# MEDIOBANCA

# *Quarterly Report*

for the three months to 30 September 2006

# MEDIOBANCA

LIMITED COMPANY

SHARE CAPITAL € 407,760,832.50 FULLY PAID UP - RESERVES € 4,295.8m

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 to 30 September 2006 www.mediobanca.it

# C O N T E N T S

## REVIEW OF GROUP OPERATIONS

The Mediobanca Group recorded a net profit of €366.5m in the first quarter, up 13.2% on the €323.7m at the same stage last year, after gains of €154.9m (30/9/05: €91m) on disposals of securities, virtually all of which were linked to the sale of the Group's holding in Ferrari.

Profit from ordinary activities improved for the quarter, from €326.4m to €333.9m, despite lower trading income, down to €26.1m from €81.9m reported one year previously, which, however, was boosted by €40.8m in gains linked to disposal of the Group's interest in Ciments Français. Total income rose by 4.2%, from €407.5m to €424.8m, due to:

— growth of 15% in net interest income, from €137.5m to €158.1m, reflecting higher business volumes in corporate banking and retail financial services;

— a 42.9% increase in net fee and commission income, from €80.5m to €115m, driven by a healthy contribution from corporate and investment banking, which accounted for approx. three-quarters of the total;

— a 16.7% rise in income from companies accounted for on a net equity basis, from €107.6m to €125.6m, due to a robust earnings performance from Assicurazioni Generali.

Operating costs rose by 12.1%, from €81.1m to €90.9m, due to strengthening in wholesale banking activities, and the geographical and operational expansion of the Compass group reflected in the 61 new staff and an increase of 11 in the number of branches compared to the same time last year.

Bad debt writeoffs, entirely attributable to retail financial services, rose from €25m to €33.6m, due to higher lendings in consumer credit and the related 22.2% increase in total income. Credit quality in this segment remains satisfactory, as shown by a doubtful loans/total loans ratio of 0.95%.

All areas of the Group's operations reported improvements in terms of the bottom line: net profit earned by the wholesale banking department rose by 10.2%, from €185.4m to €204.3m; the equity investment portfolio reflected a 21.2% increase, from €100.7m to €122m; retail financial services improved by 6.6%, from €22.6m to €24.1m; and private banking grew by 8%, from €15m to €16.2m. Overall, net profit from banking activity rose by 9.6%, from €223m to €244.5m.

## Consolidated financial statements

The consolidated profit and loss account and balance sheet have been restated 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 in the annex attached hereto, along with further details on how the various items have been restated.

### CONSOLIDATED PROFIT AND LOSS ACCOUNT

| | 3 mths to 30/9/05 | 12 mths to 30/6/06 | 3 mths to 30/9/06 | Y.o.Y. chg. |
|---|---|---|---|---|
| | €m | €m | €m | % |
| Net interest income | 137.5 | 593.0 | 158.1 | +15.0 |
| Net trading income | 81.9 | 215.7 | 26.1 | -68.1 |
| Net fee and commission income | 80.5 | 302.7 | 115.0 | +42.9 |
| Dividends on AFS securities | — | 65.0 | — | n.m. |
| Share of profits earned by equity-accounted companies | 107.6 | 335.3 | 125.6 | +16.7 |
| **TOTAL INCOME** | **407.5** | **1,511.7** | **424.8** | **+4.2** |
| Operating costs | (81.1) | (393.4) | (90.9) | +12.1 |
| **PROFIT FROM ORDINARY ACTIVITIES** | **326.4** | **1,118.3** | **333.9** | **+2.3** |
| Gain (loss) on disposal of AFS securities | 91.0 | 87.8 | 154.9 | +70.2 |
| Gain (loss) on disposal of other securities | 0.6 | 2.6 | — | n.m. |
| Bad debt writeoffs | (25.0) | (119.4) | (33.6) | +34.4 |
| Extraordinary provisions | — | — | (4.5) | n.m. |
| **PRE-TAX PROFIT** | **393.0** | **1,089.3** | **450.7** | **+14.7** |
| Income tax for the period | (66.6) | (221.5) | (81.6) | +22.5 |
| Minority interest | (2.7) | (9.4) | (2.6) | -3.7 |
| **NET PROFIT** | **323.7** | **858.4** | **366.5** | **+13.2** |

## RESTATED BALANCE SHEET

| | 30/9/05 | 30/6/06 | 30/9/06 |
|---|---|---|---|
| | €m | €m | €m |
| **Assets** | | | |
| Treasury funds | 2,602.2 | 6,320.6 | 8,172.8 |
| AFS securities | 5,223.9 | 5,502.7 | 4,884.5 |
| *of which: fixed income* | *2,654.7* | *2,833.9* | *2,380.1* |
| *equities* | *2,444.4* | *2,423.0* | *2,106.0* |
| Financial assets held to maturity | 534.6 | 626.5 | 630.6 |
| Loans and advances to customers | 19,055.1 | 21,388.1 | 21,768.4 |
| Equity investments | 2,231.2 | 2,354.9 | 2,300.8 |
| Tangible and intangible assets | 306.4 | 305.7 | 303.0 |
| Other assets | 461.0 | 510.2 | 466.3 |
| *of which tax assets* | *207.8* | *321.5* | *325.3* |
| Total assets | 30,414.4 | 37,008.7 | 38,526.4 |
| **Liabilities** | | | |
| Funding | 22,713.3 | 29,067.7 | 30,156.6 |
| *of which debt securities in issue* | *15,865.3* | *21,118.0* | *22,297.2* |
| Other liabilities | 1,344.5 | 915.3 | 1,502.3 |
| *of which tax liabilities* | *560.4* | *645.6* | *734.9* |
| Provisions | 186.8 | 191.3 | 192.8 |
| Net equity | 5,368.1 | 5,976.0 | 6,308.2 |
| *of which: share capital* | *398.3* | *406.0* | *407.8* |
| *reserves* | *5,846.1* | *5,480.8* | *5,810.2* |
| *minority interest* | *79.7* | *89.2* | *90.2* |
| Profit for the year | 323.7 | 858.4 | 366.5 |
| Total liabilities | 30,414.4 | 37,008.7 | 38,526.4 |

