BANCA MEDIOLANUM S.p.A.

2005
Annual Report

BANCA MEDIOLANUM

MEDIOLANUM BANKING GROUP

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The financial statements and the consolidated financial statements have been translated from those issued in Italy, from the Italian into English language solely for the convenience of international readers.

BANCA MEDIOLANUM S.p.A.

Financial Statements for the year ended December 31 2005

BANCA MEDIOLANUM S.p.A.
Registered Office: Palazzo Meucci, Via F. Sforza - Milano 3 -Basiglio (MI)
Sole-Shareholder Company
Share Capital: €341,000,000.00 fully paid up
Tax Registration and Milan Register of Companies No.: 02124090164
VAT Registration No.: 10698820155

Banca Mediolanum S.p.A.
Corporate Governance Officers

Board of Directors

Ennio Doris	Chairman of the Board of Directors
Edoardo Lombardi	Deputy Chairman and Chief Executive Officer
Antonio Maria Penna	Chief Executive Officer
Luigi Del Fabbro	Director
Paolo Gualtieri	Director
Giuseppe Lalli	Director
Alfio Noto	Director
Giovanni Pirovano	Director
Angelo Renoldi	Director
Paolo Sciumè	Director
Javier Tusquets Trias de Bes Carlos	Director

Board of Statutory Auditors

Arnaldo Mauri	Chairman of the Board of Statutory Auditors
Adriano Angeli	Standing Auditor
Pierfelice Benetti Genolini	Standing Auditor
Franco Colombo	Alternate Auditor
Francesca Meneghel	Alternate Auditor

General Manager

Giovanni Pirovano

Board Secretary

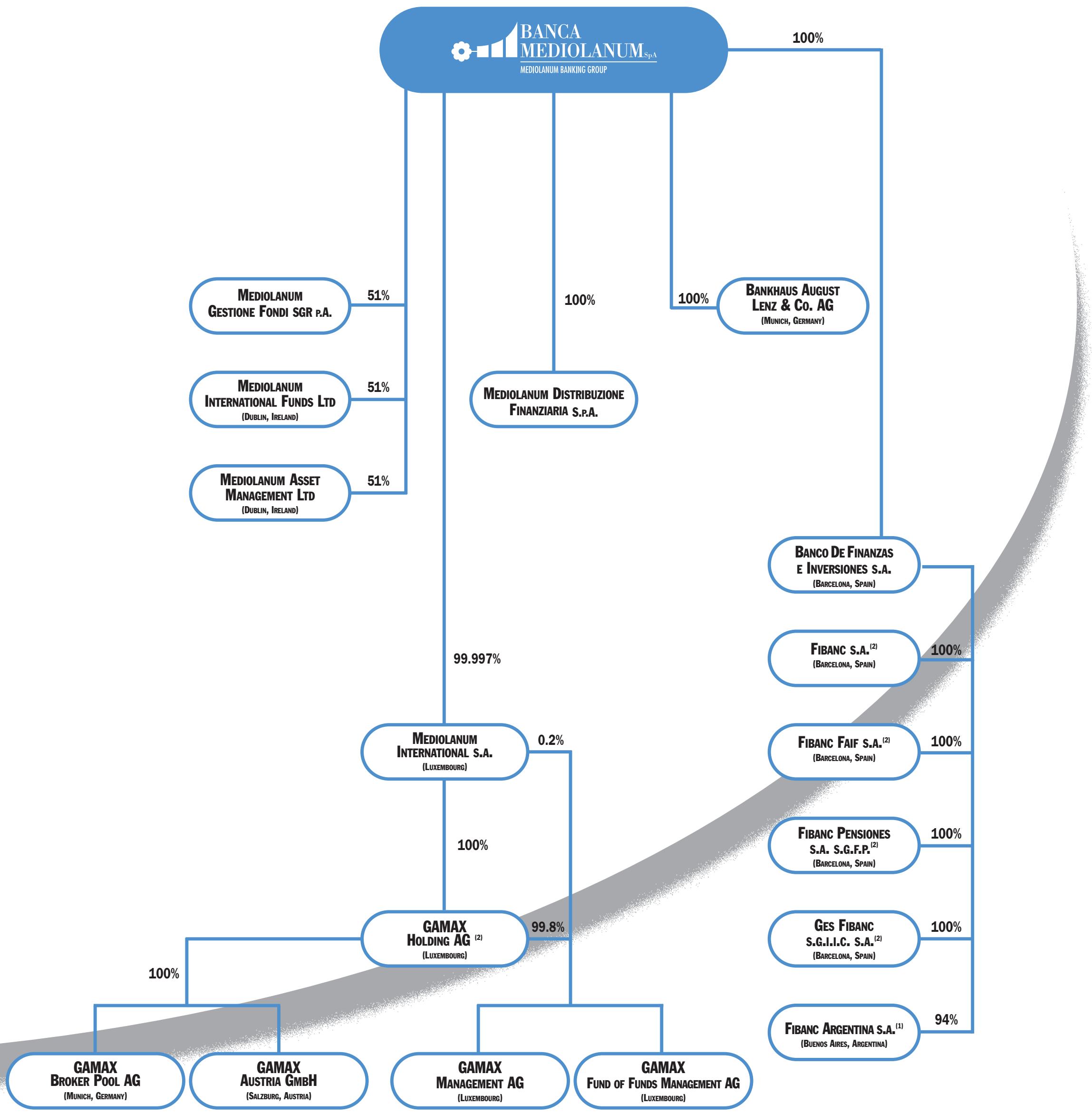
Luca Maria Rovere

Indipendent Auditors

Reconta Ernst & Young S.p.A.

Group structure

as of December 31, 2005



(1) In liquidation.
(2) Pursuant to regulations directors have a symbolic shareholding.

BANCA MEDIOLANUM S.p.A.

Separate Financial Statements for the year ended December 31 2005

Directors' Report

Dear Shareholder,

For the year ended December 31, 2005 Your Bank reported net profit of €81,178,736 after €29,701,000 write-downs of equity investments and €3,719,634 tax recoveries. That result compares to net profit of €37,941,673 for financial year 2004, as restated following the adoption of international accounting and reporting standards (IAS/IFRS).

In the year 2005 the global economy strengthened, stock markets continued to be on the upside and interest rates remained low as in the prior year. The dollar stabilized and strengthened against other currencies, primarily the euro, which favored the recovery of Euro-zone economies. In the light of the positive performance of financial markets, the disposable income of Italian households continued to increase to a level which was higher than the average of the past decade and encouraged them to step up their financial investments. According to OECD data, Italian household savings rate equal to 12% of income is the highest of all world's industrialized economies.

Against that backdrop, Your Bank grew at a greater pace than in prior years in terms of both product sales and income.

Specifically, in 2005 gross inflows to insurance products amounted to €2,470 million versus €2,322.5 million in 2004, while inflows to mutual funds and managed accounts totaled €1,927.4 million versus €1,410 million in 2004.

Total assets grew 28.4% from €4,317 million in the prior year to €5,534 million.

Current account deposits took a leap from €3,152 million at year end 2004 to €3,667.8 million at year end 2005.

Also loans to customers markedly increased from €369.7 million at year end 2004 to €721.6 million at year end 2005.

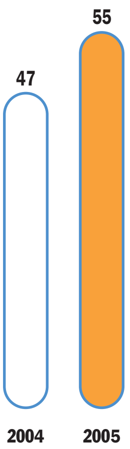
Net interest income rose 15.6% from 47.2 million in 2004 to €54.7 million, thanks to greater lending volumes as well as profitable management of the bank's interest-earning assets, almost entirely euro-denominated inter-bank loans and government securities. Due to the low volatility on the money and bond markets, profits on financial transactions were contained and amounted to €3.5 million versus €5.0 million in 2004.

In the year 2005 dividends from equity investments amounted to €137.6 million versus €65.9 million in the prior year. The increase is in connection with the distribution of the 2005 interim dividend by the subsidiary Mediolanum International Funds Ltd.

Total income amounted to €308.8 million up 28.3% over 2004 (€240.6 million).

In 2005 the Bank headcount increased from 966 employees at December 31, 2004 to 1,057 employees at December 31, 2005.

Net interest income
Euro millions



THE MEDIOLANUM BANKING GROUP

At December 31, 2005 the composition of the Mediolanum Banking Group, of which your bank is the Parent Company, remained substantially unchanged over the prior year, except for the following changes which took place during the year: a) the voluntary liquidation of Mediolanum Private SAM, b) the sale of the shareholding in Valora S.A., c) the merger of Fibanc Inversiones S.A. and Tanami S.A. into Banco de Finanzas e Inversiones S.A., d) the registration of Mediolanum Distribuzione Finanziaria S.p.A., a financial company formed in 2005 and wholly owned by the Parent Company, as a company of the Mediolanum Banking Group.

The market environment

In 2005 global growth continued to be strong though progressively slowing down over 2004. The reduced output was primarily in connection with soaring oil prices, partly offset by the buoyancy of emerging economies which continued to fuel international trade. Regional growth was diverse: North America's and Asia's robust growth was confirmed, while output in Europe was sluggish. The persistent trade imbalances continued to affect currencies as interest rate differentials between Europe and the US widened. The euro zone as a whole, but especially its major economies, grew at a slower pace than in the prior year. Global demand and the modest recovery of domestic demand – household consumption and investments – could not offset negative net exports.
The International Monetary Fund's global analysis indicates a global GDP growth of 4.3% in 2005. GDP growth was 2.5% in industrialized advanced economies versus 6.4% in developing countries, 3.5% in the US and a lower-than-prior-year 2.0% in Japan. In Asia, China confirmed its vigor as its real GDP growth was a notable 9.9% in 2005. In the euro zone, GDP grew 1.2% losing speed over 2004.
In 2005 CPI accelerated in the US and inflation reached 3.4%, while in Japan there was a -0.5% deflation.
In the euro zone CPI inflation averaged 2.2% (2.1% in 2004) a figure not far from the ECB target rate. Average data aside, differences between the various countries in the euro zone blurred.

As to currencies, in 2005 the euro was stable against the US dollar and appreciated against other major international currencies. Specifically, on an annual basis the euro/US dollar exchange rate averaged 1.244, while the euro/yen exchange rate averaged 136.8.
As to the monetary policy of major world countries, in 2005 there was a marked tightening in the US, a slight rate increase in the euro zone while Japan remained neutral.
Specifically, in 2005 in the US the Federal Reserve raised Fed Funds rates by a quarter point 8 times from 2.5% to 4.25%.
The European Central Bank (ECB) took a cautious approach in the light of the slow and modest recovery raising the minimum bid rate from 2% to 2.25% at the beginning of December 2005.
That was the first change in two years – in fact, European interest rates had remained steady at 2% since June 2003 – and the first rise in five years.

From the macroeconomic viewpoint Italy's performance in 2005 was subdued. GDP grew 0.1% (1.2% in 2004) less than in the other main European countries.
In 2005 domestic demand was affected by the modest growth of private consumption and by declining investments. Official data show that in 2005 private consumption grew 0.8% and public consumption 0.9% over the prior year. Exports declined 0.7% and imports increased 1.8% over the same period in the prior year, thus resulting in a trade deficit.

Turning to the labor market, the data released by Italy's National Institute of Statistics (ISTAT) show that in 2005 the total number of employed individuals increased slightly, in line with GDP growth. The unemployment rate declined to 7.7%, i.e. below the prevalent euro zone rate.
Italy's Consumer Price Index relative to the households of blue and white collar workers, as calculated by ISTAT using national methods, declined from 2% in 2004 to 1.8% in 2005.
During the year, given the difficult macroeconomic cycle (and accordingly sagging taxable income) public finances progressively deteriorated.
In 2005 the public debt/GDP ratio picked up again for the first time in many years. According to the official figure reported in the Stability Plan presented last December, it stood at 108.5% versus 106.5% in 2004. This crucial indicator rose primarily as a result of the declining primary surplus, but it was also impacted by lower-than-expected income from privatizations.

In 2005 the world's equity markets performed well. Specifically, the NYSE S&P 500 was up 18.68%, the Nasdaq up 16.94%, the Nikkei 225 up 40.28% and the Dow Jones Euro Stoxx Large Cap up 21.88%.
In Italy, the Mibtel index rose 13.78% (18.1% in 2004) while the S&P/Mib30, which is constructed using an international method based on free float in lieu of market capitalization, displayed a good performance (13.3% versus 14.9% in 2004).
At year end 2005, the Italian Stock Exchange capitalization amounted to €676.6 billion increasing by about €96 billion over the same period of 2004. The Milan Stock Exchange capitalization to GDP ratio increased to 49.3% from 43% in 2004.

At year end 2005 in Italy there were 792 monetary and financial institutions in operation, which accounted for 12.6% of total monetary and financial institutions in the EU-12. That figure reflects Italy's weight in terms of assets and liabilities of domestic monetary and financial institutions, preceded only by France (15%) and Germany (about 22%). In relation to the individual markets in the EU-12, at year end 2005 total funding (deposits, bonds and subordinated loans) of euro-zone monetary and financial institutions grew 9% over the prior year, a figure only slightly higher than that reported by Italian banks in the same period (8%). At year end 2005, loans to resident borrowers grew 9%, only little above the rate reported by Italian banks in the same period (7.8%).

In 2005 Italy's private-sector financial business further grew about 5.0% to €2,622 billion.
Bank deposits (+6.1%), bank bonds (+9.9%) and retirement savings products (insurance products up 8.3% and pension funds up 3.1%) outperformed the market. Mutual funds rose 8.8%.
At year end 2005, bank deposits accounted for 24.7% of total private-sector financial business versus 24.3% at year end 2004.

At December 2005, total securities in custody (managed accounts and securities held directly by customers) amounted to €1,633.5 billion, up 1.57% over the same month in the prior year.
At year end 2005 Italian intermediaries' mutual fund NAV was equal to €585.5 billion versus €537.4 billion in the prior year (up 9%). A detailed analysis of the make-up of mutual fund assets shows that in the past year equity funds increased their share from 22.6% to 24.2%, balanced funds from 7.7% to 7.9%, flexible funds from 2.6% to 3.6% and hedge funds from 2.6% to 3.4%. Conversely, the share of bond funds declined from 46.5% to 45.8% and cash funds from 18% to 15.1%.

At year end 2005 funding amounted to €1,105.7 billion, up 8.42% versus 7.73% at year end 2004. During the past year the stock of funding grew by about €86 billion .
The analysis of the individual funding components shows the growth of customer deposits and especially of current accounts which markedly increased from 5.4% at December 2004 to 8.1% at December 2005.
Bank loans also increased in 2005, and that is evidence of the vigorous support provided by banks to businesses and households also in an economic cycle marked by sluggish production.
At year end total loans extended by banks in Italy amounted to €1,093.7 billion, up 8.7% versus 6.0% at year end 2004.

Specifically, at year end 2005 total loans to households and non-financial companies (i.e. non financial companies, consumer households, sole proprietors) rose 7.5%. Growth in that segment was in line with the prior year (7.6%) and well above the current growth rate of Italy's nominal GDP and investments.
In fact, after declining from 10.4% in December 2000 to 5.7% in December 2001, in the following three years lending to households and non-financial companies picked up again and markedly accelerated in the period between May 2002 and December 2005.
Consumer credit is the segment displaying the strongest growth: 16.3% at year end 2005 versus 15.5% at year end 2004.
In terms of Italy's share in the UE-12, in the past few years consumer credit remarkably grew from 3.3% at year end 1998 to 8% at year end 2005. That figure, however, appears modest if you consider that total loans extended by Italian banks account for about 13% of the European lending market.
Between December 1998 and December 2005 the share of Italian banks significantly grew also in the home loans segment, namely from 4.4% to 7.4%.
In fact, after losing ground in late 2001, home lending performed brilliantly in the following three years and the 17.4% growth recorded at year end 2005 was well above the average Euro-zone growth of 12.6%.

At December 2005 the securities portfolio of banks amounted to €168 billion versus €139.3 billion at year end 2004 (up 20.6%). At year end the total euro-denominated securities to total loans ratio was 14.3% versus 12.9% at year end 2004.
The analysis of the securities portfolio shows that the weight of "other securities" increased 2.6 percentage points from 45.2% in November 2004 to 47.8%. Conversely the weight of BTP (Italian long-term treasury bonds) declined from 15% to 14.1% while CCT (Italian medium/long-term treasury bonds) increased only slightly.

In 2005 in the euro zone short-term rates increased: at December 2005 3-month EURIBOR was 2.47% versus 2.17% at December 2004. In the recently ended year, consistently with the tight monetary policy adopted by the Federal Reserve, the US 3-month inter-bank rate was up 199 basis points.
On the other hand, long-term rates (benchmark rates) in the EU-12 declined; specifically, at December 2005 they averaged 3.41%, 28 basis points below the December 2004 figure. Conversely, US benchmark rates were up 23 basis points from 4.23% at December 2004 to 4.46% at December 2005.
In the past year the yield curve flattened more markedly in the US than in the euro zone, confirming the market expectations of a slowdown of the US economy in the short/medium-term.
Interest rates on home loans extended to retail customers were in line with European rates, specifically 3.66% in November 2005 (3.73% in December 2005) versus 3.63% in the Euro-zone. In 2005 in Italy's financial and lending markets interest rates stabilized with only some hikes in the final part of the year. In particular, in relation to short-term T-bills, in 2005 average gross yields on Italian Treasury Bills did not vary much as they declined from 2.13% in December 2004 to 2.01% in June 2005, to pick up again in the second half of the year up to 2.64% at year end 2005.
During the year the interest rate earned by households and non-financial companies on euro-denominated bank deposits was raised from 0.89% at year end 2004 to 0.95% at year end 2005.
The average rate paid by banks on customer funding (euro-denominated deposits, bonds and repurchase agreements of households and non-financial companies) was 1.72% at December 2005 versus 1.68% at December 2004.
Conversely, the average weighted rate on loans extended to households and non-financial companies declined 12 basis points from 4.77% at December 2004 to 4.65% at December 2005, hitting an all-time low of 4.60% in October-November 2005.
In the past year the interest rate applied to euro-denominated current accounts of households and non-financial companies also fell from 6% at December 2004 to 5.82% at December 2005. The interest rate applied to newly issued euro-denominated loans was 3.55% at year end 2005 versus 3.41% at December 2004 for loans extended to non-financial companies and 3.73% at December 2005 versus 3.66% at December 2004 for residential loans.

REVIEW OF OPERATIONS

The recently ended year was a year of growth for your Bank especially in the field of banking services.
An analysis of key organizational and operational developments is set out below.

Customers

At year end 2005 there were 941,000 clients – either current account holders or investors in Banca Mediolanum financial/insurance products – versus 921,610 at year end 2004. 798,100 of those customers were primary account holders.
At year end 2005 the number of current accounts increased to 392,309 from 344,132 at year end 2004. They were held by 548,500 clients. Current account holders accounted for 58% of total customers, a percentage which increased over the prior year and confirms the increasing cross-selling potential to clients who actively use the full range of banking services.

Average asset value per client rose to €30,219 from €26,090 in 2004 (up 15.8%). Customer growth was fostered by the extensive and diversified marketing campaigns focused on the launch of the RIFLEX current account and the Riflex Card, a revolving credit/debit card which can also be used for secure online transactions and permits card-holders to pay in installments.
Again in 2005 your Bank sponsored the *Giro d'Italia* Green Jersey. That sponsorship enhanced the visibility of your Bank's image and yielded new prospects.

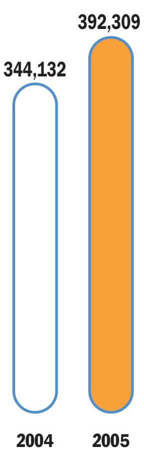
Funding

Funding from customers grew significantly (+16.4%) over the previous year from €3,151.8 million at year end 2004 to €3,667.8 million at December 31, 2005. The increase was largely in connection with the considerable boost given by the launch of the new Riflex current account and the subsequent greater penetration of banking products and services among customers. You are reminded that the only forms of direct funding are current accounts held by resident clients and, to a limited extent, repurchase agreements.

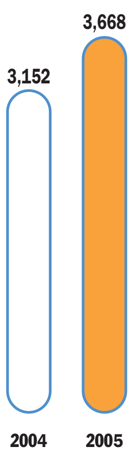
Lending

During the year, retail lending also grew significantly although the product offering remained substantially unchanged over the prior year and primarily geared to satisfying the cash demands of customers whose assets are invested in Group products.
Specifically, personal loans stood at about €40.7 million versus €38.6 million in the prior year. Although the total balance on customer current accounts grew from €164.8 million in the prior year to €197.9 million, the number of clients borrowing on current accounts increased significantly (+ 8.2%) from 15,130 in 2004 to 16,379 in 2005.
At year end 2005 repurchase agreements with institutional clients amounted to €43.6 million. No repurchase agreement had been made in the prior year.
In addition to retail lending, your Bank participated in lending syndicates and granted loans for a total of €70.6 million to financial companies that are part of leading banking and insurance groups. It also extended loans in the form of "hot money" to institutional clients for a total amount of €214.7 million.

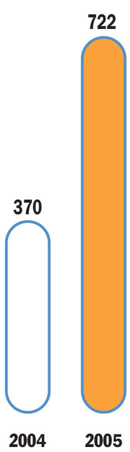
Number of current accounts



Direct funding
Euro millions



Lending to customers
Euro millions



In 2005 residential mortgage loans extended by Banca Mediolanum through its direct channels totaled €112.5 million. That result was achieved also thanks to an increasingly complete product offering whose sophisticated technical and professional contents respond to all customer financing needs .
In connection therewith, in the early months of 2005 your Bank entered into an agreement for the distribution of mortgage loans with FONSPA, a company that is already active in that sector. That agreement replaced a previous agreement with another bank.
However, total residential mortgage loans granted through all distribution channels sharply declined to €305.6 million from €430.6 million of the excellent year 2004.
The downturn essentially took place in the first three quarters of 2005 and was due to the operational "adjustments" required to have the new product offering up and running in a short time. Those efforts involved all head office and sales network structures and entailed professional training as well as the introduction of efficient organizational processes supported by highly advanced technology.
In last quarter of the year results in that segment were essentially in line with the corresponding period of the previous year.
At December 31, 2005 loans to customers – private individuals and financial institutions other than banks – increased 95.2% to €721.6 million from €369.6 million at December 31, 2004. The considerable growth of business with prime institutional clients and the development of the direct channel for the distribution of residential mortgage loans contributed to that result.

Banking services

Conto Riflex, the new Banca Mediolanum current account, was created and launched on the market in 2005.
Designed with the objective of "reflecting" the expectations of clients from their bank, it is characterized by the completeness of the services offered, good value and transparency.
It is a current account that gives the holder the greatest freedom in banking as it allows for an unlimited number of transactions and automatically adapts to clients' spending behavior by attributing them the profile that best suits them. Riflex is the current account that perfectly dovetails with the multi-channel approach of Banca Mediolanum, guaranteeing clients free-of-charge access through their preferred channel.
The Banca Mediolanum product offering has also been extended with the new credit card Riflexcard.
The card has been remarkably successful thanks to the many product innovations it incorporates. Produced on a reflective plastic support, it can be customized with the photograph of the holder, it is a multi-function card and guarantees maximum security in on-line transactions.
The launch of these two new products was backed by a major and diversified communication campaign. Thanks to the advertising campaign, the presence of the bank in all the main media was practically continuous. In particular, the different creative subjects were conveyed both in the printed media and on radio and television. In addition to the traditional media, the communication campaign also included billboards posted across Italy and significant advertising over the Internet
The product innovations and the new advertising campaigns supported the work of the sales network, allowing them to acquire new clients and make them loyal.

Sale of financial and insurance products

Gross inflows to the mutual funds of the subsidiaries Mediolanum Gestione Fondi SGR p.A. and Mediolanum International Fund Ltd, including managed accounts, were equal to €1,927.4 million (€1,409.9 million in 2004). The range of funds offered was significantly expanded, in particular with the launch of the Mediolanum Portfolio fund of funds. In December 2005 the bank opened the subscription to the Mediolanum Real Estate fund. At year end applications for subscription to that fund amounted to about €182 million.
In the pension and insurance sector, the capacity of offering innovative pension products and services (Europension and My Pension) was again confirmed also by giving clients more latitude in increasing the amount of premiums paid under their schemes.
Sales of index-linked policies with capital protection were also high. During the year new highly innovative unit-linked policies were also introduced.
Total life premiums written in 2005 increased 6.4%.to €2,454.5 million (€2,305.9 million in 2004).
New life business stood at €1,466.1 million (€1,423.9 million in 2004). Recurring premiums were equal to €174.7 million (€141.1 million in 2004).

Asset management and Administration

The aggregate value of assets under management and assets under administration remained essentially unchanged in 2005 despite the growth of financial markets. That was mainly due to customers switching from securities to managed accounts investing in mutual funds or life insurance.
Securities held by retail clients (€1,608.5 million) declined 2.3% over year end 2004. That was mainly in connection with marketing actions that encouraged customers to shift from investments in corporate bonds to more diversified managed products.
The figure above does not include managed accounts investing in securities which at €14.8 million remained substantially unchanged from €15 million at the end of 2004.
Managed accounts investing in mutual funds (exclusively UCITS owned by Mediolanum Banking Group companies) amounted to €1,621.5 million versus €1,666 million at the end of 2004. That means NAV declined about 2.7% over the beginning of the year as a result of the combined effect of negative inflows of client assets and the positive performance of the international financial markets in which the products invest.
Finally, we inform you that Banca Mediolanum renewed the asset management mandate (securities and mutual fund managed accounts) conferred on the subsidiary Mediolanum Gestioni Fondi SGR p.A.

Securities brokerage

In 2005 there was a general market recovery as economic growth from North America and Asian emerging countries such as China and India spread to Japan and, towards the end of the year, to Europe as well. Evidence of the renewed investor confidence was the revived interest in IPOs, which were oversubscribed and posted good trading performance in the market, as well as the growth of average volumes which is now close to €3 billion a day.
The bond market, however, suffered the combined negative effect of the downgrade of the main North American automobile manufacturers and the ECB interest rate hikes, especially in the second half of the year. All this limited investments by clients who focused on cash transactions such as repurchase agreements and purchases of Treasury Bills in auctions.
The Italian bond market was characterized by a contraction in demand by retail clients who were still under the negative effect of the recent financial scandals. In 2005, there were three major debt restructurings by defaulting issuers: the Argentina's government debt restructuring, the conversion of Parmalat bonds into shares and warrants under the agreement made by Parmalat with its creditors, and the Buenos Ayres Provincial Government debt restructuring.
Total retail transactions on bonds were in line with 2004 but the value of the bonds held by clients declined by 12.5% especially due to large-size Eurobonds which were not renewed upon maturity. At the end of 2005, bonds held by customers amounted to €563 million against €645 million at the beginning of the year.
Despite this context, total trading orders executed for retail clients on the Italian regulated stock markets in 2005 increased 8.5% to 434,361 (vs. 400,951 in 2004). The total value of securities brokered on the Italian stock markets declined 7.5% to €9,483 million (vs. €10,252 million in 2004).
Total orders executed for retail clients on foreign stock markets jumped 45% to 26,896 (vs. 18,499 in 2004). The total value of securities brokered on foreign stock markets grew 33% to €201,990 million (vs. € 151,370 million in 2004).
In 2005 10 companies went public in Italy. The primary market was very active as the new issues were good quality on average and all recorded good trading performances expanding the opportunities for new companies to raise venture capital to finance their growth.
Banca Mediolanum took part in 11 underwriting syndicates, privileging the largest and most interesting offers for retail investors. In addition, as a member of syndicates it underwrote 4 new rights issues made by listed companies and 4 bond issues.

Multi-channel approach, the Call Center and the Internet

In 2005 there was a significant growth in the number of current account holders who chose to use the services offered through the Direct Channels to carry out their banking transactions. Over 80% of the current account holders used the telephone or the Internet site to access the Bank. In particular, the increase in users of direct channels is largely to be attributed to the campaign launched in March to promote the new Riflex offering.
The existing banking services as well as the addition of new functions enabling customers to get information and execute transactions through the Direct Channels, the Internet and the Call Center, allowed a further increase both in terms of contacts and transactions made by clients through the bank's multiple channels.

The number of contacts made by clients through Direct Channels grew 28% to over 14,000,000 accesses in 2005. In particular, access through the Internet site significantly increased and represented 58% of total contacts in 2005. Also access via the telephone considerably grew in 2005, they were up 18%, while in 2004 had remained almost unchanged with respect to the previous year.

As already noted in previous years, direct channels users are more likely to bank by themselves: in about 80% of all cases, access took place via the automated systems offered by the Bank, the Internet and automatic VRU answering system. In addition, during 2005 access by text messaging tripled from 3% to 7% of total contacts.

An increase in contacts through direct channels corresponds to a more than proportional increase in orders. In 2005, orders increased by 27%. That growth was the result not only of the significant increase in banking orders but also of the greater trading and investment orders.

In particular, orders made via the Internet rose 36%, mainly due to the growth of banking orders which account for 81% of total volumes. On-line trading reversed trend and transactions increased by over 22% in 2005. This figure, together with the 42% increase in orders for mutual funds and policies, marks 2005 as a year of recovery and expansion.

The increase in the number of banking orders was largely related to wire transfers and mobile phone top-ups but also the increase in payments on notice, payments using blank and pre-printed Post Office slips, tax payments, pre-authorized debits and bank transfers for building renovations contributed to that result.

New functions were implemented during the year. These included the possibility of activating alert text messages directly from the website, making on-line payments using blank as well as pre-printed Post Office slips, making international bank transfers and applying for credit cards and ATM cards. In April, the on-line trading section of the website was revised graphically and its contents expanded. Lastly, at the end of the year, the possibility of opening a current account directly from the Internet website was introduced.

In the telephone channel, about one-third of the calls are handled by Call Center operators, whilst the remainder is managed by automatic answering machines.

In 2005 the Call Center grew in line with the whole bank and the increasingly challenging requests from our clients as evidenced by the 26% increase in customer calls managed by its operators. The telephone contacts with call center operators were increasingly in connection with complex questions and entailed greater efforts than in the past in managing the call. Against these new demands, the need emerged to provide new services by phone to complete the range on offer. In addition to expanding the website and trading functions, a service was created for the management of mortgage loans.

The services offering was expanded and increasingly complex clients' requests were satisfied without affecting the high quality standards that have always distinguished the service offered by the Call Center. In 2005, Banca Mediolanum was positioned far above the market standard in terms of average waiting times and calls answered within 20 seconds.

In addition to their primary duty of managing incoming calls, the operators perform numerous complementary activities. These included support to the Riflex advertising campaign by calling prospects and the "Look who wins" competition.

As to customer service, especially *PrimaFila* clients, Direct Channels too were used to interface appropriately with this special client target. Specifically, in addition to a dedicated section on the Internet site and a customized banner in the private area, those customers were given the option to request and receive information material directly at their home. That service was also monitored and requested through Call Center operators.

In 2005 the text message service caught on thanks to the possibility of activating and managing alerts through the Internet site as well. This additional channel has made it possible to reach a wider group of clients and the success of the initiative is evidenced by the volume of text messages sent that tripled compared to 2004. New types of alert have also been developed, mainly with the aim of guaranteeing higher levels of security for clients.
During the year, the topic of on-line security has been very much in the news following the cases of phishing publicized by the media. Various types of anti-phishing responses were implemented throughout the banking sector. To reinforce the level of security for clients the Direct Channels of Banca Mediolanum introduced some important measures, such as the possibility for customers to modify their personal access number through the site and the VRU, email communications advising clients to periodically change their personal access number and informing them on their correct use. In addition, security controls were heightened through the activity of the Call Center and by sending text message alerts following withdrawals from ATMs, POS payments and every access to the site.

Lastly, 2005 was characterized by an expansion of the presence on the web of the Mediolanum Group. In April the "Corporate" site of the group was published, dedicated to the institutional and financial community and available also in English. Sites dedicated to the insurance product companies (both life and general insurance) and to the asset management companies of the group were also set up. All the new sites have features making them easily recognizable and visually consistent with the characteristics of the Bank's main site. The project of harmonization and differentiation of the sites of the group also involved the personal websites of the Banca Mediolanum financial advisors. These were expanded and personalized in line with the characteristics distinguishing the style of the group with the aim of promoting professionalism and contacts with clients by e-mail.
Visibility on the web has also been increased through actions such as advertising through banners, sponsorship and newsletters as well as the mini-site created when the *Giro d'Italia* (long distance road bicycle race) was on and the site dedicated to the charity initiative "*Piccolo Fratello*".

The sales network

After some years in which it had remained stable, the number of financial advisors grew again.
The sales network headcount rose to 5,220 people (4,857 in 2004). Out of that figure, the number of licensed financial advisors, i.e. advisors with greater seniority and professional experience, remained stable at 3,978 at year end 2005 (vs. 4,048 at year end 2004) while the number of non-licensed advisors (with only a few months' experience) increased from 768 at year end 2004 to 1,183 at year end 2005. The sales force includes also 59 "credit executives" i.e. home loan specialists.
The geographical analysis shows that 56% of advisors cover Northern Italy, 25% Central Italy and the remaining 19% Southern Italy and the Islands.

Punto Mediolanum

The Bank continued to strengthen its geographical presence by opening new Punto Mediolanum offices which at December 31, 2005 totaled 160 (vs. 106 at year end 2004). In accordance with the multi-year business plan, in 2006 the opening of new Punto Mediolanum offices will be even more intense. Punto Mediolanum offices provide advisory services to customers and information to prospects. They are located on the ground floor of buildings in the center of main Italian cities. Characterized by a consistent image, they are evenly distributed across all Italian regions.

The regions with the highest density of *Punto Mediolanum* offices are: Lombardy (35), Veneto (24), Tuscany (15), Latium (14), Emilia Romagna (13), Sicily (12) and the Marches (11). At year end 2005 FA offices, including Punto Mediolanum, were 533 versus 567 at year end 2004. The decrease is in connection with the steady rationalization of local offices, which entailed the closure of certain offices not meeting the qualitative and quantitative requirements of the company.

Training of the sales force

The training of the sales force is the basis of the good results obtained by your bank. "Med Campus" was consolidated in 2005 as an e-training tool for the network which monitors and validates learning thanks to integration with the web Portal.

The various on-line courses dedicated to legal and regulatory aspects (Anti-money laundering, Legislative Decree 231/20001, Rules of conduct, Law on privacy, Transparency) had about 9,000 participants.

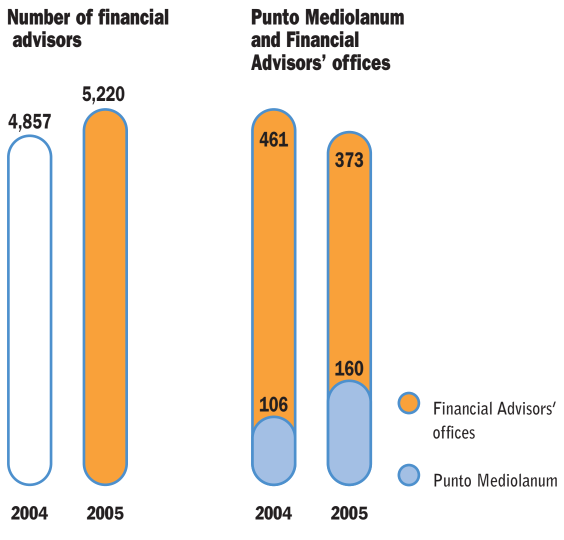
In 2005, satellite TV programs were expanded, adding three new programs to "News" and "Training", i.e. "Vision" dedicated to managers, "Key Moments" on how to take advantage of situations and anticipate problems and "Red and blue" dedicated to financial and business analysis.

Current programs continued to be renewed and their webcasting is scheduled for March.

The space dedicated to financial information for the Mediolanum Community and for the sales network via the unencrypted satellite channel has also increased.

At the Tabiano and Pomezia centers, 39,000 days/man of training were given (+20% compared to 2004), in addition to special courses attended by about 4,100 agents.

Three hundred and thirteen candidates enrolled in the 3 examination sessions to qualify as financial advisors. The pass rate of 49.2% compared to the national rate of 35.79% confirms that your bank provided good training.



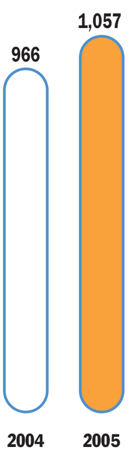
The employees

An analysis of the changes in Banca Mediolanum's personnel in 2005 is set out below:

Units	Dec 31, 2004	Dec 31, 2005	Change	% of tot	Average age
Senior management	46	52	+6	4.9	45
Middle management	118	123	+5	11.6	39
Middle management	802	882	+80	83.5	32
Total	966	1,057	+91	100	33.4

The staff increase by 91 people was mainly due to the expansion of Customer Care services and volumes as a result of the growing number of customers and the greater use of banking services.
As business grew, new staff was hired for positions within the lending and control functions.
Most of the newly hired employees were young and were recruited paying particular attention to their professional growth potential.
The policy of professional growth within the Bank continued, with job rotation and development of inter-functional competences. Numerous training seminars were held on general business topics including quality of service, teamwork, communication and human resources management.

Employees



Professional updating on financial and regulatory matters continued throughout the year through in-house and external facilities, as well as on-line teaching.
During the year a workplace survey was also carried out with an extraordinary participation by the employees.
For the purposes of recruitment and training, partnerships with prestigious academic institutions were also reinforced, promoting internships and collaboration in the financial, marketing and quality of service areas.
Special attention was also paid to initiatives aimed at reconciling working hours and private life: the creation of a company nursery school which can accommodate more than 50 children of employees is without doubt of special note.
There is a prevalence of female personnel (56%) and the average age of the employees is 33.4.

Internal Audit and Inspection

At December 31, 2005, the Internal Audit function and the Network Inspection had a total of 34 resources (30 resources at December 31, 2004).
During the year the Internal Audit function continued its auditing work on the Bank activities focusing on investment services and the assessment of the effectiveness and efficiency of the internal control system of the various company structures. Under a service agreement, the Internal Audit function of the parent company Banca Mediolanum also performed audit work for the subsidiary Mediolanum Gestione Fondi SGR, which does not have

its own internal audit function. Said audit work was conducted in compliance with internal rules as well as the laws and regulations in force. Under a service agreement similar to that entered into with Mediolanum Gestione Fondi SGR, the parent company performed audit work also for the newly-incorporated company Mediolanum Distribuzione Finanziaria S.p.A., which also does not have an internal audit function.

In addition, in compliance with its duties of guidance and supervision, the Internal Audit function of the Parent Company carried out on site inspections and held videoconferences with the officers of those subsidiaries which have their own internal audit function (Fibanc Group, Bankhaus August Lenz, Gruppo Gamax, Mediolanum International Funds and Mediolanum Asset Management).

During the year the Network Inspection staff continued to carry out second level controls and checks on the sales force to make sure their off-premises activities were in full compliance with the regulations in force. Upon completion of that work, the actions necessary to remedy the irregularities found were scheduled and, where necessary, sanctions were applied to the financial advisors involved or their mandate was revoked. In 2005, 46 irregular actions (17 in 2004) by the financial advisors were identified and reported to the Supervisory Authorities.

As further protection, in 2005 the Bank renewed the policy taken out to cover any illegal actions committed by the sales force to the detriment of clients.

In 2005 the bank received 2,976 written complaints from customers, 1,413 of which relating to investment services. Those complaints were entered in a special register as required under the regulations in force. In 2004 customer complaints had been 1,891, of which 1,470 relating to investment services. The increase is due essentially to the fact that the 2005 figure also includes complaints received by e-mail, which the Bank has begun to include in the register on a voluntary basis since January 1, 2005.

All the complaints are dealt with within the period of time laid down by the rules of Consob [Italian Securities and Exchange Commission], the Bank of Italy and Isvap [Italian Supervisory Authority for the Insurance Sector].

Following the overall review of the complaints received in the year, no material procedural or organizational deficiency or misconduct was found which required reporting to the Board of Directors and the Board of Statutory Auditors.

Organization and processes

The breadth and depth of services offered through electronic channels was expanded by enabling customers to carry out the following transactions directly online: opening current accounts, requesting ATM cards and Riflex cards with the cardholder photo, making international bank transfers and payments using blank Post Office slips.

The use of text messaging was also expanded with the dual purpose of providing prompt information to clients and tightening security by sending a text message to customers anytime they log-in to the Banca Mediolanum website or carry out an electronic transaction.

The Bank also started a project for the activation of the new T-banking channel to offer clients the ability of receiving information or perform banking transactions through the digital terrestrial TV channel.

In addition, the project for outsourcing the On Line Trading platform was completed.

Lastly, financial advisors are now allowed to set up their personal website.

As part of the initiatives geared to enhance access to and use of IT services by the Sales Force, the Bank started a review of the navigation functions of the "Network Portal" to improve both the speed in finding information and the system user-friendliness. Remote access to and use of the company email services is now available for the financial advisors who request it. This allows financial advisors to synchronize the information relative to their personal organization of activities (diary, contacts, to do list, notes) on the different devices they use (desktop, laptop, palmtop).
In the Marketing area, the Bank started the "Campaign Management" project. The project is aimed to provide timely promotional opportunities and support to the sales force and entails easier identification and selection of targets, ability to coordinate actions on the multiple channels, provision of quality services to financial advisors and measurement of the outcome of promotional actions.
In the governance area, the IAS project was completed with the introduction of new software applications to adapt the IT system to the requirements of the new international accounting standards, in particular in relation to the recognition and measurement of financial instruments and the preparation of the consolidated financial statements.
After enhancing their efficiency in 2004, in 2005 the system applications operated by Cedacri S.p.A. were further rationalized with the consolidation of customer personal and transaction data into a single Customer Data process.
To keep up with the growing number of customers and transactions, technology was reinforced without overlooking the ultimate goal of increasingly raising service quality. In compliance with the rules issued by the Bank of Italy, your Bank continued the implementation of the disaster recovery action plan. Specifically a computing campus was created by physically locating the server, data storage and network equipment in two distinct buildings and by activating the first connections with the Cedacri S.p.A. remote site in Castellazzo Bormida, to guarantee protection from catastrophic events through geographic segregation.
On the security front, your Bank adopted the "active directory" technology to manage authorization of internal users log-in to the IT system. That technology significantly improved the level of control and validation. The Bank also defined the procedures to manage possible attempts to defraud clients perpetrated via the Internet channel, e.g. "phishing" , "pharming" and "keylogging".
From the point of view of the governance of investments, new procedures have been implemented to control the budget and approve new initiatives.

Treasury management

At December 31, 2005 the Bank reported net inter-bank loans of €1,553.0 million versus € 598.6 at December 31, 2004.
The analysis of that account shows that at year end 2005 funding from banks amounted to €1,132.7 million versus € 619.5 million at year end 2004, while loans to banks increased from €1,218.1 million at December 31, 2004 to €2,685.7 million at December 31, 2005.
Loans to banks, as well as funding from banks, consist exclusively of 1-day to 3-months deposits.
At December 31, 2005, the bank's securities portfolio declined 28.6% from €2,235.5 million at December 31, 2004 to €1,595.08 million. The decline, offset by deposits with banks, accelerated towards the end of the year concurrently with the first indications of possible interest rate hikes which could depress bond yields.

"Held-to-maturity investments" remained substantially unchanged at €498.9 million (€499.5 million at December 31, 2004). That portfolio consists exclusively of euro-denominated securities issued by governments and supranational agencies. Those holding were classified as "held-to-maturity investments" upon IAS/IFRS First Time Adoption in accordance with the requirements of the new international accounting standards and the framework resolution on securities portfolios passed in January 2005.
The securities portfolio represented by "Held-to-Maturity investments" is made up of fixed or floating rate government securities and Euribor-linked bonds issued by leading banks with a duration of 0.8 years.
The exposure to credit, interest rate and country risk of the Bank's assets (interbank positions and securities) is almost nil. Similarly, positions in foreign currencies are limited and related exposure to currency risk is immaterial.
In the light of the efficient Treasury management and the considerable portfolio of European government securities held, in May 2005 the Bank of Italy included your bank in the list of the ten major Italian banks authorized to operate with the European Central Bank for fine tuning operations.

The adoption of IAS/IFRS

Pursuant to Legislative Decree No. 38 of February 28, 2005 the financial statements for the year ended December 31, 2005 were prepared in accordance with the accounting standards issued by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Commission pursuant to the European Parliament and Council Regulation (EC) 1606 of July 19, 2002.
As allowed under art. 4, paragraph 2 of Legislative Decree 38/2005 Banca Mediolanum S.p.A. elected to voluntarily apply international accounting standards also to its separate financial statements as early as 2005 although publicly traded companies are required to do so only in their financial statements at December 31, 2006.
The adoption of IAS/IFRS entailed some important changes in the structure of the financial statements, the classification of items as well as the accounting policies applied to assets and liabilities.
The impact of the First-Time Adoption (FTA) of the International Financial Reporting Standards, as required under IFRS 1 is presented in the relevant section herein.
The adjustments made on the First-Time Adoption of the International Financial Reporting Standards recognized directly in equity resulted in a €65.5 million decrease in equity from €444.0 million to €378.5 million at January 1, 2005. That was primarily due to the reversal of dividends that for the year ended December 31, 2004 had been recognized on an accrual basis, but under IAS/IFRS are to be recognized in the income statement in the year when their distribution to shareholders is resolved. The net equity reduction (after taxes) amounting to €65.5 million was recorded in a specific equity reserve named IFRS First Time Adoption Reserve.

Equity and solvency ratios

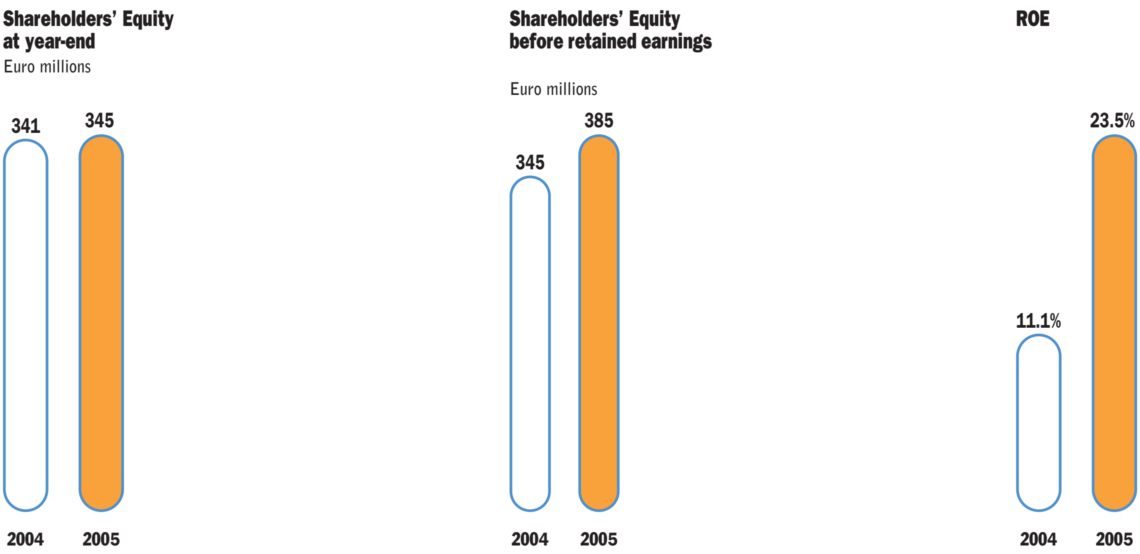
At December 31, 2005 shareholders' equity, excluding net profit, amounted to €344.9 million up 1.2% from €340.7 million at December 31, 2004. The €4.2 million increase is the result of the appropriation of net profit for the year 2004 amounting to €2.1 million, and of movements in equity reserves in connection with stock options. If the General Meeting approves the appropriation of net profit for the year 2005 as proposed by directors, equity will further increase by €40.3 million to €385.2 million.

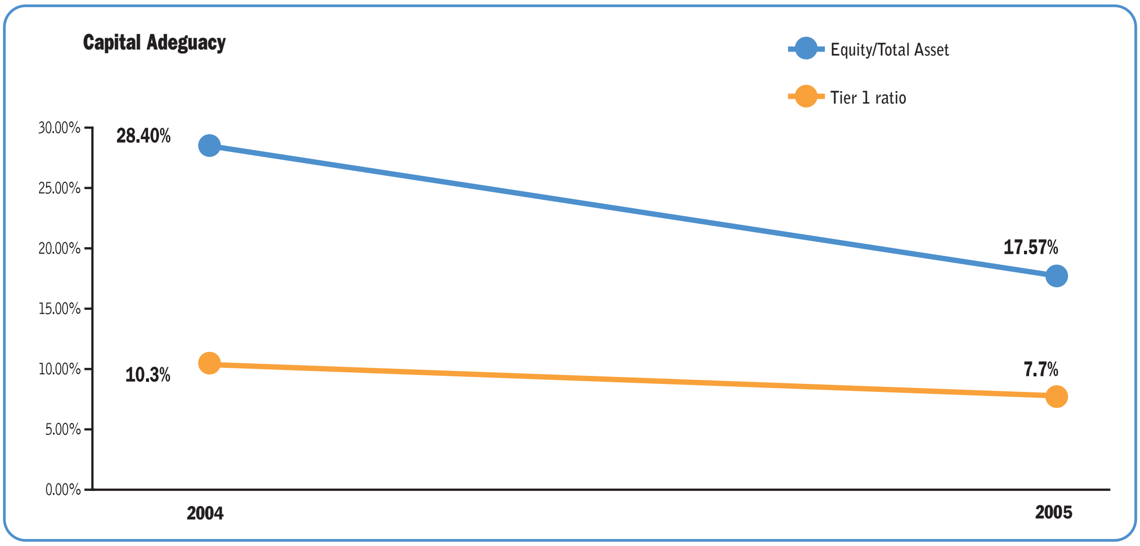
Those results correspond to €1.13 per share with a par value of €1 (€1.00 in 2004).

EPS (earnings per share) amounts to €0.238 versus €0.111 for the year 2004.

ROE amounts to 23.5% versus 11.1% in 2004.

The capital/total risk-weighted assets ratio is equal to 17.57 well above the minimum capital requirement (7%).





Corporate Liability (Legislative Decree 231/2001), Codes of Ethics and Business Conduct

Pursuant to Legislative Decree No. 231 of June 8, 2001 on December 18, 2003 Banca Mediolanum adopted the Organizational, Management and Control Models for the prevention of business misconduct. In accordance with the rules set out in said models, in 2005 the Oversight Board performed tests and checks of the effectiveness of controls in place within the organization and the sales network. Your are reminded that your Bank adheres to the Codes of Ethics and Business Conduct it adopted long ago.

Protection of personal data

Pursuant to Law 675/1996 as amended by Legislative Decree 196/2003 entered into effect on January 1, 2004, the Personal Data Protection Code was properly maintained and updated.
In 2005 the Data Controller performed his duties under the "Personal Data Protection Code".
Specifically, those duties include: regularly updating the list of data processors and other individuals in charge of data processing (employees/agents), preparing disclosure and consent forms for customers, agents and employees, training data processors and other individuals in charge of data processing, reviewing requirements and preparing the Data protection statement.

Health and safety in the workplace

In 2005, your Bank complied with the requirements of Law 626/94 in particular in relation to health, sanitization of the workplace and specific equipment, replacement of air filters, disinfection, periodic and preventive pest control. New external emergency stairs were built to improve the safety conditions in the workplace.
The Bank periodically checks that the values of emission of electromagnetic fields, in the workplace and adjoining premises, are within required limits; in 2005 it also checked the values of emission of the gas Radon from the ground which were also within required limits.
Your bank is a smoke-free company as smoking is prohibited in the offices.
In autumn 2005 your Bank voluntarily carried out an anti-influenza vaccination campaign which bears testimony to its attention and sensitivity for the safety and health of its employees.
In addition IT equipment was renewed with 85 cathode tube monitors being replaced by LCD monitors which are to be added to the 465 already in place from the previous years.

Equity investments

At December 31, 2005 the Bank's equity investments in Group companies declined from €301.4 million in the prior year to €282.5 million.
During the year, funds for a total amount of €9.8 million were used to cover the losses of Bankhaus August Lenz.
The bank made write-downs for a total of €29.7 million.
Specifically, the equity investment in Bankhaus August Lenz & Co. AG was written down by €14.9 million, which corresponds to the amount of funds used to cover losses for the year plus the adjustment to its carrying amount.
The equity investment in Mediolanum International SA. was written down by €14.8 million, to bring its carrying amount in line with its equity value at balance sheet date.
The equity investments in Bankhaus August Lenz & Co. and in Mediolanum International SA were also written down to bring their value in line with the value obtained following the application of commonly used evaluation techniques.
Finally, we inform you that in the course of the year Banca Mediolanum formed the company Mediolanum Distribuzione Finanziaria S.p.A., subscribing its entire share capital equal to € 1.0 million.

