BANCA
MEDIOLANUM S.p.A.

ANNUAL REPORT AND ACCOUNTS 2012

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 2012

Registered office: Meucci Building Via F. Sforza – Basiglio – Milano Tre (Milan)
Share Capital: €600,000,000.00 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

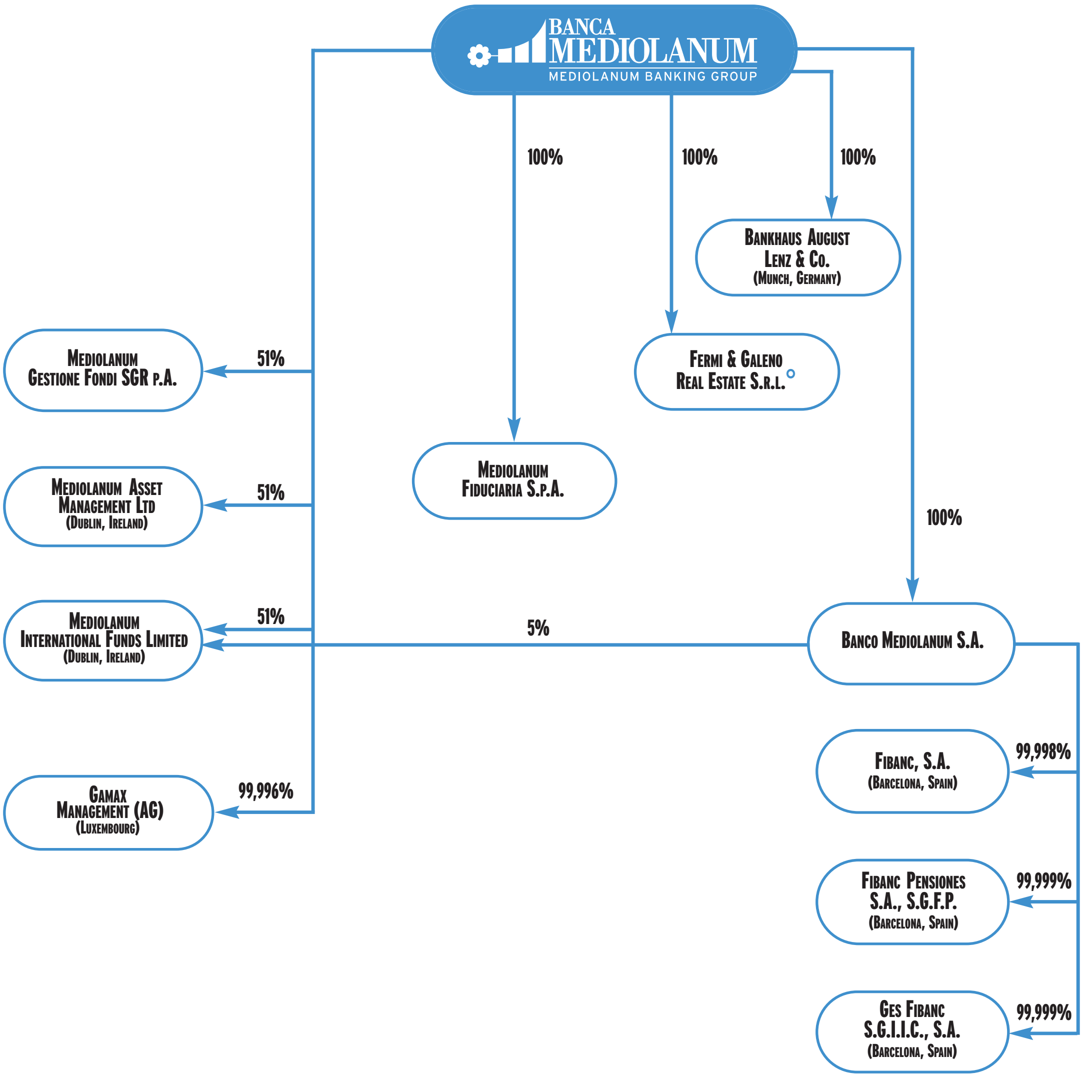
Luca Maria Rovere

Independent Auditors

Deloitte & Touche S.p.A.

Group structure

As of December 31, 2012



° Waiting for communication from the Bank of Italy regarding inclusion into the Mediolanum Banking Group.

Separate Annual Financial Statements 2012

Financial Highlights

€/m	Dec. 31, 2012	Dec. 31, 2011
Assets under management & administration	42,434.3	37,867.2
Total Balance Sheet Assets	17,064.5	14,337.8
Loans to customers ex. L&R securities (Lending)	4,422.6	3,312.9
Amounts due to customers & securities issued ex. *Cassa Compensazione e Garanzia* (Funding)	8,897.6	7,163.4
Lending/Funding from customers	50%	46%
Tier 1 Capital ratio	19.25%	16.14%

Number	Dec. 31, 2012	Dec. 31, 2011
Licensed Financial Advisors	4,315	4,507
Employees	1,627	1,529
Bank accounts	707,609	627,365

€/m	Dec. 31, 2012	Dec. 31, 2011
Net inflows	2,258.3	2,280.0
Profit before tax	230.3	(2.6)
Tax	(41.0)	18.7
Net Profit	189.3	16.1

Reclassified income statement

€/'000	Dec. 31, 2012	Dec. 31, 2011	Change	
10. Interest income and similar income	484,699	338,920	145,780	43%
20. Interest expense and similar charges	*(209,591)*	*(148,855)*	(60,736)	41%
30. Net interest income	*275,108*	*190,065*	85,044	45%
80. Net income from trading	38,070	(28,494)	66,564	ns
90. Net income from hedging	*(4,279)*	(3,813)	(466)	12%
100. Gains (losses) on sale or buyback of:	(1,811)	6,523	(8,334)	ns
a) loans and receivables	30	*195*	*(164)*	(84%)
b) available-for-sale financial assets	*(1,986)*	*5,021*	*(7,007)*	*(140%)*
c) held-to-maturity investments	30	*1,046*	*(1,016)*	(97%)
d) financial liabilities	115	262	(147)	
Net financial income	307,088	164,280	142,808	87%
40. Commission income	406,807	378,962	27,844	7%
50. Commission expense	(331,426)	(273,839)	(57,587)	21%
60. Net commission income	75,380	105,123	(29,743)	(28%)
70. Dividends and similar income	171,007	124,521	46,486	37%
120. Total income	553,475	393,924	159,552	41%
130. Net impairment/reversal of impairment	(10,354)	(90,626)	80,272	(89%)
140. Net income from financial operations	543,121	303,297	239,824	79%
150. General & administrative expenses				
a) staff costs	(109,494)	(100,326)	(9,168)	9%
b) other administrative expenses	(164,030)	(156,733)	(7,297)	5%
160. Net provisions for risks and charges	(35,946)	(33,985)	(1,962)	6%
170. Depreciation and net impairment of tangible assets	(2,526)	(2,293)	(234)	10%
180. Amortisation and net impairment of intangible assets	(6,215)	(8,928)	2,713	(30%)
190. Other operating income	14,196	12,694	1,503	12%
200. Operating expenses	(304,015)	(289,571)	(14,444)	5%
210. Profit (loss) on equity investments	(8,821)	(16,373)	7,553	(46%)
240. Profit (loss) on disposal of investments	5	28	(23)	(83%)
250. Profit (loss) before tax on continuing operations	230,290	(2,620)	232,909	ns
260. Income tax on continuing operations	(41,026)	18,748	(59,774)	ns
270. Profit (loss) after tax on continuing operations	189,264	16,129	173,135	ns
290. Net profit (loss) for the year	189,264	16,129	173,135	ns

Highlights

€/m	Dec. 31, 2012	Dec. 31, 2011	Change	Change %
Profit before tax	230.3	(2.6)	232.9	ns
of which				
Net financial income	307.1	164.3	142.8	87%

Net interest income was up €85.0 million thanks to bigger interest spreads reflecting refinancing with the ECB. Net income from trading was up €66.5 million, mainly driven by fair value gains (up €49 million) and trading gains (up €17.5 million).

Net commission income	75.3	105.1	(29.7)	(28%)

Net commission income was down €29.7 million, largely reflecting greater amounts provided for incentives (€12.7 million) and amounts retroceded to the sales network following changes in the compensation policy.

Dividends	171.0	124.5	46.5	37%

Dividends received were up, largely owing to dividends distributed by the Irish subsidiaries.

Net (impairment)/reversal of impairment	(10.4)	(90.6)	80.3	(89%)

Impairment on securities holdings was down compared to 2011 when the bank had recorded €82.8 million impairment of Greek sovereign debt holdings.

General & administrative expenses	(273.5)	(257.1)	(16.4)	6%
Staff costs	*(109.5)*	*(100.4)*	*(9.2)*	*9%*
Other administrative expenses	*(164.0)*	*(156.7)*	*(7.3)*	*5%*
Amortisation & depreciation of tangible and intangible assets	(8.7)	(11.2)	2.5	(22%)

General and administrative expenses, amortisation & depreciation were up €13.9 million in aggregate. Specifically, the increase in staff costs was largely in connection with the increase in average number of personnel from 1,529 to 1,627 people following the merger of MCU and certain activities relating to events organisation and corporate television being brought back in-house, as well as greater incentives given to employees (up €2.7 million).
Other administrative expenses included greater costs for advisory services.

Net provisions for risks and charges	(35.9)	(34.0)	(1.9)	6%

Increase in amounts set aside for contractual obligations to the sales network.

Directors' Report

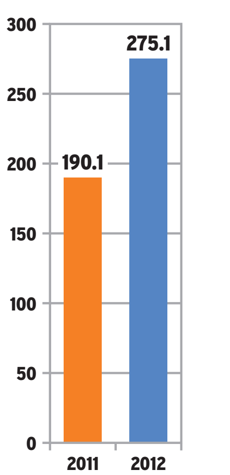
Dear Shareholder,

for the year ended December 31, 2012, Your Bank reported net profit of €189.3 million, up €173.2 million compared to €16.1 million in the prior year.

Profit before tax was €230.3 million, up €232.9 million from a loss of €2.6 million at the end of the prior year. The improvement was driven in particular by robust growth in net financial income (up €142.8 million), reduced net impairment (down €80.3 million) and greater dividends from equity investments (up €46.5 million) offset, in part, by reduced net commission income (down €29.7 million).
Income tax for the year was a negative balance of €41.0 million versus a positive balance of €18.7 million in the prior year.
Total net inflows (managed assets and administered assets) amounted to €2,258.3 million versus €2,280 million in the prior year.
Net inflows into asset management products and sales of third-party structured bonds aggregated to €1,552.9 million versus €731.8 million in 2011.
Regarding administered assets, *Mediolanum Plus* policies associated with *Freedom* bank accounts had net outflows of €1,070.8 million versus €521.5 million at December 31, 2011. Other AuA products recorded net inflows of €1,776.3 million versus €2,069.6 million at the end of the prior year.
At year end 2012, the bank had €1,040,488 customers versus €1,066,423 at the end of the prior year.

At December 31, 2012, total balance sheet assets amounted to €17,064.5 million, up €2,726.7 million over the prior year.
Customer deposits grew from €7,163.4 million at year end 2011 to €8,897.6 million at December 31, 2012.
Loans to customers, excluding securities, amounted to €4,422.6 million versus €3,312.9 million at December 31, 2011.

Net interest income
€/m



Net interest income amounted to €275.1 million, growing 45% from €190.1 million at year end 2011. The €85 million increase over the prior year largely reflects bigger interest spreads benefitting in particular from refinancing operations with the ECB.
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 €307.1 million versus €164.3 million in the prior year. The €142.8 million increase was driven by improved income from trading (up €66.5 million) principally benefitting from fair value gains (up €49 million) and trading gains (up €17.5 million).
Net commission income declined by €29.7 million from €105.1 million at year end 2011 to €75.3 million at the end of the year under review, largely reflecting greater amounts provided for incentives (€12.7 million) and amounts retroceded to the sales network following changes in the compensation policy.
Specifically, for the year ended December 31, 2012, commission income amounted to €406.8 million versus €379 million in the prior year (up 7%).

Commission expenses amounted to €331.4 million versus €273.8 million in the prior year (up 21%).
Dividends increased by €46.5 million from €124.5 million in the prior year to €171.0 million at the end of the year under review, largely owing to the greater dividends distributed by the Irish subsidiaries (up €53 million), offset, in part, by the reduced dividends received from the Italian subsidiary Mediolanum Gestione Fondi (down €3.1 million) and the subsidiary Gamax Management (down €2 million).
Net impairment aggregated to €10.4 million versus €90.6 million in the prior year. The improvement reflects the decline in impairment on securities holdings compared to 2011 when the bank had recorded €82.8 million impairment of Greek sovereign debt holdings, marginally offset by the €1.9 million collective impairment of loans resulting from the new classification of over 90 days past due positions effective from the current year as per Bank of Italy's requirements. Last year there had been a €0.8 million reversal of collective impairment on loans.
Operating expenses amounted to €304.0 million versus €289.6 million at year end 2011.
Specifically, staff costs rose from €100.3 million in 2011 to €109.5 million at the end of the year under review, reflecting the increase in average number of personnel from 1,529 to 1,627 people following the merger of MCU, certain activities relating to events organisation and corporate television being brought back in-house, as well as greater incentives given to employees (up €2.7 million).
Other administrative expenses amounted to €164.0 million versus €156.7 million in the prior year. Although bringing certain activities back in-house reduced expenses, expenses for IT services increased (up €2.5 million). Additionally, expenses for legal advice increased too (up €7.5 million) mainly in connection with pending tax claims.

Other operating expenses increased from €12.7 million to €14.2 million owing to greater amounts set aside for contractual obligations to the sales network.

The macroeconomic environment

In 2012, the actions taken to deal with the financial crisis in the Eurozone significantly improved investor sentiment. In the early part of the year the conventional and non-standard measures deployed by the European Central Bank (ECB) – in particular the two Long-Term Refinancing Operations (LTROs) of December 21, 2011 and February 29, 2012 whereby the ECB injected €489.2 billion and €529.5 billion, respectively, into the market – brought about improved market liquidity, reduced yields on European peripheral government bonds and positive stock market performance. The renewed turbulence on financial markets from March to June prompted EU leaders to take decisions regarding the European Stability Mechanism (ESM) and the European Financial Stability Facility (EFSF) at the European Council meeting of June 28-29, 2012.
Over the summer investor confidence improved after ECB President Mario Draghi provided further assurances and the German Constitutional Court gave the green light to the ratification of the ESM. In the final months of 2012, uncertainty about the timing and the procedures for the activation of the ECB government bond purchase programme through Outright Monetary Transactions (OMT), emerging signs of political and social instability in peripheral countries of the Eurozone, concerns about global economic growth and the possible impact of the fiscal cliff (the combination of spending cuts and tax increases following the expiration of Bush-era tax cuts) on US growth brought about some market volatility.
The victory by the pro-Euro conservative party *Nea Dimokratia* at the Greek elections of last June 15 put an end to the political and financial stalemate resulting from the previous elections of May 6.
In December 2012, the Euro-group finally reached an agreement on the restructuring of the Greek debt releasing €43.7 billion to Greece. Socialist Hollande's victory over incumbent Sarkozy in France's presidential elections held in May contributed to a shift in the Eurozone political balance.

Outside Europe, in November 2012, President Obama won the elections for a second mandate, while in Japan in December 2012 the liberal-democrats returned to power with Abe as Prime Minister. In the final part of the year, the difficulties in reaching a political agreement to avoid the fiscal cliff in the US and the ensuing concerns about its impact on both US and global growth brought about market volatility.
Stats confirm growth has slowed down in the Eurozone, while the US has powered ahead. In the third quarter of 2012, GDP expanded at 3.1% (annualised rate) in the US and shrank by 0.1% (non annualised) in the Eurozone, confirming again the lag between these two regions. Specifically, GDP grew in Germany (up 0.2%) and France (up 0.1%), while it shrank in Spain (down 0.3%) and Italy (down 0.2%). Eurozone's sluggishness in 2012 has been reflected in the Purchasing Managers' Indices (PMI) indicating the lack of a sustainable recovery in the manufacturing and services sectors. Conversely, in the US the readings of Institute for Supply Management (ISM) indices for both the manufacturing sector and services stayed above 50% (the threshold signalling that more companies are expanding instead of shrinking).
Both in the US and in the Eurozone, unemployment continues to be a major concern as it weighs on consumer confidence and demand for goods and services. In December 2012, the unemployment rate in the US was 7.8% versus 8.5% in the prior year. In 2012, the readings of the Conference Board Consumer Confidence Index (CCI) and the University of Michigan Consumer Sentiment Index (MCSI) remained far from the highs recorded in the past.
In December 2012, in the Eurozone, the unemployment rate was 11.7% versus 10.7% at year end 2011. Specifically, the joblessness rate was 11.3% in Italy versus 9.5% in the prior year, 6.9% in Germany versus 6.8% in the prior year, and 26% in Spain versus 18.8% in the prior year.
In the current economic cycle inflation continues to be subdued.
In December, the CPI (annualised) was 2.2% versus 2.7% at year end 2011 in the Eurozone, and 1.7% versus 3.0% at year end 2011 in the US. Excluding food and energy, the CPI was 1.5% (1.6% in the prior year) and 1.9% (2.2% in the prior year), respectively. In the same month, the PPI (annualised) was 2.2% in the Eurozone and 1.3% in the US. In the UK the inflation rate fell from 4.2% in the prior year to 2.7%.

Financial markets

During the year, the yield spreads between Italian and German government bonds declined, specifically from 528 bps at December 31, 2011 to 318 bps at year end 2012, with a peak last July 24 of 536 bps on 10-year notes and from 497 bps at December 31, 2011 to 200 bps at year end 2012, with a peak last July 24 of 512 bps on 2-year notes.
Yields on 2-year Italian treasuries fell from 5.12% at the start of the year to 1.99% at December 31, 2012; while yields on 2-year Italian treasuries dropped from 7.11% at the start of the year to 4.50% on December 31, 2012. Like in 2011, benefitting from purchases made by investors looking for low-risk assets, yields on German government bonds declined across all maturities (from 0.14% to a negative return of -0.015% on 2-yr notes; and from 1.83% to 1.32% on 10-yr notes). Yields on US treasuries remained in line with the low levels seen at year end 2011 (moving from 0.24% to 0.4% on 2-yr notes; from 1.88% to 1.76% on 10-yr notes).
Emerging markets and corporate bonds continued to benefit from uncertainty and volatility in peripheral Eurozone government bond markets with ensuing declines in yields and yield spreads.
In the fourth quarter of 2012 the protracted negotiations to reach a political agreement and avoid the fiscal cliff in the US and concerns about the impact of the fiscal cliff on US and global economic growth led the US stock market to underperform (S&P 500 down 1%) European bourses (STOXX Europe 600 up 4.2%).
In 2012, global equity markets were up 16.6% (MSCI World in US dollars). In the US, both the S&P500 and Nasdaq Composite recorded good performance, up 13.4% and up 15.9%, respectively. In Europe, stock markets fared well, too, on average (STOXX Europe 600 up 14.4%). Specifically, the Italian (FTSE MIB up 7.8%) and Spanish

(IBEX 35 down 4.7%) markets underperformed the German (DAX up 29.1%), French (CAC40 up 15.2%) and Swiss (SMI up 14.9%) markets. Stock market indices were driven north by cyclical stocks and financials. Emerging markets rose 18.5% (MSCI EM in USD).

The performance of the Euro against the US dollar mirrored the developments of the European financial crisis. Specifically, the Euro experienced weakness in the early months of 2012, to strengthen later in the year following the reassuring statements made by ECB President Mario Draghi in July 2012, moving from 1.30 at the beginning of the year to 1.32 at year end against the US dollar, with a low of 1.21 in July. The Euro had similar movements in its foreign exchange value also against the UK sterling, namely from 0.83 in January to 0.78 in July and 0.81 in December. The performance of the European single currency against the Japanese yen and the Swiss franc reflected the actions taken by the Central Banks of those countries. In the second part of the year the Bank of Japan set inflation targets at a level that facilitated its currency devaluation via monetary easing: the Euro strengthened from 99.66 in January to 114.46 in December against the Japanese yen. The Swiss National Bank intervened in the currency market throughout 2012 to avoid appreciation of the Swiss franc.

In 2012, Brent oil prices remained essentially flat moving from US$107.58 per barrel at the beginning of the year to US$111.94 per barrel at year end, with high volatility that brought it to a high of US$126.65 on February 24 and a low of US$88.74 on June 21.

In the year under review, the price of gold confirmed the historic highs seen in prior years moving from US$1,563.70 per ounce at the beginning of the year to US$1,675.35 per ounce in December 2012.

The reference market

At the end of the third quarter 2012, the financial assets of households amounted to about €3,619 billion, marginally down 0.2% (annualised rate) over the prior year.

Specifically, bank accounts and deposits were up 3.4% accounting for 31.7% of total financial assets of households (vs. 30.6% in the prior year); holdings in life insurance, pension funds and severance funds were up 1.6%, with a weight of 18.0% (17.7% in the same period of the prior year); holdings in mutual funds were up 9.6% and accounted for 7.6% (vs. 6.9% for the same period of the prior year) of total financial assets of households. Conversely, holdings in equities were down 10.9% with a weight of 17.6% (vs. 19.7% in the third quarter of 2011). Bond holdings (government and corporate bonds) declined too, namely by 1.5%, yet holdings in government bonds were up 14.7%. Bond holdings accounted for 19.1% (19.3% in the prior year) of total financial assets of households.

During 2012, in Italy banking funding slightly accelerated. Specifically, at year end 2012, Italian banks recorded inflows into euro-denominated current accounts, term deposits net of receivables sales, deposits repayable upon notice, and repurchase agreements (deposits net of operations with central counterparties) and bonds (net of those repurchased by banks) held by resident customers aggregating to €1,761.5 billion, up 1.6% (vs. 0.9% at the end of December 2011) and an increase in the stock of funding of nearly €28 billion. The analysis of the various components shows deposits of resident customers (net of operations with central counterparties and term deposits connected with sales of receivables) were up 6.2% (down 0.4% in December 2011), the highest level since 2008. Bond holdings were down 6.8% in the year (up 3.2% in December 2011).

At year end 2012, lending (to the private sector and public administrations net of repurchase agreements with central counterparties) was down 1.1% year on year (up 2.4% at year end 2011) to €1,928 billion. Loans to private sector Italian residents [1] were slightly down too, down 1.8% (vs. up 2.9% at year end 2011) to €1,660.2 billion.

(1) Other Italian residents: non-financial companies, consumer households, family businesses, nonprofits, insurers, pension funds, other financial institutions net of repos with central counterparties.

Loans to households and non-financial companies amounted to about €1,475 billion, down 2.5% year on year (up 3.6% at year end 2011; Euro zone average: down 1.7%).
Maturity analysis shows that short-term lending (due within one year) was down 1.7% (up 5.5% in the prior year) and medium/long-term lending (due after more than one year) was down 2.8% (up 3% at year end 2011).
Credit facilities to households slowed down too, 1.4% decline versus 4.4.% growth at year end 2011 (when adjusted for securitisation[2], 0.5% decline in 2012 vs. 3.4% growth in 2011).
Consumer credit experienced high volatility and fell by about 7% in 2012 (2.7% growth in 2011). In the Eurozone consumer credit shrank by 3.9%. In the past decade the share of Italy's consumer credit in the Eurozone market grew from 4.2% at year end 2000 to 9.9% in December 2012.
Italian banks' share of the European home loans market grew, too, from 5.2% in December 2000 to 9.5% in December 2012. During 2012 home lending shrank 0.6% compared to 4.4% growth in 2011 (Eurozone average: 1.2% growth).
In December 2012, gross non-performing loans aggregated to €125 billion, increasing by €17.8 billion over year end 2011 (up about 16.6% year on year). The ratio of gross non-performing loans to total loans was 6.3% at year end 2012 versus 5.4% at the end of the prior year. Net non-performing loans amounted to €64.3 billion, some €2.1 billion more than in the prior month and nearly €12.9 billion more than in the prior year (25% increase year on year). The ratio of net non-performing loans to total loans was 3.33% (vs. 2.69% at year end 2011).
At December 2012, the securities portfolio of Italian banks grew to €874 billion.
Interest applied to bank deposits of households and non-financial companies slightly increased, namely from 1.08% at year end 2011 to 1.25% at year end 2012. At the end of December 2012, average interest on euro-denominated bank deposits, bonds and repurchase agreements held by households and non-financial companies was 2.08% in December 2012 versus 2% at the end of the prior year. In the year under review interest rates on repurchase agreements increased too, from 2.77% in December 2011 to 3.03% in December 2012, while yields on bank bonds remained essentially flat (3.37% vs. 3.36%).
In 2012, the weighted average rate applied to total loans extended to households and non-financial companies calculated by the Italian Bankers' Association slightly declined, consistently with conditions on the interbank market, from 4.23% in December 2011 to 3.78% in December 2012. At year end 2012, also interest on active bank accounts and revolving loans to households and non-financial companies fell from 5.56% in December 2011 to 5.48% in December 2012.
Interest rates applied to new transactions were down to particularly low levels: in December 2012 the rate applied to euro-denominated loans extended to non-financial companies was 3.65% (4.18% in December 2011), interest on euro-denominated home loans to households (average for both fixed and floating-rate loans, considering all the various types of loans) was 3.69% (4.03% in December 2011). In the last month of 2012 fixed-rate lending accounted for 22.8% (vs. 37.5% in December 2011). The average spread between lending and funding interest rates applied to households and non-financial companies declined to 187 bps, down 30 bps year on year. Before the beginning of the financial crisis the average spread between lending and funding interest rates exceeded 300 bps.

[2] Growth rates calculated including loans not carried on the balance sheets of banks because they were securitised and net of changes not connected with transactions (e.g. exchange rate movements, value adjustments or reclassifications).

Customers

At year end 2012, the number of customers – either bank account holders or investors in financial/insurance products sold by Banca Mediolanum – was 1,040,448 (vs. 1,066,423 in the prior year). Of these 879,200 were primary account holders.
At December 31, 2012, there were 707,609 bank accounts (vs. 627,365 at year end 2011) and 801,641 account holders.
Credit card holders were 182,649 at year 2012 versus 179,226 at year end 2011, and debit card holders were 438,142 at year end 2012 versus 456,126 at year 2011. This confirms increasing usage of bank accounts.

Freedom Più bank account

The *Freedom Più* bank account was launched in March 2012. At December 31, 2012 about 30,000 of these accounts had been opened, accounting for about 30% of all new bank accounts opened in the year. Beginning from June 2012, customers holding a *Freedom Più* account have been given the opportunity to earn higher interest under the same interest scheme offered to holders of *InMediolanum* deposit accounts if they choose to lock up their money in these accounts for 3, 6 or 12 months.
At December 31, 2012, *Freedom Più* account balances aggregated to €1.28 billion, of which €323 million locked up in the accounts for a certain term.

Freedom One bank account

The *Freedom One* bank account was launched in September 2012. At December 31, 2012 about 45,000 of these accounts had been opened, accounting for about 44% of all new bank accounts opened in the year.
At December 31, 2012, *Freedom One* account balances aggregated to €203 million.

InMediolanum deposit account

The *InMediolanum* deposit account was launched in May 2011. At December 31, 2012 there were about 124,100 *InMediolanum* deposit accounts, of which some 39,600 accounts (32%) opened by new Banca Mediolanum customers. New deposit accounts opened in the year 2012 were 65,800. Of these 24,200 accounts (37%) were opened by new customers. At year end 2012, *InMediolanum* deposit account balances aggregated to about €2,350 million.
In January 2012, as a further distinguishing competitive feature, quarterly interest payments (in the form of quarterly interest advances) were introduced for the *InMediolanum* deposit account.
Beginning from March 2012 said deposit accounts have been subject to the 0.1% stamp duty (0.15% in 2013) introduced by Prime Minister Monti under the so-called 'Save Italy' Decree.
Since June 2012, to incentivise growth of customers acquired through the deposit account, Banca Mediolanum customers have been offered stepping up interest rates on balances locked up in *Freedom Più* accounts. *Freedom Più* accounts are subject to the stamp duty within the limit set for current accounts (i.e. max. €34.20).

Assets under management and under administration

For financial year 2012, total net inflows amounted to €2,258.3 million versus €2,280.0 million in the prior year. Net inflows into asset management products and sales of third-party structured bonds aggregated to €1,552.9 million versus €731.8 million in 2011.
As to administered assets, *Mediolanum Plus* policies associated with *Freedom* bank accounts had net outflows of €1,070.8 million versus €521.5 million at December 31, 2011. Other AuA products recorded net inflows of €1,776.3 million versus €2,069.6 million at the end of the prior year.

Although down on 2011, in 2012 Banca Mediolanum confirmed itself again as market leader ranking first among domestic networks in terms of inflows.

At December 31, 2012, Banca Mediolanum's total assets under management and under administration aggregated to €42,434.3 million, up about 12% from €37,867.2 million at the end of the prior year.

Funding

In 2012, 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 jumped 53.3% to €11,634.1 million at year end 2012 from €7,585 million in the prior year, while Banca Mediolanum notes were down to €94.7 million compared to €285.6 million at the end of 2011.

Lending

At year end 2012, loans to customers – private individuals and financial institutions other than banks – amounted to €4,917.7 million, up 20.9% on the prior year's balance of €4,067.3 million. The analysis of the year's developments shows that, net of impaired positions, retail lending displayed notable growth driven by increases in personal loans (up 74%), residential loans (up 25%) and overdraft facilities (up 12%) which supported the real economy and households also in these times of prolonged crisis. L&R debt securities were down 34%, no syndicated loan was extended to institutional counterparties and those made in past years had been duly repaid. As part of corporate treasury management, hot money transactions were up about €50 million.
Specifically, excluding impaired positions, residential loans were up 25% to €3,079.0 million at December 31, 2012 compared to €2,472.8 million at year end 2011. Not offered to customers for several years now, at year end 2012 pure fixed-rate home loans accounted for less than 18% of the home lending book. Like in prior years, we confirm again that Banca Mediolanum has no subprime mortgage loans on its books and under its disciplined approach to lending it did not enter 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 55%, predominance of borrowers who are long-standing customers of the Bank, average size of loans below €116 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 the past two years.
Customers overdraft facilities amounted to €405.1 million, up 12% from the prior year's balance of €362.1 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 accounted for 8% of total positions, 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 careful selection, prior checks and prompt collection of any amounts due, mitigate any potential risk of debtor insolvency.
Personal loans were up 74% from €264.3 million in the prior year to €461 million at year end 2012. These are small-sized, short-maturity loans granted to private individuals after careful analysis of their creditworthiness, financial condition and earnings. The borrower's ability to repay amounts due on a monthly basis is assessed in relation to aggregate exposure and closely monitored. Credit risk is further mitigated by the authorisation given by borrowers to sell other products they hold with the Mediolanum Group, if necessary, as with overdrafts.
Other lending (ex. dealings on the MTS market) aggregating to about €115 million (up 132% over year end 2011) consisted of hot money facilities, short/medium-term loans extended to prime Italian institutional counterparties and other exposures to high credit-standing companies related to high net worth customers of the Bank.
As to the quality of the loan portfolio, at year end 2012, net impaired loans (after write-downs) amounted to €41.5 million up about €2.8 million over the prior year's balance of €38.7 million. The 2012 year end balance reflects the provision made in relation to the exposure to the Delta Group in the light of the evolution of its restructuring plan as well as the inclusion of over 90 days past due positions effective from the current year as per Bank of Italy's requirements (vs. 180 days past due items up until the prior year). Reflecting both effectiveness of credit management actions and lending growth, the ratio of net impaired loans to total customer loans was down to 0.85% compared to 0.95% in 2011. The credit risk expressed by this indicator is more than 8 times lower than the level recorded by leading market players. 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 used to ensure proper assessment of credit standing prior to loan origination including information garnered by sales network members, together with adequate credit risk mitigation techniques.
All this combined with the low level of impaired items reflects in the Bank's very low cost of credit risk for 2012 (ex. impairment of securities and Network) which is under 20 bps (vs. over 100 bps for the cluster made up of Italy's Top Banks).
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, 2012 that ratio for Banca Mediolanum was below 0.5% (0.5% in 2011) versus 6.28% for the industry (5.44% in 2011; source ABI - Italian Bankers Association: Monthly Outlook, February 2013). For residential mortgage loans, that account for about 63% 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, 2012 the ratio was 1.13% for Banca Mediolanum versus 7.15% for the industry at the end of September 2012 (source Assofin: "*Osservatorio Assofin sul credito Immobiliare erogato alle famiglie consumatrici – Rilevazione sulla rischiosità 9 mesi 2012* – Assofin Analysis of Residential Mortgage Loans – Measurement of Risk over 9 months in 2012").

Securities brokerage

In 2012, equity and bond markets were still much volatile with wide differences in prices of European sovereign debt issues, and particularly of Italian treasuries. Traded volumes and values of customers assets reflected said volatility. Customers stepped up their treasuries holdings in the first half of the year to benefit from higher yields and then sold them to take profits in the last quarter of the year when yield spreads narrowed. As to equities, the FTSEMIB gained 9.6% over the end of the prior year and as much as 37% over the low recorded on July 24, 2012. Financials and banking stocks were highly volatile in connection with treasuries performance.
At year end 2012, the total value of assets held by Banca Mediolanum retail customers rose 15% to €3,619 million from €3,149 million at the end of the prior year, reflecting incoming transfers of corporate and banking bonds, value gains on equities and the contribution of MedPlus Certificates.
Bonds held by customers rose 15% from €2,553 million at year end 2011 to €2,939 million at December 31, 2012. The analysis of bond holdings shows treasuries were down 3% from €815 million at year end 2011 to €790 million at year end 2012, after a peak of €874 million in August. Eurobonds increased from €265 million at year end 2011 to €284 million at year end 2012, and bonds issued by Italian banks rose from €179 million in 2011 to €240 million at the end of 2012. These increases were largely due to transfers of securities previously held with other banks, with inflows of €594 million and outflows of €161 million.
Holdings of Mediolanum Group bonds and MedPlus Certificates increased from €1,293 million at the end of December 2011 to €1,625 million at year end 2012.
Holdings of Italian and international equities increased from €636 million at year end 2011 to €680 million at the end of December 2012.
Placement of Mediolanum Group bonds and MedPlus certificates in 2012 aggregated to €486.68 million, of which €388.66 million relating to MedPlus Certificates and €98 million to Mediolanum S.p.A. notes. Fees earned on placement of third-party issues amounted to €26.6 million versus €31.8 million in the prior year.
In 2012 there was a decline in total executed orders compared to the prior year. Specifically, total orders executed on regulated markets in 2012 were 280,362 versus 325,415 in 2011. This reflects a decline in orders relating to equities, which was in line with the market (volumes down 15% on the FTSEMIB).
Orders relating to government securities aggregated to €986 million versus €674.7 million at year end 2011. Subscriptions to treasuries aggregated to €51.7 million, of which €43 million on the three issues of Italian BTP.
In 2012, the online facility for bond trading directly by customers became operational. Orders placed via this channel were about 55% of total orders.
Orders executed on the Italian equity market aggregated to €1,817 million down about 13% compared to the prior year. Total orders executed on foreign stock markets amounted to €111.2 million versus €186.5 million in 2011.
At December 31, 2012, discretionary accounts no longer sold since the end of 2007 amounted to €42.7 million versus €50 million at the end of 2011.

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

In 2012, the use of Direct Channels by customers hit about 30 million accesses, up 10.6% over the prior year. About 79% of these accesses were made by bank account holders, up 4.4% on the prior year. This confirms again the customer appreciation of the bank's multi-channel approach. As customers increasingly prefer to operate on their own, about 93% of accesses were made through the Bank's automatic systems: the Internet, the voice portal B.Med Voice and the new Mediolanum mobile apps for Apple, Android and Window Phone 7.

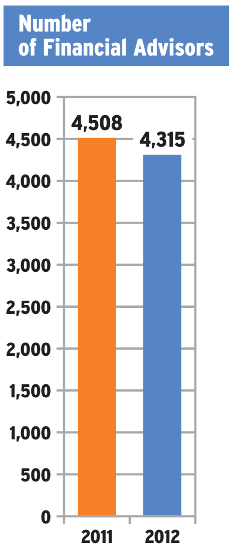
Internet accesses were about 71% of total accesses, up 8.1% over 2011. Accesses through mobile apps topped 2,600,000, up 128% over the prior year. Conversely, the number of contacts made via the voice portal declined by 6% as for simple enquiries or transactions, e.g. account balance checks, mobile phone top-ups, this channel has been replaced by the internet and mobile applications. The increasing usage of 'self-banking' services by customers, however, did not bring about a decline in phone calls handled by the Banking Services Center, that were up 3.8% on the prior year, confirming the Banking Services Center as the main channel for more complex enquiries. Text messaging continues to be much used with over 47.5 million text messages sent to customers, up 10.6% on the prior year. Customers especially appreciate 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 6.5 million transactions, up 12.3%). The level of service provided to customers continued to be excellent: over 89% of phone calls were answered in 20 seconds and customers were kept on hold for 9.3 seconds on average.
In 2012 accesses made by bank customers through Mediolanum mobile apps aggregated to 2,614,000 up 128% compared to 1,148,000 in 2011. About 69% of these contacts were made through iOS applications and about 28% through Android applications.
Orders made through mobile devices were 228,242 in 2012 up 157% from 88,701 in 2011.
Several services were introduced in 2012. Among the most significant there were:

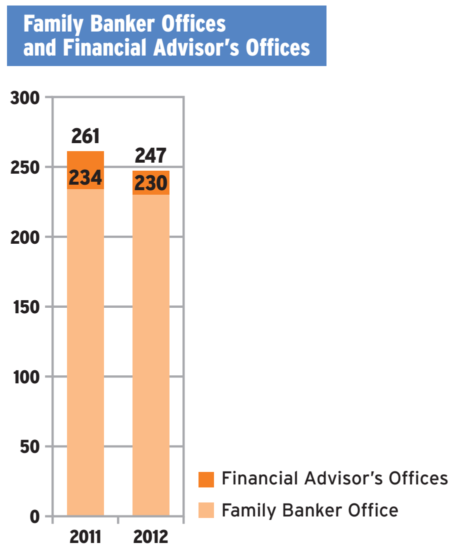
- purchase and sale of fund shares;
- cardholder information and orders;
- information about life policies and insurance investments;
- postal payments by photo ID or manual entry of codes.

In 2012, the Bank introduced the ability for customers to purchase and sell treasuries, other bonds, ETFs, ETCs and ETNs on the ETFPlus market, directly via the website www.bmedonline.it or by calling the Banking Services Center at 800.107.107.
As part of its continuous efforts to expand the services offered to customers, Banca Mediolanum also introduced the ability for customers to sign contracts and other documents using their digital signature, which is easy and secure. The digital signature is the equivalent of the handwritten signature in paper and ink format for electronic documents: it is secure and legally valid. Customers can put their digital signature onto the investment proposals exchanged with their Family Banker® simply by entering the codes and temporary password texted to their mobile phone. The contract is immediately valid and available in electronic format for both the customers who signed it and Banca Mediolanum, with no need to print and deliver a hardcopy. Signing up to this service is easy to do and free.
In April 2012, the Mediolanum app for Windows Phone 7 was released on Windows Marketplace. The app was developed with the support of Microsoft corporation itself which allowed us to have it tailored to the platform guidelines.
In 2012, Banca Mediolanum joined the major social networks. On April 23 it launched its Facebook fan page, followed by its account on Twitter, LinkedIn and YouTube channel.
Banca Mediolanum has always believed in relationship and freedom, these are core values on which its business its built. The Facebook fan page and Twitter accounts were set up to share information about the Bank, listen to fans' opinions and comments @BancaMediolanum, @MedEventi for the main events sponsored by Banca Mediolanum (e.g. Giro d'Italia), @FondazioneMed for charitable initiatives promoted by Fondazione Mediolanum and @MediolanumMCU the official account of Mediolanum Corporate University, which is Mediolanum academy for excellence. LinkedIn for professional networking and recruitment and YouTube with videos about the Bank, events and financial education sessions round out the Bank's presence on social networks.

At year end 2012, few months after the launch, the Bank had over 16,000 fans on Facebook, over 3,000 followers on Twitter, 3,300 connections on LinkedIn and 770 subscribers on its YouTube channel.

The Sales Network





At December 31, 2012, the network of financial advisors, i.e., 'Family Bankers', consisted of 4,315 people versus 4,508 at year end 2011. Under the recruitment policy adopted by Banca Mediolanum, people with the potential to become a Family Banker are internally trained at Mediolanum Corporate University. Only those candidates who pass the state exam and become licensed financial advisors can practice as Mediolanum Family Bankers.

Sales Network offices and bank branches

	2012	2011
Family Banker Offices	230	234
Traditional Offices	247	261
Total	477	495

At year end 2012, there were 477 Family Banker Offices including traditional offices.

Family Banker Offices are evenly spread in all Italian regions reflecting the presence of Family Bankers across Italy. The regions with the largest number of Family Banker Offices are: Lombardy (37), Veneto (37), Emilia Romagna (24), Sicily (21), Tuscany (19), Latium (19) and Piedmont (16).

In 2012, 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, 2012, there were six Banca Mediolanum bank branches.

At year end 2012, there were 4 Automated Teller Machines (ATMs): 3 at the Basiglio HQ and 1 at the Assago bank branch.

Sales Network Training

The Sales Network receives training from Mediolanum Corporate University S.p.A. which provides education and training for the entire Mediolanum Group.
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 in training programs rose 57.8% from 102,329 in 2011 to 161,521. The hours of training delivered in 2012 were 556,504 man/hours versus 411,157 in 2011.

The breadth and depth of Private Bankers training, which is on a voluntary basis, was expanded in the year under review. Among others, it included a series of sessions on customer relationship management hinged on the bank's all-round offering.

Sales network training featured high specialism of contents and shorter classroom sessions in 2012.

Mediolanum Business Meetings continued in 2012 with plenary sessions for the entire sales network being complemented with the addition of specific sessions held monthly for the private banking and wealth specialists called Global Family Bankers. To boost effectiveness speakers at these Meetings were trained by the best training professionals available in the marketplace.

Via Mediolanum Business Meetings over 150,000 hours of training were delivered in the year to more than 35,000 participants.

Additionally, training designed to boost the skills of supervisors and help them attain key business targets was delivered locally. Given the cross-disciplinary role and skills required of the community of managers who take care of training at the local level, they were trained in communication skills and class teaching.

In the second part of the year, given the increasing influence of social media on every aspect of people's lives and their tremendous growth, MCU held a series of meetings called 'Share the Bank' exploring the major social networks. 'Share the Bank' meetings were complemented by classes to strengthen the social media skills of Family Bankers.
Based on the expertise mapping exercise conducted in the prior year a performance-focused 'Train The Trainer' program was delivered in 2012.

As to time-to-market initiatives, in which participation is on a voluntary basis, over 15 lectures were held on tax-related aspects, investment protection and real estate funds.

In 2012, Banca Mediolanum candidates at the three sessions of the state exam to become a licensed financial advisor were 198 (vs. 246 in 2011, down 48 candidates or 19.5%). Banca Mediolanum candidates who passed the exam were 155 (192 in 2011, down 37 people or 19.3%) with a pass rate of 78.3% (78% in 2011).

In its role of 'financial educator' Mediolanum Corporate University decided to hold for Banca Mediolanum customers and retail investors in general, education events focused on topics such as financial planning, the protection of household assets and investments, the achievement and consolidation of financial stability. The initiative called "*Investire* *per il mio Futuro*" (Investing for my Future) was created to provide opportunities for people to meet and discuss financial and economy-related topics. In 2012, there were 6 sessions attended by about 200 customers.

True to its vision of providing a way to excellence, like in 2011, Mediolanum Corporate University held the series of events *MCU incontra l'Eccellenza* (MCU Meets Excellence) focused on values to support the personal and professional growth of managers and customers. The 8 events held in 2012 were attended by over 1,000 customers and featured prominent speakers of the calibre of Tara Gandhi, Jim O'Neill, Miloud Oukili, Paolo Nespoli and many other prestigious names from the world of business and the academia.

Training of employees

The Mediolanum Group 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.

Number	2012	2011	2010	Change (2012/2011)
Courses				
Classroom training	79	74	59	7%
Online education	68	63	71	8%
Total	147	137	130	7%
Training hours				
Classroom training	41,430	41,619	41,969	0%
Online education	13,450	19,108	20,235	(30%)
Total	54,880	60,727	62,204	(10%)

Total classroom training hours delivered in 2012 were in line with the prior year. Specifically, there was significant growth in managerial training (up 10%) as well as internal (up 20%) and external (up 10%) technical training. Training in insurance, banking and financial products for new hires and online education were down 30%. Since e-learning is largely used for education on regulations, the progressive completion of mandatory programs on regulations (e.g. MiFID, Anti-Money Laundering, Privacy, Safety) that are now delivered just to new hires or upon regulatory changes explains the decline in online training in 2012.

The increase in the number of courses year after year in both classroom and online education (up 7% on 2011 and up 13% on 2010) to 147 courses bears out the ever growing breadth and depth of education & training provided by the Group and the work done by MCU in knowledge building. That has entailed having a steady focus on the education needs of the various organisational units in the development of educational programs as well as deploying proper tools to analyse needs, test and assess outcomes.

Regarding specific initiatives, the first Executive Master Program in Business & Banking Administration administered in collaboration with Bocconi University's Business School was completed in November graduating twenty-five managers of the Group and the second Executive Master Program in Business & Banking Administration got started. This second two-year Master Program will be attended by twenty-one people. Of these, five were chosen through a call for applications open to all people within the Group who met the minimum requirements (educational background, length of service). The large number of applications received shows the eagerness and enthusiasm of the people who work for Group to invest in their human and professional growth. Another novelty in the second edition of the Master Program has been the formation of the Mediolanum Faculty: high-calibre managers and professionals who take care of the original development and delivery of some courses within the Master Program. Those courses will be "certified" by Bocconi University's Business School and become an integral part of the Master Program. This has been an original development which, on the one hand, brings participants even closer to the day-to-day reality of the subjects they study and, on the other hand, builds a base of skills and experiences that will come handy for many other future undertakings.

The Group continued its collaboration with Milan's Bocconi University/Business School, Catholic University through CeTIF, and Polytechnic also on other major initiatives aimed at different populations of human resources within the Group.

