BANCA
MEDIOLANUM S.p.A.

ANNUAL REPORT 2010

BANCA
MEDIOLANUM
MEDIOLANUM BANKING GROUP

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The English version of the Annual Report is a translation of the Italian text provided for the convenience of international readers.

ANNUAL REPORT AND ACCOUNTS 2010

Registered office: Meucci Building Via F. Sforza – Basiglio – Milano Tre (Milan)
Share Capital: €450,000,000.00 fully paid up
Tax Registration and Milan Register of Companies No. 02124090164
VAT Registration No. 10698820155

BANCA MEDIOLANUM
MEDIOLANUM BANKING GROUP

Corporate Governance Officers

Board of directors

Ennio Doris	Chairman of the Board of Directors
Edoardo Lombardi	Deputy Chairman
Massimo Antonio Doris	Chief Executive Officer and General Manager
Giovanni Pirovano	Director and Deputy General Manager
Luigi Del Fabbro	Director
Paolo Gualtieri	Director
Bruno Bianchi	Director
Maurizio Carfagna	Director
Angelo Renoldi	Director
Paolo Sciumè	Director
Carlos Javier Tusquets Trias de Bes	Director

Board of statutory auditors

Arnaldo Mauri	Chairman of the Board of Statutory Auditors
Adriano Angeli	Standing Auditor
Marco Giuliani	Standing Auditor
Francesca Meneghel	Alternate Auditor
Damiano Zazzeron	Alternate Auditor

Board secretary

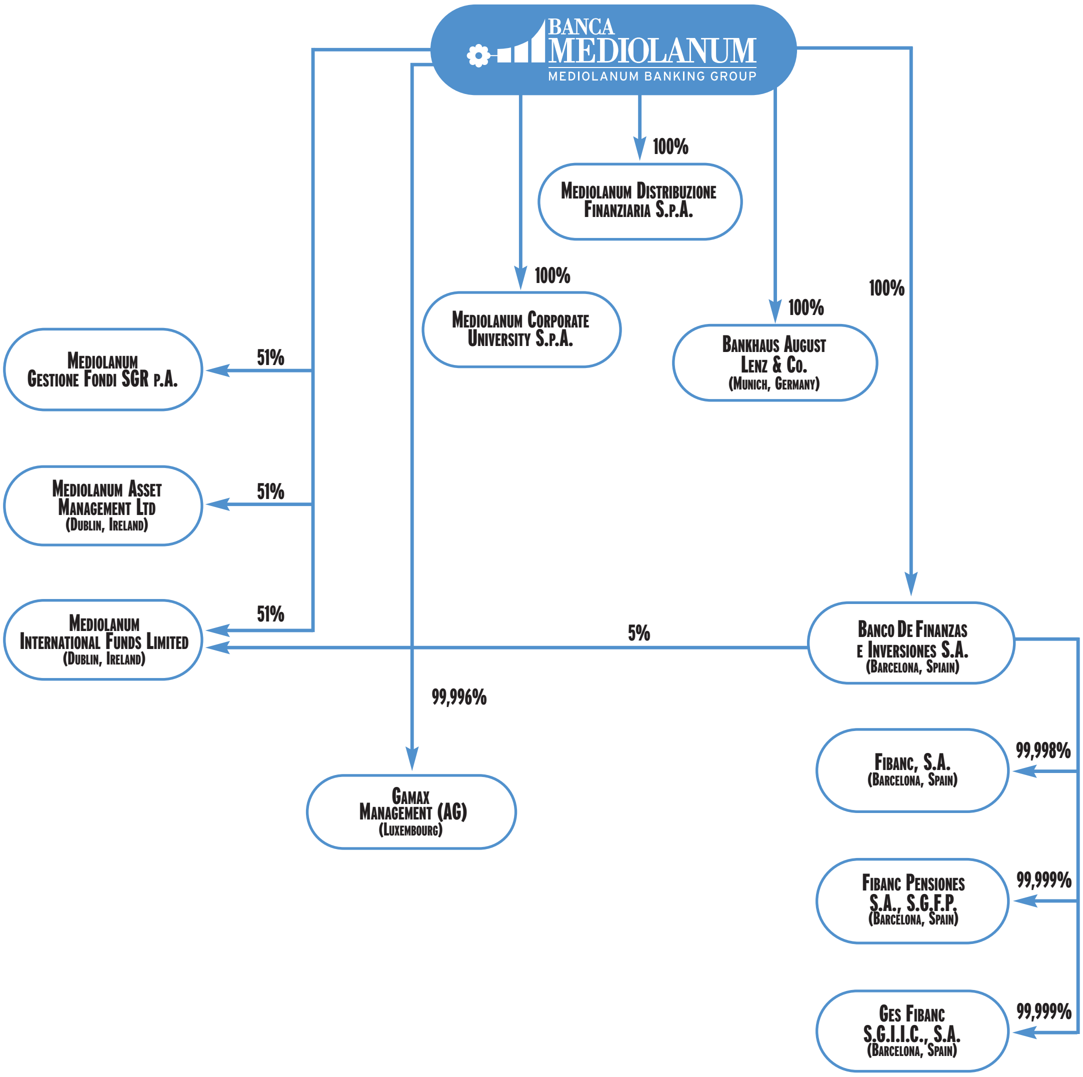
Luca Maria Rovere

Independent auditors

Reconta Ernst & Young S.p.A.

Group structure

As at December 31, 2010



Financial Highlights

€/m	Dec. 31, 2010	Dec. 31, 2009	change %
Assets under management & administration	37,513.6	32,938.6	14%
Net inflows	3,284.7	5,795.4	-43%
of which managed assets	2,131.0	2,037.8	5%
Total Balance Sheet Assets	11,138.7	8,392.2	33%
Loans to customers (lending)	4,147.7	3,144.8	32%
Customer loans ex- L&R portfolio	3,264.7	3,065.8	6%
Amounts due to customers/Securities issued (funding)	7,545.6	6,019.3	25%
Profit before tax	63.1	0.4	n/s
Tax	3.2	18.6	-83%
Net Profit	66.3	19.0	249%

Number	Dec. 31, 2010	Dec. 31, 2009	change %
Licensed Financial Advisors	4,772	4,945	-3%
Non Licensed Financial Advisors	44	358	-88%
Employees	1,564	1,560	n/s
Bank accounts	568,328	581,722	-2%

	Dec. 31, 2010	Dec. 31, 2009	change %
Tier 1 capital ratio	17.90%	18.61%	-4%

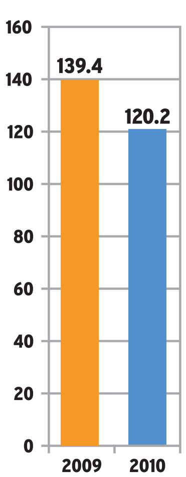
Separate Annual Financial Statements 2010

Directors' Report

Dear Shareholder,

For the year ended December 31, 2010, Your Bank reported net profit of €66,334 thousand (after €3,233 thousand tax) versus €19,021 thousand at December 31, 2009 (after €18,660 thousand tax).
In the year under review, profit before tax rose by €62.7 million largely reflecting growth in net commission income (up €67.9 million) and dividends from subsidiaries (up €27.0 million), while net financial income was impacted by lower interest rates and was down €41.9 million. Write-downs of financial assets declined by €24.9 million, and provisions for risks and charges increased by €13.3 million.
Total inflows (managed assets and administered assets) amounted to €3,284.7 million versus €5,795.4 million in the prior year.
Net inflows generated by the policy associated with the *Freedom* bank account amounted to €453.3 million versus €4,570.8 million at December 31, 2009. Third-party structured bonds contributed €857.6 million net inflows in the year 2010 versus €42.5 million in 2009 as these products began to be sold only in the final part of that year. Owing to their features these bonds are in fact substitutes for index-linked policies whose distribution was discontinued in November 2009. Inflows into other asset management products amounted to €1,273.5 million versus €1,992.6 at the end of the prior year. Total net inflows into asset management products and sales of third-party structured bonds in the aggregate amounted to €2,131.0 million versus €2,037.8 million in 2009.
At year end 2010, the bank had over one million customers.
At December 31, 2010, total balance sheet assets amounted to €11,139 million, up 32.7% from €8,392 million in the prior year.
Inflows of customer assets into bank accounts, repurchase agreements and bonds climbed to €7,546 million from €6,019 million at the end of the prior year. Loans to customers amounted to €3,265 million, up 6.5% from €3,066 million in the prior year.
Net interest income was down 13.8% from €139.4 million in the prior year to €120.2 million at year end 2010.

Net interest income
€/m



Adding trading profits, gains on hedging transactions and gains from the sale of available-for-sale financial assets that, in the aggregate, amounted to €7.7 million, net financial income came in at €127.9 million, down 24.7% from €169.8 million in the prior year. The decline in net financial income was largely due to lower interest rates and losses on the valuation of securities held for trading.
Net commission income rose by €67.9 million as a result of greater management fees earned on asset management products, that displayed growth in inflows and asset value, as well as the contribution given by sales of third-party structured bonds.
Dividends increased by €27 million from €100.1 million in the prior year to €127.2 million at the end of the year under review, largely owing to the extraordinary dividend distributed by the subsidiary Gamax (€16.5 million) as well as greater dividends from the subsidiary Mediolanum International Funds Ltd compared to the same period of the prior year (€7.1 million).
Write-downs of financial assets were down from €35.4 million in the prior year to

€10.5 million at year end 2010. In particular, impairment losses on available-for-sale financial assets were down €19.1 million.
Total income for the year grew 16.9% from €314.6 million in 2009 to €376.6 million.
Operating expenses increased from €270.9 million in 2009 to €280.4 million at year end 2010, largely owing to greater net provisions for risks (+€13.3 million), of which €4.5 million to cover the risks of financial advisors' misconduct, €3.2 million for litigations and €5.6 million for contractual obligations to the sales network.
Staff costs increased from €96.4 million in 2009 to €99.0 million at the end of the year under review, and the bank's headcount grew to 1,564 employees from 1,560 at the end of the prior year.
Other net income rose by €5.6 million, of which €2.8 million relating to greater revenues from services rendered to other companies with the Mediolanum Group under relevant outsourcing arrangements.

MEDIOLANUM BANKING GROUP

At December 31, 2010, the organisational structure of the Mediolanum Banking Group, of which your Bank is the Parent Company, was essentially unchanged over the prior year.

The macroeconomic environment

In 2010, the recent deep and prolonged recession was finally over and recovery in place. The fiscal and monetary policy measures taken by governments and central banks have been key to that achievement. While shrinking by almost one percentage point in the prior year, in 2010, global GDP averaged 5% growth. GDP growth was 2.8% in the US and averaged 1.8% in the Eurozone. Specifically, Germany fully reaped the benefits of rising exports and investments in machinery and equipment posting a 3.6% increase in GDP. Italy posted GDP growth of just 1%. Output growth was seen largely by those domestic businesses, especially bigger companies, that export to emerging economies. Domestic demand remained weak as uncertainties over employment and the continuing stagnation of real household income weighed down on consumer spending more than in other Eurozone economies. With GDP growth at 7.1% emerging economies continued to be a mainstay of the world economy.
Economists continue to focus their attention on the sustainability of the current recovery in an environment of high unemployment and low consumer confidence, especially in the US and Europe. In both geographic areas in the period under review, unemployment was close to 10% on average, and economic climate surveys showed only marginal improvements.
Over the last three years, the crisis has widened the public deficit of all advanced economies by more than 6% of GDP, and increased public debt by nearly 25%, bringing it close to 100% of GDP. The mounting pressure on the sovereign debt of certain countries in the Eurozone has heightened attention to the risks of prolonged imbalances. The steady rise in market yields on Greek and Irish sovereign issues required the concerted action of the European Union, the European Central Bank and the International Monetary Fund. The yield spreads between German treasuries and Italian and Spanish treasuries notably widened with subsequent increase in interest expense.
Economic uncertainty, low consumer spending, high unemployment levels and the underutilisation of plants contributed to dampen inflationary pressures. In December, the CPI rose 2.2% in the Euro zone and 1.5% in the US, on an annual basis. Excluding food and energy, the CPI grew 1.0% and 0.8%, respectively.
The lack of inflationary expectations allowed the European Central Bank, Bank of England and Federal Reserve to keep the refinancing rate unchanged at 1%, 0.5% and between 0% and 0.25%, respectively.

Financial markets

In 2010, the emergence of a serious sovereign debt crisis in peripheral Eurozone countries affected the risk propensity of investors and the performance of financial markets and currencies. The steady rise in market yields on Greek and Irish sovereign issues required the concerted action of the European Union, the European Central Bank and the International Monetary Fund. The yield spreads between German treasuries and Italian, Spanish and Portuguese treasuries notably widened.

Yields on 2-year and 10-year Italian treasuries rose from 1.54% and 4.14% at the beginning of the year to 2.88% and 4.82% at December 31, 2010, respectively. Yields on Spanish treasuries for the same maturities increased from 1.87% and 3.98% to 3.46% and 5.45%, respectively. On the other hand, yields on German treasuries on two and ten year maturities dropped respectively from 1.33% and 3.39% at December 31, 2009 to 0.86% and 2.96% at December 31, 2010 with subsequent steepening of the yield curve.

The financial crisis also brought about the widening of yields on bonds issued by European companies, especially banks and financial institutions.

In the US, treasuries yields declined across all main maturities: specifically, yields on 2-year and 10-year treasuries fell from 1.13% and 3.84% at the start of the year to 0.59% and 3.29% at year end 2010, respectively.

Lastly, the sovereign debt of emerging countries benefitted from narrowing yield spreads.

In 2010, global stock markets progressed 9.5% on average (MSCI World in USD). In the US the S&P 500 was up 12.8%, and the NASDAQ Composite rose by 16.9%. In Europe stock markets grew 8.6% (DJ Stoxx 600), while the Italian stock market shed 13.2% (FTSEMIB), the DAX was up by 16% and the CAC fell 3.3%. The sovereign debt crisis in peripheral countries in the Eurozone resulted in a deep underperformance of the Spanish (IBEX - 17.4%), Greek (Athex Composite Share Index - 35.6%) and Italian stock markets. In Japan, the Nikkei 225 was down by 3%, while emerging economies posted an average stock market growth of over 16.4% (MXEF in USD). Stock market growth was driven by cyclical stocks (industrials, technologies, commodities).

Reflecting the improved global economic landscape, main commodity prices were on the rise. In 2010 oil prices were up by more than 12%.

In 2010, the US dollar strengthened against the euro from 1.4321 at the beginning of the year to 1.3384 at year end. In the first half of the year, the US currency benefited from fears over the sustainability of peripheral government debt in the Eurozone, reaching a high of 1.1923 on June 7. In later months, expectations of a new quantitative easing move by the Federal Reserve led to a low of 1.4207 on November 4. Lastly, the Irish financial crisis led to further strengthening of the dollar in the closing weeks of the year.

The financial crisis in the Eurozone also had repercussions on the euro's exchange rate against the sterling and the yen.

Funding, lending and securities portfolio

At year end 2010, the financial assets of households amounted to about €3,560 billion, remaining essentially unchanged over the prior year. Specifically, bank accounts and deposits were up 0.3% accounting for 29.9% of total financial assets of households; holdings in life insurance, pension funds and severance funds rose 7.6%, with a weight of 17.5% (16.2% in the prior year); holdings in mutual funds also posted growth rising 10.8% and accounting for 5.7% of total financial assets of households. Conversely, holdings in equities were down 4.8% with a weight of 23.4%. Also holdings in government and corporate bonds declined, namely by 6.8% (bonds issued by financial and monetary institutions were up 2.1% while treasuries declined 24.8%), accounting for 19.2% of total financial assets of households (20.5% in the prior year).

In 2010, in Italy, bank funding remained sustained although a little less buoyant than in the prior year. At year end, total funding of Italian banks (euro-denominated bank accounts, term deposits, repurchase agreements and bonds) amounted to €2,191.3 billion, up 3%. The analysis of the various components shows customer deposits grew 6.3% and bank bonds were down 1.7% on an annual basis.
In 2010, bank loans picked up again after the dramatic deceleration of 2009 due to the deep cyclical downturn in Italy's economy. At year end, loans to companies and individuals domiciled in Italy grew 4.3%. At the end of December 2010, loans to companies and individuals amounted to €1,683.5 billion. Specifically, loans to households and non-financial firms amounted to €1,461 billion, up 3.8%. Maturity analysis shows that medium/long-term loans grew by 4.9% and short-term loans by 0.8%.
Credit facilities to households were also on the upside growing 7.6% at year end 2010 versus 5.9% in 2009. Consumer credit decelerated growing by only 2% in the year under review. Home loans were up 8% versus 6.1% at year end 2009.
Interest on bank deposits marginally increased from 0.68% at year end 2009 to 0.70% at year end 2010. Average interest on bonds was 2.91% and interest on repurchase agreements rose to 1.58%. At the end of December 2010, average interest on bank deposits, repurchase agreements and bonds was 1.50%. Interest on loans to businesses and households also increased. At year end 2010, interest on active bank accounts of households was 4.65%, while interest on mortgage loans amounted to 2.97%. The average spread between lending and funding interest rates narrowed and was 2.16% versus 2.42% in 2009.
At year end 2010 gross non-performing loans amounted to €77.8 billion. The ratio of gross non-performing loans to total loans was 4% versus 3.3% in the prior year. Net non-performing loans amounted to €46.9 billion up about €11 billion over year end 2009. The ratio of net non-performing loans to total loans was 2.46% (vs. 2.03% at December 2009), while the ratio of net non-performing loans to regulatory capital was 13.46% at December 2010 (vs. 10.47% at year end 2009).
At year end 2010, securities in custody with Italian banks (either actively managed or held by customers) amounted to €1,538 billion (vs. €1,546 billion at year 2009). About 45% was held directly by consumer households.
At December 2010 the securities portfolio of Italian banks in the aggregate amounted to €562 billion climbing 28% over the prior year. The proprietary securities portfolio of banks grew by about €123 billion.

Customers

At year end 2010, the number of customers – either bank account holders or investors in Mediolanum Group's financial/insurance products – was 1,076,549 versus 1,097,795 at year end 2009. 897,158 of these customers were primary account holders.
At December 31, 2010, the number of bank accounts was 568,328 (581,722 at year end 2009) corresponding to 799,898 account holders. The slight year-on-year decline was mainly in connection with the Bank's rationalisation efforts which entailed the closing of accounts that were inactive and with negative balances.
The number of credit card and debit card holders grew over the prior, namely from 173,627 to 176,216 at year end 2010, and from 443,979 in 2009 to 451,369 at year 2010, respectively. This confirms increasing usage of bank accounts.

Freedom bank account

At December 31, 2010, there were about 150,000 *Freedom* bank accounts, of which about 27% were new accounts, for a total balance of €6.53 billion, of which €5.03 billion invested in *Mediolanum Plus* policies. About 11% of said total balance consisted of new deposits made by either new or existing customers.
The *Freedom* bank account is a key platform for growth in asset management which continues to be Mediolanum Group's core business.
The *Freedom* bank account certainly played a key role in the generation of the tremendously high net inflows recorded in financial year 2009 when it had contributed €4.6 billion to the total net inflows of about €5.8 billion.
The slowdown in net inflows into the *Freedom* bank account in 2010 was due to the inevitable reduction in net interest paid on the account from 3% in the prior year to 2% beginning from April 2010. This made the product less attractive, yet it continues to be the bank account offering the best returns.
To attract new customers, last September a new commercial initiative was launched entailing the payment of 2.2% net interest through March 2011 to new customers opening a *Freedom* bank account. The initiative was communicated via a specific advertising campaign.
Net interest of 2.2% is also paid on new deposits made by existing customers investing in 4-month repurchase agreements, while net interest paid on existing *Freedom* accounts balances for the current quarter is 1.82%. Although net interest paid on *Freedom* bank accounts balances is lower than the net interest paid in the last six months, i.e. 2%, *Freedom* is still the bank account product offering the best returns. In fact, other banks offer higher interest on time deposits only.
The *Freedom* new commercial initiative goes hand in hand with a charitable project coordinated by 'Francesca Rava Foundation' whereby for each new *Freedom* account opened Banca Mediolanum will cover one-month schooling for a child in Haiti.
At December 31, 2010, 15,216 new accounts had been opened and in February 2011, the Bank credited €228 thousand to aforesaid Foundation.
At year end 2010, there were about 150,000 *Freedom* primary account holders with average asset balances of €115,000, an amount which is almost double the average balance of other bank account holders, i.e. about €57,700. Thanks to the high profile of customers acquired in 2010 the average assets of Banca Mediolanum customers grew from €36,214 at year end 2009 to €41,630 at year end 2010.

Assets under management and under administration

Banca Mediolanum growth for the year under review was expected to be fuelled by robust net inflows yet somewhat lower than in 2009. Expectations were more than confirmed as in the year 2010 the Bank recorded yet again remarkable net inflows, amounting to €3,284.7 million versus the exceptionally high net inflows of €5,795.4 million posted in 2009.
Specifically, net inflows generated by the policy associated with the *Freedom* bank account amounted to €453.3 million versus €4,570.8 million at December 31, 2009. Third-party structured bonds contributed €857.6 million net inflows in the year 2010 versus €42.5 million in 2009 as these products began to be sold only in the final part of that year. Owing to their features these bonds are in fact substitutes for index-linked policies whose distribution was discontinued in November 2009. Inflows into other asset management products amounted to €1,273.5 million versus €1,992.6 at the end of the prior year. Total net inflows into asset management products and sales of third-party structured bonds in the aggregate amounted to €2,131.0 million versus €2,037.8 million in 2009.

Administered assets recorded net inflows of €700.2 million versus net outflows of €813.2 million in the prior year. Although below 2009 levels, net inflows recorded by the Bank in 2010 was 2.6 times higher than inflows seen by main competitors.
At December 31, 2010, Banca Mediolanum recorded total assets under management and under administration of €37,513.6 million, up about 14% from €32,938.6 million at the end of the prior year.

Funding

In 2010, funding from customers (bank accounts, time deposits, repurchase agreements and bonds) remained buoyant. The analysis of the various components shows inflows into bank accounts, deposits and repurchase agreements rose 23.3% from €5,839.9 million at year end 2009 to €7,205.1 million in the prior year. Funds raised through the issue of Banca Mediolanum senior and subordinated notes also increased, namely to €340.5 million from €179.5 million in the prior year.

Lending

At the end of December 2010, loans to customers – private individuals and financial institutions other than banks – amounted to €4,147.7 million, rising 31.9% from the prior year's balance of €3,144.8 million. The year-on-year increase includes the €803 million growth in the L&R securities portfolio held for treasury management purposes (€882.9 million at year end 2010 versus €79.1 million at year end 2009). Excluding said portfolio, loans to customers rose €200 million (up 6.5%).
Lending growth in the retail segment was driven by a notable increase in residential loans (up 10.4% over the prior year) and a more substantial expansion in personal loans (up 66.2%).
Conversely, in the institutional segment, lending shrank, especially in hot money transactions and syndicated loans.
The less buoyant year-on-year growth (10.4%) in residential mortgage loans to €2,199.9 million from €1,991.9 million in 2009 was due to business consolidation.
Banca Mediolanum has no subprime mortgage loans in its portfolio and, in 2010, too, took a disciplined approach to lending, not entering into any transactions carrying a high level of credit risk. In addition, it can count on key risk mitigation factors in its lending operations, namely: average LTV (Loan to Value) below 54%, average size of loans below €120 thousand, residual maturity just above 20 years and customer base/properties largely in cities of northern/central Italy that have been less affected by the decline in housing prices.
The total balance on customer bank accounts amounted to €326.8 million, slightly down (5.8%) from the prior year's balance of €347 million. Except for so-called 'dual months' (overdraft facilities extended to customers for amounts which are double their monthly salary or pension credited to their bank account) which are marginal, overdrafts are secured by other Mediolanum Group products held by customers that can be sold in the event of customer default under the relevant prior customer authorisation to do so, and mitigate the risk of losses.
Personal loans rose 66.2% over the prior year to €182.8 million at year end 2010.
These are small-sized, short-maturity loans with credit risk further mitigated by the authorisation given by customers to sell other products they hold with the Mediolanum Group, if necessary.
In the year under review, Banca Mediolanum participated in lending syndicates granting loans to companies that are part of leading banking and insurance groups, and also extended loans in the form of hot money facilities to Italian institutional customers. In the aggregate, these loans amounted to €285.7 million, down 29% over the prior

year due to the different asset allocation policy adopted by the Bank's Treasury that preferred other forms of short-term lending at particularly advantageous conditions to carefully selected prime borrowers, largely financial companies supervised by the Bank of Italy and controlled by primary banks.
As to the quality of the loan portfolio, and, in particular, impaired loans, at year end 2010 net impaired loans (after write-downs) amounted to €36.3 million up about €1 million over the prior year's balance of €35.3 million. The 2010 year end balance includes €10.1 million (after write-downs) relating to loans extended to the Delta Group that in April 2010 were reclassified as 'watch list' loans. Excluding said reclassified loans, impaired loans fell markedly compared to year end 2009. Including loans extended to the Delta Group, the ratio of net impaired loans (after write-downs) to total customer loans remained very low (0.87%) and was much lower than in the prior year (1.12%), especially considering that lending, including the L&R portfolio, grew in the year under review.
The very high credit quality of the Bank's loan portfolio is the result, on the one hand, of portfolios being strictly monitored and past due/overdrawn customers being invited to promptly honour their obligations, and, on the other hand, of refined policies and tools to ensure proper assessment of credit standing prior to loan origination.
It should be noted that the ratio of nonperforming and watch list loans (before or after write-downs) to total loans extended by the Bank is at excellent levels compared to Italy's banking system. Specifically, the comparison of the gross nonperforming loans to total loans ratios on a consistent basis – i.e. eliminating the effect of differences in internal accounting methods used by the individual financial institutions – shows that at December 31, 2010, that ratio for Banca Mediolanum was just above 0.4% versus 4.00% for the industry (source ABI - Italian Bankers Association: Monthly Outlook, February 2011). For residential mortgage loans that account for over 53% of total loans extended by Banca Mediolanum the gap is even wider: for payments that have been overdrawn/past due for 90 days or more, including watch list and nonperforming loans, at December 31, 2010 the ratio was 0.89% for Banca Mediolanum versus 4.87% for the industry (source Assofin: "Osservatorio Assofin sul credito Immobiliare erogato alle famiglie consumatrici – Rilevazione sulla rischiosità 9 mesi 2010 – Assofin Analysis of Residential Mortgage Loans – Measurement of Risk over 9 months in 2010").

Securities brokerage

In 2010, both the equity and bond markets were volatile as they were impacted by the measures taken by continental governments to rein in growing sovereign debt (Greek, Irish and Portuguese crises) after the 2008 financial debacle. The rate landscape was two-faceted: static in the first part of the year, while in the second part of 2010 expectations for rate rises and re-pricing of credit risk facilitated a pickup in returns, a development that continued into 2011.
At year end 2010, the total value of assets held by Banca Mediolanum retail customers climbed 52% to €2,589 million from €1,698 million at the end of the prior year, largely reflecting the contribution of MedPlus Certificates and Mediolanum Bonds.
The analysis of securities held by customers shows bonds rose 47% from €997 million at year end 2009 to €1,885 million at December 31, 2010; treasuries increased from €345 million at year end 2009 to €328 million at December 31, 2010; Eurobonds declined from €364.5 million at year end 2009 to €278.7 million at year end 2010, and, at €110 million, Italian bank bonds essentially remained at the same level as in the prior year.
Sales of bonds and certificates in 2010 amounted to €1,087 million, of which €858 million relating to MedPlus Certificates and €174 million to Mediolanum Bonds. Fees earned on placement of third-party issues amounted to €56.3 million, of which €43.9 posted in the year under review.
Trading orders executed for retail clients declined compared to the prior year also due to the discontinuation of

SuperPowerMyTrade at year end 2009. Specifically, total orders executed on the Italian regulated stock market in 2010 were 302,679 versus 534,282 in 2009, and their value aggregated to €2,010 million compared to €6,490 million in 2009. Total orders executed on foreign stock markets fell to 21,281 from 33,540 in 2009, while their value remained essentially unchanged over the prior year at €197.2 million versus €195.8 million in 2009.
At December 31, 2010, discretionary accounts no longer sold since the end of 2007 amounted to €73 million versus €86 million in the prior year.

Multi-channel approach, the Banking Services Center and the Internet

The use of Direct Channels by customers hit over 25 million accesses in 2009, up 2.8% over the prior year. 71% of these accesses were made by bank account holders, up 1.5% over the prior year. This confirms again the customer appreciation of the bank's multi-channel approach as well as of the new functions and services provided through the direct channels.
Customers increasingly prefer to operate on their own, in fact about 92% of accesses were made through the Bank's automatic systems: the Internet and the voice portal B.Med Voice.
Internet accesses were 74% of total accesses, up 6% over 2009. The number of text messages increased 13% over to the prior year to more than 42 million text messages sent to customers. Customers especially appreciated the use of text messaging services as a means to enhance security, e.g. alerts for ATM withdrawals and payments, website log-ins, bank transfers. As the use of direct channel increased in the year, customer orders through the direct channels grew too (about 5 million transactions, up 8.1%).
As to the Banking Services Center, in 2010, there was an about 8% decline in phone calls. This was due to the greater customer use of 'self-banking' services for the simpler, low-value added transactions. The number of contacts made via the voice portal was in line with 2009, confirming the customer's preference to make transactions on their own, helped by the ever increasing level of information available on BMed Voice.
The level of service provided to customers continued to be excellent: about 96% of phone calls were answered in 20 seconds and customers were kept on hold for 3.7 seconds on average.
Security was the focus of attention in Direct Channels in 2010 with the addition of the following services:

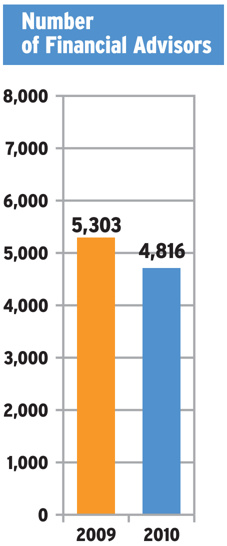
- alert messages via email: customers can chose to receive an alert free of charge at their email address, with a number of advantages such as easy storage of information received, clearly separated from security text messages;
- security text messages: alerts for international wire transfers and for credit card charges were introduced, in addition to the automatic alerts sent for executed wire transfers;
- internal monitoring: the technology and information supporting the Anti-Fraud Team were increased.

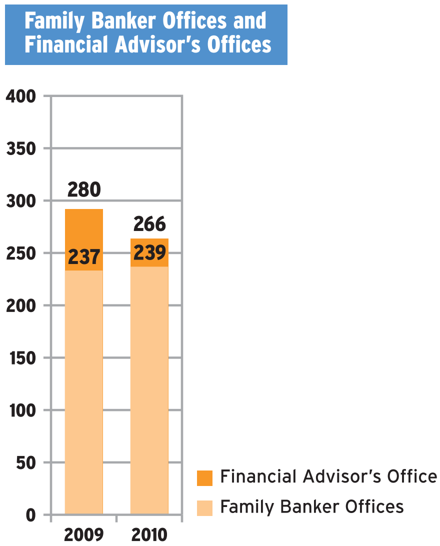
Additional improvements were made to the B.MedVoice voice portal to further enhance customer satisfaction:

- introduction of the service for on-line RAV and MAV payments (utilities, traffic fines, tuition, condominium fees, etc);
- improvement in voice and pronunciation recognition of the VRU system thanks to the introduction and fine-tuning of a more advanced technological platform.

To facilitate the knowledge of the multi-channel services offered by the Bank, a Welcome Kit was developed, i.e. a kit with information for new account holders to help them better understand and use the channels available at Banca Mediolanum. At the first telephone contact, more than 14,000 new bank account holders received a personalised welcome message, and in most cases at the same time information on what functions are available through the multiple channels and how to access the Bank using Self Banking. Other new account holders used the educational and support functions available on www.bmedonline.it under the B.Med Edu section.

The Sales Network





At December 31, 2010, the network of financial advisors, i.e., 'Family Bankers', consisted of 4,816 people versus 5,303 at year end 2009. Specifically, the number of Family Bankers (licensed financial advisors) decreased from 4,945 at year end 2009 to 4,772 at December 31, 2010, while the number of junior Family Bankers (non-licensed advisors) fell to 44 from 358 at year end 2009. The decline is in connection with the new recruitment policy. Under the new recruitment policy candidates take Banca Mediolanum courses and can practice as Family Bankers only if they pass the relevant exam. Since only licensed advisors can work for Mediolanum, non-licensed advisors will gradually disappear from the organisation.

Sales Network offices and bank branches

At year end 2010, owing to the rationalisation of local offices, the number of Sales Network Offices (Family Banker Offices and Traditional Offices) declined to 505 from 517 offices in the prior year (down 12 offices).
The analysis of Sales Network Offices is set out in the table below.

	2010	2009	2008
Family Banker Offices	239	237	239
Sales Network Traditional Offices	266	280	297
Total offices	505	517	536

Family Banker Offices are evenly spread in all Italian regions reflecting the presence of Family Bankers across Italy. The regions with the largest number of Family Banker Offices are: Lombardy (37), Veneto (37), Emilia Romagna (25), Sicily (23), Latium (23).
In 2010, there were 5 Private Banking branches, namely in Assago-Milan (Mediolanum Forum), Milan, Rome, Padua and Bologna. Except for the one in Assago, these branches are located on the upper floors of prestigious buildings in the heart of the city centres and mainly serve the purpose of providing a sophisticated ambience for meetings with private banking customers.
Including the bank branch at the Milan Basiglio HQ, at December 31, 2010, there were six Banca Mediolanum bank branches.
At year end 2010, there were 11 Automated Teller Machines (ATMs): 4 at bank branches and 7 at Family Banker Offices.

Sales Network Training

Sales Network training is provided by Mediolanum Corporate University S.p.A. under relevant arrangements with Banca Mediolanum.
In the year under review, the total number of participants increased 47% from 88,178 in 2009 to 129,578 in 2010, particularly in training sessions focused on behavioural and managerial skills ('I AM' training sessions), realignment of supervisors, and lectures organised locally.

499,650 hours of training were delivered in 2010.

The increase in sales network training in the managerial area in 2010 was due to the need to rapidly train people to the required skills and this entailed an increase in the number of sessions in all managerial classes.
The increase in training on technical subjects relates to local lectures focussed on structured bonds and certificates as well as training sessions on the new Best Brands offering and the partnership with major investment houses.
In 2010, major efforts for the design and implementation of new courses brought about a rise in training modules from 51 to 73, while courses designed in 2009 were revisited and updated. In addition, steps were taken to optimise training including delivery of training locally.
Certain courses that were previously delivered by external companies were brought in-house under the steady supervision of MCU staff. In 2010, MCU started a new intense training program on Empowerment at the local level that was delivered in as many as 38 sessions with 546 in-classroom participants.
In addition to educational sessions, new operational tools were created for the Sales Network. As a result of these efforts, operational tools available to the Sales Network increased from 8 in 2009 to 15 in 2010.

Training courses are developed based on an approach that integrates different teaching methods and tools in order to make learning as effective and as practical as possible. An advanced Learning Management System supports and facilitates self-directed study. Self-study provides fundamental preparation prior to entering the classroom where all the ideas and knowledge acquired during the self-study phase turn into a shared experience. On-the-job training follows the training phase so that what was learned in the structured training sessions is then put to practice in the field.

In 2010, the Bank also held events for customers and savers in general. These events focused on financial planning, the protection of household assets and investments as well as on how to bring about and strengthen financial stability.

Training of employees

Mediolanum Corporate University S.p.A. provides training also to the employees of Banca Mediolanum and all companies within the Mediolanum Group.

Employee training is subdivided into 3 major areas:

1. the behavioural area ('I AM') looks at the aspect of being in order to attain personal as well as professional improvement;
2. the technical-commercial area ('I WORK') has to do with preparation as it relates to understanding products and tools needed for the job;
3. the technical-regulatory area ('I KNOW') refers to the knowledge of the regulations, which is indispensable in order to guarantee professionalism and transparency.

There are 3 different levels to the coursework: the individual job level, the departmental level, and the company level.

In 2010, total employee training hours stood at 62,204 man hours versus 31,359 man hours in the previous year. The increase in the number of hours and participants can be attributed to two factors: in 2009, the focusing of the team's efforts primarily on the development of courses and in 2010 the carrying out of all the courses planned in 2009, especially those focused on behavioural and managerial themes.

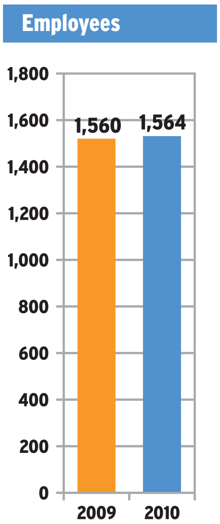
In 2010, 14 courses were designed and delivered in 53 sessions lasting an average of 2 days, in the 'I AM' area. The subjects covered ranged from communication to coaching, as well as ethics.
The coursework dedicated to the Banking Services Centre were thoroughly reviewed and completely redesigned, to increase their efficiency.
Furthermore in 2010, 10 courses dedicated to teamwork were carried out, just as in the past.
In the 'I WORK' area, the following topics were dealt with: structured bonds and certificates, training about insurance products and their technical aspects, the technical aspects of banking and the management of bad debt, compliance and measuring models for products, involving more than 800 individuals for the updating of the professional skills required for their job.
In the 'I KNOW' area, in-depth training courses aimed at learning the technical aspects of topics such as Compliance and Privacy protection were set up.

New hires decreased from 101 in 2009 to 44 in 2010 reflecting the Bank's recruitment policy, while training of new hires was strengthened (366 hours per capita versus 302 hours per capita) with the addition of training modules on customer passwords, communication and increased on-the-job training.

Employees

The analysis of the year's movements in Banca Mediolanum's employees in 2010 is set out in the table below.

	Dec. 31, 2010	% of total	Dec. 31, 2009	change	average age
Senior management	69	4.4%	73	(4)	47.0
Middle management	185	11.8%	177	8	42.3
Non-management	1,310	83.8%	1,310	-	33.9
Total	1,564	100.0%	1,560	4	35.5



In spite of growing business volumes, the number of employees remained essentially unchanged over the prior year (up 4 people). This was made possible thanks to greater process efficiency.

In 2010 middle management staff increased thanks to internal career paths that facilitated the promotion of young talents to superior positions.

Women accounted for 53% of total employees and the average age of the employees was just above 35.

In addition to internal job rotation, internship experiences were promoted, including international assignments, to help high-potential individuals build up and round off their professional skills through practical on-the-job experiences.

Again in 2010 there were collaborations with prestigious universities in areas such as Marketing, Finance, Service Quality, and Communication.

Students attending university or master's courses in Financial Markets, Marketing, Risk Management and Customer Satisfaction took internships across our organisation working on research and innovation projects.

Teams for Improvement formed on a voluntary basis by employees refined their activities also experimenting kaizen approaches.

As to the Quality System, in operational units, service quality and customer satisfaction indicators were refined.

To improve the work-life balance numerous initiatives were organised. These were highly praised by employees. In addition, numerous services and facilities for various employee categories were also enhanced. The day care centre for employees' children was further enlarged, in order to host a larger number of children, and was greatly appreciated.

The Workplace Safety & Prevention system involved all employees through info-training courses and initiatives aimed at promoting a widespread safety culture, including via the use of technological tools, support and regular field checks.

Health and Safety in the workplace

In 2010, the Mediolanum Group further enhanced the Safety project to minimise accidents at work, while further spreading a safety culture.

'Safety' comprises those activities which the Group carries out to protect people and the workplace, in compliance with the legislation in force, specifically the Consolidated Act – Legislative Decree 81, issued on April 8, 2008, that superseded Act 626/94.

In 2010, many structural and operational measures were put in place to support the Prevention and Protection Service (PPS) that is the responsibility of the 'Employer in charge of Safety' assisted by the 'Prevention and Protection Managers'.
Among the main updates of 2010, incorporated into the Risk Assessment Document, there was the assessment of work-related stress. A number of meetings and activities were held beginning from September 2010, to set up that exercise according to a method that takes accounts of all requirements under recent legislation and guidelines. The Italian lawmaker postponed the deadline for risk assessment (section 28) that is due to begin on January 1, 2011, and include a progress assessment, to be carried out by the Employer in charge of Safety and a specialist physician, with the consultation of workers' representatives for health and safety in the workplace, and then registered in the Risk Assessment Document.

At year end 2010, there were 8 workers' representatives for health and safety in the workplace, 80 people with first-aid skills and 70 people trained for fire emergencies.

Other activities carried out included:
- regular hazard surveys consisting of inspections in the workplace to identify any situations that may not be in compliance and require remedial actions;
- monthly Safety Meetings;
- continuous updating of the section dedicated to Safety within the Innova portal;
- presentation of the Safety Status Report to the Supervisory Board;
- definition of the Management Organisational Model;
- regular evacuation drills at the offices;

Other recurring annual activities were:
- sanitation of work stations and specific equipment;
- replacement of air filters;
- periodic and preventive disinfestations.

In 2010, there was an increase in medical examinations of employees under the Group's health care programme.

Internal Audit

During the year the Internal Audit staff continued their audit work focusing on the assessment of the effectiveness and efficiency of the internal control system as implemented by the various departments. Under a service agreement, the Internal Audit staff of the parent company Banca Mediolanum also performed audit work for the subsidiaries Mediolanum Corporate University S.p.A., Mediolanum Distribuzione Finanziaria S.p.A. and Mediolanum Gestione Fondi SGR p.A., that do not have an internal audit function. In addition, as part of the parent company's duties of guidance and supervision, for those subsidiaries that do have an internal audit function (Fibanc Group/Banco Mediolanum, Bankhaus August Lenz, Mediolanum International Funds and Mediolanum Asset Management), the Internal Audit staff of Banca Mediolanum regularly exchanged information with the internal audit staff of said subsidiaries, carried out tests, and participated in the meetings of their Audit Committee, where established. Management is committed to promptly remedying any anomalies which audits may reveal and closely monitors the implementation of any corrective action taken.
At December 31, 2010, Internal Audit staff consisted of 14 people (vs. 15 at December 31, 2009).

Risk Management and Compliance

In accordance with the relevant service agreements this function is responsible for monitoring the exposure of the Bank, subsidiaries and associates to financial and credit risks. It is also responsible for assessing the impact of operational, legal and reputational risks on financial position, and for monitoring capital adequacy vis-à-vis the activities performed.

Risk management and compliance staff also regularly monitor developments in the banking, financial and insurance regulatory and statutory environments to ensure compliance therewith and assess the impact of any changes therein on the business.

Risk management and compliance staff coordinate the Internal Capital Adequacy Assessment Process (ICAAP) for those activities specifically attributed and governed by the ICAAP Regulation.

The head of this function reports to the Board of Directors about the overall risk situation in its various aspects.

Staff in this function also coordinate management of any written complaints received from customers. In 2010, complaints received from customers increased by about 11% from 4,877 in 2009 to 5,436, of which 2,216 relating to investment services (vs. 1,888 in 2009).

The increase in complaints was largely in relation to complaints about banking services. Out of the 4,765 complaints examined as of December 31, 2010, 836 were judged to be founded (17.5%). 36 of these founded complaints have been settled with customers.

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

At December 31, 2010, Risk Management and Compliance staff consisted of 33 people.

Network Inspection

During the year under review, the Network Inspection staff continued to carry out second level controls and checks on the sales network members to make sure their off-premises activities were in full compliance with the regulations in force.

Checks and inspections were conducted at the Family Banker Offices in the field as well as at corporate Headquarters. Additional checks were conducted via ad-hoc quantitative and statistical indicators monitoring potential operational and reputational risks related to the Sales Network activities.

The Network Inspection staff also availed themselves of the assistance of Banking Services Center representatives who liaise with customers.

Upon completion of checks, actions were planned to remedy any irregularities found and, where necessary, sanctions were applied to the financial advisors involved or their mandate was revoked.

At December 31, 2010, the Network Inspection unit had a total of 29 staff as in the prior year. The Banking Services Center staff providing assistance to Network Inspection unit consisted of 4-6 people.

In 2010, financial advisors irregularities reported to Supervisory Authorities were 79 versus 88 in 2009. As further protection, in 2010, the Bank renewed the policy taken out to cover any illegal actions committed by the sales force to the detriment of customers.

The Network inspection unit of the parent company Banca Mediolanum conducted controls and checks also for the subsidiary Mediolanum Distribuzione Finanziaria S.p.A, which does not have its own network inspection unit, under the relevant service agreement.

Organisation and operations

In 2010, the Bank continued to incorporate into its operations the general recommendations of the supervisory authorities regarding the third-level measures introduced upon the entry into force of the MiFID Directive in Italy.
In particular, new rules were adopted for customer profiling including the combination of investment advisory services with other investment services anytime the contact with the customer is made through one of the Bank's Family Bankers and the introduction of related amendments into the contract made with the Customer.
Said combination has long been in place for sales of asset management products and was extended to include also securities dealings.
The Bank also adopted Assoreti service level guidelines which reflect industry's best practices.
Concurrently the Bank also defined basic requirements for the evolution of the framework for the provision of investment services that will be extended to the entire customer portfolio by the end of 2011 in line with aforesaid recommendations.
Procedures for the provision of investment services as well as for the operation of local and HQ functions and offices have been regularly updated.
The Bank also adopted the instructions of the Parent Company Mediolanum S.p.A. on related party transactions that reflect the new CONSOB regulations on the matter.
As to Banking Services, all activities for the adoption of the new regulations on transparency in banking and financial services and transactions issued by the Bank of Italy in 2009 have been completed, and at the end of 2010 the Summary Cost Indicators were introduced into bank account statements.
The EU Payment Services Directive (PSD) project started in 2009 was completed in 2010 with the introduction of the relevant framework contract and related operational processes.
As to Business Continuity, in 2010, the Bank updated the Business Impact Analysis (BIA) procedures and kicked off a study on possible future organisational and technical developments to take account of future changes in the technology infrastructure and the changed landscape in the terms of customer use of the Bank's multiple channels.

Treasury management

In the year under review, treasury management investments were made against the backdrop of high liquidity levels in the Eurozone markets. The liquidity growth strongly advocated and supported by the European Central Bank (ECB) to manage the financial crisis as early as August 2007 led to a dramatic shift in market participants' behaviour regarding liquidity management.
3-month EURIBOR rates have been extremely low with an annual average of 0.814% in 2010, sharply lower than the average level of 1.212% in 2009, hitting a low of 0.634% on March 31, 2010, and a high of 1.050% on April 11, 2010.
Monetary policy aimed at keeping EURIBOR rates on various maturities at extremely low levels affected rate levels for OVERNIGHT transactions. EONIA rates averaged 0.438% during the year versus 0.70% in 2009. On June 3, 2010, the overnight rate reached a low of 0.295% and later, at the end of September, hit a high of 0.878%. Rates in this money market segment experienced high levels of volatility especially in the second half of the year.
However, the Bank did not alter its strategy of investing in floating-rate securities issued by primary Italian banks featuring attractive spreads, in short-term floating-rate Eurozone sovereign debt securities, and hot money transactions with companies that are part of banking groups (section 107 of the Consolidated Banking Act).
In the light of widening spreads on government securities, especially sovereign debt of peripheral Eurozone countries, the securities portfolio was effectively rebalanced towards these issuers, especially the Italian government.

Refinancing with the ECB and interbank market transactions rose sharply. These transactions were made exclusively to take advantage of attractive short-term opportunities.
At December 31, 2010, the net treasury balance amounted to €4,518 million (€3,181 million at December 31, 2009), confirming again Banca Mediolanum as one of the most liquid Italian banks.
Specifically, at December 31, 2010, funding from banks amounted to €2,193 million (€1,206 million at year end 2009), of which €1,400 million in repurchase agreements with the European Central Bank (€135 million at year end 2009).
Loans to banks aggregated to €2,416 million versus €1,579 million at year end 2009. Interbank lending was almost exclusively with primary Italian banks under the supervision of the European Central Bank.
At the end of the year under review, net interbank exposure was a net lending position of €223 million versus €373 million at the end of the prior year.
Investments in securities grew €2,047 million from €3,493 million at year end 2009 to €5,540 million at year end 2010:

€/milion	2010	2009
Held to Maturity Investments	1,109	1,320
Available-for-Sale Financial Assets	1,798	826
Financial Assets Held for Trading	956	843
Financial Liabilities Held for Trading	(450)	(260)
Loans & Receivables (banks and customers)	2,127	764
Total	5,540	3,493

The most significant increase was in short-dated floating-rate Italian treasuries that were bought to take advantage of the widening of spreads on sovereign debt of peripheral Eurozone countries and the ensuing higher yields on these securities.
At year end 2010, *Held-to-Maturity Investments* amounted to €1,109 million, down €211 million over the prior year's balance due to maturities.
Available-for-sale financial assets increased €972 million over the prior year's balance.
At the end of the year under review, the balance of the AFS equity reserve worsened from a positive balance of €0.2 million in 2009 to a negative balance of €37.4 million.
Financial assets held for trading net of *Financial liabilities held for trading* amounted to €506 million, remaining essentially in line with the prior year's balance of €583 million.
Loans and Receivables amounted to €2,127 million, growing markedly over the prior year's balance of €764 million. They consisted of ABS and securities issued by Eurozone banks and governments not quoted in an active market.
The treasury management portfolio (interbank deposits and securities) consisted exclusively of euro-denominated instruments with no exposure to currency risk.
Net interest income declined 13.8% to €120.2 million from €139.4 million at year end 2009. Adding trading profits, gains on hedging transactions and gains from the sale of available-for-sale financial assets that, in the aggregate, amounted to €7.7 million, net financial income came in at €127.9 million down 24.7% from €169.8 million in the prior year.
However, write-downs of available-for-sale financial assets improved from -€20.4 million in the prior year to -€1.3 million at the end of the year under review.
After write-downs, net financial income amounted to €126.6 million at year end 2010 versus €149.4 million at the end of the prior year (down 15.3%).

Equity and capital ratios

At December 31, 2010, shareholders' equity, excluding net profit, amounted to €505.1 million down 6.6% from €540.6 million at December 31, 2009. The €35.5 million decline relates to the fair value measurement of available-for-sale financial assets (-€37.7 million), the appropriation of net profit for the year 2009 to reserves (+€1 million) and the movements in equity reserves in connection with stock options (+€1.2 million).

After the approval by the shareholders at the AGM of the appropriation of net profit for the year 2010 as proposed by the Board of Directors, equity amounts to €511.4 million down €30.12 million over the prior year. This corresponds to a net book value of €1.14 (vs. €1.2 in 2009) per €1 share. Earnings per share (EPS) amount to €0.147 versus €0.042 in 2009.

Total capital ratio (regulatory capital /RWA) is 23.62%, well above the minimum requirement of 8%.

Equity investments

At December 31, 2010, the Bank's equity investments in Group companies declined to €359.4 million from €375.2 million in the prior year.

During the year, the Bank recorded €6.3 million write-downs due to the year's loss reported by the subsidiary Bankhaus August Lenz & Co.

Impairment tests conducted on equity investments at the end of the financial year with the assistance of an independent advisor entailed the recognition of impairment losses on the investments in Gamax Management AG and Bankhaus August Lenz AG amounting to €5.6 million and €3.8 million, respectively.

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

For financial year 2010 the Spanish Group reported net profit of €2.9 million versus €0.5 million in the prior year.

At the end of the year under review, gross inflows into asset management products amounted to €270 million versus €248.0 million in 2009, and net inflows to €43.5 million versus €72.8 million at year end 2009. As to assets under administration, the Group reported €8.4 million outflows versus €67.2 million outflows at the end of the prior year.

At year end 2010, total assets under management and under administration amounted to €1,622 million versus €1,583 million at December 31, 2009.

The sales force consisted of 491 people versus 489 at December 31, 2009. Specifically, tied advisors, relying on the same business model as Banca Mediolanum financial advisors, were 439 versus 407 at year 2009. Fibanc also availed itself of 45 traditional agents (47 in 2009).

Bankhaus August Lenz & Co. AG

For financial year 2010, the company reported net loss of €6.3 million versus net loss €7.9 million in the prior year.

Asset management products recorded net inflows of €15.8 million versus €10.7 million in the prior year, and assets under administration net inflows of €13.5 million versus net outflows of €13.0 million in the prior year.

At year end 2010, total assets under management and under administration amounted to €103 million versus €75 million at December 31, 2009.

The sales network consisted of 36 people vs. 43 at year end 2009.

Gamax Management AG

At December 31, 2010, this Luxembourg-based company reported net profit of €6.4 million versus €7.6 million in the prior year.

In the retail segment, the company recorded net inflows of €2.7 million versus net outflows of €13.7 million in the prior year. Assets under management grew to €238 million from €206 million at year end 2009.

At December 31, 2010, total assets under management (Retail + Institutional) amounted to €470 million versus €463 million in the prior year.

Mediolanum Gestione Fondi SGR p.A.

For financial year 2010, Mediolanum Gestione Fondi SGR p.A reported net inflows of €378.5 million versus €383.3 million in the prior year.

At December 31, 2010, total assets under management invested in open-end mutual funds and in the non-occupational pension fund amounted to €2,318.6 million, up 18.2% from €1,960.9 million at the end of the prior year, while assets invested in the 2 real estate funds, Property and Real Estate, grew to €456.7 million from €382.5 million at year end 2009.

Assets managed on mandates from fellow subsidiaries amounted to €17,208.7 million versus €16,751.5 million at December 31, 2009.

For financial year 2010, the company reported net profit of €18.7 million versus €7.6 million at December 31, 2009.

Mediolanum International Funds Ltd

Mediolanum International Funds Ltd relies on specialised third parties for the management of three fund families, *Mediolanum Best Brands*, *Challenge Funds* and *Mediolanum Portfolio Fund*. *Mediolanum Best Brands* invests in financial markets through the funds managed by world-class investment houses; *Challenge Funds* offers diversified investment opportunities either on a global scale or by geography or sector; *Mediolanum Portfolio* Fund is a fund of funds featuring both traditional and active management styles, and the option to neutralise currency fluctuations.

For financial year 2010 the company reported net inflows of €2,053.5 million versus €1,668.9 million at December 31, 2009 (up 23%).

At year end 2010, total assets under management grew to €17,841 million from €14,461 million in the prior year, benefitting from net inflows growth and the positive performance of financial markets.

For financial year 2010 the company reported net profit of €225.2 million versus €206.3 million in the prior year, benefitting from performance fees earned in the period amounting to €136 million (€147 million in 2009).

On October 28, 2010, the company resolved to distribute a 2010 interim dividend for a total amount of €143.3 million (Banca Mediolanum: €72.9 million).

Mediolanum Asset Management Ltd

Mediolanum Asset Management Ltd mainly engages in asset management by directly managing the assets of the Irish fellow subsidiary Mediolanum International Funds Ltd or providing ancillary services, such as monitoring fund performance and underlying risks.
Mediolanum Asset Management also manages assets on mandates from the Irish fellow subsidiary Mediolanum International Life Ltd.
For financial year 2010, the company reported net profit of €11.4 million versus €8.8 million at December 31, 2009.
On October 28, 2010, the company resolved to distribute a 2010 interim dividend for a total amount of €5.2 million (Banca Mediolanum: €2.7 million).

Mediolanum Distribuzione Finanziaria S.p.A.

For financial year 2010, Mediolanum Distribuzione Finanziaria S.p.A. reported net loss of €0.3 million versus net profit of €0.1 million in 2009.
At year end 2010, it had 44 'Financial Agents' versus 335 at year end 2009.

Mediolanum Corporate University S.p.A.

Mediolanum Corporate University S.p.A. is engaged in the provision of education and training for the sales network and the employees of Banca Mediolanum and of the other companies within the Group.
For the year ended December 31, 2010 the company reported net profit of €0.2 million in line with the prior year's balance.

Bank of Italy's Inspection

In 2010, the Bank of Italy conducted a field inspection of the bank that ended on August 27, 2010. The inspection report dated October 20, 2010 set forth a moderately positive judgement. No penalty was applied.