Banco de Finanzas e Inversiones S.A. (FIBANC)

For financial year 2005 it reported net profit of €770 thousand up 71% from €450 thousand in 2004.
2005 was an extremely positive year in many respects.
First, sales sharply increased over the prior year; gross inflows grew 7% to €424 million (€394 million in 2004); in particular sales of life products were €114 million, up 23% over the prior year and sales of funds of the Irish associate MIF amounted to €62 million versus €26 million in the prior year (+138%).
Also net inflows grew from €7 million in 2004 to €94 million in 2005. The figure is even more impressive if you consider that net inflows into life products, which generate the greatest value, amounted to €76 million and accounted for 81% of total net inflows.
Assets under management and assets under administration reached Fibanc's all-time high of €2,167 million, up 7% over the prior year.
At year end the sales force consisted of 615 people, of whom 419 tied Advisors relying on the same business model as Banca Mediolanum financial advisors (453 people at year end 2004), 134 part-time Agents (110 in 2004) and 62 traditional Agents (63 in 2004).
The sales force decline is due to the consolidation undertaken in the year, a common practice and a necessary move after the considerable increase in past years. That action permitted to eliminate those positions not meeting our standards.
At year end personnel amounted to 212 people down from the 229 people employed in the prior year. The decline in the number of employees is in connection with the process optimization strategy. Similarly the number of branches further declined from 8 to 7 while Punto Fibanc offices – which are similar to *Punto Mediolanum* offices in Italy – were 13 (5 in 2004).

From the organizational viewpoint two major transactions were concluded, i.e.:

- in October, the sale of the Andorra-based asset management company Valora with €70 million in assets, as it was viewed as a non-strategic investment and not fitting into the growth plan for Spain. On December 1, 2005 the Group notified that sale to the Bank of Italy requesting it to cancel that company from the Mediolanum Banking Group;
- the merger of the Fibanc Group's holding company Fibanc Inversiones SA into Banco de Finanzas e Inversiones, which became the Parent Company of the Fibanc Group.

Those transactions considerably streamlined the Fibanc Group's operations as it had been recommended by the Bank of Spain itself.

Bankhaus August Lenz & Co.

During the year under review it mostly expanded the offering of banking products and services and consolidated the sales network.

The Bank focused on the sales force to lay the foundations for future development in accordance with the Mediolanum model.

That process entailed the downsizing of the sales force to 55 advisors at December 31, 2005 (vs. 98 advisors in 2004).

In 2005 net inflows amounted to €2 million versus a negative balance of €19 million in the prior year.

At year end total assets under management and under administration amounted to €57 million up 27% over the prior year. Specifically assets under management grew by 50%.

At year end total headcount amounted to 29 people versus 32 at year end 2004. The decline reflects the Group's strategy for a lean organization.

The bank enhanced its ATM network (over 500 ATMs across the country) through a partnership with Euronet and Intercard, two German specialist operators of automatic cash dispensers.

For financial year 2005 the bank reported a loss of €8.8 million which marks a considerable improvement from the prior year's loss of €11.8 million.

Mediolanum International S.A.

After the October 4, 2004 liquidation of Mediolanum Private S.A., the Luxembourg-based company Mediolanum International conducted business as ultimate holding company of the Gamax financial group only. The Gamax Group is headed by Gamax Holding, which is also based in Luxembourg.

The company reported a net loss for the year of €14,793 thousand versus a loss of €1.1 million in 2004. That loss was principally due to the recognition of impairment losses on its shareholdings in the Gamax Group.

Gamax Holding AG

2005 was a positive year for the Gamax Group as it reported consolidated net profit of €4.9 million improving from the prior year's profit of €1.5 million.
That result was obtained primarily due to the favorable performance of financial market as a result of which fee income on managed funds, including performance fees, totaled €5.4 million.
Although inflows slightly declined over the prior year at year end 2005 total assets under management and under administration increased to €619 million, of which €395 million relating to Gamax funds and €224 million to third-party funds. Gamax funds net asset value slightly grew, €390 million, over the prior year thanks to market appreciation, while third-party funds performed well as their net asset value grew €187 million over the prior year.
The company sells products through independent financial advisors. In 2005 the average number of the company's financial advisors was 156.
At year end total headcount amounted to 24 people, unchanged over the prior year.

Mediolanum Private S.A.M.

As it is known the Extraordinary General Meeting of December 30, 2004 resolved to put the company in liquidation.
During the year the liquidation process was completed and the company was cancelled from the Monaco Register of Companies.
The cancellation from "Repertoire du Commerce et de l'Industrie" was resolved on October 4, 2005.
On December 13, 2005 the application for the cancellation of the company Mediolanum International SA from the Mediolanum Banking Group was sent to the Bank of Italy.

Asset Management Companies

Banca Mediolanum owns a 51% control shareholding (the remaining 49% stake is held directly by Mediolanum S.p.A.) in Mediolanum Gestione Fondi SGR p.A., and in the Irish companies Mediolanum International Funds Ltd and Mediolanum Asset Management Ltd, both based in Dublin.
Mediolanum Gestione Fondi SGR p.A. manages 23 funds, of which 22 mutual funds and 1 non-occupational pension fund. Total assets under management amount to €2,313 million (vs. €1,881 million at December 31, 2004).
Assets managed on mandates from associates amount to €13,419 million (vs. €11,769 million in 2004).
From 2005 the company manages also Mediolanum Property, a closed-end real estate fund with total assets of €87.5 million at year end. In addition in October 2005 the company started the placement of the closed-end Mediolanum Real Estate fund to the general public and qualified investors. At year end applications for subscription to that fund amounted to about €182 million.
For the year 2005 the company reported net profit of €9.2 million (vs. €8.5 million at December 31, 2004, as restated following adoption of international accounting and reporting standards IAS/IFRS), of which €2.37 million dividends pertaining to Banca Mediolanum, as proposed by the Board of Directors of the subsidiary.
Through third-party specialist companies, Mediolanum International Funds Ltd manages three fund families (Top Managers, Challenge and Portfolio) for a total of 53 specialist funds in all sectors, markets and asset classes.

At year end total assets amounted to €11,740 million (vs. €9,021 million at December 31, 2004). Mediolanum International Funds products are distributed in Italy, Spain, Germany and Austria.
For financial year 2005 the company reported net profit of €204.9 million (vs. €122.7 million at December 31, 2004), of which €104,490 thousand pertaining to Banca Mediolanum.
Thanks to the good results achieved in the year, in November 2005 the company distributed an interim dividend for a total amount of €135 million, of which €68,850,000 to Banca Mediolanum.
Mediolanum Asset Management Ltd supports the Group's asset management operations by providing asset management or ancillary services such as the monitoring of fund performance and underlying risks.
For financial year 2005 the company reported net profit of €4,948,239 (vs. €3,378,056 at December 31, 2004), of which €2,523,592 pertaining to Banca Mediolanum.

Mediolanum Distribuzione Finanziaria S.p.A.

For its first year of operation, limited to five months only, Mediolanum Distribuzione Finanziaria reported a net loss of €0.1 million, largely due to start-up costs.
Mediolanum Distribuzione Finanziaria S.p.A. was formed on July 29, 2005 following receipt of the relevant authorization issued by the Bank of Italy on July 28, 2005 to Banca Mediolanum S.p.A. which subscribed the company's entire share capital of €1,000,000.
On September 19, 2005 the Company was registered with Ufficio Italiano Cambi (Italian Foreign Exchange Office) in accordance with art.106 of the Consolidated Banking Act.
Effective on September 12, 2005 Mediolanum Distribuzione Finanziaria S.p.A became part of the Mediolanum Banking Group as per Bank of Italy's communication of February 8, 2006. The company's business is centered on the promotion and sale, under a specific agreement, of Banca Mediolanum banking products and credit cards to retail customers through its network of "Financial Agents", registered with Ufficio Italiano Cambi (Italian Foreign Exchange Office), who work on a mandate from that company.
The first agency mandates were conferred on October 24, 2005, and the first Banca Mediolanum current account contracts (EasyRiflex and EasyRiflex Standard, with no securities account facility) made by Mediolanum Distribuzione Finanziaria agents were received on November 7, 2005.
At year end 2005 the company's sales network consisted of 420 "Financial Agents", who as of that date had sold 1,563 current accounts with related debit and credit cards.
Initially, Mediolanum Distribuzione Finanziaria operated through a basic administrative organization employing only few people seconded from Banca Mediolanum S.p.A. Recruitment, training and control of the sales network, administration, internal audit, compliance with anti-money laundering regulations, information technology, legal, tax and corporate affairs were outsourced under specific arrangements to the parent company Banca Mediolanum S.p.A. (the parent company of the Mediolanum Banking Group) and to the holding company Mediolanum S.p.A.
Special attention was paid to the training of agents. To qualify for work agents need to attend an in-house course on banking, pass the related examination, and then register with Ufficio Italiano Cambi (Italian Foreign Exchange Office).

Charity initiatives

In the early months of 2005 your Bank launched a fund raising campaign for the victims of the tsunami which hit South-East Asia on December 26, 2004. The campaign raised over € 205,000 donated by our clients.
That amount was used to fund two projects which will directly help the populations affected by the tsunami.
The first project, for an initial amount of €150,000, was assigned to Caritas Ambrosiana for the population of the Andaman and Nicobar Islands in India. The Indian Caritas of the Diocese of Port Blair, the capital of the Andaman and Nicobar Islands, has been chosen in joint agreement to head the project.
Our initiative intends to contribute to the post-emergency rehabilitation of the local population, creating processes of medium- and long-term socio-economic development, precisely in the year 2005, declared "International Year of Microcredit" by the United Nations. The project will be developed in the three-year period 2006-2008 and entails the formation of 50 Self-Help-Groups made up of 20 people each for the start-up of micro-enterprises. The mechanism of these self-help groups, consisting mainly of women, lies in putting together different individuals and professional skills in order to encourage cooperation and mutual support. Each group will manage the financial resources supplied and channel them into the creation of micro-enterprises. The groups will also follow a training course offering the knowledge necessary to manage the group and the business conducted.
The second project, for a total of €50,000, was assigned to the Community of Sant'Egidio for the children of Banda Aceh in Indonesia. The project, which will be implemented in collaboration with the Indonesian Caritas, diocese of Medan, aims to build a school (classrooms, services and scholastic material), as well as financing the school courses for the first 12 months.
For both initiatives your Bank will receive detailed information on the developments and results achieved in order to keep the clients who made generous donations informed.

In May, in collaboration with Fondazione Mediolanum, your bank started the initiative "*Piccolo Fratello*" ["Little Brother"] which aims to raise funds to build shelters for the street children in the slums of Nairobi, Kenya, in collaboration with the organization ANAMI, founded by the Combonian missionary Father Kizito.
The proposal was made known first to the clients of Banca Mediolanum and, then, to the general public through adverts on the website and periodic communications to clients, advertising in the press and on the Mediolanum TV Channel.
The fund-raising is also continuing, with good results, in the first months of 2006.

Post balance sheet date events

There were no material post balance-sheet date events requiring disclosure.

Outlook

In the light of results recorded in the first months of 2006, the outlook for the current year is positive.

Acknowledgements

Dear Shareholder,

At the end of this Report, we again express our great appreciation for the collaboration in the past year from the Financial Advisors and the Employees and we sincerely thank the Shareholder and Clients for the consideration shown to the Bank. Lastly, we thank the Supervisory and Regulatory Authorities, in particular the Bank of Italy through the Director of the Milan Branch, Mr. Salvatore Messina, the trade associations and the correspondent Banks for the constructive support given, as usual, to the work of the Bank.

Your company's financial statements, which we submit to you for approval together with the directors' report, show net profit of €81,178,736.19.

We propose to appropriate net profit as follows:

- €40,920,000.00 as share dividends;
- €4,058,937.00 to the Legal Reserve;
- €36,199,799.19 to the Extraordinary Reserve.

Basiglio, March 23, 2006

For the Board of Directors
The Chairman
Ennio Doris

BANCA MEDIOLANUM S.p.A.

Accounts for the year ended December 31 2005

Balance Sheet

Assets

€			Dec. 31, 2005		Dec. 31, 2004
10.	Cash and cash equivalents		1,731,488		1,149,943
20.	Financial assets held for trading		1,095,567,768		1,735,789,245
30.	Financial assets at fair value		-		-
40.	Available-for-sale financial assets		526,545		200,556
50.	Held-to-maturity investments		498,989,187		499,541,863
60.	Loans to banks		2,685,659,727		1,218,138,939
70.	Loans to customers		721,599,962		369,674,760
80.	Hedging derivatives		-		-
90.	Changes in value of macro-hedged financial assets (+/-)		-		-
100.	Equity investments		282,537,049		301,438,049
110.	Tangible assets		22,879,342		17,764,298
120.	Intangible assets		14,317,059		17,579,563
	of which:				
	- goodwill		-		-
130.	Tax assets		40,788,786		34,337,697
	a) current	13,622,845		13,560,700	
	b) deferred	27,165,941		20,776,997	
140.	Non-current assets and disposal groups		-		-
150.	Other assets		169,713,085		121,686,729
Total assets			5,534,309,998		4,317,301,643

Liabilities and Shareholders' Equity

€			Dec. 31, 2005		Dec. 31, 2004
10.	Due to banks		1,132,655,944		619,510,938
20.	Due to customers		3,667,788,012		3,151,862,202
30.	Securities issued		-		4,994,030
40.	Financial liabilities held for trading		61,840,477		3,199,138
50.	Financial liabilities at fair value		-		-
60.	Hedging derivatives		-		-
70.	Changes in value of macro-hedged financial liabilities (+/-)		-		-
80.	Tax liabilities		4,918,621		11,098,288
	a) current	4,918,621		8,966,882	
	b) deferred	-		2,131,406	
90.	Liabilities associated with disposal groups		-		-
100.	Other liabilities		180,690,358		113,189,664
110.	Employee completion-of-service entitlements		9,440,693		8,111,706
120.	Provisions for risks and charges:		50,918,042		26,720,133
	a) severance benefits and similar obligations	-		-	
	b) other provisions	50,918,042		26,720,133	
130.	Valuation reserves		(620)		-
140.	Redeemable shares		-		-
150.	Equity instruments		-		-
160.	Reserves		3,879,735		(326,129)
170.	Share premium account		-		-
180.	Share capital		341,000,000		341,000,000
190.	Treasury shares (-)		-		-
200.	Net profit (loss) for the year (+/-)		81,178,736		37,941,673
Total liabilities and shareholders' equity			5,534,309,998		4,317,301,643

Income Statement

€			Dec. 31, 2005		Dec. 31, 2004
10.	Interest income and similar income		120,517,828		98,545,545
20.	Interest expense and similar charges		(65,851,324)		(51,248,823)
30.	Net interest income		54,666,504		47,296,722
40.	Commission income		332,492,565		307,388,745
50.	Commission expense		(219,471,871)		(184,983,150)
60.	Net commission income		113,020,694		122,405,595
70.	Dividends and similar income		137,638,477		65,893,305
80.	Net income from trading		3,520,518		4,998,293
90.	Net income from hedging		-		-
100.	Gains (losses) on sale or buyback of:		-		-
	a) loans and receivables	-		-	
	b) available-for-sale financial assets	-		-	
	c) held-to-maturity investments	-		-	
	d) financial liabilities	-		-	
110.	Net income from financial assets and financial liabilities at fair value		-		-
120.	Total income		308,846,193		240,593,915
130.	Impairment losses on:		(3,786,457)		(2,098,645)
	a) loans	(3,786,457)		(2,098,645)	
	b) available-for-sale financial assets	-		-	
	c) held-to-maturity investments	-		-	
	d) other financial instruments	-		-	
140.	Net income from financial operations		305,059,736		238,495,270
150.	Administrative expenses		(172,714,609)		(149,782,689)
	a) staff costs	(58,568,606)		(52,109,937)	
	b) other administrative expenses	(114,146,003)		(97,672,752)	
160.	Provisions for risks and charges		(24,298,277)		(8,078,115)
170.	Net write-downs of tangible assets		(4,366,508)		(5,130,340)
180.	Net write-downs of intangible assets		(11,468,987)		(11,426,234)
190.	Other operating income		14,921,503		12,335,709
200.	Operating expenses		(197,926,878)		(162,081,669)
210.	Profit (loss) on equity investments		(29,701,000)		(27,114,000)
220.	Gains (losses) on fair value measurement of of tangible and intangible assets		-		-
230.	Impairment losses on goodwill		-		-
240.	Profit (loss) on disposal of investments		27,244		400
250.	Profit (loss) before tax on continuing operations		77,459,102		49,300,002
260.	Income tax expense on continuing operations		3,719,634		(11,358,329)
270.	Profit (loss) after tax on continuing operations		81,178,736		37,941,673
280.	Profit (loss) after tax of disposal groups		-		-
290.	Net profit (loss) for the year		81,178,736		37,941,673

Cash flow statement

Indirect method

€	Dec. 31, 2005	Dec. 31, 2004
A. OPERATING ACTIVITIES		
1. Operating activities	8,950,109	(40,540,918)
- net profit (loss) for the year	81,178,736	37,941,673
- gains/losses on financial assets held for trading and on financial assets/liabilities at fair value	2,507,388	-
- gains/losses on hedges (+/-)	-	-
- impairment losses/reversals (+/-)	3,786,457	2,098,645
- net write-downs/write-backs of tangible and intangible assets (+/-)	15,823,244	16,728,910
- provisions for risks and charges and other costs/revenues (+/-)	27,111,394	7,464,541
- unpaid taxes (+)	(3,719,634)	11,279,126
- net write-downs/write-backs of disposal groups after taxes (+/-)	-	-
- other adjustments (+/-)	(117,737,477)	(116,053,813)
2. Cash generated/used by financial assets	(1,235,013,004)	30,805,290
- financial assets held for trading	640,221,477	(791,632,923)
- financial assets at fair value	-	-
- available-for-sale financial assets	(325,988)	(103,620)
- loans to banks: on demand	(213,009,174)	(90,561,297)
- loans to banks: other loans	(1,254,511,611)	894,024,540
- loans to customers	(351,925,202)	(7,450,217)
- other assets	(55,462,506)	26,528,807
3. Cash generated/used by financial liabilities	1,142,954,654	97,878,254
- due to banks: other amounts due	513,145,006	41,482,802
- due to customers	515,925,809	41,791,536
- securities issued	(4,994,030)	(4,783,066)
- financial liabilities held for trading	58,641,339	3,185,526
- financial liabilities at fair value	-	-
- other liabilities	60,236,529	16,201,456
Net cash generated by/used in operating activities	(83,108,241)	88,142,626
B. INVESTING ACTIVITIES		
1. Cash from	138,557,758	65,890,620
- sale of equity investments	-	-
- dividends received from equity investments	137,638,476.86	65,890,620.00
- sale of held-to-maturity investments	552,676	-
- sale of tangible assets	74,498	-
- sale of intangible assets	292,107	-
- sale of business lines	-	-
2. Cash used for	(19,062,972)	(119,592,000)
- purchase of equity investments (including contributions to cover losses)	(1,000,000)	(83,535,000)
- purchase of held-to-maturity investments	-	(19,935,000)
- purchase of tangible assets	(6,445,522)	(1,520,000)
- purchase of intangible assets	(11,617,450)	(14,602,000)
- purchase of business lines	-	-
Net cash generated by/used in investing activities	119,494,786	(53,701,380)
C. FINANCING ACTIVITIES		
- issue/purchase of treasury shares (formation of share capital)	-	-
- issue/purchase of equity instruments	-	-
- dividend distribution and other	(35,805,000)	(34,441,000)
Net cash generated by/used in financing activities	(35,805,000)	(34,441,000)
NET CASH GENERATED BY/USED IN FINANCING ACTIVITIES	581,545	246

RECONCILIATION

€	Dec. 31, 2005	Dec. 31, 2004
Cash and cash equivalents at beginning of the year	1,149,943	1,149,697
Total net cash generated /used in the year	581,545	246
Cash and cash equivalents: effect of movements in exchange rates	-	-
Cash and cash equivalents at end of the year	1,731,488	1,149,943

Statement of changes in Shareholders' Equity

€	Balance at Dec 31, 2003	Adjustment to opening balances	Balance at Jan 1, 2004	Appropriation of prior year's profit: Reserves	Appropriation of prior year's profit: Dividends and other
Share capital:					
a) ordinary shares	341,000,000	-	341,000,000	-	-
b) other shares	-	-	-	-	-
Share premium account	-	-	-	-	-
Reserves:					
a) retained earnings	43,785,979	(59,633,378)	(15,847,399)	10,568,765	-
b) others	3,185,042	-	3,185,042	-	-
Valuation reserves					
a) AFS financial assets	-	-	-	-	-
b) cash flow hedges	-	-	-	-	-
c) others	-	-	-	-	-
Equity instruments	-	-	-	-	-
Treasury shares	-	-	-	-	-
Net profit (loss) for the year	45,009,765	-	45,009,765	(10,568,765)	(34,441,000)
Shareholders' equity	432,980,786	-	373,347,408	-	(34,441,000)

€	Balance at Dec. 31, 2004	Adjustment to opening balances	Balance at Jan 1, 2005	Appropriation of prior year's profit: Reserves	Appropriation of prior year's profit: Dividends and other
Share capital:					
a) ordinary shares	341,000,000	-	341,000,000	-	-
b) other shares	-	-	-	-	-
Share premium account	-	-	-	-	-
Reserves:					
a) retained earnings	(3,511,171)	(111,272)	(3,622,443)	2,136,673	-
b) others	3,185,042	-	3,185,042	-	-
Valuation reserves					
a) AFS financial assets	-	(1,830)	(1,830)	-	-
b) cash flow hedges	-	-	-	-	-
c) others	-	-	-	-	-
Equity instruments	-	-	-	-	-
Treasury shares	-	-	-	-	-
Net profit (loss) for the year	37,941,673	-	37,941,673	(2,136,673)	(35,805,000)
Shareholders' equity	378,615,544	-	378,502,442	-	(35,805,000)

	Movements in the year								
		Equity							
	Change in reserves	Share issues	Purchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Treasury shares derivatives	Stock options	Net profit (loss) at Dec. 31, 2004	Shareholders' equity at Dec. 31, 2004
	-	-	-	-	-	-	-	-	341,000,000
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	1,767,463	-	(3,511,171)
	-	-	-	-	-	-	-	-	3,185,042
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-		-	-	-
	-	-	-	-	-	-	-	37,941,673	37,941,673
	-	-	-	-	-	-	1,767,463	37,941,673	378,615,544

	Movements in the year								
		Equity							
	Change in reserves	Share issues	Purchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Treasury shares derivatives	Stock options	Net profit (loss) at Dec. 31, 2005	Shareholders' equity at Dec. 31, 2005
	-	-	-	-	-	-	-	-	341,000,000
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	2,180,463	-	694,693
	-	-	-	-	-	-	-	-	3,185,042
	1,210	-	-	-	-	-	-	-	(620)
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	81,178,736	81,178,736
	1,210	-	-	-	-	-	2,180,463	81,178,736	426,057,851

BANCA MEDIOLANUM S.p.A.

Notes to the Separate Financial Statements for the year ended December 31 2005

Notes to the Financial Statements at December 31, 2005

These notes are structured as follows:

Part A - Accounting policies
Part B - Information on the balance sheet
Part C - Information on the income statement
Part D - Segmental information
Part E - Information on risks and risk management
Part F - Information on equity
Part G - Business combinations
Part H - Related Party Transactions
Part I - Equity-settled share-based payment transactions

PART A - ACCOUNTING POLICIES

A.1 - GENERAL

Section 1 - Compliance with the international accounting and reporting standards

Pursuant to Legislative Decree No. 38 of February 28, 2005 the separate financial statements for the year ended December 31, 2005 were prepared in accordance with the accounting standards issued by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Commission pursuant to the European Parliament and Council Regulation (EC) 1606 of July 19, 2002.
As allowed under art. 4, paragraph 2 of Legislative Decree 38/2005 Banca Mediolanum S.p.A. elected to voluntarily apply international accounting standards also to its separate financial statements as early as 2005 although publicly traded companies and banks are required to do so only in their financial statements at December 31, 2006.
The financial statements for the year ended December 31, 2005 were prepared following the "Instructions for the preparation of the financial statements of companies and the consolidated financial statements of banks and financial companies that are parent companies of banking groups" issued by the Bank of Italy through the Circular Letter No. 262 of December 22, 2005 in the exercise of its powers pursuant to art. 9 of Legislative Decree 38/2005.
By that same Circular Letter the Bank of Italy set forth certain transitional provisions to be applied in the financial statements for the year ended December 31, 2005.
The International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) applied for the first time in the 2005 interim financial statements and in these annual financial statements are markedly different from the Italian GAAP applied up until the 2004 annual financial statements.

An analysis of the impact of the first-time adoption of International Financial Reporting Standards under IFRS 1 is set out in the section "First time adoption of International Financial Reporting Standards" at the end of these notes. In the preparation of the financial statements the bank applied the international accounting standards IAS/IFRS (including SIC and IFRIC interpretations) in effect at December 31, 2005, as adopted by the European Commission and set out in the schedule attached hereto.

Section 2 - Accounting basis

These separate financial statements consist of the Balance Sheet, the Income Statement, the Statement of Changes in Equity, the Statement of Cash Flows and Explanatory Notes in addition to the Directors' Report.
In accordance with art. 5 of Legislative Decree No. 38 of February 28, 2005 the financial statements were prepared using the euro as reporting currency.
The amounts set out in the Accounts are presented in units of euro, while the amounts set out in the Notes and the Directors' Report are presented in thousands of euro except where otherwise stated.
These financial statements were prepared in compliance with the general requirements of IAS 1 and the specific accounting standards adopted by the European Commission, as presented in Section A.2 ("Significant Accounting Policies") herein, as well as in compliance with the underlying assumptions set out in the IASB Framework for the Preparation and Presentation of Financial Statements.
In applying IAS/IFRS no departure was made from requirements therein.

The accounts and the notes also include comparative information for the year ended December 31, 2004. As allowed under IFRS 1, the Mediolanum Group elected not to restate prior period's financial information relating to insurance contracts (IFRS 4) and financial instruments (IAS 39 and IAS 32), which was therefore stated under the previous GAAP.

Specifically, technical reserves, loans and receivables, payables, securities, derivative contracts and equity investments for the year ended December 31, 2004 were measured and recognized under the Italian GAAP applied up until December 31, 2004 as presented in the financial statements for that year. The differences between Italian GAAP and IAS/IFRS are presented in full details in the specific section at the end of these notes.
Due to the marked differences between Italian GAAP and IAS/IFRS the comparative information for financial year 2004 presented in the accounts and in the notes – except for information relating to financial instruments – was reclassified and restated under IAS/IFRS in accordance with the Bank of Italy's Circular Letter 262/2005.

Accounts

Balance Sheet and Income Statement

The Balance Sheet and Income Statement set out items, sub-items and further details ("of which" under the various items and sub-items) in accordance with the Bank of Italy's requirements. Items with a nil balance for both the year under review and the prior year are not indicated. In the income statement, revenues are indicated with no sign, while costs are preceded by a minus.

Statement of changes in Shareholders' Equity

The statement of changes in equity shows the composition of shareholders' equity as well as the movements in the various equity accounts (i.e. share capital, capital reserves, retained earnings, assets and liabilities revaluation reserves and net profit for the year) in the year under review and the prior year. The Bank did not issue any equity instruments other than ordinary shares.

Statement of Cash Flows

The cash flow statement provides information on cash flows for the period under review and the prior period. It is prepared using the indirect method whereby in reporting cash flows from operating activities profit or loss is adjusted for the effects of non-cash transactions.
The cash flows are classified by operating, investing and financing activities.
The cash flows generated in the period are indicated with no sign, while the cash flows used in the period are shown within parentheses.

Content of the Notes

The Notes set out the information required under the Bank of Italy's Circular Letter 262/2005 and the international accounting and reporting standards. The tables of analysis of the various items were prepared taking into account the transitional provisions for financial year 2005 contained in said Circular Letter.
No explanatory note is provided for items with a nil balance for both the year under review and the prior year.
Since the Transitional Provisions contained in the Bank of Italy's Circular Letter 262/2005 set out general requirements for the disclosure of information on risks and risk management, that information, as set out in Section E herein, does not entirely reflect the reporting requirements that pursuant to said regulation will enter into effect when the transition is complete.

Section 3 - Post Balance Sheet Date Events

In the period between the end of financial year 2005 and the date on which these financial statements were approved no event took place which could materially affect the Bank's results of operation or business.

Section 4 - Other information

Information on the business and the results of operation for the year 2005 of the main subsidiaries is set out in the Directors' Report.
The financial statements of Banca Mediolanum S.p.A. were audited by Reconta Ernst & Young S.p.A., as per the resolution passed at the General Meeting of April 21, 2005 whereby Reconta Ernst & Young S.p.A. were appointed as independent auditors for the three-year period 2005- 2007.

Tax consolidation regime

Beginning in 2004 the Parent Company Mediolanum S.p.A. and all Italian companies within the Group have opted for the so-called "tax consolidation regime" introduced by Legislative Decree 344/2003 and regulated under sections 117 to 129 of the Consolidated Income Tax Act. Under said regime the taxable profits or tax losses, including any withholding taxes, tax deductions and tax credits, of all participating Group companies are consolidated into the Parent Company. The Parent Company, as reporting entity, calculates the consolidated taxable profit by adding the taxable profits/tax losses of all participating Group companies to its own taxable profit/tax loss.
By choosing the "tax consolidation" option, participating Group companies calculate their own tax expense, while their taxable profit is consolidated into the Parent Company. In case of tax losses of one or more Group companies against which consolidated taxable profit for the current year is available or against which there is a high probability that future taxable profits will be available, those tax losses are also consolidated into the Parent Company.

A.2 - SIGNIFICANT ACCOUNTING POLICIES

ACCOUNTING POLICIES

Financial assets held for trading

Financial assets held for trading consist of debt securities, equities and trading derivatives with positive fair value.
Financial assets held for trading are initially recognized on the settlement date if they are debt securities and equities, and on the trade date if they are derivatives.
On initial recognition *Financial assets held for trading* are measured at cost, i.e. the fair value of the instrument, without adding directly attributable transaction costs or income.
After initial recognition *Financial assets held for trading* are measured at their fair value.
The fair value of a financial instrument quoted in an active market[1] is determined using its market quotation (bid/ask or average price). If the market for a financial instrument is not active, fair value is determined using estimation and valuation techniques which measure all instrument-related risks and use market data, e.g. the quoted price of instruments with similar characteristics, discounted cash flow analysis, option pricing models, recent comparable transactions.
Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or the financial asset and substantially all the risks and rewards of ownership thereof are transferred.

Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are not classified as Loans and Receivables, Financial Assets Held for Trading or Held-to-Maturity Investments.
In particular, shareholdings that are not held for trading and those that do not qualify as investments in subsidiaries, associates or joint ventures are also classified under this category.

[1] A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Available-for-sale financial assets are initially recognized on the settlement date if they are debt or equity instruments and on trade date if they are loans or receivables.
On initial recognition available-for-sale financial assets are measured at cost, i.e. the fair value of the instrument, plus any directly attributable transaction costs or income. When reclassified out of the Held-to-Maturity Investments category, available-for-sale financial assets are re-measured at their fair value on such reclassification.
After initial recognition available-for-sale financial assets continue to be measured at fair value, and are amortized through profit or loss, while gains or losses arising from a change in their fair value are recognized in a specific equity reserve until the financial asset is derecognized or impaired. At the time of their dismissal or impairment, the cumulative gain or loss previously recognized in equity is recognized in the income statement.
Equity instruments whose fair value cannot be reliably measured as set out above are measured at cost.
At each interim and annual balance sheet date the Group assesses whether there is objective evidence of any impairment loss.
If the fair value of a previously impaired asset increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed and the reversal recognized in the income statement if the asset is a loan or receivable or a debt instrument, and in equity if the asset is an equity instrument. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment loss not been recognized at the date the impairment is reversed.
Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or the financial asset and substantially all the risks and rewards of ownership thereof are transferred.

Held-to-Maturity Investments

Held-to-maturity investments consist of debt securities with fixed or determinable payments and fixed maturity which the Group intends or has the ability to hold to maturity. If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held to maturity, it is reclassified as available-for-sale.
Held-to-maturity investments are initially recognized on settlement date.
Held-to-maturity investments are initially measured at cost, including any directly attributable costs or income. When reclassified out of the available-for-sale financial assets category, the fair value on such reclassification is the value of the amortized cost at which held-to-maturity investments are carried.
After initial recognition held-to-maturity investments are measured at amortized cost using the effective interest method.
Gains or losses of held-to-maturity investments are recognized in the income statement when the financial assets is derecognized or impaired, and through the amortization process.
At each interim and annual reporting date the Group assesses whether there is objective evidence of any impairment loss.
If any such evidence exists, the amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The amount of the impairment loss is recognized in the income statement.
If the value of a previously impaired investment increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed and the reversal recognized in the income statement.

Held-to-maturity investments are derecognized when the contractual rights to the cash flows from the financial asset expire or the financial asset and substantially all the risks and rewards of ownership thereof are transferred.

Loans and receivables

This category includes loans to customers and to banks with fixed or determinable payments, that are not quoted in an active market and that, upon initial recognition, were not classified as available-for-sale.
Loans and receivables also include trade receivables, repurchase agreements and securities purchased under a public offering or private placement, with fixed or determinable payments, that are not quoted in an active market.
A loan or receivable is initially recognized at fair value on the trade date or, in the case of a debt instrument, on the settlement date. The fair value of a loan or receivable is the loaned amount, or the transaction price, including any directly attributable costs or income determinable on the trade date, even if settled at a later date, except for those costs that are reimbursed by the borrower/debtor or are internal administrative costs.
Carryovers and repurchase agreements which entail the obligation for a future resale/repurchase are recognized as funding or lending transactions. Specifically, the amount received for the sale of an asset under an agreement to repurchase it at a future date is recognized in the balance sheet as a debt, while the amount paid for the purchase of an asset under an agreement to resell it at a future date is recognized as a loan.
After initial recognition, loans and receivables are measured at amortized cost. Amortized cost is the amount at which the financial asset is measured on initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, plus or minus any directly attributable costs/income and minus/plus any reduction/reversal for impairment. The effective interest rate is the rate that exactly discounts estimated future cash flows (principal and interest) to the net carrying amount of the asset, i.e. the carrying amount plus/minus any directly attributable costs/income, through the expected life of the asset.
Amortized cost is not applied to short-terms loans and receivables for which the effect of discounting is immaterial. Those loans and receivables are measured at historical cost and the related costs/income are recognized in the income statement over the expected life of the asset. The same measurement method is applied to loans and receivables with no fixed maturity or on demand.
At each interim and annual reporting date the Group assesses whether there is objective evidence of any impairment loss as a result of one or more events that occurred after initial recognition. If there is objective evidence of impairment the loan is classified as "non-performing", "watch-list" or "restructured" in accordance with the instructions issued by the Bank of Italy, which are in line with IAS requirements.
Impaired loans are individually assessed and the amount of the impairment loss is measured as the difference between the asset's carrying amount (measured at amortized cost) at the time of assessment and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.
Future cash flows are estimated taking into account the expected time of recovery, the realizable value of any collaterals as well as any costs of recovery. Future cash flows of loans which are expected to be recovered in the short term are not discounted.
The asset's original effective interest rate remains unchanged over time also in the event of a restructuring as a result of which the interest rate changes or the loan or receivable actually carries no interest.
The amount of the impairment loss is recognized in the income statement.

If the value of a previously impaired loan or receivable increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed and the reversal recognized in the income statement.
The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment loss not been recognized at the date the impairment is reversed.
If no objective evidence of impairment exists for individually assessed loans – i.e. generally, performing loans – those loans are collectively assessed for impairment. For the purpose of a collective evaluation of impairment, loans and receivables are grouped on the basis of similar credit risk characteristics and the related loss probability is estimated using historical loss rates based on observable data at the time of assessment that can reliably estimate the loss probability of each loan group.
Any collectively assessed impairment loss is recognized in the income statement. At each interim and annual reporting date any additional impairment loss or reversal thereof is calculated in relation to the entire portfolio of performing loans on that same date.

Equity investments

This account relates to investments in subsidiaries and associates which are measured at cost.
If there is evidence that an investment may be impaired, its recoverable amount is calculated by estimating the present value of future cash flows expected to be generated by the subsidiary or associate, including the proceeds on the ultimate disposal of the investment.
If the recoverable amount is lower than the carrying amount, the resultant difference is recognized in the income statement.
If the value of a previously impaired investment increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed and the reversal recognized in the income statement.
Equity investments are derecognized when the contractual rights to the cash flows from the investment expire or the investment and substantially all the risks and rewards of ownership thereof are transferred.

Tangible assets

Tangible assets include land, Group-occupied property, investment property, furnishings, fixtures, fittings, plant and equipment.
These are tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one period.
This account also includes assets held under finance leases even when the lessor retains title thereof.
Tangible assets are initially recognized at cost, which comprises the purchase price of the asset and all costs directly attributable to the asset's acquisition and operation.
The costs of major repairs which increase the future economic benefits associated with the asset are recognized in the carrying amount of the asset, while the costs of day-to-day servicing are recognized in the income statement.

Tangible assets, including investment property, are carried at cost less any accumulated depreciation and impairment losses.
Tangible assets are systematically depreciated on a straight-line basis over their useful lives except for land, be it acquired separately or together with buildings, which has an indefinite useful life. Under the international accounting standards land and buildings are separable assets and are to be accounted for separately. When the value of land is embedded in the value of the building, only for land on which a building stands, their respective value is determined by independent valuers.
At each interim and annual reporting date if there is an indication that an asset may be impaired the carrying amount of the asset is compared to its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset. If the recoverable amount of an asset is less than its carrying amount, the carrying amount is reduced to its recoverable amount. Any reduction is recognized as impairment loss in the income statement.
If the value of a previously impaired asset increases, the impairment loss is reversed. The reversal shall not result in a carrying amount of the asset that exceeds what the carrying amount less accumulated depreciation would have been had the impairment loss not been recognized at the date the impairment is reversed.
A tangible asset is derecognized from the balance sheet on disposal or when no future economic benefits are expected from its use or disposal.

Intangible assets

Intangible assets include expenditure on the renovation of leasehold property and the costs of software used over more than one year.
Expenditure on the renovation of leasehold property is capitalized since during the lease term the lessee controls the assets and obtains future economic benefits from them.
Other intangible assets are recognized if they are identifiable as such and arise from contractual or other legal rights.
Other intangible assets are carried at cost less any accumulated amortization and impairment losses only if it is probable that future economic benefits attributable to the asset will flow to the entity and the cost of the asset can be measured reliably, otherwise it is recognized as an expense in the income statement in the year in which it was incurred.
Intangible assets are amortized on a straight-line basis over their useful lives. Intangible assets with indefinite useful lives are not amortized, but periodically tested for impairment by comparing their recoverable amount with their carrying amount. Expenditure on the renovation of leasehold property is amortized over a period which does not exceed the lease term.
At each reporting date, if there is evidence of impairment, the recoverable amount of the asset is estimated. If the recoverable amount of the asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss. The impairment loss is recognized in profit or loss.
An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal.

Financial liabilities held for trading

Financial liabilities held for trading include:

- trading derivatives with negative fair value;
- short positions on securities trading.

Financial liabilities are initially recognized at the time the policy is issued or amounts are received.
They are initially measured at the fair value of the assets under the contract, i.e. generally the issue price of the underlying assets.
The fair value of any financial liabilities issued below market value is subject to assessment and the difference over market value is directly recognized in the income statement.
After initial recognition, financial liabilities are measured at fair value.
A financial liability is derecognized when it expires or is extinguished.

Other financial liabilities

Other financial liabilities include the various forms of funding from banks and customers as well as bonds issued net of any buybacks .
Those financial liabilities are initially recognized when amounts are received or bonds are issued.
They are initially measured at fair value, i.e. generally the amount received or the issue price, plus any additional costs/ income directly attributable to the individual funding transaction or bond issue and not reimbursed by the creditor. Internal administrative costs are not added.
The fair value of any financial liabilities issued below market value is subject to assessment and the difference over market value is directly recognized in the income statement.
After initial recognition, financial liabilities are measured at amortized cost using the effective interest method except for short-term liabilities for which the time value of money is immaterial that are measured on the basis of the contractual cash flows and related costs are recognized in the income statement over the contractual term of the liability.
A financial liability is derecognized when it expires or is extinguished. A financial liability is derecognized also when it is bought back. The difference between the carrying amount of the liability and amount paid to buy it back is recognized in the income statement.

Provisions for risks and charges

Provisions for risks and charges relate to amounts set aside for present obligations resulting from a past event for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, provided that a reliable estimate can be made of the obligation.
When the effect of the time value of money is material, the amount of the provision is discounted at current market rates. Provisions for risk and charges are recognized in the income statement.

Employee completion-of-service entitlements

Completion-of-service entitlements are recognized at the present value of the benefit obligations calculated using actuarial techniques.
To determine the present value of benefit obligations the Projected Unit Credit Method is used. That method calculates the present value of benefit obligations using actuarial assumptions based on historical data including demographics and a discount rate which is determined on the basis of market yields. The methods considers each year of service as giving rise to an additional unit of benefit entitlements. Each unit is individually measured in arriving at the final obligation. The discount rate is determined on the basis of market yields and reflects the estimated timing of benefit payments.
Service costs are recognized under staff costs as the net total of current service costs, past service costs, interest and expected return on any plan assets and actuarial gains or losses.

Employee pension plan

For the defined contribution pension plan under which the company's obligation is limited to the amount it agrees to contribute to the fund, the amount of the contribution payable for the year is recognized in the income statement.

Assets and liabilities denominated in foreign currencies

Assets and liabilities denominated in foreign currencies are initially recognized in the functional currency, applying to the foreign currency amount the exchange rate in effect at the date of the transaction.
At each interim or annual reporting date, assets and liabilities denominated in foreign currencies are measured as follows:

- monetary items are translated using the closing rate;
- non-monetary items measured at historical cost are translated applying the exchange rate in effect at the date of the transaction;
- non-monetary items measured at fair value are translated applying the exchange rate in effect at the reporting date.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognized in the income statement in the period in which they arise.
When a gain or loss on a non-monetary item is recognized directly in equity, the exchange difference component of that gain or loss is also recognized in equity. Conversely, when a gain or loss on a non-monetary item is recognized in the income statement, the exchange difference component of that gain or loss is also recognized in the income statement.

Tax assets and liabilities

The Bank recognizes current and deferred taxes applying the tax rates in effect in the countries where consolidated subsidiaries are incorporated.
Income taxes are recognized in the income statement except for items which are credited/charged directly to equity. Provisions for income taxes are calculated on the basis of conservative estimates of the current and deferred tax expense. Deferred taxes are computed in respect of the temporary differences, with no time limit, arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.
Deferred tax assets are recorded to the extent that there is reasonable certainty they will be recovered, i.e. to the extent that the company – or the Parent Company under Italy's tax consolidation regime – is expected to continue to generate sufficient taxable income against which temporary differences can be utilized.
Deferred tax assets and deferred tax liabilities are not netted, and are separately recognized in the Balance Sheet under "Tax assets" and "Tax liabilities" respectively.
Deferred tax assets and deferred tax liabilities are systematically re-measured to reflect any changes either in tax rules or tax rates as well as any possible changes in the company's tax position.
The provision for tax claims relates to tax payments which may become due as a result of pending tax audits or disputes with tax authorities.

Share-based payments

Stock options are share-based payments. Their fair value, and the corresponding increase in equity, is determined by reference to the fair value of the stock option at the grant date.
The fair value of the stock option is determined using a valuation technique that takes into account the specific terms and conditions of the stock option plan in place, in addition to information such as the exercise price and the life of the option, the current price of underlying shares, the expected volatility of the share price, dividends expected on the shares and the risk-free interest rate for the life of the option. The pricing model separately measures the stock option and the probability that the market conditions upon which vesting is conditioned be satisfied. The combination of the two values is the fair value of the stock option.

Income Statement

Revenue is recognized when received or when it is probable that future economic benefits will flow to the entity and the amount of those benefits can be measured reliably.
Specifically:
- commissions are measured on an accrual basis;
- dividends are recognized in the income statement when their distribution to shareholders is established;
- any default interests, in accordance with the terms of the relevant agreement, are recognized in the income statement only when actually received.

PART B - INFORMATION ON THE BALANCE SHEET

ASSET

Section 1 - Cash and cash equivalents - Caption 10

1.1 Analysis of cash and cash equivalents

€/'000	Dec. 31, 2005	Dec. 31, 2004
a) Cash	1,731	1,150
b) Demand deposits with Central Banks	-	-
Total	1,731	1,150

Cash and cash equivalents amount to €1,731 thousand, of which €301 thousand in foreign currencies. Cash and cash equivalents consist of cash balances in euro and foreign currencies held at the Milano 3 branch as well as banknotes at ATMs located at the Head Office and at the offices of Banca Mediolanum financial advisors.

Section 2 - Financial assets held for trading - Caption 20

2.1 Analysis of financial assets held for trading

	Dec. 31, 2005		Dec. 31, 2004	
€/'000	Listed	Unlisted	Listed	Unlisted
A. Non-derivatives				
1. Debt securities	1,023,136	67,202	1,587,076	142,877
1.1 structured notes	-	-	-	-
1.2 other debt securities	1,023,136	67,202	1,587,076	142,877
2. Equities	-	9	4	22
3. Holdings in UCITS	-	-	-	-
4. Loans	-	-	-	-
4.1 repurchase agreements	-	-	-	-
4.2 others	-	-	-	-
5. Impaired assets	-	-	-	-
6. Assets sold but not derecognized	-	-	-	-
Total A	1,023,136	67,211	1,587,080	142,899
B. Derivatives				
1. Financial derivatives:	-	5,221	-	5,810
1.1 held for trading	-	5,221	-	5,810
1.2 measured at fair value	-	-	-	-
1.3 others	-	-	-	-
2. Credit derivatives:	-	-	-	-
2.1 held for trading	-	-	-	-
2.2 measured at fair value	-	-	-	-
2.3 others	-	-	-	-
Total B	-	5,221	-	5,810
Total (A+B)	1,023,136	72,432	1,587,080	148,709

2.2 Analysis of financial assets held for trading by debtor/issuer

€/'000	Dec. 31, 2005	Dec. 31, 2004
A. Non-derivatives		
1. Debt securities	1,090,338	1,729,953
a) Governments and Central Banks	692,324	765,594
b) Government agencies	-	-
c) Banks	198,325	340,519
d) Other issuers	199,689	623,840
2. Equities	9	26
a) Banks	-	4
b) Other issuers:	9	22
- insurance companies	-	-
- financial companies	-	-
- non financial companies	9	-
- others	-	22
3. Holdings in UCITS	-	-
4. Loans	-	-
a) Governments and Central Banks	-	-
b) Government agencies	-	-
c) Banks	-	-
d) Other issuers	-	-
5. Impaired assets	-	-
a) Governments and Central Banks	-	-
b) Government agencies	-	-
c) Banks	-	-
d) Other issuers	-	-
6. Assets sold but not derecognized	-	-
a) Governments and Central Banks	-	-
b) Government agencies	-	-
c) Banks	-	-
d) Other issuers	-	-
Total A	1,090,347	1,729,979
B. Derivatives		
a) Banks	4,842	5,810
b) Customers	379	-
Total B	5,221	5,810
Total (A+B)	1,095,568	1,735,789

2.3 Analysis of financial assets held for trading: derivatives

€/'000	Interest rates	Currencies and gold	Equities	Loans	Other	Dec. 31, 2005	Dec. 31, 2004
A. Listed derivatives							
1. Financial derivatives:							
With exchange of principal							
- Options purchased	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-
Without exchange of principal							
- Options purchased	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-
2. Credit derivatives:							
With exchange of principal	-	-	-	-	-	-	-
Without exchange of principal	-	-	-	-	-	-	-
Total A	-	-	-	-	-	-	-
B. Unlisted derivatives							
1. Financial derivatives:							
With exchange of principal							
- Options purchased	-	-	-	-	-	-	-
- Other derivatives	-	2,919	-	-	-	2,919	-
Without exchange of principal							
- Options purchased	-	-	-	-	-	-	-
- Other derivatives	2,302	-	-	-	-	2,302	5,810
2. Credit derivatives:							
With exchange of principal	-	-	-	-	-	-	-
Without exchange of principal	-	-	-	-	-	-	-
Total B	2,302	2,919	-	-	-	5,221	5,810
Total (A+B)	2,302	2,919	-	-	-	5,221	5,810

Section 4 - Available-for-sale financial assets - Caption 40

4.1 Analysis of available-for-sale financial assets

	Dec. 31, 2005		Dec. 31, 2004	
€/000	Listed	Unlisted	Listed	Unlisted
1. Debt securities	-	-	-	-
1.1 Structured notes	-	-	-	-
1.2 Other debt securities	-	-	-	-
2. Equities	10	517	11	190
2.1 Measured at fair value	10	-	-	-
2.2 Measured at cost	-	517	11	190
3. Holdings in UCITS	-	-	-	-
4. Loans	-	-	-	-
5. Impaired assets	-	-	-	-
6. Assets sold but not derecognized	-	-	-	-
Total	10	517	11	190

4.2 Analysis of available-for-sale financial assets by debtor/issuer

€/'000	Dec. 31, 2005	Dec. 31, 2004
1. Debt securities	-	-
a) Governments and Central Banks	-	-
b) Government agencies	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Equities	527	201
a) Banks	-	-
b) Other issuers:	527	201
- insurance companies	-	-
- financial companies	493	167
- non financial companies	34	34
- others	-	-
3. Holdings in UCITS	-	-
4. Loans	-	-
a) Governments and Central Banks	-	-
b) Government agencies	-	-
c) Banks	-	-
d) Other issuers	-	-
5. Impaired assets	-	-
a) Governments and Central Banks	-	-
b) Government agencies	-	-
c) Banks	-	-
d) Other issuers	-	-
6. Assets sold but not derecognized	-	-
a) Governments and Central Banks	-	-
b) Government agencies	-	-
c) Banks	-	-
d) Other issuers	-	-
Total	527	201

4.5 Year's movements in available-for-sale financial assets other than those sold and not derecognized and other than impaired assets

€/'000	Debt securities	Equities	Holdings in UCITS	Loans	Total
A. Opening balance	-	198	-	-	198
B. Increases	-	329	-	-	329
B1. Increases	-	327	-	-	327
B2. Increases in fair value	-	2	-	-	2
B3. Write-backs	-	-	-	-	-
- through profit or loss					
- in equity					
B4. Reclassified from other portfolios	-	-	-	-	-
B5. Other	-	-	-	-	-
C. Decreases	-	-	-	-	-
C1. Disposals	-	-	-	-	-
C2. Redemptions	-	-	-	-	-
C3. Decreases in fair value	-	-	-	-	-
C4. Impairment losses	-	-	-	-	-
- through profit or loss					
- in equity					
C5. Reclassified to other portfolios	-	-	-	-	-
C6. Other	-	-	-	-	-
D. Closing balance	-	527	-	-	527

Section 5 - Held-to-maturity investments - Caption 50

5.1 Analysis of held-to-maturity investments

	Dec. 31, 2005		Dec. 31, 2004	
€/'000	Book Value	Fair value	Book Value	Fair value
1. Debt securities	498,989	499,134	499,542	496,777
1.1 Structured notes	-	-	-	-
1.2 Other debt securities	498,989	499,134	499,542	496,777
2. Loans	-	-	-	-
3. Impaired assets	-	-	-	-
4. Assets sold but not derecognized	-	-	-	-
Total	498,989	499,134	499,542	496,777

5.2 Analysis of held-to-maturity investments by debtor/issuer

€/'000	Dec. 31, 2005	Dec. 31, 2004
1. Debt securities	498,989	499,542
a) Governments and Central Banks	488,733	489,351
b) Government agencies	-	-
c) Banks	10,256	10,191
d) Other issuers	-	-
2. Loans	-	-
a) Governments and Central Banks	-	-
b) Government agencies	-	-
c) Banks	-	-
d) Other issuers	-	-
3. Impaired assets	-	-
a) Governments and Central Banks	-	-
b) Government agencies	-	-
c) Banks	-	-
d) Other issuers	-	-
4. Assets sold but not derecognized	-	-
a) Governments and Central Banks	-	-
b) Government agencies	-	-
c) Banks	-	-
d) Other issuers	-	-
Total	498,989	499,542

Section 6 - Loans to banks - Caption 60

6.1 Analysis of loans to banks

€/'000	Dec. 31, 2005	Dec. 31, 2004
A. Central Banks	1,917	3,128
1. Time deposits	-	-
2. Reserve requirements	1,917	3,128
3. Repurchase agreements	-	-
4. Other	-	-
B. Banks	2,683,743	1,215,011
1. Current accounts and demand deposits	350,996	137,987
2. Time deposits	2,202,438	1,054,551
3. Others:	130,309	22,473
3.1 repurchase agreements	124,800	16,920
3.2 finance leases	-	-
3.3 other	5,509	5,553
4. Debt securities	-	-
4.1 structured notes	-	-
4.2 other debt securities	-	-
5. Impaired assets	-	-
6. Assets sold but not derecognized	-	-
Total (book value)	2,685,660	1,218,139
Total (fair value)	2,685,660	1,218,139

Section 7 - Loans to customers - Caption 70

7.1 Analysis of loans to customers

€/'000	Dec. 31, 2005	Dec. 31, 2004
1. Current accounts	197,974	164,880
2. Repurchase agreements	43,565	-
3. Mortgage loans	125,367	12,879
4. Credit cards, personal loans and salary-guaranteed loans	40,687	38,559
5. Finance leases	-	-
6. Factoring	-	-
7. Other	303,133	152,524
8. Debt securities	-	-
8.1 structured notes	-	-
8.2 other debt securities	-	-
9. Impaired assets	10,874	833
10. Assets sold but not derecognized	-	-
Total (book value)	721,600	369,675
Total (fair value)	739,005	369,675

7.2 Analysis of customer loans by borrower category

€/'000	Dec. 31, 2005	Dec. 31, 2004
1. Debt securities:	-	-
a) Governments	-	-
b) Government agencies	-	-
c) Other issuers	-	-
- non financial companies	-	-
- financial companies	-	-
- insurance companies	-	-
- others	-	-
2. Loans:	710,726	368,836
a) Governments	-	-
b) Government agencies	-	-
c) Others	710,726	368,836
- non financial companies	15,033	17,325
- financial companies	357,739	150,461
- insurance companies	1	2
- others	337,953	201,048
3. Impaired assets:	10,874	839
a) Governments	-	-
b) Government agencies	-	-
c) Others	10,874	839
- non financial companies	327	-
- financial companies	-	-
- insurance companies	-	-
- others	10,547	839
4. Assets sold but not derecognized:	-	-
a) Governments	-	-
b) Government agencies	-	-
c) Others	-	-
- non financial companies	-	-
- financial companies	-	-
- insurance companies	-	-
- others	-	-
Total	721,600	369,675

At December 31, 2005 *Impaired Assets* amounted to €10,874 thousand, of which €9,769 thousand related to debtors who were past due more than 180 days. Up until December 31, 2004 those positions were classified as performing loans. The new classification is in compliance with the new rules introduced by the Bank of Italy in June 2005 whereby the central bank adhered to the definition of default under the Basel 2 Capital Accord and required the reclassification of positions past due more than 90/180 days.

