MEDIOLANUM BANKING GROUP

Disclosure pursuant to Title IV Chapter 1 of Bank of Italy Circular 263/06

Situation as at 31 December

2008

BANCA MEDIOLANUM
MEDIOLANUM BANKING GROUP

Table of Contents

The chapters of this document correspond to the Synoptic Tables of Circular 263/06. Chapters 7, 10 and 11 relative to Tables 7, 10 and 11 of Circular 263/06 are not applicable to the Mediolanum Banking Group.

MEDIOLANUM BANKING GROUP

Disclosure pursuant to Title IV Chapter 1 of Bank of Italy Circular 263/06

Situation as at 31 December 2008

Registered Office: Basiglio Milano Tre (MI) – Via F. Sforza – Meucci Building
Share capital €430,000,000.00 fully paid up
Tax Registration and Milan Register of Companies No.: 02124090164
VAT Registration No.: 10698820155

Foreword

Approval by the European Parliament in June 2006 of the Directive for implementation of the New Accord on the capital adequacy of Banks (commonly referred to as Basel 2) was the starting point of an important process to reshape the regulatory framework of the entire banking system.

The new regulatory layout introduces significant changes in terms of measurement of capital requirements and provides an important stimulus towards an in-depth overhaul of the risk management, control and valuation systems at the consolidated level, with particular focus on banking groups, to which this Company belongs.

On 27 December 2006, the Bank of Italy, following a public consultation phase, issued Circular no. 263 "New Regulations for the Prudential Supervision of Banks", as implementation of the community directives on capital adequacy of intermediaries (2006/48/CE and 2006/49/CE). The regulations are based on the amendments made to the "Testo Unico Bancario" (Consolidated Law on Banking) through the Law by Decree approved by the Council of Ministers on 22 December 2006 and on the criteria set forth in the provision adopted on an urgent basis by the Ministry of the Economy and Finance on 27 December 2006.

The New Regulations for Prudential Supervision, effective from 1 January 2008, are traditionally subdivided into three "pillars".

1. The first introduces capital requirements to handle the risks typical of banking and financial activities (credit risk, counterparty risk, market risk and operational risk). To this end, it envisages alternative calculation methods for capital requirements, with different levels of complexity in the measurement of risk and organizational requirements.
2. The second pillar requires banks to adopt a strategy and control process for current and prospective capital adequacy (hereinafter also referred to as ICAAP or Internal Capital Adequacy Assessment Process), charging Supervisory Authorities with the task of assessing the reliability and consistency of the relative results and adopting, where necessary, the appropriate corrective measures (hereafter also referred to as the SREP or Supervisory Review Process).
3. The third pillar introduces disclosure requirements as regards capital adequacy, risk exposure and the general characteristics of the relative management and control systems.

Introduction

1. Purpose

The main objective of this report is to provide information on the capital adequacy, risk exposure and methods used to identify, measure and manage these risks within the Mediolanum Banking Group.

2. Document structure

This document, which contains both qualitative and quantitative information, consists of the following chapters, in addition to the first two containing the foreword and introduction, and follows the same subdivision in "tables" as presented in Annex A, Title IV, Chapter 1 of Circular 263/06.

A brief summary of each chapter is provided below.

Chapter 1: General disclosure requirement

The purpose of this chapter is to describe the risk management objectives and policies for each category of risk.

Chapter 2: Scope of application

The purpose of this chapter is to outline the company perimeter examined and subject to disclosure requirements, the areas of consolidation and the names of subsidiaries included in the scope of consolidation.

Chapter 3: Supervisory capital structure

The purpose of this chapter is to define the items comprising Supervisory Capital and the relative quantitative information.

Chapter 4: Capital adequacy

The purpose of this chapter is to describe the method used to evaluate capital adequacy and calculate the capital requirements to support current and prospective activities.

Chapter 5: Credit risk – general disclosures

The purpose of this chapter is to outline the definitions used for impaired exposures in the various risk categories and describe the methods used to calculate adjustments to the book values of the loan.

Chapter 6: Credit risk – disclosures for portfolios subject to the standardised approach

The purpose of this chapter is to indicate the choice made in terms of ECAI and the distribution of exposures by rating class.

Chapter 8: Risk mitigation techniques

The purpose of this chapter is to describe the credit risk mitigation policies and processes.

Chapter 9: Counterparty risk

The purpose of this chapter is to define the approach used to monitor counterparty risk.

Chapter 12: Operational risk

The purpose of this chapter is to describe the approach used to calculate the capital requirements for operational risk.

Chapter 13: Equity exposure

The purpose of this chapter is to outline the objectives pursued by equity positions, as well as the valuation and accounting methods used and any gains/losses achieved following disposals or liquidations.

Chapter 14: Interest rate risk on positions in the banking book

The purpose of this chapter is to specify the nature of interest rate risk and the measurement method adopted.

The chapters of this document correspond to the Synoptic Tables of Circular 263/06. Chapters 7, 10 and 11 relative to Tables 7, 10 and 11 of Circular 263 are not applicable to the Mediolanum Banking Group.

Banca Mediolanum discloses this information to the public on its internet site at: www.bancamediolanum.it in the public section "Transparency", as well as on the site of holding company Mediolanum S.p.A., at www.mediolanum.it in the section Investor Relations/Annual and Interim Reports.

1. GENERAL DISCLOSURE REQUIREMENT

1.1. The internal control system and risk management

The internal control system consists of the set of organizational rules, procedures and structures that aim to ensure effectiveness and efficiency of company processes, safeguarding of the value of company assets and proper management of assets held on behalf of customers, reliability and integrity of accounting and operating information, and conformity of transactions with the law, with supervisory regulations, with self-regulation rules and with the internal provisions of the company.

The various companies in the Mediolanum Banking Group strive to implement a thorough and efficient internal control system within their operating structures, taking into account the different applicable regulations and spheres of activity.

The individuals who carry out administration and management functions play a fundamental role in defining an adequate organizational system and implementing an efficient internal control system.

The control activity cannot be the exclusive responsibility of only specific offices or of the supervisory and control bodies. All functions must have a role in verifying the transactions carried out, according to different levels of responsibility. In its operational configuration, the control system must be subdivided into various levels:

- **line controls**: verifications carried out by those implementing a specific activity, as well as by those with supervisory responsibility, generally in the same organizational unit or department. These controls are performed by the actual productive departments or incorporated into automated procedures, carried out as part of back office activities. They are more or less detailed depending on the services provided, the complexity and the operational extent;
- **risk controls**: specific activities assigned to departments other than operational ones, with the task of defining the risk measurement methods and operating limits assigned to delegated parties and checking the consistency of operations with the objectives and risk levels defined by the relative company boards and officers. This second level of control must be implemented in accordance with the specific company activities. In particular, this level includes controls of credit risk, asset and investment risk, operational risk and reputational risk. A specific form of risk control involves compliance with the provisions of the law, of the supervisory authorities and of the self-regulation rules (for e.g., autonomy protocols, self-governance codes), as well as any other rule applicable to the company ("compliance");
- **internal audit activities**: this third level of control involves a periodic evaluation of the completeness, functionality and adequacy of the internal control system with respect to the nature of activity exercised and the level of risk adopted. The head of the function must be appointed by the governing body. The internal audit department is autonomous compared to the operational departments, even at the hierarchical level. The extent and delicate nature of the internal audit tasks require assignees to have adequate specialised skills.

In order to carry out their verifications, assignees are ensured access to all company departments, as well as to the information required to verify proper completion of outsourced company functions. The governing body and the control body must be regularly informed on the activities carried out, in order to ensure the adoption of suitable and timely corrective action in the event of shortcomings or anomalies.

1.2. Organization of the Risk Management and Compliance department

The Risk Management and Compliance Department guarantees the adequacy of procedures adopted for financial, operational and credit risk control, as well as compliance by the financial conglomerate.
The definition of a risk governance system must include the following general principles:

- thoroughness in the types and identification of risks to be governed;
- independence of the Risk Control function from the Business Units, applying the principle of proportionality for subsidiaries and consequently ensuring gradual implementation for smaller companies;
- sharing and consistency among all business units and/or companies of the same Group as regards the use of uniform models and methods to collect data and information and for the analysis and measurement of risk;
- timeliness and continuity in the risk analysis and measurement phases and subsequent production of reports to support the decision-making and control processes;
- transparency and dissemination of the analysis and measurement models, methods and criteria used, in order to facilitate the process of cultural acceptance and comprehension of the reasoning underlying the decisions made;
- assignment of responsibility to the business units and authorisation by the Board of Directors for direct management of the risks to which company processes are exposed.

In order to ensure respect of the aforementioned principles, the Mediolanum Banking Group adopts a Company Policy system that defines the general framework for risk control and management.
The main objectives of these company policies are:

- to ensure that the internal control system is able to promptly identify significant anomalies and implement the appropriate corrective and/or mitigating measures;
- to ensure sharing and uniformity of the key risk management rules and principles within the Group;
- to promote the risk management culture within the Group in a structured manner and encourage knowledgeable and consistent operational behaviours and decisions.

Banca Mediolanum's Risk Management and Compliance Department is broken down into three main sectors: Financial Risk Control, Operational Risk Control and Compliance.

1.2.1. Financial & Credit Risk Control

This unit predominantly carries out the following activities:

- supervision of the activities of the risk control structures of subsidiaries in defining the risk measurement methods, in addition to monitoring and specific management of concentration risk and the risk of belonging to a Group;
- verification of the accuracy of the process of validation by subsidiaries of the information flows necessary to ensure timely control of the exposure of managed assets to financial risk and implementation of mitigating actions and, where possible, prevention of any anomalies;
- preparation of reports for the Internal Control Committee, the Board of Directors, Senior Management and the heads of the operational structures regarding the evolution of risk in Group companies, proposing any corrective action;
- support to the line structures of subsidiaries in evaluating the Asset Liability Management techniques and models, for accurate comprehension and management of the risk exposure that could be generated by interrelations and by an imbalance of assets and liabilities.

1.2.2. Operational Risk Control

Operational risks derive mainly from possible inefficiencies in procedures, inadequate controls, human and technical errors, use of technologies – especially those allowing remote contact and operation – and events that are unexpected but that can be reduced, at least in part.

The Operational Risk Control unit is mainly responsible for the following, with respect to the processes of Banca Mediolanum and the subsidiaries:

- supervision of the subsidiaries' risk control structures in defining the operational risk measurement methods (scoring), as well definition of the model for the Bank's own operational risk control and management;
- verification of the accuracy of the process of validation by subsidiaries of the information flows necessary to ensure timely control of the exposure to operational risk and implementation of mitigating actions and, where possible, prevention of any anomalies;
- coordination and monitoring of the process for management of complaints received from clients of companies of the banking group, defining any mitigation measures for the risks identified on company processes;
- preparation of reports to the Internal Control Committee, the Board of Directors, Senior Management and the heads of the operational structures regarding the evolution of risk in Group companies, proposing any corrective action.

