

MEDIOBANCA

Quarterly Report

for the three months ended 30 September 2002

MEDIOBANCA

LIMITED COMPANY

SHARE CAPITAL € 389,274,707.50 FULLY PAID UP - RESERVES € 3,188.8m

HEAD OFFICE: PIAZZETTA ENRICO CUCCIA 1, MILAN, ITALY

Registered as a Bank. Parent Company of the Mediobanca Banking Group

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for the three months ended 30 September 2002

www.mediobanca.it

REVIEW OF GROUP OPERATIONS

The Group made a profit of € 104.3m from ordinary operations in the three months ended 30 September 2002, 35% higher than the total recorded at the same juncture last year. This was mostly due to our fee income almost doubling from € 28.5m to € 54m, despite the continuing stagnation in the investment banking market. However, the difficult market conditions impacted heavily on the consolidated accounts for the first quarter of our new financial year, which reflect a loss of € 346.3m, after charging writedowns of € 375.1m in our portfolio of listed equities and bonds to profit and loss account. After these writedowns, the net surplus of market price at 30 September 2002 over the book value of our investment portfolio was € 1,575.4, which rises to € 2,067.1m based on prices and holdings at 25 October. This compares with a net profit of € 347.9m at 30 September 2001, after realizing a gain of € 428.6m on the disposal of our holding in *Montedison*, and writedowns of € 99.6m in our investment portfolio.

For this quarter we have decided to continue with the conservative accounting principle of basing equity investment portfolio writedowns on prices recorded at the end of the period under review, rather than our customary policy of using the average values of the six months to 30 September (which would have yielded net writebacks of some € 30m). This is because of the further deterioration in stock market conditions, with prices at the end of September having fallen some 15% below the already depressed levels recorded at 30 June. However, on the basis of prices at 25 October 2002 writedowns charged to earnings reduce from € 348m to € 286m.

This loss is clearly not representative of the Group's interim or full year prospects, because market visibility is so low and because a major portion of our revenues, in the shape of dividends estimated at around € 100m will only be collected in May and June 2003.

Extraordinary business also included bad debt writeoffs, which showed a 27% reduction and still chiefly involve our consumer credit and factoring activities, and to a much more limited extent, our leasing operations.

* * *

Changes in our major asset headings in the three-month period are as follows.

Funding, which grew by € 1.2bn. Movements included increases of € 1.5bn in bonds in issue, a reduction of € 119m in deposits and current accounts, and a fall of € 189m in deposits raised through correspondent banks. *Mediobanca International's* contribution to aggregate funding was € 3,121.6m (30/6/02: € 3,148.9m).

Customer loans – These fell to € 16,501.4m (30/6/02: € 17,154.2m), due solely to a reduction in the parent company's loan book. At 30 September, 70% of the Group's outstandings were corporate lendings, 18% leasing transactions and 12% consumer credit. At the end of the quarter, there were ten significant exposures in terms of loan concentration (i.e., in excess of 10% of consolidated regulatory capital), according to the permitted risk weightings, totalling € 11,617.4m, or 23.3% of the aggregate limit of € 49,816m. All these exposures were within the currently permitted individual threshold with one exception, and this too is expected to be brought back within the limit by the year-end.

Investment securities – These fell by € 219.2m compared with 30 June 2002, reflecting the writedowns referred to earlier.

Treasury transactions – These showed an increase of € 1,847.9m. The overall figure, which takes the contribution from forward transactions into account, includes liquid assets of € 2,075.2m, as well as securities of € 5,387.2m which were written down by € 27m. After these adjustments, the portfolio shows a net gain of € 21.3m based on prices at 25 October 2002, to which may be added unrealized gains on derivatives of € 29m, which as usual will be reported only and when they are realized.