Section 10 - Equity investments - Caption 100

10.1 Subsidiaries, joint ventures and companies over which significant influence is exercised

€/'000	Registered Office	% holding	% voting rights
A. Subsidiaries			
Mediolanum International S.A.	Luxembourg	99.997	99.997
Mediolanum Gestione Fondi SGR p.A.	Basiglio	51.00	51.00
Mediolanum International Funds Ltd	Dublin	51.00	51.00
Mediolanum Asset Management Ltd	Dublin	51.00	51.00
Bankhaus August Lenz & Co. AG	Munich	100.00	100.00
Banco de Finanzas e Inversiones S.A. (Fibanc)	Barcelona	100.00	100.00
Mediolanum Distribuzione Finanziaria S.p.A.	Basiglio	100.00	100.00
B. Joint ventures		-	-
C. Companies under significant influence		-	-

10.2 Subsidiaries, joint ventures and companies over which significant influence is exercised: key financial information

€/'000	Total assets	Total revenues	Net profit (loss)	Shareholders' equity	Book value
A. Subsidiaries					
Mediolanum International S.A.	71,401	496	(793)	46,619	46,620
Bankhaus August Lenz & Co. AG	56,879	19,780	(8,805)	26,025	29,885
Banco de Finanzas e Inversiones S.A. (Fibanc)	521,250	58,967	760	60,942	200,617
Mediolanum Gestione Fondi SGR p.A.	32,459	57,312	9,240	20,638	2,610
Mediolanum International Funds Ltd	94,300	344,780	204,883	72,423	1,346
Mediolanum Asset Management Ltd	6,911	8,222	4,948	5,848	459
Mediolanum Distribuzione Finanziaria S.p.A.	1,081	56	(111)	889	1,000
Total subsidiaries	-	-	-	-	282,537
B. Joint ventures	-	-	-	-	-
C. Companies under significant influence	-	-	-	-	-

10.3 Year's movements in equity investments

€/'000	Dec. 31, 2005	Dec. 31, 2004
A. Opening balance	301,438	245,121
B. Increases	10,800	83,431
B1. Acquisitions	1,000	71,631
B2. Write-backs	-	-
B3. Revaluations	-	-
B4. Other increases	9,800	11,800
C. Decreases	(29,701)	(27,114)
C1. Sales	-	-
C2. Write-downs	(29,701)	(27,114)
C4. Other decreases	-	-
D. Closing balance	282,537	301,438
E. Total revaluations	-	-
F. Total adjustments	97,301	67,600

Section 11 - Tangible assets - Caption 110

11.1 Analysis of tangible assets carried at cost

€/'000	Dec. 31, 2005	Dec. 31, 2004
A. Occupied/used		
1.1 Owned	22,879	17,764
a) land	5,440	5,440
b) buildings	6,084	6,327
c) furnishings	681	569
d) electronic equipment	9,684	4,604
e) other	990	824
1.2 Under finance leases	-	-
a) land	-	-
b) buildings	-	-
c) furnishings	-	-
d) electronic equipment	-	-
e) other	-	-
Total A	22,879	17,764
B. Held for investment purposes		
2.1 Owned	-	-
a) land	-	-
b) buildings	-	-
2.2 Under finance leases	-	-
a) land	-	-
b) buildings	-	-
Total B	-	-
Total (A+B)	22,879	17,764

11.3 Year's movements in occupied/used tangible assets

€/'000	Land	Buildings	Furnishings	Electronic equipment	Other	Total
A. Gross opening balance	5,440	8,072	2,982	27,966	2,770	47,230
A.1 Total net write-downs	-	(1,745)	(2,413)	(23,362)	(1,946)	(29,466)
A.2 Net opening balance	5,440	6,327	569	4,604	824	17,764
B. Increases:	-	-	310	8,778	530	9,618
B.1 Additions	-	-	310	5,605	530	6,445
B.2 Capitalized improvement costs	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Increases in fair value						
a) in equity	-	-	-	-	-	-
b) through profit or loss	-	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Reclassified from investment property	-	-	-	-	-	-
B.7 Other increases	-	-	-	3,173	-	3,173
C. Decreases:	-	(243)	(198)	(3,698)	(364)	(4,503)
C.1 Disposals (net value)	-	-	(3)	(71)	-	(74)
C.2 Depreciation	-	(243)	(195)	(3,627)	(302)	(4,367)
C.3 Impairment losses						
a) in equity	-	-	-	-	-	-
b) through profit or loss	-	-	-	-	-	-
C.4 Decreases in fair value						
a) in equity	-	-	-	-	-	-
b) through profit or loss	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Reclassified to:						
a) tangible assets held for investment purposes	-	-	-	-	-	-
b) assets held for sale	-	-	-	-	-	-
C.7 Other decreases	-	-	-	-	(62)	(62)
D. Net closing balance	5,440	6,084	681	9,684	990	22,879
D.1 Total net write-downs	-	(1,988)	(2,561)	(20,739)	(2,221)	(27,509)
D.2 Gross closing balance	5,440	8,072	3,242	30,423	3,211	50,388
E. Measured at cost	-	-	-	-	-	-

Tangible assets with unit value lower than €516.46 were fully depreciated in the year and amounted to €123 thousand. For higher value assets acquired during the financial year, the depreciation rate was reduced by 50% to reflect partial use during the year.

Section 12 - Intangible assets - Caption 120

12.1 Analysis of intangible assets

€/'000	Dec. 31, 2005 Finite life	Dec. 31, 2005 Indefinite life	Dec. 31, 2004 Finite life	Dec. 31, 2004 Indefinite life
A.1 Goodwill	-	-	-	-
A.2 Other intangible assets	14,317	-	17,580	-
A.2.1 Measured at cost:	14,317	-	17,580	-
a) internally generated assets	-	-	-	-
b) other assets	14,317	-	17,580	-
A.2.2 Measured at fair value:	-	-	-	-
a) internally generated assets	-	-	-	-
b) other assets	-	-	-	-
Total	14,317	-	17,580	-

12.2 Year's movements in intangible assets

€/'000	Goodwill	Other intangible assets: internally generated Finite	Other intangible assets: internally generated Indefinite	Other intangible assets: other Finite	Other intangible assets: other Indefinite	Total
A. Opening balance	-	-	-	92,282	-	92,282
A.1 Total net write-downs	-	-	-	(74,702)	-	(74,702)
A.2 Net opening balance	-	-	-	17,580	-	17,580
B. Increases	-	-	-	15,661	-	15,661
B.1 Additions	-	-	-	11,618	-	11,618
B.2 Increases in internal assets	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Increases in fair value	-	-	-	-	-	-
- in equity	-	-	-	-	-	-
- through profit or loss	-	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Other increases	-	-	-	4,043	-	4,043
C. Decreases:	-	-	-	(18,924)	-	(18,924)
C.1 Disposals	-	-	-	-	-	-
C.2 Write-downs	-	-	-	(11,469)	-	(11,469)
- Amortization	-	-	-	(11,400)	-	(11,400)
- Impairment losses	-	-	-	(69)	-	(69)
+ in equity	-	-	-	-	-	-
+ through profit or loss	-	-	-	(69)	-	(69)
C.3 Decreases in fair value	-	-	-	-	-	-
- in equity	-	-	-	-	-	-
- through profit or loss	-	-	-	-	-	-
C.4 Reclassified to non-current assets						-
held for sale	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Other decreases	-	-	-	(7,455)	-	(7,455)
D. Net closing balance	-	-	-	14,317	-	14,317
D.1 Total net write-downs	-	-	-	(83,613)	-	(83,613)
E. Gross closing balance	-	-	-	97,930	-	97,930
F. Measured at cost	-	-	-	-	-	-

Section 13 - Tax assets and liabilities - Caption 130 (assets) and Caption 80 (liabilities)

"Current tax assets" include tax advances amounting to €3,728 thousand and withholding taxes of €9,895 thousand paid during 2005. Since the Bank opted for the tax consolidation regime, IRES corporate income tax debits/credits will be consolidated into the parent company Mediolanum S.p.A. for the purpose of consolidated tax reporting.

13.1/13.2 Analysis of deferred tax assets and liabilities

€/'000	FY 2005 Temporary differences	FY 2005 Tax rate %	FY 2004 Temporary differences	FY 2004 Tax rate %
Deferred tax assets:				
Impairment losses on intagible assets	15,521	33.00%	23,281	33.00%
Provisions for risks and charges	53,589	33.00%	28,005	33.00%
Expenses deductible in future years	940	33.00%	10	33.00%
Expenses deductible in future years	10,587	38.25%	7,598	38.25%
Total	80,637		58,894	
Deferred tax liabilities:				
Income taxable in future years	-	33.00%	3,242	33.00%
Commission income taxable in future years	-	38.25%	308	38.25%
Total	-		3,550	
Net deferred tax liabilities (assets)		27,166		18,646
Deferred tax assets arisen on tax losses for the year	-		-	
Deferred tax assets arisen on tax losses for the prior year	-		-	
Temporary differences excluded from the calculation deferred tax liabilities (assets):	-		-	
Tax losses to carry forward:	-		-	
Net amount		-		-

€/'000	Dec 31, 2005	Dec. 31, 2004
Deferred tax assets		
charge to the income statement	27,166	20,777
charge to equity	-	-
Total deferred tax assets	27,166	20,777
Deferred tax liabilities		
charge to the income statement	-	(2,131)
charge to equity	-	-
Total deferred tax liabilities	-	(2,131)

At December 31, 2005 there were no deferred tax liabilities.

13.3 Year's movements in deferred tax assets (charge to the income statement):

€/'000	Dec. 31, 2005	Dec. 31, 2004
1. Opening balance	20,777	24,452
2. Increases	14,778	7,685
2.1 Deferred tax assets arisen in the year	14,778	7,685
a) relating to prior years	-	-
b) due to changes in the accounting policies	-	1,525
c) write-backs	14,778	6,160
d) other	-	-
2.2 New taxes or increased tax rates	-	-
2.3 Other increases	-	-
3. Decreases	(8,389)	(11,360)
3.1 Deferred tax assets cancelled in the year	(8,389)	(11,360)
a) reversals	(8,389)	(11,360)
b) write-offs of non-recoverable amounts	-	-
c) changes in the accounting policies	-	-
3.2 Reduced tax rates	-	-
3.3 Other decreases	-	-
4. Other decreases	27,166	20,777

13.4 Year's movements in deferred tax liabilities (charge to the income statement)

€/'000	Dec. 31, 2005	Dec. 31, 2004
1. Opening balance	2,131	4,301
2. Increases	-	1,179
2.1 Deferred tax liabilities arisen in the year	-	1,179
a) relating to prior years	-	-
b) due to changes in the accounting policies	-	
c) other	-	1,179
2.2 New taxes or increased tax rates	-	-
2.3 Other increases	-	-
3. Decreases	(2,131)	(3,349)
3.1 Deferred tax liabilities cancelled in the year	(2,131)	(3,349)
a) reversals	(2,131)	(3,349)
b) changes in the accounting policies	-	-
c) other	-	-
3.2 Reduced tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	-	2.131

Section 15 - Other assets - Caption 150

15.1 Analysis of other assets

€/'000	Dec. 31, 2005	Dec. 31, 2004
Items in transit	81,387	34,585
Commissions outstanding	49,214	42,422
Receivables from financial advisors	8,508	6,289
Commissions and expenses to be recovered from customers	8,385	7,555
Receivables from tax authorities	7,799	12,721
Receivables from the parent company, subsidiaries and associates	4,829	6,013
Other receivables	4,048	5,701
Other receivables from former financial advisors	1,990	1,993
Prepayments	1,758	2,813
Advances to suppliers	1,600	1,400
Receivables from companies of the Fininvest & the Doris Groups	195	195
Total	169,713	121,687

"*Items in transit*" primarily relate to utilities payments not yet due to be debited to customers (€36,937 thousand), checks debited to customers in the first days of 2006 (€26,033 thousand), mortgage loans extended in the first days of 2006 (€3,268 thousand) and miscellaneous items settled in January 2006 (€15,149 thousand).

"*Commissions outstanding*" substantially relate to commissions receivable for the distribution of products and services on behalf of Mediolanum S.p.A., Mediolanum Gestione Fondi SGR p.A., Mediolanum International Funds Ltd and Mediolanum International Life Ltd.
An analysis of said commissions, including comparative information for the year ended December 31, 2004, is set out in the table below:

€/'000	Dec. 31, 2005	Dec. 31, 2004
Mediolanum S.p.A.	39,502	36,256
Mediolanum International Funds Ltd	4,812	3,378
Mediolanum International Life Ltd	3,122	2,225
Mediolanum Gestione Fondi SGR p.A.	1,742	547
Others	36	16
Total	49,214	42,422

"*Receivables from financial advisors*" primarily relate to commission advances for a total of €11,828 thousand which were written-down by €3,321 thousand.

An analysis of "*Receivables from tax authorities*", including prior year's comparative information, is set out in the table below:

€/'000	Dec. 31, 2005	Dec. 31, 2004
Prepaid stamp duties	7,763	7,159
Miscellaneous taxes/ other receivables	14	5,562
VAT	22	-
Total	7,799	12,721

"*Prepaid stamp duties*" essentially consist of stamp duties paid in December 2005 and relating to the year 2006.

"*Receivables from Mediolanum Group companies*" and "*Receivables from companies of the Fininvest Group and the Doris Group*" relate to the following companies:

€/'000	Dec. 31, 2005	Dec. 31, 2004
Mediolanum Group companies:	4,829	6,013
parent company:		
- Mediolanum S.p.A.	414	272
subsidiaries:		
- Mediolanum International Funds Ltd	81	147
- Mediolanum Gestione Fondi SGR p.A.	1,092	1,524
- Mediolanum Distribuzione Finanziara	120	-
associates:		
- Mediolanum Vita S.p.A.	2,090	3,021
- Partner Time S.p.A.	533	643
- Mediolanum Comunicazione S.p.A.	383	329
- Mediolanum International Life Ltd	85	47
- PI Distribuzione S.p.A.	31	30
Fininvest Group and Doris Group:	195	195
- Mediolanum Assicurazioni S.p.A.	183	193
- Arnoldo Mondadori Editore S.p.A.	-	2
- Publitalia '80 S.p.A.	12	-

"*Receivables from former financial advisors*" relate to the expenses borne to compensate customers who were damaged as a result of the misconduct of former financial advisors against whom legal actions are underway. The amount receivable carried at the nominal value of €5,197 thousand written down by €3,207 thousand represents the estimated realizable value calculated taking into account the insurance coverage for those risks.

"*Prepayments*" relate to insurance premiums amounting to €52 thousand and miscellaneous services amounting to €1,706 thousand which pertain to future years.

"*Advances to suppliers*" essentially consists of advances paid at the time the related service agreements were entered into.

"*Other receivables*" include expenses relating to different years for improvements to leasehold assets (€179 thousand), advances to employees and contract workers (€207 thousand), security deposits (€326 thousand) and receivables from Directors (€163 thousand).

LIABILITIES

Section 1 - Amounts due to banks - Caption 10

1.1 Analysis of amounts due to banks

€/'000	Dec. 31, 2005	Dec. 31, 2004
1. Central banks	600,002	287,005
2. Banks	532,654	332,506
2.1 Current accounts and demand deposits	167,323	155,979
2.2 Time deposits	205,508	176,499
2.3 Loans	159,823	28
2.3.1 finance leases	-	-
2.3.2 other	159,823	28
2.4 Commitments to buy back own equity instruments		
2.5 Liabilities in connection with assets sold but not derecognized	-	-
2.5.1 repurchase agreements	-	-
2.5.2 other	-	-
2.6 Other amounts due	-	-
Total	1,132,656	619,511
Fair value	1,132,656	619,511

"*Other loans*" relate to repurchase agreements with primary banks on the books at the balance sheet date.

Section 2 - Amounts due to customers - Caption 20

2.1 Analysis of amounts due to customers

€/'000	Dec. 31, 2005	Dec. 31, 2004
1. Current accounts and demand deposits	3,503,863	3,001,858
2. Time deposits	-	-
3. Third party assets under administration	-	-
4. Loans	161,757	150,004
4.1 finance leases	-	-
4.2 other	161,757	150,004
5. Commitments to buy back own equity instruments	-	-
6. Liabilities in connection with assets sold but not derecognized	-	-
6.1 repurchase agreements	-	-
6.2 other	-	-
7. Other amounts due	2,168	-
Total	3,667,788	3,151,862
Fair value	3,667,788	3,151,862

Section 3 - Securities Issued - Caption 30

3.1 Analysis of securities issued

	Dec. 31, 2005		Dec. 31, 2004	
€/'000	Book value	Fair value	Book value	Fair value
A. Listed securities	-	-	-	-
1. Bonds	-	-	-	-
1.1 structured notes	-	-	-	-
1.2 others	-	-	-	-
2. Other securities	-	-	-	-
2.1 structured notes	-	-	-	-
2.2 others	-	-	-	-
B. Unlisted securities				
1. Bonds	-	-	4,994	4,994
1.1 structured notes	-	-	-	-
1.2 others	-	-	4,994	4,994
2. Other securities	-	-	-	-
2.1 structured notes	-	-	-	-
2.2 others	-	-	-	-
Total	-	-	4,994	4,994

3.2 Information on caption 30 "Securities": subordinated notes

The amount reported under caption 30 (liabilities) for 2004 relates to the subordinated notes with notional amount of €25,000 thousand issued by Banca Mediolanum S.p.A. in 2000. Those notes matured on September 28, 2005 and were entirely redeemed upon maturity.

Section 4 - Financial liabilities held for trading - Caption 40

4.1 Analysis of financial liabilities held for trading

	Dec. 31, 2005				Dec. 31, 2004			
	NV	FV		FV*	NV	FV		FV*
€/'000		Q	NQ			Q	NQ	
A. Non-derivatives								
1. Due to banks	12	9	-	-	-	-	-	-
2. Due to customers	49,791	55,601	-	-	3,098	-	3,098	-
3. Debt securities	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-
3.1.1 structured notes	-	-	-	-	-	-	-	-
3.1.2 others	-	-	-	-	-	-	-	-
3.2 Other securities	-	-	-	-	-	-	-	-
3.2.1 structured notes	-	-	-	-	-	-	-	-
3.2.2 others	-	-	-	-	-	-	-	-
Total A	49,803	55,610	-	-	3,098	-	3,098	-
B. Derivatives								
1. Financial derivatives	-	-	6,230	-	101	-	101	-
1.1 held for trading	-	-	6,230	-	101	-	101	-
1.2 measured at fair value	-	-	-	-	-	-	-	-
1.3 others	-	-	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-	-	-
2.1 held for trading	-	-	-	-	-	-	-	-
2.2 measured at fair value	-	-	-	-	-	-	-	-
2.3 others	-	-	-	-	-	-	-	-
Total B	-	-	6,230	-	101	-	101	-
Total (A+B)	49,803	55,610	6,230	-	3,199	-	3,199	-

* Fair value calculated excluding any changes in value due to changes in the credit standing of the issuer over the date of issue.

4.4 Analysis of financial liabilities held for trading: derivatives

€/'000	Interest rate	Currencies and gold	Equities	Loans	Other	Dec. 31, 2005	Dec. 31, 2004
A) Listed derivatives							
1. Financial derivatives:							
With exchange of principal							
- Options issued	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-
Without exchange of principal							
- Options issued	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-
2. Credit derivatives:						-	
With exchange of principal	-	-	-	-	-	-	-
Without exchange of principal	-	-	-	-	-	-	-
Total A	-	-	-	-	-	-	-
B) Unlisted derivatives							
1. Financial derivatives:							
With exchange of principal							
- Options issued	-	-	-	-	-	-	-
- Other derivatives	-	3,336	-	-	-	3,336	-
Without exchange of principal							
- Options issued	-	-	-	-	-	-	-
- Other derivatives	2,894	-				2,894	101
2. Credit derivatives:							
With exchange of principal	-	-	-	-	-	-	-
Without exchange of principal	-	-	-	-	-	-	-
Total B	2,894	3,336	-	-	-	6,230	101
Total (A+B)	2,894	3,336	-	-	-	6,230	101

Section 8 - Tax liabilities - Caption 80

"*Current tax liabilities*" relate to taxes for the year. The amount set aside represents the "best estimate" of future tax expenses.

€/'000	Amounts set Dec. 31, 2004	Other aside in the year	Funds changes	used	Dec. 31, 2005
Corporate Income Tax (IRES)	5,145	1,469	-	(5,145)	1,469
Regional Business Tax (IRAP)	3,821	3,450	-	(3,821)	3,450
Total	8,966	4,919	-	(8,966)	4,919

For information on "*Deferred tax liabilities*" readers are referred to Section 13 - Balance Sheet Assets - of these notes.

Section 10 - Other liabilities - Caption 100

10.1 Analysis of other liabilities

€/'000	Dec. 31, 2005	Dec. 31, 2004
Items in transit	74,330	26,840
Payables to financial advisors	56,613	40,998
Payables to suppliers, consultants and other professionals	26,339	22,912
Payables to tax authorities	6,012	3,823
Payables to Mediolanum Group companies	5,026	2,214
Payables to employees	3,049	2,634
Payables to social security agencies	2,791	2,306
Agents' severance benefits	2,637	2,520
Payables to companies of the Fininvest Group and Doris Group	1,981	1,978
Other sundry liabilities	1,912	2,480
Security deposits	-	4,485
Total	180,690	113,190

"*Items in transit*" include customer transfer orders settled through the Interbank Network in the first days of 2006 (€17,089 thousand), pre-authorized payments (RID) (€28,991 thousand), ATM transactions (€3,734 thousand) and other items settled in the first days of 2006 (€24,516 thousand).

"*Payables to financial advisors*" relate to commissions accrued at the balance sheet date and payable to financial advisors in 2006.

"*Payables to suppliers, consultants and professionals*" relate to fees paid in 2006. The account also includes €150 thousand due to Directors and Statutory Auditors for their service which was not paid within the balance sheet date.

"*Payables to tax authorities*" relate to the following accounts:

€/'000	Dec. 31, 2005
Substitute and withholding taxes	5,984
Other	3
Local taxes	25
Total	6,012

"*Payables to Mediolanum Group companies*" and "*Payables to companies of the Fininvest Group and the Doris Group*" largely relate to services rendered by the following companies:

€/'000	Dec. 31, 2005	Dec. 31, 2004
Mediolanum Group companies:		
parent company:		
- Mediolanum S.p.A.	454	484
subsidiaries:		
- Mediolanum Gestione Fondi SGR p.A.	300	331
- Mediolanum Distribuzione Finanziaria S.p.A.	47	-
- Banco de Finanzas e Inversiones S.A. (Fibanc)	64	137
associates:		
- Mediolanum Comunicazione S.p.A.	2,940	978
- Alboran S.p.A.	1,039	139
- Mediolanum Vita S.p.A.	164	135
- Partner Time S.p.A.	14	9
- PI Distribuzione S.p.A.	4	1
Total	5,026	2,214
Fininvest Group/Doris Group companies:		
- Publitalia '80 S.p.A.	897	1,239
- Mediolanum Assicurazioni S.p.A.	836	681
- Pagine Italia S.p.A.	155	-
- Mediaset S.p.A.	27	27
- Il Teatro Manzoni S.p.A.	1	-
- AC Milan S.p.A.	1	-
- Cemit Interactive Media S.p.A.	-	23
- Mondadori Pubblicità S.p.A.	60	6
- Vacanze Italia S.p.A.	4	-
- Arnoldo Mondadori Editore S.p.A.	-	1
- Alba Servizi Aerotrasporti S.p.A.	-	1
Total	1,981	1,978

"*Payables to employees*" relate to overtime payments, reimbursement of expenses, statutory leaves and vacations unused at December 31, 2005.

"*Payables to social security agencies*" relate to social security contributions of employees (€2,345 thousand) and financial advisors (€446 thousand).

"*Agents' severance benefits*" represent the severance entitlements of financial advisors as accrued at the balance sheet date. That amount will be paid into the related Mediolanum Vita S.p.A. policy account within March 31, 2006 in accordance with the terms of the collective agreement.

Section 11 - Employee completion-of-service entitlements - Caption 110

11.1 Year's movements in employee completion-of-service entitlements

€/'000	Dec. 31, 2005	Dec. 31, 2004
A. Opening balance	8,112	6,769
B. Increases	2,887	2,773
B.1 Amounts set aside in the year	2,813	2,494
B.2 Other increases	74	279
C. Decreases	(1,558)	(1,430)
C.1 Funds used in the year	(648)	(617)
C.2 Other decreases	(910)	(813)
D. Closing balance	9,441	8,112
Total	9,441	8,112

Section 12 - Provisions for risks and charges - Caption 120

12.1 Analysis of provisions for risks and charges

€/'000	Dec. 31, 2005	Dec. 31, 2004
1. Severance entitlements	-	-
2. Other provisions for risks and charges	50,918	26,720
2.1 legal proceedings	-	-
2.2 staff costs	-	-
2.3 other	50,918	26,720
Total	50,918	26,720

12.2 Year's movements in provisions for risks and charges

€/'000	Severance entitlements	Other	Total
A. Opening balance	-	26,720	26,720
B. Increases	-	26,776	26,776
B.1 Amounts set aside in the year	-	26,776	26,776
B.2 Time-related increases	-	-	-
B.3 Increased discount rate	-	-	-
B.4 Other increases	-	-	-
C. Decreases	-	(2,578)	(2,578)
C.1 Funds used in the year	-	(2,478)	(2,478)
C.2 Decreased discount rate	-		-
C.3 Other decreases	-	(100)	(100)
D. Closing balance	-	50,918	50,918

12.4 Provisions for risks and charges - "other"

The analysis of provisions for risks and charges "other" is set out in the table below.

€/'000	Balance at Dec. 31, 2004	Amount set aside in the year	Other changes	Funds used	Balance at Dec. 31, 2005
FA customer base entitlements	5,838	2,050	(3)	(180)	7,705
Risks related to FA illegal actions	7,445	7,248	-	-	14,693
Product distribution	6,707	1,213	-	(604)	7,316
FA portfolio entitlements	6,079	2,345	-	(1,567)	6,857
Staff loyalty rewards	621	77	(78)	(116)	504
Customer reward programs	30	-	(19)	(11)	-
Benefits to Top Managers	-	13,843	-	-	13,843
Total	26,720	26,776	(100)	(2,478)	50,918

In 2005 the Bank began to raise provisions to cover benefits payable to the Sales Network's Top Managers when they leave the company. The payment of those benefits is conditional upon compliance with their contractual non-competition obligations. For the first year the provision was particularly large and that was in connection with the number of top managers who met statutory requirements for retirement.

The provision for "C*ustomer base entitlements*" covers supplementary benefits payable to financial advisors. The provision was calculated on the basis of the number of financial advisors who will reach retirement age in the next five years and future liabilities estimated on the basis of the Bank's historical data in accordance with the requirements of IAS 37.

The provision for "*Portfolio entitlements*" covers the contractual obligation to pay benefits to financial advisors when they leave the sales network. The payment of those benefits is conditional upon compliance with their non-competition obligations in the two years following the date they leave the network. The provision was calculated on the basis of historical data and considering the number of financial advisors who had resigned at the balance sheet data, in accordance with the requirements of IAS 37.

The provision for "*Risks related to FA illegal actions*" covers the Bank's risk of future liabilities for claims below the deductible threshold of the insurance policy taken out to cover damage suffered by customers as a result of the misconduct of the Bank's financial advisors. On the basis of historical data and the claims received by the Bank at the balance sheet date, the amount of the provision adequately covers those risks.

The provision for "*Product distribution*" relates to amounts set aside to cover expected future liabilities in connection with commissions payable to the sales force on sales of "home loans" in the years following the first year, and possible commission reversals due to early redemption.

The provision for "*Staff loyalty rewards*" relates to the contractual obligation to pay benefits to staff providing support and assistance to the sales network when they leave the company. The payment of those benefits is conditional upon compliance with their non-competition obligation.
The amounts reported under "Other changes" relate to the write-off of benefits recognized in prior years which are no longer due as the breach of non-competition obligations.

Section 14 - Shareholders' Equity

14.1 Analysis of shareholders' equity

€/'000	Dec. 31, 2005	Dec. 31, 2004
1. Share capital	341,000	341,000
2. Share premium account	-	-
3. Reserves	3,880	(326)
- retained earnings	3,880	(326)
- other reserves	-	-
4. (Treasury shares)	-	-
5. Valuation reserves	(1)	-
6. Equity intruments	-	-
7. Net profit (loss) for the year	81,179	37,942
Total	426,058	378,616

14.2 Analysis of "Share Capital" and "Treasury Shares"

At December 31, 2005 share capital amounted to €341,000 thousand divided into 341,000,000 ordinary shares. Share capital is fully subscribed and paid up.

14.3 Year's movements in share capital - number of shares

€/'000	Ordinary shares	Other shares
A. Opening balance	341,000	-
- fully paid up	341,000	-
- not fully paid up	-	-
A.1 Treasury shares (-)	-	
A.2 Shares outstanding: opening balance	341,000	-
B. Increases	-	-
B.1 New issues	-	-
- for a consideration:		
- business combinations	-	-
- conversion of bonds	-	-
- warrants exercised	-	-
- other	-	-
- bonus issues:		
- employees	-	-
- directors	-	-
- others	-	-
B.2 Sale of tresury shares	-	-
B.3 Other increases	-	-
C. Decreases	-	-
C.1 Cancellations	-	-
C.2 Purchase of treasury shares	-	-
C.3 Sale of businesses	-	-
C.4 Other decreases	-	-
D. Shares outstanding: closing balance	341,000	-
D.1 Treasury shares (+)	-	-
D.2 Shares at year end	341,000	-
- fully paid up	341,000	-
- not fully paid up	-	-

14.4 Share capital: other information

The company does not hold any treasury shares.

14.7 Analysis of valuation reserves

€/'000	Ordinary shares	Other shares
1. Available-for-sale financial assets	(1)	-
2. Tangible assets	-	-
3. Intangible assets	-	-
4. Hedges of investments in foreign operations	-	-
5. Cash flow hedges	-	-
6. Exchange differences	-	-
7. Non-current assets held for sale	-	-
8. Special revaluation statutes	-	-
Total	(1)	-

14.8 Year's movements in valuation reserves

€/'000	Available-for-sale financial assets	Tangible assets	Intangible assets	Hedges of investments in foreign operations	Cash flow hedges	Exchange differences	Non-current assets held for sale	Special revaluation statutes
A. Opening balance	(3)	-	-	-	-	-	-	-
B. Increases	2	-	-	-	-	-	-	-
B1. Increases in fair value	2	-	-	-	-	-	-	-
B2. Other increases	-	-	-	-	-	-	-	-
C. Decreases	-	-	-	-	-	-	-	-
C1. Decreases in fair value	-	-	-	-	-	-	-	-
C2. Other decreases	-	-	-	-	-	-	-	-
D. Closing balance	(1)	-	-	-	-	-	-	-

14.9 Analysis of revaluation reserves relating to available-for-sale financial assets

	Dec. 31, 2005		Dec. 31, 2004	
€/'000	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	-	-	-	-
2. Equities	-	(1)	-	-
3. Holdings in UCITS	-	-	-	-
4. Loans	-	-	-	-
Total	-	(1)	-	-

14.10 Year's movements in revaluation reserves relating to available-for-sale financial assets

€/'000	Debt securities	Equities	Holdings in UCITS	Loans
1 Opening balance	-	-	-	-
2. Increases	-	2	-	-
2.1 Increases in fair value	-	2	-	-
2.2 Reversal of negative reserves through profit or loss	-	-	-	-
- impairment losses	-	-	-	-
- disposals	-	-	-	-
2.3 Other increases	-	-	-	-
3. Decreases	-	(3)	-	-
3.1 Decreases in fair value	-	(3)	-	-
3.2 Reversal of positive reserves through profit or loss	-	-	-	-
3.3 Other increases	-	-	-	-
4. Closing balance	-	(1)	-	-

OTHER INFORMATION

1. Guarantees issued and commitments

€/'000	Ordinary shares	Other shares
1) Financial guarantees		
a) Banks	19,650	3,000
b) Customers	-	93
2) Commercial guarantees		
a) Banks	19	23
b) Customers	2,772	1,759
3) Commitments to disburse funds		
a) Banks		
i) with certain drawdown	75,034	34,129
ii) with possible drawdown	-	-
b) Customers		
i) with certain drawdown	10,410	854
ii) with possible drawdown	41,715	9,154
4) Commitments under credit derivatives: protection sales	-	-
5) Assets pledged to secure third-party obligations	-	-
6) Other commitments	-	-
Total	149,600	49,012

2. Assets pledged to secure own liabilities and commitments

€/'000	Dec. 31, 2005	Dec. 31, 2004
1. Financial assets held for trading	576,609	420,039
2. Financial assets at fair value	-	-
3. Available-for-sale financial assets	-	-
4. Held-to-maturity investments	340,439	21,439
5. Loans to banks	-	-
6. Loans to customers	-	-
7. Tangible assets	-	-

4. Brokerage and asset management on behalf of customers

€/'000	Amount
1. Securities brokerage	
a) Purchases	17,726,834
1. settled	17,726,834
2. not settled	
b) Sales	17,552,517
1. settled	17,552,517
2. not settled	-
2. Asset management	
a) individual portfolio management	1,632,645
b) collective portfolio management	-
3. Securities in custody and under administration	
a) custodian bank services (other than managed assets)	-
1. securities issued by the reporting entity	-
2. other securities	-
b) custodian bank services (other than managed assets)	3,473,528
1. securities issued by the reporting entity	-
2. other securities	3,473,528
c) third-party securities held by other custodians	3,324,608
d) own securities held by other custodians	1,737,270
4. Other services	42,097

PART C - INFORMATION ON THE INCOME STATEMENT

Section 1 - Interest - Captions 10 and 20

1.1 Analysis of interest income and similar income

	Performing financial assets		Impaired financial assets			
€/'000	Debt securities	Loans		Other assets	Dec. 31, 2005	Dec. 31, 2004
1. Financial assets held for trading	30,626	-	-	-	30,626	26,490
2. Available-for-sale financial assets	-	-	-	-	-	-
3. Held-to-maturity investments	12,297	-	-	-	12,297	12,035
4. Loans to banks	-	-	-	53,338	53,338	43,644
5. Loans to customers	-	-	-	24,223	24,223	16,350
6. Financial assets at fair value	-	-	-	-	-	-
7. Derivative hedging instruments	-	-	-	-	-	-
8. Financial assets sold but not derecognized	-	-	-	-	-	-
9. Other assets	-	-	-	34	34	27
Total	42,923	-	-	77,595	120,518	98,546

1.3 Interest income and similar income: other information

1.3.1 Interest income on financial assets denominated in foreign currencies

At December 31, 2005 interest income on financial assets denominated in foreign currencies amounted to €86 thousand.

1.4 Analysis of interest expense and similar charges

€/'000	Amounts due	Securities	Other liabilities	Dec. 31, 2005	Dec. 31, 2004
1. Due to banks	32,935	-		32,935	21,657
2. Due to customers	32,795	-	-	32,795	29,368
3. Securities issued	-	85	-	85	196
4. Financial liabilities held for trading	-	-	-	-	-
5. Financial liabilities in connection with assets sold but not derecognized	-	-	-	-	-
7. Other liabilities	-	-	36	36	28
8. Derivative hedging instruments	-	-	-	-	-
Total	65,730	85	36	65,851	51,249

1.6 Interest expense and similar charges: other information

1.6.1 Interest expense on liabilities denominated in foreign currencies

For the year under review interest expense on liabilities denominated in foreign currencies amounted to €6,336 thousand.

Section 2 - Commissions - Captions 40 and 50

2.1 Analysis of commission income

€/'000	Dec. 31, 2005	Dec. 31, 2004
a) Garantees issued	-	-
b) Credit derivatives	-	-
c) Management, brokerage and consulting services:	312,407	287,574
1. Brokerage of financial instruments	886	801
2. Currency brokerage	-	-
3. Asset management	17,326	19,604
3.1. individual portfolio management	17,326	19,604
3.2. collective portfolio management	-	-
4. Securities in custody and under administration	3,623	4,229
5. Custodian bank	-	-
6. Sale of securities	334	258
7. Order taking	7,025	6,525
8. Consultancy	-	-
9. Services to third parties	283,213	256,157
9.1. asset management	-	-
9.1.1. individual portfolio management	-	-
9.1.2. collective portfolio management	-	-
9.2. insurance products	185,692	172,173
9.3. other products	97,521	83,984
d) Payments and collections	6,896	6,276
e) Servicing for securitization transactions	-	-
f) Factoring services	-	-
g) Tax collection services	-	-
h) Other services	13,189	13,539
Total	332,492	307,389

2.2 Commission income: distribution channels of products and services

€/'000	Dec. 31, 2005	Dec. 31, 2004
a) Through the company's own branches:	17,660	19,862
1. Asset management	17,326	19,604
2. Sale of securities	334	258
3. Services and products of third parties	-	-
b) Off-premises sales:	283,213	256,157
1. Asset management	-	-
2. Sale of securities	-	-
3. Services and products of third parties	283,213	256,157
c) Other distribution channels:	-	-
1. Asset management	-	-
2. Sale of securities	-	-
3. Services and products of third parties	-	-

2.3 Analysis of commission expense

€/'000	Dec. 31, 2005	Dec. 31, 2004
a) Guarantees received	-	-
b) Credit derivatives	-	-
c) Management and brokerage services:	204,766	172,951
1. Brokerage of financial instruments	-	-
2. Currency brokerage	-	-
3. Asset management:	778	790
3.1. own portfolio	-	-
3.2. third-party portfolios	778	790
4. Securities in custody and under administration	-	-
5. Sale of financial instruments	-	-
6. Off-premises sale of financial instruments, products & services	203,988	172,161
d) payments and collections	6,009	4,707
e) other services	8,697	7,325
Total	219,472	184,983

Section 3 - Dividends and similar income - Caption 70

3.1 Analysis of dividends and similar income

€/'000	Dec. 31, 2005 Income from Dividends	Dec. 31, 2005 Holdings in UCITS	Dec. 31, 2004 Income from Dividends	Dec. 31, 2004 Holdings in UCITS
A. Financial assets held for trading	31	-	-	-
B. Available-for-sale financial assets	110	-	3	-
C. Financial assets at fair value	-	-	-	-
D. Equity investments	137,497	-	65,890	-
Total	137,638	-	65,893	-

This account essentially consists of dividends received from the subsidiaries Mediolanum International Funds Ltd, Mediolanum Asset Management Ltd and Mediolanum Gestione Fondi SGR p.A.. Dividends include the 2004 dividends amounting to €68,647 thousand, for which the distribution to shareholders was resolved and took place in 2005, as well as the 2005 interim dividends amounting to €68,850 thousand paid out by the subsidiary Mediolanum International Funds Ltd in November 2005.

Section 4 - Net income from trading - Caption 80

4.1 Analysis of net income from trading

€/'000	Unrealized gains (A)	Realized trading profits (B)	Unrealized losses (C)	Realized losses (D)	Net income (A+B)-(C+D)
1. Financial assets held for trading	84	21,098	(1,966)	(17,297)	1,919
1.1 Debt securities	84	20,852	(1,966)	(17,132)	1,838
1.2 Equities	-	246	-	(165)	81
1.3 Holdings in UCITS	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	193	1,020	(74)	(469)	670
2.1 Debt securities	193	1,020	(74)	(469)	670
2.2 Other	-	-	-	-	-
3. Other financial assets and liabilities: exchange differences	-	-	-	-	3,181
4. Derivatives	4,556	26,015	(6,230)	(26,590)	(2,249)
4.1 Financial derivatives:	4,556	26,015	(6,230)	(26,590)	(2,249)
- debt securities					-
and interest rates	2,302	18,004	(2,894)	(18,553)	(1,141)
- equities	-	-	-	-	-
and stock indices	-	1	-	(4)	(3)
- currencies and gold	2,254	8,010	(3,336)	(8,033)	(1,105)
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	4,833	48,133	(8,270)	(44,356)	3,521

Section 8 - Impairment losses - Caption 130

8.1 Analysis of impairment losses on loans

€/'000	Write-downs (1) Individual Cancellations	Write-downs (1) Individual Others	Write-downs (1) Collective	Write-backs (2) Individual A (interest)	Write-backs (2) Individual B (others)	Write-backs (2) Collective A (interest)	Write-backs (2) Collective B (others)	Dec. 31, 2005	Dec. 31, 2004
A. Loans to banks	-	-	-	-	-	-	-	-	-
B. Loans to customers	-	(1,500)	(3,917)	-	784	-	847	(3,786)	(2,099)
C. Total	-	(1,500)	(3,917)	-	784	-	847	(3,786)	(2,099)

Section 9 - Administrative expenses - Caption 150

9.1 Analysis of staff costs

€/'000	Dec. 31, 2005	Dec. 31, 2004
1) Employees		
a) wages and salaries	38,975	34,264
b) social security contributions	11,778	10,275
c) employee completion of service entitlements	-	-
d) social security contributions	-	-
e) provision for completion of service entitlements	2,813	2,492
f) provision for severance benefits and similar obligations:		
- defined contribution plan	-	-
- defined benefit plan	-	-
g) external supplementary pension funds:		
- defined contribution plan	85	80
- defined benefit plan	-	-
h) expenses in connection with equity-settled share-based payment transactions	-	-
i) other employee benefits	790	708
2) Other personnel	3,537	3,756
3) Directors	591	535
Total	58,569	52,110

9.2 Average number of employees by category:

Units	Dec. 31, 2005
Employees:	
a) Senior management	51
b) Total managers	121
of whom:	
middle management	72
c) Other employees	836
Other personnel	
project-based staff	12
temporary staff	57

9.5 Analysis of other administrative expenses

€/'000	Dec. 31, 2005	Dec. 31, 2004
IT services	24,422	24,710
Advertising and promotions	19,867	9,035
Consultancy, education and training of the sales force	12,418	13,549
Television and Internet communication services	11,585	9,735
Rentals	6,512	6,278
Business Conventions	5,634	6,912
Postal and telephone	5,216	4,393
Other advisory services	4,398	2,681
Other miscellanueous services	3,913	4,083
Infoprovider services	3,091	3,044
Other administrative expenses	2,881	2,592
Insurance	2,485	1,164
Financial services fees and other expenses	2,418	2,072
Consumables	1,909	1,583
Canteen	1,737	1,644
Contributions to "Punto Mediolanum" offices	1,202	409
Travel expenses	1,121	860
Utilities	888	805
Business expenses, gifts and donations	860	807
Market research	822	767
Personnel recruitment	767	550
Total	114,146	97,673

Section 10 - Provisions for risks and charges - Caption 160

10.1 Analysis of provisions for risks and charges

€/'000	Dec. 31, 2005	Dec. 31, 2004
Provision for risks and charges - other	-	-
Benefits to Top Managers	13,843	-
Risks related to FA illegal actions	7,248	2,797
FA customer base entitlements	1,870	1,606
FA portfolio entitlements	778	2,227
Product distribution	609	1,330
Customer reward programs	(11)	11
Staff loyalty rewards	(39)	107
Total	24,298	8,078

Section 11 - Write-downs of tangible assets - Caption 170

11.1 Write-downs of tangible assets

€/'000	Depreciation (A)	Impairment losses (B)	Write-backs (C)	Net write-downs (A+B-C)
A. Tangible assets				
A.1 Owned	4,367	-	-	4,367
- held for use	4,367	-	-	4,367
- held for investment purposes	-	-	-	-
A.2 Under finance leases	-	-	-	-
- held for use	-	-	-	-
- held for investment purposes	-	-	-	-
Total	4,367	-	-	4,367

Section 12 - Write-downs of intangible assets - Caption 180

12.1 Write-downs of intangible assets

€/'000	Depreciation (A)	Impairment losses (B)	Write-backs (C)	Net write-downs (A+B-C)
A. Intangible assets				
A.1 Owned	11,400	69	-	11,469
- internally generated	-	-	-	-
- others	11,400	69	-	11,469
A.2 Under finance leases	-	-	-	-
Total	11,400	69	-	11,469

Section 13 - Other operating income - Caption 190

13.1/13.2 Analysis of other operating expenses and income

€/'000	Dec. 31, 2005	Dec. 31, 2004
Other operating expenses:		
Compensations and Settlements	(461)	(1.582)
Loan losses	(222)	(303)
Amortization of expenses for improvements of leasehold assets	(146)	(232)
Other expenses	(387)	(1.002)
Total other operating expenses	(1,216)	(3,119)
Other operating income:		
Recoveries of expenses for services rendered to Mediolanum Group companies	10,447	11,986
Recoveries of expenses from employees	209	187
Recoveries of expenses from customers	900	121
Rentals on property	150	148
Recoveries of expenses from financial advisors	462	311
Other income	3,970	2,702
Total other operating income	16,138	15,455
Total other operating income (net)	14,922	12,336

Section 14 - Profit (Loss) on equity investments - Caption 210

14.1 Analysis of profit (loss) on equity investments

€/'000	Dec. 31, 2005	Dec. 31, 2004
A. Income		
1. Revaluations	-	-
2. Gains on sale	-	-
3. Write-backs	-	-
4. Other	-	-
B. Expense	(29,701)	(27,114)
1. Write-downs	(19,901)	(15,314)
2. Impairment losses	-	-
3. Losses on sale	-	-
4. Other	(9,800)	(11,800)
Profit (loss)	(29,701)	(27,114)

In 2005 the Bank contributed funds in the amount of €9,800 thousand to cover the year's losses of the subsidiary Bankhaus August Lenz & Co. AG. In the previous year the funds contributed by the Bank to cover the losses of that subsidiary had amounted to €11,800 thousand.

At year end the value of the investment in that subsidiary was written down by €5,121 thousand. The write-down was made to align the carrying amount of that investment with the amount at which it is recognized in the consolidated financial statements. That carrying amount is considered to reflect the fair value of the German subsidiary.

In compliance with the requirements of IAS 36 for the assessment and recognition of impairment losses, the investment in Mediolanum International S.A., the holding company of the German Gamax Group, was written down due to the continued negative net inflows recorded by the Gamax network. That negative trend is primarily connected to the crisis of IFAs (untied independent financial advisors) and is going to worsen with the upcoming changes in German regulations on professional standards, continuous education and other control and supervision requirements. On the basis of the new three-year business plan, the value of the Gamax Group was reassessed and the value of that investment was written down by €14,780 thousand.

Section 17 - Profit (Loss) on disposal of investments - Caption 240

17.1 Analysis of profit (loss) on disposal of investments

€/'000	Dec. 31, 2005	Dec. 31, 2004
A. Property	-	-
- Gains on sale	-	-
- Losses on sale	-	-
B. Other assets	27	-
- Gains on sale	53	-
- Losses on sale	(26)	-
Profit (loss)	27	-

Section 18 - Income tax expense on continuing operations - Caption 260

18.1 Analysis of income tax expense on continuing operations

€/'000	Dec. 31, 2005	Dec. 31, 2004
1. Current tax (-)	(4,919)	(8,824)
2. Change in the current tax for prior years (+/-)	119	-
3. Change in current tax for the year (+)	-	-
4. Change in deferred tax assets (+/-)	7,341	(2,470)
5. Change in deferred tax liabilities (+/-)	1,179	(64)
6. Income tax expense for the year (-) (-1+/-2+3+/-4+/-5)	3,720	(11,358)

18.2 Reconciliation between the theoretical tax expense and the effective tax expense

The reconciliation between the theoretical tax expense and the effective tax expense is set out in the table below:

€/'000	Rate %	Taxable amout	Tax expense
Calculation of taxable income (IRES)			
Pre-tax profit		77,578	
Theoretical tax	33.00		25,601
Temporary differences taxable in future years		-	
Temporary differences deductible in future years		37,552	
Prior years' temporary differences		(14,946)	
Permanent differences		(95,517)	
Total taxable income		4,667	
Current tax expense for the year			1,540
Adjustments due to application of tax consolidation regime			(71)
Net IRES income tax expense			1,469
Average rate on pre-tax profit	1.89		
Calculation of taxable income (IRAP)			
Value of production less production costs		62,780	
Costs which are not significant for the purpose of IRAP calculation		(7,207)	
Theoretical value added		55,573	
Theoretical tax expense (tax rate: 5.25%)	5.25		2,918
Temporary differences taxable in future years		-	
Temporary differences deductible in future years		12,483	
Prior years' temporary differences		(6,395)	
Permanent differences		4,059	
Total added value for taxation purposes		65,720	
Net IRAP tax expense			3,450
Average rage on pre-tax-profit	5.50		

PART D - SEGMENTAL INFORMATION

As parent company of the Mediolanum Banking Group, Banca Mediolanum S.p.A. prepared the consolidated financial statements for the year ended December 31, 2005. Segmental information is provided in the relevant section of the notes to the consolidated financial statements.

PART E - INFORMATION ON RISKS AND RISK MANAGEMENT

The system of risk management and internal control consists of the set of rules, procedures and organizational structures established to ensure adherence to corporate strategies, effectiveness and efficiency of corporate processes, protection of the company's assets and proper management of customer assets, reliability and integrity of accounting and management information as well as compliance of transactions with the law, the regulations issued by Supervisory Authorities, self-discipline and internal rules.
Banca Mediolanum places great importance on risk management and control and structured it around four core principles:
- Measurement systems in line with international best practices;
- Clear lines of responsibility for risks undertaken;
- Segregation of duties between operating and control units;
- Progressive integration of risk indicators into the investment process.

The Board has overall responsibility for ensuring compliance with corporate targets, using among other things planning tools, and for periodically reviewing their implementation.

The principal types of controls embedded in the Bank's lending and financial management operations are:
- Line controls (first level): i.e. controls made by the individuals who carry out a certain activity and by their supervisors, generally within the same organizational unit or function;
- Risk controls (second level): i.e. controls performed by units other than operating units; they contribute to the definition of operating limits and risk measurement methods and verify compliance of transactions with the risk/return targets set by corporate bodies in their respective areas of remit;
- Risk controls include control of compliance with the law, the regulations issued by Supervisory Authorities and self-discipline rules (e.g. codes of conducts) as well as any other rules applicable to the Company;
- Internal Audit (third level): i.e. the periodic assessment of the completeness, effectiveness and adequacy of the internal control system in relation to the nature and level of risks undertaken. Internal audit is performed by units that are independent of operating units.

