

MEDIOLANUM GROUP

**Annual Financial Report
2020**



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Letter from the Chairman and Chief Executive Officer

Dear Shareholders,

Above all else, we should keep in mind that a virus turned 2020 into a watershed year in contemporary history, with an unacceptable price paid in terms of human lives. Our thoughts therefore turn, first and foremost, to the two colleagues we lost to Covid and, looking at Italy alone, to all the people of this country that this terrible pandemic has so far taken. 2020 has thus diminished the greatness of us human beings: we have not experienced such events for generations, and perhaps therefore mistakenly believed that we had everything under control.

After this necessary introduction, we would like to urge everyone to look towards the future with confidence. Not in an a priori way, on principle, but based on the objective observation of what has always been the case and is happening again on this occasion.

We are referring to the fact that crises have always been periods of extraordinary acceleration of human progress. And the more violent and sudden the crisis, the stronger the human reaction, and the faster the ensuing acceleration. This is an intrinsic part of human nature: in times of difficulty, we give of our best in terms of energy, ingenuity and determination. Progress and evolution then pass through the crises and find momentum for the future.

The crisis triggered by Covid, in all its forms – in terms of health, the economy and society – is no exception; in fact it provides the most resounding confirmation. Suffice it to say that a vaccine has now been available for weeks, less than a year since the outbreak of the virus. This has never been the case for any of the previous infections that have plagued our planet.

It is enough to observe the implementation by the highest sovereign and international authorities of measures to support and stimulate economies, both monetary and fiscal, which are unprecedented in history. Lastly, let's look at the structural changes in our societies, at the way we live our daily lives: let's think about how digital is coming into our daily lives and reshaping our lifestyles. Let's think about the new attention being paid to our planet in modern times to everything termed sustainable: a compass we can use to redesign and reinvent our societies.

Banca Mediolanum is no exception. In fact, in 2020 it was both brilliant testimony and crystal clear proof of these points. In a terrible year and an extremely difficult environment, all the women and men of Banca Mediolanum, the Family Bankers and other employees, all together, did an exceptional job. Banca Mediolanum gave its best in 2020 and found a new impetus during the crisis, which is driving it towards a leading role in future years.

Today, we can therefore present company data that we consider exceptional, if taken in isolation, and particularly so, as mentioned above, in view of the year and the environment in which they were achieved.

We are closing 2020 with an absolute record result for assets under administration of €93.3 billion, up 10% on 2019. Apart from the contribution made by market performance, this growth was largely due to the extraordinary result achieved this year in terms of total net inflows of €7.7 billion, up 90% on 2019.

Customer lending pursued the path of growth taken over several years. The loan portfolio now stands at over €12.1 billion, representing an increase of 17%, with a quality indicator in terms of net NPL of 0.58% compared with an industry average of 3.1% (Bankit).

Net profit is therefore €434.5 million, with the positive contribution of all business lines, down compared with 2019 mainly due to lower performance fees, which were particularly high in 2019.

The Common Equity Tier One ratio – the bank's main solidity indicator – remained stable at one of the highest levels in the system (20.4%).

All this allows us to propose a dividend per share of 78 euro cents, with a total dividend distribution of €573 million, to our next Shareholders' Meeting on 15 April 2021.

Dear Shareholders, these excellent results for 2020 reflect our clear corporate focus on keeping to the strategic system that has always characterised us and guided this Company's every move. These results are also part of our firm intention of continuing to update our customer offering, particularly by following technological progress, the dissemination of digital into every area and changes in lifestyle.

2020 is a linear part of this path of strategic consistency and continuous innovation and is a "turning point" year for further strengthening and preparation for the future.

That is why in 2020 we launched Flowe, a challenger bank aimed at young people and those individuals – and there are more and more of them – who want to use a top banking facility and are also sensitive to the wellbeing of people, society and our planet. The results in the first few months exceeded all expectations: over 660,000 users came on board, with more than 25,000 trees planted, offsetting more than 800 tonnes of carbon dioxide.

This is why in 2020 we laid the foundations – with the Next project – for further developments in financial advisory, with the new professional role of the banker consultant. This is a new and distinctive market offering, aimed at young graduates with high potential who will be supported step by step into the profession via a structured path that combines classroom and on-the-job training alongside our most experienced and capable Family Bankers.

Lastly, we want to note that our foreign operations were also highly successful in 2020. Banco Mediolanum in Spain is proceeding step by step along the path of expansion and success of the Italian parent company. In 2020, Mediolanum International Funds Limited in Ireland consolidated a process of growth that has made it an increasingly strategic hub within the Group and one of the largest European asset managers in Dublin's financial district.

We would like to end by once again thanking our staff, the Board of Directors, you the Shareholders and all the stakeholders of Banca Mediolanum who, once again in this decisive year, have walked alongside us, step by step, each helping to prepare Banca Mediolanum for the achievement of increasingly challenging and ambitious goals in the coming years.

Ennio Doris

Massimo Antonio Doris

Corporate officers of Banca Mediolanum S.p.A.



Corporate officers of Banca Mediolanum S.p.A.



Board of Statutory Auditors

Domenico Angelo	Chairman of the Board
Magno Fava	Statutory Auditors
Antonella Lunardi	Standing Auditor
Gian Piero Sala	Standing Auditor

General Manager

Gianluca Bosio

Financial Reporting Officer

Angelo Lietti

Board Secretary

Luca Maria Rovere

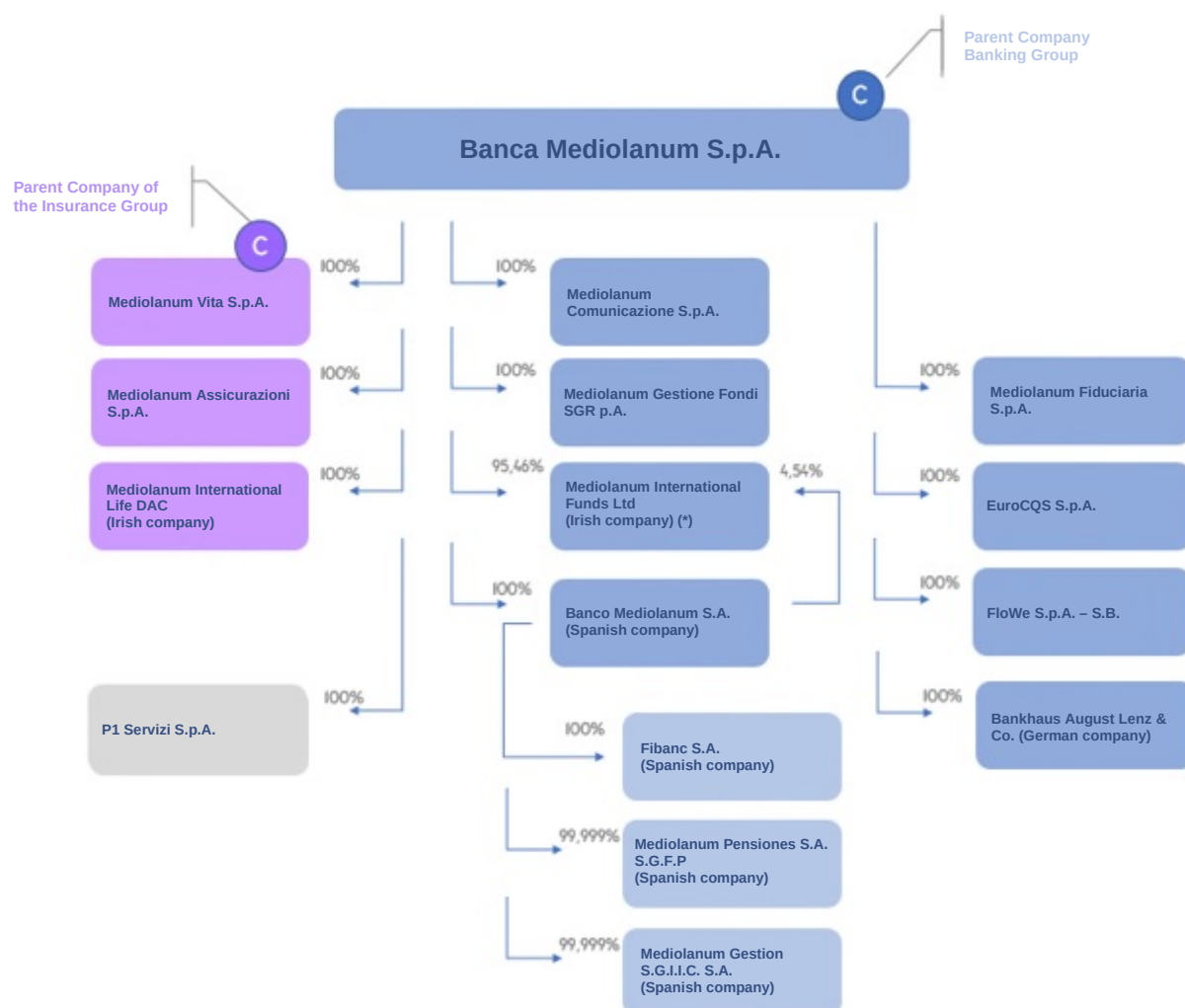
Independent Auditor

PricewaterhouseCoopers S.p.A.

Scope of consolidation at 31 December 2020



Scope of consolidation at 31 December 2020



2020 consolidated highlights



Main results of the Mediolanum Group at end-2020

OPERATING PERFORMANCE

The Mediolanum Group reported net profit of €434.5 million at the end of 2020 (31.12.2019: €565.4 million).

In FY 2020, the Mediolanum Group demonstrated a high level of resilience in terms of revenues; despite the fluctuating performance of stock market prices, significant net inflows and a careful investment strategy for the assets under management resulted in an increase in recurring revenues from management fees compared with the previous year.

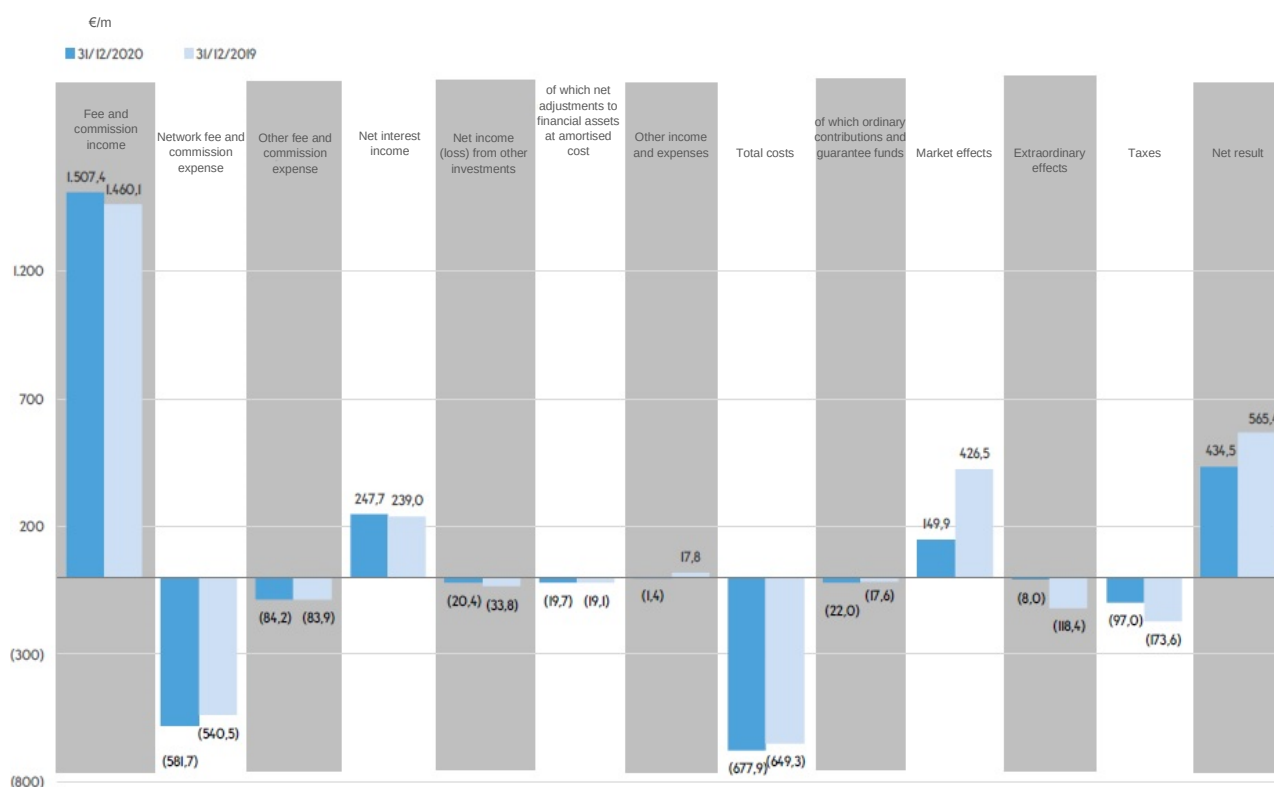
With regard to performance fees, it should be recalled that the results achieved last year (€424.8 million) were exceptional; however, the valid management strategy adopted this year nevertheless generated performance fees of €153.6 million.

The 2020 financial year, unlike 2019, was not affected by extraordinary expenses (the write-down of the shareholding in Mediobanca and in the German subsidiary, which totalled €96.6 million).

Lastly, the period under review was characterised by significant costs in support of the strategic initiatives of the new company, Flowe.

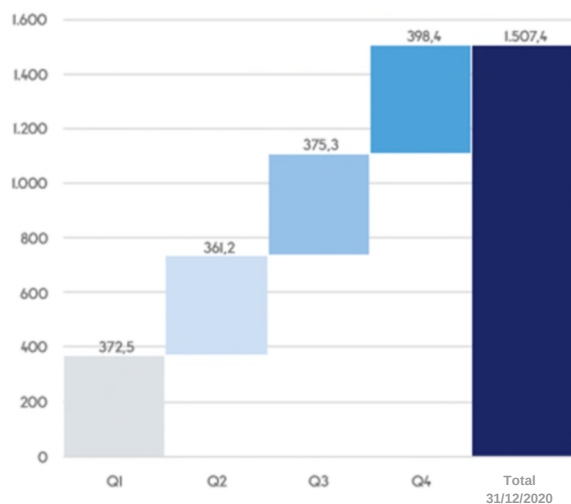
CONSOLIDATED OPERATING DATA

Main items in the consolidated income statement

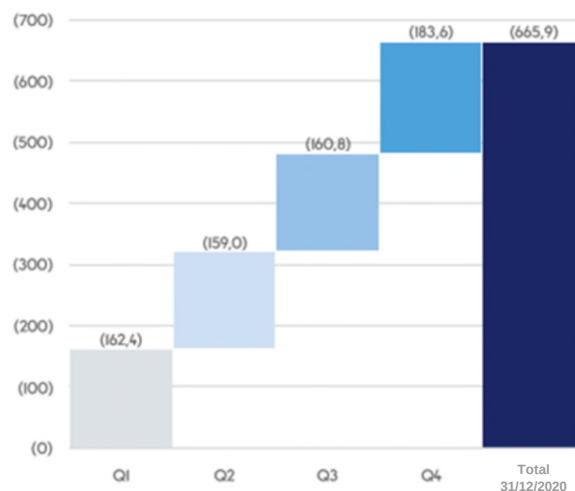


Quarterly changes in main consolidated operating data

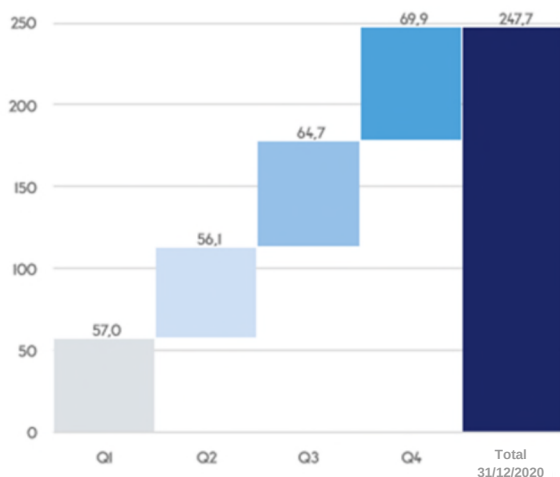
Fee and commission income



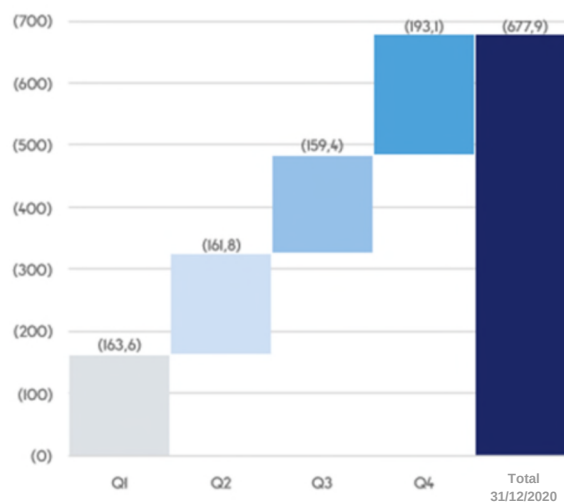
Fee and commission expense



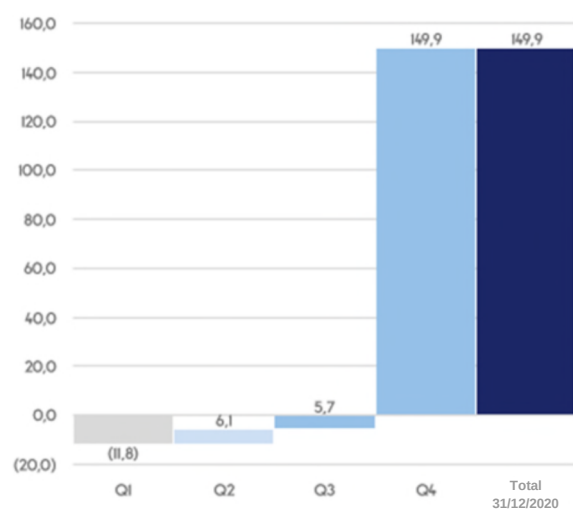
Net interest income



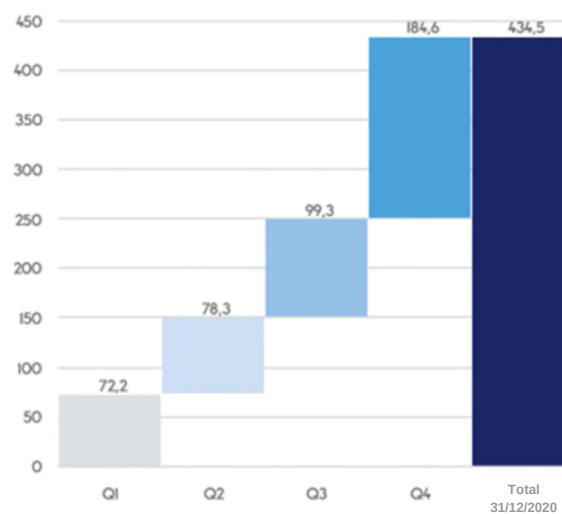
Total costs



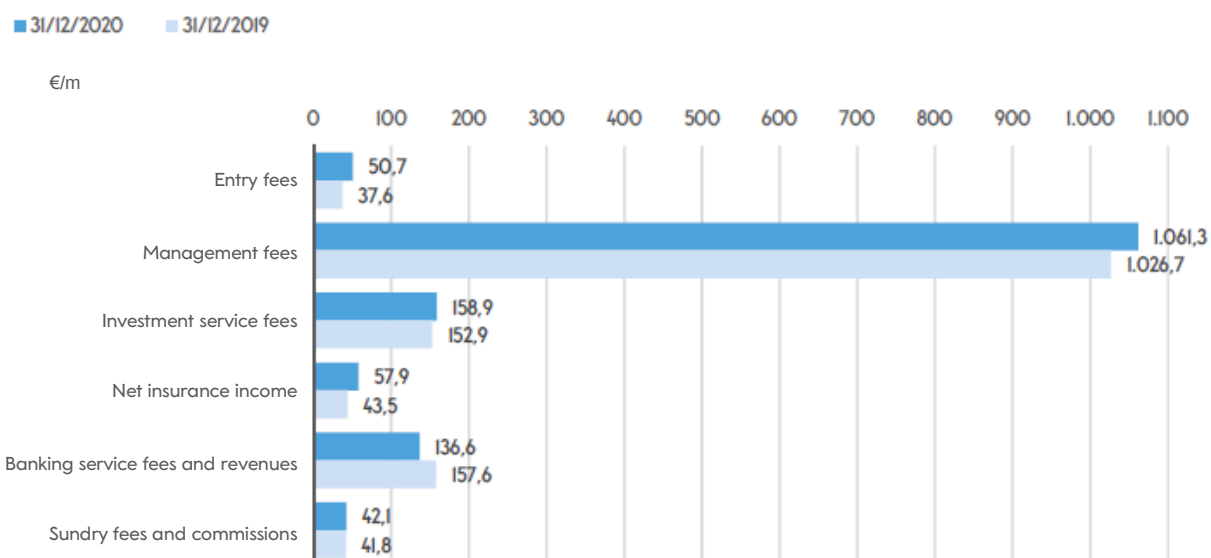
Market effects



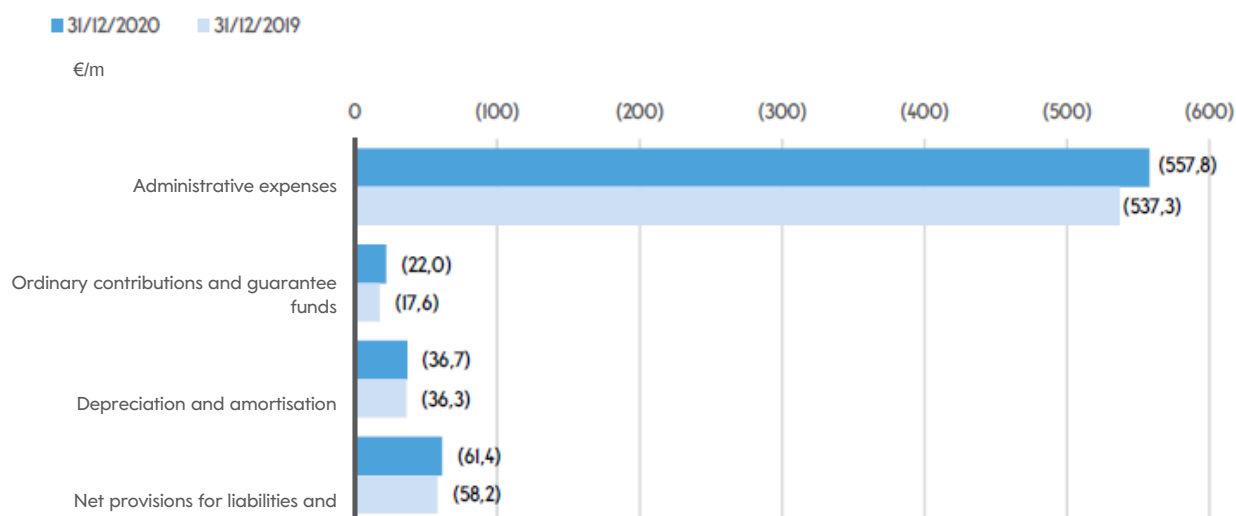
Net result



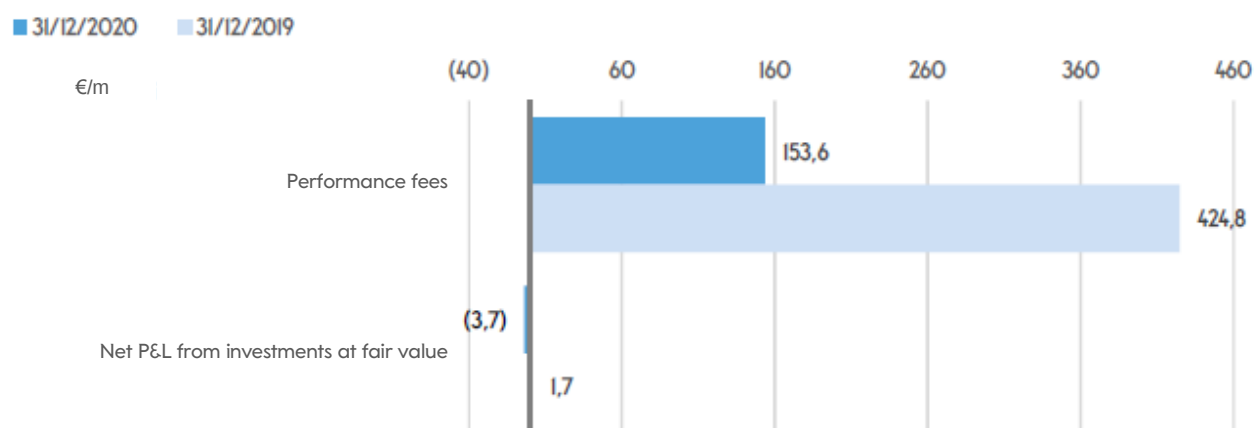
Fee and commission income: breakdown by nature



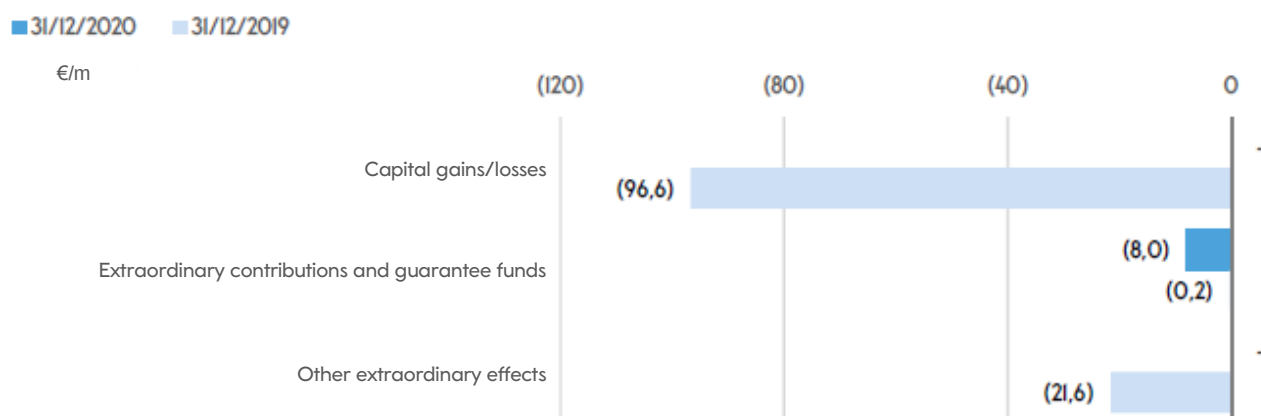
Costs: breakdown by nature



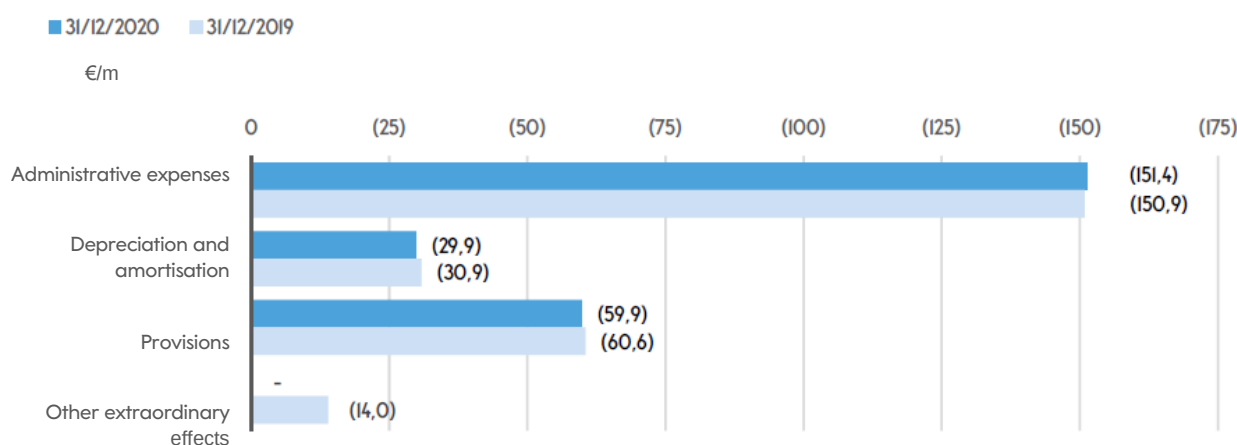
Market effects: breakdown by nature



Extraordinary effects: breakdown by nature¹

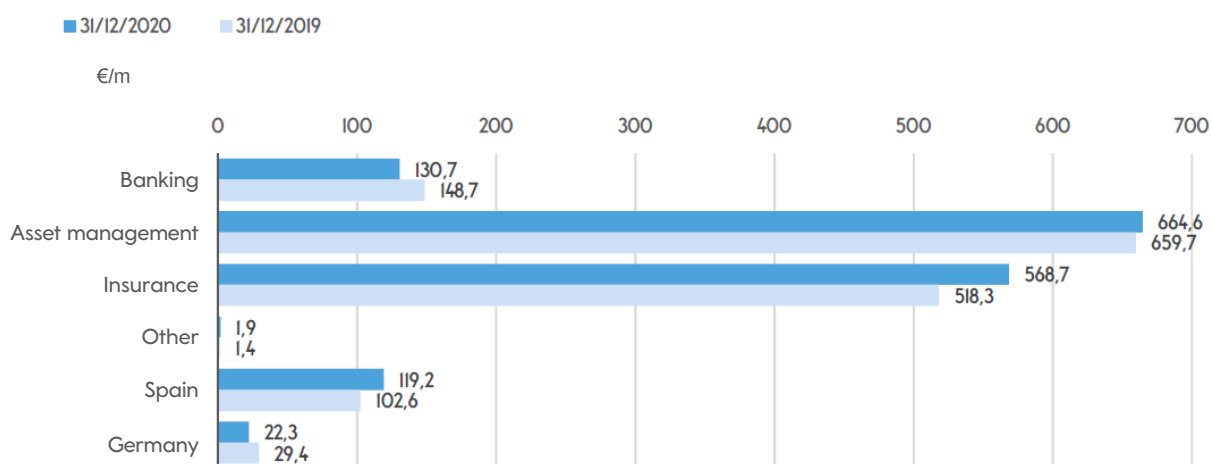


Unallocated costs: breakdown by nature

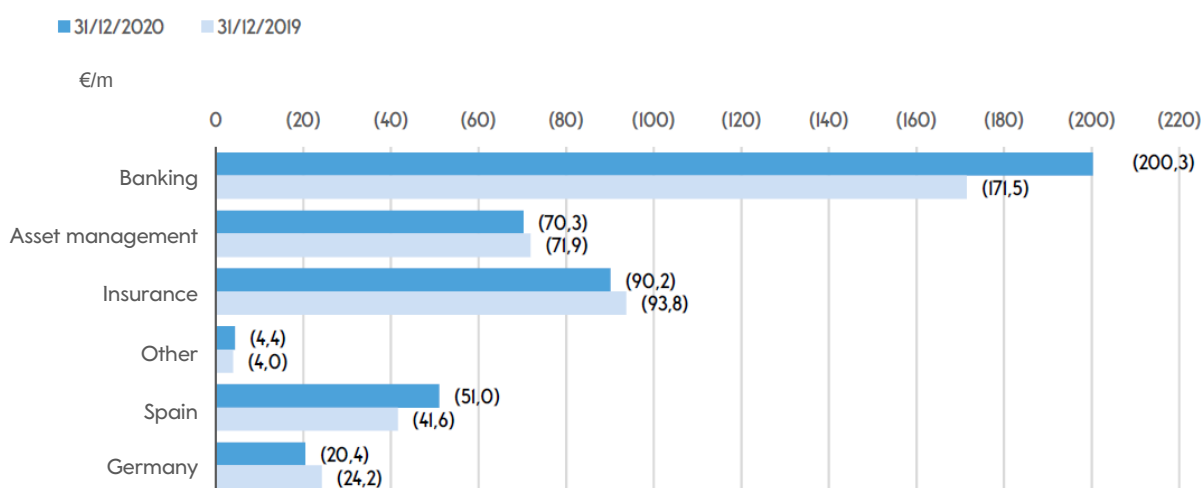


¹ The capital losses for 2019 refer to the write-downs of €66,6 million of the equity investment in Mediobanca and €30 million of the equity investment in Bankhaus August Lenz, while the Other extraordinary effects item included one-off production bonus awarded to all employees and staff on the basis of the positive results achieved during the year and greater cost of acquiring the subsidiary EuroCQS S.p.A.

Fee and commission income: breakdown by operating segment

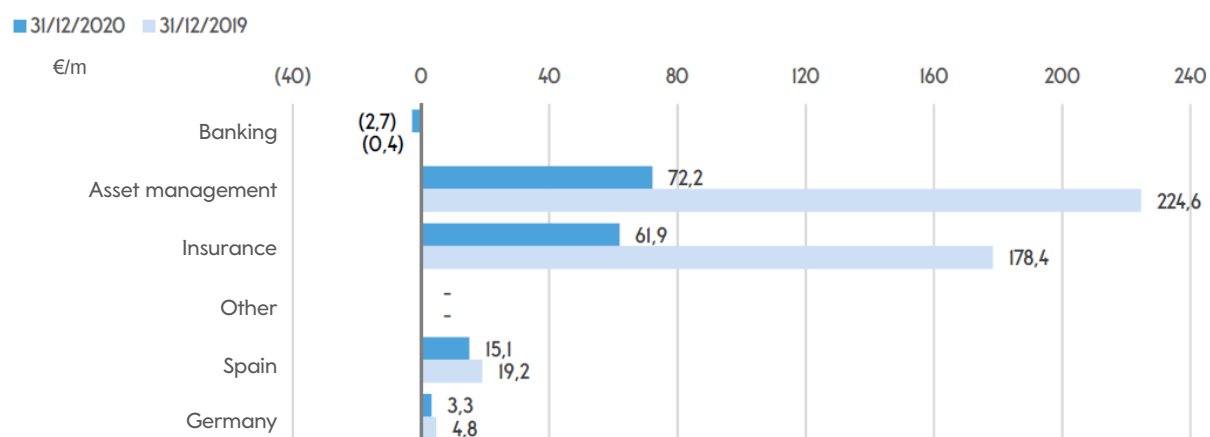


Allocated costs²: breakdown by operating segment

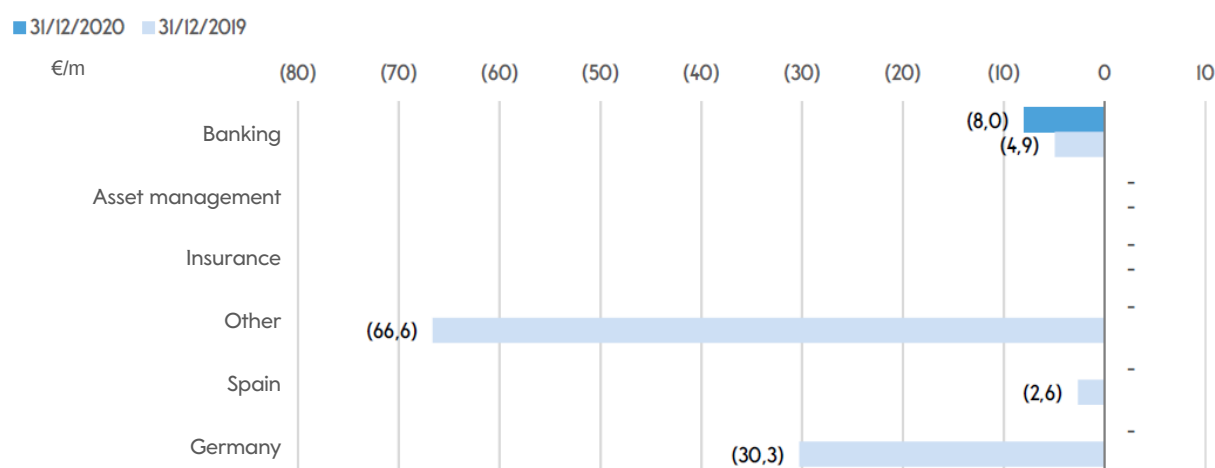


² For the Italian market (Banking, Asset Management, Insurance and Other segments), allocated costs also include contributions to ordinary guarantee funds, whereas for the foreign market they represent total segment costs (including depreciation, amortisation and provisions); therefore, the total unallocated costs of the Italian market at 31 December 2020 came to €241.3 million (€151.4 million for administrative expenses and €89.8 million for depreciation, amortisation and provisions).

Market effects: breakdown by operating segment

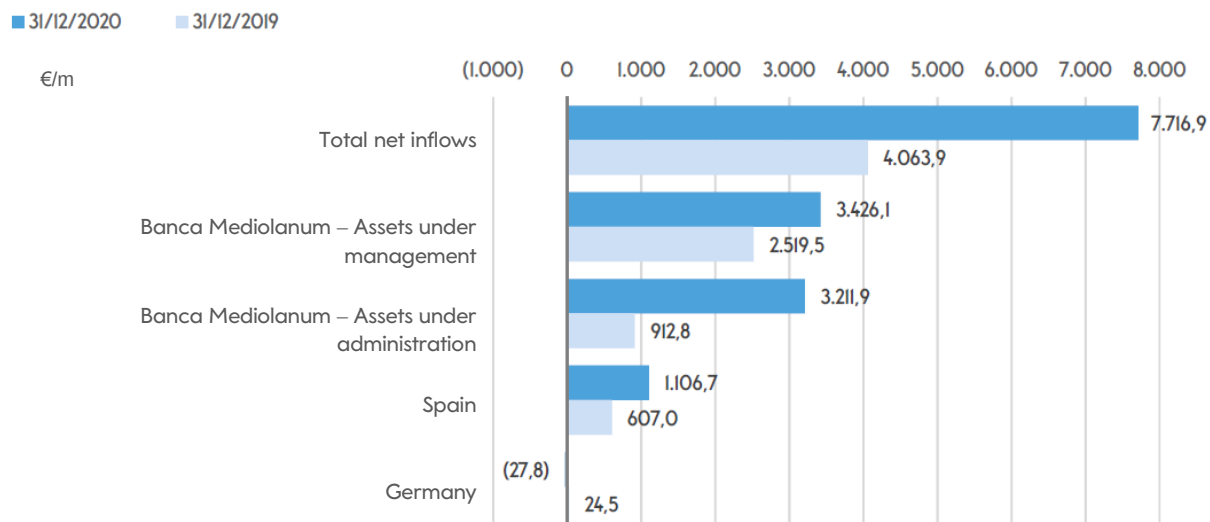


Extraordinary effects: breakdown by operating segment

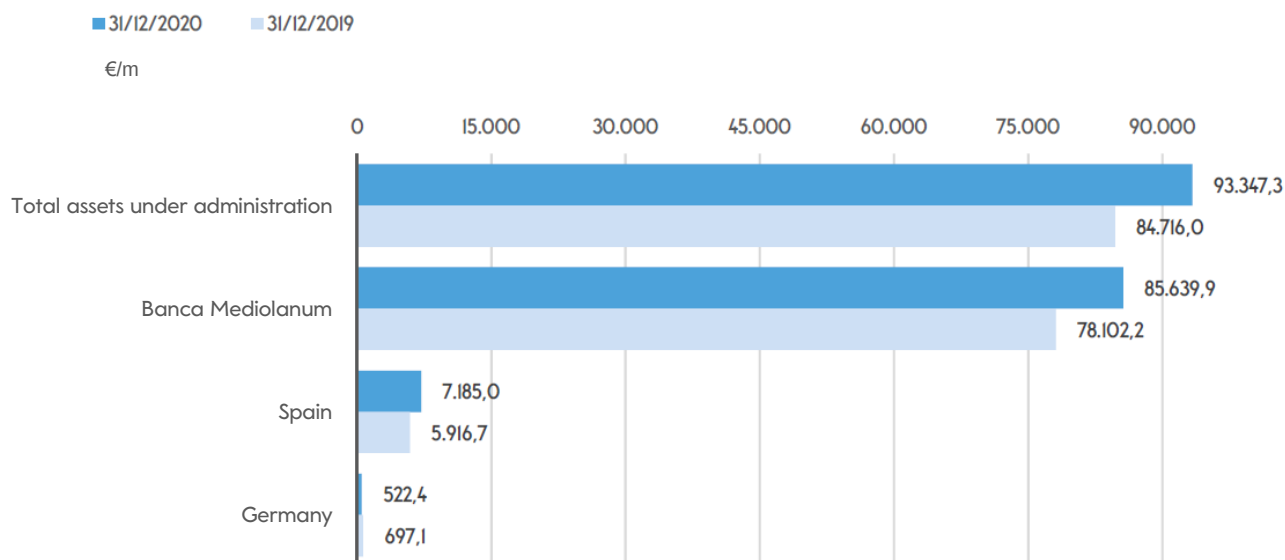


DATA ON INFLOWS AND ASSETS

Net inflows

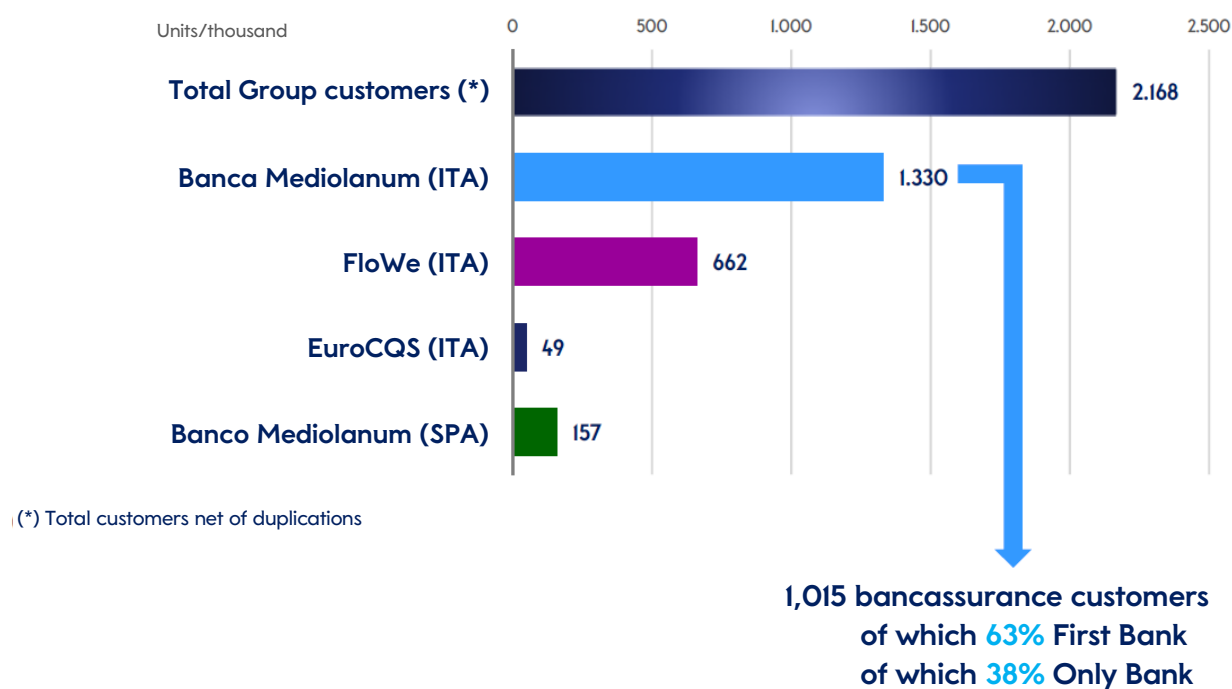


Assets under administration and management

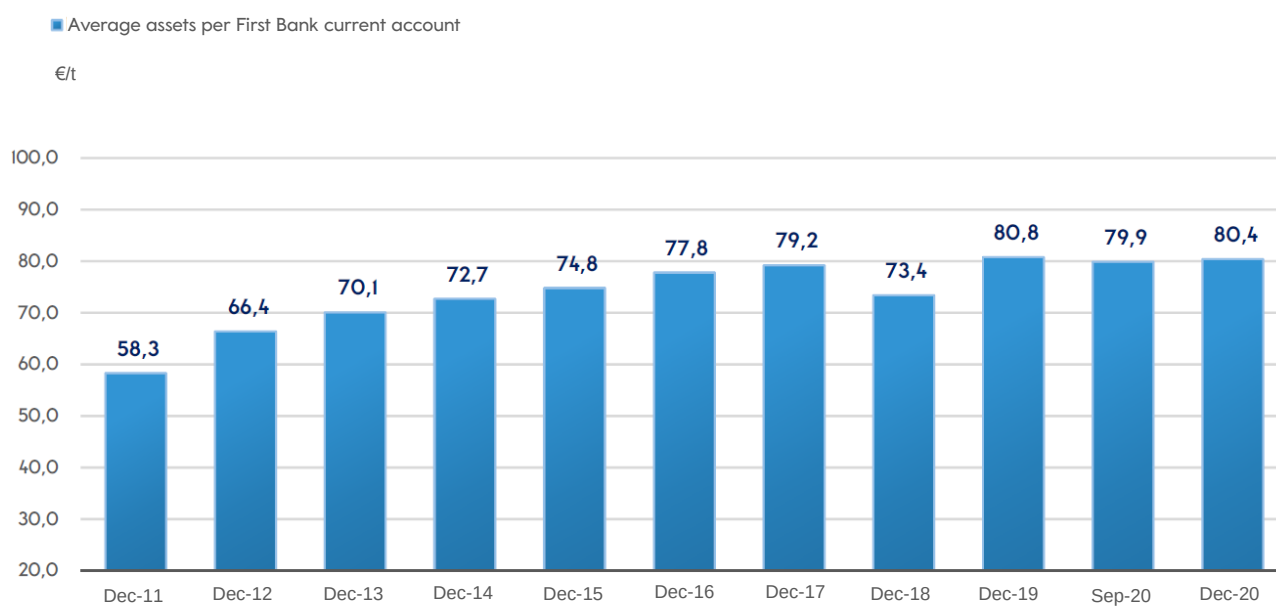


CUSTOMERS

Trends in the customer base



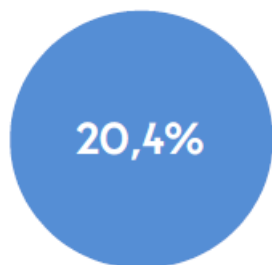
Average assets per customer



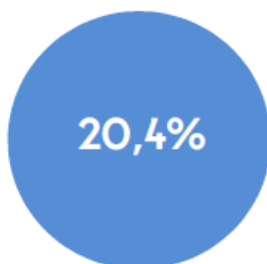
REGULATORY CAPITAL RATIOS

Consolidated capital ratios at 31 December 2020

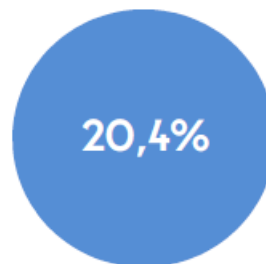
Common Equity Tier 1



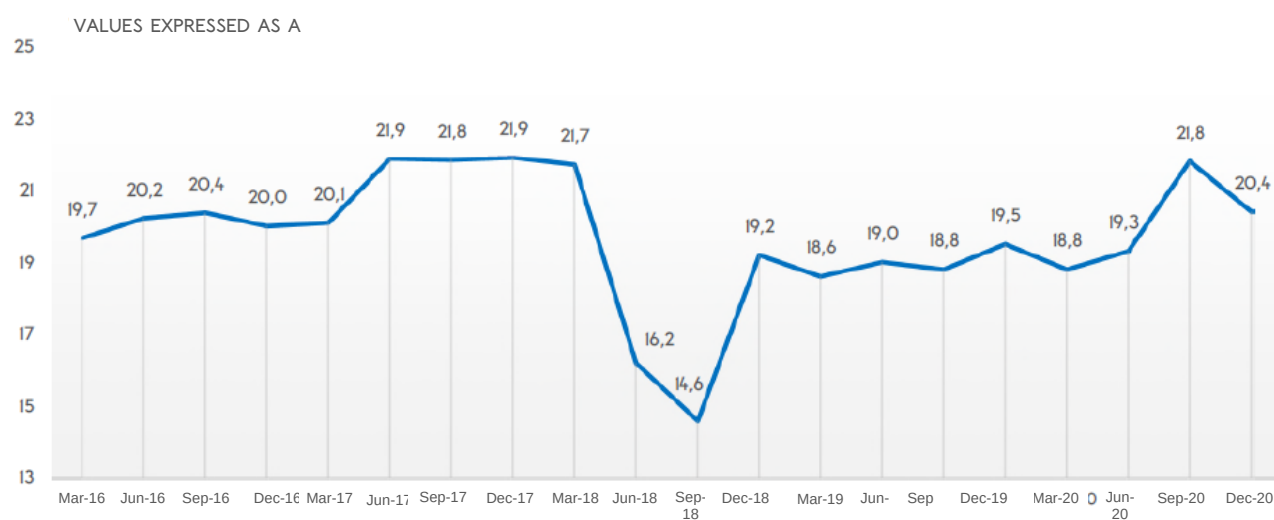
Tier 1



Total Capital Ratio



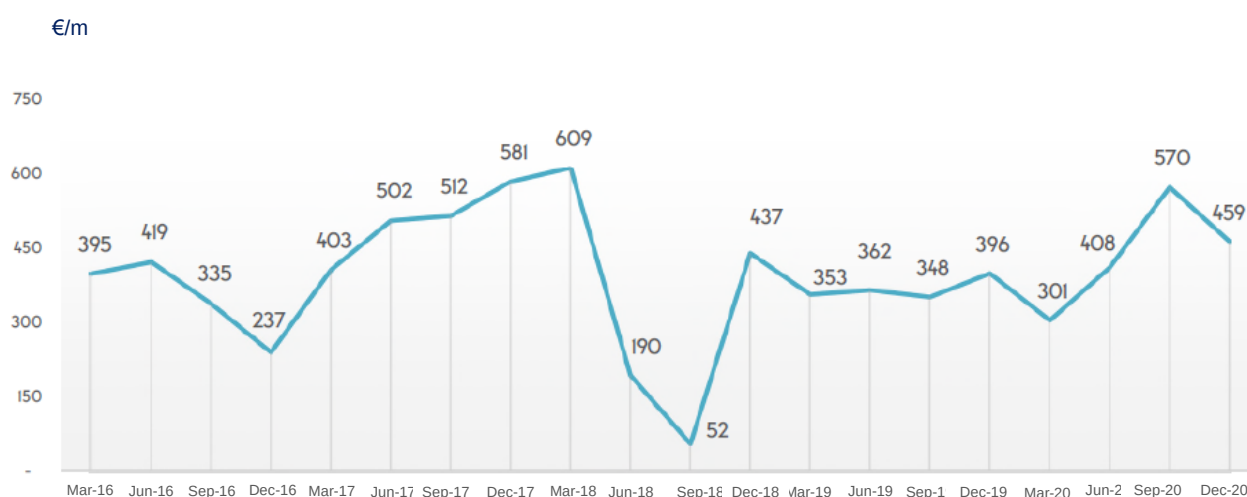
Evolution of the Common Equity Tier 1 Ratio



Capital adequacy of the Financial Conglomerate

€/m	31/12/2020	31/12/2019
Financial conglomerate primarily engaged in banking		
Capital	2,330	2,137
Banking capital requirements	1,086	1,017
Insurance capital requirements	785	724
Capital surplus (deficit)	459	396

Evolution of the capital surplus of the Financial Conglomerate



Information on the stock

	31/12/2020	31/12/2019
Number of ordinary shares (units)	741,375,926	740,741,919
Price at end of period (€)	7.10	8.86
Market capitalisation (€/m)	5,264	6,563
Shareholders' equity (€/m)	2,739	2,343

Earnings per share (EPS)

Euro	31/12/2020	31/12/2019
Basic EPS	0.592	0.771
Diluted EPS	0.589	0.767

Consolidated risk indicators

	31/12/2020	31/12/2019
Loans to customers (€/t)	28,104,309	24,586,998
Loans to customers - Net impaired assets/Loans to customers (values in %)*	0.56%	0.65%

* Loans to customers do not include the debt securities item.

Operational structure

Units	31/12/2020	31/12/2019
Number of employees	3,092	2,926
Number of financial advisors	5,417	5,197

Group profile



The history of the Group: key milestones

1982

Ennio Doris founds Programma Italia S.p.A. in partnership with the Fininvest Group. It is the first network in Italy to offer global advice on savings.

1996

Mediolanum S.p.A., the holding company for all activities in the sector, is created and listed on the Milan Stock Exchange on 3 June 1996.

1997

Banca Mediolanum is created. This innovative multi-channel bank makes use of all the opportunities offered by technology and multimedia. Mediolanum International Funds, a Dublin-based management company, is established.

2000

Mediolanum offers its first online trading services. Banca Mediolanum arrives in Spain and acquires the Fibanc Banking Group. Mediolanum enters the share capital of Mediobanca and subsequently establishes Banca Esperia, a leading joint venture in the provision of private banking services.

2001

The Group's European expansion continues with the acquisition of Bankhaus August Lenz & Co. in Germany and Gamax Holding AG in Luxembourg.

2004

Mediolanum Channel, the Group's satellite channel, starts broadcasting. Club PrimaFila, dedicated to high-net-worth customers, is launched.

2006

The Family Banker® is created as an evolution of the Global Advisor. As a further qualification to that of Financial Advisor, which is regulated by law, the Family Banker® has become the distinguishing feature of the Bank's sales network and a point of reference for its customers.

2009

Mediolanum Corporate University becomes an operational entity of the Mediolanum Group, as a leading training centre combining technology and a high educational capacity.

2013

Mediolanum Assicurazioni S.p.A. – active in the non-life sector – is acquired and joins the Mediolanum Group. Banca Mediolanum is the first to offer a cash transfer service via smartphone (receiving the "ABI" award for innovation in banking services).

2014

Mediolanum S.p.A. becomes the Parent Company of the Banking Group. Support for customers affected by natural disasters in the region continues, and this commitment is recognised by an ABI award for innovation in banking services; approximately €160 million is paid out in the form of donations.

2015

As of 30 December 2015, Banca Mediolanum becomes the Parent Company of the Banking Group and of the Mediolanum Financial Conglomerate.

The circle, which has always represented the central place occupied by the customer and the values of solidity, seriousness and safety, becomes the key feature of Banca Mediolanum's new logo.

The new Mediolanum Best Brands Socially Responsible Collection is launched, with the aim of expanding the range of asset management products with an economically sustainable approach.

2016

In 2016, increasing importance is attached to financial solidity and stability.

The European Central Bank carries out a Comprehensive Assessment on Banca Mediolanum, which confirms the Bank's absolute solidity, with Group capital reserves well above the minimum thresholds established by the ECB and the Bank of Italy.

Following the natural disasters and in particular the earthquake that devastates central Italy, Banca Mediolanum once again demonstrates its proximity to its customers and staff by disbursing a substantial non-repayable sum of €5,630,700.

The streamlining of the Group's structure continues. As Banca Mediolanum has developed its own specialisation in recent years, overseeing and competing more directly in the segment of high-net-worth customers, it no longer needs to maintain the joint venture with Mediobanca in the private sector. On 16 November 2016, an agreement is signed to sell the 50% stake in Banca Esperia.

2017

The focus on financial solidity and stability continues: CET1 reaches 21.9% at 31 December 2017.

The PIR (Individual Saving Plan) funds launched by the Group provide tangible support to Italian SMEs: Banca Mediolanum is, in fact, the first absolute investor in AIM Italia, and the first domestic investor (the fifth ever) in the Star segment, which lists companies distinguished by their excellence in the Italian industrial landscape.

In April, the sale of Banca Esperia is definitively completed.

EuroCQS S.p.A. is acquired in November. This company, which operates in salary-backed loans, joins the Mediolanum Banking Group, and the merger of Fermi & Galeno Real Estate S.r.l. with Banca Mediolanum S.p.A. goes ahead.

2018

Ten years have passed since the Lehman Brothers crisis, when Mediolanum intervened to protect and defend its customers by taking responsibility for losses on Mediolanum policies linked to the securities of the US investment bank.

The Investment Banking department is created in order to contribute to the development of Italian small and medium-sized enterprises and to support business customers on all extraordinary finance matters relating to enterprises.

2019

On 1 April, the merger of Mediolanum Asset Management with Mediolanum International Funds becomes effective.

On 19 July, the new company, FloWe S.p.A. - SB, is incorporated. This company, which is wholly owned by Banca Mediolanum, will be active in payment services.

2020

On 28 January, the Board of Directors of Banca Mediolanum decides that the elements for exercising significant influence over the equity investment in Mediobanca no longer exist and therefore agree to treat it as financial investment (IFRS 9), excluding it from the scope of consolidation. In June, the new company Flowe-SB was launched commercially.

The Luxembourg company Gamax AG has been merged into the Irish subsidiary Mediolanum International Funds.

Vision, Mission, ...

Vision

We believe
in a better world, built every day for
people and the planet.
We believe in human connection and
in deep, freedom-driven
relationships.
We believe that our conscious and
positive view of the world and life
makes a real difference.

Mission

To build deep, long-lasting
relationships with people based on
loyalty, fidelity and transparency. To
provide personalised, individual
advice with effective solutions that
cover the entire span of people's lives.
To act in an innovative and sustainable
way for the well-being of individuals,
families and the community.

...our values

There is no greater value than FREEDOM

This is the value with which Mediolanum has changed the very idea of a bank. The freedom of a sincere and genuine relationship with people.

It is about feeling really free to reach your goals and achieve your dreams.

The individual is central

Human relationships form the foundation of every person working at Mediolanum.

Building a **RELATIONSHIP** helps us understand individuals' projects and support them by helping them manage their savings and achieve wellbeing.

Becoming a personal reference over time means growing together.

ACCOUNTABILITY

We are people for people

We are fully aware of our social role.

We know how to act ethically and transparently, even when our decisions go against the flow.

We are committed to solidarity and education and development projects, with tangible and high social impact interventions.

We believe in continuous improvement

We anticipate and respond to the needs of people, anchored by our history and our roots.

We develop innovative solutions to encourage sustainable behaviour in the public interest.

SUSTAINABLE INNOVATION is our commitment.



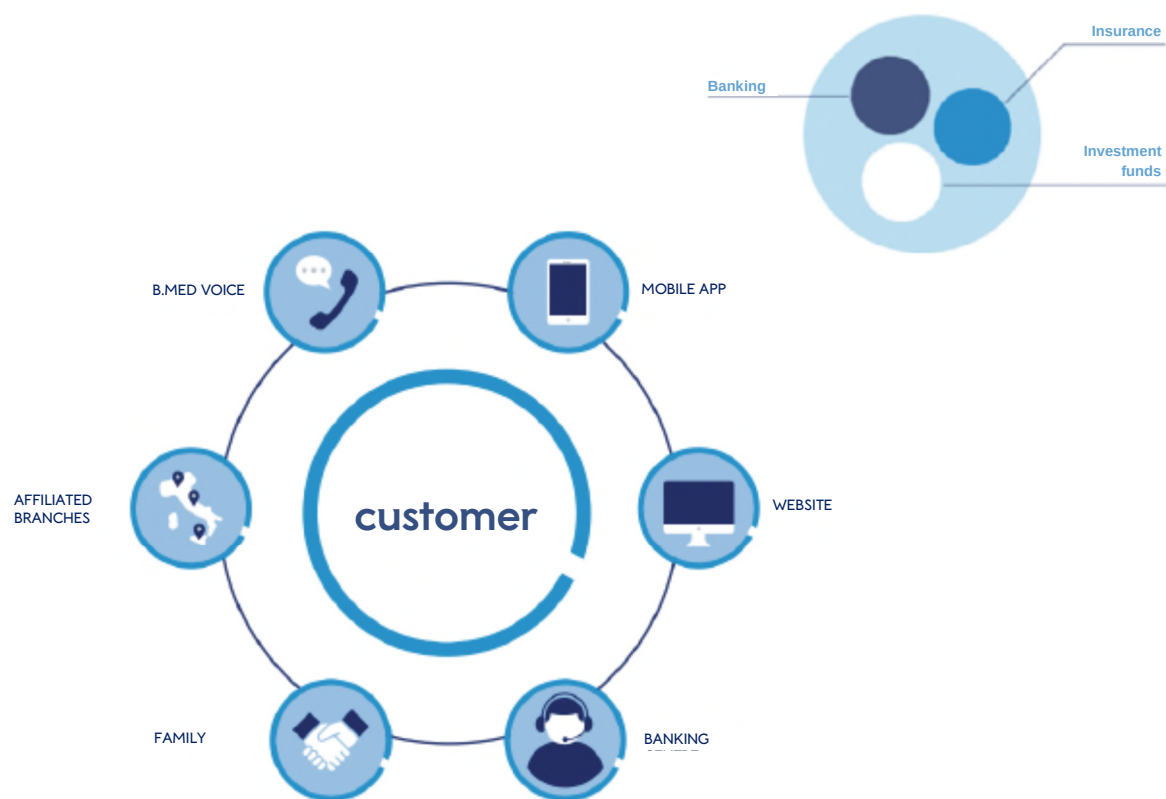
Mediolanum Group's commercial business model

Banca Mediolanum's commercial business model is designed to meet the external and internal requirements of each customer. Thanks to its numerous communication channels, customers can choose how to "use" "their" bank, deciding on the timing and arrangements of their preferred relationship on an ad hoc basis. Banca Mediolanum offers simple, easy to access products and services that meet the needs of individuals and households, who are its main targets.

Through the Family Banker®, listed in the Single Register of Financial Advisors, Banca Mediolanum helps its customers to manage their savings and provides investment advice in combination with the products and services offered by the bank. Banca Mediolanum does not simply sell products: it offers solutions. This principle enables us to operate in the various business areas of financial services with the expertise and flexibility necessary to respond better to constant economic, taxation, financial and regulatory changes. The investment strategy is the result of careful study of the world markets and the high level of expertise that Mediolanum has developed in asset management, limiting investment concentration risk.

THE BANK BUILT AROUND THE CUSTOMER

Integrated Business Model – Banca Mediolanum



Consolidated Report on Operations



THE MACROECONOMIC SCENARIO

2020 was a particularly complex year, very greatly affected in all its aspects by the severe pandemic crisis that disrupted the most established social fabrics, dealt a blow to global economies and drove governments to limit major economic activities and human interaction in order to stem the spread of the virus. In this context, the monetary and fiscal policies implemented in order to mitigate the negative impact of the pandemic and the measures through which the health crisis has been addressed in different countries have been crucial.

In the US, the Federal Reserve continued with renewed intensity on the path of cutting rates that began in the second half of 2019, taking the federal funds to a range of 0-0.25%, repeatedly stressing the executive's willingness and commitment to act expansively in the event of slower growth than expected by using the various options available to the Committee to increase securities purchases or by taking action on their duration.

At the political level, 2020 will also be remembered for the change of presidency from Donald Trump to Joe Biden, the forty-sixth president of the United States, who has the delicate task of raising the country back up when it is facing its worst economic crisis since the war and is still in the midst of a pandemic. Biden's election was a major positive turning point for markets: probably less aggressive, if equally severe, rhetoric toward China and a Congress still divided between Democrats and Republicans, leaving the possibility of less radical changes to the current tax and regulatory regime, provided the best possible scenario, allowing market volatility to fall in the last few months of the year and share prices to recover strongly. The compromise reached between Democrats and Republicans, which will mean \$900 billion of new aid being provided to US citizens and an economy in crisis, divided between economic relief to families and the unemployed, small businesses and various economic sectors hit hard by the crisis, has come in addition to a series of other government measures that represent the second largest public intervention in US history and amount to more than 4% of GDP.

On the European side, the resurgence of the health emergency in the last quarter of the year prompted the European Central Bank to explicitly and unequivocally ensure its presence and support for the economy through the recalibration of its tools to counter the pandemic shock. In addition to the package of measures currently put forward, the ECB President, Christine Lagarde, left all options open, strengthening her accommodative message by saying that all tools would be discussed again and reassessed, including the introduction of negative interest rates and consequently an adjustment of the forward guidance.

With regard to the implementation of supportive monetary policies, the 27 EU Member States reached an agreement to ensure a green light for the new EU budget, associated with the Recovery Fund (Next Generation EU, which will involve the issuance of shared debt of €750 billion). Italy is one of the EU countries that will benefit most from Next Generation EU, receiving around 28% of the total fund established, including €127 billion in loans and other instruments and €81 billion in grants.

Despite a sharp deterioration in Italy's economic situation due to the health crisis, the rating agency S&P confirmed the country's BBB rating and raised the outlook from negative to stable. The agency's decision was motivated by the anti-crisis measures implemented by the government, which through its actions has "contained the damage caused by the budgetary results and created the bases for the economic recovery". A week after S&P's upgrade, DBRS also confirmed Italy's rating, deciding to maintain it at BBB (high) with negative outlook. The agency's decision reflects a balance between the positive factors of the ECB's supporting role and limited private debt and negative factors such as the size of public debt, which will be difficult to manage unless currently weak Italian growth picks up speed. DBRS estimates that the trend could return to "stable" if there is evidence of an effective policy response through government investment and reform, and if the Italian economy performs better than expected. Conversely, the rating could be downgraded if one or more of the following factors occur: a worsening economic outlook, failure to implement economic policies to support a lower debt/GDP ratio and a significant and unexpected increase in the cost of financing public debt. According to ISTAT estimates, the economy rebounded by 16% in the summer, before an 8.8% contraction in GDP due to the government's new measures to contain the health emergency, which had adverse effects on all productive sectors. Although the drop in gross domestic product is unprecedented, in an informal note, the Ministry of Economy described the figures as lower than most observers had expected, due to the damage-limiting effect of the monetary policy

measures implemented and the selective shutting down of businesses. According to the MEF, the outlook remains positive, however: in January, business surveys indicated positive output and manufacturing expectations, emphasising that the Italian economy has coped relatively well compared with other European countries.

As regards the political situation, the latest attempts to avert the start of a government crisis in the midst of the pandemic have been unsuccessful: the leader of Italy Viva, Matteo Renzi, by pulling his party out of government, has in fact sanctioned the end of Conte's mandate. Renzi gave various reasons for the withdrawal: from the "questionable use of the delegation to services", to the "questionable use of live TV", to disputes over closed sites, industrial policies and management of the health emergency. The political uncertainty has disappeared with the swearing-in of new prime minister Mario Draghi and the formation of a high-profile government with no specific political formula, as was hoped for at the time of the appointment of Sergio Mattarella as Italy's President. Mario Draghi's credibility at the European level and the high standing of the former president of the European Central Bank had a particularly positive impact on both domestic stock indices and Italian government bonds, whose spread versus German 10-year bonds once again dropped below the 100 basis points threshold. The political agenda of the new Prime Minister contains four key points:

- > combating the pandemic by accelerating the roll-out of the vaccination plan on the basis of the UK model;
- > closer integration between the countries of the European Union;
- > a review of the Recovery Plan to ensure the relaunch of the country;
- > New Decree Law to support companies hit by Covid by adding €32 billion to the budget.

With regard to the UK, after 10 long and drawn-out months of negotiations, Great Britain and the European Union have finally reached an agreement on the future partnership agreement, deciding on an intricate scenario in relation to three key points: the UK's access to the single market, the dispute resolution mechanism and the regulation of North Sea fishing. The last aspect, in particular, was a complicating factor in the search for a compromise, which is now a precarious balance between London's demand for tariff-free and quota-free access to the single market and Europe's need to continue fishing in British waters; once this point had been resolved, the divorce proceedings that began on 23 June 2016 with the "Yes" referendum vote of the British people, after two general elections and three prime ministers (David Cameron, Theresa May and Boris Johnson) came to an end just days before the deadline, avoiding the leap in the dark that a "no deal" scenario would have entailed.

Despite the challenges that will continue in the next few months, the OECD's six-month outlook, published in early December, includes a higher dose of optimism than before, thanks to the support provided by advances in vaccines and treatments against Covid-19, which have improved expectations and reduced uncertainty. The document nevertheless provides for six to nine months of difficult coexistence with the virus, in which the complex situation of new waves of infection, involving the suspension of many economic activities, will have to be addressed. The outlook also emphasises the fundamental support provided by governments and central banks, which, thanks to numerous support measures, have helped to preserve the economic fabric and laid solid foundations for a rapid future recovery: the estimates for 2020, although better than in previous surveys, include a drop in global GDP of 4.2% (compared with -4.5% in September), followed by a rebound of 4.2% in 2021. But the economic recovery will not occur at a consistent pace throughout the world; regions such as Asia, where vaccinations will arrive earlier than in the rest of the world and where the test and trace system is particularly efficient, will reach pre-pandemic expansionary levels more rapidly. In the emerging markets, debt levels have risen as a result of the pandemic crisis to support the health system and the economic fabric, but are nevertheless still sustainable. The central banks' monetary policy of reducing benchmark rates – implemented in 2020 to support economies heavily impacted by disruption to businesses and restrictions on socialising – pushed interest rates to historically very low levels. In addition, the progressive weakening of the US dollar in 2020 has supported the economic recovery in the emerging countries, given that emerging market debt is expressed predominantly in USD. The recovery over the year was

particularly rapid in China thanks to its very efficient management of the pandemic and an earlier exit from the peak of the health crisis than the rest of the world. According to International Monetary Fund forecasts, China is also the only country with GDP in positive territory in 2020 (+1.9%), rebounding to +8.2% in 2021.

Economies such as Russia, Brazil, and Mexico, which are closely linked to trends in oil prices (as some of the world's biggest oil exporters), have suffered due to the collapse in commodity prices in 2020, hurt by weak demand as governments lifted lockdown measures and the suspension of economic activities to limit the spread of the virus.

THE FINANCIAL MARKETS

Bond markets	Change (bps)		Yield		
	YTD	Q4	31/12/2020	30/09/2020	31/12/2019
GOVERNMENT YIELDS					
United States					
2 years	(144.42)	(0.59)	0.12%	0.13%	1.57%
5 years	(130.28)	9.03	0.37%	0.28%	1.67%
10 years	(95.57)	23.91	0.92%	0.68%	1.88%
30 years	(67.41)	20.04	1.66%	1.46%	2.33%
Germany					
2 years	(9.80)	0.20	(0.70%)	(0.70%)	(0.60%)
5 years	(26.40)	(2.70)	(0.74%)	(0.71%)	(0.47%)
10 years	(38.40)	(4.70)	(0.57%)	(0.52%)	(0.19%)
30 years	(50.70)	(6.40)	(0.16%)	(0.09%)	0.35%
Italy					
2 years	(36.20)	(18.60)	(0.41%)	(0.22%)	(0.05%)
5 years	(68.90)	(27.10)	(0.01%)	0.26%	0.68%
10 years	(86.90)	(32.30)	0.54%	0.87%	1.41%
30 years	(104.70)	(33.60)	1.42%	1.75%	2.47%

Bond markets	Change (bps)		Yield		
	YTD	Q4	31/12/2020	30/09/2020	31/12/2019
SPREADS					
Italy - Germany					
2 years	(26.40)	(18.80)	0.29%	0.48%	0.55%
10 years	(48.49)	(27.66)	1.11%	1.39%	1.60%
Spain - Germany					
2 years	(13.64)	(11.57)	0.08%	0.19%	0.21%
10 years	(3.75)	(15.43)	0.62%	0.77%	0.65%

	Change (bps)		31/12/2020	Yield	
	YTD	Q4		30/09/2020	31/12/2019
Bond markets					
HY and EM					
High yield bonds					
BBG Barclays US Corporate High Yield Yield To Worst	(95.0)	(159.0)	4.18%	5.77%	5.13%
Emerging bonds					
J.P. Morgan EMBI Global Sovereign Yields	(45.50)	(50.30)	4.34%	4.84%	4.79%

The performance of the main bond markets was strongly influenced by the monetary policies implemented by central banks. The ECB (European Central Bank) has continued on its path of support for the economic cycle, with a highly accommodative policy ready to cope with the negative effects of Covid-19 on the economy by means of large purchases on the secondary market and the creation and implementation of the PEPP (Pandemic Emergency Purchase Programme).

In the US, however, the Federal Reserve undertook a significant interest rate cut of 150 basis points, with an unprecedented cut to the federal funds rate to 0.25%.

The largely accommodative stance of both institutions had obvious effects on their respective government securities: in the US, the yield on the 2-year curve decreased by 144 basis points, from a year-to-date return of 1.57% to 0.12% at the end of 2020; the medium/long end also saw a reduction in yields, albeit smaller than the short-end movement.

Yields also fell across the board in Europe, but by contrast with the US, the greatest impact was on the longest part of the curve, causing it to flatten. With regard to yield spreads within the eurozone, the peripheral countries all saw their spreads relative to Germany contracting on both the short and the long end. Specifically, Italy was the largest beneficiary country of the Recovery Fund programme launched by the European Union, prompting renewed interest from foreign investors in this market.

	% change		Level		
	YTD	Q4	31/12/2020	30/09/2020	31/12/2019
Equity markets					
World indices					
MSCI All Country World	14.34%	14.18%	645.29	565.15	564.38
MSCI World	14.14%	13.47%	2,686.06	2,367.27	2,353.25
US indices					
Dow Jones I.A.	6.84%	9.46%	30,409.56	27,781.70	28,462.14
S&P 500	15.86%	10.97%	3,732.04	3,363.00	3,221.29
Nasdaq Comp.	43.86%	15.25%	12,870.00	11,167.51	8,945.99
European indices					
STOXX Europe 600	(3.83%)	10.84%	400.25	361.09	416.17
EURO STOXX	(1.23%)	12.95%	399.59	353.77	404.55
FTSE MIB	(5.42%)	16.92%	22,232.90	19,015.27	23,506.37
DAX	3.55%	7.51%	13,718.78	12,760.73	13,249.01
CAC40	(6.40%)	16.57%	5,599.41	4,803.44	5,982.22
AEX	3.67%	14.67%	628.06	547.70	605.83
IBEX 35	(15.17%)	21.41%	8,154.40	6,716.60	9,612.60
SMI	0.82%	5.07%	10,703.51	10,187.00	10,616.94
FTSE 100	(13.59%)	11.76%	6,555.82	5,866.10	7,587.05
Asian indices					
NIKKEI 225	16.01%	18.37%	27,444.17	23,185.12	23,656.62
S&P/ASX 200	(1.80%)	14.90%	6,682.43	5,815.94	6,804.86
Hang Seng	(4.14%)	15.72%	27,147.11	23,459.05	28,319.39
Emerging market indices					
MSCI Emerging Markets	15.25%	19.13%	1,289.03	1,082.00	1,118.42

The performance of the global financial markets was positive in 2020. The US, Japanese and EM markets were positive, while the European indices were hit harder than the rest by the Covid-19 pandemic.

The equity indices were characterised by high levels of uncertainty and volatility last year. 2020 began with some concern in the equity markets, relating in particular to macroeconomic data pointing to a slowdown in the major regions, the ongoing trade tensions between China and the US and the ongoing Brexit discussions. In China, the epidemic was also already in the news. Although the US quarterly results had been better than expected, the equity markets were already in negative territory at the end of February. The pandemic announced by the WHO in March and subsequent lockdowns by almost all national governments resulted in a shutdown of global economic activity and a sudden and precipitous drop in the global markets. Later, in the middle of the year, the fiscal and monetary responses of governments and central banks, the reduction of infections and the partial reopening of activities helped markets to bounce back. The US Central Bank cut rates and launched unlimited quantitative easing while the ECB introduced a massive asset purchase programme. National governments also launched substantial tax packages to support businesses and individuals. However, in October, the second wave of the virus saw substantial declines across all

major markets. The successful testing of Covid-19 vaccines marked a turning point in early November, particularly for the equity markets, which achieved a very positive performance in the last two months of the year. In this last part of the year the emerging markets performed very strongly on the back of strong macro data, particularly in China, and the weakening US dollar.

Currency	% change		Level		
	YTD	Q4	31/12/2020	30/09/2020	31/12/2019
EUR USD	9.81%	4.92%	1.23	1.17	1.12
EUR GBP	5.69%	(0.50%)	0.90	0.91	0.85
EUR JPY	4.06%	2.64%	126.91	123.65	121.96

Overall currency trends were heavily impacted in 2020 by the common external shock to the financial markets of the global outbreak of the ongoing Covid-19 (coronavirus) pandemic. The response of the main global central banks and those of emerging countries was to implement, in conjunction with the major fiscal policies of governments to support the economy, highly expansionary monetary policies designed to reduce benchmark rates and/or expansions of the monetary stimulus policies (quantitative easing) in place.

In this context, the euro closed 2020 at approximately €1.23 against the US dollar, up by 9.8% versus the US currency year to date as at 30 December 2020. Compared with the fourth quarter of the previous year, the euro rose by 4.9% against the dollar. Over the past year, the single currency decreased from around €1.12 versus the dollar at the beginning of 2020 to touch a low of around €1.06 in March, before gradually recovering to around €1.12 at the end of the first half and €1.17 and €1.23 respectively at the end of the third and fourth quarters.

Although the outbreak of the global pandemic led the US dollar to become a safe haven currency and hence strengthen against the euro until the March lows, the highly expansionary monetary policies by the US Federal Reserve combined with the major fiscal efforts (Recovery Plan for all) implemented by the European Union in response to the economic crisis caused by the coronavirus were key factors in the strengthening of the euro over the next three quarters.

Important news on the high efficacy of vaccines in response to the virus, published in November, marked a significant improvement in financial market sentiment, supporting risk assets and increasing confidence in a stronger recovery in economic activities globally. This additional factor, combined with the increasingly accommodative stance of the Federal Reserve in terms of monetary policy, gave a further boost (+4.9%) during the last quarter of 2020 to the ongoing upward trend in the euro against the dollar, exacerbating the USD sell off on the markets and supporting inflows on assets in euro as the currency predominantly linked to the economic cycle.

The euro appreciated by 5.7% against the pound sterling between the start of 2020 and 30 December.

The first quarter of 2020 saw a very volatile pattern in the UK currency, which was initially positively influenced by the Brexit deal obtained on 31 January 2020 by the newly elected PM Boris Johnson, then very negatively (losing more than 10% against the euro) since the outbreak of the global crisis caused by the Covid-19 pandemic.

The EUR-GBP exchange rate followed the EUR-USD trend during the next three quarters, with the single currency steadily appreciating from approximately €0.88 at the end of March to €0.90 at the end of 2020. The market's caution towards the pound has certainly been linked to the slow progress of the negotiations on the UK-EU post-Brexit free trade agreement, reached *in extremis* in the last available week of 2020, right at the end of the transition period.

During 2020 the Bank of England (BoE), in line with the monetary policies of the major central banks in response to the global crisis, cut rates (from 0.75% to 0.10%) and increased the scope of its quantitative easing programme, always showing considerable caution with regard to monetary policy decisions, especially in the context of a last-minute agreement with Europe and uncertainty regarding domestic growth given the ongoing lockdowns across the UK.

The euro ended 2020 at €126.91 against the yen, having risen 4.1% in the year to 30 December.

With the Bank of Japan (BoJ) maintaining an ultra-expansionary monetary policy throughout 2020, the yen confirmed its status as a safe haven during the period under review, therefore appreciating against the euro in the first part of the year due to the spread of the coronavirus pandemic and then losing ground in situations of risk-on markets and rising investor confidence (for example in the fourth quarter of 2020, following the announcement that vaccines were highly effective against Covid-19).

During 2020, the euro exchange rate against the yen followed the trend of the euro against the dollar, climbing gradually from the lows of the year to approximately €114.50 in the first week of May, approximately €121 at the end of the first half and then approximately €124 and €127 respectively at the end of the third and fourth quarters.

Commodities	% change		Level		
	YTD	Q4	31/12/2020	30/09/2020	31/12/2019
Oil (Brent)	(24.16%)	24.32%	50.91	40.95	67.13
GOLD	25.03%	0.45%	1,894.39	1,885.82	1,515.16

Oil prices were very volatile in 2020, with Brent rising from \$67.1 at the start of 2020 to \$50.9 at the end of the year, reaching a low of \$17.3 at the end of April.

The sharply negative trend in oil prices in 2020 is closely linked to the global spread of the Covid-19 pandemic: in fact, the interruption of most production activities and the introduction by governments of social restrictions in order to contain the spread of the virus resulted in a collapse in demand and, consequently, of oil consumption.

Meanwhile, the gold spot price increased markedly in 2020, from €1,515.2 at 30 December 2019 to €1,894.4 at 30 December 2020. The ongoing pandemic had a major impact also in this case. Against a backdrop of profound fear and risk-off behaviour on the part of investors, gold provided a safe haven for investment flows.

Sectors (MSCI World AC)	% change		Level		
	YTD	Q4	31/12/2020	30/09/2020	31/12/2019
Info tech	44.55%	14.83%	454.00	395.35	314.07
Health care	12.90%	6.57%	316.58	297.07	280.40
Industrial	9.75%	15.40%	289.62	250.96	263.90
Material	18.77%	18.47%	329.97	278.53	277.83
Cons. Discr.	35.90%	14.58%	379.97	331.61	279.59
Financials	(6.39%)	23.09%	123.39	100.24	131.81
Cons. staples	5.78%	6.81%	267.95	250.86	253.31
Utilities	0.79%	9.19%	151.20	138.47	150.02
Real estate	(9.14%)	7.11%	1,024.83	956.80	1,127.96
Tel. services	21.55%	14.03%	100.22	87.89	82.45
Energy	(30.85%)	23.67%	145.49	117.64	210.40
VIX Index	53.64%	(13.7%)	22.77	26.37	14.82

At sector level, there were some disparities between performances in the various segments. The relevant performance trends reflected the evolution of the pandemic scenario: in the first three quarters of the year, securities in sectors more correlated with a scenario of reduced travel and remote working, such as information technology, telecommunication services and health care, were favoured. By contrast, in the latter part of the year there was a substantial recovery in stocks most correlated with recovering economic activities, supported by the global introduction of cyclical fiscal policies and positive news flow due to the arrival of a Covid-19 vaccine. In the last quarter, the stock market recovery was driven by industrial, commodity and financial stocks. In particular, the latter benefited from a particularly favourable rate dynamic, partly linked to an expected rise in inflation.

THE BANKING MARKET³

FINANCIAL ASSETS OF HOUSEHOLDS

The financial assets of Italian households were 0.9% higher in June 2020 than a year earlier, rising from €4,325 billion to €4,366 billion: deposits, life insurance and pension funds increased, while bonds, shares and equity investments and mutual fund units fell.

BANK DEPOSITS

According to initial estimates by SI-ABI, in November 2020, customer funding of all banks operating in Italy - represented by deposits of resident customers (current account deposits, term deposits net of deposits related to loan assignments, notice deposits and repurchase agreements; deposits are net of transactions with central counterparties) and bonds (net of those repurchased by banks) - amounted to €1,934 billion, up 6.0% year-on-year.

Specifically, resident customer deposits (current account deposits, term deposits net of deposits related to loan assignments, notice deposits and repurchase agreements net of transactions with central counterparties) had increased by 8.3% in November 2020, with an increase in absolute value on an annual basis of more than €109 billion, bringing the amount of deposits to €1,715 billion.

The annual change in bonds was negative at -9.3% (-8.6% in the previous month). Bonds amounted to around €219 billion. Deposit growth rates rose sharply in the main European countries; in Italy, the year-on-year change in business deposits was 28.0%, while household deposits grew by 6.6%. As the health crisis began, the trend of growth in bank deposits intensified in these countries. According to official ECB data, the trend in deposits accelerated particularly rapidly between late February and late October 2020: in France they increased from 7.4% year-on-year to 14.2%, in Germany from 3.3% to 6.3%, and in Italy from 6.9% to 9.6%; in the euro area as a whole, they rose from 4.6% to 8.7%.

The breakdown of the trend in deposits by holding sector (households and businesses) shows that the increase was mainly due to businesses. Specifically, in October 2020: in France, deposits of businesses grew by 27.6% year-on-year (+9.2% for households); in Germany, they grew by 14.7% (+5.9% for households); and in Italy, they grew by 28.0% (+6.6% for households). Lastly, for the euro area as a whole, business deposits increased by 19.7%, while household deposits increased by 7.2%.

Foreign deposits decreased in October 2020: in particular, deposits of banks operating in Italy amounted to approximately €315.5 billion, down 6% compared with a year earlier. Foreign deposits accounted for 12.2% of total funding (13.3% a year earlier). Net funding inflows from abroad between October 2019 and October 2020 were negative at around -€20.4 billion.

In October 2020, net foreign deposits (foreign deposits minus foreign loans) amounted to approximately €73.4 billion (-27.5%). They represented 4.1% of domestic lending (5.6% a year earlier), while foreign loans - on the same date - amounted to approximately €242 billion. The ratio of foreign loans/foreign deposits was 76.7% (72.8% a year earlier).

Interest rates on bank funding were essentially stable. According to the initial estimates of SI-ABI, the average rate on bank funding from customers (covering the return on deposits, bonds and repurchase agreements in euro applied to households and non-financial corporations) was 0.49% in November 2020 (0.50% in the previous month). The rate on deposits in euro applied to households and non-financial corporations was 0.32% (also 0.32% in the previous month), the rate for outstanding bonds was 1.93% (1.97% in October 2020) and the rate for repurchase agreements was 0.90% (0.90% in the previous month). Government bond yields fell. The Rendistato index reached a record low on the secondary market for government bonds. The Rendistato index, i.e. the yield on a basket of securities with a residual maturity of more than one year traded on the Italian electronic bond

³ Source: ABI MONTHLY OUTLOOK - December 2020 - Summary

and government securities market (Mercato Telematico delle Obbligazioni e dei Titoli di Stato or MOT) reached a record low of 0.32% in November 2020, 9 basis points lower than in the previous month and below the value of one year earlier (0.82%). In October 2020, the gross yield on the secondary market for CCTs (treasury credit certificates) was 0.16% (0.41% in the previous month; 0.33% in October 2019). The average yield on BTPs (long-term treasury bonds) was 0.84% (1.07% a year earlier). Finally, the annualised gross average yield on BOTs (treasury bills) increased in the period October 2019 – October 2020 from -0.27% to -0.46%.

BANK LENDING

On the basis of the initial estimates of SI-ABI, total bank lending to households and businesses was up in November 2020. Total loans to Italian residents (private sector plus general governments, net of repurchase agreements with central counterparties) stood at €1,721 billion in November 2020, marking an annual change of +3.5% (+2.7% the previous month), calculated including loans not recognised in bank balance sheets because they are securitised and net of changes in stocks not linked to transactions (for example, changes due to exchange rate fluctuations, value adjustments or reclassifications).

Loans to Italian residents in the private sector amounted to €1,462 billion, up by 4.4% compared with one year earlier. Loans to households and non-financial corporations amounted to €1,324 billion in the same month. According to estimates based on data published by the Bank of Italy, the annual change in loans to households and businesses calculated with the inclusion of loans not reported in bank balance sheets as they are securitised, and net of changes in amounts not related to transactions (e.g. changes due to exchange rate fluctuations, value adjustments or reclassifications) was +5.1%, an acceleration on the performance recorded in the previous month (+4.9%). In October 2020, loans to businesses had increased by 7.4% year-on-year; loans to households had increased by 2.1%. According to official Bank of Italy data, loans to non-financial corporations increased by +7.4% in October 2020 (+6.8% in the previous month, -5.9% in November 2013, the negative peak).

Total loans to households grew by +2.1% (also +2.1% in the previous month; -1.5% in November 2013). The trend in loans to households increased slightly compared to the previous month for the home purchase component (+2.1% annual change, +2.0% in the previous month), while the trend in consumer credit slowed (+0.2% YoY vs +0.8% in the previous month).

In the second quarter of 2020, the proportion of home purchases financed by mortgage loans more than recovered from the decline seen in the previous period (to 75.2% from 66.9%). The ratio of the amount of the loan (relating to the flow) to the value of the property was 76.8%. The breakdown of bank lending by branch of economic activity shows that in October 2020 manufacturing, mineral extraction and services accounted for around 58.6% of the total (manufacturing activity alone accounted for 27.3%). Loans for trading, accommodation and catering activities represented around 21.5% of the total, with the construction sector accounting for 10.3% and agriculture 5.3%. The remaining assets represented approximately 4.3%. According to the latest Bank Lending Survey of October 2020, “in the third quarter of 2020, the criteria for providing loans to enterprises remained unchanged, reflecting a substantial stability of the underlying factors. Meanwhile, the credit standards applied to loans to households for house purchase tightened moderately in line with a worsening general economic outlook and a decline in risk tolerance. Banks eased moderately their general terms and conditions for loans to enterprises, while those for household mortgages remained stable. For the current quarter, intermediaries expect offer policies to remain unchanged for businesses and to register new, more rigid content for households. The increase in demand for loans by enterprises continued, reflecting substantial liquidity needs due to the pandemic. Demand for household mortgages increased again as a result of the support resulting from the reduction in the general level of interest rates. In the current quarter, the banks expect a further, albeit more modest, increase in demand for funds on the part of enterprises. Household demand for loans is expected to remain essentially unchanged.”

Interest rates on the amount of loans to households and businesses and those on new loans to businesses decreased. According to SI-ABI reports, in June 2020 the rate on euro loans to households for home purchases – which summarises the trend of fixed and variable rates and is also influenced by the change in the breakdown of disbursements based on loan type – fell to 1.26%

(also 1.26% in the previous month; 5.72% at the end of 2007). 91.2% of total new loan disbursements were fixed-rate loans (90.3% in the previous month). The average rate on new euro loans to non-financial corporations decreased to 1.10% from 1.29% in the previous month (5.48% at the end of 2007). The weighted average rate on total loans to households and non-financial corporations was 2.25% (2.27% in the previous month; 6.16% at the end of 2007).

INTEREST RATE SPREADS

In November 2020, the difference between interest rates on loans and interest rates on deposits remained particularly low. The difference between the average lending rate and the average rate on deposits for households and non-financial corporations was 176 basis points in November 2020 (177 in the previous month). Before the financial crisis began, the spread was more than 300 points (335 bps at the end of 2007).

The spread on loans granted to enterprises by the banks in the main European countries (calculated as the difference between interest rates on new loans and a weighted average rate of new deposits of households and non-financial corporations) was 51 basis points (bps) in Italy in October 2020, compared with 160 basis points in Germany, 123 basis points in France and 183 basis points in Spain. For households, the spread was 49 basis points in Italy, compared with 143 basis points in Germany, 117 basis points in France and 190 basis points in Spain.

The difference between the average rate on interest-bearing assets denominated in euro of households and non-financial corporations and the average rate on customer deposits in euro (households and non-financial corporations) was 1.14 percentage points in Italy in November 2020 (also 1.14 percentage points in October). This difference is given by the average rate on interest-bearing assets of 1.63% and the average cost of customer deposits of 0.49%.

BAD BANK LOANS

Bad loans, net of write-downs and provisions already made by banks with their own resources, amounted to €24.5 billion in October 2020, down from €31.2 billion in October 2019 (-€6.7 billion, or -21.5%) and €38.2 billion in October 2018 (-€13.7 billion, or -35.9%). The reduction was more than €64 billion (or -72.4%) compared with the highest level of net bad loans reached in November 2015 (€88.8 billion).

The ratio of non-performing loans to total loans stood at 1.41% (compared with 1.79% in October 2019, 2.26% in October 2018 and 4.89% in November 2015).

SECURITIES PORTFOLIO

As at November 2020, the total securities held by banks operating in Italy amounted to €647 billion. Based on initial estimates by SI-ABI in November 2020, the total securities held by banks operating in Italy amounted to €646.6 billion, an increase on the previous month (€643.7 billion).

According to official Bank of Italy data, updated to October 2020, the value of government bonds on banks' balance sheets was €415 billion, corresponding to approximately 65% of all securities held.

HARMONISED INTEREST RATES IN ITALY AND THE EURO AREA

Interest rates on new business in Italy and the euro area increased in October 2020. The latest available data on interest rates applied in the euro area indicate that the rate on new banking capital of up to €1 million euro to non-financial corporations was 1.79% in October 2020 (1.77% in the previous month; 1.88% in October 2019), a value which compares with the 1.78% recorded in Italy (1.71% in the previous month; 1.86% in October 2019).

The rates applied to new loans of amounts in excess of €1 million to non-financial corporations were 1.28% on average in the

euro area (1.25% in the previous month; 1.20% a year earlier). This compares with 0.99% applied by Italian banks (0.96% in the previous month; 0.91% a year earlier).

Finally, in that same month, the rate on current accounts and revolving loans to households was 5.17% in the euro area (5.24% in the previous month; 5.70% a year earlier), and 3.56% in Italy (3.63% in the previous month; 4.24% a year earlier).

THE INSURANCE MARKET

LIFE PREMIUMS⁴

In December, new individual Life insurance business collected in Italy by Italian companies and representation offices of non-EU companies, including additional single premiums, was €7.9 billion, slightly lower than in the previous two months but 2.5% higher than in the same month of 2019. In 2020, new life premiums written thus reached €79.6 billion, down by 7.8%, confirming the trend in recent months of a progressively smaller annual contraction, (the sharpest fall of almost 20% came at the end of May). In the full year, 30% of companies, representing 32% of the market in terms of premiums, recorded higher premium income than in the same period of 2019, and 45% of companies (with a 61% share of total premiums) recorded a better performance than the average of all Italian and non-EU companies (-7.8%). Taking into account the new Life premiums of the sample of representation offices of EU companies, amounting to €1.2 billion, which is significantly higher (+16.7%) than in the same month of 2019, overall new Life business came in at €9.1 billion in December (+4.2%) and reached €91.1 billion since the start of the year, down 8.6% compared with 2019.

With regard to Italian and non-EU companies, volumes of new Class I premiums relating to individual policies amounted to €5.0 billion in December (64% of total new Life business), down on the two previous months but flat compared with the same month of 2019 (-0.2%); 40% of this amount derived from new premiums invested in these new premiums were invested in separately managed accounts of multi-class products (policies combining one Class I and one Class III component), which rose by 6.7%. In the period from January, Class I premiums reached €54 billion, 11.8% less than in 2019, when the class registered an increase of 12.8%. New premium income from Class V policies continued to decline (-43.5% compared with December 2019) to €103 million, which, when added to the previous months, stood at €984 million in 2020, a year-on-year decrease of 25.7%.

The remainder of new Life business, amounting to more than one-third of the total written in December, related to Class III (in the exclusive form of unit-linked products) and amounted to €2.7 billion, in line with the previous two months and up compared with the same month of 2019 (+11.9%); of this amount, 46% derived from new multi-class policy premiums invested in unit-linked funds, up 13.1%. For the full year, premium income for Class III new business was €24.5 billion, consolidating an increase of 3.4% on the same period of 2019, when a contraction of 11.3% was recorded.

Long-term health policies (Class IV), an increase in the volume of new premiums was recorded in December, for the fourth consecutive month, compared with the same month of 2019 (+19.8%). Added to the premium income for previous months, this amounted to €38 million in 2020, an annual increase of 7.1%. New contributions relating to the management of open-ended pension funds decreased again in November (-24.4% year on year) after the positive change in the previous month, coming in at €14 million. From January, inflows reached €97 million, down 10.2% compared with the same period in 2019.

In 2020, the number of new policies/enrolments totalled €2.8 million, down by 14.1% compared with the same period of 2019.

With regard to the various types of products marketed, in December the new premiums/contributions relating to individual pension schemes, after decreasing in the previous month, increased by 5.6% compared with the same month of 2019, bringing premiums collected during the year to €1.4 billion, an annual decrease of 7.2%. Just 9% of this amount concerns new premiums/contributions relating to the management of open-ended pension funds (Class VI), with individual pension plans (IPPs)

⁴ Source: ANIA TRENDS New Life Business - December 2020

accounting for the remainder. Of these IPPs, 44% were subscribed through multi-class products, down by 8.5%.