Tax Police Field Audit

On September 16, 2010, Italy's Tax Police started a field audit of Banca Mediolanum S.p.A. in relation to IRES – IRAP, social security and pension contributions for tax years 2005–2010. The audit focused on the relationship between the Bank and Mediolanum International Funds Ltd (MIF), deductibility of costs borne in relation to companies domiciled in blacklisted tax havens and the tax treatment of write-backs from repayment of loans that had been written down. Later the audit was extended to the VAT treatment of overrides paid to the sales network.
Initially the audit focused on tax year 2005. This audit was completed on October 29, 2010 with the notification of the Audit Report to Banca Mediolanum. The Audit Report contained a single significant claim in relation to the

quantification of commissions rebated by MIF to the Bank for the distribution of mutual funds and investments therein, pursuant to section 110, paragraph 7 of Decree 917/1973.
Italy's Tax Police claimed a total adjustment of €48.3 million to IRES and IRAP taxable income, of which €28.9 million relating to management fees and €19.4 million to performance fees.
It should be noted that the value of the services had been established by the Bank based on economic analyses and opinions provided by third party experts.
Confident of a positive outcome, the Bank engaged Maisto Tax Law Firm to prepare a brief and all documents to be filed with the Assessor's Office.
In connection therewith, Banca Mediolanum filed a set of documents and requested the application of the penalty waiver clause introduced into Italian law by section 26 of Legislative Decree 78 dated May 31, 2010. This in the light of the prompt and collaborative behaviour during the audit, in accordance with the cited statute and the Implementation Regulations issued by Italy's IRS Commissioner on September 29, 2010, that expressly does not exclude the application of the penalty waiver clause to the tax audits underway at the date the Government Decree was issued.
Differences relate merely to the quantification of amounts as the method applied by Banca Mediolanum for the determination of the rebates was confirmed to be correct. In this respect, as already noted above, the Bank availed itself of the professional opinion and economic analyses of primary experts. It is also noted that the evidence used by the assessors does not appear to be in line with the proper tax principles for the identification of the rebates in question.
Also based on the opinion of the independent advisor, the directors believe there is a possible risk in relation to the outcome of the claim above and considering that the pending issues relate to quantifications no sufficiently reliable estimate can be made of the amount of the obligation that may ultimately result for Banca Mediolanum.
On February 28, 2011, the Tax Police issued additional Audit Reports claiming a total adjustment of €121.4 million to IRES and IRAP taxable income for tax years from 2006 through 2009. Specifically said amount is made up €69.2 million relating to management fees and €52.2 million to performance fees rebated by MIF to Banca Mediolanum. The claims in these Audits Reports are essentially the same as those set out in the Audit Report issued on October 29, 2010 and relate to quantification of amounts.
The Tax Police extended their audit to VAT treatment of overrides paid to certain sales network members for their supervision and coordination of other sales network members, in relation to tax years from 2006 through the audit start date (September 16, 2010). That audit was completed on February 28, 2011, and a 'Notice of Tax Due and Demand for Payment' was issued claiming the payment of a total penalty of €64 million for failure to apply VAT to said overrides in the invoices issued by the sales network members.
Overrides are indirect commissions typically paid to sales network members and have been considered to be VAT exempt by Banca Mediolanum in accordance with market practice.
The claim appears to be groundless as the sales network members and the Bank itself treated overrides as VAT-exempt items on the basis of an independent expert opinion issued by a primary Tax Law Firm upon request of the trade association ASSORETI, that was confirmed by a Ministerial Ruling still in force issued by the IRS Assessment Office that in December 2003 stated overrides were VAT exempt.
In the light of the foregoing no provision was made in the separate accounts for the year ended December 31, 2010 other than a €1 million provision to cover the cost of defence against the claims above.

Social and environmental responsibility

For information on the social and environmental responsibility policy, readers are referred to the Mediolanum Group's Social Report 2010.

Other information

With the issue of their audit report on the financial statements for the year ended December 31, 2010, the tenure of the independent auditors Reconta Ernst & Young S.p.A expired and the law does not allow the renewal of their appointment.
The Board of Directors will therefore put to the vote of the Shareholders at the Annual General Meeting the appointment of the new auditors for the nine-year period January 1, 2011 through December 31, 2019 as per the Board of Statutory Auditors Report on the matter.
Finally, you are advised that the Security Policy Document required under section 34, paragraph 1, letter g), of Legislative Decree 196 of June 30, 2003 (the 'Personal Data Protection Code') was prepared and updated in compliance with Rule 19 of the Technical Regulations, Annex B, of said Decree, by Banca Mediolanum S.p.A. also in the name and on behalf of the other Companies that are part of the Mediolanum Group.

Disclosures pursuant to Document No. 4 of March 3, 2010 jointly issued by the Bank of Italy, Consob and Isvap

In Document No. 4 dated March 3, 2010 jointly issued by the Bank of Italy (Italy's Central Bank), CONSOB (stock market regulator) and ISVAP (insurance market regulator) Italian regulators called upon Senior Management to adhere strictly to international accounting and financial reporting standards and applicable legislation and provide complete, clear and timely information about the risks and uncertainties to which their companies are exposed, the capital their companies have to cover those risks and their earnings generation ability.
In connection therewith Management is making the following disclosures.
As to the entity's ability to continue as a going concern, the management of Banca Mediolanum S.p.A. confirm they reasonably expect the company will continue in operation in the foreseeable future and therefore the financial statements for the year ended December 31, 2010 were prepared based on the going concern assumption. Following their examination of the financial position, result of operations and cash-flows, they also confirm they did not find any evidence of uncertainties in relation to the ability of the entity to continue in operation as a going concern.
In relation to 'Impairment of Assets' (IAS 36), the impairment method used by Banca Mediolanum included assessment by an independent valuer based on current multi-year business plans previously approved by the Board of Directors of the Bank. The impairment process was later validated by the Board of Directors of Banca Mediolanum S.p.A.. For further details readers are referred to Part B of the Notes.
With regard to information on the criteria used to measure equity instruments classified as 'available for sale' and the requirements set out in paragraph 61 of IAS 39, the Bank assesses separately if there is a 'significant' or 'prolonged' decline in the value of the assets. If it finds out that there has been a 'significant' or a 'prolonged' decline in value the Bank recognises the impairment loss on the AFS equity instrument irrespective of any other considerations.

Specifically, for equity instruments the Bank considers there is evidence of impairment when the decline in the original fair value exceeds one third or is prolonged for over 36 months.
For details on disclosures to be made in the notes, readers are referred to Parts A, B and E of the Notes.
Information on "fair value hierarchy" (IFRS 7) for positions held at December 31, 2010, including prior year's comparative information, is given in Part A of the Notes.
Finally, no disclosure is made in relation to financial debt contract clauses (IFRS 7) or debt restructuring (IAS 39) since the Bank is not engaged in any of these.

Main risks and uncertainties

Readers can find information about the risks and uncertainties to which the Mediolanum Banking Group is exposed in this Report and in the Notes.

Specifically, information about the risks related to the performance of the world's economies and financial markets is set out in this Report, under '*Macroeconomic Environment*' and '*Outlook*'. Information on financial risk and operational risk is detailed in Part E of the Notes.

Post balance sheet date events

Other than the 'Tax Police audit' described in the previous section, after December 31, 2010 there was no event which could have a significant impact on the financial position, result of operations and cash flows of the Bank.

Outlook

The policy responses of the world's main governments and central banks have produced the much-awaited reversal of the economic cycle after the recent recession.
The sustainability of the current debt and public deficit levels of certain Eurozone countries as well as the impact of high unemployment on consumer spending continue to be the main concerns for the economy and financial markets.
The attention of market participants has recently focused on the geopolitical tensions in some emerging countries, the ensuing rise in commodity prices and the risk of a resurgence in inflation. In particular, the recent crisis in Libya has been driving up oil prices increasing the risk of rises in production costs and retail prices. The resurgence of inflationary risks may lead central bankers to partially review their easing monetary policies.
The current recovery risks to be dampened by production overcapacity and the need of the world's main governments to contain public debt and deficit. However, there are structural data and indications in the economy and the financial system globally that suggest momentum and are supportive of a positive medium to long term outlook.
As consumer spending increases and unemployment declines, in 2011 we may see the economic recovery gain significant momentum with beneficial effects on financial markets.
Based on current reasonable estimates, our Bank is expected to continue to generate good earnings for the year 2011.

Acknowledgements

In concluding this Report, we wish to thank the Family Bankers, the Employees and all People who work for the Bank for their precious contribution. We also thank the Shareholder and Customers for their appreciation of our Bank. A respectful salute goes to the Supervisory and Regulatory Authorities, in particular the Bank of Italy, who have always been ready to assist us, the trade associations and the correspondent Banks for the constructive support given, as usual, to the work of the Bank.

Appropriation of net profit for the year

Your Bank's financial statements, which we submit to you for approval together with this directors' report, show net profit of €66,334,029.28. Considering that at year end Tier 1 was 17.90% for the Bank and 10.09% for the Banking Group (FY 2009: 18.61% for the Bank and 10.17% for the Banking Group), we propose to distribute a €0.13334 dividend per share, for a total amount of €60,003,000.00 and to appropriate the rest of the year's net profit as follows:

- €3,317,000.00 to the Legal Reserve;
- €3,014,029.28 to the Extraordinary Reserve.

Basiglio, March 23, 2011

For the Board of Directors
The Chief Executive Officer and General Manager
Massimo Antonio Doris

Accounts 2010

Balance sheet

Assets

€		Dec. 31, 2010		Dec. 31, 2009
10. Cash and cash equivalents		2,574,812		2,724,215
20. Financial assets held for trading		955,650,122		842,900,811
40. Available-for-sale financial assets		1,797,610,642		825,801,549
50. Held-to-maturity investments		1,109,195,306		1,320,339,323
60. Loans to banks		2,416,210,210		1,579,335,218
70. Loans to customers		4,147,698,957		3,144,843,721
80. Hedging derivatives		-		1,179,384
100. Equity investments		359,411,873		375,185,358
110. Tangible assets		16,700,652		23,771,382
120. Intangible assets		8,632,163		10,632,444
of which:				
- goodwill		-		-
130. Tax assets		129,929,035		91,114,449
a) current	51,305,003		40,644,490	
b) deferred	78,624,032		50,469,959	
150. Other assets		195,128,326		174,417,237
Total assets		11,138,742,098		8,392,245,091

Liabilities and Shareholders' Equity

€		Dec. 31, 2010		Dec. 31, 2009
10. Due to banks		2,193,403,776		1,206,286,888
20. Due to customers		7,205,103,642		5,839,890,181
30. Securities issued		340,479,129		179,449,872
40. Financial liabilities held for trading		450,830,923		259,916,234
60. Hedging derivatives		28,509,696		15,905,775
80. Tax liabilities		15,768,855		11,605,672
a) current	6,809,501		4,437,342	
b) deferred	8,959,354		7,168,330	
100. Other liabilities		191,123,166		205,611,427
110. Employee completion-of-service entitlements		8,786,493		9,131,920
120. Provisions for risks and charges:		133,342,364		104,848,749
a) severance benefits and similar obligations	-		-	
b) other provisions	133,342,364		104,848,749	
130. Valuation reserves		(37,431,726)		241,967
160. Reserves		92,491,751		90,335,154
180. Share capital		450,000,000		450,000,000
200. Net profit (loss) for the year (+/-)		*66,334,029*		*19,021,252*
Total liabilities and shareholders' equity		11,138,742,098		8,392,245,091

Income statement

€		Dec. 31, 2010		Dec. 31, 2009
10. Interest income and similar income		201,949,275		240,368,002
20. Interest expense and similar charges		*(81,759,090)*		*(101,010,676)*
30. Net interest income		*120,190,185*		*139,357,326*
40. Commission income		408,659,346		312,949,218
50. Commission expense		*(296,102,736)*		*(268,338,388)*
60. Net commission income		112,556,610		44,610,830
70. Dividends and similar income		127,173,186		100,139,966
80. Net income from trading		4,534,999		27,012,117
90. Net income from hedging		*(1,126,142)*		*(2,186,983)*
100. Gains (losses) on sale or buyback of:		4,289,005		5,646,614
a) loans and receivables	158,378		272,661	
b) available-for-sale financial assets	4,130,614		5,049,581	
c) held-to-maturity investments	13		324,372	
d) financial liabilities	-		-	
120. Total income		367,617,843		314,579,870
130. Impairment losses on:		*(10,458,039)*		*(35,397,314)*
a) loans	*(9,171,327)*		*(14,982,436)*	
b) available-for-sale financial assets	*(1,284,513)*		*(20,393,288)*	
c) held-to-maturity investments	-		-	
d) other financial instruments	*(2,199)*		*(21,590)*	
140. Net income from financial operations		357,159,804		279,182,556
150. Administrative expenses		*(250,587,006)*		*(246,708,008)*
a) staff costs	*(98,991,308)*		*(96,423,424)*	
b) other administrative expenses	*(151,595,698)*		*(150,284,584)*	
160. Provisions for risks and charges		*(35,602,640)*		*(22,260,009)*
170. Depreciation and net impairment of tangible assets		*(4,722,106)*		*(5,566,221)*
180. Amortisation and net impairment of intangible assets		*(7,742,801)*		*(8,953,400)*
190. Other operating income		18,172,168		12,554,615
200. Operating expenses		*(280,482,385)*		*(270,933,023)*
210. Profit (loss) on equity investments		(15,773,486)		(7,884,512)
240. Profit (loss) on disposal of investments		2,196,642		(3,360)
250. Profit (loss) before tax on continuing operations		63,100,575		361,661
260. Income tax expense on continuing operations		3,233,454		18,659,591
270. Profit (loss) after tax on continuing operations		66,334,029		19,021,252
290. Profit (loss) after tax		66,334,029		19,021,252
Earning per share (EPS)		0.147		0.042

Comprehensive Income at Dec. 31, 2010

€		Dec. 31, 2010	Dec. 31, 2009
10.	Net profit (loss) for the year	66,334,029	19,021,252
	Other comprehensive income components after tax		
20.	Available for sale financial assets	(37,673,694)	25,095,292
30.	Tangible assets	-	-
40.	Intangible assets	-	-
50.	Hedges of investments in foreign operations	-	-
60.	Cash flow hedges	-	-
70.	Exchange differences	-	-
80.	Non-current assets or disposal groups held for sale	-	-
90.	Actuarial gains (losses) on defined benefit plans	-	-
100.	Equity investments' valuation reserve		
110.	Total other components of comprehensive income after tax	(37,673,694)	25,095,292
120.	Total Comprehensive Income	28,660,335	44,116,544

Statement of Changes in Equity

At December 31, 2009

€	Balance at Dec. 31, 2008	Adjustment to opening balances	Balance at Jan. 1, 2009	Appropriation of prior year's profit: Reserves	Appropriation of prior year's profit: Dividends and other
Share capital:					
a) ordinary shares	430,000,000	-	430,000,000	-	-
b) other shares	-	-	-	-	-
Share premium account	-	-	-	-	-
Reserves:					
a) retained earnings	77,673,138	-	77,673,138	7,926,770	-
b) others	3,185,042	-	3,185,042	-	-
Valuation reserves:	(24,853,325)	-	(24,853,325)	-	-
Equity instruments	-	-	-	-	-
Treasury shares	-	-	-	-	-
Net profit (loss) for the year	32,926,770	-	32,926,770	(7,926,770)	(25,000,000)
Shareholders' equity	518,931,625	-	518,931,625	-	(25,000,000)

At December 31, 2010

€	Balance at Dec. 31, 2009	Adjustment to opening balances	Balance at Jan. 1, 2010	Appropriation of prior year's profit: Reserves	Appropriation of prior year's profit: Dividends and other
Share capital:					
a) ordinary shares	450,000,000	-	450,000,000	-	-
b) other shares	-	-	-	-	-
Share premium account	-	-	-	-	-
Reserves:					
a) retained earnings	87,150,112	-	87,150,112	953,752	-
b) others	3,185,042	-	3,185,042	-	-
Valuation reserves:	241,967	-	241,967	-	-
Equity instruments	-	-	-	-	-
Treasury shares	-	-	-	-	-
Net profit (loss) for the year	19,021,352	-	19,021,252	(953,752)	(18,067,500)
Shareholders' equity	559,598,373	-	559,598,373	-	(18,067,500)

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, 2009	Shareholders' equity at Dec 31, 2009
-	20,000,000	-	-	-	-	-	-	450,000,000
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	1,550,204	-	87,150,112
-	-	-	-	-	-	-	-	3,185,042
-	-	-	-	-	-	-	25,095,292	241,967
-	-	-	-		-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	19,021,252	19,021,252
-	20,000,000	-	-	-	-	1,550,204	44,116,544	559,598,373

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, 2010	Shareholders' equity at Dec 31, 2010
-	-	-	-	-	-	-	-	450,000,000
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	1,202,845	-	89,306,709
-	-	-	-	-	-	-	-	3,185,042
-	-	-	-	-	-	-	(37,673,693)	(37,431,726)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	66,334,029	66,334,029
-	-	-	-	-	-	1,202,845	28,660,336	571,394,054

Cash Flow Statement

Indirect Method

€	Dec. 31, 2010	Dec. 31, 2009
A. OPERATING ACTIVITIES		
1. Operating activities	149,738,278	82,385,343
- net profit (loss) for the year	66,334,029	19,021,252
- gains/losses on financial assets held for trading and on financial assets/liabilities at fair value	5,430,342	(5,975,376)
- gains/losses on hedges (+/-)	1,126,142	2,186,983
- impairment losses/reversals (+/-)	10,458,039	35,397,314
- net write-downs/write-backs of tangible and intangible assets (+/-)	12,463,867	14,519,445
- provisions for risks and charges and other costs/revenues (+/-)	40,182,983	26,460,601
- unpaid taxes (+)	(3,233,454)	(18,659,591)
- net write-downs/write-backs of disposal groups after taxes (+/-)	-	-
- other adjustments (+/-)	16,976,330	9,434,715
2. Cash generated/used by financial assets	(3,160,136,728)	893,606,370
- financial assets held for trading	(118,179,653)	456,127,893
- financial assets at fair value	1,179,384	(1,179,384)
- available-for-sale financial assets	(1,009,482,787)	61,225,510
- loans to banks: on demand	(591,025,565)	(23,073,456)
- loans to banks: other loans	(245,849,426)	401,625,015
- loans to customers	(1,013,313,274)	104,595,877
- other assets	(183,465,406)	(105,715,085)
3. Cash generated/used by financial liabilities	2,693,392,202	(855,432,754)
- due to banks: on demand	166,975,684	(591,566,402)
- due to banks: other amounts due	820,141,204	(127,489,746)
- due to customers	1,365,213,462	172,566,545
- securities issued	161,029,257	165,913,116
- financial liabilities held for trading	190,914,689	(474,708,202)
- financial liabilities at fair value	11,477,779	(4,709,253)
- other liabilities	(22,359,873)	4,561,188
Net cash generated by/used in operating activities	(317,006,248)	120,558,959
B. INVESTING ACTIVITIES		
1. Cash from	(80,360,329)	(107,099,145)
- sale of equity investments	-	-
- dividends received from equity investments	127,173,186	100,139,966
- sale of held-to-maturity investments	(211,144,017)	(207,262,771)
- sale of tangible assets	3,527,877	21,276
- sale of intangible assets	82,625	2,384
- sale of business lines	-	-
2. Cash used for	415,284,674	(7,396,233)
- purchase of equity investments (including contributions to cover losses)	-	10,096,311
- purchase of held-to-maturity investments	422,288,034	(6,028,916)
- purchase of tangible assets	(1,179,254)	(3,321,514)
- purchase of intangible assets	(5,824,106)	(8,142,114)
- purchase of business lines	-	-
Net cash generated by/used in investing activities	334,924,345	(114,495,378)
C. FINANCING ACTIVITIES		
- issue/purchase of treasury shares (formation of share capital)	-	20,000,000
- issue/purchase of equity instruments	-	-
- dividend distribution and other	(18,067,500)	(25,000,000)
Net cash generated by/used in financing activities	(18,067,500)	(5,000,000)
NET CASH GENERATED/USED IN THE YEAR	(149,403)	1,063,581

RECONCILIATION

€	Dec. 31, 2010	Dec. 31, 2009
Financial item		
Cash and cash equivalents at beginning of the year	2,724,215	1,660,634
Total net cash generated/used in the year	(149,403)	1,063,581
Cash and cash equivalents: effect of movements in exchange rates	-	-
Cash and cash equivalents at end of the year	2,574,812	2,724,215

Notes to the Separate Annual Financial Statements 2010

Notes to the Separate Annual Financial Statements

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 - Information on comprehensive income
Part E - Information on risks and risk management
Part F - Information on capital
Part G - Business combinations
Part H - Related Party Transactions
Part I - Equity-settled share-based payment transactions
Part L - Segmental information

PART A - ACCOUNTING POLICIES

A.1 - GENERAL

Section 1 - Compliance with the international accounting and financial reporting standards

Pursuant to Legislative Decree No. 38 of February 28, 2005 the separate financial statements for the year ended December 31, 2010 were prepared in accordance with the international accounting and financial reporting 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 under European Parliament and Council Regulation (EC) 1606 of July 19, 2002.
The separate financial statements for the year ended December 31, 2010 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, in the exercise of its powers pursuant to art. 9 of Legislative Decree 38/2005, through Circular Letter No. 262 of December 22, 2005, as amended on November, 18 2009. In compliance therewith prior year's comparatives were reclassified as commented in the respective sections of these Notes.

Section 2 - Accounting basis

In the preparation of the separate financial statements the Bank applied the International Accounting and Financial Reporting standards IAS/IFRS (including SIC and IFRIC interpretations) in effect at December 31, 2010, as adopted by the European Commission, as well as 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.

These separate financial statements consist of the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Shareholders' Equity, the Statement of Cash Flows and Explanatory Notes in addition to the Directors' Report.

In accordance with art. 5 of Legislative Decree 38/2005 the financial statements were prepared using the euro as reporting currency.

The amounts set out in the Accounts are in units of euro, while the amounts in the Notes and the Directors' Report are presented in thousands of euro unless stated otherwise.

The accounts and the notes also include comparative information for the year ended December 31, 2009.

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 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 Comprehensive Income

The Statement of Comprehensive Income presents gains and losses relating to the year's changes in the value of assets and are stated net of related taxation. Negative amounts are preceded by a minus.

Statement of changes in shareholders' equity

The statement of changes in shareholders' 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. 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 international accounting and financial reporting standards and Bank of Italy's Circular Letter 262/2005, as amended on November 18, 2009.
In accordance with Bank of Italy's requirements, no explanatory note is provided for items with a nil balance for both the year under review and the prior year.

Section 3 – Post Balance Sheet Date Events

In the period between the end of financial year 2010 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 result of operations for the year 2010 of the main subsidiaries is set out in the Directors' Report accompanying the consolidated financial statements.
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 18, 2007 whereby Reconta Ernst & Young S.p.A. were re-appointed as independent auditors for the three-year period 2008 - 2010.

Tax consolidation regime

In June 2007, the "tax consolidation regime" option was renewed. The tax consolidation regime is regulated by articles 117-129 of the Consolidated Income Tax Act introduced into Italy's tax legislation by Legislative Decree 344/2003. 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/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

This section presents the accounting policies applied in the preparation of the separate financial statements for the year ended December 31, 2010.
The accounting policies applied in the preparation of the separate financial statements, with respect to the classification, measurement, recognition and derecognition of the various items of assets and liabilities as well as of income and expense, are consistent with those applied in the preparation of the separate financial statements for the year ended December 31, 2009.

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 recognised 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.
Reclassification to other categories of financial assets is not allowed except for rare circumstances which are unlikely to occur again in the near term. In such rare circumstances debt securities and equities that are no longer held for trading can be reclassified to the other categories under IAS 39 (Held-to-Maturity Investments, Available-for-Sale financial assets, Loans & Receivables), provided that they satisfy the relevant requirements. The carrying amount of the reclassified financial instrument is its fair value on the date of reclassification. The existence of any embedded derivative contracts that require unbundling is assessed upon reclassification.
Financial assets are derecognised 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 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 recognised on the settlement date if they are debt or equity instruments and on the 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 amortised through profit or loss, while gains or losses arising from a change in their fair value are recognised in a specific equity reserve until the financial asset is derecognised or impaired. At the time of their dismissal or impairment, the cumulative gain or loss previously recognised in equity is recognised 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 Bank 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 recognised, the impairment loss is reversed and the reversal recognised 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 amortised cost would have been had the impairment loss not been recognised at the date the impairment is reversed.
Financial assets are derecognised 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 Bank 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 an available-for-sale financial asset.
Held-to-maturity investments are initially recognised 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 amortised cost at which held-to-maturity investments are carried.
After initial recognition held-to-maturity investments are measured at amortised cost using the effective interest method.
Gains or losses of held-to-maturity investments are recognised in the income statement when the financial asset is derecognised or impaired, and through the amortisation process.
At each interim and annual reporting date the Bank 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 recognised 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 recognised, the impairment loss is reversed and the reversal recognised in the income statement.
Held-to-maturity investments are derecognised 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 recognised 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 recognised 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 recognised 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 recognised as a loan.
After initial recognition, loans and receivables are measured at amortised cost. Amortised cost is the amount at which the financial asset is measured on initial recognition minus principal repayments, plus or minus the cumulative amortisation 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.
Amortised 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 recognised in the income statement over the expected life of the asset.
At each interim and annual reporting date the Bank 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 or receivable is classified as follows:

- **nonperforming** – these are formally impaired loans i.e. exposures to borrowers that are unable to meet their payment obligations, even if their insolvency has not been established by a court of law, or in similar conditions;
- **watch list** – these are exposures to borrowers that are experiencing temporary difficulties in meeting their payment obligations but are expected to make good within a reasonable timeframe. Watch list loans also include exposures - other than to nonperforming borrowers or to government entities - that satisfy both the following conditions:
  - have been past due and unpaid for over 270 days (over 150 or 180 days for consumer loans with original maturity of less than 36 months, or of 36 months or more, respectively);

- – the aggregate exposure as per the previous paragraph and in relation to other payments that are less than 270 days past due - to the same borrower - accounts for at least 10% of total exposure to that borrower;
- **restructured** – exposures for which a grace period was accorded with concurrent renegotiation of the loan terms and conditions at below market rates, that were in part converted into shares and/or for which a principal reduction was agreed;
- **past due** – exposures to borrowers other than those classified in the categories above, that at the reporting date were over 90 days past due or overdrawn. Loans to retail borrowers, government entities or businesses domiciled or based in Italy are considered to be impaired if past due or overdrawn for over 180 days in lieu of 90 days.
  Total exposure is considered if at the reporting date:
  – the past due /overdrawn amount,
  or:
  – the mean value of daily past due/overdrawn amounts in the last quarter was 5% or more of total exposure.

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 amortised 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 realisable 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 recognised 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 recognised, the impairment loss is reversed and the reversal recognised in the income statement.
The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment loss not been recognised 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 recognised 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.

Hedging

Hedging transactions are intended to offset changes in the fair value or cash flows of an item or group of items, that are attributable to a particular risk, in the event that risk materialises.
Pursuant to IAS 39 the Bank adopted fair value hedging to cover exposure to changes in the fair value of a financial item, that is attributable to a particular risk. Specifically, the Bank entered into fair value hedges of the interest rate exposure of a portfolio of financial assets or financial liabilities.

Only instruments that involve a party external to the Group can be designated as hedging instruments. A hedge of an overall net position in a portfolio of financial instruments does not qualify for hedge accounting.

Hedging derivatives are measured at fair value. As they are accounted for as fair value hedges, the changes in the fair value of the hedged item are offset by the changes in the fair value of the hedging instrument. Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item (in relation to changes generated by the underlying risk). Any resulting difference, which represents the partial ineffectiveness of the hedge, is the net effect on profit or loss.

Fair value is determined on the basis of quoted prices in an active market, prices quoted by market participants or internal valuation models commonly used in financial practice, which take into account all risk factors associated with the instruments and based on market information.

Derivatives are recognised as hedging derivatives if there is formal documentation of the hedging relationship between the hedging instrument and the hedged item and if, at the inception of the hedge and prospectively, the hedge is expected to be effective during the period for which the hedge is designated.

A hedge is effective if it achieves offsetting changes in the fair value of the hedged risk.

The hedging relationship is considered effective if, at the inception of the hedge and in subsequent periods, the changes in the fair value of the hedged item are offset by the changes in fair value of the hedging instrument and if the actual results of the hedge are within a range of 80% - 125%.

Hedge effectiveness is assessed at the date the entity prepares its annual or interim financial statements, using:

- prospective tests which support hedge accounting in terms of expected effectiveness;
- retrospective tests which show the degree of hedge effectiveness in the relevant past periods.

In other words, they measure how much actual results differed from perfect hedging.

If the tests do not confirm hedge effectiveness, hedge accounting is discontinued, the hedging derivative is reclassified into trading instruments while the hedged item is again recognised according to its usual classification in the balance sheet and the changes in the fair value of the hedged item up until the date hedge accounting was discontinued are amortised applying the effective interest rate.

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 recognised 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 recognised, the impairment loss is reversed and the reversal recognised in the income statement.

Equity investments are derecognised 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 recognised 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 recognised in the carrying amount of the asset, while the costs of day-to-day servicing are recognised 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 lower 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 recognised 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 recognised at the date the impairment is reversed.
A tangible asset is derecognised from the balance sheet on disposal or when no future economic benefits are expected from its use or disposal.

Intangible assets

Intangible assets primarily relate to software applications.
Other intangible assets are recognised if they are identifiable as such and arise from contractual or other legal rights. Other intangible assets are carried at cost less any accumulated amortisation 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 the cost is recognised as an expense in the income statement in the year in which it was incurred.
Intangible assets are amortised on a straight-line basis over their useful lives. Intangible assets with indefinite useful lives are not amortised, but periodically tested for impairment by comparing their recoverable amount with their carrying amount.

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 recognised in profit or loss.
An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal.

Other assets

Other assets include expenditure on the renovation of leasehold property. Expenditure on the renovation of leasehold property is capitalised since during the lease term the lessee controls the assets and obtains future economic benefits from them. Expenditure on the renovation of leasehold property is amortised over a period which does not exceed the lease term.

Current and Deferred taxation

Income taxes are recognised 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 utilised.
Deferred tax assets and deferred tax liabilities are not netted, and are separately recognised in the Balance Sheet under "Tax assets" and "Tax liabilities" respectively.
Deferred taxes are accounted for using the liability method on temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet.
A deferred tax liability is recognised for all taxable temporary differences.
A deferred tax asset is recognised for all deductible temporary differences, and the carry-forward of unused tax losses and unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary difference and the carry-forward of unused tax losses and unused tax credits can be utilised.
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.

Provisions for risk 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 recognised in the income statement.

Other financial liabilities and securities issued

Other financial liabilities include the various forms of funding from banks and customers as well as bonds issued net of any buybacks.
These financial liabilities are initially recognised 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 recognised in the income statement.
After initial recognition, financial liabilities are measured at amortised 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 recognised in the income statement over the contractual term of the liability.
A financial liability is derecognised when it expires or is extinguished. A financial liability is derecognised also when it is bought back. The difference between the carrying amount of the liability and amount paid to buy it back is recognised in the income statement.

Financial liabilities held for trading

Financial liabilities held for trading include:
- trading derivatives with negative fair value;
- short positions on securities trading.

These financial liabilities are initially recognised at the time amounts are received.
On initial recognition they are measured at the fair value of the financial instruments which originated the liabilities.
The fair value of any financial liabilities issued below market value is subject to assessment and the difference over market value is directly recognised in the income statement.
After initial recognition, financial liabilities are measured at fair value.
A financial liability is derecognised when it expires or is extinguished.

Employee completion-of-service entitlements

Completion-of-service entitlements are recognised at the present value of the benefit obligations calculated using actuarial techniques in accordance with the rules governing 'defined benefit plans'. Future disbursements are estimated on the basis of past data (such as employee turnover and retirement) and demographic patterns, including assumptions for pay hikes pursuant to section 2120 of the Italian Civil Code (application of a fixed rate of 1.5 percent and a rate equal to 75 percent of ISTAT inflation rate). To determine the present value of benefit obligations the Projected Unit Credit Method is used, applying a discount rate, which is determined on the basis of market yields and reflects the estimated timing of benefit payments. The resulting values are recognised 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. Actuarial gains or losses are fully recognised under staff costs.
Entitlements accrued from January 1, 2007 allocated to either INPS or private pension plans are defined contribution payment obligations, since the company's obligation is limited to the amount it agrees to contribute to the fund. The defined contribution obligations for each period are the amounts to be contributed for that period.

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 recognised in the income statement.

Assets and liabilities denominated in foreign currencies

Assets and liabilities denominated in foreign currencies are initially recognised 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 recognised in the income statement in the period in which they arise.
When a gain or loss on a non-monetary item is recognised directly in equity, the exchange difference component of that gain or loss is also recognised in equity. Conversely, when a gain or loss on a non-monetary item is recognised in the income statement, the exchange difference component of that gain or loss is also recognised in the income statement.

Income Statement

Revenue is recognised 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;
- interest income and interest expense are recognised on an accrual basis;
- dividends are recognised in the income statement when their distribution to shareholders is established;
- any default interests, in accordance with the terms of the relevant agreement, are recognised in the income statement only when actually received.

OTHER INFORMATION

Use of estimates

The application of International Accounting and Financial Reporting Standards (IAS/IFRS) in the preparation of financial statements entails the use of complex valuations and estimates which have an impact on assets, liabilities, revenues and costs recognised in the financial statements as well as on the identification of potential assets and liabilities. These estimates primarily relate to:

- Assets and liabilities carried at fair value;
- Tests for any objective evidence of impairment losses on intangible assets recognised in the balance sheet;
- Provisions for risks and charges;
- Deferred taxation;
- Stock option plan related costs.

Senior management regularly check valuations and estimates made on the basis of past experience and other reasonable factors. Due to the uncertainty typically related to these financial items, actual values may differ from estimates due to the occurrence of unexpected events or changes in operating conditions.

For information about the methods used to determine the financial items above and main risk factors, readers are referred to the previous sections of these notes for information on accounting policies and to Part E for information on financial risk.

Impairment

When upon assessment at the reporting date there is any indication that an asset may be impaired, the tangible or intangible asset is tested for impairment in accordance with IAS 36.
An asset is impaired when its carrying amount exceeds its recoverable amount, which is the higher of its fair value less cost to sell (the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable, willing parties) and its value in use (i.e. the present value of the future cash flows expected to be derived from the permanent use of the assets and its disposal at the end of its useful life).

If an asset is impaired, the relevant impairment loss is recognised in profit or loss and the depreciation (amortisation) charge for the asset shall be adjusted accordingly in future periods.
If, in a subsequent period, there is any indication that the impairment loss recognised in prior periods no longer exists, the previously recognised impairment loss is reversed.

If there is objective evidence that a financial asset is impaired, the Bank applies the provisions of IAS 39, except for financial assets carried at fair value through profit or loss.
Indications of possible impairment include events such as significant financial difficulties of the issuer, default or delinquency in interest or principal payments, the possibility that the borrower will enter bankruptcy or other financial reorganisation and the disappearance of an active market for that financial asset.
A significant or prolonged decline in the market value of an investment in an equity instrument below its cost is also objective evidence of impairment.
Specifically, for equities, there is evidence of impairment where the decline in the original fair value exceeds one-third or is prolonged for over 36 months.
If there is objective evidence of impairment, the amount of the impairment loss is measured:

- as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's effective interest rate computed at initial recognition, for financial assets carried at amortised cost;
- as the difference between amortised cost and current market value, for available-for-sale financial assets.

If, in a subsequent period, the reasons for the impairment loss no longer exist, the impairment loss is reversed and the reversal recognised in the income statement if the asset is a debt instrument, and in equity if the asset is an equity instrument.

Share-based payments

Stock options are share-based payments.
Stock options granted, and the corresponding increase in equity, are measured by reference to the fair value of the stock option at Grant Date, and accounted for during the Vesting Period.
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. 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.
The cumulative expense recognised at each annual reporting date up until the vesting date takes account of the vesting period and is based on the best available estimate of options that are going to be exercised upon vesting. The expense or the reversal recognised in the income statement for each year represents the change in the cumulative expense over the amount recognised in the prior year. No expense is recognised for options that do not vest.

A.3 – FAIR VALUE DISCLOSURES

A.3.1 Reclassifications of assets

A.3.1.1 Reclassified financial assets: book value, fair value and impact on profit or loss

€/'000					No reclassification impact on profit/loss (before tax)		Impact of reclassifications for the year (before tax)	
Type of financial instrument (1)	Reclassified from (2)	Reclassified to (3)	Book Value at Dec. 31, 2010 (4)	Fair value at Dec. 31, 2010 (5)	Valuation (6)	Other (7)	Valuation (8)	Other (9)
A. Debt securities			187,628	186,522	(4,821)	2,799	-	2,667
	HFT	AFS	137,079	137,079	(3,715)	2,106	-	2,106
	HFT	Loans to customers	50,549	49,443	(1,106)	693	-	561

In the year under review there was no reclassification of assets. The information in the table above relates exclusively to reclassifications made in 2008 of financial instruments which were, in part, sold in 2009 and in 2010.

A.3.2 Fair value hierarchy

A.3.2.1 Fair value hierarchy of financial assets and liabilities

	Dec. 31, 2010			Dec. 31, 2009		
€/'000	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial Assets/Liabilities measured at fair value						
1. Financial assets held for trading	947,342	8,106	202	808,450	33,710	741
2. Financial assets at fair value	-	-	-	-	-	-
3. Available for sale financial assets	1,619,415	124,772	53,424	646,237	126,024	53,541
4. Hedging derivatives	-	-	-	-	1,179	-
Total	2,566,757	132,878	53,626	1,454,687	160,913	54,282
1. Financial liabilities held for trading	443,606	7,223	2	258,251	1,665	-
2. Financial liabilities at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	28,510	-	-	15,906	-
Total	443,606	35,733	2	258,251	17,571	-

A.3.2.2 Year's movements in Level 3 financial assets at fair value

	FINANCIAL ASSETS			
€/'000	held for trading	at fair value	available for sale	hedges
1. Opening balance	741	-	53,541	-
2. Increases	182,867	-	751	-
2.1 Purchases	182,283	-	695	-
2.2 Profits recognised:				
2.2.1 through profit or loss:	583	-	1	-
- of which: gains	1	-	-	-
2.2.2 in equity	X	X	55	-
2.3 Transferred to other level	-	-	-	-
2.4 Other increases	1	-	-	-
3. Decreases	(183,406)	-	(868)	-
3.1 Sales	(183,030)	-	(246)	-
3.2 Redemptions	(10)	-	-	-
3.3 Losses recognised				
3.3.1 through profit or loss:	(294)	-	(14)	-
- of which: losses	(11)	-	-	-
3.3.2 in equity	X	X	(322)	-
3.4 Transferred to other level	-	-	(286)	-
3.5 Other decreases	(72)	-	-	-
4. Closing balance	202	-	53,424	-

A.3.2.3 Year's movements in Level 3 financial liabilities at fair value

	FINANCIAL LIABILITIES		
€/'000	held for trading	at fair value	hedges
1. Opening balance	-	-	-
2. Increases	1,938	-	-
2.1 Issues	-	-	-
2.2 Losses recognised:			
2.2.1 through profit or loss:	2	-	-
- of which: losses	1	-	-
2.2.2 in equity	X	X	-
2.3 Transferred to other level	-	-	-
2.4 Other increases	1,936	-	-
3. Decreases	(1,936)	-	-
3.1 Redemptions	-	-	-
3.2 Buybacks	-	-	-
3.3 Losses recognised:			
3.3.1 through profit or loss:	(12)	-	-
- of which: gains	-	-	-
3.3.2 in equity	X	X	-
3.4 Transferred to other level	-	-	-
3.5 Other decreases	(1,924)	-	-
4. Closing balance	2	-	-

PART B – INFORMATION ON THE BALANCE SHEET

ASSETS

Section 1 – Cash and cash equivalents – Caption 10

1.1 Analysis of cash and cash equivalents

€/'000	Dec. 31, 2010	Dec. 31, 2009
a) Cash	2,575	2,724
b) Demand deposits with Central Banks	-	-
Total	2,575	2,724

Cash and cash equivalents amounted to €2,575 thousand, of which €28 thousand in foreign currencies. Cash and cash equivalents consisted 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, 2010			Dec. 31, 2009		
€/'000	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Non-derivatives						
1. Debt securities	947,320	4,706	201	808,439	29,950	741
1.1 Structured notes	-	-	138	14,405	17,632	283
1.2 Other debt securities	947,320	4,706	63	794,034	12,318	458
2. Equities	6	-	-	10	-	-
3. Holdings in UCITS	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 repurchase agreements	-	-	-	-	-	-
4.2 others	-	-	-	-	-	-
Total (A)	947,326	4,706	201	808,449	29,950	741
B. Derivatives						
1. Financial derivatives:	16	3,400	1	1	3,760	-
1.1 held for trading	16	3,400	1	1	3,760	-
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)	16	3,400	1	1	3,760	-
Total (A+B)	947,342	8,106	202	808,450	33,710	741

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

€/'000	Dec. 31, 2010	Dec. 31, 2009
A. Non-derivatives		
1. Debt securities	952,227	839,130
a) Governments and Central Banks	151,083	113,197
b) Government agencies	-	-
c) Banks	724,167	621,382
d) Other issuers	76,977	104,551
2. Equities	6	10
a) Banks	-	-
b) Other issuers:	6	10
- insurance companies	-	-
- financial companies	1	-
- non financial companies	5	10
- others	-	-
3. Holdings in UCITS	-	-
4. Loans	-	-
a) Governments and Central Banks	-	-
b) Government agencies	-	-
c) Banks	-	-
d) Others	-	-
Total A	952,233	839,140
B. Derivatives		
a) Banks		
- fair value	977	2,179
b) Customers		
- fair value	2,440	1,582
Total B	3,417	3,761
Total (A+B)	955,650	842,901

2.3 Year's movements in financial assets held for trading

€/'000	Debt securities	Equities	Holdings in UCITS	Loans	Total
A. Opening balance	839,130	10	-	-	839,140
B. Increases	12,218,552	2,642	153	-	12,221,347
B1. Additions	12,189,326	2,631	153	-	12,192,110
B2. Increases in fair value	2,847	3	-	-	2,850
B3. Other	26,379	8	-	-	26,387
C. Decreases	12,105,455	2,646	153	-	12,108,254
C1. Disposals	11,999,726	2,605	151	-	12,002,482
C2. Redemptions	73,683	-	-	-	73,683
C3. Decreases in fair value	14,180	3	-	-	14,183
C4. Reclassified to other portfolios	-	-	-	-	-
C5. Other	17,866	38	2	-	17,906
D. Closing balance	952,227	6	-	-	952,233

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

4.1 Analysis of available-for-sale financial assets

	Dec. 31, 2010			Dec. 31, 2009		
€/'000	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	1,618,904	4,075	-	646,041	4,123	-
1.1 Structured notes	-	-	-	-	-	-
1.2 Other debt securities	1,618,904	4,075	-	646,041	4,123	-
2. Equities	511	-	10,423	196	-	10,865
2.1 measured at fair value	511	-	-	196	-	428
2.2 measured at cost	-	-	10,423	-	-	10,437
3. Holdings in UCITS	-	120,697	43,001	-	121,901	42,676
4. Loans	-	-	-	-	-	-
Total	1,619,415	124,772	53,424	646,237	126,024	53,541

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

€/'000	Dec. 31, 2010	Dec. 31, 2009
1. Debt securities	1,622,979	650,164
a) Governments and Central Banks	1,488,695	449,682
b) Government agencies	-	-
c) Banks	123,989	200,482
d) Other issuers	10,295	-
2. Equities	10,934	11,061
a) Banks	-	-
b) Other issuers:	10,934	11,061
- insurance companies	-	-
- financial companies	2,858	2,824
- non financial companies	8,076	8,237
- others	-	-
3. Holdings in UCITS	163,698	164,577
4. Loans	-	-
a) Governments and Central Banks	-	-
b) Government agencies	-	-
c) Banks	-	-
d) Other issuers	-	-
Total	1,797,611	825,802

4.4 Year's movements in available-for-sale financial assets

€/'000	Debt securities	Equities	Holdings in UCITS	Loans	Total
A. Opening balance	650,164	11,061	164,577	-	825,802
B. Increases	1,869,218	54	4,260	-	1,873,532
B1. Additions	1,858,645	-	695	-	1,859,340
B2. Increases in fair value	199	30	3,564	-	3,793
B3. Reversal of impairment	-	-	-	-	-
- through profit of loss	-	-	-	-	-
- in equity	-	-	-	-	-
B4. Reclassified from other portfolios	-	-	-	-	-
B5. Other	10,374	24	1	-	10,399
C. Decreases	896,403	181	5,139	-	901,723
C1. Disposals	825,166	-	4,958	-	830,124
C2. Redemptions	9,996	-	-	-	9,996
C3. Decreases in fair value	57,191	147	180	-	57,518
C4. Impairment	-	-	-	-	-
- through profit or loss	-	14	-	-	14
- in equity	-	-	-	-	-
C5. Reclassified to other portfolios	-	-	-	-	-
C6. Other	4,050	20	1	-	4,071
D. Closing balance	1,622,979	10,934	163,698	-	1,797,611

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

5.1 Analysis of held-to-maturity investments

€/'000	Dec. 31, 2010				Dec. 31, 2009			
	Book Value	Fair value			Book Value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	1,109,195	214,587	889,807	-	1,320,339	235,292	1,103,583	-
1.1 Structured notes	106,258	5,082	97,212	-	106,547	5,120	100,776	-
1.2 Other debt securities	1,002,937	209,505	792,595	-	1,213,792	230,172	1,002,807	-
2. Loans	-	-	-	-	-	-	-	-
Total	1,109,195	214,587	889,807	-	1,320,339	235,292	1,103,583	-

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

€/'000	Dec. 31, 2010	Dec. 31, 2009
1. Debt securities	1,109,195	1,320,339
a) Governments and Central Banks	80,934	80,786
b) Government agencies	-	-
c) Banks	1,028,261	1,239,553
d) Other issuers	-	-
2. Loans	-	-
a) Governments and Central Banks	-	-
b) Government agencies	-	-
c) Banks	-	-
d) Others	-	-
Total	1,109,195	1,320,339

5.4 Analysis of year's movements in held-to-maturity investments

€/'000	Debt securities	Loans	Total
A. Opening balance	1,320,339	-	1,320,339
B. Increases	10,346	-	10,346
B1. Additions	-	-	-
B2. Reversal of impairment	-	-	-
B3. Reclassified from other portfolios	-	-	-
B4. Other	10,346	-	10,346
C. Decreases	221,490	-	221,490
C1. Disposals	-	-	-
C2. Redemptions	209,997	-	209,997
C3. Impairment	-	-	-
C4. Reclassified to other portfolios	-	-	-
C5. Other	11,493	-	11,493
D. Closing balance	1,109,195	-	1,109,195

Section 6 – Loans to banks – Caption 60

6.1 Analysis of loans to banks

€/'000	Dec. 31, 2010	Dec. 31, 2009
A. Central Banks	3,183	50,586
1. Time deposits	-	-
2. Reserve requirements	3,183	50,586
3. Repurchase agreements	-	-
4. Other	-	-
B. Banks	2,413,027	1,528,749
1. Current accounts and demand deposits	663,153	72,128
2. Time deposits	74,709	480,297
3. Others:	431,094	291,025
3.1 Repurchase agreements	400,184	243,492
3.2 Finance leases	-	-
3.3 Other	30,910	47,533
4. Debt securities	1,244,071	685,299
4.1 Structured notes	-	-
4.2 Other debt securities	1,244,071	685,299
Total (book value)	2,416,210	1,579,335
Total (fair value)	2,412,857	1,579,328

Section 7 – Loans to customers – Caption 70

7.1 Analysis of loans to customers

	Dec. 31, 2010		Dec. 31, 2009	
€/'000	Performing	Impaired	Performing	Impaired
1. Bank accounts	326,850	9,838	347,085	16,261
2. Repurchase agreements	99,965	-	44,366	-
3. Mortgage loans	2,199,939	15,369	1,991,853	17,266
4. Credit cards, personal loans and salary-guaranteed loans	182,860	703	109,995	1,118
5. Finance leases	-	-	-	-
6. Factoring	-	-	-	-
7. Other	418,812	10,370	537,144	678
8. Debt securities	882,994	-	79,079	-
8.1 Structured notes	-	-	-	-
8.2 Other debt securities	882,994	-	79,079	-
Total (book value)	4,111,420	36,280	3,109,522	35,323
Total (fair value)	4,345,323	(36,244)	3,140,886	35,323

The account includes debt securities (L&R) amounting to €180,467 thousand and government securities (L&R) amounting to €702,527 thousand.

The item '*Debt securities*' includes ABS not quoted in an active market that at present do not show any evidence of impairment.

7.2 Analysis of customer loans by borrower/issuer

€/'000	Dec. 31, 2010 Performing	Dec. 31, 2010 Impaired	Dec. 31, 2009 Performing	Dec. 31, 2009 Impaired
1. Debt securities	882,994	-	79,079	-
a) Governments	601,467	-	-	-
b) Government agencies	101,060	-	-	-
c) Other issuers	180,467	-	79,079	-
- non financial companies	-	-	-	-
- financial companies	180,467	-	79,079	-
- insurance companies	-	-	-	-
- others	-	-	-	-
2. Loans	3,228,425	36,280	3,030,442	35,323
a) Governments	-	-	-	-
b) Government agencies	-	-	-	-
c) Others	3,228,425	36,280	3,030,442	35,323
- non financial companies	42,828	585	48,913	605
- financial companies	401,324	10,109	456,918	-
- insurance companies	25,503	-	55,316	-
- other	2,758,770	25,586	2,469,295	34,718
Total	4,111,419	36,280	3,109,521	35,323

At December 31, 2010, impaired loans amounted to €36,280 thousand, up €957 thousand over the prior year.

7.3 Loans to customers: micro-hedging

€/'000	Dec. 31, 2010	Dec. 31, 2009
1. Fair value hedges	506,801	531,308
a) interest rate risk	506,801	531,308
b) currency risk	-	-
c) credit risk	-	-
d) multiple risks	-	-
2. Cash flow hedges	-	-
a) interest rate risk	-	-
b) currency risk	-	-
c) other	-	-
Total	506,801	531,308

Section 8 – Hedging derivatives – Caption 80

8.1 Analysis of hedging derivatives by type of hedge and fair value hierarchy

	Dec. 31, 2010				Dec. 31, 2009			
	FV			NA	FV			NA
€/'000	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives	-	-	-	-	-	1,179	-	196,804
1) Fair value hedge	-	-	-	-	-	1,179	-	196,804
2) Cash flow hedge	-	-	-	-	-	-	-	-
3) Hedge of investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-	-	-	-
1) Fair value hedge	-	-	-	-	-	-	-	-
2) Cash flow hedge	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	1,179	-	196,804

Legend:
FV = fair value
NA = notional amount

Section 10 – Equity investments – Caption 100

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

	Registered Office	% holding	% voting rights
A. Subsidiaries			
Banco de Finanzas e Inversiones S.A. (Banco Mediolanum)	Barcelona	100,00	100,00
Bankhaus August Lenz & Co. AG	Munic	100,00	100,00
Mediolanum Distribuzione Finanziaria S.p.A.	Basiglio	100,00	100,00
Mediolanum Corporate University S.p.A.	Basiglio	100,00	100,00
Gamax Management AG	Luxembourg	99,996	99,996
Mediolanum Asset Management Ltd	Dublin	51,00	51,00
Mediolanum Gestione Fondi SGR p.A.	Basiglio	51,00	51,00
Mediolanum International Funds Ltd	Dublin	51,00	51,00
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)	Share-holder's equity	Book value	Fair value
A. Subsidiaries						
Banco de Finanzas e Inversiones S.A. (Banco Mediolanum)	515,644	47,597	3,148	135,766	272,617	X
Bankhaus August Lenz & Co. AG	74,060	39,585	(6,347)	30,436	30,482	X
Mediolanum Distribuzione Finanziaria S.p.A.	1,231	365	(331)	845	1,000	X
Mediolanum Corporate University S.p.A.	21,690	9,282	195	19,708	20,000	X
Gamax Management AG	18,455	12,675	6,366	14,150	29,368	X
Mediolanum Asset Management Ltd	15,789	29,482	11,376	11,613	1,989	X
Mediolanum Gestione Fondi SGR p.A.	53,930	84,714	18,749	34,832	2,610	X
Mediolanum International Funds Ltd	110,164	501,229	225,248	87,336	1,346	X
Total subsidiaries	-	-	-	-	359,412	
B. Joint ventures	-	-	-	-	-	
C. Companies under significant influence	-	-	-	-	-	

10.3 Year's movements in equity investments

€/'000	Dec. 31, 2010	Dec. 31, 2009
A. Opening balance	375,185	393,166
B. Increases	-	36,524
B1. Acquisitions	-	1,530
B2. Reversal of impairment	-	-
B3. Revaluations	-	-
B4. Other increases	-	34,994
C. Decreases	(15,773)	(54,505)
C1. Sales	-	-
C2. Impairment	(15,773)	(7,885)
C3. Other decreases	-	(46,620)
D. Closing balance	359,412	375,185
E. Total revaluations	-	-
F. Total adjustments	-	-

This section provides information about the impairment test conducted as IAS 36 on cash generating units (CGUs) in operation at December 31, 2010 as recommended by the Bank of Italy, CONSOB and ISVAP in their jointly issued document of March 3, 2010.

The purpose of the impairment test was to ascertain that the carrying amount of each cash generating unit (CGU) did not exceed its recoverable amount, i.e. the higher of its fair value less cost to sell and its value in use.

The impairment test was conducted with the assistance of an independent advisor applying the methods and assumptions set out below.

EQUITY INVESTMENTS TESTED FOR IMPAIRMENT

The impairment test was conducted on the equity investments listed below:

- Banco de Finanzas e Inversiones S.A. (Banco Mediolanum);
- Gamax Management AG (Gamax);
- Bankhaus August Lenz & Co. AG (Bal).

€/'000

Equity investment	Carrying amount to be tested for impairment
Banco de Finanzas e Inversiones S.A.	272.6
Gamax Management AG	35.0
Bankhaus August Lenz & Co. AG	40.6

MEASUREMENT METHOD

Under IAS 36 value in use can be calculated applying the Discounted Cash Flow (DCF) method. The DCF method determines the value in use of an equity investment, or an entity, by computing the present value of future cash flows (from operations) it is expected to generate over time.
For lenders, it is common practice to apply the Free Cash Flow to Equity (FCFE) model known in Anglo-Saxon countries as 'Dividend Discount Model' (DDM), in the Excess Capital variant, that determines the value of the entity on the basis of the future cash flows it expects to be capable of distributing to the shareholders, without impacting the assets supporting its future growth, in compliance with regulatory capital requirements, and applying a discount rate which reflects the specific equity risk. Please note that although the name Dividend Discount Model contains the term 'dividend', the cash flows it calculates are not the dividends the entity expects to distribute to its shareholders, but the cash flows potentially available to equity holders net of the assets needed for business operations.

BANCO MEDIOLANUM – IMPAIRMENT TEST AND SENSITIVITY ANALYSIS

When testing for impairment, the recoverable amount of Banco Mediolanum was determined based on value in use calculated by applying the DDM method to the information set out in the 2011-2014 Business Plan (the 2011-2014 Plan) approved by the Boards of Directors of Banco Mediolanum and Banca Mediolanum S.p.A.
The 2011-2014 Plan was built on reasonable, consistent assumptions and represents the management's best estimates of the range of possible developments that may occur over the useful life of Banco Mediolanum.
The 2011-2014 Plan confirmed the forecasts made in the previous Plan, the 2010-2014 Plan, which was updated to reflect the latest estimates on interest rate developments over the plan period and adjust inflows forecasts on the basis of balances at December 31, 2010.

The 2011-2014 Plan forecasts the development of the Banca Mediolanum business model in Spain based on the reorganisation and sustained growth of the sales network accompanied by growth in net inflows, assets under management and administration. The achievement of the 2011-2014 Plan targets relies on the expertise and track record of the Mediolanum Group's management. At December 31, 2010 Banco Mediolanum's net profit (€0.8 million) was higher than forecast (€0.2 million), while the number of financial advisors (439 people) was lower than forecast (560 people).
Specifically, the 2011-2014 Plan for Banco Mediolanum is based on the following assumptions:

- growth in the Family Bankers (FB) sales network from 439 people at year end 2010 to 1,101 in 2014, and reorganisation of the current structure;
- growth in assets under management and administration at an annual growth rate of 17% in the 2011-2014 period;
- introduction of entry fees to build up a stable base of recurring revenues;

Available cash flows were estimated considering a Tier 1 Capital ratio of 8%.

The present value of future cash flows was determined applying a discount rate equal to the cost of equity (ke) calculated under the Capital Asset Pricing Model, considering the current structure of interest rates in the market and the specific business segment. Specifically, ke was equal to the nominal rate of return on risk-free assets plus a risk premium to reflect the level of risk in the market and specific risks connected with the CGU business. The cost of equity was estimated at 12.30% on the basis of the following assumptions:

- risk-free rate of 4.70% calculated on the basis of average historical 6-month gross yields on 10-year Spanish treasuries;
- beta coefficient (risk measure of the stock compared to the market) of 1.12% calculated on the basis of the historical 2-year beta of a panel of comparable entities;
- market premium (i.e. the premium required by investors to invest in equities in lieu of risk-free assets) of 5.0% as suggested by best professional practice.
- country risk premium (Spain) estimated at 2%.

Considering Banco Mediolanum's notable growth rate target under the 2010-2014 Plan, for the purposes of impairment testing the Group decided to calculate value in use conservatively over the 2010-2013 period. The value of the CGU at the end of said time horizon was estimated on the basis of cash flows available in 2013 assuming growth at a constant rate of 2% in perpetuity (Gordon formula).

The DDM test did not reveal any impairment losses for the CGU.

Please note that the information and criteria used to determine the recoverable amount of intangibles – in particular the future estimated cash-flows of Banco Mediolanum and the discount rates applied – are subject to changes, even dramatic, in the macroeconomic environment and market conditions – as occurred in past months. These changes are difficult to predict and could cause future results to differ materially from estimates of future cash-flows of Banco Mediolanum as well as other key information set out herein.

Sensitivity analyses were applied to estimate the changes in some measures that make the recoverable amount of Banco Mediolanum equal to its carrying amount, namely:

- discount rate (ke): the target cost of equity at which the value in use of Banco Mediolanum is equal to its carrying amount is 13.1%, an upward movement of about 80 bps;
- profitability: the decline in net profit over the value set out in the 2011-2013 Plan at which the value in use of Banco Mediolanum is equal to the carrying amount is 8%.

Considering the value in use over the 2011-2014 time horizon, the conditions that make the recoverable amount of the CGU equal to its carrying amount are as follows:

- discount rate (ke) of 16.7%, an upward movement of about 440 bps;
- decline in net profit - compared to the value set out in the 2011-2014 Plan – equal to 33%.

To round off disclosure, readers are advised that unlike most players in the banking and financial industries, the analysis of the Mediolanum Group average stock market value from September 2010 through December 2010 reveals a multiple of 2.9x the book value of equity. The Group believes this is sufficient to neutralise any external factors that may impinge on Banco Mediolanum, such as the macroeconomic environment or the existence of comparable entities with stock prices lower than their equity's book value.