SECTION 1 - CREDIT RISK

QUALITATIVE INFORMATION

1. General

Banca Mediolanum applies prudent policies in the conducts of its lending business.
Consistently with the Group mission, Banca Mediolanum's lending is largely geared to satisfying the financing needs of customers whose assets are invested in Group products in view of enhancing their loyalty and long-term growth.
In line with its traditional retail bank profile, Banca Mediolanum provides financial support primarily to private individuals/consumers and families by offering them short-term loans which satisfy their cash demands, home loans and other property-related lending products and services.

As a complementary activity, it also provides financing to sole proprietors or other small-sized businesses in view of maintaining and strengthening the relationship with the retail customer who owns the business.

2. Credit risk management

2.1 Organizational aspects

The entire retail lending process (loan application assessment, approval, management and control), including related risk management, is in full compliance and consistent with the rules set out in the "Lending Policy" approved by the Board of Directors. The Lending Policy document sets out the lending authorities and limits of the various officers.

In addition to the Board of Directors, the Chief Executive Officer and the General Manager, decision-making authorities are conferred on the Lending Committee and Lending Unit officers. The Lending Policy sets out rules for delegating decision-making authorities according to the loan amount category, type of loan, creditworthiness of individual clients as well as their business and legal relationship with other customers.

For the purpose of delegated authorities, loans are classified into two macro-categories:

- ordinary loans: i.e. loans which satisfy the financing needs of customers in areas other than real estate;
- special loans: i.e. loans granted in connection with the purchase or exchange of property and in general in connection with the execution or completion of real estate transactions.

First-level controls within the Lending Unit are organized according to that classification, and are the responsibility of two specific sub-units that leverage their staff's specific knowledge of the business and processes, i.e. the Ordinary Loans department and the Special Loans department. Within their respective areas of remit, the staff of those departments continuously monitor outstanding loans devoting special attention to riskier positions.

The overall Bank exposure to credit risk is assessed by the Risk Control and Compliance unit within the Risk Control and Compliance function, which is independent of the Lending Function. The Risk Control and Compliance unit is also responsible for the definition of risk measurement methods by counterparty and type of loans, as well as the constant monitoring of the Bank's capital adequacy.

2.2 Credit risk measurement, management and control

Credit quality is monitored by regularly assessing, in each stage of the lending process, whether there is evidence of risk using specific operating procedures.

Upon receipt of a loan application, the Lending Unit staff gather all documents needed for the proper assessment of the applicant's creditworthiness, the requested loan amount vis-à-vis the financial position and earnings capacity of the borrower.

Specifically, for corporate customers the Bank bases its judgment on the analysis of the financial statements and qualitative information on the company's business and market segment.

For retail customers the borrower creditworthiness is assessed by examining their current and future earnings capacity vis-à-vis the requested loan amount. For those examinations the Bank relies on internal information on the past performance of customers in their relationships with the Group and with other borrowers, if any, as well information gathered from external sources such as public and private Credit Bureaus. Special attention is devoted to the assessment of any risk-mitigating instruments given as collateral.

As a further objective tool for risk assessment, the Special Lending sub-unit relies on a scoring system developed applying statistical analysis techniques, which helps officers assess the level of risk associated with each loan application when making their decisions.

All loans are subject to regular review by specific departments within the Lending Unit within their respective lending authorities and areas of remit. For small loaned amounts a simplified review procedure may be used. That procedure does not entail the same depth of analysis applied to other loans, but uses a risk ratio which is calculated on a monthly basis.

The Lending Unit is responsible for monitoring loan performance. That unit sets forth the actions and procedures for monitoring the performance of individual loans. The procedure currently in use entails daily monitoring of credit limits which enables prompt detection of any positions for which credit limits is exceeded without prior authorization by the bank.

In addition, it should be noted that as part of credit risk monitoring, the Risk Control and Compliance unit in collaboration with the Lending Unit promoted a project for the consolidation of the current internal rating model. Under that project, the internal rating model will be incorporated in lending procedures and used to develop new tools for monitoring loan performance, more effective control of credit quality and greater consistency in the assessment of the borrower creditworthiness. The actions currently underway under the project promoted by the Risk Control and Compliance unit in collaboration with the Lending Unit are the completion of the internal validation of the Probability of Default data generated by the system and the development of a method to calculate recovery rates by type of product and type of collateral, in compliance with Basel 2 requirements.

The classification of customers into rating classes is used to calculate impairment losses on collectively assessed performing loans as required under the international accounting standards.

2.3 Credit risk mitigation techniques

As mentioned above, Banca Mediolanum's lending business is largely geared to satisfying the financing needs of Group customers. Loans are secured by collaterals received from borrowers. Collaterals consists of conditional sale instruments, and other forms of security, e.g. surety bonds and endorsements. Given the importance of the collateral received from the obligor in the assessment of credit risk, appropriate prudential adjustments are applied to the collateral whose value is subject to regular review. In relation to real guarantees, and specifically mortgages over property, the Bank verifies compliance with building and urban planning regulations and appoints experts to assess the value of the property. The Bank is also developing a special Credit Risk Mitigation procedure to automatically monitor the current value of the collateral and compare it to its initial value. That will enable the Bank to act promptly in response to a significant decrease in the value of the collateral.

2.4 Impaired financial assets

Special attention is devoted to problem loans for which the borrower solvency and credit quality are constantly monitored.

The new rules introduced by the Basel Committee, the international accounting standards and Banking Supervisory Authorities, brought about significant changes in the general definitions of problem loans.

The most significant change relates to the definition of default, which in addition to "Watch list loans" and "Non-performing loans", now also includes "Restructured loans" and "Loans Past Due more than 180 days".

Specifically a default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place:

- The bank considers that the obligor is unlikely to pay its credit obligations in full, without recourse by the bank to actions such as realizing security (if held);
- The obligor is past due more than 180 days.

In compliance with the Bank of Italy's instructions, Banca Mediolanum classifies problem loans into four categories which correspond to the customer status as indicated in the Customer Master File, namely: non-performing loans, watch list loans, restructured loans and past due loans, i.e. loans that are past due more than 180 days.

The Problem Loans department within the Legal Affairs function is responsible for handling watch list and non performing loans applying different operating procedures according to the severity of the problem.

At present the Bank does not have any restructured loans in its portfolio.

Past due loans are monitored on a daily basis by operating units that deal with customers on a day-to-day basis. Those units apply rules which are shared by both first-level and second-level control units.

In addition, a new monitoring tool will soon be available. That tool will permit:

- prompt detection of riskier positions with subsequent enhanced credit recoveries and consistency of recovery procedures, as well as the resumption of an operational and business dialogue with the borrower on different grounds;
- responsible involvement of the unit having delegated authorities to manage those positions.

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

A.1 Performing and impaired assets: balance, write-downs, developments, business and geographical distribution

A.1.1 Analysis of financial assets by category and credit quality (book value)

€/'000	Non performing	Watch list	Restructured	Past due	Country risk	Other assets	Total
1. Financial assets held for trading	-	-	-	-	-	1,095,568	1,095,568
2. Available-for sale financial assets	-	-	-	-	-	527	527
3. Held-to-maturity investments	-	-	-	-	-	498,989	498,989
4. Loans to banks	-					2,685,660	2,685,660
5. Loans to customers	299	806	-	9,769	-	710,726	721,600
6. Financial assets at fair value	-	-	-	-	-	-	-
7. Financial assets being disposed of	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-	-
Total at 31.12.2005	299	806	-	9,769	-	4,991,470	5,002,344
Total at 31.12.2004	289	551	-	-	-	3,822,505	3,823,345

A.1.2 Development of financial assets by category and credit quality (gross and net exposures)

	Impaired assets				Other assets			
€/'000	gross exposure	individual write-downs	collective write-downs	net exposure	gross exposure	collective write-downs	net exposure	Total net exposure
1. Financial assets held for trading	-	-	-	-	1,095,568	-	1,095,568	1,095,568
2. Available-for-sale financial assets	-	-	-	-	527	-	527	527
3. Held-to-maturity investments	-	-	-	-	498,989	-	498,989	498,989
4. Loans to banks	-	-	-	-	2,685,660	-	2,685,660	2,685,660
5. Loans to customers	13,304	(2,430)	-	10,874	711,301	(575)	710,726	721,600
6. Financial assets at fair value	-	-	-	-	-	-	-	-
7. Financial assets being disposed of	-	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-	-	-
Total at 31.12.2005	13,304	(2,430)	-	10,874	4,992,045	(575)	4,991,470	5,002,344
Total at 31.12.2004	2,686	(1,846)	-	840	3,822,505	-	3,822,505	3,823,345

A.1.3 Loans to banks: on and off-balance sheet exposures (gross and net exposures)

€/'000	Gross exposure	Individual write-downs	Collective write-downs	Net exposure
A. On balance sheet				
a) Non performing	-	-	-	-
b) Watch list	-	-	-	-
c) Restructured	-	-	-	-
d) Past due	-	-	-	-
e) Country risk	-	-	-	-
f) Other	2,685,660	-	-	2,685,660
Total A	2,685,660	-	-	2,685,660
B. Off balance sheet				
a) Impaired	-	-	-	-
b) Other	99,544	-	-	99,544
Total B	99,544	-	-	99,544

A.1.4 Loans to banks: development of impaired loans and loans exposed to country risk (on- balance sheet gross exposures)

At the balance sheet date there were no impaired bank loans or bank loans exposed to country risk.

A.1.5 Loans to banks: analysis of write-downs (on-balance sheet positions)

At the balance sheet date there were no write-downs of bank loans.

A.1.6 Loans to customers: on and off-balance sheet exposures (gross and net exposures)

€/'000	Gross exposure	Individual write-downs	Collective write-downs	Net exposure
A. On balance sheet				
a) Non performing	1,724	(1,425)	-	299
b) Watch list	1,612	(806)	-	806
c) Restructured	-	-	-	-
d) Past due	9,968	(199)	-	9,769
e) Country risk	-	-	-	-
f) Other	711,301	-	(575)	710,726
Total A	724,605	(2,430)	(575)	721,600
B. Off balance sheet				
a) Impaired	-	-	-	-
b) Other	55,276	-	-	55,276
Total B	55,276	-	-	55,276

A.1.7 Loans to customers: development of impaired loans and loans exposed to country risk (on- balance sheet gross exposures)

€/'000	Non performing	Watch list	Re-structured	Past due	Country risk
A. Opening gross balance	1,509	1,094	-	-	-
- of which: loans sold but not derecognized	-	-	-	-	-
B. Increases	761	1,422	-	9,971	-
B.1 Reclassified from performing loans	-	1,235	-	9,073	-
B.2 Reclassified from other impaired loan categories	624	-	-	-	-
B.3 Other increases	137	187	-	898	-
C. Decreases	(546)	(904)	-	(3)	-
C.1 Reclassified to performing loans	-	-	-	-	-
C.2 Cancellations	(424)	-	-	-	-
C.3 Receipts	(106)	(275)	-	-	-
C.4 Proceeds from sale	-	-	-	-	-
C.5 Reclassified to other impaired loan categories	-	(624)	-	-	-
C.6 Other decreases	(16)	(5)	-	(3)	-
D. Closing gross balance	1,724	1,612	-	9,968	-
- of which: loans sold but not derecognized	-	-	-	-	-

A.1.8 Loans to customers: analysis of write-downs (on-balance sheet positions)

€/'000	Non performing	Watch list	Re-structured	Past due	Country risk
A. Write-downs at beginning of the year	1,240	546	-	-	-
- of which: loans sold but not derecognized	-	-	-	-	-
B. Increases	616	615	-	199	-
B.1 Write-downs	307	615	-	199	-
B.2 Reclassified from other impaired loan categories	309	-	-	-	-
B.3 other increases	-	-	-	-	-
C. Decreases	(431)	(355)	-	-	-
C.1 Revaluations	(13)	(10)	-	-	-
C.2 Repayments	(66)	(34)	-	-	-
C.3 Cancellations	-	-	-	-	-
C.4 Reclassified to other impaired loan categories	-	(309)	-	-	-
C.5 Other decreases	(352)	(2)	-	-	-
D. Write-downs at end of the year	1,425	806	-	199	-
- of which: loans sold but not derecognized	-	-	-	-	-

A.2 Classification of exposures according to internal and external ratings

At the balance sheet date this information was not available.

A.3 Analysis of secured loans by type of collateral

A.3.1 Secured loans to banks and to customers (on balance sheet positions)

		Real guarantees (1)			Personal guarantees (2)								
					Credit derivatives				Endorsements				
€/'000	Exposure	Property	Secu-rities	Other assets	Govern-ments	Govern. agencies	Banks	Others	Govern-ments	Govern. agencies	Banks	Others	Total (1)+(2)
1. Secured loans to banks:													
1.1 entirely secured	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partly secured	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured loans to customers:													
2.1 entirely secured	-	124,049	-	-	-	-	4	52,726	-	-	-	-	176,779
2.2 partly secured	-	-	-	-	-	-	-	-	-	-	-	-	-

B. DISTRIBUTION AND CONCENTRATION OF EXPOSURES

B.1 Analysis of customer loans by borrower category (on and off-balance sheet positions)

€/'000	Gov. & Central Banks				Gov. Agencies				Financial companies				Insurance companies				Non financial companies				Others			
	Gross exposure	Individual write-downs	Collective write-downs	Net exposure	Gross exposure	Individual write-downs	Collective write-downs	Net exposure	Gross exposure	Individual write-downs	Collective write-downs	Net exposure	Gross exposure	Individual write-downs	Collective write-downs	Net exposure	Gross exposure	Individual write-downs	Collective write-downs	Net exposure	Gross exposure	Individual write-downs	Collective write-downs	Net exposure
A. On balance sheet																								
A.1 Non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2	(2)	-	-	1,722	(1,423)	-	299
A.2 Watch list	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,612	(806)	-	806
A.3 Restructured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.4 Past due	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	334	(7)	-	327	9,635	(193)	-	9,442
A.5 Others	-	-	-	-	-	-	-	-	358,988	-	-	358,988	-	-	-	-	15,462	-	-	15,462	336,851	-	(575)	336,276
Total	-	-	-	-	-	-	-	-	358,988	-	-	358,988	-	-	-	-	15,798	(9)	-	15,789	349,820	(2,422)	(575)	346,823
B. Off balance sheet																								
B.1 Non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.2 Watch list	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.4 Others	-	-	-	-	-	-	-	-	250	-	-	250	-	-	-	-	236	-	-	236	54,790	-	-	54,790
Total	-	-	-	-	-	-	-	-	250	-	-	250	-	-	-	-	236	-	-	236	54,790	-	-	54,790
Total at 31.12.2005	-	-	-	-	-	-	-	-	359,238	-	-	359,238	-	-	-	-	16,034	(9)	-	16,025	404,610	(2,422)	(575)	401,613
Total at 31.12.2004	-	-	-	-	-	-	-	-	133,961	-	-	133,961	-	-	-	-	10,574	-	-	10,574	217,753	(1,847)	-	215,906

B.2 Analysis of loans to non-financial companies registered in Italy

a) Other wholesale and retails services	12,593
b) Other manufacturers	1,054
c) Construction and public works	927
d) Wholesale, retail and repair services	497
e) Transportation	456
f) Others	262

B.3 Geographical distribution of on-balance sheet and off-balance sheet customer loans (book value)

€/'000	Italy gross exposure	Italy net exposure	Other european countries gross exposure	Other european countries net exposure	America gross exposure	America net exposure	Asia gross exposure	Asia net exposure	Rest of the world gross exposure	Rest of the world net exposure
A. On balance sheet										
A.1 Non performing	1,722	299	2	-	-	-	-	-	-	-
A.2 Watch list	1,612	806	-	-	-	-	-	-	-	-
A.3 Restructured			-	-	-	-	-	-	-	-
A.4 Past due	9,969	9,769	-	-	-	-	-	-	-	-
A.5 Others	634,749	634,174	76,552	76,552	-	-	-	-	-	-
Total	648,052	645,048	76,554	76,552	-	-	-	-	-	-
B. Off balance sheet										
B.1 Non performing	-	-	-	-	-	-	-	-	-	-
B.2 Watch list	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Others	45,244	45,244	10,032	10,032	-	-	-	-	-	-
Total	45,244	45,244	10,032	10,032	-	-	-	-	-	-
Total at 31.12.2005	693,296	690,292	86,586	86,584	-	-	-	-	-	-
Total at 31.12.2004	357,528	357,528	14,774	14,774	-	-	-	-	-	-

B.4 Geographical distribution of on-balance sheet and off-balance sheet bank loans (book value)

€/'000	Italia gross exposure	Italia net exposure	Other european countries gross exposure	Other european countries net exposure	Rest of the world gross exposure	Rest of the world net exposure
A. On balance sheet						
A.1 Non performing	-	-	-	-	-	-
A.2 Watch list	-	-	-	-	-	-
A.3 Restructured			-	-	-	-
A.4 Past due	-	-	-	-	-	-
A.5 Others	1,797,276	1,797,276	853,930	853,930	34,454	34,454
Total	1,797,276	1,797,276	853,930	853,930	34,454	34,454
B. Off balance sheet						
B.1 Non performing	-	-	-	-	-	-
B.2 Watch list	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-
B.4 Others	94,126	94,126	5,077	5,077	341	341
Total	94,126	94,126	5,077	5,077	341	341
Total at 31.12.2005	1,891,402	1,891,402	859,007	859,007	34,795	34,795
Total at 31.12.2004	722,267	722,267	459,013	419,013	72,030	72,030

B.5 Large exposures

a) amount:	€80,001 thousand
b) number:	2

C. SECURITIZATION TRANSACTIONS AND SALE OF ASSETS

C.1 Securitization transactions

C.1.1 Analysis of exposures in connection with securitization transactions by quality of underlying assets

	On balance sheet					
	Senior		Mezzanine		Junior	
€/'000	gross exposure	net exposure	gross exposure	net exposure	gross exposure	net exposure
A. Own underlying assets:						
a) impaired	-	-	-	-	-	-
b) others	-	-	-	-	-	-
B. Third-party underlying assets:						
a) impaired						
b) others						
- Financial assets held for trading:						
CPG 1A2 25/01/24 TV	10,060	10,052	-	-	-	-
SCC INPS 31/07/16 TV	5,001	4,995	-	-	-	-
ITALEASE FIN 9/20 TV	8,000	7,988	-	-	-	-
F - MTGES 30/10/43 TV	7,000	6,978	-	-	-	-
SCHIP2 CLA 4 26/04/13 TV	6,000	5,996	-	-	-	-
CORDUSIO A2 6/33	15,000	15,000	-	-	-	-
TRICO 1A 15/07/20	5,000	5,009	-	-	-	-
VELA HOME 3A 7/40	11,000	10,995	-	-	-	-
LOCAT A2 12/12/26	15,000	15,000	-	-	-	-
SCC INPS 31/07/08	25,000	25,000	-	-	-	-
SCC INPS 31/07/10	25,000	25,000	-	-	-	-
SCC INPS 31/07/11	25,000	25,000	-	-	-	-
Total others	157,061	157,013	-	-	-	-

D. CREDIT RISK MEASUREMENT MODELS

SECTION 2 - MARKET RISK

2.1 Interest rate and pricing risk - trading book

Qualitative information

A. General

The trading book, as defined by supervisory authorities, consists of financial instruments subject to capital requirements for market risk.
The trading book is made up of the following "portfolios":
- Trading portfolio: (*IAS category: financial instruments held for trading*) which consists of securities traded either to generate excess return or for Treasury management purposes.
- Position portfolio (*IAS category: Available for Sale financial instruments*): which consists of financial instruments held to strengthen and stabilize returns.
- Money Market portfolio in Eonia Swaps (*IAS Category: Held for Trading financial instruments*): which consists of Eonia contracts held for trading.
- Forex portfolio (*IAS category: Held for Trading financial instruments*) which consists of forex forward and spot contracts for trading purposes.

B. Interest Rate Risk and Pricing Risk - Measurement and Management

Strategic management and control of financial risk is the responsibility of the Board of Directors, that sets out guidelines for the assumption of market risk, approves operational and credit limits for Finance Unit operations.
Within the Internal Control System, the Financial and Credit Risk Control Office is responsible for measuring the risks of the various operations and for verifying their compliance with the limits approved by the Bank's Board of Directors. The Financial and Credit Risk Control Office participates in the process of Board approval of said limits.

Exposure to interest rate risk and pricing risk is measured using:
Daily Var
Maximum cumulative loss over a daily and monthly horizon
Portfolio analysis in terms of:
- Exposure limits
- Characteristics of the instrument
- Characteristics of the issuer

Capital at Risk calculated under the rating-based Standardized Approach
Gap Analysis
Sensitivity Analysis.

Quantitative information

1. Trading Book: Time-to-maturity (repricing date) of non-derivative financial assets and liabilities and of financial derivatives

€/'000	On demand	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Indefinite maturity
1. Non-derivative assets	-	489,020	324,157	218,301	9,249	14,639	34,981	-
1.1 Debt securities	-	489,020	324,157	218,301	9,249	14,639	34,981	-
- With early redemption option	-	-	-	-	-	-	-	-
- Others						-	-	-
USD	-	4	799	419	8,492	-	-	-
GBP	-	-	-	7	-	-	-	-
ITL	-	1	-	-	-	-	-	-
EUR	-	489,015	323,358	217,875	757	14,639	34,981	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Non-derivative liabilities	-	-	11,962	5,413	8	38,223	-	4
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	11,962	5,413	8	38,223	-	4
EUR	-	-	11,962	5,413	-	38,223	-	4
TRY	-	-	-	-	8	-	-	-
3. Financial derivatives	-	-	-	-	-	-	-	-
3.1 With underlying securities	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Others	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying securities	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Others	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

2.2 Interest rate risk - banking book

Qualitative information

VaR (Value at Risk) estimates the risk of loss resulting from adverse movements in the price of traded financial instruments as a result of adverse market movements.
VaR corresponds to the maximum loss on a portfolio in the next business day (one-day holding period) at a 99% confidence level. Var is calculated using Riskmetrics for the following risks: interest rate, stock prices and indices, volatility. That method is adequate to the type and complexity of the financial instruments used by the Bank in its funding and lending transactions. Since 2004 daily VaR has been incorporated in the daily operating limits of the Parent Company.
The Gap Analysis measures impact of pre-set shocks in the interest rate curve based on how closely matched is the lending and funding exposure to interest rates .
The Sensitivity Analysis quantifies the sensitivity of the financial portfolio to adverse interest rate movements.
Those analyses are performed assuming as adverse movement a parallel uniform shift by 50 and 100 bps in the interest rate curve.

Quantitative information

1. Banking book: Time-to-maturity (repricing date) of non-derivative financial assets and liabilities and of financial derivatives

€/'000	On demand	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Indefinite maturity
1. Non-derivative assets	564,198	3,024,389	20,013	102,175	88,394	104,594	-	2,486
1.1 Debt securities	-	428,784	20,013	-	50,192	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	-	428,784	20,013	-	50,192	-	-	-
1.2 Loans to banks	355,020	2,243,369	-	85,354	-	-	-	1,917
1.3 Loans to customers	209,178	352,236	-	16,821	38,202	104,594	-	569
2. Non-derivative liabilities	3,671,181	1,093,090	11,962	41,586	8	38,223	-	4
2.1 Due to customers	3,503,863	157,845	-	6,080	-	-	-	-
2.2 Due to banks	167,318	935,245	-	30,093	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	11,962	5,413	8	38,223	-	4
- with early redemption option	-	-	-	-	-	-	-	-
- others	-	-	11,962	5,413	8	38,223	-	4
3. Financial derivatives	-	-	-	-	-	-	-	-
3.1 With underlying securities	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying securities	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Others	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

2.3 Pricing risk - trading book

Quantitative information

1. Trading book: on balance sheet equity instruments and holdings in UCITS

	Book Value	
€/'000	Listed	Unlisted
A. Equity instruments		
A.1 Shares	(4)	9
A.2 Innovative equity instruments	-	-
A.3 Other equity instruments	-	-
B. Holdings in UCITS		
B.1 Registered in Italy	-	-
- harmonized open-end funds	-	-
- non harmonized open-end funds	-	-
- closed-end funds	-	-
- reserved funds	-	-
- hedge funds	-	-
B.2 Registered in other EU countries		
- harmonized funds	-	-
- non harmonized open-end funds	-	-
- non harmonized closed-end funds	-	-
B.3 Registered in non EU countries	-	-
- open-end funds	-	-
- closed-end funds	-	-
Total	(4)	9

2. Trading book: analysis of exposures in equity instruments and stock indices by major market

	Listed			
€/'000	Italy	USA	Germany	Unlisted
A. Equity instruments				
- Long positions	-	-	-	9
- Short positions	(4)	-	-	-
B. Not yet settled purchases and sales of equity instruments				
- Long positions	4	-	297	-
- Short positions	-	-	-	-
C. Other equity instrument derivatives				
- Long positions	-	-	-	-
- Short positions	-	-	-	-
D. Stock index derivatives				
- Long positions	-	-	-	-
- Short positions	-	-	-	-

2.4 Pricing risk - banking book

Qualitative information

The Group's Banking Book is made up of those financial instruments that are not part of the trading book, in particular inter-bank loans and held-to-maturity investments. That portfolio consists exclusively of euro-denominated securities issued by governments and supranational agencies. Interest rate risk exposure of the banking book is measured using a simplified static ALM model.
In compliance with the requirements of the international accounting standards, in the second half of 2005, the bank developed a hedge accounting framework.
The hedge accounting framework sets forth, inter alia, controls for credit risk inherent in transactions made by Finance operations with institutional counterparties according to the operating procedures and limits approved by the Board of Directors.
The verification of compliance with those limits is incorporated into the investment process and can be monitored in real time by operating and control units through their integrated system.

Quantitative information

1. Banking book: on balance sheet equity instruments and holdings in UCITS

	Book value	
€/'000	Listed	Unlisted
A. Equity instruments		
A.1 Shares	10	517
A.2 Innovative equity instruments	-	-
A.3 Other equity instruments	-	-
B. Holdings in UCITS		
B.1 Registered in Italy	-	-
- harmonized open-end funds	-	-
- non harmonized open-end funds	-	-
- closed-end funds	-	-
- reserved funds	-	-
- hedge funds	-	-
B.2 Registered in other EU countries		
- harmonized funds	-	-
- non harmonized open-end funds	-	-
- non harmonized closed-end funds	-	-
B.3 Registered in non EU countries	-	-
- open-end funds	-	-
- closed-end funds	-	-
Total	10	517

2.5 Currency risk

Qualitative information

The Group is exposed to currency risk on all its foreign-currency denominated assets and liabilities (both on and off-balance sheet) including euro-denominated positions linked to the performance of foreign exchange rates. Currency exposure limits were set by reference to the net value of positions in the main operating currencies.

Quantitative information

1. Analysis of assets, liabilities and derivatives by currency denomination

	Currency					
€/'000	US dollar	Sterling	Yen	Canadian dollar	Swiss franc	Other currencies
A. Financial assets						
A.1 Debt securities	9,737	7	-	-	-	-
A.2 Equities	-	-	-	-	-	-
A.3 Loans to banks	228,863	4,174			55,490	86,092
A.4 Loans to customers	39					
A.5 Other financial assets	288	5			7	1
B. Other assets	-	-	-	-	-	-
C. Financial liabilities						
C.1 Due to banks	(151,988)	(23,234)			(25,722)	(145)
C.2 Due to customers	(14,445)					
C.3 Debt securities						(9)
D. Other liabilities	-	-	-	-	-	-
E. Financial derivatives						
- Options						
+ Long positions	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-
- Others						
+ Long positions	71,908	18,972	-	-	-	2,282
+ Short positions	(134,451)	(3)	-	-	(29,381)	(85,776)
Total assets	310,835	23,158	-	-	55,497	88,375
Total liabilities	(300,884)	(23,237)	-	-	(55,103)	(85,930)
Net position (+/-)	9,951	(79)	-	-	394	2,445

2.6 Derivative financial instruments

A. Financial derivatives

A.1 Trading book:year-end notional amounts

€/'000	Debt securities and interest rates		Equities and stock indices		Forex and gold		Others		Total at Dec. 31, 2005	
	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted
1. Forward rate agreement	-	-	-	-	-	-	-	-	-	-
2. Interest rate swap	-	4,483	-	-	-	-	-	-	-	4,483
3. Domestic currency swap	-	-	-	-	-	-	-	-	-	-
4. Currency interest rate swap	-	-	-	-	-	-	-	-	-	
5. Basis swap	-	-	-	-	-	-	-	-	-	-
6. Equity swaps	-	-	-	-	-	-	-	-	-	-
7. Commodity swaps	-	-	-	-	-	-	-	-	-	-
8. Futures	-	-	-	-	-	-	-	-	-	-
9. Caps	-	12,001	-	-	-	-	-	-	-	12,001
- Purchased	-	12,001	-	-	-	-	-	-	-	12,001
- Issued	-	-	-	-	-	-	-	-	-	-
10. Floors	-	1,000	-	-	-	-	-	-	-	1,000
- Purchased	-	1,000	-	-	-	-	-	-	-	1,000
- Issued	-	-	-	-	-	-	-	-	-	-
11. Other options	-	-	-	-	-	-	-	-	-	-
- Purchased	-	-	-	-	-	-	-	-	-	-
- Plain vanilla	-	-	-	-	-	-	-	-	-	-
- Exotic	-	-	-	-	-	-	-	-	-	-
- Issued	-	-	-	-	-	-	-	-	-	-
- Plain vanilla	-	-	-	-	-	-	-	-	-	-
- Exotic	-	-	-	-	-	-	-	-	-	-
12. Forward contracts	-	-	-	-	243,184	-	-	-	243,184	-
- Purchase	-	-	-	-	61,106	-	-	-	61,106	-
- Sale	-	-	-	-	170,561	-	-	-	170,561	-
- Cross-currency contracts	-	-	-	-	11,517	-	-	-	11,517	-
13. Other derivative contracts	-	1,850,000	-	-	87,787	-	-	-	87,787	1,850,000
Total	-	1,867,484	-	-	330,971	-	-	-	330,971	1,867,484

A.3 Financial derivatives: purchase and sale of underlying

€/'000	Debt securities and interest rates		Equities and stock indices		Forex and gold		Others		Total at Dec. 31, 2005	
	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted
A. Trading book	-	-	-	-	-	-	-	-	-	-
1. With exchange of principal	-	-	-	-	-	-	-	-	-	-
- purchases	-	-	-	-	62,011	-	-	-	62,011	-
- sales	-	-	-	-	218,747	-	-	-	218,747	-
- cross-currency contracts	-	-	-	-	31,151	-	-	-	31,151	-
2. Without exchange of principal	-	-	-	-	-	-	-	-	-	-
- purchases	-	1,201,000	-	-	-	-	-	-	-	1,201,000
- sales	-	666,484	-	-	-	-	-	-	-	666,484
- cross-currency contracts	-	-	-	-	-	-	-	-	-	-
B. Banking book	-	-	-	-	-	-	-	-	-	-
B1. Hedges	-	-	-	-	-	-	-	-	-	-
1. With exchange of principal	-	-	-	-	-	-	-	-	-	-
- purchases	-	-	-	-	-	-	-	-	-	-
- sales	-	-	-	-	-	-	-	-	-	-
- cross-currency contracts	-	-	-	-	-	-	-	-	-	-
2. With exchange of principal	-	-	-	-	-	-	-	-	-	-
- purchases	-	-	-	-	-	-	-	-	-	-
- sales	-	-	-	-	-	-	-	-	-	-
- cross-currency contracts	-	-	-	-	-	-	-	-	-	-
B2. Other derivatives	-	-	-	-	-	-	-	-	-	-
1. With exchange of principal	-	-	-	-	-	-	-	-	-	-
- purchases	-	-	-	-	-	-	-	-	-	-
- sales	-	-	-	-	-	-	-	-	-	-
- cross-currency contracts	-	-	-	-	-	-	-	-	-	-
2. With exchange of principal	-	-	-	-	-	-	-	-	-	-
- purchases	-	-	-	-	-	-	-	-	-	-
- sales	-	-	-	-	-	-	-	-	-	-
- cross-currency contracts	-	-	-	-	-	-	-	-	-	-

A.4 Over-the-counter financial derivatives: positive fair value - counterparty risk

€/'000	Debt securities and interest rates: Not settled gross amount	Debt securities and interest rates: Settled gross amount	Debt securities and interest rates: Future exposure	Equities and stock indices: Not settled gross amount	Equities and stock indices: Settled gross amount	Equities and stock indices: Future exposure	Forex and gold: Not settled gross amount	Forex and gold: Settled gross amount	Forex and gold: Future exposure	Others: Not settled gross amount	Others: Settled gross amount	Others: Future exposure	Different underlyings: Not settled gross amount	Different underlyings: Settled gross amount	Different underlyings: Future exposure
A. Trading book															
A.1 Governments & Central Banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.2 Government agencies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.3 Banks	1,929	-	460	-	-	-	2,919	-	-	-	-	-	-	-	-
A.4 Financial companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.5 Insurance companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.6 Non financial companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.7 Others	372	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total A (Dec. 31, 2005)	2,301	-	460	-	-	-	2,919	-	-	-	-	-	-	-	-
B. Banking book															
B.1 Governments & Central Banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.2 Government agencies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.3 Banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.4 Financial companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.5 Insurance companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.6 Non financial companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.7 Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total B (Dec. 31, 2005)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.5 Over-the-counter financial derivatives: negative fair value - counterparty risk

€/'000	Debt securities and interest rates			Equities and stock indices			Forex and gold			Others			Different underlyings		
	Not settled gross amount	Settled gross amount	Future exposure	Not settled gross amount	Settled gross amount	Future exposure	Not settled gross amount	Settled gross amount	Future exposure	Not settled gross amount	Settled gross amount	Future exposure	Not settled gross amount	Settled gross amount	Future exposure
A. Trading book															
A.1 Governments & Central Banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.2 Government agencies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.3 Banks	2,567	-	328	-	-	-	2,891	-	-	-	-	-	-	-	-
A.4 Financial companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.5 Insurance companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.6 Non financial companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.7 Others	-	-	-	-	-	-	444	-	-	-	-	-	-	-	-
Total A (Dec. 31, 2005)	2,567	-	328	-	-	-	3,335	-	-	-	-	-	-	-	-
B. Banking book															
B.1 Governments & Central Banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.2 Government agencies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.3 Banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.4 Financial companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.5 Insurance companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.6 Non financial companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.7 Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total B (Dec. 31, 2005)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

B. Credit derivatives

During the year the Bank did not trade in credit derivatives and at December 31, 2005 it did not hold any positions in those instruments.

3. Liquidity risk

Qualitative information

Given the types of assets held and their duration the Bank is not materially exposed to liquidity risk.
In 2005, as part of the IAS project, the bank set forth procedures for the identification of those instruments in its proprietary portfolio that not quoted in an active market and are potentially exposed to liquidity risk.
Liquidity risk is monitored using liquidity gap analysis under a simplified static ALM model.

Quantitative information

1. Time-to-maturity of financial assets and liabilities

€/'000	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	over 5 years
A. On balance sheet assets									
A.1 Government securities									
- USD	-	-	-	-	4	-	420	-	-
- EUR	-	41,166	-	118,406	391,880	268,049	158,804	50,929	3
A.2 Listed debt securities									
- USD	-	-	-	-	-	805	-	8,508	-
- EUR	-	-	-	173,122	128,076	70,645	59,123	775	51,418
A.3 Other debt securities									
- GBP	-	-	-	-	-	-	7	-	-
- ITL	-	-	-	1	-	-	-	-	-
- EUR	-	-	-	21,947	40,192	5,034	21	-	-
A.4 Holdings in UCITS									
A.5 Loans to									
- Banks (EUR)	355,020	-	-	-	2,243,369	-	85,354	-	1.917
- Customers (EUR)	209,178	-	-	-	352,236	-	16,821	38,202	105,163
B. On balance sheet liabilities									
B.1 Deposits									
- Banks (EUR)	167,318	-	-	-	935,245	-	30,092	-	-
- Customers (EUR)	3,503,863	-	-	-	157,845	-	6,080	-	-
B.2 Debt securities									
B.3 Other liabilities									
- EUR	-	-	-	-	-	11,963	5,412	-	38,226
- TRY	-	-	-	-	-	-	-	9	-
C. Off balance sheet items									
C.1 Financial derivatives with exchange of capital									
- Long positions	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-
C.2 Deposits and financing to be received									
- Long positions	-	-	-	-	21,701	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-
C.3 Firm commitments to disburse funds									
- Long positions	326	-	-	-	99,454	-	33,352	600	2,285
- Short positions	-	-	-	-	518	-	-	-	-

2. Analysis of financial liabilities by counterparty

€/'000	Governments & Central Banks	Government agencies	Financial companies	Insurance companies	Non financial companies	Others
1. Due to customers	602,283	53,640	415,507	369,586	36,524	2,950,073
2. Securities issued	-	-	-	-	-	-
3. Financial liabilities held for trading	22,174		33,431		4	6.231
4. Financial liabilities at fair value	-	-	-	-	-	-
Total at Dec. 31, 2005	624,457	53,640	448,938	369,586	36,528	2,956,304
Total at Dec. 31, 2004	100,054	3,087	475,112	201,615	42,950	2,624,270

3. Geographical analysis of financial liabilities

€/'000	Italy	Other European countries	America	Asia	Rest of the world
1. Due to customers	3,650,013	17,734	41	-	-
2. Due to banks	766,331	336,656	29,669	-	-
3. Securities issued	-	-	-	-	-
4. Financial liabilities held for trading	6,234	55,606	-	-	-
5. Financial liabilities at fair value	-	-	-	-	-
Total at Dec. 31, 2005	4,422,578	409,996	29,710	-	-
Total at Dec. 31, 2004	3,413,595	339,804	59,379	-	25,841

4. Operational risk

Qualitative information

A. General aspects, operational risk measurement and management

Operational Risk management and controls are part of the risk management and internal control system, i.e. the set of rules, procedures and organizational structures established to ensure adherence to corporate strategies, effectiveness and efficiency of corporate processes, protection of the company's assets and proper management of customer assets, reliability and integrity of accounting and management information as well as compliance of transactions with the law, the regulations issued by Supervisory Authorities, self-discipline and internal rules.
The internal control system of the Mediolanum Banking Group entails defense at different levels in accordance with the Group organizational structure.
Specifically, for operational risk line controls and risk controls are in place. Line controls are controls made by the individuals who carry out a certain activity and by their supervisors, generally within the same organizational unit or function. Risk controls (second level) are controls performed by units other than operating units; they contribute to the definition of operating limits and risk measurement methods and verify compliance of transactions with the risk/return targets set by corporate bodies in their respective areas of remit.

The Operational Risk Control unit within the Risk Control and Compliance function will be responsible for identifying, assessing and measuring operational risk, and for regularly reviewing the adequacy of the Group's capital also in relation to insurance coverage.

The Operational Risk Control unit will be separate and independent of operations and report directly to the Parent Company's Senior Management.

In consideration of the characteristics and business of the Mediolanum Banking Group special attention is being paid to risks arising from Sales Network's activities and distribution through multiple remote channels. Those risks will be managed by putting in place, among other things, local controls and procedures for risk assessment, management, prevention and mitigation.
The operational risk management framework entails a central control unit (the Group operational risk unit) and local control units especially for those operations that are more exposed to operational risk: foreign banks or other organizational units (direct channels, sales network inspectors, Group Information Systems and Organization), also to facilitate coordination in relation to Business Continuity & Disaster Recovery Plans.
Close coordination with the Compliance function is also envisaged.

The development of the operational risk control framework was started at the end of 2005 and will continue in 2006. The operational risk control framework will be implemented throughout the Group, together with the IT tools required to support it.

The adequacy of the capital charge for operational risk will be assessed using the standardized approach under the Basel II Capital Accord which calculates the capital charge on the basis of gross income generated by each business line, in accordance with the classification proposed in that Capital Accord. That approach is classified as "sophisticated" and may be a transitional step to the Advanced Measurement Approach (AMA), whose implementation is currently being assessed to timing, economic impact and expected benefits especially in relation to optimization of capital charge and insurance contracts.

In order to qualify for use of the Standardized Approach under the new Basel Capital Accord and Sound Practices certain requirements are to be satisfied. These requirements relate to three consistent areas:

1. Governance:

- Involvement of Senior Management in the oversight of the operational risk management framework,
- Implementation of a sound Operational Risk Management system,
- Classification of operational risk and implementation of risk management policies,
- Development of criteria for mapping gross income as set out in the Capital Accord.

2. **Risk identification and measurement:**
   - Risk Assessment: with the assistance of Deloitte Consulting the Group has already started the risk assessment process, i.e. the identification and classification of possible operational risk factors within all group structures, with detailed analysis of the activities, risk factors and controls in place. That process will be periodically reviewed by the Operational Risk Control unit to identify more risk-sensitive approaches and mitigation techniques, as well as to confirm capital adequacy to potential risk sources and their impact;
   - Loss Data Collection: process of identification and measurement of losses resulting from an adverse event attributable to Operational Risk. That process will be closely integrated with financial reporting.
3. **Reporting:** implementation of a system for internal (Business Unit and Senior Management) and external reporting (Supervisory Authorities and financial community).

Certain qualitative and quantitative benefits are expected from the adoption of the standardized approach, namely:

- Reduced capital charge for operational risk, with increasing benefits as the Group moves towards the adoption of the advanced approach;
- Increased risk awareness across the organization through the direct involvement of Senior Management in the definition of risk management policies and strategies;
- Greater intelligence and improved decision-making processes following the definition of priorities and mitigation actions;
- Increased transparency with respect to the market and enhanced customer trust as a result of the operation and supervision of adequate operational processes and activities;
- More effective and efficient business management through the constant monitoring and control of risk factors and causes.

In accordance with the recommendation of supervisory authorities the risk management system developed by the Risk Control function and the operational risk assessment system will be subject to regular review by independent auditors and/or supervisory authorities.

PART F - INFORMATION ON CAPITAL

SECTION 1 - CAPITAL

B. Quantitative information

€/'000	Amount	Possible utilization (A, B, C)	Usable amount	Utilization in the prior three years: loss coverage	Utilization in the prior three years: other
Share capital:	341,000	-	-	-	-
Capital reserves of which:	-	-	-	-	-
Retained earnings of which to:					
- legal reserve	9,369	B	9,369	-	-
- extraordinary reserve	54,670	A B C	54,670	-	1,329
- FTA reserve	(65,524)	A B	-	-	-
Other reserves of which:					
- other	2,180	-	-	-	-
- merger reserve	3,185	A B C	3,185	-	-
Valuation reserve	(1)		-		-
Total	344,879		67,224	-	1,329
Of which undistributable	-		67,224	-	-
Of which distributable	-		-	-	-

Legend:
A: capital increase
B: loss coverage
C: distribution to shareholders

SECTION 2 - CAPITAL REQUIREMENTS

2.1 Regulatory capital

With its Circular Letter No. 1157044 of December 1, 2005 the Bank of Italy advised banks, for consultative purposes, of possible changes in regulatory capital requirements in the light of the adoption of the international accounting and reporting standards. Those changes would amend and supplement certain parts of the previous draft regulations on prudential filters which had been distributed to banks.

For parent companies the application of the new regulations will become mandatory in the preparation of their separate interim financial statements at June 30, 2006. However, to ensure consistency with consolidated financial reporting, the Bank's regulatory capital and capital ratios for the year under review were calculated applying the new regulations.

A. Qualitative information

Capital consists exclusively of share capital and equity reserves. At December 31, 2005 there were no subordinated instruments included in the calculation of regulatory capital
The main instruments included in the calculation of Tier 1 (core) capital and Tier 2 (supplementary) capital are set out in the tables below.

B. Quantitative information

€/'000	Dec. 31, 2005
A. Tier 1 capital before the application of prudential filters	370,822
Tier 1 prudential filters	
- Positive adjustments	-
- Negative adjustments	-
B. Tier 1 capital after the application of prudential filters	370,822
C. Tier 2 capital before the application of prudential filters	(2)
Tier 2 prudential filters	
- Positive adjustments	-
- Negative adjustments	-
D. Tier 2 capital after the application of prudential filters	(2)
E. Total capital (Tier 1 and Tier 2) after the application of prudential filters	370,820
Deductions from total capital (Tier 1 and Tier 2)	-
F. Regulatory capital	370,820

2.2 Capital adequacy

€/'000	Not weighted Dec. 31, 2005	Weighted/ requirement Dec. 31, 2005
A. Risk assets		
A.1 Credit risk	4,467,586	1,692,066
Standardized method		
On balance sheet assets	4,305,590	1,623,842
1. Exposures (other than equities and other subordinated assets) to (or guaranteed by):	3,802,555	1,187,293
1.1 governments and central banks	569,864	-
1.2 government agencies	9,944	1,989
1.3 banks	2,546,804	509,361
1.4 others	675,943	675,943
2. Residential mortgage loans	124,407	62,204
3. Non-residential mortgage loans	-	-
4. Shares, equity investments and subordinated assets	302,965	302,965
5. Other assets	75,663	71,380
Off balance sheet assets	161,996	68,224
1. Guarantees and commitments to (or guaranteed by):	161,996	68,224
1.1 governments and central banks	21,645	-
1.2 government agencies	-	-
1.3 banks	90,160	18,032
1.4 others	50,191	50,192
2. Derivative contracts with (or guaranteed by):	-	-
2.1 governments and central banks	-	-
2.2 government agencies	-	-
2.3 banks	-	-
2.4 others	-	-
B. Regulatory capital requirements		
B.1 Credit risk		118,445
B.2 Market risk		29,295
1. *Standardized method*		29,295
of which:		
+ risk of positions in debt securities		25,077
+ risk of positions in equities		164
+ currency risk		4,054
+ other risks		-
2. *Internal models*		-
of which:		
+ risk of positions in debt securities		-
+ risk of positions in equities		-
+ currency risk		-
B.3 Other prudential requirements		-
B.4 Total prudential requirements (b1+b2+b3)		147,740
C. Risk assets and capital ratios		
C.1 Risk-weighted assets *		2,110,571
C.2 Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)		17.57%
C.3 Regulatory capital/Risk-weighted assets (Total capital ratio)		17.57%

(*) Total prudential requirements multiplied by the reciprocal of the mandatory minimum coefficient for credit risk (7%)

PART G - BUSINESS COMBINATIONS

SECTION 1 - TRANSACTIONS CONCLUDED DURING THE YEAR

In 2005 there were no transactions requiring disclosure under IFRS 3.
Please note that during the year under review the subsidiaries Fibanc S.A. and Tanami S.A. were merged into the subsidiary Banco de Finanzas e Inversiones S.A..
The merger was made between companies that are part of the Banca Mediolanum S.p.A. Banking Group and had no impact on the financial position and result of operations of the bank.

SECTION 2 - POST-BALANCE SHEET DATE TRANSACTIONS

No transaction was concluded after the end of the financial year under review.

PART H - RELATED PARTY TRANSACTIONS

1. Key management compensation

€/'000	Directors, Statutory Auditors, Deputy/ General Managers	Other key managers
Emoluments & social security contributions	677	970
Other pension benefits and insurance	-	-
Non-cash benefits	-	-
Other post-employment benefits	-	-
Share-based awards (stock options)	50	123

2. Information on related party transactions

Related party transactions primarily refer to transactions with companies that are part of the Mediolanum Group and specifically:

- the parent company Mediolanum S.p.A. in connection with the sub-agency agreement for the distribution of insurance products of Mediolanum Vita S.p.A and Mediolanum Assicurazioni S.p.A.;
- the subsidiaries Mediolanum Gestione Fondi SGR p.A. and Mediolanum International Funds Ltd for the sale of Mutual Funds;
- the associate Mediolanum Life Ltd for the distribution of index linked insurance contracts;
- the associate Duemme Hedge SGR p.A. for the sale of holdings in hedge funds managed by the company that is part of the Banca Esperia Banking Group;
- Mediolanum Group companies for the provision of IT, administrative and logistics services;
- the parent company Mediolanum S.p.A in connection with central Group management of tax and corporate affairs.

In addition personnel was seconded to and from other companies within the Mediolanum Group.

All transactions are made on an arm's length basis at market conditions, except for personnel seconded from Banca Mediolanum to other Group companies and vice versa, that is charged on the basis of actual costs incurred.
An analysis of related party balances at December 31, 2005 by related party category is set out in the table below.

€/'000	AFS financial assets	HTM investments	Loans to customers	Loans to banks	Due to customers	Due to banks	Guarantees issued
(a) Parent company	-	-	-	-	13,433	-	-
(b) Entities exercising significant influence over the company	-	-	-	-	-	-	-
(c) Subsidiaries	-	-	10,717	-	12,548	209,368	5,000
(d) Associates	-	-	-	-	-	-	-
(e) Joint ventures	-	-	-	-	-	-	-
(f) Key managers	-	-	-	-	-	-	-
(g) Other related parties	-	-	64,191	-	380,812	38	14,675
Total	-	-	74,908	-	406,793	209,406	19,675

Details on related party transactions in excess of €10 thousand made in the year are set out in the table below.

€/'000	Income
Interest income and similar incom	
Duemme Hedge S.p.A.	953
Banca Esperia S.p.A.	454
Mediolanum Holding International S.p.A.	312
Mediolanum International Life Ltd	158
Banco de Finanzas e Inversiones S.p.A.	32
Alboran S.p.A.	21
Partner Time S.p.A.	11
Commission income on the sale of insurance products:	
Mediolanum S.p.A.	164,901
Mediolanum International Life Ltd	20,789
Commission income on the sale of mutual funds:	
Mediolanum International Funds Ltd	59,908
Mediolanum Gestione Fondi Sgr p.A.	28,930
Duemme Hedge S.p.A.	61
Commission income on the sale of pension funds:	
Mediolanum S.p.A.	31
Commission income on collection, payment and other services:	
Mediolanum Vita S.p.A.	1,343
Banca Esperia S.p.A.	37
Mediolanum Assicurazioni S.p.A.	27
Dividends from Group companies:	
Mediolanum International Funds Ltd	131,431
Mediolanum Gestione Fondi SGR p.A.	4,343
Mediolanum Asset Management	1,723
Net income on derivative trading:	
Banco de Finanzas e Inversiones S.p.A.	68
Income on key personnel	
Mediolanum International Funds Ltd	596
Mediolanum Vita S.p.A.	521
Mediolanum Gestione Fondi SGR p.A.	342
Partner Time S.p.A.	259
Mediolanum Comunicazione S.p.A.	163
Mediolanum International Life Ltd	91
Mediolanum Distribuzione Finanziaria S.p.A.	19
Tax recoveries:	
Mediolanum Vita S.p.A.	11
Recoveries of expenses from Group companies for centrally provided services:	
Mediolanum Vita S.p.A.	3,302
Mediolanum Gestione Fondi SGR p.A.	3,248
Partner Time S.p.A.	760
Mediolanum Comunicazione S.p.A.	710
Mediolanum S.p.A.	657
Mediolanum Distribuzione Finanziaria S.p.A.	51
Mediolanum International Life Ltd	75
PI Distribuzione S.p.A.	50
Mediolanum Assicurazioni S.p.A.	70
Other income from rentals and miscellaneous recoveries:	
Mediolanum Assicurazioni S.p.A.	172
Mediolanum Vita S.p.A.	24

€/'000	Expenses
Interest expense and similar charges:	
Mediolanum Vita S.p.A.	5,649
Banco de Finanzas e Inversiones S.p.A.	4,683
Mediolanum S.p.A.	951
Bankhaus August Lenz AG	429
Mediolanum Gestione Fondi SGR p.A.	235
Mediolanum International Life Ltd	195
Mediolanum Assicurazioni S.p.A.	144
Gamax Management AG	101
PI Distribuzione S.p.A.	22
Banca Esperia S.p.A.	14
Commissions payable for third-party asset management:	
Mediolanum Gestione Fondi Sgr p.A.	778
Commissions payable on off-premises sale of financial instruments:	
Mediolanum Distribuzione Finanziaria S.p.A.	47
Other staff costs:	
Mediolanum Comunicazione S.p.A.	87
Net expense for key personnel:	
Mediolanum S.p.A.	1,258
Mediolanum Assicurazioni S.p.A.	278
Banco de Finanzas e Inversiones S.p.A.	155
Television and internet communications - expenses for technical services:	
Mediolanum Comunicazione S.p.A.	7,138
Alboran S.p.A.	1,958
Pubblitalia S.p.A.	473
Rentals:	
Mediolanum Vita S.p.A.	927
Mediolanum Gestione Fondi SGR p.A.	114
Consumables:	
Arnoldo Mondadori Editore S.p.A.	18
Miscellaneous insurance costs:	
Mediolanum Assicurazioni S.p.A.	909
Audiovisual advertising and promotions:	
Publitalia S.p.A.	3,695
Alboran S.p.A.	1,669
Mondadori Pubblicità S.p.A.	374
Pagine Italia S.p.A.	155
Mediolanum Comunicazioni S.p.A.	130
Milan A.C. S.p.A	37
Organization of exhibitions and conventions:	
Mediolanum Comunicazione S.p.A.	3,666
Alboran S.p.A.	910
Sales force training:	
Mediolanum Comunicazione S.p.A.	240
Business expenses, gifts and other services:	
Mediolanum S.p.A.	260
Mediolanum Assicurazioni S.p.A.	115
Milan A.C. S.p.A.	109
Banco di Finanzas e Inversiones S.p.A.	44
Mediolanum Comunicazione S.p.A.	63

PART I - EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

A. QUALITATIVE INFORMATION

1. Description of equity-settled share-based payment transactions

Equity-settled share-based payment transactions relate to the share capital increases for a consideration resolved by the parent company Mediolanum S.p.A under a stock option plan, which can be implemented on multiple occasions and in different years. The stock option plan and the related capital increases are reserved to the employees, directors and contract workers of Mediolanum S.p.A. and its subsidiaries.

