BANCA
MEDIOLANUM S.p.A.

ANNUAL REPORT AND ACCOUNTS 2011

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 2011

Registered office: Meucci Building Via F. Sforza – Basiglio – Milano Tre (Milan)
Share Capital: €475,000,000.00 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
Giovanni Pirovano	Executive Deputy Chairman
Massimo Antonio Doris	Chief Executive Officer and General Manager
Bruno Bianchi	Director
Maurizio Carfagna	Director
Luigi Del Fabbro	Director
Paolo Gualtieri	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

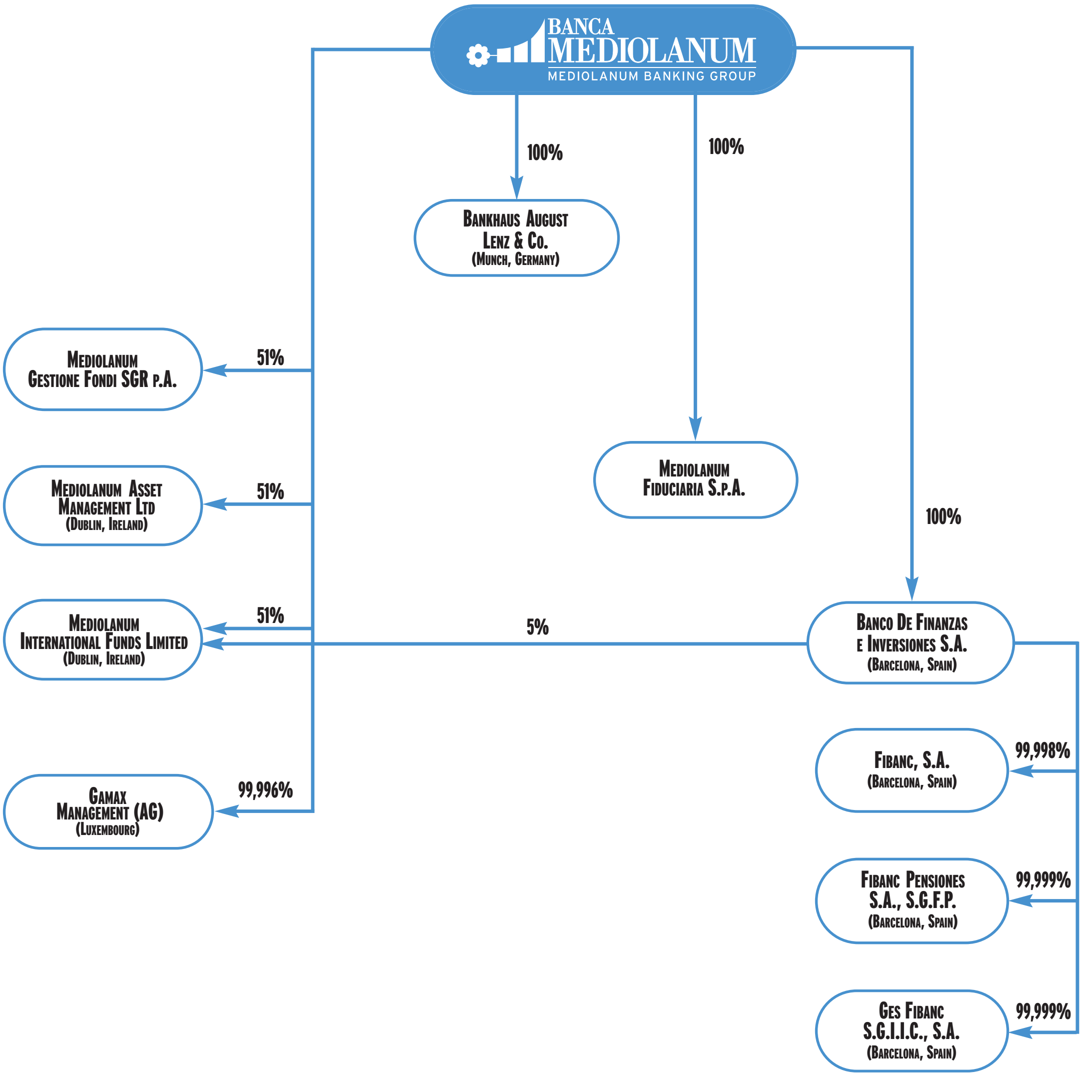
Luca Maria Rovere

Independent auditors

Deloitte & Touche S.p.A.

Group structure

As at December 31, 2011



Financial Highlights

€/m	Dec. 31, 2011	Dec. 31, 2010	change %
Assets under management & administration	37,867.2	37,513.6	1%
Net inflows	2,280.0	3,284.7	-31%
Total Balance Sheet Assets	14,337.8	11,138.7	29%
Loans to customers (lending)	4,067.3	4,147.7	-2%
of which lending ex-L&R securities	3,312.9	3,264.7	1%
Amounts due to customers/Securities issued (funding)	7,870.6	7,545.6	4%
of which Cassa Compensazione e Garanzia	707.2	1,254.2	-44%
Profit before tax	-2.6	63.1	ns
Tax	18.7	3.2	ns
Net Profit	16.1	66.3	-76%
Tier 1 Capital Ratio	16.1%	17.9%	-10%

number	Dec. 31, 2011	Dec. 31, 2010	change %
Licensed Financial Advisors	4,507	4,772	-6%
Employees	1,529	1,495	2%
Bank accounts	627,365	568,328	10%

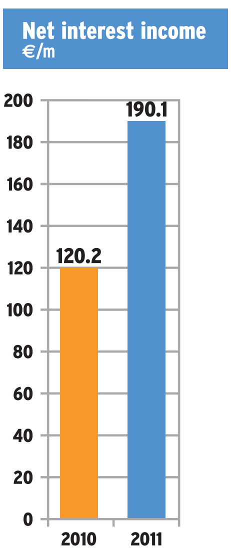
Separate Annual Financial Statements 2011

Directors' Report

Dear Shareholder,

For the year ended December 31, 2011, Your Bank reported net profit of €16.1 million versus €66.3 million in the prior year.
In the year under review, net interest income fared extremely well, rising €69.9 million to €190.1 million from €120.2 million in 2010, driven by both higher interest rate levels and assets growth.
Results were, however, impacted by impairment (net impairment/reversal down €80.2 million) largely of Greek sovereign debt holdings (€81.3 million), and net income from trading coming in negative versus a positive balance in the prior year (down €32.8 million). The decrease in net income from trading mostly reflects temporary declines in the value of financial instruments at fair value, principally Italian and Spanish treasuries, that led to unrealised losses (- €28.1 million), which are not expected to materialise as a default of these two countries is highly unlikely.
Other movements that impacted the accounts were the decline in net commission income (down €7.4 million) mainly driven by reduced fees on sales of third-party structured bonds, and the increase in operating expenses (up €9.1 million).
Income tax for the year was a positive balance of €18.7 million versus €3.2 million in the prior year.

Total net inflows (managed assets and administered assets) amounted to €2,280 million versus €3,284.7 million in the prior year when there had been exceptional growth.
The policy associated with the *Freedom* bank account recorded net outflows of €521.5 million versus net inflows of €453.5 million at December 31, 2010.
Third-party structured bonds contributed €141.5 million net inflows versus €855.3 million in 2010. Inflows into other asset management products amounted to €590.3 million versus €1,273.5 at the end of the prior year. Total net inflows into asset management products and sales of third-party structured bonds aggregated to €731.8 million versus €2,128.7 million in 2010.



At year end 2011, the bank had 1,066,423 customers versus 1,076,549 in the prior year.
At December 31, 2011, total balance sheet assets amounted to €14,337.8 million, up €3,199.1 million over the prior year.
Customer deposits grew from €6,291.4 million at year end 2010 to €7,163.4 million at December 31, 2011.
Lending to customers, excluding securities, amounted to €3,312.9 million versus €3,264.7 million at December 31, 2010.
Net interest income amounted to €190.1 million, growing 58.1% from €120.2 million at year end 2010. The €69.9 million increase over the prior year reflects bigger interest spreads as well as asset growth.
Adding net income from trading, net income from hedging and net gains/losses on the sale of available-for-sale financial assets, net financial income came in at €164.3 million versus €127.9 million in the prior year. Although increasing by €36.4 million, net financial income was impacted by unrealised losses (€35.1 million) on financial instruments

at fair value, partly offset by trading and exchange gains. These unrealised losses resulted from declines in the market price of securities that were caused by market tensions generated by worries about the Euro zone sovereign debt crisis.
Net commission income declined by €7.4 million from €112.6 million in 2010 to €105.1 million at the end of the year under review.
Specifically, for the year ended December 31, 2011, commission income amounted to €379.0 million versus €408.7 million in the prior year. The 7.3% decline over the prior year was mainly driven by the decrease in fees on sales of third-party structured bonds.
Commission expenses amounted to €273.8 million versus €296.1 million in the prior year. The 7.5% decrease over the prior year was due to reduced expenses for contests and bonuses paid to the sales network for their asset gathering activities which generated positive results yet inferior to those recorded in the prior year.
Dividends decreased from €127.2 million in the prior year to €124.5 million at the end of the year under review, largely owing to the lower dividend distributed by the subsidiary Gamax Management (down €10.5 million), offset, in part, by the greater dividends received from the Irish companies (up €1.9 million) and the Italian subsidiary Mediolanum Gestione Fondi (up €5.7 million).
Net impairment aggregated to €90.6 million versus €10.5 million in the prior year. This largely reflects the €81.3 million impairment of Greek government bonds, as well as the €3 million reversed impairment on loans.
Operating expenses amounted to €289.6 million versus €280.5 million at year end 2010.
Specifically, other administrative expenses amounted to €156.7 million versus €152.2 million in the prior year. The €4.5 million increase mainly reflects the increases in nonrecurring expenses relating to the convention held on May 1-2, 2011 in Rimini and other sales network events (up €2.4 million), promotional and advertising expenses (up €2.2 million), and the declines in expenses for sales network training and advice (down €1.8 million), television and internet communications (down €2.3 million). Expenses for IT systems increased (up €1.5 million) while asset depreciation declined (down €2.4 million) following outsourcing of technology infrastructure management services.
Staff costs amounted to €100.3 million versus €98.4 million in 2010. The bank headcount increased from 1,564 employees at the end of the prior year to 1,606 employees at December 31, 2011.
Other net income was down €5.5 million, mainly reflecting increased expenses for settlements (up €2.1 million) and reduced income from services rendered to other companies within the Mediolanum Group (down €1.2 million).

The macroeconomic environment

In its recent World Economic Outlook Update published on January 24, 2012, the International Monetary Fund (IMF) indicated that in 2011 global economic growth slowed down to 3.8% from 5.2% in 2010. In the US and in the Euro zone growth moderated from 3% to 1.8% and from 1.9% to 1.6%, respectively. In 2011, GDP grew by a meagre 0.4% and 0.7% in Italy and Spain, respectively, and in the UK by 0.9%, a much moderate pace than the 2.1% growth rate recorded in the prior year.
Sluggish growth in the Euro zone had been reflected in the readings of the Purchasing Managers Index (PMI), that since September had signalled a slow down, suggesting that recovery might not be sustainable in the manufacturing industry. Conversely, recent surveys and statistics from the US seem to exclude the risk of a double dip in that country, in spite of the stall in residential investments and consumers continuing to cut down on their debts.
Unemployment is still a major concern and it weighs down on consumer confidence and demand for goods and services. While declining in the US from 9.4% in December 2010 to 8.5% in December 2011, the unemployment rate increased from 10% at year end 2010 to 10.4% at year end 2011 in the Euro zone.

Inflationary risk has been contained in the current cycle. In December, the CPI (annualised) rose by 2.7% in the Euro zone and by 3.0% in the US. Excluding food and energy, the CPI grew by 1.6% and 2.2%, respectively.
In April and July, 2011, the then President of the European Central Bank (ECB), Jean Claude Trichet, raised rates due to inflationary concerns. As inflationary pressures subsided, in November and December, Trichet's successor Mario Draghi cut the refinancing rate from 1.5% to 1%, bringing it back to early 2011 levels. During the year, the ECB intervened on multiple occasions with a variety of measures, including non standard facilities, to enhance the liquidity of markets and financial institutions.

Financial markets

In 2011, developments in the sovereign debt crisis of peripheral Euro zone economies affected the risk propensity of investors and the performance of market indices and currencies.
In Italy, the ever higher yields asked by investors to buy Italian government bonds prompted the new cabinet led by Professor Monti to adopt severe fiscal measures.
2011 has been a tale of two halves for financial markets. In the first half, financial market performance was moderately positive against a backdrop of slowing global growth. The S&P 500 was up 4.99%, the German DAX rose 6.7% and the FTSE Italia All Share index was essentially unchanged.
Yields moved sideways on the long end of the curve with yields on the 10-year German Bund starting the year at 2.92% and reaching 3.03% at the end of the first half of 2011, yields on the 10-year Italian BTP began the year at 4.72% and reached 4.88% at the end of the first half of 2011. On the short end of the curve interest rates rose: 3-month EURIBOR moved from 1% to 1.55%.
Political changes in North Africa culminating in the Libyan crisis drove oil prices up to levels unseen since 2008. Worried about ensuing inflationary pressures the European Central Bank (ECB) began to send out signals that a change in its monetary policy might be in the offing. In fact, in April and July 2011, the ECB raised rates from 1% to 1.5%. Meanwhile, the Euro zone sovereign debt crisis was taking its toll as European authorities were unable to reach an agreement on the instruments to deploy to avoid contagion in peripheral countries. After Greece and Ireland, in May, Portugal too was forced to request aid from the EU and the International Monetary Fund (IMF) that provided a €78 billion bailout package.
However, up until the end of the first half of 2011, Italy was only marginally touched by market turbulence and the yield spread between 10-year Italian treasuries and the German Bund which at the beginning of the year stood at 180 bps was just slightly up to 185 bps at June 30, 2011.
Beginning from early July, Italy became the epicentre of speculative attacks due to its high debt and as early as mid-July the BTP-Bund yield spread topped 300 bps. European leaders moved to tackle the Greek crisis and at the European Council of July 21, 2011, EU Heads of State and Government agreed on the first plan for Greece including the private sector involvement (PSI) – which would later fail – to bring the country back to sustainable fiscal conditions.
In early August the crisis became acute with the BTP-Bund yield spread topping 410 bps in intraday trades. This prompted the ECB to resume its securities markets programme (SMP) and extend it to also to Italian and Spanish government bonds. The effectiveness of this ECB intervention, however, soon proved to be ephemeral as after a brief recovery the BTP-Bund yield spread remained anchored just below the 400 bps mark. The BTP-Bund yield spread was also hit by the unexpected S&P downgrade of Italy's debt rating by one notch to A from A+ with a negative outlook.
Against this backdrop of extreme turbulence came the decision of the European Banking Authority (EBA) to require

the 70 major European banks to build up a capital buffer such that the Core Tier 1 capital ratio would reach at least 9% by the end of June 2012, after marking to market also their sovereign debt holdings at September 30, 2011. To meet the EBA requirement banks have two avenues: raise capital or sell their assets, none of which is easily feasible in the current tense market environment.
November 9, 2011 was the most dramatic day with the BTP-Bund yield spread hitting its highest level ever of 575 bps in intraday trades to close at 552 bps, the 10-year BTP yield coming close to 8% and closing at 7.25%, and 1-year Italian treasury notes at 10%.
The financial tensions led to the formation later that month of a technocratic government in Italy with the main goal of delivering on the commitments made at European level at the end of October.
In the meantime, the sovereign debt crisis evolved into a liquidity crisis. Banks, especially Italian and Spanish credit institutions laden with domestic government bonds and faced with a dysfunctional interbank market, saw their stock price fall dramatically and yields on bank bonds rise to higher levels. The passing of the baton at the helm of the ECB from Trichet to Mario Draghi (who has been also Chairman of the Financial Stability Board) brought about a policy change. Draghi immediately cut interest rates from 1.5% to 1% and later announced unprecedented measures to support the liquidity of banks, two Long-Term Refinancing Operations (LTROs) with a maturity of 3 years and the option of early repayment after one year. The first LTRO took place as early as December 2011 providing significant support to banks (€489 billion).
Almost at the same time, at the meeting of the European Council EU heads of state and government agreed on two other key measures: a fiscal compact, the first step toward the fiscal union, and a second bailout plan for Greece amounting to €130 billion, with a second PSI.
All these measures immediately had positive effects only on the short end of the curve, as investors remained cautious and continued to downsize their securities portfolios or at least did not expand them as year end closing was drawing near.
So, at the end of 2011, the yield on the 10-year BTP was 7.10% and the BTP-Bund yield spread stood at 528 bps, but at least the yield on 1-year Italian notes was close to 4%.
At December 31, 2011 wholesale funding amounted to €5,128 million (€2,193 at year end 2010) of which €4,400 million in repurchase agreements with the ECB (€1,400 million at year end 2010).

At year end 2011, global equity markets had shed 4.98% (MSCI World in US dollars). In the US, the S&P500 remained essentially flat while the Nasdaq Composite was marginally down (1.80%). In Europe, the German (DAX down 14.69%), French (CAC40 down 16.95%), Spanish (IBEX down 13.11%), Italian (FTSEMIB down 25.20%) and UK (FTSE down 5.55%) stock markets posted significant losses. Emerging Markets underperformed other world stock markets (MSCI EM in US dollars down 18%). Stock market indices were driven south by financials and cyclical stocks (industrials, technologies, commodities).
Due to the crisis the Euro weakened against all major currencies moving from 1.34 at the beginning of the year to 1.30 at year end against the US dollar, from 0.86 to 0.83 against the UK sterling; from 108.5 to 99.7 against the Japanese yen, and from 1.25 to 1.22 against the Swiss franc.
The price of gold benefitted from demand from emerging markets and financial instability confirming gold as the classic hedge against risk. On November 6, 2011, the price of gold reached its all-time high at US$1,921.15 per ounce, moving from US$1,420.78 at the beginning of the year to US$1,563.70 on December 31, 2011, which is a 10% movement.

The reference market

At year end 2011, the financial assets of households amounted to about €3,525 billion, down 3% over the prior year. Specifically, bank accounts and deposits were marginally up 0.6% accounting for 31.5% of total financial assets of households; holdings in life insurance, pension funds and severance funds shrank 13.2%, with a weight of 19% (21.2% in 2010); holdings in mutual funds were up 3.4% and accounted for 10.7% of total financial assets of households. Holdings in equities were down 1.2% with a weight of 6%. Holdings in government and corporate bonds declined too, namely by 0.8%, accounting for 21% (20.6% in the prior year) of total financial assets of households.
In 2011, funding inflows into Italian banks were sluggish yet still positive. Specifically, at year end 2011, inflows into euro-denominated current accounts, notice/term deposits, repurchase agreements and bonds amounted to €2,214 billion, up 1.3% versus 3.3% at the end of December 2010. The analysis of the various components shows customer deposits shrank 2.8% (up 6.6% at the end of December 2010) while bank bonds grew 8.4% (down 1.6% at year end 2010).
In 2011, bank lending had an acceleration in the first part of the year and then slowed down due to the worsening of the real economy. At year end, loans to companies and individuals domiciled in Italy grew 1.8%. Loans to companies and individuals aggregated to €1,712.1 billion. Specifically, loans to households and non-financial companies amounted to €1,512.1 billion, up 3.6%. Maturity analysis shows that medium/long-term loans grew by 3% and short-term loans by 5.4%.
Credit facilities to households slowed down as they were up 4.3% versus 7.7% at year end 2010. Consumer credit held up growing by about 2.1% in the year under review. Home loans slowed down too as they were up 4.4% versus 8.3% at year end 2010.
Interest on bank deposits marginally increased from 0.69% at year end 2010 to 1.8% at year end 2011. Average bond yield was 3.37% and interest on repurchase agreements rose to 2.77%. At the end of December 2011, average interest on bank deposits, repurchase agreements and bonds was 1.99%. Interest on loans to businesses and households also increased. At year end 2011, interest on active bank accounts of households was 5.56%, while interest on mortgage loans amounted to 3.99%. The average spread between lending and funding interest rates was stable at 2.17% versus 2.16% in 2010.
At year end 2011, gross non-performing loans rose to over €107 billion and the ratio of gross non-performing loans to total loans was 5.44%. Net non-performing loans amounted to €60.4 billion and the ratio of net non-performing loans to total loans was 3.14% (vs. 2.43% at December 2010). At year end 2011, securities in custody with Italian banks (either actively managed or held by customers) amounted to €1,561.5 billion (up more than €25 billion over the prior year), of which 47% held directly by consumer households.
At December 2011, the securities portfolio of Italian banks aggregated to €665 billion rising by 20% over the prior year.

Customers

At year end 2011, the number of customers – either bank account holders or investors in financial/insurance products sold by Banca Mediolanum – was 1,066,423 versus 1,076,549 at year end 2010. 885,615 of these customers were primary account holders.
At December 31, 2011, the number of bank accounts was 627,365 (568,328 at year end 2010) corresponding to 783,762 account holders.

The number of credit card and debit card holders grew over the prior, namely from 176,216 at year 2010 to 179,226 at year end 2011, and from 451,369 at year end 2010 to 456,126 at year 2011, respectively. This confirms increasing usage of bank accounts.

Freedom bank account

In 2011, about 30,000 new *Freedom* bank accounts were opened, accounting for 22% of all new bank accounts opened in the year. *Freedom* assets amounted to €6.15 billion of which €4.5 billion invested in the *Mediolanum Plus* policy. At year end, however, the *Freedom* bank account recorded net outflows largely due to the greater appeal of *InMediolanum,* the new deposit account launched in May 2011, that yields higher interest.

At year 2011, there were about 175,000 *Freedom* primary account holders.

InMediolanum deposit account

The *InMediolanum* deposit account was launched at the Banca Mediolanum Big Event held in Rimini on May 1-2, 2011, attended by financial analysts, the media and, for the first time, also by customers. *InMediolanum* is a deposit account that can be opened online via the dedicated website as well as at Family Banker Offices. It bears no cost for customers and gives them the opportunity to earn attractive yields, namely, at December 31, 2011, 2.6%, 3.15% and 3.75% before tax on 3-month, 6-month and 12-month deposits, respectively. New customers as well as existing Mediolanum customers who bring new funds into their deposit accounts are rewarded with a promotional interest rate of 4.25% if they choose to lock up their money in these accounts for 12 months. Existing Mediolanum customers can choose this new product or sign up to another new product, *InMediolanum Plus*, which consists of repurchase agreements yielding slightly higher net interest than *InMediolanum.*
The new customers who opened an *InMediolanum* deposit account in 2011 were 17,780 generating net inflows for the year of €459 million. 59% of those accounts were opened through Family Bankers.
Existing Mediolanum customers who opened the new deposit account or signed up to *InMediolanum Plus* repurchase agreements were 57,105 for a total balance of €1,248 million, of which 54% consisted of new funds. In the seven months since launch net inflows into these products totalled about €1,130 million.

Assets under management and under administration

For financial year 2011, total net inflows amounted to €2,280 million versus €3,284.7 million in the prior year.
The *Mediolanum Plus* policy associated with the *Freedom* bank account recorded net outflows of €521.5 million versus net inflows of €453.5 million at December 31, 2010.
Third-party structured bonds contributed €141.5 million net inflows versus €855.3 million in 2010. Inflows into other asset management products amounted to €590.3 million versus €1,273.5 at the end of the prior year. Total net inflows into asset management products and sales of third-party structured bonds aggregated to €731.8 million versus €2,128.7 million in 2010. Administered assets recorded net inflows of €2,069.6 million versus €702.5 million in the prior year. Although net inflows were down on 2010, in 2011 Banca Mediolanum confirmed itself again as market leader ranking first among domestic networks in terms of inflows.

At December 31, 2011, Banca Mediolanum's total assets under management and under administration amounted to €37,867.2 million, up about 1% from €37,513.6 million at the end of the prior year.

Funding

In 2011, funding from customers (bank accounts, deposit accounts, repurchase agreements and bonds) continued to be buoyant. The analysis of the various components shows inflows into bank accounts, deposit accounts and repurchase agreements rose 5.3% to €7,585 million at year end 2011 from €7,205.1 million in the prior year, and Banca Mediolanum notes declined to €285.6 million from €340.5 million at the end of 2010.

Lending

At the end of December 2011, loans to customers – private individuals and financial institutions other than banks – amounted to €4,067.3 million, down 1.9% on the prior year's balance of €4,147.7 million. Lending was well balanced and diversified by type of financing and by borrower category. Retail lending displayed notable growth with increases in personal loans (up 45%), residential loans (up 12%) and overdraft facilities (up 11%) which supported the real economy and consumers in these times of crisis. On the other hand, Loans and Receivables that were part of Treasury activities declined 15%, hot money transactions and syndicated loans to institutional counterparties were down 81%.
At December 31, 2011, residential loans amounted to €2,472.8 million versus €2,199.9 million in 2010, up 12% year on year, with growth picking up substantially in the last months of 2011. Like in prior years, we confirm again that Banca Mediolanum has no subprime mortgage loans in its portfolio and, in 2011, 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) around 54%, predominance of borrowers who are long-standing customers of the Bank, average size of loans below €114 thousand, residual maturity just above 20 years and customer base/properties largely in historically low-risk areas and in cities that have been less affected by the decline in housing prices in 2011.
Customers overdraft facilities amounted to €362.1 million, up 11% from the prior year's balance of €326.8 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 together with credit monitoring and collection management, mitigate the risk of losses.
Personal loans rose 45% over the prior year to €264.3 million at year end 2011. These are small-sized, short-maturity loans granted after careful analysis of the borrower's creditworthiness, financial position and earnings ability, and whose credit risk is further mitigated by the authorisation given by customers to sell other products they hold with the Mediolanum Group, if necessary, as with overdrafts.
Other forms of lending during the year under review were hot money facilities extended to Italian institutional customers, syndicated loans to primary companies that are directly or indirectly related to leading banking and insurance groups, and exposures to other companies. In the aggregate, these loans amounted to €59.8 million, down 81% 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 institutions regulated by the Bank of Italy and controlled by primary banks.

As to the quality of the loan portfolio, at year end 2011 net impaired loans (after write-downs) amounted to €38.7 million up about €2 million over the prior year's balance of €36.3 million. The 2011 year end balance includes the provision made in relation to the exposure to the Delta Group in the light of the evolution of its restructuring plan. The ratio of net impaired loans to total customer loans was 0.95% versus 0.87% in 2010. The credit risk expressed by this indicator is up to 6/7 times lower than the level recorded by other major credit institutions. The very high credit quality of the Bank's loan portfolio is the result, on the one hand, of portfolios being closely 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 and adequate credit risk mitigation techniques.

Further analysis of credit quality in relation to doubtful loans shows 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 asset valuation methods used by the individual financial institutions – shows that at December 31, 2011, that ratio for Banca Mediolanum was just above 0.5% (0.4% in 2010) versus 5.44% for the industry (4.01% in 2010; source ABI – Italian Bankers Association: Monthly Outlook, February 2012). For residential mortgage loans, that account for over 61% of total loans extended by Banca Mediolanum, the difference is even bigger: for payments that have been overdrawn/past due for 90 days or more, including watch list and nonperforming loans, at December 31, 2011 the ratio was 1.19% for Banca Mediolanum versus 5.09% for the industry (source Assofin: "Osservatorio Assofin sul credito Immobiliare erogato alle famiglie consumatrici – Rilevazione sulla rischiosità 9 mesi 2011 – Assofin Analysis of Residential Mortgage Loans – Measurement of Risk over 9 months in 2011").

Securities brokerage

2011 was hallmarked by elevated volatility resulting from the Euro zone sovereign debt crisis which involved Italy too. This entailed growth in brokered volumes and customers shifting to government bonds attracted by higher yields, especially in the last quarter of the year when around €350 million government bonds were bought. As to equities, the FTSEMIB was down 25%, with financials being hit particularly hard.

At year end 2011, the total value of assets held by Banca Mediolanum retail customers rose 21% to €3,149 million from €2,589 million at the end of the prior year, largely reflecting the contribution of MedPlus Certificates, Mediolanum Bonds and especially government bonds.

The analysis of securities held by customers shows bonds rose 35% from €1,885 million at year end 2010 to €2,553 million at December 31, 2011; treasuries climbed 148% from €328 million at year end 2010 to €815 million at December 31, 2011; Eurobonds declined from €278.7 million at year end 2010 to €265.71 million at year end 2011, and Italian bank bonds grew from €110 million in the prior year to €179 million at year end 2011.

Sales of bonds and certificates in 2011 amounted to €598.3 million, of which €357.4 million relating to MedPlus Certificates and €240.9 million to Mediolanum Bonds. Fees earned on placement of third-party issues amounted to €31.8 million versus €56.3 million in the prior year.

Orders executed for retail clients increased compared to the prior year. Specifically, total orders executed on regulated markets in 2011 were 325,415 versus 302,679 in 2010. In 2011 a notable number of orders related to government securities for a total amount of €647.7 million versus €269.3 million at year end 2010, also thanks to initiatives like the BTP Day in which Banca Mediolanum too participated. Orders relating to Italian equities aggregated to €2,080 million essentially in line with the figure of €2,010 million recorded in the prior year. Total orders

executed on foreign stock markets fell to 18,368 from 21,281 in 2010 for a total value of €186.5 million versus €197.2 million in 2010.
At December 31, 2011, discretionary accounts no longer sold since the end of 2007 amounted to €50 million versus €73 million in the prior year.

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

2011 started with the launch of the Mediolanum Mobile App for the iPhone followed by the iPad, Android and Window Phone 7 versions. One of the key features of the Mediolanum Mobile App is the ability to place orders on the same markets as the ones that are accessible through the bank's web-based services and check investment performance. Leveraging the GPS capabilities within the new generation smartphones via the Mediolanum Mobile App users can also locate the closest ATM or Family Banker Office.
In 2011, the bank's direct channels were expanded and enhanced in view of further reinforcing the relationship with customers. The new channels are accessible via the website www.bemdonline.it where users are prompted to enter their ID and first password.
The Multiple Call function that enables 3-way telephone communication i.e. dialogue of the customer with the Family Banker and the Banking Services Center representative at the same time, has been tested and proved to deliver great benefits in terms of time saved when dealing with either routine or special matters that require the assistance of both the Family Banker and the Banking Services Center representative.
The video call feature allows audio and video interactions between customers and a Banking Specialist. The Banking Services Center has thus become a true interaction center where customers can see the banking professional they are talking with. Alternatively, customers can use Voice-over-IP (VOIP). Via the www.bemdonline.it website customers can contact a Banking Specialist while staying connected or stay connected and call the specialist using a traditional phone. Chat functionalities round out the novelties introduced in the year. Chat use has become part of the life of every Internet user, now customers can use this function to dialogue with a Banking Services Center representative getting a fast response to their enquiries.

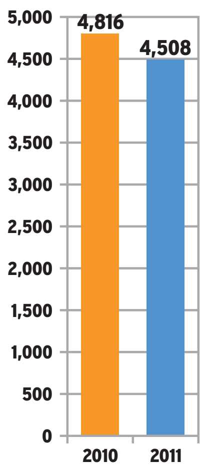
A key novelty introduced in the year was the InMediolanum deposit account that can be set up directly through the website or over the phone. Customers can go to the dedicated website www.inmediolanum.it or call the dedicated IVR service to get information and assistance, open the account and keep track of transactions. Direct channels have been enhanced and upgraded to enable both existing and new customers get information, place orders, manage their savings online, as well as lockup and release their money in their deposit accounts. For new customers an ad hoc InMediolanum application has been set up. As to trading, in addition to MiFID regulatory updates to ensure investments match the investor profile, Mediolanum introduced the 'best execution' function which ensures customer trading orders are executed at the most favourable conditions.

The use of Direct Channels by customers hit over 27 million accesses in 2011, up 7.4% over the prior year. 75% of these accesses were made by bank account holders, up 4.1% over the prior year. This confirms once more the customer appreciation of the bank's multi-channel approach.
Customers increasingly prefer to operate on their own, in fact about 92% of accesses were made through the Bank's automatic systems: the Internet, the voice portal B.Med Voice and the new Mediolanum Mobile App for Apple and Android.
Internet accesses were 74% of total accesses, up 6% over 2010. The number of text messages is ever growing with

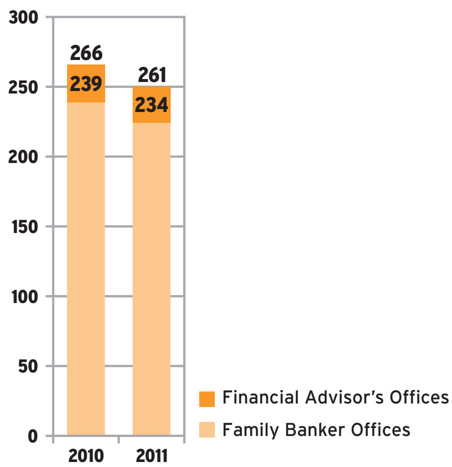
over 43 million text messages sent to customers, up 1.3% over the prior year. Customers especially appreciated the use of text messaging services as a means to enhance security, e.g. alerts for ATM withdrawals and payments, website log-ins, bank transfers. As the use of direct channel increased in the year, customer orders through the direct channels grew too (about 5.6 million transactions, up 12.4%).
The increasing use of 'self-banking' services by customers is confirmed by the decline in phone calls handled by the Banking Services Center (down 3%). Notably, accesses via mobile phones skyrocketed to 1,150,000 (up 1,455% over the prior year), owed especially to the launch of the Mediolanum Mobile App for Apple and Android, with a replacement effect for simple enquiries or transactions, e.g. account balance checks, mobile phone top-ups. Conversely, the number of contacts made via the voice portal declined by about 6%.
The level of service provided to customers continued to be excellent: over 91% of phone calls were answered in 20 seconds and customers were kept on hold for 6.7 seconds on average.
The Welcome Kit developed in 2009 continued to be used to provide information to new account holders and help them 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 functions available through the multiple channels and how to access the Bank using Self Banking.

The Sales Network

Number of Financial Advisors



Family Banker Offices and Financial Advisor's Offices



At December 31, 2011, the network of financial advisors, i.e., 'Family Bankers', consisted of 4,508 people versus 4,816 at year end 2010. Under the new recruitment policy started in 2010 only the candidates who pass the exam at the end of the courses promoted by Banca Mediolanum can practice as Family Bankers.

Sales Network offices and bank branches

At year end 2011, there were 495 Sales Network Offices (Family Banker Offices and Traditional Offices).

The analysis of Sales Network Offices is set out in the table below.

	2011	2010
Family Banker Offices	234	239
Sales Network Traditional Offices	261	266
Total offices	495	505

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: Veneto (37), Lombardy (36), Emilia Romagna (25), Latium (22), Sicily (21).
In 2011, there were 5 Private Banking branches, namely in Assago-Milan (Mediolanum Forum), Milan, Rome, Bologna and Padua. 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, 2011, there were six Banca Mediolanum bank branches.
At year end 2011, there were 10 Automated Teller Machines (ATMs): 4 at bank branches and 6 at Family Banker Offices.

Sales Network Training

Sales Network training is provided by Mediolanum Corporate University S.p.A.
Training courses are developed based on an approach that integrates different teaching methods and tools in order to make learning as effective and 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 theoretical training so that what was learned in the structured training sessions is then put to practice in the field.

In the year under review, the total number of participants increased 16.9% from 129,578 in 2010 to 151,601. The hours of training delivered in 2011 were 523,947 versus 499,650 in 2010.
Alongside formal training, in 2011, there was a series of bimonthly meetings called Mediolanum Business Meetings in which the entire Sales Network participated. These meetings were designed to communicate business strategies and goals to Family Bankers and give them technical / sales support. Over 150,000 hours of this type of training were delivered in the year to 39,000 participants. Training on ISVAP (insurance) regulations was delivered to 33,000 participants for a total of about 60,000 hours.
Activities geared to boost faculty skills included educators expertise mapping followed by individual coaching to improve performance in the classroom. Targeted training of educators was held using innovative methods (role playing using audio/video aids, behavioural feedback).

Training in the preparation for the state exam to become a licensed financial advisor confirmed the positive results seen in 2010. Banca Mediolanum candidates were 246 out of a total of 2,810 candidates who enrolled to take the exam. Banca Mediolanum candidates who passed the exam were 192 (78% pass rate) out of a total of 886 candidates who passed the exam (31.5% pass rate).

For customers and retail investors in general, through MCU, Banca Mediolanum organised educational events focused on topics such as financial planning, the protection of household assets and investments, the achievement of financial stability. These included Conoscere & Investire (Knowing & Investing) a programme set up to provide opportunities for discussion of financial and economy-related topics. In addition, in 2011, a series of cultural events called MCU incontra l'Eccellenza (MCU – Meeting Excellence) were held to support the personal and professional growth of managers and customers. The 7 events held in 2011 were attended by over 200 customers and featured prominent speakers of the calibre of Michael Spence, winner of the 2001 Nobel Prize in Economic Sciences, Paolo Ligresti, ex student of Daniel Kahneman and many other prestigious names from the world of business and the academia.

Training of employees

Mediolanum Group S.p.A. provides training to Group employees through its education and training institution Mediolanum Corporate University. An analysis of employee training is set out in the table below.

	2011	2010
Courses		
Classroom training	74	59
Online education	63	71
Total	137	130
Participants		
Classroom training	5,251	3,412
Online education	8,371	9,193
Total	13,622	12,605
Training hours		
Classroom training	41,325	41,969
Online education	18,622	20,235
Total	59,947	62,204

2011 figures confirm the notable commitment and investment by the Group already seen in the prior year. Notably, the number of courses increased 5% and the number of participants rose 8%. Training did not merely grow quantitatively but the spectrum of educational programmes offered by the Mediolanum Group continued to expand. Notably, classroom training significantly expanded. The number of participants in classroom training with trainer/trainee live interaction that is of unique value when dealing with complex, multi-faceted topics, rose 53% (from 3,412 to 5,251 participants), while online education was slightly down (8%) on 2010 as a result of the progressive completion of compulsory education on regulatory requirements (ISVAP, MiFID, Anti-Money Laundering, Privacy, Safety).
Qualitatively, the most notable development was growth in management training, namely 1,744 training hours out of a total of 5,251 training hours, which is one third of all classroom training. The 'rebalancing' in terms of trainee population was largely owed to the launch of the First Executive Master programme in Business Administration & Bank-

ing for Mediolanum management, a leading programme in terms of high-level education efforts and impact in 2011. Developed by Mediolanum in collaboration with Bocconi University Business School the Executive Master programme has given 27 Mediolanum people the opportunity to round out their education in business management and economics at a top level academic institution. The goal of the Executive Master programme is to have participants develop scenario analysis, strategy development, competitive choice planning skills as well as to enhance their ability to innovate and develop practical targeted analysis and action skills in the various business areas. Tailored to the specific needs of the Mediolanum Group, the Executive Master programme is a certified Master Programme in Business Administration ending in December 2012 and is just one of the numerous initiatives taken by the Group to enhance the professional mastery of its people. In addition to it, in the second half of the year, the Group started other educational programs delivered by primary educational institutions (Bocconi University Business School, Cattolica University, Prometeia Milan Polytechnic Business School) and aimed at different populations of Group human resources.
Customer service staff training too continued to be a priority in terms of volumes and investment in order to continually upgrade the skills of these resources. Education and training, including induction training, continued to be at high level with continuous refinement of existing programmes and the launch of new ones to update and upgrade basic skills of company representatives (multi-skill programmes).
Many other initiatives were taken in connection with the launch of new products and marketing campaigns (direct access, stands for the promotion and sale of products) or for specific customer segments (prima fila customers, private clients) or to assist/support the sales network.
The Group continued to invest significantly also in programmes geared to enhance Service Quality especially specific training support to teams for improvement.

Employees

Banca Mediolanum headcount increased by 42 people in 2011. The analysis of the year's movements in Banca Mediolanum's employees in 2011 is set out in the table below.

	Dec. 31, 2011	% of total	Dec. 31, 2010	change	average age
Senior management	69	4.3%	69	-	47.7
Middle management	192	12.0%	185	+7	42.9
Non-management	1,345	83.7%	1,310	+35	34.7
Total	1,606	100.0%	1,564	+42	36.2

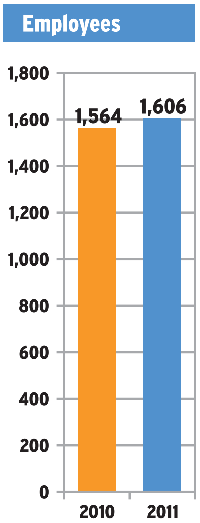
The increase in headcount was mainly associated with the new InMediolanum deposit account that entailed an increase in clerical staff by 22 customer service people and by another 5 people hired to take care of related administrative procedures.
The increase in middle-management by 7 people reflects reinforcement of middle-management following internal promotions and business growth that required strengthening of resources dedicated to projects and organisation aspects as well as of IT staff.

Average age of employees was 36 years and women accounted for 53% of total headcount.
Internal career development programmes were revisited in a medium/long-term perspective especially with regard to:
- organisational size;
- human capital assessment;

- professional growth and career development;
- compensation & reward.

HR policies and activities for the next three years were designed and built around these aspects. In addition to the numerous internal and external education opportunities outlined in the previous section, in 2011 job enlargement and job rotation programmes were held to help human resources develop cross-discipline skills, especially in operational units, for all-round professional growth and increased organisational flexibility.

The Group consolidated its collaborations with prestigious universities in areas such as Marketing, Finance, Education, Service Quality, and Communication, including research and educational projects. The Group also renewed recruitment and employer branding agreements with major universities and other specialists in Milan and its surroundings.



Students attending university or master's courses in Financial Markets, Marketing, Education and Customer Service took internships at the bank.
Teams for Improvement formed on a voluntary basis by employees implemented 10 projects for the improvement of corporate processes and customer satisfaction. These projects engaged more than 70 people who at the end of their working sessions reported on the main results of their efforts to Top Management and planned follow-up activities in view of continuous improvement.

Activities put in place to reinforce corporate culture and a favourable climate in the workplace, including work-life balance, were further enhanced. The vast majority of employees and sales network members used the numerous services offered to them e.g. laundry, tailoring services, shoe repairs, driving licence renewal, sale of tickets for events, disease prevention campaigns, courses. The day care centre now takes care of 120 children of employees sharing educational methods with parents and truly helping mothers who return to work after maternity leave.

Health and Safety in the workplace

In 2011, the Mediolanum Group continued its Safety project to minimise accidents at work, while further strengthening a safety culture through enlarged participation of people within the Group.

In 2011, 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 and staff.
At year end 2011, the Prevention and Protection Service consisted of 7 workers' representatives for health and safety in the workplace, 74 people with first-aid skills and 60 people trained for fire emergencies.
The main updates of 2011, incorporated into the Risk Assessment Document, included activities resulting from as-

sessment of work-related stress. In connection therewith a number of meetings and activities were held in accordance with applicable legislation and guidelines. Their implementation engaged the Employer in charge of Safety assisted by the Prevention and Protection Manager and a specialist physician and entailed consultation of workers' representatives for health and safety in the workplace.

The activities carried out in 2011 in accordance with the Organisational and Management Model included:

- Group's health care programme: employee examinations by the occupational physician and vision testing by eye physicians;
- hazard surveys, either scheduled or made upon a request of employees, consisting of inspections in the workplace to identify any situations that may not be in compliance and require remedial actions or prevention;
- bimonthly Safety Meetings with the participation of specialists in safety-related areas;
- continuous updating of the intranet section dedicated to Safety accessible by all people within the organisation;
- education sessions, including e-learning (since April 2011);
- presentation of the Safety Status Report to the Supervisory Board;
- scheduled evacuation drills at the offices;
- compulsory education of key figures pursuant to the Consolidated Act – Legislative Decree 81.

Other activities were:

- voluntary vaccination against seasonal influenza;
- sanitation of work stations and specific equipment;
- replacement of air filters;
- periodic and preventive disinfestations.

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 organisational units of the Bank. Under a service agreement, the Internal Audit staff of the parent company Banca Mediolanum also performed audit work for the subsidiaries 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, Bankhaus August Lenz, Mediolanum International Funds and Mediolanum Asset Management), the Internal Audit team of Banca Mediolanum regularly exchanged information with the internal audit teams 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, 2011, the Internal Audit team consisted of 15 people (vs. 14 at December 31, 2010).

Compliance & Risk Control

In accordance with the relevant service agreements the Compliance & Risk Control function is responsible for monitoring the exposure of the Bank as well as of other Group 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.

Compliance & Risk Control staff also regularly monitor developments in the banking, financial and insurance regulatory and statutory environments to ensure compliance and assess the impact of any changes therein on the business.
Compliance & Risk Control staff coordinate the Internal Capital Adequacy Assessment Process (ICAAP) for those activities specifically attributed to them and falling with the scope of the ICAAP Regulation.
The head of the Compliance & Risk Control function reports to the Board of Directors about the overall risk situation in its various aspects.
Compliance & Risk Control staff also coordinate management of any written complaints received from customers. In 2011, complaints received from customers were 7,299 versus 5,346 in 2010 (up 1,883) especially relating to the functioning of the new InMediolanum deposit account. Complaints relating to investment services were 1,116 versus 2,216 in the prior year.
The 1,612 complaints regarding the new InMediolanum deposit account were owed to difficulties encountered by customers as they tried to set up the deposit account, which is a recently launched novelty, through the website, largely slow execution of processes, website navigation difficulties and lack of information. These problems have been promptly addressed and adequate corrective measures put in place.
Of the 5,886 complaints examined and solved at December 31, 2011, only 16% were founded, i.e. 933 complaints, of which 26 were the subject of a settlement with customers.
Management and the Audit Committee were promptly informed of the unusual increase in the number of complaints associated with the newly introduced deposit account, and received complete details including information about the causes that originated them. Although review of the incidents revealed customers suffered no damage, the Compliance & Risk Control team identified areas for improvement and made proposals for the smoother and faster execution of website processes as well as improvement of information provided on the website. The analysis of other complaints received in the year revealed no procedural, organisational or behavioural deficiencies which would require reporting to Top Management and the Board of Statutory Auditors.
At December 31, 2011, the Compliance & Risk Control team consisted of 36 people versus 33 people in the prior year.

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, 2011, 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 2011, financial advisors irregularities reported to Supervisory Authorities were 57 versus 79 in 2010. As further

protection, in 2011, the Bank renewed the policy taken out to cover any illegal actions committed by the sales force to the detriment of customers.

Organisation and operations

In 2011, the Operations Division underwent profound change as its remit was expanded to include analysis and planning of the organisational structure and project management of all cross-functional initiatives. This entailed redefining roles and responsibilities within the division, segregating project management from organisational process management and improvement. The reorganisation was supported by comprehensive training of staff in collaboration with leading universities as well as the recruitment of new resources with required specialist knowledge.
During the year numerous key projects were kick-started within the Mediolanum Group (New Model for compliance with MiFID requirements, digital signature, impact of tax changes, merger of MCU into Banca Mediolanum, Mediolanum Fiduciaria entry into operation) together with the analysis of the Bank's organisational structure.
The Bank's business continuity plan was updated to reflect developments in the technology infrastructure and customer use of the multiple channels.
In late 2011 the Operations Division was given responsibility for process outsourcing spending in order to boost cost effectiveness via the rationalisation of "make or buy" criteria, and, in collaboration with the HR department, assessing the size of human resources including the effects of outsourcing certain activities.

Treasury management

Loans to banks aggregated to €2,334 million versus €2,416 million at year end 2010. 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, investments in securities grew €3,229 million from €5,540 million at year end 2010 to €8,769 million at year end 2011:

€/million	2011	2010
Held to Maturity Investments	689	1,109
Available-for-Sale Financial Assets	5,723	1,798
Financial Assets Held for Trading	692	956
Financial Liabilities Held for Trading	(332)	(450)
Loans & Receivables (banks and customers)	1,997	2,127
Total	8,769	5,540

Investments in securities increased along two main lines: first, focus on purchases of government securities, mostly Italian treasuries to take advantage of their greater yields; second, increasing exposure to fixed-rate notes versus floating-rate notes.
Therefore the weight of government securities out of total securities held increased from 44% at year end 2010 to 69% at year end 2011, while the weight of floating rate notes out of total holdings declined from 82% at year end 2010 to 44% at year end 2011.

Italian treasuries accounted for 88% of total government securities held, followed by Spanish treasuries that accounted for 8%.
The portfolio is largely made up of euro-denominated instruments with no exposure to currency risk. Average duration of 1.28 confirms the low risk of the portfolio.

The increase regarded mostly *Available-for-sale financial assets* which were up €3,925 million over the prior year's balance. The balance of the AFS equity reserve worsened by €106 million over the prior year to a negative balance of €143 million.
Held-to-Maturity Investments declined by €420 million over the prior year's balance, and *Financial assets held for trading* net of *Financial liabilities held for trading* decreased by €146 million.
Loans and Receivables amounted to €1,997 million, slightly down over the prior year's balance of €2,127 million. They consisted of ABS and securities issued by Eurozone banks and governments not quoted in an active market.

Net interest income grew by €70 million to €190 million from €120 million at year end 2010. Net financial income came in at €164 million up €36 million from €128 million in the prior year, and was impacted by about €35.1 million unrealised losses.

The analysis of the components of net financial income is set out in the table below.

€/million	2011	2010
Net interest income	190	120
Net income from trading	(28)	5
Net income from hedging	(4)	(1)
Net gains (losses) on sale of financial assets	6	4
Total	164	128

Equity and capital ratios

At December 31, 2011, shareholders' equity, excluding net profit, amounted to €406.9 million versus €505.1 million at December 31, 2010. The €98.2 million decline reflects the fair value measurement of available-for-sale financial assets (-€105.5 million), the appropriation of net profit for the year 2010 to reserves (+€6.3 million) and the movements in equity reserves in connection with stock options (+€1.0 million).
After the approval by the shareholders at the AGM of the appropriation of net profit for the year 2011 as proposed by the Board of Directors, equity amounts to €408.0 million down €98.9 million over the prior year. This corresponds to a net book value of €0.91 (vs. €1.14 in 2010) per €1 share. Earnings per share (EPS) amount to €0.036 versus €0.147 in 2010.
Total capital ratio (regulatory capital /RWA) was 19.76% versus 23.62% in the prior year, well above the minimum requirement of 8%. Tier 1 capital ratio was 16.1% versus 17.9% in the prior year.
On February 29, 2012, the parent company Mediolanum S.p.A. subscribed to and paid in €25 million under the bank's capital increase. This increased the Bank's regulatory capital and further improved its capital ratios.

MEDIOLANUM BANKING GROUP

At December 31, 2011, the Bank's investments in Banking Group companies amounted to €353.2 million versus €359.4 million in the prior year. The €6.2 million decline over the prior year reflects:

- *€0.7 million decline* for impairment at December 31, 2011 of the subsidiary *Mediolanum Corporate University S.p.A.* resulting from losses recorded for financial year 2011 and residual losses from previous years.
- *€19.3 million decline* following the merger of *Mediolanum Corporate University S.p.A into Banca Mediolanum.* The merger was completed with the registration of the merger deed signed on November 29, 2011, with the Milan Company Registrar on December 6, 2011 by the merged company and on December 13, 2011 by Banca Mediolanum, this last date concluded the merger process. The merger became effective for accounting purposes from 11.59 pm of December 31, 2011.
- *€1 million decline* following the liquidation of *Mediolanum Distribuzione Finanziaria S.p.A.*. The voluntary liquidation of Mediolanum Distribuzione Finanziaria was completed upon the lodging of the liquidation final accounts with the Milan Company Registrar on December 27, 2011.
- *€14.6 million net increase* following the capital contributions aggregating to €30 million to the subsidiary *Bankhaus August Lenz A.G.* and write-downs for the year aggregating to €15.4 million.
- *€0.2 million increase* following the formation of *Mediolanum Fiduciaria S.p.A.*, a wholly-owned subsidiary of Banca Mediolanum. The purpose of the newly formed company is administration through registration of securities, including those on public registers, on behalf of third parties as well as all the activities that are typical of a trust company as per Act 1966 of November 23, 1939 (with the express exclusion of real estate). Following regulatory approvals the company was incorporated on February 11, 2011, and registered with the Company Registrar on February 15, 2011.

At December 31, 2011 the composition of the Mediolanum Banking Group, of which the Bank is the Parent Company, had changed over the prior year:, namely the cancellation of *Mediolanum Distribuzione Finanziaria S.p.A.* and *Mediolanum Corporate University S.p.A.* from the Mediolanum Banking Group and the addition of the newly formed company *Mediolanum Fiduciaria S.p.A.*.

Impairment test of stakes in main subsidiaries

At the meeting held last March 9, the Board of Directors of the Bank approved the procedures for impairment review at December 31, 2011 of its equity investments in Banco de Finanzas e Inversiones SA (Banco Mediolanum), Gamax Management AG (Gamax) and Bankhaus August Lenz & Co AG (BAL), in accordance with IAS 36.
For the purpose of impairment review at December 31, 2011, Banca Mediolanum requested the assistance of a primary specialist firm. The valuations were based on cash-flow estimates derived from the 2012-2015 Plans approved by the Board of Directors of Banca Mediolanum on February 15, 2012, applying industry standard methods best suited for the purposes of the exercise in the specific cases, in accordance with applicable accounting standards.
In their March 8, 2012 report the independent valuers concluded that – with due consideration of the limits inherent in the use of estimates uncertain by their very nature and subject to changes in the macroeconomic environment and external circumstances as well as, in the specific case, based on assumptions relating to future events and management actions that may not materialise – their analysis revealed no impairment of the stakes in Banco Mediolanum and Gamax, and impairment of the stake in BAL. The carrying amount of BAL was therefore written down by 1.3 million after the recognition of losses recorded for the year by the German bank.
Impairment testing details are set out in section 10, Part B, of the Notes.

