BANCA
MEDIOLANUM S.p.A.

2011
PILLAR III

BANCA MEDIOLANUM
MEDIOLANUM BANKING GROUP

Table of Contents

The chapter 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

Disclosures pursuant to Title IV Chapter 1 of Bank of Italy's Circular 263/06

Information at December 31 2011

BANCA MEDIOLANUM
MEDIOLANUM BANKING GROUP

Preamble

The June 2006 EU Capital Requirements Directive adopting the New Basel Capital Accord ('Basel II') marked the beginning of sweeping changes in banking regulations.

The new regulatory framework introduced key novelties in capital measurements and triggered a comprehensive, in-depth review of risk measurement and management systems especially within Banking Groups.

After public consultation, on December 27, 2006, the Bank of Italy adopted the Capital Requirements Directive for credit institutions and investment firms (i.e. Directives 2006/48/EC and 2006/49/EC of the European Parliament and of the Council) by issuing Circular 263 that set forth new regulations governing capital requirements for banks.

The Supervisory Regulations in effect from January 1, 2008 are based on 'three pillars':

1. The first pillar relates to capital requirements for risks that are typical of banking and finance, i.e. credit risk, counterparty risk, market risk and operational risk. Banks have alternative options for the calculation of capital requirements in accordance with the degree of complexity of their operations.
2. The second pillar requires banks to have a process for assessing their overall capital adequacy and a strategy for maintaining adequate capital levels (Internal Capital Adequacy Assessment Process or 'ICAAP'). Supervisory authorities are required to review and evaluate the effectiveness and reliability of the internal capital adequacy assessment process of banks, and, if not satisfied with the results, take appropriate supervisory action (also 'Supervisory Review Process' or 'SREP') .
3. The third pillar requires banks to disclose information about their capital adequacy, risk exposures and the general features of their internal control system and risk management framework.

Introduction

1. Purpose

The purpose of this document is to disclose information about the capital adequacy and risk exposures of the Mediolanum Banking Group as well as the methods it uses to identify, measure and manage risks.

2. Structure

This document contains both qualitative and quantitative information. Apart from the preamble and the introduction, this document is organised into chapters that mirror the disclosure requirements Tables in Annex A, Title IV, Chapter 1 of Bank of Italy's Circular 263/06. These chapters are:

Chapter 1: Risk Management – General Information

This chapter sets out information about risk management policies and goals by type of risk.

Chapter 2: Scope of application

This chapter sets out information about the entities within the Banking Group to which disclosure requirements apply.

Chapter 3: Composition of Regulatory Capital

This chapter sets out regulatory capital components and related quantitative information.

Chapter 4: Capital Adequacy

This chapter sets out information about the methods used to measure capital adequacy and calculate capital charges for current and future operations.

Chapter 5: Credit risk – general information (all banks)

This chapter sets out the definitions of the various categories of impaired loans as well as the method used to calculate impairment.

Chapter 6: Credit risk – exposures measured under the standardised approach

This chapter sets out information on external credit assessment institutions (ECAI) and credit ratings.

Chapter 8: Risk mitigation techniques

This chapter sets out information about credit risk mitigation policies and practices.

Chapter 9: Counterparty Risk

This chapter sets out information about the methods used to monitor counterparty risk.

Chapter 12: Operational Risk

This chapter sets out information about the method used to calculate operational risk capital charges.

Chapter 13: Equity exposures

This chapter sets out information about the purpose of holding equity instruments, the methods used to measure and recognise them and information about gains/losses realised upon their sale or liquidation.

Chapter 14: Interest Rate Risk in the Banking Book

This chapter sets out information about interest rate risk and how it is measured.

Chapter 15: Compensation Policies and Practices including Incentive Plans

This chapter provides disclosures on the decision-making process applied when defining compensation policies including incentive plans.

The chapters of this document correspond to the Synoptic Tables of Annex A, Title IV, Chapter 1 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.
The information herein is based on management and financial information for the year ended December 31, 2011. Amounts are expressed in thousands of euro.

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

1. RISK MANAGEMENT - GENERAL INFORMATION

1.1. Risk Management and Internal Control System

The internal control system consists of the set of rules, procedures and functions established to ensure the effectiveness and efficiency of corporate processes, the protection of corporate assets as well as the proper management of customer assets, the reliability and accurateness of management representations and financial information as well as the compliance of transactions with the law, the regulations issued by Supervisory Authorities, self-discipline and internal rules.
The various entities within the Mediolanum Banking Group have in place a comprehensive, effective internal control system in accordance with applicable regulations and the business they conduct.
The Board of Directors and Management play a key role in the establishment of an adequate risk management framework and the implementation of an effective internal control system.
The following general principles form the bedrock of the Group risk management framework:

- identification and full coverage of all categories of risks;
- separation and independence of the Compliance & Risk Control function from Operating Units. Ultimately, there will be separation and independence also from Internal Control bodies. However, certain derogations are allowed in the transitional phase according to the complexity of the business, business volumes and potential risks;
- use of uniform, consistent models and methods for the collection of data and information as well as for the analysis and measurement of risks by all organisational units and/or companies within the Group;
- timely and consistent analysis and measurement of risks; subsequent preparation of reports to support control and decision-making processes;
- transparency and dissemination of models, methods and criteria applied in the analysis and measurement of risks to promote a control culture within the organisation and understanding of the reasons underlying the choices made;
- delegation of risk management authorities and responsibilities from the Board of Directors to the Operating Units for their direct management of the risks to which corporate processes are exposed.

To ensure adherence to the principles above and have a comprehensive risk management framework, the Mediolanum Banking Group has adopted a set of risk policies.
The main purposes of risk policies are to:

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

In pursuing said purposes staff are inspired by:

- the values set out in the Business Conduct and Ethics Code;
- general policies, i.e. guidelines that apply across the entire risk management and control system.

Internal control is not just the responsibility of certain functions or committees, but all departments are responsible to a different extent for the transactions they execute.

The internal control system is designed to encompass the following three main lines of defence:

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

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

1.2. Compliance & Risk Control Function

The Compliance & Risk Control function is an integral part of the Mediolanum Group internal control system. It is a second level control function responsible for monitoring the financial and credit risk exposure of the Bank, and of the other Group subsidiaries and associates (under outsourcing arrangements). It is also responsible for assessing the impact of operational, legal and reputational risks, and for monitoring capital adequacy vis-à-vis the activities performed.

The Compliance & Risk Control team ensures the adequacy of procedures for the management of financial, operational and credit risks as well as regulatory compliance of the Financial Conglomerate.

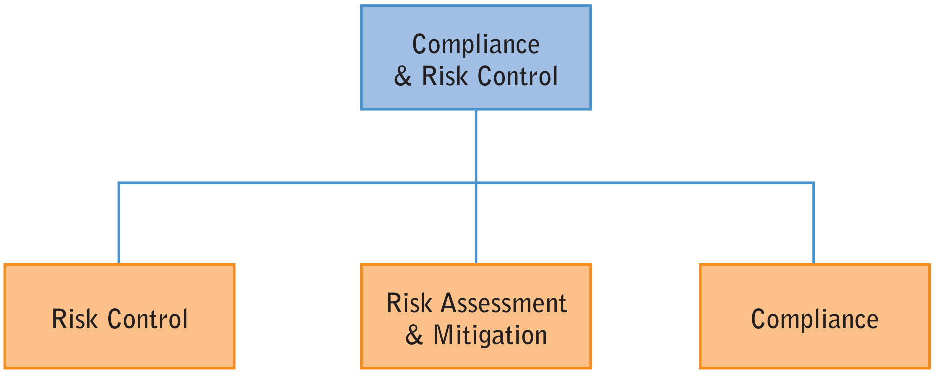
The team informs the Chief Executive Officer and General Manager and reports on the overall risk exposure in its various components to the Board of Directors, through the Audit and Risk Committee.

The team continuously monitors the banking, financial and insurance regulatory environment to anticipate the impact of statutes and regulations on the Group business and ensure compliance therewith.

The Compliance & Risk Control team works with Internal Audit staff, responsible for verifying the effectiveness and efficiency of the internal control system, to determine the overall risk profile of the Bank, identify areas and processes characterised by high operational risk sensitivity, any operational or organisational shortfalls, and fine-tune that system on an ongoing basis in accordance with the regulatory framework.

The team coordinates the Internal Capital Adequacy Assessment Process (ICAAP) for those activities specifically attributed to them and falling with the scope of the ICAAP Regulation.
The team also monitors management of customer complaints and supervisory requirements.

Following approval of Banca Mediolanum's new service organisation in 2011, the Compliance & Risk Control function has been reorganised to attain synergies from the consolidation of operational risk and compliance risk assessment processes into a dedicated unit, the Risk Assessment & Mitigation unit, whose work backs the activities of both the Risk Control unit and the Compliance unit.
The Compliance & Risk Control Function is organised into the following units: *Risk Control*, *Risk Assessment & Mitigation, Compliance.*



1.2.1. Risk Control Unit

The Risk Control team is mainly responsible for:
- assessing and monitoring exposures to market risk, country risk as well as to counterparty risk, credit risk and operational risk while continuously monitoring capital adequacy in relation to the activities that are being carried out. The Risk Control team is also responsible for developing quantitative metrics for the identification and management of aforesaid risks;
- verifying the validation process for the flows of information needed to ensure timely control of exposure to operational and financial risks associated with assets managed by subsidiaries, starting risk mitigation actions and, whenever possible, prevent any anomalies;
- preparing reports to the Audit Committee, the Board of Directors, Senior Management and heads of operating units on risk evolution within Group companies, including any proposed corrective measures;
- assisting the line control units of subsidiaries in assessing Asset - Liability Management models and techniques for proper understanding and management of risk exposures arising from any asset/liability mismatch;
- gathering, analysing and reporting on losses arising from operational risk;
- the team participates in the Internal Capital Adequacy Assessment Process (ICAAP) for those activities specifically attributed to them and falling with the scope of the ICAAP Regulation;
- the team also takes care of coordination activities within the Banking Group for the areas falling within its remit.

The Risk Control unit consists of two offices: Risk Control & Reporting, and Quantitative Modelling.

1.2.2. Risk Assessment & Mitigation Unit

The Risk Assessment & Mitigation team is responsible for identifying, monitoring and assessing compliance and operational risk exposures of the various organisational units, collaborating with the other units within the Compliance & Risk Control Function to arrive at a common assessment of the risks to which the various organisational areas and processes are exposed, their mitigation and subsequent optimisation of operational effectiveness and efficiency.

This team works with the Compliance unit staff on any compliance issues and operational risk exposures resulting from non-compliant business practices, sharing information tools to arrive at an adequate operational risk assessment and measurement as required by regulations and operating procedures.

The Risk Assessment & Mitigation unit is composed of two offices: Assessment and Ongoing Control.