Induction programs for Banking Specialists and training of customer service representatives continued to be relevant both in terms of number of courses and investments. Education and training in general continued to be significant both quantitatively and qualitatively, with ever increasing breadth and depth, helping the Group's human resources expand their knowledge and skills. Investment in Service Quality development programs and especially Teams for Improvement continued steadily.

Employees

The analysis of the year's movements in Banca Mediolanum's employees in 2012 is set out in the table below.

	Dec. 31, 2012	% of total	Dec. 31, 2011	change	average age
Senior management	68	3.9%	69	(1)	48.8
Middle management	215	12.6%	192	23	43.5
Non-management	1,428	83.5%	1,345	83	35.3
Total	1,711	100.0%	1,606	105	36.8

Year on year, headcount increased by 105 people. Of these, 30 people came from the acquisition of Mediolanum Corporate University and are education specialists, another 20 people came from Mediolanum Comunicazione as certain communication activities were brought back into the Bank's Marketing & Communication function for enhanced efficiency of organisational processes.

Most of the headcount increase was in connection with the expansion of banking products and services offered to customers, e.g. current accounts, deposit accounts, cardholder accounts, which entailed an increase in clerical staff by 22 people (customer service representatives). Another 20 people were hired to provide support to the sales network including as staff of the newly created competence center dedicated to Private Bankers. Said positions were filled with people hired under apprenticeship contracts.

The Operations Team & the Information Technology Team were strengthened with one senior specialists per team.

The Marketing Team was also enhanced with 5 social media specialists and 4 people on fixed-term contracts hired to conduct promotional work at the local level.

Middle management increase resulted from the addition of the above specialists.

Senior management declined by 1 person.

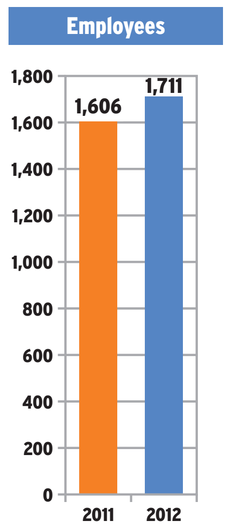
Average age of employees was around 37 years.

Women accounted for 53% of total headcount.

Graduated accounted for 44% of total headcount.

Personnel management programs completed in the year included:

- positions balancing;
- competence mapping;
- job profiling;
- review of performance appraisal processes.



A project to measure performance within the organisation, especially in relation to service level, organisational efficiency and staff rightsizing was set up in close collaboration with the Operations Team.
In addition to the numerous internal and external education opportunities outlined in the previous section, job enlargement and job rotation programmes were again provided in 2012 to help human resources develop cross-discipline skills, especially those required in operational units, for their all-round professional growth and increased organisational flexibility.
The Group collaborated with major universities in areas such as Marketing, Finance, Education, Organisation and Service Quality.
Recruitment and employer branding agreements with major universities and other specialists in Milan and its surroundings continue to operate.
Students attending university or master's courses in Financial Markets, Marketing and Education took internships at the bank.
During the year, the teams dedicated to service quality implemented 8 projects, on a voluntary basis, for the improvement of corporate processes and services. These projects engaged 52 people who reported on the main results of their efforts to Top Management and planned follow-up activities in view of continuous improvement under a total quality approach.
Activities put in place to ensure wellbeing in the workplace and work-life balance are now well established. Employees and sales network members have largely 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 and special deals. Applying advanced educational methods, the day care centre took care of over 120 children of employees. Special attention has been devoted to helping mothers who return to work after maternity leave.

Organisation and operations

In 2012, the Operations Division continued the activities started in the prior year, consolidating models and methods for analysis and project management. In these efforts the entire team was supported by a major training program.
Compared to the prior year there was a 65% increase in initiatives and projects completed in the year. This was owed to work rationalisation and improved governance as well as increased productivity. Staff in this division increased by one person.
Projects carried out in the year related to:
- regulations (40%);
- review of organisational processes and settings (20%);
- optimisation of processes (20%);
- support to products and commercial campaigns (20%).

18 FTEs were employed for projects carried out in the year. 2 FTEs and 4.5 FTEs were employed on routine activities and security of IT systems, respectively.

Major projects conducted in the year included:
- development of performance dashboards to monitor key business metrics across the organisation, in collaboration with Milan' Catholic University;
- implementation of a new model for the assessment of the suitability of customers' investment choices (MiFID);
- pilot project for the use of the digital signature on contracts and orders;
- development of a new Cost Management model and design of new processes for management and control of spending and investments.

Health and Safety in the workplace

Further actions were taken in 2012 to ensure a healthy and safe workplace environment and promote a safety culture under the Occupational Health & Safety (OHS) system in place within the organisation, engaging the entire workforce.

Numerous 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 Manager and staff.

At year end 2012, the Prevention and Protection Service consisted of 7 workers' representatives for health and safety in the workplace, 74 first aid attendants and 60 fire emergencies attendants. In December, 20 additional people received training in first aid and fire emergencies. At the HQ in addition to first-aid kits there are 4 External Semi-automatic Defibrillators (DAE Fred Easy On-Line Schiller) located at the reception of the various buildings. 23 volunteers among staff trained in first aid took the Basic Life Support Defibrillation (BLS-D) course to become qualified users of said defibrillators.

In 2012, the main updates incorporated into the Risk Assessment Document (under Legislative Decree 81/2008) included the reviewed assessment of work-related stress in accordance with ISPESL regulations. In accordance with the Organisational and Management Model there were 10 Safety Meetings attended by the Safety team and as many workplace hazard surveys to ensure compliance and put in place corrective measures, if needed.

New hires received OHS training under a dedicated program. The refresher course for workers' representatives was held in November 2012.

On the Innova intranet under the section dedicated to Safety, people can find all information on the organisation's occupational health & safety (OHS) system, including first aid procedures, emergency numbers, injury tables, the OHS organisation chart and the location of first aid kits.

Under the medical surveillance program in 2012 the occupational physician and related health care centres had about 700 employee checkups. Again in 2012, vaccination against seasonal influenza was provided to people working for the organisation. In collaboration with Avis (Italian Blood Donors' Association) two blood drives were held at the HQ.

The main OHS structural measures taken in 2012 included:

- installation of a water tank for hydrants;
- complete installation of smoke detectors under the floor and in false ceilings;
- extraordinary maintenance of lifts;
- replacement and upgrade of door push bars.

Routine annual activities included:

- sanitation of work stations and specific equipment;
- replacement of air filters;
- periodic and preventive disinfestations, both indoors and outdoors;
- review, checks and maintenance of fire-fighting systems and equipment;
- review, checks and maintenance of the electric systems;
- review, checks and maintenance of lifting equipment.

Occupational infrastructure, microclimate and environmental quality continued to be monitored in the year. Specifically, this included:

- measurements to assess the level of acoustic comfort;

- measurements to asses the level of exposure to electromagnetic fields in the workplace;
- measurements and tests to determine the concentration of dust/outdoor particles coming in through supply air ducts;
- measurement and tests to assess microclimate quality (e.g. temperature – air exchange/speed, comfort), tap water, (drinkability, testing for legionnaire's disease bacterium), water for climate control systems, tanks (testing for legionnaire's disease bacterium and bacterial load), indoor air (particles, allergens, microbiological loads);
- testing for asbestos at peripheral sites.

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 Fiduciaria 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 (Banco Mediolanum, 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, 2012, the Internal Audit team consisted of 16 people (vs. 15 at December 31, 2011).

Compliance & Risk Control

For the Bank and – under the relevant service agreements – also for other Group subsidiaries and associates, Banca Mediolanum's Compliance & Risk Control team is responsible for monitoring exposure to financial and credit risks, assessing the impact of operational, legal and reputational risks on financial position, and monitoring capital adequacy vis-à-vis the activities performed. The team also monitors the banking, financial and insurance regulatory environments to ensure compliance and assesses 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.
In 2012 the Compliance & Risk Control team conducted compliance and operational risk assessments to identify any need for mitigation actions strengthening the controls in place.
In view of increasingly fine-tuning risk controls, projects and actions for improvement carried out in the year included increased efficiency and better formalisation of certain organisational processes, automation of certain processes that had been largely manual, activation of additional checkpoints, analysis of new initiatives. A system of indicators for the remote identification of any compliance and operational risks as well as controls of the effectiveness of checkpoints in place were further developed. To increasingly promote a control culture across the organisation ample space was given to information and training sessions to that end, including a basic course on compliance titled '*il valore della regola*' (the value of rules) for operational staff, and other specialist training for control team members.

As part of the usual review and update of risk management and compliance policies special attention was given to reputational risk in order to further strengthen controls of behaviour, factors and circumstances which could adversely impact the image of the Bank and the Group among customers, employees, suppliers, regulators and, generally, all stakeholders.

In 2012, the team conducted all exercises required under ICAAP whose findings confirmed again the capital strength of the Mediolanum Banking Group including in stress scenarios. The Mediolanum Banking Group again participated in quarterly studies to assess the impact of Basel 3 rules. Reassuring indications emerged from those studies about the capital adequacy of the Mediolanum Banking Group with respect to the new Basel 3 capital and liquidity requirements to be progressively introduced beginning from 2015.

At December 31, 2012, the Compliance & Risk Control team consisted of 31 people versus 36 people in the prior year. The decline is exclusively owed to the reorganisation of customer complaint management that entailed the centralisation of customer complaint registration, analysis and investigation into the newly formed Customer Relationship Management unit. The Compliance & Risk Control team is still the responsible for oversight including for assessing whether further risk mitigation measures need to be introduced into organisational processes and procedures upon completion of customer complaint analysis.

In 2012, customer complaints were down about 25% from 6,436 in 2011 to 4,846 (excluding those re-opened because the response was considered unsatisfactory by customers). As you may recall the prior year's peak had been owed to connection problems encountered with the InMediolanum online deposit account upon its launch.

The analysis of the 4,402 complaints examined and solved at December 31, 2012 shows that 815 complaints, accounting for 18% of total complaints, were upheld, and 20 of them were the subject of a settlement with the customer.

The in-depth analysis made by the Compliance & Risk Control team of complaints received, in a limited number of cases prompted the adoption of improvements of specific points of processes or internal procedures.

The analysis of 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.

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, 2012, the Network Inspection unit had a total of 28 staff in line with the prior year. The Banking Services Center staff providing assistance to Network Inspection unit consisted of 4-6 people.

In 2012, family bankers irregularities reported to Supervisory Authorities were 53 versus 57 in 2011. As further protection, in 2012, the Bank renewed the policy taken out to cover any illegal actions committed by the sales force to the detriment of customers.

Treasury management

At year end 2012, loans to banks aggregated to €1,624 million versus €2,334 million at year end 2011. Interbank lending was 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 by €1,853 million to €10,622 million from €8,769 million at year end 2011:

€/million	2012	2011
Held to Maturity Investments	1,021	689
Available-for-Sale Financial Assets	8,124	5,723
Financial Assets Held for Trading	587	692
Financial Liabilities Held for Trading	(257)	(332)
Loans & Receivables (banks and customers)	1,147	1,997
Total	10,622	8,769

The increase in securities held reflects purchases of Italian treasuries to take advantage of their greater yields, but with very short duration to keep interest rate risk low; purchases were concentrated in the early part of the year moving ahead of maturities for securities already held to maximise returns.
Therefore the weight of government securities out of total securities held increased from 69% at year end 2011 to 83.5% at year end 2012, while the weight of floating rate securities out of total holdings declined from 44% at year end 2011 to 29% at year end 2012.
Italian treasuries accounted for 97% of total government securities held, followed by Spanish treasuries that accounted for 2%.
The portfolio is largely made up of euro-denominated instruments with no exposure to currency risk. Average duration of 1.20 confirms the low risk of the portfolio.

A*vailable-for-sale financial assets* were up €2,401 million over the prior year's balance. The AFS equity reserve recorded a positive balance of €78.6 million up €221 million over the prior years negative balance of €143 million.
Held-to-Maturity investments increased by €332 million over the prior year's balance, and *Financial assets held for trading* net of *Financial liabilities held for trading* were down €30 million to €330 million.
Consisting of ABS and securities issued by Eurozone banks and governments not quoted in an active market, *Loans and Receivables* were down from €1,997 million in the prior year to €1,147 million as a result of maturities.
Net interest income grew by €85 million to €275 million from €190 million at year end 2011. Net financial income came in at €307 million up €143 million from €164 million in the prior year, driven by gains on securities held for trading.

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

€/million	2012	2011
Net interest income	275	190
Net income from trading	38	(28)
Net income from hedging	(4)	(5)
Net gains (losses) on sale of financial assets	(2)	6
Total	307	163

Equity and capital ratios

At December 31, 2012, shareholders' equity, excluding net profit, amounted to €780.2 million versus €406.9 million at December 31, 2011. The €373.3 million increase reflects the capital increase (€150 million), the gains on available-for-sale financial assets (€221.5 million), the appropriation of net profit for the year 2011 to reserves (€1.1 million) and the movements in equity reserves in connection with stock options (+€0.7 million).
After the approval by the shareholders at the AGM of the appropriation of net profit for the year 2012 as proposed by the Board of Directors, equity amounts to €809.5 million up €401.5 million over the prior year. This corresponds to a net book value of €1.35 (vs. €0.91 in 2011) per €1 share. Earnings per share (EPS) amount to €0.315 versus €0.036 in 2011.
Total capital ratio (regulatory capital /RWA) was 21.64% versus 19.76% in the prior year, well above the minimum requirement of 8%. Tier 1 capital ratio was 19.25% versus 16.14% in the prior year.

MEDIOLANUM BANKING GROUP

At December 31, 2012, the Bank's investments in Banking Group companies amounted to €367.7 million versus €353.2 million in the prior year. The €14.5 million increase over the prior year reflects:
- the *€21.7 million increase* following the acquisition of the company *Fermi & Galeno Real Estate S.r.l.*;
- the *€8.4 million decline* relating to the write-downs of the investment in the subsidiary *Bankhaus August Lenz A.G.* following the loss recorded for financial year 2012;
- the *€1.1 million increase* following the contributions made for future capital increases to the subsidiary *Mediolanum Fiduciaria S.p.A.* (€1.5 million) and write-downs following the losses recorded for financial year 2012 (€0.4 million).

Impairment test of equity investments

The Board of Directors of the Bank approved the procedures for impairment review at December 31, 2012 of its equity investments in Banco de Finanzas e Inversiones SA (Banco Mediolanum) and Gamax Management AG (Gamax) in accordance with IAS 36. Following the write-down of the investment in Bankhaus August Lenz & Co AG (BAL) made in 2011, the carrying amount of this subsidiary is aligned with its equity value therefore no testing was needed to determine its recoverable amount.

For the purpose of impairment review at December 31, 2012, Banca Mediolanum requested the assistance of a primary specialist firm. The valuations were based on cash-flow estimates derived from the 2013-2015 Plans approved by the Board of Directors of Banca Mediolanum on February 13, 2013, applying industry standard methods best suited for the purposes of the exercise in the specific cases, in accordance with applicable accounting standards.
In their February 28, 2013 report the independent valuers concluded that – with due consideration of the limits inherent in the use of estimates that are 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.
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 Mediolanum S.A.

For financial year 2012 the Spanish Group reported net profit of €30.3 million versus €6.8 million in the prior year, thanks to the positive contribution of treasury operations (up €42.2 million before tax), offset, in part, by greater amounts set aside for legal disputes (up €12.5 million before tax).
In the year under review, gross inflows into asset management products amounted to €285.2 million, remaining essentially in line with the prior year's balance, and net inflows were €88.2 million versus €98.3 million in the prior year. Assets under administration recorded inflows of €26.2 million versus net outflows of €3.7 million at the end of the prior year.
At year end 2012, total assets under management and under administration amounted to €1,799.6 million versus €1,581.2 million at December 31, 2011.
The sales network consisted of 590 people (vs. 549 at December 31, 2011), of whom 551 tied advisors (vs. 505 at year 2011).

Bankhaus August Lenz & Co. AG

For financial year 2012 the company reported a net loss of €8.4 million versus €14.2 million in the prior year when financial results had been impacted in particular by net financial income coming in negative at €6.3 million.
Net inflows into asset management products amounted to €26.4 million versus €17.4 million in the prior year. Administered assets recorded net inflows of €28.2 million versus €33.3 million in the prior year.
At year end 2012, total assets under management and under administration amounted to €214.5 million versus €145.1 million at December 31, 2011.
The sales network consisted of 46 people (vs. 42 at year end 2011).

Gamax Management AG

At December 31, 2012, this Luxembourg-based company reported net profit of €4.1 million, in line with the prior year's balance of €4.2 million.
In the retail segment, the company recorded net outflows of €0.1 million versus net inflows of €1.1 million in the prior year. At year end 2012, assets under management amounted to €228.4 million versus €204.8 million at the end of the prior year.
At December 31, 2012 total assets under management (Retail + Institutional) amounted to €409 million versus €378 million in the prior year.

Mediolanum Gestione Fondi SGR p.A.

For financial year 2012, the company reported net profit of €35 million versus €12.5 million in the prior year. The bottom line benefitted in particular from the positive contribution of performance fees earned in the year.
At December 31, 2012, assets managed directly by this company amounted to €3,377.4 million up 29.3% from €2,612.2 million at December 31, 2011, benefitting from both growth in net inflows (€577.2 million) and the positive performance of financial markets.
Assets managed on mandates from fellow subsidiaries amounted to €15,016.9 million versus 15,564.4 million at December 31, 2011, down 3.5% largely owed to declines in Mediolanum Plus policy-associated assets.

Mediolanum International Funds Ltd

For financial year 2012 the company reported net profit of €261.4 million up €58.4 million over the prior year (FY 2011: €203.0 million), largely due to the increase in performance fees earned in the period (up €46.6 million).
At the end of the year under review, the company reported net inflows of €1,718.9 million versus €1,598.1 million at December 31, 2011.
At December 31, 2012, total assets under management amounted to €20,952 million up 16.6% compared to €17,975 million in the prior year.
In October 2012, the company resolved to distribute a 2012 interim dividend for a total amount of €207.0 million versus €114.0 million in the prior year.

Mediolanum Asset Management Ltd

For financial year 2012 this company reported net profit of €14.2 million up €0.7 million from €13.5 million at December 31, 2011.
In October 2012, the company resolved to distribute a 2012 interim dividend for a total amount of €1.0 million versus €6.0 million in the prior year.

Mediolanum Fiduciaria S.p.A.

For financial year 2012 Mediolanum Fiduciaria S.p.A. reported a net loss of €402 thousand versus a loss of €65 thousand at the end of the prior year. This was largely in connection with start-up and operating costs of this recently incorporated entity that at year end 2012 had not yet recorded significant revenues given the still small number of mandates received.

Tax Claims

As you may recall two separate Audit Reports had been issued in past years following the field audit Italy's Tax Police (Milan Office – 1st Revenue Protection Group) started on September 16, 2010 and concluded on February 28, 2011. One Audit Report had been issued on October 29, 2010 claiming a total adjustment of €48.3 million to IRES and IRAP taxable income for tax year 2005, the other on February 28, 2011 claiming a total adjustment of €121.4 million to IRES and IRAP taxable income for tax years from 2006 through 2009, all relating to fees rebated by the Irish subsidiary Mediolanum International Funds Ltd.
On April 29, 2011, the Bank had filed a brief prepared pursuant to section 12, paragraph 7, Act 212 of July 27, 2000 with the IRS Lombardy Office whereby the Bank had asserted the illegitimacy of the claims and its law-abiding conduct, requesting in any case the application of the penalty waiver clause under Article 26 of Italy's Decree Law 78 of May 31, 2010.
On December 21, 2012 the Bank was notified three Notices of IRES Tax Due and Demands for Payment and as many Notices of IRAP Tax Due and Demands for Payment for tax years 2005, 2006 and 2007, claiming adjustments to taxable income aggregating to €333.5 million, resulting in €110.1 million IRES tax due plus €85.7 million penalties, and €17.5 million IRAP tax due plus €13.6 million penalties.
The Bank believes the analysis developed by the IRS in the Notices is illegitimate besides being groundless as to the adjustments to taxable income claimed and illegitimate as to the penalties given that the waiver under Art. 26 of Decree Law 78/2010 was not applied although the tax administration itself recognised formal compliance of documentation produced within the required deadline.
However, in the light of the complexity of the matter which involves also the subsidiary Mediolanum International Funds Ltd, the Bank started the procedure under the EU Arbitration Convention (Convention 90/436/EEC) for adjudication of its case by the competent Irish and Italian tax authorities.
As to the outcome of the claims above for which the procedure under the international Arbitration Convention was initiated, considering that transfer pricing applied by the Bank is within the arm's length range as determined by independent economists, the directors believe based, *inter alia*, on the opinion of an independent advisor, the risk is only possible and, in addition, since the pending issues relate to determinations, no sufficiently reliable estimate can be made of the amount of the obligation that may ultimately result.

In the light of the foregoing no provision was made in the separate accounts for the year ended December 31, 2012.

Finally, we inform you that the claim aggregating to €64 million raised by the tax administration for alleged failure to apply VAT to the indirect commissions (so-called overrides) paid to certain sales network members for their supervision and coordination of other sales network members from tax year 2006 through September 16, 2010 (the start date of the Tax Police audit) had a positive conclusion for the Bank.
The complete groundlessness of the claim was confirmed by the IRS Assessment Office that in its Note No. 2012/82261 of May 30, 2012 clearly affirmed the tax-exempt status for overrides paid to certain sales network members for their supervision and coordination of other sales network members pursuant to paragraph 1 N. 9 of article 10 of the Decree of the President of the Italian Republic No. 633/197.

Social and environmental responsibility

For information on the social and environmental responsibility policy, readers are referred to the Mediolanum Group's Social Report 2012.

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, 2012 were prepared based on the going concern assumption. Following their examination of the financial position, results 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, 2012, 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

After December 31, 2012, there was no event which could have a significant impact on the financial position, results of operations and cash flows of the Bank.

Outlook

In October 2012 and again in January 2013 the International Monetary Fund (IMF) lowered its forecasts for global economic growth noting that the recovery continues, but it has weakened.
2013 may unfold showing commonalities with the recently ended year: moderate growth, fiscal tightening, monetary easing and no major concern about inflation.
In such an environment, Banca Mediolanum will continue to be focused on its all-around offering of ever more sophisticated products and services to protect the savings and grow the assets of its customers. Income from treasury operations will continue to be linked to the performance of markets.
With due consideration of the developments outlined under 'Tax Claims' 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 2013 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.
Finally, we take this opportunity to extend special thanks to Bank of Italy's Governor, Ignazio Visco, and ECB President Professor Mario Draghi for 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 €189,264,127.21. Considering the recent €150 million capital increase, as well as the sound capital ratios with Tier 1 at 19.25% for the Bank and at 12.14% for the Banking Group (FY 2011: 16.14% for the Bank and 9.41% for the Banking Group), we propose to distribute a €0.26667 dividend per share, for a total amount of €160,002,000.00 and to appropriate the rest of the year's net profit as follows:

- €9,463,206.36 to the Legal Reserve;
- €19,798,920.85 to the Extraordinary Reserve.

Basiglio, March 19, 2013

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

Accounts 2012

Statement of financial position

Assets

€	Dec. 31, 2012		Dec. 31, 2011	
10. Cash and cash equivalents		1,731,394		2,536,104
20. Financial assets held for trading		587,294,528		692,294,927
40. Available-for-sale financial assets		8,123,519,846		5,722,538,598
50. Held-to-maturity investments		1,021,030,566		688,872,892
60. Loans to banks		1,654,862,706		2,334,018,523
70. Loans to customers		4,917,775,267		4,067,333,530
80. Hedging derivatives		1,366,359		-
100. Equity investments		367,709,475		353,166,628
110. Tangible assets		16,529,518		16,839,073
120. Intangible assets		13,961,299		11,390,863
of which:				
- goodwill		-		-
130. Tax assets		148,007,949		220,952,543
a) current	55,250,783		81,734,464	
b) deferred	92,757,166		139,218,079	
b1) of which under statute 214/2011	-		-	
140. Non-current assets and disposal group		-		-
150. Other assets		210,758,335		227,872,975
Total assets		17,064,547,242		14,337,816,656

Liabilities and Shareholders' Equity

€		Dec. 31, 2012		Dec. 31, 2011
10. Due to banks		3,460,731,531		5,128,381,725
20. Due to customers		11,634,100,268		7,584,989,904
30. Securities issued		94,720,056		285,630,795
40. Financial liabilities held for trading		256,994,391		332,482,854
60. Hedging derivatives		92,888,407		67,895,588
80. Tax liabilities		111,164,390		18,861,516
a) current	45,774,285		9,121,635	
b) deferred	65,390,105		9,739,881	
100. Other liabilities		261,272,321		330,968,139
110. Employee completion-of-service entitlements		9,333,049		8,828,972
120. Provisions for risks and charges:		173,892,060		156,758,085
a) severance benefits and similar obligations	-		-	
b) other provisions	173,892,060		156,758,085	
130. Valuation reserves		78,580,389		(142,936,935)
160. Reserves		101,606,253		99,827,010
180. Share capital		600,000,000		450,000,000
200. Net profit (loss) for the year (+/-)		*189,264,127*		*16,129,003*
Total liabilities and shareholders' equity		17,064,547,242		14,337,816,656

Income statement

€		Dec. 31, 2012		Dec. 31, 2011
10. Interest income and similar income		484,699,306		338,919,676
20. Interest expense and similar charges		*(209,590,869)*		*(148,855,120)*
30. Net interest income		275,108,437		190,064,556
40. Commission income		406,806,507		378,962,224
50. Commission expense		*(331,426,152)*		*(273,839,166)*
60. Net commission income		75,380,355		105,123,058
70. Dividends and similar income		171,007,002		124,520,522
80. Net income from trading		38,069,650		*(28,493,923)*
90. Net income from hedging		*(4,279,108)*		*(3,813,355)*
100. Gains (losses) on sale or buyback of:		*(1,810,901)*		6,522,988
a) loans and receivables	30,270		194,545	
b) available-for-sale financial assets	*(1,986,183)*		5,021,038	
c) held-to-maturity investments	29,887		1,045,581	
d) financial liabilities	115,125		261,824	
120. Total income		553,475,435		393,923,846
130. Impairment losses on:		*(10,354,181)*		*(90,626,424)*
a) loans	*(8,708,835)*		*(6,180,636)*	
b) available-for-sale financial assets	*(1,611,010)*		*(68,962,311)*	
c) held-to-maturity investments	-		*(15,499,853)*	
d) other financial instruments	*(34,336)*		16,376	
140. Net income from financial operations		543,121,254		303,297,422
150. Administrative expenses		*(273,524,004)*		*(257,059,275)*
a) staff costs	*(109,494,396)*		*(100,326,394)*	
b) other administrative expenses	*(164,029,608)*		*(156,732,881)*	
160. Provisions for risks and charges		*(35,946,454)*		*(33,984,909)*
170. Depreciation and net impairment of tangible assets		*(2,526,362)*		*(2,292,694)*
180. Amortisation and net impairment of intangible assets		*(6,214,884)*		*(8,927,853)*
190. Other operating income		*14,196,350*		12,693,558
200. Operating expenses		*(304,015,354)*		*(289,571,173)*
210. Profit (loss) on equity investments		*(8,820,653)*		*(16,373,407)*
240. Profit (loss) on disposal of investments		4,599		27,840
250. Profit (loss) before tax on continuing operations		230,289,846		*(2,619,318)*
260. Income tax expense on continuing operations		*(41,025,719)*		18,748,321
270. Profit (loss) after tax on continuing operations		*189,264,127*		*16,129,003*
290. Profit (loss) after tax		*189,264,127*		*16,129,003*
Earning per share (EPS)		0.315		*0.036*

Statement of other comprehensive income

€		Dec. 31, 2012	Dec. 31, 2011
10.	Net profit (loss) for the year	189,264,127	16,129,003
	Other comprehensive income components after tax		
20.	Available for sale financial assets	221,517,324	(105,505,209)
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	221,517,324	(105,505,209)
120.	Total Comprehensive Income	410,781,451	(89,376,206)

Statement of Changes in Equity

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)

At December 31, 2012

€	Balance at Dec. 31, 2011	Adjustment to opening balances	Balance at Jan. 1, 2012	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	96,641,967	-	96,641,967	1,124,003	-
b) others	3,185,042	-	3,185,042	-	-
Valuation reserves:	(142,936,935)	-	(142,936,935)	-	-
Equity instruments	-	-	-	-	-
Treasury shares	-	-	-	-	-
Net profit (loss) for the year	16,129,003	-	16,129,003	(1,124,003)	(15,005,000)
Shareholders' equity	423,019,077	-	423,019,077	-	(15,005,000)

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, 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

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, 2012	Shareholders' equity at Dec. 31, 2012
-	150,000,000	-	-	-	-	-	-	600,000,000
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	655,241	-	98,421,211
-	-	-	-	-	-	-	-	3,185,042
-	-	-	-	-	-	-	221,517,324	78,580,389
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	189,264,127	189,264,127
-	150,000,000	-	-	-	-	655,241	410,781,451	969,450,769

Statement of cash flow

Indirect Method

€	Dec. 31, 2012	Dec. 31, 2011
A. OPERATING ACTIVITIES		
1. Operating activities	289,407,030	192,133,836
- net profit (loss) for the year	189,264,127	16,129,003
- gains/losses on financial assets held for trading and on financial assets/liabilities at fair value	(14,772,791)	32,706,238
- gains/losses on hedges (+/-)	4,279,108	3,813,355
- net impairment/reversal (+/-)	10,354,180	90,626,424
- amortisation, depreciation and net impairment of tangible and intangible assets (+/-)	8,741,247	11,220,547
- net provisions for risks and charges and other costs/reverves (+/-)	41,000,672	39,008,954
- unpaid taxes (+)	41,025,719	(18,748,321)
- net impairment/reversal of disposal groups after tax (+/-)	-	-
- other adjustments (+/-)	9,514,768	17,377,635
2. Cash generated/used by financial assets	(2,367,559,497)	(3,965,981,497)
- financial assets held for trading	116,939,322	222,006,388
- financial assets at fair value	(1,366,360)	-
- available-for-sale financial assets	(2,179,463,923)	(4,030,433,164)
- loans to banks: on demand	155,529,735	446,260,973
- loans to banks: other loans	523,626,082	(364,069,286)
- loans to customers	(860,795,917)	(10,260,998)
- other assets	(122,028,436)	(229,485,410)
3. Cash generated/used by financial liabilities	2,137,852,982	3,313,269,794
- due to banks: on demand	(185,905,108)	15,806,019
- due to banks: other amounts due	(1,481,745,086)	2,919,171,930
- due to customers	4,049,110,364	379,886,262
- securities issued	(190,910,739)	(54,848,334)
- financial liabilities held for trading	(72,654,595)	(109,705,499)
- financial liabilities at fair value	20,713,710	35,572,537
- other liabilities	(755,564)	127,386,879
Net cash generated by/used in operating activities	59,700,515	(460,577,867)
B. INVESTING ACTIVITIES		
1. Cash from	596,193,306	(340,693,491)
- sale of equity investments	-	-
- dividends received from equity investments	171,007,002	124,520,522
- sale of held-to-maturity investments	423,426,700	(465,227,164)
- sale of tangible assets	936,230	13,151
- sale of intangible assets	823,374	-
- sale of business lines	-	-
2. Cash used for	(791,693,531)	861,235,650
- purchase of equity investments (including contributions to cover losses)	(23,363,500)	(10,128,162)
- purchase of held-to-maturity investments	(755,584,374)	885,549,578
- purchase of tangible assets	(2,300,554)	(823,666)
- purchase of intangible assets	(10,445,103)	(13,362,100)
- purchase of business lines	-	-
Net cash generated by/used in investing activities	(195,500,225)	520,542,159
C. FINANCING ACTIVITIES		
- issue/purchase of treasury shares	150,000,000	-
- issue/purchase of equity instruments	-	-
- dividend distribution and other	(15,005,000)	(60,003,000)
Net cash generated by/used in financing activities	134,995,000	(60,003,000)
NET CASH GENERATED/USED IN THE YEAR	(804,710)	(38,708)

RECONCILIATION

€	Dec. 31, 2012	Dec. 31, 2011
Financial item		
Cash and cash equivalents at beginning of the year	2,536,104	2,574,812
Total net cash generated/used in the year	(804,710)	(38,708)
Cash and cash equivalents: effect of movements in exchange rates	-	-
Cash and cash equivalents at end of the year	1,731,394	2,536,104

Notes to the Separate Annual Financial Statements 2012

Notes to the Separate Annual Financial Statements

These notes are structured as follows:

Part A - Accounting policies

Part B - Information on the statement of financial position

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, 2012 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, 2012 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, 2012, 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 Statement of financial position, the Income Statement, the Statement of Other 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, 2011. Where necessary, for the sake of comparability of financial information, certain reclassifications were made with respect to prior period's comparative information.

Accounts

Statement of financial position and Income Statement

The Statement of financial position 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 shown within parentheses.

Statement of Other Comprehensive Income

The Statement of Other 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 shown within parentheses.

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 statement of cash flow 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 2012 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 results of operations for the year 2012 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, 2012.
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, 2011.

New standards, interpretations and amendments to standards that have been adopted by the Bank beginning from January 1, 2012

The Bank has adopted amendments to IFRS 7 '*Financial Instruments: Disclosures*' issued by the IASB on October 7, 2010 that became effective for financial years beginning on January 1, 2012. The IASB issued said amendments to allow users of financial statements to improve their understanding of transfers of financial assets (derecognition), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The adoption of said amendments did not have any material impact on the separate financial statements.

New standards, interpretations and amendments to standards that are not yet effective and have not been adopted early by the Bank

On June 16, 2011, the IASB issued an amendment to IAS 1 '*Presentation of Financial Statements*'. The amendment requires companies to group items of Other Comprehensive Income according to whether they may be subsequently reclassified to profit or loss. Application of the revised standard is required for financial years beginning on or after July 1, 2012. The adoption of this amendment in these financial statements would have had no impact on the financial position, results of operations and cash flows of the Bank, but it would have entailed rearranging the presentation of items of other comprehensive income.
On June 16, 2011, the IASB also issued an amendment to IAS 19 '*Employee Benefits*'. The amendment eliminates the option to defer the recognition of actuarial gains/losses under the 'corridor' approach, requiring immediate recognition of changes in the plan's net assets/liabilities, recognition in the income statement of service costs, interest cost as well as of actuarial gains/losses resulting from the re-measurement of assets and liabilities in Other Comprehensive Income. Expected returns on plan assets are replaced by recognition in the income statement of interest income calculated using the discount rate used to measure the obligation. The amended standard also introduces additional information disclosures in the notes to the financial statements. The amended standard will become effective for annual periods beginning on or after January 1, 2013 with retrospective application required. The introduction of the amended standard will have an impact on the Group's equity on its first-time adoption, due to the different requirement for recognition of actuarial gains/losses. At the date of these financial statements, the Group estimates the impact of the adoption of the amended standard will be about €579 thousand reduced costs in the income statement and the concurrent recognition of a negative equity reserve of €420 thousand after tax.

On December 20, 2010, the IASB issued an amendment to IAS 12 – '*Income Taxes – Deferred Tax: Recovery of Underlying Assets*' clarifying how deferred tax liabilities and assets on investment properties measured at fair value are to be determined. The amendment was endorsed by the EU with the publication of 'Commission Regulation (EU) 1255/2012 of December 11, 2012' in the EU Official Journal L 360 of December 29, 2012. The amendment introduced the presumption that the carrying amount of investment properties measured using the fair value model in IAS 40 would be recovered through sale and the measurement of deferred tax liabilities or assets should reflect the consequences of recovering the carrying amount through sale. The amendment made to IAS 12 superseded SIC Interpretation 21 '*Income Taxes – Recovery of Revalued Non-Depreciable Assets*' that was withdrawn. The amendment to IAS 12 will become effective for financial years beginning on or after the date on which the EU Regulation entered into force (which was the third day following its publication in the EU Official Journal). The adoption of the amendment to IAS 12 in these financial statements would have had no impact on the financial position, results of operations and cash flows of the Bank nor on other disclosures.

On May 12, 2011, the IASB issued IFRS 10 '*Consolidated Financial Statements*' superseding SIC 12 '*Consolidation – Special Purpose Entities*' and the requirements relating to consolidated financial statements of IAS 27 '*Consolidated and Separate Financial Statements*'. The amended IAS 27 titled '*Separate Financial Statements*' sets out the requirements for accounting treatment of investments in subsidiaries, joint ventures, and associates in separate (non-consolidated) financial statements. The new standard IFRS 10 was endorsed by the EU with publication of 'Commission Regulation (EU) 1254/2012 of December 11, 2012' in the EU Official Journal L 360 of December 29, 2012. Built on existing principles, the new standard identifies control as the basis to determine which entities are to be consolidated by the parent company in its consolidated accounts. It also provides guidance on how to assess control to determine whether or not the parent has control over an entity. The standard shall be applied at the latest as from the commencement date of the entity's financial year starting on or after January 1, 2014. Early adoption is permitted provided that IFRS 10 is adopted at the same time as IFRS 11, IFRS 12, IAS 27 and IAS 28. Only IFRS 12 can be adopted early without the others. The adoption of the new standard IFRS 10 in these financial statements would have had no impact on the financial position, results of operations and cash flows of the Bank.

On May 12, 2011, the IASB issued IFRS 11 '*Joint Arrangements*' superseding IAS 31 '*Interests in Joint Ventures*' and SIC 13 '*Jointly Controlled Entities – Non-Monetary Contributions by Venturers*'. The new standard was endorsed by the EU with publication of 'Commission Regulation (EU) 1254/2012 of December 11, 2012' in the EU Official Journal L 360 of December 29, 2012. The new standard establishes principles for financial reporting of joint arrangements, for their classification based on the rights and obligations of the parties to the arrangements instead of their legal form, and that jointly controlled entities that meet the definition of a joint venture must be accounted for exclusively by using the equity method in the consolidated financial statements. Following the issue of IFRS 11, IAS 28 '*Investments in Associates*' was amended to include in its scope from the effective date of IFRS 11 also joint ventures (revised IAS 28 '*Investments in Associates and Joint Ventures*'). IFRS 11 shall be applied at the latest as from the commencement date of the entity's financial year starting on or after January 1, 2014. Early adoption is permitted provided that IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28 are adopted at the same time. Only IFRS 12 can be adopted early without the others. The adoption of the new standard in these financial statements would have had no impact on the financial position, results of operations and cash flows of the Bank.

On May 12, 2011, the IASB issued IFRS 12 '*Disclosure of Interests in Other Entities*'. This new standard includes all disclosure requirements for all interests in other entities, including subsidiaries, joint arrangements, associates, structured entities and unconsolidated entities. The new standard was endorsed by the EU with publication of 'Commission Regulation (EU) 1254/2012 of December 11, 2012' in the EU Official Journal L 360 of December 29, 2012. IFRS 12 shall be applied at the latest as from the commencement date of the entity's financial year starting on or after January 1, 2014. Early adoption of IFRS 12 is permitted. The adoption of the new standard in these financial statements would have had no impact on the financial position, results of operations and cash flows of the Bank. The Group is assessing the potential impact on disclosures relating to subsidiaries.

On May 12, 2011, the IASB issued IFRS 13 '*Fair Value Measurement*' that clarifies how fair value is to be measured. IFRS 13 applies anytime another IFRS requires or permits fair value measurements or disclosures about measurements based on fair value. The new standard was endorsed by the EU with publication of 'Commission Regulation (EU) 1255/2012 of December 11, 2012' in the EU Official Journal L 360 of December 29, 2012. IFRS 13 shall be applied at the latest as from the commencement date of the entity's financial year starting on or after January 1, 2013. Early adoption of IFRS 13 is permitted. The Group is assessing the potential impact of the adoption of the new standard.

On December 16, 2011, the IASB issued amendments to IAS 32 '*Financial Instruments: Presentation- Offsetting Financial Assets and Financial Liabilities*' to provide additional guidance on consistent application of IAS 32 regarding offset of financial assets and financial liabilities. The new standard was endorsed by the EU with publication of 'Commission Regulation (EU) 1256/2012 of December 13, 2012' in the EU Official Journal L 360 of December 29, 2012. The revised standard shall be applied at the latest as from the commencement date of the entity's financial year starting on or after January 1, 2014. Early adoption is permitted for amendments to IAS 32 provided that they are adopted together with amendments to IFRS 7. The adoption of the revised standard in these financial statements would have had no impact on the financial position, results of operations and cash flows of the Bank, nor on other disclosures.

On December 16, 2011, the IASB issued amendments to IFRS 7 '*Financial Instruments: Disclosures*' to require the provision of information on the effects or potential effects of offsetting financial assets and liabilities on the statement of financial position. The new standard was endorsed by the EU with publication of 'Commission Regulation (EU) 1256/2012 of December 13, 2012' in the EU Official Journal L 360 of December 29, 2012. The revised standard shall be applied at the latest as from the commencement date of the entity's financial year starting on or after January 1, 2013. The adoption of the new standard in these financial statements would have had no impact on the financial position, results of operations and cash flows of the Bank, nor on other disclosures.

On May 17, 2012, the IASB issued a collection of amendments to IFRSs ("Annual Improvements to IFRSs – 2009-2011 Cycle") to be applied retrospectively to annual periods beginning on or after January 1, 2013. Amendments relate, *inter alia*, to the following standards:

IAS 1 – *Presentation of financial statement*. The amendment clarifies requirements for presentation of comparative information when an entity changes accounting policies or makes retrospective restatements or reclassifications, and when an entity provides an additional statement of financial position that is more than information required under the standard.

IAS 16 – *Property, Plant and Equipment*. The amendment clarifies that spare parts, stand-by or servicing equipment are to be capitalised only when they meet the definition of property, plant and equipment (PPE), otherwise they are to be classified as Inventory.

IAS 32 – *Financial Instruments*. The amendment eliminates inconsistencies between IAS 32 and IAS 12 – *Income Taxes*, clarifying that income taxes relating to distributions to shareholders are to be recognised in the income statement to the extent to which they relate to income generated from transactions originally recognised in the income statement.

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.

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.

(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.

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 statement of financial position 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. 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 statement of financial position 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, 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 statement of financial position 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 statement of financial position 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 statement of financial position.
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.

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.

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. As to the discount rate it was decided to apply the rate implied in IBOXX EUR Corporate AA indices published by Markit Group Ltd as these indices correspond to the implied internal rate of return of euro-denominated liquid corporate securities. 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:
- estimates and assumptions used to determine the fair value of financial instruments that are not quoted in an active market (fair value hierarchy levels 2 and 3);
- identification of loss events as per IAS 39;
- assumptions used for the identification of any objective evidence of impairment of intangible assets and equity investments recognised in the statement of financial position;
- determination of impairment losses on loans and other financial assets;
- determination of provisions for risks and charges;
- estimates and assumptions for the determination of the probability of utilisation of deferred tax assets;
- assumptions used to determine the costs of stock options plans for top management and sales network members;
- assumptions used to determine employee completion-of-service entitlements.

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	Type of financial instrument	Reclassified from	Reclassified to	Book Value at Dec. 31, 2012	Fair value at Dec. 31, 2012	No reclassification impact on profit/loss (before tax)		Impact of reclassifications for the year (before tax)	
						Valuation	Other	Valuation	Other
	A. Debt securities			155,424	154,301	7,825	3,930	7,133	4,350
		HFT	AFS	141,144	141,144	7,133	3,740	7,133	4,160
		HFT	Loans to Customers	14,280	13,157	692	190	-	190

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 the following years.

