

MEDIOBANCA

Quarterly Report

for the period ended 31 March 2004

MEDIOBANCA

LIMITED COMPANY

SHARE CAPITAL € 389,291,457.50 FULLY PAID UP - RESERVES € 3,035.2m

HEAD OFFICE: PIAZZETTA ENRICO CUCCIA 1, MILAN, ITALY

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

Quarterly Report

for the period ended 31 March 2004

www.mediobanca.it

REVIEW OF GROUP OPERATIONS

In the nine months to 31 March 2004, the Group earned a pre-tax profit of € 413.6m, against a € 206.2m loss at the same stage twelve months previously. Profit from ordinary operations increased from € 350m to € 362.3m, on the back of a 20.4% rise in interest income from € 354.5m to € 426.9m, due to the consolidation of Compagnie Monégasque de Banque as from 1 July 2003, a higher contribution from the Compass group, and increased dealing profits from treasury activities. Fees and commissions fell from € 203.8m to € 181.9m, a reduction of 10.7%, with both Mediobanca's wholesale business and the Compass group's activities, in particular leasing, being affected. Costs and expenses remained virtually stable, net of the CMB effect. The Group's equity investment portfolio was helped by the stock market performance, with net writebacks of € 152.9m being recorded on the basis of average prices in the six months to 31 March 2004, against writedowns of € 322.2m at the same time last year. Portfolio management during the period under review also generated € 31.2m in gains on disposals, compared with losses of € 49.3m in the nine months to 31 March 2003. Of the other main items, writedowns to equities and derivatives held in treasury totalled € 56.9m (31/3/03: € 116.2m), whereas bad debts written off, based on the maximum permissible tax rates and affecting only the retail financial services side of the Group's operations, rose by 15% from € 54m to € 62.1m, due to the increase in lending, and a higher degree of caution in assessing credit given the unfavourable market conditions.

CMB contributed 3.7% to the balance of ordinary operations, 2.2% of pre-tax profit and 5% of total assets, while Mediobanca's contribution to these aggregates was over three-quarters of the total.

CONSOLIDATED ACCOUNTS

The Group's balance sheet and profit and loss account have been condensed and compared on a like-for-like basis with those of the previous twelve months, and are set out below in their usual format. Some items have been restated for ease of comparison:

	31/3/03 (€ m)	30/6/03 (€ m)	31/12/03 (€ m)	31/3/04 (€ m)
Interest income	354.5	607.4	306.1	426.9
<i>of which: dividend income</i>	3.5	113.2	0.1	0.1
Fees and commissions received	203.8	232.0	143.0	181.9
General costs and expenses	<u>(208.3)</u>	<u>(300.2)</u>	<u>(164.0)</u>	<u>(246.5)</u>
GROSS PROFIT FROM ORDINARY OPERATIONS	350.0	539.2	285.1	362.3
Net writedowns to securities and derivatives held in treasury	(116.2)	(70.6) ⁽¹⁾	(7.9)	(56.9)
Net gain (loss) on disposal of securities held	(49.3)	(51.1)	19.1	31.2
Net writedowns (writebacks) to investment securities	(322.2)	(181.0) ⁽¹⁾	126.1	152.9
Provision for bad debts, loan losses and other charges	(54.0)	(69.2)	(41.4)	(62.1)
Gain (loss) on investments stated on net equity basis	<u>(2.4)</u>	<u>(4.0)</u>	<u>3.7</u>	<u>4.5</u>
PROFIT BEFORE TAX AND PROVISIONS	(194.1)	163.3	384.7	431.9
Provision for liabilities and charges	—	(5.1)	—	—
Depreciation and amortization	(2.9)	(5.1)	(4.0)	(4.8)
Profit attributable to minority shareholders	<u>(9.2)</u>	<u>(8.8)</u>	<u>(9.1)</u>	<u>(13.5)</u>
PRE-TAX PROFIT (LOSS) ATTRIBUTABLE TO GROUP	(206.2)	144.3	371.6	413.6
Provision for income tax	<u>—</u>	<u>(90.7)</u>	<u>—</u>	<u>—</u>
NET PROFIT	<u>—</u>	<u>53.6</u>	<u>—</u>	<u>—</u>

⁽¹⁾ Net of advance tax.