For details on the stock option plan readers are referred to the relevant section of the consolidated financial statements.

B. QUANTITATIVE INFORMATION

1. Changes occurred in the year

In the year 2005 1,251,205 stock options granted in 2002 and 2003 were exercised for a total of 1,251,205 Mediolanum S.p.A. shares.
The table below shows movements in option holdings in the year as per Bank of Italy's Circular Letter 262/2005.

	Options held			Options granted			Options exercised				Options at the beginning of the year		
Number of options and exercise price	Number of options	Average exercise price	Average expiration	Number of options	Average exercise price	Average expiration	Number of options	Average exercise price	Average market price	Options held at in the year	Number of options	Average exercise price	Average exercise price
Employees	1,443,000	5.395	2005-2009	395,000	5.231	2007-2012	(338,000)	3.907	-	(22,000)	1,478,000	5.663	2007-2012
Directors	-	-	-	90,000	1.118	2007-2012	-	-	-	-	90,000	0.831	2007-2012
Contact workers	1,630,662	0.558	2005-2009	240,040	1.118	2007-2012	(913,205)	0.539	-	(28,041)	929,456	0.723	2007-2012
Total	3,073,662	2.829	2005-2009	725,040	3.359	2007-2012	(1,251,205)	1.449	5.134	(50,041)	2,497,456	3.650	2007-2012

2. Other information

The year's cost of stock options, which corresponds to the year's share of the fair value of financial instruments over the vesting period, amounted to €2,180 thousand and entailed a corresponding increase in the Company's equity reserves.

For the Board of Directors
The Chairman
Ennio Doris

BANCA MEDIOLANUM S.p.A.

Adoption of International Financial Reporting Standards

Adoption of International Financial Reporting Standards

LEGAL FRAMEWORK

Pursuant to the European Parliament and Council Regulation (EC) 1606 of July 19, 2002 the European Commission established that beginning from 2005 all EU publicly traded companies are to apply the international accounting and reporting standards IAS/IFRS in the preparation of their consolidated financial statements. That regulation aims to improve the quality of financial information and above all the comparability of the financial statements of publicly traded companies in the European Union.
The international accounting standards IAS/IFRS are issued by an independent board, the International Accounting Standards Board (IASB ®), endorsed by the European Commission and published in the Official Journal of the European Union.
A complete list of the IAS/IFRS adopted by the European Commission is attached hereto.

By Legislative Decree No. 38 of February 28, 2005 the Italian Government extended the application of the new international accounting standards also to the separate financial statements (beginning from 2006 or voluntarily from 2005) of publicly traded companies, banks and other regulated financial institutions and to the consolidated financial statements of banks, other regulated financial institutions and insurance companies that are not publicly traded, as well as, on a voluntary basis, to the financial statements of their subsidiaries except for unlisted insurance companies and minor entities pursuant to art. 2435 of the Italian Civil Code.
In relation to the financial statements of banks said decree confirmed the authority of the Bank of Italy under Legislative Decree No. 87/92 with respect to the definition of the formats and accompanying information requirements.

THE MAIN CHANGES INTRODUCED BY THE NEW ACCOUNTING STANDARDS

The adoption of IAS/IFRS entails some important changes in the way transactions are accounted for, in the classification of the main items of the financial statements and the accounting policies applied to assets and liabilities, in accordance with the general principle of substance over form.
The main changes introduced by the new international accounting and reporting standards in the preparation and presentation of the financial statements of Banca Mediolanum are set out below.

Financial Instrument

The major change introduced by the new accounting and reporting standards relates to the accounting treatment of financial instruments.

On initial recognition a financial asset or financial liability is to be measured at its fair value, i.e. the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction, plus or minus directly attributable transaction costs or income, which are capitalized and amortized through profit or loss over the life of the instrument using the effective interest method (so called "amortized cost").

When the transaction price is not in line with market value, the difference is to be recognized in the income statement on initial recognition.

In relation to hybrid (combined) financial instruments, i.e. instruments that consist of a non-derivative host contract and an embedded derivative, IAS/IFRS require that the embedded derivative be separated from the host contract and accounted for as a derivative if the hybrid (combined) instrument is not measured at fair value or if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Financial instruments are to be classified on initial recognition and their re-classification is allowed only in limited circumstances. IAS 39 defines four categories of financial instruments: financial assets and financial liabilities at fair value through profit or loss (substantially financial assets and financial liabilities held for trading and financial assets that regardless of the purpose for which they are held the company designates as at fair value upon initial recognition), available-for-sale financial assets, held-to-maturity investments, loans and receivables. The classification of financial instruments is relevant for the purposes of measurement, since the first two categories are to be measured at fair value, and the other two at cost or amortized cost.

A gain or loss arising from a change in the fair value of a financial asset or financial liability is to be recognized in the income statement for assets or liabilities classified as at fair value through profit or loss and directly in equity until the asset is sold for available-for-sale financial assets.

IAS/IFRS require that financial instruments that are not classified as "financial assets and financial liabilities at fair value through profit or loss" be regularly assessed for evidence indicating that the asset's carrying amount is not entirely recoverable. That evaluation is carried out for individual assets or collectively for groups of assets with similar risk characteristics. Any resultant impairment loss is to be measured taking into account also the time of recovery for recoverable amounts. The recognition and measurement of financial instruments involves also derivative hedging instruments and hedged items. The international accounting standards classify hedge relationships into three types: **fair value hedge**, i.e. a hedge of the exposure to changes in fair value of an asset or liability, for which both the gain or loss from measuring the derivative hedging at fair value and the gain or loss on the hedged item are to be recognized in profit or loss; **cash flow hedge**, i.e. a hedge of the exposure to variability in cash flows that is attributable to a particular risk and **hedge of a net investment in a foreign operation** for which the gain or loss on the hedging instrument are to be recognized in equity through the statement of changes in equity (while the hedged asset or liability is carried at cost or amortized cost). This accounting treatment results from the requirement that all derivatives, including derivative hedging instruments, are to be measured at fair value. Under Italian GAAP, derivative hedging instruments and hedge items were measured at cost.

Equity investments

Under the international accounting standards only investments in subsidiaries, associates or joint ventures can be classifieds as equity investments. All other equity instruments are to be classified either as financial assets at fair value through profit or loss or as available-for-sale financial assets.

Tangible and intangible assets

Under the international accounting standards tangible and intangible assets are measured at fair value or at purchase cost. Any change in the asset's fair value is recognized in an equity reserve, except for investment property for which a change in fair value is to be recognized in profit or loss. Intangible assets with indefinite useful lives are not amortized (e.g. goodwill) but tested for impairment. Under IAS/IFRS tangible assets carried at cost are depreciated over their useful lives and assets with different useful lives are depreciated separately.
Under international accounting standards expenditure on research, advertising, training, restructuring, brands and internally generated rights cannot be capitalized.

Share-based payments

Under the international accounting standards share-based payments – in the case of our Group the stock options granted to employees and contract workers – are to be measured at fair value recognizing the corresponding amount in the income statement over the "vesting period" and in equity.

Post-employment benefits

The international accounting standards classify pensions and, in general, all benefits payable to employees after the completion of employment, into two categories: **defined contribution plans** for which the entity is required to recognize the contribution payable to the plan, and **defined benefits plans** for which the entity is required to recognize the estimated amount of the benefit payable to the employee upon completion of employment, using actuarial techniques.

FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Under IFRS 1 on first-time adoption of International Financial Reporting Standards the reporting entity is required:

- to prepare an opening IFRS balance sheet at the date of transition to IFRS;
- to apply the same accounting policies in the first IFRS financial statements and in all comparative periods (except for certain mandatory exceptions and optional exemptions from full retrospective application, as set out in IFRS 1);
- to explain the impact of the first time adoption of IFRS.

The transition date is January 1, 2004 and the first IFRS financial statements are to include comparative information under the same IFRS in effect as of January 1, 2005 for at least one prior period (i.e. financial year 2004).

The application of IAS 32 and IAS 39 (financial instruments), which were approved by the IASB and adopted by the European Commission during 2004, is not mandatory from January 1, 2004. Those entities that elect to apply exemptions full retrospective application in relation to those standards are required to restate their financial information under those accounting and financial reporting standards from January 1, 2005 and financial information for 2004 may not be entirely comparable.

The IFRS opening balance sheet at January 1, 2004 (and at January 1, 2005 for financial instruments and insurance contracts) is to be prepared as follows:

- not recognize those assets and liabilities whose recognition was permitted under national GAAP but is not allowed under IAS/IFRS and reclassify other assets and liabilities under the new standards;
- recognize those assets and liabilities whose recognition is required under IFRS but was not allowed under national GAAP;
- apply IAS/IFRS in measuring all recognized assets and liabilities.

The resulting adjustments are to be recognized directly in equity at the date of transition to IFRS.

On first-time adoption of the new accounting standards the Group exercised judgment in relation to the classification of financial instruments, the application of certain optional accounting policies and optional exemptions from full retrospective application of IFRS.

As allowed under IFRS 1, Banca Mediolanum also elected to apply IAS 32 and IAS 39 (financial instruments) from January 1, 2005. Therefore financial data relating to financial instruments for financial year 2004 are not comparable.

However, to enable a comparative analysis of consistent data, the effects of the application of IAS 32 and IAS 39 from January 1, 2004 – at January 1, 2004 and for financial year 2004 – were estimated based on available information.

Financial instruments (securities, loans and receivables, payables, derivatives and equity investments) were reclassified into the new IAS/IFRS categories on the date of transition to IFRS as permitted under IFRS 1 as an exception to the general requirement that financial instruments be classified when they are acquired.

Securities were re-classified in accordance with the new IAS categories and the policy on the management of investment securities (now called "Held-to-maturity investments") was reviewed.

Derivatives held for trading were classified as financial assets held for trading when their fair value was positive and as financial liabilities held for trading when their fair value was negative.

Investments in subsidiaries, associates and joint-ventures continued to be classified as equity investments, while all other shareholdings were classified as "available-for-sale financial assets".
The option of carrying property at fair value was not applied and property continued to be measured at purchase cost less any accumulated depreciation and impairment losses. Land and buildings were accounted for separately and accumulated depreciation for land was reversed.
On first-time adoption the Group elected to apply the following exemptions/options:

- business combinations: the Group did not apply IAS/IFRS to business combinations that occurred prior to the date of transition to IFRS. Thus existing goodwill did not have to be restated under IFRS;
- employee benefits: the Group did not avail itself of the option of using the "corridor approach" (IAS 19) that leaves some actuarial gains and losses unrecognized when the change over the prior year is lower than 10%;
- share-based payments: where applicable, the Group did not apply IFRS 2 to stock options granted before November 7, 2002 and to stock options granted after November 7, 2002 that vested before the later of a) the date of transition to IFRS and b) January 1, 2005. The Mediolanum Group applied IFRS 2 from January 1, 2004 for stock options granted after November 7, 2002.

RECONCILIATIONS BETWEEN IFRS AND ITALIAN GAAP WITH EXPLANATORY NOTES

The reconciliations of equity and net profit as reported under Italian GAAP to equity and net profit under IFRS were prepared in accordance with IFRS 1.
Since IAS 32 and IAS 39 (financial instruments) were applied from January 1, 2005, as permitted under IFRS 1, to enable a comparative analysis of consistent data the effects of the application of IAS 32 and IAS 39 from January 1, 2004 – at January 1, 2004 and for financial year 2004 – were estimated based on available information.
The reconciliations of equity at January 1, 2004 (IAS 39 not applied) and at January 1, 2005, as well as the reconciliation of net profit at December 31, 2004 (IAS 39 not applied) were audited by the independent auditors.

Reconciliation of equity as reported under Legislative Decree 87/92 to equity under IFRS

IAS 39 not applied

€/'000	Jan. 1, 2005	Jan. 1, 2004
Equity as reported under Legislative Decree 87/92	444,029	432,981
Reserves		
Reversal of land depreciation	11	(148)
Valuation adjustment relating to provisions for risks and charges	3,355	7,970
Actuarial valuation of employee completion-of-service entitlements	(123)	(31)
Other effects	(68,647)	(65,891)
Tax effect	(9)	(1,534)
Total effects of FTA of IFRS	(65,413)	(59,634)
Equity under IFRS	378,616	373,347

IAS 39 applied

€/'000	Jan. 1, 2005	Jan. 1, 2004
Equity as reported under Legislative Decree 87/92	444,029	432,981
Reserves		
Fair value measurement of trading securities and derivatives	669	598
Collective assessment of performing loans	(780)	(677)
Reversal of land depreciation	11	(148)
Valuation adjustment relating to provisions for risks and charges	3,355	7,970
Actuarial valuation of employee completion-of-service entitlements	(123)	(31)
Other effects	(68,649)	(65,892)
Valuation reserves		
Available-for-sale financial assets		
Fair value measurement of equity instruments	(3)	-
Tax effect	(7)	(1,539)
Total effects of FTA of IFRS	(65,527)	(59,719)
Equity under IFRS	378,502	373,262

The reconciliation of equity set out above shows the effect of the transition to IFRS on equity.

"Reserves" include adjustments that do not entail the recognition of any gains or losses in the income statement in future financial years since those adjustments would have already had their effect on the income statement if IFRS had been adopted earlier.

"Valuation reserves" include adjustments that are going to vary over time due to the changes in the fair value of assets and liabilities and which will be recognized as gains or losses in the income statement only when realized.

As a result of the movements in equity on IFRS First-Time Adoption, at January 1, 2005 equity decreased from €444,029 thousand to €378,502 thousand, down €65,526 thousand of which €7 thousand relating to tax effects and -€65,519 thousand to other negative effects.

Consequently, a negative amount of €65,524 thousand was charged to equity under the "IFRS First Time Adoption Reserve", and €2 thousand was charged to the "Valuation Reserves" in both cases after the tax effect.

Reconciliation of net profit as reported under Legislative Decree 87/92 to net profit under IFRS

The reconciliation of net profit set out below shows the effect that the transition to IFRS would have had on net profit at December 31, 2004.

€/'000	IAS 39 applied	IAS 39 not applied
Net profit under Legislative Decree 87/92	45,489	45,489
Net commissions	(1,268)	(1,289)
Net interest income	(630)	(614)
Trading gains / losses	71	-
Impairment losses	(106)	-
Depreciation and amortization of tangible and intangible assets	159	159
Staff costs	(571)	(571)
Provisions for risks and charges	(4,003)	(4,002)
Dividends	(2,756)	(2,756)
Taxes	1,531	1,525
Net profit under IFRS	37,916	37,941

Financial assets held for trading

Fair value measurement of trading securities and derivatives

Securities and derivatives held for trading are to be measured at fair value. Unlike Italian GAAP, the international accounting standards require the recognition of gains or losses arising from changes in fair value.

Fair value measurement was applied to trading securities and derivatives in accordance with IAS/IFRS.

(The impact was a €669 thousand increase in equity before taxes at January 1, 2005).

Loans and receivables

Collective assessment of performing loans

Loans for which there is no objective evidence of impairment are collectively assessed. To that end, loans are grouped on the basis of similar credit risk characteristics and the related loss probability is estimated using historical loss rates.

Loan losses were calculated using, to the greatest extent allowed under the various applicable regulations, techniques similar to those required for the calculation of capital charges under the new Basel II Capital Accord. Specifically, the Probability of Default (PD) and the Loss Given Default (LGD) were applied – when available – also to financial items other than capital. Those two measures were the basis for loan classification in accordance with the requirements of IAS/IFRS for the determination of groups of loans with similar characteristics and the calculation of provisions. The one-year time horizon applied when measuring the probability of default is considered to approximate the concept of incurred loss, that is a loss arising from current events of which there is not yet evidence in the company's assessment of the individual borrower, in accordance with the international accounting standards.

(The impact was a €780 thousand decrease in equity before taxes at January 1, 2005).

Tangible and intangible assets

Adjustments for depreciation of land and property

Under the international accounting standards tangible assets are to be depreciated over the useful life of the asset or its individual components when their useful life is different. That entails that the carrying amount of buildings is to be separated from that of the land on which they stand – since land cannot be depreciated – and any previously recognized accumulated depreciation for land is to be reversed.

Therefore the carrying amount of buildings and that of land on which a building stands was measured separately and the previously recognized accumulated depreciation for land was reversed.

To determine the value of land, valuations of property were performed by external valuers.

(The impact was a €12 thousand increase in equity before taxes at January 1, 2005).

Provisions for risk and charges

Provisions for risk and charges and present value of the expected expenditures

Under the international accounting standards a provision can be recognized only if the entity has a present obligation in relation to which it is probable that an outflow of resources will be required to settle it and a reliable estimate can be made of the amount of the obligation. The estimate reflectsprobable outcome on the basis of historical loss experience. To meet the requirements of the international accounting standards, adjustments were made to provisions set aside in previous years. Under IAS/IFRS if the time value of money is material, the amount of the provision has to be the present value of the expenditure expected to be required to settle the obligation. Adjustments were therefore made to provisions to reflect the present value of expected future expenditures.

(the impact was a €3,355 thousand increase in equity before taxes at January 1, 2005).

Estimate of employee completion-of-service entitlements using actuarial techniques

Under international accounting standards the amount of the benefits payable by the employer to the employees upon completion of service under defined benefits plans is to be recognized using estimates based on actuarial assumptions. Italian employee completion-of-service entitlements are judged to be defined benefit obligations therefore they were re-measured on the basis of actuarial assumptions (the impact was a €123 thousand decrease in equity before taxes at January 1, 2005).

Available-for-sale financial assets

Under IAS/IFRS financial instruments classified as "available-for-sale financial assets" are to be measured at fair value. The effects of that measurement are to be recognized directly in an equity reserve until they are sold.

Fair value measurement of equity instruments

On first-time adoption of IFRS equity investments which do not qualify as investments in subsidiaries, associates or joint ventures are to be classified as "available-for-sale financial assets".

Those shareholdings – which under Italian GAAP had been carried at cost – were measured at fair value when a stock market price or a current valuation of the investee was available, while continued to be measured at cost in all other cases.

Share-based payments

Unlike Italian GAAP, IAS/IFRS require that share-based payments (i.e. stock options) be measured at the fair value of the stock option on the Grant Date, and recognized in the income statement in the period between the Grant Date and the Vesting Date, recognizing the corresponding amount in an equity reserve.
IFRS 2 is to be applied to stock options granted after November 7, 2002.
The fair value of those stock options was measured and the related amount for financial year 2004 was recognized in the income statement. That did not entail any changes in equity.
(At June 30, 2004 and at December 31, 2004 that had an impact on profit of €529 thousand and €1,767 thousand, respectively).

Other effects

The residual effects of the first-time adoption of IFRS were primarily in connection with the recognition of dividends on a cash basis (the impact was a €68,647 thousand decrease in equity before taxes at January 1, 2005).
The other effects of loan assessment relate to the application of amortized cost, the write-downs of default interest and the calculation of the present value of estimated future cash flows for individually assessed impaired loans.

Tax effect

The impact on equity of the first-time adoption of IFRS was calculated after the related tax effect. Taxation was calculated in accordance with current legislation (including Legislative Decree 38/2005), specifically:
- IRES (corporate income tax) was calculated at the rate of 33%;
- IRAP (regional business tax) was calculated at the rate of 4.25% (plus any additional regional tax, where applicable).

Report of the Board of Statutory Auditors

Report of the Board of Statutory Auditors

Dear Shareholder,

In accordance with article 153 of Legislative Decree No. 58 of February 24, 1998 and article 2429, paragraph 3 of the Italian Civil Code, at the meeting convened to approve the financial statements for the year ended December 31, 2005, we report to you on our supervisory activities pursuant to article 149 of the Legislative Decree above.

Preliminary information

Prior to reporting on our supervisory activities, we advise you that in the year 2005 the Bank met the growth targets it had set itself.

The financial statements for financial year 2005 show:

- a marked increase in customer funding, which rose to €3,667.8 million from €3,152 million in the prior year;
- a considerable growth of customer loans over 2004;
- a noticeable increase in total income (up 28.3%) and in gross profit on ordinary operations (up 57.1%);
- the growth of the year's dividends from €65,9 million in the prior year to €137,6 million in the year under review, which gave a significant contribution to net profit;
- the increase in the Bank's headcount with 91 newly hired resources.

The Directors' Reports included in the separate and in the consolidated financial statements provide details on the performance of the company and its subsidiaries, and also on events, transactions and projects which involved the Parent Company and the Group.

Supervision and control

During the year we performed our supervisory duties in accordance with the law and the instructions issued by the Supervisory Authorities.

We participated in Board of Directors meetings, and held meetings with Senior Management, internal audit officers, network inspectors, the independent auditors and the heads of the various functions. During those meetings we obtained the information needed for our supervisory and control activities, in particular information on the organizational structure, the internal control system, the accounting and reporting systems to assess their adequacy to the Bank's needs and to satisfy ourselves that they reliably and accurately reflect the Bank's affairs.

As Statutory Auditors of the Parent Company we participated in videoconferences held by the Head of Internal Audit with the heads of functions and the officers of Group companies for the mutual exchange of information on issues of common interest.

We were regularly advised by the heads of the various functions of any resolutions taken by the respective committees with regard to actions taken to remedy any irregularities found in the conduct of the company's affairs.

We continued to work in collaboration with the head of internal audit, the network inspectors and the oversight board so that we became aware of any new organizational and operational processes and procedures relating to the controls and inspections of the Bank and the sales network.

The various functions responsible for coordinating the Bank's and the Group's internal control systems – which are independent of operating units – regularly reported on the activities carried out by:

- the Oversight Board, to prevent any misconduct and verify compliance with the Codes of Ethics and Business Conduct of the officers of the Banking Group's subsidiaries and associates;
- the internal audit functions and units of Group companies, in relation to the audit work carried out in the year and planned for the following year, the preparation and circulation of anti-money laundering instructions, the procedures for the prevention of operational risks, the controls of the sales network and sales force behavior, the updates required under the personal data protection code as well as the prevention of any misconduct which may taint the Bank's image.

Following our examination of those reports we did not become aware of any irregularities and we have no observation to make.

We continued the mutual exchange of information on our respective supervisory and control activities with the independent auditors Reconta Ernst & Young S.p.A, that are responsible for auditing the accounting records and the financial statements in accordance with art. 155 et seq. of Legislative Decree No. 58 of February 24, 1998.

The independent auditors reported to us on their audit work in accordance with art. 155, paragraph 1, letter a) of Legislative Decree 58/1998 and advised us that they did not become aware of any irregularities or events which required reporting to the control functions or to the supervisory authorities.

The independent auditors also reported that the financial statements were prepared in compliance with Legislative Decree No. 38 of February 28, 2005 and the instructions issued by the Bank of Italy in its Circular Letter No. 262 of December 22, 2005. As allowed under art. 4, paragraph 2 of Legislative Decree 38/2005, the Bank elected to voluntarily apply the international accounting standards in effect at December 31, 2005 to its separate financial statements as early as 2005. The adoption of IAS/IFRS entailed some important changes in the accounting policies and the measurement of assets and liabilities. As a result of those changes, at January 1, 2005 equity declined by €65.5 million. An analysis of the impact of the first-time adoption of International Financial Reporting Standards is set out in the relevant section of the separate financial statements for the year ended December 31, 2005.

Information on the outcome of our work

Following the performance of our supervisory duties, also on the basis of the information we obtained, we can reasonably assure that:

- Directors acted in compliance with the law, the memorandum of incorporation and the bylaws, in the best interests of the company;
- We did not become aware of any transactions which could represent a conflict of interest, were in contrast with the resolutions passed by corporate bodies or were manifestly imprudent or risky and/or put the company's equity at risk;
- The company did not engage in any atypical and/or unusual transactions including transactions with other Group companies or related parties;
- Inter-company transactions related to financial and business relationships and services rendered by staff, which leveraged Group synergies. Those transactions were on an arm's length, in the pursuit of mutual benefits and at market prices.
- No notices or complaints under art. 2408 of the Italian Civil Code were lodged with the board of statutory auditors.

The financial statements and their approval

In relation to the separate financial statements and the schedules attached thereto, which are presented to you for approval, on the basis of the information we obtained and examined, we advise you that:

- the documents presented to you for approval were prepared in accordance with the regulations governing their preparation and the international accounting and reporting standards.;
- the audit of the financial statements by the independent auditors is nearing completion. On the basis of the information obtained during meetings and talks with the independent auditors, we have reasons to believe the auditors' report will not contain any remarks;
- the Directors' proposal on the appropriation of net profit for the year is in compliance with the law and the bylaws.

In consideration of the foregoing, within the scope of our authority, we express our favorable opinion on the approval of the financial statements for the year ended December 31, 2005, which show net profit of €81,178,736, and the appropriation of net profit for the year as proposed by the Board of Directors.

In concluding our report we also advise you that our three-year term in office expires upon the approval of the financial statements for the year ended December 31, 2005.

We would like to express our sincere appreciation to the directors, the general management, senior and middle management, all employees and other staff of the Bank and of Group companies and thank them for the commitment, collaboration and professionalism they showed to us in the performance of our duties.

Milan, April 5, 2006

THE BOARD OF STATUTORY AUDITORS
Arnaldo Mauri, Chairman
Adriano Angeli, Standing Auditor
Pierfelice Benetti Genolini, Standing Auditor

ERNST & YOUNG

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INDEPENDENT AUDITORS' REPORT
pursuant to articles 156 and 165 of Legislative Decree of February 24, 1998, n. 58
(Translation from the original Italian text)

To the Shareholder of
Banca Mediolanum S.p.A.

1. We have audited the financial statements of Banca Mediolanum S.p.A. as of and for the year ended December 31, 2005, comprising the balance sheet, the income statement, the statement of changes in equity and the statement of cash flows and the related explanatory notes. These financial statements are the responsibility of Banca Mediolanum S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. These financial statements represent the first financial statements prepared by Banca Mediolanum S.p.A. in accordance with International Financial Reporting Standards as adopted by the European Union.

2. We conducted our audit in accordance with auditing standards and procedures recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards and procedures, we planned and performed our audit to obtain the information necessary to determine whether the financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

   For comparative purposes, the financial statements include the corresponding information for the prior year prepared in accordance with consistent accounting principles except for the effects of IAS 32 and IAS 39 which have been applied from January 1, 2005 in accordance with the exemption allowed by IFRS 1. In addition, the section "First Time Adoption of International Financial Reporting Standards" of the financial statements reports the effects of the transition to International Financial Reporting Standards as adopted by the European Union. The disclosures included in the above mentioned explanatory note have been reviewed by us for the purpose of expressing an opinion on the financial statements of Banca Mediolanum S.p.A. as a whole as of and for the year ended December 31, 2005.

3. In our opinion, the financial statements of Banca Mediolanum S.p.A. present clearly and give a true and fair view of the financial position, the result of operations, the changes in shareholders' equity and the cash flows of Banca

Reconta Ernst & Young S.p.A.
Sede Legale: 00196 Roma - Via G.D. Romagnosi, 18/A
Capitale Sociale € 1.259.500,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584
P.I. 00891231003
(vecchio numero R.I. 6697/89 - numero R.E.A. 250904)

Mediolanum S.p.A. as of December 31, 2005, and for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Milan, April 5, 2006

Reconta Ernst & Young S.p.A.
Signed by: Natale Freddi, Partner

BANCA MEDIOLANUM S.p.A.

Ordinary General Meeting of April 20, 2006

RESOLUTIONS

Ordinary General Meeting of April 20, 2006

RESOLUTIONS

Attended by the proxy holder of the sole shareholder Mediolanum S.p.A. which owns the entire share capital, by unanimous voting the Ordinary General Meeting resolved:

- to approve the Directors' Report included in the separate financial statements for the year ended December 31, 2005;
- to approve the separate financial statements for the year ended December 31, 2005;
- to appropriate the net profit for the year of €81,178,736.19 as follows:
  - distribution of a dividend of €0.12 for each of the 341,000,000 shares to shareholders, for a total amount of €40,920,000.00;
  - 5% of net profit, i.e. €4,058,937.00 to the Legal Reserve;
  - €36,199,799.19 to the Extraordinary Reserve;
- that the company be managed by a Board of Directors composed of 11 members;
- to confirm in office for the current year and the following two years, and, in any case, up until the approval of the financial statements for the year ending December 31, 2008, the following members of the Board of Directors, i.e.:
  - Ennio Doris;
  - Luigi Del Fabbro;
  - Edoardo Lombardi;
  - Paolo Gualtieri;
  - Antonio Maria Penna;
  - Giovanni Pirovano;
  - Giuseppe Lalli;
  - Alfio Noto;
  - Angelo Renoldi;
  - Paolo Sciumè;
  - Carlos Javier Tusquets Trias de Bes;

- to confirm Ennio Doris as Chairman of the Board of Directors;
- to confirm in office for three years, and, in any case, up until the approval of the financial statements for the year ending December 31, 2008, the members of the Board of Statutory Auditors, i.e.:
  – Arnaldo Mauri, Chairman;
  – Adriano Angeli, Standing Auditor;
  – Pierfelice Benetti Genolini, Standing Auditor;
  – Franco Colombo, Alternate Auditor;
  – Francesca Meneghel, Alternate Auditor.

The Board of Directors that met on the same date confirmed the following officers:

- Edoardo Lombardi - Deputy Chairman and Chief Executive Officer;
- Antonio Maria Penna - Chief Executive Officer;
- Giovanni Pirovano - General Manager.

MEDIOLANUM BANKING GROUP

Consolidated Financial Statements for the year ended December 31 2005

Directors' Report

Dear Shareholder,

The consolidated financial statements for the year ended December 31, 2005 of the Mediolanum Banking Group show net profit from continuing operations before minority interests of €173,821 thousand versus €123,665 thousand in the prior year (+40.6%).
Net profit pertaining to the Banking Group increased 14.8% from €57,714 thousand at December 31, 2004 to €66,264 thousand at December 31, 2005.
The consolidated financial statements for the year ended December 31, 2005 include the accounts of all subsidiaries directly or indirectly controlled by Banca Mediolanum, that are registered banks in accordance with art. 64 of the Consolidated Banking Act.
The methods and scope of consolidation are detailed in the notes to these consolidated financial statements.
The financial statements for the year ended December 31, 2005 were prepared in accordance with the "Instructions for the preparation of the financial statements of companies and the consolidated financial statements of banks and financial companies that are parent companies of banking groups" issued by the Bank of Italy through Circular Letter No. 262 of December 22, 2005 in the exercise of its powers pursuant to art. 9 of Legislative Decree 38/2005.
The International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) applied for the first time in the 2005 interim financial statements and in these annual financial statements are different from the Italian GAAP applied up until the 2004 annual financial statements. An analysis of the impact of the first-time adoption of International Financial Reporting Standards under IFRS 1 is set out in the section "First time adoption of International Financial Reporting Standards" at the end of these notes.
Due to the marked differences between Italian GAAP and IAS/IFRS, the comparative information for financial year 2004 presented in the accounts and in the notes – except for information relating to financial instruments – was reclassified and restated under IAS/IFRS in accordance with the Bank of Italy's Circular Letter 262/2005.

THE MARKET ENVIRONMENT

For information on the international environment in which the Mediolanum Banking Group operated in the year under review, readers are referred to the Directors' Report contained in the 2005 separate financial statements prepared by the Parent Company.

REVIEW OF OPERATIONS

For the year ended December 31, 2005 the Banking Group recorded a significant improvement in profit on continuing operations. That was largely due to the contribution of net commission income, which grew 30% (i.e. €93,345 thousand) over the prior year.

At year end 2005 total consolidated assets amounted to €5,922 million versus €4,772 million at December 31, 2004. At year end 2005 securities held in portfolio amounted to €1,644 million versus €2,296 million at December 31, 2004, while loans to banks were equal to €2,785 million versus €1,413 million.

Funding from banking customers increased 12% from €3,666 million at December 31, 2004 to €4,104 million at year end 2005. That account largely relates to the parent company Banca Mediolanum.

Consolidated net interest income grew 17.3% to €65,391 thousand from €55748 thousand in the year 2004.

At December 31, 2005 administrative expenses amounted to €222,915 thousand versus €196,629 thousand in the prior year.

The tax expense declined from €31,299 thousand in the prior year to €27,508 thousand.

Business volumes

An analysis of business volumes in the main segments is set out below.

Asset management and administration

€/m	Dec. 31, 2005	Dec. 31, 2004	Change %
Life insurance products			
- Inflows	2,577	2,413	6,8
Financial products – mutual funds and managed accounts			
- Consolidated gross inflows	3,153	2,960	6,5
- Consolidated net inflows	336	535	(37,2)
Assets under administration – current accounts and securities accounts			
- Consolidated gross inflows	545	16	n/a
- Consolidated net inflows	531	(18)	n/a

Consolidated assets under administration

€/m	Dec. 31, 2005	Dec. 31, 2004	Change %
Banca Mediolanum	31,090	25,493	22,0
Fibanc (Spain)	2,168	2,016	7,5
Gamax* + Lenz (Germany)	676	625	8,2
Consolidation adjustments	(6,285)	(4,499)	39,7
Total Mediolanum Banking Group	27,649	23,635	17,0

* The figures include the administration of assets on mandates from third-parties

The sales networks

Resources	Dec. 31, 2005	Dec. 31, 2004
Banca Mediolanum licensed financial advisors	3,978	4,048
Banca Mediolanum non-licensed advisors	1,183	768
Banca Mediolanum credit executives	59	41
Fibanc Group * network	615	626
Gamax Group network	192	147
Bankhaus August Lenz network	55	98
Total	6,082	5,728

Performance of group companies

For information on the performance of Mediolanum Banking Group companies in the year under review, readers are referred to the section "Equity Investments" in the Directors' Report contained in the 2005 separate financial statements prepared by the Parent Company

Post balance sheet date events

There were no significant post balance-sheet date events.

Outlook

In the light of the results recorded in the first months of 2006 by companies within the Banca Mediolanum Banking Group, the outlook for the current year is positive.

For the Board of Directors
The Chairman
Ennio Doris

MEDIOLANUM BANKING GROUP

Consolidated Accounts for the year ended December 31 2005

Balance sheet

Assets

€/'000		Dec. 31, 2005	Dec. 31, 2004
10.	Cash and cash equivalents	33,147	31,814
20.	Financial assets held for trading	1,097,637	1,736,422
30.	Financial assets at fair value	-	-
40.	Available-for-sale financial assets	47,201	59,610
50.	Held-to-maturity investments	498,989	499,701
60.	Loans to banks	2,785,332	1,413,020
70.	Loans to customers	980,214	579,452
80.	Hedging derivatives	-	-
90.	Change in value of macro-hedged financial assets (+/-)	-	-
100.	Equity investments	-	19
110.	Reinsurers' share of technical reserves	-	-
120.	Tangible assets	53,337	48,936
130.	Intangible assets	175,700	194,727
	of which:		
	- goodwill	158,320	173,149
140.	Tax assets		
	a) current	17,150	18,736
	b) deferred	32,672	27,840
150.	Non-current assets and disposal groups	372	372
160.	Other assets	200,560	161,487
Total assets		5,922,311	4,772,136

Liabilities and Shareholders' Equity

€/'000	Dec. 31, 2005	Dec. 31, 2004
10. Due to banks	923,389	367,717
20. Due to customers	4,103,523	3,666,194
30. Securities issued	-	4,994
40. Financial liabilities held for trading	63,196	6,018
50. Financial liabilities at fair value	-	-
60. Hedging derivatives	-	-
70. Change in value of macro-hedged financial liabilities (+/-)	-	-
80. Tax liabilities		
a) current	19,780	20,246
b) deferred	6,675	11,050
90. Liabilities associated with disposal groups	-	-
100. Other liabilities	223,994	148,826
110. Employee completion-of-service entitlements	10,036	8,708
120. Provisions for risks and charges:		
a) severance benefits and similar obligations	1,754	1,798
b) other provisions	54,906	29,397
130. Technical reserves	-	-
140. Valuation reserves	(477)	-
150. Redeemable shares	-	-
160. Equity instruments	-	-
170. Reserves	59,592	35,289
180. Share premium account	-	-
190. Share capital	341,000	341,000
200. Treasury shares (-)	-	-
210. Minority interests (+/-)	48,679	73,185
220. Net profit (loss) for the year (+/-)	66,264	57,714
Total liabilities and shareholders' equity	5,922,311	4,772,136

Income Statement

€/'000		Dec. 31, 2005	Dec. 31, 2004
10.	Interest income and similar income	133,772	112,570
20.	Interest expense and similar charges	(68,381)	(56,822)
30.	**Net interest income**	65,391	55,748
40.	Commission income	717,952	561,775
50.	Commission expense	(312,970)	(250,138)
60.	**Net commission income**	404,982	311,637
70.	Dividends and similar income	259	305
80.	Net income from trading	3,412	4,964
90.	Net income from hedging	-	-
100.	Gains (losses) on sale or buyback of:		
	a) loans and receivables	-	-
	b) available-for-sale financial assets	948	3,390
	c) held-to-maturity investments	-	-
	d) financial liabilities	-	-
110.	Net income from financial assets and liabilities at fair value	77	(10)
120.	**Total income**	475,069	376,034
130.	**Impairment losses on**		
	a) loans and receivables	(3,614)	(5,352)
	b) available-for-sale financial assets	(39)	(125)
	c) held-to-maturity investments	-	-
	d) other financial instruments	65	-
140.	**Net income from financial operations**	471,481	370,557
150.	Net premiums written	-	-
160.	Other income from insurance operations	-	-
170.	**Net income from financial and insurance operations**	471,481	370,557
180.	Administrative expenses		
	a) staff costs	(84,834)	(77,311)
	b) other administrative expenses	(138,081)	(119,318)
190.	Provisions for risks and charges	(25,036)	(7,346)
200.	Net write-downs of tangible assets	(6,472)	(7,390)
210.	Net write-downs of intangible assets	(13,487)	(14,445)
220.	Other operating income	12,198	10,217
230.	**Operating expenses**	(255,712)	(215,593)
240.	Profit (loss) on equity investments	-	-
250.	Gains (losses) on fair value measurement of tangible and intangible assets	-	-
260.	Impairment losses on goodwill	(14,780)	-
270.	Profit (loss) on disposal of investments	340	-
280.	**Profit (loss) before tax on continuing operations**	201,329	154,964
290.	Income tax expense on continuing operations	(27,508)	(31,299)
300.	**Profit (loss) after tax on continuing operations**	173,821	123,665
310.	Profit (loss) after tax of non current assets pending disposal	0	0
320.	**Net profit (loss) for the year**	173,821	123,665
330.	Net profit (loss) for the year pertaining to minority interests	(107,557)	(65,951)
340.	**Net profit (loss) for the year pertaining to the parent company**	66,264	57,714

Consolidated cash flow statement

Indirect Method

€/'000	Dec. 31, 2005
A. OPERATING ACTIVITIES	
1. Operating activities	118,096
- Net profit (loss) for the year	66,264
- gains/losses on financial assets held for trading and financial assets and liabilites at fair value	(3,444)
- gains/losses on hedges (+/-)	0
- impairment losses/reversals(+/-)	3,588
- net write-downs/write-backs of tangible and intangible assets (+/-)	34,739
- provisions for risks and charges and other costs/revenues (+/-)	25,036
- unpaid taxes (+)	(8,087)
- net write-downs/write-backs of disposal groups after taxes (+/-)	-
- other adjustments (+/-)	-
2. Cash generated/used by financial assets	(1,160,953)
- financial assets held for trading	638,785
- financial assets at fair value	-
- available-for-sale financial assets	12,409
- loans to banks: on demand	(1,372,312)
- loans to banks: other loans	-
- loans to customers	(400,762)
- other assets	(39,073)
3. Cash generated/used by financial liabilities	1,099,115
- due to banks: other amounts due	555,672
- due to customers	437,329
- securities issued	(4,994)
- financial liabilities held for trading	57,178
- financial liabilities at fair value	-
- other liabilities	53,930
Net cash generated by/used in operating activities	56,258
B. INVESTING ACTIVITIES	
1. Cash from	853
- sale of equity investments	
- dividends received from equity investments	-
- sale of held-to-maturity investments	712
- sale of tangible assets	82
- sale of intangible assets	59
- sale of business lines	0
2. Cash used for	(19,973)
- purchase of equity investments (including contributions to cover losses)	0
- purchase of held-to-maturity investments	-
- purchase of tangible assets	(7,150)
- purchase of intangible assets	(12,823)
- purchase of business lines	-
Net cash generated by/used in investing activities	(19,120)
C. FINANCING ACTIVITIES	
- issue/purchase of treasury shares (formation of share capital)	-
- issue/purchase of equity instruments	-
- dividend distribution and other	(35,805)
Net cash generated by/used in financing activities	(35,805)
NET CASH GENERATED/USED IN THE YEAR	1,333

RECONCILIATION

€/'000	Dec. 31, 2005
Cash and cash equivalents at beginning of the year	31,814
Total net cash generated /used in the year	1,333
Cash and cash equivalents: effect of movements in exchange rates	-
Cash and cash equivalents at end of the year	33,147

Statement of changes in Shareholders' Equity

€/'000	Balance at Dec. 31, 2004	Adjustment to opening balances	Balance at Jan 1, 2005	Appropriation of prior year's profit: Reserves	Appropriation of prior year's profit: Dividends and other
Share capital:					
a) ordinary shares	341,000	-	341,000	-	-
b) other shares	-	-	-	-	-
Share premium account	-	-	-	-	-
Reserves:					
a) retained earnings	28,159	3,325	31,484	21,909	-
b) others	3,185	-	3,185	-	-
Valuation reserves:					
a) AFS financial assets	-	(126)	(126)	-	-
b) Cash flow hedges	-	-	-	-	-
c) others	-	(28)	(28)	-	-
Equity instruments	-	-	-	-	-
Treasury shares	-	-	-	-	-
Net profit (loss) for the year	40,886	16,828	57,714	(21,909)	(35,805)
Shareholders' equity	413,230	-	433,229	-	(35,805)

Movements in the year								
	Equity							
Change in reserves	Share issues	Purchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Treasury shares derivatives	Stock options	Net profit (loss) at Dec. 31, 2005	Shareholders' equity at Dec. 31, 2005
-	-	-	-	-	-	-	-	341,000
-	-	-	-	-	-		-	-
177	-	-	-	-	-	-	-	177
-	-	-	-	-	-	2,361	-	55,754
-	-	-	-	-	-	-	-	3,185
125	-	-	-	-	-	-	-	(1)
-	-	-	-	-	-	-	-	-
28	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	66,264	66,264
330	-	-	-	-	-	2,361	66,264	466,379

MEDIOLANUM BANKING GROUP

Notes to the Consolidated Financial Statements for the year ended December 31 2005

Notes to the Consolidated Financial Statements at December 31, 2005

These notes are structured as follows:

Part A - Accounting policies

Part B - Information on the balance sheet

Part C - Information on the income statement

Part D - Segmental information

Part E - Information on risks and risk management

Part F - Information on equity

Part G - Business combinations

Part H - Related Party Transactions

Part I - Equity-settled share-based payment transactions

PART A - ACCOUNTING POLICIES

A.1 - General

Section 1 - Compliance with the international accounting and reporting standards

Pursuant to Legislative Decree No. 38 of February 28, 2005 the consolidated financial statements for the year ended December 31, 2005 were prepared in accordance with the accounting standards issued by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Commission pursuant to the European Parliament and Council Regulation (EC) 1606 of July 19, 2002. As allowed under art. 4, paragraph 2 of Legislative Decree 38/2005 Banca Mediolanum S.p.A. elected to voluntarily apply international accounting standards also to its separate financial statements as early as 2005 although publicly traded companies and banks are required to do so only in their financial statements at December 31, 2006.

The financial statements for the year ended December 31, 2005 were prepared following the "Instructions for the preparation of the financial statements of companies and the consolidated financial statements of banks and financial companies that are parent companies of banking groups" issued by the Bank of Italy through the Circular Letter No. 262 of December 22, 2005 in the exercise of its powers pursuant to art. 9 of Legislative Decree 38/2005. By that same Circular Letter the Bank of Italy set forth certain transitional provisions to be applied in the financial statements for the year ended December 31, 2005.

The International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) applied for the first time in the 2005 interim financial statements and in these annual financial statements are markedly different from the Italian GAAP applied up until the 2004 annual financial statements. An analysis of the impact of the first-time adoption of International Financial Reporting Standards under IFRS 1 is set out in the section "First time adoption of International Financial Reporting Standards" at the end of these notes.

Section 2 - Accounting basis

In the preparation of the financial statements the bank applied the international accounting standards IAS/IFRS (including SIC and IFRIC interpretations) in effect at December 31, 2005, as adopted by the European Commission and set out in the schedule attached hereto.
These consolidated financial statements consist of the Balance Sheet, the Income Statement, the Statement of Changes in Equity, the Statement of Cash Flows and Explanatory Notes in addition to the Directors' Report.
In accordance with art. 5 of Legislative Decree No. 38 of February 28, 2005 the financial statements were prepared using the euro as reporting currency.
The amounts set out in the Accounts are presented in units of euro, while the amounts set out in the Notes and the Directors' Report are presented in thousands of euro except where otherwise stated.
These financial statements were prepared in compliance with the general requirements of IAS 1 and the specific accounting standards adopted by the European Commission, as presented in Section A.2 ("Significant Accounting Policies") herein, as well as in compliance with the underlying assumptions set out in the IASB Framework for the Preparation and Presentation of Financial Statements.
In applying IAS/IFRS no departure was made from requirements therein.
The accounts and the notes also include comparative information for the year ended December 31, 2004. As allowed under IFRS 1, the Mediolanum Group elected not to restate prior period's financial information relating to financial instruments (IAS 39 and IAS 32), which was therefore stated under the previous GAAP.
Specifically, loans and receivables, payables, securities, derivative contracts and equity investments for the year ended December 31, 2004 were measured and recognized under the Italian GAAP applied up until December 31, 2004 as presented in the financial statements for that year. The differences between Italian GAAP and IAS/IFRS are presented in full details in the specific section at the end of these notes.
Due to the marked differences between Italian GAAP and IAS/IFRS the comparative information for financial year 2004 presented in the accounts and in the notes – except for information relating to financial instruments – was reclassified and restated under IAS/IFRS in accordance with the Bank of Italy's Circular Letter 262/2005.

Accounts

Balance Sheet and Income Statement

The Balance Sheet and Income Statement set out items, sub-items and further details ("of which" under the various items and sub-items) in accordance with the Bank of Italy's requirements. Items with a nil balance for both the year under review and the prior year are not indicated. In the income statement, revenues are indicated with no sign, while costs are preceded by a minus.

Statement of changes in Shareholders' Equity

The statement of changes in equity shows the composition of shareholders' equity as well as the movements in the various equity accounts (i.e. share capital: ordinary and savings shares, capital reserves, retained earnings, assets and liabilities revaluation reserves and net profit for the year) in the year under review and the prior year. The format of the statement of changes in equity is in compliance with the Bank of Italy's Circular Letter 262/2005, except for rows and columns, which are reversed for better readability. Treasury shares are deducted from equity. The Banking Group did not issue any equity instruments other than ordinary and savings shares.

Statement of Cash Flows

The cash flow statement provides information on cash flows for the period under review and the prior period. It is prepared using the indirect method whereby in reporting cash flows from operating activities profit or loss is adjusted for the effects of non-cash transactions.
The year's cash flows are classified by operating, investing and financing activities.
The cash flows generated in the period are indicated with no sign, while the cash flows used in the period are shown within parentheses.

Content of the Notes

The Notes set out the information required under the Bank of Italy's Circular Letter 262/2005 and the international accounting and reporting standards. The tables of analysis of the various items were prepared taking into account the transitional provisions for financial year 2005 contained in said Circular Letter.
No explanatory note is provided for items with a nil balance for both the year under review and the prior year.
Since the Transitional Provisions contained in the Bank of Italy's Circular Letter 262/2005 set out general requirements for the disclosure of information on risks and risk management, that information, as set out in Section E herein, does not entirely reflect the reporting requirements that pursuant to said regulation will enter into effect when the transition is complete.
In the income statement, revenues are indicated with no sign, while costs are preceded by a minus.

Section 3 – Scope and methods of consolidation

The consolidated financial statements include the accounts of Banca Mediolanum S.p.A. and those of its directly or indirectly controlled subsidiaries, including subsidiaries whose business activities are dissimilar from those of the Parent Company, as expressly required by the international accounting standards.
The subsidiaries which are consolidated on a line-by-line basis in accordance with the international accounting standards are set out in the table below.

Subsidiaries consolidated on a line-by-line basis:

€/'000 Company	Share capital	% holding	Registered office	Business
Banca Mediolanum S.p.A.	341,000	100.00	Basiglio	Banking
Mediolanum Gestione Fondi SGR p.A.	5,165	100.00	Basiglio	Fund management
Mediolanum Distribuz.Finanz. S p.A.	1,000	100.00	Basiglio	Financial Brokerage
Mediolanum International Funds Ltd	150	100.00	Dublin	Fund management
Mediolanum Asset Management Ltd	150	100.00	Dublin	Asset management and advice
Banco de Finanzas e Inversiones S.A.	14,032	100.00	Barcelona	Banking
Ges Fibanc SGIIC S.A.	2,506	100.00	Barcelona	Fund management
Fibanc S.A.	301	100.00	Barcelona	Financial advice
Fibanc Pensiones S.G.F.P. S.A.	902	100.00	Barcelona	Pension fund management
Fibanc Faif S.A.	60	100.00	Barcelona	Financial advice
Mediolanum International S.A.	71,500	99.997	Luxembourg	Sub-holding company
Gamax Holding AG	5,618	100.00	Luxembourg	Sub-holding company
Gamax Management AG	125	100.00	Luxembourg	Fund management
Gamax Fund of Funds Management AG	125	100.00	Luxembourg	Fund management
Gamax Broker Pool AG	500	100.00	Munich	Fund distribution
Gamax Austria GmbH	40	100.00	Salzburg	Fund distribution
Bankhaus August Lenz & Co. AG	20,000	100.00	Munich	Banking

Directly controlled subsidiaries accounted for at cost:

Company	Share capital	% holding	Registered office	Business
Fibanc Argentina S.A.	ARS 50,000	94.00	Buenos Ayres	Representative office

Methods of consolidation

Subsidiaries are consolidated on a line-by-line basis, while associates are accounted for using the equity method.

Consolidation on a line-by-line basis

Consolidation is the combination of the accounts of the parent company and those of its subsidiary line by line by adding together like items of the balance sheet and the income statement. After minority interests in the net assets and minority interests in the profit or loss of subsidiaries are separately identified, the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary are eliminated.

Any resulting difference, if positive, after recognition of the assets or liabilities of the subsidiary, is recognized as goodwill under "Intangible Assets" on first-time consolidation, and under "Other Reserves" thereafter. Negative differences are recognized in the income statement.

Intercompany assets, liabilities, income and expenses are eliminated in full.

The income and expenses of a subsidiary acquired during the reporting period are included in the consolidated financial statements from the date of acquisition. Accordingly, the income and expenses of a subsidiary disposed of in the reporting period are included in the consolidated financial statements until the date on which the parent ceases to control the subsidiary. Any difference between the consideration for the disposal of the subsidiary and its carrying amount as of the date of disposal is recognized in the income statement.

The financial statements of the Parent Company and those of its subsidiaries used in the preparation of the consolidated financial statements are prepared as of the same reporting date.