A.3.2 Fair value hierarchy

A.3.2.1 Fair value hierarchy of financial assets and liabilities

€/'000	Dec. 31, 2012 Level 1	Dec. 31, 2012 Level 2	Dec. 31, 2012 Level 3	Dec. 31, 2011 Level 1	Dec. 31, 2011 Level 2	Dec. 31, 2011 Level 3
Financial Assets/Liabilities measured at fair value						
1. Financial assets held for trading	571,628	15,666	-	653,887	37,388	1,020
2. Financial assets at fair value	-	-	-	-	-	-
3. Available for sale financial assets	7,883,138	180,652	59,730	5,424,530	224,896	73,113
4. Hedging derivatives	-	1,366	-	-	-	-
Total	8,454,766	197,684	59,730	6,078,417	262,284	74,133
1. Financial liabilities held for trading	235,672	21,322	-	320,066	12,417	-
2. Financial liabilities at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	92,888	-	-	67,896	-
Total	235,672	114,210	-	320,066	80,313	-

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	1,020	-	73,113	-
2. Increases	9,950	-	13,872	-
2.1 Purchases	9,319	-	12,528	-
2.2 Profits recognised:				
2.2.1 through profit or loss:	608	-	659	-
- of which: gains	-	-	-	-
2.2.2 in equity	X	X	685	-
2.3 Transferred to other level	-	-	-	-
2.4 Other increases	23	-	-	-
3. Decreases	(10.970)	-	(27,255)	-
3.1 Sales	(5.723)	-	(20,777)	-
3.2 Redemptions	(75)	-	-	-
3.3 Losses recognised				
3.3.1 through profit or loss:	(132)	-	(706)	-
- of which: losses	-	-	(685)	-
3.3.2 in equity	X	X	(3,989)	-
3.4 Transferred to other level	(5.039)	-	(622)	-
3.5 Other decreases	(1)	-	(1,161)	-
4. Closing balance	-	-	59,730	-

PART B – INFORMATION ON THE STATEMENT OF FINANCIAL POSITION

ASSETS

Section 1 – Cash and cash equivalents – Caption 10

1.1 Analysis of cash and cash equivalents

€/'000	Dec. 31, 2012	Dec. 31, 2011
a) Cash	1,731	2,536
b) Demand deposits with Central Banks	-	-
Total	1,731	2,536

Cash and cash equivalents amounted to €1,731 thousand, of which €35 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, 2012			Dec. 31, 2011		
€/'000	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Non-derivatives						
1. Debt securities	571,628	13,016	-	653,875	36,284	1,020
1.1 Structured notes	4	7,547	-	17,682	4,806	127
1.2 Other debt securities	571,624	5,469	-	636,193	31,478	893
2. Equities	-	-	-	3	-	-
3. Holdings in UCITS	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 repurchase agreements	-	-	-	-	-	-
4.2 others	-	-	-	-	-	-
Total (A)	571,628	13,016	-	653,878	36,284	1,020
B. Derivatives						
1. Financial derivatives:	-	2,650	-	9	1,104	-
1.1 held for trading	-	2,650	-	9	1,104	-
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)	-	2,650	-	9	1,104	-
Total (A+B)	571,628	15,666	-	653,887	37,388	1,020

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

€/'000	Dec. 31, 2012	Dec. 31, 2011
A. Non-derivatives		
1. Debt securities	584,644	691,179
a) Governments and Central Banks	108,858	125,950
b) Government agencies	5,524	-
c) Banks	428,382	525,698
d) Other issuers	41,880	39,531
2. Equities	-	3
a) Banks	-	1
b) Other issuers:	-	2
- insurance companies	-	-
- financial companies	-	-
- non financial companies	-	2
- others	-	-
3. Holdings in UCITS	-	-
4. Loans	-	-
a) Governments and Central Banks	-	-
b) Government agencies	-	-
c) Banks	-	-
d) Others	-	-
Total A	584,644	691,182
B. Derivatives		
a) Banks		
- fair value	2,630	1,102
b) Customers		
- fair value	20	11
Total B	2,650	1,113
Total (A+B)	587,294	692,295

2.3 Year's movements in financial assets held for trading

€/'000	Debt securities	Equities	Holdings in UCITS	Loans	Total
A. Opening balance	691,179	3	-	-	691,182
B. Increases	9,544,751	4,829	91	-	9,549,671
B1. Additions	9,491,232	4,822	91	-	9,496,145
B2. Increases in fair value	22,740	-	-	-	22,740
B3. Other	30,779	7	-	-	30,786
C. Decreases	9,651,286	4,832	91	-	9,656,209
C1. Disposals	8,915,657	4,735	91	-	8,920,483
C2. Redemptions	726,724	-	-	-	726,724
C3. Decreases in fair value	247	-	-	-	247
C4. Reclassified to other portfolios	-	-	-	-	-
C5. Other	8,658	97	-	-	8,755
D. Closing balance	584,644	-	-	-	584,644

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

4.1 Analysis of available-for-sale financial assets

	Dec. 31, 2012			Dec. 31, 2011		
€/'000	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	7,871,993	104,502	-	5,414,671	111,050	21,185
1.1 Structured notes	-	-	-	-	-	-
1.2 Other debt securities	7,871,993	104,502	-	5,414,671	111,050	21,185
2. Equities	351	-	13,218	282	-	13,218
2.1 Measured at fair value	351	-	-	282	-	-
2.2 Measured at cost	-	-	13,218	-	-	13,218
3. Holdings in UCITS	10,794	76,150	46,512	9,577	113,846	38,710
4. Loans	-	-	-	-	-	-
Total	7,883,138	180,652	59,730	5,424,530	224,896	73,113

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

€/'000	Dec. 31, 2012	Dec. 31, 2011
1. Debt securities	7,976,495	5,546,906
a) Governments and Central Banks	7,667,064	5,116,427
b) Government agencies	-	-
c) Banks	264,557	421,931
d) Other issuers	44,874	8,548
2. Equities	13,569	13,500
a) Banks	-	-
b) Other issuers:	13,569	13,500
- insurance companies	-	-
- financial companies	5,720	5,649
- non financial companies	7,849	7,851
- others	-	-
3. Holdings in UCITS	133,456	162,133
4. Loans	-	-
a) Governments and Central Banks	-	-
b) Government agencies	-	-
c) Banks	-	-
d) Other issuers	-	-
Total	8,123,520	5,722,539

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

€/'000	Debt securities	Equities	Holdings in UCITS	Loans	Total
A. Opening balance	5,546,906	13,500	162,133	-	5,722,539
B. Increases	5,627,002	75	30,344	-	5,657,421
B1. Additions	5,123,536	-	24,870	-	5,148,406
B2. Increases in fair value	323,195	72	3,433	-	326,700
B3. Reversal of impairment	-	3	1,608	-	1,611
- through profit of loss	-	-	-	-	-
- in equity	-	3	1,608	-	1,611
B4. Reclassified from other portfolios	-	-	-	-	-
B5. Other	180,271	-	433	-	180,703
C. Decreases	3,197,413	6	59,021	-	3,256,440
C1. Disposals	507,636	-	52,454	-	560,090
C2. Redemptions	2,626,890	-	-	-	2,626,890
C3. Decreases in fair value	1,078	3	4,912	-	5,993
C4. Impairment	-	3	1,608	-	1,611
- through profit or loss	-	3	1,608	-	1,611
- in equity	-	-	-	-	-
C5. Reclassified to other portfolios	-	-	-	-	-
C6. Other	61,809	-	47	-	61,856
D. Closing balance	7,976,495	13,569	133,456	-	8,123,520

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

5.1 Analysis of held-to-maturity investments

€/'000	Dec. 31, 2012				Dec. 31, 2011			
	Book Value	Fair value			Book Value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	1,021,031	844,863	199,813	-	688,873	141,515	526,849	4,885
1.1 Structured notes	100,506	-	99,504	-	100,976	-	93,020	-
1.2 Other debt securities	920,525	844,863	100,309	-	587,897	141,515	433,829	4,885
2. Loans	-	-	-	-	-	-	-	-
Total	1,021,031	844,863	199,813	-	688,873	141,515	526,849	4,885

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

€/'000	Dec. 31, 2012	Dec. 31, 2011
1. Debt securities	1,021,031	688,873
a) Governments and Central Banks	760,247	4,885
b) Government agencies	-	-
c) Banks	260,784	683,988
d) Other issuers	-	-
2. Loans	-	-
a) Governments and Central Banks	-	-
b) Government agencies	-	-
c) Banks	-	-
d) Others	-	-
Total	1,021,031	688,873

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

€/'000	Debt securities	Loans	Total
A. Opening balance	688,873	-	688,873
B. Increases	763,157	-	763,157
B1. Additions	755,584	-	755,584
B2. Reversal of impairment	-	-	-
B3. Reclassified from other portfolios	-	-	-
B4. Other	7,573	-	7,573
C. Decreases	430,999	-	430,999
C1. Disposals	4,530	-	4,530
C2. Redemptions	417,824	-	417,824
C3. Impairment	-	-	-
C4. Reclassified to other portfolios	-	-	-
C5. Other	8,645	-	8,645
D. Closing balance	1,021,031	-	1,021,031

Banca Mediolanum S.p.A.'s sovereign debt holdings largely consist of Italian treasuries. Spanish treasuries account for a small share of said holdings and holdings of other government securities are not significant.

Section 6 – Loans to banks – Caption 60

6.1 Analysis of loans to banks

€/'000	Dec. 31, 2012	Dec. 31, 2011
A. Central Banks	67,819	75,050
1. Time deposits	-	-
2. Reserve requirements	67,819	75,050
3. Repurchase agreements	-	-
4. Other	-	-
B. Banks	1,587,044	2,258,969
1. Current accounts and demand deposits	61,362	216,892
2. Time deposits	-	71,032
3. Others:	874,297	728,137
3.1 Repurchase agreements	862,809	712,755
3.2 Finance leases	-	-
3.3 Other	11,488	15,382
4. Debt securities	651,385	1,242,908
4.1 Structured notes	-	-
4.2 Other debt securities	651,385	1,242,908
Total (book value)	1,654,863	2,334,019
Total (fair value)	1,654,863	2,271,367

Section 7 – Loans to customers – Caption 70

7.1 Analysis of loans to customers

	Dec. 31, 2012			Dec. 31, 2011		
		Impaired			Impaired	
€/'000	Performing	Purchased	Other	Performing	Purchased	Other
1. Current accounts	405,055	-	5,785	362,116	-	7,135
2. Repurchase agreements	53,716	-	-	9,884	-	-
3. Mortgage loans	3,079,034	-	24,669	2,472,847	-	20,728
4. Credit cards, personal loans & salary-guaranteed loans	460,958	-	3,245	264,269	-	938
5. Finance leases	-	-	-	-	-	-
6. Factoring	-	-	-	-	-	-
7. Other	382,253	-	7,842	165,066	-	9,922
8. Debt securities	495,218	-	-	754,429	-	-
8.1 Structured notes	-	-	-	-	-	-
8.2 Other debt securities	495,218	-	-	754,429	-	-
Total (book value)	4,876,234	-	41,541	4,028,611	-	38,723
Total (fair value)	5,319,912	-	41,541	4,272,531	-	38,723

The account includes debt securities (L&R) amounting to €144,237 thousand and government securities (L&R) amounting to €350,981 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 debtor/issuer

€/'000	Dec. 31, 2012			Dec. 31, 2011		
		Impaired			Impaired	
	Performing	Purchased	Other	Performing	Purchased	Other
1. Debt securities	495,218	-	-	754,429	-	-
a) Governments	350,981	-	-	501,420	-	-
b) Government agencies	-	-	-	100,917	-	-
c) Other issuers	144,237	-	-	152,092	-	-
- non financial companies	-	-	-	-	-	-
- financial companies	144,237	-	-	152,092	-	-
- insurance companies	-	-	-	-	-	-
- others	-	-	-	-	-	-
2. Loans	4,381,016	-	41,541	3,274,182	-	38,723
a) Governments	12	-	-	-	-	-
b) Government agencies	48	-	-	25	-	-
c) Others	4,380,956	-	41,541	3,274,157	-	38,723
- non financial companies	191,184	-	327	64,955	-	763
- financial companies	263,375	-	7,614	86,960	-	9,530
- insurance companies	19,353	-	-	20,958	-	-
- other	3,907,044	-	33,600	3,101,284	-	28,430
Total	4,876,234	-	41,541	4,028,611	-	38,723

At December 31, 2012, impaired loans amounted to €41,541 thousand, up €2,818 thousand over the prior year.

7.3 Loans to customers: micro-hedging

€/'000	Dec. 31, 2012	Dec. 31, 2011
1. Fair value hedges	531,339	478,338
a) interest rate risk	531,339	478,338
b) currency risk	-	-
c) credit risk	-	-
d) multiple risks	-	-
2. Cash flow hedges	-	-
a) interest rate risk	-	-
b) currency risk	-	-
c) other	-	-
Total	531,339	478,338

Section 8 - Hedging derivatives - Caption 80

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

	Dec. 31, 2012				Dec. 31, 2011			
	FV			NV	FV			NV
€/'000	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives	-	1,366	-	67,829	-	-	-	-
1) Fair value hedges	-	1,366	-	67,829	-	-	-	-
2) Cash flow hedges	-	-	-	-	-	-	-	-
3) Hedges of investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-	-	-	-
1) Fair value hedges	-	-	-	-	-	-	-	-
2) Cash flow hedges	-	-	-	-	-	-	-	-
Total	-	1,366	-	67,829	-	-	-	-

Legend:
FV = fair value
NV = notional value

8.2 Analysis of hedging derivatives by hedged portfolio and type of hedge (book value)

	Fair value						Cash flow		
	micro-hedging								
€/'000	interest rate risk	currency risk	credit risk	pricing risk	multiple risks	macro-hedging	micro-hedging	macro-hedging	investments in foreign operations
1. Available-for-sale financial assets	-	-	-	-	-	X	-	X	X
2. Loans and receivables	1,366	-	-	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	1,366	-	-	-	-	-	-	-	-
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 – Equity investments – Caption 100

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

€/'000	Registered Office	% holding	% voting rights
A. Subsidiaries			
Banco Mediolanum S.A.	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
Fermi & Galeno Real Estate S.r.l.	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 Mediolanum S.A.	1,301,565	105,922	29,992	187,906	272,780	X
Bankhaus August Lenz & Co. AG	139,448	17,884	(8,419)	38,470	36,578	X
Mediolanum Fiduciaria S.p.A.	1,414	11	(402)	1,273	1,338	X
Fermi & Galeno Real Estate S.r.l.	21,700	-	-	21,700	21,700	X
Gamax Management AG	14,402	9,410	4,111	12,415	29,368	X
Mediolanum Asset Management Ltd	13,896	36,724	14,183	10,291	1,989	X
Mediolanum Gestione Fondi SGR p.A.	78,688	108,481	34,982	51,290	2,610	X
Mediolanum International Funds Ltd	87,636	595,402	261,416	60,722	1,346	X
Total subsidiaries	-	-	-	-	367,709	
B. Joint ventures	-	-	-	-	-	
C. Companies under significant influence	-	-	-	-	-	

10.3 Year's movements in equity investments

€/'000	Dec. 31, 2012	Dec. 31, 2011
A. Opening balance	353,167	359,412
B. Increases	23,363	30,240
B1. Acquisitions	21,700	-
B2. Reversal of impairment	-	-
B3. Revaluations	-	-
B4. Other increases	1,663	30,240
C. Decreases	(8,821)	(36,485)
C1. Sales	-	-
C2. Impairment	(8,821)	(15,485)
C3. Other decreases	-	(21,000)
D. Closing balance	367,709	353,167
E. Total revaluations	-	-
F. Total adjustments	-	-

At December 31, 2012, the Bank's investments in Banking Group companies amounted to €367.7 million versus €353.2 million in the prior year. The €14.5 million increase over the prior year reflects:

- the *€21.7 million increase* following the acquisition of the company *Fermi & Galeno Real Estate S.r.l.*;
- the *€8.4 million decline* relating to the write-downs of the investment in the subsidiary *Bankhaus August Lenz AG*;
- the *€1.5 million increase* following the contributions made for future capital increases to the subsidiary *Mediolanum Fiduciaria S.p.A.* and the €0.4 million write-downs on that investment.

This section provides disclosures on impairment testing conducted on equity investments at December 31, 2012, 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).

€/m

Equity Investments	% holding	Carrying amount to be tested for impairment
Banco Mediolanum	100%	272.8
Gamax	99.996%	29.4

The carrying amount of Bankhaus August Lenz & Co AG (BAL) is aligned with its equity value, therefore no testing was needed to determine its recoverable amount.

VALUATION METHOD

Like in prior years, 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 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 2013-2015 Business Plan (the 2013-2015 Plan) approved by the Boards of Directors of Banco Mediolanum and Banca Mediolanum S.p.A..

The 2013-2015 Plan was built on reasonable, consistent assumptions and represents the management best estimate of the possible future business developments of Banco Mediolanum.

The 2013-2015 Plan confirmed the strategic lines set out in the previous plan (2012-2015 Plan), notably the development of Banca Mediolanum's business model in Spain underpinned by the Mediolanum Group management expertise and track record, via sustained development of the sales network with subsequent growth in net inflows, assets under management and administration.

The previous plan was updated to reflect the current macroeconomic scenario, country and industry conditions and 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, 2012.

At December 31, 2012, Banco Mediolanum recorded net profit of €30.3 million (FY 2011: €6.8 million) also thanks to the contribution of income from corporate treasury activities. At year end 2012, Banco Mediolanum had 551 financial advisors (505 at year end 2011) and €1,853 million in assets under management and administration (FY2011: €1,581 million).

Specifically, the 2013-2015 Plan is based on the following key assumptions:

- Family Bankers (FB) network growth from 551 people to 846 people at year end 2015;
- growth in assets under management and administration at an average annual rate of 13%;
- business margin growth at an average annual rate of 2.2%.

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

- Base scenario: developed using the projections set out in the 2013-2015 Plan;
- Prudential scenario: developed using the projections set out in the Plan with the exclusion of corporate treasury activities.

In both scenarios cash-flows were estimated assuming a minimum Tier 1 Capital ratio of 8.5%.

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 5.8% 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 1.14 calculated on the basis of the historical 2-year beta of a panel of comparable entities operating in the Spanish banking market;
- market premium (i.e. the premium required by investors to buy equities in lieu of risk-free assets) of 5% in line with common 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 the contribution of corporate 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 18.2% (increase by 426 bps);
- long term growth of -5.0% (decline by 705 bps);
- net profitability 23% lower than 2013-2015 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 2012, which are unforeseeable at present. The effects that these changes may have on future cash-flows of Banco Mediolanum, as well as on key 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 (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 2012 was 2x 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 2013-2016 Business Plan (the 2013-2016 Plan) approved by the Boards of Directors of Gamax and Banca Mediolanum S.p.A..
The 2013-2016 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, 2012, Gamax reported net profit of €4.1 million, in line with the prior year (FY2011: €4.2 million).
The 2013-2016 Plan of Gamax is based on the following key assumptions:

- assets under administration growth at an average annual rate of 6.0%;
- growth in business margin at an average annual rate of 3.9%;
- increase in general expenses at an average annual rate of 9.2%.

Under the Capital Asset Pricing Model the discount rate applied to calculate the present value of future cash flows (ke) was estimated at 11.4% for the Italian Division and 8.1% for the German Division. Calculations were based on the following parameters:

- risk-free rate of 4.8% calculated on the basis of average historical 6-month yields on 10-year Italian treasuries for the Italian Division, and of 1.5% calculated on the basis of average historical 6-month yields on 10-year German treasuries for the German Division;
- beta coefficient (risk measure of the stock compared to the market) of 1.13 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 common 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 2016, and assuming 2% long-term growth in line with long-term inflationary expectations.

Prudentially, the capital surplus that would potentially be available was not considered.

The exercise 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 13.2% for the Italian Division and of 9.9% for the German Division (increase by 175 bps);
- long term growth of -0.3% (decline by 226 bps);
- net profitability 18% lower than 2013-2016 Plan estimates.

Section 11 – Tangible assets – Caption 110

11.1 Analysis of tangible assets carried at cost

€/'000	Dec. 31, 2012	Dec. 31, 2011
A. Occupied/used		
1.1 owned	16,530	16,839
a) land	5,440	5,440
b) buildings	4,681	4,936
c) furnishings	2,356	2,763
d) electronic equipment	3,856	3,498
e) other	197	202
1.2 under finance leases	-	-
a) land	-	-
b) buildings	-	-
c) furnishings	-	-
d) electronic equipment	-	-
e) other	-	-
Total A	16,530	16,839
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)	16,530	16,839

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	10,132	19,276	461	43,776
A.1 Total net write-downs	-	(3,531)	(7,369)	(15,778)	(259)	(26.937)
A.2 Net opening balance	5,440	4,936	2,763	3,498	202	16,839
B. Increases:	-	-	693	1,490	118	2,301
B.1 Additions	-	-	693	1,490	118	2,301
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Reversal of impairment	-	-	-	-	-	-
B.4 Increases in fair value:	-	-	-	-	-	-
a) in equity	-	-	-	-	-	-
b) through profit or loss	-	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Reclassified from investment property	-	-	-	-	-	-
B.7 Other increases	-	-	-	-	-	-
C. Decreases:	-	(255)	(1,100)	(1,132)	(123)	(2,610)
C.1 Disposals	-	-	-	-	-	-
C.2 Depreciation	-	(255)	(1,089)	(1,132)	(50)	(2,526)
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	-	-	(11)	-	(73)	(83)
D. Net closing balance:	5,440	4,681	2,356	3,856	197	16,530
D.1 Total net write-downs	-	(3,786)	(8,458)	(16,910)	(309)	(29,463)
D.2 Gross closing balance	5,440	8,467	10,814	(20,766)	506	45,993
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, 2012		Dec. 31, 2011	
€/'000	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	X	-	X	-
A.2 Other intangible assets	13,961	-	11,390	-
A.2.1 Measured at cost	13,961	-	11,390	-
a) internally generated assets	-	-	-	-
b) other assets	13,961	-	11,390	-
A.2.2 Measured at fair value:	-	-	-	-
a) internally generated assets	-	-	-	-
b) other assets	-	-	-	-
Total	13,961	-	11,390	-

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	-	-	-	140,560	-	140,560
A.1 Total net write-downs	-	-	-	(129,170)	-	(129,170)
A.2 Net opening balance	-	-	-	11,390	-	11,390
B. Increases	-	-	-	9,609	-	9,609
B.1 Additions	-	-	-	9,609	-	9,609
B.2 Increases in internal assets	X	-	-	-	-	-
B.3 Reversal of impairment	X	-	-	-	-	-
B.4 Increases in fair value	-	-	-	-	-	-
- in equity	X	-	-	-	-	-
- through profit or loss	X	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Other increases	-	-	-	-	-	-
C. Decreases	-	-	-	(7,038)	-	(7,038)
C.1 Disposals	-	-	-	-	-	-
C.2 Amortisation and impairment	-	-	-	(6,215)	-	(6,215)
- Amortisation	X	-	-	(6,215)	-	(6,215)
- 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	-	-	-	(823)	-	(823)
D. Net closing balance	-	-	-	13,961	-	13,961
D.1 Total net write-downs	-	-	-	(135,538)	-	(135,538)
E. Gross closing balance	-	-	-	149,499	-	149,499
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 €9,071 thousand and withholding taxes of €6,459 thousand paid during 2012. 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 2012		FY 2011	
€/'000	Temporary differences	Tax rate %	Temporary differences	Tax rate %
Deferred tax assets:				
Valuation reserve - AFS securities	53,298	33.07%	217,592	33.07%
Valuation reserve - AFS securities	-	5.57%	-	5.57%
Provisions for risks and charges	120,006	33.07%	103,743	33.07%
Provisions for risks and charges	50,664	27.50%	70,750	27.50%
Expenses deductible in future years	27,639	27.50%	23,326	27.50%
Expenses deductible in future years	(4)	33.07%	(6)	33.07%
Total	251,603		415,405	
Deferred tax liabilities:				
Valuation reserve - AFS securities	170,530	33.07%	3,958	33.07%
Valuation reserve - AFS securities	123	5.57%	51	5.57%
Income taxable in future years	32,686	27.50%	30,338	27.50%
Future expenses deductible in the year	-	27.50%	311	27.50%
Total	203,339		34,658	
Net deferred tax liabilities (assets)	-	13,454	-	122,393
Deferred tax arisen on tax losses for the year	-	-	-	-
Deferred tax arisen on tax losses for the prior year	-	13,913	-	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, 2012	Dec. 31, 2011
Deferred tax assets		
charge to the income statement	75,131	67,260
charge to equity	17,626	71,958
Total deferred tax assets	92,757	139.,218
Deferred tax liabilities		
charge to the income statement	(8,989)	(8,428)
charge to equity	(56,401)	(1,312)
Total deferred tax liabilities	(65,390)	(9,740)

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

€/'000	Dec. 31, 2012	Dec. 31, 2011
1. Opening balance	67,260	58,545
2. Increases	29,531	21,967
2.1 Deferred tax assets arisen in the year	22,701	21,266
a) relating to prior years	-	-
b) due to changes in the accounting policies	-	-
c) write-backs	-	-
d) other	22,701	21,266
2.2 New taxes or increased tax rates	-	664
2.3 Other increases	6,830	37
3. Decreases	(21,660)	(13,252)
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	(21,660)	(13,252)
a) turned into tax credit under Act 214/2011	-	-
b) other	(21,660)	(13,252)
4. Closing balance	75,131	67,260

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

€/'000	Dec. 31, 2012	Dec. 31, 2011
1. Opening balance	(8,428)	(6,778)
2. Increases	(1,645)	(1,996)
2.1 Deferred tax liabilities arisen in the year	(1,645)	(1,996)
a) relating to prior years	-	-
b) due to changes in the accounting policies	-	-
c) other	(1,645)	(1,996)
2.2 New taxes or increased tax rates	-	-
2.3 Other increases	-	-
3. Decreases	1,084	346
3.1 Deferred tax liabilities cancelled in the year	1,084	346
a) reversals	-	-
b) due to changes in the accounting policies	-	-
c) other	1,084	346
3.2 Reduced tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	(8,989)	(8,428)

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

€/'000	Dec. 31, 2012	Dec. 31, 2011
1. Opening balance	71,958	20,079
2. Increases	1,760	76,378
2.1 Deferred tax assets arisen in the year	1,760	75,912
a) relating to prior years	-	-
b) due to changes in the accounting policies	-	-
c) other	1,760	75,912
2.2 New taxes or increased tax rates	-	466
2.3 Other increases	-	-
3. Decreases	(56,092)	(24,499)
3.1 Deferred tax assets cancelled in the year	(56,092)	(24,499)
a) reversals	-	-
b) write-offs of non-recoverable amounts	-	-
c) due to changes in the accounting policies	-	-
d) other	(56,092)	(24,499)
3.2 Reduced tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	17,626	71,958

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

€/'000	Dec. 31, 2012	Dec. 31, 2011
1. Opening balance	(1,312)	(2,181)
2. Increases	(81,233)	(2,216)
2.1 Deferred tax liabilities arisen in the year	(81,233)	(2,165)
a) relating to prior years	-	-
b) due to changes in the accounting policies	-	-
c) other	(81,233)	(2,165)
2.2 New taxes or increased tax rates	-	(51)
2.3 Other increases	-	-
3. Decreases	26,144	3,085
3.1 Deferred tax liabilities cancelled in the year	26,144	3,085
a) reversals	-	-
b) changes in the accounting policies	-	-
c) other	26,144	3,085
3.2 Reduced tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	(56,401)	(1,312)

Section 15 – Other assets – Caption 150

15.1 Analysis of other assets

€/'000	Dec. 31, 2012	Dec. 31, 2011
Receivables from tax authorities	39,534	22,449
Receivables from financial advisors	4,059	4,099
Advances to suppliers and professionals	4,019	3,992
Security deposits	367	348
Receivables from companies of the Fininvest & the Doris Groups	281	327
Receivables from subsidiaries and associates	5,036	4,344
Receivables from employees	373	511
Other receivables	10,115	2,206
Items in transit	104,838	149,300
Accruals	32,686	30,337
Prepayments	2,612	3,081
Other	6,838	6,879
Total	210,758	227,873

'Items in transit' primarily related to utilities bills not yet due to be charged to customer accounts (€41,247 thousand), cheques debited to customers in the first days of 2013 (€30,042 thousand), and miscellaneous items settled in January 2013 (€33,549 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, 2012	Dec. 31, 2011
Mediolanum Group companies		
parent company		
- Mediolanum S.p.A.	534	403
subsidiares		
- Mediolanum Gestione Fondi SGR p.A.	769	686
- Bankhaus August Lenz & Co. AG	57	68
- Mediolanum International Funds Ltd	229	181
- Banco Mediolanum S.A.	327	574
- Mediolanum Asset Management Ltd	39	18
- Mediolanum Fiduciaria	67	-
associates		
- Mediolanum Vita S.p.A.	2,695	2,097
- Mediolanum Comunicazione S.p.A.	130	164
- Mediolanum International Life Ltd	180	152
- PI Servizi S.p.A.	9	1
Total	5,036	4,343
Receivables from Fininvest Group and Doris Group:		
- Mediolanum Assicurazioni S.p.A.	250	296
- Vacanze Italia S.p.A.	31	31
Total	281	327

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

€/'000	Dec. 31, 2012	Dec. 31, 2011
Prepaid stamp duties	39,406	22,346
Other	128	103
Total	39,534	22,449

'*Prepaid stamp duties*' related to 2013 stamp duties paid in April 2012 net of the balance due for the current year.

'*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 €1,726 thousand relating to the estimated realisable value of amounts receivable for the reversal of former financial advisors' commissions, and €1,111 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 (€6,630 thousand).

LIABILITIES

Section 1 – Amounts due to banks – Caption 10

1.1 Analysis of amounts due to banks

€/'000	Dec. 31, 2012	Dec. 31, 2011
1. Central banks	3,025,681	4,405,506
2. Banks	435,051	722,876
2.1 Current accounts and demand deposits	7,904	193,809
2.2 Time deposits	426,328	340,931
2.3 Loans	-	187,115
2.3.1 Repurchase agreements	-	187,115
2.3.2 Other	-	-
2.4 Commitments to buy back own equity instruments	-	-
2.5 Other amounts due	819	1,021
Total	3,460,732	5,128,382
Fair value	3,460,732	5,128,362

Section 2 – Amounts due to customers – Caption 20

2.1 Analysis of amounts due to customers

€/'000	Dec. 31, 2012	Dec. 31, 2011
1. Current accounts and demand deposits	6,058,043	5,444,088
2. Time deposits	2,550,445	1,097,085
3. Loans	2,843,416	879,344
3.1 Repurchase agreements	2,843,416	879,344
3.2 Other	-	-
4. Commitments to buy back own equity instruments	-	-
5. Other amounts due	182,196	164,473
Total	11,634,100	7,584,990
Fair value	11,634,100	7,584,990

'Other amounts due' consisted entirely of current payables of which €60,921 thousand payable to the sales network (€50,457 thousand at December 31, 2011).

Section 3 - Securities issued - Caption 30

3.1 Analysis of securities issued

€/'000	Dec. 31, 2012				Dec. 31, 2011			
	Book Value	Fair value			Book Value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Securities								
1. bonds	94,720	-	92,257	-	285,631	-	270,234	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	94,720	-	92,257	-	285,631	-	270,234	-
2. other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
Total	94,720	-	92,257	-	285,631	-	270,234	-

'*Securities issued*' included €93,249 thousand subordinated securities and €1,471 thousand notes issued by Banca Mediolanum S.p.A..

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

€/'000	Dec. 31, 2012	Dec. 31, 2011
Securities issued: subordinated securities	93,249	123,017
Total	93,249	123,017

Section 4 – Financial liabilities held for trading – Caption 40

4.1 Analysis of financial liabilities held for trading

	Dec. 31, 2012					Dec. 31, 2011				
	NV	FV			FV*	NV	FV			FV*
€/'000		L1	L2	L3			L1	L2	L3	
A. Non-derivatives										
1. Due to banks	189,316	211,103	-	-	211,103	-	-	-	-	-
2. Due to customers	22,660	24,569	-	-	24,569	289,562	320,066	-	-	320,066
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	211,976	235,672	-	-	235,672	289,562	320,066	-	-	320,066
B. Derivatives										
1. Financial derivatives	-	-	21,322	-	-	-	-	12,417	-	-
1.1 held for trading	X	-	21,322	-	X	X	-	12,417	-	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	-	21,322	-	X	X	-	12,417	-	X
Total (A+B)	X	235,672	21,322	-	X	X	320,066	12,417	-	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, 2012 Fair value L1	L2	L3	NV	Dec. 31, 2011 Fair value L1	L2	L3	NV
A. Financial derivatives	-	92,888	-	413,097	-	67,896	-	437,995
1) Fair value hedges	-	92,888	-	413,097	-	67,896	-	437,995
2) Cash flow hedges	-	-	-	-	-	-	-	-
3) Hedges of investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-	-	-	-
1) Fair value hedges	-	-	-	-	-	-	-	-
2) Cash flow hedges	-	-	-	-	-	-	-	-
Total	-	92,888	-	413,097	-	67,896	-	437,995

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 micro-hedging interest rate risk	currency risk	credit risk	pricing risk	multiple risks	Fair value macro-hedging	Cash flow micro-hedging	Cash flow macro-hedging	investments in foreign operations
1. Available-for-sale financial assets	-	-	-	-	-	X	-	X	X
2. Loans and receivables	92,888	-	-	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	92,888	-	-	-	-	-	-	-	-
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, 2011	Amounts set aside in the year	Other changes	Funds used	Dec. 31, 2012
Corporate Income Tax (IRES)	51	29,855	-	(51)	29,855
Regional Business Tax (IRAP)	9,071	15,919	-	(9,071)	15,919
Total	9,122	45,774	-	(9,122)	45,774

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, 2012	Dec. 31, 2011
Items in transit	128,464	233,375
Payables to suppliers, consultants and other professionals	34,858	27,774
Payables to employees	4,141	6,264
Payables to tax authorities	20,526	10,182
Payables to social security agencies	5,141	4,676
Payables to Mediolanum Group companies	1,108	1,601
Agents' severance benefits	3,742	3,528
Other sundry liabilities	2,479	1,913
Payables to companies of the Fininvest Group and Doris Group	3,607	2,937
Deferred income	19,660	17,029
Payables to financial advisors	32,086	21,609
Accrued expenses	5,460	80
Total	261,272	330,968

'*Items in transit*' included payments to other bank accounts ordered by customers and cleared through the Interbank Payment System in the first days of 2013 (€20,191 thousand), payments by direct debit/standing orders of customers (€22,458 thousand), transactions made by customers at post offices (Banco Posta) (€4,436 thousand), payments to be made into the *Mediolanum Plus* policies (€12,012 thousand) and other items being processed that were cleared in the first days of 2013.

'*Payables to suppliers, consultants and other professionals*' related to amounts due for services received in 2012, that were unpaid at balance sheet date. The account also included an amount of €79 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 (€4,106 thousand) and of financial advisors (€1,035 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, 2012.

'*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, 2013 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, 2012	Dec. 31, 2011
Mediolanum Group companies:		
parent company:		
- Mediolanum S.p.A.	541	552
subsidiaries:		
- Mediolanum Gestione Fondi SGR p.A.	129	194
associates		
- Mediolanum Comunicazione S.p.A.	89	407
- Mediolanum Vita S.p.A.	349	448
Total	1,108	1,601
Fininvest Group/Doris group companies:		
- Mediolanum Assicurazioni S.p.A.	2,203	2,212
- Milano A.C.	137	-
- Promoservice Italia S.p.A.	8	-
- Mondadori Pubblicità S.p.A.	37	41
- Digitalia '08 S.r.l.	-	119
- Vacanze Italia S.p.A.	74	125
- Publitalia '80 S.p.A.	1,142	440
- Mondadori Retail S.p.A.	6	-
Total	3,607	2,937

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

€/'000	Dec. 31, 2012	Dec. 31, 2011
Substitute and withholding taxes	20,209	10,172
Other	317	10
Total	20,526	10,182

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

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

€/'000	Dec. 31, 2012	Dec. 31, 2011
A. Opening balance	8,829	8,786
B. Increases	5,666	5,098
B.1 Amounts set aside in the year	5,053	5,024
B.2 Other increases	613	74
C. Decreases	(5,162)	(5,055)
C.1 Funds used in the year	(4,559)	(4,955)
C.2 Other decreases	(603)	(100)
D. Closing balance	9,333	8,829

Section 12 – Provisions for risks and charges – Caption 120

12.1 Analysis of provisions for risks and charges

€/'000	Dec. 31, 2012	Dec. 31, 2011
1. Severance entitlements	-	-
2. Other provisions for risks and charges	173,892	156,758
2.1 legal proceedings	16,430	15,307
2.2 staff costs	-	-
2.3 other	157,462	141,451
Total	173,892	156,758

12.2 Year's movements in provisions for risks and charges

€/'000	Severance entitlements	Other	Total
A. Opening balance	-	156,758	156,758
B. Increases	-	52,193	52,193
B.1 Amounts set aside in the year	-	52,193	52,193
B.2 Time-related increases	-	-	-
B.3 Increased discount rate	-	-	-
B.4 Other increases	-	-	-
C. Decreases	-	(35,059)	(35,059)
C.1 Funds used in the year	-	(18,812)	(18,812)
C.2 Decreased discount rate	-	-	-
C.3 Other decreases	-	(16,247)	(16,247)
D. Closing balance	-	173,892	173,892

12.4 Provisions for risks and charges – 'other'

€/'000	Balance at Dec. 31, 2011	Amount set aside in the year	Other changes	Funds used	Balance at Dec. 31, 2012
- legal proceedings	15,307	6,222	(4,705)	(394)	16,430
- other:					
Managerial Allowance	39,613	15,748	(2,806)	(1,191)	51,364
Risks related to FA illegal actions	40,627	11,240	(5,668)	(8,517)	37,682
Customer base entitlements	25,838	5,153	(283)	(1,010)	29,698
Portfolio allowance	18,328	5,729	(2,713)	(2,631)	18,713
Product distribution	11,265	1,475	(67)	(3,043)	9,630
Miscellaneous	5,780	6,625	(5)	(2,025)	10,375
Total	156,758	52,193	(16,247)	(18,812)	173,892

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 (2002-2012) 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, 2012	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2011
Ordinary shares	600,000	450,000	-	-
Other shares	-	-	-	-
Total	600,000	450,000	-	-

At December 31, 2012, share capital amounted to €600,000 thousand, divided into 600,000,000 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	150,000	-
B.1 New issues	150,000	-
- for a consideration:	150,000	-
- business combinations	-	-
- conversion of bonds	-	-
- warrants exercised	-	-
- other	150,000	-
- 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	600,000	-
D.1 Treasury shares (+)	-	-
D.2 Shares at year end	600,000	-
- fully paid up	600,000	-
- 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 amounted to €98,422 thousand and included 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	Utilised for	
				loss coverage	other
Share capital:	600,000	-	-	-	-
Equity reserves, of which:					
Retained earnings, of which:					
- legal reserve	26,185	B	26,185	-	-
- extraordinary reserve	125,136	A B C	125,136	-	-
- FTA reserve	(65,524)	A B C	(65,524)	-	-
- other reserves (stock options)	12,625	A B	12,625	-	-
Other reserves of which:				-	-
- merger reserve	3,185	A B C	3,185	-	-
Valuation reserves	78,580	(1)	-	-	-
Total	780,187	-	101,606	-	-
of which undistributable	-	-	38,810	-	-
of which distributable	-	-	62,796	-	-

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, 2012	Dec. 31, 2011
1) Financial guarantees	22,641	16,572
a) Banks	22,611	16,542
b) Customers	30	30
2) Commercial guarantees	39,600	27,034
a) Banks	5,943	5,947
b) Customers	33,657	21,087
3) Commitments to disburse funds	80,663	130,153
a) Banks	250	10,159
i) with certain drawdown	250	10,159
ii) with possible drawdown	-	-
b) Customers	80,413	119,994
i) with certain drawdown	3,649	2,163
ii) with possible drawdown	76,764	117,831
4) Commitments under credit derivatives: protection sales	-	-
5) Assets pledged to secure third-party obligations	-	542
6) Other commitments	-	-
Total	142,904	174,301

2. Assets pledged to secure own liabilities and commitments

€/'000	Dec. 31, 2012	Dec. 31, 2011
1. Financial assets held for trading	252,848	527,669
2. Financial assets at fair value	-	-
3. Available-for-sale financial assets	4,252,795	3,566,419
4. Held-to-maturity investments	852,583	493,636
5. Loans to banks	438,015	862,138
6. Loans to customers	495,217	753,243
7. Tangible assets	-	-
Total	6,291,458	6,203,105

4. Brokerage and asset management

€/'000	Dec. 31, 2012
1. Orders executed on behalf of customers	
a) Purchases	1,393,465
1. settled	1,393,465
2. not settled	-
b) Sales	2,054,631
1. settled	2,054,631
2. not settled	-
2. Asset management	
a) individual portfolio management	37,872
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	6,901,195
1. securities issued by entities incl. in consolidated accounts	88,639
2. other securities	6,812,556
c) third-party securities held by other custodians	6,010,050
d) own securities held by other custodians	10,960,335
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, 2012	Dec. 31, 2011
1. Financial assets held for trading	20,380	-	-	20,380	23,068
2. Available-for-sale financial assets	288,310	-	-	288,310	95,023
3. Held-to-maturity investments	20,202	-	-	20,202	31,694
4. Loans to banks	23,930	6,787	-	30,717	62,148
5. Loans to customers	14,006	110,660	-	124,666	126,435
6. Financial assets at fair value	-	-	-	-	-
7. Hedging derivatives	X	X	-	-	-
8. Other assets	X	X	424	424	552
Total	366,828	117,447	424	484,699	338,920

1.3 Interest income and similar income: other information

€/'000	Dec. 31, 2012	Dec. 31, 2011
Interest income and similar income on:		
1.3.1 financial assets denominated in foreign currencies	1,433	1,502
1.3.2 finance leases	-	-
Total	1,433	1,502

1.4 Analysis of interest expense and similar charges

€/'000	Amounts due	Securities	Other	Dec. 31, 2012	Dec. 31, 2011
1. Due to central banks	27,196	X	-	27,196	26,877
2. Due to banks	7,569	X	-	7,569	12,024
3. Due to customers	144,235	X	-	144,235	73,278
4. Securities issued	X	6,206	-	6,206	8,979
5. Financial liabilities held for trading	9,822	-	-	9,822	15,038
6. Financial liabilities at fair value	-	-	-	-	-
7. Other liabilities and funds	X	X	11	11	10
8. Hedging derivatives	X	X	14,552	14,552	12,648
Total	188,822	6,206	14,563	209,591	148,854

1.5 Interest expense and similar charges: analysis of hedging balances

€/'000	Dec. 31, 2012	Dec. 31, 2011
A. Positive differences arising on:	2,643	6,344
A.1 fair value micro-hedging of assets	2,643	6,344
B. Negative differences arising on:	(17,195)	(18,992)
B.1 fair value micro-hedging of assets	(17,195)	(18,992)
C. Balance (A-B)	(14,552)	(12,648)

1.6 Interest expense and similar charges: other information

€/'000	Dec. 31, 2012	Dec. 31, 2011
Interest expense and similar charges on:		
a) financial liabilities denominated in foreign currencies	199	5,968
b) finance leases	-	-
Total	199	5,968

Section 2 – Commissions – Captions 40 and 50

2.1 Analysis of commission income

€/'000	Dec. 31, 2012	Dec. 31, 2011
a) Guarantees issued	-	-
b) Credit derivatives	-	-
c) Management, brokerage and consulting services:	368,540	340,230
1. brokerage of financial instruments	106	95
2. currency brokerage	-	-
3. portfolio management	411	628
3.1 individual portfolio management	411	628
3.2 collective portfolio management	-	-
4. securities in custody and under administration	3,772	4,225
5. custodian bank	-	-
6. sale of securities	24,106	27,722
7. order taking and transmission	5,473	5,902
8. consultancy	-	-
8.1 investment advice	-	-
8.2 financial structure advice	-	-
9. services to third parties	334,672	301,658
9.1 portfolio management	224,137	189,559
9.1.1. individual portfolio management	-	-
9.1.2. collective portfolio management	224,137	189,559
9.2. insurance products	99,583	102,769
9.3. other products	10,952	9,330
d) Payments and collections	8,026	7,867
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	19,993	21,617
j) Other services	10,247	9,248
Total	406,806	378,962

2.2 Commission income: distribution channels of products and services

€/'000	Dec. 31, 2012	Dec. 31, 2011
a) Through the company's own branches	24,106	27,722
1. asset management	-	-
2. sale of securities	24,106	27,722
3. services and products of third parties	-	-
b) Off-premises sales	335,083	302,286
1. asset management	411	628
2. sale of securities	-	-
3. services and products of third parties	334,672	301,658
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, 2012	Dec. 31, 2011
a) Guarantees received	-	-
b) Credit derivatives	-	-
c) Management and brokerage services:	308,152	252,579
1. brokerage of financial instruments	-	-
2. currency brokerage	-	-
3. asset management	253	376
3.1 own management	-	-
3.2 on mandates from third parties	253	376
4. securities in custody and under administration	529	607
5. sale of financial instruments	-	-
6. off-premises sale of financial instruments, products & services	307,370	251,596
d) Payments and collections	11,136	10,943
e) Other services	12,138	10,317
Total	331,426	273,839

Section 3 – Dividends and similar income – Caption 70

3.1 Analysis of dividends and similar income

€/'000	Dec. 31, 2012		Dec. 31, 2011	
	Dividends	Income from holdings in UCITS	Dividends	Income from holdings in UCITS
A. Financial assets held for trading	-	-	-	-
B. Available-for-sale financial assets	667	834	274	2,564
C. Financial assets at fair value	-	-	-	-
D. Equity investments	169,506	X	121,683	X
Total	170,173	834	121,957	2,564

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. and Gamax Management (AG). Dividends include 2011 dividends amounting to €58,836 thousand whose distribution to shareholders was resolved and took place in 2012, as well as 2012 interim dividends amounting to €110,670 thousand paid out by the subsidiaries Mediolanum International Funds Ltd and Mediolanum Asset Management Ltd in October 2012.