Equity investments

Key information on the performance of the companies in which the Bank has a major stake during the period under review is set out below.

Banco de Finanzas e Inversiones S.A. (BANCO MEDIOLANUM)

For financial year 2011 the Spanish Group reported net profit of €6.8 million versus €2.9 million in the prior year.
At the end of the year under review, gross inflows into asset management products amounted to €291.1 million versus €270 million in 2010, and net inflows to €93.2 million versus €43.5 million at year end 2010. As to assets under administration, the Group reported €1.5 million inflows versus €8.4 million outflows at the end of the prior year.
At year end 2011, total assets under management and under administration amounted to €1,581.2 million versus €1,621.9 million at December 31, 2010.
The sales force consisted of 549 people (vs. 484 in 2010) of whom 505 tied advisors (vs. 439 in 2010).

Bankhaus August Lenz & Co. AG

For financial year 2011 the company reported a net loss of €14.2 million versus €6.3 million in the prior year. Financial results were impacted in particular by net financial income coming in negative at €6.3 million and by the €3.1 million decline in net commissions on ATM business.
Net inflows into asset management products amounted to €17.4 million versus €15.8 million in the prior year, and net inflows into assets under administration were €33.3 million versus €13.5 million in the prior year.
At year end 2011, total assets under management and under administration amounted to €145.1 million versus €102.5 million at December 31, 2010.
The sales network consisted of 42 people (vs. 36 at year end 2010).

Gamax Management AG

At December 31, 2011, this Luxembourg-based company reported net profit of €4.2 million versus €6.4 million in the prior year.
In the retail segment, the company recorded net inflows of €1.1 million versus €2.7 million in the prior year. At year end 2011, assets under management amounted to €204.8 million versus €238.3 million at the end of the prior year.
At December 31, 2011 total assets under management (Retail + Institutional) amounted to €378 million versus €470 million in the prior year.

Mediolanum Gestione Fondi SGR p.A.

For financial year 2011, the company reported net profit of €12.5 million versus €18.7 million in the same period of the prior year. The €6.2 million decline over the prior year was mainly due to the decrease in performance fees earned in the year (down €11 million).

For the year under review the company reported net inflows of €51.9 million versus €388.8 million in 2010. This reflects a contraction in gross inflows while divestments remained essentially unchanged.
At December 31, 2011, assets managed directly by this company amounted to €2,612.2 million versus €2,775.3 million at December 31, 2010 (down 5.9%).
Assets managed on mandates from fellow subsidiaries amounted to €15,564.4 million versus 17,228.2 million at December 31, 2010 (down 9.7%).

Mediolanum International Funds Ltd

For financial year 2011 the company reported net profit of €203.0 million down €22.3 million over the prior year (FY 2010: €225.2 million), largely due to the decline in performance fees earned in the period (down €45.5 million).
At the end of the year under review, the company reported net inflows of €1,598.1 million versus €2,095.5 million at December 31, 2010.
At December 31, 2011, total assets under management amounted to €17,975 million up 2% compared to €17,609 million in the prior year.
In October 2011, the company resolved to distribute a 2011 interim dividend for a total amount of €114.0 million versus €143.0 million in the prior year.

Mediolanum Asset Management Ltd

For financial year 2011, this company reported net profit of €13.5 million up €2.1 million from €11.4 million at December 31, 2010.
In October 2011, the company resolved to distribute a 2011 interim dividend for a total amount of €6 million versus €5.2 million in the prior year.

Mediolanum Fiduciaria S.p.A.

Mediolanum Fiduciaria S.p.A. was formed in February 2011. Its main purpose is custody and administration of securities on behalf of own trustors or third parties. On April 4, 2011 the application for trust business authorisation was filed with Italy's Ministry for Economic Development that issued its approval on June 27, 2011. Mediolanum Fiduciaria is a wholly-owned subsidiary of Banca Mediolanum with share capital of €240 thousand, fully paid up.
In financial year 2011, the company did not carry out any transactions and closed the year with a net loss of €65.1 thousand.

Merger of Mediolanum Corporate University

Since education and training have increasingly been provided online or locally, and changes in Banca Mediolanum recruitment policy have entailed a significant decrease in both the number of education sessions held at MCU facilities and use of its hotel complex, the need for a separate entity dedicated to education and training progressively waned.

So, it was decided to merge Mediolanum Corporate University S.p.A. (MCU) into Banca Mediolanum. On July 20 and July 26, 2011, the Boards of Directors of MCU and of Banca Mediolanum approved the plan for the merger of the former into the latter and the transfer of the Residence Milano 3 Hotel Complex to PI Servizi S.p.A. while confirming the agreement for the reservation of a certain number of rooms to satisfy current demand associated with the Group's training needs.
The transfer of the Hotel Complex by MCU to Mediolanum S.p.A's wholly-owned subsidiary PI Servizi S.p.A. was effected in September for €7 million, based on the appraisal made by an independent valuer.
On October 20, 2011, the Bank of Italy gave the green light to the merger of MCU into Banca Mediolanum S.p.A. and on October 25 the merger deed was lodged for registration with the Company Registrar. The merger became effective from 11.59 pm of December 31, 2011.

For the year ended December 31, 2011, MCU reported a net loss of €382.6 thousand mainly due to the €1,081 thousand loss on the transfer of the hotel complex. In the prior financial year MCU had reported net profit of €195 thousand.
MCU assets and liabilities at December 31, 2011 were consolidated into Banca Mediolanum's accounts after writing off the stake previously held by the Bank in MCU.

Exposure to Greek sovereign debt

At balance sheet date the Bank's holdings of Greek sovereign debt aggregated to €109 million (nominal value) of which €89 million classified as available-for-sale financial instruments and €20 million as held-to-maturity investments.
Under the Greek bond swap agreement (also referred to as the 'Private Sector Involvement or PSI agreement') of February 24, 2012 for every old bonds with a face value of €1,000 tendered into the exchange the bondholders who voluntarily accept the offer will receive:
- new Greek bonds with a face value of €315 under 20 new bond issues having the same features (maturing in 2042, with a step-up coupon: 2% through 2015, then 3% through 2020, then 3.65% in 2021, and then 4.3% from 2022 through 2042 – amortisation starting from the eleventh year);
- European Financial Stability Facility (EFSF) notes with a face value of €150 maturing in 1-2 years; the yield will be determined in the proximity of the issue;
- Greek GDP-linked sovereign securities with the same face value as the new Greek bonds issued in exchange for the old bonds tendered (€315);
- interest accrued up until February 24, 2012 will be paid out in the form of short-term (six-month) zero-coupon EFSF notes.

By March 8, 2012, i.e. the deadline for Greece's private sector investors to decide whether they elected to participate in the Greek bond exchange offer, the offer acceptance rate was 69% for international investors and 86% for private creditors under Greek law. Our Bank accepted the offer and tendered all its Greek sovereign debt holding as of December 31, 2011.

The apparent financial troubles of Greece and the various bailout attempts that have led to the February 2012 bond swap offer are circumstances that constitute objective evidence of impairment for Greek sovereign debt holdings in 2011.

Applying the active market principle, the market prices of Greek sovereign debt holdings at balance sheet date were considered not to reflect their fair value. Hence, the Bank proceeded to determine the fair value of said holdings at December 31, 2011 applying internal mark-to-model valuation based on external assumptions derived from the Greek debt restructuring plan outlined above.

Fair value measurement of sovereign debt holdings at 22.5% of their face value entailed the recognition of impairment losses on said holdings aggregating to €81.3 million, of which €65.8 million relating to positions classified as available-for-sale financial instruments, and €15.5 million to positions classified as held-to-maturity investments.

Tax Police Field Audit

On February 28, 2011, Italy's Tax Police (Milan Office – 1st Revenue Protection Group – 4th Division – Complex Audits) concluded its field audit at Banca Mediolanum which had started on September 16, 2010. After issuing an Audit Report claiming a total adjustment of €48.3 million to IRES and IRAP taxable income for tax year 2005 on October 29, 2010, on February 28, 2011, the Tax Police issued an additional Audit Report claiming a total adjustment of €121.4 million to IRES and IRAP taxable income for tax years from 2006 through 2009 relating to fees rebated by the Irish subsidiary Mediolanum International Funds Ltd (MIF).

The Tax Police audit also regarded VAT for tax years from 2006 through the audit start date (September 16, 2010). Specifically, it regarded VAT applied to overrides paid to certain sales network members for their supervision and coordination of other sales network members. That part of the audit was also concluded on February 28, 2011, and an Audit Report 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, and confirmed by a Ministerial Ruling still in force issued by the IRS Assessment Office that in December 2003 stated overrides were VAT exempt.

On April 29, 2011, the Bank filed a brief prepared pursuant to section 12, paragraph 7, Act 212 of July 27, 2000 with the Large Corporations Unit of the IRS Lombardy Office, whereby the Bank confirmed its law-abiding conduct and requested the application of the penalty waiver clause under section 26 of Legislative Decree 78 dated May 31, 2010, in relation to 'transfer pricing', and requested that the claim relating to the 'VAT application to overrides' be halted being it groundless and no penalty be due.
Also based on the opinion of an independent advisor, directors believe there is a possible risk in relation to the outcome of the claims 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.
In the light of the foregoing no provision was made in the separate accounts for the year ended December 31, 2011.

Social and environmental responsibility

For information on the social and environmental responsibility policy, readers are referred to the Mediolanum Group's Social Report 2011.

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, 2011 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 section 10 in 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, 2011, 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*', '*Financial Markets*' and '*Outlook*'. Information on financial risk and operational risk is detailed in Part E of the Notes.

Post balance sheet date events

In the first months of 2012 we have seen significant improvements in the price of bonds issued by Euro zone governments and, accordingly, in the value of bond holdings. Notably, the AFS valuation equity reserve improved by about €219 million from a negative balance of €142.9 million at December 31, 2011 to a positive balance of €76.5 million at February 29, 2012.

On February 15, 2012, in view of maintaining Banca Mediolanum's sound capital base, currently and prospectively, the Board of Directors passed a resolution to increase capital by €25 million and asked the bank's sole shareholder Mediolanum S.p.A. to subscribe to it. The parent company paid in the relevant amount on February 29, 2012.

In March 2012, Banca Mediolanum launched a new commercial offering regarding the Mediolanum *Freedom* bank account, a product called *Conto Mediolanum Freedom Più.* This product keeps the same interest scheme as the previous offering but it no longer requires signing up to the *Mediolanum Plus* policy of Mediolanum Vita S.p.A.
The new offering is for new *Freedom* bank accounts while for existing accounts the *Mediolanum Plus* policy will continue to operate.

After December 31, 2011, there was no other event which could have a significant impact on the financial position, result of operations and cash flows of the Bank.

Outlook

The International Monetary Fund (IMF) estimates global growth at 3.3% in 2012, largely sustained by emerging economies (5.4%) as GDP is forecast to expand 1.8% in the US but shrink 0.5% in the Euro zone, notably 2.2% in Italy and 1.7% in Spain.
Negative growth in the Euro zone is a consequence of the financial crisis, as needed austerity measures are taking their toll on the economy and unemployment is depressing consumer confidence and spending.
The gradual solution of the crisis in 2012 is the condition for the improvement of the overall economic outlook. The sovereign debt crisis has prompted European governments to make deep structural reforms that can reduce current fiscal imbalances in coming years. Euro zone countries now have a crucial opportunity to adopt convergent fiscal policies.

In the US, the expansionary monetary policy adopted by the Federal Reserve can support growth against a backdrop of contained inflationary risk. In the Euro zone, the interventions of the European Central Bank (ECB) were made to enhance the liquidity of financial institutions and ultimately provide the financial resources needed to support investments and growth

The difficult financial and economic outlook has already been partly priced in by stock markets in 2011. In 2012, the economic and fiscal policies agreed by Euro zone governments may produce positive effects on both equity and government bond markets. In Italy, the implementation of structural reforms can bring about significant declines in the yields asked by the markets and investors to buy Italian treasuries. Conversely, any hesitation or delay in the adoption of the measures needed to solve the financial crisis may temporarily bring back elevated volatility.

With due consideration of the developments outlined under 'Tax Police Field Audit' and 'Post Balance Sheet Date Events, and of the risks that are inherent in the business conducted by the Bank, barring any exceptional events or circumstances that depend on variables essentially outside the control of Directors and Senior Management – and not in the offing at present – the outlook for 2012 is positive.

Acknowledgements

In concluding this Report, we wish to thank the Family Bankers, the Employees and all People who work for the Bank for their valuable contribution. We also thank the Shareholder and Customers for their continued appreciation of the Bank. A respectful salute goes to the Supervisory and Regulatory Authorities who have always been ready to assist us, notably the Bank of Italy, CONSOB (stock market regulator) as well as the trade associations and the correspondent Banks for their constructive support given to the work of the Bank.

We take this opportunity to express our heartfelt congratulations to the Governor of the Bank of Italy, Ignazio Visco, and to ECB President Professor Mario Draghi for their appointment to their respective position in 2011, and their contribution to the reinforcement of the institutions they lead, while preserving independence in the pursuit of public interest, playing a crucial role at this economic juncture and going forward.

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 €16,129,002.64. Considering the recent €25 million capital increase, as well as the sound capital ratios with Tier 1 at 16.14% for the Bank and at 9.41% for the Banking Group (FY 2010: 17.90% for the Bank and 10.09% for the Banking Group), we propose to distribute a €0.03158 dividend per share, for a total amount of €15,005,000.00 and to appropriate the rest of the year's net profit as follows:

- €806,450.00 to the Legal Reserve;
- €317,552.64 to the Extraordinary Reserve.

Basiglio, March 21, 2012

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

Accounts 2011

Balance sheet

Assets

€		Dec. 31, 2011		Dec. 31, 2010
10. Cash and cash equivalents		2,536,104		2,574,812
20. Financial assets held for trading		692,294,927		955,650,122
40. Available-for-sale financial assets		5,722,538,598		1,797,610,642
50. Held-to-maturity investments		688,872,892		1,109,195,306
60. Loans to banks		2,334,018,523		2,416,210,210
70. Loans to customers		4,067,333,530		4,147,698,957
80. Hedging derivatives		-		-
100. Equity investments		353,166,628		359,411,873
110. Tangible assets		16,839,073		16,700,652
120. Intangible assets		11,445,813		8,632,163
of which:				
- goodwill		-		-
130. Tax assets		220,952,543		129,929,035
a) current	81,734,464		51,305,003	
b) deferred	139,218,079		78,624,032	
150. Other assets		227,818,025		195,128,326
Total assets		14,337,816,656		11,138,742,098

Liabilities and Shareholders' Equity

€		Dec. 31, 2011		Dec. 31, 2010
10. Due to banks		5,128,381,725		2,193,403,776
20. Due to customers		7,584,989,904		7,205,103,642
30. Securities issued		285,630,795		340,479,129
40. Financial liabilities held for trading		332,482,854		450,830,923
60. Hedging derivatives		67,895,588		28,509,696
80. Tax liabilities		18,861,516		15,768,855
a) current	9,121,635		6,809,501	
b) deferred	9,739,881		8,959,354	
100. Other liabilities		330,968,139		191,123,166
110. Employee completion-of-service entitlements		8,828,972		8,786,493
120. Provisions for risks and charges:		156,758,085		133,342,364
a) severance benefits and similar obligations	-		-	
b) other provisions	156,758,085		133,342,364	
130. Valuation reserves		(142,936,935)		(37,431,726)
160. Reserves		99,827,010		92,491,751
180. Share capital		450,000,000		450,000,000
200. Net profit (loss) for the year (+/-)		*16,129,003*		*66,334,029*
Total liabilities and shareholders' equity		14,337,816,656		11,138,742,098

Income statement

€		Dec. 31, 2011		Dec. 31, 2010
10. Interest income and similar income		338,919,676		201,949,275
20. Interest expense and similar charges		*(148,855,120)*		*(81,759,090)*
30. Net interest income		*190,064,556*		*120,190,185*
40. Commission income		378,962,224		408,659,346
50. Commission expense		*(273,839,166)*		*(296,102,736)*
60. Net commission income		105,123,058		112,556,610
70. Dividends and similar income		124,520,522		127,173,186
80. Net income from trading		*(28,232,099)*		4,534,999
90. Net income from hedging		*(3,813,355)*		*(1,126,142)*
100. Gains (losses) on sale or buyback of:		6,261,164		4,289,005
a) loans and receivables	194,545		158,378	
b) available-for-sale financial assets	5,021,038		4,130,614	
c) held-to-maturity investments	1,045,581		13	
d) financial liabilities	-		-	
120. Total income		393,923,846		367,617,843
130. Impairment losses on:		*(90,626,424)*		*(10,458,039)*
a) loans	*(6,180,636)*		*(9,171,327)*	
b) available-for-sale financial assets	*(68,962,311)*		*(1,284,513)*	
c) held-to-maturity investments	*(15,499,853)*		-	
d) other financial instruments	*16,376*		*(2,199)*	
140. Net income from financial operations		303,297,422		357,159,804
150. Administrative expenses		*(257,059,275)*		*(250,587,006)*
a) staff costs	*(100,326,394)*		*(98,433,437)*	
b) other administrative expenses	*(156,732,881)*		*(152,153,569)*	
160. Provisions for risks and charges		*(33,984,909)*		*(35.602,640)*
170. Depreciation and net impairment of tangible assets		*(2,292,694)*		*(4,722,106)*
180. Amortisation and net impairment of intangible assets		*(8,927,853)*		*(7,742,801)*
190. Other operating income		12,693,558		18,172,168
200. Operating expenses		*(289,571,173)*		*(280,482,385)*
210. Profit (loss) on equity investments		(16,373,407)		(15,773.486)
240. Profit (loss) on disposal of investments		27,840		2,196,642
250. Profit (loss) before tax on continuing operations		(2,619,318)		63,100,575
260. Income tax expense on continuing operations		18,748,321		3,233,454
270. Profit (loss) after tax on continuing operations		16,129,003		66,334,029
290. Profit (loss) after tax		16,129,003		66,334,029
Earning per share (EPS)		0.036		0.147

Comprehensive Income at Dec. 31, 2011

€		Dec. 31, 2011	Dec. 31, 2010
10.	Net profit (loss) for the year	16,129,003	66,334,029
	Other comprehensive income components after tax		
20.	Available for sale financial assets	(105,505,209)	(37,673,693)
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	(105,505,209)	(37,673,693)
120.	Total Comprehensive Income	(89,376,206)	28,660,336

Statement of Changes in Equity

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	19,021,252	-	19,021,252	(953,752)	(18,067,500)
Shareholders' equity	559,598,373	-	559,598,373	-	(18,067,500)

At December 31, 2011

€	Balance at Dec. 31, 2010	Adjustment to opening balances	Balance at Jan. 1, 2011	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	89,306,709	-	89,306,709	6,331,029	-
b) others	3,185,042	-	3,185,042	-	-
Valuation reserves:	(37.431,726)	-	(37,431,726)	-	-
Equity instruments	-	-	-	-	-
Treasury shares	-	-	-	-	-
Net profit (loss) for the year	66,334,029	-	66,334,029	(6,331,029)	(60,003,000)
Shareholders' equity	571,394,054	-	571,394,054	-	(60,003,000)

Movements in the year								
	Equity							
Change in reserves	Share issues	Purchase of Treasury Shares	Extraordinary dividend distribution	Change in equity instruments	Treasury Shares derivatives	Stock options	Net profit (loss) at Dec. 31, 2010	Shareholders' equity at Dec. 31, 2010
-	-	-	-	-	-	-	-	450,000,00
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	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

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, 2011	Shareholders' equity at Dec. 31, 2011
-	-	-	-	-	-	-	-	450,000,000
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	1,004,229	-	96,641,967
-	-	-	-	-	-	-	-	3,185,042
-	-	-	-	-	-	-	(105,505,209)	(142,936,935)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	16,129,003	16,129,003
-	-	-	-	-	-	1,004,229	(89,376,206)	423,019,077

Cash Flow Statement

Indirect Method

€	Dec. 31, 2011	Dec. 31, 2010
A. OPERATING ACTIVITIES		
1. Operating activities	192,133,836	149,738,278
- net profit (loss) for the year	16,129,003	66,334,029
- gains/losses on financial assets held for trading and on financial assets/liabilities at fair value	32,706,238	5,430,342
- gains/losses on hedges (+/-)	3,813,355	1,126,142
- impairment losses/reversals (+/-)	90,626,424	10,458,039
- net write-downs/write-backs of tangible and intangible assets (+/-)	11,220,547	12,463,867
- provisions for risks and charges and other costs/revenues (+/-)	39,008,954	40,182,983
- unpaid taxes (+)	(18,748,321)	(3,233,454)
- net write-downs/write-backs of disposal groups after taxes (+/-)	-	-
- other adjustments (+/-)	17,377,635	16,976,330
2. Cash generated/used by financial assets	(3,965,981,497)	(3,160,136,728)
- financial assets held for trading	222,006,388	(118,179,653)
- financial assets at fair value	-	1,179,384
- available-for-sale financial assets	(4,030,433,164)	(1,009,482,787)
- loans to banks: on demand	446,260,973	(591,025,565)
- loans to banks: other loans	(364,069,286)	(245,849,426)
- loans to customers	(10,260,998)	(1,013,313,274)
- other assets	(229,485,410)	(183,465,406)
3. Cash generated/used by financial liabilities	3,313,269,794	2,693,392,202
- due to banks: on demand	15,806,019	166,975,684
- due to banks: other amounts due	2,919,171,930	820,141,204
- due to customers	379,886,262	1,365,213,462
- securities issued	(54,848,334)	161,029,257
- financial liabilities held for trading	(109,705,499)	190,914,689
- financial liabilities at fair value	35,572,537	11,477,779
- other liabilities	127,386,879	(22,359,873)
Net cash generated by/used in operating activities	(460,577,867)	(317,006,248)
B. INVESTING ACTIVITIES		
1. Cash from	(340,693,491)	(80,360,329)
- sale of equity investments	-	-
- dividends received from equity investments	124,520,522	127,173,186
- sale of held-to-maturity investments	(465,227,164)	(211,144,017)
- sale of tangible assets	13,151	3,527,877
- sale of intangible assets	-	82,625
- sale of business lines	-	-
2. Cash used for	861,235,650	415,284,674
- purchase of equity investments (including contributions to cover losses)	(10,128,162)	-
- purchase of held-to-maturity investments	885,549,578	422,288,034
- purchase of tangible assets	(823,666)	(1,179,254)
- purchase of intangible assets	(13,362,100)	(5,824,106)
- purchase of business lines	-	-
Net cash generated by/used in investing activities	520,542,159	334,924,345
C. FINANCING ACTIVITIES		
- issue/purchase of treasury shares (formation of share capital)	-	-
- issue/purchase of equity instruments	-	-
- dividend distribution and other	(60,003,000)	(18,067,500)
Net cash generated by/used in financing activities	(60,003,000)	(18,067,500)
NET CASH GENERATED/USED IN THE YEAR	(38,708)	(149,403)

RECONCILIATION

€	Dec. 31, 2011	Dec. 31, 2010
Financial item		
Cash and cash equivalents at beginning of the year	2,574,812	2,724,215
Total net cash generated/used in the year	(38,708)	(149,403)
Cash and cash equivalents: effect of movements in exchange rates	-	-
Cash and cash equivalents at end of the year	2,536,104	2,574,812

Notes to the Separate Annual Financial Statements 2011

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, 2011 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, 2011 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, and supplemented by Supervision and Regulation Letters of February 16, 2011 and February 12, 2012. 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, 2011, 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, 2010.

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 2011 and the date on which these financial statements were approved, there was no event – other than those set out in the corresponding section of the Directors' Report to which readers are referred – which could materially impact the business or result of operations of the Bank.

Section 4 – Other information

Information on the business and the result of operations for the year 2011 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 Deloitte & Touche S.p.A., as per the resolution passed at the General Meeting of April 20, 2011.

Tax consolidation regime

In June 2010, 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, 2011.
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, 2010.

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;
- Identification of loss events as per IAS 39;
- Assumptions used for the identification of any objective evidence of impairment of intangible assets or equity investments recognised in the balance sheet;
- Assessment of loans;
- Provisions for risks and charges;
- Deferred taxation;
- Stock options 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 or holdings in UCITS 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, 2011 (4)	Fair value at Dec. 31, 2011 (5)	Valuation (6)	Other (7)	Valuation (8)	Other (9)
A. Debt securities			155,946	153,371	(6,302)	3,149	-	3,664
	HFT	AFS	133,798	133,798	(3,727)	2,754	-	3,257
	HFT	Loans to customers	22,148	19,573	(2,575)	395	-	407

The information in the table above relates exclusively to reclassifications made in 2008 of financial instruments which were, in part, sold in 2009, 2010 and 2011. In the year under review there was no reclassification of assets.

A.3.2 Fair value hierarchy

A.3.2.1 Fair value hierarchy of financial assets and liabilities

	Dec. 31, 2011			Dec. 31, 2010		
€/'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	653,887	37,388	1,020	947,342	8,106	202
2. Financial assets at fair value	-	-	-	-	-	-
3. Available for sale financial assets	5,424,530	224,896	73,113	1,619,415	124,772	53,424
4. Hedging derivatives	-	-	-	-	-	-
Total	6,078,417	262,284	74,133	2,566,757	132,878	53,626
1. Financial liabilities held for trading	320,066	12,417	-	443,606	7,223	2
2. Financial liabilities at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	67.896	-	-	28.510	-
Total	320.066	80.313	-	443.606	35.733	2

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	202	-	53,424	-
2. Increases	59,866	-	139,338	-
2.1 Purchases	59,624	-	5,626	-
2.2 Profits recognised:				
2.2.1 through profit or loss:	228	-	-	-
- of which: gains	-	-	-	-
2.2.2 in equity	X	X	66,052	-
2.3 Transferred to other level	13	-	66,250	-
2.4 Other increases	1	-	1,410	-
3. Decreases	(59,048)	-	(119,649)	-
3.1 Sales	(58,597)	-	(2,762)	-
3.2 Redemptions	-	-	-	-
3.3 Losses recognised				
3.3.1 through profit or loss:	(445)	-	(66,036)	-
- of which: losses	(201)	-	(66,036)	-
3.3.2 in equity	X	X	(49,312)	-
3.4 Transferred to other level	(5)	-	-	-
3.5 Other decreases	(1)	-	(1,539)	-
4. Closing balance	1,020	-	73,113	-

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	-	-
2. Increases	1,068	-	-
2.1 Issues	1,067	-	-
2.2 Losses recognised:			
2.2.1 through profit or loss:	1	-	-
- of which: losses	-	-	-
2.2.2 in equity	X	X	-
2.3 Transferred to other level	-	-	-
2.4 Other increases	-	-	-
3. Decreases	(1,070)	-	-
3.1 Redemptions	-	-	-
3.2 Buybacks	(1,066)	-	-
3.3 Losses recognised:			
3.3.1 through profit or loss:	(3)	-	-
- of which: gains	-	-	-
3.3.2 in equity	X	X	-
3.4 Transferred to other level	-	-	-
3.5 Other decreases	(1)	-	-
4. Closing balance	-	-	-

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, 2011	Dec. 31, 2010
a) Cash	2,536	2,575
b) Demand deposits with Central Banks	-	-
Total	2,536	2,575

Cash and cash equivalents amounted to €2,536 thousand, of which €21 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, 2011			Dec. 31, 2010		
€/'000	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Non-derivatives						
1. Debt securities	653,875	36,284	1,020	947,320	4,706	201
1.1 Structured notes	17,682	4,806	127	-	-	138
1.2 Other debt securities	636,193	31,478	893	947,320	4,706	63
2. Equities	3	-	-	6	-	-
3. Holdings in UCITS	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 repurchase agreements	-	-	-	-	-	-
4.2 others	-	-	-	-	-	-
Total (A)	653,878	36,284	1,020	947,326	4,706	201
B. Derivatives						
1. Financial derivatives:	9	1,104	-	16	3,400	1
1.1 held for trading	9	1,104	-	16	3,400	1
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)	9	1,104	-	16	3,400	1
Total (A+B)	653,887	37,388	1,020	947,342	8,106	202

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

€/'000	Dec. 31, 2011	Dec. 31, 2010
A. Non-derivatives		
1. Debt securities	691,179	952,227
a) Governments and Central Banks	125,950	151,083
b) Government agencies	-	-
c) Banks	525,698	724,167
d) Other issuers	39,531	76,977
2. Equities	3	6
a) Banks	1	-
b) Other issuers:	2	6
- insurance companies	-	-
- financial companies	-	1
- non financial companies	2	5
- others	-	-
3. Holdings in UCITS	-	-
4. Loans	-	-
a) Governments and Central Banks	-	-
b) Government agencies	-	-
c) Banks	-	-
d) Others	-	-
Total A	691,182	952,233
B. Derivatives		
a) Banks		
- fair value	1,102	977
b) Customers		
- fair value	11	2,440
Total B	1,113	3,417
Total (A+B)	692,295	955,650

2.3 Year's movements in financial assets held for trading

€/'000	Debt securities	Equities	Holdings in UCITS	Loans	Total
A. Opening balance	952,227	6	-	-	952,233
B. Increases	12,826,975	10,409	25	-	12,837,409
B1. Additions	12,805,406	10,391	25	-	12,815,822
B2. Increases in fair value	5,714	-	-	-	5,714
B3. Other	15,855	18	-	-	15,873
C. Decreases	13,088,023	10,412	25	-	13,098,460
C1. Disposals	12,958,454	10,362	25	-	12,968,841
C2. Redemptions	96,045	-	-	-	96,045
C3. Decreases in fair value	23,937	8	-	-	23,945
C4. Reclassified to other portfolios	-	-	-	-	-
C5. Other	9,587	42	-	-	9,629
D. Closing balance	691,179	3	-	-	691,182

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

4.1 Analysis of available-for-sale financial assets

	Dec. 31, 2011			Dec. 31, 2010		
€/'000	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	5,414,671	111,050	21,185	1,618,904	4,075	-
1.1 Structured notes	-	-	-	-	-	-
1.2 Other debt securities	5,414,671	111,050	21,185	1,618,904	4,075	-
2. Equities	282	-	13,218	511	-	10,423
2.1 measured at fair value	282	-	-	511	-	-
2.2 measured at cost	-	-	13,218	-	-	10,423
3. Holdings in UCITS	9,577	113,846	38,710	-	120,697	43,001
4. Loans	-	-	-	-	-	-
Total	5,424,530	224,896	73,113	1,619,415	124,772	53,424

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

€/'000	Dec. 31, 2011	Dec. 31, 2010
1. Debt securities	5,546,906	1,622,979
a) Governments and Central Banks	5,116,427	1,488,695
b) Government agencies	-	-
c) Banks	421,931	123,989
d) Other issuers	8,548	10,295
2. Equities	13,500	10,934
a) Banks	-	-
b) Other issuers:	13,500	10,934
- insurance companies	-	-
- financial companies	5,649	2,858
- non financial companies	7,851	8,076
- others	-	-
3. Holdings in UCITS	162,133	163,698
4. Loans	-	-
a) Governments and Central Banks	-	-
b) Government agencies	-	-
c) Banks	-	-
d) Other issuers	-	-
Total	5,722,539	1,797,611

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

€/'000	Debt securities	Equities	Holdings in UCITS	Loans	Total
A. Opening balance	1,622,979	10,934	163,698	-	1,797,611
B. Increases	5,799,320	5,377	13,412	-	5,818,109
B1. Additions	5,635,068	2,795	10,478	-	5,648,341
B2. Increases in fair value	5,614	5	16	-	5,635
B3. Reversal of impairment	-	-	-	-	-
- through profit of loss	-	-	-	-	-
- in equity	65,820	224	2,918	-	68,962
B4. Reclassified from other portfolios	-	-	-	-	-
B5. Other	92,818	2,353	-	-	95,171
C. Decreases	1,875,393	2,811	14,977	-	1,893,182
C1. Disposals	1,578,014	-	408	-	1,578,422
C2. Redemptions	-	-	-	-	-
C3. Decreases in fair value	224,714	234	11,650	-	236,598
C4. Impairment	-	-	-	-	-
- through profit or loss	65,820	224	2,918	-	68,963
- in equity	-	-	-	-	-
C5. Reclassified to other portfolios	-	-	-	-	-
C6. Other	6,845	2,353	1	-	9,199
D. Closing balance	5,546,906	13,500	162,133	-	5,722,539

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

5.1 Analysis of held-to-maturity investments

	Dec. 31, 2011				Dec. 31, 2010			
	Book Value	Fair value			Book Value	Fair value		
€/'000		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	688,873	141,515	526,849	4,885	1,109,195	214,587	889,807	-
1.1 Structured notes	100,976	-	93,020	-	106,258	5,082	97,212	-
1.2 Other debt securities	587,897	141,515	433,829	4,885	1,002,937	209,505	792,595	-
2. Loans	-	-	-	-	-	-	-	-
Total	688,873	141,515	526,849	4,885	1,109,195	214,587	889,807	-

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

€/'000	Dec. 31, 2011	Dec. 31, 2010
1. Debt securities	688,873	1,109,195
a) Governments and Central Banks	4,885	80,934
b) Government agencies	-	-
c) Banks	683,988	1,028,261
d) Other issuers	-	-
2. Loans	-	-
a) Governments and Central Banks	-	-
b) Government agencies	-	-
c) Banks	-	-
d) Others	-	-
Total	688,873	1,109,195

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

€/'000	Debt securities	Loans	Total
A. Opening balance	1,109,195	-	1,109,195
B. Increases	54,522	-	54,522
B1. Additions	44,905	-	44,905
B2. Reversal of impairment	-	-	-
B3. Reclassified from other portfolios	-	-	-
B4. Other	9,617	-	9,617
C. Decreases	474,844	-	474,844
C1. Disposals	94,483	-	94,483
C2. Redemptions	355,000	-	355,000
C3. Impairment	15,500	-	15,500
C4. Reclassified to other portfolios	-	-	-
C5. Other	9,861	-	9,861
D. Closing balance	688,873	-	688,873

Section 6 – Loans to banks – Caption 60

6.1 Analysis of loans to banks

€/'000	Dec. 31, 2011	Dec. 31, 2010
A. Central Banks	75,050	3,183
1. Time deposits	-	-
2. Reserve requirements	75,050	3,183
3. Repurchase agreements	-	-
4. Other	-	-
B. Banks	2,258,969	2,413,027
1. Current accounts and demand deposits	216,892	663,153
2. Time deposits	71,032	74,709
3. Others:	728,137	431,094
3.1 Repurchase agreements	712,755	400,184
3.2 Finance leases	-	-
3.3 Other	15,382	30,910
4. Debt securities	1,242,908	1,244,071
4.1 Structured notes	-	-
4.2 Other debt securities	1,242,908	1,244,071
Total (book value)	2,334,019	2,416,210
Total (fair value)	2,271,367	2,412,857

Section 7 – Loans to customers – Caption 70

7.1 Analysis of loans to customers

	Dec. 31, 2011		Dec. 31, 2010	
€/'000	Performing	Impaired	Performing	Impaired
1. Bank accounts	362,116	7,135	326,850	9,838
2. Repurchase agreements	9,884	-	99,965	-
3. Mortgage loans	2,472,847	20,728	2,199,939	15,369
4. Credit cards, personal loans and salary-guaranteed loans	264,269	938	182,860	703
5. Finance leases	-	-	-	-
6. Factoring	-	-	-	-
7. Other	165,066	9,922	418,812	10,370
8. Debt securities	754,429	-	882,994	-
8.1 Structured notes	-	-	-	-
8.2 Other debt securities	754,429	-	882,994	-
Total (book value)	4,028,611	38,723	4,111,420	36,280
Total (fair value)	4,272,531	38,723	4,345,323	36,280

The account includes debt securities (L&R) amounting to €152,092 thousand and government securities (L&R) amounting to €602,337 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

	Dec. 31, 2011		Dec. 31, 2010	
€/'000	Performing	Impaired	Performing	Impaired
1. Debt securities	754,429	-	882,994	-
a) Governments	501,420	-	601,467	-
b) Government agencies	100,917	-	101,060	-
c) Other issuers	152,092	-	180,467	-
- non financial companies	-	-	-	-
- financial companies	152,092	-	180,467	-
- insurance companies	-	-	-	-
- others	-	-	-	-
2. Loans	3,274,182	38,723	3,228,425	36,280
a) Governments	-	-	-	-
b) Government agencies	25	-	-	-
c) Others	3,274,157	38,723	3,228,425	36,280
- non financial companies	64,955	763	42,828	585
- financial companies	86,960	9,530	401,324	10,109
- insurance companies	20,958	-	25,503	-
- other	3,101,284	28,430	2,758,770	25,586
Total	4,028,611	38,723	4,111,419	36,280

At December 31, 2011, impaired loans amounted to €38,723 thousand, up €2,443 thousand over the prior year.

7.3 Loans to customers: micro-hedging

€/'000	Dec. 31, 2011	Dec. 31, 2010
1. Fair value hedges	478,338	506,801
a) interest rate risk	478,338	506,801
b) currency risk	-	-
c) credit risk	-	-
d) multiple risks	-	-
2. Cash flow hedges	-	-
a) interest rate risk	-	-
b) currency risk	-	-
c) other	-	-
Total	478,338	506,801

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. (Fibanc)	Barcelona	100.00	100.00
Bankhaus August Lenz & Co. AG	Munich	100.00	100.00
Mediolanum Fiduciaria 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. (Fibanc)	941,670	56,601	6,711	137,883	272,617	X
Bankhaus August Lenz & Co. AG	117,747	28,689	(14,152)	44,997	44,997	X
Mediolanum Fiduciaria S.p.A.	201	2	(58)	182	240	X
Gamax Management AG	14,634	9,729	4,194	12,304	29,368	X
Mediolanum Asset Management Ltd	16,471	34,087	13,503	13,116	1,989	X
Mediolanum Gestione Fondi SGR p.A.	53,888	64,865	12,523	28,452	2,610	X
Mediolanum International Funds Ltd	115,747	492,015	202,973	94,317	1,346	X
Total subsidiaries	-	-	-	-	353,167	
B. Joint ventures	-	-	-	-	-	
C. Companies under significant influence	-	-	-	-	-	

10.3 Year's movements in equity investments

€/'000	Dec. 31, 2011	Dec. 31, 2010
A. Opening balance	359,412	375,185
B. Increases	30,240	-
B1. Acquisitions	-	-
B2. Reversal of impairment	-	-
B3. Revaluations	-	-
B4. Other increases	30,240	-
C. Decreases	(36,485)	(15,773)
C1. Sales	-	-
C2. Impairment	(15,485)	(15,773)
C3. Other decreases	(21,000)	-
D. Closing balance	353,167	359,412
E. Total revaluations	-	-
F. Total adjustments	-	-

At December 31, 2011, the Bank's investments in Banking Group companies amounted to €353.2 million versus €359.4 million in the prior year. The €6.2 million decline over the prior year reflects:

- *€0.7 million decline* for impairment at December 31, 2011 of the subsidiary *Mediolanum Corporate University S.p.A.* resulting from losses recorded for financial year 2011 and residual losses from previous years.
- *€19.3 million decline* following the merger of *Mediolanum Corporate University S.p.A into Banca Mediolanum.* The merger was completed with the registration of the merger deed signed on November 29, 2011 with the Milan Company Registrar on December 6, 2011 by the merged company and on December 13, 2011 by Banca Mediolanum, this last date concluded the merger process. The merger became effective for accounting purposes from 11.59 pm of December 31, 2011.
- *€1 million decline* following the liquidation of *Mediolanum Distribuzione Finanziaria S.p.A.*. The voluntary liquidation of Mediolanum Distribuzione Finanziaria was completed upon the lodging of the liquidation final accounts with the Milan Company Registrar on December 27, 2011.
- *€14.6 million net increase* following the capital contributions aggregating to €30 million to the subsidiary *Bankhaus August Lenz A.G.* and write-downs for the year aggregating to €15.4 million.
- *€0.2 million increase* following the formation of *Mediolanum Fiduciaria S.p.A.*, a wholly-owned subsidiary of Banca Mediolanum. The purpose of the newly formed company is administration through registration of securities, including those on public registers, on behalf of third parties as well as all the activities that are typical of a trust company as per Act 1966 of November 23, 1939 (with the express exclusion of real estate). Following regulatory approvals the company was incorporated on February 11, 2011, and registered with the Company Registrar on February 15, 2011.

At December 31, 2011 the composition of the Mediolanum Banking Group, of which the Bank is the Parent Company, was changed over the prior year: the Mediolanum Banking Group no longer included *Mediolanum Distribuzione Finanziaria S.p.A.* and *Mediolanum Corporate University S.p.A.* and in addition to other companies that were part of the Group also in the prior year it also included the newly formed company *Mediolanum Fiduciaria S.p.A.*.

This section provides disclosures on impairment testing conducted on equity investments at December 31, 2011, in accordance with IAS 36 and the instructions set forth in the document jointly issued by the Bank of Italy, CONSOB and ISVAP on March 3, 2010.

The purpose of impairment testing is to ascertain that the carrying amount of each investment does not exceed its recoverable amount, i.e. the benefit that can be derived from it, either through future use (value in use) or by its disposal (fair value less cost to sell), whichever is the higher.

The impairment tests were conducted with the assistance of an independent valuation expert 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 investments	% holding	Carrying amount to be tested for impairment
Banco Mediolanum	100%	272.6
Gamax	99,996%	29.4
BAL	100%	46.3

VALUATION METHOD

The recoverable amount of the investments above was determined by calculating their value in use.

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 operation.

BANCO MEDIOLANUM

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 2012-2015 Business Plan (the 2012-2015 Plan) approved by the Boards of Directors of Banco Mediolanum and Banca Mediolanum S.p.A.

The 2012-2015 Plan was built on reasonable, consistent assumptions and represents the management best estimate of the possible future business developments of Banco Mediolanum.

The 2012-2015 Plan confirmed the strategic lines set out in the previous plan (2011-2014 Plan), notably the development of Banca Mediolanum's business model in Spain underpinned by the Mediolanum Group management expertise and track record, via the reorganisation and sustained development of the sales network with subsequent growth in net inflows, assets under management and administration.

The previous plan was updated to incorporate most recent expectations in relation to interest rate developments over the plan period and inflows forecasts on the basis of volumes and sales network numbers at December 31, 2011.

At December 31, 2011 Banco Mediolanum's net profit (€6.8 million) was higher than forecast (€5.5 million), while the number of financial advisors (505 people) was lower than forecast (549 people).

Specifically, the 2012-2015 Plan is based on the following key assumptions:

- Family Bankers (FB) network growth from 505 people to 845 people at year end 2015;
- growth in assets under management and administration at an average annual rate of 18% in the 2012-2015 period;
- business margin growth at an average annual rate of 2.1% in the 2012-2015 period.

To determine the value in use of the investment two scenarios were considered:

- Base scenario: developed using the projections set out in the 2012-2015 Plan;
- Prudential scenario: developed using the projections set out in the 2012-2015 Plan with the exclusion of treasury activities.

In both scenarios cash-flows were estimated assuming a minimum Tier 1 Capital ratio of 8%.

Under the Capital Asset Pricing Model the discount rate applied to calculate the present value of future cash flows (ke) was estimated at 13.9%, based on the following parameters:

- risk-free rate of 5.4% calculated on the basis of average historical 12-month yields on 10-year Spanish treasuries;
- beta coefficient (risk measure of the stock compared to the market) of 1.19 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 buy equities in lieu of risk-free assets) of 5% in line with best professional practice;
- specific risk premium conservatively estimated at 2.5% to take into account the underlying uncertainty in the execution of the plan.

The value of Banco Mediolanum at the end of the plan period was calculated based on cash flows available in 2015, excluding, on a conservative basis, in both scenarios, the contribution of treasury activities, and assuming 2% long-term growth in line with long-term inflationary expectations.

The results of this exercise did not indicate any impairment losses of the stake in Banco Mediolanum.

The results of the prudential scenario test were substantially in line with the carrying amount of the investment in Banco Mediolanum.

For the base scenario sensitivity to changes in some key assumptions was tested. The recoverable amount was found to be equal to the carrying amount of Banco Mediolanum for the following changes in key assumptions:

- discount rate of 16.2% (increase by 235 bps);
- long term growth of -1.9% (decline by 390 bps);
- net profitability 16% lower than 2012-2015 Plan estimates.

Please note that the information and parameters used to determine the recoverable amount of the investment, notably the estimated future 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 2011, which are unforeseeable at present. The effects that these changes may have on future cash-flows of Banco Mediolanum, as well as on the assumptions used, may cause future results to differ materially from those set out herein.
For the sake of completeness, in relation to possible external factors that may be indicative of impairment of Banco Mediolanum and the Mediolanum Group as a whole (e.g. the macroeconomic environment or the existence of comparable entities with stock prices lower than their equity book value) you are advised that the Mediolanum Group average stock market value in 2011 was 2.5x its equity book value.

GAMAX

The recoverable amount of Gamax was determined based on value in use calculated by applying the DDM method to the information set out in the 2012-2015 Business Plan (the 2012-2015 Plan) approved by the Board of Directors of Gamax and Banca Mediolanum S.p.A.
The 2012-2015 Plan was built on reasonable, consistent assumptions and represents the management best estimate of the possible future business developments of Gamax.
The previous plan was updated to incorporate most recent expectations in relation to financial market performance and interest rate developments over the plan period.
At December 31, 2011, Gamax net profit amounted to €4.2 million, and was higher than forecast (€3.1 million).
The 2012-2015 Plan of Gamax is based on the following key assumptions:

- assets under administration growth at an average annual rate of 4.8% in the 2012-2015 period;
- growth in business margin at an average annual rate of 1.2% in the 2012-2015 period;
- increase in general expenses at an average annual rate of 8.2% in the 2012-2015 period.

Under the Capital Asset Pricing Model the discount rate applied to calculate the present value of future cash flows (ke) was estimated at 12% for the Italian Division and 8.4% for the German Division. Calculations were based on the following parameters:

- risk-free rate of 5.5% calculated on the basis of average historical 12-month yields on 10-year Italian treasuries for the Italian Division, and of 1.9% calculated on the basis of average historical 3-month yields on 10-year German treasuries for the German Division;
- beta coefficient (risk measure of the stock compared to the market) of 1.10 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 buy equities in lieu of risk-free assets) of 5% in line with best professional practice;
- specific risk premium conservatively estimated at 1.0% to take into account underlying uncertainty in the execution of the plan.

The value of Gamax at the end of the plan period was calculated based on cash flows available in 2015, and assuming 2% long-term growth in line with long-term inflationary expectations.

For reasons of prudence the capital surplus potentially available was not considered in the evaluation.
The evaluation did not reveal any impairment losses of the investment in Gamax.
Sensitivity to changes in some key assumptions was tested. The recoverable amount of Gamax was found to be equal to its carrying amount for the following changes in key assumptions:

- discount rate of 12.5% for the Italian Division and of 8.9% for the German Division (increase by 50 bps);
- long term growth of 1.4% (decline by 60 bps);
- net profitability 5% lower than 2012-2015 Plan estimates.

BANKHAUS AUGUST LENZ (BAL)

The recoverable amount of BAL was determined based on value in use calculated by applying the DDM method to the information set out in the 2012-2015 Business Plan (the 2012-2015 Plan) approved by the Board of Directors of BAL and Banca Mediolanum S.p.A.
The 2012-2015 Plan was built on reasonable, consistent assumptions and represents the management best estimate of the possible future business developments of BAL.
The previous plan was updated to incorporate most recent expectations in relation to financial market performance and interest rate developments over the plan period.
At December 31, 2011, BAL reported a loss of €13.1 million which was higher than the loss forecast in the plan (€6.5 million) as income from treasuries activities came in negative at €6.3 million. Capital increases completed in 2011 aggregated to €30 million.
The 2012-2015 Plan of BAL is based on the following key assumptions:

- growth in business margin at an average annual rate of 71% in the 2012-2015 period, with growth picking up from the second half of 2013 consistently with estimated scenario developments;
- return to profit in 2015, the last year of the plan.

Under the Capital Asset Pricing Model the discount rate applied to calculate the present value of future cash flows (ke) was estimated at 10.9%. Calculations were based on the following parameters:

- risk-free rate of 1.9% calculated on the basis of average historical 3-month yields on 10-year German treasuries;
- beta coefficient (risk measure of the stock compared to the market) of 1.10 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 buy equities in lieu of risk-free assets) of 5% in line with best professional practice;
- specific risk premium conservatively estimated at 3.5% to take into account the risk of missing plan targets in the light of negative historical data.

The value of BAL at the end of the plan period was calculated based on cash flows available in 2015, and assuming 2% long-term growth in line with long-term inflationary expectations.
The exercise revealed a recoverable amount of BAL lower than its carrying amount which was therefore written down by 1.3 million to bring it in line with the book value of equity after recognition of the year's losses.

Section 11 – Tangible assets – Caption 110

11.1 Analysis of tangible assets carried at cost

€/'000	Dec. 31, 2011	Dec. 31, .2010
A. Occupied/used		
1.1 owned	16,839	16,701
a) land	5,440	5,440
b) buildings	4,936	5,190
c) furnishings	2,763	2,033
d) electronic equipment	2,514	2,894
e) other	1,186	1,144
1.2 under finance leases	-	-
a) land	-	-
b) buildings	-	-
c) furnishings	-	-
d) electronic equipment	-	-
e) other	-	-
Total A	16,839	16,701
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)	16,839	16,701

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	7,651	14,048	4,638	40,244
A.1 Total net write-downs	-	(3,277)	(5,618)	(11,154)	(3,494)	(23,543)
A.2 Net opening balance	5,440	5,190	2,033	2,894	1,144	16,701
B. Increases:	-	-	1,437	593	413	2,444
B.1 Additions	-	-	364	167	292	823
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	-	-	1,073	427	121	1,621
C. Decreases:	-	(254)	(707)	(974)	(371)	(2,306)
C.1 Disposals	-	-	(4)	(9)	-	(13)
C.2 Depreciation	-	(254)	(703)	(965)	(371)	(2,293)
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	4,936	2,763	2,514	1,186	16,839
D.1 Total net write-downs	-	(3,531)	(7,369)	(12,119)	(3,920)	(26,939)
D.2 Gross closing balance	5,440	8,467	10,132	14,633	5,106	43,778
E. Measured at costs	-	-	-	-	-	-

Tangible assets with unit value lower than €516.46 were fully depreciated in the year and amounted to €201 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, 2011		Dec. 31, 2010	
€/'000	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	X	-	X	-
A.2 Other intangible assets	11,446	-	8,632	-
A.2.1 Measured at cost	11,446	-	8,632	-
a) internally generated assets	-	-	-	-
b) other assets	11,446	-	8,632	-
A.2.2 Measured at fair value:	-	-	-	-
a) internally generated assets	-	-	-	-
b) other assets	-	-	-	-
Total	11,446	-	8,632	-

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	-	-	-	130,696	-	130,696
A.1 Total net write-downs	-	-	-	(122,064)	-	(122,064)
A.2 Net opening balance	-	-	-	8,632	-	8,632
B. Increases	-	-	-	14,330	-	14,330
B.1 Additions	-	-	-	11,801	-	11,801
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	-	-	-	2,529	-	2,529
C. Decreases	-	-	-	(11,516)	-	(11,516)
C.1 Disposals	-	-	-	-	-	-
C.2 Amortisation and impairment	-	-	-	(8,928)	-	(8,928)
- Amortisation	X	-	-	(8,928)	-	(8,928)
- Impairment	-	-	-	-	-	-
+ in equity	X	-	-	-	-	-
+ through profit or loss	-	-	-	-	-	-
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	-	-	-	(2,588)	-	(2,588)
D. Net closing balance	-	-	-	11,446	-	11,446
D.1 Total net write-downs	-	-	-	(129,233)	-	(129,233)
E. Gross closing balance	-	-	-	140,679	-	140,679
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 €6,911 thousand and withholding taxes of €6,762 thousand paid during 2011. 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 2011		FY 2010	
€/'000	Temporary differences	Tax rate %	Temporary differences	Tax rate %
Deferred tax assets:				
Valuation reserve relating to AFS securities	217,592	33.07%	62,125	32.32%
Valuation reserve relating to FS securities	-	5.57%	-	4.82%
Provisions for risks and charges	103,743	33.07%	88,354	32.32%
Provisions for risks and charges	70,750	27.50%	62,391	27.50%
Expenses deductible in future years	23,326	27.50%	20,663	27.50%
Expenses deductible in future years	(6)	33.07%	203	32.32%
Total	415,405		233,736	
Deferred tax liabilities:				
Valuation reserve relating to AFS securities	3,958	33.07%	6,739	32.32%
Valuation reserve relating to AFS securities	51	5.57%	56	4.82%
Income taxable in future years	30,338	27.50%	24,339	27.50%
Future expenses deductible in the year	311	27.50%	311	27.50%
Total	34,658		31,445	
Net deferred tax liabilities (assets)	-	122,393	-	62,579
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, 2011	Dec. 31, 2010
Deferred tax assets		
charge to the income statement	67,260	58,545
charge to equity	71,958	20,079
Total deferred tax assets	139,218	78,624
Deferred tax liabilities		
charge to the income statement	(8,428)	(6,778)
charge to equity	(1,312)	(2,181)
Total deferred tax liabilities	(9,740)	(8,959)

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

€/'000	Dec. 31, 2011	Dec. 31, 2010
1. Opening balance	58,545	48,520
2. Increases	21,967	19,385
2.1 Deferred tax assets arisen in the year	21,266	19,385
a) relating to prior years	-	-
b) due to changes in the accounting policies	-	-
c) write-backs	-	-
d) other	21,266	19,385
2.2 New taxes or increased tax rates	664	-
2.3 Other increases	37	-
3. Decreases	(13,252)	(9,360)
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	(13,252)	(9,360)
4. Closing balance	67,260	58,545

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

€/'000	Dec. 31, 2011	Dec. 31, 2010
1. Opening balance	(6,778)	(4,981)
2. Increases	(1,996)	(2,156)
2.1 Deferred tax liabilities arisen in the year	(1,996)	(2,156)
a) relating to prior years	-	-
b) due to changes in the accounting policies	-	-
c) other	(1,996)	(2,156)
2.2 New taxes or increased tax rates	-	-
2.3 Other increases	-	-
3. Decreases	346	359
3.1 Deferred tax liabilities cancelled in the year	346	359
a) reversals	-	-
b) due to changes in the accounting policies	-	-
c) other	346	359
3.2 Reduced tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	(8,428)	(6,778)

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

€/'000	Dec. 31, 2011	Dec. 31, 2010
1. Opening balance	20,079	1,950
2. Increases	76,378	18,387
2.1 Deferred tax assets arisen in the year	75,912	18,387
a) relating to prior years	-	-
b) due to changes in the accounting policies	-	-
c) other	75,912	18,387
2.2 New taxes or increased tax rates	466	-
2.3 Other increases	-	-
3. Decreases	(24,499)	(258)
3.1 Deferred tax assets cancelled in the year	(24,499)	(258)
a) reversals	-	-
b) write-offs of non-recoverable amounts	-	-
c) due to changes in the accounting policies	-	-
d) other	(24,499)	(258)
3.2 Reduced tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	71,958	20,079

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

€/'000	Dec. 31, 2011	Dec. 31, 2010
1. Opening balance	(2,181)	(2,187)
2. Increases	(2,216)	(1,423)
2.1 Deferred tax liabilities arisen in the year	(2,165)	(1,423)
a) relating to prior years	-	-
b) due to changes in the accounting policies	-	-
c) other	(2,165)	(1,423)
2.2 New taxes or increased tax rates	(51)	-
2.3 Other increases	-	-
3. Decreases	3,085	1,429
3.1 Deferred tax liabilities cancelled in the year	3,085	1,429
a) reversals	-	-
b) changes in the accounting policies	-	-
c) other	3,085	1,429
3.2 Reduced tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	(1,312)	(2,181)

Section 15 – Other assets – Caption 150

15.1 Analysis of other assets

€/'000	Dec. 31, 2011	Dec. 31, 2010
Receivables from tax authorities	22,449	25,255
Receivables from financial advisors	4,099	4,315
Advances to suppliers and professionals	3,992	6,745
Security deposits	348	348
Receivables from companies of the Fininvest & the Doris Groups	327	324
Receivables from subsidiaries and associates	4,344	5,892
Receivables from employees	511	488
Other receivables	2,206	11,077
Items in transit	149,300	109,603
Accruals	30,337	24,338
Prepayments	3,081	2,961
Other	6,824	3,782
Total	227,818	195,128

'Items in transit' primarily related to utilities bills not yet due to be charged to customer accounts (€83,516 thousand), cheques debited to customers in the first days of 2012 (€15,381 thousand), and miscellaneous items settled in January 2012 (€40,337 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, 2011	Dec. 31, 2010
Mediolanum Group companies		
parent company		
- Mediolanum S.p.A.	403	443
subsidiares		
- Mediolanum Gestione Fondi SGR p.A.	686	989
- Mediolanum Corporate University S.p.A.	-	331
- Bankhaus August Lenz & Co. AG	68	112
- Mediolanum International Funds Ltd	181	239
- Mediolanum Distribuzione Finanziaria S.p.A.	-	88
- Banco de Finanzas e Inversiones (Fibanc) SA	574	511
- Mediolanum Asset Management Ltd	18	8
associates		
- Mediolanum Vita S.p.A.	2,097	2,417
- Mediolanum Comunicazione S.p.A.	164	541
- Mediolanum International Life Ltd	152	213
- PI Servizi S.p.A.	1	-
Total	4,344	5,892
Receivables from Fininvest Group and Doris Group:		
- Mediolanum Assicurazioni S.p.A.	296	280
- Vacanze Italia S.p.A.	31	43
Total	327	323

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

€/'000	Dec. 31, 2011	Dec. 31, 2010
Prepaid stamp duties	22,346	19,921
Other	103	5,334
Total	22,449	25,255

'*Prepaid stamp duties*' related to 2012 stamp duties paid in November 2011 net of the balance due for 2011 stamp duties.