## Balance-sheet data and profit-and-loss figures by division

| 30/9/06 | Wholesale banking | Retail financial services | Private banking | Equity investment portfolio | Group |
|---|---|---|---|---|---|
| | €m | €m | €m | €m | €m |
| **Profit-and-loss figures** | | | | | |
| Net interest income | 45.4 | 109.2 | 6.1 | (2.0) | 158.1 |
| Dividends on AFS securities | — | — | — | — | — |
| Net trading income | 22.3 | (0.1) | 3.9 | — | 26.1 |
| Net fee and commission income | 94.1 | 9.0 | 19.9 | — | 115.0 |
| Share of profits earned by equity-accounted companies | 3.2 | — | — | 121.2 | 125.6 |
| **TOTAL INCOME** | **165.0** | **118.1** | **29.9** | **119.2** | **424.8** |
| Labour costs | (27.4) | (16.1) | (9.8) | (0.8) | (51.8) |
| Administrative expenses | (14.0) | (22.3) | (6.7) | (0.6) | (39.1) |
| **OPERATING COSTS** | **(41.4)** | **(38.4)** | **(16.5)** | **(1.4)** | **(90.9)** |
| **PROFIT FROM ORDINARY ACTIVITIES** | **123.6** | **79.7** | **13.4** | **117.8** | **333.9** |
| Gain (loss) on disposal of AFS securities | 146.8 | — | 8.1 | — | 154.9 |
| Extraordinary provisions | — | — | (4.5) | — | (4.5) |
| Bad debt writeoffs | — | (33.6) | — | — | (33.6) |
| **PRE-TAX PROFIT** | **270.4** | **46.1** | **17.0** | **117.8** | **450.7** |
| Income tax for the year | (66.1) | (19.4) | (0.8) | 4.2 | (81.6) |
| Minority interest | — | (2.6) | — | — | (2.6) |
| **NET PROFIT** | **204.3** | **24.1** | **16.2** | **122.0** | **366.5** |
| **Balance-sheet data** | | | | | |
| AFS securities | 3,506.4 | — | 1,397.9 | — | 4,884.5 |
| Equity investments | 146.4 | — | — | 2,118.1 | 2,300.8 |
| Loans and advances to customers: | 15,978.4 | 9,051.5 | 509.9 | — | 21,768.4 |
| *of which to Group companies* | *3,649.0* | — | — | — | — |

Notes:

1) Divisions comprise:
   - *wholesale banking*: Mediobanca S.p.A., Mediobanca International and Prominvestment;
   - *retail financial services*: Compass, Micos Banca, Cofactor and Creditech (consumer credit); SelmaBipiemme Leasing, Palladio Leasing and Teleleasing (leasing);
   - *private banking*: Compagnie Monégasque de Banque, Spafid and Prudentia Fiduciaria, plus 48.5% (48.2% as from September 2006) of Banca Esperia pro-forma;
   - *equity investment*: shareholdings owned by the Group in Assicurazioni Generali and RCS MediaGroup.
2) Data included in the table have been compiled on a IAS/IFRS-compliant basis.
3) Sum of divisional data differs from Group total due to:
   - Banca Esperia being consolidated pro-rata (48.5%, now 48.2%) rather than equity-accounted;
   - adjustments/differences arising on consolidation between different business areas.

| 30/9/05 | Wholesale banking | Retail financial services | Private banking | Equity investment portfolio | Group |
|---|---|---|---|---|---|
| | €m | €m | €m | €m | €m |
| **Profit-and-loss figures** | | | | | |
| Net interest income | 42.3 | 91.1 | 6.7 | (2.2) | 137.5 |
| Dividends on AFS securities | — | — | — | — | — |
| Net trading income | 78.2 | 0.4 | 5.1 | 0.1 | 81.9 |
| Net fee and commission income | 59.4 | 9.3 | 19.9 | — | 80.5 |
| Share of profits earned by equity-accounted companies | — | — | — | 104.8 | 107.6 |
| **TOTAL INCOME** | **179.9** | **100.8** | **31.7** | **102.5** | **407.5** |
| Labour costs | (22.8) | (14.7) | (10.2) | (0.8) | (47.0) |
| Administrative expenses | (11.8) | (20.0) | (5.8) | (0.5) | (34.1) |
| **OPERATING COSTS** | **(34.6)** | **(34.7)** | **(16.0)** | **(1.3)** | **(81.1)** |
| **PROFIT FROM ORDINARY ACTIVITIES** | **145.3** | **66.1** | **15.7** | **101.2** | **326.4** |
| Gain (loss) on disposal of AFS securities | 89.6 | — | 1.4 | — | 91.0 |
| Gain (loss) on disposal of other assets | — | — | 0.6 | — | 0.6 |
| Bad debt writeoffs | — | (24.3) | (0.7) | — | (25.0) |
| **PRE-TAX PROFIT** | **234.9** | **41.8** | **17.0** | **101.2** | **393.0** |
| Income tax for the year | (49.5) | (16.4) | (2.0) | (0.5) | (66.6) |
| Minority interest | — | (2.8) | — | — | (2.7) |
| **NET PROFIT** | **185.4** | **22.6** | **15.0** | **100.7** | **323.7** |
| **Balance-sheet data** | | | | | |
| AFS securities | 4,113.9 | — | 1,119.1 | — | 5,223.9 |
| Equity investments | 132.0 | — | — | 2,072.0 | 2,231.2 |
| Loans and advances to customers: | 13,935.2 | 7,499.5 | 578.1 | — | 19,055.1 |
| *of which to Group companies* | *2,797.4* | — | — | — | — |

## BALANCE SHEET

The main balance-sheet aggregates performed as follows during the three months under review:

**Funding** — this item rose from €29,067.7m to €30,156.6m, reflecting both a rise in debt securities, from €21,118m to €22,297.2m, and a reduction in current account balances, from €1,386.2m to €1,173.8m, which reflects repayment of matched lending transactions in an amount of €80.2m. Subsequent to the reporting date two subordinated bonds were issued worth an aggregate €1bn.