1.2.3. Compliance

This function is responsible for overseeing development of the legal and regulatory framework that controls activities in the financial and insurance sector, in order to preventively evaluate the impacts on company activities. It carries out an advisory and assistance role to the Managing Directors, Chairman and Secretary of the Board of Directors, in order to evaluate the adequacy of current practices and procedures with respect to the regulations in force and encourage prompt adaptation to the new regulations.

As part of these responsibilities, with specific reference to Banca Mediolanum, it performs the following:

- monitoring of the development of the relevant legal and regulatory framework, verifying any impacts on business at the banking group level and proposing the necessary measures for adaptation of the operational processes and/or company procedures;
- verification of the conformity of company processes to the provisions of the law, of the supervisory authorities and of the self-regulation rules (for e.g., autonomy protocols, self-governance codes), as well as any other sector regulation, collaborating, in particular, with the Internal Auditing, Corporate Affairs and Organization structures.

1.3. Material Risks

1.3.1. Pillar 1 Risks

Credit Risk (including counterparty risk)

The risk of suffering losses as a result of deterioration of creditworthiness up to default of the institutional, retail and corporate counterparties with respect to which the bank is creditor as part of its investment or lending activities, with the consequence that the debtor is not able to wholly or partially fulfil his contractual obligations.

Market Risk

For banks that adopt the standardised method, market risk is defined as the sum of the capital requirements calculated for position risk, settlement risk, concentration risk and commodity risk.

Operational Risk

Banca Mediolanum defines operational risk as the "risk that illegal or inappropriate behaviours by collaborators, technological shortcomings or malfunctions, errors or deficiencies in operating processes and external factors could generate economic losses or damage to assets, sometimes with legal-administrative impacts".

1.3.2. Pillar 2 Risks

Concentration Risk

The risk arising from exposures to counterparties, groups of connected counterparties and counterparties of the same economic sector or which engage in the same activity or are from the same geographic region.

Interest rate risk

Interest rate risk arising from activities other than trading: risk arising from potential changes in interest rates.

Liquidity risk

Liquidity risk generally arises under the form of limitations on the disposal of assets. More specifically, it is the risk that a financial instrument cannot be bought or sold without a sharp reduction/increase in price (bid-ask spread), due to the potential incapacity of the market to partially or fully settle the transaction. Liquidity risk is also defined as the risk regarding access to funding.

Residual risk

The risk that recognised credit risk mitigation techniques used by the bank are less efficient than expected.

Strategic risk

The current or prospective risk of a decrease in profits or capital due to changes in the competitive environment, unsound company decisions, inadequate implementation of decisions or poor response to changes in the competitive environment.

Reputational risk

The current or prospective risk of a decline in profits or capital arising from a negative perception of the bank by customers, counterparties, shareholders, investors or the supervisory authorities.

1.4. Risk Mitigation and Control Instruments

The Banking Group defines, implements and regularly implements adequate control and mitigation instruments for all the risks to which it is exposed.

Their adequacy and functionality may impact the decision to allocate, on an exceptional basis, a specific amount of internal capital also for risks that are considered to be non-measurable.

In general, the overall control system consists of a coordinated series of organizational structures, methods, rules, instruments and devices aimed at:

- respect of the company strategies;
- achievement of the objectives of effectiveness and efficiency of company processes;
- protection of the value of company assets;
- reliability and integrity of accounting and operating information;
- compliance with internal and external regulations.

More specifically, the aforementioned model adopted by the Banking Group includes the following for each type of risk:

- strategies, behavioural rules, general principles and objectives, and risk assumption, coverage and mitigation policies (officially outlined, according to the internal system for the management of company regulations, in "guidelines" and "policies");
- roles and responsibilities of the governing bodies and company departments involved in risk management and control (officially outlined, according to the internal system for the management of company regulations, in "regulations");
- risk management and control processes (officially outlined, according to the internal system for the management of company regulations, in "organizational procedures" and "operating manuals");
- existing information flows (officially outlined, according to the internal system for the management of company regulations, in "organizational procedures" and "operating manuals").

Also included among the control and mitigation instruments are the internal risk measurement methods used and developed for management purposes, with the objective of providing a better "perception" of the risk assumed, also in light of future recognition for the purpose of calculating the regulatory capital requirements. These methods are also used, in some cases, to examine the solidity of the regulatory capital calculated through standardised methods compared to the effective exposure to risk based on an operational analysis of company processes and positions.

The Banking Group's main objectives in establishing this risk management system are:

- to ensure that the internal control system is able to promptly identify significant anomalies, implementing the appropriate corrective, preventive and/or mitigating measures;
- to ensure extensive sharing and uniformity of the risk management rules, principles and approaches within the Group;
- to promote the risk management culture within the Group in a structured manner and encourage knowledgeable and consistent operational behaviours and decisions.

The Company Boards and Officers performing supervision, management and control functions play a fundamental role in defining and implementing such a system, which permeates the entire organizational structure and whose level of adequacy and effectiveness depends on the extent to which all individuals of the Group are involved.

1.5. Credit Risk

The Mediolanum Banking Group manages credit risk by implementing appropriate organizational monitoring and through a set of control models and instruments. In line with the above, the roles and responsibilities regarding the monitoring in place for the retail loans portfolio must be distinguished from those for the institutional portfolio.

The control system applied to retail and institutional portfolios enables verification, at any time, of the credit risk exposure of each customer or group of connected customers, also in order to proceed with prompt corrective actions, in compliance with the policies in force.

The credit risk control system has the following objectives:

- to develop adequate credit risk identification, measurement and control processes, at the counterparty level as well as at the portfolio level;
- to provide the Group with an effective information system that allows constant and timely monitoring of the breakdown and quality of the loans portfolio, on which loss forecasts and capital allocations are based;
- to ensure respect of the prudential capital requirements envisaged by the national and international supervisory bodies;
- to promote the adoption of policies and procedures that comply with prudent management of credit risk;
- to support the operational management of credit through an appropriate evaluation of the creditworthiness of the borrower/technical form;
- to generate adequate information flows to company management on the Group's exposure to credit risk and the risk mitigation techniques adopted.

In addition to constant updating as regards regulatory developments, the control system duly considers the specific characteristics and evolution of the banking credit business.

The main types of control implemented for credit risk as regards the retail portfolio are described below:

1. First-level controls

First-level controls, carried out directly by the managers of the units performing credit activities, are subdivided into line controls and performance controls.

A. Line controls

As part of the Loans sector, this activity is assigned to two different offices: the Ordinary Loans office and the Special Loans office.

In general, the line control activity includes:

- acquisition and verification of documentation necessary to make an adequate evaluation of the equity and income profile of the applicant in relation to the amount of requested intervention;
- analysis of the results from the public and private Central Credit Registers;
- examination of the consistency of the technical form requested with the intended use;
- verification of the validity and availability of instruments used to secure the loan;
- analysis of the score determined by the "Sistema Esperto Andamento Cliente" (expert customer performance system).

B. Performance control

Performance control includes monitoring activities for positions over time, with respect to both ordinary lending activities and abnormal situations (generally of an exceptional nature), as well as monitoring of guarantees. In particular, the following activities fall within this sphere:

- periodic reassessment of positions granted and verification of the regularity of usage transactions;
- monitoring and management of positions that are overdrawn and/or past due without authorisation, whether these have been granted or not;
- periodic verification of the value of assets submitted as collateral.

2. Second-level controls

Second-level controls are carried out by the Financial & Credit Risk Control Section, which is part of Banca Mediolanum's Risk Management and Compliance Department. This function is separate from the individuals directly carrying out lending activities.

These controls essentially pertain to the evaluation of global exposure to credit risk of the Banking Group's loans portfolio.

The Financial & Credit Risk Control Section is also responsible for defining the risk measurement methods, as well as constant verification of the capital adequacy as regards both the first and second pillar.

The Financial & Credit Risk Control Section performs the following activities as part of the Loans Portfolio Risk Control system:

- identifies, analyses and defines the risk measurement methods, with the support of the line structures;
- oversees the monitoring of credit risk, through ongoing collaboration with the first-level functions of the Product Manufacturing Department;
- ensures effectiveness of the reporting process to the Board of Directors, Senior Management and the heads of the operational structures;
- evaluates and proposes risk prevention and mitigation measures.

Regarding the institutional loans portfolio, under the Treasury Department, the credit risk control process, similarly to what was outlined for the retail portfolio, consists of the following phases:

1. First-level controls

Line controls, carried out by the structures authorised to operate on the markets (front office) and those in charge of managing transactions (back office), aim to verify the accuracy, completeness and internal consistency of information on transactions and respect of the operating limits assigned to the various operating units.

In particular, these activities are assigned to the Treasury Department.

2. Second-level controls

Second-level controls are carried out by the Financial & Credit Risk Control Section, which is separate from the unit handling direct performance of investment activities with institutional counterparties on behalf of the Bank.

Within the realm of credit risk, it is responsible for:

- coordinating the process of construction, processing and production of financial and statistical data for risk analysis;
- managing the credit risk control process at the Banking Group level;
- reporting on trends in the financial markets and on the relative risk position assumed by the Bank and by the Banking Group;

- evaluating and monitoring the "risk" performance of the Bank and of the other Companies monitored, proposing any corrective action;
- acquiring data and news on the real, monetary, credit and financial economy, also as part of drafting of the financial statements.

The control process is broken down into various phases that involve a number of participants at various levels and with various responsibilities. The key phases are summarised below:

A. Annual review of the operating limits

The process involving an annual review of the operating limits is one of the elements used in defining the strategic and risk budget guidelines for the year underway. As part of this process, the assigned counterparties are analysed and the limits reviewed, as a function of:

- the outcomes of creditworthiness analysis, carried out mainly based on the external ratings assigned by the leading agencies, as well as by taking into account the key balance sheet indicators;
- the average use of the past year and prospective one;
- the prospective capital budgeting.

The operating limits are normally submitted for approval at Banca Mediolanum's first Board of Directors' meeting of the year.

B. Daily control process

The daily control process consists of monitoring and reporting procedures implemented in order to verify that the exposure to risk is within the established operating limits. In particular, the Financial & Credit Risk Control Section carries out the measurement and control procedures and analyses the data produced on a daily basis. The procedures envisage the production of a report documenting the levels of exposure to risk, analysis of the results and filing of the same where no objections arise.

C. Management of overdrawn amounts and increases

The limits approved during Board of Directors' meetings are essentially final, save subsequent approval by the same upon proposal by the Treasury Committee.