'*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 €1,580 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 (€6,742 thousand).

LIABILITIES

Section 1 – Amounts due to banks – Caption 10

1.1 Analysis of amounts due to banks

€/'000	Dec. 31, 2011	Dec. 31, 2010
1. Central banks	4,405,506	1,400,783
2. Banks	722,876	792,621
2.1 Current accounts and demand deposits	193,809	178,003
2.2 Time deposits	340,931	483,457
2.3 Loans	187,115	130,304
2.3.1 Repurchase agreements	187,115	130,304
2.3.2 Other	-	-
2.4 Commitments to buy back own equity instruments	-	-
2.5 Other amounts due	1,021	857
Total	5,128,382	2,193,404
Fair value	5,128,362	2,193,371

Section 2 – Amounts due to customers – Caption 20

2.1 Analysis of amounts due to customers

€/'000	Dec. 31, 2011	Dec. 31, 2010
1. Current accounts and demand deposits	5,444,088	4,860,235
2. Time deposits	1,097,085	330,223
3. Loans	879,344	1,822,843
3.1 Repurchase agreements	879,344	1,822,843
3.2 Other	-	-
4. Commitments to buy back own equity instruments	-	-
5. Other amounts due	164,473	191,803
Total	7,584,990	7,205,104
Fair value	7,584,990	7,205,104

'Other amounts due' consisted entirely of current payables of which €50,457 thousand payable to the sales network (€70,079 thousand at December 31, 2010).

Section 3 – Securities issued – Caption 30

3.1 Analysis of securities issued

	Dec. 31, 2011				Dec. 31, 2010			
	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	285,631	-	270,234	-	340,479	-	338,427	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	285,631	-	270,234	-	340,479	-	338,427	-
2. other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
Total	285,631	-	270,234	-	340,479	-	338,427	-

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

'*Securities issued*' included €123,017 thousand subordinated securities and €162,614 thousand 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, 2011					Dec. 31, 2010				
	NV	FV			FV*	NV	FV			FV*
€/'000		L1	L2	L3			L1	L2	L3	
A. Non-derivatives										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	289,562	320,066	-	-	320,066	410,139	443,604	-	1	443,605
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	289,562	320,066	-	-	320,066	410,139	443,604	-	1	443,605
B. Derivatives										
1. Financial derivatives	-	-	12,417	-	-	-	2	7,223	1	-
1.1 held for trading	X	-	12,417	-	X	X	2	7,223	1	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	-	12,417	-	X	X	2	7,223	1	X
Total (A+B)	X	320,066	12,417	-	X	X	443,606	7,223	2	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

€/'000	Dec. 31, 2011				Dec. 31, 2010			
	Fair value			NV	Fair value			NV
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives	-	67,896	-	437,995	-	28,510	-	497,946
1) Fair value hedge	-	67,896	-	437,995	-	28,510	-	497,946
2) Cash flow hedge	-	-	-	-	-	-	-	-
3) Hedge of investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-	-	-	-
1) Fair value hedge	-	-	-	-	-	-	-	-
2) Cash flow hedge	-	-	-	-	-	-	-	-
Total	-	67,896	-	437,995	-	28,510	-	497,946

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

€/'000	Fair value						Cash flow		investments in foreign operations
	micro-hedging					macro-hedging	micro-hedging	macro-hedging	
	interest rate risk	currency risk	credit risk	pricing risk	multiple risks				
1. Available-for-sale financial assets	-	-	-	-	-	X	-	X	X
2. Loans and receivables	67,896	-	-	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	67,896	-	-	-	-	-	-	-	-
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, 2010	Amounts set aside in the year	Other changes	Funds used	Dec. 31, 2011
Corporate Income Tax (IRES)	-	-	51	-	51
Regional Business Tax (IRAP)	6,810	9,015	56	(6,810)	9,071
Total	6,810	9,015	107	(6,810)	9,122

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, 2011	Dec. 31, 2010
Items in transit	233,375	101,654
Payables to suppliers, consultants and other professionals	27,774	26,473
Payables to employees	6,264	8,708
Payables to tax authorities	10,182	6,710
Payables to social security agencies	4,676	4,636
Payables to Mediolanum Group companies	1,601	3,277
Agents' severance benefits	3,528	3,604
Other sundry liabilities	1,913	2,129
Payables to companies of the Fininvest Group and Doris Group	2,937	1,266
Deferred income	17,029	13,108
Payables to financial advisors	21,609	19,532
Accrued expenses	80	26
Total	330,968	191,123

'*Items in transit*' included payments to other bank accounts ordered by customers and cleared through the Interbank Payment System in the first days of 2012 (€20,891 thousand), payments by direct debit/standing orders of customers (€32,651 thousand), ATM transactions made by customers (€3,074 thousand), transactions made by customers at post offices (*Banco Posta*) (€4,955 thousand), payments to be made into the *Mediolanum Plus* policies (€19,715 thousand) and other items being processed that were cleared in the first days of 2012.

'*Payables to suppliers, consultants and other professionals*' related to fees due in 2011, that were unpaid at balance sheet date. The account also included an amount of €309 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 (€3,939 thousand) and of financial advisors (€737 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, 2011.

'*Agents' severance benefits*' related to 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, 2012 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, 2011	Dec. 31, 2010
Mediolanum Group companies:		
parent company:		
- Mediolanum S.p.A.	552	809
subsidiaries:		
- Mediolanum Corporate University S.p.A.	-	978
- Mediolanum Gestione Fondi SGR p.A.	194	111
- Banco de Finanzas e Inversiones SA (Fibanc)	-	11
- Bankhaus August Lenz & Co. AG	-	4
associates		
- Mediolanum Comunicazione S.p.A.	407	1.035
- Mediolanum Vita S.p.A.	448	329
Total	1,601	3,277
Fininvest Group/Doris group companies:		
- Mediolanum Assicurazioni S.p.A.	2,212	1,203
- Mondadori Pubblicità S.p.A.	41	16
- Digitalia '08 S.r.l.	119	34
- Vacanze Italia S.p.A.	125	11
- Publitalia '80 S.p.A.	440	-
- Mondadori Retail S.p.A.	-	2
Total	2.937	1.266

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

€/'000	Dec. 31, 2011	Dec. 31, 2010
Substitute and withholding taxes	10,172	5,399
Other	9	1,311
Total	10,181	6,710

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

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

€/'000	Dec. 31, 2011	Dec. 31, 2010
A. Opening balance	8,786	9,132
B. Increases	5,098	4,603
B.1 Amounts set aside in the year	5,024	4,580
B.2 Other increases	74	23
C. Decreases	(5,055)	(4,949)
C.1 Funds used in the year	(4,955)	(4,899)
C.2 Other decreases	(100)	(50)
D. Closing balance	8,829	8,786

Section 12 – Provisions for risks and charges – Caption 120

12.1 Analysis of provisions for risks and charges

€/'000	Dec. 31, 2011	Dec. 31, 2010
1. Severance entitlements	-	-
2. Other provisions for risks and charges	156,758	133,342
2.1 legal proceedings	15,307	11,549
2.2 staff costs	-	-
2.3 other	141,451	121,793
Total	156,758	133,342

12.2 Year's movements in provisions for risks and charges

€/'000	Severance entitlements	Other	Total
A. Opening balance	-	133,342	133,342
B. Increases	-	50,703	50,703
B.1 Amounts set aside in the year	-	50,703	50,703
B.2 Time-related increases	-	-	-
B.3 Increased discount rate	-	-	-
B.4 Other increases	-	-	-
C. Decreases	-	(27,287)	(27,287)
C.1 Funds used in the year	-	(10,624)	(10,624)
C.2 Decreased discount rate	-	-	-
C.3 Other decreases	-	(16,663)	(16,663)
D. Closing balance	-	156,758	156,758

12.4 Provisions for risks and charges – 'other'

€/'000	Balance at Dec. 31, 2010	Amount set aside in the year	Other changes	Funds used	Balance at Dec. 31, 2011
- Legal proceedings	11,549	5,448	(1,160)	(530)	15,307
- Other:					
Managerial Allowance	33,037	7,409	(833)	-	39,613
Risks related to FA illegal actions	36,151	18,959	(11,137)	(3,346)	40,627
Customer base entitlements	22,347	6,078	(1,152)	(1,435)	25,838
Portfolio allowance	13,496	8,567	(2,357)	(1,378)	18,328
Product distribution	12,531	2,507	-	(1,354)	13,684
Miscellaneous	4,231	1,735	(24)	(2,581)	3,361
Total	133,342	50,703	(16,663)	(10,624)	156,758

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 Allowance, and the Managerial Allowance.

The '*Portfolio 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 (2002-2011) 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 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 – Captions 130, 150, 160, 170, 180, 190 and 200

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

	Share capital		Treasury shares	
€/'000	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2010
Ordinary shares	450,000	450,000	-	-
Other shares	-	-	-	-
Total	450,000	450,000	-	-

At December 31, 2011, 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: loss coverage	Utilisation: other
Share capital:	450,000	-	-	-	-
Equity reserves, of which:					
Retained earnings, of which:					
- legal reserve	25,378	B	25,378	-	-
- extraordinary reserve	124,819	A B C	124,819	-	-
- FTA reserve	(65,524)	A B C	(65,524)	-	-
- other reserves (stock options)	11,970	A B	11,970	-	-
Other reserves of which:				-	-
- merger reserve	3,185	A B C	3,185	-	-
Valuation reserves	(142,937)	(1)	-	-	-
Total	406,890	-	99,827	-	-
of which undistributable	-	-	37,348	-	-
of which distributable	-	-	62,479	-	-

Legend:
A = capital increase
B = loss coverage
C = distribution to shareholders
(1) reserve not available pursuant to art. 6 Legislative Decree 38/2005

OTHER INFORMATION

1. Guarantees issued and commitments

€/'000	Dec. 31, 2011	Dec. 31, 2010
1) Financial guarantees	16,572	14,468
a) Banks	16,542	14,438
b) Customers	30	30
2) Commercial guarantees	27,034	22,481
a) Banks	5,947	11,586
b) Customers	21,087	10,895
3) Commitments to disburse funds	130,153	84,238
a) Banks	10,159	1,597
i) with certain drawdown	10,159	1,597
ii) with possible drawdown	-	-
b) Customers	119,994	82,641
i) with certain drawdown	2,163	413
ii) with possible drawdown	117,831	82,228
4) Commitments under credit derivatives: protection sales	-	-
5) Assets pledged to secure third-party obligations	542	5,648
6) Other commitments	-	-
Total	174,301	126,835

2. Assets pledged to secure own liabilities and commitments

€/'000	Dec. 31, 2011	Dec. 31, 2010
1. Financial assets held for trading	527,669	266,448
2. Financial assets at fair value	-	-
3. Available-for-sale financial assets	3,566,419	1,399,570
4. Held-to-maturity investments	493,636	654,825
5. Loans to banks	862,138	999,110
6. Loans to customers	753,243	782,822
7. Tangible assets	-	-
Total	6,203,105	4,102,775

4. Brokerage and asset management on behalf of customers

€/'000	Dec. 31, 2011
1. Orders executed on behalf of customers	
a) Purchases	1,638,092
1. settled	1,638,092
2. not settled	-
b) Sales	1,728,276
1. settled	1,728,276
2. not settled	-
2. Portfolio management	
a) individual portfolio management	48,247
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	6,901,984
1. securities issued by entities incl. in consolidated accounts	275,951
2. other securities	6,626,033
c) third-party securities held by other custodians	6,189,738
d) own securities held by other custodians	9,682,339
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, 2011	Dec. 31, 2010
1. Financial assets held for trading	23,068	-	-	23,068	19,408
2. Available-for-sale financial assets	95,023	-	-	95,023	18,219
3. Held-to-maturity investments	31,694	-	-	31,694	36,574
4. Loans to banks	40,808	21,340	-	62,148	33,121
5. Loans to customers	18,416	108,019	-	126,435	94,577
6. Financial assets at fair value	-	-	-	-	-
7. Hedging derivatives	X	X	-	-	-
8. Other assets	X	X	552	552	50
Total	209,009	129,359	552	338,920	201,949

1.3 Interest income and similar income: other information

€/'000	Dec. 31, 2011	Dec. 31, 2010
Interest income and similar income on:		
1.3.1 financial assets denominated in foreign currencies	1,502	717
1.3.2 finance leases	-	-
Total	1,502	717

1.4 Analysis of interest expense and similar charges

€/'000	Amounts due	Securities	Other	Dec. 31, 2011	Dec. 31, 2010
1. Due to central banks	26,877	X	-	26,877	5,482
2. Due to banks	12,024	X	-	12,024	10,042
3. Due to customers	73,278	X	-	73,367	25,719
4. Securities issued	X	8,979	-	8,979	5,667
5. Financial liabilities held for trading	15,038	-	-	15,038	17,653
6. Financial liabilities at fair value	-	-	-	-	-
7. Other liabilities and funds	X	X	10	10	98
8. Hedging derivatives	X	X	12,648	12,648	17,098
Total	127,217	8,979	12,658	148,854	81,759

1.5 Interest expense and similar charges: analysis of hedging balances

€/'000	Dec. 31, 2011	Dec. 31, 2010
A. Positive differences arising on:	6,344	3,970
A.1 fair value micro-hedging of assets	6,344	3,970
B. Negative differences arising on:	(18,992)	(21,068)
B.1 fair value micro-hedging of assets	(18,992)	(21,068)
C. Balance (A-B)	(12,648)	(17,098)

1.6 Interest expense and similar charges: other information

€/'000	Dec. 31, 2011	Dec. 31, 2010
Interest expense and similar charges on:		
a) financial liabilities denominated in foreign currencies	5,968	5,450
b) finance leases	-	-
Total	5,968	5,450

Section 2 – Commissions – Captions 40 and 50

2.1 Analysis of commission income

€/'000	Dec. 31, 2011	Dec. 31, 2010
a) Guarantees issued	-	-
b) Credit derivatives	-	-
c) Management, brokerage and consulting services:	340,230	368,918
1. brokerage of financial instruments	95	94
2. currency brokerage	-	-
3. portfolio management	628	730
3.1 individual portfolio management	628	730
3.2 collective portfolio management	-	-
4. securities in custody and under administration	4,225	3,659
5. custodian bank	-	-
6. sale of securities	27,722	44,085
7. order taking and transmission	5,902	5,709
8. consultancy	-	-
8.1 investment advice	-	-
8.2 financial structure advice	-	-
9. services to third parties	301,658	314,641
9.1 portfolio management	189,559	189,498
9.1.1. individual portfolio management	-	-
9.1.2. collective portfolio management	189,559	189,498
9.2. insurance products	102,769	114,280
9.3. other products	9,330	10,863
d) Payments and collections	7,867	8,210
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	21,617	22,622
j) Other services	9,248	8,909
Total	378,962	408,659

2.2 Commission income: distribution channels of products and services

€/'000	Dec. 31, 2011	Dec. 31, 2010
a) Through the company's own branches	27,722	44,085
1. asset management	-	-
2. sale of securities	27,722	44,085
3. services and products of third parties	-	-
b) Off-premises sales	302,286	315,372
1. asset management	628	730
2. sale of securities	-	-
3. services and products of third parties	301,658	314,642
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, 2011	Dec. 31, 2010
a) Guarantees received	-	-
b) Credit derivatives	-	-
c) Management and brokerage services:	252,579	275,568
1. brokerage of financial instruments	-	-
2. currency brokerage	-	-
3. asset management	376	466
3.1 own management	-	-
3.2 on mandates from third parties	376	466
4. securities in custody and under administration	607	784
5. sale of financial instruments	-	-
6. off-premises sale of financial instruments, products & services	251,596	274,318
d) Payments and collections	10,943	11,000
e) Other services	10,317	9,535
Total	273,839	296,103

Section 3 – Dividends and similar income – Caption 70

3.1 Analysis of dividends and similar income

	Dec. 31, 2011		Dec. 31, 2010	
€/'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	274	2,564	386	2,179
C. Financial assets at fair value	-	-	-	-
D. Equity investments	121,683	X	124,608	X
Total	121,957	2,564	124,994	2,179

This account almost entirely relates to dividends received from the subsidiaries Mediolanum International Funds Ltd, Mediolanum Asset Management Ltd., Mediolanum Gestione Fondi SGR p.A., Mediolanum Distribuzione Finanziaria S.p.A. and Gamax Management (AG). Dividends include €60,482 thousand 2010 dividends whose distribution to shareholders was resolved and took place in 2011, as well as the 2011 interim dividends amounting to €61,200 thousand paid out by the subsidiaries Mediolanum International Funds Ltd and Mediolanum Asset Management Ltd. in November 2011.

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	5,720	8,464	(23,943)	(4,163)	(13,922)
1.1 Debt securities	5,720	8,451	(23,935)	(4,125)	(13,889)
1.2 Equities	-	13	(8)	(38)	(33)
1.3 Holdings in UCITS	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	1,982	9,738	(8,643)	(4,597)	(1,520)
2.1 Debt securities	1,982	9,738	(8,643)	(4,597)	(1,520)
2.2 Debt	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Other financial assets and liabilities: exchange differences	X	X	X	X	44
4. Derivatives	-	26,524	(10,207)	(31,438)	(12,834)
4.1 Financial derivatives	-	26,524	(10,207)	(31,438)	(12,834)
- debt securities and interest rates	-	26,498	(10,207)	(31,407)	(15,116)
- equities and stock indices	-	26	-	(31)	(5)
- currencies and gold	X	X	X	X	2,287
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	7,702	44,726	(42,793)	(40,198)	(28,232)

Section 5 – Net income from hedging – Caption 90

5.1 Analysis of net income from hedging

€/'000	Dec. 31, 2011	Dec. 31, 2010
A. Income from:		
A.1 Fair value hedging derivatives	-	-
A.2 Hedged financial assets (fair value)	35,589	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)	35,589	12,657
B. Expense from:		
B.1 Fair value hedging derivatives	(39,402)	(13,783)
B.2 Hedged financial assets (fair value)	-	-
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)	(39,402)	(13,783)
C. Net income from hedging (A - B)	(3,813)	(1,126)

Section 6 – Gains (losses) on sale/buyback – Caption 100

6.1 Analysis of gains (losses) on sale/buyback

	Dec. 31, 2011			Dec. 31, 2010		
€/'000	Gains	Losses	Net gains (losses)	Gains	Losses	Net gains (losses)
Financial assets						
1. Loans to banks	-	(36)	(36)	55	-	55
2. Loans to customers	266	(35)	231	178	(74)	104
3. Available-for-sale financial assets:	9,297	(4,276)	5,021	5,990	(1,860)	4,130
3.1 Debt securities	9,293	(4,275)	5,018	5,985	(1,296)	4,689
3.2 Equities	-	-	-	-	-	-
3.3 Holdings in UCITS	4	(1)	3	5	(564)	(559)
3.4 Financing	-	-	-	-	-	-
4. Held-to-maturity investments	1,046	-	1,046	-	-	-
Total assets	10,609	(4,347)	6,262	6,223	(1,934)	4,289
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, 2011	Dec. 31, 2010
	Individual			Individual		Collective			
	Cancellations	Others	Collective	A	B	A	B		
A. Loans to banks									
- Loans	-	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-	-
B. Loans to customers									
- Loans	(1,678)	(8,507)	-	-	3,242	-	762	(6,181)	(9,171)
- Debt securities	-	-	-	-	-	-	-	-	-
C. Total	(1,678)	(8,507)	-	-	3,242	-	762	(6,181)	(9,171)

8.2 Analysis of net impairment of available for sale financial assets

€/'000	Impairment		Reversal of impairment		Dec. 31, 2011	Dec. 31, 2010
	Individual		Individual			
	Cancellations	Others	A	B		
A. Debt securities	-	(65,820)	-	-	(65,820)	-
B. Equities	-	(224)	X	X	(224)	(483)
C. Holdings in UCITS	-	(2,918)	X	-	(2,918)	(802)
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	-	(68,962)	-	-	(68,962)	(1,285)

Legend:
A = interest
B = other

The €65.8 million amount relates to impairment of Greek sovereign debt holdings.

8.3 Analysis of net impairment of held-to-maturity investments

€/'000	Impairment		Reversal of impairment		Dec. 31, 2011	Dec. 31, 2010
	Individual		Individual			
	Cancellations	Others	A	B		
A. Debt securities	-	(15,500)		-	(15,500)	-
B. Loans to banks	-	-		-	-	-
C. Loans to customers	-	-		-	-	-
D. Total	-	(15,500)		-	(15,500)	-

Legend:
A = interest
B = other

The €15.5 million amount relates to impairment of Greek sovereign debt holdings.

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, 2011	Dec. 31, .2010
A. Guarantees issued	-	-	(4)	-	21	-	-	17	(2)
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	-	-	-	-	-	-	-
D. Others	-	-	-	-	-	-	-	-	-
E. Total	-	-	(4)	-	21	-	-	17	(2)

Legend:
A = interest
B = other

Section 9 – Administrative expenses – Caption 150

9.1 Analysis of staff costs

€/'000	Dec. 31, 2011	Dec. 31, 2010
1) Employees	97,333	96,190
a) wages and salaries	64,311	64,228
b) social security contributions	20,317	19,977
c) employee completion of service entitlements	-	-
d) pensions	-	-
e) provision for completion of service entitlements	5,024	4,580
f) provision for severance benefits and similar obligations		
- defined contribution plan	-	-
- defined benefit plan	-	-
g) external supplementary pension funds:	1,011	964
- defined contribution plan	1,011	964
- defined benefit plan	-	-
h) expenses in connection with equity-settled share-based payment transactions	-	-
i) other employee benefits	6,670	6,441
2) Other personnel	1,236	803
3) Directors and Statutory Auditors	1,757	1,440
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	100,326	98,433

Following the clarifications provided by the Bank of Italy in its communication dated February 10, 2012, in 2010 comparative information an amount of €558 thousand was reclassified out of '*Staff costs*' to '*Other administrative expenses*'.

The reclassification related to items such as medical expenses, travel expenses and mileage allowance.

9.2 Average number of personnel by category

Category	Dec. 31, 2011	Dec. 31, 2010
Employees		
a) senior management	68	68
b) middle management	178	169
c) other employees	1,284	1,258
Total Employees	1,530	1,495
Other personnel	20	6
Total	1,550	1,501

9.5 Analysis of other administrative expenses

€/'000	Dec. 31, 2011	Dec. 31, 2010
IT services	40,814	39,286
Advertising and promotions	24,318	22,130
Television and Internet communication services	8,992	11,242
Consultancy, education and training of the sales force	12,158	14,043
Rentals	9,694	9,777
Other advisory services	10,500	10,366
Postal and telephone	9,429	9,558
Business Conventions	4,982	2,544
Consumables	3,452	3,665
Infoprovider services	3,551	3,037
Financial services fees and other expenses	1,963	2,058
Insurance	1,740	1,898
Business expenses, gifts and donations	4,099	3,727
Contributions to "Family Banker" offices	1,251	1,435
Travel expenses	679	680
Repairs and maintenance	1,258	1,218
Utilities	1,238	1,638
Personnel recruitment	179	95
Market research	392	320
Other miscellaneous services	13,651	12,676
Other administrative expenses	2,393	761
Total	156,733	152,154

Following the clarifications provided by the Bank of Italy in its letter dated February 10, 2012, in 2010 comparative information an amount of €558 thousand was reclassified out of '*Staff costs*' to '*Other administrative expenses*'.

The reclassification related to items such as medical expenses, travel expenses and mileage allowance.

Section 10 – Provisions for risks and charges – Caption 160

10.1 Analysis of provisions for risks and charges

€/'000	Dec. 31, 2011	Dec. 31, 2010
Provisions for risk and charges - other		
Risks related to FA illegal actions	7,822	9,676
FA customer base entitlements	4,925	3,351
Portfolio & organisation allowance	6,210	3,795
Managerial allowance	6,577	8,904
Product distribution	2,507	3,260
Legal proceedings	4,288	3,449
Other net provisions	1,656	3,168
Total	33,985	35,603

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	(2,293)	-	-	(2,293)
A.1 owned	(2,293)	-	-	(2,293)
- held for use	(2,293)	-	-	(2,293)
- held for investment purposes	-	-	-	-
A.2 under finance leases	-	-	-	-
- held for use	-	-	-	-
- held for investment purposes	-	-	-	-
Total	(2,293)	-	-	(2,293)

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	(8,928)	-	-	(8,928)
A.1 owned	(8,928)	-	-	(8,928)
- internally generated	-	-	-	-
- other	(8,928)	-	-	(8,928)
A.2 under finance leases	-	-	-	-
Total	(8,928)	-	-	(8,928)

Section 13 – Other operating income – Caption 190

13.1/13.2 Analysis of other operating expenses and income

€/'000	Dec. 31, 2011	Dec. 31, 2010
Other operating expenses:		
Compensations and Settlements	(3,778)	(1,699)
Amortisation of expenses for improvements of leasehold assets	(25)	(506)
Other expenses	(514)	(251)
Total other operating expenses	(4,317)	(2,456)
Other operating income:		
Recoveries of expenses for services rendered to Group companies	11,389	12,591
Recoveries of expenses from employees	-	-
Recoveries of expenses from customers	200	1,176
Rentals of property	289	273
Recoveries of expenses from financial advisors	368	368
Other income	4,765	6,220
Total other operating income	17,011	20,628
Total other operating income (net)	12,694	18,172

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

14.1 Analysis of profit (loss) on equity investments

€/'000	Dec. 31, 2011	Dec. 31, 2010
A. Gains	-	-
1. Revaluations	-	-
2. Gains on sale	-	-
3. Reversal of impairment	-	-
4. Other income	-	-
B. Losses	(16,373)	(15,773)
1. Decrease in value	(16,159)	(15,773)
2. Impairment	-	-
3. Losses on sale	-	-
4. Other expenses	(214)	-
Profit (loss)	(16,373)	(15,773)

At year end 2011, the carrying amount of the investment in the subsidiary Bankhaus August Lenz & Co. A.G. was written down by €14,152 thousand (€6,347 thousand in 2010), and by additional €1,333 thousand after impairment testing. This was done to align the carrying amount of the investment with the amount at which it is recognised in the consolidated financial statements. That carrying amount is believed to reflect the fair value of the German company.
The €214 thousand other expenses related to the loss on the liquidation of the subsidiary Mediolanum Distribuzione Finanziaria.

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

17.1 Analysis of profit (loss) on disposal of investments

€/'000	Dec. 31, 2011	Dec. 31, 2010
A. Property	-	-
- Gains on sale	-	-
- Losses on sale	-	-
B. Other assets	28	2,197
- Gains on sale	38	2,201
- Losses on sale	(10)	(4)
Profit (loss)	28	2,197

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

18.1 Analysis of income tax expense on continuing operations

€/'000	Dec. 31, 2011	Dec. 31, 2010
1. Current tax (-)	11,624	(5,149)
2. Change in current tax for prior years (+/-)	-	9
3. Change in current tax for the year (+)	-	-
4. Change in deferred tax assets (+/-)	8,774	10,170
5. Change in deferred tax liabilities (+/-)	(1,650)	(1,797)
6. Income tax expense for the year (-) (-1+/-2+3+/-4+/-5)	18,748	3,233

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

€/'000	rate %	taxable amout	tax expense
Calculation of taxable income (IRES)			
Profit before tax	-	(2,619)	-
Theoretical tax	27.50	-	(720)
Temporary differences taxable in future years	-	(5,999)	-
Temporary differences deductible in future years	-	72,342	-
Prior years' temporary differences	-	(46,276)	-
Permanent differences	-	(92,498)	-
Total taxable income	-	(75,050)	-
Current tax expense for the year	-	-	(20,639)
Adjustments due to application of tax consolidation regime	-	-	-
Prior years' tax	-	-	-
Current tax expense	-	-	(20,639)
Average rate on profit before tax	N.A.	-	-
Calculation of taxable income (IRAP)			
Value of production less production costs	-	181,788	-
Income/Costs not significant for the purpose of IRAP calculation	-	(30,155)	-
Gross production value	-	151,632	-
Theoretical tax expense (tax rate: 5.57%)	5.57	-	8,446
Prior years' temporary differences	-	(4,970)	-
Permanent differences	-	15,188	-
Net production value	-	161,850	-
Current tax expense for the year	-	-	9,015
Prior years' tax	-	-	(1)
Current tax expense	-	-	9,014
Average rate on value added	5.95	-	-

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	16,129
Other income components			
20. Available for sale financial assets	(158,253)	52,748	(105,505)
a) changes in fair value	(230,963)	76,317	(154,646)
b) reversals to the income statement	72,710	(23,984)	48,726
- impairment	68,962	(22,744)	46,218
- realised gains/losses	3,748	(1,240)	2,508
c) other changes	-	415	415
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	(158,253)	52,748	(105,505)
120. Comprehensive income (items 10+110)	(158,253)	52,748	(89,376)

PART E – INFORMATION ON RISKS AND RISK MANAGEMENT

The Internal Capital Adequacy Assessment Process (ICAAP)

Under Basel II Pillar 2 (Title III of Bank of Italy's Circular 263/2006) banks are required to have a process (Internal Capital Adequacy Assessment Process, ICAAP) to estimate their own internal capital requirements to cover all risks, including those not captured by the total capital requirement (pillar 1) as part of the assessment of the bank's current and future exposure, taking account of the bank's strategies and possible developments in the environment in which it operates. Supervisory regulations detail the steps, the frequency and the main risks to be considered and, for certain risks, set out indications on methods that should be used in the assessment. In accordance with the principle of proportionality – under which the level of detail and sophistication of the analysis required in a bank's ICAAP depends on the size, nature and complexity of the bank's activities – the supervisory authorities have classified banks into three categories. Responsibility for the ICAAP rests with corporate governance bodies.

The Supervisory Review Process (SRP)

The Supervisory Review Process (SRP) entails two integrated steps. The first is the banks' process for assessing their current and future capital adequacy in relation to their risk profile and business strategies (ICAAP). The second is the Supervisory Review and Evaluation Process (SREP) conducted by the national banking supervisory authorities that review and evaluate banks' internal capital adequacy and, if needed, take appropriate action.
The SREP hinges on the collaboration and exchange of information between the Banking Supervisor and banks. The Banking Supervisor (Bank of Italy) can thus gain a deeper understanding of the banks' ICAAP including underlying assumptions, and banks can detail the assumptions underlying their assessment.
Banks define strategies and put in place procedures and tools to maintain adequate capital level – in terms of value and composition – to cover all the risks to which they are or may be exposed, including those risks for which a capital charge is not required.
The ICAAP hinges on the bank's sound risk management framework, effective internal control system, robust corporate governance and well-defined lines of responsibilities.
Board and senior management are responsible for the ICAAP. They are responsible for designing and organising it in accordance with respective competences and prerogatives. They are responsible for the implementation and for regular reviews of the ICAAP to ensure it is commensurate with the operational and strategic environment in which the bank operates.
The ICAAP must be documented, shared and known across the organisation and subject to internal audit.

The Supervisory Review Process reflects the principle of proportionality, i.e.:
- the bank's corporate governance, risk management framework, internal control system and capital assessment process are commensurate with the nature, size and complexity of its activities;
- the frequency, the level of detail and sophistication of the SREP depend on the systemic relevance, the nature, size and complexity of the bank's business.

Classification of intermediaries in relation to the ICAAP

The principle of proportionality applies to:
- the methods used to measure/assess risks and related internal capital adequacy;
- the type and characteristics of stress tests;
- the treatment of correlations between risks and overall internal capital requirements;
- organisation of the risk management system;
- level of detail and sophistication of ICAAP reports to the Bank of Italy.

To facilitate the implementation of the proportionality principle, banks are classified into three categories according to their size and the complexity of their activities. The Mediolanum Banking Group falls within category 2, i.e. banking groups or banks applying the standardised approach, with consolidated or separate assets in excess of €3.5 billion.

Banks apply a consistent approach to deriving capital requirements from the bank's risk measurement under the first pillar and overall internal capital requirements.

Banca Mediolanum's ICAAP

In accordance with supervisory requirements and in line with best practices, Banca Mediolanum's ICAAP entails the following steps:

1) identification of risks for assessment;
2) measurement/assessment of individual risks and related internal capital level;
3) measurement of the overall internal capital level;
4) determination of overall capital level and reconciliation to regulatory capital.

Key Risks Mapping

In accordance with Bank of Italy's Circular 263/06, the process for the identification of the key risks for the Mediolanum Group starts from the analysis of the Bank's and Group's statutory lines of business and activities conducted in each of these lines.

Risk mapping therefore starts from the macro lines that make up the Banking Group's business.

In the Mediolanum Banking Group the following main business segments can be identified:
- Lending (Retail and Commercial Banking)
- Treasury activities (Trading and Sales)
- Asset Management
- Retail Brokerage

The starting point is risk measurement followed by the definition of relevant risk thresholds for risks for which there is a capital charge requirement as well as for other risks for which there is no capital charge requirement but must be analysed and monitored.

First pillar risks

Credit Risk (including counterparty risk)

Credit risk is the risk of loss arising from the deterioration in the creditworthiness up to default of retail, corporate and institutional counterparties of whom the bank is a creditor in its investment or lending business, as a result of which debtors fail to meet all or part of their contractual obligations.

Market Risk

For banks using the standardised approach the capital requirement for market risk is the sum of capital requirements for position risk, settlement risk, concentration risk and commodity risk.

Operational 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."

Second pillar risks

Concentration Risk

Concentration risk is the risk arising from exposure to individual counterparties, groups of related counterparties or counterparties in the same industry, business segment or geographical location.

Interest Rate Risk

Interest rate risk arising on activities other than trading: the risk of potential movements in interest rates.

Liquidity Risk

Liquidity risk is typically the risk that arises from the difficulty of liquidating assets. More specifically, it is the risk that a financial instrument cannot be bought or sold without a material decrease/increase in its price (wide bid-ask spread) due to the potential inability of the market to settle the transaction wholly or partly. Liquidity risk is also the potential that an entity will be unable to obtain adequate funding.

Residual Risk

The risk that the credit risk mitigation techniques adopted by the Bank turn out to be less effective than anticipated.

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.

Reputational Risk

Reputational risk is the current or prospective risk of impact on earnings or capital arising from the negative perception of the bank's image by customers, counterparties, shareholders, investors or supervisory authorities.

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. The Bank applies prudent credit policies, which are geared to develop and strengthen the relationship with customers who invest in products managed by the companies within the Group.
Banca Mediolanum Lending Division is responsible for ensuring adequate implementation of the Bank's credit policy in compliance with laws and regulations in force. This division is organised into the Short-term lending unit, the Medium/Long-term lending unit, the Watchlist unit, the Credit Operations unit and the Credit Policy and Monitoring unit.
The Short-term lending team is responsible for all processes relating to approval and granting of overdrafts, loans, endorsements as well as for management of guarantees.
The team exercises credit approvals under delegated authorities. For credit that is outside the scope of the authorities delegated to it, the team prepares all information and documentation relating to the loan application including a non-binding opinion and submits it to superior bodies.
The Medium/Long-term lending team is responsible for approval and granting of mortgage loans in accordance with Credit Management Guidelines and Rules. This team prepares and submits reports to the Head of the Division and the Service Engineering & Analysis unit and collaborates with the Credit Policy and Monitoring unit in the preparation of Mortgage Lending Policy and Rules.
The Watchlist team deals with customers in difficulty ensuring that suitable solutions are found and implemented in a timely manner in accordance with policies and rules. This team also supervises and records any amounts in arrear collected by foreign lenders that are part of the Group.
The Credit Operations team manages the relationships with customers and the Sales Network providing all-round assistance across the credit application process for all types of lending. The team has also approval authority for low-risk, limited-amount credit applications.
The Credit Policy and Monitoring team sees to the preparation of credit management policies and strategies proposals, defining the methodological principles and the technical rules for credit risk management and developing models for estimating and measuring credit risk in close coordination with the Compliance & Risk Control function.

2. Credit risk management

2.1 Organisational aspects

The risk management framework includes policies that set out general principles and instructions on lending as well as on monitoring the quality of the loan portfolio. The Parent Company of the Banking Group is responsible for assessing overall exposure to credit risk and defining credit risk measurement policies for the whole Group.
Credit risk exposure is also assessed at the level of individual companies in their respective areas of responsibility, 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.

2.2 Risk measurement and management

Credit quality is monitored by regularly assessing, in each stage of the lending process, whether there is evidence of risk in accordance with 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, the bank, as part of its loan application analysis, gathers all information needed to assess the consistency of the loan amount with the type and purpose of financing. In that examination, the entity uses performance and financial analysis tools as well as intelligence obtained from private and public Credit Bureaus. Special attention is paid to the assessment of any security taken.
All loans are subject to regular review by the competent units of 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 of the respective entities.

2.3 Credit risk mitigation techniques

Loans extended by the Banking Group entities are secured by collaterals received from borrowers. Collaterals primarily consists of mortgages over property and pledge over financial instruments, plus conditional sale, and other forms of security, e.g. surety bonds and endorsements. Given the importance of the collateral received from the obligor in the assessment of credit risk, appropriate prudential adjustments are applied to the collateral whose value is subject to regular review.
The Banking Group does not offset credit risk exposures against positive balances of on or off-balance sheet items.
Credit risk mitigation (CRM) techniques consist of loan-related contracts or other instruments and techniques that reduce credit risk whose risk mitigating effect is recognised in the calculation of regulatory capital, as well as, for risk management purposes, the internal policies of the Mediolanum Banking Group. Credit risk is inherent in the Business Operations Management division's lending business and in Treasury's liquidity management.
Eligible CRM techniques fall into two broad categories:

1. real guarantees
2. personal guarantees

Real guarantees are:

1. financial collateral, i.e. cash, certain financial instruments, gold – pledged or transferred –, repurchase/reverse repurchase and securities lending/borrowing transactions;

2. master netting agreements;
3. on balance sheet netting;
4. mortgages and real estate leases.

Personal guarantees include personal guarantees and credit derivatives.
Currently, within the Mediolanum Banking Group, the use of credit derivatives is allowed only for trading purposes and not for banking book credit risk mitigation.
Eligible CRM techniques are mortgages and pledges or other equivalent security interests in assets with a reasonable degree of liquidity and a reasonably stable market value.
Conversely, although taken into account when deciding whether or not to extend a loan, 'irrevocable orders to sell other Group financial products' are not eligible for CRM purposes.
As to pledges, the financial asset that is directly or indirectly pledged as security must be one of the following:

- bank account balances held with our bank;
- treasuries or securities guaranteed by governments, and securities that are accepted as guarantee by central banks;
- holdings in mutual funds and open-end investment companies;
- liens on insurance policies issued by the Mediolanum Banking Group;
- assets in discretionary accounts managed by our Bank;
- bonds and certificates of deposit issued by our Bank or other Banks;
- repo transactions relating to listed bonds, treasuries or accepted as guarantee by central banks, with retail customers;
- listed bonds;
- listed equities.

When the borrower's equity does not cover entirely the loaned amount, the loan is recognised at full risk.

Credit risk on mortgage loans is mitigated by the property given as collateral. Properties given as loan collateral must be located in Italy and be residential properties.
Semi-residential properties are accepted provided that they satisfy the following requirements:

- the non-residential portion does not exceed 40% of the estimated property value;
- the property is located in a residential area;
- the borrower is self-employed and intends to use the property as his/her primary residence.

In all these instances Loan-to-Value shall not exceed 70%.
The bank applies a disciplined approach to lending and adequate checks e.g. it checks the accurateness and completeness of the property appraisal as this is crucial to get a true view of risk. The bank requires than any request for mortgage loan approval be accompanied by a valid property appraisal setting out a true estimate of the value of the property for which the loan is sought and certifying to the highest possible degree that a valid building permit and any other authorisations for the property have been obtained. If not so, the loan will not be extended or the loan amount reduced to be commensurate with the true property value (which depends on its location, on how easily it can be resold, etc.).
The appraisal is made by independent professionally qualified valuers who have entered into an agreement with Banca Mediolanum.
The relevant technical unit within the Lending Division is responsible for ensuring that internal procedures for the preparation of property appraisals are thoroughly and properly applied.

Assessment of the quality of the loan portfolio

The Mediolanum Banking Group assesses the quality of the loan portfolio applying the following two-step approach in view of identifying any possible impairment:

- identification of assets to be individually or collectively tested for impairment;
- measurement and recognition of the impairment loss in accordance with the specific impairment rules.

The first step is preliminary to the impairment test that assesses and measures the impairment loss, if any.
Banca Mediolanum tests for impairment loans and endorsements with fixed or determinable payments extended to retail/corporate and institutional clients. Loans and endorsements to retail/corporate clients typically consist of arranged overdraft facilities, loans and credit lines repayable in instalments, while those extended to institutional clients (banks and other financial institutions) are made up of deposits, repurchase agreements (amount paid for the purchase of the asset under an agreement to resell it at a future date) and hot money facilities.
To identify loans and endorsements to be individually/collectively tested for impairment it is necessary to analyse the significance of the exposure and check whether there is objective evidence of any losses.
Banca Mediolanum individually tests for impairment all exposures classified as nonperforming, watch list and over 180 days past due loans (pursuant to Bank of Italy's instructions) irrespective of their significance. In fact, these are exposures for which there is objective evidence of impairment as per §64 of IAS 39. Other exposures, i.e. performing loans, are collectively tested for impairment. Only for monitoring purposes a €1,000,000 threshold is set for the determination of the significance of the individual exposure. Any exposure in excess of said threshold is examined separately and individually.

For exposures that are individually assessed for impairment the recoverable amount of the individual exposure is determined on the basis of:

- estimated recoverable cash flows;
- timing of recoveries;
- the interest rate used to discount future cash flows.

Banca Mediolanum treats nonperforming, watch list, restructured and over 180 days past due exposures in accordance with the different level of risk of the respective category, taking account of the type and value of any security taken and other key indicators of potential risk based on management expertise and conservative estimates.
Exposures that are not individually assessed are grouped on the basis of similar risk characteristics and collectively assessed for impairment.
The collective impairment loss is obtained by adding up the losses of each group. The collective impairment amount is compared with the previous carrying amount of loans to determine the amount of provisions to set aside or use.
The process for the identification of the groups of loans to be collectively assessed under IAS is in line with the credit risk approach under Bank of Italy's Circular 263 of December 27, 2006. Specifically, the risk parameters under said regulation, i.e. probability of default (PD) by rating class and Loss Given Default (LGD) are significant parameters for the classification of loans into groups with similar credit risk characteristics and for the calculation of provisions.

At present, the grouping of loans for the purpose of collective assessment is by rating and client segment (Retail/Corporate).

The calculation of the impairment loss is made applying a Basel-oriented approach, i.e. impairment is approximated to the concept of Expected Loss (EL) as set out in the relevant regulations. Expected Loss is the average loss the Bank expects to incur on an exposure as a result of the deterioration of credit quality or default of the borrower.

Banca Mediolanum's loan loss provision for collectively assessed exposures is therefore determined by calculating the Expected Loss (EL) on all exposures in a given rating class, applying the following formula:

$$EL_{exposure}^{class} = Balance_{exposure} \times PD^{class} \times LGD$$

where:

- $Balance_{exposure}$: is the book value for short-term financing and amortised cost for loans repayable in instalments;
- PD^{class}: is the probability of default over 1 year for performing loans in a given rating class;
- LGD: is the failed recoveries rate to be applied to performing loans.

The loan loss provision for collectively assessed exposures is thus obtained by adding up expected losses on each exposure:

$$Total\ provision = \sum_{exposure,\ class} EL$$

Counterparty risk

Counterparty risk is part of credit risk. Counterparty risk is the risk that a party to a derivative contract may fail to perform on its contractual obligations and, when marked to market, the value of the derivative contract turns out to be positive for Banca Mediolanum. Exposure to counterparty risk is measured applying the present value method to OTC derivative contracts. The replacement cost of each contract is its fair value, if positive. Fair value is positive if the bank is a net creditor of the counterparty. To protect against counterparty risk arising from said derivatives contracts the bank entered into ISDA Master Agreements. In addition, Banca Mediolanum put in place ad-hoc procedures and tools for the management of collaterals in relation to derivative transactions and used Credit Support Annexes (CSA) as key instruments to mitigate related counterparty risk.

Concentration Risk

Concentration risk, as defined in regulations, is the exposure to individual counterparties, groups of individual or related counterparties or counterparties in the same industry, business sector or geographical location. Concentration risk thus falls within the wider category of credit risk.

As required by the Banking Supervisor (Bank of Italy) the banking group's exposure to concentration risk in monitored for the purposes of ICAAP only for the 'Business & Others' Portfolio. The Group exposure in that portfolio is of limited size and relevance. In addition, the Banking Group put in place a system for monitoring concentration risk on a weekly basis in accordance with rules governing management of large exposures.

In accordance with regulations in force (Bank of Italy's Circular 263/06, Title IV Chapter 1), for large exposures the Mediolanum Banking Group has set the maximum limit for each exposure at 25% of consolidated regulatory capital. Said limit is the only large exposures regulatory limit applicable to the Mediolanum Banking Group based on volumes and characteristics.

Banca Mediolanum has defined operating licences and limits in accordance with the Institutional Counterparty Credit Risk Policy. These operating licences and limits represent Banca Mediolanum's risk tolerance based on the Bank's risk appetite. Operating licences and limits are closely monitored on an ongoing basis to ensure they are not exceeded and are regularly reviewed, generally on an annual basis. Derogation from said limits is subject to delegated authorities of the Chief Executive Officer and the Head of Finance.

2.4 Impaired financial assets

Banca Mediolanum has its own effective tools for prompt detection of any problem loans.

The 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 to the bank.

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.

To determine 'default' Banca Mediolanum refers to the definition of 'impaired loans' used for the purpose of financial reporting. Impaired loans include:

- nonperforming loans;
- watch list loans;
- restructured loans;
- over 180 days past due loans.

Nonperforming loans consist of on and off-balance sheet exposures (e.g. loans, securities, derivatives) 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 equivalent conditions, regardless of any losses estimated by the lender and irrespective of any security taken.

Watch list loans consist of on and off-balance sheet exposures (e.g. loans, securities, derivatives) to borrowers that are experiencing objective temporary difficulties in meeting their payment obligations, but are expected to make good within a reasonable timeframe. These exposures are recognised irrespective of any security taken.

Restructured loans consist of on and off-balance sheet exposures (e.g. loans, securities, derivatives) for which a bank (or a syndicate of banks) agrees to change the original loan terms and conditions (e.g. rescheduling payments, reducing debt and/or interest) due to the deterioration of the financial condition of the borrower, with ensuing losses. This category does not include exposures to companies that are going out of business (e.g. voluntary wind-up or similar conditions) as well as country-risk exposures.

An additional impaired loan category was introduced by the Bank of Italy (Circular 262 of December 22, 2005 'The Financial Statements of Banks: Instructions for the preparation of financial statements'), i.e. over 180 days past due loans. These consist of on and off-balance sheet exposures (e.g. loans, securities, derivatives) to borrowers other than those classified in the categories above (nonperforming, watch list, restructured) that at the reporting date were over 180 days past due or overdrawn.

For recognition in this category, both following conditions are to be satisfied:

- the borrower is past due more than 180 days in a row (to determine actual past due borrowers, overdrawn/unpaid amounts can be offset against balances in credit under other loans/credit facilities extended to the same borrower);
- the mean value of daily past due/overdrawn amounts in the last quarter is 5% or more of total exposure.

When the borrower is a government entity that exceeded the limits above yet the overdrawn/past due amount does not exceed €10,000, the relevant exposure is not classified as past due.