CONSOLIDATED BALANCE SHEET

	31/3/03 (€ m)	30/6/03 (€ m)	31/12/03 (€ m)	31/3/04 (€ m)
Assets				
Treasury funds employed	8,023.5	9,365.0	9,173.8	9,238.7
Loans and advances to customers	15,447.7	15,033.9	17,230.4	16,941.1
Investment securities	3,049.5	3,168.6	3,205.2	3,099.1
Intangible assets	1.5	1.5	2.2	0.9
Property	118.5	123.3	262.8	260.6
Furniture and fixtures.....	5.5	5.4	10.7	10.4
Other assets	2,000.7	2,176.8	2,292.5	2,330.9
Total assets	28,646.9	29,874.5	32,177.6	31,881.7
Liabilities				
Deposits and loans	22,184.5	23,070.3	25,271.1	24,880.3
Provision for liabilities and charges	232.2	301.6	180.1	181.2
Consolidated provision for future liabilities and charges	5.3	—	—	—
Other liabilities	1,516.3	1,537.3	1,525.2	1,569.5
Loan loss provision	13.4	13.4	13.4	13.4
Equity attributable to minority shareholders	61.9	61.5	176.0	180.4
Shareholders' equity	4,839.5	4,836.8	4,640.2	4,643.3
Profit (loss)	(206.2) ⁽¹⁾	53.6	371.6 ⁽¹⁾	413.6 ⁽¹⁾
Total liabilities	28,646.9	29,874.5	32,177.6	31,881.7

(1) Pre-tax.

REVIEW OF KEY ITEMS

BALANCE SHEET

The following is a review of trends in the major asset headings during the three months under review:

Funding – this item decreased by 1.6% from € 25.3bn to € 24.9bn, chiefly due to a € 372.3m fall in Mediobanca's contribution following a reduction in debt securities. Deposits and loans at Mediobanca International also fell by € 83.6m, and funds raised by the Compass group via the banking system decreased by € 83.3m, while CMB's contribution rose by € 148.4m.

Customer loans – these fell by 1.7% or € 289.3m, representing the balance between a € 111.1m increase in lendings to households and a € 409.7m reduction in loans and advances to corporates, while volumes in the leasing sector and at CMB remained virtually flat. As at 31 March 2004, 65% of the Group's loan book consisted of corporate lending and structured finance, 15% of consumer credit, 15% of leasing, and the other 5% of loans disbursed by CMB. At the same date, significant exposures in terms of loan concentration according to the permitted risk weightings, i.e. over 10% of consolidated regulatory capital, totalled € 9,054.1m, or 19.6% of the aggregate limit of eight times regulatory capital. The funds concerned were lent to eight "groups of connected clients".

Investment securities – these fell by € 106.1m, following additional writebacks of € 26.8m during the quarter for a total of € 152.9m over the nine months as a whole. Movements during the three months to 31 March 2004 involved purchases and subscriptions worth € 81.4m, of which € 57.5m related to Telecom Italia equities and convertible bonds and € 14.7m to shares in Assicurazioni Generali, and € 8.7m was paid in following a capital call by Athena Private Equity. Divestments involved the Group's holdings in Eurofind for € 170.4m, and Tirrenia for € 34.4m, and Capitalia, for which shares worth € 12.6m were sold. At 31 March 2004, the portfolio reflected a surplus of market over book value of € 2,807.3m, which at current prices rises to € 2,854m. At the same date, the Group's interest in Assicurazioni Generali amounted to 13.98% of that company's share capital (31/12/03: 13.93%), 12.66% of which is held by Mediobanca and the other 1.32% by Compass, Sade Finanziaria and Spafid. The entire

shareholding is carried at a book value of € 1,224.8m. Since 31 March 2004, the Group's interest in Generali has risen to 14.01%.

