MEDIOLANUM S.p.A.

ANNUAL REPORT 2011

MEDIOLANUM
MEDIOLANUM 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 2011

Registered office: Meucci Building Via F. Sforza – Basiglio – Milano Tre (Milan)
Share capital € 73,384,716.10 fully paid up
Tax, VAT and Milan Register of Companies Registration No. 11667420159

MEDIOLANUM
MEDIOLANUM GROUP

Corporate Governance Officers

Board of directors

Roberto Ruozi	Chairman of the Board
Alfredo Messina	Deputy Chairman of the Board
Massimo Antonio Doris	Executive Deputy Chairman
Ennio Doris	Chief Executive Officer
Luigi Berlusconi	Director
Pasquale Cannatelli	Director
Maurizio Carfagna	Director
Bruno Ermolli	Director
Edoardo Lombardi	Director
Mario Molteni	Director
Danilo Pellegrino	Director
Angelo Renoldi	Director
Paolo Sciumè	Director
Maria Alessandria Zunino De Pignier	Director

Board of statutory auditors

Ezio Simonelli	Chairman
Riccardo Perotta	Standing Auditor
Francesco Vittadini	Standing Auditor
Ferdinando Giuseppe Gatti	Alternate Auditor
Antonio Marchesi	Alternate Auditor

Board secretary

Luca Maria Rovere

Independent auditors

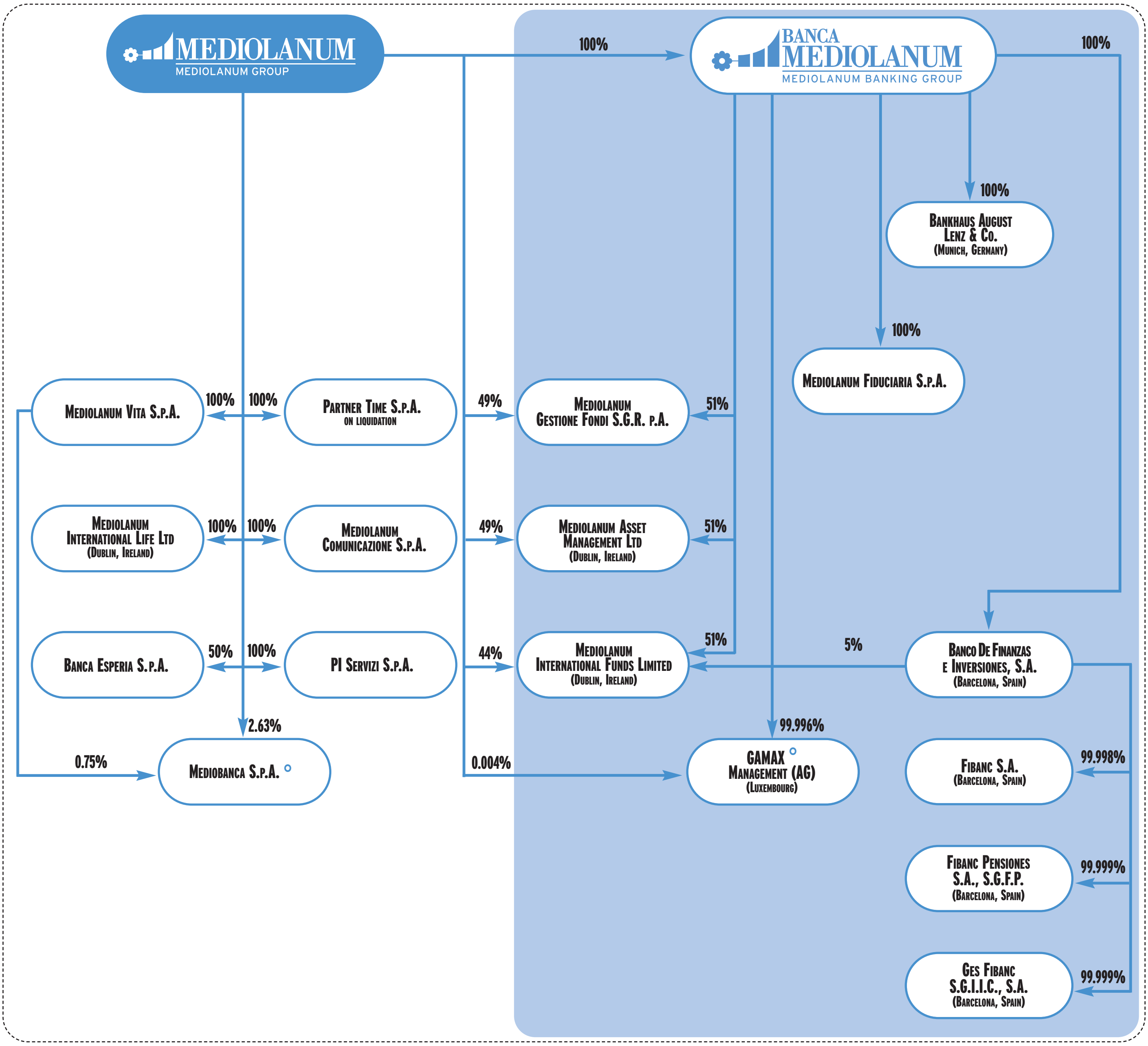
Deloitte & Touche S.p.A.

Officer responsible for preparing accounting and financial reporting documents

Luigi Del Fabbro

Group structure

as of December 31, 2011



• THE MEDIOLANUM FINANCIAL CONGLOMERATE

• MEDIOLANUM BANKING GROUP

° Since Mediobanca hold treasury shares, total shareholding amounts to 3.447 of voting rights.

Mediolanum Group's Financial Highlights

€/million	Dec. 31, 2011	Dec. 31, 2010	Change %
Assets under management and administration (*)	46,206.8	45,848.7	1%
Net inflows *of which managed assets*	2,727.6 843.4	4,048.3 2,190.7	-33% -62%
Pro-forma profit before taxation	84.2	274.5	-69%
Income Tax	(17.0)	(50.8)	-67%
Pro-forma net profit *of which nonrecurring items (after tax)*	67.3 (125.9)	223.7 (7.4)	-70% ns
Net profit excluding nonrecurring items	193.2	231.1	-16%
Sale of Lehman Brothers securities related to the capital injection made by the majority shareholders to safeguard shareholders after the default of Lehman Brothers (after tax)	-	22.9	ns
Net profit	67.3	246.6	-73%

€	Dec. 31, 2011	Dec. 31, 2010	Change %
Earnings per share – on continuing operations	0.263	0.316	-17%
Earnings per share - total	0.092	0.337	-73%
Diluted earnings per share (°)	0.091	0.336	-73%

(*) The figures relate to retail customers only.
(°) Net earnings attributable to holders of ordinary shares divided by the weighted average number of ordinary shares in issue.

Consolidated Annual Financial Statements 2011

Directors' Report

Dear Shareholder

For financial year 2011 the Mediolanum Group reported net profit of €67.3 million.

In 2010, net profit had come in at €246.6 million, benefitting from €22.9 million non-recurring income (after tax) on the sale of Lehman Brothers securities, which had been held under the operation put in place in 2008 to safeguard customer interests after the default of Lehman Brothers.

Excluding the effects of the sale of Lehman Brothers securities, the Group's net profit for the year 2010 had been €223.7 million.

Financial results for the year under review were impacted by nonrecurring items, namely impairment of Greek sovereign debt holdings amounting to €84.8 million (after tax) and impairment of the investment in Mediobanca amounting to €41.1 million (after tax). In 2010, the Group had recorded a €7.4 million impairment on CGU Germany's goodwill.

Consolidated net profit excluding the non-recurring items above amounted to €193.2 million versus €231.1 million in 2010.

Mediolanum Group's results for the year under review were also impacted by unrealised losses on investments measured at fair value aggregating to €44 million (after tax), which have been fully recovered in early 2012.

Recurring revenue items were on the upside. Management fees rose 13% to €417.8 million (€370.8 million at December 31, 2010) thanks to robust net inflows into mutual funds that counterbalanced the declines in net asset value resulting from poor financial market performance.
Net interest income, too, displayed strong growth, namely it was up €89.5 million (69%) to €230.7 million versus €141.2 million at December 31, 2010, driven by bigger interest spreads as well as asset growth.
Poor market performance impacted performance fees which declined €59.1 million to €92.5 million compared to €151.6 million at December 31, 2010.
In spite of the poor performance of financial markets, at year end 2011, Mediolanum Group's total assets under management and administration were up 1% to €46,206.8 million compared to €45,848.7 million at December 31, 2010.

Net inflows for the year amounted to €2,727.6 million versus €4,048.3 million at the end of the prior year.

Banca Mediolanum posted net inflows of €2,280 million, down 31% from €3,284.7 million recorded in the prior year.

The insurance policy associated with the *Freedom* bank account recorded net outflows of €521.5 million versus net inflows of €453.5 million at December 31, 2010.
Third-party structured bonds recorded net inflows of €141.5 million versus €855.3 million at year end 2010. Other asset management products recorded net inflows of €590.3 million versus €1,273.5 million at the end of the prior year.
Net inflows into third-party structured bonds and asset management products aggregated to €731.8 million versus €2,128.7 million at year end 2010.

According to information published in the financial newspaper *Il Sole 24 ore* last January, with €2.4 billion net inflows in the year 2011 Banca Mediolanum still ranked first among top Italian sales networks.
Net inflows into mutual funds recorded by Banca Mediolanum amounted to €1.4 billion compared to net outflows of about €33 billion recorded by the whole domestic industry (source: Assogestioni).
The Assogestioni ranking of top asset managers in terms of volumes shows that in 2011 the Mediolanum Group was again in fourth place versus sixth place in December 2009 and 2008 and tenth place in December 2007; its market share grew from 4.44% in December 2010 to 4.90% in December 2011.

The macroeconomic environment

In its recent World Economic Outlook Update published on January 24, 2012, the International Monetary Fund (IMF) indicated that in 2011 global economic growth slowed down to 3.8% from 5.2% in 2010. In the US and in the Euro zone growth moderated from 3% to 1.8% and from 1.9% to 1.6%, respectively. In 2011, GDP grew by a meagre 0.4% and 0.7% in Italy and Spain, respectively, and in the UK by 0.9%, a much moderate pace than the 2.1% growth rate recorded in the prior year.
Sluggish growth in the Euro zone had been reflected in the readings of the Purchasing Managers Index (PMI), that since September had signalled a slow down, suggesting that recovery might not be sustainable in the manufacturing industry. Conversely, recent surveys and statistics from the US seem to exclude the risk of a double dip in that country, in spite of the stall in residential investments and consumers continuing to cut down on their debts.
Unemployment is still a major concern and it weighs down on consumer confidence and demand for goods and services. While declining in the US from 9.4% in December 2010 to 8.5% in December 2011, the unemployment rate increased from 10% at year end 2010 to 10.4% at year end 2011 in the Euro zone.
Inflationary risk has been contained in the current cycle. In December, the CPI (annualised) rose by 2.7% in the Euro zone and by 3.0% in the US. Excluding food and energy, the CPI grew by 1.6% and 2.2%, respectively.
In April and July, 2011, the then President of the European Central Bank (ECB), Jean Claude Trichet, raised rates due to inflationary concerns. As inflationary pressures subsided, in November and December, Trichet's successor Mario Draghi cut the refinancing rate from 1.5% to 1%, bringing it back to early 2011 levels. During the year, the ECB intervened on multiple occasions with a variety of measures, including non standard facilities, to enhance liquidity of markets and financial institutions.

Financial Markets

In 2011, developments in the sovereign debt crisis in peripheral Euro zone countries affected the risk propensity of investors and the performance of market indices and currencies.
In Italy, the ever higher yields asked by investors to buy Italian government bonds prompted the new cabinet led by Professor Monti to adopt severe fiscal measures.

The Euro zone crisis triggered by high public debt and deficit levels brought about staggering increases in the yield spreads between the sovereign debts of peripheral Euro zone countries (Greece, Portugal, Ireland, Spain and Italy) and German treasuries. Notably, yields on 2-year Italian treasuries rose from 2.88% at December 31, 2010, to 7.66% on November 25, 2011, to 5.12% on December 31, 2011; while yields on 10-year Italian treasures grew from 4.82% at December 31, 2010, to 7.26% on November 25, 2011 and to 7.11% on December 31, 2011. Conversely, German government bonds benefitted from significant declines in yields across all maturities (from 2.96% to 1.83% on 10-yr notes; from 0.86% to 0.14% on 2-yr notes). Yields on US treasuries declined too across the board (from 3.29% to 1.88% on 10-yr notes; from 0.59% to 0.24% on 2-yr notes), in spite of Standard and Poor's unprecedented decision to cut the US credit rating by one notch (from AAA to AA+) with a negative outlook on August 5, 2011.

The sovereign debt crises brought about uncertainty and volatility also in emerging markets and corporate bonds with ensuing rises in yields and yield spreads.

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

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

Brent futures prices rose 37%, while WTI futures prices remained flat (up 0.8%).

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

The Insurance Market

Data released by ANIA, the Association of Italian Insurers, shows that in the year 2011 new business written (that now includes also additional premium payments under single premium policies) under individual policies declined 27.8% over the prior year to €53.0 billion. In 2011, EU companies conducting business in Italy (ANIA data) posted premiums written of €7.0 billion, up 8.8% over the prior year.

Including also these companies, new business written since the beginning of the year amounted to €60.0 billion, down 24.8% over the prior year (€79.8 billion in 2010). The decline was largely in class I traditional policies that were down 27.4% from €56.8 billion in 2010 to €41.2 billion in 2011. New premiums written under unit-linked and index-linked policies (class III) decreased 22.0% to €10.1 billion at year end 2011 from €12.9 billion at year end 2010.

The analysis by distribution channel shows that banks and post offices posted a 28.9% decline in new business written and their market share fell to 68.0%; agents and subsidiary agencies recorded a 14.2% decrease over the prior year in new life premiums written, and their market share was 18.9%; and financial advisors saw new life business shrink by 36.0% and their market share was 12.5%.

Based on new life business written under both individual and group policies it is possible to estimate direct premiums written at year end 2011. In particular, considering that a portion of premiums written during the year relates to policies issued in prior years, €56.0 billion new business (individual and group policies) should lead to about €74.0 billion premium written, down 18% on 2010 when premiums written were €90.1 billion. Hence, new life business should account for about 76% of total premium income.

The Banking Business

At year end 2011, the financial assets of households amounted to about €3,525 billion, down 3% over the prior year.

Specifically, bank accounts and deposits were marginally up 0.6% accounting for 31.5% of total financial assets of households; holdings in life insurance, pension funds and severance funds shrank 13.2%, with a weight of 19% (21.2% in 2010); holdings in mutual funds were up 3.4% and accounted for 10.7% of total financial assets of households.

Holdings in equities were down 1.2% with a weight of 6%. Holdings in government and corporate bonds declined too, namely by 0.8%, accounting for 21% (20.6% in the prior year) of total financial assets of households.

In 2011, direct funding inflows into Italian banks were sluggish yet still positive. Specifically, at year end 2011, inflows into euro-denominated current accounts, notice/term deposits, repurchase agreements and bonds amounted to €2,214 billion, up 1.3% versus 3.3% at the end of December 2010. The analysis of the various components shows customer deposits shrank 2.8% (up 6.6% at the end of December 2010) while bank bond holdings grew 8.4% (down 1.6% at year end 2010).

In 2011, bank lending had an acceleration in the first part of the year and then slowed down due to the worsening of the real economy. At year end, loans to companies and individuals domiciled in Italy grew 1.8%. Loans to companies and individuals aggregated to €1,712.1 billion. Specifically, loans to households and non-financial companies amounted to €1,512.1 billion, up 3.6%. Maturity analysis shows that medium/long-term loans grew by 3% and short-term loans by 5.4%.

Credit facilities to households slowed down as they were up 4.3% versus 7.7% at year end 2010. Consumer credit held up growing by about 2.1% in the year under review. Home loans slowed down too as they were up 4.4% versus 8.3% at year end 2010.

Interest on bank deposits marginally increased from 0.69% at year end 2010 to 1.08% at year end 2011. Average bond yield was 3.37% and interest on repurchase agreements rose to 2.77%. At the end of December 2011, average interest on bank deposits, repurchase agreements and bonds was 1.99%. Interest on loans to businesses and households also increased. At year end 2011, interest on active bank accounts of households was 5.56%, while interest on mortgage loans amounted to 3.99%. The average spread between lending and funding interest rates was stable at 2.17% versus 2.16% in 2010.

At year end 2011, gross non-performing loans rose to over €107 billion and the ratio of gross non-performing loans to total loans was 5.44%. Net non-performing loans[1] amounted to €60.4 billion and the ratio of net non-performing loans to total loans was 3.14% (vs. 2.43% at December 2010). At year end 2011, securities in custody with Italian banks (either actively managed or held by customers) amounted to €1,561.5 billion (up more than €25 billion over the prior year), of which 47% held directly by consumer households.

At December 2011, the securities portfolio of Italian banks aggregated to €665 billion rising by nearly 20% over the prior year. The proprietary securities portfolio of banks grew by about €110 billion on the prior year.

[1] Non-harmonised statistics reflecting different loan losses reporting requirements.

Mediolanum Group's performance

New product launches in 2011 regarded both the asset management and asset administration segments.

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

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

The *InMediolanum* deposit account was launched at the Banca Mediolanum Big Event held in Rimini on May 1-2, attended by financial analysts, the media and, for the first time, also by customers. *InMediolanum* is a deposit account that can be opened online via the dedicated website as well as at Family Banker Offices. It bears no cost for customers and gives them the opportunity to earn attractive yields, namely, at December 31, 2011, 2.6%, 3.15% and 3.75% before tax on 3-month, 6-month and 12-month deposits, respectively. New customers as well as existing Mediolanum customers who bring new funds into their deposit accounts are rewarded with a promotional interest rate of 4.25% if they choose to lock up their money in these accounts for 12 months.
Existing Mediolanum customers can choose this new product or sign up to another new product, *InMediolanum Plus*, which consists of repurchase agreements yielding slightly higher net interest than *InMediolanum.*
The new customers who opened an *InMediolanum* deposit account in 2011 were 17,780 generating net inflows of €459 million. 59% of those accounts were opened through Family Bankers.
Existing Mediolanum customers who opened the new deposit account or signed up to *InMediolanum Plus* repurchase agreements were 57,105 for a total balance of €1,248 million, of which 54% consisted of new funds. In the seven months since launch net inflows into these products totalled about €1,130 million.
The Rimini Event was also the occasion for launching a new asset management product, called *Coupon Strategy Collection,* which is part of the *Mediolanum Best Brands* Umbrella Fund created by Mediolanum International Funds. *Coupon Strategy Collection* dynamically invests in a selection of Funds or SICAVs from the world's most reputed investment houses. This product offers investors a semi-annual coupon plus long-term principal appreciation by dynamically investing in varied financial instruments. At December 31, 2011, net inflows into this new product amounted to €524 million.

Issues of Mediolanum notes

Pursuant to the resolution passed by the Mediolanum S.p.A. Board of Directors at its Meeting of March 1, 2011, mainly for the purpose of restructuring short-term facilities in place between Mediolanum S.p.A. and financial institutions that are not part of the Group, the following non-convertible notes aggregating to €239.2 million (nominal value), were offered to the public. Specifically:

- €49.4 million (nominal value) fixed rate notes due April 29, 2014, bearing interest at a rate of 3.5%;
- €48.9 million (nominal value) notes due April 29, 2014, bearing interest at 6-month EURIBOR + 1%;
- €48.3 million (nominal value) fixed rate notes due May 20, 2013, bearing interest at 3.15%;
- €47.8 million (nominal value) notes due May 20, 2015, bearing interest at 6-month EURIBOR;
- €24.4 million (nominal value) fixed rate notes due May 31, 2013, bearing interest at 3.15%;
- €20.4 million (nominal value) notes due May 31, 2015, bearing interest at 6-month EURIBOR.

Consolidated Inflows, Assets under Management and Assets under Administration

Net Inflows

€/million	Dec. 31, 2011	Dec. 31, 2010	Change
ITALY			
Life Insurance products	(813.9)	(827.7)	(2%)
Asset Management Products	1,404.2	2,101.1	(33%)
Total managed assets inflows	590.3	1,273.5	(54%)
Third-party structured bonds	141.5	855.3	(83%)
Total managed assets + third-party structured bonds	731.8	2,128.7	(66%)
'Freedom' Life Policies	(521.5)	453.5	ns
Administered assets	2,069.6	702.5	195%
BANCA MEDIOLANUM	2,280.0	3,284.7	(31%)
BANCA ESPERIA GROUP (*)	301.3	696.5	(57%)
Total - ITALY	2,581.3	3,981.3	(35%)
SPAIN	94.6	35.1	170%
GERMANY	51.7	32.0	62%
TOTAL FOREIGN MARKETS	146.4	67.1	118%
TOTAL NET INFLOWS	2,727.6	4,048.3	(33%)

(*) The figures relating to Banca Esperia are stated on a pro-rata basis according to the stake held by the Mediolanum Group in that entity, i.e. 50%.

Assets under Management and under Administration(*)

€/million	Dec. 31, 2011	Dec. 31, 2010	Change
ITALY			
Life Products	13,678.5	15,068.7	(9%)
'Freedom' Life Policies	4,503.8	5,025.3	(10%)
Asset Management products	19,725.3	19,509.2	1%
Banking products	8,925.6	7,195.6	24%
Consolidation adjustments	(8,966.0)	(9,285.2)	(3%)
BANCA MEDIOLANUM	37,867.2	37,513.6	1%
BANCA ESPERIA GROUP (**)	6,408.5	6,372.5	1%
Total - ITALY	44,275.7	43,886.1	1%
SPAIN	1,581.2	1,621.9	(3%)
GERMANY	349.9	340.8	3%
TOTAL FOREIGN MARKETS	1,931.1	1,962.6	(2%)
TOTAL ASSETS UNDER MANAGEMENT & ADMINISTRATION	46,206.8	45,848.7	1%

(*) The figures relate to retail customers only.
(**) The figures relating to Banca Esperia are stated on a pro-rata basis according to the stake held by the Mediolanum Group in that entity, i.e. 50%.

At December 31, 2011, total assets under management and administration amounted to €46,206.8 million up 1% from €45,848.7 million at December 31, 2010.

The analysis of consolidated inflows, assets under management and under administration by operating segment is set out below.

ITALY - LIFE

At December 31, 2011, total life products amounted to €13,678.5 million versus €15,068.7 million at year end 2010.

€/million	Dec. 31, 2011	Dec. 31, 2010	Change
Unit-linked life products	9,156.0	9,308.8	(2%)
Index-linked life products	3,171.7	4,428.4	(28%)
Traditional life products	1,350.7	1,331.5	1%
Total Life Products (ex-'Freedom')	13,678.5	15,068.7	(9%)
'Freedom' Life Policies	4,503.8	5,025.3	(10%)

Gross premiums written in the year amounted to €9,426.1 million, up 4% from €9,024.6 million in the prior year.

€/million	Dec. 31, 2011	Dec. 31, 2010	Change
Recurring premiums	62.9	104.0	(40%)
Single premiums and group policies	293.3	203.0	44%
Total new business	356.2	307.0	16%
Pension plans in force	557.9	560.7	0%
Other business in force	590.2	642.6	(8%)
Total in-force business	1,148.1	1,203.3	(5%)
Total Premiums Written (ex-'Freedom')	1,504.3	1,510.3	0%
'Freedom' Premiums Written	7,921.8	7,514.3	5%
Total Gross Premiums Written	9,426.1	9,024.6	4%

New business amounted to €356.2 million, up 16% from €307million at December 31, 2010.
Excluding *Freedom*, i.e. the *Mediolanum Plus* policy, gross premiums written in the period under review amounted to €1,504.3 million.
Specifically, recurring premiums were down about 40% from €104 million in the prior year to €62.9 million in the year under review. This was largely due to customers shifting to other asset management products.
Excluding *Mediolanum Plus*, single premiums and group policies were up 44% to €293.3 million compared to €203.0 million in the prior year, thanks to growth in new business written under the 'Synergy' policy (up 132.7%).

Total in-force business amounted to €1,148.1 million, remaining essentially in line with the prior year's balance of €1,203.3 million (-5%).

Excluding *Freedom*, amounts paid were down 1% from €2,337.9 million in 2010 to €2,318.2 million at the end of the period under review.

€/million	Dec. 31, 2011	Dec. 31, 2010	Change
Claims	69.4	76.0	(9%)
Coupons	84.1	155.0	(46%)
Maturities	1,248.1	1,187.7	5%
Surrenders	916.6	919.3	0%
Amounts paid (ex-'Freedom')	2,318.2	2,337.9	(1%)
Amounts paid under 'Freedom' contracts	8,554.1	7,187.4	19%

€/million	Dec. 31, 2011	Dec. 31, 2010	Change
Class I	5.2	4.0	30%
Class III	64.2	71.8	(11%)
Class IV	0.0	0.2	ns
Total (ex-'Freedom')	69.4	76.0	(9%)

Maturities were up 5% to €1,248.1 million, of which €970.1 million relating to index-linked policies.

ITALY - ASSET MANAGEMENT

The analysis of assets under management in the retail segment is set out below.

€/million	Dec. 31, 2011	Dec. 31, 2010	Change
'Best brands' funds of funds	5,398.3	4,044.2	33%
'Portfolio' funds of funds	680.1	806.3	(16%)
'Challenge' funds	11,221.2	12,046.7	(7%)
Funds of hedge funds	269.0	341.1	(21%)
Other Italy-based mutual funds	2,084.5	2,240.3	(7%)
Real estate funds and others	527.7	535.1	(1%)
Other internationally-based mutual funds & managed accounts	222.8	320.0	(30%)
Duplication adjustments	(678.3)	(824.4)	(18%)
Total asset management products	19,725.3	19,509.3	1%
of which (*):			
Equity	61%	62%	(1%)
Bond	28%	26%	2%
Money market	4%	3%	1%
Other	7%	9%	(2%)

The analysis of inflows into asset management products, in the retail segment, on a management basis, is set out in the table below.

Net inflows

€/million	Dec. 31, 2011	Dec. 31, 2010	Change
Best brands funds of funds	1,703.7	1,357.9	25%
Challenge funds	(230.4)	471.8	ns
Other Italy-based mutual funds	37.1	309.1	(88%)
Real estate funds and others	14.8	83.6	(82%)
Other funds and managed accounts	(121.0)	(121.3)	0%
Total asset management products	1,404.2	2,101.1	(33%)

Net inflows for the year under review were down 33% to €1,404.2 million compared to the prior year's balance of €2,101.1 million.

Gross inflows

€/million	Dec. 31, 2011	Dec. 31, 2010	Change
Best brands funds of funds	2,920.0	2,336.1	25%
Challenge funds	837.6	1,533.8	(45%)
Other Italy-based mutual funds	606.3	965.9	(37%)
Real estate funds and others	45.7	103.7	(56%)
Other funds and managed accounts	34.3	57.1	(40%)
Total asset management products	4,444.0	4,996.7	(11%)

In the period under review gross inflows were down 11% to €4,444.0 million compared to €4,996.7 million in the prior year.

ITALY - BANKING

At December 31, 2011, the Group reported net inflows into administered assets of €2,069.6 million versus €702.5 million in 2010.

The analysis of assets under administration, on a management basis, is set out in the table below:

€/million	Dec. 31, 2011	Dec. 31, 2010	Change
Customer Deposits	5,489.2	3,882.1	41%
Banca Mediolanum Bonds	487.6	334.1	46%
Third-party Structured Bonds	805.9	833.5	(3%)
Securities in custody	1,931.7	1,488.3	30%
Repurchase agreements	211.2	657.8	(68%)
Total Assets under Administration	8,925.6	7,195.6	24%

At December 31, 2011, there were 627,365 bank accounts (up 59,037 accounts over the prior year largely owed to 62,300 new *InMediolanum* deposit accounts opened in 2011) and 783,762 account holders.
At year end 2011, the total number of customers – either bank account holders or investors in financial/insurance products of the Mediolanum Group – was 1,066,423 (vs. 1,076,549 in the prior year). Of these 885,615 were primary account holders.

SPAIN

€/million	Dec. 31, 2011	Dec. 31, 2010	Change
Assets under Management & Administration	1,581.2	1,621.9	(3%)
Assets under Management	986.8	991.2	0%
Assets under Administration	594.4	630.7	(6%)
Gross Inflows AuM	291.1	270.0	8%
Net Inflows	94.6	35.1	170%
Assets under Management	93.2	43.5	114%
Assets under Administration	1.5	(8.4)	ns

Assets under Management and under Administration were down 3% over the prior year.
Net inflows for the period amounted to €94.6 million versus €35.1 million at the end of the prior year. Specifically, net inflows into asset management products recorded 114% growth.
At December 31, 2011, Fibanc customers were 75,837 versus 74,384 at December 31, 2010.

GERMANY

€/million	Dec. 31, 2011	Dec. 31, 2010	Change
Assets under Management & Administration	349.9	340.8	3%
Assets under Management	291.5	317.2	(8%)
Assets under Administration	58.4	23.6	147%
Gross Inflows AuM	66.9	73.3	(9%)
Net Inflows	51.7	32.0	62%
Assets under Management	18.4	18.5	(1%)
Assets under Administration	33.3	13.5	147%

Assets under Management and under Administration were up 3%.
Net inflows for the year under review amounted to €51.7 million versus €32 million in the prior year. Specifically, net inflows into asset management products were €18.4 million, and net inflows into assets under administration climbed 147% over the prior year.

At December 31, 2011, total customers were 3,677 versus 3,486 at the end of the prior year (up 5%).

The Sales Networks

Number	Dec. 31, 2011	Dec. 31, 2010	Change
Licensed financial advisors	4,507	4,772	(6%)
Non-licensed advisors / agents (*)	1	44	(98%)
BANCA MEDIOLANUM	4,508	4,816	(6%)
SPAIN	549	484	13%
GERMANY	42	36	17%
Total	5,099	5,336	(4%)

In the period under review the number of Banca Mediolanum licensed financial advisors was down 6% (265 people) while the number of non-licensed advisors/agents declined by 98% (43 people).

Reclassified Consolidated Income Statement at December 31, 2011

€/million	Dec. 31, 2011	Dec. 31, 2010
Net premiums written	9,543.4	9,123.5
Amounts paid and change in technical reserves	(9,505.0)	(9,082.4)
Net life insurance revenues (ex-commissions)	38.4	41.1
Entry fees	98.5	116.9
Management fees	417.8	370.8
Performance fees	92.5	151.6
Banking service fees	111.2	145.0
Other fees	33.3	30.0
Total commission income	753.2	814.2
Net interest income	230.7	141.2
Net income (loss) on investments at fair value	(65.4)	11.2
Net financial income	165.3	152.4
Equity contribution	(34.6)	14.4
Realised gains (losses) on other investments	7.0	14.7
Impairment of loans	(6.2)	(9.7)
Impairment of other investments	(125.5)	(15.2)
Net income (loss) on other investments	(124.6)	(10.2)
Other revenues	21.0	22.9
TOTAL REVENUES	818.7	1,034.8
Acquisition costs & sales network commission expenses	(303.9)	(325.1)
Other commission expenses	(50.1)	(59.7)
General and Administrative expenses	(350.8)	(343.8)
Amortisation and depreciation	(17.1)	(16.5)
Net provisions for risks	(12.6)	(15.2)
TOTAL COSTS	(734.5)	(760,3)
PROFORMA PROFIT BEFORE TAX	84.2	274.5
Income tax	(17.0)	(50.8)
PROFORMA NET PROFIT	67.3	223.7
of which nonrecurring items (after tax)	(125.9)	(7.4)
NET PROFIT ex-nonrecurring items	193.2	231.1
Sale of LB securities related to cap injection by majority shareholders (after tax)	-	22.9
NET PROFIT FOR THE PERIOD	67.3	246.6

The reclassified consolidated income statement above highlights the effects of the nonrecurring items set out in the table below:

€/million	Dec. 31, 2011	Dec. 31, 2010
Impairment of investment in Mediobanca	(41.1)	-
Impairment of CGU Germany goodwill	-	(7.4)
Impairment of Greek sovereign debt holdings (after tax)	(84.8)	-
Total non recurring items	(125.9)	(7.4)

In the consolidated income statement above separate indication is also given for prior year's nonrecurring income (after tax) generated from the sale of Lehman Brothers securities which had been held in connection with the operation conducted in 2008 to safeguard customers holding 'index-linked policies with Lehman Brothers bonds as underlying assets'. The cost of said operation had been covered by Mediolanum S.p.A's two majority shareholders, the Doris Group and Fininvest S.p.A., through a capital injection. That had entailed raising a specific equity reserve which after the sale of said securities had been accordingly reduced at December 31, 2010.

To ensure meaningful comparisons between 2011 and 2010 financial data, prior year's comparative information was reclassified, where necessary.

For the year under review **net premiums written** amounted to €9,543.4 million versus €9,123.5 million in the prior year (up 5%). Net premiums written growth was mostly due to increased inflows into the *MedPlus* policy associated with the *Freedom* bank account (up €407.4 million).

Amounts paid and change in technical reserves were up 5% over the prior year's balance of €9,082.4 million to €9,505.0 million, of which €8,554.4 million relating to the policies associated with the *Freedom* bank account (€7,187.6 million at December 31, 2010).

Net life insurance revenues before acquisition costs amounted to €38.4 million versus €41.1 million in the prior year.

Total commission income for the year 2011 amounted to €753.2 million versus €814.2 million in the prior year. The €61 million decline largely reflects the decreases in performance fees (down €59.1 million), banking services fees (down €33.9 million due to reduced commissions on Bankhaus August Lenz ATM business and sales of third-party structured bonds by Banca Mediolanum) and entry fees (down €18.4 million), while management fees were up €47 million thanks to the positive inflows as a result of which assets under management were on average greater than in the prior year.

Net financial income amounted to €165.3 million versus €152.4 million in the prior year. Specifically, net interest income grew 63% driven by both asset growth, almost entirely related to Banca Mediolanum, and bigger interest spreads. On the other hand, net income from trading was down €76.6 million largely reflecting the about €64 million unrealised losses on instruments at fair value.

Equity Contribution showed a negative balance of €34.6 million versus a positive balance of €14.4 million at December 31, 2010. This largely reflects the €41.1 million impairment of the investment in Mediobanca S.p.A. as well as the decline in the profits contributed by Mediobanca and Banca Esperia.

For the period under review net income on **other investments** recorded a negative balance of €124.6 million versus a negative balance of €10.2 million at year end 2010. This largely reflects the €120.6 million impairment of Greek sovereign debt holdings.

At December 31, 2011, **total commission expenses** amounted to €354.0 million versus €384.8 million in the prior year. The decrease reflects reduced entry fees and incentives paid to the sales network as a result of lower net inflows compared to the same period of the prior year.

Other expenses (administrative expenses, amortisation, depreciation and provisions for risks) aggregated to €380.5 million versus €375.5 million in the prior year. The €5 million increase largely reflects non-recurring expenses associated with the Convention held in Rimini and other sales network events (up €2.4 million), IT systems expenses (up €4.8 million) as well as decreased staff costs (down €1.6 million) mainly due to reduced incentives and bonuses paid to employees.

Income tax for the year declined from €50.8 million in 2010 to €17 million at year end 2011 (tax rate 20.1%).

The analysis of income statement data by operating segment is set out below.

ITALY - LIFE

€/'000	Dec. 31, 2011	Dec. 31, 20110	Change	Change %
Net premiums written	9,400,919	9,003,188	397,731	4%
Amounts paid & change in technical reserves	(9,381,508)	(8,977,543)	(403,965)	4%
Net life insurance revenues (ex-commissions)	19,411	25,645	(6,234)	(24%)
Total commission income	254,685	271,106	(16,421)	(6%)
Net interest income	34,851	14,190	20,661	146%
Net income (loss) on investments at fair value	(33,002)	7,747	(40,749)	ns
Net financial income	1,849	21,937	(20,088)	(92%)
Net income (loss) on other investments	(35,822)	3,950	(39,772)	ns
Other revenues	11,392	12,454	(1,062)	(9%)
TOTAL REVENUES	251,515	335,092	(83,577)	(25%)
Acquisition costs & sales network commission expenses	(88,406)	(92,339)	3,933	(4%)
Other commission expenses	(6,356)	(6,146)	(210)	3%
General and Administrative expenses	(92,082)	(96,950)	4,868	(5%)
Amortisation and depreciation	(4,505)	(3,764)	(741)	20%
Net provisions for risks	(4,042)	(5,121)	1,079	(21%)
TOTAL COSTS	(195,391)	(204,320)	8,929	(4%)
PROFIT BEFORE TAX	56,124	130,772	(74,648)	(57%)

In the 'Italy – Life' operating segment, **profit before tax** amounted to €56.1 million, down 57% over the prior year (FY 2010: €130.8 million). This reflects the impact of both net losses on instruments at fair value, which largely consisted of unrealised losses (€30.6 million), and impairment of Greek sovereign debt holdings aggregating to €39.3 million.

Net life insurance revenues before acquisition costs totalled €19.4 million versus €25.6 million in the prior year.

Total commission income amounted to €254.7 million euro, down €16.4 million from €271.1 million at year end 2010. The decline largely reflects the decrease in performance fees earned in the Life segment in the period under review, offset, in part, by greater management fees.

Net financial income for the year under review amounted to €1.9 million down €20 million from €21.9 million in the prior year. Net financial income was adversely affected by market turbulence that brought about €33 million net unrealised losses mainly on instruments at fair value, in part offset by increased net interest income which benefitted from bigger spreads.

Net income on **other investments** was down €39.8 million over the prior year largely reflecting the €39.3 million impairment of Greek sovereign debt holdings.

Other expenses amounted to €100.6 million versus €105.8 million in the prior year.

ITALY - ASSET MANAGEMENT

€/'000	Dec. 31, 2011	Dec. 31, 20110	Change	Change %
Entry fees	94,461	112,615	(18,154)	(16%)
Management fees	195,813	161,313	34,500	21%
Performance fees	41,636	70,449	(28,813)	(41%)
Other fees	24,366	21,135	3,231	15%
Total commission income	356,276	365,512	(9,236)	(3%)
Net interest income	1,240	1,215	25	2%
Net income (loss) on investments at fair value	15	(9)	24	ns
Net financial income	1,255	1,206	49	4%
Net income (loss) on other investments	317	(529)	846	ns
Other revenues	360	156	204	131%
TOTAL REVENUES	358,208	366,345	(8,137)	(2%)
Acquisition costs & Sales network commission expenses	(146,582)	(160,882)	14,300	(9%)
Other commission expenses	(9,323)	(7,987)	(1,336)	17%
General and Administrative expenses	(69,107)	(78,887)	9,780	(12%)
Amortisation and depreciation	(2,714)	(2,905)	191	(7%)
Net provisions for risks	(6,695)	(7,968)	1,273	(16%)
TOTAL COSTS	(234,421)	(258,629)	24,208	(9%)
PROFIT BEFORE TAX	123,787	107,716	16,071	15%

In the 'Italy – Asset Management' segment, **profit before tax** for the year under review amounted to €123.8 million growing 15% over the prior year (FY 2010: €107.7 million).

Total commission income amounted to €356.3 million versus €365.5 million at the end of the prior year. The €9.2 million decline reflects the decrease in entry fees (down €18.2 million) and in performance fees (down €28.8 million) due to the poor performance of financial markets, offset, in part, by the increase in management fees (up €34.5 million) owing to managed assets growth.

Costs for the year totalled €234.4 million versus €258.6 million in the prior year. The decline reflects lower gross inflows into mutual funds which entailed lower commissions paid to the sales network and lower administrative expenses allocated to the segment.

ITALY - BANKING

€/'000	Dec. 31, 2011	Dec. 31, 20110	Change	Change %
Banking service fees	85,506	103,978	(18,472)	(18%)
Other fees	7,136	6,957	179	3%
Total commission income	92,642	110,935	(18,293)	(16%)
Net interest income	190,064	120,199	69,865	58%
Net income (loss) on investments at fair value	(32,045)	3,395	(35,440)	ns
Net financial income	158,019	123,594	34,425	28%
Net income (loss) on other investments	(81,585)	(3,616)	(77,969)	2156%
Other revenues	7,579	9,175	(1,596)	(17%)
TOTAL REVENUES	176,655	240,088	(63,433)	(26%)
Acquisition costs & Sales network commission expenses	(48,973)	(51,538)	2,565	(5%)
Other commission expenses	(12,224)	(12,706)	482	(4%)
General and Administrative expenses	(147,917)	(127,723)	(20,194)	16%
Amortisation and depreciation	(7,436)	(7,040)	(396)	6%
Net provisions for risks	(1,683)	(2,263)	580	(26%)
TOTAL COSTS	(218,233)	(201,270)	(16,963)	8%
PROFIT BEFORE TAX	(41,578)	38,818	(80,396)	ns

For the year under review the 'Italy – Banking' segment recorded a €41.6 million loss before tax versus profit of €38.8 million in the prior year. This reflects unrealised losses on financial instruments at fair value amounting to €32 million and impairment of Greek sovereign debt holdings aggregating to €81.3 million.

At year end 2011, **net financial income** amounted to €158.0 million versus €123.6 million at December 31, 2010. The €34.4 million increase reflects, on the one hand, the increase in net interest income to €190.1 million owed to asset growth and bigger interest spreads, and, on the other hand, the adverse impact of the €32 million net unrealised losses on investments at fair value due to poor financial market performance.

Net income on **other investments** was down €78 million over the prior year largely due to the €81.3 million impairment on Greek sovereign debt holdings.

Total commission income amounted to €92.6 million versus €110.9 million at December 31, 2010. The €18.3 million (-16%) decline was largely owed to lower commissions resulting from reduced sales of third-party structured bonds.

Acquisition costs & sales network commission expenses amounted to €49.0 million.

Other expenses amounted to €157.0 million versus €137.0 million in the prior year. The €20.0 million increase reflects the greater administrative expenses in connection with the launch and operation of the *InMediolanum* deposit account.

ITALY - OTHER

€/'000	Dec. 31, 2011	Dec. 31, 20110	Change	Change %
Total commission income	-	-	-	-
Net interest income	(7,897)	(347)	(7,550)	-
Net income (loss) on investments at fair value	(4)	-	(4)	-
Net financial income	(7,901)	(347)	(7,554)	2177%
Equity contribution	(34,582)	14,387	(48,969)	ns
Net income (loss) on other investments	(1,853)	(3,845)	1,992	(52%)
Other revenues	547	727	(180)	(25%)
TOTAL REVENUES	(43,789)	10,922	(54,711)	ns
Acquisition costs & sales network commission expenses	-	-	-	-
Other commission expenses	-	-	-	-
General and administrative expenses	(2,715)	(1,555)	(1,160)	75%
Amortisation and depreciation	-	(53)	53	100%
Net provisions for risks	-	-	-	-
TOTAL COSTS	(2,715)	(1,608)	(1,107)	69%
PROFIT BEFORE TAX	(46,504)	9,314	(55,818)	ns

For the year under review, the 'Italy – Other' segment recorded a €46.5 million loss before tax versus profit of €9.3 million at the end of the prior year.