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	-	-	-	-	692,292	692,292
2. Available-for-sale financial assets	-	21,185	-	-	5,525,721	5,546,906
3. Held-to-maturity investments	-	4,885	-	-	683,988	688,873
4. Loans to banks	-	-			2,334,019	2,334,019
5. Loans to customers	8,239	23,915	226	6,343	4,028,611	4,067,334
6. Financial assets at fair value	-	-	-	-	-	-
7. Financial assets being disposed of	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-
Total at Dec. 31, 2011	8,239	49,985	226	6,343	13,264,631	13,329,424
Total at Dec. 31, 2010	7,828	24,602	223	3,627	10,215,447	10,251,727

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

€/'000	Impaired assets			Performing assets			
	Gross exposure	Individual impairment	Net exposure	Gross exposure	Collective impairment	Net exposure	Total net exposure
1. Financial assets held for trading	-	-	-	X	X	692,292	692,292
2. Available-for-sale financial assets	87,005	(65,820)	21,185	5,525,721	-	5,525,721	5,546,906
3. Held-to-maturity investments	20,385	(15,500)	4,885	683,988	-	683,988	688,873
4. Loans to banks	-	-	-	2,334,019	-	2,334,019	2,334,019
5. Loans to customers	62,696	(23,973)	38,723	4,032,592	(3,981)	4,028,611	4,067,334
6. Financial assets at fair value	-	-	-	X	X	-	-
7. Financial assets being disposed of	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	X	X	-	-
Total at Dec. 31, 2011	170,086	(105,293)	64,793	12,576,320	(3,981)	13,264,631	13,329,424
Total at Dec. 31, 2010	57,362	(21,082)	36,280	9,264,546	(4,743)	10,215,447	10,251,727

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	692,292	692,292
2. Available-for-sale financial assets	-	-	-	5,525,721	-	5,525,721	5,525,721
3. Held-to-maturity investments	-	-	-	683,988	-	683,988	683,988
4. Loans to banks	-	-	-	2,334,019	-	2,334,019	2,334,019
5. Loans to customers	36,506	(24)	36,482	3,996,086	(3,957)	3,992,129	4,028,611
6. Financial assets at fair value	-	-	-	X	X	-	-
7. Financial assets being disposed of	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	X	X	-	-
Total at Dec. 31, 2011	36,506	(24)	36,482	12,539,814	(3,957)	13,228,149	13,264,631
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	980	195,750
3 to 6 months	-	2,818
6 to 12 months	-	197
1 year	-	47
Past due customer loans	980	198,812

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	3,965,635	X	-	3,965,635
Total A	3,965,635	-	-	3,965,635
B. Off-balance sheet				
a) Impaired	-	-	X	-
b) Other	23,592	X	-	23,592
Total B	23,592	-	-	23,592
Total (A+B)	3,989,227	-	-	3,989,227

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	22,075	(13,836)	X	8,239
b) Watch list	140,913	(90,928)	X	49,985
c) Restructured	226	-	X	226
d) Past due	6,872	(529)	X	6,343
e) Other	9,301,862	X	(3,981)	9,297,881
Total A	9,471,948	(105,293)	(3,981)	9,362,674
B. Off-balance sheet				
a) Impaired	545	-	X	545
b) Other	138,420	X	(39)	138.381
Total B	138,965	-	(39)	138.926

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	18,333	34,580	223	4,226
- of which: loans sold but not derecognised	-	-	-	-
B. Increases				
B.1 reclassified from performing loans	152	112,352	-	16,939
B.2 reclassified from other impaired loan categories	6,765	6,596	-	62
B.3 other increases	284	3,051	3	643
C. Decreases				
C.1 reclassified to performing loans	-	(1,853)	-	(5,196)
C.2 cancellations	(2,416)	-	-	-
C.3 receipts	(1,039)	(6,965)	-	(3,206)
C.4 proceeds from sale	-	-	-	-
C.5 reclassified to other impaired loan categories	-	(6,827)	-	(6,596)
C.6 other decreases	(4)	(21)	-	-
D. Closing gross balance	22,075	140,913	226	6,872
- 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	10,505	9,978	-	599
- of which: loans sold but not derecognised	-	-	-	-
B. Increases				
B.1 impairment	3,771	85,000	-	510
B.2 reclassified from other impaired loan categories	2,822	183	-	26
B.3 other increases	-	-	-	-
C. Decreases				
C.1 revaluations	(480)	(646)	-	(319)
C.2 repayments	(367)	(749)	-	(94)
C.3 cancellations	(2,415)	-	-	-
C.4 reclassified to other impaired loan categories	-	(2,838)	-	(193)
C.5 other decreases	-	-	-	-
D. Net impairment at end of the year	13,836	90,928	-	529
- 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	3,178,565	894,169	5,456,257	1,296	-	26,070	3,771,954	13,328,311
B. Derivatives	258	406	423	-	-	-	26	1,113
B.1 Financial derivatives	258	406	423	-	-	-	26	1,113
B.2 Credit derivatives	-	-	-	-	-	-	-	-
C. Guarantees issued	-	-	16,634	-	-	-	26,972	43,606
D. Commitments to disburse funds	-	-	-	-	-	-	117,800	117,800
Total	3,178,823	894,575	5,473,314	1,296	-	26,070	3,916,750	13,490,830

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	CLN	Governments & central banks	Governments agencies	Banks	Others	Governments & central banks	Government agencies	Banks	Others	Total (1)+(2)
1. Secured loans (on balance sheet)														
1.1 entirely secured	2,361,204	4,320,910	-	4,451	-	-	-	-	-	-	-	-	2,510,826	6,836,187
- of which impaired	17,592	35,076	-	4,451	-	-	-	-	-	-	-	-	4,223	43,750
1.2 partly secured	137,290	222,462	-	266	-	-	-	-	-	-	-	-	2,190	224,918
- of which impaired	3,064	6,137	-	-	-	-	-	-	-	-	-	-	15	6,152
2. Secured loans (off balance sheet)														
2.1 entirely secured	511	1,003	-	-	-	-	-	-	-	-	-	-	12	1,015
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partly secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- 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)

€/'000	Governments			Government agencies		
	Net exposure	Individual impairment	Collective impairment	Net exposure	Individual impairment	Collective impairment
A. On balance sheet						
A.1 Non performing	-	-	-	-	-	-
A.2 Watch list	26,070	(81,320)	-	-	-	-
A.3 Restructured	-	-	-	-	-	-
A.4 Past due	-	-	-	-	-	-
A.5 Others	5,722,612	-	-	100,941	-	-
Total A	5,748,682	(81,320)	-	100,941	-	-
B. Off balance sheet						
B.1 Non performing	-	-	-	-	-	-
B.2 Watch list	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-
B.4 Others	-	-	-	-	-	-
Total B	-	-	-	-	-	-
Total (A+B) at Dec. 31, 2011	5,748,682	(81,320)	-	100,941	-	-
Total (A+B) at Dec. 31, 2010	2,286,626	-	-	101,060	-	-

	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
	-	-	-	-	-	-	69	(430)	-	8,170	(13,406)	-
	9,530	(3,705)	-	-	-	-	229	(88)	-	14,156	(5,815)	-
	-	-	-	-	-	-	226	-	-	-	-	-
	-	-	-	-	-	-	239	(14)	-	6,104	(515)	-
	266,831	-	(15)	20,958	-	-	85,256	-	(125)	3,101,283	-	(3,841)
	276,361	(3,705)	(15)	20,958	-	-	86,019	(532)	(125)	3,129,713	(19,736)	(3,841)
	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	545	-	-
	-	-	-	-	-	-	-	-	-	-	-	-
	98	-	-	30,000	-	-	9,738	-	(3)	98,545	-	(36)
	98	-	-	30,000	-	-	9,738	-	(3)	99,090	-	(36)
	276,459	(3,705)	(15)	50,958	-	-	95,757	(532)	(128)	3,228,803	(19,736)	(3,877)
	660,495	(2,986)	(37)	25,503	-	-	59,881	(377)	(66)	2,882,040	(17,740)	(4,675)

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	8,238	(13,834)	1	(2)	-	-	-	-	-	-
A.2 Watch list	23,915	(9,608)	26,070	(81,320)	-	-	-	-	-	-
A.3 Restructured	226	-	-	-	-	-	-	-	-	-
A.4 Past due	6,343	(529)	-	-	-	-	-	-	-	-
A.5 Others	8,419,285	(3,973)	877,325	(8)	736	-	309	-	226	-
Total	8,458,007	(27,944)	903,396	(81,330)	736	-	309	-	226	-
B. Off balance sheet										
B.1 Non performing	-	-	-	-	-	-	-	-	-	-
B.2 Watch list	545	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Others	108,277	(39)	30,104	-	-	-	-	-	-	-
Total	108,821	(39)	30,104	-	-	-	-	-	-	-
Total at Dec. 31, 2011	8,566,828	(27,983)	933,500	(81,330)	736	-	309	-	226	-
Total at Dec. 31, 2010	4,989,428	(25,872)	1,024,827	(8)	769	(1)	321	-	260	-

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	3,036,042	-	928,916	-	673	-	4	-	-	-
Total	3,036,042	-	928,916	-	673	-	4	-	-	-
B. Off balance sheet										
B.1 Non performing	-	-	-	-	-	-	-	-	-	-
B.2 Watch list	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Others	16,670	-	6,664	-	258	-	-	-	-	-
Total	16,670	-	6,664	-	258	-	-	-	-	-
Total at Dec. 31, 2011	3,052,712	-	935,580	-	931	-	4	-	-	-
Total at Dec. 31, 2010	3,644,138	-	705,361	-	5,664	-	31	-	-	-

B.4 Large exposures

	Nominal	Weighted
a) amount in thousands of euro	11,659,800	1,994,514
b) number:		Total 33

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, as subsequently amended, 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	52,152	52,152	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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 F-E MORTGAGES/TV 20431030 CL A - Receivables under mortgage loans	1,956	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.2 CORDUSIO RMBS/TV 20330630 CL A2 - Receivables under mortgage loans	4,774	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.3 BPM SEC 2/TV 20430715 CL A2 - Receivables under mortgage loans	5,296	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.4 VELA HOME/TV 20400730 CL A S3 - Receivables under mortgage loans	3,380	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.5 TRICOLORE FUND/TV 20200715 CL A - Receivables under equipment, machinery and property leases	281	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.6 LOCAT SV3/TV 20261212 CL A2 - Receivables under leases	1,581	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.7 SUNRISE/TV 20300827 CL A SEN - Receivables, consumer credit	4,879	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.8 VALHALLA I SA 26-03-2010 26-03-13 FLOATING - Receivables relating to loans of Danish credit institutions	30,004	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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, 2011	Dec. 31, 2010
1. On balance sheet exposures							
- "Senior"	-	-	-	-	52,152	52,152	50,548
- "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, 2011	Dec. 31, 2010
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C		
A. On-balance sheet assets	36,138	-	-	-	-	-	807,124	-	-	25,125	-	-	21,425	-	-	-	-	-	889,812	1,918,730
1. Debt securities	36,138	-	-	-	-	-	807,124	-	-	25,125	-	-	21,425	-	-	-	-	-	889,812	-
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,918,730
B. Derivatives	-	-	-	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	-	-
Total at Dec. 31, 2011	36,138	-	-	-	-	-	807,124	-	-	25,125	-	-	21,425	-	-	-	-	-	889,812	-
of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total at Dec. 31, 2010	40,347	-	-	-	-	-	1,154,479	-	-	227,071	-	-	304,749	-	-	192,084	-	-	-	1,918,730
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	36,214	-	801,111	20,076	-	21,943	879,344
a) against assets fully recognised on the balance sheet	36,214	-	801,111	20,076	-	21,943	879,344
b) against assets partly recognised on the balance sheet	-	-	-	-	-	-	-
2. Due to banks	-	-	182,179	4,936	-	-	187,115
a) against assets fully recognised on the balance sheet	-	-	182,179	4,936	-	-	187,115
b) against assets partly recognised on the balance sheet	-	-	-	-	-	-	-
Total at Dec. 31, 2011	36,214	-	983,290	25,012	-	21,943	1,066,459
Total at Dec. 31, 2010	40,506	-	1,150,119	227,694	314,236	191,790	1,924,345

Credit Risk Stress Testing

Credit risk exposures are essentially gauged using three key parameters: Exposure at Default (EAD), Probability of Default (PD) and Loss Given Default (LGD).
EAD is essentially the nominal amount of the credit facility less any collateral or other security taken, and for derivatives, the positive mark-to-market (MTM) value of the derivative.
With respect to exposures to Regulated Financial Institutions, Banca Mediolanum has classified the counterparties by external rating. Since direct stressing of the PD associated with the rating is difficult due to the lack of reliable historical default data for Italian banks (that account for the largest portion of these exposures), Banca Mediolanum evaluated the potential impact of a downgrade on risk weighted assets and hence on capital requirements. In the retail book the probability of default (PD) was calculated using historical default data for consumer households recorded by the Bank of Italy (for the Italian market) and by Banco de Espana (for the Spanish market). Loss Given Default (LGD) was assumed equal to 45% (as per Basel II Foundation Internal Ratings Based - F-IRB - rules) for the corporate book, and in stress testing applied to the regulated financial institutions' book (at this stage LGD is not the subject of particular analysis for these books). Given the distribution of loss in the loan portfolio, these key parameters, notably EAD, the value of collateral and PD, are necessarily those to be used in stress testing to see how they would change in a hypothetical adverse macroeconomic scenario.
As to exposure classes for which the credit risk capital charge is calculated, based on stated qualitative and quantitative considerations, it was decided to focus attention exclusively on:

- regulated financial institutions;
- retail book;
- exposures secured by property.

It should be noted that the exposure classes above (i.e. those to which stress testing is applied) relate to assets in which the Bank intends to continue to invest in the near future while keeping its exposure to other asset classes contained.

SECTION 2 - MARKET RISK

2.1 Interest rate risk and pricing risk – Trading book

Qualitative information

A. General

The Banking Group's trading book, as defined by supervisory authorities, consists of financial instruments subject to capital requirements for market risk. According to this classification, at present only Banca Mediolanum has a true trading book.

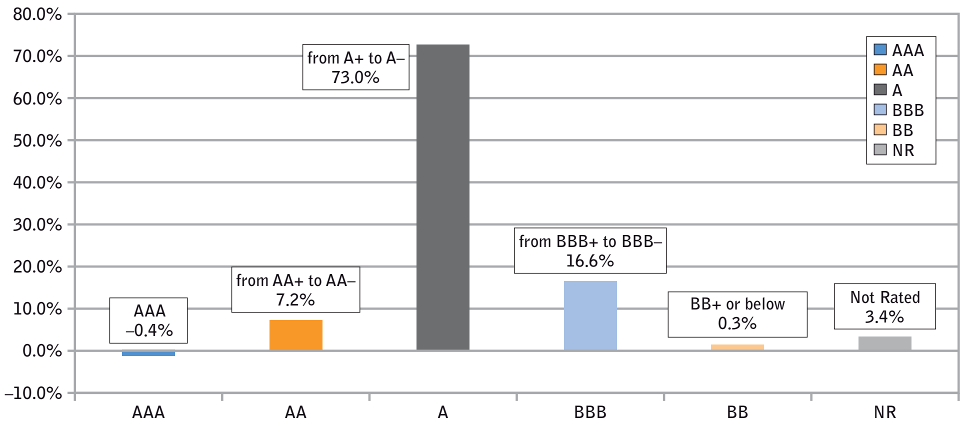
Specifically, the trading book consists of positions held by those Group functions authorised to take market risk exposures within the limits and the authorities delegated to them by their respective Boards of Directors, in accordance with the Banking Group's Parent Company guidelines.

The trading book primarily consists of positions in bonds, equities, derivatives and money market instruments.

Securities Portfolio HFT, HTM, AFS, L&R - Ratig composition
(YE 2011 vs. YE 2010)

€/'000	2011	%	2010	%	Change (%)
Total Portfolio	9,203,387	100%	5,760,018	100%	60%
AAA	(40,447)	(0.4%)	102,299	1.8%	(140%)
AA+ to AA-	662,318	7.2%	884,895	15.4%	(25%)
A+ to A-	6,719,071	73.0%	3,556,791	61.7%	89%
BBB+ to BBB-	1,524,757	16.6%	840,649	14.6%	81%
BB+ or lower	25,982	0.3%	76,686	1.3%	(66%)
Unrated	311,705	3.4%	298,698	5.2%	4%

Rating Composition portfolio HFT, HTM, AFS, L&R (2011)



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

The Parent Company's Compliance & Risk Control 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. However, each entity within the Group is directly responsible for the control of the risks assumed. Risks are to be in accordance with the policies approved by the respective Board of Directors and consistent with the complexity of managed assets.
Exposure to interest rate 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).

HFT Portfolio - MARKET RISK
(YE 2011 vs. YE 2010)

€/'000	2011	2010	Change (%)
Nominal value	403,289	506,731	(20%)
Market value	340,911	790,266	(57%)
Modified duration	0.91	0.30	199%
VaR 99% - 1 day	412	160	157%

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	-	58,564	30,816	144,819	359,364	90,010	914	-
1.1 Debt securities	-	58,564	30,816	144,819	359,364	90,010	914	-
- with early redemption option (EUR)	-	2,043	-	-	19,025	-	-	-
- others (EUR)	-	56,521	30,816	144,819	340,339	90,010	914	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Non derivative liabilities	2	41,013	-	-	243,121	65,130	-	-
2.1 Repos (EUR)	2	36,212	-	-	-	-	-	-
2.2 Other liabilities (EUR)	-	4,801	-	-	243,121	65,130	-	-
3. Financial derivatives								
3.1 with underlying securities								
- Options								
+ long positions (EUR)	-	-	-	-	-	-	-	-
+ short positions (EUR)	-	-	-	-	-	-	-	-
- Others								
+ Long positions	2	46,042	10,250	1,088	6,730	211	11	-
EUR	2	46,029	10,250	1,088	6,730	200	9	-
USD	-	2	-	-	-	-	2	-
OTHER CURRENCIES	-	11	-	-	-	11	-	-
+ Short positions	2	18,318	10,250	1,051	766	22,230	11,690	-
EUR	2	18,305	10,250	1,051	766	22,219	11,688	-
USD	-	2	-	-	-	-	2	-
OTHER CURRENCIES	-	11	-	-	-	11	-	-
3.2 without underlying securities								
- Options								
+ long positions (EUR)	-	1,458	209	3,574	42,311	115,674	160,449	-
+ short positions (EUR)	-	-	1,458	1,740	39,297	115,532	165,648	-
- Others								
+ Long positions	-	116,842	40,370	220,000	-	-	-	-
EUR	-	114,896	-	220,000	-	-	-	-
USD	-	1,880	40,370	-	-	-	-	-
GBP	-	54	-	-	-	-	-	-
OTHER CURRENCIES	-	12	-	-	-	-	-	-
+ Short positions	-	54,962	40,550	221,121	9,997	13,687	36,549	-
EUR	-	52,475	40,550	221,121	9,997	13,687	36,549	-
USD	-	2,405	-	-	-	-	-	-
GBP	-	39	-	-	-	-	-	-
CHF	-	9	-	-	-	-	-	-
OTHER CURRENCIES	-	34	-	-	-	-	-	-

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	1	-	2	-
- long positions	1	-	2	-
- short positions	-	-	-	-
B. Not yet settled purchases and sales of equity instruments	-	-	-	-
- long positions	-	-	-	-
- short positions	-	-	-	-
C. Other equity instrument derivatives	-	-	-	-
- long positions	-	-	-	-
- short positions	-	-	-	-
D. Stock index derivatives	-	-	-	-
- long positions	-	-	-	-
- short positions	-	-	-	-
Total	1	-	2	-

2.2 Interest rate risk and pricing risk – banking book

Qualitative information

A. General information

The Group's Banking Book is made up of those financial instruments that are not part of the trading book, in particular inter-bank loans, available-for-sale financial assets and held-to-maturity investments.
Banking book interest rate risk exposures are measured and managed by the Banking Group's Parent Company using an ALM model. Risk management activities include, *inter alia*, controls for credit risk inherent in transactions with institutional counterparties according to the operating procedures and limits approved by the Board of Directors of each entity within the Group in compliance with the guidelines issued by the Banking Group's Parent Company.
Interest rate risk is the risk of potential impact of unexpected interest rate changes on the Bank's current earnings and equity. This risk is typical of banking book positions.
The Banking Book consists of on and off-balance sheet items that are not held for trading.
The goals pursued by the interest rate risk management system are to:

- ensure the stability of net interest income, minimising any adverse impact of changes in interest rates (earnings perspective), largely with near-term focus. The stability of net interest income is mainly influenced by re-pricing risk, yield curve risk, basis risk, re-fixing risk and optionality risk;
- protect the economic value, i.e. the present value of expected cash flows from assets and liabilities. The economic value perspective is focused on the potential medium/long-term effects of changes in interest rates and is mainly associated with re-pricing risk;
- ensure that interest rate risk that has been taken or can be taken be properly identified, measured, monitored and managed in accordance with uniform methods and procedures shared across the Group;
- make sure that risk measurement models are commensurate with actual earnings generated by the various risk owners;

- ensure that the quality of risk measurement and management systems is aligned with market standards and best practices;
- define risk limits and licences for the various levels of responsibility;
- ensure the generation of accurate data and reports by the various officers responsible for risk management and control at the different levels within the organisation;
- ensure compliance with requirements established by domestic and international supervisory authorities.

The definition of limits and licences reflects the risk appetite of the organisation and permits to control that practices at the various levels within the organisation are aligned with the strategic guidelines and policies adopted by the Board of Directors.

The application of the principles above led to the definition of the following indicators:

- net interest income sensitivity to parallel shifts in the yield curve;
- economic value sensitivity to parallel shifts in the yield curve.

Management of the interest rate risk in the banking book is part of Asset Liability Management (ALM). The Mediolanum Banking Group has in place an ALM system that measures performance of annual Net Interest Income and the Bank's Economic Value in relation to regulatory capital. The ALM system is also used by management to assess the impact of funding and lending policies on the entity's financial condition and earnings.

Asset Liability Management

ALM PRO is the system used for managing Banking Book's Assets and Liabilities against the risk of adverse movements in interest rates. As such, ALM PRO assists management in assessing Banca Mediolanum's funding and lending policies and their possible impact on the bank's financial condition and earnings. Banca Mediolanum regularly updates the dedicated ALM PRO policy including limits and procedures for monitoring annual Net Interest Income and the Economic Value of the Bank.

Movements in annual net interest income (Data as of Dec. 31, 2011)

€/'000	Balance	+100bps	-100bps
Total assets	13,068,761	65,197	(63,933)
Total liabilities	(12,781,664)	(59,454)	50,822
Off-balance sheet positions (hedging derivatives)	-	3,937	(3,937)
YEAR'S MOVEMENT	-	9,681	(17,048)

B. Fair Value Hedges

The introduction of IAS 39 brought about profound changes in the way derivatives and related hedged balance sheet assets/liabilities are accounted for.
Under IAS 39 all derivatives, either trading or hedging derivatives, are to be recognised in the balance sheet at their fair value and any change, either increase or decrease, in their fair value is to be recognised through profit or loss. When the hedged item is measured at historical (amortised) cost the asymmetry resulting from the different measurement method may lead to income statement information volatility. IAS 39 addresses this issue allowing entities to apply consistent measurement methods to the hedging instrument and to the hedge item (Hedge Accounting).
To qualify for Hedge Accounting under IAS 39 the hedging relationship must satisfy certain conditions relating to hedge effectiveness and related documentation.
The use of hedge accounting engages various structures of Banca Mediolanum. The Treasury Committee provides guidance on hedging policies. Banca Mediolanum Treasury function handles all aspects relating to the identification and operation of IAS compliant hedges. The Compliance & Risk Control function works across the process ensuring the alignment of systems and proper management of hedges. The Accounting and Financial Reporting function records and monitors hedges on an ongoing basis and prepares Hedge Accounting documentation.
As shown in the table below, back-testing of hedge effectiveness proved the hedge ratio met the requirement $|0{,}8| \leq HR \leq |1{,}25|$.

Hedge Ratio
(YE 2011 vs. YE 2010)

	2011	2010	Change (%)
Hedge ratio	109%	106%	3%

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. Non derivative assets	779,967	3,533,853	545,625	2,351,520	4,067,395	926,833	369,399	-
1.1 Debt securities	27,718	527,848	539,978	2,243,822	3,985,012	816,663	92,074	-
- with early redemption option	17	-	-	-	-	280	10,095	-
EUR	17	-	-	-	-	280	10,095	-
- others	27,701	527,848	539,978	2,243,822	3,985,012	816,663	81,979	-
EUR	27,701	527,848	539,978	2,243,822	3,985,012	816,663	81,979	-
1.2 Loans to banks	234,474	808,298	-	48,338	-	-	-	-
EUR	233,142	808,298	-	48,338	-	-	-	-
USD	579	-	-	-	-	-	-	-
GBP	61	-	-	-	-	-	-	-
YEN	37	-	-	-	-	-	-	-
CHF	129	-	-	-	-	-	-	-
OTHER CURRENCIES	526	-	-	-	-	-	-	-
1.3 Loans to customers	517,775	2,197,707	5,647	59,360	82,383	110,170	277,325	-
- current accounts	367,327	117	346	158	668	635	-	-
EUR	367,320	117	346	158	668	635	-	-
USD	7	-	-	-	-	-	-	-
- other loans	150,448	2,197,590	5,301	59,202	81,715	109,535	277,325	-
- with early redemption option	29,536	2,187,706	4,824	10,011	79,649	106,618	277,325	-
EUR	29,536	2,187,706	4,824	10,011	79,649	106,618	277,325	-
- other	120,912	9,884	477	49,191	2,066	2,917	-	-
EUR	120,912	9,884	477	49,191	2,066	2,917	-	-

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. Non derivative liabilities	5,811,927	6,104,899	308,095	730,650	-	-	-	-
2.1 Due to customers	5,608,422	1,194,433	118,853	619,850	-	-	-	-
- current accounts	5,450,386	352,085	118,853	619,850	-	-	-	-
EUR	5,426,294	352,085	118,853	619,850	-	-	-	-
USD	24,072	-	-	-	-	-	-	-
GBP	19	-	-	-	-	-	-	-
CHF	1	-	-	-	-	-	-	-
- others	158,036	842,348	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others amounts due	158,036	842,348	-	-	-	-	-	-
EUR	158,036	842,348	-	-	-	-	-	-
2.2 Due to banks	202,337	4,701,595	113,650	110,800	-	-	-	-
- current accounts	53,190	-	-	-	-	-	-	-
EUR	53,177	-	-	-	-	-	-	-
CHF	3	-	-	-	-	-	-	-
OTHER CURRENCIES	10	-	-	-	-	-	-	-
- others	149,147	4,701,595	113,650	110,800	-	-	-	-
EUR	132,530	4,701,595	113,650	110,800	-	-	-	-
USD	16,617	-	-	-	-	-	-	-
2.3 Debt securities	1,168	208,871	75,592	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	1,168	208,871	75,592	-	-	-	-	-
EUR	1,168	208,871	75,592	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 with underlying securities								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 w/o underlying securities								
- Options								
+ Long positions	-	387	662	1,354	32,549	20,924	64,388	-
EUR	-	387	662	1,354	32,549	20,924	64,388	-
+ Short positions	-	120,241	-	23	-	-	-	-
EUR	-	120,241	-	23	-	-	-	-
- Other								
+ Long positions	-	437,995	-	-	-	-	-	-
EUR	-	437,995	-	-	-	-	-	-
+ Short positions	-	3,579	3,626	7,395	65,975	90,718	266,701	-
EUR	-	3,579	3,626	7,395	65,975	90,718	266,701	-

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.

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	586	236	37	66	129	460
A.1 Debt securities	-	-	-	-	-	-
A.2 Equities	-	175	-	-	-	-
A.3 Loans to banks	579	61	37	66	129	460
A.4 Loans to customers	7	-	-	-	-	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	25	9	-	-	1	815
C. Financial liabilities	40,689	19	-	-	4	10
C.1 Due to banks	16,617	-	-	-	3	10
C.2 Due to customers	24,072	19	-	-	1	-
C.3 Securities issued	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	4	1	-	-	1	812
E. Financial derivatives						
- Options						
+ Long positions	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-
- Others derivatives						
+ Long positions	42,250	54	-	-	-	12
+ Short positions	2,405	39	-	12	9	22
Total assets	42,861	299	37	66	130	1,287
Total liabilities	43,098	59	-	12	14	844
Net position (+/-)	(237)	240	37	54	116	443

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, 2011		Dec. 31, 2010	
€/'000	OTC	Central Counterparties	OTC	Central Counterparties
1. Debt securities and interest rates	358,667	38,896	434,251	106,283
a) Options	26,218	-	27,113	-
b) Swaps	332,445	-	406,776	-
c) Forwards	4	-	362	-
d) Futures	-	38,896	-	106,283
e) Others	-	-	-	-
2. Equities and stock indices	-	-	-	3
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	3
d) Futures	-	-	-	-
e) Others	-	-	-	-
3. Currencies and gold	41,916	-	202,001	-
a) Options	-	-	-	-
b) Swaps	-	-	128,148	-
c) Forwards	41,916	-	73,853	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
4. Commodities	-	-	-	-
5. Other underlying	-	-	-	-
Total	400,583	38,896	636,252	106,286
Average amount	204,682	2,558	194,921	3,836

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

A.2.1 Hedging derivatives

	Dec. 31, 2011		Dec. 31, 2010	
€/'000	OTC	Central Counterparties	OTC	Central Counterparties
1. Debt securities and interest rates	437,995	-	497,946	-
a) Options	-	-	-	-
b) Swaps	437,995	-	497,946	-
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	437,995	-	497,946	-
Average amount	437,995	-	497,946	-

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

	Positive fair value			
	Dec. 31, 2011		Dec. 31, 2010	
€/'000	OTC	Central Counterparties	OTC	Central Counterparties
A. Trading book	1,098	-	3,408	-
a) Options	571	-	955	-
b) Interest Rate Swaps	-	-	11	-
c) Cross Currency Swaps	-	-	2,424	-
d) Equity Swaps	-	-	-	-
e) Forwards	527	-	18	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
B. Banking book - hedging derivatives	-	-	-	-
a) Options	-	-	-	-
b) Interest Rate Swaps	-	-	-	-
c) Cross Currency Swaps	-	-	-	-
d) Equity Swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
C. Banking book - other derivatives	-	-	-	-
a) Options	-	-	-	-
b) Interest Rate Swaps	-	-	-	-
c) Cross Currency Swaps	-	-	-	-
d) Equity Swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
Total	1,098	-	3,408	-

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

	Negative fair value			
	Dec. 31, 2011		Dec. 31, 2010	
€/'000	OTC	Central Counterparties	OTC	Central Counterparties
A. Trading book	12,414	-	7,214	-
a) Options	-	-	-	-
b) Interest Rate Swaps	12,373	-	2,695	-
c) Cross Currency Swaps	-	-	2,118	-
d) Equity Swaps	-	-	-	-
e) Forwards	41	-	2,401	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
B. Banking book - hedging derivatives	67,896	-	28,510	-
a) Options	-	-	-	-
b) Interest Rate Swaps	67,896	-	28,510	-
c) Cross Currency Swaps	-	-	-	-
d) Equity Swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
C. Banking book - other derivatives	-	-	-	-
a) Options	-	-	-	-
b) Interest Rate Swaps	-	-	-	-
c) Cross Currency Swaps	-	-	-	-
d) Equity Swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
Total	80,310	-	35,724	-

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	-	-	358,665	-	-	-	2
- positive fair value	-	-	571	-	-	-	-
- negative fair value	-	-	12,373	-	-	-	-
- future exposure	-	-	1,197	-	-	-	-
2) Equities and stock indices							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3) Currencies and gold							
- notional amount	-	-	41,916	-	-	-	-
- positive fair value	-	-	527	-	-	-	-
- negative fair value	-	-	41	-	-	-	-
- future exposure	-	-	419	-	-	-	-
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	-	-	437,995	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	67,896	-	-	-	-
- future exposure	-	-	5,691	-	-	-	-
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	272,216	9,997	76,454	358,667
A.2 equities and stock indices	-	-	-	-
A.3 currencies and gold	41,916	-	-	41,916
A.4 other	-	-	-	-
B. Banking book				
B.1 debt securities and interest rates	14,600	65,976	357,419	437,995
B.2 equities and stock indices	-	-	-	-
B.3 currencies and gold	-	-	-	-
B.4 other	-	-	-	-
Total at Dec. 31, 2011	328,732	75,973	433,873	838,578
Total at Dec. 31, 2010	556,645	126,512	451,041	1,134,198

Credit derivatives

During the year the Bank did not trade in credit derivatives and at December 31, 2011 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, 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 Parent Company and implemented across the Group (where applicable). Liquidity risk is monitored by the Risk Control 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.
In compliance with Basel II Second Pillar requirements, and in view of the implementation of Basel III, all internal procedures for liquidity risk management have been reviewed. Under the liquidity risk management policy Banca Mediolanum implemented a control procedure which entails 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 analyses all financial items according to the timescale set out in the liquidity risk policy document.
In 2011, like other banks, Banca Mediolanum participated in the QIS 2011 the quantitative impact study promoted by the European Banking Authority (EBA) on the implementation 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 (EUR)	-	-	1,385	27,454	209,082	123,377	1,447,548	2,830,125	1,211,419	26,070
A.2 Other debt securities (EUR)	43	-	-	34,125	308,462	447,949	695,451	1,545,333	157,820	-
A.3 Holdings in UCITS (EUR)	173,847	-	-	-	-	-	-	-	-	-
A.4 Loans to	724,250	442,198	73,949	48,244	224,951	40,370	176,480	593,303	1,925,209	75,050
- Banks	226,674	425,405	73,949	42,008	199,686	-	48,338	-	-	75,050
EUR	225,342	425,405	73,949	42,008	199,686	-	48,338	-	-	75,050
USD	579	-	-	-	-	-	-	-	-	-
YEN	37	-	-	-	-	-	-	-	-	-
CHF	129	-	-	-	-	-	-	-	-	-
GBP	61	-	-	-	-	-	-	-	-	-
OTHER CURRENCIES	526	-	-	-	-	-	-	-	-	-
- Customers	497,576	16,793	-	6,236	25,265	40,370	128,142	593,303	1,925,209	-
EUR	497,569	16,793	-	6,236	25,265	40,370	128,142	593,303	1,925,209	-
USD	7	-	-	-	-	-	-	-	-	-

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 liabilities										
B.1 Deposits	5,646,177	15,314	44,244	307,346	99,682	232,503	730,650	-	-	-
- Banks	195,790	-	41,200	-	73,300	113,650	110,800	-	-	-
EUR	179,160	-	41,200	-	73,300	113,650	110,800	-	-	-
USD	16,617	-	-	-	-	-	-	-	-	-
CHF	3	-	-	-	-	-	-	-	-	-
OTHER CURRENCIES	10	-	-	-	-	-	-	-	-	-
- Customers	5,450,387	15,314	3,044	307,346	26,382	118,853	619,850	-	-	-
EUR	5,426,294	15,314	3,044	307,346	26,382	118,853	619,850	-	-	-
USD	24,072	-	-	-	-	-	-	-	-	-
GBP	19	-	-	-	-	-	-	-	-	-
CHF	1	-	-	-	-	-	-	-	-	-
B.2 Debt securities (EUR)	-	-	-	102	204	10,004	179,621	91,425	3,108	-
B.3 Other liabilities (EUR)	164,586	2,328,217	800	118,476	1,018,163	-	-	2,239.276	67,114	-
Off-balance sheet items										
C.1 Financial derivatives with exchange of principal										
- Long positions	2	15,230	-	1,510	33,699	50,620	1,088	6,730	222	-
EUR	2	13,658	-	1,124	33,699	10,250	1,088	6,730	209	-
USD	-	1,495	-	386	-	40,370	-	-	2	-
GBP	-	54	-	-	-	-	-	-	-	-
OTHER CURRENCIES	-	23	-	-	-	-	-	-	11	-
- Short positions	2	15,242	-	1,536	5,958	50,250	1,051	766	33,921	-
EUR	2	13,902	-	377	5,958	50,250	1,051	766	33,908	-
USD	-	1,248	-	1,159	-	-	-	-	2	-
CHF	-	9	-	-	-	-	-	-	-	-
GBP	-	39	-	-	-	-	-	-	-	-
OTHER CURRENCIES	-	44	-	-	-	-	-	-	11	-
C.2 Financial derivatives without exchange of principal										
- Long positions (EUR)	571	-	-	-	-	-	-	-	-	-
- Short positions (EUR)	12,373	-	-	935	1,978	2,857	5,829	-	-	-
C.3 Deposits and financing to be received										
- Long positions (EUR)	-	-	-	-	-	-	-	-	-	-
- Short positions (EUR)	-	-	-	-	-	-	-	-	-	-
C.4 Firm commitments to disburse funds										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued (EUR)	-	-	-	-	-	-	-	30	-	-

Liquidity Risk Stress Testing

In addition to monitoring liquidity on a daily basis, the Mediolanum Banking Group also conducts stress scenario simulations.

Stress scenarios are run for both systemic events (Market Stress Scenarios) and bank specific events (Bank Specific Stress Scenarios) in relation to the macroeconomic environment, commercial policies and customer behaviour.

The systemic events tested in stress scenario simulations may include:
- a financial market shock that brings about a significant change in interest rates and exchange rates;
- a crisis in a geographical area or market (e.g. emerging markets), identified by a fall in major stock market indices;
- a systemic shock like the one after 9/11 which significantly restricts access to money markets;
- scarce liquidity in the interbank market.

Bank specific events may include:
- significant withdrawals of deposits by customers;
- reputational damage with subsequent difficulty to renew financing sources in the money market;
- default of a major market counterparty or source of funding;
- deterioration in loan quality;
- steep increase in draw-downs on committed credit lines;
- significant decline in the ability to roll over short-term funding;
- bigger haircuts on assets included in Counter Balancing Capacity (CBC).

Simulations are run under the different stress scenarios to evaluate the effects on the expected behaviour of inflows and outflows over a given time horizon, both in terms of estimated cash-flows and timing. The Maturity Ladder is redefined for each scenario simulation.
The stress testing results based on hypothetical events at December 30, 2011 are set out in the table below and show that limits are not exceeded:

Time bucket	Stressed value	Unstressed value	LIMITS
T+1d	1,461.245	765.655	> 300,000
T+5d	1,702.680	968.019	> 300,000
T+1M	1,870.279	1,132.792	> 300,000

The scenario used for the test whose results are set out in the table above relates to a general deterioration in the quality of instruments eligible for refinancing:
- 10% decline in the market value of debt securities in the liquidity reserve;
- 5 percentage point increase in the haircut on Spanish and Italian government securities;
- 8.5 percentage point increase in the haircut on securities issued by banks.

SECTION 4 – OPERATIONAL RISK

Qualitative information

A. General aspects, operational risk measurement and management

Regulators are placing increasing emphasis on the identification and management of financial, credit and operational risks.
In its Circular 263/2006 adopting Directives 2006/48/EC and 2006/49/EC of the European Parliament and of the Council on the capital adequacy of banks, the Bank of Italy emphasises, among other things, the importance of having effective internal control and management systems for operational risk with a risk measurement and management approach commensurate with the complexity of the business.
In their joint Regulation of October 29, 2007 on the organisation and procedures of intermediaries providing investment services, the Bank of Italy and Consob (stock market regulator) emphasise the importance of risk management and control[1].
The Basel Committee on banking supervision in its guidelines of June 2011 incorporating the evolution in sound practices for the management and supervision of operational risk and supervisory guidelines for the Advanced Measurement Approaches (AMA) puts emphasis on governance, risk management environment and disclosure.
All principles set out in said regulations and guidelines 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 second level 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. Second level controls 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 Compliance & Risk Control function is responsible for identifying, measuring and assessing operational risk. The Compliance & Risk Control team coordinates with Network Inspectors and the Anti-Money Laundering team for management and control of operational risk associated with the activities carried out by the sales network, and with Accounting & Finance officers for verification of capital adequacy vis-à-vis operational risk capital requirements.

[1] Article 13
1. The risk management team:
a) collaborates to the definition of the entity's risk management system;
b) sees to the effective operation of the entity's risk management system and compliance by the intermediary and relevant officers;
c) verifies the adequacy and effectiveness of measures taken to remedy any deficiencies in the entity' risk management system;
2.The risk management team provides advice and submits annual or more frequent reports on its activities to management.

The Compliance & Risk Control function was reorganised in 2011 to attain synergies from the consolidation of operational risk and compliance risk assessment processes into a dedicated unit, the Risk Assessment & Mitigation unit whose work backs the activities of both the Risk Control unit and the Compliance unit.
The reorganisation entailed redefining operational risk control responsibilities as follows:

- the Risk Assessment & Mitigation team is responsible for assessing both compliance and operational risk exposures of the various organisational units as well as for developing a system of recurring second level controls;
- the Risk Control team is responsible for assessing and monitoring exposures to operational risk through collection and analysis of operational loss data.

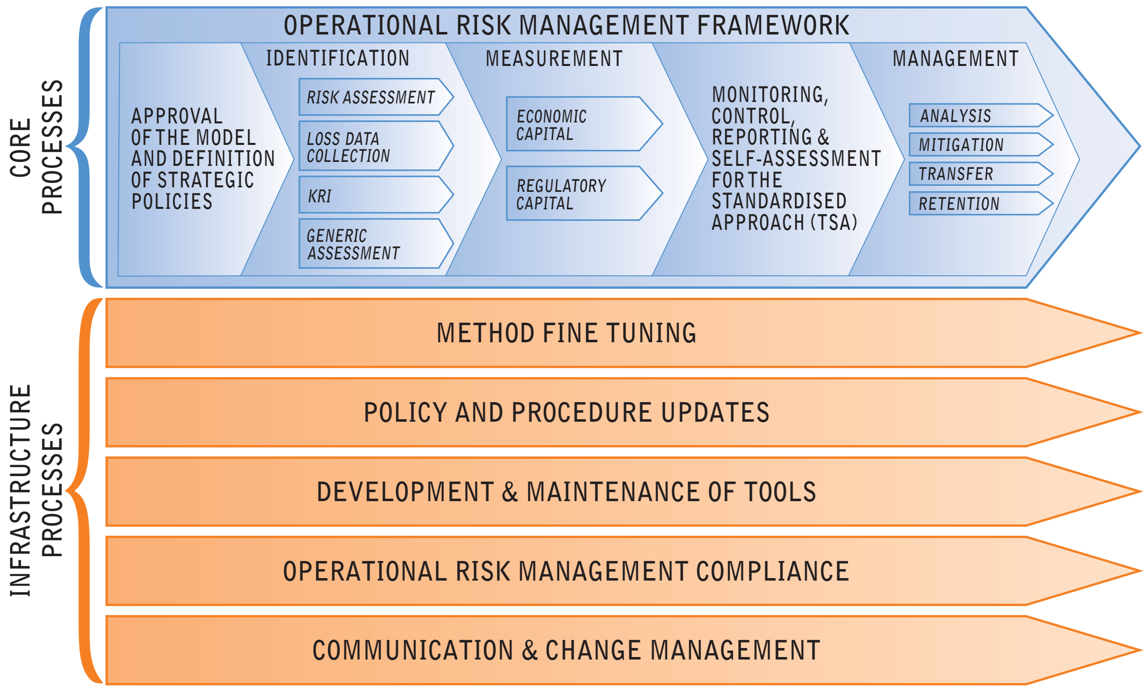
These teams coordinate their work with the Compliance unit team.

The Compliance & Risk Control function 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 associated 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 risk management framework entails a central control function, i.e. Banca Mediolanum's Compliance and Risk Control function, 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 IT and Operations, also to facilitate coordination in relation to Business Continuity & Disaster Recovery Plans.
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.:

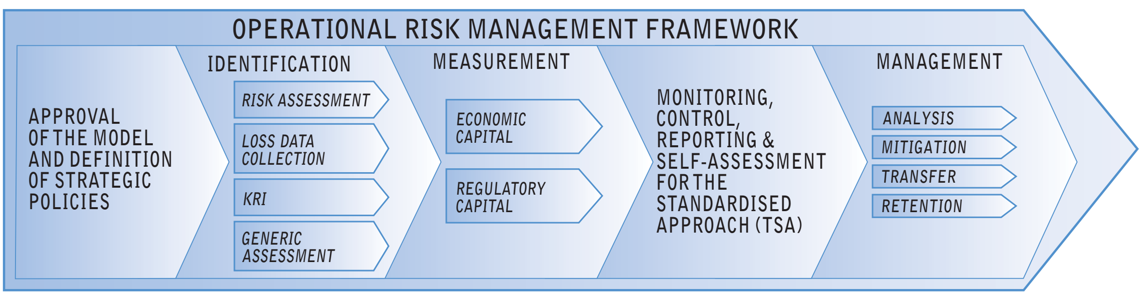
- **A, negligible risk:** risk is consistent with the risk appetite as established by top management;
- **B, moderate risk:** the risk of loss is not negligible; first red flag;
- **C, significant risk**: it indicates a critical condition; more in-depth analysis is recommended to assess the opportunity 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 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 that are detailed in internal procedures.



"**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.

Following the reorganisation, from June 2011 the activities under paragraphs 1, 3 and 4 above have been carried out by the Risk Assessment & Mitigation team, while Loss Data Collection has been carried out by the Risk Control team.

"**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 21, 2012), 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**" entails the periodic assessment of risk control and mitigation strategies. Depending on the nature and size of risk, in accordance with the risk appetite approved by management, the bank decides whether it can take the risk, adopt risk mitigation or transfer the risk to third parties.

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 2011, over 51 organisational units of the Bank were examined, identifying about 1,670 operational risk checkpoints. About 78% of these checkpoints were judged to be adequate or in need of being just better formalised. For risk controls that were judged to be unsatisfactory or in need of improvement, cost/benefit analyses were conducted and proper risk mitigation actions were taken, where appropriate.

COMPLIANCE RISK

A single compliance risk management framework is applied across the Mediolanum Banking Group. Banca Mediolanum's Compliance team 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.
The responsibilities of the Compliance team are summarised below:

- **Planning:** annual planning of compliance risk management activities (compliance plan).
- **Regulatory alert:** analysis of regulatory changes and information on their possible impact on the bank's business to the relevant organisational units.
- **Regulations Mapping:** identification of applicable regulatory requirements and related sanctions to determine risk exposure and the level of inherent risk. Regulations mapping precedes compliance risk assessment and uses a matrix which is regularly updated to incorporate regulatory changes.
- **Risk Impact Rating:** based on regulations mapping each risky event whose occurrence would cause direct or indirect damage to the finances, reputation or the application of sanctions is rated to have a concise measure of the level of inherent risk (or risk impact).
- **Guidance and advice:** preparation of opinions as well as assistance for education sessions.
- **Compliance Assessment Mapping** of processes, procedures, novel projects, products, contracts.
- **Effectiveness assessment (ongoing controls)** of regulatory compliance.
- **Mitigation actions:** planning of corrective actions to mitigate any identified risk.
- **Reporting:** preparation of information on compliance matters for Senior Management and/or Supervisory Authorities.

The Risk Assessment & Mitigation team sees to compliance assessment mapping and ongoing controls of regulatory compliance put in place to prevent risk and to the adoption of risk mitigation actions.

In the implementation of the compliance framework Banca Mediolanum uses compliance assessment mapping to identify and assess compliance risk at least on an annual basis and put in place adequate risk management actions. Compliance assessment mapping helps assessing whether adequate controls (internal rules/controls, training, information system) are defined, properly formalised and in place. This exercise is carried out by the Risk Assessment & Mitigation team on the basis of the relevant compliance plan. The findings of the exercise are shared with the Compliance team that takes account of them in its planning of compliance related activities and periodic reports to management.

Ongoing controls of regulatory compliance of operations (structures, processes, operating and commercial procedures) to prevent risk are conducted under a multi-source approach (ongoing checks, indicators, losses, sanctions etc.). Notably, in 2011, the Register of compliance controls was established and controls of compliance with Directive 2004/39/EC (MiFID) requirements were strengthened.
The compliance framework in place, which includes both ex-ante and ex-post controls, provides assurance to management of compliance across the organisation.

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, Anti-Money Laundering and Banking Transparency regulations.

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 Risk Control 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, 2011 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, 2011	Dec. 31, 2010
1. Share capital	450,000	450,000
2. Share premium account	-	-
3. Reserves	99,827	92,492
- retained earnings	165,351	158,016
a) legal reserve	25,378	22,061
b) statutory reserve	-	-
c) treasury shares reserve	-	-
d) other	139,973	135,955
- other	(65,524)	(65,524)
3.5 Interim dividends	-	-
4. Equity instruments	-	-
5. Treasury shares	-	-
6. Valuation reserves	(142,937)	(37,432)
- available for sale financial assets	(142,937)	(37,432)
- 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	16,129	66,334
Total	423,019	571,394

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

	Dec. 31, 2011		Dec. 31, 2010	
€/'000	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	2,562	(143,964)	229	(42,013)
2. Equities	48	-	53	-
3. Holding in UCITS	87	(1,670)	4,333	(33)
4. Loans	-	-	-	-
Total	2.697	(145,634)	4,615	(42,046)

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	(41,785)	53	4,300	-
2. Increases	50,981	217	1,964	-
2.1 Increase in fair value	3,757	5	11	-
2.2 Reclassification to the income statement from reserves:	46,758	212	1,953	-
- impairment	44,053	212	1,953	-
- realised gains	2,705	-	-	-
2.3 other increases	466	-	-	-
3. Decreases	(150,598)	(222)	(7,847)	-
3.1 Decrease in fair value	(150,401)	(221)	(7,797)	-
3.2 Impairment	-	-	-	-
3.3 Realised losses	(195)	-	(2)	-
3.4 Other decreases	(2)	(1)	(48)	-
4. Closing balance	(141,402)	48	(1,583)	-

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, 2011, the adoption of said treatment option allowed to reduce the balance of Tier 1 negative elements by €130,597 thousand which entailed an increase in regulatory capital at December 31, 2011 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, 2011, Tier 1 capital consisted of share capital (€450 million), equity reserves (€99.83 million), net profit for the period after dividends (€1.12 million) less intangible assets (€11.44 million). Tier 1 prudential filters consisted of the negative balance of valuation reserves (after tax) relating to debt securities classified as 'available-for-sale financial assets' (€12.06 million). Negative components of core capital (€5 million) consisted of 50% of the registered shares in an open-ended collective investment scheme.

2. Tier 2 capital

At December 31, 2011, Tier 2 capital consisted of subordinated liabilities (€122.41 million).
Negative components of supplementary capital (€5 million) consisted of 50% of registered shares in an open-ended collective investment scheme.

3. Tier 3 capital

At December 31, 2011, Banca Mediolanum's capital did not include any instruments falling within Tier 3 capital.
No regulatory capital component included assets or liabilities classified as non-current assets or disposal groups.

B. Quantitative information

€/'000	Dec. 31, 2011	Dec. 31, 2010
A. Tier 1 before prudential filters	539,505	540,191
B. Tier 1 prudential filters:	(12,057)	(20,106)
B.1 Positive IAS/IFRS prudential filters	-	-
B.2 Negative IAS/IFRS prudential filters	(12,057)	(20,106)
C. Tier 1 after prudential filters (A+B)	527,448	520,085
D. Deductions from tier 1	5,000	-
E. Total TIER 1 (C-D)	522,448	520,085
F. Tier 2 before prudential filters	122,415	168,323
G. Tier 2 prudential filters:	-	(2,177)
G.1 Positive IAS/IFRS prudential filters	-	-
G.2 Negative IAS/IFRS prudential filters	-	(2,177)
H. Tier 2 after prudential filters (F+G)	*122,415*	*166,146*
I. Deductions from tier 2	5,000	-
L. Total TIER 2 (H+I)	117,415	166,146
M. Deductions from tier 1 and tier 2	-	-
N. Total capital (E+L+M)	639,863	686,231
O. TIER 3	-	-
P. Total capital + TIER 3 (N+O)	639,863	686,231

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, 2011, Banca Mediolanum's free capital, after the 25% reduction taken for banks that are part of Italian banking groups, amounted to €380.84 million. Tier 1 capital ratio (core capital/RWA) was 16.14% and total capital ratio (regulatory capital/RWA) was 19.76%, above the minimum requirement of 8%.

B. Quantitative Information

€/'000	Not weighted		Weighted/requirements	
	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2010
A. Risk assets				
A.1 Credit risk & counterparty risk	14,623,320	12,170,167	3,404,372	2,930,153
1. Standardised approach	14,623,320	12,170,167	3,404,372	2,930,153
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	-	-	272,350	234,412
B.2 Market risk	-	-	15,402	23,439
1. Standardised approach	-	-	15,402	23,439
2. Internal models	-	-	-	-
3. Concentration risk	-	-	-	-
B.3 Operational risk	-	-	57,616	52,036
1. Foundation approach	-	-	-	-
2. Standardised approach	-	-	57,616	52,036
3. Advanced approach	-	-	-	-
B.4 Other prudential requirements	-	-	-	-
B.5 Other computational elements	-	-	(86,342)	(77,472)
B.6 Total prudential requirements	-	-	259,026	232.415
C. RWA & capital ratios				
C.1 Risk weighted assets (RWA)*	-	-	3,237,823	2,905,193
C.2 Tier 1 (core) capital/RWA (Tier 1 capital ratio)	-	-	16.14%	17.90%
C.3 Regulatory capital including Tier 3 /RWA (Total capital ratio)	-	-	19.76%	23.62%

(*) 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 the year under review Mediolanum Corporate University was merged into Banca Mediolanum. This transaction does not fall within the scope of application of IFRS 3. The business combination is accounted for in the separate accounts of Banca Mediolanum at the same carrying amounts and with no effect on the income statement.