In the case of proven urgency, the Assistant/Deputy General Manager shall have the right to approve overdrawn amounts beyond the limit approved by the Board of Directors, upon consultation with the Risk Management and Compliance Department and based on a justified request by the Treasury Department. This increase must be subsequently ratified by the Board of Directors. Responsibility for preparing the documentation relative to the new limits approved as part of the authorisations granted falls with the head of the Financial & Credit Risk Control Section and is included in the monthly report prepared by this sector for the Board of Directors.

The head of the Treasury Department is then responsible for notifying the Assistant/Deputy General Manager in advance of any situations where contingent factors or structural issues call for a retroactive review of the existing limits or analysis and approval of the assignment of new counterparties by the Board of Directors. These requirements are discussed in the Finance and Treasury Committee meeting, during which the request for an increase in limits or assignment of new counterparties is prepared for the Board of Directors. The increase or assignment request must be documented through a request by the head of the Treasury Department to the Assistant/Deputy General Manager, copied to the Financial & Credit Risk Control Department.

D. "Ad hoc" analysis process

This process includes all analyses carried out by the Financial & Credit Risk Control Section upon request by the stakeholders with which it interacts, as well as proactively, following particular market conditions and/or events that justify greater attention.

The ad hoc analysis processes include stress test and gap analysis procedures (to support the management of liquidity and interest rate risk).

1.5.1. Reporting System

An adequate credit risk reporting system enables a precise analysis of the qualitative/quantitative structure of the portfolio and its level of concentration, as well as identification of the variables impacting the level of provisions and the internal capital requirements.

A report on the retail loans portfolio is prepared as part of the first-level controls. In particular, the internal reports that are produced, presented at different intervals, examine the capital adequacy with respect to the credit risk and concentration risk of retail customers and analyse default positions. In terms of the loans portfolio, they examine the breakdown by rating class, the expected loss, the average percentage of expected loss, and the analysis of the risk dynamics. The recipients of this report are: the heads of the Business Units, the Committee for Loans under observation, Senior Management and the Board of Directors.

The report on second-level controls produced by the Financial & Credit Risk Control Section for the Head of Risk Management and Compliance, the Assistant/Deputy General Manager, the Managing Director and the Board of Directors is provided on a monthly, quarterly and annual basis, while the analytical report is provided to the Treasury Department and the Securities Brokerage Department on a daily basis. More specifically, the latter refers to the daily control process on limits regarding settlement, allocation, unlisted derivatives positions, fund positions and positions in currencies and individual credit lines.

1.6. Market Risk

The Mediolanum Banking Group manages market risk by implementing appropriate organizational monitoring and through a set of control models and instruments.

The main types of controls in place for market risk are described below.

1. First-level controls

Line controls, carried out by the structures authorised to operate on the markets (front office) and those in charge of managing transactions (back office), aim to verify the accuracy, completeness and internal consistency of information on transactions and respect of the operating limits assigned to the various operating units.

In particular, these activities are assigned to the Treasury and Securities Brokerage sectors.

2. Second-level controls

Second-level controls are carried out by the Financial & Credit Risk Control Section, which is separate from the unit handling direct performance of investment activities with institutional counterparties on behalf of the Bank.

Within the realm of market risk, it is responsible for:

- coordinating the process of construction, processing and production of financial and statistical data for risk analysis;
- managing the market risk control process at the Banking Group level;
- reporting on trends in the financial markets and on the relative risk position assumed by the Bank and by the Banking Group;
- evaluating and monitoring the "risk" performance of the Bank and of the other Companies monitored, proposing any corrective action;
- acquiring data and news on the real, monetary, credit and financial economy, also as part of drafting of the financial statements.

The control process is broken down into various phases that involve a multitude of participants at various levels and with various responsibilities. The key phases are summarised below:

A. Annual review of the operating limits

The process involving an annual review of the operating limits is one of the elements used in defining the strategic and risk budget guidelines for market risk.

The operating limits are normally submitted for approval at Banca Mediolanum's first Board of Directors' meeting of the year.

B. Daily control process

The daily control process consists of monitoring and reporting procedures implemented in order to verify that the exposure to risk is within the established operating limits. In particular, the Financial & Credit Risk Control Section carries out the measurement and control procedures and analyses the data produced on a daily basis. The procedures envisage the production of a report documenting the levels of exposure to risk, analysis of the results and filing of the same where no objections arise.

C. Management of overdrawn amounts and increases

The limits approved during Board of Directors' meetings are essentially final, save subsequent approval by the same upon proposal by the Finance and Treasury Committee.

In the case of limits of the VaR (Value at Risk), the Assistant/Deputy General Manager is authorised to approve exceeding of the limits per individual Desk, provided that these do not involve an increase in the overall portfolio limit. In this case, the Treasury Department and Securities Brokerage Department must activate the process to recall the positions or carry out hedging transactions, and they must immediately inform the Assistant/Deputy General Manager and the Managing Director and, subsequently, the Board of Directors.

D. "Ad hoc" analysis process

This process includes all analyses carried out by the Financial & Credit Risk Control Section upon request by the stakeholders with which it interacts, as well as proactively, following particular market conditions and/or events that justify greater attention.

The ad hoc analysis processes include stress test and gap analysis procedures (to support the management of liquidity and interest rate risk).

1.6.1. Reporting System

In carrying out its control activities, the Financial & Credit Risk Control Section is responsible for producing the following types of reports:

- internal: submitted to the Board of Directors, in occasion of periodic, planned meetings, and to the relevant operating units;
- external: presented to the market, according to the methods and timing defined by the Supervisory Authorities.

In particular, the report produced by the Financial & Credit Risk Control Section for the Head of Risk Management and Compliance, the Assistant/Deputy General Manager, the Managing Director and the Board of Directors is provided on a monthly, quarterly and annual basis, while the analytical report is provided to the Treasury Department and the Securities Brokerage Department on a daily basis. More specifically, the latter refers to the daily control process on VaR limits and stress scenarios, Stop Loss limits, allocation limits, and limits on unlisted derivatives positions, fund positions, and positions in currencies and individual credit lines.

1.7. Operational Risk

The Mediolanum Banking Group's operational risk control model consists first and foremost of a governance system based on the following general principles:

- thoroughness in the types and identification of operational risks to be governed;
- independence of the risk control function from the Business Units. The principle of independence must also apply to the internal audit function. However, temporary derogations are permitted, depending on the complexity of the activity carried out, the business volumes handled and the potential risks, applying a principle of proportionality;
- sharing and consistency among all business units and/or companies of the same Group as regards the use of uniform models and methods to collect data and information and for the analysis and measurement of risk;
- timeliness and continuity in the risk analysis and measurement phases and subsequent production of reports to support the decision-making and control processes;
- transparency and dissemination of the analysis and measurement models, methods and criteria used, in order to facilitate the process of cultural acceptance and comprehension of the reasoning underlying the decisions made;
- responsibility by the individual Business Units in managing operational risk.

The above principles and guidelines, as well as the nature and methods through which operational risk arises, require that:

- the process of identification, measurement, monitoring and management of the same take into account the analysis of activities of Group Company with respect to the key company processes;
- the control activities be carried out by all company boards, officers and functions, according to their various roles and responsibilities, but with frequent interaction and exchange of information amongst each other in order to ensure synergies and efficiency in management of the specific realms of responsibility.

In particular, the activities indicated, with specific reference to control activities, are grouped as follows.

1. First-level controls

First-level controls are performed directly by the Business Units engaged in carrying out specific activities and processes, as they are able to identify and manage operational risk as part of their operations (for e.g., Securities Brokerage, Banking Centre, Sales Network Control, Branches, Loans Department, etc.).

2. Second-level controls

Second-level controls are carried out by organizational structures that are separate from those directly performing operational activities: more specifically, the structures "Sales Network Inspection" and "Operational Risk Control", which is under the Risk Management and Compliance Department.

* * *

The added presence of a regulatory requirement has encouraged greater dissemination of the control culture and of sensitivity regarding several aspects of operational risk, leading to the creation of a Business Unit dedicated to the control and management of these risk elements.

The main activities carried out by the Operational Risk Control sector are:

- identification, measurement and monitoring of the Group's operational risks that could undermine the correctness and continuity of company business, giving rise to damage and possible capital losses;
- support to the company structures in identifying and implementing activities aimed at preventing, reducing and eliminating these events.

Performance of these activities, for which reports are periodically prepared for Senior Management, has involved:

- definition of operational risk measurement criteria and methods;
- collection, with support by the company functions involved, of the information flows necessary for quantification, management and control of operational risks;
- periodic verification and evaluation of the operational risk profile present in the various business units of the monitored companies;
- fine-tuning of the operational risk rating and scoring models;
- the proposal of actions aimed at preventing, where possible, correcting, eliminating and/or containing risk;
- operational coordination, based on guidelines by Senior Management, of any extraordinary interventions to handle exceptional events.

Furthermore, the Operational Risk Control sector collaborates with:

- the Internal Control Committee, the Supervisory Board (pursuant to Law 231/2001), the Compliance sector, the Organization and Systems Department and the Internal Auditing Department – responsible for the more general internal control activity – for common analysis of the general risk profile of the company, to identify the areas and processes with high operational risk sensitivity, to highlight the main operational and organizational shortcomings in relation to operational risk and to constantly fine-tune the internal control system;
- Network Inspection, for second-level control activities relative to the Sales Network's operations.

More specifically, the Operational Risk Control sector carries out risk identification, measurement and management with an approach that is proportional to the risk exposure of the various Business Units.

This process can be initiated during four different times:

1. annual risk assessment process: the risk exposure of the Company's Business Units is examined cyclically through manager interviews and based on a preliminary evaluation of risk exposure carried out by autumn of each year. This evaluation is the result of an analysis of risk exposure indicators ("Key Risk Indicators") based on business indicators for the period and data collected during the year. The information resulting from this process provides an "ex-ante" estimate of the risk exposure and the assignment of a rating to the Business Units, in order to allow gradual intervention for the areas with the highest exposure to operational risk;
2. recording of operational loss following the occurrence of risky events (recorded in the Loss Data Collection process). This activity is supported by the periodic collection of so-called error reports or by the transmission of specific notification messages;
3. implementation of mitigating measures for operational risk during "ex-ante" evaluation of the risks or following the occurrence of a specific event or by request from the contact persons of the Business Units;
4. preliminary analysis of risk exposure following the arrival of new business or subscription of new contracts/sales agreements, as well as following organizational/regulatory changes. This activity, internally referred to as "Generic Assessment", is carried out following specific notifications and with a method aimed at encouraging simultaneous updating of several business units responsible for targeted analysis: Regulatory Compliance, Organization, Legal Department, Financial Risk Control, Operational Risk Control, the Supervisory Board pursuant to Legislative Decree 231/01 and Internal Auditing.

In this context, considering the distinctiveness of the business model adopted by the Banking Group, with extensive outsourcing of several internal processes, including those relative to asset management, the guidelines and principles defined by the Group for the selection processes and control of outsourcers' activities are particularly important.