Treasury funds employed – these were largely stable, with an increase of € 64.9m. The funds comprise € 2.2bn in liquid assets and short-term lendings, including forward transactions, and € 7bn in securities, 92.9% of which are bonds. Net writedowns charged at 31 March 2004, including derivatives, amount to € 56.9m, as against € 7.9m at 31 December 2003, after which the portfolio reflects an unrealized gain of € 134.9m (31/12/03: € 99.9m), plus a further € 175.3m (€ 137.5m) on derivatives.

PROFIT AND LOSS ACCOUNT

Interest income

This rose by 20.4% to € 426.9m (31/3/03: € 354.5m), slightly under half of which is attributable to Mediobanca. The increase reflects a € 16.4m contribution from CMB, higher dealing profits from treasury activities, which grew from € 64.1m to € 79.8m, and a lower cost of funding at the Compass group.

Fee income and commissions received

This item fell by around 10% versus last year, from € 203.8m to € 181.9m, and comprises:

- € 113.4m (€ 150.6m) in fees earned by Mediobanca in respect of its wholesale banking activities;
- € 32.8m (€ 45.7m) earned by the Compass group, chiefly € 14.5m in recovered financing costs, € 5.7m in net leasing income, and € 12.6m in loans recovered;
- € 35.7m (€ 7.5m) earned by the other group companies, including CMB (€ 28.4m), Spafid (€ 3m) and MB Finstrutture - Intersomer (€ 3.1m).

Costs and expenses

The key items under this heading are:

- labour costs of € 111.8m (31/3/03: € 87.1m), 43.5% of which is attributable to Mediobanca. The increase also includes the effect of consolidating CMB, in terms of both extra cost (€ 18.4m) and staff numbers (130);
- bank charges and commissions of € 39.1m (€ 34.7m), including € 29m (€ 26.9m) in fees paid by the Compass group, which as usual are taken in full when the underlying loan is disbursed rather than amortized over the life of the contract;
- sundry items totalling € 95.6m (€ 86.4m, the increase being entirely due to CMB); these include € 79m (€ 72.7m) in administrative expenses, € 11.7m (€ 6m) in ordinary depreciation charges, and € 4.9m (€ 7.7m) in sundry other charges. The key items under administrative expenses, € 27.9m of which were attributable to Mediobanca, were as follows:
 - EDP and financial information subscriptions of € 17.9m (€ 16.3m);
 - outside consultants' fees totalling € 11.4m (€ 12.2m);
 - rent, equipment leasing and maintenance charges of € 10.8m (€ 8.7m);
 - legal fees and fees incurred in connection with recovery of bad debt totalling € 10.4m (€ 7.4m);
 - stationery, postage, telephone and fax charges, and utilities of € 6.7m (€ 5.4m);
 - advertising costs of € 4.4m (€ 7.3m), and travel and entertainment expenses of € 3.9m (€ 3.1m).

Value adjustments to receivables

These involve almost exclusively the Compass group, and consumer credit in particular, with CMB's contribution in this area being limited to € 0.4m. The increase from € 54m to € 62.1m is due to higher lending volumes, plus the group's customary prudence in assessing credit against an unfavourable scenario.

REVIEW OF INDIVIDUAL COMPANIES

MEDIOBANCA

In the nine months to 31 March 2004, Mediobanca earned a pre-tax profit of € 313.3m, compared with a € 297.2m loss at the same stage last year, after charging € 30m (€ 56m) to loan loss provision.

Profit from ordinary operations totalled € 220.7m, in line with the € 226.1m earned in the equivalent period last year. Interest income rose from € 171.2m to € 199.7m, whereas fee income and commissions fell from € 147.3m to € 113.1m, with costs virtually stable. For the nine months under review, Mediobanca's equity investment portfolio showed gains on disposal of € 31.2m and net writebacks of € 153.7m based on average prices in the six months to 31 March 2004, against writedowns of € 326.6m at the same time last year. Writedowns to securities and derivatives held in treasury fell from € 101.8m to € 61.2m, and compare with unrealized gains of € 307.1m (31/12/03: € 233.6m).