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	2,215	-
Non-cash benefits	268	-
Other post-employment benefits	-	-
Share-based awards (stock options)	233	-

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, 2011 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	-	-	-	75,211	-	135,358	-	1,551	-
(b) Entities exercising significant influence over the company	-	-	-	-	-	-	-	-	-
(c) Subsidiaries	15	11,945	399,966	1,527	41	53,210	17,357	197	5,855
(d) Associates	-	-	-	-	-	-	-	-	-
(e) Joint ventures	-	-	-	-	-	-	-	-	-
(f) Key managers	-	-	-	-	-	-	-	-	-
(g) Other related parties	-	22,603	-	33,186	-	774,080	337	3,817	93
Total	15	34,548	399,966	109,924	41	962,649	17,694	5,564	5,948

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.	3,287
Mediolanum International Life Ltd	-
Banca Esperia S.p.A.	35
Bankhaus August Lenz	688
Commission on the sale of securities	
Mediolanum S.p.A.	478
Commission income on the sale of insurance products	
Mediolanum Vita S.p.A.	85,986
Mediolanum International Life Ltd	12,224
Mediolanum Assicurazioni S.p.A.	5,867
Commission income on the sale of mutual funds	
Mediolanum International Funds Ltd	156,077
Mediolanum Gestione Fondi Sgr p.A.	33,461
Commission income on the sale of pension funds	
Mediolanum Gestione Fondi Sgr p.A.	445
Mediolanum Vita S.p.A.	-
Commission income on collection, payment and other services	
Mediolanum Vita S.p.A.	654
Banca Esperia S.p.A.	64
Mediolanum International Life Ltd	37
Mediolanum Assicurazioni S.p.A.	13
Dividends from Group companies	
Mediolanum International Funds Ltd	99,960
Gamax Management AG	6,040
Mediolanum Asset Management	6,120
Mediolanum Gestione Fondi Sgr p.A.	9,562
Trading	
Banco de Finanzas e Inversiones S.p.A.	-
Income on key personnel	
Mediolanum Vita S.p.A.	2,650
Banco de Finanzas e Inversiones S.p.A.	1,599
Mediolanum International Funds Ltd	637
Mediolanum Comunicazione S.p.A.	401
Mediolanum Gestione Fondi Sgr p.A.	-
Bankhaus August Lenz	204
Mediolanum International Life Ltd	197
H-Invest S.p.A.	-
Mediolanum Asset Management	-
Vacanze Italia S.p.A.	47
Banca Esperia S.p.A.	-
Recoveries of expenses from Group companies for centrally provided services	
Mediolanum Vita S.p.A.	4,306
Mediolanum Gestione Fondi Sgr p.A.	2,315
Mediolanum Comunicazione S.p.A.	925
Mediolanum S.p.A.	1,295
Mediolanum Assicurazioni S.p.A.	640
Mediolanum International Life Ltd	527
Vacanze Italia S.p.A.	97
Mediolanum International Funds Ltd	70
Mediolanum Asset Management	72
Bankhaus August Lenz	25

€/'000	Income
Other income from rentals and miscellaneous recoveries	
Mediolanum Vita S.p.A.	73
Mediolanum S.p.A.	144
Mediolanum Assicurazioni S.p.A.	78
Mediolanum Comunicazione S.p.A.	20

€/'000	Expense
Interest expense and similar charges	
Mediolanum Vita S.p.A.	7,236
Mediolanum S.p.A.	1,168
Mediolanum International Life Ltd	2,177
Banco de Finanzas e Inversiones S.p.A.	121
Bankhaus August Lenz	204
Gamax Management AG	191
Mediolanum International Funds Ltd	149
Mediolanum Assicurazioni S.p.A.	109
Banca Esperia S.p.A.	89
Fininvest S.p.A.	-
Mediolanum Gestione Fondi Sgr p.A.	305
Mediolanum Asset Management Ltd	17
Commission payable for third-party as set management	
Mediolanum Gestione Fondi Sgr p.A.	36
Trading	
Banco de Finanzas e Inversiones S.p.A.	41
Net expense for key personnel	
Mediolanum S.p.A.	1,386
Mediolanum Gestione Fondi Sgr p.A.	22
Mediolanum Assicurazioni S.p.A.	958
Television and internet communications - expenses for technical services	
Mediolanum Comunicazione S.p.A.	6,931
Digitalia S.r.l.	203
Rentals	
Mediolanum Vita S.p.A.	911
Mediolanum Gestione Fondi Sgr p.A.	354
Mediolanum S.p.A.	64
Miscellaneous insurance expenses	
Mediolanum Assicurazioni S.p.A.	9,779
Mediolanum Vita S.p.A.	1,404

€/'000	Expense
Audiovisual advertising and promotions	
Publitalia S.p.A.	3,393
Mediolanum Comunicazioni S.p.A.	244
Mondadori Pubblicità S.p.A.	145
Digitalia S.r.l.	381
Servizi Milan S.p.A.	30
Organisation of exhibitions and conventions	
Mediolanum Comunicazione S.p.A.	3,158
Sales force training	
Vacanze Italia S.p.A.	10
Business expenses, gifts and other services	
Mediolanum S.p.A.	227
Mediolanum Comunicazione S.p.A.	81
Mediolanum Gestione Fondi Sgr p.A.	175
Vacanze Italia S.p.A.	22
Servizi Milan S.p.A.	155
Mediolanum Vita S.p.A.	12
Milan A.C. S.p.A.	19
Operating expenses	
Mediolanum Gestione Fondi Sgr p.A.	33

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 2011, 675,111 stock options granted in 2006-2007-2008 were exercised for a total of 675,111 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, 2011			Total Dec. 31, 2010		
€/'000	Number of options	Average exercise price	Average expiration	Number of options	Average exercise price	Average expiration
A. Opening balance	4,868,991	2.55509	Apr-17	3,789,917	3.02892	Feb-15
B. Increases	1,347,888	-		1,784,942	-	
B.1 New issues	1,241,275	1.07600	Jan-20	1,784,942	1.12900	Dec-20
B.2 Other	106,613	3.86335	X	-	-	X
C. Decreases	(753,711)	-		(705,868)	-	
C.1 Cancelled	(43,600)	4.41723	X	(54,006)	4.66195	X
C.2 Exercised (*)	(675,111)	1.08674	X	(570,997)	1.29263	X
C.3 Lapsed	-	-	X	(52,647)	1.11800	X
C.4 Other	(35,000)	1.12900	X	(28,218)	1.05812	X
D. Closing balance	5,463,168	2.39448	Sept-17	4,868,991	2.55509	Apr-17
E. Options exercisable at year end	1,895,616	4.91773	X	1,415,453	5.75613	X

(*) Average market price per share on the exercise date was €3,41.

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 €1,004 thousand and entailed a corresponding increase in the Bank's equity reserves.

Basiglio, March 21, 2012

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

Annex 1

Mediolanum Corporate University S.p.A. Balance Sheet 2011

Balance Sheet

Assets

€	Dec. 31, 2011	Dec. 31, 2010
Non current assets		
Intangible assets		
Licences, brands and similar rights	1,000	15,165
Assets under development	-	-
Tangible assets		
Milan 3 Hotel Complex	-	8,011,204
Plants and machinery	410,756	547,186
Industrial and commercial equipment	121,187	161,518
Other	1,088,655	1,451,400
Tax assets		
Deferred	161,257	52,210
Total non current assets	1,782,855	10,238,683
Current assets		
Receivables		
from parent companies	339,813	995,100
from fellow subsidiaries	1,425	122,589
other	479,756	179,731
Total - Receivables	820,994	1,297,420
Cash and cash equivalents		
Bank deposits	-	6,537,555
Cash	-	374
Total - Cash and cash equivalents	-	6,537,929
Other assets	18,353,369	3,605,530
Total current assets	19,174,363	11,440,879
Total assets	20,957,218	21,679,562

Total shareholders' equity and liabilities

€	Dec. 31, 2011	Dec. 31, 2010
Shareholders' equity and liabilities		
Capital and reserves		
Share capital	20,000,000	20,000,000
Legal reserve	20,643	10,886
Other reserves	30,276	30,276
Profit (loss) carried forward	(342,570)	(527,966)
Profit (loss) for the year	(382,566)	195,153
Total - Capital and reserves	19,325,783	19,708,349
Non current liabilities		
Completion-of-service entitlements	-	141,706
Total non current liabilities	-	141,706
Current liabilities		
Payables		
Amounts due to suppliers	705,703	822,905
Amounts due to parent companies	210,064	407,103
Amounts due to fellow subsidiaries	131,644	110,497
Tax liabilities	194,222	214,355
Other payables	389,802	274,647
Total current liabilities	1,631,435	1,829,507
Total liabilities	1,631,435	1,971,213
Total shareholders' equity and liabilities	20,957,218	21,679,562

Income Statement

€	Dec. 31, 2011	Dec. 31, 2010
Value of production		
Revenues from sales	8,575,919	8,999,069
Other revenues and income	833,336	908,410
Total value of production	9,409,255	9,907,479
Production costs		
Raw, auxiliary materials, consumables, finished goods	73,501	56,199
Services	3,924,145	4,298,258
Leasehold expenses	1,213,579	1,164,454
Staff	2,576,041	2,841,993
Amortisation, depreciation and impairment:		
– amortisation of intangible assets	14,165	14,165
– depreciation of tangible assets	1,670,173	661,344
Other miscellaneous operating expenses	498,363	521,982
Total production costs	9,969,967	9,558,395
Operating profit	(560,712)	349,084
Interest income and expense		
Other interest income	124,795	29,810
Total interest income and expense	124,795	29,810
Profit before tax	(435,917)	378,894
Current tax	68,275	(225,036)
Deferred tax	(14,924)	41,295
Net profit (loss) for the year	(382,566)	195,153

Statement of comprehensive income

€	Dec. 31, 2011	Dec. 31, 2010
Net profit (loss) for the period	(382,566)	195,153
Other comprehensive income after tax		
Available for sale financial assets	-	-
Share of valuation reserves relating to investments accounted for by the equity method	-	-
Total other comprehensive income after tax	-	-
Total comprehensive income for the period	(382,566)	195,153

Statement of changes in shareholders' equity

at December 31, 2011

€	Balance at Jan. 1, 2011	Appropriation of prior year's profit	
		Reserves	Dividends and others
Share capital			
a) ordinary shares	20,000,000	-	-
b) other shares	-	-	-
Reserves:			
a) retained earnings	(486,804)	195,153	-
b) others	-	-	-
Net profit (loss) for the year	195,153	(195,153)	-
Shareholders' equity	19,708,349	-	-

at December 31, 2010

€	Balance at Jan. 1, 2010	Appropriation of prior year's profit	
		Reserves	Dividends and others
Share capital			
a) ordinary shares	20,000,000	-	-
b) other shares	-	-	-
Reserves:			
a) retained earnings	(711,548)	217,715	-
b) others	-	-	-
Net profit (loss) for the year	217,715	(217,715)	-
Shareholders' equity	19,506,167	-	-

	Movements in the year							
		Shareholders' equity						
	Change in reserves	Share issues	Purchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Stock options	Comprehensive income at Dec. 31, 2011	Shareholders' equity at Dec. 31, 2011
	-	-	-	-		-	-	20,000,000
	-	-	-	-		-	-	-
	-	-	-	-		-	-	(291,651)
	-	-	-	-		-	-	-
	-	-	-	-		-	(382,566)	(382,566)
	-	-	-	-		-	(382,566)	19,325,783

	Movements in the year							
		Shareholders' equity						
	Change in reserves	Share issues	Purchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Stock options	Comprehensive income at Dec. 31, 2010	Shareholders' equity at Dec. 31, 2010
	-	-	-	-		-	-	20,000,000
	-	-	-	-		-	-	-
	-	-	-	-		7,029	-	(486,804)
	-	-	-	-		-	-	-
	-	-	-	-		-	195,153	195,153
	-	-	-	-		7,029	195,153	19,708,349

Cash flow statement

Indirect method

€	Dec. 31, 2011	Dec. 31, 2010
Net profit (loss) for the year	(383)	195
Change in non-monetary items		
Completion-of-service entitlements	76	99
Amortisation and depreciation	1,671	676
Stock Options	-	7
Change in receivables and payables relating to operating activities		
Change in other receivables and payables	(14,796)	3,272
Net cash from operating activities	(13,432)	4,249
Net cash from tangible and intangible assets	6,894	(137)
– intangible assets	-	-
– tangible assets	-	-
Net cash from investment activities	6,894	(137)
Net increase (decrease) in cash and cash equivalents	(6,538)	4,112
Cash and cash equivalents at beginning of the period	6,538	2,426
Cash and cash equivalents at end of the period	-	6,538
Net change in cash and cash equivalents	(6,538)	4,112

Notes to the separate annual financial statements 2011

Notes to the separate annual financial statements

These notes are structured as follows:
Parte A - Accounting Basis
Parte B - Accounting policies
Parte C - Information on the balance sheet
Parte D - Information on the income statement
Parte E - Segmental information
Parte F - Information on risks and risk management
Parte G - Business combinations
Parte H - Related Party Transactions

PART A – ACCOUNTING BASIS

Pursuant to Legislative Decree No. 38 of February 28, 2005, the Mediolanum Corporate University S.p.A. separate financial statements for the year ended December 31, 2011 were prepared in accordance with the International Accounting and Financial Reporting Standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Commission pursuant to the European Parliament and Council Regulation (EC) 1606 of July 19, 2002.
The Mediolanum Corporate University 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 (Accounts) and these Explanatory Notes, which set out the information required under art. 2427 and other articles of the Italian Civil Code on financial reporting as well as other applicable statutes.
The separate financial statements also include the Directors' Report.
In accordance with art. 5 of Legislative Decree 38/2005 the separate financial statements were prepared using the euro as reporting currency.
The amounts set out in the Accounts are presented in units of euro, while the amounts set out in the Notes and the Directors' Report are presented in thousands of euro except where otherwise stated.
In applying IAS/IFRS, no departure was made from requirements therein.

PART B – ACCOUNTING POLICIES

This section presents the accounting policies applied in the preparation of the separate financial statements for the year ended December 31, 2011.

Intangible assets

Intangible assets are recognised if they are identifiable as such and arise from contractual or other legal rights.
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 is 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. Expenditure on the renovation of leasehold property is amortised over a period which does not exceed the lease term.
At each reporting date, if there is evidence of impairment, the recoverable amount of the asset is estimated. If the recoverable amount of the asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss. The impairment loss is recognised in profit or loss.
An intangible asset is derecognised on disposal or when no future economic benefits are expected from it.

Tangible assets

Tangible assets include land, buildings, plant and equipment, furnishings, fixtures, fittings.
These are tangible items that are held for use in the production or supply of goods or services, or for administrative purposes and that are expected to be used during more than one period.
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 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.
At each interim and annual reporting date if there is an indication that an asset may be impaired the carrying amount of the asset is compared to its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset. If the recoverable amount of an asset is less than its carrying amount, the carrying amount is reduced to its recoverable amount. Any reduction is 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.

Receivables

This account includes trade receivables.
A receivable is initially recognised on the billing date or due date.
At each interim and annual reporting date the Company assesses whether there is objective evidence of any impairment loss as a result of one or more events that occurred after initial recognition.
An impaired account is individually assessed and the amount of the impairment loss is measured as the difference between the asset's carrying amount at the time of assessment and the present value of estimated future cash flows. 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 receivables which are expected to be recovered in the short term are not discounted.
The amount of the impairment loss is recognised in the income statement.
If the value of a previously impaired account 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 asset that exceeds what the cost would have been had the impairment loss not been recognised at the date the impairment is reversed.

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.

Tax assets and liabilities

The Company recognises current and deferred taxes applying the tax rates in effect.
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 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.

OTHER INFORMATION

For financial year 2011 there is no other information to be given.

PART C - INFORMATION ON THE BALANCE SHEET

ASSETS

Intangible assets

€/'000	Dec. 31, 2011 Assets measured at cost	Dec. 31, 2011 Assets measured at fair value	Dec. 31, 2010 Assets measured at cost	Dec. 31, 2010 Assets measured at fair value
1. Goodwill				
2. Other intangible assets	1	-	15	-
B.1 Internally generated		-	-	-
B.2 Other	1	-	15	-
Total	1	-	15	-

Year's movements in intangible assets

€/'000	
A. Opening balance at January 1, 2011	15
B. Increases	-
C. Decreases	14
C.2 Amortisation	14
D. Closing balance at December 31, 2011	1

Tangible assets

€/'000	Dec. 31, 2011 Assets measured at cost	Dec. 31, 2011 Assets measured at fair value	Dec. 31, 2010 Assets measured at cost	Dec. 31, 2010 Assets measured at fair value
1. Owned	1,621	-	10,171	-
- Milano 3 hotel complex	-	-	8,011	-
- plant and machinery	411	-	547	-
- industrial and commercial equipment	121	-	162	-
- other	1,089	-	1,451	-
Total (at cost and re-measured)	1,621	-	10,171	-

'*Other*' includes furnishings (€1,016 thousand), office furniture (€57 thousand) and equipment (€16 thousand).

Year's movements in tangible assets

€/'000	Hotel complex	Other assets	Assets under development	Total
A.2 Opening balance	8,011	2,160	-	10,171
B. Increases:	80	40	-	120
B.1 Additions	80	40		120
B.2 Reversal of impairment	-	-	-	-
B.3 Increases in fair value:				
a) in equity	-	-	-	-
b) through profit or loss	-	-	-	-
B.4 Other changes	-	-	-	-
C. Decreases:	8,091	579	-	8,670
C.1 Disposals	8,016	66		8,082
C.2 Depreciation	75	513	-	588
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 Other changes	-	-	-	-
D. Closing balance	-	1,621	-	1,621

The balance of tangible assets for the year under review declined following the sale of the Milano 3 Hotel Complex to PI Servizi S.p.A. on September 29, 2011.

TAX ASSETS

An analysis of deferred tax assets is set out in table below.

	FY 2011		FY 2010	
€/'000	Temporary differences	Tax rate %	Temporary differences	Tax rate %
Deferred tax assets:				
Directors' compensation	113	27.50%	152	27.50%
Waste collection tax	22	27.50%	22	27.50%
Employee completion of service entitlements adjustment under IAS	-	27.50%	16	27.50%
Total	135	-	190	-
Deferred tax liabilities:				
Total	-	-	-	-
Net deferred tax liabilities (assets)	-	(37)	-	(52)
Deferred tax arisen on tax losses for the year	(124)	-	-	-
Deferred tax arisen on tax losses for the prior year	-	-	-	-
Temporary differences excluded from the calculation of deferred tax liabilities (assets)	-	-	-	-
Tax losses to carry forward:	-	-	-	-
...				
...				
Net	-	-	-	-

CURRENT ASSETS

RECEIVABLES

An analysis of *receivables from parent companies* is set out in the table below.

€/'000	Dec. 31, 2011	Dec. 31, 2010
Banca Mediolanum S.p.A.	323	978
Mediolanum S.p.A.	17	17
Total	340	995

Receivables from parent companies relate to services rendered to the Parent Company Banca Medioanum S.p.A. for the design and provision of education and training programmes, personnel seconded by the Parent Company, as well as tax receivables from Mediolanum S.p.A. following last year's adoption by MCU of the tax consolidation regime.

An analysis of *receivables from fellow subsidiaries* is set out in the table below.

€/'000	Dec. 31, 2011	Dec. 31, 2010
PI Servizi S.p.A.	1	-
Vacanze Italia S.p.A.	-	116
Mediolanum Assicurazioni S.p.A.	-	3
Mediolanum Gestione Fondi Sgr p.A.	-	4
Total	1	123

An analysis of *receivables from others* is set out in the table below.

€/'000	Dec. 31, 2011	Dec. 31, 2010
Due within one year		
IRS - VAT	143	-
Customers	110	3
IRAP advances	102	69
IRS - Withholding tax	34	-
Agents	32	9
IRS – other receivables	29	29
Advances to suppliers	13	35
Miscellaneous receivables	11	6
Banco de Finanzas e Inversiones S.A.	6	22
Bankhaus Agust Lenz AG	-	7
Total	480	180

CASH AND CASH EQUIVALENTS

€/'000	Dec. 31, 2011	Dec. 31, 2010
Bank deposits	-	6,538
Total	-	6,538

At December 31, 2011, the balance of "Bank deposits" was nil as bank accounts held with Banca Mediolanum were closed on December 28, 2011. Bank deposit balances were reclassified to 'Other assets' as detailed in the next section.

OTHER ASSETS

'Other assets' consisted of the balances on bank accounts that were closed, amounting to €15,167 thousand, accrued income amounting to €18 thousand (FY 2010: €25 thousand), mainly relating to advisory services rendered, and leasehold improvements amounting to €3,168 thousand (FY 2010: 3,851 thousand) as set out in the table below.

€/'000	Dec. 31, 2011	Dec. 31, 2010
Cash on hand (bank accounts closed)	15,167	-
Leasehold improvements	3,168	3,581
Accrued income	18	25
Total	18,353	3,606

LIABILITIES AND SHAREHOLDERS' EQUITY

CAPITAL AND RESERVES

Share Capital

Share capital is fully paid up and amounts to €20,000,000.00 divided into 20,000,000 ordinary shares.

Retained earnings

Analysis of retained earnings:

€/'000	Dec. 31, 2011	Dec. 31, 2010
Legal reserve	21	11
Other	30	30
Losses carried forward	(343)	(528)
Total	(292)	(487)

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	Utilised for (prior 3 years) loss coverage	other
Share capital:	20,000	-	- -	-	-
Equity reserves, of which:					
Retained earnings, of which:					
- legal reserve	21	A B	21 -	-	-
- other reserves	30	A B C	30 -	-	-
Valuation reserves:	-	-	- -	-	-
Total	20,051	-	51 -	-	-
of which undistributable	-	-	21 -	-	-
of which distributable	-	-	30 -	-	-

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

NON CURRENT LIABILITIES

EMPLOYEE COMPLETION-OF-SERVICE ENTITLEMENTS

An analysis of the year's movements in this account is set out in the table below.

€/'000	
Balance at December 31, 2010	142
Amount accrued and posted to the income statement	76
Transferred from other Mediolanum Group companies	4
Transferred to other Mediolanum Group companies	(18)
Invested in Pension Funds	(99)
Transferred to INPS	(8)
Benefits paid during the year	(97)
IAS adjustment	-
Balance at December 31, 2011	-

Following the merger into Banca Mediolanum the company paid out completion-of-service amounts accrued as of December 31, 2011 to its employees.

CURRENT LIABILITIES

Payables

Amounts due to suppliers were €706 thousand (FY 2010: €823 thousand) payable to suppliers for the supply of goods and the provision of services.

An analysis of amounts due to parent companies is set out in the table below.

€/'000	Dec. 31, 2011	Dec. 31, 2010
Banca Mediolanum S.p.A.	159	330
Mediolanum S.p.A.	51	77
Total	210	407

Amounts due to parent companies were mostly made up of seconded personnel cost charged to the parent company Banca Mediolanum S.p.A. amounting to €13 thousand (FY 2010: €33 thousand), employees transferred to the parent company amounting to €15 thousand and intercompany services rendered in the fourth quarter amounting to €131 thousand (€297 thousand).
Amounts due to the ultimate parent company Mediolanum S.p.A. related to the amount due under the tax consolidation regime that remained unchanged over the prior year (FY 2011: €51 thousand; FY 2010: €51 thousand).

An analysis of *amounts due to fellow subsidiaries* is set out in the table below.

€/'000	Dec. 31, 2011	Dec. 31, 2010
Vacanze Italia S.p.A.	117	82
Mediolanum Comunicazione S.p.A.	15	28
Total	132	110

Amounts due to Mediolanum Comunicazione S.p.A. at December 31, 2011 related to the amounts charged for seconded personnel (€15 thousand).
Amounts due to Vacanze Italia S.p.A. related to amounts due for the reservation of rooms at the Milano 3 Hotel Complex in December 2011.

Analysis of Tax Liabilities

€/'000	Dec. 31, 2011	Dec. 31, 2010
Withholding tax on wages and salaries	69	64
IRS - IRAP	56	102
Local taxes	27	1
Withholding tax on employee completion-of-service entitlements	26	-
Withholding tax on compensation of directors and contractors	8	14
Withholding tax on fees paid to professionals	8	4
IRS - VAT	-	29
Total	194	185

Analysis of Other Liabilities

€/'000	Dec. 31, 2011	Dec. 31, 2010
Miscellaneous items	162	45
Employees	144	3
Social security and pension agencies	83	112
Vacation and leaves not taken	-	74
Other	1	41
Total	390	275

PART D - INFORMATION ON THE INCOME STATEMENT

VALUE OF PRODUCTION

REVENUES FROM SALES

Revenues from sales amounted to €8,576 thousand (FY 2010: €8,999 thousand) and primarily related to the design and provision of education and training programmes to the Mediolanum Group.

REVENUES FROM SALES

€/'000	Dec. 31, 2011	Dec. 31, 2010
Revenues from delivery of education and training programmes	8,317	8,949
Revenues from design of education and training programmes	259	50
Total	8,576	8,999

OTHER REVENUES AND INCOME

€/'000	Dec. 31, 2011	Dec. 31, 2010
Revenues from property rentals	561	655
Other revenues	195	176
Cost recoveries	77	77
Total	833	908

PRODUCTION COSTS

€/'000	Dec. 31, 2011	Dec. 31, 2010
Services	3,924	4,299
Staff	2,576	2,842
Amortisation and depreciation	1,684	675
Leasehold expenses	1,214	1,164
Miscellaneous operating expenses	498	522
Raw, auxiliary materials, consumables, finished goods	74	56
Total	9,970	9,558

Pursuant to indications given by the Bank of Italy for 2011, mileage allowance, employee travel expenses, meals and lodging expenses for out-of-area business trips for 2010 were reclassified out of 'staff costs' to 'services' costs.

AVERAGE NUMBER OF EMPLOYEES

An analysis of the average number of employees by category is set out in the table below.

Category	Dec. 31, 2011	Dec. 31, 2010
Senior management	1	2
Middle management	9	9
Other personnel	23	22
Total	33	33

INCOME TAX

Income tax relates to the IRES (corporate income tax) and IRAP (regional business tax) tax expense for the year calculated in accordance with tax rules and rates.

€/'000	Dec. 31, 2011	Dec. 31, 2010
Current tax expense (IRAP)	56	103
Current tax expense (IRES)	(124)	122
Total tax expense for the year	(68)	225
Change in deferred tax for the year (IRES)	(31)	(42)
Change in deferred tax for prior years (IRES)	46	1
Total deferred tax for the year	15	(41)
Total	(53)	184

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

€/'000	Rate	Amount	Tax
Calculation of taxable income (IRES)	-	-	-
Profit before tax	-	(436)	-
Theoretical tax	27.50%	-	(120)
Temporary differences deductible in following years	-	113	-
Prior years' temporary differences	-	(152)	-
Permanent differences	-	29	-
Total taxable income	-	(445)	-
Taxable income (27.50%)	-	(445)	-
Current tax expense for the year	-	-	(122)
Average rate on profit before tax	28.09%	-	-
Tax break (A.C.E.)	-	-	(2)
Calculation of taxable income (IRAP)			
Value of production less production costs	-	(561)	-
Costs which are not significant for the purpose of IRAP calculation	-	2,530	-
Total	-	1,969	-
Theoretical tax	3.90%	-	77
Prior years' temporary differences	-	-	-
Permanent differences	-	(541)	-
Taxable income (rate of 3.90%)	-	1,428	-
Current tax expense for the year	-	-	56

PART E - SEGMENTAL INFORMATION

No disclosure is provided in this section as segmental information is not significant.

PART F - INFORMATION ON RISKS AND RISK MANAGEMENT

Due to the merger that occurred during the year under review no additional disclosure is made herein. For information on risks and risk management readers are referred to the same section of the financial statements of Banca Mediolanum S.p.A. which is the company into which MCU was merged.

PART G - BUSINESS COMBINATIONS

Transactions concluded during the year

In 2011 there were no transactions requiring disclosure under IFRS 3.

PART H - RELATED PARTY TRANSACTIONS

1. Key management compensation

€/'000	Directors, Statutory Auditors, Deputy/General Managers	Other key management
Emoluments & social security contributions	283	-
Other pension benefits and insurance	-	-
Non-cash benefits	-	-
Other post-employment benefits	-	-
Share-based awards (stock options)	-	-

2. Information on related party transactions

Related party transactions primarily refer to transactions with companies that are part of the Mediolanum Group.

An analysis of related party balances at December 31, 2011 by related party category is set out in the table below.

€/'000	Receivables	Cash and cash equivalents	Other payables
(a) Parent company	350	-	210
(b) Entities exercising significant influence over the company	-	-	-
(c) Subsidiaries	-	-	-
(d) Associates	-	-	-
(e) Joint ventures	-	-	-
(f) Key management	-	-	-
(g) Other related parties	151	-	132

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

€/'000	Dec. 31, 2011
Interest on bank accounts:	
Banca Mediolanum S.p.A.	125
Other revenues:	
Banca Mediolanum S.p.A.	8,483
Banco de Finanzas e Inversiones SA	23
Mediolanum Vita S.p.A.	12
Mediolanum Assicurazioni S.p.A.	25
Office rentals:	
Banca Mediolanum S.p.A.	271
Vacanze Italia S.p.A.	289
Key personnel:	
Costs charged by Mediolanum Comunicazione S.p.A.	33
Costs charged by Banca Mediolanum S.p.A.	13
Miscellaneous services:	
Costs charged by Banca Mediolanum S.p.A.	1,070
Costs charged by Mediolanum S.p.A.	23
Costs charged by Vacanze Italia S.p.A.	768
Costs charged by Mediolanum Comunicazione S.p.A.	46
Costs charged by Elcon S.r.l.	81

The information required under art. 78 of Consob Regulation 11971 of May 14, 1999, as subsequently amended, is set out in Schedules 1 and 2 prepared pursuant to Annex E of said regulation.

Basiglio, March 21, 2012

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

Fees Paid to the Independent Auditors

Fees paid to the independent auditors

The fees paid to the independent auditors Deloitte & Touche S.p.A. and entities that are part of their network are set out in the table below.

Banca Mediolanum S.p.A.

(in euro, excluding VAT and expenses)

Service	Company	Fee (€/'000)
Audit	Deloitte & Touche S.p.A. and other entities that are part of their network	143,000
Certification	Deloitte & Touche S.p.A. and other entities that are part of their network	-
Tax advice	Deloitte & Touche S.p.A. and other entities that are part of their network	-
Other	Other entities that are part of the Deloitte & Touche network	84,000
Total		227,000

Fees paid to the independent auditors

The fees paid to the independent auditors Deloitte & Touche S.p.A. and entities that are part of their network are set out in the table below.

Mediolanum Banking Group

(in euro, excluding VAT and expenses)

Service	Company	Fee (€/'000)
Audit	Deloitte & Touche S.p.A. and other entities that are part of their network	396,000
Certification	Deloitte & Touche S.p.A. and other entities that are part of their network	542,425
Tax advice	Deloitte & Touche S.p.A. and other entities that are part of their network	166,550
Other	Other entities that are part of the Deloitte & Touche network	249,500
Total		1,354,475

Please note that €536,425 fee was charged to mutual funds, discretionary accounts, index-linked policies and to the pension fund as set out in the relevant statements and is not a cost that remains charged to the company that gave the audit mandate.

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, 2011

Dear Shareholder,

In accordance with article 153 of Legislative Decree No. 58 of February 24, 1998 and article 2429, paragraph 2 of the Italian Civil Code, at the Meeting convened to approve the financial statements for the year ended December 31, 2011, 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 transactions that were significant for their size and characteristics;
- 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 satisfied ourselves that the Bank complied with all specific requirements issued by supervisory authorities.

- we examined the activities conducted by the Compliance unit and assessed the adequacy and effectiveness of the internal control system, especially in relation to risk management. Assisted by Internal Audit staff and the independent auditors we satisfied ourselves of the effective operation of the main operational and management units;
- we also satisfied ourselves of the implementation of Anti-Money Laundering and Anti-Terrorist Financing controls in accordance with the Rules issued by the Bank of Italy on March 10, 2011 pursuant to Legislative Decree 231 of November 21, 2007; and
- 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 passed as well as decisions made by the respective committees with regard to actions taken to remedy any irregularities found in the conduct of the company's affairs.

We had the usual mutual exchange of information on our respective supervisory and control activities with the independent auditors Deloitte & Touche S.p.A. responsible for auditing the accounting records and the financial statements, in accordance with art. 2409 septies and art. 19 of Legislative Decree No. 39 of January 27, 2010. The independent auditors reported to us on their audit work in accordance with art. 155, paragraph 2, of Legislative Decree 58/1998 and advised us that they did not become aware of any irregularities or events which required reporting to the control functions or to the supervisory authorities. The independent auditors also sent us their report on key issues under art. 19, paragraph 3, of Legislative Decree 39/2010 setting out conclusions in line with the comments above.

The financial statements and their approval

In relation to the separate financial statements for the year ended December 31, 2011, 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 prior year's comparative information;
- 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 on March 27, 2012 issued their report without any remarks (unqualified opinion).

In consideration of the foregoing, we express our favourable opinion on the approval of the financial statements for the year ended December 31, 2011, which show net profit of €16,129,002.64 and the appropriation of the year's net profit as proposed by the Board of Directors.

Finally, we remind you that our term in office as well as the term of the Board of Directors expire with the approval of these financial statements. We thank you for your trust and invite you to elect the new members.

Milan, April 2, 2012

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

Independent Auditors' Report

Deloitte.

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**AUDITORS' REPORT PURSUANT TO ART. 14 AND 16
OF LEGISLATIVE DECREE N. 39 OF JANUARY 27, 2010**

**To the Shareholders of
BANCA MEDIOLANUM S.p.A.**

1. We have audited the financial statements of Banca Mediolanum S.p.A., which comprise the balance sheet as of December 31, 2011, and the income statement, statement of comprehensive income, statement of changes in shareholders's equity and cash flow statement for the year then ended and the relative notes. These financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n. 38/2005 are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the prior year's financial statements, whose data are presented for comparative purposes, reference should be made to the auditors' report issued by other auditors on March 28, 2011.

3. In our opinion, the financial statements give a true and fair view of the financial position of Banca Mediolanum S.p.A. as of December 31, 2011, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n. 38/2005.

4. The Directors of Banca Mediolanum S.p.A. are 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 law. For this purpose, we have performed the procedures required under Auditing Standard n. 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, 2011.

DELOITTE & TOUCHE S.p.A.

Signed by
Paolo Gibello Ribatto
Partner

Milan, Italy
March 27, 2012

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

Ordinary General Meeting of April 20, 2012

Ordinary General Meeting of April 20, 2012

RESOLUTIONS ABSTRACT

Attended by proxy by the sole shareholder Mediolanum S.p.A. that owns all the 475,000,000 shares that make up share capital (100%), the General Meeting resolved:

- to approve the Directors' Report for the year ended December 31, 2011;
- to approve the financial statements for the year ended December 31, 2011;
- to appropriate net profit for the year amounting to €16,129,002.64 as follows:
  - to the shareholder: distribution of a €0.03158 dividend for each of the 475,000,000 shares that make up share capital, for a total amount of €15,005,000.00;
  - to the legal reserve: €806,450.00;
  - to the Extraordinary Reserve: €317,552.64;
- to approve the 'Group Compensation Policy' together with the related Board of Directors Report to the General Meeting;
- to assign the management of the company to a Board of Directors and to confirm the Board members listed below for the current year and the next two years, up until the date of the General Meeting convened to approve the financial statements for the year ending December 31, 2014:
  - Bruno Bianchi;
  - Maurizio Carfagna;
  - Luigi Del Fabbro;
  - Ennio Doris;
  - Massimo Antonio Doris;
  - Paolo Gualtieri;
  - Edoardo Lombardi;
  - Giovanni Pirovano;
  - Angelo Renoldi;
  - Paolo Sciumè;
  - Carlos Javier Tusquets Trias de Bes;
- to confirm Ennio Doris Chairman of the Board of Directors Ennio Doris[1];
- to fix the aggregate annual gross compensation of the members of the Board of Directors at €1,235,000.00 until a new resolution is passed in relation to this matter;
- to confirm the members of the Board of Statutory Auditors listed below for the current year and the next two years, up until the date of the General Meeting convened to approve the financial statements for the year ending December 31, 2014:
  - Arnaldo Mauri (Chairman);

[1] At the subsequent Meeting the Board of Directors confirmed Edoardo Lombardi and Giovanni Pirovano Deputy Chairmen and Massimo Antonio Doris CEO and General Manager.

- – Adriano Alberto Angeli (Standing Auditor);
- – Marco Giuliani (Standing Auditor);
- – Francesca Meneghel (Substitute Auditor);
- – Damiano Zazzeron (Substitute Auditor);

- to fix the annual gross compensation of the members of the Board of Statutory Auditors for all their supervisory and control activities as follows:
  - €75,000.00 for the Chairman of the Board of Statutory Auditors;
  - €50,000.00 for each standing auditor.

Consolidated Annual Financial Statements 2011

Financial Highlights

€/m	Dec. 31, 2011	Dec. 31, 2010	change %
Assets under management & administration	39,798.3	39,476.2	1%
Net inflows	2,426.3	3,351.8	-28%
of which managed assets	843.4	2,190.7	-62%
Total Balance Sheet Assets	14,912.3	11,621.5	28%
Loans to customers	4,259.4	4,349.9	-2%
of which lending ex-L&R securities	3,505.0	3,466.9	1%
Amounts due to customers/ Securities issued (funding)	8,182.2	7,826.5	5%
of which Cassa Compensazione e Garanzia	707.2	1,254.2	-44%
Profit before tax	143.7	235.7	-39%
Tax	-17.8	-37.5	-53%
Net Profit	125.8	198.2	-37%
Net profit attributable to minority interests	102.1	113.9	-10%
Net profit attributable to the Parent Company	23,7	84.3	-72%
Tier 1 Capital ratio	9,41%	10,09%	-7%

Number	Dec. 31, 2011	Dec. 31, 2010	change %
Licensed Financial Advisors	5.099	5.336	-4%
Employees	1.912	1.893	1%

Directors' Report

Dear Shareholder,

The Mediolanum Banking Group consolidated financial statements for the year ended December 31, 2011 show profit from ordinary activities before minority interests of €125.8 million versus €198.2 million in the prior year.
In the year under review, net interest income fared extremely well, rising €76.7 million to €203.8 million from €127.1 million in 2010, driven by both higher interest rate levels and assets growth.
Results were, however, impacted by impairment (net impairment/reversal down €79.9 million) largely impairment of Greek sovereign debt holdings (€81.3 million), and net income from trading coming in negative versus a positive balance in the prior year (down €32.6 million) mostly reflecting temporary declines in the value of financial instruments at fair value (- €28.1 million), principally Italian and Spanish treasuries, that led to unrealised losses, which are not expected to materialise as a default of these two countries is highly unlikely.
Other movements that impacted the accounts were the decline in commission income (down €46.3 million) mainly driven by reduced performance fees, and the increase in operating expenses (up €8.5 million).
Income tax for the year amounted to €17.8 million versus €37.5 million in the prior year.
At December 31, 2011, net profit attributable to the Parent Company amounted to €23.7 million versus €84.3 million in the prior year.
The consolidated financial statements for the year ended December 31, 2011 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, 2011 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 its recent World Economic Outlook Update published on January 24, 2012, the International Monetary Fund (IMF) indicated that in 2011 global economic growth slowed down to 3.8% from 5.2% in 2010. In the US and in the Euro zone growth moderated from 3% to 1.8% and from 1.9% to 1.6%, respectively. In 2011, GDP grew by a meagre 0.4% and 0.7% in Italy and Spain, respectively, and in the UK by 0.9%, a much moderate pace than the 2.1% growth rate recorded in the prior year.
Sluggish growth in the Euro zone had been reflected in the readings of the Purchasing Managers Index (PMI), that since September had signalled a slow down, suggesting that recovery might not be sustainable in the manufactur-

ing industry. Conversely, recent surveys and statistics from the US seem to exclude the risk of a double dip in that country, in spite of the stall in residential investments and consumers continuing to cut down on their debts.
Unemployment is still a major concern and it weighs down on consumer confidence and demand for goods and services. While declining in the US from 9.4% in December 2010 to 8.5% in December 2011, the unemployment rate increased from 10% at year end 2010 to 10.4% at year end 2011 in the Euro zone.
Inflationary risk has been contained in the current cycle. In December, the CPI (annualised) rose by 2.7% in the Euro zone and by 3.0% in the US. Excluding food and energy, the CPI grew by 1.6% and 2.2%, respectively.
In April and July, 2011, the then President of the European Central Bank (ECB), Jean Claude Trichet, raised rates due to inflationary concerns. As inflationary pressures subsided, in November and December, Trichet's successor Mario Draghi cut the refinancing rate from 1.5% to 1%, bringing it back to early 2011 levels. During the year, the ECB intervened on multiple occasions with a variety of measures, including non standard facilities, to enhance the liquidity of markets and financial institutions.

Financial markets

In 2011, developments in the sovereign debt crisis of peripheral Euro zone economies affected the risk propensity of investors and the performance of market indices and currencies.
In Italy, the ever higher yields asked by investors to buy Italian government bonds prompted the new cabinet led by Professor Monti to adopt severe fiscal measures.
2011 has been a tale of two halves for financial markets. In the first half, financial market performance was moderately positive against a backdrop of slowing global growth. The S&P 500 was up 4.99%, the German DAX rose 6.7% and the FTSE Italia All Share index was essentially unchanged.
Yields moved sideways on the long end of the curve with yields on the 10-year German Bund starting the year at 2.92% and reaching 3.03% at the end of the first half of 2011; yields on the 10-year Italian BTP began the year at 4.72% and reached 4.88% at the end of the first half of 2011. On the short end of the curve interest rates rose: 3-month EURIBOR moved from 1% to 1.55%.
Political changes in North Africa culminating in the Libyan crisis drove oil prices up to levels unseen since 2008. Worried about ensuing inflationary pressures the European Central Bank (ECB) began to send out signals that a change in its monetary policy might be in the offing. In fact, in April and July 2011, the ECB raised rates from 1% to 1.5%.
Meanwhile, the Euro zone sovereign debt crisis was taking its toll as European authorities were unable to reach an agreement on the instruments to deploy to avoid contagion in peripheral countries. After Greece and Ireland, in May, Portugal too was forced to request aid from the EU and the International Monetary Fund (IMF) that provided a €78 million bailout package.
However, up until the end of the first half of 2011, Italy was only marginally touched by market turbulence and the yield spread between 10-year Italian treasuries and the German Bund which at the beginning of the year stood at 180 bps was just slightly up to 185 bps at June 30, 2011.
Beginning from early July, Italy became the epicentre of speculative attacks due to its high debt and as early as mid-July the BTP-Bund yield spread topped 300 bps. European leaders moved to tackle the Greek crisis and at the European Council of July 21, 2011, EU Heads of State and Government agreed on the first plan for Greece including the private sector involvement (PSI) – which would later fail – to bring the country back to sustainable fiscal conditions.

In early August the crisis became acute with the BTP-Bund yield spread topping 410 bps in intraday trades. This prompted the ECB to resume its securities markets programme (SMP) and extend it to also to Italian and Spanish government bonds. The effectiveness of this ECB intervention, however, soon proved to be ephemeral as after a brief recovery the BTP-Bund yield spread remained anchored just below the 400 bps mark. The BTP-Bund yield spread was also hit by the unexpected S&P downgrade of Italy's debt rating by one notch to A from A+ with a negative outlook.

Against this backdrop of extreme turbulence came the decision of the European Banking Authority (EBA) to require the 70 major European banks to build up a capital buffer such that the Core Tier 1 capital ratio would reach at least 9% by the end of June 2012, after marking to market also their sovereign debt holdings at September 30, 2011. To meet the EBA requirement banks have two avenues: raise capital or sell their assets, none of which is easily feasible in the current tense market environment.

November 9, 2011 was the most dramatic day with the BTP-Bund yield spread hitting its highest level ever of 575 bps in intraday trades to close at 552 bps, the 10-year BTP yield coming close to 8% and closing at 7.25%, and 1-year Italian treasury notes at 10%.

The financial tensions led to the formation later that month of a technocratic government in Italy with the main goal of delivering on the commitments made at European level at the end of October.

In the meantime, the sovereign debt crisis evolved into a liquidity crisis. Banks, especially Italian and Spanish credit institutions laden with domestic government bonds and faced with a dysfunctional interbank market, saw their stock price fall dramatically and yields on bank bonds rise to higher levels. The passing of the baton at the helm of the ECB from Trichet to Mario Draghi (who has been also Chairman of the Financial Stability Board) brought about a policy change. Draghi immediately cut interest rates from 1.5% to 1% and later announced unprecedented measures to support the liquidity of banks, two Long-Term Refinancing Operations (LTROs) with a maturity of 3 years and the option of early repayment after one year. The first LTRO took place as early as December 2011 providing significant support to banks (€489 billion).

Almost at the same time, at the meeting of the European Council EU heads of state and government agreed on two other key measures: a fiscal compact, the first step toward the fiscal union, and a second bailout plan for Greece amounting to €130 billion, with a second PSI.

All these measures immediately had positive effects only on the short end of the curve, as investors remained cautious and continued to downsize their securities portfolios or at least did not expand them as year end closing was drawing near.

So at the end of 2011, the yield on the 10-year BTP was 7.10% and the BTP-Bund yield spread stood at 528 bps, but at least the yield on 1-year Italian notes was close to 4%.

At December 31, 2011 wholesale funding amounted to €5,128 million (€2,193 at year end 2010) of which €4,400 million in repurchase agreements with the ECB (€1,400 million at year end 2010).

At year end 2011, global equity markets had shed 4.98% (MSCI World in US dollars). In the US, the S&P500 remained essentially flat while the Nasdaq Composite was marginally down (1.80%). In Europe, the German (DAX down 14.69%), French (CAC40 down 16.95%), Spanish (IBEX down 13.11%), Italian (FTSEMIB down 25.20%) and UK (FTSE down 5.55%) stock markets posted significant losses. Emerging Markets underperformed other world stock markets (MSCI EM in US dollars down 18%). Stock market indices were driven south by financials and cyclical stocks (industrials, technologies, commodities).

Due to the crisis the Euro weakened against all major currencies moving from 1.34 at the beginning of the year to 1.30 at year end against the US dollar, from 0.86 to 0.83 against the UK sterling; from 108.5 to 99.7 against the Japanese yen, and from 1.25 to 1.22 against the Swiss franc.

The price of gold benefitted from demand from emerging markets and financial instability confirming gold as the classic hedge against risk. On November 6, 2011, the price of gold reached its all-time high at US$1,921.15 per ounce, moving from US$1,420.78 at the beginning of the year to US$1,563.70 on December 31, 2011, which is a 10% movement.

MEDIOLANUM BANKING GROUP

At December 31, 2011 the composition of the Mediolanum Banking Group, of which the Bank is the Parent Company, was changed over the prior year.
The companies below ceased to be part of the Mediolanum Banking Group:

- *Mediolanum Distribuzione Finanziaria S.p.A.*. The voluntary liquidation of Mediolanum Distribuzione Finanziaria was completed upon the lodging of the liquidation final accounts with the Milan Company Registrar on December 27, 2011.
- *Mediolanum Corporate University S.p.A.* The merger of *Mediolanum Corporate University S.p.A.* into *Banca Mediolanum* was completed with the registration of the merger deed signed on November 29, 2011 with the Milan Company Registrar on December 6, 2011 by the merged company and on December 13, 2011 by Banca Mediolanum, this last date concluded the merger process. The merger became effective for accounting purposes from 11.59 pm of December 31, 2011.

The company below became part of the Mediolanum Banking Group:

- *Mediolanum Fiduciaria S.p.A.* with registered office in Basiglio – Milano 3 was formed. The purpose of the newly formed company is administration through registration of securities, including those on public registers, on behalf of third parties as well as all the activities that are typical of a trust company as per Act 1966 of November 23, 1939 (with the express exclusion of real estate). Following regulatory approvals the company was incorporated on February 11, 2011, and registered with the Company Registrar on February 15, 2011.

REVIEW OF OPERATIONS

The consolidated income statement of the Mediolanum Banking Group for the year ended December 31, 2011 is set out below.

€/'000	Dec. 31, 2011	Dec. 31, 2010	Movement	
10. Interest income and similar income	357,620	212,929	144,691	68%
20. Interest expense and similar charges	(153,834)	(85,838)	(67,996)	79%
30. Net Interest Income	203,786	127,091	76,695	60%
80. Net income from trading	27,533	5,049	(32,582)	(645%)
90. Net income from hedging	(3,813)	(1,126)	(2,687)	239%
100. Gains (losses) on sale or buyback of:	143	4,390	(4,247)	n/s
a) loans	195	159	36	23%
b) available-for-sale financial assets	1,098	4,231	(5,329)	n/s
c) held-to-maturity investments	1,046	-	1,046	n/s
d) financial liabilities	-	-	-	-
Net financial income	172,583	135,404	37,179	27%
40. Commission income	809,869	882,287	(72,418)	(8%)
50. Commission expenses	(405,317)	(431,441)	26,124	(6%)
60. Net commission income	404,552	450,846	(46,294)	(10%)
70. Dividends and similar income	3,352	3,183	169	5%
120. Total income	580,487	589,433	(8,946)	(2%)
130. Net impairment/reversal of impairment	(90,355)	(10,494)	(79,861)	761%
140. Net income from financial operations	490,132	578,939	(88,807)	(15%)
180. Administrative expenses				
a) staff costs	(129,623)	(129,301)	(322)	0%
b) other administrative expenses	(177,167)	(171,631)	(5,536)	3%
190. Net provisions for risks and charges	(34,159)	(35,423)	1,264	(4%)
200. Depreciation and net impairment of tangible assets	(5,827)	(7,470)	1,643	(22%)
210. Amortisation and net impairment of intangible assets	(9,846)	(8,660)	(1,186)	14%
220. Other operating income	10,149	14,489	(4,340)	(30%)
230. Operating expenses	(346,473)	(337,996)	(8,477)	3%
260. Impairment losses on goodwill	-	(7,400)	7,400	n/s
270. Profit (loss) on disposal of investments	28	2,197	(2,169)	n/s
280. Profit (loss) before tax on continuing operations	143,687	235,740	(92,053)	(39%)
290. Income tax expense on continuing operations	(17,842)	(37,540)	19,698	(52%)
300. Profit (loss) after tax on continuing operations	125,845	198,200	(72,355)	(37%)
310. Profit (loss) after tax on non current assets held for sale	(59)	-	-	n/s
320. Net profit (loss) for the year	125,786	198,200	(72,414)	(37%)
330. Net profit (loss) for the year attributable to minority interests	102,060	113,870	(11,810)	(10%)
340. Net profit (loss) for the year attributable to the parent company	23,726	84,330	(60,604)	(72%)

For the year ended December 31, 2011, the Banking Group reported profit before tax of €143.6 million down €92.1 million from €235.7 million in the prior year.

Net interest income grew 60% to €203.8 million from €127.1 million at year end 2010. The €76.7 million increase was driven by bigger interest spreads as well as asset growth.

Adding trading profits, gains on hedging transactions, on the sale of available-for-sale financial assets and held-to-maturity investments net financial income came in at €172.6 million versus €135.4 million in the prior year. Although increasing by €37.2 million, net financial income was impacted by unrealised losses (€35.1 million) on financial instruments at fair value, partly offset by trading and exchange gains. These unrealised losses resulted from declines in the market price of securities that were caused by market tensions generated by worries about the Euro zone sovereign debt crisis.

Commission income amounted to €809.9 million versus €882.3 million in the prior year. The 72.4 million decline over the prior year was mainly driven by the decrease in performance fees (down €59.1 million), only partly offset by the increase in management fees (up €43.9 million), declines were also recorded in entry fees (down €18.4 million), banking services fees (down €33.6 million) especially fees on sales of third-party structured bonds, as well as other commissions (down €5.2 million).

Commission expenses amounted to €405.3 million versus €431.4 million in the prior year. The €26.1 million decrease over the prior year was due to lower commissions on sales as well as reduced expenses for contests and bonuses paid to the sales network for their asset gathering activities which generated positive results yet inferior to those recorded in the prior year.

Net impairment aggregated to €90.4 million versus €10.5 million in the prior year. This largely reflects the €81.3 million impairment of Greek government bonds.

Total income for the year amounted to €580.5 million versus €589.4 million in 2010.

Operating expenses amounted to €346.5 million versus €338.0 million at year end 2010, up €8.5 million. In particular, other administrative expenses were up €5.5 million reflecting increases in nonrecurring expenses relating to the convention held on May 1-2, 2011 in Rimini and other sales network events (up €2.4 million), promotional and advertising expenses (up €2.2 million), and declines in expenses for sales network training and advice (down €1.8 million), television and internet communications (down €2.3 million). Following outsourcing of technology infrastructure management services, expenses for IT systems increased while asset depreciation declined (down €2.4 million).

Other net income was down €4.4 million, mainly reflecting increased expenses for settlements (up €2.1 million) and reduced income from services rendered to other companies within the Mediolanum Group (down €1.2 million).

Income tax for the year amounted to €17.8 million versus €37.5 million in the prior year.

At December 31, 2011, total consolidated assets amounted to €14,912.3 million versus €11,621.5 million at December 31, 2010.

At year end 2011, loans to customers – private individuals and financial institutions other than banks – amounted to €4,259.4 million versus €4,349.9 million at the end of the prior year.

Specifically, in 2011, retail lending declined due to reduced hot money transactions, debt securities (L&R) and repurchase agreements, while residential lending increased.

In 2011, bank accounts and repurchase agreements of customers, excluding *Cassa di Compensazione e Garanzia* balances, aggregated to €7,189.4 million up 15.4% from €6,231.8 million in the prior year. Notes issued declined to €285.6 million from €340.5 million at year end 2010.

At December 31, 2011, loans to banks, largely Italian banks and marginally Eurozone banks under the supervision of the European Central Bank, amounted to €2,049.3 million versus €2,425.8 million at year-end 2010. Funding from banks increased from €2,200.6 million in the prior year to €5,201.0 million at the end of the year under review (up 3,000.4 million).
Net interbank exposure amounted to €3,151.6 million versus €225.2 million in the prior year.

At year end 2011 investments in securities amounted to €9,487.6 million up €3,639.2 million from €5,848.5 million at year end 2010.

€/m	2011	2010
Held-To-Maturity Investments	697.9	1,118.2
Available-For-Sale Financial Assets	6,433.1	2,098.0
Financial Assets Held For Trading	692.8	956.6
Financial Liabilities Held For Trading	(333.2)	(451.5)
Loans & Receivables (banks and customers)	1,997.0	2,127.1
Total	9,487.6	5,848.5

Investments in securities increased along two main lines: first, focus on purchases of government securities, mostly Italian treasuries to take advantage of their greater yields; second, increasing exposure to fixed-rate notes versus floating-rate notes.

The increase regarded mostly *Available-for-sale financial assets* which were up €4,335.1 million over the prior year's balance. The AFS equity reserve amounted to a negative balance of €152.5 million versus negative balance of €41.1 million in the prior year.

Held-to-Maturity Investments declined by €420.3 million over the prior year's balance of €1,118.2 million to €697.9 million.

Financial assets held for trading net of *Financial liabilities held for trading* decreased by €145.5 million over the prior year's balance of €505.1 million to €359.6 million.

Loans and Receivables amounted to €1,997 million, down €130 million over the prior year's balance of €2,127 million. They consisted of ABS and securities issued by Eurozone banks and governments not quoted in an active market.