1.7.1. Reporting System

An adequate operational risk reporting system encourages greater adoption of the internal control culture within the Group, as well as increasing awareness of the risk level to which the Business Units are exposed.

The reporting process adopted by the Operational Risk Control sector is differentiated according to the recipients of the report and the processes subject to monitoring and analysis.

Information on the following aspects is particularly important:

- detailed information on actual operational loss events, with the relative recoveries and any mitigating action implemented following particularly significant events;
- evolution of the operational context and internal control system in order to significantly modify the operational risk profile;
- identification of vulnerable areas in the key company processes;
- description of actions for the prevention and mitigation of operational risk and indication of their effectiveness;
- evaluation of operational risks connected to the introduction of new products, activities, processes and systems;
- estimate of the contribution of operational risk in determining the total internal capital, evaluated based on the methodological model being used;
- guidelines on the risk transfer methods, where envisaged.

In particular, the internal reports produced by the Operational Risk Control sector in carrying out its activities are intended for the Business Units and their relative Managers, the Risk Management and Compliance Officer, the Internal Control Committee, the Managing Director, the Board of Directors and the Supervisory Authorities.
More specifically: the operational risk analysis reports by unit, organization and event and the reports on action plans implemented and underway are produced monthly, quarterly, half-yearly and annually; the "Generic Assessment" report for the qualitative evaluation of business initiatives or events is prepared on a quarterly basis; the summary report on the key Loss Data Collection information and the report on the effectiveness of controls are generated on a monthly basis; the statistical report on loss events and the relative recoveries is produced on a half-yearly basis.

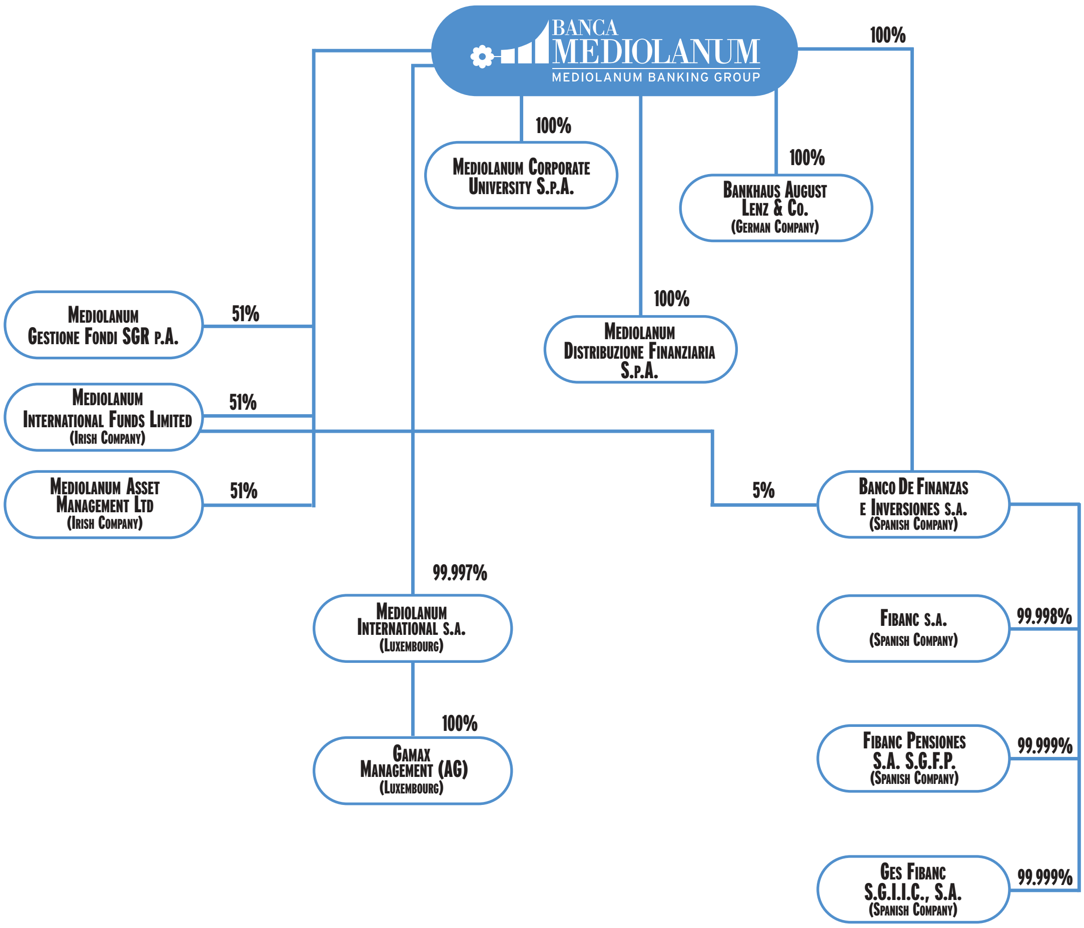
An annual self-assessment report is also produced and, in general, external reporting to the relative Supervisory Authorities, starting from April 2009, as attached to the annual ICAAP report.

2. SCOPE OF APPLICATION

The information contained in this Disclosure document refers to the Mediolanum Banking Group. Note that the Group does not have any current or foreseeable legal or substantive impediments that prevent the rapid transfer of supervisory capital or funds.

In accordance with the provisions of the regulator, the banks of the group have reduced their individual capital requirement by 25%, as they do not have any capital deficiencies at the consolidated level.

The corporate structure as at 31 December 2008 is illustrated below, subject to the New Supervisory Instructions and to disclosure under this report.



3. SUPERVISORY CAPITAL STRUCTURE

The Bank of Italy outlined the new methods to calculate supervisory capital, through Circular 263 of 27 December 2006 entitled "New Regulations for the Prudential Supervision of Bank". The circular acknowledges international positions calling for the impact of application of the international accounting standards (IAS/IFRS) on calculation of the supervisory capital to be taken into account. Several "prudential filters" are applied to the financial statement figures in order to protect the quality of supervisory capital and reduce the potential volatility associated with the adoption of the new accounting standards.

Supervisory capital is calculated as the sum of Tier 1 capital, included in the calculation without any limitation, and Tier 2 capital, included up to the amount of Tier 1 capital gross of any items to be deducted and of Tier 3 capital. The latter aggregate may be used solely to cover the capital requirements for market risks (net of counterparty risk and settlement risk relative to the supervisory portfolio) up to 71.4% of said requirements. The following are deducted from these aggregates: equity holdings, non-innovative capital instruments, innovative capital instruments, hybrid capital instruments and subordinated assets in other banks and financial companies, as well as equity holdings in and subordinated instruments issued by insurance companies.

As at 31 December 2008, Tier 1 capital consists of share capital, equity reserves and net income for the period (net of dividends), less goodwill, intangible assets and negative valuation reserves. The prudential filters in Tier 1 capital are provided by the negative balance of valuation reserves (net of taxes) in respect of equities, units of UCIs and debt securities classified under the "Available-for-sale financial assets" portfolio.

The Banking Group's capital as at 31 December 2008 does not contain any Tier 2 or Tier 3 capital items.

The main items comprising the Supervisory Capital on a consolidated basis are as follows:

Table 3.1 - Breakdown of supervisory capital

Amounts in thousands of euros	Figures as at 31.12.2008
Positive Tier 1 capital items	
Capital	432,673
Share premiums	-
Reserves	82,201
Non-innovative capital instruments	-
Innovative capital instruments	-
Profit for the period	47,930
Prudential filters: increases in Tier 1 capital	-
Total positive Tier 1 capital items	**562,804**
Negative Tier 1 capital items	
Own equity shares or quotas	-
Goodwill	205,714
Other intangible fixed assets	14,727
Losses for the period	-
Other negative items	-
Prudential filters: deductions from Tier 1 capital	26,614
Total negative Tier 1 capital items	**247,055**
Tier 1 capital before deductions	**315,749**
Tier 1 capital deductions	
Equity holdings in credit/financial companies of over 20% of investee company's capital	-
Equity holdings in credit/financial companies of over 10% but less than 20% of investee company's capital	-
Investments in insurance companies	-
Net value adjustments in excess of expected losses	-
Deductions from securitizations	-
Deductions relative to the settlement risk on non-DVP transactions	-
Total deductions	-
TOTAL TIER 1 CAPITAL	**315,749**
Positive Tier 2 capital items	
Valuation reserves	-
Non-innovative capital instruments not eligible for inclusion in Tier 1 capital	-
Hybrid capital instruments	-
Second-level subordinated liabilities	-
Net value adjustments in excess of expected losses	-
Net gains on investments	-
Other positive items	-
Prudential filters: increases in Tier 2 capital	-
Total positive Tier 2 capital items	-

(*follows on the next page*)

Negative Tier 2 capital items	
Net losses on investments	-
Loans and receivables	-
Other negative items	-
Prudential filters: deductions from Tier 2 capital	-
Total negative Tier 2 capital items	-
Tier 2 capital before deductions	-
Tier 2 capital deductions	
Equity holdings in credit/financial companies of over 20% of investee company's capital	-
Equity holdings in credit/financial companies of over 10% but less than 20% of investee company's capital	-
Investments in insurance companies	-
Net value adjustments in excess of expected losses	
Deductions from securitizations	-
Deductions relative to the settlement risk on non-DVP transactions	-
Total deductions	-
TOTAL TIER 2 CAPITAL	-
Deductions from Tier 1 and Tier 2 capital	-
TOTAL SUPERVISORY CAPITAL	315,749
TOTAL TIER 3 CAPITAL	-
SUPERVISORY CAPITAL INCLUDING TIER 3 CAPITAL	315,749

4. CAPITAL ADEQUACY

The Mediolanum Banking Group falls under Class 2 of the classification system used by the Bank of Italy (banks that use standard methodologies for supervisory purposes and that have assets of over € 3,5 billion). As such, it is required to use a method that sums the individual capital requirements for risks identified and measured based on the "building block" approach. The building block approach envisages an algebraic sum of the capital requirements for each individual risk identified. It does not assume any diversification effect from interaction among the items contributing to the determination of each individual risk.

The total capital requirement is therefore equal to the sum of capital requirements for the individual measurable risks calculated at the Banking Group level, according to the methodological rules specified by the Bank of Italy and adopted in the relative internal policy documents.

The Mediolanum Banking Group has a Tier 1 capital ratio of 9% and a Total capital ratio of 9% as at 31 December 2008.

