taken through the profit and loss account.

Property, plant and equipment

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

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

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

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

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

Intangible assets

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

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

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

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

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

Derecognition of assets

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

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

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

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

Payables, debt securities in issue and subordinated liabilities

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

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

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

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

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

Trading liabilities

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

Staff severance indemnity provision

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

As from 1 July 2013, meanwhile, actuarial gains or losses have to be recorded in a specific net equity reserve, that is, in the comprehensive profit and loss account (Other Comprehensive Income, or OCI) as required by the new version of IAS 19 (Employee benefits; IAS 19, Revised) approved by the IASB on 16 June 2011 and incorporated into European law under EU Regulations 475/12[3].

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

Provisions for liabilities and charges

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

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

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

Foreign currency transactions

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

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

[3] This item may therefore no longer be recorded as a component of labour costs (the policy previously adopted by the Group).

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).

Tax assets and liabilities

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

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

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

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

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

Stock options and performance shares

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

Treasury shares

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

Dividends and commissions

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

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

Related parties

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

a) individuals or entities which directly or indirectly:
   1. are subject to joint control by Mediobanca;
   2. hold an interest in Mediobanca which allows them to exert a significant influence over Mediobanca; the scope of this definition includes parties to the Mediobanca shareholders' agreement with interests of over 5% of the company's share capital, along with the entitlement to appoint at least one member of the Board of Directors, and the entities controlled by them;

b) associate companies, joint ventures and entities controlled by them[4];

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

[4] Also includes Telco.

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 subject to significant influence by such individuals;

f) pension funds for employees of the parent company or any other entity related to it.

CONSOLIDATED
FINANCIAL STATEMENTS

Consolidated balance sheet (IAS/IFRS-compliant)

(€m)

	Assets	IAS-compliant 31/3/14	IAS-compliant 31/12/13	IAS-compliant 31/3/13
10.	Cash and cash equivalents	39.8	276.6	29.9
20.	Financial assets held for trading	13,671.2	13,680.2	13,378.6
30.	Financial assets recognized at fair value	—	—	—
40.	AFS securities	8,331.1	9,672.7	10,750.7
50.	Financial assets held to maturity	1,516.7	1,480.9	1,653.5
60.	Due from banks	5,593.9	4,589.9	6,038.1
	of which:			
	other trading items	*4,862.9*	*3,947.8*	*4,818.9*
	securities	—	—	—
	other items	*12.0*	*3.0*	*29.4*
70.	Due from customers	36,184.9	40,136.4	40,272.4
	of which:			
	other trading items	*3,863.9*	*7,755.0*	*7,046.2*
	securities	*656.5*	*656.2*	*584.5*
	other items	*64.2*	*63.8*	*72.2*
80.	Hedging derivatives	907.3	944.9	1,470.0
	of which:			
	funding hedge derivatives	*907.3*	*944.8*	*1,470.0*
	lending hedge derivatives	—	*0.1*	—
90.	Value adjustments to financial assets subject to general hedging	—	—	—
100.	Equity investments	2,708.4	2,649.2	3,336.8
110.	Total reinsurers' share of technical reserves	—	—	—
120.	Property, plant and equipment	295.2	294.7	296.8
130.	Intangible assets	410.3	408.4	414.0
	of which:			
	goodwill	*365.9*	*365.9*	*365.9*
140.	Tax assets	872.0	856.5	867.4
	a) current	*222.8*	*228.3*	*215.2*
	b) advance	*649.2*	*628.2*	*652.2*
150.	Other non-current and Group assets being sold	—	—	—
160.	Other assets	267.2	294.1	192.6
	of which:			
	other trading items	*5.2*	*2.4*	*5.0*
	TOTAL ASSETS	**70,798.0**	**75,284.5**	**78,700.8**

The balance sheet provided on p. 11 reflects the following restatements:
– *Treasury funds* comprise asset headings 10 and 20 and liability heading 40, plus the "other trading items" shown under asset headings 60, 70 and 160 and liability headings 10 and 20, with the latter chiefly consisting of repos, interbank accounts and margins on derivatives;
– *Funding comprises* the balances shown under liability headings 10, 20 and 30 (excluding amounts restated as trading items in respect of repos and interbank accounts), plus the relevant amounts in respect of hedging derivatives;
– *Loans and advances to customers* comprise asset headings 60 and 70 (excluding amounts restated as *Treasury funds*), the relevant amounts in respect of hedging derivatives shown under asset heading 80 and liability heading 60, and the impairment charges taken under liability heading 100.