1.2.3. Compliance Unit

The Compliance Unit is responsible for continuously monitoring the banking, financial, insurance and pension regulatory environment to anticipate the impact of statutes and regulations on the Group business. Compliance Unit staff provide advice and assistance to the Chief Executive Officer and General Manager in the assessment of compliance of procedures and practices with applicable laws and regulations as well as in the timely introduction of amendments thereto in case of regulatory changes.

The team also monitors management of customer complaints and supervisory requirements, checks their progress also in view of identifying any areas for improvement in the control processes in place within the organisation.

The Compliance unit consists of two offices: Compliance and Complaints & Requests.

1.3. Internal Auditing Function

Internal Audit staff conduct independent, objective audit work and provide advice to improve the effectiveness and efficiency of the organisation as well as the overall internal control system.

They assess the overall internal control system and make sure it works properly bringing to the attention of the Board of Directors and the Chief Executive Officer any possible improvements in risk management policies, governance and measurement tools.

1.4. Key Risks

1.4.1. First Pillar risks

Credit Risk (including counterparty risk)

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

Market Risk

The risk of losses arising from adverse performance of sensitive market variables (e.g. interest rates, exchange rates, stock prices, volatility and bond yield spreads) in the investment and trading activities conducted by the Group.
For banks using the standardised approach the capital requirement for market risk is the sum of capital requirements for position risk, settlement risk, concentration risk and commodity risk.

Operational Risk

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

1.4.2. Second Pillar risks

Concentration Risk

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

Interest Rate Risk

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

Liquidity risk

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

Residual Risk

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

Strategic Risk

Strategic risk is the current or prospective risk of impact on earnings or capital arising from changes in the industry, adverse business decisions, improper implementation of decisions, lack of responsiveness to industry changes.

Reputational Risk

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

1.5. Credit Risk

The Mediolanum Banking Group has in place models and measurement tools as well as controls that ensure proper credit risk management. As already noted, credit risk in the 'retail portfolio' is managed differently and separately from credit risk in the 'wholesale portfolio'.

The credit risk management system for both the retail and wholesale portfolios ensures the Group is always current with its risk exposure in relation to each customer or group of customers, and takes prompt corrective actions, when needed, in accordance with related policies.
The credit risk management system pursues the following objectives:
- develop adequate credit risk identification, measurement and monitoring processes in relation to each counterparty and portfolio;
- ensure a steady flow of timely information to effectively monitor the composition and quality of the loan portfolio and promptly adjust loss estimates and capital charges;
- ensure compliance with the prudential requirements of domestic and international supervisory authorities;
- promote the adoption of policies and procedures for credit risk prudent management;
- support operational decisions of lending officers by providing the information needed to properly assess the borrower creditworthiness and type of financing;
- provide an adequate flow of information on credit risk exposures and mitigation techniques to senior management.

The credit risk management system reflects the specific characteristics of the banking lending business and any changes therein in addition to any regulatory or statutory changes.
The different levels of credit risk controls for the 'retail portfolio' are described below.

1. First level control

First level controls are carried out by operational staff in the Lending Division under the coordination and supervision of the Credit Policy and Monitoring team that also ensures monitoring of the activities conducted by the Banking Services Division with respect to amounts overdrawn by those customers who do not have arranged overdraft facilities (overdrawn for up to 30 days).
Division staff are responsible for ensuring that the guidelines issued by the Credit Policy and Monitoring team are complied with and that adequate procedures are implemented at all times. The Credit Policy and Monitoring team and the other operating units within the Lending Division ensure that control procedures are effectively implemented and prepare related reports for business and superior control functions.
In particular, they are responsible for ensuring regular assessment of:
- any security taken, with proper procedures according to their legal nature;
- performance of portfolios by type of loan, channel, borrower, geography, month of origination and main variables that are most indicative of risk.

First level controls, carried out directly by the heads of lending units, fall into two categories: line controls and performance monitoring.

2. Second level controls

Second level controls relating to credit risk mitigation for both the loan portfolio and the Finance Division portfolio are carried out by the Risk Control team within the Compliance & Risk Control Function of Banca Mediolanum.
Being the owner of the ICAAP process, the Compliance & Risk Control Function of Banca Mediolanum is responsible for fine-tuning the calculation of the relevant capital charge as well as for validating aggregate data already checked and validated as correct by the line functions.
The Risk Control unit within the Compliance & Risk Control Function that is a unit which is separate and independent of lending operations is responsible for assessing the overall credit risk exposure of the Banking Group.

The Risk Control unit is responsible also for defining risk measurement methods by borrower category and type of borrowing as well as for continuously monitoring capital adequacy vis-à-vis the Group credit risk.
As part of the system of controls relating to the Loan Portfolio credit risk exposure, second level controls carried out by the Risk Control team include:
- identification, analysis and definition of methods to measure the Bank's loan portfolio risk exposure in collaboration with the relevant Business Operations Management units, using appropriate calculation tools differentiated by borrower category and type of loan;
- support to the line staff in the definition of risk measurement methods according to the activities carried out;
- oversight of credit risk monitoring, collaborating on an ongoing basis with the Credit Policy and Monitoring unit to prevent any anomalies;
- measurement of credit risk at portfolio level and verification of capital adequacy as per regulatory requirements;
- effective reporting to the Board of Directors, Senior Management and heads of operating units on the evolution of risks, assessing and proposing risk prevention and mitigation measures, where appropriate;
- sensitivity analyses and stress testing, maintenance of assessment systems and methods.

Second level controls are carried out by the Risk Control team within the Compliance & Risk Control Function of Banca Mediolanum. This function is separate and independent of lending operations.
These controls are designed to assess overall credit risk exposure in the loan portfolio of the Banking Group.
The Risk Control team is also responsible for defining risk measurement methods as well as continuously monitoring capital adequacy pursuant to both Pillar 1 and Pillar 2 requirements.
Specifically, in relation to the Loan Portfolio Risk Exposure, the Risk Control team:
- identifies, defines and analyses risk measurement methods with the assistance of line staff;
- oversees credit risk monitoring, collaborating on an ongoing basis with the Lending Division first level units staff;
- ensures effective reporting to the Board of Directors, Senior Management and heads of operating units;
- assesses and proposes risk prevention and mitigation actions, when necessary.

Credit risk controls relating to the 'Wholesale Portfolio' handled by the Finance Division are described below.

1. First level controls

These are line controls conducted by front-office and back-office staff and geared to assess the accurateness, completeness and consistency of transactions information and compliance with the operating licences and limits of the respective operating units.
These activities are the responsibility of the Finance Division.

2. Second level controls

Second level controls are carried out by staff in the Risk Control unit. This unit is separate and independent of those operating units that engage in investment transactions with institutional counterparties on behalf of the Bank.
In relation to credit risk controls, Risk Control unit staff:
- coordinate collection, processing and preparation of financial data and statistics for risk analysis;
- manage the credit risk control process at Banking Group level;
- report on financial market performance and the related risk position taken by the Bank and the Banking Group;
- assess and monitor the risk exposure of the Bank and other entities, proposing corrective measures when needed;
- gather real economy, monetary policy, credit and financial market information and data including for the purpose of preparing financial statements.

1.5.1. Control Process

The credit risk control process consists of various steps that engage a multitude of players with different roles and responsibilities. These are the key steps in the process:

A. Annual review of operating licenses and limits

The annual review of operating licenses and limits entails reviewing strategic guidelines and the maximum risk appetite for the year. This exercise includes the review of counterparties, their public rating, when available, and credit limits in accordance with their creditworthiness which is assessed by the Lending Division staff for operations and counterparties falling within its remit. For other operations creditworthiness is determined primarily using the public rating given by external credit assessment institutions (ECAI) recognised by the Bank of Italy.

The Institutional Counterparties credit risk management Policy is usually examined by Banca Mediolanum's Board of Directors during its first meeting for the year and the version approved by Banca Mediolanum's Board of Directors serves as Group guidelines for all entities within the Banking Group. The operating licenses and limits thus approved reflect the maximum risk appetite (MRA) for the year and can be revised only upon approval by the Board of Directors. The revision of limits is regulated as part of the management process for requests to raise the limits as set out below.

B. Daily risk management practices

Daily risk management practices consist of daily monitoring and reporting practices put in place to ensure risk exposure is within operating licences and limits. On a daily basis, the Risk Control unit staff monitor risk through measurements and checks, analysing the output of this exercise. Exposure to credit and market risks documented in reports is carefully analysed. If this exercise reveals exposure is within limits no action is taken. If limits are exceeded the procedure for the relevant authorisation and the establishment of higher limits gets started. Procedures are documented in specific detailed documents.

C. Amendments to operating licences and limits

The policy document with operating licences and limits approved by the Board of Directors reflects the Bank's Maximum Risk Appetite (MRA), therefore these limits cannot be exceeded unless specifically approved by those officers to whom authorities have been delegated under the policy document. All new counterparties are subject to the approval of the Chief Executive Officer upon proposal from the Head of Finance. The CEO approval is to be ratified by the Board of Directors subject to the prior favourable opinion of the Audit and Risk Committee. Increases in existing limits can be approved by the Head of Division (within 20% of the MRA) or by the CEO (beyond 20% of the MRA) and ratified by the Board of Directors.

The Risk Control unit staff are responsible for preparing the documentation relating to any such amended licences and limits and submitting it together with their monthly report to the Audit Committee and the Board of Directors. The Head of Finance is responsible for informing the Risk Control unit team of any circumstances that warrant a temporary or structural review of the current MRA limits or the analysis and approval of credit facilities to new counterparties by the Board of Directors so that adequate analyses can be made beforehand. Any request for limit increases or new credit facilities shall be documented in the relevant request sent by the Head of Finance to the Chief Executive Officer and in copy also to the Risk Control team with the technical support/assessment of the Lending Division.

D. Monthly reports to the Board of Directors

The Risk Control unit staff prepare a monthly report that is submitted to the Board of Directors. The report highlights risk information relating to the management of liquidity and the securities portfolio in the previous month.

The purpose of the report is to provide information on existing market and credit risk exposure resulting from Finance operations.

The report includes a section on the securities portfolio with details on the size and riskiness of securities in the Bank's proprietary portfolio in accordance with the IAS/IFRS classification into the Held to Maturity (HTM) , Held for Trading (HFT), Available for sale (AFS) and Loans & Receivables (L&R) categories.

Risk is expressed in terms of Value at Risk (VaR) calculated applying the parametric method, measuring correlation, over a 1-day holding period and at a 99% Confidence Interval.

A final section is dedicated to information about any changes in operating licenses and limits as well as on any operational proposals that were approved under delegated authorities and submitted to the Board of Directors for ratification.

E. Monthly and annual reports to the Board of Directors on risks assumed by the Finance Division and the Securities Brokerage Division.

The Risk Control unit staff prepare monthly and annual reports on day-to-day control of operating licences and limits applied by the Bank's Finance Division. These reports inform on any circumstance in which the operating licenses and limits were exceeded, confirm that the procedure for the related authorisation was applied, and include information on any requests for increases.

The report prepared annually is submitted to the Board of Directors for approval at the first Board meeting of the year following the end of Banca Mediolanum's financial year.