Table 4.1 - Capital adequacy

Figures as at 31.12.2008

Amounts in thousands of euros	Exposure	Weighted exposure	Capital requirement
CREDIT RISK ASSETS			
Standard method			
Exposures to or secured by central governments or central banks	1,712,064	-	-
Exposures to or secured by regional entities	14,076	-	-
Exposures to or secured by non-profit entities and public sector entities	5,333	4,927	394
Exposures to or secured by multilateral development banks	10,378	-	-
Exposures to or secured by intermediaries under supervision	4,201,573	808,130	64,650
Exposures to or secured by companies	229,311	147,079	11,766
Exposures to retail	1,188,912	630,289	50,423
Exposures secured by real estate	974,152	342,605	27,408
Past due exposures	31,490	37,571	3,006
High-risk exposures	3,288	4,317	345
Exposures in the form of secured bank bonds	6,000	600	48
Exposures to UCIs	179,349	179,349	14,348
Other exposures	2,087,074	249,693	19,975
Exposures to securitizations	96,984	19,397	1,552
TOTAL CREDIT RISK		**2,423,957**	**193,917**
MARKET RISK ASSETS			
Standard method			
Generic risk			4,169
Specific risk			19,883
Risk of position in UCI investment certificates			59
Options			3,495
Exchange rate risk			-
Risk of position in commodities			-
TOTAL MARKET RISK			**27,606**
OPERATIONAL RISK ASSETS			
basic approach			3,675
standardised approach			57,901
advanced approach			-
TOTAL OPERATIONAL RISK			**61,576**
OTHER PRUDENTIAL CAPITAL REQUIREMENTS			-
Adjustments in capital requirements for intragroup transaction			**(2,348)**
TOTAL PRUDENTIAL CAPITAL REQUIREMENTS			**280,751**
Risk-weighted assets*			3,509,383
Tier 1 capital/risk-weighted assets (Tier 1 Capital Ratio)			9.00%
Supervisory capital/risk-weighted assets (Total Capital Ratio)			9.00%

** Total prudential capital requirements multiplied by the reciprocal of the minimum obligatory coefficient for credit risk (8%)*

5. CREDIT RISK - GENERAL DISCLOSURES FOR ALL BANKS

The activity of providing credit in its various forms, whether aimed at the purchase of a specific piece of real estate or consumer asset or to satisfy other financial requirements, fully falls within the commercial strategy of the Mediolanum Banking Group. In accordance with the Group's mission, the credit activity has a complementary role to the primary activity of distribution of products in the areas of banking services, asset management, protection and social security. The Group's credit policies are based on maximum prudence and aimed at developing and consolidating the relationship established with clientele that has invested assets in products managed by Group Companies.
Credit risk is mainly recognised in the traditional loan disbursement activities, secured or unsecured, recorded in the financial statements, as well as in analogous off-balance sheet activities, such as the granting of credit commitments. Identification of the scope of application of the control system, therefore, must consider the analysis of credit activities carried out by the Bank.
The technical forms of financing can essentially be summarised as follows:

- opening of credit lines in the current account, both revocable as well as fixed-term;
- loans with repayment by instalments;
- bank guarantees provided in the interest of clientele;
- mortgages for the purchase of residential properties.

They also include exposures involving current account overdrafts, with or without credit line authorisation, resulting from various transactions and, in particular, from the use of revolving and non-revolving credit cards.

The guidelines issued in terms of credit risk monitoring provide the instructions and general principles for monitoring of the lending activity and of the quality of the loans portfolio. The Parent Company of the Banking Group is responsible for evaluating the overall exposure to credit risk and defining the risk measurement methods at the consolidated level.
Evaluation of the credit risk exposure must also be carried out at the individual level by each Company, through monitoring and measurement of the risk associated with the various types of instruments.

5.1. Definition of Default

In identifying the **notion of default**, Banca Mediolanum follows the definition of "impaired exposures" valid for Financial Statement purposes, which includes:

- bad debts;
- substandard loans;
- restructured loans;
- loans that are past due by more than 180 days.

Bad debts are outstanding off-balance sheet loans (financing, securities, derivatives, etc.) with respect to a third party who is insolvent (even if not legally established) or in an essentially equivalent situation, regardless of any loss forecasts envisaged by the company. This does not take into consideration, therefore, the existence of any collateral or guarantees to cover the exposures. Exposures related to country risk are excluded. Exposures with respect to local entities (municipalities and provinces) undergoing financial difficulty are included up the relevant amount subject to liquidation.
Substandard loans are outstanding off-balance sheet loans (financing, securities, derivatives, etc.) to parties undergoing temporary and objective difficulty, expected to be resolved within an appropriate amount of time. They do not take into consideration the existence of any collateral or guarantees to cover the exposures. Exposures related to country risk are excluded.

Restructured loans are outstanding off-balance sheet loans (financing, securities, derivatives, etc.) for which a bank (or pool of banks), due to deterioration of the economic-financial conditions of the debtor, agrees (agree) to make changes to the original contractual conditions (for example, rescheduling of the deadlines, reduction of the debt and/or interest), resulting in a loss. Exposures with respect to companies for which termination of activities is envisaged (such as in the case of voluntary liquidation or similar situations) are excluded. Exposures related to country risk are excluded.

To the three definitions above, the Bank of Italy (through Circular no. 262 of 22 December 2005 "Banks' Financial Statements: Layout and Preparation") has added among impaired loans those that are "past due by more than 180 days", consisting of outstanding off-balance sheet exposures (financing, securities, derivatives, etc.) with respect to debtors (other than those reported as bad debts, substandard or restructured exposures) which, as at the reporting date, are past due by over 180 days. Exposures related to country risk are excluded. Classification in this category is mandatory when both of the following conditions occur:

- persistence of the past due exposure for over 180 consecutive days (for correct identification of an actual past due position, it is possible to offset existing past due positions on certain lines of credit with the available margins on other lines of credit granted to the same debtor);
- the greater of the ratio of past due amount to total exposure and the average past due amounts to total exposure recorded on a daily basis in the last quarter is equal to or higher than 5%.

Exposures to public entities that exceed the aforementioned thresholds but have a past due amount of equal to or less than € 10,000 are not taken into consideration.

5.2. Impairment Procedure

The impairment process adopted by the Mediolanum Banking Group is subdivided into two distinct phases:

- identification of the assets subject to analytical valuation or collective valuation;
- measurement and recording of the loss according to the rules envisaged for the specific type of impairment adopted.

The first phase is preliminary to the actual impairment procedure aimed at quantifying the loss component.
Loans subject to impairment testing in Banca Mediolanum are loans (cash loans and credit commitments) to ordinary customers and to institutional counterparties, which envisage fixed payments or, in any case, definable ones. The predominant technical forms for ordinary customers are current account credit lines, mortgages and instalment-based loans, while for institutional customers (banks and other financial companies) they consist of deposits, reverse repurchase agreements (assets) for the spot amount and credit facilities.
To identify the loans subject to analytical/collective impairment, it is therefore necessary to carry out an analysis of the importance of the loan and check for the presence of objective loss items.
Banca Mediolanum's procedure for identifying loans to undergo analytical/collective impairment requires loans that have been assigned the status of bad debt or substandard, as well as loans that are past due for over 180 days, to be subject to analytical valuation, regardless of the significance of the individual exposure and in accordance with the reporting criteria envisaged by the current supervisory regulations. In all of these cases, the status of impaired loan signifies objective evidence of a loss in value, as specified by IAS 39. The remaining performing loans are subjected to collective impairment testing. A significant threshold of ? 750,000 per single exposure has been defined solely for monitoring purposes. Positions exceeding this threshold are highlighted separately from the rest of the portfolio.

Analytical valuation aims to define the recoverable value of the single loan and is carried out based on the following:

- estimated recoverable cash flows;
- timing of the same;
- discounting rate used to calculate the present value of the cash flows.

At Banca Mediolanum, loans belonging to the categories of defaulted loans (bad debts, substandard loans, restructured loans and loans past due by over 180 days), given the non-significance of the individual amounts, are handled as homogeneous groups and written down using set percentages that take into account the "seriousness" of the anomaly.

Loans not subject to analytical write-down, on the other hand, are grouped into classes of financial assets having similar risk characteristics and collectively valued for impairment.

The sum of estimated losses for each group provides the collective write-down amount. This amount is compared with the prior book value of the loans in order to determine, depending on the difference, an allocation to or use of the loan loss provisions.

The process of defining groups of loans for collective valuation according to the IAS optimises on the greater synergies that are possible using the credit risk valuation approach set forth by the provisions of Circular no. 263 of 27 December 2006. In detail, the risk parameters introduced, consisting of the probability of default (PD) by rating class and the rate of loss in case of default (LGD), have been identified as significant factors in determining the homogeneous categories and in calculating provisions from the accounting standpoint.

The classification of loans subject to collective valuation currently takes place based on the rating and customer segment (retail/corporate).

The amount of the write-down is determined using a "Basel-oriented" approach that essentially equates the concept of accounting impairment to the notion of expected loss as introduced by the Accord. The latter is defined as the average loss expected by the Bank, over one year, on an exposure following impairment in terms of quality or default of the counterparties.

The collective loan loss provisions of Banca Mediolanum are therefore determined by calculating the expected loss (hereinafter PA or *perdita attesa* in Italian) for all positions belonging to a certain rating class as follows:

$$PA^{classe}_{rapporto} = Saldo_{rapporto} \times PD^{classe} \times LGD$$

where:

- $Saldo_{rapporto}$: represents the Financial Statement balance for short-term loans and the amortised cost for loans and financing with instalment-based repayment;
- *LGD*: the loss percentage to apply to performing loans;
- PD^{classe}: the probability of going from performing to default in one year for the specific rating class.

The loan loss provisions for loans belonging to the collective portfolio are therefore obtained by adding the expected losses calculated for the individual positions:

$$\text{Totale fondo} = \sum_{rapporto,\, classe} PA$$

Above all, with respect to the IAS provision that introduces the need to consider, for impairment calculation purposes, the time value of money, an LGD calculation model that takes into account both average recovery times and schedules as well as the type of assets and guarantees securing the loan is currently being defined.
At the moment, given the lack of sufficient historical data to make an internal estimate, the Loss Given Default (LGD) rates envisaged by Basel have been used for the following technical forms:
- retail mortgages: LGD=25%;
- other retail loans: LGD=85%;
- loans in the corporate segment: LGD=45%.

Based on the historic loss rates observed, an LGD of zero (essentially resulting in exclusion from the collective valuation) was assigned to the following technical forms:
- credit facilities;
- reverse repurchase agreements (assets) with bank counterparties;
- deposits with bank counterparties.

The one-year PD provides a reasonable approximation of a situation of "incurred but not reported loss", carried out based on items that have already been identified but where the evidence of loss occurs within the subsequent year.