GAMAX – IMPAIRMENT TEST AND SENSITIVITY ANALYSIS

When testing for impairment, the recoverable amount of Gamax was determined based on value in use calculated by applying the Discounted Cash Flow (DCF) method to the information set out in the 2011-2013 Business Plan (the 2011-2013 Plan) approved by the directors of Gamax and of Banca Mediolanum S.p.A.

The 2011-2013 Plan was built on reasonable, consistent assumptions and represents the management's best estimates of the range of possible developments that may occur over the useful life of Gamax.

At December 31, 2010, the performance of Gamax was in line with targets.

Gamax derives its revenues largely from performance fees. In the light of the expected performance of financial market and the mechanism used to calculate performance fees (high water mark), the 2011 – 2013 Plan forecasts a decline in net results.

Specifically, the guidelines set out in the Gamax 2011-2013 are as follows:

- expansion of cross-selling between Gamax and BAL (17,000 customers);
- reinforcement of post-sales service (introduction of the Client Relationship Manager);
- implementation of the UCITS IV Directive (Companies and Funds);
- access to new markets (e.g.: the UK and Nordic countries).
- consolidation of the current platform for production and sale of products to third party companies.

The present value of future cash flows was determined applying a discount rate equal to the cost of equity (ke) calculated under the Capital Asset Pricing Model, considering the current structure of interest rates in the market and the specific business segment. Specifically, ke was equal to the nominal rate of return on risk-free assets plus a risk premium to reflect the level of risk in the market and specific risks connected with the CGU business. The cost of equity was estimated at 10.70% on the basis of the following assumptions:

- risk-free rate of 4.20% calculated on the basis of average historical 6-month gross yields on 10-year Italian treasuries;
- beta coefficient (risk measure of the stock compared to the market) of 1.11% calculated on the basis of the historical 2-year beta of a panel of comparable entities;
- market premium (i.e. the premium required by investors to invest in equities in lieu of risk-free assets) of 5.0% as suggested by best professional practice;
- additional risk premium of 1.0%.

The value at the end of the 2011-2013 forecast period was estimated on the basis of cash flows available in 2013 assuming growth at a constant rate of 1% in perpetuity to take account of the expected reduced profitability of Gamax in the 2011-2013 period.
Gamax recoverable amount was determined to be €29.4 million, and being lower than the carrying amount of the investment in this company, its carrying amounts was written down by €5.6 million.

BANKHAUS AUGUST LENZ (BAL) – IMPAIRMENT TEST AND SENSITIVITY ANALYSIS

When testing for impairment, the recoverable amount of BAL was determined based on value in use calculated by applying the Discounted Cash Flow (DCF) method to the information set out in the 2011-2015 Business Plan (the 2011-2015 Plan) approved by the directors of BAL and of Banca Mediolanum S.p.A.
The 2011-2015 Plan was built on reasonable, consistent assumptions and represents the management's best estimates of the range of possible developments that may occur over the useful life of BAL.
At December 31, 2010, the performance of BAL was in line with targets.

Specifically, the BAL 2011-2015 Plan is based on the following assumptions:

- sales network growth;
- growth in gross inflows per agent;
- focus on Investment Plans (PIC) and Unit Linked products;
- review of the sales network incentivising system;
- redefinition of ATM pricing policies.

The actions set out above should ensure break even in financial year 2015 even for the scenario that does not include the contribution of the ATM business.

The present value of future cash flows was determined applying a discount rate equal to the cost of equity (ke) calculated under the Capital Asset Pricing Model, considering the current structure of interest rates in the market and the specific business segment. Specifically, ke was equal to the nominal rate of return on risk-free assets plus a risk premium to reflect the level of risk in the market and specific risks connected with the CGU business. The cost of equity was estimated at 11.70% on the basis of the following assumptions:

- risk-free rate of 2.70% calculated on the basis of average historical 6-month gross yields on 10-year German treasuries;
- beta coefficient (risk measure of the stock compared to the market) of 1.11% calculated on the basis of the historical 2-year beta of a panel of comparable entities;
- market premium (i.e. the premium required by investors to invest in equities in lieu of risk-free assets) of 5.0% as suggested by best professional practice;
- risk premium of 3.5% to take account of the specific operational condition of the company that is expected to break even in 2014.

The value at the end of the forecast period was estimated on the basis of the cash flows in the last year of the plan assuming growth at a constant rate of 2% in perpetuity.

BAL recoverable amount was determined at €30.5 million, and being lower than its carrying amount of €40.6 million, its carrying amounts was written down by €10.1 million, of which €6.3 million relating to the loss reported in 2010.

Section 11 – Tangible assets – Caption 110

11.1 Analysis of tangible assets carried at cost

€/'000	Dec. 31, 2010	Dec. 31, .2009
A. Occupied/used		
1.1 owned	16,701	23,771
a) land	5,440	5,440
b) buildings	5,190	5,444
c) furnishings	2,033	2,397
d) electronic equipment	2,894	9,189
e) other	1,144	1,301
1.2 under finance leases	-	-
a) land	-	-
b) buildings	-	-
c) furnishings	-	-
d) electronic equipment	-	-
e) other	-	-
Total A	16,701	23,771
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)	16,701	23,771

11.3 Year's movements in occupied/used tangible assets

€/'000	Land	Buildings	Furnishings	Electronic equipment	Other	Total
A. Gross opening balance	5,440	8,467	7,508	39,393	4,443	65,251
A.1 Total net write-downs	-	(3,023)	(5,111)	(30,204)	(3,142)	(41,480)
A.2 Net opening balance	5,440	5,444	2,397	9,189	1,301	23,771
B. Increases:	-	-	259	719	201	1,179
B.1 Additions	-	-	259	719	201	1,179
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Reversal of impairment	-	-	-	-	-	-
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	-	-	-	-	-	-
C. Decreases:	-	(254)	(623)	(7,014)	(358)	(8,249)
C.1 Disposals	-	-	(3)	(3,524)	-	(3,527)
C.2 Depreciation	-	(254)	(620)	(3,490)	(358)	(4,722)
C.3 Impairment:						
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 Reclassifield to:						
a) tangible assets held for investment purposes	-	-	-	-	-	-
b) assets held for sale	-	-	-	-	-	-
C.7 Other decreases	-	-	-	-	-	-
D. Net closing balance	5,440	5,190	2,033	2,894	1,144	16,701
D.1 Total net write-downs	-	(3,277)	(5,618)	(11,154)	(3,494)	(23,543)
D.2 Gross closing balance	5,440	8,467	7,651	14,048	4,638	40,244
E. Measured at costs	-	-	-	-	-	-

Tangible assets with unit value lower than €516.46 were fully depreciated in the year and amounted to €141 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

	Dec. 31, 2010		Dec. 31, 2009	
€/'000	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	X	-	X	-
A.2 Other intangible assets	8,632	-	10,632	-
A.2.1 measured at cost	8,632	-	10,632	-
a) internally generated assets	-	-	-	-
b) other assets	8,632	-	10,632	-
A.2.2 Measured at fair value:	-	-	-	-
a) internally generated assets	-	-	-	-
b) other assets	-	-	-	-
Total	8,632	-	10,632	-

12.2 Year's movements in intangible assets

€/'000	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total
		Finite	Indefinite	Finite	Indefinite	
A. Gross opening balance	-	-	-	125,199	-	125,199
A.1 Total net write-downs	-	-	-	(114,567)	-	(114,567)
A.2 Net opening balance	-	-	-	10,632	-	10,632
B. Increases	-	-	-	5,824	-	5,824
B.1 Additions	-	-	-	5,824	-	5,824
B.2 Increases in internal assets	X	-	-	-	-	-
B.3 Reversal of impairment	X	-	-	-	-	-
B.4 Increases in fair value	-	-	-	-	-	-
- in equity	X	-	-	-	-	-
- through profit or loss	X	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Other increases	-	-	-	-	-	-
C. Decreases	-	-	-	(7,824)	-	(7,824)
C.1 Disposals	-	-	-	(81)	-	(81)
C.2 Amortisation and impairment	-	-	-	(7,743)	-	(7,743)
- Amortisation	X	-	-	(7,742)	-	(7,742)
- Impairment	-	-	-	(1)	-	(1)
+ in equity	X	-	-	-	-	-
+ through profit or loss	-	-	-	(1)	-	(1)
C.3 Decreases in fair value	-	-	-	-	-	-
- in equity	X	-	-	-	-	-
- through profit or loss	X	-	-	-	-	-
C.4 Reclassified to non-current assets held for sale	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Other decreases	-	-	-	-	-	-
D. Net closing balance	-	-	-	8,632	-	8,632
D.1 Total net write-downs	-	-	-	(122,064)	-	(122,064)
E. Gross closing balance	-	-	-	130,696	-	130,696
F. Measured at cost	-	-	-	-	-	-

Legend:

Finite: finite life

Indefinite: indefinite life

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

'*Current tax assets*' include tax advances amounting to €4,429 thousand and withholding taxes of €7,999 thousand paid during 2010. Since the Bank opted for the tax consolidation regime, IRES corporate income tax debits/credits were 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/Analysis of deferred tax liabilities

	FY 2010		FY 2009	
€/'000	Temporary differences	Tax rate %	Temporary differences	Tax rate %
Deferred tax assets:				
Valuation reserve relating to AFS securities	62,125	32.32%	5,988	32.32%
Valuation reserve relating to AFS securities	-	4.82%	300	4.82%
Provisions for risks and charges	88,354	32.32%	71,278	32.32%
Provisions for risks and charges	62,391	27.50%	47,571	27.50%
Expenses deductible in future years	20,663	27.50%	19,094	27.50%
Expenses deductible in future years	203	32.32%	207	32.32%
Total	233,736		144,438	
Deferred tax liabilities:				
Valuation reserve relating to AFS securities	6,739	32.32%	6,767	32.32%
Valuation reserve relating to AFS securities	56	4.82%	-	4.82%
Income taxable in future years	24,339	27.50%	17,803	27.50%
Future expenses deductible in the year	311	27.50%	311	27.50%
Total	31,445		24,881	
Net deferred tax liabilities (assets)	-	62,579	-	36,217
Deferred tax arisen on tax losses for the year	-	-	-	-
Deferred tax arisen on tax losses for the prior year		7,085		7,085
Temporary differences excluded from the calculation of deferred tax liabilities (assets)	-	-	-	-
Tax losses to carry forward	-	-	-	-
...				
...				
Net	-	-	-	-

13.1/13.2 Analysis of deferred tax assets/Analysis of deferred tax liabilities

€/'000	Dec. 31, 2010	Dec. 31, 2009
Deferred tax assets		
charge to the income statement	58,545	48,520
charge to equity	20,079	1,950
Total deferred tax assets	78,624	50,470
Deferred tax liabilities		
charge to the income statement	(6,778)	(4,981)
charge to equity	(2,181)	(2,187)
Total deferred tax liabilities	(8,959)	(7,168)

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

€/'000	Dec. 31, 2010	Dec. 31, 2009
1. Opening balance	48,520	41,241
2. Increases	19,385	15,881
2.1 Deferred tax assets arisen in the year	19,385	15,881
a) relating to prior years	-	-
b) due to changes in the accounting policies	-	-
c) write-backs	-	-
d) other	19,385	15,881
2.2 New taxes or increased tax rates	-	-
2.3 Other increases	-	-
3. Decreases	(9,360)	(8,602)
3.1 Deferred tax assets cancelled in the year	-	-
a) reversals	-	-
b) write-offs of non-recoverable amounts	-	-
c) changes in the accounting policies	-	-
d) other	-	-
3.2 Reduced tax rates	-	-
3.3 Other decreases	(9,360)	(8,602)
4. Closing balance	58,545	48,520

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

€/'000	Dec. 31, 2010	Dec. 31, 2009
1. Opening balance	(4,981)	(2,800)
2. Increases	(2,156)	(2,239)
2.1 Deferred tax liabilities arisen in the year	(2,156)	(2,239)
a) relating to prior years	-	-
b) due to changes in the accounting policies	-	-
c) other	(2,156)	(2,239)
2.2 New taxes or increased tax rates	-	-
2.3 Other increases	-	-
3. Decreases	359	58
3.1 Deferred tax liabilities cancelled in the year	359	58
a) reversals	-	-
b) due to changes in the accounting policies	-	-
c) other	359	58
3.2 Reduced tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	(6,778)	(4,981)

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

€/'000	Dec. 31, 2010	Dec. 31, 2009
1. Opening balance	1,950	14,414
2. Increases	18,387	1,093
2.1 Deferred tax assets arisen in the year	18,387	1,092
a) relating to prior years	-	-
b) due to changes in the accounting policies	-	-
c) other	18,387	1,092
2.2 New taxes or increased tax rates	-	1
2.3 Other increases	-	-
3. Decreases	(258)	(13,557)
3.1 Deferred tax assets cancelled in the year	(258)	(13,557)
a) reversals	-	-
b) write-offs of non-recoverable amounts	-	-
c) due to changes in the accounting policies	-	-
d) other	(258)	(13,557)
3.2 Reduced tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	20,079	1,950

13.6 Year's movements in deferred tax liabilities (charge to equity)

€/'000	Dec. 31, 2010	Dec. 31, 2009
1. Opening balance	(2,187)	(2,689)
2. Increases	(1,423)	(551)
2.1 Deferred tax liabilities arisen in the year	(1,423)	(551)
a) relating to prior years	-	-
b) due to changes in the accounting policies	-	-
c) other	(1,423)	(551)
2.2 New taxes or increased tax rates	-	-
2.3 Other increases	-	-
3. Decreases	1,429	1,053
3.1 Deferred tax liabilities cancelled in the year	1,429	1,053
a) reversals	-	-
b) changes in the accounting policies	-	-
c) other	1,429	1,053
3.2 Reduced tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	(2,181)	(2,187)

Section 15 – Other assets – Caption 150

15.1 Analysis of other assets

€/'000	Dec. 31, 2010	Dec. 31, 2009
Receivables from tax authorities	25,255	28,159
Receivables from financial advisors	4,315	3,619
Advances to suppliers and professionals	6,745	4,419
Security deposits	348	347
Receivables from companies of the Fininvest & the Doris Groups	324	216
Receivables from subsidiaries and associates	5,892	5,177
Receivables from employees	488	388
Other receivables	11,077	5,848
Items in transit	109,603	99,796
Accruals	24,338	17,804
Prepayments	2,961	4,537
Other	3,782	4,107
Total	195,128	174,417

'*Items in transit*' primarily related to utilities bills not yet due to be charged to customer accounts (€69,760 thousand), cheques debited to customers in the first days of 2011 (€15,343 thousand), and miscellaneous items settled in January 2011 (€24,490 thousand).

'*Receivables from the parent company, subsidiaries and associates*' and '*Receivables from companies of the Fininvest Group and the Doris Group*' related to the following companies:

€/'000	Dec. 31, 2010	Dec. 31, 2009
Mediolanum Group companies		
parent company		
- Mediolanum S.p.A.	443	403
subsidiares		
- Mediolanum Gestione Fondi SGR p.A.	989	1,360
- Mediolanum Corporate University S.p.A.	331	393
- Bankhaus August Lenz & Co. AG	112	235
- Mediolanum International Funds Ltd	239	201
- Mediolanum Distribuzione Finanziaria S.p.A.	88	98
- Banco de Finanzas e Inversiones (Fibanc) SA	511	93
- Mediolanum Asset Management Ltd	8	35
associates		
- Mediolanum Vita S.p.A.	2,417	1,744
- Mediolanum Comunicazione S.p.A.	541	434
- Mediolanum International Life Ltd	213	181
Total	5,892	5,177
Receivables from Fininvest Group and Doris Group:		
- Mediolanum Assicurazioni S.p.A.	280	197
- Vacanze Italia S.p.A.	43	18
- AC Milan S.p.A.	-	1
Totale	323	216

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

€/'000	Dec. 31, 2010	Dec. 31, 2009
Prepaid stamp duties	19,921	17,467
Other	5,334	10,310
VAT	-	382
Total	25,255	28,159

'*Prepaid stamp duties*' related to 2011 stamp duties paid in November 2010 net of the balance due for 2010 stamp duties.

'*Other*' mostly consisted of amounts receivable for withholding tax relating to interest accrued on customers' bank accounts.

'*Prepayments*' related to the portion of payments made for miscellaneous services pertaining to future years.

'*Accruals*' related to commissions on *Tax Benefit* New relating to future years.

'*Receivables from financial advisors*' included €2,329 thousand relating to the estimated realisable value of amounts receivable for the reversal of commissions, and €1,020 thousand relating to the estimated realisable value of compensation for damages payable by former financial advisors for their misconduct.

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

'*Other receivables*' primarily included multi-year expenses for leasehold improvements (€3,743 thousand).

'*Other*' primarily included receivables from directors (€164 thousand) and miscellaneous items (€10,906 thousand) of which €7,446 thousand relating to trade receivables, largely amounts invoiced following the sale of all servers to Cedacri under the relevant outsourcing arrangements.

LIABILITIES

Section 1 – Amounts due to banks – Caption 10

1.1 Analysis of amounts due to banks

€/'000	Dec. 31, 2010	Dec. 31, 2009
1. Central banks	1,400,783	135,345
2. Banks	792,621	1,070,942
2.1 Current accounts and demand deposits	178,003	11,027
2.2 Time deposits	483,457	1,055,615
2.3 Loans	130,304	3,551
2.3.1 Repurchase agreements	130,304	3,551
2.3.2 Other	-	-
2.4 Commitments to buy back own equity instruments	-	-
2.5 Other amounts due	857	749
Total	2,193,404	1,206,287
Fair value	2,193,371	1,205,941

Section 2 – Amounts due to customers – Caption 20

2.1 Analysis of amounts due to customers

€/'000	Dec. 31, 2010	Dec. 31, 2009
1. Current accounts and demand deposits	4,860,235	5,442,878
2. Time deposits	330,223	179,019
3. Loans	1,822,843	67,209
3.1 Repurchase agreements	1,822,843	67,209
3.2 Other	-	-
4. Commitments to buy back own equity instruments	-	-
5. Other amounts due	191,803	150,784
Total	7,205,104	5,839,890
Fair value	7,205,104	5,839,890

'*Other amounts due*' consisted entirely of current payables of which €70,079 thousand payable to the sales network (€47,711 thousand at December 31, 2009).

Commissions payable at year end were reclassified to '*Other liabilities*' and amounted to €19,532 thousand (€39,312 thousand at December 31, 2009).

Section 3 – Securities issued – Caption 30

3.1 Analysis of securities issued

	Dec. 31, 2010				Dec. 31, 2009			
	Book Value	Fair value			Book Value	Fair value		
€/'000		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Securities								
1. bonds	340,479	-	338,427	-	179,450	-	176,113	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	340,479	-	338,427	-	179,450	-	176,113	-
2. other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
Total	340,479	-	338,427	-	179,450	-	176,113	-

3.2 Analysis of caption 30 'Securities issued: subordinated securities'

'*Securities issued*' included €164,729 thousand relating to subordinated securities issued by Banca Mediolanum S.p.A. in financial year 2010 and €175,750 thousand relating to the notes issued by Banca Mediolanum S.p.A.

Section 4 – Financial liabilities held for trading – Caption 40

4.1 Analysis of financial liabilities held for trading

	Dec. 31, 2010					Dec. 31, 2009				
	NV	FV			FV*	NV	FV			FV*
€/'000		L1	L2	L3			L1	L2	L3	
A. Non-derivatives										
1. Due to banks	-	-	-	-	-	21,577	22,599	-	-	22,599
2. Due to customers	410,139	443,604	-	1	443,605	214,234	235,652	-	-	235,652
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 structured	-	-	-	-	X	-	-	-	-	X
3.1.2 others	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 structured	-	-	-	-	X	-	-	-	-	X
3.2.2 others	-	-	-	-	X	-	-	-	-	X
Total A	410,139	443,604	-	1	443,605	235,811	258,251	-	-	258,251
B. Derivatives										
1. Financial derivatives	-	2	7,223	1	-	-	-	1,665	-	-
1.1 held for trading	X	2	7,223	1	X	X	-	1,665	-	X
1.2 measured at fair value	X	-	-	-	X	X	-	-	-	X
1.3 others	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	-	-	-	-	-	-	-	-	-	-
2.1 held for trading	X	-	-	-	X	X	-	-	-	X
2.2 measured at fair value	X	-	-	-	X	X	-	-	-	X
2.3 others	X	-	-	-	X	X	-	-	-	X
Total B	X	2	7,223	1	X	X	-	1,665	-	X
Total (A+B)	X	443,606	7,223	2	X	X	258,251	1,665	-	X

Legend:
FV = Fair Value
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
L1 = Level 1
L2 = Level 2
L3 = Level 3

'*A2. Due to customers*' included short positions in repurchase agreements.

4.4 Year's movements in financial liabilities (ex. "short positions") held for trading

Financial liabilities consist entirely of short positions. Therefore no information is provided under this heading.

Section 6 - Hedging derivatives - Caption 60

6.1 Analysis of hedging derivatives by type of hedge and fair value hierarchy

	Dec. 31, 2010				Dec. 31, 2009			
	Fair value			NV	Fair value			NV
€/'000	L1	L2	L3		L1	L2	L3	
A. Financial derivatives	-	28,510	-	497,946	-	15,906	-	336,509
1) Fair value hedge	-	28,510	-	497,946	-	15,906	-	336,509
2) Cash flow hedge	-	-	-	-	-	-	-	-
3) Hedge of investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-	-	-	-
1) Fair value hedge	-	-	-	-	-	-	-	-
2) Cash flow hedge	-	-	-	-	-	-	-	-
Total	-	28,510	-	497,946	-	15,906	-	336,509

Legend:
NV = nominal value
L1 = Level 1
L2 = Level 2
L3 = Level 3

6.2 Analysis of hedging derivatives by hedged portfolio and type of hedge

	Fair value						Cash flow		
	micro-hedging								
€/'000	interest rate risk	currency risk	credit risk	pricing risk	multiple risks	macro-hedging	micro-hedging	macro-hedging	investments in foreign operations
1. Available-for-sale financial assets	-	-	-	-	-	X	-	X	X
2. Loans and receivables	28,510	-	-	X	-	X	-	X	X
3. Held-to-maturity investments	X	-	-	X	-	X	-	X	X
4. Portfolio	X	X	X	X	X	-	X	-	X
5. Other	-	-	-	-	-	X	-	X	-
Total assets	28,510	-	-	-	-	-	-	-	-
1. Financial liabilities	-	-	-	X	-	X	-	X	X
2. Portfolio	X	X	X	X	X	-	X	-	X
Total liabilities	-	-	-	-	-	-	-	-	-
1. Forecast transactions	X	X	X	X	X	X	-	X	X
2. Financial assets & liabilities portfolio	X	X	X	X	X	-	X	-	-

Section 8 – Tax liabilities – Caption 80

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

€/'000	Dec. 31, 2009	Amounts set aside in the year	Other changes	Funds used	Dec. 31, 2010
Corporate Income Tax (IRES)	-	-	-	-	-
Regional Business Tax (IRAP)	4,437	6,810	(9)	(4,428)	6,810
Total	4,437	6,810	(9)	(4,428)	6,810

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, 2010	Dec. 31, 2009
Items in transit	101,654	111,307
Payables to suppliers, consultants and other professionals	26,473	23,817
Payables to employees	8,708	8,114
Payables to tax authorities	6,710	6,079
Payables to social security agencies	4,636	4,852
Payables to Mediolanum Group companies	3,277	4,707
Agents' severance benefits	3,604	3,051
Other sundry liabilities	2,129	1,900
Payables to companies of the Fininvest Group and Doris Group	1,266	1,643
Deferred income	13,108	804
Payables to financial advisors	19,532	39,312
Accrued expenses	26	25
Total	191,123	205,611

Commissions payable at year end were reclassified to '*Other liabilities*' and amounted to €19,532 thousand (€39,312 thousand at December 31, 2009). For the sake of comparability the prior year's balance of €39,171 was also reclassified out of '*Other amounts due*' to '*Other liabilities*'.

'*Items in transit*' included customer transfer orders settled through the Interbank Network in the first days of 2011 (€19,131 thousand), pre-authorised payments (RID) (€32,771 thousand), customers' ATM transactions (€4,605 thousand), customers' Banco Posta transactions (€2,887 thousand), amounts to be paid into *Mediolanum Plus* policy accounts (€15,331 thousand) and other items settled in the first days of the new year (€26,929 thousand).

'*Payables to suppliers, consultants and other professionals*' related to fees due in 2011. The account also included an amount of €321 thousand due to Directors and Statutory Auditors for their services, that was unpaid at balance sheet date.

'*Payables to social security agencies*' related to social security contributions of employees (€3,723 thousand), of financial advisors and agents (€913 thousand).

'*Payables to employees*' related to overtime payments, reimbursement of expenses, amounts set aside for bonuses accrued at year end, statutory leaves and vacations unused at December 31, 2010.

'*Agents' severance benefits*' related the severance entitlements of financial advisors as accrued at balance sheet date. The amounts due will be paid into the related Mediolanum Vita S.p.A. policy account within March 31, 2011 in accordance with the terms of the collective agreement.

'*Deferred income*' largely included commissions on the sale of Mediolanum Plus Certificate products payable in future years.

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

€/'000	Dec. 31, 2010	Dec. 31, 2009
Mediolanum Group companies:		
parent company:		
- Mediolanum S.p.A.	809	625
subsidiaries:		
- Mediolanum Gestione Fondi SGR p.A.	111	100
- Banco de Finanzas e Inversiones SA (Fibanc)	11	14
- Bankhaus August Lenz & Co. AG	4	14
- Mediolanum Corporate University S.p.A.	978	2,951
associates:		
- Mediolanum Comunicazione S.p.A.	1,035	610
- Mediolanum Vita S.p.A.	329	393
Total	3,277	4,707
Fininvest Group/Doris group companies:		
- Mediolanum Assicurazioni S.p.A.	1,203	1,540
- Mondadori Pubblicità S.p.A.	16	38
- Digitalia '08 S.r.l.	34	37
- Mondadori Retail S.p.A.	2	-
- Vacanze Italia S.p.A.	11	28
Total	1,266	1,643

'*Payables to tax authorities*' related to the following accounts:

€/'000	Dec. 31, 2010	Dec. 31, 2009
Substitute and withholding taxes	5,399	5,967
Other	1,311	112
Total	6,710	6,079

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

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

€/'000	Dec. 31, 2010	Dec. 31, 2009
A. Opening balance	9,132	9,765
B. Increases	4,603	4,237
B.1 Amounts set aside in the year	4,580	4,201
B.2 Other increases	23	36
C. Decreases	(4,949)	(4,870)
C.1 Funds used in the year	(4,899)	(4,315)
C.2 Other decreases	(50)	(555)
D. Closing balance	8,786	9,132

Section 12 – Provisions for risks and charges – Caption 120

12.1 Analysis of provisions for risks and charges

€/'000	Dec. 31, 2010	Dec. 31, 2009
1. Severance entitlements	-	-
2. Other provisions for risks and charges	133,342	104,849
2.1 legal proceedings	11,549	8,443
2.2 staff costs	-	-
2.3 other	121,793	96,406
Total	133,342	104,849

12.2 Year's movements in provisions for risks and charges

€/'000	Severance entitlements	Other	Total
A. Opening balance	-	104,849	104,849
B. Increases	-	43,959	43,959
B.1 Amounts set aside in the year	-	43,959	43,959
B.2 Time-related increases	-	-	-
B.3 Increased discount rate	-	-	-
B.4 Other increases	-	-	-
C. Decreases	-	(15,466)	(15,466)
C.1 Funds used in the year	-	(7,109)	(7,109)
C.2 Decreased discount rate	-	-	-
C.3 Other decreases	-	(8,357)	(8,357)
D. Other decreases	-	133,342	133,342

12.4 Provisions for risks and charges – 'other'

€/'000	Balance at Dec. 31, 2009	Amount set aside in the year	Other changes	Funds used	Balance at Dec. 31, 2010
- Legal proceedings	8,443	4,365	(915)	(344)	11,549
- Other:					
Risks related to FA illegal actions	27,790	15,953	(6,278)	(1,314)	36,151
Customer base entitlements	19,375	3,353	(2)	(379)	22,347
Portfolio & organisation allowance	10,759	3,794	-	(1,057)	13,496
Managerial Allowance	24,132	10,033	(1,128)	-	33,037
Product distribution	10,842	3,260	-	(1,571)	12,531
Miscellaneous	3,508	3,201	(34)	(2,444)	4,231
Total	104,849	43,959	(8,357)	(7,109)	133,342

The table above shows the analysis of other provisions and the year's movements.
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. Based on historical data and the claims received by the Bank at balance sheet date, the amount of the provision adequately covers those risks. The provision also includes amounts set aside to cover the risk of liabilities arising from legal claims made by customers against the Bank in relation to securities defaults.

The provision for '*customer base entitlements*' covers the related entitlements of 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.

In addition to contractual benefits, the Bank voluntarily, unilaterally and discretionarily rewards its financial advisors with additional allowances. After the recent policy review, these are: the Portfolio & Organisation allowance, and the Managerial Allowance.

The '*Portfolio and Organisation allowance*' is paid to financial advisors in relation to the value of their customer portfolio or their agents organisation, as applicable. When the contract between the financial advisor and the Bank is terminated, the Bank selects a substitute financial advisor to manage the specific customer portfolio and/or agents organisation and

- the Bank pays the outgoing financial advisor a one-time allowance that reflects the value of the FA customer portfolio or the agents organisation left to the substitute in accordance with pre-determined criteria, provided that the outgoing FA meets relevant requirements and does not engage in any competitive activities for two years after the termination of the contract with the Bank; and
- the Bank charges the same amount to the substitute FA for the customer portfolio and/or agents organisation.

The Bank pays the outgoing FA at the end of the third year after the date the contract is terminated and charges the same amount to the substitute FA in 3 or 5 years. No interest is applied in either case. If there is no substitute FA no allowance is paid to the outgoing FA.
The actuarial calculation based on past data (2002-2010) took account of the effect of any future cash-flow mismatches (due to the different timing between payment and collection and no interest being applied), and prudentially also of counterparty risk through the application of a discount rate.

The "*Managerial Allowance*" is paid to sales network members having managerial roles whose compensation is based on specific commercial parameters. This allowance is paid when the FA meets old age pension requirements – provided that he does not engage in any competitive activities in the two years after he retires – or in the event of full permanent disability or death of the FA. Similarly to the 'portfolio and organisation allowance', the Managerial Allowance is paid within 3 years of the date on which the FA left the sales network.
The actuarial calculation is based on the estimated probability of payment of the allowance for retirement of FAs in managerial roles at year end, as well as the risk of death or full permanent disability of FAs, and takes account of the relationship between the FA's length of service at the date of the calculation and the length of service at the date of occurrence of the events that trigger the payment (pro-rata basis) with the application of a discount rate.

The provision for 'product distribution' relates to amounts set aside to cover expected future liabilities in connection with commissions payable to the sales force primarily on 'Tax Benefit New' sales. The figure shown under 'other changes' relates to adjustments made to amounts set aside in prior years.

Section 14 Shareholders' equity – Caption 130, 150, 160, 170, 180, 190 and 200

14.1 Analysis of 'Share Capital' and 'Treasury Shares'

	share capital		treasury shares	
€/'000	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
ordinary shares	450,000	450,000	-	-
other shares	-	-	-	-
Total	450,000	450,000	-	-

At December 31, 2010, share capital amounted to €450,000 thousand, divided into 450,000,000 ordinary shares, fully subscribed and paid up.

14.2 Year's movements in share capital – number of shares

€/'000	Ordinary	Other
A. Opening balance	450,000	-
- fully paid up	450,000	-
- not fully paid up	-	-
A.1 Treasury shares (-)	-	-
A.2 Shares outstanding: opening balance	450,000	-
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	450,000	-
D.1 Treasury shares (+)	-	-
D.2 Shares at year end	450,000	-
- fully paid up	450,000	-
- not fully paid up	-	-

14.3 Share capital: other information

The company does not hold any treasury shares.

14.4 Retained earnings: other information

Retained earnings amount to €89,307 thousand and include the legal reserve, the extraordinary reserve, the FTA reserve and other earnings reserves.
An analysis of shareholders' equity by account and utilisation is set out in the table below.

€/'000	Amount	Possible utilisation (A, B, C)	Usable amount	Utilisation in the prior three years	
				loss coverage	other
Share capital:	450,000	-	-	-	-
Equity reserves, of which:					
Retained earnings, of which:					
- legal reserve	22,061	B	22,061	-	-
- extraordinary reserve	121,805	A B C	121,805	-	-
- FTA reserve	(65,524)	A B C	(65,524)	-	-
- other reserves (stock options)	10,965	A B	10,965	-	-
Other reserves of which:				-	-
- merger reserve	3,185	A B C	3,185	-	-
Valuation reserves	(37,432)	C	(37,432)	-	-
Total	505,060	-	55,060	-	-
of which undistributable	-	-	33,026	-	-
of which distributable	-	-	22,034	-	-

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

OTHER INFORMATION

1. Guarantees issued and commitments

€/'000	Dec. 31, 2010	Dec. 31, 2009
1) Financial guarantees	14,468	12,858
a) Banks	14,438	12,828
b) Customers	30	30
2) Commercial guarantees	22,481	20,129
a) Banks	11,586	10,731
b) Customers	10,895	9,398
3) Commitments to disburse funds	84,238	111,144
a) Banks	1,597	12,310
i) with certain drawdown	1,597	12,310
ii) with possible drawdown	-	-
b) Customers	82,641	98,834
i) with certain drawdown	413	678
ii) with possible drawdown	82,228	98,156
4) Commitments under credit derivatives: protection sales	-	-
5) Assets pledged to secure third-party obligations	5,648	-
6) Other commitments	-	-
Total	126,835	144,131

2. Assets pledged to secure own liabilities and commitments

€/'000	Dec. 31, 2010	Dec. 31, 2009
1. Financial assets held for trading	266,448	-
2. Financial assets at fair value	-	-
3. Available-for-sale financial assets	1,399,570	154,608
4. Held-to-maturity investments	654,825	374,702
5. Loans to banks	999,110	190,917
6. Loans to customers	782,822	-
7. Tangible assets	-	-
Total	4,102,775	720,227

4. Brokerage and asset management on behalf of customers

€/'000	Dec. 31, 2010
1. Orders executed on behalf of customers	
a) Purchases	1,625,473
1. settled	1,625,473
2. not settled	-
b) Sales	1,817,502
1. settled	1,817,502
2. not settled	-
2. Portfolio management	
a) individual portfolio management	71,161
b) collective portfolio management	-
3. Securities in custody and under administration	
a) custodian bank services (other than managed assets)	-
1. securities issued by entities incl. in consolidated accounts	-
2. other securities	-
b) custodian bank services (other than managed assets), other	5,130,873
1. securities issued by entities incl. in consolidated accounts	336,176
2. other securities	4,794,697
c) third-party securities held by other custodians	4,659,321
d) own securities held by other custodians	6,219,455
4. Other services	-

PART C – INFORMATION ON THE INCOME STATEMENT

Section 1 – Interest – Captions 10 and 20

1.1 Analysis of interest income and similar income

€/'000	Debt securities	Loans	Other assets	Dec. 31, 2010	Dec. 31, 2009
1. Financial assets held for trading	19,408	-	-	19,408	24,700
2. Available-for-sale financial assets	18,219	-	-	18,219	15,349
3. Held-to-maturity investments	36,574	-	-	36,574	53,847
4. Loans to banks	24,437	8,684	-	33,121	45,208
5. Loans to customers	7,199	87,378	-	94,577	101,206
6. Financial assets at fair value	-	-	-	-	-
7. Hedging derivatives	X	X	-	-	-
8. Other assets	X	X	50	50	58
Total	105,837	96,062	50	201,949	240,368

1.3 Interest income and similar income: other information

1.3.1 Interest income on financial assets denominated in foreign currencies

€/'000	Dec. 31, 2010	Dec. 31, 2009
Interest income and similar income on:		
a) financial assets denominated in foreign currencies	717	761
b) finance leases	-	-
c) third party assets under administration	-	-
Total	717	761

1.4 Analysis of interest expense and similar charges

€/'000	Amounts due	Securities	Other	Dec. 31, 2010	Dec. 31, 2009
1. Due to central banks	5,482	X	-	5,482	1,330
2. Due to banks	10,042	X	-	10,042	12,617
3. Due to customers	25,719	X	-	25,719	51,403
4. Securities issued	X	5,667	-	5,667	2,317
5. Financial liabilities held for trading	17,653	-	-	17,653	19,608
6. Financial liabilities at fair value	-	-	-	-	-
7. Other liabilities and funds	X	X	98	98	13
8. Hedging derivatives	X	X	17,098	17,098	13,723
Total	58,896	5,667	17,196	81,759	101,011

1.5 Interest expense and similar charges: analysis of hedging balances

€/'000	Dec. 31, 2010	Dec. 31, 2009
A. Positive differences arising on:	3,970	5,608
A.1 fair value micro-hedging of assets	3,970	5,608
B. Negative differences arising on:	(21,068)	(19,331)
B.1 fair value micro-hedging of assets	(21,068)	(19,331)
C. Balance (A-B)	(17,098)	(13,723)

1.6 Interest expense and similar charges: other information

1.6.1 Interest expense on liabilities denominated in foreign currencies

€/'000	Dec. 31, 2010	Dec. 31, 2009
Interest expense and similar charges on:		
a) financial liabilities denominated in foreign currencies	5,450	7,658
b) finance leases	-	-
c) third party assets under administration	-	-
Total	5,450	7,658

Section 2 – Commissions – Captions 40 and 50

2.1 Analysis of commission income

€/'000	Dec. 31, 2010	Dec. 31, 2009
a) Guarantees issued	-	-
b) Credit derivatives	-	-
c) Management, brokerage and consulting services:	368,918	279,056
1. brokerage of financial instruments	94	346
2. currency brokerage	-	-
3. portfolio management	730	771
3.1 individual portfolio management	730	771
3.2 collective portfolio management	-	-
4. securities in custody and under administration	3,659	3,132
5. custodian bank	-	-
6. sale of securities	44,085	2,959
7. order taking and transmission	5,709	6,666
8. consultancy	-	-
8.1 investment advice	-	-
8.2 financial structure advice	-	-
9. services to third parties	314,641	265,182
9.1 portfolio management	189,498	131,462
9.1.1. individual portfolio management	-	-
9.1.2. collective portfolio management	189,498	131,462
9.2. insurance products	114,280	121,815
9.3. other products	10,863	11,905
d) Payments and collections	8,210	8,320
e) Servicing for securitisation transactions	-	-
f) Factoring services	-	-
g) Tax collection services	-	-
h) Management of multilateral trading systems	-	-
i) Bank accounts custodian and management services	22,622	18,280
j) Other services	8,909	7,293
Total	408,659	312,949

2.2 Commission income: distribution channels of products and services

€/'000	Dec. 31, 2010	Dec. 31, 2009
a) Through the company's own branches	44,085	2,959
1. asset management	-	-
2. sale of securities	44,085	2,959
3. services and products of third parties	-	-
b) Off-premises sales	315,372	265,953
1. asset management	730	771
2. sale of securities	-	-
3. services and products of third parties	316,642	265,182
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, 2010	Dec. 31, 2009
a) Guarantees received	-	-
b) Credit derivatives	-	-
c) Management and brokerage services:	275,568	247,504
1. brokerage of financial instruments	-	-
2. currency brokerage	-	-
3. asset management	466	480
3.1 own management	-	-
3.2 on mandates from third parties	466	480
4. securities in custody and under administration	784	749
5. sale of financial instruments	-	-
6. off-premises sale of financial instruments, products & services	274,318	246,275
d) Payments and collections	11,000	11,268
e) Other services	9,535	9,567
Total	296,103	268,339

Section 3 - Dividends and similar income - Caption 70

3.1 Analysis of dividends and similar income

	Dec. 31, 2010		Dec. 31, 2009	
€/'000	Dividends	Income from holdings in UCITS	Dividends	Income from holdings in UCITS
A. Financial assets held for trading	-	-	-	-
B. Available-for-sale financial assets	386	2,179	132	1,774
C. Financial assets at fair value	-	-	-	-
D. Equity investments	124,608	X	98,234	X
Total	124,994	2,179	98,366	1,774

This account almost entirely relates to dividends received from the subsidiaries Mediolanum International Funds Ltd, Mediolanum Asset Management Ltd., Mediolanum Gestione Fondi S.G.R.p.A., Mediolanum Distribuzione Finanziaria S.p.A and Gamax Management (AG). Dividends include €49,026 thousand 2009 dividends whose distribution to shareholders was resolved and took place in 2010, as well as the 2010 interim dividends amounting to €75,582 thousand paid out by the subsidiaries Mediolanum International Funds Ltd and Mediolanum Asset Management Ltd. in November 2010.

Section 4 - Net income from trading - Caption 80

4.1 Analysis of net income from trading

€/'000	Unrealised gains (A)	Realised profits (B)	Unrealised losses (C)	Realised losses (D)	Net income [(A+B-(C+D)]
1. Financial assets held for trading	2,853	17,697	(14,186)	(8,599)	(2,235)
1.1 Debt securities	2,850	17,689	(14,183)	(8,559)	(2,203)
1.2 Equities	3	8	(3)	(38)	(30)
1.3 Holdings in UCITS	-	-	-	(2)	(2)
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	6,450	6,491	(355)	(3,236)	9,350
2.1 Debt securities	6,450	6,491	(355)	(3,236)	9,350
2.2 Debt	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Other financial assets and liabilities: exchange differences	X	X	X	X	202
4. Derivatives	155	8,799	(1,900)	(10,825)	(2,782)
4.1 Financial derivatives	155	8,799	(1,900)	(10,825)	(2,782)
- debt securities and interest rates	155	8,777	(1,900)	(10,825)	(3,793)
- equities and stock indices	-	22	-	-	22
- currencies and gold	X	X	X	X	989
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	9,458	32,987	(16,441)	(22,660)	4,535

Section 5 - Net income from hedging - Caption 90

5.1 Analysis of net income from hedging

€/'000	Dec. 31, 2010	Dec. 31, 2009
A. Income from:		
A.1 Fair value hedging derivatives	-	3,702
A.2 Hedged financial assets (fair value)	12,657	-
A.3 Hedged financial liabilities (fair value)	-	-
A.4 Cash-flow hedging financial derivatives	-	-
A.5 Assets and liabilities denominated in foreign currencies	-	-
Total income from hedging (A)	12,657	3,702
B. Expense from:		
B.1 Fair value hedging derivatives	(13,783)	-
B.2 Hedged financial assets (fair value)	-	(5,889)
B.3 Hedged financial liabilities (fair value)	-	-
B.4 Cash-flow hedging financial derivatives	-	-
B.5 Assets and liabilities denominated in foreign currencies	-	-
Total expense from hedging (B)	(13,783)	(5,889)
C. Net income from hedging (A - B)	(1,126)	(2,187)

Section 6 - Gains (losses) on sale / buyback - caption 100

6.1 Analysis of gains (losses) on sale /buyback

	Dec. 31, 2010			Dec. 31, 2009		
€/'000	Gains	Losses	Net gains (losses)	Gains	Losses	Net gains (losses)
Financial assets						
1. Loans to banks	55	-	55	88	-	88
2. Loans to customers	178	(74)	104	185	-	185
3. Available-for-sale financial assets:	5,990	(1,860)	4,130	13,153	(8,103)	5,050
3.1 Debt securities	5,985	(1,296)	4,689	12,955	(8,101)	4,854
3.2 Equities	-	-	-	-	-	-
3.3 Holdings in UCITS	5	(564)	(559)	198	(2)	196
3.4 Financing	-	-	-	-	-	-
4. Held-to-maturity investments	-	-	-	324	-	324
Total assets	6,223	(1,934)	4,289	13,750	(8,103)	5,647
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	-	-	-	-	-	-
Total liabilities	-	-	-	-	-	-

Section 8 - Net impairment - Caption 130

8.1 Analysis of net impairment of loans

€/'000	Impairment			Reversal of impairment				Dec. 31, 2010	Dec. 31, 2009
	Individual		Collective	Individual		Collective			
	Cancellations	Others		A	B	A	B		
A. Loans to banks									
- Loans	-	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-	-
B. Loans to customers									
- Loans	(4,166)	(12,115)	(516)	-	7,120	-	506	(9,171)	(14,982)
- Debt securities	-	-	-	-	-	-	-	-	-
C. Total	(4,166)	(12,115)	(516)	-	7,120	-	506	(9,171)	(14,982)

An amount of €4,782 thousand relating to loans the Sales Network that previously had been recognised under '*net impairment of other financial items*' was reclassified to '*net impairment of loans*'. The increase in the 2009 balance from €10,200 thousand reported in 2009 to €14,982 thousand reflects said reclassification.

8.2 Analysis of net impairment of available for sale financial assets

€/'000	Impairment		Reversal of impairment		Dec. 31, 2010	Dec. 31, 2009
	Individual		Individual			
	Cancellations	Others	A	B		
A. Debt securities	-	-	-	-	-	-
B. Equities	(14)	(469)	X	X	(483)	(776)
C. Holdings in UCITS	-	(802)	X	-	(802)	(19,617)
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	(14)	(1,271)	-	-	(1,285)	(20,393)

Legend:
A = interest
B = other

8.4 Analysis of net impairment of other financial items

€/'000	Impairment			Reversal of impairment					
	Individual			Individual		Collective			
	Cancellations	Other	Collective	A	B	A	B	Dec. 31, 2010	Dec. 31, .2009
A. Guarantees issued	-	-	(3)	-	1	-	-	(2)	(22)
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	-	-	-	-	-	-	-
D. Others	-	-	-	-	-	-	-	-	-
E. Total	-	-	(3)	-	1	-	-	(2)	(22)

Legend:

A = interest

B = other

The decline in the 2009 balance from €4,804 thousand reported in 2009 to €22 thousand reflects the reclassification of €4,782 thousand loans to the Sales Network previously recognised under '*net impairment of other financial items*' to '*net impairment of loans*'.

Section 9 - Administrative expenses - Caption 150

9.1 Analysis of staff costs

€/'000	Dec. 31, 2010	Dec. 31, 2009
1) Employees	96,748	92,747
a) wages and salaries	64,228	62,967
b) social security contributions	19,977	19,195
c) employee completion of service entitlements	-	-
d) pensions	-	-
e) provision for completion of service entitlements	4,580	4,201
f) provision for severance benefits and similar obligations		
- defined contribution plan	-	-
- defined benefit plan	-	-
g) external supplementary pension funds:	964	908
- defined contribution plan	964	908
- defined benefit plan	-	-
h) expenses in connection with equity-settled share-based payment transactions	-	-
i) other employee benefits	6,999	5,476
2) Other personnel	803	2,464
3) Directors and Statutory Auditors	1,440	1,212
4) Retirees	-	-
5) Recoveries of expenses for employees seconded to other entities	-	-
6) Recoveries of expenses for third-party employees seconded to the company	-	-
Total	98,991	96,423

Following the clarifications provided by the Bank of Italy in its communication dated February 16, 2011, an amount of €4,939 thousand was reclassified out of '*Other administrative expenses*' and an amount of €169 thousand out of '*Other operating income*' to '*Staff costs*' (other employee benefits). Said reclassifications entailed a net increase of €4,770 thousand in the 2009 balance compared to the balance reported in the prior year.

The reclassification related to items such as employee insurance policies, refresher courses and reimbursement of travel expenses (mileage).

9.2 Average number of personnel by category

Category	Dec. 31, 2010	Dec. 31, 2009
Employees		
a) senior management	68	67
b) middle management	169	173
c) other employees	1,258	1,242
Total Employees	1,495	1,482
Other personnel	6	26
Total	1,501	1,508

9.5 Analysis of other administrative expenses

€/'000	Dec. 31, 2010	Dec. 31, 2009
IT services	39,286	31,957
Advertising and promotions	22,130	20,948
Television and Internet communication services	11,242	14,097
Consultancy, education and training of the sales force	14,043	15,642
Rentals	9,777	9,649
Other advisory services	10,366	10,699
Postal and telephone	9,558	10,044
Business Conventions	2,544	3,439
Consumables	3,665	4,053
Infoprovider services	3,037	3,203
Financial services fees and other expenses	2,058	1,926
Insurance	1,898	1,998
Business expenses, gifts and donations	3,727	3,149
Contributions to "Family Banker" offices	1,435	1,666
Travel expenses	122	119
Repairs and maintenance	1,218	1,111
Utilities	1,638	1,118
Personnel recruitment	95	99
Market research	320	811
Other miscellaneous services	12,676	13,008
Other administrative expenses	761	1,549
Total	151,596	150,285

Following the clarifications provided by the Bank of Italy in its communication dated February 16, 2011, an amount of €4,939 thousand was reclassified out of '*Other administrative expenses*' to '*Staff costs*' (other employee benefits). The reclassification related to items such as employee insurance policies, refresher courses and reimbursement of travel expenses (mileage).

Section 10 – Provisions for risks and charges– Caption 160

10.1 Analysis of provisions for risks and charges

€/'000	Dec. 31, 2010	Dec. 31, 2009
Provisions for risk and charges - other		
Risks related to FA illegal actions	9,676	5,160
FA customer base entitlements	3,351	3,192
Portfolio & organisation allowance	3,795	1,357
Managerial allowance	8,904	5,867
Product distribution	3,260	3,274
Legal proceedings	3,449	1,308
Other net provisions	3,168	2,102
Total	35,603	22,260

'*Provisions for risks and charges – other*' increased by €13.3 million, of which €4.5 million relating to the provision for risks related to FA illegal actions, €3.2 million relating to the provision for legal proceedings and €5.6 million to contractual obligations to the sales network.

Section 11 - Depreciation and net impairment of tangible assets - Caption 170

11.1 Analysis of depreciation and net impairment of tangible assets

€/'000	Depreciation (A)	Impairment (B)	Reversal of impairment (C)	Depreciation & net impairment (A+B-C)
A. Tangible assets	(4,722)	-	-	(4,722)
A.1 owned	(4,722)	-	-	(4,722)
- held for use	(4,722)	-	-	(4,722)
- held for investment purposes	-	-	-	-
A.2 under finance leases	-	-	-	-
- held for use	-	-	-	-
- held for investment purposes	-	-	-	-
Total	(4,722)	-	-	(4,722)

Section 12 - Amortisation and net impairment of intangible assets - Caption 180

12.1 Analysis of amortisation and net impairment of intangible assets

€/'000	Amortisation (A)	Impairment (B)	Reversal of impairment (C)	Amortisation & net impairment (A+B-C)
A. Intangible assets	(7,742)	(1)	-	(7,743)
A.1 owned	(7,742)	(1)	-	(7,743)
- internally generated	-	-	-	-
- other	(7,742)	(1)	-	(7,743)
A.2 under finance leases	-	-	-	-
Total	(7,742)	(1)	-	(7,743)

Section 13 - Other operating income - Caption 190

13.1/13.2 Analysis of other operating expenses and income

€/'000	Dec. 31, 2010	Dec. 31, 2009
Other operating expenses:		
Compensations and Settlements	(1,699)	(2,566)
Amortisation of expenses for improvements of leasehold assets	(506)	(489)
Other expenses	(251)	(523)
Total other operating expenses	(2,456)	(3,578)
Other operating income:		
Recoveries of expenses for services rendered to Group companies	12,591	9,745
Recoveries of expenses from employees	-	-
Recoveries of expenses from customers	1,176	1,607
Rentals of property	273	259
Recoveries of expenses from financial advisors	368	469
Other income	6,220	4,053
Total other operating income	20,628	16,133
Total other operating income (net)	18,172	12,555

Following the clarifications provided by the Bank of Italy in its communication dated February 16, 2011, an amount of €169 thousand was reclassified out of '*Other operating income*' to '*Staff costs*' (other employee benefits).

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

14.1 Analysis of profit (loss) on equity investments

€/'000	Dec. 31, 2010	Dec. 31, 2009
A. Gains	-	-
1. Revaluations	-	-
2. Gains on sale	-	-
3. Reversal of impairment	-	-
4. Other income	-	-
B. Losses	(15,773)	(7,885)
1. Decrease in value	(15,773)	(7,885)
2. Impairment	-	-
3. Losses on sale	-	-
4. Other expenses	-	-
Profit (loss)	(15,773)	(7,885)

At year end 2010, the value of the investment in the subsidiary Bankhaus August Lenz & Co. A.G. was written down by €6,347 thousand (€7,885 thousand in 2009). The write-down was made to align the carrying amount of that investment with the amount at which it is recognised in the consolidated financial statements. That carrying amount is considered to reflect the fair value of the German company.
After impairment testing, the investments in the subsidiaries Bankhaus August Lenz & Co. A.G. and Gamax management A.G. were written down by €3,800 thousand and €5,626 thousand, respectively.

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

17.1 Analysis of profit (loss) on disposal of investments

€/'000	Dec. 31, 2010	Dec. 31, 2009
A. Property	-	-
- Gains on sale	-	-
- Losses on sale	-	-
B. Other assets	2,197	(3)
- Gains on sale	2,201	1
- Losses on sale	(4)	(4)
Profit (loss)	2,197	(3)

In the year under review the Bank posted a €2,200 thousand gain on the sale of all servers to Cedacri under the relevant outsourcing arrangements.

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

18.1 Analysis of income tax expense on continuing operations

€/'000	Dec. 31, 2010	Dec. 31, 2009
1. Current tax (-)	(5,149)	(4,437)
2. Change in current tax for prior years (+/-)	9	1,176
3. Change in current tax for the year (+)	-	-
4. Change in deferred tax assets (+/-)	10,170	24,102
5. Change in deferred tax liabilities (+/-)	(1,797)	(2,181)
6. Income tax expense for the year (-) (-1+/-2+3+/-4+/-5)	3,233	18,660

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

€/'000	rate %	taxable amout	tax expense
Calculation of taxable income (IRES)			
Pre-tax profit	-	63,101	-
Theoretical tax	27.50	-	17,353
Temporary differences taxable in future years	-	(6,535)	-
Temporary differences deductible in future years	-	66,741	-
Prior years' temporary differences	-	(33,007)	-
Permanent differences	-	(96,370)	-
Total taxable income	-	(6,070)	-
Current tax expense for the year	-	-	(1,669)
Adjustments due to application of tax consolidation regime	-	-	-
Net IRES income tax expense	-	-	(1,669)
Average rate on pre-tax profit	N.A.	-	-
Calculation of taxable income (IRAP)			
Value of production less production costs	-	157,466	-
Income/Costs not significant for the purpose of IRAP calculation	-	(28,458)	-
Gross production value	-	129,008	-
Theoretical tax expense (tax rate: 4.82%)	4.82	-	6,218
Prior years' temporary differences	-	(3,508)	-
Permanent differences	-	15,775	-
Net production value	-	141,276	-
Net IRAP tax expense	-	-	6,810
Average rate on value added	5.28	-	-

PART D – INFORMATION ON COMPREHENSIVE INCOME

STATEMENT OF COMPREHENSIVE INCOME

€/'000	Before tax	Income tax	After tax
10. Net profit (loss) for the year	X	X	66,334
Other income components			
20. Available for sale financial assets	(55,808)	18,135	(37,673)
a) changes in fair value	(53,721)	17,332	(36,389)
b) reversals to the income statement	(2,087)	803	(1,284)
- impairment	1,271	(282)	989
- realised gains/losses	(3,358)	1,085	(2,273)
c) other changes	-	-	-
30. Tangible assets	-	-	-
40. Intangible assets	-	-	-
50. Hedges of investments in foreign operations	-	-	-
a) changes in fair value	-	-	-
b) reversals to the income statement	-	-	-
c) other changes	-	-	-
60. Cash flow hedges	-	-	-
a) changes in fair value	-	-	-
b) reversals to the income statement	-	-	-
c) other changes	-	-	-
70. Exchange differences:	-	-	-
a) value changes	-	-	-
b) reversals to the income statement	-	-	-
c) other changes	-	-	-
80. Non current assets held for sale	-	-	-
a) changes in fair value	-	-	-
b) reversals to the income statement	-	-	-
c) other changes	-	-	-
90. Actuarial gains (losses) on defined benefit plans	-	-	-
100. Share of valutation reserves relating to investments accounted for by the equity method	-	-	-
a) changes in fair value	-	-	-
b) reversals to the income statement	-	-	-
- impairment	-	-	-
- realised gains/losses	-	-	-
c) other changes	-	-	-
110. Total other income components	(55,808)	18,135	(37,673)
120. Comprehensive income (items 10+110)	(55,808)	18,135	28,661

PART E - INFORMATION ON RISKS AND RISK MANAGEMENT

The internal control system of Banca Mediolanum entails defence at different levels in accordance with the Group's organisational structure.

Specifically, for financial risk and credit 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 organisational unit or function. Risk controls (second level) are controls performed by units other than operating units. They contribute to the definition of risk measurement methods, control of operating limits of officers to whom authorities are delegated, and verify compliance of transactions with the risk/return targets set by corporate bodies in their respective areas of responsibility.

The Financial Risk and Credit Risk Management unit, within the Risk Management and Compliance function, is responsible for identifying, measuring, assessing and managing the financial risk and credit risk associated with all assets and liabilities managed by Banca Mediolanum.

SECTION 1 - CREDIT RISK

QUALITATIVE INFORMATION

1. General information

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 Banca Mediolanum. Consistently with the Group mission, lending complements the Group primary business i.e. the distribution of banking, asset management, insurance and retirement savings products. Banca Mediolanum 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 Organisational aspects

As part of its responsibilities for organising and directing the Group's affairs, Banca Mediolanum issued specific Lending Guidelines. The guidelines set out general principles and instructions on lending and on monitoring of the loan portfolio quality. The Parent Company is responsible for assessing overall exposure to credit risk and defining risk measurement policies for the whole Group.