**Loans and advances to customers** — these rose by €380.3m, from €21,388.1m, to €21,768.4m, chiefly due to growth in the retail segment.

| | 30/6/06 | 30/9/06 | Q.o.Q. chg. |
|---|---|---|---|
| | €m | €m | % |
| Corporate | 12,268.8 | 12,329.4 | +0.5 |
| Retail | 8,778.3 | 9,031.7 | +2.9 |
| - *of which: consumer credit* | *3,216.2* | *3,352.9* | *+4.3* |
| *mortgage lending* | *1,682.0* | *1,770.2* | *+5.2* |
| *leasing* | *3,817.4* | *3,847.2* | *+0.8* |
| Other (CMB) | 341.0 | 407.3 | +19.4 |
| TOTAL LOANS AND ADVANCES TO CUSTOMERS | 21,388.1 | 21,768.4 | +1.8 |

Corporate lending and structured finance account for 56% of the Group's loan book (30/6/06: 57%), consumer credit for 24% (23%), leasing for 18% (18%), and finance disbursed by Compagnie Monégasque de Banque for the other 2% (2%).

**Equity investments** — this item declined by €54.1m, from €2,354.9m to €2,300.8m, owing to a €59m reduction in the value of the holding in Assicurazioni Generali, representing the balance between the profit earned during the period under review, i.e. €113.6m, and a €172.6m reduction in the valuation reserve for the investee company, both of which attributable to the Group. Other movements involved Athena Private Equity, which repurchased stock units for €3.6m, plus the crediting of profits attributable to the Group earned by RCS MediaGroup (€3.7m), Cartiere Burgo (€3.2m), and Banca Esperia (€1.6m). The gain on listed investments based on prices at 30 September 2006 amounted to €3,577.4m (30/9/05: €3,352.4m), which rises to €3,859.5m based on current prices.

| | Percentage shareholding* | Book value | Market value based on prices at 30/9/06 | Gain |
|---|---|---|---|---|
| | €m | €m | €m | €m |
| LISTED INVESTMENTS | | | | |
| Assicurazioni Generali | 14.11 | 1,829.5 | 5,314.5 | 3,485.0 |
| RCS MediaGroup, *ordinary* | 13.66 | 288.6 | 381.0 | 92.4 |
| | | 2,118.1 | 5,695.5 | 3,577.4 |
| OTHER INVESTMENTS | | | | |
| Banca Esperia | 48.15 | 36.2 | | |
| Cartiere Burgo | 22.13 | 104.4 | | |
| Athena Private Equity class A | 23.88 | 30.3 | | |
| MB Venture Capital Fund I Partecipating Company ANV class B | 45.0 | 9.5 | | |
| Fidia | 25.0 | 2.3 | | |
| | | 182.7 | | |
| | | 2,300.8 | | |

* Of entire share capital.

**Financial assets held to maturity** — these rose by €4.1m, from €626.5m to €630.6m.

**AFS securities** — the €618.2m reduction in this item, from €5,502.7m to €4,884.5m, involved both debt securities, which declined from €2,833.9m to €2,380.1m, and equities, down from €2,423m to €2,106m. The main movements in the equity portfolio during the period involved:

— disposal of the Group's entire shareholding in Ferrari, as mentioned above, with proceeds of €590.4m and yielding a profit of €152.8m, €8m of which was attributable to Compagnie Monégasque de Banque;

— subscription for a 19.2% interest in Speed S.r.l., a vehicle company set up in conjunction with other banking investors in order to acquire a 39% stake in Pirelli Tyre, involving an outlay of €63.9m;

— net disposals of equity holdings as part of market transactions amounting to €60.3m.

In addition to the above movements, recognition of assets at fair value as at the reporting date led to an increase of €154.8m, €28.9m of which with respect to debt securities and €125.9m to equities, the latter of which were made up as follows:

| | €m |
|---|---|
| Fiat | 45.8 |
| Banca Intesa | 18.2 |
| Telecom Italia (ordinary and savings) | 14.1 |
| Fondo Clessidra | 13.4 |
| Gemina | 11.5 |
| Fondiaria - SAI | 7.1 |
| Mediolanum | 5.2 |
| Italmobiliare | 4.2 |
| Commerzbank | (7.5) |
| Others | 13.9 |
| TOTAL | 125.9 |

**Treasury funds** — this item increased from €6,320.6m to €8,172.8m, and includes €6,358m in securities, €1,551.9m in short-term applications of funds (repos etc.), and €262.9m in cash and cash equivalents. Movements during the period and marking the portfolio (including derivatives) to market led generated gains for the three months of €25.7m, plus a further €0.4m in dividends.

**Tangible and intangible assets** — these reduced from €305.7m to €303m, owing to depreciation and amortization charges for the period.

**Provisions** — this heading comprises the provisions for risks and liabilities, unchanged at €156.6m, and the staff severance indemnity provision, which rose from €34.7m to €36.2m owing to accruals for the period.

**Net equity** — this rose by €331.2m, from €5,886.8m to €6,218m, following allocation of profit for the previous financial year in an amount of €379.4m net of the dividend to be paid in November, and new share issuance in connection with exercise of stock options, which amounted to €31.6m. The valuation reserve rose from €351.2m to €444.8m, reflecting: i) a €118.9m increase in the AFS portfolio reserve net of the related tax effects; ii) a reduction in the cash flow hedge reserve, from €25.8m to €0.5m.

