



## THE INTERNAL CONTROL SYSTEM

The Boards of Directors of the Parent Company and of all the Group companies promote high ethical and integrity standards, as well as a 'culture of internal control' within the organization by raising awareness, among their personnel, of the importance of internal controls. Specifically, the Boards of Directors are responsible for the proper functioning of the internal control system; they set guidelines and assess the adequacy and effectiveness of the internal control system by also relying on other internal control structures.

Pursuant to the Corporate Governance Code for Listed Companies, the Board of Directors of the Parent Company Mediolanum S.p.A. established the Audit and Risk Committee – the former Audit Committee – and confirmed the appointment of Massimo Rella as the Officer in charge of the Internal Audit – formerly the Chief Auditor. In their respective areas of remit, the Audit and Risk Committee and the Officer in charge of the Internal Audit assist the Board of Directors in:

- . identifying main corporate risks;
- . implementing the Internal Control System guidelines issued by the Board of Directors by planning and monitoring the internal control system.

Pursuant to the Corporate Governance Code, the Board of Directors appointed Deputy Chairman Mr. Alfredo Messina as the officer responsible for the internal control and risk management system.

Special importance is given to the solidity of the overall internal control system to ensure compliance with the Supervisory Authority's regulations, which the companies in the Mediolanum Banking Group must comply with. Under these regulations, banks must put in place adequate risk detection, measurement and control mechanisms, depending upon the complexity and size of their business.

For the Mediolanum Banking Group, a specific Audit and Risk Committee has been established within Banca Mediolanum S.p.A., whose members are non-executive directors with specific expertise, and most of whom are independent directors. The results of systematic control activities within the Banking Group are acquired and incorporated by the Audit and Risk Committee of the holding company Mediolanum S.p.A. in its overall assessment of the control system for the Mediolanum conglomerate.

## INTERNAL AUDIT

Internal audit of all Group companies (including the Parent Company Mediolanum S.p.A.) is performed under individual outsourcing agreements by the Internal Audit Department of the subsidiary Banca Mediolanum S.p.A.

The Internal Audit Department is separate and independent from operational departments and reports directly to the Board of Directors and the Board of Statutory Auditors of the respective companies on the work done. Specifically, as regards Mediolanum S.p.A., the Department reports via its Head to the Deputy Chairman, the Audit and Risk Committee and the Board of Statutory Auditors.

Internal Audit provides independent and objective consultancy, assessment of risks and operational effectiveness as well as assurance of the efficiency, effectiveness and reliability of the organization and of the Internal Control System as a whole. It pursues such goals through a systematic professional approach, which creates value since it aims to assess and improve control, risk management and corporate governance processes. Internal auditors monitor that the rights of all the categories of stakeholders (e.g. customers, employees, minority and majority shareholders, etc.) are respected.

As part of such activities, auditors assess the efficiency and effectiveness of the internal control system and processes and prepare final reports that include the actions planned by senior management to correct deficiencies.

### Internal Audit Work

Internal audits were conducted on all Group companies in 2013.

Considering the positive results that emerged from such internal audits, as well as the measures taken to correct the deficiencies detected, we can conclude that the company's Internal Control System is effective.

Worthy of note is also the fact that in 2013 the Department implemented a rating system with respect to the overall assessment of the audit reports as well as specific recommendations, as shown in the following charts.

Audits	2012	2013	Change
Reports	65	89	37%
Recommendations	137	128	-7%

## RISK MANAGEMENT & CONTROL AND COMPLIANCE

Risk management, risk monitoring and compliance are an integral part of the Group's internal control system. These functions were developed in compliance with the regulations and guidelines set forth by the Supervisory Authorities.

The Risk Management and Compliance Department is in charge of monitoring exposure to financial and credit risk throughout the entire financial conglomerate as well as of assessing the impact of operational, legal and reputational risks, by constantly monitoring capital adequacy with respect to each business.

The Risk Management Department of Banca Mediolanum provides risk management and compliance services for all of the Italian companies in the Group through specific service agreements. As regards foreign companies, Banca Mediolanum works together with the Risk Management and Compliance units established at:

- . Banco Mediolanum (former Banco de Finanzas e Inversiones), the parent company of the Spanish banking subsidiary;
- . Irish companies Mediolanum International Funds, Mediolanum Asset Management and Mediolanum International Life, as well as Luxemburg-based company Gamax Management AG;
- . Bankhaus August Lenz in Germany.

The Risk Management Department also works together with other Control departments, specifically with the Sales Network Inspection and Anti-Money Laundering Office, which is in charge of monitoring the Sales Network of Banca Mediolanum – the main distribution channel for the Group's products – as well as of monitoring compliance with the requirements imposed by the "Anti-Money Laundering and Terrorist Financing Prevention" regulation.

In 2013, the Risk Management and Compliance Department regularly and duly performed operational, non-compliance and reputational risk assessments and identified, where necessary, specific actions to be taken to mitigate risk and strengthen the existing risk management mechanism.

Improvement projects and actions were undertaken to gradually improve the risk management system. Specifically, these projects were designed to enhance efficiency, as well as improve and formalize some processes in the company, by expanding automated processes in certain critical areas that were characterized by a high degree of manual work, as well as by establishing new checkpoints and taking new initiatives into account. Moreover, risk dashboards were created to detect, well in advance, potential operational and non-compliance risks, and mechanisms were implemented to assess the effectiveness

of the risk management measures adopted. With respect to the continuous improvement efforts made, training and information sessions designed to spread a control-oriented culture throughout the Group's companies play a key role. A basic compliance course entitled "The value of rules", dedicated to operational departments personnel, was created and other specialized courses dedicated to risk management and control departments were also made available.

The risk management and compliance policies adopted were updated, on a regular basis, by paying great attention to the Mediolanum Group's reputational risk management policy to further enhance monitoring as regards any behavior, event or factor that may negatively affect the Group's image as perceived by its customers, employees, partners, suppliers, Supervisory Authorities and, in general, by all its stakeholders.

In 2013, activities mandated by ICAAP (Internal Capital Adequacy Assessment Process) continued on and are disclosed in the final ICAAP statement. This statement confirms the significant stability of the assets of the Mediolanum Banking Group against stress test scenarios. During the year, the Mediolanum Banking Group has continued to take part in the Basel III impact monitoring exercises, which were held on a quarterly basis and which verified the Group's adequacy and compliance with the new capitalization and liquidity management requirements that will be gradually enforced starting 2015. With reference to the Group's insurance business, the progress made in the planning activity to comply with the new Solvency II framework is noteworthy. Within the scope of this activity, the insurance companies belonging to the Group developed an implementation plan regarding the procedures and mechanisms needed for the calculation of the new capital requirements. An implementation project aimed at adjusting the documentation, methods and policies in order to comply with the new regulations – by the deadlines that will be set by the relevant European Authorities – is currently ongoing.