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	22,759	26,287	(257)	(2,458)	46,331
1.1 Debt securities	22,759	26,280	(257)	(2,361)	46,421
1.2 Equities	-	7	-	(97)	(90)
1.3 Holdings in UCITS	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	953	4,471	(2,834)	(1,263)	1,327
2.1 Debt securities	953	4,471	(2,834)	(1,262)	1,328
2.2 Debt	-	-	-	-	-
2.3 Other	-	-	-	(1)	(1)
3. Other financial assets and liabilities: exchange differences	X	X	X	X	16
4. Derivatives	995	12,466	(6,845)	(17,359)	(10,743)
4.1 Financial derivatives	995	12,466	(6,845)	(17,359)	(10,743)
- debt securities and interest rates	995	12,442	(6,845)	(17,359)	(10,767)
- equities and stock indices	-	24	-	-	24
- currencies and gold	X	X	X	X	1,138
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	24,707	43,224	(9,936)	(21,080)	38,069

Section 5 – Net income from hedging – Caption 90

5.1 Analysis of net income from hedging

€/'000	Dec. 31, 2012	Dec. 31, 2011
A. Income from:		
A.1 Fair value hedging derivatives	-	-
A.2 Hedged financial assets (fair value)	20,945	35,589
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)	20,945	35,589
B. Expense from:		
B.1 Fair value hedging derivatives	(25,224)	(39,402)
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)	(25,224)	(39,402)
C. Net income from hedging (A - B)	(4,279)	(3,813)

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

6.1 Analysis of gains (losses) on sale/buyback

	Dec. 31, 2012			Dec. 31, 2011		
€/'000	Gains	Losses	Net gains (losses)	Gains	Losses	Net gains (losses)
Financial assets						
1. Loans to banks	-	-	-	-	(36)	(36)
2. Loans to customers	132	(102)	30	266	(35)	231
3. Available-for-sale financial assets:	14,447	(16,433)	(1,986)	9,297	(4,276)	5,021
3.1 Debt securities	14,014	(16,382)	(2,368)	9,293	(4,275)	5,018
3.2 Equities	-	-	-	-	-	-
3.3 Holdings in UCITS	433	(51)	382	4	(1)	3
3.4 Financing	-	-	-	-	-	-
4. Held-to-maturity investments	30	-	30	1,046	-	1,046
Total assets	14,609	(16,535)	(1,926)	10,609	(4,347)	6,262
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	118	(3)	115	266	(4)	262
Total liabilities	118	(3)	115	266	(4)	262

Section 8 – Net impairment – Caption 130

8.1 Analysis of net impairment of loans

€/'000	Impairment			Reversal of impairment				Dec. 31, 2012	Dec. 31, 2011
	Individual			Individual		Collective			
	Cancellations	Others	Collective	A	B	A	B		
A. Loans to banks									
- Loans	-	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-	-
B. Loans to customers									
Impaired loans purchased									
- Loans	-	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-	-
Other impaired loans									
- Loans	(1,419)	(9,203)	(1,056)	-	2,969	-	-	(8,709)	(6,181)
- Debt securities	-	-	-	-	-	-	-	-	-
C. Total	(1,419)	(9,203)	(1,056)	-	2,969	-	-	(8,709)	(6,181)

8.2 Analysis of net impairment of available for sale financial assets

€/'000	Impairment		Reversal of impairment		Dec. 31, 2012	Dec. 31, 2011
	Individual		Individual			
	Cancellations	Others	A	B		
A. Debt securities	-	-	-	-	-	(65,820)
B. Equities	-	(3)	X	X	(3)	(224)
C. Holdings in UCITS	-	(1,608)	X	-	(1,608)	(2,918)
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	-	(1,611)	-	-	(1,611)	(68,962)

Legend:
A = interest
B = other

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

€/'000	Impairment			Reversal of impairment				Dec. 31, 2012	Dec. 31, 2011
	Individual			Individual		Collective			
	Cancellations	Other	Collective	A	B	A	B		
A. Debt securities	-	-	-	-	-	-	-	-	(15,500)
B. Loans to banks	-	-	-	-	-	-	-	-	-
C. Loans to customers	-	-	-	-	-	-	-	-	-
D. Total	-	-	-	-	-	-	-	-	(15,500)

Legend:
A = interest
B = other

8.4 Analysis of net impairment of other financial items

€/'000	Impairment			Reversal of impairment					
	Individual			Individual		Collective			
	Cancellations	Other	Collective	A	B	A	B	Dec. 31, 2012	Dec. 31, .2011
A. Guarantees issued	-	-	(8)	-	(26)	-	-	(34)	17
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	-	-	-	-	-	-	-
D. Others	-	-	-	-	-	-	-	-	-
E. Total	-	-	(8)	-	(26)	-	-	(4)	17

Legend:
A = interest
B = other

Section 9 – Administrative expenses – Caption 150

9.1 Analysis of staff costs

€/'000	Dec. 31, 2012	Dec. 31, 2011
1) Employees	109,653	100,796
a) wages and salaries	76,910	67,774
b) social security contributions	21,815	20,317
c) employee completion of service entitlements	-	-
d) pensions	-	-
e) provision for completion of service entitlements	5,054	5,024
f) provision for severance benefits and similar obligations	-	-
- defined contribution plan	-	-
- defined benefit plan	-	-
g) external supplementary pension funds:	979	1,011
- defined contribution plan	979	1,011
- defined benefit plan	-	-
h) expenses in connection with equity-settled share-based payment transactions	-	-
i) other employee benefits	4,895	6,670
2) Other personnel	1,373	1,236
3) Directors and Statutory Auditors	1,971	1,757
4) Retirees	-	-
5) Recoveries of expenses for employees seconded to other entities	(7,548)	(8,026)
6) Recoveries of expenses for third-party employees seconded to the company	4,045	4,563
Total	109,494	100,326

9.2 Average number of personnel by category: banking group

Category	Dec. 31, 2012	Dec. 31, 2011
Employees		
a) senior management	67	68
b) middle management	204	178
c) other employees	1,356	1,284
Total employees	1,627	1,530
Other personnel	26	20
Total	1,653	1,550

9.5 Analysis of other administrative expenses

€/'000	Dec. 31, 2012	Dec. 31, 2011
IT services	42,453	40,814
Advertising and promotions	25,782	24,318
Television and Internet communication services	6,285	8,992
Consultancy, education and training of the sales force	3,290	12,158
Rentals	12,475	9,694
Other advisory services	18,050	10,500
Postal and telephone	9,454	9,429
Business Conventions	6,273	4,982
Consumables	4,032	3,452
Infoprovider services	4,453	3,551
Financial services fees and other expenses	2,522	1,963
Insurance	1,770	1,740
Business expenses, gifts and donations	4,680	4,099
Contributions to "Family Banker" offices	1,193	1,251
Travel expenses	183	679
Repairs and maintenance	2,107	1,258
Utilities	1,559	1,238
Personnel recruitment	152	179
Market research	400	392
Other miscellaneous services	14,741	13,651
Other administrative expenses	2,176	2,393
Total	164,030	156,733

Section 10 – Provisions for risks and charges – Caption 160

10.1 Analysis of provisions for risks and charges

€/'000	Dec. 31, 2012	Dec. 31, 2011
Provisions for risk and charges - other		
Risks related to FA illegal actions	5,572	7,822
FA customer base entitlements	4,870	4,925
Portfolio & organisation allowance	3,016	6,210
Managerial allowance	12,942	6,577
Product distribution	1,408	2,507
Legal proceedings	1,517	4,288
Other	6,621	1,656
Total	35,946	33,985

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	(2,526)	-	-	(2,526)
A.1 owned	(2,526)	-	-	(2,526)
- held for use	(2,526)	-	-	(2,526)
- held for investment purposes	-	-	-	-
A.2 under finance leases	-	-	-	-
- held for use	-	-	-	-
- held for investment purposes	-	-	-	-
Total	(2,526)	-	-	(2,526)

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	(6,215)	-	-	(6,215)
A.1 owned	(6,215)	-	-	(6,215)
- internally generated	-	-	-	-
- other	(6,215)	-	-	(6,215)
A.2 under finance leases	-	-	-	-
Total	(6,215)	-	-	(6,215)

Section 13 – Other operating income – Caption 190

13.1/13.2 Analysis of other operating expenses and income

€/'000	Dec. 31, 2012	Dec. 31, 2011
Other operating expenses:		
Compensations and Settlements	(3,169)	(3,778)
Amortisation of expenses for improvements of leasehold assets	(1,003)	(25)
Other expenses	(2,314)	(514)
Total other operating expenses	(6,486)	(4,317)
Other operating income:		
Recoveries of expenses for services rendered to Group companies	9,944	11,389
Recoveries of expenses from employees	-	-
Recoveries of expenses from customers	2,091	200
Rentals of property	340	289
Recoveries of expenses from financial advisors	140	368
Other income	8,167	4,765
Total other operating income	20,682	17,011
Total other operating income (net)	14,196	12,694

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

14.1 Analysis of profit (loss) on equity investments

€/'000	Dec. 31, 2012	Dec. 31, 2011
A. Gains	-	-
1. Revaluations	-	-
2. Gains on sale	-	-
3. Reversal of impairment	-	-
4. Other income	-	-
B. Losses	(8,821)	(16,373)
1. Decrease in value	(8,821)	(16,159)
2. Impairment	-	-
3. Losses on sale	-	-
4. Other expenses	-	(214)
Profit (loss)	(8,821)	(16,373)

At year end 2012, the carrying amount of the investment in the subsidiary Bankhaus August Lenz & Co. AG was written down by €8,419 thousand (€14,152 thousand in 2011), and the carrying amount of the investment in the subsidiary Mediolanum Fiduciaria S.p.A. by €402 thousand.

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

17.1 Analysis of profit (loss) on disposal of investments

€/'000	Dec. 31, 2012	Dec. 31, 2011
A. Property	-	-
- Gains on sale	-	-
- Losses on sale	-	-
B. Other assets	5	28
- Gains on sale	5	38
- Losses on sale	-	(10)
Profit (loss)	5	28

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

18.1 Analysis of income tax expense on continuing operations

€/'000	Dec. 31, 2012	Dec. 31, 2011
1. Current tax (-)	(45,774)	11,624
2. Change in current tax for prior years (+/-)	4,270	-
3. Change in current tax for the year (+)	-	-
3.*bis* Change in current tax for the year for tax credits under Act 214/2011	-	-
4. Change in deferred tax assets (+/-)	1,039	8,774
5. Change in deferred tax liabilities (+/-)	(561)	(1,650)
6. Income tax expense for the year (-) (-1+/-2+3+/-4+/-5)	(41,026)	18,748

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	-	230,290	-
Theoretical tax	27.50	-	63,330
Temporary differences taxable in future years	-	(2,349)	-
Temporary differences deductible in future years	-	76,331	-
Prior years' temporary differences	-	(59,097)	-
Permanent differences	-	(135,998)	-
Total taxable income	-	109,176	-
Current tax expense for the year	-	-	30,023
Adjustments due to application of tax consolidation regime	-	-	(168)
Prior years' tax	-	-	(4,269)
Current tax expense	-	-	25,586
Average rate on profit before tax	n/a	-	-
Calculation of taxable income (IRAP)			
Value of production less production costs	-	313,125	-
Income/Costs not significant for the purpose of IRAP calculation	-	(37,340)	-
Gross production value	-	275,784	-
Theoretical tax expense (tax rate: 5.57%)	5.57	-	15,361
Prior years' temporary differences	-	(8,553)	-
Permanent differences	-	18,567	-
Net production value	-	285,799	-
Tax expense	-	-	15,919
Prior years' tax	-	-	(1)
Current tax expense	-	-	15,918
Average rate on value added	5.77	-	-

PART D - INFORMATION ON COMPREHENSIVE INCOME

STATEMENT OF OTHER COMPREHENSIVE INCOME

€/'000		Before tax	Income tax	After tax
10.	Net profit (loss) for the year	X	X	189,264
	Other income components			
20.	Available for sale financial assets	330,939	(109,422)	221,517
	a) changes in fair value	320,708	(106,039)	214,670
	b) reversals to the income statement	10,231	(3,384)	6,849
	- impairment	1,611	(532)	1,079
	- realised gains/losses	8,620	(2,852)	5,769
	c) other changes	-	-	-
30.	Tangible assets	-	-	-
40.	Intangible assets	-	-	-
50.	Hedges of investments in foreign operations	-	-	-
	a) changes in fair value	-	-	-
	b) reversals to the income statement	-	-	-
	c) other changes	-	-	-
60.	Cash flow hedges	-	-	-
	a) changes in fair value	-	-	-
	b) reversals to the income statement	-	-	-
	c) other changes	-	-	-
70.	Exchange differences:	-	-	-
	a) value changes	-	-	-
	b) reversals to the income statement	-	-	-
	c) other changes	-	-	-
80.	Non current assets held for sale	-	-	-
	a) changes in fair value	-	-	-
	b) reversals to the income statement	-	-	-
	c) other changes	-	-	-
90.	Actuarial gains (losses) on defined benefit plans	-	-	-
100.	Share of valutation reserves relating to investments accounted for by the equity method	-	-	-
	a) changes in fair value	-	-	-
	b) reversals to the income statement	-	-	-
	- impairment	-	-	-
	- realised gains/losses	-	-	-
	c) other changes	-	-	-
110.	Total other income components	330,939	(109,422)	221,517
120.	Comprehensive income (items 10+110)	330,939	(109,422)	410,781

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 Banca Mediolanum's business. Consistently with its mission, lending complements Banca Mediolanum's 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 policies and guidelines. 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 Policies.

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. The team is informed of 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. The team also prepares periodic reports on credit monitoring results highlighting key developments and trends.

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 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 specific operating procedures.
In the lending process it is fundamental to have a comprehensive understanding of the financial condition of the borrower and the type of financing which best meets his needs, the loan purpose, the borrower creditworthiness and earnings capacity. To that end, as part of its loan application analysis, the Bank gathers all information needed to assess the consistency of the borrower's income and exposure (including existing commitments) with the type and purpose of the loan or other financing. In that examination, it uses performance and financial analysis tools as well as intelligence obtained from private and public Credit Bureaus. Special attention is paid to the assessment of any security taken.
All loans are subject to regular review by the competent units within the Bank. Outstanding loans are continuously monitored focusing especially on riskier positions. Regular reports on credit protection actions taken are submitted to the Board of Directors 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. Although secondary to the assessment of the borrower's creditworthiness, in the assessment of credit risk great emphasis is placed on the appraised value of the collateral received from the obligor and the prudential adjustments applied are properly differentiated according to the type of collateral whose value is subject to regular review against its market value.
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 Financial Management division'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 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 90 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 90 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 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 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 90 days 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 90 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 90 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 90 days past due or overdrawn.

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

- the borrower is past due more than 90 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	-	-	-	-	587,294	587,294
2. Available-for-sale financial assets	-	-	-	-	7,976,495	7,976,495
3. Held-to-maturity investments	-	-	-	-	1,021,031	1,021,031
4. Loans to banks	-	-	-	-	1,654,863	1,654,863
5. Loans to customers	8,918	18,905	7,842	5,876	4,876,234	4,917,775
6. Financial assets at fair value	-	-	-	-	-	-
7. Financial assets being disposed of	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	1,366	1,366
Total at Dec. 31, 2012	8,918	18,905	7,842	5,876	16,117,283	16,158,824
Total at Dec. 31, 2011	8,239	49,985	226	6,343	13,264,631	13,329,424

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

€/'000	Impaired assets			Performing assets			Total net exposure
	Gross exposure	Individual impairment	Net exposure	Gross exposure	Collective impairment	Net exposure	
1. Financial assets held for trading	-	-	-	X	X	587,294	587,294
2. Available-for-sale financial assets	-	-	-	7,976,495	-	7,976,495	7,976,495
3. Held-to-maturity investments	-	-	-	1,021,031	-	1,021,031	1,021,031
4. Loans to banks	-	-	-	1,654,863	-	1,654,863	1,654,863
5. Loans to customers	69,008	(27,467)	41,541	4,881,270	(5,036)	4,876,234	4,917,775
6. Financial assets at fair value	-	-	-	X	X	-	-
7. Financial assets being disposed of	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	X	X	1,366	1,366
Total at Dec. 31, 2012	69,008	(27,467)	41,541	15,533,659	(5,036)	16,117,283	16,158,824
Total at Dec. 31, 2011	170,086	(105,293)	64,793	12,576,320	(3,981)	13,264,631	13,329,424

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	587,294	587,294
2. Available-for-sale financial assets	-	-	-	7,976,495	-	7,976,495	7,976,495
3. Held-to-maturity investments	-	-	-	1,021,031	-	1,021,031	1,021,031
4. Loans to banks	-	-	-	1,654,863	-	1,654,863	1,654,863
5. Loans to customers	12,014	(12)	12,002	4,869,256	(5,024)	4,864,232	4,876,234
6. Financial assets at fair value	-	-	-	X	X	-	-
7. Financial assets being disposed of	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	X	X	1,366	1,366
Total at Dec. 31, 2012	12,014	(12)	12,002	15,521,645	(5,024)	16,105,281	16,117,283
Total at Dec. 31, 2011	36,506	(24)	36,482	12,539,814	(3,957)	13,228,149	13,264,631

Aging analysis of past due items

	Under renegotiation	Other exposures
€/'000	Net exposure	Net exposure
Up to 3 months	1,482	50,819
3 to 6 months	-	309
6 to 12 months	-	2
1 year	-	9
Past due customer loans	1,482	51,139

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	2,608,585	X	-	2,608,585
Total A	2,608,585	-	-	2,608,585
B. Off-balance sheet				
a) Impaired	-	-	X	-
b) Other	32,775	X	-	32,775
Total B	32,775	-	-	32,775
Total (A+B)	2,641,360	-	-	2,641,360

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

At balance sheet date the balance of this account was nil.

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

At balance sheet date the balance of this account was nil.

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	23,719	(14,801)	X	8,918
b) Watch list	25,315	(6,410)	X	18,905
c) Restructured	13,463	(5,620)	X	7,843
d) Past due	6,511	(636)	X	5,875
e) Other	13,509,718	X	(5,036)	13,504,682
Total A	13,578,726	(27,467)	(5,036)	13,546,223
B. Off-balance sheet				
a) Impaired	17	(8)	X	9
b) Other	127,162	X	(65)	127,097
Total B	127,179	(8)	(65)	127,106

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	22,075	140,913	226	6,872
- of which: loans sold but not derecognised	-	-	-	-
B. Increases				
B.1 reclassified from performing loans	4	4,506	-	21,248
B.2 reclassified from other impaired loan categories	4,926	10,733	13,235	160
B.3 other increases	819	1,418	2	1,261
C. Decreases				
C.1 reclassified to performing loans	-	(1,311)	-	(7,075)
C.2 cancellations	(2,647)	-	-	-
C.3 receipts	(1,404)	(5,119)	-	(5,222)
C.4 proceeds from sale	-	-	-	-
C.5 reclassified to other impaired loan categories	-	(18,321)	-	(10,733)
C.6 other decreases	(54)	(107,504)	-	-
D. Closing gross balance	23,719	25,315	13,463	6,511
- 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	13,836	90,928	-	529
- of which: loans sold but not derecognised	-	-	-	-
B. Increases	4,479	3,717	5,620	667
B.1 impairment	2,506	3,480	1,916	626
B.1 *bis* losses from sale (+)	-	-	-	-
B.2 reclassified from other impaired loan categories	1,973	237	3,704	41
B.3 other increases	-	-	-	-
C. Decreases	(3,514)	(88,235)	-	(560)
C.1 revaluations	(444)	(319)	-	(161)
C.2 repayments	(424)	(878)	-	(161)
C.2 *bis* gains from sale (-)	-	-	-	-
C.3 cancellations	(2,646)	-	-	-
C.4 reclassified to other impaired loan categories	-	(5,718)	-	(238)
C.5 other decreases	-	(81,320)	-	-
D. Net impairment at end of the year	14,801	6,410	5,620	636
- 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	238,324	257,781	10,251,653	449,141	5,048	-	5,086,316	16,288,263
B. Derivatives	2,347	1	1,639	-	-	-	29	4,016
B.1 Financial derivatives	2,347	1	1,639	-	-	-	29	4,016
B.2 Credit derivatives	-	-	-	-	-	-	-	-
C. Guarantees issued	-	-	22,611	-	-	-	39,630	62,241
D. Commitments to disburse funds	-	-	250	-	-	-	80,413	80,663
E. Other	-	-	-	-	-	-	-	-
Total	240,671	257,782	10,276,153	449,141	5,048	-	5,206,388	16,435,183

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

€/'000	Net exposure	Real guarantees (1) Property: Mortgages	Real guarantees (1) Property: Finance leases	Real guarantees (1) Property: Securities	Real guarantees (1) Property: Other	Personal guarantees (2) Credit derivatives: CLN	Personal guarantees (2) Credit derivatives – Other derivatives: Governments & central banks	Personal guarantees (2) Credit derivatives – Other derivatives: Government agencies	Personal guarantees (2) Credit derivatives – Other derivatives: Banks	Personal guarantees (2) Credit derivatives – Other derivatives: Other	Personal guarantees (2) Endorsements: Governments & central banks	Personal guarantees (2) Endorsements: Government agencies	Personal guarantees (2) Endorsements: Banks	Personal guarantees (2) Endorsements: Other	Total (1)+(2)
1. Secured exposures on balance sheet															
1.1 entirely secured	862,808	-	-	862,808	-	-	-	-	-	-	-	-	-	-	862,808
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partly secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured exposures off balance sheet															
2.1 entirely secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partly secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.3.2 Secured loans to customers

€/'000	Net exposure	Real guarantees (1) Property: Mortgages	Real guarantees (1) Property: Finance leases	Real guarantees (1) Property: Securities	Real guarantees (1) Property: Other	Personal guarantees (2) Credit derivatives: CLN	Personal guarantees (2) Credit derivatives – Other derivatives: Governments & central banks	Personal guarantees (2) Credit derivatives – Other derivatives: Government agencies	Personal guarantees (2) Credit derivatives – Other derivatives: Banks	Personal guarantees (2) Credit derivatives – Other derivatives: Other	Personal guarantees (2) Endorsements: Governments & central banks	Personal guarantees (2) Endorsements: Government agencies	Personal guarantees (2) Endorsements: Banks	Personal guarantees (2) Endorsements: Other	Total (1)+(2)
1. Secured exposures on balance sheet															
1.1 entirely secured	3,116,163	5,585,930	-	53,716	-	-	-	-	-	-	-	5	-	2,940,095	8,579,746
- of which impaired	20,950	42,854	-	-	-	-	-	-	-	-	-	-	-	8,965	51,819
1.2 partly secured	73,784	74,187	-	-	18,653	-	-	-	-	-	-	1,908	-	2,993	97,741
- of which impaired	4,218	7,180	-	-	-	-	-	-	-	-	-	98	-	755	8,033
2. Secured exposures off balance sheet															
2.1 entirely secured	674	560	-	-	-	-	-	-	-	-	-	-	-	114	674
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partly secured	20	-	-	-	-	-	-	-	-	-	-	-	-	17	17
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

B. DISTRIBUTION AND CONCENTRATION OF EXPOSURES

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

	Governments			Government agencies		
€/'000	Net exposure	Individual impairment	Collective impairment	Net exposure	Individual impairment	Collective impairment
A. On balance sheet						
A.1 Non performing	-	-	X	-	-	X
A.2 Watch list	-	-	X	-	-	X
A.3 Restructured	-	-	X	-	-	X
A.4 Past due	-	-	X	-	-	X
A.5 Other exposures	8,887,161	X	-	5,572	X	-
Total A	8,887,161	-	-	5,572	-	-
B. Off balance sheet						
B.1 Non performing	-	-	X	-	-	X
B.2 Watch list	-	-	X	-	-	X
B.3 Other impaired assets	-	-	X	-	-	X
B.4 Other exposures	30	X	-	-	X	-
Total B	30	-	-	-	-	-
Total (A+B) at Dec. 31, 2012	8,887,191	-	-	5,572	-	-
Total (A+B) at Dec. 31, 2011	5,748,682	(81,320)	-	100,941	-	-

Financial companies			Insurance companies			Non financial companies			Others		
Net exposure	Individual impairment	Collective impairment	Net exposure	Individual impairment	Collective impairment	Net exposure	Individual impairment	Collective impairment	Net exposure	Individual impairment	Collective impairment
-	-	X	-	-	X	51	(338)	X	8,868	(14,463)	X
-	-	X	-	-	X	30	(32)	X	18,875	(6,378)	X
7,615	(5,620)	X	-	-	X	228	-	X	-	-	X
-	-	X	-	-	X	18	(3)	X	5,857	(633)	X
474,560	X	(11)	19,353	X	-	206,849	X	(574)	3,911,186	X	(4,451)
482,175	(5,620)	(11)	19,353	-	-	207,176	(373)	(574)	3,944,786	(21,474)	(4,451)
-	-	X	-	-	X	-	-	X	-	-	X
-	-	X	-	-	X	-	-	X	9	(8)	X
-	-	X	-	-	X	-	-	X	-	-	X
3,644	X	-	10,969	X	(31)	4,265	X	(4)	95,229	X	(30)
3,644	-	-	10,969	-	(31)	4,265	-	(4)	95,238	(8)	(30)
485,819	(5,620)	(11)	30,322	-	(31)	211,441	(373)	(578)	4,040,024	(21,482)	(4,481)
276,459	(3,705)	(15)	50,958	-	-	95,757	(532)	(128)	3,228,803	(19,736)	(3,877)

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	8,918	(14,799)	-	(2)	-	-	-	-	-	-
A.2 Watch list	18,904	(6,408)	1	(2)	-	-	-	-	-	-
A.3 Restructured	7,843	(5,620)	-	-	-	-	-	-	-	-
A.4 Past due	5,876	(636)	-	-	-	-	-	-	-	-
A.5 Other exposures	13,079,970	(5,028)	419,432	(8)	841	-	295	-	4,143	-
Total	13,121,511	(32,491)	419,433	(12)	841	-	295	-	4,143	-
B. Off balance sheet										
B.1 Non performing	-	-	-	-	-	-	-	-	-	-
B.2 Watch list	9	(8)	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Other exposures	114,114	(65)	23	-	-	-	-	-	-	-
Total	114,123	(73)	23	-	-	-	-	-	-	-
Total at Dec. 31, 2012	13,235,634	(32,564)	419,456	(12)	841	-	295	-	4,143	-
Total at Dec. 31, 2011	8,566,828	(27,983)	933,500	(81,330)	736	-	309	-	226	-

B.3 Geographical distribution of on-balance sheet and off-balance sheet bank 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	-	-	-	-	-	-	-	-	-	-
A.2 Watch list	-	-	-	-	-	-	-	-	-	-
A.3 Restructured	-	-	-	-	-	-	-	-	-	-
A.4 Past due	-	-	-	-	-	-	-	-	-	-
A.5 Other exposures	1,671,595	-	934,154	-	605	-	25	-	2,206	-
Total	1,671,595	-	934,154	-	605	-	25	-	2,206	-
B. Off balance sheet										
B.1 Non performing	-	-	-	-	-	-	-	-	-	-
B.2 Watch list	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Other exposures	24,343	-	8,432	-	-	-	-	-	-	-
Total	24,343	-	8,432	-	-	-	-	-	-	-
Total at Dec. 31, 2012	1,695,938	-	942,586	-	605	-	25	-	2,206	-
Total at Dec. 31, 2011	3,052,712	-	935,580	-	931	-	4	-	-	-

B.4 Large exposures

	Nominal	Weighted
a) amount in thousands of euro	12,820,623	1,206,040
b) number:		Total 25

The number and amount of large exposures were determined in accordance with the rules set out in Circular 263 of December 27, 2006 and Circular 155 of December 18, 1991, as amended. Said rules require reporting of large exposures at nominal 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) Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Third party underlying assets:																		
a) Impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
b) Other	44,282	44,282	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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	1,734	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.2 CORDUSIO RMBS/TV 20330630 CL A2 - Receivables under mortgage loans	3,555	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.3 BPM SEC 2/TV 20430715 CL A2 - Receivables under mortgage loans	4,260	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.4 VELA HOME/TV 20400730 CL A S3 - Receivables under mortgage loans	2,676	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.5 LOCAT SV3/TV 20261212 CL A2 - Receivables under leases	216	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.6 SUNRISE/TV 20300827 CL A SEN - Receivables, consumer credit	1,838	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.7 VALHALLA I SA 26-03-2010 26-03-13 FLOATING - Loans of Danish credit institutions	30,003	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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, 2012**	**Dec. 31, 2011**
1. On balance sheet exposures							
- "Senior"	-	-	-	-	44,282	44,282	52,152
- "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, 2012	Dec. 31, 2011
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C		
A. On balance sheet assets	-	-	-	-	-	-	2,532,909	-	-	57,152	-	-	-	-	-	-	-	-	2,590,061	889,812
1. Debt securities	-	-	-	-	-	-	2,532,909	-	-	57,152	-	-	-	-	-	-	-	-	2,590,061	-
2. Equities	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
3. UCITS	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	889,812
B. Derivatives	-	-	-	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	-	-
Total at Dec. 31, 2012	-	-	-	-	-	-	2,532,909	-	-	57,152	-	-	-	-	-	-	-	-	2,590,061	-
of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total at Dec. 31, 2011	36,138	-	-	-	-	-	807,124	-	-	25,125	-	-	21,425	-	-	-	-	-	-	889,812
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	-	-	2,843,416	-	-	-	2,843,416
a) against assets fully recognised on the balance sheet	-	-	2,843,416	-	-	-	2,843,416
b) against assets partly recognised on the balance sheet	-	-	-	-	-	-	-
2. Due to banks	-	-	-	-	-	-	-
a) against assets fully recognised on the balance sheet	-	-	-	-	-	-	-
b) against assets partly recognised on the balance sheet	-	-	-	-	-	-	-
Total at Dec. 31, 2012	-	-	2,843,416	-	-	-	2,843,416
Total at Dec. 31, 2011	36,214	-	983,290	25,012	-	21,943	1,066,459

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).
As to exposure classes for which the credit risk capital charge is calculated, based on the qualitative and quantitative considerations set out below, it was decided to focus attention exclusively on:

- exposures to regulated financial institutions;
- unsecured retail exposures;
- exposures secured by property.

The portfolios above (i.e. the portfolios to which stress testing can be applied) include assets in which the Bank intends to continue to invest in the near future while keeping its exposure to other asset classes contained.
Stress testing is applied also to past due positions. So, for each asset class, and for each portfolio, all exposures, both performing and impaired, at a given baseline date are considered and stressed to see how they would perform under various crisis scenarios.

Although unsecured retail exposures and exposures to regulated financial institutions are small as a whole, it is considered important to stress test them to see the impact adverse macroeconomic conditions and extreme events would have on ordinary banking operations and hence potential developments, under those circumstances, of the risk inherent in those types of assets.

SECTION 2 - MARKET RISK

2.1 Interest rate risk and pricing risk – Trading book

Qualitative information

A. General information

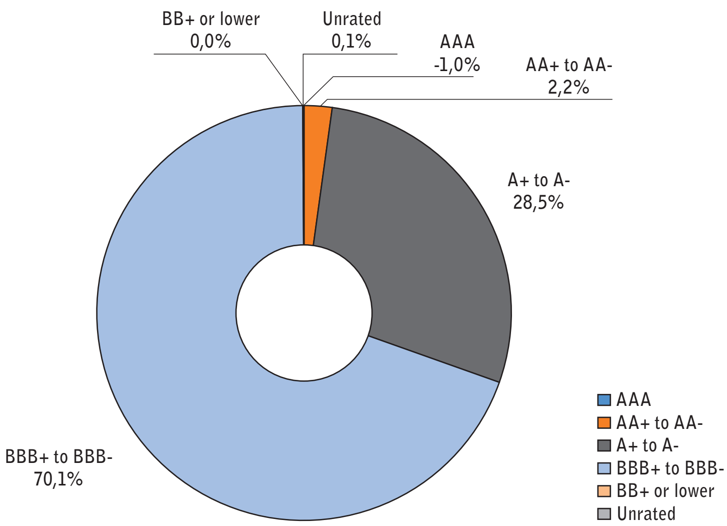
Banca Mediolanum's trading book, as defined by supervisory authorities, consists of financial instruments subject to capital requirements for market risk.
Specifically, the trading book consists of positions held by those Bank's functions authorised to take market risk exposures within the limits and the authorities delegated to them by the Board of Directors, in accordance with internal policies. The trading book primarily consists of positions in bonds, equities, derivatives and money market instruments.
The reduced credit rating of underlying assets was exclusively due to domestic sovereign debt exposure and Italy's credit rating downgrade in 2012. Given the predominance of domestic treasuries, however, the risk of default for the Bank's securities portfolio is relatively low.
Rating analysis of Banca Mediolanum's entire securities portfolio, including both the trading book and the banking book, is set out below.

Banca Mediolanum's Securities Portfolio – RATING COMPOSITION (S&P equivalent)
(YE 2012 vs. YE 2011)

€/'000	2012	%	2011	%	Change (%)
Total Portfolio	10,397,802	100%	8,536,317	100%	22%
AAA	(100,005)	(1.0%)	(40,447)	(0.5%)	(53%)
AA+ to AA-	233,924	2.2%	494,459	5.8%	(53%)
A+ to A-	2,967,122	28.5%	6,278,613	73.6%	(53%)
BBB+ to BBB-	7,285,441	70.1%	1,469,014	17.2%	396%
BB+ or lower	-	0.0%	25,769	0.3%	(100%)
Unrated	11,320	0.1%	308,910	3.6%	(96%)

NOTE: the value of the securities portfolio does not include residual Index Linked Policies Funds, Shares and Rights

Banca Mediolanum's Portfolio - RATING COMPOSITION



B. Interest rate risk - measurement and management

Banca Mediolanum's Compliance & Risk Control function is responsible for ensuring that the various units use consistent methods in assessing financial risk exposure. The team also contributes to the definition of lending and operating limits. Like the other entities within the Group, Banca Mediolanum is directly responsible for the control of the risks assumed. Risks are to be in accordance with the policies approved by the 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 2012 vs. YE 2011)

€/'000	2012	2011	Change (%)
Nominal value	349,744	403,289	(13%)
Market value	333,081	340,911	(2%)
Duration	0.92	0.91	1%
VaR 99% - 1 day	260	412	(37%)

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 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Indefinite maturity
1. Non derivative assets	-	309,528	21,576	22,961	163,069	59,258	4,137	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	19,969	-	-	-	-
- others	-	309,528	21,576	2,992	163,069	59,258	4,137	-
EUR	-	309,528	21,576	2,992	163,069	59,258	4,137	-
USD	-	-	-	-	-	-	-	-
GBP	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Non derivative liabilities	-	3,755	-	22,523	184,171	20,269	-	-
2.1 Repos (EUR)	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	3,755	-	22,523	184,171	20,269	-	-
EUR	-	3,755	-	22,523	184,171	20,269	-	-
OTHER CURRENCIES	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 with underlying securities								
- Options	-	-	-	-	-	-	-	-
+ Long positions (EUR)	-	-	-	-	-	-	-	-
+ Short positions (EUR)	-	-	-	-	-	-	-	-
- Others								
+ Long positions	-	36,039	9,094	-	791	-	-	-
EUR	-	36,039	9,094	-	791	-	-	-
USD	-	-	-	-	-	-	-	-
GBP	-	-	-	-	-	-	-	-
OTHER CURRENCIES	-	-	-	-	-	-	-	-
+ Short positions	-	9,880	132	21,341	14,566	-	-	-
EUR	-	9,880	132	21,341	14,566	-	-	-
USD	-	-	-	-	-	-	-	-
GBP	-	-	-	-	-	-	-	-
OTHER CURRENCIES	-	-	-	-	-	-	-	-
3.2 without underlying securities								
- Options	-	-	-	-	-	-	-	-
+ long positions (EUR)	-	-	-	-	-	-	-	-
+ short positions (EUR)	-	-	-	-	-	-	-	-
- Others								
+ Long positions	-	581,355	-	-	-	-	-	-
EUR	-	304,888	-	-	-	-	-	-
USD	-	276,457	-	-	-	-	-	-
GBP	-	-	-	-	-	-	-	-
CHF	-	6	-	-	-	-	-	-
OTHER CURRENCIES	-	4	-	-	-	-	-	-
+ Short positions	-	515,282	671	1,364	12,115	16,006	38,764	-
EUR	-	285,213	671	1,364	12,115	16,006	38,764	-
USD	-	229,936	-	-	-	-	-	-
GBP	-	109	-	-	-	-	-	-
CHF	-	4	-	-	-	-	-	-
OTHER CURRENCIES	-	20	-	-	-	-	-	-

2.2 Interest rate risk and pricing risk – banking book

Qualitative information

A. General information

Banca Mediolanum's Banking Book is made up of those financial instruments that are not part of the trading book, in particular inter-bank loans, 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 Banca Medioanum.

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 shared uniform methods and procedures;
- 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, 2012)

€/'000	Balance	+100bps	-100bps
Total assets	14,920,080	89,077	(79,356)
Total liabilities	(15,207,465)	(92,677)	47,239
Off balance sheet positions (hedging derivatives)	-	3,707	(585)
YEAR'S MOVEMENT	-	106	(32,703)

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 statement of financial position 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 Financial Management 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 2012 vs. YE 2011)

	2012	2011	Change (%)
Hedge ratio	111%	109%	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	1,492,072	5,191,460	3,280,842	1,521,935	3,169,898	529,533	300,941	-
1.1 Debt securities	97,262	1,771,140	3,275,169	1,488,119	3,095,452	411,592	5,393	-
- with early redemption option	-	4,411	-	14,777	-	-	3,555	-
EUR	-	4,411	-	14,777	-	-	3,555	-
USD	-	-	-	-	-	-	-	-
GBP	-	-	-	-	-	-	-	-
YEN	-	-	-	-	-	-	-	-
CHF	-	-	-	-	-	-	-	-
OTHER CURRENCIES	-	-	-	-	-	-	-	-
- others	97,262	1,766,729	3,275,169	1,473,342	3,095,452	411,592	1,838	-
EUR	97,262	1,766,729	3,275,169	1,473,342	3,095,452	411,592	1,838	-
USD	-	-	-	-	-	-	-	-
GBP	-	-	-	-	-	-	-	-
YEN	-	-	-	-	-	-	-	-
CHF	-	-	-	-	-	-	-	-
OTHER CURRENCIES	-	-	-	-	-	-	-	-
1.2 Loans to banks	71,350	932,128	-	-	-	-	-	-
EUR	69,435	932,128	-	-	-	-	-	-
USD	504	-	-	-	-	-	-	-
GBP	581	-	-	-	-	-	-	-
YEN	-	-	-	-	-	-	-	-
CHF	90	-	-	-	-	-	-	-
OTHER CURRENCIES	740	-	-	-	-	-	-	-
1.3 Loans to customers	1,323,460	2,488,192	5,673	33,816	74,446	117,941	295,548	-
- current accounts	408,717	22	20	940	1,141	-	-	-
EUR	408,710	22	20	940	1,141	-	-	-
USD	7	-	-	-	-	-	-	-
GBP	-	-	-	-	-	-	-	-
YEN	-	-	-	-	-	-	-	-
CHF	-	-	-	-	-	-	-	-
OTHER CURRENCIES	-	-	-	-	-	-	-	-
- other loans	914,743	2,488,170	5,653	32,876	73,305	117,941	295,548	-
- with early redemption option	601,083	2,426,317	5,392	31,805	68,136	117,941	295,548	-
EUR	601,083	2,426,317	5,392	31,805	68,136	117,941	295,548	-
USD	-	-	-	-	-	-	-	-
GBP	-	-	-	-	-	-	-	-
YEN	-	-	-	-	-	-	-	-
CHF	-	-	-	-	-	-	-	-
OTHER CURRENCIES	-	-	-	-	-	-	-	-
- other	313,660	61,853	261	1,071	5,169	-	-	-
EUR	313,660	61,853	261	1,071	5,169	-	-	-
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	9,265,831	4,103,616	829,011	982,282	-	-	-	-
2.1 Due to customers	6,231,429	3,805,989	709,695	878,176	-	-	-	-
- current accounts	6,058,044	962,573	709,695	878,176	-	-	-	-
EUR	6,033,454	962,573	709,695	878,176	-	-	-	-
USD	23,716	-	-	-	-	-	-	-
GBP	742	-	-	-	-	-	-	-
YEN	-	-	-	-	-	-	-	-
CHF	132	-	-	-	-	-	-	-
OTHER CURRENCIES	-	-	-	-	-	-	-	-
- other amounts due	173,385	2,843,416	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	173,385	2,843,416	-	-	-	-	-	-
EUR	173,385	2,843,416	-	-	-	-	-	-
OTHER CURRENCIES	-	-	-	-	-	-	-	-
2.2 Due to banks	3,034,402	223,604	98,619	104,106	-	-	-	-
- current accounts	7,903	-	-	-	-	-	-	-
EUR	7,901	-	-	-	-	-	-	-
OTHER CURRENCIES	2	-	-	-	-	-	-	-
- other	3,026,499	223,604	98,619	104,106	-	-	-	-
EUR	3,026,499	223,604	98,619	104,106	-	-	-	-
OTHER CURRENCIES	-	-	-	-	-	-	-	-
2.3 Debt securities	-	74,023	20,697	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	-	74,023	20,697	-	-	-	-	-
EUR	-	74,023	20,697	-	-	-	-	-
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	-	3,076	8,773	17,045	189,495	288,372	425,707	-
EUR	-	3,076	8,773	17,045	189,495	288,372	425,707	-
OTHER CURRENCIES	-	-	-	-	-	-	-	-
+ short positions	2,784	210,033	4	4,350	93,903	251,961	369,435	-
EUR	2,784	210,033	4	4,350	93,903	251,961	369,435	-
- Others	-	-	-	-	-	-	-	-
+ long positions	-	413,097	-	-	-	-	-	-
EUR	-	413,097	-	-	-	-	-	-
OTHER CURRENCIES	-	-	-	-	-	-	-	-
+ short positions	-	3,677	3,719	7,569	67,245	89,715	241,173	-
EUR	-	3,677	3,719	7,569	67,245	89,715	241,173	-
OTHER CURRENCIES	-	-	-	-	-	-	-	-

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	Norwegian krone	Canadian dollar	Swiss franc	Other currencies
A. Financial assets	511	827	158	104	90	478
A.1 Debt securities	-	-	-	-	-	-
A.2 Equities	-	246	-	-	-	-
A.3 Loans to banks	504	581	158	104	90	478
A.4 Loans to customers	7	-	-	-	-	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	18	11	-	-	4	5
C. Financial liabilities	23,716	742	-	-	132	2
C.1 Due to banks	-	-	-	-	-	2
C.2 Due to customers	23,716	742	-	-	132	-
C.3 Securities issued	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	-	-	-	-	-	-
E. Financial derivatives						
- Options						
+ Long positions	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-
- Others derivatives						
+ Long positions	138,479	-	-	-	6	4
+ Short positions	115,549	109	4	16	4	-
Total assets	139,008	838	158	104	100	487
Total liabilities	139,265	851	4	16	136	2
Net position (+/-)	(257)	(13)	154	88	(36)	485

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, 2012		Dec. 31, 2011	
€/'000	OTC	Central counterparties	OTC	Central counterparties
1. Debt securities and interest rates	69,587	41,770	358,667	38,896
a) Options	-	-	26,218	-
b) Swaps	69,583	-	332,445	-
c) Forwards	4	-	4	-
d) Futures	-	41,770	-	38,896
e) Others	-	-	-	-
2. Equities and stock indices	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
3. Currencies and gold	252,743	-	41,916	-
a) Options	-	-	-	-
b) Swaps	252,364	-	-	-
c) Forwards	379	-	41,916	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
4. Commodities	-	-	-	-
5. Other underlying	-	-	-	-
Total	322,330	41,770	400,583	38,896
Average amount	92,112	2,883	204,682	2,558

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

A.2.1 Hedging derivatives

€/'000	Dec. 31, 2012 OTC	Dec. 31, 2012 Central counterparties	Dec. 31, 2011 OTC	Dec. 31, 2011 Central counterparties
1. Debt securities and interest rates	480,926	-	437,995	-
a) Options	67,829	-	-	-
b) Swaps	413,097	-	437,995	-
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	480,926	-	437,995	-
Average amount	420,530	-	437,995	-

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

€/'000	Positive fair value Dec. 31, 2012 OTC	Dec. 31, 2012 Central counterparties	Dec. 31, 2011 OTC	Dec. 31, 2011 Central counterparties
A. Trading book	2,629	-	1,098	-
a) Options	-	-	571	-
b) Interest Rate Swaps	-	-	-	-
c) Cross Currency Swaps	2,620	-	-	-
d) Equity Swaps	-	-	-	-
e) Forwards	9	-	527	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
B. Banking book - hedging derivatives	1,366	-	-	-
a) Options	1,366	-	-	-
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	3,995	-	1,098	-

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

	Negative fair value			
	Dec. 31, 2012		Dec. 31, 2011	
€/'000	OTC	Central counterparties	OTC	Central counterparties
A. Trading book	21,321	-	12,414	-
a) Options	-	-	-	-
b) Interest Rate Swaps	17,264	-	12,373	-
c) Cross Currency Swaps	4,057	-	-	-
d) Equity Swaps	-	-	-	-
e) Forwards	-	-	41	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
B. Banking book - hedging derivatives	92,888	-	67,896	-
a) Options	-	-	-	-
b) Interest Rate Swaps	92,888	-	67,896	-
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	114,209	-	80,310	-

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	-	-	69,583	-	-	-	4
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	17,264	-	-	-	-
- future exposure	-	-	882	-	-	-	-
2) Equities and stock indices							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3) Currencies and gold							
- notional amount	-	-	114,765	137,978	-	-	-
- positive fair value	-	-	2,628	-	-	-	-
- negative fair value	-	-	-	4,057	-	-	-
- future exposure	-	-	1,148	1,380	-	-	-
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	-	-	480,926	-	-	-	-
- positive fair value	-	-	1,366	-	-	-	-
- negative fair value	-	-	92,888	-	-	-	-
- future exposure	-	-	6,317	-	-	-	-
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	2,702	12,115	54,770	69,587
A.2 equities and stock indices	-	-	-	-
A.3 currencies and gold	252,743	-	-	252,743
A.4 other	-	-	-	-
B. Banking book				
B.1 debt securities and interest rates	14,965	67,245	398,717	480,927
B.2 equities and stock indices	-	-	-	-
B.3 currencies and gold	-	-	-	-
B.4 other	-	-	-	-
Total at Dec. 31, 2012	270,410	79,360	453,487	803,257
Total at Dec. 31, 2011	328,732	75,973	433,873	838,578

Credit derivatives

During the year the Bank did not trade in credit derivatives and at December 31, 2012 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 and term deposits 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. Structural liquidity is monitored by determining the long term ratio (Net Stable, Funding, Ratio) in accordance with the rules defined by the European Banking Authority (EBA) in relation to the new Basel III liquidity risk requirements.

In 2012, Banca Mediolanum continued its quarterly monitoring as promoted by the EBA for compliance with Basel III liquidity risk management and capital requirements.