Net financial income in this segment recorded a negative balance of €7.9 million versus a negative balance of €0.3 million in the prior year, reflecting mainly the greater interest paid on Mediolanum S.p.A.'s debt due to higher interest rates.

'Equity contribution' reflects the impairment of the investment in Mediobanca (€41.1 million) as well as the share of profits in Mediobanca (€5.8 million) and in Banca Esperia (€0.7 million).

Net income on **other investments** shows a negative balance of €42.8 million versus a negative balance of €3.8 million in the prior year, reflecting the recognition of the €41.1 million impairment of the stake in Mediobanca following the impairment test conducted with the assistance of an independent valuer.

SPAIN

€/'000	Dec. 31, 2011	Dec. 31, 20110	Change	Change %
Net premiums written	119,045	94,835	24,210	26%
Amounts paid and change in technical reserves	(103,339)	(81,812)	(21,527)	26%
Net life insurance revenues (ex-commissions)	15,706	13,023	2,683	21%
Total commission income	23,292	25,255	(1,963)	(8%)
Net interest income	10,772	5,632	5,140	91%
Net income (loss) on investments at fair value	(82)	369	(451)	ns
Net financial income	10,690	6,001	4,689	78%
Net income (loss) on other investments	605	1,224	(619)	(51%)
Other revenues	326	396	(70)	(18%)
TOTAL REVENUES	50,619	45,899	4,720	10%
Acquisition costs & sales network commission expenses	(16,414)	(16,062)	(352)	2%
Other commission expenses	(2,724)	(3,031)	307	(10%)
General and administrative expenses	(25,943)	(26,349)	406	(2%)
Amortisation and depreciation	(1,644)	(1,737)	93	(5%)
Net provisions for risks	(174)	180	(354)	ns
TOTAL COSTS	(46,899)	(46,999)	100	-
PROFIT (LOSS) BEFORE TAX	3,720	(1,100)	4,820	ns

In the 'Spain' segment **net life insurance revenues** before acquisition costs amounted to €15.7 million versus €13 million in the prior year (up €2.7 million).

Total commission income declined from €25.3 million in the prior year to €23.3 million at the end of the year under review.

Other expenses remained essentially unchanged over the prior year.

GERMANY

€/'000	Dec. 31, 2011	Dec. 31, 20110	Change	Change %
Net premiums written	23,453	25,524	(2,071)	(8%)
Amounts paid and change in technical reserves	(20,186)	(23,085)	2,899	(13%)
Net life insurance revenues (ex-commissions)	3,267	2,439	828	34%
Total commission income	27,490	42,332	(14,842)	(35%)
Net interest income	1,719	354	1,365	386%
Net income (loss) on investments at *fair value*	(308)	(315)	7	(2%)
Net financial income	1,411	39	1,372	3518%
Net income (loss) on other investments	(6,258)	(7,402)	1,144	(15%)
Other revenues	937	433	504	116%
TOTAL REVENUES	26,847	37,841	(10,994)	(29%)
Acquisition costs & sales network commission expenses	(3,548)	(4,283)	735	(17%)
Other commission expenses	(19,493)	(29,875)	10,382	(35%)
General and administrative expenses	(14,344)	(13,745)	(599)	4%
Amortisation and depreciation	(792)	(957)	165	(17%)
Net provisions for risks	-	-	-	-
TOTAL COSTS	(38,177)	(48,860)	10,683	(22%)
PROFIT (LOSS) BEFORE TAX	(11,330)	(11,019)	(311)	3%

In the 'Germany' segment, **total commission income** amounted to €27.5 million versus €42.3 million at the end of the prior year. The €14.8 million (-35%) decline was mainly due to reduced commissions on Bank Lenz ATM business which also entailed a decrease in **other commission expenses** from €29.9 million in the prior year to €19.5 million at December 31, 2010.

Income on **other investments** reflects €6.3 million losses on sales of financial instruments. In the prior year this account included impairment losses on the CGU Germany.

Key corporate events and performance of companies within the Group

In February 2011, a new company, Mediolanum Fiduciaria S.p.A, was formed. Mediolanum Fiduciaria is a wholly-owned subsidiary of Banca Mediolanum with registered office in Basiglio – Milano 3 and share capital of €240 thousand. The purpose of the company is administration through registration of securities, including those on public registers, on behalf of third parties as well as all the activities that are typical of a trust company as per Act 1966 of November 23, 1939 (with the express exclusion of real estate).

In April and November, Banca Mediolanum made two capital contributions aggregating to €30 million to the German bank Bankhaus August Lenz for future capital increases.

On May 12, 2011, the Board of Directors of Mediolanum S.p.A. agreed to partake in Banca Esperia S.p.A's €50 million capital increase according to the stake held in that entity (Mediolanum S.p.A. disbursement: €25 million). The aim of the capital increase is to enable Banca Esperia S.p.A to meet upcoming Basel III capital requirements, especially under stress conditions. On November 14, 2011, by a letter convening the General Meeting of shareholders, Banca Esperia called the capital payment with value date November 16, 2011.

On July 4, 2011, the Extraordinary General Meeting of PI Distribuzione S.p.A. resolved to amend the company's purposes to have as its main activities "the purchase, sale, exchange, management and lease of properties and entities related to the hospitality business", as well as to rename the company PI Servizi S.p.A. The amendment to the company's purpose allows to reallocate real estate owned by certain Group companies and streamline the Group organisation under a plan examined by the executive directors of certain companies within the Mediolanum Group. The changes under the resolution above became effective upon registration with the Milan Business Registrar on July 12, 2011.

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

The voluntary liquidation of Mediolanum Distribuzione Finanziaria was completed upon the lodging of the liquidation final accounts with the Milan Company Registrar on December 27, 2011.

The Parent Company

At December 31, 2011, the Parent Company Mediolanum S.p.A. reported net profit of €159.6 million versus €115.9 million at December 31, 2010.
Dividends recognised in the 2011 income statement amounted to €180.3 million versus €136.2 million in the prior year.

Pursuant to the resolution passed at the Annual General Meeting (Ordinary and Extraordinary Meetings) held on April 21, 2011, in May 2011, the Parent Company Mediolanum S.p.A. paid out the 2010 final dividend of €0.07 per share for a total amount of €51.3 million.
As per the resolution of the Board of Directors of November 9, 2011, in November 2011, the Parent Company paid out the 2011 interim dividend of €0.07 per share for a total amount of €51.3 million.

Key information on the performance of the main companies that are part of the Mediolanum Group during the period under review is set out below.

Life Insurance Companies

Mediolanum Vita S.p.A. – In 2011 this company reported a net loss of €35.3 million versus net profit of €36.2 million in the prior year. Financial results for the year under review were impacted by impairment losses on Greek sovereign debt holdings amounting to €39.3 million (after taxation: €25.8 million) as well as impairment losses on the investment in Mediobanca S.p.A. amounting to €25.9 million.
For the year 2011 this company reported premiums written of €9,144 million versus €8,841 million in the prior year.
The €302,391 thousand (3.4%) increase reflects business growth (€374,081 thousand) owed to the success of the '*Mediolanum Plus*' policy (up €407,436 thousand) associated with the Banca Mediolanum '*Freedom*' bank account, while other products recorded a decline in new business (down €33,355 thousand).
At December 31, 2011, mathematical reserves and financial liabilities to policyholders amounted to €15,440.0 million (€16,729.6 million in 2010), of which €15,371.2 million relating to individual policies (€16,665.6 million in 2010) and €68.8 million to group policies (€64.0 million in 2010).
At year end 2011, annual gross return on Medinvest segregated funds was 4.69% (vs. 4.75% in 2010).
Annualised gross returns on the Mediolanum Freedom segregated funds were 2.54% in the quarter from Dec.1 to Feb. 28; 2.91% in the quarter from March 1 to May 31; 3.27% in the quarter from June 1 to August 31; and 3.73% in the quarter from September 1 to November 30.

Mediolanum International Life Ltd – For financial year 2011 this company reported premiums written of €405.6 million versus €288.5 million in the prior year.
Premiums written in foreign markets (Spain and Germany) amounted to €145.5 million versus €120.4 million at December 31, 2010.
At December 31, 2011, mathematical reserves and financial liabilities to policyholders amounted to €3,273 million versus €3,899 million in 2010.
For financial year 2011 the company reported net profit of €7.4 million versus €19.2 million in the prior year.
Mediolanum International Life Ltd policies are distributed in Italy by Banca Mediolanum, in Spain by Fibanc and in Germany through Bankhaus August Lenz.

Asset Management Companies

Mediolanum International Funds Ltd – For financial year 2011 the company reported net profit of €203.0 million down €22.3 million over the prior year (FY 2010: €225.2 million), largely due to the decline in performance fees earned in the period (down €45.5 million).
At the end of the year under review, the company reported net inflows of €1,598.1 million versus €2,095.5 million at December 31, 2010.
At December 31, 2011, total assets under management amounted to €17,975 million up 2% compared to €17,609 million in the prior year.
In October 2011, the company resolved to distribute a 2011 interim dividend for a total amount of €114.0 million versus €143.3 million in the prior year.

Mediolanum Gestione Fondi SGR p.A. – For financial year 2011, the company reported net profit of €12.5 million versus €18.7 million in the same period of the prior year. The €6.2 million decline over the prior year mainly due to the decrease in performance fees earned in the year (down €11 million).
For the year under review the company reported net inflows of €51.9 million versus €388.8 million in 2010. This reflects a contraction in gross inflows while divestments remained essentially unchanged.
At December 31, 2011, assets managed directly by this company amounted to €2,612.2 million versus €2,775.3 million at December 31, 2010 (down 5.9%).
Assets managed on mandates from fellow subsidiaries amounted to €15,564.4 million versus 17,228.2 million at December 31, 2010 (down 9.7%).

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

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

Banking operations (including Group product distribution)

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

Income tax for the year was a positive balance of €18.7 million versus €3.2 million in the prior year.
Total net inflows (managed assets and administered assets) amounted to €2,280 million versus €3,284.7 million in the prior year when there had been exceptional growth.
The policy associated with the *Freedom* bank account recorded net outflows of €521.5 million versus net inflows of €453.5 million at December 31, 2010.
Third-party structured bonds contributed €141.5 million net inflows versus €855.3 million in 2010. Inflows into

other asset management products amounted to €590.3 million versus €1,273.5 at the end of the prior year. Total net inflows into asset management products and sales of third-party structured bonds aggregated to €731.8 million versus €2,128.7 million in 2010.

At year end 2011, the bank had 1,066,423 customers versus 1,076,549 in the prior year.

At December 31, 2011, total balance sheet assets amounted to €14,337.8 million, up €3,199 million over the prior year.

Customer deposits grew from €6,291.4 million at year end 2010 to €7,163.4 million at December 31, 2011.

Loans to customers, excluding securities lending, amounted to €3,312.9 million versus €3,264.7 million at December 31, 2010.

Net interest income amounted to €190.1 million, growing 58.1% from €120.2 million at year end 2010. The €69.9 million increase over the prior year reflects bigger interest spreads as well as asset growth.

Adding net income from trading, net income from hedging and net gains/losses on the sale of available-for-sale financial assets, net financial income came in at €164.3 million versus €127.9 million in the prior year. Although increasing by €36.4 million, net financial income was impacted by unrealised losses (down €35.1 million) on financial instruments at fair value, partly offset by gains from trading and currency transactions. These unrealised losses resulted from declines in the market price of securities that were caused by market tensions generated by worries about the Euro zone sovereign debt crisis.

Net commission income declined by €7.4 from €112.6 million in 2010 to €105.1 million at the end of the year under review.

Specifically, for the year ended December 31, 2011, commission income amounted to €379.0 million versus €408.7 million in the prior year. The 7.3% decline over the prior year was mainly driven by the decrease in fees on sales of third-party structured bonds.

Commission expenses amounted to €273.8 million versus €296.1 million in the prior year. The 7.5% decrease over the prior year was due to reduced expenses for contests and bonuses paid to the sales network for their asset gathering activities which generated positive results yet inferior to those recorded in the prior year.

Dividends decreased from €127.2 million in the prior year to €124.5 million at the end of the year under review, largely owing to the lower dividend distributed by the subsidiary Gamax Management (down €10.5 million), offset, in part, by the greater dividends received from the Irish companies (up €1.9 million) and the Italian subsidiary Mediolanum Gestione Fondi (up €5.7 million).

Net impairment aggregated to €90.6 million versus €10.5 million in the prior year. This largely reflects the €81.3 million impairment of Greek government bonds, as already commented herein, as well as €3 million reversed impairment on loans.

Operating expenses amounted to €289.6 million versus €280.5 million at year end 2010.

Specifically, other administrative expenses amounted to €156.7 million versus €152.2 million in the prior year. The €4.5 million increase mainly reflects the increases in nonrecurring expenses relating to the convention held on May 1-2, 2011 in Rimini and other sales network events (up €2.4 million), promotional and advertising expenses (up €2.2 million), and the declines in expenses for sales network training and advice (down €1.8 million), television and internet communications (down €2.3 million). Following outsourcing of technology infrastructure management services, expenses for IT systems increased (up €1.5 million) while asset depreciation declined (down €2.4 million).

Staff costs amounted to €100.3 million versus €98.4 million in 2010. The bank headcount increased from 1,564 employees at the end of the prior year to 1,606 employees at December 31, 2011.

Banco de Finanzas e Inversiones S.A. (Banco Mediolanum) – For financial year 2011 the Spanish Group reported net profit of €6.8 million versus €2.9 million in the prior year.
In the year under review, gross inflows into asset management products amounted to €291.1 million versus €270.0 million in 2010, and net inflows into asset management products were €93.2 million versus €43.5 million in the prior year. Assets under administration recorded net inflows of €1.5 million versus net outflows of €8.4 million at the end of the prior year.
At year end 2011, total assets under management and under administration amounted to €1,581.2 million versus €1,621.9 million at December 31, 2010.
The sales force consisted of 549 people (vs. 484 at December 31, 2010) of whom 505 tied advisors (vs. 439 at year 2010).

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

Joint ventures

For financial year 2011, the **Banca Esperia Group** reported consolidated net profit of €0.7 million versus €0.7 million in the prior year.
Net inflows amounted to €603 versus €1,393 million in the prior year (down 57%).
At the end of the year under review, total assets under management and administration amounted to €12,817 million versus €12,745 million from at December 31, 2010.
At year end 2011, the group had 80 private bankers versus 65 at the end of the prior year.

Associates

For financial year ended June 30, 2011, the **Mediobanca Group** reported net profit of €368.6 million versus €400.8 million in the prior financial year. In particular, net profit for the six-month period from January through June 2011 amounted to €105.7 million versus €130.7 million for the same period of the prior year.
In its half-yearly accounts for the period June 1 through December 31, 2011, the Mediobanca Group reported net profit of €63.4 million versus €262.9 million in the same period of the prior year.
Against a backdrop of adverse market conditions, the increased diversification of revenue sources and their different market correlation enabled the Mediobanca Group to contain revenue decline (down 4.5%, from €1,018.9 million to €973.3 million) as it benefitted from further progress in net interest income (up 4.3%, from €531.5 million to €554.6 million), stable trading income (€112.5 million versus €111.3 million) although impacted by declines in commissions (down from €265.9 million to €234.4 million), and especially in the contribution of investments accounted for by the equity method (down from €110.2 million to €71.8 million). Thanks to reduced oper-

ating costs (down 2%) and loan loss provisions (down 3.2%), the decline in results from ordinary activities (down 8% from €392.3 million to €361.8 million) was contained. Losses on the securities portfolio and equity investments rose from €4.8 million to €268.9 million, of which €174.3 million on available-for-sale financial instruments, €37.8 million on disposals, €55.2 million on the investment in RCS MediaGroup. The sale of a property in the Principality of Monaco generated a €43.9 million gain.

At December 31, 2011, consolidated shareholders' equity after minority interests and net profit for the year amounted to €6,049.8 million versus €6,544.5 million at June 30, 2011 and €6,583.5 million at December 31, 2010. The €494.6 million decrease over June 30, 2011 (from €6,544.5 million to €6,049.9 million) reflects the decline in valuation reserves (down €725.1 million, of which €505.8 million relating to the Group and €219.3 million to investments accounted for by the equity method), in part, offset by prior year's retained earnings (€225.1 million).

At December 31, 2011 the investment in Mediobanca S.p.A. was tested for impairment with the assistance of an independent valuer. The recoverable amount of the stake in Mediobanca resulting from the application of the Dividend Discount Model (DDM) in the Excess Capital variant was €11.1 per share and sensitivity analysis showed values ranging between €10.3 and €11.7 per share.
Based on said valuations, the Board of Directors of Mediolanum S.p.A. resolved to proceed to write down the value of the stake in Mediobanca from €12.51 per share to €11.1 per share. This entailed the recognition of a €41.1 million impairment on the investment in Mediobanca at December 31, 2011.

The impact of investments accounted for by the equity method on the income statement was a negative balance of €34.6 million, including the €41.1 million impairment, versus a positive balance of €14 million in the prior year.

Intercompany and related party transactions

There were no atypical or unusual transactions as related party transactions, including intercompany transactions, that are part of the Group's ordinary business, 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 by the company by Board of Directors resolutions, related party disclosures are set out in the relevant section of the Notes.

Social and environmental responsibility

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

Exposure to Greek sovereign debt

At balance sheet date Mediolanum Group's holdings of Greek sovereign debt aggregated to €181.5 million (nominal value), of which €109 million held by Banca Mediolanum and €72.5 million by Mediolanum Vita. In accordance with IAS/IFRS, these holdings were classified as available-for-sale financial instruments (€161.5 million) and as held-to-maturity investments (€20 million).

Under the Greek bond swap agreement (also referred to as the 'Private Sector Involvement or PSI agreement') of February 24, 2012 for every old bonds with a face value of €1,000 tendered into the exchange the bondholders who voluntarily accept the offer will receive:

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

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

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

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

Fair value measurement of sovereign debt holdings at 22.5% of their face value entailed the recognition of impairment losses on said holdings aggregating to €120.6 million, of which €105.1 million relating to positions classified as available- for-sale financial instruments, and €15.5 million to positions classified as held-to-maturity investments.

Impairment test

Goodwill recognised in the consolidated accounts for the year ended December 31, 2011 relates to the Cash Generating Units (CGUs) Spain, Germany and Italy (Life) in relation to foreign investments of the Mediolanum Banking Group.
At the meeting held last March 9, the Board of Directors of the Bank approved the procedures for impairment review of goodwill allocated to the CGUs above in accordance with IAS 36.
For the purpose of impairment review at December 31, 2011, Banca Mediolanum requested the assistance of a primary specialist firm. The valuations were based on cash-flow estimates derived from the 2012-2015 Plans approved by the Board of Directors of Banca Mediolanum last February 15, which represent management's best estimate of the future economic and financial performance of the respective CGUs, applying industry standard methods best suited for the purposes of the exercise in the specific cases, in accordance with applicable accounting standards.
In their March 8, 2012 report to the Board the independent valuers concluded that – with due consideration of the limits inherent in the use of estimates uncertain by their very nature and subject to changes in the macroeconomic environment and external circumstances as well as, in the specific case, based on assumptions relating to future events and management actions that may not materialise – their analysis revealed no impairment of the CGUs above.
As to the investments in Mediobanca and Banca Esperia, which are accounted for by the equity method, impairment was tested as follows.
To determine the recoverable amount of its investment in Mediobanca at December 31, 2011, for impairment review purposes, Mediolanum S.p.A requested the assistance of a specialist valuation firm. Recoverable amount was determined using the dividend discount model in the excess capital variant. Due to the lack of future plans approved by the Board of Directors of Mediobanca, the financial projections used for impairment testing were derived from recent research done by financial analysts.
The recoverable amount of the stake in Mediobanca resulting from the application of the valuation method above was €11.10 per share and sensitivity analysis showed values ranging between €10.30 and €11.70 per share.
Based on said valuations, the Board of Directors of Mediolanum S.p.A. resolved to proceed to write down the value of the stake in Mediobanca from €12.51 per share to €11.10 per share.
This entailed the recognition of a €41.1 million impairment on the investment in Mediobanca at December 31, 2011.
As to Banca Esperia, for the purpose of impairment review at December 31, 2011, Directors considered that the company's equity approximated its carrying amount and also used as reference the appraisal at June 30, 2011, requested by Banca Esperia and issued by the independent specialist firm on January 25, 2012, made to determine the exercise price of the Private Bankers Stock Options Plan. The appraisal used the following assumptions: going concern, growth at a normal rate, materialisation of the assumptions and attainment of the targets set out in the Budget for 2012 and the Business Plan for 2013-2014.
Said valuation indicated a value per share of about €2.1, which was more than 1.5 times the carrying amount of the investment at December 31, 2011 (€1.35 per share). The analysis revealed no impairment of the investment in Banca Esperia.

IRS and Tax Police Field Audits

The subsidiaries Mediolanum Vita and Banca Mediolanum were audited by the IRS and by the Tax Police, respectively, mainly regarding Transfer Pricing in relation to commissions rebated by the Irish company Mediolanum International Funds Ltd.
In June and October 2010, Audit Reports were issued claiming a total adjustment of €134.3 million to IRES (corporate income tax) and IRAP (regional business tax) taxable income for tax years 2005 and 2006 for Mediolanum Vita, and for tax year 2005 for Banca Mediolanum.

These audits are part of routine examinations of tax returns filed by large corporate groups.
The audited Mediolanum Group companies have always applied law-abiding procedures in accordance with well-established practices and availed themselves of the advice of independent experts substantiated by specific economic analyses.
This is also borne out by the fact that the claims made so far relate exclusively to quantifications while confirming the correctness of procedures applied.
The companies in question promptly asked for additional expert opinions that confirmed, on the one hand, the legitimacy of practices and, on the other hand, that there was no need to make provisions.
As to Mediolanum S.p.A. it should be noted that the Parent Company is responsible only for the payment of tax due and penalties that may ultimately arise from the claim.
On December 23, 2010 the Large Corporations unit of the Lombardy Office of Italy's IRS notified Mediolanum Vita (and Mediolanum S.p.A. as the entity responsible for tax consolidation under Italy's tax consolidation regime) two 'Notices of Tax Due and Demands for Payment' relating to the tax year 2005 (one for IRES and one for IRAP) confirming claims for a total adjustment of €47.9 million to taxable income resulting in a €2,512 thousand IRAP tax due plus a penalty in the same amount, and €15,804 thousand IRES tax due with no penalty.
On February 18, 2011, Mediolanum Vita (and Mediolanum S.p.A. as the entity responsible for tax consolidation under Italy's tax consolidation regime) filed a 'Request for Compromise' with the IRS pursuant to and to the effects of article 6 of Legislative Decree 218 of June 19, 1997, before appealing the IRS determination.
On May 19, 2011, the Request for Compromise fell through, and the Company filed its appeal against the Notices of Tax Due and Demands for Payment in accordance with law.
On February 28, 2011, the Tax Police issued additional Audit Reports to Banca Mediolanum claiming a total adjustment of €121.4 million to IRES and IRAP taxable income for tax years from 2006 through 2009. The claims in these Audits Reports are essentially the same as those set out in the Audit Reports issued in 2010.
The 2010 Tax Police audit on Banca Mediolanum also involved VAT for tax years from 2006 through the audit start date (September 16, 2010). Specifically, it regarded VAT applied to overrides paid to certain sales network members for their supervision and coordination of other sales network members. That part of the audit was completed on February 28, 2011, and an Audit Report was issued claiming the payment of a total penalty of €64 million for failure to apply VAT to said overrides in the invoices issued by the sales network members.
Overrides are indirect commissions typically paid to sales network members and have been considered to be VAT exempt by Banca Mediolanum in accordance with market practice.
The claim appears to be groundless as the sales network members and the Bank itself treated overrides as VAT-exempt items on the basis of an independent expert opinion issued by a primary Tax Law Firm upon request of the trade association ASSORETI, that was confirmed by a Ministerial Ruling still in force issued by the IRS Assessment Office that in December 2003 stated overrides were VAT exempt.

Also based on the opinion of an independent advisor, the directors of Mediolanum Vita and Banca Mediolanum believe there is a possible risk in relation to the outcome of the claims above and considering that the pending issues relate to quantifications no sufficiently reliable estimate can be made of the amount of the obligation that may ultimately result for aforesaid companies.
In the light of the foregoing no provision was made in the separate accounts of the respective companies nor in these consolidated financial statements.

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 Mediolanum S.p.A. confirm they reasonably expect the company will continue in operation in the foreseeable future and therefore the financial statements for the year ended December 31, 2011 were prepared based on the going concern assumption. Following their examination of the financial position, result of operations and cash-flows, they also confirm they did not find any evidence of uncertainties in relation to the ability of the entity to continue in operation as a going concern.
In relation to 'Impairment of Assets' (IAS 36), the impairment method used by the Mediolanum Group included assessment of impairment by an independent valuer based on current multi-year business plans previously approved by the Board of Directors of the companies. The impairment process was validated by the Board of Directors of Mediolanum S.p.A.. For further details readers are referred to Part B of the Notes to the consolidated financial statements.
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 Mediolanum Group 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 Group recognises the impairment loss on the AFS equity instrument irrespective of any other considerations.
Specifically, for equity instruments the Group considers there is evidence of impairment when the decline in the original fair value exceeds one third or is prolonged for over 36 months.
For details on disclosures to be made in the notes, readers are referred to Parts A, B and E of the Notes.
Information on "fair value hierarchy" (IFRS 7) for positions held at December 31, 2011, including prior year's comparative information, is given in Part A of the Notes.
Finally, there are no financial debt contract clauses (IFRS 7) or debt restructuring (IAS 39) involving the Mediolanum Group.

Other information

At December 31, 2011, the solvency capital requirement of the Mediolanum S.p.A. financial conglomerate calculated in accordance with regulatory requirements for financial conglomerates engaged mainly in insurance was in line with the requirements set out in ISVAP Regulation No. 18 of March 12, 2008 regarding assessment of capital adequacy under Title XV, Chapter IV of Legislative Decree 209 of September 7, 2005 – Private Insurers Code – Regulations governing the capital adequacy of financial conglomerates pursuant to Legislative Decree 142 of May 30, 2005, and the financial conglomerates coordination agreement signed by ISVAP, CONSOB and the Bank of Italy on March 30, 2006. Notably, the Group held €910 million capital to cover the €876 million capital requirement with surplus capital of €35 million.
Disclosures required under section 123 bis of the Consolidated Finance Act are set out in the Corporate Governance Report made available also on the company's website (www.mediolanum.it) in accordance with art. 89 bis of the Regulation for Issuers.

Post balance sheet date events

In the first months of 2012 we have seen significant improvements in the price of bonds issued by Euro zone governments and, accordingly, in the value of bond holdings. Notably, the AFS valuation equity reserve improved by about €324.3 million from a negative balance of €283.2 million at December 31, 2011 to a positive balance of €50.8 million at February 29, 2012.

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

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

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

Main risks and uncertainties

Readers can find information about the risks and uncertainties to which the Mediolanum 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 F of the Notes.

Outlook

In 2012, global growth will continue to be sustained by emerging economies. The International Monetary Fund (IMF) estimates GDP to expand by 3.3% globally, growing 1.8% in the US while shrinking 0.5% in the Euro zone, notably 2.2% in Italy and 1.7% in Spain. Hence, the contribution of emerging economies (5.4%) is key.
Negative growth in the Euro zone is a consequence of the financial crisis, the adverse impact of the necessary fiscal measures taken by some governments on the economic cycle, and of unemployment on consumer confidence and spending.
The gradual solution of the crisis in 2012 is the condition for the improvement of the overall economic outlook. The sovereign debt crisis has prompted European governments to make deep structural reforms that can reduce current fiscal imbalances in coming years. Euro zone countries now have a crucial opportunity to adopt convergent fiscal policies.
In the US, the expansionary monetary policy adopted by the Federal Reserve can support growth against a backdrop of contained inflationary risk. In the Euro zone, the interventions of the European Central Bank (ECB) were made to enhance the liquidity of financial institutions and ultimately provide the financial resources needed to support investments and growth.
The difficult financial and economic outlook has in part already been discounted by stock markets in 2011. In 2012, the economic and fiscal policies agreed by Euro zone governments may produce positive effects on both equity and government bond markets. In Italy, the implementation of structural reforms can bring about significant declines in the yields asked by the markets and investors to buy Italian treasuries. Conversely, any hesitation or delay in the adoption of the measures needed to solve the financial crisis may temporarily bring back elevated volatility.
In the light of the foregoing, considering 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 Group's outlook for next year is positive.

Basiglio, March 22, 2012

For the Board of Directors
The Chairman
(Roberto Ruozi)

Consolidated Accounts 2011

Balance sheet

Assets

€/'000	Dec. 31, 2011	Dec. 31, 2010
1. Intangible assets		
1.1 Goodwill	149,864	149,864
1.2 Other intangible assets	17,057	13,253
Total intangible assets	166,921	163,117
2. Tangible assets		
2.1 Property	60,061	62,169
2.2 Other tangible assets	9,899	12,427
Total tangible assets	69,960	74,596
3. Reinsurers' share of technical reserves	89,273	96,201
4. Investments		
4.1 Investment property	108,041	90,654
4.2 Investments in subsidiaries, associates and JVs	404,493	447,058
4.3 Held to maturity investments	1,005,949	1,370,695
4.4 Loans and receivables	6,245,884	6,184,311
4.5 Available for sale financial assets	9,062,406	4,659,587
4.6 Financial assets at fair value through profit and loss	15,639,522	18,097,771
Total investments	32,466,295	30,850,076
5. Receivables		
5.1 Arising out of direct insurance business	5,512	6,974
5.2 Arising out of reinsurance business	-	-
5.3 Other receivables	229	471
Total receivables	5,741	7,445
6. Other assets		
6.1 Non current assets of disposal groups, held for sale	747	1,464
6.2 Deferred acquisition costs	-	-
6.3 Deferred tax assets	252,201	138,985
6.4 Current tax assets	278,313	240,578
6.5 Other assets	303,923	278,022
Total other assets	835,184	659,049
7. Cash and cash equivalents	338,386	795,203
TOTAL ASSETS	33,971,760	32,645,687

Shareholders' equity and liabilities

€/'000	Dec. 31, 2011	Dec. 31, 2010
1. Shareholders' equity		
1.1 Group shareholders' equity		
1.1.1 Share capital	73,382	73,288
1.1.2 Other equity instruments	-	-
1.1.3 Capital reserves	56,013	55,087
1.1.4 Retained earnings and other equity reserves	847,716	710,729
1.1.5 Treasury shares (-)	(2,045)	(2,045)
1.1.6 Exchange difference reserves	-	-
1.1.7 Gains or losses on available for sale financial assets	(283,184)	(69,833)
1.1.8 Other gains or losses recognised directly in equity	3,201	22,301
1.1.9 Net profit (loss) for the year attributable to the Group	67,267	246,633
Total capital and reserves attributable to the Group	762,350	1,036,160
1.2 Attributable to minority interests		
1.2.1 Capital and reserves attributable to minority interests	-	-
1.2.2 Gains (losses) recognised directly in equity	-	-
1.2.3 Net profit (loss) for the year attributable to minority interests	-	-
Total capital and reserves attributable to minority interests	-	-
Total shareholders' equity	762,350	1,036,160
2. Provisions	160,693	138,301
3. Technical reserves	18,632,275	20,550,747
4. Financial liabilities		
4.1 Financial liabilities at fair value through profit and loss	489,624	570,608
4.2 Other financial liabilities	13,369,539	9,877,067
Total financial liabilities	13,859,163	10,447,675
5. Payables		
5.1 Arising out of direct insurance business	5,229	6,343
5.2 Arising out of reinsurance business	2,387	1,613
5.3 Other payables	217,638	241,936
Total payables	225,254	249,892
6. Other liabilities		
6.1 Liabilities of disposal groups held for sale	968	730
6.2 Deferred tax liabilities	41,018	51,932
6.3 Current tax liabilities	15,082	27,385
6.4 Other liabilities	274,957	142,865
Total other liabilities	332,025	222,912
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	33,971,760	32,645,687

Income statement

€/'000		Dec. 31, 2011	Dec. 31, 2010
1. Revenues			
1.1	Net premiums written		
	1.1.1 Gross premiums written	9,547,764	9,128,240
	1.1.2 Reinsurance premiums	(4,347)	(4,693)
Total premiums written		9,543,417	9,123,547
1.2	Commission income	752,520	813,364
1.3	Net income on financial instruments at fair value through profit and loss	(601,107)	994,003
1.4	Income on investments in subsidiaries, associates and JVs	6,544	14,387
1.5	Income on other financial instruments and investment property		
	1.5.1 Interest income	445,626	289,810
	1.5.2 Other income	10,879	10,205
	1.5.3 Realised gains	24,720	62,803
	1.5.4 Unrealised gains	5,412	9,566
Total income on other financial instruments and investment property		486,637	372,384
1.6	Other revenues	20,977	25,055
Total revenues and income		10,208,988	11,342,740
2. Costs			
2.1	Net claims and benefits		
	2.1.1 Amounts paid and change in technical reserves	(9,041,752)	(10,157,080)
	2.1.2 Reinsurers' share	5,468	5,936
Net claims and benefits		(9,036,284)	(10,151,144)
2.2	Commission expense	(262,719)	(288,064)
2.3	Losses on investments in subsidiaries, associates and JVs	(41,126)	-
2.4	Loss on other financial instruments and investment property		
	2.4.1 Interest expense	(149,033)	(73,479)
	2.4.2 Other expenses	(459)	(340)
	2.4.3 Realised losses	(27,378)	(15,899)
	2.4.4 Unrealised losses	(137,311)	(28,246)
Loss on other financial instruments and investment property		(314,181)	(117,964)
2.5	Operating expenses		
	2.5.1 Agents' commissions and other acquisition costs	(73,726)	(78,870)
	2.5.2 Investment management expenses	(513)	(253)
	2.5.3 Other administrative expenses	(329,578)	(321,155)
Total operating expenses		(403,817)	(400,278)
2.6	Other costs	(66,322)	(79,827)
Total costs		(10,124,449)	(11,037,277)
Profit (loss) before tax for the period		84,539	305,463
3. Income tax		(16,952)	(58,775)
Profit (loss) for the period		67,587	246,688
4. Profit (loss) from discountinued operations		(320)	(55)
Group net profit (loss) for the period		67,267	246,633
of which pertaining to the Group		67,267	246,633
Earning per share (in euro)		0,092	0,337

Comprehensive income

€/'000	Dec. 31, 2011	Dec. 31, 2010
CONSOLIDATED NET PROFIT (LOSS)	67,267	246,633
Changes in net exchange differences reserve	-	-
Profit (loss) on available for sale financial assets	(213,351)	(78,764)
Profit (loss) on cash flow hedges	-	-
Profit (loss) on hedges of investments in foreign operations	-	-
Changes in the equity of investees	(19,100)	(750)
Changes in intangible assets revaluation reserve	-	-
Changes in tangible assets revaluation reserve	-	-
Gains (losses) on non-current assets or disposal groups held for sale	-	-
Actuarial gains (losses) and adjustments on defined benefit plans	-	-
Other	-	-
TOTAL OTHER COMPONENTS OF COMPREHENSIVE INCOME	(232,451)	(79,514)
TOTAL CONSOLIDATED COMPREHENSIVE INCOME	(165,184)	167,119
attributable to the Group	(165,184)	167,119
attributable to minority interests	-	-

Statement of changes in shareholders' equity

€/'000	Balance at Dec. 31, 2009	Adjustment to closing balance	Amount credited	Trasferred to the Income Statement	Other movement	Balance at Dec. 31, 2010
Shareholders' equity attributable to the Group						
Share capital	73,140	-	148	-	-	73,288
Other equity instruments	-	-	-	-	-	-
Capital reserves	53,477	-	1,610	-	-	55,087
Retained earnings and other equity reserves	618,584	-	154,378	-	(62,233)	710,729
(Treasury shares)	(2,045)	-	-	-	-	(2,045)
Exchange difference reserve	-	-	-	-	-	-
Net profit (loss) for the period	217,280	-	29,353	-	-	246,633
Other components of comprehensive income	31,982	-	(77,650)	(1,864)	-	(47,532)
Total shareholders' equity attributable to the Group	992,418	-	107,839	(1,864)	(62,233)	1,036,160
Shareholders' equity attributable to minority interest						
Share capital and reserves	-	-	-	-	-	-
Gains (losses) recognised directly in equity	-	-	-	-	-	-
Net profit (loss) for the period	-	-	-	-	-	-
Total shareholders' equity attributable to minority interests	-	-	-	-	-	-
TOTAL	992,418	-	107,839	(1,864)	(62,233)	1,036,160

€/'000	Balance at Dec. 31, 2010	Adjustment to closing balance	Amount credited	Trasferred to the Income Statement	Other movement	Balance at Dec. 31, 2011
Shareholders' equity attributable to the Group						
Share capital	73,288	-	94	-	-	73,382
Other equity instruments	-	-	-	-	-	-
Capital reserves	55,087	-	926	-	-	56,013
Retained earnings and other equity reserves	710,729	-	188,324	-	(51,337)	847,716
(Treasury shares)	(2,045)	-	-	-	-	(2,045)
Exchange difference reserve	-	-	-	-	-	-
Net profit (loss) for the period	246,633	-	(179,366)	-	-	67,267
Other components of comprehensive income	(47,532)	-	(281,177)	48,726	-	(279,983)
Total shareholders' equity attributable to the Group	1,036,160	-	(271,199)	48,726	(51,337)	762,350
Shareholders' equity attributable to minority interest						
Share capital and reserves	-	-	-	-	-	-
Gains (losses) recognised directly in equity	-	-	-	-	-	-
Net profit (loss) for the period	-	-	-	-	-	-
Total shareholders' equity attributable to minority interests	-	-	-	-	-	-
TOTAL	1,036,160	-	(271,199)	48,726	(51,337)	762,350

Consolidated cash flow statement

Indirect method

€/'000	Dec. 31, 2011	Dec. 31, 2010
Profit (loss) before tax for the period	84,539	305,463
Changes in non-monetary items	(2,566,471)	(225,226)
Change in unearned premiums reserve (general business)	-	-
Change in outstanding claims reserve and other technical reserves (general business)	-	-
Change in mathematical reserves and other technical reserves (Life business)	(1,911,544)	551,840
Change in deferred acquisition costs	-	-
Change in provisions	22,392	28,432
Non-monetary income (losses) on financial instruments, investment property and equity investments	(677,319)	(805,498)
Other changes	-	-
Changes in receivables and payables arising out of operating activities	(52,645)	(50,805)
Changes in receivables and payables arising out of direct insurance and reinsurance operations	1,122	1,815
Changes in other receivables and payables	(53,767)	(52,620)
Income tax paid	(40,083)	(58,775)
Net cash from monetary items relating to investment and financial activities	3,441,177	1,801,029
Liabilities on financial contracts issued by insurance companies	(80,984)	202,860
Amounts due to banks and banking customers	3,477,972	2,935,311
Loans to and receivables from banks and banking customers	120,213	(1,337,142)
Other financial instruments at fair value through profit or loss	(76,024)	-
NET CASH FLOWS FROM OPERATING ACTIVITIES	866,517	1,771,686
Net cash from investment property	(17,387)	(136)
Net cash from subsidiaries, associates and joint ventures	14,533	(14,374)
Net cash from loans and receivables	(181,786)	660
Net cash from held-to-maturity investments	364,746	210,714
Net cash from available-for-sale financial assets	(4,616,170)	(1,782,145)
Net cash from tangible and intangible assets	832	18,163
Net cash from tangible and intangible assets	3,211,592	505,808
NET CASH FLOWS FROM INVESTING ACTIVITIES	(1,223,640)	(1,061,310)
Net cash from equity instruments attributable to the Group	2,918	(19,307)
Net cash from treasury shares	-	-
Distribution of dividends attributable to the Group	(102,612)	(109,630)
Net cash from capital and reserves attributable to minority interests	-	-
Net cash from subordinated liabilities and quasi-equity instruments	-	-
Net cash from miscellaneous financial liabilities	-	-
NET CASH FLOWS FROM FINANCING ACTIVITIES	(99,694)	(128,937)
Effect of exchange rate changes on cash and cash equivalents	-	
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	795,203	213,764
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(456,817)	581,439
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	338,386	795,203

Notes to the Consolidated Annual Financial Statements 2011

Notes to the Consolidated Annual Financial Statements

These notes are structured as follows:

PART A - ACCOUNTING BASIS AND SCOPE OF CONSOLIDATION

Pursuant to Legislative Decree No. 38 of February 28, 2005, the consolidated financial statements for the year ended December 31, 2011 of the Mediolanum Group were prepared in accordance with the International Accounting and Financial Reporting Standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Commission under European Parliament and Council Regulation (EC) 1606 of July 19, 2002.
The Mediolanum Group is a financial conglomerate that operates primarily in the insurance business under Legislative Decree 142 of May 30, 2005.
In accordance therewith, the Mediolanum Group's financial statements for the year ended December 31, 2011 were prepared following the "Instructions for the preparation of IFRS consolidated accounts" issued by ISVAP (Italy's supervisory authority for insurance companies) in accordance with Regulation No. 7 of July 13, 2007, as subsequently amended by ISVAP Regulation 2784 of March 8, 2010.

Accounting Basis

In the preparation of the consolidated financial statements the Group applied the International Accounting and Financial Reporting standards IAS/IFRS (including SIC and IFRIC interpretations) in effect at December 31, 2011, as adopted by the European Commission, as well as the underlying assumptions set out in the IASB Framework for the Preparation and Presentation of Financial Statements.
The consolidated financial statements consist of:
- Balance Sheet,

- Income Statement,
- Statement of Comprehensive Income,
- Statement of Changes in Shareholders' Equity,
- Statement of Cash Flows,
- Explanatory Notes,

in addition to the Directors' Report.

The consolidated financial statements were prepared pursuant to section 154 ter of Legislative Decree 58/98 introduced by Legislative Decree 195/07 which transposed into national legislation the so called "Transparency Directive".

Said statute requires listed issuers whose home Member State is Italy to approve the annual financial statements and publish the annual report including:

- the separate financial statements,
- the consolidated financial statements, where applicable,
- the directors' reports,
- the responsibility statement pursuant to section 154-bis, paragraph 2

not later than 120 days after the end of the financial year.

The complete independent auditors' reports pursuant to sections 14 and 16 of Legislative Decree No. 39/2010 are published together with the annual report.

In accordance with art. 5 of Legislative Decree No. 38/2005 the financial statements were prepared using the euro as reporting currency.

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

The accounts and the notes also include comparative information for the year ended December 31, 2010.

The accounts and the notes were prepared also in accordance with ISVAP Regulation 7 of July 13, 2007, as amended by ISVAP Regulation 2784 of March 8, 2010 to incorporate certain changes introduced in international accounting and financial reporting standards IAS/IFRS since the date of the previous ISVAP regulation. Certain tables set out in the notes have been rationalised to bring financial reporting more in line with European harmonised standards.

Scope of consolidation

The consolidated financial statements include the accounts of Mediolanum S.p.A. and those of its directly or indirectly controlled subsidiaries.

The subsidiaries which are consolidated on a line-by-line basis in accordance with the international accounting standards are set out in the tables below.