New premiums relating to forms of pure risk were also up compared with the same month of 2019 (+10.7%), reaching €714 million in 2020, 14.0% less than in the same period of 2019. Of this amount, 36% consisted of policies not combined with mortgages or consumer credit, which were also down (-8.1%).

New premiums for multi-class products, excluding social security products and Individual Savings Plans (Piani Individuali di Risparmio or PIR), came in at €3.2 billion, representing a decrease compared with the previous two months but once again an increase compared with the same period of 2019 (+9.1%). Also taking into account new business in previous months, these products amounted to €33.2 billion in 2020, or 42% of all new Life business, a decrease of 4.0% year on year. The breakdown shows that the cumulative premium income from multi-class products constitutes 66% of Class I premiums and 34% of Class III premiums, while that of single-class products made up 71% of Class I premiums. Moreover, Class III premiums collected through multi-class products from January represented 47% of total new Class III premiums, while Class I premiums collected through multi-class products accounted for only 40% of total new business for this class in the period.

New premiums on PIR contracts, mostly brokered through the bank and post office branches of a small number of companies, amounted to €9 million, less than half the figure recorded in the same month of 2019. Over the full year, premium volumes amounted to €166 million (just 0.2% of total new business), down by 4.7% year on year; 14% of this amount was contracted through multi-class products, with collection more than halved.

With regard to Italian and non-EU companies, year-to-date single-premium policies continued to constitute the most popular option among policyholders in 2019, accounting for 95% of total premiums and 62% of the number of policies; from the beginning of the year, the average amount of single premiums was around €43,150, while annual and recurring premiums averaged €950 and €6,450, respectively.

In 2020, most new business derived from collection through banking, postal and financial networks, which accounted for 82% of the new premiums written, one percentage point lower than the figure for 2019. The breakdown of premiums by channel and premium type also shows that these networks almost exclusively placed single premium products, while the agency networks also collected a significant proportion of periodic premium products.

NON-LIFE PREMIUMS⁵

At the end of the third quarter of 2020, total premiums (Italian companies and representation offices) of the Italian direct portfolio in the Non-Life insurance sector declined by 2.8% compared with the end of the third quarter of 2019 and the volume collected amounted to €26.5 billion, continuing the downward trend that began abruptly in March (-7%) due to the emergency situation related to the spread of the Covid-19 virus in Italy, which seriously affected the sales processes and transactions of insurance companies. Although the decline in premium income decelerated in June, July and August, the contraction in September alone was over 5%, reaching the levels seen in the months just before the most critical period for our sector. The decrease in total Non-Life insurance premiums recorded at the end of the third quarter of 2020 was due in particular to the sharp fall in the Motor sector (-4.3%). Specifically, the Motor class reported a 5.0% reduction in premiums, concentrated in April 2020 (around -20%). Premiums in the Land Vehicles class, which grew by almost 5% at the end of the third quarter of 2019, also contracted strongly during the lockdown period, decreasing by 1.2% at the end of September 2020 due to a recovery that began in June. The other Non-Life classes also contracted.

In the case of all Italian companies and representation offices of EU and non-EU companies, it should be noted that at the end of the third quarter of 2020 premiums were still down (-2.8%) after the decrease already seen at the end of the second quarter (-3.7%); this was largely due to the effects of the emergency situation related to the spread of the Covid-19 virus. In fact, in March alone, as a result of the lockdown imposed to combat the spread of the pandemic, Non-Life premiums fell by 7%. However,

⁵ Source: ANIA TRENDS Quarterly Non-Life Premiums - Q3 2020 data

the largest decline was seen in April (-16%), with a more moderate decrease in May (-4.8%). In June the crisis situation appeared to be partially over and there was a much smaller contraction of 1% in this month, which was then confirmed by the trend in premiums in July and August. In September, however, premiums fell again by more than 5%, which was in line with the trend in May immediately following the lockdown phase.

The decline in total Non-Life premiums at the end of the first quarter of 2020 was due to:

- > a sharp decrease in the Motor sector, with premiums falling by 4.3%;
- > a smaller decrease in the other Non-Life classes, where premiums fell by 1.4% (the sector was up 2.7% at the end of the first quarter of 2020 but was already down 1.7% at the end of the first half of 2020).

More specifically, in the Motor class there was a contraction in Motor TPL premiums at the end of September 2020 (€9.7 billion) of 5.0% (compared with -0.6% at the end of December 2019). Meanwhile, the premiums for the Land Vehicles class (i.e. fire/theft guarantees, vehicle claims), with approximately €2.4 billion in premium income at the end of September 2020, was down 1.2% and partially recovered from the sharp deceleration during lockdown, which had resulted in premiums falling by more than 27% in April alone. The other Non-Life classes, although they were adversely affected by the results for April alone (-10.8% year-on-year), registered a much smaller decline in premium income of -1.4% at the end of the third quarter of 2020. The classes that in any case recorded premium growth were as follows: Assistance (+1.0%), Fire (+1.3%), Aircraft TPL (+1.9%), Other Damage to Property (+2.1%), Legal Protection (+7.7%), Aircraft (+22.8%), Watercraft TPL (+24.5%), Watercraft (+28.1%) and Rail Vehicles (+35.0%). Accident (-2.8%), Sickness (-5.2%), Goods in Transit (-7.7%) and Miscellaneous Financial Loss (-25%) showed negative and higher than average rates.

The representation offices of companies with their registered offices in European countries booked premiums of €3.1 billion, down 3.2% on the same period in 2019. The percentage weight of premiums booked by representation offices of European companies was around 12% of the total: specifically, they constituted 5% of the Motor class and just over 17% of the other Non-Life classes. At the level of Italian and non-EU companies, the main form of intermediation in terms of market share was again the agency channel (74.3%), slightly up compared with the end of the third quarter of 2019 (74.1%). Brokers represent the second-largest distribution channel for Non-Life premiums with a share of 8.7%. It should be noted, however, that the market share of brokers is underestimated, as it does not take into account a substantial part of the premiums (estimated for total Non-Life insurance at 20.9 percentage points in 2019) that these brokers collect but submit to agencies and not directly to companies. Banks, with a market share of 7.3% (7.9% at the end of September 2019), despite a slight decrease, probably due to the lockdown period, are still a strongly growing distribution channel.

With regard to the representation offices of EU companies, the main distribution channels were agents and brokers with market shares of 44.3% and 46.9%, respectively. Banks are the third-largest sales channel, with a share of 6.3% (3.8% in the Motor sector and 6.9% in the other classes). The share of direct sales was 1.8% overall, decreasing mainly due to changes in the scope of companies operating in this area.

TREASURY MANAGEMENT

The overall net amount of investment in debt securities at the end of 2020 was €13,304 million, up €949 million from €12,355 million at the end of 2019.

The total re-investment of securities maturing over the year along with the market opportunity captured when the health care crisis exploded and the resulting rise in yields are the reasons for the increase in the stock.

Banca Mediolanum

€/m	31/12/2020	31/12/2019	Change
Financial assets held for trading - Debt securities	102	130	(28)
Financial assets at fair value through other comprehensive income - Debt securities	493	887	(394)
Financial assets measured at amortised cost - Debt securities	12,709	11,338	1,371
Total	13,304	12,355	949

The following guidelines were taken into account for new investments made in 2020: 1) concentration on Italian government securities; 2) short residual maturity for fixed-coupon securities; 3) prevalence of the purchase of fixed-rate securities; 4) classification of all purchases in the HTC portfolio.

Purchases made during the period of high market volatility, together with the planning of projected investments, resulted in a particularly attractive average return on purchases. The HTC (Held to Collect) portfolio, valued at amortised cost, grew by €1,371 million due to the classification of all 2020 purchases in the same portfolio. Consequently, renewals of maturities in the HTCS portfolio were allocated to the HTC portfolio, which increased from €11,338 million at the end of 2019 to €12,709 million at the end of 2020.

The amount of the HTCS (Held to Collect and Sell) portfolio, measured at fair value to other comprehensive income, decreased by €394 million since, as it is no longer considered the preferred portfolio for the classification of investment financial instruments, all purchases were placed in the HTC strategic portfolio, excluding securities purchased to replace guarantees given to settlement entities, which were classified to the same maturity portfolio. As a result, the stock decreased to €493 million at the end of 2020, from €887 million euros at the end of 2019.

The valuation reserve recognised in the financial statements was €10.8 million (before tax), compared with €44.9 million at the end of 2019.

The trading books, measured at fair value through profit or loss (financial assets held for trading and financial liabilities held for trading) show a net balance of €102 million, down slightly from €130 million at the end of 2019.

Overall, government securities made up 99.1% of total owned portfolios, almost flat compared with 99.2% at the end of 2019. The remainder was divided between ABSs and financials. The breakdown of portfolios by rate type is 41.6% variable and 58.4% fixed. All investment instruments are denominated in euro with no exposure to currency risk.

The average portfolio duration, which was 0.93 compared with 1.10 at the end of 2019, remained consistent with the group's traditionally low risk profile.

€/m	31/12/2020	31/12/2019	Change
Net interest income	207.3	216.2	(8.9)
Net gains (losses) from trading	6.3	6.2	0.1
Net gains (losses) from hedging	(2.6)	(3.4)	0.8
Net gains (losses) on the sale of financial assets	(0.1)	(0.1)	-
Total	210.9	218.9	(8.0)

Net financial income increased from €218.9 million in 2019 to €210.9 million at the end of 2020 (-€8.0 million), while net interest income decreased from €216.2 million at the end of 2019 to €207.3 million at the end of 2020 (-€8.9 million).

Banco Mediolanum

€/m	31/12/2019	31/12/2018	Change
Financial assets measured at amortised cost (HTC securities)	1,648.5	1,137.8	510.7
Financial assets at fair value through other comprehensive income	244.3	310.1	(65.8)
Total	1,892.8	1,447.9	444.9

With regard to Banco Mediolanum's treasury management, the total amount of investment in securities at the end of 2020 was €1,892.8 million, an increase of €444.9 million compared with the end of 2019 (€1,447.9 million).

Net interest income increased from €10.4 million at the end of 2019 to €16.9 million at the end of 2020 (+€6.5 million). The change was due to the increase in retail loans, the reduction in the cost of funding and the increase in the treasury portfolio, which allowed for further expansion of funding collateralised at negative rates.

NEW PRODUCTS AND MAIN INITIATIVES DURING THE YEAR

Research and development is primarily aimed at seeking new products to offer to customers in order to meet their needs and to ensure the development of the bank's business in line with its mission.

The year 2020 was characterised by the coronavirus pandemic: the drama of this event, the uncertainty caused by an unknown phenomenon and the resulting need for social distancing highlighted the founding values and principles of operation on which the existence and validity of the Banca Mediolanum model is based, built to offer every customer products and services that meet their needs in a simple and easily accessible way.

The central role of customer relations and the assumption of responsibility, from the top to any operator in the banking system, have enabled us to mitigate the impact of the crisis as far as possible and have made tangible and cemented the value and usefulness of our Family Bankers, who were able to reach their customers immediately, through the technology made available by the company, in complete safety and without interruption.

The information/training commitment made to help customers understand the complex, congested and hyper-reactive dynamics of the capital market during lockdown has given them awareness and confidence in the advice provided and in the strategies envisaged in line with the principle "Banca Mediolanum does not simply sell products: it offers solutions": this principle enables us to operate in the various business areas of financial services with the expertise and flexibility necessary to respond better to constant economic, taxation, financial and regulatory changes.

All this has resulted in an increase, year by year, in the main indicators that make Banca Mediolanum's activity so distinctive: administered deposits, managed deposits, collection of protection premiums, the credit granted and the adoption of electronic money instruments.

Banking Area

Banking, E-money and Payment Services sector

Turning to creditor rates offered on time deposit and current account balances, despite the continuing record low levels of the main market reference rates and the severe market instability and volatility, Banca Mediolanum pursued the strategy launched at the beginning of the year, aimed at acquiring new customers and assets with a promotional rate equal to 2% per annum gross on current account time deposits lasting six months, involving new cash contributions.

With the objective of encouraging customers to diversify between assets under administration and management, the Bank continued its credit rate offer for the Double Chance Service, which is well suited to gradual investment in the markets, exploiting their fluctuations, for both equities and bonds.

In September, as part of our focus on technology and innovation, which are the tools and foundational values of the Banca Mediolanum model, the new Instant Transfer service, a secure and fast service for receiving and transferring money in real time, to and from all participating banks, 24 hours a day and seven days a week, directly from home banking and the mobile app, was made available to all customers. At the same time, a promotional initiative has been launched to provide the service free of charge until 31 December 2020.

During the year, commercial initiatives were implemented and pursued with the aim of expanding the Conto Mediolanum offer for new and existing customers through prize competitions and co-marketing activities.

Particular attention is also paid to innovation in the E-money and Payment Services sectors. The new Easy Shopping and

Spending Control services, the option of applying for a credit card by mobile on APP and the blocking/unblocking of credit cards, an additional very important function combining security and ease of use, again via APP, were introduced in January.

The bank has also launched commercial initiatives, promotions and educational events on all the digital communication channels to support and stimulate the payment card business. These policies are designed to boost both credit card penetration of the customer base and stimulate spending behaviour by offering solutions in line with the health emergency “momentum”.

There have therefore been numerous commercial initiatives and promotions spanning the entire year. Among the most significant are the “Oro per Te” (Gold for You) prize offer that gave away a Samsung Galaxy A20 smartphone to new Mediolanum American Express Gold Card subscribers with a minimum spending threshold, and the acquisition promo in collaboration with NEXI, in which customers competed for 5 Bianchi e-bikes each month from July to December.

In addition to these activities, new initiatives were launched in April, in collaboration with Nexi, to support small businesses during the contingency period and to aid them in a rapid, decisive resumption of their business activity.

To support merchants that had already been issued a point of sale (POS) terminal, the bank launched its Pay by Link service (which allows customers to make digital e-commerce payments using a physical POS terminal) and the reimbursement of micropayment commissions – services that are part of the Italian government's Digital Solidarity Programme.

For new small business merchants and self-employed professionals, the new Welcome and Start offers were launched to respond with clear, simple turnkey solutions to the measures contained in the Budget Law and Tax Decree and to encourage the use of cashless payment methods.

Banca Mediolanum is increasingly pursuing innovation and sustainability objectives, consisting of the constant search for new solutions that can bring added value for customers and help to protect the environment and the community. With this in mind, the new Mediolanum debit card in Poly Lactic Acid (PLA) was launched on the market in the last quarter of the year. PLA is a sustainable material that allows the use of plastic to be reduced by more than 84% and lasts as long as the traditional cards in circulation. The PLA in the core of the new debit card is a material entirely derived from non-food maize, thus reducing the use of fossil-based plastics normally utilised. The use of this innovative and environmentally sustainable material made it possible to create an exclusive product, including in terms of its design, which has been updated to make the Mediolanum Card even more immediately recognisable. In terms of graphics, the PLA identifier logo was inserted, the card data was placed on the back of the card to facilitate e-commerce transactions, and a single colour was used, including on the edge of the card, to make it more easily recognisable.

The new payment and benefits services company Flowe - SB was launched on the market on 16 June 2020. The first seven months of the Group Company's activities were exceptional in terms of brand awareness; the result in terms of customers acquired was significantly higher than expected, reaching a record level of more than 668,000, mostly achieved in November and December.

Underpinning this commercial success is both the greater spontaneous recognition of the brand (10.2%) and the effectiveness of the “member get member” system. This system involved more than 550,000 customers thanks to its simple and innovative mechanism.

Spontaneous recognition of the brand also increased due to:

- > communication initiatives on its digital channels (Instagram, LinkedIn and Facebook);
- > support during Planet Week (21-27 September 2020) for the Plasticfree charity, through both a digital campaign on its own channels and through the engagement of influencers known as “The Show” who supported Flowe and the initiative throughout the week with around 4,000 new customers acquired through the associated promo code;
- > the creation of the first digital entertainment event, designed and produced with the collaboration and support of Doom and Mastercard to create a live format broadcast on 18 October with a talk show about entrepreneurship that saw Ludovica

Comello interviewing well-known influencers in the field of music and gaming and videoyoutubers, followed by a live music event with Marrakesh and Madame. The event was viewed by 77,000 people on YouTube. There were around 30,900 visits to Flowe's Instagram account and around 5.5 million people were reached by ads.

- > the online advertising campaign created and produced by influencer Luis Sal.

Credit Area

In view of the Covid emergency, which occurred at the end of the first quarter, the Bank assisted its customers through initiatives and actions in accordance with the government decrees that provided for the disbursement of the loans covered by the "Liquidity Decree", intended for the self-employed, sole traders and businesses, as well as the advance facility for the redundancy fund. Alongside government initiatives and membership of the ABI moratorium, Banca Mediolanum introduced its own measures, including mortgage and loan instalment holidays, the proposal of a loans list with favourable pricing for customers with the same guarantees and the option of benefiting from a grace period on all secured loans.

In the second half of the year, Banca Mediolanum continued to support the government policies, taking account of all the extensions of the above initiatives and adding in October three loans for customers needing to renovate property benefiting from the tax deductions introduced in the May Relaunch and the option of transferring the tax credit.

Two types of loans are offered to customers who carry out work with a tax deduction of 110% over five years and to customers who carry out work with a tax deduction of 50%, 65% and 90% over ten years. The third is dedicated to wealthy clients who carry out work with no tax deduction.

As it has done for years, Banca Mediolanum again took practical action in 2020 by suspending mortgage and loan repayments and applying favourable conditions to new loans for customers affected by particular weather disasters and earthquakes.

During 2020, strategic positioning initiatives were confirmed and launched in the area of mortgage product development, with the macro-objective of supporting overall disbursement levels.

Specifically, the Smart+ 30K Campaign, aimed at pre-selected customers with assets of between €30,000 and €100,000, offering them better pricing than the standard terms, was extended.

In order to offer customers a valid alternative to the fixed rate, two initiatives were launched: the first extends the discount on the overspread of capped variable-rate mortgages, and the second, introduced in October, allows customers to access mixed-rate mortgages for an initial period of 10 years (the customer can choose to start with a variable- or fixed-rate mortgage and at the end of the period can choose the type of rate to combine for the remaining 10 years), in addition to the existing periods of three and five years.

In order to promote initiatives to help Banca Mediolanum's customers during the health emergency, a promotion was launched in July providing a grace period of six months, with the aim of easing financial commitments in the first few months of the loan, to make it easier to cope with the full amortisation phase, in anticipation of a more relaxed macroeconomic situation.

In addition, in order to reward the professional category that battled on the front line during Covid-19, a dedicated promotion for doctors and paramedics was created in August with a spread discount of 0.20%.

In the area of loans, meanwhile, particular attention was paid to the speed of disbursement in view of customer need.

This was done through a Pre-Approved Secured Loan Campaign, aimed at a pre-selected customer target and with dedicated pricing, and through the promotion of the Instant Credit service through limited-time initiatives relating to the spread applied, during particular events or holidays.

The features of the latter product - which is seen as strategic as it is fully digital and therefore a strong support during periods of social distancing - were increased in the second half of the year in order to simplify the loan application process.

Investment services

While the Bank remained very close to its customers in 2020, the offering of new asset management solutions was also very rich and able to capitalise on the challenges offered by the changed environment and by the continuous evolution of the reference market, bringing value-added solutions, such as the adaptation of PIR solutions to the changed regulations in order to reaffirm not only confidence in the tool but also of the relevant market; sustainability was also a focus, and this was reflected in the evolution of the offer. At the same time, Banca Mediolanum not only provided its customers with product solutions, but also innovative savings/accumulation methods, such as the Intelligent Accumulation Plan and an increased rate for the “Double Chance Investment Plan” investment method (after the spread of Covid-19).

All of this is always part of a wider design prioritising not only diversification, but also the stock market as the way to build and achieve the most important life goals for customers, for which a long-term horizon and a gradual approach are essential.

Asset Management Area

In Asset Management, it should be recalled that, for the funds Mediolanum Flessibile Futuro Italia and Mediolanum Flessibile Sviluppo Italia, which are included among investments intended for the establishment of individual long-term savings plans (PIRs), the Management Company decided to adapt the investment policy to the new restrictions laid down in Decree-Law No. 124 of 26 October 2019 (the 2020 Tax Decree), converted with amendments by Law No. 157 of 19 December 2019, which must be complied with in order to benefit from the tax relief.

Following the above amendments, the two PIR Funds then became available for subscription again on 29 January 2020.

It should also be noted that the amendments to the Consolidated Simplified Management Regulations for funds belonging to the Sistema Mediolanum Fondi Italia entered into force on 1 April 2020 and the Consolidated Simplified Management Regulations for the funds, Part I, and the KIIDs of the funds affected by the amendments were therefore updated.

As of the end of the second quarter of 2020, the Global Demographic Opportunities sub-fund of the Mediolanum Best Brands fund, a global equities strategy, was launched with the aim of capturing the new trends in consumption and the demographic changes we are seeing. From the end of October 2020, this sub-fund will be joined by the Global Impact sub-fund, which aims to provide, through a global equities strategy, strong returns for customers by selecting companies able to generate a positive social and environmental impact, in order to capture all the opportunities of the new world ahead of us. The fund invests in four themes: social integration and access to education, environment and resources needs, health care and quality of life and access to basic survival needs, at the “base of the pyramid”. Mention should also be made of the introduction of the new Intelligent Accumulation Plan service on the Challenge and Best Brands funds, which capitalises on the advantages of the “Dollar Cost Average” through an automatic mechanism that doubles the payment in times of market decline.

In addition, from 24 November 2020, distribution began of the Mediolanum Flessibile Futuro Sostenibile fund deriving from the transformation of Mediolanum Flessibile Globale. It is a flexible fund with predominant equities exposure and a focus on environmental issues. Stock selection is based on an ESG approach with a particular focus on the levels of polluting gas emissions of the underlying companies. Geographically, it mostly focuses on developed countries. The fund could also be subscribed through the Double Chance service.

The funds offer for Mediolanum My Style asset management was extended at the end of the second quarter of 2020 with the addition of eight new UCIs of existing management companies, including the new MBB Global Demographic Opportunities fund. In the third quarter, meanwhile, the new MBB Global Impact sub-fund and nine other UCIs were added, including three from new management company Candriam, and, as part of the periodic assessment of the financial instruments that make up the

“Top Selection” Family, the Bank decided to make five UCIs no longer available for new subscriptions.

The term of the Mediolanum Real Estate fund was extended until 31 December 2024.

As regards the Case Terze funds, on 28 August 2020 a statement was published on the website of H2O Asset Management to the effect that the French financial markets authority had asked the company to provisionally suspend, as of that date, all new subscription and redemption applications for funds whose strategy was significantly exposed to illiquid assets for an estimated period of four weeks. For its offer of “Third-Party Products for Placement”, in accordance with the instructions received from the company, Banca Mediolanum therefore ordered the temporary suspension of the placement of the above funds as of 28 August 2020, while from 13 October 2020 it reopened the H2O fund redemptions previously suspended.

Insurance Area (Life)

Mediolanum Personal PIR life investment policy

With effect from 13 February 2020, Mediolanum Vita S.p.A. once again made the Mediolanum Personal PIR policy available for placement by the Distributor, Banca Mediolanum, as it complied with the new investment constraints established in Article 13 of Decree-Law No. 124 of 26 October 2019 (the 2020 Tax Decree), converted with amendments into Law No. 157 of 19 December 2019. The Regulations for the “Flexible Dynamic” and “Flexible Balanced” internal funds were thus amended to reflect the adoption of the new investment restrictions established by the 2020 Tax Decree. Furthermore, the possibility of using derivative instruments for hedging purposes was introduced, due to a favourable opinion by the Italian Revenue Agency in response to the request for a ruling presented by the Company. With regard to third-party firm funds available within the insurance product, it was determined that more than half of the funds have complied with the new provisions. The Management Mandate for the PIR equity portfolios given to Mediolanum Gestione Fondi is also being revised in the light of the new legislation, amending the existing limits so that they are consistent with the new provisions of law and new regulations.

Accordingly, new individual savings plans (PIRs) established with effect from the date indicated above may benefit from the tax relief.

As a result of the above, it should be noted that the new investment restrictions indicated above also apply to Policyholders who signed their policies before the period of suspension of placement. They may in any event continue to benefit from the tax relief applicable to individual savings plans on any additional contributions, in accordance with the amounts established by the reference legislation.

Mediolanum My Life policies

With effect from 30 June 2020, as part of the periodic monitoring activity carried out by Mediolanum Vita S.p.A., the range of funds that can be combined with the above policies was expanded by adding eight new UCIs of already included management companies). In October, eight new UCIs of companies already in the offer and three UCIs of the new management company, Candriam, were launched, while oversight and monitoring activities were carried out in October/December 2020.

Mediolanum Intelligent Life Plan policy

During 2020, Mediolanum Vita, always attentive to the needs of its customers, laid the foundations to support its current offer of investment insurance products, starting in mid-January 2021, with a new product combining returns and security, i.e. enhancing capital by investing efficiently in global financial markets, as well as building peace of mind for the future by protecting the sums invested in the event of a generational transfer of assets. The new product, which is a unit-linked policy, can be subscribed in the form of a CIP (Capital Investment Plan) or a planned CIP or by activating an accumulation plan. It will consist of three internal funds and will permit subscription to the Intelligent Investment Strategy and Double Chance services.

Investment Products in Combination with Banking Products Area

Mediolanum Medplus Certificate

The certificates continued to be marketed in the second half of 2020, placing only structures issued by major banks with various payoffs (coupon, express or cash collect) and terms (4 and 6 years). In total, 23 new tranches were issued in 2020.

Double Chance offer

In January 2020 and the second quarter (following the outbreak of Covid-19), a gross annual rate of 2% was offered for Double Chance 3/6/12 months in equities (instead of 1.25%). Since June 8, customers have also been able to activate the "Double Chance Investment Plan" on the MBB and Challenge funds with two new value dates: the 3rd and 17th of the month, in addition to the previous available debit dates: the 8th and 28th of the month. On 1 September 2020, a promotion was launched at a rate of 1.50% for Double Chance 24 months in equities, valid until 11 January 2021.

Protection Area

The health situation arising from the spread of the Covid-19 virus, which characterised the first quarter and continued over the following months, introduced new scenarios in terms of market sensitivity to the need for protection, both for individuals and their families, and for companies, with regard to their businesses and their employees. In this context, Banca Mediolanum continued to promote the importance of comprehensive and timely asset planning, based on the protection of individuals, their most precious assets (family and home) and the stability of their assets.

The Protection promotion was primarily focused on distributing stand-alone policies, without neglecting those that can be combined with loans.

A new policy, Mediolanum Capitale Sorriso di Mediolanum Assicurazioni S.p.A., was included as one of the stand-alone products. This policy is designed to provide extensive coverage for the reimbursement of dental expenses incurred by customers and their families. Moreover, in response to the growing health emergency, the Group's insurance companies have reassured customers through their websites that the assistance services offered by the products taken out are fully operational and that the cover offered also applies to illnesses related to the ongoing health emergency.

With regard to the products that can be combined with Banca Mediolanum's loans, the insurable capital was increased to €400,000, without the customer having to carry out a medical examination, but simply completing the health questionnaire for the Mediolanum Life Protection TCM of Mediolanum Vita S.p.A.

In addition to the provision to customers of gifts and benefits through the usual marketing campaigns, numerous promotions were dedicated to personal and home insurance products. These include the option for the Bank's best customers, who already own at least two protection products or who have taken one out during the promotion period, to take a free Covid-19 blood test at the facilities of the participating network. Other initiatives related to customers with loans with Banca Mediolanum who took out home insurance: customers taking out new loans were offered the first three months of the premium free and those who took out the MediolanumEco+ Loan or transferred to Banca Mediolanum the tax credit accrued for Superbonus 110%, Ecobonus or other building bonuses, did not have to pay premiums for the entire first year.

To complete the overview of the activities carried out in the area of Protection, the fundraising of the non-profit Fondazione Mediolanum for the Arca Project should also be mentioned. €50 was donated for each Mediolanum Capitale Casa policy subscribed, in order to supply a kit of products for children every month for a year, with the aim of protecting 1,000 children from

poverty in Italy.

OPERATING PERFORMANCE

NET INFLOWS AND ASSETS UNDER ADMINISTRATION AND MANAGEMENT

Net inflows

€/m	31/12/2020	31/12/2019	Chge %
ITALY			
Fund and unit-linked products	2,966.6	2,000.1	48.3%
of which directly in funds	890.5	(7.1)	n.s.
of which "My Life" unit-linked	1,465.7	984.2	48.9%
of which other unit-linked	610.4	1,023.0	(40.3%)
Other insurance products - Life	40.1	24.8	61.9%
Total managed	3,006.7	2,024.9	48.5%
Third-party structured notes	419.4	494.7	(15.2%)
Total managed + Structured notes	3,426.1	2,519.5	36.0%
Total administered	3,211.9	946.0	n.s.
"Freedom" Life policies	-	(33.1)	n.s.
Total administered including Freedom	3,211.9	912.8	n.s.
BANCA MEDIOLANUM	6,638.0	3,432.4	93.4%
SPAIN	1,106.7	607.0	82.3%
GERMANY	(27.8)	24.5	n.s.
TOTAL FOREIGN MARKET	1,078.9	631.5	70.9%
TOTAL NET INFLOWS	7,716.9	4,063.9	89.9%

Total net inflows amounted to €7,716.9 million at 31 December 2020, a substantial increase on the comparative period (31.12.2019: €4,063.9 million).

In particular, net inflows on the domestic market were a positive €6,638.0 million, compared with the figure of €3,432.4 million recorded at 31 December 2019.

More specifically, net inflows in mutual funds, through both direct investments and investments in unit-linked policies, amounted to €2,966.6 million, up by 48.3% compared with 2019 (31.12.2019: +€2,000.1 million).

Assets under administration strongly increased compared with the comparative period, to €3,211.9 million from €946.0 million at 31 December 2019.

Foreign market net inflows also increased (+70.9%) compared with the previous year, to €1,078.9 million (31.12.2019: €631.5 million).

Assets under administration and management

€/m	31/12/2020	31/12/2019	% chge
ITALY			
Funds and management and unit-linked policies	59,124.2	55,263.1	7.0%
Other insurance products	1,631.1	1,541.0	5.8%
Bank deposits	24,884.6	21,298.1	16.8%
BANCA MEDIOLANUM	85,639.9	78,102.2	9.7%
SPAIN	7,185.0	5,916.7	21.4%
GERMANY	522.4	697.1	(25.1%)
TOTAL FOREIGN	7,707.4	6,613.8	16.5%
TOTAL ASSETS UNDER ADMINISTRATION	93,347.3	84,716.0	10.2%

At 31 December 2020, assets under administration and/or management stood at €93,347.3 million, an increase on the figure recorded at end-2019 (31.12.2019: €84,716.0 million).

The change is also due to the increase in "Funds and management and unit-linked policies" of €3,861.1 million compared with 31 December 2019, due to positive net inflows recorded during the period (+€2,966.6 million), the increase in bank funding (+3,586.5 million compared with 2019), and the increase of €1,268.3 compared with 31 December 2019 recorded by the Spanish market.

INFLOWS AND ASSETS BY OPERATING SEGMENT

The following is breakdown of inflow volumes and the composition of assets under administration by operating segment.

ITALY - Banking

The breakdown of assets under administration, amounting to €24,884.6 million, summarised using management criteria, is as follows:

€/m	31/12/2020	31/12/2019	% chge
Current account deposits	20,308.3	17,377.7	16.9%
Banca Mediolanum bonds	-	11.1	n.s.
Third party structured bonds	1,498.6	1,084.3	38.2%
Securities custody and administration	3,056.2	2,804.0	9.0%
Repurchase agreements	21.5	21.0	2.2%
Total assets under administration	24,884.6	21,298.1	16.8%

The number of current accounts was 1,105,283, including 89,442 deposit accounts.

ITALY – Asset Management

Net inflows

€/m	31/12/2020	31/12/2019	% chge
"Best Brands" funds of funds	820.4	(33.5)	n.s.
"Challenge" funds	501.6	237.4	n.s.
Other Italian mutual funds	(738.0)	(335.3)	n.s.
Third-party funds and other management	306.5	124.3	n.s.
Total direct inflows in mutual funds	890.5	(7.1)	n.s.
Funds included in "My Life" unit-linked	1,465.7	984.2	48.9%
Funds included in other unit-linked	610.4	1,023.0	(40.3%)
Total indirect inflows in mutual funds	2,076.1	2,007.2	3.4%
Total mutual funds and management	2,966.6	2,000.1	48.3%

Total net inflows in mutual funds and management was €2,966.6 million, up compared with the previous year (31.12.2019: €2,001.1 million).

The change was mainly due to the higher net inflows of the Best Brands funds of funds (+€853.9 million), partially offset by a decrease in inflows into other Italian mutual funds (-€402.7 million).

Assets managed

Assets under management in mutual funds, summarised using management criteria, can be broken down as follows:

€/m	31/12/2020	31/12/2019	% chge
"Best Brands" funds of funds	22,088.6	20,113.8	9.8%
"Challenge" funds	16,864.2	15,544.0	8.5%
Hedge funds of funds	50.3	55.0	(8.6%)
Other Italian mutual funds	8,937.4	9,885.8	(9.6%)
"Real estate" funds	277.1	292.6	(5.3%)
Third-party funds and other management	5,030.1	4,519.0	11.3%
Adjustments for Group funds included in funds of funds and management	(290.2)	(258.6)	12.2%
<i>Funds included in "My Life" unit-linked</i>	<i>9,108.7</i>	<i>7,273.0</i>	<i>25.2%</i>
<i>Funds included in other unit-linked</i>	<i>16,398.0</i>	<i>15,774.1</i>	<i>4.0%</i>
Sub-total unit-linked funds	25,506.7	23,047.1	10.7%
Adjustments for own funds included in unit-linked	(19,340.0)	(17,935.6)	7.8%
Total assets mutual funds and management	59,124.2	55,263.1	7.0%

As 31 December 2020, total assets managed amounted to €59,124.2 million, an increase compared with the end of 2019 (31.12.2019: €55,263.1 million).

ITALY - Insurance

LIFE

Premium income

€/m	31/12/2020	31/12/2019	% chge
Multi-year and recurring premiums	81.5	78.2	4.2%
Single premium and group policies	2,723.2	2,807.5	(3.0%)
Total new business	2,804.7	2,885.7	(2.8%)
Subsequent premiums – pension plans	518.7	503.6	3.0%
Subsequent premiums – other products	403.3	387.4	4.1%
Total portfolio	922.0	891.0	3.5%
Total premiums written excluding "Freedom"	3,726.7	3,776.7	(1.3%)
"Freedom" policy premiums	-	10.7	n.s.
Total gross premiums	3,726.7	3,787.4	(1.6%)

New business was €2,804.7 million, essentially in line with the comparative period (€2,885.7 million). It should be noted that the gross premiums shown in the table include premium income relating to products classed as "investment products".

Settlements

The table below details the settlements recorded at the end of the year under review:

€/m	31/12/2020	31/12/2019	% chge
Claims	160.8	154.4	4.2%
Coupons	58.9	55.2	6.7%
Expiries	441.6	392.7	12.5%
Surrenders	949.0	1,142.5	(16.9%)
Total settlements (excluding "Freedom")	1,610.3	1,744.8	(7.7%)

It should be noted that the settlements shown in the table include those relating to products classed as "investment products".

Assets managed

€/m	31/12/2020	31/12/2019	% chge
Unit-linked products	25,506.8	23,047.1	10.7%
Traditional products	1,631.1	1,541.0	5.8%
Total Life assets	27,137.9	24,588.1	10.4%

Total assets managed amounted to €27,137.9 million, up 10.4% compared with the previous year (31.12.2019: €24,588.1 million).

NON-LIFE

Inflows from direct premiums written breaks down as follows:

€/t	31/12/2020	31/12/2019	% chge
Class-01 Accident	21,467	18,498	16.1%
Class-02 Sickness	48,967	34,962	40.1%
Class-07 Transported Goods	6	6	-
Class-08 Fire	10,485	8,468	23.8%
Class-09 Other Damage to Property	3,945	3,405	15.9%
Class-13 General TPL	3,830	3,143	21.9%
Class-16 Pecuniary Losses	2,740	2,705	1.3%
Class-17 Legal Protection	46	47	(2.1%)
Class-18 Assistance	1,377	1,083	27.1%
Total direct premiums written	92,863	72,317	28.4%

At 31 December 2020, the volume of premiums written was €92.9 million (31.12.2019: €72.3 million), an increase of +28.4%.

SPAIN

€/m	31/12/2020	31/12/2019	% chge
Assets under administration and management:	7,185.0	5,916.7	21.4%
<i>Assets under management</i>	<i>5,137.5</i>	<i>4,266.6</i>	<i>20.4%</i>
<i>Assets under administration</i>	<i>2,047.5</i>	<i>1,650.1</i>	<i>24.1%</i>
	31/12/2020	31/12/2019	% chge
Gross inflows assets under management	2,170.8	1,674.7	29.6%
Net inflows:	1,106.7	607.0	82.3%
<i>Assets under management</i>	<i>687.9</i>	<i>418.2</i>	64.5%
<i>Assets under administration</i>	<i>418.8</i>	<i>188.8</i>	<i>n.s.</i>

Assets under administration and management amounted to €7,185.0 million, compared with €5,916.7 million at 31 December 2019, an increase of 21.4%.

Net inflows at the end of the period came to €1,106.7 million, a significant increase on the previous year (31.12.2019: €607.0 million).

GERMANY

€/m	31/12/2020	31/12/2019	% chge
Assets under administration and management:	522.4	697.1	(25.1%)
<i>Assets under management</i>	<i>508.7</i>	<i>533.4</i>	<i>(4.6%)</i>
<i>Assets under administration</i>	<i>13.7</i>	<i>163.7</i>	<i>(91.6%)</i>
	31/12/2020	31/12/2019	% chge
Gross inflows assets under management	49.5	77.5	(36.2%)
Net inflows:	(27.9)	24.5	n.s.
<i>Assets under management</i>	<i>(7.2)</i>	<i>14.1</i>	<i>n.s.</i>
<i>Assets under administration</i>	<i>(20.7)</i>	<i>10.4</i>	<i>n.s.</i>

Assets under administration and management amounted to €522.4 million, down 25.1% compared with the end of 2019 (31.12.2019: €697.1 million).

Net inflows came in at -€27.9 million, in significant contrast to the figure for the comparative period (31.12.2019: +€24.5 million).

THE SALES NETWORKS

Units	31/12/2020	31/12/2019	% chge
ITALY - BANCA MEDIOLANUM	4,099	4,126	(27)
SPAIN	1,318	1,029	289
GERMANY	-	42	(42)
Total	5,417	5,197	220

Overall, the sales network comprises 5,417 individuals (31.12.2019: 5,197 individuals).

At 31 December 2020, the financial advisors of Banca Mediolanum S.p.A. numbered 4,099, a decrease compared with the end of 2019 (4,126).

RECLASSIFIED CONSOLIDATED INCOME STATEMENT AT 31 December 2020*

€/t	31/12/2020	31/12/2019	Change	
			Value c=a-b	chge c/b
	a	b		
Entry fees	50,664	37,591	13,073	34.8%
Management fees	1,061,322	1,026,724	34,598	3.4%
Investment service fees	158,863	152,894	5,969	3.9%
Net insurance income (excluding commissions)	57,891	43,530	14,361	33.0%
Banking service fees and revenues	136,589	157,579	(20,990)	(13.3%)
Sundry fees and commissions	42,104	41,767	337	0.8%
Total fee and commission income	1,507,433	1,460,085	47,348	3.2%
Network fee and commission expense	(581,749)	(540,505)	(41,244)	7.6%
Other fee and commission expense	(84,153)	(83,930)	(223)	0.3%
Total fee and commission expense	(665,902)	(624,435)	(41,467)	6.6%
Net fee and commission income	841,531	835,651	5,880	0.7%
Net interest income	247,695	239,006	8,689	3.6%
Equity method valuation	-	21,525	(21,525)	n.s.
Net income (loss) from other investments	(20,374)	(33,814)	13,440	(39.7%)
of which Net value adjustments of loans and receivables	(19,718)	(19,120)	(598)	3.1%
Other income and expenses	(1,425)	17,837	(19,261)	n.s.
CONTRIBUTION MARGIN	1,067,427	1,080,205	(12,777)	(1.2%)
General and administrative expenses	(557,809)	(537,289)	(20,519)	3.8%
Ordinary contributions and guarantee funds	(21,981)	(17,560)	(4,421)	25.2%
Depreciation and amortisation	(36,749)	(36,272)	(477)	1.3%
Net provisions for liabilities and charges	(61,367)	(58,155)	(3,212)	5.5%
TOTAL COSTS	(677,905)	(649,277)	(28,629)	4.4%
OPERATING MARGIN	389,522	430,928	(41,406)	(9.6%)
Performance fees	153,552	424,801	(271,249)	(63.9%)
Net P&L from investments at fair value	(3,696)	1,656	(5,352)	n.s.
MARKET EFFECTS	149,856	426,457	(276,601)	(64.9%)
Capital gains/losses	-	(96,625)	96,625	n.s.
Extraordinary contributions and guarantee funds	(7,955)	(221)	(7,734)	n.s.
Other extraordinary effects	-	(21,552)	21,552	n.s.
EXTRAORDINARY EFFECTS	(7,955)	(118,398)	110,443	(93.3%)
PROFIT BEFORE TAX	531,423	738,987	(207,564)	(28.1%)
Taxes for the period	(96,961)	(173,555)	76,594	(44.1%)
NET PROFIT (LOSS)	434,462	565,432	(130,970)	(23.2%)

(*) This income statement has been prepared in a format that reflects the Group's management system, which provides for the reclassification of the components of profit before tax by nature, presenting financial income and expenses relating to assets and liabilities for which the investment risk is borne by the insured under "Net insurance income". It should also be noted that for a correct reading of the tables relating to operating performance, with regard to cost items, an increase in costs will have a negative absolute change and a positive percentage change; conversely, a decrease in costs will have a positive absolute change and a negative percentage change.

Summary of operating performance in 2020

€/m	31/12/2020	31/12/2019	Change	Change (%)
Net profit (loss) for the period	434.5	565.4	(131.1)	(23.2%)
of which: Fee and commission income	1,507.4	1,460.1	47.3	3.2%

Fee and commission income for the period was €1,507.4 million, compared with €1,460.1 million in the comparative period.

The increase was mainly due to the significant net inflow performance and the partial financial market recovery during 2020, which resulted in a greater recurring revenue stream than in 2019. The growth trend in protection products is also noteworthy.

Network fee and commission expense	(581.7)	(540.5)	(41.2)	7.6%

Network fee and commission expense increased as a result of both the increase in fee and commission income and the increase in incentive costs, strictly related to the more than positive net inflow performance.

Net interest income	247.7	239.0	8.7	3.6%

Net interest income was up 4% on the comparative year. The Italian market component remained essentially stable compared with the comparative period, despite the increase in the cost of funding, which was offset by the increase in retail lending and the increase in margins of treasury investments. The contribution of the Spanish market (+€6.5 million) grew due to increases in cash investments, contained retail funding costs and increased retail lending volumes.

Equity method valuation	-	21.5	(21.5)	n.s.

In the previous period, the item in question included the share of the result attributable to Mediobanca, reclassified from a strategic equity investment to the held-to-collect-and-sell portfolio in January 2020.

Net income (loss) from other investments	(20.4)	(33.8)	13.4	(39.7%)

The item in question primarily includes credit adjustments, which remained essentially in line with the comparative period (€19.7 million versus €19.1 million in the comparative period). The comparative period included approximately €15.6 million relating to write-downs made on a property owned by the Group.

Other income and expenses	(1.4)	17.8	(19.2)	n.s.

Other income and expenses decreased by €19.2 million. This change was mainly due to costs incurred for commercial initiatives and customer rewards promoted by subsidiary Flowe.

General and administrative expenses	(557.8)	(537.3)	(20.5)	3.8%

General and administrative expenses increased slightly compared with the previous period (+3.8%), mainly due to the launch of the subsidiary Flowe.

Net provisions for liabilities and charges	(61.4)	(58.2)	(3.2)	5.5%

The **Net provisions for liabilities and charges** item was in line with the previous year: the downward trend in discount rates and the growth of the base due increasing portfolio volumes continued.

Market effects	149.9	426.5	(276.6)	(64.9%)
of which:				
Performance fees	153.6	424.8	(271.2)	(63.9%)
Net profit (loss) from investments at fair value	(3.7)	1.7	(5.4)	n.s.

Market effects as a whole decreased significantly due to lower performance fees recognised in the period under review (-€271.2 million).

Extraordinary effects	(8.0)	(118.4)	110.4	(93.3%)
of which:				
Capital gains/losses	-	(96.6)	96.6	n.s.
Extraordinary contributions and guarantee funds	(8.0)	(0.2)	(7.7)	n.s.
Other extraordinary effects	-	(21.6)	21.6	n.s.

Extraordinary effects concerned completely different areas compared with the previous year. In the year under review, we recorded an increase in the Interbank Deposit Protection Fund for the bail-out and relaunch of Banca Popolare di Bari. During 2019, capital losses were recorded following impairment testing of Mediobanca and German subsidiary Bankhaus August Lenz (of €66.6 million and €30 million respectively). The Other extraordinary effects item also included the non-recurring production bonus allocated to all employees on the basis of the positive results achieved and the greater cost of acquiring the subsidiary EuroCQS.

INCOME STATEMENT AT 31 DECEMBER 2020 BY COUNTRY AND BUSINESS AREA

Comments on the changes in the income statement by country and business area, with any reclassification of comparatives, are provided below. While revenues can be originally and directly allocated to products and, through aggregation, to the Result Areas, costs underwent an allocation process according to the varying degrees to which they could be assigned to the products and the nature of the underlying processes:

- > **Direct costs**, which can be attributed to the products according to the individual processed parts.
- > **Indirect costs allocated to the Result Areas**, assigned to the products according to their correlation with the production of commercial volumes: costs related to the marketing and commercial support processes.
- > **Unallocated indirect costs**: costs of a strictly administrative nature, or costs related to control or infrastructure processes, the allocation of which to the products/Result Areas entailed the use of estimates.

In order to better represent certain items as at 31 December 2020, some amounts have been reclassified under "Other income and expenses" (from "Other revenues").

The details of IFRS 8 are set out in the relevant section of the Notes (Part L – Segment reporting).

ITALY – BANKING SEGMENT

€/t	31/12/2020	31/12/2019	Change	% chge
Banking service fees and revenues	119,301	134,612	(15,311)	(11.4%)
Sundry fees and commissions	11,446	14,087	(2,641)	(18.7%)
Total fee and commission income	130,747	148,699	(17,952)	(12.1%)
Network fee and commission expense	(98,213)	(103,847)	5,635	(5.4%)
Other fee and commission expense	(24,179)	(24,385)	206	(0.8%)
Total fee and commission expense	(122,392)	(128,232)	5,840	(4.6%)
Net fee and commission income	8,355	20,467	(12,112)	(59.2%)
Net interest income	238,912	228,286	10,625	4.7%
Net income (loss) from other investments	(18,984)	(18,754)	(230)	1.2%
of which Net value adjustments of loans and receivables	(17,978)	(19,067)	1,089	(5.7%)
Other income and expenses	(15,254)	1,272	(16,526)	n.s.
LEVEL I CONTRIBUTION MARGIN	213,029	231,271	(18,242)	(7.9%)
Allocated costs	(180,864)	(156,078)	(24,786)	15.9%
Ordinary contributions and guarantee funds	(19,433)	(15,434)	(3,999)	25.9%
LEVEL II CONTRIBUTION MARGIN	12,731	59,758	(47,027)	(78.7%)
OPERATING MARGIN	12,731	59,758	(47,027)	(78.7%)
Net P&L from investments at fair value	(2,689)	(416)	(2,273)	n.s.
MARKET EFFECTS	(2,689)	(416)	(2,273)	n.s.
Extraordinary contributions and guarantee funds	(7,955)	(221)	(7,734)	n.s.
Other extraordinary effects	-	(4,700)	4,700	n.s.
EXTRAORDINARY EFFECTS	(7,955)	(4,921)	(3,034)	61.7%
SEGMENT MARGIN BEFORE TAX	2,087	54,421	(52,334)	(96.2%)

The **Segment margin before tax** of the Italy - Banking segment was a positive €2.1 million compared with a positive €54.4 million in the comparative period.

Revenues from **Fee and commission income** amounted to €130.7 million, down by €18 million compared with the comparative period. Approximately €20.0 million of the decrease reflects a reduction in placement volumes of structured bonds, partially mitigated by an increase in fees and commissions on securities trading of approximately €5.8 million due to increased customer transactions.

Network fee and commission expense decreased by €5.6 million due to lower business volumes related to issues of structured bonds.

Net interest income came in at €238.9 million, up due to the contribution of loans to customers and the increase in the marginal profitability of the securities portfolio and treasury inflows.

Other income and expenses recorded an increase in expenses of €16.5 million compared with 2019. This change was mainly due to costs incurred for commercial initiatives and customer rewards promoted by subsidiary Flowe.

Allocated costs increased by €24.8 million compared with the same period of 2019, essentially due to the launch of the new payment service provider Flowe, which contributed approximately €20.8 million to the increase. The segment was also positively influenced by the very strong business volumes recorded during the year in terms of both deposits and loans.

Extraordinary effects in 2020 included a contribution of approximately €8 million to the Interbank Deposit Protection Fund for the bail-out of Banca Popolare di Bari and the last tranche of the bail-out of the four banks in central Italy.

ITALY – ASSET MANAGEMENT SEGMENT

€/t	31/12/2020	31/12/2019	Change	% chge
Entry fees	35,130	27,031	8,099	30.0%
Management fees	525,615	532,572	(6,956)	(1.3%)
Investment service fees	86,221	83,960	2,260	2.7%
Sundry fees and commissions	17,683	16,168	1,515	9.4%
Total fee and commission income	664,649	659,731	4,918	0.7%
Network fee and commission expense	(225,599)	(204,266)	(21,333)	10.4%
Other fee and commission expense	(24,975)	(22,273)	(2,702)	12.1%
Total fee and commission expense	(250,574)	(226,539)	(24,035)	10.6%
Net fee and commission income	414,075	433,192	(19,118)	(4.4%)
Net interest income	(10,495)	(3,647)	(6,848)	n.s.
Net income (loss) from other investments	167	211	(44)	(21.0%)
Other income and expenses	(915)	(1,120)	205	(18.3%)
LEVEL I CONTRIBUTION MARGIN	402,832	428,636	(25,805)	(6.0%)
Allocated costs	(70,292)	(71,888)	1,595	(2.2%)
LEVEL II CONTRIBUTION MARGIN	332,539	356,749	(24,209)	(6.8%)
OPERATING MARGIN	332,539	356,749	(24,209)	(6.8%)
Performance fees	72,400	224,660	(152,259)	(67.8%)
Net P&L from investments at fair value	(223)	(92)	(131)	n.s.
MARKET EFFECTS	72,178	224,567	(152,390)	(67.9%)
SEGMENT MARGIN BEFORE TAX	404,717	581,316	(176,599)	(30.4%)

The **Segment margin before tax** of the Italy - Asset Management segment was €404.7 million, compared with the result for the same period of the previous year of €581.3 million. The decrease was mainly due to the reduction in performance fees of €152.4 million.

Fee and commission income for the period was €664.6 million, an increase of €4.9 million on the comparative period. Within this item, management fees decreased by €7 million due to market volatility in the first part of 2020, mitigated by the positive performance of subscription fees (+8.1 million compared with 2019).

Net interest income was -€10.5 million, down by €6.8 million compared with the comparative year, due to higher interest expenses on customers' money-market products intended for contribution to funds under management (Double Chance service).

Network fee and commission expense increased by €21.3 million or 10.4% compared with the same period of the previous year. The increase was due to higher incentive costs and bonuses allocated to the segment due to the good performance of fundraising.

Allocated costs decreased by €1.6 million, primarily due to the deferral/suspension of commercial activities relating to the sales network as a result of the health emergency, which more than offset the effects of very positive business volumes for 2020.

Market effects included a decrease in performance fees of €152.3 million compared with the comparative period.

ITALY – INSURANCE SEGMENT

€/t	31/12/2020	31/12/2019	Change	% chge
Management fees	455,023	421,182	33,840	8.0%
Investment service fees	60,369	57,743	2,627	4.5%
Net insurance income (excluding commissions)	44,453	31,216	13,237	42.4%
Sundry fees and commissions	8,850	8,117	733	9.0%
Total fee and commission income	568,695	518,258	50,437	9.7%
Network fee and commission expense	(199,584)	(186,733)	(12,851)	6.9%
Other fee and commission expense	(16,512)	(14,257)	(2,255)	15.8%
Total fee and commission expense	(216,095)	(200,989)	(15,106)	7.5%
Net fee and commission income	352,600	317,269	35,331	11.1%
Net interest income	2,914	4,796	(1,882)	(39.2%)
Net income (loss) from other investments	(1,698)	(17,843)	16,145	(90.5%)
Other income and expenses	6,559	8,727	(2,168)	(24.8%)
LEVEL I CONTRIBUTION MARGIN	360,376	312,950	47,426	15.2%
Allocated costs	(90,179)	(93,772)	3,593	(3.8%)
LEVEL II CONTRIBUTION MARGIN	270,197	219,178	51,019	23.3%
OPERATING MARGIN	270,197	219,178	51,019	23.3%
Performance fees	62,677	177,671	(114,995)	(64.7%)
Net P&L from investments at fair value	(769)	693	(1,463)	n.s.
MARKET EFFECTS	61,907	178,365	(116,457)	(65.3%)
SEGMENT MARGIN BEFORE TAX	332,104	397,542	(65,438)	(16.5%)

The **Segment margin before tax** of the Italy - Insurance segment was €332.1 million, exceeding the result for the comparative period of €65.4 million. The decrease was mainly due to the reduction in performance fees of €115 million, partially offset by an increase of €51 million in the operating margin.

Fee and commission income for the period was €568.7 million, an increase of €50.4 million compared with 2019. The increase was due to €33.8 million in management fees, which, thanks to premium volumes, offset market volatility, and €13.2 million in net insurance income, driven by higher business volumes of protection products.

Network commission expenses increased by €12.9 million or 6.9% compared with the same period of the previous year. The increase was due to higher acquisition and maintenance fees due to increased volumes.

Net income (loss) from other investments amounted to a loss of €1.7 million for the period, up by €16.1 million on the comparative period. It should be considered that in 2019 the item included the write-down of a property in Rome by approximately €15.6 million.

Allocated costs decreased by €3.6 million, primarily due to the deferral/suspension of commercial activities relating to the sales network as a result of the health emergency, with a sharp reduction in the overall cost base, which more than offset the greater allocation of indirect costs deriving from very positive business volumes for 2020.

ITALY – OTHER SEGMENT

€/t	31/12/2020	31/12/2019	Change	% chge
Sundry fees and commissions	1,874	1,418	456	32.2%
Network fee and commission expense	(1,102)	227	(1,329)	n.s.
Net fee and commission income	772	1,645	(873)	(53.1%)
Net interest income	10	-	10	n.s.
Equity method valuation	-	21,525	(21,525)	n.s.
Net income (loss) from other investments	1,856	1,060	796	75.1%
Other income and expenses	3,946	5,580	(1,634)	(29.3%)
LEVEL I CONTRIBUTION MARGIN	6,584	29,810	(23,226)	(77.9%)
Allocated costs	(4,377)	(3,958)	(419)	10.6%
LEVEL II CONTRIBUTION MARGIN	2,207	25,852	(23,645)	(91.5%)
OPERATING MARGIN	2,207	25,852	(23,645)	(91.5%)
Capital gains/losses	-	(66,625)	66,625	n.s.
EXTRAORDINARY EFFECTS	-	(66,625)	66,625	n.s.
SEGMENT MARGIN BEFORE TAX	2,207	(40,773)	42,980	n.s.

The **Italy – Other segment** comprises a series of financial items not directly attributable to the other lines of business and relating to events and businesses that extend across several areas.

It should be noted that, as of the year under review, the Other segment no longer includes the profits arising from the equity investment in Mediobanca, as it has been reclassified to the category of financial assets and is therefore no longer included in the segment. It should also be recalled that in the third quarter of 2019, after impairment testing, the value of the equity investment was taken back to its market value and therefore written down by €66.6 million, which was recorded under Extraordinary effects.

SPAIN SEGMENT

€/t	31/12/2020	31/12/2019	Change	% chge
Entry fees	14,970	9,659	5,311	55.0%
Management fees	71,109	64,153	6,956	10.8%
Investment service fees	10,880	9,750	1,130	11.6%
Net insurance income (excluding commissions)	13,523	11,755	1,768	15.0%
Banking service fees and revenues	7,022	5,901	1,121	19.0%
Sundry fees and commissions	1,684	1,373	311	22.7%
Total fee and commission income	119,188	102,591	16,597	16.2%
Network fee and commission expense	(53,696)	(41,986)	(11,710)	27.9%
Other fee and commission expense	(10,219)	(9,289)	(930)	10.0%
Total fee and commission expense	(63,915)	(51,275)	(12,640)	24.7%
Net fee and commission income	55,273	51,316	3,957	7.7%
Net interest income	16,935	10,400	6,535	62.8%
Net income (loss) from other investments	(1,758)	1,425	(3,183)	n.s.
Other income and expenses	3,845	3,013	832	27.6%
LEVEL I CONTRIBUTION MARGIN	74,295	66,154	8,141	12.3%
Allocated costs	(42,294)	(38,169)	(4,125)	10.8%
Ordinary contributions and guarantee funds	(2,378)	(1,850)	(528)	28.5%
LEVEL II CONTRIBUTION MARGIN	29,623	26,135	3,488	13.3%
Depreciation and amortisation	(4,951)	(3,960)	(991)	25.0%
Net provisions for liabilities and charges	(1,425)	2,398	(3,823)	n.s.
OPERATING MARGIN	23,247	24,573	(1,326)	(5.4%)
Performance fees	15,105	18,802	(3,697)	(19.7%)
Net P&L from investments at fair value	16	355	(339)	(95.5%)
MARKET EFFECTS	15,121	19,157	(4,036)	(21.1%)
Other extraordinary effects	-	(2,624)	2,624	n.s.
EXTRAORDINARY EFFECTS	-	(2,624)	2,624	n.s.
SEGMENT MARGIN BEFORE TAX	38,368	41,106	(2,738)	(6.7%)

The **Segment margin before tax** of the Spain segment showed a positive balance of €38.4 million. The decrease compared with the previous year was mainly due to performance fees (-€3.7 million).

Fee and commission income rose from €102.6 million in 2019 to €119.2 million in the reporting period. This trend was mainly due to subscription fees, thanks to the good performance of gross inflows (€0.5 billion compared with 2019) and management fees due to the higher average assets under management.

Fee and commission expense for the period was €53.7 million, up by €11.7 million on the comparative period. This increase is consistent with the growth in upfront revenues and the commercial results achieved during the period under review.

Net interest income was approximately €16.9 million, up €6.5 million compared with the comparative period. This trend was due to the increase in retail loans, the reduction in the cost of funding and the increase in the treasury portfolio, which allowed for further expansion of funding collateralised at negative rates.

Allocated costs, which represent total general and administrative expenses for the segment, increased by €4.1 million due to increased volumes on the Spanish market.

In 2019, **Net provisions for liabilities and charges** presented a positive balance of €2.4 million; in the fourth quarter of 2019, following a more favourable ruling in a legal dispute, approximately €3.5 million of the provision previously recognised by Banco Mediolanum was released.

Market effects decreased by €4.0 million, mainly due to a decrease in performance fees of €3.7 million.

It should be recalled that in 2019 the “Other extraordinary effects” item included the non-recurring production bonus allocated to all employees on the basis of the positive results achieved in the year in question.

GERMANY SEGMENT

€/t	31/12/2020	31/12/2019	Change	% chge
Entry fees	564	901	(337)	(37.4%)
Management fees	9,575	8,817	758	8.6%
Investment service fees	1,393	1,441	(48)	(3.3%)
Net insurance income (excluding commissions)	(85)	559	(644)	n.s.
Banking service fees and revenues	10,266	17,066	(6,800)	(39.8%)
Sundry fees and commissions	567	604	(37)	(6.1%)
Total fee and commission income	22,280	29,388	(7,108)	(24.2%)
Network fee and commission expense	(3,556)	(3,900)	344	(8.8%)
Other fee and commission expense	(8,268)	(13,726)	5,458	(39.8%)
Total fee and commission expense	(11,824)	(17,626)	5,802	(32.9%)
Net fee and commission income	10,456	11,762	(1,306)	(11.1%)
Net interest income	(581)	(830)	249	(30.0%)
Net income (loss) from other investments	43	87	(44)	(50.6%)
Other income and expenses	395	365	30	8.2%
LEVEL I CONTRIBUTION MARGIN	10,313	11,384	(1,071)	(9.4%)
Allocated costs	(18,365)	(22,479)	4,114	(18.3%)
Ordinary contributions and guarantee funds	(170)	(276)	106	(38.4%)
LEVEL II CONTRIBUTION MARGIN	(8,222)	(11,371)	3,149	(27.7%)
Depreciation and amortisation	(1,875)	(1,449)	(426)	29.4%
OPERATING MARGIN	(10,097)	(12,820)	2,723	(21.2%)
Performance fees	3,370	3,668	(298)	(8.1%)
Net P&L from investments at fair value	(31)	1,116	(1,147)	n.s.
MARKET EFFECTS	3,339	4,784	(1,445)	(30.2%)
Capital gains/losses	-	(30,000)	30,000	n.s.
Other extraordinary effects	-	(263)	263	n.s.
EXTRAORDINARY EFFECTS	-	(30,263)	30,263	n.s.
SEGMENT MARGIN BEFORE TAX	(6,758)	(38,299)	31,541	(82.4%)

The **Segment margin before tax** of the Germany segment recorded a negative balance of €6.8 million. Last year, the market was pricing in the write-down of the subsidiary Bankhaus August Lenz for €30 million.

The **Level I Contribution Margin** decreased by €1.1 million due to the unfavourable trend in the ATM business, which was affected by measures to contain the Covid-19 and the discontinuation of product placement in the last quarter under review.

Allocated costs totalled €18.4 million, a decrease of €4.1 million on the comparative period.

Last year's **Market effects** included a positive valuation of Visa's redeemable shares, which are no longer in the German subsidiary's portfolio.

Extraordinary effects in 2019 included a €30 million write-down of the subsidiary Bankhaus August Lenz. This liability was recognised due to the decision to divest the direct distribution business on the German market.

INTERCOMPANY AND RELATED PARTY TRANSACTIONS

Transactions with related parties, including intercompany transactions, cannot be classed as atypical or unusual, as they are part of the normal course of Group operations. These transactions are settled under market conditions, taking into account the characteristics of the goods and services provided, in accordance with the provisions of Article 2391-bis of the Italian Civil Code, Article 71-bis of Consob Regulation 11971/99 (Regulation for Issuers) and the recommendations of the Corporate Governance Code, adopted by the Company by specific resolutions of the Board of Directors.

In the context of related parties and affiliated persons, Banca Mediolanum has adopted the "Consolidated Regulations for Transactions with Related Parties and Affiliated Persons" in order to identify, classify, approve and carry out such transactions. In particular, the Regulations were adopted to meet the requirements of Consob Resolution 17221 of 12 March 2010 - amended by subsequent Resolution 17389 of 23 June 2010 and in implementation of Article 53, paragraphs 4 *et seq.* of the Consolidated Banking Act.

Transactions with related parties are described in the relevant section of the Notes appended to this report.

CAPITAL ADEQUACY OF THE MEDIOLANUM FINANCIAL CONGLOMERATE AND OWN FUNDS AT 31 DECEMBER 2020

The current level of own funds and risk-weighted assets enables the Mediolanum Group to largely comply with both the regulatory thresholds and the specific thresholds required by the Supervisory Body after carrying out the Supervisory Review and Evaluation Process (SREP). The Group's capital adequacy consists in the continuous monitoring and management of capital ratios in order to verify compliance with regulatory limits and ensure the maintenance of the minimum capitalisation levels required by the Supervisory Authority.

At 31 December 2020, the calculation of the capital adequacy of the Financial Conglomerate Banca Mediolanum S.p.A., determined in accordance with the additional supervisory provisions in force, showed that, with capital requirements of €1,871 million, the capital resources of the conglomerate to cover the required margin amounted to €2,330 million, with a surplus of €459 million (€396 million at 31 December 2019).

The Mediolanum Group has also calculated the consolidated own funds for supervisory purposes and the relevant capital ratios in accordance with the regulations in force (Regulation (EU) No 575/2013 (Basel 3)). At the end of 2020, the Common Equity Tier I Ratio (CETI) was 20.4% (19.5% at 31 December 2019). Own funds amounted to €2,000.5 million (31.12.2019: €1,829.9 million) while RWAs (risk-weighted assets) amounted to €9,810 million (31.12.2019: €9,388.1 million).

The CETI was determined considering the dividend distribution of €573.3 million, including €323.4 million from 2020 profits and €249.9 million from reserves generated from previous years' profits. Accordingly, the profit for the year calculated was €110.6 million.

Reconciliation between the shareholders' equity of the Parent Company and consolidated shareholders' equity

€/t	Share capital and reserves	Profit	Shareholders' equity
Financial statements of the Parent Company at 31/12/2020	2,308,631	433,980	2,742,611
Derecognition of intercompany transaction effects		482	482
Other transactions	(4,562)		(4,562)
Consolidated financial statements at 31/12/2020	2,304,069	434,462	2,738,531

The "Other transactions" item includes €4.7 million in additional expenses incurred to pay for the purchase of the subsidiary EuroCQS S.p.A. recorded in the consolidated financial statements as at 31 December 2019.

OTHER INFORMATION

Impairment testing - Goodwill

The goodwill recorded in the consolidated financial statements at 31 December 2020 and already present in the previous year relates to the Spain, Italy (Life) and EuroCQS Cash Generating Units (CGUs), in accordance with the Group's business reporting system.

In particular, as in previous years, impairment testing at the level of the consolidated financial statements was performed on the following CGUs:

- > Spain CGU: the goodwill allocated to the CGU included goodwill relating to Banco Mediolanum of €102.8 million;
- > Italy (Life) CGU: the total goodwill allocated to the CGU was €22.8 million;
- > EuroCQS CGU: the total goodwill deriving from the EuroCQS division allocated to the CGU was €7.3 million.

When performing the impairment test, the business plans recently approved by the companies were used, which already take into account the market context in the Covid era. Moreover, when identifying the main valuation parameters, these were assessed in the light of market valuation practices in the current context.

The assistance of an independent expert was requested for the impairment testing at 31 December 2020, in line with previous years. Valuations were therefore made on the basis of estimated future cash flows and projections were updated using methodological criteria proposed by the prevailing doctrine and used in professional practice, deemed most suitable for the purpose and considered applicable to the case in question, taking into account the recommendations of the reference accounting standards.

The impairment process was subsequently specifically approved by the Board of Directors. The report issued by the independent expert and adopted by the Bank indicates that, on the basis of the analyses conducted, taking into account the limitations of using provisional data, which are random and uncertain in nature because they are sensitive to changes in macro-economic variables and phenomena external to the company, and are based, in this case, on a series of hypothetical assumptions relating to future events and actions of the management bodies which will not necessarily occur, the conditions for the impairment of the goodwill recognised for the Spain, Italy - Life and EuroCQS CGUs do not currently exist.

For the sake of completeness, it should be noted that, with respect to the Italy Life CGU, recoverability was verified, as a practical

expedient, by referring to fair value, i.e. the overall price of the Banca Mediolanum stock, as was also done in 2019.

Equity investment in the German subsidiary Bankhaus August Lenz

As regards the value of the equity investment in the German subsidiary, it should be recalled that at the end of the previous year, in response to the Board resolution of 28 January 2020, this value was substantially reduced to zero due to the allocation of other liabilities amounting to €30 million. This expense was determined during the disposal phase according to the scenarios assumed. At the end of the 2020 financial year, the amounts set aside by the company to meet the estimated disposal costs were €7.7 million, and, at the moment, the provision made in the 2019 financial statements is still considered consistent with the assumed scenarios. For this reason, it was not deemed necessary to make further provisions.

At the end of the current year, the value of the equity investment reflects the capital increases carried out during 2020, after deducting the recurring losses, carried out to cover the ordinary losses generated in 2020 and in the first quarter of 2021.

Mediobanca

It should be recalled that on 28 and 29 January 2020, the Boards of Directors of Banca Mediolanum and Mediolanum Vita decided to reclassify the equity investment in Mediobanca from a strategic equity investment to a financial equity investment in the Held To Collect and Sell category.

For the Mediolanum Group, the investment in Mediobanca had historically been a strategic investment. In particular, due to adherence to the shareholders' agreement and representation in the corporate bodies, as of 2008 the investment in Mediobanca was classified under "Equity investments in associates and joint ventures". The strategic nature was also strengthened at the time by the establishment together with Mediobanca of a company with a 50% joint shareholding. However, the strategic relationship underwent a series of events over the years that gradually led to its reconfiguration. In particular, in addition to the disposal of the joint venture, over the years the portion of the share capital within the scope of the shareholders' agreement gradually decreased from the original 46%, finally falling below the minimum validity threshold of 25% in 2018 due to cancellations. Subsequently, in light of this situation, the remaining shareholders, representing 20.94% of the share capital as of 1 January 2019, signed a new Consultation Agreement that was less stringent than the previous agreement. Unlike the previous shareholders' agreement, this agreement no longer included any restrictions on the availability of shares, and assigned a more incisive role to the Mediobanca Board of Directors in the submission of the list of directors to the Shareholders' Meeting.

New external events took place in late 2019, creating a context of particular uncertainty regarding the state of governance of the investee company, with the exit of Unicredit from its shareholder structure and the disposal of its shareholding on the market, and the entry of Delfin into the shareholding structure without entering into the consultation agreement. The corporate bodies were then renewed during 2020. These elements of uncertainty created a need to redefine the strategic position that Banca Mediolanum intended to pursue in allocating this investment, as there was uncertainty as to whether it would actually be possible to significantly influence Mediobanca's future governance. The Mediolanum Group therefore decided that the conditions to exercise significant influence in the future did not exist, given the substantial transformation of Mediobanca into a public company, and opted for a change of strategy aimed at maximising the value of the equity investment, no longer from a medium/long-term perspective, but also making use of market opportunities with a view to greater flexibility.

It was therefore decided to reclassify this asset under financial instruments (IFRS 9) in the "Held To Collect & Sell" category.

At 31 December 2020, therefore, Banca Mediolanum and Mediolanum Vita valued the share at market value (€7.54 per share), recognising a capital loss on the initial recognition value (€9.8 per share) with a balancing entry in the "Other comprehensive income" (OCI) reserve in equity. The overall gross impact on the Group's shareholders' equity was -€66.4 million.

Inspections of the insurance subsidiaries Mediolanum Vita S.p.A. and Mediolanum Assicurazioni S.p.A.

It will be recalled that two general inspections of the companies Mediolanum Vita and Mediolanum Assicurazioni by the supervisory authority, IVASS, began in June and July. The companies have complied with all requests made and are awaiting the formal conclusion of inspection activities. At the date of preparation of the draft financial statements, in order to prepare the same, the companies took all available information into account, on the basis of the information in their possession and the discussions that have taken place up to now.

Tax dispute

Banca Mediolanum

Regarding the tax dispute also reported in previous years, on 24 April 2020 the Major Taxpayers Office of the Regional Tax Department for Lombardy served Banca Mediolanum with assessment notices for IRES (corporate income tax) and IRAP (regional production tax) purposes concerning transfer prices for 2015. These assessment notices – which present identical charges to those of previous years – claim total additional taxable income of €94.6 million, including €23.5 million due to a recalculation from 57.43% to 64.25% of the retrocession of the management fees of the mutual funds promoted by the subsidiary Mediolanum International Funds and placed in Italy by the bank, as well as additional taxable income of €70.3 million deriving from the allocation to the bank of 23.83% of the performance fees. In total, additional taxes of €31.2 million were charged (including IRES of €26.0 million and IRAP of €5.3 million). Subsequently, on 8 May 2020, further assessment notices were served for the 2016 year, notifying additional taxable income totalling €70.6 million, including €24.4 million due to a recalculation from 57.43% to 64.25% of the retrocession of management fees, as well as additional taxable income of €46.2 million deriving from the allocation to the bank of performance fees of 21.1%. In total, additional taxes of €23.3 million were charged (including IRES of €19.4 million and IRAP of €3.9 million).

In view of the subjective nature of the charges and the diligent work done by the Company, which prepared the documentation provided for in transfer pricing legislation, the Italian Agency of Revenue has ruled that the administrative tax penalties do not apply. The company challenged the assessment notices with the Milan Provincial Tax Commission.

These assessment notices were also issued under the framework settlement agreement signed on 18 December 2018 between the companies of the Mediolanum Group concerned and the Revenue Agency. Accordingly, the receipt of the assessment notices was expected and does not change the risk assessment and the consequent provisioning, as also determined at the time of approval of the 2019 financial statements. The company therefore continued to provision for the higher taxes potentially due in respect of the recalculation of the retrocession of management fees at a percentage of 64.25%, net of the corresponding recovery of the amount already paid to the Irish tax authorities in respect of such higher taxable income.

As previously reported, no provision has been made for the allocation to the bank of the performance fees, as there was confidence, partly due to the support of an authoritative tax firm, that during the arbitration procedure this finding will not be upheld, in line with market practice and evidence.

Arbitration proceedings

For the assessment notices relating to the years 2014 (served on 19 December 2019), 2015 and 2016, applications were submitted in May 2020 for the commencement of the procedure provided for by European Arbitration Convention No. 90/436/EC (the “MAP”), which allows the decision to be referred to arbitration between the Italian and Irish tax authorities.

Regarding the years 2010–2013, in June 2020 the amicable treaty procedure commenced pursuant to Article 24 of the Convention against double taxation between Italy and Ireland, the aim of which is to obtain a tax credit from the Irish authority corresponding to the higher taxable income assessed in Italy. This application was declared admissible by the competent Italian authorities on 11

November 2020.

For the years 2019 to 2023, recourse was instead made to an Advanced Pricing Agreement (by application submitted on 1 August 2019), in which the tax authorities are asked to agree on the correct remuneration to be received by the Company from its Irish affiliate.

As at 31 December 2020, the total provision set aside for the above dispute is €28.8 million and the burden for the period under review is €4.3 million.

Mediolanum Vita

On 5 May 2020, Mediolanum Vita was served IRES and IRAP assessment notices for the year 2015, claiming higher taxable income of approximately €12.8 million, due to the recalculation from 57.43% to 64.25% of the retrocession of the management fees paid to the company by the associate Mediolanum International Funds, corresponding to total taxes of €4.4 million, of which €3.5 million of IRES and €0.9 million of IRAP, without the application of penalties. On 8 May 2020, assessment notices were then served for the purposes of IRES and IRAP for 2016. In these notices, the Italian Revenue Agency claims total higher taxes of €4.5 million, of which €3.6 million of IRES and €0.9 million of IRAP. The company challenged the assessment notices with the Milan Provincial Tax Commission.

Arbitration proceedings

For the assessment notices relating to the years 2014 (served on 19 December 2019), 2015 and 2016, applications were submitted in May 2020 for the commencement of the procedure provided for by European Arbitration Convention No. 90/436/EC (the "MAP"), which allows the decision to be referred to arbitration between the Italian and Irish tax authorities.

With regard to the years 2010-2013, in June 2020 the amicable treaty procedure commenced pursuant to Article 24 of the Convention against double taxation between Italy and Ireland, the aim of which is to obtain a tax credit from the Irish authority corresponding to the higher taxable income assessed in Italy.

For the years 2019 to 2023, recourse was instead made to an Advanced Pricing Agreement (by application submitted on 24 December 2019), in which the tax authorities are asked to agree on the correct remuneration to be received by the Company from its Irish affiliate.

In line with the previous year, the company continued to provision for the higher taxes potentially due in respect of the recalculation of the retrocession of management fees at a percentage of 64.25%, net of the corresponding recovery of the amount already paid to the Irish tax authorities in respect of such higher taxable income.

Finally, it should be recalled that Mediolanum Vita and its parent company Banca Mediolanum were the subject of a previous inspection procedure relating to the matter in question and concerning the years from 2005 to 2014, which was settled in December 2015 by paying total of €120.2 million in taxes. Mediolanum International Funds applied to the Irish tax authority – thus far to no avail – for a refund of taxes paid corresponding to the higher taxable amounts assessed in Italy, for a maximum value of approximately €41 million.

Mediolanum Vita therefore set aside a provision of €10.4 million and the charge for the period in question was €1.4 million.

Overall, the Mediolanum Group set aside a provision of €39.2 million for the tax dispute currently being resolved and incurred a charge for 2020 of €5.7 million.

Reorganisation of the Asset Management area of the Mediolanum Banking Group

As part of the activities relating to the corporate reorganisation project involving the Group's asset management companies in order to improve its competitive position, it should be recalled that on 29 July 2019, the activities of Gamax (a management company incorporated in Luxembourg) were passported to Mediolanum International Funds, allowing it to operate in Luxembourg under the freedom to provide services. The merger by incorporation was completed on 25 June 2020. For more information, please see the relevant section of the Notes (Part G).

Information referred to in Bank of Italy/Consob/ISVAP document No. 4 of 3 March 2010

With regard to the joint document No. 4 of 03/03/2010 issued by the controlling bodies Bank of Italy, Consob and ISVAP, which calls directors' attention to full compliance with regulations governing the financial statements and the rules contained in international accounting standards, in order to provide financial information that clearly, fully and promptly reports the risks and uncertainties to which the companies are exposed, the equity available to them and their ability to generate income, the following should be noted: The Directors of Banca Mediolanum S.p.A. believe that they may reasonably expect that the Company, as well as the companies belonging to the Group in question, will continue to operate as a going concern for the foreseeable future, and therefore the consolidated financial statements for 2020 have been prepared on a going concern basis. They also specify that they have not found any cause for doubt regarding the going concern principle in the Group's financial position or operating performance.

As regards the impairment of assets (IAS 36), as previously described, the impairment process adopted required a valuation by an independent expert on the basis of updated multi-year plans approved in advance by the Board of Directors of the subsidiaries and the Bank. The impairment process was subsequently approved by the Board. For more details in addition to the information already provided in the previous section "Impairment testing of equity investments", please see the relevant section of the Notes. For the fair value reporting that has to be provided in the notes to the financial statements, please see sections A, B and E of the notes. With regard to the information on the "fair value hierarchy", the relevant reporting has been provided in sections A of the notes with regard to the amounts outstanding at 31 December 2020, along with the comparative figures taken from the financial statements for the previous year.

Covid-19 emergency disclosure in accordance with the ESMA recommendations

Covid-19 emergency

As described in all the statements provided during 2020, since the start of the pandemic, the Mediolanum Group has maintained a solid capital structure that is currently able to withstand volatility and the financial market crisis.

The Mediolanum Group distinguished itself by launching a series of actions and measures that swiftly enabled it to operate "remotely" without any impact on its operating systems and the service levels provided to customers. The Italian Group companies

also adopted all prevention and safety measures necessary to take account of the prescriptions of the Prime Ministerial Decree and the orders of the Region of Lombardy in response to the pandemic. The Group companies abroad (in Spain, Germany and Ireland) are continuing to make very extensive use of smart working, minimising the use of resources present in the office.

In September, Banca Mediolanum launched a plan for returning employees to the office, formulated according to an assessment of safety risks and taking into account the suggestions made by a consulting firm specialising in Covid-19 emergency management in the workplace.

Moreover, taking into account the evidence of a partial resurgence of infections in Italy and Europe, further measures were introduced to strengthen workplace safety controls at the Basiglio site. However, in October, in view of the significant uptick in the number of infections, particularly in the Region of Lombardy, the Company decided to once again use smart working methods to minimise the use of resources in the office, based on the principles of safety and protection of workers and workplaces that have always marked out the Mediolanum Group.

Customer and community initiatives

BANCA MEDIOLANUM

It should be recalled that, right at the beginning of March, in response to the emergency, Banca Mediolanum took action for its customers even before the legislative decrees were issued. Banca Mediolanum had formally expressed its willingness to grant retail and corporate customers the suspensions of some outstanding loan repayments. Mention should also be made of the various initiatives adopted:

- > subsidised loans and suspension of loan and mortgage repayments for the Sales Network in response to any situations of need (an initiative which came to an end on 2 July 2020) amounting to around €2.3 million;
- > suspension of repayments on loans to retail customers (an initiative which came to an end on 31.07.2020) amounting to €19.1 million relating to mortgages and €19.7 million relating to loans;
- > suspension of repayments on loans to business customers (an initiative which came to an end on 31.07.2020) amounting to €0.1 million relating to mortgages and €2.7 million relating to loans;
- > participation in the ABI moratoria, which allow retail and business customers, where certain requirements have been met, to apply for the suspension of principal repayments for 12 months or for an extension of the terms of their loans (an initiative which came to an end on 30.09.2020). In particular, for retail customers, €3.5 million in repayments on mortgage relationships and €5.4 million relating to loans were suspended.

These measures, adopted at the Bank's initiative, were later supplemented by those introduced by the "Cura Italia" and "Liquidità" Decrees. In particular, attention should be drawn to:

- > the possibility for customers with "first home" mortgages to obtain, at their request, the suspension of repayments with the subsidy provided by the Gasparrini Fund, consisting of a 50% reduction in the interest. This measure gave rise to 2,311 suspensions totalling €12.8 million in suspended repayments;
- > suspension of repayments on loans to business customers, as provided for by the Cura Italia decree, including €3 million relating to mortgage relationships and €3.5 million relating to lending relationships;
- > participation in the ABI-INPS agreement for the disbursement of advances on Cassa Integrazione (Italian Redundancy Fund) cheques of approximately €2 million involving 1,415 approved credit facilities;
- > the granting of loans guaranteed by the MCC Fund and SACE to companies that suffered damages as a result of Covid-19. In particular, loans of up to €800,000, totalling €89 million, loans above €800,000 with an MCC guarantee, totalling €21.9

million, and loans with a SACE guarantee, totalling €15 million (two loans) were granted.

EUROCQS

During the Covid-19 epidemiological emergency, the subsidiary EuroCQS also supported its customers through the distribution network (financial agents and credit brokers) and the remote support systems providing, in the area of salary-backed loans and similar technical forms, initiatives to support consumers in difficulty who expressly requested this, by preparing individual measures as well as acting through subsequent participation in the initiatives promoted by the trade association (Assofin consumer credit moratorium).

In accordance with the instructions of the Bank of Italy, the subsidiary has provided public information to customers on its participation in the Assofin moratorium through its corporate website. Customers holding loans against the transfer of end-of-service benefits are not affected by the Covid-19 emergency, given the specific contractual and technical conditions for repayment of such loans. Accordingly, no specific support initiatives have been provided for.

Except for distressed customer situations not related to the Covid-19 pandemic or to the primary conditions of the repayment mechanism underlying salary-backed loans, the customer support measures did not result in the reclassification of any exposures as forborne, performing or non-performing, since as they represented a collective measure in response to the health emergency they were aimed at addressing systemic, and not individual, risks. Therefore, credit exposures were not automatically considered to be subject to SICR (a significant increase in credit risk) or distressed restructuring.

The effects of the Covid 19 emergency and the introduction of legislative income support measures, within the specific segment of consumer credit consisting of salary-backed loans, resulted in a temporary reduction in customer remuneration capacity as a result of the very extensive use by companies of extraordinary social security contributions, resulting in the interruption of, or a significant reduction in, the repayment of salary-backed loans directly by the employer, in accordance with the provisions of Article 35 of Presidential Decree 180/1950.

The application of moratoria (individual and collective by category) therefore resulted in the suspension of repayments and ordinary debt recovery actions. On the other hand, it should be noted that the temporary suspension of individual redundancies by employers, as well as the prohibition of collective mobility or staff reduction procedures, resulted in a decline in the events that typically result in the interruption of the regular amortisation of salary-backed loans, necessitating the activation of contractually planned actions to safeguard credit.

The main features of the moratorium concern employees involved in Cassa Integrazione procedures or other social shock absorbers for at least 30 days, with a suspension of monthly repayments for up to six months/instalments. For these positions, the employer is obliged to recover the temporarily suspended repayments by adding them in at the end of the original contractual amortisation plan or by making additional deductions during the amortisation plan, without prejudice to the legal limits provided for coexistence with other deductions, and the insurance companies that issued the mandatory insurance cover for the risk of prepayment or loss of employment on the part of the customer are obliged to extend the cover for the time necessary to recover the temporarily suspended repayments. These concessions do not apply to loans already classified as non-performing, or if objective risk indicators exist in relation to the status of the employer company, such as bankruptcy, liquidation or insolvency proceedings and/or the pre-existing or existing termination of the employment relationship.

Specifically, 815 applications were received, 387 of which were granted, 146 were not granted and 282 are under management.

In view of the status of "beneficiary" identified by the marginalised moratoriums, the customers granted forbearance consisted almost entirely of employees of private companies, which made very extensive use of the extraordinary social shock absorbers provided for by law.

BANCO MEDIOLANUM

In the Spanish market, in order to cope with the economic and social impact of the Covid-19 pandemic, a number of measures were approved to support workers and families, including the establishment of legislative moratoria and the granting of state-

approved financing lines.

The Spanish subsidiary therefore also participated in the granting of both types of moratoria, as detailed below.

The “moratorium on mortgage debts” applies to people with debts on their homes and, for self-employed individuals, entrepreneurs and professionals, on properties for business use for which they have not received rent for a period of three months.

The “non-mortgage moratorium”, which has terms similar to the above, including individuals in financial difficulty with credit and loans, including consumer loans.

The “moratorium on the tourism sector”, which aims to protect mortgage debtors whose assets are involved in a hotel, hospitality or travel agency activity by granting a suspension of repayments for up to 12 months.

The “moratorium on the transport sector”, which offers the option of a temporary moratorium of up to 12 months on principal repayments on loans, leases and hire of public transport vehicles for those experiencing difficulties due to the effects of the Covid-19 pandemic.

On 12 May 2020, the Bank joined the Spanish Banking Association (AEB) Sector Agreement, which provides for a 12-month capital deficit for mortgages and a 6-month deficit for other loans until 30 September 2020. In December 2020, the AEB extended this agreement until 30 March 2021 for a period not exceeding nine months.

The total number of applications for the moratoria described above was 131, for a total amount of €9.5 million.

Monitoring

For the Mediolanum Group, the first-, second- and third-level performance monitoring controls did not detect any significant alert situations during 2020. On a prudential basis, however, as early as the second half of 2020, a transitional review of certain specific criteria for assuming risk and assessing customer creditworthiness was carried out with a view to balance, risk mitigation and consumer protection.

In particular, the Risk Appetite Framework indicators relating to credit risk did not change, always remaining below the appetite and tolerance limits. The performing portfolio also did not show any abnormal percentages of SICR criteria with respect to the staging allocation analysis. Finally, the non-performing portfolio did not present a significant change in exposure.

Analysis of the economic and financial impacts in the context of Covid-19

Turning to an examination of the economic and financial impacts of the Covid-19 emergency on the Mediolanum Group, the discussion must begin with the Group's economic performance in 2020.

As already recorded in previous interim situations, the Mediolanum Group closed the period under review with significant net profit (€434.5 million, compared with €565.4 million in the comparative period). The decrease in overall profit was mainly due to the loss deriving from market effects (performance fees and investments at fair value). The Group again recorded growth in recurring revenues, enabling it to achieve a contribution margin that was largely in line with the comparative period.

The positive net inflows achieved in the period, combined with the partial recovery of the markets at the end of the second half of 2020, resulted in greater average assets under management than in the comparative period. In addition, the revision of the credit models used to calculate collective provisions, including in the light of the new parameters resulting from the Covid-19 pandemic, did not have a significant impact, leaving the value of credit adjustments (both collective and individual) substantially unchanged compared with the same period of 2019.

The extraordinary costs incurred in response to the emergency were again marginal compared with the Group's total costs.

Assessment of future performance and business strategy

The Mediolanum Group has shown that its financial performance is highly resilient in stress situations such as that caused by the Covid-19 pandemic.

The recurring revenue stream from the assets under management and the trend in net interest income on its loan portfolio are sufficient to absorb even financial markets shocks.

In terms of funding and lending as well, during this half-year the Mediolanum Group, at the level of its overall product range, delivered a countercyclical net funding performance capable of yielding commercial results stronger than those achieved in 2019. From a financial position perspective, no factors necessitating a reconsideration of the measurement of its assets or the identification of significant impairment losses were brought to light. In credit, an area which has been especially severely affected by the pandemic at the market-wide level, there were again no situations of deterioration of customer creditworthiness beyond the normal physiological trend seen in previous years.

Main risks and uncertainties

Information on the risks and uncertainties to which the Mediolanum Group is exposed is described in this Report on Operations and in the Notes.

In particular, the risks associated with the performance of the world's economies and financial markets are set out in the Report on Operations in the sections entitled "The macroeconomic scenario" and "The financial markets", and in the "Business outlook" section below.

The main Pillar One risks - already covered by the regulatory requirement laid down by the supervisory authorities - are as follows:

- > credit risk: the risk of losses resulting from a default by a counterparty against which credit exposure exists. The definition also includes counterparty risk, which is a particular case in point, and represents the risk that the counterparty to a transaction will default before the final settlement of the cash flows of the transaction;
- > market risk: the risk of changes in the market value of the financial assets in the portfolio due to unexpected changes in market conditions and the issuer's credit rating;
- > liquidity risk: the risk of default on payment commitments caused by the inability to procure funds or finding them at costs higher than market costs and the presence of limits on the liquidation of assets;
- > operational risk: the risk of losses resulting from the inadequacy or dysfunction of internal procedures, human resources or systems, or from external events;
- > insurance company risk: the risk associated with uncertainty about the amount and timing of insurance commitments relating to the business produced by the Group's insurance companies;
- > climate change: climate change is the cause of the increase in extreme natural events and will very probably have permanent effects on climatic conditions, which may inevitably entail significant economic, environmental and social costs. Such events, which create a loss of wealth and income for businesses and households, potentially affect the financial system. Banks play a key role and have a higher level of responsibility for climate change because they are able to direct financing and investment towards environmentally sound businesses and to work towards awareness and risk containment.

Details of financial and operational risks are provided in Part E of the notes.

Consolidated Non-Financial Statement

The Mediolanum Group has prepared the Consolidated Non-Financial Statement pursuant to Legislative Decree No. 254/16 as a separate report from this Report on Operations.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

Merger by incorporation of SIA S.p.A. into NEXI S.p.A.

On 11 February 2021, following the approval by the Boards of Directors of Cassa Depositi e Prestiti, CDP Equity, Mercury UK, SIA and Nexi, the final agreement relating to the merger by incorporation of SIA into Nexi (respectively, the “Merger” and the “Framework Agreement”) was signed, in line with the terms and conditions of the memorandum of understanding signed and announced on 5 October 2020. The closing of the Merger is conditional upon the occurrence of certain standard conditions precedent for transactions of this type, including the obtainment of the relevant authorisations, including that of the competent Antitrust Authority. The transaction will also be subject to a vote under the whitewash mechanism at the Nexi extraordinary general meeting called to approve the Merger. The economic impacts for the Mediolanum Group will be determined on the basis of the share swap on the merger date. On the basis of the information currently available, Banca Mediolanum would hold 7,688,728 new shares of the Company after the Merger.

CEDACRI shares

In the first quarter of 2021 a framework agreement was finalised for the sale of the shares related to Cedacri held in the portfolio of financial assets at fair value through other comprehensive income. This agreement, which provides for the disposal of the shares at a value higher than that recorded at the end of the 2020 financial year, also establishes a series of contractual constraints that will be defined with the purchaser. The relevant capital gain from disposal will be recognised as an increase in shareholders' equity as envisaged for the category to which it belongs in 2021 once the sale has been completed.

It should be noted that in the proposed accounting statement, the fair value of the company in question at 31 December 2020 was assessed by an independent expert on the basis of the most recent plans adopted by the company and the most widely used market practices, and the aforementioned framework agreement was not taken into account as these are circumstances that took place in 2021.

BUSINESS OUTLOOK

The ongoing pandemic and the maintenance of restrictive measures by governments will continue to result in a scenario of economic weakness in the first quarter of the year, or at least until vaccinations are widespread enough to allow for a significant easing of the current restrictions. In the US, the economic impact is likely to be mitigated by the recently approved new fiscal stimulus plan, while in Europe, GDP will fall more steeply – but still significantly less – than during the first wave. The rapid delivery of vaccines will thus be a key variable for the scenario over the next few months and remains partially uncertain at present, but, according to Goldman Sachs estimates, 50% of the population in most advanced economies should be vaccinated by approximately the second quarter.

Beyond the precise timeframe, 2021 will be the year in which global real economy bounces back, driven mainly by the recovery of demand in the sectors that have hitherto suffered the most, particularly tourism, catering and leisure services. It is reasonable to think that the urge to travel again, visit restaurants, watch live shows and do everything that has been prohibited for many months will be extremely strong. Moreover, as has been pointed out in the past, this hypothesis is also supported by the substantial savings accumulated by households in recent months, thanks to fiscal transfers by governments and the simultaneous decline in spending. The Tokyo Olympics, scheduled to take place between July 23 and August 8, could be a symbolic turning point: if they can be celebrated as defiantly as ever, they could mark the final end of the Covid-19 nightmare in the global collective imagination. Worldwide, World Bank estimates point to 4% growth in 2021 (after a 4.3% decline in 2020), with recoveries that are broad-based but varying in size across countries and regions. The gap between East and West, which has widened in recent months due to better pandemic management in Asian countries, will remain a central theme in the near future: Chinese growth is expected to be around 8% in 2021. It is also symbolic that the estimate of when China will overtake the United States and become the world's largest economy (in dollar terms) has been brought forward by five years due to the events of the last year, from 2033 to 2028. But the changes brought about by the pandemic do not end there. While the fall in global demand can largely be considered temporary and will therefore – more or less quickly – recover, some of the trends that have started or accelerated over recent months will remain with us. The adoption of digital in all sectors, the boom in online shopping, remote working and attention to environmental and social issues are just some of the phenomena that will make up a post-pandemic scenario that is in some ways different from the previous one or, as they say, a “new normal.” While it is still too early to draw conclusions, some of these trends, if well exploited and channelled, also have the potential to raise productivity levels by comparison with past years.

From an economic policy perspective, 2021 should still be characterised by a broadly favourable environment: With the global economy still hesitant and public debt rising, central banks will be careful not to remove support prematurely. It is likely – given the expected economic rebound – that inflation will partially recover from its current extremely compressed or even negative levels, as in the case of the eurozone. But much clearer confirmation about the economy's return to a sustained path of growth will be needed before any shift in policy, not to mention a rate hike, which is expected to remain out of the question for the next 2-3 years. At the same time, this environment favours continued accommodative approaches in the fiscal area, where the pandemic crisis seems to have permanently destroyed the mindset of austerity that existed in the years following the Great Financial Crisis. In Europe, Next Generation EU was a momentous turning point, and in the coming months it will become a reality: the ability of the European countries to properly exploit this opportunity will be tested.

In the US, the new President, who made his debut on January 20, wasted no time in promising “trillions of dollars” of new aid for the economy, which will be primarily rolled out in the form of income support for households and the unemployed, as well as support for small and medium-sized enterprises and those generally most affected by the crisis (such as airlines). There will also be funding for States and local authorities, including for the purpose of speeding up vaccination.

But Biden will also be the man who brings relations with China back into the mainstream – even though tensions are showing no signs of fading – as well as transatlantic relations, with all that this implies in terms of trade and benefits for European industries. Lastly, he will take the US back into the Paris Climate Accord, further intensifying the global focus on climate change.