Within its areas of responsibility, Banca Mediolanum also assesses credit risk exposure at the level of individual companies, by measuring and monitoring the risk associated with the various categories of financial instruments. Capital adequacy and, in particular, compliance with capital requirements and exposure limits for credit risk as set by local supervisory authorities are periodically monitored by the competent offices of Banca Mediolanum.

Banca Mediolanum has its own "Lending Policy", which was 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 Risk measurement and management

Banca Mediolanum's credit risk management system consists of the set of models and measurement tools as well as controls geared to ensure optimal management of the credit risk associated with the loan portfolio.
The credit risk management system ensures Banca Mediolanum is always current with its risk exposure in relation to each customer or group of customers, and takes prompt corrective actions, when needed, in accordance with related policies.
The credit risk management system pursues the following objectives:

- develop adequate processes for identifying, measuring and monitoring credit risk in relation to each counterparty and portfolio;
- ensure a steady flow of timely information to effectively monitor the composition and quality of the loan portfolio and promptly adjust loss estimates and capital charges;
- ensure compliance with the prudential requirements of domestic and international supervisory authorities;
- promote the adoption of policies and procedures for credit risk prudent management;
- support operational decisions of lending officers by providing the information needed to properly assess the borrower creditworthiness and type of financing;
- provide an adequate flow of information on credit risk exposures and mitigation techniques to senior management.

The credit risk management system reflects the specific characteristics of the banking lending business and any changes thereof in addition to any regulatory or statutory changes.
Credit quality is monitored by regularly assessing whether there is evidence of risk, in each stage of the lending process, through the application of 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, as part of its loan application analysis, Banca Mediolanum gathers all information needed to assess the consistency of the loan amount with the type and purpose of financing. In that examination, Banca Mediolanum 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 the Bank. Outstanding loans are continuously monitored focusing especially on riskier positions. Regular reports on credit protection actions taken are submitted to the Board of Directors.

2.3 Credit risk mitigation techniques

Loans extended by Banca Mediolanum 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

Banca Mediolanum has its own 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 realising 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.

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, impairment, 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	Other assets	Total
1. Financial assets held for trading	-	-	-	-	955,644	955,644
2. Available-for-sale financial assets	-	-	-	-	1,622,979	1,622,979
3. Held-to-maturity investments	-	-	-	-	1,109,195	1,109,195
4. Loans to banks	-	-	-	-	2,416,210	2,416,210
5. Loans to customers	7,828	24,602	223	3,627	4,111,419	4,147,699
6. Financial assets at fair value	-	-	-	-	-	-
7. Financial assets being disposed of	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-
Total at Dec. 31, 2010	7,828	24,602	223	3,627	10,215,447	10,251,727
Total at Dec. 31, 2009	7,297	18,450	222	9,354	7,503,430	7,538,753

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

€/'000	Impaired assets			Performing assets			Total net exposure
	Gross exposure	Individual impairment	Net exposure	Gross exposure	Collective impairment	Net exposure	
1. Financial assets held for trading	-	-	-	X	X	955,644	955,644
2. Available-for-sale financial assets	-	-	-	1,622,979	-	1,622,979	1,622,979
3. Held-to-maturity investments	-	-	-	1,109.195	-	1,109,195	1,109,195
4. Loans to banks	-	-	-	2,416,210	-	2,416,210	2,416,210
5. Loans to customers	57,362	(21,082)	36,280	4,116,162	(4,743)	4,111,419	4,147,699
6. Financial assets at fair value	-	-	-	X	X	-	-
7. Financial assets being disposed of	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	X	X	-	-
Total at Dec. 31, 2010	57,362	(21,082)	36,280	9,264,546	(4,743)	10,215,447	10,251,727
Total at Dec. 31, 2009	55,386	(20,063)	35,323	6,664,098	(4,738)	7,503,430	7,538,753

Analysis of loans under renegotiation and other exposures

€/'000	Under renegotiation			Other exposures			Total net exposure
	Gross exposure	Individual impairment	Net exposure	Gross exposure	Collective impairment	Net exposure	
1. Financial assets held for trading	-	-	-	X	X	955,644	955,644
2. Available-for-sale financial assets	-	-	-	1,622,979	-	1,622,979	1,622,979
3. Held-to-maturity investments	-	-	-	1,109,195	-	1,109,195	1,109,195
4. Loans to banks	-	-	-	2,416,210	-	2,416,210	2,416,210
5. Loans to customers	634	(1)	633	4,115,528	(4,742)	4,110,786	4,111,419
6. Financial assets at fair value	-	-	-	X	X	-	-
7. Financial assets being disposed of	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	X	X	-	-
Total at Dec. 31, 2010	634	(1)	633	9,263,912	(4,742)	10,214,814	10,215,447

Aging analysis of past due items

	Under renegotiation	Other exposures
€/'000	Net exposure	Net exposure
Up to 3 months	633	147,731
3 to 6 months	-	2,761
6 to 12 months	-	73
1 year	-	36
Past due customer loans	633	150,601

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

€/'000	Gross exposure	Individual impairment	Collective impairment	Net exposure
A. On-balance sheet				
a) Non performing	-	-	X	-
b) Watch list	-	-	X	-
c) Restructured	-	-	X	-
d) Past due	-	-	X	-
e) Other	4,328,193	X	-	4,328,193
Total A	4,328,193	-	-	4,328,193
B. Off-balance sheet				
a) Impaired	-	-	X	-
b) Other	27,001	X	-	27,001
Total B	27,001	-	-	27,001
Total (A+B)	4,355,194	-	-	4,355,194

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

At balance sheet date there were no impaired bank loans.

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

At balance sheet date there was no impairment of bank loans.

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

€/'000	Gross exposure	Individual impairment	Collective impairment	Net exposure
A. On-balance sheet				
a) Non performing	18,333	(10,505)	X	7,828
b) Watch list	34,580	(9,978)	X	24,602
c) Restructured	223	-	X	223
d) Past due	4,226	(599)	X	3,627
e) Other	5,888,579	X	(4,743)	5,883,836
Total A	5,945,941	(21,082)	(4,743)	5,920,116
B. Off-balance sheet				
a) Impaired	311	(21)	X	290
b) Other	95,234	X	(35)	95,199
Total B	95,545	(21)	(35)	95,489

On-balance sheet exposures include all on-balance sheet financial assets regardless of the category into which they are classified, i.e. financial assets held-for-trading, available-for-sale financial assets, held-to-maturity investments, loans and receivables.

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

€/'000	Non performing	Watch list	Restructured	Past due
A. Opening gross balance	16,987	27,521	221	10,656
- of which: loans sold but not derecognised	-	-	-	-
B. Increases				
B.1 reclassified from performing loans	12	17,627	-	16,302
B.2 reclassified from other impaired loan categories	3,237	9,132	-	277
B.3 other increases	699	2,701	2	858
C. Decreases				
C.1 reclassified to performing loans	-	(4,591)	-	(9,449)
C.2 cancellations	(1,383)	-	-	-
C.3 receipts	(980)	(14,091)	-	(5,286)
C.4 proceeds from sale	-	-	-	-
C.5 reclassified to other impaired loan categories	-	(3,514)	-	(9,132)
C.6 other decreases	(239)	(205)	-	-
D. Closing gross balance	18,333	34,580	223	4,226
- of which: loans sold but not derecognised	-	-	-	-

On-balance sheet exposures include all on-balance sheet financial assets regardless of the category into which they are classified, i.e. financial assets held for trading, available-for-sale financial assets, held-to-maturity investments, loans and receivables.

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

€/'000	Non performing	Watch list	Restructured	Past due
A. Net impairment at beginning of the year	9,690	9,071	-	1,302
- of which: loans sold but not derecognised	-	-	-	-
B. Increases				
B.1 impairment	1,848	6,115	-	584
B.2 reclassified from other impaired loan categories	1,222	267	-	107
B.3 other increases	-	5	-	-
C. Decreases				
C.1 revaluations	(511)	(1,488)	-	(495)
C.2 repayments	(360)	(2,676)	-	(620)
C.3 cancellations	(1,384)	-	-	-
C.4 reclassified to other impaired loan categories	-	(1,316)	-	(279)
C.5 other decreases	-	-	-	-
D. Net impairement at end of the year	10,505	9,978	-	599
- of which: loans sold but not derecognised	-	-	-	-

A.2 Analysis of exposures by internal and external rating

A.2.1 Analysis of on and off-balance sheet exposures by external rating

	External rating class							
€/'000	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Unrated	Total
A. On balance sheet exposures	3,794,224	2,222,270	560,197	86,637	47	-	3,584,934	10,248,309
B. Derivatives	196	765	-	13	-	-	2,443	3,417
B.1 Financial derivatives	196	765	-	13	-	-	2,443	3,417
B.2 Credit derivatives	-	-	-	-	-	-	-	-
C. Guarantees issued	-	78	5,653	-	-	-	31,218	36,949
D. Commitments to disburse funds	-	-	-	-	-	-	82,124	82,124
Total	3,794,420	2,223,113	565,850	86,650	47	-	3,700,719	10,370,799

A.2.2 Analysis of on and off-balance sheet exposures by internal rating

The Bank does not have internal rating models.

A.3. ANALYSIS OF SECURED EXPOSURES BY TYPE OF COLLATERAL

A.3.1 Secured loans to banks

At balance sheet date there were no secured loans to banks.

A.3.2 Secured loans to customers

		Real guarantees (1)			Personal guarantees (2)								
					Credit derivatives					Endorsements			
					Other derivatives								
€/'000	Net exposure	Property	Securities	Others	CNL	Governments & central banks	Gov. agencies	Banks	Others	Governments & central banks	Government agencies	Banks	Others	Total (1)+(2)
1. Secured loans (on balance sheet)														
1.1 entirely secured	2,219,925	2,213,460	-	2,874	-	-	-	-	-	-	-	-	3,472	2,219,806
- of which impaired	16,630	15,207	-	-	-	-	-	-	-	-	-	-	1,423	16,630
1.2 partly secured	14,695	883	-	266	-	-	-	-	-	-	-	-	11,951	13,100
- of which impaired	8,825	70	-	-	-	-	-	-	-	-	-	-	8,750	8,820
2. Secured loans (off balance sheet)														
2.1 entirely secured	3	1	-	-	-	-	-	-	-	-	-	-	2	3
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partly secured	3	-	-	-	-	-	-	-	-	-	-	-	1	1
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-

B. DISTRIBUTION AND CONCENTRATION OF EXPOSURES

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

	Governments			Government agencies		
€/'000	Net exposure	Individual impairment	Collective impairment	Net exposure	Individual impairment	Collective impairment
A. On balance sheet						
A.1 Non performing	-	-	X	-	-	X
A.2 Watch list	-	-	X	-	-	X
A.3 Restructured	-	-	X	-	-	X
A.4 Past due	-	-	X	-	-	X
A.5 Others	2,286,613	X	-	101,060	X	-
Total A	2,286,613	-	-	101,060	-	-
B. Off balance sheet						
B.1 Non performing	-	-	X	-	-	X
B.2 Watch list	-	-	X	-	-	X
B.3 Other impaired assets	-	-	X	-	-	X
B.4 Others	13	X	-	-	X	-
Total B	13	-	-	-	-	-
Total (A+B) at Dec. 31, 2010	2,286,626	-	-	101,060	-	-
Total (A+B) at Dec. 31, 2009	630,742	-	-	-	-	-

Financial companies			Insurance companies			Non financial companies			Others		
Net exposure	Individual impairment	Collective impairment	Net exposure	Individual impairment	Collective impairment	Net exposure	Individual impairment	Collective impairment	Net exposure	Individual impairment	Collective impairment
-	-	X	-	-	X	32	(146)	X	7,796	(10,359)	X
10,108	(2,986)	X	-	-	X	320	(229)	X	14,174	(6,763)	X
-	-	X	-	-	X	223	-	X	-	-	X
-	-	X	-	-	X	9	(2)	X	3,618	(597)	X
647,837	X	(37)	25,503	X	-	57,079	X	(62)	2,765,744	X	(4,644)
657,945	(2,986)	(37)	25,503	-	-	57,663	(377)	(62)	2,791,332	(17,719)	(4,644)
-	-	X	-	-	X	-	-	X	-	-	X
-	-	X	-	-	X	-	-	X	290	(21)	X
-	-	X	-	-	X	-	-	X	-	-	X
2,550	X	-	-	X	-	2,218	X	(4)	90,418	X	(31)
2,550	-	-	-	-	-	2,218	-	(4)	90,708	(21)	(31)
660,495	(2,986)	(37)	25,503	-	-	59,881	(377)	(66)	2,882,040	(17,740)	(4,675)
596,432	-	(130)	73,941	-	(58)	79,463	(282)	(61)	2,608,727	(19,803)	(4,521)

B.2 Geographical distribution of on-balance sheet and off-balance sheet customer loans (book value))

€/'000	Italy		Other european countries		America		Asia		Rest of the world	
	Net exposure	Net impairment	Net exposure	Net impairment	Net exposure	Net impairment	Net exposure	Net impairment	Net exposure	Net impairment
A. On balance sheet										
A.1 Non performing	7,828	(10,505)	-	-	-	-	-	-	-	-
A.2 Watch list	24,602	(9,975)	-	(2)	-	(1)	-	-	-	-
A.3 Restructured	223	-	-	-	-	-	-	-	-	-
A.4 Past due	3,627	(599)	-	-	-	-	-	-	-	-
A.5 Others	4,857,672	(4,737)	1,024,827	(6)	756	-	321	-	260	-
Total	4,893,952	(25,816)	1,024,827	(8)	756	(1)	321	-	260	-
B. Off balance sheet										
B.1 Non performing	-	-	-	-	-	-	-	-	-	-
B.2 Watch list	290	(21)	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Others	95,186	(35)	-	-	13	-	-	-	-	-
Total	95,476	(56)	-	-	13	-	-	-	-	-
Total at Dec. 31, 2010	4,989,428	(25,872)	1,024,827	(8)	769	(1)	321	-	260	-
Total at Dec. 31, 2009	3,499,207	(24,787)	482,627	(67)	7,118	(1)	49	-	304	-

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

€/'000	Italy		Other european countries		America		Asia		Rest of the world	
	Net exposure	Net impairment	Net exposure	Net impairment	Net exposure	Net impairment	Net exposure	Net impairment	Net exposure	Net impairment
A. On balance sheet										
A.1 Non performing	-	-	-	-	-	-	-	-	-	-
A.2 Watch list	-	-	-	-	-	-	-	-	-	-
A.3 Restructured	-	-	-	-	-	-	-	-	-	-
A.4 Past due	-	-	-	-	-	-	-	-	-	-
A.5 Others	3,623,894	-	698,605	-	5,663	-	31	-	-	-
Total	3,623,894	-	698,605	-	5,663	-	31	-	-	-
B. Off balance sheet										
B.1 Non performing	-	-	-	-	-	-	-	-	-	-
B.2 Watch list	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Others	20,244	-	6,756	-	1	-	-	-	-	-
Total	20,244	-	6,756	-	1	-	-	-	-	-
Total at Dec. 31, 2010	3,644,138	-	705,361	-	5,664	-	31	-	-	-
Total at Dec. 31, 2009	3,258,270	(25)	420,815	(90)	13,284	-	22	-	-	-

B.4 Large exposures

	Nominal	Weighted
a) amount in thousands of euro	8.415.742	1.971.509
b) number:		Total 29

The number and amount of large exposures were determined in accordance with new rules under Circular 263 of December 27, 2006 and Circular 155 of December 18, 199 that require reporting of large exposures at nominal value. Previous rules required large exposures to be stated at their weighted value.

C. SECURITISATION TRANSACTIONS AND SALE OF ASSETS

C.1 Securitisation transactions

Qualitative information

During the year Banca Mediolanum traded exclusively in securitised notes.

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

	On-balance sheet exposures						Guarantees issued						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
€/'000	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. Own underlying assets																		
a) impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
b) others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. hird party underlying assets																		
a) impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
b) others	50,548	50,548	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

C.1.3 Analysis of exposures arising from major third-party securitisations by type of securitised asset and by type of exposure

€/'000	On-balance sheet exposures						Guarantees issued						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book value	Impairment/reversal of impairment	Book value	Impairment/reversal of impairment	Book value	Impairment/reversal of impairment	Book value	Impairment/reversal of impairment	Book value	Impairment/reversal of impairment	Book value	Impairment/reversal of impairment	Book value	Impairment/reversal of impairment	Book value	Impairment/reversal of impairment	Book value	Impairment/reversal of impairment
A.1 SCCI/TV 20190730 S10 SEN - Receivables from National Social Security & Pension Agency	19,946	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.2 F-E MORTGAGES/TV 20431030 CL A - Receivables under mortgage loans	2,356	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.3 CORDUSIO RMBS/TV 20330630 CL A2 - Receivables under mortgage loans	6,387	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.4 BPM SEC 2/TV 20430715 CL A2 - Receivables under mortgage loans	6,580	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.5 VELA HOME/TV 20400730 CL A S3 - Receivables under mortgage loans	4,299	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.6 TRICOLORE FUND/TV 20200715 CL A - Receivables under equipment, machinery and property leases	690	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.7 LOCAT SV3/TV 20261212 CL A2 - Receivables under leases	3,326	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.8 SUNRISE/TV 20300827 CL A SEN - Receivables, consumer credit	6,964	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

C.1.4 Analysis of exposures arising from securitisations by financial asset category and by type

€/'000	Financial assets held for trading	Financial assets at fair value	Available-for-sale financial assets	Held-to-maturity investments	Loans & receivables	Dec. 31, 2010	Dec. 31, 2009
1. On balance sheet exposures							
- "Senior"	-	-	-	-	50,548	50,548	79,079
- "Mezzanine"	-	-	-	-	-	-	-
- "Junior"	-	-	-	-	-	-	-
2. Off balance sheet exposures							
- "Senior"	-	-	-	-	-	-	-
- "Mezzanine"	-	-	-	-	-	-	-
- "Junior"	-	-	-	-	-	-	-

C.2 Sale of assets

C.2.1 Analysis of financial assets sold but not derecognised

€/'000	Financial assets held for trading			Financial assets at fair value			Available-for-sale financial assets			Held-to-maturity investments			Loans to banks			Loans to customers			Dec. 31, 2010	Dec. 31, 2009
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C		
A. On-balance sheet assets	40,347	-	-	-	-	-	1,154,479	-	-	227,071	-	-	304,749	-	-	192,084	-	-	1,918,730	211,747
1. Debt securities	40,347	-	-	-	-	-	1,154,479	-	-	227,071	-	-	304,749	-	-	192,084	-	-	1,918,730	211,747
2. Equities	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
3. Holdings in UCITS	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Derivatives	-	-	-	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	-	-
Total at Dec. 31, 2010	40,347	-	-	-	-	-	1,154,479	-	-	227,071	-	-	304,749	-	-	192,084	-	-	1,918,730	-
of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total at Dec. 31, 2009	-	-	-	-	-	-	18,496	-	-	193,251	-	-	-	-	-	-	-	-	-	211,747
of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Legend:

A = Financial assets sold, fully recognised on the balance sheet (book value).

B = Financial assets sold, partly recognised on the balance sheet (book value).

C = Financial assets sold, partly recognised on the balance sheet (full value).

C.2.2 Analysis of financial liabilities against financial assets that are sold but not derecognised

€/'000	Financial assets held for trading	Financial assets at fair value	Available-for-sale financial assets	Held-to-maturity investments	Loans to banks	Loans to customers	Total
1. Due to customers	29,108	-	1,031,212	227,694	314,236	191,790	1,794,040
a) against assets fully recognised on the balance sheet	29,108	-	1,031,212	227,694	314,236	191,790	1,794,040
b) against assets partly recognised on the balance sheet	-	-	-	-	-	-	-
2. Due to banks	11,398	-	118,907	-	-	-	130,305
a) against assets fully recognised on the balance sheet	11,398	-	118,907	-	-	-	130,305
b) against assets partly recognised on the balance sheet	-	-	-	-	-	-	-
Total at Dec. 31, 2010	40,506	-	1,150,119	227,694	314,236	191,790	1,924,345
Total at Dec. 31, 2009	-	-	17,494	188,612	-	-	206,106

SECTION 2 - MARKET RISK

2.1 Interest rate risk 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. Specifically, the trading book consists of positions held by those Banca Mediolanum functions authorised to take market risk exposures within the limits and the authorities delegated to them by the Board of Directors. The trading book primarily consists of positions in bonds, equities, derivatives and money market instruments.

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

Banca Mediolanum's Risk Management and Compliance function is responsible for ensuring that the various entities use consistent methods in assessing financial risk exposure. It also contributes to the definition of lending and operating limits. Exposure to interest rate risk and pricing risk is measured by applying portfolio analyses (e.g. exposure limits, characteristics of the instruments and of the issuers) as well as by estimating the risk of maximum loss on the portfolio (Value at risk) over a defined time horizon.

Quantitative information

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

	on demand	less than 3 months	3 to 6 month	6 to 12 month	1 to 5 years	5 to 10 years	over 10 years	indefinite maturity
1. Non derivative assets	-	486,594	9,713	39,194	254,429	154,272	42	-
1.1 Debt securities	-	486,594	9,713	39,194	254,429	154,272	42	-
- with early redemption option	-	12,533	-	-	19,523	-	-	-
- others	-	474,061	9,713	39,194	234,906	154,272	42	-
EUR	-	474,061	9,713	39,194	234,898	154,264	42	-
USD	-	-	-	-	-	8	-	-
GBP	-	-	-	-	8	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Non derivative liabilities	1	51,777	20,315	14,513	297,501	89,237	-	-
2.1 Repos (EUR)	1	40,504	-	-	-	-	-	-
2.2 Other liabilities	-	11,273	20,315	14,513	297,501	89,237	-	-
EUR	-	11,273	20,315	14,513	297,500	89,237	-	-
GBP	-	-	-	-	1	-	-	-
3. Financial derivatives	237,485	1,424,876	225,846	88,592	155,602	233,320	245,717	-
3.1 with underlying securities	14	252,679	111,155	609	25,228	74,172	9,260	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Others	14	252,679	111,155	609	25,228	74,172	9,260	-
+ Long positions	7	156,982	54,593	303	24,456	116	312	-
EUR	7	84,374	54,541	303	24,121	107	312	-
USD	-	72,188	-	-	-	9	-	-
GBP	-	25	-	-	19	-	-	-
OTHER CURRENCIES	-	395	52	-	316	-	-	-
+ Short positions	7	95,697	56,562	306	772	74,056	8,948	-
EUR	7	95,277	541	306	431	74,047	8,948	-
USD	-	9	-	-	-	9	-	-
GBP	-	19	-	-	25	-	-	-
CHF	-	-	55,969	-	-	-	-	-
OTHER CURRENCIES	-	392	52	-	316	-	-	-
3.2 without underlying securities	237,471	1,172,197	114,691	87,983	130,374	159,148	236,457	-
- Options	-	462,065	4,563	240	77,462	155,144	224,656	-
+ long positions (EUR)	-	462,065	-	-	-	-	-	-
+ short positions (EUR)	-	-	4,563	240	77,462	155,144	224,656	-
- Others	237,471	710,132	110,128	87,743	52,912	4,004	11,801	-
+ Long positions	237,471	314,659	54,000	-	-	-	-	-
EUR	237,471	241,208	54,000	-	-	-	-	-
USD	-	73,411	-	-	-	-	-	-
GBP	-	23	-	-	-	-	-	-
OTHER CURRENCIES	-	17	-	-	-	-	-	-
+ Short positions	-	395,473	56,128	87,743	52,912	4,004	11,801	-
EUR	-	321,238	159	87,743	52,912	4,004	11,801	-
USD	-	73,878	-	-	-	-	-	-
GBP	-	12	-	-	-	-	-	-
CHF	-	24	55,969	-	-	-	-	-
OTHER CURRENCIES	-	321	-	-	-	-	-	-

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

€/'000	Listed			Unlisted
	Italy	USA	Other countries	
A. Equity instruments	3	-	3	-
- long positions	3	-	3	-
- short positions	-	-	-	-
B. Not yet settled purchases and sales of equity instruments	3	-	-	-
- long positions	-	-	-	-
- short positions	3	-	-	-
C. Other equity instrument derivatives	-	-	-	-
- long positions	-	-	-	-
- short positions	-	-	-	-
D. Stock index derivatives	-	-	-	-
- long positions	-	-	-	-
- short positions	-	-	-	-
Total	6	-	3	-

2.2 Interest rate risk and pricing risk – banking book

Qualitative information

A. Interest Rate Risk and Pricing Risk - General information, measurement and management

Banca Mediolanum's Banking Book is made up of those financial instruments that are not part of the trading book, in particular inter-bank loans, held-to-maturity investments and available-for-sale financial instruments. Banking book exposure to interest rate risk and pricing risk is measured using a simplified ALM model. The banking book's interest rate risk management framework includes sensitivity analyses on net interest income as well as analyses of the impact of interest rate shocks on the present value of all financial items.

B. Fair Value Hedges

There are no fair value hedges as defined under IAS.

C. Cash Flow Hedges

There are no cash flow hedges as defined under IAS.

Quantitative information

1. Banking Book: Time-to-maturity (repricing date) of financial assets and financial liabilities (part 1)

€/'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. Financial assets	1,358,853	4,528,590	1,852,879	370,784	697,413	143,364	317,253	1
1.1 Debt securities	157,524	1,875,761	1,846,407	336,343	613,246	29,958	-	-
- with early redemption option (EUR)	126	33,552	-	-	-	-	-	-
- others (EUR)	157,398	1,842,209	1,846,407	336,343	613,246	29,958	-	-
1.2 Loans to banks	694,173	454,860	-	23,106	-	-	-	-
EUR	691,742	380,168	-	23,106	-	-	-	-
USD	1,557	18,710	-	-	-	-	-	-
GBP	87	-	-	-	-	-	-	-
YEN	45	-	-	-	-	-	-	-
CHF	169	55,982	-	-	-	-	-	-
OTHER CURRENCIES	573	-	-	-	-	-	-	-
1.3 Loans to customers	507,156	2,197,969	6,472	11,335	84,167	113,406	317,253	1
- current accounts	335,036	56	54	143	872	527	-	-
EUR	335,024	56	54	143	872	527	-	-
USD	12	-	-	-	-	-	-	-
- other loans	172,120	2,197,913	6,418	11,192	83,295	112,879	317,253	1
- with early redemption option (EUR)	26,359	2,097,708	4,588	9,047	80,015	112,230	317,253	1
- other (EUR)	145,761	100,205	1,830	2,145	3,280	649	-	-

1. Banking Book: Time-to-maturity (repricing date) of financial assets and financial liabilities (part 2)

€/'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
2. Financial liabilities	6,945,212	2,195,566	421,666	120,500	-	-	-	-
2.1 Due to customers	5,362,642	1,691,149	106,666	-	-	-	-	-
- current accounts	5,183,671	6,787	-	-	-	-	-	-
EUR	5,164,078	6,762	-	-	-	-	-	-
USD	19,529	25	-	-	-	-	-	-
GBP	64	-	-	-	-	-	-	-
- others	178,971	1,684,362	106,666	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others (EUR)	178,971	1,684,362	106,666	-	-	-	-	-
2.2 Due to banks	1,581,213	267,674	212,620	120,500	-	-	-	-
- current accounts	9,603	-	-	-	-	-	-	-
EUR	9,587	-	-	-	-	-	-	-
OTHER CURRENCIES	16	-	-	-	-	-	-	-
- others (EUR)	1,571,610	267,674	212,620	120,500	-	-	-	-
2.3 Debt securities	1,357	236,743	102,380	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others (EUR)	1,357	236,743	102,380	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	-	-	-	-	-	-	-	-
3. Financial derivaties	1,321	1,428,655	956,339	495,233	2,448,591	1,481,092	3,848,703	-
3.1 with underlying securities	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions (EUR)	-	-	-	-	-	-	-	-
+ Short positions (EUR)	-	-	-	-	-	-	-	-
3.2 w/o underlying securities	1,321	1,428,655	956,339	495,233	2,448,591	1,481,092	3,848,703	-
- Options	-	928,052	952,310	487,017	2,374,991	1,375,847	3,545,826	-
+ Long positions	-	331,476	568,252	255,157	1,212,995	684,398	1,779,744	-
+ Short positions	-	596,576	384,058	231,860	1,161,996	691,449	1,766,082	-
- Other	1,321	500,603	4,029	8,216	73,600	105,245	302,877	-
+ Long positions (EUR)	1,321	496,625	-	-	-	-	-	-
+ Short positions (EUR)	-	3,978	4,029	8,216	73,600	105,245	302,877	-

2.3 Currency risk

Qualitative information

A. Currency Risk - General information, Measurement and Management

The Bank 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.

B. Currency Risk - Hedges

There are no hedges as defined under IAS.

Qualitative information

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

	Currency					
€/'000	US dollar	Sterlin	YEN	Canadian dollar	Swiss franc	Other currencies
A. Financial assets	20,287	275	46	117	56,151	456
A.1 Debt securities	8	8	-	-	-	-
A.2 Equities	-	180	1	-	-	-
A.3 Loans to banks	20,267	87	45	117	56,151	456
A.4 Loans to customers	12	-	-	-	-	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	22	18	-	-	2	809
C. Financial liabilities	19,554	66	-	-	-	16
C.1 Due to banks	-	-	-	-	-	16
C.2 Due to customers	19,554	66	-	-	-	-
C.3 Securities issued	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	4	1	-	-	1	809
E. Financial derivatives	147,289	35	-	-	55,993	338
- Options	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-
- Others derivatives	147,289	35	-	-	55,993	338
+ Long positions	73,411	23	-	-	-	17
+ Short positions	73,878	12	-	-	55,993	321
Total assets	93,720	316	46	117	56,153	1,282
Total liabilities	93,436	79	-	-	55,994	1,146
Net position (+/-)	284	237	46	117	159	136

1. Internal models and other sensitivity analysis methods

VaR (Value at Risk) estimates the risk of loss resulting from adverse movements in the exchange rate of traded financial instruments as a result of adverse market movements.

2.4 Derivative financial instruments

A. Financial derivatives

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

	Dec. 31, 2010		Dec. 31, 2009	
€/'000	OTC	Central Counterparties	OTC	Central Counterparties
1. Debt securities and interest rates	434,251	106,283	231,461	28,000
a) Options	27,113	-	27,967	-
b) Swaps	406,776	-	203,494	-
c) Forwards	362	-	-	-
d) Futures	-	106,283	-	28,000
e) Others	-	-	-	-
2. Equities and stock indices	-	3	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	3	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
3. Currencies and gold	202,001	-	124,109	-
a) Options	-	-	-	-
b) Swaps	128,148	-	91,512	-
c) Forwards	73,853	-	32,597	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
4. Commodities	-	-	-	-
5. Other underlying	-	-	-	-
Total	636,252	106,286	355,570	28,000
Average amount	194,921	3,836	170,450	1,790

A.2 Banking book: year-end and average notional amounts

A.2.1 Hedging derivatives

	Dec. 31, 2010		Dec. 31, 2009	
€/'000	OTC	Central Counterparties	OTC	Central Counterparties
1. Debt securities and interest rates	497,946	-	533,313	-
a) Options	-	-	-	-
b) Swaps	497,946	-	533,313	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
2. Equities and stock indices	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
3. Currencies and gold	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
4. Commodities	-	-	-	-
5. Other underlying	-	-	-	-
Total	497,946	-	533,313	-
Average amount	497,946	-	472,912	-

A.3 Financial derivatives: positive fair value – analysis by type of product

	Positive fair value			
	Dec. 31, 2010		Dec. 31, 2009	
€/'000	OTC	Central Counterparties	OTC	Central Counterparties
A. Trading book	3,408	-	3,761	-
a) Options	955	-	792	-
b) Interest Rate Swaps	11	-	63	-
c) Cross Currency Swaps	2,424	-	2,903	-
d) Equity Swaps	-	-	-	-
e) Forwards	18	-	3	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
B. Banking book - hedging derivatives	-	-	1,179	-
a) Options	-	-	-	-
b) Interest Rate Swaps	-	-	1,179	-
c) Cross Currency Swaps	-	-	-	-
d) Equity Swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
C. Trading book - other derivatives	-	-	-	-
a) Options	-	-	-	-
b) Interest Rate Swaps	-	-	-	-
c) Cross Currency Swaps	-	-	-	-
d) Equity Swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
Total	3,408	-	4,940	-

A.4 Financial derivatives: negative fair value – analysis by type of product

	Negative fair value			
	Dec. 31, 2010		Dec. 31, 2009	
€/'000	OTC	Central Counterparties	OTC	Central Counterparties
A. Trading book	7,214	-	1,665	-
a) Options	-	-	-	-
b) Interest Rate Swaps	2,695	-	658	-
c) Cross Currency Swaps	2,118	-	21	-
d) Equity Swaps	-	-	-	-
e) Forwards	2,401	-	986	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
B. Banking book - hedging derivatives	28,510	-	15,906	-
a) Options	-	-	-	-
b) Interest Rate Swaps	28,510	-	15,906	-
c) Cross Currency Swaps	-	-	-	-
d) Equity Swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
C. Trading book - other derivatives	-	-	-	-
a) Options	-	-	-	-
b) Interest Rate Swaps	-	-	-	-
c) Cross Currency Swaps	-	-	-	-
d) Equity Swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
Total	35,724	-	17,571	-

A.5 Trading Book - OTC financial derivatives: notional amount, gross positive and negative fair value by counterparty – contracts that do not fall under netting arrangements

€/'000	Governments & central banks	Government agencies	Banks	Financial companies	Insurance companies	Non financial companies	Others
1) Debt securities and interest rates							
- notional amount	-	-	396,797	37,427	-	-	27
- positive fair value	-	-	953	-	-	-	-
- negative fair value	-	-	2,507	189	-	-	-
- future exposure	-	-	908	-	-	-	-
2) Equities and stock indices							
- notional amount	-	-	-	-	-	-	-
- positive fair value	13	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3) Currencies and gold							
- notional amount	-	-	129,822	72,179	-	-	-
- positive fair value	-	-	18	2,424	-	-	-
- negative fair value	-	-	4,518	-	-	-	-
- future exposure	-	-	1,298	722	-	-	-
4) Others							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.7 Banking Book - OTC financial derivatives: notional amount, gross positive and negative fair value by counterparty – contracts that do not fall under netting arrangements

€/'000	Governments & central banks	Government agencies	Banks	Financial companies	Insurance companies	Non financial companies	Others
1) Debt securities and interest rates							
- notional amount	-	-	497,946	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	28,510	-	-	-	-
- future exposure	-	-	6,490	-	-	-	-
2) Equities and stock indices							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3) Currencies and gold							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
4) Others							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.9 Time-to-maturity of OTC financial derivatives: notional amount

€/'000	1 year	1 to 5 years	Over 5 years	Total
A. Trading book				
A.1 debt securities and interest rates	338,420	52,912	42,919	434,251
A.2 equities and stock indices	-	-	-	-
A.3 currencies and gold	202,001	-	-	202,001
A.4 other	-	-	-	-
B. Banking book				
B.1 debt securities and interest rates	16,224	73,600	408,122	497,946
B.2 equities and stock indices	-	-	-	-
B.3 currencies and gold	-	-	-	-
B.4 other	-	-	-	-
Total at Dec. 31, 2010	556,645	126,512	451,041	1,134,198
Total at Dec. 31, 2009	341,410	62,730	484,743	888,883

Credit derivatives

During the year the Bank did not trade in credit derivatives and at December 31, 2010 it did not hold any positions in those instruments.

SECTION 3. LIQUIDITY RISK

Qualitative information

A. Liquidity Risk – General information, Measurement and Management

Banca Mediolanum's liquidity management model is structured in a manner that ensures adequate levels of liquidity in the short term as well as in the medium and long term. Given the types of assets held, their duration as well as the type of funding, Banca Mediolanum has no short-term liquidity concerns. From a structural viewpoint, Banca Mediolanum can rely on a stable 'core funding' and is only marginally exposed to volatility. This is evidenced also by Bank's econometric projections of 'on demand positions'. In addition to its sound core funding represented by bank deposits, Banca Mediolanum has been focusing on bond issues for medium-term funding.
The liquidity risk management framework is approved by the Board of Directors of the Bank and implemented across the Group (where applicable). Liquidity risk is monitored by the Financial Risk Management unit applying dedicated policies and procedures, including operating and structural limits, a maturity ladder as well as a contingency funding plan under the broader Asset Liability Management model of the Banking Group.
Liquidity risk management includes the generation of daily reports for monitoring operational liquidity limits in treasury management and quarterly reports for monitoring the bank's structural liquidity in the aggregate. The method used to manage operational liquidity is derived from the Maturity Mismatch Approach and is based on the monitoring of cumulative gaps generated by Net Flows and Counterbalancing Capacity as assessed using an operational Maturity Ladder. The method used to manage structural liquidity is also based on the Maturity Mismatch

Approach and analyzes all financial items according to the timescale set out in the liquidity risk policy document. In 2010, like other banks, Banca Mediolanum participated in the QIS 2010 the quantitative impact study conducted by the Basel Committee to assess the impact of Basel III liquidity standards for the banking system.

Quantitative information

1. Time-to-maturity of financial assets and liabilities (part 1)

€/'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 year	indefinite maturity
On balance sheet assets										
A.1 Government securities	-	-	-	-	-	198,741	304,455	960,105	872,358	-
EUR	-	-	-	-	-	198,741	304,455	960,102	872,350	-
USD	-	-	-	-	-	-	-	-	8	-
GPB	-	-	-	-	-	-	-	3	-	-
A.2 Other debt securities	-	-	-	99,999	37,340	29,484	301,648	2,807,653	237,948	-
EUR	-	-	-	99,999	37,340	29,484	301,648	2,807,648	237,948	-
GBP	-	-	-	-	-	-	-	5	-	-
A.3 Holdings in UCITS (EUR)	162,064	-	-	-	-	-	-	-	-	-
A.4 Loans to	1,151,375	593,342	33,995	56,801	208,935	36,602	91,517	498,046	1,721,182	3,183
- Banks	666,366	361,700	33,995	27,807	55,982	-	23,106	-	-	3,183
EUR	663,935	342,990	33,995	27,807	-	-	23,106	-	-	3,183
USD	1,557	18,710	-	-	-	-	-	-	-	-
YEN	45	-	-	-	-	-	-	-	-	-
CHF	169	-	-	-	55,982	-	-	-	-	-
GBP	87	-	-	-	-	-	-	-	-	-
OTHER CURRENCIES	573	-	-	-	-	-	-	-	-	-
- Customers	485,009	231,642	-	28,994	152,953	36,602	68,411	498,046	1,721,182	-
EUR	484,997	231,642	-	28,994	152,953	36,602	68,411	498,046	1,721,182	-
USD	12	-	-	-	-	-	-	-	-	-

1. Time-to-maturity of financial assets and liabilities (part 2)

€/'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 year	indefinite maturity
On balance sheet assets										
B.1 Deposits	5,040,211	40,125	-	337,500	100,962	212,620	120,500	-	-	-
- Banks	179,540	39,750	-	14,500	94,550	212,620	120,500	-	-	-
EUR	179,524	39,750	-	14,500	94,550	212,620	120,500	-	-	-
OTHER CURRENCIES	16	-	-	-	-	-	-	-	-	-
- Customers	4,860,671	375	-	323,000	6,412	-	-	-	-	-
EUR	4,841,078	350	-	323,000	6,412	-	-	-	-	-
USD	19,529	25	-	-	-	-	-	-	-	-
GBP	64	-	-	-	-	-	-	-	-	-
B.2 Debt securities (EUR)	-	-	-	105	211	10,472	21,108	302,737	4,489	-
B.3 Other liabilities	180,645	2,067,000	52,529	644,933	479,278	127,385	14,589	300,425	103,202	-
EUR	180,645	2,067,000	52,529	644,933	479,278	127,385	14,589	300,424	103,202	-
GBP	-	-	-	-	-	-	-	1	-	-
Off-balance sheet items										
C.1 Financial derivatives with exchange of principal	14	7,668	-	3,035	390,612	111,115	600	25,342	83,432	-
- Long positions	7	3,889	-	1,524	224,714	54,573	298	24,513	428	-
EUR	7	2,568	-	1,141	152,535	54,521	298	24,178	419	-
USD	-	868	-	374	72,179	-	-	-	9	-
GBP	-	49	-	-	-	-	-	19	-	-
OTHER CURRENCIES	-	404	-	9	-	52	-	316	-	-
- Short positions	7	3,779	-	1,511	165,898	56,542	302	829	83,004	-
EUR	7	2,611	-	379	93,542	521	302	488	82,995	-
USD	-	409	-	1,123	72,356	-	-	-	9	-
CHF	-	24	-	-	-	55,969	-	-	-	-
GBP	-	30	-	-	-	-	-	25	-	-
OTHER CURRENCIES	-	705	-	9	-	52	-	316	-	-
C.2 Financial derivatives without exchange of principal	3,662	-	-	1,244	2,586	3,793	7,425	54,516	126,230	-
- Long positions (EUR)	966	-	-	-	-	-	-	-	-	-
- Short positions (EUR)	2,696	-	-	1,244	2,586	3,793	7,425	54,516	126,230	-
C.3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-
- Long positions (EUR)	-	-	-	-	-	-	-	-	-	-
- Short positions (EUR)	-	-	-	-	-	-	-	-	-	-
C.4 Firm commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- Long positions (EUR)	-	-	-	-	-	-	-	-	-	-
- Short positions (EUR)	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	30	-	-

SECTION 4. OPERATIONAL RISK

Qualitative information

A. General aspects, operational risk measurement and management

Regulations and statutes place increasing emphasis on the identification and management of financial, credit and operational risks. In particular, the Basel Capital Accord (International Convergence of Capital Measurements and Capital Standards) and the EU Capital Requirement Directive (CRD) placed greater importance on operational risk classifying it as a separate risk category which requires a specific capital charge as well as the adoption of specific risk measurement and mitigation techniques.
In December 2010, the Basel Committee on banking supervision issued two new papers on operational risk. One incorporates developments in sound practices for the management and supervision of operational risk with focus on governance, risk management and disclosure. The other paper sets out new guidelines for banks and banking groups applying the Advanced Measurement Approaches. The principles set out in those papers are already embedded in the framework in use by the Mediolanum Banking Group.
Operational risk is pervasive across the organisation and is closely correlated to legal risk and regulatory risk (compliance risk).
Banca Mediolanum defines operational risk as "the risk of economic loss or damage to assets, and sometimes legal and administrative consequences, resulting from any misconduct or inappropriate behaviour of its personnel, inadequate or failed systems or internal processes, or external events".
The internal control system of Banca Mediolanum S.p.A. entails defence at different levels in accordance with the Group organisational 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 organisational 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 Management Unit, within the Risk Management and Compliance function, is responsible for identifying, measuring and assessing operational risk. The unit's staff work together with the sales network inspectors for the control and management of operational risk associated with the activities carried out by the sales network, and with Accounting & Finance officers to verify capital adequacy vis-à-vis operational risk capital requirements.
The Operational Risk Control unit is separate and independent of operating units and reports directly to the Parent Company's Senior Management.
In consideration of the characteristics and the type of business conducted by Banca Mediolanum, special attention is given to risks arising in connection with the operation of the Sales Network and the multiple channels, i.e. also those channels which enable access and transactions from a remote location. These risks are managed, *inter alia*, through local controls and procedures for risk assessment, management, prevention and mitigation.
The operational risk management framework entails a central control unit, i.e. Banca Mediolanum's operational risk unit, and local control units, especially for those operations that are more exposed to operational risk, i.e. the direct channels, the sales network inspectors, Group Information Systems and Organisation, also to facilitate coordination in relation to Business Continuity & Disaster Recovery Plans.
There is also close coordination with the Compliance function.

The identification, monitoring and management of operational risk entail the analysis of the processes and activities carried out by the Bank.

The operational risk assessment and measurement method developed beginning from 2006 includes qualitative measurement of exposure to operational risk of each unit within the organisation via an internal rating system.

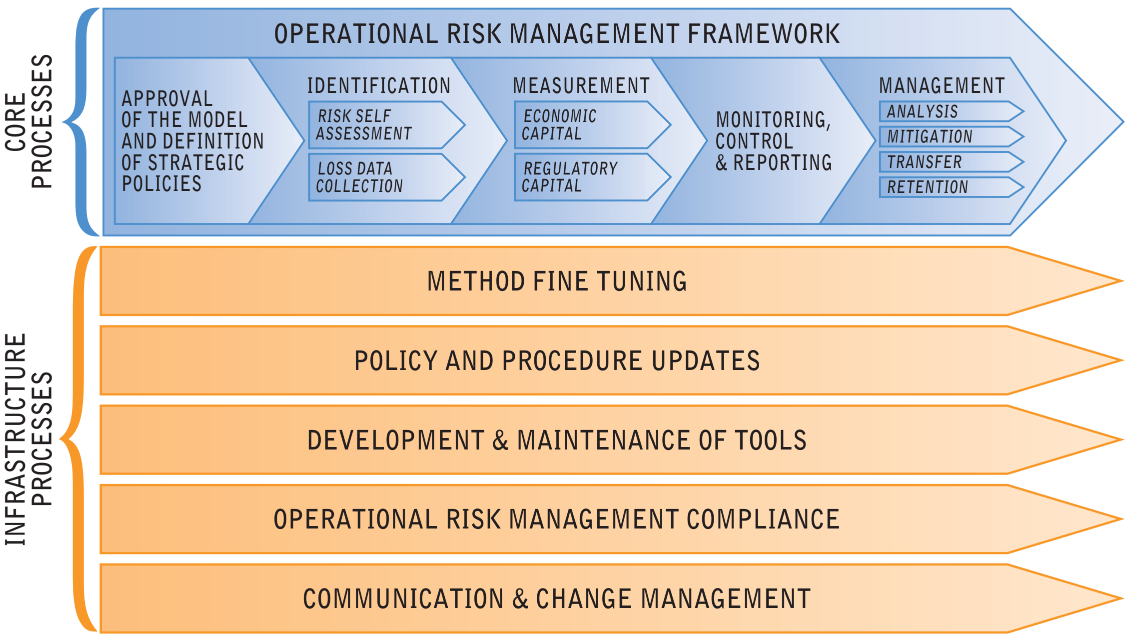
The qualitative metrics differentiate between exposure to risk that is inherent in business management and exposure to risk that is anomalous or at critical levels.

The system uses four ratings, which identify a different level of risk and related response, i.e.:

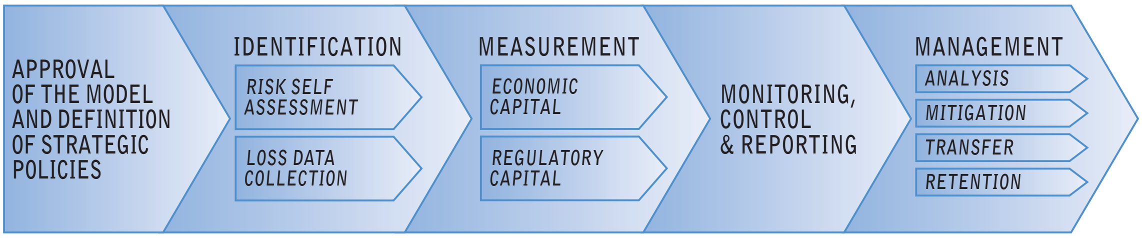
- **A, negligible risk**: risk is consistent with the risk appetite as established by top management;
- **B, moderate risk**: the risk of loss is not negligible; first red flag;
- **C, significant risk**: it indicates a critical condition; more in-depth analysis is recommended to assess the opportunity of mitigating actions;
- **D, high risk**: the situation is severe and mitigating actions need to be taken immediately.

The operational risk management framework was approved by the Board of Directors in December 2006 and periodically reviewed and updated thereafter. The latest review and update were conducted in January 2011. The bank conducts Risk Self Assessment of organisational units and collection of operational loss data on an annual basis. This is groundwork for assessment of the level of risk to which organisational processes are exposed as well as the basis for applying the standardised approach.

The operational risk management framework is summarised in the diagram below.



Each main element in the diagram above indicates a macro-process which is divided into one or more sub-processes. In turn, these sub-processes consist of a series of steps and actions. For the sake of completeness readers are referred to the specific separate documents for full details on said steps and actions.



"**Identification**" consists of the following:

- "Risk Self Assessment" (RSA): ex-ante assessment of exposure to operational risk of an organisational unit or process based on subjective estimates and self-assessment models applied by the risk officer. One of the main outcomes of the Risk Self Assessment exercise is rating, which is the concise indication of the level of operational risk the organisational unit/process is exposed to;
- "Loss Data Collection" (LDC): ex-post collection of internal data on actual losses including any information that is relevant to risk measurement and management (including insurance and direct recoveries). This exercise is conducted applying both an "account driven" approach and an "event driven" approach;
- Qualitative estimates in relation to new business processes or initiatives – generic assessment (GA);
- Key Risk Indicators, i.e. risk and performance indicators that provide insight into the status of operational processes and the main drivers of exposures.

"**Measurement**" relates to the calculation of risk capital, specifically:

- Economic capital: internal risk measurement through a rating system that enables to steer and calibrate risk management and mitigation according to the potential economic impact and the current risk management framework. This exercise is based on the outcome of risk identification analyses and applies an actuarial statistical model;
- Regulatory capital: calculated in accordance with capital requirements indicated by supervisory authorities (Bank of Italy's Circular 263 of December 27, 2006 on new capital requirements for Banks). Based on the examination of the results of self-assessment, initially made on November 7, 2007, and then reviewed on an annual basis (latest results examined on March 23, 2011), the Board of Directors resolved to apply the standardised approach to operational risk capital measurements on an individual basis. This decision was made considering that Banca Mediolanum meets both quantitative and qualitative requirements for the adoption of said approach. Notice thereof was duly given to the Bank of Italy.

"**Monitoring, Control and Reporting**" consists of the following:

- "Monitoring and Control": analysis of actual exposure vs. estimated exposure to operational risk; identification of mitigating actions; fine tuning of risk assessment models;
- "Reporting": preparation of regular reports to Organisational Units, Senior Management, Control Committees and the Board of Directors.

"**Management**" is composed of the following:

- "Management analysis"
- "Risk mitigation"
- "Management of risk transfer techniques"
- "Risk retention management"

The Operational Risk Management framework is complemented by the following processes that cut across business lines:

- "Policies & procedures"
- "Fine-tuning of methods"
- "Development and maintenance of tools and applications"
- "Operational Risk Management Compliance"
- "Internal Communications/Change Management"

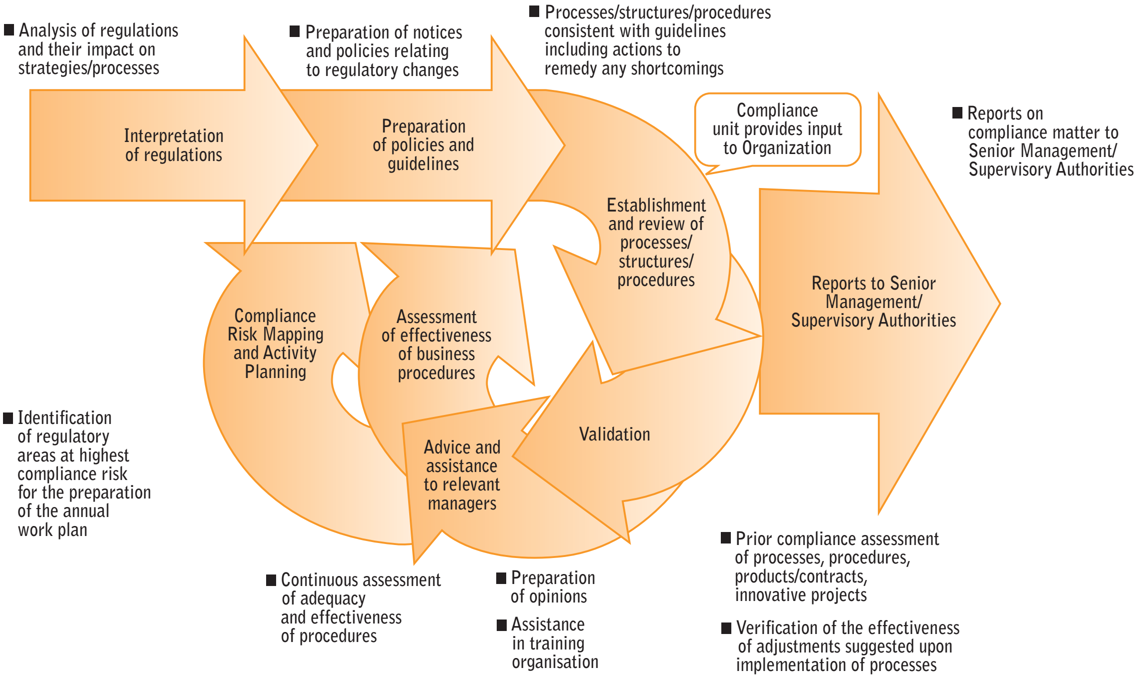
In 2010, over 61 organisational units of the Bank were examined identifying about 1,500 operational risk checkpoints. About 75% of checkpoints were judged to be adequate or in need of being just better formalised. Over 130 risk mitigation actions were taken in relation to risk controls that were judged to be unsatisfactory or in need of improvement.

COMPLIANCE RISK

A single compliance risk management framework is applied across the Mediolanum Banking Group. Banca Mediolanum's Compliance unit is responsible for ensuring compliance within the parent company as well as for supervision, guidance and control of Group companies within its remit.

The scope of work of the Compliance unit has been defined taking account of the responsibilities given to other functions within the organisation in relation to specific regulatory areas.

Compliance cycle



The responsibilities of the Compliance unit are summarised below:

Interpretation of regulations

- Identification of applicable regulations vis-à-vis the regulatory environment;
- Assistance in assessing the impact of the introduction/application of new regulations on business strategies;
- Assessment of the impact of new regulations on business processes/procedures, and preparation of any necessary amendments.

Preparation of policies and guidelines

- Preparation of notices, policies and guidelines in relation to regulatory changes.

Establishment and review of processes/structures/procedures

– Working together with the Organisation staff, establishment of processes/ structures/procedures that are consistent with guidelines including actions to remedy any shortcomings.

Validation

– Prior compliance assessment of processes, procedures, innovative projects, product development;
– Verification of the effectiveness of adjustments suggested upon the implementation of processes.

Advice and assistance to relevant managers

– Preparation of opinions;
– Assistance in the organisation of education sessions.

Assessment of effectiveness of business procedures

– Continuous assessment of the adequacy and effectiveness of business procedures.

Conflicts of Interest

– Identification and assessment, as well as preparation of proposals for effective management of any conflict of interest, maintenance of the 'Register of Conflicts'.

Reports to Senior Management/Supervisory Authorities

– Reports on compliance matters to Senior Management and/or Supervisory Authorities.

Compliance Assessment Mapping and Activity Planning

– Identification of business units most exposed to regulatory compliance risk in order to plan risk mitigation actions.

As a result of enhancements introduced into the Compliance framework, the Banking Group adopted a new compliance risk assessment method across the group. The key traits of the new method which is based on Compliance Assessment Mapping (CAM) and a Compliance Activity Plan (CAP) are outlined below.
The mapping exercise identifies compliance risks and potential consequences in the event of failed compliance (Risk Impact). Based on that output, each entity within the Banking Group conducts self-assessment of the mitigation levels for those risks, applying predefined, objective metrics.
The output of the process is Risk Rating which reflects the applicability and the impact of regulations on the entity's business and the relevance of risk-generating conditions vis-à-vis the overall entity's operations.
For that purpose, an inventory is preliminarily made of the specific legal and regulatory requirements, identifying related risks and determining the related risk impact.
For each identified risk, the key risk prevention measures are analysed, placing emphasis on internal rules, IT procedures, line controls and training, and any past incidents are reviewed (audit reports, complaints, claims). Then, the probability of risk occurrence is measured.
For all risks considered, the method described above enables to identify risk control and mitigation actions that are set out in the compliance work plan and shared with all competent functions within the organisation. Outcomes are reported at least annually to the Board of Directors.
The Compliance staff continuously monitor the implementation of any mitigation actions set out in compliance work plan. The results of their monitoring activities are reported quarterly to the Banking Group's Risk and Audit

Committee. Any significant differences over scheduled actions are measured and reported quarterly to the Board of Directors and to the Board of Statutory Auditors.
In 2010, Compliance staff proceeded to implement a system for automated Compliance Assessment Mapping and Compliance Activity Planning with a single repository for all applicable regulatory requirements and frameworks that facilitates control and sharing with all other corporate functions involved.

The Operational Compliance framework was enhanced by introducing new specific continual controls, in particular to ensure compliance with requirements under the EU MiFID Directive. To this end, Compliance staff regularly monitor transactions to ensure the investment choices made by customers are consistent with their profile. In addition preliminary checks are made to ensure compliance of actions geared to incentivise the Sales Network.

The Compliance staff also coordinated various projects, in particular they saw to the implementation of a new IT system that ensures more effective identification and management of any Conflicts of Interest at Banking Group level.

Compliance staff also held educational sessions for Mediolanum Group employees and Sales Network members on regulatory changes and their impact on operations, including the MiFID Directive and Anti-Money Laundering regulations. The sessions on "The importance of Compliance" contributed to raise awareness and disseminate information on regulatory changes and more generally the culture of compliance with regulations across the Mediolanum Group.

STRATEGIC RISK

Strategic risk is the current or prospective risk of impact on earnings or capital arising from changes in the industry, adverse business decisions, improper implementation of decisions, lack of responsiveness to industry changes.
All Group companies are potentially exposed to strategic risk, each at different levels according to the volume of business they manage and their operations.
Strategic risk may arise from:
- business decisions relating to the entry into new (local or international) markets or new product lines or changes in the distribution model or channels;
- external events, changes in the competitive environment or unexpected market scenarios due to macroeconomic events, or changes in the regulatory environment.