(€m)

	Liabilities and net equity	IAS-compliant 31/3/14	IAS-compliant 31/12/13	IAS-compliant 31/3/13
10.	Due to banks	11,936.4	11,356.1	14,161.4
	of which:			
	other trading items	*2,621.9*	*1,603.4*	*3,609.2*
	other liabilities	*5.5*	*5.9*	*29.9*
20.	Due to customers	16,352.3	18,946.0	16,826.6
	of which:			
	other trading items	*1,103.9*	*2,265.9*	*1,442.2*
	other liabilities	*6.8*	*6.9*	*9.9*
30.	Debt securities	24,114.9	27,453.8	29,111.7
40.	Trading liabilities	9,037.8	8,446.7	9,527.3
50.	Liabilities recognized at fair value	—	—	—
60.	Hedging derivatives	352.7	375.6	373.1
	of which:			
	funding hedge derivatives	*313.3*	*333.3*	*264.3*
	lending hedge derivatives	*7.9*	*11.5*	*45.9*
70.	Value adjustments to financial liabilities subject to general hedging	—	—	—
80.	Tax liabilities	537.7	476.1	598.5
	a) current	*166.7*	*116.6*	*257.1*
	b) deferred	*371.0*	*359.5*	*341.4*
90.	Liabilities in respect of Group assets being sold	—	—	—
100.	Other liabilities	531.6	501.7	496.1
	of which:			
	other trading items	—	—	—
	loan loss provisions	*17.2*	*17.1*	*12.1*
110.	Staff severance indemnity provision	29.6	28.5	28.7
120.	Provisions	160.3	161.4	161.2
	a) post-employment and similar benefits	—	—	—
	b) other provisions	*160.3*	*161.4*	*161.2*
130.	Technical reserves	122.9	121.5	114.6
140.	Valuation reserves	623.5	508.3	364.1
150.	Shares with right of withdrawal	—	—	—
160.	Equity instruments	—	—	—
170.	Reserves	4,146.4	4,146.8	4,454.6
180.	Share premium reserve	2,120.1	2,120.1	2,120.1
190.	Share capital	430.6	430.6	430.6
200.	Treasury shares	(199.2)	(199.2)	(213.8)
210.	Net equity attributable to minorities	105.2	105.8	108.7
220.	Profit (loss) for the year	395.3	304.7	37.3
	TOTAL LIABILITIES AND NET EQUITY	**70,798.0**	**75,284.5**	**78,700.8**

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

(€m)