What can we reasonably expect from the financial markets? In the short term, as they have already moved substantially ahead

of the future recovery, continued uncertainty around the health and economic scenario, some possible political stress and rising US yields could lead to temporary episodes of market volatility.

Beyond the physiological shocks, however, the fact that it is early in a new cycle and the prospect of long-term accommodative economic policies remain the key themes guiding strategic investment choices, primarily favouring assets linked to cyclical recovery and long-term growth.

High yield bonds, while less rich in terms of spread than they were a few months ago, can still benefit from the improving macro-economic picture and corporate fundamentals, as well as from the support of central banks. The search for yield is also working in favour of emerging markets, which could potentially benefit from reduced geopolitical tensions and dollar weakness. Lastly, the equity market remains the most attractive investment in terms of expected returns over the medium-to-long term given the expected rebound in earnings growth and plenty of cash outstanding: even a modest rise in yields, coupled with a higher growth environment, should be well tolerated overall.

In relation to climate change risks, the Group intends to make a careful assessment of its strategies in terms of allocating financial resources that takes account of any measures required to mitigate these risks.

Given the risks typical of the sector to which it belongs and the occurrence of events that are exceptional or that depend on variables that cannot essentially be controlled by the Directors and management (which are currently not possible in any case), a positive operating performance is expected for 2021.

Basiglio, 03 March 2021

For and on behalf of the Board of Directors
The Chief Executive Officer
Massimo Antonio Doris

Consolidated financial statements



Assets

€/t	31/12/2020	31/12/2019
10. Cash and cash equivalents	129,723	169,957
20. Financial assets at fair value through profit or loss	26,549,573	24,026,666
a) Financial assets held for trading	302,660	315,163
b) Financial assets designated at fair value	26,064,405	23,538,765
c) Other financial assets mandatorily measured at fair value	182,508	172,738
30. Financial assets at fair value through other comprehensive income	1,957,755	2,163,835
40. Financial assets measured at amortised cost	28,929,572	25,246,345
a) Loans to banks	825,263	659,347
b) Loans to customers	28,104,309	24,586,998
50. Hedging derivatives	-	24
60. Value adjustment of financial assets subject to generic hedging (+/-)	-	-
70. Equity investments	-	285,893
80. Reinsurers' share of technical provisions	67,815	62,943
90. Tangible assets	260,305	268,873
100. Intangible assets	205,200	203,451
of which:		
- goodwill	132,925	132,925
110. Tax assets	517,756	497,179
a) current	419,735	386,356
b) deferred	98,021	110,823
120. Non-current assets and disposal groups	208	438
130. Other assets	411,139	512,030
TOTAL ASSETS	59,029,046	53,437,634

Liabilities and shareholders' equity

€/t	31/12/2020	31/12/2019
10. Financial liabilities measured at amortised cost	26,772,320	24,163,087
a) Payables to banks	1,003,592	236,427
b) Payables to customers	25,768,728	23,858,447
c) Debt securities in issue	-	68,213
20. Financial liabilities held for trading	78,322	77,132
30. Financial liabilities designated at fair value	9,645,644	7,751,523
40. Hedging derivatives	29,318	31,043
60. Tax liabilities	121,135	188,593
a) current	87,665	143,517
b) deferred	33,470	45,076
80. Other liabilities	700,057	801,180
90. Employee severance benefits	12,290	11,827
100. Provisions for liabilities and charges	326,529	275,003
a) commitments and guarantees given	475	399
b) pensions and similar obligations	657	671
c) other provisions for liabilities and charges	325,397	273,933
110. Technical provisions	18,604,900	17,795,133
120. Valuation reserves	4,919	52,745
150. Reserves	1,738,797	1,323,553
155. Interim dividends	-	(154,045)
160. Issue premiums	3,626	3,002
170. Capital	600,297	600,234
180. Treasury shares (-)	(43,570)	(47,808)
200. Net profit (loss) for the year (+/-)	434,462	565,432
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	59,029,046	53,437,634

Basiglio, 03 March 2021

For and on behalf of the Board of Directors
The Chief Executive Officer
Massimo Antonio Doris

INCOME STATEMENT

€/t	31/12/2020	31/12/2019
10. Interest income and similar income	392,296	368,203
of which: interest income calculated using the effective interest method	327,764	325,951
20. Interest expense and similar expenses	(73,253)	(63,012)
30. Net interest income	319,043	305,191
40. Fee and commission income	1,668,417	1,895,841
50. Fee and commission expense	(658,843)	(636,477)
60. Net fee and commission income	1,009,574	1,259,364
70. Dividends and similar income	4,601	5,130
80. Net gains (losses) from trading	6,346	8,178
90. Net gains (losses) from hedging	(2,600)	(3,413)
100. Gains (losses) from disposal or repurchase of:	1,093	952
a) financial assets measured at amortised cost	36	2
b) financial assets at fair value through other comprehensive income	1,057	1,073
c) financial liabilities	-	(123)
110. Net gain/(loss) from other financial assets and liabilities at fair value through profit or loss	62,654	1,974,882
a) financial assets and liabilities designated at fair value	70,264	1,977,816
b) other financial assets mandatorily measured at fair value	(7,610)	(2,934)
120. Operating income	1,400,711	3,550,284
130. Credit-risk induced net value adjustments/write-backs relating to:	(22,978)	(18,473)
a) financial assets measured at amortised cost	(22,771)	(19,797)
b) financial assets at fair value through other comprehensive income	(207)	1,324
150. Net profit (loss) from financial operations	1,377,733	3,531,811
160. Net premiums	1,698,333	2,211,220
170. Balance of other income/expenses from insurance operations	(1,861,322)	(4,273,896)
180. Net profit (loss) from financial and insurance operations	1,214,744	1,469,135
190. Administrative expenses:	(562,169)	(542,009)
a) staff costs	(235,327)	(225,062)
b) other administrative expenses	(326,842)	(316,947)
200. Net provisions for liabilities and charges	(59,593)	(52,559)
a) commitments and guarantees given	(82)	(191)
b) other net provisions	(59,511)	(52,368)
210. Net value adjustments/write-backs of tangible assets	(17,787)	(32,897)
220. Net value adjustments/write-backs of intangible assets	(28,328)	(28,742)
230. Other operating income/expenses	(15,602)	1,148
240. Operating costs	(683,479)	(655,059)
250. Gains (losses) on equity investments	-	(75,100)
280. Gains (losses) on disposal of investments	157	11
290. Profit (loss) on continuing operations before tax	531,422	738,987
300. Taxes on income from continuing operations	(96,960)	(173,555)
310. Profit (loss) on continuing operations after tax	434,462	565,432
330. Net profit (loss) for the year	434,462	565,432
350. Net profit (loss) attributable to the Parent Company	434,462	565,432

Basiglio, 03 March 2021

For and on behalf of the Board of Directors

The Chief Executive Officer

Massimo Antonio Doris

STATEMENT OF COMPREHENSIVE INCOME

€/t	31/12/2020	31/12/2019
10. Net profit (loss) for the period	434,462	565,432
Other income net of taxes without reversal to the income statement		
20. Equity securities designated at fair value through other comprehensive income	(48,150)	85
70. Defined benefit plans	(425)	(834)
90. Share of valuation reserves of equity investments measured at equity		(4,132)
Other income net of taxes with reversal to the income statement		
140. Financial assets (other than equity securities) at fair value through other comprehensive income	749	19,943
160. Share of valuation reserves of equity investments measured at equity		(9,853)
170. Total other income net of taxes	(47,826)	5,209
180. Comprehensive income (Item 10+170)	386,636	570,641
190. Consolidated comprehensive income attributable to minority interests		
200. Consolidated comprehensive income attributable to the Parent Company	386,636	570,641

Basiglio, 03 March 2021

For and on behalf of the Board of Directors
The Chief Executive Officer
Massimo Antonio Doris

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AT 31 DECEMBER 2019

€/t				Allocation of previous year's result		Changes in the period								Shareholders' equity at 31/12/2019
	Balances at 31/12/2018	Change in opening balances	Balances at 01/01/2019	Reserves	Dividends and other destinations	Changes in reserves	Issue of new shares	Share buybacks	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock options and performance shares	Comprehensive income at 31/12/2019	
Capital:														
a) ordinary shares	600,185		600,185				49							600,234
b) other shares														
Issue premiums	2,502		2,502				500							3,002
Reserves:														
a) earnings	1,321,148	(1,136)	1,320,012	(37,413)		1,106								1,283,705
b) other	34,068		34,068									5,780		39,848
Valuation reserves	47,536		47,536										5,209	52,745
Equity instruments														
Interim dividends	(146,478)		(146,478)		146,478				(154,045)					(154,045)
Treasury shares	(53,682)		(53,682)					5,874						(47,808)
Net profit (loss) for the period	255,710		255,710	37,413	(293,123)								565,432	565,432
Shareholders' equity attributable to the Group	2,060,989	(1,136)	2,059,853	-	(146,645)	1,106	549	5,874	(154,045)	-	-	5,780	570,641	2,343,113
Shareholders' equity attributable to minorities	-		-		-	-	-	-	-	-	-	-	-	-

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AT 31 December 2020

€/t	Balances at 31/12/2019	Change in opening balances	Balances at 01/01/2020	Allocation of previous year's result		Changes in the period								Shareholder s' equity at 31/12/2020
				Reserves	Dividends and other destinations	Transactions on shareholders' equity							Comprehen sive income at 31/12/2020	
						Changes in reserves	Issue of new shares	Share buybacks	Extraordina ry dividend distribution	Change in equity instrument s	Derivati ves on treasur y shares	Stock options and performanc e shares		
Capital:														
a) ordinary shares	600,234		600,234				63							600,297
b) other shares														-
Issue premiums	3,002		3,002				624							3,626
Reserves:														
a) earnings	1,283,705		1,283,705	411,387		(227)								1,694,865
b) other	39,848		39,848									4,084		43,932
Valuation reserves	52,745		52,745										(47,826)	4,919
Equity instruments														-
Interim dividends	(154,045)		(154,045)		154,045									-
Treasury shares	(47,808)		(47,808)					4,238						(43,570)
Net profit (loss) for the period	565,432		565,432	(411,387)	(154,045)								434,462	434,462
Shareholders' equity attributable to the Group	2,343,113	-	2,343,113	-	-	(227)	687	4,238	-	-	-	4,084	386,636	2,738,531
Shareholders' equity attributable to minorities	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Basiglio, 03 March 2021

For and on behalf of the Board of Directors
The Chief Executive Officer
Massimo Antonio Doris

CONSOLIDATED STATEMENT OF CASH FLOWS

Indirect method

€/t	31/12/2020	31/12/2019
A. OPERATING ACTIVITIES		
1. Management	127,195	(1,166,110)
- profit (loss) for the year (+/-)	434,462	565,432
- capital gains/losses on financial assets held for trading and on other assets/liabilities at fair value through profit or loss (-/+)	(354,602)	(1,957,335)
- capital gains/losses on hedging activities (-/+)	2,600	3,413
- credit-risk induced net value adjustments/write-backs (+/-)	22,978	18,473
- net value adjustments/write-backs of tangible and intangible assets (+/-)	46,115	61,639
- net provisions for liabilities and charges and other costs/revenues (+/-)	59,593	52,559
- unpaid taxes, duties and tax credits (+/-)	(88,035)	83,929
- other adjustments (+/-)	4,084	5,780
2. Cash generated by/utilised for financial assets	(5,333,179)	(4,098,782)
- financial assets held for trading	19,889	228,332
- financial assets designated at fair value	(2,170,605)	(2,749,387)
- other assets mandatorily measured at fair value	(17,565)	(42,222)
- financial assets at fair value through other comprehensive income	443,940	1,748,258
- financial assets measured at amortised cost	(3,705,998)	(3,099,129)
- other assets	97,160	(184,635)
3. Cash generated by/utilised for financial liabilities	5,198,987	5,628,152
- financial liabilities measured at amortised cost	2,609,233	789,166
- financial liabilities held for trading	1,190	(170,074)
- financial liabilities designated at fair value	1,894,121	1,830,047
- other liabilities	694,443	3,179,013
Net cash generated by/utilised for operating activities	(6,997)	363,260
B. INVESTMENT ACTIVITIES		
1. Cash generated by	4,601	18,840
- sales of equity investments	-	-
- dividends received on equity investments/securities	4,601	18,805
- sales of tangible assets	-	35
2. Cash utilised for	(42,763)	(35,213)
- purchases of equity investments	-	-
- purchases of tangible assets	(10,464)	(10,415)
- purchases of intangible assets	(32,299)	(24,798)
Net cash generated by/utilised for investment activities	(38,162)	(16,373)
C. FINANCING ACTIVITIES		
- issues/purchases of treasury shares	4,301	5,923
- issues/purchases of equity instruments	624	500
- dividend distribution and other purposes	-	(300,690)
Net cash generated by/utilised for financing activities	4,925	(294,267)
Net cash generated/utilised during the year	(40,234)	52,620

Key: (+) generated (-) utilised

RECONCILIATION

€/t	31/12/2020	31/12/2019
Line items		
Cash and cash equivalents at beginning of year	169,957	117,337
Total net cash generated/utilised during the year	(40,234)	52,620
Cash and cash equivalents at end of year	129,723	169,957

Basiglio, 03 March 2021

For and on behalf of the Board of Directors

The Chief Executive Officer

Massimo Antonio Doris

Notes to the financial statements



Notes to the financial statements

The Notes to the financial statements are divided into the following parts:

Part A - Accounting policies

Part B - Information on the consolidated statement of financial position

Part C - Information on the consolidated income statement

Part D - Consolidated comprehensive income

Part E - Information on risks and the relevant hedging policies

Part F - Information on consolidated capital

Part G - Business combinations involving businesses or business units

Part H - Related party transactions

Part I - Share-based payment agreements

Part L - Segment reporting

Part M - Lease reporting

Part A - Accounting policies

A.1 – GENERAL PART

SECTION 1 – Declaration of compliance with international accounting standards

The consolidated financial statements of the Mediolanum Group at 31 December 2020 have been prepared pursuant to Legislative Decree No. 38 of 28 February 2005, in accordance with the accounting standards issued by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and approved by the European Commission, as established in Community Regulation No. 1606 of 19 July 2002, as subsequently updated.

The Mediolanum Group, in accordance with the provisions of Legislative Decree No. 142 of 30 May 2005, is a financial conglomerate primarily engaged in banking.

These consolidated financial statements of the Mediolanum Group as at 31 December 2020 have been prepared on the basis of the “Instructions for the preparation of the financial statements of banks and financial parent companies of banking groups” issued by the Bank of Italy, in the exercise of the powers established by Article 9 of Legislative Decree No. 38/2005 with Circular No. 262 of 22 December 2005, as subsequently updated. Interpretative documents issued during the course of 2020 by standard setters for the application of accounting standards in the context of the Covid-19 pandemic have also been taken into account in the preparation of the financial statements.

These instructions set out in a binding manner the formats of the financial statements and the methods for compiling them, as well as the contents of the notes.

The financial statements have been prepared using the international accounting standards in force at 31 December 2020 (including the SIC and IFRIC interpretation documents).

SECTION 2 – General basis of preparation

The financial statements consist of the statement of financial position, income statement, statement of comprehensive income, statement of changes in shareholders' equity, statement of cash flows and notes to the financial statements. They are also accompanied by a directors' Report on Operations.

In accordance with the provisions of Article 5 of Legislative Decree No. 38 of 28 February 2005, the financial statements have been prepared using the euro as the reporting currency.

In preparing the financial statements, account has also been taken of the communication of 15 December 2020 – Additions to the provisions of Circular No. 262 "Bank financial statements: formats and rules for preparation" concerning the impacts of Covid-19 and measures in support of the economy and amendments to IAS/IFRS.

The documents issued by European regulatory and supervisory bodies have been taken into account for the reporting. It should also be noted that, in light of the supplement issued by the Bank of Italy in its communication of 15 December 2020, the consolidated financial statements as at 31 December 2020 have been prepared taking into account, as applicable, the recommendations contained in the following communications from EBA (European Banking Authority), the ECB (European Central Bank), ESMA (European Securities and Market Authorities) and CONSOB:

- > the EBA Communication of 25 March 2020 "Statement on the application of the prudential framework regarding Default, Forbearance and IFRS 9 in light of COVID 19 measures";
- > the ESMA Communication of 25 March 2020 "Public Statement. Accounting implications of the COVID 19 outbreak on the calculation of expected credit losses in accordance with IFRS 9";
- > the IFRS Foundation document of 27 March 2020 "IFRS 9 and Covid-19 – Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the Covid-19 pandemic";
- > The ECB letter of 1 April 2020 "IFRS 9 in the context of the coronavirus (COVID 19) pandemic" addressed to all significant entities;
- > The EBA guidelines of 2 April 2020 "Guidelines on legislative and non-legislative moratorium on loan repayments applied in the light of the COVID 19 crisis";
- > the ESMA Communication of 20 May 2020 "Implications of the COVID-19 outbreak on the half-yearly financial reports";
- > the EBA guidelines of 2 June 2020 "Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID 19 crisis";
- > the ESMA Communication of 28 October 2020 "European common enforcement priorities for 2020 annual financial reports";
- > the EBA guidelines of 2 December 2020 "Guidelines amending Guidelines EBA/GL/2020/02 on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID 19 crisis";
- > the ECB letter of 4 December 2020 "Identification and measurement of credit risk in the context of the coronavirus (COVID 19) pandemic" addressed to all significant entities;
- > Covid-19 – Call for attention to CONSOB financial reporting of 9 April 2020 and 16 July 2020.

For considerations regarding the main impacts, risks and uncertainties of the health emergency, please see the more detailed information in **Section 4 – Other Aspects – Risks, uncertainties and impacts of the COVID-19 epidemic**.

The financial statements and notes include figures for the period under review as well as comparative data at 31 December 2019. The financial statements have been prepared in accordance with the following general principles:

- > going concern: the financial statements have been prepared on a going concern basis. The directors, in light of key

economic and financial indicators, have a reasonable expectation that the Group will continue to operate in the foreseeable future;

- > accrual basis accounting: the financial statements have been prepared according to the accrual principle;
- > relevance and aggregation: the statement of financial position and income statement schedules consist of items, sub-items and further details. The schedules are consistent with those defined by the Bank of Italy in Circular 262 of 22 December 2005 as subsequently updated. New items may be added to these schedules if their content cannot be attributed to any of the items already covered by the schedules and only if they are for significant amounts. The statement of financial position, the income statement and the statement of comprehensive income do not include accounts with no amounts, either for the year to which the financial statements refer or for the previous year;
- > presentation: the classification of the financial statement items is constant over the years, unless there are changes that may occur as a result of a new standard or interpretation that require an amendment, on which specific information is provided in the Notes. For each statement of financial position and income statement account, comparative information relating to the previous year is provided, unless an accounting standard or interpretation does not allow this or provides otherwise;
- > prevalence of substance over form: transactions and other events are recognised and represented in accordance with their substance and economic reality.

The Directors of Banca Mediolanum S.p.A. believe that they may reasonably expect that the Company, as well as the companies belonging to the Group in question, will continue to operate as a going concern for the foreseeable future, and therefore the consolidated financial statements for 2020 have been prepared on a going concern basis. They also specify that they have not found any cause for doubt regarding the going concern principle in the Group's financial position or operating performance.

Contents of the consolidated financial statements

Consolidated statement of financial position and consolidated income statement

The statement of financial position and the income statement consist of items, sub-items and more detailed information (the "of which" within items and sub-items). With respect to the formats defined by the Bank of Italy, items with zero amounts have not been presented, either for the year to which the financial statements relate or for the previous year. In the income statement, revenues are indicated with no sign, whereas costs are shown in parentheses.

Consolidated statement of comprehensive income

The statement of comprehensive income consists of items that show the changes in the value of the assets recorded during the year as balancing items to the valuation reserves, net of the relevant tax effect. Negative amounts are presented in parentheses.

Consolidated statement of changes in shareholders' equity

The table shows the breakdown of and changes in the shareholders' equity accounts during the reporting year and the previous year, broken down into share capital, capital reserves, earnings reserves and reserves from the valuation of assets or liabilities in the statement of financial position and the income statement. No equity instruments other than ordinary and savings shares were issued.

Consolidated statement of cash flows

The statement of cash flows for the reporting year and the previous year has been prepared using the indirect method, whereby cash flows from operating activities are represented by the net result for the year adjusted for the effects of non-monetary transactions. Cash flows are divided between operating activities, investment activities and financing activities. The table shows the flows generated during the year with no sign, while utilised flows are shown in parentheses.

Contents of the notes to the financial statements

The notes include the information required by the international accounting standards and Circular No. 262/2005 of the Bank of Italy, as subsequently updated. With respect to the formats defined by the Bank of Italy, the headings of the sections relating to financial statement items with zero amounts have not been presented, for either the year to which the financial statements relate or for the previous year. In the tables relating to the income statement items, revenues are indicated with no sign, whereas costs are shown in parentheses.

It should be noted that the statement of financial position and income statement balances presented in the consolidated financial statements at 31 December for the comparative periods have been reclassified in accordance with the provisions of Circular No. 262, as amended, of the Bank of Italy.

SECTION 3 – Scope and methods of consolidation

The consolidated financial statements include the accounts of Banca Mediolanum S.p.A. and its direct and indirect subsidiaries, pursuant to IFRS 10. The control requirement, as defined by the standard, underpins the consolidation of all types of entities and occurs when an investor simultaneously has:

- > the power to decide on the relevant activities of the entity;
- > is exposed to or benefits from variable returns from the relationship with the entity;
- > has the ability to exert its own power to influence the amount of its returns (the link between power and returns).

IFRS 10 therefore establishes that, in order to hold control, the investor must have the capacity to manage the relevant activities of the entity, as a result of a legal right or due to a simple *de facto* situation, and must also be exposed to the variability of the results arising from this power.

The following table shows the equity investments included within the scope of consolidation:

List of equity investments in Group companies owned directly by Banca Mediolanum S.p.A., included in the consolidation on a line-by-line basis:

Company	Share capital (€/t)	Ownership %	Registered office/Operational HQ	Type of relationship	Business
Mediolanum Vita S.p.A.	207,720	100.00%	Basiglio	1	Life insurance
Mediolanum Comunicazione S.p.A.	775	100.00%	Basiglio	1	Audio, cinema and television production
PI Servizi S.p.A.	517	100.00%	Basiglio	1	Real estate activity
Mediolanum International Life DAC	1,395	100.00%	Dublin	1	Life insurance
Mediolanum Assicurazioni S.p.A.	25,800	100.00%	Basiglio	1	Non-Life insurance
Mediolanum Gestione Fondi SGR p.A.	5,165	100.00%	Basiglio	1	Mutual fund management
Mediolanum International Funds Ltd (**)	165	95.46%	Dublin	1	Mutual fund management
Mediolanum Fiduciaria S.p.A.	240	100.00%	Basiglio	1	Trust management
EuroCQS S.p.A.	2,040	100.00%	Basiglio	1	Financial intermediation
FloWe S.p.A. - SB	10,000	100.00%	Basiglio	1	Payment services
Bankhaus August Lenz & Co. AG	20,000	100.00%	Munich	1	Banking
Banco Mediolanum S.A.	86,032	100.00%	Valencia/Barcelona	1	Banking

(**) The remaining 4.54% interest is held indirectly by Banca Mediolanum through Banco Mediolanum. As reported above, on 25 June 2020 the Luxembourg-based company Gamax Management AG was merged by incorporation into Mediolanum International Funds Ltd.

List of equity investments in Group companies owned indirectly by Banca Mediolanum S.p.A., through Banco Mediolanum S.A., included in the consolidation on a line-by-line basis:

Company	Share capital (€/t)	Ownership %	Operational Registered office/Operational HQ	Type of relationship [*]	Business
Mediolanum Gestión S.A. S.G.I.I.C.	2,506	100.00%	Valencia/Barcelona	1	Mutual fund management
Fibanc S.A.	301	100.00%	Valencia/Barcelona	1	Financial advice
Mediolanum Pensiones S.A. S.G.F.P.	902	100.00%	Valencia/Barcelona	1	Pension fund management

(*) Type of relationship:

- 1 = majority of voting rights at the ordinary shareholders' meeting
- 2 = dominant influence at the ordinary shareholders' meeting
- 3 = agreements with other shareholders
- 4 = other forms of control
- 5 = single management pursuant to Article 26, paragraph 1, of "Legislative Decree No. 87/92"
- 6 = single management pursuant to Article 26, paragraph 2, of "Legislative Decree No. 87/92"

Consolidation methods

Equity investments in subsidiaries are consolidated on a line-by-line basis.

Line-by-line consolidation

The controlled entities are consolidated as of the date on which control is acquired using the purchase method, and cease to be consolidated as of the date on which control ceases.

Line-by-line consolidation is the acquisition, line by line, of the aggregates of the subsidiaries' statements of financial position and income statements. Following the allocation to minority shareholders of their interests, where present, in a specific item, in equity and in the result for the year, the value of the equity investment is eliminated against the residual value of the subsidiary's equity. Any resulting difference, if positive, after allocation to the assets or liabilities of the subsidiary, where applicable, is recognised as goodwill under Intangible assets or fair value differences on assets and liabilities still carried on the date of initial consolidation and under Other reserves thereafter. Negative differences on the date of initial consolidation are taken to the income statement. Assets, liabilities, income and expenses between consolidated companies are fully eliminated.

The controlled entities are consolidated as of the date on which the Group acquires control using the purchase method and cease to be consolidated as of the date on which control ceases.

To prepare the consolidated financial statements for the year ended 31 December 2020, all the subsidiaries have prepared a statement of financial position and operating performance prepared in accordance with Group accounting standards.

Changes in the scope of consolidation

During 2020, the Luxembourg-based company Gamax Management AG was merged by incorporation into the Irish company Mediolanum International Funds. For further details, please see the relevant section of the Notes (Part G - Business combinations involving businesses or business units). It should also be noted that, as of 1 January 2020, Mediobanca, previously valued using the equity method, was recognised as an asset at fair value through other comprehensive income. For more information, please see Section 7 - Equity investments - Item 70.

Significant valuations and assumptions for determining the scope of consolidation

A summary of the main assessments performed in determining the scope of consolidation is provided below.

The Mediolanum Group does not believe that it controls the “unit-linked” internal insurance funds (of which it holds 100% of the outstanding units) and the promoted funds (investment, real estate and SICAVs) because not all the conditions provided by IFRS 10 are simultaneously met. With regard to the unit-linked funds, the Mediolanum Group believes that:

- > it does not exercise full power over the unit-linked entity as it is limited by the requirements of the fund regulations in terms of asset allocation and management policies;
- > it is not significantly exposed to the variable returns of the investee entity.

In fact, the gains or losses relating to the valuation of assets in the unit-linked funds are fully attributed to policyholders through the change in financial liabilities, with the only change still attributable to the Group being the related impact on fees and commissions (impact related to the variability of the flows of the entity and assessed as insignificant).

With regard to the funds, the Mediolanum Group believes that:

- > it does not own the majority of the outstanding units and does not bear their investment risk (e.g. unit funds holding units in managed funds the risk of which is borne by policyholders);
- > it does not exercise full power over the investee entity (the funds) as it is limited by the requirements of the fund regulations in terms of asset allocation and management policies;
- > it is not significantly exposed to the variable returns of the investee entity as it does not hold, or holds only marginal units of the funds, or holds units the risk of which it does not bear.

The exposure to changes in the value of the funds, i.e. gains or losses relating to the valuation of the assets, is attributable to the investors, while the Group remains solely responsible for the change in the related impact on fees and commissions. In particular, the Group is exposed to the risk of fluctuations in entry fees and premium loading related to inflow performance, management fees relating to assets under management and incentive fees associated with the performance of the funds under management, as well as operational, compliance and reputational risks typical of the sector in which the Group operates.

Business combinations

Business combinations are accounted for using the purchase method.

Goodwill acquired in a business combination is initially measured at cost, represented by the excess of the cost of the business combination (consideration) over the Group's share of the net fair value of the identifiable assets, liabilities and identifiable contingent liabilities (of the acquiree).

The consideration includes the monetary elements that express the fair value of the equity investment/business on the date on which control was acquired. The consideration may also include a contingent component related to events and circumstances that may occur in the future (contingent consideration). The contingent consideration normally represents a buyer's obligation to transfer additional assets (cash and cash equivalents) as part of the price for control if specific future events or conditions occur/are met. Contingent considerations are measured at fair value on the date of acquisition of control and may be changed on the basis of additional information relating to events and circumstances existing at the purchase date and which are known within one year from that date (purchase price allocation). Conversely, changes in contingent considerations identified in

subsequent periods, or changes that do not depend on facts and circumstances existing at the acquisition date, do not change the measurement of the contingent consideration. The balancing item of the contingent consideration may be a debt or an item of shareholders' equity depending on the means of payment defined. After initial recognition, goodwill is measured at cost net of cumulative impairment. In order to verify the presence of impairment, goodwill acquired in a business combination is allocated, at the acquisition date, to the individual cash generating units of the Group or to the groups of cash generating units that are expected to benefit from the synergies of the combination, regardless of whether other assets or liabilities of the acquiree are assigned to such units or groups of units. When goodwill forms part of a cash generating unit (or group of cash generating units) and part of the asset within that unit is transferred, the goodwill associated with this asset is included in the carrying amount of the asset in order to determine the gain or loss on the sale.

The goodwill transferred in these circumstances is measured on the basis of the respective values of the asset transferred and the portion of the unit retained. The earnings results of a subsidiary acquired during the period are included in the consolidated financial statements from the date of its acquisition. Conversely, the earnings results of a transferred subsidiary are included in the consolidated financial statements until the date on which control ceases. The difference between the consideration for the transfer and the carrying amount at the disposal date is recognised in the income statement. The financial statements of the Parent Company and the other companies used to prepare the consolidated financial statements refer to the same date. Where necessary, any financial statements of the consolidated companies prepared on the basis of different accounting policies are brought into compliance with the Group's accounting principles.

SECTION 4 - Events after the reporting date

Merger by incorporation of SIA S.p.A. into NEXI S.p.A.

On 11 February 2021, following the approval by the Boards of Directors of Cassa Depositi e Prestiti, CDP Equity, Mercury UK, SIA and Nexi, the final agreement relating to the merger by incorporation of SIA into Nexi (respectively, the "Merger" and the "Framework Agreement") was signed, in line with the terms and conditions of the memorandum of understanding signed and announced on 5 October 2020. The closing of the Merger is conditional upon the occurrence of certain standard conditions precedent for transactions of this type, including the obtainment of the relevant authorisations, including that of the competent Antitrust Authority. The transaction will also be subject to a vote under the whitewash mechanism at the Nexi extraordinary general meeting called to approve the Merger. The economic impacts for the Mediolanum Group will be determined on the basis of the share swap on the merger date. On the basis of the information currently available, Banca Mediolanum would hold 7,688,728 new shares of the Company after the Merger.

CEDACRI shares

In the first quarter of 2021 a framework agreement was finalised for the sale of the shares related to Cedacri held in the portfolio of financial assets at fair value through other comprehensive income. This agreement, which provides for the disposal of the shares at a value higher than that recorded at the end of the 2020 financial year, also establishes a series of contractual constraints that will be defined with the purchaser. The relevant capital gain from disposal will be recognised as an increase in shareholders' equity as envisaged for the category to which it belongs in 2021 once the sale has been completed.

It should be noted that in the proposed accounting statement, the fair value of the company in question at 31 December 2020 was assessed by an independent expert on the basis of the most recent plans adopted by the company and the most widely used market practices, and the aforementioned framework agreement was not taken into account as these are circumstances that took place in 2021.

No other events that could have a material effect on the Group's financial position and earnings results took place after 31 December 2020.

SECTION 5 – Other aspects

Risks, uncertainties and impacts of the Covid-19 epidemic

As expressly referred to in the CONSOB communication and the ESMA recommendations, the section in question highlights the impacts of the spread of the Covid-19 pandemic on the Group's income statement for the period ended 31 December 2020. Account was also taken of the Bank of Italy's aforementioned communication of 15 December 2020.

During the period under review, the impacts of Covid-19 mainly affected the following line items:

- > measurement of securities at fair value;
- > recurring revenues and management fee income and expense on assets under management;
- > value adjustments to loans and receivables;
- > administrative expenses.

Despite the widespread effects of the Covid-19 pandemic in the economic context, the Mediolanum Group closed the financial statements for the year ended 31 December 2020 with a net profit of €434.5 million, compared with €565.2 million recorded in the comparative period.

Due to the composition of the Mediolanum Group's portfolio and the interventions of the European Central Bank on government securities, the effects of the Covid-19 pandemic were limited. Performance fees, meanwhile, decreased by €271.2 million compared with the substantial results recorded in the period of comparison due to the performance of the financial markets.

Despite the emergency situation, the Mediolanum Group recorded significant net inflows of €7,716.9 million compared with €4,063.9 million at 31 December 2019. More specifically, net inflows in mutual funds, through both direct investments and investments in unit-linked policies, amounted to €2,966.6 million, up by 48.3% compared with 2019 (31.12.2019: +€2,000.1 million). Net inflows in other Life insurance products, excluding unit-linked products, amounted to €40.1 million (31.12.2019: +€24.8 million). Assets under administration strongly increased compared with the comparative period, to €3,211.9 million from €946.0 million at

31 December 2019.

Foreign market net inflows amounted to €1,078.9 million, compared with €631.5 million in the comparative period.

With regard to the effects of the review of credit models for the calculation of collective provisions, also in the light of the new parameters resulting from the Covid-19 pandemic, it should be noted that no significant impacts were generated. In fact, credit adjustments increased slightly (considering both the collective and analytical portions) on the comparative period. Item 130 of the income statement amounted to €22.8 million, compared with €19.8 million in the comparative period. For further details, please see the description in Part E - Information on risks and the relevant hedging policies, in the section on credit risk.

Administrative expenses reflect the fact that the extraordinary costs incurred in response to the emergency were substantially offset by savings on activities not performed. The overall impact on the income statement of this type of expenditure is therefore marginal.

Other items of the statement of financial position and their impact on the income statement, such as allowances for the sales network or technical reserves and other financial liabilities, were determined in continuity with the previous reporting period, as it was not necessary to take into account different variables and assumptions from those previously used.

With regard to business continuity, it is believed that it is reasonable to expect that the Company, as well as the companies belonging to the Group in question, will continue to operate as a going concern for the foreseeable future, and therefore the consolidated financial statements for 2020 have been prepared on a going concern basis. The directors also believe that the risks and uncertainties that may be encountered in the course of operations, including in view of the effects of Covid-19, are not significant and are therefore not such as to generate doubts over business continuity.

Contractual amendments arising from Covid-19

1) Contractual amendments and accounting derecognition (IFRS 9)

The Group companies that participated in the initiatives implemented by the government, trade associations and individual banks in response to the Covid-19 pandemic were the parent company Banca Mediolanum, the Spanish subsidiary Banco Mediolanum and EuroCQS.

Banca Mediolanum, among other initiatives, took part in those identified by the "Cura Italia" and "Liquidity" Decrees.

In particular, attention should be drawn to:

- > the possibility for customers with "first home" mortgages to obtain, at their request, the suspension of payments with the subsidy provided by the Gasparrini Fund, consisting of a 50% reduction in the interest (this measure gave rise to 2,311 suspensions totalling €12.8 million in suspended repayments);
- > suspension of repayments on loans to business customers, as provided for by the Cura Italia decree, including €3 million relating to mortgage relationships and €3.5 million relating to lending relationships;
- > participation in the ABI-INPS agreement for the disbursement of advances on Cassa Integrazione (Italian Redundancy Fund) cheques of approximately €2 million involving 1,415 approved credit facilities;
- > the granting of loans guaranteed by the MCC Fund and SACE to companies that suffered damages as a result of Covid-19.
- > In particular, loans of up to €800,000, totalling €89 million, loans above €800,000 with an MCC guarantee, totalling €21.9 million, and loans with a SACE guarantee, totalling €15 million (two loans) were granted.

For the company EuroCQS, which took part in the Assofin moratorium, 815 applications were received, 387 of which were granted, 146 were not granted and 282 are under management. In view of the status of “beneficiary” identified by the moratoria, the customers granted forbearance consisted almost entirely of employees of private companies, which made very extensive use of the extraordinary social shock absorbers provided for by law.

It should be noted that the impacts of these contractual amendments have had no material effects on the Group’s financial statements. These forbearance measures did not require derecognition of the receivables and the effects of the modifications as defined by IFRS 9 were negligible given the amounts involved.

1) Amendment of accounting standard IFRS 16

With respect to lease agreements, it should be noted that the Group companies have not applied the “practical expedient” provided for in Regulation (EU) No 1434/2020 following amendments to the term of the loans.

Targeted Longer-Term Refinancing Operations - TLTRO

On 18 June 2020, Banca Mediolanum was allocated €950 million in the Targeted Longer-Term Refinancing Operations III (TLTRO III) auction of the European Central Bank.

In these financial statements, the operation was shown in accordance with IFRS 9, as it was recognised as a financial liability and not as a grant, and therefore the measurement of the liability related to the loan received is recognised according to the application of the amortised cost on the basis of “expected cash flows”, considering that the benchmark forecasts of cumulative net lending have been reached according to the financial projections available to the Bank. Specifically, the accrued interest recognised at 31 December was approximately €5 million. The rate applied is 1% per annum.

It should also be noted that the funds obtained have been used for the ordinary management of cash flows and conversely no particularly risky investments have been acquired or financing disbursed. As confirmation of this policy, in line with previous years, it should be noted that in 2020 all the risk indicators remained within the Risk Appetite thresholds and within the limits defined in the policy.

Use of estimates

The preparation of these consolidated financial statements entailed the use of complex valuations and estimates which had an impact on the assets, liabilities, costs and revenues recognised as well as on the identification and quantification of potential assets and liabilities.

The development of such estimates involves the use of available information and the adoption of subjective assessments, also based on historical experience, used to make reasonable assumptions for the recognition of operating events. By their nature, the estimates and assumptions used may vary from one year to the next and, therefore, it cannot be excluded that in subsequent years the values recognised in the financial statements may also vary significantly as a result of changes in the subjective assessments used.

If the uncertainties are more significant and/or the activities being measured are particularly material, the valuation is supported through the use of external consultants/experts.

The main situations in which subjective assessments are most required are:

- > the quantification of impairment losses on loans, equity investments and other financial assets in general;
- > the use of valuation models to recognise the fair value of financial instruments not listed on active markets;
- > assessing the appropriateness of the value of goodwill and other intangible assets;
- > determining the amounts of staff provisions and provisions for liabilities and charges; and
- > the estimate of tax liabilities and the assessment of the related risk of an unfavourable outcome;
- > estimates and assumptions regarding the recoverability of deferred tax assets;
- > the demographic and financial assumptions used in valuing insurance products and defining the bases for calculating the supplementary reserves laid down in insurance legislation, as well as the shadow reserves and liability adequacy tests provided for in IFRS 4.

In some of the cases listed above, the main factors that are estimated by the Group and therefore contribute to determining the carrying value of assets and liabilities may be identified.

It should be noted that:

- > to determine the fair value of financial instruments not listed on active markets, if it is necessary to use parameters that cannot be inferred from the market, the main estimates relate, on the one hand, to changes in future financial flows (or also income flows, in the case of shares), possibly contingent on future events and, on the other hand, the level of certain input parameters not listed on active markets;
- > for the allocation to the three credit risk stages provided for in IFRS 9 of loans and debt securities classified among financial assets at amortised cost and financial assets at fair value through other comprehensive income and the calculation of the relevant expected losses, the main estimates relate to: either the determination of the parameters for a significant increase in credit risk, based essentially on models for measuring the probability of default (PD) at the origination of the financial assets and at the reporting date; or the inclusion of forward-looking factors, including macroeconomic factors, for the determination of PD and loss given default (LGD); or the determination of the probability of the sale of impaired financial assets;

- > in determining estimated future cash flows from non-performing loans, certain elements are taken into account: expected recovery times, the estimated realisable value of any guarantees and the costs that are expected to be incurred for the recovery of the credit exposure;
- > to determine the value in use of intangible assets with an indefinite useful life in relation to the Cash Generating Units (CGUs) that make up the Group, the future cash flows in the analytical forecast period and the flows used to determine the terminal value, generated by the CGU, are estimated and separately and appropriately discounted. The cost of capital is one of the items estimated;
- > for valuations of properties, rents, sale prices, discount rates and capitalisation rates are estimated.
- > for the quantification of provisions for liabilities and charges, the amount of the disbursements necessary to fulfil the obligations is estimated – where possible – taking into account the actual probability of having to utilise resources;
- > for the determination of the items relating to deferred taxation, the probability of an actual future tax liability (taxable temporary differences) is estimated, as well as the degree of reasonable certainty – if any – of future taxable amounts at the time tax deductibility arises (deductible temporary differences and tax losses carried forward).

The directors periodically monitor the estimates and assessments made on the basis of historical performance and other factors deemed reasonable. Due to the uncertainty inherent in these financial statement items, the relative actual values may differ from estimates made due to unexpected elements not known on the estimation date.

It should also be noted that when defining the estimates and, in particular, the parameters underlying them, account was taken of the Covid-19 context and that this did not make any significant difference to them.

A.2 – PART RELATING TO THE MAIN FINANCIAL STATEMENT ITEMS

Accounting standards

This section describes the accounting standards used to prepare the consolidated financial statements at 31 December 2020. With regard to the phases of classification, recognition, measurement and derecognition of the various asset and liability items, as well as the methods of recognising revenues and costs, these standards are the same as those used by the Mediolanum Group in preparing the financial statements for the year ended 31 December 2019.

The following information is provided below:

- > the IFRS accounting standards, amendments and interpretations applied as of 01 January 2020;
- > the IFRS and IFRIC accounting standards, amendments and interpretations endorsed by the European Union that are not yet mandatorily applicable and had not been adopted early by the Group at 31 December 2020;
- > the IFRS accounting standards, amendments and interpretations not yet endorsed by the European Union.

For considerations regarding the main impacts, risks and uncertainties of the health emergency, please see the more detailed information in Section 4 – Other Aspects.

IFRS accounting standards, amendments and interpretations applied as of 1 January 2020

The following IFRS accounting standards, amendments and interpretations were applied for the first time by the Group as of 1 January 2020:

- > On 29 March 2018, the IASB published an amendment to the “References to the Conceptual Framework in IFRS Standards”. The conceptual framework defines the fundamental concepts for financial reporting and guides the board in the development of IFRS standards. The document helps to ensure that the standards are conceptually consistent and that similar transactions are treated equally so as to provide useful information to investors, lenders, and other creditors. The conceptual framework helps companies to develop accounting principles when no IFRS standard is applicable to a particular transaction and more generally helps interested parties to understand and interpret the standards.

The adoption of this amendment had no material effects on the Group's consolidated financial statements.

- > On 22 October 2018, the IASB published the document “Definition of a Business (Amendments to IFRS 3)”. The document provides some clarifications concerning the definition of a business for the purposes of the correct application of the IFRS 3 standard. In particular, the amendment clarifies that while a business usually produces an output, the presence of an output is not strictly necessary to identify a business in the presence of an integrated set of activities/processes and assets. However, to meet the definition of a business, an integrated set of activities/processes and assets must at least include an input and a substantive process that together contribute significantly to the ability to create an output. To this end, the IASB has replaced the term “ability to create output” with “contribute to the ability to create output” to clarify that a business can exist even without the presence of all the inputs and processes needed to create output. The amendment also introduced an optional “concentration test”, which allows a business to be excluded if the price paid is essentially attributable to a single asset or group of assets.

The adoption of this amendment had no effect on the Group's consolidated financial statements.

- > On 31 October 2018, the IASB published the document “Definition of Material (Amendments to IAS 1 and IAS 8)”. The document introduced an amendment to the definition of “material” in IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors. The aim of this amendment is to clarify the definition of “material” and to introduce the concept of “obscured information” alongside the concepts of omitted or incorrect information already present in the two standards subject to amendment. The amendment clarifies that information is “obscured” if it has been described in such a way as to produce for the primary readers of financial statements an effect similar to that which would have been produced if such information had been omitted or erroneous. The amendments introduced were endorsed on 29 November 2019.

The adoption of this amendment had no material effects on the Group's consolidated financial statements.

- > On 26 September 2019, the IASB published an amendment entitled “Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform”. This amends IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, as well as IFRS 7 Financial Instruments: Disclosures. In particular, the amendment changes some of the requirements for the application of hedge accounting, providing for temporary derogations from these, in order to mitigate the impact of the uncertainty of the IBOR reform (which is still ongoing) on future cash flows in the period prior to its completion. The amendment also requires companies to provide additional information on their hedging relationships that are directly affected by the uncertainties generated by the reform and to which the above derogations apply.

The adoption of this amendment had no material effects on the Group's consolidated financial statements.

IFRS and IFRIC accounting standards, amendments and interpretations endorsed by the European Union that are not yet mandatorily applicable and had not been adopted early by the Group at 31 December 2020

- > On 28 May 2020, the IASB issued an amendment to IFRS 16 Leases to make it easier for landlords to account for lease incentives (e.g. rent suspension or temporary rent reduction) arising from the Covid-19 pandemic.
The accounting standard IFRS 16 already envisages how lessees must take account of changes in lease payments, including incentives. In particular, in order to define how changes in lease payments - including incentives - are accounted for, IFRS 16 requires the valuation of individual agreements in order to determine whether incentives are to be considered amendments to the agreement. In this case, the lessee must recalculate the lease liability (and consequently the right of use), using a revised discount rate. IFRS 16 defines an amendment to the lease as a modification of the subject matter or the consideration of the lease not provided for in the original contractual conditions.
The amendment exempts lessees from having to consider individual leases to determine whether the incentives granted as a result of the Covid-19 pandemic are contractual changes and allows them to account for those incentives as if they were not changes, and therefore immediately in the income statement. The practical expedient applies to Covid-19 incentives that reduce rent payments due by 30 June 2021 and does not apply to landlords. The amendment is valid from 1 June 2020, but lessees can apply it immediately in any financial statements, interim or annual, and not yet approved.

The Group did not make use of the option provided for in this amendment.

- > On 28 August 2020, the IASB published, in light of the IBOR interbank interest rate reform, a document entitled "Interest Rate Benchmark Reform—Phase 2", which contains amendments to the following standards:
 - > IFRS 9 Financial Instruments;
 - > IAS 39 Financial Instruments: Recognition and Measurement;
 - > IFRS 7 Financial Instruments: Disclosures;
 - > IFRS 4 Insurance Contracts; and
 - > IFRS 16 Leases.

The Phase 2 amendments address issues arising during the reform of benchmark interest rates, including the replacement of a benchmark rate with an alternative. The amendments came into effect on 1 January 2021, with early adoption permitted.

The directors do not expect the adoption of these amendments to affect the Group's consolidated financial statements.

IFRS accounting standards, amendments and interpretations not yet endorsed by the European Union

It should be noted that during 2020 the IASB published some amendments to IFRS that will enter into force on 1 January 2022. Their adoption is not expected to entail any material impacts on the Group:

- > Amendments to IFRS 3 Business Combinations: these update the reference in IFRS 3 to the Conceptual Framework in the

revised version, without this involving changes to the provisions of the Standard;

- > Amendments to IAS 16 Property, Plant and Equipment: these do not allow the amount received from the sale of goods produced before the asset was ready for use to be deducted from the cost of the asset. Such sales revenues and the related costs will be recognised in the income statement;
- > Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: these clarify which cost items must be considered when assessing whether a contract will be loss-making;
- > Annual Improvements to IFRS Standards (Cycle 2018-2020): amendments were made to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments and the Illustrative Examples accompanying IFRS 16 Leases.

It should also be noted that on 17 March 2020 the IASB Board voted to postpone the entry into force of the new accounting standard IFRS 17 – Insurance Contracts to replace IFRS 4. Application has therefore been postponed until 1 January 2023.

The aim of the new standard is to ensure that entities provide relevant information that faithfully reflects the rights and obligations arising from the insurance contracts they write. The IASB developed this standard to eliminate inconsistencies and weaknesses in existing accounting policies, by providing a single principle-based framework to account for all types of insurance contracts, including reinsurance contracts, that an insurer holds. The new standard also establishes submission and reporting requirements to improve comparability between entities operating in this sector. The new standard measures an insurance contract based on a General Model or a simplified version of it called the Premium Allocation Approach (PAA).

The main features of the General Model are:

- > the estimates and assumptions of future cash flows are always current;
- > the measurement reflects the time value of money;
- > the estimates envisage the extensive use of information available in the market; > there is a current and explicit risk measurement;
- > the expected profit is deferred and aggregated in groups of insurance contracts at the time of initial recognition; and
- > the expected profit is recognised in the contractual coverage period taking into account any adjustments resulting from changes in the assumptions related to the cash flows of each group of contracts.

The PAA approach requires measurement of the liability for the residual coverage of a group of insurance contracts provided that, at initial recognition, the entity ensures that this liability is a reasonable approximation of the General Model. Contracts with a coverage period of one year or less are automatically eligible for the PAA approach. The simplification resulting from application of the PAA method does not apply to the valuation of liabilities for existing claims, which are measured using the General Model. However, it is not necessary to discount those cash flows if the balance is expected to be paid or settled within one year of the date on which the claim occurred. Entities must apply the new standard to insurance contracts issued, including reinsurance contracts issued, reinsurance contracts held, and also investment contracts with a discretionary participation feature (DPF).

The Directors expect the application of IFRS 17 to have a significant impact on the recognition of insurance contracts and the related information reported in the Group's consolidated financial statements. In this regard, a Group project is currently under way, involving the Parent Company of the conglomerate and the insurance Parent Company, with the aim of building the technological infrastructure necessary to develop the new accounting standard.

Finally, on 15 July 2020, the IASB published the document "Classification of Liabilities as Current or Non-current — Deferral of Effective Date (Amendment to IAS 1)", postponing the entry into force of the amendments to IAS 1 by one year until 1 January 2023. This amendment is intended to clarify that liabilities are classified as current or non-current, depending on the rights existing at the end of the reference period. Classification is not affected by the entity's expectations or events occurring after the reporting

date. The amendment also clarifies what IAS 1 means when it refers to the “settlement” of a liability.

1 - Financial assets at fair value through profit or loss

Classification criteria

Item “20. Financial assets at fair value through profit or loss” includes:

- > Financial assets held for trading;
- > Financial assets designated at fair value;
- > Other financial assets mandatorily measured at fair value.

This category includes debt securities or loans associated with an “other” business model, i.e. a method of managing financial assets not intended for the collection of contractual cash flows (“held to collect”) for the collection of contractual cash flows and sale of financial assets (“held to collect and sell”), debt securities, loans and units of UCIs that do not pass the “SPPI test” and equity instruments not qualifying as under exclusive, associated or joint control or held for trading or which, on initial recognition, were not classified as “financial assets at fair value through other comprehensive income”.

Financial assets held for trading

A financial asset is recognised under this item if it is acquired primarily with the aim of realising cash flows from its sale (the “Other” business model) in order to take advantage of profit opportunities. It also includes derivative contracts with a positive fair value that are not designated in the context of an accounting hedging relationship.

Financial assets designated at fair value

Financial assets (debt securities and loans) can be designated at fair value with the results of the valuation recognised in the income statement on the basis of the option (Fair Value Option) granted by IFRS 9. Designation at fair value is only permitted if it significantly eliminates or reduces the accounting asymmetry that would result from the valuation/recognition of gains/losses on different bases for assets or liabilities that are linked on a management basis.

Other financial assets mandatorily measured at fair value

A financial asset (debt security, share of UCI and loans) is recognised in this item if it is a financial instrument whose return is measured on the basis of fair value and is characterised by the absence, in contractual terms, of cash flows on pre-established dates that represent only payments of capital and interest on the capital to be repaid, i.e. if the Solely Payment of Principal and Interest test (the SPPI test) is failed.

Recognition criteria

Such instruments are initially recognised at the time of settlement if they are debt securities, equity securities or loans. The initial value is equal to the fair value of the instrument (generally the same as the consideration paid), without considering any transaction costs or income directly attributable to the instruments.

Valuation criteria

After initial recognition, the valuation is made at fair value with the relevant changes recognised in the income statement. In particular:

- > in Item "80. Net gains (losses) from trading" for financial assets recognised in Item "20. a) Financial assets held for trading";
- > in Item "110. a) Net gain (loss) from other financial assets and liabilities at fair value through profit or loss: financial assets and liabilities designated at fair value" for financial assets recognised in Item "20.b) Financial assets designated at fair value";
- > in Item "110. b) Net result of other financial assets and liabilities at fair value through profit or loss: other financial assets mandatorily measured at fair value", for financial assets recognised in Item "20. c) Other financial assets mandatorily measured at fair value".

The fair value of financial assets is determined based on prices recorded in active markets or on internal valuation models generally used in financial practice as described in more detail in Part A.4 "Fair value reporting".

Derecognition criteria

Financial assets are derecognised when the contractual rights to the cash flows from the assets expire or when the financial asset is sold with the transfer of substantially all the associated risks/benefits.

Reclassification criteria

Financial assets at fair value through profit or loss, other than equity securities, may be reclassified to "Financial assets at fair value through other comprehensive income" and "Financial assets measured at amortised cost". Reclassification may occur in the rare event that the entity decides to change its business model for management of financial assets. The transfer value is the fair value at the reclassification date, with forward-looking effects as of that date.

2 - Financial assets at fair value through other comprehensive income (FVOCI)

Classification criteria

This item includes financial assets whose contractual terms provide for cash flows on pre-established dates that represent only payments of capital and interest on the capital to be repaid, and which have therefore passed the SPPI test, and with the Held to Collect and Sell business model, the aim of which is to manage short-term financial instruments solely to meet liquidity needs. This category also includes equity securities not held for trading purposes and not qualifying as under exclusive, associated or joint control. The option to classify these assets as financial assets at fair value through other comprehensive income applies. This option, which may be exercised at the time of initial recognition of the individual financial instrument, is irrevocable.

Recognition criteria

Initial recognition occurs at the settlement date for debt securities and equities and at the disbursement date for loans. Initial recognition takes place only when the Company becomes a party to the contractual clauses of the instrument, i.e. at the time of settlement. The carrying value is equal to the fair value, generally the same as the cost of the instrument including directly attributable transaction costs/revenues.

Valuation criteria

After initial recognition, these assets continue to be measured at fair value, with changes in value recognised in Item "I20. Valuation reserves".

Value adjustments are recognised in the income statement under Item "I30. Credit-risk induced net value adjustments/write-backs", offsetting Item "I20. Valuation reserves". Write-backs are recognised when there is an improvement in the creditworthiness of the asset. For the methods of determining fair value, please see the criteria described above for "Financial assets at fair value through profit or loss" and "Part A.4 - Fair value reporting" below.

Derecognition criteria

Financial assets are derecognised when the contractual rights to the cash flows from the assets expire or when the financial assets are sold with the transfer of substantially all the associated risks/benefits. If it is not possible to ascertain the transfer of risks and benefits, financial assets are derecognised when no type of control over them is maintained. Lastly, transferred assets are derecognised if the contractual right to receive the relevant cash flows is maintained, but at the same time a contractual obligation is entered into to pay those cash flows to a third party without delay and only to the extent of those received.

Reclassification criteria

Financial assets at fair value through other comprehensive income, other than equity securities, may be reclassified to the accounting categories "Financial assets at fair value through profit or loss" and "Financial assets measured at amortised cost". Reclassification may take place under the very rare circumstances in which a decision is made to change the business model. The transfer value is the fair value at the reclassification date.

In the event of reclassification to "Financial assets measured at amortised cost", the gain/loss accumulated in the valuation reserve is eliminated as a balancing entry to an adjustment to the fair value of the financial asset at the reclassification date.

In the event of reclassification to "Financial assets at fair value through profit or loss", the gain/loss accumulated in the valuation reserve is reclassified from equity to the income statement.

3 – Financial assets measured at amortised cost

Classification criteria

Item “40. Financial assets measured at amortised cost” includes financial assets (debt securities and loans) whose contractual terms include cash flows on pre-established dates that represent only payments of capital and interest on the capital to be repaid, and which have therefore passed the SPPI test (Held to Collect business model), held with the aim of collecting financial cash flows in the medium to long term.

In particular, the following are recognised under this item:

- a) loans to banks;
- b) loans to customers.

Loans to customers include both loans granted to customers and investments in securities – mainly government securities – as part of the management of the Group’s banking book.

Recognition criteria

Initial recognition of the financial asset occurs at the settlement date for debt securities and at the disbursement date for loans. Upon initial recognition, financial assets are recognised at fair value, which corresponds to the consideration paid, including any costs and income directly attributable to the instrument.

Valuation criteria

After initial recognition, the financial assets in question are measured at amortised cost. Such financial instruments are measured by using the effective interest rate criterion, i.e. the rate that exactly discounts future payments or receipts estimated over the expected life of the financial instrument. In order to determine the effective interest rate, cash flows must be assessed taking into account all the contractual terms of the financial instrument.

The carrying amount is adjusted to take into account any provision to cover expected losses at each annual or interim reporting date. Such assets are tested for impairment to estimate the expected losses, recognised in the income statement under Item “130. Net credit risk-induced adjustments/write-backs”.

The impairment model involves three separate stages based on the evolution of the borrower’s creditworthiness, corresponding to different criteria for measuring expected losses:

- > Stage 1: includes performing financial assets for which no significant decrease in credit risk since the date of initial recognition has been observed or whose credit risk is considered low. Impairment is based on the estimated expected loss on a one-year time horizon;
- > Stage 2: includes performing financial assets that have undergone a significant deterioration in credit risk since initial recognition. Impairment is based on the estimated expected loss on a time horizon of the entire remaining life of the financial asset;
- > Stage 3: this includes non-performing financial assets to be valued on the basis of the estimated expected loss over the entire life of the instrument.

For stage 1 and 2 assets, expected losses are determined according to a process that takes into account certain risk parameters, i.e. the probability of default (PD), the loss given default (LGD), and the exposure at default (EAD), derived from internal regulatory credit risk calculation models appropriately adjusted to take into account the specific requirements of the accounting regulations. For level 3 assets, impairment is quantified on the basis of a valuation process – analytical or flat rate based on homogeneous risk categories – designed to determine the present value of recoverable expected future flows, discounted on the basis of the original effective interest rate or a reasonable approximation thereof, where the original rate is not directly available. Non-

performing assets include exposures categorised as doubtful, unlikely to pay or past due for more than 90 days, according to the definitions established in applicable supervisory legislation and cited in Bank of Italy Circular No. 262.

Derecognition criteria

Financial assets are derecognised when the contractual rights to the cash flows from the assets expire or when the financial asset is sold with the transfer of substantially all the associated risks/benefits. If it is not possible to ascertain the substantial transfer of risks and benefits, financial assets are derecognised when no type of control over them is maintained.

4 - Hedging transactions

It should be noted that, in accordance with the provisions of IFRS 9, the Group has opted to continue to apply all of the provisions of IAS 39 on hedge accounting.

Classification criteria

Asset and liability items include hedging financial derivatives that, at the reporting date or in the interim period, present a positive and negative fair value, respectively.

The purpose of hedging transactions is to neutralise changes in fair value or cash flows on a certain financial instrument or group of items due to a certain risk, in the event that this particular risk actually occurs.

Of the hedges provided for, the Company uses fair value hedging, the purpose of which is to hedge exposure to changes in the fair value of a financial statement item due to a particular risk. In particular, the Company has hedged the fair value of a portfolio of fixed rate mortgages against interest rate risk.

Only instruments that involve an external counterparty can be designated as hedging instruments. Net amounts resulting from imbalances between financial assets and liabilities may not be hedged.

Recognition criteria

Hedging derivatives are recognised at fair value on the date the related contracts are entered into.

Valuation criteria

Hedging derivatives are measured at fair value. As they are accounted for as fair value hedges, changes in the fair value of the hedged item are offset by changes in the fair value of the hedging instrument. Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item (in relation to changes generated by the underlying risk factor).

Any resulting difference, which represents the partial ineffectiveness of the hedge, is the net effect on profit or loss. Fair value is determined on the basis of quoted prices in an active market, prices quoted by market participants or internal valuation models commonly used in financial practice, which take into account all risk factors associated with the instruments and are based on market information. A derivative instrument is recognised as a hedging derivative if there is formal documentation of the hedging relationship between the hedged item and the hedging instrument and if it is effective at the inception of the hedge and, prospectively, throughout the term of the hedge. The effectiveness of a hedging relationship depends on the extent to which changes in the fair value of the hedged item are offset by changes in the hedging instrument. Hedging relationships are generally regarded as effective if, at the inception of the hedge and in subsequent periods, changes in the fair value of the financial hedging instrument are offset by changes in the fair value of the hedged item and if the actual results fall within a defined range (80% - 125%).

Effectiveness is assessed at each year-end reporting date or when interim statements are prepared, using:

- > prospective tests, which justify the application of hedge accounting as they prove expected effectiveness;
- > retrospective tests, which highlight the degree of effectiveness of the hedge in the period to which they refer. In other words, they measure to what extent the actual results differ from the perfect hedge.

If the tests performed do not confirm the effectiveness of the hedge, from that moment on hedge accounting is discontinued, the derivative hedging contract is reclassified to trading instruments and the hedged financial instrument again acquires the measurement criterion corresponding to its classification in the financial statements, and the changes in fair value recognised on the hedged instrument until the date of discontinuation of the hedge are subsequently amortised using the effective interest rate method.

Derecognition criteria

If the tests do not confirm hedge effectiveness, either retrospectively or prospectively, hedge accounting is stopped. The hedging derivative contract is then reclassified to "Financial assets at fair value through profit or loss" and, in particular, to financial assets held for trading. In addition, the hedging relationship ceases when the derivative or hedged item expires, is extinguished or exercised or it is no longer highly likely that the future hedged transaction will be carried out.

6 - Tangible assets

Classification criteria

Tangible assets include land, operating properties, property investments, technical plant, furniture, fixtures and equipment of any kind.

These are tangible items that are held for use in the production or supply of goods or services, to be leased to third parties, or for administrative purposes and are expected to be used for more than one period.

Any assets used in the context of finance leases are also recorded under this item, although their legal ownership remains with the leasing company.

As of 1 January 2019, the rights of use acquired with a lease relating to the use of a tangible asset (for lessees), assets granted

under operating leases (for lessors) and the incremental improvements and expenses incurred on owned assets and rights of use on tangible assets under leases, are also included.

Recognition criteria

Tangible assets are initially recognised at cost, which includes not only the purchase price but also any ancillary costs directly attributable to purchasing and commissioning the asset.

Extraordinary maintenance expenses that increase the future economic benefits associated with the asset are added to the carrying value of the asset, while the costs of day-to-day servicing are recognised in the income statement.

Incremental improvements and expenses incurred on third-party assets arising from lease agreements pursuant to IFRS 16 from which future benefits are expected to flow are recognised, if they are individually identifiable and separable, in item "90. Tangible assets" in the most appropriate category and, if not individually identifiable and separable, under item "90. Tangible assets", as an increase the right of use, recognised in accordance with the provisions of IFRS 16 to which they relate.

Valuation criteria

Tangible assets, including non-operating properties, are valued at cost, less any depreciation and impairment.

Assets are systematically depreciated over their useful life, using the straight-line method as the depreciation criterion, with the exception of land, whether acquired individually or incorporated into the value of buildings, since they have an indefinite useful life. Where the value of land is incorporated into the value of the building due to application of the component approach, it is regarded as an asset that can be separated from the building; the subdivision between the value of the land and the value of the building takes place on the basis of appraisals by independent experts, only in the case of self-contained buildings.

At each interim or year-end reporting date, if there is any evidence that an asset may be impaired, a comparison is made between the carrying value of the asset and its recoverable value, equal to the greater of the fair value, net of any costs to sell, and the relative value in use of the asset, understood as the present value of future cash flows generated by the asset. Any adjustments are recognised in the income statement. If the grounds for impairment cease to apply, a write-back is recognised, which may not exceed the value that the asset would have had, net of depreciation calculated in the absence of previous impairment.

Derecognition criteria

A tangible asset is derecognised on disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected to flow from its disposal.

Tangible assets represented by right-of-use assets in leases

Under IFRS 16, a lease is an agreement or part of an agreement which, in exchange for a consideration, transfers the right to use an asset (the underlying asset) for a period of time. A financial lease essentially transfers to the lessee all the risks and benefits of ownership of the asset. Otherwise, the agreement constitutes an operating lease.

The lease starts from the date on which the lessee is authorised to exercise its right to use the leased asset and corresponds to the date of initial recognition of the lease. On that date, the lessee records:

- > an asset consisting of the right to use the leased asset. The asset is recognised at cost and determined by the sum of a financial liability for the lease, the lease payments made before or at the inception of the lease, the initial direct costs and any costs incurred to restore or dismantle the underlying asset;
- > a financial liability corresponding to the present value of lease payments due. The discount rate used is, if determinable, the implicit interest rate; otherwise, the lessee's marginal financing rate is used.

The term of the lease is determined taking into account periods covered by an extension option and/or periods covered by a lease termination option, if reasonably certain.

During the term of the lease, the lessee must:

- > assess the right of use at cost, net of accumulated amortisation and cumulative value adjustments determined and accounted for in accordance with IAS 36 Impairment of Assets, adjusted to take account of any redetermination of the lease liability;
- > increase the liability arising from the lease transaction due to the accrual of interest expense calculated at the implicit interest rate of the lease or at the marginal financing rate and reduce it for payments of principal and interest.

In the event of changes in lease payments, the liability must be redetermined; the impact of the redetermination of the liability is recognised as a balancing entry to the asset consisting of the right of use.

Derecognition criteria

The right of use deriving from leases is derecognised from the financial statements at the end of the lease term.

For further information, please see the relevant section of the Notes (Part M – Leases).

7 - Intangible assets

Classification criteria

Intangible assets include goodwill and application software to be used for several years, as well as intangible assets generated during the acquisition of a business. Goodwill is the positive difference between the acquisition cost and the fair value of the assets and liabilities acquired. Other intangible assets are recognised as such if they are identifiable and arise from legal or contractual rights. An intangible asset can be recognised as goodwill when the positive difference between the fair value of the net assets acquired and the acquisition cost of the equity investment (including ancillary costs) represents the equity investment's future income-generating potential. If the difference is negative (badwill), it is recognised directly in the income statement, if it is not due to provisions for risks not reflected in the accounts of the business being acquired.

Recognition criteria

Intangible assets are recognised at acquisition cost, including direct costs incurred to prepare the asset for use, and increased by any subsequent expenses incurred to increase its initial economic functionality, net of accumulated amortisation and any impairment losses recorded.

Goodwill, which represents the positive difference between the acquisition cost and the fair value of the assets and liabilities of an acquired company, representative of the future earning capacity of the equity investment, is also recognised in intangible assets. If this difference is negative (badwill), or if goodwill does not represent future income-generating capacity for the investee company, it is recognised directly in the income statement.

Valuation criteria

The cost of intangible assets is amortised on a straight-line basis over their useful life (mainly defined as three years for software on a flat-rate basis where there are no nullifying elements that can be used to define the useful life). If their useful life is indefinite, the assets are not amortised, but only periodically tested for impairment.

The asset's recoverable amount is estimated at each reporting date. The impairment loss, which is recognised in the income statement, is equal to the difference between the carrying amount of the asset and its recoverable value. If there is objective evidence that an individual asset may have become impaired, the carrying amount of the asset and its recoverable amount, i.e. the greater of its fair value, less selling costs and its value in use, understood as the present value of the future cash flows that are expected to arise from the asset, are compared. Any value adjustments are recognised under item 220 "Net value adjustments/write-backs of intangible assets" in the income statement.

If the value of an intangible asset previously written down is written back, the new carrying amount may not exceed the net carrying amount that would have been determined if no impairment loss had been recognised in the previous years.

Intangible assets include goodwill, which may be recognised as part of a business combination when the positive difference between the consideration transferred and any recognition at fair value of the minority interest and the fair value of the assets acquired is representative of future earning capacity.

Assets with an indefinite useful life, such as goodwill, are not subject to systematic amortisation, but rather periodically tested for impairment.

In relation to the provisions of the accounting standard, "trigger events" are defined for the purposes of this verification, i.e. indicators from external/internal information sources that are monitored at least every six months and require impairment testing of equity investments and goodwill. Accordingly, an impairment test is carried out annually (or whenever there is evidence of impairment).

To this end, the cash generating unit where the goodwill is to be allocated is identified. The amount of any impairment loss is determined on the basis of the difference between the carrying amount and the recoverable amount, if lower, and is recognised in the income statement under item 270 "Goodwill impairment". The recovery value is understood as the greater of the fair value of the cash generating unit, net of any selling costs, and its value in use, which is the present value of the estimated cash flows for the operating years of the cash generating unit, resulting from its disposal at the end of its useful life, or taking into account the market multiples methodology. The recognition of any subsequent write-backs is not permitted.

Derecognition criteria

An intangible asset is derecognised from the statement of financial position upon disposal or when no further future economic benefits are expected to arise from its use or disposal, and any difference between its value on disposal or recoverable value and its carrying amount is recognised in the income statement under item 280 "Gains (losses) on disposal of investments".

8 - Non-current assets and disposal groups

Classification criteria

These non-current assets and liabilities and disposal groups of assets and liabilities, whose carrying amount will presumably be recovered through sale rather than ongoing use, must be immediately available for sale to be classified under items 120 in assets and 70 in liabilities in the statement of financial position, and active and concrete programmes must be identified such as to make it highly likely that they will be disposed of within year of being classed as assets held for sale.

Valuation criteria

These assets or liabilities are measured at the lower of their carrying amount and their fair value net of disposal costs. Gains and losses attributable to disposal groups of assets and liabilities are recognised in the income statement under item "320. Profit (loss) on discontinued operations after tax". Gains and losses attributable to individual assets held for sale are recognised under the most appropriate item in the income statement.

Derecognition criteria

Non-current assets and groups of assets held for sale are derecognised from the statement of financial position at the time of disposal.

9 - Current and deferred taxation

The Italian companies of the Mediolanum Group adhere to the "national tax consolidation scheme" regulated by Articles 117-129 of the Consolidated Law on Income Tax (TUIR), introduced by Legislative Decree No. 344/2003. This is an optional scheme under which the taxable profits or tax loss of each subsidiary participating in the tax consolidation – together with withholdings, deductions and tax credits – are consolidated into the Parent Company, for which a single taxable income or single tax loss amount is determined that can be carried forward (given by the algebraic sum of own income/losses and that of the participating subsidiaries and, consequently, a single tax debt/credit).

Under this option, Group companies that are members of the tax consolidation scheme calculate their own tax charge and the corresponding taxable income is consolidated into the Parent Company. In case of tax losses of one or more Group companies against which consolidated taxable profit for the current year is available or against which there is a high probability that future taxable profits will be available, those tax losses are also consolidated into the Parent Company. The Group recognises current and deferred taxes applying the tax rates in effect in the countries where the consolidated subsidiaries are incorporated.

Income taxes, calculated in accordance with current tax legislation, are accounted for on the basis of the costs and revenues that generated them. They therefore represent the tax charge, equal to the balance between current and prepaid and deferred taxation, relating to income for the year.

Income taxes are recognised in the income statement, except for items which are credited/charged directly to shareholders' equity.

Provisions for income taxes are calculated on the basis of an estimate of the current, prepaid and deferred tax expense. Prepaid and deferred taxes are calculated in respect of the temporary differences, with no time limit, arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets are recorded to the extent that it is probable that they will be recovered, i.e. to the extent that the Company – or the Parent Company under Italy's tax consolidation regime – is likely to continue to generate positive taxable income. Prepaid and deferred taxes are not netted, and are recognised separately in the statement of financial position under "Tax assets" and "Tax liabilities" respectively.

Deferred taxes are calculated using the liability method based on the temporary differences recognised at the reporting date between the tax values used for the assets and liabilities and the values reported in the financial statements. Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences and for tax assets and liabilities carried forward, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the tax assets and liabilities can be utilised, unless:

- > the deferred tax asset associated with the deductible temporary differences arises from initial recognition of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, has no effect on the net profit for the year calculated for financial reporting purposes or on the profit or loss calculated for tax purposes;
- > with regard to taxable temporary differences associated with equity investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that deductible temporary differences will reverse in the immediate future and that there are adequate tax profits against which temporary differences can be utilised.

Assets and liabilities recognised for prepaid and deferred taxes are systematically measured to take account of any changes in the rules or rates and of any subjectively different situations of the Group companies.

Any tax disputes fall within the scope of IAS 12, which does not include specific valuation principles for the associated tax liabilities. The valuation of tax disputes was therefore carried out on the basis of IAS 37, without prejudice to the presentation principles of IAS 12.

10 – Provisions for liabilities and charges

Commitments and guarantees given

Provisions for liabilities and charges in respect of commitments and guarantees issued are recognised in respect of all commitments and guarantees, both revocable and irrevocable, pursuant to both IFRS 9 and IAS 37. This item includes the estimate of expected loss calculated on these instruments resulting from the valuation process, as described in the section entitled “Value adjustments”.

The provision for the period is recorded under item “200. Net provisions for liabilities and charges - a) commitments and guarantees given”.

Pensions and similar obligations

Pension provisions include provisions relating to employee benefits that will be paid out after termination of employment and may be classed as defined contribution plans or defined benefit plans. In particular:

- > defined benefit plan: provides benefits that depend on different elements, such as age, years of service and remuneration policies. In this case the actuarial risk and the investment risk are substantially borne by the company;
- > defined contribution plan: the company pays predetermined contributions for this type of plan. The benefit is the accumulated amount represented by the contributions and their yield. The provider has no actuarial and/or investment risk associated with this type of plan as it has no legal or implicit obligation to pay additional contributions if the provision does not have sufficient assets to pay benefits to all employees.

Other provisions

Provisions for liabilities and charges are liabilities whose maturity or amount are uncertain. A contingent liability is defined when:

- > the company has a present obligation as a result of a past event;
- > it is likely that the disbursement of resources capable of generating economic benefits will be required to fulfil the obligation;
- > a reliable estimate can be made of the amount arising from fulfilment of the obligation.

The amounts set aside are determined so as to represent the best estimate of the expenditure required to meet the obligations. Risks and uncertainties relating to the facts and circumstances at issue are considered in determining this estimate. The provisions set aside are periodically reviewed and may be adjusted to reflect the best current estimate.

“Other provisions” include, *inter alia*, obligations concerning the benefits payable to agents and in particular the additional customer allowance, the portfolio and structure allowance and managers’ allowance, for agents providing assistance and coordination, whose compensation is based on specific commercial parameters and is granted upon the achievement of an old-age pension – provided that no competing activities have been performed in the two years following the end of the mandate – or in cases of total permanent disability or death. The provision for misconduct by financial advisors, which covers the risk of future liabilities for claims below the deductible threshold of the insurance policy taken out to cover losses suffered by customers as a result of misconduct on the part of financial advisors, is also included.

11 - Financial liabilities measured at amortised cost

Classification criteria

The item "Financial liabilities measured at amortised cost" includes the sub-items "Payables to banks", "Payables to customers" and "Debt securities in issue". Payables recognised by the lessee in the context of lease transactions are also included, as are repurchase agreements for collection and securities lent with receipt of money guarantee which is fully available to the lender. Finally, operating payables associated with the provision of financial services are included.

Recognition criteria

The value at which they are initially recognised is equal to their fair value, usually equal to the consideration received or the issue price including costs/income directly attributable to the transaction. Lease liabilities are recognised on the basis of the present value of future lease payments still to be paid for the contractual term.

Valuation criteria

After initial recognition, medium/long-term financial liabilities are measured at amortised cost using the effective interest rate method as defined above.

Short-term liabilities, for which the time factor is not significant, are valued at cost. Lease liabilities must be redetermined in the event of lease modification. The impact of the redetermination will be recorded as a balancing entry to the right of use asset.

Derecognition criteria

Financial liabilities are derecognised from the financial statements or interim statements when they expire or are extinguished. The difference between the carrying amount of the liability and the amount paid to purchase it is recognised in the income statement.

12 - Financial liabilities held for trading

Classification criteria

Financial liabilities held for trading include:

- > trading derivatives with a negative value;
- > uncovered short positions on securities trading.

Recognition criteria

Such financial liabilities are initially recognised on receipt of the sums collected or on settlement of the financial instruments underlying the transaction. The fair value of any financial liabilities issued below market value is subject to assessment and the difference over market value is directly recognised in the income statement. After initial recognition, financial liabilities are measured at fair value.

Valuation criteria

After initial recognition, the financial instruments in question are measured at fair value, with changes in value recognised under Item "80. Net gains (losses) from trading".

Derecognition criteria

Financial liabilities held for trading are derecognised when the contractual rights to the related cash flows expire or when the financial liabilities are transferred with the substantial transfer of all the risks and benefits of their ownership.

13 – Financial liabilities designated at fair value

Classification criteria

Financial liabilities designated at fair value may be recognised on the basis of the option (the Fair Value Option) granted by IFRS 9, i.e. when a hybrid contract contains one or more embedded derivatives and the embedded derivative significantly modifies the cash flows that would otherwise be provided by the contract or when the fair value designation recognised in the income statement allows for better reporting.

Recognition criteria

Financial liabilities designated at fair value, accounted for in accordance with the Fair Value Option, are recognised at the issue date. The value at initial recognition is equal to the cost understood as the fair value of the instrument.

The option of designating a liability at fair value is irrevocable on an individual financial instrument and does not require the same application to all instruments with similar characteristics.

Valuation criteria

These instruments are measured at fair value, allocating changes in value to item “110. a) Net gain (loss) from other financial assets and liabilities at fair value through profit or loss: financial assets and liabilities designated at fair value”.

Derecognition criteria

Financial liabilities are derecognised from the financial statements or interim statements when they expire or are extinguished.

14 – Foreign-currency transactions

Assets and liabilities denominated in foreign currencies are recorded, at initial recognition, in the reporting currency, by applying the exchange rate in force on the transaction date to the foreign currency amount.

At each interim or year-end reporting date, financial statement items in foreign currencies are valued as follows:

- > monetary financial assets and liabilities are converted at the exchange rate at the reporting date;
- > non-monetary items measured at historical cost are translated at the exchange rate in force at the transaction date;
- > non-monetary items measured at fair value are converted using the exchange rates in force at the reporting date.

Foreign exchange differences resulting from the settlement of monetary items or the conversion of monetary items at rates other than the initial conversion rates or the conversion rates in the previous financial statements are recognised in the income statement for the period in which they arise.

When a gain or loss relating to a non-monetary item is recognised in shareholders' equity, the foreign exchange difference relating to that item is also recognised in equity. Conversely, when a gain or loss is recognised in the income statement, the relevant foreign exchange difference is also recognised in the income statement.

15 – Insurance assets and liabilities

Insurance contracts

According to IFRS 4, insurance contracts are contracts that transfer significant insurance risks. Such contracts may also transfer financial risks.

An insurance risk is significant if, and only if, there is a reasonable possibility that the occurrence of the insured event will cause a significant change in the present value of the insurer's net cash flows. This limit is set at 5% for the Mediolanum Group.

Life technical reserves

Technical reserves represent the commitments contractually assumed relating to insurance contracts and investment contracts with DPFs (Discretionary Participation Features).

Technical reserves include a component whose risk is not borne by policyholders (traditional product reserves) and reserves whose risk is borne by policyholders (linked reserves).

The traditional technical reserves of the Life class include the mathematical reserve, calculated analytically for each contract, on the basis of pure commitments and with reference to the actuarial assumptions used to calculate the relevant premiums; this reserve includes all revaluations accrued pursuant to contractual clauses, as well as specific appropriations to take account of interest rate risk and demographic risk, and is not less than the surrender values. The process of determining the reserves is based on a complex estimate by the directors, which includes many subjective variables and actuarial parameters.

The technical reserves also include the shares carried forward of premiums pertaining to the subsequent period and the share of future expenses arising from the management of contracts such as management expenses and additional health premiums.

The mathematical reserves also include the following appropriations:

- > Additional bonus reserves for contracts containing clauses that provide for the accrual of “bonuses” over the life of the contract. These bonuses relate to several tariff categories and are either commensurate with the maximum fees provided for in the first years, with a percentage of the payments made or with the initial loading. The reserves are appropriated policy by policy on the basis of a prudent estimate of the commitments accrued to date and of non-financial assumptions relating mainly to demographic variables and the lapse rates of the insurance contracts estimated on the basis of direct experience of the portfolio and possibly market data.
- > The additional guaranteed interest rate reserve for investment policy products related to separately managed accounts and for products with a pledged rate addresses the risk that the assets concerned will not generate sufficient returns to fulfil the financial commitments to policyholders (minimum guaranteed rate/technical rate). For the allocation of this reserve relating to products governed by Italian law, reference is made to the provisions of ISVAP Regulation 22, which provides for the projection of the vector of returns over a minimum horizon of four years. The Group has applied these provisions by projecting a vector of returns with reinvestment assumptions consistent with market expectations, applied the reduction of returns where provided for, and defined one of the methods set forth in the regulatory rules for offsetting results. The main assumptions used relate to the financial assumptions concerning the development of interest rates, the prospective profitability of the assets in the portfolio and decisions on reinvestment and non-financial assumptions primarily relating to demographic variables and the lapse rates of insurance contracts estimated on the basis of direct experience of the portfolio and possibly market data.
- > The additional demographic reserve safeguards the commitments made to policyholders to pay an annuity benefit at the end of the contractually defined contract according to the assumptions set at the time the contract was signed. The Group has applied a prudent estimate of the annuity conversion option which is based on average market data supported by internal experience of the portfolio. The technical reserves also include the reserve for amounts to be paid, which includes commitments to policyholders settled but not yet paid.
- > With regard to contracts with DPFs, a shadow accounting liability is also recognised, which includes capital gains/losses attributed to policyholders for contracts relating to separately managed accounts. This reserve is estimated on the basis of the latent gains/losses attributable to policyholders within the limits of the financial commitments assumed, taking into account the liquidation approach (immediate settlement). The balancing item of the shadow accounting appropriation

depends on the nature of capital gains/losses (recognition in the income statement or in the valuation reserve).

- > The linked technical reserves relate to insurance contracts whose benefits are linked to investment funds, market indices and pension funds. In accordance with the provisions of Article 38 of Legislative Decree No. 173/97, the technical reserves established to cover commitments arising from contracts with insurance content whose return is determined according to investments or indicators of which the policyholder bears the risk, are calculated with reference to the commitments provided for in the contracts and are represented as closely as possible by the reference assets, in accordance with the provisions of Article 41 of Legislative Decree No. 209/05.

Reserve arising from verification of the adequacy of Life technical reserves - LAT

At each reporting date, the adequacy of the reserves for insurance contracts is verified (liability adequacy test), taking into account the present value of expected future cash flows on insurance contracts overall. The checks are carried out separately for similar portfolios, taking into account their main characteristics.

With regard to linked insurance products, the forward-looking adequacy assessment takes into account the entire positive flow of revenues expected through management fees.

With regard to the traditional world of non-linked insurance contracts, the portfolio projection is taken into account on the basis of assumptions consistent with the final data inferred from experience and with the current market context. The comparison between the values obtained from the respective adequacy tests is made using local GAAP, including the shadow accounting component established for the application of IFRS 4. If, in the overall reserves considered for insurance contracts, an insufficiency arises due to the tests performed, the relevant shortfall will be accounted for as an increase in the technical reserves.

Non-Life technical reserves

Premiums reserve

The premiums reserve for direct insurance is calculated individually for each policy according to the pro-rata temporis method, on the basis of the gross premiums recognised, minus acquisition commissions and other acquisition costs, limited to directly attributable costs. Any need for a reserve allocation relating to ongoing risks is assessed, as permitted by Article 9 to Article II of ISVAP Regulation No. 16 of 4 March 2008, on the basis of the relevant claims ratio. The reinsurers' share of the premiums reserve, determined in accordance with the underlying treaties, is calculated according to the same criteria used to determine the direct business quota treaties reserve, while the flat rate system has been used for optional elements in the portfolio.

Other technical reserves

The reserve for increasing age was calculated in accordance with the criteria indicated by ISVAP Regulation No. 22.

Claims reserve

The claims reserve for direct business is determined in accordance with ISVAP Regulation No. 22 of 4 March 2008 in an analytical manner, by examining all claims open at the reporting date, and referring to the cost that the company may be required to pay in compensation, according to the best possible estimate of currently foreseeable future expenses (the "ultimate cost"). The claims reserves are estimated by management claims adjusters according to the "continuous" reserve method. The reserve loss is then assessed each time the updated information is received and in any case at least once a year.

In addition, claims in runoff (Motor TPL and Professional TPL) are managed by a dedicated structure in the Claims Department due to the specific nature and features of the claims. The Company's management periodically analyses the main technical indicators to ascertain any need for additions/revisions to claims classes. The reserve includes an estimate of claims incurred but not reported at the reporting date, which is calculated on the basis of experience acquired in previous years, appropriately assessed to take account of the characteristics of the classes, and an estimate of the cost of any particularly significant claims that occurred but were not known about until after the end of the year. The reserve is also supplemented to take account of settlement expenses for compensation (direct expenditure based on the lump-sum estimate of management and indirect claims adjusters

based on the internal cost structure).

The claims reserve for indirect business is allocated on the basis of communications from the transferors and revised according to the objective and statistical information available. On the basis of what is objectively known, the claims reserve thus recognised is considered adequate to cover claims settlement costs in full until year-end.

The reinsurers' share of the claims reserve is determined by criteria similar to those adopted for reserves for direct and indirect business, in accordance with the underlying treaties.

Reserve arising from verification of the adequacy of Non-Life technical reserves

The Non-Life technical reserves are tested in accordance with IFRS 4 (Liability Adequacy Test - LAT). In order to control the adequacy of the premiums reserve, for each ministerial class the additional unexpired risk reserve is calculated using the simplified method provided for by ISVAP Regulation No. 22.

As claims pending are measured at ultimate cost and not discounted, it is possible to implicitly regard the future payment flows as verified (LAT on the claims reserve).

16 - Other information

Other assets - Other liabilities

This item includes assets and liabilities not attributable to other assets in the statement of financial position.

Other assets mainly include receivables associated with the provision of non-financial goods or services, and tax payables other than those recorded in item "100. Tax assets" and other assets for transit items that will be settled in the first days of the following year.

Other liabilities mainly include transit items, payables associated with payment for the supply of non-financial goods and services and miscellaneous tax receivables other than those recognised in item "60. Tax liabilities".

Severance benefits

Employee severance benefits are recorded on the basis of the actuarial value calculated in line with the rules for "defined benefit" plans. Future disbursements are estimated on the basis of historical statistical analyses (for example, turnover and pensions) and the demographic curve, including the hypothetical salary increases envisaged by Article 2120 of the Italian Civil Code (application of a rate comprising 1.5% fixed and 75% of the ISTAT inflation index, where applicable). These flows are then discounted using the projected unit credit method. The discounting rate is determined on the basis of the market rates of high-quality bonds, in line with the estimated residual maturity of the commitments. The values thus determined entail the recognition in the income statement of the cost components relating to work and net financial expenses, as well as the recognition of actuarial gains and losses deriving from the remeasurement of liabilities in other comprehensive profits/losses. The amounts accrued from 1 January 2007 allocated to the supplementary pension plan or the INPS treasury fund are classified as a "defined contribution" plan, since the company's obligation to the employee ceases with the payment of the amounts accrued to the fund. These amounts are booked on the basis of the contributions accrued during the year.

Employee pension funds

Defined contribution plans in favour of pension funds for which the company, through payment of contributions, does not assume any further obligation towards the fund members, entail the recognition in the income statement of the benefits accrued during the year.

Share-based payments

IFRS 2 is the accounting standard governing share-based payments. The stock option plans currently in force are considered payments based on "equity settled" shares. Consequently, the cost of the operation, together with the corresponding increase in shareholders' equity, is recorded with reference to the fair value of the options at the grant date in the period which starts from the grant date of the options themselves and ends on the date on which the right to exercise the options vests (vesting period).

The fair value of the option was calculated using a model that took into account not only information such as the exercise price and life of the option, the current price of the shares and their expected volatility, the expected dividends and the risk-free interest rate, but also the specific characteristics of the plan in place. The option and the probability of realising market conditions are valued separately in the pricing model. The combination of the two values provides the fair value of the granted instrument. The cumulative costs recognised at each reporting date until the vesting date are commensurate with the maturity of the vesting period and the best available estimate of the number of participating instruments that will actually be exercised on vesting.

The reversal of the cost recognised in the income statement in each year represents the change in the cumulative cost between what is recognised at the end of the year and the cumulative cost at the end of the previous year. No cost is recognised for rights that do not reach full accrual. Incentive schemes are also provided for key staff that are based on group share-based payments in accordance with the rules on the remuneration of these staff.

Capital and treasury shares

The capital item includes the amount of shares issued net of the amount of any capital subscribed but not yet paid up at the

reporting date. This item is shown gross of the treasury shares held by the Bank. These are recognised in the financial statements under a specific item as a negative component of shareholders' equity.

The original cost of repurchased treasury shares and the gains or losses arising from their subsequent sale are recognised as changes in shareholders' equity.

Dividends on ordinary shares are recorded as a reduction in shareholders' equity in the year in which the Shareholders' Meeting approves their distribution. Any interim dividends are recognised as a negative amount in the liability item "Interim dividends" in the statement of financial position.

Income statement

Revenues

Revenues are gross flows of economic benefits arising from the performance of the company's ordinary business and are recognised at the time when control of the goods or services is transferred to the customer, at an amount representing the consideration to which it is deemed to be entitled. In particular, revenues are recognised through the application of a model that must fulfil the following criteria:

- > the parties to the contract have approved the contract and undertaken to fulfil their respective obligations;
- > the entity may identify the rights of each party with regard to the goods or services to be transferred;
- > determination of the expected consideration for the transfer of the goods or services to the customer (transaction price);
- > recognition of revenues when the obligation to perform is fulfilled by transferring the good or service to the customer.

Interest income and expense

Interest income and expense and similar income and expense relate to cash and cash equivalents and financial instruments classified under IFRS 9 (financial assets held for trading, designated at fair value or mandatorily measured at fair value, measured at fair value through other comprehensive income or measured at amortised cost and financial liabilities at amortised cost).

Interest income and expense is recognised in the income statement for all instruments measured according to the amortised cost criterion, using the effective interest rate method.

Fee and commission income and other income

Fee and commission income and other operating income is recognised in the income statement pursuant to IFRS 15 Revenue from Contracts with Customers. In particular:

- > if the obligation to perform is fulfilled at a given time, the relevant revenue is recognised in the income statement at the time the service is provided;
- > if the obligation to perform is fulfilled over time, the relevant revenue is recognised in the income statement in such a way as to reflect the degree of fulfilment of the obligation.

The amount of revenue recognised under fee and commission income and other operating income is measured according to the contractually agreed amounts.

Dividends

Dividends are recognised in the income statement in the financial year in which the resolution to distribute them is approved.

Costs

Costs are recognised when they are incurred in accordance with the principle of the correlation of costs and revenues. Costs that cannot be associated with revenues are immediately recognised in the income statement. Costs directly attributable to financial instruments measured at amortised cost are recorded in the income statement using the effective interest rate.

In particular, the effective interest criterion is the method of allocating interest income or expense over the duration of a financial asset or liability. The effective interest rate is the rate that exactly discounts future payments or receipts expected over the life of the financial instrument to the net carrying amount of the financial asset or financial liability.

Impairment is recognised in the income statement in the year in which it is recorded.

A.3 - REPORTING OF TRANSFERS OF FINANCIAL ASSETS BETWEEN PORTFOLIOS

A.3.1 Reclassified financial assets: change in business model, carrying amount and interest income

Type of financial instrument (1) €/t	Reclassified from (2)	Reclassified to (3)	Date of reclassification (4)	Reclassified carrying amount in €/t (5)	Interest income recorded in the year (before tax) (6)
Debt securities	Financial assets at fair value through other comprehensive income	Financial assets measured at amortised cost	01/10/2018	5,204,432	N.A.

The above value represents the carrying amount of the residual securities at the end of 2020.

It should be noted that the reclassification date is the date of the accounting effect of the change of business model.

A.3.3 Reclassified financial assets: change in business model and effective interest rate

It should be recalled that in 2018 Banca Mediolanum significantly revised its treasury management. In fact, a significant increase had been observed in the risks associated with the management of its assets invested in bonds (in this regard, it should be recalled that the main portfolio relating to financial instruments was the Held to Collect and Sell or HTCS portfolio, the purpose of which is to recover coupon cash flows while allowing for the option of taking market opportunities). Following an assessment, carried out with the support of an external consultant, the results had shown that external factors such as the changed macro-economic conditions, anti-European tensions and the different regulatory environment in that period could no longer ensure the consistency of the risk associated with the HTCS portfolio with the levels envisaged in the Risk Appetite Framework. The results of the analyses conducted led the Bank to take the strategic decision to maintain the risk profile associated with the Risk Appetite Framework approved at the time, characterised by significant prudence in managing financial portfolios, and therefore to opt for an approach to managing financial instruments designed to prioritise stability in the collection of the cash flows of the securities portfolio in the medium-long term over the possibility of taking any market opportunities. The Held to Collect (HTC) portfolio thus became the predominant portfolio replacing the previous HTCS portfolio. Following the strategic decision by the Board of Directors, all the actions required to roll out the new strategy were taken, in accordance with the requirements of IAS/IFRS. It should be noted that all medium/long-term variable-rate and fixed-rate securities are assigned to the HTC portfolio because the Bank believes them to be more consistent with stable inflows, while short-term fixed-income securities are considered more useful for meeting liquidity needs, which is the specific aim of the new HTCS portfolio.

The Directors of Banca Mediolanum, also with the help of an external accounting expert, therefore changed the business model, as required by IFRS 9.

The new strategic treasury management approach outlined above has resulted in significant growth in the HTC portfolio. The 2020 financial year also confirmed the choice made in terms of the change of business model, confirming the prevalence of the HTC portfolio.

A.4 – FAIR VALUE REPORTING

QUALITATIVE INFORMATION

Fair value is defined as the price that would be received for the sale of an asset or paid for the transfer of a liability in a regular transaction between market participants, under the current conditions at the valuation date in the principal or most advantageous market (exit price). Underlying the measurement of fair value is the presumption that the entity is in a going concern situation. IFRS 13 establishes a fair value hierarchy according to the degree of observability of the inputs and parameters used to achieve the valuations. Three levels are envisaged:

- > Level 1: the FV of the instruments classified at this level is determined on the basis of price quotations observed in active markets;
- > Level 2: the FV of the instruments classified at this level is determined on the basis of valuation models that mainly use inputs observable in active markets;
- > Level 3: the FV of the instruments classified at this level is determined on the basis of valuation models that mainly use significant inputs not observable in active markets.

The Group has a policy in place for the recognition of the fair value level of individual positions. The policy establishes the rules for both the definition of an “active market” and the consequent operating procedure for valuing portfolios in order to avoid any discretion in the identification of levels. Securities not in any of the above categories are regarded as belonging to an inactive market. Securities covering Class III policies for which a repurchase agreement exists with the issuer are excluded from this definition. As part of coordination activities for all Group companies, the Risk Management function provides methodological and/or operational support to the corresponding risk structures of the companies in the conglomerate, including with regard to the definition of an active market.

The following are considered quoted on an active market:

- > securities traded on Italian regulated markets (e.g. MTS (electronic government securities market) and MOT (electronic bond and government securities market));
- > securities traded on organised exchange systems authorised or recognised by Consob (multilateral trading facilities) for which the materiality of the price has been determined by the procedure described below;
- > securities for which an executable quotation is available that meets the following criteria:
 - > the reference time series is complete;
 - > the bid-ask price tolerance thresholds differ according to the financial instrument;
 - > significant variability in the daily price in the reference month;
 - > maximum monthly price variation limit;
 - > maximum limit of the price deviation from a benchmark quotation.