Strategic risk identification processes are part of usual management planning and control, entail analyses of market scenario and changes in the competitive environment resulting from macroeconomic events or regulatory developments. These analyses are typically conducted upon budgeting and planning as well as upon the occurrence of external events that may have a significant impact on business.
Strategic risk arising from improper implementation of business decisions or losses arising from business decisions are also monitored as part of the Loss Data Collection exercise carried out by the Operational Risk Management unit.

REPUTATIONAL RISK

Reputational risk is considered to be a "second-tier" risk arising from the failure to properly manage other risks, e.g. operational risk or strategic risk, which may lead to reputational damage.

Reputational risk may arise from external events, negative news about the company, the behaviour of its employees or improper management of external communications.

The Mediolanum Group has in place processes geared to ensuring proper management of relationships with all stakeholders and continuously monitoring their satisfaction. These processes are reviewed annually and results are examined to develop actions and projects for improvement and ultimately ensure sustainable growth. Information is set out also in the Group's Social Report.

Marketing staff monitor Mediolanum standing in terms of perception of the corporate image and brand and feeds from said monitoring activities are used to properly manage reputational risk.

PART F - INFORMATION ON CAPITAL

SECTION 1 - BANK'S CAPITAL

A. Qualitative information

In accordance with strategic guidelines for growth, Banca Mediolanum takes all measures needed to ensure adequate capital levels and controls thereof. By continuously monitoring capital levels the Bank prevents any tensions that may arise in the future.
Supervisory regulations in force allow a 25% reduction of the total capital requirement of individual banks that are part of a banking group provided that the total capital requirement is met at consolidated level.
At December 31, 2010 the total capital requirement was met at consolidated level and therefore Banca Mediolanum applied said reduction.

B. Quantitative information

B.1 Analysis of the bank's capital

€/'000	Dec. 31, 2010	Dec. 31, 2009
1. Share capital	450,000	450,000
2. Share premium account	-	-
3. Reserves	92,492	90,335
- retained earnings	158,016	155,859
a) legal reserve	22,061	21,109
b) statutory reserve	-	-
c) treasury shares reserve	-	-
d) other	135,955	134,750
- other	(65,524)	(65,524)
4. Equity instruments	-	-
5. Treasury shares	-	-
6. Valuation reserves	(37,432)	242
- available for sale financial assets	(37,432)	242
- tangible assets	-	-
- intangible assets	-	-
- hedges of investments in foreign operations	-	-
- cash flow hedges	-	-
- exchange differences	-	-
- non current assets held for sale	-	-
- actuarial gains (losses) relating to defined benefit plans	-	-
- share of reserves on investments accounted for by the equity method	-	-
- special revaluation statutes	-	-
7. Net profit (loss) for the year	66,334	19,021
Total	571,394	559,598

B.2 Analysis of revaluation reserves relating to available-for-sale financial assets

€/'000	Dec. 31, 2010 Positive reserve	Dec. 31, 2010 Negative reserve	Dec. 31, 2009 Positive reserve	Dec. 31, 2009 Negative reserve
1. Debt secirities	228	(42,013)	2,980	(3,541)
2. Equities	53	-	-	(285)
3. Holding in UCITS	4,333	(33)	1,600	(512)
4. Loans	-	-	-	-
Total	4,614	(42,046)	4,580	(4,338)

B.3 Year's movements in the revaluation reserve relating to available-for-sale financial assets

€/'000	Debt securities	Equities	Holdings in UCITS	Loans
1. Opening balance	(561)	(285)	1,088	-
2. Increases	135	478	3,336	-
2.1 Increase in fair value	135	32	2,412	-
2.2 Reclassification to the income statement from reserves:	-	446	924	-
- impairment	-	446	543	-
- realised gains	-	-	381	-
2.3 other increases	-	-	-	-
3. Decreases	(41,359)	(140)	(124)	-
3.1 Decrease in fair value	(38,707)	(140)	(122)	-
3.2 Impairment	-	-	-	-
3.3 Realised losses	(2,652)	-	(2)	-
3.4 Other decreases	-	-	-	-
4. Closing balance	(41,785)	53	4,300	-

SECTION 2 – CAPITAL AND CAPITAL REQUIREMENTS

2.1 Legal framework

Incorporating international guidelines on regulatory capital following the adoption of the international accounting and financial reporting standards (IAS/IFRS), in its Circular No. 263 of December 27, 2006 titled "New Prudential Requirements for Banks", the Bank of Italy (BoI) set forth new regulatory capital measurement requirements. This has entailed the application of certain "prudential filters" to financial data in order to maintain the quality of regulatory capital and reduce the potential volatility arising from the adoption of the international accounting and financial reporting standards.

On May 18, 2010 the Bank of Italy issued new requirements for the treatment of revaluation reserves relating to debt securities in the 'available-for-sale (AFS) financial assets' portfolio for the purpose of calculating 'prudential filters'.

In accordance with CEBS guidelines (2004), the Bank of Italy introduced the option of fully neutralising gains and losses on the reserves relating to debt securities in the AFS portfolio with prior notice thereof to the supervisor.

The option applies only to debt securities issued by central governments of EU member states and is allowed for securities already in the AFS portfolio on December 31, 2009, or purchased after December 31, 2009 but before the adoption of said treatment option, and initially recognised in the AFS assets category. The deadline for adopting the treatment option was June 30, 2010.

The Board of Directors of Banca Mediolanum adopted said treatment option on June 23, 2010.
In the calculation of regulatory capital at December 31, 2010, the adoption of said treatment option allowed to reduce the balance of Tier 1 negative elements by €21,679 thousand which entailed an increase in regulatory capital at December 31, 2010 by the same amount.

A. Qualitative information

The bank's regulatory capital was determined in accordance with the instructions set out in the Bank of Italy's Circular 155/1991 as subsequently amended.
Regulatory capital is the sum of core capital (Tier 1 capital), included in the calculation without restrictions, supplementary capital (Tier 2), which cannot exceed the amount of Tier 1 capital before deductions, and Tier 3 capital.
Tier 3 capital can be used only to cover market risk (net of counterparty risk and settlement risk in the banking book) and up until 71.4% of capital requirements for market risk. Shareholdings, non-innovative, innovative, hybrid capital instruments and subordinated assets held in other banks and financial companies, shareholdings in and subordinated instruments issued by insurance companies are deducted from said aggregates.
Regulatory capital also includes assets classified as non-current assets, e.g. shareholdings, as well as assets and liabilities held for sale, e.g. subordinated liabilities.

1. Tier 1 capital

At December 31, 2010, Tier 1 capital consisted of share capital (€450 million), equity reserves (€92.49 million), net profit for the period after dividends (€6.33 million) less intangible assets (€8.63 million). Tier 1 prudential filters are equal to the negative balance of valuation reserves (after tax) relating to debt securities classified as 'available-for-sale financial assets' (€20.11 million).

2. Tier 2 capital

At December 31, 2010, Tier 2 capital consisted of positive reserves on equities and holdings in UCITS classified as 'available-for-sale financial assets' (€4.35 million) and subordinated liabilities (€163.97 million). Tier 2 prudential filters are equal to 50% (not computable) of the positive valuation reserves (after tax) relating to equities and holdings in UCITS classified as 'available-for-sale financial assets' (€2.17 million).

3. Tier 3 capital

At December 31, 2010, Banca Mediolanum's capital did not include any instruments falling within Tier 3 capital.
No regulatory capital component includes assets or liabilities classified as non-current assets or disposal groups.

B. Quantitative information

€/'000	Dec. 31, 2010	Dec. 31, 2009
A. Tier 1 before prudential filters	540,191	530,657
B. Tier 1 prudential filters:	(20,106)	(561)
B.1 Positive IAS/IFRS prudential filters	-	-
B.2 Negative IAS/IFRS prudential filters	(20,106)	(561)
C. Tier 1 after prudential filters (A+B)	520,085	530,096
D. Deductions from tier 1	-	-
E. Total TIER 1 (C-D)	520,085	530,096
F. Tier 2 before prudential filters	168,323	168,809
G. Tier 2 prudential filters:	(2,177)	(401)
G.1 Positive IAS/IFRS prudential filters	-	-
G.2 Negative IAS/IFRS prudential filters	(2,177)	(401)
H. Tier 2 after prudential filters (F+G)	*166,146*	*168,408*
I. Deductions from tier 2	-	-
L. Total TIER 2 (H+I)	166,146	168,408
M. Deductions from tier 1 and tier 2	-	-
N. Total capital (E+L+M)	686,231	698,504
O. TIER 3	-	-
P. Total capital + TIER 3 (N+O)	686,231	698,504

2.2 Capital adequacy

A. Qualitative Information

Capital adequacy assessment is aimed at identifying the amount of free capital, i.e. the portion of capital that is not absorbed by credit risk (solvency ratio), market risk (trading book risk, currency risk and concentration risk) and operational risk.

At December 31, 2010, Banca Mediolanum's free capital, after the 25% reduction taken for banks that are part of Italian banking groups, amounted to €453.82 million. Tier 1 capital ratio (core capital/RWA) was 17.90% and total capital ratio (regulatory capital/RWA) was 23.62%, above the minimum requirement of 8%.

B. Quantitative Information

€/'000	Not weighted Dec. 31, 2010	Not weighted Dec. 31, 2009	Weighted/requirements Dec. 31, 2010	Weighted/requirements Dec. 31, 2009
A. Risk assets				
A.1 Credit risk & couterparty risk	12,170,167	7,871,666	2,930,153	2,744,776
1. Standardised approach	12,170,167	7,871,666	2,930,153	2,744,776
2. Internal ratings based approach	-	-	-	-
2.1 Foundation IRB approach	-	-	-	-
2.2 Advanced IRB approach	-	-	-	-
3. Securitisations	-	-	-	-
B. Regulatory capital requirements				
B.1 Credit risk & counterparty risk	-	-	234,412	219,582
B.2 Market risk	-	-	23,439	34,829
1. Standardised approach	-	-	23,439	34,829
2. Internal models	-	-	-	-
3. Concentration risk	-	-	-	-
B.3 Operational risk	-	-	52,036	49,357
1. Foundation approach	-	-	-	-
2. Standardised approach	-	-	52,036	49,357
3. Advanced approach	-	-	-	-
B.4 Other prudential requirements	-	-	-	-
B.5 Other computational elements	-	-	(77,472)	(75,942)
B.6 Total prudential requirements	-	-	232,415	227,826
C. RWA & capital ratios				
C.1 Risk weighted assets (RWA)*	-	-	2,905,193	2,847,826
C.2 Tier 1 (core) capital/RWA (Tier 1 capital ratio)	-	-	17.90%	18.61%
C.3 Regulatory capital including Tier 3 /RWA (Total capital ratio)	-	-	23.62%	24.53%

(*) RWA are determined by multiplying total prudential requirements (B6) by 12.5 (the reciprocal of the mandatory minimum coefficient equal to 8%)

PART G – BUSINESS COMBINATIONS

SECTION 1 - TRANSACTIONS CONCLUDED DURING THE YEAR

In 2010 there were no transactions requiring disclosure under IFRS 3.

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. Information on key management compensation

€/'000	Directors, Statutory Auditors, Deputy/ General Managers	Other key managers
Emoluments & social security contributions	1,145	1,621
Other pension benefits and insurance	-	35
Non-cash benefits	-	-
Other post-employment benefits	-	-
Share-based awards (stock options)	68	12

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 subsidiaries Mediolanum Gestione Fondi S.G.R.p.A and Mediolanum International Funds Ltd. for the sale of mutual funds;
- the fellow subsidiaries Mediolanum Vita S.p.A and Mediolanum Assicurazioni S.p.A. for the sale of insurance products;
- the associate Mediolanum Life Ltd. for the distribution of index linked insurance products;
- 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, 2010 by related party category is set out in the table below.

€/'000	Financial assets held for trading	Loans to customers	Loans to banks	Other assets	Financial liabilities held for trading	Due to customers	Due to banks	Other liabilities	Guarantees
(a) Parent company	-	-	-	47,319	-	15,227	-	809	-
(b) Entities exercising significant influence over the company	-	-	-	-	-	-	-	-	-
(c) Subsidiaries	18	9,937	47,481	2,277	5	51,567	7,556	1,103	5,855
(d) Associates	-	-	-	-	-	-	-	-	-
(e) Joint ventures	-	-	-	-	-	-	-	-	-
(f) Key managers	-	-	-	-	-	-	-	-	-
(g) Other related parties	-	26,088	35	28,132	-	1,210,529	464	2,634	78
Total	18	36,025	47,516	77,728	5	1,277,323	8,020	4,546	5,933

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 income	
Banco de Finanzas e Inversiones S.p.A.	188
Mediolanum International Life Ltd	13
Commission income on the sale of insurance products	
Mediolanum Vita S.p.A.	93,375
Mediolanum International Life Ltd	13,950
Mediolanum Assicurazioni S.p.A.	5,464
Commission income on the sale of mutual funds	
Mediolanum International Funds Ltd	146,115
Mediolanum Gestione Fondi Sgr p.A.	43,409
Commission income on the sale of pension funds	
Mediolanum Gestione Fondi Sgr p.A.	203
Mediolanum Vita S.p.A.	33
Commission income on collection, payment and other services	
Mediolanum Vita S.p.A.	842
Banca Esperia S.p.A.	69
Mediolanum International Life Ltd	41
Mediolanum Assicurazioni S.p.A.	14
Dividends from Group companies	
Mediolanum International Funds Ltd	98,940
Gamax Management AG	16,499
Mediolanum Asset Management	5,202
Mediolanum Gestione Fondi Sgr p.A.	3,868
Mediolanum Distribuzione Finanziaria S.p.A.	99
Income from trading	
Banco de Finanzas e Inversiones S.p.A.	34
Income on key personnel	
Mediolanum Vita S.p.A.	2,243
Banco de Finanzas e Inversiones S.p.A.	1,827
Mediolanum International Funds Ltd	744
Mediolanum Comunicazione S.p.A.	674
Mediolanum Gestione Fondi Sgr p.A.	383
Bankhaus August Lenz	277
Mediolanum International Life Ltd	221
Mediolanum Distribuzione Finanziaria S.p.A.	125
H-Invest S.p.A.	98
Mediolanum Corporate university S.p.A.	86
Mediolanum Asset Management	48
Vacanze Italia S.p.A.	32
Banca Esperia S.p.A.	16
Recoveries of expenses from Group companies for centrally provided services	
Mediolanum Vita S.p.A.	4,597
Mediolanum Gestione Fondi Sgr p.A.	3,020
Mediolanum Corporate University S.p.A.	1,154
Mediolanum Comunicazione S.p.A.	1,148
Mediolanum S.p.A.	1,124
Mediolanum Assicurazioni S.p.A.	646
Mediolanum International Life Ltd	463
Mediolanum Distribuzione Finanziaria S.p.A.	214
Vacanze Italia S.p.A.	110
Mediolanum International Funds Ltd	70
Mediolanum Asset Management	30
Bankhaus August Lenz	15

€/'000	Income
Other income from rentals and miscellaneous recoveries	
Mediolanum Vita S.p.A.	406
Mediolanum S.p.A.	133
Mediolanum Assicurazioni S.p.A.	76
Mediolanum Comunicazione S.p.A.	57
Banco de Finanzas e Inversiones S.p.A.	25

€/'000	Expense
Interest expense and similar charges	
Mediolanum Vita S.p.A.	4,703
Mediolanum S.p.A.	163
Mediolanum International Life Ltd	964
Banco de Finanzas e Inversiones S.p.A.	78
Bankhaus August Lenz	27
Gamax Management AG	128
Mediolanum International Funds Ltd	74
Mediolanum Assicurazioni S.p.A.	61
Banca Esperia S.p.A.	18
Fininvest S.p.A.	1,057
Mediolanum Gestione Fondi Sgr p.A.	93
Mediolanum Corporate University S.p.A.	30
Mediolanum Asset Management Ltd	12
Commissions payable for third-party asset management	
Mediolanum Gestione Fondi Sgr p.A.	46
Commissions payable on off-premises sale of financial instruments	
Mediolanum Distribuzione Finanziaria S.p.A.	298
Net expense for key personnel	
Mediolanum S.p.A.	1,750
Mediolanum Assicurazioni S.p.A.	889
Television and internet communications - expenses for technical services	
Mediolanum Comunicazione S.p.A.	8,725
Digitalia S.r.l.	345
Mediolanum Corporate University S.p.A.	40
Rentals	
Mediolanum Vita S.p.A.	913
Mediolanum Gestione Fondi Sgr p.A.	351
Mediolanum Corporate University S.p.A.	346
Mediolanum S.p.A.	86
Miscellaneous insurance expenses	
Mediolanum Assicurazioni S.p.A.	8,559
Mediolanum Vita S.p.A.	971

€/'000	Expense
Audiovisual advertising and promotions	
Publitalia S.p.A.	5,827
Mediolanum Comunicazioni S.p.A.	1,109
Mondadori Pubblicità S.p.A.	178
Digitalia S.r.l.	218
Servizi Milan S.p.A.	67
Organisation of exhibitions and conventions	
Mediolanum Comunicazione S.p.A.	2,120
Sales force training	
Mediolanum Corporate University S.p.A.	6,917
Vacanze Italia S.p.A.	15
Mediolanum Comunicazione S.p.A.	293
Employee training	
Mediolanum Corporate University S.p.A.	1,759
Business expenses, gifts and other services	
Mediolanum S.p.A.	238
Mediolanum Corporate University S.p.A.	159
Mediolanum Comunicazione S.p.A.	349
Mediolanum Gestione Fondi Sgr p.A.	291
Vacanze Italia S.p.A.	48
Servizi Milan S.p.A.	108
Mediolanum Vita S.p.A.	20
Milan A.C. S.p.A.	16

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 sales network members 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 2010, 570,997 stock options granted in 2006-2007 were exercised for a total of 570,997 Mediolanum S.p.A. shares. The table below shows movements in option holdings in the year as per Bank of Italy's Circular 262/2005.

	Total Dec. 31, 2010			Total Dec. 31, 2009		
€/'000	Number of options	Average exercise price	Average expiration	Number of options	Average exercise price	Average expiration
A. Opening balance	3,789,917	3.02892	feb-15	4,749,686	2.95050	nov-13
B. Increases	1,784,942	-		605,185	-	
B.1 New issues	1,784,942	1.12900	dec-20	578,935	1.02200	may-17
B.2 Other	-	-	X	26,250	5.96754	X
C. Decreases	(705,868)	-		(1,564,954)	-	
C.1 Cancelled	(54,006)	4.66195	X	-	-	X
C.2 Exercised (*)	(570,997)	1.29263	X	(567,470)	1.23328	X
C.3 Lapsed	(52,647)	1.11800	X	(362,316)	5.07328	X
C.4 Other	(28,218)	1.05812	X	635,168	1.17279	X
D. Closing balance	4,868,991	2.55509	apr-17	3,789,917	3.02892	feb-15
E. Options exercisable at year end	1,415,453	5.75613	X	935,477	5.25297	X

(*) Average market price per share on the exercise date was €3,25.

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 €1,203 thousand and entailed a corresponding increase in the Bank's equity reserves.

Basiglio, March 23, 2011

For the Board of Directors
The Chief Executive Officer and General Manager
Massimo Antonio Doris

Report of the Board of Statutory Auditors

Report of the Board of Statutory Auditors to the general meeting convened to approve the Financial Statements for the year ended December 31, 2010

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, 2010, we report to you on our supervisory activities pursuant to article 149 of the Legislative Decree above.

Supervision and control

During the year, we performed our statutory supervisory duties in accordance with the procedures recommended by the National Council of Accountants and the instructions issued by the Supervisory Authorities.
Specifically:

- we attended General Meetings and Board of Directors Meetings. We did not become aware of any violations of the law or the bylaws, nor of any transactions which could represent a conflict of interest, were manifestly imprudent or risky or put the company's equity at risk;
- we regularly obtained information from Directors on the company's operations, outlook and main transactions;
- we saw to compliance with the law and the bylaws as well as adherence to principles of proper management; we gathered information and saw to the adequacy of the company's organisational structure, accounting and reporting system. We also saw that the Bank complied with all specific requirements issued by supervisory authorities;
- we regularly assessed the adequacy and effectiveness of the internal control system, especially in relation to risk management. Assisted by internal audit staff we satisfied ourselves of the effective operation of the main operational and management units;
- we also ascertained the regular update of the 'security policy document', the regular update of the "Safety Health & Environment Policy Document" to improve safety and health in the workplace and examined reports on complaints lodged by customers;
- we noted the activities conducted by the Supervisory Board including those relating to the introduction of amendments and supplements to the "Organisation, Management and Control Model" pursuant to Legislative Decree 231 of June 8, 2001.

Following our examination, we did not become aware of any material aspects requiring disclosure herein or reporting to the supervisory authorities.
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 the usual mutual exchange of information on our respective supervisory and control activities with

the independent auditors Reconta Ernst & Young S.p.A, that were 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. In the year under review, our work was further enhanced by the establishment of the Audit and Risk Committee under section 19 of Legislative Decree 39/2010.
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 financial statements and their approval

In relation to the separate financial statements for the year ended December 31, 2010, and the schedules attached thereto, which are presented to you for approval, we assure you that:

- the financial statements were prepared in compliance with the law, in terms of both form and structure, applying the international accounting and financial reporting standards (IAS/IFRS);
- the accounts and the notes are compliant with the requirements set out in the Bank of Italy's Circular 262 of December 22, 2005, as amended on November 18, 2009. The financial statements consist of the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Shareholders' Equity, the Statement of Cash Flows, the Explanatory Notes in addition to the Directors' Report. They also include comparative information for the prior year;
- the Directors' Report sets out information on the bank's operations including subsidiaries, with details on actions, transactions and projects involving the parent company and the entire banking group;
- the independent auditors completed their audit of the financial statements, including the consistency of information set out in the Directors' Report, and are about to issue their report with no remark.

n consideration of the foregoing, we express our favourable opinion on the approval of the financial statements for the year ended December 31, 2010, which show net profit of €66,334,029.28.
Finally, we remind you that the tenure of the independent auditors Reconta Ernst & Young S.p.A expires with the approval of these financial statements and the law does not allow to renew their appointment. We thank you for your trust and invite you to elect the new independent auditors for the next nine years (January 1, 2011 through December 31, 2019) taking note of our proposal on the matter pursuant to Legislative Decree 39 of April 7, 2010.

Milan, April 4, 2011

The Board of Statutory Auditors
(Arnaldo Mauri – Chairman)
(Adriano Alberto Angeli – Standing Auditor)
(Marco Giuliani – Standing Auditor)

Independent Auditors' Report

Reconta Ernst & Young S.p.A.
Via della Chiusa, 2
20123 Milano

Tel. (+39) 02 722121
Fax (+39) 02 72212037
www.ey.com

Independent auditors' report
pursuant to Article 14 and 16 of Legislative Decree No. 39 dated January 27, 2010
(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, 2010, comprising the balance sheet, the statements of income, comprehensive income, changes in shareholders' equity and cash flows and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree No. 38/2005 is 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.

2. Our audit was performed 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.

   The financial statements of the prior year are presented for comparative purposes. As reported in the explanatory notes, management has restated certain comparative data related to the prior year with respect to the data previously presented, on which we issued our auditor's report dated April 2, 2010. We have examined the methods adopted to restate the comparative financial data and the information presented in the explanatory notes in this respect, for the purpose of our opinion as of and for the year ended December 31, 2010.

3. In our opinion, the financial statements of Banca Mediolanum S.p.A. at December 31, 2010 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree No. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of Banca Mediolanum S.p.A. for the year then ended.

4. The management of Banca Mediolanum S.p.A. is responsible for the preparation of the Directors' Report in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the Directors' Report with the financial statements, as required by the law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the Directors' Report is consistent with the financial statements of Banca Mediolanum S.p.A. as of December 31, 2010.

Milan, March 28, 2011

Reconta Ernst & Young S.p.A.
signed by: Stefano Cattaneo, partner

This report has been translated into the English language solely for the convenience of international readers.

Ordinary General Meeting of April 20, 2011

Ordinary General Meeting of April 20, 2011

RESOLUTIONS ABSTRACT

Attended by proxy by the sole shareholder Mediolanum S.p.A that owns all the 450,000,000 shares that make up share capital (100%), the General Meeting resolved:

- to approve the Directors' Report for the year ended December 31, 2010;
- to approve the financial statements for the year ended December 31, 2010;
- to appropriate net profit for the year amounting to €66,334,029.28 as follows:
  - to the shareholder: distribution of a €0.13334 dividend for each of the 450,000,000 shares that make up share capital, for a total amount of €60,003,000.00;
  - to the legal reserve: €3,317,000.00;
  - to the Extraordinary Reserve: €3,014,029.28;
- to approve the "Group Compensation Policy" together with the related Board of Directors Report to the shareholders;
- to fix the aggregate annual gross compensation of the members of the Board of Directors, including the compensation of those directors who hold special positions, at €1,226,000.00 until a new resolution is passed in relation to this matter. The Board of Directors shall be responsible for distributing said compensation among its members. Said compensation can be withdrawn during the year, also on different occasions;
- not to revoke Director Paolo Sciumé, who was therefore reinstated in office as Banca Mediolanum S.p.A. Director with full powers;
- to appoint Deloitte & Touche S.p.A. as independent auditors for a nine-year term expiring on the date of the Shareholders' Meeting convened to approve the financial statements for the year ending December 31, 2019.

Consolidated Annual Financial Statements 2010

Financial Highlights

€/m	Dec. 31, 2010	Dec. 31, 2009	% change
Assets under management & administration	39,476.2	34,802.6	13%
Net inflows	3,351.8	5,785.0	-42%
of which managed assets	2,193.0	2,107.6	4%
Total Balance Sheet Assets	11,621.5	8,843.7	31%
Loans to customers	4,349.9	3,331.9	31%
Customer loans ex- L&R portfolio	3,466.9	3,252.9	7%
Amounts due to customers and Securities issued (funding)	7,826.5	6,328.5	24%
Profit before tax	235.7	154.9	52%
Tax	-37.5	-13.1	186%
Net Profit	198.2	141.6	40%
Net profit attributable to minority interests	113.9	98.8	15%
Net profit attributable to the Parent Company	84.3	42.8	97%

Number	Dec. 31, 2010	Dec. 31, 2009	% change
Sales network	5,336	5,800	-8%
Employees	1,893	1,907	-1%

	Dec. 31, 2010	Dec. 31, 2009	% change
Tier 1 Capital ratio	10.09%	10.17%	-1%

Directors' Report

Dear Shareholder,

The Mediolanum Banking Group consolidated financial statements for the year ended December 31, 2010 show net profit from ordinary activities before minority interests of €198.2 million versus €141.6 million in the prior year. For financial year 2010 net financial income shrank (down €43.3 million) due to the contraction in net interest income (down €21.1 million) and thinner trading profits (down €22.1 million).

The decline in net financial income was largely due to lower interest rates and losses on the valuation of securities held for trading.

Net commission income rose by €110.6 million as a result of greater management fees earned on asset management products, that displayed growth in inflows and asset value, as well as the contribution given by sales of third-party structured bonds.

Write-downs declined markedly (€25 million) especially of 'Available-for-sale financial assets. On the other hand, net provisions for risks and charges increased (up €12.7 million).

At December 31, 2010, net profit attributable to the Parent Company amounted to €84.3 million versus €42.8 million in the prior year.

The consolidated financial statements for the year ended December 31, 2010 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 the consolidated financial statements.

The consolidated financial statements for the year ended December 31, 2010 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 262 of December 22, 2005 (as amended on November 18, 2009), in the exercise of its powers pursuant to art. 9 of Legislative Decree 38/2005.

THE MACROECONOMIC ENVIRONMENT

In 2010, the recent deep and prolonged recession was finally over and recovery in place. The fiscal and monetary policy measures taken by governments and central banks have been key to that achievement. While shrinking by almost one percentage point in the prior year, in 2010, global GDP averaged 5% growth. GDP growth was 2.8% in the US and averaged 1.8% in the Eurozone. Specifically, Germany fully reaped the benefits of rising exports and investments in machinery and equipment posting a 3.6% increase in GDP. Italy posted GDP growth of just 1%. Output growth was seen largely by those domestic businesses, especially bigger companies, that export to emerging economies. Domestic demand remained weak as uncertainties over employment and the continuing stagnation of real household income weighed down on consumer spending

more than in other Eurozone economies. With GDP growth at 7.1% emerging economies continued to be a mainstay of the world economy.
Economists continue to focus their attention on the sustainability of the current recovery in an environment of high unemployment and low consumer confidence, especially in the US and Europe. In both geographic areas in the period under review, unemployment was close to 10% on average, and economic climate surveys showed only marginal improvements.
Over the last three years, the crisis has widened the public deficit of all advanced economies by more than 6% of GDP, and increased public debt by nearly 25%, bringing it close to 100% of GDP. The mounting pressure on the sovereign debt of certain countries in the Eurozone has heightened attention to the risks of prolonged imbalances.
The steady rise in market yields on Greek and Irish sovereign issues required the concerted action of the European Union, the European Central Bank and the International Monetary Fund. The yield spreads between German treasuries and Italian and Spanish treasuries notably widened with subsequent increase in interest expense.
Economic uncertainty, low consumer spending, high unemployment levels and the underutilisation of plants contributed to dampen inflationary pressures. In December, the CPI rose 2.2% in the Euro zone and 1.5% in the US, on an annual basis. Excluding food and energy, the CPI grew 1.0% and 0.8%, respectively.
The lack of inflationary expectations allowed the European Central Bank, Bank of England and Federal Reserve to keep the refinancing rate unchanged at 1%, 0.5% and between 0% and 0.25%, respectively.

Financial Markets

In 2010, the emergence of a serious sovereign debt crisis in peripheral Eurozone countries affected the risk propensity of investors and the performance of financial markets and currencies. The steady rise in market yields on Greek and Irish sovereign issues required the concerted action of the European Union, the European Central Bank and the International Monetary Fund. The yield spreads between German treasuries and Italian, Spanish and Portuguese treasuries notably widened.
Yields on 2-year and 10-year Italian treasuries rose from 1.54% and 4.14% at the beginning of the year to 2.88% and 4.82% at December 31, 2010, respectively. Yields on Spanish treasuries for the same maturities increased from 1.87% and 3.98% to 3.46% and 5.45%, respectively. On the other hand, yields on German treasuries on two and ten year maturities dropped respectively from 1.33% and 3.39% at December 31, 2009 to 0.86% and 2.96% at December 31, 2010 with subsequent steepening of the yield curve.
The financial crisis also brought about the widening of yields on bonds issued by European companies, especially banks and financial institutions
In the US, treasuries yields declined across all main maturities: specifically, yields on 2-year and 10-year treasuries fell from 1.13% and 3.84% at the start of the year to 0.59% and 3.29% at year end 2010, respectively.
Lastly, the sovereign debt of emerging countries benefitted from narrowing yield spreads.
In 2010, global stock markets progressed 9.5% on average (MSCI World in USD). In the US the S&P 500 was up 12.8%, and the NASDAQ Composite rose by 16.9%. In Europe stock markets grew 8.6% (DJ Stoxx 600), while the Italian stock market shed 13.2% (FTSEMIB), the DAX was up by 16% and the CAC fell 3.3%. The sovereign debt crisis in peripheral countries in the Eurozone resulted in a deep underperformance of the Spanish (IBEX - 17.4%), Greek (Athex Composite Share Index - 35.6%) and Italian stock markets. In Japan, the Nikkei 225 was down by 3%, while emerging economies posted an average stock market growth of over 16.4% (MXEF in USD).
Stock market growth was driven by cyclical stocks (industrials, technologies, commodities).
Reflecting the improved global economic landscape, main commodity prices were on the rise. In 2010 oil prices were up by more than 12%.

In 2010, the US dollar strengthened against the euro from 1.4321 at the beginning of the year to 1.3384 at year end. In the first half of the year, the US currency benefited from fears over the sustainability of peripheral government debt in the Eurozone, reaching a high of 1.1923 on June 7. In later months, expectations of a new quantitative easing move by the Federal Reserve led to a low of 1.4207 on November 4. Lastly, the Irish financial crisis led to further strengthening of the dollar in the closing weeks of the year.
The financial crisis in the Eurozone also had repercussions on the euro's exchange rate against the sterling and the yen.

MEDIOLANUM BANKING GROUP

At December 31, 2010, the organisational structure of the Mediolanum Banking Group remained essentially unchanged over the prior year.

REVIEW OF OPERATIONS

For the year ended December 31, 2010, the Banking Group reported profit before tax of €235.7 million versus €155 million in the prior year.
Commission income increased 23.5% from €714.3 million in 2009 to €882.3 million in 2010, largely as a result of greater management fees earned on asset management products, that displayed growth in inflows and asset value, as well as the contribution given by sales of third-party structured bonds.
Commission expenses grew 15.3% from €374.1 million in the prior year to €431.4 million at the end of the year under review.
Net interest income amounted to €127.1 million versus €148.2 million at year end 2009. Adding trading profits, gains on hedging transactions, on the sale of available-for-sale financial assets and held-to-maturity investments that, in the aggregate, amounted to €8.3 million, net financial income came in at €135.4 million, down 24.3% from €178.8 million in the prior year.
Total income for the year increased 13% from €521.5 million in 2009 to €589.4 million in 2010.
At year end 2010, write-down amounted to €10.5 million versus €35.5 million in the prior year. In the year under review there were lower write-downs due to impairment losses on available-for-sale financial assets (€19.1 million).
Operating expenses were up €7 million to €338 million from €331 million at year end 2009, largely owing to Banca Mediolanum's greater provisions for risks and charges (€13.3 million), of which €4.5 million to cover the risks of financial advisors' misconduct, €3.2 million for litigations and €5.6 million for contractual obligations to the sales network.
In the year under review the Group recognised €7.4 million impairment losses on CGU Germany's goodwill.
The year's tax expense amounted to €37.6 million versus €13.1 million in the prior year.
At December 31, 2010, total consolidated assets amounted to €11,621.5 million versus €8,843.7 million at December 31, 2009.
At year end 2010, loans to customers – private individuals and financial institutions other than banks – amounted to €4,349.9 million versus €3,331.9 million at the end of the prior year.
Specifically, in 2010, there was notable growth in retail lending driven by the increase in residential loans and L&R securities. Conversely, in the institutional segment there was a contraction, in particular in hot money transactions and syndicated lending.
Loans to banks rose €752.4 million to €2,425.8 million from €1,673.4 million at year end 2009. Interbank lend-

ing was mostly with Italian banks, and to a limited extent with Eurozone banks under the supervision of the European Central Bank.

Funding from banks increased by €1,002 million from €1,198.1 million in the prior year to €2,200.6 million at the end of the year under review. Net interbank exposure was €225.2 million versus €475.3 million in the prior year.

In 2010, bank accounts and repurchase agreements of customers aggregated to €7,486 million up 21.7% from €6,149 million in the prior year.

Senior and subordinated notes issued by Banca Mediolanum amounted to €340.5 million versus €179.5 million in the prior year.

The securities portfolio grew by €2,131.9 million to €5,848.4 million from €3,716.5 million at year end 2009. The analysis of the securities portfolio is set out in the table below.

€/m	2010	2009
Held-To-Maturity Investments	1,118.2	1,329.3
Available-For-Sale Financial Assets	2,098.0	1,039.6
Financial Assets Held For Trading	956.6	843.7
Financial Liabilities Held For Trading	(451.5)	(260.5)
Loans and Receivables (banks and customers)	2,127.1	764.4
Total	5,848.4	3,716.5

At year end 2010, *Held-to-Maturity* Investments amounted to €1,118.2 million down €211.1 million from the prior year's balance of €1,329.3 million.

Available-for-sale financial assets amounted to €2,098.0 million versus €1,039.6 million in 2009. The sale of securities generated about €4.2 million gains in the year.

At the end of the year under review, the balance of the AFS equity reserve worsened from a positive balance of €1.5 million in 2009 to a negative balance of €41.1 million in 2010.

Financial assets held for trading net of *Financial liabilities held for trading* amounted to €505.1 million, down €78.1 million from the prior year's balance of €583.2 million.

Loans and Receivables, consisting of ABS and privately placed securities issued by banks not quoted in an active market, amounted to €2,127.1 million, with remarkable growth over the prior year's balance of €764.4 million.

Consolidated Inflows, Assets under Management and Assets under Administration

Net Inflows

€/m	Dec. 31, 2010	Dec. 31, 2009	Change %
ITALY			
Life Insurance products	(827.7)	566.1	n.s.
Asset management products	2,101.1	1,426.5	47%
Total managed assets inflows	1,273.5	1,992.6	(36%)
Freedom life policies	453.5	4,570.8	(90%)
Third party structured bonds	857.6	45.2	n.s.
Administered assets	700.2	(813.2)	n.s.
TOTAL DOMESTIC MARKET	3,284.7	5,795.4	(43%)
SPAIN	35.1	5.6	n.s.
GERMANY	32.0	(16.0)	n.s.
TOTAL FOREIGN MARKETS	67.1	(10.4)	n.s.
TOTAL NET INFLOWS	3,351.8	5,785.0	(42%)

Consolidated Assets under Management and Assets under Administration(*)

€/m	Dec. 31, 2010	Dec. 31, 2009	Change %
ITALY			
Life Products	15,068.7	14,988.8	1%
Freedom Life Policies	5,025.3	4,571.8	10%
Asset management products	19,509.2	15,759.2	24%
Banking products	7,195.6	5,785.8	24%
Consolidation adjustments	(9,285.2)	(8,167.0)	14%
TOTAL DOMESTIC MARKET	37,513.6	32,938.6	14%
SPAIN	1,621.9	1,583.0	2%
GERMANY	340.8	281.0	21%
TOTAL FOREIGN MARKETS	1,962.6	1,864.0	5%
TOTAL ASSETS UNDER MANAGEMENT & ADMINISTRATION	39,476.2	34,802.6	13%

(*) The figures relate to retail customers only.

The Sales Networks

Number	Dec. 31, 2010	Dec. 31, 2009	Change %
Italy			
Licensed Financial Advisors	4,772	4,945	(3%)
Non-licensed advisors/agents AAF (*)	44	358	(88%)
Spain	484	454	7%
Germany	36	43	(16%)
Total	5,336	5,800	(8%)

(*) Banca Mediolanum S.p.A. non-licensed advisors work also as financial agents under a mandate from Mediolanum Distribuzione Finanziaria S.p.A.

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 2010 separate financial statements prepared by the Parent Company.

Intercompany and related party transactions

There were no atypical or unusual transactions as related party transactions, including intercompany transactions, were part of the Group's ordinary business. Said transactions were made at arm's length in consideration of the features of goods and services provided.
In accordance with art. 2391 bis of the Italian Civil Code, art. 71 bis of Consob Regulation 11971/99 (Regulation for Issuers) and the recommendations set out in the Code of Conduct, adopted under resolutions passed by the Board of Directors, related party disclosures are set out in the relevant section of the Notes.

Tax Police Field Audit

On September 16, 2010, Italy's Tax Police started a field audit of Banca Mediolanum S.p.A. in relation to IRES – IRAP, social security and pension contributions for tax years 2005–2010. The audit focused on the relationship between the Bank and Mediolanum International Funds Ltd (MIF), deductibility of costs borne in relation to companies domiciled in blacklisted tax havens and the tax treatment of write-backs from repayment of loans that had been written down. Later the audit was extended to the VAT treatment of overrides paid to the sales network.
Initially the audit focused on tax year 2005. This audit was completed on October 29, 2010 with the notification of the Audit Report to Banca Mediolanum. The Audit Report contained a single significant claim in relation to the quantification of commissions rebated by MIF to the Bank for the distribution of mutual funds and investments therein, pursuant to section 110, paragraph 7 of Decree 917/1973.
Italy's Tax Police claimed a total adjustment of €48.3 million to IRES and IRAP taxable income, of which €28.9 million relating to management fees and €19.4 million to performance fees.

It should be noted that the value of the services had been established by the Bank based on economic analyses and opinions provided by third party experts.

Confident of a positive outcome, the Bank engaged Maisto Tax Law Firm to prepare a brief and all documents to be filed with the Assessor's Office.

In connection therewith, Banca Mediolanum filed a set of documents and requested the application of the penalty waiver clause introduced into Italian law by section 26 of Legislative Decree 78 dated May 31, 2010. This in the light of the prompt and collaborative behaviour during the audit, in accordance with the cited statute and the Implementation Regulations issued by Italy's IRS Commissioner on September 29, 2010, that expressly does not exclude the application of the penalty waiver clause to the tax audits underway at the date the Government Decree was issued.

Differences relate merely to the quantification of amounts as the method applied by Banca Mediolanum for the determination of the rebates was confirmed to be correct. In this respect, as already noted above, the Bank availed itself of the professional opinion and economic analyses of primary experts. It is also noted that the evidence used by the assessors does not appear to be in line with the proper tax principles for the identification of the rebates in question.

Also based on the opinion of the independent advisor, the directors believe there is a possible risk in relation to the outcome of the claim above and considering that the pending issues relate to quantifications no sufficiently reliable estimate can be made of the amount of the obligation that may ultimately result for Banca Mediolanum.

On February 28, 2011, the Tax Police issued additional Audit Reports claiming a total adjustment of €121.4 million to IRES and IRAP taxable income for tax years from 2006 through 2009. Specifically said amount is made up €69.2 million relating to management fees and €52.2 million to performance fees rebated by MIF to Banca Mediolanum. The claims in these Audits Reports are essentially the same as those set out in the Audit Report issued on October 29, 2010 and relate to quantification of amounts.

The Tax Police extended their audit to VAT treatment of overrides paid to certain sales network members for their supervision and coordination of other sales network members, in relation to tax years from 2006 through the audit start date (September 16, 2010). That audit was completed on February 28, 2011, and a 'Notice of Tax Due and Demand for Payment' was issued claiming the payment of a total penalty of €64 million for failure to apply VAT to said overrides in the invoices issued by the sales network members.

Overrides are indirect commissions typically paid to sales network members and have been considered to be VAT exempt by Banca Mediolanum in accordance with market practice.

The claim appears to be groundless as the sales network members and the Bank itself treated overrides as VAT-exempt items on the basis of an independent expert opinion issued by a primary Tax Law Firm upon request of the trade association ASSORETI, that was confirmed by a Ministerial Ruling still in force issued by the IRS Assessment Office that in December 2003 stated overrides were VAT exempt.

In the light of the foregoing no provision was made in the separate accounts for the year ended December 31, 2010 other than a €1 million provision to cover the cost of defence against the claims above.

Post balance sheet date events

Other than the 'Tax Police audit' described in the previous section, after December 31, 2010 there was no event which could have a significant impact on the financial position, result of operations and cash flows of the Mediolanum Banking Group.

Outlook

The policy responses of the world's main governments and central banks have produced the much-awaited reversal of the economic cycle after the recent recession.
The sustainability of the current debt and public deficit levels of certain Eurozone countries as well as the impact of high unemployment on consumer spending continue to be the main concerns for the economy and financial markets.
The attention of market participants has recently focused on the geopolitical tensions in some emerging countries, the ensuing rise in commodity prices and the risk of a resurgence in inflation. In particular, the recent crisis in Libya has been driving up oil prices increasing the risk of rises in production costs and retail prices. The resurgence of inflationary risks may lead central bankers to partially review their easing monetary policies.
The current recovery risks to be dampened by production overcapacity and the need of the world's main governments to contain public debt and deficit. However, there are structural data and indications in the economy and the financial system globally that suggest momentum and are supportive of a positive medium to long term outlook.
As consumer spending increases and unemployment declines, in 2011 we may see the economic recovery gain significant momentum with beneficial effects on financial markets.
Based on current reasonable estimates, our Group is expected to continue to generate good earnings for the year 2011.

Basiglio, March 23, 2011

For the Board of Directors
The Chief Executive Officer and General Manager
Massimo Antonio Doris

Consolidated Accounts 2010

Balance Sheet

Assets

€/'000	Dec. 31, 2010	Dec. 31, 2009
10. Cash and cash equivalents	53,035	50,584
20. Financial assets held for trading	956,606	843,673
30. Financial assets at fair value	-	-
40. Available-for-sale financial assets	2,097,976	1,039,568
50. Held-to-maturity investments	1,118,166	1,329,347
60. Loans to banks	2,425,820	1,673,368
70. Loans to customers	4,349,870	3,331,902
80. Hedging derivatives	-	1,179
120. Tangible assets	54,838	63,453
130. Intangible assets	209,367	218,693
of which:		
- goodwill	198,728	205,714
140. Tax assets		
a) current	54,990	44,069
b) deferred	91,000	58,537
160. Other assets	209,861	189,345
Total assets	11,621,529	8,843,718

Liabilities and Shareholders' Equity

€/'000	Dec. 31, 2010	Dec. 31, 2009
10. Due to banks	2,200,568	1,198,050
20. Due to customers	7,485,998	6,148,988
30. Securities issued	340,479	179,450
40. Financial liabilities held for trading	451,462	260,549
50. Financial liabilities at fair value	-	-
60. Hedging derivatives	28,510	15,906
80. Tax liabilities		
a) current	24,641	14,570
b) deferred	12,236	11,209
90. Liabilities associated with disposals group		
100. Other liabilities	226,933	237,194
110. Employee completion-of-service entitlements	9,276	9,635
120. Provisions for risks and charges:		
a) severance benefits and similar obligations	1,310	1,237
b) other provisions	134,896	106,798
140. Valuation reserves	(41,062)	1,502
170. Reserves	150,766	124,481
180. Share premium account		
190. Share capital	450,000	450,000
200. Treasury shares (-)		
210. Minority interests (+/-)	61,186	41,363
220. Net profit (loss) for the year (+/-)	84,330	42,786
Total liabilities and shareholders' equity	11,621,529	8,843,718

Income Statement

€/'000	Dec. 31, 2010	Dec. 31, 2009
10. Interest income and similar income	212,929	252,798
20. Interest expense and similar charges	(85,838)	(104,596)
30. Net interest income	127,091	148,202
40. Commission income	882,287	714,312
50. Commission expense	(431,441)	(374,079)
60. Net commission income	450,846	340,233
70. Dividends and similar income	3,183	2,504
80. Net income from trading	5,049	27,108
90. Net income from hedging	(1,126)	(2,187)
100. Gains (losses) on sale or buyback of:		
a) loans	159	273
b) available-for-sale financial assets	4,231	5,032
c) held-to-maturity investments	-	324
d) financial liabilities		
120. Total income	589,433	521,489
130. Impairment losses on:		
a) loans	(9,207)	(14,885)
b) available-for-sale financial assets	(1,285)	(20,572)
c) held-to-maturity investments	-	-
d) other financial instruments	(2)	(22)
140. Net income from financial operations	578,939	486,010
170. Net income from financial and insurance operations	578,939	486,010
180. Administrative expenses		
a) staff costs	(129,910)	(127,308)
b) other administrative expenses	(171,022)	(172,700)
190. Net provisions for risks and charges	(35,423)	(22,763)
200. Depreciation and net impairment of tangible assets	(7,470)	(8,130)
210. Amortisation and net impairment of intangible assets	(8,660)	(9,987)
220. Other operating income	14,489	9,862
230. Operating expenses	(337,996)	(331,026)
260. Impairment losses on goodwill	(7,400)	-
270. Profit (Loss) on disposal of investments	2,197	(3)
280. Profit (Loss) before tax on continuing operations	235,740	154,981
290. Income tax expense on continuing operations	(37,540)	(13,126)
300. Profit (Loss) after tax on continuing operations	198,200	141,855
310. Profit (Loss) after tax of non current assets pending disposal	-	(280)
320. Net Profit (Loss) for the year	198,200	141,575
330. Net Profit (Loss) for the year pertaining to minority interests	113,870	98,789
340. Net Profit (Loss) for the year pertaining to the parent company	84,330	42,786
Earnings per share	0.187	0.095

Statement of consolidated comprehensive income

€/'000		Dec. 31, 2010	Dec. 31, 2009
10.	Net profit (loss) for the year	198,200	141,575
	Other comprehensive income components after tax		
20.	Available for sale financial assets	(42,540)	28,038
110.	Total other comprehensive income components after tax	(42,540)	28,038
120.	Comprehensive income (items 10+110)	155,660	169,613
130.	Consolidated comprehensive income attributable to minority interests	113,894	98,709
140.	Consolidated comprehensive income attributable to the Parent Company	41,766	70,904

Statement of changes in equity

€/'000	Balance at Dec. 31, 2008	Adjustment to opening balances	Balance at Jan. 01, 2009	Appropriation of prior year's profit: Reserves	Appropriation of prior year's profit: Dividends and other
Share capital:					
a) ordinary shares	430,000	-	430,000	-	-
b) other shares	-	-	-	-	-
Share premium account	-	-	-	-	-
Reserves:					
a) retained earnings	117,580	-	117,580	1,419	-
b) others	2,970	-	2,970	-	-
Valuation reserves	(26,616)	-	(26,616)	-	-
Equity instruments	-	-	-	-	-
Treasury shares	-	-	-	-	-
Net profit (loss) for the year	26,419	-	26,419	(1,419)	(25,000)
Shareholders' equity attributable to the Group	550,353	-	550,353	-	(25,000)
Shareholders' equity attributable to minority interest	26,367	-	26,367	-	(15,529)

€/'000	Balance at Dec. 31, 2009	Adjustment to opening balances	Balance at Jan. 01, 2010	Appropriation of prior year's profit: Reserves	Appropriation of prior year's profit: Dividends and other
Share capital:					
a) ordinary shares	450,000	-	450,000	-	-
b) other shares	-	-	-	-	-
Share premium account	-	-	-	-	-
Reserves:					
a) retained earnings	121,604	-	121,604	24,719	-
b) others	2,877	-	2,877	-	-
Valuation reserves	1,502	-	1,502	-	-
Equity instruments	-	-	-	-	-
Treasury shares	-	-	-	-	-
Net profit (loss) for the year	42,786	-	42,786	(24,719)	(18,067)
Shareholders' equity attributable to the Group	618,769	-	618,769	-	(18,067)
Shareholders' equity attributable to minority interest	41,363	-	41,363	-	(28,608)

Movements in the year								
	Equity							
Change in reserves	Share issues	Purchase of Treasury Shares	Extraordinary dividend distribution	Change in equity instruments	Treasury shares derivatives	(loss) Stock options	Net profit equity at Dec. 31, 2009	Shareholders' at Dec. 31, 2009
-	20,000	-	-	-	-	-	-	450,000
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	2,605	-	121,604
(93)	-	-	-	-	-	-	-	2,877
-	-	-	-	-	-	-	28,118	1,502
-	-	-	-		-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	42,786	42,786
(93)	20,000	-	-	-	-	2,605	70,904	618,769
1,462	-	-	(69,670)	-	-	24	98,709	41,363

Movements in the year								
	Equity							
Change in reserves	Share issues	Purchase of Treasury Shares	Extraordinary dividend distribution	Change in equity instruments	Treasury shares derivatives	(loss) Stock options	Net profit equity at Dec. 31, 2010	Shareholders' at Dec. 31, 2010
-	-	-	-	-	-	-	-	450,000
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	1,550	-	147,873
16	-	-	-	-	-	-	-	2,893
-	-	-	-	-	-	-	(42,564)	(41,062)
-	-	-	-		-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	84,330	84,330
16	-	-	-	-	-	1,550	41,766	644,034
-	-	-	(65,468)	-	-	5	113,894	61,186

Consolidated cash flow statement

Indirect Method

€/'000	Dec. 31, 2010	Dec. 31, 2009
Operating activities	105,807	103,221
- net profit (loss) for the year	84,330	42,786
- gains/losses on financial assets held for trading and on financial assets/liabilities at fair value	(6,997)	4,151
- gains/losses on hedges (+/-)	-	-
- impairment losses/reversals (+/-)	9,207	30,675
- net write-downs/write-backs of tangible and intangible assets (+/-)	16,130	18,117
- provisions for risks and charges and other costs/revenues (+/-)	35,423	22,763
- uncollected net premiums (-)	-	-
- other uncollected insurance revenues/charges (-)	-	-
- unpaid taxes (+)	(32,286)	(15,271)
- net write-downs/write-backs of disposal groups after taxes (+/-)	-	-
- other adjustments (+/-)	-	-
Cash generated/used by financial assets	(2,955,993)	941,357
- financial assets held for trading	(112,933)	456,844
- financial assets at fair value	1,179	1,097
- available-for-sale financial assets	(1,058,408)	(35,665)
- loans to banks: on demand	(588,561)	2,131
- loans to banks: other loans	(163,891)	425,852
- loans to customers	(1,017,968)	128,144
- other assets	(15,411)	(37,046)
Cash generated/used by financial liabilities	2,686,202	(832,295)
- due to banks: on demand	167,756	(522,201)
- due to banks: other amounts due	834,762	(146,452)
- due to customers	1,337,010	154,622
- securities issued	161,029	165,913
- financial liabilities held for trading	190,913	(481,281)
- financial liabilities at fair value	-	(2,276)
- other liabilities	(5,268)	(620)
Net cash generated by/used in operating activities	(163,984)	212,283
INVESTING ACTIVITIES		
Cash from	214,790	(222,275)
- sale of equity investments	-	-
- dividends received from equity investments	-	-
- sale of held-to-maturity investments	211,181	(222,299)
- sale of tangible assets	3,527	22
- sale of intangible assets	82	2
- sale of subsidiaries and business lines	-	-
Cash used for	(9,113)	(15,132)
- purchase of equity investments	-	-
- purchase of held-to-maturity investments	-	-
- purchase of tangible assets	(2,298)	(5,693)
- purchase of intangible assets	(6,815)	(9,439)
- purchase of subsidiaries and business lines	-	-
Net cash generated by/used in investing activities	205,677	(237,407)
FINANCING ACTIVITIES		
- issue/purchase of treasury shares (formation of share capital)	-	20,000
- issue/purchase of equity instruments	(21,175)	45,626
- dividend distribution and other	(18,067)	(25,000)
Net cash generated by/used in financing activities	(39,242)	40,626
NET CASH GENERATED/USED IN THE YEAR	2,451	15,502

RECONCILIATION

€/'000	Dec. 31, 2010	Dec. 31, 2009
Financial item		
Cash and cash equivalents at beginning of the year	50,584	35,082
Total net cash generated/used in the year	2,451	15,502
Cash and cash equivalents: effect of movements in exchange rates	-	-
Cash and cash equivalents at end of the year	53,035	50,584

Notes to the Consolidated Annual Financial Statements 2010

Notes to the Consolidated Annual Financial Statements

These notes are structured as follows:
Part A - Accounting policies
Part B - Information on the consolidated balance sheets
Part C - Information on the consolidated income statements
Part D - Information on consolidated comprehensive income
Part E - Information on risks and risk management
Part F - Information on capital
Part G - Business combinations
Part H - Related Party Transactions
Part I - Equity-settled share-based payment transactions
Part L - Segmental information

PART A – ACCOUNTING POLICIES

A.1 – GENERAL

Section 1 - Compliance with the international accounting and financial reporting standards

Pursuant to Legislative Decree No. 38 of February 28, 2005 the consolidated financial statements for the year ended December 31, 2010 were prepared in accordance with the accounting and financial reporting 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 under European Parliament and Council Regulation (EC) 1606 of July 19, 2002.
The consolidated financial statements for the year ended December 31, 2010 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, in the exercise of its powers pursuant to art. 9 of Legislative Decree 38/2005, through Circular Letter No. 262 of December 22, 2005, as amended on November 18, 2009. In compliance therewith prior year's comparatives were reclassified as commented in the respective sections of these Notes.

Section 2 - Accounting basis

In the preparation of the consolidated financial statements the Group applied the International Accounting and Financial Reporting standards IAS/IFRS (including SIC and IFRIC interpretations) in effect at December 31, 2010, as adopted by the European Commission, as well as 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.
These consolidated financial statements consist of the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Shareholders' 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, in the Notes and in the Directors' Report are presented in thousands of euro unless stated otherwise. The accounts and the notes also include comparative information for the year ended December 31, 2009.

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 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 Comprehensive Income

The Statement of Comprehensive Income presents gains and losses relating to the year's changes in the value of assets that are stated net of related taxation. Like Balance Sheet and Income Statement items, items with a nil balance for both the year under review and the prior year are not indicated. Negative amounts are preceded by a minus.

Statement of Changes in Shareholders' Equity

The Statement of Changes in Shareholders' 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. 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. 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 international accounting and financial reporting standards and Bank of Italy's Circular Letter 262/2005, as amended on November 18, 2009.
In accordance with Bank of Italy's requirements, no explanatory note is provided for items with a nil balance for both the year under review and the prior year.
In the tables with income statement information, 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.

Analysis of subsidiaries consolidated on a line-by-line basis is set out in the tables below.
Group companies that are directly owned by Banca Mediolanum S.p.A. and consolidated on a line-by-line basis

€/'000	Share capital	% holding	Registered Office	Business
Mediolanum Distribuz.Finanz. S.p.A.	1,000	100.00%	Basiglio	Financial Brokerage
Mediolanum Gestione Fondi SGR p.A.	5,165	51.00%	Basiglio	Fund management
Mediolanum International Funds Ltd	150	51.00%	Dublin	Fund management
Mediolanum Asset Management Ltd	150	51.00%	Dublin	Asset management and advice
Banco de Finanzas e Inversiones S.A.	86,032	100.00%	Barcelona	Banking
Bankhaus August Lenz & Co. AG	20,000	100.00%	Munich	Banking
Mediolanum Corporate University S.p.A.	20,000	100.00%	Basiglio	Education and Training
Gamax Management AG	7,161	99.996%	Luxembourg	Fund management

Group companies that are indirectly owned by Banca Mediolanum S.p.A. through Banco de Finanzas e Inversiones S.A., and consolidated on a line-by-line basis

€/'000	Share capital	% holding	Registered Office	Business
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
Mediolanum International Funds Ltd	150	5.00%	Dublin	Asset management and advice

Methods of consolidation

Subsidiaries are consolidated on a line-by-line basis.