F. Stress testing

As part of the ICAAP process the Risk Control unit staff put in place stress testing procedures for all key risks. Key risks are tested applying the methods set out in the related stress testing policy. For details on stress testing procedures readers are referred to the relevant documentation.

G. Ad-hoc analyses

These are analyses conducted by the Risk Control unit staff either upon request from any stakeholder or proactively upon the occurrence of unusual market conditions and/or events that require to be analysed more in-depth.

Ad-hoc analyses include gap analyses (to support decisions on liquidity and interest rate risk management).

1.5.2. Reporting System

An adequate credit risk reporting system enables to analyse precisely quantitative and qualitative information about the composition of the portfolio and the level of portfolio exposure as well as to identify any variables that impact the level of provisioning and capital requirements.

As part of first level controls, staff prepare information on the retail loan portfolio. In particular, the following quarterly reports are prepared:

- loan portfolio analysis: by type of loan, regulatory portfolio and geography;
- default analysis: distribution of default rates by type of loan and by geography;
- concentration analysis.

These reports are prepared for the Board of Directors, Senior Management, the Management Committee with functions of Credit Committee and Watchlist Committee, and for the Heads of Operating Units.
As part of their second level control duties the Risk Control unit staff prepare summary and detailed reports. Summary reports are submitted to the Head of the Compliance & Risk Control function, the Chief Executive Officer and the Board of Directors on a monthly, quarterly and annual basis. Detailed reports are submitted to the staff and heads of operating units on a daily basis. Detailed reports contain information on daily risk management practices, and limits for allocation, positions in securities, in funds and forex, as well as individual credit limits.

1.6. Market Risk

The market risk management system of the Mediolanum Banking Group consists of a suite of control models and tools.
The main types of controls put in place to manage market risk exposures are described below.

1. First level controls

These are line controls conducted by front office and back-office staff and geared to assess the accurateness, completeness and consistency of transactions information and compliance with the operating licences and limits of the respective operating units.
Specifically, these controls are carried out by staff in the Finance Division and the Securities Brokerage Division.

2. Second level controls

The Risk Control unit staff are responsible for second level controls. The Risk Control unit is separate and independent of operating units that engage in investment transactions with institutional counterparties on behalf of the Bank.
As to market risk, the staff in this unit:

- coordinate collection, processing and preparation of financial data and statistics for risk analysis;
- manage the market risk control process at Banking Group level;
- report on financial market performance and the related risk position taken by the Bank and the Banking Group;
- assess and monitor the risk exposure of the Bank and other entities, proposing corrective measures when needed;
- gather real economy, monetary policy, credit and financial market information and data, including for the purpose of preparing financial statements.

1.6.1. Control Process

The market risk control process is organised in the same way as the credit risk control process.

1.6.2. Reporting System

As part of their control duties the Risk Control unit staff are responsible for preparing reports, namely:

- Internal reports to be submitted to the Board of Directors during scheduled meetings and to the competent operational unit officers;
- Market disclosures in the manner and within the timeframe required by the Supervisory Authorities.

Specifically, summary reports are submitted to the head of the Compliance & Risk Control function, the Chief Executive Officer, and the Board of Directors on a monthly, quarterly and annual basis. Detailed reports are submitted to the heads and staff of the Finance Division and the Securities Brokerage Division on a daily basis. Detailed reports contain information on daily risk management practices in relation to VaR limits, stress test scenarios, Stop Loss limits, limits for allocation, positions in unlisted derivatives, positions in funds, forex positions and individual credit limits.

1.7. Operational Risk

The operational risk framework of the Mediolanum Banking Group is based on the following underlying principles:

- identification and full coverage of operational risk;
- separation and independence from Operating Units;
- use of uniform, consistent models and methods for the collection of data and information as well as for the analysis and measurement of risks by all organisational units and/or entities within the Group;
- timely and consistent analysis and measurement of risk; subsequent preparation of reports to support control and decision-making processes;
- transparency and dissemination of models, methods and criteria applied in the analysis and measurement of risk to promote a control culture within the organisation and understanding of the reasons underlying the choices made;
- delegation of risk management authorities and responsibilities to Operating Units for their direct management of operational risk.

The principles and guidelines above, as well as the nature and features of operational risk entail that:

- operational risk identification, measurement, monitoring and management are based on the analysis of Group operations and main operational processes;
- controls are carried out by all organisational units and functions in accordance with their respective roles and responsibilities with frequent meetings and mutual exchanges of information to ensure synergistic, effective risk management.

Specifically, the controls they conduct are as follows:

1. First level controls

First level controls are controls made by the individuals who carry out a certain activity and by their supervisors, generally within the same Organisational Unit or Function.

2. Second level controls

Second level controls are conducted by organisational units that are separate from operating units, and specifically, units within the Compliance & Risk Control Function, Sales Network Inspectors and the Anti-Money Laundering team.

3. Third level controls

Third level controls include controls conducted by Internal Audit staff on operating processes as well as on annual self-assessment of operational risk that is required of banks and banking groups applying the standardised approach.

1.7.1. Reporting System

An adequate operational risk reporting system promotes the dissemination of the control culture within the Group and greater awareness of the level of risk to which Organisational Units are exposed.
The reporting system used by the Compliance & Risk Control Function is differentiated by information recipient and scope of analysis.
Information about the following aspects is particularly important:

- actual operational losses and related recoveries;
- developments in the operating environment and in the internal control system that change significantly the operational risk profile;
- identification of vulnerable spots in major business processes;
- education and information sessions with the heads of Operating Units;
- assessment of operational risk connected with the introduction of new products, activities, processes and systems;
- estimate of operational risk capital charge under the approach in use;
- risk transfer, if any.

The reports prepared by the Compliance & Risk Control Function staff are submitted to the heads of organisational units, the head of the Compliance & Risk Control Function, the Audit and Risk Committee, the Chief Executive Officer and General Manager, the Board of Directors and the Supervisory Authorities. These reports are prepared with varied frequency depending on their scope and recipient. Frequency and content are detailed in the policy framework documents and periodically reviewed.
An annual self-assessment report is also produced as well as reports to Supervisory Authorities pursuant to Circular 263/2006.

1.8. Risk Management and Mitigation

The Banking Group defines, implements and maintains an adequate risk management and mitigation system in relation to all risks to which it is exposed.
The adequacy and effectiveness of this system entails that, in exceptional circumstances, the Group may allocate capital also to cover risks that cannot be measured beforehand.
The risk management and mitigation system consists of a set of procedures, methods, rules and functions that operate in a coordinated fashion to ensure:

- adherence to corporate strategies;
- effectiveness and efficiency of corporate processes;
- protection of the entity's assets;
- reliability and integrity of accounting and management information;
- compliance with internal and external rules and regulations.

Specifically, for each type of risk, the Banking Group's risk management and mitigation system consists of:

- strategies, conduct rules, general principles and goals, risk-taking, protection and mitigation policies that are set forth in 'guidelines' and 'policy statements';

- clear roles and responsibilities of governing bodies and corporate functions involved in risk management, set forth in 'internal rules';
- risk management processes set forth in 'organisational procedures' and 'operating instructions';
- information flows set out in 'organisational procedures' and 'operating instructions'.

The risk management and mitigation system includes internal risk measurement methods developed and applied to properly manage risk and enhance awareness of risks taken also in view of future capital requirements. These methods are also used to check the appropriateness of capital charges calculated under the standardised approach vis-à-vis actual risk exposures based on the analysis of corporate processes and positions held.
The main goals pursued by the Banking Group's risk management system are to:

- ensure the internal control system effectively captures any significant anomalies and adequate risk prevention and mitigation actions are taken;
- ensure the broadest and deepest possible understanding, implementation and consistency of risk management principles, rules and approaches within the Group;
- promote a risk management culture at all levels of the organisation and encourage consistent, knowledgeable operating choices and practices, in a structured way.

The corporate bodies that are responsible for risk supervision, management and control play a key role in the definition and implementation of the risk management and mitigation system across the organisation whose adequacy and effectiveness depend on the degree of engagement of all people within the Group.

2. SCOPE OF APPLICATION

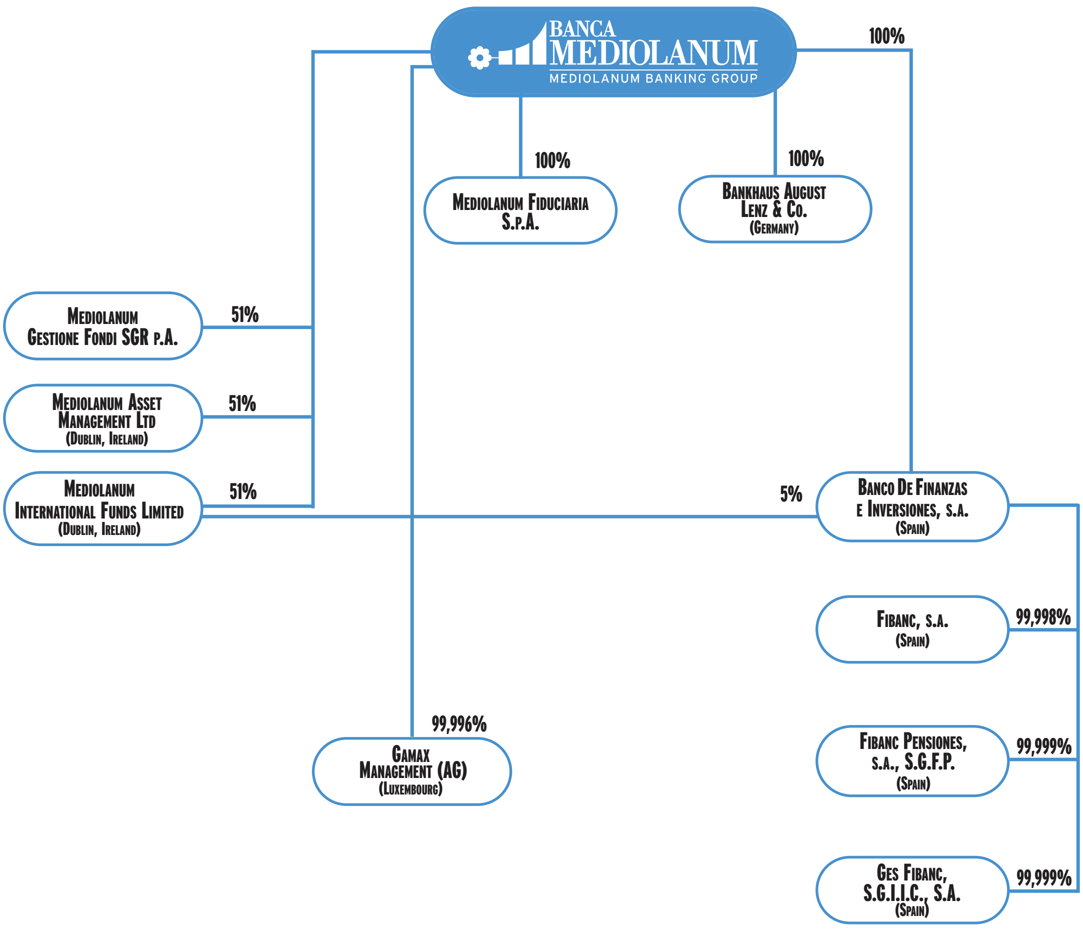
The information contained in this document relates to the Mediolanum Banking Group. Within the Group there are no legal or other material obstacles, either in existence or foreseeable, that could hamper a prompt transfer of assets or funds.