* * *

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

CONSOLIDATED FINANCIAL STATEMENT

	30/9/01	30/6/02	30/9/02
	€ m	€ m	€ m
Assets			
Treasury funds employed	6,022.0	5,614.5	7,462.4
Loans and advances	16,263.6	17,154.2	16,501.4
Investment securities	3,103.2	3,351.5	3,132.3
Intangible assets	1.4	1.9	1.8
Net fixed assets	66.4	126.2	126.1
Other assets	1,978.8	2,026.5	1,960.9
Total assets	<u>27,435.4</u>	<u>28,274.8</u>	<u>29,184.9</u>
Liabilities			
Deposits and loans	19,467.9	20,511.3	21,721.6
Provision for liabilities and charges ...	377.8	338.6	344.1
Consolidated provision for future liabilities and charges	6.4	5.8	5.9
Other liabilities	2,699.4	2,390.3	2,544.9
Credit risks provisions	13.4	13.4	13.4
Shareholders' equity attributable to minorities	52.8	53.6	55.9
Shareholders' equity	4,469.8	4,706.7	4,845.4
Profit (loss).....	<u>347.9 ⁽¹⁾</u>	<u>255.1</u>	<u>(346.3) ⁽¹⁾</u>
Total liabilities	<u>27,435.4</u>	<u>28,274.8</u>	<u>29,184.9</u>

(1) Before tax.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	3 months to 30/9/01	12 months to 30/6/02	3 months to 30/9/02
	€ m	€ m	€ m
Interest margin	109.3	550.4	115.6
<i>of which: dividends</i>	<i>0.3</i>	<i>128.8</i>	<i>0.1</i>
Commissions received and other income	28.5	177.6	54.0
General expenses and sundry operating costs	(60.5)	(283.9)	(65.3)
GROSS MARGIN FROM ORDINARY OPERATIONS	77.3	444.1	104.3
Net gain (loss) on sale of investment securities	432.4	463.7	(13.4)
Net writedowns in securities and investments	(99.6)	(535.9)	(375.1)
Gain (loss) on exchange and derivativetransactions ⁽¹⁾	(45.0)	(18.6)	(45.5)
Bad debts written off	(11.1)	(46.8)	(8.1)
Net overprovision for taxation	—	6.8	—
Loss on investments stated on equity basis ..	—	(5.1)	—
MARGIN BEFORE TAXATION AND PROVISIONS	354.0	308.2	(337.8)
Transfer to provision for liabilities and charges	(1.7)	(13.3)	(4.7)
Accelerated depreciation and amortization ..	(0.6)	(3.6)	(0.6)
(Profit) loss attributable to minority interests	(3.8)	(7.0)	(3.2)
PROFIT BEFORE TAX	347.9	284.3	(346.3)
Transfers to provisions for income taxes and asset tax	—	(29.2)	—
NET PROFIT	—	255.1	—

⁽¹⁾ Covered by unrealized gains of € 23m, € 14.4m and € 31.3m respectively.

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

Mediobanca

Mediobanca's accounts for the three months ended 30 September 2002 reflect a loss before tax and provisions of € 350.8m, as against a profit of € 336.7m at 30 September 2001, after writedowns of € 375.7m (€ 97.5m) in our investment portfolio based, in the case of listed stocks, on quarter-end prices. Profit from ordinary operations grew from € 38.1m to € 71.1m, due to the increased contribution from treasury transactions and fee and other income.

Funding (including loans from banks and EIB funds) rose by approximately € 1bn during the quarter. Loans and advances were € 910.6m lower, but liquid assets rose by € 2bn, taking account of forward deposit and funding transactions and changes in other assets and liabilities.

Investments in securities show a decline of € 302.1m, principally as a result of the writedowns totalling € 348.1m mentioned earlier. This total includes our original entire 21.5% holding in Ferrari, following the Bank of Italy's ruling that our sale of a stake in the Modena-based car manufacturer in September to bring our interest below the 15% threshold was tantamount to a forward sale and repurchase agreement. The Bank intends to comply with this threshold.

Writedowns were made to the stocks below as follows:

	€ m
<i>Commerzbank</i>	74.4
<i>Intesa BCI</i>	70.1
<i>La Fondiaria Assicurazioni</i>	54.4
<i>Olivetti</i>	40.4
<i>Mediolanum</i>	29.1
<i>Capitalia</i>	23.0
<i>Finmeccanica</i>	22.0
<i>Allianz</i>	7.2
<i>Pirelli & C. ordinary</i>	6.1
<i>Olivetti 2010 1.5% convertible bonds</i>	5.8
<i>Others</i>	15.6
	348.1
	348.1

Compass

This company's gross profit from ordinary operations (i.e., before tax, net writedowns in listed investments and adjustments to receivables) in the three-month period was € 17.9m (30/9/01: € 16.4m). Customer loans were 3.3% higher than at 30 June 2002.