When a company within the Group uses different accounting policies, in preparing the consolidated financial statements adjustments are made to make them uniform with the accounting policies adopted by the Group.

Equity method

Under the equity method an investment in an associate is initially recognized at cost and its carrying amount is increased or decreased to reflect the value of the investor's share of the investee's equity thereafter.

Any differences between the carrying amount and the equity of the investee are treated like differences arising on line-by-line consolidation.

The investor's share of the profit or loss of the investee is recognized under the relevant item in the consolidated income statement.

If there is evidence that an investment may be impaired, its recoverable amount is calculated by estimating the present value of future cash flows expected to be generated by the associate, including the proceeds on the ultimate disposal of the investment.

If the recoverable amount is lower than the carrying amount, the resulting difference is recognized in the income statement.

In applying the equity method to the accounts of associates, their approved annual financial statements were used. For those associates that have not adopted the international accounting standards yet, the equity method was applied to the financial statements prepared under the national GAAP, after ascertaining that the estimated differences between national accounting standards and IAS/IFRS were immaterial.

Section 4 - Post Balance Sheet Date Events

In the period between the end of financial year 2005 and the date on which these financial statements were approved no event took place which could materially affect the Banking Group's results of operation or business, other than those disclosed in the relevant section of the Directors' Report to which readers are referred.

Section 5 - Other information

Information on the business and the results of operations for the year 2005 of the main subsidiaries is set out in the Directors' Report.
The consolidated financial statements of the Mediolanum Banking Group were audited by Reconta Ernst & Young S.p.A.

Tax consolidation regime

Beginning in 2004 the Parent Company Mediolanum S.p.A. and all Italian companies within the Group have opted for the so-called "tax consolidation regime" introduced by Legislative Decree 344/2003 and regulated under sections 117 to 129 of the Consolidated Income Tax Act. Under said regime the taxable profits or tax losses, including any withholding taxes, tax deductions and tax credits, of all participating Group companies are consolidated into the Parent Company. The Parent Company, as reporting entity, calculates the consolidated taxable profit by adding the taxable profits/tax losses of all participating Group companies to its own taxable profit/tax loss.
By choosing the "tax consolidation" option, participating Group companies calculate their own tax expense, while their taxable profit is consolidated into the Parent Company. In case of tax losses of one or more Group companies against which consolidated taxable profit for the current year is available or against which there is a high probability that future taxable profits will be available, those tax losses are also consolidated into the Parent Company.

A.2 - Significant accounting policies

Accounting Policies

Financial assets held for trading

Financial assets held for trading consist of debt securities, equities and trading derivatives with positive fair value.
Financial assets held for trading are initially recognized on the settlement date if they are debt securities and equities, and on the trade date if they are derivatives.
On initial recognition financial assets held for trading are measured at cost, i.e. the fair value of the instrument, without adding directly attributable transaction costs or income.
After initial recognition *financial assets held for trading* are measured at their fair value.
The fair value of a financial instrument quoted in an active market[1] is determined using its market quotation. If the market for a financial instrument is not active, fair value is determined using estimation and valuation techniques which measure all instrument-related risks and use market data, e.g. the quoted price of instruments with similar characteristics, discounted cash flow analysis, option pricing models, recent comparable transactions.
Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or the financial asset and substantially all the risks and rewards of ownership thereof are transferred.

[1] A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are not classified as Loans and Receivables, Financial Assets Held for Trading or Held-to-Maturity Investments.
In particular, shareholdings that are not held for trading and those that do not qualify as investments in subsidiaries, associates or joint ventures are also classified under this category.
Available-for-sale financial assets are initially recognized on the settlement date if they are debt or equity instruments and on trade date if they are loans or receivables.
On initial recognition available-for-sale financial assets are measured at cost, i.e. the fair value of the instrument, plus any directly attributable transaction costs or income. When reclassified out of the Held-to-Maturity Investments category, available-for-sale financial assets are re-measured at their fair value on such reclassification.
After initial recognition available-for-sale financial assets continue to be measured at fair value, and are amortized through profit or loss, while gains or losses arising from a change in their fair value are recognized in a specific equity reserve until the financial asset is derecognized or impaired. At the time of their dismissal or impairment, the cumulative gain or loss previously recognized in equity is recognized in the income statement.
Equity instruments whose fair value cannot be reliably measured as set out above are measured at cost.
At each interim and annual balance sheet date the Group assesses whether there is objective evidence of any impairment loss.
If the fair value of a previously impaired asset increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed and the reversal recognized in the income statement if the asset is a loan or receivable or a debt instrument, and in equity if the asset is an equity instrument. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment loss not been recognized at the date the impairment is reversed.
Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or the financial asset and substantially all the risks and rewards of ownership thereof are transferred.

Held-to-Maturity Investments

Held-to-maturity investments consist of debt securities with fixed or determinable payments and fixed maturity which the Group intends or has the ability to hold to maturity. If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held to maturity, it is reclassified as available-for-sale.
Held-to-maturity investments are initially recognized on settlement date.
Held-to-maturity investments are initially measured at cost, including any directly attributable costs or income. When reclassified out of the available-for-sale financial assets category, the fair value on such reclassification is the value of the amortized cost at which held-to-maturity investments are carried.
After initial recognition held-to-maturity investments are measured at amortized cost using the effective interest method.

Gains or losses of held-to-maturity investments are recognized in the income statement when the financial assets is derecognized or impaired, and through the amortization process.
At each interim and annual reporting date the Group assesses whether there is objective evidence of any impairment loss.
If any such evidence exists, the amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The amount of the impairment loss is recognized in the income statement.
If the value of a previously impaired investment increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed and the reversal recognized in the income statement.
Held-to-maturity investments are derecognized when the contractual rights to the cash flows from the financial asset expire or the financial asset and substantially all the risks and rewards of ownership thereof are transferred.

Loans and receivables

This category includes loans to customers and to banks with fixed or determinable payments, that are not quoted in an active market and that, upon initial recognition, were not classified as available-for-sale.
Loans and receivables also include trade receivables, repurchase agreements and securities purchased under a public offering or private placement, with fixed or determinable payments, that are not quoted in an active market.
A loan or receivable is initially recognized at fair value on the trade date or, in the case of a debt instrument, on the settlement date. The fair value of a loan or receivable is the loaned amount, or the transaction price, including any directly attributable costs or income determinable on the trade date, even if settled at a later date, except for those costs that are reimbursed by the borrower/debtor or are internal administrative costs.
Carryovers and repurchase agreements which entail the obligation for a future resale/repurchase are recognized as funding or lending transactions. Specifically, the amount received for the sale of an asset under an agreement to repurchase it at a future date is recognized in the balance sheet as a debt, while the amount paid for the purchase of an asset under an agreement to resell it at a future date is recognized as a loan.
After initial recognition, loans and receivables are measured at amortized cost. Amortized cost is the amount at which the financial asset is measured on initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, plus or minus any directly attributable costs/income and minus/plus any reduction/reversal for impairment.
The effective interest rate is the rate that exactly discounts estimated future cash flows (principal and interest) to the net carrying amount of the asset, i.e. the carrying amount plus/minus any directly attributable costs/income, through the expected life of the asset.
Amortized cost is not applied to short-terms loans and receivables for which the effect of discounting is immaterial. Those loans and receivables are measured at historical cost and the related costs/income are recognized in the income statement over the expected life of the asset. The same measurement method is applied to loans and receivables with no fixed maturity or on demand.

At each interim and annual reporting date the Group assesses whether there is objective evidence of any impairment loss as a result of one or more events that occurred after initial recognition. If there is objective evidence of impairment the loan is classified as "non-performing", "watch-list" or "restructured" in accordance with the instructions issued by the Bank of Italy, which are in line with IAS requirements.
Impaired loans are individually assessed and the amount of the impairment loss is measured as the difference between the asset's carrying amount (measured at amortized cost) at the time of assessment and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.
Future cash flows are estimated taking into account the expected time of recovery, the realizable value of any collaterals as well as any costs of recovery. Future cash flows of loans which are expected to be recovered in the short term are not discounted.
The asset's original effective interest rate remains unchanged over time also in the event of a restructuring as a result of which the interest rate changes or the loan or receivable actually carries no interest.
The amount of the impairment loss is recognized in the income statement.
If the value of a previously impaired loan or receivable increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed and the reversal recognized in the income statement.
The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment loss not been recognized at the date the impairment is reversed.
If no objective evidence of impairment exists for individually assessed loans – i.e. generally, performing loans – those loans are collectively assessed for impairment. For the purpose of a collective evaluation of impairment, loans and receivables are grouped on the basis of similar credit risk characteristics and the related loss probability is estimated using historical loss rates based on observable data at the time of assessment that can reliably estimate the loss probability of each loan group.
Any collectively assessed impairment loss is recognized in the income statement. At each interim and annual reporting date any additional impairment loss or reversal thereof is calculated in relation to the entire portfolio of performing loans on that same date.

Tangible assets

Tangible assets include land, Group-occupied property, investment property, furnishings, fixtures, fittings, plant and equipment.
These are tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one period.
This account also includes assets held under finance leases even when the lessor retains title thereof.
Tangible assets are initially recognized at cost, which comprises the purchase price of the asset and all costs directly attributable to the asset's acquisition and operation.
The costs of major repairs which increase the future economic benefits associated with the asset are recognized in the carrying amount of the asset, while the costs of day-to-day servicing are recognized in the income statement.
Tangible assets, including investment property, are carried at cost less any accumulated depreciation and impairment losses.

Tangible assets are systematically depreciated on a straight-line basis over their useful lives except for land, be it acquired separately or together with buildings, which has an indefinite useful life. Under the international accounting standards land and buildings are separable assets and are to be accounted for separately. When the value of land is embedded in the value of the building, only for land on which a building stands, their respective value is determined by independent valuers.
At each interim and annual reporting date if there is an indication that an asset may be impaired the carrying amount of the asset is compared to its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset. If the recoverable amount of an asset is less than its carrying amount, the carrying amount is reduced to its recoverable amount. Any reduction is recognized as impairment loss in the income statement.
If the value of a previously impaired asset increases, the impairment loss is reversed. The reversal shall not result in a carrying amount of the asset that exceeds what the carrying amount less accumulated depreciation would have been had the impairment loss not been recognized at the date the impairment is reversed.
A tangible asset is derecognized from the balance sheet on disposal or when no future economic benefits are expected from its use or disposal.

Intangible assets

Intangible assets include goodwill, expenditure on the renovation of leasehold property and the costs of software used over more than one year.
Expenditure on the renovation of leasehold property is capitalized since during the lease term the lessee controls the assets and obtains future economic benefits from them.
Other intangible assets are recognized if they are identifiable as such and arise from contractual or other legal rights.
Goodwill is the excess of the cost of the acquisition over the acquirer's interest in the fair value of the identifiable assets and liabilities acquired.
An intangible assets can be recognized as goodwill when the excess of the cost of the acquisition over the acquirer's interest in the fair value of the identifiable assets and liabilities acquired (including any accumulated impairment losses) is representative of the future earnings capabilities of the investee.
Any negative goodwill (badwill) is directly recognized in the income statement.
Goodwill is tested for impairment annually (or any time there is evidence of impairment). To that end goodwill is allocated to a cash-generating unit (CGU). If the recoverable amount of the unit is less than its carrying amount an impairment loss is recognized and the carrying amount of goodwill allocated to the cash-generating unit is reduced. The recoverable amount of a cash-generating unit is the higher of the cash-generating unit's fair value less cost to sell and its value in use. The impairment loss is recognized in the income statement.
Other intangible assets are carried at cost less any accumulated amortization and impairment losses only if it is probable that future economic benefits attributable to the asset will flow to the entity and the cost of the asset can be measured reliably, otherwise it is recognized as an expense in the income statement in the year in which it was incurred.

Intangible assets are amortized on a straight-line basis over their useful lives. Intangible assets with indefinite useful lives are not amortized, but periodically tested for impairment by comparing their recoverable amount with their carrying amount. Expenditure on the renovation of leasehold property is amortized over a period which does not exceed the lease term.

At each reporting date, if there is evidence of impairment, the recoverable amount of the asset is estimated. If the recoverable amount of the asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss. The impairment loss is recognized in profit or loss.

An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal.

Financial liabilities held for trading

Financial liabilities held for trading include:

- trading derivatives with negative fair value;
- short positions on securities trading.

Financial liabilities are initially recognized at the time amounts are received or the financial instruments underlying the transaction are settled.

The fair value of any financial liabilities issued below market value is subject to assessment and the difference over market value is directly recognized in the income statement.

After initial recognition, financial liabilities are measured at fair value.

A financial liability is derecognized when it expires or is extinguished.

Other financial liabilities

Other financial liabilities include the various forms of funding from banks and customers as well as bonds issued net of any buybacks.

Those financial liabilities are initially recognized when amounts are received or bonds are issued.

They are initially measured at fair value, i.e. generally the amount received or the issue price, plus any additional costs/ income directly attributable to the individual funding transaction or bond issue and not reimbursed by the creditor. Internal administrative costs are not added.

The fair value of any financial liabilities issued below market value is subject to assessment and the difference over market value is directly recognized in the income statement.

After initial recognition, financial liabilities are measured at amortized cost using the effective interest method except for short-term liabilities for which the time value of money is immaterial that are measured on the basis of the contractual cash flows and related costs are recognized in the income statement over the contractual term of the liability.

A financial liability is derecognized when it expires or is extinguished. A financial liability is derecognized also when it is bought back. The difference between the carrying amount of the liability and amount paid to buy it back is recognized in the income statement.

Provisions for risks and charges

Provisions for risks and charges relate to amounts set aside for present obligations resulting from a past event for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, provided that a reliable estimate can be made of the obligation.
When the effect of the time value of money is material, the amount of the provision is discounted at current market rates. Provisions for risk and charges are recognized in the income statement.

Employee completion-of-service entitlements

Completion-of-service entitlements are recognized at the present value of the benefit obligations calculated using actuarial techniques.
To determine the present value of benefit obligations the Projected Unit Credit Method is used. That method calculates the present value of benefit obligations using actuarial assumptions based on historical data including demographics and a discount rate which is determined on the basis of market yields. The methods considers each year of service as giving rise to an additional unit of benefit entitlements. Each unit is individually measured in arriving at the final obligation. The discount rate is determined on the basis of market yields and reflects the estimated timing of benefit payments.
Service costs are recognized under staff costs as the net total of current service costs, past service costs, interest and expected return on any plan assets and actuarial gains or losses.

Employee pension plan

For the defined contribution pension plan under which the company's obligation is limited to the amount it agrees to contribute to the fund, the amount of the contribution payable for the year is recognized in the income statement.

Assets and liabilities denominated in foreign currencies

Assets and liabilities denominated in foreign currencies are initially recognized in the functional currency, applying to the foreign currency amount the exchange rate in effect at the date of the transaction.
At each interim or annual reporting date, assets and liabilities denominated in foreign currencies are measured as follows:

- monetary items are translated using the closing rate;
- non- monetary items measured at historical cost are translated applying the exchange rate in effect at the date of the transaction;
- non- monetary items measured at fair value are translated applying the exchange rate in effect at the reporting date.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognized in the income statement in the period in which they arise.
When a gain or loss on a non-monetary item is recognized directly in equity, the exchange difference component of that gain or loss is also recognized in equity. Conversely, when a gain or loss on a non-monetary item is recognized in the income statement, the exchange difference component of that gain or loss is also recognized in the income statement.

Tax assets and liabilities

The Bank recognizes current and deferred taxes applying the tax rates in effect in the countries where consolidated subsidiaries are incorporated.
Income taxes are recognized in the income statement except for items which are credited/charged directly to equity.
Provisions for income taxes are calculated on the basis of conservative estimates of the current and deferred tax expense. Deferred taxes are computed in respect of the temporary differences, with no time limit, arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.
Deferred tax assets are recorded to the extent that there is reasonable certainty they will be recovered, i.e. to the extent that the company – or the Parent Company under Italy's tax consolidation regime – is expected to continue to generate sufficient taxable income against which temporary differences can be utilized.
Deferred tax assets and deferred tax liabilities are not netted, and are separately recognized in the Balance Sheet under "Tax assets" and "Tax liabilities" respectively.

Deferred tax liabilities arising on consolidation are recognized to the extent that it is probable that a related tax expense will materialize in the future for one of the consolidated companies.
Those deferred tax liabilities are essentially connected to the deferred tax assets recognized for positive differences arisen on consolidation of subsidiaries.
Deferred tax assets and deferred tax liabilities are systematically re-measured to reflect any changes either in tax rules or tax rates as well as any possible changes in the company's tax position.
The provision for tax claims relates to tax payments which may become due as a result of pending tax audits or disputes with tax authorities.

Share-based payment

Stock options are share-based payments. Their fair value, and the corresponding increase in equity, is determined by reference to the fair value of the stock option at the grant date.
The fair value of the stock option is determined using a valuation technique that takes into account the specific terms and conditions of the stock option plan in place, in addition to information such as the exercise price and the life of the option, the current price of underlying shares, the expected volatility of the share price, dividends expected on the shares and the risk-free interest rate for the life of the option. The pricing model separately measures the stock option and the probability that the market conditions upon which vesting is conditioned be satisfied. The combination of the two values is the fair value of the stock option.

Income Statement

Revenue is recognized when received or when it is probable that future economic benefits will flow to the entity and the amount of those benefits can be measured reliably.
Specifically:
- commissions are measured on an accrual basis;
- dividends are recognized in the income statement when their distribution to shareholders is established;
- any default interests, in accordance with the terms of the relevant agreement, are recognized in the income statement only when actually received.

PART B - INFORMATION ON THE BALANCE SHEET

ASSET

Section 1 - Cash and cash equivalents - Caption 10

1.1 Analysis of cash and cash equivalents

€/'000	Dec. 31, 2005	Dec. 31, 2004
a) Cash	30,863	31,814
b) Demand deposits with Central Banks	2,284	-
Total	33,147	31,814

Section 2 - Financial assets held for trading - Caption 20

2.1 Analysis of financial assets held for trading

	Dec. 31, 2005		Dec. 31, 2004	
€/'000	Listed	Unlisted	Listed	Unlisted
A. Non-derivatives				
1. Debt securities				
1.1 structured securities	-	-	-	-
1.2 other debt securities	1,023,941	67,201	1,587,077	142,876
2. Equities	-	9	4	22
3. Holdings in UCITS	491	-	373	-
4. Loans	-	-	-	-
4.1 repurchase agreements	-	-	-	-
4.2 other	-	-	-	-
5. Impaired assets	-	-	-	-
6. Assets sold but not derecognized	-	-	-	-
Total (A)	1,024,432	67,210	1,587,454	142,898
B. Derivatives				
1. Financial derivatives	-	-	-	-
1.1 held for trading	-	5,995	-	6,070
1.2 measured at fair value	-	-	-	-
1.3 other	-	-	-	-
2. Credit derivatives	-	-	-	-
2.1 held for trading	-	-	-	-
2.2 measured at fair value	-	-	-	-
2.3 other	-	-	-	-
Total (B)	5,995	-	6,070	-
Total (A+B)	1,024,432	73,205	1,587,454	148,968

2.2 Analysis of financial assets held for trading by debtor/issuer

€/'000	Dec. 31, 2005	Dec. 31, 2004
A. Non-derivatives		
1. Debt securities		
a) Governments and central banks	693,128	765,593
b) Government agencies	-	-
c) Banks	198,325	340,519
d) Other issuers	199,689	623,841
2. Equities		
a) Banks	-	4
b) Other issuers		
- insurance companies	-	-
- financial companies	-	-
- non financial companies	9	-
- other	-	22
3. Holdings in UCITS	491	373
4. Loans		
a) Governments and central banks	-	-
b) Government agencies	-	-
c) Banks	-	-
d) Other	-	-
5. Impaired assets		
a) Governments and central banks	-	-
b) Government agencies	-	-
c) Banks	-	-
d) Other	-	-
6. Assets sold but not derecognized		
a) Governments and central banks	-	-
b) Government agencies	-	-
c) Banks	-	-
d) Other issuers	-	-
Total (A)	1,091,642	1,730,352
B. Derivatives		
a) Banks	5,616	6,070
b) Customers	379	-
Total (B)	5,995	6,070
Total (A+B)	1,097,637	1,736,422

2.3 Financial assets held for trading: derivatives held for trading

€/'000	Interest rate	Currencies and gold	Equities	Loans	Other	Dec. 31, 2005	Dec. 31, 2004
A. Listed derivatives							
1. Financial derivatives							
With exchange of principal							
- Options purchased	-	-	-	-	-	-	-
- Other derivatives							
Without exchange of principal							
- Options purchased	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-
2. Credit derivatives							
With exchange of principal	-	-	-	-	-	-	-
Without exchange of principal	-	-	-	-	-	-	-
Total (A)	-	-	-	-	-	-	-
B. Unlisted derivatives							
1. Financial derivatives							
With exchange of principal							
- Options purchased	-	-	-	-	-	-	-
- Other derivatives	-	2,919	-	-	7	2,926	-
Without exchange of principal							
- Options purchased	-	-	-	-	766	766	-
- Other derivatives	2,303	-	-	-	-	2,303	6,070
2. Credit derivatives							
With exchange of principal	-	-	-	-	-	-	-
Without exchange of principal	-	-	-	-	-	-	-
Total (B)	2,303	2,919	-	-	773	5,995	6,070

Section 4 - Available-for-sale financial assets - Caption 40

4.1 Analysis of available-for-sale financial assets

	Dec. 31, 2005		Dec. 31, 2004	
€/'000	Listed	Unlisted	Listed	Unlisted
1 Debt securities				
1.1 Structured securities	18,450	-	34,495	-
1.2 Other debt securities	16,887	766	11,140	-
2. Equities				
2.1 Measured at fair value	2,977	517	6,171	190
2.2 Measured at cost	-	-	-	-
3. Holdings in UCITS	7,614	-	7,614	-
4. Loans	-	-	-	-
5. Impaired assets	-	-	-	-
6 Assets sold but not derecognized	-	-	-	-
Total	45,918	1,283	59,420	190

4.2 Analysis of available-for-sale financial assets by debtor/issuer

€/'000	Dec. 31, 2005	Dec. 31, 2004
1. Debt securities		
a) Governments and Central Banks	-	-
b) Government agencies	-	-
c) Banks	5,504	5,510
d) Other issuers	30,589	40,125
2. Equities		
a) Banks	-	-
b) Other issuers		
- insurance companies	-	-
- financial companies	493	166
- non financial companies	34	35
- other	2,967	6,160
3. Holdings in UCITS	7,614	7,614
4. Loans		
a) Governments and Central Banks	-	-
b) Government agencies	-	-
c) Banks	-	-
d) Others	-	-
5. Impaired assets		
a) Governments and Central Banks	-	-
b) Government agencies	-	-
c) Banks	-	-
d) Other	-	-
6. Assets sold but not derecognized		
a) Governments and Central Banks	-	-
b) Government agencies	-	-
c) Banks	-	-
d) Other issuers	-	-
Total	47,201	59,610

Section 5 - Held-to-maturity investments - Caption 50

5.1 Analysis of held-to-maturity investments

	Dec. 31, 2005		Dec. 31, 2004	
€/'000	Book value	Fair value	Book value	Fair value
1 Debt securities				
1.1 Structured securities				
1.2 Other debt securities	498,989	499,134	499,701	499,701
2 Loans	-	-	-	-
3. Impaired assets	-	-	-	-
4. Assets sold but not derecognized	-	-	-	-
Total (A)	498,989	499,134	499,701	499,701

5.2 Analysis of held-to-maturity investments by debtor/issuer

€/'000	Dec. 31, 2005	Dec. 31, 2004
1. Debt securities		
a) Governments and Central Banks	488,733	489,351
b) Government agencies	-	-
c) Banks	10,256	10,191
d) Other issuers	-	159
2. Loans		
a) Governments and Central Banks	-	-
b) Government agencies	-	-
c) Banks	-	-
d) Other	-	-
3. Impaired assets		
a) Governments and Central Banks	-	-
b) Government agencies	-	-
c) Banks	-	-
d) Other	-	-
4. Assets sold but not derecognized		
a) Governments and Central Banks	-	-
b) Government agencies	-	-
c) Banks	-	-
d) Other issuers	-	-
Total	498,989	499,701

Section 6 - Loans to banks - Caption 60

6.1 Analysis of loans to banks

€/'000	Dec. 31, 2005	Dec. 31, 2004
A. Loans to Central Banks		
1. Time deposits	-	-
2. Reserve requirements	7,282	9,051
3. Repurchase agreements	-	-
4. Other	-	-
B. Loans to other banks		
1. Current accounts and demand deposits	411,359	288,752
2. Time deposits	2,211,010	1,059,277
3. Other loans		
3.1 repurchase agreements	147,626	50,387
3.2 finance leases	-	-
3.3 other	8,055	5,553
4. Debt securities		
4.1 structured notes	-	-
4.2 other debt securities	-	-
5. Impaired assets	-	-
6. Assets sold but not derecognized	-	-
Total (book value)	2,785,332	1,413,020
Total (fair value)	2,785,332	1,413,020

Section 7 - Loans to customers - Caption 70

7.1 Analysis of loans to customers

€/'000	Dec. 31, 2005	Dec. 31, 2004
1. Current accounts	190,397	154,816
2. Repurchase agreements	43,565	-
3. Mortgage loans	186,651	66,298
4. Credit cards, personal loans and salary-guaranteed loans	73,844	88,216
5. Finance leases	2,244	2,819
6. Factoring	-	-
7. Other	458,442	258,784
8. Debt securities		
8.1 structured notes	-	-
8.2 other debt securities	-	-
9. Impaired assets	25,071	8,519
10. Assets sold but not derecognized	-	-
Total (book value)	980,214	579,452
Total (fair value)	1,007,022	584,501

7.2 Analysis of loans to customers by borrower category

€/'000	Dec. 31, 2005	Dec. 31, 2004
1. Debt securities		
a) Governments	-	-
b) Government agencies	-	-
c) Other issuers		
- non financial companies	-	-
- financial companies	-	-
- insurance companies	-	-
- other	-	-
2. Loans to:		
a) Governments	-	-
b) Government agencies	-	-
c) Others		
- non financial companies	15,033	17,325
- financial companies	433,037	159,674
- insurance companies	580	82
- other	506,493	393,852
3. Impaired assets		
a) Governments	-	-
b) Government agencies	-	-
c) Others	-	-
- non financial companies	327	-
- financial companies	-	-
- insurance companies	-	-
- other	24,744	8,519
4. Attività cedute non cancellate		
a) Governments	-	-
b) Government agencies	-	-
c) Others	-	-
- non financial companies	-	-
- financial companies	-	-
- insurance companies	-	-
- other	-	-
Total	980,214	579,452

Section 12 - Tangible assets - Caption 120

12.3 Year's movements in Group-occupied property and other tangible assets

€/'000	Land	Buildings	Furnishings	Electronic eequipment	Other	Total
A. Opening balance	9,290	28,644	2,304	5,905	2,793	48,936
B. Increases						
B.1 Additions	-	-	434	6,010	706	7,150
B.2 Capitalized improvement costs	-	-	-	-	-	-
B.3 Write-backs:						
a) in equity	-	-	-	-	-	-
b) through profit or loss	-	-	-	-	-	-
B.4 Increases in fair value:						
a) in equity	-	-	-	-	-	-
b) through profit or loss	-	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Reclassified from investment property	-	-	-	-	-	-
B.7 Other changes	-	660	-	7	47	714
C. Decreases						
C.1 Disposals	-	-	(4)	(78)	-	(82)
C.2 Depreciation	-	(550)	(505)	(4,384)	(1,033)	(6,472)
C.3 Impairment losses						
a) in equity	-	-	-	-	-	-
b) through profit or loss	-	-	-	-	-	-
C.4 Decreases in fair value:						
a) in equity	-	-	-	-	-	-
b) through profit or loss	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Reclassified to:						
a) tangible assets held for investment purposes	-	-	-	-	-	-
b) assets held for sale	-	-	-	-	-	-
C.7 Other changes	-	-	(80)	3,171	-	3,091
D. Closing balance	9,290	28,754	2,149	10,631	2,513	53,337

Section 13 - Intangible assets - Caption 130

13.1 Analysis of intangible assets

€/'000	Dec. 31, 2005 Finite life	Dec. 31, 2005 Indefinite life	Dec. 31, 2004 Finite life	Dec. 31, 2004 Indefinite life
A.1 Goodwill				
A.1.1 Group	-	158,320	-	173,149
A.1.2 minorities	-	-	-	-
A.2 Other intangible assets				
A.2.1 measured at cost:	-	-	-	-
a) internally generated	-	-	-	-
b) other	17,380	-	21,578	-
A.2.2 measured at fair value:				
a) internally generated	-	-	-	-
b) other	-	-	-	-
Total	17,380	158,320	21,578	173,149

13.2 Year's movements in intangible assets

€/'000	Goodwill	Other intangible assets: internally generated Finite	Other intangible assets: internally generated Indefinite	Other intangible assets: other Finite	Other intangible assets: other Indefinite	Total
A. Opening balance	173,149	-	-	21,578	-	194,727
A.1 Write-downs						
A.2 Net opening balance	173,149			21,578		194,727
B. Increases						
B.1 Additions	-	-	-	12,823	-	12,823
B.2 Increases in internally generated assets	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Increases in fair value						
a) in equity	-	-	-	-	-	-
b) through profit or loss	-	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases						
C.1 Disposals	(49)	-	-	(10)	-	(59)
C.2 Write-downs						
- Amortization	-	-	-	(13,273)	-	(13,273)
- Impairment losses	-	-	-	-	-	-
a) in equity	-	-	-	-	-	-
b) through profit or loss	(14,780)	-	-	-	-	(14,780)
C.3 Decreases in fair value						
- in equity	-	-	-	-	-	-
- through profit or loss	-	-	-	-	-	-
C.4 Reclassified to non-current assets held for sale	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	(3,738)	-	(3,738)
D. Net closing balance	158,320	-	-	17,380	-	175,700
D.1 Total write-downs	-	-	-	-	-	-
E. Gross closing balance	-	-	-	-	-	-
F. Measurement at cost	-	-	-	-	-	-

In accordance with IAS 36 goodwill is not amortized but tested for impairment at least annually. To that end goodwill is allocated to a cash-generating unit (CGU) which is not larger than a business segment based on the primary reporting format determined in accordance with IAS 14.

The smallest CGU was identified to be the individual company which always coincides with a single business segment.

The carrying amounts of goodwill as allocated to the individual cash-generating units are as follows:

€/'000	
CGU Fibanc	122,809
CGU Gamax	31,501
Other CGU	4,010
	158,320

The decline over FY2004 is primarily due to the write-down of goodwill relating to CGU Gamax and amounts to €14,780 thousand.

Recoverable amount is determined by reference to the value in use, i.e. the present value of the future cash flows expected to be derived from the continuous use of the cash-generating unit.

To measure value in use the Group applied cash-flow projections based on the three-year BP which represent management's best estimate of the economic conditions of the CGU.
Beyond the BP time horizon the growth rate was prudentially assumed to be zero.
The discount rate applied is in line with the BP estimates and was calculated using the "Capital Asset Pricing Model" on the basis of market data.

Section 14 - Tax assets and liabilities - Caption 140 (assets) and Caption 80 (liabilities)

14.4 Year's movements in deferred tax assets (charge to the income statement)

€/'000	Dec. 31, 2005	Dec. 31, 2004
1. Opening balance	24,559	28,016
2. Increases		
2.1 Deferred tax assets arisen in the year		
a) relating to prior years	1,029	1,993
b) due to changes in the accounting policies	(951)	620
c) write-backs	-	-
d) other	4	6,480
2.2 New taxes or increased tax rates	14,777	-
2.3 Other Increases	2,043	1,304
3. Decreases		
3.1 Deferred tax assets cancelled in the year		
a) reversals	(6,144)	(134)
b) write-offs of non-recoverable amounts	(1,288)	-
c) changes in the accounting policies	-	-
3.2 Reduced tax rates	-	-
3.3 Other decreases	(1,357)	(10,439)
4. Closing balance	32,672	27,840

14.5 Year's movements in deferred tax assets (charge to equity)

€/'000	Dec. 31, 2005	Dec. 31, 2004
1. Opening balance	(4,656)	(4,399)
2. Increases		
2.1 Deferred tax assets arisen in the year		
a) prior years' balances	(3,629)	(8,666)
b) changes in the accounting policies	-	(14)
c) other	(684)	(1,447)
2.2 New taxes or increased tax rates	-	-
2.3 Other Increases	(302)	-
3. Decreases		
3.1 Deferred tax assets cancelled in the year		
a) reversals	1,179	-
b) changes in the accounting policies	1,114	2,234
c) other	274	1,242
3.2 Reduced tax rates	-	-
3.3 Other decreases	29	-
4. Closing balance	(6,675)	(11,050)

Section 15 - Non-current assets and disposal groups and liabilities associated - Caption 150 (assets) and Caption 90 (liabilities)

15.1 Analysis of non-current assets and disposal groups

€/'000	Dec. 31, 2005	Dec. 31, 2004
A. Individual assets		
A.1 Equity investments	-	-
A.2 Tangible assets	372	372
A.3 Intangible assets	-	-
A.4 Other non-current assets	-	-
Total A	372	372
B. Disposal groups		
B.1 Financial assets held for trading	-	-
B.2 Financial assets at fair value	-	-
B.3 Available-for-sale financial assets	-	-
B.4 Held-to-maturity investments	-	-
B.5 Loans to banks	-	-
B.6 Loans to customers	-	-
B.7 Equity investments	-	-
B.8 Tangible assets	-	-
B.9 Intangible assets	-	-
B.10 Other assets	-	-
Total B	-	-
C. Commissions associated with non-current assets held for sale		
C.1 Amounts due	-	-
C.2 Securities	-	-
C.3 Other liabilities	-	-
Total C	-	-
D. Liabilities associated with disposal groups held for sale		
D.1 Due to banks	-	-
D.2 Due to customers	-	-
D.3 Securities issued	-	-
D.4 Financial liabilities held for trading	-	-
D.5 Financial liabilities at fair value	-	-
D.6 Provisions	-	-
D.7 Other liabilities	-	-
Total D	-	-

Section 16 - Other assets - Caption 160

16.1 Analysis of other assets

€/'000	Dec. 31, 2005	Dec. 31, 2004
- Commissions outstanding	42,660	38,497
- Receivables from tax authorities	7,899	12,763
- Receivables from financial advisors	6,932	8,281
- Advances to suppliers and professionals	1,672	1,500
- Security deposits	16,638	14,775
- Receivables from companies within the Fininvest Group and the Doris Group	195	195
- Receivables from subsidiaries and associates	3,543	4,766
- Receivables from employees	207	144
- Rents	-	-
- Other receivables	21,540	25,905
- Items in transit	81,836	37,209
- Accrued income	229	82
- Prepayments	5,438	3,245
- Other	11,771	14,125
Total	200,560	161,487

LIABILITIES

Section 1 - Amounts due to banks - Caption 10

1.1 Analysis of amounts due to banks

€/'000	Dec. 31, 2005	Dec. 31, 2004
1. Central Banks	511,080	138,581
2. Banks		
2.1 Current accounts and demand deposits	47,624	23,628
2.2 Time deposits	204,895	175,031
2.3 Loans		
2.3.1 finance leases	-	-
2.3.2 other	159,706	29,733
2.4 Commitments to buy back own equity instruments	-	-
2.5 Liabilities in connection with assets sold but not derecognized		
2.5.1 repurchase agreements	-	-
2.5.2 other	-	-
2.6 Other amounts due	84	744
Total	923,389	367,717
Fair value	923,389	367,717

Section 2 - Amounts due to customers - Caption 20

2.1 Analysis of amounts due to customers

€/'000	Dec. 31, 2005	Dec. 31, 2004
1. Current accounts and demand deposits	3,766,612	3,295,312
2. Time deposits	-	12
3. Third party assets under administration	-	-
4. Loans		
4.1 finance leases	-	-
4.2 other	161,757	150,019
5. Commitments to buy back own equity instruments	-	-
6. Liabilities in connection with assets sold but not derecognized		
6.1 repurchase agreements	108,870	152,600
6.2 other	-	-
7. Other amounts due	66,284	68,251
Total	4,103,523	3,666,194
Fair value	4,103,523	3,666,194

Section 3 - Securities issued - Caption 30

3.1 Analysis of securities issued

	Dec. 31, 2005		Dec. 31, 2004	
€/'000	Book value	Fair value	Book value	Fair value
A. Listed securities				
1. Bonds				
1.1 structured notes	-	-	-	-
1.2 other	-	-	-	-
2. Other securities				
2.1 structured notes	-	-	-	-
2.2 other	-	-	-	-
B. Unlisted securities				
1. Bonds				
1.1 structured notes	-	-	-	-
1.2 other	-	-	4,994	4,994
2. Other securities				
2.1 structured notes	-	-	-	-
2.2 other	-	-	-	-
Total			4,994	4,994

Section 4 - Financial liabilities held for trading - Caption 40

4.1 Analysis of financial liabilities held for trading

€/'000	Dec. 31, 2005 NV	Dec. 31, 2005 Fair value L	Dec. 31, 2005 Fair value U	Dec. 31, 2005 FV*	Dec. 31, 2004 NV	Dec. 31, 2004 Fair value L	Dec. 31, 2004 Fair value U	Dec. 31, 2004 FV*
A. Non-derivatives								
1. Due to banks	12	9	-	-	-	-	-	-
2. Due to customers	50,612	55,601	821	-	5,917	-	5,917	-
3. Debt securities	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-
3.1.1 structured notes	-	-	-	-	-	-	-	-
3.1.2 other	-	-	-	-	-	-	-	-
3.2 Other securities	-	-	-	-	-	-	-	-
3.2.1 structured notes	-	-	-	-	-	-	-	-
3.2.2 other	-	-	-	-	-	-	-	-
Total A	50,624	55,610	821	-	5,917	-	5,917	-
B. Derivatives								
1. Financial derivatives	-	-	-	-	-	-	-	-
1.1 held for trading	-	-	6,765	-	-	-	101	-
1.2 measured at fair value	-	-	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-	-	-
2.1 held for trading	-	-	-	-	-	-	-	-
2.2 measured at fair value	-	-	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-	-	-
Total B	-	-	6,765	-	-	-	101	-
Total (A+B)	50,624	55,610	7,586	-	5,917	-	6,018	-

Legend
FV*= Fair value calculated excluding any changes in value due to changes in the credit standing of the issuer over the date of issue
NV = Nominal value or notional amount
L = Listed
U = Unlisted

4.2 Financial liabilities held for trading: derivatives

€/'000	Interest rate	Currencies and gold	Equities	Loans	Other	Dec. 31, 2005	Dec. 31, 2004
A) Listed derivatives							
1. Financial derivatives							
With exchange of principal							
- options purchased	-	-	-	-	-	-	-
- other derivatives	-	-	-	-	-	-	-
Without exchange of principa							
- options purchased	-	-	-	-	-	-	-
- other derivatives	-	-	-	-	-	-	-
2. Credit derivatives							
With exchange of principal	-	-	-	-	-	-	-
Without exchange of principal	-	-	-	-	-	-	-
Total A	-	-	-	-	-	-	-
B) Unlisted derivatives							
1. Financial derivatives							
With exchange of principal							
- options purchased	-	-	-	-	-	-	-
- other derivatives	-	3,336	-	-	-	3,336	-
Without exchange of principal							
- options purchased	-	-	524	-	-	524	-
- other derivatives	2,894	11	-	-	-	2,905	101
2. Credit derivatives							
With exchange of principal	-	-	-	-	-	-	-
Without exchange of principal	-	-	-	-	-	-	-
Total B	2,894	3,347	524	-	-	6,765	101
Total (A+B)	2,894	3,347	524	-	-	6,765	101

Section 10 - Other liabilities - Caption 100

10.1 Analysis of other liabilities

€/'000	Dec. 31, 2005	Dec. 31, 2004
Agents' severance benefits	2,637	2,520
Security deposits	4,559	12,087
Taxes payable by policyholders	-	-
Provision for staff costs (vacation pay, additional months, etc.)	3,587	3,085
Items in transit	74,330	26,840
Deferred income	1,060	-
Accrued expenses	-	236
Other	137,821	104,058
Total other liabilities	223,994	148,826

Section 11 - Employee completion-of-service entitlements - Caption 110

11.1 Year's movements in employee completion-of-service entitlements

€/'000	
A. Opening balance	8,708
B. Increases	
B.1 Amounts set aside in the year	2,995
B.2 Other increases	108
C. Decreases	
C.1 Funds used in the year	(683)
C.3 Other decreases	(1,092)
D. Closing balance	10,036

Section 12 - Provisions for risks and charges - Caption 120

12.1 Analysis of provisions for risks and charges

€/'000	Dec. 31, 2005	Dec. 31, 2004
1. Provision for completion-of-service entitlements	1,754	1,798
2. Other provisions for risks and charges	54,906	29,397
Total	56,660	31,195

Section 15 - Shareholders' Equity pertaining to the Group

15.1 Analysis of shareholders' equity pertaining to the Group

€/'000	Dec. 31, 2005	Dec. 31, 2004
1. Share capital	341,000	341,000
2. Share premium account	-	-
3. Reserves	59,592	35,289
4. (Treasury shares)		
a) parent company	-	-
b) subsidiaries	-	-
5. Valuation reserves	(477)	-
6. Equity instruments	-	-
7. Group's profit (loss) for the year	66,264	57,714
Total	466,379	434,003

15.2 Analysis of "Share Capital" and "Treasury Shares":

	Share Capital		Treasury Shares	
€/'000	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2004
Ordinary shares	341,000	341,000	-	-
Other shares	-	-	-	-
Total	341,000	341,000	-	-

15.3 Analysis of year's movements in share capital – Number of shares held by the parent company

€/'000	Ordinary shares	Other shares
A. Opening balance	341,000	-
- fully paid up	341,000	-
- not fully paid up	-	-
A.1 Treasury shares (-)	-	-
A.2 Shares outstanding: opening balances	341,000	-
B. Increases		
B.1 New issues		
- for a consideration		
- business combinations	-	-
- conversion of bonds	-	-
- warrant exercised	-	-
- other	-	-
- bonus issues:		
- employees	-	-
- directors	-	-
- others	-	-
B.2 Sale of treasury shares	-	-
B.3 Other changes	-	-
C. Decreases		
C.1 Cancellations	-	-
C.2 Purchase of treasury shares	-	-
C.3 Sale of businesses	-	-
C.4 Other changes	-	-
D. Shares outstanding: closing balance	341,000	-
D.1 Treasury shares (+)	-	-
D.2 Shares at year end	341,000	-
- fully paid up	341,000	-
- not fully paid up	-	-

15.6 Analysis of valuation reserves

€/'000	Dec. 31, 2005	Dec. 31, 2004
1. Available-for-sale financial assets	(477)	-
2. Tangible assets	-	-
3 Intangible assets	-	-
4. Hedges of investment s in foreign operations	-	-
5. Cash flow hedges	-	-
6. Exchange differences	-	-
7. Non-current assets held for sale	-	-
8. Special revaluation statutes	-	-
9. Other	-	-
Total	(477)	-

15.7 Year's movements in valuation reserves

€/'000	Available-for-sale financial assets	Tangible assets	Intangible assets	Hedges of investment s in foreign operations	Cash flow hedges	Exchange differences	Non current assets held for sale	Special revaluation statutes
A. Opening balance	-	-	-	-	-	-	-	-
B. Increases	-	-	-	-	-	-	-	-
B1. Increases in fair value	(577)	-	-	-	-	-	-	-
B2. Other	-	-	-	-	-	-	-	-
C. Decreases	-	-	-	-	-	-	-	-
C1. Decreases in fair value	100	-	-	-	-	-	-	-
C2. Other	-	-	-	-	-	-	-	-
D. Closing balance	(477)	-	-	-	-	-	-	-

15.8 Analysis of revaluation reserves relating to available-for-sale financial assets

€/'000	Dec. 31, 2005		Dec. 31, 2004	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	-	(585)	-	-
2. Equities	108	-	-	-
3. Holdings in UCITS	-	-	-	-
4. Loans	-	-	-	-
Total	108	(585)	-	-

15.9 Year's movements in revaluation reserves relating to available-for-sale financial assets

€/'000	Debt securities	Equities	Holdings in UCITS	Loans
1 Opening balance	-	-	-	-
2. Increases	-	-	-	-
2.1 Increases in fair value	(580)	3	-	-
2.2 Reversal of negative reserves through profit or loss	-	-	-	-
- impairment losses	-	-	-	-
- disposals	-	-	-	-
2.3 Other	-	-	-	-
3. Decreases	-	-	-	-
3.1 Decreases in fair value	(5)	105	-	-
3.2 Impairment losses				
3.3 Reversal of positive reserves through profit or loss (disposals)	-	-	-	-
3.4 Other	-	-	-	-
4. Closing balance	(585)	108	-	-

Section 16 - Minority interests - Caption 210

16.1 Analysis of shareholders' equity pertaining to minority interests

€/'000	Dec. 31, 2005	Dec. 31, 2004
1. Share capital	2,681	2,681
2. Share premium account	-	-
3. Reserves	(61,559)	4,553
4. (Treasury shares)	-	-
5. Valuation reserves	-	-
6. Equity instruments	-	-
7. Profit (loss) for the year pertaining to minority interests	107,557	65,951
Total	48,679	73,185

OTHER INFORMATION

1. Guarantees issued and commitments

€/'000	Dec. 31, 2005	Dec. 31, 2004
1) Financial guarantees		
a) Banks	14,650	-
b) Customers	21,534	18,461
2) Commercial guarantees		
a) Banks	19	-
b) Customers	7,772	-
3) Commitments to disburse funds		
a) Banks		
i) with certain drawdown	75,03	-
ii) with possible drawdown	47,634	56,378
b) Customers		
i) with certain drawdown	10,410	-
ii) with possible drawdown	41,715	-
4) Commitments under credit derivatives: protection sales	-	-
5) Assets pledged to secure third-party obligations	-	-
6) Other commitments	368,763	236,303
Total	587,531	311,142

2. Assets pledged to secure own liabilities and commitments

€/'000	Dec. 31, 2005	Dec. 31, 2004
1. Financial assets held for trading	576,609	-
2. Financial assets at fair value	-	-
3. Available-for-sale financial assets	-	-
4. Held-to-maturity investments	340,439	-
5. Loans to banks	-	-
6. Loans to customers	366,151	232,574
7. Tangible assets	-	-
Total	1,283,199	232,574

5. Brokerage and asset management on behalf of customers

€/'000	Dec. 31, 2005
1. Securities brokerage	
a) Purchases	
- settled	16,600,039
- not settled	39,730
b) Sales	
- settled	17,552,517
- not settled	40,203
2. Asset management	
a) Individual portfolio management	1,632,884
b) Collective portfolio management	1,073
3. Securities in custody and under administration	
a) Custodian bank services (other than managed assets)	
- securities issued by consolidated companies	-
- other securities	933
b) Other custodian bank services (other than managed assets)	
- securities issued by consolidated companies	-
- other securities	3,473,528
c) Third-party securities held by other custodians	3,325,315
d) Own securities held by other custodians	1,737,301
4. Other services	42,097

PART C - INFORMATION ON THE INCOME STATEMENT

Section 1 - Interest - Captions 10 and 20

1.1 Analysis of interest income and similar income

€/'000	Performing financial assets		Impaired financial assets	Other assets	Dec. 31, 2005	Dec. 31, 2004
	Debt securities	Loans				
1. Financial assets held for trading	30,630	-	-	-	30,630	26,490
2. Financial assets at fair value	1,434	-	-	3	1,437	944
3. Available-for sale financial assets	123	-	-	-	123	55
4. Held-to-maturity investments	12,297	-	-	-	12,297	12,035
5. Loans to banks	-	12	-	56,921	56,933	51,047
6. Loans to customers	-	30	-	31,714	31,744	21,537
7. Derivative hedging instruments	-	-	-	-	-	-
8. Assets sold but not derecognized	-	-	-	-	-	-
9. Other assets	-	-	-	608	608	462
Total	44,484	42	-	89,246	133,772	112,570

1.3 Analysis of interest income and similar income

€/'000	Dec. 31, 2005	Dec. 31, 2004
Interest income and similar income on:		
a) financial assets denominated in foreign currencies	11,178	14,516
b) finance leases	-	-
c) third party assets under administration	-	-

1.4 Analysis of interest expense and similar charges

€/'000	Amounts due	Securities	Other liabilities	Dec. 31, 2005	Dec. 31, 2004
1. Due to banks	27,822	-	-	27,822	16,779
2. Due to customers	32,993	-	7,321	40,314	39,559
3. Securities issued	-	-	-	-	196
4. Financial liabilities held for trading	-	-	-	-	-
5. Financial liabilities at fair value	-	-	-	-	-
6. Financial liabilities in connection with assets sold but not derecognized	-	-	-	-	-
7. Other liabilities	-	-	245	245	288
Derivative hedging instruments	-	-	-	-	-
Total	60,815	-	7,566	68,381	56,822

1.6 Interest expense and similar charges: other information

€/'000	Dec. 31, 2005	Dec. 31, 2004
Interest expense and similar charges on:		
a) financial liabilities denominated in foreign currencies	13,685	7,553
b) finance leases	-	41
c) third party assets under administration	549	3,061

Section 2 - Commissions - Captions 40 and 50

2.1 Analysis of commission income

€/'000	Dec. 31, 2005	Dec. 31, 2004
a) Guarantees issued	230	243
b) Credit derivatives	99	92
c) Management, brokerage and consulting services:	661,550	522,921
1. Brokerage of financial instruments	12,092	12,499
2. Currency brokerage	53	51
3. Asset management	357,667	229,292
3.1 individual portfolio management	343,351	216,510
3.2 collective portfolio management	14,316	12,782
4. Securities in custody and under administration	9,954	6,308
5. Custodian bank	857	852
6. Sale of securities	979	760
7. Order taking	7,025	6,525
8. Consultancy	-	-
9. Services to third parties	272,923	266,634
9.1 Asset management	21,248	20,440
9.1.1 individual portfolio management	17,326	19,705
9.1.2 collective portfolio management	3,922	735
9.2 Insurance products	196,388	180,833
9.3 Other products	55,287	65,361
d) Payments and collections	34,121	24,940
e) Servicing for securitization transactions	-	-
f) Factoring services	-	-
g) Tax collection services	-	-
h) Other services	21,952	13,577
Total	717,952	561,775

2.2 Commission income: banking group's distribution channels of products and services

€/'000	Dec. 31, 2005	Dec. 31, 2004
a) Through the company's own branches:		
1. Asset management	-	694
2. Sale of securities	-	-
3. Services and products of third parties	-	101
b) Off-premises sales:		
1. Asset management	9,112	9,556
2. Sale of securities	645	502
3. Services and products of third parties	14,876	9,706
c) Other distribution channels:		
1. Asset management	348,555	219,042
2. Sale of securities	334	258
3. Services and products of third parties	258,047	256,827

2.3 Analysis of commission expense

€/'000	Dec. 31, 2005	Dec. 31, 2004
a) Guarantees received	-	-
b) Credit derivatives	-	-
c) Management and brokerage services	271,318	219,940
1. Brokerage of financial instruments	2,852	2,808
2. Currency brokerage	224	313
3. Asset management:	63,474	43,852
3.1 own portfolio	9,654	7,734
3.2 third-party portfolios	53,820	36,118
4. Securities in custody and under administration	436	466
5. Sale of financial instruments	360	124
6. Off-premises sales of financial instruments, products and services	203,972	172,377
d) Payments and collections	25,371	16,705
e) Other services	16,281	13,493
Total	312,970	250,138

Section 3 - Dividends and similar income - Caption 70

3.1 Analysis of dividends and similar income

	Dec. 31, 2005		Dec. 31, 2004	
€/'000	Dividends	Income from holdings in UCITS	Dividends	Income from holdings in UCITS
A. Financial assets held for trading		83	-	71
B. Available-for sale financial assets	142	-	3	-
C. Financial assets at fair value	-	-	-	-
D. Equity investments	34	-	231	-
Total	176	83	234	71

Section 4 - Net income from trading - Caption 80

4.1 Analysis of net income from trading

€/'000	Unrealized gains (A)	Realized trading profits (B)	Unrealized losses (C)	Realized losses (D)	Net income (A+B)-(C+D)
1. Financial assets held for trading					
1.1 Debt securities	83	20,856	(1,970)	(17,136)	1,833
1.2 Equities	-	246	-	(165)	81
1.3 Holdings in UCITS	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading					
2.1 Debt securities	193	1,020	(74)	(469)	670
2.2 Amounts due	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Other financial assets and financial liabilities: exchange differences	-	-	-	-	3,181
4. Derivatives					
4.1 Financial derivatives					
- debt securities and interest rates	2,302	17,893	(2,894)	(18,510)	(1,209)
- equities and stock indices	-	1	-	(4)	(3)
- currencies and gold	-	-	-	-	-
- other	2,252	9,769	(3,336)	(9,826)	(1,141)
4.2 Credit derivatives	-	-	-	-	-
Total	4,830	49,785	(8,274)	(46,110)	3,412