Mediobanca's financial highlights have been condensed and compared on a like-for-like basis with the figures recorded at 31 March 2003 and 31 December 2003. They are as follows:

	31/3/03 (€ m)	31/12/03 (€ m)	31/3/04 (€ m)
Treasury funds employed.....	7,650.9	8,483.4	8,405.5
Loans and advances to customers....	12,981.8	13,772.1	13,546.0
Investment securities.....	2,645.2	3,055.1	2,948.1
Deposits and loans	19,436.1	21,277.2	20,845.2
Shareholders' equity	4,515.0	4,380.0	4,380.0
Interest income	171.2	158.6	199.7
Gross profit from ordinary operations	226.1	191.2	220.7
Profit (loss) for the year ⁽¹⁾	(297.2)	295.9	313.3

⁽¹⁾ Pre-tax.

During the three months under review the main items performed as follows:

- funding at 31 March 2004 totalled € 20,845.2m, with the decrease affecting all the main instruments: debt securities fell by € 258.8m, borrowings from banks by € 82.4m, and time deposits and current accounts by € 90.8m;
- loans and advances fell from € 13,772.1m to € 13,546m;
- treasury funds employed stood at € 8,405.5m, down € 77.9m, and comprised:
 - € 731m (€ 1,091.8m) in liquid assets, including the net balance of time deposits, technical shortfalls and forward transactions;
 - € 7,081.8m (€ 7,127.2m) in fixed income securities; as at 31 March 2004, 84% of the bank's fixed income security portfolio was made up of Italian government securities, 11% of Mediobanca securities and the balance of securities by other issuers;
 - € 592.7m (€ 264.4m) in equities.

Investment securities: these closed at € 2,948.1m, down € 107m, after the movements described above.

Value adjustments to securities held in portfolio were made as follows:

	31/3/04
	(€ m)
— writebacks:	
<i>Commerzbank</i>	51.7
<i>Telecom Italia</i> (equities and bonds).....	38.3
<i>Mediolanum</i>	21.0
<i>Pirelli & C.</i> ordinary	11.7
<i>Finmeccanica</i>	10.9
<i>Capitalia</i>	9.9
<i>Fondiarria-SAI</i> (equities and warrants)	7.7
<i>Gemina</i>	3.4
<i>Koenig & Bauer</i>	2.6
<i>Fiat</i> ordinary	0.4
<i>Others</i>	0.4
	158.0
	158.0

— writedowns:

Unlisted securities	4.3
	<hr/>
	4.3
	<hr/> <hr/>

The Compass group

	31/3/03 (€ m)	31/12/03 (€ m)	31/3/04 (€ m)
	<hr/>	<hr/>	<hr/>
Customer loans	4,499.0	4,929.7	5,044.5
Securitized loans	1,112.2	1,112.2	1,112.2
Loans disbursed	2,215.9	1,459.6	2,262.6
Interest income	167.4	135.3	210.7
Gross profit from ordinary operations	94.9	78.2	121.4

At € 121.4m, the Compass group's gross profit from ordinary operations in the nine months to 31 March 2004 was up 27.9% on the € 94.9m recorded one year earlier, principally due to the lower cost of funding. In the first nine months of the financial year the group earned a pre-tax profit of € 51.2m (31/3/03: € 18.4m), after charging € 61.7m (€ 53.8m) for bad debts writeoffs and loan loss provisions.

At 31 March 2004, loans outstanding to customers totalled € 5,044.5m (31/12/03: € 4,929.7m), 51% of which involved consumer credit and 49% leasing.

A review of the individual companies' results follows:

Compass

Profit before tax for the nine months stood at € 40m (31/3/03: € 6m). Customer loans outstanding as at 31 March 2004 totalled € 1,599.4m, up 11.5% versus 31 December 2003, not including the non-recourse sale of a further € 88m in performing loans under the € 511m securitization launched in 2002.