Securities that meet the above criteria are classified as quoted in an active market and their fair value is determined according to the type of financial instrument, as follows:

- > for equity securities listed on the Italian and foreign stock exchanges, the closing price on the last trading day of the reference month;
- > debt securities will be valued at the bid price (for long positions) and the ask price (for short positions) from an executable source.

Financial instruments that are not in active markets are valued by assigning them to fair value Level 2 or Level 3.

A.4.1 Fair value levels 2 and 3: measurement techniques and inputs used

Level 2 instruments comprise bonds of third-party issuers and some derivative instruments.

I Securities in this category are valued on the basis of directly or indirectly observable market data. The fair value of the bonds is calculated as the sum of the present values at the end of the financial year of the cash flows deriving from them. The discount rate is determined as the sum of two components:

- > the risk-free rate;
- > the credit spread.

II The risk-free rate is inferred from the implicit value in IRS (interest rate swap) contracts, while the credit spread is inferred from the price of bonds of the same issuer with a fixed coupon and maturity comparable to the security being valued. Where no securities of the same issuer were present, and for own bonds, a credit spread was used, inferred from a weighted average of the observed values of bonds of the main Italian banks listed on the institutional markets. If the expected values of the flows are not determined, but depend on market variables, they are identified on the basis of:

- > the forward rates implicit in the risk-free rates for the various maturities;
- > the volatility implicit in the prices of swaptions, caps and floors.

The fair value of Level 2 financial derivatives (consisting of amortising interest rate swaps) is determined taking into account their level of collateralisation: in particular, the value of the contracts is calculated by discounting the flows generated by them at rates inferred from the implicit values in OIS (overnight interest swap) contracts and in the relevant basis swap contracts.

Level 3 assets mainly consist of:

- > units of real estate funds;
- > positions in equity securities;
- > units of the Atlante Fund;

The underlying approach of real estate valuations aims to determine fair value through a mark to model, i.e. a theoretical value derived from assumptions that may be applied to different classes of assets regardless of the particular characteristics of the counterparties or the property itself (its specific features, category, geographical location, etc.). The starting point for determining the fair value of the properties (included in the real estate funds) consists of the rents (contractually established) that the tenant of the property undertakes to pay the property owner for an agreed number of years. These rents are discounted and capitalised using:

- > the initial value of the rent received;
- > the discounting rate for the rent received;
- > the final net income capitalisation rate after implementation.

The first rate is obtained through a linear combination of a market indicator, a spread for illiquidity risk, a spread for the risk

associated with real estate investment and a spread for sector/planning risk (included in discount rates according to an asset-dependent approach). The marginal impact of each of the four components will therefore reflect the valuer's market sensitivity and its forecasts and expectations regarding market trends. The exit rate, by contrast, is the factor that makes it possible to convert an indication of future income into an indication of present value. This is also determined using a linear combination: the inputs are taken from the financial market and reference real estate market. In particular, the risk out rate is inferred by the valuer by observing transactions in the reference market.

In accordance with current legislation, the assets in real estate funds are valued by independent experts every six months. The valuations, assumptions and inputs used by the independent experts are then approved by the Company's risk management.

For some more significant equity securities, the Bank has determined the fair value of these instruments on the basis of valuation methods provided for in legal theory (DCF) and with the support of external advisors.

The shares measured at fair value Level 3 also include the shares of Sia S.p.A. in which an equity investment of 2.85% is held. Also in this case, the most commonly used methods have been used to determine fair value, with the help of an external advisor specialising in this field of valuation. The main variables used relate to the Company's financial position and are supplemented by recent market transactions. In particular, it should be noted that Banca Mediolanum holds 4,878,325 shares under "Financial assets held for trading" relating to SIA S.p.A. As they are not listed, these shares were valued using approaches deemed consistent with this type of asset class, such as the DDM (dividend discount model) and the multiple method, in the most recent transactions. The approaches described above resulted in a value of the shares held (2.85% of SIA S.p.A.) of €63 million, with a write-up at year-end of €7 million.

It should be noted that the determination of the value at 31 December 2020 did not take into account the recent MoU - Memorandum of Understanding - signed between SIA S.p.A. and Nexi S.p.A. on 5 October 2020, which provides for a future combination of the two companies; if the proposed merger plan is implemented by the two companies (the merger agreement had not yet been signed at the end of 2020, nor had the relevant formalities prior to the merger been fulfilled) and according to the current exchange price assumption described in the MoU, Banca Mediolanum would hold 7,688,728 new shares of the Company post-merger, giving rise to a write-up of the price of the new shares on the basis of the stock prices at which the share exchange will take place.

With respect to the Cedacri S.p.A. equity security, classified in the portfolio of financial assets at fair value through other comprehensive income, the fair value of the Company in question at 31 December 2020 was assessed by an independent expert on the basis of the most recent plans adopted by the Company and the most widely used market practices, and the aforementioned negotiations were not taken into account as these circumstances took place in 2021. The carrying amount of these shares as at 31 December 2020 was €77.5 million.

Less significant unlisted equity securities have been assumed to be equal to their historical cost in the absence of facts and information considered sufficiently reliable to determine the fair value reliably, such as recent transactions to be taken as a reference or the presence of inherent characteristics of the company that allow it to be compared with other listed players. The shares of the Atlante Fund were valued on the basis of the latest available assessments made by the fund's asset management company.

In 2020, a structured security with a fair value level of 3 was recorded in the portfolio of the subsidiary Mediolanum Vita. For this instrument, the valuation framework in use is based on a proprietary pricer that recalculates all the structural components: some are observable in the market and correspond to almost all of the value, but the presence of non-observable components in the market determines their classification at fair value level 3.

Fair value level 3 relating to assets and liabilities not measured at fair value on a recurring basis includes receivables and payables from/to customers and banks and real estate assets.

For short-term receivables and payables from/to customers and banks the fair value was assumed to be equal to the carrying amount, as this was considered a good approximation. For medium/long-term performing and non-performing exposures (past due by more than 90 days and unlikely to pay), mainly consisting of loans to customers for mortgage contracts, the measurement of fair value took into account the discounting of contractual flows. A fair value corresponding to the carrying amount was assumed for non-performing exposures (bad loans). The assumptions underlying the determination of fair value, which are specific to the model and not observable in the market, determine classification at Level 3. The fair value of properties directly owned by the Company has, in general, been determined using the "comparative" method.

A.4.2 Valuation processes and sensitivity

For a more detailed analysis of the techniques, inputs and valuation processes adopted for instruments classified in level 3 of the fair value hierarchy, please see the previous paragraph.

A.4.3 Fair value hierarchy

With regard to the fair value hierarchy, please see the description in the section entitled: Fair value reporting - Qualitative information.

Description of migrations between asset valuation levels

The Mediolanum Group has a policy in place for the recognition of the fair value level of individual positions. The policy establishes the rules for both the definition of an "active market" and the consequent operating procedure for valuing portfolios in order to avoid any discretion in the identification of levels. In 2020 there were some changes in the fair value level of a limited number of securities present and transited to the Group Company portfolios by insignificant amounts.

With regard to the Parent Company's portfolios, Banca Mediolanum, at 31 August 2020, recorded a change in the fair value level of one security, from level 1 to level 3. This change was necessary to reflect the discontinuation of listing in accordance with the criteria defined in the group's active market policy. The need to use an internal pricer, also defined through the use of data not directly available on the market, resulted in the assignment of this security to FV level 3.

In the second half of the year, only in the portfolio of the subsidiary Mediolanum Vita, there was a change in the fair value of one bond. In detail, on the basis of changed market conditions and the rules in the Group's policy, for the security in question an active market was found on 30 November 2020 and it therefore transitioned from fair value level 2 to fair value level 1.

With the exception of the foregoing, no other changes in level were identified for any of the other securities in the portfolios of the Group Companies during the monthly controls.

A.4.4 Other information

There are no situations in which the maximum and best use of a non-financial asset differs from its current use. Moreover, there

are no situations in which financial assets and liabilities managed on a net basis relating to market risks or credit risk are measured at fair value on the basis of the price that would be received from the sale of a net long position or the transfer of a net short position.

QUANTITATIVE INFORMATION

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by fair value level

€/t	31/12/2020			31/12/2019		
Financial assets/liabilities measured at fair value	L1	L2	L3	L1	L2	L3
1. Financial assets at fair value through profit or loss	26,148,913	156,028	244,632	23,591,831	201,741	233,094
a) Financial assets held for trading	233,757	624	68,279	251,571	1,929	61,663
b) Financial assets designated at fair value	25,871,144	155,404	37,857	23,295,645	199,812	43,308
c) Other financial assets mandatorily measured at fair value	44,012	-	138,496	44,615	-	128,123
2. Financial assets at fair value through other comprehensive income	1,873,715	-	84,040	2,098,792	981	64,062
3. Hedging derivatives	-	-	-	-	24	-
4. Tangible assets	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
TOTAL	28,022,628	156,028	328,672	25,690,623	202,746	297,156
1. Financial liabilities held for trading	51	78,271	-	-	77,132	-
2. Financial liabilities designated at fair value	9,643,660	1,984	-	7,741,575	9,948	-
3. Hedging derivatives	-	29,318	-	-	31,043	-
TOTAL	9,643,711	109,573	-	7,741,575	118,123	-

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

A.4.5.2 Changes during the year in assets measured at fair value on a recurring basis (Level 3)

€/t	Financial assets at fair value through profit or loss				Financial assets at fair value through other comprehensive income	Hedging derivatives	Tangible assets	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily measured at fair value				
1. Opening balances	233,094	61,663	43,308	128,123	64,062	-	-	-
2. Increases	66,631	26,332	18,816	21,483	19,978	-	-	-
2.1. Purchases	55,969	18,713	16,336	20,920	168	-	-	-
2.2. Profits booked to:	10,626	7,583	2,480	563	19,810	-	-	-
2.2.1. Income statement	10,626	7,583	2,480	563	-	-	-	-
- of which, capital gains	6,414	7,432	927	91	-	-	-	-
2.2.2. Shareholders' equity	-	X	X	X	19,810	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-	-	-
2.4. Other increases	36	36	-	-	-	-	-	-
3. Decreases	(55,093)	(19,716)	(24,267)	(11,110)	(36)	-	-	-
3.1. Sales	(43,588)	(19,217)	(21,760)	(2,611)	-	-	-	-
3.2. Redemptions	(874)	-	-	(874)	-	-	-	-
3.3. Losses charged to:	(10,631)	(499)	(2,507)	(7,625)	-	-	-	-
3.3.1. Income statement	(10,631)	(499)	(2,507)	(7,625)	-	-	-	-
- of which, capital losses	(9,213)	(469)	(105)	(8,639)	-	-	-	-
3.3.2. Shareholders' equity	-	X	X	X	-	-	-	-
3.4. Transfers to other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	-	-	-	-	-	-	-	-
4. Closing balances	244,632	68,279	37,857	138,496	84,040	-	-	-

A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by fair value level

€/t	31/12/2020				31/12/2019			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets measured at amortised cost	28,929,572	15,658,332	-	14,830,698	25,246,345	13,726,927	16,785	12,980,444
2. Tangible assets held for investment purposes	82,362	-	-	96,760	83,550	-	-	96,950
3. Non-current assets and disposal groups	208	-	-	208	438	-	-	438
TOTAL	29,012,142	15,658,332	-	14,927,458	25,330,333	13,726,927	16,785	13,077,832
1. Financial liabilities measured at amortised cost	26,772,320	-	-	26,776,133	24,163,087	-	68,516	24,102,650
2. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
TOTAL	26,772,320	-	-	26,776,133	24,163,087	-	68,516	24,102,650

Key:
CA = Carrying amount
L1 = Level 1
L2 = Level 2
L3 = Level 3

A.5 - REPORTING OF DAY ONE PROFIT/LOSS

Nothing to report.

Part B - Information on the consolidated statement of financial position

ASSETS

SECTION 1 – CASH AND CASH EQUIVALENTS – ITEM 10

1.1 Cash and cash equivalents: breakdown

€/t	31/12/2020	31/12/2019
a) Cash	124,723	169,957
b) Demand deposits with central banks	5,000	-
TOTAL	129,723	169,957

SECTION 2 - FINANCIAL ASSETS HELD FOR TRADING - ITEM 20

2.1 Financial assets held for trading: breakdown by type

€/t	31/12/2020			31/12/2019		
	L1	L2	L3	L1	L2	L3
A. On-balance sheet assets						
1. Debt securities	233,757	-	140	251,570	-	591
1.1 Structured notes	60,426	-	-	49,556	-	590
1.2 Other debt securities	173,331	-	140	202,014	-	1
2. Equity securities	-	-	68,139	-	-	61,072
3. Units in investment funds (UCIs)	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
TOTAL (A)	233,757	-	68,279	251,570	-	61,663
B. Derivative instruments						
1. Financial derivatives	-	624	-	1	1,929	-
1.1 for trading	-	624	-	1	1,929	-
1.2 associated with the fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 for trading	-	-	-	-	-	-
2.2 associated with the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
TOTAL (B)	-	624	-	1	1,929	-
TOTAL (A+B)	233,757	624	68,279	251,571	1,929	61,663

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

Financial assets held for trading include SIA S.p.A. shares amounting to €63 million in the level 3 equity securities. For information regarding this valuation, please see the description provided in paragraph “A.4.I Fair value levels 2 and 3: valuation techniques and inputs used”.

2.2 Financial assets held for trading: breakdown by borrower/issuer/counterparty

€/t	31/12/2020	31/12/2019
A. ON-BALANCE SHEET ASSETS		
1. Debt securities	233,897	252,161
a) Central banks	-	-
b) General governments	129,478	198,167
c) Banks	104,419	52,188
d) Other financial corporations	-	803
of which: insurance companies	-	-
e) Non-financial corporations	-	1,003
2. Equity securities	68,139	61,072
a) Banks	-	-
b) Other financial corporations	5,139	5,072
of which: insurance companies	-	-
c) Non-financial corporations	63,000	56,000
d) Other issuers	-	-
3. Units of UCIs	-	-
4. Loans	-	-
a) Central banks	-	-
b) General governments	-	-
c) Banks	-	-
d) Other financial corporations	-	-
of which: insurance companies	-	-
e) Non-financial corporations	-	-
f) Households	-	-
TOTAL (A)	302,036	313,233
B. DERIVATIVE INSTRUMENTS		
a) Central counterparties	-	-
b) Other	624	1,930
TOTAL (B)	624	1,930
TOTAL (A+B)	302,660	315,163

2.3 Financial assets designated at fair value: breakdown by type

€/t	31/12/2020			31/12/2019		
	L1	L2	L3	L1	L2	L3
1. Debt securities	2,028,237	38,274	37,857	1,870,356	2,864	43,308
1.1 Structured notes	2,028,237	38,274	37,857	1,870,356	2,864	43,308
1.2 Other debt securities	-	-	-	-	-	-
2. Loans	23,842,907	117,130	-	21,425,289	196,948	-
2.1 Structured	-	-	-	-	-	-
2.2 Other	23,842,907	117,130	-	21,425,289	196,948	-
TOTAL	25,871,144	155,404	37,857	23,295,645	199,812	43,308

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

2.4 Financial assets designated at fair value: breakdown by borrower/issuer

€/t	31/12/2020	31/12/2019
1. Debt securities	2,104,368	1,916,528
a) Central banks	-	-
b) General governments	187,526	189,990
c) Banks	276,052	190,962
d) Other financial corporations	494,442	542,645
of which: insurance companies	21,919	27,939
e) Non-financial corporations	1,146,348	992,931
2. Loans	23,960,037	21,622,237
a) Central banks	-	-
b) General governments	-	-
c) Banks	85,265	-
d) Other financial corporations	23,874,772	21,622,237
of which: insurance companies	-	-
e) Non-financial corporations	-	-
f) Households	-	-
TOTAL	26,064,405	23,538,765

2.5 Other financial assets mandatorily measured at fair value: breakdown by type

€/t	31/12/2020			31/12/2019		
	L1	L2	L3	L1	L2	L3
1. Debt securities	-	-	-	-	-	-
1.1 Structured notes	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Equity securities	-	-	243	-	-	243
3. Units in investment funds (UCIs)	44,012	-	138,253	44,615	-	127,880
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
TOTAL	44,012	-	138,496	44,615	-	128,123

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

2.6 Other financial assets mandatorily measured at fair value: breakdown by borrower/issuer

€/t	31/12/2020	31/12/2019
1. Equity securities	243	243
of which: banks	-	-
of which: other financial corporations	243	243
of which: non-financial corporations	-	-
2. Debt securities	-	-
a) Central banks	-	-
b) General governments	-	-
c) Banks	-	-
d) Other financial corporations	-	-
of which: insurance companies	-	-
e) Non-financial corporations	-	-
3. Units in investment funds (UCIs)	182,265	172,495
4. Loans	-	-
a) Central banks	-	-
b) General governments	-	-
c) Banks	-	-
d) Other financial corporations	-	-
of which: insurance companies	-	-
e) Non-financial corporations	-	-
f) Households	-	-
TOTAL	182,508	172,738

SECTION 3 - FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - ITEM 30

3.1 Financial assets at fair value through other comprehensive income: breakdown by type

€/t	31/12/2020			31/12/2019		
	L1	L2	L3	L1	L2	L3
1. Debt securities	1,654,317	-	-	2,098,692	981	-
1.1 Structured notes	-	-	-	-	-	-
1.2 Other debt securities	1,654,317	-	-	2,098,692	981	-
2. Equity securities	219,437	-	84,002	99	-	64,062
3. Loans	-	-	-	-	-	-
TOTAL	1,873,754	-	84,002	2,098,791	981	64,062

Key:

L1 = Level 1
L2 = Level 2
L3 = Level 3

The “equity securities” item increased by €239.3 million compared with the comparative period. It should be recalled that as of 1 January 2020, this item includes among level I assets the valuation of the Mediobanca security classified among financial assets at fair value through other comprehensive income. For more information, please see Section 7 - Equity investments.

Level 3 capital securities include Cedacri S.p.A. shares with a value of €77.5 million at the end of 2020 (€57.9 million at 31 December 2019). For more information, please see paragraph A.4.I. “Fair value levels 2 and 3: valuation techniques and inputs used” and section 3 “Significant events after the reporting date”.

3.2 Financial assets at fair value through other comprehensive income: breakdown by borrower/issuer

€/t	31/12/2020	31/12/2019
1. Debt securities	1,654,317	2,099,673
a) Central banks	-	-
b) General governments	1,413,072	1,881,412
c) Banks	193,602	160,666
d) Other financial corporations	33,009	36,936
of which: insurance companies	8,963	7,984
e) Non-financial corporations	14,634	20,659
2. Equity securities	303,438	64,162
a) Banks	219,376	-
b) Other issuers:	84,062	64,161
- other financial corporations	842	711
of which: insurance companies	-	-
- non-financial corporations	83,168	63,364
- other	52	87
3. Loans	-	-
a) Central banks	-	-
b) General governments	-	-
c) Banks	-	-
d) Other financial corporations	-	-
of which: insurance companies	-	-
e) Non-financial corporations	-	-
f) Households	-	-
TOTAL	1,957,755	2,163,835

3.3 Financial assets at fair value through other comprehensive income: gross value and overall adjustments

€/t	Gross value				Overall value adjustments			Overall partial write-offs*
	Stage 1	of which: Instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	1,658,720	1,658,720	-	-	(4,403)	-	-	-
Loans	-	-	-	-	-	-	-	-
TOTAL	31/12/2020	1,658,719	1,658,719	-	-	(4,403)	-	-
TOTAL	31/12/2019	2,101,392	2,101,392	-	-	(1,719)	-	X
of which: purchased or originated impaired financial assets	X	X	-	-	X	-	-	-

* Value to be displayed for information purposes

SECTION 4 - FINANCIAL ASSETS MEASURED AT AMORTISED COST - ITEM 40

4.1 Financial assets measured at amortised cost: breakdown by type of loans to banks (Part 1 of 2)

€/t	31/12/2020					
	Carrying amount			Fair value		
	Stages 1 and 2	Stage 3	of which: purchased or originated impaired	L1	L2	L3
A. Loans to central banks	444,379	-	-	-	-	444,379
1. Deposits at notice	-	-	-	X	X	X
2. Mandatory reserve	305,760	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X
4. Other	138,619	-	-	X	X	X
B. Loans to banks	380,884	-	-	113,765	-	282,509
1. Loans	277,640	-	-	-	-	277,640
1.1 Current accounts and demand deposits	117,496	-	-	X	X	X
1.2 Deposits at notice	66,491	-	-	X	X	X
1.3 Other loans:	93,653	-	-	X	X	X
- Reverse repurchase agreements	-	-	-	X	X	X
- Leasing loans	-	-	-	X	X	X
- Other	93,653	-	-	X	X	X
2. Debt securities	103,244	-	-	113,765	-	4,869
2.1 Structured notes	-	-	-	-	-	-
2.2 Other debt securities	103,244	-	-	113,765	-	4,869
TOTAL	825,263	-	-	113,765	-	726,888

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

4.1 Financial assets measured at amortised cost: breakdown by type of loans to banks (Part 2 of 2)

€/t	31/12/2019					
	Carrying amount			Fair value		
	Stages 1 and 2	Stage 3	of which: purchased or originated impaired	L1	L2	L3
A. Loans to central banks	266,852	-	-	-	-	266,852
1. Deposits at notice	-	-	-	X	X	X
2. Mandatory reserve	144,871	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X
4. Other	121,981	-	-	X	X	X
B. Loans to banks	392,495	-	-	120,618	16,785	271,984
1. Loans	266,970	-	-	-	-	266,970
1.1 Current accounts and demand deposits	102,765	-	-	X	X	X
1.2 Deposits at notice	94,853	-	-	X	X	X
1.3 Other loans:	69,352	-	-	X	X	X
- Reverse repurchase agreements	-	-	-	X	X	X
- Leasing loans	-	-	-	X	X	X
- Other	69,352	-	-	X	X	X
2. Debt securities	125,525	-	-	120,618	16,785	5,014
2.1 Structured notes	-	-	-	-	-	-
2.2 Other debt securities	125,525	-	-	120,618	16,785	5,014
TOTAL	659,347	-	-	120,618	16,785	538,836

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

4.2 Financial assets measured at amortised cost: breakdown of loans to customers by type (Part 1 of 2)

€/t	31/12/2020					
	Carrying amount			Fair value		
	Stages 1 and 2	Stage 3	of which: purchased or originated impaired	L1	L2	L3
1. Loans	12,723,547	72,135	1,888	-	-	14,036,182
1.1 Current accounts	339,053	5,649	3	X	X	X
1.2 Reverse repurchase agreements	-	-	-	X	X	X
1.3 Mortgages	8,711,198	47,848	-	X	X	X
1.4 Credit cards, personal loans and salary-backed loans	2,529,924	16,299	1,669	X	X	X
1.5. Leasing loans	-	-	-	X	X	X
1.6 Factoring	-	-	-	X	X	X
1.7 Other loans	1,143,372	2,339	216	X	X	X
2. Debt securities	15,308,627	-	-	15,544,567	-	67,628
2.1 Structured notes	-	-	-	-	-	-
2.2 Other debt securities	15,308,627	-	-	15,544,567	-	67,628
TOTAL	28,032,174	72,135	1,888	15,544,567	-	14,103,810

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

4.2 Financial assets measured at amortised cost: breakdown of loans to customers by type (Part 2 of 2)

€/t	31/12/2019					
	Carrying amount			Fair value		
	Stages 1 and 2	Stage 3	of which: purchased or originated impaired	L1	L2	L3
1. Loans	11,229,025	73,335	1,459	-	-	12,381,251
1.1 Current accounts	279,534	7,115	-	X	X	X
1.2 Reverse repurchase agreements	-	-	-	X	X	X
1.3 Mortgages	7,623,136	51,930	-	X	X	X
1.4 Credit cards, personal loans and salary-backed loans	2,129,254	11,972	1,291	X	X	X
1.5. Leasing loans	-	-	-	X	X	X
1.6 Factoring	-	-	-	X	X	X
1.7 Other loans	1,197,101	2,318	168	X	X	X
2. Debt securities	13,284,638	-	-	13,606,309	-	60,357
2.1 Structured notes	-	-	-	-	-	-
2.2 Other debt securities	13,284,638	-	-	13,606,309	-	60,357
TOTAL	24,513,663	73,335	1,459	13,606,309	-	12,441,608

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

4.3 Financial assets measured at amortised cost: breakdown of loans to customers by borrower/issuer

€/t	31/12/2020			31/12/2019		
	Stages 1 and 2	Stage 3	of which: purchased or originated impaired assets	Stages 1 and 2	Stage 3	of which: purchased or originated impaired assets
1. Debt securities	15,308,627	-	-	13,284,638	-	-
a) General governments	15,233,509	-	-	13,230,854	-	-
b) Other financial corporations	69,878	-	-	50,988	-	-
of which: insurance companies	12,940	-	-	-	-	-
c) Non-financial corporations	5,240	-	-	2,796	-	-
2. Loans to:	12,723,547	72,135	1,888	11,229,025	73,335	1,459
a) General governments	121	-	-	106	-	-
b) Other financial corporations	468,252	2,470	-	645,981	2,140	-
of which: insurance companies	22,857	-	-	17,584	-	-
c) Non-financial corporations	433,031	6,507	165	261,140	11,717	168
d) Households	11,822,143	63,158	1,723	10,321,798	59,478	1,291
TOTAL	28,032,174	72,135	1,888	24,513,663	73,335	1,459

4.4 Financial assets measured at amortised cost: gross value and overall value adjustments

€/t	Gross value				Overall value adjustments			Overall partial write- offs*
	Stage 1	of which: Instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	15,426,549	15,426,549	-	-	(14,679)	-	-	-
Loans	12,941,164	-	540,737	150,779	(18,228)	(18,108)	(78,644)	-
TOTAL 31/12/2020	28,367,713	15,426,549	540,737	150,779	(32,907)	(18,108)	(78,644)	-
TOTAL 31/12/2019	24,696,165	13,423,245	520,483	144,896	(25,803)	(17,835)	(71,561)	-
of which: purchased or originated impaired financial assets	X	X	833	1,552	X	(17)	(479)	-

* Value to be displayed for information purposes

4.4a Loans measured at amortised cost subject to Covid-19 support measures: gross value and overall value adjustments

€/t	Gross value				Overall value adjustments			
	Stage 1	of which: Instrument s with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Overall partial write- offs*
1. Loans subject to forbearance compliant with the GL	240,374	-	33,064	1,450	686	1,361	308	-
2. Loans subject to other forbearance measures	3,873	-	-	-	2	-	-	-
3. New loans	108,288	-	17,944	37	38	231	7	-
TOTAL 31/12/2020	352,535	-	51,008	1,487	726	1,592	315	-
TOTAL 31/12/2019	-	-	-	-	-	-	-	-

SECTION 5 – HEDGING DERIVATIVES – ITEM 50

5.1 Hedging derivatives: breakdown by type of hedge and level

€/t	31/12/2020				31/12/2019			
	Fair value			NV	Fair value			NV
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives								
1. Fair value	-	-	-	33,732	-	24	-	44,076
2. Cash flows	-	-	-	-	-	-	-	-
3. Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
TOTAL	-	-	-	33,732	-	24	-	44,076

Key:
 NV: Notional value
 L1 = Level 1
 L2 = Level 2
 L3 = Level 3

SECTION 7 – EQUITY INVESTMENTS – ITEM 70

7.1 Equity investments: information on investment relationships

With regard to the “Equity investments” item, it should be recalled that as of 2020, Mediobanca, previously classified as a company subject to significant influence, was reclassified to the item “Financial assets at fair value through other comprehensive income”. It should be recalled that on 28 and 29 January 2020, the Boards of Directors of Banca Mediolanum and Mediolanum Vita decided to reclassify the equity investment in Mediobanca from a strategic equity investment to a financial equity investment in the Held To Collect and Sell category.

For the Mediolanum Group, the investment in Mediobanca had historically been a strategic investment. In particular, due to adherence to the shareholders’ agreement and representation in the corporate bodies, as of 2008 the investment in Mediobanca was classified under “Equity investments in associates and joint ventures”. The strategic nature was also strengthened at the time by the establishment together with Mediobanca of a company with a 50% joint shareholding. However, the strategic relationship underwent a series of events over the years that gradually led to its reconfiguration. In particular, in addition to the disposal of the joint venture, over the years the portion of the share capital within the scope of the shareholders’ agreement gradually decreased from the original 46%, finally falling below the minimum validity threshold of 25% in 2018 due to cancellations. Subsequently, in light of this situation, the remaining shareholders, representing 20.94% of the share capital as of 1 January 2019, signed a new Consultation Agreement that was less stringent than the previous agreement. Unlike the previous shareholders’ agreement, this agreement no longer included any restrictions on the availability of shares, and assigned a more incisive role to the Mediobanca Board of Directors in the submission of the list of directors to the Shareholders’ Meeting.

New external events took place in late 2019, creating a context of particular uncertainty regarding the state of governance of the investee company, with the exit of Unicredit from its shareholder structure and the disposal of its shareholding on the market, and the entry of Delfin into the shareholding structure without entering into the consultation agreement. The corporate bodies were then renewed during 2020. These elements of uncertainty created a need to redefine the strategic position that Banca Mediolanum intended to pursue in allocating this investment, as there was uncertainty as to whether it would actually be possible to significantly influence Mediobanca’s future governance. The Mediolanum Group therefore decided that the conditions to exercise significant influence in the future did not exist, given the substantial transformation of Mediobanca into a public company, and opted for a change of strategy aimed at maximising the value of the equity investment, no longer from a medium/long-term perspective, but also making use of market opportunities with a view to greater flexibility.

It was therefore decided to reclassify this asset to the category of financial instruments (IFRS 9) of financial assets at fair value through other comprehensive income.

At 31 December 2020, therefore, Banca Mediolanum and Mediolanum Vita valued the share at market value (€7.54 per share), recognising a capital loss on the initial recognition value (€9.8 per share) with a balancing entry in the "Other comprehensive income" (OCI) reserve in equity. The overall gross impact on the Group's shareholders' equity was -€66.4 million.

7.5 Equity investments: changes during the year

At 31 December 2020 the balance of the item was reduced to zero for the reasons set out above. In the previous period, the equity investment in Mediobanca was worth €285,893 thousand.

SECTION 8 - REINSURERS' SHARE OF TECHNICAL RESERVES – ITEM 80

8.1 Reinsurers' share of technical reserves: breakdown

€/t	31/12/2020	31/12/2019
A. Non-Life class	14,164	8,627
A1. Premium reserves	4,688	2,832
A2. Claims reserves	4,428	2,284
A3. Other reserves	5,048	3,511
B. Life class	53,651	54,316
B1. Mathematical reserves	52,480	53,513
B2. Reserves for amounts to be paid	1,171	803
B3. Other reserves	-	-
C. Technical reserves when the investment risk is borne by policyholders	-	-
C1. Reserves relating to contracts whose performance is linked to investment funds and market indices	-	-
C2. Reserves from pension fund management	-	-
D. Total reinsurers' share of technical reserves	67,815	62,943

8.2 Change in Item 80 "Reinsurers' share of technical reserves"

The reinsurers' share of technical reserves amounted to €67,815 thousand, representing an increase of €4,872 thousand on the comparative period. The change was mainly due to the increase in the reinsurers' share of the technical reserves of the Non-Life classes of €5,537 thousand.

SECTION 9 - TANGIBLE ASSETS - ITEM 90

9.1 Tangible assets for business use: breakdown of assets measured at cost

€/t	31/12/2020	31/12/2019
1. Own assets	108,049	109,773
a) land	58,430	58,430
b) buildings	36,398	36,887
c) furniture	4,456	5,451
d) electronic equipment	6,348	5,971
e) other	2,417	3,034
2. Rights of use acquired through leasing	69,894	75,549
a) land	-	-
b) buildings	69,730	75,383
c) furniture	-	-
d) electronic equipment	-	-
e) other	164	166
TOTAL	177,943	185,322
of which: obtained through the realisation of collateral	-	-

9.2 Investment property: breakdown of assets measured at cost

€/t	31/12/2020				31/12/2019			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Own assets	82,362	-	-	96,760	83,550	-	-	96,950
a) land	48,305	-	-	66,584	48,305	-	-	66,658
b) buildings	34,057	-	-	30,176	35,245	-	-	30,292
2. Rights of use acquired through leasing	-	-	-	-	-	-	-	-
a) land	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
TOTAL	82,362	-	-	96,760	83,550	-	-	96,950
of which: obtained through the realisation of collateral	-	-	-	-	-	-	-	-

Key:

NV: Notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

9.6 Tangible assets for business use: changes during the year

€/t	Land	Buildings	Furniture	Electronic equipment	Other	TOTAL
A. Gross opening balances	58,605	173,757	32,917	38,542	5,661	309,482
A.1 Total net impairment losses	(175)	(61,487)	(27,466)	(32,571)	(2,460)	(124,159)
A.2 Net opening balances	58,430	112,270	5,451	5,971	3,201	185,323
B. Increases:	-	8,059	416	2,889	2,226	13,590
B.1 Purchases	-	6,029	414	2,217	1,804	10,464
- of which business combinations			41	211		252
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Increases in fair value recognised in						
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Foreign exchange gains	-	-	-	-	-	-
B.6 Transfers from investment property			X	X	X	
B.7 Other changes	-	2,030	2	672	422	3,126
C. Decreases:	-	14,201	1,411	2,512	2,846	20,970
C.1 Sales	-	-	-	-	-	-
- of which business combinations						
C.2 Depreciation	-	12,252	1,389	2,511	429	16,581
C.3 Impairment losses recognised in						
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Decreases in fair value recognised in						
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Foreign exchange losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) tangible assets held for investment purposes			X	X	X	
b) non-current assets and disposal groups	-	-	-	-	-	-
C.7 Other changes	-	1,949	22	1	2,417	4,389
D. Net closing balances	58,430	106,128	4,456	6,348	2,581	177,943
D.1 Total net impairment losses	(175)	(74,744)	(28,721)	(35,053)	(2,560)	(141,253)
D.2 Gross closing balances	58,605	180,872	33,177	41,401	5,141	319,196
E. Valuation at cost	-	-	-	-	-	-

9.7 Tangible assets held for investment purposes: changes during the year

€/t	Land	Buildings
A. Opening balances	48,305	35,245
B. Increases	-	17
B.1 Purchases	-	-
- of which business combinations	-	-
B.2 Capitalised improvement costs	-	-
B.3 Increases in fair value	-	-
B.4 Write-backs	-	-
B.5 Foreign exchange gains	-	-
B.6 Transfers from property for business use	-	-
B.7 Other changes	-	17
C. Decreases	-	1,205
C.1 Sales	-	-
- of which business combinations	-	-
C.2 Depreciation	-	1,205
C.3 Decreases in fair value	-	-
C.4 Impairment losses	-	-
C.5 Foreign exchange losses	-	-
C.6 Transfers to:	-	-
a) properties for business use	-	-
b) non-current assets and disposal groups	-	-
C.7 Other changes	-	-
D. Closing balances	48,305	34,057
E. Measurement at fair value	-	-

SECTION 10 - INTANGIBLE ASSETS - ITEM 100

10.1 Intangible assets: breakdown by type of asset

€/t	31/12/2020		31/12/2019	
	Definite life	Indefinite life	Definite life	Indefinite life
A.1 Goodwill	X	132,925	X	132,925
A.1.1 attributable to the group	X	132,925	X	132,925
A.1.2 attributable to minority interests	X	-	X	-
A.2 Other intangible assets	72,275	-	70,526	-
A.2.1 Assets measured at cost	72,275	-	70,526	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	72,275	-	70,526	-
A.2.2 Assets measured at fair value	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
TOTAL	72,275	132,925	70,526	132,925

10.2 Intangible assets: changes during the year

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		TOTAL
		DEF	INDEF	DEF	INDEF	
A. Opening balances	132,925	-	-	98,089	-	231,014
A.1 Total net impairment losses	-	-	-	(27,563)	-	(27,563)
A.2 Net opening balances	132,925	-	-	70,526	-	203,451
B. Increases	-	-	-	32,369	-	32,369
B.1 Purchases	-	-	-	32,299	-	32,299
- of which business combinations	-	-	-	1,588	-	1,588
B.2 Increases in internal intangible assets	X	-	-	-	-	-
B.3 Write-backs	X	-	-	-	-	-
B.4 Increases in fair value	-	-	-	-	-	-
- in shareholders' equity	X	-	-	-	-	-
- in the income statement	X	-	-	-	-	-
B.5 Foreign exchange gains	-	-	-	-	-	-
B.6 Other changes	-	-	-	70	-	70
C. Decreases	-	-	-	(30,620)	-	(30,620)
C.1 Sales	-	-	-	-	-	-
- of which business combinations	-	-	-	-	-	-
C.2 Value adjustments	-	-	-	(30,367)	-	(30,367)
- Amortisation	X	-	-	(30,367)	-	(30,367)
- Write-downs	-	-	-	-	-	-
+ shareholders' equity	X	-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.3 Decreases in fair value:	-	-	-	-	-	-
- in shareholders' equity	X	-	-	-	-	-
- in the income statement	X	-	-	-	-	-
C.4 Transfers to non-current assets held for sale -	-	-	-	-	-	-
C.5 Foreign exchange losses	-	-	-	-	-	-
C.6 Other changes	-	-	-	(253)	-	(253)
D. Net closing balances	132,925	-	-	72,275	-	205,200
D.1 Total net value adjustments	-	-	-	(30,374)	-	(30,374)
E. Gross closing balances	132,925	-	-	102,649	-	235,574
F. Valuation at cost	-	-	-	-	-	-

In accordance with IAS 36 and considering the recommendations of the joint Bank of Italy/Consob/ISVAP document of 3 March 2010, the reporting on the impairment testing performed on the Cash Generating Units (CGUs) in place at 31 December 2020 is provided below.

The impairment process aims to verify that the carrying amount of the CGUs does not exceed the recoverable amount, i.e. the greater of the value in use and the possible sale price on the market (fair value net of selling costs or exchange value) of the CGUs.

In order to carry out the impairment testing on goodwill, the directors of Banca Mediolanum were assisted by a company with specific experience in company valuations (the independent expert).

The impairment testing was conducted on the basis of the methods and assumptions described below.

10.3 Other information

DEFINITION OF THE CGUS AND ALLOCATION OF GOODWILL

At 31 December 2020, total goodwill was €132.9 million (31.12.2019: €132.9 million). Of this amount, €102.8 million was allocated to the Spain CGU, €22.8 million to the Italy CGU and €7.3 million to the EuroCQS CGU.

In accordance with the business reporting system adopted by the Group and as in previous years, the CGUs are identified based on the geographical area in question.

Impairment testing was therefore performed taking the following CGUs into account:

€/m	Description	Allocated goodwill
Spain CGU	Banco Mediolanum S.A.	102.8
Italy CGU	Gamax Management AG - Italy Division	22.8
EuroCQS CGU	EuroCQS S.p.A.	7.3

VALUATION METHODS

As in previous years, the recoverable amount of the CGUs has been determined, unless otherwise indicated, by reference to their value in use.

When performing the impairment test, the business plans recently approved by the companies were used, which already take into account the market context in the Covid era. Moreover, when identifying the main valuation parameters, these were assessed in the light of market valuation practices in the current context.

For the determination of value in use, IAS 36 provides for the possibility of using the financial method known as the Discounted Cash Flow (DCF) method. This method identifies the value in use of a CGU, or company, by estimating the future (operational) cash flows it generates, discounted to reflect the explicit time frame over which it is assumed that these will be achieved. In operating practice, when credit companies are valued, the Free Cash Flow to Equity (FCFE) approach, known as the Dividend Discount Model (DDM) in the Excess Capital version, is used. This determines the value of a company on the basis of future cash flows that it will be able to distribute to its shareholders, without affecting the assets necessary to sustain expected development and in accordance with the capital regulations imposed by the supervisory authority, discounted at a rate that expresses the specific risk. It should also be noted that although the phrase "Dividend Discount Model" contains the word "dividend", the cash flows considered by the model are not the dividends that are expected to be distributed to shareholders, but the cash flows that a shareholder could potentially benefit from within the limits of the capital resources required by company operations.

SPAIN CGU

The recoverable value of the Spain CGU was estimated considering the value in use obtained from the application of the Excess Capital version of the Dividend Discount Model valuation methodology, in accordance with the prevailing principles, on the basis of the Business Plan approved by the directors of Banco Mediolanum S.A. and Banca Mediolanum S.p.A. The Plan was developed on a reasonable and consistent basis, representing the best estimate currently available to management of the future economic performance of the CGU. In particular, the objective of developing Banca Mediolanum's typical business model in Spain has been confirmed, based on the experience and track record of the management of the Mediolanum Group, with sustained development of the sales network and a consequent increase in net funding and assets under management. The plan incorporates an update of the most recent expectations concerning the trend in interest rates in the forecasting period, the expected evolution of funding based on volumes and the sales network in place at 31 December 2020 and the forecast of the profitability of assets under management. The valuation quantities and parameters considered when determining the recoverable value are described below:

- > expected cash flows inferred from the plan's objectives;
- > growth in the Family Banker sales network, from 1,318 to 3,268;
- > an increase in assets under administration at an average annual rate of 13.2%;
- > the cost of equity capital was estimated at 10.06% based on the Capital Asset Pricing Model and considering the following parameters:
- > a risk-free rate of 0.2%, based on the average historical half-yearly return on 10-year bonds issued by the Spanish government;
- > the beta coefficient of 1.31, which indicates the risk level of a specific equity with respect to the equity market as a whole, estimated on the basis of the average value of a sample of companies operating in the Spanish banking sector;
- > a market premium, i.e. the difference in the return required by investors for an investment in equity securities compared with a risk-free investment, quantified at 6.0%, in line with the most common professional practice;
- > a specific risk premium, estimated conservatively at 2.0% to take into account the volatility underlying the achievement of the plan.

At the end of the explicit planning horizon, the CGU's value was estimated on the basis of the available flow in 2025, conservatively excluding the contribution of institutional cash, and considering a long-term growth rate of 1.5%, in line with long-term inflation expectations. Particularly stressed sensitivity analyses were carried out, which concerned, separately:

- > cost of equity capital;
- > the long-term growth rate;
- > net profitability.

When reasonable changes were made to the aforementioned basic assumptions, there were no cases in which the recoverable amount of the CGU was less than its carrying amount. In light of the analyses conducted, the directors did not identify any elements that would indicate impairment.

ITALY CGU

The goodwill allocated to the CGU is €22.8 million.

The recoverable amount of the CGU has been assumed to be greater than its carrying amount. The market capitalisation of Banca Mediolanum S.p.A. (€5.2 billion at 31 December 2020) and its tangible equity (€2.3 billion at 30 September 2020) corresponds to an implicit multiple of 2.3. There is therefore no evidence to suggest that the goodwill allocated to the Italian CGU is impaired. In conclusion, the market capitalisation of more than shareholders' equity led the Directors to conclude that there was no evidence of impairment at either the individual CGU or the group level.

EuroCQS CGU

The recoverable value of the EuroCQS CGU was estimated considering the value in use obtained from the application of the Excess Capital version of the Dividend Discount Model valuation methodology, in accordance with the prevailing principles, on the basis of the Business Plan approved by the directors of EuroCQS S.p.A. and Banca Mediolanum S.p.A. The Plan was developed on a reasonable and consistent basis, representing the best estimate currently available to management of the future economic performance of the CGU.

The valuation quantities and parameters considered when determining the recoverable value are described below:

- > expected cash flows inferred from the plan's objectives;
- > the cost of capital was estimated at 9.72% based on the Capital Asset Pricing Model and considering the following parameters:
- > A risk-free rate of 0.82%, the 6-month average gross yield of 10-year BTPs;

- > a beta coefficient, which indicates the correlation factor between the actual return of a share and the overall return of the reference market, assumed to be 1.15, based on the average value of a sample of companies operating in the consumer finance sector;
- > a market premium, i.e. the difference in the return required by investors for an investment in equity securities compared with a risk-free investment, quantified at 6%, in line with the most common professional practice;
- > a specific risk premium, estimated conservatively at 2.0% to take into account the volatility underlying the achievement of the plan.

At the end of the explicit planning horizon, the CGU's value was estimated on the basis of the available flow in 2021 and considering a long-term growth rate of 1.5%. Particularly stressed sensitivity analyses were carried out, which concerned, separately:

- > the cost of capital;
- > the long-term growth rate;
- > net profitability.

When reasonable changes were made to the aforementioned basic assumptions, there were no cases in which the recoverable amount of the CGU was less than its carrying amount. In light of the analyses conducted, the directors did not identify any elements that would indicate impairment.

SECTION II – TAX ASSETS AND TAX LIABILITIES – ITEM 110 OF ASSETS AND ITEM 60 OF LIABILITIES

11.1 Deferred tax assets: breakdown

€/t	31/12/2020	31/12/2019
Offset in the income statement	89,795	102,440
Offset in shareholders' equity	8,226	8,383
TOTAL	98,021	110,823

11.2 Deferred tax liabilities: breakdown

€/t	31/12/2020	31/12/2019
Offset in the income statement	(16,203)	(29,420)
Offset in shareholders' equity	(17,267)	(15,656)
TOTAL	(33,470)	(45,076)

11.3 Changes in prepaid taxes (offset in the income statement)

€/t	31/12/2020	31/12/2019
1. Initial amount	102,440	110,150
2. Increases	21,955	22,945
2.1 Prepaid taxes recognised during the year	21,867	22,945
a) relating to previous years	189	337
b) due to the change in accounting policies	-	575
c) write-backs	-	-
d) other	21,678	22,033
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	88	-
3. Decreases	(34,600)	(30,655)
3.1 Prepaid taxes cancelled during the year	(34,600)	(30,230)
a) reversals	(114)	(115)
b) write-downs due to non-recoverability	-	-
c) due to the change in accounting policies	-	-
d) other	(34,486)	(30,115)
3.2 Reductions in tax rates	-	-
3.3 Other decreases:	-	(425)
a) conversion into tax credits pursuant to Law 214/2011	-	-
b) other	-	(425)
4. Final amount	89,795	102,440

11.4 Changes in prepaid taxes pursuant to Law 214/2011

€/t	31/12/2020	31/12/2019
1. Initial amount	6,171	6,171
2. Increases	618	-
3. Decreases	(851)	-
3.1 Reversals	(851)	-
3.2 Transformation into tax credits	-	-
a) deriving from operating losses	-	-
b) deriving from tax losses	-	-
3.3 Other decreases	-	-
4. Final amount	5,938	6,171

11.5 Changes in deferred taxes (offset in the income statement)

€/t	31/12/2020	31/12/2019
1. Initial amount	(29,420)	(22,533)
2. Increases	(9,469)	(19,793)
2.1 Deferred taxes recognised in the year	(9,466)	(19,793)
a) relating to previous years	-	-
b) due to the change in accounting policies	-	(108)
c) other	(9,466)	(19,685)
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	(3)	-
3. Decreases	22,686	12,906
3.1 Deferred taxes cancelled during the year	22,686	12,742
a) reversals	-	-
b) due to the change in accounting policies	-	-
c) other	22,686	12,742
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	164
4. Final amount	(16,203)	(29,420)

11.6 Changes in prepaid taxes (offset in shareholders' equity)

€/t	31/12/2020	31/12/2019
1. Initial amount	8,383	10,245
2. Increases	497	3,134
2.1 Prepaid taxes recognised during the year	367	3,134
a) relating to previous years	-	-
b) due to the change in accounting policies	-	658
c) other	367	2,476
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	130	-
3. Decreases	(654)	(4,996)
3.1 Prepaid taxes cancelled during the year	(650)	(4,986)
a) reversals	(358)	(731)
b) write-downs due to non-recoverability	-	-
c) due to the change in accounting policies	-	-
d) other	(292)	(4,255)
3.2 Reductions in tax rates	-	-
3.3 Other decreases	(4)	(10)
4. Final amount	8,226	8,383

11.7 Changes in deferred taxes (offset in shareholders' equity)

€/t	31/12/2020	31/12/2019
1. Initial amount	(15,656)	(7,667)
2. Increases	(3,105)	(10,916)
2.1 Deferred taxes recognised in the year	(3,105)	(10,914)
a) relating to previous years	-	-
b) due to the change in accounting policies	-	(108)
c) other	(3,105)	(10,806)
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	(2)
3. Decreases	1,494	2,927
3.1 Deferred taxes cancelled during the year	1,490	2,927
a) reversals	666	706
b) due to the change in accounting policies	-	-
c) other	824	2,221
3.2 Reductions in tax rates	-	-
3.3 Other decreases	4	-
4. Final amount	(17,267)	(15,656)

11.8 Other information

Tax dispute

Banca Mediolanum

With regard to the tax dispute also reported in previous years, on 24 April 2020 the Major Taxpayers Office of the Regional Tax Department for Lombardy served Banca Mediolanum with assessment notices for IRES (corporate income tax) and IRAP (regional production tax) purposes concerning transfer prices for 2015. These assessment notices – which present identical charges to those of previous years – claim total additional taxable income of €94.6 million, including €23.5 million due to a recalculation from 57.43% to 64.25% of the retrocession of the management fees of the mutual funds promoted by the subsidiary Mediolanum International Funds and placed in Italy by the bank, as well as additional taxable income of €70.3 million deriving from the allocation to the bank of 23.83% of the performance fees. In total, additional taxes of €31.2 million were charged (including IRES of €26.0 million and IRAP of €5.3 million). Subsequently, on 8 May 2020, further assessment notices were served for the 2016 year, notifying additional taxable income totalling €70.6 million, including €24.4 million due to a recalculation from 57.43% to 64.25% of the retrocession of management fees, as well as additional taxable income of €46.2 million deriving from the allocation to the bank of performance fees of 21.1%. In total, additional taxes of €23.3 million were charged (including IRES of €19.4 million and IRAP of €3.9 million).

In view of the subjective nature of the charges and the diligent work done by the Company, which prepared the documentation provided for in transfer pricing legislation, the Italian Agency of Revenue has ruled that the administrative tax penalties do not apply. The company challenged the assessment notices with the Milan Provincial Tax Commission.

These assessment notices were also issued under the framework settlement agreement signed on 18 December 2018 between the companies of the Mediolanum Group concerned and the Revenue Agency. Accordingly, the receipt of the assessment notices was expected and does not change the risk assessment and the consequent provisioning, as also determined at the time of approval of the 2019 financial statements. The company therefore continued to provision for the higher taxes potentially due in respect of the recalculation of the retrocession of management fees at a percentage of 64.25%, net of the corresponding recovery of the amount already paid to the Irish tax authorities in respect of such higher taxable income.

As previously reported, no provision has been made for the allocation to the bank of the performance fees, as there was confidence, partly due to the support of an authoritative tax firm, that during the arbitration procedure this finding will not be upheld, in line with market practice and evidence.

Arbitration proceedings

For the assessment notices relating to the years 2014 (served on 19 December 2019), 2015 and 2016, applications were submitted in May 2020 for the commencement of the procedure provided for by European Arbitration Convention No. 90/436/EC (the “MAP”), which allows the decision to be referred to arbitration between the Italian and Irish tax authorities.

With regard to the years 2010-2013, in June 2020 the amicable treaty procedure commenced pursuant to Article 24 of the Convention against double taxation between Italy and Ireland, the aim of which is to obtain a tax credit from the Irish authority corresponding to the higher taxable income assessed in Italy. This application was declared admissible by the competent Italian authorities on 11 November 2020.

For the years 2019 to 2023, recourse was instead made to an Advanced Pricing Agreement (by application submitted on 1 August 2019), in which the tax authorities are asked to agree on the correct remuneration to be received by the Company from its Irish affiliate.

As at 31 December 2020, the total provision set aside for the above dispute was €28.8 million and the charge for the period under review was €4.3 million.

Mediolanum Vita

On 5 May 2020, Mediolanum Vita was served IRES and IRAP assessment notices for the year 2015, claiming higher taxable income of approximately €12.8 million, due to the recalculation from 57.43% to 64.25% of the retrocession of the management fees paid to the company by the associate Mediolanum International Funds, corresponding to total taxes of €4.4 million, of which €3.5 million of IRES and €0.9 million of IRAP, without the application of penalties. On 8 May 2020, assessment notices were then served for the purposes of IRES and IRAP for 2016. In these notices, the Italian Revenue Agency claims total higher taxes of €4.5 million, of which €3.6 million of IRES and €0.9 million of IRAP. The company challenged the assessment notices with the Milan Provincial Tax Commission.

Arbitration proceedings

For the assessment notices relating to the years 2014 (served on 19 December 2019), 2015 and 2016, applications were submitted in May 2020 for the commencement of the procedure provided for by European Arbitration Convention No. 90/436/EC (the "MAP"), which allows the decision to be referred to arbitration between the Italian and Irish tax authorities.

With regard to the years 2010-2013, in June 2020 the amicable treaty procedure commenced pursuant to Article 24 of the Convention against double taxation between Italy and Ireland, the aim of which is to obtain a tax credit from the Irish authority corresponding to the higher taxable income assessed in Italy.

For the years 2019 to 2023, recourse was instead made to an Advanced Pricing Agreement (by application submitted on 24 December 2019), in which the tax authorities are asked to agree on the correct remuneration to be received by the Company from its Irish affiliate.

In line with the previous year, the company continued to provision for the higher taxes potentially due in respect of the recalculation of the retrocession of management fees at a percentage of 64.25%, net of the corresponding recovery of the amount already paid to the Irish tax authorities in respect of such higher taxable income.

Finally, it should be recalled that Mediolanum Vita and its parent company Banca Mediolanum were the subject of a previous inspection procedure relating to the matter in question and concerning the years from 2005 to 2014, which was settled in December 2015 by paying total of €120.2 million in taxes. Mediolanum International Funds applied to the Irish tax authority – thus far to no avail – for a refund of taxes paid corresponding to the higher taxable amounts assessed in Italy, for a maximum value of approximately €41 million.

Mediolanum Vita therefore set aside a provision of €10.4 million and the charge for the period in question was €1.4 million.

Overall, the Mediolanum Group set aside a provision of €39.2 million for the tax dispute currently being resolved and incurred a charge for 2020 of €5.7 million.

SECTION 12 – NON-CURRENT ASSETS AND DISPOSAL GROUPS AND ASSOCIATED LIABILITIES - ITEM 120 OF ASSETS AND ITEM 70 OF LIABILITIES

12.1 Non-current assets and disposal groups: breakdown by type of asset

€/t	31/12/2020	31/12/2019
A. Assets held for sale		
A.1 Financial assets	-	-
A.2 Equity investments	-	-
A.3 Tangible assets	208	438
of which: obtained through the realisation of collateral	-	-
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
Total A	208	438
of which measured at cost	-	-
of which measured at fair value Level 1	-	-
of which measured at fair value Level 2	-	-
of which measured at fair value Level 3	208	438
B. Discontinued operations		
B.1 Financial assets at fair value through profit or loss	-	-
- Financial assets held for trading	-	-
- Financial assets designated at fair value	-	-
- Other financial assets mandatorily measured at fair value	-	-
B.2 Financial assets at fair value through other comprehensive income	-	-
B.3 Financial assets measured at amortised cost		
B.4 Equity investments		
B.5 Tangible assets		
of which: obtained through the realisation of collateral		
B.6 Intangible assets		
B.7 Other assets		
Total B		
of which measured at cost		
of which measured at fair value Level 1		
of which measured at fair value Level 2		
of which measured at fair value Level 3		
C. Liabilities associated with assets held for sale		
C.1 Payables		
C.2 Securities		
C.3 Other liabilities		
Total C		
of which measured at cost		
of which measured at fair value Level 1		
of which measured at fair value Level 2		
of which measured at fair value Level 3		
D. Liabilities associated with discontinued operations		
D.1 Financial liabilities measured at amortised cost		
D.2 Financial liabilities held for trading		
D.3 Financial liabilities designated at fair value		
D.4 Provisions		
D.5 Other liabilities		
Total D		
of which measured at cost		
of which measured at fair value Level 1		
of which measured at fair value Level 2		
of which measured at fair value Level 3		

SECTION 13 - OTHER ASSETS - ITEM 130

13.1 Other assets: breakdown

€/t	31/12/2020	31/12/2019
Receivables for fee and commission income	14,072	10,817
Receivables from the tax authorities	125,330	177,528
Receivables from financial advisors	207	1,764
Advances to suppliers and professionals	11,244	6,475
Security deposits	15,131	21,354
Receivables from employees	184	187
Other receivables	161,481	216,669
Assets for transit items	30,013	29,627
Accrued income	4,836	6,103
Prepaid expenses	21,165	13,485
Other sundry assets	27,476	27,998
TOTAL	411,139	512,030

LIABILITIES

SECTION 1 - FINANCIAL LIABILITIES MEASURED AT AMORTISED COST - ITEM 10

1.1 Financial liabilities measured at amortised cost: breakdown of payables to banks by type

€/t	31/12/2020				31/12/2019			
	CA	Fair value			CA	Fair value		
		L1	L2	L3		L1	L2	L3
1. Payables to central banks	944,986	X	X	X	-	X	X	X
2. Payables to banks	58,606	X	X	X	236,427	X	X	X
2.1 Current accounts and demand deposits	558	X	X	X	19,746	X	X	X
2.2 Deposits at notice	4,076	X	X	X	16,041	X	X	X
2.3 Loans	51,073	X	X	X	194,923	X	X	X
2.3.1 Repurchase agreements	51,073	X	X	X	194,923	X	X	X
2.3.2 Other	-	X	X	X	-	X	X	X
2.4 Payables for commitments to repurchase own instruments	-	X	X	X	-	X	X	X
2.5 Lease liabilities	1,615	X	X	X	1,839	X	X	X
2.6 Other payables	1,284	X	X	X	3,878	X	X	X
TOTAL	1,003,592	-	-	1,003,592	236,427	-	-	236,427

Key:

CA = Carrying amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

Payables to banks came to €1,003.6 million, up €767.2 million compared with 31 December 2019. The change was primarily due to strong growth in payables to central banks (+€945 million).

1.2 Financial liabilities measured at amortised cost: breakdown of payables to customers by type

€/t	31/12/2020				31/12/2019			
	CA	Fair value			CA	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	22,384,160	X	X	X	18,914,935	X	X	X
2. Deposits at notice	172,296	X	X	X	329,178	X	X	X
3. Loans	2,875,331	X	X	X	4,314,046	X	X	X
3.1 Repurchase agreements	2,874,390	X	X	X	4,312,869	X	X	X
3.2 Other	941	X	X	X	1,177	X	X	X
4. Payables for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Lease liabilities	71,820	X	X	X	76,927	X	X	X
6. Other payables	265,121	X	X	X	223,361	X	X	X
TOTAL	25,768,728	-	-	25,772,539	23,858,447	-	-	23,866,223

Key:
CA = Carrying amount
L1 = Level 1
L2 = Level 2
L3 = Level 3

Payables to customers came to €25,768.7 million, up €1,910.2 million compared with 31 December 2019. This change was primarily due to the increase in current accounts and demand deposits (+€3,475.9 million).

1.3 Financial liabilities measured at amortised cost: breakdown of securities in issue by type

€/t	31/12/2020				31/12/2019			
	CA	Fair value			CA	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. Bonds	-	-	-	-	68,213	-	68,516	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	-	-	-	-	68,213	-	68,516	-
2. Other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
TOTAL	-	-	-	-	68,213	-	68,516	-

Key:
CA = Carrying amount
L1=Level 1
L2=Level 2
L3=Level 3

1.4 Details of subordinated payables/securities

€/t	31/12/2020	31/12/2019
Subordinated securities	-	11,834
- banks	-	-
- customers	-	11,834
TOTAL	-	11,834

1.6 Lease liabilities

€/t	31/12/2020	
Breakdown of contractual flows of lease agreements according to the contractual term	Payables to banks	Payables to customers
Up to 1 year		1,769
Over 1 years to 5 years		2,999
Over 5 years	1,615	67,052
Overall total	1,615	71,820

SECTION 2 - FINANCIAL LIABILITIES HELD FOR TRADING - ITEM 20

2.1 Financial liabilities held for trading: breakdown by type

€/t	31/12/2020					31/12/2019				
	NV	Fair value			Fair value *	NV	Fair value			Fair value *
		L1	L2	L3			L1	L2	L3	
A. On-balance sheet liabilities										
1. Payables to banks	-	-	-	-	-	-	-	-	-	-
2. Payables to customers	50	51	-	-	51	-	-	-	-	-
3. Debt securities	-	-	-	-	X	-	-	-	-	X
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
TOTAL (A)	50	51	-	-	51	-	-	-	-	-
B. Derivative instruments										
1. Financial derivatives	X	-	78,271	-	X	X	-	77,132	-	X
1.1 For trading	X	-	78,271	-	X	X	-	77,132	-	X
1.2 Associated with the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	X	-	-	-	X	X	-	-	-	X
2.1 For trading	X	-	-	-	X	X	-	-	-	X
2.2 Associated with the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
TOTAL (B)	X	-	78,271	-	X	X	-	77,132	-	X
TOTAL (A+B)	X	51	78,271	-	X	X	-	77,132	-	X

Key:

NV= Nominal or notional value

L1=Level 1

L2=Level 2

L3=Level 3

Fair value*= Fair value calculated excluding changes in value due to a change in the issuer's credit rating since the issue date

SECTION 3 - FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE - ITEM 30

3.1 Financial liabilities designated at fair value: breakdown by type

€/t	31/12/2020					31/12/2019				
	NV	Fair value			Fair value *	NV	Fair value			Fair value *
	O	L1	L2	L3	O	O	L1	L2	L3	O
1. Payables to banks	-	-	-	-	-	-	-	-	-	-
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	-	-	-	-	X	-	-	-	-	X
of which:	-	-	-	-	-	-	-	-	-	-
- commitments to disburse funds	-	X	X	X	X	-	X	X	X	X
- financial guarantees given	-	X	X	X	X	-	X	X	X	X
2. Payables to customers	9,645,644	9,643,661	1,984	-	9,645,644	7,751,523	7,741,575	9,948	-	7,751,523
2.1 Structured	-	-	-	-	X	-	-	-	-	X
2.2 Other	9,645,644	9,643,661	1,984	-	X	7,751,523	7,741,575	9,948	-	X
of which:	-	-	-	-	-	-	-	-	-	-
- commitments to disburse funds	-	X	X	X	X	-	X	X	X	X
- financial guarantees given	-	X	X	X	X	-	X	X	X	X
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2 Other	-	-	-	-	X	-	-	-	-	X
TOTAL	9,645,644	9,643,661	1,984	-	9,645,644	7,751,523	7,741,575	9,948	-	7,751,523

Key:

NV= Nominal value

L1=Level 1

L2=Level 2

L3=Level 3

Fair value*= Fair value calculated excluding changes in value due to a change in the issuer's credit rating since the issue date

Financial liabilities designated at fair value include liabilities relating to contracts not covered by IFRS 4 but classified as "investment" contracts by the Group's Life insurance companies.

SECTION 4 - HEDGING DERIVATIVES - ITEM 40

4.1 Hedging derivatives: breakdown by type of hedge and hierarchical level

€/t	31/12/2020				31/12/2019			
	Fair value			NV	Fair value			NV
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives	-	29,318	-	93,051	-	31,043	-	108,282
1) Fair value	-	29,318	-	93,051	-	31,043	-	108,282
2) Cash flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-	-	-	-
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
TOTAL	-	29,318	-	93,051	-	31,043	-	108,282

Key:
 NV= Notional value
 L1 = Level 1
 L2 = Level 2
 L3 = Level 3

4.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

€/t	Fair value							Cash flows		Foreign inv.
	Specific									
	debt securities and interest rates	equity securities and equity indices	currencies and gold	credit	commodities	other	Generic	Specific	Generic	
1. Financial assets at fair value through other comprehensive income	-	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	29,318	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
TOTAL ASSETS	29,318	-	-	-	-	-	-	-	-	-
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
TOTAL LIABILITIES	-	X	-	-	-	-	-	-	-	X
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

SECTION 6 - TAX LIABILITIES - ITEM 60

For the tables relating to quantitative data, please see Section II of the assets section.

SECTION 8 - OTHER LIABILITIES - ITEM 80

8.1 Other liabilities: breakdown

€/t	31/12/2020	31/12/2019
Provision for agency termination indemnities	7,865	5,743
Payables to promoters, producers and mediators	46,173	28,837
Trade payables	86,453	76,012
Payables to parent companies, subsidiaries and associates	303	1,387
Payables to the tax authorities	147,549	253,340
Social security contributions	7,864	7,837
Payables to employees	30,175	29,733
Payables to professionals, directors and statutory auditors	4,028	3,653
Security deposits	127	127
Transit items	199,466	205,867
Deferred income	3,640	3,998
Accrued expenses	2,524	3,910
Other sundry liabilities	160,431	174,538
Escrow accounts	2,275	5,113
Tax payables from policyholders	1,184	1,085
TOTAL	700,057	801,180

Payables for transit items include RID payment instructions, bank transfers arranged by customers and settled on the Interbank Network in the early days of 2021 and other items in processing that are regularly closed during the early days of the new year.

Trade payables refer to goods and services received and not yet settled at the reporting date. Payables to promoters, producers and mediators mainly include commissions to be paid to the network on new business.

Other sundry liabilities primarily consist of taxes to be paid on behalf of customers through F24.

SECTION 9 - EMPLOYEE TERMINATION BENEFITS - ITEM 90

9.1 Employee termination benefits: changes during the year

€/t	31/12/2020	31/12/2019
A. Opening balances	11,827	10,879
B. Increases	7,741	7,177
B.1 Provision for the year	7,215	6,229
B.2 Other changes	526	948
- of which business combinations	-	-
C. Decreases	(7,278)	(6,229)
C.1 Settlement payments	(7,224)	(6,223)
C.2 Other changes	(54)	(6)
- of which business combinations	-	-
D. Closing balances	12,290	11,827
TOTAL	12,290	11,827

9.2 Other information

As described in "Part A - Accounting policies", post-employment benefits, as a result of the supplementary pension scheme reform, are recognised under this item, and relate, for companies with an average of at least 50 employees during 2006, only to the portion accrued to 31 December 2006.

The provision therefore does not include portions that, as a result of the above reform, are paid into supplementary pension schemes or into the INPS treasury fund. Employee severance benefits accrued from 1 January 2007 constitute a "defined contribution plan" and are recognised in staff costs on the basis of the contributions due without the application of actuarial calculation methods.

The main assumptions used are:

- > Mortality rate: table SIM2001;
- > Inflation rate: 1.5%;
- > Frequency rate of advance employee severance benefits: up to 6%;
- > Turnover rate: 5% to 6%.

SECTION 10 - PROVISIONS FOR LIABILITIES AND CHARGES - ITEM 100

10.1 Provisions for liabilities and charges: breakdown

€/t	31/12/2020	31/12/2019
1. Provisions for credit risk relating to commitments and financial guarantees given	107	31
2. Provisions on other commitments and guarantees given	368	368
3. Company pension funds	657	671
4. Other provisions for liabilities and charges	325,397	273,933
4.1 legal and tax disputes	12,648	13,457
4.3 other	312,749	260,476
TOTAL	326,529	275,003

10.2 Provisions for liabilities and charges: changes during the year

€/t	Provisions on other commitments and guarantees given	Pension funds	Other provisions for liabilities and charges	TOTAL
A. Opening balances	368	671	273,933	274,972
B. Increases	17	59	104,538	104,614
B.1 Provision for the year	-	59	59,732	59,791
B.2 Changes due to the passage of time	-	-	2,739	2,739
B.3 Changes due to changes in the discount rate	-	-	11,693	11,693
B.4 Other changes	17	-	30,374	30,391
- of which business combinations	-	-	-	-
C. Decreases	(17)	(73)	(53,074)	(53,154)
C.1 Utilisation during the year	-	(26)	(38,688)	(38,714)
C.2 Changes due to changes in the discount rate	-	(47)	-	(47)
C.3 Other changes	(17)	-	(14,386)	(14,393)
- of which business combinations	-	-	-	-
D. Closing balances	368	657	325,397	326,422

10.3 Provisions for credit risk relating to commitments and financial guarantees given

€/t	Provisions for credit risk relating to commitments and financial guarantees given			
	Stage 1	Stage 2	Stage 3	TOTAL
Commitments to disburse funds	105	2	-	107
Financial guarantees given	-	-	-	-
TOTAL	105	2	-	107

10.6 Provisions for liabilities and charges: other provisions

€ / t	Balance as of	Allocations in the	Other	Utilisations in	Balance as of
	31/12/2019	period	changes	the period	31/12/2020
Provision name:					
- legal disputes	13,457	2,700	(1,586)	(1,923)	12,648
- other:					
Managers' allowance	80,465	15,990	(4,502)	(14,377)	77,576
Risk of misconduct by financial advisors	13,953	5,855	(5,474)	(1,550)	12,784
Additional customer allowance	118,592	24,720	(1,276)	(3,178)	138,858
Portfolio and structure allowance	34,393	13,963	(983)	(5,834)	41,539
Future expenses on distributed products	4,356	-	-	(694)	3,662
Sundry provisions	8,717	10,932	29,808	(11,127)	38,330
TOTAL	273,933	74,160	15,987	(38,683)	325,397

The above table shows the breakdown of, and changes in, the provisions in question.

The main estimation methods used by the Group to determine the provisions described above are described below.

The **Provision for legal disputes** mainly includes liabilities of a legal nature relating to pre-litigation and/or litigation situations, including the relevant portion of legal expenses. This provision is the result of reasonable and prudent estimates made by the legal department and is based on the success rates attributed to each case.

The **Provision for the risk of misconduct by financial advisors** includes estimated financial disbursements for liabilities incurred and expected to be incurred by the Bank for damage caused to customers due to misconduct by its network of financial advisors. This provision is the result of reasonable and prudent estimates by management, basing their assumptions on historical trends in losses that also take account of the most recent observations.

The **Additional customer allowance** comprises the legal indemnity payable to financial advisors when the service is terminated on their presumed retirement date. The basis of calculation depends on the commissions accrued, to which the statutory rates are applied. The liabilities thus determined are then subject to statistical-actuarial assessments, in order to take due account of other factors, such as turnover rates derived from the historical trend, the average duration of the liability and the associated discounting factors as well as estimated early disbursement dates - with respect to the presumed end date of the service - where there are circumstances such as a permanent allowance or death which provide for a simultaneous payment of the indemnity.

In addition to the contractual allowances due, the Group, through its own voluntary regulations, *-Regulations for Bonus Allowances* - pays additional and bonus allowances to its financial advisors for which appropriate provisions are made. These regulations are voluntary and discretionary in nature. The Bank can therefore update them at its sole discretion. At present, the amounts that may be necessary for the allowances provided for in the Regulations are reflected in the following provisions:

- > The **Managers' allowance** includes estimated liabilities of a solely bonus nature, i.e. not allowances due pursuant to law, which will be paid solely and exclusively to a specific category of identified agents who oversee, assist and coordinate several agent structures at regional and national level for specific business targets. The calculation is based on the remuneration received multiplied by a corrective factor and correlated to the expected payment date, which is the date on which the service will end on retirement. The liabilities thus determined are then subject to statistical-actuarial assessments, in order to take due account of other factors, such as turnover rates derived from the historical trend, the average duration of the liability and the associated discounting factors as well as estimated early disbursement dates - with respect to the presumed end date of the service - where there are circumstances such as a permanent allowance or death which provide for a simultaneous payment of the indemnity. It should also be noted that the payment, scheduled to take place within three years of the date of termination of the agency mandate, is in any case subject to conditions of access, first and foremost an absence of competitive activity in the two years following the termination of the mandate.
- > The **Portfolio and structure allowance** comprises the estimated contingent liabilities that may be created if the Bank, interposing itself between the financial adviser who transfers the portfolio and/or the structure and the financial advisor who acquires the portfolio and/or structure, records charges that may mainly be generated due to either a mismatch of cash flows between the transferring and succeeding financial advisers or a financial adviser's inability to satisfy the payables arising due to succession. It should be noted that the Regulations for Bonus Allowances adopted govern the transfer between financial advisors of responsibility for managing the portfolios of bank customers or the support and assistance of a financial advisors' structure. Transfers may be made either by active advisors or by advisors at the end of service. In the latter case the payment is subject to conditions of access, first and foremost an absence of competitive activity in the two years following the termination of the mandate.
 For both of these allowances, the Bank plays an active economic role, interposing itself between the transferor and the successor, paying the transferring advisor directly and exercising the right of recourse over the succeeding advisor. Neither of these cash flows provides for the application of an interest rate in operations currently in progress. It is understood that if no successor is identified, no allowance is paid to the transferring advisor.
 The future liabilities assumed by the Bank therefore stem only from the effect of future financial mismatches related to the different timing between payment and collection, the probability of an advisor not fulfilling his or her obligation, and no interest being applied.

The discount rate adopted for the above provisions is consistent with the risk level of the cash flows to be discounted of liabilities by maturity and reflects current market conditions.

The "Other provisions - Other changes" item includes the allocation made in the 2019 financial statements of €30 million relating to the subsidiary Bankhaus August Lenz. Approximately €7.7 million had been drawn from the provision at 31 December 2020.

SECTION II: - TECHNICAL RESERVES - ITEM I10

11.1 Technical reserves: breakdown

€/t	Direct business	Indirect business	31/12/2020	31/12/2019
A. Non-Life class	172,784	69	172,853	152,646
A1. Premium reserves	137,192	-	137,192	123,625
A2. Claims reserves	25,397	69	25,466	21,983
A3. Other reserves	10,195	-	10,195	7,038
B. Life class	1,689,030	-	1,689,030	1,596,538
B1. Mathematical reserves	1,564,196	-	1,564,196	1,490,554
B2. Reserves for amounts to be paid	91,968	-	91,968	74,456
B3. Other reserves	32,866	-	32,866	31,528
C. Technical reserves when the investment risk is borne by policyholders	16,743,017	-	16,743,017	16,045,949
C1. Reserves relating to contracts whose performance is linked to investment funds and market indices	16,743,017	-	16,743,017	16,045,949
C2. Reserves from pension fund management	-	-	-	-
D. Total technical reserves	18,604,831	69	18,604,900	17,795,133

Technical reserves include the commitment to policyholders.

In particular, the Life reserves mainly consist of technical reserves when the investment risk is borne by policyholders (€16,743.0 million) and the mathematical reserve (€1,564.2 million) (31.12.2019: €1,490.5 million) and includes, in addition to the mathematical reserve for pure premiums:

- > The interest rate reserve, which for investment policy products in separately managed accounts and for products with a pledged rate addresses the risk that the assets concerned will not generate sufficient returns to fulfil the financial commitments to policyholders (minimum guaranteed rate/technical rate);
- > The demographic bases reserve, which safeguards the commitments made to policyholders to pay an annuity benefit set at the time the contract was signed;
- > the bonus reserve for contracts containing clauses that provide for the accrual of bonuses at the end or over the life of the contract. These bonuses relate to several tariff categories and are either commensurate with the maximum fees provided for in the first years, with a percentage of the payments made or with the initial loading;
- > the reserve for deferred liabilities to policyholders.

The technical reserves of the Life business also include the reserve for amounts to be paid to the expenses reserve. The Non-Life reserves consist of the premium reserve, the claims reserve and the other technical reserves. The premium reserve includes the premium fraction reserve of €137.2 million (31.12.2019: €123.6 million). The ongoing risk reserve has been estimated using the empirical method and set at zero as the circumstances for its allocation have not occurred.

The claims reserve includes a prudent estimate of the compensation to be paid to policyholders and third parties estimated on the basis of the ultimate cost and amounts to €25.4 million. This reserve includes a component for claims incurred and reported and a component for claims incurred but not reported. In particular, this reserve includes an estimate of the commitments of the long tail classes (Motor TPL and Professional TPL).

11.2 Technical reserves: changes during the year

Total technical reserves increased by €809.8 million to €18,604.9 million. The main change was due to the increase in reserves relating to contracts whose performance is linked to investment funds and market indices (+€697.1 million).

SECTION 12 - REDEEMABLE SHARES - ITEM 130

Item not applicable to Group.

SECTION 13 - GROUP EQUITY - ITEMS 120, 130, 140, 150, 155, 160, 170 and 180

13.1 Share capital and treasury shares: breakdown

At 31 December 2020, the share capital amounted to €600,297 thousand (31.12.2019: €600,234 thousand) divided into 741,375,926 shares with no par value.

The number of treasury shares in portfolio was 6,386,041 shares totalling €43,570 thousand (31.12.2019: €47,808 thousand).

13.2 Share capital - Number of Parent Company shares: changes during the year

Units	Ordinary	Other
A. Shares existing at the beginning of the year	740,741,919	-
- fully paid-up	740,741,919	-
- not fully paid-up	-	-
A.1 Treasury shares (-)	7,006,963	-
A.2 Shares in issue: opening balances	733,734,956	-
B. Increases	1,254,929	-
B.1 New issues	634,007	-
- for payment	634,007	-
- business combinations	-	-
- bond conversion	-	-
- exercise of warrants	-	-
- other	634,007	-
- free of charge	-	-
- for employees	-	-
- for directors	-	-
- other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other changes	620,922	-
C. Decreases	-	-
C.1 Cancellation	-	-
C.2 Share buybacks	-	-
C.3 Transactions involving the sale of companies	-	-
C.4 Other changes	-	-
D. Shares in issue: closing balances	734,989,885	-
D.1 Treasury shares (+)	6,386,041	-
D.2 Shares existing at the end of the year	741,375,926	-
- fully paid-up	741,375,926	-
- not fully paid-up	-	-

13.3 Share capital: other information

There is no further information to report in addition to the above points.

13.4 Earnings reserves: other information

The Group reserves under item 150 total €1,738.8 million euros (31.12.2019: €1,323.5 million) and are classified as follows:

- > Earnings reserves of €1,694.9 million;
- > Other reserves of €43.9 million.

For changes in reserves, please see the “consolidated statement of changes in shareholders’ equity” for the 2019 financial year and the table included in the Notes to Banca Mediolanum’s financial statements for the information provided for by Article 2427 of the Italian Civil Code.

13.6 Other information

There is no further information to report in addition to the above points.

OTHER INFORMATION

1. Financial commitments and guarantees given

€/t	Nominal value of financial commitments and guarantees given			31/12/2020	31/12/2019
	Stage 1	Stage 2	Stage 3		
1. Commitments to disburse funds	1,054,808	16,332	67	1,071,207	636,278
a) Central banks	-	-	-	-	-
b) General governments	-	-	-	-	-
c) Banks	22	-	-	22	22
d) Other financial corporations	503,055	235	-	503,290	156,288
e) Non-financial corporations	178,648	89	18	178,755	130,629
f) Households	373,083	16,008	49	389,140	349,339
2. Financial guarantees given	55,743	-	-	55,743	55,853
a) Central banks	-	-	-	-	-
b) General governments	-	-	-	-	-
c) Banks	55,368	-	-	55,368	55,368
d) Other financial corporations	14	-	-	14	32
e) Non-financial corporations	307	-	-	307	361
f) Households	54	-	-	54	92

2. Other commitments and guarantees given

€/t	31/12/2020	31/12/2019
1. Other guarantees given	86,935	77,612
of which: non-performing credit exposures	18	24
a) Central banks	-	-
b) General governments	-	-
c) Banks	5,056	74
d) Other financial corporations	10,803	922
e) Non-financial corporations	6,961	8,513
f) Households	64,115	68,103
2. Other commitments	3,296	5,558
of which: non-performing credit exposures	3	-
a) Central banks	-	-
b) General governments	-	-
c) Banks	-	-
d) Other financial corporations	65	155
e) Non-financial corporations	708	718
f) Households	2,523	4,685

3. Assets pledged as collateral for liabilities and commitments

€/t	31/12/2020	31/12/2019
1. Financial assets at fair value through profit or loss	-	-
2. Financial assets at fair value through other comprehensive income	144,205	352,013
3. Financial assets measured at amortised cost	3,402,040	4,667,319
4. Tangible assets	-	-
of which: tangible assets constituting inventories	-	-

4. Breakdown of investments for unit-linked and index-linked policies

€/t	Services relating to investment funds and market indices	Services relating to pension fund management
	2020	2020
Carrying amount of assets	26,064,405	-
Intercompany assets*	341,389	-
Total assets	26,405,794	-
Carrying amount of financial liabilities	9,645,644	-
Carrying amount of technical reserves	18,432,047	-
Intercompany liabilities *	-	-
Total liabilities	28,077,691	-

(*) assets and liabilities eliminated in the consolidation process

5. Asset management and trading on behalf of third parties

€/t	31/12/2020
1. Execution of orders on behalf of customers	3,175,621
a) purchases	1,718,617
1. settled	1,718,617
2. not settled	-
b) sales	1,457,004
1. settled	1,457,004
1. not settled	-
2. Portfolio management	38,176,725
a) individual	367,372
b) collective	37,809,352
3. Securities custody and administration	51,514,018
a) third-party securities in custody: connected to custodian bank operations (excluding portfolio management)	349,646
1. securities issued by the companies included in the consolidation	-
2. other securities	349,646
b) third-party securities in custody (excluding portfolio management): other	9,335,727
1. securities issued by the companies included in the consolidation	3,113
2. other securities	9,332,614
c) third-party securities held with third parties	9,200,698
d) own securities held with third parties	41,828,645
4. Other transactions	10,606,426

Part C - Information on the consolidated income statement

SECTION I - INTEREST - ITEMS 10 AND 20

1.1 Interest income and similar income: breakdown

€/t	Debt securities	Loans	Other transactions	31/12/2020	31/12/2019
1. Financial assets at fair value through profit or loss	42,770	-	-	42,770	40,905
1.1 Financial assets held for trading	643	-	-	643	2,032
1.2 Financial assets designated at fair value	42,127	-	-	42,127	37,727
1.3 Other financial assets mandatorily measured at fair value	-	-	-	-	1,146
2. Financial assets at fair value through other comprehensive income	17,658	-	X	17,658	20,198
3. Financial assets measured at amortised cost:	114,373	185,417	X	299,790	276,409
3.1 Loans to banks	4,521	1,033	X	5,554	5,435
3.2 Loans to customers	109,852	184,384	X	294,236	270,974
4. Hedging derivatives	X	X	-	-	-
5. Other assets	X	X	3,085	3,085	1,347
6. Financial liabilities	X	X	X	28,993	29,344
TOTAL	174,801	185,417	3,085	392,296	368,203
of which: interest income on impaired financial assets	-	2,628	-	2,628	2,418
of which: interest income on finance leases	-	-	-	-	-

1.2 Interest income and similar income: other information

1.2.1 Interest income on foreign-currency financial assets

€/t	31/12/2020	31/12/2019
Interest income on foreign-currency financial assets	264	600
TOTAL	264	600

1.3 Interest expense and similar expenses: breakdown

€/t	Payables	Securities	Other transactions	31/12/2020	31/12/2019
1. Financial liabilities measured at amortised cost	(60,379)	(657)	X	(61,036)	(48,795)
1.1 Payables to central banks	(84)	X	X	(84)	(151)
1.2 Payables to banks	(1,156)	X	X	(1,156)	(3,258)
1.3 Payables to customers	(59,139)	X	X	(59,139)	(42,374)
1.4 Debt securities in issue	X	(657)	X	(657)	(3,012)
2. Financial liabilities held for trading	(325)	-	-	(325)	(1,723)
3. Financial liabilities designated at fair value	-	-	-	-	-
4. Other liabilities and provisions	X	X	(4,751)	(4,751)	(5,559)
5. Hedging derivatives	X	X	(4,246)	(4,246)	(4,794)
6. Financial assets	X	X	X	(2,895)	(2,141)
TOTAL	(60,704)	(657)	(8,997)	(73,253)	(63,012)
of which: interest expense relating to lease liabilities	(1,667)	-	-	(1,667)	(1,715)

1.4 Interest expense and similar expenses: other information

1.4.1 Interest expense on foreign-currency liabilities

€/t	31/12/2020	31/12/2019
Interest expense on foreign-currency liabilities	(978)	(3,071)
TOTAL	(978)	(3,071)

1.5 Differentials relating to hedging transactions

€/t	31/12/2020	31/12/2019
A. Positive differentials relating to hedging transactions	-	-
B. Negative differentials relating to hedging transactions	(4,246)	(4,794)
C. Balance (A-B)	(4,246)	(4,794)

SECTION 2 – FEES AND COMMISSIONS – ITEMS 40 AND 50

2.1 Fee and commission income: breakdown

€/t	31/12/2020	31/12/2019
a) guarantees given	96	65
b) credit derivatives	-	-
c) management, intermediation and advisory services	1,344,624	1,590,803
1. trading of financial instruments	2,363	1,563
2. currency trading	3	5
3. portfolio management	1,233,739	1,474,334
3.1 individual	4,803	3,978
3.2 collective	1,228,936	1,470,356
4. securities custody and administration	4,170	3,672
5. custodian bank	-	-
6. placement of securities	40,956	60,560
7. receipt and transmission of orders	12,167	6,443
8. advisory activities	1,455	1,000
8.1 relating to investment	-	-
8.2 relating to financial structure	1,455	1,000
9. distribution of third-party services	49,771	43,226
9.1 portfolio management	40,593	33,278
9.1.1 individual	-	-
9.1.2 collective	40,593	33,278
9.2 insurance products	738	631
9.3 other products	8,440	9,317
d) collection and payment services	20,345	27,125
e) securitisation servicing services	-	-
f) factoring services	-	-
g) tax collection and treasury	-	-
h) management of multilateral trading facilities	-	-
i) keeping and management of current accounts	19,453	19,433
j) other services	283,899	258,415
TOTAL	1,668,417	1,895,841

2.2 Fee and commission expense: breakdown

€/t	31/12/2020	31/12/2019
a) guarantees received	-	-
b) credit derivatives	-	-
c) management and brokerage services:	(596,974)	(570,177)
1. trading of financial instruments	(1,375)	(947)
2. currency trading	-	-
3. portfolio management:	(4,627)	(4,898)
3.1 on own account	(701)	(1,320)
3.2 delegated to third parties	(3,926)	(3,578)
4. securities custody and administration	(1,344)	(961)
5. placement of financial instruments	(45,692)	(39,076)
6. financial solicitation	(543,936)	(524,295)
d) collection and payment services	(30,780)	(40,359)
e) other services	(31,089)	(25,941)
TOTAL	(658,843)	(636,477)

SECTION 3 – DIVIDENDS AND SIMILAR INCOME – ITEM 70

3.1 Dividends and similar income: breakdown

€/t	31/12/2020		31/12/2019	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	24	-	1,760	-
B. Other financial assets mandatorily measured at fair value	-	2,726	-	2,589
C. Financial assets at fair value through other comprehensive income	1,851	-	781	-
D. Equity investments	-	-	-	-
TOTAL	1,875	2,726	2,541	2,589

SECTION 4 - NET GAINS (LOSSES) FROM TRADING - ITEM 80

4.1 Net gains (losses) from trading: breakdown

€/t	Capital gains (A)	Gains from trading (B)	Capital losses (C)	Losses from trading (D)	Net result [(A+B)-(C+D)]
1. Financial assets held for trading	7,895	2,525	(362)	(1,151)	8,907
1.1 Debt securities	418	2,402	(362)	(851)	1,607
1.2 Equity instruments	7,477	123	-	(293)	7,307
1.3 Units in investment funds (UCIs)	-	-	-	(3)	(3)
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	(4)	(4)
2. Financial liabilities held for trading	-	2,342	-	(144)	2,198
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	2,124	-	(1)	2,123
2.3 Other	-	218	-	(143)	75
Financial assets and liabilities: foreign exchange gains and losses	X	X	X	X	(312)
3. Derivative instruments	8	1,592	(155)	(11,018)	(4,448)
3.1 Financial derivatives:	8	1,592	(155)	(11,018)	(4,448)
- On debt securities and interest rates	8	1,592	(155)	(11,017)	(9,572)
- On equity instruments and equity indices	-	-	-	(1)	(1)
- On currencies and gold	X	X	X	X	5,126
- Other	-	-	-	-	-
3.2 Credit derivatives	-	-	-	-	-
of which: natural hedges associated with the fair value option	X	X	X	X	-
TOTAL	7,903	6,459	(517)	(12,313)	6,346

SECTION 5 - NET GAINS (LOSSES) FROM HEDGING - ITEM 90

5.1 Net gains (losses) from hedging: breakdown

€/t	31/12/2020	31/12/2019
A. Income relating to:		
A.1 Fair value hedging derivatives	-	-
A.2 Hedged financial assets (fair value)	-	508
A.3 Hedged financial liabilities (fair value)	-	-
A.4 Financial derivatives hedging cash flows	-	-
A.5 Assets and liabilities in foreign currencies	-	-
Total income from hedging (A)	-	508
B. Expenses relating to:		
B.1 Fair value hedging derivatives	(1,060)	(3,921)
B.2 Hedged financial assets (fair value)	(1,540)	-
B.3 Hedged financial liabilities (fair value)	-	-
B.4 Financial derivatives hedging cash flows	-	-
B.5 Assets and liabilities in foreign currencies	-	-
Total hedging expenses (B)	(2,600)	(3,921)
C. Net gains (losses) from hedging (A - B)	(2,600)	(3,413)
of which: result of hedges on net positions	-	-

SECTION 6 – GAINS (LOSSES) FROM DISPOSAL/REPURCHASE – ITEM 100

6.1 Gains (losses) from disposal/repurchase: breakdown

€/t	31/12/2020			31/12/2019		
	Gains	Losses	Net result	Gains	Losses	Net result
A. Financial assets						
1. Financial assets measured at amortised cost	36	-	36	2	-	2
1.1 Loans to banks	34	-	34	-	-	-
1.2 Loans to customers	2	-	2	2	-	2
2. Financial assets at fair value through other comprehensive income	1,138	(81)	1,057	2,014	(941)	1,073
2.1 Debt securities	1,138	(81)	1,057	2,014	(941)	1,073
2.2 Loans	-	-	-	-	-	-
TOTAL ASSETS (A)	1,174	(81)	1,093	2,016	(941)	1,075
B. Financial liabilities measured at amortised cost						
1. Payables to banks	-	-	-	-	-	-
2. Payables to customers	-	-	-	-	-	-
3. Debt securities in issue	-	-	-	-	(123)	(123)
TOTAL LIABILITIES (B)	-	-	-	-	(123)	(123)

SECTION 7 - NET GAIN (LOSS) FROM OTHER FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS - ITEM 110

7.1 Net change in value of other financial assets and liabilities at fair value through profit or loss: breakdown of financial assets and liabilities designated at fair value

€/t	Capital gains (A)	Gains from disposals (B)	Capital losses (C)	Losses on disposals (D)	Net result [(A+B)-(C+D)]
1. Financial assets	1,145,789	261,425	(456,575)	(513,620)	437,019
1.1 Debt securities	67,143	155,442	(101,399)	(103,437)	17,749
1.2 Loans	1,078,646	105,983	(355,176)	(410,183)	419,270
2. Financial liabilities	-	-	(334,203)	(32,552)	(366,755)
2.1 Debt securities in issue	-	-	-	-	-
2.2 Payables to banks	-	-	-	-	-
2.3 Payables to customers	-	-	(334,203)	(32,552)	(366,755)
3. Foreign-currency financial assets and liabilities: foreign exchange gains and losses	X	X	X	X	-
TOTAL	1,145,789	261,425	(790,778)	(546,172)	70,264

7.2 Net change in value of other financial assets and liabilities at fair value through profit or loss: breakdown of other financial assets mandatorily measured at fair value

€/t	Capital gains (A)	Gains from disposals (B)	Capital losses (C)	Losses on disposals (D)	Net result [(A+B)-(C+D)]
1. Financial assets	1,162	202	(8,957)	(17)	(7,610)
1.1 Debt securities	-	-	(439)	-	(439)
1.2 Equity instruments	-	-	-	-	-
1.3 Units in investment funds (UCIs)	1,162	202	(8,518)	(17)	(7,171)
1.4 Loans	-	-	-	-	-
2. Financial assets: foreign exchange gains and losses	X	X	X	X	-
TOTAL	1,162	202	(8,957)	(17)	(7,610)

SECTION 8 - CREDIT-RISK INDUCED NET ADJUSTMENTS/WRITE-BACKS - ITEM 130

8.1 Credit-risk induced net value adjustments relating to financial assets measured at amortised cost: breakdown

€/t	Value adjustments			Write-backs		31/12/2020	31/12/2019
	Stages 1 and 2	Stage 3		Stages 1 and 2	Stage 3		
		Write-offs	Other				
A. Loans to banks	(592)	-	-	787	-	195	(423)
- Loans	-	-	-	-	-	-	-
- Debt securities	(592)	-	-	787	-	195	(423)
of which: purchased or originated impaired loans	-	-	-	-	-	-	-
B. Loans to customers	(8,126)	(1,088)	(20,974)	635	6,587	(22,966)	(19,374)
- Loans	(6,308)	(1,088)	(20,974)	515	6,587	(21,268)	(18,269)
- Debt securities	(1,818)	-	-	120	-	(1,698)	(1,105)
of which: purchased or originated impaired loans	-	-	-	-	-	-	(444)
TOTAL	(8,718)	(1,088)	(20,974)	1,422	6,587	(22,771)	(19,797)

8.1a Net value adjustments for credit risk relating to loans measured at amortised cost subject to Covid-19 support measures: breakdown

€/t	Net value adjustments			Total 31/12/2020	Total 31/12/2019
	Stages 1 and 2	Stage 3			
		Write-offs	Other		
1. Loans subject to forbearance compliant with the GL	86		506	592	
2. Loans subject to other forbearance measures	(2)			(2)	
3. New loans	(269)	-	(7)	(276)	-
Total	(185)	-	499	314	-

8.2 Credit risk-induced net value adjustments relating to financial assets at fair value through other comprehensive income: breakdown

€/t	Value adjustments			Write-backs		31/12/2020	31/12/2019
	Stages 1 and 2	Stage 3		Stages 1 and 2	Stage 3		
		Write-offs	Other				
A. Debt securities	(841)	-	-	634	-	(207)	1,324
B Loans	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
of which: purchased or originated impaired financial assets	-	-	-	-	-	-	-
TOTAL	(841)	-	-	634	-	(207)	1,324

SECTION 10 – NET PREMIUMS – ITEM 160

10.1 Net premiums: breakdown

€/t	Direct business	Indirect business	31/12/2020	31/12/2019
A. Life class				
A.1 Gross premiums written (+)	1,644,214	-	1,644,214	2,203,466
A.2 Reinsurance premiums ceded (-)	(8,512)	X	(8,512)	(6,473)
A.3 Total	1,635,702	-	1,635,702	2,196,993
B. Non-Life class				
B.1 Gross premiums written (+)	90,110	-	90,110	34,779
B.2 Reinsurance premiums ceded (-)	(15,768)	X	(15,768)	(8,428)
B.3 Change in gross amount of premiums reserve (+/-)	(13,567)	-	(13,567)	(13,153)
B.4 Change in reinsurers' share of premiums reserve (+/-)	1,856	-	1,856	1,029
B.5 Total	62,631	-	62,631	14,227
C. Total net premiums	1,698,333	-	1,698,333	2,211,220

SECTION 11 – BALANCE OF OTHER INCOME AND EXPENSES FROM INSURANCE OPERATIONS – ITEM 170

11.1 Balance of other income and expenses from insurance operations: breakdown

€/t	31/12/2020	31/12/2019
1. Net change in technical reserves	(809,550)	(3,056,923)
2. Claims pertaining to the period paid during the year	(1,031,623)	(1,211,194)
3. Other income and expenses from insurance operations	(20,149)	(5,779)
TOTAL	(1,861,322)	(4,273,896)

11.2 Breakdown of the sub-item "Net change in technical reserves"

€/t	31/12/2020	31/12/2019
1. Life class		
A. Mathematical reserves	(427,120)	(1,111,835)
A.1 Annual gross amount	(426,087)	(1,109,413)
A.2 (-) Reinsurers' share	(1,033)	(2,422)
B. Other technical reserves	(1,710)	(1,178)
B.1 Annual gross amount	(1,710)	(1,178)
B.2 (-) Reinsurers' share	-	-
C. Technical reserves when the investment risk is borne by insurers	(379,101)	(1,943,126)
C.1 Annual gross amount	(379,101)	(1,943,126)
C.2 (-) Reinsurers' share	-	-
Total Life reserves	(807,931)	(3,056,139)
2. Non-Life class		
Changes in other technical reserves of the Non-Life class other than claims reserves, net of reinsurance cessions	(1,619)	(784)
Total Non-Life reserves	(1,619)	(784)
Total Life and Non-Life reserves	(809,550)	(3,056,923)

11.3 Breakdown of the sub-item "Claims pertaining to the period"

€/t	31/12/2020	31/12/2019
Life class: claims-related expenses, net of reinsurance cessions		
A. Amounts paid	(999,955)	(1,201,328)
A.1 Annual gross amount	(1,006,327)	(1,207,928)
A.2 (-) Reinsurers' share	6,372	6,600
B. Change in reserve for amounts to be paid	(16,885)	3,144
B.1 Annual gross amount	(17,253)	2,948
B.2 (-) Reinsurers' share	368	196
Total Life claims	(1,016,840)	(1,198,184)
Non-Life class: claims-related expenses, net of recoveries and reinsurance cessions		
C. Amounts paid	(13,504)	(12,379)
C.1 Annual gross amount	(17,821)	(14,210)
C.2 (-) Reinsurers' share	4,317	1,831
D. Change in recoveries, net of reinsurers' share	60	28
E. Changes in the claims reserve	(1,339)	(659)
E.1 Annual gross amount	(3,483)	(1,391)
E.2 (-) Reinsurers' share	2,144	732
Total Non-Life claims	(14,783)	(13,010)
Total Life and Non-Life claims	(1,031,623)	(1,211,194)

11.4 Breakdown of the sub-item "Other income/expenses from insurance operations"

The item "Other income/expenses from insurance operations" amounted to -€20.1 million at the end of 2020, down from €5.8 million in the comparative period.