Consolidated Inflows, Assets under Management and Assets under Administration

Net Inflows

€/m	Dec. 31, 2011	Dec. 31, 2010	Change %
ITALY			
Life Insurance products	(813.9)	(827.7)	(2%)
Asset Management products	1,404.2	2,101.1	(33%)
Total managed assets inflows	590.3	1,273.5	(54%)
Third-party structured bonds	141.5	855.3	(83%)
Total managed assets + third-party structured bonds	731.8	2,128.7	(66%)
Freedom Life Policies	(521.5)	453.5	n/s
Administered assets	2,069.6	702.5	n/s
TOTAL - ITALY	2,280.0	3,284.7	(31%)
SPAIN	94.6	35.1	n/s
GERMANY	51.7	32.0	n/s
TOTAL FOREIGN MARKETS	146.3	67.1	n/s
TOTAL NET INFLOWS	2,426.3	3,351.8	(28%)

Assets under Management and under Administration(*)

(*) The figures relate to retail customers only.

€/m	Dec. 31, 2011	Dec. 31, 2010	Change %
ITALY			
Life Products	13,678.5	15,068.7	(9%)
Freedom Life Policies	4,503.8	5,025.3	(10%)
Asset Management products	19,725.3	19,509.2	1%
Banking products	8,925.6	7,195.6	24%
Consolidation adjustments	(8,966.0)	(9,285.2)	(3%)
TOTAL - ITALY	37,867.2	37,513.6	1%
SPAIN	1,581.2	1,621.9	(3%)
GERMANY	349.9	340.8	3%
TOTAL FOREIGN MARKETS	1,931.1	1,962.6	(2%)
TOTAL ASSETS UNDER MANAGEMENT & ADMINISTRATION	39,798.3	39,476.2	1%

The Sales Networks

Number	Dec. 31, 2011	Dec. 31, 2010	Change %
Italy			
Licensed Financial Advisors	4,507	4,772	(6%)
Others	1	44	(98%)
Spain	549	484	13%
Germany	42	36	17%
Total	5,099	5,336	(4%)

Performance of Mediolanum Banking 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 in the 2011 separate financial statements of 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.

Exposure to Greek sovereign debt

At balance sheet date the Bank's holdings of Greek sovereign debt aggregated to €109 million (nominal value) of which €89 million classified as available-for-sale financial instruments and €20 million as held-to-maturity investments.
Under the Greek bond swap agreement (also referred to as the 'Private Sector Involvement or PSI agreement') of February 24, 2012 for every old bonds with a face value of €1,000 tendered into the exchange the bondholders who voluntarily accept the offer will receive:

- new Greek bonds with a face value of €315 under 20 new bond issues having the same features (maturing in 2042, with a step-up coupon: 2% through 2015, then 3% through 2020, then 3.65% in 2021, and then 4.3% from 2022 through 2042 – amortisation starting from the eleventh year);
- European Financial Stability Facility (EFSF) notes with a face value of €150 maturing in 1-2 years; the yield will be determined in the proximity of the issue;
- Greek GDP-linked sovereign securities with the same face value as the new Greek bonds issued in exchange for the old bonds tendered (€315);
- interest accrued up until February 24, 2012 will be paid out in the form of short-term (six-month) zero-coupon EFSF notes.

By March 8, 2012, i.e. the deadline for Greece's private sector investors to decide whether they elected to participate in the Greek bond exchange offer, the offer had been accepted by 95% of private creditors. Our Bank accepted the offer and tendered all its Greek sovereign debt holding as of December 31, 2011.

The apparent financial troubles of Greece and the various bailout attempts that have led to the February 2012 bond swap offer are circumstances that constitute objective evidence of impairment for Greek sovereign debt holdings in 2011.

Applying the active market principle, the market prices of Greek sovereign debt holdings at balance sheet date were considered not to reflect their fair value. Hence, the Bank proceeded to determine the fair value of said holdings at December 31, 2011 applying internal mark-to-model valuation based on external assumptions derived from the Greek debt restructuring plan outlined above.

Fair value measurement of sovereign debt holdings at 22.5% of their face value entailed the recognition of impairment losses on said holdings aggregating to €81.3 million, of which €65.8 million relating to positions classified as available-for-sale financial instruments, and €15.5 million to positions classified as held-to-maturity investments.

Tax Police Field Audit

On February 28, 2011, Italy's Tax Police (Milan Office – 1st Revenue Protection Group - 4th Division – Complex Audits) concluded its field audit at Banca Mediolanum which had started on September 16, 2010. After issuing an Audit Report claiming a total adjustment of €48.3 million to IRES and IRAP taxable income for tax year 2005 on October 29, 2010, on February 28, 2011, the Tax Police issued an additional Audit Report claiming a total adjustment of €121.4 million to IRES and IRAP taxable income for tax years from 2006 through 2009 relating to fees rebated by the Irish subsidiary Mediolanum International Funds Ltd (MIF).

The Tax Police audit also regarded VAT for tax years from 2006 through the audit start date (September 16, 2010). Specifically, it regarded VAT applied to overrides paid to certain sales network members for their supervision and coordination of other sales network members. That part of the audit was also concluded on February 28, 2011, and an Audit Report 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, and confirmed by a Ministerial Ruling still in force issued by the IRS Assessment Office that in December 2003 stated overrides were VAT exempt.

On April 29, 2011, the Bank filed a brief prepared pursuant to section 12, paragraph 7, Act 212 of July 27, 2000 with the Large Corporations Unit of the IRS Lombardy Office, whereby the Bank confirmed its law-abiding conduct and requested the application of the penalty waiver clause under section 26 of Legislative Decree 78 dated May 31, 2010, in relation to 'transfer pricing', and requested that the claim relating to the 'VAT application to overrides' be halted being it groundless and no penalty be due.
Also based on the opinion of an independent advisor, directors believe there is a possible risk in relation to the outcome of the claims 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.
In the light of the foregoing no provision was made in the separate accounts for the year ended December 31, 2011.

Equity and capital ratios

At December 31, 2011, shareholders' equity attributable to the Mediolanum Banking Group after minority interests and excluding net profit, amounted to €474.1 million versus €559.7 million at December 31, 2010. The €85.6 million decline reflects the fair value measurement of available-for-sale financial assets (-€111.5 million), the appropriation of net profit for the year 2010 to reserves (+€24.3 million) and the movements in equity reserves in connection with stock options (+€1.6 million).
After the approval by the shareholders at the AGM of the appropriation of net profit for the year 2011 as proposed by the Board of Directors, equity amounts to €482.9 million down €76.8 million over the prior year.
Total capital ratio (regulatory capital/RWA) was 12.06% versus 14.20% in the prior year, well above the minimum requirement of 8%. Tier 1 capital ratio was 9.41% versus 10.08% in the prior year.
On February 29, 2012, the parent company Mediolanum S.p.A. subscribed to and paid in €25 million under the bank's capital increase. This increased the Bank's regulatory capital and further improved its capital ratios.

Post balance sheet date events

On February 15, 2012, in view of maintaining Banca Mediolanum's sound capital base, currently and prospectively, the Board of Directors passed a resolution to increase capital by €25 million and asked the bank's sole shareholder Mediolanum S.p.A. to subscribe to it. The parent company paid in the relevant amount on February 29, 2012.

In the first months of 2012 we have seen significant improvements in the price of bonds issued by Euro zone governments and, accordingly, in the value of bond holdings. Notably, the AFS valuation equity reserve improved by about €219 million from a negative balance of €152.5 million at December 31, 2011 to a positive balance of €76.5 million at February 29, 2012.

In March 2012, Banca Mediolanum launched a new commercial offering regarding the Mediolanum *Freedom* bank account, a product called *Conto Mediolanum Freedom Più.* This product keeps the same interest scheme as the previous offering but it no longer requires signing up to the *Mediolanum Plus* policy of Mediolanum Vita S.p.A.

The new offering is for new *Freedom* bank accounts while for existing accounts the *Mediolanum Plus* policy will continue to operate.
After December 31, 2011, except for developments set out under 'Tax Police Field Audit' there was no other event which could have a significant impact on the financial position, result of operations and cash flows of the Mediolanum Banking Group.

Outlook

The International Monetary Fund (IMF) estimates global growth at 3.3% in 2012, largely sustained by emerging economies (5.4%) as GDP is forecast to expand 1.8% in the US but shrink 0.5% in the Euro zone, notably 2.2% in Italy and 1.7% in Spain.
Negative growth in the Euro zone is a consequence of the financial crisis, as needed austerity measures are taking their toll on the economy and unemployment is depressing consumer confidence and spending.
The gradual solution of the crisis in 2012 is the condition for the improvement of the overall economic outlook. The sovereign debt crisis has prompted European governments to make deep structural reforms that can reduce current fiscal imbalances in coming years. Euro zone countries now have a crucial opportunity to adopt convergent fiscal policies.
In the US, the expansionary monetary policy adopted by the Federal Reserve can support growth against a backdrop of contained inflationary risk. In the Euro zone, the interventions of the European Central Bank (ECB) were made to enhance the liquidity of financial institutions and ultimately provide the financial resources needed to support investments and growth.

The difficult financial and economic outlook has in part already been priced in by stock markets in 2011. In 2012, the economic and fiscal policies agreed by Euro zone governments may produce positive effects on both equity and government bond markets. In Italy, the implementation of structural reforms can bring about significant declines in the yields asked by the markets and investors to buy Italian treasuries. Conversely, any hesitation or delay in the adoption of the measures needed to solve the financial crisis may temporarily bring back elevated volatility.
With due consideration of the developments outlined under 'Tax Police Field Audit' and 'Post Balance Sheet Date Events', and of the risks that are inherent in the business of the Group, barring any exceptional events or circumstances that depend on variables essentially outside the control of Directors and Senior Management – and not in the offing at present – the outlook for 2012 is positive.

Basiglio, March 21, 2012

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

Consolidated Accounts 2011

Balance Sheet

Assets

€/'000	Dec. 31, 2011	Dec. 31, 2010
10. Cash and cash equivalents	44,499	53,035
20. Financial assets held for trading	692,845	956,606
30. Financial assets at fair value	-	-
40. Available-for-sale financial assets	6,433,108	2,097,976
50. Held-to-maturity investments	697,862	1,118,166
60. Loans to banks	2,049,309	2,425,820
70. Loans to customers	4,259,361	4,349,870
80. Hedging derivatives	-	-
120. Tangible assets	43,627	54,838
130. Intangible assets	211,662	209,367
of which:		
- goodwill	198,314	198,314
140. Tax assets		
a) current	85,995	54,990
b) deferred	155,268	91,000
160. Other assets	238,818	209,861
Total assets	14,912,354	11,621,529

Liabilities and Shareholders' Equity

€/'000	Dec. 31, 2011	Dec. 31, 2010
10. Due to banks	5,200,963	2,200,568
20. Due to customers	7,896,583	7,485,998
30. Securities issued	285,631	340,479
40. Financial liabilities held for trading	333,206	451,462
50. Financial liabilities at fair value	-	-
60. Hedging derivatives	67,896	28,510
80. Tax liabilities		
a) current	29,779	24,641
b) deferred	13,407	12,236
90. Liabilities associated with disposals group	-	-
100. Other liabilities	356,182	226,933
110. Employee completion-of-service entitlements	9,150	9,276
120. Provisions for risks and charges:		
a) severance benefits and similar obligations	1,402	1,310
b) other provisions	158,425	134,896
140. Valuation reserves	(152,541)	(41,062)
165. Interim dividend	-	-
170. Reserves	176,678	150,766
180. Share premium account	-	-
190. Share capital	450,000	450,000
200. Treasury shares (-)	-	-
210. Minority interests (+/-)	61,867	61,186
220. Net profit (loss) for the year (+/-)	23,726	84,330
Total liabilities and shareholders' equity	14,912,354	11,621,529

Income Statement

€/'000	Dec. 31, 2011	Dec. 31, 2010
10. Interest income and similar income	357,620	212,929
20. Interest expense and similar charges	(153,834)	(85,838)
30. Net interest income	203,786	127,091
40. Commission income	809,869	882,287
50. Commission expense	(405,317)	(431,441)
60. Net commission income	404,552	450,846
70. Dividends and similar income	3,352	3,183
80. Net income from trading	(27,533)	5,049
90. Net income from hedging	(3,813)	(1,126)
100. Gains (losses) on sale or buyback of:		
a) loans	195	159
b) available-for-sale financial assets	(1,098)	4,231
c) held-to-maturity investments	1,046	-
d) financial liabilities	-	-
120. Total income	580,487	589,433
130. Impairment losses on:		
a) loans	(6,068)	(9,207)
b) available-for-sale financial assets	(68,804)	(1,285)
c) held-to-maturity investments	(15,500)	-
d) other financial instruments	17	(2)
140. Net income from financial operations	490,132	578,939
170. Net income from financial and insurance operations	490,132	578,939
180. Administrative expenses		
a) staff costs	(129,623)	(129,301)
b) other administrative expenses	(177,167)	(171,631)
190. Net provisions for risks and charges	(34,159)	(35,423)
200. Depreciation and net impairment of tangible assets	(5,827)	(7,470)
210. Amortisation and net impairment of intangible assets	(9,846)	(8,660)
220. Other operating income	10,149	14,489
230. Operating expenses	(346,473)	(337,996)
260. Impairment losses on goodwill	-	(7,400)
270. Profit (Loss) on disposal of investments	28	2,197
280. Profit (Loss) before tax on continuing operations	143,687	235,740
290. Income tax expense on continuing operations	(17,842)	(37,540)
300. Profit (Loss) after tax on continuing operations	125,845	198,200
310. Profit (Loss) after tax of non current assets pending disposal	(59)	-
320. Net Profit (Loss) for the year	125,786	198,200
330. Net Profit (Loss) for the year pertaining to minority interests	102,060	113,870
340. Net Profit (Loss) for the year pertaining to the parent company	23,726	84,330
Earnings per share	0.053	0.187

Statement of consolidated comprehensive income

€/'000		Dec. 31, 2011	Dec. 31, 2010
10.	Net profit (loss) for the year	125,786	198,200
	Other comprehensive income components after tax		
20.	Available for sale financial assets	(111,567)	(42,540)
110.	Total other comprehensive income components after tax	(111,567)	(42,540)
120.	Comprehensive income (items 10+110)	14,219	155,660
130.	Consolidated comprehensive income attributable to minority interests	101,972	113,894
140.	Consolidated comprehensive income attributable to the Parent Company	(87,753)	41,766

Statement of changes in equity

€/'000	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	-	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)

€/'000	Balance at Dec. 31, 2010	Adjustment to opening balances	Balance at Jan. 1, 2011	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	147,873	-	147,873	24,327	-
b) others	2,893	-	2,893	-	-
Valuation reserves	(41,062)	-	(41,062)	-	-
Equity instruments	-	-	-	-	-
Treasury shares	-	-	-	-	-
Net profit (loss) for the year	84,330	-	84,330	(24,327)	(60,003)
Shareholders' equity attributable to the Group	644,034	-	644,034	-	(60,003)
Shareholders' equity attributable to minority interest	61,186	-	61,186	-	(48,206)

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

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, 2011	Shareholders' at Dec. 31, 2011
-	-	-	-	-	-	-	-	450,000
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	1,581	-	173,781
4	-	-	-	-	-	-	-	2,897
-	-	-	-	-	-	-	(111,479)	(152,541)
-	-	-	-		-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	23,726	23,726
4	-	-	-	-	-	1,581	(87,753)	497,863
-	-	-	(53,100)	-	-	15	101,972	61,867

Consolidated cash flow statement

Indirect Method

€/'000	Dec. 31, 2011	Dec. 31, 2010
Operating activities	(44,434)	105,807
- net profit (loss) for the year	23,726	84,330
- gains/losses on financial assets held for trading and on financial assets/liabilities at fair value	(35,096)	(6,997)
- gains/losses on hedges (+/-)	-	-
- impairment losses/reversals (+/-)	6,068	9,207
- net write-downs/write-backs of tangible and intangible assets (+/-)	15,673	16,130
- provisions for risks and charges and other costs/revenues (+/-)	34,159	35,423
- uncollected net premiums (-)	-	-
- other uncollected insurance revenues/charges (-)	-	-
- unpaid taxes (+)	(88,964)	(32,286)
- net write-downs/write-backs of disposal groups after taxes (+/-)	-	-
- other adjustments (+/-)	-	-
Cash generated/used by financial assets	(3,604,176)	(2,955,993)
- financial assets held for trading	263,761	(112,933)
- financial assets at fair value	-	1,179
- available-for-sale financial assets	(4,335,132)	(1,058,408)
- loans to banks: on demand	441,259	(588,561)
- loans to banks: other loans	(64,748)	(163,891)
- loans to customers	90,509	(1,017,968)
- other assets	175	(15,411)
Cash generated/used by financial liabilities	3,395,847	2,686,202
- due to banks: on demand	6,778	167,756
- due to banks: other amounts due	2,993,617	834,762
- due to customers	410,585	1,337,010
- securities issued	(54,848)	161,029
- financial liabilities held for trading	(118,256)	190,913
- financial liabilities at fair value	-	-
- other liabilities	157,971	(5,268)
Net cash generated by/used in operating activities	(252,763)	(163,984)
INVESTING ACTIVITIES		
Cash from	427,758	214,790
- sale of equity investments	-	-
- dividends received from equity investments	-	-
- sale of held-to-maturity investments	420,304	211,181
- sale of tangible assets	7,454	3,527
- sale of intangible assets	-	82
- sale of subsidiaries and business lines	-	-
Cash used for	(14,315)	(9,113)
- purchase of equity investments	-	-
- purchase of held-to-maturity investments	-	-
- purchase of tangible assets	(2,077)	(2,298)
- purchase of intangible assets	(12,238)	(6,815)
- purchase of subsidiaries and business lines	-	-
Net cash generated by/used in investing activities	413,443	205,677
FINANCING ACTIVITIES		
- issue/purchase of treasury shares (formation of share capital)	-	-
- issue/purchase of equity instruments	(109,213)	(21,175)
- dividend distribution and other	(60,003)	(18,067)
Net cash generated by/used in financing activities	(169,216)	(39,242)
NET CASH GENERATED/USED IN THE YEAR	(8,536)	2,451

RECONCILIATION

€/'000	Dec. 31, 2011	Dec. 31, 2010
Financial item		
Cash and cash equivalents at beginning of the year	53,035	50,584
Total net cash generated/used in the year	(8,536)	2,451
Cash and cash equivalents: effect of movements in exchange rates	-	-
Cash and cash equivalents at end of the year	44,499	53,035

Notes to the Consolidated Annual Financial Statements 2011

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, 2011 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, 2011 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, and supplemented by Supervision and Regulation Letters of February 16, 2011 and February 12, 2012. 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, 2011, 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, 2010.

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 Gestione Fondi SGR p.A.	5,165	51.00%	Basiglio	Fund management
Mediolanum Fiduciaria S.p.A.	240	100.00%	Basiglio	Trust company
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
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 2011 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 2011 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 Deloitte & Touche S.p.A., as per the resolution passed at the General Meeting of April 20, 2011.

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, 2011.
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, 2010.

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;
- Identification of loss events as per IAS 39;
- Assumptions used for the identification of any objective evidence of impairment of intangible assets or equity investments recognised in the balance sheet;
- Assessment of loans;
- Provisions for risks and charges;
- Deferred taxation;
- Stock options 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.

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, 2011 (4)	Fair value at Dec. 31, 2011 (5)	Valuation (6)	Other (7)	Valuation (8)	Other (9)
A. Debt securities			155,946	153,371	(6,302)	3,149	-	3,664
	HFT	AFS	133,798	133,798	(3,727)	2,754	-	3,257
	HFT	Loans to Customers	22,148	19,573	(2,575)	395	-	407

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, 2010 and 2011.

A.3.2.1 Fair value hierarchy of financial assets and liabilities

	Dec. 31, 2011			Dec. 31, 2010		
€/'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	653,906	37,919	1,020	947,831	8,573	202
2. Financial assets at fair value	-	-	-	-	-	-
3. Available for sale financial assets	6,097,765	254,580	80.763	1,875,849	164,924	61,203
4. Hedging derivatives	-	-	-	-	-	-
Total	6,751,671	292,499	81,783	2,823,680	173,497	61,405
1. Financial liabilities held for trading	320,067	13,139	-	443,606	7,854	2
2. Financial liabilities at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	67,896	-	-	28,510	-
Total	320,067	81,035	-	443,606	36,364	2

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	202	-	61,203	-
2. Increases	59,866	-	139,622	-
2.1 Purchases	59,624	-	5,756	-
2.2 Profits recognised				
2.2.1 through profit or loss	228	-	-	-
- of which: gains	-	-	-	-
2.2.2 in equity	X	X	66,205	-
2.3 Transferred to other level	13	-	66,251	-
2.4 Other increases	1	-	1,410	-
3. Decreases	(59,048)	-	(120,062)	-
3.1 Sales	(58,597)	-	(2,762)	-
3.2 Redemptions	-	-	-	-
3.3 Losses recognised				
3.3.1 through profit or loss	(445)	-	(66,036)	-
- of which: losses	(201)	-	(66,036)	-
3.3.2 in equity	X	X	(49,725)	-
3.4 Transferred to other level	(5)	-	-	-
3.5 Other decreases	(1)	-	(1,539)	-
4. Closing balance	1,020	-	80,763	-

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	-	-
2. Increases	1,068	-	-
2.1 Issues	1,067	-	-
2.2 Losses recognised			
2.2.1 through profit or loss	1	-	-
- of which: losses	-	-	-
2.2.2 in equity	X	X	-
2.3 Transferred to other level	-	-	-
2.4 Other increases	-	-	-
3. Decreases	(1,070)	-	-
3.1 Redemptions	-	-	-
3.2 Buybacks	(1,066)	-	-
3.3 Losses recognised			
3.3.1 through profit or loss	(3)	-	-
- of which: gains	-	-	-
3.3.2 in equity	X	X	-
3.4 Transferred to other level	-	-	-
3.5 Other decreases	(1)	-	-
4. Closing balance	-	-	-

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, 2011	Dec. 31, 2010
a) Cash	42,061	49,374
b) Demand deposits with Central Banks	2,438	3,661
Total	44,499	53,035

Section 2 - Financial assets held for trading - Caption 20

2.1 Analysis of financial assets held for trading

	Dec. 31, 2011			Dec. 31, 2010		
€/'000	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Non-derivatives						
1. Debt securities	653,894	36,284	1,020	947,809	4,706	201
1.1 Structured notes	17,682	4,806	127	-	-	138
1.2 Other debt securities	636,212	31,478	893	947,809	4,706	63
2. Equities	3	-	-	6	-	-
3. Holdings in UCITS	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-
Total (A)	653,897	36,284	1,020	947,815	4,706	201
B. Derivatives						
1. Financial derivatives:	9	1.635	-	16	3,867	1
1.1 held for trading	9	1.635	-	16	3,867	1
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)	9	1,635	-	16	3,867	1
Total (A+B)	653,906	37,919	1.020	947,831	8,573	202

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

€/'000	Dec. 31, 2011	Dec. 31, 2010
A. Non-derivatives		
1. Debt securities	691,198	952,716
a) Governments and Central Banks	125,950	151,572
b) Government agencies	19	-
c) Banks	525,698	724,167
d) Other issuers	39,531	76,977
2. Equities	3	6
a) Banks	1	-
b) Other issuers:	2	6
- insurance companies	-	-
- financial companies	-	1
- non financial companies	2	5
- others	-	-
3. Holdings in UCITS	-	-
4. Loans	-	-
a) Governments and Central Banks	-	-
b) Government agencies	-	-
c) Banks	-	-
d) Others	-	-
Total A	691,201	952,722
B. Derivatives		
a) Banks		
- fair value	1,633	1,444
b) Customers		
- fair value	11	2,440
Total B	1,644	3,884
Total (A+B)	692,845	956,606

2.3 Year's movements in financial assets held for trading

€/'000	Debt securities	Equities	Holdings in UCITS	Loans	Total
A. Opening balance	952,716	6	-	-	952,722
B. Increases	12,826,998	10,409	25	-	12,837,432
B1. Additions	12,805,429	10,391	25	-	12,815,845
B2. Increases in fair value	5,714	-	-	-	5,714
B3. Other	15,855	18	-	-	15,873
C. Decreases	13,088,516	10,412	25	-	13,098,953
C1. Disposals	12,958,942	10,362	25	-	12,969,329
C2. Redemptions	96,045	-	-	-	96,045
C3. Decreases in fair value	23,937	8	-	-	23,945
C4. Reclassified to other portfolios	-	-	-	-	-
C5. Other	9,592	42	-	-	9,634
D. Closing balance	691,198	3	-	-	691,201

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

4.1 Analysis of available-for-sale financial assets

	Dec. 31, 2011			Dec. 31, 2010		
€/'000	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	6,087,854	140,699	21,185	1,875,227	39,974	-
1.1 Structured notes	-	983	-	-	958	-
1.2 Other debt securities	6,087,854	139,716	21,185	1,875,227	39,016	-
2. Equities	334	35	13,218	622	253	10,423
2.1 measured at fair value	334	-	-	622	1	-
2.2 measured at cost	-	35	13,218	-	252	10,423
3. Holdings in UCITS	9,577	113,846	46,360	-	120,697	50,780
4. Loans	-	-	-	-	-	-
Total	6,097,765	254,580	80,763	1,875,849	160,924	61,203

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

€/'000	Dec. 31, 2011	Dec. 31, 2010
1. Debt securities	6,249,738	1,915,201
a) Governments and Central Banks	5,689,812	1,641,399
b) Government agencies	-	-
c) Banks	551,378	261,064
d) Other issuers	8,548	12,738
2. Equities	13,587	11,298
a) Banks	-	-
b) Other issuers:	13,587	11,298
- insurance companies	-	-
- financial companies	5,684	2,858
- non financial companies	7,851	8,075
- others	52	365
3. Holdings in UCITS	169,783	171,477
4. Loans	-	-
a) Governments and Central Banks	-	-
b) Governments and Central Banks	-	-
c) Banks	-	-
d) Other issuers	-	-
Total	6,433,108	2,097,976

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

€/'000	Debt securities	Equities	Holdings in UCITS	Loans	Total
A. Opening balance	1,915,201	11,298	171,477	-	2,097,976
B. Increases	7,295,424	6,361	13,696	-	7,315,481
B1. Additions	7,072,163	3,737	10,608	-	7,088,861
B2. Increases in fair value	64,100	26	170	-	64,296
B3. Reversal of impairment					
- through profit or loss	164	-	-	-	164
- in equity	65,820	245	2,918	-	68,983
B4. Reclassified from other portfolios	-	-	-	-	-
B5. Other	93,177	-	-	-	95,530
C. Decreases	2,960,887	4,072	15,390	-	2,980,349
C1. Disposals	2,343,133	926	408	-	2,344,467
C2. Redemptions	247,640	-	-	-	247,640
C3. Decreases in fair value	290,745	526	12,064	-	303,335
C4. Impairment					
- through profit or loss	72,104	224	2,918	-	75,246
- in equity	-	43	-	-	43
C5. Reclassified to other portfolios	-	-	-	-	-
C6. Other	7,265	2,353	-	-	9.618
D. Closing balance	6,249,738	13,587	169,783	-	6,433,108

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

5.1 Analysis of held-to-maturity investments

€/'000	Dec. 31, 2011				Dec. 31, 2010			
	Book Value	Fair Value			Book Value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	697,862	142,506	534,846	4,885	1,118,166	215,537	897,827	-
- Structured notes	100,976	-	93,020	-	106,258	5,082	97,212	-
- Other debt securities	596,886	142,506	441,826	4,885	1,011,908	210,455	800,615	-
2. Loans	-	-	-	-	-	-	-	-
Total	697,862	142,506	534,846	4,885	1,118,166	215,537	897,827	-

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

€/'000	Dec. 31, 2011	Dec. 31, 2010
1. Debt securities	697,862	1,118,166
a) Governments and Central Banks	4,885	80,934
b) Government agencies	-	-
c) Banks	692,977	1,037,232
d) Other issuers	-	-
2. Loans	-	-
a) Governments and Central Banks	-	-
b) Governments agencies	-	-
c) Banks	-	-
d) Others	-	-
Total	697,862	1,118,166
Total Fair Value	682,237	1,113,364

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

€/'000	Debt securities	Loans	Total
A. Opening balance	1,118,166	-	1,118,166
B. Increases	54,551	-	54,551
B1. Additions	44,905	-	44,905
B2. Reversal of impairment	-	-	-
B3. Reclassified from other portfolios	-	-	-
B4. Other	9,646	-	9,646
C. Decreases	474,855	-	474,855
C1. Disposals	94,483	-	94,483
C2. Redemptions	355,000	-	355,000
C3. Impairment	15,500	-	15,500
C4. Reclassified to other portfolios	-	-	-
C5. Other	9,872	-	9,872
D. Closing balance	697,862	-	697,862

Section 6 – Loans to banks – Caption 60

6.1 Analysis of loans to banks

€/'000	Dec. 31, 2011	Dec. 31, 2010
A. Central Banks	130,353	13,352
1. Time deposits	50,001	-
2. Reserve requirements	80,352	13,352
3. Repurchase agreements	-	-
4. Other	-	-
B. Banks	1,918,956	2,412,468
1. Current accounts and demand deposits	232,777	674,038
2. Time deposits	113,080	91,049
3. Others:	330,191	403,310
3.1 Repurchase agreements	313,048	372,306
3.2 Finance leases	-	-
3.3 Other	17,143	31,004
4. Debt securities	1,242,908	1,244,073
4.1 Structured notes	-	-
4.2 Other debt securities	1,242,908	1,244,073
Total (book value)	2,049,309	2,425,820
Total (fair value)	1,992,790	2,422,430

Section 7 – Loans to customers – Caption 70

7.1 Analysis of loans to customers

	Dec. 31, 2011		Dec. 31, 2010	
€/'000	Performing	Impaired	Performing	Impaired
1. Current accounts	374,023	7,967	339,361	10,483
2. Repurchase agreements	9,884	-	99,965	-
3. Mortgage loans	2,559,867	23,217	2,262,087	17,273
4. Credit cards, personal loans and salary-guaranteed loans	270,242	1,057	189,847	894
5. Finance leases	51	-	337	-
6. Factoring	-	-	-	-
7. Other	248,702	9,922	536,259	10,370
8. Debt securities	754,429	-	882,994	-
8.1 Structured notes	-	-	-	-
8.2 Other debt securities	754,429	-	882,994	-
Total (book value)	4,217,198	42,163	4,310,850	39,020
Total (fair value)	4,461,118	42,163	4,545,115	39,020

7.2 Analysis of customer loans by debtor/issuer

	Dec. 31, 2011		Dec. 31, 2010	
€/'000	Performing	Impaired	Performing	Impaired
1. Debt securities	754,429	-	882,994	-
a) Governments	501,420	-	601,467	-
b) Government agencies	100,917	-	101,060	-
c) Other issuers	152,092	-	180,467	-
- non financial companies	-	-	-	-
- financial companies	152,092	-	180,467	-
- insurance companies	-	-	-	-
- others	-	-	-	-
2. Loans	3,462,769	42,163	3,427,856	39,020
a) Governments	-	-	-	-
b) Government agencies	25	-	-	-
c) Others	3,462,744	42,163	3,427,856	39,020
- non financial companies	93,840	2,171	74,819	1,748
- financial companies	133,947	9,530	465,046	10,109
- insurance companies	22,817	-	27,346	-
- other	3,212,140	30,462	2,860,645	27,163
Total	4,217,198	42,163	4,310,850	39,020

7.3 Loans to customers: micro-hedging

€/'000	Dec. 31, 2011	Dec. 31, 2010
1. Fair value hedges	478,338	506,801
a) interest rate risk	478,338	506,801
b) currency risk	-	-
c) multiple risks	-	-
2. Cash flow hedges	-	-
a) interest rate risk	-	-
b) currency risk	-	-
c) other	-	-
Total	478,338	506,801

Section 12 – Tangible assets – Caption 120

12.1 Analysis of tangible assets carried at cost

€/'000	Dec. 31, 2011	Dec. 31, 2010
A. Occupied/used		
1.1 owned	43,566	54,733
a) land	17,315	20,659
b) buildings	17,400	21,753
c) furnishings	3,197	3,968
d) electronic equipment	3,538	4,778
e) other	2,116	3,575
1.2 under finance leases	61	-
a) land	-	-
b) buildings	-	-
c) furnishings	61	-
d) electronic equipment	-	-
e) other	-	-
Total A	43,627	54,733
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)	43,627	54,733

12.3 Year's movements in occupied/used tangible assets

€/'000	Land	Buildings	Furnishings	Electronic equipment	Other	Total
A. Gross opening balance	20,659	33,893	12,511	19,824	7,857	94,744
A.1 Total net write-downs	-	(10,976)	(8,440)	(15,045)	(5,445)	(39,906)
A.2 Net opening balance	20,659	22,917	4,071	4,779	2,412	54,838
B. Increases	-	182	677	549	1,135	2,543
B.1 Additions	-	182	472	462	962	2,078
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	-	-	205	87	173	465
C. Decreases	(3,344)	(5,700)	(1,490)	(1,790)	(1,431)	(13,755)
C.1 Disposals	(2,450)	(4,550)	(4)	(9)	(441)	(7.454)
C.2 Depreciation	-	(1,028)	(1,257)	(1,687)	(773)	(4,745)
C.3 Impairment	(894)	(122)	(18)	(7)	(41)	(1,082)
a) in equity	-	-	-	-	-	-
b) through profit or loss	(894)	(122)	(18)	(7)	(41)	(1,082)
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	-	-	(211)	(87)	(176)	(474)
D. Net closing balance	17,315	17,400	3,258	3,538	2,116	43,627
D.1 Total net write-downs	-	(7,963)	(9,023)	(15,873)	(8,705)	(41,564)
D.2 Gross closing balance	17,315	25,363	12,281	19,411	10,821	85,191
E. Measured at costs	-	-	-	-	-	-

Section 13 – Intangible assets – Caption 130

13.1 Analysis of intangible assets

€/'000	Dec. 31, 2011 Finite life	Dec. 31, 2011 Indefinite life	Dec. 31, 2010 Finite life	Dec. 31, 2010 Indefinite life
A.1 Goodwill	X	198,314	X	198,314
A.1.1 group	X	198,314	X	198,314
A.1.2 minority interests	X	-	X	-
A.2 Other intangible assets	13,348	-	11,053	-
A.2.1 measured at cost	13,348	-	11,053	-
a) internally generated assets	-	-	-	-
b) other assets	13,348	-	11,053	-
A.2.2 Measured at fair value:	-	-	-	-
a) internally generated assets	-	-	-	-
b) other assets	-	-	-	-
Total	13,348	198,314	11,053	198,314

Other intangible assets include the expense for the 2010 acquisition of the Previgest non-occupational pension fund from Mediolanum Vita S.p.A. for €414 thousand. That amount is amortised over 20 years, which is the difference between the weighted average age of future beneficiaries (46 years) and expected retirement age (65 years). In the prior financial year the amount had been recognised under "Goodwill". For comparability purposes the amount has been reclassified.

13.2 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	198,314	-	-	137,272	-	335,586
	A.1 Total net write-downs	-	-	-	(126,219)	-	(126,219)
A.2	Net opening balance	198,314	-	-	11,053	-	209,367
B.	Increases	-	-	-	14,766	-	14,766
	B.1 Additions	-	-	-	12,238	-	12,238
	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	-	-	-	2,528	-	2,528
C.	Decreases	-	-	-	(12,471)	-	(12,471)
	C.1 Disposals	-	-	-	-	-	-
	C.2 Amortisation and impairment	-	-	-	(9,846)	-	(9,846)
	- Amortisation	X	-	-	(9,846)	-	(9,846)
	- Impairment	-	-	-	-	-	-
	+ in equity	X	-	-	-	-	-
	+ through profit or loss	-	-	-	-	-	-
	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	-	-	-	(2,625)	-	(2,625)
D.	Net closing balance	198,314	-	-	13,348	-	211,662
	D.1 Total net write-downs	-	-	-	(134,313)	-	(134,313)
E.	Gross closing balance	198,314	-	-	147,661	-	345,975
F.	Measured at cost	-	-	-	-	-	-

Legend:
FINITE: finite life
INDEFINITE: indefinite life

This section provides disclosures on impairment testing conducted on cash generating units (CGUs) in operation at December 31, 2011, in accordance with IAS 36 and the instructions set forth in the document jointly issued by the Bank of Italy, CONSOB and ISVAP on March 3, 2010.
The purpose of impairment testing is to ascertain that the carrying amount of each cash generating unit (CGU) does not exceed its recoverable amount, i.e. the benefit that can be derived from it, either through future use (value in use) or by its disposal (fair value less cost to sell), whichever is the higher.
The impairment tests were conducted with the assistance of an independent valuation expert applying the methods and assumptions set out below.

DEFINITION OF CGUs AND ALLOCATION OF GOODWILL

Like in prior years, CGUs have been identified on the basis of the geographic area of operations in accordance with the Group business reporting system. Hence, impairment testing was conducted on the 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	4.3
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 Banco Mediolanum amounting to €122.8 million and the share of Mediolanum International Fund (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. Banco Mediolanum 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.
Following the recognition of impairment in the prior year, no goodwill was allocated to Bankhaus August Lenz & Co AG (BAL).
In conformity with the Group's business reporting system, Gamax's goodwill amounting to €26.9 million was allocated to two different CGUs, Italy Asset Management and Germany, on a pro-rata basis of total assets adjusted for profitability. Goodwill allocated to the CGU Germany was €4.3 million, and goodwill allocated to the CGU Italy Asset Management was €22.7 million. Goodwill allocated to the CGU Italy Asset Management aggregated to €70.3 million.

VALUATION METHOD

The recoverable amount of the CGUs was determined by calculating their value in use.
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 operation.

CGU SPAIN

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 2012-2015 Business Plan (the 2012-2015 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 2012-2015 Plan was built on reasonable, consistent assumptions and represents the management best estimate of the range of possible future developments for the CGU.

The 2012-2015 Plan confirmed the strategic lines set out in the previous plan (2011-2014 Plan), notably the development of Banca Mediolanum's business model in Spain.

The previous plan was updated to incorporate most recent expectations in relation to interest rate developments over the plan period and inflows forecasts on the basis of volumes and sales network numbers at December 31, 2011.

Specifically, the 2012-2015 Plan is based on the following key assumptions:

- Family Bankers (FB) network growth from 505 people to 845 people at year end 2015;
- growth in assets under management and administration at an average annual rate of 18% in the 2012-2015 period;
- business margin growth at an average annual rate of 2.1% in the 2012-2015 period.

To determine the value in use of the CGU two scenarios were considered:

- Base scenario: developed using the projections set out in the 2012-2015 Plan;
- Prudential scenario: developed using the projections set out in the 2012-2015 Plan with the exclusion of treasury activities.

In both scenarios cash-flows were estimated assuming a minimum Tier 1 Capital ratio of 8%.

Under the Capital Asset Pricing Model the discount rate applied to calculate the present value of future cash flows (ke) was estimated at 13.9%, based on the following parameters:

- risk-free rate of 5.4% calculated on the basis of average historical 12-month yields on 10-year Spanish treasuries;
- beta coefficient (risk measure of the stock compared to the market) of 1.19 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 buy equities in lieu of risk-free assets) of 5% in line with best professional practice;
- specific risk premium conservatively estimated at 2.5% to take into account the underlying uncertainty in the execution of the plan.

The value of the CGU Spain at the end of the plan period was calculated based on cash flows available in 2015, excluding, on a conservative basis, in both scenarios, the contribution of treasury activities, and assuming 2% long-term growth in line with long-term inflationary expectations.

The results of this exercise did not indicate any impairment losses of the CGU Spain.

The results of the prudential scenario test were substantially in line with the carrying amount of the CGU Spain which entails the full execution of the plan.

For the base scenario sensitivity to changes in some key assumptions was tested. The recoverable amount was found to be equal to the carrying amount of the CGU for the following changes in key assumptions:
- discount rate of 20.3% (increase by 640 bps);
- long term growth of -14% (decline by 1,600 bps);
- net profitability 30% lower than 2012-2015 Plan estimates.

Please note that the information and parameters used to determine the recoverable amount of the CGU, notably the estimated future 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 2011, which are unforeseeable at present. The effects that these changes may have on future cash-flows of the CGU, as well as on the assumptions used, may cause future results to differ materially from those set out herein.

For the sake of completeness, in relation to possible external factors that may be indicative of impairment of the CGU Spain and the Mediolanum Group as a whole (e.g. the macroeconomic environment or the existence of comparable entities with stock prices lower than their equity book value) you are advised that the Mediolanum Group average stock market value in 2011 was 2.5x its equity book value.

CGU GERMANY

The recoverable amount of the CGU Germany was determined based on value in use calculated by applying the DDM method to the information set out in the 2012-2015 Business Plan approved by the directors of Gamax (for the German division of Gamax) and the 2012-2015 Business Plan approved by the directors of BAL. Both Business Plans were also approved by the Board of Directors of Banca Mediolanum S.p.A.

The DDM test applied to the German Division of Gamax and to BAL did not reveal any impairment losses of the CGU Germany.

Sensitivity to changes in some key assumptions was tested. The recoverable amount was found to be equal to the carrying amount of the CGU for the following changes in key assumptions:
- discount rate increase by 145 bps;
- long term growth decline by 195 bps;
- net profitability 18% lower than 2012-2015 Plan estimates.

GERMAN DIVISION OF GAMAX MANAGEMENT AG – RECOVERABLE AMOUNT

The 2012-2015 Plan of the German Division of Gamax was built on reasonable, consistent assumptions and represents the management best estimate of the range of possible future business developments of the German Division of Gamax. The previous plan was updated to incorporate most recent expectations in relation to financial market performance and interest rate developments over the plan period.

At December 31, 2011, the profitability of the German Division of Gamax was €1.4 million, higher than estimated in the plan (€0.9 million).

The 2012-2015 Plan of the German Division of Gamax is based on the following key assumptions:
- assets under administration growth at an average annual rate of 7.5% in the 2012-2015 period;
- growth in business margin at an average annual rate of 6.2% in the 2012-2015 period;
- increase in general expenses at an average annual rate of 9.5% in the 2012-2015 period.

Under the Capital Asset Pricing Model the discount rate applied to calculate the present value of future cash flows (ke) was estimated at 8.4% based on the following parameters:

- risk-free rate of 1.9% calculated on the basis of average historical 3-month yields on 10-year German treasuries;
- beta coefficient (risk measure of the stock compared to the market) of 1.10 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 buy equities in lieu of risk-free assets) of 5% in line with best professional practice;
- specific risk premium conservatively estimated at 1.0% to take into account underlying uncertainty in the execution of the plan.

The value at the end of the plan period was calculated based on cash flows available in 2015, and assuming 2% long-term growth in line with long-term inflationary expectations.

For reasons of prudence the capital surplus potentially available was not considered in the evaluation.

BANKHAUS AUGUST LENZ (BAL) – RECOVERABLE AMOUNT

The 2012-2015 Plan was built on reasonable, consistent assumptions and represents the management best estimate of the range of possible future business developments of BAL.

The previous plan was updated to incorporate most recent expectations in relation to financial market performance and interest rate developments over the plan period.

At December 31, 2011, BAL reported a loss of €13.1 million which was higher than the loss forecast in the plan (€6.5 million) as net financial income came in negative at €6.3 million. Capital increases completed in 2011 aggregated to €30 million.

The 2012-2015 Plan of BAL is based on the following key assumptions:

- growth in business margin at an average annual rate of 71% in the 2012-2015 period, with growth picking up from the second half of 2013 consistently with estimated scenario developments;
- return to profit in 2015, the last year of the plan.

Under the Capital Asset Pricing Model the discount rate applied to calculate the present value of future cash flows (ke) was estimated at 10.9%. Calculations were based on the following parameters:

- risk-free rate of 1.9% calculated on the basis of average historical 3-month yields on 10-year German treasuries;
- beta coefficient (risk measure of the stock compared to the market) of 1.10 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 buy equities in lieu of risk-free assets) of 5% in line with best professional practice;
- specific risk premium conservatively estimated at 3.5% to take into account the risk of missing plan targets in the light of negative historical data.

The value of BAL at the end of the plan period was calculated based on cash flows available in 2015, and assuming 2% long-term growth in line with long-term inflationary expectations.

CGU ITALY ASSET MANAGEMENT

Goodwill allocated to this CGU aggregated to €70.3 million.

The recoverable amount of this CGU is assumed higher than its carrying amount. The comparison of Mediolanum Sp.A. stock market capitalisation (€2.1 billion – December 2011 monthly average) to its tangible equity (€0.7 billion at December 31, 2011) reveals an implicit multiple of 2.8x, indicating no impairment of goodwill allocated 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, 2011	Dec. 31, 2010
Deferred tax assets		
charge to the income statement	79,071	69,176
charge to equity	76,197	21,824
Total deferred tax assets	155,268	91,000
Deferred tax liabilities		
charge to the income statement	(11,420)	(9,835)
charge to equity	(1,987)	(2,401)
Total deferred tax liabilities	(13,407)	(12,236)

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

€/'000	Dec. 31, 2011	Dec. 31, 2010
1. Opening balance	69,176	56,194
2. Increases	23,543	22,706
2.1 Deferred tax assets arisen in the year	22,879	22,664
a) relating to prior years	92	126
b) due to changes in the accounting policies	1,508	3,140
c) write-backs	-	-
d) other	21,279	19,398
2.2 New taxes or increased tax rates	664	-
2.3 Other increases	-	42
3. Decreases	(13,648)	(9,724)
3.1 Deferred tax assets cancelled in the year	(369)	(243)
a) reversals	(370)	(243)
b) write-offs of non-recoverable amounts	-	-
c) changes in the accounting policies	1	-
d) other	-	-
3.2 Reduced tax rates	-	-
3.3 Other decreases	(13,279)	(9,481)
4. Closing balance	79,071	69,176

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

€/'000	Dec. 31, 2011	Dec. 31, 2010
1. Opening balance	(9,835)	(8,102)
2. Increases	(1,932)	(2,093)
2.1 Deferred tax liabilities arisen in the year	(1,932)	(2,093)
a) relating to prior years	-	-
b) due to changes in the accounting policies	-	-
c) other	(1,932)	(2,093)
2.2 New taxes or increased tax rates	-	-
2.3 Other increases	-	-
3. Decreases	347	359
3.1 Deferred tax liabilities cancelled in the year	346	359
a) reversals	-	-
b) due to changes in the accounting policies	-	-
c) other	346	359
3.2 Reduced tax rates	-	-
3.3 Other decreases	1	-
4. Closing balance	(11,420)	(9,835)

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

€/'000	Dec. 31, 2011	Dec. 31, 2010
1. Opening balance	21,824	2,343
2. Increases	85,698	20,646
2.1 Deferred tax assets arisen in the year	85,232	20,646
a) relating to prior year	-	-
b) due to changes in the accounting policies	-	-
c) other	85,232	20,646
2.2 New taxes or increased tax rates	466	-
2.3 Ohter increases	-	-
3. Decreases	(31,325)	(1,165)
3.1 Deferred tax assets cancelled in the year	(31,283)	(1,165)
a) reversals	(6,784)	(907)
b) write-offs of non-recoverable amounts	-	-
c) due to changes in the accounting policies	-	-
d) other	(24,499)	(258)
3.2 Reduced tax rates	-	-
3.3 Other decreases	(42)	-
4. Closing balance	76,197	21,824

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

€/'000	Dec. 31, 2011	Dec. 31, 2010
1. Opening balance	(2,401)	(3,107)
2. Increases	(3,737)	(1,987)
2.1 Deferred tax liabilities arisen in the year	(3,686)	(1,987)
a) relating to prior years	-	-
b) due to changes in the accounting policies	-	-
c) other	(3,686)	(1,987)
2.2 New taxes or increased tax rates	(51)	-
2.3 Other increases	-	-
3. Decreases	4,151	2,693
3.1 Deferred tax liabilities cancelled in the year	4,151	2,693
a) reversals	1,066	1,263
b) changes in the accounting policies	-	-
c) other	3,085	1,430
3.2 Reduced tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	(1,987)	(2,401)

14.7 Other information

Analysis of deferred tax assets

€/'000	Dec. 31, 2011	Dec. 31, 2010
charge to the income statement		
provision for risks and charges	47,721	39,595
loan losses	5,606	5,586
expenses deductible in future years	7,113	6,643
future years' taxed income	6	100
other	18,625	17,252
Total	79,071	69,176
charge to equity		
fair value measurement of AFS securities	76,197	21,824
Total	76,197	21,824

Analysis of deferred tax liabilities

€/'000	Dec. 31, 2011	Dec. 31, 2010
charge to the income statement		
income taxable in future years	11,259	9,675
future expenses deductible in the year	-	-
deducted future expenses	161	160
Total	11,420	9,835
charge to equity		
fair value measurement of AFS securities	1,987	2,401
Total	1,987	2,401

Section 16 – Other assets – Caption 160

16.1 Analysis of other assets

€/'000	Dec. 31, 2011	Dec. 31, 2010
Receivables from tax authorities	23,025	25,450
Receivables from financial advisors	4,099	4,679
Advances to suppliers and professionals	5,209	7,434
Security deposits	5,961	6,260
Receivables from companies within the Fininvest Group and the Doris Group	327	324
Receivables from subsidiaries and associates	2,805	3,742
Receivables from employees	514	494
Other receivables	4,209	11,301
Items in transit	150,278	112,625
Accrued income	30,953	24,428
Prepayments	3,307	3,014
Other	8,131	10,110
Total	238,818	209,861

LIABILITIES

Section 1 – Amounts due to banks – Caption 10

1.1 Analysis of amounts due to banks

€/'000	Dec. 31, 2011	Dec. 31, 2010
1. Central banks	4,494,571	1,410,786
2. Banks	706,392	789,782
2.1 Current accounts and demand deposits	177,325	170,547
2.2 Time deposits	340,931	483,456
2.3 Loans	187,115	134,922
2.3.1 Repurchase agreements	187,115	134,922
2.3.2 Other	-	-
2.4 Commitments to buy back own equity instruments	-	-
2.5 Other amounts due	1,021	857
Total	5,200,963	2,200,568
Fair value	5,200,943	2,200,535

Section 2 – Amounts due to customers – Caption 20

2.1 Analysis of amounts due to customers

€/'000	Dec. 31, 2011	Dec. 31, 2010
1. Current accounts and demand deposits	5,704,117	5,068,654
2. Time deposits	1,093,498	334,996
3. Loans	923,457	1,885,386
3.1 Repurchase agreements	923,457	1,885,386
3.2 Other	-	-
4. Commitments to buy back own equity instruments	-	-
5. Other amounts due	175,511	196,962
Total	7,896,583	7,485,998
Fair value	7,896,585	7,485,996

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

Section 3 – Securities issued – Caption 30

3.1 Analysis of securities issued

€/'000	Dec. 31, 2011				Dec. 31, 2010			
	Book Value	Fair value			Book Value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Securities								
1. bonds	285,631	-	270,234	-	340,479	-	338,427	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	285,631	-	270,234	-	340,479	-	338,427	-
2. other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
Total	285,631	-	270,234	-	340,479	-	338,427	-

Section 4 – Financial liabilities held for trading – Caption 40

4.1 Analysis of financial liabilities held for trading

€/'000	Dec. 31, 2011					Dec. 31, 2010				
	NV	FV			FV*	NV	FV			FV*
		L1	L2	L3			L1	L2	L3	
A. Non-derivatives										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	289,739	320,066	192	-	320,258	410,285	443,604	164	1	443,769
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	289,739	320,066	192	-	320,258	410,285	443,604	164	1	443,769
B. Derivatives										
1. Financial derivatives										
1.1 held for trading	X	-	12,948	-	X	-	2	7,690	1	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	-	12,948	-	X	X	2	7,690	1	X
Total (A+B)	X	320,066	13,140	-	X	X	443,606	7,854	2	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

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

€/'000	Due to banks	Due to customers	Securities issued	Total
A. Opening balances	-	164	-	164
B. Increases	-	5,074	-	5,074
B1. Issues	-	-	-	-
B2. Purchases	-	-	-	-
B3. Increases in fair value	-	-	-	-
B4. Other	-	5,074	-	5,074
C. Decreases	-	(5,046)	-	(5,046)
C1. Purchases	-	-	-	-
C2. Redemptions	-	-	-	-
C3. Decreases in fair value	-	-	-	-
C4. Other	-	(5,046)	-	(5,046)
D. Closing balance	-	192	-	192

Section 6 – Hedging derivatives – Caption 60

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

	Dec. 31, 2011				Dec. 31, 2010			
	Fair value			NV	Fair value			NV
€/'000	L1	L2	L3		L1	L2	L3	
A. Financial derivatives	-	67,896	-	437,995	-	28,510	-	497,946
1) Fair value hedge	-	67,896	-	437,995	-	28,510	-	497,946
2) Cash flow hedge	-	-	-	-	-	-	-	-
3) Hedge of investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-	-	-	-
1) Fair value hedge	-	-	-	-	-	-	-	-
2) Cash flow hedge	-	-	-	-	-	-	-	-
Total	-	67,896	-	437,995	-	28,510	-	497,946

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

€/'000	Fair value						Cash flow		
	micro-hedging					macro-hedging	micro-hedging	macro-hedging	investments in foreign operations
	interest rate risk	currency risk	credit risk	pricing risk	multiple risks				
1. Available-for-sale financial assets	-	-	-	-	-	X	-	X	X
2. Loans and receivables	67,896	-	-	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	67,896	-	-	-	-	-	-	-	-
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, 2011	Dec. 31, 2010
Agents' severance benefits	3,528	3,693
Security deposits	4,171	3,890
Tax expenses borne by policyholders	-	-
Provision for staff costs (vacation pay, additional months, etc.)	6,070	7,801
Items in transit	233,725	102,791
Deferred income	17,027	13,106
Accrued expenses	1,086	837
Other sundry liabilities	90,575	94,815
Total	356,182	226,933