SelmaBipiemme Leasing

This company earned a pre-tax profit of € 10.7m (31/3/03: € 4.4m). At 31 March 2004, the net value of goods on pending lease stood at € 1,653.2m, down just 1.8% on the total recorded at 31 December 2003.

Palladio Leasing

A pre-tax profit of € 6.6m (31/3/03: € 6.7m) was earned in the nine months to 31 March 2004. At the same date, the net value of goods on or pending lease totalled € 929.6m, up 10.6% compared with 31 December 2003.

Teleleasing

In the nine months under review Teleleasing earned a pre-tax profit of € 19.2m (31/3/03: € 25.1m). At 31 March 2004 the net value of goods on or pending lease stood at € 345m, up 10.2% versus 31 December 2003.

Micos Banca

Micos Banca's profit before tax for the nine months was € 2.5m (31/3/03: € 2.4m), after adjustments and loan loss provisions of € 4.1m (€ 3m). Mortgage loans outstanding as at 31 March 2004 totalled € 911.9m, up 24.2% from 31 December 2003.

The performance of Mediobanca's other subsidiaries is reviewed briefly below:

MB Finstrutture - Intersomer

Pre-tax profit before provisions for the nine months was € 3.0m (31/3/03: € 4.7m). Lendings were in line with the total recorded at 31 December 2003.

In order to simplify the Group structure and reduce general expenses, Sade Finanziaria is being merged into MB Finstrutture - Intersomer.

Spafid

This company recorded a pre-tax profit of € 1.3m (31/3/03: € 579,000). Securities and value items managed on a non-discretionary basis amounted to € 996m (31/12/03: € 933m).

Mediobanca International

Profit for the nine months totalled \$ 6.1m (31/3/03: \$ 6.9m). Total deposits amounted to \$ 2,535m (31/12/03: \$ 2,687m).

Private banking

In the first three months of its new financial year, CMB earned a profit of € 5.2m (31/3/03: € 5.3m), after collecting fees of € 5.9m (€ 4.4m), and had assets worth € 6.5bn under management (31/12/03: € 6.2bn). In the period ended 31 March 2004, Banca Esperia earned management fees of € 8.6m (31/3/03: € 4.1m) and a gross profit of € 1.7m, against a loss of € 2.1m one year previously. At the same date it had AUM worth € 5.2bn (31/12/03: € 4.6bn).

Outlook

In the fourth quarter of the Group's financial year, ordinary operations should perform in line with the first nine months in terms of Mediobanca's wholesale business and the Compass group's activities. The result should also be boosted by dividends due to be collected in this period, which are estimated to be some 25-30% higher than last year. Writebacks to the Group's investment portfolio recorded at 31 March 2004 should be confirmed for the full year if current stock market levels are maintained.

Milan, 13 May 2004

THE BOARD OF DIRECTORS

Methods of consolidation and accounting policies

The balance sheet and profit and loss account for the nine months ended 31 March 2004 have been prepared on a consolidated basis and in reclassified form consistent with the accounts for the year ended 30 June 2003 and the six months ended 31 December 2003.

Scope of consolidation

The consolidated accounts as at 31 March 2004 comprise the results of Mediobanca 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 Group's other significant equity investments have been consolidated using the net equity method. Compagnie Monégasque de Banque has been consolidated on a line-by-line basis, after a controlling interest in it was acquired in July 2003.

Basis of consolidation

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

Negative net differences arising when the accounts were first consolidated have, where possible, been recorded in the assets and liabilities of the companies concerned. Other negative net differences have been accounted for as negative goodwill on consolidation, and positive net differences as positive goodwill on consolidation, with the latter being amortized over a period of five years.

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

Accounts expressed in currencies other than the Euro

Accounts of subsidiaries denominated in currencies other than the Euro have been translated into Euros at exchange rates ruling on 31 March 2004. Exchange differences against net equity arising when the accounts were first consolidated have been taken to other reserves.

Accounts used for consolidation

The consolidated accounts have been prepared from the financial statements of the individual subsidiaries as at 31 March 2004, 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.

Profit for the period ended 31 March 2004 is shown before tax.

OttavioCapriolo - Milan