5.1 Analysis of financial assets by category and credit quality (book value)

Category/credit quality €/'000	Non performing	Watch list	Restructured	Past due	Country risk	Other assets	Total
1. Financial assets held for trading	-	-	-	-	-	1,396,573	1,396,573
2. Available-for-sale financial assets	-	-	-	-	-	861,932	861,932
3. Held-to-maturity investments	-	-	-	-	-	1,107,048	1,107,048
4. Loans to banks	-	-	-	-	-	1,955,688	1,955,688
5. Loans to customers	5,373	7,804	-	12,390	-	3,083,797	3,109,364
6. Financial assets at fair value	-	-	-	-	-	-	-
7. Financial assets being disposed of	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-	-
Total at Dec. 31, 2008	**5,373**	**7,804**	**-**	**12,390**	**-**	**8,405,038**	**8,430,605**
Total at Dec. 31, 2007	843	3,520	-	9,618	-	7,042,531	7,056,512

5.2 Geographical distribution of on-balance sheet and off-balance sheet customer loans (book value)

Exposure/Geografical area €/'000	Italy		Other European Countries		America		Asia		Rest of the World	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. On balance sheet										
A.1 Non performing	10,497	5,372	9	1	-	-	-	-	-	-
A.2 Watch list	12,683	7,804	-	-	-	-	-	-	-	-
A.3 Restructured	-	-	-	-	-	-	-	-	-	-
A.4 Past due	15,145	12,389	1	1	-	-	-	-	-	-
A.5 Others	4,216,950	4,212,626	787,454	787,447	12,833	12,832	1	1	-	-
Total	4,255,275	4,238,191	787,464	787,449	12,833	12,832	1	1	-	-
B. Off balance sheet										
B.1 Non performing	-	-	-	-	-	-	-	-	-	-
B.2 Watch list	2	1	-	-	-	-	-	-	-	-
B.3 Other impaired assets	823	823	-	-	-	-	-	-	-	-
B.4 Others	217,546	217,517	338	336	1,793	1,789	100	100	-	-
Total	218,371	218,341	338	336	1,793	1,789	100	100	-	-
Total at Dec. 31, 2008	**4,473,646**	**4,456,532**	**787,802**	**787,785**	**14,626**	**14,621**	**101**	**101**	**-**	**-**
Total at Dec. 31, 2007	3,014,356	3,005,305	1,144,142	1,144,118	16,649	16,649	-	-	-	-

5.3 Geographical distribution of on-balance sheet and off-balance sheet bank loans (book value)

Exposure/Geografical area €/'000	Italy		Other European Countries		America		Asia		Rest of the World	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. On balance sheet										
A.1 Non performing	-	-	-	-	-	-	-	-	-	-
A.2 Watch list	-	-	-	-	-	-	-	-	-	-
A.3 Restructured	-	-	-	-	-	-	-	-	-	-
A.4 Past due	-	-	-	-	-	-	-	-	-	-
A.5 Others	2,772,139	2,772,139	587,543	587,543	24,443	24,443	126	126	6	6
Total	2,772,139	2,772,139	587,543	587,543	24,443	24,443	126	126	6	6
B. Off balance sheet										
B.1 Non performing	-	-	-	-	-	-	-	-	-	-
B.2 Watch list	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Others	23,611	23,597	10,872	10,688	1	1	-	-	-	-
Total	23,611	23,597	10,872	10,688	1	1	-	-	-	-
Total at Dec. 31, 2008	**2,795,750**	**2,795,736**	**598,415**	**598,231**	**24,444**	**24,444**	**126**	**126**	**6**	**6**
Total at Dec. 31, 2007	1,653,430	1,653,430	879,942	879,942	11,358	11,358	47	47	-	-

5.4 Analysis of customer loans by borrower category (on and off-balance sheet positions)

€/'000	Governments & Central Banks				Government agencies				Financial companies				Insurance companies				Non financial companies				Others			
	Gross exposure	Individual impairment	Collective impairment	Net exposure	Gross exposure	Individual impairment	Collective impairment	Net exposure	Gross exposure	Individual impairment	Collective impairment	Net exposure	Gross exposure	Individual impairment	Collective impairment	Net exposure	Gross exposure	Individual impairment	Collective impairment	Net exposure	Gross exposure	Individual impairment	Collective impairment	Net exposure
A. On balance sheet																								
A.1 Non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5	(4)	-	1	10,501	(5,128)	-	5,373
A.2 Watch list	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,709	(530)	-	1,179	10,973	(4,348)	-	6,625
A.3 Restructured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.4 Past due	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	169	(30)	-	139	14,977	(2,726)	-	12,251
A.5 Others	1,540,282	-	-	1,540,282	-	-	-	-	1,807,701	-	(73)	1,807,628	5,460	-	-	5,460	83,225	-	(47)	83,178	1,580,570	-	(4,212)	1,576,358
Total	1,540,282	-	-	1,540,282	-	-	-	-	1,807,701	-	(73)	1,807,628	5,460	-	-	5,460	85,108	(564)	(47)	84,497	1,617,021	(12,202)	(4,212)	1,600,607
B. Off balance sheet																								
B.1 Non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.2 Watch list	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2	(1)	-	1
B.3 Restructured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	823	-	-	823
B.4 Others	-	-	-	-	-	-	-	-	1,880	-	(4)	1,876	6	-	-	6	6,263	-	(2)	6,261	211,628	-	(29)	211,599
Total	-	-	-	-	-	-	-	-	1,880	-	(4)	1,876	6	-	-	6	6,263	-	(2)	6,261	212,453	(1)	(29)	212,423
Total Dec. 31, 2008	**1,540,282**	**-**	**-**	**1,540,282**	**-**	**-**	**-**	**-**	**1,809,581**	**-**	**(77)**	**1,809,504**	**5,466**	**-**	**-**	**5,466**	**91,371**	**(564)**	**(49)**	**90,758**	**1,829,474**	**(12,203)**	**(4,241)**	**1,813,030**
Total Dec. 31, 2007	1,911,361	-	-	1,911,361	-	-	-	-	1,081,929	-	(88)	1,081,841	86,510	-	(21)	86,489	174,559	(42)	(35)	174,482	590,015	(3,880)	(758)	585,377

5.5 Breakdown of financial assets by residual contractual duration

Items/Time periods Euro/thousand	On demand	From over 1 day to 7 days	From over 7 days to 15 days	From over 15 days to 1 month	From over 1 month to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	Over 5 years	Undefined duration
Cash assets										
Government securities	-	-	3,537	-	61,901	75,430	234,334	667,851	497,230	-
Listed debt securities	-	-	-	-	17,005	9,114	43,602	781,079	146,489	-
Other debt securities	8	-	-	-	-	-	-	-	-	-
Units of UCIs	169,737	-	-	-	-	-	-	-	-	-
Loans:	402,227	537,192	415,046	363,077	836,256	654,641	510,219	185,926	1,012,897	36,403
- banks	49,055	62,087	139,176	245,005	802,931	150,186	405,411	-	-	10,837
- customers	353,172	475,105	275,870	118,072	33,325	504,455	104,808	185,926	1,012,897	25,566
Cash liabilities										
Deposits	5,104,830	99,507	70,461	220,722	227,902	-	-	-	-	-
- banks	602,593	49,367	36,050	126,114	223,587	-	-	-	-	-
- customers	4,502,237	50,140	34,411	94,608	4,315	-	-	-	-	-
Debt securities	-	-	-	-	-	-	-	13,537	-	-
Other liabilities	6,604	518,628	284,049	282,048	451,262	259,438	49,175	276,316	384,530	-
Off-balance sheet transactions										
Financial derivatives with trading of capital										
- long positions	4,162	3,675	33,672	34,669	116,214	51	92	626	729	-
- short positions	-	6,398	35,629	35,592	120,241	50	92	611	432	-
Deposits and loans to be received										
- long positions	-	140,000	-	-	-	-	-	-	-	-
- short positions	-	140,000	-	-	-	-	-	-	-	-
Irrevocable commitments to grant financing										
- long positions	-	-	1,543	-	-	-	-	-	-	-
- short positions	-	-	1,543	-	-	-	-	-	-	-

5.6 Loans to customers: analysis of net impairment (on-balance sheet positions)

Description/Category €/'000		Non performing	Watch list	Restructured	Past due	Country risk
A.	Net impairment at beginning of the year	2,496	2,903	-	2,040	-
	- of which: loans sold but not derecognised	-	-	-	-	-
B.	Increases	3,582	3,667	-	911	-
B.1	impairment	2,322	3,615	-	911	-
B.2	reclassified from other impaired loan categories	1,260	40	-	-	-
B.3	other increases	-	12	-	-	-
C.	Decreases	(945)	(1,691)	-	(195)	-
C.1	revaluations	(221)	(82)	-	(62)	-
C.2	repayments	(132)	(378)	-	(64)	-
C.3	cancellations	(592)	-	-	-	-
C.4	reclassified to other impaired loan categories	-	(1,231)	-	(69)	-
C.5	other decreases	-	-	-	-	-
D.	Net impairment at end of the year	5,133	4,879	-	2,756	-
	- of which: loans sold but not derecognised	-	-	-	-	-

6. CREDIT RISK – DISCLOSURES FOR PORTFOLIOS SUBJECT TO THE STANDARDISED APPROACH

The Mediolanum Banking Group uses the following official ratings agency:

- Moody's.

It also uses the official ratings on the following portfolios:

Table 6 - Portfolios and official ratings

Portfolios	ECA/ECAI	Rating
Exposures to central governments and central banks	Moody's	Solicited and Unsolicited
Exposures to international organizations	Moody's	Solicited
Exposures to multilateral development banks	Moody's	Solicited and Unsolicited
Exposures to companies and other parties	Moody's	Solicited
Exposures to undertakings in collective investment (UCI)	Moody's	Solicited
Positions in securitizations with a short-term rating	Moody's	N/A
Positions in securitizations other than those with a short-term rating	Moody's	N/A

Table 6.1 - Exposures subject to the standard method

Figures as at 31.12.2008

Exposures Amounts in thousands of euros	RATING CLASSES							TOTAL
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	No rating class	
Cash exposures:	1,669,513	3,953,071	94,901	7,081	-	-	2,698,164	8,422,730
- to banks	886,970	2,289,278	31,120	7,081	-	-	169,809	3,384,257
- to customers	782,544	1,663,793	63,781	-	-	-	2,528,356	5,038,473
Derivatives	2,004	5,773	-	-	-	-	97	7,874
- financial derivatives	2,004	5,773	-	-	-	-	97	7,874
- credit derivatives	-	-	-	-	-	-	-	-
Guarantees given	-	-	5,653	-	-	-	16,875	22,528
Commitments to grant financing	-	1,543	-	-	-	-	222,908	224,451
Total	**1,671,517**	**3,960,387**	**100,554**	**7,081**	**-**	**-**	**2,937,947**	**8,677,583**

8. RISK MITIGATION TECHNIQUES

The Banking Group does not use on- and off-balance sheet netting processes for credit risk exposures with opposite signs.

The credit risk mitigation techniques consist of supplementary contracts to loans, namely comprising other instruments and techniques that reduce credit risk, recognised during calculation of the capital requirements and, from a management viewpoint, by the internal policies of the Mediolanum Banking Group. The assumption of credit risk is an inherent part of the lending activity carried out by the Product Manufacturing Department, as well as the liquidity management activity typical of the Treasury Department.