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 recognised as goodwill under "Intangible Assets" on first-time consolidation, and under "Other Reserves" thereafter. Negative differences are recognised in the income statement.
Intercompany assets, liabilities, income and expenses are eliminated in full.
Business combinations are accounted for by applying the purchase method. Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's (acquirer's) interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.
After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated, from the acquisition date, to each of the Group's (acquirer's) cash-generating units or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.
If goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and the Group disposes of an operation within that unit, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal and is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.
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 recognised 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

The equity method was not applied in the preparation of these annual consolidated financial statements.

Section 4 – Post Balance Sheet Date Events

In the period between the end of financial year 2010 and the date on which these financial statements were approved, there was no event which could materially impact the business or result of operations of the Mediolanum Banking Group, other than those presented in the Directors' Report to which readers are referred for details.

Section 5 – Other information

Information on the business and the result of operations for the year 2010 of the main subsidiaries is set out in the Directors' Report accompanying the consolidated financial statements.
The consolidated 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 18, 2007 whereby Reconta Ernst & Young S.p.A. were re-appointed as independent auditors for the three-year period 2008 - 2010.

A.2 – SIGNIFICANT ACCOUNTING POLICIES

Accounting policies

This section presents the accounting policies applied in the preparation of the consolidated financial statements for the year ended December 31, 2010.
The accounting policies applied in the preparation of the consolidated financial statements, with respect to the classification, measurement, recognition and derecognition of the various items of assets and liabilities as well as the recognition of items of income and expense, are consistent with those applied in the preparation of the consolidated financial statements for the year ended December 31, 2009.

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 recognised 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.

[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.

Reclassification to other categories of financial assets is not allowed except for rare circumstances which are unlikely to occur again in the near term. In such rare circumstances debt securities and equities that are no longer held for trading can be reclassified to the other categories under IAS 39 (Held-to-Maturity Investments, Available-for-Sale financial assets, Loans & Receivables), provided that they satisfy the relevant requirements. The carrying amount of the reclassified financial instrument is its fair value on the date of reclassification. The existence of any embedded derivative contracts that require unbundling is assessed upon reclassification.
Financial assets are derecognised 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.
Available-for-sale financial assets are initially recognised 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 amortised through profit or loss, while gains or losses arising from a change in their fair value are recognised in a specific equity reserve until the financial asset is derecognised or impaired. At the time of their dismissal or impairment, the cumulative gain or loss previously recognised in equity is recognised 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 recognised, the impairment loss is reversed and the reversal recognised 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 amortised cost would have been had the impairment loss not been recognised at the date the impairment is reversed.
Financial assets are derecognised 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 an available-for-sale financial asset.
Held-to-maturity investments are initially recognised 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 amortised cost at which held-to-maturity investments are carried.
After initial recognition held-to-maturity investments are measured at amortised cost using the effective interest method.
Gains or losses of held-to-maturity investments are recognised in the income statement when the financial assets is derecognised or impaired, and through the amortisation 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 recognised 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 recognised, the impairment loss is reversed and the reversal recognised in the income statement.
Held-to-maturity investments are derecognised 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.

Hedging

Hedging transactions are intended to offset changes in the fair value or cash flows of an item or group of items, that are attributable to a particular risk, in the event that risk materialises.
Pursuant to IAS 39 the Company adopted fair value hedging to cover exposure to changes in the fair value of a financial item, that is attributable to a particular risk. Specifically, the Group entered into fair value hedges of the interest rate exposure of a portfolio of financial assets or financial liabilities.
Only instruments that involve a party external to the Group can be designated as hedging instruments. A hedge of an overall net position in a portfolio of financial instruments does not qualify for hedge accounting.
Hedging derivatives are measured at fair value. As they are accounted for as fair value hedges, the changes in the fair value of the hedged item are offset by the changes in the fair value of the hedging instrument.
Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item (in relation to changes generated by the underlying risk). Any resulting difference, which represents the partial ineffectiveness of the hedge, is the net effect on profit or loss.
Fair value is determined on the basis of quoted prices in an active market, prices quoted by market participants or internal valuation models commonly used in financial practice, which take into account all risk factors associated with the instruments and based on market information.
Derivatives are recognised as hedging derivatives if there is formal documentation of the hedging relationship between the hedging instrument and the hedged item and if, at the inception of the hedge and prospectively, the hedge is expected to be effective during the period for which the hedge is designated.
A hedge is effective if it achieves offsetting changes in the fair value of the hedged risk.
The hedging relationship is considered effective if, at the inception of the hedge and in subsequent periods, the changes in the fair value of the hedged item are offset by the changes in fair value of the hedging instrument and if the actual results of the hedge are within a range of 80% - 125%.

Hedge effectiveness is assessed at the date the entity prepares its annual or interim financial statements, using:
- prospective tests which support hedge accounting in terms of expected effectiveness;
- retrospective tests which show the degree of hedge effectiveness in the relevant past periods.

In other words, they measure how much actual results differed from perfect hedging

If the tests do not confirm hedge effectiveness, hedge accounting is discontinued, the hedging derivative is reclassified into trading instruments while the hedged item is again recognised according to its usual classification in the balance sheet and the changes in the fair value of the hedged item up until the date hedge accounting was discontinued are amortised applying the effective interest rate.

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 recognised 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 recognised 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 recognised 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 recognised as a loan.

After initial recognition, loans and receivables are measured at amortised cost. Amortised cost is the amount at which the financial asset is measured on initial recognition minus principal repayments, plus or minus the cumulative amortisation 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.

Amortised 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 recognised in the income statement over the expected life of the asset.

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 or receivable is classified as follows:

- **nonperforming** – these are formally impaired loans i.e. exposures to borrowers that are unable to meet their payment obligations, even if their insolvency has not been established by a court of law, or in similar conditions;
- **watch list** – these are exposures to borrowers that are experiencing temporary difficulties in meeting their payment obligations but are expected to make good within a reasonable timeframe. Watch list loans also include exposures – other than to nonperforming borrowers or government entities - that satisfy both the following conditions:
  – have been past due and unpaid for over 270 days (over 150 or 180 days for consumer loans with original maturity of less than 36 months, or of 36 months or more, respectively);

– the aggregate exposure as per the previous paragraph and in relation to other payments that are less than 270 days past due to the same borrower accounts for at least 10% of total exposure to that borrower;

- **restructured** - exposures for which a grace period was accorded with concurrent renegotiation of the loan terms and conditions at below market rates, that were in part converted into shares and/or for which a principal reduction was agreed;
- **past due** - exposures to borrowers other than those classified in the categories above, that at the reporting date were over 90 days past due or overdrawn. Loans to retail borrowers, governments and government agencies or businesses domiciled or based in Italy are considered to be impaired if past due or overdrawn for over 180 days in lieu of 90 days.

Total exposure is considered if at the reporting date:

- the past due /overdrawn amount,

or:

- the mean value of daily past due/overdrawn amounts in the last quarter was 5% or more of total exposure.

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 amortised 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 realisable 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 recognised 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 recognised, the impairment loss is reversed and the reversal recognised in the income statement.
The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment loss not been recognised at the date the impairment is reversed.
If the individual assessment of loans and receivables that are overdue and other loans (performing loans) does not reveal any evidence of impairment, 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 recognised 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.

Investment property and other 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 recognised 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 recognised in the carrying amount of the asset, while the costs of day-to-day servicing are recognised 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 lower 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 recognised 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 recognised at the date the impairment is reversed.
A tangible asset is derecognised 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 and the costs of software used over more than one year.
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.
Other intangible assets are recognised if they are identifiable as such and arise from contractual or other legal rights.
An intangible asset can be recognised 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 recognised in the income statement.
Other intangible assets are carried at cost less any accumulated amortisation 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 recognised as an expense in the income statement in the year in which it was incurred.
Intangible assets are amortised on a straight-line basis over their useful lives. Intangible assets with indefinite useful lives are not amortised, but periodically tested for impairment by comparing their recoverable amount with their carrying amount.

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 recognised in profit or loss.
An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal.

Other assets

Other assets include expenditure on the renovation of leasehold property.
Expenditure on the renovation of leasehold property is capitalised since during the lease term the lessee controls the assets and obtains future economic benefits from them.
Expenditure on the renovation of leasehold property is amortised over a period which does not exceed the lease term.

Financial liabilities held for trading

Financial liabilities held for trading include:
- trading derivatives with negative fair value;
- short positions on securities trading.

These financial liabilities are initially recognised 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 recognised in the income statement.
After initial recognition, financial liabilities are measured at fair value.
A financial liability is derecognised when it expires or is extinguished.

Debt and securities issued

Other financial liabilities include the various forms of funding from banks and customers as well as bonds issued net of any buybacks.
These financial liabilities are initially recognised 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 recognised in the income statement.
After initial recognition, financial liabilities are measured at amortised 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 recognised in the income statement over the contractual term of the liability.

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

Assets/Liabilities associated with disposal groups held for sale

This account relates to non-current assets/liabilities and disposal groups held for sale. They are measured at the lower of their carrying amount and fair value less cost to sell.
Related income and expenses (after taxes) are separately recognised 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 recognised in the income statement.

Employee completion-of-service entitlements

Completion-of-service entitlements are recognised at the present value of the benefit obligations calculated using actuarial techniques in accordance with the rules governing 'defined benefit plans'. Future disbursements are estimated on the basis of past data (such as employee turnover and retirement) and demographic patterns, including assumptions for pay hikes pursuant to section 2120 of the Italian Civil Code (application of a fixed rate of 1.5 percent and a rate equal to 75 percent of ISTAT inflation rate). To determine the present value of benefit obligations the Projected Unit Credit Method is used, applying a discount rate, which is determined on the basis of market yields and reflects the estimated timing of benefit payments. The resulting values are recognised 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. Actuarial gains or losses are fully recognised under staff costs.
Entitlements accrued from January 1, 2007 allocated to either INPS or private pension plans are defined contribution payment obligations, since the company's obligation is limited to the amount it agrees to contribute to the fund. The defined contribution obligations for each period are the amounts to be contributed for that period.

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 recognised in the income statement.

Assets and liabilities denominated in foreign currencies

Assets and liabilities denominated in foreign currencies are initially recognised 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 recognised in the income statement in the period in which they arise.
When a gain or loss on a non-monetary item is recognised directly in equity, the exchange difference component of that gain or loss is also recognised in equity. Conversely, when a gain or loss on a non-monetary item is recognised in the income statement, the exchange difference component of that gain or loss is also recognised in the income statement.

Tax assets and liabilities

The Italian companies that are part of the Mediolanum Group adhere to the so-called 'tax consolidation regime' regulated by articles 117-129 of the Consolidated Income Tax Act introduced into Italy's tax legislation by Legislative Decree 344/2003. Under said regime each participating subsidiary may elect to calculate its own tax base separately, taking into account inter alia any withholding taxes, tax deductions and tax credits. The resulting taxable income or loss of all participating subsidiaries is aggregated and transferred to the parent company. The parent company adds its taxable income or loss and calculates the consolidated tax expense or income as a single tax reporting entity. The Mediolanum Group companies that elected to apply the "tax consolidation regime" calculated their tax base and transferred the resulting taxable income to the Parent Company. Any tax losses of one or more subsidiaries are transferred to the Parent Company if the Group generated taxable income in the year or is expected to generate taxable income in the future.

The Group recognises current and deferred taxes applying the tax rates in effect in the countries where consolidated subsidiaries are incorporated.

Income taxes are recognised 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 utilised.

Deferred tax assets and deferred tax liabilities are not netted, and are separately recognised in the Balance Sheet under "Tax assets" and "Tax liabilities" respectively.
Deferred taxes are accounted for using the liability method on temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet.
A deferred tax liability is recognised for all taxable temporary differences.

A deferred tax asset is recognised for all deductible temporary differences, and the carry-forward of unused tax losses and unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary difference and the carry-forward of unused tax losses and unused tax credits can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).
A deferred tax asset is also recognised for all deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

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.

Income Statement

Revenue is recognised 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;
- interest income and interest expense are recognised on an accrual basis applying the effective interest method;
- dividends are recognised in the income statement when their distribution to shareholders is established;
- any default interests, in accordance with the terms of the relevant agreement, are recognised in the income statement only when actually received.

OTHER INFORMATION

Use of estimates

The application of International Accounting and Financial Reporting Standards (IAS/IFRS) in the preparation of financial statements entails the use of complex valuations and estimates which have an impact on assets, liabilities, revenues and costs recognised in the financial statements as well as on the identification of potential assets and liabilities. These estimates primarily relate to:
- Assets and liabilities carried at fair value;
- Tests for any objective evidence of impairment losses on intangible assets recognised in the balance sheet;
- Assessment of loans;

- Provisions for risks and charges;
- Deferred taxation;
- Stock option plan related costs.

Senior management regularly check valuations and estimates made on the basis of past experience and other reasonable factors. Due to the uncertainty typically related to these financial items, actual values may differ from estimates due to the occurrence of unexpected events or changes in operating conditions.

For information about the methods used to determine the financial items above and main risk factors readers are referred to the previous sections of these notes for information on accounting policies and to Part E for information on financial risk.

Impairment

When upon assessment at the reporting date there is any indication that an asset may be impaired, the tangible or intangible asset is tested for impairment in accordance with IAS 36.
An asset is impaired when its carrying amount exceeds its recoverable amount, which is the higher of its fair value less cost to sell (the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable, willing parties) and its value in use (i.e. the present value of the future cash flows expected to be derived from the permanent use of the assets and its disposal at the end of its useful life).
If an asset is impaired, the relevant impairment loss is recognised in profit or loss and, if the asset is subject to depreciation (amortisation), in future periods the relevant depreciation (amortisation) charge shall be calculated on the post-impairment carrying amount.
If, in a subsequent period, there is any indication that the impairment loss recognised in prior periods no longer exists, the previously recognised impairment loss is reversed.
If there is objective evidence that a financial asset is impaired, the Group applies the provisions of IAS 39, except for financial assets carried at fair value through profit or loss.
Indications of possible impairment include events such as significant financial difficulties of the issuer, default or delinquency in interest or principal payments, the possibility that the borrower will enter bankruptcy or other financial reorganisation and the disappearance of an active market for that financial asset.
A significant or prolonged decline in the market value of an investment in an equity instrument below its cost is also objective evidence of impairment.
Specifically, for equities, there is evidence of impairment where the decline in the original fair value exceeds one-third or is prolonged for over 36 months.
If there is objective evidence of impairment, the amount of the impairment loss is measured:

- as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's effective interest rate computed at initial recognition, for financial assets carried at amortised cost;
- as the difference between cost (for equity instruments) or amortised cost (for debt instruments) and current fair value, for available-for-sale financial assets.

If, in a subsequent period, the reasons for the impairment loss no longer exist, the impairment loss is reversed and the reversal recognised in the income statement if the asset is a debt instrument, and in equity if the asset is an equity instrument.

Goodwill is tested for impairment annually (or any time there is evidence of impairment). To that end goodwill is allocated to the cash-generating unit (CGU). If the recoverable amount of the unit is less than its carrying amount an impairment loss is recognised. 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 on goodwill is recognised in the income statement and cannot be reversed in subsequent periods.

Share-based payments

Stock options are share-based payments.

Stock options granted, and the corresponding increase in equity, are measured by reference to the fair value of the stock option at Grant Date, and accounted for during the Vesting Period.

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.

The cumulative expense recognised at each annual reporting date up until the vesting date takes account of the vesting period and is based on the best available estimate of options that are going to be exercised upon vesting. The expense or the reversal recognised in the income statement for each year represents the change in the cumulative expense over the amount recognised in the prior year. No expense is recognised for options that do not vest.

Fair value disclosures

Reclassifications of assets

€/'000					No reclassification impact on profit/loss (before tax)		Impact of reclassifications for the year (before tax)	
Type of financial instrument (1)	Reclassified from (2)	Reclassified to (3)	Book value at Dec.31, 2010 (4)	Fair value at Dec. 31, *2010* (5)	Valuation (6)	Other (7)	Valuation (8)	Other (9)
A. Debt securities			187,628	186,522	(4,821)	2,799	-	2,667
	HFT	AFS	137,079	137,079	(3,715)	2,106	-	2,106
	HFT	Loans to Customers	50,549	49,443	(1,106)	693	-	561

In the year under review there was no reclassification of assets. The information in the table above relates exclusively to reclassifications made in 2008 of financial instruments which were, in part, sold in 2009 and 2010.

A.3.2.1. Fair value hierarchy of financial assets and liabilities

	Dec. 31, 2010			Dec. 31, 2009		
€/'000	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial Assets/Liabilities at fair value						
1. Financial assets held for trading	947,831	8,573	202	808,950	33,982	741
2. Financial assets at fair value	-	-	-	-	-	-
3. Available for sale financial assets	1,875,849	160,924	61,203	815,421	164,230	59,917
4. Hedging derivatives	-	-	-	-	1,179	-
Total	2,823,680	169,497	61,405	1,624,371	199,391	60,658
1. Financial liabilities held for trading	443,606	7,854	2	258,251	2,298	-
2. Financial liabilities at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	28,510	-	-	15,906	-
Total	443,606	36,364	2	258,251	18,204	-

A.3.2.2 Year's movements in Level 3 financial assets

	FINANCIAL ASSETS			
€/'000	held for trading	at fair value	available for sale	hedges
1. Opening balance	741	-	59,917	-
2. Increases	182,867	-	2,168	-
2.1 Purchases	182,283	-	2,112	-
2.2 Profits recognised				
2.2.1 through profit or loss	583	-	1	-
- of which: gains	1	-	-	-
2.2.2 in equity	X	X	55	-
2.3 Transferred to other level	-	-	-	-
2.4 Other increases	1	-	-	-
3. Decreases	(183,406)	-	(882)	-
3.1 Sales	(183,030)	-	(246)	-
3.2 Redemptions	(10)	-	-	-
3.3 Losses recognised				
3.3.1 through profit or loss	(294)	-	(14)	-
- of which: losses	(11)	-	-	-
3.3.2 in equity	X	X	(336)	-
3.4 Transferred to other level	-	-	(286)	-
3.5 Other decreases	(72)	-	-	-
4. Closing balance	202	-	61,203	-

A.3.2.3 Year's movements in Level 3 financial liabilities

	FINANCIAL LIABILITIES		
€/'000	held for trading	at fair value	hedges
1. Opening balance	-	-	-
2. Increases	1,938	-	-
2.1 Issues	1,936	-	-
2.2 Losses recognised			
2.2.1 through profit or loss	2	-	-
- of which: losses	1	-	-
2.2.2 in equity	X	X	-
2.3 Transferred to other level	-	-	-
2.4 Other increases	-	-	-
3. Decreases	(1,936)	-	-
3.1 Redemptions	-	-	-
3.2 Buybacks	(1,924)	-	-
3.3 Losses recognised			
3.3.1 through profit or loss	(12)	-	-
- of which: gains	-	-	-
3.3.2 in equity	X	X	-
3.4 Transferred to other level	-	-	-
3.5 Other decreases	-	-	-
4. Closing balance	2	-	-

PART B – INFORMATION ON THE CONSOLIDATED BALANCE SHEET

ASSETS

Section 1 – Cash and cash equivalents – Caption 10

1.1 Analysis of cash and cash equivalents

€/'000	Dec. 31, 2010	Dec. 31, 2009
a) Cash	49,374	49,971
b) Demand deposits with Central Banks	3,661	613
Total	53,035	50,584

Section 2 – Financial assets held for trading – Caption 20

2.1 Analysis of financial assets held for trading

	Dec. 31, 2010			Dec. 31, 2009		
€/'000	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Non-derivatives						
1. Debt securities	947,809	4,706	201	808,939	29,951	741
1.1 Structured notes	-	-	138	14,405	17,633	283
1.2 Other debt securities	947,809	4,706	63	794,534	12,318	458
2. Equities	6	-	-	10	-	-
3. Holdings in UCITS	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-
Total (A)	947,815	4,706	201	808,949	29,951	741
B. Derivatives						
1. Financial derivatives:	16	3,867	1	1	4,031	-
1.1 held for trading	16	3,867	1	1	4,031	-
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)	16	3,867	1	1	4,031	-
Total (A+B)	947,831	8,573	202	808,950	33,982	741

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

€/'000	Dec. 31, 2010	Dec. 31, 2009
A. Non-derivatives		
1. Debt securities	952,716	839,631
a) Governments and Central Banks	151,572	113,699
b) Government agencies	-	-
c) Banks	724,167	621,382
d) Other issuers	76,977	104,550
2. Equities	6	10
a) Banks	-	-
b) Other issuers:	6	10
- insurance companies	-	-
- financial companies	1	-
- non financial companies	5	10
- others	-	-
3. Holdings in UCITS	-	-
4. Loans	-	-
a) Governments and Central Banks	-	-
b) Government agencies	-	-
c) Banks	-	-
d) Others	-	-
Total A	952,722	839,641
B. Derivatives		
a) Banks		
- fair value	1,444	2,450
b) Customers		
- fair value	2,440	1,582
Total B	3,884	4,032
Total (A+B)	956,606	843,673

2.3 Year's movements in financial assets held for trading

€/'000	Debt securities	Equities	Holdings in UCITS	Loans	Total
A. Opening balance	839,631	10	-	-	839,641
B. Increases	12,218,557	2,642	153	-	12,221,352
B1. Additions	12,189,328	2,631	153	-	12,192,112
B2. Increases in fair value	2,847	3	-	-	2,850
B3. Other	26,382	8	-	-	26,390
C. Decreases	12,105,472	2,646	153	-	12,108,271
C1. Disposals	11,999,727	2,605	151	-	12,002,483
C2. Redemptions	73,683	-	-	-	73,683
C3. Decreases in fair value	14,194	3	-	-	14,197
C4. Reclassified to other portfolios	-	-	-	-	-
C5. Other	17,868	38	2	-	17,908
D. Closing balance	952,716	6	-	-	952,722

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

4.1 Analysis of available-for-sale financial assets

	Dec. 31, 2010			Dec. 31, 2009		
€/'000	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	1,875,227	39,974	-	815,094	42,076	-
1.1 Structured notes	-	958	-	5,361	-	-
1.2 Other debt securities	1,875,227	39,016	-	809,733	42,076	-
2. Equities	622	253	10,423	327	253	10,865
2.1 measured at fair value	622	1	-	327	1	428
2.2 measured at cost	-	252	10,423	-	252	10,437
3. Holdings in UCITS	-	120,697	50,780	-	121,901	49,052
4. Loans	-	-	-	-	-	-
Total	1,875,849	160,924	61,203	815,421	164,230	59,917

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

€/'000	Dec. 31, 2010	Dec. 31, 2009
1. Debt securities	1,915,201	857,170
a) Governments and Central Banks	1,641,398	492,665
b) Government agencies	-	-
c) Banks	261,065	361,144
d) Other issuers	12,738	3,361
2. Equities	11,298	11,445
a) Banks	-	-
b) Other issuers:	11,298	11,445
- insurance companies	-	-
- financial companies	2,857	2,824
- non financial companies	8,076	8,237
- others	365	384
3. Holdings in UCITS	171,477	170,953
4. Loans	-	-
a) Governments and Central Banks	-	-
b) Governments and Central Banks	-	-
c) Banks	-	-
d) Other issuers	-	-
Total	2,097,976	1,039,568

4.4 Year's movements in available-for-sale financial assets

€/'000	Debt securities	Equities	Holdings in UCITS	Loans	Total
A. Opening balance	857,170	11,445	170,953	-	1,039,568
B. Increases	2,548,527	1,658	5,677	-	2,555,862
B1. Additions	2,524,713	1,583	2,112	-	2,528,408
B2. Increases in fair value	12,604	50	3,564	-	16,218
B3. Reversal of impairment					
- through profit or loss	-	-	-	-	-
- in equity	-	1	-	-	1
B4. Reclassified from other portfolios	-	-	-	-	-
B5. Other	11,210	24	1	-	11,235
C. Decreases	1,490,496	1,805	5,153	-	1,497,454
C1. Disposals	1,322,476	1,583	4,958	-	1,329,017
C2. Redemptions	87,435	-	-	-	87,435
C3. Decreases in fair value	75,684	187	194	-	76,065
C4. Impairment					
- through profit or loss	-	14	-	-	14
- in equity	-	-	-	-	-
C5. Reclassified to other portfolios	-	-	-	-	-
C6. Other	4,901	21	1	-	4,923
D. Closing balance	1,915,201	11,298	171,477	-	2,097,976

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

5.1 Analysis of held-to-maturity investments

€/'000	Dec. 31, 2010				Dec. 31, 2009			
	Book Value	Fair Value			Book Value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	1,118,166	215,537	897,827	-	1,329,347	236,242	1,111,641	-
- Structured notes	106,258	5,082	97,212	-	106,547	5,120	100,776	-
- Other debt securities	1,011,908	210,455	800,615	-	1,222,800	231,122	1,010,865	-
2. Loans	-	-	-	-	-	-	-	-
Total	1,118,166	215,537	897,827	-	1,329,347	236,242	1,111,641	-

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

€/'000	Dec. 31, 2010	Dec. 31, 2009
1. Debt securities	1,118,166	1,329,347
a) Governments and Central Banks	80,934	80,786
b) Government agencies	-	-
c) Banks	1,037,232	1,248,561
d) Other issuers	-	-
2. Loans	-	-
a) Governments and Central Banks	-	-
b) Governments and Central Banks	-	-
c) Banks	-	-
d) Others	-	-
Total	1,118,166	1,329,347
Totale Fair Value	1,113,364	1,347,883

5.4 Year's movements in held-to-maturity investments

€/'000	Debt securities	Loans	Total
A. Opening balance	1,329,347	-	1,329,347
B. Increases	10,368	-	10,368
B1. Additions	-	-	-
B2. Reversal of impairment	-	-	-
B3. Reclassified from other portfolios	-	-	-
B4. Other	10,368	-	10,368
C. Decreases	221,549	-	221,549
C1. Disposals	-	-	-
C2. Redemptions	210,006	-	210,006
C3. Impairment	-	-	-
C4. Reclassified to other portfolios	-	-	-
C5. Other	11,543	-	11,543
D. Closing balance	1,118,166	-	1,118,166

Section 6 – Loans to banks – Caption 60

6.1 Analysis of loans to banks

€/'000	Dec. 31, 2010	Dec. 31, 2009
A. Central Banks	13,352	56,225
1. Time deposits	-	-
2. Reserve requirements	13,352	56,225
3. Repurchase agreements	-	-
4. Other	-	-
B. Banks	2,412,468	1,617,143
1. Current accounts and demand deposits	674,038	85,477
2. Time deposits	91,049	492,413
3. Others:	403,310	353,954
3.1 Repurchase agreements	372,306	305,769
3.2 Finance leases	-	-
3.3 Other	31,004	48,185
4. Debt securities	1,244,071	685,299
4.1 Structured notes	-	-
4.2 Other debt securities	1,244,071	685,299
Total (book value)	2,425,820	1,673,368
Total (fair value)	2,422,430	1,672,106

Section 7 – Loans to customers – Caption 70

7.1 Analysis of loans to customers

	Dec. 31, 2010		Dec. 31, 2009	
€/'000	Performing	Impaired	Performing	Impaired
1. Current accounts	339,361	10,483	360,622	16,717
2. Repurchase agreements	99,965	-	44,366	-
3. Mortgage loans	2,262,087	17,273	2,046,450	19,113
4. Credit cards, personal loans and salary-guaranteed loans	189,847	894	117,932	1,588
5. Finance leases	337	-	520	-
6. Factoring	-	-	-	-
7. Other	536,259	10,370	644,596	919
8. Debt securities	882,994	-	79,079	-
8.1 Structured notes	-	-	-	-
8.2 Other debt securities	882,994	-	79,079	-
Total (book value)	4,310,850	39,020	3,293,565	38,337
Total (fair value)	4,545,115	39,020	3,324,931	38,336

7.2 Analysis of customer loans by debtor/issuer

€/'000	Dec. 31, 2010 Performing	Dec. 31, 2010 Impaired	Dec. 31, 2009 Performing	Dec. 31, 2009 Impaired
1. Debt securities	882,994	-	79,079	-
a) Governments	601,467	-	-	-
b) Government agencies	101,060	-	-	-
c) Other issuers	180,467	-	79,079	
- non financial companies	-	-	-	-
- financial companies	180,467	-	79,079	-
- insurance companies	-	-	-	-
- others	-	-	-	-
2. Loans	3,427,856	39,020	3,214,486	38,337
a) Governments	-	-	-	-
b) Government agencies	-	-	-	-
c) Others	3,427,856	39,020	3,214,486	38,337
- non financial companies	74,819	1,748	94,856	1,445
- financial companies	465,046	10,109	507,666	-
- insurance companies	27,346	-	56,753	-
- other	2,860,645	27,163	2,555,211	36,892
Total	4,310,850	39,020	3,293,565	38,337

7.3 Loans to customers: micro-hedging

€/'000	Dec. 31, 2010	Dec. 31, 2009
1. Fair value hedges	506,801	531,308
a) interest rate risk	506,801	531,308
b) currency risk	-	-
c) multiple risks	-	-
2. Cash flow hedges	-	-
a) interest rate risk	-	-
b) currency risk	-	-
c) other	-	-
Total	506,801	531,308

Section 8 – Hedging derivatives - Caption 80

8.1 Analysis of hedging derivatives by type of hedge and fair value hierarchy

	Dec. 31, 2010				Dec. 31, 2009			
	FV			NV	FV			NV
€/'000	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives	-	-	-	-	-	1,179	-	196,804
1) Fair value hedge	-	-	-	-	-	1,179	-	196,804
2) Cash flow hedge	-	-	-	-	-	-	-	-
3) Hedge of investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-	-	-	-
1) Fair value hedge	-	-	-	-	-	-	-	-
2) Cash flow hedge	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	1,179	-	196,804

Legend:
FV = fair value
NV = notional value

Section 12 – Tangible assets – Caption 120

12.1 Analysis of tangible assets carried at cost

€/'000	Dec. 31, 2010	Dec. 31, 2009
A. Occupied/used		
1.1 owned	54,733	63,453
a) land	20,659	20,659
b) buildings	21,753	22,566
c) furnishings	3,967	4,786
d) electronic equipment	4,778	11,468
e) other	3,576	3,974
1.2 under finance leases	105	-
a) land	-	-
b) buildings	-	-
c) furnishings	105	-
d) electronic equipment	-	-
e) other	-	-
Total A	54,838	63,453
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)	54,838	63,453

12.3 Year's movements in occupied/used tangible assets

€/'000	Land	Buildings	Furnishings	Electronic equipment	Other	Total
A. Gross opening balance	20,659	29,838	13,334	45,310	12,221	121,362
A.1 Total net write-downs	-	(7,272)	(8,548)	(33,842)	(8,247)	(57,909)
A.2 Net opening balance	20,659	22,566	4,786	11,468	3,974	63,453
B. Increases	-	119	755	1,251	885	3,010
B.1 Additions	-	117	399	1,082	700	2,298
B.2 Capitalised improvement costs	-	-	89	-	-	89
B.3 Reversal of impairment	-	-	-	-	(1)	(1)
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	-	2	267	169	186	624
C. Decreases	-	(932)	(1,469)	(7,941)	(1,283)	(11,625)
C.1 Disposals	-	-	(3)	(3,524)	-	(3,527)
C.2 Depreciation	-	(932)	(1,199)	(4,248)	(1,091)	(7,470)
C.3 Impairment						
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 Reclassifield to:						
a) tangible assets held for investment purposes	-	-	-	-	-	-
b) assets held for sale	-	-	-	-	-	-
C.7 Other decreases	-	-	(267)	(169)	(192)	(628)
D. Net closing balance	20,659	21,753	4,072	4,778	3,576	54,838
D.1 Total net write-downs	-	(7,763)	(9,288)	(15,226)	(9,030)	(41,307)
D.2 Gross closing balance	20,659	29,516	13,360	20,004	12,606	96,145
E. Measured at costs	-	-	-	-	-	-

Section 13 – Intangible assets – Caption 130

13.1 Analysis of intangible assets

	Dec. 31, 2010		Dec. 31, 2009	
€/'000	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	X	198,728	X	205,714
A.1.1 group	X	198,728	X	205,714
A.1.2 minority interests	X	-	X	-
A.2 Other intangible assets	10,639	-	12,979	-
A.2.1 measured at cost	10,639	-	12,979	-
a) internally generated assets	-	-	-	-
b) other assets	10,639	-	12,979	-
A.2.2 Measured at fair value:	-	-	-	-
a) internally generated assets	-	-	-	-
b) other assets	-	-	-	-
Total	10,639	198,728	12,979	205,714

This section provides information about the impairment test conducted as per IAS 36 on cash generating units (CGUs) in operation at December 31, 2010 as recommended by the Bank of Italy, CONSOB and ISVAP in their jointly issued document of March, 3, 2010. The purpose of the impairment test was to ascertain that the carrying amount of each cash generating unit (CGU) did not exceed its recoverable amount, i.e. the higher of its fair value less cost to sell and its value in use.
The impairment test was conducted with the assistance of an independent advisor applying the methods and assumptions set out below.

DEFINITION OF CGUs AND ALLOCATION OF GOODWILL

For the purpose of impairment testing, the identification of CGUs and related goodwill allocation were made in accordance with the business reporting system adopted by the Mediolanum Group in 2009, i.e. by geographic segment of operations. The Group identified the three CGUs set out in the table below:

€/m	Description	Allocated Goodwill
CGU - SPAIN	Banco de Finanzas e Inversiones S.A. (Banco Mediolanum) Share of Mediolanum International Funds Ltd (MIF) goodwill for business in Spain	123.7
CGU - GERMANY	Bankhaus August Lenz & Co AG Gamax Management AG - German division	11.7
CGU - ITALY Asset Management	Share of Mediolanum International Funds Ltd (MIF) goodwill for business in Italy Gamax Management AG - Italian division	70.3

Goodwill allocated to the CGU Spain included goodwill relating to Fibanc amounting to €122.8 million and the share of MIF goodwill for business in Spain, amounting to €0.9 million. MIF is the Irish mutual fund company of the Mediolanum Banking Group whose products are distributed both in Spain and in Italy. Fibanc has a 5% stake in MIF. The remaining part of MIF goodwill pertaining to the Mediolanum Banking Group and amounting to €47.7 million was allocated to the CGU Italy Asset Management.
Goodwill allocated to the CGU Germany included goodwill relating to Bankhaus August Lenz & Co AG (BAL) amounting to €3.9 million and goodwill relating to the German division of Gamax Asset Management AG (Gamax) amounting to €7.8 million. In conformity with the Group's business reporting system, Gamax's goodwill was allo-

cated to two different CGUs, Italy Asset Management and Germany, on a pro-rata basis of total assets under management and administration adjusted for profitability. Specifically, 74% was allocated to the CGU Italy Asset Management (goodwill of €22.7 million) and 26% to the CGU Germany (goodwill of €7.8 million).

MEASUREMENT METHOD

Under IAS 36 value in use can be calculated applying the Discounted Cash Flow (DCF) method. The DCF method determines the value in use of a CGU, or an entity, by computing the present value of future cash flows (from operations) it is expected to generate over time.

For lenders, it is common practice to apply the Free Cash Flow to Equity (FCFE) model known in Anglo-Saxon countries as 'Dividend Discount Model' (DDM), in the Excess Capital variant, that determines the value of the entity on the basis of the future cash flows it expects to be capable of distributing to the shareholders, without impacting the assets supporting its future growth, in compliance with regulatory capital requirements, and applying a discount rate which reflects the specific equity risk. Please note that although the name Dividend Discount Model contains the term 'dividend', the cash flows it calculates are not the dividends the entity expects to distribute to its shareholders, but the cash flows potentially available to equity holders net of the assets needed for business operations.

CGU SPAIN – IMPAIRMENT TEST AND SENSITIVITY ANALYSIS

When testing for impairment, the recoverable amount of the CGU Spain was determined based on value in use calculated by applying the DDM method to the information set out in the 2011-2014 Business Plan (the 2011-2014 Plan) approved by the Boards of Directors of Banco Mediolanum and Banca Mediolanum S.p.A., less the value of the investment in MIF relating to business conducted in Italy.

The 2011-2014 Plan was built on reasonable, consistent assumptions and represents the management's best estimates of the range of possible developments that may occur over the useful life of the CGU.

The 2011-2014 Plan confirmed the forecasts made in the previous Plan, the 2010-2014 Plan, which was updated to reflect the latest estimates on interest rate developments over the plan period and adjust inflows forecasts on the basis of balances at December 31, 2010.

Specifically, the 2011-2014 Plan for Banco Mediolanum is based on the following assumptions:

- growth in the Family Bankers (FB) sales network from 439 people at year end 2010 to 1,101 in 2014, and reorganisation of the current structure;
- growth in assets under management and administration at an annual growth rate of 17% in the 2011-2011 period;
- introduction of entry fees to build up a stable base of recurring revenues;

Available cash flows were estimated considering a Tier 1 Capital ratio of 8%.

The present value of future cash flows was determined applying a discount rate equal to the cost of equity (ke) calculated under the Capital Asset Pricing Model, considering the current structure of interest rates in the market and the specific business segment. Specifically, ke was equal to the nominal rate of return on risk-free assets plus a risk premium to reflect the level of risk in the market and specific risks connected with the CGU business. The cost of equity was estimated at 12.30% on the basis of the following assumptions:

- risk-free rate of 4.70% calculated on the basis of average historical 6-month gross yields on 10-year Spanish treasuries;
- beta coefficient (risk measure of the stock compared to the market) of 1.12% calculated on the basis of the historical 2-year beta of a panel of comparable entities;
- market premium (i.e. the premium required by investors to invest in equities in lieu of risk-free assets) of 5.0% as suggested by best professional practice;
- country risk premium (Spain) estimated at 2%.

Considering Fibanc's notable growth rate target under the 2011-2014 Plan, for the purposes of impairment testing the Group decided to calculate value in use conservatively over the 2011-2013 period. The value of the CGU at the end of said time horizon was estimated on the basis of cash flows available in 2013 assuming growth at a constant rate of 2% in perpetuity (Gordon formula).

The DDM test did not reveal any impairment losses for the CGU.

Please note that the information and criteria used to determine the recoverable amount of intangibles - in particular the future estimated cash-flows of the CGU and the discount rates applied - are subject to changes, even dramatic, in the macroeconomic environment and market conditions - as occurred in past months. These changes are difficult to predict and could cause future results to differ materially from estimates of future cash-flows of the CGU as well as other key information set out herein.

Sensitivity analyses were applied to estimate the changes in some measures that make the recoverable amount of the CGU equal to its carrying amount, namely:

- discount rate (ke): the target cost of equity at which the value in use of the CGU is equal to the carrying amount is 14.89%, an upward movement of about 259 bps;
- profitability: the decline in net profit over the value set out in the 2011-2013 Plan at which the value in use of the CGU is equal to the carrying amount is 21%.

Considering the value in use over the 2011-2014 time horizon, the conditions that make the recoverable amount of the CGU be equal to its carrying amount are as follows:

- discount rate (ke) of 18.83%, an upward movement of about 653 bps;
- decline in net profit - compared to the value set out in the 2011-2014 Plan – equal to 43%.

To round off disclosure, readers are advised that unlike most players in the banking and financial industries, the analysis of the Mediolanum Group average stock market value from September 2010 through December 2010 reveals a multiple of 2.9x the book value of equity. The Group believes this is sufficient to neutralise any external factors that may impinge on the CGU Spain, such as the macroeconomic environment or the existence of comparable entities with stock prices lower than their equity's book value.

CGU GERMANY – IMPAIRMENT TEST AND SENSITIVITY ANALYSIS

When testing for impairment, the recoverable amount of the CGU Germany was determined based on value in use calculated by applying the Discounted Cash Flow (DCF) method to the information set out in the 2011-2013 Business Plan (the 2011-2013 Plan) approved by the directors of Gamax Management AG (the German division of Gamax) and the 2011-2015 Business Plan (the 2011-2015 Plan) approved by the directors of Bankhaus August Lenz AG. Both Business Plans were also approved by the Board of Directors of Banca Mediolanum S.p.A.

GERMAN DIVISION OF GAMAX MANAGEMENT AG – RECOVERABLE AMOUNT

The 2011-2013 Plan of the German Division of Gamax was built on reasonable, consistent assumptions and represents the management's best estimates of the range of possible developments that may occur over the useful life of the CGU. At December 31, 2010, the performance of the German division of Gamax was in line with targets.

Gamax derives its revenues largely from performance fees. In the light of the expected performance of financial market and the mechanism used to calculate performance fees (high water mark), the 2011 – 2013 Plan forecasts a decline in net results.

Specifically, the guidelines set out in the Gamax 2011-2013 are as follows:

- expansion of cross-selling between Gamax and BAL (17,000 customers);
- reinforcement of post-sales service (introduction of the Client Relationship Manager);

- implementation of the UCITS IV Directive (Companies and Funds);
- access to new markets (e.g.: the UK and Nordic countries);
- consolidation of the current platform for production and sale of products to third party companies.

The present value of future cash flows was determined applying a discount rate equal to the cost of equity (ke) calculated under the Capital Asset Pricing Model, considering the current structure of interest rates in the market and the specific business segment. Specifically, ke was equal to the nominal rate of return on risk-free assets plus a risk premium to reflect the level of risk in the market and specific risks connected with the CGU business. The cost of equity was estimated at 10.70% on the basis of the following assumptions:

- risk-free rate of 4.20% calculated on the basis of average historical 6-month gross yields on 10-year Italian treasuries;
- beta coefficient (risk measure of the stock compared to the market) of 1.11% calculated on the basis of the historical 2-year beta of a panel of comparable entities;
- market premium (i.e. the premium required by investors to invest in equities in lieu of risk-free assets) of 5.0% as suggested by best professional practice;
- additional risk premium of 1.0%.

The value of the CGU at the end of the 2011-2013 forecast period was estimated on the basis of cash flows available in 2013 assuming growth at a constant rate of 1% in perpetuity to take account of the expected reduced profitability of Gamax in the 2011-2013 period.

BANKHAUS AUGUST LENZ (BAL) – RECOVERABLE AMOUNT

The 2011-2015 Plan was built on reasonable, consistent assumptions and represents the management's best estimates of the range of possible developments that may occur over the useful life of the CGU.
At December 31, 2010, the performance of BAL was in line with targets.
Specifically, the BAL 2011-2015 Plan is based on the following assumptions:

- sales network growth;
- growth in gross inflows per agent;
- focus on Investment Plans (PIC) and Unit Linked products;
- review of the sales network incentivising system;
- redefinition of ATM pricing policies;

The actions set out above should ensure break even in financial year 2015 even for the scenario that does not include the contribution of the ATM business.
The present value of future cash flows was determined applying a discount rate equal to the cost of equity (ke) calculated under the Capital Asset Pricing Model, considering the current structure of interest rates in the market and the specific business segment. Specifically, ke was equal to the nominal rate of return on risk-free assets plus a risk premium to reflect the level of risk in the market and specific risks connected with the CGU business. The cost of equity was estimated at 11.70% on the basis of the following assumptions:

- risk-free rate of 2.70% calculated on the basis of average historical 6-month gross yields on 10-year German treasuries;
- beta coefficient (risk measure of the stock compared to the market) of 1.11% calculated on the basis of the historical 2-year beta of a panel of comparable entities;
- market premium (i.e. the premium required by investors to invest in equities in lieu of risk-free assets) of 5.0% as suggested by best professional practice;
- risk premium of 3.5% to take account of the specific operational condition of the company that is expected to break even in 2014.

The value of the CGU at the end of the forecast period was estimated on the basis of the cash flows in the last year of the plan assuming growth at a constant rate of 2% in perpetuity.
The values obtained from the application of the DCF method to the 2011-2013 Plan of the Gamax German Division and to the 2011-2015 Plan of BAL revealed a recoverable amount of goodwill of the CGU Germany amounting to €4.3 million, which was lower than the value of goodwill allocated to the CGU amounting to €11.7 million. Therefore an impairment loss of €7.4 million was recognised on the goodwill allocated to the CGU Germany.

CGU ITALY ASSET MANAGEMENT

The recoverable amount of this CGU is assumed higher than the goodwill allocated to the CGU amounting to €22.7 million. The comparison between Mediolanum's stock market capitalisation (€2.4 billion – September/December 2010 three-month average) and its TBV (€826 million at June 30, 2010) did not reveal any evidence of impairment of goodwill attributable to the CGU Italy Asset Management.

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

14.1/14.2 Analysis of deferred tax assets and tax liabilities

€/'000	Dec. 31, 2010	Dec. 31, 2009
Deferred tax assets		
charge to the income statement	69,176	56,194
charge to equity	21,824	2,343
Total deferred tax assets	91,000	58,537
Deferred tax liabilities		
charge to the income statement	(9,835)	(8,102)
charge to equity	(2,401)	(3,107)
Total deferred tax liabilities	(12,236)	(11,209)

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

€/'000	Dec. 31, 2010	Dec. 31, 2009
1. Opening balance	56,194	45,172
2. Increases	22,706	20,147
2.1 Deferred tax assets arisen in the year	22,664	20,084
a) relating to prior years	126	358
b) due to changes in the accounting policies	3,140	3,830
c) write-backs	-	-
d) other	19,398	15,896
2.2 New taxes or increased tax rates	-	-
2.3 Other increases	42	63
3. Decreases	(9,723)	(9,125)
3.1 Deferred tax assets cancelled in the year	(243)	(299)
a) reversals	(243)	(299)
b) write-offs of non-recoverable amounts	-	-
c) changes in the accounting policies	-	-
d) other	-	-
3.2 Reduced tax rates	-	-
3.3 Other decreases	(9,480)	(8,826)
4. Closing balance	69,176	56,194

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

€/'000	Dec. 31, 2010	Dec. 31, 2009
1. Opening balance	(8,102)	(5,984)
2. Increases	(2,093)	(2,176)
2.1 Deferred tax liabilities arisen in the year	(2,093)	(2,176)
a) relating to prior years	-	-
b) due to changes in the accounting policies	-	-
c) other	(2,093)	(2,176)
2.2 New taxes or increased tax rates	-	-
2.3 Other increases	-	-
3. Decreases	359	58
3.1 Deferred tax liabilities cancelled in the year	359	58
a) reversals	-	-
b) due to changes in the accounting policies	-	-
c) other	359	58
3.2 Reduced tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	(9,835)	(8,102)

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

€/'000	Dec. 31, 2010	Dec. 31, 2009
1. Opening balance	2,343	15,294
2. Increases	20,646	1,184
2.1 Deferred tax assets arisen in the year	20,646	1,183
a) relating to prior year	-	-
b) due to changes in the accounting policies	-	-
c) other	20,646	1,183
2.2 New taxes or increased tax rates	-	1
2.3 Ohter increases	-	-
3. Decreases	(1,165)	(14,135)
3.1 Deferred tax assets cancelled in the year	(1,165)	(14,135)
a) reversals	(907)	(578)
b) write-offs of non-recoverable amounts	-	-
c) due to changes in the accounting policies	-	-
d) other	(258)	(13,557)
3.2 Reduced tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	21,824	2,343

14.6 Variazioni delle imposte differite (in contropartita del patrimonio netto)

€/'000	Dec. 31, 2010	Dec. 31, 2009
1. Opening balance	(3,107)	(2,953)
2. Increases	(1,986)	(1,365)
2.1 Deferred tax liabilities arisen in the year	(1,986)	(1,365)
a) relating to prior years	-	-
b) due to changes in the accounting policies	-	-
c) other	(1,986)	(1,365)
2.2 New taxes or increased tax rates	-	-
2.3 Other increases	-	-
3. Decreases	2,692	1,211
3.1 Deferred tax liabilities cancelled in the year	2,692	1,208
a) reversals	1,263	155
b) changes in the accounting policies	-	-
c) other	1,429	1,053
3.2 Reduced tax rates	-	-
3.3 Other decreases	-	3
4. Closing balance	(2,401)	(3,107)

14.7 Other information

Analysis of deferred tax assets

€/'000	Dec. 31, 2010	Dec. 31, 2009
charge to the income statement		
provision for risks and charges	39,595	30,677
loan losses	5,586	4,862
expenses deductible in future years	6,643	6,310
future years' taxed income	100	21
other	17,252	14,324
Total	69,176	56,194
charge to equity		
fair value measurement of AFS securities	21,824	2,343
Total	21,824	2,343

Analysis of deferred tax liabilities

€/'000	Dec. 31, 2010	Dec. 31, 2009
charge to the income statement		
income taxable in future years	9,675	7,944
future expenses deductible in the year	-	-
deducted future expenses	160	158
Total	9,835	8,102
charge to equity		
fair value measurement of AFS securities	2,401	3,107
Total	2,401	3,107

Section 16 – Other assets – Caption 160

16.1 Analysis of other assets

€/'000	Dec. 31, 2010	Dec. 31, 2009
Receivables from tax authorities	25,450	29,374
Receivables from financial advisors	4,679	3,654
Advances to suppliers and professionals	7,434	4,940
Security deposits	6,260	7,821
Receivables from companies within the Fininvest Group and the Doris Group	324	216
Receivables from subsidiaries and associates	3,742	2,813
Receivables from employees	494	391
Other receivables	11,301	6,141
Items in transit	112,625	102,219
Accrued income	24,428	17,912
Prepayments	3,014	4,608
Other	10,110	9,256
Total	209,861	189,345

LIABILITIES

Section 1 – Amounts due to banks – Caption 10

1.1 Analysis of amounts due to banks

€/'000	Dec. 31, 2010	Dec. 31, 2009
1. Central banks	1,410,786	135,345
2. Banks	789,782	1,062,705
2.1 Current accounts and demand deposits	170,547	2,791
2.2 Time deposits	483,456	1,055,615
2.3 Loans	134,922	3,551
2.3.1 Repurchase agreements	134,922	3,551
2.3.2 Other	-	-
2.4 Commitments to buy back own equity instruments	-	-
2.5 Other amounts due	857	748
Total	2,200,568	1,198,050
Fair value	2,200,535	1,197,704

Section 2 – Amounts due to customers – Caption 20

2.1 Analysis of amounts due to customers

€/'000	Dec. 31, 2010	Dec. 31, 2009
1. Current accounts and demand deposits	5,068,654	5,674,140
2. Time deposits	334,996	191,407
3. Loans	1,885,386	127,350
3.1 Repurchase agreements	1.885.386	127.350
3.2 Other	-	-
4. Commitments to buy back own equity instruments	-	-
5. Other amounts due	196,962	156,091
Total	7,485,998	6,148,988
Fair value	7,485,996	6,148,987

'*Other amounts due*' consisted entirely of current payables.

Commissions payable at year end were reclassified to '*Other liabilities*' and amounted to €19,532 thousand (€39,312 thousand at December 31, 2009). For the sake of comparability an amount of €39,171 thousand relating to the 2009 comparative balance was reclassified accordingly.

Section 3 – Securities issued – Caption 30

3.1 Analysis of securities issued

€/'000	Dec. 31, 2010				Dec. 31, 2009			
	Book Value	Fair value			Book Value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Securities								
1. bonds	340,479	-	338,427	-	179,450	-	176,113	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	340,479	-	338,427	-	179,450	-	176,113	-
2. other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
Total	340,479	-	338,427	-	179,450	-	176,113	-

Section 4 – Financial liabilities held for trading – Caption 40

4.1 Analysis of financial liabilities held for trading

	Dec. 31, 2010					Dec. 31, 2009				
	NV	FV			FV*	NV	FV			FV*
€/'000		L1	L2	L3			L1	L2	L3	
A. Non-derivatives										
1. Due to banks	-	-	-	-	-	21,577	22,599	-	-	-
2. Due to customers	410,285	443,604	164	1	-	214,617	235,652	383	-	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 structured	-	-	-	-	X	-	-	-	-	X
3.1.2 others	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 structured	-	-	-	-	X	-	-	-	-	X
3.2.2 others	-	-	-	-	X	-	-	-	-	X
Total A	410,285	443,604	164	1	-	236,194	258,251	383	-	-
B. Derivatives										
1. Financial derivatives	-	2	7,690	1	X	X	-	1,915	-	-
1.1 held for trading	X	-	-	-	X	X	-	-	-	X
1.2 measured at fair value	X	-	-	-	X	X	-	-	-	X
1.3 others	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives										
2.1 held for trading	X	-	-	-	X	X	-	-	-	X
2.2 measured at fair value	X	-	-	-	X	X	-	-	-	X
2.3 others	X	-	-	-	X	X	-	-	-	X
Total B	X	2	7,690	1	X	X	-	1,915	-	X
Total (A+B)	X	443,606	7,854	2	X	X	258,251	2,298	-	X

Legend:
FV = fair value
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
L1 = Level 1
L2 = Level 2
L3 = Level 3

Section 6 – Hedging derivatives – Caption 60

6.1 Analysis of hedging derivatives by type of hedge and fair value hierarchy

	Dec. 31, 2010				Dec. 31, 2009			
	Fair value			NV	Fair value			NV
€/'000	L1	L2	L3		L1	L2	L3	
A. Financial derivatives	-	28,510	-	497,946	-	15,906	-	336,509
1) Fair value hedge	-	28,510	-	497,946	-	15,906	-	336,509
2) Cash flow hedge	-	-	-	-	-	-	-	-
3) Hedge of investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-	-	-	-
1) Fair value hedge	-	-	-	-	-	-	-	-
2) Cash flow hedge	-	-	-	-	-	-	-	-
Total	-	28,510	-	497,946	-	15,906	-	336,509

Legend:
NV = nominal value
L1 = Level 1
L2 = Level 2
L3 = Level 3

6.2 Analysis of hedging derivatives by hedged portfolio and type of hedge

	Fair value						Cash flow		investments in foreign operations
	micro-hedging					macro-hedging	micro-hedging	macro-hedging	
€/'000	interest rate risk	currency risk	credit risk	pricing risk	multiple risks				
1. Available-for-sale financial assets	-	-	-	-	-	X	-	X	X
2. Loans and receivables	28,510	-	-	X	-	X	-	X	X
3. Held-to-maturity investments	X	-	-	X	-	X	-	X	X
4. Portfolio	X	X	X	X	X	-	X	-	X
5. Other	-	-	-	-	-	X	-	X	-
Total assets	28,510	-	-	-	-	-	-	-	-
1. Financial liabilities	-	-	-	X	-	X	-	X	X
2. Portfolio	X	X	X	X	X	-	X	-	X
Total liabilities	-	-	-	-	-	-	-	-	-
1. Forecast transactions	X	X	X	X	X	X	-	X	X
2. Financial assets & liabilities portfolio	X	X	X	X	X	-	X	-	-

Section 10 – Other liabilities – Caption 100

10.1 Analysis of other liabilities

€/'000	Dec. 31, 2010	Dec. 31, 2009
Agents' severance benefits	3,693	3,146
Security deposits	3,890	3,166
Tax expenses borne by policyholders	-	-
Provision for staff costs (vacation pay, additional months, etc.)	7,801	7,124
Items in transit	102,791	106,604
Deferred income	13,106	802
Accrued expenses	837	497
Other sundry liabilities	94,815	115,855
Total	226,933	237,194

Commissions payable at year end were reclassified to 'Other liabilities' and amounted to €19,532 thousand (€39,312 thousand at December 31, 2009). For the sake of comparability the prior year's balance of €39,171 was also reclassified out of '*Other amounts due*' to '*Other liabilities*'.