In compliance with regulatory provisions, since the capital requirement is met at consolidated level, the individual capital requirement for banks within the Group is reduced by 25%.

The scope of application of supervisory requirements is shown in the chart below that sets out the entities that make up the Mediolanum Banking Group.

Group Structure

at December 31, 2011



3. COMPOSITION OF REGULATORY CAPITAL

Bank of Italy's Circular 263 of December 27, 2006, as subsequently amended, sets forth the regulations governing banks' capital requirements and incorporates international rules introduced to take account of the adoption of the international accounting and financial reporting standards (IAS/IFRS) and their impact on the calculation of regulatory capital. Specifically, to safeguard the quality of regulatory capital and reduce the potential volatility arising from the adoption of the international accounting and financial reporting standards, certain 'prudential filters' are applied to financial data.
Management of regulatory capital entails a set of policies and choices needed to define the size of capital as well as the optimal combination of the various alternative capital instruments to ensure capital adequacy vis-à-vis the risks undertaken.
Regulatory capital and capital ratios are calculated on the basis of net assets and net profit as determined applying international accounting and financial reporting standards IAS/IFRS.
Regulatory capital is the sum of core capital (Tier 1 capital), included in the calculation without restrictions, supplementary capital (Tier 2), which cannot exceed the amount of Tier 1 capital before deductions, and Tier 3 capital. Tier 3 capital can be used only to cover market risk (net of counterparty risk and settlement risk in the banking book) and up to 71.4% of capital requirements for market risk. Shareholdings, non-innovative, innovative and hybrid capital instruments and subordinated assets held in other banks and financial companies, shareholdings in and subordinated instruments issued by insurance companies are deducted from said aggregates.
Tier 1 capital consists of share capital, equity reserves and net profit for the year (after dividends) less goodwill, intangible assets, and negative valuation reserves.
At December 31, 2011, Mediolanum Banking Group's capital did not include any instruments falling within Tier 3 capital.

The analysis of Consolidated Regulatory Capital is set out in the table below.

Table 3.1 - Analysis of regulatory capital (part 1)

€/'000	At Dec. 31, 2011	At Dec. 31, 2010
Tier 1 positive components		
Share capital	452,670	452,670
Share premium account	-	-
Reserves	187,058	160,935
Non innovative equity instruments	-	-
Innovative equity instruments	-	-
Profit for the period	9,401	24,523
Prudential filters: increases in Tier 1 capital	-	-
Total Tier 1 positive components	**649,129**	**638,128**
Tier 1 negative components		
Treasury shares	-	-
Goodwill	(198,314)	(198,728)
Other intangible assets	(13,348)	(10,639)
Loss for the period	-	-
Other negative components	-	-
Prudential filters: deductions from Tier 1 capital	(15,642)	(21,616)
Total Tier 1 negative components	**(227,304)**	**(230,983)**
Tier 1 before deductions	**421,825**	**407,145**
Deductions from Tier 1 capital		
Shareholdings in lenders and financial institutions above 20% of their capital	(5,000)	-
Shareholdings in lenders and financial institutions above 10% but below 20% of their capital	-	-
Shareholdings in insurers	-	-
Expected losses in excess of total impairment losses	-	-
Deductions in connections with securitisations	-	-
Deductions for settlement risk on non-DVP transactions	-	-
Total deductions	**(5,000)**	-
TOTAL TIER 1 CAPITAL	**416,825**	**407,145**
Tier 2 positive components		
Valuation reserves	-	4,410
Non innovative equity instruments that cannot be included in Tier 1 capital	-	-
Hybrid equity instruments	-	-
Tier 2 subordinated liabilities	122,415	163,970
Total impairment losses in excess of expected losses	-	-
Net gains on equity investments	-	-
Other positive components	-	-
Prudential filters: increases in Tier 2 capital	-	-
Total Tier 2 positive components	**122,415**	**168,380**

Table 3.1 - Analysis of regulatory capital (part 2)

€/'000	At Dec. 31, 2011	At Dec. 31, 2010
Tier 2 negative components		
Net losses on equity investments	-	-
Loans	-	-
Other negative components	-	(2,205)
Prudential filters: deductions from Tier 2 capital	-	-
Total Tier 2 negative components	-	(2,205)
Tier 2 before deductions	122,415	166,175
Deductions from Tier 2		
Shareholdings in lenders and financial institutions above 20% of their capital	(5,000)	-
Shareholdings in lenders and financial institutions above 10% but below 20% of their capital	-	-
Shareholdings in insurers	-	-
Expected losses in excess of total impairment losses	-	-
Deductions in connections with securitisations	-	-
Deductions for settlement risk on non-DVP transactions	-	-
Total deductions	(5,000)	-
TOTAL TIER 2 CAPITAL	117,415	166,175
Deductions from Tier 1 & Tier 2 capital	-	-
TOTAL REGULATORY CAPITAL	534,240	573,320
TOTAL TIER 3 CAPITAL	-	-
REGULATORY CAPITAL INCLUDING TIER 3	534,240	573,320

4. CAPITAL ADEQUACY

Pursuant to the Bank of Italy's classification of banks, the Mediolanum Banking Group is a Class 2 entity (banks and banking groups with assets greater than €3.5 billion that apply the standardised approach for the calculation of their capital requirements). Therefore, the Mediolanum Banking Group applies the building-block approach, under which the total capital requirement is calculated by adding up the capital requirements for each identified risk. The building-block approach does not assume any diversification effects due to the interaction between items that contribute to determine each individual risk.
Thus, total capital requirement is the sum of the capital requirements for the individual measurable risks calculated at Banking Group level in compliance with the Bank of Italy's instructions which are incorporated into internal policies.

At December 31, 2011, the Mediolanum Banking Group had a Tier 1 capital ratio (core capital/RWA) of 9.41% and a total capital ratio (regulatory capital/RWA) of 12.06%.

Table 4.1 - Capital Adequacy

€/'000	Exposure	Weighted exposure	Capital Requirement
ASSETS / CREDIT RISK			
Standardised approach			
Exposures to/guaranteed by Governments and Central Banks	6,649,081	-	-
Exposures to/guaranteed by local government entities	357,097	20,208	1,617
Exposures to/guaranteed by nonprofits and public entities	5,935	5,149	412
Exposures to/guaranteed by Multilateral Development Banks	66,745	-	-
Exposures to/guaranteed by International Organisations	20	-	-
Exposures to/guaranteed by Supervised Intermediaries	3,236,766	1,171,706	93,736
Exposures to/guaranteed by Companies	900,214	227,820	18,226
Retail exposures	1,127,799	594,259	47,541
Exposures guaranteed by properties	2,375,003	832,963	66,637
Past due exposures	67,605	65,496	5,240
High risk exposures	5,039	7,381	590
Esposures in secured bank bonds	-	-	-
Short-term exposures to companies	-	-	-
Exposures to Undertakings for Collective Investment in Transferable Securities (UCITIS)	160,212	160,212	12,817
Other exposures	1,282,677	170,559	13,645
Securitisation exposures	52,152	10,430	834
TOTAL CREDIT RISK		3,266,183	261,295
ASSETS / MARKET RISK			
Standardised approach			
Generic risk			3,438
Specific risk			9,966
UCITIS holdings risk			-
Options			1,997
Currency risk			-
Commodity risk			-
Concentration risk			1,630
TOTAL MARKET RISK			17,031
ASSETS / OPERATIONAL RISK			
Foundation approach			3,770
Standardised approach			72,264
Advanced approach			-
TOTAL OPERATIONAL RISK			76,034
OTHER PRUDENTIAL REQUIREMENTS			-
Adjustments to regulatory requirements for intercompany transactions			-
TOTAL PRUDENTIAL REQUIREMENTS			354,360
Risk-weighted assets (RWA)*			4,429,499
Tier 1/RWA (Tier 1 Capital Ratio)			9.41%
Regulatory capital/RWA (Total Capital Ratio)			12.06%

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

5. CREDIT RISK - GENERAL INFORMATION (ALL BANKS)

Lending, be it the provision of home loans or consumer credit, or in other forms to meet other financing needs, is part of the business of the Mediolanum Banking Group. In line with the Group mission, lending complements the Group primary business i.e. the distribution of banking, asset management, insurance and retirement savings products. The Group applies prudent lending policies, which are geared to develop and strengthen the relationship with customers who invest in products managed by the entities within the Group.
Credit risk is largely in connection with traditional lending. It relates to all loans, either secured or unsecured, on balance sheet or similar off-balance sheet items, e.g. endorsements. The analysis of the Group's lending operations is therefore crucial to enforce an effective system of internal control.
The loans extended by the banking group essentially consist of:

- overdraft facilities repayable on demand or fixed-term credit lines;
- loans repayable in instalments;
- bank guarantees in favour of customers;
- residential mortgage loans.

The Group also monitors any amounts that exceed the credit limit, either under arranged or unarranged overdrafts, for any reasons, including under standard credit cards or credit cards with revolving credit facilities.

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

5.1. Definition of Default

To determine **'default'** Banca Mediolanum refers to the definition of 'impaired loans' used for the purpose of financial reporting[1]. Impaired loans include

- nonperforming loans;
- watch list loans;
- restructured loans;
- past due loans.

<u>Nonperforming loans</u> consist of on and off-balance sheet exposures (e.g. loans, securities, derivatives) to borrowers that are unable to meet their payment obligations – even if their insolvency has not been established by a court of law – or in equivalent conditions, regardless of any losses estimated by the lender and irrespective of any security taken. This category does not include country risk exposures, but includes exposures to local government entities (municipal, provincial administrations) that are insolvent for the share of the exposure recognised in the insolvency proceedings, and loans or receivables acquired from third parties where the principal debtor is non-performing irrespective of the category into which they are classified on the balance sheet.

(1) Cf. Bank of Italy Circular 272 of July 30, 2008 – Third Update of December 23, 2011.

Watch list loans consist of on and off-balance sheet exposures (e.g. loans, securities, derivatives) to borrowers that are experiencing objective temporary difficulties in meeting their payment obligations, but are expected to make good within a reasonable timeframe. These exposures are recognised irrespective of any security taken. This category does not include country risk exposures.

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

Past due loans consist of on and off-balance sheet exposures (e.g. loans, securities, derivatives) to borrowers other than those classified in the categories above (nonperforming, watch list, restructured) that at the reporting date were over 90 days past due or overdrawn. This category does not include country risk exposures.