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

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

€/'000	Dec. 31, 2011	Dec. 31, 2010
A. Opening balance	9,275	9,635
B. Increases	5,394	4,929
B.1 Amounts set aside in the year	5,319	4,885
B.2 Other increases	75	44
C. Decreases	(5,519)	(5,288)
C.1 Funds used in the year	(5,186)	(5,212)
C.2 Other decreases	(333)	(76)
D. Closing balance	9,150	9,276

Section 12 – Provisions for risks and charges – Caption 120

12.1 Analysis of provisions for risks and charges

€/'000	Dec. 31, 2011	Dec. 31, 2010
1. Severance entitlements	1,402	1,310
2. Other provisions for risks and charges	158,425	134,896
2.1 legal proceedings	15,307	11,548
2.2 staff costs	-	-
2.3 other	143,118	123,348
Total	159,827	136,206

12.2 Year's movements in provisions for risks and charges

€/'000	Severance entitlements	Other
A. Opening balance	1,310	134,896
B. Increases	98	50,996
B.1 Amounts set aside in the year	77	50,996
B.2 Time-related increases	-	-
B.3 Increased discount rate	-	-
B.4 Other increases	21	-
C. Decreases	(6)	(27,467)
C.1 Funds used in the year	-	(10,684)
C.2 Decreased discount rate	-	-
C.3 Other decreases	(6)	(16,783)
D. Closing balance	1,402	158,425

12.4 Provisions for risks and charges – 'other'

€/'000	Balance at Dec. 31, 2010	Amount set aside in the year	Other changes	Funds used	Balance at Dec. 31, 2011
- Legal proceedings	11,549	5,448	(1,160)	(530)	15,307
- Other:	-	-	-	-	-
Risks related to FA illegal actions	36,151	18,959	(11,137)	(3,346)	40,627
FA customer base entitlements	22,347	6,078	(1,152)	(1,435)	25,838
Portfolio & organisation allowance	13,497	8,567	(2,358)	(1,378)	18,328
Managerial allowance	33,037	7,409	(833)	-	39,613
Product distribution	12,531	2,507	-	(1,354)	13,684
Miscellaneous	5,784	2,028	(143)	(2,640)	5,028
Total	134,896	50,996	(16,783)	(10,683)	158,425

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, 2011	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2010
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, 2011	Dec. 31, 2010
1. Share capital	450,000	450,000
2. Share premium account	-	-
3. Reserves	176,678	150,766
4. (Treasury shares)	-	-
a) parent company	-	-
b) subsidiaries	-	-
5. Valuation reserves	(152,541)	(41,062)
6. Equity instruments	-	-
7. Net profit (loss) for the year	23,726	84,330
Total	497,863	644,034

Reconciliation of the parent company's shareholders' equity to consolidated shareholders' equity

€/'000	Capital & reserves	Net Profit	Equity
FY 2011 - Parent company accounts	406,890	16,129	423,019
Successive changes in carrying amount and equity of companies consolidated on a line-by-line basis	(70,597)	139,702	69,105
Intragroup Dividends	131,483	(131,483)	-
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	6,958	(154)	6,804
Other	(598)	(468)	(1,066)
FY 2011 - Consolidated accounts	474,137	23,726	497,863

Section 16 - Minority interests - Caption 210

16.1 Analysis and year's movements in equity instruments

€/'000	Dec. 31, 2011	Dec. 31, 2010
1. Share capital	2,671	2,671
2. Share premium account	(3,098)	(3,098)
3. Reserves	(39,622)	(52,201)
4. (Treasury shares)	-	-
5. Valuation reserves	(144)	(56)
6. Equity instruments	-	-
7. Profit (loss) for the year attributable to minority interests	102,060	113,870
Total	61,867	61,186

OTHER INFORMATION

1. Guarantees issued and commitments

€/'000	Dec. 31, 2011	Dec. 31, 2010
1) Financial guarantees	17,883	16,816
a) Banks	16,542	14,438
b) Customers	1,341	2,378
2) Commercial guarantees	21,179	16,626
a) Banks	92	5,731
b) Customers	21,087	10,895
3) Commitments to disburse funds	150,724	108,341
a) Banks	10,159	1,597
i) with certain drawdown	10,159	1,597
ii) with possible drawdown	-	-
b) Customers	140,565	106.744
i) with certain drawdown	2,163	413
ii) with possible drawdown	138,402	106,331
4) Commitments under credit derivatives: protection sales	-	-
5) Assets pledged to secure third-party obligations	9,041	15,125
6) Other commitments	4,483	4,110
Total	203,310	161,018

2. Assets pledged to secure own liabilities and commitments

€/'000	Dec. 31, 2011	Dec. 31, 2010
1. Financial assets held for trading	527,669	266,448
2. Financial assets at fair value	-	-
3. Available-for-sale financial assets	3,566,419	1,399,570
4. Held-to-maturity investments	493,636	654,825
5. Loans to banks	866,621	1,003,220
6. Loans to customers	782,938	818,100
7. Tangible assets	-	-
Total	6,237,283	4,142,163

5. Brokerage and asset management on behalf of customers

€/'000	Dec. 31, 2011
1. Orders executed on behalf of customers	
a) Purchases	18,415,026
1. settled	18,415,026
2. not settled	-
b) Sales	17,752,025
1. settled	17,752,025
2. not settled	-
2. Asset management	
a) individual portfolio management	575,679
b) collective portfolio management	158,791
3. Securities in custody and under administration	
a) custodian bank services	
(other than managed assets)	753,456
1. securities issued by entities incl. in consolidated accounts	-
2. other securities	753,456
b) custodian bank services (other than managed assets): other	6,901,984
1. securities issued by entities incl. in consolidated accounts	275,951
2. other securities	6,626,033
c) third-party securities held by other custodians	6,774,551
d) own securities held by other custodians	10,297,701
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, 2011	Dec. 31, 2010
1. Financial assets held for trading	23,068	-	-	23,068	19,413
2. Available-for-sale financial assets	112,905	-	-	112,905	25,820
3. Held-to-maturity investments	31,988	-	-	31,988	36,850
4. Loans to banks	40,808	18,113	-	58,921	33,252
5. Loans to customers	18,416	111,691	-	130,107	97,500
6. Financial assets at fair value	-	-	-	-	-
7. Hedging derivatives	X	X	-	-	-
8. Other assets	X	X	631	631	94
Total	227,185	129,804	631	357,620	212,929

1.3 Interest income and similar income: other information

€/'000	Dec. 31, 2011	Dec. 31, 2010
Interest income and similar income on:		
a) financial assets denominated in foreign currencies	1,508	717
b) finance leases	5	-
Total	1,513	717

1.4 Analysis of interest expense and similar charges

€/'000	Amounts due	Securities	Other liabilities	Dec. 31, 2011	Dec. 31, 2010
1. Due to central banks	27,263	X	-	27,263	5,484
2. Due to banks	11,711	X	-	11,711	9,944
3. Due to customers	78,251	X	-	78,251	29,866
4. Securities issued	X	8,979	-	8,979	5,667
5. Financial liabilities held for trading	15,038	-	-	15,038	17,653
6. Financial liabilities at fair value	-	-	-	-	-
7. Other liabilities and funds	X	X	32	32	126
8. Hedging derivatives	X	X	12,648	12,648	17,098
Total	132,263	8,979	12,680	153,834	85,838

1.5 Interest expense and similar charges: analysis of hedging balances

€/'000	Dec. 31, 2011	Dec. 31, 2010
A. Positive differences arising on:	6,344	3,970
A.1 fair value micro-hedging of assets	6,344	3,970
B. Negative differences arising on:	(18,992)	(21,068)
B.1 fair value micro-hedging of assets	(18,992)	(21,068)
C. Balance (A-B)	(12,648)	(17,098)

1.6 Interest expense and similar charges: other information

€/'000	Dec. 31, 2011	Dec. 31, 2010
Interest expense and similar charges on:		
1.6.1) financial liabilities denominated in foreign currencies	5,744	5,371
1.6.2) finance leases	-	-
Total	5,744	5,371

Section 2 – Commissions – Captions 40 and 50

2.1 Analysis of commission income

€/'000	Dec. 31, 2011	Dec. 31, 2010
a) Guarantees issued	88	142
b) Credit derivatives	-	-
c) Management, brokerage and consulting services:	747,457	806,262
1. brokerage of financial instruments	2,690	3,261
2. currency brokerage	1	1
3. portfolio management	578,171	609,741
3.1 individual portfolio management	4,816	5,385
3.2 collective portfolio management	573,355	604,356
4. securities in custody and under administration	4,698	4,098
5. custodian bank	567	561
6. sale of securities	28,486	45,676
7. order taking and transmission	5,902	5,709
8. consultancy	-	-
8.1 investment advice	-	-
8.2 financial structure advice	-	-
9. services to third parties	126,942	137,215
9.1 portfolio management	216	241
9.1.1. individual portfolio management	-	-
9.1.2. collective portfolio management	216	241
9.2 insurance products	117,659	126,153
9.3 other products	9,067	10,821
d) Payments and collections	30,259	44,246
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	21,615	22,619
j) Other services	10,450	9,018
Total	809,869	882,287

2.2 Analysis of commission expense

€/'000	Dec. 31, 2011	Dec. 31, 2010
a) Guarantees received	-	-
b) Credit derivatives	-	-
c) Management and brokerage services:	348,827	367,961
1. brokerage of financial instruments	2,216	2,488
2. currency brokerage	-	-
3. asset management	4,681	5,299
3.1 own management	3,014	3,389
3.2 on mandates from third parties	1,667	1,910
4. securities in custody and under administration	908	1,076
5. sale of financial instruments	73,367	69,493
6. off-premises sale of financial instruments, products & services	267,655	289,605
d) Payments and collections	29,981	40,033
e) Other services	26,509	23,447
Total	405,317	431,441

Section 3 – Dividends and similar income – Caption 70

3.1 Analysis of dividends and similar income

	Dec. 31, 2011		Dec. 31, 2010	
€/'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	471	2,881	728	2,455
C. Financial assets at fair value	-	-	-	-
D. Equity investments	-	X	-	X
Total	471	2,881	728	2,455

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	5,720	9,139	(23,948)	(4,163)	(13,252)
1.1 Debt securities	5,720	9,126	(23,940)	(4,125)	(13,219)
1.2 Equities	-	13	(8)	(38)	(33)
1.3 Holdings in UCITS	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	1,982	9,738	(8,643)	(4,597)	(1,520)
2.1 Debt securities	1,982	9,738	(8,643)	(4,597)	(1,520)
2.2 Debt	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Other financial assets and liabilities: exchange differences	X	X	X	X	73
4. Derivatives	-	26,642	(10,207)	(31,597)	(15,162)
4.1 Financial derivatives	-	26,642	(10,207)	(31,597)	(15,162)
- debt securities and interest rates	-	26,498	(10,207)	(31,407)	(15,116)
- equities and stock indices	-	26	-	(31)	(5)
- currencies and gold	X	X	X	X	2,328
- other	-	118	-	(159)	(41)
4.2 Credit derivatives	-	-	-	-	-
Total	7,702	45,519	(42,798)	(40,357)	(27,533)

Section 5 - Net income from hedging – Caption 90

5.1 Analysis of net income from hedging

€/'000	Dec. 31, 2011	Dec. 31, 2010
A. Income from:		
A.1 Fair value hedging derivatives	-	-
A.2 Hedged financial assets (fair value)	35,589	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)	35,589	12,657
B. Expense from:		
B.1 Fair value hedging derivatives	(39,402)	(13,783)
B.2 Hedged financial assets (fair value)	-	-
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)	(39,402)	(13,783)
C. Net income from hedging (A - B)	(3,813)	(1,126)

Section 6 – Gains (losses) on sale/buyback – Caption 100

6.1 Analysis of gains (losses) on sale/buyback

	Dec. 31, 2011			Dec. 31, 2010		
€/'000	Gains	Losses	Net gains (losses)	Gains	Losses	Net gains (losses)
Financial assets						
1. Loans to banks	-	(36)	(36)	55	-	55
2. Loans to customers	266	(35)	231	178	(74)	104
3. Available-for-sale financial assets:	9,462	(10,560)	(1,098)	6,836	(2,605)	4,231
3.1 Debt securities	9,326	(10,556)	(1,230)	6,830	(2,041)	4,789
3.2 Equities	132	(3)	129	1	-	1
3.3 Holdings in UCITS	4	(1)	3	5	(564)	(559)
3.4 Financing	-	-	-	-	-	-
4. Held-to-maturity investments	1,046	-	1,046	-	-	-
Total assets	10,774	(10,631)	143	7,069	(2,679)	4,390
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, 2011	Dec. 31, 2010
	Individual			Individual		Collective			
	Cancellations	Others	Collective	A	B	A	B		
A. Loans to banks									
- Loans	-	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-	-
B. Loans to customers									
- Loans	(1,678)	(9,384)	(171)	-	4,223	-	942	(6,068)	(9,207)
- Debt securities	-	-	-	-	-	-	-	-	-
C. Total	(1,678)	(9,384)	(171)	4,223	-	942	5,165	(6,068)	(9,207)

8.2 Analysis of net impairment of available for sale financial assets

€/'000	Impairment		Reversal of impairment		Dec. 31, 2011	Dec. 31, 2010
	Individual		Individual			
	Cancellations	Others	A	B		
A. Debt securities	-	(65,820)	158	-	(65,662)	-
B. Equities	-	(224)	X	X	(224)	(483)
C. Holdings in UCITS	-	(2,918)	X	-	(2,918)	(802)
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	-	(68,962)	158	-	(68,804)	(1,285)

Legend:
A = interest
B = other

8.3 Analysis of net impairment of Held-to-Maturity Investments

€/'000	Impairment			Reversal of impairment				Dec. 31, 2011	Dec. 31, 2010
	Individual			Individual		Collective			
	Cancellations	Other	Collective	A	B	A	B		
A. Debt securities	-	(15,500)	-	-	-	-	-	(15,500)	-
B. Loans to banks	-	-	-	-	-	-	-	-	-
C. Loans to customers	-	-	-	-	-	-	-	-	-
D. Total	-	(15,500)	-	-	-	-	-	(15,500)	-

Legend:
A = interest
B = other

8.4 Analysis of net impairment of other financial items

€/'000	Impairment			Reversal of impairment				Dec. 31, 2011	Dec. 31, 2010
	Individual			Individual		Collective			
	Cancellations	Other	Collective	A	B	A	B		
A. Guarantees issued	-	-	(4)	-	21	-	-	17	(2)
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	-	-	-	-	-	-	-
D. Others	-	-		-	-	-	-	-	-
E. Total	-	-	(4)	-	21	-	-	17	(2)

Legend:
A = interest
B = other

Section 11 – Administrative expenses – Caption 180

11.1 Analysis of staff costs

€/'000	Dec. 31, 2011	Dec. 31, 2010
1) Employees	120,836	122,116
a) wages and salaries	83,795	85,954
b) social security contributions	24,347	24,071
c) employee completion of service entitlements	799	398
d) pensions	34	-
e) provision for completion of service entitlements	5,319	4,942
f) provision for severance benefits and similar obligations	234	221
- defined contribution plan	157	139
- defined benefit plan	77	82
g) external supplementary pension funds:	1,212	1,158
- defined contribution plan	1,034	1,023
- defined benefit plan	178	135
h) expenses in connection with equity-settled share-based payment transactions	-	-
i) other employee benefits	5,096	5,372
2) Other personnel	2,272	2,166
3) Directors and Statutory Auditors	6,515	5,019
4) Retirees	-	-
5) Recoveries of expenses for employees seconded to other entities	-	-
6) Reimbursements of expenses for employees seconded to the company	-	-
Total	129,623	129,301

Following the clarifications provided by the Bank of Italy in its letter dated February 10, 2012, in 2010 comparative information. an amount of €609 thousand was reclassified out of '*Staff costs*' to '*Other administrative expenses*'. The reclassification related to items such as medical expenses, travel expenses and mileage allowance.

11.2 Average number of personnel by category: banking group

Category	Dec. 31, 2011	Dec. 31, 2010
Employees	1,892	1,887
a) senior management	92	88
b) middle management	212	234
c) other employees	1,588	1,565
Total Employees	1,892	1,887
Other personnel	20	6
Total	1,912	1,893

11.3 Company-sponsored defined benefit plans: analysis of costs

€/'000	Balance at Dec. 31, 2011
Current service costs	77
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	77

11.5 Analysis of other administrative expenses

€/'000	Dec. 31, 2011	Dec. 31, 2010
IT services	45,137	42,424
Infoprovider services	5,008	4,469
Financial services fees and other expenses	1,963	2,059
Other miscellaneous services	15,350	13,827
Intragroup services	374	967
Taxes and duties	618	524
Television and Internet communication services	10,542	13,043
Consultancy and network advisory services	4,224	4,729
Rentals	12,095	12,328
Maintenance and repairs	1,783	1,675
Postal and telephone	11,340	11,666
Miscellaneous advisory services	12,292	12,405
Contributions to "Family Banker" offices	1,251	1,435
Consumables	3,927	4,693
Insurance	2,062	2,254
Membership fees	1,158	1,080
Advertising and promotions	25,230	23,639
Conventions	5,560	3,407
Training provided to financial advisors	3,551	3,754
Canteen	219	212
Utilities	1,241	1,422
Business expenses, gifts and donations	4,493	4,048
Market research	664	658
Recruitment/Training of employees	269	194
Travel expenses	1,228	1,125
Recruitment of financial advisors	30	93
Other administrative expenses	5,558	3,501
Total	177,167	171,631

Following the clarifications provided by the Bank of Italy in its letter dated February 10, 2012, in 2010 comparative information an amount of €609 thousand was reclassified out of '*Staff costs*' to '*Other administrative expenses*'. The reclassification related to items such as medical expenses, travel expenses and mileage allowance.

Section 12 – Provisions for risks and charges – Caption 190

12.1 Analysis of provisions for risks and charges

€/'000	Dec. 31, 2011	Dec. 31, 2010
Provision for risks and charges - other:		
Managerial allowance	6,577	8,904
Risks related to FA illegal actions	7,822	9,676
FA customer base entitlements	4,925	3,351
Portfolio & organisation allowance	6,210	3,795
Legal proceedings	4,288	3,449
Product distribution	2,507	3,260
Other	1,830	2,988
Total	34,159	35,423

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	(4,745)	(1,082)	-	(5,827)
A.1 owned	(4,702)	(1,082)	-	(5,784)
- held for use	(4,702)	(1,082)	-	(5,784)
- held for investment purposes	-	-	-	-
A.2 under finance leases	(43)	-	-	(43)
- held for use	(43)	-	-	(43)
- held for investment purposes	-	-	-	-
Total	(4,745)	(1,082)	-	(5,827)

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	(9,846)	-	-	(9,846)
A.1 owned	(9,846)	-	-	(9,846)
- internally generated	-	-	-	-
- other	(9,846)	-	-	(9,846)
A.2 under finance leases	-	-	-	-
Total	(9,846)	-	-	(9,846)

Section 15 – Other operating income – Caption 220

15.1/15.2 Analysis of other operating expenses and income

€/'000	Dec. 31, 2011	Dec. 31, 2010
Assets under finance lease	-	-
Lease installments	-	-
Losses on sale	-	-
Insurance	-	-
Transfer of title	-	-
Other operating expenses	5,858	3,750
Compensations and Settlements	3,745	1,627
Loan losses	-	-
Amortisation of expenses for improvements of leasehold assets	926	918
Other expenses	1,187	1,205
Total other operating expenses	5,858	3,750
Recoveries of direct taxes	-	-
Cost recoveries relating to seconded personnel	-	-
Recoveries of expenses on contracts and services rendered	8,462	8,525
Recoveries of property rental and real estate expenses	-	-
Miscellaneous income	7,545	9,714
Rentals on owned property	608	694
Recoveries of expenses from customers	187	1,172
Recoveries of expenses from financial advisors	366	361
Other	6,384	7,487
Total other operating income	16,007	18,239
Total net other operating income (expenses)	10,149	14,489

Section 19 – Profit (Loss) on disposal of investments – Caption 270

19.1 Analysis of profit (loss) on disposal of investments

€/'000	Dec. 31, 2011	Dec. 31, 2010
A. Property	-	-
- Gains on sale	-	-
- Losses on sale	-	-
B. Other assets	28	2,197
- Gains on sale	38	2,201
- Losses on sale	(10)	(4)
Profit (loss)	28	2,197

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

20.1 Analysis of income tax expense on continuing operations

€/'000	Dec. 31, 2011	Dec. 31, 2010
1. Current tax (-)	(24,879)	(46,001)
2. Change in current tax for prior years (+/-)	1	(2)
3. Change in current tax for the year (+)	-	-
4. Change in deferred tax assets (+/-)	8,621	10,196
5. Change in deferred tax liabilities (+/-)	(1,585)	(1,733)
6. Income tax expense for the year (-) (-1+/-2+3+/-4+/-5)	(17,842)	(37,540)

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

€/'000	Dec. 31, 2011	Dec. 31, 2010
Theoretical tax rate - IRES and equivalent taxes	16.32%	11.32%
Profit before tax	143,687	235,740
Theoretical tax	23,450	26,686
Texable income	(16,479)	2,391
Other adjustments	476	(52)
Taxes expense - Ires & equivalent taxes	7,447	29,024
Effective tax rate Ires & equivalent taxes	5.18%	12.31%
Total tax expense	17,842	37,540
Total effective tax rate	12.42%	15.92%

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, 2011	Dec. 31, 2010
1. Income	-	-
2. Expenses	(59)	-
3. Valuation of assets and liabilities	-	-
4. Net realised gains (losses)	-	-
5. Tax	-	-
Profit (loss)	(59)	-

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	125,786
Other income components			
20. Available for sale financial assets	(166,356)	54,789	(111,567)
a) changes in fair value	(239,066)	78,357	(160,709)
b) reversals to the income statement	72,710	(23,983)	48,727
- impairment	68,962	(22,744)	46,218
- realised gains/losses	3,748	(1,239)	2,509
c) other changes	-	415	415
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	(166,356)	54,789	(111,567)
120. Comprehensive income (items 10+110)	(166,356)	54,789	14,219
130. Attributable to minority interests	118,796	(16,824)	101,972
140. Attributable to the Parent Company	(285,152)	71,613	(87,753)

PART E - INFORMATION ON RISKS AND RISK MANAGEMENT

The Internal Capital Adequacy Assessment Process (ICAAP)

Under Basel II Pillar 2 (Title III of Bank of Italy's Circular 263/2006) banks are required to have a process (Internal Capital Adequacy Assessment Process, ICAAP) to estimate their own internal capital requirements to cover all risks, including those not captured by the total capital requirement (pillar 1) as part of the assessment of the bank's current and future exposure, taking account of the bank's strategies and possible developments in the environment in which it operates. Supervisory regulations detail the steps, the frequency and the main risks to be considered and, for certain risks, set out indications on methods that should be used in the assessment. In accordance with the principle of proportionality – under which the level of detail and sophistication of the analysis required in a bank's ICAAP depends on the size, nature and complexity of the bank's activities – the supervisory authorities have classified banks into three categories. Responsibility for the ICAAP rests with corporate governance bodies.

The Supervisory Review Process (SRP)

The Supervisory Review Process (SRP) entails two integrated steps. The first is the banks' process for assessing their current and future capital adequacy in relation to their risk profile and business strategies (ICAAP). The second is the Supervisory Review and Evaluation Process (SREP) conducted by the national banking supervisory authorities that review and evaluate banks' internal capital adequacy and, if needed, take appropriate action.
The SREP hinges on the collaboration and exchange of information between the Banking Supervisor and banks. The Banking Supervisor (Bank of Italy) can thus gain a deeper understanding of the banks' ICAAP including underlying assumptions, and banks can detail the assumptions underlying their assessment.
Banks define strategies and put in place procedures and tools to maintain adequate capital level – in terms of value and composition – to cover all the risks to which they are or may be exposed, including those risks for which a capital charge is not required.
The ICAAP hinges on the bank's sound risk management framework, effective internal control system, robust corporate governance and well-defined lines of responsibilities.
Board and senior management are responsible for the ICAAP. They are responsible for designing and organising it in accordance with respective competences and prerogatives. They are responsible for the implementation and for regular reviews of the ICAAP to ensure it is commensurate with the operational and strategic environment in which the bank operates.
The ICAAP must be documented, shared and known across the organisation and subject to internal audit.
The Supervisory Review Process reflects the principle of proportionality, i.e.:
- the bank's corporate governance, risk management framework, internal control system and capital assessment process are commensurate with the nature, size and complexity of its activities;
- the frequency, the level of detail and sophistication of the SREP depend on the systemic relevance, the nature, size and complexity of the bank's business.

Classification of intermediaries in relation to the ICAAP

The principle of proportionality applies to:
- the methods used to measure/assess risks and related internal capital adequacy;
- the type and characteristics of stress tests;
- the treatment of correlations between risks and overall internal capital requirements;
- organisation of the risk management system;
- level of detail and sophistication of ICAAP reports to the Bank of Italy.

To facilitate the implementation of the proportionality principle, banks are classified into three categories according to their size and the complexity of their activities. The Mediolanum Banking Group falls within category 2, i.e. banking groups or banks applying the standardised approach, with consolidated or separate assets in excess of €3.5 billion.
Banks apply a consistent approach to deriving capital requirements from the bank's risk measurement under the first pillar and overall internal capital requirements.

Banca Mediolanum's ICAAP

In accordance with supervisory requirements and in line with best practices, Banca Mediolanum's ICAAP entails the following steps:
1) identification of risks for assessment;
2) measurement/assessment of individual risks and related internal capital level;
3) measurement of the overall internal capital level;
4) determination of overall capital level and reconciliation to regulatory capital.

Key Risks Mapping

In accordance with Bank of Italy's Circular 263/06, the process for the identification of the key risks for the Mediolanum Group starts from the analysis of the Bank's and Group's statutory lines of business and activities conducted in each of these lines.
Risk mapping therefore starts from the macro lines that make up the Banking Group's business.
In the Mediolanum Banking Group the following main business segments can be identified:
- Lending (Retail and Commercial Banking)
- Treasury activities (Trading and Sales)
- Asset Management
- Retail Brokerage

The starting point is risk measurement followed by the definition of relevant risk thresholds for risks for which there is a capital charge requirement as well as for other risks for which there is no capital charge requirement but must be analysed and monitored.

First pillar risks

Credit Risk (including counterparty risk)

Credit risk is the risk of loss arising from the deterioration in the creditworthiness up to default of retail, corporate and institutional counterparties of whom the bank is a creditor in its investment or lending business, as a result of which debtors fail to meet all or part of their contractual obligations.

Market Risk

For banks using the standardised approach the capital requirement for market risk is the sum of capital requirements for position risk, settlement risk, concentration risk and commodity risk.

Operational 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."

Second pillar risks

Concentration Risk

Concentration risk is the risk arising from exposure to individual counterparties, groups of related counterparties or counterparties in the same industry, business segment or geographical location.

Interest Rate Risk

Interest rate risk arising on activities other than trading: the risk of potential movements in interest rates.

Liquidity Risk

Liquidity risk is typically the risk that arises from the difficulty of liquidating assets. More specifically, it is the risk that a financial instrument cannot be bought or sold without a material decrease/increase in its price (wide bid-ask spread) due to the potential inability of the market to settle the transaction wholly or partly. Liquidity risk is also the potential that an entity will be unable to obtain adequate funding.

Residual Risk

The risk that the credit risk mitigation techniques adopted by the Bank turn out to be less effective than anticipated.

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.

Reputational Risk

Reputational risk is the current or prospective risk of impact on earnings or capital arising from the negative perception of the bank's image by customers, counterparties, shareholders, investors or supervisory authorities.

SECTION 1 – CREDIT RISK

QUALITATIVE INFORMATION

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, insurance and retirement savings products. The Group applies prudent credit policies, which are geared to develop and strengthen the relationship with customers who invest in products managed by the companies within the Group.
Banca Mediolanum Lending Division is responsible for ensuring adequate implementation of the Bank's credit policy in compliance with laws and regulations in force. This division is organised into the Short-term lending unit, the Medium/Long-term lending unit, the Watchlist unit, the Credit Operations unit and the Credit Policy and Monitoring unit.
The Short-term lending team is responsible for all processes relating to approval and granting of overdrafts, loans, endorsements as well as for management of guarantees.
The team exercises credit approvals under delegated authorities. For credit that is outside the scope of the authorities delegated to it, the team prepares all information and documentation relating to the loan application including a non-binding opinion and submits it to superior bodies.
The Medium/Long-term lending team is responsible for approval and granting of mortgage loans in accordance with Credit Management Guidelines and Rules. This team prepares and submits reports to the Head of the Division and the Service Engineering & Analysis unit and collaborates with the Credit Policy and Monitoring unit in the preparation of Mortgage Lending Policy and Rules.
The Watchlist team deals with customers in difficulty ensuring that suitable solutions are found and implemented in a timely manner in accordance with policies and rules. This team also supervises and records any amounts in arrear collected by foreign lenders that are part of the Group.
The Credit Operations team manages the relationships with customers and the Sales Network providing all-round assistance across the credit application process for all types of lending. The team has also approval authority for low-risk, limited-amount credit applications.
The Credit Policy and Monitoring team sees to the preparation of credit management policies and strategies proposals, defining the methodological principles and the technical rules for credit risk management and developing models for estimating and measuring credit risk in close coordination with the Compliance & Risk Control function.

Credit risk management - Organisational aspects

The risk management framework includes policies that set out general principles and instructions on lending as well as on monitoring the quality of the loan portfolio. The Parent Company of the Banking Group is responsible for assessing overall exposure to credit risk and defining credit risk measurement policies for the whole Group.
Credit risk exposure is also assessed at the level of individual companies in their respective areas of responsibility, 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.

Credit risk measurement, management and control

Credit quality is monitored by regularly assessing, in each stage of the lending process, whether there is evidence of risk in accordance with entity-specific operating procedures.
In the lending process it is fundamental to have a comprehensive understanding of the financial condition of the borrower and the type of financing which best meets his needs, the loan purpose, the borrower creditworthiness and earnings capacity. To that end, each entity within the Group, as part of its loan application analysis, gathers all information needed to assess the consistency of the loan amount with the type and purpose of financing. In that examination, the entity uses performance and financial analysis tools as well as intelligence obtained from private and public Credit Bureaus. Special attention is paid to the assessment of any security taken.
All loans are subject to regular review by the competent units within each Group entity. Outstanding loans are continuously monitored focusing especially on riskier positions. Regular reports on credit protection actions taken are submitted to the Board of Directors of the respective entities.

Credit risk mitigation techniques

Loans extended by the Banking Group entities are secured by collaterals received from borrowers. Collaterals primarily consists of mortgages over property and pledge over financial instruments, plus conditional sale, and other forms of security, e.g. surety bonds and endorsements. Given the importance of the collateral received from the obligor in the assessment of credit risk, appropriate prudential adjustments are applied to the collateral whose value is subject to regular review.
The Banking Group does not offset credit risk exposures against positive balances of on or off-balance sheet items.
Credit risk mitigation (CRM) techniques consist of loan-related contracts or other instruments and techniques that reduce credit risk whose risk mitigating effect is recognised in the calculation of regulatory capital, as well as, for risk management purposes, the internal policies of the Mediolanum Banking Group. Credit risk is inherent in the Business Operations Management division's lending business and in Treasury's liquidity management.
Eligible CRM techniques fall into two broad categories:
1. real guarantees
2. personal guarantees

Real guarantees are:
1. financial collateral, i.e. cash, certain financial instruments, gold – pledged or transferred –, repurchase/reverse repurchase and securities lending/borrowing transactions;
2. master netting agreements;
3. on balance sheet netting;
4. mortgages and real estate leases.

Personal guarantees include personal guarantees and credit derivatives.
Currently, within the Mediolanum Banking Group, the use of credit derivatives is allowed only for trading purposes and not for banking book credit risk mitigation.
Eligible CRM techniques are mortgages and pledges or other equivalent security interests in assets with a reasonable degree of liquidity and a reasonably stable market value.
Conversely, although taken into account when deciding whether or not to extend a loan, 'irrevocable orders to sell other Group financial products' are not eligible for CRM purposes.
As to pledges, the financial asset that is directly or indirectly pledged as security must be one of the following:

- bank account balances held with our bank;
- treasuries or securities guaranteed by governments, and securities that are accepted as guarantee by central banks;
- holdings in mutual funds and open-end investment companies;
- liens on insurance policies issued by the Mediolanum Banking Group;
- assets in discretionary accounts managed by our Bank;
- bonds and certificates of deposit issued by our Bank or other Banks;
- repo transactions relating to listed bonds, treasuries or accepted as guarantee by central banks, with retail customers;
- listed bonds;
- listed equities.

When the borrower's equity does not cover entirely the loaned amount, the loan is recognised at full risk.

Credit risk on mortgage loans is mitigated by the property given as collateral. Properties given as loan collateral must be located in Italy and be residential properties.
Semi-residential properties are accepted provided that they satisfy the following requirements:

- the non-residential portion does not exceed 40% of the estimated property value;
- the property is located in a residential area;
- the borrower is self-employed and intends to use the property as his/her primary residence.

In all these instances Loan-to-Value shall not exceed 70%.
The bank applies a disciplined approach to lending and adequate checks e.g. it checks the accurateness and completeness of the property appraisal as this is crucial to get a true view of risk. The bank requires than any request for mortgage loan approval be accompanied by a valid property appraisal setting out a true estimate of the value of the property for which the loan is sought and certifying to the highest possible degree that a valid building permit and any other authorisations for the property have been obtained. If not so, the loan will not be extended or the loan amount reduced to be commensurate with the true property value (which depends on its location, on how easily it can be resold, etc.).
The appraisal is made by independent professionally qualified valuers who have entered into an agreement with Banca Mediolanum.
The relevant technical unit within the Lending Division is responsible for ensuring that internal procedures for the preparation of property appraisals are thoroughly and properly applied.

Assessment of the quality of the loan portfolio

The Mediolanum Banking Group assesses the quality of the loan portfolio applying the following two-step approach in view of identifying any possible impairment:

- identification of assets to be individually or collectively tested for impairment;
- measurement and recognition of the impairment loss in accordance with the specific impairment rules.

The first step is preliminary to the impairment test that assesses and measures the impairment loss, if any.
Banca Mediolanum tests for impairment loans and endorsements with fixed or determinable payments extended to retail/corporate and institutional clients. Loans and endorsements to retail/corporate clients typically consist of arranged overdraft facilities, loans and credit lines repayable in instalments, while those extended to institutional clients (banks and other financial institutions) are made up of deposits, repurchase agreements (amount paid for the purchase of the asset under an agreement to resell it at a future date) and hot money facilities.
To identify loans and endorsements to be individually/collectively tested for impairment it is necessary to analyse the significance of the exposure and check whether there is objective evidence of any losses.
Banca Mediolanum individually tests for impairment all exposures classified as nonperforming, watch list and over 180 days past due loans (pursuant to Bank of Italy's instructions) irrespective of their significance. In fact, these are exposures for which there is objective evidence of impairment as per §64 of IAS 39. Other exposures, i.e. performing loans, are collectively tested for impairment. Only for monitoring purposes a €1,000,000 threshold is set for the determination of the significance of the individual exposure. Any exposure in excess of said threshold is examined separately and individually.
For exposures that are individually assessed for impairment the recoverable amount of the individual exposure is determined on the basis of:

- estimated recoverable cash flows;
- timing of recoveries;
- the interest rate used to discount future cash flows.

Banca Mediolanum treats nonperforming, watch list, restructured and over 180 days past due exposures in accordance with the different level of risk of the respective category, taking account of the type and value of any security taken and other key indicators of potential risk based on management expertise and conservative estimates.
Exposures that are not individually assessed are grouped on the basis of similar risk characteristics and collectively assessed for impairment.
The collective impairment loss is obtained by adding up the losses of each group. The collective impairment amount is compared with the previous carrying amount of loans to determine the amount of provisions to set aside or use.
The process for the identification of the groups of loans to be collectively assessed under IAS is in line with the credit risk approach under Bank of Italy's Circular 263 of December 27, 2006. Specifically, the risk parameters under said regulation, i.e. probability of default (PD) by rating class and Loss Given Default (LGD) are significant parameters for the classification of loans into groups with similar credit risk characteristics and for the calculation of provisions.
At present, the grouping of loans for the purpose of collective assessment is by rating and client segment (Retail/Corporate).
The calculation of the impairment loss is made applying a Basel-oriented approach, i.e. impairment is approximated to the concept of Expected Loss (EL) as set out in the relevant regulations. Expected Loss is the average loss the Bank expects to incur on an exposure as a result of the deterioration of credit quality or default of the borrower.

Banca Mediolanum's loan loss provision for collectively assessed exposures is therefore determined by calculating the Expected Loss (EL) on all exposures in a given rating class, applying the following formula:

$$EL_{exposure}^{class} = Balance_{exposure} \times PD^{class} \times LGD$$

where:

- $Balance_{exposure}$: is the book value for short-term financing and amortised cost for loans repayable in instalments;
- PD^{class}: is the probability of default over 1 year for performing loans in a given rating class;
- LGD: is the failed recoveries rate to be applied to performing loans.

The loan loss provision for collectively assessed exposures is thus obtained by adding up expected losses on each exposure:

$$Total\ provision = \sum_{exposure,\ class} EL$$

Impaired financial assets

Each Group entity, within its sphere of independence, has its own effective tools for prompt detection of any problem loans.

The 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 to the bank.

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.

To determine 'default' Banca Mediolanum refers to the definition of 'impaired loans' used for the purpose of financial reporting. Impaired loans include

- nonperforming loans;
- watch list loans;
- restructured loans;
- over 180 days past due loans.

Nonperforming loans consist of on and off-balance sheet exposures (e.g. loans, securities, derivatives) 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 equivalent conditions, regardless of any losses estimated by the lender and irrespective of any security taken.

Watch list loans consist of on and off-balance sheet exposures (e.g. loans, securities, derivatives) to borrowers that are experiencing objective temporary difficulties in meeting their payment obligations, but are expected to make good within a reasonable timeframe. These exposures are recognised irrespective of any security taken.

Restructured loans consist of on and off-balance sheet exposures (e.g. loans, securities, derivatives) for which a bank (or a syndicate of banks) agrees to change the original loan terms and conditions (e.g. rescheduling payments, reducing debt and/or interest) due to the deterioration of the financial condition of the borrower, with ensuing loss-

es. This category does not include exposures to companies that are going out of business (e.g. voluntary wind-up or similar conditions) as well as country-risk exposures.
An additional impaired loan category was introduced by the Bank of Italy (Circular 262 of December 22, 2005 'The Financial Statements of Banks: Instructions for the preparation of financial statements'), i.e. over 180 days past due loans. These consist of on and off-balance sheet exposures (e.g. loans, securities, derivatives) to borrowers other than those classified in the categories above (nonperforming, watch list, restructured) that at the reporting date were over 180 days past due or overdrawn.
For recognition in this category, both following conditions are to be satisfied:

- the borrower is past due more than 180 days in a row (to determine actual past due borrowers, overdrawn/unpaid amounts can be offset against balances in credit under other loans/credit facilities extended to the same borrower);
- the mean value of daily past due/overdrawn amounts in the last quarter is 5% or more of total exposure.

When the borrower is a government entity that exceeded the limits above yet the overdrawn/past due amount does not exceed €10,000, the relevant exposure is not classified as past due.

Counterparty risk

Counterparty risk is part of credit risk. Counterparty risk is the risk that a party to a derivative contract may fail to perform on its contractual obligations and, when marked to market, the value of the derivative contract turns out to be positive for Banca Mediolanum. Exposure to counterparty risk is measured applying the present value method to OTC derivative contracts. The replacement cost of each contract is its fair value, if positive. Fair value is positive if the bank is a net creditor of the counterparty. To protect against counterparty risk arising from said derivatives contracts the bank entered into ISDA Master Agreements. In addition, Banca Mediolanum put in place ad-hoc procedures and tools for the management of collaterals in relation to derivative transactions and used Credit Support Annexes (CSA) as key instruments to mitigate related counterparty risk.

Concentration Risk

Concentration risk, as defined in regulations, is the exposure to individual counterparties, groups of individual or related counterparties or counterparties in the same industry, business sector or geographical location. Concentration risk thus falls within the wider category of credit risk.
As required by the Banking Supervisor (Bank of Italy) the banking group's exposure to concentration risk in monitored for the purposes of ICAAP only for the 'Business & Others' Portfolio. The Group exposure in that portfolio is of limited size and relevance. In addition, the Banking Group put in place a system for monitoring concentration risk on a weekly basis in accordance with rules governing management of large exposures.
In accordance with regulations in force (Bank of Italy's Circular 263/06, Title IV Chapter 1), for large exposures the Mediolanum Banking Group has set the maximum limit for each exposure at 25% of consolidated regulatory capital. Said limit is the only large exposures regulatory limit applicable to the Mediolanum Banking Group based on volumes and characteristics.
Banca Mediolanum has defined operating licences and limits in accordance with the Institutional Counterparty Credit Risk Policy. These operating licences and limits represent Banca Mediolanum's risk tolerance based on the Bank's risk appetite. Operating licences and limits are closely monitored on an ongoing basis to ensure they are not exceeded and are regularly reviewed, generally on an annual basis. Derogation from said limits is subject to delegated authorities of the Chief Executive Officer and the Head of Finance.

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	-	-	-	-	692,842	692,842
2. Available-for sale financial assets	-	21,185	-	-	6,228,553	6,249,738
3. Held-to-maturity investments	-	4,885	-	-	692,977	697,862
4. Loans to banks	-	-	-	-	2,049,309	2,049,309
5. Loans to customers	8,424	27,170	226	6,344	4,217,197	4,259,361
6. Financial assets at fair value	-	-	-	-	-	-
7. Financial assets being disposed of	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-
Total at Dec. 31, 2011	8,424	53,240	226	6,344	13,880,878	13,949,112
Total at Dec. 31, 2010	8,439	26,806	223	3,627	10,726,562	10,765,657

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	692,842	692,842
2. Available for sale financial assets	87,005	(65,820)	21,185	6,228,553	-	6,228,553	6,249,738
3. Held to maturity investments	20,385	(15,500)	4,885	692,977	-	692,977	697,862
4. Loans to banks	-	-	-	2,049,309	-	2,049,309	2,049,309
5. Loans to customers	69,931	(27,767)	42,164	4,222,863	(5,666)	4,217,197	4,259,361
6. Financial assets at fair value	-	-	-	X	X	-	-
7. Financial assets being disposed of	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	X	X	-	-
Total A	177,321	(109,087)	68,234	13,193,702	(5.666)	13,880,878	13,949,112
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, 2011	177,321	(109,087)	68,234	13,193,702	(5,666)	13,880,878	13,949,112
Total Dec. 31, 2010	65,746	(26,651)	39,095	9,776,342	(6,382)	10,726,562	10,765,657

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	692,842	692,842
2. Available-for-sale financial assets	-	-	-	6,228,553	-	6,228,553	6,228,553
3. Held-to-maturity investments	-	-	-	692,977	-	692,977	692,977
4. Loans to banks	-	-	-	2,049,309	-	2,049,309	2,049,309
5. Loans to customers	36,506	(24)	36,482	4,186,357	(5,642)	4,180,715	4,217,197
6. Financial assets at fair value	-	-	-	X	X	-	-
7. Financial assets being disposed of	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	X	X	-	-
Total Dec. 31, 2011	36,506	(24)	36,482	13,157,196	(5,642)	13,844,396	13,880,878
Total Dec. 31, 2010	55,386	(20,063)	35,323	6,664,098	(4,738)	7,503,430	7,538,753

Aging analysis of past due items

	Under renegotiation	Other exposures
€/'000	Net exposure	Net exposure
Up to 3 months	980	198,163
3 to 6 months	-	2,818
6 to 12 months	-	197
1 year	-	47
Past due customer loans	980	201,225

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	3,855,958	X	-	3,855,958
Total A	3,855,958	-	-	3,855,958
B. Off balance sheet				
a) Impaired	-	-	X	-
b) Other	17,722	X	-	17,722
Total B	17,722	-	-	17,722
Total (A+B)	3,873,680	-	-	3,873,680

A.1.4 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	-	(785)	-	-
C.3 receipts	-	-	-	-
C.4 proceeds from sale	-	(233)	-	-
C.5 reclassified to other impaired loan categories	-	-	-	-
C.6 other decreases	-	-	-	-
D. Closing gross balance	-	-	-	-
- of which: loans sold but not derecognised	-	-	-	-

A.1.5 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	-	943	-	-
- of which: loans sold but not derecognised	-	943	-	-
B. Increases				
B.1 impairment	-	-	-	-
B.2 reclassified from other impaired loan categories	-	-	-	-
B.3 other increases	-	-	-	-
C. Decreases				
C.1 revaluations	-	(158)	-	-
C.2 repayments	-	-	-	-
C.3 cancellations	-	(785)	-	-
C.4 reclassified to other impaired loan categories	-	-	-	-
C.6 other decreases	-	-	-	-
D. Net impairment at end of the year	-	-	-	-
- of which: loans sold but not derecognised	-	-	-	-

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	24,111	(15,687)	X	8,424
b) Watch list	146,111	(92,871)	X	53,240
c) Restructured	226	-	X	226
d) Past due	6,872	(529)	X	6,343
e) Other	10,028,922	X	(5,666)	10,023,256
Total A	10,206,242	(109,087)	(5,666)	10,091,489
B. Off balance sheet				
a) Impaired	545	-	X	545
b) Other	138,420	X	(39)	138,381
Total B	138,965	-	(39)	138,926
Total (A+B)	10,345,207	(109,087)	(5,705)	10,230,415

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	21,466	38,814	224	4,226
- of which: loans sold but not derecognised	-	-	-	-
B. Increases				
B.1 reclassified from performing loans	152	113,450	-	16,939
B.2 reclassified from other impaired loan categories	6,766	6,596	-	62
B.3 other increases	286	3,051	2	643
C. Decreases				
C.1 reclassified to performing loans	-	(1,853)	-	(5,196)
C.2 cancellations	(3,507)	(134)	-	-
C.3 receipts	(1,039)	(6,965)	-	(3,206)
C.4 proceeds from sale	-	-	-	-
C.5 reclassified to other impaired loan categories	-	(6,827)	-	(6,596)
C.6 other decreases	(13)	(21)	-	-
D. Closing gross balance	24,111	146,111	226	6,872
- of which: loans sold but not derecognised	-	-	-	-

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	13,027	12,082	-	599
- of which: loans sold but not derecognised	-	-	-	-
B. Increases				
B.1 impairment	3,771	85,877	-	510
B.2 reclassified from other impaired loan categories	2,822	183	-	26
B.3 other increases	2	-	-	-
C. Decreases				
C.1 revaluations	(480)	(1,550)	-	(319)
C.2 repayments	(367)	(749)	-	(94)
C.3 cancellations	(3,079)	(134)	-	-
C.4 reclassified to other impaired loan categories	-	(2,838)	-	(193)
C.5 other decreases	(9)	-	-	-
D. Net impairment at end of the year	15,687	92,871	-	529
- 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	3,572,344	1,282,242	5,499,801	1,296	-	26,070	3,565,694	13,947,447
B. Derivatives	258	406	423	-	-	-	10	1,097
B.1 Financial derivatives	258	406	423	-	-	-	10	1,097
B.2 Credit derivatives	-	-	-	-	-	-	-	-
C. Guarantees issued	-	-	16,634	-	-	-	21,117	37,751
D. Commitments to disburse funds	-	-	-	-	-	-	117,800	117,800
Total	3,572,602	1,282,648	5,516,858	1,296	-	26,070	3,704,621	14,104,095

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	Net exposure	Real guarantees (1)			Personal guarantees (2)									Total (1)+(2)
					Credit derivatives					Endorsements				
						Other derivatives								
		Property	Securities	Other assets	CLN	Governments & central banks	Governments agencies	Banks	Others	Governments & central banks	Governments agencies	Banks	Others	
1. Secured loans (on balance sheet)														
1.1 entirely secured	2,492,591	4,410,420	30,510	4,502	-	-	-	-	-	-	-	-	2,522,984	6,968,416
- of which impaired	20,847	37,565	-	4,451	-	-	-	-	-	-	-	-	4,989	47,005
1.2 partly secured	137,290	222,462	-	266	-	-	-	-	-	-	-	-	2,190	224,918
- of which impaired	3,064	6,137	-	-	-	-	-	-	-	-	-	-	15	6,152
2. Secured loans (off balance sheet)														
2.1 entirely secured	511	1,003	-	-	-	-	-	-	-	-	-	-	12	1,015
- of which impaired	-	-	-	-	-	-		-	-	-	-	-	-	-
2.2 partly secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- 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	69	(430)	X	8,355	(15,257)	X
A.2 Watch list	26,070	(81,320)	X	-	-	X	9,530	(3,705)	X	-	-	X	229	(88)	X	17,411	(7,758)	X
A.3 Restructured	-	-	X	-	-	X	-	-	X	-	-	X	226	-	X	-	-	X
A.4 Past due	-	-	X	-	-	X	-	-	X	-	-	X	239	(14)	X	6,104	(515)	X
A.5 Others	5,748,165	X	-	101,373	X	-	255,984	X	(15)	24,130	X	-	115.,946	X	(125)	3,777,658	X	(5,526)
Total A	5,774,235	(81,320)	-	101,373	-	-	265,514	(3,705)	(15)	24,130	-	-	116,709	(532)	(125)	3,809,528	(25,530)	(5,526)
B. Off balance sheet																		
B.1 Non performing	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
B.2 Watch list	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	545	-	X
B.3 Other impaired assets	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
B.4 Others	-	X	-	-	X	-	98	X	-	30,000	X	-	9,738	X	(3)	98,545	X	(36)
Total B	-	-	-	-	-	-	98	-	-	30,000	-	-	9,738	-	(3)	99,090	-	(36)
Total (A+B) Dec. 31, 2011	5,774,235	(81,320)	-	101,373	-	-	265,612	(3,705)	(15)	54,130	-	-	126,447	(532)	(128)	3,908,618	(23,530)	(5,562)
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)

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	8,239	(13,834)	185	(1,853)	-	-	-	-	-	-
A.2 Watch list	23,915	(9,608)	29,325	(83,263)	-	-	-	-	-	-
A.3 Restructured	226	-	-	-	-	-	-	-	-	-
A.4 Past due	6,343	(529)	-	-	-	-	-	-	-	-
A.5 Others	8,443,720	(3,973)	1,578,265	(1,693)	736	-	309	-	226	-
Total	8,482,443	(27,944)	1,607,775	(86,809)	736	-	309	-	226	-
B. Off balance sheet										
B.1 Non performing	-	-	-	-	-	-	-	-	-	-
B.2 Watch list	545	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Others	108,277	(39)	30,104	-	-	-	-	-	-	-
Total	108,822	(39)	30,104	-	-	-	-	-	-	-
Total at Dec. 31, 2011	8,591,265	(27,983)	1,637,879	(86,809)	736	-	309	-	226	-
Total at Dec. 31, 2010	5,001,316	(25,872)	1,344,669	(6,381)	769	(1)	321	-	260	-

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	3,093,077	-	756,374	-	6,483	-	24	-	-	-
Total	3,093,077	-	756,374	-	6,483	-	24	-	-	-
B. Off balance sheet										
B.1 Non performing	-	-	-	-	-	-	-	-	-	-
B.2 Watch list	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Others	16,670	-	794	-	258	-	-	-	-	-
Total	16,670	-	794	-	258	-	-	-	-	-
Total at Dec. 31, 2011	3,109,747	-	757,168	-	6,741	-	24	-	-	-
Total at Dec. 31, 2010	3,723,830	-	803,119	(943)	5,664	-	31	-	-	-

B.4 Large exposures

	Nominal	Weighted
a) amount in thousands of euro	11,456,537	2,009,470
b) number:		Total 32

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	52,152	52,152	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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 F-E MORTGAGES/TV 20431030 CL A																		
- Receivables under mortgage loans	1,956	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.2 CORDUSIO RMBS/TV 20330630 CLA2																		
- Receivables under mortgage loans	4,774	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.3 BPM SEC 2/TV 20430715 CL A2																		
- Receivables under mortgage loans	5,296	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.4 VELA HOME/TV 20400730 CL A S3																		
- Receivables under mortgage loans	3,380	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.5 TRICOLORE FUND/TV 20200715 CL A																		
- Receivables under equipment, machinery and property leases	281	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.6 LOCAT SV3/TV 20261212 CL A2																		
- Receivables under leases	1,581	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.7 SUNRISE/TV 20300827 CL A SEN																		
- Receivables under consumer credit	4,879	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.8 VALHALLA I SA 26-03-2010 26-03-13 FLOATING																		
- Receivables relating to loans of Danish credit institutions	30,004	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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, 2011	Dec. 31, 2010
1. On balance sheet exposures							
- "Senior"	-	-	-	-	52,152	52,152	50,548
- "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, 2011	Dec. 31, 2010
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C		
A. On-balance sheet assets	36,138	-	-	-	-	-	807,124	-	-	25,125	-	-	21,425	-	-	-	-	-	889,812	1,918,730
1. Debt securities	36,138	-	-	-	-	-	807,124	-	-	25,125	-	-	21,425	-	-	-	-	-	889,812	-
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	-	1,918,730
Total at Dec. 31, 2011	36,138	-	-	-	-	-	807,124	-	-	25,125	-	-	21,425	-	-	-	-	-	889,812	
of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total at Dec. 31, 2010	40,347	-	-	-	-	-	1,154,479	-	-	227,071	-	-	304,749	-	-	-	-	-	1,918,730	
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	36,214	-	848,724	20,076	-	21,943	926,957
a) against assets fully recognised on the balance sheet	36,214	-	848,724	20,076	-	21,943	926,957
b) against assets partly recognised on the balance sheet	-	-	-	-	-	-	-
2. Due to banks	-	-	580,718	4,936	-	-	585,654
a) against assets fully recognised on the balance sheet	-	-	580,718	4,936	-	-	585,654
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, 2011	36,214	-	1,429,442	25,012	-	21,943	1,512,611
Total at Dec. 31, 2010	40,506	-	1,150,119	227,694	361,995	256,948	2,037,262

Credit Risk Stress Testing

Credit risk exposures are essentially gauged using three key parameters: Exposure at Default (EAD), Probability of Default (PD) and Loss Given Default (LGD).