SECTION 12 – ADMINISTRATIVE EXPENSES – ITEM 190

12.1 Staff costs: breakdown

€/t	31/12/2020	31/12/2019
1) Employees	(220,120)	(212,739)
a) wages and salaries	(156,403)	(151,661)
b) social security contributions	(41,290)	(37,355)
c) severance indemnity	-	-
d) social security costs	-	(4)
e) provision for employee severance benefits	(7,174)	(6,696)
f) provision for pensions and similar obligations:	(59)	(103)
- defined contribution	-	-
- defined benefit	(59)	(103)
g) payments to external supplementary pension funds:	(3,097)	(2,871)
- defined contribution	(2,665)	(2,512)
- defined benefit	(432)	(359)
h) costs arising from share-based payment agreements	(2,876)	(1,199)
i) other employee benefits	(9,221)	(12,850)
2) Other staff in service	(7,032)	(4,217)
3) Directors and statutory auditors	(8,175)	(8,106)
4) Retired staff	-	-
TOTAL	(235,327)	(225,062)

12.2 Average number of employees by category

Units	31/12/2020	31/12/2019
1) Employees	2,816	2,733
a) executives	113	113
b) management	491	464
c) other employees	2,212	2,156
2) Other staff	210	139
Total	3,026	2,872

12.3 Defined benefit company pension funds: costs and revenues

€/t	31/12/2020
- Current service cost	(89)
- Financial expenses	(9)
- Expected return on any redemption rights recognised as assets	75
- Actuarial gains and losses	(49)
- Effect of other reductions and write-offs	13
TOTAL	(59)

12.4 Other employee benefits

Other employee benefits, shown in Table 12.1 Staff costs, amounted to €9.2 million and mainly include contributions to company catering and costs incurred for insurance policies taken out for employees.

12.5 Other administrative expenses: breakdown

€/t	31/12/2020	31/12/2019
Information systems services	(95,830)	(94,278)
Infoprovder services	(16,301)	(13,837)
Financial services fees and charges	(796)	(1,121)
Other sundry services	(35,147)	(40,326)
Taxes and duties	(6,327)	(3,649)
Television and internet communications services	(1,657)	(2,510)
Measures in support of the banking system	(29,327)	(18,837)
Network consultancy and collaborations	(5,984)	(3,283)
Rentals, hiring, leases	(17,064)	(13,331)
Maintenance and repairs	(3,899)	(3,873)
Telephone and postal expenses	(12,415)	(11,569)
Other consultancy and collaborations	(33,556)	(25,388)
Contributions to "Family Banker Offices"	(1,394)	(1,554)
Consumables	(4,121)	(4,777)
Insurance	(2,338)	(2,872)
Membership contributions	(5,498)	(5,093)
Advertising and promotional expenses	(29,593)	(32,297)
Organisation of conventions	(5,032)	(15,303)
Sales network consulting, education and training	(1,048)	(3,289)
Energy utilities	(1,465)	(1,740)
Entertainment, gifts and donations	(7,897)	(7,326)
Market research	(1,291)	(1,535)
Search and selection of employees	(1,156)	(808)
Travel expenses	(468)	(2,276)
Search and selection of financial advisors	(338)	(276)
Other administrative expenses	(6,900)	(5,803)
TOTAL	(326,842)	(316,947)

Administrative expenses increased by €9,895 thousand. The change was mainly due to the launch of the new company, Flowe, active in payment services.

SECTION 13 – NET PROVISIONS FOR LIABILITIES AND CHARGES - ITEM 200

13.1 Net provisions for credit risk relating to commitments to disburse funds and financial guarantees given: breakdown

€/t	31/12/2020	31/12/2019
Financial guarantees given	(88)	(23)
TOTAL	(88)	(23)

13.2 Net provisions relating to other commitments and guarantees given: breakdown

€/t	31/12/2020	31/12/2019
Other commitments and guarantees given	6	(168)
TOTAL	6	(168)

13.3 Net provisions for other liabilities and charges: breakdown

€/t	31/12/2020	31/12/2019
Portfolio and structure allowance	(11,084)	(10,998)
Additional customer allowance	(25,338)	(24,649)
Risk of misconduct by financial advisors	(381)	2,087
Future expenses on distributed products	-	(973)
Legal disputes	(830)	1,006
Managers' allowance	(11,406)	(14,015)
Other provisions for liabilities and charges	(10,472)	(4,919)
TOTAL	(59,511)	(52,368)

SECTION 14 – NET VALUE ADJUSTMENTS/WRITE-BACKS OF TANGIBLE ASSETS – ITEM 210

14.1. Net value adjustments of tangible assets: breakdown

€/t	Amortisation (a)	Impairment losses (b)	Write-backs (c)	Net result (a + b - c)
A. Tangible assets				
A.1 For business use	(16,582)	-	-	(16,582)
- Owned	(6,530)	-	-	(6,530)
- Rights of use acquired through leasing	(10,052)	-	-	(10,052)
A.2 Held for investment purposes	(1,205)	-	-	(1,205)
- Owned	(1,205)	-	-	(1,205)
- Rights of use acquired through leasing	-	-	-	-
A.3 Inventories	X	-	-	-
B. Assets held for sale	-	-	-	-
TOTAL	(17,787)	-	-	(17,787)

SECTION 15 – NET VALUE ADJUSTMENTS/WRITE-BACKS OF INTANGIBLE ASSETS – ITEM 220

15.1 Net value adjustments/write-backs of intangible assets: breakdown

€/t	Amortisation (a)	Impairment losses (b)	Write-backs (c)	Net result (a + b - c)
A. Intangible assets				
A.1 Owned	(28,314)	-	-	(28,314)
- Generated internally by the company	-	-	-	-
- Other	(28,314)	-	-	(28,314)
A.2 Rights of use acquired through leasing	(14)	-	-	(14)
B. Assets held for sale	-	-	-	-
TOTAL	(28,328)	-	-	(28,328)

SECTION 16 - OTHER OPERATING INCOME AND EXPENSES - ITEM 230

16.1/16.2 Other operating income and expenses: breakdown

€/t	31/12/2020	31/12/2019
Recovery of costs for procurement and services rendered	51	58
Rental income on owned properties	854	3,266
Gains on divestments	28	40
Recovery of miscellaneous costs	5	29
Chargebacks to advisors	24	37
Other sundry income	11,015	11,299
Total - Breakdown of "Other operating income"	11,977	14,729
Losses on divestments	(12)	(27)
Settlements and compensation	(3,271)	(1,308)
- Other operating expenses - Depreciation of leasehold improvements	(2,959)	(2,456)
Other expenses	(21,337)	(9,790)
Total - Breakdown of "Other operating expenses"	(27,579)	(13,581)
Total - Breakdown of "Other operating income and expenses"	(15,602)	1,148

Other operating income and expenses amounted to -€15,602 thousand (31.12.2019: +€1,148 thousand). This change was mainly due to costs incurred for commercial initiatives and customer rewards promoted by subsidiary Flowe.

SECTION 17 – GAINS (LOSSES) ON EQUITY INVESTMENTS – ITEM 250

17.1 Gains (losses) on equity investments: breakdown

€/t	31/12/2020	31/12/2019
1) Joint ventures		
A. Income	-	-
1. Write-ups	-	-
2. Profits on disposal	-	-
3. Write-backs	-	-
4. Other income	-	-
B. Expenses	-	-
1. Write-downs	-	-
2. Impairment losses	-	-
3. Losses on disposal	-	-
4. Other expenses	-	-
Net result	-	-
2) Companies subject to significant influence		
A. Income	-	21,525
1. Write-ups	-	21,525
2. Profits on disposal	-	-
3. Write-backs	-	-
4. Other income	-	-
B. Expenses	-	(66,625)
1. Write-downs	-	(66,625)
2. Impairment losses	-	-
3. Losses on disposal	-	-
4. Other expenses	-	-
Net result	-	(45,100)
3) Other changes	-	(30,000)
TOTAL	-	(75,100)

In the previous period, the **Impairment** item included an adjustment to the value of the investment in Mediobanca (-€66.6 million) while the **Other changes** item includes the write-down of the assets and liabilities related to the German subsidiary Bankhaus August Lenz (-€30 million).

SECTION 20 – GAINS (LOSSES) ON DISPOSAL OF INVESTMENTS – ITEM 280

20.1 Gains (losses) on disposal of investments: breakdown

€/t	31/12/2020	31/12/2019
A. Real property	-	-
- Profits on disposal	-	-
- Losses on disposal	-	-
B. Other assets	157	11
- Profits on disposal	157	11
- Losses on disposal	-	-
Net result	157	11

SECTION 21 - TAXES ON INCOME FROM CONTINUING OPERATIONS - ITEM 300

21.1 Taxes on income from continuing operations: breakdown

€/t	31/12/2020	31/12/2019
1. Current taxes (-)	(111,059)	(164,430)
2. Changes in current taxes in previous years (+/-)	(86)	(371)
3. Reduction of current taxes for the year (+)	-	-
3.bis Reduction of current taxes for the year due to tax credits pursuant to Law No. 214/2011 (+)	-	-
4. Change in prepaid taxes (+/-)	944	(653)
5. Change in deferred taxes (+/-)	13,241	(8,101)
6. Taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(96,960)	(173,555)

21.2 Reconciliation between theoretical tax liability and actual tax liability recognised

€/t	31/12/2020	31/12/2019
Theoretical rate of IRES or equivalent taxes	12.85%	12.27%
Profit (loss) for the year before tax	531,422	738,987
Theoretical tax charge	68,297	90,647
IRAP	19,621	38,478
Tax dispute	5,715	6,362
Increased effective rate and other adjustments	3,328	38,067
IRES tax charge and equivalent taxes	96,960	173,555
Effective rate of IRES and equivalent taxes	18.25%	23.49%
Total taxes in the income statement	96,960	173,555
Total effective rate	18.25%	23.49%

SECTION 25 – EARNINGS PER SHARE

25.1 Average number of ordinary shares (fully diluted)

	31/12/2020	31/12/2019
Net profit (loss) (€/t)	434,462	565,432
Weighted average number of shares outstanding (units)	734,362,421	733,061,303
Adjustment for stock options with potential dilutive effect	3,406,177	4,079,702
Weighted average number of shares outstanding for diluted EPS purposes	737,768,598	737,141,005
Diluted earnings per share (€)	0.589	0.767
Basic earnings per share (€)	0.592	0.771

25.2 Other information

There is no other material information to report beyond that provided in the previous sections.

Part D - Consolidated comprehensive income

Analytical statement of consolidated comprehensive income

€/t	31/12/2020	31/12/2019
10. Net profit (loss) for the year	434,462	565,432
Other income items without reversal to the income statement	(48,575)	(4,881)
20. Equity securities designated at fair value through other comprehensive income:	(46,777)	85
a) change in fair value	(46,777)	85
b) transfers to other items of shareholders' equity	-	-
30. Financial liabilities at fair value through profit or loss (changes in creditworthiness):		
a) change in fair value	-	-
b) transfers to other items of shareholders' equity	-	-
40. Hedges on equity securities at fair value through other comprehensive income:		
a) change in fair value (hedged instrument)	-	-
b) change in fair value (hedging instrument)	-	-
50. Tangible assets	-	-
60. Intangible assets	-	-
70. Defined benefit plans	(503)	(1,178)
80. Non-current assets and disposal groups	-	-
90. Share of valuation reserves of equity investments measured at equity	-	(4,132)
100. Income taxes relating to other income items without reversal to the income statement	(1,295)	344
Other income items with reversal to the income statement	749	10,090
110. Hedging of foreign investments:	-	-
a) changes in fair value	-	-
b) reversal to income statement	-	-
c) other changes	-	-
120. Foreign exchange gains and losses:	-	-
a) change in value	-	-
b) reversal to income statement	-	-
c) other changes	-	-
130. Cash flow hedges:	-	-
a) changes in fair value	-	-
b) reversal to income statement	-	-
c) other changes	-	-
of which: result of net positions	-	-
140. Hedging instruments (non-designated elements)	-	-
a) change in value	-	-
b) reversal to income statement	-	-
c) other changes	-	-
150. Financial assets (other than equity securities) at fair value through other comprehensive income:	1,164	29,872
a) changes in fair value	3,171	34,994
b) reversal to income statement	(2,143)	1,674
- credit-induced adjustments	(303)	(1,426)
- gains (losses) on disposals	(1,840)	3,100
c) other changes	136	(6,796)
160. Non-current assets and disposal groups:	-	-
a) changes in fair value	-	-
b) reversal to income statement	-	-
c) other changes	-	-
170. Share of valuation reserves of equity investments measured at equity:	-	(14,709)
a) changes in fair value	-	-
b) reversal to income statement	-	-
- impairment losses	-	-
- gains (losses) on disposals	-	-
c) other changes	-	(14,709)
180. Income taxes relating to other income items with reversal to the income statement	(415)	(5,073)
190. Total other income	(47,826)	5,209
200. Comprehensive income (Item 10+190)	386,636	570,641
210. Consolidated comprehensive income attributable to minority interests	-	-
220. Consolidated comprehensive income attributable to the Parent Company	386,636	570,641

Part E - Information on risks and the related hedging policies

INTRODUCTION

In economic disciplines, the importance of the concept of risk has grown significantly in recent decades due to the operating environments of many companies. Their activities, whether financial or non-financial, always carry a certain margin of risk, which derives from uncertainty over the achievement of corporate objectives and is therefore ultimately associated with changes in the company's future economic value. Until recently, risk was seen only in its negative sense, and the aim of corporate management was to protect the business by minimising or eliminating risks at all costs. Because risk is inherent to a company's business, it must be regarded as an integral part of generating value for shareholders. A risk management system is therefore required to ensure that risk is controlled and regulated. Risk management identifies a process through which the organisation manages its business, taking into account the costs and benefits associated with each action that it undertakes. The main purpose of the risk management function is to enable the company to obtain lasting benefits from all the activities it performs, thereby helping to create value for the company and its stakeholders. Managing risk continuously and steadily becomes part of each company's strategic management. It lessens uncertainty over the achievement of the company's objectives, thereby reducing the probability of failure and increasing the probability of success.

In the banking field, according to the Basel Committee, the risk management function of a credit institution must be able to identify material risks at both an individual and aggregate level, as well as identifying emerging risks, assessing them and measuring the bank's exposure to these risks.

The world of risks is changing, and referring only to "classic risks" to represent the level of risk of a financial institution involves a necessarily partial vision. A risk-based business approach therefore requires a risk management function that is flexible and oriented towards evolution, not only of the economic and financial context. This evolution concerns the skills and professionalism necessary to perform the role of the future risk manager, which must include, among the risks that might arise, the environmental, social and corporate governance risks that may be associated with the various business lines and their management. In fact, the regulator's vision is also shifting toward an increasingly holistic representation of the risk spectrum.

RISK CONTROL ORGANISATIONAL STRUCTURE

The control environment is the element of corporate culture that determines the level of management sensitivity to control needs. It forms the basis for all other components of the Internal Control System. The Internal Control System (hereinafter also referred to as the "ICS") is defined as a set of rules, procedures and organisational structures designed to enable the Company to be managed soundly and correctly and in line with pre-established objectives through an adequate process of identifying, measuring, managing and monitoring key risks. The factors that influence the control environment are: integrity, the ethical values and competence of staff, management philosophy and style, the manner in which responsibilities are delegated, organisation and professional development and the commitment and leadership of the Board of Directors. A fundamental role is played by the Parent Company's Risk Committee, which carries out comparison and analysis activities in order to develop an overview of the various risks associated with the various types of business, and shares the actions taken to manage the risks identified. Within the Banking Group, the various companies undertake to implement a complex and efficient internal control system in their operating structures, taking account, in accordance with the guidelines received from the Parent Company, of the different applicable regulations and various areas of business. In order to promote the dissemination of values guided by professional propriety and compliance with laws and regulations, Banca Mediolanum also has a Code of Ethics, which outlines the conduct to be observed and is distributed for adoption by the subsidiaries.

PRINCIPLES UNDERLYING THE RISK CONTROL AND MANAGEMENT MODEL

The Internal Control System is strategically important for the Banking Group, as it has a high ranking on the scale of company values, relating not only to the corporate control functions but also involving the entire corporate organisation in the development and application of logical and systemic methods for identifying, measuring, communicating and managing risks.

The definition of the risk governance system must take into account the following general principles:

- > completeness of the types and location of the risks to be governed in accordance with legislative and regulatory provisions;
- > adequacy of the control system, which is coherent and structured in proportion to the characteristics of the Group and/or the companies concerned;
- > system functionality, as the application and suitability of the controls enable the Group to pursue its overall sound and prudent management;
- > reliability, i.e. the control system must be effective on an ongoing basis;
- > incorporation, by means of an ongoing search, of co-ordination mechanisms to provide the governing bodies with full, comprehensible and integrated information;
- > dissemination of control activities to each operating and hierarchical segment;
- > cost-effectiveness, achieving an adequate and functional trade-off between the overall cost of control and the related monitoring of risks;
- > development, by means of an ongoing search, of mechanisms designed to ensure the continuous improvement of the structure of the system and its effectiveness and efficiency;
- > timeliness, through the timely and prompt knowledge and communication of the appropriate levels of the company capable of implementing appropriate corrective measures;
- > independence of second-level control functions from the line organisational units, safeguarding the proportionality principle for the subsidiaries and thus ensuring a gradual implementation approach for smaller entities;
- > sharing and consistency between all the organisational units and/or companies in the same Group in relation to the use of uniform models and methodologies for the collection of data and information and for the analysis and measurement of risks, as applicable;
- > transparency and dissemination of the models, methodologies and assessment criteria used to facilitate the process of cultural dissemination and understanding of the underlying rationales of the choices made;
- > assignment of accountability and delegation by the Board of Directors to the organisational units in the direct management of the risks to which the corporate processes are exposed.

The Mediolanum Banking Group has defined, in the context of the processes of the various business activities, its Risk Appetite Framework ("RAF"), i.e. the overall level of risk and type of risk, which it intends to assume in order to achieve its strategic objectives, identifying the metrics to be monitored, the relative tolerance thresholds and the different risk limits.

In order to ensure compliance with the principles described above, the Mediolanum Banking Group has adopted a system of internal policies that define the general reference framework for risk management and control.

The main objectives of these policies are:

- > to ensure that the Internal Control System is able to promptly identify significant anomalies and prepare the appropriate corrective and/or mitigation measures;
- > to ensure the sharing and homogeneity of the essential risk management rules and principles within the Group;
- > to disseminate the risk management culture within the Group as part of a structured process and promote conscious and consistent behaviours and operational choices.

SECTION 1 – Risks of accounting consolidation

QUALITATIVE INFORMATION

CONGLOMERATE RISK MANAGEMENT

The Mediolanum Group incorporates banking and/or securities activities (investment services) and insurance activities. The Banking Group specifically consists of banks (Banca Mediolanum, Banco Mediolanum and B.A.LenZ) and management companies (e.g. Mediolanum Gestione Fondi and Mediolanum International Fund), while the insurance business is carried out by subsidiaries of Banca Mediolanum which produce financial insurance products in the Life class (Mediolanum Vita and Mediolanum International Life) and insurance products in the Non-Life class (Mediolanum Assicurazioni). Traditional regulation has an essentially sectoral approach (banking, securities, insurance) and consequently the regulatory and supervisory provisions on the capital adequacy of financial intermediaries take into account the risk profiles of the individual banking and insurance components of the Conglomerate and establish capital requirements for the typical risks (also considered individually) of each of them. Therefore, without prejudice to the risk control and management procedures in the Solvency area for insurance and ICAAP/ILAAP for banking, a management methodology for monitoring and analysing risk concentration is used at the Conglomerate level. This control is implemented by aggregating the exposures of all the companies in the Conglomerate to the same counterparty, both public and private, in all forms of financial commitment and investment. Periodically, therefore, each exposure is added together for all companies in the same group, analysing whether it could entail a potential loss of capacity that could compromise the solvency or the general financial position of all the companies in the Mediolanum Conglomerate. The situation regarding the various types of investment of the Conglomerate with respect to the counterparties to which all the companies of the Mediolanum Group are most exposed is also reported to the Supervisory Board on a quarterly basis. On the same quarterly basis, the Parent Company's Risk Management function reports to the Strategic Supervisory Body (Board of Directors) on the performance of the various businesses, representing all the relevant risk indicators, both by type of business and as provided for by sector regulations or by internal management and mitigation policies.

With regard to strategic, operational, non-compliance and reputational risks, a single Group framework has been adopted, also in view of the pervasiveness of these risks, without prejudice to the application of this framework according to a criterion of proportionality that takes due account of the specific business and regulatory aspects of the various companies, including at the national level. Consequently, the figures on financial and credit risks are presented separately below, maintaining the distinction between the banking and insurance sectors, while the figures on strategic, operational, non-compliance and reputational risks are presented on a comprehensive basis.

REPORTING OF FINANCIAL RISKS PURSUANT TO INTERNATIONAL ACCOUNTING STANDARD IFRS 7

IFRS 7, which is addressed in this section, mainly concerns the reporting to be provided on the nature of the risks arising from the financial instruments held and the related exposure that the company has to the risks identified. The exposure to the risk associated with the possession of financial instruments, as defined in IFRS 7, includes information on credit risk, liquidity risk and market risk. In this context, the qualitative information describes “the purposes, policies and processes assumed by management for managing related risks”, while the quantitative information describes the extent of the risk exposure, separately examining credit, liquidity and market risk reporting. This section therefore describes the characteristics of the risk control model according to the requirements of IFRS 7 that are relevant for the Mediolanum Group, classifying them in relation to their significance in terms of the business segments of the Group companies: banking, asset management and insurance. Under IFRS 7, the risks on which the analysis is conducted are liquidity risks, credit risk and market risks with their various forms and characteristics. A brief summary is also provided of the risk management techniques and policies adopted by the control functions for purposes beyond the scope of IFRS 7. It should also be noted that with the introduction of IFRS 13, several amendments were made to various standards. In particular, all the reporting associated with the Fair Value Hierarchy (FVH) is no longer governed by IFRS 7 but by IFRS 13. IFRS 13 establishes a single accounting standard for measuring fair value and provides complete instructions on how to measure the fair value of financial and non-financial assets and liabilities. IFRS 13 proposes a new definition of fair value, to be interpreted as “the price that should be received to sell an asset or that should be paid to settle a liability in a normal transaction between market participants at the measurement date”. The fair value is therefore determined on the basis of market values. The topics relating to the reporting of the various fair value levels of the accounting items subject to the relevant measurement, as required by IFRS 13, have been adequately covered in Part A of this note.

METHODOLOGY AND CLASSIFICATION PRINCIPLES FOR FINANCIAL INSTRUMENTS

The additional information envisaged by IFRS 7 can essentially be classified into three main types of risk:

- > **Credit risk.** Refers to the risk of suffering losses as a result of a deterioration in creditworthiness to default of both retail/corporate customers and institutional counterparties of which the Bank is a creditor in its investment activities, as a result of which the debtor may not fulfil all or part of its contractual obligations.
- > **Market risk.** Defined as the risk of suffering significant losses due to the unfavourable performance of market variables sensitive to the value of the investment activities of companies of the Mediolanum Group, such as interest rates, exchange rates, stock prices, volatility and bond spreads.
- > **Liquidity risk.** Liquidity risk generally takes the form of limits on the liquidation of assets. More precisely, it is the risk that a financial instrument cannot be bought or sold without a sharp reduction/increase in the price (bid-ask spread) due to the potential inability of the market to settle the transaction partially or completely. Liquidity risk is also defined as the risk associated with access to funding. Under Pillar II of Basel 2 as it applies to the Banking Group, the regulator requires banks to implement policies, management procedures and methods for measuring liquidity risk (e.g. the ILAAP).

The main aspects of the individual risks are therefore reported on the basis of the Group's lines of business.

QUANTITATIVE INFORMATION

A. Credit quality

A.1 Non-performing and performing credit exposures: amounts, value adjustments, trends and economic distribution

A.1.1 Distribution of financial assets by portfolio and credit quality (carrying amount)

€/t		Bad loans	Unlikely to pay	Non-performing past due	Other non-performing	Performing	TOTAL
1. Financial assets measured at amortised cost		22,645	38,604	10,888	110,444	28,746,991	28,929,572
2. Financial assets at fair value through other comprehensive income		-	-	-	-	1,654,317	1,654,317
3. Financial assets designated at fair value		-	-	-	-	26,064,405	26,064,405
4. Other financial assets mandatorily measured at fair value		-	-	-	-	-	-
5. Financial assets held for sale		-	-	-	-	-	-
TOTAL	31/12/2020	22,645	38,604	10,888	110,444	56,465,713	56,648,294
TOTAL	31/12/2019	21,813	40,239	11,283	162,790	50,648,664	50,884,789

A.1.2 Distribution of financial assets by portfolio and credit quality (gross and net values)

		Non-performing				Performing			
€/t		Gross exposure	Overall value adjustments	Net exposure	Overall partial write-offs*	Gross exposure	Overall value adjustments	Net exposure	TOTAL (net exposure)
1. Financial assets measured at amortised cost		150,779	(78,644)	72,135	-	28,908,450	(51,013)	28,857,437	28,929,572
2. Financial assets at fair value through other comprehensive income		-	-	-	-	1,655,045	(728)	1,654,317	1,654,317
3. Financial assets designated at fair value		-	-	-	-	X	X	26,064,405	26,064,405
4. Other financial assets mandatorily measured at fair value		-	-	-	-	X	X	-	-
5. Financial assets held for sale		-	-	-	-	-	-	-	-
TOTAL	31/12/2020	150,779	(78,644)	72,135	-	30,563,495	(51,741)	56,576,159	56,648,294
TOTAL	31/12/2019	144,895	(71,561)	73,334	-	27,318,044	(45,354)	50,811,455	50,884,789

€/t	Assets clearly of poor credit quality		Other assets
	Cumulative capital losses		Net exposure
1. Financial assets held for trading	-	-	234,521
2. Hedging derivatives	-	-	-
TOTAL	31/12/2020	-	234,521
TOTAL	31/12/2019	-	254,116

B. Reporting on structured entities (other than securitisation companies)

This does not apply to the Group.

SECTION 2 – Risks of prudential consolidation

THE PRUDENTIAL CONTROL PROCESS

Since 2014, the Supervisory Review and Evaluation Process (SREP) has undergone a profound transformation through the establishment of the Single Supervisory Mechanism (SSM), which includes the European Central Bank (ECB) and the competent national authorities of the EU Member States. This body is responsible for the prudential supervision of all credit institutions in the Member States and ensures that EU policy on prudential supervision of banks is implemented consistently and effectively in all EU countries. Therefore, the rules introduced require the supervision of intermediaries defined as significant to be carried out by the ECB in close cooperation with the national supervisory authorities. The supervision of the other banks will remain the responsibility of the authorities in each country and will be carried out according to uniform criteria. On the basis of the criteria established by the ECB, Banca Mediolanum currently belongs to this second group of banks, but the ECB nevertheless exercises indirect supervision over a category of banks which includes the Mediolanum Group. In accordance with the proportionality principle, which takes into account the size and risk profile of the intermediary and its level of interconnection with the rest of the financial system, these banks are subject to more and more intense direct supervision by their national supervisory bodies and indirect supervision by the ECB. Supervision is divided into two distinct phases: the first is the internal ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process) in which the banks make an independent assessment of their current and prospective capital and liquidity adequacy in respect of the risks assumed and company strategies. The second consists of the Supervisory Review and Evaluation Process (SREP) and is the responsibility of the Supervisory Authority, which reviews the ICAAP/ILAAP, formulates an overall opinion of the bank and takes corrective measures, where necessary. The SREP is based, first and foremost, on a dialogue between the Supervisory Authority and the banks. This allows the Bank of Italy and the European Central Bank to gain a more in-depth understanding of ICAAP/ILAAP and the underlying methodological assumptions, and allows the banks to explain the reasoning supporting their assessments. Banks define strategies and establish instruments and procedures for determining the capital that they consider adequate – in terms of amount and composition – to permanently cover all the risks to which they are or could be exposed, including risks other than those for which they have to comply with capital requirements. ICAAP/ILAAP is based on appropriate company risk management systems and presupposes adequate corporate governance mechanisms, an organisational structure with clearly defined lines of responsibility and an effective internal control system. The corporate bodies are responsible for this process, independently determining its design and organisation in accordance with their respective competences and prerogatives. They implement and instigate updates to ICAAP/ILAAP to ensure that it is always consistent with the Bank's operational characteristics and strategic context. ICAAP/ILAAP must be documented, known and shared by the corporate structures and subject to internal review. The prudential control process complies with the proportionality principle, whereby:

- > the corporate governance systems, risk management processes and mechanisms for internal control and capital determination considered adequate to cover risks must be commensurate with the characteristics, size and complexity of the bank's business;

- > the frequency and intensity of the SREP take into account the systemic relevance, characteristics, size and complexity of banks.

The ECB's supervisory authorities carry out a regular risk assessment and measurement exercise at the individual bank and/or group level, summarising the results of the analysis year after year, formally notifying the bank or the parent company of the actions to be taken to restore and/or maintain financial position under control.

THE BANKING GROUP: RISK APPETITE FRAMEWORK AND MAPPING OF MATERIAL RISKS

The Risk Appetite Framework (RAF), approved by the Strategic Supervisory Body of the Parent Company, i.e. the Board of Directors, is the reference framework that expresses the risk appetite that the Bank intends to assume, with respect to all the risks considered relevant that may characterise the activity performed. This is the overall approach that encompasses the policies, processes, controls and methodologies through which the aforementioned risk appetite of the Bank is defined, communicated, managed and reassessed, in accordance with the maximum risk that may be assumed, the business model and the strategic plan. The risk governance policy is therefore a strategic component of the RAF, enabling it to be aligned with the overall economic and financial plan and thus enabling the achievement of a sustainable growth objective. For this reason, the RAF is the result of a structured process involving various company organisational structures, specifically Risk Management and Planning and Control, each in its own areas of competence. The Group's risk appetite is reviewed annually to take account of the ongoing changes in the internal and external context, as well as changes in the expectations of the various stakeholders. The economic and financial figures estimated when the economic and financial plan was drawn up are reconciled with the risk appetite limits and incorporated as part of the RAF updating process, resulting in the revision and adjustment of the thresholds and limits established during the previous year, where applicable.

The RAF indicators defined by the Parent Company are characterised by the following key elements, in accordance with regulatory recommendations:

- > the risk capacity, which is the maximum risk that can be assumed, i.e. "how much" the bank or the Group can risk without breaching constraints - imposed by the shareholders or by the supervisory authority - and regulatory requirements;
- > the risk appetite, which takes into account how much the bank or the Group wishes to risk in order to achieve a goal;
- > risk tolerance, which relates to the tolerance threshold and defines a risk margin in addition to the one defined by risk appetite, in which in any case threats are kept under control even in "stress" conditions;
- > the risk profile, which measures the risk actually assumed at a specific time during the ordinary management of the Group's or the bank's business;
- > the risk limit, which structures risk objectives into operating limits, defining them in line with the principle of proportionality, based on the types of risk, units and/or business lines, product lines and types of customers.

The RAF document approved by the Parent Company is sent to all Group companies to facilitate the preparation of individual RAF documents that some Group companies (Banco Mediolanum, EuroCQS, Bankhaus August Lenz) draw up for their business and to enable all companies belonging to the Group to achieve the objectives in accordance with the risk appetite established.

The RAF indicators defined by the Group are grouped into macro reference families in order to ensure that they are easily understood and represented. They include capital adequacy indicators (e.g. CET I Ratio, Capital Ratio), credit risk indicators (e.g. NPL, Coverage Ratio) and liquidity risk indicators (e.g. LCR, NSFR), which are structured into other indicators: market risk, interest rate risk, operational risk, strategic risk and anti-money laundering risk. During the annual review of the document, the Banca Mediolanum Group carries out a critical review of the indicators by periodically assessing their relative usefulness, supplementing them where appropriate with new calculation methods or the introduction of new, more representative risk indicators.

The RAF, as a tool capable of focusing attention on the Banking Group's risk profile through an integrated view of risks, has significant interconnections and synergies with ICAAP/ILAAP, and is ideally positioned "upstream" of this process.

ICAAP/ILAAP

The risk profile is assessed and the periodic review carried out continuously, and reported at least once a year through the ICAAP (Internal Capital Adequacy Assessment Process)/ILAAP (Internal Liquidity Adequacy Assessment Process) report, which describes the internal capital adequacy assessment and the liquidity risk management and governance system, in accordance with both the reference standards and the Group's internal rules. The "Pillar II" regulations (Title III, Chapter I, Bank of Italy Circular No. 285/2013) require banks to have processes and instruments in place to determine the level of internal capital and liquidity management that is adequate to cover all types of risks, including unsupervised ones, such as the overall capital requirement ("Pillar I"), as part of an assessment of current and prospective exposure that takes account of strategies and the evolution of the relevant context. The regulations identify the phases and periodicity of the process and the main risks to be assessed, in some cases providing information on the methodologies to be used. In accordance with the proportionality principle, banks are divided into different classes which generally contain intermediaries of different sizes and operational complexity. The Parent Company's corporate governance bodies are responsible for the ICAAP/ILAAP process.

The Banca Mediolanum Group has always been characterised by a capital base and available cash that is higher than average for the sector in which it operates. This is what emerges both from the self-assessment process that the Parent Company conducts self-critically in the ICAAP/ILAAP report, and from the annual comparison with the Supervisory Authorities at the time of notification of the minimum requirements indicated by the assessment of the report sent on an annual basis within the regulatory deadlines.

MAPPING OF MATERIAL RISKS

The process of identifying material risks for the Mediolanum Group, in accordance with Circular No. 285 of December 2013, as subsequently updated, starts with an analysis of the scope of operations of the Bank and the Group in the regulatory lines of business and the activities carried out in these lines. The starting point of the risk mapping is therefore an awareness of the macro lines of business that make up the Banking Group's typical activity. The following main business segments can be identified within the Mediolanum Banking Group:

- > Retail and Commercial Banking
- > Trading and Sales
- > Asset Management
- > Retail Brokerage

Starting with risk measurement, a materiality threshold is defined for both those risks that entail a capital requirement and those that do not involve any absorption of assets but which nevertheless have to be analysed and monitored.

In the area of the relevance of risks, in line with the guidelines of the European Governance and Supervisory Authorities, ESG risks are increasingly important, in particular climate risk, which has to be taken into consideration more and more in all economic sectors, including banking.

PILLAR I RISKS

Credit risk (including counterparty risk)

The risk of suffering losses as a result of a deterioration in creditworthiness to default of institutional, retail and corporate counterparties of which the Bank is a creditor in its investment or lending activities, as a result of which the debtor may not fulfil all or part of its contractual obligations.

Market risk

Market risk is defined for banks using the standardised approach as the sum of capital requirements calculated for position risk, settlement risk, concentration risk and commodity position risk.

Operational risk

Banca Mediolanum, like the Parent Company, defines operational risk as “the risk that illegal or inappropriate conduct by staff, technological shortcomings or malfunctions, errors or deficiencies in operating processes and external factors may result in economic or pecuniary losses and sometimes legal or administrative impacts”.

PILLAR II RISKS OR OTHER RISKS

Concentration risk

Risk arising from exposure to counterparties, groups of related counterparties and counterparties in the same economic sector or that conduct the same business or are located in the same geographical area.

Rate risk

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

Liquidity risk

Liquidity risk generally takes the form of limits on the liquidation of assets. More precisely, it is the risk that a financial instrument cannot be bought or sold without a sharp reduction/increase in the price (bid-ask spread) due to the potential inability of the market to settle the transaction partially or completely. Liquidity risk is also defined as the risk associated with access to funding.

Residual risk

The risk that the recognised techniques for mitigating credit risk used by the bank prove less effective than expected. Excessive leverage risk The risk that a particularly high level of debt to equity could make the bank vulnerable, requiring corrective changes to its business plan, including the sale of assets entailing the recognition of losses that could also result in the impairment of the remaining assets.

Strategic risk

The current or prospective risk of a decrease in profits or capital due to changes in the competitive environment or poor corporate decision-making, the inadequate implementation of decisions, or insufficient responsiveness to changes in the competitive environment.

Compliance risk (or risk of non-compliance)

The risk of incurring legal or administrative penalties, significant financial losses or reputational damage due to breaches of compulsory provisions (of laws or regulations) or self-imposed rules (e.g. bylaws, codes of conduct or governance codes).

Reputational risk

The current or prospective risk of a decline in profits or capital should customers, counterparties, shareholders, investors or supervisors come to have a negative perception of the Bank.

ICT and security risk

The risk of loss due to breach of confidentiality, lack of integrity of systems and data, inadequacy or unavailability of systems and data or failure to replace information technology (IT) within reasonable time and cost limits in the event of a change in the requirements of the external environment or activity (i.e. agility). This includes security risks arising from inadequate or incorrect internal processes or from external events, including cyber attacks or inadequate physical security.

Climate risks

The growing focus of all government, social and production sectors on environmental issues and the simultaneous implementation of common guidelines at the level of the banking industry for the management and mitigation of risks related to climate change, such as physical risk and transition risk, is also a subject of particular attention and interest for the Banca Mediolanum Group. In the context of the initiatives undertaken, one initial consequence was the relative consideration that financial risks may be related precisely to the physical and transition risk mentioned above. The former relates to the economic effects suffered by individuals who may be exposed to extreme natural events. For example, environmental disasters can destroy physical capital (homes, warehouses, industrial facilities, public or private service facilities), thereby forcing households, businesses and public bodies, both local and central, to devote financial resources to the reconstruction of these assets, with consequences for banks, which may be affected by the impairment of assets received as collateral and by the increased recourse to credit of the victims of these extreme weather events. If these effects occur on a large scale, they effectively threaten the stability of the financial system as a whole, with inevitable consequences for declining productive investment.

Transition risks are a specific type of risk, mainly identified in financial costs, related to and/or arising from the implementation of a process of moving towards a sustainable low-carbon economy. This risk lies in the ability of an economic or corporate system to continue to perform its functions continuously, even in the face of extreme climate impacts and their evolution, as well as changes in the accessibility of natural resources. At the same time, it is necessary to have the capacity to reconfigure, evolve and adapt internal processes to increase the environmental sustainability of the system, in order to help to mitigate climate change and to develop the capacity to respond appropriately to the possible future impacts of any new legislative and/or regulatory regimes.

1.1 - Credit risk

QUALITATIVE INFORMATION

1. General aspects

The credit policy of the Mediolanum Banking Group is essentially designed to meet the financial needs of customers who hold assets invested in the financial and insurance products distributed by the Group companies. Therefore, within the context of the Banking Group's strategies, lending is complementary to the provision of financial/insurance products and investment services to customers, and includes credit facilities designed to meet customers' short/medium-term needs (ordinary loans) and loans for the purchase, exchange, completion and, in general, execution of real estate transactions (special loans). With regard to the granting of credit facilities in the form of salary/pension-backed loans and "with recourse" assignment of receivables for end-of-service benefits, these products are offered by the subsidiary EuroCQS.

Credit risk mainly relates to retail and corporate credit and treasury activities. In the context of retail and corporate credit activity, at the level of the Banking Group, credit risk is identified as the possibility that a counterparty, to which there is a credit exposure, will not fulfil in whole or in part the obligations assumed, thereby causing impairment of the exposure.

With regard to treasury activity, credit risk is defined as the risk of suffering losses as a result of a deterioration in creditworthiness to default of institutional counterparties of which Banca Mediolanum and the other Group companies are creditors in their investment activities, as a result of which the debtor may not fulfil all or part of its contractual obligations.

However, lending volumes registered a trend of growth essentially in line with budget forecasts, in accordance with the Group's intention of providing credit mainly to retail customers, and also fulfilling requests for financing from corporate counterparties made to our Group in the period in question.

The prevalence of loans to retail customers also means that the value of large exposures is significantly below the regulatory requirements.

An entity's exposure to a customer or group of connected customers is considered a large exposure when its value is equal to or greater than 10% of the entity's eligible capital. In view of the effect of exemptions and the mitigation of credit risk, large exposures must in any case comply with the limit of 25% of the entity's eligible capital.

Counterparties that fall under this type of reporting are primarily Italian and European banks operating with the respective Group treasury units.

It should be noted that with regard to the guidelines of the European Banking Authority (EBA) on the reporting and public disclosure of exposures subject to measures applied in response to the Covid-19 crisis (EBA/GL/2020/07 - *Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID 19 crisis*), express reference is made to the Public Disclosure document relating to the data at 31/12/2020 in the dedicated section of the Banca Mediolanum corporate website.

These guidelines, which were also transposed by the National Supervisory Authority in June 2020, require the representation of the following information on:

- > loans subject to “moratoria” falling within the scope of the EBA Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA/GL/2020/02);
- > loans subject to forbearance measures applied due to the Covid-19 crisis;
- > new loans guaranteed by the State or other public body.

Impacts of the Covid-19 pandemic

Within the context of all the public and private emergency measures implemented by various national and European institutional bodies, since the Covid-19 pandemic was first announced, the banks immediately got involved in implementing these measures, which were mostly designed to support the social and economic fabric of the country.

As regards the spread of coronavirus infections, each European country, through their governing bodies, has adopted different restrictions to contain the infection, resulting in adverse effects on a number of economic sectors, subsequently establishing financial support measures in the form of subsidies for those affected. The involvement of the banks inevitably resulted in the intervention of both the trade associations of the various Member States of the Union and the Supervisory Bodies, which took action in different ways and at different times in each European State, also depending on the level of dissemination to the population, through a series of measures for both existing credit exposures and for dedicated financial subsidies directed at the sectors/population groups hit hardest by the pandemic.

Banca Mediolanum and the other Group companies, such as Banco Mediolanum, operating in Spain, and EuroCQS, operating in salary-backed loans in Italy, immediately reorganised their internal operating methods in order to support their customers by adopting the legally established support measures, as well as adopting their own commercial initiatives to meet customer needs. In particular, the Mediolanum Banking Group supported its customers through its sales network and remote assistance systems, designing initiatives in the context of the credit business in support of households and businesses, supplementing the legislative measures in the “Cura Italia”, “Liquidità” and “Agosto” Decrees with non-legislative measures promoted by trade associations, in addition to its own initiatives.

On the subject of legislative and non-legislative moratoria, mention should be made of the following measures that were applied in 2020 relating to the loan portfolio of Banca Mediolanum and EuroCQS:

- > the “Cura Italia” Legislative Decree No. 18 of 17/03/2020, converted by Law No. 27 of 30/04/2020, Article 54 (Gasparrini Fund).
- > the “Cura Italia” Legislative Decree No. 18 of 17/03/2020, converted by Law No. 27 of 30/04/2020, Article 56 (Micro and SME benefits), subsequently amended by Decree-Law No. 104 of 14/08/2020 (the “Agosto” Decree).
- > ABI moratorium “Enterprises in Recovery 2.0”, Addendum of 6/03/2020, 22/05/2020 and 17/12/2020.
- > ABI Consumer moratorium of 21/04/2020 and 17/12/2020.

> Assofin Consumer Credit moratorium.

Banca Mediolanum also signed two different agreements to assist with the recovery of the Italian economy, badly affected by the Covid-19 emergency, and in particular:

- > Loans granted under the “Liquidity” Decree No. 23 of 8 April 2020 and guaranteed by the Central Guarantee Fund for SMEs and now, following the approval of the aforementioned government decrees, also extended to private entities, with an increase in the guarantee up to 100% for loans up to €30,000 and with a simplification of operating procedures.
- > Loans provided under SACE’s Italian Guarantee Programme, an initiative to guarantee loans provided to address liquidity shortages and support the return to full operation of Italian companies.

In addition, to support customers affected by redundancy fund measures, Banca Mediolanum ordered the disbursement of a line of credit of up to €1,400 as an advance on future disbursements by the INPS.

Customers were informed about these initiatives through publication on the corporate websites.

Despite the continuation of the health emergency for around 11 months in 2020, it should be noted that the Banking Group’s loan portfolio has not been particularly adversely affected by the crisis situations that a part of the population and economic sectors, including at the European and global level, are experiencing. Without taking into account the effect of the various government initiatives undertaken by individual European States, the trend in credit positions at full capacity, which has deteriorated, has not shown an increase in unexpected values. Monitoring of risk indicators showed a trend that was maintained, including at the Banking Group level, within the normal physiological deterioration parameters, without actually resulting in a deterioration in the credit quality of the existing portfolios at the consolidated level. The control measures in place in the various Group companies have highlighted any critical situations regarding the loans disbursed, meaning that timely targeted intervention processes can be triggered so that these situations can be resolved with all the tools available to mitigate the possible risk that each individual Group company may assume. With specific regard to the first- and second-level performance monitoring controls, no particular alert situations were identified during the year: all indicators were stable in accordance with the business model implemented by the Group and characterised by a low risk profile.

No significant changes were observed in the Risk Appetite Framework indicators, which always remained below the appetite and tolerance limits. The performing portfolio also did not show any abnormal percentages of SICR criteria with respect to the analysis of the monitoring of the staging allocation process.

Finally, the non-performing portfolio did not register any significant change in exposure and the cost of credit risk remained at the levels recorded in previous years, in accordance with the provisions made during strategic planning.

Credit risk management therefore continued in accordance with the current policies, credit policies and procedures, providing for ad hoc processes aligned with the instructions of the Supervisory Authorities in the case of credit exposures subject to interventions related to the Covid-19 pandemic.

2. Credit risk management policies

2.1 Organisational aspects

Lending in its various forms, whether for the purpose of purchasing a specific real estate or consumer asset, or in order to meet other financial needs, is an integral part of the commercial strategy of Banca Mediolanum and the other companies of the Banking Group.

In line with the Group mission, lending is complementary to the primary activity of distributing products in the areas of banking services and asset management, protection and pensions. The Group's lending policies are based on the utmost prudence and are oriented towards the development and consolidation of the relationship established with customers who hold assets invested in products managed by the Group companies.

2.2 Management, measurement and control systems

Credit quality is controlled by means of a systematic review of risk information, with the support of specific operating procedures, by each Group Company at every stage of the credit process. When granting loans, it is essential to fully understand the customer's economic and financial situation and to seek the most appropriate form of credit, taking into account the reasons for the loan application and the customer's creditworthiness, income and assets. To this end, during the application phase, each Group company acquires all the information necessary to assess the consistency between the income received, the amount of the exposure (including outstanding commitments) and the technical form and purpose of the loan.

The risk management structures of the Group companies are responsible for monitoring changes in loan risk levels. The introduction of IFRS 9 has had a significant impact on the management of banks' credit risk, as the switch to the "Expected Credit Loss" (ECL) approach, which applies to financial assets measured at amortised cost, debt investments measured at fair value through other comprehensive income and contracts involving financing or guarantee commitments, involves the use of models.

According to the IFRS 9 expected credit loss model, a loss can be recognised without the event that causes impairment of a receivable (the impairment trigger) necessarily occurring. Banks must always recognise the expected loss over a time horizon of 12 months, while expected losses for the residual life of the receivable are calculated in respect of assets for which there is a significant increase in credit risk after initial recognition. With regard to loans in particular, the ECL calculation method replaces the incurred loss calculation (IAS 39) for the entire performing portfolio, while the rule is completely new for government and corporate securities.

The new accounting standard introduces a three-stage classification model for financial assets and provides for the recognition of different expected loss amounts according to the level of deterioration of the credit quality of the financial instruments.

For additional qualitative and quantitative information on credit risk, please see the relevant section of the notes to the individual financial statements of Banca Mediolanum. It should be noted that the organisational approach and characteristics of the credit management and process adopted by the Parent Company, Banca Mediolanum, have been implemented at the level of the Banking Group, taking into account the size, regulations and characteristics of the business developed in the respective reference contexts.

Banco Mediolanum – Spain

The process of calculating write-downs for the Bank's credit portfolio involves the analysis of the impairment of all credit exposures and the application of collective or analytical impairment according to the counterparty's administrative status.

To quantify impairment, the Bank does not use an internal method, but applies a simplified, fixed percentage method (the *Solución alternativa*) proposed by the Bank of Spain for standard banks as provided for in the reference legislation (see Circular No. 4/2017 of 27/09/2017).

This legislation adopted locally provides for the adjustment of impairment rates in accordance with updates published by the Bank of Spain, which are based on information collected from the Spanish banking sector.

This simplified solution determines collective impairment according to the counterparty's regulatory classification, applying a fixed percentage to the amount of the exposure not collateralised after applying the respective haircuts specified by the Bank of Spain to the collateral. However, it is also possible to carry out individual analytical impairment testing.

Credit risk

In order to address the economic and social impact of the Covid-19 pandemic, the Bank of Spain approved several measures during 2020 to support workers, households and groups affected by the economic crisis. These initiatives included the establishment of a legislative moratorium, which supplemented the legal moratoria through sectoral agreements with the aim of facilitating the deferral of loans and mortgage payments of a wider scope, effectively establishing a special regime for sectoral moratorium agreements. The Bank made these regulatory exceptions available to its customers, adapting its processes to the regulatory requirements. Banco Mediolanum mainly prudently carried out individual analytical write-downs, taking a prudent approach in relation to the obvious critical issues registered by the real economy in Spain.

Despite the uncertainty generated by the Covid-19 crisis in terms of market volatility, the increase in credit spreads, sovereign debt spreads, and the general decline in prices and quotations, with respect to the financial exposures of the respective portfolios, did not have negative impacts. This is the consequence of the choice of business model adopted by the Bank, in line with what has been defined by the Parent Company, assuming a low risk profile with regard to portfolio investments.

Liquidity risk

During 2020, the Bank did not have to take any specific actions in terms of managing liquidity risk. In the period under review, there was no deterioration in its liquidity positions, either due to the possible crisis of liquidity in the interbank markets or due to the possible increases in cash withdrawals by retail customers due to an increase in liquidity requirements. The end of these critical situations allowed Banco Mediolanum to avoid making use of extraordinary measures to temporarily reduce the liquidity requirements relating to current operations.

Interest rate risk

In relation to the risk of significant changes in interest rates, the Bank did not identify any particular critical aspects and did not need to adopt any particular management measures. The Bank's statement of financial position contains assets that primarily consist of a loan portfolio almost entirely indexed to variable rates with frequent repricing and a portfolio of financial instruments with a high proportion of variable rate securities; liabilities, meanwhile, consist of loans at market rates with collateralisation of securities and by retail funding with specific characteristics of stability and inelasticity.

Operational risk

Operational risk management was primarily focused on optimising the measures adopted by the Bank to ensure business continuity and the development of management in emergency conditions, focused in particular on favouring remote work for all employees, maintaining and consolidating remote operations, strengthening the capacity and security of IT systems, supporting the Family Bankers network and significantly strengthening customer communication channels in order to mitigate the lack of personal contact, which is limited under the current health safety rules.

EuroCQS – Italy

During 2020, EuroCQS applied, as in the previous year, methodological guidelines for the definition of the "staging allocation" model and for the estimate of the "risk parameters" used to calculate the expected credit loss (ECL), which during the year showed

evidence of stability with respect to the percentage of coverage of performing loans. There was also no change in the provisioning policy with regard to non-performing loans.

With regard to the initiatives prepared to support its customers during the Covid-19 emergency, it should be noted that EuroCQS took part in the non-legislative Assofin consumer credit moratorium.

In view of the status of “beneficiary” identified by the Assofin moratorium, the customers granted forbearance consisted almost entirely of employees of private companies, which made very extensive use of the extraordinary social shock absorbers provided for by law: these customers suffered a reduction in remuneration capacity as a result of the very extensive use by companies of extraordinary social security contributions, resulting in the interruption of, or a significant reduction in, the repayment of salary-backed loans directly by the employer, in accordance with the provisions of Article 35 of Presidential Decree 180/1950. In view of exceptional conditions of objective and proven difficulties, EuroCQS also decided to grant a suspension of repayments to certain employees of state-owned or public companies.

The application of moratoria by EuroCQS therefore resulted in the suspension of repayments and ordinary debt recovery actions. On the other hand, it was noted that the temporary suspension of individual redundancies by employers, as well as the prohibition of collective mobility or staff reduction procedures, resulted in a decline in the events that typically result in the interruption of the regular amortisation of salary-backed loans (repaid through salary deductions of up to either 20% or 50%) .

The percentage of credit relationships covered by this moratorium with respect to portfolio stock is marginal.

No specific support initiatives have been provided for customers holding loans against the transfer of end-of-service benefits given the specific contractual and technical conditions for repayment of such loans.

On a prudential basis, in second half of 2020, the Company carried out a transitional review of certain specific criteria for assuming risk and assessing customer creditworthiness was carried out with a view to balance, risk mitigation and consumer protection.

2.3 Methods of measuring expected losses

The expected credit loss (ECL) approach set forth in IFRS 9 requires financial intermediaries to restructure the credit risk management process, including strategic planning, the measurement of credit risk variables, monitoring and reporting activities, and the performance measurement and risk-based pricing system.

The risk parameters used to calculate the ECL are: PD (Probability of Default), LGD (Loss Given Default) and EAD (Exposure at Default). According to the IFRS 9 expected credit loss model, a loss can be recognised without the event that causes impairment of a receivable (the impairment trigger) necessarily occurring. The bank always recognises the expected loss over a time horizon of 12 months, while expected losses for the residual life of the receivable are calculated in respect of assets for which there is a significant increase in credit risk after initial recognition.

This accounting standard introduces a three-stage classification model for financial assets and provides for the recognition of different expected loss amounts according to the level of deterioration of the credit quality of the financial instruments.

Stage allocation

Below are the three stages indicated by the accounting standard.

- > Stage 1: exposures not subject to significant impairment of credit quality since origination or purchase, or that are characterised by negligible credit risk at the reporting date. For assets in this segment, the ECL is measured within a 12-month time frame (12-month ECL).
- > Stage 2: “performing” exposures whose original credit quality has deteriorated significantly and whose credit risk is not negligible, although they cannot yet be classified as non-performing. If at the valuation date there is a significant increase in the credit risk of the instrument, the expected loss is measured over a time horizon that covers the lifetime of the instrument until maturity (lifetime ECL). In the case of the credit portfolio, the criteria defined for determining Stage 2 are: deterioration of the rating, forborne classification, past due by more than 30 days and internal classification as part of the performance monitoring process. With regard to the securities portfolio, Stage 2 classification depends on the deterioration of the rating of the security or the issuer according to the internal policies defined by the bank.
- > Stage 3: exposures whose credit risk has increased to the point that the instrument is considered to be impaired, i.e. classified as non-performing; this stage also includes financial instruments in default. The latter category includes all assets presenting objective evidence of impairment.

Loans

In order to measure significant increases in credit risk, loans are classified in stages by relationship type; different relationships with the same borrower may then be classified into different stages depending on whether or not the following rules apply.

Stage 2 Private and business segment

Specifically, a transition from Stage 1 to Stage 2 is determined when at least one of the following conditions occurs:

- > deterioration of the rating: the rating recorded at the observation date is at least two notches lower than the rating observed when the loan was originated;
- > forborne: Performing forborne credit facilities;
- > past due 30 days: there is a past due period of more than 30 days;
- > internal monitoring process results: the offices responsible for credit monitoring identify performance anomalies that could result in a significant increase in credit risk (management watch-lists).

Securities

Securities are classified by purchase tranche, with a single staging rule that verifies the rating of the financial instrument, initially showing the quality of the issue or alternatively the issuer's creditworthiness. Several purchase tranches attributable to the same security (same ISIN) may be classified at different stages depending on the deterioration of the credit rating recorded on the purchase date, pursuant to the FIFO (first in, first out) criterion.

Stage 1 allocation concerns exposures whose credit quality has not deteriorated since the time of purchase.

Stage 2 Securities portfolio

Stage 2 classification involves comparing the rating of the security or the issuer on the tranche purchase date and on the reporting date. If the rating class has declined by two or more notches since the purchase date and the security has a speculative grade rating on the observation date, the tranche is classified as Stage 2. Securities with an investment grade rating according to the ECAI rating scales at the reporting date are always classified at Stage 1 due to the use of the low credit risk exemption.

With regard to the Banca Mediolanum credit portfolio, the ECL is calculated on the basis of the ratings assigned to the various customer segments (Retail/Corporate) developed by the Cedacri CRS (Credit Rating System) procedure.

In order to calculate the lifetime ECL, a PD curve of up to 30 years is associated with each individual rating. The lifetime PD curve identifies the probability that a borrower (associated with a certain rating class) will default between the reporting date and the year on the curve node. The updating process involves the incorporation in the estimates of a forward-looking component on the first three years of the PD curve according to estimated macroeconomic scenarios. In the LGD assessment, a distinction is made between the "private segment" for which a separate LGD is applied according to the type of account, quantified on the basis of market benchmark analyses and internal recovery rate figures, and the "corporate segment" for which the econometric models implemented by Cedacri as part of the CRS procedure are applied. To calculate the ECL of the securities portfolio, financial instruments are divided into three categories based on the segment to which the issuer belongs: financial, business or government institutions. The rating associated with each issue is established using the criteria described in the internal policies. The relative PD and LGD curves have been developed for each segment, using market best practices and taking the specific features of the portfolios into account.

Forward-looking information is incorporated into the ECL calculation (on either a 12-month or lifetime basis) by means of the probability of default component. Satellite models connect the PD performance with macroeconomic variables, thus simulating the prospective performance of the risk parameter with estimates of economic drivers. The forward-looking scenarios act in particular on the first three years of estimation of the parameters, while from the fourth year onwards the estimates obtained remain stable and are perpetuated over time.

Following the economic and financial crisis caused by the spread of COVID-19, European institutions have taken a number of actions in order to limit its continued impact. In addition to taking direct action through moratoria and national funds to support European economies, the authorities have stressed the importance of maintaining a high level of quality of financial information in banks' financial statements, while also avoiding excessive pro-cyclicality in estimates and distortion of information due to the period of stress.

Of particular interest was the accounting standard IFRS 9, which, while not directly within the responsibility of the European authorities, is a central element with the calculation of the expected credit loss (ECL). The ECL not only quantifies the expected future loss on loans based on historical evidence in the estimation processes of the statistical models but also incorporates forward-looking information through a component that aims to simulate future performance. The purpose of forward-looking scenarios is to simulate future trends in macroeconomic variables (GDP, unemployment, etc.), which are incorporated annually into the calculation of the ECL of the loan portfolio.

These projections are typically provided by bank research centres, or in their absence, by accredited information providers. During the COVID-19 emergency, there has been a series of different scenario publications, by both information providers and authorities or industry experts, with different forecasts, including in the light of the series of adverse events and actions in support of the economy implemented by European governments and authorities. This diversity of scenarios and future outlooks could have led to an uneven impact on the financial statements of European banks. In order to avoid this misalignment, the Supervisory Authorities distributed macroeconomic scenarios with the aim of having them adopted by all significant banks for the 2020 half-year reports. Banca Mediolanum, in this regard, decided to align itself with this approach and proceeded to adopt the ECB and Bank of Italy scenarios published on 4 June 2020 when calculating the ECL on its loan portfolio. An extract from the main macroeconomic indicators used for the estimates is provided below:

	BASE		MILD		ADVERSE	
	EU GDP	UNMP	EU GDP	UNMP	EU GDP	UNMP
2020	(8.70%)	9.80%	(5.90%)	8.80%	(12.60%)	11.30%
2021	5.20%	10.10%	6.80%	8.50%	3.30%	12.50%
2022	3.30%	9.10%	2.20%	8.00%	3.80%	11.20%

For the classification of credit exposures in Stage 2 of subsidiary Euro CQS, as required by the accounting standard, the assessment of the change in credit risk is based on qualitative and quantitative information. To this end, a staging allocation model has been applied, in which the classification rules are based on objective calibrated criteria that take account of the specific features of EuroCQS products. These criteria were defined after various impact simulations to check that the model is complete.

With regard to estimating risk parameters, in order to develop a methodology consistent with that defined and applied by the Parent Company, the Probability of Default curves estimated by Banca Mediolanum for portfolio segments with similar risk levels are used to calculate Expected Credit Loss, including the effects relating to the prospective macroeconomic scenarios. These parameters have been appropriately defined to represent the risk level of the EuroCQS credit portfolio.

For the Loss Given Default component, in the absence of strong historical evidence, a prudential approach has been adopted with regard to the risk level of the products in the Company's credit portfolio based on external benchmarks and associating a greater potential expected loss with the technical forms presenting a higher degree of risk.

In accordance with the process of calibrating the Parent Company's risk parameters, starting from the calculation of the ECL in June 2020, EuroCQS re-estimated the probability of default parameter in order to consider in the forward-looking estimates the macroeconomic scenarios related to Covid-19 published by the Supervisory Authorities. Banca Mediolanum and EuroCQS did not implement the update of the macroeconomic scenarios carried out by the Supervisory Authorities in December as they were better than the forecasts for June. This would have resulted in a reduction in the expected credit loss that the Bank assessed as non-prudent.

2.4 Credit risk mitigation techniques

In return for granting credit, the banks operating in the Group obtain suitable guarantees from the counterparty, such as collateral on property, and typical personal guarantees, such as sureties, and other atypical guarantees, such as mandates to sell, endorsements, letters of patronage and specially dedicated forms of insurance linked to salary-backed loan products offered by EuroCQS. Although such guarantees are ancillary to the assessment of the customer's creditworthiness, great importance is given to the estimated value of the guarantee where prudential haircuts are applied, appropriately differentiated by type of collateral, the value of which is periodically reviewed according to the market value.

Banca Mediolanum, including at the consolidated level, does not apply processes for offsetting credit risk exposures with opposite sign entries in the financial statements or off-balance sheet.

Credit risk mitigation (CRM) techniques consist of contracts ancillary to the loan or other instruments and techniques that result in a reduction of credit risk, which is recognised when calculating capital requirements and, in terms of management, in internal policies. The recognised credit risk mitigation techniques are divided, for supervisory purposes, into two general categories:

1. Real protection.
2. Personal protection.

Real credit protection consists of:

- > financial collateral relating to cash, certain financial instruments, gold provided through pledge agreements, transfer of ownership to secure assets, repurchase agreements and securities lending and borrowing;
- > master netting agreements;
- > on-balance sheet netting;
- > real estate mortgages.

Rights in rem, pledges and other rights with equivalent content relating to assets with an adequate degree of liquidity and a sufficiently stable market value over time are recognised as credit risk mitigation techniques. This category includes guarantees provided through a pledge. The financial product pledged, directly or indirectly, must be included among the following products:

- > current account balances at the Group's banks;
- > government or government guaranteed bonds and eligible securities;
- > units in investment funds and investment companies with variable capital;
- > insurance policy restrictions;
- > assets under management;
- > bonds and certificates of deposit issued by the Group's banks and by other banks;
- > reverse repurchase agreements on listed, eligible or government bonds with ordinary customers with an agreement for later sale to the counterparty;
- > listed bonds;
- > listed equities.

If the guarantee net of internal policy haircuts does not fully cover the amount of the credit line granted, the loan is fully classified to the full risk category.

Credit risk arising from mortgage loans is mitigated by the guarantee provided by the property, which may be residential, semi-residential or non-residential. The property in question must be located in Italy. The maximum loan to value ratio is 85% for residential property provided as security (more than 80% only if there is a mortgage insurance policy in place) and 70% of the appraised value of semi-residential property. Semi-residential property is understood as property that meets the following requirements:

- > the maximum area intended for non-residential use must not exceed 40% of the appraised value of the property.
- > the unit must be located in a residential area.
- > the borrower must be a self-employed person who intends to use the property as his or her primary residence.

In the case of mortgage loans granted to employees of the companies of the Mediolanum Group or to employees of the sales network of the Mediolanum Group, the loan-to-value ratio may be increased to 95% if there is a mortgage insurance policy in place.

In the case of non-residential property, the maximum loan-to-value ratio is 50%. This percentage may be increased up to 80% if there is an irrevocable mandate to sell on the Group's products and other financial assets held by customers for an LTV ratio of between 50% and 80%.

In the case of mortgage transactions intended to finance the liquidity needs of owners of unencumbered property (or in the case of interventions on properties encumbered by a mortgage for previous loan transactions with counter-repayment in progress) the maximum LTV ratio is 50%.

The Group guidelines provide for the adoption of transactions oriented towards caution and the implementation of control procedures, proportionate and appropriate for the size of the business and the context in which the Group's companies operate, such as verification of the accuracy and quality of the document prepared by the expert, which are essential requirements of the risk analysis. Any indication of approval of a mortgage must always be supported by a valid valuation report which must provide an estimated value that is consistent with the loan amount requested and certify, as far as possible, the building's compliance with building and planning regulations. Otherwise, the application will be rejected or the loan reduced so that it is proportionate to the real value of the property (depending on its marketability, location, etc.). The reference property value is the lower of the purchase price and the value in the valuation report. The valuation is carried out by referenced and affiliated experts who always fulfil the requirements of independence and professionalism. The specific technical function established within the Loans department of each bank in the Group is responsible for checking that the internal procedures for drawing up the valuation report have been followed correctly. The first-level structure also performs a periodic control (due diligence on valuations) involving a second, different valuation company on a pre-defined sample of applications: this control verifies the soundness of the process in place and provides a revaluation consistent with the condition and market of property provided as collateral. As part of the second-level control process, the Risk Management function carries out periodic controls on the revaluation of property provided as collateral.

Personal credit protection consists of personal guarantees and credit derivatives. The latter are not currently authorised by the Parent Company among the credit mitigation techniques for the banking book, as they are only approved for trading.

In addition to collateral and personal guarantees, there is the irrevocable mandate to sell on the Group's products and other financial assets held by the customer. The mandate to sell has the undoubted advantage of being the leanest form of guarantee from an operational standpoint, although it does not constitute any prerogative or privilege on the part of the Group's Banks in the event of insolvency proceedings. Furthermore, as an atypical guarantee, mandates to sell are not eligible for the purpose of reducing capital absorption and are therefore not recognised as collateral for the purpose of mitigating credit risk, although they help to facilitate the decision whether or not to grant a normal credit facility. The risks assumed under this form of guarantee will therefore necessarily be considered full risks.

Through EuroCQS, credit is provided in the form of salary-backed loans (repaid through salary deductions of up to either 20% or 50%) and pension deductions. The mandatory insurance policy covering the risks of death and loss of employment represents a form of credit risk mitigation that is effective in the recovery process as it covers any failure to honour the obligation to repay the loan on the part of the borrower in the event of the final termination for any reason (including dismissal and voluntary resignation) of the employment relationship between the borrower and the employer. This policy is not eligible for supervisory purposes: the risks assumed on the basis of this form of risk mitigation are considered full risks. With regard to the calculation of the capital requirement, only in the case of salary-backed and pension-backed loans do the regulations allow for a lower weighting percentage than is required for retail exposures.

3. Non-performing credit exposures

3.1 Management strategies and policies

The Parent Company's NPL management strategy was defined on the basis of an analysis of the historical management capacity, the external context, the characteristics of the non-performing portfolio in terms of technical form and the limited level of the non-performing portfolio. In terms of possible recovery actions, internal management prevails, and in the out-of-court phase of the recovery process, positions for which early collection activities have not been successfully performed are entrusted to specialised partners. In addition, restructuring and forbearance policies are considered in line with recent operations. Given the level of the non-performing portfolio, transfer strategies (securitisations) with derecognition of the assets transferred were not considered. Objectives for closing positions (including by returning loans to performing credit exposures) and the actions to be taken were defined in the NPL operational management plan, in line with recent management, which resulted in an adequacy assessment of the recovery process. The objectives set out in the three-year plan were established in terms of NPLs gross and net of impairment by type of non-performing loan (past due exposures, UTPs and bad loans), as an absolute value and as a percentage of total exposures to customers, in accordance with the RAF indicators. Lastly, the inflows and outflows of non-performing credit exposures and the sources of reduction of non-performing loans were defined, distinguishing between repayments/early repayments, the realisation of collateral and transitions to new bad debt positions. The objectives set result in an essentially unchanged level of the NPL ratio, which is already low, net of adjustments.

The assessment of the quality of the portfolio for the impairment process is divided into two distinct phases:

- > identification of assets to be subjected to analytical, rather than collective, valuation;
- > the quantification and accounting recognition of the loss in accordance with the rules for the specific type of impairment adopted.

The phase of identifying the assets to be valued analytically rather than collectively requires that performing loans be subjected to collective valuation in accordance with IFRS 9.

Loans classified as "non-performing" according to the reporting criteria established in current supervisory regulations (past due exposures, UTPs and bad loans), regardless of the significance of each individual exposure, are subject to analytical valuation, with a distinction being made between an "analytical-flat rate" valuation and an "analytical-individual valuation".

Non-performing forbore exposures, even if they do not constitute a separate category of defaulted loans, given that they come under the category of bad loans, UTPs or past due exposures, are subject to analytical-flat rate valuation or analytical-individual valuation depending on which class they belong to and the presence of breaches of advised limits/overdrafts/past due amounts.

Impaired financial assets

On-balance sheet financial assets (loans and debt securities) and off-balance sheet financial assets (guarantees given, irrevocable and revocable commitments to disburse funds, etc.) are defined as “impaired” when the relevant debtors fall into the “non-performing” category as defined in Commission Implementing Regulation (EU) No. 680/2014 as amended (Implementing Technical Standards; hereinafter, ITS). Financial instruments included in the “Financial assets held for trading” portfolio and derivative contracts are excluded.

Non-performing loans can therefore be identified as a type of item characterised by difficult recoverability of the position since the counterparty’s creditworthiness is impaired. As a result of prudential supervisory regulations, there is increased capital absorption for this category of loans.

Non-performing loans are allocated, depending on severity, to the categories of past-due exposures, unlikely to pay exposures and bad loans.

Past due exposures

These are cash exposures other than those classified as bad loans or UTPs which, on the reporting reference date, have been past due or in breach of an advised limit for more than 90 days and comply with the materiality thresholds defined by legislation. Past-due exposures are determined with regard to individual borrowers.

The status of being past due or in breach of an advised limit must be continuous. In particular, in the case of exposures repayment by instalment, the unpaid instalment most in arrears is taken into account. Where a borrower has multiple exposures that have been past due for more than 90 days, the longest period of arrears is taken into account.

In the case of “revocable” credit facilities where the established credit limit has been breached (including if due to the compounding of interest), the calculation of days of the period of breach begins either from the first date of non-payment of interest that results in the breach, or from the date of the first request for return of the capital, whichever occurs first.

The total exposure to a borrower is recognised as past due if, at the reporting date, the higher of the two following values is equal to or higher than the threshold of 5%: a) the average past due exposure as a percentage of the entire exposure recorded on a daily basis in the previous quarter; and b) the past due exposure as a percentage of the entire exposure at the reference date.

For the purposes of calculating the materiality threshold, without prejudice to the requirement of a continuous past due position of more than 90 days, any parts past due by less than 90 days on other exposures are taken into account in the numerator. Any default interest required from the customer is not taken into account in the numerator. The denominator is calculated by taking into account the carrying amount of the securities and cash exposure for other credit positions. Past-due exposures include exposures to parties fulfilling the conditions for inclusion in past-due exposures that have one or more credit facilities that meet the definition of “non-performing exposures with forbearance measures” pursuant to Implementing Regulation (EU) No. 680/2014 – Implementing Technical Standards.

Unlikely to pay exposures

Unlikely to pay exposures are on- and off-balance sheet exposures to a borrower that the Bank regards as unlikely to pay its credit obligations fully (principal and/or interest) without recourse to actions such as the realisation of collateral. This valuation is made regardless of the presence of any amounts (or instalments) past due and unpaid if there are elements that imply a situation of risk of default by the borrower (for example, a crisis in the business sector in which the borrower operates).

Unless the requirements are met for classification as bad loans, unlikely to pay positions include:

- > all exposures to parties fulfilling the conditions for inclusion in unlikely to pay exposures that have one or more credit facilities that meet the definition of “Non-performing exposures with forbearance measures”;
- > all exposures to issuers that have not duly fulfilled their payment obligations (principal and/or interest) in relation to listed debt securities. To this end, the “grace period” established in the contract or, in the absence thereof, by the listing market of the security, is recognised;
- > all exposures to borrowers that have applied for an arrangement with creditors with rights reserved to file ancillary documents at a later date (pursuant to Article 161 of the Italian Bankruptcy Law) from the date of submission of the application until its outcome is known. The exposures in question are classified as bad loans if new objective elements exist that cause the Bank to classify the borrower in this category, or if the exposures were already bad loans when the

application was made;

- > cases of applications for composition with creditors on a going-concern basis (Article 186-bis of the Bankruptcy Law), from the date of submission of the application until its outcome is known. If a composition with creditors on a going-concern basis takes place with the disposal of the company in operation or its contribution to one or more companies (including newly incorporated entities) not within the borrower's economic group, it should be noted that the exposure must be reclassified to performing assets. However, this is not an option in the case of disposal or contribution to a company within the borrower's economic group, presuming that the parent company/controlling company was involved, in the interest of the entire group, in the decision-making process that led the borrower to apply for a composition with creditors. In this situation, the exposure to the transferee company continues to be reported as an impaired asset and is also recognised among non-performing forbore exposures. Exposures to borrowers that have initiated insolvency proceedings pursuant to the rules governing the "over-indebtedness" crisis of parties not eligible to file for bankruptcy proceedings ("civil insolvency") are also classified as unlikely to pay. In the event of subsequent approval by the court of the restructuring agreement, the relevant exposures are also classified as non-performing forbore exposures. Lastly, on- and off-balance sheet exposures in respect of which, due to the deterioration of the borrower's economic and financial conditions, the bank has agreed to amend the original contractual conditions that gave rise to a loss (excluding restructured loans) are categorised as unlikely to pay exposures. This classification is guided by the principle that, at the time of the amendment, the previous past due date is "set to zero" and the allocation of the renegotiated exposure to non-performing exposures implies an assessment of the borrower's status on the basis of the unlikely to pay principle.

Bad loans

These are all on- and off-balance sheet exposures to borrowers that are insolvent (even if not legally established as such) or in substantially equivalent situations, regardless of any loss forecasts made by the Bank. Furthermore, all exposures to parties fulfilling the conditions for inclusion in bad loans that have one or more credit facilities that meet the definition of "Non-performing exposures with forbearance measures" are included in this category. Exposures whose anomalous situations result from their country risk characteristics are excluded. Lastly, exposures to borrowers that have initiated insolvency proceedings pursuant to the rules governing the "over-indebtedness" crisis of parties not eligible to file for bankruptcy proceedings ("civil insolvency") are also classified as bad loans if new objective elements exist that cause the Bank to classify the borrower in this category or if the exposures are already classified as bad loans when the application is made.

3.2 Write-offs

Banca Mediolanum, as the Parent Company, does not have a write-off policy in place. Financial assets were written off on completion of the credit recovery process, as indicated by the internal policies and procedures.

3.3 Purchased or originated impaired financial assets

In accordance with IFRS 9, loans already considered non-performing from the time of initial recognition in the financial statements (or at the date of disbursement or purchase), depending on the degree of credit risk associated with them, are defined as purchased or originated credit-impaired assets (POCI). These types of credit positions, when they fall within the scope of application of impairment pursuant to IFRS 9, are measured by determining a provision to cover the credit risk at the time of initial recognition, which covers the entire residual life of the loan, typical of non-performing positions. Since these are non-performing loans, they are initially recognised in Stage 3, without prejudice to the possibility of being reclassified in the course of their lifetime to Stage 2 if they are found to be no longer non-performing on the basis of a credit risk analysis.

4. Financial assets subject to commercial renegotiation and forbore exposures

Exposures may be subject to amendments to contractual terms favourable to the borrower in order to make repayment of the same sustainable if the borrower is in difficulty. Such changes may be short-term (e.g. by extending an existing condition) or long-term (e.g. by revising the interest rate of a loan) and result in the classification of these exposures as forbore. Forborne exposures are subject to specific provisions for classification and, if the forbearance measures are applied to performing exposures, these are classed as Stage 2 exposures. All forbore exposures are monitored by the relevant company functions. These functions verify the effectiveness of the measures granted by recording subsequent improvements or deterioration in the customer's financial situation. If, at the end of the observation period, the position meets all the criteria laid down by law, it is no longer included in forbore receivables; if, however, these criteria are not met, the exposure remains among forbore exposures.

During 2020, all initiatives in support of customers affected by the economic effects of the Covid-19 pandemic were granted in accordance with the EBA guidelines issued on 02/04/2020 (EBA/GL/2020/02), updated on 02/12/2020 (EBA/GL/2020/15), with which the Bank of Italy declared compliance by Note 4 of 12/05/2020. Except for distressed customer situations not related to the Covid-19 pandemic, the legislative and non-legislative moratoria did not result in the reclassification of any exposures as forbore, performing or non-performing, since as they represented a collective measure in response to the health emergency they were aimed at addressing systemic, and not individual, risks. Therefore, in line with the EBA's instructions, credit exposures were not automatically considered to be subject to SICRs (significant increases in credit risk) or distressed restructuring.

Throughout the moratoria, the Mediolanum Group classified positions in accordance with its existing policies and practices, prioritising the assessment of counterparties for which the effects of the Covid-19 pandemic are more likely to become financial difficulties or longer-term insolvency, leading to insolvency of the debtor. Once the moratorium is completed, and as part of the periodic monitoring of the credit portfolio, for valuations for the purpose of non-performing classifications, debtors that are in arrears or who are identified by automatic external anomaly detection systems, depending on the severity of the anomaly detected, are given priority. With specific regard to the portfolio of the subsidiary EuroCQS, priority is assigned with particular attention to customers employed in companies operating in the product sectors identified as most exposed to the risks of the Covid-19 pandemic, as the likelihood of a reduction in their remuneration capacity is considered to be higher over time. In terms of its own measures, rolled out at the start of the pandemic, involving the suspension of two payments for the mortgage and unsecured loans in Banca Mediolanum's loan portfolio, the initiatives were aimed at a customer target selected according to appropriate criteria that excluded customers in a state of objective difficulty, and assessed individual requests received on a case-by-case basis in accordance with the policies in force for the purposes of classification as forbore. As part of the control framework prepared by the Risk Management function, a large-scale audit was added in order to identify anomalies attributable to the correct classification of the regulatory state and the attribute of forbearance, giving priority to initiatives with more relevance than the stock of the loan portfolio.

Non-performing forbore exposures

Non-performing forbore credit exposures are defined as individual on-balance sheet exposures and revocable and irrevocable commitments to disburse funds that meet the definition of "Non-performing exposures with forbearance measures". Such exposures are included, depending on the case, in bad loans, unlikely to pay positions or past due exposures and do not form a separate category of impaired assets. Cases in which a credit exposure is restructured with the intent of settling the position are also included among bad loans.

The legislation on the new definition of default (new DOD), which will come into force on 01.01.202, aims to harmonise the method of identifying non-performing loans in European jurisdictions and requires significant action to include the adjustments necessary for full compliance. The Mediolanum Group, for the legal entities whose business is affected by the new rule, has launched two different projects: the first involves its IT outsourcers and is aimed at transposing the recent regulatory requirements into the IT procedures used to classify non-performing loans (detection); the second aims to adapt the internal rating system by retrospectively reconstructing the new definition of default in order to consider its impacts in the process of estimating the risk parameters used to calculate the expected credit loss for the purposes of IFRS 9.

QUANTITATIVE INFORMATION

A. Credit quality

A.1 Non-performing and performing credit exposures: amounts, value adjustments, trends and economic distribution

€/t		Stage 1			Stage 2			Stage 3		
		1 day to 30 days	Over 30 days to 90 days	Over 90 days	1 day to 30 days	Over 30 days to 90 days	Over 90 days	1 day to 30 days	Over 30 days to 90 days	Over 90 days
	1. Financial assets measured at amortised cost	22,701	36,185	10,198	626	28,516	12,222	260	1,978	55,335
	2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
	3. Financial assets held for sale	-	-	-	-	-	-	-	-	-
TOTAL	31/12/2020	22,701	36,185	10,198	626	28,516	12,222	260	1,978	55,335
TOTAL	31/12/2019	20,966	34,176	48,325	1,756	42,109	15,458	321	3,076	55,884

A.1.2 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees given: changes in overall value adjustments and overall provisions (Part 1 of 2)

€/t	Overall value adjustments									
	Stage 1 assets					Stage 2 assets				
	Financial assets measured at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: individual write-downs	Financial assets measured at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: individual write-downs
Overall initial adjustments	23,644	1,042	-	14	24,672	17,834	-	-	-	17,834
Increases in acquired or originated financial assets	15,833	42	-	-	15,875	2,079	-	-	-	2,079
Derecognitions other than write-offs	(1,751)	-	-	-	(1,751)	(433)	-	-	-	(433)
Credit-risk induced net value adjustments/write-backs	(6,979)	(353)	-	-	(7,332)	(1,373)	-	-	-	(1,373)
Contractual changes without cancellations	-	-	-	-	-	-	-	-	-	-
Changes in estimation methods	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly in the income statement	-	-	-	-	-	-	-	-	-	-
Other changes	69	(3)	-	(14)	80	-	-	-	-	-
Overall final adjustments	30,816	728	-	-	31,544	18,107	-	-	-	18,107
Recoveries from collection of financial assets subject to write-offs	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly in the income statement	-	-	-	-	-	-	-	-	-	-

(Part 2 of 2)

€/t	Overall value adjustments					Overall provisions for commitments to disburse funds and financial guarantees given				Total
	Stage 3 assets					Of which: purchased or originated impaired financial assets				
	Financial assets measured at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs	Stage 1	Stage 2	Stage 3		
Overall initial adjustments	71,561	-	-	71,561	-	646	28	3	-	114,112
Increases in acquired or originated financial assets	234	-	-	234	-	195	158	2	-	18,348
Derecognitions other than write-offs	(246)	-	-	(173)	(73)	-	(30)	(7)	-	(2,467)
Credit-risk induced net value adjustments/write-backs	10,270	-	-	8,677	1,593	(344)	(49)	3	-	1519
Contractual changes without cancellations	-	-	-	-	-	-	-	-	-	-
Changes in estimation methods	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly in the income statement	(3,045)	-	-	(3,001)	(44)	(2)	-	-	-	(3,045)
Other changes	(131)	-	-	(170)	170	-	-	-	-	(65)
Overall final adjustments	78,644	-	-	77,128	1,647	495	106	2	-	128,402
Recoveries from collection of financial assets subject to write-offs	59	-	-	59	-	-	-	-	-	59
Write-offs recognised directly in the income statement	(622)	-	-	(622)	-	-	-	-	-	(622)

A.1.3 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees given: transfers between different stages of credit risk (gross and nominal values)

€ / t		Gross exposure/nominal value					
		Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3	
		From Stage 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1
	1. Financial assets measured at amortised cost	257,412	209,517	16,213	8,502	15,503	3,344
	2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-
	3. Financial assets held for sale	-	-	-	-	-	-
	4. Commitments to disburse funds and financial guarantees given	(12,454)	(12,378)	(37)	(51)	(3)	(2)
TOTAL	31/12/2020	244,959	197,139	16,176	8,452	15,500	3,342
TOTAL	31/12/2019	274,383	306,481	16,894	4,470	22,176	2,318

A.1.3a Loans subject to Covid-19 support measures: transfers between the various stages of credit risk (gross values)

€ / t		Gross values/nominal value					
		Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3	
		From Stage 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1
	A. Loans measured at amortised cost	28,674	11,177	121	2,649	108	-
	A.1 subject to forbearance compliant with the GL	11,429	10,960	121	2,623	71	-
	A.2 subject to other forbearance measures	-	-	-	-	-	-
	A.3 new loans	17,245	217	-	26	37	-
	B. Loans measured at fair value through other comprehensive income	-	-	-	-	-	-
	B.1 subject to forbearance compliant with the GL	-	-	-	-	-	-
	B.2 subject to other forbearance measures	-	-	-	-	-	-
	B.3 new loans	-	-	-	-	-	-
Total	31/12/2020	28,674	11,177	121	2,649	108,078	-
Total	31/12/2019	-	-	-	-	-	-

A.1.4 Prudential consolidation – On- and off-balance sheet credit exposures to banks: gross and net values

€/t	Gross exposure		Overall value adjustments and overall provisions	Net exposure	Overall partial write-offs*
	Non-performing	Performing			
A. On-balance sheet credit exposures					
a) Bad loans	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to pay	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
c) Non-performing past due exposures	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
d) Performing past due exposures	X	-	-	-	-
- of which: forborne exposures	X	-	-	-	-
e) Other performing exposures	X	876,459	(320)	876,140	-
- of which: forborne exposures	X	-	-	-	-
TOTAL A	-	876,459	(320)	876,140	-
B. Off-balance sheet credit exposures					
a) Non-performing	-	X	-	-	-
b) Performing	X	56,069	-	56,069	-
TOTAL B	-	56,069	-	56,069	-
TOTAL A+B	-	932,528	(320)	932,208	-

* Value to be displayed for information purposes

A.1.5 Prudential consolidation – On- and off-balance sheet credit exposures to customers: gross and net values

€/t	Gross exposure		Overall value adjustments and overall provisions	Net exposure	Overall partial write-offs*
	Non-performing	Performing			
A. On-balance sheet credit exposures					
a) Bad loans	69,396	X	(46,751)	22,645	-
- of which: forborne exposures	7,864	X	(4,105)	3,758	-
b) Unlikely to pay	65,606	X	(27,003)	38,603	-
- of which: forborne exposures	19,199	X	(9,018)	10,181	-
c) Non-performing past due exposures	15,778	X	(4,890)	10,888	-
- of which: forborne exposures	6,111	X	(2,497)	3,614	-
d) Performing past due exposures	X	113,136	(2,692)	110,444	-
- of which: forborne exposures	X	3,338	(301)	3,037	-
e) Other performing exposures	X	27,625,831	(46,639)	27,579,192	-
- of which: forborne exposures	X	87,601	(2,730)	84,871	-
TOTAL A	150,780	27,738,968	(127,975)	27,761,773	-
B. Off-balance sheet credit exposures					
a) Non-performing	88	X	(6)	83	-
b) Performing	X	3,264,285	(499)	3,263,786	-
TOTAL B	88	3,264,285	(505)	3,263,869	-
TOTAL A+B	150,868	31,003,253	(128,480)	31,025,641	-

* Value to be displayed for information purposes

A.1.5a On-balance sheet loan exposures to customers subject to Covid-19 support measures: gross and net values

€/t	Gross exposure	Overall value adjustments and overall provisions	Net exposure	Overall partial write-offs*
A. NON-PERFORMING CREDIT EXPOSURES	-	-	-	-
a) subject to forbearance compliant with the GL	-	-	-	-
b) Subject to other forbearance measures	-	-	-	-
c) New loans	-	-	-	-
B. UNLIKELY TO PAY CREDIT EXPOSURES	1,446	311	1,135	-
a) subject to forbearance compliant with the GL	1,438	307	1,131	-
b) Subject to other forbearance measures	-	-	-	-
c) New loans	7	4	4	-
C. PAST-DUE NON-PERFORMING CREDIT EXPOSURES	41	5	36	-
a) subject to forbearance compliant with the GL	12	1	10	-
b) Subject to other forbearance measures	-	-	-	-
c) New loans	29	3	26	-
D. PERFORMING PAST DUE EXPOSURES	134	-	134	-
a) subject to forbearance compliant with the GL	-	-	-	-
b) Subject to other forbearance measures	-	-	-	-
c) New loans	134	-	134	-
E. OTHER PERFORMING EXPOSURES	402,934	2,315	400,619	-
a) subject to forbearance compliant with the GL	272,963	2,044	270,918	-
b) Subject to other forbearance measures	3,873	2	3,871	-
c) New loans	126,098	269	125,829	-
TOTAL (A+B+C+D+E)	404,555	2,631	401,924	-

* Value to be displayed for information purposes

A.1.7 Prudential consolidation – On-balance sheet credit exposures to customers: changes in gross non-performing exposures

€/t	Bad loans	Unlikely to pay	Non-performing past due
A. Initial gross exposure	66,047	64,618	14,230
- of which: exposures transferred and not written off	-	-	-
B. Increases	12,457	34,070	30,267
B.1 inflows from performing exposures	-	19,248	25,909
B.2 inflows from purchased or originated impaired financial assets	-	-	107
B.3 transfers from other categories of non-performing exposures	11,937	8,624	759
B.4 contractual changes without cancellations	-	-	-
B.5 other increases	520	6,198	3,491
C. Decreases	9,108	33,082	28,719
C.1 outflows to performing exposures	552	10,799	13,645
C.2 write-offs	3,458	1,521	134
C.3 collections	1,509	5,051	4,250
C.4 proceeds from disposals	-	-	-
C.5 losses from disposals	-	-	-
C.6 transfers to other categories of non-performing exposures	708	12,146	8,467
C.7 contractual changes without cancellations	-	-	-
C.8 other decreases	2,882	3,564	2,223
D. Final gross exposure	69,396	65,606	15,778
- of which: exposures transferred and not written off	-	-	-

A.1.7 bis Prudential consolidation – On-balance sheet credit exposures to customers: changes in gross forborne exposures by credit quality

€/t	Forborne exposures: non-performing	Forborne exposures: performing
A. Initial gross exposure	31,716	57,325
- of which: exposures transferred and not written off	-	-
B. Increases	14,840	82,066
B.1 inflows from performing non-forborne exposures	1,650	63,038
B.2 inflows from performing forborne exposures	3,826	X
B.3 inflows from non-performing forborne exposures	X	5,539
B.4 inflows from non-performing non-forborne exposures	6,432	216
B.5 other increases	2,933	13,274
C. Decreases	13,382	48,451
C.1 outflows to performing non-forborne exposures	X	31,687
C.2 outflows to performing forborne exposures	5,554	X
C.3 outflows to non-performing forborne exposures	X	3,826
C.4 write-offs	308	-
C.5 collections	1,657	9,176
C.6 proceeds from disposals	-	-
C.7 losses from disposals	-	-
C.8 other decreases	5,863	3,763
D. Final gross exposure	33,173	90,939
- of which: exposures transferred and not written off	-	-

A.1.9 Prudential consolidation - On-balance sheet non-performing credit exposures to

customers: changes in overall value adjustments

€/t	Bad loans		Unlikely to pay		Non-performing past due	
	TOTAL	of which: forborne exposures	TOTAL	of which: forborne exposures	TOTAL	of which: forborne exposures
A. Overall initial adjustments	(44,235)	(2,756)	(24,380)	(10,119)	(2,947)	(1,050)
- of which: exposures transferred and not written off	(680)	-	-	-	-	-
B. Increases	(8,165)	(1,837)	(12,623)	(2,543)	(3,921)	(1,567)
B.1 value adjustments of purchased or originated impaired assets	-	x	(3)	x	(676)	x
B.2 other value adjustments	(4,247)	(848)	(10,212)	(2,475)	(1,856)	(483)
B.3 losses from disposals	-	-	-	-	-	-
B.4 transfers from other categories of non-performing exposures	(3,899)	(988)	(568)	(18)	(52)	(7)
B.5 contractual changes without cancellations	-	-	-	-	-	-
B.6 other increases	(19)	-	(1,840)	(49)	(1,337)	(1,078)
C. Decreases	5,649	487	10,000	3,644	1,978	120
C.1 write-backs from valuation	567	52	2,461	1,156	799	88
C.2 write-backs from collection	1,467	292	2,166	1,490	377	14
C.3 profits from disposals	-	-	-	-	-	-
C.4 write-offs	3,458	143	1,401	-	179	-
C.5 transfers to other categories of non-performing exposures	-	-	3,910	999	608	19
C.6 contractual changes without cancellations	-	-	-	-	-	-
C.7 other decreases	157	-	61	-	15	-
D. Overall final adjustments	(46,751)	(4,105)	(27,003)	(9,018)	(4,890)	(2,497)
- of which: exposures transferred and not written off	-	-	-	-	-	-

A.2 Classification of exposures by external and internal ratings

A.2.1 Prudential consolidation – Distribution of financial assets, commitments to disburse funds and financial guarantees given: by external rating classes (gross values)

€/t	External rating classes						Unrated	TOTAL
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets measured at amortised cost	18,906	67,419	15,647,983	33,333	-	-	12,179,012	27,946,653
- Stage 1	18,906	67,419	15,647,983	33,333	-	-	11,487,496	27,255,137
- Stage 2	-	-	-	-	-	-	540,737	540,737
- Stage 3	-	-	-	-	-	-	150,780	150,780
B. Financial assets at fair value through other comprehensive income	12,138	81,910	607,997	-	-	-	15,224	717,269
- Stage 1	12,138	81,910	607,997	-	-	-	15,224	717,269
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
C. Financial assets held for sale	-	-	-	-	-	-	-	-
- Stage 1	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
TOTAL (A+B+C)	31,044	149,329	16,255,980	33,333	-	-	12,194,236	28,663,922
of which: purchased or originated impaired financial assets	-	-	-	-	-	-	2,381	2,381
D. Commitments to disburse funds and financial guarantees given	-	-	-	-	-	-	-	-
- Stage 1	-	-	-	-	-	-	746,985	746,985
- Stage 2	-	-	-	-	-	-	16,332	16,332
- Stage 3	-	-	-	-	-	-	67	67
TOTAL (D)	-	-	-	-	-	-	763,384	763,384
TOTAL (A+B+C+D)	31,044	149,329	16,255,980	33,333	-	-	12,957,620	29,427,306

The table shows a breakdown of exposures to rated counterparties and exposures without an external rating (CERVED). The rating agencies provide a summary opinion on the creditworthiness of the counterparties.

The rating companies used to prepare the table are: Moody's, Standard & Poor's and Fitch.

In the event that several agencies have rated the same counterparty, the following order of priority is used, as defined in the specific policy document: Moody's, Standard & Poor's and lastly Fitch.

However, the Risk Management function may, following appropriate considerations and on a prudential basis, modify the rating resulting from the automatic allocation and calculation system, where deemed necessary. The following is a reconciliation between the risk classes and the ratings of the agencies used, indicating whether they are investment grade/speculative grade.