Group companies that are directly owned by Mediolanum S.p.A. and consolidated on a line-by-line basis:

€/'000 Company	Share capital	% holding	Registered office	Business
Mediolanum Vita S.p.A.	87,720	100.00%	Basiglio	Life Insurance
Mediolanum Comunicazione S.p.A.	775	100.00%	Basiglio	Audio/film/TV production
PI Servizi S.p.A.	517	100.00%	Basiglio	Real estate brokerage
Mediolanum International Life Ltd	1,395	100.00%	Dublin	Life Insurance
Banca Mediolanum S.p.A.	450,000	100.00%	Basiglio	Banking
Mediolanum Gestione Fondi SGR p.A.	5,165	49.00%	Basiglio	Fund management
Mediolanum International Funds Ltd	150	44.00%	Dublin	Fund management
Mediolanum Asset Management Ltd	150	49.00%	Dublin	Asset management and advice
Gamax Management AG	7,161	0.004%	Luxembourg	Fund management

Group companies that are indirectly owned by Mediolanum S.p.A. through Banca Mediolanum S.p.A. and consolidated on a line-by-line basis:

€/'000 Company	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
Gamax Management AG	7,161	99.996%	Luxembourg	Fund management
Banco de Finanzas e Inversiones S.A.	86,032	100.00%	Barcelona	Banking
Bankhaus August Lenz & Co. AG	20,000	100.00%	Munich	Banking

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

€/'000 Company	Share capital	% holding	Registered office	Business
Ges Fibanc S.G.I.I.C. 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	Fund management

Mediolanum S.p.A. associates accounted for using the equity method:

€/'000 Company	Share capital	% holding	Registered office	Business
Mediobanca S.p.A.	430,565	3.44%	Milan	Banking

Mediolanum S.p.A. jointly owned entities accounted for using the equity method:

€/'000 Company	Share capital	% holding	Registered office	Business
Banca Esperia S.p.A.	63,000	50.00%	Milan	Banking

Methods of consolidation

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

Consolidation on a line-by-line basis

Consolidation is the combination of the accounts of the parent company and those of its subsidiaries line by line by adding together like items of the balance sheet and the income statement. After minority interests in the net assets and minority interests in the profit or loss of subsidiaries are separately identified, the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary are eliminated.
Any resulting difference, if positive, after recognition of the assets or liabilities of the subsidiary, is recognised as goodwill under "Intangible Assets" on first-time consolidation. 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

Under the equity method, an investment is initially recognised at cost and its carrying amount is increased or decreased thereafter to reflect the value of the investor's share of the investee's equity and profit. The investor's share of the profit or loss of the investee is recognised under the relevant item in the consolidated income state-

ment, and the investor's share of changes in the investee's equity, other than transactions with the shareholders, is recognised under the relevant item in the consolidated statement of comprehensive income.
If there is evidence that an investment may be impaired, its recoverable amount is calculated by estimating the present value of future cash flows expected to be generated by the associate, including the proceeds on the ultimate disposal of the investment. If the recoverable amount is lower than the carrying amount, the resulting difference is recognised in the income statement. In applying the equity method to investments in associates the approved IAS/IFRS annual financial statements of associates were used.

Post balance sheet date events

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

Significant non-recurring transactions or events

In the year under review, there were no non-recurring events or transactions, i.e. events or transactions which do not occur frequently in the ordinary course of business, which could have a material impact on the financial position, results of operations and cash flows of the Mediolanum Group (cf. Consob Communication DEM/6064293 of July 28, 2006).

Other information

The Security Policy Document required under section 34, paragraph 1, letter g), of Legislative Decree 196 of June 30, 2003 (the 'Personal Data Protection Code') has been prepared and updated in compliance with Rule 19 of the Technical Regulations, Annex B, of said Decree, by Banca Mediolanum S.p.A. also in the name and on behalf of the other Companies that are part of the Mediolanum Group.

PART B - ACCOUNTING POLICIES

This section presents the accounting policies applied in the preparation of the consolidated financial statements for the year ended December 31, 2011.
The accounting policies applied in the preparation of the consolidated financial statements, with respect to the classification, measurement, recognition and derecognition of the various items of assets and liabilities as well as the various items of income and expense, are consistent with those applied in the preparation of the consolidated financial statements for the year ended December 31, 2010.

Financial assets at fair value through profit or loss

This category includes:
- investment contracts to the benefit of life policyholders who bear the risk thereof and in connection with pension fund management;
- financial assets held for trading.

Financial assets at fair value through profit or loss consist of debt securities, equities and trading derivatives with positive fair value.
Financial assets at fair value through profit or loss 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 at fair value through profit or loss* 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 at fair value through profit or loss* are measured at their fair value.
The fair value of a financial instrument quoted in an active market[1] is determined using its market quotation. If the market for a financial instrument is not active, fair value is determined using estimation and valuation techniques which measure all instrument-related risks and use market data, e.g. the quoted price of instruments with similar characteristics, discounted cash flow analysis, option pricing models, recent comparable transactions.
Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or the financial asset and substantially all the risks and rewards of ownership thereof are transferred.

Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are not classified as Loans and Receivables, Financial Assets Held for Trading or Held-to-Maturity Investments.
In particular, shareholdings that are not held for trading and those that do not qualify as investments in subsidiaries, associates or joint ventures are also classified under this category.
Available-for-sale financial assets are initially recognised on the settlement date if they are debt or equity instruments and on the trade date if they are loans or receivables.

[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.

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

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

In other words, they measure how much actual results differed from perfect hedging.
If the tests do not confirm hedge effectiveness, hedge accounting is discontinued, the hedging derivative is reclassified into trading instruments while the hedged item is again recognised according to its usual classification in the balance sheet and the changes in the fair value of the hedged item up until the date hedge accounting was discontinued are amortised applying the effective interest rate.

Loans and receivables

This category includes loans to customers and to banks with fixed or determinable payments, that are not quoted in an active market and that, upon initial recognition, were not classified as available-for-sale financial assets.
Loans and receivables also include trade receivables, repurchase agreements and securities purchased under a public offering or private placement, with fixed or determinable payments, that are not quoted in an active market.
A loan or receivable is initially recognised at fair value on the trade date or, in the case of a debt instrument, on the settlement date. The fair value of a loan or receivable is the loaned amount, or the transaction price, including any directly attributable costs or income determinable on the trade date, even if settled at a later date, except for those costs that are reimbursed by the borrower/debtor or are internal administrative costs.

Carryovers and repurchase agreements which entail the obligation for a future resale/repurchase are recognised as funding or lending transactions. Specifically, the amount received for the sale of an asset under an agreement to repurchase it at a future date is recognised in the balance sheet as a debt, while the amount paid for the purchase of an asset under an agreement to resell it at a future date is recognised as a loan.
After initial recognition, loans and receivables are measured at amortised cost. Amortised cost is the amount at which the financial asset is measured on initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, plus or minus any directly attributable costs/income and minus/plus any reduction/reversal for impairment. The effective interest rate is the rate that exactly discounts estimated future cash flows (principal and interest) to the net carrying amount of the asset, i.e. the carrying amount plus/minus any directly attributable costs/income, through the expected life of the asset.
Amortised cost is not applied to short-terms loans and receivables for which the effect of discounting is immaterial. Those loans and receivables are measured at historical cost and the related costs/income are recognised in the income statement over the expected life of the asset.
At each interim and annual reporting date the Group assesses whether there is objective evidence of any impairment loss as a result of one or more events that occurred after initial recognition. If there is objective evidence of impairment the loan or receivable is classified as follows:

- **nonperforming** - these are formally impaired loans i.e. exposures to borrowers that are unable to meet their payment obligations, even if their insolvency has not been established by a court of law, or in equivalent conditions;
- **watch list** - these are exposures to borrowers that are experiencing temporary difficulties in meeting their payment obligations but are expected to make good within a reasonable timeframe. Watch list loans also include exposures - other than to nonperforming borrowers or to government entities - that satisfy both the following conditions:
  - have been past due and unpaid for over 270 days (over 150 or 180 days for consumer loans with original maturity of less than 36 months, or of 36 months or more, respectively);
  - the aggregate exposure as per the previous paragraph and in relation to other payments that are less than 270 days past due - to the same borrower accounts for at least 10% of total exposure to that borrower;
- **restructured** - exposures for which a grace period was accorded with concurrent renegotiation of the loan terms and conditions at below market rates, that were in part converted into shares and/or for which a principal reduction was agreed;
- **past due** - exposures to borrowers other than those classified in the categories above, that at the reporting date were over 90 days past due or overdrawn. Loans to retail borrowers, government entities or businesses domiciled or based in Italy are considered to be impaired if past due or overdrawn for over 180 days in lieu of 90 days. Total exposure is considered if at the reporting date:
  - the past due /overdrawn amount,
    or:
  - the mean value of daily past due/overdrawn amounts in the last quarter was 5% or more of total exposure.

Impaired loans are individually assessed and the amount of the impairment loss is measured as the difference between the asset's carrying amount (measured at amortised cost) at the time of assessment and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.
Future cash flows are estimated taking into account the expected time of recovery, the realisable value of any collaterals as well as any costs of recovery. Future cash flows of loans which are expected to be recovered in the short term are not discounted.

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

Equity investments

This account relates to investments in associates and joint ventures that are accounted for using the equity method.
An associate is an entity over which the parent company (the investor) has significant influence, i.e. it holds, directly or indirectly, 20 per cent or more of the voting power of the investee or, if it holds less than 20 per cent of the voting power of the investee, it has the power to participate in the financial and operating policy decisions of the investee under legal arrangements, e.g. a shareholders' agreement.
An investment in an associate is accounted for using the equity method from the date on which the parent begins to have significant influence over the associate. The parent discontinues the use of the equity method from the date it ceases to have significant influence over the associate and from that date it accounts for the investment in accordance with IAS 39, provided that the associate does not become a subsidiary or a joint venture.
A joint venture is an entity in which the parent company (the investor) holds, directly or indirectly, 50 per cent of the voting power of the investee and a third party holds the other 50 percent. An investment in a joint venture is accounted for using the equity method in the same way as investments in associates.
If there is evidence that an investment in an associate or joint venture may be impaired, its recoverable amount is calculated by estimating the present value of future cash flows expected to be generated by the associate or joint venture, 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.

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 higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset. If the recoverable amount of an asset is less than its carrying amount, the carrying amount is reduced to its recoverable amount. Any reduction is recognised as impairment loss in the income statement.
If the value of a previously impaired asset increases, the impairment loss is reversed. The reversal shall not result in a carrying amount of the asset that exceeds what the carrying amount less accumulated depreciation would have been had the impairment loss not been recognised at the date the impairment is reversed.
A tangible asset is derecognised from the balance sheet on disposal or when no future economic benefits are expected from its use or disposal.

Intangible assets

Intangible assets include goodwill and 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 assets 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 at fair value through profit or loss

Financial liabilities at fair value through profit or loss include:
- deposit accounts relating to financial contracts (under which the investment risk is borne by the policyholder) and to the management of pension funds;
- trading derivatives with negative fair value;
- short positions on securities trading.

Deposit accounts relating to financial contracts under which the investment risk is borne by the policyholder reflect with the best possible approximation the value of holdings in investment funds or benchmark stock indices. These liabilities are backed by assets carried at fair value.
The same applies to the liabilities relating to the Previgest Mediolanum non-occupational pension fund.
Financial liabilities are initially recognised at the time the policy is issued or amounts are received.
They are initially measured at the fair value of the assets under the contract (policy), i.e. generally the issue price of the underlying assets.
After initial recognition, financial liabilities are measured at fair value.
A financial liability is derecognised when it expires or is extinguished.

Other financial liabilities

Other financial liabilities include bonds issued. 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.

Life Technical Reserves

Life technical reserves represent the reserves for liabilities under insurance contracts and investment contracts with Discretionary Participation Features (DPF).
Life technical reserves include mathematical reserves, calculated on each individual contract according to the payment commitments undertaken and on the basis of the actuarial assumptions adopted for the computation of related premiums. Mathematical reserves include all revaluations applied in accordance with contract terms, as well as provisions for demographic risk. Mathematical reserves are not lower than surrender value.
Life technical reserves also include amounts set aside for the portion of premiums and the portion of contract-related expenses, e.g. handling costs and additional health premiums, that relate to future periods.
At each reporting date an assessment is made of the adequacy of insurance contract reserves (liability adequacy test) using current estimates of future cash-flows under insurance contracts. If the assessment reveals that the carrying amount of reserves is inadequate in the light of the estimated future cash flows, the Group increases reserves and recognises the difference in the income statement.
When net unrealised gains arise on assets under contracts with Discretionary Participation Features (DPF) the Group raises a so-called shadow accounting reserve.
This reserve is recognised in equity when the unrealised gains or losses are recognised in equity, otherwise 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 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.

Employee completion-of-service entitlements

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

Employee pension plan

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

Assets and liabilities denominated in foreign currencies

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

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

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

Tax assets and liabilities

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

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

Income taxes are recognised in the income statement except for items which are credited/charged directly to equity.
Provisions for income taxes are calculated on the basis of conservative estimates of the current and deferred tax expense.
Deferred taxes are computed in respect of the temporary differences, with no time limit, arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets are recorded to the extent that there is reasonable certainty they will be recovered, i.e. to the extent that the company – or the Parent Company under Italy's tax consolidation regime – is expected to continue to generate sufficient taxable income against which temporary differences can be utilised.
Deferred tax assets and deferred tax liabilities are not netted, and are separately recognised in the Balance Sheet under "Tax assets" and "Tax liabilities" respectively.
Deferred taxes are accounted for using the liability method on temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet. A deferred tax liability is recognised for all taxable temporary differences.

A deferred tax asset is recognised for all deductible temporary differences, and the carry-forward of unused tax losses and unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary difference and the carry-forward of unused tax losses and unused tax credits can be utilised, unless:

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

Deferred tax assets and deferred tax liabilities are systematically re-measured to reflect any changes either in tax rules or tax rates as well as any possible changes in the company's tax position.
The *provision for tax claims* relates to tax payments which may become due as a result of pending tax audits or disputes with tax authorities.

Treasury shares

Treasury shares are deducted from equity. Their original cost, any gains or losses on their sale are recognised directly in equity.

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 and quantification of potential assets and liabilities. These estimates primarily relate to:

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

Senior management regularly check valuations and estimates made on the basis of past experience and other reasonable factors. Due to the uncertainty typically related to these financial items, actual values may differ from estimates due to the occurrence of unexpected events or changes in operating conditions.
For information about the methods used to determine the financial items above and main risk factors readers are referred to the previous sections of these notes for information on accounting policies and to Part F 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 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 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 cost (for equity instruments) or amortised cost (for debt instruments) 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.
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 is recognised in the income statement and cannot be reversed.

Share-based payments

Stock options are share-based payments. Stock options granted, and the corresponding increase in equity, are measured by reference to the fair value of the stock option at Grant Date, and accounted for during the Vesting Period. The fair value of the stock option is determined using a valuation technique that takes into account the specific terms and conditions of the stock option plan in place, in addition to information such as the exercise price and the life of the option, the current price of underlying shares, the expected volatility of the share price, dividends expected on the shares and the risk-free interest rate for the life of the option. The pricing model separately measures the stock option and the probability that the market conditions upon which vesting is conditioned be satisfied. The combination of the two values is the fair value of the stock option.
The cumulative expense recognised at each annual reporting date up until the vesting date takes account of the vesting period and is based on the best available estimate of options that are going to be exercised upon vesting. The expense or the reversal recognised in the income statement for each year represents the change in the cumulative expense over the amount recognised in the prior year. No expense is recognised for options that do not vest.

Fair value disclosures

Reclassifications of assets

€/'000					No reclassification impact on profit/loss (before tax)		Impact of reclassifications for the year (before tax)	
Type of financial instrument (1)	Reclassified from (2)	Reclassified to (3)	Book value at Dec. 31, 2011 (4)	Fair value at Dec. 31, 2011 (5)	Valuation (6)	Other (7)	Valuation (8)	Other (9)
A. Debt securities			180,588	175,600	(8,715)	4,379	-	4,894
	HFT	AFS	133,798	133,798	(3,727)	2,754	-	3,257
	HFT	Loans to Customers	46,790	41,802	(4,988)	1,625	-	1,637

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

Fair value hierarchy

	Level 1		Level 2		L3		Total	
€/'000	2011	2010	2011	2010	2011	2010	2011	2010
Available for sale financial assets	8,387,380	4,263,344	564,908	322,592	110,118	73,651	9,062,406	4,659,587
Financial assets at fair value through profit or loss								
Financial assets held for trading	2,752,157	3,861,481	116,003	84,975	39,756	28,385	2,907,916	3,974,841
Financial assets at fair value	9,051,992	9,323,195	2,888,501	3,794,262	791,113	1,005,473	12,731,606	14,122,930
Total	20,191,529	17,448,020	3,569,412	4,201,829	940,987	1,107,509	24,701,928	22,757,358
Financial liabilities at fair value through profit or loss								
Financial liabilities held for trading	320,066	443,607	17,418	15,352	3,861	5,693	341,345	464,652
Financial liabilities at fair value	27,839	34,523	120,440	71,356	-	77	148,279	105,956
Total	347,905	478,130	137,858	86,708	3,861	5,770	489,624	570,608

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	28,385	1,005,473	73,651	-
2. Increases	190,461	230,403	157,009	-
2.1 Purchases	180,343	221,920	5,756	-
2.2 Profits recognised				
2.2.1 Through profit or loss	1,120	5,201	-	-
- of which: gains	476	931	-	-
2.2.2 In equity	X	X	66,205	-
2.3 Transferred to other level	13	-	83,638	-
2.4 Other increases	8,985	3,282	1,410	-
3. Decreases	(179,090)	(444,763)	(120,542)	-
3.1 Sales	(176,065)	(126,565)	(2,762)	-
3.2 Redemptions	-	-	-	-
3.3 Losses recognised				
3.3.1 Through profit or loss	(3,019)	(283,709)	(66,036)	-
- of which: losses	(1,245)	(136,169)	(66,036)	-
3.3.2 In equity	X	X	(50,205)	-
3.4 Transferred to other level	(5)	-	-	-
3.5 Other decreases	(1)	(34,489)	(1,539)	-
4. Closing balance	39,756	791,113	110,118	-

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

	FINANCIAL ASSETS		
€/'000	held for trading	at fair value	available for sale
1. Opening balance	5,693	77	-
2. Increases	1,179	-	-
2.1 Issues	1,067	-	-
2.2 Losses recognised			
2.2.1 Through profit or loss	1	-	-
- of which: losses	-	-	-
2.2.2 In equity	X	X	-
2.3 Transferred to other level	-	-	-
2.4 Other increases	111	-	-
3. Decreases	(3,011)	(77)	-
3.1 Redemptions	-	-	-
3.2 Buybacks	(1,066)	-	-
3.3 Losses recognised			-
3.3.1 Through profit or loss	(1,225)	-	-
- of which: gains	-	-	-
3.3.2 In equity	X	X	-
3.4 Transferred to other level	-	-	-
3.5 Other decreases	(720)	(77)	-
4. Closing balance	3,861	-	-

PART C - INFORMATION ON THE CONSOLIDATED BALANCE SHEET

ASSETS

INTANGIBLE ASSETS

€/'000	Dec. 31, 2011	Dec. 31, 2010
Goodwill	149,864	149,864
Other intangible assets	17,057	13,253
Total	166,921	163,117

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

DEFINITION OF CGUs AND ALLOCATION OF GOODWILL

Like in prior years, CGUs have been identified on the basis of the geographic area of operations in accordance with the Mediolanum Group business reporting system. Hence, impairment testing was conducted on the CGUs set out in the table below.

€/m	Description	Allocated goodwill
CGU SPAIN	Banco de Finanzas e Inversiones S.A. (Banco Mediolanum)	122.8
CGU GERMANY	Gamax Management AG – German division	4.3
CGU ITALY Life	Gamax Management AG – Italian division	22.7

Goodwill allocated to the CGU Spain included goodwill relating to Banco Mediolanum amounting to €122.8 million.
Following the recognition of impairment in the prior year, no goodwill was allocated to Bankhaus August Lenz & Co AG (BAL). In conformity with the Group's business reporting system, Gamax's goodwill amounting to €27 million was allocated to two different CGUs, Germany and Italy Life, 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 Life was €22.7 million (84%).

VALUATION METHOD

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

CGU SPAIN

The recoverable amount of the CGU Spain was determined based on value in use calculated by applying the DDM method to the information set out in the 2012-2015 Business Plan (the 2012-2015 Plan) approved by the Boards of Directors of Banco Mediolanum and Banca Mediolanum S.p.A., less the value of the investment in MIF relating to business conducted in Italy.
The 2012-2015 Plan was built on reasonable, consistent assumptions and represents the management best estimate of the range of possible future developments for the CGU.
The 2012-2015 Plan confirmed the strategic lines set out in the previous plan (2011-2014 Plan), notably the development of Banca Mediolanum's business model in Spain.
The previous plan was updated to incorporate most recent expectations in relation to interest rate developments over the plan period and inflows forecasts on the basis of volumes and sales network numbers at December 31, 2011.
Specifically, the 2012-2015 Plan is based on the following key assumptions:

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

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

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

In both scenarios cash-flows were estimated assuming a minimum Tier 1 Capital ratio of 8%.
Under the Capital Asset Pricing Model the discount rate applied to calculate the present value of future cash flows (ke) was estimated at 13.9%, based on the following parameters:

- risk-free rate of 5.4% calculated on the basis of average historical 12-month yields on 10-year Spanish treasuries;

- beta coefficient (risk measure of the stock compared to the market) of 1.19% calculated on the basis of the historical 2-year beta of a panel of comparable entities;
- market premium (i.e. the premium required by investors to buy equities in lieu of risk-free assets) of 5% in line with best professional practice;
- specific risk premium conservatively estimated at 2.5% to take into account the underlying uncertainty in the execution of the plan.

The value of the CGU Spain at the end of the plan period was calculated based on cash flows available in 2015, excluding, on a conservative basis, in both scenarios, the contribution of treasury activities, and assuming 2% long-term growth in line with long-term inflationary expectations.
The results of this exercise did not indicate any impairment losses of the CGU Spain.
The results of the prudential scenario test were substantially in line with the carrying amount of the CGU Spain which entails the full execution of the plan.
For the base scenario sensitivity to changes in some key assumptions was tested. The recoverable amount was found to be equal to the carrying amount of the CGU for the following changes in key assumptions:

- discount rate of 20.3% (increase by 640 bps);
- long term growth of -14% (decline by 1,600 bps);
- net profitability 30% lower than 2012-2015 Plan estimates.

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

CGU GERMANY

The recoverable amount of the CGU Germany was determined based on value in use calculated by applying the DDM method to the information set out in the 2012-2015 Business Plan approved by the directors of Gamax (for the German division of Gamax) and the 2012-2015 Business Plan approved by the directors of BAL. Both Business Plans were also approved by the Board of Directors of Banca Mediolanum S.p.A.
The DDM test applied to the German Division of Gamax and to BAL did not reveal any impairment losses of the CGU Germany.
Sensitivity to changes in some key assumptions was tested. The recoverable amount was found to be equal to the carrying amount of the CGU for the following changes in key assumptions:

- discount rate increase by 145 bps;
- long term growth decline by 195 bps;
- net profitability 18% lower than 2012-2015 Plan estimates.

RECOVERABLE AMOUNT OF THE GERMAN DIVISION OF GAMAX MANAGEMENT AG

The 2012-2015 Plan of the German Division of Gamax was built on reasonable, consistent assumptions and represents the management best estimate of the range of possible future business developments of the German Division of Gamax.
The previous plan was updated to incorporate most recent expectations in relation to financial market performance and interest rate developments over the plan period.
At December 31, 2011, the profitability of the German Division of Gamax was €1.4 million, higher than estimated in the plan (€0.9 million).
The 2012-2015 Plan of the German Division of Gamax is based on the following key assumptions:

- assets under administration growth at an average annual rate of 7.5% in the 2012-2015 period;
- growth in business margin at an average annual rate of 6.2% in the 2012-2015 period;
- increase in general expenses at an average annual rate of 9.5% in the 2012-2015 period.

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

- risk-free rate of 1.9% calculated on the basis of average historical 3-month yields on 10-year German treasuries;
- beta coefficient (risk measure of the stock compared to the market) of 1.10% calculated on the basis of the historical 2-year beta of a panel of comparable entities;
- market premium (i.e. the premium required by investors to buy equities in lieu of risk-free assets) of 5% in line with best professional practice;
- specific risk premium conservatively estimated at 1.0% to take into account underlying uncertainty in the execution of the plan.

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

RECOVERABLE AMOUNT OF BANKHAUS AUGUST LENZ (BAL)

The 2012-2015 Plan of the German Division of Gamax was built on reasonable, consistent assumptions and represents the management best estimates of the possible future business developments of BAL.
The previous plan was updated to incorporate most recent expectations in relation to financial market performance and interest rate developments over the plan period.
At December 31, 2011, BAL contributed to the CGU a loss of €13.1 million which was higher than the loss anticipated in the plan (€6.5 million) as financial income came in negative at €6.3 million. Capital increases completed in 2011 aggregated to €30 million.
The 2012-2015 Plan of BAL is based on the following key assumptions:

- growth in business margin at an average annual rate of 71% in the 2012-2015 period, with growth expected to pick up from the second half of 2013 consistently with estimated scenario development;
- 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 10.9% based on the following parameters:

- risk-free rate of 1.9% calculated on the basis of average historical 3-month yields on 10-year German treasuries;
- beta coefficient (risk measure of the stock compared to the market) of 1.10% calculated on the basis of the historical 2-year beta of a panel of comparable entities;
- market premium (i.e. the premium required by investors to buy equities in lieu of risk-free assets) of 5% in line with best professional practice;
- specific risk premium conservatively estimated at 3.5% to take into account the risk of missing plan targets in the light of negative historical data.

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

CGU ITALY LIFE

The recoverable amount of this CGU is assumed higher than the goodwill allocated to the CGU amounting to €22.7 million. The recoverable amount of this CGU is assumed higher than its carrying amount. The comparison of Mediolanum Sp.A. stock market capitalisation (€2.1 billion – December 2011 monthly average) to its tangible equity (€0.76 billion at December 31, 2011) reveals an implicit multiple of 2.5x, indicating no impairment of goodwill allocated to the CGU Italy Life.

At balance sheet date goodwill was allocated to the following CGUs:

€/m	Dec. 31, 2011	Dec. 31, 2010
CGU Spain	122.8	122.8
CGU Germany	4.3	4.3
CGU ITALY LIFE	22.7	22.7
Other CGUs	0.1	0.1
Total	149.9	149.9

Analysis of intangible assets

	Dec. 31, 2011		Dec. 31, 2010	
€/'000	Finite life	Indefinite life	Finite life	Indefinite life
Goodwill				
- group	-	149,864	-	149,864
Other intangible assets				
Measured at cost	-	-	-	-
Other intangible assets	17,057	-	13,253	-
Total	17,057	149,864	13,253	149,864

Year's movements in intangible assets

	Goodwill	Other intangible assets: internally generated		Other intangible assets other		
€/'000		Finite life	Indefinite life	Finite life	Indefinite life	Total
Opening balance	149,864	-	-	13,253	-	163,117
Increases						
- Additions	-	-	-	14,011	-	14,011
- Other changes	-	-	-	2,528	-	2,528
Decrease						
- Value adjustments	-	-	-	(10,110)	-	(10,110)
- Amortisation	-	-	-	(10,110)	-	(10,110)
- Other changes	-	-	-	(2,625)	-	(2,625)
Closing balance	149,864	-	-	17,057	-	166,921

TANGIBLE ASSETS

Property

€/'000	Dec. 31, 2011	Dec. 31, 2010
Land	31,285	32,179
Buildings	28,776	29,990
Total	60,061	62,169

Altre attività materiali

€/'000	Dec. 31, 2011	Dec. 31, 2010
Furnishings	3,377	4,250
Electronic equipment	4,073	5,395
Other	2,449	2,782
Total	9,899	12,427

For enhanced accurateness an amount of €1,164 thousand was reclassified out of 'Other tangible assets – other' to 'Property – Buildings' in 2010 comparative information.

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

€/'000	Land	Buildings	Furnishings	Electronic equipment	Other	Total
Opening balance	32,179	29,990	4,250	5,395	2,782	74,596
Increases - Additions	-	471	472	508	1,086	2,537
- Capitalised improvements	-	8	-	-	-	8
- Other changes	-	-	205	87	173	465
Decreases						
- Disposals	-	-	(4)	(11)	(442)	(457)
- Depreciation	-	(1,571)	(1,319)	(1,812)	(933)	(5,635)
- Decrease in fair value	(894)	(122)	(18)	(7)	(41)	(1,082)
- Through profit or loss						
- Reclassifications						
- Other changes	-	-	(209)	(87)	(176)	(472)
Closing balance	31,285	28,776	3,377	4,073	2,449	69,960

REINSURERS' SHARE OF TECHNICAL RESERVES

€/'000	Dec. 31, 2011	Dec. 31, 2010
Life business reserves Mathematical reserves	87,566	95,210
Reserves for outstanding claims	1,707	963
Technical reserves for contracts under which the investment risk is borne by policyholders and pension fund management	-	28
Total	89,273	96,201

INVESTMENTS

Investment property

€/'000	Dec. 31, 2011	Dec. 31, 2010
Land	62,028	52,638
Buildings	46,013	38,016
Total	108,041	90,654

The increase in 'Investment Property' reflects the acquisition made in June 2011 by the subsidiary Mediolanum Vita S.p.A of the complex located in Via F. Sforza, Basiglio (Volta and Galileo buildings) for €18,000 thousand (as per Board of Directors resolution of May 5, 2011). The investment is part of the MEDINVEST segregated funds.
At December 31, 2011, the market value of investment property, as determined by external valuers, amounted to €124,270 thousand.

Year's movements in investment property

€/'000	Land	Buildings
Opening balance	52,638	38,016
Increases		
- Additions	9,433	9,322
- Capitalised improvements	-	40
Decreases		
- Disposals	(43)	(18)
- Depreciation	-	(1,347)
Closing balance	62,028	46,013

Investments in associates and joint ventures

€/'000	Dec. 31, 2011	Dec. 31, 2010
Mediobanca S.p.A.	322,955	389,427
Banca Esperia S.p.A.	81,538	57,631
Total	404,493	447,058

The year's movements in investments in associates and joint ventures mainly relate to changes in the value of the Group's stakes in Mediobanca and Banca Esperia that are accounted for by the equity method.
To determine the recoverable amount of its investment in Mediobanca at December 31, 2011, for impairment review purposes, Mediolanum S.p.A requested the assistance of a specialist valuation firm. Recoverable amount was determined using the dividend discount model in the excess capital variant. Due to the lack of a plan approved by the Board of Directors of Mediobanca, the financial projections used for impairment testing were derived from recent research done by financial analysts. The main input assumptions used to determine the recoverable amount of the investment in Mediobanca were:

- discount rate of 9.9%;
- financial analysts estimates to 2014;
- inertial projections to 2019 to incorporate the effects of Basel III;

- 2% long-term growth rate for the calculation of Terminal Value;
- target Tier 1 ratio of 8.5%.

The resulting recoverable amount of the investment in Mediobanca was €11.10 per share. Sensitivity analysis was also performed to test for changes in key assumptions, namely:

- total income/RWA ratio at 3.9% in 2019, in line with analysts' estimates for the last year of the period covered by their analysis (down 5% over base assumption);
- total income/RWA ratio at 4.2% in 2019 (up 5% over base assumption);
- cost of risk at 0.71% in the 2015-2019 period in line with analysts' estimates for the last year of the period covered by their analysis;
- gradual decline in the cost/income ratio to 32.8% in 2019, in line with the average value recorded in the 2007-2009 period.

The recoverable amount of the investment in Mediobanca resulting from the sensitivity analysis described above ranged from €10.30 to €11.70 per share.

In the light of the results of the exercises above, the Board of Directors of Mediolanum S.p.A. resolved to proceed to write down the carrying amount of the stake in Mediobanca from €12.51 per share to €11.10 per share. This entailed the recognition of an impairment charge of €41.1 million in the consolidated accounts for the year ended December 31, 2011.

Excluding the impairment charge above, the impact on the income statement of investments accounted for by the equity method was a positive balance of €6.5 million versus a positive balance of €14.4 million in the prior year.

Year's movements in investments in associates and joint ventures

€/'000	Dec. 31, 2011
Opening balance	447,058
Banca Esperia:	
- Purchases	25,000
- Net profit	715
- Net loss	-
- Change in equity	(1,808)
Mediobanca:	
- Net profit	5,829
- Net loss	-
- Impairment	(41,126)
- Change in equity	(31,175)
Closing balance	404,493

Held-to-maturity investments

€/'000	Dec. 31, 2011	Dec. 31, 2010
Debt securities	1,005,949	1,370,695
Total	1,005,949	1,370,695
Fair value	990,324	1,362,849

Fair Value Analysis of Held-to-maturity investments

	Dec. 31, 2011				Dec. 31, 2010			
€/'000	Value	Level 1	Level 2	Level 3	Value	Level 1	Level 2	Level 3
Debt securities	1,005,949	450,593	534,846	4,885	1,370,695	465,022	897,827	-
Loans	-	-	-	-	-	-	-	-
Total	1,005,949	450,593	534,846	4,885	1,370,695	465,022	897,827	-

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

€/'000	Dec. 31, 2011	Dec. 31, 2010
Debt securities		
Governments and Central Banks	280,936	307,925
Government agencies	32,036	-
Banks	692,977	1,062,770
Total	1,005,949	1,370,695

Time-to-maturity of held-to-maturity investments

€/'000	Dec. 31, 2011	Dec. 31, 2010
Time to maturity		
1-5 years	809,412	1,097,779
5-10 years	91,473	169,116
Over 10 years	105,064	103,800
Total	1,005,949	1,370,695

Loans and receivables

€/'000	Dec. 31, 2011	Dec. 31, 2010
Banks	1,866,543	1,751,830
Banking customers	4,370,481	4,423,114
Other	8,860	9,367
Total	6,245,884	6,184,311

Time-to-maturity of loans and receivables

€/'000	Dec. 31, 2011	Dec. 31, 2010
Time-to-maturity		
Within 1 year	1,891,855	1,414,689
1-5 years	1,236,076	1,937,264
Over 10 years	3,117,953	2,832,358
Total	6,245,884	6,184,311

Loans and receivables: banks

€/'000	Dec. 31, 2011	Dec. 31, 2010
Deposits with Central Banks		
- Time deposits	50,001	-
- For reserve requirements	80,352	13,352
Loans to banks		
- Time deposits	163,080	91,084
- Repurchase agreements	313,058	357,077
- Other loans	17,145	46,246
- Debt securities	1,242,907	1,244,071
Total	1,866,543	1,751,830
Fair value	*2.103.289*	*2,487,809*

Loans and receivables: banking customers

€/'000	Dec. 31, 2011	Dec. 31, 2010
Bank accounts	380,697	348,324
Repurchase agreements	9,884	99,965
Mortgage loans	2,583,084	2,279,360
Credit cards, personal loans and salary-guaranteed loans	271,299	190,741
Finance leases	51	337
Other	188,744	468.,422
Debt securities	936,722	1,035,965
Total	4,370,481	4,423,114
Fair value	*4,430,236*	*4,504,418*

The €52.6 million decline in the balance of 'Loans and receivables: banking customers' at December 31, 2011 relates to debt securities (down €99.3 million) and other transactions ('other') (down €279.7 million), primarily deposits with *Cassa Compensazione e Garanzia*, while mortgage loans were up €303.7 million.

Loans and receivables – banking customers – analysis by borrower/issuer

€/'000	Dec. 31, 2011	Dec. 31, 2010
Debt securities		
Governments	501,420	601,467
Government agencies	100,917	101,060
Other issuers		
- non financial companies	-	-
- financial companies	334,385	333,438
Loans		
Government agencies	25	-
Others		
- non financial companies	95,569	75,718
- financial companies	143,425	475,094
- insurance companies	1,430	685
- others	3,193,310	2,835,652
Total	4,370,481	4,423,114

Available-for-sale financial assets

€/'000	Dec. 31, 2011	Dec. 31, 2010
Debt securities	8,847,747	4,444,365
Equities	34,387	32,803
Holdings in UCITS	180,272	182,419
Total	9,062,406	4,659,587

Available-for-sale financial assets increased by €4,402.8 million, primarily reflecting purchases of government securities.

Fair value hierarchy of available-for-sale financial assets

	Dec. 31, 2011			Dec. 31, 2010		
€/'000	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Debt securities	8,374,279	434,897	38,571	4,258,612	185,753	-
Equities	3,524	16,165	14,698	4,732	16,142	11,929
Holdings in UCITS	9,577	113,846	56,849	-	120,697	61,722
Total	8,387,380	564,908	110,118	4,263,344	322,592	73,651

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

€/'000	Dec. 31, 2011	Dec. 31, 2010
Debt securities		
- Governments and Central Banks	7,017,197	2,669,896
- Government agencies	-	-
- Banks	1,800,980	1,707,546
- Other issuers	29,570	66,923
Equities		
- Banks	-	153
- Other issuers	34,387	32,650
Holdings in UCITS	180,272	182,419
Total	9,062,406	4,659,587

Time-to-maturity of available-for-sale financial assets

€/'000	Dec. 31, 2011	Dec. 31, 2010
Time-to-maturity		
1-5 years	7,748,641	3,439,172
5-10 years	905,478	907,299
Over 10 years	140,253	96,890
Indefinite	268,034	216,226
Total	9,062,406	4,659,587

Financial assets at fair value through profit or loss

€/'000	Dec. 31, 2011	Dec. 31, 2010
Financial assets held for trading		
Debt securities	2,883,613	3,948,561
Equities	3	6
Holdings in UCITS	18,773	19,239
Trading derivatives	5,527	7,035
Total	2,907,916	3,974,841
Financial assets at fair value		
Debt securities	3,796,258	4,907,791
Holdings in UCITS	8,935,348	9,215,139
Trading derivatives	12,731,606	14,122,930
Total	15,639,522	18,097,771

Fair value hierarchy of financial assets at fair value through profit or loss

	Dec. 31, 2011			Dec. 31, 2010		
€/'000	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets held for trading						
Debt securities	2,752,145	113,164	18,304	3,861,285	80,310	6,966
Equities	3	-	-	6	-	-
Holdings in UCITS	-	9	18,764	174	-	19,065
Loans	-	-	-	-	-	-
Trading derivatives	9	2,830	2,688	16	4,665	2,354
Total	2,752,157	116,003	39,756	3,861,481	84,975	28,385
Financial assets at fair value						
Debt securities	275,791	2,729,354	791,113	271,346	3,630,972	1,005,473
Equities	-	-	-	-	-	-
Holdings in UCITS	8,776,201	159,147	-	9,051,849	163,290	-
Loans	-	-	-	-	-	-
Trading derivatives	-	-	-	-	-	-
Total	9,051,992	2,888,501	791,113	9,323,195	3,794,262	1,005,473
Financial assets at fair value through profit or loss	11,804,149	3,004,504	830,869	13,184,676	3,879,237	1,033,858

Analysis of financial assets held for trading by debtor/issuer

€/'000	Dec. 31, 2011	Dec. 31, 2010
Non derivatives		
Debt securities		
- Governments and Central Banks	1,163,313	1,320,967
- Government agencies	19	-
- Banks	529,043	735,620
- Other issuers	1,191,238	1,891,974
Equities		
- Banks	1	-
- Other issuers	2	6
Holdings in UCITS	18,773	19,239
Total non derivatives	2,902,389	3,967,806
Derivatives		
- Banks	5,516	4,595
- Customers	11	2,440
Total derivatives	5,527	7,035
Total	2,907,916	3,974,841

Analysis of financial assets at fair value by debtor/issuer

€/'000	Dec. 31, 2011	Dec. 31, 2010
Debt securities		
- Governments and Central Banks	149,058	25,425
- Banks	3,642,279	3,228,328
- Other issuers	4,926	1,654,038
Holdings in UCITS	8,935,343	9,215,139
Total	12,731,606	14,122,930

Non-current assets and disposal groups

'Non-current assets and disposal groups' amounted to €747 thousand. This account includes all balance-sheet assets relating to Partner Time S.p.A. which is in liquidation (FY 2010: €1,464 thousand).

Deferred tax assets

€/'000	Dec. 31, 2011	Dec. 31, 2010
Charge to the income statement	107,741	98,971
Charge to equity	144,460	40,014
Total	252,201	138,985

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

€/'000	Dec. 31, 2011	Dec. 31, 2010
Opening balance	98,971	84,736
Increases		
Deferred tax assets arisen in the year		
- relating to prior years	96	130
- changes in the accounting policies	1,509	3,140
- other	37,613	23,079
New taxes or increased tax rates	1,452	-
Other increases	3,785	2,188
Decreases		
Deferred tax assets cancelled in the year		
- reversals	(12,448)	(3,545)
- changes in the accounting policies		-
Other decreases	(23,237)	(10,757)
Closing balance	107,741	98,971

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

€/'000	Dec. 31, 2011	Dec. 31, 2010
Opening balance	40,014	14,460
Increases		
Deferred tax assets arisen in the year	-	-
- other	153,453	38,836
New taxes or increased tax rates	466	-
Decreases		
Deferred tax assets cancelled in the year		
- reversals	(24,974)	(13,024)
- irrecoverable amounts	-	-
- changes in accounting policies	-	(258)
- other	(24,499)	
Reduced tax rates	-	-
Other decreases	-	-
Closing balance	144,460	40,014

Analysis of deferred tax assets

€/'000	Dec. 31, 2011	Dec. 31, 2010
Charge to the income statement	107,741	98,971
provisions for risks and charges	47,733	39,667
loan loss provision	5,605	5,592
expenses deductible in future years	9,115	8,798
taxed income relating to future years	10	104
other	45,278	44,810
Charge to equity	144,460	40,014
fair value measurement of AFS securities	144,460	40,014
Total	252,201	138,985

Other Assets

€/'000	Dec. 31, 2011	Dec. 31, 2010
Items in transit - lending	151,528	114,075
Due from tax authorities	38,631	42,794
Security deposits	5,867	6,269
Receivables from financial advisors	52,025	55,881
Advances to suppliers and professionals	7,241	7,922
Other receivables	31,561	33,779
Prepayments	4,764	4,206
Others	12,306	13,096
Total	303,923	278,022

SHAREHOLDERS' EQUITY AND LIABILITIES

EQUITY

€/'000	Dec. 31, 2011	Dec. 31, 2010
Share capital	73,382	73,288
Capital reserves	56,013	55,087
Retained earnings and other equity reserves	847,716	710,729
(Treasury shares)	(2,045)	(2,045)
Gains (losses) on available-for-sale financial assets	(283,184)	(69,833)
Other gains (losses) recognised directly in equity	3,201	22,301
Group's profit (loss) for the year	67,267	246,633
Group's capital and reserves	762,350	1,036,160

At December 31, 2011 the Group's capital and reserves amounted to €762.4 million versus €1,036.2 million the prior year.

At year end 2011, the AFS Reserve was down €213.4 million to a negative balance of €283.2 million in 2011 from a negative balance of €69.8 million in 2010.