The recognised credit risk mitigation (CRM) techniques are subdivided, for supervisory purposes, into two broad categories:

1. funded protection;
2. unfunded protection.

Funded credit protection consists of:

1. financial collateral in the form of cash, specific financial instruments and gold, provided through pledge agreements, transfer of titles as a guarantee, repurchase agreements and securities lending and borrowing;
2. master netting agreements;
3. on-balance-sheet netting;
4. real estate mortgages and real estate lease transactions

Unfunded credit protection consists of guarantees and credit derivatives. The latter are not currently authorised by the Mediolanum Banking Group among credit mitigation techniques for the banking book, as they are only approved for trading.

Credit risk mitigation techniques include collateral and other equivalent rights having as object assets with an adequate degree of liquidity and a sufficiently stable market value over time. Collateral given through pledges is included in this category.

The so-called "irrevocable sell orders" on financial products of the group are not recognised as collateral for the purposes of credit risk mitigation, even though they contribute to facilitating the decision on whether to grant an ordinary credit line.

Pledged collateral must have the following characteristics:

The financial product pledged, directly or indirectly, must be among the products listed below:
- current account balances at our bank;
- government securities or government-backed securities and allocable securities;
- units of mutual investment funds and SICAVs;
- restrictions on insurance policies of the Mediolanum Banking Group;
- assets under management at our Bank;
- bonds and certificates of deposit issued by our Bank and by other Banks;
- reverse repurchase agreements on listed bonds, allocation or government, with ordinary clientele, with the agreement of subsequent sale to the counterparty;
- listed bonds;
- listed equities.

If shareholders' equity does not fully cover the credit line amount granted, the credit will have to be fully classified within the high-risk category.
Credit risk from mortgage loans is mitigated by the collateral provided by the property. The real estate securing the loan must have the following characteristics.

Real estate subject to intervention must be located in Italy and designated for residential use.
Semi-residential units may also be considered, provided they satisfy the following requirements:
- the maximum surface area designated for non-residential use does not exceed 40% of the estimated value of the property;
- the property is located in residential zones;
- the mortgage holder is a self-employed worker who intends to use the asset as principal residence.

In these cases, the maximum percentage eligible for financing is 70% of the estimated value.
The bank protects itself by exercising caution in operations and implementing control procedures, such as verification of the precision and quality of the document drawn up by the appraiser, essential requirements in risk analysis. In fact, any approval of a mortgage must always be accompanied by a valid assessment that indicates an estimated value that is consistent with the amount of loan requested and certifies, to the extent possible, the regular building and town planning status of the property. If this is not the case, the application is rejected or the mortgage amount reduced in order to be commensurate with the real value of the property (based on its marketability, location, etc.).
Without prejudice to the above, the appraiser, as deliberating body or proponent of the application, is required to initial and date the form for appraisals carried out on buildings used as collateral, as confirmation of having carefully read the assessment and taken into consideration its contents, with the latter preventively validated by the relative technical office of the Loans Sector.

Subsequently, and before stipulating the mortgage deed, the appraiser shall definitively confirm approval of the mortgage to the promoter/client.
Appraisals shall be considered to be compliant to the procedures solely if:
a) the appraiser has carried out a complete internal and external inspection of the property;
b) the appraisal includes internal and external photographs of the property.
The assessment may be carried out by internal Banca Mediolanum personnel or by external appraisers collaborating with Banca Mediolanum.
A specific technical department established within the Loans Sector is responsible for ensuring proper application of the internal procedures for drawing up the assessment.

9. COUNTERPARTY RISK

The Mediolanum Banking Group focuses on monitoring counterparty risk, defined as the risk that the counterparty to a transaction involving financial instruments (in particular, repurchase agreements, OTC derivatives and long settlement transactions) defaults prior to the transaction itself.

Table 9 - Calculation methods adopted

Exposure categories	Methods to calculate the exposure value
OTC derivatives	Current value method
Securities financing transactions (SFT)	CRM - simplified method
Long settlement transactions	Current value method

The counterparty risk for OTC derivatives and long settlement transactions is calculated using the mark-to-market method.
For each set of assets, the credit equivalent is calculated by adding the replacement cost and the future credit exposure ("add-on").
The replacement cost of each contract is its fair value, if positive. The fair value is positive if the bank has a claim on its counterparty.
The credit exposure accounts for the probability that the future fair value of the contract, if positive, may increase, or if negative, may become positive. The future credit exposure is determined by multiplying the notional principal amount of each contract by the percentages indicated in the table, based on the residual maturity of the transactions:

Table 9.1 - Percentages to calculate future credit exposure

Residual duration	Interest rate contracts	Exchange rate and gold contracts	Equities contracts	Contracts on precious metals except gold	Contracts on assets other than precious metals
Up to 1 year	0.0%	1.5%	6.0%	7.0%	10.0%
From 1 to 5 years	0.5%	5.0%	8.0%	7.0%	12.0%
Over 5 years	1.5%	7.5%	10.0%	8.0%	15.0%

Derivatives activity by the Mediolanum Banking Group is fundamentally hedging-based, to cover market risk (such as OIS, futures), as well as the more typical lending activity (hedging of mortgages portfolio with IRS and IRO). In particular, IRS and IRO trading can only be carried out for hedging of the mortgages portfolio. It is absolutely essential that an ISDA Master Agreement be stipulated prior to beginning operations with a new counterparty.

Repurchase agreements are part of the typical activities of the Treasury Department and the Trading Sector and are instrumental for the correct performance of liquidity management activities, as well as management of relations with retail customers. Treasury typically uses the Repo market to finance itself (reverse repos) and Trading uses the instrument as part of the products package offered to clients. As far as repurchase agreements carried out by the Treasury Department to refinance the securities portfolio are concerned, the credit risk connected with the transaction stems from counterparty default, as well as volatility of the securities given as collateral. It is therefore necessary that securities received as collateral always have specific qualitative characteristics in terms of minimum rating (always of investment grade, with any exceptions approved by the head of Treasury) and that the institutional counterparties always be preventively approved as part of the annual assignment process.
The Mediolanum Banking Group used the simplified approach to calculate the capital requirement for counterparty risk from repurchase transactions.

Table 9.2 - Distribution of positive fair value by type of underlying asset

Figures as at 31.12.2008

Items/Values Amounts in thousands of euros	Interest rates	Currencies and gold	Equities	Loans and receivables	Other	TOTAL
Derivatives contracts	5,600	2,265	-	-	-	7,865

No credit derivatives positions have been identified.
Table 9.3 shows the counterparty risk exposures as at 31 December 2008:

Table 9.3 - Counterparty risk

Figures as at 31.12.2008

Items/Values Amounts in thousands of euros	Exposure	Weighted exposure	Requirement
Derivatives	10,347	3,504	280
SFT and long settlement transactions	2,600,232	42,327	3,386

12. OPERATIONAL RISK

Operational risks permeate the entire company structure and are intertwined with legal risks or risks of non-compliance with the regulatory provisions.
Banca Mediolanum defines operational risk as the "*risk that illegal or inappropriate behaviours by collaborators, technological shortcomings or malfunctions, errors or deficiencies in operating processes and external factors could generate economic losses or damage to assets, sometimes with legal-administrative impacts*".
Given the characteristics of Banca Mediolanum's business model and the nature of activities carried out, particular attention is paid to risks generated by the Sales Network and those resulting from using multiple channels, namely all of the instruments that allow remote contact and operations, also through the definition of decentralised monitoring and control procedures, and risk valuation, mitigation and prevention.

The operational risk valuation and measurement method, improved with the introduction of quantitative valuations in 2006, analyses the operational risk exposure of company processes also through introduction of an operational risk exposure measurement for the Company's business units, with a qualitative measurement as well: the so-called internal rating.

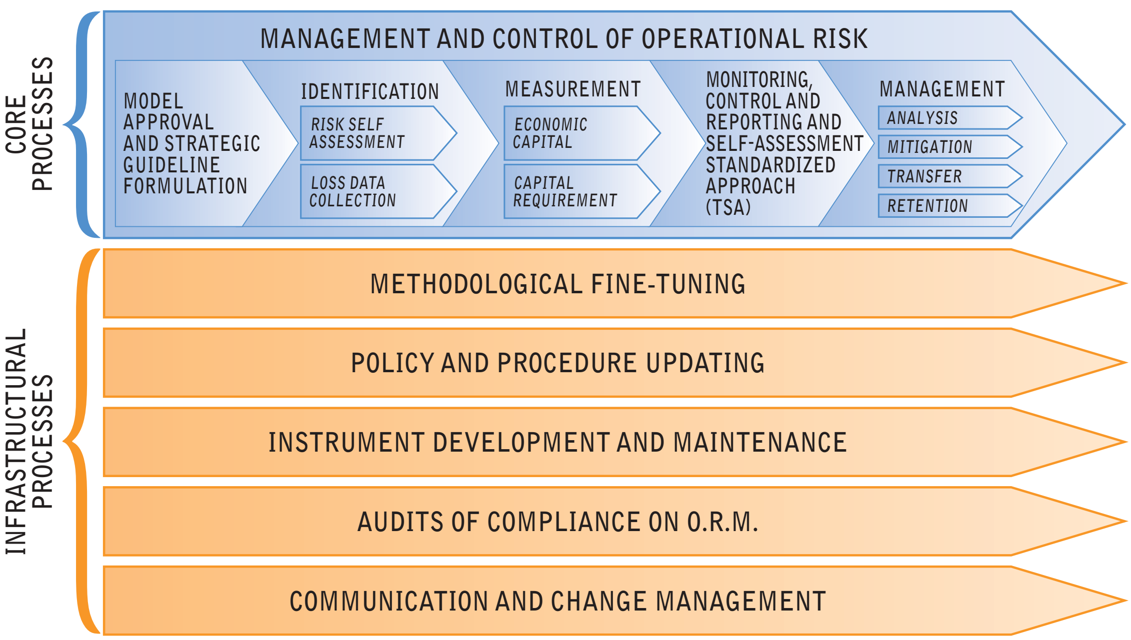
This qualitative rating summarises risk exposure, distinguishing between stages of physiological risk in management of the company and anomalies or critical issues.

The model is based on four valuation classes with the following meanings in terms of evaluation of the situation and necessary intervention:

- **A, physiological risk:** acceptable risk situation that is consistent with the risk propensity expressed by company management;
- **B, medium risk:** significant risk of loss, first warning sign;
- **C, significant risk:** problematic situation, a more detailed analysis is recommended in order to evaluate the opportunity for mitigating intervention;
- **D, high risk:** the seriousness of the situation requires prompt mitigating action.