## PROFIT AND LOSS ACCOUNT

**Net interest income** — this item rose by 15%, from €137.5m to €158.1m, linked to higher lendings in corporate banking and by the Compass group, as well as a slight increase in returns. Some two-thirds of net interest income is generated by retail financial services, and one-third by the corporate banking area.

**Net trading income** — net income of €26.1m, or €81.9m including non-recurring items worth €40.8m, represents the balance between gross income of €43.8m and an €18.1m downward adjustment due to marking the trading portfolio to market as at the reporting date. Dividends worth €0.4m were also collected during the period.

| | 30/9/05 | 30/9/06 | Y.o.Y. chg. |
|---|---|---|---|
| | €m | €m | % |
| Dealing profits | 25.0 | 43.8 | +75.2 |
| Mark-to-market as at reporting date | 54.9 | (18.1) | n.m. |
| Dividends | 2.0 | 0.4 | n.m. |
| | 81.9 | 26.1 | -68.1 |

Virtually all the income was generated from equity positions.

**Net fee and commission income** — the increase in this item, from €80.5m to €115m, is largely attributable to corporate and investment banking fees, which accounted for over 80% of the total and were up 57.8%, from €59.5m to €93.9m due to the healthy trend posted by all the Group's business areas. The heading includes €8.4m in fees earned by the Compass group (30/9/05: €9.3m) and €12.7m earned by the other Group companies, chiefly Compagnie Monégasque de Banque.

**Operating costs** — these rose from €81.1m to €90.9m, an increase of 12.1%, and comprise:

— labour costs amounting to €51.8m (30/9/05: €47m); this includes €1m (€1.5m) in directors' fees and €2.5m (€2.5m) in respect of stock options;

— sundry costs and expenses amounting to €39.1m (€34.1m), including €4m (€2.7m) in ordinary depreciation charges and administrative expenses totalling €35.1m (€31.4m) made up as follows:

| | 3 mths to 30/9/05 | 3 mths to 30/9/06 |
|---|---|---|
| | €m | €m |
| EDP and financial information subscriptions | 8.1 | 8.8 |
| Bad debt recoveries and legal fees | 3.0 | 4.1 |
| Rent, equipment leasing and maintenance charges | 2.9 | 4.1 |
| Advertising | 2.6 | 3.8 |
| Outside service and consultancy fees | 2.1 | 3.5 |
| Stationery, publication costs and utilities | 3.6 | 2.9 |
| Bank charges | 2.6 | 2.4 |
| Travel, transport and entertainment | 1.0 | 0.9 |
| Others | 5.5 | 4.6 |
| | 31.4 | 35.1 |

## Review of Group businesses

A review of the individual divisions' performance during the three months under review is provided below in the customary format.

## Wholesale banking

| | 3 mths to 30/9/05 | 12 mths to 30/6/06 | 3 mths to 30/9/06 | Y.o.Y. chg. |
|---|---|---|---|---|
| | €m | €m | €m | % |
| Net interest income | 42.3 | 180.6 | 45.4 | +7.3 |
| Dividends on AFS equities | — | 65.0 | — | — |
| Net trading income | 78.2 | 205.3 | 22.3 | -71.5 |
| Net fee and commission income | 59.4 | 215.2 | 94.1 | +58.4 |
| Share of profits earned by equity-accounted companies | — | 15.7 | 3.2 | n.m. |
| **TOTAL INCOME** | 179.9 | 681.8 | 165.0 | -8.3 |
| Operating costs | (34.6) | (176.0) | (41.4) | +19.7 |
| **PROFIT FROM ORDINARY ACTIVITIES** | 145.3 | 505.8 | 123.6 | -14.9 |
| Other items | 89.6 | 83.9 | 146.8 | +63.8 |
| Taxation for the year | (49.5) | (122.5) | (66.1) | +33.5 |
| **NET PROFIT** | 185.4 | 467.2 | 204.3 | +10.2 |
| Cost/income ratio (%) | 19 | 26 | 25 | |
| Doubtful loans/total loans | = | = | = | |

| | 30/9/05 | 30/6/06 | 30/9/06 | Q.o.Q. chg. |
|---|---|---|---|---|
| | €m | €m | €m | % |
| Treasury funds | 2,281.8 | 6,112.6 | 7,993.7 | +30.8 |
| AFS securities | 4,196.2 | 4,065.8 | 3,506.4 | -13.8 |
| Financial assets held to maturity | 533.6 | 626.5 | 630.7 | +0.7 |
| Equity investments | 132.0 | 146.8 | 146.4 | -0.3 |
| Loans and advances to customers | 13,935.2 | 15,855.9 | 15,978.4 | +0.8 |
| *of which to Group companies* | *2,797.4* | *3,608.4* | *3,649.0* | *+1.1* |
| Funding | 16,680.4 | 22,433.8 | 23,487.6 | +4.7 |

A net profit of €204.3m was recorded, up 10.2% on the €185.4m posted one year previously, following gains of €146.8m (30/9/05: €89.6m) on disposal of the stake in Ferrari. Profit from ordinary activities declined from €145.3m to €123.6m, due to the anticipated reduction in trading income, which stood at €22.3m compared with €78.2m. Conversely, net interest income rose 7.3%, from €42.3m to €45.4m, and net fee and commission income grew by 58.4%, from €59.4m to €94.1m, the former driven by the increase in loans, the latter by healthy performances in terms of business volumes by the lending, advisory and capital markets areas. The 19.7% increase in costs, from €34.6m to €41.4m, is due to growth in the headcount, with 16 new staff, and one-off IT projects linked to development in the area of wholesale banking.

The balance-sheet aggregates for the three months reflect growth in loans and advances to customers, up from €15,855.9m to €15,978.4m, and funding, up from €22,433.8m to €23,487.6m. Treasury funds also rose, from €6,112.6m to €7,993.7m, while the AFS portfolio declined from €4,065.8m to €3,506.4m.

## Equity investment portfolio

The share in profits attributable to the Group for the period under review rose by 21%, from €104.8m to €121.2m, and comprised €113.6m in profits earned by Assicurazioni Generali and €7.6m by RCS MediaGroup.