Share capital was fully paid up and amounted to €73,381,936.6, divided into 733,819,366 ordinary shares. Treasury shares amounted to 385,000.

There were no equity holders other than the Group. For information on movements in the year, readers are referred to the Statement of Changes in Shareholders' Equity herein.

Gain (Losses) on Available-for-Sale Financial Assets

	Dec. 31, 2011		Dec. 31, 2010	
€/'000	Gains	Losses	Gains	Losses
Debt securities	3,634	(284,419)	16,911	(91,025)
Equities	199	(3)	523	(1)
Holdings in UCITS	87	(2,682)	4,333	(574)
Total	3,920	(287,104)	21,767	(91,600)

Shadow Accounting

Shadow accounting is used to mitigate the effects of stocks volatility on equity and earnings.

The unrealised net losses posted at December 31, 2011 entailed the release of the shadow accounting reserve amounting to €8,863 thousand after taxation recognised at December 31, 2010.

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

€/'000	Debt securities	Equities	Holdings in UCITS	Total
Opening balance	(74,114)	522	3,759	(69,833)
Increases				
Increase in fair value	3,905	5	123	4,033
Reclassification to the income statement from reserves:				
- impairment	44,053	212	1,953	46,218
- realised gains	2,705	-	-	2,705
other increases	466	-	-	466
Decreases				
Decrease in fair value	(248,469)	(463)	(8,380)	(257,312)
Reclassification to the income statement from reserves: - realised losses	(195)	-	(2)	(197)
Other decreases	(9,136)	(80)	(48)	(9,264)
Closing balance	(280,785)	196	(2,595)	(283,184)

Net profit for the year attributable to the Group

Earnings per share on continuing operations

	Dec. 31, 2011	Dec. 31, 2010
€/'000	Total	Total
Profit for the year	193,174	231,126
Weighted average number of shares outstanding	733,350	732,140
Earnings per share (in euro)	0.263	0.316

Earnings per share

	Dec. 31, 2011	Dec. 31, 2010
€/'000	Total	Total
Profit for the year	67,267	246,633
Weighted average number of shares outstanding	733,350	732,140
Earnings per share (in euro)	0.092	0.337

Diluted earnings per share

	Dec. 31, 2011	Dec. 31, 2010
€/'000	Total	Total
Profit for the year	67,267	246,633
Weighted average number of shares outstanding	733,350	732,140
Adjustments for stock options with potential dilution effect	4,050	2,645
Weighted average number of shares outstanding for diluted earnings per share	737,400	734,785
Diluted earnings per share (in euro)	0.091	0.336

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

€/'000	Capital & reserves	Net Profit	Shareholders' Equity
Parent Company Accounts at Dec. 31, 2011	483,306	159,592	642,898
Successive changes in carrying amount and equity of companies consolidated on a line-by-line basis	(145,939)	230,058	84,119
Differences on investments accounted for by the equity method	39,851	(8,665)	31,186
Intercompany dividends	312,740	(312,740)	-
Elimination of intercompany transactions effects	(2,103)	(19)	(2,122)
Amortisation of greater value attributed to property on the date of acquisition of investments consolidated on a line-by-line basis	6,550	(166)	6,384
Other	678	(793)	(115)
Parent Company accounts at Dec. 31, 2011	695,083	67,267	762,350

PROVISIONS

€/'000	Dec. 31, 2011	Dec. 31, 2010
Provision for tax claims	46	84
Other provisions	160,647	138,217
Total	160,693	138,301

Analysis of other provisions

€/'000	Dec. 31, 2011	Dec. 31, 2010
Provision for other completion-of-service entitlements and similar obligations	1,402	1,310
Provision for sales network benefits	84,668	69,722
Provision for risks related to sales network's illegal actions	40,627	36,151
Other provisions for risks and charges	33,950	31,034
Total	160,647	138,217

Year's movements in provisions

€/'000	Tax claims	Other provisions
Opening balance	84	138,217
Increases		
- Year's provision	35	51,152
- Other increases	-	21
Decreases		
- Funds utilised in the year	(73)	(11,419)
- Other decreases	-	(17,324)
Closing balance	46	160,647

TECHNICAL RESERVES

€/'000	Dec. 31, 2011	Dec. 31, 2010
Mathematical reserves	5,755,113	6,298,296
Reserve for outstanding claims	134,529	117,002
Technical reserves for contracts under which the investment risk is borne by the policyholder and relating to pension fund management	12,735,460	14,123,807
Other reserves	7,173	11,642
Total life business reserves	18,632,275	20,550,747

FINANCIAL LIABILITIES

Financial liabilities at fair value through profit and loss

€/'000	Dec. 31, 2011	Dec. 31, 2010
Financial liabilities held for trading		
Short positions on debt securities	320,066	443,605
Trading derivatives	21,087	20,883
Other financial liabilities	192	164
Total financial liabilities held for trading	341,345	464,652

Financial liabilities at fair value

Liabilities arising on financial contracts issued by insurance companies:		
- under which the investment risk is borne by the policyholder	80,383	77,446
Hedging derivatives	67,896	28,510
Total financial liabilities at fair value	148,279	105,956
Total financial liabilities at fair value through profit or loss	489,624	570,608

At year end 2011, **financial liabilities at fair value through profit or loss** amounted to €489.6 million versus €570.6 million at December 31, 2010.

The €81.0 million decline mainly related to reduced short positions on debt securities held by Banca Mediolanum at the end of the period (down €123.5 million).

Fair Value hierarchy of financial liabilities at fair value through profit and loss

	Dec. 31, 2011				Dec. 31, 2010			
€/'000	Total	L1	L2	L3	Total	L1	L2	L3
Financial liabilities held for trading								
Short positions on debt securities	320,066	320,066	-	-	443,605	443,605	-	-
Trading derivatives	21,087	-	17,226	3,861	20,883	2	15,188	5,693
Securities issued	-	-	-	-	-	-	-	-
Other financial liabilities	192	-	192	-	164	-	164	-
Total	341,345	320,066	17,418	3,861	464,652	443,607	15,352	5,693
Financial liabilities at fair value								
Liabilities arising on financial contracts issued by insurance companies:								
- under which the investment risk is borne by the policyholder	80,383	27,839	52,544	-	77,446	34,523	42,846	77
- in connection with pension fund management	-	-	-	-	-	-	-	-
Hedging derivatives	67,896	-	67,896	-	28,510	-	28,510	-
Total	148,279	27,839	120,440	-	105,956	34,523	71,356	77
Total financial liabilities at fair value through profit or loss	489,624	347,905	137,858	3,861	570,608	478,130	86,708	5,770

Other financial liabilities

€/'000	Dec. 31, 2011	Dec. 31, 2010
Banks	5,602,538	2,756,794
Banking customers	6,942,439	6,468,977
Securities issued	524,884	340,479
Deposits from reinsurers	87,565	95,210
Collaterals	197,143	215,607
Other	14,970	-
Total	13,369,539	9,877,067

The analysis of 'amounts due to banks' shows that amounts due to central banks, demand deposits and repurchase agreements increased by €3,083.8 million, €6.4 million and €52.2 million respectively.
They almost entirely related to Banca Mediolanum like time deposits which instead declined €142.5 million.

Amounts due to banking customers amounted to €6,942 million versus €6,469 million in the prior year. The increase relates to Banca Mediolanum time deposits amounting to €1,097 million (vs. €330 million at December 31, 2010), offset, in part, by the decrease in repurchase agreements also mostly relating to Banca Mediolanum which amounted to €879 million (vs. €1,822 million at December 31, 2011).
Securities issued consisted of €123 million subordinated notes issued by Banca Mediolanum, €162.6 million bonds issued by Banca Mediolanum and €239.1 million bonds issued by the parent company Mediolanum S.p.A.

At the end of the year under review, Mediolanum Vita and Mediolanum International Life had €197.1 million liabilities on collaterals received (215.6 million at December 31, 2010) under derivative contracts whose risk is borne by said companies' policyholders.

Financial liabilities: Banks

€/'000	Dec. 31, 2011	Dec. 31, 2010
Central banks	4,494,571	1,410,786
Other banks		
- Demand deposits	177,686	171,303
- Time deposits	340,930	483,456
- Loans	401,215	555,470
- Repurchase agreements	187,116	134,922
- Other liabilities	1,020	857
Total	5,602,538	2,756,324

For enhanced accurateness an amount of €470 thousand was reclassified out of 'Accrued expenses' to 'Loans' in 2010 comparative information.

Time-to-maturity of amounts due to banks

€/'000	Dec. 31, 2011	Dec. 31, 2010
Time to maturity		
Within 1 year	3,602,038	2,756,794
1-5 years	2,000,500	-
Total	5,602,538	2,756,794

The item "Financial liabilities: Banks" largely related to financial liabilities maturing within one year.

Financial liabilities: Banking customers

€/'000	Dec. 31, 2011	Dec. 31, 2010
Bank accounts	5,992,339	4,551,646
Repurchase agreements	923,457	1,885,375
Other liabilities	26,643	31,956
Total	6,942,439	6,468,977

PAYABLES

Other Payables

€/'000	Dec. 31, 2011	Dec. 31, 2010
Employee completion-of-service entitlements	10,427	10,746
Payables to suppliers	121,656	135,773
Due to tax authorities	58,812	66,770
Other miscellaneous payables	26,743	28,647
Total	217,638	241,936

Year's movements in employee completion-of-service entitlement

€/'000	Dec. 31, 2011
Opening balance	10,746
Increases	
- Amounts set aside in the year	5,648
- Other increases	101
Decreases	
- Funds used in the year	(5,756)
- Other decreases	(312)
Closing balance	10,427

Other miscellaneous payables

€/'000	Dec. 31, 2011	Dec. 31, 2010
Mediolanum Group associates	675	754
Social security agencies	5,182	5,262
Consultants, professionals, directors and statutory auditors	3,624	3,803
Companies within the Fininvest Group and the Doris Group	2,937	1,263
Employees	1,463	3,607
Tax payable by policyholders	970	1,096
Other	11,892	12,862
Total	26,743	28,647

OTHER LIABILITIES

Deferred tax liabilities

€/'000	Dec. 31, 2011	Dec. 31, 2010
Charge to the income statement	39,025	45,127
Charge to equity	1,993	6,805
Total	41,018	51,932

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

€/'000	Dec. 31, 2011	Dec. 31, 2010
Opening balance	(45,127)	(30,568)
Increases		
Deferred tax liabilities arisen in the year		
- other	(3,617)	(15,049)
Other increases	(2,194)	-
Decreases		
Deferred tax liabilities cancelled in the year		
- reversal	1,945	130
- other	9,965	360
Other decreases	4	-
Closing balance	(39,025)	(45,127)

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

€/'000	Dec. 31, 2011	Dec. 31, 2010
Opening balance	(6,805)	(19,325)
Increases		
Deferred tax liabilities arisen in the year		
- other	(3,686)	(6,347)
New taxes or increased tax rates	(51)	
Other increases	(2)	-
Decreases		
Deferred tax liabilities cancelled in the year		
- reversals	5,427	16,726
- other	3,085	1,429
Other decreases	39	712
Closing balance	(1,993)	(6,805)

Analysis of deferred tax liabilities

€/'000	Dec. 31, 2011	Dec. 31, 2010
Charge to the income statement	39,025	45,127
income taxable in future years	38,646	44,745
future expenses deductible in the year	215	219
deducted expenses relating to future years	164	163
Charge to equity	1,993	6,805
fair value measurement of AFS securities	1,993	6,805
Total	41,018	51,932

Liabilities associated with disposal groups held for sale

The balance of this account amounting to €968 thousand includes all liabilities relating to the investment in Partner Time S.p.A. that is under liquidation (FY 2010: €730 thousand).

Other liabilities

€/'000	Dec. 31, 2011	Dec. 31, 2010
Items in transit - lending	233,725	102,791
Provision for staff costs	6,744	8,542
Agents' severance benefits	3,528	3,693
Security deposits	4,171	3,890
Accrued expenses	18,118	13,490
Other	8,671	10,459
Total	274,957	142,865

For enhanced accurateness an amount of €470 thousand was reclassified out of 'Accrued expenses' to 'Loans' in 2010 comparative information.

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

PART D - INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

TECHNICAL ACCOUNT - LIFE INSURANCE

As of December 31, 2011

€/'000	Gross	Reinsurance	Net
Gross premiums written less reinsurance premiums - Premiums written	9,547,764	(4,347)	9,543,417
Total premiums written	9,547,764	(4,347)	9,543,417
Gross amounts paid less recoveries from reinsurers			
- Amounts paid	(10,949,749)	12,368	(10,937,381)
- Change in reserve for outstanding claims	(17,527)	744	(16,783)
- Change in mathematical reserves	539,971	(7,644)	532,327
- Change in other technical reserves	17,494	-	17,494
- Change in technical reserves for contracts under which the investment risk is borne by the policyholder and reserves relating to pension fund management	1,368,059	-	1,368,059
Total amounts paid & change in technical reserves	(9,041,752)	5,468	(9,036,284)
Life Insurance net income (expense)	506,012	1,121	507,133

As of December 31, 2010

€/'000	Gross	Reinsurance	Net
Gross premiums written less reinsurance premiums - Premiums written	9,128,240	(4,693)	9,123,547
Total premiums written	9,128,240	(4,693)	9,123,547
Gross amounts paid less recoveries from reinsurers			
- Amounts paid	(9,536,934)	10,012	(9,526,923)
- Change in reserve for outstanding claims	38,976	392	39,368
- Change in mathematical reserves	(462,402)	(4,468)	(466,870)
- Change in other technical reserves	33,401	-	33,401
- Change in technical reserves for contracts under which the investment risk is borne by the policyholder and reserves relating to pension fund management	(230,121)	-	(230,121)
Total amounts paid & change in technical reserves	(10,157,080)	5,936	(10,151,144)
Life Insurance net income (expense)	(1,028,840)	1,243	(1,027,597)

Gross premiums written

€/'000	Dec. 31, 2011	Dec. 31, 2010
Gross premiums written	-	-
Class III products	1,584,493	1,563,650
Traditional products	7,963,271	7,564,590
Total gross premiums written	9,547,764	9,128,240

COMMISSION INCOME

€/'000	Dec. 31, 2011	Dec. 31, 2010
Guarantees issued	88	142
Management, brokerage and consulting services:	684,389	733,029
- Financial instruments brokerage	2,690	3,261
- Currency brokerage	1	1
- Asset management	571,357	602,950
- individual portfolio management	4,816	5,385
- collective portfolio management	566,541	597,565
- Securities in custody and under administration	4,698	4,098
- Custodian bank	567	561
- Sales of securities	28,007	45,676
- Order taking	5,902	5,709
- Consultancy	-	1
- Services to third parties	71,167	70,772
- Asset management	216	241
- collective portfolio management	216	241
- insurance products	61,884	59,743
- other products	9,067	10,788
Collection and payment services	29,654	43,468
Loadings on investment contracts	384	375
Other services	38,005	36,350
Total	752,520	813,364

Commission income for the period amounted to €752.5 million versus €813.4 million in 2010. The €60.8 million decline mainly reflects the decrease in performance fees earned in the year, and, in part, the decrease in commissions on sales of third-party structured bonds.

COMMISSION EXPENSES

€/'000	Dec. 31, 2011	Dec. 31, 2010
Management, brokerage and consulting services:	206,045	223,629
- Financial instruments brokerage	2,216	2,488
- Asset management	3,221	3,538
- Securities in custody and under administration	908	1,076
- Sales of securities	1,858	2,412
- Off-premises sales of securities, products and services	197,842	214,115
Collection and payment services	29,982	40,034
Commissions on the acquisition of investment contracts	182	953
Other services	26,510	23,448
Total	262,719	288,064

Commission expenses for the period amounted to €262.7 million versus €288 million in the prior year. The €25.4 million decrease is in connection with reduced bonuses and incentives paid to the sales network.

NET INCOME FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

€/'000	Dec. 31, 2011	Dec. 31, 2010
Financial assets		
Interest income and other investment income		
- from financial assets held for trading	86,370	87,340
- from financial assets at fair value	106,306	160,221
Net income from financial assets held for trading	(67,715)	(19,066)
Net income from financial assets at fair value	(753,343)	794,011
Financial liabilities		
Interest expense and similar charges		
- from financial liabilities held for trading	(15,038)	(17,653)
- from financial liabilities at fair value	(415)	(500)
Net income from financial liabilities held for trading	(1,520)	9,350
Net income from financial liabilities at fair value	44,248	(19,700)
Total	(601,107)	994,003

This account shows a negative balance of €601.1 million (positive balance of €994 million in FY 2010).

Net income from financial instruments held for trading came in negative at €69,235 thousand (negative balance of €9,716 thousand in FY 2010), mainly reflecting the negative contribution (€55.7 million) of debt securities due to the poor financial market performance in 2011.

Net income from financial instruments at fair value came in negative at €709,095 thousand (positive balance of €774,311 thousand in FY 2010) mainly due to changes in the value of assets underlying index-linked and unit-linked policies under which the investment risk is entirely borne by the policyholders.

Analysis of net income from financial assets held for trading through profit or loss

€/'000	Unrealised gains (A)	Realised trading profits (B)	Unrealised losses (C)	Realised losses (D)	Net income [(A+B)-(C+D)]
Financial assets held for trading					
Debt securities	15,919	21,034	(78,381)	(12,730)	(54,158)
Equities	-	13	(8)	(38)	(33)
Holdings in UCITS	62	2	(28)	(110)	(74)
Other financial assets and liabilities: exchange differences	-	-	-	-	74
Derivatives					
Financial derivatives					
- debt securities & interest rates	107	26,706	(10,477)	(32,142)	(15,806)
- equities & stock indices	-	26	-	(31)	(5)
- currencies and gold	-	-	-	-	2,328
- other	-	118	-	(159)	(41)
Total	16,088	47,899	(88,894)	(45,210)	(67,715)

Analysis of net income from financial assets at fair value through profit or loss

€/'000	Unrealised gains (A)	Realised trading profits (B)	Unrealised losses (C)	Realised losses (D)	Net income [(A+B)-(C+D)]
Debt securities	53,253	24,296	(267,126)	(15,280)	(204,857)
Equities	-	-	-	-	-
Holdings in UCITS	118,632	7,228	(578,265)	(92,268)	(544,673)
Loans	35,589	-	-	-	35,589
Helding derivatives	-	-	(39,402)	-	(39,402)
Total	207,474	31,524	(884,793)	(107,548)	(753,343)

Net income from financial liabilities at fair value through profit or loss

Net income from financial liabilities at fair value through profit or loss amounted to €44,248 thousand (vs. a negative balance of €19,700 thousand at December 31, 2010), and related exclusively to profits/losses on investment contracts issued by the Group insurance companies.

Analysis of net income from financial liabilities held for trading

€/'000	Unrealised gains (A)	Realised trading profits (B)	Unrealised losses (C)	Realised losses (D)	Net income [(A+B)-(C+D)]
Debt securities	1,982	9,738	(8,643)	(4,597)	(1,520)
Total	1,982	9,738	(8,643)	(4,597)	(1,520)

INCOME ON INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

At year end 2011, income on investments in associates and joint ventures that are accounted for under the equity method aggregated to €6,544 thousand, of which €715 thousand (FY 2010: €816 thousand) on the investment in Banca Esperia S.p.A and €5,829 thousand (FY 2010: €13,571 thousand) on the investment in Mediobanca S.p.A..

LOSS ON INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The €41,126 thousand loss reported in this line item at December 31, 2011 relates to the impairment charge recognised on the stake in Mediobanca S.p.A., which is accounted for under the equity method, following impairment review as a result of which the carrying amount of this investment was written down from €12.51 per share to €11.10 per share.

Income (loss) on other financial instruments and investment property

€/'000	Dec. 31, 2011	Dec. 31, 2010
Interest income and other income	456,505	300,015
Realised gains	24,720	62,803
Unrealised gains	5,412	9,566
Total income	486,637	372,384
Interest expense and similar charges	(149,492)	(73,819)
Realised losses	(27,378)	(15,899)
Unrealised losses	(137,311)	(28,246)
Total charges	(314,181)	(117,964)
Total net investment income	172,456	254,420

Analysis of net investment income

€/'000	Dec. 31, 2011	Dec. 31, 2010
Investment property	5,645	5,034
Available for sale financial assets	92,798	117,598
Held to Maturity Investments	36,556	51,071
Loans and Receivables	186,490	154,204
Other	(149,033)	(73,487)
Total	172,456	254,420

Analysis of net income from investment property

€/'000	Dec. 31, 2011	Dec. 31, 2010
Realised gains	48	-
Other income	7,403	6,567
Other expenses	(459)	(332)
Unrealised losses	(1,347)	(1,201)
Total net income from investment property	5,645	5,034

Analysis of net income from held-to-maturity investments

€/'000	Dec. 31, 2011	Dec. 31, 2010
Interest income and other income	51,010	51,071
Realised gains	1,046	-
Unrealised losses	(15,500)	-
Total net income from HTM investments	36,556	51,071

The €15.5 million unrealised losses relate to impairment of Banca Mediolanum's Greek sovereign debt holdings (cf. Directors' Report).

Analysis of net income from available-for-sale financial assets

€/'000	Dec. 31, 2011	Dec. 31, 2010
Interest income and other income	205,642	110,024
Realised gains	23,360	31,226
Unrealised losses	158	-
Realised losses	(27,307)	(15,825)
Unrealised losses	(109,055)	(7,827)
Total net income from AFS financial assets	92,798	117,598

The €109.1 million unrealised losses mainly relate to impairment of Greek sovereign debt holdings, of which €68 million recognised by Banca Mediolanum and €39 million by Mediolanum Vita (cf. Directors' Report).

Analysis of Loans and Receivables

€/'000	Dec. 31, 2011	Dec. 31, 2010
Interest income and other income	192,450	132,353
Realised gains	266	31,577
Unrealised gains	5,254	9,566
Realised losses	(71)	(74)
Unrealised losses	(11,409)	(19,218)
Total net income from loans and receivables	186,490	154,204

Analysis of net income from financial liabilities

€/'000	Dec. 31, 2011	Dec. 31, 2010
Interest expense and other charges	(149,033)	(73,487)
Total	(149,033)	(73,487)

OTHER REVENUES

€/'000	Dec. 31, 2011	Dec. 31, 2010
Fixed duties on insurance products	11,064	12,247
Recoveries of expenses on contracts and services rendered	1,490	1,356
Other	8,423	11,452
Total	20,977	25,055

OPERATING EXPENSES

€/'000	Dec. 31, 2011	Dec. 31, 2010
Agents' Commissions and other acquisition costs	73,726	78,870
Investment management expenses	513	253
Other administrative expenses		
Employees	143,942	145,549
Advertising and promotions	25,418	22,783
Advisory services and collaborations	22,612	22,885
IT systems	54,234	49,413
Miscellaneous communications services	20,894	21,333
Other general expenses	62,478	59,192
Total other administrative expenses	329,578	321,155
Total	403,817	400,278

For enhanced accurateness, in 2010 comparative information, an amount of €677 thousand was reclassified out of 'Employees' to 'Other general expenses'. The reclassified amount relates to items such as medical expenses, travel expenses including mileage.

Average number of employees by category

Number	Dec. 31, 2011	Dec. 31, 2010
Employees:		
Senior management	101	100
Middle management	236	257
Other employees	1,717	1,706
Total employees	2,054	2,063
Other personnel	20	6
Total	2,074	2,069

OTHER COSTS

€/'000	Dec. 31, 2011	Dec. 31, 2010
Employees	2,787	3,956
Amortisation of intangible assets	10,110	9,079
Depreciation of investment property and other assets	5,634	8,377
Provisions for risks and charges	34,116	35,684
Other miscellaneous expenses	13,675	22,731
Total	66,322	79,827

Net Provisions for risks and charges

€/'000	Dec. 31, 2011	Dec. 31, 2010
Provision for sales network benefits	24,506	22,759
Provision for risks related to financial advisors' illegal actions	7,823	9,676
Other provisions for risks and charges	1,787	3,249
Total	34,116	35,684

INCOME TAX

€/'000	Dec. 31, 2011	Dec. 31, 2010
Current taxes (-)	(32,779)	(57,923)
Change in prior years' current taxes (+/-)	10	(2)
Change in deferred tax assets (+/-)	15,601	4,647
Change in deferred tax liabilities (+/-)	216	(5,497)
Income tax charge for the year (-)	(16,952)	(58,775)

Reconciliation between the theoretical tax rate and the effective tax rate

€/'000	Dec. 31, 2011	Dec. 31, 2010
Theoretical tax rate - IRES and equivalent taxes	16.72%	13.48%
Profit before tax	84,267	305,408
Theoretical tax	14,088	41,172
Taxable income	(9,928)	5,239
Other adjustments	672	789
Tax expense - Ires & equivalent taxes	4,832	47,200
Effective tax rate Ires & equivalent taxes	5.73%	15.45%
Total tax expense	16,952	58,775
Total effective tax rate	20.12%	19.24%

PART E - SEGMENTAL INFORMATION

Segment reporting

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.
To ensure utmost consistency of data and comparability with data at December 31, 2009, in accordance with IFRS 8, the Group reclassified prior year's data as per the new segment reporting approach.

Note on the method applied to segment reporting

Pursuant to IFRS 8, for the purpose of segment reporting of consolidated results the Mediolanum Group identified the following operating segments:

- ITALY – LIFE
- ITALY – ASSET MANAGEMENT
- ITALY – BANKING
- ITALY – OTHER
- 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.

Reconciliation of the income statement at December 31, 2011 to the reclassified income statement

€/'000	Consolidated income statements
1.1 Net premiums written	
1.1.1 Gross premiums written	9,547,764
1.1.2 Reinsurance premiums	(4,347)
Total premiums written	9,543,417
1.2 Commission income	752,520
1.3 Net income on financial instruments at fair value through profit or loss	(601,107)
1.4 Income on investments in subsidiaries, associates and joint ventures	6,544
1.5 Income on other financial instruments and investment propertY	
1.5.1 Interest income	445,626
1.5.2 Other income	10,879
1.5.3 Realised gains	24,720
1.5.4 Unrealised gains	5,412
Total income on other financial instruments and investment property	486,637
1.6 Other revenues	20,977
Total revenues	10,208,988
2. Costs	
2.1 Net claims and benefits	
2.1.1 Amounts paid and change in technical reserves	(9,041,752)
2.1.2 Reinsurers' share	5,468
Net claims and benefits	(9,036,284)
2.2 Commission expense	(262,719)
2.3 Loss on other investments in subsidiaries, associates and joint ventures	(41,126)
2.4 Loss on other financial instruments and investment property	
2.4.1 Interest expense	(149,033)
2.4.2 Other expenses	(459)
2.4.3 Realised losses	(27,378)
2.4.4 Unrealised losses	(137,311)
Loss on other financial instruments and investment property	(314,181)
2.5 Operating expenses	
2.5.1 Agents' commissions and other acquisition costs	(73,726)
2.5.2 Investment management costs	(513)
2.5.3 Other administrative expenses	(329,578)
Total operating expenses	(403,817)
2.6 Other costs	(66,322)
Total costs	(10,124,449)
Profit (loss) before tax for the period	84,539
3. Income tax	(16,952)
4. Profit (loss) from discontinued operations	(320)
Net profit (loss) for the period	67,267
RECLASSIFICATIONS	
Interest income and expense on assets/liabilities pertaining to policyholders (including policies classified as investment contracts under IFRS4)	-
Other reclassifications	-
TOTAL RECLASSIFICATIONS	-

		RECLASSIFIED INCOME STATEMENT - REVENUES (ORDINARY ACTIVITIES)							
non-recurring items	ordinary activities	net premiums written	amounts paid and change in technical reserves	total commission income	net interest income	net income/loss on investments at fair value	equity contribution	net income on other investments	other revenue
		9,547,764	-	-	-	-	-	-	-
		(4,347)	-	-	-	-	-	-	-
		9,543,417	-	-	-	-	-	-	-
		-	-	752,520	-	-	-	-	-
		-	-	-	177,223	(778,330)	-	-	-
		-	-	-	-	-	6,544	-	-
		-	-	-	445,626	-	-	-	-
		-	-	-	3,476	-	-	7,403	-
		-	-	-	-	-	-	24,720	-
		-	-	-	-	-	-	5,412	-
		-	-	-	449,102	-	-	37,535	-
		-	-	-	-	-	-	-	20,977
		9,543,417	-	752,520	626,325	(778,330)	6,544	37,535	20,977
		-	(9,040,459)	-	-	-	-	-	-
		-	5,468	-	-	-	-	-	-
		-	(9,034,991)	-	-	-	-	-	-
		-	-	-	-	-	-	-	-
		-	-	-	-	-	(41,126)	-	-
		-	-	-	(149,033)	-	-	-	-
		-	-	-	-	-	-	(459)	-
		-	-	-	-	-	-	(27,378)	-
		-	-	-	-	-	-	(135,964)	-
		-	-	-	(149,033)	-	-	(163,801)	-
		-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-
		-	-	-	-	-	-	(1,082)	-
		-	(9,034,991)	-	(149,033)	-	(41,126)	(164,883)	-
		9,543,417	(9,034,991)	752,520	477,292	(778,330)	(34,582)	(127,348)	20,977
		-	-	-	-	-	-	-	-
		-	-	-	-	-	-	(320)	-
		9,543,417	(9,034,991)	752,520	477,292	(778,330)	(34,582)	(127,668)	20,977
		-	(469,606)	-	(243,067)	712,904	-	(231)	-
		-	(436)	684	(3,476)	-	-	3,303	(4)
		9,543,417	(9,505,033)	753,204	230,749	(65,426)	(34,582)	(124,596)	20,973

Reconciliation of the income statement at December 31, 2011 to the reclassified income statement

€/'000

1.1 Net premiums written
1.1.1 Gross premiums written
1.1.2 Reinsurance premiums
Total premiums written
1.2 Commission income
1.3 Net income on financial instruments at fair value through profit or loss
1.4 Income on investments in subsidiaries, associates and joint ventures
1.5 Income on other financial instruments and investment property
1.5.1 Interest income
1.5.2 Other income
1.5.3 Realised gains
1.5.4 Unrealised gains
Total income on other financial instruments and investment property
1.6 Other revenues
Total revenues
2. Costs
2.1 Net claims and benefits
2.1.1 Amounts paid and change in technical reserves
2.1.2 Reinsurers' share
Net claims and benefits
2.2 Commission expense
2.3 Loss on other investments in subsidiaries, associates and joint ventures
2.4 Loss on other financial instruments and investment property
2.4.1 Interest expense
2.4.2 Other expenses
2.4.3 Realised losses
2.4.4 Unrealised losses
Loss on other financial instruments and investment property
2.5 Operating expenses
2.5.1 Agents' commissions and other acquisition costs
2.5.2 Investment management costs
2.5.3 Other administrative expenses
Total operating expenses
2.6 Other costs
Total costs
Profit (loss) before tax for the period
3. Income tax
4. Profit (loss) from discontinued operations
Net profit (loss) for the period
RECLASSIFICATIONS
Interest income and expense on assets/liabilities pertaining to policyholders (including policies classified as investment contracts under IFRS4).
Other reclassifications
TOTAL RECLASSIFICATIONS

RECLASSIFIED INCOME STATEMENT - COSTS AND TAXATION (ORDINARY ACTIVITIES)						
sales network commission expenses	other commission expenses	general and administrative expenses	amortisation and depreciation	provisions for risks and charges	income tax for the period	net profit
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	.	-	-	-
-	-	(1,293)	-	-	-	-
-	-	-	-	-	-	-
-	-	(1,293)	-	-	-	-
(262,719)	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	(1,347)	-	-	-
-	-	-	(1,347)	-	-	-
(69,138)	-	(4,588)	-	-	-	-
-	-	(513)	-	-	-	-
-	-	(329,578)	-	-	-	-
(69,138)	-	(334,679)	-	-	-	-
-	-	(15,380)	(15,744)	(34,116)	-	-
(331,857)	-	(351,352)	(17,091)	(34,116)	-	-
(331,857)	-	(351,352)	(17,091)	(34,116)	-	-
-	-	-	-	-	(16,952)	-
-	-	-	-	-	-	-
(331,857)	-	(351,352)	(17,091)	(34,116)	(16,952)	67,267
-	-	-	-	-	-	-
27,941	(50,120)	586	-	21,522	-	-
(303,916)	(50,120)	(350,766)	(17,091)	(12,594)	(16,952)	67,267

FINANCIAL INFORMATION BY OPERATING SEGMENT AT DECEMBER 31, 2011

	ITALY					
€/'000	Life	Banking	Asset Management	Other	Consolidation adjustments	Total
Net premiums written	9,400,919	-	-	-	-	9,400,919
Amounts paid & change in technical reserves	(9,381,508)	-	-	-	-	(9,381,508)
Net life insurance revenues (ex-commissions)	19,411	-	-	-	-	19,411
Entry fees	-	-	94,461	-	-	94,461
Management fees	205,734	-	195,813	-	-	401,547
Performance fees	48,325	-	41,636	-	-	89,961
Banking service fees	-	85,506	-	-	(1,175)	84,331
Other fees	626	7,136	24,366	-	-	32,128
Total commission income	254,685	92,642	356,276	-	(1,175)	702,428
Net interest income	34,851	190,064	1,240	(7,897)	-	218,258
Net income (loss) on investments at fair value	(33,002)	(32,045)	15	(4)	-	(65,036)
Net financial income	1,849	158,019	1,255	(7,901)	-	153,222
Equity contribution	-	-	-	(34,582)	-	(34,582)
Realised gains (losses) on other investments	3,521	9,040	317	83	-	12,961
Impairment of loans	-	(6,210)	-	(74)	-	(6,284)
Impairment of other investments	(39,343)	(84,415)	-	(1,862)	-	(125,620)
Net income (loss) on other investments	(35,822)	(81,585)	317	(1,853)	-	(118,943)
Other revenues	11,392	7,579	360	547	-	19,878
TOTAL REVENUES	251,515	176,655	358,208	(43,789)	(1,175)	741,414
Acquisition costs and sales network commission expenses	(88,406)	(48,973)	(146,582)	-	-	(283,961)
Other commission expenses	(6,356)	(12,224)	(9,323)	-	-	(27,903)
General and administrative expenses	(92,082)	(147,917)	(69,107)	(2,715)	1,175	(310,646)
Amortisation and depreciation	(4,505)	(7,436)	(2,714)	-	-	(14,655)
Net provisions for risks	(4,042)	(1,683)	(6,695)	-	-	(12,420)
TOTAL COSTS	(195,391)	(218,233)	(234,421)	(2,715)	1,175	(649,585)
PROFIT BEFORE TAX	56,124	(41,578)	123,787	(46,504)	-	91,829
Income tax	-	-	-	-	-	(16,898)
NET PROFIT FOR THE PERIOD	-	-	-	-	-	74,931
Goodwill	22,915	-	-	-	-	22,915
Investment Property	108,041	-	-	-	-	108,041
Equity investments	-	-	-	404,494	-	404,494
HTM investments + LR	490,380	2,686,210	-	-	-	3,176,590
AFS instruments	2,609,978	5,722,469	42,845	19,390	-	8,394,682
Fin. assets/liabilities at FV through profit or loss	2,191,890	359,831	-	-	-	2,551,721
Financial assets - risk borne by policyholder	12,268,431	-	-	-	-	12,268,431
Net treasury position	(247,712)	4,034,735	(54,088)	265,605	-	3,998,540
- of which intercompany	*452,315*	*382,609*	*43,412*	*135,588*	-	*1,013,924*
Loans to customers	-	3,245,008	-	-	-	3,245,008
Bank funding	-	7,870,465	-	-	-	7,870,465
- of which intercompany	-	*946,482*	-	-	-	*946,482*
Net technical reserves	18,054,896	-	-	-	-	18,054,896

ABROAD			
Spain	Germany	Consolidation adjustments	Total
119,045	23,453	-	9,543,417
(103,339)	(20,186)	-	(9,505,033)
15,706	3,267	-	38,384
3,747	267	-	98,475
11,339	4,910	-	417,796
1,949	586	-	92,496
5,128	21,701	(6)	111,154
1,129	26	-	33,283
23,292	27,490	(6)	753,204
10,772	1,719	-	230,749
(82)	(308)	-	(65,426)
10,690	1,411	-	165,323
-	-	-	(34,582)
335	(6,258)	-	7,038
112	-	-	(6,172)
158	-	-	(125,462)
605	(6,258)	-	(124,596)
326	937	(168)	20,973
50,619	26,847	(174)	818,706
(16,414)	(3,548)	7	(303,916)
(2,724)	(19,493)	-	(50,120)
(25,943)	(14,344)	167	(350,766)
(1,644)	(792)	-	(17,091)
(174)	-	-	(12,594)
(46,899)	(38,177)	174	(734,487)
3,720	(11,330)	-	84,219
163	(217)	-	(16,952)
3,883	(11,547)	-	67,267
122,809	4,140	-	149,864
-	-	-	108,041
-	-	-	404,494
-	8,989	-	3,185,579
642,063	25,660	-	9,062,406
10,004	4,846	-	2,566,571
450,337	63,839	-	12,782,607
383,678	(88,244)	-	4,293,974
(391,929)	*9,256*	-	*631,251*
137,333	8,712	-	3,391,053
292,176	66,983	-	8,229,625
349	*(184)*	-	*946,647*
460,502	65,449	-	18,580,848

FINANCIAL INFORMATION BY OPERATING SEGMENT AT DECEMBER 31, 2011

€/'000	ITALY					
	Life	Banking	Asset Management	Other	Consolidation adjustments	Total
Net premiums written	9,003,188	-	-	-	-	9,003,188
Amounts paid & change in technical reserves	(8,977,543)	-	-	-	-	(8,977,543)
Net life insurance revenues (ex-commissions)	25,645	-	-	-	-	25,645
Entry fees	-	-	112,615	-	-	112,615
Management fees	194,234	-	161,313	-	-	355,547
Performance fees	76,478	-	70,449	-	-	146,927
Banking service fees	-	103,978	-	-	(889)	103,089
Other fees	394	6,957	21,135	-	-	28,486
Total commission income	271,106	110,935	365,512	-	(889)	746,664
Net interest income	14,190	120,199	1,215	(347)	-	135,257
Net income (loss) on investments at fair value	7,747	3,395	(9)	-	-	11,133
Net financial income	21,937	123,594	1,206	(347)	-	146,390
Equity contribution	-	-	-	14,387	-	14,387
Realised gains (losses) on other investments	7,734	6,849	(447)	(644)	-	13,492
Impairment of loans	-	(9,196)	(82)	(424)	-	(9,702)
Impairment of other investments	(3,784)	(1,269)	-	(2,777)	-	(7,830)
Net income (loss) on other investments	3,950	(3,616)	(529)	(3,845)	-	(4,040)
Other revenues	12,454	9,175	156	727	-	22,512
TOTAL REVENUES	335,092	240,088	366,345	10,922	(889)	951,558
Acquisition costs and sales network commission expenses	(92,339)	(51,538)	(160,882)	-	-	(304,759)
Other commission expenses	(6,146)	(12,706)	(7,987)	-	-	(26,839)
General and administrative expenses	(96,950)	(127,723)	(78,887)	(1,555)	889	(304,226)
Amortisation and depreciation	(3,764)	(7,040)	(2,905)	(53)	-	(13,762)
Net provisions for risks	(5,121)	(2,263)	(7,968)	-	-	(15,352)
TOTAL COSTS	(204,320)	(201,270)	(258,629)	(1,608)	889	(664,938)
PROFIT BEFORE TAX	130,772	38,818	107,716	9,314	-	286,620
Income tax	-	-	-	-	-	(52,158)
NET PROFIT FOR THE PERIOD	-	-	-	-	-	234,462
Goodwill	-	-	-	-	-	22,907
Investment Property	-	-	-	-	-	257,369
Equity investments	22,915	-	-	-	-	22,915
HTM investments + LR	90,654	-	-	-	-	90,654
AFS instruments	-	-	-	447,058	-	447,058
Fin. assets/liabilities at FV through profit or loss	405,500	3,236,260	-	-	-	3,641,760
Financial assets - risk borne by policyholder	2,541,646	1,797,541	34,685	20,035	-	4,393,907
Net treasury position	2,981,092	505,308	-	-	-	3,486,400
- of which intercompany	13,687,367	-	-	-	-	13,687,367
Loans to customers	(371,368)	1,018,683	(61,264)	539,458	-	1,125,509
Bank funding	*623,922*	*39,925*	*44,779*	*14,842*	-	*723,468*
- of which intercompany	-	3,236,195	-	-	-	3,236,195
Net technical reserves	-	7,538,797	-	-	-	7,538,797
- di cui infragruppo	-	*985,561*	-	-	-	*985,561*
Riserve tecniche nette	19,993,713	-	-	-	-	19,993,713

ABROAD			
Spain	Germany	Consolidation adjustments	Total
94,835	25,524	-	9,123,547
(81,812)	(23,085)	-	(9,082,440)
13,023	2,439	-	41,107
4,017	225	-	116,857
10,543	4,689	(28)	370,751
2,652	2,015	-	151,594
6,724	35,222	(6)	145,029
1,319	181	-	29,986
25,255	42,332	(34)	814,217
5,632	354	-	141,243
369	(315)	(1)	11,186
6,001	39	(1)	152,429
-	-	-	14,387
1,172	(2)	-	14,662
52	-	-	(9,650)
-	(7,400)	-	(15,230)
1,224	(7,402)	-	(10,218)
396	433	(487)	22,854
45,899	37,841	(522)	1,034,776
(16,062)	(4,283)	6	(325,098)
(3,031)	(29,875)	28	(59,717)
(26,349)	(13,745)	488	(343,832)
(1,737)	(957)	-	(16,456)
180	-	-	(15,172)
(46,999)	(48,860)	522	(760,275)
(1,100)	(11,019)	-	274,501
1,720	(337)	-	(50,775)
620	(11,356)	-	223,726
-	-	-	22,907
620	(11,356)	-	246,633
122,809	4,140	-	149,864
-	-	-	90,654
-	-	-	447,058
-	8,971	-	3,650,731
261,217	4,463	-	4,659,587
16,250	7,538	-	3,510,188
446,017	59,055	-	14,192,439
2,372	(49,743)	-	1,078,138
(35,618)	*(1,807)*	-	*686,043*
124,394	7,339	-	3,367,928
301,024	31,704	-	7,871,525
375	*(2,270)*	-	*983,666*
453,818	61,319	-	20,508,850

PART F - INFORMATION ON RISKS AND RISK MANAGEMENT

Risk Management and Internal Control

The Group's internal control system consists of the set of rules, procedures and functions established to ensure the effectiveness and efficiency of corporate processes, the protection of the company's assets and the proper management of customer assets, the reliability and integrity of accounting and management information as well as the compliance of transactions with all laws, regulations issued by Supervisory Authorities, self-discipline and internal rules.
The various companies within the Mediolanum Group put in place a comprehensive, effective internal control system in accordance with applicable regulations and the business they conduct.
The Board of Directors and management play a key role in the establishment of an adequate risk management framework and the implementation of an effective internal control system.
Internal control, however, is not only the responsibility of certain functions or committees, but rather all departments are responsible to a different extent for the transactions they execute. The internal control system is designed to encompass the following main lines of defence:

- Line controls. This first line of defence consists of controls made by the individuals who carry out a certain activity and by their supervisors, generally within the same organisational unit or function. These controls are carried out by operational units or embedded in automated procedures, and they are part of back-office activities. The level of controls depends upon the size, nature and complexity of the business;
- Risk controls. These are specific controls performed by units other than operating units; they contribute to the definition of risk measurement methods, control of operating limits of officers to whom authorities are delegated, and verify compliance of transactions with the risk/return targets set by corporate bodies in their respective areas of responsibility. This second line of defence is tailored to the risk profile of the individual business. Specifically, it includes controls over credit risk, capital risk and investment risk, operational and reputational risks, as well as compliance with the law, the regulations issued by Supervisory Authorities, self-discipline rules (e.g. codes of conducts) and with any other rules applicable to the Company;
- Internal Audit. This third line of defence entails the periodic assessment of the completeness, effectiveness and adequacy of the internal control system in relation to the nature of the business and the level of risks undertaken. The head of Internal Audit (Chief Auditor) is appointed by the Board of Directors. The Internal Audit function is separate and independent of operating units. Due to the scope and sensitiveness of the internal audit work, expert knowledge is required of internal auditors.