Creditworthiness class	CERVED	ECAI		
		MOODY'S	STANDARD & POOR'S	FITCH
1	-	Aaa Aa1 Aa2 Aa3	AAA AA+ AA AA-	AAA AA+ AA AA-
2	AI.1 AI.2 AI.2 AI.3 A2.1 A2.1 A3.1	A1 A2 A3	A+ A A-	A+ A A-
3	BI.1 BI.2	Baa1 Baa2 Baa3	BBB+ BBB BBB-	BBB+ BBB BBB-
4	B2.1 B2.2	Ba1 Ba2 Ba3	BB+ BB BB-	BB+ BB BB-
5	CI.1 CI.2	B1 B2 B3	B+ B B-	B+ B B-
6	CI.2 C2.1	Caaa/Ca/C	CCC/C	CCC/C

Investment Grade

Speculative Grade

A.3 Distribution of secured credit exposures by type of guarantee

A.3.1 Prudential consolidation – Secured on- and off-balance sheet credit exposures to banks (Part 1 of 2)

€ / t	Gross exposure	Net exposure	Collateral (1)				Personal guarantees (2)	
			Property - mortgages	Property - finance leases	Securities	Other collateral	Credit derivatives	
							CLNs	Other derivatives
							CCPs	
1. Secured on-balance sheet credit exposures:	179,944	179,944	-	-	179,862	-	-	-
1.1. fully secured	179,944	179,944	-	-	179,862	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-
1.2. partially secured	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-
2. Secured off-balance sheet credit exposures:	-	-	-	-	-	-	-	-
2.1. fully secured	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-
2.2. partially secured	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-

A.3.1 Prudential consolidation – Secured on- and off-balance sheet credit exposures to banks (Part 2 of 2)

Personal guarantees (2)

€/t	Credit derivatives			Unsecured loans				TOTAL (1) + (2)
	Other derivatives			General governments	Banks	Other financial corporations	Other entities	
	Banks	Other financial corporations	Other entities					
1. Secured on-balance sheet credit exposures:	-	-	-	-	-	-	-	179,862
1.1. fully secured	-	-	-	-	-	-	-	179,862
- of which non- performing	-	-	-	-	-	-	-	-
1.2. partially secured	-	-	-	-	-	-	-	-
- of which non- performing	-	-	-	-	-	-	-	-
2. Secured off-balance sheet credit exposures:	-	-	-	-	-	-	-	-
2.1. fully secured	-	-	-	-	-	-	-	-
- of which non- performing	-	-	-	-	-	-	-	-
2.2. partially secured	-	-	-	-	-	-	-	-
- of which non- performing	-	-	-	-	-	-	-	-

A.3.2 Prudential consolidation – Secured on- and off-balance sheet credit exposures to customers (Part 1 of 2)

€/t	Gross exposure	Net exposure	Collateral (1)				Personal guarantees (2)	
			Property – mortgages	Property – finance leases	Securities	Other collateral	Credit derivatives	
							CLNs	Other derivatives CCPs
1. Secured on-balance sheet credit exposures:	9,270,192	9,202,036	8,716,822	-	-	218,402	-	-
I.1. fully secured	9,156,918	9,092,757	8,711,796	-	-	217,159	-	-
- of which non-performing	84,484	47,238	44,340	-	-	5,195	-	-
I.2. partially secured	113,273	109,280	5,026	-	-	1,243	-	-
- of which non-performing	4,698	1,003	946	-	-	-	-	-
2. Secured off-balance sheet credit exposures:	29,466	29,371	2,262	-	-	4,001	-	-
2.1. fully secured	23,379	23,294	2,262	-	-	2,464	-	-
- of which non-performing	-	-	-	-	-	-	-	-
2.2. partially secured	6,087	6,077	-	-	-	1,537	-	-
- of which non-performing	-	-	-	-	-	-	-	-

A.3.2 Prudential consolidation – Secured on- and off-balance sheet credit exposures to customers (Part 2 of 2)

Personal guarantees (2)								
€/t	Credit derivatives			Unsecured loans				TOTAL (1) + (2)
	Other derivatives			General governments	Banks	Other financial corporations	Other entities	
	Banks	Other financial corporations	Other entities					
1. Secured on-balance sheet credit exposures:	-	-	-	107,157	6,455	-	93,940	9,142,776
1.1. fully secured	-	-	-	16,220	6,455	-	91,967	9,043,597
- of which non-performing	-	-	-	-	2	-	188	49,725
1.2. partially secured	-	-	-	90,937	-	-	1,973	99,179
- of which non-performing	-	-	-	31	-	-	25	1,002
2. Secured off-balance sheet credit exposures:	-	-	-	-	-	-	18,756	25,018
2.1. fully secured	-	-	-	-	-	-	18,563	23,288
- of which non-performing	-	-	-	-	-	-	-	-
2.2. partially secured	-	-	-	-	-	-	193	1,730
- of which non-performing	-	-	-	-	-	-	-	-

A.4 Prudential consolidation – Financial and non-financial assets through the realisation of collateral

€/t		Written-off credit exposure	Gross value	Overall value adjustments	Carrying amount	
						of which obtained during the year
A. Tangible assets		-	-	-	-	-
A.1. For business use		-	-	-	-	-
A.2. For investment purposes		-	-	-	-	-
A.3. Inventories		-	-	-	-	-
B. Equity and debt securities		-	-	-	-	-
C. Other assets		-	-	-	-	-
D. Non-current assets and disposal groups		-	208	-	208	-
D.1. Tangible assets		-	208	-	208	-
D.2. Other assets		-	-	-	-	-
TOTAL	31/12/2020	-	208	-	208	-
TOTAL	31/12/2019	-	438	-	438	-

B. Distribution and concentration of credit exposures

B.1 Prudential consolidation – Distribution of on- and off-balance sheet credit exposures to customers by business segment (Part 1 of 2)

€/t	General governments		Financial corporations		Financial corporations (of which: insurance companies)		
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	
A. On-balance sheet credit exposures							
A.1 Bad loans	-	-	-	(476)	-	-	
- of which forborne exposures	-	-	-	-	-	-	
A.2 Unlikely to pay	-	-	2,022	(5,476)	-	-	
- of which forborne exposures	-	-	2,021	(5,474)	-	-	
A.3 Non-performing past due exposures	-	-	543	(94)	-	-	
- of which forborne exposures	-	-	-	-	-	-	
A.4 Performing exposures	14,935,433	(11,632)	646,401	(2,527)	21,206	(0)	
- of which forborne exposures	-	(0)	-	-	-	-	
TOTAL A	14,935,433	(11,632)	648,967	(8,573)	21,206	(0)	
B. Off-balance sheet credit exposures							
B.1 Non-performing exposures	-	-	-	-	-	-	
B.2 Performing exposures	-	-	224,117	(49)	-	-	
TOTAL B	-	-	224,117	(49)	-	-	
TOTAL (A+B)	31/12/2020	14,935,433	(11,632)	873,084	(8,622)	21,206	(0)
TOTAL (A+B)	31/12/2019	(13,612,688)	11,778	(1,005,310)	7,833	(1,286)	-

B.1 Prudential consolidation – Distribution of on- and off-balance sheet credit exposures to customers by business segment (Part 2 of 2)

€/t	Non-financial corporations		Households		
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	
A. On-balance sheet credit exposures					
A.1 Bad loans	3	(2,080)	22,642	(44,195)	
- of which forborne exposures	-	-	3,758	(4,105)	
A.2 Unlikely to pay	4,842	(7,127)	31,738	(14,399)	
- of which forborne exposures	1,444	(725)	6,716	(2,818)	
A.3 Non-performing past due exposures	1,662	(1,762)	8,683	(3,034)	
- of which forborne exposures	1,631	(1,730)	1,982	(767)	
A.4 Performing exposures	431,777	(4,016)	11,676,025	(31,156)	
- of which forborne exposures	4,234	(124)	83,675	(2,907)	
TOTAL A	438,284	(14,986)	11,739,089	(92,784)	
B. Off-balance sheet credit exposures					
B.1 Non-performing exposures	18	-	65	(6)	
B.2 Performing exposures	185,594	(96)	456,577	(355)	
TOTAL B	185,612	(96)	456,642	(360)	
TOTAL (A+B)	31/12/2020	623,896	(15,081)	12,195,730	(93,145)
TOTAL (A+B)	31/12/2019	(414,062)	10,624	(10,597,510)	83,991

B.2 Prudential consolidation – Distribution of on- and off-balance sheet credit exposures to customers by geographical area (Part 1 of 2)

€/t	Italy		Other European countries		America		
	Net exposures	Overall value adjustments	Net exposures	Overall value adjustments	Net exposures	Overall value adjustments	
A. On-balance sheet credit exposures							
A.1 Bad loans	22,633	46,164	12	586	-	-	
A.2 Unlikely to pay	37,855	26,774	748	230	-	-	
A.3 Non-performing past due exposures	7,537	2,007	3,326	2,773	26	109	
A.4 Performing exposures	26,425,239	47,178	1,254,903	2,128	3,359	7	
Total (A)	26,493,263	122,123	1,258,989	5,717	3,385	116	
B. Off-balance sheet credit exposures							
B.1 Non-performing exposures	82	2	-	3	1	-	
B.2 Performing exposures	808,658	487	57,498	12	26	-	
Total (B)	808,740	489	57,498	16	27	-	
Total (A+B)	31/12/2020	27,302,003	122,613	1,316,487	5,733	3,412	116
Total (A+B)	31/12/2019	24,588,812	111,062	1,032,019	3,250	4,757	6

B.2 Prudential consolidation – Distribution of on- and off-balance sheet credit exposures to customers by geographical area (Part 2 of 2)

€/t	Asia		Rest of world	
	Net exposures	Overall value adjustments	Net exposures	Overall value adjustments
A. On-balance sheet credit exposures				
A.1 Bad loans	-	-	-	-
A.2 Unlikely to pay	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-
A.4 Performing exposures	5,182	13	954	6
Total (A)	5,182	13	954	6
B. Off-balance sheet credit exposures				
B.1 Non-performing exposures	-	-	-	-
B.2 Performing exposures	68	-	37	-
Total (B)	68	-	37	-
Total (A+B) 31/12/2020	5,251	13	991	6
Total (A+B) 31/12/2019	2,906	4	1,076	4

B.3 Prudential consolidation – Distribution of on- and off-balance sheet credit exposures to banks by geographical area (Part 1 of 2)

€/t		Italy		Other European countries		America	
		Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. On-balance sheet credit exposures							
A.1 Bad loans		-	-	-	-	-	-
A.2 Unlikely to pay		-	-	-	-	-	-
A.3 Non-performing past due exposures		-	-	-	-	-	-
A.4 Performing exposures		496,180	(116)	378,284	(202)	1,675	(3)
Total (A)		496,180	(116)	378,284	(202)	1,675	(3)
B. Off-balance sheet credit exposures							
B.1 Non-performing exposures		-	-	-	-	-	-
B.2 Performing exposures		55,780	-	266	-	0	-
Total (B)		55,780	-	266	-	0	-
Total (A+B)	31/12/2020	551,961	(116)	378,550	(202)	1,675	(3)
Total (A+B)	31/12/2019	294,479	(96)	392,169	(141)	4,197	(34)

B.3 Prudential consolidation – Distribution of on- and off-balance sheet credit exposures to banks by geographical area (Part 2 of 2)

€/t	Asia		Rest of world	
	Net exposures	Overall value adjustments	Net exposures	Overall value adjustments
A. On-balance sheet credit exposures				
A.1 Bad loans	-	-	-	-
A.2 Unlikely to pay	-	-	1	-
A.3 Non-performing past due exposures	-	-	1	-
A.4 Performing exposures	-	-	-	-
Total (A)	-	-	2	-
B. Off-balance sheet credit exposures				
B.1 Non-performing exposures	-	-	-	-
B.2 Performing exposures	-	-	-	-
Total (B)	-	-	-	-
Total (A+B)	31/12/2020	-	2	-
Total (A+B)	31/12/2019	-	(2)	-

B.4 Large exposures

€/t	31/12/2020
a) Carrying amount	19,126,119
b) Amount	1,007,113
c) Number	5

The number and amount of large risks have been determined in accordance with existing EU and national provisions. The provisions specify the nominal value of exposures as the parameter for identifying large risks.

C. Securitisation

QUALITATIVE INFORMATION

The Group has no exposures arising from its own securitisation operations.

QUANTITATIVE INFORMATION

C.1 Prudential consolidation - Exposures arising from the main “own” securitisation transactions, by type of securitised asset and type of exposure

The Group has no exposures arising from its own securitisation operations.

C.2 Prudential consolidation - Exposures arising from the main “third-party” securitisation operations, by type of securitised asset and type of exposure

€/t	On-balance sheet exposures						Guarantees given						Credit facilities		
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior	Mezzanine	Junior
	Carrying amount	Adjustments/write-backs	Carrying amount	Adjustments/write-backs	Carrying amount	Adjustments/write-backs	Carrying amount	Adjustments/write-backs	Carrying amount	Adjustments/write-backs	Carrying amount	Adjustments/write-backs	Carrying amount	Adjustments/write-backs	Carrying amount
F-E Mortgages srl	343	-													

D. Sale transactions

A. Financial assets sold but not fully derecognised

QUALITATIVE INFORMATION

Financial assets sold but not derecognised relate to repurchase agreements with the Cassa di Compensazione e Garanzia.

QUANTITATIVE INFORMATION

D.1 Prudential consolidation – Financial assets sold but fully recognised and related financial liabilities: book values

€/t	Financial assets sold but fully recognised				Related financial liabilities		
	Carrying amount	of which: subject to securitisation operations	of which: subject to repurchase agreements	of which impaired	Carrying amount	of which: subject to securitisation operations	of which: subject to repurchase agreements
A. Financial assets held for trading	-	-	-	X	-	-	-
1. Debt securities	-	-	-	X	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily measured at fair value	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
C. Financial assets designated at fair value	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets at fair value through other comprehensive income	42,030	-	42,030	-	54,928	-	54,928
1. Debt securities	42,030	-	42,030	-	54,928	-	54,928
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortised cost	2,849,248	-	2,849,248	-	2,870,536	-	2,870,536
1. Debt securities	2,849,248	-	2,849,248	-	2,870,536	-	2,870,536
2. Loans	-	-	-	-	-	-	-
TOTAL 31/12/2020	2,891,278	-	2,891,278	-	2,925,463	-	2,925,463
TOTAL 31/12/2019	4,427,416	-	4,427,416	-	4,507,793	-	4,507,793

E. Prudential consolidation - credit risk measurement models

The Mediolanum Banking Group uses various models to measure credit risk, based on the area of activity.

In particular, quantitative models have been developed which, incorporating the regulatory framework, are used for accounting purposes, for example to determine collective write-downs. Management scoring models are also used to produce institutional reporting on credit control.

Finally, there are also forward-looking simulation models that determine the various values used to draw up the economic and financial plan and for the related determination of the risk appetite thresholds.

1.2 - Market risks

1.2.1 Interest rate risk and price risk - regulatory trading book

QUALITATIVE INFORMATION

A. General aspects

Market risk is defined as the risk of suffering significant losses due to the unfavourable performance of market variables capable of influencing the value of the investment activities of companies of the Mediolanum Banking Group, such as interest rates, exchange rates, stock prices, volatility and bond spreads.

This risk is essentially present in the activity carried out within the Group's units with treasury functions. In particular, the assets classified in the trading book, for which the Mediolanum Banking Group adopts the standardised market risk calculation method, fall within this scope for regulatory purposes. Based on this classification, only Banca Mediolanum has a trading book in the strictest sense.

Banking Group overall securities portfolio - RATING COMPOSITION (S&P Equivalent) End-of-year data (2020 vs 2019)

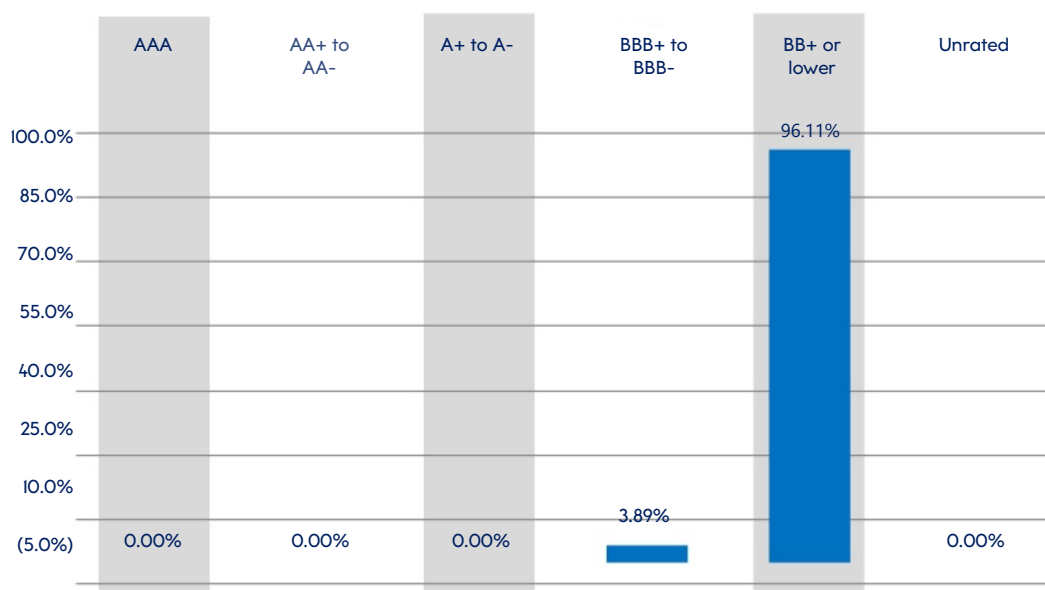
€/t	31/12/2020		31/12/2019	
	Val.	chge	Val.	chge
TOTAL PORTFOLIO	15,140,672	100.0%	13,739,957	100%
AAA	4,050	0.03%	-	0.0%
AA+ to AA-	18,227	0.12%	20,359	0.1%
A+ to A-	86,120	0.57%	50,393	0.4%
BBB+ to BBB-	14,934,651	98.64%	13,619,650	99.1%
BB+ or lower	97,625	0.64%	49,556	0.4%
Unrated	-	0.0%	-	0.0%

NB: the value of the securities portfolio does not take into account the marginal share of funds, shares and rights.

The issuer's rating is shown for the current year

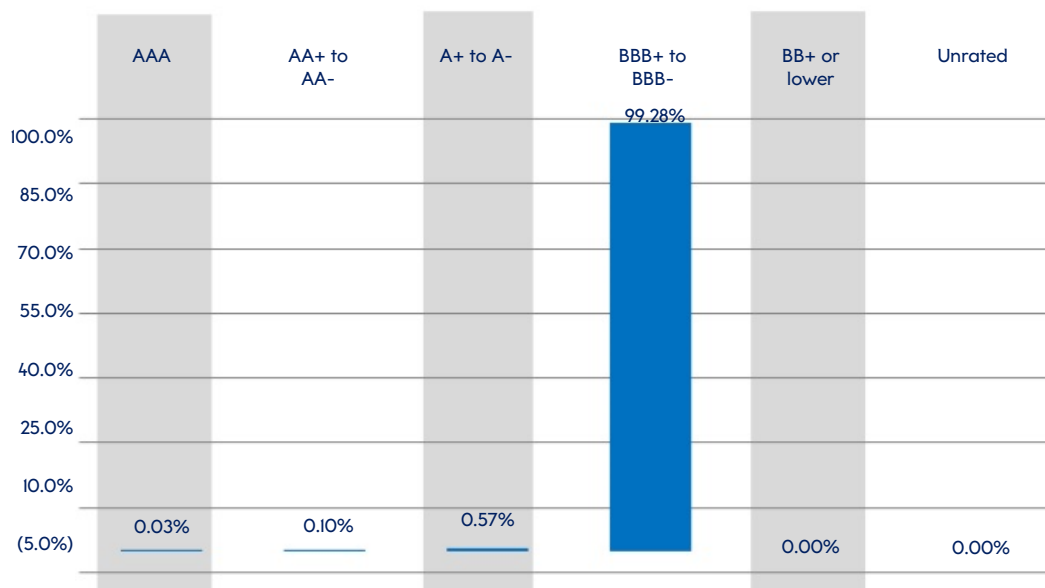
RATING COMPOSITION of Mediolanum Group trading book (December 2020)

Portfolio value €101,573 thousand



RATING COMPOSITION HTCS, HTC and OTHER Mediolanum Banking Group portfolios (December 2020)

Portfolio value €13,039,099 thousand



Impacts of the Covid-19 pandemic

The continuation of the health emergency for almost all of 2020 had a major effect on trends in the financial markets, representing a systemic adverse factor at global level that had probably not been included by any financial institution in the set of possible adverse scenarios that all banks, regularly and with increasing levels of sophistication, have used in order to understand the effects of stress scenarios on the performance of the financial markets in which they operate.

The consequences of the lockdown, the shutting down of certain production and commercial activities and the financial support that governments have had to provide to the public health sector, have had the inevitable result of revising all the GDP growth forecasts of the individual countries downwards, resulting in tensions on the financial markets and impacts that were equal to or even greater than during the 2008 crisis.

Naturally, the Risk Management functions of the companies of the Banca Mediolanum Group also paid close attention to this aspect, continuously monitoring, each in accordance with the relevant operating policies, the possible effects that economic market indicators could determine for particular risks on the portfolios of the individual companies.

The adoption of the business model for the securities held with a prevalence of "held to maturity" government bonds did not have a significant impact on the impairment of the securities held and also present in the other accounting portfolios aggregated at the Parent Company consolidated level. Moreover, the results of the US election and news of the commercialisation of the first anti-Covid vaccines triggered a significant market recovery. This enabled the recovery of losses recorded during 2020 and also rewarded customers that were supported by the Family Banker network on the portfolio strategies to be adopted in periods of crisis.

In the light of what has been summarised above, the monitoring measures adopted by all Group companies, in accordance with the Parent Company's guidelines on market risks, do not show significant evidence of impacts arising from the Covid-19 pandemic that have significantly influenced the value of the accounting portfolios held.

B. Interest rate risk and price risk management procedures and measurement methods

The Parent Company's Risk Management function ensures that financial risk assessment methods are consistent across the various operating entities and helps to set credit limits and operating limits. Each Group Company is, however, directly responsible for controlling the risks assumed in accordance with the guidelines approved by the respective boards of directors in accordance with the principle of consistency between the complexity of the assets under management and the risk measures adopted. Interest rate risk is analysed using indicators of both portfolio composition (concentration limits, characteristics of admitted instruments, characteristics of issuers, etc.) and maximum loss (value at risk).

VaR tables

Trading book - MARKET RISK

Period-end data (December 2020 vs December 2019)

€/t	31/12/2020	31/12/2019	% (%)
Nominal	96,994	130,025	(25.4%)
Market value	101,573	129,568	(21.6%)
Duration	0.55	1.09	(50.0%)
VaR 99% - 1 d	156	387	(59.6%)

Rather than the year-end values, the minimum, maximum and average values of the VaR measurement recorded for the trading portfolio in 2020 are shown below.

Trading book - MARKET RISK

VaR data recorded over the year (2020 vs 2019)

€/t	31/12/2020	31/12/2019	% (%)
Minimum value	37	75	(50.9%)
Average value	1,027	777	32.2%
Maximum value	2,215	1,956	13.3%

QUANTITATIVE INFORMATION

1. Regulatory trading book: distribution by time to maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives - EURO

€/t	Demand	Up to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years	Undetermined duration
1. On-balance sheet assets	-	56,456	-	-	41,169	3,973	1	-
1.1 Debt securities	-	56,456	-	-	41,169	3,973	1	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	56,456	-	-	41,169	3,973	1	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	-	-	-	-	51	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	51	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	3	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	3,196	3,151	6,172	43,585	63,948	85,647	-
+ Short positions	-	-	3,196	6,255	44,248	60,597	91,403	-
- Other derivatives								
+ Long positions	-	303,234	-	-	-	-	-	-
+ Short positions	-	151,761	4,017	8,146	62,281	68,046	75,168	-

1. Regulatory trading book: distribution by time to maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives - OTHER CURRENCIES

€/t	Demand	Up to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years	Undetermined duration
1. On-balance sheet assets	-	-	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	147,045	-	-	-	-	-	-
+ Short positions	-	81,119	-	-	-	-	-	-

2. Regulatory trading book: distribution of exposures in equity securities and equity indices by main country of listing

	Listed		Unlisted
	ITALY	SPAIN	
A. Equity securities			
- long positions	-	-	68,000
- short positions	-	-	-
B. Trading in equity securities not yet settled			
- long positions	-	-	-
- short positions	-	-	-
C. Other equity derivatives			
- long positions	-	-	-
- short positions	-	-	-
D. Equity index derivatives			
- long positions	-	-	-
- short positions	-	-	-

1.2.2 Interest rate risk and price risk – banking book

QUALITATIVE INFORMATION

A. General aspects, interest rate risk and price risk management procedures and measurement methods

The reference legislation prescribes a set of rules to be adopted to quantify the potential impact that unexpected changes in the term structure of the market might have on the current profits and shareholders' equity of financial corporations. Banks are required to have effective rules, processes and tools for managing the interest rate risk arising from activities (banking book) other than those allocated to the trading book for supervisory purposes.

The regulations also provide methodological guidelines, consistent with the Basel guidelines, for the preparation of a simplified system by which to determine internal capital with respect to the interest rate risk on the banking book. The Parent Company, Banca Mediolanum, has adopted these guidelines within its risk appetite framework, effectively providing the general rules and procedures for managing and controlling the risk in question, to be adopted and transposed into the internal policies of Group companies.

With regard to the risk of significant changes in interest rates as a result of the economic crisis caused by the Covid-19 health emergency, the Parent Company did not raise any particular critical issues, nor did it need to adopt any specific management measures. The consolidated banking statement of financial position contains assets that primarily consist of a loan portfolio mainly indexed to variable rates with frequent repricing and a portfolio of financial instruments with a high proportion of variable rate securities; liabilities, meanwhile, consist of loans at market rates with collateralisation of securities and by retail funding with specific characteristics of stability and inelasticity.

QUANTITATIVE INFORMATION

1. Banking book: breakdown by residual duration (repricing date) of financial assets and liabilities - EURO

€/t	Demand	Up to 3 months	Over 3 months Up to 6 months	Over 6 months to 1 year	Over 1 year Up to 5 years	Over 5 years to 10 years	Over 10 years	Undetermined duration
1. On-balance sheet assets	2,540,302	10,712,290	3,898,830	2,094,409	6,874,507	779,080	1,350,204	255,006
1.1 Debt securities	-	3,171,330	3,836,448	1,951,482	6,063,455	51,218	-	-
- with early redemption option	-	343	-	-	-	-	-	-
- other	-	3,170,987	3,836,448	1,951,482	6,063,455	51,218	-	-
1.2 Loans to banks	316,582	324,706	-	-	-	-	-	-
1.3 Loans to customers	2,223,720	7,216,253	62,382	142,927	811,052	727,862	1,350,204	255,006
- current account	342,757	232	7	16	101	289	-	-
- other loans	1,880,963	7,216,021	62,375	142,911	810,951	727,573	1,350,204	255,006
- with early redemption option	1,704,357	6,803,203	35,153	61,157	388,699	324,135	739,108	-
- other	176,606	412,819	27,222	81,753	422,252	403,438	611,095	255,006
2. On-balance sheet liabilities	23,079,472	3,467,011	312,374	161,577	975,250	31,030	1,948	16,469
2.1 Payables to customers	23,077,612	2,578,490	312,317	161,463	29,299	30,608	1,948	16,469
- current account	20,694,897	42,004	4,468	16,192	-	-	-	-
- other payables	2,382,714	2,536,485	307,849	145,271	29,299	30,608	1,948	16,469
- with early redemption option	-	-	-	-	-	-	-	-
- other	2,382,714	2,536,485	307,849	145,271	29,299	30,608	1,948	16,469
2.2 Payables to banks	1,860	51,073	57	115	945,950	422	-	-
- current account	879	-	-	-	-	-	-	-
- other payables	980	51,073	57	115	945,950	422	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	837,449	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	837,449	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	6,344	8,310	15,425	112,892	146,456	166,700	-
+ Short positions	-	168,300	6,695	9,979	67,741	95,411	108,000	-
- Other derivatives								
+ Long positions	-	93,051	-	-	-	-	-	-
+ Short positions	-	1,645	1,666	3,393	26,428	28,582	31,336	-
4. Other off-balance sheet transactions								
+ Long positions	-	-	-	52,876	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

1. Banking book: breakdown by residual duration (repricing date) of financial assets and liabilities - OTHER CURRENCIES

€/t	Demand	Up to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years	Undetermined duration
1. On-balance sheet assets	4,661	0	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Loans to banks	4,661	-	-	-	-	-	-	-
1.3 Loans to customers	1	0	-	-	-	-	-	-
- current account	1	0	-	-	-	-	-	-
- other loans	0	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	0	-	-	-	-	-	-	-
2. On-balance sheet liabilities	90,980	4,076	-	-	-	-	-	-
2.1 Payables to customers	91,039	-	-	-	-	-	-	-
- current account	60,447	-	-	-	-	-	-	-
- other payables	30,592	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	30,592	-	-	-	-	-	-	-
2.2 Payables to banks	(59)	4,076	-	-	-	-	-	-
- current account	(59)	-	-	-	-	-	-	-
- other payables	-	4,076	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
4. Other off-balance sheet transactions								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

1.2.3 Currency risk

QUALITATIVE INFORMATION

A. General aspects, currency risk management procedures and measurement methods

The following risk profile includes all assets and liabilities (on- and off-balance sheet) in foreign currencies, including transactions in euro pegged to foreign currency exchange rates. In these cases, limits on exposure to currency risk are established in terms of the equivalent value of the net position of the main trading currencies.

B. Currency risk hedging activities

There are no hedged assets according to the IAS/IFRS classification.

QUANTITATIVE INFORMATION

1. Distribution by currency of denomination of assets and liabilities and of derivatives

€/t	Currency					
	USD	GBP	CHF	JPY	NOK	OTHER CURRENCIES
A. Financial assets	32,649	2,324	1,485	239	163	2,687,228
A.1 Debt securities	-	-	-	-	-	223,308
A.2 Equity securities	4,550	-	-	-	-	48,972
A.3 Loans to banks	28,098	2,324	1,485	239	163	308,495
A.4 Loans to customers	1	-	-	-	-	2,058,379
A.5 Other financial assets	-	-	-	-	-	48,075
B. Other assets	27	19	6	4	-	1,201
C. Financial liabilities	90,315	2,368	1,364	174	469	4,017,189
C.1 Payables to banks	4,076	-	-	-	-	1,202,147
C.2 Payables to customers	86,239	2,368	1,364	174	469	2,735,077
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	79,966
D. Other liabilities	-	1	-	-	-	20,260
E. Financial derivatives	227,344	657	65	-	-	103
- Options	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-
- Other derivatives	227,344	657	65	-	-	103
+ Long positions	146,643	320	37	-	-	45
+ Short positions	80,701	337	28	-	-	58
TOTAL ASSETS	179,319	2,663	1,528	243	163	2,688,474
TOTAL LIABILITIES	171,016	2,706	1,392	174	469	4,037,507
IMBALANCE (+/-)	8,303	(43)	136	69	(306)	(1,349,033)

1.3 Derivative instruments and hedging policies

1.3.1 Trading derivative instruments

A. Financial derivatives

A.1 Financial trading derivatives: period-end notional amounts

€/t	31/12/2020				31/12/2019			
	Over the counter			Organised markets	Over the counter			Organised markets
	Without CCPs		Without CCPs					
	CCPs	With netting arrangements	Without netting arrangements		CCPs	With netting arrangements	Without netting arrangements	
1. Debt securities and interest rates	-	-	235,980	-	-	-	235,704	-
a) Options	-	-	14,352	-	-	-	7,340	-
b) Swaps	-	-	221,628	-	-	-	228,185	-
c) Forwards	-	-	-	-	-	-	179	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and equity indices	-	-	3	-	-	-	3	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	3	-	-	-	3	-
3. Currencies and gold	-	-	228,171	-	-	-	431,748	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	228,171	-	-	-	431,748	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
TOTAL	-	-	464,154	-	-	-	667,455	-

A.2 Trading financial derivatives: positive and negative gross fair value – distribution by product

€/t	31/12/2020				31/12/2019			
	Over the counter				Over the counter			
	Without CCPs			Organised markets	Without CCPs			Organised markets
	CCPs	With netting arrangements	Without netting arrangements		CCPs	With netting arrangements	Without netting arrangements	
1. Positive fair value								
a) Options	-	-	57	-	-	-	41	-
b) Interest rate swaps	-	-	-	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	567	-	-	-	1,888	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	1	-
TOTAL	-	-	624	-	-	-	1,930	-
2. Negative fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	-	77,271	-	-	-	74,342	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	1,000	-	-	-	2,790	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
TOTAL	-	-	78,271	-	-	-	77,132	-

A.3 OTC trading financial derivatives - notional values, gross positive and negative fair value by counterparty

€/t	CCPs	Banks	Other financial corporations	Other entities
Contracts not based on netting arrangements				
1) Debt securities and interest rates				
- notional value	X	235,980	-	-
- positive fair value	X	57	-	-
- negative fair value	X	77,271	-	-
2) Equity securities and equity indices				
- notional value	X	-	-	3
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Currencies and gold				
- notional value	X	86,029	141,798	344
- positive fair value	X	566	-	1
- negative fair value	X	2	998	-
4) Commodities				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts based on netting arrangements				
1) Debt securities and interest rates				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Equity securities and equity indices				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC trading financial derivatives: notional values

€/t		Up to 1 year	Over 1 year and up to 5 years	Over 5 years	TOTAL
A.1	Financial derivatives on debt securities and interest rates	16,133	62,281	157,566	235,980
A.2	Financial derivatives on equity securities and equity indices	-	3	-	3
A.3	Financial derivatives on currencies and gold	228,171	-	-	228,171
A.4	Financial derivatives on commodities	-	-	-	-
A.5	Other financial derivatives	-	-	-	-
TOTAL	31/12/2020	244,304	62,284	157,566	464,154
TOTAL	31/12/2019	446,778	61,309	159,368	667,455

B. Credit derivatives

This does not apply to the Group.

1.3.2 Accounting hedges

QUALITATIVE INFORMATION

A. Fair value hedging

Fair value hedges aim to neutralise adverse changes in the price of assets and liabilities recognised in the financial statements or of irrevocable commitments that, without a hedge, could affect financial performance for the year. As established by the Parent Company, the Banking Group has adopted hedging policies through derivative instruments, exceptionally solely for exposures in its fixed-rate loan portfolio.

B. Cash-flow hedging

This does not apply to the Group.

C. Hedging of foreign investments

This does not apply to the Group.

D. Hedging instruments

Within the Banking Group, Banca Mediolanum hedges the interest rate risk of fixed or floating rate loans with caps using interest rate swap (IRS) or interest rate option (IRO) derivatives. Hedge accounting can only be adopted if the effectiveness of the hedge is observed at the beginning and throughout its life, i.e. changes in fair value or in the cash flows of the hedged instrument must be almost completely offset by corresponding changes recorded for the hedging instrument. This effectiveness is monitored periodically through specific tests: it is highly effective when changes in the fair value of the hedging instrument exactly offset changes in the hedged instrument. There are clear limits on how far a hedging instrument can deviate from a perfect hedge when offsetting changes in the hedged instrument. The effectiveness of the hedge must be assessed initially and continuously over the life of the hedge. The source of the possible ineffectiveness of the hedge over time, on the hedging instrument side, is market fluctuations that are reflected unevenly on the two elements of the hedging relationship.

E. Hedged items

The hedged instruments are fixed rate loans and floating rate loans with caps. The accounting method selected by Banca Mediolanum to hedge these instruments is the “group microhedge”, where the hedged item consists of a group of instruments that are homogeneous in terms of the associated risk and can in any case be identified individually. One of the possible sources of ineffectiveness of the hedge is the dynamics over time of the “group” initially chosen: in fact, over the years the pool of loans can shrink due to early repayment, renegotiation, substitution, etc. As the hedged item changes, the relationship with the hedging instrument is also altered, generating a misalignment that can reduce effectiveness over time. The effectiveness of hedges is assessed by carrying out periodic effectiveness tests, which fall into two categories:

- > Prospective test: this test justifies the application of hedge accounting, demonstrating the expected effectiveness of the hedge during its life, and enables the justification and continuation of the hedging relationship. This test must also be carried out on the date of inception of the hedge in order to start applying hedge accounting: in practice, it is a question of determining whether the hedging relationship would be maintained in the event of potential more or less extreme scenarios.
- > Retrospective test: this test reveals the degree of effectiveness of the hedge achieved in the period to which the test refers; in other words, it measures how far the actual results diverged from the perfect hedge. If the results fall within a defined range, hedge accounting may continue to be applied: otherwise, it must be discontinued.

QUANTITATIVE INFORMATION

A. Hedging financial derivatives

A.1 Hedging financial derivatives: period-end notional amounts

€/t	31/12/2020				31/12/2019			
	Over the counter			Organised markets	Over the counter			Organised markets
	CCPs	Without CCPs			CCPs	Without CCPs		
		With netting arrangements	Without netting arrangements			With netting arrangements	Without netting arrangements	
1. Debt securities and interest rates	-	-	126,783	-	-	-	152,358	-
a) Options	-	-	33,732	-	-	-	44,076	-
b) Swaps	-	-	93,051	-	-	-	108,282	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and equity indices	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
TOTAL	-	-	126,783	-	-	-	152,358	-

A.2 Hedging financial derivatives: gross positive and negative fair value – distribution by product

€/t	Positive and negative fair value								Change in value used to detect ineffectiveness of the hedge	
	31/12/2020				31/12/2019				31/12/2020	31/12/2019
	Over the counter			Organised markets	Over the counter			Organised markets		
	Without CCPs		CCPs		Without CCPs		CCPs			
	With netting arrangements	Without netting arrangements			With netting arrangements	Without netting arrangements				
Positive fair value										
a) Options	-	-	-	-	-	-	24	-	57	220
b) Interest rate swaps	-	-	-	-	-	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-	24	-	57	220
Negative fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	-		29,318	-	-	-	31,043	-	261	917
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
TOTAL	-		29,318	-	-	-	31,043	-	261	917

A.3 OTC hedging financial derivatives: notional values, gross positive and negative fair value by counterparty

	CCPs	Banks	Other financial corporations	Other entities
Contracts not based on netting arrangements				
1) Debt securities and interest rates				
- notional value	X	126,783	-	-
- positive fair value	X	-	-	-
- negative fair value	X	29,318	-	-
2) Equity securities and equity indices				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Currencies and gold				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
4) Commodities				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts based on netting arrangements				
1) Debt securities and interest rates				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Equity securities and equity indices				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC hedging financial derivatives: notional values

€/t		Up to 1 year	Over 1 year and up to 5 years	Over 5 years	TOTAL
A.1 Financial derivatives on debt securities and interest rates		6,705	26,428	93,650	126,783
A.2 Financial derivatives on equity securities and equity indices		-	-	-	-
A.3 Financial derivatives on currencies and gold		-	-	-	-
A.4 Financial derivatives on commodities		-	-	-	-
A.5 Other financial derivatives		-	-	-	-
TOTAL	31/12/2020	6,705	26,428	93,650	126,783
TOTAL	31/12/2019	6,940	29,569	115,849	152,358

B. Hedging credit derivatives

This does not apply to the Group.

C. Hedging non-derivative instruments

This does not apply to the Group.

D. Hedged instruments

D.1 Fair value hedges

€/t		Specific hedges: carrying amount	Specific hedges – net positions: carrying amount of assets or liabilities (before netting)	Specific hedges			Generic hedges: Carrying amount
				Cumulative changes in the fair value of the hedged instrument	Discontinuation of hedge: residual cumulative changes in fair value	Change in value used to detect ineffectiveness of the hedge	
A. ASSETS							
1. Financial assets at fair value through other comprehensive income - hedging of:		-	-	-	-	-	-
I.1 Debt securities and interest rates		-	-	-	-	-	x
I.2 Equity securities and equity indices		-	-	-	-	-	x
I.3 Currencies and gold		-	-	-	-	-	x
I.4 Loans		-	-	-	-	-	x
I.5 Other		-	-	-	-	-	x
2. Financial assets measured at amortised cost - hedging of:		132,200	-	25,981	187	(1,511)	-
I.1 Debt securities and interest rates		132,200	-	25,981	187	(1,511)	x
I.2 Equity securities and equity indices		-	-	-	-	-	x
I.3 Currencies and gold		-	-	-	-	-	x
I.4 Loans		-	-	-	-	-	x
I.5 Other		-	-	-	-	-	x
TOTAL	31/12/2020	132,200	-	25,981	187	(1,511)	-
TOTAL	31/12/2019	156,051	-	27,678	276	512	-
B. LIABILITIES							
1. Financial liabilities measured at amortised cost - hedging of:		-	-	-	-	-	-
I.1 Debt securities and interest rates		-	-	-	-	-	x
I.2 Currencies and gold		-	-	-	-	-	x
I.3 Other		-	-	-	-	-	x
TOTAL	31/12/2020	-	-	-	-	-	-
TOTAL	31/12/2019	-	-	-	-	-	-

E. Effects of equity hedging operations

This does not apply to the Group.

1.3.3 Other information on derivative instruments (trading and hedging)

A. Financial and credit derivatives

This does not apply to the Group.

1.4 Liquidity risk

QUALITATIVE INFORMATION

A. General aspects, liquidity risk management procedures and measurement methods

Liquidity risk means the inability of financial corporations such as banks to promptly and economically meet their payment obligations according to the contractual schedule. Depending on the possible area of impact, a distinction is usually made between two types of liquidity risk generally borne by a bank: market liquidity risk and funding liquidity risk. The first type of risk relates to the inability to dispose of a financial asset without incurring capital losses due to poor liquidity of the reference market or inefficiencies within it. The second type of risk concerns the inability to meet expected and unexpected cash flows and collateral requirements according to cost-effectiveness criteria, without prejudicing the bank's daily operations or financial situation. In its liquidity risk management and control system, the Mediolanum Banking Group, coordinated by the Parent Company, has established daily, weekly and monthly monitoring of the quantities that change its liquidity stock in the short and medium-long term.

Impacts of the Covid-19 pandemic

The attention paid by the Parent Company, Banca Mediolanum at Group level, to all aspects of risk presented by the Covid-19 pandemic also concerned the scope of management and mitigation of liquidity risk. Ongoing monitoring of daily liquidity and monitoring of short- and long-term liquidity indicators throughout 2020 confirmed that the Banca Mediolanum Group holds a more than adequate liquidity position in any ordinary or extraordinary situation.

It should be noted that these indicators have not undergone any significant change, including in view of the measures taken by the Bank and other Group companies to support credit facilities in relation to all the measures and commitments undertaken due to the initiatives in the area of Covid-19.

QUANTITATIVE INFORMATION

1. Distribution of financial assets and liabilities by residual contractual maturity (Part 1 of 2)

€/t	Demand	1 day to 7 days	Over 7 days to 15 days	Over 15 days to 1 month	Over 1 month to 3 months
A. On-balance sheet assets	1,076,030	26,625	4,741	282,612	1,421,569
A.1 Government securities	31	-	4,229	4,041	1,186,667
A.2 Other debt securities	514	-	-	51,662	26,484
A.3 UCI units	135,804	-	-	-	-
A.4 Loans	939,681	26,625	512	226,909	208,417
- Banks	387,722	-	-	21,319	10,585
- Customers	551,958	26,625	512	205,590	197,832
B. On-balance sheet liabilities	22,558,451	1,380,273	374,657	116,238	1,599,461
B.1 Deposits and current accounts	22,302,725	9,037	21,660	19,577	590,622
- Banks	879	-	-	-	51,073
- Customers	22,301,845	9,037	21,660	19,577	539,549
B.2 Debt securities	-	-	-	-	-
B.3 Other liabilities	255,726	1,371,235	352,997	96,661	1,008,839
C. Off-balance sheet transactions					
C.1 Financial derivatives with capital exchange					
- Long positions	-	5,956	1	24,649	51,000
- Short positions	-	5,231	-	-	142,560
C.2 Financial derivatives without capital exchange					
- Long positions	57	-	-	-	-
- Short positions	77,271	-	-	-	-
C.3 Deposits and loans to be received					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.4 Commitments to disburse funds					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-
C.7 Credit derivatives with capital exchange					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.8 Credit derivatives without capital exchange					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-

1. Distribution of financial assets and liabilities by residual contractual maturity (Part 2 of 2)

€/t	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years	Duration Indefinite
A. On-balance sheet assets	621,200	2,582,055	14,767,066	7,345,047	539,123
A.1 Government securities	339,442	1,986,914	11,226,745	52,495	-
A.2 Other debt securities	10,716	30,401	105,400	11,264	-
A.3 UCI units	-	-	-	-	-
A.4 Loans	271,042	564,739	3,434,921	7,281,288	539,123
- Banks	-	-	-	194	284,116
- Customers	271,042	564,739	3,434,921	7,281,094	255,006
B. On-balance sheet liabilities	310,898	173,363	981,306	25,000	-
B.1 Deposits and current accounts	40,582	62,845	1,113	-	-
- Banks	-	-	-	-	-
- Customers	40,582	62,845	1,113	-	-
B.2 Debt securities	-	-	-	-	-
B.3 Other liabilities	270,315	110,518	980,193	25,000	-
C. Off-balance sheet transactions					
C.1 Financial derivatives with capital exchange					
- Long positions	-	-	-	-	-
- Short positions	-	-	3	-	-
C.2 Financial derivatives without capital exchange					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.3 Deposits and loans to be received					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds					
- Long positions	-	52,876	-	-	-
- Short positions	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	118
C.6 Financial guarantees received	-	-	-	-	-
C.7 Credit derivatives with capital exchange					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.8 Credit derivatives without capital exchange					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-

1.5 Operational risks

QUALITATIVE INFORMATION

A. General aspects, operational risk management procedures and measurement methods

The Mediolanum Banking Group defines operational risks as “the risk that illegal or inappropriate conduct by staff, technological shortcomings or malfunctions, errors or deficiencies in operating processes and external factors may result in economic or pecuniary losses and sometimes legal or administrative impacts”.

In line with industry regulations, Banca Mediolanum S.p.A. has adopted and regularly updates an operational risk management and control framework.

The Risk Management function is responsible for monitoring operational risk and collaborates with the Internal Audit Function to control and manage the operational risks arising from the operations of the sales network of Banca Mediolanum S.p.A.

It also coordinates with the Administration, Accounting and Financial Reporting section in controlling capital adequacy in respect of the requirements for own funds for operational risks of Banca Mediolanum S.p.A. and the Banking Group. The organisational positioning of the Risk Management function is based on the principles of “separation” and “independence” with respect to the operational lines, with it reporting directly to the corporate bodies of the Parent Company. Specific Risk Management functions are also present at the main companies of the Banking Group, in order to be closer to the business, while maintaining a guiding and coordination role at the Parent Company. The reference framework for the management and control of operational risks adopted by the Mediolanum Banking Group consists of the following four sequential phases:

- > 1. “Identification”;
- > 2. “Measurement”;
- > 3. “Monitoring, Control and Reporting”;
- > 4. “Management”.

Each of the above phases is characterised by specific objectives, models, methods and instruments and is implemented by the Group companies, according to the complexity of the activities performed, exposure to operational risks and specific normative and regulatory instructions, in line with the proportionality principle.

Identification is the activity of identifying and collecting information on operational risks through the consistent and coordinated processing of all relevant sources of information. The aim is to establish a complete information base.

Identification takes place through the definition and classification of the information necessary for integrated operational risk management.

The information necessary for this purpose is:

- > the qualitative and quantitative assessment of the risk exposure of the main corporate processes, as part of the annual risk self-assessment process;
- > internal loss data, accompanied by all the relevant information for the purposes of measuring and managing risks (including insurance and direct recoveries), collected through the loss data collection process;

- > preliminary analysis of the risk exposure arising from entry into new businesses or the signing of new contracts/commercial agreements, as well as following organisational/regulatory changes;
- > performance indicators representative of operations and risks, internally known as “key risk indicators”, which form the basis of management analyses and part of the control model.

>

Measurement is the activity of analysing and assessing risk.

The aim of this activity is to gain comprehensive knowledge of the overall risk profile of the enterprise, resulting in the quantification of:

- > regulatory capital: the capital requirement defined on the basis of regulatory provisions (Regulation (EU) 575/2013). In order to measure regulatory capital for operational risk, all companies in the Mediolanum Banking Group use the “standardised” method to calculate the regulatory capital requirement;
- > economic capital: measurement of risks for internal purposes, using an integrated approach that reflects both actual losses from operational risks and potential losses, measured net of the effectiveness of the controls put in place to mitigate those risks. This measurement activity is therefore based on the results of the risk identification process, applying an actuarial statistical model, and constitutes a tool for controlling the adequacy of regulatory capital for operational risks.

Monitoring, Control and Reporting is a direct consequence of the preliminary phases of identification and measurement. It enables the analysis of the overall exposure to operational risks of the various business units and the prompt reporting of any critical issues encountered. The main tool used to carry out this process is periodic reporting to the business functions concerned, to senior management and to the Board of Directors.

Finally, the aim of the Management phase is to periodically assess “strategies for control and reduction of risk”, deciding, according to the nature and size of the risk, whether to assume it, implement mitigation policies or transfer it to third parties, according to the risk appetite expressed by senior management.

Impacts of the Covid-19 pandemic

All the initiatives adopted by Banca Mediolanum for internal work reorganisation, i.e. the recalibration of processes and procedures to obtain the highest service standards, including in remote working mode, as well as all credit delivery initiatives related to government decrees, have resulted in an increase in the level of assessment of possible operational risks inherent in the new operational situation. Since the first few months of the health emergency, Banca Mediolanum has established monitoring safeguards for certain parameters that could highlight possible operational risks relating to the different ways of managing many aspects of the Bank.

Losses resulting from the Covid-19 pandemic were identified and registered, also following specific recommendations provided in December by the European Banking Authority in the EBA/REP/2020/39 document, recording overall losses at Group level of approximately €3.4 million. Based on the criteria provided by the Authority, the impacts include part of the expenditure incurred during the year to purchase personal protective equipment, local sanitation activities, adjustments of employee and supplier salaries and IT infrastructure expenditure to enable remote processes to be carried out. The costs of cancelling certain company events scheduled by Banca Mediolanum and Banco Mediolanum for 2020 were also included in the calculation of the losses. Finally, particular attention should be paid to the losses indicated as due to errors or delays in the execution of customer instructions due to the pandemic, which represent less than €50 thousand of the total amount.

The above figures allow for a very positive assessment since the losses resulting from the impact of the pandemic are relatively small, also due to the consideration that some costs “catalogued” as losses due to regulatory provisions, are in reality organisational efficiencies (e.g. the strengthening of the IT infrastructure). The result was due to both the organisational capacity that Banca Mediolanum adopted from the outset, the solutions identified for the management of new operating methods and the effective system for monitoring operational risks in place at the various organisational levels of the Bank, coordinated and overseen by the Parent Company's Risk Management function.

QUANTITATIVE INFORMATION

During 2020, the risk assessment process covered almost all of the activities carried out, identifying more than 3,000 control points for operational risk which proved to be effective in almost 80% of cases; partially effective controls relate to a physiological risk associated with the activity carried out or require adaptation measures, mainly in terms of better formalisation. Specific mitigation actions have already been implemented for controls deemed partially ineffective. In other cases, measures designed to strengthen monitoring are being assessed.

Climate change

Climate change is causing an increase in extreme natural events (floods, tornadoes, forest fires, etc.) and will most likely have permanent effects on weather conditions (increase in average temperature, rising sea levels, desertification, etc.), which will inevitably involve significant economic, environmental and social costs. Such events, which create a loss of wealth and income for businesses and households, potentially affect the financial system. Banks play a key role and have a higher level of responsibility for climate change because they are able to direct financing and investment towards environmentally sound businesses and to work towards awareness and risk containment.

With regard to the new European Commission guidelines on climate change reporting, Banca Mediolanum is considering how to incorporate its commitments on environmental impacts and climate change with reference to the Recommendations of the Task Force on Climate – related Financial Disclosures (TCFD) of the Financial Stability Board (FSB). Banca Mediolanum has already made preliminary general assessments of the issues debated and argued. Physical risk assessments are made to determine which credit portfolio clusters might be involved in any critical environmental events that could cause significant harm to or destruction of physical capital and have potential repercussions on financial resources. Meanwhile, a number of assessments have been made on the question of transitional risk, i.e. the risk that any climate protection regulations may result in the reallocation of financial resources from current economic sectors to sectors in the “green” and “sustainable” categories.

The Group aims to make a careful assessment of its strategies in terms of allocating financial resources that takes account of any measures required to mitigate the risks arising from climate change.

SECTION 3 – RISKS OF INSURANCE COMPANIES

Risks of the Mediolanum Insurance Group

The Mediolanum Insurance Group has prepared and adopted an internal risk management framework that enables risks to be identified, assessed, monitored, managed and reported on an ongoing basis, taking due account of changes in the nature and size of the business and in the market environment. The Risk Management System not only involves technical aspects but also a cultural, organisational, functional and process element.

The Risk Management System consists of strategic processes functional to the definition of the reference framework, which includes operating processes.

Specifically, the **strategic processes** include:

- > **Formulation of the Risk Appetite Framework (RAF):** this is the process whereby the GAM and the companies of which it is composed define the risk they intend to assume (risk appetite) in achieving their corporate objectives and within which strategic activities (business model, business unit, planning) are analysed according to risk-based criteria and approaches. For this reason, the RAF must be consistent with the other processes at the strategic level,
- > **Implementation of the Own Risk and Solvency Assessment (ORSA):** this consists of a forward-looking assessment of the risk level of the company and the GAM over the time horizon of the company strategic plan. This activity is closely interconnected with both the RAF and the overall governance of the risk management process.
- > **Formulating contingency plans:** in accordance with Article 83 of IVASS Regulation No. 38/2018, for financial stability purposes the Mediolanum Insurance Group has prepared an Enhanced Contingency Plan to identify and assess the actions that could be taken to restore its position following crisis situations related to the major sources of risk identified.

The **operating processes** include the following activities:

- > **Identification of risk categories:** this consists of the definition of principles, tools and methodologies for adequate risk identification, description, classification, estimation and assessment and the identification of preference for each risk.
- > **Risk management procedures:** The risk management process takes place through all activities that result in the acceptance, transfer/mitigation or elimination of risks, with regard to risks arising from existing activities and risks arising from new business and activities. Each year, the Board of Directors approves policies for the management of individual risks, ensuring that it is consistent with the directions in the Risk Appetite Framework, with the evolutionary guidelines defined in the Strategic Plan and with the current and forward-looking assessments of risks and solvency.
- > **Risk assessment:** the methods for measuring the risks to which the companies that are part of the GAM are exposed are defined. This activity enables the economic and/or financial effects of quantifiable risks to be determined and the significance of non-quantifiable risks to be assessed. The solvency assessment of the risks of GAM and of the individual companies that make it up is currently carried out using the Solvency II standard formula.
- > **Stress testing:** this consists of periodic stress tests using a range of scenarios considered both individually and in combination to identify the causes of possible tensions on the aggregates and risks subject to stress and to simultaneously analyse the tolerance limit and sustainability that such extreme events impact in operational and financial management.
- >
- > **Risk monitoring:** the risk monitoring process aims to monitor the performance of Mediolanum Vita S.p.A. and the other GAM companies in relation to what has been defined, as part of the Business Plan and corporate objectives, in the context of the Risk Appetite Framework and the Own Risk and Solvency Assessment (ORSA); it also supports the decision-making process, ensuring compliance on the one hand with what is defined within the Risk Policies and on the other with the legal and regulatory requirements.
- > **Definition of escalation actions:** the escalation process ensures that reports of dangerous situations and breaches of limits to all interested parties are promptly communicated to the competent corporate bodies in order to allow for the development and implementation of remedial measures. Specifically, GAM and its individual companies define escalation measures within the Risk Appetite Framework and where limits are defined the breaching of which requires specific measures.

- > **Risk reporting:** Mediolanum Vita S.p.A. and the GAM companies are constantly reviewing their risk management system and regularly produce appropriate reporting to support and feed into the discussion with the competent bodies, as well as the decision-making process of GAM and its individual companies.

The risk management system has therefore been designed in order to provide a shared, consistent approach to risk management at all corporate levels and in all the companies that make up the Mediolanum Insurance Group and has the objective of supporting and facilitating the processes of identification, reduction, transfer or elimination, to the extent that the residual risk is acceptable, of the impact that the risks have on the ability of the Mediolanum Insurance Group and of the individual companies to achieve their business objectives.

Beyond the impacts that have arisen in the financial area, the direct and indirect consequences of which have already been illustrated in the condensed consolidated financial statements, the Covid-19 pandemic is not currently believed to have materially affected the typical risks in the insurance area in which the Mediolanum Group operates.

Solvency position of the Group

Following the entry into force of the Solvency Directive, (Framework Directive 2009/138/EU laying down the fundamental principles of the new regime and Regulation 2015/35/EU as amended, containing detailed forecasts for the new regime), capital ratios are reported in accordance with industry regulations.

The coverage ratio for the Solvency Capital Requirement (SCR) and the Minimum Capital Requirement (MCR) is shown below, as per the last quarterly report to the Supervisory Body:

€/t	31/12/2020
Eligible own funds	1,301,224
SCR	843,862
Solvency Ratio (SCR)	154.2%

€/t	31/12/2020
Eligible own funds	1,301,224
MCR	263,691
Solvency Ratio (MCR)	493.5%

The Solvency Ratio determined at 31 December 2020 complies with the Risk Appetite Framework defined for the Group.

3.1 Insurance risks

A. Life insurance

QUALITATIVE INFORMATION

The insurance risks to which the Life companies are exposed are underwriting risks, divided into:

- > Mortality risk;
- > Longevity risk;
- > Lapse risk;
- > Expense risk;
- > Catastrophe risk.

Mortality risk

Mortality risk is associated with (re)insurance obligations (e.g. death insurance or mixed policies) whereby the (re)insurer guarantees a series of individual or recurring payments in the event of the death of the policyholder during the life of the policy. It applies to (re)insurance obligations that depend on the risk of mortality, for example those for which the amount to be paid in the event of death exceeds the technical reserves: consequently, an increase in mortality rates results in an increase in technical reserves.

Longevity risk

Longevity risk is associated with (re)insurance obligations (e.g. annuities) that provide for the (re)insurer guaranteeing a series of payments until the policyholder dies, and for which a decrease in mortality rates results in an increase in technical reserves, or (re)insurance obligations (e.g. mixed policies) whereby the (re)insurer guarantees a single payment if the policyholder survives for the duration of the policy.

It applies to (re)insurance obligations that depend on the risk of longevity, i.e. where there is no benefit in the event of death or the amount to be paid in the event of death is less than the technical reserves: consequently, a decrease in mortality rates results in an increase in technical reserves.

With regard to longevity risk, Mediolanum Vita periodically analyses the adequacy of the technical bases of portfolios of annuities in the course of payment.

For cover that provides for an accumulation phase and a future option to convert capital to an annuity, no guarantee is normally granted on the technical bases for determining the annuity that can be disbursed. The level of appetite for annuities is also monitored so that the demographic bases can be adjusted.

With regard to the economic impact of this variable, Mediolanum Vita has calculated that a change in appetite of 1% would result in a negative change in the Group's net profit at 31 December 2020 of approximately €4.5 million.

Lapse risk

Lapse risk is the risk of the loss of, or changes in, liabilities due to a change in the rate at which options are exercised by policy holders.

All options for policy holders, whether legal or contractual, which can significantly change the value of future cash flows must be taken into account.

Expense risk

Expense risk arises from a change in the expenses incurred in relation to insurance or reinsurance contracts.

Catastrophe risk

Catastrophe risk arises from extreme or irregular events, the effects of which are not sufficiently captured in other Life insurance underwriting sub-modules.

Monitoring

In relation to regulatory capital, the management monitoring of underwriting risks takes place through the control of the risk indicators defined in the Risk Appetite Framework and their impact on the ORSA.

In particular, the reference values of the underwriting risk indicators are closely related to the budget situation and, specifically, will be equal to the value they assume in the ORSA at the end of the first projection year.

Short-term limits on the budget amount have been established for each technical/insurance risk classified as significant. Significant external risks of a technical insurance nature and monitoring of the relative risk factors that affect them, concern, for the Group and the individual companies, for example, expense risk, lapse risk, annuity conversion risk and reserve risk (only for the Non-Life company).

QUANTITATIVE INFORMATION

Amount of direct Life segment reserves by contractual maturity

€/t	Insurance	Investment	Total
less than 1 year	684,477	4,470	688,947
1 to 2 years	804,671	21,757	826,428
2 to 3 years	1,124,871	48,240	1,173,111
3 to 4 years	1,909,865	84,072	1,994,837
over 5 years	10,222,052	9,153,513	19,375,564
Lifetime	3,561,278	333,854	3,849,132
Total	18,307,213	9,645,806	27,953,019

The total includes mathematical reserves and technical reserves when the investment risk is borne by policyholders, amounting to €1,564,196 thousand and €16,743,017 thousand respectively, and financial liabilities from investment contracts, amounting to €9,645,806 thousand. The reserves for amounts to be paid (€91,968 thousand), the reserve for other technical items of €7,446 thousand and the valuation of the retrocession of capital gains/losses from valuation on securities to cover contracts with DPFs (shadow accounting) of €25,421 thousand are therefore excluded.

Concentration of direct business technical reserves by level of guarantee offered

€/t	31/12/2020
Liabilities with interest rate guarantee	990,309
0%	65,027
2%	46,630
3%	116,845
4%	761,807
Liabilities without interest rate guarantee	17,316,904
Total	18,307,213

Concentration of gross direct Life premiums by line of business and geographical area

€/t	Unit-linked	Index-linked	Traditional	Collective	31/12/2020
Spain	132,783	17,625	-	-	150,408
Germany	8,247	-	-	-	8,247
Italy	3,621,170	-	67,146	9,132	3,697,448
Total	3,762,200	17,625	67,146	9,132	3,856,103

B. Non-Life insurance

QUALITATIVE INFORMATION

With regard to the Non-Life class, technical risk is the risk of loss or unfavourable change in the value of insurance liabilities due to inadequate assumptions relating to the determination of policy premiums and the creation of reserves.

In particular, technical risk includes the following:

Pricing risk

This is the risk arising from fluctuations that may arise in the time of occurrence, frequency and severity of insured events. Pricing risk relates to policies underwritten during the year, including renewals, and risks arising from contracts still outstanding at the end of the year in question. It cannot be ruled out that the actual claims for compensation will be significantly higher in the future, in terms of number and amount, than the provisions used to calculate the price of the products, with possible adverse effects on the operating results, financial position and/or cash flows of Mediolanum Assicurazioni and, consequently, the Mediolanum Group. Furthermore, it is possible that inadequate data and pricing methodologies, with resulting compensation claims that are much higher than projected, could also result in a pricing level that is inappropriate with respect to the size of the actual risks, with consequent adverse effects on the operating results and the company's profit performance, financial position and/or cash flows.

Reserve risk

Expresses the variability between the best estimate of the claims reserve at a given date and its actual development over time (the relevant future payment flows) which, in accordance with Solvency II, is defined on an annual basis. Any policyholder requirements with respect to Mediolanum Assicurazioni that exceed expectations could have adverse effects on the Company's profit performance, financial position and cash flows.

€/t	31/12/2020	Weight %
Class-01 Accident	3,033	11.94%
Class-02 Sickness	14,290	56.27%
Class-08 Fire	1,353	5.33%
Class-09 Other Damage to Property	591	2.33%
Class-10 Motor	1,528	6.02%
Class-13 General TPL	3,925	15.45%
Class-16 Pecuniary Losses	607	2.39%
Class-17 Legal Protection	27	0.11%
Class-18 Assistance	44	0.17%
Total Non-Life classes	25,397	100%

Amount of claims reserve before reinsurance. Values including IBNR, Reserve for direct and indirect expenses and amounts to be recovered.

Lapse risk

The Solvency II standard formula is used to estimate a potential early lapse rate for certain types of product, calculating the impact of this risk in terms of loss of regulatory capital. Despite the estimates made by Mediolanum Assicurazioni, there is a possibility that an increase in lapsed policies could have negative effects on the company's financial and economic situation.

Catastrophe risk (cat risk)

Catastrophe risk consists of the risk of a loss or unfavourable change in the value of insurance liabilities due to significant uncertainty regarding the assumptions used to determine premiums and create reserves in relation to extreme or exceptional events. This risk arises from events which are not adequately captured by the capital requirement for pricing and reserve risk. Mediolanum Assicurazioni limits the economic impact of catastrophic events through reinsurance, allocating the risk between reinsurers selected for their reliability and financial soundness. Therefore, the occurrence of one or more catastrophic events such as earthquakes, storms, explosions, floods, fires or acts of terrorism, resulting in damage exceeding the limit of Mediolanum Assicurazioni's reinsurance cover, could have adverse effects on the profit performance, financial position and/or cash flows of the Mediolanum Group.

The most significant current exposures relate to earthquake and flooding cover, as shown in the table:

Earthquake section	Exposures in €/t
Capitale Casa	1,080,207
Runoff fire and explosion	275,229
Flooding section	Exposures in €/t
Runoff fire and explosion	275,229
Hail section	Exposures in €/t
Stand alone	3,270,288
Fire and explosion	7,076,970

Reinsurance counterparty default risk

Reinsurance counterparty default risk is the risk of a possible default by a counterparty that has outward portfolio reinsurance dealings with the Company. For further information on reinsurance contracts, please see the description above.

Details of underwriting risks

The Insurance Group's underwriting risk modules, determined using the Standard Formula, calculated at 31/12/2020, are shown below:

€/t	
Underwriting risk	31/12/2020
Mortality risk	36,356
Longevity risk	50,445
Lapse risk	385,320
Expenses risk	90,071
Catastrophe risk	11,984
Sum of risk components	574,174
Non-Life underwriting risk	31/12/2020
Premium & reserve risk	12,026
Lapse risk	483
Catastrophe risk	2,967
Sum of risk components	17,476

Health underwriting risk	31/12/2020
Premium & reserve risk	48,427
Lapse risk	6,575
Catastrophe risk	2,973
Sum of risk components	51,844

3.2 Financial risks

Financial risks include:

- > Market risks
- > Credit risk
- > Reinsurance counterparty default risk.

Market risks

Article 13 point 31) of Directive 2009/138/EC defines market risk as the risk of loss or unfavourable change in the financial situation arising, directly or indirectly, from fluctuations in the level and volatility of the market prices of assets, liabilities and financial instruments.

The three companies of the Mediolanum Insurance Group have adopted this definition, identifying and classifying the following risks within this category:

- > Interest rate risk
- > Equity risk
- > Currency risk
- > Property risk
- > Spread risk
- > Market concentration risk

Interest rate risk

Interest rate risk exists for all assets and liabilities whose value is “sensitive” to changes in the term structure of interest rates or interest rate volatility. This applies to both real and nominal term structures.

Assets sensitive to interest rate movements include fixed-income investments, financing instruments (e.g. loans), surcharges on policies, interest rate derivatives and any insurance assets.

Equity risk

Equity risk arises from the level or volatility of the market prices of equity securities. Exposure to equity risk relates to all assets and liabilities whose value is sensitive to changes in equity prices. This risk is the main contributor to the risk profile of the Mediolanum Insurance Group given the high exposure to the equity market of assets to cover unit-linked products. In 2020, the impact of the allocation of regulatory capital to cover equity risk was high.

Currency risk

Currency risk arises from changes in the level or volatility of exchange rates. Undertakings may be exposed to currency risk from various sources, including their investment portfolios, assets and liabilities and investments in associates.

For the Mediolanum Insurance Group, exposure to currency risk has been shown to be high, due to the marked diversity of the currencies of the financial instruments underlying the unit-linked policies in the portfolio. In 2020, this risk therefore had a significant impact on total regulatory capital.

Property risk

Property risks arise due to the sensitivity of financial assets, liabilities and investments to the level or volatility of the market prices of real estate.

The following investments are treated as real estate investments and their risks are considered in accordance with the property risk sub-module:

- > land, buildings and property rights;
- > direct or indirect equity investments in real estate companies that produce periodic income, or that are otherwise aimed at investing;
- > property investments for use by the insurance company.

The properties owned by the Insurance Group are appraised annually.

The contribution of property risk to the risk profile of the Mediolanum Insurance Group is very limited, as property investments represent a small proportion of total investments held.

Spread Risk

Spread risk is the part of risk that reflects changes in the value of financial assets, liabilities and instruments due to a change in the level or volatility of credit spreads with respect to the forward structure of the risk-free rate. Spread risk applies to at least the following financial asset classes: High credit quality (investment grade) corporate bonds and high yield corporate bonds.

Spread risk also applies to all types of asset-backed securities, as well as to all segments of structured credit products such as covered bonds. Spread risk covers instruments including but not limited to credit derivatives, credit default swaps, total return swaps and credit linked notes that are not held as part of a recognised risk mitigation policy. Spread risk also includes the credit risk of other high-risk investments, including in particular: equity investments; debt securities issued by and to associates and companies in which the insurance company has a participating interest; debt securities and other fixed-income securities; and mutual fund investments.

However, it should be stressed that the Solvency II spread risk requirement does not include risk arising from exposures to government securities.

Market concentration risk

Market concentration risk relating to financial investments arises from the accumulation of exposures with the same counterparty. Concentration risk extends to assets affected by equity risk, interest rate risk, spread risk and ownership risk and excludes assets covered by the counterparty default risk module. It does not include other types of concentration (e.g. by geographical area, industry, etc.).

In 2020, the Mediolanum Insurance Group's exposure to this risk was not significant.

Monitoring

Within Solvency II, market risks are monitored by controlling compliance with the risk limits defined in the Risk Appetite Framework (RAF).

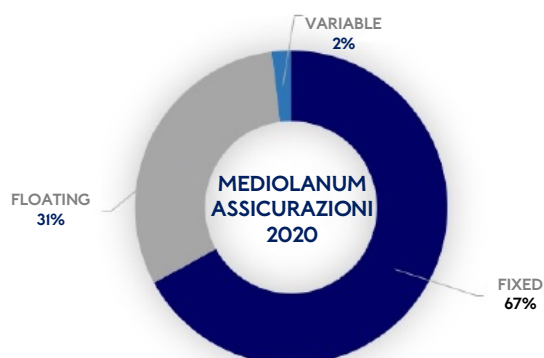
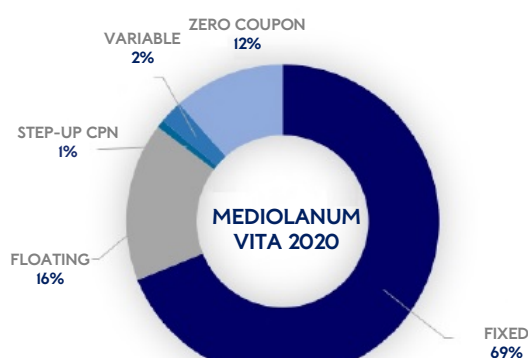
The Insurance Group has decided to analyse and monitor only those market risks that are material in terms of their quantitative impact on the calculation of the regulatory capital requirement. As described in the RAF, to which reference should be made for further details, the market risk classes being monitored are:

- > Equity
- > Currency
- > Interest rate
- > Spread

The monthly monitoring is intended to ensure constant monitoring of risk exposures and compliance with tolerance levels. This reporting provides a range for the solvency ratio, rather than a precise figure. For the portfolio of traditional Life reserves, the risk of mismatching between liabilities and assets is also periodically assessed using an asset liability management model.

The tool enables monitoring of the long-term effects of possible asset management choices on the degree of profitability and solvency of Mediolanum Vita by means of "ad hoc" reporting.

The following graphs show a breakdown of own securities and separately managed accounts by type of interest rate for Mediolanum Vita and own securities for Mediolanum Assicurazioni:



The following table shows the portfolios of the individual insurance companies and the Insurance Group according to the classification established by IFRS 9:

Securities portfolio of Mediolanum Vita S.p.A. – POSITION

Spot data at 31/12/2020

€/t	31/12/2020
FVPL	
Nominal	87,000
Market value	107,161
Amortised cost	
Nominal	871,091
Market value	1,082,028
FVOCI	
Nominal	795,028
Market value	914,483
FV BONDS	
Nominal	3,172
Market value	44,461
TOTAL	
Nominal	1,756,291
Market value	2,148,134

The data do not include securities related to Class III products

Securities portfolio of Mediolanum Assicurazioni S.p.A. – POSITION

Spot data at 31/12/2020

€/t	31/12/2020
FVPL	
Nominal	6,000
Market value	6,147
Amortised cost	
Nominal	81,900
Market value	86,786
FVOCI	
Nominal	70,280
Market value	72,529
TOTAL	
Nominal	158,180
Market value	165,462

Mediolanum International Life DAC securities portfolio - POSITION

Spot data at 31/12/2020

€/t	31/12/2020
FVPL	
Nominal	18,263
Market value	18,304
Amortised cost	
Nominal	-
Market value	-
FVOCI	
Nominal	-
Market value	-
TOTAL	
Nominal	18,263
Market value	18,304

The data do not include securities related to Class III products

Mediolanum Insurance Group securities portfolio – POSITION

Spot data at 31/12/2020

€/t	31/12/2020
FVPL	
Nominal	111,263
Market value	111,585
Amortised cost	
Nominal	952,991
Market value	1,045,270
FVOCI	
Nominal	865,308
Market value	915,702
TOTAL	
Nominal	1,929,562
Market value	2,072,557

NB: the value of the securities portfolio does not take into account the marginal share of funds, shares, rights and residual index-linked products.

Credit risk

Credit risk represents the possibility that an event will occur during the life of a financial instrument linked to the insurance product that changes the repayment capacity (the so-called creditworthiness) of a counterparty (issuer) thereby changing the value of the credit position itself. Credit risk can be divided into two components: default risk and migration risk. The first concerns the possibility of not collecting a certain number of future payments in full due to debtor insolvency; the second concerns the risk of impairment of the security due to a deterioration in the creditworthiness of the debtor. Counterparty risk mainly arises from the derivatives activity typical of certain third-party Life products. In particular, when the financial soundness of the counterparty to the OTC

transaction deteriorates to such an extent that default could result, it may not fulfil the obligations arising from the trading of that instrument. This risk is monitored in compliance with the European Market Infrastructure Regulation (EMIR). Credit risk may primarily arise from issuer risk following the default of the securities held. It should be noted that for the two Italian companies, the securities portfolio comprises more investments in domestic government securities than those of other issuers, effectively resulting in insignificant default risk exposure.

Securities portfolio of Mediolanum Vita S.p.A. RATING COMPOSITION (S&P Equivalent)

Spot data (31/12/2020 vs 31/12/2019)

€/t	31/12/2020		31/12/2019		% chge
	amounts	chge	amounts	chge	
Total portfolio	2,148,134	100.0%	1,924,938	100.0%	11.6%
AAA	-	-	-	-	-
AA+ to AA-	-	-	-	-	-
A+ to A-	14,134	0.7%	11,353	0.5%	100.0%
BBB+ to BBB-	1,974,343	91.9%	1,768,812	82.3%	11.6%
BB+ or lower	39,384	1.8%	45,271	2.1%	(13.0%)
Unrated	120,273	5.6%	99,502	4.6%	20.9%

Securities portfolio of Mediolanum Assicurazioni S.p.A. RATING COMPOSITION (S&P Equivalent)

Spot data (31/12/2020 vs 31/12/2019)

€/t	31/12/2020		31/12/2019		% chge
	amounts	chge	amounts	chge	
Total portfolio	165,462	100.0%	155,089	100.0%	6.7%
AAA	-	-	-	-	-
AA+ to AA-	-	-	-	-	-
A+ to A-	916	0.6%	2,119	1.3%	(56.9%)
BBB+ to BBB-	155,259	93.8%	143,671	86.8%	8.1%
BB+ or lower	8,577	5.2%	8,680	5.2%	(1.2%)
unrated	710	0.4%	619	0.4%	n.a.

Mediolanum International Life DAC securities portfolio RATING COMPOSITION (S&P Equivalent)
Spot data (31/12/2020 vs 31/12/2019)

€/t	31/12/2020		31/12/2019		% chge
	amounts	chge	amounts	chge	
Total portfolio	18,304	100.0%	27,426	100.0%	(33.3%)
AAA	6,008	32.8%	95	0.3%	6,224.2%
AA+ to AA-	12,012	65.6%	-	-	-
A+ to A-	127	0.7%	257	0.9%	(50.6%)
BBB+ to BBB-	142	0.8%	26,834	97.8%	(99.5%)
BB+ or lower	-	-	-	-	-
Unrated	15	0.1%	240	0.9%	(93.8%)

Mediolanum Insurance Group securities portfolio RATING COMPOSITION (S&P Equivalent)
Spot data (31/12/2020 vs 31/12/2019)

€/t	31/12/2020		31/12/2019		% chge
	amounts	chge	amounts	chge	
Total portfolio	2,331,898	100.0%	2,107,453	100.0%	10.7%
AAA	6,008	0.3%	-	-	-
AA+ to AA-	12,012	0.5%	-	-	-
A+ to A-	15,175	0.7%	13,729	0.7%	10.5%
BBB+ to BBB-	2,129,744	91.3%	1,939,317	92.0%	9.8%
BB+ or lower	47,961	2.1%	53,951	2.6%	(11.1%)
Unrated	120,998	5.2%	100,361	4.8%	20.6%

Reinsurance counterparty default risk

Given that, with regard to commercial premiums reinsurance, Mediolanum Vita's technical reserves are deposited with the Company itself (rendering the risk of default almost nil), the reinsurance policy of the same requires the reinsurer to have a rating of BBB+ before a treaty is entered into.

At 31 December 2020, the minimum rating of the reinsurers with which Mediolanum Vita has entered into reinsurance treaties is A-.

Breakdown of market risks

The Insurance Group's market risk modules, determined using the Standard Formula, calculated in the fourth quarter of 2020, are shown below:

€/t

Market risk	31/12/2020
Interest rate risk	30,459
Equity risk	507,678
Property risk	28,409
Spread risk	74,344
Currency risk	267,344
Concentration risk	8,345
Sum of risk components	916,580
Counterparty default risk	42,012

3.3 Other risks

In addition to the risks described above, the Mediolanum Insurance Group has identified the following other risks, already monitored within the Banking scope.

Liquidity risk

Liquidity risk is defined as the risk that the company may incur when it is faced with cash commitments (expected or unexpected) and the available cash is not sufficient.

The causes of a possible temporary shortage of liquidity include:

- > an amount of cash outflows exceeding the amount of cash inflows;
- > low liquidity of investments;
- > potential cash flow mismatches.

Available cash is not limited to the cash and bank accounting items but is also related to the possibility of liquidating investments in the portfolio, taking into consideration the potential economic and equity loss arising from the sale. A further possibility for coping with liquidity risk in the medium term is the Company's option of raising funds through debt issues. The risk arising from these transactions is defined as the possibility of not having access to the market or only at excessive cost.

Assets for which policyholders bear no liquidity risk do not entail any liquidity risk for the Mediolanum Insurance Group as the assets are invested in units of UCITS that can be readily liquidated and payment to the customer only takes place after disinvestment of the units.

In accordance with the Liquidity Risk Management Policy of the Group, including the Insurance Group, in order to ensure proper risk monitoring, any deviations in the liquidity indicators from the limits defined are controlled at least once a quarter. These short/medium-term monitoring indicators did not reveal any critical situations for the Insurance Group in 2020.

Strategic risk

Pursuant to Article 19(i) of Ivass Regulation No. 38, strategic risk is regarded as the current and prospective possibility of a decline

in profits or capital deriving from:

- > erroneous “strategic” decisions;
- > inadequate implementation of established strategic decisions;
- > a lack of responsiveness to changes in the competitive and market environment.

The Mediolanum Insurance Group and the individual companies that make it up formalise the Risk Appetite Framework, which defines the risk appetite targets, risk tolerance thresholds and risk capacity limits in line with the individual strategic plans. These enable the corporate governance bodies to continuously and effectively monitor the actual risk profile compared to that envisaged. Mediolanum Vita and the other companies of the Insurance Group also identify, through specifically tasked ad hoc structures, environmental, social and governance (ESG) risks, the assessment and management of which is also carried out at the Mediolanum Conglomerate level.

Compliance risk

With reference to the provisions of Article 19, letter g) of Ivass Regulation No. 38, the Insurance Group, through the Compliance function, has identified and assessed the risks of non-compliance with the rules as the risk of incurring legal or administrative penalties or suffering losses or reputational harm as a result of non-compliance with directly applicable European laws, regulations and rules, or the provisions of supervisory authorities or self-regulations such as bylaws, codes of conduct or self-governance codes; risk arising from unfavourable changes in the regulatory framework or case law guidelines.

Compliance risk is monitored, using a risk-based approach, by the Compliance Function in accordance with the compliance model described in the internal reference regulations, which is periodically reviewed and updated.

Operational risk

With reference to the provisions of Article 1, paragraph 1, letter *vv-bis* 5) of the Private Insurance Code, operational risk is understood as: “the risk of losses resulting from the inadequacy or dysfunction of internal procedures, human resources or systems, or from external events”.

In this definition, it is important to emphasise the inclusion of legal risk, but not of strategic or reputational risk.

Within operational risk, **IT risk** is also managed through a complex process that aims to identify vulnerabilities in the IT system, possible threats and the associated probability of occurrence, and to estimate the potential harm caused by the emergence of homogeneous groups of threats, known as “scenarios”. **IT risk** is defined as the risk of incurring economic losses or loss of reputation and market share due to the use of information and communication technology.

Operational risk takes into account the annual expenses incurred in relation to the insurance risks/obligations assumed by the individual companies.

An operational loss is defined as a group of negative economic effects, net of recoveries and exceeding specifically selected minimum thresholds, arising from the occurrence of an operational event. Material losses are only those actual losses, both direct and indirect, whose amount is certain as they have been transferred to the income statement.

Conduct risk, which is a sub-category of operational risk, can generally be defined as “the current or prospective risk of losses resulting from cases of the inappropriate offering of financial services, including cases of inappropriate conduct (wilful misconduct/negligence). The approach to conduct risk provides for a clear interrelation between the business strategies and the conduct of the financial institution and the Family Bankers, taking into account the corporate values and mission.

In order to properly monitor operational risk, which takes place at least once every quarter, the indicator of actual losses is monitored.

The monitoring phase enables the positioning of the indicator of actual losses to be identified with respect to the limits already established for operational risk under the Risk Appetite Framework.

The monitoring conducted in 2020 did not reveal any critical situations for the Insurance Group.

Reputational risk

With regard to the provisions of Article 19, letter f) of Ivass Regulation No. 38, the GAM and the individual companies that comprise

it recognise that reputation is an indispensable value that forms the basis of the relationship of trust with customers and credibility with the market. Reputational risk is controlled through:

- > the identification and expression of the values to which the entire organisation should aspire;
- > the promotion of a corporate culture based on ethical principles of honesty, fairness and compliance with rules at all levels of the organisation;
- > the adoption of a reputational risk governance and control model.

Reputational risk may in fact derive from a variety of factors, including events relating to operational risk, violations of internal and external rules, the quality of internal and external communications, including through new media, and/or other digital communication tools, as well as other circumstances that could undermine the reputation of the Group as a whole and of the individual companies within it.

Contagion risk

Contagion risk is defined as the risk deriving from situations of difficulty arising in a Banca Mediolanum S.p.A. Group entity that may spread, with negative effects on the Insurance Group's financial position, results or cash flows.

The Parent Company, Mediolanum Vita, has identified the reduction/loss of the sales network as its main contagion risk.

It should be noted, in fact, that the insurance products of Mediolanum Vita, Mediolanum Assicurazioni and Mediolanum International Life Branch Italia are placed by the sales network of Banca Mediolanum, while for the Spanish and German branches, they are placed by the sales networks of Banco Mediolanum S.A and Bankhaus August Lenz & Co., respectively.

Contagion risk is assessed for ORSA purposes, assuming an impact of the network risk factor on both new business volumes and the "in force" portfolio.

Part F - Information on consolidated capital

SECTION I – Consolidated capital

A. QUALITATIVE INFORMATION

The Banca Mediolanum Group prioritises capital monitoring. The Group adopts appropriate measures in order to comply with the regulatory requirements of the supranational and national supervisory bodies.

Monitoring of the Group's capital helps to prevent potential situations of tension from arising. This activity is entrusted to the strategic supervisory body (the Board of Directors), which is responsible for the Group's management functions, and is tasked with defining the guidelines for the various operational functions, including the relevant acceptable risk profiles (formalised in the Risk Appetite Framework (RAF) document). The RAF, which is reviewed periodically, is the frame of reference that determines the risk appetite, tolerance thresholds, risk limits, risk governance policies and the reference processes for defining and implementing such policies, in accordance with the risk capacity.

At 31 December 2020, the ratios of the Banca Mediolanum Group were well above the regulatory thresholds.

B. QUANTITATIVE INFORMATION

B.1 Carrying amount of consolidated capital: breakdown by type of business

€/t	PRUDENTIAL CONSOLIDATION	INSURANCE COMPANIES	OTHER COMPANIES	CONSOLIDATION ELIMINATIONS AND ADJUSTMENTS	TOTAL
1. Capital	814,455	234,915	517	(449,590)	600,297
2. Issue premiums	3,626				3,626
3. Reserves	1,960,873	571,606	5,746	(799,428)	1,738,797
3.5 Interim dividends (-)	-	-	-	-	-
4. Equity instruments					-
5. (Treasury shares)	(43,570)	-	-	-	(43,570)
6. Valuation reserves	6,269	(2,707)	-	1,357	4,919
- Equity securities at fair value through other comprehensive income	5,782	(14,717)		12	(8,923)
- Financial assets (other than equity securities) at fair value through other comprehensive income	2,459	12,061		-	14,520
- Actuarial gains (losses) relating to defined benefit pension plans	(525)	(155)	-	-	(680)
- Share of valuation reserves of equity investments measured at equity	(1,447)			1,449	2
- Special revaluation laws		104		(104)	-
7. Net profit (loss) for the year	408,074	50,284	(522)	(23,374)	434,462
TOTAL	3,149,727	854,098	5,741	(1,271,035)	2,738,531

* This column includes the aggregated values of the items in the prudential consolidation.

B.2 Valuation reserves of financial assets at fair value through other comprehensive income: breakdown

€/t		Prudential consolidation		Insurance companies		Other companies		Consolidation eliminations and adjustments		Total	
		Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
	1. Debt securities	2,472	(13)	29,736	(17,675)					32,208	(17,688)
	2. Equity securities	57,566	(51,783)	28	(14,746)			12		57,606	(66,528)
	3. Loans									-	-
	TOTAL 31/12/2020	60,038	(51,796)	29,764	(32,421)	-	-	12	-	89,814	(84,217)
	TOTAL 31/12/2019	43,118	(16)	28,092	(18,195)	-	-	-	-	71,210	(18,211)

B.3 Valuation reserves of financial assets at fair value through other comprehensive income: changes during the year

	Debt securities	Equity securities	Loans
1. Opening balances	13,773	39,226	-
2. Increases	9,068	18,434	-
2.1 Fair value increases	8,608	18,434	-
2.2 Credit risk-induced value adjustments	-	X	-
2.3 Reversal to the income statement of negative reserves from disposal	7	X	-
2.4 Transfers to other items of shareholders' equity (equity securities)	-	-	-
2.5 Other changes	453	-	-
3. Negative changes	(8,321)	(66,583)	-
3.1 Fair value reductions	(6,709)	(66,549)	-
3.2 Credit risk induced write-backs	-	-	-
3.3 Reversal to the income statement from positive reserves: from disposal	(1,612)	X	-
3.4 Transfers to other items of shareholders' equity (equity securities)	-	-	-
3.5 Other changes	-	(34)	-
4. Closing balances	14,520	(8,923)	-

B.4 Valuation reserves related to defined benefit plans: annual changes

Valuation reserves related to defined benefit plans amounted to -€680 thousand at 31 December 2020, compared with -€255 thousand in the previous year.

SECTION 2 - Own funds and regulatory banking ratios

Please refer to the information provided to the public (Pillar III) at the consolidated level.

Part G - Business combinations involving businesses or business units

SECTION 1 – Operations performed during the year

1.1 Business combinations

The merger by incorporation of Gamax Management into Mediolanum International Funds was finalised on 25 June 2020 as part of the activities relating to the corporate reorganisation project involving the Group's asset management companies aimed at improving their competitive position. This transaction had no effect on the consolidated financial statements of the Mediolanum Group, with the exception of the subscription by Banca Mediolanum of the share capital of Mediolanum International Funds of €2,018. This transaction, classed as a business combination between entities under common control and therefore outside the scope of IFRS 3, was carried out with the same values.

Following this transaction, the percentage holding of Banca Mediolanum in Mediolanum International Funds increased from 95.404% to 95.46%.

SECTION 2 - Combinations after the end of the year

2.1 Business combinations

There are no combinations to report after the end of the year.

SECTION 3 - Retrospective adjustments

There are no retrospective adjustments to report.

Part H - Related party transactions

On 23 September 2015, the Board of Directors of Banca Mediolanum resolved to adopt the “Group Regulations for the Management of Transactions with Related Parties of Banca Mediolanum and Affiliated Persons of the Mediolanum Banking Group” (the “Regulations on Related Parties and Affiliated Persons”) with effect from the start of trading of the Company's shares on the MTA. On 19 December 2018, the Board of Directors of Banca Mediolanum approved the update of the above Regulations with effect from 1 January 2019.

The Regulations on Related Parties and Affiliated Persons, drawn up in accordance with the principles established, *inter alia*, in the Regulations on Related Parties and in Consob Communication No. DEM/10078683 of 24 September 2010, as well as in Bank of Italy Circular No. 263, govern the preliminary investigation procedure leading up to the approval of material transactions (i) with affiliated persons of the Banca Mediolanum Banking Group and (ii) carried out by the Company, including through subsidiaries pursuant to Article 2359 of the Italian Civil Code, with related parties of Banca Mediolanum, in order to ensure their substantive procedural correctness and proper reporting to the market.

During the 2020 financial year, Banca Mediolanum entered into transactions with related parties. These transactions are part of the normal operations of the companies belonging to the Mediolanum Group and are regulated under market conditions. In accordance with IAS 24, the related parties of Banca Mediolanum S.p.A. are:

- > the Fin. Prog. companies, wholly owned by the Doris family and the Fininvest company headed by Silvio Berlusconi;
- > “key management personnel” and close family members of “key management personnel” and companies subject to the control, including joint control, of key management personnel or their close family members;
- > the Chief Executive Officer, other members of the Board of Directors and Statutory Auditors, their close family members and companies subject to their control, including joint control.

Furthermore, for the purposes of the management of transactions with related parties, reference is made to the rules set out in Consob Regulation No. 17221/2010 (arising from the provisions of Article 2391-bis of the Italian Civil Code) and Bank of Italy Circular No. 263/2006 (Title V, Chapter 5) introduced in 2011 and subsequent updates, as well as the provisions pursuant to Article 136 of Legislative Decree No. 385/1993. Considering that the disclosure prepared pursuant to IAS 24 therefore also derives from the provisions cited above, it was decided, for merely prudential purposes, to continue to include Mediobanca in continuity with the approach adopted in previous years, even if at present the connection for the purposes of inclusion in the IAS 28 consolidation scope has ceased.

1. Information concerning the remuneration of key management personnel

€/t	Directors, executives, deputy general managers and statutory auditors	Other key management personnel
Emoluments and social security contributions	(11,177)	(1,996)
Other remuneration	-	(30)

2. Information on related party transactions

The following table shows the credit and debit balances outstanding at 31 December 2020 in respect of related parties other than intercompany parties. The scope of related parties considered for the purposes of the tables in this section has been extended, on the basis of IAS 24.

€/t	Other related parties
Asset items	
Financial assets held for trading	3,975
Financial assets designated at fair value	36,203
Financial assets at fair value through other comprehensive income	219,790
Loans to banks	10,650
Loans to customers	27,701
Other assets	253
Liability items	
Payables to banks	(481)
Payables to customers	(132,922)
Financial liabilities held for trading	(6,043)
Other liabilities	(6,535)
Guarantees issued and commitments given	384
Income statement items	
Interest income and similar income	285
Interest expense and similar expenses	(800)
Net interest	(515)
Fee and commission income	28,403
Fee and commission expense	(7,463)
Net fee and commission income	20,940
Net gains (losses) from trading	(761)
Gains (losses) from disposal or repurchase of: fin. assets at am. cost, fin. assets measured at FVTOCI, financial liabilities	744
Net gains (losses) from financial assets and liabilities at FVTPL	(53)
Premiums issued	10,137
Administrative expenses	(7,765)
Other operating income and expenses	(18)

Part I - Share-based payment agreements

QUALITATIVE INFORMATION

1. Description of share-based payment agreements

STOCK OPTION PLANS

On 9 March 2010, the Board of Directors of Mediolanum S.p.A., with the agreement of the Remuneration Committee, approved the general guidelines for a share ownership plan for the directors and executives of the Company and its subsidiaries, called the “2010 Top Management Plan 2010” and a share ownership plan for the staff – i.e., members of the sales network – of the Company and its subsidiaries, called the “2010 Employee Plan”, which were subsequently submitted for approval by the extraordinary shareholders’ meeting of 27 April 2010. The plans were divided as follows:

- The 2010 Top Management Plan is for directors and executives of the Company and its subsidiaries who hold strategic roles within the Company and/or its subsidiaries.
- The 2010 Employee Plan is for the staff of the Company and its subsidiaries, identified from time to time on the basis of the role held by each individual employee and his/her contribution to the development of the business.

The 2010 Top Management Plan specifies a vesting period for the options of three to five years from the grant date, and that the options can be exercised for a period of three years from the end of the vesting period. The 2010 Employee Plan specifies a vesting period for the options of five to ten years from the grant date, and that the options can be exercised for a period of three years from the end of the vesting period. Under both Plans, the exercise of the options is also conditional on the achievement of specific corporate and/or individual performance objectives. The Plans are designed to incentivise the beneficiaries and are also an appropriate tool for determining value creation and growth for the Company and, consequently, for shareholders. The 2010 Top Management Plan is considered appropriate to link the incentives offered to directors with particular mandates and executives with strategic roles both with the medium-term performance of the Company and the group and with individual performance, aligning the objectives and maximising value creation for shareholders.

The 2010 Employee Plan is an appropriate tool for linking employees’ incentives to both individual results and the medium-term performance of the Company and the group and, consequently, to value creation for shareholders. Furthermore, the 2010 Employee Plan is a strong retention tool, due to the vesting period of the options.

On 8 July 2010, the Board of Directors of Mediolanum S.p.A., following consultation with the Remuneration Committee, resolved by virtue of the powers conferred by the ordinary and extraordinary shareholders’ meeting of 27 April 2010 to:

- > approve the regulations of the share ownership plans for company directors and executives (the “2010 Top Management Plan”) and the plan for group and company employees (the “2010 Employee Plan”);

- > increase the Company's capital for payment by a maximum of €160,000.00 through the issue of up to 1,600,000 shares to service the granting of options under the 2010 Top Management Plan;
- > increase the Company's capital for payment by a maximum of €131,744.20 through the issue of up to 1,317,442 shares to service the granting of options under the 2010 Employee Plan.
- > On 12 May 2011, the Board of Directors of Mediolanum S.p.A., with the agreement of the Remuneration Committee, resolved, *inter alia*, by virtue of the powers conferred by the ordinary and extraordinary shareholders' meeting of 27 April 2010 to:
 - > approve the updating of the regulations of the share ownership plan for company directors and executives (the "2010 Top Management Plan") and the plan for group and company employees (the "2010 Employee Plan");
 - > increase the share capital, partially executing the mandate conferred by the extraordinary shareholders' meeting of 27 April 2010, by a maximum of €188,200.00 through the issue of up to 1,882,000 ordinary shares to service the granting of options under the 2010 Top Management Plan;
 - > increase the share capital, partially executing the mandate conferred by the extraordinary shareholders' meeting of 27 April 2010, by a maximum of €67,427.50 through the issue of up to 674,275 ordinary shares to service the granting of options under the 2010 Employee Plan.