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	13,934	248	500,000	49	424,438	1,057,667	1,371,420	4,826,723	771,153	-
- EUR	13,934	248	500,000	49	424,438	1,057,667	1,371,420	4,826,723	771,153	-
- USD	-	-	-	-	-	-	-	-	-	-
- Other currencies	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	2,614	13	33,357	3,086	353,336	95,267	525,440	820,886	21,281	-
- EUR	2,614	13	33,357	3,086	353,336	95,267	525,440	820,886	21,281	-
- USD	-	-	-	-	-	-	-	-	-	-
- GBP	-	-	-	-	-	-	-	-	-	-
- Other currencies	-	-	-	-	-	-	-	-	-	-
A.3 Holdings in UCITS	133,456	-	-	-	-	-	-	-	-	-
- EUR	133,456	-	-	-	-	-	-	-	-	-
- Other currencies	-	-	-	-	-	-	-	-	-	-
A.4 Loans to	841,236	234,203	85,543	670,867	53,696	78,150	156,030	855,613	2,388,318	67,762
- Banks	89,624	130,462	85,543	646,780	1,587	-	-	-	-	67,762
- EUR	87,719	130,462	85,543	646,780	1,587	-	-	-	-	67,762
- USD	504	-	-	-	-	-	-	-	-	-
- YEN	-	-	-	-	-	-	-	-	-	-
- CHF	90	-	-	-	-	-	-	-	-	-
- GBP	581	-	-	-	-	-	-	-	-	-
- Other currencies	730	-	-	-	-	-	-	-	-	-
- Customers	751,612	103,741	-	24,087	52,109	78,150	156,030	855,613	2,388,318	-
- EUR	751,605	103,741	-	24,087	52,109	78,150	156,030	855,613	2,388,318	-
- USD	7	-	-	-	-	-	-	-	-	-
- 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 year	Indefinite maturity
On balance sheet liabilities										
B.1 Deposits	6,066,438	31,201	82,341	164,491	692,133	815,931	1,237,752	-	-	-
- Banks	7,903	-	33,524	67,095	91,191	101,276	134,522	-	-	-
- EUR	7,901	-	33,524	67,095	91,191	101,276	134,522	-	-	-
- USD	-	-	-	-	-	-	-	-	-	-
- YEN	-	-	-	-	-	-	-	-	-	-
- CHF	-	-	-	-	-	-	-	-	-	-
- GBP	-	-	-	-	-	-	-	-	-	-
- Other currencies	2	-	-	-	-	-	-	-	-	-
- Customers	6,058,535	31,201	48,817	97,396	600,942	714,655	1,103,230	-	-	-
- EUR	6,033,945	31,201	48,817	97,396	600,942	714,655	1,103,230	-	-	-
- USD	23,716	-	-	-	-	-	-	-	-	-
- GBP	742	-	-	-	-	-	-	-	-	-
- CHF	132	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	9	21	431	86,116	7,958	-
- EUR	-	-	-	-	9	21	431	86,116	7,958	-
- Other currencies	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	183,014	1,872,319	233,094	733,639	4,163	236	22,583	3,183,690	22,563	-
- EUR	183,014	1,872,319	233,094	733,639	4,163	236	22,583	3,183,690	22,563	-
- USD	-	-	-	-	-	-	-	-	-	-
- CHF	-	-	-	-	-	-	-	-	-	-
- GBP	-	-	-	-	-	-	-	-	-	-
- Other currencies	-	-	-	-	-	-	-	-	-	-
Off-balance sheet items										
C.1 Financial derivatives with exchange of principal	-	7,005	231,386	154,353	168,181	590	-	30,846	14,448	-
- Long positions	-	1,679	117,000	76,180	97,975	560	-	9,285	-	-
- EUR	-	1,168	117,000	388	35,789	560	-	9,285	-	-
- USD	-	501	-	75,792	62,186	-	-	-	-	-
- CHF	-	6	-	-	-	-	-	-	-	-
- GBP	-	-	-	-	-	-	-	-	-	-
- Other currencies	-	4	-	-	-	-	-	-	-	-
- Short positions	-	5,326	114,386	78,173	70,206	30	-	21,561	14,448	-
- EUR	-	4,409	-	77,794	70,206	30	-	21,561	14,448	-
- USD	-	784	114,386	379	-	-	-	-	-	-
- CHF	-	4	-	-	-	-	-	-	-	-
- GBP	-	109	-	-	-	-	-	-	-	-
- Other currencies	-	20	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of principal	17,264	-	-	1,312	2,531	3,887	7,834	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- EUR	-	-	-	-	-	-	-	-	-	-
- Other currencies	-	-	-	-	-	-	-	-	-	-
- Short positions	17,264	-	-	1,312	2,531	3,887	7,834	-	-	-
- EUR	17,264	-	-	1,312	2,531	3,887	7,834	-	-	-
- Other currencies	-	-	-	-	-	-	-	-	-	-

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.

Generally, 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 or Eurozone Mediterranean 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.

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 Mediolanum Banking Group risk management framework.
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 man.

Within the Compliance & Risk Control function operational risk controls are carried out by the Risk Assessment & Mitigation and Risk Control teams. Specifically:

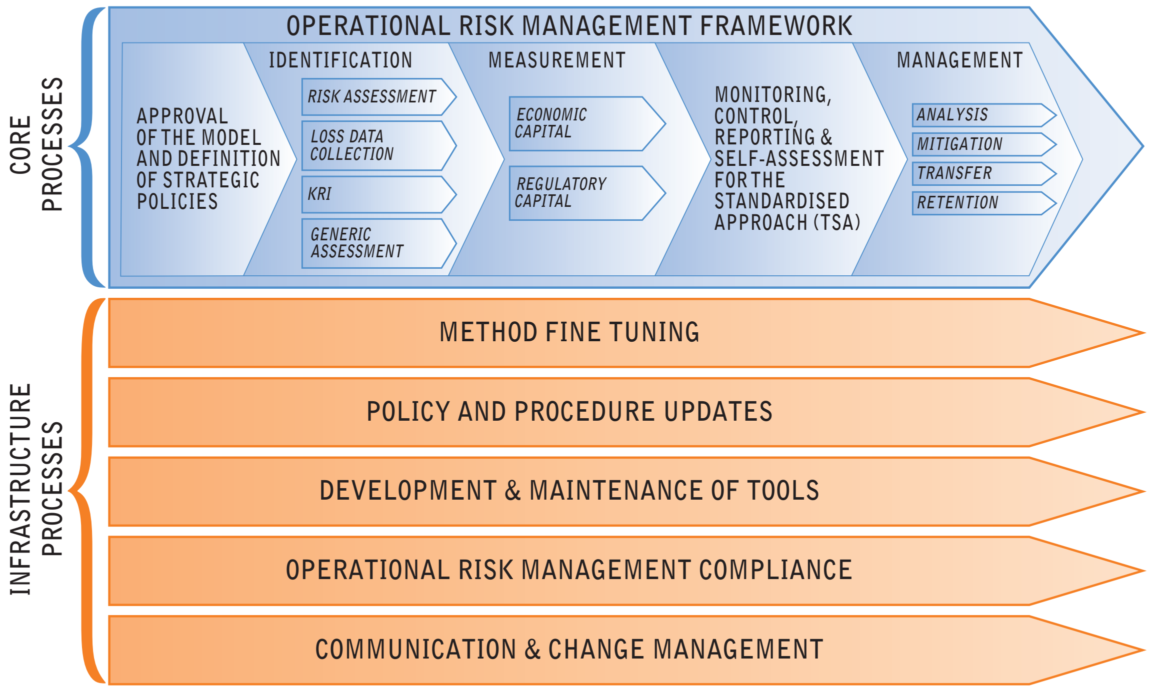
- the Risk Assessment & Mitigation team is responsible for assessing both compliance and operational risk exposures of the various organisational units as well as for developing a system of recurring second level controls;
- the Risk Control team is responsible for assessing and monitoring exposures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

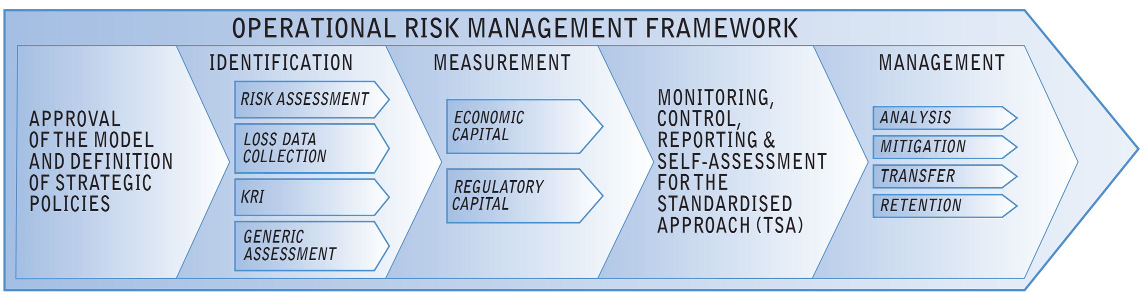
- **A, negligible risk**: the risk is within acceptable limits;
- **B, moderate risk**: the risk of loss is not negligible; first red flag;
- **C, significant risk**: it indicates a critical condition; more in-depth analysis is recommended to assess the opportunity of mitigating actions;
- **D, high 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 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 framework is summarised in the diagram below.



Each main component in said framework represents 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 documented in internal procedures.



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

1. "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;
2. "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;
3. Qualitative estimates in relation to new business processes or initiatives – generic assessment (GA);
4. Key Risk Indicators, i.e. risk and performance indicators that provide insight into the status of operational processes and the main drivers of exposures.

The activities under paragraphs 1, 3 and 4 above are carried out by the Risk Assessment & Mitigation team, while Loss Data Collection is 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 19, 2013), 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 2012, over 36 organisational units of the Bank were examined identifying some 1,715 operational risk checkpoints. About 81% of checkpoints were judged to be adequate or in need of being just better formalised. Mitigation actions were taken in relation to controls that were judged to be unsatisfactory or in need of improvement.

COMPLIANCE RISK

A single compliance risk management framework is applied across the Mediolanum Banking Group. Banca Mediolanum's Compliance 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.

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.

REPUTATIONAL RISK

Under the new regulations governing capital requirements for banks, reputational risk is classified among 'other risks' that are difficult to measure in relation to which banks put in place adequate controls and mitigation measures. 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. Reputational risk may arise from internal or external events.
Internal events may include, but are not limited to:

- the materialisation of other risks (e.g. market risk, liquidity risk, legal risk or strategic risk) not adequately kept in check;
- the occurrence of operational risk events (e.g. malfunctioning, disservice) with impact on the stakeholders' perception of the bank;
- failed compliance with statutes, regulations and codes of conducts, including those that may be outside the purview of the Compliance team;
- internal or external communications being ineffectively or inappropriately handled;
- the behaviour of corporate officers, employees or sales network members.

More generally, internal events include all events directly associated with the processes in place and the business conducted by the Bank as well as any management or operational choices made by the Bank (e.g. external communications, materialisation of operational risk events, failure to comply with legislation).
External events include comments or debates in the media, on social networks, blogs and/or other means of digital communication with circulation of information or opinions that damage the reputation of the Bank. These events are not directly associated with processes in place or business conducted by the Bank, but are related to the circulation of negative opinions or information about the Bank or its management (e.g. debates on blogs or social networks, newspaper articles or opinions about the Bank and its management).
The materialisation of reputational risk may also have effects on other risks (e.g. liquidity risk, in the event of a significant decline in the number of customers as a consequence of the damaged reputation of the Bank). Banca Mediolanum recognises the reputation of the Bank is the bedrock on which the trust-based relationship with customers and market credibility are built.

Hence, its reputation is managed and protected through:

- the values that are embedded across the organisation;
- the promotion of a corporate culture built on integrity, fairness and compliance at all levels of the organisation;
- the adoption of a reputational risk governance and control model.

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, 2012 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, 2012	Dec. 31, 2011
1. Share capital	600,000	450,000
2. Share premium account	-	-
3. Reserves	101,607	99,827
- retained earnings	167,131	165,351
a) legal reserve	26,185	25,378
b) statutory reserve	-	-
c) treasury shares reserve	-	-
d) other	140,946	139,973
- other	(65,524)	(65,524)
3.5 Interim dividends	-	-
4. Equity instruments	-	-
5. Treasury shares	-	-
6. Valuation reserves	78,580	(142,937)
- available for sale financial assets	78,580	(142,937)
- 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	189,264	16,129
Total	969,451	423,019

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

€/'000	Dec. 31, 2012 Positive reserve	Dec. 31, 2012 Negative reserve	Dec. 31, 2011 Positive reserve	Dec. 31, 2011 Negative reserve
1. Debt securities	112,045	(32,087)	2,562	(143,964)
2. Equities	116	-	48	-
3. Holding in UCITS	2,091	(3,585)	87	(1,670)
4. Loans	-	-	-	-
Total	114,252	(35,672)	2,697	(145,634)

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	(141,402)	48	(1,583)	-
2. Increases	223,237	71	3,377	-
2.1 Increase in fair value	216,315	68	2,298	-
2.2 Reclassification to the income statement from reserves:	6,922	3	1,079	-
- impairment	-	3	1,076	-
- realised gains	6,922	-	3	-
2.3 other increases	-	-	-	-
3. Decreases	(1,877)	(3)	(3,288)	-
3.1 Decrease in fair value	(721)	(3)	(3,288)	-
3.2 Impairment	-	-	-	-
3.3 Realised losses	(1,156)	-	-	-
3.4 Other decreases	-	-	-	-
4. Closing balance	79,958	116	(1,494)	-

SECTION 2 – CAPITAL AND CAPITAL REQUIREMENTS

2.1 Legal framework and regulatory capital

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.
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.
The adoption of said treatment option entailed a €39,796 thousand decrease in Supplementary Capital positive components with a decline of the same amount in regulatory capital at December 31, 2012.

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, 2012, Tier 1 capital consisted of share capital (€600 million), equity reserves (€101.60 million), net profit for the period after dividends to be paid out (€29.26 million) less intangible assets (€13.96 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' (€1.67 million). Negative components of core capital (€5.07 million) consisted of 50% of the registered shares in an open-ended collective investment scheme.

2. Tier 2 capital

At December 31, 2012, Tier 2 capital consisted of the positive balance of valuation reserves (after tax) relating to equities classified as 'available-for-sale financial assets' (€0.36 million) and subordinated liabilities (€93.04 million) less 50% of registered shares in an open-ended collective investment scheme (€5.07 million) and the negative filters consisting of the non-computable share (50%) of the positive balance of valuation reserves (after tax) relating to equities classified as 'available-for-sale financial assets' (€0.18 million).

3. Tier 3 capital

At December 31, 2012, 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, 2012	Dec. 31, 2011
A. Tier 1 before prudential filters	716,908	539,505
B. Tier 1 prudential filters:	(1,675)	(12,057)
B.1 Positive IAS/IFRS prudential filters	-	-
B.2 Negative IAS/IFRS prudential filters	(1,675)	(12,057)
C. Tier 1 after prudential filters (A+B)	715,233	527,448
D. Deductions from tier 1	5,073	5,000
E. Total TIER 1 (C-D)	710,160	522,448
F. Tier 2 before prudential filters	93,408	122,415
G. Tier 2 prudential filters:	(184)	-
G.1 Positive IAS/IFRS prudential filters	-	-
G.2 Negative IAS/IFRS prudential filters	(184)	-
H. Tier 2 after prudential filters (F+G)	*93,224*	*122,415*
I. Deductions from tier 2	5,073	5,000
L. Total TIER 2 (H+I)	88,151	117,415
M. Deductions from tier 1 and tier 2	-	-
N. Total capital (E+L+M)	798,311	639,863
O. TIER 3	-	-
P. Total capital + TIER 3 (N+O)	798,311	639,863

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, 2012, Banca Mediolanum's free capital, after the 25% reduction taken for banks that are part of Italian banking groups, amounted to €503.23 million. Tier 1 capital ratio (core capital/RWA) was 19.25% and total capital ratio (regulatory capital/RWA) was 21.64%, above the minimum requirement of 8%.

B. Quantitative Information

€/'000	Not weighted		Weighted/requirements	
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2011
A. Risk assets				
A.1 Credit risk & counterparty risk	16,225,464	14,623,320	3,888,943	3,404,372
1. Standardised approach	16,225,464	14,623,320	3,888,943	3,404,372
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	-	-	311,115	272,350
B.2 Market risk	-	-	9,232	15,402
1. Standardised approach	-	-	9,232	15,402
2. Internal models	-	-	-	-
3. Concentration risk	-	-	-	-
B.3 Operational risk	-	-	73,090	57,616
1. Foundation approach	-	-	-	-
2. Standardised approach	-	-	73,090	57,616
3. Advanced approach	-	-	-	-
B.4 Other prudential requirements	-	-	-	-
B.5 Other computational elements	-	-	(98,359)	(86,342)
B.6 Total prudential requirements	-	-	295,078	259,026
C. RWA & capital ratios				
C.1 Risk weighted assets (RWA)*	-	-	3,688,476	3,237,823
C.2 Tier 1 (core) capital/RWA (Tier 1 capital ratio)	-	-	19.25%	16.14%
C.3 Regulatory capital including Tier 3/RWA (Total capital ratio)	-	-	21.64%	19.76%

(*) 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 there was no transaction requiring disclosure under IFRS 3.

SECTION 2 – POST-BALANCE SHEET DATE TRANSACTIONS

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

PART H - RELATED PARTY TRANSACTIONS

1. Information on key management compensation

€/'000	Directors, Statutory Auditors, Deputy/General Managers	Other key management
Emoluments & social security contributions	2,432	-
Non-cash benefits	46	-
Other post-employment benefits	-	-
Share-based awards (stock options)	64	-

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 SGR 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, 2012 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	-	1	-	46,698	-	26,040	-	30,467	-
(b) Entities exercising significant influence over the company	-	-	-	-	-	-	-	-	-
(c) Subsidiaries	9	17,633	651,044	1,494	-	53,958	30,182	132	-
(d) Associates	-	-	-	-	-	-	-	-	-
(e) Joint ventures	-	-	-	-	-	-	-	-	-
(f) Key managers	-	-	-	-	-	-	-	-	-
(g) Other related parties	-	69,326	-	36,092	-	958,327	646	4,101	11
Total	9	86,960	651,044	84,283	-	1,038,325	30,828	34,700	11

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 Mediolanum S.A.	4,174
Banca Esperia S.p.A.	209
Mediaset S.p.A.	951
Commission income on the sale of securities	
Mediolanum S.p.A.	512
Commission income on the sale of insurance products	
Mediolanum Vita S.p.A.	80,217
Mediolanum International Life Ltd	8,127
Mediolanum Assicurazioni S.p.A.	9,787
Commission income on the sale of mutual funds	
Mediolanum International Funds Ltd	181,211
Mediolanum Gestione Fondi SGR p.A.	42,735
Commission income on the sale of pension funds	
Mediolanum Gestione Fondi SGR p.A.	519
Commission income on collection, payment and other services	
Mediolanum Vita S.p.A.	496
Mediolanum International Life Ltd	19
Mediolanum Assicurazioni S.p.A.	12
Dividends from Group companies	
Mediolanum International Funds Ltd	150,450
Gamax Management AG	4,000
Mediolanum Asset Management	8,670
Mediolanum Gestione Fondi SGR p.A.	6,386
Net income from trading	
Banco Mediolanum S.A.	33
Income on key personnel	
Mediolanum S.p.A.	288
Mediolanum Vita S.p.A.	4,018
Mediolanum Assicurazioni S.p.A.	402
Banco Mediolanum S.A.	1,192
Mediolanum International Funds Ltd	693
Mediolanum Comunicazione S.p.A.	73
Vacanze Italia S.p.A.	26
Mediolanum Gestione Fondi SGR p.A.	348
Bankhaus August Lenz AG	125
Mediolanum International Life Ltd	193
Mediolanum Fiduciaria S.p.A.	80
Income from Group companies for centrally provided services	
Mediolanum Fiduciaria S.p.A.	130
Mediolanum Vita S.p.A.	4,476
Mediolanum Gestione Fondi SGR p.A.	2,039
Mediolanum Comunicazione S.p.A.	386
Mediolanum S.p.A.	1,392
Mediolanum Assicurazioni S.p.A.	621
Mediolanum International Life Ltd	527
Vacanze Italia S.p.A.	96
Mediolanum International Funds Ltd	47
Mediolanum Asset Management	158
Bankhaus August Lenz AG	25
Banco Mediolanum S.A.	27
Pi Servizi S.p.A.	20

€/'000	Income
Other income from rentals and miscellaneous recoveries	
Mediolanum Vita S.p.A.	111
Mediolanum S.p.A.	152
Mediolanum Assicurazioni S.p.A.	78
Mediolanum Comunicazione S.p.A.	45
Mediolanum Fiduciaria S.p.A.	15
Mediolanum Gestione Fondi SGR p.A.	28
Bankhaus August Lenz AG	14

€/'000	Expense
Interest expense and similar charges	
Mediolanum Vita S.p.A.	4,039
Mediolanum S.p.A.	995
Mediolanum International Life Ltd	1,105
Banco Mediolanum S.A.	96
Bankhaus August Lenz AG	1,194
Gamax Management AG	117
Mediolanum International Funds Ltd	135
Mediolanum Assicurazioni S.p.A.	74
Mediolanum Gestione Fondi SGR p.A.	212
Commissions payable for third-party as set management	
Mediolanum Gestione Fondi SGR p.A.	25
Net expense for key personnel	
Mediolanum Gestione Fondi SGR p.A.	206
Mediolanum Vita S.p.A.	841
Mediolanum Assicurazioni S.p.A.	1,226
Mediolanum S.p.A.	1,662
Mediolanum Comunicazione S.p.A.	110
Television and internet communications - expenses for technical services	
Mediolanum Comunicazione S.p.A.	3,290
Promoservice Italia S.p.A.	80
Rentals	
Mediolanum Vita S.p.A.	1,303
Mediolanum Gestione Fondi SGR p.A.	365
Mediolanum Comunicazione S.p.A.	80
Mediolanum S.p.A.	57
Miscellaneous insurance expenses	
Mediolanum Assicurazioni S.p.A.	23,303
Mediolanum Vita S.p.A.	2,366

€/'000	Income
Audiovisual advertising and promotions	
Mediolanum Comunicazione S.p.A.	248
Mondadori Pubblicità S.p.A.	203
Promoservice Italia S.p.A.	357
Publitalia '80 S.p.A.	4,206
Organisation of exhibitions and conventions	
Mediolanum Comunicazione S.p.A.	420
Business expenses, gifts and other services	
Mediolanum S.p.A.	233
Mediolanum Comunicazione S.p.A.	59
Mondadori Retail S.p.A.	12
Mediolanum Gestione Fondi SGR p.A.	63
Vacanze Italia S.p.A.	688
Mediolanum Vita S.p.A.	68
Milan A.C. S.p.A.	246
Operating expenses	
Mediolanum Gestione Fondi SGR p.A.	47
Publitalia '80 S.p.A.	278

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 2012, 518,550 stock options granted in 2007-2008-2009 were exercised for a total of 518,550 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, 2012			Total Dec. 31, 2011		
€/'000	Number of options	Average exercise price	Average expiration	Number of options	Average exercise price	Average expiration
A. Opening balance	5,463,168	2.3945	sept-17	4,868,991	2.5551	apr-17
B. Increases	1,297,805	-		1,347,888	-	
B.1 New issues	1,233,500	1.1040	nov-18	1,241,275	1.0760	jan-20
B.2 Other	64,305	5.2734	X	106,613	3.8634	X
C. Decreases	(1,702,646)	-		(753,711)	-	
C.1 Cancelled	(792,096)	1.4169	X	(43,600)	4.4172	X
C.2 Exercised (*)	(518,550)	1.0330	X	(675,111)	1.0867	X
C.3 Lapsed	(392,000)	5.2310	X	-	-	X
C.4 Other	-	-	X	(35,000)	1.1290	X
D. Closing balance	5,058,327	2.1890	jun-18	5,463,168	2.3945	sept-17
E. Options exercisable at year end	1,585,206	4.6133	X	1,895,616	4.9177	X

(*) Average market price per share on the exercise date was €2,94.

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 €655 thousand and entailed a corresponding increase in the Bank's equity reserves.

Basiglio, March 19, 2013

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

Report of the Board of Statutory Auditors

Report of the Board of Statutory Auditors to the general meeting convened to approve the financial statements for the year ended december 31, 2012

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, 2012, 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 team 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 matters 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, 2012, and the schedules attached thereto, which are presented to you for approval, we assure you that:

a. 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);
b. 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 Statement of financial position, the Income Statement, the Statement of Other 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;
c. 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;
d. regarding the tax claims comprehensively detailed in the Directors Report, based on the opinion expressed by the external experts who are handling the matter and the considerations made by the independent auditors in their report on key matters under art. 19, paragraph 3, of Legislative Decree 39/2010, we noted the decision of the Bank not to make any provisions in the accounts for the year ended December 31, 2012 given that no sufficiently reliable estimate can be made of the amount of the obligation that may ultimately result;
e. the independent auditors completed their audit of the financial statements, including the consistency of information set out in the Directors' Report, and on March 26, 2013 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, 2012, which show net profit of €189,264,127.21.

Milan, April 4, 2013

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

Independent Auditors' Report

Deloitte.

Deloitte & Touche S.p.A.
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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 statement of financial position as of December 31, 2012, and the income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flow 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 our auditors' report issued on March 27, 2012.

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, 2012, 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, 2012.

DELOITTE & TOUCHE S.p.A.

Signed by
Paolo Gibello Ribatto
Partner

Milan, Italy
March 26, 2013

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

Ordinary General Meeting of April 22, 2013

Ordinary General Meeting of April 22, 2013

RESOLUTIONS ABSTRACT

Attended by proxy by the sole shareholder Mediolanum S.p.A. that owns all the 600,000,000 shares that make up share capital (100%), the General Meeting resolved:

- to approve the Directors' Report for the year ended December 31, 2012;
- to approve the financial statements for the year ended December 31, 2012;
- to appropriate net profit for the year amounting to €189,264,127.21 as follows:
  - to the shareholder: distribution of a €0.26667 dividend for each of the 600,000,000 shares that make up share capital, for a total amount of €160,002,000.00
  - to the legal reserve: €9,463,206.36;
  - to the Extraordinary Reserve: €19,800,920.85;
- to approve the 'Group Compensation Policy' together with the related Board of Directors Report to the General Meeting;
- to favourably note the report on rules governing management of risk and conflict of interest in relation to Mediolanum Banking Group's related parties.

Consolidated Annual Financial Statements 2012

Financial Highlights

€/m	Dec. 31, 2012	Dec. 31, 2011	change %
Assets under management & administration	44,676.8	39,798.3	12%
Total Balance Sheet Assets	17,731.2	14,912.3	19%
Loans to customers ex-L&R securities (lending)	4,637.8	3,505.0	32%
Amounts due to customers & Securities issued *ex Cassa Compensazione e Garanzia* (funding)	9,286.3	7,475.0	24%
Lending/Funding from customers	50%	47%	7%
Tier 1 Capital ratio	12.14%	9.41%	29%

Number	Dec. 31, 2012	Dec. 31, 2011	change %
Licensed Financial Advisors	4,951	5,099	(3%)
Employees	1,969	1,912	3%

€/m	Dec. 31, 2012	Dec. 31, 2011	change %
Net inflows *of which managed assets*	2,427.1 1,667.4	2,426.3 848.5	0% 97%
Profit before tax	433.2	143.7	201%
Tax	(105.3)	(17.8)	491%
Net Profit	327.9	125.8	161%
Net profit attributable to minority interests	139.1	102.1	36%
Net profit attributable to the Parent Company	188.8	23.7	697%

Reclassified income statement

€/m		Dec. 31, 2012	Dec. 31, 2011	Change	
10.	Interest income and similar income	526,019	357,620	168,399	47%
20.	Interest expense and similar charges	(215,564)	(153,834)	(61,730)	40%
30.	Net interest income	310,455	203,786	106,669	52%
80.	Net income from trading	38,678	(27,795)	66,473	(239%)
90.	Net income from hedging	(4,279)	(3,813)	(466)	12%
100.	Gains (losses) on sale or buyback of:				
	a) loans and receivables	30	195	(165)	(85%)
	b) available-for-sale financial assets	18,373	(1,098)	19,471	n.s.
	c) held-to-maturity investments	30	1,046	(1,016)	(97%)
	d) financial liabilities	115	262	(147)	(56%)
	Net financial income	363,402	172,583	190,819	111%
40.	Commission income	937,025	809,869	127,156	16%
50.	Commission expense	(461,061)	(405,317)	(55,744)	14%
60.	Net commission income	475,964	404,552	71,412	18%
70.	Dividends and similar income	1,847	3,352	(1,505)	(45%)
120.	Total income	841,213	580,487	260,726	45%
130.	Net impairment/reversal of impairment	(11,317)	(90,355)	79,038	(87%)
140.	Net income from financial operations	829,896	490,132	339,764	69%
180.	General & administrative expenses				
	a) staff costs	(139,794)	(129,623)	(10,171)	8%
	b) other administrative expenses	(188,107)	(177,167)	(10,940)	6%
190.	Net provisions for risks and charges	(48,445)	(34,159)	(14,286)	42%
200.	Depreciation and net impairment of tangible assets	(4,252)	(5,827)	1,575	(27%)
210.	Amortisation and net impairment of intangible assets	(7,042)	(9,846)	2,804	(28%)
220.	Other operating income	11,948	10,149	1,799	18%
230.	Operating expenses	(375,692)	(346,473)	(29,219)	8%
260.	Impairment of goodwill	(21,054)	-	(21,054)	n.s.
270.	Profit (loss) on disposal of investments	5	28	(23)	(82%)
280.	Profit (loss) before tax on continuing operations	433,155	143,687	289,468	201%
290.	Income tax on continuing operations	(105,269)	(17,842)	(87,427)	490%
300.	Profit (loss) after tax on continuing operations	327,886	125,845	202,041	161%
310.	Profit (loss) after tax on non-current assets held for sale	-	(59)	59	(100%)
320.	Net profit (loss) for the year	327,886	125,786	202,100	161%
330.	Net profit (loss) for the year attributable to minority interests	139,114	102,060	37,054	36%
340.	Net profit (loss) for the year attributable to the Parent Company	188,772	23,726	165,046	696%
	Earnings per share (EPS)	0.315	0.053	-	-

Highlights

€/m	Dec. 31, 2012	Dec. 31, 2011	Change	Change (%)
Profit before tax	433.2	143.7	289.5	n.s.

of which

Net financial income	363.4	172.6	190.8	111%

Net interest income was up €106.7 million thanks to bigger interest spreads reflecting refinancing with the ECB. Net income from trading was up €66.5 million, and gains on sale of available-for-sale financial assets were up €19.4 million.

Net commission income	476.0	404.6	71.4	18%

Net commission income growth reflects increases in management fees (€49.6 million) as a result of managed assets NAV growth, in performance fees (€79.4 million) and distribution costs (€56 million).

Net (impairment)/reversal of impairment	(11.3)	(90.3)	79.0	(89%)

Impairment on securities holdings was down compared to 2011 when the group had recorded €82.8 million impairment of Greek sovereign debt holdings.

General & administrative expenses	(327.9)	(306.8)	(21.1)	7%
Staff costs	*(139.8)*	*(129.6)*	*(10.2)*	*8%*
Other administrative expenses	*(188.1)*	*(177.2)*	*(10.9)*	*6%*
Amortisation & depreciation of tangible and intangible assets	(11.3)	(15.7)	4.4	(28%)

General and administrative expenses, amortisation & depreciation were up €16.7 million in aggregate. Specifically, the increase in staff costs was largely in connection with the increase in average number of personnel from 1,530 to 1,627 people as certain activities relating to events organisation and corporate television were brought back in-house, as well as with greater amounts provided for employee incentives (up €3.3 million).
Although benefitting from certain activities having been brought back in-house, other administrative expenses included increased expenses for IT systems and advisory services.

Net provisions for risks and charges	(48.4)	(34.1)	(14.3)	42%

Increase in amounts set aside largely in connection with the legal dispute that involves Banco Mediolanum.

Impairment of goodwill	(21.1)	-	(21.1)	n.s.

Impairment was recognised on goodwill allocated to CGU Spain (Banco Mediolanum) based on its 2013-2015 Plan.

Directors' Report

Dear Shareholder,

the Mediolanum Banking Group consolidated financial statements for the year ended December 31, 2012 show net profit on continuing operations before minority interests of €327.9 million versus €125.8 million in the prior year. In the year under review, there was notable growth in net interest income (up €106.7 million) driven by bigger interest spreads, increased net income from trading (up €66.5 million) and gains on sale of available-for-sale financial assets (up €19.4 million).
Net impairment was down €79 million, largely as a result of reduced impairment on securities.
Other movements in the year include: growth in net commission income (up €71.4 million) driven by increases in management fees and performance fees; increased operating expenses (up €16.7 million), reflecting staff growth as certain activities relating to events organisation and corporate television were brought back in-house, higher administrative expenses largely for IT systems and advisory services, higher provisions for risks mostly in connection with legal disputes, and €21.1 million impairment recognised on goodwill allocated to CGU Spain (Banco Mediolanum).
Income tax for the year amounted to €105.3 million versus €17.8 million in the prior year.
At December 31, 2012, net profit attributable to the Parent Company amounted to €188.8 million versus €23.7 million in the prior year.
The consolidated financial statements for the year ended December 31, 2012 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, 2012 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 2012, the actions taken to deal with the financial crisis in the Eurozone significantly improved investor sentiment.
In the early part of the year the conventional and non-standard measures deployed by the European Central Bank (ECB) – in particular the two Long-Term Refinancing Operations (LTROs) of December 21, 2011 and February 29, 2012 whereby the ECB injected €489.2 billion and €529.5 billion, respectively, into the market – brought about improved market liquidity, reduced yields on European peripheral government bonds and positive stock mar-

ket performance. The renewed turbulence on financial markets from March to June prompted EU leaders to take decisions regarding the European Stability Mechanism (ESM) and the European Financial Stability Facility (EFSF) at the European Council meeting of June 28-29, 2012.

Over the summer investor confidence improved after ECB President Mario Draghi provided further assurances and the German Constitutional Court gave the green light to the ratification of the ESM. In the final months of 2012, uncertainty about the timing and the procedures for the activation of the ECB government bond purchase programme through Outright Monetary Transactions (OMT), emerging signs of political and social instability in peripheral countries of the Eurozone, concerns about global economic growth and the possible impact of the fiscal cliff (the combination of spending cuts and tax increases following the expiration of Bush-era tax cuts) on US growth brought about some market volatility.

The victory by the pro-Euro conservative party Nea Dimokratia at the Greek elections of last June 15 put an end to the political and financial stalemate resulting from the previous elections of May 6.

In December 2012, the Euro-group finally reached an agreement on the restructuring of the Greek debt releasing €43.7 billion to Greece. Socialist Hollande's victory over incumbent Sarkozy in France's presidential elections held in May contributed to a shift in the Eurozone political balance.

Outside Europe, in November 2012, President Obama won the elections for a second mandate, while in Japan in December 2012 the liberal-democrats returned to power with Abe as Prime Minister. In the final part of the year, the difficulties in reaching a political agreement to avoid the fiscal cliff in the US and the ensuing concerns about its impact on both US and global growth brought about market volatility.

Stats confirm growth has slowed down in the Eurozone, while the US has powered ahead. In the third quarter of 2012, GDP expanded at 3.1% (annualised rate) in the US and shrank by 0.1% (non annualised) in the Eurozone, confirming again the lag between these two regions. Specifically, GDP grew in Germany (up 0.2%) and France (up 0.1%), while it shrank in Spain (down 0.3%) and Italy (down 0.2%). Eurozone's sluggishness in 2012 has been reflected in the Purchasing Managers' Indices (PMI) indicating the lack of a sustainable recovery in the manufacturing and services sectors. Conversely, in the US the readings of Institute for Supply Management (ISM) indices for both the manufacturing sector and services stayed above 50% (the threshold signalling that more companies are expanding instead of shrinking).

Both in the US and in the Eurozone, unemployment continues to be a major concern as it weighs on consumer confidence and demand for goods and services. In December 2012, the unemployment rate in the US was 7.8% versus 8.5% in the prior year. In 2012, the readings of the Conference Board Consumer Confidence Index (CCI) and the University of Michigan Consumer Sentiment Index (MCSI) remained far from the highs recorded in the past.

In December 2012, in the Eurozone, the unemployment rate was 11.7% versus 10.7% at year end 2011. Specifically, the joblessness rate was 11.3% in Italy versus 9.5% in the prior year, 6.9% in Germany versus 6.8% in the prior year, and 26% in Spain versus 18.8% in the prior year.

In the current economic cycle inflation continues to be subdued.

In December, the CPI (annualised) was 2.2% versus 2.7% at year end 2011 in the Eurozone, and 1.7% versus 3.0% at year end 2011 in the US. Excluding food and energy, the CPI was 1.5% (1.6% in the prior year) and 1.9% (2.2% in the prior year), respectively. In the same month, the PPI (annualised) was 2.2% in the Eurozone and 1.3% in the US. In the UK the inflation rate fell from 4.2% in the prior year to 2.7%.

Financial markets

During the year, the yield spreads between Italian and German government bonds declined, specifically from 528 bps at December 31, 2011 to 318 bps at year end 2012, with a peak last July 24 of 536 bps on 10-year notes and from 497 bps at December 31, 2011 to 200 bps at year end 2012, with a peak last July 24 of 512 bps on 2-year notes. Yields on 2-year Italian treasuries fell from 5.12% at the start of the year to 1.99% at December 31, 2012; while yields on 2-year Italian treasuries dropped from 7.11% at the start of the year to 4.50% on December 31, 2012. Like in 2011, benefitting from purchases made by investors looking for low-risk assets, yields on German government bonds declined across all maturities (from 0.14% to a negative return of -0.015% on 2-yr notes; and from 1.83% to 1.32% on 10-yr notes). Yields on US treasuries remained in line with the low levels seen at year end 2011 (moving from 0.24% to 0.4% on 2-yr notes; from 1.88% to 1.76% on 10-yr notes).
Emerging markets and corporate bonds continued to benefit from uncertainty and volatility in peripheral Eurozone government bond markets with ensuing declines in yields and yield spreads.
In the fourth quarter of 2012 the protracted negotiations to reach a political agreement and avoid the fiscal cliff in the US and concerns about the impact of the fiscal cliff on US and global economic growth led the US stock market to underperform (S&P 500 down 1%) European bourses (STOXX Europe 600 up 4.2%).
In 2012, global equity markets were up 16.6% (MSCI World in US dollars). In the US, both the S&P500 and Nasdaq Composite recorded good performance, up 13.4% and up 15.9%, respectively. In Europe, stock markets fared well, too, on average (STOXX Europe 600 up 14.4%). Specifically, the Italian (FTSE MIB up 7.8%) and Spanish (IBEX 35 down 4.7%) markets underperformed the German (DAX up 29.1%), French (CAC40 up 15.2%) and Swiss (SMI up 14.9%) markets. Stock market indices were driven north by cyclical stocks and financials. Emerging markets rose 18.5% (MSCI EM in USD).
The performance of the Euro against the US dollar mirrored the developments of the European financial crisis. Specifically, the Euro experienced weakness in the early months of 2012, to strengthen later in the year following the reassuring statements made by ECB President Mario Draghi in July 2012, moving from 1.30 at the beginning of the year to 1.32 at year end against the US dollar, with a low of 1.21 in July. The Euro had similar movements in its foreign exchange value also against the UK sterling, namely from 0.83 in January to 0.78 in July and 0.81 in December. The performance of the European single currency against the Japanese yen and the Swiss franc reflected the actions taken by the Central Banks of those countries. In the second part of the year the Bank of Japan set inflation targets at a level that facilitated its currency devaluation via monetary easing: the Euro strengthened from 99.66 in January to 114.46 in December against the Japanese yen. The Swiss National Bank intervened in the currency market throughout 2012 to avoid appreciation of the Swiss franc.
In 2012, Brent oil prices remained essentially flat moving from US$107.58 per barrel at the beginning of the year to US$111.94 per barrel at year end, with high volatility that brought it to a high of US$126.65 on February 24 and a low of US$88.74 on June 21.
In the year under review, the price of gold confirmed the historic highs seen in prior years moving from US$1,563.70 per ounce at the beginning of the year to US$1,675.35 per ounce in December 2012.

The reference markets

At the end of the third quarter 2012, the financial assets of households amounted to about €3,619 billion, marginally down 0.2% (annualised rate) over the prior year.

Specifically, bank accounts and deposits were up 3.4% accounting for 31.7% of total financial assets of households (vs. 30.6% in the prior year); holdings in life insurance, pension funds and severance funds were up 1.6%, with a weight of 18.0% (17.7% in the same period of the prior year); holdings in mutual funds were up 9.6% and accounted for 7.6% (vs. 6.9% for the same period of the prior year) of total financial assets of households. Conversely, holdings in equities were down 10.9% with a weight of 17.6% (vs. 19.7% in the third quarter of 2011). Bond holdings (government and corporate bonds) declined too, namely by 1.5%, yet holdings in government bonds were up 14.7%. Bond holdings accounted for 19.1% (19.3% in the prior year) of total financial assets of households.

During 2012, in Italy banking funding slightly accelerated. Specifically, at year end 2012, Italian banks recorded inflows into euro-denominated current accounts, term deposits net of receivables sales, deposits repayable upon notice, and repurchase agreements (deposits net of operations with central counterparties) and bonds (net of those repurchased by banks) held by resident customers aggregating to €1,761.5 billion, up 1.6% (vs. 0.9% at the end of December 2011) and an increase in the stock of funding of nearly €28 billion. The analysis of the various components shows deposits of resident customers (net of operations with central counterparties and term deposits connected with sales of receivables) were up 6.2% (down 0.4% in December 2011), the highest level since 2008. Bond holdings were down 6.8% in the year (up 3.2% in December 2011).

At year end 2012, lending (to the private sector and public administrations net of repurchase agreements with central counterparties) was down 1.1% year on year (up 2.4% at year end 2011) to €1,928 billion. Loans to private sector Italian residents [1] were slightly down too, down 1.8% (vs. up 2.9% at year end 2011) to €1,660.2 billion. Loans to households and non-financial companies amounted to about €1,475 billion, down 2.5% year on year (up 3.6% at year end 2011; Euro zone average: down 1.7%).

Maturity analysis shows that short-term lending (due within one year) was down 1.7% (up 5.5% in the prior year) and medium/long-term lending (due after more than one year) was down 2.8% (up 3% at year end 2011).

Credit facilities to households slowed down too, 1.4% decline versus 4.4.% growth at year end 2011 (when adjusted for securitisation[2], 0.5% decline in 2012 vs. 3.4% growth in 2011).

Consumer credit experienced high volatility and fell by about 7% in 2012 (2.7% growth in 2011). In the Eurozone consumer credit shrank by 3.9%. In the past decade the share of Italy's consumer credit in the Eurozone market grew from 4.2% at year end 2000 to 9.9% in December 2012.

Italian banks' share of the European home loans market grew, too, from 5.2% in December 2000 to 9.5% in December 2012. During 2012 home lending shrank 0.6% compared to 4.4% growth in 2011 (Eurozone average: 1.2% growth).

In December 2012, gross non-performing loans aggregated to €125 billion, increasing by €17.8 billion over year end 2011 (up about 16.6% year on year). The ratio of gross non-performing loans to total loans was 6.3% at year end 2012 versus 5.4% at the end of the prior year. Net non-performing loans amounted to €64.3 billion, some €2.1 billion more than in the prior month and nearly €12.9 billion more than in the prior year (25% increase year on year). The ratio of net non-performing loans to total loans was 3.33% (vs. 2.69% at year end 2011).

At December 2012, the securities portfolio of Italian banks grew to €874 billion.

(1) Other Italian residents: non-financial companies, consumer households, family businesses, nonprofits, insurers, pension funds, other financial institutions net of repos with central counterparties.

(2) Growth rates calculated including loans not carried on the balance sheets of banks because they were securitised and net of changes not connected with transactions (e.g. exchange rate movements, value adjustments or reclassifications).

Interest applied to bank deposits of households and non-financial companies slightly increased, namely from 1.08% at year end 2011 to 1.25% at year end 2012. At the end of December 2012, average interest on euro-denominated bank deposits, bonds and repurchase agreements held by households and non-financial companies was 2.08% in December 2012 versus 2% at the end of the prior year. In the year under review interest rates on repurchase agreements increased too, from 2.77% in December 2011 to 3.03% in December 2012, while yields on bank bonds remained essentially flat (3.37% vs. 3.36%).
In 2012, the weighted average rate applied to total loans extended to households and non-financial companies calculated by the Italian Bankers' Association slightly declined, consistently with conditions on the interbank market, from 4.23% in December 2011 to 3.78% in December 2012. At year end 2012, also interest on active bank accounts and revolving loans to households and non-financial companies fell from 5.56% in December 2011 to 5.48% in December 2012.
Interest rates applied to new transactions were down to particularly low levels: in December 2012 the rate applied to euro-denominated loans extended to non-financial companies was 3.65% (4.18% in December 2011), interest on euro-denominated home loans to households (average for both fixed and floating-rate loans, considering all the various types of loans) was 3.69% (4.03% in December 2011). In the last month of 2012 fixed-rate lending accounted for 22.8% (vs. 37.5% in December 2011). The average spread between lending and funding interest rates applied to households and non-financial companies declined to 187 bps, down 30 bps year on year. Before the beginning of the financial crisis the average spread between lending and funding interest rates exceeded 300 bps.

MEDIOLANUM BANKING GROUP

At December 31, 2012, the composition of the Mediolanum Banking Group, of which your Bank is the Parent Company, remained essentially unchanged over the prior year.
On December 28, 2012, Banca Mediolanum acquired full ownership of the company Fermi & Galeno Real Estate S.r.l. Authorisation from the Bank of Italy regarding inclusion of this company into the Mediolanum Banking Group is pending.

REVIEW OF OPERATIONS

For the year ended December 31, 2012, the Mediolanum Banking Group reported profit before tax of €433.2 million up €289.5 million from €143.7 million in the prior year.
Net interest income grew 52% to €310.5 million from €203.8 million at year end 2011. The €106.7 million increase was driven by bigger interest spreads reflecting refinancing with the ECB.
Adding net income from trading, net income from hedging and gains on the sale of available-for-sale financial assets, net financial income came in at €363.4 million versus €172.6 million in the prior year. Notably, net income from trading was up €66.5 million, and gains on sale of available-for-sale financial assets were up €19.5 million.
Commission income amounted to €937.0 million versus €809.9 million in the prior year. The 127.2 million increase over the prior year was driven by growth in performance fees (up €79.4 million) as well as in management fees (up €49.6 million) owed to NAV growth.
Commission expenses amounted to €461.1 million versus €405.3 million in the prior year. The €55.7 million increase over the prior year was due to greater amounts retroceded to the sales network following changes in the compensation policy.

Total income for the year came in at €841.2 million versus €580.5 million in 2011.
Net impairment amounted to €11.3 million versus €90.4 million, down on the prior year when €82.8 million impairment had been recorded on Greek government bonds.
Operating expenses amounted to €375.7 million versus €346.5 million at year end 2011, up €29.2 million. In particular, staff costs increased following growth in average number of personnel from 1,529 to 1,627 people following the merger of MCU and certain activities relating to events organisation and corporate television being brought back in-house, as well as greater employee incentives (€3.3 million).
Although benefitting from the aforementioned activities having been brought back in-house, other administrative expenses included increased expenses for IT systems and advisory services, the latter in connection with the pending legal dispute.
Net provisions for risks and charges amounted to €48.4 million versus €34.2 million in the prior year. The €14.3 million increase largely reflects amounts set aside for the legal dispute that involves Banco Mediolanum and for contractual obligations to the sales network.
Other operating income aggregated to €12.0 million versus €10.1 million in 2011.
Income tax for the year amounted to €105.2 million versus €17.8 million in the prior year.