In the performance of their duties, internal auditors are granted access to all corporate structures as well as to any information they may need to assess outsourced activities. The Board of Directors and the Board of Statutory Auditors receive regular reports on internal audit work so that they can promptly take suitable corrective measures if deficiencies are detected.

Compliance & Risk Control

The Compliance & Risk Control function is responsible for ensuring the adequacy of risk management procedures for financial, operational and credit risks as well as regulatory compliance of the financial conglomerate.

The Group risk management framework was developed from the models applied by the individual entities and taking into account the level of risk concentration/diversification originating from being part of the Group.
Specifically, the Group risk management framework sets out the policies for the risks managed directly by subsidiaries (underwriting, reserve, market, credit, liquidity, operational, legal, strategic, reputational risks) as well as the policies for the risks faced by individual entities as a result of being members of the Group, that are monitored and managed by the holding company Mediolanum S.p.A..
Policy statements set out the roles and responsibilities of risk management and control staff as well as the timing and manner of risk identification. The risk management processes are calibrated to the complexity of the individual businesses and their impact on cumulative risks.
The Group risk management framework, together with related corroborative information, was examined and approved by the Audit Committee, Senior Management and the Board of Directors of the Parent Company. It was developed taking into account the nature of the business as well as statutory and regulatory requirements and is continually revised and upgraded to keep abreast of any changes.

Underlying principles

The following general principles form the bedrock of the Group risk management framework:
- identification and full coverage of all categories of risks within all companies;
- segregation of duties between the Compliance & Risk Control function and Operating Units, in accordance with the proportionality principle, which entails an implementation approach by subsidiaries commensurate with the size of the entity;
- use of uniform, consistent models and methods for the collection of data and information as well as for the analysis and measurement of risks by all organisational units and/or companies within a Group;
- timely and consistent analysis and measurement of risks; subsequent preparation of reports to support control and decision-making processes;
- transparency and dissemination of models, methods and criteria applied in the analysis and measurement of risks to promote a control culture within the organisation and understanding of the reasons underlying the choices made;
- delegation of risk management authorities and responsibilities from the Board of Directors to the Operating Units for their direct management of the risks to which corporate processes are exposed.

To ensure adherence to the principles above and have a comprehensive risk management framework, the Mediolanum Group has adopted a set of risk policies.

The main purposes of risk policies are:
- to ensure that any material breaches/anomalies be promptly identified by the internal control system and adequate corrective/mitigating actions be taken;
- to ensure the consistent application of risk management principles and rules across the Group;
- to promote a risk management culture at all levels of the organisation and encourage consistent, knowledgeable operating choices and practices, in a structured way.

The Compliance & Risk Control function of Banca Mediolanum provides risk management and compliance services to Mediolanum S.p.A. under a specific service agreement signed in 2009. The Compliance & Risk Control function of Banca Mediolanum is organised into three main operating units: Risk Control unit, Risk Assessment & Mitigation unit and Compliance unit.

In 2011, the Compliance & Risk Control function was reorganised to attain synergies from the consolidation of operational risk and compliance risk assessment processes into a dedicated unit, the Risk Assessment & Mitigation unit whose work backs the activities of both the Risk Control unit and the Compliance unit.
The reorganisation entailed redefining operational risk control responsibilities as follows:
- the Risk Assessment & Mitigation team is responsible for assessing both compliance and operational risk exposures of the various organisational units as well as for developing a system of recurring second level controls;
- the Compliance team is responsible for continuously monitoring the regulatory environment for timely assessment of statutes and regulations that may have an the impact on the Group business. Compliance officers provide advice and assistance to the Chief Executive Officer and the General Manager for assessment of compliance of procedures and practices with applicable laws and regulations as well as for the timely introduction of amendments thereto in case of regulatory changes. The compliance unit team is also responsible for ensuring proper management of complaints received from customers and requests from Supervisory Authorities, monitoring their progress in order to promptly identify any needs for improvement of control processes;
- the Risk Control team is responsible for assessing and monitoring exposures to market risk, country risk as well as to counterparty risk, credit risk and operational risk while continuously monitoring capital adequacy in relation to the activities that are being carried out. The Risk Control team is also responsible for developing quantitative metrics for the identification and management of aforesaid risks.

Risk Control

The main duties of the Risk Control team are to:
- compute economic capital both for the individual entities and at Group level for the risks that fall within its remit;
- monitor credit risk, concentration and residual risks of institutional counterparties; prepare business plan-compliant credit and rating policy proposals for the relevant portfolios in collaboration with the Finance division, and submit them to the Board of Directors at least annually; implement all procedures for monitoring the credit risk limits set out in approved policies;
- perform institutional counterparties' credit analysis in accordance with the credit policy, oversee to credit risk monitoring and report any 'anomalies'; define, where relevant, and through adequate tools, the level of potential insolvency of the individual borrowers, as well as key statistics for the various forms of lending in order to ensure the solvency of the Bank and of the Banking Group; measure credit risk and verify capital adequacy;
- manage the risk control process for market and solvency risks at Banking Group level for the proprietary portfolio, in accordance with the requirement of the Basel Committee on banking supervision; in connection therewith, calculate the VaR of the proprietary portfolio on a daily basis; monitor developments in operational risk through risk identification, measurement and control in accordance with internal rules and the risk appetite of the organisation; carry out stress tests and produce regular reports;
- coordinate with Network Inspectors and the Anti-Money Laundering team for controls of operational risk relating to the Sales Network activities;

- verify and validate the models for the calculation of the capital charge for operational risk and activities prescribed by regulatory requirements in relation to the measurement methods adopted by individual entities and at Group level;
- with the assistance of the relevant organisational functions, gather information needed for the quantification and management of losses arising from operational risk;
- compile operational risk loss data for periodic reports required by supervisory authorities;
- monitor the asset liability management process adopted by the Finance division to identify any differences in respect of the limits set forth in the approved policy;
- monitor operational and structural liquidity management, prepare daily reports and identify any issues in respect of the limits set forth in the approved policy;
- conduct, at least annually, stress tests for significant risks as well as retrospective and prospective tests for hedge accounting purposes;
- report on the risk position taken by the Bank and the Banking Group;
- assess the consistency of the risk appetite of the Bank and other monitored entities, both individually and at Group level, verifying risk levels and proposing any corrective actions that may be necessary to meet set targets;
- gather real economy, monetary policy, credit and financial market information and data including for the preparation of the notes to the financial statements;
- organise and coordinate the other units within the Compliance & Risk Control function for the finalisation of corporate reports;
- develop, process and produce mathematical and statistical models for risk analysis by gathering financial data, all in accordance with best market practices;
- develop models for the calculation of economic capital and estimate related variables;
- develop tactical solutions for the assessment of risk in relation to products not yet covered by market risk management procedures, in accordance with best market practices;
- develop methods for liquidity risk and interest rate risk management in collaboration with first-level risk management functions;
- develop pricing models for fair value measurement of financial instruments issued or placed by the Bank, in accordance with best market practices;
- validate any pricing and risk calculation models developed by line functions;
- validate pricing used for the valuation of the Bank's securities portfolio in accordance with the rules set forth in the active market policy;
- develop methods for refining stress testing techniques for the risks falling within its remit.

Risk Assessment & Mitigation

The Risk Assessment & Mitigation team monitors activities carried out by the various organisational structures in order to identify any sources of operational risk or compliance risk exposure.
The team also collaborates with the other units within the Compliance & Risk Control function to assess the risk exposures of corporate structures and processes, and continuously monitors processes mainly via remote indicators.

Compliance

The Compliance team monitors the financial and insurance regulatory environment to anticipate the impact of statutes and regulations on the Group business. Compliance officers provide advice and assistance to the Chief Executive Officers, the Chairman and the Secretary of the Boards of Directors, for the assessment of compliance of procedures and practices with applicable laws and regulations as well as for the timely introduction of amendments thereto in case of regulatory changes.

Specifically, in relation to Mediolanum S.p.A, the compliance team:
- monitors the regulatory environment, assesses the impact of statutes and regulations on the business at Group level, and proposes changes to operating processes and/or procedures;
- reviews compliance of processes with the law, the regulations issued by Supervisory Authorities and self-discipline rules (e.g. codes of conducts) as well as with any other applicable rules. This is done working together with Internal Audit, Corporate Affairs and Operations staff.

Internal Audit

The internal audit team constantly monitors the internal control system to verify its effectiveness and efficiency and to identify any deficiencies in the system, in procedures or policies. The internal audit team also monitors the effectiveness of the overall financial risk, credit risk and operational risk management system and takes actions to enhance it, when needed.
Internal auditors provide independent and objective audit services and advice to improve the effectiveness and efficiency of the organisation and of the overall internal control system.
They monitor operation and assess functionality of the overall internal control system, including via field checks, and report on possible improvements of risk management policies, risk measurement tools and governance processes to the Board of Directors and the Chief Executive Officer.
The internal audit team provides the services outlined above for those Group companies with which the Bank has signed a specific audit service contract, and, at Group level, it coordinates its audit work with the internal audit teams of subsidiaries and associates.
The Chief Auditor regularly reports on the activities of the internal audit team to the Board of Directors, the Board of Statutory Auditors, the Banking Group Audit & Risk Committee where the Chief Auditor, or a person delegated by him, serves as Secretary. In the event of serious irregularities the Chief Auditor immediately reports them to the Board of Statutory Auditors and the Board of Directors.

Audit and Risk Committee

The Audit and Risk Committee provides assistance to the Board of Directors in its at least annual assessment of the conformity, adequacy and effective operation of the internal control system by making sure that key risks, including credit risk, are correctly identified and measured as well as properly managed and monitored.
Its main role is to provide assistance to the Board of Directors in the performance of their duties of guidance with respect to the Internal Control System of the Company and its subsidiaries as well as the regular assessment of its adequacy and effective operation. The Audit and Risk Committee assesses the audit programme prepared by the

Internal Audit team from which it receives regular reports; it assesses any issues emerging from the activities conducted by the Internal Audit team and the Compliance & Risk Control team; it assesses any issues raised by Statutory Auditors and the independent auditors in their reports; it assesses issues raised and recommendations made following controls by Control and/or Supervisory Authorities. The Audit and Risk Committee reports to the Board of Directors on its activities, at least biannually, upon the approval of the half-yearly and annual reports and accounts; it fulfils the further internal control duties mandated to it by the Board of Directors, in particular in respect of its relationship with the independent auditing firm.

RISK DISCLOSURES PURSUANT TO IFRS 7

Under **IFRS 7** – which became effective for annual periods beginning on or after January 2007 - entities are required to provide disclosures in their financial statements that enable users to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed. The disclosures required under IFRS 7 are both qualitative and quantitative and relate to exposure to credit risk, liquidity risk and market risk. Qualitative disclosures relate to the "*objectives, policies, processes and methods adopted by management for risk measurement and management*", while quantitative disclosures relate to quantitative data about the entity's exposures to credit risk, liquidity risk and market risk.
This section provides information that is representative of Mediolanum Group risk exposures pursuant to IFRS 7, in accordance with their relevance for the Group's operating segments, i.e. insurance, banking and asset management.
Pursuant to IFRS7 disclosures are provided in relation to liquidity risk, credit risk and market risk.
This section, however, contains further information about risk management policies and techniques for purposes beyond the scope of IFRS 7.

Financial Instruments' classification method and principles

Pursuant to IFRS7, exposures are analysed in relation to three main types of risk:

1. **Credit risk** is the risk of loss arising from the deterioration in the creditworthiness up to default of either retail customers or institutional counterparties of whom the bank is a creditor in its investment activities, as a result of which debtors fail to meet all or part of their contractual obligations.
2. **Market risk** is the risk of potential losses, which may also be significant, from adverse movements in market rates and prices to which the Mediolanum Group companies are exposed in their investment activities. These include movements in interest rates, foreign exchange values, equity prices, volatility, bond spreads.
3. **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. Pursuant to Basel II Second Pillar Supervisory Review of the Internal Capital Adequacy Assessment Process (ICAAP), the regulator requires banking organisations to put in place liquidity risk measurement and management policies and processes.

In March 2009, the IASB issued amendments to IFRS 7 to respond to market pricing predicaments following the financial crisis and the need for improved transparency. A key change introduced by the IASB was a fair value measurement hierarchy ('fair value hierarchy') that has the following 3 levels:

- **Level 1** fair value measurements are those derived from quoted prices in active markets;
- **Level 2** fair value measurements are those derived from inputs that are based on observable market data other than quoted prices;
- **Level 3** fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

The Mediolanum Group classified its assets and liabilities at fair value in accordance with the rules set out in said amendments, providing disclosures both by line of business and by type of product.

For its insurance business, the Mediolanum Group also disclosed separately risk information relating to its own risk and the risk of its clients (assets backing Class III reserves).

Information on risks is set out below.

Risk management at Conglomerate level

For financial conglomerates that engage in both insurance and banking, the traditional approach applied by regulators and supervisors to ensure that enough capital is held against risks has been to consider the risk profile of each business (insurance and banking) and set forth capital requirements against the specific risks to which each business is exposed. The insurance business is subject to Solvency II requirements and the banking business to the ICAAP process. At conglomerate level, compliance with these requirements is compounded by assessment, analysis and monitoring of risk concentration.

Risk concentration indicates an exposure with the potential to produce losses that are large enough to threaten the solvency or financial position of the conglomerate entities. Management and control of risk concentration is carried out by aggregating the exposures of all Conglomerate entities to the same counterparty, be it public or private, regardless of the form of exposure.

Monthly reports with particulars on the most significant exposures of the Conglomerate to the same counterparties are sent to the supervisory authorities.

Insurance – Financial Risk and Credit Risk

Introduction

The Group conducts insurance business through two entities: the Italian company Mediolanum Vita and the Irish company Mediolanum International Life LTD.
The risk management models are tailored to the complexity of the business and the characteristics of the products sold. In certain instances, e.g. class III products dealt with by both companies, control processes are geared to protect the policyholders who bear the investment risk thereof, through the validation of pricing models and control of issuers' solvency. The Irish company has limited free capital which is mainly invested in term deposits held with other Mediolanum Group companies. Any payment obligation under residual index-linked policies following surrenders is promptly settled with the counterparties, thus free capital residual exposure to counterparty risk is marginal. The Group also monitors concentration risk and credit risk exposures using "credit VaR". (For details on control methods and processes, readers are referred to the section commenting Index Linked contracts).
Overall portfolio risk is also monitored for the Italian insurance company as it offers a broader, more diversified portfolio of products (prevalence of class III products, class I products, and residual portfolio of products in class I i.e. capitalisation plans, and class VI i.e. pension funds).
Risk management and control activities are carried out by both the operating units of the insurance company and by second-line functions, e.g. Financial and Credit Risk Management unit.

Free Capital and Traditional Portfolio

The controls currently in place monitor the value of underlying assets *ex-ante* and *ex-post*. Frequency of controls is established at the level of each entity.
In the traditional reserve portfolio the risk of asset-liability mismatch is periodically assessed by Mediolanum Vita using an Asset Liability Management stochastic model.
Under the regulations in force, the insurance companies within the Group are authorised to use derivatives to hedge current positions or movements in underlying assets or liabilities. Financial derivatives are primarily used to achieve operating targets with greater efficiency, flexibility and rapidity, to optimise portfolio management ("effective management") and to mitigate market risk arising on interest rate or foreign exchange rate movements.

Asset Liability Management

Mediolanum Vita S.p.A. uses an advanced system for improved asset-liability measurement and management, i.e. a stochastic Dynamic Financial Analysis (DFA) system which models the reactions of the company in response to a large number of different scenarios and strategic choices. It allows projections not only of possible future scenarios but also of their probability. The software generates stochastic projections of the flows of assets and liabilities in the company's traditional portfolio. To that end, at each assessment date 1,000 Market-Consistent financial scenarios are generated. Each of these scenarios shows the possible developments of risk factors over a 20-year horizon. The system allows *ex-ante* modelling for:
- current and future asset allocation;
- type of securities to be bought/sold;
- ranking of securities to be bought/sold;
- liabilities paid up and lapse rate assumptions;

- return targets;
- actions to be taken to meet return targets.

Through ad-hoc reports generated by the system, it is possible to monitor the long-term impact of management investment choices on the company's profitability and solvency.

Key Risks Mapping

Group insurance entities' exposure to financial risks arises from investments made to attain the strategic goals pursued by these entities both in terms of income generation and levels of technical reserves. In particular, key financial risks essentially consist of market risk – mainly interest rate risk and spread risk – and, to a limited extent, credit risk counterparty risk. The latter is principally in connection with derivate contracts and is mitigated via collateralisation under ISDA/CSA agreements as per the relevant policy. Risk analysis also includes liquidity risk, regulatory compliance risk and, last but not least, reputational risk.
Since the risk exposures of the Italian Life Insurance Company are more significant than those of the Irish Company, risk management disclosures set out in the next sections relate to Mediolanum Vita.

Solvency II

The Mediolanum Group started the implementation of its Solvency II compliance project several years ago. All group teams in their various roles are engaged in the Group-wide efforts for compliance with all requirements under Solvency II three pillars. The first pillar relates to quantitative requirements for the risk-based calculation of solvency capital, the second pillar to qualitative and quantitative requirements and involves Own Risk and Solvency Assessment (ORSA), and the third pillar to reporting and disclosure to the various stakeholders.
The project underway includes the review of risk management processes and the implementation of a Group-wide system for the calculation of the Solvency Capital Requirement (SCR). The Mediolanum Group is now completing the infrastructure for the calculation of the first pillar capital requirement, the ORSA process as well as reviewing its risk appetite and internal risk governance. The Solvency II project will deliver a more risk-based management system for the insurance business rounding out the Mediolanum Group's overall risk management system which is built on strong foundations including Basel II compliance and the ICAAP process in the Banking Group. For the sake of information completeness you are finally advised that the Mediolanum Group participated in all quantitative impact studies (QIS) in past years as well as in the stress tests required by the European Insurance and Occupational Pensions Authority (EIOPA) in 2011.

Financial risk management policies – General and organisational aspects

The Mediolanum Group financial risk management framework is designed to ensure:
- consistency with the organisational model and respect of existing internal relations and constraints;
- engagement of multiple organisational structures in Risk Control processes;
- enhancement and optimisation of organisational checkpoints, interrelations and flows of information between existing organisational structures.

With respect to the Italian Life Insurance Company, Mediolanum Vita, a multitude of players are engaged in Financial Risk Control activities across the Group.

Mediolanum Gestione Fondi and Banca Mediolanum are engaged in activities conducted under outsourcing arrangements. They provide assistance in monitoring, control, management and mitigation of financial risks and credit risk in relation to managed assets, each within its sphere of competence and in accordance with the degree of exposure to risk factors and the organisational complexity of the business.

The organisational architecture that supports the process is made up of the interrelations of all organisational structures of the Life Insurance Company that are engaged in it: the Board of Directors, the Chief Executive Officers, the Asset and Product Management Committee, the Asset Management Office, the Asset Managers (Mediolanum Gestione Fondi), the Compliance & Risk Control function, the Risk Control unit and the Internal Audit function.

The internal control system consists of the set of rules, procedures and functions established to ensure the effectiveness and efficiency of corporate processes, the protection of corporate assets as well as the proper management of customer assets, the reliability and accurateness of financial information and management representations as well as the compliance of transactions with the law, the regulations issued by Supervisory Authorities, self-discipline and internal rules.

The Board of Directors and management play a key role in the establishment of an adequate risk management framework and the implementation of an effective internal control system.

As already noted, the internal control system is designed to encompass the following three main lines of defence:

- line controls, first level controls;
- second level control;
- internal audit.

Risk management and control is implemented across the Group involving both management and the corporate structures that are responsible for guidance, control and supervision with segregation of duties between business and control functions.

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. These controls are mainly carried out by the following structures:

- Asset Management Office;
- the Mediolanum Gestioni Fondi structures that are authorised to operate on the market as part of their asset management activities under specific mandates; Mediolanum Gestioni Fondi has first level control and management structures for which risk management is a primary focus;
- Chief Actuary and Actuarial department;
- Valuation office.

Second level controls are carried out by the Compliance & Risk Control function of Banca Mediolanum under the relevant outsourcing agreement. This function is separate and segregated from the structures of the insurance company and the asset management company and is responsible for contributing to the definition of risk measurement methods and operating limits, and for verifying compliance of transactions with the risk/return targets set by corporate bodies for each service.

Internal Audit is carried out by Banca Mediolanum's Internal Audit team under the relevant outsourcing agreement and includes the periodic assessment of the completeness, effectiveness and adequacy of the internal control system to the nature and the level of risks undertaken. These third level controls are conducted by structures that are separate and segregated from business structures and from those responsible for second level controls. The Board of Directors and the Board of Statutory Auditors receive regular reports on internal audit work so that they can promptly take suitable corrective measures if deficiencies are detected.

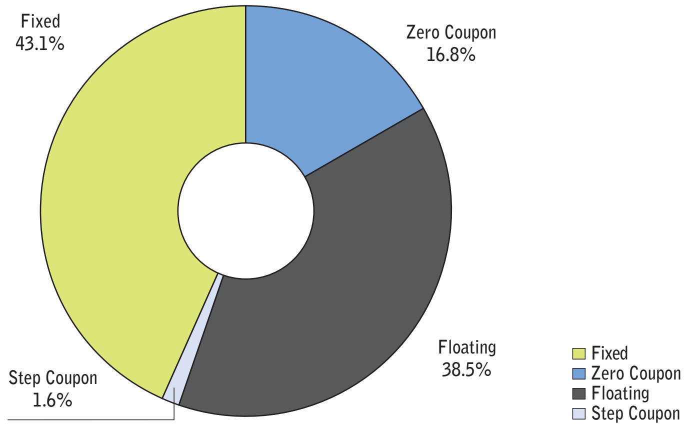
Market risk

Market risk associated with the traditional portfolio of the Italian Life Insurance Company is managed in accordance with regulatory requirements and market best practice, applying Value at Risk measurement and management processes. In light of the composition of the traditional portfolio, the main risk factors are interest rate risk and spread risk.

The chart below shows Value at Risk (VaR) in FY 2011

The table below set out an analysis of the Italian Life Insurance Company portfolio by rate.

Analysis of the Mediolanum Vita portfolio by type of assets (2011)



Credit risk

The risk that over the life of a financial instrument linked to an insurance product there may be an event which changes the repayment ability (creditworthiness) of the counterparty (issuer) and consequently the value of the credit position. Credit risk can be broken down into two components: insolvency risk and migration risk. Insolvency risk is the risk of not being able to fully collect a certain number of future payments as a result of the insolvency of the debtor; migration risk relates to the risk of a decline in the value of the instrument as a result of the deterioration of credit standing/rating of the debtor. As shown in the rating analysis set out in the second table below the quality of the underlyings in the portfolio of the Italian Life Insurance Company is confirmed by their high credit rating:

Mediolanum Vita Securities Portfolio – POSITION
(YE 2011 vs. YE 2010)

€/'000	2010	2011	Change (%)
HFT			
Nominal value	2,187,690	2,899,533	(25%)
Market value	2,099,921	2,858,138	(27%)
AFS			
Nominal value	2,866,935	2,598,562	10%
Market value	2,575,370	2,500,444	3%
HTM			
Nominal value	323,856	267,856	21%
Market value	269,782	245,998	10%
L&R			
Nominal value	179,417	151,984	18%
Market value	171,425	152,293	13%

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

Mediolanum Vita Securities Portfolio – RATING COMPOSITION (S&P equivalent)
(YE 2011 vs. YE 2010)

€/'000	2011	%	2010	%	Change (%)
Total portfolio	5,116,498	100%	5,756,873	100%	(11%)
AAA	-	-	25,453	0.4%	(100%)
AA+ to AA-	67,064	1.3%	523,512	9.1%	(87%)
A+ to A-	3,070,847	60.1%	4,638,466	80.6%	(34%)
BBB+ to BBB-	1,694,481	33.1%	509,911	8.9%	232%
BB+ or lower	278,845	5.4%	47,296	0.8%	490%
Unrated	5,260	0.1%	12,234	0.2%	(57%)

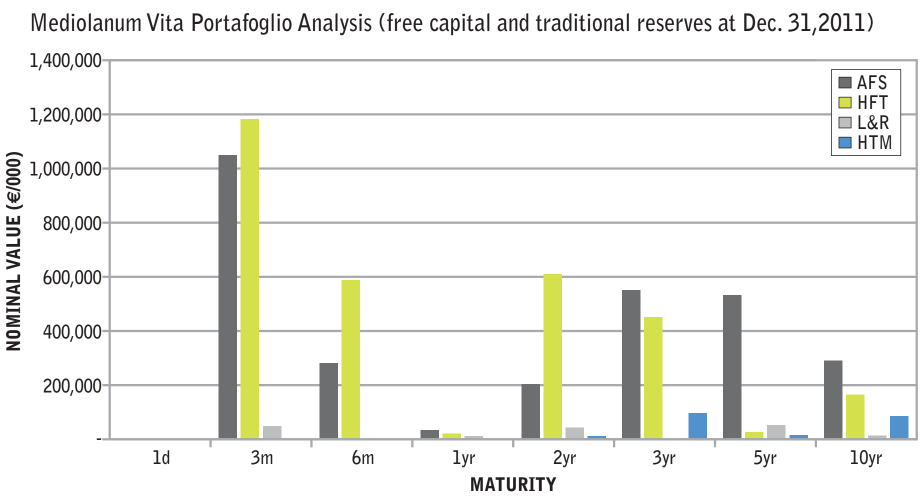
NOTE: the value of the securities portfolio does not include residual Index Linked Policies' Funds, Shares and Rights.

Liquidity risk

Liquidity risk is essentially in relation to Mediolanum Vita S.p.A's. free capital and traditional portfolio since for Class III reserves there are buyback arrangements in place ensuring that the assets backing said reserves can be promptly realised. Liquidity risk is managed applying a Group-wide consistent method of analysis based on maturity and rating. Maturity analysis provides information for the management of liquidity risk and interest rate risk showing any mismatch by type of instrument and maturity (month or quarter):

- for fixed-rate instruments it shows all cash flows (principal and interest) at maturity;
- for floating-rate instruments coupons are posted at maturity, while principal is posted at the first re-pricing date after the analysis.

Mediolanum Vita Portfolio Analysis



RRegulatory compliance and reputational risks

Regulatory compliance risk or more generally compliance risk is the risk of loss resulting from the failure to comply with laws, regulations, standards or rules applicable to the various types of products of the Insurance Companies.
Reputational risk is the current or prospective risk of impact on earnings or capital arising from the negative perception of the Company's image by customers, counterparties, shareholders, investors or supervisory authorities.
Reputational risk is managed via proper business choices, relations with stakeholders and implementation of internal operational processes that apply sound and prudent management principles.
Reputational risk is considered to be a "second-tier" risk arising from the failure to properly manage other risks, e.g. some types of financial risk which may lead to reputational damage.

Investments to the benefit of policyholders who bear the investment risk and in connection with pension fund management

These investments consists of holdings in Proprietary Insurance Funds (under Unit-Linked policies) and financial instruments – notes and derivative instruments – (under Index-Linked policies), where the amounts payable by Life Insurers are linked to changes in the value of units of one or more Proprietary Insurance Funds, which in turn depend on changes in the price of the underlying financial assets or in the price of the financial instruments.
The competent functions manage risk by ensuring that regulatory limits (e.g. exposure limits, asset quality and volatility) are not exceeded.
For class III products – Unit and Index-Linked policies – the use of derivatives is allowed to protect related technical reserves. Derivatives and the related assets approximate at best possible the value of technical reserves.
The company is exposed to counterparty risk on existing derivative positions. For listed instruments with daily remargining risk is residual.
For Over-The-Counter contracts, exposure to credit risk is represented by the fair value on the measurement date. Credit risk is regularly monitored by reviewing counterparty exposure limits and credit standing. In addition, credit risk is mitigated by collateralisation under CSAs (where applicable).

Credit Risk

Exposure to credit risk is monitored also in relation to Index Linked contracts since this type of insurance investment entails customer exposure to two or three counterparties (the bond issuer, the option counterparty and in some cases the swap counterparty).
Credit risk associated with the Index Linked portfolio is monitored monthly on a consolidated basis (Mediolanum Vita and MILL), measuring both nominal value and market value. Exposures are then aggregated by issuer on a consolidated basis. For each counterparty the probability of default (PD) is assessed on the basis of the 1-year CDS spread quote at the end of the month and Loss Given Default (LGD set at 60% according to best market practice). PD times LGD and exposure gives the expected loss for each counterparty. The 1-year expected losses due to default in the Index Linked portfolio is computed by aggregating all expected losses.

Index Linked Portfolio - Credit VaR

In addition to expected losses (EL) also unexpected losses (UL) are computed for credit risk. Unexpected losses are unusual losses that occur rarely and have a high severity. Unexpected losses are computed using Credit VaR in Credit Metrics©. Unexpected losses are the difference between the 99th percentile in loss distribution, i.e. Credit VaR, and expected losses as defined above. The distribution of losses due to default is calculated via 100,000 Monte Carlo simulations, which take account not only of the probability of default of individual issuers ("specific risk"), but also the default correlation between the counterparties ("systemic risk").

Concentration risk

Concentration risk in the Index Linked portfolio is monitored using the Herfindhal Index (like Banca Mediolanum exposure to concentration risk) and the Normalised Herfindhal Index. The Normalised Herfindhal Index is a modified version of the Herfindhal Index that takes account of the small number of counterparties which is typical of the financial sector.

The table below shows Expected Loss, Unexpected Loss, Credit VaR at 99% and Normalised Herfindhal Index values. Exposures are indicated at market value and on a consolidated basis.

Group Index Linked Portfolio Concentration Risk
(YE 2011 vs. YE 2010)

	2011	2010	Change (%)
Expected Loss	96,709	45,256	114%
Unexpected Loss	791,792	577,770	37%
Credit VaR (99%)	888,501	623,026	43%
Concentration Index (Normalised Herfindhal Index)	5.66%	5.48%	3%

Reinsurance credit risk

Mediolanum Vita has reinsured part of its portfolio. Exposures arising from reinsurance are exposures to counterparty risk. In line with the methods applied to other portfolios, credit risk exposures associated with reinsurance are computed by calculating expected losses where the probability of default is derived from CDS spreads (where CDS are not available, industry spreads are used). Credit risk associated with reinsurance contracts is partly mitigated through deposits received from counterparties.

**Mediolanum Vita Portfolio Reinsurance Credit Risk
(Data as of Dec. 31, 2011)**

	Reinsured Technical Reserves (€/000)	EL (€/000)	Moody's Rating	S&P's Rating	PD	LGD
Total	87,566	1,066				
Swiss Re Europe SA	37,090	658	A1	AA-	2.96%	60%
Munchener Ruck Italia S.p.A.	19,292	120	Aa3	AA-	1.04%	60%
SCOR Global Life SE	12,552	72	A2	A	0.96%	60%
Swiss Re Frankona Rueckversicherung - AG	7,814	139	A1	AA-	2.96%	60%
SCOR Global Life SE (EX REVIOS)	8,402	48	A2	A	0.96%	60%
Hannover Rueckversicherung - AG	2,390	29	N/A	AA-	2.05%	60%
INA Assitalia	26	0	N/A	A	0.96%	60%

Fair Value Hierarchy Disclosures

Fair value hierarchy information relating to Mediolanum Vita's Free Capital, Traditional Reserves and Class III Portfolios is set out in the table below.

Data as of Dec. 31, 2011 - Mediolanum Vita

€/'000	L1 2011	L1 2010	L2 2011	L2 2010	L3 2011	L3 2010	TOTAL 2011	TOTAL 2010
Free Capital								
Assets								
Debt securities	4,645,949	5,455,955	366,352	216,047	27,365	720	5,039,666	5,672,722
Equities	-	34	-	-	1,480	1,506	1,480	1,540
Holdings in UCITS	-	-	9	-	29,253	30,007	29,262	30,007
Loans	-	-	-	-	-	-	-	-
Financial derivatives	-	-	576	164	1,463	1,860	2,039	2,024
Credit derivatives	-	-	-	-	-	-	-	-
TOTAL ASSETS	4,645,949	5,455,988	366,938	216,211	59,560	34,093	5,072,447	5,706,293
Liabilities								
Financial derivatives	-	-	(4,278)	(7,498)	(3,861)	(5,693)	(8,139)	(13,191)
TOTAL LIABILITIES	-	-	(4,278)	(7,498)	(3,861)	(5,693)	(8,139)	(13,191)
TOTAL A+L	4,645,949	5,455,988	362,660	208,713	55,699	28,400	5,064,307	5,693,102
Class III								
Assets								
Debt securities	116,575	165,864	1,095,143	1,616,130	55,423	24,664	1,267,141	1,806,658
Equities	-	-	-	-	-	-	-	-
Holdings in UCITS	8,309,871	8,472,412	2,875	3,058	-	-	8,312,746	8,475,470
Loans	-	-	-	-	-	-	-	-
Financial derivatives	-	-	24,312	24,919	3,191	96,828	21,121	121,748
Credit derivatives	-	-	-	-	-	-	-	-
TOTAL ASSETS	8,426,446	8,638,276	1,122,329	1,644,108	52,232	121,492	9,601,008	10,403,876
Liabilities								
Liabilities under financial contracts issued by insurance companies	-	-	-	(765)	-	(77)	-	(842)
Deposits received from reinsurers	-	-	-	-	-	-	-	-
Financial liabilities of reinsurance contracts	-	-	-	-	-	-	-	-
Amounts due to banks	-	-	-	-	-	-	-	-
Amounts due to customers	-	-	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	-	-	-	(765)	-	(77)	-	(842)
TOTAL A+L	8,426,446	8,638,276	1,122,329	1,643,343	52,232	121,415	9,601,008	10,403,034

As you can see from the data above, 99% of Level 3 assets are assets backing Class III reserves and as such any movement in their fair value is directly reflected in the same amount in mathematical reserves without impact on the Company's profitability. These assets mostly consist of options on stock market indices whose value is linked to parameters such as volatility and correlation that are not directly observable in the market.

Fair value hierarchy information relating to Mediolanum International Life Ltd's Free Capital and Class III Portfolios is set out in the table below.

Mediolanum International Life Ltd
As of Dec. 31, 2011

€/'000	L1 2011	L1 2010	L2 2011	L2 2010	L3 2011	L3 2010	TOTALE 2011	TOTALE 2010
Free Capital								
Assets								
Debt securities	46,813	90,392	4,726	5,336	7,305	6,045	58,844	101,773
Equities	-		-	-	-	-	-	-
Holdings in UCITS	-	174	-	-	-	-	-	174
Loans	-	-	-	-	-	-	-	-
Financial derivatives	-	-	619	634	1,225	493	1,845	1,127
Credit derivatives	-	-	-	-	-	-	-	-
TOTAL	46,813	90,566	5,346	5,969	8,530	6,538	60,689	103,073
Class III								
Assets								
Debt securities	159,216	105,482	1,486,593	1,868,467	-	-	1,645,810	1,973,948
Equities	-	-	-	-	-	-	-	-
Holdings in UCITS	559,863	671,421	156,272	160,300	-	-	716,135	831,721
Loans	-	-	-	-	-	-	-	-
Financial derivatives	-	-	123,311	122,053	738,880	883,981	862,191	1,006,034
Credit derivatives	-	-	-	-	-	-	-	-
TOTAL ASSETS	719,080	776,903	1,766,176	2,150,820	738,880	883,981	3,224,136	3,811,704
Liabilities								
Liabilities under financial contracts issued by insurance companies	(27,839)	(34,522)	(52,544)	(42,081)	-	-	(80,383)	(76,603)
Deposits received from reinsurers	-	-	-	-	-	-	-	-
Reinsurance contracts	-	-	-	-	-	-	-	-
Amounts due to banks	-	-	-	-	-	-	-	-
Amounts due to customers	-	-	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	(27,839)	(34,522)	(52,544)	(42,081)	-	-	(80,383)	(76,603)
TOTAL A+L	691,240	742,381	1,713,632	2,108,739	738,880	883,981	3,143,752	3,735,101

NOTE: debt securities have been reclassified separating bonds from derivatives.

As you can see from the data above, 99% of Level 3 assets are assets backing Class III reserves and as such any movement in their fair value is directly reflected in the same amount in mathematical reserves without impact on the Company's profitability. These assets mostly consist of certificates, i.e. hybrid instruments with a significant fixed-rate component and a derivative component that requires a valuation model with input data that are not observable market data.

Banking – Financial Risk and Credit Risk

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.

Credit Risk

General

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

Banca Mediolanum Lending Division is responsible for ensuring adequate implementation of the Bank's credit policy in compliance with laws and regulations in force. This division is organised into the short-term lending unit, the medium/long-term lending unit, the Watchlist unit, the Credit Operations unit and the Credit Policy and Monitoring unit.

The Short-term lending team is responsible for all processes relating to approval and granting of overdrafts, loans, endorsements as well as for management of guarantees.

The team exercises credit approvals under delegated authorities. For credit that is outside the scope of the authorities delegated to it, the team prepares all information and documentation relating to the loan application including a non-binding opinion and submits it to superior bodies.

The Medium/long-term lending team is responsible for approval and granting of mortgage loans in accordance with Credit Management Guidelines and Rules. This team prepares and submits reports to the Head of the Division and the Service Engineering & Analysis unit and collaborates with the Credit Policy and Monitoring unit in the preparation of Mortgage Lending Policy and Rules.

The Watchlist team deals with customers in difficulty ensuring that suitable solutions are found and implemented in a timely manner in accordance with policies and rules. This team also supervises and records any amounts in arrear collected by foreign lenders that are part of the Group.

The Credit Operations team manages the relationships with customers and the Sales Network providing all-round assistance across the credit application process for all types of lending. The team has also approval authority for low-risk, limited-amount credit applications.

The Credit Policy and Monitoring team sees to the preparation of credit management policies and strategies proposals, defining the methodological principles and the technical rules for credit risk management and developing models for estimating and measuring credit risk in close coordination with the Compliance & Risk Control function.

Credit risk management – Organisational Aspects

The risk management framework includes policies that set out general principles and instructions on lending as well as on monitoring the quality of the loan portfolio. The Parent Company of the Banking Group is responsible for assessing overall exposure to credit risk and defining credit risk measurement policies for the whole Group.
Credit risk exposure is also assessed at the level of individual companies in their respective areas of responsibility, by measuring and monitoring the risk associated with the various categories of financial instruments. Capital adequacy and, in particular, compliance with solvency ratios and exposure limits for credit risk as set by local supervisory authorities are periodically monitored by the competent offices of the respective companies.

Credit risk measurement, management and control

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

Credit risk mitigation techniques

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

Real guarantees are:
1. financial collateral, i.e. cash, certain financial instruments, gold – pledged or transferred-, repurchase/reverse repurchase and securities lending/borrowing transactions;
2. master netting agreements;

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

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

As to pledges, the financial asset that is directly or indirectly pledged as security must be one of the following:
bank account balances held with our bank;

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

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

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

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

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

Assessment of the quality of the loan portfolio

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

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

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

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

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

the Bank expects to incur on an exposure as a result of the deterioration of credit quality or default of the borrower.

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

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

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:

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

Impaired financial assets

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

The rules set forth by the Basel Committee introduced significant changes in the general definitions of problem loans and the discretionary guidance of national supervisory authorities. The most significant change relates to the definition of default.

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

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

In accordance with the discretionary guidance of national supervisory authorities, each entity within the Group classifies troubled positions according to their level of risk.

Each entity has dedicated problem loan management units that apply operating procedures and take action according to the severity of the problem.

Analysis of credit exposures by category and credit quality (book value)

€/'000	Non performing	Watch list	Re-structured	Past Due	Other Assets	Total
1. Financial assets held for trading	-	-	-	-	692,842	692,842
2. Available-for sale financial assets	-	21,185	-	-	6,228,553	6,249,738
3. Held-to-maturity investments	-	4,885	-	-	692,977	697,862
4. Loans to banks	-	-	-	-	2,049,309	2,049,309
5. Loans to customers	8,424	27,170	226	6,344	4,217,197	4,259,361
6. Financial assets at fair value	-	-	-	-	-	-
7. Financial assets being disposed of	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-
Total at Dec. 31, 2011	8,424	53,240	226	6,344	13,880,878	13,949,112
Total at Dec. 31, 2010	8,439	26,806	223	3,627	10,726,562	10,765,657

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

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

Nonperforming loans consist of on and off-balance sheet exposures (e.g. loans, securities, derivatives) to borrowers that are unable to meet their payment obligations - even if their insolvency has not been established by a court of law - or in equivalent conditions, regardless of any losses estimated by the lender and irrespective of any security taken.

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

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

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

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

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

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

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 Group entered into ISDA Master Agreements. In addition, Banca Mediolanum put in place ad-hoc procedures and tools for the management of collaterals in relation to derivative transactions and used Credit Support Annexes (CSA) as key instruments to mitigate related counterparty risk.

Concentration Risk

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

Credit Risk Stress Testing

Credit risk exposures are essentially gauged using three key parameters: Exposure at Default (EAD), Probability of Default (PD) and Loss Given Default (LGD).
EAD is essentially the nominal amount of the credit facility less any collateral or other security taken, and for derivatives, the positive mark-to-market (MTM) value of the derivative.
With respect to exposures to Regulated Financial Institutions, Banca Mediolanum has classified the counterparties by external rating. Since direct stressing of the PD associated with the rating is difficult due to the lack of reliable historical default data for Italian banks (that account for the largest portion of these exposures), Banca Mediolanum evaluated the potential impact of a downgrade on risk weighted assets and hence on capital require-

ments. In the retail book the probability of default (PD) was calculated using historical default data for consumer households recorded by the Bank of Italy (for the Italian market) and by Banco de Espana (for the Spanish market). Loss Given Default (LGD) was assumed equal to 45% (as per Basel II Foundation Internal Ratings Based - F-IRB - rules) for the corporate book, and in stress testing applied to the regulated financial institutions' book (at this stage LGD is not the subject of particular analysis for these books). Given the distribution of loss in the loan portfolio, these key parameters, notably EAD, the value of collateral and PD, are necessarily those to be used in stress testing to see how they would change in a hypothetical adverse macroeconomic scenario.