	Profit and loss account	9 mths to 31/3/14	6 mths to 31/12/13	9 mths to 31/3/13
10.	Interest and similar income	1,825.4	1,255.3	2,073.4
20.	Interest expense and similar charges	(1,038.7)	(738.1)	(1,280.0)
30.	**Net interest income**	**786.7**	**517.2**	**793.4**
40.	Fee and commission income	245.9	172.0	265.6
50.	Fee and commission expense	(37.0)	(23.8)	(35.5)
60.	**Net fee and commission income**	**208.9**	**148.2**	**230.1**
70.	Dividends and similar income	31.8	24.4	20.3
80.	Net trading income	(23.5)	(13.5)	97.0
90.	Net hedging income (expense)	(2.7)	(1.3)	4.5
100.	Gain (loss) on disposal of:	249.0	178.7	46.1
	a) loans and receivables	*(0.2)*	*(0.3)*	*6.2*
	b) AFS securities	*261.9*	*183.0*	*7.3*
	c) financial assets held to maturity	*(2.0)*	*(1.9)*	*1.3*
	d) other financial liabilities	*(10.7)*	*(2.1)*	*31.3*
120.	**Total income**	**1,250.2**	**853.7**	**1,191.4**
130.	Adjustments for impairment to:	(467.8)	(306.6)	(357.5)
	a) loans and receivables	*(454.4)*	*(298.1)*	*(340.7)*
	b) AFS securities	*(7.6)*	*(4.7)*	*6.2*
	c) financial assets held to maturity	*0.5*	*0.2*	*0.5*
	d) other financial liabilities	*(6.3)*	*(4.0)*	*(23.5)*
140.	**Net income from financial operations**	**782.4**	**547.1**	**833.9**
150.	Net premium income	28.0	18.4	23.3
160.	Income less expense from insurance operations	(14.0)	(8.8)	(12.2)
170.	**Net income from financial and insurance operations**	**796.4**	**556.7**	**845.0**
180.	Administrative expenses:	(590.0)	(373.3)	(574.9)
	a) personnel costs	*(273.6)*	*(179.0)*	*(291.6)*
	b) other administrative expenses	*(316.4)*	*(194.3)*	*(283.2)*
190.	Net transfers to provisions for liabilities and charges	0.6	0.9	(2.0)
200.	Net adjustments to property, plant and equipment	(13.5)	(9.0)	(14.6)
210.	Net adjustments to intangible assets	(14.6)	(9.8)	(16.5)
	of which: goodwill	—	—	—
220.	Other operating income (expenses)	102.1	54.3	103.4
230.	**Operating costs**	**(515.4)**	**(336.9)**	**(504.6)**
240.	Profit (loss) from equity-accounted companies	156.1	112.5	(166.1)
270.	Gain (loss) on disposal of investments	—	-0.1	—
280.	**Profit (loss) before tax on ordinary activities**	**437.1**	**332.2**	**174.3**
290.	Income tax on ordinary activities for the year	(44.9)	(30.3)	(138.9)
300.	**Profit (loss) after tax on ordinary activities**	**392.2**	**301.9**	**35.4**
310.	Net gain (loss) on non-current assets being sold	—	—	—
320.	**Profit (loss) for the year**	**392.2**	**301.9**	**35.4**
330.	Profit (loss) for the year attributable to minorities	3.1	2.8	1.8
340.	**Net profit (loss) for the year attributable to Mediobanca**	**395.3**	**304.7**	**37.2**

The profit and loss account shown on p. 10 reflects the following restatements:
- *Net interest income* includes the result of funding and lending hedging activity (minus €2.7m, minus €3m and €4.5m respectively), plus the margins on swaps reported under heading 80 (€25.1m, €20.9m and minus €34.4m respectively);
- amounts under Heading 220 have been restated as *Net fee and commission income*, save for amounts refunded/recovered totalling €51.4m, €21.3m and €46.5m respectively which net operating costs; the amounts stated under headings 150 and 160, net of fees payable in respect of securities lending transactions (minus €1.4m, minus €1.2m and €2.1m respectively, shown here under heading 80);
- net of or in addition to the items already stated, *Treasury income* also includes the amounts shown under headings 70 and 80, and the gains (losses) on disposal of financial liabilities reported under heading 100, amounting to €38.4m, €28.3m and €25.9m respectively;
- *Provisions for other financial assets* include both the AFS securities and HTM financial assets accounted for here under heading 130, plus the net adjustments and effects of restatement of heading 240 (minus €18.6m, minus €18.6m, and minus €95m respectively).

Comprehensive consolidated profit and loss account

(€m)

	Headings	31/3/14	31/3/13
10.	Gain (loss) for the period	392.2	35.5
	Other income items net of tax not taken through profit and loss account	**23.3**	**(4.8)**
20.	Property, plant and equipment	—	—
30.	Intangible assets	—	—
40.	Actuarial gains (losses) on defined-benefit pension schemes	(0.8)	(4.8)
50.	Non-current assets being sold	—	—
60.	Share of valuation reserves for equity-accounted companies	24.1	—
	Other income items net of tax taken through profit and loss account	**290.9**	**701.8**
70.	Foreign investment hedges	—	—
80.	Exchange rate differences	—	—
90.	Cash flow hedges	26.2	19.7
100.	AFS securities	268.3	330.9
110.	Non-current assets being sold	—	—
120.	Share of valuation reserves for equity-accounted companies	(3.6)	351.2
130.	**Total other income items net of tax**	**314.2**	**697.0**
140.	**Aggregate profit (Heading 10 + Heading 110)**	**706.4**	**732.5**
150.	Overall consolidated profit attrubutable to minorities	(2.2)	(0.7)
160.	Overall consolidated profit attributable to Mediobanca	708.6	733.2

DECLARATION BY HEAD OF COMPANY FINANCIAL REPORTING

Declaration by Head of Company Financial Reporting

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

Head of
Company Financial Reporting

Massimo Bertolini

Mercurio GP - Milan