On 10 May 2012, in execution of the mandate conferred by the extraordinary shareholders' meeting of 27 April 2010, as amended by the ordinary and extraordinary shareholders' meeting of 19 April 2012, the Board of Directors resolved to:

- > increase the share capital for payment by a maximum of €186,405.00 through the issue of up to 1,864,050 ordinary shares to service the granting of options under the 2010 Top Management Plan;
- > increase the share capital for payment by a maximum of €70,840.00 through the issue of up to 708,400 ordinary shares to service the granting of options under the 2010 Employee Plan.

On 9 May 2013, in execution of the mandate conferred by the extraordinary shareholders' meeting of 27 April 2010, as amended by the ordinary and extraordinary shareholders' meeting of 19 April 2012, the Board of Directors resolved to:

- > approve certain amendments and updates to the regulations of the share ownership plan for directors and executives of the Company and the Group ("2010 Top Management Plan") and the plan for Group and Company employees ("2010 Employee Plan") relating to certain specific corporate and/or individual performance targets which have to be achieved in order for the options to be exercised. The proposed amendments to the exercise conditions also apply to the options already granted in previous granting cycles;
- > increase the Company's capital for payment by a maximum of €136,155.00 through the issue of up to 1,361,550 shares to service the granting of options under the 2010 Top Management Plan;
- > increase the Company's capital for payment by a maximum of €95,100.00 through the issue of up to 951,000 shares to service the granting of options under the 2010 Employee Plan.

On 14 May 2014, in execution of the mandate conferred by the extraordinary shareholders' meeting of 27 April 2010, as amended by the ordinary and extraordinary shareholders' meeting of 19 April 2012, the Board of Directors resolved to:

- > increase the Company's capital for payment by a maximum of €97,335.0 through the issue of up to 973,350 shares to service the granting of options under the 2010 Top Management Plan;

> increase the Company's capital for payment by a maximum of €121,425.00 through the issue of up to 1,214,250 shares to service the granting of options under the 2010 Employee Plan. On 25 February 2015, in execution of the mandate conferred by the extraordinary shareholders' meeting of 27 April 2010, as amended by the ordinary and extraordinary shareholders' meeting of 19 April 2012, the Board of Directors resolved to:

> increase the Company's capital for payment by a maximum of €700,000.00 through the issue of up to 7,000,000 shares to service the granting of options under the 2010 Employee Plan. The issue price was determined in implementation and in full compliance with the objective criteria already approved by the shareholders' meeting resolution and already the subject of a fairness opinion of the independent auditor.

PERFORMANCE SHARE PLANS

On 10 April 2018, the ordinary shareholders' meeting of Banca Mediolanum, as in the previous year, approved the establishment of a new performance share plan, called:

- the "2018 Top Management Plan - Key Personnel", for directors and executives of Banca Mediolanum and/or the subsidiaries of the Mediolanum Banking Group and/or the other companies of the Mediolanum Group;
- the "2018 Top Management Plan - Other Personnel", for the "executive" senior management of Banca Mediolanum and/or the other companies of the Mediolanum Group;
- the "2018 Employee Plan - Key Personnel" for employees, understood as members of the sales network of Banca Mediolanum and/or other Group companies that are classed as Key Personnel;
- the "2018 Employee Plan - Other Personnel" for employees of Banca Mediolanum and/or other Group companies that are not classed as Key Personnel.

I Under the Performance Share Plans, a portion of the variable component of the remuneration of beneficiaries, or of the non-recurring component for employees, is granted through the free assignment to each of the beneficiaries of rights ("Units") to receive, again free of charge, ordinary shares of Banca Mediolanum ("Shares") held by the same in the ratio of 1 ordinary share for each unit accrued. The Shareholders' Meeting also revoked the resolution authorising the disposal of ordinary treasury shares adopted by the Ordinary Shareholders' Meeting of Banca Mediolanum S.p.A. on 5 April 2017 and authorised, pursuant to Article 2357 of the Italian Civil Code, the purchase, on one or more occasions, for the period of 18 months from the date of the resolution of the Shareholders' Meeting, of ordinary shares of the Bank, up to a maximum of 2,500,000 ordinary shares of Banca Mediolanum S.p.A. and, in any case, taking into account the ordinary shares of Banca Mediolanum S.p.A. periodically held by the Bank and its subsidiaries, within the maximum limit established by applicable legislation and in any case within the limit of the maximum total consideration of €17,500,000; authorisation to sell treasury ordinary shares was granted without time limits.

II The set of circumstances described led the Bank to view the transaction as a share-based payment to be settled with equity instruments ("Equity-settled share-based payment transaction") booked from the performance reference period and throughout the service period, in accordance with IFRS 2.

PHANTOM SHARE PLANS

The 2020 Remuneration Policies also allow the Bank to establish long-term incentive plans based on a multi-year future performance assessment.

The Shareholders' Meeting of 16 April 2020 also approved a long-term incentive and loyalty plan called the "2020-2022 Phantom Share LTI Plan" aimed at various top key people who play crucial roles relating to particular responsibilities and/or competences and have a strong impact on the growth of the business and the governance of the Mediolanum Group.

The purpose of the Plan is to encourage and retain the top management and the Bank/Group personnel regarded as key to particular responsibilities and/or competences, with a strong impact on the business growth and governance of the Bank and the Group from a long-term perspective, and to link a component of the variable remuneration of the beneficiaries of the Plan to the achievement of certain corporate performance targets to be assessed over a multi-year future period, in order to align the interests of the beneficiaries with the pursuit of the priority objective of creating value for shareholders in a long-term perspective. Phantom shares are virtual units of measure that represent a right to payment the valuation of which replicates the performance of an ordinary share of the Bank and which, once vested under the terms and conditions set out in the Plan and after the Retention Period has elapsed, will be redeemed in cash through the payment of a sum to each Beneficiary free of charge.

QUANTITATIVE INFORMATION

1. Annual changes

	Prudential consolidation			Insurance companies			Other companies			Total 31/12/2020			Total 31/12/2019		
	Number of options	Average exercise price (euro)	Average maturity	Number of options	Average exercise price (euro)	Average maturity	Number of options	Average exercise price (euro)	Average maturity	Number of options	Average exercise price (euro)	Average maturity	Number of options	Average exercise price (euro)	Average maturity
A. Opening balances	4,879,773	1.45	Jul-25							4,879,773	1.45	Jul-25	5,366,146	1.42	Apr-25
B. Increases			X			X			X			X			X
B1. New issues	-									-			-		
B2. Other changes			X			X			X			X			X
C. Decreases	560,255		X			X			X	560,255		X	486,373		X
C1. Cancelled			X			X			X			X			X
C2. Exercised	560,255	1.08	X			X			X	560,255	1.08	X	486,373	1.13	X
C3. Expired			X			X			X	-	-	X	-	-	X
C4. Other changes			X			X			X			X			X
D. Closing balances	4,319,518	1.50	Oct-25							4,319,518	1.50	Oct-25	4,879,773	1.45	Jul-25
E. Options exercisable at the end of the year	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X

2. Other information

The cost of the phantom share expense for 2020 was €1.1 million.

Part L - Segment reporting

This section presents the consolidated segment results which, pursuant to IFRS 8, were prepared using a format that reflects the management system of the Mediolanum Group (the "management reporting approach"), in accordance with all the information provided to the market and to the various stakeholders.

This representation of the breakdown of the consolidated result for the period makes it possible to assess the quality and sustainability over time of the results generated by the Mediolanum Group in the various operating segments.

The income statement by segment, pursuant to IFRS 8, shows the consolidated results of the Mediolanum Group in relation to the following operating segments:

- >> ITALY - BANKING
- >> ITALY - ASSET MANAGEMENT
- >> ITALY - INSURANCE
- >> ITALY - OTHER
- >> SPAIN
- >> GERMANY

The income statement by segment, or by Result Area, was prepared by allocating costs and revenues to the various segments according to a hybrid model, intermediate between the Direct Costing and Full Costing models, given the essentially indirect nature of the operating activities carried out by the Mediolanum Group. While revenues can be originally and directly allocated to products and, through aggregation, to the Result Areas, costs underwent an allocation process according to the varying degrees to which they could be assigned to the products and the nature of the underlying processes:

- > Direct costs, which can be attributed to the products according to the individual processed parts.
- > Indirect costs allocated to the Result Areas, assigned to the products according to their correlation with the production of commercial volumes: costs related to the marketing and commercial support processes.
- > Unallocated indirect costs: costs of a strictly administrative nature, or costs related to control or infrastructure processes, the allocation of which to the products/Result Areas would be highly arbitrary.

Operating data by business area at 31/12/2020

Data in €/t	ITALY					Foreign		Total
	Banking	Asset management	Insurance	Other	TOTAL	Spain	Germany	
Entry fees	-	35,130	-	-	35,130	14,970	564	50,664
Management fees	-	525,615	455,023	-	980,638	71,109	9,575	1,061,322
Investment service fees	-	86,221	60,369	-	146,590	10,880	1,393	158,863
Net insurance income	-	-	44,453	-	44,453	13,523	(85)	57,891
Banking service fees and revenues	119,301	-	-	-	119,301	7,022	10,266	136,589
Sundry fees and commissions	11,446	17,683	8,850	1,874	39,853	1,684	567	42,104
Total fee and commission income	130,747	664,649	568,695	1,874	1,365,965	119,188	22,280	1,507,433
Network fee and commission expense	(98,213)	(225,599)	(199,584)	(1,102)	(524,497)	(53,696)	(3,556)	(581,749)
Other fee and commission expense	(24,179)	(24,975)	(16,512)	-	(65,666)	(10,219)	(8,268)	(84,153)
Total fee and commission expense	(122,392)	(250,574)	(216,095)	(1,102)	(590,163)	(63,915)	(11,824)	(665,902)
Net fee and commission income	8,355	414,075	352,600	772	775,802	55,273	10,456	841,531
Net interest income	238,912	(10,495)	2,914	10	231,341	16,935	(581)	247,695
Equity method valuation	-	-	-	-	-	-	-	-
Net gains on disposal of other investments	(79)	167	(1,208)	3,707	2,586	11	6	2,603
Net value adjustments of loans and receivables	(17,978)	-	-	-	(17,978)	(1,777)	37	(19,718)
Net value adjustments of other investments	(927)	-	(489)	(1,851)	(3,267)	8	-	(3,259)
Net income (loss) from other investments	(18,984)	167	(1,698)	1,856	(18,659)	(1,758)	43	(20,374)
of which net value adjustments of loans and receivables	(17,978)	-	-	-	(17,978)	(1,777)	37	(19,718)
Other income and expenses	(15,254)	(915)	6,559	3,946	(5,665)	3,845	395	(1,425)
LEVEL I CONTRIBUTION MARGIN	213,029	402,832	360,376	6,584	982,819	74,295	10,313	1,067,427
Allocated costs	(180,864)	(70,292)	(90,179)	(4,377)	(345,712)	(42,294)	(18,365)	(406,371)
Ordinary contributions and guarantee funds	(19,433)	-	-	-	(19,433)	(2,378)	(170)	(21,981)
LEVEL II CONTRIBUTION MARGIN	12,731	332,539	270,197	2,207	617,674	29,623	(8,222)	639,075
Unallocated costs	-	-	-	-	(151,437)	-	-	(151,437)
Depreciation and amortisation/Provisions	-	-	-	-	(89,865)	(6,376)	(1,875)	(98,116)
Depreciation and amortisation	-	-	-	-	(29,923)	(4,951)	(1,875)	(36,749)
Net provisions for liabilities and charges	-	-	-	-	(59,942)	(1,425)	-	(61,367)
OPERATING MARGIN	12,731	332,539	270,197	2,207	376,372	23,247	(10,097)	389,522
Performance fees	-	72,400	62,677	-	135,077	15,105	3,370	153,552
Net P&L from investments at fair value	(2,689)	(223)	(769)	-	(3,681)	16	(31)	(3,696)
MARKET EFFECTS	(2,689)	72,178	61,907	-	131,396	15,121	3,339	149,856
Capital gains/losses	-	-	-	-	-	-	-	-
Extraordinary contributions and guarantee funds	(7,955)	-	-	-	(7,955)	-	-	(7,955)
Other extraordinary effects	-	-	-	-	-	-	-	-
EXTRAORDINARY EFFECTS	(7,955)	-	-	-	(7,955)	-	-	(7,955)
SEGMENT MARGIN BEFORE TAX	2,087	404,717	332,104	2,207	499,813	38,368	(6,758)	531,423
Taxes for the period	-	-	-	-	(88,652)	(6,890)	(1,419)	(96,961)
NET PROFIT (LOSS) FOR THE PERIOD	-	-	-	-	411,161	31,478	(8,177)	434,462

Operating data by business area at 31/12/2019

Data in €/t	ITALY					Foreign		Total
	Banking	Asset management	Insurance	Other	TOTAL	Spain	Germany	
Entry fees	-	27,031	-	-	27,031	9,659	901	37,591
Management fees	-	532,572	421,182	-	953,754	64,153	8,817	1,026,724
Investment service fees	-	83,960	57,743	-	141,703	9,750	1,441	152,894
Net insurance income	-	-	31,216	-	31,216	11,755	559	43,530
Banking service fees and revenues	134,612	-	-	-	134,612	5,901	17,066	157,579
Sundry fees and commissions	14,087	16,168	8,117	1,418	39,790	1,373	604	41,767
Total fee and commission income	148,699	659,731	518,258	1,418	1,328,106	102,591	29,388	1,460,085
Network fee and commission expense	(103,847)	(204,266)	(186,733)	227	(494,619)	(41,986)	(3,900)	(540,505)
Other fee and commission expense	(24,385)	(22,273)	(14,257)	-	(60,915)	(9,289)	(13,726)	(83,930)
Total fee and commission expense	(128,232)	(226,539)	(200,989)	227	(555,534)	(51,275)	(17,626)	(624,435)
Net fee and commission income	20,467	433,192	317,269	1,645	772,573	51,316	11,762	835,651
Net interest income	228,286	(3,647)	4,796	-	229,436	10,400	(830)	239,006
Equity method valuation	-	-	-	21,525	21,525	-	-	21,525
Net income (loss) from other investments	(18,754)	211	(17,843)	1,060	(35,326)	1,425	87	(33,814)
of which net value adjustments of loans and receivables	(19,067)	-	-	-	(19,067)	(105)	52	(19,120)
Other income and expenses	1,272	(1,120)	8,727	5,580	14,459	3,013	365	17,837
LEVEL I CONTRIBUTION MARGIN	231,271	428,636	312,950	29,810	1,002,667	66,154	11,384	1,080,205
Allocated costs	(156,078)	(71,888)	(93,772)	(3,958)	(325,696)	(38,169)	(22,479)	(386,344)
Ordinary contributions and guarantee funds	(15,434)	-	-	-	(15,434)	(1,850)	(276)	(17,560)
LEVEL II CONTRIBUTION MARGIN	59,758	356,749	219,178	25,852	661,537	26,135	(11,371)	676,301
Unallocated costs	-	-	-	-	(150,945)	-	-	(150,945)
Depreciation and amortisation/Provisions	-	-	-	-	(91,416)	(1,562)	(1,449)	(94,427)
Depreciation and amortisation	-	-	-	-	(30,863)	(3,960)	(1,449)	(36,272)
Net provisions for liabilities and charges	-	-	-	-	(60,553)	2,398	-	(58,155)
OPERATING MARGIN	59,758	356,749	219,178	25,852	419,175	24,573	(12,820)	430,928
Performance fees	-	224,660	177,671	-	402,331	18,802	3,668	424,801
Net P&L from investments at fair value	(416)	(92)	693	-	185	355	1,116	1,656
MARKET EFFECTS	(416)	224,567	178,365	-	402,516	19,157	4,784	426,457
Capital gains/losses	-	-	-	(66,625)	(66,625)	-	(30,000)	(96,625)
Extraordinary contributions and guarantee funds	(221)	-	-	-	(221)	-	-	(221)
Other extraordinary effects	(4,700)	-	-	-	(18,665)	(2,624)	(263)	(21,552)
EXTRAORDINARY EFFECTS	(4,921)	-	-	(66,625)	(85,511)	(2,624)	(30,263)	(118,398)
SEGMENT MARGIN BEFORE TAX	54,421	581,316	397,542	(40,773)	736,180	41,106	(38,299)	738,987
Taxes for the period	-	-	-	-	(165,439)	(6,871)	(1,245)	(173,555)
NET PROFIT (LOSS) FOR THE PERIOD	-	-	-	-	570,741	34,235	(39,544)	565,432

Reconciliation of the income statement at 31/12/2020 with the reclassified income statement

(1 of 2)

Reclassified item/segment	Consolidated income statement item	Consolidated income statement	Reclassifications	Reclassified income statement
Entry fees			-	50,664
Management fees			(55,327)	1,061,322
Investment service fees and commissions			-	158,863
Net insurance income	160. Net premiums 170. Balance of other income/expenses from insurance operations	1,698,333 (1,861,322)	6,741 214,139	1,705,074 (1,647,183)
Banking service fees and revenues			(170)	136,589
Sundry fees and commissions			(9,824)	42,104
Total fee and commission income	40. Fee and commission income	1,668,417		1,507,433
Network fee and commission expense		(572,520)	(9,229)	(581,749)
Other fee and commission expense		(86,317)	2,164	(84,153)
Total fee and commission expense	50. Fee and commission expense	(658,843)		(665,902)
Net fee and commission income	60. Net fee and commission income	1,009,574		841,531
Interest income and similar income	10. Interest income and similar income	392,296	(73,013)	319,283
Interest expense and similar expenses	20. Interest expense and similar expenses	(73,253)	1,665	(71,588)
Net interest income	30. Net interest income	319,043		247,695
Equity method valuation		-	-	-
				2,603
	70. Dividends and similar income	4,601	-	4,601
	100. a) Financial assets measured at amortised cost	36	-	36
	100. b) Financial assets at fair value through other comprehensive income	1,057	(1,097)	(40)
Net proceeds of disposal of other investments	100. c) Financial liabilities	-	-	-
	230. Other operating income/expenses	(15,601)	13,601	(2,000)
	250. Gains (losses) on equity investments	-	-	-
	280. Gains (losses) on disposal of investments	156	(152)	4
Net value adjustments of loans and receivables	130. a) Financial assets measured at amortised cost	(22,771)	3,053	(19,718)
Net value adjustments of other investments	130. b) Financial assets at fair value through other comprehensive income	(207)	(3,053)	(3,259)
Net income (loss) from other investments				(20,374)
of which: Net value adjustments of loans and receivables	130. a) Financial assets measured at amortised cost	(22,771)	3,053	(19,718)
Other sundry revenues	230. Other operating income/expenses	-	(1,425)	(1,425)
Contribution margin				1,067,427

Reconciliation of the income statement at 31/12/2020 with the reclassified income statement

(2 of 2)

Reclassified item/segment	Consolidated income statement item	Consolidated income statement	Reclassifications	Reclassified income statement
		(562,169)		(557,809)
	190. a) Staff costs	(235,327)	(4,578)	(239,905)
General and administrative expenses	190. b) Other administrative expenses	(326,842)	15,270	(311,572)
	230. Other operating income/expenses	-	(6,332)	(6,332)
Ordinary contributions and guarantee funds	190. b) Other administrative expenses	-	(21,981)	(21,981)
Depreciation and amortisation/Provisions		(105,708)		(98,117)
		(46,115)		(36,749)
Depreciation and amortisation	210. Net value adjustments/write-backs of tangible assets	(17,787)	9,346	(8,441)
	220. Net value adjustments/write-backs of intangible assets	(28,328)	20	(28,308)
		(59,593)		(61,367)
Net provisions for liabilities and charges	200. a) Commitments and guarantees given	(82)	(11)	(93)
	200. b) Other net provisions	(59,511)	(1,763)	(61,274)
Total costs		(667,877)		(677,907)
Operating margin				389,520
Performance fees	40. Fee and commission income	-	153,552	153,552
		66,400		(3,696)
	80. Net gains (losses) from trading	6,346	(273)	6,073
Net P&L from investments at fair value	90. Net gains (losses) from hedging	(2,600)	-	(2,600)
	110. Net result of other financial assets and liabilities at fair value through profit or loss (IFRS 7 par. 20(a)(i))	62,654	(69,823)	(7,169)
Market effects				149,856
		-		-
Capital gains/losses	250. Gains (losses) on equity investments	-	-	-
	280. Gains (losses) on disposal of investments	-	-	-
Extraordinary contributions and guarantee funds	190. b) Other administrative expenses	-	(7,955)	(7,955)
		-		-
Other extraordinary effects	190.bis Other extraordinary effects	-	-	-
	200. Net provisions for liabilities and charges	-	-	-
Extraordinary effects				(7,955)
Profit before tax	290. Profit (loss) on continuing operations before tax	531,422	-	531,422
Taxes for the period	300. Taxes on income from continuing operations	(96,960)	-	(96,960)
Net profit (loss) for the period	330. Net profit (loss) for the year	434,462	-	434,462

Statement of financial position data by business area at 31/12/2020

€/t	ITALY					ABROAD		Total
	Asset management	Banking	Insurance	Other	Total	Spain	Germany	
Goodwill	22,669	7,300	125	-	30,094	102,831	-	132,925
Securities at amortised cost	-	12,708,893	1,054,480	-	13,763,373	1,648,498	-	15,411,871
Securities through OCI	11,377	747,408	987,012	52	1,745,849	196,610	15,296	1,957,755
Securities through CE	5,738	222,446	166,265	-	394,449	10,380	2,016	406,845
Fin. assets where the risk is borne by policyholders	-	-	15,489,851	-	15,489,851	780,594	148,318	16,418,763
- of which intercompany	-	-	341,389	-	341,389	-	-	341,389
Net money market lending	13,323	(512,074)	136,857	-	(361,894)	138,578	174,706	(48,610)
- of which intercompany	97,488	(909,657)	142,338	-	(669,831)	(111,167)	66,671	(714,327)
Lending to customers	212,444	11,816,121	1,433	-	12,029,998	792,301	2,704	12,825,003
- of which intercompany	1,564	1,057,173	1,433	-	1,060,170	67	270	1,060,507
Banking inflows	6,987	23,054,258	-	-	23,061,245	2,501,327	206,157	25,768,729
- of which intercompany	16,953	676,849	-	-	693,802	17,493	2,681	713,976
Net technical reserves	-	-	17,576,970	-	17,576,970	808,657	151,458	18,537,085

Part M - Lease reporting

QUALITATIVE INFORMATION

The adoption of IFRS 16 by the Mediolanum Group mainly relates to property leases. To estimate the lease term, the first renewal period provided for in the agreements was regarded as reasonably certain, unless any contractual clauses or specific circumstances resulted in the inclusion of additional renewals or vice versa in the term of the contract. These contracts generally do not include options to purchase the property at the end of the lease. The Mediolanum Group took advantage of the exemption allowed under IFRS 16:5 (a) in relation to short-term leases, understood as leases with a residual term of 12 months or less. Similarly, the Group applied the exemption allowed under IFRS 16:5 (b) concerning leases in respect of which the underlying asset is of low value, i.e. leases in which the value of the single underlying asset does not exceed €5,000, when new. For such leases, the introduction of IFRS 16 does not entail the recognition of lease liabilities and the related right of use asset, but the lease payments are recognised in the income statement. Finally, please note that the events referred to in IFRS 16, paragraph 59, letters b), c) and d) and paragraph 55 are not considered relevant for the Mediolanum Group.

QUANTITATIVE INFORMATION

For quantitative information on the rights of use acquired under the lease, please see Part B, Assets, Section 9 - Tangible assets. Information on lease liabilities is contained in Part B, Liabilities, Section I - Financial liabilities measured at amortised cost. Information on interest expense on lease liabilities and other charges related to the rights of use acquired with lease is set out in Part C, Income statement.

It should be noted that no gains and losses arising from sales and leaseback transactions, or income from sub-leasing transactions, have been recognised.

The amortisation recognised in the year for rights of use acquired through leasing, broken down by underlying asset class, is shown below:

€/t	Amortisation 2020
ASSETS	
Rights of use acquired through leasing	
I. Tangible assets	(8,068)
I.1 land	
I.2 buildings	(7,910)
I.3 furniture	
I.4 electronic equipment	
I.5 other	(158)

SECTION 2 - Lessor

QUALITATIVE INFORMATION

The Mediolanum Group has outstanding leasing transactions in place as the lessor represented exclusively by lease agreements classified in the financial statements as operating leases. With regard to the ways in which the lessor manages the risk associated with the rights it holds over the underlying assets, it should be noted that the agreements include clauses prohibiting the lessee from assigning the agreement to third parties without the lessor's written consent, periodic rent updates according to the ascertained change in the ISTAT index of consumer prices for blue and white collar worker households, and a contractual expiry at the end of which, in the event of non-renewal where provided for, the lease agreement ceases and the premises are available to the lessor.

QUANTITATIVE INFORMATION

Payments due on operating leases were recognised in the consolidated income statement as income on an accrual basis.

1. Statement of financial position and income statement information

The Mediolanum Group has not recognised lease loans. With regard to the assets granted under operating leases, as described above, the Group has outstanding leasing transactions in place as the lessor represented by leases on some of the properties it owns.

Payments due on operating leases were recognised in the consolidated income statement as income on an accrual basis.

2. Finance leases

2.1 Classification of payments to be received by time bands and reconciliation with recognised lease loans

No data to report.

2.2 Other information

No data to report.

3. Operating leases

3.1 Classification of payments to be received by time bands

The lease payments due and to be received that are not discounted, divided by maturity, are shown below. It should be noted that the payments relate to the contractual rents provided for in the lease agreements for certain properties owned by the Mediolanum Group, which allow the lessees to withdraw prematurely in accordance with the notice provided for in the lease.

€/t	Lease payments to be received 2020
TIME BANDS	
Up to 1 year	1,155
Over 1 year to 2 years	1,155
Over 2 years to 3 years	807
Over 3 years to 4 years	116
Over 4 years to 5 years	79
Over 5 years	79
TOTAL	3,391

3.2 Other information

As previously mentioned, the Mediolanum Group has outstanding leasing transactions in place as the lessor represented by lease agreements on properties. For information on how the Group manages the risk associated with the rights it holds over the underlying assets, please see the paragraph headed "Qualitative information" in this section.

Declaration of the Financial Reporting Officer



Certification of the consolidated financial statements pursuant to Article 154-*bis*, paragraph 5 of Legislative Decree No. 58 of 24 February 1998 and Article 81-*ter* of Consob Regulation No. 11971 of 14 May 1999, as amended.

1. The undersigned, Massimo Antonio Doris, as the Chief Executive Officer, and Angelo Lietti, as the Financial Reporting Officer of Banca Mediolanum S.p.A., hereby certify, also taking account of Article 154-*bis*, paragraphs 3 and 4, of Legislative Decree No. 58 of 24 February 1998:
 - > the appropriateness in relation to the characteristics of the company and
 - > the effective application of the administrative and accounting procedures for the preparation of the consolidated financial statements during the 2020 financial year.
2. The assessment of the adequacy and effective application of the administrative and accounting procedures for the preparation of the consolidated financial statements as at 31 December 2020 was based on a process defined by Banca Mediolanum S.p.A. consistent with the Internal Control - Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission, which is a generally accepted international framework.
3. It is further certified that:
 - 3.1 The consolidated financial statements:
 - > have been prepared in accordance with the international accounting standards recognised in the European Community in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 and Article 9 of Legislative Decree No. 38/2005;
 - > correspond to the figures in the accounting books and records;
 - > are suitable to provide a true and correct representation of the financial position and profit performance of the issuer and of all of the companies within the scope of consolidation.
 - 3.2 The Report on Operations includes a reliable analysis of the performance and operating results, as well as the situation, of the issuer and of the companies within the scope of consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Basiglio, 03 March 2021

The Financial Reporting Officer
(Angelo Lietti)

The Chief Executive Officer
(Massimo Antonio Doris)

Annex 1 – Mediolanum Group Reporting required under prudential regulations



A. Country by country reporting

€/thousands Company	Geographical location of incorporation	Nature of business	Turnover	Number of employees on a full time equivalent basis (units)	Profit before tax	Taxes
Banca Mediolanum S.p.A.	Italy	Banking	335,233	2,205	413,604	20,376
Mediolanum Assicurazioni S.p.A.	Italy	Insurance	65,383	39	21,041	(6,650)
Mediolanum Vita S.p.A.	Italy	Insurance	1,178,665	131	93,689	(28,832)
Mediolanum Gestione Fondi SGR p.A.	Italy	Financial	66,881	35	55,809	(16,453)
Mediolanum Fiduciaria S.p.A.	Italy	Financial	409	7	(916)	217
Mediolanum Comunicazione S.p.A.	Italy	Non-financial	5,076	16	471	(156)
PI Servizi S.p.A.	Italy	Non-financial	356	-	(695)	173
EuroCQS S.p.A.	Italy	Financial	21,194	74	4,424	(1,473)
FloWe S.p.A. - S.B.	Italy	Financial	73	30	(42,117)	10,078
Banco Mediolanum SA	Spain	Banking	64,448	267	17,721	(114)
Mediolanum Gestion S.G.I.I.C SA	Spain	Financial	3,108	9	1,736	(434)
Mediolanum Pensiones S.G.F.P. IAC	Spain	Financial	1,282	2	682	(171)
Fibanc SA	Spain	Financial	-	-	87	-
Mediolanum International Funds Ltd	Ireland	Financial	592,431	112	562,403	(70,409)
Mediolanum International Life DAC	Ireland	Insurance	457,037	19	25,073	(3,571)
Bankhaus August Lenz & Co. AG	Germany	Banking	19	80	(23,445)	-
Consolidation adjustments					(598,146)	459
Total			2,791,595	3,026	531,422	(96,960)

Public contributions

The Mediolanum Group did not receive any contributions from general governments in 2020. It should be noted that these contributions, in accordance with the provisions for compiling the report in question, do not include transactions undertaken with central banks for financial stability purposes or transactions with the aim of facilitating the monetary policy transmission mechanism.

A. Publication of return on assets

€/t		
Net profit	434,462	0.74%
Total assets	59,029,046	

Independent Auditor's Consolidated Report





Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of Banca Mediolanum SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Mediolanum Group (the “Group”), which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended and the related notes including also a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2020 and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of Banca Mediolanum SpA (the “Company”) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; accordingly, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

Sede legale: **Milano** 20145 Piazza Tre Torri 2 Tel. 02 77851 Fax 02 7785240 Capitale Sociale Euro 6.890.000,00 i.v. C.F. e P.IVA e Reg. Imprese Milano Monza Brianza Lodi 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 071 2132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 080 5640211 - **Bergamo** 24121 Largo Belotti 5 Tel. 035 229691 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 051 6186211 - **Brescia** 25121 Viale Duca d'Aosta 28 Tel. 030 3697501 - **Catania** 95129 Corso Italia 302 Tel. 095 7532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 055 2482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 010 29041 - **Napoli** 80121 Via dei Mille 16 Tel. 081 36181 - **Padova** 35138 Via Vicenza 4 Tel. 049 873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091 349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521 275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 085 4545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06 570251 - **Torino** 10122 Corso Palestro 10 Tel. 011 556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461 237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422 696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 040 3480781 - **Udine** 33100 Via Poscolle 43 Tel. 0432 25789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332 285039 - **Verona** 37135 Via Francia 21/C Tel. 045 8263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444 393311

Key Audit Matters

Auditing procedures performed in response to key audit matters

Valuation of Goodwill

*Notes to the consolidated financial statements:
Part A - Accounting policies, paragraph "7 - Intangible assets"*

Part B - Information on the consolidated statement of financial position, in the asset section "10 - Intangible assets - Item 100", paragraph "10.3 Other information".

The goodwill recognized in the consolidated financial statements within the Intangible assets caption amounted to €140 million as at 31 December 2020. The goodwill, recorded in relation to business combinations carried out in previous years, was tested for impairment, in accordance with the International Financial Reporting Standard IAS 36 "Impairment of Assets".

The recoverable value of goodwill is determined based on its value in use.

The estimate of the recoverable value of the goodwill tested for impairment required a significant professional judgement of the management, which was supported by an independent expert, with regard to:

- the definition of the hypothesis and assumptions underlying the estimate of the prospective cash flows of the identified cash-generating units ("CGU") to which the goodwill has been allocated;
- the setting of the main valuation parameters and the components of the discount rate to be used to discount the projected cash flows at the date of the financial statements.

Considering the complexity of the impairment testing process, characterized by a high component of professional judgement and the use of complex estimation processes, and considering the uncertainty of the market due to the pandemic, we considered this process to be a key audit matter.

In carrying out our audit procedures, we also were supported by the experts of PwC network for company valuations, as the complexity of the valuation process requires a depth knowledge of the reference markets and specialist skills.

After understanding the relevant processes and controls relating to the goodwill valuation, as well as the valuations and criteria used by management to identify the CGUs, we carried out the following audit procedures:

- acquisition and analysis of the independent expert report used by management, also having discussion with him in relation to the selected valuation methods, the models adopted, and the main valuation parameters used;
- analysis of the criteria used and the assessments made by management for the identification of the CGUs, to verify the consistency with the management reports and the Group's organizational and operational structure;
- check, on a sample basis, of the accuracy and reasonableness of the provisional data used to determine the future cash flows of the CGUs identified, also considering the current economic context, as well as the approval of the same by the competent management near the end of the financial year;
- assessment of the reasonableness of the main hypotheses and assumptions underlying the determination of the recoverable value of goodwill subject to impairment testing, including sensitivity analyses carried out independently on the main parameters used in the estimation process;

Key Audit Matters

Auditing procedures performed in response to key audit matters

- check of the mathematical accuracy of the model used to determine the value;
- check of the correct determination of the carrying amounts of the assets and liabilities attributable to the individual CGUs, including the goodwill allocated, used for comparisons with the respective values in use.

Finally, we verified the completeness and adequacy of the information provided in the notes in relation to goodwill and, in particular, to the impairment testing carried out.

Estimation of provisions for liabilities and charges related to indemnity payable to financial advisors

*Notes to the consolidated financial statements:
Part A - Accounting policies, in paragraph "10 - Provisions for liabilities and charges"*

Part B - Information on the consolidated statement of financial position, in Section 10 of liabilities "Provisions for liabilities and charges - Item 100"

Part C - Information on the consolidated income statement, section 13 "Net provisions for liabilities and charges - item 200"

The financial statements as at 31 December 2020 include provisions for liabilities and charges of €326 million, of which €258 million relates to contractual and bonus allowances paid to the financial advisors of the Group.

The valuation of provisions for liabilities and charges allocated for contractual and bonus allowances paid is based on contractual clauses and internal regulations, actuarial criteria and other historical and statistical parameters relating to the network's operations.

We understood and assessed the configuration of the controls relevant to the identification, monitoring and determination of provisions for liabilities and charges at 31 December 2020, as well as validated the related controls deemed relevant.

We discussed with the management and functions involved the nature of the provisions recorded in the financial statements and the methodological appropriateness of the assessments performed by them to determine the provisions for liabilities and charges, also with the support of the experts of the PwC network in relation to actuarial assessments.

Specifically, on a sample basis, we:

- obtained the calculation models used by management and verified their mathematical accuracy;

Key Audit Matters

Considering the complexity of these aspects, characterized by high component of professional judgement, and the relevance of these financial statement items, we considered the valuation of provisions for liabilities and charges related to allowances paid to financial advisors as key audit matter.

Auditing procedures performed in response to key audit matters

- verified the accuracy of input data and the reasonableness of the actuarial assumptions, hypothesis and methods used by management;
- analyzed the results of the audit activities carried out by the internal functions somehow involved in the process of determining the provisions for liabilities and charges;
- analyzed the deviations between the accounting estimate of provisions for liabilities and charges in previous years and the actual values after the subsequent settlement of these charges, to understand the accuracy of the valuation process adopted.

Finally, we verified the completeness and adequacy of the information provided in the financial statements, in accordance with the relevant financial reporting standards.

Other Matters

The consolidated financial statements of Mediolanum Group for the year ended 31 December 2019 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 16 March 2020.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.



The directors are responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate Banca Mediolanum SpA or to cease operations or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- We concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No. 537/2014

On 9 April 2019, the shareholders of Banca Mediolanum SpA in general meeting engaged us to perform the statutory audit of the Company's and the consolidated financial statements for the years ending 31 December 2020 to 31 December 2028.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the board of statutory auditors, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

The directors of Banca Mediolanum SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of Mediolanum Group as of 31 December 2020, including their consistency with the relevant consolidated financial statements and their compliance with the law.



We performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of Mediolanum Group as of 31 December 2020 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of Mediolanum Group as of 31 December 2020 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Statement in accordance with article 4 of Consob's Regulation implementing Legislative Decree No. 254 of 30 December 2016

The directors of Banca Mediolanum SpA are responsible for the preparation of the non-financial statement pursuant to Legislative Decree No. 254 of 30 December 2016. We verified that the directors approved the non-financial statement.

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves.

Milan, 23 March 2021

PricewaterhouseCoopers SpA

Signed by

Giovanni Ferraioli
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers.

BANCA MEDIOLANUM

2020 FINANCIAL STATEMENTS



2020 individual highlights

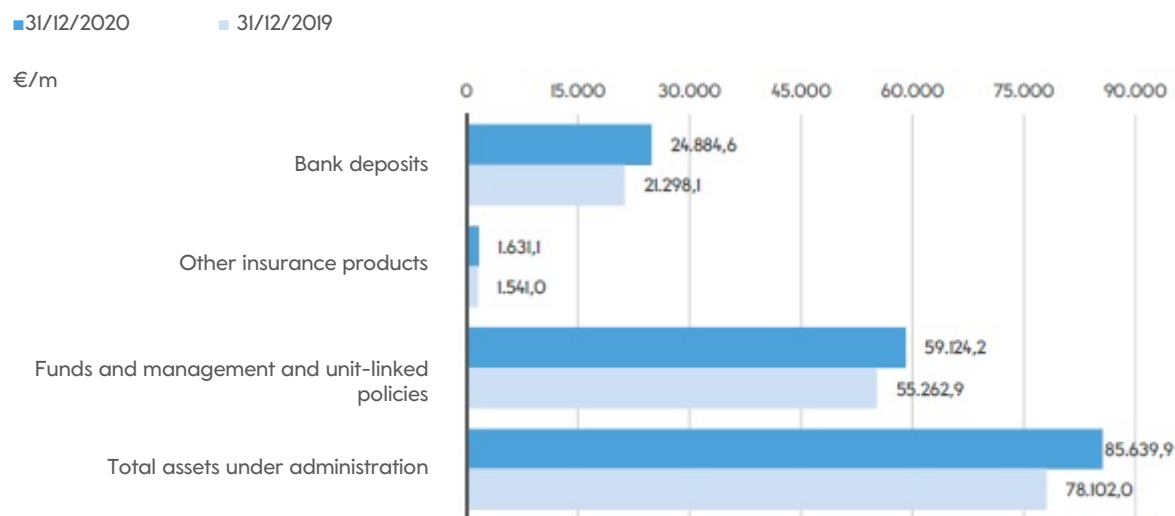


DATA ON INFLOWS AND ASSETS

Net inflows

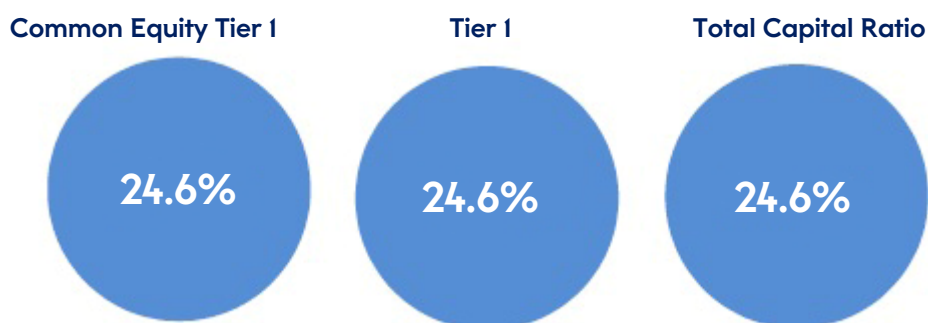


Assets under administration and management



REGULATORY CAPITAL RATIOS

Individual capital ratios at 31 December 2020



Evolution of the Common Equity Tier 1 Ratio

VALUES EXPRESSED AS A %



Risk indicators

	31/12/2020	31/12/2019
Loans to customers (€/t)	24,492,669	21,562,649
Loans to customers - Net impaired assets/Loans to customers (values in %)*	0.49%	0.62%
Value adjustments on gross impaired assets/ Loans to customers gross impaired assets (figures in %)*	55.40%	51.91%
Net bad loans/Loans to customers (% values)*	0.19%	0.21%

(*) Loans to customers do not include the debt securities item.

Operational structure

Units	31/12/2020	31/12/2019
Number of operating employees	2,243	2,135
Number of financial advisors	4,090	4,126

Operating performance

Banca Mediolanum closed 2020 with net profit of €434.0 million (€597.2 million at 31 December 2019).

€/t	31/12/2020	31/12/2019
10. Interest income and similar income	272,327	270,475
20. Interest expense and similar expenses	(64,979)	(54,229)
30. Net interest income	207,348	216,246
80. Net gains (losses) from trading	6,300	6,196
90. Net gains (losses) from hedging	(2,600)	(3,413)
100. Gains (losses) from disposal or repurchase of:	(79)	(118)
a) financial assets measured at amortised cost	1	2
b) financial assets at fair value through other comprehensive income	(80)	4
c) financial liabilities	-	(123)
110. Net gain/(loss) from other financial assets and liabilities at fair value through profit or loss	(6,920)	(3,014)
b) other financial assets mandatorily measured at fair value	(6,920)	(3,014)
Net financial income	204,049	215,896
40. Fee and commission income	660,179	650,866
50. Fee and commission expense	(532,208)	(513,603)
60. Net fee and commission income	127,971	137,263
70. Dividends and similar income	3,214	14,691
120. Operating income	335,233	367,850
130. Credit-risk induced net value adjustments/write-backs of:	(18,362)	(16,389)
a) financial assets measured at amortised cost	(18,665)	(17,815)
b) financial assets at fair value through other comprehensive income	303	1,426
140. Gains/losses from contractual changes without cancellations	-	-
150. Net profit (loss) from financial operations	316,871	351,461
160. Administrative expenses:	(409,057)	(413,641)
a) staff costs	(167,192)	(162,400)
b) other administrative expenses	(241,865)	(251,241)
170. Net provisions for liabilities and charges	(52,401)	(53,043)
a) commitments and guarantees given	(93)	(181)
b) other net provisions	(52,307)	(52,862)
180. Net value adjustments/write-backs of tangible assets	(10,983)	(10,735)
190. Net value adjustments/write-backs of intangible assets	(17,634)	(18,878)
200. Other operating income/expenses	12,342	12,952
210. Operating costs	(477,732)	(483,345)
220. Gains (losses) on equity investments	574,313	733,834
250. Gains (losses) on disposal of investments	152	-
260. Profit (loss) on continuing operations before tax	413,604	601,950
270. Taxes on income from continuing operations	20,376	(4,720)
280. Profit (loss) on continuing operations after tax	433,980	597,231
300. Net profit (loss) for the year	433,980	597,231

€/t	31/12/2020	31/12/2019	%	% chge
Net profit (loss) for the year	433,980	597,231	(163,250)	(27%)
of which:				
Net financial income	204,049	215,896	(11,848)	(5%)

Net financial income decreased compared with the previous period (-€11.8 million).

This performance was mainly due to the decrease in net interest income (-€8.9 million compared with the comparative period). Interest expense increased sharply, mainly as a result of interest accrued on customer time deposits (+€25.3 million) due to the new initiatives offered to customers in the first half of 2020. This change was partially offset by the decrease in interest expense on repurchase agreements and ordinary current accounts (-€5.4 million and -€2.9 million, respectively).

The net result of other financial assets and liabilities at fair value through profit or loss decreased by €3.9 million compared with the comparative period due to greater net losses on units of UCIs.

Net fee and commission income	127,971	137,263	(9,293)	(7%)

Net fee and commission income decreased by €9.3 million on the comparative period. This performance was mainly due to the decrease in fee and commission income received for the distribution of certificates issued by third-party credit institutions (-€19.6 million).

Administrative expenses	(409,057)	(413,641)	4,584	(1%)
Staff costs	(167,192)	(162,400)	(4,792)	3%
Other administrative expenses	(241,865)	(251,241)	9,376	(4%)

Administrative expenses stood at €409.1 million, decreasing by €4.6 million on the previous year (31.12.2019: -€413.6 million).

Specifically, staff costs came to €167.2 thousand, an increase of €4.8 million on the comparative year (31.12.2019: €162.4 million).

Other administrative expenses decreased by €9.4 million from €251.2 million at 31 December 2019 to €241.9 million in 2020. This change is mainly due to a decrease of €15.8 million in the costs incurred for the organisation of events/conventions, advertising and sales network training, due to the Covid-19 pandemic. It should be noted that this item includes costs for contributions to the Interbank Fund and the Single Resolution Fund (+€10 million compared with the comparative period).

Net credit risk-induced adjustments/write-backs	(18,362)	(16,389)	(1,973)	12%

Value adjustments totalled €18.4 million, an increase of €2 million on the comparative period.

Net provisions for liabilities and charges	(52,401)	(53,043)	642	(1%)

Net provisions for liabilities and charges remained essentially stable compared with the comparative period (-1%).

Gains (losses) on equity investments	574,313	733,834	(159,521)	(22%)

Gains (losses) on equity investments incorporate the valuation of total equity investments using the equity method. The profit performance of the subsidiaries measured according to the equity method decreased overall compared with 31 December 2019. This performance was essentially due to the lower results achieved by the subsidiaries Mediolanum International Funds (-€146.2 million compared with 31 December 2019) and Mediolanum Gestione Fondi (-€58 million compared with 31 December 2019). It should be recalled that the previous period included the write-down of the German equity investment of €30 million and on the impairment of Mediobanca of €24 million.

Report on Operations



Report on Operations to the financial statements at 31 December 2020

Banca Mediolanum closed 2020 with net profit of €434.0 million (€597.2 million at 31 December 2019).

The main difference is attributable to the Gains (losses) on equity investments item, which incorporates the valuation of total equity investments using the equity method. The profit performance of subsidiaries measured according to the equity method increased overall compared with 31 December 2019. This performance was essentially due to the lower results achieved by the subsidiaries Mediolanum International Funds (-€146.2 million compared with 31 December 2019) and Mediolanum Gestione Fondi (-€58 million compared with 31 December 2019). It should be recalled that the previous period included the write-down of the German equity investment of €30 million and on the impairment of Mediobanca of €24 million.

It should be recalled that, as of 2019, Banca Mediolanum has changed the accounting criterion used to value equity investments in its separate financial statements.

At its meeting of 26 June 2019, the Board of Directors of Banca Mediolanum resolved to adopt, with effect from 1 January 2019, the equity method, pursuant to IAS 27, paragraph 10, as an alternative to the cost criterion, in order to account for all investments in subsidiaries in the Bank's separate financial statements.

The change in the criterion was intended to represent the economic and financial situation of the Bank (Parent Company) in a way that better reflects the actual contribution of its subsidiaries, making it consistent with what is shown in the Mediolanum Group's consolidated financial statements. Pursuant to IAS 8.14 and 8.19 b), the Change of Criterion constituted a voluntary change in accounting policies. Its effects were first represented in Banca Mediolanum's Half-Yearly Report at 30 June 2019.

THE MACROECONOMIC SCENARIO

2020 was a particularly complex year, very greatly affected in all its aspects by the severe pandemic crisis that disrupted the most established social fabrics, dealt a blow to global economies and drove governments to limit major economic activities and human interaction in order to stem the spread of the virus. In this context, the monetary and fiscal policies implemented in order to mitigate the negative impact of the pandemic and the measures through which the health crisis has been addressed in different countries have been crucial.

In the US, the Federal Reserve continued with renewed intensity on the path of cutting rates that began in the second half of 2019, taking the federal funds to a range of 0–0.25%, repeatedly stressing the executive's willingness and commitment to act expansively in the event of slower growth than expected by using the various options available to the Committee to increase securities purchases or by taking action on their duration.

At the political level, 2020 will also be remembered for the change of presidency from Donald Trump to Joe Biden, the forty-sixth president of the United States, who has the delicate task of raising the country back up when it is facing its worst economic crisis since the war and is still in the midst of a pandemic. Biden's election was a major positive turning point for markets: probably less aggressive, if equally severe, rhetoric toward China and a Congress still divided between Democrats and Republicans, leaving the possibility of less radical changes to the current tax and regulatory regime, provided the best possible scenario, allowing market volatility to fall in the last few months of the year and share prices to recover strongly. The compromise reached between Democrats and Republicans, which will mean \$900 billion of new aid being provided to US citizens and an economy in crisis, divided between economic relief to families and the unemployed, small businesses and various economic sectors hit hard by the crisis, has come in addition to a series of other government measures that represent the second largest public intervention in US history and amount to more than 4% of GDP.

On the European side, the resurgence of the health emergency in the last quarter of the year prompted the European Central Bank to explicitly and unequivocally ensure its presence and support for the economy through the recalibration of its tools to counter the pandemic shock. In addition to the package of measures currently put forward, the ECB President, Christine Lagarde, left all options open, strengthening her accommodative message by saying that all tools would be discussed again and reassessed, including the introduction of negative interest rates and consequently an adjustment of the forward guidance.

With regard to the implementation of supportive monetary policies, the 27 EU Member States reached an agreement to ensure a green light for the new EU budget, associated with the Recovery Fund (Next Generation EU, which will involve the issuance of shared debt of €750 billion). Italy is one of the EU countries that will benefit most from Next Generation EU, receiving around 28% of the total fund established, including €127 billion in loans and other instruments and €81 billion in grants.

Despite a sharp deterioration in Italy's economic situation due to the health crisis, the rating agency S&P confirmed the country's BBB rating and raised the outlook from negative to stable. The agency's decision was motivated by the anti-crisis measures implemented by the government, which through its actions has "contained the damage caused by the budgetary results and created the bases for the economic recovery". A week after S&P's upgrade, DBRS also confirmed Italy's rating, deciding to maintain it at BBB (high) with negative outlook. The agency's decision reflects a balance between the positive factors of the ECB's supporting role and limited private debt and negative factors such as the size of public debt, which will be difficult to manage unless currently weak Italian growth picks up speed. DBRS estimates that the trend could return to "stable" if there is evidence of an effective policy response through government investment and reform, and if the Italian economy performs better than expected. Conversely, the rating could be downgraded if one or more of the following factors occur: a worsening economic outlook, failure to implement economic policies to support a lower debt/GDP ratio and a significant and unexpected increase in the cost of financing public debt. According to ISTAT estimates, the economy rebounded by 16% in the summer, before an 8.8% contraction in GDP due to the government's new measures to contain the health emergency, which had adverse effects on all productive sectors. Although the drop in gross domestic product is unprecedented, in an informal note, the Ministry of Economy described the figures as lower than most observers had expected, due to the damage-limiting effect of the monetary policy measures implemented and the selective shutting down of businesses. According to the MEF, the outlook remains positive, however: in January, business surveys indicated positive output and manufacturing expectations, emphasising that the Italian economy has coped relatively well compared with other European countries.

As regards the political situation, the latest attempts to avert the start of a government crisis in the midst of the pandemic have been unsuccessful: the leader of Italy Viva, Matteo Renzi, by pulling his party out of government, has in fact sanctioned the end of Conte's mandate. Renzi gave various reasons for the withdrawal: from the "questionable use of the delegation to services", to the

“questionable use of live TV”, to disputes over closed sites, industrial policies and management of the health emergency. The political uncertainty has disappeared with the swearing-in of new prime minister Mario Draghi and the formation of a high-profile government with no specific political formula, as was hoped for at the time of the appointment of Sergio Mattarella as Italy’s President. Mario Draghi’s credibility at the European level and the high standing of the former president of the European Central Bank had a particularly positive impact on both domestic stock indices and Italian government bonds, whose spread versus German 10-year bonds once again dropped below the 100 basis points threshold. The political agenda of the new Prime Minister contains four key points:

- > combating the pandemic by accelerating the roll-out of the vaccination plan on the basis of the UK model;
- > closer integration between the countries of the European Union;
- > a review of the Recovery Plan to ensure the relaunch of the country;
- > New Decree Law to support companies hit by Covid by adding €32 billion to the budget.

With regard to the UK, after 10 long and drawn-out months of negotiations, Great Britain and the European Union have finally reached an agreement on the future partnership agreement, deciding on an intricate scenario in relation to three key points: the UK’s access to the single market, the dispute resolution mechanism and the regulation of North Sea fishing. The last aspect, in particular, was a complicating factor in the search for a compromise, which is now a precarious balance between London’s demand for tariff-free and quota-free access to the single market and Europe’s need to continue fishing in British waters; once this point had been resolved, the divorce proceedings that began on 23 June 2016 with the “Yes” referendum vote of the British people, after two general elections and three prime ministers (David Cameron, Theresa May and Boris Johnson) came to an end just days before the deadline, avoiding the leap in the dark that a “no deal” scenario would have entailed.

Despite the challenges that will continue in the next few months, the OECD's six-month outlook, published in early December, includes a higher dose of optimism than before, thanks to the support provided by advances in vaccines and treatments against Covid-19, which have improved expectations and reduced uncertainty. The document nevertheless provides for six to nine months of difficult coexistence with the virus, in which the complex situation of new waves of infection, involving the suspension of many economic activities, will have to be addressed. The outlook also emphasises the fundamental support provided by governments and central banks, which, thanks to numerous support measures, have helped to preserve the economic fabric and laid solid foundations for a rapid future recovery: the estimates for 2020, although better than in previous surveys, include a drop in global GDP of 4.2% (compared with -4.5% in September), followed by a rebound of 4.2% in 2021. But the economic recovery will not occur at a consistent pace throughout the world; regions such as Asia, where vaccinations will arrive earlier than in the rest of the world and where the test and trace system is particularly efficient, will reach pre-pandemic expansionary levels more rapidly.

In the emerging markets, debt levels have risen as a result of the pandemic crisis to support the health system and the economic fabric, but are nevertheless still sustainable. The central banks' monetary policy of reducing benchmark rates – implemented in 2020 to support economies heavily impacted by disruption to businesses and restrictions on socialising – pushed interest rates to historically very low levels. In addition, the progressive weakening of the US dollar in 2020 has supported the economic recovery in the emerging countries, given that emerging market debt is expressed predominantly in USD. The recovery over the year was particularly rapid in China thanks to its very efficient management of the pandemic and an earlier exit from the peak of the health crisis than the rest of the world. According to International Monetary Fund forecasts, China is also the only country with GDP in positive territory in 2020 (+1.9%), rebounding to +8.2% in 2021.

Economies such as Russia, Brazil, and Mexico, which are closely linked to trends in oil prices (as some of the world's biggest oil exporters), have suffered due to the collapse in commodity prices in 2020, hurt by weak demand as governments lifted lockdown measures and the suspension of economic activities to limit the spread of the virus.

THE FINANCIAL MARKETS

Bond markets	Change (bps)		Yield		
	YTD	Q4	31/12/2020	30/09/2020	31/12/2019
GOVERNMENT YIELDS					
United States					
2 years	(144.42)	(0.59)	0.12%	0.13%	1.57%
5 years	(130.28)	9.03	0.37%	0.28%	1.67%
10 years	(95.57)	23.91	0.92%	0.68%	1.88%
30 years	(67.41)	20.04	1.66%	1.46%	2.33%
Germany					
2 years	(9.80)	0.20	(0.70%)	(0.70%)	(0.60%)
5 years	(26.40)	(2.70)	(0.74%)	(0.71%)	(0.47%)
10 years	(38.40)	(4.70)	(0.57%)	(0.52%)	(0.19%)
30 years	(50.70)	(6.40)	(0.16%)	(0.09%)	0.35%
Italy					
2 years	(36.20)	(18.60)	(0.41%)	(0.22%)	(0.05%)
5 years	(68.90)	(27.10)	(0.01%)	0.26%	0.68%
10 years	(86.90)	(32.30)	0.54%	0.87%	1.41%
30 years	(104.70)	(33.60)	1.42%	1.75%	2.47%

Bond markets	Change (bps)		Yield		
	YTD	Q4	31/12/2020	30/09/2020	31/12/2019
SPREADS					
Italy - Germany					
2 years	(26.40)	(18.80)	0.29%	0.48%	0.55%
10 years	(48.49)	(27.66)	1.11%	1.39%	1.60%
Spain - Germany					
2 years	(13.64)	(11.57)	0.08%	0.19%	0.21%
10 years	(3.75)	(15.43)	0.62%	0.77%	0.65%

	Change (bps)		Yield		
	YTD	Q4	31/12/2020	30/09/2020	31/12/2019
Bond markets					
HY and EM					
High yield bonds					
BBG Barclays US Corporate High Yield Yield To Worst	(95.0)	(159.0)	4.18%	5.77%	5.13%
Emerging bonds					
J.P. Morgan EMBI Global Sovereign Yields	(45.50)	(50.30)	4.34%	4.84%	4.79%

The performance of the main bond markets was strongly influenced by the monetary policies implemented by central banks. The ECB (European Central Bank) has continued on its path of support for the economic cycle, with a highly accommodative policy ready to cope with the negative effects of Covid-19 on the economy by means of large purchases on the secondary market and the creation and implementation of the PEPP (Pandemic Emergency Purchase Programme).

In the US, however, the Federal Reserve undertook a significant interest rate cut of 150 basis points, with an unprecedented cut to the federal funds rate to 0.25%.

The largely accommodative stance of both institutions had obvious effects on their respective government securities: in the US, the yield on the 2-year curve decreased by 144 basis points, from a year-to-date return of 1.57% to 0.12% at the end of 2020; the medium/long end also saw a reduction in yields, albeit smaller than the short-end movement.

Yields also fell across the board in Europe, but by contrast with the US, the greatest impact was on the longest part of the curve, causing it to flatten. With regard to yield spreads within the eurozone, Spain and Italy saw their spreads relative to Germany contracting on both the short and the long end. Specifically, Italy was the largest beneficiary country of the Recovery Fund programme launched by the European Union, prompting renewed interest from foreign investors in this market.

Equity markets	% change		Level		
	YTD	Q4	31/12/2020	30/09/2020	31/12/2019
World indices					
MSCI All Country World	14.34%	14.18%	645.29	565.15	564.38
MSCI World	14.14%	13.47%	2,686.06	2,367.27	2,353.25
US indices					
Dow Jones I.A.	6.84%	9.46%	30,409.56	27,781.70	28,462.14
S&P 500	15.86%	10.97%	3,732.04	3,363.00	3,221.29
Nasdaq Comp.	43.86%	15.25%	12,870.00	11,167.51	8,945.99
European indices					
STOXX Europe 600	(3.83%)	10.84%	400.25	361.09	416.17
EURO STOXX	(1.23%)	12.95%	399.59	353.77	404.55
FTSE MIB	(5.42%)	16.92%	22,232.90	19,015.27	23,506.37
DAX	3.55%	7.51%	13,718.78	12,760.73	13,249.01
CAC40	(6.40%)	16.57%	5,599.41	4,803.44	5,982.22
AEX	3.67%	14.67%	628.06	547.70	605.83
IBEX 35	(15.17%)	21.41%	8,154.40	6,716.60	9,612.60
SMI	0.82%	5.07%	10,703.51	10,187.00	10,616.94
FTSE 100	(13.59%)	11.76%	6,555.82	5,866.10	7,587.05
Asian indices					
NIKKEI 225	16.01%	18.37%	27,444.17	23,185.12	23,656.62
S&P/ASX 200	(1.80%)	14.90%	6,682.43	5,815.94	6,804.86
Hang Seng	(4.14%)	15.72%	27,147.11	23,459.05	28,319.39
Emerging market indices					
MSCI Emerging Markets	15.25%	19.13%	1,289.03	1,082.00	1,118.42

The performance of the global financial markets was positive in 2020. The US, Japanese and EM markets were positive, while the European indices were hit harder than the rest by the Covid-19 pandemic.

The equity indices were characterised by high levels of uncertainty and volatility last year. 2020 began with some concern in the equity markets, relating in particular to macroeconomic data pointing to a slowdown in the major regions, the ongoing trade tensions between China and the US and the ongoing Brexit discussions. In China, the epidemic was also already in the news. Although the US quarterly results had been better than expected, the equity markets were already in negative territory at the end of February. The pandemic announced by the WHO in March and subsequent lockdowns by almost all national governments resulted in a shutdown of global economic activity and a sudden and precipitous drop in the global markets. Later, in the middle of the year, the fiscal and monetary responses of governments and central banks, the reduction of infections and the partial reopening of activities helped markets to bounce back. The US Central Bank cut rates and launched unlimited quantitative easing while the ECB introduced a massive asset purchase programme.

National governments also launched substantial tax packages to support businesses and individuals. However, in October, the second wave of the virus saw substantial declines across all major markets. The successful testing of Covid-19 vaccines marked a turning point in early November, particularly for the equity markets, which achieved a very positive performance in the last two months of the year. In this last part of the year the emerging markets performed very strongly on the back of strong macro data, particularly in China, and the weakening US dollar.

Currency	% change		Level		
	YTD	Q4	31/12/2020	30/09/2020	31/12/2019
EUR USD	9.81%	4.92%	1.23	1.17	1.12
EUR GBP	5.69%	(0.50%)	0.90	0.91	0.85
EUR JPY	4.06%	2.64%	126.91	123.65	121.96

Overall currency trends were heavily impacted in 2020 by the common external shock to the financial markets of the global outbreak of the ongoing Covid-19 (coronavirus) pandemic. The response of the main global central banks and those of emerging countries was to implement, in conjunction with the major fiscal policies of governments to support the economy, highly expansionary monetary policies designed to reduce benchmark rates and/or expansions of the monetary stimulus policies (quantitative easing) in place.

In this context, the euro closed 2020 at approximately €1.23 against the US dollar, up by 9.8% versus the US currency year to date as at 30 December 2020. Compared with the fourth quarter of the previous year, the euro rose by 4.9% against the dollar.

Over the past year, the single currency decreased from around €1.12 versus the dollar at the beginning of 2020 to touch a low of around €1.06 in March, before gradually recovering to around €1.12 at the end of the first half and €1.17 and €1.23 respectively at the end of the third and fourth quarters.

Although the outbreak of the global pandemic led the US dollar to become a safe haven currency and hence strengthen against the euro until the March lows, the highly expansionary monetary policies by the US Federal Reserve combined with the major fiscal efforts (Recovery Plan for all) implemented by the European Union in response to the economic crisis caused by the coronavirus were key factors in the strengthening of the euro over the next three quarters.

Important news on the high efficacy of vaccines in response to the virus, published in November, marked a significant improvement in financial market sentiment, supporting risk assets and increasing confidence in a stronger recovery in economic activities globally. This additional factor, combined with the increasingly accommodative stance of the Federal Reserve in terms of monetary policy, gave a further boost (+4.9%) during the last quarter of 2020 to the ongoing upward trend in the euro against the dollar, exacerbating the USD sell off on the markets and supporting inflows on assets in euro as the currency predominantly linked to the economic cycle.

The euro appreciated by 5.7% against the pound sterling between the start of 2020 and 30 December.

The first quarter of 2020 saw a very volatile pattern in the UK currency, which was initially positively influenced by the Brexit deal obtained on 31 January 2020 by the newly elected PM Boris Johnson, then very negatively (losing more than 10% against the euro) since the outbreak of the global crisis caused by the Covid-19 pandemic.

The EUR-GBP exchange rate followed the EUR-USD trend during the next three quarters, with the single currency steadily appreciating from approximately €0.88 at the end of March to €0.90 at the end of 2020. The market's caution towards the pound has certainly been linked to the slow progress of the negotiations on the UK-EU post-Brexit free trade agreement, reached *in extremis* in the last available week of 2020, right at the end of the transition period. .

During 2020 the Bank of England (BoE), in line with the monetary policies of the major central banks in response to the global crisis, cut rates (from 0.75% to 0.10%) and increased the scope of its quantitative easing programme, always showing considerable caution with regard to monetary policy decisions, especially in the context of a last-minute agreement with Europe and uncertainty regarding domestic growth given the ongoing lockdowns across the UK.

The euro ended 2020 at €126.91 against the yen, having risen 4.1% in the year to 30 December.

With the Bank of Japan (BoJ) maintaining an ultra-expansionary monetary policy throughout 2020, the yen confirmed its status as a safe haven during the period under review, therefore appreciating against the euro in the first part of the year due to the spread of the coronavirus pandemic and the losing ground in situations of risk-on markets and rising investor confidence (for example in the fourth quarter of 2020, following the announcement that vaccines were highly effective against Covid-19).

During 2020, the euro exchange rate against the yen followed the trend of the euro against the dollar, climbing gradually from the lows of the year to approximately €114.50 in the first week of May, approximately €121 at the end of the first half and then approximately €124 and €127 respectively at the end of the third and fourth quarters.

Commodities	% change		Level		
	YTD	Q4	31/12/2020	30/09/2020	31/12/2019
Oil (Brent)	(24.16%)	24.32%	50.91	40.95	67.13
GOLD	25.03%	0.45%	1,894.39	1,885.82	1,515.16

Oil prices were very volatile in 2020, with Brent rising from \$67.1 at the start of 2020 to \$50.9 at the end of the year, reaching a low of \$17.3 at the end of April.

The sharply negative trend in oil prices in 2020 is closely linked to the global spread of the Covid-19 pandemic: in fact, the interruption of most production activities and the introduction by governments of social restrictions in order to contain the spread of the virus resulted in a collapse in demand and, consequently, of oil consumption.

Meanwhile, the gold spot price increased markedly in 2020, from €1,515.2 at 30 December 2019 to €1,894.4 at 30 December 2020.

The ongoing pandemic had a major impact also in this case. Against a backdrop of profound fear and risk-off behaviour on the part of investors, gold provided a safe haven for investment flows.

Sectors (MSCI World AC)	% change		Level		
	YTD	Q4	31/12/2020	30/09/2020	31/12/2019
Info tech	44.55%	14.83%	454.00	395.35	314.07
Health care	12.90%	6.57%	316.58	297.07	280.40
Industrial	9.75%	15.40%	289.62	250.96	263.90
Material	18.77%	18.47%	329.97	278.53	277.83
Cons. Discr.	35.90%	14.58%	379.97	331.61	279.59
Financials	(6.39%)	23.09%	123.39	100.24	131.81
Cons. staples	5.78%	6.81%	267.95	250.86	253.31
Utilities	0.79%	9.19%	151.20	138.47	150.02
Real estate	(9.14%)	7.11%	1,024.83	956.80	1,127.96
Tel. services	21.55%	14.03%	100.22	87.89	82.45
Energy	(30.85%)	23.67%	145.49	117.64	210.40
VIX Index	53.64%	(13.7%)	22.77	26.37	14.82

At sector level, there were some disparities between performances in the various segments. The relevant performance trends reflected the evolution of the pandemic scenario: in the first three quarters of the year, securities in sectors more correlated with a scenario of reduced travel and remote working, such as information technology, telecommunication services and health care, were favoured. By contrast, in the latter part of the year there was a substantial recovery in stocks most correlated with recovering economic activities, supported by the global introduction of cyclical fiscal policies and positive news flow due to the arrival of a Covid-19 vaccine. In the last quarter, the stock market recovery was driven by industrial, commodity and financial stocks. In particular, the latter benefited from a particularly favourable rate dynamic, partly linked to an expected rise in inflation.

THE BANKING MARKET⁶

BANK DEPOSITS

According to initial estimates by SI-ABI, in November 2020, customer funding of all banks operating in Italy - represented by deposits of resident customers (current account deposits, term deposits net of deposits related to loan assignments, notice deposits and repurchase agreements; deposits are net of transactions with central counterparties) and bonds (net of those repurchased by banks) - amounted to €1,934 billion, up 6.0% year-on-year.

Specifically, resident customer deposits (current account deposits, term deposits net of deposits related to loan assignments, notice deposits and repurchase agreements net of transactions with central counterparties) had increased by 8.3% in November 2020, with an increase in absolute value on an annual basis of more than €109 billion, bringing the amount of deposits to €1,715 billion. The annual change in bonds was negative at -9.3% (-8.6% in the previous month). Bonds amounted to around €219 billion. Deposit growth rates rose sharply in the main European countries; in Italy, the year-on-year change in business deposits was 28.0% in October 2020, while household deposits grew by 6.6%. As the health crisis began, the trend of growth in bank deposits intensified in these countries. According to official ECB data, the trend in deposits accelerated particularly rapidly between late February and late October 2020: in France they increased from 7.4% year-on-year to 14.2%, in Germany from 3.3% to 6.3%, and in Italy from 6.9% to 9.6%; in the euro area as a whole, they rose from 4.6% to 8.7%.

The breakdown of the trend in deposits by holding sector (households and businesses) shows that the increase was mainly due to businesses. Specifically, in October 2020: in France, deposits of businesses grew by 27.6% year-on-year (+9.2% for households); in Germany, they grew by 14.7% (+5.9% for households); and in Italy, they grew by 28.0% (+6.6% for households). Lastly, for the euro area as a whole, business deposits increased by 19.7%, while household deposits increased by 7.2%.

Foreign deposits decreased in October 2020: in particular, deposits of banks operating in Italy amounted to approximately €315.5 billion, down 6% compared with a year earlier. Foreign deposits accounted for 12.2% of total funding (13.3% a year earlier). Net funding inflows from abroad between October 2019 and October 2020 were negative at around -€20.4 billion.

In October 2020, net foreign deposits (foreign deposits minus foreign loans) amounted to approximately €73.4 billion (-27.5%). They represented 4.1% of total domestic lending (5.6% a year earlier), while foreign loans - on the same date - amounted to approximately €242 billion. The ratio of foreign loans/foreign deposits was 76.7% (72.8% a year earlier). Interest rates on bank funding were essentially stable. According to the initial estimates of SI-ABI, the average rate on bank funding from customers (covering the return on deposits, bonds and repurchase agreements in euro applied to households and non-financial corporations) was 0.49% in November 2020 (0.50% in the previous month). The rate on deposits in euro applied to households and non-financial corporations was 0.32% (also 0.32% in the previous month), the rate for outstanding bonds was 1.93% (1.97% in October 2020) and the rate for repurchase agreements was 0.90% (0.90% in the previous month).

Yields on public securities were down; the Rendistato reached a historic low. The Rendistato index, i.e. the yield on a basket of securities with a residual maturity of more than one year traded on the Italian electronic bond and government securities market (Mercato Telematico delle Obbligazioni e dei Titoli di Stato or MOT) reached a record low of 0.32% in November 2020, 9 basis points lower than in the previous month and below the value of one year earlier (0.82%).

In October 2020, the gross yield on the secondary market for CCTs (treasury credit certificates) was 0.16% (0.41% in the previous month; 0.33% in October 2019). The average yield on BTPs (long-term treasury bonds) was 0.84% (1.07% a year earlier). Finally, the annualised gross average yield on BOTs (treasury bills) increased in the period October 2019-October 2020 from -0.27% to -0.46%.

BANK LENDING

On the basis of the initial estimates of SI-ABI, total bank lending to households and businesses was up in November 2020. Total loans to Italian residents (private sector plus general governments, net of repurchase agreements with central counterparties) stood at €1,721 billion in November 2020, marking an annual change of +3.5% (+2.7% the previous month), calculated including loans not recognised in bank balance sheets because they are securitised and net of changes in stocks not linked to transactions (for example, changes due to exchange rate fluctuations, value adjustments or reclassifications).

⁶ Source: ABI MONTHLY OUTLOOK - December 2020 - Summary

Loans to Italian residents in the private sector amounted to €1,462 billion in November 2020, up by 4.4% compared with one year earlier. Loans to households and non-financial corporations amounted to €1,324 billion in the same month. According to estimates based on data published by the Bank of Italy, the annual change in loans to households and businesses calculated with the inclusion of loans not reported in bank balance sheets as they are securitised, and net of changes in amounts not related to transactions (e.g. changes due to exchange rate fluctuations, value adjustments or reclassifications) was +5.1%, an acceleration on the performance recorded in the previous month (+4.9%). In October 2020, loans to businesses had increased by 7.4% year-on-year; loans to households had increased by 2.1%. According to official Bank of Italy data, loans to non-financial corporations increased by +7.4% in October 2020 (+6.8% in the previous month, -5.9% in November 2013, the negative peak).

Total loans to households grew by +2.1% (also +2.1% in the previous month; -1.5% in November 2013). The trend in loans to households increased slightly compared to the previous month for the home purchase component (+2.1% annual change, +2.0% in the previous month), while the trend in consumer credit slowed (+0.2% YoY vs +0.8% in the previous month).

In the second quarter of 2020, the proportion of home purchases financed by mortgage loans more than recovered from the decline seen in the previous period (to 75.2% from 66.9%). The ratio of the amount of the loan (relating to the flow) to the value of the property was 76.8%. The breakdown of bank lending by branch of economic activity shows that in October 2020 manufacturing, mineral extraction and services accounted for around 58.6% of the total (manufacturing activity alone accounted for 27.3%). Loans for trading, accommodation and catering activities represented around 21.5% of the total, with the construction sector accounting for 10.3% and agriculture 5.3%. The remaining assets represented approximately 4.3%. According to the latest Bank Lending Survey of October 2020, "in the third quarter of 2020, the criteria for providing loans to enterprises remained unchanged, reflecting a substantial stability of the underlying factors. Meanwhile, the credit standards applied to loans to households for house purchase tightened moderately in line with a worsening general economic outlook and a decline in risk tolerance. Banks eased moderately their general terms and conditions for loans to enterprises, while those for household mortgages remained stable. For the current quarter, intermediaries expect offer policies to remain unchanged for businesses and to register new, more rigid content for households. The increase in demand for loans by enterprises continued, reflecting substantial liquidity needs due to the pandemic. Demand for household mortgages increased again as a result of the support resulting from the reduction in the general level of interest rates. In the current quarter, the banks expect a further, albeit more modest, increase in demand for funds on the part of enterprises. Household demand for loans is expected to remain essentially unchanged."

Interest rates on the amount of loans to households and businesses and those on new loans to businesses decreased. According to SI-ABI reports, in November 2020 the rate on euro loans to households for home purchases - which summarises the trend of fixed and variable rates and is also influenced by the change in the breakdown of disbursements based on loan type - fell to 1.26% (also 1.26% in the previous month; 5.72% at the end of 2007). 91.2% of total new loan disbursements were fixed-rate loans (90.3% in the previous month). The average rate on new euro loans to non-financial corporations decreased to 1.10% from 1.29% in the previous month (5.48% at the end of 2007). The weighted average rate on total loans to households and non-financial corporations was 2.25% (2.27% in the previous month; 6.16% at the end of 2007).

INTEREST RATE SPREADS

In November 2020, the difference between interest rates on loans and interest rates on deposits remained particularly low. The difference between the average lending rate and the average rate on deposits for households and non-financial corporations was 176 basis points in November 2020 (177 in the previous month). Before the financial crisis began, the spread was more than 300 points (335 bps at the end of 2007).

The spread on loans granted to enterprises by the banks in the main European countries (calculated as the difference between interest rates on new loans and a weighted average rate of new deposits of households and non-financial corporations) was 51 basis points (bps) in Italy in October 2020, compared with 160 basis points in Germany, 123 basis points in France and 183 basis points in Spain. For households, the spread was 49 basis points in Italy, compared with 143 basis points in Germany, 117 basis points in France and 190 basis points in Spain.

The difference between the average rate on interest-bearing assets denominated in euro of households and non-financial corporations and the average rate on customer deposits in euro (households and non-financial corporations) was 1.14 percentage points in Italy in November 2020 (also 1.14 percentage points in October). This difference is given by the average rate on interest-bearing assets of 1.63% and the average cost of customer deposits of 0.49%.

BAD BANK LOANS

Bad loans, net of write-downs and provisions already made by banks with their own resources, amounted to €24.5 billion in October 2020, down from €31.2 billion in October 2019 (-€6.7 billion, or -21.5%) and €38.2 billion in October 2018 (-€13.7 billion, or -35.9%). The reduction is more than €64 billion (or -72.4%) compared with the highest level of net bad loans reached in November 2015 (€88.8 billion).

The ratio of non-performing loans to total loans stood at 1.41% (compared with 1.79% in October 2019, 2.26% in October 2018 and 4.89% in November 2015).

SECURITIES PORTFOLIO

As at November 2020, the total securities held by banks operating in Italy amounted to €647 billion. Based on initial estimates by SI-ABI in November 2020, the total securities held by banks operating in Italy amounted to €646.6 billion, an increase on the previous month (€643.7 billion).

According to official Bank of Italy data, updated to October 2020, the value of government bonds on banks' balance sheets was €415 billion, corresponding to approximately 65% of all securities held.

HARMONISED INTEREST RATES IN ITALY AND THE EURO AREA

Interest rates on new transactions in Italy and the euro area increased in October 2020. The latest available data on interest rates applied in the euro area indicate that the rate on new bank lending of up to €1 million euro to non-financial corporations was 1.79% in October 2020 (1.77% in the previous month; 1.88% in October 2019), a value which compares with the 1.78% recorded in Italy (1.71% in the previous month; 1.86% in October 2019).

The rates applied to new loans of amounts in excess of €1 million to non-financial corporations were 1.28% on average in the euro area (1.25% in the previous month; 1.20% a year earlier). This compares with 0.99% applied by Italian banks (0.96% in the previous month; 0.91% a year earlier).

Finally, in that same month, the rate on current accounts and revolving loans to households was 5.17% in the euro area (5.24% in the previous month; 5.70% a year earlier), and 3.56% in Italy (3.63% in the previous month; 4.24% a year earlier).

TREASURY MANAGEMENT

The overall net amount of investment in debt securities at the end of 2020 was €13,304 million, up €949 million from €12,355 million at the end of 2019.

The total re-investment of securities maturing over the year along with the market opportunity captured when the health care crisis exploded and the resulting rise in yields are the reasons for the increase in the stock.

Banca Mediolanum

€/m	31/12/2020	31/12/2019	Change
Financial assets held for trading - Debt securities	102	130	(28)
Financial assets at fair value through other comprehensive income - Debt securities	493	887	(394)
Financial assets measured at amortised cost - Debt securities	12,709	11,338	1,371
Total	13,304	12,355	949

The following guidelines were taken into account for new investments made in 2020: 1) concentration on Italian government securities; 2) short residual maturity for fixed-coupon securities; 3) prevalence of the purchase of fixed-rate securities; 4) classification of all purchases in the HTC portfolio.

Purchases made during the period of high market volatility, together with the planning of projected investments, resulted in a particularly attractive average return on purchases. The HTC (Held to Collect) portfolio, valued at amortised cost, grew by €1,371 million due to the classification of all 2020 purchases in the same portfolio. Consequently, renewals of maturities in the HTCS portfolio were allocated to the HTC portfolio, which increased from €11,338 million at the end of 2019 to €12,709 million at the end of 2020.

The amount of the HTCS (Held to Collect and Sell) portfolio, measured at fair value to other comprehensive income, decreased by €394 million since, as it is no longer considered the preferred portfolio for the classification of investment financial instruments, all purchases were placed in the HTC strategic portfolio, excluding securities purchased to replace guarantees given to settlement entities, which were classified to the same maturity portfolio. As a result, the stock decreased to €493 million at the end of 2020, from €887 million euros at the end of 2019.

The valuation reserve recognised in the financial statements was €10.8 million (before tax), compared with €44.9 million at the end of 2019.

The trading books, measured at fair value through profit or loss (financial assets held for trading and financial liabilities held for trading) show a net balance of €102 million, down slightly from €130 million at the end of 2019.

Overall, government securities made up 99.1% of total owned portfolios, almost flat compared with 99.2% at the end of 2019. The remainder was divided between ABSs and financials. The breakdown of portfolios by rate type is 41.6% variable and 58.4% fixed. All investment instruments are denominated in euro with no exposure to currency risk.

The average portfolio duration, which was 0.93 compared with 1.10 at the end of 2019, remained consistent with the group's traditionally low risk profile.

€/m	31/12/2020	31/12/2019	Change
Net interest income	207.3	216.2	(8.9)
Net gains (losses) from trading	6.3	6.2	0.1
Net gains (losses) from hedging	(2.6)	(3.4)	0.8
Net gains (losses) on the sale of financial assets	(0.1)	(0.1)	-
Total	210.9	218.9	(8.0)

Net financial income increased from €218.9 million in 2019 to €210.9 million at the end of 2020 (-€8.0 million), while net interest income decreased from €216.2 million at the end of 2019 to €207.3 million at the end of 2020 (-€8.9 million).

SECURITIES TRADING

During 2020, the Italian equity market was characterised by periods of very high volatility, with an initial phase at the start of the pandemic of steep price losses, followed by a partial recovery for some classes of securities issuers; at the end of the year, the FTSE MIB index recorded a loss of 7%, having reached a low of more than -35% in March.

The government bond market was characterised by the same stock market volatility, with the 10-year yield peaking in March-April, followed by a progressive tapering of yields and stabilisation until the levels of late December.

Trading volumes and the value of customers' assets were influenced by the volatility on the Italian and foreign markets, with considerable growth in the value traded and the number of orders. The total value traded for retail customers on regulated and OTC markets was €8,215 million, up 58% compared with 2019. Orders executed increased from 392,011 to 890,831, an increase of 127%.

The total value traded on the Italian stock market was €4,707 million, up 66%. The total value traded on foreign stock markets increased by 256% million to €1,379 million. There was strong growth of 29% in the trading value of structured instruments (covered warrants and certificates) and of more than 139% in ETFs. The trading value of government bonds decreased by about 24% on the previous year.

The total value of the assets under administration held by retail customers was around €4,000 million at the end of 2020, an increase of 8% compared with December 2019.

Specifically, the stock of government bonds increased from €753 million at the end of 2019 to €800 million at the end of 2020. In total, corporate and bank bonds decreased from €426 million to €400 million.

The Certificate MedPlus stock increased from €1,095 million in December 2019 to €1,270 million at the end of 2020 as a result of the retail placement plan for the Medplus product.

The value of securities in the Italian and foreign equities segment was €1,390 million, down 3% compared with 2019.

At the end of December 2020, repurchase agreements were in place with customers for approximately €33 million.

During the year, a total of 26 placement operations were carried out for Certificate Medplus (including five personalised issues), with a total value of €560 million.

Assets managed relating to MY STYLE (a product marketed since January 2017) increased to €380 million from €253 million in December 2019. Assets managed relating to Chorus (no longer marketed) have a residual value of €13 million.

NEW PRODUCTS AND MAIN INITIATIVES DURING THE YEAR

The bank's research and development activity is primarily aimed at seeking new products to offer to customers in order to meet their needs and to ensure the development of the bank's business in line with its mission.

The year 2020 was characterised by the coronavirus pandemic: the drama of this event, the uncertainty caused by an unknown phenomenon and the resulting need for social distancing highlighted the founding values and principles of operation on which the existence and validity of the Banca Mediolanum model is based, built to offer every customer products and services that meet their needs in a simple and easily accessible way.

The central role of customer relations and the assumption of responsibility, from the top to any operator in the banking system, have enabled us to mitigate the impact of the crisis as far as possible and have made tangible and cemented the value and usefulness of our Family Bankers, who were able to reach their customers immediately, through the technology made available by the company, in complete safety and without interruption.

The information/training commitment made to help customers understand the complex, congested and hyper-reactive dynamics of the capital market during lockdown has given them awareness and confidence in the advice provided and in the strategies envisaged in line with the principle "Banca Mediolanum does not simply sell products: it offers solutions": this principle enables us to operate in the various business areas of financial services with the expertise and flexibility necessary to respond better to constant economic, taxation, financial and regulatory changes.

All this has resulted in an increase, year by year, in the main indicators that make Banca Mediolanum's activity so distinctive: administered deposits, managed deposits, collection of protection premiums, the credit granted and the adoption of electronic money instruments.

Banking Area

Banking, E-money and Payment Services sector

Turning to creditor rates offered on time deposit and current account balances, despite the continuing record low levels of the main market reference rates and the severe market instability and volatility, Banca Mediolanum pursued the strategy launched at the beginning of the year, aimed at acquiring new customers and assets with a promotional rate equal to 2% per annum gross on current account time deposits lasting six months, involving new cash contributions.

With the objective of encouraging customers to diversify between assets under administration and management, the Bank continued its credit rate offer for the Double Chance Service, which is well suited to gradual investment in the markets, exploiting their fluctuations, for both equities and bonds.

In September, as part of our focus on technology and innovation, which are the tools and foundational values of the Banca Mediolanum model, the new Instant Transfer service, a secure and fast service for receiving and transferring money in real time, to and from all participating banks, 24 hours a day and seven days a week, directly from home banking and the mobile app, was made available to all customers. At the same time, a promotional initiative has been launched to provide the service free of charge until 31 December 2020.

During the year, commercial initiatives were implemented and pursued with the aim of expanding the Conto Mediolanum offer for new and existing customers through prize competitions and co-marketing activities.

Particular attention is also paid to innovation in the E-money and Payment Services sectors. The new Easy Shopping and Spending Control services, the option of applying for a credit card by mobile on APP and the blocking/unblocking of credit cards, an additional very important function combining security and ease of use, again via APP, were introduced in January.

The bank has also launched commercial initiatives, promotions and educational events on all the digital communication channels to support and stimulate the payment card business. These policies are designed to boost both credit card penetration of the customer base and stimulate spending behaviour by offering solutions in line with the health emergency "momentum".

There have therefore been numerous commercial initiatives and promotions spanning the entire year. Among the most significant are the "Oro per Te" (Gold for You) prize offer that gave away a Samsung Galaxy A20 smartphone to new Mediolanum American Express Gold Card subscribers with a minimum spending threshold, and the acquisition promo in collaboration with NEXI, in which customers competed for 5 Bianchi e-bikes each month from July to December.

In addition to these activities, new initiatives were launched in April, in collaboration with Nexi, to support small businesses during the contingency period and to aid them in a rapid, decisive resumption of their business activity.

To support merchants that had already been issued a point of sale (POS) terminal, the bank launched its Pay by Link service (which allows customers to make digital e-commerce payments using a physical POS terminal) and the reimbursement of micropayment commissions – services that are part of the Italian government's Digital Solidarity Programme.

For new small business merchants and self-employed professionals, the new Welcome and Start offers were launched to respond with clear, simple turnkey solutions to the measures contained in the Budget Law and Tax Decree and to encourage the use of cashless payment methods.

Banca Mediolanum is increasingly pursuing innovation and sustainability objectives, consisting of the constant search for new solutions that can bring added value for customers and help to protect the environment and the community. With this in mind, the new Mediolanum debit card in Poly Lactic Acid (PLA) was launched on the market in the last quarter of the year. PLA is a sustainable material that allows the use of plastic to be reduced by more than 84% and lasts as long as the traditional cards in circulation. The PLA in the core of the new debit card is a material entirely derived from non-food maize, thus reducing the use of fossil-based plastics normally utilised. The use of this innovative and environmentally sustainable material made it possible to create an exclusive product, including in terms of its design, which has been updated to make the Mediolanum Card even more immediately recognisable. In terms of graphics, the PLA identifier logo was inserted, the card data was placed on the back of the card to facilitate e-commerce transactions, and a single colour was used, including on the edge of the card, to make it more easily recognisable.

The new payment and benefits services company Flowe - SB was launched on the market on 16 June 2020. The first seven months of the Company's activities were exceptional in terms of brand awareness; the result in terms of customers acquired was

significantly higher than expected, reaching a record level of more than 668,000, mostly achieved in November and December. Underpinning this commercial success is both the greater spontaneous recognition of the brand (10.2%) and the effectiveness of the “member get member” system. This system involved more than 550,000 customers thanks to its simple and innovative mechanism.

Spontaneous recognition of the brand also increased due to:

- > communication initiatives on its digital channels (Instagram, LinkedIn and Facebook);
- > support during Planet Week (21-27 September 2020) for the Plasticfree charity, through both a digital campaign on its own channels and through the engagement of influencers known as “The Show” who supported Flowe and the initiative throughout the week with around 4,000 new customers acquired through the associated promo code;
- > the creation of the first digital entertainment event, designed and produced with the collaboration and support of Doom and Mastercard to create a live format broadcast on 18 October with a talk show about entrepreneurship that saw Ludovica Comello interviewing well-known influencers in the field of music and gaming and videoyoutubers, followed by a live music event with Marrakesh and Madame. The event was viewed by 77,000 people on YouTube. There were around 30,900 visits to Flowe’s Instagram account and around 5.5 million people were reached by ads.
- > the online advertising campaign created and produced by influencer Luis Sal.

Credit Area

In view of the Covid emergency, which occurred at the end of the first quarter, the Bank assisted its customers through initiatives and actions in accordance with the government decrees that provided for the disbursement of the loans covered by the “Liquidity Decree”, intended for the self-employed, sole traders and businesses, as well as the advance facility for the redundancy fund. Alongside government initiatives and membership of the ABI moratorium, Banca Mediolanum introduced its own measures, including mortgage and loan instalment holidays, the proposal of a loans list with favourable pricing for customers with the same guarantees and the option of benefiting from a grace period on all secured loans.

In the second half of the year, Banca Mediolanum continued to support the government policies, taking account of all the extensions of the above initiatives and adding in October three loans for customers needing to renovate property benefiting from the tax deductions introduced in the May Relaunch and the option of transferring the tax credit.

Two types of loans are offered to customers who carry out work with a tax deduction of 110% over five years and to customers who carry out work with a tax deduction of 50%, 65% and 90% over ten years. The third is dedicated to wealthy clients who carry out work with no tax deduction.

As it has done for years, Banca Mediolanum again took practical action in 2020 by suspending mortgage and loan repayments and applying favourable conditions to new loans for customers affected by particular weather disasters and earthquakes.

During 2020, strategic positioning initiatives were confirmed and launched in the area of mortgage product development, with the macro-objective of supporting overall disbursement levels.

Specifically, the Smart+ 30K Campaign, aimed at pre-selected customers with assets of between €30,000 and €100,000, offering them better pricing than the standard terms, was extended.

In order to offer customers a valid alternative to the fixed rate, two initiatives were launched: the first extends the discount on the overspread of capped variable-rate mortgages, and the second, introduced in October, allows customers to access mixed-rate mortgages for an initial period of 10 years (the customer can choose to start with a variable- or fixed-rate mortgage and at the end of the period can choose the type of rate to combine for the remaining 10 years), in addition to the existing periods of three and five years.

In order to promote initiatives to help Banca Mediolanum’s customers during the health emergency, a promotion was launched in July providing a grace period of six months, with the aim of easing financial commitments in the first few months of the loan, to make it easier to cope with the full amortisation phase, in anticipation of a more relaxed macroeconomic situation.

In addition, in order to reward the professional category that battled on the front line during Covid-19, a dedicated promotion for doctors and paramedics was created in August with a spread discount of 0.20%.

In the area of loans, meanwhile, particular attention was paid to the speed of disbursement in view of customer need.

This was done through a Pre-Approved Secured Loan Campaign, aimed at a pre-selected customer target and with dedicated pricing, and through the promotion of the Instant Credit service through limited-time initiatives relating to the spread applied, during particular events or holidays.

The features of the latter product - which is seen as strategic as it is fully digital and therefore a strong support during periods of social distancing - were increased in the second half of the year in order to simplify the loan application process.

NET INFLOWS AND ASSETS UNDER ADMINISTRATION

Net inflows

€/m	31/12/2020	31/12/2019	% chge
ITALY			
Fund and unit-linked products	2,966.6	2,000.1	48.3%
of which directly in funds	890.5	(7.1)	n.s.
of which "My Life" unit-linked	1,465.7	984.2	48.9%
of which other unit-linked	610.4	1,023.0	(40.3%)
Other insurance products - Life	40.1	24.8	61.6%
Total managed	3,006.7	2,024.9	48.5%
Third-party structured notes	419.4	494.7	(15.2%)
Total managed + Structured notes	3,426.1	2,519.6	36.0%
Total administered	3,211.9	946.0	n.s.
"Freedom" Life policies	-	(33.1)	n.s.
Total administered including Freedom	3,211.9	912.8	n.s.
BANCA MEDIOLANUM	6,638.0	3,432.4	93.4%

Total net inflows amounted to €6,638.0 million at 31 December 2020, a major increase on the comparative period (31.12.2019: €3,432.4 million).

More specifically, net inflows in mutual funds, through both direct investments and investments in unit-linked policies, amounted to €2,966.6 million, up by 48.3% compared with 2019 (31.12.2019: +€2,000.1 million).

Net inflows in other Life insurance products, excluding unit-linked products and the Freedom insurance policy, amounted to €40.1 million (31.12.2019: +€24.8 million).

Finally, net inflows in the structured notes segment came to €419.4 million, down by 15.2% million compared with the previous period (31.12.2019: €494.7 million).

Assets under administration grew strongly compared with the comparative period, to €3,211.9 million from €946.0 million at 31 December 2019.

Assets under administration and management

€/m	31/12/2020	31/12/2019	% chge
ITALY			
Funds and management and unit-linked policies	59,124.2	55,263.1	7.0%
Other insurance products	1,631.1	1,541.0	5.8%
Bank deposits	24,884.6	21,298.1	16.8%
BANCA MEDIOLANUM	85,639.9	78,102.2	9.7%

The change is also due to the increase in "Funds and management and unit-linked policies" of €3,861.1 million compared with 31 December 2019, partly reflecting positive net inflows recorded during the period (+€2,966.6 million) and the increase in bank funding (+3,586.5 million compared with 2019).

PERFORMANCE OF SUBSIDIARIES

Companies operating in the banking sector (including distribution of group products) Banca Mediolanum S.p.A.

Banco Mediolanum S.A.

The Spanish group closed 2020 with net profit of €19.5 million, compared with net profit of €11.3 million in the previous year.

Net inflows for asset management products amounted to €688 million, up by 65% compared with the previous year (31.12.2019: €418.2 million).

Net inflows for asset administration products amounted to €419 million (€31.12.2019: €189 million).

At year-end, the balance of customers' assets administered and managed amounted to €7,185 million, compared with €5,916.7 million at 31 December 2019. The sales network comprises 1,318 individuals (31.12.2019: 1,029 individuals). On the basis of the recommendation of the European Central Bank of 15 December 2020, the company proposed the distribution of a dividend from 30 September 2021 subject to the absence of new orders and/or recommendations preventing distribution issued by the Supervisory Authority.

Bankhaus August Lenz & Co. AG

A net loss of €23.4 million was recorded for 2020, compared with a net profit of €79 million in the previous year. The change is mainly due to the fact that the previous year included the income collected by Banca Mediolanum for the sale of its share of the associate Mediolanum International Funds. It should also be noted that a tax inspection by the Bavarian State Tax Office is also under way. This inspection relates to the period 2012-2017. The requested documentation is currently being sent and discussions are ongoing on specific transactions that took place during the period in question.

EuroCQS S.p.A.

The Company, which operates in salary-backed loans, recorded net profit of €2,951 thousand (€50.2 thousand at 31 December 2019). Commercial developments in the 2020 financial year were extremely positive, with loans to customers reaching €1,049.1 million (compared with €690.5 million at 31 December 2019). Net interest income rose sharply in 2020, reaching €17,179.0 million at 31 December (31.12.2019: €7,520.8 million), mainly due to the ongoing development of the loan portfolio, which began in 2019, and the renegotiation of the interest rate applied to the loan contracted from the parent company, Banca Mediolanum.