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

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

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

Market Risk

Interest Rate Risk and Pricing Risk – Trading Book

General

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

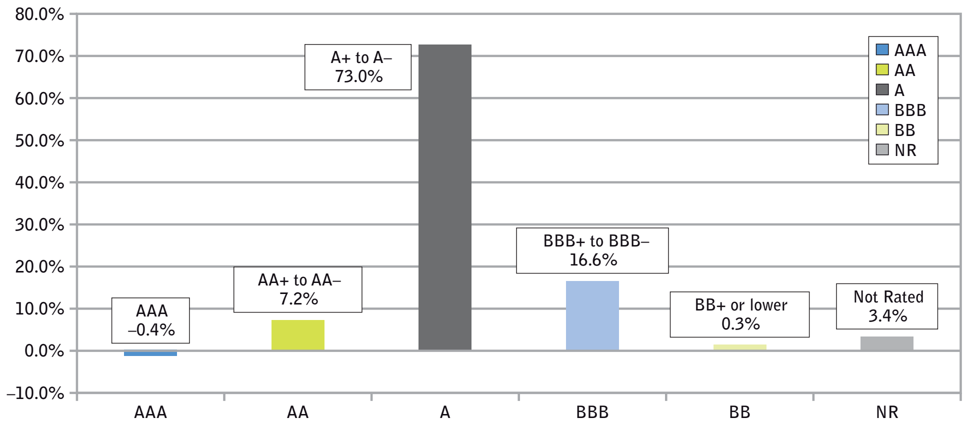
Specifically, the trading book consists of positions held by those Group functions authorised to take market risk exposures within the limits and the authorities delegated to them by their respective Boards of Directors, in accordance with the Banking Group's Parent Company guidelines.

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

Securities Portfolio: HFT, HTM, AFS, L&R – RATING COMPOSITION (YE 2011 vs. YE 2010)

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

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



Interest Rate Risk and Pricing Risk - Measurement and Management

The Parent Company's Compliance & Risk Control function is responsible for ensuring that the various entities use consistent methods in assessing financial risk exposure. It also contributes to the definition of lending and operating limits. However, each entity within the Group is directly responsible for the control of the risks assumed. Risks are to be in accordance with the policies approved by the respective Board of Directors and consistent with the complexity of managed assets.
Exposure to interest rate risk is measured by applying portfolio analyses (e.g. exposure limits, characteristics of the instruments and of the issuers) as well as by estimating the risk of maximum loss on the portfolio (Value at risk).

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

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

Interest rate and pricing risks - Banking book

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

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

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

Hedge Accounting

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

Hedge Ratio
(YE 2011 vs. YE 2010)

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

Liquidity risk

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

Liquidity Risk Stress Testing

In addition to monitoring liquidity on a daily basis, the Mediolanum Banking Group also conducts stress scenario simulations.
Stress scenarios are run for both systemic events (Market Stress Scenarios) and bank specific events (Bank Specific Stress Scenarios) in relation to the macroeconomic environment, commercial policies and customer behaviour.

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

Bank specific events may include:

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

Simulations are run under the different stress scenarios to evaluate the effects on the expected behaviour of inflows and outflows over a given time horizon, both in terms of estimated cash-flows and timing. The Maturity Ladder is redefined for each scenario simulation.

The stress testing results based on hypothetical events at December 30, 2011 are set out in the table below and show that limits are not exceeded:

Time bucket	Stressed values	Unstressed values	LIMITS
T+1d	1,461,245	765,655	> 300.000
T+5d	1,702,680	968,019	> 300.000
T+1M	1,870,279	1,132,792	> 300.000

The scenario used for the test whose results are set out in the table above relates to a general deterioration in the quality of instruments eligible for refinancing:

- 10% decline in the market value of debt securities in the liquidity reserve;
- 5 percentage point increase in the haircut on Spanish and Italian government securities;
- 8.5 percentage point increase in the haircut on securities issued by banks.

Fair value hierarchy disclosures

Fair value hierarchy information relating to the Mediolanum Banking Group is set out in the table below.

Data as of Dec. 31, 2011 - MEDIOLANUM BANKING GROUP

€/'000	L1 2011	L1 2010	L2 2011	L2 2010	L3 2011	L3 2010	TOTAL 2011	TOTAL 2010
Assets	6,894,178	3,039,217	827,363	1,067,324	86,669	61,405	7,808,210	4,167,946
Debt securities	6,884,254	3,038,573	711,829	942,507	27,090	201	7,623,173	3,981,281
Equities	337	628	35	253	13,218	10,423	13,591	11,304
Holdings in UCITS	9,577	-	113,846	120,697	46,360	50,780	169,783	171,478
Loans	-	-	-	-	-	-	-	-
Financial derivatives	9	16	1,653	3,867	-	1	1,662	3,884
Credit derivatives	-	-	-	-	-	-	-	-
Liabilities	(320,067)	(443,605)	(81,036)	(36,364)	-	(2)	(401,102)	(479,972)
Amounts due to banks	-	-	-	-	-	-	-	-
Amounts due to customers	(320,066)	(443,604)	(192)	(164)	-	(1)	(320,259)	(443,769)
Financial derivatives	(0)	(2)	(80,843)	(36,200)	-	(1)	(80,844)	(36,203)
Total	6,574,111	2,595,611	746,328	1,030,960	86,669	61,403	7,407,107	3,687,974

In accordance with IASB/IFRS requirements, Level 3 includes holdings in real estate funds that are part of the Banca Mediolanum's AFS portfolio, minority interests in unlisted companies and debt securities measured using an internal model when risk data are not directly observable in the market.

Insurance contracts - Disclosures under IFRS7

Specific technical offices monitor the following risks:

- Longevity Risk. This risk is kept in check by monitoring developments in survival rates, on the basis of statistics and market analysis;
- Mortality Risk. When structuring a product, mortality risk is estimated based on primary and secondary mortality tables derived from reinsurers' tables.

The risk that the counterparty cancels the contract earlier (lapse risk) and the risk of inadequate loadings to cover the costs of contract acquisition and administrative expenses (expense risk) are prudentially assessed when pricing a new product. Product pricing and profit testing are based on assumptions derived from the company's experience or the local market. To mitigate the risk of early contract cancellation by the counterparty, penalties are applied. Said penalties are calculated to compensate lost revenues, at least partly.

Guidelines for Product Classification

The main assumption adopted to classify a product as insurance, especially those markedly financial in content (index-linked and unit-linked contracts), is the obligation to pay benefits in case of death. Contracts were classified as insurance or investment contracts according to the significance of that obligation.

For the purpose of said classification the most important assumption is the "significance threshold", i.e. the difference between the benefit payable in case of death and the contract mathematical reserve (i.e. the value of the underlying financial asset for class III products).
For traditional products another key element was considered, i.e. the payment of life annuity and the presence of features which can be classified as "Discretionary Participation Features".

Measurement assumptions

In accordance with the principle of prudence, the mortality tables and technical rates used to calculate and measure technical reserves (for class I contracts) were the same used to price premiums (Legislative Decree 174, art. 25 paragraph 11).

Mortality table technical rates

Type of product	Technical rates applied in the calculation of premiums	Technical rates applied in the calculation of reserves
Pure Endowment	S.I.M. 1971: 3% 4%	S.I.M. 1971: 3% 4%
Whole life	S.I.M. 1981: 3% 4%	S.I.M. 1981: 3% 4%
Mixed	S.I.M. 1961 / 1981: 2% 3% 4%	S.I.M. 1961 / 1981: 2% 3% 4%
Annuities	S.I.M. 1931 / 1951 / 1971 S.I.M. p.s. 1971: 2% 3% 4% RG48: 0%	S.I.M. 1931 / 1951 / 1971 S.I.M. p.s. 1971 RG48: 2% 3% 4% IPS55: 0% 2% 3% 4%
Term	S.I.M. 1961 / 1981 / 1992: 4%	S.I.M. 1961 / 1981 / 1992: 4%
Group	S.I.M. 1971 S.I.M. 1971 p.s. RG48: 3% 4%	S.I.M. 1971 S.I.M. 1971 p.s. RG48: 3% 4%
Index Linked		SIM02
Unit Linked		SIM92

Significant clauses

Certain class I contracts, specifically deferred life annuity contracts, guarantee the payment of minimum income benefits, calculated on the basis of the survival assumptions adopted by the Company when the contract is made. In relation to those contracts the Company constantly monitors survival trends and raises a specific reserve to cover the risk that technical reserves may be inadequate to cover the payment of those benefits.

Insurance Risk

Since for Class III contracts the investment risk is borne by the policyholder, insurance risk is represented only by the risk of death of the policyholder. That risk is covered via treaty reinsurance arrangements (excess per risk treaties) which limit the Company's overall exposure per head insured. No such reinsurance protection is purchased for class III products since the Company judges it can cover the risk of death of the policyholder using its own equity.

Liability adequacy testing (lat)

The company assessed the adequacy of technical reserves for Medinvest segregated funds, using a current estimate of future cash-flows from insurance contracts, net of deferred acquisition costs and intangible assets. Contracts were grouped on the basis of similar technical rate and future cash-flows were discounted at the risk-free interest rate. That exercise showed that the carrying amount of technical reserves is adequate.
No express quantitative testing was performed for class III contracts since liabilities coincide with underlying assets and other technical reserves are broadly covered by annual management fees and loadings (for coverage in case of death of the policyholder) or are calculated using a prudent estimate of actual operating costs (reserve for future expenses).
The Group insurance companies are engaged in the implementation of the Solvency II framework.
In 2011, these companies continued in-depth analysis, knowledge building and training on future solvency requirements, put in place the technology infrastructure and set up the organisational structures needed for the implementation of the Solvency II project.

Embedded value sensitivity analysis was applied to both in-force business and new business generated in the year to December 31, 2011 (calculated from the date the insurance product was sold). To that end the following stresses were applied

1. 100 bps decline in risk-free rates
2. 100 bps increase in risk-free rates
3. 10% decrease in equity/property values
4. 25% increase in equity/property implied volatilities
5. 25% increase in swaption implied volatilities
6. 10% decrease in maintenance expenses
7. 10% decrease in acquisition expenses
8. 10% decrease in lapse rates
9. 5% decrease in mortality rates for life insurance business
10. 5% decrease in mortality rates for annuity business

The quantitative impact is set out in the table below:

	MCEV		Value of new business	
	€/m	%	€/m	%
Base value	1,758.4	-	(2)	-
INTEREST RATES AND ASSETS				
1% reduction in risk-free reference rates	(73)	(4.2%)	(4)	ns
1% increase in risk-free reference rates	34	1.9%	(1)	ns
10% decrease in equity/property values	(89)	(5.1%)	(1)	ns
25% increase in equity/property implied volatilities	(4)	(0.2%)	-	ns
25% increase in swaption implied volatilities	(2)	(0.1%)	-	ns
EXPENSES AND PERSISTENCY				
10% decrease in maintenance expenses	23	1.3%	1	ns
10% decrease in acquisition expenses	-	0.0%	4	ns
10% decrease in lapse rates	37	2.1%	4	ns
INSURANCE RISKS				
5% decrease in mortality rates for life assurance business	3	0.2%	-	ns
5% decrease in mortality rates for annuity business	(2)	(0.1%)	-	ns
REQUIRED CAPITAL				
Supervisory minimum solvency margin	-	0.0%	-	ns

Operational Risk

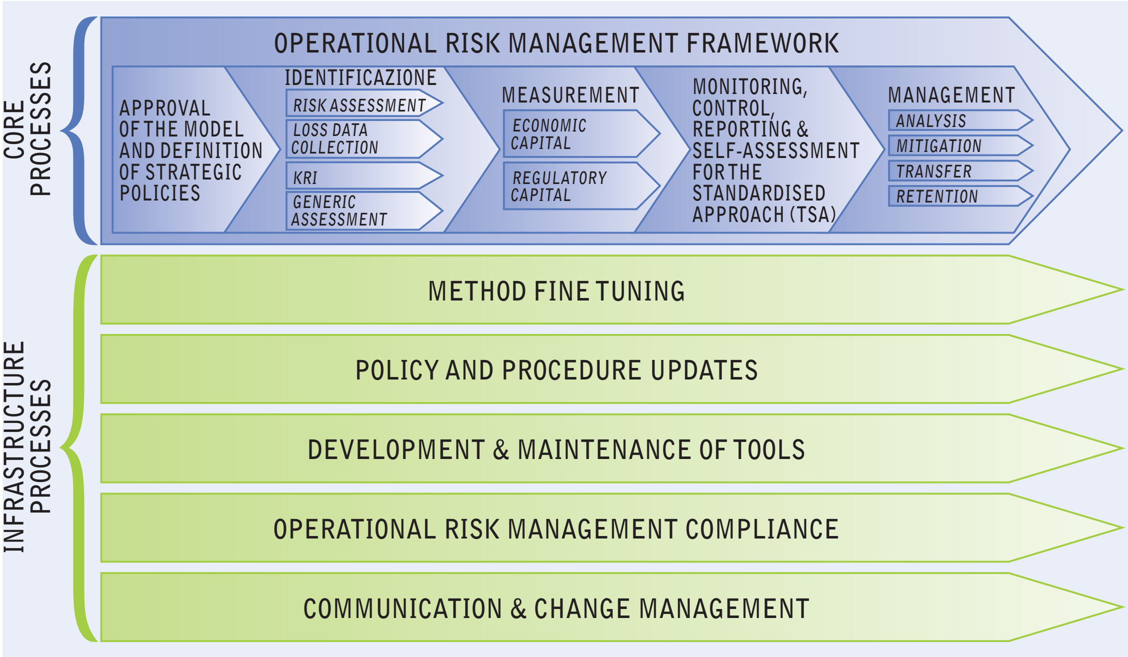
Operational risk is pervasive across the organisation and is closely correlated to legal risk and regulatory risk. (compliance risk).

The Mediolanum Group defines operational risk as "the risk of economic loss or damage to assets, and sometimes legal and administrative consequences, resulting from any misconduct or inappropriate behaviour of its personnel, inadequate or failed systems or internal processes, or external events".

Therefore, the identification, monitoring and management of operational risk entail the analysis of the processes and activities carried out by the various companies within the Group, in addition to the activities conducted by the Parent Company.

The approach used to analyse risks entails the classification of processes into "core processes" and "infrastructure processes". Core processes include operating activities that are connected to the value chain, while infrastructure processes relate to activities supporting operations and to the company's administrative activities.

Group Operational Risk Management is focused on both the assessment of the adequacy of risk management and monitoring procedures applied by the individual entities within the Group, in accordance with statutory and regulatory requirements and deadlines, as well as on the assessment of the specific operational risk to which the Parent Company may be exposed. These activities are conducted under the operational risk management framework set out in the diagram below:



Each main element in the diagram above indicates a macro-process which is divided into one or more sub-processes. In turn, these sub-processes consist of a series of steps and actions that are detailed in internal procedures.

In 2011, 207 organisational units of Companies within the Mediolanum Group were examined, identifying over 3,657 operational risk checkpoints. About 80% of these checkpoints were judged to be adequate or in need of being just better formalised. About 77 risk mitigation actions were taken in relation to risk controls that were judged to be unsatisfactory or in need of improvement.
Said work was conducted by the operational risk management staff of each consolidated entity with the assistance of local officers at subsidiaries who are responsible for liaising with the correspondent unit of the Parent Company for guidance and control. In fulfilling said exercise, staff relied on an integrated database used across the Group for both operational risk management and assessment of statutory and regulatory compliance.
The activities carried out are subject to regular audit by an independent organisational structure.
The tests and analyses performed within the Mediolanum Group show the adequacy of the Group regulatory capital vis-à-vis operational risk, measured applying not only the standardised approach but also internal statistical analyses of processes and probability of adverse events.
As part of risk self assessment, the controls in place at Mediolanum Group companies are reviewed to assess their completeness and effectiveness also in relation to the tools used.
No material aspect emerged from controls carried out.

Compliance Risk

The risk of legal penalties or fines, financial losses or reputational damage resulting from failed compliance with statutes, regulations, codes of conduct, self discipline or internal rules.
Banca Mediolanum and in particular the Banking Group Compliance Officer is responsible for ensuring strong governance of compliance risk management across the Mediolanum Group.

Strategic Risk

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

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

Reputational risk

Reputational risk is considered to be a "second-tier" risk arising from the failure to properly manage other risks, e.g. operational risk or strategic risk, which may lead to reputational damage.
Reputational risk may arise from external events, negative news about the company, the behaviour of its employees or improper management of external communications.
The Mediolanum Group has in place processes geared to ensuring proper management of relationships with all stakeholders and continuously monitoring their satisfaction. These processes are reviewed annually and results are examined to develop actions and projects for improvement and ultimately ensure long-term sustainable growth. Details can be found in the Group's Social Report.
Marketing staff monitor Mediolanum standing in terms of perception of the corporate image and brand and feeds from said monitoring activities are used to properly manage reputational risk.

PART G - BUSINESS COMBINATIONS

1. Transactions concluded during the year

In the year under review Mediolanum Corporate University was merged into Banca Mediolanum with no effects on the consolidated accounts. This transaction does not fall within the scope of application of IFRS 3 as it was a combination involving entities under common control. The business combination was accounted for in the separate accounts of Banca Mediolanum at the same carrying amounts and with no effect on the income statement.

2. Post-balance sheet date transactions

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

PART H - RELATED PARTY TRANSACTIONS

Transactions with related parties are part of the ordinary business of companies within the Group. These transactions are made at arm's length and in the interests of the individual entities.

In accordance with IAS 24, the following parties are Mediolanum S.p.A. Group related parties:

- the parent company Mediolanum S.p.A.;
- subsidiaries under its direct or indirect control;
- associates and joint-ventures (Banca Esperia Group, Mediobanca Group);
- parents and subsidiaries.

The following parties also fall within the definition of related parties:

- the members of the Boards of Directors of Group companies;
- Mediolanum S.p.A key management officers.

As part of its ordinary business, the Group has commercial and financial relationships with companies that are related parties. As part of its distribution and solicitation of investment business, the Group made contracts for the sale of asset management, insurance and banking products and services through the sales networks of Group companies. As part of its banking business, the Group made bank account, custodian, administration and brokerage service contracts. As part of its asset management business, the Group made asset management contracts. In addition the Group made contracts for the organisation of events, television communication, IT and administrative services, rental, personnel secondment and other minor activities with Mediolanum Group companies.

Related party transactions as of Dec. 31, 2011

1. Information on related party transactions

€/'000	Associates	Other related parties
Held to Maturity Investments	115,858	-
Loans and Receivables	168,369	7,383
Available for Sale Financial Assets	74,042	55,893
Financial Assets at fair value through profit or loss	227,778	-
Other receivables	-	2,438
Other financial liabilities	(669)	(45,100)
Other payables	(464)	(7,103)

€/'000	Associates	Other related parties
Net commissions	(2,628)	10,474
Net income (loss) on financial instruments at fair value through profit or loss	729	1
Net income (loss) on investments in subsidiaries, associates and joint-ventures	1,097	-
Net interest	11,263	957
Realised gains (losses)	738	-
Unrealised gains (losses)	784	-
Other revenues (expenses)	(10)	(7,566)
Other income (expense)	-	2,656
Operating expenses - other administrative expenses	(37)	(38,687)

2. Key management compensation

€/'000	Directors, Deputy/General Managers & Statutory Auditors	Other key management
Emoluments & social security contributions	7,193	180
Non-cash benefits	66	-
Share-based awards (stock options)	98	-

PART I - EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

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

At the Extraordinary General Meeting held on April 26, 2005, the shareholders of Mediolanum S.p.A. resolved to increase share capital for a consideration, in one or more occasions over five years, by issuing up to 9,500,000 Mediolanum S.p.A. shares to be allotted to the employees, directors and contract workers of the company and its subsidiaries under a stock option plan, which could be implemented on multiple occasions and in different years.
The stock options granted to employees would be exercisable upon the expiration of a two-year vesting period at a share price equal to the fair market value – as defined by tax rules – of the Mediolanum stock on the date of the Board of Directors' resolutions relating to the respective capital increases.
The exercise of the Options granted to employees was subject to the satisfaction of the Vesting Conditions established annually by the company that employs them.
The exercise of the Options - subject to the satisfaction of the Vesting Conditions - and the subsequent subscription for Shares by Employees were allowed only upon the expiration of two years from the Grant Date (vesting period). The exercise of the Options and the subsequent subscription for Shares were to be made in full on a single occasion in the first five business days of each of the sixty calendar months subsequent to the Vesting Date.

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

At the Extraordinary General Meeting of Mediolanum S.p.A held on April 23, 2009, the shareholders resolved to extend assessment of the satisfaction of vesting conditions over the entire exercise period i.e. the period spanning from the Vesting Date to 60 months thereafter. The shareholders also resolved to revoke the authority to increase share capital for a consideration through the issue of shares to be allotted to the employees and directors of the Company and its subsidiaries, conferred upon the Board of Directors by the shareholders at the General Meetings of April 26, 2005 and April 19, 2007, and partly executed, and to amend article 6 of the Bylaws accordingly.
As to the Director Stock Option Plan, at its Meeting of May 13, 2009, the Board of Directors of Mediolanum S.p.A. approved the reduction of the vesting period from 36 to 24 months and the extension of the exercise period from 12 to 60 months.
At the same meeting, the Board of Directors of Mediolanum S.p.A. also resolved to increase share capital for a consideration by €60,613.50 by issuing shares to be subscribed by the contract workers of the Company and its subsidiaries in the first five business days of each of the 60 calendar months subsequent to the expiration of three years from May 13, 2009 and to amend article 6 of the Bylaws accordingly.
Finally, at its May 13, 2009 meeting, the Board of Directors of Mediolanum S.p.A. resolved to effect the share capital increases under article 2443 of the Italian Civil Code to serve the Contract Worker Stock Option Plan and allot 606,135 rights to the contract workers of the Company and its subsidiaries. The rights are exercisable from the 1st trading day of May 2012 and not later that the 5th* trading day of May, 2017 at a price of €1.022.

On March 9, 2010, after consulting with the Compensation Committee, the Board of Directors of Mediolanum S.p.A. approved the guidelines for the Stock Options Plan reserved to the directors and executives of the Company and its subsidiaries ('Top Management Plan 2010') as well as the guidelines for the Stock Options Plan for contract workers – i.e. the members of the sales network – of the Company and its subsidiary ('Sales Network Plan 2010'), collectively the 'Plans'. The Plans were submitted to the Extraordinary General Meeting of April 27, 2010 for approval.

Pursuant to section 84-bis, paragraph 3 of the Regulation for Issuers, readers are informed that:

- the Top Management Plan 2010 is the stock options plan reserved to the directors and other key management of the Company and/or its subsidiaries. The Sales Network Plan 2010 is the stock options plan reserved to the financial advisors working for the Company and its subsidiaries, as may be selected from time to time for their individual role and contribution to business growth;
- the Plans entail annual awards of rights to subscribe to newly issued ordinary shares of the Company (the 'Stock Options'). The implementation of the Plan entails two new rights issues reserved to each of the two categories of Beneficiaries, pursuant to art. 2441, paragraph five, of the Italian Civil Code, as resolved by the Board of Directors under the authority delegated to it by the General Meeting, pursuant to art. 2443 of the Italian Civil Code. The Stock Options under the Top Management Plan 2010 shall vest over a period of three to five years of the Grant Date and be exercisable for a period of three years after the date of vesting. The Stock Options under the Sales Network Plan 2010 shall vest over a period of five to ten years of the Grant Date and be exercisable for a period of three years after the date of vesting.
  The exercise of the Stock Options under the Plans is conditional upon the achievement of specific corporate and/or individual performance targets. The details of the Plans shall be laid down by the Board of Directors after consultation with the competent bodies of the Company and its subsidiaries;
- the Plans are designed to provide incentives to the Beneficiaries and at the same time promote value creation and growth for the Company and, accordingly, its shareholders. The Top Management Plan 2010 is believed to be an adequate scheme to link key management incentives to both medium-term performance of the

Company/Group and individual performance, align goals and maximise the creation of value for the shareholders. The Sales Network Plan 2010 is an adequate scheme to link sales network incentives to both medium-term performance of the Company/Group and individual performance, align goals and maximise the creation of value for the shareholders. Considering the length of the vesting period, the Sales Network Plan 2010 is also a powerful way to enhance the sales network loyalty.

On July 8, 2010, after consulting with the Compensation Committee, by virtue of the authorities delegated to it by the Ordinary and Extraordinary General Meetings of April 27, 2010, the Board of Directors of Mediolanum S.p.A. resolved to:

- approve the Rules for the Stock Options Plan reserved to the Directors and Executives of the company and the Group ('Top Management Plan 2010') and the Rules for the Stock Options Plan for the Sales Network of the company and the Group ('Sales Network Plan 2010');
- increase the Company's share capital up to €160,000.00, for a consideration, by issuing up to 1,600,000 shares for the allotment of stock options under the Top Management Plan 2010;
- increase the Company's share capital up to €131,744.20, for a consideration, by issuing up to 1,317,442 shares for the allotment of stock options under the Sales Network Plan 2010;
- grant the beneficiaries – 19 under the Top Management Plan and 193 under the Sales Network Plan – part of the stock options under the Plans.

On May 12, 2011, after consulting with the Compensation Committee, by virtue of the authorities delegated to it by the Ordinary and Extraordinary General Meetings of April 27, 2010, the Board of Directors of Mediolanum S.p.A. resolved, *inter alia*:

- to approve the amendments to 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');
- in partial execution of the authorities delegated to the Board of Directors by the shareholders at the Extraordinary General Meeting of April 27, 2010 – to increase the Company's share capital up to €188,200.00 (one hundred and eighty-eight thousand two hundred point zero), for a consideration, by issuing up to 1,882,000 (one million eight hundred and eighty two thousand) dividend-bearing ordinary shares, par value of €0.1 each, with the exclusion of shareholders' pre-emptive rights pursuant to article 2441, paragraph five, of the Italian Civil Code, as they are reserved to the Directors and executives of the company and its subsidiaries pursuant to article 2359 paragraph 1, N. 1, of the Italian Civil Code for subscription at a price of €1.076 (one point zero seventy six) per share. The shares are to be subscribed, in a single occasion in the first five business days of each of the thirty six calendar months subsequent to the expiration of the three year term starting from today's date, except for any different exceptional circumstances set forth in the Plan rules. The final deadline for share subscription is therefore set at the fifth business day in the thirty-sixth calendar months subsequent to the expiration of the three year term from today's date. In the event that the capital increase is not fully subscribed by said deadline, share capital will be increased by the amount of the subscriptions received as of that date;
- in partial execution of the authorities delegated to the Board of Directors by the shareholders at the Extraordinary General Meeting of April 27, 2010 – to increase the Company's share capital up to €67,427.50 (sixty seven thousand four hundred and twenty seven point fifty), for a consideration, by issuing up to 674,275 (six hundred seventy four thousand two hundred and seventy five) dividend-bearing ordinary shares, par value of €0.1 each, with the exclusion of shareholders' pre-emptive rights pursuant to article 2441, paragraph five, of the Italian Civil Code, as they are reserved to the sales network of the company and its subsidiaries pursuant to

article 2359 paragraph 1, N. 1, of the Italian Civil Code for subscription at a price of €1.076 (one point zero seventy six) per share. The shares are to be subscribed, in a single occasion in the first five business days of each of the thirty six calendar months subsequent to the expiration of the nine year term starting from today's date, except for any different exceptional circumstances set forth in the Plan rules. The final deadline for share subscription is therefore set at the fifth business day in the thirty-sixth calendar months subsequent to the expiration of the nine year term from today's date. In the event that the capital increase is not fully subscribed by said deadline, share capital will be increased by the amount of the subscriptions received as of that date;
- 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.

In accordance with art. 79 of Consob Regulation 11971 of May 14, 1999 the interests of Directors and Statutory Auditors in ordinary shares of the company and its subsidiaries are set out in Schedule 3 below prepared pursuant to Annex 3C of said regulation.

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.

3. Changes occurred in the year

In financial year 2011, 939,406 new Mediolanum dividend-bearing ordinary shares were issued following the exercise of stock options by Directors and Sales Network people of companies within the Mediolanum Group. This entailed a €93,940.60 increase in Mediolanum ordinary share capital and a €926,146.65 increase in the share premium account.

The year's movements in option holdings are set out in the table below.

€/'000	December 31, 2011			December 31, 2010		
Number of options and exercise price	Number of options	Average exercise price	Average expiration	Number of options	Average exercise price	Average expiration
A. Opening balance	7,261,693	3.00482	sept-16	5,925,285	3.00482	Jan 15
B. Increases	2,556,275	-	-	2,917,442	-	-
B.1. New issues	2,556,275	1.07600	nov-18	2,917,442	1.12900	March 19
B.2 Other	-	-	x	-	-	x
C. Decreases	(965,995)	-	-	(1,581,034)	-	-
C.1. Cancelled	(43,600)	4.41723	x	(54,006)	4.66195	x
C.2. Exercised (*)	(922,395)	1.08145	x	(1,474,381)	1.18810	x
C.3 Lapsed	-	-	x	(52,647)	1.11800	x
C.4 Other	-	-	x	-	-	x
D. Closing balance	8,851,973	2.32954	May 17	7,261,693	3.00482	Sept 16
E. Options exercisable at year end	2,775,521	5.02993	x	2,094,504	6.41988	x

(*) Average market price on exercise date was 3.41.

4. 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 €1,898 thousand and entailed a corresponding increase in the Company's equity reserves.

Basiglio, March 22, 2012

For the Board of Directors
The Chairman
(Roberto Ruozi)

Schedules

SCHEDULES

This section presents financial information in accordance with the "Instructions for the preparation of IFRS consolidated accounts" issued by ISVAP under Regulation No. 7 of July 13, 2007, as subsequently amended by ISVAP Regulation 2784 of March 8, 2010.

In accordance with the regulations mentioned above, for segment reporting purposes, balance sheet and income statement balances were allocated as follows: 'Life Business' includes only the balances of the Life Insurance companies within the Group while 'Financial Business' includes the balances of the parent company Mediolanum S.p.A., the Mediolanum Banking Group and other Group companies. 'Intersegment' shows intercompany balances that were offset against each other.

This presentation of segmental information differs from that used in past years. The new format was adopted to present information in a manner that is more in line with the Mediolanum Group management reporting approach, as noted in Part E - Segmental information.

BALANCE SHEET AS AT DECEMBER 31, 2011

Segment Reporting by Business sector

	LIFE INSURANCE	
€/'000	2011	2010
1. Intangible assets	100,861	99,353
2. Tangible assets	17,249	17,783
3. Reinsurers' share of technical reserves	89,273	96,201
4. Investments	18,367,485	20,341,135
4.1 Investment property	108,041	90,654
4.2 Investments in subsidiaries, associates and joint ventures	-	-
4.3 Held-to-maturity investments	308,087	252,529
4.4 Loans and receivables	301,164	222,491
4.5 Available-for-sale financial assets	2,609,978	2,541,646
4.6 Financial assets at fair value through profit or loss	15,040,215	17,233,815
5. Receivables	5,850	7,165
6. Other assets	618,189	500,037
6.1 Deferred acquisition costs	-	-
6.2 Other	618,189	500,037
7. Cash and cash equivalents	576,310	751,248
Total assets	19,775,217	21,812,922
1. Shareholders' equity	-	-
2. Provisions	781	1,466
3. Technical reserves	18,632,275	20,550,747
4. Financial liabilities	511,467	522,210
4.1 Financial liabilities at fair value through profit or loss	88,522	90,636
4.2 Other financial liabilities	422,945	431,574
5. Payables	126,627	137,295
6. Other liabilities	71,841	82,882
Total liabilities and shareholders' equity	-	-

BANKING		INTERSEGMENT		TOTAL	
2011	2010	2011	2010	2011	2010
66,060	63,764	-	-	166,921	163,117
52,711	56,813	-	-	69,960	74,596
-	-	-	-	89,273	96,201
14,937,615	10,878,496	(838,805)	(369,555)	32,466,295	30,850,076
-	-	-	-	108,041	90,654
404,493	447,058	-	-	404,493	447,058
697,862	1,118,166	-	-	1,005,949	1,370,695
6,689,931	6,238,702	(745,211)	(276,882)	6,245,884	6,184,311
6,452,428	2,117,941	-	-	9,062,406	4,659,587
692,901	956,629	(93,594)	(92,673)	15,639,522	18,097,771
134	376	(243)	(96)	5,741	7,445
484,983	408,193	(267,988)	(249,181)	835,184	659,049
-	-	-	-	-	-
484,983	408,193	(267,988)	(249,181)	835,184	659,049
365,171	802,623	(603,095)	(758,668)	338,386	795,203
15,906,674	12,210,265	(1,710,131)	(1,377,500)	33,971,760	32,645,687
-	-	-	-	762,350	1,036,160
159,912	136,835	-	-	160,693	138,301
-	-	-	-	18,632,275	20,550,747
14,861,550	11,100,356	(1.513,854)	(1,174,891)	13,859,163	10,447,675
401,158	479,995	(56)	(23)	489,624	570,608
14,460,392	10,620,361	(1,513,798)	(1,174,868)	13,369,539	9,877,067
156,936	196,119	(58,309)	(83,522)	225,254	249,892
398,152	259,117	(137,968)	(119,087)	332,025	222,912
-	-	-	-	33,971,760	32,645,687

INCOME STATEMENT AS AT DECEMBER 31, 2011

Segment Reporting by Business sector

	LIFE INSURANCE	
€/'000	2011	2010
1.1 Net premiums written	9,544,821	9,124,518
1.1.1 Gross premiums written	9,549,168	9,129,211
1.1.2 Reinsurance premiums	(4,347)	(4,693)
1.2 Commission income	257,709	274,477
1.3 Net income on financial instruments at fair value through profit and loss	(495,646)	995,828
1.4 Income on investments in subsidiaries, associates and jvs	-	-
1.5 Income on other financial instruments and investment property	69,067	164,313
1.6 Other revenues	11,393	12,455
1 Total revenues and income	9,387,344	10,571,591
2.1 Net claims and benefits	(9,038,065)	(10,152,812)
2.1.1 Amounts paid and change in technical reserves	(9,043,533)	(10,158,748)
2.1.2 Reinsurers' share	5,468	5,936
2.2 Commission expense	(6,818)	(7,184)
2.3 Losses on investments in subsidiaries, associates and jvs	-	-
2.4 Loss on other financial instruments and investment property	(69,890)	(28,955)
2.5 Operating expenses	(161,814)	(167,870)
2.6 Other costs	(51,898)	(50,922)
2 Total costs	(9,328,485)	(10,407,743)
Profit (loss) before tax for the period	58,859	163,848

BANKING		INTERSEGMENT		TOTAL	
2011	2010	2011	2010	2011	2010
-	-	(1,404)	(971)	9,543,417	9,123,547
-	-	(1,404)	(971)	9,547,764	9,128,240
-	-	-	-	(4,347)	(4,693)
898,000	945,025	(403,189)	(406,138)	752,520	813,364
(95,032)	7,263	(10,429)	(9,088)	(601,107)	994,003
6,544	14,387	-	-	6,544	14,387
439,483	220,689	(21,913)	(12,618)	486,637	372,384
41,036	49,963	(31,452)	(37,363)	20,977	25,055
1,290,031	1,237,327	(468,387)	(466,178)	10,208,988	11,342,740
-	-	1,781	1,668	(9,036,284)	(10,151,144)
-	-	1,781	1,668	(9,041,752)	(10,157,080)
-	-	-	-	5,468	5,936
(550,548)	(568,787)	294,647	287,907	(262,719)	(288,064)
(41,126)	-	-	-	(41,126)	-
(265,445)	(100,364)	21,154	11,355	(314,181)	(117,964)
(347,755)	(352,976)	105,752	120,568	(403,817)	(400,278)
(59,477)	(73,585)	45,053	44,680	(66,322)	(79,827)
(1,264,351)	(1,095,712)	468,387	466,178	(10,124,449)	(11,037,277)
25,680	141,615	-	-	84,539	305,463

Subsidiaries consolidated line by line

Company	Country	Method (1)
Mediolanum Vita S.p.A.	086	G
Partner Time S.p.A. (on liquidation)	086	G
Banca Mediolanum S.p.A.	086	G
Mediolanum Comunicazione S.p.A.	086	G
Mediolanum Gestione Fondi SGR p.A.	086	G
Mediolanum International Funds Ltd	040	G
Mediolanum Asset Management Ltd	040	G
P.I. Servizi S.p.A.	086	G
Banco de Finanzas e Inversiones S.A.	067	G
Fibanc Pensiones S.G.F.P. S.A.	067	G
Fibanc S.A.	067	G
Ges Fibanc S.G.I.I.C. S.A.	067	G
Mediolanum International Life Ltd	040	G
Bankhaus August Lenz & Co. AG	094	G
Gamax Management AG	092	G
Mediolanum Distribuzione Finanziaria S.p.A.	086	G

(1) Consolidation method: Line-by-line consolidation method = G; Proportionate consolidation method = P; Line-by-line consolidation method arising from joint management = U
(2) 1 = italian insurance companies; 2 = EU insurance companies UE; 3 = non EU insurance companies; 4 = insurance holding companies; 5 = EU reinsurance companies; 6 = non EU reinsurance companies; 7 = banks; 8 = asset management companies; 9 = holding companies; 10 = real estate companies; 11 = other
(3) Net Group partecipation percentage
(4) Total shareholding % different from direct/indirect shareholding %

Non-consolidated subsidiaries and associated companies

(Values in euro) Company	Country	Method (1)
Banca Esperia S.p.A.	086	7
Mediobanca S.p.A.	086	7

(1) 1 = Italian insurance companies; 2 = EU insurance companies UE; 3 = non EU insurance companies; 4 = insurance holding companies; 5 = EU reinsurance companies; 6 = non EU reinsurance companies; 7 = banks; 8 = asset management companies; 9 = holding companies; 10 = real estate companies; 11 = other
(2) A = Subsidiaries (IAS27); B = Associates (IAS28); C = *joint ventures* (IAS 31); a star (*) indicates entities classified as held for sales in accordance with IFRS 5
(3) Net Group partecipation percentage
(4) Total shareholding % different from direct/indirect shareholding %

Activity (2)	Direct Shareholding %	Indirect Shareholding % (3)	Total (4)	Group Equity Ratio
1	100.00	100.00	100.00	100.00
11	100.00	100.00	100.00	100.00
7	100.00	100.00	100.00	100.00
11	100.00	100.00	100.00	100.00
8	49.00	100.00	100.00	100.00
8	44.00	100.00	100.00	100.00
11	49.00	100.00	100.00	100.00
11	100.00	100.00	100.00	100.00
7	0.00	100.00	100.00	100.00
8	0.00	100.00	100.00	100.00
11	0.00	100.00	100.00	100.00
8	0.00	100.00	100.00	100.00
2	100.00	100.00	100.00	100.00
7	0.00	100.00	100.00	100.00
8	0.00	100.00	100.00	100.00
11	0.00	100.00	100.00	100.00

Activity (2)	Direct Shareholding %	Indirect Shareholding % (3)	Total (4)	Book Value
B	50.00	50.00	50.00	81,538,000
B	2.63	3.38	3.45	322,955,000

Analysis of tangible and intangible assets

€/'000	At cost	Remeasured or at fair value	Book value
Investment property	108,041	-	108,041
Other property	60,061	-	60,061
Other tangible assets	9,899	-	9,899
Other intangible assets	17,057	-	17,057

Analysis of reinsurers' share of technical reserves

	Insurance		Reinsurance		Book value	
€/'000	FY 2011	FY 2010	FY 2011	FY 2010	FY 2011	FY 2010
General business reserves	-	-	-	-	-	-
Unearned premiums	-	-	-	-	-	-
Outstanding claims	-	-	-	-	-	-
Other reserves	-	-	-	-	-	-
Life business reserves	89,273	96,201	-	-	89,273	96,201
Outstanding claims	1,707	963	-	-	1,707	963
Mathematical reserves	87,566	95,210	-	-	87,566	95,210
Technical reserves for contracts under which the investment risk is borne by the policyholder and for pension fund management	-	28	-	-	-	28
Other reserves	-	-	-	-	-	-
Total reinsurers' share of technical reserves	89,273	96,201	-	-	89,273	96,201

Analysis of financial assets

	Held-to-maturity investments		Loans and receivables	
€/'000	2011	2010	2011	2010
Equity instruments and derivatives at cost	-	-	-	-
Equity instruments at fair value	-	-	-	-
of which listed	-	-	-	-
Debt instruments	1,005,949	1,370,695	-	-
of which listed	450,593	465,022	-	-
Holdings in UCITS	-	-	-	-
Loans to and receivables from banking customers	-	-	4,370,481	4,423,114
Loans to and receivables from banks	-	-	1,866,543	1,751,830
Deposits with cedents	-	-	-	-
Financial assets of insurance contracts	-	-	-	-
Other loans and receivables	-	-	8,860	9,367
Trading derivatives	-	-	-	-
Hedging derivatives	-	-	-	-
Other financial investments	-	-	-	-
Total	1,005,949	1,370,695	6,245,884	6,184,311

Available-for-sale financial assets		Financial assets at fair value through profit or loss: Financial assets held for trading		Financial assets at fair value through profit or loss: Financial assets at fair value through profit or loss		Book value	
2011	2010	2011	2010	2011	2010	2011	2010
-	-	-	-	-	-	-	-
34,387	32,803	3	6	-	-	34,390	32,809
3,524	4,732	3	6	-	-	3,527	4,738
8,847,747	4,444,365	2,883,613	3,948,561	3,796,258	4,907,791	16,533,567	14,671,412
8,374,279	4,258,612	2,752,145	3,861,285	275,791	271,346	11,852,808	8,856,265
180,272	182,419	18,773	19,239	8,935,348	9,215,139	9,134,393	9,416,797
-	-	-	-	-	-	4,370,481	4,423,114
-	-	-	-	-	-	1,866,543	1,751,830
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	8,860	9,367
-	-	5,527	7,035	-	-	5,527	7,035
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
9,062,406	4,659,587	2,907,916	3,974,841	12,731,606	14,122,930	31,953,761	30,312,364

Assets and liabilities relating to contracts issued by insurance companies under which the investment risk is borne by the policyholder and to pension fund management

	Investment funds & indices		Pension funds		Total	
€/'000	FY 2011	FY 2010	FY 2011	FY 2010	FY 2011	FY 2010
On-balance sheet assets	12,731,606	14,122,930	-	-	12,731,606	14,122,930
Intercompany assets*	93,533	92,650	-	-	93,533	92,650
Total Assets	12,825,139	14,215,580	-	-	12,825,139	14,215,580
On-balance sheet financial assets	88,523	89,794	-	-	88,523	89,794
On-Balance Sheet Technical Reserves	12,735,460	14,123,807	-	-	12,735,460	14,123,807
Intercompany liabilities*	-	-	-	-	-	-
Total Liabilities	12,823,983	14,213,601	-	-	12,823,983	14,213,601