## Retail financial services (consumer credit and leasing)

| | 3 mths to 30/9/05 | 12 mths to 30/6/06 | 3 mths to 30/9/06 | Y.o.Y. chg. |
|---|---|---|---|---|
| | €m | €m | €m | % |
| Total income | 100.8 | 440.8 | 118.1 | +17.2 |
| Operating costs | (34.7) | (166.4) | (38.4) | +10.7 |
| **PROFIT FROM ORDINARY ACTIVITIES** | **66.1** | **274.4** | **79.7** | **+20.6** |
| Bad debt writeoffs | (24.3) | (115.2) | (33.6) | +38.3 |
| Income tax for the year | (16.4) | (69.8) | (19.4) | +18.3 |
| Minority interest | (2.8) | (10.8) | (2.6) | -7.1 |
| **NET PROFIT** | **22.6** | **78.6** | **24.1** | **+6.6** |
| Loans and advances to customers | 7,499.5 | 8,799.4 | 9,051.5 | +2.9* |
| New loans | 934.2 | 4,579.7 | 1,048.0 | +12 |
| No. of branches | 124 | 135 | 135 | — |
| Cost/income ratio (%) | 34 | 38 | 33 | — |
| Doubtful loans/total loans (%) | 0.82 | 0.91 | 0.95 | — |

* Q.o.Q. chg.

The Compass group's consolidated highlights reflect a 20.6% improvement in profit from ordinary activities, from €66.1m to €79.7m. The 17.2% increase in total income, from €100.8m to €118.1m, reflects ongoing growth in lendings, in the consumer credit segment particularly. The rise in costs was less pronounced, up 10.7% from €34.7m to €38.4m, and once again is linked to the group's expansion in geographical and operational terms, with 11 new branches compared to September 2005. The rise in bad debt writeoffs, from €24.3m to €33.6m, is almost entirely attributable to consumer credit. Net profit rose by 6.6%, from €22.6m to €24.1m, while asset quality remained satisfactory, with a doubtful loans/total loans ratio of 0.95%.

A breakdown of the results by business segment is provided below:

| Retail financial services 30/9/06 | Consumer credit | Mortgage lending | Total consumer finance | Leasing | Total RFS |
|---|---|---|---|---|---|
| | €m | €m | €m | €m | €m |
| Total income | 89.7 | 9.6 | 99.3 | 18.8 | 118.1 |
| Operating costs | (27.0) | (5.2) | (32.2) | (6.2) | (38.4) |
| **PROFIT FROM ORDINARY ACTIVITIES** | **62.7** | **4.4** | **67.1** | **12.6** | **79.7** |
| Provisions and loan losses | (30.2) | (1.6) | (31.8) | (1.8) | (33.6) |
| Minority interest | — | — | — | (2.6) | (2.6) |
| Taxation for the period | (13.7) | (1.2) | (14.9) | (4.5) | (19.4) |
| **NET PROFIT** | **18.8** | **1.6** | **20.4** | **3.7** | **24.1** |
| New loans | 586.4 | 125.7 | 712.1 | 335.9 | 1,048.0 |
| Loans and advances to customers | 3,413.0 | 1,770.2 | 5,183.2 | 3,868.3 | 9,051.5 |
| No. of branches | 103 | 22 | 125 | 10 | 135 |
| No. of employees | 656 | 169 | 825 | 207 | 1,032 |

| Retail financial services 30/9/05 | Consumer credit | Mortgage lending | Total consumer finance | Leasing | Total RFS |
|---|---|---|---|---|---|
| | €m | €m | €m | €m | €m |
| Total income | 73.4 | 8.2 | 81.6 | 19.2 | 100.8 |
| Operating costs | (24.4) | (4.1) | (28.4) | (6.2) | (34.7) |
| **PROFIT FROM ORDINARY ACTIVITIES** | **49.0** | **4.1** | **53.1** | **13.0** | **66.1** |
| Provisions and loan losses | (21.3) | (1.2) | (22.5) | (1.9) | (24.3) |
| Minority interest | — | — | — | (2.8) | (2.8) |
| Taxation for the period | (10.6) | (1.3) | (11.9) | (4.5) | (16.4) |
| **NET PROFIT** | **17.1** | **1.6** | **18.8** | **3.8** | **22.6** |
| New loans | 506.7 | 111.4 | 618.1 | 316.1 | 934.2 |
| Loans and advances to customers | 2,764.7 | 1,395.9 | 4,160.6 | 3,338.9 | 7,499.5 |
| No. of branches | 93 | 21 | 114 | 10 | 124 |
| No. of employees | 614 | 164 | 778 | 213 | 991 |

### Private banking

| | 3 mths to 30/9/05 | 12 mths to 30/6/06 | 3 mths to 30/9/06 | Y.o.Y. chg. |
|---|---|---|---|---|
| | €m | €m | €m | % |
| Total income | 31.7 | 115.6 | 29.9 | -5.7 |
| *of which net fee and commission income* | *19.9* | *82.8* | *19.9* | — |
| Operating costs | (16.0) | (69.4) | (16.5) | +3.1 |
| Profit from ordinary activities | 15.7 | 46.2 | 13.4 | -14.6 |
| Other income (expenses) | 1.3 | 2.7 | 3.6 | n.m. |
| Taxation for the year | (2.0) | (4.9) | (0.8) | -60.0 |
| Net profit attributable to Group | 15.0 | 44.0 | 16.2 | +8.0 |

| | 3 mths to 30/9/05 | 12 mths to 30/6/06 | 3 mths to 30/9/06 | Q.o.Q. chg. |
|---|---|---|---|---|
| | €m | €m | €m | % |
| AUM | 11,052.4 | 11,216.9 | 11,434.8 | +1.9 |
| Securities under trust | 1,030.6 | 1,077.6 | 1,048.2 | -2.7 |