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

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

€/'000	Dec. 31, 2010	Dec. 31, 2009
A. Opening balance	9,635	10,238
B. Increases	4,986	4,638
B.1 Amounts set aside in the year	4,942	4,519
B.2 Other increases	44	119
C. Decreases	(5,345)	(5,241)
C.1 Funds used in the year	(4,921)	(4,384)
C.2 Other decreases	(424)	(857)
D. Closing balance	9,276	9,635

Section 12 – Provisions for risks and charges – Caption 120

12.1 Analysis of provisions for risks and charges

€/'000	Dec. 31, 2010	Dec. 31, 2009
1. Severance entitlements	1,310	1,237
2. Other provisions for risks and charges	134,896	106,798
2.1 legal proceedings	11,549	8,443
2.2 staff costs	-	-
2.3 other	123,347	98,355
Total	136,206	108,035

12.2 Year's movements in provisions for risks and charges

€/'000	Severance entitlements	Other
A. Opening balance	1,237	106,798
B. Increases	190	44,055
B.1 Amounts set aside in the year	170	44,055
B.2 Time-related increases	-	-
B.3 Increased discount rate	-	-
B.4 Other increases	20	-
C. Decreases	(117)	(15,957)
C.1 Funds used in the year	-	(7,324)
C.2 Decreased discount rate	-	
C.3 Other decreases	(117)	(8,633)
D. Closing balance	1,310	134,896

12.4 Provisions for risks and charges – 'other'

€/'000	Balance at Dec 31, 2009	Amount set aside in the year	Other changes	Funds used	Balance at Dec 31, 2010
- Legal proceedings	8,443	4,365	(915)	(344)	11,549
- Staff costs	-	-	-	-	-
- Other:	-	-	-	-	-
Risks related to FA illegal actions	27,790	15,953	(6,278)	(1,314)	36,151
FA customer base entitlements	19,375	3,353	(2)	(379)	22,347
Portfolio & organisation allowance	10,759	3,795	-	(1,057)	13,497
Managerial allowance	24,132	10,033	(1,128)	-	33,037
Product distribution	10,842	3,260	-	(1,571)	12,531
Miscellaneous	5,457	3,296	(310)	(2,659)	5,784
Total	106,798	44,055	(8,633)	(7,324)	134,896

Section 15 – Shareholders' equity attributable to the Group - captions 140, 160, 170, 180, 190, 200 and 220

15.1 Analysis of 'Share Capital' and 'Treasury Shares'

	Share Capital		Treasury Shares	
€/'000	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
Ordinary shares	450,000	450,000	-	-
Other shares	-	-	-	-
Total	450,000	450,000	-	-

15.2 Year's movements in share capital – number of shares

€/'000	Ordinary	Other
A. Opening balance	450,000	-
- fully paid up	450,000	-
- not fully paid up	-	-
A.1 Treasury shares (-)	-	-
A.2 Shares outstanding: opening balance	-	-
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 treasury 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	450,000	
D.1 Treasury shares (+)	-	-
D.2 Shares at year end	450,000	-
- fully paid up	450,000	-
- not fully paid up	-	-

15.5 Other information

Analysis of shareholders' equity attributable to the Group

€/'000	Dec. 31, 2010	Dec. 31, 2009
1. Share capital	450,000	450,000
2. Share premium account	-	-
3. Reserves	150,766	124,481
4. (Treasury shares)	-	-
a) parent company	-	-
b) subsidiaries	-	-
5. Valuation reserves	(41,062)	1,502
6. Equity instruments	-	-
7. Net profit (loss) for the year	84,330	42,786
Total	644,034	618,769

Reconciliation of the parent company's shareholders' equity to consolidated shareholders' equity

€/'000	Capital & reserves	Net Profit	Equity
FY 2010 - Parent company accounts	505,060	66,334	571,394
Successive changes in carrying amount and equity of companies consolidated on a line-by-line basis	(85,852)	152,691	66,839
Differences on investments accounted for by the equity method			
Intragroup Dividends	134,309	(134,309)	-
Elimination of intercompany transactions effects	-	-	-
Amortisation of greater value attributed to property on the date of acquisition of investments consolidated on a line-by-line basis	7,112	(154)	6,958
Other	(926)	(232)	(1,158)
FY 2010 - Consolidated accounts	559,704	84,330	644,034

Section 16 - Minority interests - Caption 210

16.1 Analysis and year's movements in equity instruments

€/'000	Dec. 31, 2010	Dec. 31, 2009
1. Share capital	2,671	2,671
2. Share premium account	(3,098)	(3,098)
3. Reserves	(52,201)	(56,919)
4. (Treasury shares)	-	-
5. Valuation reserves	(56)	(80)
6. Equity instruments	-	-
7. Profit (loss) for the year attributable to minority interests	113,870	98,789
Total	61,186	41,363

OTHER INFORMATION

1. Guarantees issued and commitments

€/'000	Dec. 31, 2010	Dec. 31, 2009
1) Financial guarantees	16,816	26,843
a) Banks	14,438	12,828
b) Customers	2,378	14,015
2) Commercial guarantees	16,626	15,129
a) Banks	5,731	5,731
b) Customers	10,895	9,398
3) Commitments to disburse funds	108,341	141,521
a) Banks	1,597	12,310
i) with certain drawdown	1,597	12,310
ii) with possible drawdown	-	-
b) Customers	106,744	129,211
i) with certain drawdown	413	678
ii) with possible drawdown	106,331	128,533
4) Commitments under credit derivatives: protection sales	-	-
5) Assets pledged to secure third-party obligations	15,125	-
6) Other commitments	4,110	3,746
Total	161,018	187,239

2. Assets pledged to secure own liabilities and commitments

€/'000	Dec. 31, 2010	Dec. 31, 2009
1. Financial assets held for trading	266,448	-
2. Financial assets at fair value	-	-
3. Available-for-sale financial assets	1,399,570	154,608
4. Held-to-maturity investments	654,825	374,702
5. Loans to banks	1,003,220	194,663
6. Loans to customers	818,100	43,743
7. Tangible assets	-	-
Total	4,142,163	767,716

5. Brokerage and asset management on behalf of customers

€/'000	Dec. 31, 2010
1. Securities brokerage	
a) Purchases	21,276,103
1. settled	21,276,103
2. not settled	-
b) Sales	21,475,206
1. settled	21,475,206
2. not settled	-
2. Asset management	
a) individual portfolio management	491,667
b) collective portfolio management	159,174
3. Securities in custody and under administration	
a) custodian bank services	
(other than managed assets)	414,848
1. securities issued by entities incl. in consolidated accounts	-
2. other securities	414,848
b) custodian bank services (other than managed assets): other	5,130,873
1. securities issued by entities incl. in consolidated accounts	336,176
2. other securities	4,794,697
c) third-party securities held by other custodians	4,953,587
d) own securities held by other custodians	6,470,154
4. Other services	-

PART C – INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

Section 1 – Interest – Captions 10 and 20

1.1 Analysis of interest income and similar income

€/'000	Debt securities	Loans	Other assets	Dec. 31, 2010	Dec. 31, 2009
1. Financial assets held for trading	19,413	-	-	19,413	24,709
2. Available-for-sale financial assets	25,820	-	-	25,820	21,025
3. Held-to-maturity investments	36,850	-	-	36,850	53,930
4. Loans to banks	24,437	8,815	-	33,252	46,210
5. Loans to customers	7,199	90,301	-	97,500	106,790
6. Financial assets at fair value	-	-	-	-	-
7. Hedging derivatives	X	X	-	-	-
8. Other assets	X	X	94	94	134
Total	113,719	99,116	94	212,929	252,798

1.3.1 Interest income on financial assets denominated in foreign currencies

€/'000	Dec. 31, 2010	Dec. 31, 2009
Interest income and similar income on:		
a) financial assets denominated in foreign currencies	717	761
b) finance leases	-	-
c) third party assets under administration	-	-
Total	717	761

1.4 Analysis of interest expense and similar charges

€/'000	Amounts due	Securities	Other liabilities	Dec. 31, 2010	Dec. 31, 2009
1. Due to central banks	5,484	X	-	5,484	1,330
2. Due to banks	9,944	X	-	9,944	11,769
3. Due to customers	29,866	X	-	29,866	55,806
4. Securities issued	X	5.667	-	5,667	2,317
5. Financial liabilities held for trading	17,653	-	-	17,653	19,608
6. Financial liabilities at fair value	-	-	-	-	-
7. Other liabilities and funds	X	X	126	126	43
8. Hedging derivatives	X	X	17,098	17,098	13,723
Total	62,947	5,667	17,224	85,838	104,596

1.5 Interest expense and similar charges: analysis of hedging balances

€/'000	Dec. 31, 2010	Dec. 31, 2009
A. Positive differences arising on:	3,970	5,608
A.1 fair value micro-hedging of assets	3,970	5,608
B. Negative differences arising on:	(21,068)	(19,331)
B.1 fair value micro-hedging of assets	(21,068)	(19,331)
C. Balance (A-B)	(17,098)	(13,723)

1.6.1 Interest expense and similar charges on financial liabilities denominated in foreign currencies

€/'000	Dec. 31, 2010	Dec. 31, 2009
Interest expense and similar charges on:	-	-
a) financial liabilities denominated in foreign currencies	5,371	7,295
b) finance leases	-	-
c) third party assets under administration	-	-
Total	5,371	7,295

Section 2 – Commissions – Captions 40 and 50

2.1 Analysis of commission income

€/'000	Dec. 31, 2010	Dec. 31, 2009
a) Guarantees issued	142	204
b) Credit derivatives	-	-
c) Management, brokerage and consulting services:	806,262	651,955
1. brokerage of financial instruments	3,261	3,532
2. currency brokerage	1	1
3. portfolio management	609,741	490,070
3.1 individual portfolio management	5,385	5,831
3.2 collective portfolio management	604,356	484,239
4. securities in custody and under administration	4,098	3,603
5. custodian bank	561	578
6. sale of securities	45,676	2,959
7. order taking and transmission	5,709	6,666
8. consultancy	-	-
8.1 investment advice	-	-
8.2 financial structure advice	-	-
9. services to third parties	137,215	144,546
9.1 portfolio management	241	665
9.1.1. individual portfolio management	-	22
9.1.2. collective portfolio management	241	643
9.2 insurance products	126,153	131,511
9.3 other products	10,821	12,370
d) Payments and collections	44,246	35,504
e) Servicing for securitisation transactions	-	-
f) Factoring services	-	-
g) Tax collection services	-	-
h) Management of multilateral trading systems	-	-
i) Bank accounts custodian and management services	22,619	18,280
j) Other services	9,018	8,369
Total	882,287	714,312

2.2 Analysis of commission expense

€/'000	Dec. 31, 2010	Dec. 31, 2009
a) Guarantees received	-	-
b) Credit derivatives	-	-
c) Management and brokerage services:	367,961	320,602
1. brokerage of financial instruments	2,488	1,694
2. currency brokerage	-	-
3. asset management	5,299	9,755
3.1 own management	3,389	3,187
3.2 on mandates from third parties	1,910	6,568
4. securities in custody and under administration	1,076	1,035
5. sale of financial instruments	69,493	49,483
6. off-premises sale of financial instruments, products & services	289,605	258,635
d) Payments and collections	40,033	33,196
e) Other services	23,447	20,281
Total	431,441	374,079

Section 3 – Dividends and similar income – Caption 70

3.1 Analysis of dividends and similar income

	Dec. 31, 2010		Dec. 31, 2009	
€/'000	Dividends	Income from holdings in UCITS	Dividends	Income from holdings in UCITS
A. Financial assets held for trading	-	-	-	-
B. Available-for-sale financial assets	727	2,456	483	2,021
C. Financial assets at fair value	-	-	-	-
D. Equity investments	-	X	-	X
Total	727	2,456	483	2,021

Section 4 - Net income from trading - Caption 80

4.1 Analysis of net income from trading

€/'000	Unrealised gains (A)	Realised profits (B)	Unrealised losses (C)	Realised losses (D)	Net income [(A+B)-(C+D)]
1. Financial assets held for trading	2,853	17,697	(14,200)	(8,599)	(2,249)
1.1 Debt securities	2,850	17,689	(14,197)	(8,559)	(2,217)
1.2 Equities	3	8	(3)	(38)	(30)
1.3 Holdings in UCITS	-	-	-	(2)	(2)
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	6,450	6,491	(355)	(3,236)	9,350
2.1 Debt securities	6,450	6,491	(355)	(3,236)	9,350
2.2 Debt	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Other financial assets and liabilities: exchange differences	X	X	X	X	287
4. exchange differences	155	9,512	(1,900)	(11,061)	(3,294)
4.1 Financial derivatives	155	9,512	(1,900)	(11,061)	(3,294)
- debt securities and interest rates	155	8,778	(1,900)	(10,825)	(3,792)
- equities and stock indices	-	22	-	-	22
- currencies and gold	X	X	X	X	955
- other	-	712	-	(236)	476
4.2 Credit derivatives	-	-	-	-	-
Total	9,458	33,700	(16,455)	(22,896)	5,049

Section 5 - Net income from hedging - Caption 90

5.1 Analysis of net income from hedging

€/'000	Dec. 31, 2010	Dec. 31, 2009
A. Income from:		
A.1 Fair value hedging derivatives	-	3,702
A.2 Hedged financial assets (fair value)	12,657	-
A.3 Hedged financial liabilities (fair value)	-	-
A.4 Cash-flow hedging financial derivatives	-	-
A.5 Assets and liabilities denominated in foreign currencies	-	-
Total income from hedging (A)	12,657	3,702
B. Expense from:		
B.1 Fair value hedging derivatives	(13,783)	-
B.2 Hedged financial assets (fair value)	-	(5,889)
B.3 Hedged financial liabilities (fair value)	-	-
B.4 Cash-flow hedging financial derivatives	-	-
B.5 Assets and liabilities denominated in foreign currencies	-	-
Total expense from hedging (B)	(13,783)	(5,889)
C. Net income from hedging (A - B)	(1,126)	(2,187)

Section 6 – Gains (losses) on sale / buyback – caption 100

6.1 Analysis of gains (losses) on sale /buyback

	Dec. 31, 2010			Dec. 31, 2009		
€/'000	Gains	Losses	Net gains (losses)	Gains	Losses	Net gains (losses)
Financial assets						
1. Loans to banks	55	-	55	88	-	88
2. Loans to customers	178	(74)	104	185	-	185
3. Available-for-sale financial assets:	6,836	(2,605)	4,231	13,575	(8,543)	5,032
3.1 Debt securities	6,830	(2,041)	4,789	13,377	(8,474)	4,903
3.2 Equities	1	-	1	-	(67)	(67)
3.3 Holdings in UCITS	5	(564)	(559)	198	(2)	196
3.4 Financing	-	-	-	-	-	-
4. Held-to-maturity investments	-	-	-	324	-	324
Total assets	7,069	(2,679)	4,390	14,172	(8,543)	5,629
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	-	-	-	-	-	-
Total liabilities	-	-	-	-	-	-

Section 8 - Net impairment - Caption 130

8.1 Analysis of net impairment of loans

	Impairment			Reversal of impairment					
	Individual			Individual		Collective			
€/'000	Cancellations	Others	Collective	A	B	A	B	Dec. 31, 2010	Dec. 31, 2009
A. Loans to banks									
- Loans	-	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-	-
B. Loans to customers									
- Loans	(4,172)	(13,589)	(790)	-	8,501	-	843	(9,207)	(13,967)
- Debt securities	-	-	-	-	-	-	-	-	(918)
C. Total	(4,172)	(13,589)	(790)	-	8,501	-	843	(9,207)	(14,885)

An amount of €4,782 thousand relating to loans the Sales Network that previously had been recognised under 'net impairment of other financial items' was reclassified to 'net impairment of loans'. The increase in the 2009 balance from €10,200 thousand reported in 2009 to €14,982 thousand reflects said reclassification.

8.2 Analysis of net impairment of available for sale financial assets

	Impairment		Reversal of impairment			
	Individual		Individual			
€/'000	Cancellations	Others	A	B	Dec. 31, 2010	Dec. 31, 2009
A. Debt securities	-	-	-	-	-	(178)
B. Equities	(14)	(469)	X	X	(483)	(777)
C. Holdings in UCITS	-	(802)	X	-	(802)	(19,617)
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	(14)	(1,271)	-	-	(1,285)	(20,572)

Legend:
A = interest
B = other

8.4 Analysis of net impairment of other financial items

€/'000	Impairment			Reversal of impairment				Dec. 31, 2010	Dec. 31, 2009
	Individual			Individual		Collective			
	Cancellations	Other	Collective	A	B	A	B		
A. Guarantees issued	-	-	(3)	-	1	-	-	(2)	(22)
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	-	-	-	-	-	-	-
D. Others	-	-		-	-	-	-	-	-
E. Total	-	-	(3)	-	1	-	-	(2)	(22)

Legend:
A = interest
B = other

The decline in the 2009 balance from €4,804 thousand reported in 2009 to €22 thousand reflects the reclassification of €4,782 thousand loans to the Sales Network previously recognised under '*net impairment of other financial items*' to '*net impairment of loans*'.

Section 11 – Administrative expenses – Caption 180

11.1 Analysis of staff costs

€/'000	Dec. 31, 2010	Dec. 31, 2009
1) Employees	122,725	120,322
a) wages and salaries	85,954	84,312
b) social security contributions	24,071	23,259
c) employee completion of service entitlements	398	225
d) pensions	-	-
e) provision for completion of service entitlements	4,942	4,519
f) provision for severance benefits and similar obligations	221	143
- defined contribution plan	139	88
- defined benefit plan	82	55
g) external supplementary pension funds:	1,158	1,068
- defined contribution plan	1,023	958
- defined benefit plan	135	110
h) expenses in connection with equity-settled share-based payment transactions	-	-
i) other employee benefits	5,981	6,796
2) Other personnel	2,166	3,784
3) Directors and Statutory Auditors	5,019	3,202
4) Retirees	-	-
5) Recoveries of expenses for employees seconded to other entities	-	-
6) Reimbursements of expenses for employees seconded to the company	-	-
Total	129,910	127,308

Following the clarifications provided by the Bank of Italy in its communication dated February 16, 2011, an amount of €4,808 thousand was reclassified out of '*Other administrative expenses*' and an amount of €203 thousand out of '*Other operating income*' to '*Staff costs*' (other employee benefits). Said reclassifications entailed a net increase of €4,605 thousand in the 2009 balance compared to the balance reported in the prior year.
The reclassification related to items such as employee insurance policies, refresher courses and reimbursement of travel expenses (mileage).

11.2 Average number of personnel by category: banking group

Category	Dec. 31, 2010	Dec. 31, 2009
Employees	1,887	1,881
a) senior management	88	90
b) middle management	234	265
c) other employees	1,565	1,526
Total Employees	1,887	1,881
Other personnel	6	26
Total	1,893	1,907

11.3 Company-sponsored defined benefit plans: analysis of costs

€/'000	Balance at Dec. 31, 2010
Current service costs	82
Interest	-
Estimated return on assets into which the plan invests	-
Estimated return on redemption rights accounted for as assets	-
Actuarial gains/losses	-
Past service costs	-
Effect of other reductions and cancellations	-
Total costs	82

11.5 Analysis of other administrative expenses

€/'000	Dec. 31, 2010	Dec. 31, 2009
IT services	42,421	34,870
Infoprovider services	4,469	4,882
Financial services fees and other expenses	2,059	1,926
Other miscellaneous services	14,795	15,238
Taxes and duties	524	546
Television and Internet communication services	13,043	16,079
Consultancy and network advisory services	4,729	7,332
Rentals	12,329	12,643
Maintenance and repairs	1,675	1,661
Postal and telephone	11,668	12,225
Miscellaneous advisory services	12,404	12,715
Contributions to "Family Banker" offices	1,435	1,666
Consumables	4,693	5,033
Insurance	2,254	2,363
Membership fees	1,080	1,119
Advertising and promotions	23,639	22,245
Conventions	3,407	4,235
Training provided to financial advisors	3,754	3,955
Canteen	212	205
Utilities	1,422	1,118
Business expenses, gifts and donations	4,048	3,479
Market research	658	1,268
Recruitment/Training of employees	194	194
Travel expenses	516	669
Recruitment of financial advisors	93	128
Other administrative expenses	3,501	4,906
Total	171,022	172,700

Following the clarifications provided by the Bank of Italy in its communication dated February 16, 2011, an amount of €4,808 thousand was reclassified out of '*Other administrative expenses*' to '*Staff costs*' (other employee benefits). The reclassification related to items such as employee insurance policies, refresher courses and reimbursement of travel expenses (mileage).

Section 12 – Provisions for risks and charges – Caption 190

12.1 Analysis of provisions for risks and charges

€/'000	Dec. 31, 2010	Dec. 31, 2009
Provision for risks and charges - other:		
Risks related to FA illegal actions	9,676	5,160
FA customer base entitlements	3,351	3,192
Portfolio & organisation allowance	3,795	1,357
Managerial allowance	8,904	5,867
Legal proceedings	3,449	1,308
Product distribution	3,260	3,274
Other	2,988	2,605
Total	35,423	22,763

Section 13 – Depreciation and net impairment of tangible assets – Caption 200

13.1 Analysis of depreciation and net impairment of tangible assets

€/'000	Depreciation (A)	Impairment (B)	Reversal of impairment (C)	Depreciation & net impairment (A+B-C)
A. Tangible assets	(7,470)	-	-	(7,470)
A.1 owned	(7,452)	-	-	(7,452)
- held for use	(7,452)	-	-	(7,452)
- held for investment purposes	-	-	-	-
A.2 under finance leases	(18)	-	-	(18)
- held for use	(18)	-	-	(18)
- held for investment purposes	-	-	-	-
Total	(7,470)	-	-	(7,470)

Section 14 – Amortisation and net impairment of intangible assets – Caption 210

14.1 Analysis of amortisation and net impairment of intangible assets

€/'000	Amortisation (A)	Impairment (B)	Reversal of impairment (C)	Amortisation and net impairment of (A+B-C)
A. Intangible assets	(8,659)	(1)	-	(8,660)
A.1 owned	(8,659)	(1)	-	(8,660)
- internally generated	-	-	-	-
- other	(8,659)	(1)	-	(8,660)
A.2 under finance leases	-	-	-	-
Total	(8,659)	(1)	-	(8,660)

Section 15 – Other operating income – Caption 220

15.1/15.2 Analysis of other operating expenses and income

€/'000	Dec. 31, 2010	Dec. 31, 2009
Assets under finance lease	-	-
Lease installments	-	-
Losses on sale	-	-
Insurance	-	-
Transfer of title	-	-
Other operating expenses	3,750	4,779
Compensations and Settlements	1,627	2,566
Loan losses	-	-
Amortisation of expenses for improvements of leasehold assets	918	489
Other expenses	1,205	1,720
Total other operating expenses	3,750	4,775
Recoveries of direct taxes	-	1
Cost recoveries relating to seconded personnel	-	-
Recoveries of expenses on contracts and services rendered	8,525	9,290
Recoveries of property rental and real estate expenses	-	137
Miscellaneous income	9,714	5,209
Rentals on owned property	694	679
Recoveries of expenses from customers	1,172	1,607
Recoveries of expenses from financial advisors	361	469
Other	7,487	2,454
Total other operating income	18,239	14,637
Total net other operating income (expenses)	14,489	9,862

Following the clarifications provided by the Bank of Italy in its communication dated February 16, 2011, an amount of €203 thousand was reclassified out of '*Other operating income*' to '*Staff costs*' (other employee benefits).

Section 18 – Impairment of goodwill – Caption 260

Impairment testing of equity investments conducted at year end with the assistance of an independent valuer revealed impairment of goodwill relating to the investments in Gamax Management AG and Bankhaus August Lenz AG aggregating to €7.4 million.

Section 19 - Profit (Loss) on disposal of investments - Caption 240

19.1 Analysis of profit (loss) on disposal of investments

€/'000	Dec. 31, 2010	Dec. 31, 2009
A. Property	-	-
- Gains on sale	-	-
- Losses on sale	-	-
B. Other assets	2,197	(3)
- Gains on sale	2,201	1
- Losses on sale	(4)	(4)
Profit (loss)	2,197	(3)

In the year under review, a €2,200 thousand gain was recorded on the sale of all servers to Cedacri under the relevant outsourcing arrangements.

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

20.1 Analysis of income tax expense on continuing operations

€/'000	Dec. 31, 2010	Dec. 31, 2009
1. Current tax (-)	(46,001)	(19,942)
2. Change in current tax for prior years (+/-)	(2)	(2,088)
3. Change in current tax for the year (+)	-	-
4. Change in deferred tax assets (+/-)	10,196	11,022
5. Change in deferred tax liabilities (+/-)	(1,733)	(2,118)
6. Income tax expense for the year (-) (-1+/-2+3+/-4+/-5)	(37,540)	(13,126)

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

€/'000	Dec. 31, 2010	Dec. 31, 2009
Theoretical IRES rate and other taxes	11.32%	17.20%
Pre-tax profit	235,740	154,981
Theoretical tax expense	26,686	26,657
Net texable income-permanent differences	2,391	(17,494)
Other adjustments	(52)	(1,339)
IRES and other taxes	29,024	7,824
Effective IRES rate and other taxes	12.31%	5.05%
Effective tax expense	37,540	13,126
Effective tax rate	15.92%	8.47%

Section 21 – Profit (loss) after tax of non current assets pending disposal – Caption 310

21.1 Analysis of profit (loss) after tax of non current assets/liabilities pending disposal

€/'000	Dec. 31, 2010	Dec. 31, 2009
1. Income	-	-
2. Expenses	-	(280)
3. Valuation of assets and liabilities	-	-
4. Net realised gains (losses)	-	-
5. Tax	-	-
Profit (loss)	-	(280)

PART D - INFORMATION ON CONSOLIDATED COMPREHENSIVE INCOME

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

€/'000	Before tax	Income tax	After tax
10. Net profit (loss) for the year	X	X	198,200
Other income components			
20. Available for sale financial assets	(62,727)	20,187	(42,540)
a) changes in fair value	(59,800)	19,132	(40,668)
b) reversals to the income statement	(2,927)	1,055	(1,872)
- impairment	1,271	(282)	989
- realised gains/losses	(4,198)	1,337	(2,861)
c) other changes	-	-	-
30. Tangible assets	-	-	-
40. Intangible assets	-	-	-
50. Hedges of investments in foreign operations			
a) changes in fair value	-	-	-
b) reversals to the income statement	-	-	-
c) other changes	-	-	-
60. Cash flow hedges			
a) changes in fair value	-	-	-
b) reversals to the income statement	-	-	-
c) other changes	-	-	-
70. Exchange differences:			
a) value changes	-	-	-
b) reversals to the income statement	-	-	-
c) other changes	-	-	-
80. Non current assets held for sale			
a) changes in fair value	-	-	-
b) reversals to the income statement	-	-	-
c) other changes	-	-	-
90. Actuarial gains (losses) on defined benefit plans	-	-	-
100. Share of valutation reserves relating to investments accounted for by the equity method			
a) changes in fair value	-	-	-
b) reversals to the income statement	-	-	-
- impairment	-	-	-
- realised gains/losses	-	-	-
c) other changes	-	-	-
110. Total other income components	(62,727)	20,187	(42,540)
120. Comprehensive income (items 10+110)	(62,727)	20,187	155,660
130. Attributable to minority interests	133,416	(19,522)	113,894
140. Attributable to the Parent Company	(196,143)	39,709	41,766

PART E - INFORMATION ON RISKS AND RISK MANAGEMENT

The internal control system of the Mediolanum Banking Group entails defence at different levels in accordance with the Group's organisational structure.
Specifically, for financial risk and credit 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 organisational unit or function. Risk controls (second level) are controls performed by units other than operating units. They contribute to the definition of risk measurement methods, control of operating limits of officers to whom authorities are delegated, and verify compliance of transactions with the risk/return targets set by corporate bodies in their respective areas of responsibility.
The Financial Risk and Credit Risk Management unit, within the Risk Management and Compliance function, is responsible for identifying, measuring, assessing and managing the financial risk and credit risk associated with all assets and liabilities managed by the Mediolanum Banking Group.

SECTION 1 - CREDIT RISK

QUALITATIVE INFORMATION

1. General information

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 Mediolanum Banking 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 Organisational Aspects

As part of its responsibilities for organising and directing the Group's affairs, the Parent Company issued specific Lending Guidelines for all subsidiaries within the Banking Group. The guidelines set out general principles and instructions on lending and on monitoring of the loan portfolio quality. 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 Risk measurement and management

The Mediolanum Banking Group's credit risk management system consists of the set of models and measurement tools as well as controls geared to ensure optimal management of the credit risk associated with the loan portfolio.

The credit risk management system ensures the Mediolanum Banking Group is always current with its risk exposure in relation to each customer or group of customers, and takes prompt corrective actions, when needed, in accordance with related policies.

The credit risk management system pursues the following objectives:

- develop adequate processes for identifying, measuring and monitoring credit risk in relation to each counterparty and portfolio;
- ensure a steady flow of timely information to effectively monitor the composition and quality of the loan portfolio and promptly adjust loss estimates and capital charges;
- ensure compliance with the prudential requirements of domestic and international supervisory authorities;
- promote the adoption of policies and procedures for credit risk prudent management;
- support operational decisions of lending officers by providing the information needed to properly assess the borrower creditworthiness and type of financing;
- provide an adequate flow of information on credit risk exposures and mitigation techniques to senior management.

The credit risk management system reflects the specific characteristics of the banking lending business and any changes thereof in addition to any regulatory or statutory changes.

Credit quality is monitored by regularly assessing whether there is evidence of risk, in each stage of the lending process, through the application of 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, as part of its loan application analysis, each company within the Mediolanum Banking Group gathers all information needed to assess the consistency of the loan amount with the type and purpose of financing. In that examination, each company of the Mediolanum Banking Group 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 of each company within the Group. Outstanding loans are continuously monitored focusing especially on riskier positions. Regular reports on credit protection actions taken are submitted to the respective Boards of Directors.

2.3 Credit risk mitigation techniques

Loans extended by Group entities are secured by collaterals received from borrowers. Collaterals primarily consists of mortgage 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 has its own 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 realising 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.

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, impairment, 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	Other Assets	Total
1. Financial assets held for trading	-	-	-	-	956,600	956,600
2. Available-for sale financial assets	-	75	-	-	1,915,126	1,915,201
3. Held-to-maturity investments	-	-	-	-	1,118,166	1,118,166
4. Loans to banks	-	-	-	-	2,425,820	2,425,820
5. Loans to customers	8,439	26,731	223	3,627	4,310,850	4,349,870
6. Financial assets at fair value	-	-	-	-	-	-
7. Financial assets being disposed of	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-
Total at Dec 31, 2010	8,439	26,806	223	3,627	10,726,562	10,765,657
Total at Dec 31, 2009	7,699	21,165	221	9,354	7,998,190	8,036,629

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

	Impaired assets			Performing assets			
€/'000	Gross exposure	Individual impairment	Net exposure	Gross exposure	Individual impairment	Net exposure	Total net exposure
A. Banking Group							
1. Financial assets held for trading	-	-	-	X	X	956,600	956,600
2. Available for sale financial assets	1,018	(943)	75	1,915,126	-	1,915,126	1,915,201
3. Held to maturity investments	-	-	-	1,118,166	-	1,118,166	1,118,166
4. Loans to banks	-	-	-	2,425,820	-	2,425,820	2,425,820
5. Loans to customers	64,728	(25,708)	39,020	4,317,232	(6,382)	4,310,850	4,349,870
6. Financial assets at fair value	-	-	-	X	X	-	-
7. Financial assets being disposed of	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	X	X	-	-
Total A	65,746	(26,651)	39,095	9,776,342	(6,382)	10,726,562	10,765,657
B. Other companies included in the consolidated accounts							
1. Financial assets held for trading	-	-	-	X	X	-	-
2. Available for sale financial assets	-	-	-	-	-	-	-
3. Held to maturity investments	-	-	-	-	-	-	-
4. Loans to banks	-	-	-	-	-	-	-
5. Loans to customers	-	-	-	-	-	-	-
6. Financial assets at fair value	-	-	-	X	X	-	-
7. Financial assets being disposed of	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	X	X	-	-
Total B	-	-	-	-	-	-	-
Total Dec. 31, 2010	65,746	(26,651)	39,095	9,776,342	(6,382)	10,726,562	10,765,657
Total Dec. 31, 2009	64,172	(25,733)	38,439	7,159,926	(6,576)	7,998,190	8,036,629

Analysis of loans under renegotiation and other exposures

€/'000	Under renegotiation			Other exposures			
	Gross exposure	Individual impairment	Net exposure	Gross exposure	Collective impairment	Net exposure	Total net exposure
1. Financial assets held for trading	-	-	-	X	X	956,600	956,600
2. Available-for-sale financial assets	-	-	-	1,915,126	-	1,915,126	1,915,126
3. Held-to-maturity investments	-	-	-	1,118,166	-	1,118,166	1,118,166
4. Loans to banks	-	-	-	2,425,820	-	2,425,820	2,425,820
5. Loans to customers	634	(1)	633	4,316,598	(6,381)	4,310,217	4,310,850
6. Financial assets at fair value	-	-	-	X	X	-	-
7. Financial assets being disposed of	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	X	X	-	-
Total A	634	(1)	633	9,775,710	(6,381)	10,725,929	10,726,562

Aging analysis of past due items

€/'000	Under renegotiation	Other exposures
	Net exposure	Net exposure
Up to 3 months	633	149,935
3 to 6 months	-	2,761
6 to 12 months	-	73
1 year	-	36
Past due customer loans	633	152,805

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

€/'000	Gross exposure	Individual impairment	Collective impairment	Net exposure
A. On balance sheet				
a) Non performing	-	-	X	-
b) Watch list	1,018	(943)	X	75
c) Restructured	-	-	X	-
d) Past due	-	-	X	-
e) Other	4,511,441	X	-	4,511,441
Total A	4,512,459	(943)	-	4,511,516
B. Off balance sheet				
a) Impaired	-	-	X	-
b) Other	21,128	X	-	21,128
Total B	21,128	-	-	21,128
Total (A+B)	4,533,587	(943)	-	4,532,644

A.1.4 Banking Group – Loans to banks: development of impaired loans (gross on-balance sheet exposures)

€/'000	Non performing	Watch list	Restructured	Past due
A. Opening gross balance	-	1,018	-	-
- of which: loans sold but not derecognised	-	1,018	-	-
B. Increases				
B.1 reclassified from performing loans	-	-	-	-
B.2 reclassified from other impaired loan categories	-	-	-	-
B.3 other increases	-	-	-	-
C. Decreases				
C.1 reclassified to performing loans	-	-	-	-
C.2 cancellations	-	-	-	-
C.3 receipts	-	-	-	-
C.4 proceeds from sale	-	-	-	-
C.5 reclassified to other impaired loan categories	-	-	-	-
C.6 other decreases	-	-	-	-
D. Closing gross balance	-	1,018	-	-
- of which: loans sold but not derecognised	-	1,018	-	-

A.1.5 Banking Group – Loans to banks: analysis of net impairment (on-balance sheet positions)

€/'000	Non performing	Watch list	Restructured	Past due
A. Net impairment at beginning of the year	-	916	-	-
- of which: loans sold but not derecognised	-	916	-	-
B. Increases				
B.1 impairment	-	-	-	-
B.2 reclassified from other impaired loan categories	-	-	-	-
B.3 other increases	-	27	-	-
C. Decreases				
C.1 revaluations	-	-	-	-
C.2 repayments	-	-	-	-
C.3 cancellations	-	-	-	-
C.4 reclassified to other impaired loan categories	-	-	-	-
C.6 other decreases	-	-	-	-
D. Net impairment at end of the year	-	943	-	-
- of which: loans sold but not derecognised	-	943	-	-

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

€/'000	Gross exposure	Individual impairment	Collective impairment	Net exposure
A. On balance sheet				
a) Non performing	21,466	(13,027)	X	8,439
b) Watch list	38,813	(12,082)	X	26,731
c) Restructured	223	-	X	223
d) Past due	4,226	(599)	X	3,627
e) Other	6,217,619	X	(6,382)	6,211,237
Total A	6,282,346	(25,708)	(6,382)	6,250,257
B. Off balance sheet				
a) Impaired	324	(23)	X	301
b) Other	96,919	X	(141)	96,778
Total B	97,243	(23)	(141)	97,079
Total (A+B)	6,379,589	(25,731)	(6,523)	6,347,336

A.1.7 Banking Group – Loans to customers: development of impaired loans (on-balance sheet gross exposures)

€/'000	Non performing	Watch list	Restructured	Past due
A. Opening gross balance	20,077	32,200	221	10,656
- of which: loans sold but not derecognised	-	-	-	-
B. Increases				
B.1 reclassified from performing loans	12	17,628	-	16,302
B.2 reclassified from other impaired loan categories	3,238	9,132	-	277
B.3 other increases	742	2,699	2	858
C. Decreases				
C.1 reclassified to performing loans	-	(4,734)	-	(9,449)
C.2 cancellations	(1,384)	(301)	-	-
C.3 receipts	(980)	(14,092)	-	(5,286)
C.4 proceeds from sale	-	-	-	-
C.5 reclassified to other impaired loan categories	-	(3,514)	-	(9,132)
C.6 other decreases	(239)	(205)	-	-
D. Closing gross balance	21,466	38,813	223	4,226
- of which: loans sold but not derecognised	-	-	-	-

A.1.8 Banking Group – Loans to customers: analysis of net impairment (on-balance sheet positions)

€/'000	Non performing	Watch list	Restructured	Past due
A. Net impairment at beginning of the year	12,378	11,137	-	1,032
- of which: loans sold but not derecognised	-	-	-	-
B. Increases				
B.1 impairment	1,848	7,590	-	584
B.2 reclassified from other impaired loan categories	1,222	267	-	107
B.3 other increases	-	5	-	-
C. Decreases				
C.1 revaluations	(511)	(2,624)	-	(495)
C.2 repayments	(360)	(2,676)	-	(620)
C.3 cancellations	(1,384)	(301)	-	-
C.4 reclassified to other impaired loan categories	(166)	(1,316)	-	(279)
C.5 other decreases	-	-	-	-
D. Net impairment at end of the year	13,027	12,082	-	599
- of which: loans sold but not derecognised	-	-	-	-

A.2 Analysis of exposures by internal and external rating

A.2.1 Analysis of on and off-balance sheet exposures by external rating

€/'000	External rating class						Unrated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. On balance sheet exposures	4,087,086	2,325,921	576,076	86,637	47	-	3,684,058	10,759,825
B. Derivatives	686	764	-	13	-	-	2,425	3,888
B.1 Financial derivatives	686	764	-	13	-	-	2,425	3,888
B.2 Credit derivatives	-	-	-	-	-	-	-	-
C. Guarantees issued	-	78	5,653	-	-	-	26,463	32,194
D. Commitments to disburse funds	-	-	-	-	-	-	82,125	82,125
Total	4,087,772	2,326,763	581,729	86,650	47	-	3,795,071	10,878,032

A.3 Analysis of secured loans by type of collateral

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

At balance sheet date there were no secured loans to banks.

A.3.2 Banking Group - Secured loans to customers

€/'000		Real guarantees (1)			Personal guarantees (2)									
					Credit derivatives					Endorsements				
						Other derivatives								
	Net exposure	Property	Securities	Other assets	CLN	Governments & central banks	Govern. agencies	Banks	Others	Governments & central banks	Govern. agencies	Banks	Others	Total (1)+(2)
1. Secured loans (on balance sheet)														
1.1 entirely secured	2,335,141	2,277,512	35,047	3,211	-	-	-	-	-	-	-	-	19,196	2,334,966
- of which impaired	18,759	17,111	-	-	-	-	-	-	-	-	-	-	1,647	18,758
1.2 partly secured	14,695	883	-	266	-	-	-	-	-	-	-	-	11,951	13,100
- of which impaired	8,825	70	-	-	-	-	-	-	-	-	-	-	8,750	8,820
2. Secured loans (off balance sheet)														
2.1 entirely secured	1,593	1	1,339	251	-	-	-	-	-	-	-	-	2	1,593
- of which impaired	11	-	11	-	-	-		-	-	-	-	-	-	11
2.2 partly secured	2	-	-	-	-	-	-	-	-	-	-	-	1	1
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-

B. DISTRIBUTION AND CONCENTRATION OF EXPOSURES

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

	Governments			Government agencies			Financial companies			Insurance companies			Non financial companies			Others		
€/'000	Net exposure	Individual impairment	Collective impairment	Net exposure	Individual impairment	Collective impairment	Net exposure	Individual impairment	Collective impairment	Net exposure	Individual impairment	Collective impairment	Net exposure	Individual impairment	Collective impairment	Net exposure	Individual impairment	Collective impairment
A. On balance sheet																		
A.1 Non performing	-	-	X	-	-	X	-	-	X	-	-	X	32	(146)	X	8,407	(12,881)	X
A.2 Watch list	-	-	X	-	-	X	10,108	(2,986)	X	-	-	X	320	(229)	X	16,304	(8,867)	X
A.3 Restructured	-	-	X	-	-	X	-	-	X	-	-	X	224	-	X	-	-	X
A.4 Past due	-	-	X	-	-	X	-	-	X	-	-	X	9	(2)	X	3.618	(597)	X
A.5 Others	2,288,885	X	-	101,060	X	-	639,341	X	(37)	28,262	X	-	90,795	X	(62)	3,062,892	X	(6,283)
Total A	2,288,885	-	-	101,060	-	-	649,449	(2,986)	(37)	28,262	-	-	91,380	(377)	(62)	3,091,221	(22,345)	(6,283)
B. Off balance sheet																		
B.1 Non performing	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
B.2 Watch list	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	290	(21)	X
B.3 Other impaired assets	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	11	(2)	X
B.4 Others	13	X	-	-	X	-	2,550	X	-	-	X	-	2,218	X	(4)	91,997	X	(137)
Total B	13	-	-	-	-	-	2,550	-	-	-	-	-	2,218	-	(4)	92,298	(23)	(137)
Total (A+B) Dec. 31, 2010	2,288,898	-	-	101,060	-	-	651,999	(2,986)	(37)	28,262	-	-	93,598	(377)	(66)	3,183,518	(22,368)	(6,420)
Total (A+B) Dec. 31, 2009	630,742	-	-	-	-	-	648,612	-	(130)	77,180	-	(58)	127,105	(282)	(61)	2,679,248	(24,546)	(6,359)

B.2 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	Net exposure	Net impairment	Net exposure	Net impairment	Net exposure	Net impairment	Net exposure	Net impairment	Net exposure	Net impairment
A. On balance sheet										
A.1 Non performing	7,827	(10,505)	612	(2,522)	-	-	-	-	-	-
A.2 Watch list	24,603	(9,975)	2,129	(2,106)	-	(1)	-	-	-	-
A.3 Restructured	224	-	-	-	-	-	-	-	-	-
A.4 Past due	3,627	(599)	-	-	-	-	-	-	-	-
A.5 Others	4,869,560	(4,737)	1,340,338	(1,645)	756	-	321	-	260	-
Total	4,905,841	(25,816)	1,343,079	(6,273)	756	(1)	321	-	260	-
B. Off balance sheet										
B.1 Non performing	-	-	-	-	-	-	-	-	-	-
B.2 Watch list	290	(21)	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	11	(2)	-	-	-	-	-	-
B.4 Others	95,186	(35)	1,579	(106)	13	-	-	-	-	-
Total	95,476	(56)	1,590	(108)	13	-	-	-	-	-
Total at Dec. 31, 2010	5,001,316	(25,872)	1,344,669	(6,381)	769	(1)	321	-	260	-
Total at Dec. 31, 2009	3,507,196	(24,787)	648,136	(6,659)	7,118	(1)	49	-	388	-

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

€/'000	Italy		Other european countries		America		Asia		Rest of the world	
	Net exposure	Net impairment	Net exposure	Net impairment	Net exposure	Net impairment	Net exposure	Net impairment	Net exposure	Net impairment
A. On balance sheet										
A.1 Non performing	-	-	-	-	-	-	-	-	-	-
A.2 Watch list	-	-	75	(943)	-	-	-	-	-	-
A.3 Restructured	-	-	-	-	-	-	-	-	-	-
A.4 Past due	-	-	-	-	-	-	-	-	-	-
A.5 Others	3,703,586	-	802,161	-	5,663	-	31	-	-	-
Total	3,703,586	-	802,236	(943)	5,663	-	31	-	-	-
B. Off balance sheet										
B.1 Non performing	-	-	-	-	-	-	-	-	-	-
B.2 Watch list	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Others	20,244	-	883	-	1	-	-	-	-	-
Total	20,244	-	883	-	1	-	-	-	-	-
Total at Dec. 31, 2010	3,723,830	-	803,119	(943)	5,664	-	31	-	-	-
Total at Dec. 31, 2009	3,296,239	(25)	658,025	(1,006)	13,284	-	22	-	-	-

B.4 Large exposures

	Nominal	Weighted
a) amount in thousands of euro	8,313,913	2,079,014
b) number:		Total 31

The number and amount of large exposures were determined in accordance with new rules under Circular 263 of December 27, 2006 and Circular 155 of December 18, 1991 that require reporting of large exposures at nominal value. Previous rules required large exposures to be stated at their weighted value.

C. SECURITISATION TRANSACTIONS AND SALE OF ASSETS

C.1 Securitisation transactions

Qualitative Information

During the year Banca Mediolanum traded exclusively in securitised notes.

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

	On-balance sheet exposures						Guarantees issued						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
€/'000	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	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	50,548	50,548	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

C.1.3 Analysis of exposures arising from major third-party securitisations by type of securitised asset and by type of exposure

	On-balance sheet exposures						Guarantees issued						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
€/'000	Book value	Impairment/reversal of impairment	Book value	Impairment/reversal of impairment	Book value	Impairment/reversal of impairment	Net exposure	Impairment/reversal of impairment	Net exposure	Impairment/reversal of impairment	Net exposure	Impairment/reversal of impairment	Net exposure	Impairment/reversal of impairment	Net exposure	Impairment/reversal of impairment	Net exposure	Impairment/reversal of impairment
A.1 SCCI/TV 20190730 S10 SEN																		
- Receivables from National Social Security & Pension Agency	19,946	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.2 F-E MORTGAGES/TV 20431030 CL A																		
- Receivables under mortgage loans	2,356	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.3 CORDUSIO RMBS/TV 20330630 CL A2																		
- Receivables under mortgage loans	6,387	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.4 BPM SEC 2/TV 20430715 CL A2																		
- Receivables under mortgage loans	6,580	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.5 VELA HOME /TV 20400730 CL A S3																		
- Receivables under mortgage loans	4,299	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.6 TRICOLORE FUND/TV 20200715 CL A																		
- Receivables under equipment, machinery and property leases	690	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.7 LOCAT SV3/TV 20261212 CL A2																		
- Receivables under leases	3,326	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.8 SUNRISE/TV 20300827 CL A SEN																		
- Receivables, consumer credit	6,964	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

C.1.4 Analysis of exposures arising from securitisations by financial asset category and by type

€/'000	Financial assets held for trading	Financial assets at fair value	Available-for-sale financial assets	Held-to-maturity investments	Loans & receivables	Dec. 31, 2010	Dec. 31, 2009
1. On balance sheet exposures							
- "Senior"	-	-	-	-	50,548	50,548	79,079
- "Mezzanine"	-	-	-	-	-	-	-
- "Junior"	-	-	-	-	-	-	-
2. Off balance sheet exposures							
- "Senior"	-	-	-	-	-	-	-
- "Mezzanine"	-	-	-	-	-	-	-
- "Junior"	-	-	-	-	-	-	-

C.2 Sale of assets

C.2.1 Analysis of financial assets sold but not derecognised

€/'000	Financial assets held for trading			Financial assets at fair value			Available-for-sale financial assets			Held-to-maturity investments			Loans to banks			Loans to customers			Dec. 31, 2010	Dec. 31, 2009
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C		
A. On-balance sheet assets	40,347	-	-	-	-	-	1,154,479	-	-	227,071	-	-	304,749	-	-	192,084	-	-	1,918,730	211,747
1. Debt securities	40,347	-	-	-	-	-	1,154,479	-	-	227,071	-	-	304,749	-	-	192,084	-	-	1,918,730	-
2. Equities	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
3. Holdings in UCITS.	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Derivatives	-	-	-	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	-	211,747
Total at Dec. 31, 2010	40,347	-	-	-	-	-	1,154,479	-	-	227,071	-	-	304,749	-	-	192,084	-	-	1,918,730	
of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total at Dec. 31, 2009	-	-	-	-	-	-	18,496	-	-	193,251	-	-	-	-		-	-	-	211,747	
of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	

Legend:

A = Financial assets sold, fully recognised on the balance sheet (book value).

B = Financial assets sold, partly recognised on the balance sheet (book value).

C = Financial assets sold, partly recognised on the balance sheet (full value).

C.2.2 Analysis of financial liabilities against financial assets that are sold but not derecognised

€/'000	Financial assets held for trading	Financial assets at fair value	Available-for-sale financial assets	Held-to-maturity investments	Loans to banks	Loans to customers	Total
1. Due to customers	29,108	-	1,031,212	227,694	314,236	256,948	1,859,198
a) against assets fully recognised on the balance sheet	29,108	-	1,031,212	227,694	314,236	256,948	1,859,198
b) against assets partly recognised on the balance sheet	-	-	-	-	-	-	-
2. Due to banks	11,398	-	118,907	-	47,759	-	178,064
a) against assets fully recognised on the balance sheet	11,398	-	118,907	-	47,759	-	178,064
b) against assets partly recognised on the balance sheet	-	-	-	-	-	-	-
3. Securities issued	-	-	-	-	-	-	-
a) against assets fully recognised on the balance sheet	-	-	-	-	-	-	-
b) against assets partly recognised on the balance sheet	-	-	-	-	-	-	-
Total at Dec. 31, 2010	40,506	-	1,150,119	227,694	361,995	256,948	2,037,262
Total at Dec. 31, 2009	-	-	17,494	188,612	20,017	62,744	288,867

D. CREDIT RISK MEASUREMENT MODELS

SECTION 1.2 – MARKET RISK

1.2.1 Interest rate risk and pricing risk – trading book

Qualitative information – interest rate risk

A. General aspects

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 authorised 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 money market instruments.

B. Interest Rate Risk - Measurement and Management

The Financial Risk and Credit Risk Management unit within the Risk Management and Compliance function is responsible for measuring and monitoring exposure to market risk, counterparty and credit risks, and for continuously monitoring capital adequacy vis-à-vis operations, in particular solvency and market risk associated with positions held directly by the Mediolanum Banking Group.
Each company within the Group is directly responsible for controls over the risks it assumes in accordance with the policies approved by the respective Boards of Directors.
Exposure to interest rate risk and pricing risk is measured using:

- Daily VaR
- 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.
The Gap Analysis measures the impact of pre-set shocks in the interest rate curve based on how closely the lending and funding exposure matches interest rates.
The Sensitivity Analysis quantifies the sensitivity of the financial portfolio to adverse interest rate movements.
These analyses are performed assuming as adverse movement a parallel uniform shift by 50, 100 and 200 bps in the interest rate curve.

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	-	486,594	9,713	39,194	254,918	154,271	42	-
1.1 Debt securities								
- with early redemption option	-	12,533	-	-	19,523	-	-	-
- others	-	474,061	9,713	39,194	234,906	154,271	42	-
EUR	-	474,061	9,713	39,194	234,898	154,264	42	-
USD	-	-	-	-	-	7	-	-
GBP	-	-	-	-	8	-	-	-
1.2 Other assets	-	-	-	-	489	-	-	-
2. Non derivative liabilities	1	51,923	20,315	14,513	297,991	89,237	-	-
2.1 Repos (EUR)	1	40,504	-	-	-	-	-	-
2.2 Other liabilities	-	11,419	20,315	14,513	297,991	89,237	-	-
EUR	-	11,419	20,315	14,513	297,990	89,237	-	-
Other currencies	-	-	-	-	1	-	-	-
3. Financial derivatives	237,485	1,421,859	225,846	88,592	155,602	233,320	245,717	-
3.1 with underlying securities	14	252,679	111,155	609	25,228	74,172	9,260	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Others	14	252,679	111,155	609	25,228	74,172	9,260	-
+ Long positions	7	156,982	54,593	303	24,456	116	312	-
EUR	7	84,374	54,541	303	24,121	107	312	-
USD	-	72,188	-	-	-	9	-	-
GBP	-	25	-	-	19	-	-	-
Other currencies	-	395	52	-	316	-	-	-
+ Short positions	7	95,697	56,562	306	772	74,056	8,948	-
EUR	7	95,277	541	306	431	74,047	8,948	-
USD	-	9	-	-	-	9	-	-
GBP	-	19	-	-	25	-	-	-
Other currencies	-	392	56,021	-	316	-	-	-
3.2 without underlying securities	237,471	1,169,180	114,691	87,983	130,374	159,148	236,457	-
- Options	-	462,065	4,563	240	77,462	155,144	224,656	-
+ Long positions (EUR)	-	462,065	-	-	-	-	-	-
+ Short positions (EUR)	-	-	4,563	240	77,462	155,144	224,656	-
- Others	237,471	707,115	110,128	87,743	52,912	4,004	11,801	-
+ Long positions	237,471	313,144	54,000	-	-	-	-	-
EUR	237,471	240,067	54,000	-	-	-	-	-
USD	-	73,037	-	-	-	-	-	-
GBP	-	23	-	-	-	-	-	-
CHF	-	-	-	-	-	-	-	-
Other currencies	-	17	-	-	-	-	-	-
+ Short positions	-	393,971	56,128	87,743	52,912	4,004	11,801	-
EUR	-	320,859	159	87,743	52,912	4,004	11,801	-
USD	-	72,755	-	-	-	-	-	-
GBP	-	12	-	-	-	-	-	-
CHF	-	24	55,969	-	-	-	-	-
Other currencies	-	321	-	-	-	-	-	-

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

€/'000	Listed			
	Italy	USA	Other countries	Unlisted
A. Equity instruments	3	-	3	-
- long positions	3	-	3	-
- short positions	-	-	-	-
B. Not yet settled purchases and sales of equity instruments	3	-	-	-
- long positions	-	-	-	-
- short positions	3	-	-	-
C. Other equity instrument derivatives	-	-	-	-
- long positions	-	-	-	-
- short positions	-	-	-	-
D. Stock index derivatives	-	-	-	-
- long positions	-	-	-	-
- short positions	-	-	-	-
Total	6	-	3	-

Qualitative information – pricing risk

A. General aspects

The Mediolanum 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 the Group's functions authorised to take market risk exposures within the limits and the authorities delegated to them by the Boards of Directors, in accordance with the policies agreed upon with the Parent Company.
The trading book primarily consists of positions in equities and mutual funds.

B. Pricing Risk: Measurement and Management

The Financial Risk and Credit Risk Management unit within the Risk Management and Compliance function is responsible for measuring and monitoring exposure to market risk, counterparty and credit risks, and for continuously monitoring capital adequacy vis-à-vis the Group's activities in particular solvency and market risk associated with positions directly held by the Mediolanum Banking Group. Each company within the Group is directly responsible for controls over risks it assumes in accordance with the policies approved by the respective Boards of Directors.
Exposure to pricing risk is measured using:

- daily VaR
- portfolio analysis in terms of:
  - characteristics of the instrument;
  - 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.

1.2.2 Interest rate risk and pricing risk – banking book

Qualitative information

A. Interest Rate Risk and Pricing Risk - General information, measurement and management

Banca Mediolanum's Banking Book is made up of those financial instruments that are not part of the trading book, in particular inter-bank loans, held-to-maturity investments and available-for-sale financial instruments. The Parent Company of the Banking Group measures banking book exposure to interest rate using an ALM model. The banking book's interest rate risk management framework includes sensitivity analyses on net interest income as well as analyses of the impact of interest rate shocks on the present value of all financial items.

B. Fair Value Hedges

There are no fair value hedges as defined under IAS.

C. Cash Flow Hedges

There are no cash flow hedges as defined under IAS.

Quantitative information

1. Banking Book: Time-to-maturity (repricing date) of financial assets and financial liabilities (Part 1)

€/'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. Financial assets	1,489,840	4,539,341	1,874,760	421,240	918,240	151,827	370,175	17,133
1.1 Debt securities	185,051	1,875,761	1,863,932	400,299	805,065	29,959	363	48,709
- with early redemption option	126	33,552	-	-	-	-	-	-
- others (EUR)	184,925	1,842,209	1,863,932	400,299	805,065	29,959	363	48,709
1.2 Loans to banks	800,692	450,174	103	-	-	-	-	2,098
EUR	792,013	375,482	103	-	-	-	-	2,098
USD	6,828	18,710	-	-	-	-	-	-
GBP	613	-	-	-	-	-	-	-
YEN	53	-	-	-	-	-	-	-
CHF	377	55,982	-	-	-	-	-	-
OTHER CURRENCIES	808	-	-	-	-	-	-	-
1.3 Loans to customers	504,097	2,213,406	10,725	20,941	113,175	121,868	369,812	(33,674)
- current accounts	340,141	4,874	4,307	9,749	29,880	8,989	52,559	6,890
EUR	340,128	4,874	4,307	9,749	29,880	8,989	52,559	6,890
USD	13	-	-	-	-	-	-	-
- other loans	163,956	2,208,532	6,418	11,192	83,295	112,879	317,253	(40,564)
- with early redemption option	26,359	2,097,708	4,588	9,047	80,015	112,230	317,253	1
EUR	26,359	2,097,708	4,588	9,047	80,015	112,230	317,253	1
- others	137,597	110,824	1,830	2,145	3,280	649	-	(40,565)
EUR	137,597	110,824	1,830	2,145	3,280	649	-	(40,565)

1. Banking Book: Time-to-maturity (repricing date) of financial assets and financial liabilities (Part 2)

€/'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
2. Financial liabilities	7,145,889	2,273,156	424,086	124,270	-	-	-	-
2.1 Due to customers	5,570,785	1,754,119	109,086	3,770	-	-	-	-
- current accounts	5,390,505	69,757	2,420	3,624	-	-	-	-
EUR	5,365,247	69,732	2,420	3,624	-	-	-	-
USD	24,738	25	-	-	-	-	-	-
GBP	520	-	-	-	-	-	-	-
- others	180,280	1,684,362	106,666	146	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	180,280	1,684,362	106,666	146	-	-	-	-
EUR	180,280	1,684,362	106,666	146	-	-	-	-
USD	-	-	-	-	-	-	-	-
2.2 Due to banks	1,573,747	282,294	212,620	120,500	-	-	-	-
- current accounts	2,137	14,620	-	-	-	-	-	-
EUR	2,133	14,620	-	-	-	-	-	-
CHF	-	-	-	-	-	-	-	-
OTHER CURRENCIES	4	-	-	-	-	-	-	-
- others	1,571,610	267,674	212,620	120,500	-	-	-	-
EUR	1,571,610	267,674	212,620	120,500	-	-	-	-
GBP	-	-	-	-	-	-	-	-
USD	-	-	-	-	-	-	-	-
2.3 Debt securities	1,357	236,743	102,380	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	1,357	236,743	102,380	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	-	-	-	-	-	-	-	-
3. Financial derivatives	1,321	1,428,655	956,339	495,233	2,448,591	1,481,092	3,848,703	-
3.1 with underlying securities	-	-	-	-	-	-	-	-
3.2 w/o underlying securities	1,321	1,428,655	956,339	495,233	2,448,591	1,481,092	3,848,703	-
- Options	-	928,052	952,310	487,017	2,374,991	1,375,847	3,545,826	-
+ Long positions	-	331,476	568,252	255,157	1,212,995	684,398	1,779,744	-
+ Short positions	-	596,576	384,058	231,860	1,161,996	691,449	1,766,082	-
- Other derivatives	1,321	500,603	4,029	8,216	73,600	105,245	302,877	-
+ Long positions	1,321	496,625	-	-	-	-	-	-
EUR	1,321	496,625	-	-	-	-	-	-
USD	-	-	-	-	-	-	-	-
+ Short positions	-	3,978	4,029	8,216	73,600	105,245	302,877	-
EUR	-	3,978	4,029	8,216	73,600	105,245	302,877	-
USD	-	-	-	-	-	-	-	-

Qualitative information - pricing risk

A. Pricing Risk – General information, Measurement and Management

The Banking Group measures the pricing risk exposure of the banking book applying the same methods used to measure interest rate risk.