* Asset and liabilites eliminated upon consolidation

Analysis of technical reserves

€/'000	Insurance		Reinsurance		Book value	
	FY 2011	FY 2010	FY 2011	FY 2010	FY 2011	FY 2010
General business reserves	-	-	-	-	-	-
Unearned premiums	-	-	-	-	-	-
Outstanding claims	-	-	-	-	-	-
Other reserves	-	-	-	-	-	-
of which amounts set aside following liability adequacy testing	-	-	-	-	-	-
Life business reserves	18,632,275	20,550,747	-	-	18,632,275	20,550,747
Outstanding claims	134,529	117,002	-	-	134,529	117,002
Mathematical reserves	5,755,113	6,298,296	-	-	5,755,113	6,298,296
Technical reserves for contracts under which the investment risk is borne by the policyholder and for pension fund management	12,735,460	14,123,807	-	-	12,735,460	14,123,807
Other reserves	7,173	11,642	-	-	7,173	11,642
of which amounts set aside following liability adequacy testing	-	-	-	-	-	-
of which deferred liabilities to policyholders	-	-	-	-	-	-
Total Technical Reserves	18,632,275	20,550,747	-	-	18,632,275	20,550,747

Analysis of financial liabilities

€/'000	Financial liabilities at fair value through profit or loss			
	Financial liabilities held for trading		Financial liabilities at fair value through profit or loss	
	FY 2011	FY 2010	FY 2011	FY 2010
Quasi-equity instruments	-	-	-	-
Subordinated liabilities	-	-	-	-
Liabilities under financial contracts issued by insurance companies of which	-	-	80,383	77,446
contracts under which the investment risk is borne by the policyholder	-	-	80,383	77,446
pension fund management	-	-	-	-
other contracts	-	-	-	-
Deposits received from reinsureres	-	-	-	-
Financial liabilities of insurance contracts	-	-	-	-
Debt securities issued	-	-	-	-
Amounts due to banking customers	-	-	-	-
Amounts due to banks	-	-	-	-
Other financing received	-	-	-	-
Trading derivatives	21,087	20,883	-	-
Hedging derivatives	-	-	67,896	28,510
Other financial liabilities	320,258	443,769	-	-
Total	341,345	464,652	148,279	105,956

Analysis of technical account items

€/'000	FY 2011		
	Gross	Reinsurers' share	Net
General Business	-	-	-
PREMIUMS WRITTEN	-	-	-
a Premiums written	-	-	-
b Change in unearned premiums reserve	-	-	-
CLAIMS INCURRED	-	-	-
a Claims paid	-	-	-
b Change in outstanding claims reserve	-	-	-
c Change in recoveries	-	-	-
d Change in other technical reserves	-	-	-
Life Business	-	-	-
PREMIUMS WRITTEN	9,547,764	4,347	9,543,417
AMOUNTS PAID AND CHANGE IN TECHNICAL RESERVES	9,041,752	5,468	9,036,284
a Amounts paid	10,949,749	12,368	10,937,381
b Change in outstanding claims reserve	17,527	744	16,783
c Change in mathematical reserves	(539,971)	(7,644)	(532,327)
d Change in technical reserves for contracts under which the investment risk is borne by the policy holder and for pension fund management	(1,368,059)	-	(1,368,059)
e Change in other technical reserves	(17,494)	-	(17,494)

Other financial liabilities		Book value	
FY 2011	FY 2010	FY 2011	FY 2010
-	-	-	-
-	-	-	-
-	-	80,383	77,446
-	-	80,383	77,446
-	-	-	-
-	-	-	-
87,565	95,210	87,565	95,210
-	-	-	-
524,884	340,479	524,884	340,479
6,942,439	6,468,977	6,942,439	6,468,977
5,602,538	2,756,794	5,602,538	2,756,324
-	-	-	-
-	-	21,087	20,883
-	-	67,896	28,510
212,113	215,607	532,371	659,376
13,369,539	9,877,067	13,859,163	10,447,205

FY 2010		
Gross	Reinsurers' share	Net
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
9,128,240	4,693	9,123,547
10,157,080	5,936	10,151,144
9,536,934	10,012	9,526,922
(38,976)	392	(39,368)
462,402	(4,468)	466,870
230,121	-	230,121
(33,401)	-	(33,401)

Analysis of net interest income and investment income

€/'000	Interest income (expense)	Other income	Other expense
Investment income	575,355	11,831	459
a from investment property	-	7,403	459
b from investments in subsidiaries, associates and joint ventures	-	-	-
c from held-to-maturity investments	51,010	-	-
d from loans and receivables	130,455	-	-
e from available-for-sale financial assets	202,166	3,476	-
f from financial assets held for trading	86,370	-	-
g from financial assets at fair value through profit or loss	105,354	952	-
Income on amounts receivable	639	-	-
Net cash and cash equivalents	61,356	-	-
Loss on financial liabilities	(42,399)	-	-
a on financial liabilities held for trading	(15,038)	-	-
b on financial liabilities at fair value through profit or loss	(415)	-	-
c on other financial liabilities	(26,946)	-	-
Expense on amounts payable	(122,087)	-	-
Total	472,864	11,831	459

Insurance - Analysis of expenses

	General Business		Life Business	
€/'000	FY 2011	FY 2010	FY 2011	FY 2010
Gross agents' commissions & other acquisition costs	-	-	111,179	115,367
a Acquisition commissions	-	-	72,820	72,416
b Other acquisition costs	-	-	13,912	14,621
c Change in deferred acquisition costs	-	-	-	-
d Collection commissions	-	-	24,447	28,330
Commissions and profit sharing from reinsurers	-	-	-	-
Investment management expenses	-	-	4,664	5,212
Other administrative expenses	-	-	45,971	47,291
Total	-	-	161,814	167,870

			Unrealised gains		Unrealised losses				
Realised gains	Realised losses	Total	Gains on measurement	Reversal of impairment	Losses on measurement	Impairment losses	Total	Net income (loss) for FY 2011	Net income (loss) for FY 2010
110,761	180,136	517,352	225,890	5,391	973,687	178,437	(920,843)	(403,491)	1,330,955
48	-	6,992	-	-	-	1,347	(1,347)	5,645	5,034
6,544	-	6,544	-	-	-	41,126	(41,126)	(34,582)	14,387
1,046	-	52,056	-	-	-	15,500	(15,500)	36,556	51,071
266	71	130,650	-	5,233	-	11,409	(6,176)	124,474	120,359
23,360	27,307	201,695	-	158	-	109,055	(108,897)	92,798	117,598
47,973	45,210	89,133	18,416	-	88,894	-	(70,478)	18,655	68,274
31,524	107,548	30,282	207,474	-	884,793	-	(677,319)	(647,037)	954,232
-	-	639	-	21	-	-	21	660	496
-	-	61,356	-	-	-	-	-	61,356	33,349
9,738	4,597	(37,258)	46,230	-	8,643	-	37,587	329	(61,796)
9,738	4,597	(9,897)	1,982	-	8,643	-	(6,661)	(16,558)	(8,303)
-	-	(415)	44,248	-	-	-	44,248	43,833	(20,200)
-	-	(26,946)	-	-	-	-	-	(26,946)	(33,293)
-	-	(122,087)	-	-	-	-	-	(122,087)	(40,194)
120,499	184,733	420,002	272,120	5,412	982,330	178,437	(883,235)	(463,233)	1,262,810

Analysis of other components of comprehensive income

€/'000	Recognition FY 2011	Recognition FY 2010	Adjustments owed to reclassification to the income statement FY 2011	Adjustments owed to reclassification to the income statement FY 2010
Net exchange differences reserve	-	-	-	-
Profit (loss) on available for sale financial assets	(262,077)	(76,900)	48,726	(1,864)
Profit (loss) on cash flow hedges	-	-	-	-
Profit (loss) on hedges of investments in foreign operations	-	-	-	-
Changes in the equity of investees	(19,100)	(750)	-	-
Changes in intangible assets revaluation reserve	-	-	-	-
Changes in tangible assets revaluation reserve	-	-	-	-
Gains (losses) on non-current assets or disposal groups held for sale	-	-	-	-
Actuarial gains (losses) and adjustments on defined benefit plans	-	-	-	-
Other	-	-	-	-
Total other components of comprehensive income	(281,177)	(77,650)	48,726	(1,864)

Analysis of reclassified financial assets and effects on profit (loss) and comprehensive income

€/'000

Category of reclassified financial assets: from	to	Type of assets	Amount of assets reclassified in FY 2011 on re-classification date	Book value of reclassified assets at Dec. 31, 2011: Assets reclassified in the year n	Book value of reclassified assets at Dec. 31, 2011: Assets reclassified up until the year n	Fair value of reclassified assets at Dec. 31, 2011: Assets reclassified in the year n	Fair value of reclassified assets at Dec. 31, 2011: Assets reclassified up until the year n
HFT	AFS	Debt securities	-	-	133,798	-	133,798
HFT	Loans & Receivables	Debt securities	-	-	46,790	-	41,802
Total			-	-	180,588	-	175,600

Other changes FY 2011	Other changes FY 2010	Total changes FY 2011	Total changes FY 2010	Taxation FY 2011	Taxation FY 2010	Balance FY 2011	Balance FY 2010
-	-	-	-	-	-	-	-
-	-	(213,351)	(78,764)	109,260	38,206	(283,184)	(69,833)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	19,100	(750)	-	-	3,201	22,301
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	(232,451)	(79,514)	109,260	38,206	(279,983)	(47,532)

Assets reclassified in FY 2011		Assets reclassified up until FY 2011		Assets reclassified in FY 2011		Assets reclassified up until FY 2011	
Profit or loss recognised in the income statement	Profit or loss recognised under other comprehensive income components	Profit or loss recognised in the income statement	Profit or loss recognised under other comprehensive income components	Profit or loss that would have been recognised in the income statement if no re-classification had been made	Profit or loss that would have been recognised under other comprehensive income components if no re-classification had been made	Profit or loss that would have been recognised in the income statement if no re-classification had been made	Profit or loss that would have been recognised under other comprehensive income components if no re-classification had been made
-	-	-	3,257	-	-	-	(973)
-	-	-	1,637	-	-	-	(3,363)
-	-	-	4,894	-	-	-	(4,336)

Fair value hierarchy of financial assets and financial liabilities

€/'000	
Available for sale financial assets	
Financial assets at fair value through profit or loss	Financial assets held for trading
	Financial assets at fair value
Total	
Financial liabilities at fair value through profit or loss	Financial liabilities held for trading
	Financial liabilities at fair value
Total	

Analysis of movements in level 3 financial assets and liabilities

€/'000	Fiancial Assets			Financial liabilities at fair value through profit or loss	
	Available for sale financial assets	Financial assets at fair value through profit or loss			
		Held for trading	At fair value	Held for trading	At fair value
Opening balance	73,651	28,385	1,005,473	5,693	77
Purchases/Issues	5,756	180,343	221,920	1,067	-
Sales/Buybacks	(2,762)	(176,065)	(126,565)	(1,066)	-
Redemptions	-	-	-	-	-
Gains or losses recognised in the income statement	(66,036)	(1,899)	(278,508)	(1,224)	-
Gains or losses recognised in other components of comprehensive income	16,000	-	-	-	-
Transferred to level 3	83,638	13	-	-	
Transferred to other level	-	(5)	-	-	-
Other changes	(129)	8,984	(31,207)	(609)	(77)
Closing balance	110,118	39,756	791,113	3,861	0

Level 1		Level 2		Level 3		Total	
FY 2011	FY 2010	FY 2011	FY 2010	FY 2011	FY 2010	FY 2011	FY 2010
8,387,380	4,263,344	564,908	322,592	110,118	73,651	9,062,406	4,659,587
2,752,157	3,861,481	116,003	84,975	39,756	28,385	2,907,916	3,974,841
9,051,992	9,323,195	2,888,501	3,794,262	791,113	1,005,473	12,731,606	14,122,930
20,191,529	17,448,020	3,569,412	4,201,829	940,987	1,107,509	24,701,928	22,757,358
320,066	443,607	17,418	15,352	3,861	5,693	341,345	464,652
27,839	34,523	120,440	71,356	-	77	148,279	105,956
347,905	478,130	137,858	86,708	3,861	5,770	489,624	570,608

Independent Auditors' Report

Deloitte.

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

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

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

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

   For the opinion on the prior year's consolidated financial statements, whose data are presented for comparative purposes, reference should be made to the auditors' report issued by other auditors on March 30, 2011.

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

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova
Palermo Parma Roma Torino Treviso Verona

Sede Legale: Via Tortona, 25 - 20144 Milano - Capitale Sociale: Euro 10.328.220,00 i.v.
Codice Fiscale/Registro delle Imprese Milano n. 03049560166 - R.E.A. Milano n. 1720239
Partita IVA: IT 03049560166

Member of Deloitte Touche Tohmatsu Limited

4. The Directors of Mediolanum S.p.A. are responsible for the preparation of the Directors' report and the annual report on Corporate Governance ("Relazione sul governo societario e gli assetti proprietari"), published on the section Corporate Governance/Documents of Business Conduct on Mediolanum website, in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the Directors' report and of the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the annual report on Corporate Governance, 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 and the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998 paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) included in the annual report on Corporate Governance are consistent with the consolidated financial statements of the Mediolanum Group as of December 31, 2011.

DELOITTE & TOUCHE S.p.A.

Signed by
Paolo Gibello Ribatto
Partner

Milan, Italy
March 27, 2012

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

Separate Annual Financial Statements 2011

Directors' Report

Dear Shareholder,

The separate financial statements for the year ended December 31, 2011 that we present for your approval show net profit of €159.6 million, up from €115.9 million in the prior year.

BUSINESS REVIEW

In 2011, the business purposes of PI Distribuzione S.p.A. were amended to have as main activities "the purchase, sale, exchange, management and lease of properties and entities related to the hospitality business". PI Distribuzione S.p.A was renamed PI Servizi S.p.A. The parent company committed to providing adequate funds for future capital increases or in other forms as deemed appropriate, including in tranches, up to €12 million, of which €7.5 million already contributed in September. The amendment to the company's purposes allows to reallocate real estate owned by certain Group companies and streamline the Group organisation under a plan examined by the executive directors of certain companies within the Mediolanum Group.

On May 12, 2011, the Board of Directors of Mediolanum S.p.A. agreed to partake in Banca Esperia S.p.A's €50 million capital increase according to the stake held in that entity (Mediolanum S.p.A. disbursement: €25 million). The aim of the capital increase is to enable Banca Esperia S.p.A to meet upcoming Basel III capital requirements, especially under stress conditions. On November 14, 2011, by a letter convening the General Meeting of shareholders, Banca Esperia called the capital payment with value date November 16, 2011.
In the year under review, the subsidiary Mediolanum International Life Ltd reimbursed the €10 million capital contribution received in the past.

In 2011, dividends from subsidiaries and associates aggregated to €180.3 million versus €135.8 million in the prior year. Dividends from subsidiaries and associates include interim dividends of €53.1 million versus €69.3 million in the prior year.
At year end 2011, the company recorded €0.3 million losses on equity investments for the year's losses reported by subsidiaries (FY 2010: €2.3 million losses).

'Available-for-sale financial assets' generated €0.1 million dividends (FY 2010: 0.5 million) and €0.8 million impairment losses (FY 2010: €2.8 million). During the year under review an amount of €0.2 million was paid under the capital increase of Nomisma S.p.A.

Amounts due to banks were down €154.3 million to €401.2 million from €555.5 million at year end 2010. During 2011 the Company issued notes which at year end 2011 amounted to €239.1 million.
Interest expense amounted to €14.7 million versus €5.7 million in the prior year. The year-on-year increase was due to higher debt as well as higher interest rates resulting from the application of bigger interest rate spreads. Interest

income increased from €5.3 million in 2010 to €6.6 million, mostly earned on the €120 million subordinated loan extended to the subsidiary Mediolanum Vita S.p.A. (+€5.4 million).

At December 31, 2011, staff costs and other administrative expenses aggregated to €10.0 million versus €12.4 million at the end of the prior year.

For financial year 2011 the company reported other net income of €0.5 million versus other net expenses of 0.8 million in the prior year. This largely reflects the adjustments to the value of commitments under the Banca Esperia stock option plans.

For information on the performance of the companies that are part of the Mediolanum Group, readers are referred to the Directors' Report in the consolidated financial statements.

Impairment test

Subsidiaries that are part of the Mediolanum Group are carried at historical values which are significantly lower than their value in use. In connection therewith, you are advised that the Mediolanum Group average stock market value in 2011 was 2.5x its equity book value.

As to Mediobanca, to determine the recoverable amount of this investment at December 31, 2011, for impairment review purposes, Mediolanum S.p.A requested the assistance of a specialist valuation firm. Recoverable amount was determined using the dividend discount model in the excess capital variant. Due to the lack of future plans approved by the Board of Directors of Mediobanca, the financial projections used for impairment testing were derived from recent research done by financial analysts. Details are set out in the consolidated financial statements.
The recoverable amount of the stake in Mediobanca resulting from the valuation made using the dividend discount model in the excess capital variant was €11.1 per share, with values ranging between €10.3 and €11.7 per share, versus a carrying amount of €10.9. It was therefore concluded that there was no impairment of this investment.
As to Banca Esperia, for the purpose of impairment review at December 31, 2011, Directors considered that the company's equity approximated its carrying amount and also used as reference the appraisal at June 30, 2011, requested by Banca Esperia and issued by the independent specialist firm on January 25, 2012, made to determine the exercise price of the Private Bankers Stock Options Plan. The appraisal used the following assumptions: going concern, growth at a normal rate, materialisation of the assumptions and attainment of the targets set out in the Budget for 2012 and the Business Plan for 2013-2014.
Said valuation indicated a value per share of about €2.1, which was more than 2 times the carrying amount of the investment at December 31, 2011 (€0.9 per share). It was concluded that there was no impairment of the investment in Banca Esperia.

Issues of Mediolanum notes

Pursuant to the resolution passed by the Mediolanum S.p.A. Board of Directors at its Meeting of March 1, 2011, mainly for the purpose of restructuring short-term facilities in place between Mediolanum S.p.A. and financial institutions that are not part of the Group, the following non-convertible notes aggregating to €239.2 million (nominal value), were offered to the public. Specifically:

- €49.4 million (nominal value) fixed rate notes due April 29, 2014, bearing interest at a rate of 3.5%;
- €48.9 million (nominal value) notes due April 29, 2014, bearing interest at 6-month EURIBOR + 1%;
- €48.3 million (nominal value) fixed rate notes due May 20, 2013, bearing interest at 3.15%;
- €47.8 million (nominal value) notes due May 20, 2015, bearing interest at 6-month EURIBOR;
- €24.4 million (nominal value) fixed rate notes due May 31, 2013, bearing interest at 3.15%;
- €20.4 million (nominal value) notes due May 31, 2015, bearing interest at 6-month EURIBOR.

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

For information on disclosures pursuant to the document jointly issued by the Bank of Italy, CONSOB and ISVAP on March 3, 2010, readers are referred to the Directors' Report and the Notes to the consolidated financial statements.

Main risks and uncertainties

For information about the risks and uncertainties to which the Mediolanum Group is exposed readers are referred to the Directors' Report and the Notes to the consolidated financial statements.

Other information

Pursuant to the resolution passed at the Annual General Meeting held on April 21, 2011, Mediolanum S.p.A. separate accounts are audited by Deloitte & Touche S.p.A.

Treasury Shares

The company holds 385,000 treasury shares aggregating to €2.0 million (0.052% of share capital). During the year there were no movements in treasury shares.

Post balance sheet date event

On February 29, 2012, an amount of €25 million was paid into the subsidiary Banca Mediolanum as capital increase.

In the period between December 31, 2011 and the date on which these financial statements were approved there was no material event other than those commented, which could have a significant impact on the financial positions, result of operations or cash flows of the company.

Outlook

In the light of the foregoing, considering 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 Group's outlook for next year is positive.

Information on Stock Option Plans

On May 12, 2011, after consulting with the Compensation Committee, by virtue of the authorities delegated to it by the Ordinary and Extraordinary General Meetings of April 27, 2010, the Board of Directors of Mediolanum S.p.A. resolved, *inter alia*:

- to approve the amendments to 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');
- in partial execution of the authorities delegated to the Board of Directors by the shareholders at the Extraordinary General Meeting of April 27, 2010 – to increase the Company's share capital up to €188,200.00 (one hundred and eighty-eight thousand two hundred point zero), for a consideration, by issuing up to 1,882,000 (one million eight hundred and eighty two thousand) dividend-bearing ordinary shares, par value of €0.1 each, with the exclusion of shareholders' pre-emptive rights pursuant to article 2441, paragraph five, of the Italian Civil Code, as they are reserved to the Directors and executives of the company and its subsidiaries pursuant to article 2359 paragraph 1, N. 1, of the Italian Civil Code for subscription at a price of €1.076 (one point zero seventy six) per share. The shares are to be subscribed, in a single occasion in the first five business days of each of the thirty six calendar months subsequent to the expiration of the three year term starting from today's date, except for any different exceptional circumstances set forth in the Plan rules. The final deadline for share subscription is therefore set at the fifth business day in the thirty-sixth calendar months subsequent to the expiration of the three year term from today's date. In the event that the capital increase is not fully subscribed by said deadline, share capital will be increased by the amount of the subscriptions received as of that date;
- in partial execution of the authorities delegated to the Board of Directors by the shareholders at the Extraordinary General Meeting of April 27, 2010 – to increase the Company's share capital up to €67,427.50 (sixty seven thousand four hundred and twenty seven point fifty), for a consideration, by issuing up to 674,275 (six hundred seventy four thousand two hundred and seventy five) dividend-bearing ordinary shares, par value of €0.1 each, with the exclusion of shareholders' pre-emptive rights pursuant to article 2441, paragraph five, of the Italian Civil Code, as they are reserved to the sales network of the company and its subsidiaries pursuant to article 2359 paragraph 1, N. 1, of the Italian Civil Code for subscription at a price of €1.076 (one point zero seventy six) per share. The shares are to be subscribed, in a single occasion in the first five business days of each of the thirty six calendar months subsequent to the expiration of the nine year term starting from today's date, except for any different exceptional circumstances set forth in the Plan rules. The final deadline for share subscription is therefore set at the fifth business day in the thirty-sixth calendar months subsequent to the expiration of the nine year term from today's date. In the event that the capital increase is not fully subscribed by said deadline, share capital will be increased by the amount of the subscriptions received as of that date;
- 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.

Dear Shareholder,

We assure you that the financial statements for the year ended December 31, 2011 presented to you for examination and approval were prepared in compliance with the law in force.

In requesting your approval of the financial statements including this report, we propose the following appropriation of the year's net profit of €159,592,246.67:

- distribution of a full-year dividend of €0.11 per share (par value of €0.10) to the shareholders, including the interim dividend of €0.07 paid in November 2011. The final dividend of €0.04 per share will be due for payment from May 24, 2012 (ex-dividend date May 21, 2012). Said dividend will not be payable for treasury shares held after the close of business on May 18, 2012;
- the remainder to the Extraordinary Reserve as the legal reserve has already reached the statutory limit.

Basiglio, March 22, 2012

For the Board of Directors
The Chairman
(Roberto Ruozi)

Accounts
2011

Balance sheet

Assets

€	Dec. 31, 2011	Dec. 31, 2010
Non current assets		
Intangible assets	2,686	3,842
Tangible assets	58,301	86,394
Investments in subsidiaries and associates	994,291,547	972,130,693
Loans to subsidiaries	120,073,973	120,103,562
Available-for-sale financial assets	19,349,466	19,993,916
Total Non current assets	1,133,775,973	1,112,318,407
Current assets		
Receivables from		
Subsidiaries	709,593	2,338,557
Related parties	20,570	21,705
Others	1,415,486	1,879,815
Cash and cash equivalents		
Bank deposits	135,371,624	15,909,383
Cash	9,666	11,529
Tax Assets		
Current	118,350,809	86,911,511
Deferred	3,516,330	1,294,990
Other assets	610,738	164,594
Total Current assets	260,004,816	108,532,084
TOTAL ASSETS	1,393,780,789	1,220,850,491

Shareholders' equity and liabilities

€	Dec. 31, 2011	Dec. 31, 2010
Shareholders' equity and liabilities		
Capital and reserves		
Share capital	73,381,937	73,287,996
Treasury shares	(2,045,116)	(2,045,116)
Share premium account	56,013,083	55,086,936
Lehman Brothers operation equity reserve	84,692,746	84,692,746
Retained earnings	271,262,249	257,874,516
Valuation reserve for AFS financial instruments	-	80,279
Net profit (loss) for the period	159,592,247	115,932,434
Total Capital and reserves	642,897,146	584,909,791
Non current liabilities		
Completion-of-service entitlements	501,167	620,836
Other provisions	-	525,000
Notes	239,076,737	-
Total Non current liabilities	239,577,904	1,145,836
Liabilities		
Due to banks	401,215,060	555,470,527
Due to the shareholders	402,744	443,903
Due to suppliers	146,432	96,836
Other payables	1,293,740	2,166,840
Tax liabilities		
Current	107,709,479	75,689,960
Deferred	6,205	42,824
Other liabilities	532,079	883,974
Current liabilities	511,305,739	634,794,864
TOTAL LIABILITIES	750,883,643	635,940,700
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	1,393,780,789	1,220,850,491

Income Statement

€	Dec. 31, 2011	Dec. 31, 2010
Dividends and similar income		
from subsidiaries	176,310,295	131,942,986
from associates	3,849,601	3,849,601
from available for sale financial assets	124,559	455,265
Interest income and similar income	6,635,593	5,335,795
Interest expense and similar charges	(14,663,310)	(5,713,984)
Impairment/reversal of impairment of:		
available for sale financial assets	(775,834)	(2,777,230)
loans and other financial instruments	-	(420)
NET INCOME FROM FINANCIAL OPERATIONS	171,480,904	133,092,013
Staff costs	(3,918,829)	(6,783,209)
Other administrative expenses	(6,070,224)	(5,571,337)
Amortisation and depreciation		
intangible assets	(1,156)	(1,876)
tangible assets	28,094)	(31,189)
Other income (expenses)	517,397	(848,028)
OPERATING EXPENSES	(9,500,906)	(13,235,639)
Profit (loss) on investments in subsidiaries, associates and joint-ventures	(339,146)	(2,269,586)
PROFIT (LOSS) BEFORE TAX ON CONTINUING OPERATIONS	161,640,852	117,586,788
Income tax	(2,048,605)	(1,654,354)
PROFIT (LOSS) AFTER TAX ON CONTINUING OPERATIONS	159,592,247	115,932,434
NET PROFIT (LOSS) FOR THE YEAR	159,592,247	115,932,434
EARNINGS PER SHARE	0.217	0.158

Statement of Comprehensive Income

€	Dec. 31, 2011	Dec. 31, 2010
NET PROFIT (LOSS) FOR THE PERIOD	159,592,247	115,932,434
OTHER COMPREHENSIVE INCOME, NET OF INCOME TAX		
AVAILABLE-FOR-SALE FINANCIAL ASSETS	(80,279)	8,016
TOTAL OTHER COMPREHENSIVE INCOME, NET OF INCOME TAX	(80,279)	8,016
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	159,511,968	115,940,450

Statement of changes in shareholders' equity

as of December 31, 2011

€	Balance at Jan. 1, 2011	Appropriation of prior year's profit: Reserves	Appropriation of prior year's profit: Dividends and other
Share capital	73,287,996	-	-
Share premium account	55,086,936	-	-
Reserves:			
a) retained earnings	257,874,516	64,657,786	-
b) other	84,692,746	-	-
Valuation reserves:	-	-	-
a) AFS fin. instruments	80,279	-	-
Treasury shares	(2,045,116)	-	-
Net profit (loss)	115,932,434	(64,657,786)	(51,274,648)
Shareholders' equity	584,909,791	-	(51,274,648)

as of December 31, 2010

€	Balance at Jan. 1, 2010	Appropriation of prior year's profit: Reserves	Appropriation of prior year's profit: Dividends and other
Share capital	73,140,058	-	-
Share premium account	53,477,108	-	-
Reserves:			
a) retained earnings	254,128,539	65,834,035	-
b) other	107,599,550	-	-
Valuation reserves	-	-	-
a) AFS fin. instruments	72,263	-	-
Treasury shares	(2,045,116)	-	-
Net profit (loss)	113,350,017	(65,834,035)	(47,515,982)
Shareholders' equity	599,722,419	-	(47,515,982)

Movements in the year							
	Shareholders' Equity						
Change in reserves	Share issues	Purchase of treasury shares	Extraordinary dividends distribution	Change in equity instruments	Stock options	Net profit for the year Dec. 31, 2011	Shareholders' equity at Dec. 31, 2011
-	93,941	-	-	-	-	-	73,381,937
-	926,147	-	-	-	-	-	56,013,083
-	-	-	(51,337,341)	-	67,288	-	271,262,249
-	-	-	-	-	-	-	84,692,746
-	-	-	-	-	-	-	Total
-	-	-	-	-	-	(80,279)	-
							Total
-	-	-	-	-	-	-	(2,045,116)
-	-	-	-	-	-	159,592,247	159,592,247
-	1,020,088	-	(51,337,341)	-	67,288	159,511,968	642,897,146

Movements in the year							
	Shareholders' Equity						
Change in reserves	Share issues	Purchase of treasury shares	Extraordinary dividends distribution	Change in equity instruments	Stock options	Net profit for the year Dec. 31, 2010	Shareholders' equity at Dec. 31, 2010
-	147,938	-	-	-	-	-	73,287,996
-	1,609,828	-	-	-	-	-	55,086,936
-	-	-	(62,233,604)	-	145,546	-	257,874,516
(22,906,804)	-	-	-	-	-	-	84,692,746
-	-	-	-	-	-	-	Total
-	-	-	-	-	-	8,016	80,279
							Total
-	-	-	-	-	-	-	(2,045,116)
-	-	-	-	-	-	115,932,434	115,932,434
(22,906,804)	1,757,766	-	(62,233,604)	-	145,546	115,940,450	584,909,791

Cash flow statement

Indirect method

€/'000	Dec. 31, 2011	Dec. 31, 2010
Profit (loss) before tax for the period	161,641	117,587
Changes in non-monetary items		
Completion-of-service entitlements	176	230
Amortisation and depreciation	29	33
Stock Options	67	145
Other	3,615	(44,953)
Changes in receivables and payables relating to operating activities		
Changes in other receivables and payables	235,031	(2,942)
Net cash from monetary items relating to investment and financial activities	-	-
NET CASH FROM OPERATING ACTIVITIES	400,559	70,100
Net cash from subsidiaries, associates and joint venture	(25,250)	(1,600)
Net cash from available-for-sale financial assets	-	-
Net cash from tangible and intangible assets	-	(1)
Other cash flows from investment activities	-	(30,000)
NET CASH FROM INVESTING ACTIVITIES	(25,250)	(31,601)
Net cash from equity instruments	1,020	1,758
Net cash from treasury shares	-	-
Distribution of dividends	(102,612)	(109,750)
Net cash from subordinated liabilities	-	-
Net cash from other financial liabilities	(154,256)	75,073
NET CASH FROM FINANCING ACTIVITIES	(255,848)	32,919
Effect of exchange rate changes on cash and cash equivalents	-	-
Cash and cash equivalents at beginning of the period	15,921	10,341
Net increase (decrease) in cash and cash equivalents	119,461	5,580
Cash and cash equivalents at end of the period	135,382	15,921

Notes to the Separate Annual Financial Statements 2011

Notes to the separate annual financial statements

These notes are structured as follows:

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

PART A - ACCOUNTING BASIS

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

The accounts and the notes also include comparative information for the year ended December 31, 2010.
The financial statements were prepared in compliance with the general requirements of IAS 1 and the specific accounting standards adopted by the European Commission, as presented in Part B (Accounting Policies) herein, as well as in compliance with the underlying assumptions set out in the IASB Framework for the Preparation and Presentation of Financial Statements.

In applying IAS/IFRS, no departure was made from requirements therein.

PART B - ACCOUNTING POLICIES

This section presents the accounting policies applied in the preparation of the separate financial statements for the year ended December 31, 2011.
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 the items of income and expense, are consistent with those applied in the preparation of the separate financial statements for the year ended December 31, 2010.

Equity investments

This account relates to investments in subsidiaries, associates and joint ventures carried at cost.
On initial recognition these investments are measured at cost, i.e. the fair value of the investment, plus any directly attributable transaction costs or income.

After initial recognition equity investments continue to be carried 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 investment, 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.

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 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 date they are extended 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 Company 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.
Available-for-sale 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.

Loans and receivables

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

Tangible assets

Tangible assets include furnishings, fixtures, fittings, plant and equipment.
These are tangible items that are held for use in the production or supply of goods or services, or for administrative purposes and that are expected to be used during more than one period.
Tangible assets are initially recognised at cost, which comprises the purchase price of the asset and all costs directly attributable to the asset's acquisition and operation.
The costs of major repairs which increase the future economic benefits associated with the asset are recognised in the carrying amount of the asset, while the costs of day-to-day servicing are recognised in the income statement.
Tangible assets are carried at cost less any accumulated depreciation and impairment losses.
Tangible assets are systematically depreciated on a straight-line basis over their useful lives.
At each interim and annual reporting date if there is an indication that an asset may be impaired the carrying amount of the asset is compared to its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset. If the recoverable amount of an asset is less than its carrying amount, the carrying amount is reduced to its recoverable amount. Any reduction is recognised as impairment loss in the income statement.

If the value of a previously impaired asset increases, the impairment loss is reversed. The reversal shall not result in a carrying amount of the asset that exceeds what the carrying amount less accumulated depreciation would have been had the impairment loss not been recognised at the date the impairment is reversed.
A tangible asset is derecognised from the balance sheet on disposal or when no future economic benefits are expected from its use or disposal.

Intangible assets

Intangible assets include the costs of software used over more than one year.
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. Expenditure on the renovation of leasehold property is amortised over a period which does not exceed the lease term.
At each reporting date, if there is evidence of impairment, the recoverable amount of the asset is estimated. If the recoverable amount of the asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss. The impairment loss is recognised in profit or loss.
An intangible asset is derecognised on disposal or when no future economic benefits are expected from it.

Financial liabilities

Other financial liabilities include the various forms of funding from banks and companies within the Group. These financial liabilities are initially recognised when amounts are received.
They are initially measured at fair value, i.e. generally the amount received, plus any additional costs/income directly attributable to the individual funding transaction. 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.

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 risks and charges are recognised in the income statement.

Employee completion-of-service entitlements

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

Employee pension plan

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

Notes issued

Notes (bonds) are initially recognised when amounts are received or notes 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 notes issued below market value is subject to assessment and the difference over market value is directly recognised in the income statement.
After initial recognition, notes 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.

Notes are derecognised from the balance sheet when they expire or are extinguished. Notes are derecognised also when they are 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.

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 which adhered to Italy's tax consolidation regime is expected to continue to generate sufficient taxable income against which temporary differences can be utilised.
Deferred tax assets and deferred tax liabilities are not netted, and are separately recognised in the Balance Sheet under "Tax assets" and "Tax liabilities" respectively.
Deferred taxes are accounted for using the so-called 'liability method' on temporary differences between the tax base of an asset or liability and its carrying amount at the balance sheet date. 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.

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, dividends are recognised in the income statement when their distribution to shareholders is established.

Other information

Use of estimates

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

- Assets and liabilities carried at fair value;
- Identification of loss events as per IAS 39;
- Assumptions used for the identification of any objective evidence of impairment of equity investments recognised in the balance sheet;
- Assessment of loans;
- Provisions for risks and charges;
- Deferred taxation;
- Stock options plan related costs.

Senior management regularly check valuations and estimates made on the basis of past experience and other reasonable factors. Due to the uncertainty typically related to these financial items, actual values may differ from estimates due to the occurrence of unexpected events or changes in operating conditions.
For information about the methods used to determine the financial items above and main risk factors readers are referred to the previous sections of these notes for information on accounting policies and to Part F 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 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 fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

Specifically, for equities, there is evidence of impairment where the decline in the original fair value exceeds one-third or is prolonged for over 36 months.

If there is objective evidence of impairment, the amount of the impairment loss is measured:

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

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

Share-based payments

Stock options are share-based payments.

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

The fair value of the stock option is determined using a valuation technique that takes into account the specific terms and conditions of the stock option plan in place, in addition to information such as the exercise price and the life of the option, the current price of underlying shares, the expected volatility of the share price, dividends expected on the shares and the risk-free interest rate 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 on the vesting date. 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.

PART C – INFORMATION ON THE BALANCE SHEET

ASSETS

Intangible assets

€/'000	Dec. 31, 2011 Assets measured at cost	Dec. 31, 2011 Assets measured at fair value	Dec. 31, 2010 Assets measured at cost	Dec. 31, 2010 Assets measured at fair value
Other intangible assets	3	-	4	-
Other intangible assets	3	-	4	-
Total	3	-	4	-

Year's movements in intangible assets

€/'000		Total
Opening balance		4
Increases		-
Decreases		1
- Value adjustments	1	-
- Amortisation	1	
Closing balance		3

Tangible assets

€/'000	Dec. 31, 2011 Assets measured at cost	Dec. 31, 2011 Assets measured at fair value	Dec. 31, 2010 Assets measured at cost	Dec. 31, 2010 Assets measured at fair value
Owned	58	-	86	-
- furnishings	55	-	82	-
- other	3	-	4	-
Total (at cost and re-measured)	58	-	86	-

Year's movements in intangible assets

€/'000	Furnishings	Electronic equipment	Other	Total
Opening balance	82	-	4	86
Increases	-	-	-	-
Additions	-	-	-	-
Reversal of impairment	-	-	-	-
Increases in fair value:	-	-	-	-
a) in equity	-	-	-	-
b) through profit or loss	-	-	-	-
Other changes	-	-	-	-
Decreases	27	-	1	28
Sales	-	-	-	-
Depreciation	27	-	1	28
Impairment	-	-	-	-
a) in equity	-	-	-	-
b) through profit or loss	-	-	-	-
Decreases in fair value:	-	-	-	-
a) in equity	-	-	-	-
b) through profit or loss	-	-	-	-
Other changes	-	-	-	-
Closing balance	55	-	3	58

Investments in subsidiaries, associates and joint ventures

€/'000	Dec. 31, 2011	Dec. 31, 2010
Subsidiaries:		
Banca Mediolanum S.p.A.	450,239	450,239
Mediolanum Vita S.p.A.	166,681	166,681
Mediolanum International Life Ltd	60,131	70,131
PI Servizi S.p.A.	7,760	338
Mediolanum Gestione Fondi SGR p.A.	2,507	2,507
Mediolanum Asset Management Ltd	1,911	1,911
Mediolanum Comunicazione S.p.A.	1,687	1,687
Mediolanum International Funds Ltd	1,194	1,194
Partner Time S.p.A. (on liquidation)	473	734
Gamax Management AG	1	1
Total subsidiaries	692,584	695,423
Associates and joint ventures:		
Mediobanca S.p.A.	247,396	247,396
Banca Esperia S.p.A.	54,312	29,311
Total associates and joint ventures	301,708	276,707
Total	994,292	972,130

On April 19, 2011, the subsidiary Mediolanum International Life Ltd reimbursed part of the €10,000 thousand capital contribution received in 2008.

In the year under review, €7,500 thousand funds were contributed to the subsidiary PI Servizi S.p.A to increase its capital. In the light of the loss recorded in financial year 2011, the carrying amount of the investment in this subsidiary was written down and a €78 thousand impairment was recognised.

The investment in the subsidiary Partner Time S.p.A. (in liquidation) was written down by €261 thousand which is the amount of the loss for the period.

On November 16, 2011, the €25,000 thousand funds due under Banca Esperia capital increase were paid in.

Subsidiaries that are part of the Mediolanum Group are carried at historical values which are significantly lower than their value in use. In connection therewith, you are advised that the Mediolanum Group average stock market value in 2011 was 2.5x its equity book value.

As to Mediobanca, to determine the recoverable amount of this investment at December 31, 2011, for impairment review purposes, Mediolanum S.p.A requested the assistance of a specialist valuation firm. Recoverable amount was determined using the dividend discount model in the excess capital variant. Due to the lack of future plans approved by the Board of Directors of Mediobanca, the financial projections used for impairment testing were derived from recent research done by financial analysts.
The recoverable amount of the stake in Mediobanca resulting from the valuation made (for details see the consolidated financial statements) using the dividend discount model in the excess capital variant was €11.1 per share, with values ranging between €10.3 and €11.7 per share, versus a carrying amount of €10.9. It was therefore concluded that there was no impairment of this investment.

As to Banca Esperia, for the purpose of impairment review at December 31, 2011, Directors considered that the company's equity approximated its carrying amount and also used as reference the appraisal at June 30, 2011, requested by Banca Esperia and issued by the independent specialist firm on January 25, 2012, made to determine the exercise price of the Private Bankers Stock Options Plan. The appraisal used the following assumptions: going concern, growth at a normal rate, materialisation of the assumptions and attainment of the targets set out in the Budget for 2012 and the Business Plan for 2013-2014.
Said valuation indicated a value per share of about €2.1, which was more than 2 times the carrying amount of the investment at December 31, 2011 (€0.9 per share). It was concluded that there was no impairment of the investment in Banca Esperia.

"*Loans to subsidiaries*" related to the indefinite-maturity subordinated loan up to €120,000,000.00 (one hundred and twenty million euro) extended to the subsidiary Mediolanum Vita S.p.A. and fully drawn down. The interest rate applied was 4.50% p.a. The account also includes interest accrued on the loan at year end.

Available-for-sale financial assets

	Dec. 31, 2011		Dec. 31, 2010	
€/'000	Book Value	of which: equity reserve	Book Value	of which: equity reserve
Fair value – Level 1	3,190	-	4,076	80
Assicurazioni Generali S.p.A.	3,190	-	3,957	-
Mediobanca warrants	-	-	119	80
***Fair value* – Level 2**	-	-	-	-
***Fair value* – Level 3**	16,159	-	15,918	-
Sia SSB S.p.A.	6,204	-	6,204	-
Istituto Europeo di Oncologia	4,703	-	4,703	-
Cedacri S.p.A.	4,940	-	4,940	-
Nomisma S.p.A.	312	-	71	-
TOTAL	19,349	-	19,994	80

Mediobanca warrants received under the Mediobanca bonus share issue made on September 28, 2009, were derecognised as they were not exercised.

Equity investments carried at cost related to stakes in privately held (unlisted) companies that based on the analysis of the financial information set out in their most recent annual report and accounts did not show any evidence of impairment.

In 2011, the Board of Directors of Nomisma S.p.A. resolved to cover losses at December 31, 2010, by reducing share capital and concurrently calling the shareholders' payment of the €250 thousand capital increase (25% on July 5, 2011, and the other 75% on September 22, 2011).