Pursuant to regulations in force, namely Bank of Italy Circular 263 of December 27, 2007 -10th update of December 21, 2011, and in accordance with the options recognised to EU member states under the CRD Directive (2006/48/EC), banks that apply the standardised approach were allowed to classify exposures that are over 180 days past due/overdrawn as past due loans up until December 31, 2011.

5.2. Method used to Calculate Impairment

The Mediolanum Banking Group calculates impairment applying the following two-step approach:

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

The first step is preliminary to the impairment test that assesses and measures the impairment loss, if any.

Banca Mediolanum tests for impairment loans and endorsements with fixed or determinable payments extended to retail and institutional clients. Loans and endorsements to retail clients typically consist of arranged overdraft facilities, loans and credit lines repayable in instalments, while those extended to institutional clients (banks and other financial institutions) are made up of deposits, repurchase agreements (amount paid for the purchase of the asset under an agreement to resell it at a future date) and hot money facilities.

To identify loans and endorsements to be individually/collectively tested for impairment it is necessary to analyse the significance of the exposure and check whether there is objective evidence of any losses.

Banca Mediolanum individually tests for impairment all exposures classified as nonperforming, watch list and over 180 days past due loans (pursuant to Bank of Italy's instructions) irrespective of their significance. In fact these are exposures for which there is objective evidence of impairment as per §64 of IAS 39. Other exposures, i.e. performing loans, are collectively tested for impairment. Only for monitoring purposes a €1,000,000 threshold is set for the determination of the significance of the individual exposure. Any exposure in excess of said threshold is examined separately and individually.

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

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

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

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

where:

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

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

$$Total\ provisions = \sum_{exposure\ class} EL$$

Especially in relation to the IAS rule that requires to consider the "time value of money" when calculating impairment, the Group is developing a model for the calculation of LGD that takes account of average time to recovery and recovery schedule as well as the type of asset and security taken.
Due to the lack of sufficiently robust historical data for internal loss estimates the Group used the LGD rates as per the Basel II Accord as follows:

- retail mortgage loans: LGD=25%;
- other retail loans: LGD=85%;
- loans extended to businesses: LGD=45%.

Based on observed historical loss data LGD was assumed to be zero (meaning no collective assessment is applied) for the following exposure categories:

- Hot money;
- Repurchase agreements with banks;
- Deposits with banks.

The 1-year PD is a good approximation of "*incurred but not reported (IBNR) losses*" calculated on the basis of current indications, for losses that are expected to materialise within one year.

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

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

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

Exposure/Geographical area €/'000	Italy		Other european countries		America		Asia		Rest of the world	
	Net exposure	Net impairment	Net exposure	Net impairment	Net exposure	Net impairment	Net exposure	Net impairment	Net exposure	Net impairment
A. On-balance sheet										
A.1 Non performing	8,239	(13,834)	185	(1,853)	-	-	-	-	-	-
A.2 Watch list	23,915	(9,608)	29,325	(83,263)	-	-	-	-	-	-
A.3 Restructured	226	-	-	-	-	-	-	-	-	-
A.4 Past due	6,343	(529)	-	-	-	-	-	-	-	-
A.5 Others	8,443,720	(3,973)	1,578,265	(1,693)	736	-	309	-	226	-
Total	8,482,443	(27,944)	1,607,775	(86,809)	736	-	309	-	226	-
B. Off-balance sheet										
B.1 Non performing	-	-	-	-	-	-	-	-	-	-
B.2 Watch list	545	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Others	108,277	(39)	30,104	-	-	-	-	-	-	-
Total	108,822	(39)	30,104	-	-	-	-	-	-	-
Total at Dec. 31, 2011	8,591,265	(27,983)	1,637,879	(86,809)	736	-	309	-	226	-
Total at Dec. 31, 2010	5,001,316	(25,872)	1,344,669	(6,381)	769	(1)	321	-	260	-

Table 5.3 - Geographical distribution of on-balance sheet and off-balance sheet bank loans

	Italy		Other european countries		America		Asia		Rest of the world	
Exposure/Geographical area €/'000	Net exposure	Net impairment	Net exposure	Net impairment	Net exposure	Net impairment	Net exposure	Net impairment	Net exposure	Net impairment
A. On-balance sheet										
A.1 Non performing	-	-	-	-	-	-	-	-	-	-
A.2 Watch list	-	-	-	-	-	-	-	-	-	-
A.3 Restructured	-	-	-	-	-	-	-	-	-	-
A.4 Past due	-	-	-	-	-	-	-	-	-	-
A.5 Others	3,093,077	-	756,374	-	6,483	-	24	-	-	-
Total	3,093,077	-	756,374	-	6,483	-	24	-	-	-
B. Off-balance sheet										
B.1 Non performing	-	-	-	-	-	-	-	-	-	-
B.2 Watch list	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Others	16,670	-	794	-	258	-	-	-	-	-
Total	16,670	-	794	-	258	-	-	-	-	-
Total at Dec. 31, 2011	3,109,747	-	757,168	-	6,741	-	24	-	-	-
Total at Dec. 31, 2010	3,723,830	-	803,119	(943)	5,664	-	31	-	-	-

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

Exposure/ Counterparty €/'000	Governments			Government agencies			Financial companies			Insurance companies			Non financial companies			Others		
	Net exposure	Individual impairment	Collective impairment	Net exposure	Individual impairment	Collective impairment	Net exposure	Individual impairment	Collective impairment	Net exposure	Individual impairment	Collective impairment	Net exposure	Individual impairment	Collective impairment	Net exposure	Individual impairment	Collective impairment
A. On-balance sheet																		
A.1 Non performing	-	-	X	-	-	X	-	-	X	-	-	X	69	(430)	X	8,355	(15,257)	X
A.2 Watch list	26,070	(81,320)	X	-	-	X	9,530	(3,705)	X	-	-	X	229	(88)	X	17,411	(7,758)	X
A.3 Restructured	-	-	X	-	-	X	-	-	X	-	-	X	226	-	X	-	-	X
A.4 Past due	-	-	X	-	-	X	-	-	X	-	-	X	239	(14)	X	6,104	(515)	X
A.5 Others	5,748,165	X	-	101,373	X	-	255,984	X	(15)	24,130	X	-	115,946	X	(125)	3,777,658	X	(5,526)
Total A	5,774,235	(81,320)	-	101,373	-	-	265,514	(3,705)	(15)	24,130	-	-	116,709	(532)	(125)	3,809,528	(23,530)	(5,526)
B. Off-balance sheet																		
B.1 Non performing	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
B.2 Watch list	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	545	-	X
B.3 Other impaired assets	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
B.4 Others	-	X	-	-	X	-	98	X	-	30,000	X	-	9,738	X	(3)	98,545	X	(36)
Total B	-	-	-	-	-	-	98	-	-	30,000	-	-	9,738	-	(3)	99,090	-	(36)
Total (A+B) at Dec. 31, 2011	5,774,235	(81,320)	-	101,373	-	-	265,612	(3,705)	(15)	54,130	-	-	126,447	(532)	(128)	3,908,618	(23,530)	(5,562)
Total (A+B) at Dec. 31, 2010	2,288,898	-	-	101,060	-	-	651,999	(2,986)	(37)	28,262	-	-	93,598	(377)	(66)	3,183,518	(22,368)	(6,420)

Table 5.5 - Time-to-maturity of financial assets and liabilities

Item/Time-to-Maturity €/'000	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Indefinite maturity
On-balance sheet assets										
Government securities	-	-	1,385	52,429	241,336	148,072	1,553,105	3,205,359	1,222,086	26,070
Other debt securities	43	-	-	34,125	334,217	480,490	728,542	1,582,891	158,323	-
Holdings in UCITS	173,847	-	-	-	-	-	-	-	-	-
Loans to:	875,816	330,822	70,080	15,520	108,054	46,344	137,474	616,053	2,010,421	91,373
- banks	316,424	313,047	70,000	7,800	20,885	2,784	-	-	-	77,164
- customers	559,392	17,775	80	7,720	87,169	43,560	137,474	616,053	2,010,421	14,209
On-balance sheet liabilities										
Deposits	5,903,422	15,114	43,524	355,247	537,546	233,796	783,213	31	-	-
- banks	188,886	-	41,200	-	513,359	113,650	159,512	-	-	-
- customers	5,714,536	15,114	2,324	355,247	24,187	120,146	623,701	31	-	-
Debt securities	-	-	-	102	204	10,004	179,621	91,425	3,108	-
Other liabilities	165,641	2,328,217	800	118,476	1,018,163	-	-	2,239,276	67,114	-
Off-balance sheet items										
Financial derivatives with exchange of principal	4	30,405	-	10	39,657	100,870	2,139	7,496	34,143	-
- long positions	2	15,196	-	5	33,699	50,620	1,088	6,730	222	-
- short positions	2	15,209	-	5	5,958	50,250	1,051	766	33,921	-
Financial derivatives without exchange of principal	12,944	-	-	935	1,978	2,857	5,829	-	-	-
- long positions	571	-	-	-	-	-	-	-	-	-
- short positions	12,373	-	-	935	1,978	2,857	5,829	-	-	-
Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
Firm commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
Guarantees issued	-	-	-	-	-	-	-	30	-	-

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

Item/Category €/'000	Non performing	Watch list	Restructured	Past due
Net impairment at beginning of the year	**13,027**	**12,082**	-	**599**
- of which: loans sold but not derecognised	-	-	-	-
Increases				
impairment	3,771	85,877	-	510
reclassified from other impaired loan categories	2,822	183	-	26
other increases	2	-	-	-
Decreases				
revaluations	(480)	(1,550)	-	(319)
repayments	(367)	(749)	-	(94)
cancellations	(3,079)	(134)	-	-
reclassified to other impaired loan categories	-	(2,838)	-	(193)
other decreases	(9)	-	-	-
Net impairment at end of the year	**15,687**	**92,871**	-	**529**
- of which: loans sold but not derecognised	-	-	-	-

Table 5.7 - Loans to banks: analysis of net impairment (on-balance sheet positions)

Item/Category €/'000	Non performing	Watch list	Restructured	Past due
Net impairment at beginning of the year	-	**943**	-	-
- of which: loans sold but not derecognised	-	943	-	-
Increases				
Impairment	-	-	-	-
Reclassified from other impaired loan categories	-	-	-	-
Other increases	-	-	-	-
Decreases				
Revaluations	-	(158)	-	-
Repayments	-	-	-	-
Cancellations	-	(785)	-	-
Reclassified to other impaired loan categories	-	-	-	-
Other decreases	-	-	-	-
Net impairment at end of the year	-	-	-	-
- of which: loans sold but not derecognised	-	-	-	-

Table 5.8 - Analysis of net impairment of loans

Item/Value €/'000	Impairment			Reversal of impairment				Dec. 31, 2011	Dec. 31, 2010
	Individual		Collective	Individual		Collective			
	Cancellations	Others		A	B	A	B		
Loans to banks:									
- Loans	-	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-	-
Loans to customers:									
- Loans	(1,678)	(9,384)	(171)	-	4,223	-	942	(6,068)	(9,207)
- Debt securities	-	-	-	-	-	-	-	-	-
Total	(1,678)	(9,384)	(171)	-	4,223	-	942	(6,068)	(9,207)

6. CREDIT RISK - EXPOSURES MEASURED UNDER THE STANDARDISED APPROACH

The Mediolanum Banking Group applies the ratings of the following rating agencies:

- Moody's;
- Cerved Group S.p.A.