Section 6 - Gains (losses) from sales/buybacks - Caption 100

6.1 Analysis of gains (losses) from sales/buybacks

€/'000	Dec. 31, 2005			Dec. 31, 2004		
	Gains	Losses	Net income	Gains	Losses	Net income
Financial assets						
1. Loans to banks	-	-	-	-	-	-
2. Loans to customers	-	-	-	-	-	-
3. Available-for-sale financial assets	-	-	-	-	-	-
3.1 debt securities	31	-	31	80	-	80
3.2 equities	1,165	(248)	917	3,412	(102)	3,310
3.3 holdings in UCITS	-	-	-	-	-	-
3.4 loans	-	-	-	-	-	-
4. Held-to-maturity investments	-	-	-	-	-	-
Total assets	1,196	(248)	948	3,492	(102)	3,390
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	-	-	-	-	-	-
Total liabilities	-	-	-	-	-	-

Section 7 - Net income from financial assets and liabilities at fair value - Caption 110

7.1 Analysis of net income from trading

€/'000	Unrealized gains (A)	Realized trading profits (B)	Unrealized losses (C)	Realized losses (D)	Net income (A+B)-(C+D)
1. Financial assets					
1.1 Debt securities	-	-	-	-	-
1.2 Equities	-	-	-	-	-
1.3 Holdings in UCITS	77	-	-	-	77
1.4 Loans	-	-	-	-	-
2. Financial liabilities					
2.1 Debt securities	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Other financial assets and liabilities denominated in foreign currencies: exchange differences	-	-	-	-	-
4. Derivatives					
4.1 Financial derivatives					
- debt securities and interest rates	-	-	-	-	-
- equities and stock indices	-	-	-	-	-
- currencies and gold	-	-	-	-	-
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total derivatives	-	-	-	-	-
Total	77	-	-	-	77

Section 8 - Impairment losses - Caption 130

8.1 Analysis of impairment losses on loans

	Write-downs (1)			Write-backs (2)					
	Individual			Individual		Collective			
€/'000	Cancellations	Others	Collective	Interest	Others	Interest	Others	Dec. 31, 2005 (3) = (1) - (2)	Dec. 31, 2004 (3) = (1) - (2)
A. Loans to banks	-	-	-	-	3,253	-	2,089	5,342	-
B. Loans to customers	-	(6,692)	(3,919)	-	784	-	871	(8,956)	(5,352)
C. Total	-	(6,692)	(3,919)	-	4,037	-	2,960	(3,614)	(5,352)

8.2 Analysis of impairment losses on available-for sale financial assets

€/'000	Write-downs (1) Individual Cancellations	Write-downs (1) Individual Others	Write-backs (2) Individual Interest	Write-backs (2) Individual Others	Dec. 31, 2005 (3) = (1) - (2)	Dec. 31, 2004 (3) = (1) - (2)
A. Debt securities	(3)	-	-	-	(3)	-
B. Equities	-	(403)	-	367	(36)	-
C. Holdings in UCITS	-	-	-	-	-	-
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	(125)
F. Total	(3)	(403)	-	367	(39)	(125)

8.4 Analysis of impairment losses on other financial items

€/'000	Write-downs Individual Cancellations	Write-downs Individual Others	Write-downs Collective	Write-backs Individual Interest	Write-backs Individual Others	Write-backs Collective Interest	Write-backs Collective Others	Dec. 31, 2005	Dec. 31, 2004
A. Guarantees issued	-	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	-	-	-	-	-	-	-
D. Others	-	-	-	-	-	-	65	65	-
E. Total	-	-	-	-	-	-	65	65	-

Section 11 - Administrative expenses - Caption 180

11.1 Analysis of staff costs

€/'000	Dec. 31, 2005	Dec. 31, 2004
1) Employees		
a) Wages and salaries	56,213	50,422
b) Social security contribution	15,022	13,737
c) Employee completion-of –service entitlements	535	183
d) Social security contributions	517	315
e) Provision for completion-of service entitlements	2,885	2,725
f) Provision for severance entitlements and similar obligations:		
- defined contribution plan	280	135
- defined benefit plan	-	-
g) External supplementary pension funds:		
- defined contribution plan	-	-
- defined benefit plan	102	80
h) Expenses in connection with equity-settled share-based payment transactions	-	-
i) Other employee benefits	2,242	1,983
2) Other personnel	3,845	5,630
3) Directors	3,193	2,101
Total	84,834	77,311

11.2 Banking group's average number of employee by category

Units	Dec. 31, 2005	Dec. 31, 2004
Employees		
a) Senior management	83	87
b) Middle management	194	232
c) Other employees	1,007	897
Total employees	1,284	1,216
Other personnel	140	77
Total	1,424	1,293

11.5 Analysis of other administrative expenses

€/'000	Dec. 31, 2005	Dec. 31, 2004
IT services	27,100	26,883
Infoprovider services	3,787	3,873
Other miscellaneous services	7,860	7,750
Taxes and duties	756	698
Television and Internet communication services	11,953	10,337
Consultancy and network advisory services	7,919	8,702
Rentals	8,736	9,059
Maintenance and repairs	1,320	1,095
Postal and telephone	7,667	6,859
Miscellaneous advisory services	7,766	6,340
Key personnel seconded from subsidiaries	58	-
Consumables	3,072	2,264
Insurance	2,751	1,400
Directors and Statutory Auditors compensation	380	279
Membership fees	519	520
Advertising and promotions	20,988	9,703
Conventions	5,940	7,161
Training of financial advisors	6,131	5,047
Canteen	1,809	1,706
Business expenses, gifts and donations	1,067	889
Market research	1,155	782
Recruitment/Training of personnel	995	606
Travel expenses	1,900	1,921
Recruitment and training of financial advisors	211	416
Other administrative expenses	6,241	5,028
Total	138,081	119,318

Section 13 - Net write-downs of tangible assets - Caption 200

13.1 Write-downs of tangible assets

€/'000	Depreciation (A)	Impairment losses (B)	Write-backs (C)	Net write-downs (A+B-C)
A. Tangible assets				
A.1 Owned				
- held for use	(5,889)	-	-	(5,889)
- held for investment purposes	(363)	-	-	(363)
A.2 Under finance leases				
- held for use	(220)	-	-	(220)
- held for investment purposes	-	-	-	-
Total	(6,472)	-	-	(6,472)

Section 14 - Write-downs of intangible assets - Caption 210

14.1 Write-downs of intangible assets

€/'000	Amortization (A)	Impairment losses (B)	Write-backs (C)	Net write-downs (A+B-C)
A. Intangible assets				
A.1 Owned				
- internally generated	(143)	-	-	(143)
- others	(13,130)	(14,780)	-	(27,910)
A.2 Under finance leases	-	-	-	-
Total	(13,273)	(14,780)	-	(28,053)

Section 15 - Other operating income - Caption 220

15.1 Analysis of other operating expenses

€/'000	Dec. 31, 2005	Dec. 31, 2004
Assets under finance lease	193	-
Lease installments	-	-
Losses on sale	10	-
Insurance	183	-
Transfer of title	-	-
Other	2,316	3,842
Compensations and Settlements	461	1,582
Loan losses	222	303
Amortization of expenses for improvements of leasehold assets	146	232
Other expenses	1,487	1,725
Total other operating expenses	2,509	3,842

15.2 Analysis of other operating income

€/'000	Dec. 31, 2005	Dec. 31, 2004
Recoveries of Indirect taxes	180	38
Cost recoveries relating to seconded personnel	1	-
Recoveries of expenses on contracts and services rendered	8,605	9,412
Miscellaneous income	5,921	4,609
Rentals on owned property	150	148
Recoveries of expenses from customers	900	121
Recoveries of expenses from financial advisors	462	311
Other	4,409	4,029
Total other operating income	14,707	14,059

Section 16 - Profit (Loss) on equity investments - Caption 240

16.1 Analysis of profit (loss) on equity investments

€/'000	Dec. 31, 2005	Dec. 31, 2004
1) Joint-ventures		
A. Income		
- Revaluations	-	-
- Gains on sale	-	-
- Write-backs	-	-
- Other	-	-
B. Expenses		
- Write-downs	(14,780)	-
- Impairment losses	-	-
- Losses on sale	-	-
- Other	-	-
Net profit (loss)	(14,780)	-
2) Companies under significant influence		
A. Income		
- Revaluations	-	-
- Gains on sale	-	-
- Write-backs	-	-
- Other	-	-
B. Expenses		
- Write-downs	-	-
- Impairment losses	-	-
- Losses on sale	-	-
- Other	-	-
Profit (loss)	-	-
Total	(14,780)	-

Section 19 - Profit (Loss) on equity investments - Caption 270

19.1 Analysis of profit (loss) on disposal of investments

€/'000	Dec. 31, 2005	Dec. 31, 2004
A. Property		
- Gains on sale	-	-
- Losses on sale	-	-
B. Other assets		
- Gains on sale	340	-
- Losses on sale	-	-
Profit (loss)	340	-

Section 20 - Income tax expense on continuing operations - Caption 290

20.1 Analysis of income tax expense on continuing operations

€/'000	Dec. 31, 2005	Dec. 31, 2004
1. Current tax (-)	(36,473)	(28,593)
2. Change in current tax for prior years (+/-)	29	(180)
3. Change in current tax for the year (+)	-	10
4. Change in deferred tax assets (+/-)	6,853	(2,512)
5. Change in deferred tax liabilities (+/-)	2,083	(24)
6. Income tax expense for the year (-) (-1+/-2+3+/-4+/-5)	(27,508)	(31,299)

PART D - SEGMENT REPORTING

This section presents consolidated financial results reported by business segment (primary format), i.e. Banking and Asset Management, and then by geographical segment (secondary segment) by reference to markets, i.e. Domestic and Foreign markets.

In compliance with IAS 14, segment reporting reflects the management reporting system of the Banca Mediolanum Group, and is consistent with the information disclosed to the market and to the various stakeholders. In certain instances that exercise entailed item reclassifications.

To enable a clearer and more accurate analysis of financial information, comparative figures include the estimated impact on result of operations of the adoption of IAS 39 from January 1, 2004.

For the purpose of segment reporting of balance sheet information the various companies were allocated to their respective business segment. That entailed, on the one hand, the elimination of inter-company balances within the same segment and, on the other hand, the inclusion of inter-segment transaction balances. Comparative figures do not include the estimated impact on the balance sheet of the adoption of IAS 39 from January 1, 2004 as that impact was considered to be not material.

INCOME STATEMENT AS AT DECEMBER 31, 2005

Financial information by Geographical Segment Banca Mediolanum S.p.A. - Consolidated accounts

	ITALY			ABROAD		
€/'000	2005	2004*	diff.	2005	2004*	diff.
Net premiums written	-	-	-	-	-	-
Entry fees	37,695	24,884	12,811	5,991	3,990	2,001
Management fees	219,307	189,369	29,938	17,785	16,868	917
Performance fees	146,106	55,390	90,716	6,469	1,368	5,101
Fees and other income from banking services	40,439	53,084	(12,645)	32,345	23,998	8,347
Other fees	201,695	185,076	16,619	10,681	8,335	2,346
Total commission income	645,242	507,803	137,439	73,271	54,559	18,712
Interest income and similar income	122,724	100,687	22,037	16,605	17,126	(521)
Interest expense and similar charges	(65,696)	(51,220)	(14,476)	(8,242)	(10,898)	2,656
Income /Loss on investments at fair value	3,515	5,070	(1,555)	(25)	133	(158)
Net income on investments at fair value	60,543	54,537	6,006	8,338	6,361	1,977
Income from other investments	312	171	141	2,865	6,892	(4,027)
Other revenues	13,436	12,246	1,190	1,641	1,780	(139)
TOTAL REVENUES	719,533	574,757	144,776	86,115	69,592	16,523
Claims paid and change in technical reserves	-	-	-	-	-	-
Commission expense and acquisition costs	(272,697)	(220,139)	(52,558)	(40,834)	(30,566)	(10,268)
Impairment losses	(3,866)	(2,223)	(1,643)	(14,571)	(1,425)	(13,146)
General and administrative expenses	(184,878)	(162,048)	(22,830)	(42,706)	(41,679)	(1,027)
Depreciation and amortization	(16,421)	(17,268)	847	(3,310)	(4,564)	1,254
Provisions for risks and charges	(24,298)	(8,078)	(16,220)	(738)	732	(1,470)
PRE-TAX PROFIT	217,373	165,001	52,372	(16,044)	(7,910)	(8,134)
Income taxes						
Minority interests						
NET PROFIT / LOSS						

* Including the estimated effects of the application of IAS 39

Consolidation adjustments			GRANDTOTAL		
2005	2004*	diff.	2005	2004*	diff.
-	-	-	-	-	-
-	-	-	43,686	28,874	14,812
-	-	-	237,092	206,237	30,855
-	-	-	152,575	56,758	95,817
(3)	-	(3)	72,781	77,082	(4,301)
(558)	(597)	39	211,818	192,814	19,004
(561)	(597)	36	717,952	561,765	156,187
(5,557)	(5,299)	(258)	133,772	112,514	21,258
5,557	5,296	261	(68,381)	(56,822)	(11,559)
(1)	-	(1)	3,489	5,203	(1,714)
(1)	(3)	2	68,880	60,895	7,985
(14,780)	-	(14,780)	(11,603)	7,063	(18,666)
(201)	(137)	(64)	14,876	13,889	987
(15,543)	(737)	(14,806)	790,105	643,612	146,493
-	-	-	-	-	-
562	597	(35)	(312,969)	(250,108)	(62,861)
14,780	-	14,780	(3,657)	(3,648)	(9)
200	140	60	(227,384)	(203,587)	(23,797)
-	-	-	(19,731)	(21,832)	2,101
-	-	-	(25,036)	(7,346)	(17,690)
(1)	-	(1)	201,328	157,091	44,237
			(27,508)	(32,019)	4,511
			(107,557)	(65,951)	(41,606)
			66,263	59,121	7,142

INCOME STATEMENT AS AT DECEMBER 31, 2005

Financial information by Business Segment/Italy Banca Mediolanum S.p.A. - Consolidated accounts

	BANKING		
€/'000	2005	2004*	diff.
Net premiums written	-	-	-
Entry fees	-	-	-
Management fees	-	-	-
Performance fees	-	-	-
Fees and other income from banking services	40,441	53,085	(12,644)
Other fees	7	1,027	(1,020)
Total commission income	40,448	54,112	(13,664)
Interest income and similar income	120,518	98,529	21,989
Interest expense and similar charges	(65,851)	(51,249)	(14,602)
Income / Loss on investments at fair value	3,521	5,069	(1,548)
Net income on investments at fair value	58,188	52,349	5,839
Income from other investments	141	0	141
Other revenues	7,398	5,489	1,909
TOTAL REVENUES	106,174	111,950	(5,776)
Claims paid and change in technical reserves	-	-	-
Commission expense and acquisition costs	(19,458)	(19,507)	49
Impairment losses	(1,712)	(742)	(971)
DIRECT general and administrative expenses	(57,418)	(51,169)	(6,249)
INCOME BEFORE INDIRECT COSTS	27,586	40,532	(12,946)
INDIRECT general and administrative expenses/Depreciation, Amortization and Provisions			
Income taxes			
Minority Interests			
NET PROFIT / LOSS			

(*) Including the estimated effects of the application of IAS 39

ASSET MANAGEMENT			GRANDTOTAL		
2005	2004*	diff.	2005	2004*	diff.
-	-	-	-	-	-
37,695	24,884	12,811	37,695	24,884	12,811
219,307	189,369	29,938	219,307	189,369	29,938
146,106	55,390	90,716	146,106	55,390	90,716
(2)	(1)	(1)	40,439	53,084	(12,645)
201,688	184,049	17,639	201,695	185,076	16,619
604,794	453,691	151,103	645,242	507,803	137,439
2,206	2,158	48	122,724	100,687	22,037
155	29	126	(65,696)	(51,220)	(14,476)
(6)	1	(7)	3,515	5,070	(1,555)
2,355	2,188	167	60,543	54,537	6,006
171	171	0	312	171	141
6,038	6,757	(719)	13,436	12,246	1,190
613,359	462,807	150,552	719,533	574,757	144,776
-	-	-	-	-	-
(253,239)	(200,632)	(52,607)	(272,697)	(220,139)	(52,558)
(2,154)	(1,481)	(672)	(3,866)	(2,223)	(1,643)
(45,642)	(36,525)	(9,117)	(103,060)	(87,694)	(15,366)
312,324	224,169	88,155	339,910	264,701	75,209
			(122,537)	(99,700)	(22,837)
			(25,358)	(31,274)	5,916
			(107,099)	(65,951)	(41,148)
			84,916	67,776	17,140

INCOME STATEMENT AS AT DECEMBER 31, 2005

Financial information by Business Segment/Abroad Banca Mediolanum S.p.A. - Consolidated accounts

	BANKING		
€/'000	2005	2004*	diff.
Net premiums written	-	-	-
Entry fees	-	-	-
Management fees	-	-	-
Performance fees	-	-	-
Fees and other income from banking services	31,046	22,095	8,951
Other fees	783	279	504
Total commission income	31,829	22,374	9,455
Interest income and similar income	16,374	16,973	(599)
Interest expense and similar charges	(7,917)	(10,548)	2,631
Income / loss on investments at fair value	(102)	143	(245)
Net income on investments at fair value	8,355	6,568	1,787
Income from other investments	980	3,621	(2,641)
Other revenues	1,781	1,889	(108)
TOTAL REVENUES	42,945	34,452	8,493
Claims paid and change in technical reserves	-	-	-
Commission expense and acquisition costs	(24,158)	(15,617)	(8,541)
Impairment losses	209	(1,425)	1,634
DIRECT general and administrative expenses	(21,211)	(21,069)	(142)
INCOME BEFORE INDIRECT COSTS	(2,215)	(3,659)	1,444
INDIRECT general and administrative expenses/Depreciation, Amortization and Provisions			
Income taxes			
Minority interests			
NET PROFIT / LOSS			

(*) Including the estimated effects of the application of IAS 39

ASSET MANAGEMENT			GRANDTOTAL		
2005	2004*	diff.	2005	2004*	diff.
-	-	-	-	-	-
5,991	3,990	2,001	5,991	3,990	2,001
17,786	16,868	918	17,786	16,868	918
6,469	1,368	5,101	6,469	1,368	5,101
1,299	1,903	(604)	32,345	23,998	8,347
9,897	8,056	1,841	10,680	8,335	2,345
41,442	32,185	9,257	73,271	54,559	18,712
231	153	78	16,605	17,126	(521)
(326)	(350)	24	(8,243)	(10,898)	2,655
77	(10)	87	(25)	133	(158)
(18)	(207)	189	8,337	6,361	1,976
1,885	3,271	(1,386)	2,865	6,892	(4,027)
(140)	(110)	(30)	1,641	1,779	(138)
43,169	35,139	8,030	86,114	69,591	16,523
-	-	-	-	-	-
(16,676)	(14,949)	(1,727)	(40,834)	(30,566)	(10,268)
(14,780)	-	(14,780)	(14,571)	(1,425)	(13,146)
(12,901)	(12,430)	(471)	(34,112)	(33,499)	(613)
(1,188)	7,760	(8,948)	(3,403)	4,101	(7,504)
			(12,641)	(12,011)	(630)
			(2,150)	(745)	(1,405)
			(458)	-	(458)
			(18,652)	(8,655)	(9,997)

BALANCE SHEET AS AT DECEMBER 31, 2005

Financial information by Business Segment Banca Mediolanum S.p.A. - Consolidated accounts

	BANKING			ASSET MANAGEMENT		
€/'000	2005	2004	diff.	2005	2004	diff.
ASSETS						
Intangible assets	(142,953)	(153,045)	10,092	(32,747)	(41,673)	8,926
Property	(30,064)	(29,789)	(275)	(7,980)	(8,145)	165
Securities and derivatives	(1,635,723)	(2,287,766)	652,043	(8,104)	(7,986)	(118)
Financial assets - Banks	(2,696,514)	(1,224,820)	(1,471,694)	(58,505)	(146,109)	87,604
Financial assets - Customers	(912,196)	(569,223)	(342,973)	(79,100)	(24,924)	(54,176)
Other assets	(334,588)	(290,144)	(44,444)	(14,398)	(20,758)	6,360
TOTAL ASSETS	(5,752,038)	(4,554,787)	(1,197,251)	(200,834)	(249,595)	48,761
LIABILITIES AND EQUITY						
Financial liabilities - Banks	923,373	367,708	555,665	10,705	14,464	(3,759)
Financial liabilities - Customers	4,119,717	3,681,198	438,519	509	642	(133)
Other financial liabilities	63,196	11,012	52,184	-	-	-
Provisions for risks and charges	53,818	29,358	24,460	2,842	1,837	1,005
Other liabilities	227,422	163,755	63,667	36,232	26,929	9,303
Minority interests						
Shareholders' equity						
Net profit (loss) for the year						
TOTAL LIABILITIES AND EQUITY	5,387,526	4,253,031	1,134,495	50,288	43,872	6,416

Consolidation adjustments			GRANDTOTAL		
2005	2004	diff.	2005	2004	diff.
-	-	-	(175,700)	(194,718)	19,018
-	-	-	(38,044)	(37,934)	(110)
-	-	-	(1,643,827)	(2,295,752)	651,925
16,401	15,190	1,211	(2,738,618)	(1,355,739)	(1,382,879)
11,082	14,695	(3,613)	(980,214)	(579,452)	(400,762)
3,078	2,328	750	(345,908)	(308,574)	(37,334)
30,561	32,213	(1,652)	(5,922,311)	(4,772,169)	(1,150,142)
(10,689)	(14,455)	3,766	923,389	367,717	555,672
(16,703)	(15,646)	(1,057)	4,103,523	3,666,194	437,329
-	-	-	63,196	11,012	52,184
-	-	-	56,660	31,195	25,465
(3,169)	(1,854)	(1,315)	260,485	188,830	71,655
			48,679	73,188	(24,509)
			400,115	376,319	23,796
			66,264	57,714	8,550
(30,561)	(31,955)	1,394	5,922,311	4,772,169	1,150,142

BALANCE SHEET AS AT DECEMBER 31, 2005

Financial information by Geographical Segment Banca Mediolanum S.p.A. - Consolidated accounts

€/'000	ITALY	ABROAD	Consolidation Adj.	CONSOLIDATED
ASSETS				
Intangible assets	(15,249)	(160,451)	-	(175,700)
Property	(19,621)	(18,423)	-	(38,044)
Securities and derivatives	(1,595,889)	(47,938)	-	(1,643,827)
Financial assets - Banks	(2,709,346)	(153,578)	124,306	(2,738,618)
Financial assets - Customers	(797,948)	(193,348)	11,082	(980,214)
Other assets	(227,085)	(207,896)	89,073	(345,908)
TOTAL ASSETS	(5,365,138)	(781,634)	224,461	(5,922,311)
LIABILITIES AND EQUITY				
Financial liabilities - Banks	1,132,656	10,789	(220,056)	923,389
Financial liabilities - Customers	3,655,295	452,529	(4,301)	4,103,523
Other financial liabilities	61,840	1,356	-	63,196
Provisions for risks and charges	50,918	5,742	-	56,660
Other liabilities	222,609	37,980	(104)	260,485
Minority interests				48,679
Shareholders' equity				400,115
Net profit (loss) for the year				66,264
TOTAL LIABILITIES AND EQUITY	5,123,318	508,396	(224,461)	5,922,311

PART E - INFORMATION ON RISKS AND RISK MANAGEMENT

The system of risk management and internal control consists of the set of rules, procedures and organizational structures established to ensure adherence to corporate strategies, effectiveness and efficiency of corporate processes, protection of the company's assets and proper management of customer assets, reliability and integrity of accounting and management information as well as compliance of transactions with the law, the regulations issued by Supervisory Authorities, self-discipline and internal rules.
Banca Mediolanum places great importance on risk management and control and structured it around four core principles:
- Measurement systems in line with international best practices;
- Clear lines of responsibility for risks undertaken;
- Segregation of duties between operating and control units;
- Progressive integration of risk indicators into the investment process.

The Board has overall responsibility for ensuring compliance with corporate targets, using among other things planning tools, and for periodically reviewing their implementation.

The principal types of controls embedded in the Bank's lending and financial management operations are:
- Line controls (first level): i.e. controls made by the individuals who carry out a certain activity and by their supervisors, generally within the same organizational unit or function;
- Risk controls (second level): i.e. controls performed by units other than operating units; they contribute to the definition of operating limits and risk measurement methods and verify compliance of transactions with the risk/return targets set by corporate bodies in their respective areas of remit;
- Risk controls include control of compliance with the law, the regulations issued by Supervisory Authorities and self-discipline rules (e.g. codes of conducts) as well as any other rules applicable to the Company;
- Internal Audit (third level): i.e. the periodic assessment of the completeness, effectiveness and adequacy of the internal control system in relation to the nature and level of risks undertaken. Internal audit is performed by units that are independent of operating units.

The analysis of risks at Group level showed that the Parent Company Banca Mediolanum S.p.A. is the most exposed to risks.
Quantitative information on risk exposures is presented in the following pages and relates to Banca Mediolanum S.p.A.

SECTION 1 - CREDIT RISK

1.1 CREDIT RISK

QUALITATIVE INFORMATION

1. General

Lending, be it the provision of home loans or consumer credit, or in other forms to meet other financing needs, is part of the business of the Mediolanum Banking Group. Consistently with the Group mission, lending complements the Group primary business i.e. the distribution of banking, asset management and insurance and retirement savings products. The Group applies prudent lending policies, which are geared to develop and strengthen the relationship with customers who invest in products managed by the companies within the Group.

2. Credit risk management

2.1 Organizational Aspects

As part of its responsibilities for organizing and directing the Group's affairs, the Board of Directors of the Parent Company Banca Mediolanum issued specific Lending Guidelines for all subsidiaries within the Banking Group. The guidelines set out general principles and instructions on lending and loan portfolio quality monitoring. The Parent Company is responsible for assessing overall exposure to credit risk and defining risk measurement policies for the whole Group.
Credit risk exposure is also assessed at the level of individual companies in their respective areas of remit, by measuring and monitoring the risk associated with the various categories of financial instruments. Capital adequacy and, in particular, compliance with solvency ratios and exposure limits for credit risk as set by local supervisory authorities are periodically monitored by the competent offices of the respective companies.
Each lender within the Banking Group has its own "Lending Policy", which is approved by its Board of Directors and sets out, inter alia, the authorities delegated to the various functions involved in the lending process, the type of collateral that can be accepted and the frequency of reports to Senior Management and the Board of Directors.

2.2 Credit risk measurement, management and control

Credit quality is monitored by regularly assessing, in each stage of the lending process, whether there is evidence of risk in accordance with entity-specific operating procedures.
In the lending process it is fundamental to have a comprehensive understanding of the financial condition of the borrower and the type of financing which best meets his needs, the loan purpose, the borrower creditworthiness and earnings capacity. To that end, each entity within the Group, as part of its loan application analysis, gathers all information needed to assess the consistency of the loan amount with the type and purpose of financing. In that examination, the entity uses performance and financial analysis tools as well as intelligence obtained from private and public Credit Bureaus. Special attention is paid to the assessment of any security taken.

All loans are subject to regular review by the competent units within each Group entity. Outstanding loans are continuously monitored focusing especially on riskier positions. Regular reports on credit protection actions taken are submitted to the Board of Directors of the respective companies.
As part of credit risk management and control actions, the Parent Company started a project to assign an internal rating grade to each borrower. The internal rating system will be incorporated in lending procedures to help assess the borrower creditworthiness and develop new tools for monitoring loan performance. Implementation of the internal rating system will be gradually extended to subsidiaries and adapted to national requirements in accordance with the Basel II Capital Accord.

2.3 Credit risk mitigation techniques

Loans extended by Group entities are secured by collaterals received from borrowers. Collaterals primarily consists of mortgages over property and pledge over financial instruments, plus conditional sale, and other forms of security, e.g. surety bonds and endorsements. Given the importance of the collateral received from the obligor in the assessment of credit risk, appropriate prudential adjustments are applied to the collateral whose value is subject to regular review.

2.4 Impaired financial assets

Each Group entity, within its sphere of independence, has its own effective tools for prompt detection of any problem loans.
The new rules set forth by the Basel Committee introduced significant changes in the general definitions of problem loans and the discretionary guidance of national supervisory authorities. The most significant change relates to the definition of default.
A default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place:

- The bank considers that the obligor is unlikely to pay its credit obligations in full, without recourse by the bank to actions such as realizing security (if held);
- The obligor is past due more than 180 days under Italian law and more than 90 days in other jurisdictions on any material credit obligation to the banking group.

In accordance with the discretionary guidance of national supervisory authorities, each entity within the Group classifies troubled positions according to their level of risk.
Each entity has dedicated problem loan management units that apply operating procedures and take action according to the severity of the problem.

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

A.1 Performing and impaired assets: balance, write-downs, developments, business and geographical distribution

A.1.1 Analysis of financial assets by category and credit quality (book value)

€/'000	Non performing	Watch list	Restructured	Past due	Country risk	Other assets	Total
1. Financial assets held for trading	-	-	-	-	-	1,097,637	1,097,637
2. Available-for-sale financial assets	-	-	-	-	-	47,201	47,201
3. Held-to-maturity investments	-	-	-	-	-	498,989	498,989
4. Loans to banks	-	-	-	-	-	2,785,334	2,785,334
5. Loans to customers	406	15,003	-	9,769	-	955,036	980,214
6. Financial assets at fair value	-	-	-	-	-	-	-
7. Financial assets being disposed of	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-	-
Total at Dec. 31, 2005	406	15,003	-	9,769	-	5,384,197	5,409,375

A.1.2 Developments of financial assets by category and credit quality (gross and net exposures)

	Impaired assets				Other assets			Total
€/'000	gross exposure	individual write-downs	collective write-downs	net exposure	gross exposure	collective write-downs	net exposure	(net exposure)
1. Financial assets held for trading	-	-	-	-	1,097,637	-	1,097,637	1,097,637
2. Available-for-sale financial assets	-	-	-	-	47,201	-	47,201	47,201
3. Held-to-maturity investments	-	-	-	-	498,989	-	498,989	498,989
4. Loans to banks	-	-	-	-	2,785,334	-	2,785,334	2,785,334
5. Loans to customers	36,255	(9,658)	(1,420)	25,177	955,611	(575)	955,036	980,213
6. Financial assets at fair value	-	-	-	-	-	-	-	-
7. Financial assets being disposed of	-	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-	-	-
Total at Dec. 31, 2005	36,255	(9,658)	(1,420)	25,177	5,384,772	(575)	5,384,197	5,409,374

A.1.3 Loans to banks: on and off-balance sheet exposures (gross and net exposures)

€/'000	Gross exposure	Individual write-downs	Collective write-downs	Net exposure
A. On balance sheet				
a) Non performing	-	-	-	-
b) Watch list	-	-	-	-
c) Restructured	-	-	-	-
d) Past due	-	-	-	-
e) Country risk	-	-	-	-
f) Other	2,785,334	-	-	2,785,334
Total A	2,785,334	-	-	2,785,334
B. OFF-BALANCE SHEET				
a) Impaired	-	-	-	-
b) Other	99,544	-	-	99,544
Total B	99,544	-	-	99,544

A.1.4 Loans to banks: development of impaired loans and loans exposed to country risk (on- balance sheet gross exposures)

At the balance sheet date there were no impaired bank loans or bank loans exposed to country risk.

A.1.5 Loans to banks: analysis of write-downs (on-balance sheet positions)

At the balance sheet date there were no write-downs of bank loans.

A.1.6 Loans to customers: on and off-balance sheet exposures (gross and net exposures)

€/'000	Gross exposure	Individual write-downs	Vollective write-downs	Net exposure
A. On balance sheet				
a) Non performing	4,433	(4,027)	-	406
b) Watch list	21,854	(5,432)	(1,420)	15,002
c) Restructured	-	-	-	-
d) Past due	9,968	(199)	-	9,769
e) Country risk	-	-	-	-
f) Other	955,611	-	(575)	955,036
Total A	991,866	(9,658)	(1,995)	980,213
B. Off balance sheet				
a) Impaired	-	-	-	-
b) Other	493,833	-	-	493,833
Total B	493,833	-	-	493,833

A.1.7 Loans to customers: development of impaired loans and loans exposed to country risk (on- balance sheet gross exposures)

€/'000	Non performing	Watch list	Re-structured	Past due	Country risk
A. Opening gross balance	1,508	9,043	-	-	-
- of which: loans sold but not derecognized	-	-	-	-	-
B. Increases	3,471	16,777	-	-	-
B.1 Reclassified from performing loans	2,709	16,591	-	9,073	-
B.2 Reclassified from other impaired loan categories	624	-	-	-	-
B.3 Other increases	138	186	-	898	-
C. Decreases	(546)	(3,966)	-	(3)	-
C.1 Reclassified to performing loans	-	(3,062)	-	-	-
C.2 Cancellations	(424)	-	-	-	-
C.3 Receipts	(106)	(275)	-	-	-
C.4 Proceeds from sale	-	-	-	-	-
C.5 Reclassified to other impaired loan categories	-	(624)	-	-	-
C.6 Other decreases	(16)	(5)	-	(3)	-
D. Closing gross balance	4,433	21,854	-	(3)	-
- of which: loans sold but not derecognized	-	-	-	-	-

A.1.8 Loans to customers: analysis of write-downs on-balance sheet positions

€/'000	Non performing	Watch list	Re-structured	Past due	Country risk
A. Write-downs at beginning of the year	1,240	7,424	-	-	-
- of which: loans sold but not	-	-	-	-	-
B. Increases	3,228	5,807	-	199	-
B.1 Write-downs	653	5,807	-	199	-
B.2 Reclassified from other impaired loan categories	2,575	-	-	-	-
B.3 Other increases	-	-	-	-	-
C. Decreases	(440)	(6,380)	-	-	-
C.1 Revaluations	(13)	(5,352)	-	-	-
C.2 Repayments	(66)	(34)	-	-	-
C.3 Cancellations	(9)	(682)	-	-	-
C.4 Reclassified to other impaired loan categories	-	(309)	-	-	-
C.5 Other decreases	(352)	(3)	-	-	-
D. Write-downs at end of the year	4,028	6,851	-	199	-
- of which: loans sold but not derecognized	-	-	-	-	-

A.2 Classification of exposures according to internal and external ratings

At the balance sheet date this information was not available.

A.3 Analysis of secured loans by type of collateral

A.3.1 Secured loans to banks and to customers (on balance sheet positions)

		Real guarantees (1)			Personal guarantees (2)								
					Credit derivatives				Endorsements				
€/'000	Exposure	Property	Securities	Other assets	Governments	Governments agencies	Banks	Others	Governments	Governments agencies	Banks	Others	Total (1)+(2)
1. Secured loans to banks:													
1.1 entirely secured	250	-	-	-	-	-	-	-	-	-	250	-	250
1.2 partly secured	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured loans to customers:													
2.1 entirely secured	141,364	61,507	79,857	-	-	-	-	-	-	-	-	-	141,364
2.2 partly secured	-	-	-	-	-	-	-	-	-	-	-	-	-

B. DISTRIBUTION AND CONCENTRATION OF EXPOSURES

B.1 Analysis of customer loans by borrower category (on and off-balance sheet positions)

€/'000	Gov. & Central Banks				Gov. Agencies				Financial companies				Insurance companies				Non financial companies				Others			
	gross exposure	individual write-downs	collective write-downs	net exposure	gross exposure	individual write-downs	collective write-downs	net exposure	gross exposure	individual write-downs	collective write-downs	net exposure	gross exposure	individual write-downs	collective write-downs	net exposure	gross exposure	individual write-downs	collective write-downs	net exposure	gross exposure	individual write-downs	collective write-downs	net exposure
A. On balance sheet																								
A.1 Non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2	(2)	-	-	4,431	(4,025)	-	406
A.2 Watch list	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	21,854	(5,432)	(1,420)	15,002
A.3 Restructured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.4 Past due	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	334	(7)	-	327	9,634	(192)	-	9,442
A.5 Other	-	-	-	-	-	-	-	-	434,006	-	-	434,006	-	-	-	-	72,589	-	-	72,589	448,970	-	(530)	448,440
Total	-	-	-	-	-	-	-	-	434,006	-	-	434,006	-	-	-	-	72,925	(9)	-	72,916	484,889	(9,649)	(1,950)	473,290
B. Off balance sheet																								
B.1 Non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.2 Watch list	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.4 Other	-	-	-	-	-	-	-	-	250	-	-	250	-	-	-	-	236	-	-	236	493,347	-	-	493,347
Total	-	-	-	-	-	-	-	-	250	-	-	250	-	-	-	-	236	-	-	236	493,347	-	-	493,347
Total at Dec. 31, 2005	-	-	-	-	-	-	-	-	434,256	-	-	434,256	-	-	-	-	73,161	(9)	-	73,152	978,236	(9,649)	(1,950)	966,637

B.2 Analysis of loans to non-financial companies registered in Italy

a) Transportation services	6,665
b) Construction and public works	2,292
c) Wholesale, retail and repair services	1,631
d) Hotels and restaurants	497
e) Foods, drinks and tobacco	456
f) other industries	61,375

B.3 Geographical distribution of on-balance sheet and off-balance sheet customer loans (book value)

	Italy		Other European Countries		America		Asia		Rest of the world	
€/'000	gross exposure	net exposure	gross exposure	net exposure	gross exposure	net exposure	gross exposure	net exposure	gross exposure	net exposure
A. On balance sheet										
A.1 Non performing	1,722	299	2,711	107	-	-	-	-	-	-
A.2 Watch list	1,611	806	20,243	14,197	-	-	-	-	-	-
A.3 Restructured	-	-	-	-	-	-	-	-	-	-
A.4 Past due	9,968	9,769	-	-	-	-	-	-	-	-
A.5 Others	638,471	637,896	317,140	317,140	-	-	-	-	-	-
Total	651,772	648,770	340,094	331,444	-	-	-	-	-	-
B. Off balance sheet										
B.1 Non performing	-	-	-	-	-	-	-	-	-	-
B.2 Watch list	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Others	411,394	411,394	82,439	82,439	-	-	-	-	-	-
Total	411,394	411,394	82,439	82,439	-	-	-	-	-	-
Total Dec. 31, 2005	1,063,166	1,060,164	422,533	413,883	-	-	-	-	-	-

B.4 Geographical distribution of on-balance sheet and off-balance sheet bank loans (book value)

	Italy		Other European Countries		Rest of the world	
€/'000	gross exposure	net exposure	gross exposure	net exposure	gross exposure	net exposure
A. On balance sheet						
A.1 Non performing	-	-	-	-	-	-
A.2 Watch list	-	-	-	-	-	-
A.3 Restructured	-	-	-	-	-	-
A.4 Past due	-	-	-	-	-	-
A.5 Others	1,800,333	1,800,333	950,548	950,547	34,454	34,454
Total	1,800,333	1,800,333	950,548	950,547	34,454	34,454
B. Off balance sheet						
B.1 Non performing	-	-	-	-	-	-
B.2 Watch list	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-
B.4 Others	94,126	94,126	5,077	5,077	341	341
Total	94,126	94,126	5,077	5,077	341	341
Total Dec. 31, 2005	1,894,459	1,894,459	955,625	955,624	34,795	34,795

B.5 Large exposures

a) amount:	206,117
b) number:	6

C. SECURITIZATION TRANSACTIONS AND SALE OF ASSETS

C.1 Securitization transactions

C.1.1 Analysis of exposures in connection with securitization transactions by quality of underlying assets

	On balance sheet					
	Senior		Mezzanine		Junior	
€/'000	gross exposure	net exposure	gross exposure	net exposure	gross exposure	net exposure
A. Own underlying assets:						
a) impaired	-	-	-	-	-	-
b) others	-	-	-	-	-	-
B. Third-party underlying assets:						
a) impaired						
b) others						
- Financial assets held for trading:						
CPG 1A2 25/01/24 TV	10,060	10,052	-	-	-	-
SCC INPS 31/07/16 TV	5,001	4,995	-	-	-	-
ITALEASE FIN 9/20 TV	8,000	7,988	-	-	-	-
F - MTGES 30/10/43 TV	7,000	6,978	-	-	-	-
SCHIP2 CLA 4 26/04/13 TV	6,000	5,996	-	-	-	-
CORDUSIO A2 6/33	15,000	15,000	-	-	-	-
TRICO 1A 15/07/20	5,000	5,009	-	-	-	-
VELA HOME 3A 7/40	11,000	10,995	-	-	-	-
LOCAT A2 12/12/26	15,000	15,000	-	-	-	-
SCC INPS 31/07/08	25,000	25,000	-	-	-	-
SCC INPS 31/07/10	25,000	25,000	-	-	-	-
SCC INPS 31/07/11	25,000	25,000	-	-	-	-
Total others	157,061	157,013	-	-	-	-

D. CREDIT RISK MEASUREMENT MODELS

SECTION 2 – MARKET RISK

2.1 Interest Rate and Pricing Risk – Trading book

Qualitative information

A. General

The Banking Group's trading book, as defined by supervisory authorities, consists of financial instruments subject to capital requirements for market risk.
Specifically, the trading book consists of positions held by those Group functions authorized to take market risk exposures within the limits and the authorities delegated to them by their respective Boards of Directors, in accordance with the Parent Company guidelines.
The trading book primarily consists of positions in bonds, equities, derivatives and cash instruments.

B. Interest Rate Risk and Pricing Risk - Measurement and Management

The Board of Directors of the Parent Company establishes strategic guidelines on the assumption of financial risk for the Parent Company and general guidelines for Subsidiaries.
The Parent Company's Risk Control and Compliance function is responsible for ensuring that the various entities use consistent methods in the assessment of financial risk exposure and contributes to the definition of lending and operating limits. However, each entity within the Group is directly responsible for the control of risks assumed in compliance with the guidelines issued by the Parent Company.

Exposure to interest rate risk and pricing risk is measured using:
Daily Var
Maximum cumulative loss over a daily and monthly horizon
Portfolio analysis in terms of:
– Exposure limits
– Characteristics of the instrument
– Characteristics of the issuer
Capital at Risk calculated under the rating-based Standardized Approach
Gap Analysis;
Sensitivity Analysis.
VaR (Value at Risk) estimates the risk of loss resulting from adverse movements in the price of traded financial instruments as a result of adverse market movements.
VaR corresponds to the maximum loss on a portfolio in the next business day (one-day holding period) at a 99% confidence level. Var is calculated using Riskmetrics for the following risks: interest rate, stock prices and indices, volatility. That method is adequate to the type and complexity of the financial instruments used by the Bank in its funding and lending transactions. Since 2004 daily VaR has been incorporated in the daily operating limits of the Parent Company.

The Gap Analysis measures impact of pre-set shocks in the interest rate curve based on how closely matched is the lending and funding exposure to interest rates .
The Sensitivity Analysis quantifies the sensitivity of the financial portfolio to adverse interest rate movements.
Those analyses are performed assuming as adverse movement a parallel uniform shift by 50 and 100 bps in the interest rate curve.

2.2 Interest Rate and Pricing Risk – Banking book

Qualitative information

The Group's Banking Book is made up of those financial instruments that are not part of the trading book, in particular inter-bank loans and held-to-maturity investments.
The Parent Company's central management of foreign subsidiaries' investments in liquid assets, as approved by the respective Boards of Directors and authorized by the competent national supervisory authorities, substantially reduced the overall exposure to risk of foreign subsidiaries.
The Parent Company measures interest rate risk exposure of the banking book using a simplified static ALM model.
In compliance with the requirements of the international accounting standards, in the second half of 2005, the Parent Company developed a hedge accounting framework.
The hedge accounting framework sets forth, inter alia, controls for credit risk inherent in transactions with institutional counterparties according to the operating procedures and limits approved by the Board of Directors of each entity within the Group in compliance with the Parent Company's guidelines.

2.3 Pricing Risk – Trading book

Quantitative information

1. Trading book: on balance sheet equity instruments and holdings in UCITS

€/'000	Book value	
	Listed	Unlisted
A. Equity instruments		
A.1 Shares	3,236	517
A.2 Innovative equity instruments	-	-
A.3 Other equity instruments	-	-
B. Holdings in UCITS		
B.1 Registered in Italy	-	-
- harmonized open-end funds	-	-
- non-harmonized open-end funds	-	-
- closed-end funds	-	-
- reserved funds	-	-
- hedge funds	-	-
B.2 Registered in other EU countries	-	-
- harmonized open-end funds	8,105	-
- non-harmonized open-end funds	-	-
- non harmonized closed-end funds	-	-
B.3 Registered in non-EU countries	-	-
- open-end funds	-	-
- closed-end funds	-	-
Total	11,341	517

2. Trading book: analysis of exposures in equity instruments and stock indices by major market

€/'000	Listed		Unlisted
	Italy	Other countries	
A. Equity instruments			
- Long positions	-	3,226	9
- Short positions	(4)	-	-
B. Not yet settled purchases and sales of equity instruments			
- Long positions	4	-	-
- Short positions	-	(297)	-
C. Other equity instrument derivatives			
- Long positions	-	-	-
- Short positions	-	-	(809)
D. Stock index derivatives			
- Long positions	-	-	(767)
- Short positions	-	-	(534)

2.5 Currency risk

Qualitative information

The Group is exposed to currency risk on all its foreign-currency denominated assets and liabilities (both on and off-balance sheet) including euro-denominated positions linked to the performance of foreign exchange rates. Currency exposure limits were set for the Parent Company only. Those limits are set by reference to the net value of positions in the main operating currencies.

Quantitative information

1. Analysis of assets, liabilities and derivatives by currency denomination

	Currency			
€/'000	US dollar	Sterling	Swiss franc	Other currencies
A. Financial assets				
A.1 Debt securities	9,737	7	-	-
A.2 Equities	-	-	-	-
A.3 Loans to banks	228,863	4,174	55,490	86,092
A.4 Loans to customers	121	-	-	-
A.5 Other financial assets	5,323	5	7	1,718
B. Other assets	-	-	-	-
C. Financial liabilities				
C.1 Due to banks	(151,988)	(23,234)	(25,722)	(145)
C.2 Due to customers	(19,253)	-	-	(1,641)
C.3 Debt securities	-	-	-	(9)
D. Other liabilities	-	-	-	-
E. Financial derivatives				
- Options				
+ Long positions	-	-	-	-
+ Short positions	-	-	-	-
- Others				
+ Long positions	77,100	-	-	2,137
+ Short positions	(108,403)	-	(29,374)	(51,226)
Total assets	321,144	4,186	55,497	89,947
Total liabilities	(279,644)	(23,234)	(55,096)	(53,021)
Net position (+/-)	600,788	27,420	110,593	142,968

2.6 Derivative financial instruments

A. Financial derivatives

A.1 Trading book: year-end and average notional amounts

€/'000	Debt securities and interest rates		Equities and stock indices		Forex and gold		Others		Total at Dec. 31, 2005	
	Llisted	Unlisted	Llisted	Unlisted	Llisted	Unlisted	Llisted	Unlisted	Llisted	Unlisted
1. Forward rate agreement	-	-	-	-	-	-	-	-	-	-
2. Interest rate swap	-	4,483	-	-	-	-	-	-	-	4,483
3. Domestic currency swap	-	-	-	-	-	-	-	-	-	-
4. Currency interest rate swap	-	-	-	-	-	-	-	-	-	-
5. Basis swap	-	-	-	-	-	-	-	-	-	-
6. Equity swaps	-	-	-	-	-	-	-	-	-	-
7. Commodity swaps	-	-	-	-	-	-	-	-	-	-
8. Futures	-	-	-	-	-	-	-	-	-	-
9. Caps	-	12,001	-	18,137	-	-	-	-	-	30,138
- Purchased	-	12,001	-	18,137	-	-	-	-	-	30,138
- Issued	-	-	-	-	-	-	-	-	-	-
10. Floors	-	1,000	-	-	-	-	-	-	-	1,000
- Purchased	-	1,000	-	-	-	-	-	-	-	1,000
- Issued	-	-	-	-	-	-	-	-	-	-
11. Other options	-	-	-	-	-	-	-	-	-	-
- Purchased	-	-	-	-	-	-	-	-	-	-
- Plain vanilla	-	-	-	-	-	-	-	-	-	-
- Exotic	-	-	-	-	-	-	-	-	-	-
- Issued	-	-	-	-	-	-	-	-	-	-
- Plain vanilla	-	-	-	-	-	-	-	-	-	-
- Exotic	-	-	-	-	-	-	-	-	-	-
12. Forward contracts	-	-	-	-	243,942	-	-	13,232	243,942	13,232
- Purchase	-	-	-	-	61,864	-	-	6,321	61,864	6,321
- Sale	-	-	-	-	170,561	-	-	6,911	170,561	6,911
- Cross-currency contracts	-	-	-	-	11,517	-	-	-	11,517	-
13. Other derivative contracts	-	1,850,000	809	-		87,787	-	-	809	1,937,787
Total	-	1,867,484	809	18,137	243,942	87,787	-	13,232	244,751	1,986,640
Average value	-	-	-	-	-	-	-	-	-	-

A.3 Financial derivatives: purchase and sale of underlying

	Debt securities and interest rates		Equities and stock indices		Forex and gold		Others		Total at Dec. 31, 2005	
€/'000	Llisted	Unlisted	Llisted	Unlisted	Llisted	Unlisted	Llisted	Unlisted	Llisted	Unlisted
A. Trading book										
1. With exchange of principal	-	-	-	-	-	-	-	-	-	-
- purchases	-	-	-	18,137	62,011	-	-	6,321	62,011	24,458
- sales	-	-	809	18,137	218,747	-	-	6,911	219,556	25,048
- cross-currency contracts	-	-	-	-	31,151	-	-	-	31,151	-
2. Without exchange of principal purchases	-	-	-	-	-	-	-	-	-	-
- purchases	-	1,201,000	-	-	-	-	-	-	-	1,201,000
- sales	-	666,484	-	-	-	-	-	-	-	666,484
- cross-currency contracts	-	-	-	-	-	-	-	-	-	-
B. Banking book	-	-	-	-	-	-	-	-	-	-
B1. Hedges	-	-	-	-	-	-	-	-	-	-
1. With exchange of principal	-	-	-	-	-	-	-	-	-	-
- purchases	-	-	-	-	-	-	-	-	-	-
- sales	-	-	-	-	-	-	-	-	-	-
- cross-currency contracts	-	-	-	-	-	-	-	-	-	-
2. Without exchange of principal	-	-	-	-	-	-	-	-	-	-
- purchases	-	-	-	-	-	-	-	-	-	-
- sales	-	-	-	-	-	-	-	-	-	-
- cross-currency contracts	-	-	-	-	-	-	-	-	-	-
B2. Other derivatives	-	-	-	-	-	-	-	-	-	-
1. With exchange of principal	-	-	-	-	-	-	-	-	-	-
- purchases	-	-	-	-	-	-	-	-	-	-
- sales	-	-	-	-	-	-	-	-	-	-
- cross-currency contracts	-	-	-	-	-	-	-	-	-	-
2. Without exchange of principal	-	-	-	-	-	-	-	-	-	-
- purchases	-	-	-	-	-	-	-	-	-	-
- sales	-	-	-	-	-	-	-	-	-	-
- cross-currency contracts	-	-	-	-	-	-	-	-	-	-

A.4 Over-the-counter financial derivatives: positive fair value – counterparty risk

€/'000	Debt securities and interest rates			Equities and stock indices			Forex and gold			Others			Different underlyings		
	Not settled gross amount	Settled gross amount	Future exposure	Not settled gross amount	Settled gross amount	Future exposure	Lordo non compensato	Lordo compensato	Future exposure	Not settled gross amount	Settled gross amount	Future exposure	Not settled gross amount	Settled gross amount	Future exposure
A. Trading book															
A.1 Governments & Central Banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.2 Government agencies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.3 Banks	1,929	-	-	-	774	1,088	2,919	-	-	-	774	379	-	-	-
A.4 Financial companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.5 Insurance companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.6 Non financial companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.7 Others	372	-	-	-	-	65	-	-	-	-	-	-	-	-	-
Total A (Dec. 31, 2005)	2,301	-	-	-	774	1,153	2,919	-	-	-	774	379	-	-	-
B. Banking book															
B.1 Governments & Central Banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.2 Government agencies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.3 Banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.4 Financial companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.5 Insurance companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.6 Non financial companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.7 Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total B (Dec. 31, 2005)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.5 Over- the-counter financial derivatives: negative fair value – counterparty risk

€/'000	Debt securities and interest rates			Equities and stock indices			Forex and gold			Others			Different underlyings		
	Not settled gross amount	Settled gross amount	Future exposure	Not settled gross amount	Settled gross amount	Future exposure	Not settled gross amount	Settled gross amount	Future exposure	Not settled gross amount	Settled gross amount	Future exposure	Not settled gross amount	Settled gross amount	Future exposure
A. Trading book															
A.1 Governments & central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.2 Government agencies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.3 Banks	2,567	-	328	-	535	1,088	2,891	-	-	-	-	-	-	-	-
A.4 Financial companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.5 Insurance companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.6 Non financial companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.7 Others	-	-	-	-	-	-	444	-	-	-	-	-	-	-	-
Total A (Dec. 31, 2005)	2,567	-	328	-	535	1,088	3,335	-	-	-	-	-	-	-	-
B. Banking book															
B.1 Governments & central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.2 Government agencies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.3 Banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.4 Financial companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.5 Insurance companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.6 Non financial companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.7 Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total B (Dec. 31, 2005)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

B. Credit derivatives

During the year the Banking Group did not trade in credit derivatives and at December 31, 2005 it did not hold any positions in those instruments.