Holdings were as follows:

Company	Share Capital	% holding	Registered Office
Assicurazioni Generali S.p.A.	1,556,873,283	0.018	Piazza Duca degli Abruzzi 2 Trieste (TS)
Sia S.p.A.	22,091,287	1.282	Via Farabelli 14 Milan (MI)
Istituto Europeo di Oncologia	79,071,770	4.700	Via Ripamonti 435 Milan (MI)
Cedacri S.p.A.	12,609,000	5.504	Via del Conventino 1 Collecchio (PR)
Nomisma S.p.A.	6,106,830	5.104	Strada Maggiore 44 Bologna (BO)

CURRENT ASSETS

RECEIVABLES

'*Receivables from subsidiaries*' (€710 thousand) and '*Receivables from other related parties*' (€21 thousand) related to amounts receivable for the provision of corporate affairs services and staff secondment.

'*Other receivables*' amounting to €1,415 thousand mostly consisted of reimbursements due from the IRS and other miscellaneous receivables.

CASH AND CASH EQUIVALENTS

€/'000	Dec. 31, 2011	Dec. 31, 2010
Bank deposits	135,372	15,909
Cash on hand	10	12
Total	135,382	15,921

"Bank deposits" related to bank accounts balances including interest accrued at year end. Cash and cash equivalents held with the subsidiary Banca Mediolanum S.p.A. amounted to €15,227 thousand.

In the final part of the year liquid balances held with Banca Mediolanum S.p.A. were invested in a hot money operation yielding 3.475%.

TAX ASSETS

Current Tax Assets

€/'000	Dec. 31, 2011	Dec. 31, 2010
Tax consolidation regime		
Mediolanum Vita S.p.A.	16,521	11,950
Mediolanum Gestione Fondi SGR p.A.	15,833	10,669
Mediolanum Comunicazione S.p.A.	242	71
Total Tax consolidation regime	32,596	22,690
IRS		
(IRES & IRAP) advances	2,995	2,628
Prior years' tax credit (IRES)	68,808	42,328
Current year's tax credit (IRES)	10,127	15,441
Tax credit reimbursements due (IRES)	3,825	3,825
Total IRS	85,755	64,222
Total current tax assets	118,351	86,912

LIABILITIES AND SHAREHOLDERS' EQUITY

CAPITAL AND RESERVES

Share Capital

Share capital is fully paid up and amounts to €73,381,936.60 divided into 733,819,366 ordinary shares.
In 2011, to service the Stock Options Plans, capital was increased by €93,941 which corresponds to 939,410 shares.

Share premium account

The balance on the share premium account increased from €55,087 thousand at December 31, 2010 to €56,013 thousand at the end of the year under review. The increase relates to the subscriptions for the shares issued under the Stock Option Plans.

Retained earnings

Analysis of retained earnings

€/'000	Dec. 31, 2011	Dec. 31, 2010
Legal reserve	17,363	17,363
Extraordinary reserve	422,690	420,271
FTA reserve	(123,109)	(123,109)
Interim dividend	(51,364)	(62,266)
Other	5,682	5,616
Total	271,262	257,875

The legal reserve remained unchanged since it had already reached the statutory limit.
The interim dividend amount is before dividend on treasury shares.

AFS Revaluation Reserve

The €80 thousand AFS revaluation reserve relating to the fair value measurement of Mediobanca warrants was annulled as warrants were not exercised.

NON CURRENT LIABILITIES

EMPLOYEE COMPLETION-OF-SERVICE ENTITLEMENTS

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

€/'000	
Balance at December 31, 2010	621
Amount accrued and posted to the income statement	176
Benefits/advances paid during the year	(99)
Transferred to other Mediolanum Group companies	(42)
Invested in Pension Funds	(146)
Contributions transferred to INPS	(9)
Balance at December 31, 2011	501

OTHER PROVISIONS

At year end 2011 the balance of this account was nil due to the end of the IRS Lombardy Regional Office's tax claim for tax year 2006.

NOTES

Pursuant to the resolution passed by the Mediolanum S.p.A. Board of Directors at its Meeting of March 1, 2011, mainly for the purpose of restructuring short-term facilities in place between Mediolanum S.p.A. and financial institutions that are not part of the Group, the following non-convertible notes aggregating to €239.2 million (nominal value), were offered to the public. Specifically:

- €49.4 million (nominal value) fixed rate notes due April 29, 2014, bearing interest at a rate of 3.5%;
- €48.9 million (nominal value) notes due April 29, 2014, bearing interest at 6-month EURIBOR + 1%;
- €48.3 million (nominal value) fixed rate notes due May 20, 2013, bearing interest at 3.15%;
- €47.8 million (nominal value) notes due May 20, 2015, bearing interest at 6-month EURIBOR;
- €24.4 million (nominal value) fixed rate notes due May 31, 2013, bearing interest at 3.15%;
- €20.4 million (nominal value) notes due May 31, 2015, bearing interest at 6-month EURIBOR.

CURRENT LIABILITIES

Payables

Amounts ***Due to banks*** relate to amounts due under credit facilities received (€401,000 thousand) and the related interest expense accrued at year end.

Amounts ***Due to subsidiaries*** (€403 thousand) and Amounts ***Due to other related parties*** (€146 thousand) relate to outsourcing and other services.

Other payables amounting to €1,294 thousand mostly relate to amounts payable to suppliers (€352 thousand), withholding tax (€308 thousand) and pension contributions (€158 thousand) paid in the first months of 2012.

TAX LIABILITIES

Analysis of Current Tax Liabilities

€/'000	Dec. 31, 2011	Dec. 31, 2010
IRS		
Irap	4,277	3,003
Total IRS	4,277	3,003
Tax consolidation regime		
Banca Mediolanum S.p.A.	79,732	52,361
Mediolanum Vita S.p.A.	21,996	19,109
Mediolanum Comunicazione S.p.A.	627	618
Mediolanum Gestione Fondi SGR p.A.	458	312
Partner Time S.p.A. (in liquidation)	443	122
Mediolanum Fiduciaria S.p.A.	24	-
PI Servizi S.p.A.	152	164
Total Tax consolidation regime	103,432	72,686
Total current tax liabilities	107,709	75,689

Current tax liabilities under the tax consolidation regime relate to tax credits of Group companies that adhere to Italy's tax consolidation regime.

OTHER LIABILITIES

Other liabilities amounted to €532 thousand versus €884 thousand at December 31, 2010. They largely consisted of allowances for staff bonuses, vacation accruals and additional months for the year under review.

PART D - INFORMATION ON THE INCOME STATEMENT

DIVIDEND AND SIMILAR INCOME

Dividends *from subsidiaries* amounted to €176,310 thousand as set out in the table below.

€/'000	Dec. 31, 2011	Dec. 31, 2010
Mediolanum International Life Ltd	86,240	19,800
Banca Mediolanum S.p.A.	60,003	18,067
Mediolanum International Funds Ltd	15,000	85,360
Mediolanum Gestione Fondi SGR p.A.	9,187	3,717
Mediolanum Asset Management Ltd	5,880	4,998
Gamax Management AG	-	1
Total	176,310	131,943

Dividends from *associates* amounted to €3,850 thousand entirely relating to the dividend received from Mediobanca S.p.A.

Dividends from *available-for-sale financial assets* amounted to €125 thousand (€455 thousand at December 31, 2010) and consisted of dividends received from Assicurazioni Generali S.p.A.

INTEREST INCOME AND SIMILAR INCOME

An analysis of interest income and similar income is set out below.

€/'000	Dec. 31, 2011	Dec. 31, 2010
Bank accounts	917	164
Receivables from IRS	-	330
Hot money operation	304	-
Other	5,415	4,842
Total	6,636	5,336

Interest income on bank accounts primarily related to accounts held with the subsidiary Banca Mediolanum S.p.A.. '*Other*' interest income related to interest accrued on the subordinated loan extended to the subsidiary Mediolanum Vita S.p.A.

INTEREST EXPENSE AND SIMILAR CHARGES

Interest expense and similar charges amounted to €14,663 thousand (€5,714 thousand at the end of the prior year) and primarily related to interest expense on financing facilities in place amounting to €9,385 thousand and on notes issued in the year amounting to €5,275 thousand.

STAFF COSTS

An analysis of this account is set out in the table below.

€/'000	Dec. 31, 2011	Dec. 31, 2010
Wages and Salaries	2,548	5,330
Social security contributions	834	1,257
Completion-of-service entitlements	166	230
Remuneration of Directors	1,526	1,511
Directors' benefits	124	205
Key personnel	(1,302)	(1,778)
Pension fund	23	28
Total	3,919	6,783

The decline in wages and salaries was mainly due to the transfer of management to other Group companies.

Average number of employees

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

Cattegory	Dec. 31, 2011
Senior management	3
Middle management	4
Other personnel	12
Total	19

OTHER ADMINISTRATIVE EXPENSES

€/'000	Dec. 31, 2011	Dec. 31, 2010
Professional services	1,517	1,349
Intercompany services	1,410	1,307
Vehicle rentals	1,206	895
Property rentals and other related expenses	236	175
Emoluments of corporate officers	200	200
Donations	51	101
Utilities	23	22
Miscellaneous services	397	397
Other	1,031	1,125
Total	6,071	5,571

Professional services include fees for legal counselling, technical and administrative expertise, audit of financial statements and other professional services.

OTHER INCOME (EXPENSES)

€/'000	Dec. 31, 2011	Dec. 31, 2010
Central functions:		
- subsidiaries	436	355
- companies that are part of the Fininvest Group and of the Doris Group	68	68
Other income	225	243
Total other income	729	666
Other expenses	(212)	(1,514)
Total other expenses	(212)	(1,514)
Total other income (expenses)	517	(848)

For the year under review the Company recorded total other net income of €517 thousand versus net expenses of €848 thousand in the prior year. This was largely in connection with the measurement of commitments under Banca Esperia stock options plans.

INCOME TAX

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

€/'000	Dec. 31, 2011	Dec. 31, 2010
Current tax expense (IRES)	(2,222)	(1,370)
Change in deferred tax assets (IRES)	2	23
Total tax expense for the year (IRES)	(2,220)	(1,347)
Current tax expense (IRAP)	4,268	2,998
Change in deferred tax assets (IRAP)	1	3
Total tax expense for the year (IRAP)	4,269	3,001
Change in deferred tax liabilities	-	-
Total	2,049	1,654

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

€/'000	Rate	Taxable amount	Tax expense
Calculation of taxable income (IRES)			
Profit before tax	-	161,641	-
Theoretical tax	27.50%	-	44,451
Temporary differences deductible in following years	-	182	-
Prior years' temporary differences	-	(183)	-
Permanent differences	-	(169,720)	-
Total taxable income	-	(8,080)	-
Taxable income 27,50%	-	(8,080)	-
Current tax expense for the year	-	-	(2,222)
Prior years' taxes	-	-	-
Current tax expense recognised in the income statement	-	-	(2,222)
Average rate on profit before tax	(1.37%)	-	-
Calculation of taxable income (IRAP)			
Value of production less production costs	-	76,626	-
Costs which are not significant for the purpose of IRAP calculation	-	(533)	-
Total	-	76,093	-
Theoretical tax	5.57%	-	4,238
Prior years' temporary differences	-	(11)	-
Permanent differences	-	705	-
Taxable income (rate of 5.57%)	-	76,787	-
Current tax expense for the year	-	-	4,277
Prior years' taxes	-	-	(9)
Current tax expense recognised in the income statement	-	-	4,269

PART E - SEGMENTAL INFORMATION

No disclosure is provided in this section as segmental information is not significant at level of separate financial statements. Readers are referred to the consolidated financial statements.

PART F - INFORMATION ON RISKS AND RISK MANAGEMENT

For information on risks and risk management readers are referred to the same section of the consolidated financial statements. No additional information is provided herein in consideration of the immateriality of risk inherent in the company's positions at year end.

PART G - BUSINESS COMBINATIONS

Transactions concluded during the year

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

Post-balance sheet date transactions

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

PART H - RELATED PARTY TRANSACTIONS

1. Key management compensation

€/'000	Directors, Statutory Auditors, Deputy/ General Managers	Other key managers
Emoluments & social security contributions	1,865	180
Other pension benefits and insurance	-	-
Non-cash benefits	-	-
Other post-employment benefits	-	-
Share-based awards (stock options)	67	-

The Board of Directors consists of 14 members and the Board of Statutory Auditors of 3 members.

2. Information on related party transactions

Related party transactions primarily refer to transactions with companies that are part of the Mediolanum Group and, in particular, with the subsidiary Banca Mediolanum S.p.A. in relation to bank accounts held with Banca Mediolanum and services provided by central functions e.g. internal audit, IT systems management, organisation and HR, general affairs, legal affairs, taxation, central procurement and management of suppliers, risk management and compliance services.

In addition, personnel was seconded to companies within the Mediolanum Group.

All transactions are made on an arm's length basis at market conditions, personnel secondment and services provided by central functions are charged on the basis of actual costs incurred.

For companies that are within the scope of the tax consolidation regime, related party transactions include also amounts receivable and payable as a result of the application of said tax regime.

Analysis of related party balances at December 31, 2011 by related party category

€/'000	Tax assets	Receivables	Cash	Other financial assets	Other payables	Tax liabilities
(a) Parent company	-	-	-	-	50	-
(b) Entities exercising significant influence over the company	-	-	-	-	-	-
(c) Subsidiaries	32,596	710	135,361	120,074	403	103,433
(d) Associates	-	-	-	-	-	-
(e) Joint ventures	-	-	-	-	-	-
(f) Key managers	-	-	-	-	-	-
(g) Other related parties	-	21	-	-	96	-

Details on related party transactions in excess of €10 thousand made in the year are set out in the table below.
The information required under art. 78 of Consob Regulation 11971 of May 14, 1999, as subsequently amended, is set out in Schedules 1, 2 and 3 prepared pursuant to Annex E of said regulation.

€/'000	Dec. 31, 2011
Interest income and similar income:	
Mediolanum Vita S.p.A.	5,415
Banca Mediolanum S.p.A.	1,168
Corporate affairs services:	
Mediolanum Vita S.p.A.	86
Banca Mediolanum S.p.A.	185
Mediolanum Gestione Fondi SGR p.A.	128
Mediolanum Comunicazione S.p.A.	11
Mediolanum Corporate University S.p.A. merged into Banca Mediolanum S.p.A. on December 31, 2011	23
Mediolanum Assicurazioni S.p.A.	57
Vacanze Italia S.p.A.	11
Other revenues:	
Banca Mediolanum Sp.A.	108
Mediolanum Gestione Fondi SGR p.A.	30
Interest expense and similar charges:	
Banca Mediolanum Sp.A.	304
Banca Mediolanum S.p.A. centralised services:	
IT services	324
Miscellaneous administrative services	986
Office rental:	
Banca Mediolanum S.p.A.	128
Aircraft rental:	
Alba Servizi Aerotrasporti S.p.A.	866
Key personnel:	
Charged by Banca Mediolanum S.p.A.	222
Charged to Banca Mediolanum S.p.A.	1608
Charged to Mediolanum Vita S.p.A.	183
Charged to Mediolanum Comunicazione S.p.A.	57
Other expenses:	
Fininvest S.p.A.	50
Finedim Italia S.p.A.	21

PART I - EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

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

In 2011, 939,406 new Mediolanum dividend-bearing ordinary shares were issued following the exercise of stock options by Directors and Sales Network members of companies within the Mediolanum Group. This entailed a €93,940.60 increase in Mediolanum ordinary share capital and a €926,146.65 increase in the share premium account.

On May 12, 2011, after consulting with the Compensation Committee, by virtue of the authorities delegated to it by the Ordinary and Extraordinary General Meetings of April 27, 2010, the Board of Directors of Mediolanum S.p.A. resolved, *inter alia*:

- to approve the amendments to 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');
- in partial execution of the authorities delegated to the Board of Directors by the shareholders at the Extraordinary General Meeting of April 27, 2010 – to increase the Company's share capital up to €188,200.00 (one hundred and eighty-eight thousand two hundred point zero), for a consideration, by issuing up to 1,882,000 (one million eight hundred and eighty two thousand) dividend-bearing ordinary shares, par value of €0.1 each, with the exclusion of shareholders' pre-emptive rights pursuant to article 2441, paragraph five, of the Italian Civil Code, as they are reserved to the Directors and executives of the company and its subsidiaries pursuant to article 2359 paragraph 1, N. 1, of the Italian Civil Code for subscription at a price of €1.076 (one point zero seventy six) per share. The shares are to be subscribed, in a single occasion in the first five business days of each of the thirty six calendar months subsequent to the expiration of the three year term starting from today's date, except for any different exceptional circumstances set forth in the Plan rules. The final deadline for share subscription is therefore set at the fifth business day in the thirty-sixth calendar months subsequent to the expiration of the three year term from today's date. In the event that the capital increase is not fully subscribed by said deadline, share capital will be increased by the amount of the subscriptions received as of that date;
- in partial execution of the authorities delegated to the Board of Directors by the shareholders at the Extraordinary General Meeting of April 27, 2010 – to increase the Company's share capital up to €67,427.50 (sixty seven thousand four hundred and twenty seven point fifty), for a consideration, by issuing up to 674,275 (six hundred seventy four thousand two hundred and seventy five) dividend-bearing ordinary shares, par value of €0.1 each, with the exclusion of shareholders' pre-emptive rights pursuant to article 2441, paragraph five, of the Italian Civil Code, as they are reserved to the sales network of the company and its subsidiaries pursuant to article 2359 paragraph 1, N. 1, of the Italian Civil Code for subscription at a price of €1.076 (one point zero seventy six) per share. The shares are to be subscribed, in a single occasion in the first five business days of each of the thirty six calendar months subsequent to the expiration of the nine year term starting from today's date, except for any different exceptional circumstances set forth in the Plan rules. The final deadline for share subscription is therefore set at the fifth business day in the thirty-sixth calendar months subsequent to the expiration of the nine year term from today's date. In the event that the capital increase is not fully subscribed by said deadline, share capital will be increased by the amount of the subscriptions received as of that date;
- 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.

For information on the fair value of stock options and the year's movements readers are referred to the relevant section of the notes to the consolidated financial statements.

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 €67 thousand and entailed a corresponding increase in the Company's equity reserves (December 31, 2010: €146 thousand).

SCHEDULES

Additional information is provided in the Schedules set out in the following pages that form an integral part of these notes.

Basiglio, March 22, 2012

For the Board of Directors
The Chairman
(Roberto Ruozi)

Schedules

SCHEDULE 1

Analysis of equity reserves

				Utilisation in the prior three years	
Type/description	Amount	Possible utilisation (A, B, C)	Usable amount	loss coverage	other
Share capital:	73,381,937	-	-	-	-
Capital reserves:					
- share premium account	56,013,083	A B C	56,013,083	-	-
- Lehman Brothers operation equity reserve	84,692,746	A B C	84,692,746	-	-
Retained earnings:					
- legal reserve	17,362,794	B	17,362,794	-	-
- other reserves	251,854,340	A B C	251,854,340	-	-
Valutation reserves:					
- available-for-sale financial assets	-	(*)	-	-	-
Total	483,304,900		409,922,963	-	-
of which non-distributable	-	-	17,362,794	-	-
of which distributable	-	-	392,560,169	-	-

Legend:

A: capital increase

B: loss coverage

C: distribution to shareholders

(*) Reserve not available under art. 6 of Legislative Decree 38/2005.

SCHEDULE 2

Analysis of deferred taxation

	FY 2011		FY 2010	
	Amount of temporary differences	Tax rate applied	Amount of temporary differences	Tax rate applied
Deferred tax assets:				
Impairment losses on tangible assets	-	-	-	-
Impairment losses on intangible assets	-	-	-	-
Provisions for risks and charges	-	-	-	-
Business expenses	-	32.32%	11,322	32.32%
Remuneration of Directors	181,503	27.50%	171,680	27.50%
TARSU	9,849	27.50%	9,849	27.50%
Adjustment to completion-of-service entitlements under IAS	-	-	-	-
Total	191,352	-	192,851	-
Deferred tax liabilities:				
Accelerated depreciation and amortisation	-	-	-	-
Excess depreciation and amortisation	-	-	-	-
Impairment of loans	-	-	-	-
Available-for sale financial assets	-	32.32%	118,615	32.32%
Adjustment to completion-of-service entitlements under IAS	22,563	27.50%	16,320	27.50%
Total	22,563	-	134,935	-
Net deferred tax liabilities (assets)	-	(46,416)	-	(10,755)
Deferred tax assets on tax losses for the year	(3,463,708)	-	(1,241,411)	-
Deferred tax assets on tax losses for the prior year	-	-	-	-
Temporary differences excluded from the calculation of deferred tax liabilities (assets)	-	-	-	-
Tax losses carried forward	-	-	-	-
Net amount				

Deferred tax assets on tax losses for the year relate to both Mediolanum S.p.A.'s tax losses as well as the tax losses transferred to the parent company by Group companies under the tax consolidation regime.

SCHEDULE 3

Analysis of directly and indirectly controlled subsidiaries and associates

€/'000 Name	Share capital	Equity Total	Equity Share
Subsidiary			
Banca Mediolanum S.p.A. Via F. Sforza P.zzo Meucci Basiglio (MI)	450,000	423,019	423,019
Mediolanum Vita S.p.A. Via F. Sforza P.zzo Meucci Basiglio (MI)	87,720	298,484	298,484
Mediolanum Gestione Fondi SGR p.A. Via F. Sforza P.zzo Meucci Basiglio (MI)	5,165	28,450	13,941
Mediolanum Comunicazione S.p.A. Via F. Sforza P.zzo Meucci Basiglio (MI)	775	1,124	1,124
Partner Time S.p.A. (on liquidation) Via F. Sforza P.zzo Meucci Basiglio (MI)	520	473	473
PI Servizi S.p.A. Via F. Sforza P.zzo Meucci Basiglio (MI)	517	7,779	7,779
Gamax Management AG 69, route d'Esch 1470 Luxembourg	7,161	12,305	-
Mediolanum International Life Ltd Iona Building, Block B, 4th Floor, Shelbourne Road Dublin 4 Ireland	1,395	60,780	60,780
Mediolanum Asset Management Ltd Iona Building, Block B, 4th Floor, Shelbourne Road Dublin 4 Ireland	150	13,116	6,427
Mediolanum International Funds Ltd Iona Building, Block B, 4th Floor, Shelbourne Road Dublin 4 Ireland	150	94,318	41,500

(1) The amount includes the share of profit of subsidiaries indirectly controlled by the Group.

Net profit			
Total	Share	% holding	Carrying amount
16,803	16,803[1]	100	450,239
(12,489)	(12,489)	100	166,681
12,523	6,136	49	2,507
59	59	100	1,687
(261)	(261)	100	473
59	59	100	7,760
4,194	-	0.004	1
7,354	7,354	100	60,131
13,503	6,616	49	1,911
202,973	89,308	44	1,193

Analysis of directly and indirectly controlled subsidiaries and associates (continued)

€/'000 Name	Share capital	Equity Total	 Share
Subsidiary			
Gamax Management AG 69, route d'Esch 1470 Luxembourg	7,161	12,305	12,305
Bankhaus August Lenz & Co. AG Holbeinstrasse 11 81679 Münich	20,000	44,997	44,997
Banco de Finanzas e Inversiones S.A. Avenida Diagonal 668/670 Barcelona	86,032	137,883	137,883
Mediolanum Fiduciaria S.p.A. Via F.Sforza P.zzo Meucci Basiglio (MI)	240	175	175
Fibanc Pensiones S.G.F.P., S.A. Avenida Diagonal 668/670 Barcelona	902	1,736	1,736
Fibanc S.A. Avenida Diagonal 668/670 Barcelona	301	413	413
Ges Fibanc S.G.I.I.C., S.A. Calle Enteza 325/335 Barcelona	2,506	3,755	3,755
Mediolanum Gestione Fondi SGR p.A. Via F.Sforza P.zzo Meucci Basiglio (MI)	5,165	28,450	14,510
Mediolanum Asset Management Ltd Iona Building, Block B, 4th Floor, Shelbourne Road Dublin 4 Ireland	150	13,116	6,689
Mediolanum International Funds Ltd Iona Building, Block B, 4th Floor, Shelbourne Road Dublin 4 Ireland	150	94,318	52,818

€/'000 Name	Share capital	Equity Total	 Share
Subsidiances			
Mediobanca S.p.A. Piazzetta E. Cuccia, 1 Milan	430,565	4,938,669	130,233
Banca Esperia S.p.A. Via Del Lauro, 7 Milan	63,000	139,406	69,703

Net profit			
Totale	Share	% holding	Carrying amount
4,194	4,194	99.996	-
(14,152)	(14,152)	100	-
6,711	6,711	100	-
(65)	(65)	100	
99	99	100	-
2	2	100	-
36	36	100	-
12,523	6,387	51	-
13,503	6,887	51	-
202,973	113,665	56	-
127,376	3,359	2.637	247,396
4,892	2,446	50	54,311

SCHEDULE 4
MEDIOLANUM S.P.A.
Analysis of significant investments under art. 125 of Consob Regulation No. 11971/1999

As of December 31, 2011

Company name	Country	Total holding %
Banca Esperia S.p.A.	Italy	50.000
Banca Mediolanum S.p.A.	Italy	100.000
Banco de Finanzas e Inversiones, S.A.	Spain	100.000
Bankhaus August Lenz & Co. AG	Germany	100.000
Fibanc Pensiones, S.A., S.G.F.P.	Spain	99.999
Fibanc, S.A.	Spain	99.998
Gamax Management AG	Luxembourg	100.000
Ges. Fibanc, S.G.I.I.C., S.A.	Spain	99.999
Mediolanum Asset Management Ltd	Ireland	100.000
Mediolanum Comunicazione S.p.A.	Italy	100.000
Mediolanum Fiduciaria S.p.A.	Italy	100.000
Mediolanum Gestione Fondi SGR p.A.	Italy	100.000
Mediolanum International Funds Ltd	Ireland	100.000
Mediolanum International Life Ltd	Ireland	100.000
Mediolanum Vita S.p.A.	Italy	100.000
Partner Time S.p.A. (on liquidation)	Italy	100.000
PI Servizi S.p.A.	Italy	100.000

Type of holding	Shareholder	% holding
direct ownership	Mediolanum S.p.A.	50.000
direct ownership	Mediolanum S.p.A.	100.000
indirect ownership	Banca Mediolanum S.p.A.	100.000
indirect ownership	Banca Mediolanum S.p.A.	100.000
indirect ownership	Banco de Finanzas e Inversiones, S.A.	99.999
indirect ownership	Banco de Finanzas e Inversiones, S.A.	99.998
indirect ownership	Banca Mediolanum S.p.A.	99.996
direct ownership	Mediolanum S.p.A.	0.004
indirect ownership	Banco de Finanzas e Inversiones, S.A.	99.999
indirect ownership	Banca Mediolanum S.p.A.	51.000
direct ownership	Mediolanum S.p.A.	49.000
direct ownership	Mediolanum S.p.A.	100.000
indirect ownership	Banca Mediolanum S.p.A.	100.000
indirect ownership	Banca Mediolanum S.p.A.	51.000
direct ownership	Mediolanum S.p.A.	49.000
indirect ownership	Banca Mediolanum S.p.A.	51.000
direct ownership	Mediolanum S.p.A.	44.000
indirect ownership	Banco de Finanzas e Inversiones, S.A.	5.000
direct ownership	Mediolanum S.p.A.	100.000
direct ownership	Mediolanum S.p.A.	100.000
direct ownership	Mediolanum S.p.A.	100.000
direct ownership	Mediolanum S.p.A.	100.000

Responsibility Statements

Responsibility Statements
Pursuant to section 154-bis, paragraph 2, Legislative Decree 58/98

1. We, the undersigned Ennio Doris, Chief Executive Officer, and Luigi Del Fabbro, Chief Financial Officer responsible for Mediolanum S.p.A. accounting and financial reporting, also pursuant to section 154 bis, paragraphs 3 and 4, of Legislative Decree 58 of February 24, 1998, hereby confirm to the best of our knowledge:
   - the adequacy in relation to the characteristics of the business and
   - the effective application
   - of accounting and financial reporting procedures in the preparation of the annual report and accounts for financial year 2011.

2. The adequacy and the effective application of accounting and financial reporting procedures in the preparation of the 2011 annual report and accounts were assessed applying a process defined by Mediolanum S.p.A. in accordance with the *Internal Control – Integrated Framework* issued by the *Committee of Sponsoring Organizations of the Treadway Commission*, which is an internationally accepted framework.

3. We also confirm that:

   3.1 the annual report and accounts for the year ended December 31, 2011:

   a) have been prepared in accordance with the International Accounting and Financial Reporting Standards adopted by the European Commission pursuant to the European Parliament and Council Regulation (EC) 1606 of July 19, 2002 as well as the regulations implementing section 9 of Legislative Decree 38/2005;
   b) reflect the accounting entries and records;
   c) give a true and fair view of the financial position, result of operations and cash flows of the issuer and of all entities included in the consolidated financial statements;

   3.2 the directors' report includes reliable information on the performance, result of operations and the business of the issuer and of all entities included in the consolidated financial statements as well as description of principal risks and uncertainties to which they are exposed.

Basiglio, March 22, 2012

Chief Executive Officer	Chief Financial Officer
(Ennio Doris)	*(Luigi Del Fabbro)*

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.

Mediolanum GROUP

(in euro, excluding VAT and expenses)

Service	Company	Fee (€/'000)
Audit	Deloitte & Touche S.p.A. and other entities that are part of their network	835,500
Certification	Deloitte & Touche S.p.A. and other entities that are part of their network	727,425
Tax advice	Deloitte & Touche S.p.A. and other entities that are part of their network	166,550
Other	Other entities that are part of the Deloitte & Touche network	367,500
Total		2,096,975

Please note that €727,425 fee was charged to mutual funds, discretionary accounts, index-linked policies and to the pension fund as set out in the relevant statements and is not a cost that remains charged to the company that gave the audit mandate.

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 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	177,000
Certification	Deloitte & Touche S.p.A. and other entities that are part of their network	-
Tax advice	Deloitte & Touche S.p.A. and other entities that are part of their network	-
Other	Other entities that are part of the Deloitte & Touche network	68,000
Total		245,000

Report of the Board of Statutory Auditors

Report of the Board of Statutory Auditors to the General Meeting convened to approve Mediolanum S.p.A. Financial Statements for the year ended December 31, 2011 pursuant to article 153 of Legislative Decree No. 58/1998 and to article 2429 paragraph 3 of the Italian Civil Code

Dear Shareholder,

pursuant to article 153 of Legislative Decree No. 58 of February 24, 1998 and to article 2429 of the Italian Civil Code, we report on our supervisory activities. We have performed our statutory supervisory duties in accordance with the Italian Civil Code, article 148 *et seq.* of the aforesaid Legislative Decree, with the instructions contained in CONSOB Communication No. DEM/1025564 of April 6, 2001, and also taking into account the principles of conduct recommended by the National Council of Accountants.

* * *

We advise you that Mediolanum S.p.A. financial statements for the year ended December 31, 2011, which reported net profit of €159,592,247, were prepared in accordance with the international accounting and financial reporting standards (IAS/IFRS) and were delivered to us with our prior waiver of statutory terms.

In addition to the specific statutory disclosures required in financial reporting, the notes to the financial statements set out information deemed appropriate to give a true and fair view of the Company's financial position, result of operations and cash flows.

The Directors' Report sets out appropriate comprehensive information on operations.

You are reminded that Mediolanum S.p.A., being the parent company of the Mediolanum Group, a financial conglomerate operating mainly in the insurance sector, is required to submit the Consolidated Financial Statements, which include the accounts of your Company and those of its directly or indirectly controlled subsidiaries.

For the sixth year in a row, alongside the Annual Report and Accounts your company prepared the Social Report, which demonstrates the connection between competitive business strategies, the values of the Group and the relationship with the stakeholders.

* * *

With regards to the manner in which the Board of Statutory Auditors performed its statutory duties, we advise you that:

- we attended the meetings of the Board of Directors and of the Audit Committee;
- we held a number of meetings with the head of Internal Audit to exchange information on activity performed and on audit programmes;
- we performed periodic checks to verify compliance with the law and the company's Bylaws, adherence to principles of proper management and the adequacy of the company's organisational structure and internal control system;

- we held regular meetings with the management of the independent auditing firm;
- we constantly monitored the events relating to the Company and the Group.

In conclusion of our activity, in accordance with CONSOB recommendations and instructions, we wish to highlight the following:

1. Most significant transactions with regard to the company's financial position, result of operations and cash flows.

During the year, we received regular information from Directors on the activities carried out by the Company and its subsidiaries including transactions which could have a significant impact on financial position, result of operations and cash flows.

In their Report, the Directors have illustrated said transactions, which included:

- the participation in Banca Esperia S.p.A capital increase according to the stake held in that entity (Mediolanum S.p.A. disbursement: €25 million) to enable Banca Esperia S.p.A meet upcoming Basel III capital requirements, especially under stress conditions;
- Mediolanum International Life Ltd's €10 million repayment of the capital contribution received in the past;
- the issue and public offering of non-convertible notes aggregating to €239.2 million (nominal value), pursuant to the resolution passed by the Mediolanum S.p.A. Board of Directors on March 1, 2011, mainly for the purpose of restructuring short-term facilities in place between Mediolanum S.p.A. and financial institutions that are not part of the Group;
- the issue of 939,406 new Mediolanum dividend-bearing ordinary shares following the exercise of stock options. This entailed a€93,940.60 increase in Mediolanum ordinary share capital and a €926,146.65 increase in the share premium account.

After balance sheet date, the payment of €25 million into the subsidiary Banca Mediolanum as capital increase.

We ascertained that the transactions that were resolved and implemented were in accordance with the law and the company's Bylaws, and in line with proper management principles. We therefore satisfied ourselves that said transactions were not manifestly imprudent or risky, did not represent a potential conflict of interest, were not in contrast with the resolutions passed at General Meetings and did not put the company's equity at risk. For more detailed information on the characteristics of the transactions and their impact on the accounts you are referred to the Directors' Report.

As set out in the Directors' Report, after December 31, 2011 there were no other events which could have a significant impact on the financial position, result of operations and cash flows of the Company.

2. Atypical and/or unusual intercompany or related party transactions.

During the year, we did not detect or receive any indication from the Board of Directors, the Independent auditors or the head of Internal Audit of the existence of any atypical and/or unusual third-party, intercompany or related party transactions.

Related party transactions, which mainly relate to the exchange of services with Group companies, as illustrated by the Directors in the Notes to the Financial Statements, were carried out on an arm's length basis. Staff secondment and centrally managed services were charged on the basis of actually incurred costs.

We satisfied ourselves that the abovementioned transactions, which are of an ordinary nature, were fair and in the best interests of the company, and were in connection and expedient to the achievement of the company's purpose.

3. Appropriateness of the information disclosed in the Directors' Report on atypical and/or unusual, intercompany or related party transactions.
See section 2. above.

4. Disclosures contained in the Independent Auditors' Report.
The independent auditors Deloitte & Touche S.p.A., appointed on April 21, 2011, issued their report on the Annual Financial Statements without observations, certifying that they are in accordance with applicable rules governing financial statement preparation.

5. Notices or complaints under article 2408 of the Italian Civil Code.
During the year we did not receive any notices or complaints under article 2408 of the Italian Civil Code.

6. Conferral of further appointments to the independent auditors or other parties linked to them and related costs.
We have reviewed evidence of the fees paid by the Company to the independent auditors Deloitte & Touche S.p.A, and entities that are part of their international network as detailed below.

Separate financial statements for the year ended December 31, 2011
(in thousands of euro, excluding VAT and expenses)

Service	Company	Fee
Audit	Deloitte & Touche S.p.A. and other entities that are part of their network	177
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 their network	68
Total		245

Consolidated financial statements for the year ended 31 December 2011
(in thousands of euro, excluding VAT and expenses)

Service	Company	Fee
Audit	Deloitte & Touche S.p.A. and other entities that are part of their network	836
Certification	Deloitte & Touche S.p.A. and other entities that are part of their network	727
Tax advice	Deloitte & Touche S.p.A. and other entities that are part of their network	167
Other	Deloitte & Touche S.p.A. and other entities that are part of their network	367
Total		2,097

Please note that the €727,425 fee in the table above 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.

7. Opinions given pursuant to the law.
During the year we have given the opinions requested of the Board of Statutory Auditors pursuant to law and the company's Bylaws.

8. Frequency and number of meetings of the Board of Directors, the Executive Committee and the Board of Statutory Auditors.

In 2011, we attended 7 meetings of the Board of Directors (on March 1, March 29, April 21, May 12, June 21, July 27, and November 9, 2011) and held 10 meetings of the Board of Statutory Auditors (January 20, February 25, March 16, March 30, April 6, April 20, April 21, July 21, October 13 and November 9, 2011).
No Executive Committee has been established.

9. Remarks on adherence to principles of proper management.

On the basis of the information obtained or received from directors and the independent auditors, also by attending the meetings of the Board of Directors, we have monitored adherence to principles of proper management, checking compliance of management choices with general criteria of economic rationality and the directors' observance of their duty of diligence in fulfilling their mandate. We have no remark to make in this respect.

10. Remarks on the adequacy of the organisational structure.

We have examined the Company's organisational structure and reviewed its adequacy within the scope of our authority by means of inspections, collection of information and regular meetings with the independent auditors Deloitte & Touche S.p.A.. No material aspect requiring disclosure emerged from our examination.

11. Adequacy of the internal control system.

The internal control system, i.e. the system designed to verify compliance with the internal operational and administrative procedures adopted to ensure proper management, prevent possible financial and operational risks as well as any frauds against the company, is in substance adequate to the size of the Company.
In particular, we regularly collected information on the activities performed, during the meetings of the Audit Committee and in meetings with the head of Internal Audit.
We advise you that, as noted in the annual report of the Supervisory Board under Legislative Decree 231/2001, the organisational, management and control Model was updated in accordance with Legislative Decree 231/2007, Legislative Decree 81/2008, Act 48/2008, Act 94/2009, Act 116/2009 and Act 99/2009.
Procedures regarding actions which may fall within the purview of Legislative Decree 231/2001 – environment crimes – were completed and validated by Corporate Services in March 2012 and the organisational, management and control model is going to be updated accordingly within the first half of 2012.

12. Accounting system adequacy and reliability.

On the basis of our reviews and verifications, we satisfied ourselves that the accounting system is adequate, it is reliable and suitable to represent fairly the company's affairs.

13. Adequacy of the instructions given to subsidiaries.

We satisfied ourselves that the instructions given by the Company to its subsidiaries, pursuant to article 114, paragraph 2, of Legislative Decree 58/1998, enable subsidiaries to provide timely information to the Parent Company for its compliance with statutory disclosure requirements.

14. Remarks on meetings with the independent auditors.

The meetings held with the representatives of the independent auditing firm Deloitte & Touche S.p.A., pursuant to article 150 of Legislative Decree 58/1998, revealed no issues needing to be brought to your attention.

15. Compliance with the Code of Conduct for listed companies.

As early as 2000 the company adhered to the Code of Conduct for listed companies issued by Borsa Italiana and since then it has been regularly reviewing and fine-tuning corporate governance rules to bring them in line with regulatory changes as set out in the Annual Report on Corporate Governance.

In compliance with the provisions of paragraph 5 of article 3 of the Code of Conduct, we verified the correct application of the criteria and control procedures adopted by the Board of Directors to evaluate the independence of its members, as well as compliance of Board members with the independence requirements set forth in the Code of Conduct.

16. Final remarks on our supervisory work.

In the performance of our statutory supervisory duties, as described above, we did not find any omissions, inconsistencies or irregularities requiring reporting.

17. Proposals of the Board of Statutory Auditors to the General Meeting.

In consideration of the foregoing, within the scope of our authority, we express our favourable opinion on the approval of the financial statements for the year ended December 31, 2011 and agree with the resolutions proposed by the Board of Directors.

Milan, March 27, 2012

For the Board of Statutory Auditors
The Chairman of the Board of Statutory Auditors
(Ezio Maria Simonelli)

Independent Auditors' Report

Deloitte.

Deloitte & Touche S.p.A.
Via Tortona, 25
20144 Milano
Italia

Tel: +39 02 83322111
Fax: +39 02 83322112
www.deloitte.it

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

To the Shareholders of
MEDIOLANUM S.p.A.

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

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

   For the opinion on the prior year's financial statements, whose data are presented for comparative purposes, reference should be made to the auditors' report issued by other auditors on March 30, 2011.

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

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova
Palermo Parma Roma Torino Treviso Verona

Sede Legale: Via Tortona, 25 - 20144 Milano - Capitale Sociale: Euro 10.328.220,00 i.v.
Codice Fiscale/Registro delle Imprese Milano n. 03049560166 - R.E.A. Milano n. 1720239
Partita IVA: IT 03049560166

Member of Deloitte Touche Tohmatsu Limited

4. The Directors of Mediolanum S.p.A. are responsible for the preparation of the Directors' report and the annual report on Corporate Governance ("Relazione sul governo societario e gli assetti proprietari"), published on the section Corporate Governance/Documents of Business Conduct on Mediolanum website, in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the Directors' report and of the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the annual report on Corporate Governance, 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 and the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998 paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) included in the annual report on Corporate Governance are consistent with the financial statements of Mediolanum S.p.A. as of December 31, 2011.

DELOITTE & TOUCHE S.p.A.

Signed by
Paolo Gibello Ribatto
Partner

Milan, Italy
March 27, 2012

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

General Meeting of April 19, 2012

Annual General Meeting of April 19, 2012

RESOLUTIONS ABSTRACT

Ordinary Meeting:

At the 2012 Annual General Meeting shareholders representing 67.4474% of share capital by majority of votes resolved:

- to approve the financial statements for the year ended December 31, 2011, which reported net profit of €159,592,246.67 including the Directors' Report;
- to appropriate net profit for the year amounting to €159,592,246.67 as follows:
  - distribution of a full-year dividend of €0.11 per share (par value of €0.10) to the shareholders, including the 2011 interim dividend of €0.07 paid in November 2011 and the final dividend of €0.04 (before withholding tax) per share, excluding treasury shares held after the close of business on May 18, 2012; the remainder to the extraordinary reserve as the legal reserve has already reached the statutory limit;
  - the final dividend will be due for payment from May 24, 2012 (coupon No. 24);
- to authorise the Board of Directors to purchase and sell up to 8,000,000 treasury shares with par value of €0.10 each, which correspond to about 1.09% of share capital, within the limit amount of €40 million, for a period of one year and in any case for a period of no more than eighteen months;
- to confirm Board Director Maria Alessandra Zunino de Pignier up until the expiration of the entire Board of Directors, i.e. up until the date of the General Meeting convened to approve the financial statements for the year ending December 31, 2013;
- to increase the number of stock options under the Top Management Plan 2010 from the current 5,000,000 to 11,000,000 stock options, keeping unchanged all the other terms and conditions of the Top Management Plan 2010 approved by the shareholders at the General Meeting of April 27, 2010.

Extraordinary Meeting:

- to amend article 6 of the Bylaws upon amendment of the authority delegated to the Board of Directors at the Annual General Meeting of April 27, 2010 pursuant to article 2443, paragraphs 1 and 2, of the Italian Civil Code, to increase in one or more occasions share capital by authorising the Board of Directors to increase share capital, for a period of five years from the General Meeting of April 27, 2010 up to €1,100,000.00 (vs. the original €500,000.00) through the issue of up to 11,000,000 dividend-bearing ordinary shares (vs. the original 5,000,000) with par value of €0.10 each.