The analysis of ratings applied to the Group's portfolios is set out in the table below.

Table 6.1 - Portfolios and official ratings

Portfolios	ECA/ECAI	Rating
Exposures to governments and central banks	Moody's	Solicited e Unsolicited
Exposures to international organisations	Moody's	Solicited
Exposures to multilateral development banks	Moody's	Solicited e Unsolicited
Exposures to companies and others	Moody's e Cerved Group S.p.A.	Solicited (Moody's) e Unsolicited (Cerved Group S.p.A.)
Exposures to UCITS	Moody's	Solicited
Positions in short-term rated securitisations	Moody's	N/A
Positions in securitisations other than short-term rated securitisations	Moody's	N/A

Table 6.2 - Standardised approach

Exposures €/'000	CREDIT RATING							
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Unrated	TOTAL
Non-derivative exposures	3,572,344	1,282,242	5,499,801	1,296		26,070	3,565,694	13,947,447
Derivatives	258	406	423	-	-	-	10	1,097
- financial derivatives	258	406	423	-	-	-	10	1,097
- credit derivatives	-	-	-	-	-	-	-	-
Guarantees issued	-	-	16,634	-	-	-	21,117	37,751
Commitments to disburse funds	-	-	-	-	-	-	117,800	117,800
Total	3,572,602	1,282,648	5,516,858	1,296	-	26,070	3,704,621	14,104,095

8. RISK MITIGATION TECHNIQUES

The Banking Group does not offset credit risk exposures against positive balances of on or off-balance sheet items.

Credit risk mitigation (CRM) techniques consist of loan-related contracts or other instruments and techniques that reduce credit risk whose risk mitigating effect is recognised in the calculation of regulatory capital, as well as, for risk management purposes, the internal policies of the Mediolanum Banking Group. Credit risk is inherent in the Securities Brokerage Division's lending business and in the Finance Division's liquidity management.
Eligible CRM techniques fall into two broad categories:

1. real guarantees;
2. personal guarantees.

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

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

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

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

Credit risk on mortgage loans is mitigated by the property given as collateral. Properties given as loan collateral must be located in Italy and be residential properties.
Semi-residential properties are accepted provided that they satisfy the following requirements:
- the non-residential portion does not exceed 40% of the estimated property value;
- the property is located in a residential area;
- the borrower is self-employed and intends to use the property as his/her primary residence.

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

Table 8.1 - Secured loans to customers

€/'000	Net exposure	Real guarantees (1): Property	Real guarantees (1): Securities	Real guarantees (1): Others	Personal guarantees (2): Credit derivatives: CLN	Personal guarantees (2): Credit derivatives: Other derivatives: Governments & central banks	Personal guarantees (2): Credit derivatives: Other derivatives: Government agencies	Personal guarantees (2): Credit derivatives: Other derivatives: Banks	Personal guarantees (2): Credit derivatives: Other derivatives: Others	Personal guarantees (2): Endorsements: Governments & central banks	Personal guarantees (2): Endorsements: Government agencies	Personal guarantees (2): Endorsements: Banks	Personal guarantees (2): Endorsements: Others	Total (1)+(2)
1. Secured loans (on balance sheet)														
1.1 entirely secured	2,492,591	4,410,420	30,510	4,502	-	-	-	-	-	-	-	-	2,522,984	6,968,416
- of which impaired	20,847	37,565	-	4,451	-	-	-	-	-	-	-	-	4,989	47,005
1.2 partly secured	137,290	222,462	-	266	-	-	-	-	-	-	-	-	2,190	224,918
- of which impaired	3,064	6,137	-	-	-	-	-	-	-	-	-	-	15	6,152
2. Secured loans (off balance sheet)														
2.1 entirely secured	511	1,003	-	-	-	-	-	-	-	-	-	-	12	1,015
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partly secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-

9. COUNTERPARTY RISK

The Mediolanum Banking Group devotes great attention to monitoring counterparty risk, i.e. the risk that a party to a financial contract (in particular repurchase agreements, OTC derivatives and long settlement transactions) may fail to perform its contractual obligations.

The methods used by the Mediolanum Banking Group to calculate counterparty risk exposures are set out in the table below.

Table 9.1 - Methods used to calculate exposures

Exposure category	Method
OTC derivatives	Present Value
SFT transactions	CRM - simplified method
Long settlement transactions	Present Value

For the purposes of calculating the capital charge for counterparty risk arising on securities financing transactions (SFT), the Mediolanum Banking Group uses the simplified method, while for OTC derivatives and long settlement transactions the Group uses the present value method.
For each set of assets, the credit equivalent is calculated as the sum of 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 is a net creditor of the counterparty. The credit exposure reflects the probability that the future fair value of the contract, if positive, may increase or, if negative, may turn positive. This probability is linked to the volatility of the underlying market variables as well as the residual life of the contract.

The Mediolanum Banking Group enters into derivative contracts essentially for hedging purpose, to protect against market risk (e.g. OIS - Overnight Indexed Swaps, futures), and risk in its loan portfolios, e.g. its mortgage loan portfolio via Interest Rate Swaps (IRS) and Interest Rate Options (IRO). IRS and IRO can be used only to hedge against risk in the mortgage loan portfolio. ISDA Master Agreements and the related Credit Support Annexes are to be made prior to entering into a contract with a new counterparty.
The Banking Group has no positions in credit derivatives.

Repurchase transactions are part of the activities conducted by the Finance Division and the Securities Brokerage Division and are used for liquidity management and as part of the business with retail customers. Typically, the Finance Division uses repurchase agreements to refinance the securities portfolio while the Securities Brokerage Division uses them as part of its dealings with customers. Credit risk in repurchase agreements used by the Finance Division is the risk of counterparty's default and the risk connected to the volatility of securities given as guarantee. Therefore, any securities given as guarantee need to satisfy minimum requirements in terms of rating (i.e. 'investment grade' – and any exception is to be approved by the head of the Finance Division) and institutional counterparties must be counterparties that were approved during the annual review process.

The analysis of counterparty risk exposures is set out in the table below.

Table 9.2 - Counterparty Risk Exposure

Item/Value €/'000	Exposure	Weighted exposure	Requirement
Derivative contracts	7,459	2,539	203
SFT & Long settlement transactions	1,380,454	785	63

The analysis of Mediolanum Banking Group's counterparty risk exposures in derivatives is set out in the table below.

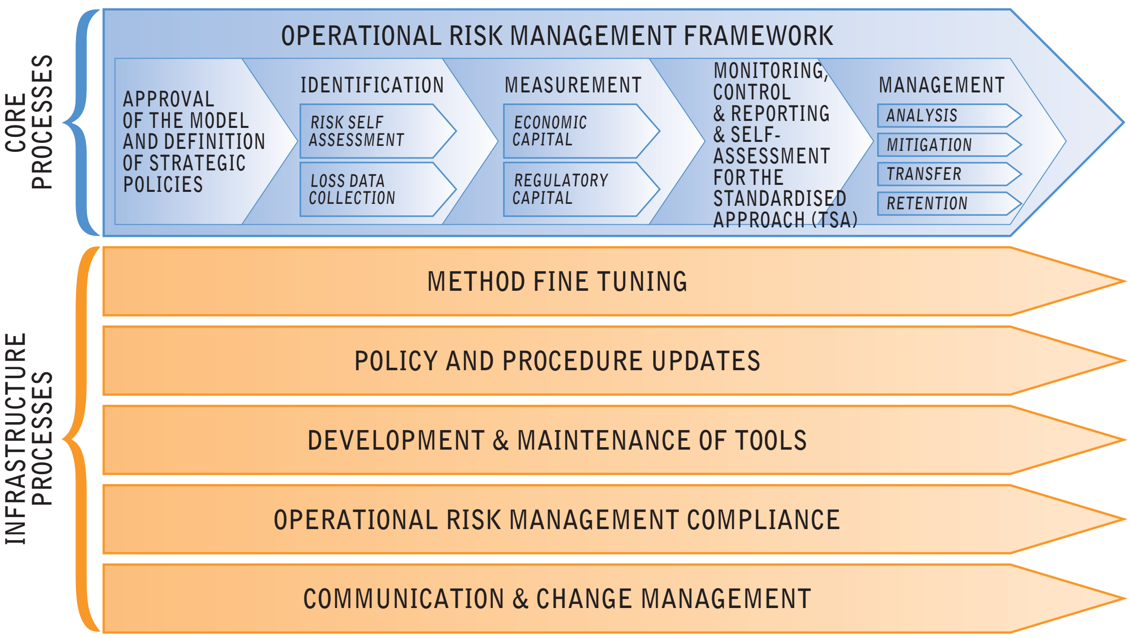
Table 9.3 - Analysis of derivatives with positive fair value by type of product

Portfolios €/'000	Options	Interest Rate Swaps	Cross Currency Swaps	Equity Swaps	Forward	Futures	Others	TOTAL
Trading	571	-	-	-	512	-	-	1,083
Hedging	-	-	-	-	-	-	-	-

The table above includes the analysis by product of all OTC financial derivatives with institutional counterparties. Exposure is the positive fair value of derivatives and is determined in accordance with the regulations issued by the banking supervisor.

12. OPERATIONAL RISK

Operational risk is pervasive across the organisation and is closely correlated to legal risk and regulatory risk (compliance risk).
The Mediolanum Group defines operational risk as "*the risk of economic loss or damage to assets, and sometimes legal and administrative consequences, resulting from any misconduct or inappropriate behaviour of its personnel, inadequate or failed systems or internal processes, or external events*".
Therefore, the identification, monitoring and management of operational risk entail the analysis of the processes and activities carried out by the various companies within the Group, in addition to the activities conducted by the Parent Company.
The approach used to analyse risks entails the classification of processes into "core processes" and "infrastructure processes". Core processes include operating activities that are connected to the value chain, while infrastructure processes relate to activities supporting operations and to the Company's administrative activities.
Group Operational Risk Management is focused on both the assessment of the adequacy of risk management and monitoring procedures applied by the individual entities within the Group, in accordance with statutory and regulatory requirements and deadlines, as well as on the assessment of the specific operational risk to which the Parent Company may be exposed. These activities are conducted under the operational risk management framework set out in the diagram below:



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

'**Identification**' consists of the following:

- 'Risk Self Assessment': *ex-ante* assessment of exposure to operational risk of an organisational unit or process based on subjective estimates and self-assessment models applied by the risk officer. This exercise delivers qualitative and quantitative information on risk exposure. One of the main outcomes of the Risk Self Assessment exercise is internal rating, which is the concise indication of the level of operational risk the organisational unit/process is exposed to;

- 'Loss Data Collection': *ex-post* collection of internal data on actual losses including any information that is relevant to risk measurement and management (including insurance and direct recoveries). This exercise is conducted applying both an 'account driven' approach and an 'event driven' approach;
- Qualitative estimates in relation to new business processes or initiatives – generic assessment (GA);
- Key Risk Indicators, i.e. risk and performance indicators that provide insight into the status of operational processes and the main drivers of exposures.