SelmaBipiemme Leasing

Gross profit from ordinary operations (as defined above) was € 8.3m in the three months under review (30/9/01: € 5.4m). The volume of business was 1% higher than at 30 June 2002.

Palladio Leasing

This company made a gross profit from ordinary operations (as defined above) of € 3.5m (30/9/01: € 3.3m). The net value of goods on or pending lease was 1.5% up on 30 June 2002.

Teleleasing

Gross profit from ordinary operations (as defined above) in the three-month period was € 6.5m (30/9/01: € 4m). The net value of goods on or pending lease was 2.1% lower than at 30 June 2002.

Micos Banca

Gross profit from ordinary operations (as defined above) was € 1.5m (30/9/01: € 604,000). Mortgage loans outstanding were 9% up on 30 June 2002.

MB Finstrutture –Intersomer

Pre-tax profit before provisions for the three months amounted to € 198,000 (30/6/02: € 716,000). Lendings were 3.4% lower than the total recorded at 30 June 2002.

Spafid

Profit before tax and net writedowns in securities in the three months under review was € 459,000 (30/6/02: € 351,000). Securities and value items managed on a non-discretionary basis were € 1,532.1m (30/6/02: € 1,318.4m).

Mediobanca International

Profit in the three-month period amounted to \$ 2.3m (30/6/02: \$ 308,000). Total deposits were \$ 3,078m (30/6/02: \$ 3,141m).

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Significant events

On 11 October 2002, the Italian antitrust authority resolved (i) that there were no grounds for proceeding with its investigation into the merger between *SAI S.p.A.* and *La Fondiaria S.p.A.*, (ii) to launch a further enquiry into the relationships between *Mediobanca*, *Premafin Finanziaria*, *SAI* and *La Fondiaria* with a view to investigating whether the Bank exerts control over *Assicurazioni Generali* and the company deriving from the planned merger of *SAI* and *La Fondiaria*.

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Outlook

Our interest margin should not differ significantly from that reported in the twelve months ended 30 June 2002. Adverse market conditions continue to limit visibility on the prospects of our securities trading business, fee income from our investment banking activities and the scale of any writedowns to our equity investment portfolio that may be required.

Milan, 28 October 2002

THE BOARD OF DIRECTORS

Methods of consolidation and accounting policies

The financial statement and profit and loss account for the three months ended 30 September 2002 have been prepared on a consolidated basis and in reclassified form consistent with the accounts for the year ended 30 June 2002 and those for the three months ended 30 September 2001.

Scope of consolidation

The consolidated accounts as at 30 September 2002 comprise the results of the Parent Company and those of its directly or indirectly controlled subsidiaries engaged in banking or financial services or solely or principally in activities of a substantially similar nature. The Bank's other significant equity investments have been consolidated using the net equity method.

Basis of consolidation

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

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

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

Accounts expressed in foreign currencies

Accounts of subsidiaries denominated in currencies other than the Euro have been translated into Euros at exchange rates ruling on 30 September 2002. Exchange differences against net equity arising when the accounts were first consolidated have been taken to *Other reserves*.

Accounts used for consolidation

The consolidated accounts have been prepared from the financial statements of the individual subsidiaries as at 30 September 2002, restated where appropriate on a basis consistent with the format adopted for the Parent Company's accounts, and also adjusted to eliminate amounts charged to the profit and loss account solely to achieve tax benefits.

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

Accounting policies

The accounting policies are the same as those used in presenting the consolidated accounts, including stating the value of our trading portfolio at the lower of cost and market value, and reporting commissions to agents and financial consultants in the Group's consumer credit and leasing businesses as and when paid.

Profit for the period ended 30 September 2002 is shown before tax.