Net profit was up 8%, from €15m to €16.2m, after non-recurring income of €8m deriving from the disposal of the 1% holding in Ferrari and net extraordinary provisions relating to a programme of long-term investment in the Principality of Monaco amounting to €4.5m. Profit from ordinary activities fell from €15.7m to €13.4m on the back of lower trading income, down from €5.1m to €3.9m, and the absence of performance fees for Banca Esperia during the period, against income of €2.9m posted this time last year. The increase in operating costs, from €16m to €16.5m, is chiefly attributable to developing the operations facilities of Banca Esperia and to extraordinary IT charges booked by Compagnie Monégasque de Banque. Assets managed on a discretionary/non-discretionary basis rose by 1.9% during the quarter, from €11.2bn to €11.4bn, with €7.2bn attributable to CMB (up 1%), and €4.2bn (pro-rata) to Banca Esperia (up 3.9%).

| Private banking 30/9/06 | CMB | Banca Esperia 48.2%* | Others | Total PB |
|---|---|---|---|---|
| | €m | €m | €m | €m |
| Total income | 21.3 | 7.0 | 1.6 | 29.9 |
| *of which net fee and commission income* | *11.9* | *6.5* | *1.5* | *19.9* |
| Operating costs | (9.6) | (5.5) | (1.4) | (16.5) |
| **PROFIT FROM ORDINARY ACTIVITIES** | **11.7** | **1.5** | **0.2** | **13.4** |
| Other income (expenses) | 3.6 | — | — | 3.6 |
| Income tax for the year | — | (0.6) | (0.2) | (0.8) |
| **NET PROFIT** | **15.3** | **0.9** | — | **16.2** |
| AUM | 7,197.6 | 4,237.2 | — | 11,434.8 |

* Includes €0.2m in costs linked to the stock option scheme attributable to Mediobanca.

| Private banking 30/9/05 | CMB | Banca Esperia 48.5% | Others | Total PB |
|---|---|---|---|---|
| | €m | €m | €m | €m |
| Total income | 20.8 | 9.3 | 1.6 | 31.7 |
| *of which net fee and commission income* | *11.2* | *7.3* | *1.4* | *19.9* |
| Operating costs | (9.9) | (4.6) | (1.5) | (16.0) |
| **PROFIT FROM ORDINARY ACTIVITIES** | **10.9** | **4.7** | **0.1** | **15.7** |
| Other income (expenses) | 1.3 | — | — | 1.3 |
| Income tax for the year | — | (1.9) | (0.1) | (2.0) |
| **NET PROFIT** | **12.2** | **2.8** | **—** | **15.0** |
| AUM | 7,203.0 | 3,849.4 | — | 11,052.4 |

Regarding results for the first nine months of 2006, CMB recorded growth of 6% in total income, from €54m to €57m, a 10% increase in profit for ordinary activities, from €27m to €30m, and a rise in net profit of more than 40%, from €26m to €37m following the gain on Ferrari. Banca Esperia posted 7% growth in total income, from €47m to €50m, despite a €3.9m reduction in trading income. Profit from ordinary activities fell by 4%, from €17.7m to €16.9m, after an increase in costs from €29.4m to €33.5m in order to upgrade operating facilities. AUM grew from €8bn to €8.8bn, an increase of 10%.

* * *

## *Outlook*

Bearing out the comments made in the Group's Annual Report for the year ended 30 June 2006, further growth is anticipated for the Group's various areas of business in the current financial year, albeit less marked than in recent periods. In particular, the improvement in net interest income from wholesale banking should be confirmed, whereas fees and commissions, although sustained by a healthy deal pipeline, remains linked to the performance of financial markets. The contribution provided by trading income is expected to decrease. Retail financial services will continue to benefit from ongoing growth in the consumer credit segment, while still reflecting a conservative provisioning policy to safeguard asset quality. The result of the Group's equity investment portfolio shall continue to depend on the performance of companies accounted for on an equity basis, and on that of the markets generally. In private banking growth in assets under management should be confirmed and should translate to growing profitability.

Milan, 28 October 2006

THE BOARD OF DIRECTORS

# Accounting policies

The Mediobanca Group's consolidated financial statements for the period ended 30 September 2006 have been drawn up in accordance with the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB) and adopted at EU level under regulation CE 1606/02. The EU regulation was enacted in Italy under Legislative Decree 38/05, and Bank of Italy circular 262/05 regulating the adoption of the new accounting standards with respect to financial reporting by banks. This report has also been prepared in compliance with Consob regulation 11971/99 governing regulations for issuers.

## Area and method 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 income statement under a specific heading.

### 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 profit and loss.

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. If no market prices are available, valuation methods and models are used 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. Equities and linked derivatives for which it is not possible to reliably determine fair value using the methods described above are stated at cost. If the assets suffer impairment, they are written down to their current value.

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

**AFS assets**

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 comprise equities held for non-trading purposes which do not qualify as controlling interests, investments in associates or jointly-controlled operations, or investments in private equity funds.

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 are recognized in a separate equity reserve, which is then eliminated against the corresponding item in profit and loss 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. Debt securities included in this category are recognized at amortized cost, against the corresponding item in profit and loss.

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 profit and loss 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 for which the loss was recorded subsequently cease to apply, the impairment is written back to profit and loss for debt securities and equity for shares, up to the value of amortized cost.

### 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 profit and loss 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 profit and loss 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 profit and loss 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.

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 profit and loss.

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

Accounts for which there is 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 earnings, 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 defines finance leases as transactions whereby risks and benefits involved in owning the asset concerned are transferred to the lessee, and stipulates the criteria for identifying whether or not a lease is a finance or operating lease. All leases entered into by the Group qualify as finance leases under the terms of IAS 17. Accordingly, a receivable is booked at an amount equal to the net outlay involved in the finance lease transaction, plus any costs directly incurred in respect of negotiating and/or performing the contract.