At December 31, 2012, total consolidated balance sheet assets amounted to €17,731.2 million versus €14,912 million at December 31, 2011.
Loans to customers, excluding securities, amounted to €4,637.8 million versus €3,505.0 million at December 31, 2011. In particular, retail lending grew driven by residential loans, personal loans and deposits with *Cassa di Compensazione e Garanzia*, while L&R securities declined.
Funding from customers amounted to €9,286.3 million versus €7,475 million in the prior year. Notes issued declined to €94.7 million from €285.6 million at year end 2011.
At December 31, 2012, loans to banks, largely Italian banks and marginally Eurozone banks under the supervision of the European Central Bank, amounted to €1,083.00 million versus €2,049.3 million at year end 2011. Funding from banks declined from €5,201.0 million in the prior year to €3,511.5 million at the end of the year under review (down 1,689.5 million).
Net interbank exposure amounted to €2,428.5 million versus €3,151.6 million in the prior year.
At year end 2012, investments in securities amounted to €11,698.3 million up €2,210.7 million from €9,487.6 million at year end 2011.

€/m	2012	2011
Held to Maturity Investments	1,025.0	697.9
Available-for-Sale Financial Assets	9,196.4	6,433.1
Financial Assets Held for Trading	587.3	692.8
Financial Liabilities Held for Trading	(257.0)	(333.2)
Loans & Receivables (banks and customers)	1,146.6	1,997.0
Total	11,698.3	9,487.6

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

The increase regarded mostly *available-for-sale financial assets* which were up €2,763.3 million over the prior year's balance. The AFS equity reserve amounted to a positive balance of €91.1 million versus a negative balance of €152.5 million in the prior year.

Held-to-Maturity Investments increased by €327.1 million over the prior year's balance of €697.9 million to €1,025 million.

Financial assets held for trading net of *Financial liabilities held for trading* were down €29.3 million over the prior year's balance of €359.6 million to €330.3 million.

Consisting of ABS and securities issued by Eurozone banks and governments not quoted in an active market, *Loans and Receivables* were down from €1,997 million in the prior year to €1,147 million as a result of maturities.

Consolidated Inflows, Assets under Management and Assets under Administration

Net Inflows

€/m	Dec. 31, 2012	Dec. 31, 2011	Change %
ITALY			
Life insurance products	(991.2)	(813.9)	22%
Asset Management products	2,343.3	1,404.2	67%
Total managed assets inflows	1,352.2	590.3	129%
Third-party structured bonds	200.7	141.5	42%
Total managed assets + third-party structured bonds	1,552.9	731.8	112%
Freedom Life Policies	(1,070.8)	(521.5)	105%
Administered assets	1,776.3	2,069.6	(14%)
TOTAL - ITALY	2,258.3	2,280.0	(1%)
SPAIN	114.3	94.6	21%
GERMANY	54.5	51.7	5%
TOTAL FOREIGN MARKETS	168.8	146.3	15%
TOTAL NET INFLOWS	2,427.1	2,426.3	0%

Assets under Management and under Administration(*)

(*) The figures relate to retail customers only.

€/m	Dec. 31, 2012	Dec. 31, 2011	change %
ITALY			
Life Products	13,795.7	13,678.5	1%
Freedom Life Policies	3,433.0	4,503.8	(24%)
Asset Management products	23,384.4	19,725.3	19%
Banking products	11,336.5	8,925.6	27%
Consolidation adjustments	(9,515.3)	(8,966.0)	6%
TOTAL - ITALY	42,434.3	37,867.2	12%
SPAIN	1,799.6	1,581.2	14%
GERMANY	442.9	349.9	27%
TOTAL FOREIGN MARKETS	2,242.5	1,931.1	16%
TOTAL ASSETS UNDER MANAGEMENT & ADMINISTRATION	44,676.8	39,798.3	12%

The Sales Networks

Number	Dec. 31, 2012	Dec. 31, 2011	change %
Italy			
Licensed financial advisors	4,315	4,507	(6%)
Others	-	1	(98%)
Spain	590	549	13%
Germany	46	42	17%
Total	4,951	5,099	(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 2012 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.

Tax Claims

As you may recall two separate Audit Reports had been issued in past years following the field audit Italy's Tax Police (Milan Office – 1st Revenue Protection Group) started on September 16, 2010 and concluded on February 28, 2011. One Audit Report had been issued on October 29, 2010 claiming a total adjustment of €48.3 million to IRES and IRAP taxable income for tax year 2005, the other on February 28, 2011 claiming a total adjustment of €121.4 million to IRES and IRAP taxable income for tax years from 2006 through 2009, all relating to fees rebated by the Irish subsidiary Mediolanum International Funds Ltd.

On April 29, 2011, the Bank had filed a brief prepared pursuant to section 12, paragraph 7, Act 212 of July 27, 2000 with the IRS Lombardy Office whereby the Bank had asserted the illegitimacy of the claims and its law-abiding conduct, requesting in any case the application of the penalty waiver clause under Article 26 of Italy's Decree Law 78 of May 31, 2010.

On December 21, 2012 the Bank was notified three Notices of IRES Tax Due and Demands for Payment and as many Notices of IRAP Tax Due and Demands for Payment for tax years 2005, 2006 and 2007, claiming adjustments to taxable income aggregating to €333.5 million, resulting in €110.1 million IRES tax due plus €85.7 million penalties, and €17.5 million IRAP tax due plus €13.6 million penalties.

The Bank believes the analysis developed by the IRS in the Notices is illegitimate besides being groundless as to the adjustments to taxable income claimed and illegitimate as to the penalties given that the waiver under Art. 26 of Decree Law 78/2010 was not applied although the tax administration itself recognised formal compliance of documentation produced within the required deadline.

However, in the light of the complexity of the matter which involves also the subsidiary Mediolanum International Funds Ltd, the Bank started the procedure under the EU Arbitration Convention (Convention 90/436/EEC) for adjudication of its case by the competent Irish and Italian tax authorities.

As to the outcome of the claims above for which the procedure under the international Arbitration Convention was initiated, considering that transfer pricing applied by the Bank is within the arm's length range as determined by independent economists, the directors believe based, *inter alia*, on the opinion of an independent advisor, the risk is only possible and, in addition, since the pending issues relate to determinations, no sufficiently reliable estimate can be made of the amount of the obligation that may ultimately result.

In the light of the foregoing no provision was made in the separate accounts for the year ended December 31, 2012.

Finally, we inform you that the claim aggregating to €64 million raised by the tax administration for alleged failure to apply VAT to the indirect commissions (so-called overrides) paid to certain sales network members for their supervision and coordination of other sales network members from tax year 2006 through September 16, 2010 (the start date of the Tax Police audit) had a positive conclusion for the Bank.

The complete groundlessness of the claim was confirmed by the IRS Assessment Office that in its Note No. 2012/82261 of May 30, 2012 clearly affirmed the tax-exempt status for overrides paid to certain sales network members for their supervision and coordination of other sales network members pursuant to paragraph 1 N. 9 of article 10 of the Decree of the President of the Italian Republic No. 633/197.

Equity and capital ratios

At December 31, 2012, shareholders' equity attributable to the Mediolanum Banking Group after minority interests and excluding net profit, amounted to €878.1 million versus €474.1 million at December 31, 2011. The €403.9 million increase reflects the capital increase (€150 million), the gains on available-for-sale financial assets (€243.6 million), the appropriation of net profit for the year 2011 to reserves (€8.7 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 2012 as proposed by the Board of Directors, equity amounts to €906.9 million up €424.0 million over the prior year.
Total capital ratio (regulatory capital /RWA) was 13.84% versus 12.06% in the prior year, well above the minimum requirement of 8%. Tier 1 capital ratio was 12.14% versus 9.41% in the prior year.

Impairment test

The Board of Directors of the Bank approved the procedures for impairment review at December 31, 2012. 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. Specifically, impairment testing was conducted in relation to the Cash Generating Units (CGUs) Spain, Germany and Italy (Asset Management) in accordance with IAS 36.

For the purpose of impairment review at December 31, 2012, Banca Mediolanum requested the assistance of a primary specialist firm. The valuations were based on cash-flow estimates derived from the 2013-2015 Plans approved by the Board of Directors of Banca Mediolanum on February 13, 2013, applying industry standard methods best suited for the purposes of the exercise in the specific cases, in accordance with applicable accounting standards.
In their February 28, 2013 report the independent valuers stated that based on their analysis of the recoverable amount of goodwill carried on the consolidated statement of financial position of the Mediolanum Banking Group and allocated to the CGUs above, the recoverable amount of goodwill allocated to CGU Germany and to CGU Italy Asset Management did not show any evidence of impairment, while the recoverable amount allocated to CGU Spain based on conservative estimates was determined to be €102.8 million, which was lower than the amount at which it was carried in the consolidated accounts (€123.9 million). Based on these results an impairment charge of €21.1 million was recognised on goodwill allocated to CGU Spain.

Post balance sheet date events

After December 31, 2012, there was no event which could have a significant impact on the financial position, results of operations and cash flows of the Mediolanum Banking Group.

Outlook

In October 2012 and again in January 2013 the International Monetary Fund (IMF) lowered its forecasts for global economic growth noting that the recovery continues, but it has weakened.
2013 may unfold showing commonalities with the recently ended year: moderate growth, fiscal tightening, monetary easing and no major concern about inflation.
In such an environment, the Mediolanum Banking Group will continue to be focused on its all-around offering of ever more sophisticated products and services to protect the savings and grow the assets of its customers. Income from treasury operations will continue to be linked to the performance of markets.
With due consideration of the developments outlined under 'Tax Claims' 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 2013 is positive.

Basiglio, March 19, 2013

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

Consolidated Accounts 2012

Statement of financial position

Assets

€/'000	Dec. 31, 2012	Dec. 31, 2011
10. Cash and cash equivalents	64,333	44,499
20. Financial assets held for trading	587,308	692,845
30. Financial assets at fair value	-	-
40. Available-for-sale financial assets	9,196,449	6,433,108
50. Held-to-maturity investments	1,025,038	697,862
60. Loans to banks	1,082,992	2,049,309
70. Loans to customers	5,133,041	4,259,361
80. Hedging derivatives	1,366	-
120. Tangible assets	63,879	43,627
130. Intangible assets	192,741	211,607
of which:		
- goodwill	177,424	198,314
140. Tax assets		
a) current	59,228	85,995
b) deferred	102,152	155,268
b1) of which under statute 214/2011	-	-
150. Non-current assets and disposal groups	670	-
160. Other assets	221,964	238,873
Total assets	17,731,161	14,912,354

Liabilities and Shareholders' Equity

€/'000	Dec. 31, 2012	Dec. 31, 2011
10. Due to banks	3,511,473	5,200,963
20. Due to customers	12,022,709	7,896,583
30. Securities issued	94,720	285,631
40. Financial liabilities held for trading	256,994	333,206
50. Financial liabilities at fair value	-	-
60. Hedging derivatives	92,888	67,896
80. Tax liabilities		
a) current	66,506	29,779
b) deferred	74,547	13,407
90. Liabilities associated with disposals group	-	-
100. Other liabilities	288,218	356,182
110. Employee completion-of-service entitlements	9,613	9,150
120. Provisions for risks and charges:		
a) severance benefits and similar obligations	1,540	1,402
b) other provisions	188,209	158,425
140. Valuation reserves	91,051	(152,541)
165. Interim dividend	-	-
170. Reserves	187,029	176,678
180. Share premium account	-	-
190. Share capital	600,000	450,000
200. Treasury shares (-)	-	-
210. Minority interests (+/-)	56,892	61,867
220. Net profit (loss) for the year (+/-)	188,772	23,726
Total liabilities and shareholders' equity	17,731,161	14,912,354

Income Statement

€/'000	Dec. 31, 2012	Dec. 31, 2011
10. Interest income and similar income	526,019	357,620
20. Interest expense and similar charges	(215,564)	(153,834)
30. Net interest income	310,455	203,786
40. Commission income	937,025	809,869
50. Commission expense	(461,061)	(405,317)
60. Net commission income	475,964	404,552
70. Dividends and similar income	1,847	3,352
80. Net income from trading	38,678	(27,795)
90. Net income from hedging	(4,279)	(3,813)
100. Gains (losses) on sale or buyback of:		
a) loans	30	195
b) available-for-sale financial assets	18,373	(1,098)
c) held-to-maturity investments	30	1,046
d) financial liabilities	115	262
120. Total income	841,213	580,487
130. Impairment losses on:		
a) loans	(8,862)	(6,068)
b) available-for-sale financial assets	(2,421)	(68,804)
c) held-to-maturity investments	-	(15,500)
d) other financial instruments	(34)	17
140. Net income from financial operations	829,896	490,132
170. Net income from financial and insurance operations	829,896	490,132
180. Administrative expenses		
a) staff costs	(139,794)	(129,623)
b) other administrative expenses	(188,107)	(177,167)
190. Net provisions for risks and charges	(48,445)	(34,159)
200. Depreciation and net impairment of tangible assets	(4,252)	(5,827)
210. Amortisation and net impairment of intangible assets	(7,042)	(9,846)
220. Other operating income	11,948	10,149
230. Operating expenses	(375,692)	(346,473)
260. Impairment losses on goodwill	(21,054)	-
270. Profit (Loss) on disposal of investments	5	28
280. Profit (Loss) before tax on continuing operations	433,155	143,687
290. Income tax expense on continuing operations	(105,269)	(17,842)
300. Profit (Loss) after tax on continuing operations	327,886	125,845
310. Profit (Loss) after tax of non current assets pending disposal	-	(59)
320. Net Profit (Loss) for the year	327,886	125,786
330. Net Profit (Loss) for the year pertaining to minority interests	139,114	102,060
340. Net Profit (Loss) for the year pertaining to the parent company	188,772	23,726
Earnings per share	0.315	0.053

Statement of other comprehensive income

€/'000		Dec. 31, 2012	Dec. 31, 2011
10.	Net profit (loss) for the year	327,886	125,786
	Other comprehensive income components after tax		
20.	Available for sale financial assets	243,742	(111,567)
110.	Total other comprehensive income components after tax	243,742	(111,567)
120.	Comprehensive income (items 10+110)	571,628	14,219
130.	Consolidated comprehensive income attributable to minority interests	139,264	101,972
140.	Consolidated comprehensive income attributable to the Parent Company	432,364	(87,753)

Statement of changes in equity

€/'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)

€/'000	Balance at Dec. 31, 2011	Adjustment to opening balances	Balance at Jan. 1, 2012	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	173,781	-	173,781	8,721	-
b) others	2,897	-	2,897	-	-
Valuation reserves	(152,541)	-	(152,541)	-	-
Equity instruments	-	-	-	-	-
Treasury shares	-	-	-	-	-
Net profit (loss) for the year	23,726	-	23,726	(8,721)	(15,005)
Shareholders' equity attributable to the Group	497,863	-	497,863	-	(15,005)
Shareholders' equity attributable to minority interest	61,867	-	61,867	-	(48,287)

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

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, 2012	Shareholders' at Dec. 31, 2012
-	150,000	-	-	-	-	-	-	600,000
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	1,638	-	184,140
(8)	-	-	-	-	-	-	-	2,889
-	-	-	-	-	-	-	243,592	
-	-	-	-		-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	188,772	188,772
(8)	150,000	-	-	-	-	1,638	432,364	1,066,852
-	-	-	(95,980)	-	-	28	139,264	56,892

Statement of cash flow

Indirect Method

€/'000	Dec. 31, 2012	Dec. 31, 2011
Operating activities	424,627	29,571
- net profit (loss) for the year	188,772	23,726
- gains/losses on financial assets held for trading and on financial assets/liabilities at fair value	(14,775)	35,096
- gains/losses on hedges (+/-)	4,279	3,813
- impairment losses/reversals (+/-)	8,862	6,068
- net write-downs/write-backs of tangible and intangible assets (+/-)	11,294	15,673
- provisions for risks and charges and other costs/revenues (+/-)	48,445	34,159
- uncollected net premiums (-)	-	-
- other uncollected insurance revenues/charges (-)	-	-
- unpaid taxes (+)	177,750	(88,964)
- net write-downs/write-backs of disposal groups after taxes (+/-)	-	-
- other adjustments (+/-)	-	-
Cash generated/used by financial assets	(2,526,851)	(3,604,176)
- financial assets held for trading	105,537	263,761
- financial assets at fair value	(1,366)	-
- available-for-sale financial assets	(2,763,341)	(4,335,132)
- loans to banks: on demand	139,684	441,259
- loans to banks: other loans	826,633	(64,748)
- loans to customers	(873,680)	90,509
- other assets	39,682	175
Cash generated/used by financial liabilities	2,108,481	3,321,842
- due to banks: on demand	(175,647)	6,778
- due to banks: other amounts due	(1,513,843)	2,993,617
- due to customers	4,126,126	410,585
- securities issued	(190,911)	(54,848)
- financial liabilities held for trading	(76,212)	(118,256)
- financial liabilities at fair value		-
- other liabilities	(61,032)	83,966
Net cash generated by/used in operating activities	6,257	(252,763)
INVESTING ACTIVITIES		
Cash from	(327,129)	427,758
- sale of equity investments	-	-
- dividends received from equity investments	-	-
- sale of held-to-maturity investments	(327,176)	420,304
- sale of tangible assets	47	7,454
- sale of intangible assets	-	-
- sale of subsidiaries and business lines	-	-
Cash used for	(34,536)	(14,315)
- purchase of equity investments	-	-
- purchase of held-to-maturity investments	-	-
- purchase of tangible assets	(24,647)	(2,077)
- purchase of intangible assets	(9,889)	(12,238)
- purchase of subsidiaries and business lines	-	-
Net cash generated by/used in investing activities	(361,665)	413,443
FINANCING ACTIVITIES		
- issue/purchase of treasury shares (formation of share capital)	150,000	-
- issue/purchase of equity instruments	240,247	(109,213)
- dividend distribution and other	(15,005)	(60,003)
Net cash generated by/used in financing activities	375,242	(169,216)
NET CASH GENERATED/USED IN THE YEAR	19,834	(8,536)

RECONCILIATION

€/'000	Dec. 31, 2012	Dec. 31, 2011
Financial item		
Cash and cash equivalents at beginning of the year	44,499	53,035
Total net cash generated/used in the year	19,834	(8,536)
Cash and cash equivalents: effect of movements in exchange rates	-	-
Cash and cash equivalents at end of the year	64,333	44,499

Notes to the Consolidated Annual Financial Statements 2012

Notes to the Consolidated Annual Financial Statements

These notes are structured as follows:

Part A - Accounting policies
Part B - Information on the consolidated statement of financial position
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, 2012 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, 2012 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, 2012, 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 Statement of financial position, the Income Statement, the Statement of Other 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, 2011. Where necessary, for the sake of comparability of financial information, certain reclassifications were made with respect to prior period's comparative information.

Accounts

Statement of financial position and Income Statement

The Statement of financial position 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 shown within parentheses.

Statement of Other Comprehensive Income

The Statement of Other 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 Statement of financial position 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 statement of cash flow 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 shown within parenthesis.

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 Mediolanum 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
Fermi & Galeno Real Estate S.r.l.	10	100.00%	Basiglio	Management of real estate funds

Group companies that are indirectly owned by Banca Mediolanum S.p.A. through Banco Mediolanum 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 statement of financial position 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 2012 and the date on which these financial statements were approved, there was no event which could materially impact the business or results 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 results of operations for the year 2012 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, 2012.
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, 2011.

New standards, interpretations and amendments to standards that have been adopted by the Group beginning from January 1, 2012

The Group has adopted amendments to IFRS 7 '*Financial Instruments: Disclosures*' issued by the IASB on October 7, 2010 that became effective for financial years beginning on January 1, 2012. The IASB issued said amendments to allow users of financial statements to improve their understanding of transfers of financial assets (derecognition), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The adoption of said amendments did not have any material impact on the Group's financial statements.

New standards, interpretations and amendments to standards that are not yet effective and have not been adopted early by the Group

On June 16, 2011, the IASB issued an amendment to IAS 1 '*Presentation of Financial Statements*'. The amendment requires companies to group items of Other Comprehensive Income according to whether they may be subse-

quently reclassified to profit or loss. Application of the revised standard is required for financial years beginning on or after July 1, 2012. The adoption of this amendment in these financial statements would have had no impact on the financial position, results of operations and cash flows of the Group, but it would have entailed rearranging the presentation of items of other comprehensive income.
On June 16, 2011, the IASB also issued an amendment to IAS 19 '*Employee Benefits'*. The amendment eliminates the option to defer the recognition of actuarial gains/losses under the 'corridor' approach, requiring immediate recognition of changes in the plan's net assets/liabilities, recognition in the income statement of service costs, interest cost as well as of actuarial gains/losses resulting from the re-measurement of assets and liabilities in Other Comprehensive Income. Expected returns on plan assets are replaced by recognition in the income statement of interest income calculated using the discount rate used to measure the obligation. The amended standard also introduces additional information disclosures in the notes to the financial statements. The amended standard will become effective for annual periods beginning on or after January 1, 2013 with retrospective application required. The introduction of the amended standard will have an impact on the Group's equity on its first-time adoption, due to the different requirement for recognition of actuarial gains/losses. At the date of these financial statements, the Group estimates the impact of the adoption of the amended standard will be about €594 thousand reduced costs in the income statement and the concurrent recognition of a negative equity reserve of €431 thousand after tax.

On December 20, 2010, the IASB issued an amendment to IAS 12 – '*Income Taxes - Deferred Tax: Recovery of Underlying Assets*' clarifying how deferred tax liabilities and assets on investment properties measured at fair value are to be determined. The amendment was endorsed by the EU with the publication of 'Commission Regulation (EU) 1255/2012 of December 11, 2012' in the EU Official Journal L 360 of December 29, 2012. The amendment introduced the presumption that the carrying amount of investment properties measured using the fair value model in IAS 40 would be recovered through sale and the measurement of deferred tax liabilities or assets should reflect the consequences of recovering the carrying amount through sale. The amendment made to IAS 12 superseded SIC Interpretation 21 '*Income Taxes – Recovery of Revalued Non-Depreciable Assets'* that was withdrawn. The amendment to IAS 12 will become effective for financial years beginning on or after the date on which the EU Regulation entered into force (which was the third day following its publication in the EU Official Journal). The adoption of the amendment to IAS 12 in these financial statements would have had no impact on the financial position, results of operations and cash flows of the Group nor on other disclosures.
On May 12, 2011, the IASB issued IFRS 10 '*Consolidated Financial Statements'* superseding SIC 12 '*Consolidation – Special Purpose Entities*' and the requirements relating to consolidated financial statements of IAS 27 '*Consolidated and Separate Financial Statements'*. The amended IAS 27 titled '*Separate Financial Statements'* sets out the requirements for accounting treatment of investments in subsidiaries, joint ventures, and associates in separate (non-consolidated) financial statements. The new standard IFRS 10 was endorsed by the EU with publication of 'Commission Regulation (EU) 1254/2012 of December 11, 2012' in the EU Official Journal L 360 of December 29, 2012. Built on existing principles, the new standard identifies control as the basis to determine which entities are to be consolidated by the parent company in its consolidated accounts. It also provides guidance on how to assess control to determine whether or not the parent has control over an entity. The standard shall be applied at the latest as from the commencement date of the entity's financial year starting on or after January 1, 2014. Early adoption is permitted provided that IFRS 10 is adopted at the same time as IFRS 11, IFRS 12, IAS 27 and IAS 28. Only IFRS 12 can be adopted early without the others. The adoption of the new standard IFRS 10 in these financial statements would have had no impact on the financial position, results of operations and cash flows of the Group.

On May 12, 2011, the IASB issued IFRS 11 '*Joint Arrangements*' superseding IAS 31 ' *Interests in Joint Ventures*' and SIC 13 '*Jointly Controlled Entities – Non-Monetary Contributions by Venturers*'. The new standard was endorsed by the EU with publication of 'Commission Regulation (EU) 1254/2012 of December 11, 2012' in the EU Official Journal L 360 of December 29, 2012. The new standard establishes principles for financial reporting of joint arrangements, for their classification based on the rights and obligations of the parties to the arrangements instead of their legal form, and that jointly controlled entities that meet the definition of a joint venture must be accounted for exclusively by using the equity method in the consolidated financial statements. Following the issue of IFRS 11, IAS 28 '*Investments in Associates*' was amended to include in its scope from the effective date of IFRS 11 also joint ventures (revised IAS 28 '*Investments in Associates and Joint Ventures*'). IFRS 11 shall be applied at the latest as from the commencement date of the entity's financial year starting on or after January 1, 2014. Early adoption is permitted provided that IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28 are adopted at the same time. Only IFRS 12 can be adopted early without the others. The adoption of the new standard in these financial statements would have had no impact on the financial position, results of operations and cash flows of the Group.
On May 12, 2011, the IASB issued IFRS 12 '*Disclosure of Interests in Other Entities*'. This new standard includes all disclosure requirements for all interests in other entities, including subsidiaries, joint arrangements, associates, structured entities and unconsolidated entities. The new standard was endorsed by the EU with publication of 'Commission Regulation (EU) 1254/2012 of December 11, 2012' in the EU Official Journal L 360 of December 29, 2012. IFRS 12 shall be applied at the latest as from the commencement date of the entity's financial year starting on or after January 1, 2014. Early adoption of IFRS 12 is permitted. The adoption of the new standard in these financial statements would have had no impact on the financial position, results of operations and cash flows of the Group. The Group is assessing the potential impact on disclosures relating to subsidiaries.
On May 12, 2011, the IASB issued IFRS 13 '*Fair Value Measurement*' that clarifies how fair value is to be measured. IFRS 13 applies anytime another IFRS requires or permits fair value measurements or disclosures about measurements based on fair value. The new standard was endorsed by the EU with publication of 'Commission Regulation (EU) 1255/2012 of December 11, 2012' in the EU Official Journal L 360 of December 29, 2012. IFRS 13 shall be applied at the latest as from the commencement date of the entity's financial year starting on or after January 1, 2013. Early adoption of IFRS 13 is permitted. The Group is assessing the potential impact of the adoption of the new standard.
On December 16, 2011, the IASB issued amendments to IAS 32 '*Financial Instruments: Presentation- Offsetting Financial Assets and Financial Liabilities*' to provide additional guidance on consistent application of IAS 32 regarding offset of financial assets and financial liabilities. The new standard was endorsed by the EU with publication of 'Commission Regulation (EU) 1256/2012 of December 13, 2012' in the EU Official Journal L 360 of December 29, 2012. The revised standard shall be applied at the latest as from the commencement date of the entity's financial year starting on or after January 1, 2014. Early adoption is permitted for amendments to IAS 32 provided that they are adopted together with amendments to IFRS 7. The adoption of the revised standard in these financial statements would have had no impact on the financial position, results of operations and cash flows of the Group, nor on other disclosures.
On December 16, 2011, the IASB issued amendments to IFRS 7 '*Financial Instruments: Disclosures*' to require the provision of information on the effects or potential effects of offsetting financial assets and liabilities on the statement of financial position. The new standard was endorsed by the EU with publication of 'Commission Regulation (EU) 1256/2012 of December 13, 2012' in the EU Official Journal L 360 of December 29, 2012. The revised standard shall be applied at the latest as from the commencement date of the entity's financial year starting on or after January 1, 2013. The adoption of the new standard in these financial statements would have had no impact on the financial position, results of operations and cash flows of the Group, nor on other disclosures.

On May 17, 2012, the IASB issued a collection of amendments to IFRSs ("Annual Improvements to IFRSs – 2009-2011 Cycle") to be applied retrospectively to annual periods beginning on or after January 1, 2013. Amendments relate, *inter alia*, to the following standards:

IAS 1 – *Presentation of financial statement*. The amendment clarifies requirements for presentation of comparative information when an entity changes accounting policies or makes retrospective restatements or reclassifications, and when an entity provides an additional statement of financial position that is more than information required under the standard.

IAS 16 – *Property, Plant and Equipment*. The amendment clarifies that spare parts, stand-by or servicing equipment are to be capitalised only when they meet the definition of property, plant and equipment (PPE), otherwise they are to be classified as Inventory.

IAS 32 – *Financial Instruments*. The amendment eliminates inconsistencies between IAS 32 and IAS 12 *Income Taxes*, clarifying that income taxes relating to distributions to shareholders are to be recognised in the income statement to the extent to which they relate to income generated from transactions originally recognised in the income statement.

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 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 statement of financial position 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 statement of financial position 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-term 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. 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 and receivables – 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.

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 statement of financial position 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 the 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. As to the discount rate it was decided to apply the rate implied in IBOXX EUR Corporate AA indices published by Markit Group Ltd as these indices correspond to the implied internal rate of return of euro-denominated liquid corporate securities. 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 statement of financial position 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 statement of financial position.

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:

- estimates and assumptions used to determine the fair value of financial instruments that are not quoted in an active market (fair value hierarchy levels 2 and 3);
- identification of loss events as per IAS 39;
- assumptions used for the identification of any objective evidence of impairment of intangible assets and equity investments recognised in the statement of financial position;
- determination of impairment losses on loans and other financial assets;
- determination of provisions for risks and charges;
- estimates and assumptions for the determination of the probability of utilisation of deferred tax assets;
- assumptions used to determine the costs of stock options plans for top management and sales network members;
- assumptions used to determine employee completion-of-service entitlements.

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 options 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, 2012 (4)	Fair value at Dec. 31, 2012 (5)	Valuation (6)	Other (7)	Valuation (8)	Other (9)
A. Debt securities			155,424	154,301	7,825	3,930	7,133	4,350
	HFT	AFS	141,144	141,144	7,133	3,740	7,133	4,160
	HFT	Loans to Customers	14,280	13,157	692	190	-	190

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 the following years.

A.3.2.1 Fair value hierarchy of financial assets and liabilities

	Dec. 31, 2012			Dec. 31, 2011		
€/'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	571,651	15,657	-	653,906	37,919	1,020
2. Financial assets at fair value	-	-	-	-	-	-
3. Available for sale financial assets	8,901,480	227,844	67,125	6,097,765	254,580	80,763
4. Hedging derivatives	-	1,366	-	-	-	-
Total	9,473,131	244,867	67,125	6,751,671	292,499	81,783
1. Financial liabilities held for trading	235,672	21,322	-	320,067	13,139	-
2. Financial liabilities at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	92,888	-	-	67,896	-
Total	235,672	114,210	-	320,067	81,035	-

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	1,020	-	80,763	-
2. Increases	9,950	-	14,426	-
2.1 Purchases	9,319	-	12,633	-
2.2 Profits recognised				
2.2.1 through profit or loss	608	-	659	-
- of which: gains	-	-	-	-
2.2.2 in equity	X	X	685	-
2.3 Transferred to other level	-	-	-	-
2.4 Other increases	23	-	449	-
3. Decreases	(10,970)	-	(28,064)	-
3.1 Sales	(5,723)	-	(20,777)	-
3.2 Redemptions	(75)	-	-	-
3.3 Losses recognised				
3.3.1 through profit or loss	(132)	-	(1,516)	-
- of which: losses	-	-	(685)	-
3.3.2 in equity	X	X	(3,989)	-
3.4 Transferred to other level	(5,039)	-	(622)	-
3.5 Other decreases	(1)	-	(1,160)	-
4. Closing balance	-	-	67,125	-

PART B – INFORMATION ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

Section 1 – Cash and cash equivalents – Caption 10

1.1 Analysis of cash and cash equivalents

€/'000	Dec. 31, 2012	Dec. 31, 2011
a) Cash	50,120	42,061
b) Demand deposits with Central Banks	14,213	2,438
Total	64,333	44,499

Section 2 – Financial assets held for trading – Caption 20

2.1 Analysis of financial assets held for trading

	Dec. 31, 2012			Dec. 31, 2011		
€/'000	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Non-derivatives						
1. Debt securities	571,651	13,016	-	653,894	36,284	1,020
1.1 Structured notes	4	7,547	-	17,682	4,806	127
1.2 Other debt securities	571,647	5,469	-	636,212	31,478	893
2. Equities	-	-	-	3	-	-
3. Holdings in UCITS	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-
Total (A)	571,651	13,016	-	653,897	36,284	1,020
B. Derivatives						
1. Financial derivatives:	-	2,641	-	9	1,635	-
1.1 held for trading	-	2,641	-	9	1,635	-
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)	-	2,641	-	9	1,635	-
Total (A+B)	571,651	15,657	-	653,906	37,919	1,020

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

€/'000	Dec. 31, 2012	Dec. 31, 2011
A. Non-derivatives		
1. Debt securities	584,667	691,198
a) Governments and Central Banks	108,881	125,969
b) Government agencies	5,524	-
c) Banks	428,381	525,698
d) Other issuers	41,881	39,531
2. Equities	-	3
a) Banks	-	1
b) Other issuers:	-	2
- insurance companies	-	-
- financial companies	-	-
- non financial companies	-	2
- others	-	-
3. Holdings in UCITS	-	-
4. Loans	-	-
a) Governments and Central Banks	-	-
b) Government agencies	-	-
c) Banks	-	-
d) Others	-	-
Total A	584,667	691,201
B. Derivatives		
a) Banks		
- fair value	2,621	1,633
b) Customers		
- fair value	20	11
Total B	2,641	1,644
Total (A+B)	587,308	692,845

2.3 Year's movements in financial assets held for trading

€/'000	Debt securities	Equities	Holdings in UCITS	Loans	Total
A. Opening balance	691,198	3	-	-	691,201
B. Increases	9,544,754	4,829	91	-	9,549,674
B1. Additions	9,491,231	4,822	91	-	9,496,144
B2. Increases in fair value	22,744	-	-	-	22,744
B3. Other	30,779	7	-	-	30,786
C. Decreases	9,651,285	4,832	91	-	9,656,208
C1. Disposals	8,915,657	4,735	91	-	8,920,483
C2. Redemptions	726,724	-	-	-	726,724
C3. Decreases in fair value	247	-	-	-	247
C4. Reclassified to other portfolios	-	-	-	-	-
C5. Other	8,657	97	-	-	8,754
D. Closing balance	584,667	-	-	-	584,667

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

4.1 Analysis of available-for-sale financial assets

	Dec. 31, 2012			Dec. 31, 2011		
€/'000	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	8,890,282	151,659	-	6,087,854	140,699	21,185
1.1 Structured notes	-	-	-	-	983	-
1.2 Other debt securities	8,890,282	151,659	-	6,087,854	139,716	21,185
2. Equities	404	35	13,218	334	35	13,218
2.1 measured at fair value	404	-	-	334	-	-
2.2 measured at cost	-	35	13,218	-	35	13,218
3. Holdings in UCITS	10,794	76,150	53,907	9,577	113,846	46,360
4. Loans	-	-	-	-	-	-
Total	8,901,480	227,844	67,125	6,097,765	254,580	80,763

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

€/'000	Dec. 31, 2012	Dec. 31, 2011
1. Debt securities	9,041,941	6,249,738
a) Governments and Central Banks	8,672,703	5,689,812
b) Government agencies	-	-
c) Banks	324,364	551,378
d) Other issuers	44,874	8,548
2. Equities	13,657	13,587
a) Banks	-	-
b) Other issuers:	13,657	13,587
- insurance companies	-	-
- financial companies	5,754	5,684
- non financial companies	7,849	7,851
- others	54	52
3. Holdings in UCITS	140,851	169,783
4. Loans	-	-
a) Governments and Central Banks	-	-
b) Government agencies	-	-
c) Banks	-	-
d) Other issuers	-	-
Total	9,196,449	6,433,108

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

€/'000	Debt securities	Equities	Holdings in UCITS	Loans	Total
A. Opening balance	6,249,738	13,587	169,783	-	6,433,108
B. Increases	7,776,571	1,489	30,449	-	7,808,509
B1. Additions	7,221,383	1,408	24,975	-	7,247,766
B2. Increases in fair value	353,722	72	3,433	-	357,227
B3. Reversal of impairment	20,608	9	1,608	-	22,225
- through profit or loss	20,582	-	-	-	20,582
- in equity	26	9	1,608	-	1,643
B4. Reclassified from other portfolio	-	-	-	-	-
B5. Other	180,858	-	433	-	181,291
C. Decreases	4,984,368	1,419	59,381	-	5,045,168
C1. Disposals	1,897,421	1,406	52,453	-	1,951,280
C2. Redemptions	3,023,775	-	-	-	3,023,775
C3. Decreases in fair value	1,124	5	5,273	-	6,402
C4. Impairment	239	8	1,608	-	1,855
- through profit or loss	223	3	1,608	-	1,834
- in equity	16	5	-	-	21
C5. Reclassified to other portfolios	-	-	-	-	-
C6. Other	61,809	-	47	-	61,856
D. Closing balance	9,041,941	13,657	140,851	-	9,196,449

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

5.1 Analysis of held-to-maturity investments

€/'000	Dec. 31, 2012				Dec. 31, 2011			
	Book Value	Fair Value			Book Value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	1,025,038	844,863	203,820	-	697,862	142,506	534,846	4,885
- Structured notes	100,505	-	99,504	-	100,976	-	93,020	-
- Other debt securities	924,533	844,863	104,316	-	596,886	142,506	441,826	4,885
2. Loans	-	-	-	-	-	-	-	-
Total	1,025,038	844,863	203,820	-	697,862	142,506	534,846	4,885

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

€/'000	Dec. 31, 2012	Dec. 31, 2011
1. Debt securities	1,025,038	697,862
a) Governments and Central Banks	760,247	4,885
b) Government agencies	-	-
c) Banks	264,791	692,977
d) Other issuers	-	-
2. Loans	-	-
a) Governments and Central Banks	-	-
b) Governments agencies	-	-
c) Banks	-	-
d) Others	-	-
Total	1,025,038	697,862
Total Fair Value	1,048,683	682,237

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

€/'000	Debt securities	Loans	Total
A. Opening balance	697,862	-	697,862
B. Increases	763,167	-	763,167
B1. Additions	755,584	-	755,584
B2. Reversal of impairment	-	-	-
B3. Reclassified from other portfolios	-	-	-
B4. Other	7,583	-	7,583
C. Decreases	435,991	-	435,991
C1. Disposals	4,530	-	4,530
C2. Redemptions	422,816	-	422,816
C3. Impairment	-	-	-
C4. Reclassified to other portfolios	-	-	-
C5. Other	8,645	-	8,645
D. Closing balance	1,025,038	-	1,025,038

Sovereign debt holdings of the Banking Group largely consist of Italian treasuries. Spanish treasuries account for a small share of said holdings and holdings of other government securities are not significant.

Section 6 – Loans to banks – Caption 60

6.1 Analysis of loans to banks

€/'000	Dec. 31, 2012	Dec. 31, 2011
A. Central Banks	77,258	130,353
1. Time deposits	5,500	50,001
2. Reserve requirements	71,758	80,352
3. Repurchase agreements	-	-
4. Other	-	-
B. Banks	1,005,734	1,918,956
1. Current accounts and demand deposits	93,093	232,777
2. Time deposits	8,215	113,080
3. Others:	253,041	330,191
3.1 Repurchase agreements	239,774	313,048
3.2 Finance leases	-	-
3.3 Other	13,267	17,143
4. Debt securities	651,385	1,242,908
4.1 Structured notes	-	-
4.2 Other debt securities	651,385	1,242,908
Total (book value)	1,082,992	2,049,309
Total (fair value)	1,082,985	1,992,790

Section 7 – Loans to customers – Caption 70

7.1 Analysis of loans to customers

	Dec. 31, 2012			Dec. 31, 2011		
		Impaired			Impaired	
€/'000	Performing	Purchased	Other	Performing	Purchased	Other
1. Current accounts	412,706	-	5,917	374,023	-	7,967
2. Repurchase agreements	53,716	-	-	9,884	-	-
3. Mortgage loans	3,194,414	-	27,166	2,559,867	-	23,217
4. Credit cards, personal loans and salary-guaranteed loans	466,569	-	3,269	270,242	-	1,057
5. Finance leases	1	-	-	51	-	-
6. Factoring	-	-	-	-	-	-
7. Other	466,196	-	7,871	248,702	-	9,922
8. Debt securities	495,217	-	-	754,429	-	-
8.1 Structured notes	-	-	-	-	-	-
8.2 Other debt securities	495,217	-	-	754,429	-	-
Total (book value)	5,088,818	-	44,223	4,217,198	-	42,163
Total (fair value)	5,532,494	-	44,223	4,461,118	-	42,163

7.2 Analysis of customer loans by debtor/issuer

	Dec. 31, 2012			Dec. 31, 2011		
		Impaired			Impaired	
€/'000	Performing	Purchased	Other	Performing	Purchased	Other
1. Debt securities	495,217	-	-	754,429	-	-
a) Governments	350,980	-	-	501,420	-	-
b) Government agencies	-	-	-	100,917	-	-
c) Other issuers	144,237	-	-	152,092	-	-
- non financial companies	-	-	-	-	-	-
- financial companies	144,237	-	-	152,092	-	-
- insurance companies	-	-	-	-	-	-
- others	-	-	-	-	-	-
2. Loans	4,593,601	-	44,223	3,462,769	-	42,163
a) Governments	12	-	-	-	-	-
b) Government agencies	48	-	-	25	-	-
c) Other issuers	4,593,541	-	44,223	3,462,744	-	42,163
- non financial companies	213,224	-	2,138	93,840	-	2,171
- financial companies	301,101	-	7,614	133,947	-	9,530
- insurance companies	19,748	-	-	22,817	-	-
- others	4,059,468	-	34,471	3,212,140	-	30,462
Total	5,088,818	-	44,223	4,217,198	-	42,163

7.3 Loans to customers: micro-hedging

€/'000	Dec. 31, 2012	Dec. 31, 2011
1. Fair value hedges	531,339	478,338
a) interest rate risk	531,339	478,338
b) currency risk	-	-
c) credit risks	-	-
d) multiple risks	-	-
2. Cash flow hedges	-	-
a) interest rate risk	-	-
b) currency risk	-	-
c) other	-	-
Total	531,339	478,338

Section 8 – Hedging derivatives – Caption 80

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

€/'000	Dec. 31, 2012 FV Level 1	Dec. 31, 2012 FV Level 2	Dec. 31, 2012 FV Level 3	Dec. 31, 2012 VN	Dec. 31, 2011 FV Level 1	Dec. 31, 2011 FV Level 2	Dec. 31, 2011 FV Level 3	Dec. 31, 2011 VN
A. Financial derivatives	-	1,366	-	67,829	-	-	-	-
1. Fair value hedges	-	1,366	-	67,829	-	-	-	-
2. Cash flow hedges	-	-	-	-	-	-	-	-
3. Hedges of investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-	-	-	-
1. *Fair value hedges*	-	-	-	-	-	-	-	-
2. Cash flow hedges	-	-	-	-	-	-	-	-
Total	-	1,366	-	67,829	-	-	-	-

Legend
FV = *fair value*
VN = notional value

8.2 Analysis of hedging derivatives by hedged portfolio and type of hedge (book value)

Category/type of hedge	*Fair value* micro-hedging interest rate risk	*Fair value* micro-hedging currency risk	*Fair value* micro-hedging credit risk	*Fair value* micro-hedging pricing risk	*Fair value* micro-hedging multiple risks	*Fair value* macro-hedging	Cash flow micro-hedging	Cash flow macro-hedging	investments in foreign operations
1. Available-for-sale financial assets	-	-	-	-	-	X	-	X	X
2. Loans and receivables	1,366	-	-	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	1,366	-	-	-	-	-	-	-	-
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 12 – Tangible assets – Caption 120

12.1 Analysis of tangible assets carried at cost

€/'000	Dec. 31, 2012	Dec. 31, 2011
A. Occupied/used		
1.1 owned	63,860	43,566
a) land	31,280	17,315
b) buildings	24,330	17,400
c) furnishings	2,720	3,197
d) electronic equipment	4,782	4,550
e) other	748	1,104
1.2 under finance leases	19	61
a) land	-	-
b) buildings	-	-
c) furnishings	19	61
d) electronic equipment	-	-
e) other	-	-
Total A	63,879	43,627
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)	63,879	43,627

12.3 Year's movements in occupied/used tangible assets

€/'000	Land	Buildings	Furnishings	Electronic equipment	Other	Total
A. Gross opening balance	17,315	29,109	12,224	24,022	2,163	84,833
A.1 Total net write-downs	-	(11,709)	(8,966)	(19,472)	(1,059)	(41,206)
A.2 Net opening balance	17,315	17,400	3,258	4,550	1,104	43,627
B. Increases	13,965	7,897	810	1,832	320	24,824
B.1 Additions	13,965	7,897	800	1,817	168	24,647
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	-	-	10	15	152	177
C. Decreases		(967)	(1,329)	(1,600)	(676)	(4,572)
C.1 Disposals		-	(1)	-	(46)	(47)
C.2 Depreciation	-	(967)	(1,291)	(1,600)	(394)	(4,252)
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	-	-	(37)	-	(236)	(273)
D. Net closing balance	31,280	24,330	2,739	4,782	748	63,879
D.1 Total net write-downs	-	(18,858)	(10,248)	(21,086)	(1,282)	(51,474)
D.2 Gross closing balance	31,280	43,188	12,987	25,868	2,030	115,353
E. Measured at costs	-	-	-	-	-	-

Section 13 – Intangible assets – Caption 130

13.1 Analysis of intangible assets

	Dec. 31, 2012		Dec. 31, 2011	
€/'000	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	X	177,424	X	198,314
A.1.1 group	X	177,424	X	198,314
A.1.2 minority interests	X	-	X	-
A.2 Other intangible assets	15,317	-	13,293	-
A.2.1 measured at cost	15,317	-	13,293	-
a) internally generated assets	-	-	-	-
b) other assets	15,317	-	13,293	-
A.2.2 Measured at fair value:	-	-	-	-
a) internally generated assets	-	-	-	-
b) other assets	-	-	-	-
Total	15,317	177,424	13,293	198,314

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	-	-	147,606	-	345,920
A.1 Total net write-downs	-	-	-	(134,313)	-	(134,313)
A.2 Net opening balance	198,314	-	-	13,293	-	211,607
B. Increases	164	-	-	9,889	-	10,053
B.1 Additions	-	-	-	9,889	-	9,889
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	164	-	-	-	-	164
C. Decreases	(21,054)	-	-	(7,865)	-	(28,919)
C.1 Disposals	-	-	-	-	-	-
C.2 Amortisation and impairment	(21,054)	-	-	(7,041)	-	(28,095)
- Amortisation	X	-	-	(7,041)	-	(7,041)
- Impairment	(21,054)	-	-	-	-	(21,054)
+ in equity	X	-	-	-	-	-
+ through profit or loss	(21,054)	-	-	-	-	(21,054)
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	-	-	-	(824)	-	(824)
D. Net closing balance	177,424	-	-	15,317	-	192,741
D.1 Total net write-downs	-	-	-	(140,925)	-	(140,925)
E. Gross closing balance	177,424	-	-	156,242	-	333,666
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, 2012, 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 Mediolanum S.A. Share of Mediolanum International Funds Ltd (MIF) goodwill for business in Spain	123.9
CGU - GERMANY	Bankhaus August Lenz & Co AG Gamax Management AG - German division	4.8
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 €123.0 million and the share of Mediolanum International Funds (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. 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.
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 (16%), 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.
Goodwill recognised in the consolidated accounts of the Mediolanum Banking Group is lower than value in use. In connection therewith, you are advised that the Mediolanum Group average stock market value in 2012 was 2x its equity book value.