The project for improvement of the operational risk control and management procedures was submitted to the Board of Directors for approval in December 2006 and is periodically updated. The last update was in December 2008. The so-called "Risk Self-Assessment" analysis is conducted each year on the company's business units, together with the operational loss data collection processes, an essential basis for valuation of the risk of company processes, as well as an input for the half-yearly supervisory report envisaged for companies that adopt the standardised method for measurement of regulatory capital at risk.

The operational risk management and control activities involve performance of the set of processes illustrated below:



The "**Identification**" macro-process consists of the following processes:

- "Risk Self-Assessment": ex-ante evaluation of the operational risks of a business unit or process carried out on the basis of subjective estimates and self-assessment models by the head of risk management. One of the main outputs of the Risk Self-Assessment process is the aforementioned internal rating, a concise expression of the degree of operational risk of the process/business unit;
- "Loss Data Collection": ex-post collection of actual internal loss data, along with all of the information considered significant for the purposes of measurement and management (including direct and insurance recoveries). This activity is carried out via an account-driven approach (based on accounting entries) as well as an event-driven approach (based on non-accounting related reports of operational loss events).

The "**Measurement**" macro-process consists of the calculation processes for capital at risk:

- Economic capital: measurement of risks for internal purposes, through assignment of a rating that enables risk management and mitigation actions to be oriented and adjusted according to the potential economic impact and current monitoring of the same. This measurement is based on the results of the risk identification process, applying an actuarial statistical model, and is used to develop operational risk stress tests;
- Regulatory capital: capital requirement defined on the basis of supervisory regulatory provisions. In measuring regulatory capital for operational risk, Banca Mediolanum, based on the self-assessment report examined by the Board of Directors on 7 November 2007 and updated on 23 March 2008, resolved to adopt the standardised method at the individual level, having ascertained respect of the qualitative and quantitative eligibility thresholds envisaged for this method. The Bank of Italy has been notified of this approach, as required by the prudential supervision provisions. For the measurement of consolidated regulatory capital, the Board of Directors resolved to adopt the combined basic and standardised approach, upon ascertainment of the eligibility thresholds for the adoption of this method.

The "**Monitoring, Control and Reporting**" macro-process consists of the following processes:

- "Monitoring and Control": analysis of the actual operational risk compared to the expected risk, and identification of mitigating action, as well as fine-tuning of the valuation models;
- "Reporting": production of a periodic report to the Business Units, Senior Management, the Control Committee and the Board of Directors.

The "**Management**" macro-process consists of the following processes:

- "Management analysis";
- "Management of mitigating activities";
- "Management of the forms of transfer";
- "Management of the activity of conscious assumption of risk".

The overall set of processes related to operational risk Control and Management is completed by the following transversal processes:

- "Policies & procedures";
- "Methodological fine-tuning";
- "Development and maintenance of tools and applications";
- "Compliance on Operational Risk Control";
- "Internal communication/Change Management".

The analyses conducted at the Mediolanum Banking Group level show substantial capacity of consolidated supervisory capital with respect to operational risk, calculated not only through a standardised approach but also through an internal statistical analysis of processes and of the probability of occurrence of events.

An analysis of the controls used by structures of the Mediolanum Banking Group companies is also carried out as part of the risk self-assessment process, evaluating their completeness and effectiveness, also with respect to the instruments in use.

Overall, no particular elements have been identified.

Over 1,800 control points have been identified at the Mediolanum Banking Group level, which in approximately 75% of cases have proven to be adequate or to require adaptation measures mainly in terms of better formalisation.

The activities of the Operational Risk Control sector are also focused on activating, and in some cases conducting, mitigating actions aimed at improving the controls in place, increasing their effectiveness or reducing potential sources of operational risk.

13. EQUITY EXPOSURES

Equity investments

Equity investments in the Mediolanum Banking Group's portfolio are held for strategic purposes.
Financial statement item 100 "Equity investments" includes investments in subsidiaries and associates, carried at cost.
If there is evidence that the value of an investment may be impaired, its recoverable amount is calculated by estimating the present value of the future cash flows expected to be generated by the investment, including its final disposal value.
If the recoverable amount is lower than the carrying amount, the difference is recognised in the income statement.
If the reasons for the impairment cease to exist following an event subsequent to recognition of the impairment, the impairment loss is reversed and the reversal is recognised in the income statement.
Financial assets are derecognised when the contractual rights to the cash flows generated by the assets expire or when the financial asset are transferred, along with all of the related risks and benefits.

Financial assets held for trading

Financial assets held for trading consist of debt securities, equities, and the positive value of non-hedging derivatives contracts.
Financial assets held for trading are initially recognised on the settlement date for debt securities and equities and on the subscription date for derivatives contracts.
On initial recognition, financial assets held for trading are measured at cost, namely the fair value of the instrument, without considering the directly attributable transaction costs or income.
After initial recognition, financial assets held for trading continue to be measured at fair value.
In determining the fair value of financial instruments listed in an active market[1], market prices (bid-ask prices or average prices) are used. In the absence of an active market, estimating methods and valuation models that take

into account all of the risk factors connected to the instruments and which are based on measurable market data are used, such as: methods based on the valuation of listed instruments with similar characteristics, calculation of discounted cash flows, models for the determination of option prices, and values recorded in recent comparable transactions.
Financial assets are derecognised when the contractual rights to the cash flows generated by the assets expire or when the financial asset are transferred, along with all of the related risks/benefits.

Available-for-sale financial assets

This category includes non-derivative financial assets that are not classified as Loans and Receivables, Financial Assets Held for Trading or Held-to-Maturity Investments.
In particular, it includes shareholdings not held for trading and which do not quality as investments in subsidiaries, associates or joint ventures.
The financial assets are initially recognised on the settlement date for debt securities and equities and on the disbursement date for loans and receivables.
On initial recognition, these assets are measured at cost, namely the fair value of the instrument, including any directly attributable transaction costs or income. If recognition takes place subsequent to reclassification from Held-to-Maturity Investments, the recognition value is equal to the fair value at the moment of transfer.
After initial recognition, available-for-sale financial assets continue to be measured at fair value, with recognition in the income statement of a value corresponding to the amortised cost. Gains or losses arising from a change in fair value are recognised in a specific equity reserve until the financial asset is derecognised or impaired. Upon disposal or impairment, the cumulative gain or loss is recognised in the income statement.
Equity instruments whose fair value cannot be reliably measured as set out above are measured at cost.
Verification of objective evidence of any impairment loss is carried out at every interim and annual balance sheet date.
If the reasons for the impairment cease to exist following an event subsequent to recognition of the impairment, the impairment loss is reversed and the reversal is recognised in the income statement in the case of loans and receivables or debt securities, and in equity in the case of equity instruments. The reversal amount cannot exceed the amortised cost that the asset would have had in the absence of prior adjustments.
Financial assets are derecognised when the contractual rights to the cash flows generated by the assets expire or when the financial asset are transferred, along with all of the risks and benefits from ownership of the asset.

[1] A financial instrument is considered as listed on an active market if the prices, which reflect normal market transactions, are promptly and regularly available through Stock Markets, Brokers, Intermediaries, Companies of the sector, Listing services or authorised entities, and these prices represent effective and regular market transactions carried out based on a normal reference period.

Table 13 - Equity instrument exposures

Figures as at 31.12.2008

Amounts in thousands of euros	Carrying amount	Gains/losses during the period
Securities held for trading		
Equities	17	8
- of which listed	7	-
- of which unlisted	10	-
Available-for-sale securities		
Equities	9,276	-
- of which listed	82	6
- of which unlisted	9,194	137
Equity investments		
Equity investments	393,166	78,796
- of which listed	-	-
- of which unlisted	393,166	78,796

NOTE: for AFS securities and equity investments, the gains refer to dividends collected, while for securities HFT they are net trading gains.

14. INTEREST RATE RISK ON POSITIONS IN THE BANKING BOOK

Interest rate risk quantifies the potential impact of unexpected variations in interest rates on current profits and on the value of the Bank's equity. This risk typically affects positions in the Banking Book.

The Banking Book refers to the set of on- and off-balance-sheet items that are not held for trading purposes.

The following objectives are pursued for proper governance of interest rate risk:

- managing the stability of the interest margin, minimising the negative impact of interest rate changes (Current Income perspective), mainly focusing on the short term. Stability of the interest margin is mainly impacted by Repricing Risk, Yield Curve Risk, Basis Risk, Refixing Risk and Optionality Risk;
- protecting the economic value, intended as the sum of present values of the expected cash flows generated by both sides of the Balance Sheet. The Economic Value perspective, as opposed to Current Income, takes a medium to long-term view and is mainly linked to Repricing Risk;
- ensuring that the interest rate risk assumed or that will be assumed is properly identified, measured, controlled and managed according to official and shared methods and procedures;
- verifying that the risk measurement models are consistent with the actual profits achieved by the various risk owners;
- keeping the quality of risk measurement systems and risk management processes aligned to the standards of the market's best practices;
- defining the system of limitations and authorisations assigned to the various levels of responsibility;
- guaranteeing the production of accurate information and reports for the various organizational levels responsible for management and control activities;
- ensuring respect of the organizational requirements envisaged by the national and international supervisory bodies.

The limitations structure reflects the level of risk deemed acceptable and constitutes a mechanism for verification that the operating procedures at the various organizational levels are performed according to the operational and strategic guidelines defined by company management.

Application of the aforementioned principles has resulted in the definition of the following limitations structure:

- **Margin sensitivity indicator**, with a parallel shift in the Yield Curve;
- **Economic value sensitivity indicator**, with a parallel shift in the Yield Curve.

The Group's Banking Book includes all financial instruments not included in the trading portfolio. In particular, it includes interbank loans, AFS assets and the fixed component of the securities portfolio (IAS category: Held to Maturity).

The interest rate risk management process for banking activities falls under the activities of Asset Liability Management. The Mediolanum Banking Group's ALM system enables performance of the interest margin to be controlled on an annual basis and the Bank's Economic Value to be controlled in relation to the supervisory capital The ALM system is also useful in supporting management in the assessment of new collection and lending policies in terms of the capital and income structure of the Institute.

Reporting by the Financial Risk Control sector comprises a summary report on aggregate exposures and a report on the results of stress tests. Both reports are prepared for the Board of Directors and Senior Management on a quarterly basis.

The stress test analysis for interest rate risk on the banking book has been carried out by taking into consideration the interest rate shock scenarios established by the internal policy.

The main currency for exposures of the Mediolanum Banking Group is the Euro. Other currencies are not present in significant amounts and have therefore been converted and added to the Euro positions.

Table 14 - Risk indexes

Figures as at 31.12.2008

Shift (+/–)	Effect on interest margin	Effect on supervisory capital
Eur + 100bp	9,609	-
Eur – 100bp	(13,455)	-
Eur + 200bp	-	16,320
Eur – 200bp	-	(16,320)