B. Hedges

There are no hedges as defined under IAS.

1.2.3 Currency risk

Qualitative information

A. Currency Risk – General information, Measurement and Management

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.

B. Currency Risk – Hedges

There are no hedges as defined under IAS.

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	25,557	801	54	142	56,360	115,020
A.1 Debt securities	7	8	-	-	-	28,016
A.2 Equities	-	180	1	-	-	-
A.3 Loans to banks	25,538	613	53	142	56,360	14,812
A.4 Loans to customers	12	-	-	-	-	72,192
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	22	18	-	-	2	1,095
C. Financial liabilities	26,214	522	-	3	173	11
C.1 Due to banks	10	-	-	-	-	4
C.2 Due to customers	24,762	522	-	3	173	7
C.3 Securities issued	-	-	-	-	-	-
C.4 Other financial liabilities	1,442	-	-	-	-	-
D. Other liabilities	4	1	-	-	1	12,124
E. Financial derivatives	145,418	35	-	-	55,993	338
- Options	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-
- Others derivatives	145,418	35	-	-	55,993	338
+ Long positions	72,663	23	-	-	-	17
+ Short positions	72,755	12	-	-	55,993	321
Total assets	98,242	842	54	142	56,362	116,132
Total liabilities	98,973	535	-	3	56,167	12,456
Net position (+/-)	(731)	307	54	139	195	103,676

Internal models and other sensitivity analysis methods

VaR (Value at Risk) estimates the risk of loss resulting from adverse movements in the exchange rate of traded financial instruments as a result of adverse market movements.

Derivative financial instruments

A. Financial derivatives

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

	Dec. 31, 2010		Dec. 31, 2009	
€/'000	OTC	Central Counterparties	OTC	Central Counterparties
1. Debt securities and interest rates	434,252	106,283	231,461	28,000
a) Options	27,114	-	27,967	-
b) Swaps	406,776	-	203,494	-
c) Forwards	362	-	-	-
d) Futures	-	106,283	-	28,000
e) Others	-	-	-	-
2. Equities and stock indices	-	3	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	3	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
3. Currencies and gold	200,504	-	123,373	-
a) Options	-	-	-	-
b) Swaps	128,148	-	90,818	-
c) Forwards	72,356	-	32,555	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
4. Commodities	-	-	-	-
5. Other underlying	-	-	-	-
Total	634,756	106,286	354,834	28,000
Average amount	194,921	3,836	170,450	1,790

A.2 Banking book: year-end and average notional amounts

A.2.1 Hedging derivatives

€/'000	Dec. 31, 2010 OTC	Dec. 31, 2010 Central Counterparties	Dec. 31, 2009 OTC	Dec. 31, 2009 Central Counterparties
1. Debt securities and interest rates	497,946	-	533,313	-
a) Options	-	-	-	-
b) Swaps	497,946	-	533,313	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
2. Equities and stock indices	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
3. Currencies and gold	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
4. Commodities	-	-	-	-
5. Other underlying	-	-	-	-
Total	497,946	-	533,313	-
Average amount	497,946	-	472,912	-

A.3 Financial derivatives: positive fair value – analysis by type of product

	Positive fair value			
	Dec. 31, 2010		Dec. 31, 2009	
€/'000	OTC	Central Counterparties	OTC	Central Counterparties
A. Trading book	3,390	-	3,759	-
a) Options	955	-	792	-
b) Interest Rate Swaps	11	-	62	-
c) Cross Currency Swaps	2,424	-	2,903	-
d) Equity Swaps	-	-	-	-
e) Forwards	-	-	2	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
B. Banking book – hedging derivatives	-	-	1,179	-
a) Options	-	-	-	-
b) Interest Rate Swaps	-	-	1,179	-
c) Cross Currency Swaps	-	-	-	-
d) Equity Swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
C. Trading book – other derivatives	-	-	-	-
a) Options	-	-	-	-
b) Interest Rate Swaps	-	-	-	-
c) Cross Currency Swaps	-	-	-	-
d) Equity Swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
Total	3,390	-	4,938	-

A.4 Financial derivatives: negative fair value – analysis by type of product

	Negative fair value			
	Dec. 31, 2010		Dec. 31, 2009	
€/'000	OTC	Central Counterparties	OTC	Central Counterparties
A. Trading book	7,210	-	1,644	-
a) Options	-	-	-	-
b) Interest Rate Swaps	2,696	-	658	-
c) Cross Currency Swaps	2,118	-	-	-
d) Equity Swaps	-	-	-	-
e) Forwards	2,396	-	986	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
B. Banking book - hedging derivatives	28,510	-	15,906	-
a) Options	-	-	-	-
b) Interest Rate Swaps	28,510	-	15,906	-
c) Cross Currency Swaps	-	-	-	-
d) Equity Swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
C. Trading book - other derivatives	-	-	-	-
a) Options	-	-	-	-
b) Interest Rate Swaps	-	-	-	-
c) Cross Currency Swaps	-	-	-	-
d) Equity Swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
Total	35,720	-	17,550	-

A.5 Trading Book - OTC financial derivatives: notional amount, gross positive and negative fair value by counterparty – contracts that do not fall under netting arrangements

€/'000	Governments & central banks	Government agencies	Banks	Financial companies	Insurance companies	Non financial companies	Others
1) Debt securities and interest rates							
- notional amount	-	-	396,797	37,427	-	-	27
- positive fair value	-	-	953	-	-	-	-
- negative fair value	-	-	2,507	189	-	-	-
- future exposure	-	-	908	-	-	-	-
2) Equities and stock indices							
- notional amount	-	-	-	-	-	-	-
- positive fair value	13	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3) Currencies and gold							
- notional amount	-	-	128,325	72,179	-	-	-
- positive fair value	-	-	-	2,424	-	-	-
- negative fair value	-	-	4,513	-	-	-	-
- future exposure	-	-	1,283	722	-	-	-
4) Others							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.7 Banking Book - OTC financial derivatives: notional amount, gross positive and negative fair value by counterparty – contracts that do not fall under netting arrangements

€/'000	Governments & central banks	Government agencies	Banks	Financial companies	Insurance companies	Non financial companies	Others
1) Debt securities and interest rates							
- notional amount	-	-	497,946	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	28,510	-	-	-	-
- future exposure	-	-	6,490	-	-	-	-
2) Equities and stock indices							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3) Currencies and gold							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
4) Others							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.9 Time-to-maturity of OTC financial derivatives: notional amount

€/'000	1 year	1 to 5 years	Over 5 years	Total
A. Trading book				
A.1 debt securities and interest rates	338,420	52,912	42,919	434,251
A.2 equities and stock indices	-	-	-	-
A.3 currencies and gold	128,324	-	-	128,324
A.4 other	-	-	-	-
B. Banking book				
A.1 debt securities and interest rates	16,224	73,600	408,122	497,946
B.2 equities and stock indices	-	-	-	-
B.3 currencies and gold	-	-	-	-
B.4 other	-	-	-	-
Total at Dec. 31, 2010	482,968	126,512	451,041	1,060,521
Total at Dec. 31, 2009	341,410	62,459	484,743	888,612

B. Credit derivatives

During the year the Bank did not trade in credit derivatives and at December 31, 2010 it did not hold any positions in those instruments.

SECTION 3 - LIQUIDITY RISK

Qualitative information

A. Liquidity Risk – General information, Measurement and Management

The Mediolanum Banking Group's liquidity management model is structured in a manner that ensures adequate levels of liquidity in the short term as well as in the medium and long term. Given the types of assets held, their duration as well as the type of funding, the banking group has no short-term liquidity concerns. From a structural viewpoint, the Mediolanum Banking Group can rely on a stable 'core funding' and is only marginally exposed to volatility. This is evidenced also by Bank's econometric projections of 'on demand positions'. In addition to its sound core funding represented by bank deposits, the Mediolanum Banking Group has been focusing on bond issues for medium-term funding.
The liquidity risk management framework is approved by the Board of Directors of the Parent Company and implemented across the Group (where applicable). Liquidity risk is monitored by the Financial Risk Management unit applying dedicated policies and procedures, including operating and structural limits, a maturity ladder as well as a contingency funding plan under the broader Asset Liability Management model of the Banking Group.
Liquidity risk management includes the generation of daily reports for monitoring operational liquidity limits in treasury management and quarterly reports for monitoring structural liquidity in the aggregate. The method used to manage operational liquidity is derived from the Maturity Mismatch Approach and is based on the monitoring of cumulative gaps generated by Net Flows and Counterbalancing Capacity as assessed using an operational

Maturity Ladder. The method used to manage structural liquidity is also based on the Maturity Mismatch Approach and analyses all financial items according to the timescale set out in the liquidity risk policy document. In 2010, like other banks, Banca Mediolanum participated in the QIS 2010 the quantitative impact study conducted by the Basel Committee to assess the impact of Basel III liquidity standards for the banking system.

Quantitative information

1. Time-to-maturity of financial assets and liabilities (part 1)

€/'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	indefinite maturity
On balance sheet assets											
A.1	Government securities	-	-	-	-	-	203,690	340,116	1,016,374	872,358	-
	- EUR	-	-	-	-	-	203,690	340,116	1,016,372	872,351	-
	- USD	-	-	-	-	-	-	-	-	7	-
	- Other currencies	-	-	-	-	-	-	-	2	-	-
A.2	Other debt securities	-	-	-	99,999	37,340	42,060	329,943	2,929,854	238,311	-
	- EUR	-	-	-	99,999	37,340	42,060	329,943	2,929,849	238,311	-
	- USD	-	-	-	-	-	-	-	-	-	-
	- GBP	-	-	-	-	-	-	-	5	-	-
	- Other currencies	-	-	-	-	-	-	-	-	-	-
A.3	Holdings in UCITS	162,064	-	-	-	-	-	-	-	-	-
	- EUR	162,064	-	-	-	-	-	-	-	-	-
	- Other currencies	-	-	-	-	-	-	-	-	-	-
A.4	Loans to	1,194,092	577,774	34,037	73,735	214,648	40,958	78,017	540,407	1,782,203	18,057
	- Banks	712,146	341,750	33,995	43,071	58,597	103	-	13,349	-	5,281
	- EUR	703,467	323,040	33,995	43,071	2,615	103	-	13,349	-	5,281
	- USD	6,828	18,710	-	-	-	-	-	-	-	-
	- YEN	53	-	-	-	-	-	-	-	-	-
	- CHF	377	-	-	-	55,982	-	-	-	-	-
	- GBP	613	-	-	-	-	-	-	-	-	-
	- Other currencies	808	-	-	-	-	-	-	-	-	-
	- Customers	481,946	236,024	42	30,664	156,051	40,855	78,017	527,058	1,782,203	12,776
	- EUR	481,933	236,024	42	30,664	156,051	40,855	78,017	527,058	1,782,203	12,776
	- USD	13	-	-	-	-	-	-	-	-	-
	- Other currencies	-	-	-	-	-	-	-	-	-	-

1. Time-to-maturity of financial assets and liabilities (part 2)

€/'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	indefinite maturity
On balance sheet assets										
B.1 Deposits	5,246,963	39,775	-	404,953	154,590	215,040	124,124	-	31	-
- Banks	172,083	39,750	-	14,500	152,311	212,620	120,500	-	-	-
- EUR	172,069	39,750	-	14,500	152,311	212,620	120,500	-	-	-
- USD	10	-	-	-	-	-	-	-	-	-
- YEN	-	-	-	-	-	-	-	-	-	-
- CHF	-	-	-	-	-	-	-	-	-	-
- GBP	-	-	-	-	-	-	-	-	-	-
- Other currencies	4	-	-	-	-	-	-	-	-	-
- Customers	5,074,880	25	-	390,453	2,279	2,420	3,624	-	31	-
- EUR	5,049,439	-	-	390,453	2,279	2,420	3,624	-	31	-
- USD	24,738	25	-	-	-	-	-	-	-	-
- GBP	520	-	-	-	-	-	-	-	-	-
- Other currencies	183	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	105	211	10,472	21,108	302,737	4,489	-
- EUR	-	-	-	105	211	10,472	21,108	302,737	4,489	-
- Other currencies	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	181,954	2,067,000	52,529	644,933	479,278	127,385	14,589	300,425	103,202	-
- EUR	181,954	2,067,000	52,529	644,933	479,278	127,385	14,589	300,424	103,202	-
- USD	-	-	-	-	-	-	-	-	-	-
- CHF	-	-	-	-	-	-	-	-	-	-
- GBP	-	-	-	-	-	-	-	1	-	-
- Other currencies	-	-	-	-	-	-	-	-	-	-
Off-balance sheet items										
C.1 Financial derivatives with exchange of principal	14	7,668	-	18	390,612	111,115	600	25,342	83,432	-
- Long position	7	3,889	-	9	224,714	54,573	298	24,513	428	-
- EUR	7	2,568	-	-	152,535	54,521	298	24,178	419	-
- USD	-	868	-	-	72,179	-	-	-	9	-
- CHF	-	-	-	-	-	-	-	-	-	-
- GBP	-	49	-	-	-	-	-	19	-	-
- Other currencies	-	404	-	9	-	52	-	316	-	-
- Short positions	7	3,779	-	9	165,898	56,542	302	829	83,004	-
- EUR	7	2,611	-	-	93,542	521	302	488	82,995	-
- USD	-	409	-	-	72,356	-	-	-	9	-
- CHF	-	24	-	-	-	55,969	-	-	-	-
- GBP	-	30	-	-	-	-	-	25	-	-
- Other currencies	-	705	-	9	-	52	-	316	-	-
C.2 Financial derivatives without exchange of principal	3,662	-	-	1,244	2,586	3,793	7,425	54,516	126,230	-
- Long positions	966	-	-	-	-	-	-	-	-	-
- EUR	966	-	-	-	-	-	-	-	-	-
- Other currencies	-	-	-	-	-	-	-	-	-	-
- Short positions	2,696	-	-	1,244	2,586	3,793	7,425	54,516	126,230	-
- EUR	2,696	-	-	1,244	2,586	3,793	7,425	54,516	126,230	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	30	-	(650)
- EUR	-	-	-	-	-	-	-	30	-	(650)
- Other currencies	-	-	-	-	-	-	-	-	-	-

SECTION 4 - OPERATIONAL RISK

Qualitative information

Regulations and statutes place increasing emphasis on the identification and management of financial, credit and operational risks. In particular, the Basel Capital Accord (International Convergence of Capital Measurements and Capital Standards) and the EU Capital Requirement Directive (CRD) placed greater importance on operational risk classifying it as a separate risk category which requires a specific capital charge as well as the adoption of specific risk measurement and mitigation techniques.
In December 2010, the Basel Committee on banking supervision issued two new papers on operational risk. One incorporates developments in sound practices for the management and supervision of operational risk with focus on governance, risk management and disclosure. The other paper sets out new guidelines for banks and banking groups applying the Advanced Measurement Approaches. The principles set out in those papers are already embedded in the framework in use by the Mediolanum Banking Group.

Operational risk is pervasive across the organisation and is closely correlated to legal risk and regulatory risk (compliance risk).
The Mediolanum Banking Group defines operational risk as "the risk of economic loss or damage to assets, and sometimes legal and administrative consequences, resulting from any misconduct or inappropriate behaviour of its personnel, inadequate or failed systems or internal processes, or external events".

The internal control system of the Mediolanum Banking Group entails defence at different levels in accordance with the Group organisational 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 organisational 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 Management Unit, within the Risk Management and Compliance function, is responsible for identifying, measuring and assessing operational risk. The unit's staff work together with the sales network inspectors for the control and management of operational risk associated with the activities carried out by the sales network, and with Accounting & Finance officers to verify capital adequacy vis-à-vis operational risk capital requirements.
The Operational Risk Control unit is separate and independent of operating units and reports directly to the Parent Company's Senior Management.
In consideration of the characteristics and the type of business conducted by the Mediolanum Banking Group, special attention is given to risks arising in connection with the operation of the Sales Network and the multiple channels, i.e. also those channels which enable access and transactions from a remote location. These risks are managed, inter alia, through local controls and procedures for risk assessment, management, prevention and mitigation.
The operational risk management framework entails a central control unit, i.e. Banca Mediolanum's operational risk unit, and local control units, especially for those operations that are more exposed to operational risk, i.e. the direct channels, the sales network inspectors, Group Information Systems and Organisation, also to facilitate coordination in relation to Business Continuity & Disaster Recovery Plans.
There is also close coordination with the Compliance function.

The identification, monitoring and management of operational risk entail the analysis of the processes and activities carried out by the Banking Group.

The operational risk assessment and measurement method developed beginning from 2006 includes qualitative measurement of exposure to operational risk of each unit within the organisation via an internal rating system.

The qualitative metrics differentiate between exposure to risk that is inherent in business management and exposure to risk that is anomalous or at critical levels.

The system uses four ratings, which identify a different level of risk and related response, i.e.:

- **A, negligible risk**: risk is consistent with the risk appetite as established by top management;
- **B, moderate risk**: the risk of loss is not negligible; first red flag;
- **C, significant risk**: it indicates a critical condition; more in-depth analysis is recommended to assess the opportunity of mitigating actions;
- **D, high risk**: the situation is severe and mitigating actions need to be taken immediately.

The operational risk management framework was approved by the Board of Directors of the Parent Company, Banca Mediolanum, in December 2006 and periodically reviewed and updated thereafter. The latest review and update were conducted in January 2011. Risk Self Assessment of organisational units and collection of operational loss data are carried out on an annual basis. This is groundwork for assessment of the level of risk to which organisational processes are exposed as well as the basis for applying the standardised approach.

The operational risk management model has been gradually rolled out at Mediolanum Banking Group's Italian and foreign subsidiaries, applying adjustments, where needed, to reflect local requirements, business and organisation. The parent company provides guidance and coordination for the implementation of control activities at subsidiaries including advice for adherence to internal and external rules and the promotion of the desired control culture.

Following the examination of the results of self-assessment, initially made on November 7, 2007, and then reviewed on an annual basis (latest results examined on March 23, 2011), the Board of Directors resolved to apply, at individual level, the standardised approach to operational risk capital measurements, considering that both quantitative and qualitative requirements for the adoption of said approach are satisfied. Instead, to measure the operational risk capital charge at consolidated level, in the light of the different stages in the implementation of the operational risk control model at the various subsidiaries, in accordance with the proportionality principle, effective from January 1, 2008, the Group adopted a "combination of the basic indicator approach and the standardised approach". Said combination of approaches is applied in compliance with the requirements set forth in the Bank of Italy's Circular 263/2006, as schematically set out in the table below.

Methods applied under Pillars I and II of the Basel II Capital Accord

Methods applied for the calculation of the operational risk capital charge

	Individual	Consolidated
Banca Mediolanum	Standardised(1)	Standardised(1)
Mediolanum Gestione Fondi	BoI Circ 189/93(2)	Standardised(1)
Mediolanum Distribuzione Finanziaria	Not applicable	Standardised(1)
Mediolanum Corporate University	Not applicable	Basic Indicator(1)
Mediolanum International Funds Ltd	CRD(3)	Standardised(1)
Mediolanum Asset Management Ltd	CRD(3)	Standardised(1)
Bankhaus August Lenz	Basic Indicator(1)	Basic Indicator(1)
Banco de Finanzas e Inversiones S.A.	Basic Indicator(1)	Basic Indicator(1)
Fibanc S.A.	Not applicable	Basic Indicator(1)
Fibanc Pensiones, S.A. S.G.F.P.	Not applicable	Basic Indicator(1)
Ges Fibanc S.G.I.I.C. S.A.	Not applicable	Basic Indicator(1)
Gamax Management A.G.	Not applicable	Basic Indicator(1)

(1) Methods for the calculation of the operational risk capital charge as defined in the Bank of Italy's Circular 263/2006
(2) The Bank of Italy's Circular 189/1993 sets forth a capital requirement for "other risks" equal to the higher of the percentage applied to managed assets and 25% of fixed operational costs
(3) IFSRA local transposition of the Capital Requirement Directive "Notice on the implementation of the CRD" (December 28, 2006) and "Investment firms guidelines on ICAAP submission". Standardised approach applied on an individual basis for Mediolanum Asset Management Ltd. operational risk capital charge for Mediolanum International Funds Ltd.

When starting operation in 2011 Mediolanum Fiduciaria will adopt the 'Basic Indicator Approach'.

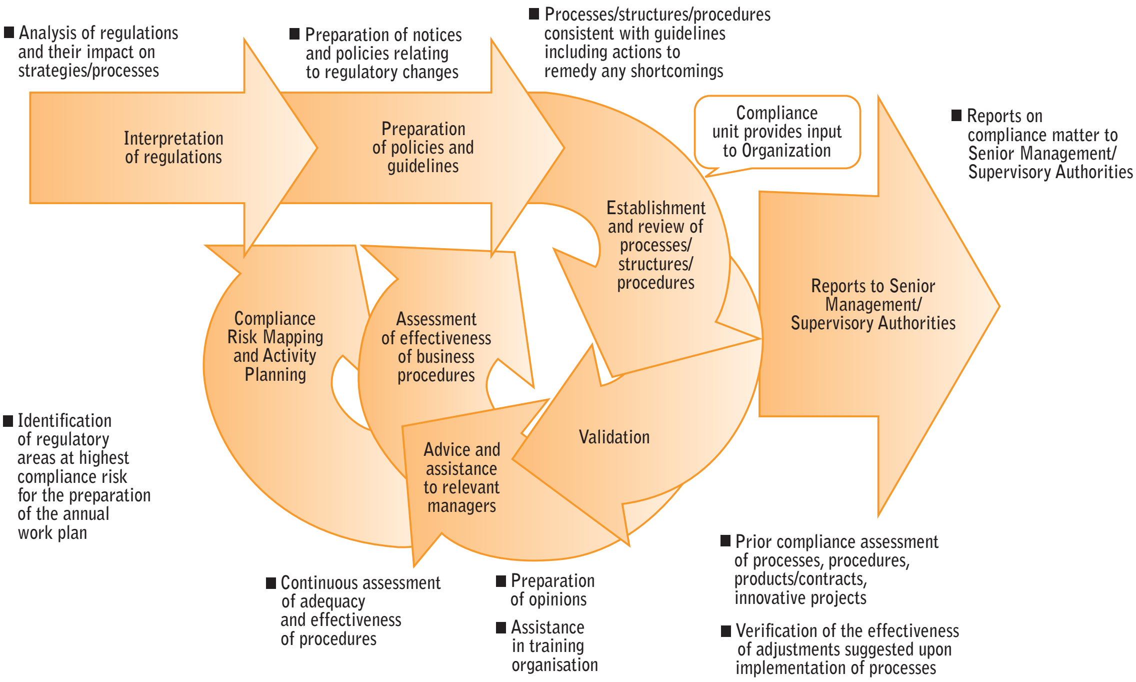
Readers are reminded that pursuant to Bank of Italy's Circular 263/2007, the combination of the Basic Indicator approach and the Standardised approach is allowed at consolidated level, provided that the operational segments to be covered under said method do not exceed 10% of the average of the last three annual measurements of the relevant indicator. The satisfaction of the 10% requirement was ascertained by the Board of Directors prior to passing the relevant resolution and again in subsequent years. The latest review was made by the Board of Directors at its meeting of March 23, 2011 when satisfaction of said requirement was confirmed also for the year 2011.

Finally, you are advised that, in 2010, over 180 organisational units of entities within the Banking Group were examined identifying about 2,800 operational risk checkpoints. About 80% of checkpoints were judged to be adequate or in need of being just better formalised. About 170 risk mitigation actions were taken in relation to risk controls that were judged to be unsatisfactory or in need of improvement.

Compliance Risk

A single compliance risk management framework defined by the Parent Company Banca Mediolanum S.p.A is applied across the Mediolanum Banking Group. Under said framework, Banca Mediolanum's Compliance unit is responsible for ensuring compliance within the parent company as well as for supervision, guidance and control of Group companies within its remit. The scope of work of the Compliance unit has been defined taking account of the responsibilities given to other functions within the organisation in relation to specific regulatory areas.

Compliance cycle



The responsibilities of the Compliance unit are summarised below:

Interpretation of regulations

- Identification of applicable regulations vis-à-vis the regulatory environment;
- Assistance in assessing the impact of the introduction/application of new regulations on business strategies;
- Assessment of the impact of new regulations on business processes/procedures, and preparation of any necessary amendments.

Preparation of policies and guidelines

- Preparation of notices, policies and guidelines in relation to regulatory changes.

Establishment and review of processes/structures/procedures

- Working together with the Organisation staff, establishment of processes/ structures/procedures that are consistent with guidelines including actions to remedy any shortcomings.

Validation

- Prior compliance assessment of processes, procedures, innovative projects, product development;
- Verification of the effectiveness of adjustments suggested upon the implementation of processes.

Advice and assistance to relevant managers

- Preparation of opinions;

- Assistance in the organisation of education sessions.

Assessment of effectiveness of business procedures

- Continuous assessment of the adequacy and effectiveness of business procedures.

Conflicts of Interest

- Identification and assessment, as well as preparation of proposals for effective management of any conflict of interest, maintenance of the 'Register of Conflicts'.

Reports to Senior Management/Supervisory Authorities

- Reports on compliance matters to Senior Management and/or Supervisory Authorities.

Compliance Assessment Mapping and Activity Planning

- Identification of business units most exposed to regulatory compliance risk in order to plan risk mitigation actions.

As a result of enhancements introduced into the Compliance framework, the Banking Group adopted a new compliance risk assessment method across the group. The key traits of the new method which is based on Compliance Assessment Mapping (CAM) and a Compliance Activity Plan (CAP) are outlined below.
The mapping exercise identifies compliance risks and potential consequences in the event of failed compliance (Risk Impact). Based on that output, each entity within the Banking Group conducts self-assessment of the mitigation levels for those risks, applying predefined, objective metrics.
The output of the process is Risk Rating which reflects the applicability and the impact of regulations on the entity's business and the relevance of risk-generating conditions vis-à-vis the overall entity's operations.
For that purpose, an inventory is preliminarily made of the specific legal and regulatory requirements, identifying related risks and determining the related risk impact.
For each identified risk, the key risk prevention measures are analysed, placing emphasis on internal rules, IT procedures, line controls and training, and any past incidents are reviewed (audit reports, complaints, claims). Then, the probability of risk occurrence is measured.
For all risks considered, the method described above enables to identify appropriate risk control and mitigation actions that are set out in the compliance work plan and shared with all competent functions within the organisation. Outcomes are reported at least annually to the Board of Directors.

In 2010, Compliance staff proceeded to implement a system for automated Compliance Assessment Mapping and Compliance Activity Planning with a single repository for all applicable regulatory requirements and frameworks that facilitates control and sharing with all other corporate functions involved.

The Operational Compliance framework was enhanced by introducing new specific continual controls, in particular to ensure compliance with requirements under the EU MiFID Directive. To this end, Compliance staff regularly monitor transactions to ensure the investment choices made by customers are consistent with their profile. In addition preliminary checks are made to ensure compliance of actions geared to incentivise the Sales Network.

The Compliance staff also coordinated various projects, in particular they saw to the implementation of a new IT system that ensures more effective identification and management of any Conflicts of Interest at Banking Group level.

Compliance staff also held educational sessions for Mediolanum Group employees and Sales Network members on regulatory changes and their impact on operations, including the MiFID Directive and Anti-Money Laundering regulations. The sessions on "The importance of Compliance" contributed to raise awareness and disseminate information on regulatory changes and more generally the culture of compliance with regulations across the Mediolanum Group.

Strategic Risk

Strategic risk is the current or prospective risk of impact on earnings or capital arising from changes in the industry, adverse business decisions, improper implementation of decisions, lack of responsiveness to industry changes.
All Group companies are potentially exposed to strategic risk, each at different levels according to the volume of business they manage and their operations.

Strategic risk may arise from:
- business decisions relating to the entry into new (local or international) markets or new product lines or changes in the distribution model or channels;
- external events, changes in the competitive environment or unexpected market scenarios due to macroeconomic events, or changes in the regulatory environment.

Strategic risk identification processes are part of usual management planning and control, entail analyses of market scenario and changes in the competitive environment resulting from macroeconomic events or regulatory developments. These analyses are typically conducted upon budgeting and planning as well as upon the occurrence of external events that may have a significant impact on business.
Strategic risk arising from improper implementation of business decisions or losses arising from business decisions are also monitored as part of the Loss Data Collection exercise carried out by the Operational Risk Management unit.

Reputational risk

Reputational risk is considered to be a "second-tier" risk arising from the failure to properly manage other risks, e.g. operational risk or strategic risk, which may lead to reputational damage.
Reputational risk may arise from external events, negative news about the company, the behaviour of its employees or improper management of external communications.
The Mediolanum Group has in place processes geared to ensuring proper management of relationships with all stakeholders and continuously monitoring their satisfaction. These processes are reviewed annually and results are examined to develop actions and projects for improvement and ultimately ensure sustainable growth. Information is set out also in the Group's Social Report.
Marketing staff monitor Mediolanum standing in terms of perception of the corporate image and brand and feeds from said monitoring activities are used to properly manage reputational risk.

PART F – INFORMATION ON CONSOLIDATED CAPITAL

SECTION 1 – CONSOLIDATED CAPITAL

A. Qualitative information

In accordance with strategic guidelines for growth, the banking group takes all measures needed to ensure adequate capital levels and controls thereof. By continuously monitoring capital levels the banking group prevents any tensions that may arise in the future.

B. Quantitative information

€/'000	Dec. 31, 2010
Share capital	452,671
Share premium account	(3,098)
Reserves	98,565
Equity instruments	-
Treasury shares (-)	-
Valuation reserves	(41,118)
- available for sale financial assets	(41,118)
- tangible assets	-
- intangible assets	-
- hedges of investments in foreign operations	-
- cash flow hedges	-
- exchange differences	-
- non current assets held for sale	-
- actuarial gains (losses) relating to defined benefit plans	-
- share of reserves on investments accounted for by the equity method	-
- special revaluation statutes	-
- other	-
Net profit (loss) for the year (+/-) attributable to the Group and to minority interests	198,200
Shareholders' equity	705,220

B.1 Analysis of consolidated equity

€/'000	Total	
	Positive Reserve	Negative Reserve
1. Debt securities	255	(45,783)
2. Equities	250	(1)
3. Holdings in UCITS	4,333	(172)
4. Loans	-	-
Total at Dec. 31, 2010	4,838	(45,956)
Total at Dec. 31, 2009	5,929	(4,507)

B.2 Analysis of revaluation reserves relating to available-for-sale financial assets

€/'000	Debt securities	Equities	Holdings in UCITS	Loans
1. Opening balance	539	(77)	960	-
2. Increases	8,868	494	3,336	-
2.1 Increase in fair value	8,868	48	2,412	-
2.2 Reclass. to income statement from reserves:	-	446	924	-
- impairment	-	446	543	-
- realised gains	-	-	381	-
2.3 Other increases	-	-	-	-
3. Decreases	(54,935)	(169)	(134)	-
3.1 Decrease in fair value	(51,695)	(169)	(132)	-
3.2 Impairment	-	-	-	-
3.3 Realised losses	(3,240)	-	(2)	-
3.4 Other decreases	-	-	-	-
4. Closing balance	(45,528)	248	4,162	-

B.3 Year's movements in the revaluation reserve relating to available-for-sale financial assets

SECTION 2 – CAPITAL AND CAPITAL REQUIREMENTS

2.1 Legal framework

In its Circular Letter No. 263 of December 27, 2006 titled "New Regulatory Requirements for Banks", the Bank of Italy (BoI) set forth the new capital measurement requirements. The BoI Circular Letter incorporates the international capital requirements that were introduced following the adoption of the international accounting and financial reporting standards (IAS/IFRS).

To safeguard the quality of regulatory capital and reduce the potential volatility arising from the adoption of the international accounting and financial reporting standards, certain 'prudential filters' are applied to financial data. Consolidated regulatory capital is made up of the regulatory capital of individual Group companies plus related items resulting from consolidation, specifically, core capital and supplementary capital include the share of the Group and the share of minority interests.

On May 18, 2010 the Bank of Italy issued new requirements for the treatment of revaluation reserves relating to debt securities in the 'available-for-sale (AFS) financial assets' portfolio for the purpose of calculating 'prudential filters'.

In accordance with CEBS guidelines (2004), the Bank of Italy introduced the option of fully neutralising gains and losses on the reserves relating to debt securities in the AFS portfolio with prior notice thereof to the supervisor.
The option applies only to debt securities issued by central governments of EU member states and is allowed for securities already in the AFS portfolio on December 31, 2009, or purchased after December 31, 2009 but before the adoption of said treatment option, and initially recognised in the AFS assets category. The deadline for adopting the treatment option was June 30, 2010.
The Board of Directors of Banca Mediolanum adopted said treatment option for all entities in the Banking Group on June 23, 2010.
In the calculation of regulatory capital at December 31, 2010, the adoption of said treatment option allowed to reduce the balance of Tier 1 negative elements by €23,911 thousand which entailed an increase in regulatory capital at December 31, 2010 by the same amount.

2.2 The regulatory capital of banks

A. Qualitative information

Regulatory capital is the sum of core capital, 'Tier 1 capital', (€407.14 million), included in the calculation without restrictions, and supplementary capital, 'Tier 2 capital', (€166.17 million) which cannot exceed the amount of Tier 1 capital, before deductions, and Tier 3 capital. Shareholdings, non-innovative, innovative, hybrid capital instruments and subordinated assets held in other banks, financial and insurance companies are deducted from Tier 1 and Tier 2 capital.

1. Tier 1 capital

Tier 1 capital includes paid-up share capital (€452.67 million), reserves (€160.94 million) and net profit for the period (€24.52 million) after dividends distributed to companies that are not part of the banking group. All Tier 1 capital components include the share of minority interests. Intangible assets (€10.64 million) and goodwill (€198.73 million) are deducted from capital components.
At December 31, 2010, Tier 1 prudential filters consisted entirely of negative valuation reserves relating to debt securities classified as 'available-for-sale financial assets' (€21.61 million).
no was applied.

2. Tier 2 capital

Tier 2 capital includes positive valuation reserves on equities and holdings in UCITS (€4.41 million) classified as 'available-for-sale financial assets'. It also includes subordinated liabilities (€163.97 million). Tier 2 negative prudential filters are equal to the 50% not computable share of the positive valuation reserves (after tax) relating to equities and holdings in UCITS (€2.20 million) classified as 'available-for-sale financial assets'.

3. Tier 3 capital

At December 31, 2010, Mediolanum Banking Group's capital did not include any instruments falling within Tier 3 capital.

€/'000	Dec. 31, 2010	Dec. 31, 2009
A. Tier 1 before prudential filters	428,761	393,344
B. Tier 1 prudential filters:	(21,616)	-
B.1 Positive IAS/IFRS prudential filters	-	-
B.2 Negative IAS/IFRS prudential filters	(21,616)	-
C. Tier 1 after prudential filters (A+B)	407,145	393,344
D. Deductions from tier 1	-	-
E. Total TIER 1 (C-D)	407,145	393,344
F. Tier 2 before prudential filters	168,379	169,429
G. Tier 2 prudential filters:	(2,205)	(711)
G.1 Positive IAS/IFRS prudential filters	-	-
G.2 Negative IAS/IFRS prudential filters	(2,205)	(711)
H. Tier 2 after prudential filters (F+G)	166,174	168,718
I. Deductions from tier 2	-	-
L. Total TIER 2 (H+I)	166,174	168,718
M. Deductions from tier 1 and tier 2	-	-
N. Total capital (E+L+M)	573.319	562.062
O TIER 3	-	-
P. Total capital + TIER 3 (N+O)	573,319	562,062

B. Quantitative information
2.3 Capital adequacy

A. Qualitative Information

Capital adequacy assessment is aimed at identifying the amount of free capital, i.e. the portion of capital that is not absorbed by credit risk (solvency ratio), market risk (trading book risk, currency risk and concentration risk) and operational risk.
At December 31, 2010, Mediolanum Banking Group's free capital amounted to €250.38 million. Tier 1 capital ratio (core capital/RWA) was 10.09% and total capital ratio (regulatory capital/RWA) was 14.20%, above the minimum requirement of 8%.

	Not weighted		Weighted/requirements	
€/'000	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
A. Risk assets				
A.1 Credit risk & counterparty risk	12,472,692	8,114,913	2,869,295	2,645,716
1. Standardised approach	12,472,692	8,114,913	2,869,295	2,645,716
2. Internal ratings based approach	-	-	-	-
2.1 Foundation IRB approach	-	-	-	-
2.2 Advanced IRB approach	-	-	-	-
3. Securitisations	-	-	-	-
B. Regulatory capital requirements				
B.1 Credit risk & counterparty risk	-	-	229,544	211,657
B.2 Market risk	-	-	26,447	34,829
1. Standardised approach	-	-	23,438	34,829
2. Internal models	-	-	-	-
3. Concentration risk	-	-	3,009	-
B.3 Operational risk	-	-	69,413	65,295
1. Foundation approach	-	-	3,550	3,582
2. Standardised approach	-	-	65,863	61,713
3. Advanced approach	-	-	-	-
B.4 Other prudential requirements	-	-	-	-
B.5 Other computational elements*	-	-	(2,468)	(2,303)
B.6 Total prudential requirements	-	-	322,936	309,478
C. RWA & capital ratios				
C.1 Risk weighted assets (RWA)**	-	-	4,036,695	3,868,479
C.2 Tier 1 (core) capital/RWA (Tier 1 capital ratio)	-	-	10.09%	10.17%
C.3 Regulatory capital including TIER 3/RWA (Total capital ratio)	-	-	14.20%	14.53%

(*) B.5 shows the adjustment to regulatory requirements for intercompany transactions
(**) RWA are determined by multiplying total prudential requirements (B.6) by 12.5 (reciprocal of the min. coefficient equal to 8%)

B. Quantitative information
PART G – BUSINESS COMBINATIONS

SECTION 1 - TRANSACTIONS CONCLUDED DURING THE YEAR

In 2010 there were no transactions requiring disclosure under IFRS 3.

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

Related party transactions as of December 31, 2010.

€/'000	Directors, Statutory Auditors, Deputy/ General Managers	Other key managers
Emoluments & social security contributions	4,668	793
Non-cash benefits	68	-
Share-based awards (stock options)	26	-

1. Key management compensation
2. Information on related party transactions

€/'000	Associates	Other related parties
Loans to banks	35	112
Loans to customers	23,057	37,217
Other assets	249,465	73,732
Due to banks	(464)	(28)
Due to customers	(234)	(1,071,186)
Other liabilities	(3,415)	(4,289)
Guarantees issued	(8,078)	(1,554)

Balance Sheet

€/'000	Associates	Other related parties
Commission income (expenses)	(3,362)	127,909
Interest income (expenses)	9,561	(5,834)
Administrative expenses	(27)	(26,075)
Key personnel	16	1,725
Other income (expense)	1,701	8,980
Services provided and other costs	(3,137)	(368)

Income Statement
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 26, 2005, 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 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 could be implemented on multiple occasions and in different years.
The stock options granted to employees would 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 was subject to the satisfaction of the Vesting Conditions 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 were 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 were to be made in full on a single occasion in the first five business days of each of the sixty calendar months subsequent to the Vesting Date.

The stock options granted to directors and contract workers would 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, respectively. The exercise of the Options granted to Directors and Contract Workers was subject to the satisfaction of at least one of the following conditions:
(i) that on the Vesting Date the closing price of Mediolanum S.p.A. ordinary shares be not lower than the closing 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 "Relevant Period") be not lower than the arithmetic mean of the changes recorded in the Relevant 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 Relevant Period; the adjusted mean change in the Indices would 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 were 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 were to be made in full on a single occasion in the first five business days of each of the sixty calendar months subsequent to the Vesting Date.

At the Extraordinary General Meeting of Mediolanum S.p.A held on April 23, 2009, the shareholders resolved to extend assessment of the satisfaction of vesting conditions over the entire exercise period i.e. the period spanning from the Vesting Date to 60 months thereafter. The shareholders also resolved to revoke the authority to increase share capital for a consideration through the issue of shares to be allotted to the employees and directors of the Company and its subsidiaries, conferred upon the Board of Directors by the shareholders at the General Meetings of April 26, 2005 and April 19, 2007, and partly executed, and to amend article 6 of the Bylaws accordingly.
As to the Director Stock Option Plan, at its Meeting of May 13, 2009, the Board of Directors of Mediolanum S.p.A. approved the reduction of the vesting period from 36 to 24 months and the extension of the exercise period from 12 to 60 months.
At the same meeting, the Board of Directors of Mediolanum S.p.A. also resolved to increase share capital for a consideration by €60,613.50 by issuing shares to be subscribed by the contract workers of the Company and its subsidiaries in the first five business days of each of the 60 calendar months subsequent to the expiration of three years from May 13, 2009 and to amend article 6 of the Bylaws accordingly.
Finally, at its May 13, 2009 meeting, the Board of Directors of Mediolanum S.p.A. resolved to effect the share capital increases under article 2443 of the Italian Civil Code to serve the Contract Worker Stock Option Plan and allot 606,135 rights to the contract workers of the Company and its subsidiaries. The rights are exercisable from the 1st trading day of May 2012 and not later that the 5th trading day of May, 2017 at a price of €1.022.

On March 9, 2010, after consulting with the Compensation Committee, the Board of Directors of Mediolanum S.p.A. approved the guidelines for the Stock Options Plan reserved to the directors and executives of the Company and its subsidiaries ('Top Management Plan 2010') as well as the guidelines for the Stock Options Plan for contract workers - i.e. the members of the sales network – of the Company and its subsidiary ('Sales Network Plan 2010'), collectively the 'Plans'. The Plans were submitted to the Extraordinary General Meeting of April 27, 2010 for approval.

Pursuant to section 84-bis, paragraph 3 of the Regulation for Issuers, readers are informed that:

- The Top Management Plan 2010 is the stock options plan reserved to the directors and other key management of the Company and/or its subsidiaries. The Sales Network Plan 2010 is the stock options plan reserved to the financial advisors working for the Company and its subsidiaries, as may be selected from time to time for their individual role and contribution to business growth.
- The Plans entail annual awards of rights to subscribe to newly issued ordinary shares of the Company (the 'Stock Options'). The implementation of the Plan entails two new rights issues reserved to each of the two categories of Beneficiaries, pursuant to art. 2441, paragraph five, of the Italian Civil Code, as resolved by the Board of Directors under the authority delegated to it by the General Meeting, pursuant to art. 2443 of the Italian Civil Code. The Stock Options under the Top Management Plan 2010 shall vest over a period of three to five years of the Grant Date and be exercisable for a period of three years after the date of vesting. The Stock Options under the Sales Network Plan 2010 shall vest over a period of five to ten years of the Grant Date and be exercisable for a period of three years after the date of vesting.

The exercise of the Stock Options under the Plans is conditional upon the achievement of specific corporate and/or individual performance targets. The details of the Plans shall be laid down by the Board of Directors after consultation with the competent bodies of the Company and its subsidiaries.

- The Plans are designed to provide incentives to the Beneficiaries and at the same time promote value creation and growth for the Company and, accordingly, its shareholders. The Top Management Plan 2010 is believed to be an adequate scheme to link key management incentives to both medium-term performance of the Company/Group and individual performance, align goals and maximise the creation of value for the shareholders. The Sales Network Plan 2010 is an adequate scheme to link sales network incentives to both medium-term performance of the Company/Group and individual performance, align goals and maximise the creation of value for the shareholders. Considering the length of the vesting period, the Sales Network Plan 2010 is also a powerful way to enhance the sales network loyalty.

On July 8, 2010, after consulting with the Compensation Committee, by virtue of the authorities delegated to it by the Ordinary and Extraordinary General Meetings of April 27, 2010, the Board of Directors of Mediolanum S.p.A. resolved to:

- approve the Rules for the Stock Options Plan reserved to the Directors and Executives of the company and the Group ('Top Management Plan 2010') and the Rules for the Stock Options Plan for the Sales Network of the company and the Group ('Sales Network Plan 2010');
- increase the Company's share capital up to €160,000.00, for a consideration, by issuing up to 1,600,000 shares for the allotment of stock options under the Top Management Plan 2010;
- increase the Company's share capital up to €131,744.20, for a consideration, by issuing up to 1,317,442 shares for the allotment of stock options under the Sales Network Plan 2010;
- grant the beneficiaries – 19 under the Top Management Plan and 193 under the Sales Network Plan – part of the stock options under the Plans.

2. Fair value measurement of stock options

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 top management, 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 2010, 838,381 stock options granted in 2006-2007 were exercised for a total of 838,381 shares. The year's movements in option holdings are set out in the table below.

	Total Dec. 31, 2010			Total Dec. 31, 2009		
€/'000	Number of options	Average exercise price	Average expiration	Number of options	Average exercise price	Average expiration
A. Opening balance	4,897,785	3.05851	feb-15	5,500,286	3.19533	aug-13
B. Increases	2,285,942	-	-	695,885	-	-
B.1 New issues	2,285,942	1.12900	dec-19	606,135	1.02200	may-17
B.2 Other	-	-	x	89,750	6	x
C. Decreases	(945,034)	-	-	(1,298,386)	-	-
C.1 Cancelled	(54,006)	4.66195	x	(87,000)	5.61968	x
C.2 Exercised (*)	(838,381)	1.27997	x	(599,770)	1.23328	x
C.3 Lapsed	(52,647)	1.11800	x	(448,316)	5.07328	x
C.4 Other	-	-	x	163,300	1	x
D. Closing balance	6,238,693	3.004817	nov-16	4,897,785	3.05851	feb-15
E. Options exercisable at year end	1,792,004	6.07670	x	1,143,477	5.38157	x

(*) Average market price per share on the exercise date was €3,25.

The table below shows movements in option holdings in the year as per Bank of Italy's Circular Letter 262/2005.

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 €1,555 thousand and entailed a corresponding increase in equity reserves (Dec. 31, 2009: €2,629 thousand).

PART L – SEGMENTAL INFORMATION

This section presents consolidated financial data reported by operating segment. In compliance with IFRS 8, segment reporting reflects the management reporting approach of the Mediolanum Banking Group, and is consistent with the information disclosed to the market and to the various stakeholders.
Segment reporting of consolidated financial data for the period enables readers and users to assess the quality and sustainability over time of the financial results generated by the Mediolanum Banking Group in its different operating segments.

Note on the method applied to segment reporting

Pursuant to IFRS 8, for the purpose of segment reporting of consolidated results the Mediolanum Banking Group identified the following operating segments:

- ITALY – BANKING
- ITALY – ASSET MANAGEMENT
- SPAIN
- GERMANY

For the purpose of segment reporting, income and expense items were directly assigned to the specific operating segment by product. Indirect costs and other residual items were spread over the various segments applying allocation policies.

Basiglio, March 23, 2011

For the Board of Directors
The Chief Executive Officer and General Manager
Massimo Antonio Doris

CONSOLIDATED INCOME STATEMENT & BALANCE SHEET BY OPERATING SEGMENT AT DEC. 31, 2010

	ITALY				
€/'000	Life	Banking	Asset Man.	Other	Totale
Life revenues ex-commission	-	-	-	-	-
Entry fees	-	-	112,615	-	112,615
Management fees	-	-	304,677	-	304,677
Performance fees	-	-	146,927	-	146,927
Banking service fees	-	103,978	(3)	-	103,975
Other fees	-	6,957	129,193	-	136,150
Total commission income	-	110,935	693,409	-	804,344
Net interest income	-	120,199	1,245	-	121,444
Interest income and similar income	-	201,958	1,041	-	202,999
Interest expense and similar charges	-	(81,759)	204	-	(81,555)
Net income on investments at fair value	-	3,395	(9)	-	3,386
Net financial income	-	123,594	1,236	-	124,830
Equity method	-	-	-	-	-
Income from other investments	-	6,849	(25)	-	6,824
Net impairment of loans	-	(9,196)	(7,689)	-	(16,885)
Net impairment of other investments	-	(1,269)	7,607	-	6,338
Income from other investments	-	(3,616)	(107)	-	(3,723)
Other revenues	-	9,175	7,599	-	16,774
TOTAL REVENUES	-	240,088	702,137	-	942,225
Acquisition costs & other commission expenses	-	(51,538)	(321,804)	-	(373,342)
G&A expenses	-	(12,706)	(14,121)	-	(26,827)
Administrative expenses		(127,723)	(137,101)		(264,824)
Amortisation and depreciation	-	(7,039)	(4,197)	-	(11,236)
Provisions for risks and charges	-	(2,263)	(12,828)	-	(15,091)
TOTAL COSTS	-	(201,269)	(490,051)	-	(691,320)
PROFIT/ (LOSS) BY SEGMENT before tax	-	38,819	212,086	-	250,905
Income Tax	-	-	-	-	-
Minority interests	-	-	-	-	-
NET PROFIT / (LOSS)	-	-	-	-	-
Goodwill	-	-	53,487	-	53,487
Held to maturity investments, loans & receivables	-	3,236,262	-	-	3,236,262
Available for sale securities	-	1,797,611	34,685	-	1,832,296
Financial assets/liabilities at fair value throuch profit and loss	-	505,308	-	-	505,308
Treasury (funding) lending	-	1,018,683	(61,264)	-	957,419
- of which intercompany	-	*39,925*	*44,779*	-	*84,704*
Loans to customers	-	3,236,195	-	-	3,236,195
Bank funding	-	7,538,797	-	-	7,538,797
- of which intercompany	-	*44,782*	-	-	*44,782*

ABROAD			
Spain	Germany	Consolidation adjustments	Total
-	-	-	-
4,017	2,574	-	119,206
10,024	4,612	(28)	319,285
2,652	2,015	-	151,594
6,724	35,222	(6)	145,915
9,942	195	-	146,287
33,359	44,618	(34)	882,287
5,348	299	-	127,091
9,690	669	(429)	212,929
(4,342)	(370)	429	(85,838)
538	-	(1)	3,923
5,886	299	(1)	131,014
-	-	-	-
1,169	(2)	-	7,991
(1,666)	-	-	(18,551)
1,718	(7,400)	-	656
1,221	(7,402)	-	(9,904)
610	490	(55)	17,819
41,076	38,005	(90)	1,021,216
(15,647)	(4,345)	6	(393,328)
(3,031)	(29,875)	28	(59,705)
(25,561)	(13,275)	56	(303,604)
(1,735)	(957)	-	(13,928)
180	-	-	(14,911)
(45,794)	(48,452)	90	(785,476)
(4,718)	(10,447)	-	235,740
-	-	-	(37,540)
-	-	-	113,870
-	-	-	84,330
140,980	4,261	-	198,728
-	8,971	-	3,245,233
261,217	4,463	-	2,097,976
(164)	-	-	505,144
9,833	(48,745)	-	918,507
(35,618)	*(1,807)*	-	*47,279*
124,394	7,339	-	3,367,928
301,024	31,704	-	7,871,525
296	-	-	*45,078*

CONSOLIDATED INCOME STATEMENT & BALANCE SHEET BY OPERATING SEGMENT AT DEC. 31, 2009

	ITALY				
€/'000	Life	Banking	Asset Man.	Other	Total
Life revenues ex-commission	-	-	-	-	-
Entry fees	-	-	79,885	-	79,885
Management fees	-	-	222,781	-	222,781
Performance fees	-	-	151,609	-	151,609
Banking service fees	-	59,134	(4)	-	59,130
Other fees	-	5,368	135,236	-	140,604
Total commission income	-	64,502	589,507	-	654,009
Net interest income	-	139,357	1,161	-	140,518
Interest income and similar income	-	240,368	743	-	241,111
Interest expense and similar charges	-	(101,011)	418	-	(100,593)
Net income on investments at fair value	-	24,825	19	-	24,844
Net financial income	-	164,182	1,180	-	165,362
Equity method	-	-	-	-	-
Net realised gains on other investments	-	7,552	405	-	7,957
Net impairment of loans	-	(14,271)	631	-	(13,640)
Net impairment of other investments	-	(20,392)	(1,366)	-	(21,758)
Income from other investments	-	(27,111)	(330)	-	(27,441)
Other revenues	-	6,889	6,099	-	12,988
TOTAL REVENUES	-	208,462	596,456	-	804,918
Acquisition costs & other commission expenses	-	(34,555)	(292,216)	-	(326,771)
G&A expenses	-	(12,798)	(11,009)	-	(23,807)
Administrative expenses	-	(131,871)	(131,450)		(263,321)
Amortisation and depreciation	-	(10,494)	(5,013)	-	(15,507)
Provisions for risks and charges	-	(771)	(5,946)	-	(6,717)
TOTAL COSTS	-	(190,489)	(445,634)	-	(636,123)
PROFIT/ (LOSS) BY SEGMENT before tax	-	17,973	150,822	-	168,795
Income Tax	-	-	-	-	-
Minority interests	-	-	-	-	-
NET PROFIT / (LOSS)	-	-	-	-	-
Goodwill	-	-	53,073	-	53,073
Held to maturity investments, loans & receivables	-	2,084,717	-	-	2,084,717
Available for sale securities	-	825,802	20,618	-	846,420
Financial assets/liabilities at fair value throuch profit and loss	-	583,486	-	-	583,486
Treasury (funding) lending	-	309,485	(54,653)	-	254,832
- of which intercompany	-	*17,543*	*38,704*	-	*56,247*
Loans to customers	-	3,051,038	-	-	3,051,038
Bank funding	-	6,016,043	-	-	6,016,043
- of which intercompany	-	*38,329*	-	-	*38,329*

ABROAD			
Spain	Germany	Consolidation adjustments	Total
-	-	-	-
2,355	1,403	-	83,643
8,985	3,626	(219)	235,173
2,778	479	-	154,866
5,243	26,407	(5)	90,775
8,999	252	-	149,855
28,360	32,167	(224)	714,312
7,070	614	-	148,202
12,082	985	(1,380)	252,798
(5,012)	(371)	1,380	(104,596)
25	52	-	24,921
7,095	666	-	173,123
-	-	-	-
626	(315)	-	8,268
(1,852)	-	-	(15,492)
1,771	-	-	(19,987)
545	(315)	-	(27,211)
806	504	(78)	14,220
36,806	33,022	(302)	874,444
(13,261)	(3,266)	5	(343,293)
(1,474)	(22,397)	219	(47,459)
(27,734)	(12,677)	78	(303,654)
(1,458)	(1,152)	-	(18,117)
(503)	-	-	(7,220)
(44,430)	(39,492)	302	(719,743)
(7,624)	(6,470)	-	154,701
-	-	-	(13,126)
-	-	-	98,789
-	-	-	42,786
140,980	11,661	-	205,714
-	9,008	-	2,093,725
193,148	-	-	1,039,568
383	-	-	583,869
(91,556)	(42,583)	-	120,693
(11,813)	*(5,730)*	-	*38,704*
130,155	4,537	-	3,185,730
332,997	16,995	-	6,366,035
248	-	-	38,577

Report of the Board of Statutory Auditors

Report of the Board of Statutory Auditors on the Consolidated Financial Statements for the year ended December 31, 2010

Dear Shareholder,

In addition to the separate financial statements for the year ended December 31, 2010, also the consolidated financial statements of the Mediolanum Banking Group for the year ended December 31, 2010 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 section 64 of the Consolidated Banking Act.

Basis of preparation

The consolidated 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 No. 262 of December 22, 2005, as amended on November 18, 2009, pursuant to Legislative Decree No. 38 of February 28, 2005.
The consolidated financial statements consist of the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Shareholders' Equity, the Statement of Cash Flows, the Explanatory Notes in addition to the Directors' Report.
The consolidated financial statements show net profit attributable to the Banking Group of €84,330 thousand and net profit attributable to minority interests of €113,870.00 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.

Audit of the accounts, the notes and the Directors' Report

Reconta Ernst & Young S.p.A are the independent auditors responsible for auditing the Banca Mediolanum S.p.A consolidated financial statements for the year ended December 31, 2010. Upon completion of their audit work, on the basis of the information obtained during meetings and talks, the independent auditors will issue their independent auditors' report without any remarks (unqualified opinion).
On the basis of the results of our work and in consideration of the foregoing, we express our favourable opinion on the approval of the financial statements and schedules attached thereto.

Milan, April 4, 2011

The Board of Statutory Auditors
(Arnaldo Mauri – Chairman)
(Adriano Alberto Angeli – Standing Auditor)
(Marco Giuliani – Standing Auditor)

Independent Auditors' Report

ERNST & YOUNG

Reconta Ernst & Young S.p.A.
Via della Chiusa, 2
20123 Milano

Tel. (+39) 02 722121
Fax (+39) 02 72212037
www.ey.com

Independent auditors' report
pursuant to Article 14 and 16 of Legislative Decree No. 39 dated January 27, 2010
(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 (the "Banca Mediolanum Group") as of and for the year ended December 31, 2010, comprising the balance sheet, the statements of income, comprehensive income, changes in shareholders' equity and cash flows and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree No. 38/2005 is 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.

2. Our audit was performed 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.

   The consolidated financial statements of the prior year are presented for comparative purposes. As reported in the explanatory notes, management has restated certain comparative data related to the prior year with respect to the data previously presented, on which we issued our auditor's report dated April 2, 2010. We have examined the methods adopted to restate the comparative financial data and the information presented in the explanatory notes in this respect, for the purpose of our opinion as of and for the year ended December 31, 2010.

3. In our opinion, the consolidated financial statements of Banca Mediolanum Group at December 31, 2010 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree No. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of Banca Mediolanum Group for the year then ended.

4. The management of Banca Mediolanum S.p.A. is responsible for the preparation of the Directors' Report in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the Directors' Report with the financial statements, as required by the law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the Directors' Report is consistent with the consolidated financial statements of Banca Mediolanum Group as of December 31, 2010.

Milan, March 28, 2011

Reconta Ernst & Young S.p.A.
signed by: Stefano Cattaneo, partner

This report has been translated into the English language solely for the convenience of international readers.