EAD is essentially the nominal amount of the credit facility less any collateral or other security taken, and for derivatives, the positive mark-to-market (MTM) value of the derivative.

With respect to exposures to Regulated Financial Institutions, Banca Mediolanum has classified the counterparties by external rating. Since direct stressing of the PD associated with the rating is difficult due to the lack of reliable historical default data for Italian banks (that account for the largest portion of these exposures), Banca Mediolanum evaluated the potential impact of a downgrade on risk weighted assets and hence on capital requirements. In the retail book the probability of default (PD) was calculated using historical default data for consumer households recorded by the Bank of Italy (for the Italian market) and by Banco de Espana (for the Spanish market). Loss Given Default (LGD) was assumed equal to 45% (as per Basel II Foundation Internal Ratings Based – F-IRB – rules) for the corporate book, and in stress testing applied to the regulated financial institutions' book (at this stage LGD is not the subject of particular analysis for these books). Given the distribution of loss in the loan portfolio, these key parameters, notably EAD, the value of collateral and PD, are necessarily those to be used in stress testing to see how they would change in a hypothetical adverse macroeconomic scenario.

As to exposure classes for which the credit risk capital charge is calculated, based on stated qualitative and quantitative considerations, it was decided to focus attention exclusively on:

- regulated financial institutions;
- retail book;
- exposures secured by property.

It should be noted that the exposure classes above (i.e. those to which stress testing is applied) relate to assets in which the Bank intends to continue to invest in the near future while keeping its exposure to other asset classes contained.

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

The Banking Group's trading book, as defined by supervisory authorities, consists of financial instruments subject to capital requirements for market risk. According to this classification, at present only Banca Mediolanum has a true trading book.

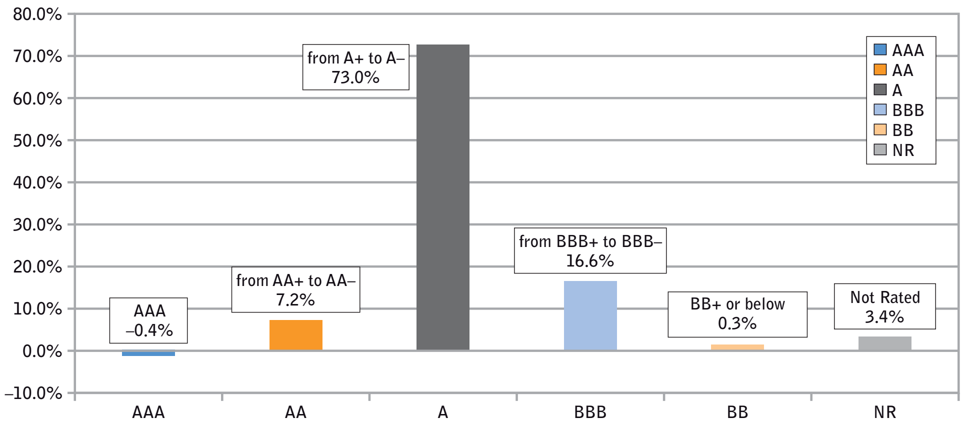
Specifically, the trading book consists of positions held by those Group functions authorised to take market risk exposures within the limits and the authorities delegated to them by their respective Boards of Directors, in accordance with the Banking Group's Parent Company guidelines.

The trading book primarily consists of positions in bonds, equities, derivatives and money market instruments.

Securities Portfolio: HFT, HTM, AFS, L&R – RATING COMPOSITION
(YE 2011 vs. YE 2010)

€/'000	2011	%	2010	%	Change (%)
TOTAL PORTFOLIO	9,203,387	100%	5,760,018	100%	60%
AAA	(40,447)	(0.4%)	102,299	1.8%	(140%)
AA+ to AA-	662,318	7.2%	884,895	15.4%	(25%)
A+ to A-	6,719,071	73.0%	3,556,791	61.7%	89%
BBB+ to BBB-	1,524,757	16.6%	840,649	14.6%	81%
BB+ or lower	25,982	0.3%	76,686	1.3%	(66%)
Unrated	311,705	3.4%	298,698	5.2%	4%

Rating Composition portfolio HFT-HTM-AFS-L&R (2011)



Interest Rate Risk and Pricing Risk - Measurement and Management

The Parent Company's Compliance & Risk Control 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. However, each entity within the Group is directly responsible for the control of the risks assumed. Risks are to be in accordance with the policies approved by the respective Board of Directors and consistent with the complexity of managed assets.

Exposure to interest rate 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).

HFT Portfolio - MARKET RISK
(YE 2011 vs. YE 2010)

€/'000	2011	2010	Change (%)
Nominal value	403,289	506,731	(20%)
Market value	340,911	790,266	(57%)
Modified duration	0.91	0.30	199%
VaR 99% - 1 day	412	160	157%

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	-	58,564	30,816	144,819	359,364	90,010	914	19
1.1 Debt securities								
- with early redemption option	-	2,043	-	-	19,025	-	-	-
- others	-	56,521	30,816	144,819	340,339	90,010	914	-
EUR	-	56,521	30,816	144,819	340,339	90,010	914	-
USD	-	-	-	-	-	-	-	-
GBP	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	19
2. Non derivative liabilities	2	41,205	-	-	243,121	65,130	-	-
2.1 Repos (EUR)	2	36,212	-	-	-	-	-	-
2.2 Other liabilities	-	4,993	-	-	243,121	65,130	-	-
EUR	-	4,993	-	-	243,121	65,130	-	-
Other currencies	-	-	-	-	-	-	-	-
3. Financial derivatives	4	234,517	103,087	448,574	99,101	267,334	374,347	-
3.1 With underlying securities	4	64,360	20,500	2,139	7,496	22,441	11,701	-
- Options	-	-	-	-	-	-	-	-
+ Long positions (EUR)	-	-	-	-	-	-	-	-
+ Short positions (EUR)	-	-	-	-	-	-	-	-
- Others	4	64,360	20,500	2,139	7,496	22,441	11,701	-
+ Long positions	2	46,042	10,250	1,088	6,730	211	11	-
EUR	2	46,029	10,250	1,088	6,730	200	9	-
USD	-	2	-	-	-	-	2	-
GBP	-	-	-	-	-	-	-	-
Other currencies	-	11	-	-	-	11	-	-
+ Short positions	2	18,318	10,250	1,051	766	22,230	11,690	-
EUR	2	18,305	10,250	1,051	766	22,219	11,688	-
USD	-	2	-	-	-	-	2	-
Other currencies	-	11	-	-	-	11	-	-
3.2 Without underlying securities	-	170,157	82,587	446,435	91,605	244,893	362,646	-
- Options	-	1,458	1,667	5,314	81,608	231,206	326,097	-
+ Long positions (EUR)	-	1,458	209	3,574	42,311	115,674	160,449	-
+ Short positions (EUR)	-	-	1,458	1,740	39,297	115,532	165,648	-
- Others	-	168,699	80,920	441,121	9,997	13,687	36,549	-
+ Long positions	-	115,302	40,370	220,000	-	-	-	-
EUR	-	113,777	-	220,000	-	-	-	-
USD	-	1,493	40,370	-	-	-	-	-
GBP	-	20	-	-	-	-	-	-
Other currencies	-	12	-	-	-	-	-	-
+ Short positions	-	53,397	40,550	221,121	9,997	13,687	36,549	-
EUR	-	52,069	40,550	221,121	9,997	13,687	36,549	-
USD	-	1,246	-	-	-	-	-	-
GBP	-	39	-	-	-	-	-	-
CHF	-	9	-	-	-	-	-	-
Other currencies	-	34	-	-	-	-	-	-

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	1	-	2	-
- long positions	1	-	2	-
- short positions	-	-	-	-
B. Not yet settled purchases and sales of equity instruments	-	-	-	-
- long positions	-	-	-	-
- short positions	-	-	-	-
C. Other equity instrument derivatives	-	-	-	-
- long positions	-	-	-	-
- short positions	-	-	-	-
D. Stock index derivatives	-	-	-	-
- long positions	-	-	-	-
- short positions	-	-	-	-
Total	1	-	2	-

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 Risk Control unit within the Compliance & Risk Control 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 the 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 – Interest rate risk

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

The Group's Banking Book is made up of those financial instruments that are not part of the trading book, in particular inter-bank loans, available-for-sale financial assets and held-to-maturity investments.
Banking book interest rate risk exposures are measured and managed by the Banking Group's Parent Company using an ALM model. Risk management activities include, *inter alia*, controls for credit risk inherent in transactions with institutional counterparties according to the operating procedures and limits approved by the Board of Directors of each entity within the Group in compliance with the guidelines issued by the Banking Group's Parent Company.
Interest rate risk is the risk of potential impact of unexpected interest rate changes on the Bank's current earnings and equity. This risk is typical of banking book positions.
The Banking Book consists of on and off-balance sheet items that are not held for trading.
The goals pursued by the interest rate risk management system are to:
- ensure the stability of net interest income, minimising any adverse impact of changes in interest rates (earnings perspective), largely with near-term focus. The stability of net interest income is mainly influenced by re-pricing risk, yield curve risk, basis risk, re-fixing risk and optionality risk;
- protect the economic value, i.e. the present value of expected cash flows from assets and liabilities. The economic value perspective is focused on the potential medium/long-term effects of changes in interest rates and is mainly associated with re-pricing risk;
- ensure that interest rate risk that has been taken or can be taken be properly identified, measured, monitored and managed in accordance with uniform methods and procedures shared across the Group;
- make sure that risk measurement models are commensurate with actual earnings generated by the various risk owners;
- ensure that the quality of risk measurement and management systems is aligned with market standards and best practices;
- define risk limits and licences for the various levels of responsibility;
- ensure the generation of accurate data and reports by the various officers responsible for risk management and control at the different levels within the organisation;
- ensure compliance with requirements established by domestic and international supervisory authorities.

The definition of limits and licences reflects the risk appetite of the organisation and permits to control that practices at the various levels within the organisation are aligned with the strategic guidelines and policies adopted by the Board of Directors.
The application of the principles above led to the definition of the following indicators:
- net interest income sensitivity to parallel shifts in the yield curve;
- economic value sensitivity to parallel shifts in the yield curve.

Management of the interest rate risk in the banking book is part of Asset Liability Management (ALM). The Mediolanum Banking Group has in place an ALM system that measures performance of annual Net Interest Income and the Bank's Economic Value in relation to regulatory capital. The ALM system is also used by management to assess the impact of funding and lending policies on the entity's financial condition and earnings.

Asset Liability Management

ALM PRO is the system used for managing Banking Book's Assets and Liabilities against the risk of adverse movements in interest rates. As such, ALM PRO assists management in assessing Banca Mediolanum's funding and lending policies and their possible impact on the bank's financial condition and earnings. Banca Mediolanum regularly updates the dedicated ALM PRO policy including limits and procedures for monitoring annual Net Interest Income and the Economic Value of the Bank.

Movements in annual net interest income
(Data as of Dec. 31, 2011)

€/'000	Balanc	+100bps	-100bps
Total assets	13,068,761	65,197	(63,933)
Total liabilities	(12,781,664)	(59,454)	50,822
Off-balance sheet positions (hedging derivatives)	-	3,937	(3,937)
YEAR'S MOVEMENT	-	9,681	(17,048)

B. Fair Value Hedges

The introduction of IAS 39 brought about profound changes in the way derivatives and related hedged balance sheet assets/liabilities are accounted for.
Under IAS 39 all derivatives, either trading or hedging derivatives, are to be recognised in the balance sheet at their fair value and any change, either increase or decrease, in their fair value is to be recognised through profit or loss. When the hedged item is measured at historical (amortised) cost the asymmetry resulting from the different measurement method may lead to income statement information volatility. IAS 39 addresses this issue allowing entities to apply consistent measurement methods to the hedging instrument and to the hedge item (Hedge Accounting).
To qualify for Hedge Accounting under IAS 39 the hedging relationship must satisfy certain conditions relating to hedge effectiveness and related documentation.
The use of hedge accounting engages various structures of Banca Mediolanum. The Treasury Committee provides guidance on hedging policies. Banca Mediolanum Treasury function handles all aspects relating to the identification and operation of IAS compliant hedges. The Compliance & Risk Control function works across the process ensuring the alignment of systems and proper management of hedges. The Accounting and Financial Reporting function records and monitors hedges on an ongoing basis and prepares Hedge Accounting documentation.
As shown in the table below, back-testing of hedge effectiveness proved the hedge ratio met the requirement $|0,8| \leq HR \leq |1,25|$.

**Hedge Ratio
(YE 2011 vs. YE 2010)**

	2011	2010	Change (%)
Hedge ratio	109%	106%	3%

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. Non derivative assets	848,636	3,367,036	613,820	2,452,153	4,506,932	942,708	449,908	16,410
1.1 Debt securities	27,718	610,832	602,199	2,383,461	4,401,799	826,797	93,111	48,431
- with early redemption option	17	-	-	-	-	280	10,095	-
EUR	17	-	-	-	-	280	10,095	-
USD	-	-	-	-	-	-	-	-
GBP	-	-	-	-	-	-	-	-
YEN	-	-	-	-	-	-	-	-
CHF	-	-	-	-	-	-	-	-
OTHER CURRENCIES	-	-	-	-	-	-	-	-
- others	27,701	610,832	602,199	2,383,461	4,401,799	826,517	83,016	48,431
EUR	27,701	610,832	602,199	2,383,461	4,401,799	826,517	83,016	48,431
USD	-	-	-	-	-	-	-	-
GBP	-	-	-	-	-	-	-	-
YEN	-	-	-	-	-	-	-	-
CHF	-	-	-	-	-	-	-	-
OTHER CURRENCIES	-	-	-	-	-	-	-	-
1.2 Loans to banks	297,142	495,247	2,784	-	-	-	-	2,114
EUR	289,473	495,247	2,784	-	-	-	-	2,114
USD	6,407	-	-	-	-	-	-	-
GBP	247	-	-	-	-	-	-	-
YEN	57	-	-	-	-	-	-	-
CHF	182	-	-	-	-	-	-	-
OTHER CURRENCIES	776	-	-	-	-	-	-	-
1.3 Loans to customers	523,776	2,260,957	8,837	68,692	105,133	115,911	356,797	(34,135)
- current accounts	374,545	63,180	3,536	9,190	23,211	6,342	79,472	14,209
EUR	374,533	63,180	3,536	9,190	23,211	6,342	79,472	14,209
USD	12	-	-	-	-	-	-	-
GBP	-	-	-	-	-	-	-	-
YEN	-	-	-	-	-	-	-	-
CHF	-	-	-	-	-	-	-	-
OTHER CURRENCIES	-	-	-	-	-	-	-	-
- other loans	149,231	2,197,777	5,301	59,502	81,922	109,569	277,325	(48,344)
- with early redemption option	29,536	2,187,706	4,824	10,011	79,649	106,618	277,325	-
EUR	29,536	2,187,706	4,824	10,011	79,649	106,618	277,325	-
USD	-	-	-	-	-	-	-	-
GBP	-	-	-	-	-	-	-	-
YEN	-	-	-	-	-	-	-	-
CHF	-	-	-	-	-	-	-	-
OTHER CURRENCIES	-	-	-	-	-	-	-	-
- other	119,695	10,071	477	49,491	2,273	2,951	-	(48,344)
EUR	119,695	10,071	477	49,491	2,273	2,951	-	(48,344)
USD	-	-	-	-	-	-	-	-
GBP	-	-	-	-	-	-	-	-
YEN	-	-	-	-	-	-	-	-
CHF	-	-	-	-	-	-	-	-
OTHER CURRENCIES	-	-	-	-	-	-	-	-

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. Non derivative liabilities	6,054,098	6,189,779	309,388	783,213	134	-	-	-
2.1 Due to customers	5,866,818	1,233,330	120,146	623,701	134	-	-	-
- current accounts	5,707,778	390,982	120,146	623,701	31	-	-	-
EUR	5,677,685	390,982	120,146	623,701	31	-	-	-
USD	29,892	-	-	-	-	-	-	-
GBP	162	-	-	-	-	-	-	-
CHF	31	-	-	-	-	-	-	-
OTHER CURRENCIES	8	-	-	-	-	-	-	-
- other amounts due	159,040	842,348	-	-	103	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	159,040	842,348	-	-	103	-	-	-
EUR	159,040	842,348	-	-	103	-	-	-
2.2 Due to banks	186,112	4,747,578	113,650	159,512	-	-	-	-
- current accounts	36,965	40,094	-	48,712	-	-	-	-
EUR	36,962	40,094	-	48,712	-	-	-	-
CHF	3	-	-	-	-	-	-	-
- other	149,147	4,707,484	113,650	110,800	-	-	-	-
EUR	132,530	4,707,484	113,650	110,800	-	-	-	-
USD	16,617	-	-	-	-	-	-	-
2.3 Debt securities	1,168	208,871	75,592	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	1,168	208,871	75,592	-	-	-	-	-
EUR	1,168	208,871	75,592	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	-	-	-	-	-	-	-	-
3. Financial derivatives	-	-	-	-	-	-	-	-
3.1 With underlying securities	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Others	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying securities	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	387	662	1,354	32,549	20,924	64,388	-
EUR	-	387	662	1,354	32,549	20,924	64,388	-
+ short positions	-	120,241	-	23	-	-	-	-
EUR	-	120,241	-	23	-	-	-	-
- Others	-	-	-	-	-	-	-	-
+ long positions	-	437,995	-	-	-	-	-	-
EUR	-	437,995	-	-	-	-	-	-
+ short positions	-	3,579	3,626	7,395	65,975	90,718	266,701	-
EUR	-	3,579	3,626	7,395	65,975	90,718	266,701	-

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	6,414	422	57	75	182	125,060
A.1 Debt securities	-	-	-	-	-	36,028
A.2 Equities	-	175	-	-	-	31
A.3 Loans to banks	6,407	247	57	75	182	20,532
A.4 Loans to customers	7	-	-	-	-	60,818
A.5 Other financial assets	-	-	-	-	-	7,651
B. Other assets	25	9	-	-	1	11,160
C. Financial liabilities	46,509	162	-	8	34	7,055
C.1 Due to banks	16,617	-	-	-	3	(1)
C.2 Due to customers	29,892	162	-	8	31	7,056
C.3 Securities issued	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	4	1	-	-	1	7,961
E. Financial derivatives	44,599	93	-	11	9	34
- Options	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-
- Others derivatives	44,599	93	-	11	9	34
+ Long positions	42,209	54	-	-	-	12
+ Short positions	2,390	39	-	11	9	22
Total assets	48,648	485	57	75	183	136,232
Total liabilities	48,903	202	-	19	44	15,038
Net position (+/-)	(255)	283	57	56	139	121,194

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, 2011		Dec. 31, 2010	
€/'000	OTC	Central Counterparties	OTC	Central Counterparties
1. Debt securities and interest rates	358,667	38,896	434,252	106,283
a) Options	26,218	-	27,114	-
b) Swaps	332,445	-	406.776	-
c) Forwards	4	-	362	-
d) Futures	-	38,896	-	106,283
e) Others	-	-	-	-
2. Equities and stock indices	-	-	-	3
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	3
d) Futures	-	-	-	-
e) Others	-	-	-	-
3. Currencies and gold	40,370	-	200,504	-
a) Options	-	-	-	-
b) Swaps	-	-	128,148	-
c) Forwards	40,370	-	72,356	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
4. Commodities	-	-	-	-
5. Other underlying	-	-	-	-
Total	399,037	38,896	634,756	106,286
Average amount	204,682	2,558	194,921	3,836

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

A.2.1. Hedging derivatives

€/'000	Dec. 31, 2011 OTC	Dec. 31, 2011 Central Counterparties	Dec. 31, 2010 OTC	Dec. 31, 2010 Central Counterparties
1. Debt securities and interest rates	437,995	-	497,946	-
a) Options	-	-	-	-
b) Swaps	437,995	-	497,946	-
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	437,995	-	497,946	-
Average amount	437,995	-	497,946	-

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

	Positive fair value			
	Dec. 31, 2011		Dec. 31, 2010	
€/'000	OTC	Central Counterparties	OTC	Central Counterparties
A. Trading book	1,083	-	3,390	-
a) Options	571	-	955	-
b) Interest Rate Swaps	-	-	11	-
c) Cross Currency Swaps	-	-	2,424	-
d) Equity Swaps	-	-	-	-
e) Forwards	512	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
B. Banking book - hedging derivatives	-	-	-	-
a) Options	-	-	-	-
b) Interest Rate Swaps	-	-	-	-
c) Cross Currency Swaps	-	-	-	-
d) Equity Swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
C. Banking book - other derivatives	-	-	-	-
a) Options	-	-	-	-
b) Interest Rate Swaps	-	-	-	-
c) Cross Currency Swaps	-	-	-	-
d) Equity Swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
Total	1,083	-	3,390	-

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

	Negative fair value			
	Dec. 31, 2011		Dec. 31, 2010	
€/'000	OTC	Central Counterparties	OTC	Central Counterparties
A. Trading book	12,373	-	7,210	-
a) Options	-	-	-	-
b) Interest Rate Swaps	12,373	-	2,696	-
c) Cross Currency Swaps	-	-	2,118	-
d) Equity Swaps	-	-	-	-
e) Forwards	-	-	2,396	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
B. Banking book - hedging derivatives	67,896	-	28,510	-
a) Options	-	-	-	-
b) Interest Rate Swaps	67,896	-	28,510	-
c) Cross Currency Swaps	-	-	-	-
d) Equity Swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
C. Banking book - other derivatives	-	-	-	-
a) Options	-	-	-	-
b) Interest Rate Swaps	-	-	-	-
c) Cross Currency Swaps	-	-	-	-
d) Equity Swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
Total	80,269	-	35,720	-

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	-	-	358,665	-	-	-	-
- positive fair value	-	-	571	-	-	-	-
- negative fair value	-	-	12,373	-	-	-	-
- future exposure	-	-	1,197	-	-	-	-
2) Equities and stock indices							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3) Currencies and gold							
- notional amount	-	-	40,370	-	-	-	-
- positive fair value	-	-	512	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	404	-	-	-	-
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	-	-	437,995	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	67,896	-	-	-	-
- future exposure	-	-	5,691	-	-	-	-
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	272,216	9,997	76,454	358,667
A.2 equities and stock indices	-	-	-	-
A.3 currencies and gold	40,370	-	-	40,370
A.4 other	-	-	-	-
B. Banking book				
B.1 debt securities and interest rates	14,600	65,975	357,419	437,994
B.2 equities and stock indices	-	-	-	-
B.3 currencies and gold	-	(195)	-	(195)
B.4 other	-	(392)	-	(392)
Total at Dec. 31, 2011	327,186	75,385	433,873	836,444
Total at Dec. 31, 2010	482,968	126,512	451,041	1,060,521

B. Credit derivatives

During the year the Bank did not trade in credit derivatives and at December 31, 2011 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, 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 Parent Company and implemented across the Group (where applicable). Liquidity risk is monitored by the Risk Control 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.
In compliance with Basel II Second Pillar requirements, and in view of the implementation of Basel III, all internal procedures for liquidity risk management have been reviewed. Under the liquidity risk management policy Banca Mediolanum implemented a control procedure which entails 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 analyses all financial items according to the timescale set out in the liquidity risk policy document.

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	-	-	1,385	52,429	241,336	148,072	1,553,105	3,205,359	1,222,086	26,070
	- EUR	-	-	1,385	52,429	241,336	148,072	1,553,105	3,205,359	1,222,086	26,070
	- USD	-	-	-	-	-	-	-	-	-	-
	- Other currencies	-	-	-	-	-	-	-	-	-	-
A.2	Other debt securities	43	-	-	34,125	334,217	480,490	728,542	1,582,891	158,323	-
	- EUR	43	-	-	34,125	334,217	480,490	728,542	1,582,891	158,323	-
	- USD	-	-	-	-	-	-	-	-	-	-
	- GBP	-	-	-	-	-	-	-	-	-	-
	- Other currencies	-	-	-	-	-	-	-	-	-	-
A.3	Holdings in UCITS	173,847	-	-	-	-	-	-	-	-	-
	- EUR	173,847	-	-	-	-	-	-	-	-	-
	- Other currencies	-	-	-	-	-	-	-	-	-	-
A.4	Loans to	875,816	330,822	70,080	15,520	108,054	46,344	137,474	616,053	2,010,421	91,373
	- Banks	316,424	313,047	70,000	7,800	20,885	2,784	-	-	-	77,164
	- EUR	308,755	313,047	70,000	7,800	20,885	2,784	-	-	-	77,164
	- USD	6,407	-	-	-	-	-	-	-	-	-
	- YEN	57	-	-	-	-	-	-	-	-	-
	- CHF	182	-	-	-	-	-	-	-	-	-
	- GBP	247	-	-	-	-	-	-	-	-	-
	- Other currencies	776	-	-	-	-	-	-	-	-	-
	- Customers	559,392	17,775	80	7,720	87,169	43,560	137,474	616,053	2,010,421	14,209
	- EUR	559,380	17,775	80	7,720	87,169	43,560	137,474	616,053	2,010,421	14,209
	- USD	12	-	-	-	-	-	-	-	-	-
	- 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 liabilities										
B.1 Deposits	5,903,422	15,114	43,524	355,247	537,546	233,796	783,213	31	-	-
- Banks	188,886	-	41,200	-	513,359	113,650	159,512	-	-	-
- EUR	172,266	-	41,200	-	513,359	113,650	159,512	-	-	-
- USD	16,617	-	-	-	-	-	-	-	-	-
- CHF	3	-	-	-	-	-	-	-	-	-
- Customers	5,714,536	15,114	2,324	355,247	24,187	120,146	623,701	31	-	-
- EUR	5,684,401	15,114	2,324	355,247	24,187	120,146	623,701	31	-	-
- USD	29,892	-	-	-	-	-	-	-	-	-
- GBP	162	-	-	-	-	-	-	-	-	-
- Other currencies	81	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	102	204	10,004	179,621	91,425	3,108	-
- EUR	-	-	-	102	204	10,004	179,621	91,425	3,108	-
B.3 Other liabilities	165,641	2,328,217	800	118,476	1,018,163	-	-	2,239,276	67,114	-
- EUR	165,641	2,328,217	800	118,476	1,018,163	-	-	2,239,276	67,114	-
Off-balance sheet items										
C.1 Financial derivatives with exchange of principal	4	30,405	-	10	39,657	100,870	2,139	7,496	34,143	-
- Long positions	2	15,196	-	5	33,699	50,620	1,088	6,730	222	-
- EUR	2	13,658	-	5	33,699	10,250	1,088	6,730	209	-
- USD	-	1,495	-	-	-	40,370	-	-	2	-
- GBP	-	20	-	-	-	-	-	-	-	-
- Other currencies	-	23	-	-	-	-	-	-	11	-
- Short positions	2	15,209	-	5	5,958	50,250	1,051	766	33,921	-
- EUR	2	13,869	-	5	5,958	50,250	1,051	766	33,908	-
- USD	-	1,248	-	-	-	-	-	-	2	-
- CHF	-	9	-	-	-	-	-	-	-	-
- GBP	-	39	-	-	-	-	-	-	-	-
- Other currencies	-	44	-	-	-	-	-	-	11	-
C.2 Financial derivatives without exchange of principal	12,944	-	-	935	1,978	2,857	5,829	-	-	-
- Long positions	571	-	-	-	-	-	-	-	-	-
- EUR	571	-	-	-	-	-	-	-	-	-
- Short positions	12,373	-	-	935	1,978	2,857	5,829	-	-	-
- EUR	12,373	-	-	935	1,978	2,857	5,829	-	-	-
- Other currencies										
C.3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-
- Long positions (EUR)	-	-	-	-	-	-	-	-	-	-
- Short positions (EUR)	-	-	-	-	-	-	-	-	-	-
C.4 Firm commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	30	-	-
- EUR	-	-	-	-	-	-	-	30	-	-

Liquidity Risk Stress Testing

In addition to monitoring liquidity on a daily basis, the Mediolanum Banking Group also conducts stress scenario simulations.
Stress scenarios are run for both systemic events (Market Stress Scenarios) and bank specific events (Bank Specific Stress Scenarios) in relation to the macroeconomic environment, commercial policies and customer behaviour.
The systemic events tested in stress scenario simulations may include:

- a financial market shock that brings about a significant change in interest rates and exchange rates;
- a crisis in a geographical area or market (e.g. emerging markets), identified by a fall in major stock market indices;
- a systemic shock like the one after 9/11 which significantly restricts access to money markets;
- scarce liquidity in the interbank market.

Bank specific events may include:

- significant withdrawals of deposits by customers;
- reputational damage with subsequent difficulty to renew financing sources in the money market;
- default of a major market counterparty or source of funding;
- deterioration in loan quality;
- steep increase in draw-downs on committed credit lines;
- significant decline in the ability to roll over short-term funding;
- bigger haircuts on assets included in Counter Balancing Capacity (CBC).

Simulations are run under the different stress scenarios to evaluate the effects on the expected behaviour of inflows and outflows over a given time horizon, both in terms of estimated cash-flows and timing. The Maturity Ladder is redefined for each scenario simulation.
The stress testing results based on hypothetical events at December 30, 2011 are set out in the table below and show that limits are not exceeded:

Time bucket	Unstressed values	Stressed values	LIMITS
T+1d	1,461.245	765.655	> 300,000
T+5d	1,702.680	968.019	> 300,000
T+1M	1,870.279	1,132.792	> 300,000

The scenario used for the test whose results are set out in the table above relates to a general deterioration in the quality of instruments eligible for refinancing:

- 10% decline in the market value of debt securities in the liquidity reserve;
- 5 percentage point increase in the haircut on Spanish and Italian government securities;
- 8.5 percentage point increase in the haircut on securities issued by banks.

SECTION 4 - OPERATIONAL RISK

Qualitative information

Regulators are placing increasing emphasis on the identification and management of financial, credit and operational risks.

In its Circular 263/2006 adopting Directives 2006/48/EC and 2006/49/EC of the European Parliament and of the Council on the capital adequacy of banks, the Bank of Italy emphasises, among other things, the importance of having effective internal control and management systems for operational risk with a risk measurement and management approach commensurate with the complexity of the business.

In their joint Regulation of October 29, 2007 on the organisation and procedures of intermediaries providing investment services, the Bank of Italy and Consob (stock market regulator) emphasise the importance of risk management and control[1].

The Basel Committee on banking supervision in its guidelines of June 2011 incorporating the evolution in sound practices for the management and supervision of operational risk and supervisory guidelines for the Advanced Measurement Approaches (AMA) puts emphasis on governance, risk management environment and disclosure.

The regulatory documents above did not required any changes in the Group risk management framework as all principles set out in said regulations and guidelines are already embedded in it.

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 second level 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. Second level controls 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 Compliance & Risk Control function is responsible for identifying, measuring and assessing operational risk. The Compliance & Risk Control team coordinates with Network Inspectors and the Anti-Money Laundering team for management and control of operational risk associated with the activities carried out by the sales network, and with Accounting & Finance officers for verification of capital adequacy vis-à-vis operational risk capital requirements.

The Compliance & Risk Control function was reorganised in 2011 to attain synergies from the consolidation of operational risk and compliance risk assessment processes into a dedicated unit, the Risk Assessment & Mitigation unit whose work backs the activities of both the Risk Control unit and the Compliance unit.

[1] Article 13
1. The risk management team:
a) collaborates to the definition of the entity's risk management system;
b) sees to the effective operation of the entity's risk management system and compliance by the intermediary and relevant officers;
c) verifies the adequacy and effectiveness of measures taken to remedy any deficiencies in the entity' risk management system.
2.The risk management team provides advice and submits annual or more frequent reports on its activities to management.

The reorganisation entailed redefining operational risk control responsibilities as follows:

- the Risk Assessment & Mitigation team is responsible for assessing both compliance and operational risk exposures of the various organisational units as well as for developing a system of recurring second level controls;
- the Risk Control team is responsible for assessing and monitoring exposures to operational risk through collection and analysis of operational loss data.

These teams coordinate their work with the Compliance unit team.
The Compliance & Risk Control function 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 associated 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 risk management framework entails a central control function, i.e. Banca Mediolanum's Compliance and Risk Control function, 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 IT and Operations, also to facilitate coordination in relation to Business Continuity & Disaster Recovery Plans.
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 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 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 21, 2012), 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 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 Fiduciaria	Not applicable	Basic Indicator
Mediolanum International Funds Ltd	Not applicable	Standardised(1)
Mediolanum Asset Management Ltd	C.R.D.(3)	Standardised(1)
Bankhaus August Lenz	Base Indicator(1)	Basic Indicator(1)
Banco de Finanzas e Inversiones S.A.	Base 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. No operational risk capital charge required of Mediolanum International Funds on an individual basis.

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 21, 2012 when satisfaction of said requirement was confirmed also for the year 2012.
Finally, you are advised that, in 2011, over 182 organisational units of entities within the Banking Group were examined identifying about 3,140 operational risk checkpoints. Over 80% of checkpoints were judged to be adequate or in need of being just better formalised. About 74 risk mitigation actions were taken in relation to risk controls that were judged to be unsatisfactory or in need of improvement in 2011.

Compliance Risk

A single compliance risk management framework is applied across the Mediolanum Banking Group. Banca Mediolanum's Compliance team 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.

The responsibilities of the Compliance team are summarised below:

- **Planning:** annual planning of compliance risk management activities (compliance plan).
- **Regulatory alert:** analysis of regulatory changes and information on their possible impact on the bank's business to the relevant organisational units.
- **Regulations Mapping**: identification of applicable regulatory requirements and related sanctions to determine risk exposure and the level of inherent risk. Regulations mapping precedes compliance risk assessment and uses a matrix which is regularly updated to incorporate regulatory changes.
- **Risk Impact Rating:** based on regulations mapping each risky event whose occurrence would cause direct or indirect damage to the finances, reputation or the application of sanctions is rated to have a concise measure of the level of inherent risk (or risk impact).
- **Guidance and advice:** preparation of opinions as well as assistance for education sessions.
- **Compliance Assessment Mapping** of processes, procedures, novel projects, products, contracts.
- **Effectiveness assessment (ongoing controls)** of regulatory compliance.
- **Mitigation actions:** planning of corrective actions to mitigate any identified risk.
- **Reporting**: preparation of information on compliance matters for Senior Management and/or Supervisory Authorities.

The Risk Assessment & Mitigation team sees to compliance assessment mapping and ongoing controls of regulatory compliance put in place to prevent risk and to the adoption of risk mitigation actions.

In the implementation of the compliance framework Banca Mediolanum uses compliance assessment mapping to identify and assess compliance risk at least on an annual basis and put in place adequate risk management actions. Compliance assessment mapping helps assessing whether adequate controls (internal rules/controls, training, information system) are defined, adequately formalised and in place. This exercise is carried out by the Risk Assessment & Mitigation team on the basis of the relevant compliance plan. The findings of the exercise are shared with the Compliance team that takes account of them in its planning of compliance related activities and periodic reports to management.

Ongoing controls of regulatory compliance of operations (structures, processes, operating and commercial procedures) to prevent risk are conducted under a multi-source approach (ongoing checks, indicators, losses, sanctions etc.). Notably, in 2011, the Register of compliance controls was established and controls of compliance with Directive 2004/39/EC (MiFID) requirements were strengthened.

The compliance framework in place, which includes both ex-ante and ex-post controls, provides assurance to management of compliance across the organisation.

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 Risk Control team.

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, 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.

B. Quantitative information

B.1 Analysis of consolidated equity

€/'000	Dec. 31, 2011
Share capital	452,671
Share premium account	(3,098)
Reserves	137,056
Interim dividens	-
Equity instruments	-
Treasury shares (-)	-
Valuation reserves	-
- available for sale financial assets	(152,685)
- tangible assets	(152,685)
- 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	125,786
Shareholders' equity	559,730

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

€/'000	Dec. 31, 2011	
	Positive Reserve	Negative Reserve
1. Debt securities	2,595	(153,424)
2. Equities	55	(3)
3. Holdings in UCITS	87	(1,995)
4. Loans	-	-
Total	2,737	(155,422)

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	(45,528)	248	4,162	-
2. Increases	51,129	217	2,076	-
2.1 Increase in fair value	3,905	5	123	-
2.2 Reclass. to income statement from reserves:	46,758	212	1,953	-
- impairment	44,053	212	1,953	-
- realised gains	2,705	-	-	-
2.3 Other increases	466	-	-	-
3. Decreases	(156,431)	(413)	(8,145)	-
3.1 Decrease in fair value	(156,233)	(413)	(8,095)	-
3.2 Impairment	-	-	-	-
3.3 Realised losses	(195)	-	(2)	-
3.4 Other decreases	(3)	-	(48)	-
4. Closing balance	(150,830)	52	(1,907)	-

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, 2011, the adoption of said treatment option allowed to reduce the balance of Tier 1 negative elements by €136,759 thousand which entailed an increase in regulatory capital at December 31, 2011 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', (€416.82 million), included in the calculation without restrictions, and supplementary capital, 'Tier 2 capital', (€117.41 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 (€187.06 million) and net profit for the period (€9.40 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 (€13.35 million) and goodwill (€198.31 million) are deducted from capital components.
At December 31, 2011, Tier 1 prudential filters consisted of negative reserves relating to equities, holdings in UCITS and debt securities classified as 'available-for-sale financial assets' (Equities and holdings in UCITS: €1.58 million; debt securities: €14.07 million). Negative components of core capital (€5 million) consisted of shares in an open-ended collective investment scheme.

2. Tier 2 capital

At December 31, 2011, Tier 2 capital consisted of subordinated liabilities (€122.41 million).
Negative components of supplementary capital (€5 million) consisted of shares in an open-ended collective investment scheme.

3. Tier 3 capital

At December 31, 2011, Mediolanum Banking Group's capital did not include any instruments falling within Tier 3 capital.

B. Quantitative information

€/'000	Dec. 31, 2011	Dec. 31, 2010
A. Tier 1 before prudential filters	437,461	428,761
B. Tier 1 prudential filters:	(15,642)	(21,616)
B.1 Positive IAS/IFRS prudential filters	-	-
B.2 Negative IAS/IFRS prudential filters	(15,642)	(21,616)
C. Tier 1 after prudential filters (A+B)	421,819	407,145
D. Deductions from tier 1	5,000	-
E. Total TIER 1 (C-D)	416,819	407,145
F. Tier 2 before prudential filters	122,415	168,379
G. Tier 2 prudential filters:	-	(2,205)
G.1 Positive IAS/IFRS prudential filters	-	-
G.2 Negative IAS/IFRS prudential filters	-	(2.205)
H. Tier 2 after prudential filters (F+G)	122,415	166,174
I. Deductions from tier 2	5,000	-
L. Total TIER 2 (H+I)	117,415	166,174
M. Deductions from tier 1 and tier 2	-	-
N. Total capital (E+L+M)	534,234	573,319
O. TIER 3	-	-
P. Total capital + TIER 3 (N+O)	534,234	573,319

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, 2011 Mediolanum Banking Group's free capital amounted to €179.88 million. Tier 1 capital ratio (core capital/RWA) was 9.41% and total capital ratio (regulatory capital/RWA) was 12.06%, above the minimum requirement of 8%.

B. Quantitative information

€/'000	Not weighted Dec. 31, 2011	Not weighted Dec. 31, 2010	Weighted/requirements Dec. 31, 2011	Weighted/requirements Dec. 31, 2010
A. Risk assets				
A.1 Credit risk & counterparty risk	14,911,281	12,472,692	3,266,186	2,869,295
1. Standardised approach	14,911,281	12,472,692	3,266,186	2,869,295
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	-	-	261,295	229,544
B.2 Market risk	-	-	17,031	26,447
1. Standardised approach	-	-	15,401	23,438
2. Internal models	-	-	-	-
3. Concentration risk	-	-	1,630	3,009
B.3 Operational risk	-	-	76,034	69,413
1. Foundation approach	-	-	3,770	3,550
2. Standardised approach	-	-	72,264	65,863
3. Advanced approach	-	-	-	-
B.4 Other prudential requirements	-	-	-	-
B.5 Other computational elements*	-	-	-	(2,468)
B.6 Total prudential requirements	-	-	354,360	322,936
C. RWA & capital ratios				
C.1 Risk weighted assets (RWA)**	-	-	4,429,499	4,036,695
C.2 Tier 1 (core) capital/RWA (Tier 1 capital ratio)	-	-	9.41%	10.09%
C.3 Regulatory capital including TIER 3/RWA (Total capital ratio)	-	-	12.06%	14.20%

(*) B.5 shows the adjustment to regulatory requirements for intercompany transactions for 2010; in 2011 the adjustment was deducted from exposure.

(**) RWA are determined by multiplying total prudential requirements (B.6) by 12.5 (reciprocal of the min. coefficient equal to 8%).

PART G – BUSINESS COMBINATIONS

SECTION 1 - TRANSACTIONS CONCLUDED DURING THE YEAR

In the year under review Mediolanum Corporate University was merged into Banca Mediolanum with no effects on the consolidated accounts. This transaction does not fall within the scope of application of IFRS 3 as it was a combination involving entities under common control. The business combination was accounted for in the separate accounts of Banca Mediolanum at the same carrying amounts and with no effect on the income statement.

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, 2011.

1. Key management compensation

€/'000	Directors, Statutory Auditors, Deputy/ General Managers	Other key management
Emoluments & social security contributions	6,117	-
Non-cash benefits	334	-
Share-based awards (stock options)	468	-

2. Information on related party transactions

Balance Sheet

€/'000	Associates	Other related parties
Loans to banks	135,661	-
Loans to customers	3,000	33,105
Other assets	133,440	157,628
Due to banks	(337)	-
Due to customers	(4,627)	(913,529)
Other liabilities	(5)	(9,249)
Guarantees issued	93	15

Income Statement

€/'000	Associates	Other related parties
Commission income (expenses)	(2,637)	123,829
Interest income (expenses)	7,374	(9,514)
Administrative expenses	-	(45,447)
Key personnel	-	491
Other income (expense)	-	10,994
Services provided and other costs	-	(9,196)

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 the 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 Plans 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.

On May 12, 2011, 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, *inter alia*:

(i) to approve the amendments to 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');

(ii) in partial execution of the authorities delegated to the Board of Directors by the shareholders at the Extraordinary General Meeting of April 27, 2010 – to increase the Company's share capital up to €188,200.00 (one hundred and eighty-eight thousand two hundred point zero), for a consideration, by issuing up to 1,882,000 (one million eight hundred and eighty two thousand) dividend-bearing ordinary shares, par value of €0.1 each, with the exclusion of shareholders' pre-emptive rights pursuant to article 2441, paragraph five, of the Italian Civil Code, as they are reserved to the Directors and executives of the company and its subsidiaries pursuant to article 2359 paragraph 1, N. 1, of the Italian Civil Code for subscription at a price of €1.076 (one point zero seventy six) per share. The shares are to be subscribed, in a single occasion in the first five business days of each of the thirty six calendar months subsequent to the expiration of the three year term starting from today's date, except for any different exceptional circumstances set forth in the Plan rules. The final deadline for share subscription is therefore set at the fifth business day in the thirty-sixth calendar months subsequent to the expiration of the three year term from today's date. In the event that the capital increase is not fully subscribed by said deadline, share capital will be increased by the amount of the subscriptions received as of that date;

(iii) in partial execution of the authorities delegated to the Board of Directors by the shareholders at the Extraordinary General Meeting of April 27, 2010 – to increase the Company's share capital up to €67,427.50 (sixty seven thousand four hundred and twenty seven point fifty), for a consideration, by issuing up to 674,275 (six

hundred seventy four thousand two hundred and seventy five) dividend-bearing ordinary shares, par value of €0.1 each, with the exclusion of shareholders' pre-emptive rights pursuant to article 2441, paragraph five, of the Italian Civil Code, as they are reserved to the sales network of the company and its subsidiaries pursuant to article 2359 paragraph 1, N. 1, of the Italian Civil Code for subscription at a price of €1.076 (one point zero seventy six) per share. The shares are to be subscribed, in a single occasion in the first five business days of each of the thirty six calendar months subsequent to the expiration of the nine year term starting from today's date, except for any different exceptional circumstances set forth in the Plan rules. The final deadline for share subscription is therefore set at the fifth business day in the thirty-sixth calendar months subsequent to the expiration of the nine year term from today's date. In the event that the capital increase is not fully subscribed by said deadline, share capital will be increased by the amount of the subscriptions received as of that date; and
(iv) to grant the beneficiaries – 17 under the Top Management Plan and 161 under the Sales Network Plan – part of the stock options under the Plans.

2. Fair value measurement of stock options

For measurement of stock options the Group applies the Black-Scholes model for European call options which is a standard, easily replicable model.
The options under the Group stock options plan, however, differ from European-style call options in certain features such as the vesting period, the exercise conditions and the exercise period. The method applied by the Group was to price the options like plain vanilla options, analyse each specific plan feature and measure the relevant impact on the final value of the option.
The results of the analysis of the stock option exercise period were such that the stock options could be treated like European-style call options expiring on the first day of exercise. A European-style call option is priced using the Black-Scholes model and the value thus obtained is then reduced, if necessary, by a certain percentage based on the analysis of the exercise conditions.

B. QUANTITATIVE INFORMATION

1. Changes occurred in the year

In the year 2011, 922,395 stock options granted in 2006-2007-2008 were exercised for a total of 922,395 Mediolanum S.p.A. shares.

The year's movements in option holdings are set out in the table below.

The table below shows movements in option holdings in the year as per Bank of Italy's Circular Letter 262/2005.

	Total Dec. 31, 2011			Total Dec. 31, 2010		
€/'000	Number of options	Average exercise price	Average expiration	Number of options	Average exercise price	Average expiration
A. Opening balance	6,238,693	3.00482	nov-16	4,897,785	3.05851	feb-15
B. Increases	1,996,775	-	-	2,285,942	-	-
B.1 New issues	1,945,775	1.07600	may-19	2,285,942	1.12900	dec-19
B.2 Other	51,000	5.6983	x	-	-	x
C. Decreases	(965,995)	-	-	(945,034)	-	-
C.1 Cancelled	(43,600)	4.41723	x	(54,006)	4.66195	x
C.2 Exercised (*)	(922,395)	1.08145	x	(838,381)	1.27997	x
C.3 Lapsed	-	-	x	(52,647)	1.11800	x
C.4 Other	-	-	x	-	-	x
D. Closing balance	7,269,473	2.37021	feb-17	6,238,693	3.00482	nov-16
E. Options exercisable at year end	2,435,021	4.96123	x	1,792,004	6.07670	x

(*) Average market price per share on the exercise date was €3,41.

1. 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 €1,562 thousand and entailed a corresponding increase in equity reserves (Dec. 31, 2010: €1,581 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 21, 2012

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, 2011

	ITALY				
€/'000	Life	Banking	Asset Man.	Other	Total
Life revenues ex-commission	-	-	-	-	-
Entry fees	-	-	94,461	-	94,461
Management fees	-	-	347,656	-	347,656
Performance fees	-	-	89,961	-	89,961
Banking service fees	-	85,506	(2)	-	85,504
Other fees	-	7,136	120,717	-	127,853
Total commission income	-	92,642	652,793	-	745,435
Net interest income	-	190,064	1,368	-	191,432
Net income on investments at fair value	-	(32,045)	10	-	(32,035)
Net financial income	-	158,019	1,378	-	159,397
Equity method	-	-	-	-	-
Income from other investments	-	(81,585)	(437)	-	(82,022)
Other revenues	-	7,579	6,661	-	14,240
TOTAL REVENUES	-	176,655	660,395	-	837,050
Acquisition costs & other commission expenses	-	(48,973)	(236,595)	-	(285,568)
G&A expenses	-	(12,224)	(86,179)	-	(98,403)
Administrative expenses		(147,917)	(125,798)		(273,715)
Amortisation and depreciation	-	(7,436)	(4,722)	-	(12,158)
Provisions for risks and charges	-	(1,683)	(10,780)	-	(12,463)
TOTAL COSTS	-	(218,233)	(464,074)	-	(682,307)
PROFIT/ (LOSS) BY SEGMENT before tax	-	(41,578)	196,321	-	154,743
Income Tax	-	-	-	-	-
Minority interests	-	-	-	-	-
NET PROFIT / (LOSS)	-	-	-	-	-
Goodwill	-	-	53,073	-	53,073
Held to maturity investments, loans & receivables	-	2,686,210	-	-	2,686,210
Available for sale securities	-	5,722,539	42,845	-	5,765,384
Financial assets/liabilities at fair value throuch profit and loss	-	359,831	-	-	359,831
Treasury (funding) lending	-	4,034,735	(54,088)	-	3,980,647
- of which intercompany	-	*382,609*	*43,412*	-	*426,021*
Loans to customers	-	3,245,008	-	-	3,245,008
Bank funding	-	7,870,465	-	-	7,870,465
- of which intercompany	-	*53,107*	-	-	*53,107*

	ABROAD			
	Spain	Germany	Consolidation adjustments	Total
	-	-	-	-
	3,747	2,590	-	100,798
	10,691	4,802	-	363,149
	1,949	586	-	92,496
	5,128	21,701	(6)	112,327
	13,015	231	-	141,099
	34,530	29,910	(6)	809,869
	10,665	1,689	-	203,786
	689	-	-	(31,346)
	11,354	1,689	-	172,440
	-	-	-	-
	605	(6,258)	-	(87,675)
	536	993	(50)	15,719
	47,025	26,334	(56)	910,353
	(15,971)	(3,664)	7	(305,196)
	(3,478)	(19,735)	-	(121,616)
	(25,035)	(13,984)	49	(312,685)
	(1,641)	(792)	-	(14,591)
	(174)	-	-	(12,637)
	(46,299)	(38,175)	56	(766,725)
	726	(11,841)	-	143,628
	-	-	-	(17,842)
	-	-	-	102,060
	-	-	-	23,726
	140,980	4,261	-	198,314
	-	8,989	-	2,695,199
	642,063	25,660	-	6,433,108
	(192)	-	-	359,639
	410,229	(84,161)	-	4,306,715
	(391,929)	*9,256*	-	*43,348*
	137,333	8,712	-	3,391,053
	292,176	66,983	-	8,229,625
	235	-	-	*53,342*

CONSOLIDATED INCOME STATEMENT & BALANCE SHEET BY OPERATING SEGMENT AT DEC. 31, 2010

	ITALY				
€/'000	Life	Banking	Asset Man.	Other	Total
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
Net income on investments at fair value	-	3,395	(9)	-	3,386
Net financial income	-	123,594	1,236	-	124,830
Equity method	-	-	-	-	-
Net realised gains on 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)	(255,490)	-	(307,028)
G&A expenses	-	(12,706)	(80,435)	-	(93,141)
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

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
538	-	(1)	3,923
5,886	299	(1)	131,014
-	-	-	-
1,221	(7,402)	-	(9,904)
610	490	(55)	17,819
41,076	38,005	(90)	1,021,216
(15,040)	(4,184)	6	(326,246)
(3,638)	(30,036)	28	(126,787)
(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	4,462,88	-	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	31,703,55	-	7,871,525

Report of the Board of Statutory Auditors

Report of the Board of Statutory Auditors to the General Meeting convened to approve the consolidated financial statements for the year ended december 31, 2011

Dear Shareholder,
In addition to the separate financial statements for the year ended December 31, 2011, also the consolidated financial statements of the Mediolanum Banking Group for the year ended December 31, 2011 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 €23,726.00 thousand and net profit attributable to minority interests of €102,060.00 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

Deloitte & Touche 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, 2011. Upon completion of their audit work, on March 27, 2012, the independent auditors issued the 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 consolidated financial statements and schedules attached thereto.

Milan, April 2, 2012

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

Independent Auditors' Report

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AUDITORS' REPORT PURSUANT TO ART. 14 AND 16 OF LEGISLATIVE DECREE N. 39 OF JANUARY 27, 2010

To the Shareholders of
BANCA MEDIOLANUM S.p.A.

1. We have audited the consolidated financial statements of Banca Mediolanum S.p.A. and subsidiaries ("Mediolanum Banking Group"), which comprise the balance sheet as of December 31, 2011, and the income statement, comprehensive income, statement of changes in shareholders's equity and cash flow statement for the year then ended and the relative notes. These consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n. 38/2005 are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the prior year's consolidated financial statements, whose data are presented for comparative purposes, reference should be made to the auditors' report issued by other auditors on March 28, 2011.

3. In our opinion, the consolidated financial statements give a true and fair view of the financial position of Mediolanum Banking Group as of December 31, 2011, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n. 38/2005.

4. The Directors of Banca Mediolanum S.p.A. are 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 consolidated financial statements, as required by law. For this purpose, we have performed the procedures required under Auditing Standard n. 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 Mediolanum Banking Group as of December 31, 2011.

DELOITTE & TOUCHE S.p.A.

Signed by
Paolo Gibello Ribatto
Partner

Milan, Italy
March 27, 2012

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