'Measurement' relates to the calculation of risk capital, specifically:
- Economic capital: internal risk measurement through a rating system that enables to steer and calibrate risk management and mitigation according to the potential economic impact and the current risk management framework. This exercise is based on the outcome of risk identification analyses, applies an actuarial statistical model and is used in the development of operational risk stress tests;
- Regulatory capital: calculated in accordance with capital requirements indicated by supervisory authorities (Bank of Italy's Circular 263 of December 27, 2006 on new capital requirements for Banks). Based on the examination of the results of self-assessment, initially made on November 7, 2007, and then reviewed on an annual basis (latest results examined on March 21, 2012), the Board of Directors resolved to apply the standardised approach to operational risk capital measurements on an individual basis. This decision was made considering that both quantitative and qualitative requirements for the adoption of said approach were satisfied. Notice thereof was duly given to the Bank of Italy. For the measurement of regulatory capital at consolidated level, the Board of Directors resolved to adopt a "combination of the basic indicator approach and the standardised approach". Said combination of approaches was applied after ascertaining the satisfaction of the relevant requirements for its use. The same approach will be applied for financial year 2012 as satisfaction of the relevant requirements was ascertained by the Board of Directors at its meetings of March 21, 2012.

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

'Management' is composed of the following:
- 'Management analysis';
- 'Risk mitigation';
- 'Management of risk transfer techniques';
- 'Risk retention management'.

The operational risk management framework is complemented by the following processes that cut across business lines:
- 'Policies & procedures';
- 'Fine-tuning of methods';
- 'Development and maintenance of tools and applications';
- 'Operational Risk Management Compliance';
- 'Internal Communications/Change Management'.

The tests and analyses performed within the Mediolanum Group show the adequacy of consolidated regulatory capital vis-à-vis operational risk, measured applying not only the standardised approach but also internal statistical analyses of processes and probability of adverse events.
In 2011, 182 organisational units of Companies within the Mediolanum Banking Group were examined, identifying over 3,140 operational risk checkpoints. Over 80% of these checkpoints were judged to be adequate or in need of being just better formalised. About 74 risk mitigation actions were taken in relation to risk controls that were judged to be unsatisfactory or in need of improvement.
Said work was conducted by the operational risk management staff of each consolidated entity with the assistance of local officers at subsidiaries who are responsible for liaising with the correspondent unit of the Parent Company for guidance and control. In fulfilling said exercise, staff relied on an integrated database used across the Group for both operational risk management and assessment of statutory and regulatory compliance.
The activities carried out are subject to regular audit by an independent organisational structure.
No material aspect emerged from controls carried out.

13. EQUITY EXPOSURES

Equity exposures include either listed or unlisted equity instruments, controlling or non-controlling equity holdings.
Equity instruments classified as 'Financial Assets Held for Trading' are equity instruments held for trading purposes and are measured at fair value. If they are quoted in an active market[1] their fair value is determined using their market quotation. If the market for the equity instrument is not active, fair value is determined using estimation and valuation techniques which measure all instrument-related risks and use market data, e.g. the quoted price of instruments with similar characteristics, discounted cash flow analysis, option pricing models, recent comparable transactions.
Equity instruments classified as 'Available for Sale Financial Assets' consist of non-controlling interests. On initial recognition available-for-sale financial assets are measured at cost, i.e. the fair value of the instrument, plus any directly attributable transaction costs or income. After initial recognition available-for-sale financial assets continue to be measured at fair value, and are amortised through profit or loss, while gains or losses arising from a change in their fair value are recognised in a specific equity Reserve until the financial asset is derecognised or impaired. At the time of dismissal or impairment, the cumulative gain or loss previously recognised in equity is recognised in the income statement. Equity instruments whose fair value cannot be reliably measured as set out above are carried at cost.
Equity holdings in subsidiaries and associates are carried at cost.
If there is evidence that an equity holding may be impaired, its recoverable amount is calculated by estimating the present value of future cash flows expected to be generated by the equity holding, including the proceeds on its ultimate disposal. If the recoverable amount is lower than the carrying amount, the resultant difference is recognised in the income statement. If the value of a previously impaired equity holding increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed and the reversal recognised in the income statement.

(1) A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Table 13.1 - Analysis of equity exposures

€/'000	Book Value	Gains/losses for the period (*)
Held for trading		
Equity instruments	3	(33)
Available for sale		
Equity instruments	334	-
Non-controlling interests	13,253	471
Investments		
Controlling shareholdings	353,167	(16,373)

(*) For equity instruments in the HFT portfolio HFT these are trading profit/losses; for non-controlling interests these are dividends received, while for controlling shareholdings these are impairment losses.

14. INTEREST RATE RISK IN THE BANKING BOOK

Interest rate risk is the risk of potential impact of unexpected interest rate changes on the Bank's current earnings and equity. This risk is typical of banking book positions.

The Banking Book consists of on and off-balance sheet items that are not held for trading.

The goals pursued by the interest rate risk management system are to:

- ensure the stability of net interest income, minimising any adverse impact of changes in interest rates (earnings perspective), largely with near-term focus. The stability of net interest income is mainly influenced by re-pricing risk, yield curve risk, basis risk, re-fixing risk and optionality risk;
- protect the economic value, i.e. the present value of expected cash flows from assets and liabilities. The economic value perspective is focused on the potential medium/long-term effects of changes in interest rates and is mainly associated with re-pricing risk;
- ensure that interest rate risk that has been taken or can be taken be properly identified, measured, monitored and managed in accordance with uniform methods and procedures shared across the Group;
- make sure that risk measurement models are commensurate with actual earnings generated by the various risk owners;
- ensure that the quality of risk measurement and management systems is aligned with market standards and best practices;
- define risk limits and licences for the various levels of responsibility;
- ensure the generation of accurate data and reports by the various officers responsible for risk management and control at the different levels within the organisation;
- ensure compliance with requirements established by domestic and international supervisory authorities.

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

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

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

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

On a quarterly basis, the Risk Control unit staff prepare summary reports on overall interest rate risk exposures and stress test reports for the Board of Directors and Senior Management.
Stress tests are conducted applying the rate shocks scenarios set out in the relevant internal policy.
The main currency denomination of Mediolanum Banking Group exposures is the Euro; the value of positions in other currencies is not significant and therefore they were translated into Euros and grouped together with other euro-denominated items.

Table 14.1 - Interest Rate Risk Indicators

Shift (+/-)	Effect on net interest income (*)	Effect on regulatory capital
Eur + 100bps	9,681	-
Eur - 100bps	(17,048)	-
Eur + 200bps	-	(107,862)
Eur - 200bps	-	98,963

(*) It relates to the impact on earnings in relation to Banca Mediolanum only.

15. COMPENSATION POLICIES AND PRACTICES INCLUDING INCENTIVE PLANS

This chapter provides information about the "Group Compensation Policies" adopted by the Board of Directors of the Parent Company Banca Mediolanum on March 1, 2011, the related decision-making process, the roles and responsibilities of the various corporate bodies and functions.

15.1. Decision-making process

Shareholders - AGM

In addition to other matters as set forth in the Bylaws, at the AGM (Ordinary Meeting) the Shareholders vote on the Compensation Policy submitted by the Board of Directors. Shareholders are thus informed about the total costs, benefits and risks of the compensation policies including incentive plans adopted and can have their say. Shareholders are also informed on the implementation of remuneration policies especially with respect to the variable component of compensation and can thus assess their consistency with guidelines and set targets.

Board of Directors

The Board of Directors prepares and approves the compensation policies including incentive plans with the assistance of the Bank's Compensation Committee. The Board approves the criteria used to determine those staff who are considered material risk takers, the list of Identified Staff and share-based incentive plans.

Executive Deputy Chairman of the Board

The Executive Deputy Chairman of the Board submits the names of the individuals to be appointed to/revoked from the management and supervisory functions of the foreign banks within the Group and proposals for their compensation to the Board of Directors.

Chief Executive Officer / General Manager

The Chief Executive/General Manager has the power to submit proposals on:

- personnel who qualify as "material risk takers";
- compensation including incentive plans for "material risk takers", other than for control unit/function staff, as well as, more generally, for those staff whose duties may conflict with the powers of the Chief Executive Officer/General Manager.

Compensation Committee

The Compensation Committee is composed of a majority of independent Directors and plays a fundamental role with respect to the compensation and incentive plans in that it makes proposals to, advices and prepares analyses for the Board of Directors. Specifically, the Compensation Committee prepares proposals on pay and more generally the compensation and incentive plans of Senior Management and other "risk takers"; provides advice on the process adopted for the preparation of compensation policies, the process applied and the criteria used to determine those staff who are considered material risk takers, the structure of compensation and incentive plans.

HR Team

The HR Team collaborates with competent bodies and function in the definition of compensation policies including incentive plans taking care of the prior review of the regulatory framework, of market trends and practices as well as of applicable collective labour agreements and supplementary company-based agreements with the Unions. The HR Team proposes the rules underpinning the organisation and operation of the process used to determine 'material risk takers', the structure of the variable component of compensation and amendments to the policies following changes in the organisation and/or the regulatory environment.

Compliance & Risk Control Function

The Compliance & Risk Control team ensures the adequacy and regulatory compliance of adopted compensation policies and practices and their proper operation, via *ex ante* assessment of regulatory compliance of policies and implementation rules prepared by the competent structures.

Risk Control Unit

The Risk Control team contributes to the definition of compensation policies including incentive plans by preparing, upon request of the competent bodies and functions, opinions on the adoption of adequate performance indicators that reflect the profitability of the bank over time, taking account of current and future risks, cost of capital and liquidity needed for the conduct of business.

Planning & Control Team

The Planning & Control team contributes to the definition of compensation policies including incentive plans by providing, upon request of the competent bodies and functions opinions, data and information for the determination of targets to be set for those staff whose variable component of compensation is linked to expected performance, and for the verification of the performance attained by them.

Internal Audit Function

The Internal Auditing team ensures that compensation practices are adequate to and consistent with the adopted compensation policies and their proper operation. The team reviews compensation practices at least annually to verify their compliance with approved policies and reports on its findings to the Compensation Committee, the Board of Directors and the Board of Statutory Auditors for their adoption of corrective measures where appropriate.