3. Liquidity risk

Qualitative information

Given the types of assets held and their duration the Banking Group is not materially exposed to liquidity risk.
In 2005, as part of the IAS project, the Parent Company set forth procedures for the identification of those instruments in its proprietary portfolio that not quoted in an active market and are potentially exposed to liquidity risk.
Liquidity risk is monitored by the Parent Company using liquidity gap analysis under a simplified static ALM model.

Quantitative information

1. Time-to-maturity of financial assets and liabilities

€/'000	On demand	less than 3 months	3 to 12 months	1 to 5 years	over 5 years	Indefinite maturity
A. On balance sheet assets						
A.1 Government securities	41,166	510,290	428,077	50,929	3	-
A.2 Listed debt securities	-	301,198	130,573	14,787	51,418	-
A.3 Other debt securities	-	65,728	9,790	22,272	-	-
A.4 Holdings in UCITS	-	-	-	-	-	8,105
A.5 Loans to						
- banks	397,188	2,291,795	89,434	-	1,917	5,000
- customers	274,999	375,774	44,790	92,800	172,740	19,113
On balance sheet liabilities						
B.1 Deposits						
- banks	167,318	725,878	30,092	-	-	-
- customers	3,767,417	283,945	36,390	15,771	-	-
B.2 Debt securities	-	-	-	-	-	-
B.3 Other liabilities	-	-	17,375	9	38,226	-
Off balance sheet items						
C.1 Financial derivatives with exchange of capital						
- Long positions	-	-	24,458	809	-	-
- Short positions	-	-	25,048	-	-	-
C.2 Deposits and financing to be received						
- Long positions	-	21,701	-	-	-	-
- Short positions	-	-	-	-	-	-
C.3 Firm commitments to disburse funds						
- Long positions	326	99,454	33,352	600	2,285	-
- Short positions	-	518	-	-	-	-

4. Operational risk

Operational Risk management and controls are part of the risk management and internal control system, i.e. the set of rules, procedures and organizational structures established to ensure adherence to corporate strategies, effectiveness and efficiency of corporate processes, protection of the company's assets and proper management of customer assets, reliability and integrity of accounting and management information as well as compliance of transactions with the law, the regulations issued by Supervisory Authorities, self-discipline and internal rules.

The internal control system of the Mediolanum Banking Group entails defense at different levels in accordance with the Group organizational structure.
Specifically, for operational risk line controls and risk controls are in place. Line controls are controls made by the individuals who carry out a certain activity and by their supervisors, generally within the same organizational unit or function. Risk controls (second level) are controls performed by units other than operating units; they contribute to the definition of operating limits and risk measurement methods and verify compliance of transactions with the risk/return targets set by corporate bodies in their respective areas of remit.

The Operational Risk Control unit within the Risk Control and Compliance function will be responsible for identifying, assessing and measuring operational risk, and for regularly reviewing the adequacy of the Group's capital also in relation to insurance coverage.

The Operational Risk Control unit will be separate and independent of operations and report directly to the Parent Company's Senior Management.

In consideration of the characteristics and business of the Mediolanum Banking Group special attention is being paid to risks arising from Sales Network's activities and distribution through multiple remote channels. Those risks will be managed by putting in place, among other things, local controls and procedures for risk assessment, management, prevention and mitigation.
The operational risk management framework entails a central control unit (the Group operational risk unit) and local control units especially for those operations that are more exposed to operational risk: foreign banks or other organizational units (direct channels, sales network inspectors, Group Information Systems and Organization), also to facilitate coordination in relation to Business Continuity & Disaster Recovery Plans.

Close coordination with the Compliance function is also envisaged.

The development of the operational risk control framework was started at the end of 2005 and will continue in 2006. The operational risk control framework will be implemented throughout the Group, together with the IT tools required to support it.

The adequacy of the capital charge for operational risk will be assessed using the standardized approach under the Basel II Capital Accord which calculates the capital charge on the basis of gross income generated by each business line, in accordance with the classification proposed in that Capital Accord. That approach is classified as "sophisticated" and may be a transitional step to the Advanced Measurement Approach (AMA), whose implementation is currently being assessed to timing, economic impact and expected benefits especially in relation to optimization of capital charges and insurance contracts.

In order to qualify for use of the Standardized Approach under the new Basel Capital Accord and Sound Practices certain requirements are to be satisfied. These requirements relate to three consistent areas:

1. **Governance:**
   - Involvement of Senior Management in the oversight of the operational risk management framework,
   - Implementation of a sound Operational Risk Management system,
   - Classification of operational risk and implementation of risk management policies
   - Development of criteria for mapping gross income as set out in the Capital Accord
2. **Risk identification and measurement:**
   - Risk Assessment: with the assistance of Deloitte Consulting the Group has already started the risk assessment process, i.e. the identification and classification of possible operational risk factors within all group structures, with detailed analysis of the activities, risk factors and controls in place. That process will be periodically reviewed by the Operational Risk Control unit to identify more risk-sensitive approaches and mitigation techniques, as well as to confirm capital adequacy to potential risk sources and their impact;
   - Loss Data Collection: process of identification and measurement of losses resulting from an adverse event attributable to Operational Risk. That process will be closely integrated with financial reporting.
3. **Reporting:** implementation of a system for internal (Business Unit and Senior Management) and external reporting (Supervisory Authorities and financial community).

Certain qualitative and quantitative benefits are expected from the adoption of the standardized approach, namely:

- Reduced capital charge for operational risk, with increasing benefits as the Group moves towards the adoption of the advanced approach;
- Increased risk awareness across the organization through the direct involvement of Senior Management in the definition of risk management policies and strategies;
- Greater intelligence and improved decision-making processes following the definition of priorities and mitigation actions;
- Increased transparency with respect to the market and enhanced customer trust as a result of the operation and supervision of adequate operational processes and activities;
- More effective and efficient business management through the constant monitoring and control of risk factors and causes.

In accordance with the recommendation of supervisory authorities the risk management system developed by the Risk Control function and the operational risk assessment system will be subject to regular review by independent auditors and/or supervisory authorities.

PART F - INFORMATION ON CAPITAL

SECTION 1 – CAPITAL

B. Quantitative information

€/'000	Amount	Possible utilization (A,B,C)	Usable amount	Utilization in the prior three years: loss coverage	Utilization in the prior three years: other
Share capital:	341,000	-	-	-	-
Capital reserves of which:	-	-	-	-	-
Retained earnings of which to:					
- legal reserve	9,369	B	9,369	-	-
- extraordinary reserve	54,670	A B C	54,670	-	1,329
- FTA reserva	(65,524)	A B	-	-	-
Other reserves of which:					
- other	2,180	-	-	-	-
- merger reserve	3,185	A B C	3,185	-	-
Valuation reserves	(1)	-	-	-	-
Total	344,879		67,224	-	1,329
Of which undistributable	-		67,224	-	-
Of which distributable	-		-	-	-

Legend:
A: capital increase
B: loss coverage
C: distribution to shareholders

SECTION 2 - CAPITAL REQUIREMENTS

2.1 1. Regulatory capital

Regulatory capital was calculated on the basis of equity and net profit in accordance with the international accounting and reporting standards IAS/IFRS and the instructions issued by the Bank of Italy in its Circular Letter No. 1157044 of December 1, 2005.

Through said circular letter the Bank of Italy advised banks, for consultative purposes, of possible changes in regulatory capital requirements in the light of the adoption of the international accounting and reporting standards. Those changes would amend and supplement certain parts of the previous draft regulations on prudential filters which had been distributed to banks.

A. Qualitative information

Capital consists exclusively of share capital and equity reserves. At December 31, 2005 there were no subordinated instruments included in the calculation of regulatory capital
The main instruments included in the calculation of Tier 1 (core) capital and Tier 2 (supplementary) capital are set out in the tables below.

B. Quantitative information

€/'000	Dec. 31, 2005
A. Tier 1 capital before the application of prudential filters	259,970
Tier 1 prudential filters	(585)
- Positive adjustments	-
- Negative adjustments	585
B. Tier 1 capital after the application of prudential filters	259,385
C. Tier 2 capital before the application of prudential filters	(1,141)
Tier 2 prudential filters	(36)
- Positive adjustments	-
- Negative adjustments	36
D. Tier 2 capital after the application of prudential filters	(1,177)
E. Total capital (Tier 1 and Tier 2) after the application of prudential filters	258,208
Deductions from total capital (Tier 1 and Tier 2)	-
F. Regulatory capital	258,208

2.2 Capital adequacy

€/'000	Not weighted Dec. 31, 2005	Weighted/ requirement Dec. 31, 2005
A. Risk assets		
A.1 Credit risk	4,693,458	1,774,349
Standardized method		
On balance sheet assets	4,459,534	1,634,197
1. Exposures (other than equities and other subordinated assets) to (or guaranteed by):	4,044,282	1,340,424
1.1 governments and Central Banks	600,393	-
1.2 government agencies	10,609	2,122
1.3 banks	2,618,723	523,745
1.4 others	814,557	814,557
2. Residential mortgage loans	163,561	81,781
3. Non-residential mortgage loans	-	-
4. Shares, equity investments and subordinated assets	-	-
5. Other assets	251,691	211,993
Off balance sheet assets		
1. Guarantees and commitments to (or guaranteed by):	233,925	140,152
1.1 governments and Central Banks	21,645	-
1.2 government agencies	-	-
1.3 banks	90,160	18,032
1.4 others	122,120	122,120
2. Derivative contracts with (or guaranteed by):	-	-
2.1 governments and Central Banks	-	-
2.2 government agencies	-	-
2.3 banks	-	-
2.4 others	-	-
B. Regulatory capital requirements		
B.1 Credit risk	-	141,948
B.2 Market risk	-	33,678
1. *Standardized method*		
of which:		
+ risk of positions in debt securities	-	28,777
+ risk of positions in equities	-	820
+ currency risk	-	4,081
+ other risks	-	-
2. *Internal models*		
of which:		
+ risk of positions in debt securities	-	-
+ risk of positions in equities	-	-
+ currency risk	-	-
B.3 Other prudential requirements	-	-
B.4 Total prudential requirements (b1+b2+b3)	-	175,626
C. Risk assets and capital ratios		
C.1 Risk-weighted assets *	-	2,195,325
C.2 Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	-	11,80%
C.3 Regulatory capital/Risk-weighted assets (Total capital ratio)	-	11,80%

(*) Total prudential requirements multiplied by the reciprocal of the mandatory minimum coefficient for credit risk (8%)

PART G - BUSINESS COMBINATIONS

SECTION 1 - TRANSACTIONS CONCLUDED DURING THE YEAR

In 2005 there were no transactions requiring disclosure under IFRS 3.
Please note that during the year under review the subsidiaries Fibanc S.A. and Tanami S.A. were merged into the subsidiary Banco de Finanzas e Inversiones S.A..
The merger was made between companies that are part of the Banca Mediolanum S.p.A. Banking Group and had no impact on the financial position and results of operation of the bank.

SECTION 2 - POST-BALANCE SHEET DATE TRANSACTIONS

No transaction was concluded after the end of the financial year under review.

PART H - RELATED PARTY TRANSACTIONS

1. Key management compensation

€/'000	Directors, Statutory Auditors, Deputy/ General Managers	Other key managers
Emoluments & social security contributions	2.961	970
Other pension benefits and insurance	-	-
Non-cash benefits	-	-
Other post-employment benefits	-	-
Share-based awards (stock options)	50	123

2. Related Party Transactions

Balance Sheet

€/'000	Parent Company	Other related parties
Loans to customers	-	24,230
Other assets	39,915	7,952
Other liabilities	(572)	(6,278)
Due to customers	(13,433)	(375,436)

Income Statement

€/'000	Parent Company	Other related parties
Recoveries of expenses for centrally provided services	657	4,823
Interest income	-	1,909
Key personnel	(1,594)	833
Other income	-	490
Commission income/expense	164,932	(4,210)
Services provided/received	(60)	(21,546)
Interest expense	(951)	(6,024)
Goods acquired/sold	(260)	(227)
Office rentals	171	(799)
Other staff/sales network costs	-	(327)

PART I - EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

A. QUALITATIVE INFORMATION

1. Description of equity-settled share-based payment transactions

At the Extraordinary General Meeting held on April 12, 2001, the shareholders of Mediolanum S.p.A. resolved to increase share capital for a consideration in one or more occasions over five years by issuing up to 7,500,000 Mediolanum S.p.A. shares to be allotted to the employees, directors and contract workers of the company and its subsidiaries under a stock option plan, which can be implemented on multiple occasions and in different years.
The exercise price of the stock options granted to employees shall be the arithmetic mean of the MEDIOLANUM S.p.A. share prices in the 30 days preceding the date on which the Board of Directors resolves to implement the stock option plan.
The exercise of the Options – subject to the satisfaction of the Vesting Conditions – and the subsequent subscription for Shares by Employees are allowed only upon the expiration of two years from the Grant Date (vesting period).
The exercise of the Options and the subsequent subscription for Shares shall be made in full on a single occasion in the first five business days of each of the thirty six calendar months subsequent to the Vesting Date.

The stock options granted to directors and contract workers shall be exercisable upon the condition that the closing price of Mediolanum ordinary shares on the Exercise Date is not lower than the closing price of Mediolanum S.p.A. on the Grant Date. If that condition is met, the exercise price shall be equal to the MEDIOLANUM S.p.A. equity value per share as reported in the last financial statements approved prior to the Grant Date.
The exercise of the Options – subject to the satisfaction of the Vesting Conditions – and the subsequent subscription for Shares by Directors and Contract Workers are allowed only upon the expiration of two years from the Grant Date (vesting period). The exercise of the Options and the subsequent subscription for Shares shall be made in full on a single occasion in the first five business days of each of the thirty six calendar months after the Vesting Date.

At the Extraordinary General Meeting held on April 26, 2005, the shareholders of Mediolanum resolved to increase share capital for a consideration in one or more occasions over five years by issuing up to 9,500,000 Mediolanum S.p.A. shares to be allotted to the employees, directors and contract workers of the company and its subsidiaries under a stock option plan, which can be implemented on multiple occasions and in different years.
The stock options granted to employees shall be exercisable upon the expiration of a two-year vesting period at a share price equal to the fair market value – as defined by tax rules – of the Mediolanum stock on the date of the Board of Directors' resolutions relating to the respective capital increases.
The exercise of the Options granted to employees is subject to the satisfaction of the Vesting Conditions which will be established annually by the company that employs them.
The exercise of the Options – subject to the satisfaction of the Vesting Conditions – and the subsequent subscription for Shares by Employees are allowed only upon the expiration of two years from the Grant Date (vesting period).
The exercise of the Options and the subsequent subscription for Shares shall be made in full on a single occasion in the first five business days of each of the thirty six calendar months subsequent to the Vesting Date.

The stock options granted to directors and contract workers shall be exercisable upon the expiration of a vesting period of two years for Directors and of three years for Contract Workers, at a share price equal to weighted average of (i) the company's equity value per share as reported in the last financial statements approved prior to the allotment of the Options and (ii) and the average stock market price of Mediolanum S.p.A. shares in the six-months preceding the Grant Date, applying a weight equal to ninety percent of the equity value and a weight equal to ten percent of the average stock market price in the last six-month period. The exercise of the Options granted to Directors and Contract Workers is subject to the satisfaction of at least one of the following conditions:
(i) that on the Vesting Date (come definita al successivo art. 8.3) the closing price of Mediolanum S.p.A. ordinary shares be not lower than the official price of Mediolanum S.p.A. ordinary shares on the Grant date; or
(ii) that the change in the closing price of Mediolanum S.p.A. ordinary shares in the period between the Grant Date and the Vesting Date (the "Vesting Period") be not lower than the arithmetic mean of the changes recorded in the Vesting Period in the S&P/Mib, Comit Assicurativi and Comit Bancari indices (the "Indices"), properly adjusted applying the criteria commonly adopted in financial market practice to take into account the correlation coefficient (known as the beta coefficient) between the Mediolanum S.p.A. ordinary shares and said Indices in the Vesting Period; the adjusted mean change in the Indices will be calculated by an independent third party appointed for that purpose by the Board of Directors of the Company; or
(iii) that the Embedded Value of the Mediolanum Group, as calculated by an independent third-party appointed for that purpose by the Board of Directors of the Company and reported in the last financial statements approved prior to the Vesting Date, be at least equal to the Embedded Value of the Mediolanum Group as calculated based on the last financial statements approved prior to the Grant Date.

The exercise of the Options – subject to the satisfaction of Vesting Conditions – and the subsequent subscription for Shares by Directors and Contract Workers are allowed only upon the expiration of two years for Directors and of three years for Contract Workers from the Grant Date (Vesting Period). The exercise of the Options and the subsequent subscription for Shares shall be made in full on a single occasion in the first five business days of each of the thirty six calendar months subsequent to the Vesting Date.

Exercising the authority delegated to it by the shareholders at the Extraordinary General Meeting of April 26, 2005, at its Meeting held on July 13, 2005 the Board of Directors of Mediolanum S.p.A. resolved:

- to increase share capital for a consideration by a maximum amount of €68,100.00 (sixty-eight thousand one hundred point zero) through the issue of up to 681,000 (six hundred eighty-one thousand) dividend-bearing ordinary shares, par value of €0.10 (zero point one) each, to be allotted to the employees of the Company and/or its subsidiaries pursuant to article 2359, paragraph 1, No. 1), of the Italian Civil Code, waiving any shareholders' pre-emptive rights pursuant to art. 2441, paragraph eight of the Italian Civil Code and article 134, paragraph three, of Legislative Decree 58/98. Those shares will be offered for subscription at a share price, including share premium, equal to the arithmetic mean of the MEDIOLANUM S.p.A. share prices on the electronic trading system of Borsa Italiana S.p.A. (Italian Stock Exchange) in the period from the thirteenth day of the preceding calendar month to July 13, 2005;
- to increase share capital for a consideration by a maximum amount of €39,000.00 (thirty-nine thousand point zero) through the issue of up to 390,000 (three-hundred ninety thousand) dividend-bearing ordinary shares, par value of €0.10 (zero point one) each, to be allotted to Non-Employee Directors of the Company and/or its subsidiaries pursuant to article 2359, paragraph 1, No. 1), of the Italian Civil Code, waiving any shareholders' preemptive rights pursuant to art. 2441, paragraph five of the Italian Civil Code. Those shares will be offered for subscription at a share price of 1.118 (one point one-hundred eighteen) including a share premium of €1.018 (one point zero eighteen) per share (price determined in accordance with the EGM resolution);
- that the subscription to those share capital increases is to be made on a single occasion in the first five business days of each of the sixty calendar months subsequent to the expiration of the two-year term, except for any exceptional circumstances as set out in the regulations. The final term for exercising the Options with respect to the share capital increases above is the fifth business day in the sixtieth month subsequent to the expiration of the two-year term. In the event that the capital increases are not fully subscribed within the prescribed term, share capital will be increased by the amount of the subscriptions received as of that date;

  Exercising the authority delegated to it by the shareholders at the Extraordinary General Meeting of April 12, 2001, at its Meeting held on July 13, 2005 the Board of Directors resolved
- to increase share capital for a consideration by a maximum amount of €25,444.00 (twenty-five thousand four hundred forty-four point zero) through the issue of up to 254,440 (two hundred fifty-four thousand four hundred forty) ordinary shares, par value of €0.1 (zero point one) each, bearing dividend rights from January 1 of the financial year in which shares are issued, to be allotted to contract workers of the Company and/or its subsidiaries pursuant to article 2359, paragraph 1, No. 1 of the Italian Civil Code, waiving any shareholders' preemptive rights pursuant to article 2441 paragraph five, of the Italian Civil Code. Those shares will be offered for subscription at a share price of €0.648 (zero point six hundred forty eight) including a share premium of €0.548 (zero point five hundred forty eight) per share;

- that the subscription to that share capital increase is to be made on a single occasion in the first five business days of each of the thirty-six calendar months subsequent to the expiration of the two-year term, except for any exceptional circumstances as set out in the regulations. The final term for exercising the Options with respect to the share capital increases above, is the fifth business day in the thirty-sixth month subsequent to the expiration of the two-year term. In the event that the capital increases are not fully subscribed within the prescribed term, share capital will be increased by the amount of the subscriptions received as of that date.

2. Fair value measurement of stock option

Stock options granted to employees

Since these stock options are exercisable in the months after the expiration of the vesting period they are treated like American-style Options and priced using the Cox-Rubinstein & Ross model (CRR).
Under that model a two-step approach is used. In the first step a binomial tree is built. The tree represents all the possible paths that the share price could take. At the end of the tree (i.e. at expiration of the option) all the option prices for each of the final possible share prices are known. Then, working back from expiration, the option prices are calculated at each node of the tree to assess the option value in case of early exercise.
In the case under review, the stock option is an American-style Option only for the period between the vesting date and the expiration date, therefore the probability of early exercise was estimated only over that period. In the vesting period the option price was weighted and discounted at the risk-free rate.

Stock options granted to directors and contract workers

These stock options are exercisable after the expiration of the vesting period and subject to the satisfaction of the vesting conditions.
These options were priced by building a tree that represents all the possible paths that the share price could take from the grant date to the expiration date of the option. The value of the derivative at expiration is calculated regardless of whether the vesting condition are met or not. Next the option prices are calculated at each node of the tree to assess the option value in case of early exercise and vesting conditions. In the period between the grant date and the vesting date (vesting period) the option was priced treating it like an European-style Option.

B. QUANTITATIVE INFORMATION

1. Changes occurred in the year

In the year 2005 1,251,205 stock options granted in 2002 and 2003 were exercised for a total of 1,251,205 Mediolanum S.p.A. shares.
The table below shows movements in option holdings in the year as per Bank of Italy's Circular Letter 262/2005.

	Options at the beginning of the year			Options granted in the year			Options exercised in the year				Options held at year end		
Number of options and exercise price	Number of options	Average exercise price	Average expiration	Number of options	Average exercise price	Average expiration	Number of options	Average exercise price	Average expiration	Options lapsed in the year	Number of options	Average exercise price	Average expiration
Employees	1,803,000	5.395	2005-2009	560,000	5.231	2007-2012	455,000	3.907	-	45,000	1,863,000	5.663	2006-2012
Directors	-	-	-	90,000	1.118	2007-2012	-	-	-	-	90,000	0.831	2006-2012
Contract workers	1,630,662	0.558	2005-2009	240,040	1.118	2007-2010	913,205	0.539	-	28,041	929,456	0.723	2006-2010
Total	3,433,662	3.098	2005-2009	890,040	3.706	2007-2012	1,368,205	1.659	5.134	73,041	2,882,456	3.919	2006-2012

2. Other information

The year's cost of stock options, which corresponds to the year's share of the fair value of financial instruments over the vesting period, amounted to 2,361 thousand and entailed a corresponding increase in the Group's equity reserves.

For the Board of Directors
The Chairman
Ennio Doris

MEDIOLANUM BANKING GROUP

Adoption of International Financial Reporting Standards

Adoption of International Financial Reporting Standards

LEGAL FRAMEWORK

Pursuant to the European Parliament and Council Regulation (EC) 1606 of July 19, 2002 the European Commission established that beginning from 2005 all EU publicly traded companies are to apply the international accounting and reporting standards IAS/IFRS in the preparation of their consolidated financial statements. That regulation aims to improve the quality of financial information and above all the comparability of the financial statements of publicly traded companies in the European Union.
The international accounting standards IAS/IFRS are issued by an independent board, the International Accounting Standards Board (IASB®), endorsed by the European Commission and published in the Official Journal of the European Union.
A complete list of the IAS/IFRS adopted by the European Commission is attached hereto.

By Legislative Decree No. 38 of February 28, 2005 the Italian Government extended the application of the new international accounting standards also to the separate financial statements (beginning from 2006 or voluntarily from 2005) of publicly traded companies, banks and other regulated financial institutions and to the consolidated financial statements of banks, other regulated financial institutions and insurance companies that are not publicly traded, as well as, on a voluntary basis, to the financial statements of their subsidiaries except for unlisted insurance companies and minor entities pursuant to art. 2435 of the Italian Civil Code.
In relation to the consolidated financial statements of banking groups said decree confirmed the authority of the Bank of Italy under Legislative Decree No. 87/92 with respect to the definition of the formats and accompanying information requirements.

THE MAIN CHANGES INTRODUCED BY THE NEW ACCOUNTING STANDARDS

The adoption of IAS/IFRS entails some important changes in the way transactions are accounted for, in the classification of the main items of the financial statements and the accounting policies applied to assets and liabilities, in accordance with the general principle of substance over form.
The main changes introduced by the new international accounting and reporting standards in the preparation and presentation of the financial statements of the Banca Mediolanum Group are set out below.

Financial instruments

The major change introduced by the new accounting and reporting standards relates to the accounting treatment of financial instruments.

On initial recognition a financial asset or financial liability is to be measured at its fair value, i.e. the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction, plus or minus directly attributable transaction costs or income, which are capitalized and amortized through profit or loss over the life of the instrument using the effective interest method (so called "amortized cost").

When the transaction price is not in line with market value, the difference is to be recognized in the income statement on initial recognition.

In relation to hybrid (combined) financial instruments, i.e. instruments that consist of a non-derivative host contract and an embedded derivative, IAS/IFRS require that the embedded derivative be separated from the host contract and accounted for as a derivative if the hybrid (combined) instrument is not measured at fair value or if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Financial instruments are to be classified on initial recognition and their re-classification is allowed only in limited circumstances. IAS 39 defines four categories of financial instruments: financial assets and financial liabilities at fair value through profit or loss (substantially financial assets and financial liabilities held for trading and financial assets that regardless of the purpose for which they are held the company designates as at fair value upon initial recognition), available-for-sale financial assets, held-to-maturity investments, loans and receivables. The classification of financial instruments is relevant for the purposes of measurement, since the first two categories are to be measured at fair value, and the other two at cost or amortized cost. A gain or loss arising from a change in the fair value of a financial asset or financial liability is to be recognized in the income statement for assets or liabilities classified as at fair value through profit or loss and directly in equity until the asset is sold for available-for-sale financial assets.

IAS/IFRS require that financial instruments that are not classified as "financial assets and financial liabilities at fair value through profit or loss" be regularly assessed for evidence indicating that the asset's carrying amount is not entirely recoverable. That evaluation is carried out for individual assets or collectively for groups of assets with similar risk characteristics. Any resultant impairment loss is to be measured taking into account also the time of recovery for recoverable amounts.

The recognition and measurement of financial instruments involves also derivative hedging instruments and hedged items. The international accounting standards classify hedge relationships into three types: fair value hedge, i.e. a hedge of the exposure to changes in fair value of an asset or liability, for which both the gain or loss from measuring the derivative hedging at fair value and the gain or loss on the hedged item are to be recognized in profit or loss; cash flow hedge, i.e. a hedge of the exposure to variability in cash flows that is attributable to a particular risk and hedge of a net investment in a foreign operation for which the gain or loss on the hedging instrument are to be recognized in equity through the statement of changes in equity (while the hedged asset or liability is carried at cost or amortized cost). This accounting treatment results from the requirement that all derivatives, including derivative hedging instruments, are to be measured at fair value. Under Italian GAAP, derivative hedging instruments and hedge items were measured at cost.

Equity investments

Under the international accounting standards only investments in subsidiaries, associates or joint ventures can be classifieds as equity investments. All other equity instruments are to be classified either as financial assets at fair value through profit or loss or as available-for-sale financial assets.

Tangible and intangible assets

Under the international accounting standards tangible and intangible assets are measured at fair value or at purchase cost. Any change in the asset's fair value is recognized in an equity reserve, except for investment property for which a change in fair value is to be recognized in profit or loss. Intangible assets with indefinite useful lives are not amortized (e.g. goodwill) but tested for impairment. Under IAS/IFRS tangible assets carried at cost are depreciated over their useful lives and assets with different useful lives are depreciated separately.
Under international accounting standards expenditure on research, advertising, training, restructuring, brands and internally generated rights cannot be capitalized.

Share-based payments

Under the international accounting standards share-based payments – in the case of our Group the stock options granted to employees and contract workers – are to be measured at fair value recognizing the corresponding amount in the income statement over the "vesting period" and in equity.

Post-employment benefits

The international accounting standards classify pensions and, in general, all benefits payable to employees after the completion of employment, into two categories: defined contribution plans for which the entity is required to recognize the contribution payable to the plan, and defined benefits plans for which the entity is required to recognize the estimated amount of the benefit payable to the employee upon completion of employment, using actuarial techniques.

FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Under IFRS 1 on first-time adoption of International Financial Reporting Standards the reporting entity is required:

- to prepare an opening IFRS balance sheet at the date of transition to IFRS;
- to apply the same accounting policies in the first IFRS financial statements and in all comparative periods (except for certain mandatory exceptions and optional exemptions from full retrospective application, as set out in IFRS 1);
- to explain the impact of the first time adoption of IFRS .

The transition date is January 1, 2004 and the first IFRS financial statements are to include comparative information under the same IFRS in effect as of January 1, 2005 for at least one prior period (i.e. financial year 2004). The application of IAS 32 and IAS 39 (financial instruments), which were approved by the IASB and adopted by the European Commission during 2004, is not mandatory from January 1, 2004. Those entities that elect to apply exemptions from 2004 full retrospective application in relation to those standards are required to restate their financial information under those accounting and financial reporting standards from January 1, 2005 and financial information for 2004 may not be entirely comparable.

The IFRS opening balance sheet at January 1, 2004 (and at January 1, 2005 for financial instruments and insurance contracts) is to be prepared as follows:

- not recognize those assets and liabilities whose recognition was permitted under national GAAP but is not allowed under IAS/IFRS and reclassify other assets and liabilities under the new standards;
- recognize those assets and liabilities whose recognition is required under IFRS but was not allowed under national GAAP;
- apply IAS/IFRS in measuring all recognized assets and liabilities.

The resulting adjustments are to be recognized directly in equity at the date of transition to IFRS.

On first-time adoption of the new accounting standards the Group exercised judgment in relation to the classification of financial instruments, the application of certain optional accounting policies and optional exemptions from full retrospective application of IFRS.

The Group elected to apply the following exemptions/options:

- **business combinations**: the Group did not apply IAS/IFRS to business combinations that occurred prior to the date of transition to IFRS. Thus existing goodwill did not have to be restated under IFRS;
- **employee benefits**: the Group did not avail itself of the option of using the "corridor approach" (IAS 19) that leaves some actuarial gains and losses unrecognized when the change over the prior year is lower than 10%;
- **share-based payments**: where applicable, the Group did not apply IFRS 2 to stock options granted before November 7, 2002 and to stock options granted after November 7, 2002 that vested before the later of a) the date of transition to IFRS and b) January 1, 2005. The Banca Mediolanum Group applied IFRS 2 from January 1, 2004 for stock options granted after November 7, 2002.

As allowed under IFRS 1 the Banca Mediolanum Group also elected to apply IAS 32 and IAS 39 (financial instruments) from January 1, 2005. Therefore financial data relating to financial instruments and insurance contracts for financial year 2004 are not comparable.
However, to enable a comparative analysis of consistent data, the effects of the application of IAS 32 and IAS 39 from January 1, 2004 – at January 1, 2004 and for financial year 2004 – were estimated based on available information.
Financial instruments (investment contracts, securities, loans and receivables, payables, derivatives and equity investments) were reclassified into the new IAS/IFRS categories on the date of transition to IFRS as permitted under IFRS 1 as an exception to the general requirement that financial instruments be classified when they are acquired.
Securities were re-classified in accordance with the new IAS categories and the Group policy on the management of investment securities (now called "Held-to-maturity investments") was reviewed.
Loans to banks and loans to customer, including repurchase agreements, were recognized as "Loans and receivables" while funding from customers and banks as "Other financial liabilities".
Derivatives held for trading were classified as assets at fair value through profit or loss when their fair value was positive and as liabilities at fair value through profit or loss when their fair value was negative.
Investments in subsidiaries, associates and joint-ventures continued to be classified as equity investments, while all other shareholdings were classified as "available-for-sale financial assets".
The option of carrying property at fair value was not applied and property continued to be measured at purchase cost less any accumulated depreciation and impairment losses. Land and buildings were accounted for separately and accumulated depreciation for land was reversed.

RECONCILIATIONS BETWEEN IFRS AND ITALIAN GAAP WITH EXPLANATORY NOTES

The reconciliations of equity and net profit as reported under Italian GAAP to equity and net profit under IFRS were prepared in accordance with IFRS 1.
Since IAS 32 and IAS 39 (financial instruments) were applied from January 1, 2005, as permitted under IFRS 1, to enable a comparative analysis of consistent data the effects of the application of IAS 32 and IAS 39 from January 1, 2004 – at January 1, 2004 and for financial year 2004 – were estimated based on available information.
The reconciliations of equity at January 1, 2004 (IAS 39 not applied) and at January 1, 2005, as well as the reconciliation of net profit at December 31, 2004 (IAS 39 not applied) were audited by the independent auditors.

Reconciliation of equity as reported under Legislative Decree 87/92 to equity under IFRS

The reconciliation of equity set out below shows the effect of the transition to IFRS on equity.

IAS 39 not applied

€/'000	Dec. 31, 2004	Jan 1, 2004
Equity as reported under Legislative Decree 87/92	413,230	406,833
Reserves		
Reversal of amortization of goodwill	20,733	-
Adjustment for reversal of land depreciation	230	(72)
Assets that no longer qualify as intangible assets	(2,352)	(3,387)
Valuation adjustment relating to provisions for risks and charges	3,242	7,971
Actuarial valuation of employee completion-of-service entitlements	(237)	(115)
Other effects	(8)	140
Valuation reserves		
Other effects	(42)	-
Tax effect	(793)	(2,251)
Total effects of FTA of IFRS	20,773	2,286
Equity under IFRS	434,003	409,119

IAS 39 applied

€/'000	Jan 1, .2005	Jan 1, 2004
Equity as reported under Legislative Decree 87/92	413,230	406,833
Reserves		
Fair value measurement of trading securities and derivatives	847	598
Collective assessment of performing loans	(1,548)	(2,266)
Individual assessment of loans	(79)	(1,316)
Reversal of amortization of goodwill	20,733	-
Adjustment for reversal of land depreciation	230	(72)
Assets that no longer qualify as intangible assets	(2,352)	(3,387)
Valuation adjustment relating to provisions for risks and charges	3,242	7,971
Actuarial valuation of employee completion-of-service entitlements	(237)	(115)
Other effects	(242)	(89)
Valuation reserves		
Available-for-sale financial assets		
- Fair value measurement of equity instruments	107	2,957
- Fair value measurement of debt securities	(303)	7
Other effects	(42)	-
Tax effect	(356)	(2,197)
Total effects of FTA of IFRS	20,000	2,091
Equity IAS/IFRS	433,230	408,924

"Reserves" include adjustments that do not entail the recognition of any gains or losses in the income statement in future financial years since those adjustments would have already had their effect on the income statement if IFRS had been adopted earlier.
"Valuation reserves" include adjustments that are going to vary over time due to the changes in the fair value of assets and liabilities and which will be recognized as gains or losses in the income statement only when realized.
As a result of the movements in equity on IFRS First-Time Adoption, at January 1, 2005 equity increased from €413.2 million to €433.2 million, up €20.0 million of which €0.4 million relating to tax effects and €20.4 million to other positive effects. Consequently, €20.2 million was credited to a newly formed reserve named "IFRS First Time Adoption Reserve" and a negative amount of €0.2 million to the "Valuation Reserves" in both cases after the tax effect.

Reconciliation of net profit as reported under Legislative Decree 87/92 to net profit under IFRS

The reconciliation of net profit set out below shows the effect that the transition to IFRS would have had on net profit at December 31, 2004.

€/'000	IAS39 Not applied Dec. 31, 2004	IAS39 Applied Dec. 31, 2004
Net profit under Legislative Decree 87/92	40,886	40,886
Net commissions	(1,289)	(1,268)
Net interest income	(614)	(669)
Gains/losses on assets carried at fair value	-	248
Other income	18	18
Impairment losses	101	1,932
Amortization of goodwill (positive consolidation differences)	20,733	20,733
Depreciation and amortization of tangible and intangible assets	1,258	1,258
Staff costs	(745)	(745)
Other administrative expenses	(42)	40
Provisions for risks and charges	(4,037)	(4,037)
Taxes	1,445	725
Net profit under IFRS	57,714	59,121

Financial assets at fair value through profit or loss

Fair value measurement of trading securities and derivatives

Securities and derivatives held for trading are to be measured at fair value. Unlike Italian GAAP, the international accounting standards require the recognition of gains or losses arising from changes in fair value.
Fair value measurement was applied to trading securities and derivatives in accordance with IAS/IFRS.
(The impact was a €0.8 million increase in equity before taxes at January 1, 2005).

Loans and receivables

Individual assessment of impaired loans

Under IAS/IFRS the assessment of financial assets carried at amortized cost is to be made on the basis of the present value of estimated future cash flows. Impaired loans, i.e. loans for which there is evidence the amount is not entirely recoverable, are to be individually assessed taking into account, inter alia, the expected time of recovery. Unlike the Italian GAAP applied up until FY2004, the international accounting standards require the calculation of the present value of the estimated future recoverable amount.

For non-performing loans, the present value of the future recoverable amount was estimated taking into account the average time of recovery derived from historical loss experience, using the loan's original effective interest rate.

For watch list loans the present value of the estimated future recoverable amount was not calculated since repayment is expected within 18 months.

Collective assessment of performing loans

Loans for which there is no objective evidence of impairment are collectively assessed. To that end, loans are grouped on the basis of similar credit risk characteristics and the related loss probability is estimated using historical loss rates. Loan losses were calculated using, to the greatest extent allowed under the various applicable regulations, techniques similar to those required for the calculation of capital charges under the new Basel II Capital Accord. Specifically, the Probability of Default (PD) and the Loss Given Default (LGD) were applied – when available – also to financial items other than capital. Those two measures were the basis for loan classification in accordance with the requirements of IAS/IFRS for the determination of groups of loans with similar characteristics and the calculation of provisions. The one-year time horizon applied when measuring the probability of default is considered to approximate the concept of incurred loss, that is a loss arising from current events of which there is not yet evidence in the company's assessment of the individual borrower, in accordance with the international accounting standards.

(The impact was a €1.5 million decrease in equity before taxes at January 1, 2005).

Other effects of loan assessment

The other effects of loan assessment relate to the application of amortized cost and the write-downs of default interest. Under the international accounting standards, revenue is to be recognized only when it is probable that the economic benefit will flow to the entity. Therefore default interest are recognized on a cash basis.

(The impact was a €0.1 million decrease in equity before taxes at January 1, 2005).

Tangible and intangible assets

Adjustments for depreciation of land and property

Under the international accounting standards tangible assets are to be depreciated over the useful life of the asset or its individual components when their useful life is different. That entails that the carrying amount of buildings is to be separated from that of the land on which they stand – since land cannot be depreciated – and any previously recognized accumulated depreciation for land is to be reversed.

Therefore the carrying amount of buildings and that of land on which a building stands was measured separately and the previously recognized accumulated depreciation for land was reversed.

To determine the value of land, valuations of property were performed by external valuers. After comparing the carrying amount of land, including accumulated depreciation, to the valuation of external surveyors the carrying amount of land was reduced.

Depreciation of investment property was calculated to write down the cost of such assets to their residual value over their estimated useful lives. Under Italian GAAP investment property was not depreciated

(The impact was a €0.2 million increase in equity before taxes at January 1, 2005).

Assets that do not qualify as intangible assets

Under the international accounting standards an asset can be recognized as an intangible asset if and only if it is probable that future economic benefits attributable to the asset will flow to the entity and the cost of the asset can be measured reliably.

In compliance with the new accounting policy, the value of assets that no longer qualify as intangible assets, largely start-up costs, was reversed (the impact was a €2.4 million decrease in equity before taxes at January 1, 2005).

Impairment of goodwill

Under IAS/IFRS assets with infinite useful life, including goodwill, cannot be not amortized but are to be tested for impairment at least annually by comparing their recoverable amount with their carrying amount.

(The impact of the reversal of the amortization of goodwill that had been reported in FY2004 was a €20.7 million increase in equity before taxes at January 1, 2005).

Provisions

Provisions for risk and charges and present value of the expected expenditures

Under the international accounting standards a provision can be recognized only if the entity has a present obligation in relation to which it is probable that an outflow of resources will be required to settle it and a reliable estimate can be made of the amount of the obligation. The estimate reflects probable outcome on the basis of historical loss experience. To meet the requirements of the international accounting standards, adjustments were made to provisions set aside in previous years. Under IAS/IFRS if the time value of money is material, the amount of the provision has to be the present value of the expenditure expected to be required to settle the obligation. Adjustments were therefore made to provisions to reflect the present value of expected future expenditures.

(the impact was a €3.2 million increase in equity before taxes at January 1, 2005).

Estimate of employee completion-of-service entitlements using actuarial techniques

Under international accounting standards the amount of the benefits payable by the employer to the employees upon completion of service under defined benefits plans is to be recognized using estimates based on actuarial assumptions. Italian employee completion-of-service entitlements are judged to be defined benefit obligations therefore they were re-measured on the basis of actuarial assumptions (the impact was a €0.2 million decrease in equity before taxes at January 1, 2005).

Other effects

The residual effects of the first-time adoption of IFRS largely relate to the effects of the application of amortized cost and the calculation of minority interests in relation to adjustments to comply with IFRS.

Available-for-sale financial assets

Under IAS/IFRS financial instruments classified as "available-for-sale financial assets" are to be measured at fair value. The effects of that measurement are to be recognized directly in an equity reserve until they are sold.

Fair value measurement of debt securities

On first-time adoption of IFRS certain debt securities that are not held for trading and that not meet the requirements for classification as held-to-maturity investments or loans or receivables were classified as "Available-for-sale financial assets".

The effect of the adoption of IFRS is connected to the fair value measurement of securities held in portfolio. (the impact was a €0.3 million decrease in equity before taxes at January 1, 2005).

Fair value measurement of equity instruments

On first-time adoption of IFRS equity investments which do not qualify as investments in subsidiaries, associates or joint ventures are to be classified as "available-for-sale financial assets".

Those shareholdings – which under Italian GAAP had been carried at cost less any impairment losses – were measured at fair value when a stock market price or a current valuation of the investee was available, while continued to be measured at cost in all other cases. (the impact was a €0.1 million increase in equity before taxes at January 1, 2005).

Share-based payments

Unlike Italian GAAP, IAS/IFRS require that share-based payments (i.e. stock options) be measured at the fair value of the stock option on the Grant Date, and recognized in the income statement in the period between the Grant Date and the Vesting Date, recognizing the corresponding amount in an equity reserve.

IFRS 2 is to be applied to stock options granted after November 7, 2002.

The fair value of those stock options was measured and the related amount for financial year 2004 was recognized in the income statement. That did not entail any changes in equity.

Tax effect

The impact on equity of the first-time adoption of IFRS was calculated after the related tax effect. Taxation was calculated in accordance with current legislation (including Legislative Decree 38/2005), specifically:

- IRES (corporate income tax) was calculated at the rate of 33%;
- IRAP (regional business tax) was calculated at the rate of 4.25% (plus any additional regional tax, where applicable);
- for foreign operations the respective national taxes were applied.

MEDIOLANUM BANKING GROUP

EU-approved International Accounting and Reporting Standards (IAS/IFRS)

EU-APPROVED INTERNATIONAL ACCOUNTING AND REPORTING STANDARDS (IAS/IFRS)

International financial reporting and accounting standards		Date of publication in the EU Official Journal
IFRS 1	First-time adoption of International Financial Reporting Standards	1-04-2004
IFRS 2	Share-based Payments	February 2005
IFRS 3	Business combinations	December 2004
IFRS 4	Insurance contracts	December 2004
IFRS 5	Non current assets held for sale and discontinued operations	December 2004
IFRS 6	Exploration for and Evaluation of Mineral Resources	November 2005
IFRS 7	Financial instruments: disclosures	January 2006
IAS 1	Presentation of financial statements	September 2003 - December 2004
IAS 2	Inventories	September 2003 - December 2004
IAS 7	Cash Flow Statements	September 2003
IAS 8	Accounting policies, changes in accounting estimates and errors	September 2003 - December 2004
IAS 10	Events after the Balance Sheet Date	September 2003 - December 2004
IAS 11	Construction contracts	September 2003
IAS 12	Income taxes	September 2003
IAS 14	Segment reporting	September 2003
IAS 16	Property, Plant and Equipment	September 2003 - December 2004
IAS 17	Leases	September 2003 - December 2004
IAS 18	Revenue	September 2003
IAS 19	Employee Benefits	September 2003 - November 2005
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance	September 2003
IAS 21	The Effects of Changes in Foreign Exchange Rates	September 2003 - December 2004
IAS 23	Borrowing Costs	September 2003
IAS 24	Related party Disclosures	September 2003 - December 2004
IAS 26	Accounting and Reporting by Retirement Benefit Plan	September 2003
IAS 27	Consolidated and Separate Financial Statements	September 2003 - December 2004
IAS 28	Investments in Associates	September 2003 - December 2004
IAS 29	Financial Reporting in Hyperinflationary economies	September 2003
IAS 30	Disclosures in the Financial Statements of Banks and Similar Financial Institutions	September 2003
IAS 31	Interests in joint ventures	December 2004
IAS 32	Financial Instruments:Disclosure and Presentation	December 2004
IAS 33	Earnings per Share	September 2003 - December 2004
IAS 34	Interim Financial Reporting	September 2003
IAS 36	Impairment of Assets	September 2003 - December 2004
IAS 37	Provisions, Contingent Liabilities and Contingent Assets	September 2003 - December 2004
IAS 38	Intangible Assets	September 2003 - December 2004
IAS 39	Financial Instruments: Recognition and Measurement	November 2004 - December 2005
IAS 40	Investment Property	September 2003 - December 2004
IAS 41	Agriculture	September 2003 - December 2004

Interpretations		Date of publication in the EU Official Journal
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	December 2004
IFRIC 2	Members' Shares in Co-operative Entities and Similar Instruments	July 2005
IFRIC 4	Determining whether an Arrangement contains a Lease	November 2005
IFRIC 5	Rights to interests arising from Decommissioning, Restoration and	
	Environmental Rehabilitation Funds	November 2005
IFRIC 6	Liabilities Arising from Participating in a Specific Market. Waste Electrical and Electronic Equipment	January 2006
IFRIC 8	Scope of IFRS 2	January 2006
SIC 7	Introduction of the Euro	September 2003
SIC 10	Government Assistance - No Specific Relation to Operating Activities	September 2003
SIC 12	Consolidation - Special Purpose Entities	September 2003
SIC 13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers	September 2003
SIC 15	Operating Leases - Incentives	September 2003
SIC 21	Income Taxes - Recovery of Revalued Non-Depreciable Assets	September 2003
SIC 25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	September 2003
SIC 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	September 2003
SIC 29	Disclosure - Service Concession Arrangements	September 2003
SIC 31	Revenue - Barter Transactions Involving Advertising Services	September 2003
SIC 32	Intangible Assets - Web Site Costs	September 2003

MEDIOLANUM BANKING GROUP

Report of the Board of Statutory Auditors

Report of the Board of Statutory Auditors

Dear Shareholder,

In addition to the separate financial statements for the year ended December 31, 2005, also the consolidated financial statements of the Mediolanum Banking Group for the year ended December 31, 2005 are presented to you for approval. The consolidated financial statements include the accounts of all subsidiaries directly or indirectly controlled by Banca Mediolanum, that are registered banks in accordance with art. 64 of the Consolidated Banking Act.

Basis of preparation

The financial statements were prepared in accordance with the "Instructions for the preparation of the financial statements of companies and the consolidated financial statements of banks and financial companies that are parent companies of banking groups" issued by the Bank of Italy through Circular Letter No. 262 of December 22, 2005 pursuant to Legislative Decree No. 38 of February 28, 2005.

As allowed under art. 4 of Legislative Decree 38/2005 Banca Mediolanum S.p.A. elected to voluntarily apply the international accounting standards in effect at December 31, 2005 to its separate financial statements as early as 2005. No departure was made from requirements therein.

The international accounting and reporting standards (IAS/IFRS) applied for the first time in 2005 are markedly different from the Italian GAAP applied up until the 2004 annual financial statements. An analysis of the impact of the first-time adoption of International Financial Reporting Standards is set out in the relevant section of the notes.

The financial statements consist of the Balance Sheet, the Income Statement, the Statement of Changes in Equity, the Statement of Cash Flows and Explanatory Notes in addition to the Directors' Report.

The consolidated financial statements for the year ended December 31, 2005 show net profit pertaining to the Banking Group of €66,264 thousand, consolidated shareholders' equity of €400,592 thousand and equity pertaining to minority interests of €48,679 thousand.

Scope and methods of consolidation

The consolidated financial statements include the accounts of the parent company Banca Mediolanum and those of its directly or indirectly controlled subsidiaries, including subsidiaries whose business activities are dissimilar from those of the Parent Company.
Subsidiaries are consolidated on a line-by-line basis, while associates are accounted for using the equity method.

Audit of the accounts, the notes and the Directors' Report

The consolidated financial statements for the year ended December 31, 2005 of Banca Mediolanum S.p.A. were audited by Reconta Ernst & Young S.p.A. Upon completion of their audit work, the independent auditors will provide their report, which will not contain any remarks.
On the basis of the results of our work and in consideration of the foregoing, we express our favorable opinion on the approval of the financial statements and schedules attached thereto.

Milan, April 5, 2006

The Chairman of the Board of Statutory Auditors
Arnaldo Mauri
The Standing Auditors
Adriano Angeli
Pierfelice Benetti Genolini

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INDEPENDENT AUDITORS' REPORT
pursuant to articles 156 and 165 of Legislative Decree of February 24, 1998, n. 58
(Translation from the original Italian text)

To the Shareholder of
Banca Mediolanum S.p.A.

1. We have audited the consolidated financial statements of Banca Mediolanum S.p.A. and its subsidiaries ("Banca Mediolanum Group") as of and for the year ended December 31, 2005, comprising the balance sheet, the income statement, the statement of changes in equity and the statement of cash flows and the related explanatory notes. These consolidated financial statements are the responsibility of Banca Mediolanum S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. These consolidated financial statements represent the first consolidated financial statements prepared by Banca Mediolanum S.p.A. in accordance with International Financial Reporting Standards as adopted by the European Union.

2. We conducted our audit in accordance with auditing standards and procedures recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards and procedures, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

   For comparative purposes, the consolidated financial statements include the corresponding information for the prior year prepared in accordance with consistent accounting principles except for the effects of IAS 32 and IAS 39 which have been applied from January 1, 2005 in accordance with the exemption allowed by IFRS 1. In addition, the section "First Time Adoption of International Financial Reporting Standards" of the consolidated financial statements reports the effects of the transition to International Financial Reporting Standards as adopted by the European Union.
   The disclosures included in the above mentioned explanatory note have been reviewed by us for the purpose of expressing an opinion on the consolidated financial statements of Banca Mediolanum S.p.A. as a whole as of and for the year ended December 31, 2005.

3. In our opinion, the consolidated financial statements of Banca Mediolanum S.p.A. present clearly and give a true and fair view of the financial position, the result of operations, the changes in shareholders' equity and the cash flows of

Reconta Ernst & Young S.p.A.
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Capitale Sociale € 1.259.500,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584
P.I. 00891231003
(vecchio numero R.I. 6697/89 - numero R.E.A. 250904)

Banca Mediolanum Group as of December 31, 2005, and for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Milan, April 5, 2006

Reconta Ernst & Young S.p.A.
Signed by: Natale Freddi, Partner