VALUATION METHOD

Like in prior years, 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 enti-

ty 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 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 2013-2015 Business Plan (the 2013-2015 Plan) approved by the Boards of Directors of Banco Mediolanum and Banca Mediolanum S.p.A..

The 2013-2015 Plan was built on reasonable, consistent assumptions and represents the management best estimate of the range of possible future developments for the CGU.

The 2013-2015 Plan confirmed the strategic lines set out in the previous plan (2012-2015 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, 2012.

Specifically, the 2013-2015 Plan is based on the following key assumptions:

- growth in assets under management and administration at an average annual rate of 13%;
- business margin growth at an average annual rate of 2.2%;
- increase in general expenses at an average annual rate of 2.5%.

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

- Base scenario: developed using the projections set out in the 2013-2015 Plan;
- Prudential scenario: developed using the projections set out in the Plan with the exclusion of corporate treasury activities.

In both scenarios cash-flows were estimated assuming a minimum Tier 1 Capital ratio of 8.5%.

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 5.8% 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 1.14 calculated on the basis of the historical 2-year beta of a panel of comparable entities operating in the Spanish banking market;
- market premium (i.e. the premium required by investors to buy equities in lieu of risk-free assets) of 5% in line with common 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 the contribution of corporate treasury activities, and assuming 2% long-term growth in line with long-term inflationary expectations.

Under the prudential scenario, the recoverable amount of CGU Spain was found to be €102.8 million which was lower than its consolidated carrying amount (€123.9 million), essentially due to the results of the 2013-2015 three-year plan. The Group, therefore, decided to write down the goodwill allocated to CGU Spain by €21.1 million.

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 2013-2016 Business Plan approved by the directors of Gamax (for the German division of Gamax) and the 2013-2015 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..

GAMAX – GERMAN DIVISION

The 2013-2016 Plan 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, 2012, the profitability of the German Division of Gamax was €1.5 million, essentially in line with the prior year (€1.4 million).
Specifically, the 2013-2016 Plan of the German Division of Gamax was based on the following key assumptions:

- assets under administration growth at an average annual rate of 13.5%;
- growth in business margin at an average annual rate of 11.5%;
- increase in general expenses at an average annual rate of 10.9%.

Under the Capital Asset Pricing Model the discount rate applied to calculate the present value of future cash flows (ke) was estimated at 8.1% based on the following parameters:

- risk-free rate of 1.5% calculated on the basis of average historical 6-month yields on 10-year German treasuries;
- beta coefficient (risk measure of the stock compared to the market) of 1.13 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 common 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 2016, and assuming 2% long-term growth in line with long-term inflationary expectations.
Prudentially, the capital surplus that would potentially be available was not considered.

BAL

The 2013-2015 Plan was built on reasonable, consistent assumptions and represents the management best estimate of the range of possible future business developments of BAL.
BAL's plan approved by the Bank in the previous year was confirmed.
At December 31, 2012, BAL recorded a loss of €6.5 million (€13.1 million in 2011).
The 2013-2015 Plan of BAL was based on the following key assumptions:

- growth in business margin from €2.2 million in 2013 to €9.3 million in 2015;
- return to profit in financial year 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 10.6%. Calculations were based on the following parameters:

- risk-free rate of 1.5% calculated on the basis of average historical 6-month yields on 10-year German treasuries;
- beta coefficient (risk measure of the stock compared to the market) of 1.13 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 common 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 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 GERMANY

The DDM exercise conducted on CGU Germany (German Division of Gamax and BAL) did not reveal any impairment losses.

Sensitivity to changes in 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:

- 436 bps increase in discount rate;
- 585 bps decrease in long term growth;
- net profitability 36% lower than forecast in the plans.

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 (€2.8 billion at December 31, 2012) to its equity (€1.4 billion at December 31, 2012) reveals an implicit multiple of 2.0x, 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, 2012	Dec. 31, 2011
Deferred tax assets		
Charge to the income statement	83,440	79,071
Charge to equity	18,712	76,197
Total deferred tax assets	102,152	155,268
Deferred tax liabilities		
Charge to the income statement	(11,915)	(11,420)
Charge to equity	(62,632)	(1,987)
Total deferred tax liabilities	(74,547)	(13,407)

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

€/'000	Dec. 31, 2012	Dec. 31, 2011
1. Opening balance	79,071	69,176
2. Increases	26,481	23,543
2.1 Deferred tax assets arisen in the year	19,604	22,879
a) relating to prior years	92	92
b) due to changes in the accounting policies	(3,221)	1,508
c) write-backs	-	-
d) other	22,733	21,279
2.2 New taxes or increased tax rates	-	664
2.3 Other increases	6,877	-
3. Decreases	(22,112)	(13,648)
3.1 Deferred tax assets cancelled in the year	(438)	(369)
a) reversals	(438)	(370)
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	(21,674)	(13,279)
a) turned into tax credit under Act 214/2011	-	-
b) other	(21,674)	(13,279)
4. Closing balance	83,440	79,071

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

€/'000	Dec. 31, 2012	Dec. 31, 2011
1. Opening balance	(11,420)	(9,835)
2. Increases	(1,580)	(1,932)
2.1 Deferred tax liabilities arisen in the year	(1,580)	(1,932)
a) relating to prior years	-	-
b) due to changes in the accounting policies	-	-
c) other	(1,580)	(1,932)
2.2 New taxes or increased tax rates	-	-
2.3 Other increases	-	-
3. Decreases	1,084	347
3.1 Deferred tax liabilities cancelled in the year	1,084	346
a) reversals	-	-
b) due to changes in the accounting policies	-	-
c) other	1,084	346
3.2 Reduced tax rates	-	-
3.3 Other decreases	-	1
4. Closing balance	(11,915)	(11,420)

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

€/'000	Dec. 31, 2012	Dec. 31, 2011
1. Opening balance	76,197	21,824
2. Increases	7,126	85,698
2.1 Deferred tax assets arisen in the year	7,126	85,232
a) relating to prior year	-	-
b) due to changes in the accounting policies	-	-
c) other	7,126	85,232
2.2 New taxes or increased tax rates	-	466
2.3 Other increases	-	-
3. Decreases	(64,611)	(31,295)
3.1 Deferred tax assets cancelled in the year	(64,611)	(31,283)
a) reversals	(8,368)	(6,784)
b) write-offs of non-recoverable amounts	-	-
c) due to changes in the accounting policies	-	-
d) other	(56,243)	(24,499)
3.2 Reduced tax rates	-	-
3.3 Other decreases	-	(12)
4. Closing balance	18,712	76,197

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

€/'000	Dec. 31, 2012	Dec. 31, 2011
1. Opening balance	(1,987)	(2,401)
2. Increases	(100,647)	(3,737)
2.1 Deferred tax liabilities arisen in the year	(100,647)	(3,686)
a) relating to prior years	-	-
b) due to changes in the accounting policies	-	-
c) other	(100,647)	(3,686)
2.2 New taxes or increased tax rates	-	(51)
2.3 Other increases	-	-
3. Decreases	40,002	4,151
3.1 Deferred tax liabilities cancelled in the year	40,002	4,151
a) reversals	13,858	1,066
b) changes in the accounting policies	-	-
c) other	26,144	3,085
3.2 Reduced tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	(62,632)	(1,987)

14.7 Other information

Analysis of deferred tax assets

€/'000	Dec. 31, 2012	Dec. 31, 2011
charge to the income statement		
provision for risks and charges	52,727	47,721
loan losses	285	5,606
expenses deductible in future years	8,283	7,113
future years' taxed income	5	6
other	22,140	18,625
Total	83,440	79,071
charge to equity		
fair value measurement of AFS securities	18,712	76,197
Total	18,712	76,197

Analysis of deferred tax liabilities

€/'000	Dec. 31, 2012	Dec. 31, 2011
charge to the income statement		
income taxable in future years	11,839	11,259
future expenses deductible in the year	-	-
deducted future expenses	76	161
Total	11,915	11,420
charge to equity		
fair value measurement of AFS securities	62,632	1,987
Total	62,632	1,987

Section 15 - Non-current assets held for sale - Caption 150

15.1 Analysis of non-current assets and disposal groups held for sale

€/'000	Dec. 31, 2012	Dec. 31, 2011
A. Individual assets		
A.1 Financial assets	-	-
A.2 Equity investments	-	-
A.3 Tangible assets	670	-
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
Total A	670	-
B. Disposal groups		
B.1 Financial assets held for trading	-	-
B.2 Financial assets at fair value	-	-
B.3 Available-for-sale financial assets	-	-
B.4 Held-to-Maturity investments	-	-
B.5 Loans to banks	-	-
B.6 Loans to customers	-	-
B.7 Equity investments	-	-
B.8 Tangible assets	-	-
B.9 Intangible assets	-	-
B.10 Other assets	-	-
Total B	-	-
C. Liabilities associated with individual assets		
C.1 Debt	-	-
C.2 Securities	-	-
C.3 Other	-	-
Total C	-	-
D Liabilities associated with disposal groups		
D.1 Due to banks	-	-
D.2 Due to customers	-	-
D.3 Securities issued	-	-
D.4 Financial liabilities held for trading	-	-
D.5 Financial liabilities at fair value	-	-
D.6 Provisions	-	-
D.7 Other	-	-
Total D	-	-

Section 16 – Other assets – Caption 160

16.1 Analysis of other assets

€/'000	Dec. 31, 2012	Dec. 31, 2011
Receivables from tax authorities	39,813	23,025
Receivables from financial advisors	4,059	4,099
Advances to suppliers and professionals	5,408	5,209
Security deposits	2,697	5,961
Receivables from companies within the Fininvest Group and the Doris Group	281	327
Receivables from subsidiaries and associates	3,548	2,805
Receivables from employees	374	514
Other receivables	10,602	4,209
Items in transit	109,558	150,278
Accrued income	33,346	30,953
Prepayments	2,659	3,307
Other	9,619	8,186
Total	221,964	238,873

LIABILITIES

Section 1 – Amounts due to banks – Caption 10

1.1 Analysis of amounts due to banks

€/'000	Dec. 31, 2012	Dec. 31, 2011
1. Central banks	3,105,719	4,494,571
2. Banks	405,754	706,392
2.1 Current accounts and demand deposits	1,678	177,325
2.2 Time deposits	403,252	340,931
2.3 Loans	6	187,115
2.3.1 Repurchase agreements	6	187,115
2.3.2 Other	-	-
2.4 Commitments to buy back own equity instruments	-	-
2.5 Other amounts due	818	1,021
Total	3,511,473	5,200,963
Fair value	3,511,473	5,200,943

Section 2 – Amounts due to customers – Caption 20

2.1 Analysis of amounts due to customers

€/'000	Dec. 31, 2012	Dec. 31, 2011
1. Current accounts and demand deposits	6,390,241	5,704,117
2. Time deposits	2,576,833	1,093,498
3. Loans	2,861,406	923,457
3.1 Repurchase agreements	2,861,406	923,457
3.2 Other	-	-
4. Commitments to buy back own equity instruments	-	-
5. Other amounts due	194,229	175,511
Total	12,022,709	7,896,583
Fair value	12,022,709	7,896,585

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

Section 3 – Securities issued – Caption 30

3.1 Analysis of securities issued

€/'000	Dec. 31, 2012				Dec. 31, 2011			
	Book Value	Fair value			Book Value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Securities								
1. bonds	94,720	-	92,257	-	285,631	-	270,234	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	94,720	-	92,257	-	285,631	-	270,234	-
2. other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
Total	94,720	-	92,257	-	285,631	-	270,234	-

Section 4 – Financial liabilities held for trading – Caption 40

4.1 Analysis of financial liabilities held for trading

	Dec. 31, 2012					Dec. 31, 2011				
	NV	FV			FV*	NV	FV			FV*
€/'000		L1	L2	L3			L1	L2	L3	
A. Non-derivatives										
1. Due to banks	189,316	211,103	-	-	211,103	-	-	-	-	-
2. Due to customers	22,660	24,569	-	-	24,569	289,739	320,067	192	-	320,259
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	211,976	235,672	-	-	235,672	289,739	320,067	192	-	320,259
B. Derivatives										
1. Financial derivatives										
1.1 held for trading	X	-	21,322	-	X	X	-	12,947	-	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	-	21,322	-	X	X	-	12,947	-	X
Total (A+B)	X	235,672	21,322	-	X	X	320,067	13,139	-	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	-	192	-	192
B. Increases	-	3,585	-	3,585
B1. Issues	-	-	-	-
B2. Purchases	-	-	-	-
B3. Increases in fair value	-	-	-	-
B4. Other	-	3,585	-	3,585
C. Decreases	-	(3.777)	-	(3,777)
C1. Purchases	-	-	-	-
C2. Redemptions	-	-	-	-
C3. Decreases in fair value	-	-	-	-
C4. Other	-	(3,777)	-	(3,777)
D. Closing balance	-	-	-	-

Section 6 – Hedging derivatives – Caption 60

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

	Dec. 31, 2012				Dec. 31, 2011			
	Fair value			NV	Fair value			NV
€/'000	L1	L2	L3		L1	L2	L3	
A. Financial derivatives	-	92,888	-	413,097	-	67,896	-	437,995
1) Fair value hedge	-	92,888	-	413,097	-	67,896	-	437,995
2) Cash flow hedge	-	-	-	-	-	-	-	-
3) Hedge of investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-	-	-	-
1) Fair value hedge	-	-	-	-	-	-	-	-
2) Cash flow hedge	-	-	-	-	-	-	-	-
Total	-	92,888	-	413,097	-	67,896	-	437,995

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	92,888	-	-	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	92,888	-	-	-	-	-	-	-	-
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, 2012	Dec. 31, 2011
Agents' severance benefits	3,742	3,528
Security deposits	2,835	4,171
Tax expenses borne by policyholders	-	-
Provision for staff costs (vacation pay, additional months, etc.)	5,545	6,070
Items in transit	128,601	233,725
Deferred income	19,658	17,027
Accrued expenses	7,164	1,086
Other sundry liabilities	120,673	90,575
Total	288,218	356,182

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

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

€/'000	Dec. 31, 2012	Dec. 31, 2011
A. Opening balance	9,150	9,275
B. Increases	5,921	5,392
B.1 Amounts set aside in the year	5,269	5,317
B.2 Other increases	652	75
C. Decreases	(5,458)	(5,517)
C.1 Funds used in the year	(4,854)	(5,185)
C.2 Other decreases	(604)	(332)
D. Closing balance	9,613	9,150

Section 12 – Provisions for risks and charges – Caption 120

12.1 Analysis of provisions for risks and charges

€/'000	Dec. 31, 2012	Dec. 31, 2011
1. Severance entitlements	1,540	1,402
2. Other provisions for risks and charges	188,209	158,425
2.1 legal proceedings	16,430	15,307
2.2 staff costs	-	-
2.3 other	171,779	143,118
Total	189,749	159,827

12.2 Year's movements in provisions for risks and charges

€/'000	Severance entitlements	Other
A. Opening balance	1,402	158,425
B. Increases	138	65,167
B.1 Amounts set aside in the year	27	64,850
B.2 Time-related increases	-	-
B.3 Increased discount rate	-	-
B.4 Other increases	111	317
C. Decreases	-	(35,383)
C.1 Funds used in the year	-	(18,979)
C.2 Decreased discount rate	-	-
C.3 Other decreases	-	(16,404)
D. Closing balance	1,540	188,209

12.4 Provisions for risks and charges – 'other'

€/'000	Balance at Dec. 31, 2011	Amount set aside in the year	Other changes	Funds used	Balance at Dec. 31, 2012
- Legal proceedings	15,307	6,222	(4,705)	(394)	16,430
- Other:					
Risks related to FA illegal actions	39,787	15,748	(2,806)	(1,191)	51,538
FA customer base entitlements	40,627	11,240	(5,668)	(8,517)	37,682
Portfolio & organisation allowance	25,838	5,153	(283)	(1,010)	29,698
Managerial allowance	18,328	5,729	(2,713)	(2,631)	18,713
Product distribution	11,265	1,475	(67)	(3,043)	9,630
Miscellaneous	7,273	19,282	155	(2,192)	24,518
Total	158,425	64,850	(16,087)	(18,979)	188,209

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, 2012	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2011
Ordinary shares	600,00	450,000	-	-
Other shares	-	-	-	-
Total	600,00	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	450,000	-
B. Increases	150,000	-
B.1 New issues	150,000	-
- for a consideration	150,000	-
- business combinations	-	-
- conversion of bonds	-	-
- warrants exercised	-	-
- other	150,000	-
- 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	600,000	-
D.1 Treasury shares (+)	-	-
D.2 Shares at year end	600,000	-
- fully paid up	600,000	-
- not fully paid up	-	-

15.5 Other information

Analysis of shareholders' equity attributable to the Group

€/'000	Dec. 31, 2012	Dec. 31, 2011
1. Share capital	600,000	450,000
2. Share premium account	-	-
3. Reserves	187,029	176,678
4. (Treasury shares)	-	-
a) parent company	-	-
b) subsidiaries	-	-
5. Valuation reserves	91,051	(152,541)
6. Equity instruments	-	-
7. Net profit (loss) for the year	188,772	23,726
Total	1,066,852	497,863

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

€/'000	Capital & reserves	Net Profit	Equity
FY 2012 - Parent company accounts	780,187	189,264	969,451
Successive changes in carrying amount and equity of companies consolidated on a line-by-line basis	(93,056)	184,780	91,724
Intragroup Dividends	184,256	(184,256)	-
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	6,804	(154)	6,650
Other	(112)	(862)	(974)
FY 2012 - Consolidated accounts	878,080	188,772	1,066,852

Section 16 - Minority interests - Caption 210

16.1 Analysis and year's movements in equity instruments

€/'000	Dec. 31, 2012	Dec. 31, 2011
1. Share capital	2,671	2,671
2. Share premium account	-	-
3. Reserves	(84,899)	(42,720)
4. (Treasury shares)	-	-
5. Valuation reserves	6	(144)
6. Equity instruments	-	-
7. Profit (loss) for the year attributable to minority interests	139,114	102,060
Total	56,892	61,867

OTHER INFORMATION

1. Guarantees issued and commitments

€/'000	Dec. 31, 2012	Dec. 31, 2011
1) Financial guarantees	24,210	17,883
a) Banks	22,611	16,542
b) Customers	1,599	1,341
2) Commercial guarantees	33,745	21,179
a) Banks	88	92
b) Customers	33,657	21,087
3) Commitments to disburse funds	99,846	150,724
a) Banks	250	10,159
i) with certain drawdown	250	10,159
ii) with possible drawdown	-	-
b) Customers	99,596	140,565
i) with certain drawdown	3,649	2,163
ii) with possible drawdown	95,947	138,402
4) Commitments under credit derivatives: protection sales	-	-
5) Assets pledged to secure third-party obligations	3,928	9,041
6) Other commitments	3,817	4,483
Total	165,546	203,310

2. Assets pledged to secure own liabilities and commitments

€/'000	Dec. 31, 2012	Dec. 31, 2011
1. Financial assets held for trading	252,848	527,669
2. Financial assets at fair value	-	-
3. Available-for-sale financial assets	4,252,795	3,566,419
4. Held-to-maturity investments	852,583	493,636
5. Loans to banks	441,832	866,621
6. Loans to customers	518,851	782,938
7. Tangible assets	-	-
Total	6,318,909	6,237,283

5. Brokerage and asset management on behalf of customers

€/'000	Dec. 31, 2012
1. Orders executed on behalf of customers	
a) Purchases	-
1. settled	21,742,109
2. not settled	-
b) Sales	-
1. settled	21,924,177
2. not settled	-
2. Asset management	
a) individual portfolio management	592,454
b) collective portfolio management	699,923
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	980,421
b) custodian bank services (other than managed assets): other	-
1. securities issued by entities incl. in consolidated accounts	88,639
2. other securities	6,812,556
c) third-party securities held by other custodians	6,253,559
d) own securities held by other custodians	11,968,719
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, 2012	Dec. 31, 2011
1. Financial assets held for trading	20,381	-	-	20,381	23,068
2. Available-for-sale financial assets	328,987	-	-	328,987	112,905
3. Held-to-maturity investments	20,386	-	-	20,386	31,988
4. Loans to banks	23,930	2,939	-	26,869	58,921
5. Loans to customers	14,006	114,946	-	128,952	130,107
6. Financial assets at fair value	-	-	-	-	-
7. Hedging derivatives	X	X	-	-	-
8. Other assets	X	X	444	444	631
Total	407,690	117,885	444	526,019	357,620

1.3 Interest income and similar income: other information

€/'000	Dec. 31, 2012	Dec. 31, 2011
Interest income and similar income on:		
a) financial assets denominated in foreign currencies	1,439	1,508
b) finance leases	1	5
Total	1,440	1,513

1.4 Analysis of interest expense and similar charges

€/'000	Amounts due	Securities	Other liabilities	Dec. 31, 2012	Dec. 31, 2011
1. Due to central banks	27,932	X	-	27,932	27,263
2. Due to banks	6,286	X	-	6,286	11,711
3. Due to customers	150,412	X	-	150,412	78,163
4. Securities issued	X	6,206	-	6,206	8,979
5. Financial liabilities held for trading	9,822	-	-	9,822	15,038
6. Financial liabilities at fair value	-	-	-	-	-
7. Other liabilities and funds	X	X	354	354	32
8. Hedging derivatives	X	X	14,552	14,552	12,648
Total	194,452	6,206	14,906	215,564	153,834

1.5 Interest expense and similar charges: analysis of hedging balances

€/'000	Dec. 31, 2012	Dec. 31, 2011
A. Positive differences arising on:	2,643	6,344
A.1 fair value micro-hedging of assets	2,643	6,344
B. Negative differences arising on:	(17,195)	(18,992)
B.1 fair value micro-hedging of assets	(17,195)	(18,992)
C. Balance (A-B)	(14,552)	(12,648)

1.6 Interest expense and similar charges: other information

€/'000	Dec. 31, 2012	Dec. 31, 2011
Interest expense and similar charges on:		
1.6.1) financial liabilities denominated in foreign currencies	200	5,744
1.6.2) finance leases	-	-
Total	200	5,744

Section 2 - Commissions - Captions 40 and 50

2.1 Analysis of commission income

€/'000	Dec. 31, 2012	Dec. 31, 2011
a) Guarantees issued	96	88
b) Credit derivatives	-	-
c) Management, brokerage and consulting services:	887,082	747,457
1. brokerage of financial instruments	2,026	2,690
2. currency brokerage	2	1
3. portfolio management	714,872	578,171
3.1 individual portfolio management	4,581	4,816
3.2 collective portfolio management	710,291	573,355
4. securities in custody and under administration	4,181	4,698
5. custodian bank	616	567
6. sale of securities	24,106	28,486
7. order taking and transmission	5,473	5,902
8. consultancy	-	-
8.1 investment advice	-	-
8.2 financial structure advice	-	-
9. services to third parties	135,806	126,942
9.1 portfolio management	333	216
9.1.1. individual portfolio management	-	-
9.1.2. collective portfolio management	333	216
9.2 insurance products	113,275	117,659
9.3 other products	22,198	9,067
d) Payments and collections	19,547	30,259
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	19,991	21,615
j) Other services	10,309	10,450
Total	937,025	809,869

2.2 Analysis of commission expense

€/'000	Dec. 31, 2012	Dec. 31, 2011
a) Guarantees received	-	-
b) Credit derivatives	-	-
c) Management and brokerage services:	426,841	348,827
1. brokerage of financial instruments	1,697	2,216
2. currency brokerage	-	-
3. asset management	4,125	4,681
3.1 own management	2,659	3,014
3.2 on mandates from third parties	1,466	1,667
4. securities in custody and under administration	834	908
5. sale of financial instruments	94,827	73,367
6. off-premises sale of financial instruments, products & services	325,358	267,655
d) Payments and collections	19,451	29,981
e) Other services	14,769	26,509
Total	461,061	405,317

Section 3 – Dividends and similar income – Caption 70

3.1 Analysis of dividends and similar income

	Dec. 31, 2012		Dec. 31, 2011	
€/'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	695	1,152	471	2,881
C. Financial assets at fair value	-	-	-	-
D. Equity investments	-	X	-	X
Total	695	1,152	471	2,881

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	22,763	26,921	(257)	(2,464)	46,963
1.1 Debt securities	22,763	26,914	(257)	(2,367)	47,053
1.2 Equities	-	7	-	(97)	(90)
1.3 Holdings in UCITS	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	953	4,471	(2,834)	(1,263)	1,327
2.1 Debt securities	953	4,471	(2,834)	(1,262)	1,328
2.2 Debt	-	-	-	-	-
2.3 Other	-	-	-	(1)	(1)
3. Other financial assets and liabilities: exchange differences	X	X	X	X	26
4. Derivatives	995	12,466	(6,845)	(17,359)	(10,743)
4.1 Financial derivatives	995	12,466	(6,845)	(17,359)	(10,743)
- debt securities and interest rates	995	12,442	(6,845)	(17,359)	(10,767)
- equities and stock indices	-	24	-	-	24
- currencies and gold	X	X	X	X	1,105
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	24,711	43,858	(9,936)	(21,086)	38,678

Section 5 - Net income from hedging – Caption 90

5.1 Analysis of net income from hedging

€/'000	Dec. 31, 2012	Dec. 31, 2011
A. Income from:		
A.1 Fair value hedging derivatives	-	-
A.2 Hedged financial assets (fair value)	20,945	35,589
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)	20,945	35,589
B. Expense from:		
B.1 Fair value hedging derivatives	(25,224)	(39,402)
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)	(25,224)	(39,402)
C. Net income from hedging (A - B)	(4,279)	(3,813)

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

6.1 Analysis of gains (losses) on sale/buyback

	Dec. 31, 2012			Dec. 31, 2011		
€/'000	Gains	Losses	Net gains (losses)	Gains	Losses	Net gains (losses)
Financial assets						
1. Loans to banks	-	-	-	-	(36)	(36)
2. Loans to customers	132	(102)	30	266	(35)	231
3. Available-for-sale financial assets:	35,028	(16,655)	18,373	9,462	(10,560)	(1,098)
3.1 Debt securities	34,593	(16,604)	17,989	9,326	(10,556)	(1,230)
3.2 Equities	2	-	2	132	(3)	129
3.3 Holdings in UCITS	433	(51)	382	4	(1)	3
3.4 Financing	-	-	-	-	-	-
4. Held-to-maturity investments	30	-	30	1,046	-	1,046
Total assets	35,190	(16,757)	18,433	10,774	(10,631)	143
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	118	(3)	115	266	(4)	262
Total liabilities	118	(3)	115	266	(4)	262

Section 8 – Net impairment – Caption 130

8.1 Analysis of net impairment of loans

€/'000	Impairment			Reversal of impairment				Dec. 31, 2012	Dec. 31, 2011
	Individual			Individual		Collective			
	Cancellations	Others	Collective	A	B	A	B		
A. Loans to banks									
- Loans	-	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-	-
B. Loans to customers									
Impaired loans purchase									
- Loans	-	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-	-
Other impaired loans									
- Loans	(1,525)	(10,291)	(1,355)	-	3,519	-	790	(8,862)	(6,068)
- Debt securities	-	-	-	-	-	-	-	-	-
C. Total	(1,525)	(10,291)	(1,355)	-	3,519	-	790	(8,862)	(6,068)

8.2 Analysis of net impairment of available for sale financial assets

€/'000	Impairment		Reversal of impairment		Dec. 31, 2012	Dec. 31, 2011
	Individual		Individual			
	Cancellations	Others	A	B		
A. Debt securities	-	-	-	-	-	(65,662)
B. Equities	-	(3)	X	X	(3)	(224)
C. Holdings in UCITS	-	(2,418)	X	-	(2,418)	(2,918)
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	-	(2,421)	-	-	(2,421)	(68,804)

Legend:
A = interest
B = other

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

€/'000	Impairment			Reversal of impairment				Dec. 31, 2012	Dec. 31, 2011
	Individual			Individual		Collective			
	Cancellations	Other	Collective	A	B	A	B		
A. Debt securities	-	-	-	-	-	-	-	-	(15,500)
B. Loans to banks	-	-	-	-	-	-	-	-	-
C. Loans to customers	-	-	-	-	-	-	-	-	-
D. Total	-	-	-	-	-	-	-	-	(15,500)

Legend:
A = interest
B = other

8.4 Analysis of net impairment of other financial items

	Impairment			Reversal of impairment					
	Individual			Individual		Collective		Dec. 31, 2012	Dec. 31, 2011
€/'000	Cancellations	Other	Collective	A	B	A	B		
A. Guaranteed issued	-	(8)	(26)	-	-	-	-	(34)	17
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	-	-	-	-	-	-	-
D. Others	-	-		-	-	-	-	-	-
E. Total	-	(8)	(26)	-	-	-	-	(34)	17

Legend:
A = interest
B = other

Section 11 – Administrative expenses – Caption 180

11.1 Analysis of staff costs

€/'000	Dec. 31, 2012	Dec. 31, 2011
1) Employees	130,115	120,836
a) wages and salaries	92,052	83,795
b) social security contributions	25,628	24,347
c) employee completion of service entitlements	401	799
d) pensions	-	34
e) provision for completion of service entitlements	5,270	5,319
f) provision for severance benefits and similar obligations	27	234
- defined contribution plan	-	157
- defined benefit plan	27	77
g) external supplementary pension funds:	1,335	1,212
- defined contribution plan	1,181	1,034
- defined benefit plan	154	178
h) expenses in connection with equity-settled share-based payment transactions	-	-
i) other employee benefits	5,402	5,096
2) Other personnel	2,472	2,272
3) Directors and Statutory Auditors	7,207	6,515
4) Retirees	-	-
Total	139,794	129,623

11.2 Average number of personnel by category: banking group

Category	Dec. 31, 2012	Dec. 31, 2011
Employees	1,943	1,892
a) senior management	82	92
b) middle management	271	212
c) other employees	1,590	1,588
Total Employees	1,943	1,892
Other personnel	26	20
Total	1,969	1,912

11.3 Company-sponsored defined benefit plans: analysis of costs

€/'000	Dec. 31, 2012
Current service costs	27
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	27

11.5 Analysis of other administrative expenses

€/'000	Dec. 31, 2012	Dec. 31, 2011
IT services	46,295	45,137
Infoprovider services	5,826	5,008
Financial services fees and other expenses	2,522	1,963
Other miscellaneous services	14,564	15,350
Intragroup services	824	374
Taxes and duties	857	618
Television and Internet communication services	6,513	10,542
Consultancy and network advisory services	3,097	4,224
Rentals	14,014	12,095
Maintenance and repairs	2,434	1,783
Postal and telephone	10,990	11,340
Miscellaneous advisory services	20,247	12,292
Contributions to "Family Banker" offices	1,193	1,251
Consumables	4,783	3,927
Insurance	2,216	2,062
Membership fees	1,235	1,158
Advertising and promotions	28,400	25,230
Conventions	6,749	5,560
Training provided to financial advisors	1,831	3,551
Canteen	204	219
Utilities	1,558	1,241
Business expenses, gifts and donations	5,029	4,493
Market research	686	664
Recruitment/Training of employees	407	269
Travel expenses	783	1,228
Recruitment of financial advisors	31	30
Other administrative expenses	4,819	5,558
Total	188,107	177,167

Section 12 – Provisions for risks and charges – Caption 190

12.1 Analysis of provisions for risks and charges

€/'000	Dec. 31, 2012	Dec. 31, 2011
Provision for risks and charges - other:		
Managerial allowance	12,941	6,577
Risks related to FA illegal actions	5,572	7,822
FA customer base entitlements	4,871	4,925
Portfolio & organisation allowance	3,016	6,210
Legal proceedings	1,517	4,288
Product distribution	1,408	2,507
Other	19,120	1,830
Total	48,445	34,159

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	(4,252)	-	-	(4,252)
A.1 owned	(4,209)	-	-	(4,209)
- held for use	(4,209)	-	-	(4,209)
- held for investment purposes	-	-	-	-
A.2 under finance leases	(43)	-	-	(43)
- held for use	(43)	-	-	(43)
- held for investment purposes	-	-	-	-
Total	(4,252)	-	-	(4,252)

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	(7,042)	-	-	(7,042)
A.1 owned	(7,042)	-	-	(7,042)
- internally generated	-	-	-	-
- other	(7,042)	-	-	(7,042)
A.2 under finance leases	-	-	-	-
Total	(7,042)	-	-	(7,042)

Section 15 – Other operating income – Caption 220

15.1/15.2 Analysis of other operating expenses and income

€/'000	Dec. 31, 2012	Dec. 31, 2011
Assets under finance lease	-	-
Lease installments	-	-
Losses on sale	-	-
Insurance	-	-
Transfer of title	-	-
Other operating expenses	(8,328)	(5,858)
Compensations and Settlements	(3,161)	(3,745)
Loan losses	-	-
Amortisation of expenses for improvements of leasehold assets	(1,003)	(926)
Other expenses	(4,164)	(1,187)
Total other operating expenses	(8,328)	(5,858)
Recoveries of direct taxes	-	-
Cost recoveries relating to seconded personnel	-	-
Recoveries of expenses on contracts and services rendered	7,938	8,462
Recoveries of property rental and real estate expenses	-	-
Miscellaneous income	12,338	7,545
Rentals on owned property	345	608
Recoveries of expenses from customers	2,091	187
Recoveries of expenses from financial advisors	140	366
Other	9,762	6,384
Total other operating income	20,276	16,007
Total net other operating income (expenses)	11,948	10,149

Section 18 - Impairment of goodwill - Caption 260

This account includes a €21,054 thousand impairment of goodwill relating to the investment in Banco Mediolanum.

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

19.1 Analysis of profit (loss) on disposal of investments

€/'000	Dec. 31, 2012	Dec. 31, 2011
A. Property	-	-
- Gains on sale	-	-
- Losses on sale	-	-
B. Other assets	5	28
- Gains on sale	5	38
- Losses on sale	-	(10)
Profit (loss)	5	28

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

20.1 Analysis of income tax expense on continuing operations

€/'000		Dec. 31, 2012	Dec. 31, 2011
1.	Current tax (-)	(110,000)	(24,879)
2.	Change in current tax for prior years (+/-)	3,929	1
3.	Change in current tax for the year (+)	-	-
3. bis	Change in current tax for the year for tax credits under Act 214/2011	-	-
4.	Change in deferred tax assets (+/-)	1,363	8,621
5.	Change in deferred tax liabilities (+/-)	(561)	(1,585)
6.	Income tax expense for the year (-) (-1+/-2+3+/-4+/-5)	(105,269)	(17,842)

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

€/'000	Dec. 31, 2012	Dec. 31, 2011
Theoretical tax rate - IRES and equivalent taxes	21.04%	16.32%
Profit before tax	433,155	143,687
Theoretical tax	91,122	23,450
Taxable income	(8,817)	(16,479)
Other adjustments	3,835	476
Taxe expense - Ires & equivalent taxes	86,139	7,447
Effective tax rate Ires & equivalent taxes	19.89%	5.18%
Total tax expense	105.269	17,842
Total effective tax rate	24.30%	12.42%

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, 2012	Dec. 31, 2011
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 OTHER COMPREHENSIVE INCOME

€/'000	Before tax	Income tax	After tax
10. Net profit (loss) for the year	X	X	327,886
Other income components			
20. Available for sale financial assets	361,873	(118,131)	243,742
a) changes in fair value	351,642	(114,748)	236,894
b) reversals to the income statement	10,231	(3,383)	6,848
- impairment	1,611	(532)	1,079
- realised gains/losses	8,620	(2,851)	5,769
c) other changes	-	-	-
30. Tangible assets	-	-	-
40. Intangible assets	-	-	-
50. Hedges of investments in foreign operations			
a) changes in fair value	-	-	-
b) reversals to the income statement	-	-	-
c) other changes	-	-	-
60. Cash flow hedges			
a) changes in fair value	-	-	-
b) reversals to the income statement	-	-	-
c) other changes	-	-	-
70. Exchange differences:			
a) value changes	-	-	-
b) reversals to the income statement	-	-	-
c) other changes	-	-	-
80. Non current assets held for sale			
a) changes in fair value	-	-	-
b) reversals to the income statement	-	-	-
c) other changes	-	-	-
90. Actuarial gains (losses) on defined benefit plans	-	-	-
100. Share of valutation reserves relating to investments accounted for by the equity method			
a) changes in fair value	-	-	-
b) reversals to the income statement	-	-	-
- impairment	-	-	-
- realised gains/losses	-	-	-
c) other changes	-	-	-
110. Total other income components	361,873	(118,131)	243,742
120. Comprehensive income (items 10+110)	361,873	(118,131)	571,628
130. Attributable to minority interests	165,577	(26,313)	139,264
140. Attributable to the Parent Company	196,296	(91,818)	432,364

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 policies and guidelines. 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 Policies.
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. The team is informed of 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. The team also prepares periodic reports on credit monitoring results highlighting key developments and trends.

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 borrower's income and exposure (including existing commitments) with the type and purpose of the loan or other 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. Although secondary to the assessment of the borrower's creditworthiness, in the assessment of credit risk great emphasis is placed on the appraised value of the collateral received from the obligor and the prudential adjustments applied are properly differentiated according to the type of collateral whose value is subject to regular review against its market value.
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 Financial Management division'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 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 90 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 90 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 90 days 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 90 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 90 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 90 days past due or overdrawn.

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

- the borrower is past due more than 90 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 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.

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	-	-	-	-	587,308	587,308
2. Available-for sale financial assets	-	-	-	-	9,041,941	9,041,941
3. Held-to-maturity investments	-	-	-	-	1,025,038	1,025,038
4. Loans to banks	-	-	-	-	1,082,992	1,082,992
5. Loans to customers	9,032	21,473	7,842	5,876	5,088,818	5,133,041
6. Financial assets at fair value	-	-	-	-	-	-
7. Financial assets being disposed of	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	1,366	1,366
Total at Dec. 31, 2012	9,032	21,473	7,842	5,876	16,827,463	16,871,686
Total at Dec. 31, 2011	8,424	53,240	226	6,344	13,880,878	13,949,112

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	587,308	587,308
2. Available for sale financial assets	-	-	-	9,041,941	-	9,041,941	9,041,941
3. Held to maturity investments	-	-	-	1,025,038	-	1,025,038	1,025,038
4. Loans to banks	-	-	-	1,082,992	-	1,082,992	1,082,992
5. Loans to customers	75,344	(31,121)	44,223	5,095,049	(6,231)	5,088,818	5,133,041
6. Financial assets at fair value	-	-	-	X	X	-	-
7. Financial assets being disposed of	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	X	X	1,366	1,366
Total A	75,344	(31,121)	44,223	16,245,020	(6,231)	16,827,463	16,871,686
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 at Dec. 31, 2012	75,344	(31,121)	44,223	16,245,020	(6,231)	16,827,463	16,871,686
Total at Dec. 31, 2011	177,321	(109,087)	68,234	13,193,702	(5,666)	13,880,878	13,949,112

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	587,308	587,308
2. Available-for-sale financial assets	-	-	-	9,041,941	-	9,041,941	9,041,941
3. Held-to-maturity investments	-	-	-	1,025,038	-	1,025,038	1,025,038
4. Loans to banks	-	-	-	1,082,992	-	1,082,992	1,082,992
5. Loans to customers	12,014	(12)	12,002	5,083,035	(6,219)	5,076,816	5,088,818
6. Financial assets at fair value	-	-	-	X	X	-	-
7. Financial assets being disposed of	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	X	X	1,366	1,366
Total at Dec. 31, 2012	12,014	(12)	12,002	16,233,006	(6,219)	16,815,461	16,827,463
Total at Dec. 31, 2011	36,056	(24)	36,482	13,157,196	(5,642)	13,844,396	13,880,878

Aging analysis of past due items

	Under renegotiation	Other exposures
€/'000	Net exposure	Net exposure
Up to 3 months	1,482	52,386
3 to 6 months	-	309
6 to 12 months	-	2
1 year	-	9
Past due customer loans	1,482	52,706

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	2,105,429	X	-	2,105,429
Total A	2,105,429	-	-	2,105,429
B. Off balance sheet				
a) Impaired	-	-	X	-
b) Other	31,911	X	-	31,911
Total B	31,911	-	-	31,911
Total (A+B)	2,137,340	-	-	2,137,340

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

At balance sheet date the balance of this account was nil.

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

At balance sheet date the balance of this account was nil.