15.2. Link between Compensation and Performance

The compensation structure adopted by the banks consists of a fixed component and a variable component.
The proportion of the variable component (both short and long-term) is linked to target business performance. Specifically, it is linked to underlying consolidated net profit, i.e. net profit excluding extraordinary corporate transactions[1], other extraordinary items[2] and/or the effects of non-recurring operations. Payment of the variable component of compensation is also subject to maintenance of a certain level of Return on risk adjusted capital" (RORAC) and of capital surplus according to the applicable capital requirements[3] at Mediolanum Financial Conglomerate level.

(1) Extraordinary corporate transactions include but are not limited to: disposals, mergers, transformations, liquidations, hive-offs.
(2) In compliance with international accounting standards.
(3) (Supplementary supervision of financial conglomerates: statement of capital adequacy of financial conglomerates).

15.3. Key features of the compensation system

Banca Mediolanum's compensation policies and incentive plans include any form of payment or benefit given[1], either directly or indirectly, in cash, share-based or in kind (fringe benefits) in exchange for services rendered by "staff"[2]. The term "staff" includes:

- the members of the Board of Directors and of the Board of Statutory Auditors;
- employees;
- other individuals (including but not limited to the external consultants), if they can generate significant risk for the Company.

With respect to said staff, Banca Mediolanum conducts an accurate internal assessment based on specific criteria and geared to identify those categories of staff whose activities may have a material impact on the Company's risk profile (so-called "material risk takers").

In general, the staff remuneration structure is inspired by the following rules:

- variable component of remuneration linked to performance indicators with risk-adjustment mechanisms applied both *ex ante* and *ex post*;
- a balance of shared-based or equivalent instruments and cash;
- deferred compensation systems.

The adopted remuneration structure is a balanced package consisting of:

- a **fixed component** that rewards staff for their role and responsibilities, according to the experience and talent required for the specific position as well as the level of excellence shown and the overall quality of their contribution to business performance;
- an **incentive component** that is aimed at rewarding staff for results attained with a direct link between compensation and actual performance recorded by the company and the individual in the short, medium and long term.

15.3.1. Incentive component

The incentive component consists of a variable compensation:

- short term incentive: annual rewards in the form of cash bonuses;
- medium/long term incentive typically paid after three years (save for any specific provisions applicable to the sales Network) consisting of cash bonuses and/or shared-based awards.

The payment of the components above is conditional upon the achievement of financial and non-financial business, individual and behavioural targets.

As medium/long-term incentive the bank uses the Mediolanum S.p.A. stock options plans reserved to the directors and executives of the Company and its subsidiaries with strategic roles within the Company and/or its subsidiaries, and the stock option plans reserved to the sales network.

Said plans entails annual awards of rights that entitle the beneficiaries to subscribe to newly issued Mediolanum S.p.A. ordinary shares.

Performance targets are determined applying a specific *Management Appraisal* process whereby individual targets are set at the beginning of the year, progress is monitored along the way and achievement of targets is verified at the end of the period.

(1) Including discretionary pension benefits.
(2) Excluding marginal payments or benefits accorded on a non-discretionary basis to personnel as part of a general company-wide policy and have no incentive effect in terms of risk assumption or control.

The incentive component includes a deferral period (the vesting period) which is determined by the Board of Directors and is subject to the attainment of both individual and business performance targets as well as continuation of service within the organisation.
Said period is:

- nine years from the option grant date, for sales network members;
- three years from the option grant date, for Directors and Executives.

The exercise of the options and the subsequent subscription to the shares by the beneficiaries are allowed only after expiration of the vesting period, upon the exercise date and for the following three years.
Both short-term and the long-term incentives are awarded upon approval of the financial statements for the year to which the accrued rewards relate. In relation thereto, the link between profit attained and the percentage of exercisable options is a suitable *ex post* correction mechanism (*malus*).

15.4. Performance Indicators

The incentive component is linked to both business and individual performance.
Business performance is measured against profitability and risk profile at Mediolanum Financial Conglomerate level.
Individual performance is linked to both financial and non-financial performance and takes account of the role of staff. The compensation system in place for the sales network, namely Family Bankers, includes parameters that take account of roles.

15.4.1. Incentive Component - Financial Performance Parameters

Individual financial performance parameters considered for the determination of the incentive component are based on the following criteria:

- performance needs to be assessed in areas on which the individual/function that benefits from the incentive has a significant influence;
- the performance indicators identified for said areas are to be closely correlated with the overall result/value generated by the organisational unit for which the individual has responsibilities;
- performance needs to be measurable as much as possible, relate to financial/budget plan targets and be visible to the Planning and Control function. In this respect, the performance indicator needs to be quantified by the Planning and Control Function at the end of the measurement period;
- performance should be measured as much as possible against external benchmarks.

15.4.2. Incentive Component - Non-financial Performance Parameters

Non-financial performance parameters considered for the determination of the incentive component are closely linked to objective assessment of the activities carried out by the individual in the specific role (e.g. activities planned in the year preceding the year of assessment, ordinary activities carried out by the structure) and qualitative assessment of the effectiveness and efficiency of the activity itself.

Specifically, also taking account of the Management Appraisal system adopted by the Bank, the non-financial performance parameters for the short-term and medium/long-term variable incentive component of compensation for the various organisational units have the following features:

- for Executives they relate to planning and execution competencies, abilities and skills gained, increased responsibilities placed on them for the role they have in the management of resources, customer satisfaction and improvement of processes as well as specific projects assigned to them;
- for the Heads of control functions they are based on objective assessment of the activities conducted by the individual in the specific role and other purely qualitative aspects;
- for the rest of staff, where applicable, they are principally based on the recognition of gained competencies, abilities and skills, customer satisfaction and improvement of processes.

As to the Top Management Plan 2010, the exercise of options is also subject to the achievement of targets assigned to each beneficiary based on aforesaid Management Appraisal system.

15.4.3. Parameters applied to the Sales Network's compensation system

The compensation of the sales network, which mostly consists of Family Bankers, is variable and differentiated by category, i.e.:

- Family Bankers who are engaged exclusively in sales ("Bankers"); and
- Family Banker who in addition to sales also supervise, coordinate and coach other Family Bankers ("Supervisors and Managers").

For the first category, compensation has two components:

- **a so-called 'stable' component**, which consists of commissions on sales that are paid on a monthly basis, plus management and service fees for the services rendered to the Customer on an ongoing basis that are linked to the (service) fees charged to the customer and are paid periodically to the financial advisor;
- **a 'pure' incentive component, i.e.** other incentive commissions paid under specific contests for the attainment of set targets, mostly sales targets. All this always in compliance with the guidelines geared to ensure Family Bankers behave honestly, fairly, transparently and professionally, serving customer needs at best, as per MiFID Directive.

For the second category of Family Bankers ("Supervisors and Managers") in addition to commissions paid on their individual sales (as set out above) compensation also includes commissions on sales made by the financial advisors and the size of the sales force they manage, as well as the level they have reached in the Sales Network commission scale. Other incentives may be earned for their role and their participation in the share-based incentive plan.

15.5. Rationale of the compensation systems

The aims of the compensation policy and incentive plans set by the bank are to attract and retain people with skills and talent that meet the needs of the company and to provide incentives that motivate and reward them for their enhanced engagement in boosting business performance.

The compensation policy pursues improved alignment between the interest of shareholders and the bank's management both in the short term, through creation of maximum shareholder value, and in the long-term, through appropriate risk management and delivery on the long-term strategy.

In this respect the compensation and incentive criteria based on objective parameters linked to performance and aligned with medium/long-term strategic targets are an effective way to stimulate greater engagement by all people and hence best serve the interest of the Bank.

At the same time, taking a disciplined approach, business targets are appropriately adjusted to take account of all risks and ensure adequate capital and liquidity for the conduct of business, avoiding distorted incentives that induce violations of regulations or excessive risk-taking for the bank and the system as a whole.

In relation to this last point, the compensation and incentive systems are designed so as to encourage compliance with regulations and statutes applicable to the Bank and the Banking Group.

Also for the purpose of mitigating legal and reputational risk, special attention is given to the compensation and incentive systems for the Family Bankers network and staff with responsibilities of control in compliance, risk control and internal audit.

Table 15.1 - Information on aggregate compensation by business line

Business line €/'000	Compensation
Trading & Sales	2,223
Retail Banking	71,313
Asset Management	6,522
Retail Brokerage	265,586

With respect to the business areas identified for the purposes of disclosure on compensation policies we deemed it appropriate to conventionally adopt the model defined by the Basel Committee.

Under this approach the activities of a financial intermediary are classified into the following *Business Lines*:

1. Corporate finance;
2. Trading and sales;
3. Retail banking;
4. Commercial banking;
5. Payment and settlement;
6. Agency services;
7. Asset management;
8. Retail brokerage.

Table 15.2 - Information on aggregate compensation of material risk takers - Mediolanum Banking Group

	COMPENSATION FOR THE YEAR			VARIABLE COMPENSATION			
MATERIAL RISK TAKERS Mediolanum Banking Group	Number of beneficiaries €/'000	Fixed compensation €/'000	Variable compensation €/'000	Cash €/'000	Shares	Share-based instruments[1] €/'000	Other
Chief Executive Officer	7	2,876	2,552	1,075	NA	1,477	NA
Executive Directors	3	603	188	127	NA	61	NA
Non Executive Directors	2	353	-	-	NA	-	NA
General Manager	1	165	87	46	NA	41	NA
Heads of main business lines, functions, regions and direct reports to corporate bodies	11	2,516	784	640	NA	144	NA
Chief Auditor and senior internal auditors	11	1,519	247	247	NA	-	NA

[1] The fair value of stock options granted in the year under the long-term incentive plan.
[2] The fair value of stock options granted in the year under the long-term incentive plan whose exercise upon vesting is subject to the attainment of specific performance conditions.
[3] The fair value of stock options granted in prior years that became exercisable in the year.
[4] The fair value of stock options granted in prior years that were not exercisable as performance conditions were not entirely or partly satisfied.

In presenting information for those staff with multiple positions/roles within the Mediolanum banking Group, it was deemed appropriate to add up the different compensations received by the individual, then the aggregate compensation amount was allocated to the staff 'cluster' into which the individual's main position/role falls (typically the position for which the individual receives the highest compensation)

DEFERRED COMPENSATION		DEFERRED COMPENSATION RECOGNISED IN THE YEAR		NEW PAYMENTS FOR NEW HIRES IN THE YEAR		NEW PAYMENTS FOR COMPLETION OF SERVICE IN THE YEAR		COMPLETION OF SERVICE AMOUNTS RECOGNISED DURING THE YEAR		
Granted[2] *€/'000*	Not granted *€/'000*	Exercisable[3] *€/'000*	Reduced due to performance results[4] *€/'000*	Number of beneficiaries	Amount *€/'000*	Number of beneficiaries	Amount *€/'000*	Number of beneficiaries	Amount *€/'000*	Highest amount recognised to a single individual *€/'000*
1,477	-	-	-	-	-	-	-	-	-	-
61	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
41	-	-	-	-	-	-	-	-	-	-
144	-	25	-	-	-	-	-	-	-	-
-	-	-	-	1	20	-	-	-	-	-