## 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 profit and loss 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;

- the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in equity, while the gain or loss deriving from the ineffective portion is recognized through profit and loss 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 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 comprises:

- investments in associates, which are accounted for using the equity method. 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 (which may not be less than 10%) is sufficient to ensure an influence in the governance of the investee company;
- jointly controlled companies, which are also recognized using the equity method;
- other investments of negligible value, which are stated 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 where 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 profit and loss.

## 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.

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 profit and loss.

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 Bank 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 profit and loss. If the reasons which gave rise to the loss in value cease to apply, the adjustment is written back to profit and loss 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 profit and loss.

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 profit and loss 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 profit and loss 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.

## 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 profit and loss.

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 profit and loss.

The sale of treasury shares over the market following a buyback is treated as a new issue. The new sale price is recorded as a liability without passing through profit and loss.

## 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 deferred benefit obligation, which is calculated using the projected unit credit method. 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. Such values are accounted for among staff costs as the net amount of contributions paid, prior year contributions not yet capitalized, interest accrued, and actuarial gains and losses.

## Provisions for liabilities and charges

This heading comprises amounts set aside to cover risks not necessarily associated with defaults on loans or advances that could lead to future expenses. If the time effect is material, provisions are discounted using current market rates. Provisions are recognized in profit and loss.

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 profit and loss in part or in full.

## Foreign currency transactions

Transactions in foreign currencies are recorded by applying the exchange rates ruling as at the reporting date 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 profit and loss, whereas those on non-cash items are taken through profit and loss or to equity depending on their category.

## Tax assets and liabilities

Income taxes are recorded in profit and loss, with the exception of tax payable on items debited or credited directly to 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 in statutory terms and the corresponding value 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 on 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

Stock options for Group employees and other staff are treated as a constituent item of labour costs. The fair value of the options is measured and recognized in equity at the grant date using an option pricing method adjusted to reflect historical series for previous financial years. The value thus determined is taken to profit and loss pro-rata to the vesting period for the individual awards.

### Treasury shares

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

## CONSOLIDATED BALANCE SHEET (IAS/IFRS-compliant)

| | **Assets** | IAS-compliant 30/9/05 | IAS-compliant 30/6/06 | IAS-compliant 30/9/06 |
|---|---|---|---|---|
| 10. | Cash and cash equivalents | 7.2 | 5.4 | 8.8 |
| 20. | Financial assets held for trading | 7,500.3 | 8,128.9 | 9,708.8 |
| 30. | Financial assets recognized at fair value | — | — | — |
| 40. | AFS securities | 5,223.9 | 5,502.7 | 4,884.5 |
| 50. | Financial assets held to maturity | 534.6 | 626.5 | 630.6 |
| 60. | Due from banks | 2,015.6 | 4,974.0 | 7,374.3 |
| | *of which:* | | | |
| | *other trading items* | *1,405.9* | *4,232.1* | *6,662.3* |
| | *other items* | — | *8.2* | *10.1* |
| 70. | Due from customers | 19,416.9 | 22,954.2 | 22,810.3 |
| | *of which:* | | | |
| | *other trading items* | *945.8* | *2,243.2* | *1,698.0* |
| | *other items* | — | *32.2* | *26.5* |
| 80. | Hedging derivatives | 1,360.0 | 793.4 | 824.7 |
| | *of which:* | | | |
| | *funding* | *1,297.0* | *745.1* | *790.0* |
| | *lending* | *0.4* | *3.0* | *3.0* |
| 90. | Value adjustments to financial assets subject to general hedging | — | — | — |
| 100. | Equity investments | 2,231.2 | 2,354.9 | 2,300.8 |
| 110. | Total reinsurers' share of technical reserves | — | — | — |
| 120. | Property, plant and equipment | 301.1 | 301.8 | 299.0 |
| 130. | Intangible assets | 5.3 | 3.9 | 4.0 |
| | *of which:* | | | |
| | *goodwill* | — | — | — |
| 140. | Tax assets | 275.3 | 321.5 | 325.3 |
| | *a) current* | *67.0* | *175.6* | *169.5* |
| | *b) advance* | *208.3* | *145.9* | *155.8* |
| 150. | Other non-current and Group assets being sold | — | — | — |
| 160. | Other assets | 176.3 | 149.4 | 167.7 |
| | *of which:* | | | |
| | *other trading items* | *27.7* | *46.4* | *84.2* |
| | **TOTAL ASSETS** | **39,047.7** | **46,116.6** | **49,338.8** |

The financial statement provided on p. 7 reflects the following restatements:

- *Treasury funds* comprises 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, 20 and 100, which chiefly consist of repos, interbank accounts and margins on derivatives;
- *Funding* comprises the balances shown under liability headings 10 and 20 (excluding 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* and other items) and the relevant amounts of asset heading 80 and liability heading 60 in respect of hedging derivatives.