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	25,764	(16,732)	X	9,032
b) Watch list	29,606	(8,133)	X	21,473
c) Restructured	13,462	(5,620)	X	7,842
d) Past due	6,512	(636)	X	5,876
e) Other	14,724,258	X	(6,231)	14,718,027
Total A	14,799,602	(31,121)	(6,231)	14,762,250
B. Off balance sheet				
a) Impaired	530	(510)	X	20
b) Other	127,685	X	(107)	127,578
Total B	128,215	(510)	(107)	127,598
Total (A+B)	14,927,817	(31,631)	(6,338)	14,889,848

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	24,111	146,111	226	6,872
- of which: loans sold but not derecognised	-	-	-	-
B. Increases				
B.1 reclassified from performing loans	4	4,506	-	21,249
B.2 reclassified from other impaired loan categories	4,925	10,733	13,235	160
B.3 other increases	828	1,418	2	1,261
C. Decreases				
C.1 reclassified to performing loans	-	(1,311)	-	(7,075)
C.2 cancellations	(2,647)	(907)	-	-
C.3 receipts	(1,404)	(5,119)	-	(5,222)
C.4 proceeds from sale	-	-	-	-
C.5 reclassified to other impaired loan categories	-	(18,321)	-	(10,733)
C.6 other decreases	(53)	(107,504)	-	(1)
D. Closing gross balance	25,764	29,606	13,463	6,511
- 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	15,687	92,871	-	529
- of which: loans sold but not derecognised	-	-	-	-
B. Increases	4,619	4,805	5,620	667
B.1 impairment	2,644	4,568	1,916	626
B.1 bis losses from sale (+)	-	-	-	-
B.2 reclassified from other impaired loan categories	1,973	237	3,704	41
B.3 other increases	2	-	-	-
C. Decreases	(3,574)	(89,543)	-	(560)
C.1 revaluations	(504)	(720)	-	(161)
C.2 repayments	(424)	(878)	-	(161)
C.2 bis gains from sale (-)	-	-	-	-
C.3 cancellations	(2,646)	(907)	-	-
C.4 reclassified to other impaired loan categories	-	(5,718)	-	(238)
C.5 other decreases	-	(81,320)	-	-
D. Net impairment at end of the year	16,732	8,133	5,620	636
- 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	385,065	257,781	11,256,034	449,141	5,048	-	4,655,461	17,008,530
B. Derivatives	2,347	1	1,639	-	-	-	20	4,007
B.1 Financial derivatives	2,347	1	1,639	-	-	-	20	4,007
B.2 Credit derivatives	-	-	-	-	-	-	-	-
C. Guarantees issued	-	-	22,611	-	-	-	35,344	57,955
D. Commitments to disburse funds	-	-	250	-	-	-	99,596	99,846
E. Other	-	-	-	-	-	-	-	-
Total	387,412	257,782	11,280,534	449,141	5,048	-	4,790,421	17,170,338

A.3 Analysis of secured loans by type of collateral

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

		Real guarantees (1)				Personal guarantees (2)									
		Property				Credit derivatives					Endorsements				
						Other derivatives									
	Net exposure	Mortgages	Finance leases	Securities	Other	CLN	Governments & central banks	Government agencies	Banks	Other	Governments & central banks	Government agencies	Banks	Other	Total (1)+(2)
1. Secured exposures on balance sheet:															
1.1 entirely secured	211,773	-	-	211,773	-	-	-	-	-	-	-	-	-	-	211,773
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partly secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured exposures off balance sheet:															
2.1 entirely secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-		-	-	-	-	-	-	-
2.2 partly secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.3.2 Secured loans to customers

		Real guarantees (1)				Personal guarantees (2)									
		Property				Credit derivatives					Endorsements				
						Other derivatives									
	Net exposure	Mortgages	Finance leases	Securities	Other	CLN	Governments & central banks	Government agencies	Banks	Other	Governments & central banks	Government agencies	Banks	Other	Total (1)+(2)
1. Secured exposures (on balance sheet)															
1.1 entirely secured	3,269,106	5,703,836	-	82,417	1	-	-	-	-	-	-	5	-	2,948,162	8,734,421
- of which impaired	23,490	45,383	-	28	-	-	-	-	-	-	-	-	-	8,977	54,388
1.2 partly secured	73,784	74,187	-	-	18,653	-	-	-	-	-	-	1,908	-	2,993	97,741
- of which impaired	4,218	7,180	-	-	-	-	-	-	-	-	-	98	-	755	8,033
2. Secured exposures (off balance sheet)															
2.1 entirely secured	674	560	-	-	-	-	-	-	-	-	-	-	-	114	674
- of which impaired	-	-	-	-	-	-	-		-	-	-	-	-	-	-
2.2 partly secured	20	-	-	-	-	-	-	-	-	-	-	-	-	17	17
- 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			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	Net exposure	Individual impairment	Collective impairment	Net exposure	Individual impairment	Collective impairment
A. On balance sheet																		
A.1 Non performing	-	-	X	-	-	X	-	-	X	-	-	X	51	(338)	X	8,981	(16,394)	X
A.2 Watch list	-	-	X	-	-	X	-	-	X	-	-	X	30	(32)	X	21,443	(8,101)	X
A.3 Restructured	-	-	X	-	-	X	7,614	(5,620)	X	-	-	X	228	-	X	-	-	X
A.4 Past due	-	-	X	-	-	X	-	-	X	-	-	X	18	(3)	X	5,858	(633)	X
A.5 Others exposures	8,915,072	X	-	32,862	X	-	458,934	X	(11)	21,381	X	-	234,932	X	(574)	5,054,846	X	(5,646)
Total A	8,915,072	-	-	32,862	-	-	466,548	(5,620)	(11)	21,381	-	-	235,259	(373)	(574)	5,091,128	(25,128)	(5,646)
B. Off balance sheet																		
B.1 Non performing	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
B.2 Watch list	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	9	(8)	X
B.3 Other impaired assets	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	11	(502)	X
B.4 Others exposures	30	X	-	-	X	-	3,644	X	-	10,969	X	(31)	4,265	X	(4)	95,711	X	(72)
Total B	30	-	-	-	-	-	3,644	-	-	10,969	-	(31)	4,265	-	(4)	95,731	(510)	(72)
Total (A+B) Dec. 31, 2012	8,915,102	-	-	32,862	-	-	470,192	(5,620)	(11)	32,350	-	(31)	239,524	(373)	(578)	5,186,859	(25,638)	(5,718)
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)

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	8,918	(14,799)	114	(1,933)	-	-	-	-	-	-
A.2 Watch list	18,904	(6,408)	2,569	(1,725)	-	-	-	-	-	-
A.3 Restructured	7,842	(5,620)	-	-	-	-	-	-	-	-
A.4 Past due	5,876	(636)	-	-	-	-	-	-	-	-
A.5 Others exposures	13,147,173	(5,028)	1,565,575	(1,203)	841	-	295	-	4,143	-
Total	13,188,713	(32,491)	1,568,258	(4,861)	841	-	295	-	4,143	-
B. Off balance sheet										
B.1 Non performing	-	-	-	-	-	-	-	-	-	-
B.2 Watch list	9	(8)	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	11	(502)	-	-	-	-	-	-
B.4 Others exposures	114,115	(65)	504	(42)	-	-	-	-	-	-
Total	114,124	(73)	515	(544)	-	-	-	-	-	-
Total at Dec. 31, 2012	13,302,837	(32,564)	1,568,773	(5,405)	841	-	295	-	4,143	-
Total at Dec. 31, 2011	8,591,265	(27,983)	1,637,879	(86,809)	736	-	309	-	226	-

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 exposures	1,706,718	-	390,779	-	5,685	-	41	-	2,206	-
Total	1,706,718	-	390,779	-	5,685	-	41	-	2,206	-
B. Off balance sheet										
B.1 Non performing	-	-	-	-	-	-	-	-	-	-
B.2 Watch list	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Others exposures	24,343	-	7,568	-	-	-	-	-	-	-
Total	24,343	-	7,568	-	-	-	-	-	-	-
Total at Dec. 31, 2012	1,731,061	-	398,347	-	5,685	-	41	-	2,206	-
Total at Dec. 31, 2011	3,109,747	-	757,168	-	6,741	-	24	-	-	-

B.4 Large exposures

	Nominal	Weighted
a) amount in thousands of euro	12,811,323	1,213,738
b) number:		Total 25

The number and amount of large exposures were determined in accordance with the rules set out in Circular 263 of December 27, 2006 and Circular 155 of December 18, 1991, as amended. Said rules require reporting of large exposures at nominal 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	44,282	44,282	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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	1,734	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.2 CORDUSIO RMBS/TV 20330630 CLA2																		
- Receivables under mortgage loans	3,555	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.3 BPM SEC 2/TV 20430715 CL A2																		
- Receivables under mortgage loans	4,260	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.4 VELA HOME/TV 20400730 CL A S3																		
- Receivables under mortgage loans	2,676	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.5 LOCAT SV3/TV 20261212 CL A2																		
- Receivables under leases	216	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.6 SUNRISE/TV 20300827 CL A SEN																		
- Receivables consumer credit	1,838	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.7 VALHALLA I SA 26-03-2010 26-03-13 FLOATING																		
- Loans of Danish credit institutions	30,003	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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, 2012**	**Dec. 31, 2011**
1. On balance sheet exposures							
- "Senior"	-	-	-	-	44,282	44,282	52,152
- "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, 2012	Dec. 31, 2011
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C		
A. On-balance sheet assets	-	-	-	-	-	-	2,532,909	-	-	57,152	-	-	-	-	-	-	-	-	2,590,061	889,812
1. Debt securities	-	-	-	-	-	-	2,532,909	-	-	57,152	-	-	-	-	-	-	-	-	2,590,061	-
2. Equities	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
3. 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	-	889,812
Total at Dec. 31, 2012	-	-	-	-	-	-	2,532,909	-	-	57,152	-	-	-	-	-	-	-	-	2,590,061	-
of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total at Dec. 31, 2011	36,138	-	-	-	-	-	807,124	-	-	25,125	-	-	21,425	-	-	-	-	-	-	889,812
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	-	-	2,861,406	-	-	-	2,861,406
a) against assets fully recognised on the balance sheet	-	-	2,861,406	-	-	-	2,861,406
b) against assets partly recognised on the balance sheet	-	-	-	-	-	-	-
2. Due to banks	-	-	650,888	-	-	-	650,888
a) against assets fully recognised on the balance sheet	-	-	650,888	-	-	-	650,888
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, 2012	-	-	3,512,294	-	-	-	3,512,294
Total at Dec. 31, 2011	36,214	-	1,429,442	25,012	-	21,943	1,512,611

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).

As to exposure classes for which the credit risk capital charge is calculated, based on the qualitative and quantitative considerations set out below, it was decided to focus attention exclusively on:

- exposures to regulated financial institutions;
- unsecured retail exposures;
- exposures secured by property.

The portfolios above (i.e. the portfolios to which stress testing can be applied) include assets in which the Bank intends to continue to invest in the near future while keeping its exposure to other asset classes contained.

Stress testing is applied also to past due positions. So, for each asset class, and for each portfolio, all exposures, both performing and impaired, at a given baseline date are considered and stressed to see how they would perform under various crisis scenarios.

Although unsecured retail exposures and exposures to regulated financial institutions are small as a whole, it is considered important to stress test them to see the impact adverse macroeconomic conditions and extreme events would have on ordinary banking operations and hence potential developments, under those circumstances, of the risk inherent in those types of assets.

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. The reduced credit rating of underlying assets was exclusively due to domestic sovereign debt exposure and Italy's credit rating downgrade in 2012. Given the predominance of domestic treasuries, however, the risk of default for the Mediolanum Banking Group's securities portfolio is relatively low.

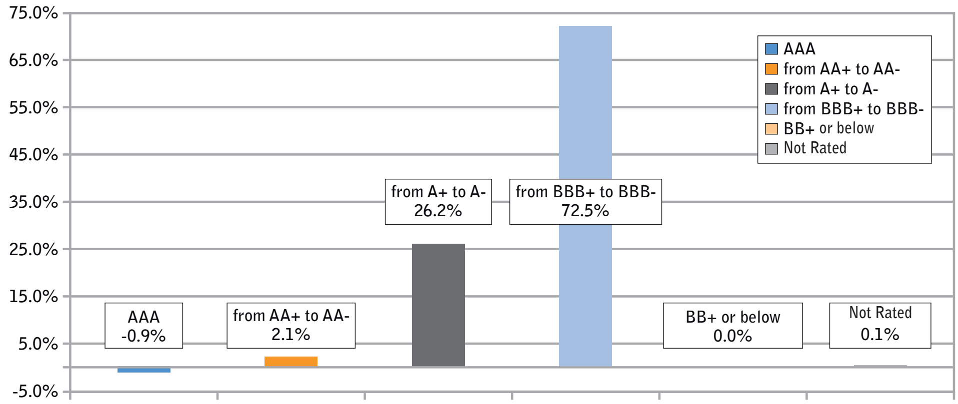
Rating analysis for the entire Mediolanum Banking Group's securities portfolio, including both the trading book and the banking book, is set out below.

Banking Group's Securities Portfolio – RATING COMPOSITION (S&P equivalent)
(YE 2012 vs. YE 2011)

€/'000	2012	%	2011	%	Change (%)
TOTAL PORTFOLIO	11,424,991	100%	9,203,386	100%	24%
AAA	99,506	(0.9%)	40,447	(0.4%)	(55%)
AA+ to AA-	234,416	2.1%	662,318	7.2%	(65%)
A+ to A-	2,993,127	26.2%	6,719,071	73.0%	(55%)
BBB+ to BBB-	8,285,635	72.5%	1,524,757	16.6%	443%
BB+ or lower	-	0.0%	25,982	0.3%	(100%)
Unrated	11,320	0.1%	311,705	3.4%	(96%)

NOTE: the value of the securities portfolio does not include residual Index Linked Policies Funds, Shares and Rights

Banking Group's Portfolio - RATING COMPOSITION



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 2012 vs. YE 2011)

€/'000	2012	2011	Change (%)
Nominal value	349,744	403,289	(13%)
Market value	333,081	340,911	(2%)
Duration	0.92	0.91	1%
VaR 99% - 1 day	260	412	(37%)

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	-	309,528	21,599	22,961	163,069	59,258	4,137	-
1.1 Debt securities								
- with early redemption option	-	-	-	19,969	-	-	-	-
- others	-	309,528	21,599	2,992	163,069	59,258	4,137	-
EUR	-	309,528	21,599	2,992	163,069	59,258	4,137	-
USD	-	-	-	-	-	-	-	-
GBP	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Non derivative liabilities	-	3,755	-	22,523	184,171	20,269	-	-
2.1 Repos (EUR)	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	3,755	-	22,523	184,171	20,269	-	-
EUR	-	3,755	-	22,523	184,171	20,269	-	-
OTHER CURRENCIES	-	-	-	-	-	-	-	-
3. Financial derivatives	-	-	-	-	-	-	-	-
3.1 With underlying securities	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions (EUR)	-	-	-	-	-	-	-	-
+ Short positions (EUR)	-	-	-	-	-	-	-	-
- Others	-	-	-	-	-	-	-	-
+ Long positions	-	36,039	9,094	-	791	-	-	-
EUR	-	36,039	9,094	-	791	-	-	-
USD	-	-	-	-	-	-	-	-
GBP	-	-	-	-	-	-	-	-
OTHER CURRENCIES	-	-	-	-	-	-	-	-
+ Short positions	-	9,880	132	21,341	14,566	-	-	-
EUR	-	9,880	132	21,341	14,566	-	-	-
USD	-	-	-	-	-	-	-	-
GBP	-	-	-	-	-	-	-	-
OTHER CURRENCIES	-	-	-	-	-	-	-	-
3.2 Without underlying securities	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions (EUR)	-	-	-	-	-	-	-	-
+ Short positions (EUR)	-	-	-	-	-	-	-	-
- Others	-	-	-	-	-	-	-	-
+ Long positions	-	580,963	-	-	-	-	-	-
EUR	-	304,496	-	-	-	-	-	-
USD	-	276,457	-	-	-	-	-	-
GBP	-	-	-	-	-	-	-	-
CHF	-	6	-	-	-	-	-	-
OTHER CURRENCIES	-	4	-	-	-	-	-	-
+ Short positions	-	514,899	671	1,364	12,115	16,006	38,764	-
EUR	-	285,213	671	1,364	12,115	16,006	38,764	-
USD	-	229,557	-	-	-	-	-	-
GBP	-	109	-	-	-	-	-	-
CHF	-	4	-	-	-	-	-	-
OTHER CURRENCIES	-	16	-	-	-	-	-	-

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, 2012)

€/'000	Balance	+100bps	-100bps
Total assets	14,920,080	89,077	(79,356)
Total liabilities	(15,207,465)	(92.677)	47,239
Off-balance sheet positions (hedging derivatives)	-	3,707	(585)
YEAR'S MOVEMENT	-	106	(32,703)

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 statement of financial position 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 Financial Management 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 2012 vs. YE 2011)

	2012	2011	Change (%)
Hedge ratio	111%	109%	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	1,536,280	4,748,345	3,349,119	1,570,504	4,032,429	547,091	410,810	53,348
1.1 Debt securities	97,262	1,879,721	3,329,927	1,529,585	3,948,488	422,168	6,428	48,397
- with early redemption option	-	4,411	-	14,777	-	-	3,555	-
EUR	-	4,411	-	14,777	-	-	3,555	-
USD	-	-	-	-	-	-	-	-
GBP	-	-	-	-	-	-	-	-
YEN	-	-	-	-	-	-	-	-
CHF	-	-	-	-	-	-	-	-
OTHER CURRENCIES	-	-	-	-	-	-	-	-
- others	97,262	1,875,310	3,329,927	1,514,808	3,948,488	422,168	2,873	48,397
EUR	97,262	1,875,310	3,329,927	1,514,808	3,948,488	422,168	2,873	48,397
USD	-	-	-	-	-	-	-	-
GBP	-	-	-	-	-	-	-	-
YEN	-	-	-	-	-	-	-	-
CHF	-	-	-	-	-	-	-	-
OTHER CURRENCIES	-	-	-	-	-	-	-	-
1.2 Loans to banks	107,142	322,352	-	-	-	-	-	2,114
EUR	99,667	322,352	-	-	-	-	-	2,114
USD	5,584	-	-	-	-	-	-	-
GBP	772	-	-	-	-	-	-	-
YEN	16	-	-	-	-	-	-	-
CHF	262	-	-	-	-	-	-	-
OTHER CURRENCIES	841	-	-	-	-	-	-	-
1.3 Loans to customers	1,331,876	2,546,272	19,192	40,919	83,941	124,923	404,382	2,837
- current accounts	415,620	66	20	954	1,959	-	5	53
EUR	415,612	66	20	954	1,959	-	5	53
USD	8	-	-	-	-	-	-	-
GBP	-	-	-	-	-	-	-	-
YEN	-	-	-	-	-	-	-	-
CHF	-	-	-	-	-	-	-	-
OTHER CURRENCIES	-	-	-	-	-	-	-	-
- other loans	916,256	2,546,206	19,172	39,965	81,982	124,923	404,377	2,784
- with early redemption option	601,083	2,426,317	5,392	31,805	68,136	117,941	295,548	-
EUR	601,083	2,426,317	5,392	31,805	68,136	117,941	295,548	-
USD	-	-	-	-	-	-	-	-
GBP	-	-	-	-	-	-	-	-
YEN	-	-	-	-	-	-	-	-
CHF	-	-	-	-	-	-	-	-
OTHER CURRENCIES	-	-	-	-	-	-	-	-
- other	315,173	119,889	13,780	8,160	13,846	6,982	108,829	2,784
EUR	315,173	119,889	13,780	8,160	13,846	6,982	108,829	2,784
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	9,592,789	4,216,383	841,174	988,397	118	-	-	802
2.1 Due to customers	6,564,524	3,838,713	721,858	884,291	118	-	-	802
- current accounts	6,390,242	970,653	721,858	884,291	31	-	-	-
EUR	6,360,600	970,653	721,858	884,291	31	-	-	-
USD	28,466	-	-	-	-	-	-	-
GBP	891	-	-	-	-	-	-	-
YEN	-	-	-	-	-	-	-	-
CHF	250	-	-	-	-	-	-	-
OTHER CURRENCIES	35	-	-	-	-	-	-	-
- other amounts due	174,282	2,868,060	-	-	87	-	-	802
- with early redemption option	-	-	-	-	-	-	-	-
- other	174,282	2,868,060	-	-	87	-	-	802
EUR	174,282	2,868,060	-	-	87	-	-	802
2.2 Due to banks	3,028,265	303,647	98,619	104,106	-	-	-	-
- current accounts	1,766	80,038	-	-	-	-	-	-
EUR	1,766	80,038	-	-	-	-	-	-
OTHER CURRENCIES	-	-	-	-	-	-	-	-
- others	3,026,499	223,609	98,619	104,106	-	-	-	-
EUR	3,026,499	223,609	98,619	104,106	-	-	-	-
OTHER CURRENCIES	-	-	-	-	-	-	-	-
2.3 Debt securities	-	74,023	20,697	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	-	74,023	20,697	-	-	-	-	-
EUR	-	74,023	20,697	-	-	-	-	-
3. Financial derivatives	-	-	-	-	-	-	-	-
3.2 With underlying securities	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	3,076	8,773	17,045	189,495	288,372	425,707	-
EUR	-	3,076	8,773	17,045	189,495	288,372	425,707	-
USD	-	-	-	-	-	-	-	-
GBP	-	-	-	-	-	-	-	-
YEN	-	-	-	-	-	-	-	-
CHF	-	-	-	-	-	-	-	-
OTHER CURRENCIES	-	-	-	-	-	-	-	-
+ short positions	2,784	210,033	4	4,350	93,903	251,961	369,435	-
EUR	2,784	210,033	4	4,350	93,903	251,961	369,435	-
- Others	-	-	-	-	-	-	-	-
+ long positions	-	413,097	-	-	-	-	-	-
EUR	-	413,097	-	-	-	-	-	-
+ short positions	-	3,677	3,719	7,569	67,245	89,715	241,173	-
EUR	-	3,677	3,719	7,569	67,245	89,715	241,173	-

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	5,591	1,018	158	131	262	90,851
A.1 Debt securities	-	-	-	-	-	33,202
A.2 Equities	-	246	-	-	-	35
A.3 Loans to banks	5,584	772	158	131	262	6,967
A.4 Loans to customers	7	-	-	-	-	50,647
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	18	11	-	-	4	591
C. Financial liabilities	28,466	891	-	4	250	6,686
C.1 Due to banks	-	-	-	-	-	1
C.2 Due to customers	28,466	891	-	4	250	6,685
C.3 Securities issued	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	-	-	-	-	-	4,027
E. Financial derivatives						
- Options	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-
- Others derivatives	-	-	-	-	-	-
+ Long positions	138,479	-	-	-	6	4
+ Short positions	115,170	109	-	16	4	-
Total assets	144,088	1,029	158	131	272	91,446
Total liabilities	143,636	1,000	-	20	254	10,713
Net position (+/-)	452	29	158	111	18	80,733

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

€/'000	Dec. 31, 2012 OTC	Dec. 31, 2012 Central Counterparties	Dec. 31, 2011 OTC	Dec. 31, 2011 Central Counterparties
1. Debt securities and interest rates	69,587	41,770	358,667	38,896
a) Options	-	-	26,218	-
b) Swaps	69,583	-	332,445	-
c) Forwards	4	-	4	-
d) Futures	-	41,770	-	38,896
e) Others	-	-	-	-
2. Equities and stock indices	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
3. Currencies and gold	252,364	-	40,370	-
a) Options	-	-	-	-
b) Swaps	252,364	-	-	-
c) Forwards	-	-	40,370	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
4. Commodities	-	-	-	-
5. Other underlying	-	-	-	-
Total	321,951	41,770	399,037	38,896
Average amount	92,078	2,883	204,682	2,558

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

A.2.1. Hedging derivatives

€/'000	Dec. 31, 2012 OTC	Dec. 31, 2012 Central Counterparties	Dec. 31, 2011 OTC	Dec. 31, 2011 Central Counterparties
1. Debt securities and interest rates	480,926	-	437,995	-
a) Options	67,829	-	-	-
b) Swaps	413,097	-	437,995	-
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	480,926	-	437,995	-
Average amount	420,530	-	437,995	-

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

	Positive fair value			
	Dec. 31, 2012		Dec. 31, 2011	
€/'000	OTC	Central Counterparties	OTC	Central Counterparties
A. Trading book	2,620	-	1,083	-
a) Options	-	-	571	-
b) Interest Rate Swaps	-	-	-	-
c) Cross Currency Swaps	2,620	-	-	-
d) Equity Swaps	-	-	-	-
e) Forwards	-	-	512	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
B. Banking book - hedging derivatives	1,366	-	-	-
a) Options	1,366	-	-	-
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	3,986	-	1,083	-

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

	Negative fair value			
	Dec. 31, 2012		Dec. 31, 2011	
€/'000	OTC	Central Counterparties	OTC	Central Counterparties
A. Trading book	21,321	-	12,373	-
a) Options	-	-	-	-
b) Interest Rate Swaps	17,264	-	12,373	-
c) Cross Currency Swaps	4,057	-	-	-
d) Equity Swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
B. Banking book - hedging derivatives	92,888	-	67,896	-
a) Options	-	-	-	-
b) Interest Rate Swaps	92,888	-	67,896	-
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	114,209	-	80,269	-

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	-	-	69,583	-	-	-	4
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	17,264	-	-	-	-
- future exposure	-	-	882	-	-	-	-
2) Equities and stock indices							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3) Currencies and gold							
- notional amount	-	-	114,386	137,978	-	-	-
- positive fair value	-	-	2,619	-	-	-	-
- negative fair value	-	-	-	4,057	-	-	-
- future exposure	-	-	1,144	1,380	-	-	-
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	-	-	480,926	-	-	-	-
- positive fair value	-	-	1,366	-	-	-	-
- negative fair value	-	-	92,888	-	-	-	-
- future exposure	-	-	6,317	-	-	-	-
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	2,702	12,115	54,770	69,587
A.2 equities and stock indices	-	-	-	-
A.3 currencies and gold	252,364	-	-	252,364
A.4 other	-	-	-	-
B. Banking book				
B.1 debt securities and interest rates	14,965	67,245	398,717	480,927
B.2 equities and stock indices	-	-	-	-
B.3 currencies and gold	-	-	-	-
B.4 other	-	-	-	-
Total at Dec. 31, 2012	270,031	79,360	453,487	802,878
Total at Dec. 31, 2011	327,186	75,385	433,873	836,444

B. Credit derivatives

During the year the Bank did not trade in credit derivatives and at December 31, 2012 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 and term deposits 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. Structural liquidity is monitored by determining the long term ratio (Net Stable, Funding, Ratio) in accordance with the rules defined by the European Banking Authority (EBA) in relation to the new Basel III liquidity risk requirements.

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	13,934	248	500,000	30,040	485,009	1,108,228	1,407,788	5,645,303	781,730	-
	- EUR	13,934	248	500,000	30,040	485,009	1,108,228	1,407,788	5,645,303	781,730	-
	- USD	-	-	-	-	-	-	-	-	-	-
	- Other currencies	-	-	-	-	-	-	-	-	-	-
A.2	Other debt securities	2,614	13	46,372	8,090	353,336	99,464	530,538	855,362	22,315	-
	- EUR	2,614	13	46,372	8,090	353,336	99,464	530,538	855,362	22,315	-
	- USD	-	-	-	-	-	-	-	-	-	-
	- GBP	-	-	-	-	-	-	-	-	-	-
	- Other currencies	-	-	-	-	-	-	-	-	-	-
A.3	Holdings in UCITS	133,456	-	-	-	-	-	-	-	-	-
	- EUR	133,456	-	-	-	-	-	-	-	-	-
	- Other currencies	-	-	-	-	-	-	-	-	-	-
A.4	Loans to	894,203	270,862	81,438	24,462	116,177	91,683	163,119	865,108	2,504,134	73,712
	- Banks	135,356	163,963	81,345	-	9,614	-	-	-	-	69,876
	- EUR	127,891	163,963	81,345	-	9,614	-	-	-	-	69,876
	- USD	5,584	-	-	-	-	-	-	-	-	-
	- YEN	16	-	-	-	-	-	-	-	-	-
	- CHF	262	-	-	-	-	-	-	-	-	-
	- GBP	772	-	-	-	-	-	-	-	-	-
	- Other currencies	831	-	-	-	-	-	-	-	-	-
	- Customers	758,847	106,899	93	24,462	106,563	91,683	163,119	865,108	2,504,134	3,836
	- EUR	758,839	106,899	93	24,462	106,563	91,683	163,119	865,108	2,504,134	3,836
	- USD	8	-	-	-	-	-	-	-	-	-
	- 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	6,393,498	31,201	82,341	187,406	764,467	830,510	1,229,254	31	-	-
- Banks	1,766	-	33,524	67,095	160,266	101,276	122,326	-	-	-
- EUR	1,766	-	33,524	67,095	160,266	101,276	122,326	-	-	-
- Customers	6,391,732	31,201	48,817	120,311	604,201	729,234	1,106,928	31	-	-
- EUR	6,362,090	31,201	48,817	120,311	604,201	729,234	1,106,928	31	-	-
- USD	28,466	-	-	-	-	-	-	-	-	-
- GBP	891	-	-	-	-	-	-	-	-	-
- CHF	250									
- Other currencies	35	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	9	21	431	86,116	7,958	-
- EUR	-	-	-	-	9	21	431	86,116	7,958	-
- Other currencies	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	183,998	1,872,319	233,094	733,639	10,816	236	22,583	3,183,690	22,563	-
- EUR	183,998	1,872,319	233,094	733,639	10,816	236	22,583	3,183,690	22,563	-
Off-balance sheet items										
C.1 Financial derivatives with exchange of principal										
- Long positions	-	1,675	117,000	75,792	97,975	560	-	9,285	-	-
- EUR	-	1,164	117,000	-	35,789	560	-	9,285	-	-
- USD	-	501	-	75,792	62,186	-	-	-	-	-
- CHF	-	6	-	-	-	-	-	-	-	-
- GBP	-	-	-	-	-	-	-	-	-	-
- Other currencies	-	4	-	-	-	-	-	-	-	-
- Short positions	-	5,322	114,386	77,794	70,206	30	-	21,561	14,448	-
- EUR	-	4,409	-	77,794	70,206	30	-	21,561	14,448	-
- USD	-	784	114,386	-	-	-	-	-	-	-
- CHF	-	4	-	-	-	-	-	-	-	-
- GBP	-	109	-	-	-	-	-	-	-	-
- Other currencies	-	16	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- EUR	-	-	-	-	-	-	-	-	-	-
- Short positions	17,264	-	-	1,312	2,531	3,887	7,834	-	-	-
- EUR	17,264	-	-	1,312	2,531	3,887	7,834	-	-	-
- Other currencies		-	-	-	-	-	-	-	-	-

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.

Generally, 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 or Eurozone Mediterranean 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.

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.
All principles set out in said regulations and guidelines are already embedded in the Mediolanum Banking Group risk management framework.
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.
Within the Compliance & Risk Control function operational risk controls are carried out by the Risk Assessment & Mitigation and Risk Control teams. Specifically:

[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 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**: the risk is within acceptable limits;
- **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.
In 2012, 144 organisational units of entities within the Banking Group were examined identifying 3,133 operational risk checkpoints. About 85% of checkpoints were judged to be adequate or in need of being just better formalised. Mitigation actions were taken in relation to controls that were judged to be unsatisfactory or in need of improvement.

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 19, 2013), 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	Standardised(1)
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 Mediolanum 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 19, 2013 when satisfaction of said requirement was confirmed also for the year 2013.

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.

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

Under the new regulations governing capital requirements for banks, reputational risk is classified among 'other risks' that are difficult to measure in relation to which banks put in place adequate controls and mitigation measures. 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. Reputational risk may arise from internal or external events.

Internal events may include, but are not limited to:

- the materialisation of other risks (e.g. market risk, liquidity risk, legal risk or strategic risk) not adequately kept in check;
- the occurrence of operational risk events (e.g. malfunctioning, disservice) with impact on the stakeholders' perception of the bank;
- failed compliance with statutes, regulations and codes of conducts, including those that may be outside the purview of the Compliance team;
- internal or external communications being ineffectively or inappropriately handled;
- the behaviour of corporate officers, employees or sales network members.

More generally, internal events include all events directly associated with the processes in place and the business conducted by the Bank as well as any management or operational choices made by the Bank (e.g. external communications, materialisation of operational risk events, failure to comply with legislation).

External events include comments or debates in the media, on social networks, blogs and/or other means of digital communication with circulation of information or opinions that damage the reputation of the Bank or the Group. These events are not directly associated with processes in place or business conducted by the Bank, but are related to the circulation of negative opinions or information about the Bank or its management (e.g. debates on blogs or social networks, newspaper articles or opinions about the Bank and its management)

The materialisation of reputational risk may also have effects on other risks (e.g. liquidity risk, in the event of a significant decline in the number of customers as a consequence of the damaged reputation of the Bank). Banca Mediolanum recognises the reputation of the Bank and of the Group is the bedrock on which the trust-based relationship with customers and market credibility are built.

Hence, within the Group, reputation is managed and protected through:

- the values that are embedded across the organisation;
- the promotion of a corporate culture built on integrity, fairness and compliance at all levels of the organisation;
- the adoption of a reputational risk governance and control model.

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, 2012
Share capital	602,671
Share premium account	(3,098)
Reserves	105,228
Interim dividens	-
Equity instruments	-
Treasury shares (-)	-
Valuation reserves	91,057
- available for sale financial assets	91,057
- tangible assets	-
- intangible assets	-
- hedges of investments in foreign operations	-
- cash flow hedges	-
- exchange differences	-
- non current assets held for sale	-
- actuarial gains (losses) relating to defined benefit plans	-
- share of reserves on investments accounted for by the equity method	-
- special revaluation statutes	-
- other	-
Net profit (loss) for the year (+/-) attributable to the Group and to minority interests	327,886
Shareholders' equity	1,123,744

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

Euro/migliaia	Dec. 31, 2012 Positive Reserve	Dec. 31, 2012 Negative Reserve	Dec. 31, 2011 Positive Reserve	Dec. 31, 2011 Negative Reserve
1. Debt securities	124,525	(32,094)	2,595	(153,425)
2. Equities	121	(1)	55	(3)
3. Holdings in UCITS	2,091	(3,585)	87	(1,994)
4. Loans	-	-	-	-
Total	126,737	(35,680)	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	(150,830)	52	(1,907)	-
2. Increases	245,184	73	3,702	-
2.1 Increase in fair value	238,261	70	2,623	-
2.2 Reclass. to the income statement from reserves:	6,923	3	1,079	-
- impairment	-	3	1,076	-
- realised gains	6,923	-	3	-
2.3 Other increases	-	-	-	-
3. Decreases	(1,923)	(5)	(3,289)	-
3.1 Decrease in fair value	(767)	(5)	(3,289)	-
3.2 Impairment	-	-	-	-
3.3 Realised losses	(1,156)	-	-	-
3.4 Other decreases	-	-	-	-
4. Closing balance	92,431	120	(1,494)	-

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.
The adoption of said treatment option entailed a €864 thousand increase in Core Capital negative components and a €46,216 thousand decrease in Supplementary Capital positive components, aggregating to a €47,080 thousand decline in consolidated regulatory capital at December 31, 2012.

2.2 The regulatory capital of banks

A. Qualitative information

Regulatory capital is the sum of core capital – Tier 1 capital – (€629.47 million), included in the calculation without restrictions, and supplementary capital – Tier 2 capital – (€87.97 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. Core Capital (Tier 1 capital)

Tier 1 capital includes paid-up share capital (€602.67 million), reserves (€198.11 million) and net profit for the period (€29.04 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 (€15.32 million) and goodwill (€177.42 million) are deducted from capital components.
At December 31, 2012, 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: €1.68 million; debt securities: €0.86 million). Negative components of core capital (€5.07 million) consisted of shares in an open-ended collective investment scheme.

2. Supplementary (Tier 2 capital)

At December 31, 2012, Tier 2 capital consisted of subordinated liabilities (€93.04 million).
Negative components of supplementary capital (€5.07 million) consisted of shares in an open-ended collective investment scheme.

3. Tier 3 capital

At December 31, 2012, Mediolanum Banking Group's capital did not include any instruments falling within Tier 3 capital.

B. Quantitative information

€/'000	Dec. 31, 2012	Dec. 31, 2011
A. Tier 1 before prudential filters	637,083	437,461
B. Tier 1 prudential filters:	(2,535)	(15,642)
B.1 Positive IAS/IFRS prudential filters	-	-
B.2 Negative IAS/IFRS prudential filters	(2,535)	(15,642)
C. Tier 1 after prudential filters (A+B)	634,548	421,819
D. Deductions from tier 1	5,073	5,000
E. Total TIER 1 (C-D)	629,475	416,819
F. Tier 2 before prudential filters	93,041	122,415
G. Tier 2 prudential filters:	-	-
G.1 Positive IAS/IFRS prudential filters	-	-
G.2 Negative IAS/IFRS prudential filters	-	-
H. Tier 2 after prudential filters (F+G)	93,041	122,415
I. Deductions from tier 2	5,073	5,000
L. Total TIER 2 (H+I)	87,968	117,415
M. Deductions from tier 1 and tier 2	-	-
N. Total capital (E+L+M)	717,443	534,234
O. TIER 3	-	-
P. Total capital + TIER 3 (N+O)	717,443	534,234

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, 2012, Mediolanum Banking Group's free capital amounted to €302.73 million. Tier 1 capital ratio (core capital/RWA) was 12.14% and total capital ratio (regulatory capital/RWA) was 13.84%, above the minimum requirement of 8%.

B. Quantitative information

€/'000	Not weighted		Weighted/requirements	
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2011	Dec. 31, 2011
A. Risk assets				
A.1 Credit risk & counterparty risk	16,602,173	14,911,281	3,758,654	3,266,186
1. Standardised approach	16,602,173	14,911,281	3,758,654	3,266,186
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	-	-	300,692	261,295
B.2 Market risk	-	-	20,363	17,031
1. Standardised approach	-	-	20,077	15,401
2. Internal models	-	-	-	-
3. Concentration risk	-	-	286	1,630
B.3 Operational risk	-	-	93,657	76,034
1. Foundation approach	-	-	5,859	3,770
2. Standardised approach	-	-	87,798	72,264
3. Advanced approach	-	-	-	-
B.4 Other prudential requirements	-	-	-	-
B.5 Other computational elements	-	-	-	-
B.6 Total prudential requirements	-	-	414,712	354,360
C. RWA & capital ratios				
C.1 Risk weighted assets (RWA)*	-	-	5.183,904	4,429,499
C.2 Tier 1 (core) capital/RWA (Tier 1 capital ratio)	-	-	12.14%	9.41%
C.3 Regulatory capital including TIER 3/RWA (Total capital ratio)	-	-	13.84%	12.06%

(*) 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 there was no transaction requiring disclosure under IFRS 3.

SECTION 2 - POST-BALANCE SHEET DATE TRANSACTIONS

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

PART H – RELATED PARTY TRANSACTIONS

Related party transactions as of December 31, 2012.

1. Key management compensation

€/'000	Directors, Statutory Auditors, Deputy/ General Managers	Other key management
Emoluments & social security contributions	5,696	-
Non-cash benefits	46	-
Share-based awards (stock options)	604	-

2. Information on related party transactions

Statement of financial position

€/'000	Associates	Other related parties
Loans to customers	-	19,581
Other assets	-	84,919
Due to banks	-	(17)
Due to customers	591	(986,423)
Other liabilities	-	(45,518)
Guarantees issued	-	11,050

Income Statement

€/'000	Associates	Other related parties
Commission income (expenses)	2,150	95,627
Interest income (expenses)	-	(6,345)
Administrative expenses	-	(7,960)
Key personnel	-	2,887
Other income (expense)	-	4,829
Services provided and other costs	-	23

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 employed them.
The exercise of the Options – subject to the satisfaction of the Vesting Conditions – and the subsequent subscription for Shares by Employees were allowed only upon the expiration of two years from the Grant Date (vesting period).
The exercise of the Options and the subsequent subscription for Shares were to be made in full on a single occasion in the first five business days of each of the sixty calendar months subsequent to the Vesting Date.

The stock options granted to directors and contract workers would be exercisable upon the expiration of a vesting period of two years for Directors and of three years for Contract Workers, at a share price equal to weighted average of (i) the company's equity value per share as reported in the last financial statements approved prior to the allotment of the Options and (ii) and the average stock market price of Mediolanum S.p.A. shares in the six months preceding the Grant Date, applying a weight equal to ninety percent of the equity value and a weight equal to ten percent of the average stock market price in the last six-month period, respectively. The exercise of the Options granted to Directors and Contract Workers was subject to the satisfaction of at least one of the following conditions:
(i) that on the Vesting Date the closing price of Mediolanum S.p.A. ordinary shares be not lower than the closing price of Mediolanum S.p.A. ordinary shares on the Grant date; or
(ii) that the change in the closing price of Mediolanum S.p.A. ordinary shares in the period between the Grant Date and the Vesting Date (the "Relevant Period") be not lower than the arithmetic mean of the changes recorded in the Relevant Period in the S&P/Mib, Comit Assicurativi and Comit Bancari indices (the "Indices"), properly adjusted applying the criteria commonly adopted in financial market practice to take into account the correlation coefficient (known as the beta coefficient) between the Mediolanum S.p.A. ordinary shares and said Indices in the Relevant Period; the adjusted mean change in the Indices would be calculated by an independent third party appointed for that purpose by the Board of Directors of the Company; or
(iii) that the Embedded Value of the Mediolanum Group, as calculated by an independent third-party appointed for that purpose by the Board of Directors of the Company and reported in the last financial statements approved prior to the Vesting Date, be at least equal to the Embedded Value of the Mediolanum Group as calculated based on the last financial statements approved prior to the Grant Date.
The exercise of the Options – subject to the satisfaction of Vesting Conditions – and the subsequent subscription for Shares by Directors and Contract Workers were allowed only upon the expiration of two years for Directors and of

three years for Contract Workers from the Grant Date (Vesting Period). The exercise of the Options and the subsequent subscription for Shares were to be made in full on a single occasion in the first five business days of each of the sixty calendar months subsequent to the Vesting Date.
At the Extraordinary General Meeting of Mediolanum S.p.A. held on April 23, 2009, the shareholders resolved to extend assessment of the satisfaction of vesting conditions over the entire exercise period i.e. the period spanning from the Vesting Date to 60 months thereafter. The shareholders also resolved to revoke the authority to increase share capital for a consideration through the issue of shares to be allotted to the employees and directors of the Company and its subsidiaries, conferred upon the Board of Directors by the shareholders at the General Meetings of April 26, 2005 and April 19, 2007, and partly executed, and to amend article 6 of the Bylaws accordingly.
As to the Director Stock Options 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.
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 by a maximum amount of €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 by a maximum amount of €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:

(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 by a maximum amount of €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 month 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 by a maximum amount of €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 month 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.

On May 10, 2012, by virtue of the authorities delegated to it by the Extraordinary General Meeting of April 27, 2010, as amended by resolution passed by the shareholders at the Ordinary and Extraordinary General Meeting of April 19, 2012, the Board of Directors of Mediolanum S.p.A. resolved:

(i) to increase the Company's share capital by a maximum amount of €186,405.00, for a consideration, by issuing up to 1,864,050 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, setting as final deadline for share subscription the fifth business day in the thirty-sixth calendar month subsequent to the expiration of the three year term from the date of the capital increase resolution;

(ii) to increase the Company's share capital by a maximum amount of €70,840.00, for a consideration, by issuing up to 708,400 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, setting as final deadline for share subscription the fifth business day in the thirty-sixth calendar month subsequent to the expiration of the nine year term from the date of the capital increase resolution.

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 2012, 518,550 stock options granted in 2007-2008-2009 were exercised for a total of 518,550 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, 2012			Total Dec. 31, 2011		
€/'000	Number of options	Average exercise price	Average expiration	Number of options	Average exercise price	Average expiration
A. Opening balance	7,269,473	2.37021	feb-17	6,238,693	3.00482	nov-16
B. Increases	2,010,450	-	-	1,996,775	-	-
B.1 New issues	1,961,950	1.1040	july-17	1,945,775	1.07600	may-19
B.2 Other	48,500	5.531	X	51,000	5.6983	X
C. Decreases	(1,845,146)	-	-	(965,995)	-	-
C.1 Cancelled	(843,596)	1.6662	X	(43,600)	4.41723	X
C.2 Exercised (*)	(518,550)	1.0330	X	(922,395)	1.08145	X
C.3 Lapsed	(483,000)	5.2310	X	-	-	X
C.4 Other	-	-	X	-	-	X
D. Closing balance	7,434,777	2.04399	nov-17	7,269,473	2.37021	feb-17
E. Options exercisable at year end	1,950,706	4.72831	X	2,435,021	4.96123	X

(*) Average market price per share on the exercise date was €2,94.

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 €1,638 thousand and entailed a corresponding increase in equity reserves (Dec. 31, 2011: €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 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 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 19, 2013

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

CONSOLIDATED INCOME STATEMENT & STATEMENT OF FINANCIAL POSITION BY OPERATING SEGMENT AT DEC. 31, 2012

	ITALY				
€/'000	Life	Banking	Asset Man.	Other	Total
Life revenues ex-commission	-	-	-	-	-
Entry fees	-	-	110,407	-	110,407
Management fees	-	-	395,456	-	395,456
Performance fees	-	-	167,513	-	167,513
Banking service fees	-	81,820	333	-	82,153
Other fees	-	11,247	114,249	-	125,496
Total commission income	-	93,067	787,958	-	881,025
Net interest income	-	275,109	698	-	275,808
Net income on investments at fair value	-	33,791	6	-	33,797
Net financial income	-	308,900	704	-	309,605
Equity method	-	-	-	-	-
Income from other investments	-	(10,217)	(938)	-	(11,155)
Other revenues	-	13,699	4,919	-	18,618
TOTAL REVENUES	-	405,449	792,644	-	1,198,093
Acquisition costs & other commission expenses	-	(60,198)	(283,595)	-	(343,793)
G&A expenses	-	(12,307)	(93,533)	-	(105,840)
Administrative expenses		(176,928)	(118,977)		(295,905)
Amortisation and depreciation	-	(6,815)	(2,263)	-	(9,078)
Provisions for risks and charges	-	(2,097)	(10,597)	-	(12,694)
TOTAL COSTS	-	(258,345)	(508,965)	-	(767,309)
PROFIT/ (LOSS) BY SEGMENT before tax	-	147,104	283,679	-	430,783
Income Tax	-	-	-	-	-
Minority interests	-	-	-	-	-
NET PROFIT / (LOSS)	-	-	-	-	-
Goodwill	-	-	53,073	-	53,073
Held to maturity investments, loans & receivables	-	2,167,633	-	-	2,167,633
Available for sale securities	-	8,123,520	39,746	-	8,163,266
Financial assets/liabilities at fair value throuch profit and loss	-	330,323	-	-	330,323
Treasury (funding) lending	-	2,455,483	(44,060)	-	2,411,423
- of which intercompany	-	*620,855*	*39,762*	-	*660,617*
Loans to customers	-	4,289,455	-	-	4,289,455
Bank funding	-	11,666,773	-	-	11,666,773
- of which intercompany	-	*52,831*	-	-	*52,831*

ABROAD			
Spain	Germany	Consolidation adjustments	Total
-	-	-	-
4,997	3,308	-	118,712
12,207	5,119	-	412,782
3,406	1,019	-	171,937
3,804	10,728	(6)	96,679
11,131	288	-	136,916
35,544	20,462	(6)	937,025
33,685	963	-	310,455
602	-	-	34,399
34,287	963	-	344,854
-	-	-	-
(718)	-	-	(11,873)
568	1,033	(42)	20,178
69,681	22,458	(48)	1,290,184
(17,130)	(3,701)	10	(364,614)
(3,747)	(9,188)	-	(118,776)
(26,807)	(14,480)	38	(337,153)
(1,495)	(721)	-	(11,294)
(12,499)	-	-	(25,193)
(61,678)	(28,090)	48	(857,029)
8,003	(5,632)	-	433,155
-	-	-	(105,269)
-	-	-	139,114
-	-	-	188,772
120,090	4,261	-	177,424
-	4,007	-	2,171,640
1,005,181	28,002	-	9,196,449
-	-	-	330,323
672,292	(107,889)	-	2,975,826
(644,019)	*23,109*	-	*39,707*
155,896	6,894	-	4,452,245
337,234	96,047	-	12,100,054
928	-	-	*53,759*

CONSOLIDATED INCOME STATEMENT & STATEMENT OF FINANCIAL POSITION 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	-	(32,307)	10	-	(32,297)
Net financial income	-	157,757	1,378	-	159,135
Equity method	-	-	-	-	-
Net realised gains on other investments	-	(81,323)	(437)	-	(81,760)
Other revenues	-	8,858	6,665	-	15,523
TOTAL REVENUES	-	177,934	660,399	-	838,333
Acquisition costs & other commission expenses	-	(48,973)	(236,595)	-	(285,568)
G&A expenses	-	(12,224)	(86,179)	-	(98,403)
Administrative expenses	-	(151,911)	(123,087)	-	(274,998)
Amortisation and depreciation	-	(7,436)	(4,722)	-	(12,158)
Provisions for risks and charges	-	(1,683)	(10,780)	-	(12,463)
TOTAL COSTS	-	(222,227)	(461,363)	-	(683,590)
PROFIT/ (LOSS) BY SEGMENT before tax	-	(44,293)	199,036	-	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	-	-	(31,608)
	11,354	1,689	-	172,178
	-	-	-	-
	605	(6,258)	-	(87,413)
	536	993	(50)	17,002
	47,025	26,334	(56)	911,636
	(15,971)	(3,664)	7	(305,196)
	(3,478)	(19,735)	-	(121,616)
	(25,035)	(13,984)	49	(313,968)
	(1,641)	(792)	-	(14,591)
	(174)	-	-	(12,637)
	(46,299)	(38,175)	56	(768,008)
	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*

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	426,525
Certification	Deloitte & Touche S.p.A. and other entities that are part of their network	533,258
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	498,800
Other	Other entities that are part of the Deloitte & Touche network	156,600
Total		1,781,733

Please note that the €533,258 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.

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.	149,640
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	Deloitte & Touche S.p.A. and other entities that are part of the Deloitte Italian network	498,800
Total		648,440

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, 2012

Dear Shareholder,

in addition to the separate financial statements for the year ended December 31, 2012, also the consolidated financial statements of the Mediolanum Banking Group for the year ended December 31, 2012 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 Statement of financial position, the Income Statement, the Statement of Other 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 €188,772.00 thousand and net profit attributable to minority interests of €139,114.00 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, 2012. Upon completion of their audit work, on March 26, 2013, 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 4, 2013

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 statement of financial position as of December 31, 2012, and the income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flow 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 our auditors' report issued on March 27, 2012.

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, 2012, 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, 2012.

DELOITTE & TOUCHE S.p.A.

Signed by
Paolo Gibello Ribatto
Partner

Milan, Italy
March 26, 2013

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