| Liabilities and net equity | IAS-compliant 30/9/05 | IAS-compliant 30/6/06 | IAS-compliant 30/9/06 |
|---|---|---|---|
| 10. Due to banks | 8,308.9 | 8,473.0 | 10,735.9 |
| *of which:* | | | |
| *other trading items* | *3,250.0* | *2,879.5* | *5,010.1* |
| 20. Due to customers | 3,434.2 | 3,966.6 | 3,009.6 |
| *of which:* | | | |
| *other trading items* | *1,122.5* | *1,577.4* | *867.4* |
| *other liabilities* | — | *32.9* | *8.5* |
| 30. Debt securities | 16,114.4 | 20,560.9 | 21,854.9 |
| 40. Trading liabilities | 2,052.4 | 3,302.5 | 3,433.0 |
| 50. Liabilities recognized at fair value | — | — | — |
| 60. Hedging derivatives | 583.9 | 1,331.4 | 1,303.3 |
| *of which:* | | | |
| *funding* | *549.9* | *1,302.2* | *1,251.0* |
| *lending* | *24.4* | *27.4* | *33.1* |
| 70. Value adjustments to financial liabilities subject to general hedging | — | — | — |
| 80. Tax liabilities | 565.6 | 645.6 | 734.9 |
| *a) current* | *199.0* | *267.3* | *325.1* |
| *b) deferred* | *366.7* | *378.3* | *409.8* |
| 90. Liabilities in respect of Group assets being sold | — | — | — |
| 100. Other liabilities | 1,631.7 | 810.8 | 1,399.7 |
| *of which:* | | | |
| *other trading items* | *859.8* | *576.1* | *678.8* |
| 110. Staff severance indemnity provision | 33.8 | 34.7 | 36.1 |
| 120. Provisions | 152.9 | 156.6 | 156.6 |
| *a) post-employment and similar benefits* | — | — | — |
| *b) other provisions* | *152.9* | *156.6* | *156.6* |
| 130. Technical reserves | — | — | — |
| 140. Revaluation reserves | 369.0 | 351.2 | 444.8 |
| 150. Shares with right of withdrawal | — | — | — |
| 160. Equities | — | — | — |
| 170. Reserves | 3,052.4 | 3,058.7 | 3,264.7 |
| 180. Share premium reserve | 1,947.2 | 2,071.4 | 2,101.2 |
| 190. Share capital | 398.3 | 406.0 | 407.8 |
| 200. Treasury shares | (0.4) | (0.4) | (0.4) |
| 210. Net equity attributable to minorities | 79.7 | 89.2 | 90.2 |
| 220. Profit (loss) for the year | 323.7 | 858.4 | 366.5 |
| **TOTAL LIABILITIES AND NET EQUITY** | **39,047.7** | **46,116.6** | **49,338.8** |

## CONSOLIDATED PROFIT AND LOSS ACCOUNTS (IAS/IFRS-compliant)

| | | 3 mths to 30/9/05 | 12 mths to 30/6/06 | 3 mths to 30/9/06 |
|---|---|---|---|---|
| 10. | Interest and similar income | 500.5 | 1,747.7 | 826.7 |
| 20. | Interest expense and similar charges | (359.5) | (1,168.6) | (666.1) |
| **30.** | **Net interest income** | **141.0** | **579.1** | **160.6** |
| 40. | Fee and commission income | 71.4 | 280.6 | 114.3 |
| 50. | Fee and commission expense | (5.0) | (24.5) | (7.3) |
| **60.** | **Net fee and commission income** | **66.4** | **256.1** | **107.0** |
| 70. | Dividends and similar income | 2.1 | 202.4 | 0.4 |
| 80. | Net trading income | 80.6 | 85.4 | 26.8 |
| 90. | Net hedging income (expense) | (5.7) | (2.1) | (3.6) |
| 100. | Gain (loss) on disposal of: | 92.5 | 96.5 | 155.1 |
| | *a) loans and receivables* | — | — | — |
| | *b) AFS securities* | *91.0* | *87.8* | *154.9* |
| | *c) financial assets held to maturity* | — | *(0.2)* | — |
| | *d) other financial assets* | *1.5* | *8.9* | *0.2* |
| **120.** | **Total income** | **376.9** | **1,217.4** | **446.3** |
| 130. | Adjustments for impairment to: | (25.0) | (119.4) | (33.6) |
| | *a) loans and receivables* | *(25.3)* | *(119.7)* | *(34.1)* |
| | *b) AFS securities* | — | — | — |
| | *c) financial assets held to maturity* | *0.3* | *0.3* | *0.5* |
| | *d) other financial assets* | — | — | — |
| **140.** | **Net income from financial operations** | **351.9** | **1,098.0** | **412.7** |
| 150. | Net premium income | — | — | — |
| 160. | Income less expense from insurance operations | — | — | — |
| **170.** | **Net income from financial and insurance operations** | **351.9** | **1,098.0** | **412.7** |
| 180. | Administrative expenses: | (81.2) | (381.8) | (91.4) |
| | *a) personnel costs* | *(46.9)* | *(208.7)* | *(51.8)* |
| | *b) other administrative expenses* | *(34.3)* | *(173.1)* | *(39.6)* |
| 190. | Net transfers to provisions for liabilities and charges | (0.3) | (5.3) | (4.7) |
| 200. | Net adjustments to property, plant and equipment | (2.3) | (10.1) | (3.6) |
| 210. | Net adjustments to intangible assets | (0.4) | (2.8) | (0.4) |
| | *of which: goodwill* | — | — | — |
| 220. | Other operating income (expenses) | 17.1 | 53.2 | 12.6 |
| **230.** | **Operating costs** | **(67.1)** | **(346.8)** | **(87.5)** |
| 240. | Profit (loss) from equity-accounted companies | 107.6 | 337.5 | 125.5 |
| 270. | Gain (loss) on disposal of investments | 0.6 | 0.6 | — |
| **280.** | **Profit (loss) before tax on ordinary activities** | **393.0** | **1,089.3** | **450.7** |
| 290. | Income tax on ordinary activities for the year | (66.6) | (221.5) | (81.6) |
| **300.** | **Profit (loss) after tax on ordinary activities** | **326.4** | **867.8** | **369.1** |
| 310. | Net gain (loss) on non-current assets being sold | — | — | — |
| 330. | Profit (loss) for the year attributable to minorities | (2.7) | (9.4) | (2.6) |
| **340.** | **Net profit (loss) for the year** | **323.7** | **858.4** | **366.5** |

The profit and loss account reported on p. 6 reflects the following restatements:

- *Net interest income* includes the totals reported under Heading 90, gains (losses) on financial liabilities as reported under Heading 100, plus margins on swaps reported under Heading 80 amounting to €0.7m, €7.2m and €0.9m respectively;
- amounts reported under Heading 220 have been treated as *Net fee and commission income*, save for redemptions/amounts recovered totalling €3.0m, €6.6m and €4.6m which adjust operating expenses, and €4.5m booked under extraordinary provisions.