The positive result for the period was, however, reduced due to provisions for non-recurring liabilities and charges of €3.9 million.

Flowe S.p.A. - S.B.

In FY20, the Company focused both on creating the technological infrastructure that would enable it to offer innovative solutions in the electronic money market, and on developing a strong position in terms of brand recognition; the latter activity was particularly successful, allowing it to close 2020 with a customer base of around 662,000 new current account openings. The loss recorded for the period 19 July 2019 - 31 December 2020 shows a cumulative net loss of €33.1 million.

Companies operating in the asset management sector

Mediolanum Gestione Fondi SGR p.A.

The financial statements for the year ended 31 December 2020 show net profit of €39.4 million, down €57.9 million compared with the previous year (31.12.2019: €97.3 million).

This change is mainly due to the decrease in performance fees recorded at the end of 2020, from €78.5 million at 31 December 2019 to €3.0 million in the year under review, and to a decrease in net management fees on mutual funds of €5.4 million.

Total assets under management amounted to €9,409.5 million at 31 December 2020, down compared with 31 December 2019 (€10,356.6 million). This change was strongly influenced by the situation in the financial markets as a result of the effects of the Covid-19 pandemic. The general collapse in prices had a significant impact on the Company's assets under management, which was further exacerbated by high customer outflows in terms of redemptions.

Mediolanum International Funds Ltd

The company reported net profit of €492 million at 31 December 2020, down by €158.3 million on the previous year's result (31.12.2019: €650.3 million). The change was due to the lower performance fees recorded in 2020.

Assets under management at 31 December 2020 were €43,030 million, compared with €39,197 million at 31 December 2019.

In October, the company paid out an interim dividend for the current year totalling €257.7 million.

Mediolanum Fiduciaria S.p.A.

The financial statements for the year ended 31 December 2020 show a net loss of €698.9 thousand, compared with a net loss of €758.3 thousand in the previous year.

This decrease was primarily due to the increase in net fee and commission income and the decrease in administrative expenses.

At 31 December 2020, funds under trust management amounted to €438,640.6 thousand, an increase of €7,338 thousand compared with the previous year (31.12.2018: €445,978.6 thousand, down 1.6%) due to the lower number of fiduciary mandates.

Companies operating in the insurance sector

Mediolanum Vita S.p.A.

The accounts pursuant to IAS/IFRS at 31 December 2020 show a net profit of €64.9 million compared with €40.4 million in the same period of the previous year. However, the net profit for the year, determined according to national GAAP, was €51.0 million, largely flat compared with €52.1 million in the same period of the previous year.

The change in the IAS/IFRS result compared with the comparative period is mainly due to the improvement in net financial income (in the previous year, this item included the write-down of the Rome property of €15.6 million) and the increase in net technical income (+€5.9 million). It will be recalled that two general inspections by the supervisory authority, IVASS, began in June and July. The Company has complied with all requests made and is awaiting the formal conclusion of inspection activities.

Mediolanum Assicurazioni S.p.A.

At 31 December 2020, the Company recorded a net profit of €14,391 thousand compared with €8,613 thousand in the same period of the previous year determined in accordance with IAS/IFRS. However, the net profit for the year, determined according to national GAAP, was €13,978 thousand, compared with €10,020 thousand for the same period of the previous year.

The application of IAS/IFRS to the statement of financial position as at 31 December 2020 generated an increase in the result compared with the GAAP result (€413 thousand), mainly due to the reversal of the catastrophe reserve (€637 thousand). The increase in profit for the period compared with 2019 is mainly attributable to growth in production and higher earned premiums (+19,424 thousand euros, +36%).

It will be recalled that a general inspection by the supervisory authority, IVASS, was launched in July. The Company has complied with all requests made and is awaiting the formal conclusion of inspection activities.

Mediolanum International Life DAC

The result for the 2020 financial year was net profit of €21.5 million, compared with €16.7 million a year earlier. The Company recorded total premium income of €457 million in 2020, compared with €1,061.6 million in the previous year.

At 31 December 2020, the total balance of commitments to policyholders amounted to €3,399.5 million (2019: €3,072.6 million).

OWN FUNDS AND CAPITAL RATIOS FOR REGULATORY PURPOSES AT 31 DECEMBER 2020

At 31 December 2020, shareholders' equity, excluding the net profit for the year, amounted to €2,308.6 million, compared with €1,750.4 million in the comparative period. At 31 December 2020, Banca Mediolanum's own funds amounted to €2,150 million and consisted of the following:

- > Common equity tier I (CET I) capital of €2,150 million;
- > Additional tier I (ATI) capital of zero;
- > Tier 2 (T2) capital of zero.

The Bank's capital ratios at 31 December 2020 were above the minimum thresholds set by the Bank of Italy and for Banca Mediolanum were as follows:

- > Common Equity Tier I Ratio (CETI) 24.6%;
- > Tier I ratio 24.6%;
- > Total Capital Ratio 24.6%.

The CETI was determined considering the dividend distribution of €573.3 million, including €323.4 million from 2020 profits and €249.9 million from reserves generated from previous years' profits. Accordingly, the profit for the year calculated was €110.6 million.

TREASURY SHARES AND PERFORMANCE SHARE PLANS

The number of treasury shares in portfolio at 31 December 2020 was 6,386,041 shares totalling €43,570 thousand (31.12.2019: €47,808 thousand) and are deducted from shareholders' equity.

For information on Banca Mediolanum's own shares, please see the description in Part I of the Notes- Share-based payment agreements.

OTHER INFORMATION

Tax dispute

With regard to the tax dispute also reported in previous years, on 24 April 2020 the Major Taxpayers Office of the Regional Tax Department for Lombardy served Banca Mediolanum with assessment notices for IRES (corporate income tax) and IRAP (regional production tax) purposes concerning transfer prices for 2015. These assessment notices – which present identical charges to those of previous years – claim total additional taxable income of €94.6 million, including €23.5 million due to a recalculation from 57.43% to 64.25% of the retrocession of the management fees of the mutual funds promoted by the subsidiary Mediolanum International Funds and placed in Italy by the bank, as well as additional taxable income of €70.3 million deriving from the allocation to the bank of 23.83% of the performance fees. In total, additional taxes of €31.2 million were charged (including IRES of €26.0 million and IRAP of €5.3 million). Subsequently, on 8 May 2020, further assessment notices were served for the 2016 year, notifying additional taxable income totalling €70.6 million, including €24.4 million due to a recalculation from 57.43% to 64.25% of the retrocession of management fees, as well as additional taxable income of €46.2 million deriving from the allocation to the bank of performance fees of 21.1%. In total, additional taxes of €23.3 million were charged (including IRES of €19.4 million and IRAP of €3.9 million).

In view of the subjective nature of the charges and the diligent work done by the Company, which prepared the documentation provided for in transfer pricing legislation, the Italian Agency of Revenue has ruled that the administrative tax penalties do not apply. The company challenged the assessment notices with the Milan Provincial Tax Commission.

These assessment notices were also issued under the framework settlement agreement signed on 18 December 2018 between the companies of the Mediolanum Group concerned and the Revenue Agency. Accordingly, the receipt of the assessment notices was expected and does not change the risk assessment and the consequent provisioning, as also determined at the time of approval of the 2019 financial statements. The company therefore continued to provision for the higher taxes potentially due in respect of the recalculation of the retrocession of management fees at a percentage of 64.25%, net of the corresponding recovery of the amount already paid to the Irish tax authorities in respect of such higher taxable income.

As previously reported, no provision has been made for the allocation to the bank of the performance fees, as there was confidence, partly due to the support of an authoritative tax firm, that during the arbitration procedure this finding will not be upheld, in line with market practice and evidence.

Arbitration proceedings

For the assessment notices relating to the years 2014 (served on 19 December 2019), 2015 and 2016, applications were submitted in May 2020 for the commencement of the procedure provided for by European Arbitration Convention No. 90/436/EC (the "MAP"), which allows the decision to be referred to arbitration between the Italian and Irish tax authorities.

With regard to the years 2010-2013, in June 2020 the amicable treaty procedure commenced pursuant to Article 24 of the Convention against double taxation between Italy and Ireland, the aim of which is to obtain a tax credit from the Irish authority corresponding to the higher taxable income assessed in Italy. This application was declared admissible by the competent Italian authorities on 11 November 2020.

For the years 2019 to 2023, recourse was instead made to an Advanced Pricing Agreement (by application submitted on 1 August 2019), in which the tax authorities are asked to agree on the correct remuneration to be received by the Company from its Irish affiliate.

As at 31 December 2020, the total provision set aside for the above dispute was €28.8 million and the charge for the period under review was €4.3 million.

Covid-19 emergency disclosure in accordance with the ESMA recommendations

Covid-19 emergency

Since the beginning of the pandemic, the Mediolanum Group has maintained a solid capital structure that is currently able to withstand volatility and the financial market crisis.

The Mediolanum Group distinguished itself by launching a series of actions and measures that swiftly enabled it to operate “remotely” without any impact on its operating systems and the service levels provided to customers. Group companies adopted all prevention and safety measures necessary to take account of the prescriptions of the Prime Ministerial Decree and the orders of the Region of Lombardy in response to the coronavirus pandemic. The Group companies abroad (in Spain, Germany and Ireland) are continuing to make very extensive use of smart working, minimising the use of resources present in the office.

In September, Banca Mediolanum launched a plan for returning employees to the office, formulated according to an assessment of safety risks and taking into account the suggestions made by a consulting firm specialising in Covid-19 emergency management in the workplace.

Moreover, taking into account the evidence of a partial resurgence of infections in Italy and Europe, further measures were introduced to strengthen workplace safety controls at the Basiglio site. However, in October, in view of the significant uptick in the number of infections, particularly in the Region of Lombardy, the Company decided to once again use smart working methods to minimise the use of resources in the office, based on the principles of safety and protection of workers and workplaces that have always marked out the Mediolanum Group.

Customer and community initiatives

It should be recalled that, right at the beginning of March, in response to the emergency, Banca Mediolanum took action for its customers even before the legislative decrees were issued.

Banca Mediolanum had formally expressed its willingness to grant retail and corporate customers the suspensions of some outstanding loan repayments. Mention should also be made of the various initiatives adopted:

- > subsidised loans and suspension of loan and mortgage repayments for the Sales Network in response to any situations of need (an initiative which came to an end on 2 July 2020) amounting to around €2.3 million;
- > suspension of repayments on loans to retail customers (an initiative which came to an end on 31.07.2020) amounting to €19.1 million relating to mortgages and €19.7 million relating to loans;
- > suspension of repayments on loans to business customers (an initiative which came to an end on 31.07.2020) amounting to €0.1 million relating to mortgages and €2.7 million relating to loans;
- > participation in the ABI moratoria, which allow retail and business customers, where certain requirements have been met, to apply for the suspension of principal repayments for 12 months or for an extension of the terms of their loans (an initiative which came to an end on 30.09.2020). In particular, for retail customers, €3.5 million in repayments on mortgage relationships and €5.4 million relating to loans were suspended.

These measures, adopted at the Bank's initiative, were later supplemented by those introduced by the "Cura Italia" and "Liquidità" Decrees. In particular, attention should be drawn to:

- > the possibility for customers with "first home" mortgages to obtain, at their request, the suspension of repayments with the subsidy provided by the Gasparrini Fund, consisting of a 50% reduction in the interest. This measure gave rise to 2,311 suspensions totalling €12.8 million in suspended repayments;
- > suspension of repayments on loans to business customers, as provided for by the Cura Italia decree, including €3 million relating to mortgage relationships and €3.5 million relating to lending relationships;
- > participation in the ABI-INPS agreement for the disbursement of advances on Cassa Integrazione (Italian Redundancy Fund) cheques of approximately €2 million involving 1,415 approved credit facilities;
- > the granting of loans guaranteed by the MCC Fund and SACE to companies that suffered damages as a result of Covid-19. In particular, loans of up to €800,000, totalling €89 million, loans above €800,000 with an MCC guarantee, totalling €21.9 million, and loans with a SACE guarantee, totalling €15 million (two loans) were granted.

MAIN RISKS AND UNCERTAINTIES

Information on the risks and uncertainties to which Banca Mediolanum is exposed is described in this Report on Operations and in the notes.

In particular, the risks associated with the performance of the world's economies and financial markets are set out in the Report on Operations in the sections entitled "The macroeconomic scenario" and "The financial markets", and in the "Business outlook" section below. Details of financial and operational risks are provided in Part E of the notes.

INTERCOMPANY AND RELATED PARTY TRANSACTIONS

Transactions with related parties, including intercompany transactions, cannot be classed as atypical or unusual, as they are part of the normal course of Group operations. These transactions are settled under market conditions, taking into account the characteristics of the goods and services provided. In accordance with the provisions of Article 2391-bis of the Italian Civil Code, Article 71-bis of Consob Regulation 11971/99 (Regulation for Issuers) and the recommendations of the Corporate Governance Code, adopted by the Company by specific resolutions of the Board of Directors, the treatment of transactions with related parties is described in the relevant section of the notes appended to this report.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

Merger by incorporation of SIA S.p.A. into NEXI S.p.A.

On 11 February 2021, following the approval by the Boards of Directors of Cassa Depositi e Prestiti, CDP Equity, Mercury UK, SIA and Nexi, the final agreement relating to the merger by incorporation of SIA into Nexi (respectively, the “Merger” and the “Framework Agreement”) was signed, in line with the terms and conditions of the memorandum of understanding signed and announced on 5 October 2020. The closing of the Merger is conditional upon the occurrence of certain standard conditions precedent for transactions of this type, including the obtainment of the relevant authorisations, including that of the competent Antitrust Authority. The transaction will also be subject to a vote under the whitewash mechanism at the Nexi extraordinary general meeting called to approve the Merger. The economic impacts for the Mediolanum Group will be determined on the basis of the share swap on the merger date. On the basis of the information currently available, Banca Mediolanum would hold 7,688,728 new shares of the Company after the Merger.

CEDACRI shares

In the first quarter of 2021 a framework agreement was finalised for the sale of the shares related to Cedacri held in the portfolio of financial assets at fair value through other comprehensive income. This agreement, which provides for the disposal of the shares at a value higher than that recorded at the end of the 2020 financial year, also establishes a series of contractual constraints that will be defined with the purchaser. The relevant capital gain from disposal will be recognised as an increase in shareholders’ equity as envisaged for the category to which it belongs in 2021 once the sale has been completed.

It should be noted that in the proposed accounting statement, the fair value of the company in question at 31 December 2020 was assessed by an independent expert on the basis of the most recent plans adopted by the company and the most widely used market practices, and the aforementioned framework agreement was not taken into account as these are circumstances that took place in 2021.

No other events that could have a material effect on the Company’s financial position and earnings results took place after 31 December 2020.

BUSINESS OUTLOOK

The ongoing pandemic and the maintenance of restrictive measures by governments will continue to result in a scenario of economic weakness in the first quarter of the year, or at least until vaccinations are widespread enough to allow for a significant easing of the current restrictions. In the US, the economic impact is likely to be mitigated by the recently approved new fiscal stimulus plan, while in Europe, GDP will fall more steeply – but still significantly less – than during the first wave. The rapid delivery of vaccines will thus be a key variable for the scenario over the next few months and remains partially uncertain at present, but, according to Goldman Sachs estimates, 50% of the population in most advanced economies should be vaccinated by approximately the second quarter.

Beyond the precise timeframe, 2021 will be the year in which global real economy bounces back, driven mainly by the recovery of demand in the sectors that have hitherto suffered the most, particularly tourism, catering and leisure services. It is reasonable to think that the urge to travel again, visit restaurants, watch live shows and do everything that has been prohibited for many months will be extremely strong. Moreover, as has been pointed out in the past, this hypothesis is also supported by the substantial savings accumulated by households in recent months, thanks to fiscal transfers by governments and the simultaneous decline in spending. The Tokyo Olympics, scheduled to take place between July 23 and August 8, could be a symbolic turning point: if they can be celebrated as defiantly as ever, they could mark the final end of the Covid-19 nightmare in the global collective imagination.

Worldwide, World Bank estimates point to 4% growth in 2021 (after a 4.3% decline in 2020), with recoveries that are broad-based but varying in size across countries and regions. The gap between East and West, which has widened in recent months due to better pandemic management in Asian countries, will remain a central theme in the near future: Chinese growth is expected to be around 8% in 2021. It is also symbolic that the estimate of when China will overtake the United States and become the world’s

largest economy (in dollar terms) has been brought forward by five years due to the events of the last year, from 2033 to 2028. But the changes brought about by the pandemic do not end there. While the fall in global demand can largely be considered temporary and will therefore – more or less quickly – recover, some of the trends that have started or accelerated over recent months will remain with us. The adoption of digital in all sectors, the boom in online shopping, remote working and attention to environmental and social issues are just some of the phenomena that will make up a post-pandemic scenario that is in some ways different from the previous one or, as they say, a “new normal.” While it is still too early to draw conclusions, some of these trends, if well exploited and channelled, also have the potential to raise productivity levels by comparison with past years.

From an economic policy perspective, 2021 should still be characterised by a broadly favourable environment: With the global economy still hesitant and public debt rising, central banks will be careful not to remove support prematurely. It is likely – given the expected economic rebound – that inflation will partially recover from its current extremely compressed or even negative levels, as in the case of the eurozone. But much clearer confirmation about the economy’s return to a sustained path of growth will be needed before any shift in policy, not to mention a rate hike, which is expected to remain out of the question for the next 2-3 years. At the same time, this environment favours continued accommodative approaches in the fiscal area, where the pandemic crisis seems to have permanently destroyed the mindset of austerity that existed in the years following the Great Financial Crisis. In Europe, Next Generation EU was a momentous turning point, and in the coming months it will become a reality: the ability of the European countries to properly exploit this opportunity will be tested.

In the US, the new President, who made his debut on January 20, wasted no time in promising “trillions of dollars” of new aid for the economy, which will be primarily rolled out in the form of income support for households and the unemployed, as well as support for small and medium-sized enterprises and those generally most affected by the crisis (such as airlines). There will also be funding for States and local authorities, including for the purpose of speeding up vaccination.

But Biden will also be the man who brings relations with China back into the mainstream – even though tensions are showing no signs of fading – as well as transatlantic relations, with all that this implies in terms of trade and benefits for European industries. Lastly, he will take the US back into the Paris Climate Accord, further intensifying the global focus on climate change.

What can we reasonably expect from the financial markets? In the short term, as they have already moved substantially ahead of the future recovery, continued uncertainty around the health and economic scenario, some possible political stress and rising US yields could lead to temporary episodes of market volatility.

Beyond the physiological shocks, however, the fact that it is early in a new cycle and the prospect of long-term accommodative economic policies remain the key themes guiding strategic investment choices, primarily favouring assets linked to cyclical recovery and long-term growth. High yield bonds, while less rich in terms of spread than they were a few months ago, can still benefit from the improving macro-economic picture and corporate fundamentals, as well as from the support of central banks. The search for yield is also working in favour of emerging markets, which could potentially benefit from reduced geopolitical tensions and dollar weakness. Lastly, the equity market remains the most attractive investment in terms of expected returns over the medium-to-long term given the expected rebound in earnings growth and plenty of cash outstanding: even a modest rise in yields, coupled with a higher growth environment, should be well tolerated overall.

Given the risks typical of the sector to which it belongs and the occurrence of events that are exceptional or that depend on variables that cannot essentially be controlled by the Directors and management (which are currently not possible in any case), a positive operating performance is expected for 2021.

THANK YOU

For all the business successfully done and the results achieved, we would like to extend our heartfelt thanks to the Family Bankers and all employees of every kind at every level who, with their managers, have helped to reach these important goals. We reserve special appreciation and thanks to our customers for choosing us. Finally, we address a respectful greeting to the Bank of Italy, which has supported us and continues to support us with attention and suggestions which are always useful and appreciated, and to the European Central Bank, the prime mover of European banking supervision.

PROPOSAL TO THE SHAREHOLDERS' MEETING

Dear Shareholders,

We guarantee that the draft financial statements for the year ended 31 December 2020, submitted for your examination and approval, have been prepared in accordance with current legislation; in inviting you to approve them together with this report, we propose that you allocate the net profit for the year of €433,980,479.31 as follows:

- 1) the distribution of a dividend of €0.02667 for each ordinary eligible share, gross of statutory withholdings in May 2021, on the profits for the 2020 financial year, and equivalent to the amount permitted by the aforementioned recommendation of the Bank of Italy, according to which the amount currently distributable must be limited to no more than 15% of the cumulative profits of 2019-20 or 20 basis points of the CET1 coefficient (in any case the lesser of two) at the date of approval of the 2020 financial statements;
- 2) the distribution of a dividend in October 2021 of €0.41333 for each ordinary eligible share, gross of statutory withholdings - subject to the absence of new orders and/or recommendations preventing distribution issued by the prudential supervisory authority - on the 2020 profits and €0.34 for each ordinary eligible share, gross of statutory withholdings, on the reserves generated from the profits of previous years;
- 3) the remainder to the extraordinary reserve, in the exact amount resulting from the dividends that will actually be paid from 2020 earnings according to the number of treasury shares and the number of shares in issue at the dividend date.

Basiglio, 03 March 2021

For and on behalf of the Board of Directors
The Chief Executive Officer
Massimo Antonio Doris

Financial statements



STATEMENT OF FINANCIAL POSITION

Assets

Euro	31/12/2020	31/12/2019
10. Cash and cash equivalents	6,781,676	2,439,509
20 Financial assets at fair value through profit or loss	300,742,739	323,262,230
a) Financial assets held for trading	170,433,838	191,994,639
c) Other financial assets mandatorily measured at fair value	130,308,901	131,267,591
30 Financial assets at fair value through other comprehensive income	747,478,035	950,367,546
40. Financial assets measured at amortised cost	25,048,600,275	21,862,341,078
a) Loans to banks	555,931,382	299,692,129
b) Loans to customers	24,492,668,893	21,562,648,949
50. Hedging derivatives	41	23,880
70. Equity investments	1,592,960,294	1,925,359,357
80. Tangible assets	120,735,722	127,912,986
90. Intangible assets	44,955,312	46,208,561
100. Tax assets	198,714,495	237,201,814
a) current	125,826,027	153,525,046
b) deferred	72,888,468	83,676,768
120. Other assets	304,226,128	370,318,341
TOTAL ASSETS	28,365,194,717	25,845,435,302

Liabilities and shareholders' equity

Euro	31/12/2020	31/12/2019
10. Financial liabilities measured at amortised cost	24,745,075,054	22,580,951,293
a) Payables to banks	1,027,252,898	89,127,196
b) Payables to customers	23,717,822,156	22,423,611,632
c) Debt securities in issue	-	68,212,465
20. Financial liabilities held for trading	78,321,799	77,132,061
40. Hedging derivatives	29,317,775	31,042,738
60. Tax liabilities	90,194,417	99,047,807
a) current	74,780,493	71,286,194
b) deferred	15,413,924	27,761,613
80. Other liabilities	380,244,006	434,299,255
90. Employee severance benefits	9,432,949	9,282,853
100. Provisions for liabilities and charges	289,997,670	266,010,978
a) commitments and guarantees given	499,094	405,892
c) other provisions for liabilities and charges	289,498,576	265,605,086
110. Valuation reserves	5,022,539	52,850,196
140. Reserves	1,743,254,778	1,296,203,889
145. Interim dividends	-	(154,044,773)
150. Issue premiums	3,625,818	3,002,040
160. Capital	600,297,407	600,234,006
170. Treasury shares (-)	(43,569,974)	(47,807,978)
180. Net profit (loss) for the year (+/-)	433,980,479	597,230,937
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	28,365,194,717	25,845,435,302

Basiglio, 03 March 2021

For and on behalf of the Board of Directors
The Chief Executive Officer
Massimo Antonio Doris

INCOME STATEMENT

Euro	31/12/2020	31/12/2019
10. Interest income and similar income	272,327,014	270,474,680
of which: interest income calculated using the effective interest method	271,641,224	267,488,979
20. Interest expense and similar expenses	(64,978,743)	(54,229,129)
30. Net interest income	207,348,271	216,245,551
40. Fee and commission income	660,178,690	650,866,212
50. Fee and commission expense	(532,207,906)	(513,602,917)
60. Net fee and commission income	127,970,784	137,263,295
70. Dividends and similar income	3,213,507	14,690,525
80. Net gains (losses) from trading	6,299,671	6,196,208
90. Net gains (losses) from hedging	(2,600,028)	(3,413,034)
100. Gains (losses) from disposal or repurchase of:	(79,051)	(117,781)
a) financial assets measured at amortised cost	986	1,543
b) financial assets at fair value through other comprehensive income	(79,552)	3,646
c) financial liabilities	(485)	(122,970)
110. Net gain/(loss) from other financial assets and liabilities at fair value through profit or loss	(6,920,130)	(3,014,445)
b) other financial assets mandatorily measured at fair value	(6,920,130)	(3,014,445)
120. Operating income	335,233,024	367,850,319
130. Credit-risk induced net value adjustments/write-backs of:	(18,361,722)	(16,389,442)
a) financial assets measured at amortised cost	(18,664,945)	(17,814,972)
b) financial assets at fair value through other comprehensive income	303,223	1,425,530
150. Net profit (loss) from financial operations	316,871,302	351,460,877
160. Administrative expenses:	(409,056,729)	(413,640,609)
a) staff costs	(167,192,080)	(162,399,910)
b) other administrative expenses	(241,864,649)	(251,240,699)
170. Net provisions for liabilities and charges	(52,400,503)	(53,042,623)
a) commitments and guarantees given	(93,202)	(180,711)
b) other net provisions	(52,307,301)	(52,861,912)
180. Net value adjustments/write-backs of tangible assets	(10,983,211)	(10,734,669)
190. Net value adjustments/write-backs of intangible assets	(17,634,038)	(18,878,350)
200. Other operating income/expenses	12,342,223	12,951,748
210. Operating costs	(477,732,258)	(483,344,503)
220. Gains (losses) on equity investments	574,312,825	733,833,617
250. Gains (losses) on disposal of investments	152,426	462
260. Profit (loss) on continuing operations before tax	413,604,295	601,950,453
270. Taxes on income from continuing operations	20,376,184	(4,719,516)
280. Profit (loss) on continuing operations after tax	433,980,479	597,230,937
300. Net profit (loss) for the year	433,980,479	597,230,937

Basiglio, 03 March 2021

For and on behalf of the Board of Directors
The Chief Executive Officer
Massimo Antonio Doris

STATEMENT OF COMPREHENSIVE INCOME

Euro	31/12/2020	31/12/2019
10. Net profit (loss) for the year	433,980,479	597,230,937
Other income net of taxes without reversal to the income statement		
20. Equity securities designated at fair value through other comprehensive income	(33,335,083)	2,041
70. Defined benefit plans	(245,918)	(613,959)
90. Share of valuation reserves of equity investments measured at equity	(15,400,834)	82,528
Other income net of taxes with reversal to the income statement		
140. Financial assets (other than equity securities) at fair value through other comprehensive income	(1,748,013)	6,977,339
160. Share of valuation reserves of equity investments measured at equity	2,902,191	12,783,030
170. Total other income net of taxes	(47,827,657)	19,230,979
180. Comprehensive income (Item 10+170)	386,152,822	616,461,916
190. Consolidated comprehensive income attributable to minority interests		
200. Consolidated comprehensive income attributable to the Parent Company	386,152,822	616,461,916

Basiglio, 03 March 2021

For and on behalf of the Board of Directors
The Chief Executive Officer
Massimo Antonio Doris

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AT 31 DECEMBER 2019

Euro	Balances at 31/12/2018	Change in opening balances	Balances at 01/01/2019	Allocation of previous year's result		Changes in the period								Shareholders' equity at 31/12/2019
				Reserves	Dividends and other destinations	Changes in reserves	Transactions on shareholders' equity						Comprehensi ve income at 31/12/2019	
							Issue of new shares	Share buybacks	Extraordinar y dividend distribution	Change in equity instrument s	Derivativ es on treasury shares	Stock options and performance shares		
Capital:														
a) ordinary shares	600,185,369	-	600,185,369	-	-	-	48,637	-	-	-	-	-	-	600,234,006
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issue premiums	2,501,567	-	2,501,567	-	-	-	500,473	-	-	-	-	-	-	3,002,040
Reserves:														-
a) earnings	1,309,541,637	(1,136,139)	1,308,405,498	(52,073,542)	-	23,956		-	-	-	-		-	1,256,355,912
b) other	34,067,895	-	34,067,895	-	-		-	-	-	-	-	5,780,082	-	39,847,977
Valuation reserves	33,619,217	-	33,619,217	-	-	-	-	-	-	-	-		19,230,979	52,850,196
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interim dividends	(146,477,518)	-	(146,477,518)	-	146,477,518	-	-	-	(154,044,773)			-	-	(154,044,773)
Treasury shares	(53,682,032)	-	(53,682,032)	-	-	-		5,874,054	-	-	-	-	-	(47,807,978)
Net profit (loss) for the year	241,048,642	-	241,048,642	52,073,542	(293,122,184)	-	-	-	-	-	-	-	597,230,937	597,230,937
Shareholders' equity	2,020,804,777	(1,136,139)	2,019,668,638	-	(146,644,666)	23,956	549,110	5,874,054	(154,044,773)	-	-	5,780,082	616,461,916	2,347,668,317

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AT 31 December 2020

				Allocation of previous year's result		Changes in the period								Shareholders' equity at 31/12/2020
Euro	Balances at 31/12/2019	Change in opening balances	Balances at 01/01/2020	Reserves	Dividends and other destinations	Changes in reserves	Transactions on shareholders' equity						Comprehensive income at 31/12/2020	
							Issue of new shares	Share buybacks	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock options and performance shares		
Capital:														
a) ordinary shares	600,234,006	-	600,234,006	-	-	-	63,401	-	-	-	-	-	-	600,297,407
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issue premiums	3,002,040	-	3,002,040	-	-	-	623,778	-	-	-	-	-	-	3,625,818
Reserves:														
a) earnings	1,256,355,912	-	1,256,355,912	443,186,164	-	(218,755)	-	-	-	-	-	-	-	1,699,323,321
b) other	39,847,977	-	39,847,977	-	-	-	-	-	-	-	-	4,083,480	-	43,931,456
Valuation reserves	52,850,196	-	52,850,196	-	-	-	-	-	-	-	-	-	(47,827,657)	5,022,539
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interim dividends	(154,044,773)	-	(154,044,773)	-	154,044,773	-	-	-	-	-	-	-	-	-
Treasury shares	(47,807,978)	-	(47,807,978)	-	-	-	4,238,004	-	-	-	-	-	-	(43,569,974)
Net profit (loss) for the period	597,230,937	-	597,230,937	(443,186,164)	(154,044,773)	-	-	-	-	-	-	-	433,980,479	433,980,479
SHAREHOLDERS' EQUITY	2,347,668,317	-	2,347,668,317	-	-	(218,755)	687,179	4,238,004	-	-	-	4,083,480	386,152,822	2,742,611,046

Basiglio, 03 March 2021

For and on behalf of the Board of Directors
The Chief Executive Officer
Massimo Antonio Doris

STATEMENT OF CASH FLOWS

Indirect method

Euro	31/12/2020	31/12/2019
A. OPERATING ACTIVITIES		
1. Management	569,226,592	731,803,223
– profit (loss) for the year (+/-)	433,980,479	597,230,937
– capital gains/losses on financial assets held for trading and on other financial assets/liabilities at fair value through profit or loss (-/+)	(420,956)	(1,560,411)
– capital gains/losses on hedging activities (+/-)	2,600,028	3,413,034
– credit-risk induced net adjustments/write-backs (+/-)	18,361,722	16,389,442
– net value adjustments/write-backs of tangible and intangible assets (+/- -)	28,617,249	29,613,019
– net provisions for liabilities and charges and other costs/revenues (+/-)	52,400,503	53,042,623
– unpaid taxes, duties and tax credits (+/-)	29,633,929	27,894,497
– other adjustments (+/-)	4,053,638	5,780,082
2. Cash generated by/ utilised for financial assets	(3,303,203,177)	(1,069,934,388)
– financial assets held for trading	28,956,830	253,051,633
– other assets mandatorily measured at fair value	(6,016,383)	(35,064,164)
– financial assets at fair value through other comprehensive income	(79,619,207)	1,668,808,874
– financial assets measured at amortised cost	(3,204,924,142)	(2,088,463,653)
– other assets	(41,600,275)	(868,267,078)
3. Cash generated by/ utilised for financial liabilities	2,081,269,570	337,508,569
– financial liabilities measured at amortised cost	2,164,123,761	460,060,334
– financial liabilities held for trading	1,189,738	(170,073,535)
– other liabilities	(84,043,929)	47,521,770
Net cash generated by/ utilised for operating activities	(652,707,015)	(622,596)
B. INVESTMENT ACTIVITIES		
1. Cash generated by	731,861,195	554,911,573
– dividends received on equity investments	731,861,195	554,876,078
– sales of tangible assets	-	35,495
2. Cash utilised for	(79,737,196)	(260,016,423)
– purchases of equity investments	(56,748,096)	(242,620,000)
– purchases of tangible assets	(6,608,311)	(4,785,581)
– purchases of intangible assets	(16,380,789)	(12,610,842)
Net cash generated by/ utilised for investment activities	652,123,999	294,895,150
C. FINANCING ACTIVITIES		
– issues/purchases of treasury shares	4,301,405	5,922,691
– issues/purchases of equity instruments	623,778	500,473
– dividend distribution and other purposes	-	(300,689,439)
Net cash generated by/ utilised for financing activities	4,925,183	(294,266,275)
NET CASH GENERATED/UTILISED DURING THE YEAR	4,342,167	6,279

KEY

(+) generated

(-) utilised

RECONCILIATION TABLE

Euro	31/12/2020	31/12/2019
Line items		
Cash and cash equivalents at beginning of year	2,439,509	2,433,230
Total net cash generated/ utilised during the year	4,342,167	6,279
Cash and cash equivalents at end of year	6,781,676	2,439,509

Basiglio, 03 March 2021

For and on behalf of the Board of Directors
The Chief Executive Officer
Massimo Antonio Doris

Notes to the financial statements



Part A - Accounting policies

A.1 – GENERAL PART

Section 1 – Declaration of compliance with international accounting standards

The financial statements at 31 December 2020 have been prepared in application of Legislative Decree No. 38 of 28 February 2005, in accordance with the accounting standards issued by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and approved by the European Commission, as established in Community Regulation No. 1606 of 19 July 2002, as subsequently updated.

The financial statements at 31 December 2020 have been prepared on the basis of the “Instructions for the preparation of the financial statements of banks and financial parent companies of banking groups” issued by the Bank of Italy, in the exercise of the powers established by Article 9 of Legislative Decree No. 38/2005 with Circular No. 262 of 22 December 2005, as subsequently updated.

These instructions set out in a binding manner the formats of the financial statements and the methods for compiling them, as well as the contents of the notes. Interpretative documents issued during the course of 2020 by standard setters for the application of accounting standards in the context of the Covid-19 pandemic have also been taken into account in the preparation of the financial statements.

Account has therefore also been taken of the communication of 15 December 2020 – Additions to the provisions of Circular No. 262 “Bank financial statements: formats and rules for preparation” concerning the impacts of Covid-19 and measures in support of the economy and amendments to IAS/IFRS.

The financial statements have been prepared using the international accounting standards in force at 31 December 2020 (including the SIC and IFRIC interpretation documents), the list of which is set out below in the section “A.2 – PART RELATING TO THE MAIN FINANCIAL STATEMENT ITEMS”.

SECTION 2 – General basis of preparation

The financial statements consist of the statement of financial position, income statement, statement of comprehensive income, statement of changes in shareholders’ equity, statement of cash flows and notes to the financial statements. They are also accompanied by a directors’ Report on Operations.

In accordance with the provisions of Article 5 of Legislative Decree No. 38 of 28 February 2005, the financial statements have been prepared using the euro as the reporting currency.

In preparing the financial statements, account has also been taken of the communication of 15 December 2020 – Additions to the provisions of Circular No. 262 “Bank financial statements: formats and rules for preparation” concerning the impacts of Covid-19 and measures in support of the economy and amendments to IAS/IFRS.

The documents issued by European regulatory and supervisory bodies have been taken into account for the reporting. It should also be noted that, in light of the supplement issued by the Bank of Italy in its communication of 15 December 2020, the financial statements as at 31 December 2020 have been prepared taking into account, as applicable, the recommendations contained in the following communications from EBA (European Banking Authority), the ECB (European Central Bank) and ESMA (European Securities and Market Authorities):

- > the EBA Communication of 25 March 2020 “Statement on the application of the prudential framework regarding Default, Forbearance and IFRS 9 in light of COVID 19 measures”;

- > the ESMA Communication of 25 March 2020 "Public Statement. Accounting implications of the Covid-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9";
- > the IFRS Foundation document of 27 March 2020 "IFRS 9 and covid-19 - Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the covid-19 pandemic";
- > The ECB letter of 1 April 2020 "IFRS 9 in the context of the coronavirus (COVID 19) pandemic" addressed to all significant entities;
- > The EBA guidelines of 2 April 2020 "Guidelines on legislative and non-legislative moratorium on loan repayments applied in the light of the COVID 19 crisis";
- > the ESMA Communication of 20 May 2020 "Implications of the COVID-19 outbreak on the half-yearly financial reports";
- > the EBA guidelines of 2 June 2020 "Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID 19 crisis";
- > the ESMA Communication of 28 October 2020 "European common enforcement priorities for 2020 annual financial reports";
- > the EBA guidelines of 2 December 2020 "Guidelines amending Guidelines EBA/GL/2020/02 on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID 19 crisis";
- > the ECB letter of 4 December 2020 "Identification and measurement of credit risk in the context of the coronavirus (COVID 19) pandemic" addressed to all significant entities.

For considerations regarding the main impacts, risks and uncertainties of the health emergency, please see the more detailed information in **Section 4 – Other aspects – Risks, uncertainties and impacts of the COVID-19 epidemic**.

The financial statements and notes include figures for the period under review as well as comparative data at 31 December 2019.

The financial statements have been prepared in accordance with the following general principles:

- > going concern: the financial statements have been prepared on a going concern basis. The directors, in light of key economic and financial indicators, have a reasonable expectation that the Bank will continue to operate in the foreseeable future;
- > accrual basis accounting: the financial statements have been prepared according to the accrual principle;
- > relevance and aggregation: the statement of financial position and income statement schedules consist of items, sub-items and further details.). The schedules are consistent with those defined by the Bank of Italy in Circular 262 of 22 December 2005 as subsequently updated. New items may be added to these schedules if their content cannot be attributed to any of the items already covered by the schedules and only if they are for significant amounts. The statement of financial position, the income statement and the statement of comprehensive income do not include accounts with no amounts, either for the year to which the financial statements refer or for the previous year;
- > presentation: the classification of the financial statement items is constant over the years, unless there are changes that may occur as a result of a new standard or interpretation that require an amendment, on which specific information is provided in the Notes. For each statement of financial position and income statement account, comparative information relating to the previous year is provided, unless an accounting standard or interpretation does not allow this or provides otherwise;

- > prevalence of substance over form: transactions and other events are recognised and represented in accordance with their substance and economic reality.

The Directors of Banca Mediolanum S.p.A. believe that they may reasonably expect that the Company will continue to operate as a going concern for the foreseeable future, and therefore the consolidated financial statements for 2020 have been prepared on a going concern basis. They also specify that they have not found any cause for doubt regarding the going concern principle in the Group's financial position or operating performance.

Contents of the financial statements

Statement of financial position and income statement

The statement of financial position and the income statement consist of items, sub-items and more detailed information (the "of which" within items and sub-items). With respect to the formats defined by the Bank of Italy, items with zero amounts have not been presented, either for the year to which the financial statements relate or for the previous year. In the income statement, revenues are indicated with no sign, whereas costs are shown in parentheses.

Statement of comprehensive income

The statement of comprehensive income consists of items that show the changes in the value of the assets recorded during the year as balancing items to the valuation reserves, net of the relevant tax effect. Negative amounts are presented in parentheses.

Statement of changes in shareholders' equity

The table shows the breakdown of and changes in the shareholders' equity accounts during the reporting year and the previous year, broken down into share capital, capital reserves, earnings reserves and reserves from the valuation of assets or liabilities in the statement of financial position and the income statement. No equity instruments other than ordinary and savings shares were issued.

Statement of cash flows

The statement of cash flows for the reporting year and the previous year has been prepared using the indirect method, whereby cash flows from operating activities are represented by the net result for the year adjusted for the effects of non-monetary transactions. Cash flows are divided between operating activities, investment activities and financing activities. The table shows the flows generated during the year with no sign, while utilised flows are shown in parentheses.

Contents of the Notes to the financial statements

The Notes include the information required by the international accounting standards and Circular No. 262/2005 of the Bank of Italy, as subsequently updated. With respect to the formats defined by the Bank of Italy, the headings of the sections relating to financial statement items with zero amounts have not been presented, for either the year to which the financial statements relate or for the previous year. In the tables relating to the income statement items, revenues are indicated with no sign, whereas costs are shown in parentheses.

It should be noted that the statement of financial position and income statement balances presented in the financial statements at 31 December for the comparative periods have been reclassified in accordance with the provisions of Circular 262, as amended.

SECTION 3 – Events after the reporting date

Merger by incorporation of SIA S.p.A. into NEXI S.p.A.

On 11 February 2021, following the approval by the Boards of Directors of Cassa Depositi e Prestiti, CDP Equity, Mercury UK, SIA and Nexi, the final agreement relating to the merger by incorporation of SIA into Nexi (respectively, the “Merger” and the “Framework Agreement”) was signed, in line with the terms and conditions of the memorandum of understanding signed and announced on 5 October 2020. The closing of the Merger is conditional upon the occurrence of certain standard conditions precedent for transactions of this type, including the obtainment of the relevant authorisations, including that of the competent Antitrust Authority. The transaction will also be subject to a vote under the whitewash mechanism at the Nexi extraordinary general meeting called to approve the Merger. The economic impacts for the Mediolanum Group will be determined on the basis of the share swap on the merger date. On the basis of the information currently available, Banca Mediolanum would hold 7,688,728 new shares of the Company after the Merger.

CEDACRI shares

In the first quarter of 2021 a framework agreement was finalised for the sale of the shares related to Cedacri held in the portfolio of financial assets at fair value through other comprehensive income. This agreement, which provides for the disposal of the shares at a value higher than that recorded at the end of the 2020 financial year, also establishes a series of contractual constraints that will be defined with the purchaser. The relevant capital gain from disposal will be recognised as an increase in shareholders' equity as envisaged for the category to which it belongs in 2021 once the sale has been completed.

It should be noted that in the proposed accounting statement, the fair value of the company in question at 31 December 2020 was assessed by an independent expert on the basis of the most recent plans adopted by the company and the most widely used market practices, and the aforementioned framework agreement was not taken into account as these are circumstances that took place in 2021.

No other events that could have a material effect on the Bank's financial position and earnings results took place after 31 December 2020.

SECTION 4 - Other aspects

Risks, uncertainties and impacts of the Covid-19 epidemic

As expressly referred to in the CONSOB communication and the ESMA recommendations, the section in question highlights the impacts of the spread of the Covid-19 pandemic on the income statement for the period ended 31 December 2020.

During the period under review, the impacts of Covid-19 mainly affected the following line items:

- > measurement of securities at fair value;
- > recurring revenues and management fee income and expense on assets under management;
- > value adjustments to loans and receivables;
- > administrative expenses.

Despite the widespread effects of the Covid-19 pandemic in the economic context, Banca Mediolanum closed the financial statements for the year ended 31 December 2020 with a net profit of €434.0 million, compared with €597.2 million recorded in the comparative period.

The decrease in overall profit was mainly due to the decrease in the “gains/losses from equity investments” item. This item includes the measurement of the profit performance of the subsidiaries measured using the equity method. This performance is mainly attributable to the lower profits recorded by the subsidiaries Mediolanum International Funds (-€146.2 million) and Mediolanum Gestione Fondi (-€58 million) due to lower performance fees realised during 2020. In terms of commercial performance, the period under review was extremely positive, in contrast to the general market situation.

In particular, net inflows were a positive €6,638.0 million, compared with the figure of €3,432.4 million recorded at 31 December 2019. More specifically, net inflows in mutual funds, through both direct investments and investments in unit-linked policies, amounted to €2,966.6 million, up by 48.3% compared with 2019 (31.12.2019: +€2,000.1 million).

Net inflows in other Life insurance products, excluding unit-linked products, amounted to €40.1 million (31.12.2019: +€24.8 million). Assets under administration strongly increased compared with the comparative period, to €3,211.9 million from €946.0 million at 31 December 2019.

With regard to the effects of the review of credit models for the calculation of collective provisions, also in the light of the new parameters resulting from the Covid-19 pandemic, it should be noted that no significant impacts were generated. In fact, credit adjustments increased slightly (considering both the collective and analytical portions) on the comparative period. Item 130 of the income statement amounted to €18.4 million, compared with €16.4 million in the comparative period. For further details, please see the description in Part E - Information on risks and the relevant hedging policies, in the section on credit risk.

Administrative expenses reflect the fact that the extraordinary costs incurred in response to the emergency were substantially offset by savings on activities not performed. The overall impact on the income statement of this type of expenditure is therefore marginal.

Other items of the statement of financial position and their impact on the income statement, such as the allowances for the sales network or other financial liabilities, were determined in continuity with the previous reporting period, as it was not necessary to take into account different variables and assumptions from those previously used.

It is believed that there is a reasonable expectation that the Company will continue to operate as a going concern for the foreseeable future, and therefore the financial statements for 2020 have been prepared on a going concern basis. The directors also believe that the risks and uncertainties that may be encountered in the course of operations, including in view of the effects of Covid-19, are not significant and are therefore not such as to generate doubts over business continuity.

Contractual amendments arising from Covid-19

Contractual amendments and accounting derecognition (IFRS 9)

Banca Mediolanum, among other initiatives, took part in those identified by the “Cura Italia” and “Liquidity” Decrees.

In particular, attention should be drawn to:

- > the possibility for customers with “first home” mortgages to obtain, at their request, the suspension of payments with the subsidy provided by the Gasparrini Fund, consisting of a 50% reduction in the interest (this measure gave rise to 2,311 suspensions totalling €12.8 million in suspended repayments);
- > suspension of repayments on loans to business customers, as provided for by the Cura Italia decree, including €3 million relating to mortgage relationships and €3.5 million relating to lending relationships;
- > participation in the ABI-INPS agreement for the disbursement of advances on Cassa Integrazione (Italian Redundancy Fund) cheques of approximately €2 million involving 1,415 approved credit facilities;
- > the granting of loans guaranteed by the MCC Fund and SACE to companies that suffered damages as a result of Covid-19.
- > In particular, loans of up to €800,000, totalling €89 million, loans above €800,000 with an MCC guarantee, totalling €21.9 million, and loans with a SACE guarantee, totalling €15 million (two loans) were granted.

It should be noted that the impacts of these contractual amendments have had no material effects on the Company’s financial statements. These forbearance measures did not require derecognition of the receivables and the effects of the modifications as defined by IFRS 9 were negligible given the amounts involved.

Amendment of accounting standard IFRS 16

With respect to lease agreements, it should be noted that the company has not applied the “practical expedient” provided for in Regulation (EU) No 1434/2020 following amendments to the term of the loans.

Targeted Longer-Term Refinancing Operations - TLTRO

On 18 June 2020, Banca Mediolanum was allocated €950 million in the Targeted Longer-Term Refinancing Operations III (TLTRO III) auction of the European Central Bank.

In these financial statements, the operation was shown in accordance with IFRS 9, and therefore the measurement of the liability related to the loan received is recognised according to the application of the amortised cost on the basis of “expected cash flows”, considering that the benchmark forecasts of cumulative net lending have been reached according to the financial projections available to the Bank. Specifically, the accrued interest recognised at 31 December 2020 was approximately €5 million. It should also be noted that the funds obtained have been used for the ordinary management of cash flows and conversely no particularly risky investments have been acquired or financing disbursed. As confirmation of this policy, in line with previous years, it should be noted that in 2020 all the risk indicators remained within the Risk Appetite thresholds and within the limits defined in the policy.

Use of estimates

The preparation of these financial statements entailed the use of complex valuations and estimates which had an impact on the assets, liabilities, costs and revenues recognised as well as on the identification and quantification of potential assets and liabilities. The development of such estimates involves the use of available information and the adoption of subjective assessments, also based on historical experience, used to make reasonable assumptions for the recognition of operating events. By their nature, the estimates and assumptions used may vary from one year to the next and, therefore, it cannot be excluded that in subsequent years the values recognised in the financial statements may also vary significantly as a result of changes in the subjective assessments used.

If the uncertainties are more significant and/or the activities being measured are particularly material, the valuation is supported through the use of external consultants/experts.

The main situations in which subjective assessments are most required are:

- > the quantification of impairment losses on loans, equity investments and other financial assets in general;
- > the use of valuation models to recognise the fair value of financial instruments not listed on active markets;
- > assessing the appropriateness of the value of other intangible assets;
- > determining the amounts of staff provisions and provisions for liabilities and charges; and
- > the estimate of tax liabilities and the assessment of the related risk of an unfavourable outcome;
- > estimates and assumptions regarding the recoverability of deferred tax assets;

In some of the cases listed above, the main factors that are estimated and therefore contribute to determining the carrying value of assets and liabilities may be identified.

It should be noted that:

- > to determine the fair value of financial instruments not listed on active markets, if it is necessary to use parameters that cannot be inferred from the market, the main estimates relate, on the one hand, to changes in future financial flows (or also income flows, in the case of shares), possibly contingent on future events and, on the other hand, the level of certain input parameters not listed on active markets;

- > for the allocation to the three credit risk stages provided for in IFRS 9 of loans and debt securities classified among financial assets at amortised cost and financial assets at fair value through other comprehensive income and the calculation of the relevant expected losses, the main estimates relate to: either the determination of the parameters for a significant increase in credit risk, based essentially on models for measuring the probability of default (PD) at the origination of the financial assets and at the reporting date; or the inclusion of forward-looking factors, including macroeconomic factors, for the determination of PD and loss given default (LGD); or the determination of the probability of the sale of impaired financial assets;
- > in determining estimated future cash flows from non-performing loans, certain elements are taken into account: expected recovery times, the estimated realisable value of any guarantees and the costs that are expected to be incurred for the recovery of the credit exposure;
- > for valuations of properties, rents, sale prices, discount rates and capitalisation rates are estimated.
- > for the quantification of provisions for liabilities and charges, the amount of the disbursements necessary to fulfil the obligations is estimated - where possible - taking into account the actual probability of having to utilise resources;
- > for the determination of the items relating to deferred taxation, the probability of an actual future tax liability (taxable temporary differences) is estimated, as well as the degree of reasonable certainty - if any - of future taxable amounts at the time tax deductibility arises (deductible temporary differences and tax losses carried forward).

The directors periodically monitor the estimates and assessments made on the basis of historical performance and other factors deemed reasonable. Due to the uncertainty inherent in these financial statement items, the relative actual values may differ from estimates made due to unexpected elements not known on the estimation date.

A.2 - PART RELATING TO THE MAIN FINANCIAL STATEMENT ITEMS

Accounting standards

This section describes the accounting standards used to prepare the financial statements at 31 December 2020. With regard to the phases of classification, recognition, measurement and derecognition of the various asset and liability items, as well as the methods of recognising revenues and costs, these standards are the same as those used by the Bank in preparing the financial statements for the year ended 31 December 2019.

The following information is provided below:

- > the IFRS accounting standards, amendments and interpretations applied as of 1 January 2020;
- > the IFRS and IFRIC accounting standards, amendments and interpretations endorsed by the European Union that are not yet mandatorily applicable and had not been adopted early by the Group at 31 December 2020;
- > the IFRS accounting standards, amendments and interpretations not yet endorsed by the European Union.

For considerations regarding the main impacts, risks and uncertainties of the health emergency, please see the more detailed information in Section 4 - Other aspects.

IFRS ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLICABLE AS OF 1 JANUARY 2020

The following IFRS accounting standards, amendments and interpretations were applied for the first time by the Group as of 1 January 2020:

- > On 29 March 2018, the IASB published an amendment to the “References to the Conceptual Framework in IFRS Standards”. The conceptual framework defines the fundamental concepts for financial reporting and guides the board in the development of IFRS standards. The document helps to ensure that the standards are conceptually consistent and that similar transactions are treated equally so as to provide useful information to investors, lenders, and other creditors. The conceptual framework helps companies to develop accounting principles when no IFRS standard is applicable to a particular transaction and more generally helps interested parties to understand and interpret the standards.

The adoption of this amendment had no effect on the Company's financial statements.

- > On 22 October 2018, the IASB published the document “Definition of a Business (Amendments to IFRS 3)”. The document provides some clarifications concerning the definition of a business for the purposes of the correct application of the IFRS 3 standard. In particular, the amendment clarifies that while a business usually produces an output, the presence of an output is not strictly necessary to identify a business in the presence of an integrated set of activities/processes and assets. However, to meet the definition of a business, an integrated set of activities/processes and assets must at least include an input and a substantive process that together contribute significantly to the ability to create an output. To this end, the IASB has replaced the term “ability to create output” with “contribute to the ability to create output” to clarify that a business can exist even without the presence of all the inputs and processes needed to create output. The amendment also introduced an optional “concentration test”, which allows a business to be excluded if the price paid is essentially attributable to a single asset or group of assets.

The adoption of this amendment had no effect on the Company's financial statements.

- > On 31 October 2018, the IASB published the document "Definition of Material (Amendments to IAS 1 and IAS 8)". The document introduced an amendment to the definition of "material" in IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The aim of this amendment is to clarify the definition of "material" and to introduce the concept of "obscured information" alongside the concepts of omitted or incorrect information already present in the two standards subject to amendment. The amendment clarifies that information is "obscured" if it has been described in such a way as to produce for the primary readers of financial statements an effect similar to that which would have been produced if such information had been omitted or erroneous. The amendments introduced were endorsed on 29 November 2019.

The adoption of this amendment had no effect on the Company's financial statements.

- > On 26 September 2019, the IASB published an amendment entitled "Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform". This amends IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, as well as IFRS 7 Financial Instruments: Disclosures. In particular, the amendment changes some of the requirements for the application of hedge accounting, providing for temporary derogations from these, in order to mitigate the impact of the uncertainty of the IBOR reform (which is still ongoing) on future cash flows in the period prior to its completion. The amendment also requires companies to provide additional information on their hedging relationships that are directly affected by the uncertainties generated by the reform and to which the above derogations apply.

The adoption of this amendment had no effect on the Company's financial statements.

IFRS AND IFRIC ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS ENDORSED BY THE EUROPEAN UNION, NOT YET MANDATORILY APPLICABLE AND NOT ADOPTED EARLY AT 31 DECEMBER 2020

On 28 May 2020, the IASB issued an amendment to IFRS 16 Leases to make it easier for landlords to account for lease incentives (e.g. rent suspension or temporary rent reduction) arising from the Covid-19 pandemic.

The accounting standard IFRS 16 already envisages how lessees must take account of changes in lease payments, including incentives. In particular, in order to define how changes in lease payments - including incentives - are accounted for, IFRS 16 requires the valuation of individual agreements in order to determine whether incentives are to be considered amendments to the agreement. In this case, the lessee must recalculate the lease liability (and consequently the right of use), using a revised discount rate. IFRS 16 defines an amendment to the lease as a modification of the subject matter or the consideration of the lease not provided for in the original contractual conditions.

The amendment exempts lessees from having to consider individual leases to determine whether the incentives granted as a result of the Covid-19 pandemic are contractual changes and allows them to account for those incentives as if they were not changes, and therefore immediately in the income statement. The practical expedient applies to Covid-19 incentives that reduce rent payments due by 30 June 2021 and does not apply to landlords. The amendment is valid from 1 June 2020, but lessees can apply it immediately in any financial statements, interim or annual, and not yet approved.

The Company did not make use of the option provided for in this amendment.

On 28 August 2020, the IASB published, in light of the IBOR interbank interest rate reform, a document entitled "Interest Rate Benchmark Reform—Phase 2", which contains amendments to the following standards::

- > IFRS 9 Financial Instruments;
- > IAS 39 Financial Instruments: Recognition and Measurement;
- > IFRS 7 Financial Instruments: Disclosures;
- > IFRS 4 Insurance Contracts; and
- > IFRS 16 Leases.

The Phase 2 amendments address issues arising during the reform of benchmark interest rates, including the replacement of a benchmark rate with an alternative. The amendments came into force on 1 January 2021, with early adoption permitted.

The directors do not expect the adoption of these amendments to affect the Company's financial statements.

IFRS ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET ENDORSED BY THE EUROPEAN UNION

It should be noted that during 2020 the IASB published some amendments to IFRS that will enter into force on 1 January 2022. Their adoption is not expected to entail any material impacts on the Company:

- > Amendments to IFRS 3 Business Combinations: these update the reference in IFRS 3 to the Conceptual Framework in the revised version, without this involving changes to the provisions of the Standard;
- > Amendments to IAS 16 Property, Plant and Equipment: these do not allow the amount received from the sale of goods produced before the asset was ready for use to be deducted from the cost of the asset. Such sales revenues and the related costs will be recognised in the income statement;
- > Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: these clarify which cost items must be considered when assessing whether a contract will be loss-making;
- > Annual Improvements to IFRS Standards (Cycle 2018-2020): amendments were made to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments and the Illustrative Examples accompanying IFRS 16 Leases.

Finally, on 15 July 2020, the IASB published the document "Classification of Liabilities as Current or Non-current—Deferral of Effective Date (Amendment to IAS 1)", postponing the entry into force of the amendments to IAS 1 by one year until 1 January 2023. This amendment is intended to clarify that liabilities are classified as current or non-current, depending on the rights existing at the end of the reference period. Classification is not affected by the entity's expectations or events occurring after the reporting date. The amendment also clarifies what IAS 1 means when it refers to the "settlement" of a liability.

1 - Assets at fair value through profit or loss (FVTPL)

Item “20. Financial assets at fair value through profit or loss” includes:

- > Financial assets held for trading;
- > Other financial assets mandatorily measured at fair value

Financial assets held for trading

A financial asset (debt securities, equity securities, UCIs and derivatives) is recognised under this item if it is acquired primarily with the aim of realising cash flows from its sale (the “OTHER” business model) in order to take advantage of profit opportunities. This item includes the positive value of derivative contracts that are not designated and effective as hedging instruments.

Other financial assets mandatorily measured at fair value

Classification criteria

A financial asset (debt securities, equity securities, shares of UCIs) is recognised in this item if it is a financial instrument whose return is measured on the basis of fair value and is characterised by the absence, in contractual terms, of cash flows on pre-established dates that represent only payments of capital and interest on the capital to be repaid, i.e. if the Solely Payment of Principal and Interest test (the SPPI test) is failed.

Recognition criteria

Such instruments are initially recognised at the time of settlement if they are debt securities, equity securities or loans. The initial value is equal to the fair value of the instrument (generally the same as the consideration paid), without considering any transaction costs or income directly attributable to the instruments.

Valuation criteria

After initial recognition, the valuation is made at fair value with the relevant changes recognised in the income statement. In particular:

- > in Item “80. Net gains (losses) from trading” for financial assets recognised in Item “20.a Financial assets held for trading”;
- > in Item “110. b) Net result of other financial assets and liabilities at fair value through profit or loss: other financial assets mandatorily measured at fair value”, for financial assets recognised in Item “20. c) Other financial assets mandatorily measured at fair value”.

The fair value of financial assets is determined based on prices recorded in active markets or on internal valuation models generally used in financial practice as described in more detail in Part A.4 “Fair value reporting”.

Derecognition criteria

Financial assets are derecognised when the contractual rights to the cash flows from the assets expire or when the financial asset is sold with the transfer of substantially all the associated risks/benefits.

Reclassification criteria

Financial assets at fair value through profit or loss, other than equity securities, may be reclassified to “Financial assets at fair value through other comprehensive income” and “Financial assets measured at amortised cost”. Reclassification may occur in the rare event that the entity decides to change its business model for management of financial assets. The transfer value is the fair value at the reclassification date, with forward-looking effects as of that date.

2 - Financial assets at fair value through other comprehensive income (FVOCI)

Classification criteria

This item includes financial assets whose contractual terms provide for cash flows on pre-established dates that represent only payments of capital and interest on the capital to be repaid, and which have therefore passed the SPPI test, and with the Held to Collect and Sell business model, the aim of which is to manage short-term financial instruments solely to meet liquidity needs.

This category also includes equity securities not held for trading purposes and not qualifying as under exclusive, associated or joint control. The option to classify these assets as financial assets at fair value through other comprehensive income applies. This option, which may be exercised at the time of initial recognition of the individual financial instrument, is irrevocable.

Recognition criteria

Initial recognition occurs at the settlement date for debt securities and equities and at the disbursement date for loans.

Initial recognition takes place only when the Company becomes a party to the contractual clauses of the instrument, i.e. at the time of settlement. The carrying value is equal to the fair value, generally the same as the cost of the instrument including directly attributable transaction costs/revenues.

Valuation criteria

After initial recognition, these assets continue to be measured at fair value, with changes in value recognised in Item “I20. Valuation reserves”.

Value adjustments are recognised in the income statement under Item “I30. Credit-risk induced net value adjustments/write-backs”, offsetting Item “I20. Valuation reserves”. Write-backs are recognised when there is an improvement in the creditworthiness of the asset. For the methods of determining fair value, please see the criteria described above for “Financial assets at fair value through profit or loss” and “Part A.4 - Fair value reporting” below.

Derecognition criteria

Financial assets are derecognised when the contractual rights to the cash flows from the assets expire or when the financial assets are sold with the transfer of substantially all the associated risks/benefits. If it is not possible to ascertain the transfer of risks and benefits, financial assets are derecognised when no type of control over them is maintained. Lastly, transferred assets are derecognised if the contractual right to receive the relevant cash flows is maintained, but at the same time a contractual obligation is entered into to pay those cash flows to a third party without delay and only to the extent of those received.

Reclassification criteria

Financial assets at fair value through other comprehensive income, other than equity securities, may be reclassified to the accounting categories “Financial assets at fair value through profit or loss” and “Financial assets measured at amortised cost”. Reclassification may take place under the very rare circumstances in which a decision is made to change the business model. The transfer value is the fair value at the reclassification date.

In the event of reclassification to “Financial assets measured at amortised cost”, the gain/loss accumulated in the valuation reserve is eliminated as a balancing entry to an adjustment to the fair value of the financial asset at the reclassification date.

3 – Financial assets measured at amortised cost

Classification criteria

Item “40. Financial assets measured at amortised cost” includes financial assets (debt securities and loans) whose contractual terms include cash flows on pre-established dates that represent only payments of capital and interest on the capital to be repaid, and which have therefore passed the SPPI test (Held to Collect business model), held with the aim of collecting financial cash flows in the medium to long term.

In particular, the following are recognised under this item:

- a) loans to banks;
- b) loans to customers.

Recognition criteria

Initial recognition of the financial asset occurs at the settlement date for debt securities and at the disbursement date for loans. Upon initial recognition, financial assets are recognised at fair value, which corresponds to the consideration paid, including any costs and income directly attributable to the instrument.

Valuation criteria

After initial recognition, the financial assets in question are measured at amortised cost. Such financial instruments are measured by using the effective interest rate criterion, i.e. the rate that exactly discounts future payments or receipts estimated over the expected life of the financial instrument. In order to determine the effective interest rate, cash flows must be assessed taking into account all the contractual terms of the financial instrument.

The carrying amount is adjusted to take into account any provision to cover expected losses at each annual or interim reporting date. Such assets are tested for impairment to estimate the expected losses, recognised in the income statement under Item “130. Net credit risk-induced adjustments/write-backs”.

The impairment model involves three separate stages based on the evolution of the borrower's creditworthiness, corresponding to different criteria for measuring expected losses:

- > Stage 1: includes performing financial assets for which no significant decrease in credit risk since the date of initial recognition has been observed or whose credit risk is considered low. Impairment is based on the estimated expected loss on a one-year time horizon;
- > Stage 2: includes performing financial assets that have undergone a significant deterioration in credit risk since initial recognition. Impairment is based on the estimated expected loss on a time horizon of the entire remaining life of the financial asset;
- > Stage 3: this includes non-performing financial assets to be valued on the basis of the estimated expected loss over the entire life of the instrument.

For stage 1 and 2 assets, expected losses are determined according to a process that takes into account certain risk parameters, i.e. the probability of default (PD), the loss given default (LGD), and the exposure at default (EAD), derived from internal regulatory credit risk calculation models appropriately adjusted to take into account the specific requirements of the accounting regulations. For level 3 assets, impairment is quantified on the basis of a valuation process – analytical or flat rate based on homogeneous risk categories – designed to determine the present value of recoverable expected future flows, discounted on the basis of the original effective interest rate or a reasonable approximation thereof, where the original rate is not directly available. Non-performing assets include exposures categorised as doubtful, unlikely to pay or past due for more than 90 days, according to the definitions established in applicable supervisory legislation and cited in Bank of Italy Circular No. 262.

Derecognition criteria

Financial assets are derecognised when the contractual rights to the cash flows from the assets expire or when the financial asset is sold with the transfer of substantially all the associated risks/benefits. If it is not possible to ascertain the substantial transfer of risks and benefits, financial assets are derecognised when no type of control over them is maintained.

4 - Hedging transactions

It should be noted that, in accordance with the provisions of IFRS 9, the Company has opted to continue to apply all of the provisions of IAS 39 on hedge accounting.

Classification criteria

Asset and liability items include hedging financial derivatives that, at the reporting date or in the interim period, present a positive and negative fair value, respectively.

The purpose of hedging transactions is to neutralise changes in fair value or cash flows on a certain financial instrument or group of items due to a certain risk, in the event that this particular risk actually occurs.

Of the hedges provided for in IFRS 9, the Company uses fair value hedging, the purpose of which is to hedge exposure to changes in the fair value of a financial statement item due to a particular risk. In particular, the Company has hedged the fair value of a portfolio of fixed rate mortgages against interest rate risk.

Only instruments that involve a counterparty external to the Group can be designated as hedging instruments. Net amounts resulting from imbalances between financial assets and liabilities may not be hedged.

Recognition criteria

Hedging derivatives are recognised at fair value on the date the related contracts are entered into.

Valuation criteria

Hedging derivatives are measured at fair value. As they are accounted for as fair value hedges, changes in the fair value of the hedged item are offset by changes in the fair value of the hedging instrument. Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item (in relation to changes generated by the underlying risk factor).

Any resulting difference, which represents the partial ineffectiveness of the hedge, is the net effect on profit or loss. Fair value is determined on the basis of quoted prices in an active market, prices quoted by market participants or internal valuation models commonly used in financial practice, which take into account all risk factors associated with the instruments and are based on market information. A derivative instrument is recognised as a hedging derivative if there is formal documentation of the hedging relationship between the hedged item and the hedging instrument and if it is effective at the inception of the hedge and, prospectively, throughout the term of the hedge. The effectiveness of a hedging relationship depends on the extent to which changes in the fair value of the hedged item are offset by changes in the hedging instrument. Hedging relationships are generally regarded as effective if, at the inception of the hedge and in subsequent periods, changes in the fair value of the financial hedging instrument are offset by changes in the fair value of the hedged item and if the actual results fall within a defined range (80% - 125%).

Effectiveness is assessed at each year-end reporting date or when interim statements are prepared, using:

- > prospective tests, which justify the application of hedge accounting as they prove expected effectiveness;
- > retrospective tests, which highlight the degree of effectiveness of the hedge in the period to which they refer. In other words, they measure to what extent the actual results differ from the perfect hedge.

If the tests performed do not confirm the effectiveness of the hedge, from that moment on hedge accounting is discontinued, the derivative hedging contract is reclassified to trading instruments and the hedged financial instrument again acquires the measurement criterion corresponding to its classification in the financial statements, and the changes in fair value recognised on the hedged instrument until the date of discontinuation of the hedge are subsequently amortised using the effective interest rate method.

Derecognition criteria

If the tests do not confirm hedge effectiveness, either retrospectively or prospectively, hedge accounting is stopped. The hedging derivative contract is then reclassified to "Financial assets at fair value through profit or loss" and, in particular, to financial assets held for trading. In addition, the hedging relationship ceases when the derivative or hedged item expires, is extinguished or exercised or it is no longer highly likely that the future hedged transaction will be carried out.

Value adjustments

According to IFRS 9, financial assets measured at amortised cost, financial assets at fair value through other comprehensive income (other than equity securities) and off-balance sheet exposures are subject to impairment. In particular, the standard specifies that these instruments should be classified in stages 1, 2 or 3 depending on their creditworthiness compared with initial recognition.

Stage 1 includes all newly acquired exposures or exposures for which the credit risk has not increased significantly since initial recognition. For exposures in this stage, the adjustment recorded in the financial statements is the expected credit loss at one year.

Stage 2 includes credit exposures that have increased significantly, but are not yet non-performing.

Stage 3 includes all non-performing exposures.

Banca Mediolanum has adopted specific models for calculating the one-year expected credit loss for Stage 1 and the lifetime credit loss for Stage 2 and 3 exposures. These models are based on the following parameters:

- > PD: Probability of Default – probability of a default on the credit exposure in a specific time period;
- > LGD: Loss Given Default – percentage estimated loss on occurrence of the default event;
- > EAD: Exposure at Default – exposure at the time of the default of the credit position.

5 – Equity investments

The Equity investments item includes investments in subsidiaries. It should be noted that control exists when an investor simultaneously has:

- > power over the investee;
- > exposure, or rights, to variable returns from its involvement with the investee;
- > the ability to use its power over the investee to affect the amount of the investor's returns. An investor exercises control if it is able to exercise sufficient voting rights to determine the operating and financial policies of the investee. In complex situations, the following are taken into account in determining whether control exists:
 - > the nature of the relevant activities;
 - > how decisions relating to such activities are taken;
 - > whether the rights of investors confer the current ability to direct the activities concerned;
 - > whether the investor is exposed or has rights to variable returns from its involvement with the investee;
 - > whether the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

According to IAS 28, an investor/associate relationship exists when the investor exercises significant influence over an investee. Significant influence is the power to participate in the decisions of the investee's financial and operating policies, without having control or joint control. As a general rule, significant influence is assumed to exist when an entity owns, directly or indirectly through subsidiaries, 20% or more of the voting power of an investee. In more complex situations, for example in cases of stakes lower than 20%, the definition of significant influence takes account of:

- > representation on the board of directors or equivalent body of the investee;
- > participation in decision-making processes, including participation in decisions on dividends or other distributions;
- > significant transactions between the entity and the investee;
- > exchanges of management personnel;
- > the provision of essential technical information.

Section 10 of IAS 27 Separate Financial Statements stipulates that equity investments in subsidiaries are accounted for on a cost basis or in accordance with IFRS 9 or the equity method. With effect from 1 January 2019, the Company adopted the option in the separate financial statements of valuing investments in subsidiaries according to the equity method, as an alternative to the cost method. The equity method provides for initial recognition at cost and subsequent adjustment based on the share of the result and other changes in the shareholders' equity of the investee company. This method involves recognising capital gains/losses from valuation on an accruals basis equal to the net profit generated by the subsidiaries in the period under review. The relevant dividends received are no longer transferred to the income statement but are treated as a simple capital exchange, reducing the value of the investment against the cash received. The equity method has been applied to the entire cluster of wholly owned subsidiaries.

6 – Tangible assets

Classification criteria

Tangible assets include land, operating properties, property investments, technical plant, furniture, fixtures and equipment of any kind.

These are tangible items that are held for use in the production or supply of goods or services, to be leased to third parties, or for administrative purposes and are expected to be used for more than one period.

Any assets used in the context of finance leases are also recorded under this item, although their legal ownership remains with the leasing company.

As of 1 January 2019, the rights of use acquired with a lease relating to the use of a tangible asset (for lessees), assets granted under operating leases (for lessors) and the incremental improvements and expenses incurred on owned assets and rights of use on tangible assets under leases, are also included.

Recognition criteria

Tangible assets are initially recognised at cost, which includes not only the purchase price but also any ancillary costs directly attributable to purchasing and commissioning the asset.

Extraordinary maintenance expenses that increase the future economic benefits associated with the asset are added to the carrying value of the asset, while the costs of day-to-day servicing are recognised in the income statement.

Incremental improvements and expenses incurred on third-party assets arising from lease agreements pursuant to IFRS 16 from which future benefits are expected to flow are recognised, if they are individually identifiable and separable, in item "90. Tangible assets" in the most appropriate category and, if not individually identifiable and separable, under item "90. Tangible assets", as an increase the right of use, recognised in accordance with the provisions of IFRS 16 to which they relate.

Valuation criteria

Tangible assets, including non-operating properties, are valued at cost, less any depreciation and impairment.

Assets are systematically depreciated over their useful life, using the straight-line method as the depreciation criterion, with the exception of land, whether acquired individually or incorporated into the value of buildings, since they have an indefinite useful life. Where the value of land is incorporated into the value of the building due to application of the component approach, it is regarded as an asset that can be separated from the building; the subdivision between the value of the land and the value of the building takes place on the basis of appraisals by independent experts, only in the case of self-contained buildings.

At each interim or year-end reporting date, if there is any evidence that an asset may be impaired, a comparison is made between the carrying value of the asset and its recoverable value, equal to the greater of the fair value, net of any costs to sell, and the relative value in use of the asset, understood as the

present value of future cash flows generated by the asset. Any adjustments are recognised in the income statement. If the grounds for impairment cease to apply, a write-back is recognised, which may not exceed the value that the asset would have had, net of depreciation calculated in the absence of previous impairment.

Derecognition criteria

A tangible asset is derecognised on disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected to flow from its disposal.

Tangible assets represented by right-of-use assets in leases

Under IFRS 16, a lease is an agreement or part of an agreement which, in exchange for a consideration, transfers the right to use an asset (the underlying asset) for a period of time. A financial lease essentially transfers to the lessee all the risks and benefits of ownership of the asset. Otherwise, the agreement constitutes an operating lease.

The lease starts from the date on which the lessee is authorised to exercise its right to use the leased asset and corresponds to the date of initial recognition of the lease. On that date, the lessee records:

- > an asset consisting of the right to use the leased asset. The asset is recognised at cost and determined by the sum of a financial liability for the lease, the lease payments made before or at the inception of the lease, the initial direct costs and any costs incurred to restore or dismantle the underlying asset;

- > a financial liability corresponding to the present value of lease payments due. The discount rate used is, if determinable, the implicit interest rate; otherwise, the lessee's marginal financing rate is used.

The term of the lease is determined taking into account periods covered by an extension option and/or periods covered by a lease termination option, if reasonably certain.

During the term of the lease, the lessee must:

- > assess the right of use at cost, net of accumulated amortisation and cumulative value adjustments determined and accounted for in accordance with IAS 36 Impairment of Assets, adjusted to take account of any redetermination of the lease liability;
- > increase the liability arising from the lease transaction due to the accrual of interest expense calculated at the implicit interest rate of the lease or at the marginal financing rate and reduce it for payments of principal and interest.

In the event of changes in lease payments, the liability must be redetermined; the impact of the redetermination of the liability is recognised as a balancing entry to the asset consisting of the right of use.

The right of use deriving from leases is derecognised from the financial statements at the end of the lease term.

For further information, please see the relevant section of the Notes (Part M – Leases).

7 - Intangible assets

Classification criteria

Intangible assets mainly include application software for multi-year use. Other intangible assets are recognised as such if they are identifiable and arise from legal or contractual rights.

Recognition criteria

Other intangible assets are recognised at cost, adjusted for any ancillary costs only if it is probable that the future economic benefits attributable to the asset will be realised and if the cost of the asset can be reliably determined. Otherwise, the cost of an intangible asset is recognised in the income statement in the year in which it is incurred.

Valuation criteria

The cost of intangible assets is amortised on a straight-line basis over their useful life (mainly defined as three years for software on a flat-rate basis where there are no nullifying elements that can be used to define the useful life). If their useful life is indefinite, the assets are not amortised, but only periodically tested for impairment.

If there is objective evidence that an individual asset may have become impaired, the carrying amount of the asset and its recoverable amount, i.e. the greater of its fair value, less selling costs and its value in use, understood as the present value of the future cash flows that are expected to arise from the asset, are compared. Any value adjustments are recognised under item 220 "Net value adjustments/write-backs of intangible assets" in the income statement.

If the value of an intangible asset previously written down is written back, the new carrying amount may not exceed the net carrying amount that would have been determined if no impairment loss had been recognised in the previous years.

Derecognition criteria

An intangible asset is derecognised from the statement of financial position upon disposal or when no further future economic benefits are expected to arise from its use or disposal, and any difference between its value on disposal or recoverable value and its carrying amount is recognised in the income statement under item 280 "Gains (losses) on disposal of investments".

9 - Current and deferred taxation

The Italian companies of the Mediolanum Group adhere to the "national tax consolidation scheme" regulated by Articles 117-129 of the Consolidated Law on Income Tax (TUIR), introduced by Legislative Decree No. 344/2003. This is an optional scheme under which the taxable profits or tax loss of each subsidiary participating in the tax consolidation – together with withholdings, deductions and tax credits – are consolidated into the Parent Company, for which a single taxable income or single tax loss amount is determined that can be carried forward (given by the algebraic sum of own income/losses and that of the participating subsidiaries and, consequently, a single tax debt/credit).

Under this option, Group companies that are members of the tax consolidation scheme calculate their own tax charge and the corresponding taxable income is consolidated into the Parent Company. In case of tax losses of one or more Group companies against which consolidated taxable profit for the current year is available or against which there is a high probability that future taxable profits will be available, those tax losses are also consolidated into the Parent Company. Income taxes are recognised in the income statement, except for items which are credited/charged directly to shareholders' equity. Provisions for income taxes are calculated on the basis of an estimate of the current, prepaid and deferred tax expense. Prepaid and deferred taxes are calculated in respect of the temporary differences, with no time limit, arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recorded to the extent that it is probable that they will be recovered, i.e. to the extent that the Company – or the Parent Company under Italy's tax consolidation regime – is likely to continue to generate positive taxable income.

Prepaid and deferred taxes are not netted, and are recognised separately in the statement of financial position under "Tax assets" and "Tax liabilities" respectively. Deferred taxes are calculated using the liability method based on the temporary differences recognised at the reporting date between the tax values used for the assets and liabilities and the values reported in the financial statements. Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences and for tax assets and liabilities carried forward, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the tax assets and liabilities can be utilised, unless:

- > the deferred tax asset associated with the deductible temporary differences arises from initial recognition of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, has no effect on the net profit for the year calculated for financial reporting purposes or on the profit or loss calculated for tax purposes;

- > with regard to taxable temporary differences associated with equity investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that deductible temporary differences will reverse in the immediate future and that there are adequate tax profits against which temporary differences can be utilised.
- > Assets and liabilities recognised for prepaid and deferred taxes are systematically measured to take account of any changes in the rules or rates and of any subjectively different situations of the Group companies.

10 – Provisions for liabilities and charges

Commitments and guarantees given

Provisions for liabilities and charges in respect of commitments and guarantees issued are recognised in respect of all commitments and guarantees, both revocable and irrevocable, pursuant to both IFRS 9 and IAS 37. This item includes the estimate of expected loss calculated on these instruments resulting from the valuation process, as described in the section entitled “Value adjustments”.

The provision for the period is recorded under item “200. Net provisions for liabilities and charges – a) commitments and guarantees given”.

Pensions and similar obligations

Pension provisions include provisions relating to employee benefits that will be paid out after termination of employment and may be classed as defined contribution plans or defined benefit plans. In particular:

- > defined benefit plan: provides benefits that depend on different elements, such as age, years of service and remuneration policies. In this case the actuarial risk and the investment risk are substantially borne by the company;
- > defined contribution plan: the company pays predetermined contributions for this type of plan. The benefit is the accumulated amount represented by the contributions and their yield. The provider has no actuarial and/or investment risk associated with this type of plan as it has no legal or implicit obligation to pay additional contributions if the provision does not have sufficient assets to pay benefits to all employees.

Other provisions

Provisions for liabilities and charges are liabilities whose maturity or amount are uncertain. A contingent liability is defined when:

- > the company has a present obligation as a result of a past event;
- > it is likely that the disbursement of resources capable of generating economic benefits will be required to fulfil the obligation;
- > a reliable estimate can be made of the amount arising from fulfilment of the obligation.

The amounts set aside are determined so as to represent the best estimate of the expenditure required to meet the obligations. Risks and uncertainties relating to the facts and circumstances at issue are considered in determining this estimate. The provisions set aside are periodically reviewed and may be adjusted to reflect the best current estimate.

“Other provisions” include, *inter alia*, obligations concerning the benefits payable to agents and in particular the additional customer allowance, the portfolio and structure allowance and managers’ allowance, for agents providing assistance and coordination, whose compensation is based on specific commercial parameters and is granted upon the achievement of an old-age pension – provided that no competing activities have been performed in the two years following the end of the mandate – or in cases of total permanent disability or death. The provision for misconduct by financial advisors, which covers the risk of future liabilities for claims below the deductible threshold of the insurance policy taken out to cover losses suffered by customers as a result of misconduct on the part of financial advisors, is also included.

11 – Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost comprise:

- > Item: “IO. a) Financial liabilities measured at amortised cost: Payables to banks”;
- > Item: “IO. b) Financial liabilities measured at amortised cost: Payables to customers”;
- > Item: “IO. c) Financial liabilities measured at amortised cost: Debt securities in issue”.

Payables recognised by the lessee in the context of lease transactions are also included, as are repurchase agreements for collection and securities lent with receipt of money guarantee which is fully available to the lender. Finally, operating payables associated with the provision of financial services are included.

Recognition criteria

The value at which they are initially recognised is equal to their fair value, usually equal to the consideration received or the issue price including costs/income directly attributable to the transaction. Lease liabilities are recognised on the basis of the present value of future lease payments still to be paid for the contractual term.

Valuation criteria

After initial recognition, medium/long-term financial liabilities are measured at amortised cost using the effective interest rate method as defined above.

Short-term liabilities, for which the time factor is not significant, are valued at cost. Lease liabilities must be redetermined in the event of lease modification. The impact of the redetermination will be recorded as a balancing entry to the right of use asset.

Derecognition criteria

Financial liabilities are derecognised from the financial statements or interim statements when they expire or are extinguished. The difference between the carrying amount of the liability and the amount paid to purchase it is recognised in the income statement.

12 – Financial liabilities held for trading

Financial liabilities held for trading include:

- > trading derivatives with a negative value;

- > uncovered short positions on securities trading.

Recognition criteria

Such financial liabilities are initially recognised on receipt of the sums collected or on settlement of the financial instruments underlying the transaction. The fair value of any financial liabilities issued below market value is subject to assessment and the difference over market value is directly recognised in the income statement. After initial recognition, financial liabilities are measured at fair value.

Valuation criteria

After initial recognition, the financial instruments in question are measured at fair value, with changes in value recognised under Item "80. Net gains (losses) from trading".

Financial liabilities are derecognised when they expire or are extinguished.

Derecognition criteria

Financial liabilities held for trading are derecognised when the contractual rights to the related cash flows expire or when the financial liabilities are transferred with the substantial transfer of all the risks and benefits of their ownership.

14 - Foreign-currency transactions

Assets and liabilities denominated in foreign currencies are recorded, at initial recognition, in the reporting currency, by applying the exchange rate in force on the transaction date to the foreign currency amount.

At each interim or year-end reporting date, financial statement items in foreign currencies are valued as follows:

- > monetary financial assets and liabilities are converted at the exchange rate at the reporting date;
- > non-monetary items measured at historical cost are translated at the exchange rate in force at the transaction date;
- > non-monetary items measured at fair value are converted using the exchange rates in force at the reporting date.

Foreign exchange differences resulting from the settlement of monetary items or the conversion of monetary items at rates other than the initial conversion rates or the conversion rates in the previous financial statements are recognised in the income statement for the period in which they arise.

When a gain or loss relating to a non-monetary item is recognised in shareholders' equity, the foreign exchange difference relating to that item is also recognised in equity. Conversely, when a gain or loss is recognised in the income statement, the relevant foreign exchange difference is also recognised in the income statement.

15 - Other information

Other assets and liabilities

This item includes assets and liabilities not attributable to other assets in the statement of financial position.

Other assets mainly include receivables associated with the provision of non-financial goods or services, and tax payables other than those recorded in item "100. Tax assets" and other assets for transit items that will be settled in the first days of the following year.

Other liabilities mainly include transit items, payables associated with payment for the supply of non-financial goods and services and miscellaneous tax receivables other than those recognised in item "60. Tax liabilities".

Severance benefits

Employee severance benefits are recorded on the basis of the actuarial value calculated in line with the rules for "defined benefit" plans. Future disbursements are estimated on the basis of historical statistical analyses (for example, turnover and pensions) and the demographic curve, including the hypothetical salary increases envisaged by Article 2120 of the Italian Civil Code (application of a rate comprising 1.5% fixed and 75% of the ISTAT inflation index, where applicable). These flows are then discounted using the projected unit credit method. The discounting rate is determined on the basis of the market rates of high-quality bonds, in line with the estimated residual maturity of the commitments. The values thus determined entail the recognition in the income statement of the cost components relating to work and net financial expenses, as well as the recognition of actuarial gains and losses deriving from the remeasurement of liabilities in other comprehensive profits/losses. The amounts accrued from 1 January 2007 allocated to the supplementary pension plan or the INPS treasury fund are classified as a "defined contribution" plan, since the company's obligation to the employee ceases with the payment of the amounts accrued to the fund. These amounts are booked on the basis of the contributions accrued during the year.

Employee pension funds

Defined contribution plans in favour of pension funds for which the company, through payment of contributions, does not assume any further obligation towards the fund members, entail the recognition in the income statement of the benefits accrued during the year.

Share-based payments

IFRS 2 is the accounting standard governing share-based payments.

The stock option plans currently in force are considered payments based on "equity settled" shares. Consequently, the cost of the operation, together with the corresponding increase in shareholders' equity, is recorded with reference to the fair value of the options at the grant date in the period which starts from the grant date of the options themselves and ends on the date on which the right to exercise the options vests (vesting period).

The fair value of the option was calculated using a model that took into account not only information such as the exercise price and life of the option, the current price of the shares and their expected volatility, the expected dividends and the risk-free interest rate, but also the specific characteristics of the plan in place. The option and the probability of realising market conditions are valued separately in the pricing model. The combination of the two values provides the fair value of the granted instrument. The cumulative costs recognised at each reporting date until the vesting date are commensurate with the maturity of the vesting period and the best available estimate of the number of participating instruments that will actually be exercised on vesting.

The reversal of the cost recognised in the income statement in each year represents the change in the cumulative cost between what is recognised at the end of the year and the cumulative cost at the end of the previous year. No cost is recognised for rights that do not reach full accrual. Incentive schemes are also provided for key staff that are based on group share-based payments in accordance with the rules on the remuneration of these staff.

Capital and treasury shares

The capital item includes the amount of shares issued net of the amount of any capital subscribed but not yet paid up at the reporting date. This item is shown gross of the treasury shares held by the Bank. These are recognised in the financial statements under a specific item as a negative component of shareholders' equity.

The original cost of repurchased treasury shares and the gains or losses arising from their subsequent sale are recognised as changes in shareholders' equity.

Dividends on ordinary shares are recorded as a reduction in shareholders' equity in the year in which the Shareholders' Meeting approves their distribution. Any interim dividends are recognised as a negative amount in the liability item "Interim dividends" in the statement of financial position.

Income statement

Revenues

Revenues are gross flows of economic benefits arising from the performance of the company's ordinary business and are recognised at the time when control of the goods or services is transferred to the customer, at an amount representing the consideration to which it is deemed to be entitled. In particular, revenues are recognised through the application of a model that must fulfil the following criteria:

- > the parties to the contract have approved the contract and undertaken to fulfil their respective obligations;
- > the entity may identify the rights of each party with regard to the goods or services to be transferred;
- > determination of the expected consideration for the transfer of the goods or services to the customer (transaction price);
- > recognition of revenues when the obligation to perform is fulfilled by transferring the good or service to the customer.

Interest income and expense

Interest income and expense and similar income and expense relate to cash and cash equivalents and financial instruments classified under IFRS 9 (financial assets held for trading, designated at fair value or mandatorily measured at fair value, measured at fair value through other comprehensive income or measured at amortised cost and financial liabilities at amortised cost).

Interest income and expense is recognised in the income statement for all instruments measured according to the amortised cost criterion, using the effective interest rate method.

Fee and commission income and other income

Fee and commission income and other operating income is recognised in the income statement pursuant to IFRS 15 Revenue from Contracts with Customers. In particular:

- > if the obligation to perform is fulfilled at a given time, the relevant revenue is recognised in the income statement at the time the service is provided;

- > if the obligation to perform is fulfilled over time, the relevant revenue is recognised in the income statement in such a way as to reflect the degree of fulfilment of the obligation.

The amount of revenue recognised under fee and commission income and other operating income is measured according to the contractually agreed amounts.

Dividends

Dividends are recognised in the income statement in the financial year in which the resolution to distribute them is approved.

Costs

Costs are recognised when they are incurred in accordance with the principle of the correlation of costs and revenues. Costs that cannot be associated with revenues are immediately recognised in the income statement. Costs directly attributable to financial instruments measured at amortised cost are recorded in the income statement using the effective interest rate.

In particular, the effective interest criterion is the method of allocating interest income or expense over the duration of a financial asset or liability. The effective interest rate is the rate that exactly discounts future payments or receipts expected over the life of the financial instrument to the net carrying amount of the financial asset or financial liability.

Impairment is recognised in the income statement in the year in which it is recorded.

A.3 - REPORTING OF TRANSFERS OF FINANCIAL ASSETS BETWEEN PORTFOLIOS

A.3.1 Reclassified financial assets: change in business model, carrying amount and interest income

€/t	Type of financial instrument (1)	Reclassified from (2)	Reclassified to (3)	Date of reclassification (4)	Reclassified carrying amount in €/t (5)	Interest income recorded in the year (before tax) (6)
	Debt securities	Financial assets at fair value through other comprehensive income	Financial assets measured at amortised cost	01/10/2018	4,881,692	N.A.

It should be noted that the reclassification date is the date of the accounting effect of the change of business model.

A.3.3 Reclassified financial assets: change in business model and effective interest rate

It should be recalled that in 2018 Banca Mediolanum significantly revised its treasury management. In fact, a significant increase had been observed in the risks associated with the management of its assets invested in bonds (in this regard, it should be recalled that the main portfolio relating to financial instruments was the Held to Collect and Sell or HTCS portfolio, the purpose of which is to recover coupon cash flows while allowing for the option of taking market opportunities). Following an assessment, carried out with the support of an external consultant, the results had shown that external factors such as the changed macro-economic conditions, anti-European tensions and the different regulatory environment in that period could no longer ensure the consistency of the risk associated with the HTCS portfolio with the levels envisaged in the Risk Appetite Framework. The results of the analyses conducted led the Bank to take the strategic decision to maintain the risk profile associated with the Risk Appetite Framework approved at the time, characterised by significant prudence in managing financial portfolios, and therefore to opt for an approach to managing financial instruments designed to prioritise stability in the collection of the cash flows of the securities portfolio in the medium-long term over the possibility of taking any market opportunities. The Held to Collect (HTC) portfolio thus became the predominant portfolio replacing the previous HTCS portfolio. Following the strategic decision by the Board of Directors, all the actions required to roll out the new strategy were taken, in accordance with the requirements of IAS/IFRS. It should be noted that all medium/long-term variable-rate and fixed-rate securities are assigned to the HTC portfolio because the Bank believes them to be more consistent with stable inflows, while short-term fixed-income securities are considered more useful for meeting liquidity needs, which is the specific aim of the new HTCS portfolio.

The Directors of Banca Mediolanum, also with the help of an external accounting expert, therefore changed the business model, as required by IFRS 9.

The new strategic treasury management approach outlined above has resulted in significant growth in the HTC portfolio. The 2020 financial year also confirmed the choice made in terms of the change of business model, confirming the prevalence of the HTC portfolio.

A.4 – FAIR VALUE REPORTING

QUALITATIVE INFORMATION

IFRS 13 establishes a fair value hierarchy according to the degree of observability of the inputs and parameters used to achieve the valuations. Three levels are envisaged:

- > Level 1: the FV of the instruments classified at this level is determined on the basis of price quotations observed in active markets;
- > Level 2: the FV of the instruments classified at this level is determined on the basis of valuation models that mainly use inputs observable in active markets;
- > Level 3: the FV of the instruments classified at this level is determined on the basis of valuation models that mainly use significant inputs not observable in active markets.

The Company has a policy in place for the recognition of the fair value level of individual positions. The policy establishes the rules for both the definition of an “active market” and the consequent operating procedure for valuing portfolios in order to avoid any discretion in the identification of levels. Securities not in any of the above categories are regarded as belonging to an inactive market. As part of coordination activities for all Group companies, the Risk Management function provides methodological and/or operational support to the corresponding risk structures of the companies in the conglomerate, including with regard to the definition of an active market. The following are considered quoted on an active market:

- > securities traded on Italian regulated markets (e.g. MTS (electronic government securities market) and MOT (electronic bond and government securities market));
- > securities traded on organised exchange systems authorised or recognised by Consob (multilateral trading facilities) for which the materiality of the price has been determined by the procedure described below;
- > securities for which an executable quotation is available that meets the following criteria:
 - > the reference time series is complete;
 - > the bid-ask price tolerance thresholds differ according to the financial instrument;
 - > significant variability in the daily price in the reference month;
 - > maximum monthly price variation limit;
 - > maximum limit of the price deviation from a benchmark quotation.

Securities that meet the above criteria are classified as quoted in an active market and their fair value is determined according to the type of financial instrument, as follows:

- > for equity securities listed on the Italian and foreign stock exchanges, the closing price on the last trading day of the reference month;
- > debt securities will be valued at the bid price (for long positions) and the ask price (for short positions) from an executable source.

Financial instruments that are not in active markets are valued by assigning them to fair value Level 2 or Level 3, as discussed above.

A.4.1 Fair value levels 2 and 3: measurement techniques and inputs used

Level 2 instruments comprise bonds of third-party issuers and some derivative instruments. Securities in this category are valued on the basis of directly or indirectly observable market data. The fair value of the bonds is calculated as the sum of the present values at the end of the financial year of the cash flows deriving from them. The discount rate is determined as the sum of two components:

- > the risk-free rate;
- > the credit spread.

The risk-free rate is inferred from the implicit value in IRS (interest rate swap) contracts, while the credit spread is inferred from the price of bonds of the same issuer with a fixed coupon and maturity comparable to the security being valued. Where no securities of the same issuer were present, and for own bonds, a credit spread was used, inferred from a weighted average of the observed values of bonds of the main Italian banks listed on the institutional markets. If the expected values of the flows are not determined, but depend on market variables, they are identified on the basis of:

- > the forward rates implicit in the risk-free rates for the various maturities;
- > the volatility implicit in the prices of swaptions, caps and floors.

The fair value of Level 2 financial derivatives (consisting of amortising interest rate swaps) is determined taking into account their level of collateralisation: in particular, the value of the contracts is calculated by discounting the flows generated by them at rates inferred from the implicit values in OIS (overnight interest swap) contracts and in the relevant basis swap contracts.

Level 3 assets consist of:

- > units of real estate funds;
- > positions in equity securities;
- > units of the Atlante Fund;

The underlying approach of real estate valuations aims to determine fair value through a mark to model, i.e. a theoretical value derived from assumptions that may be applied to different classes of assets regardless of the particular characteristics of the counterparties or the property itself (its specific features, category, geographical location, etc.). The starting point for determining the fair value of the properties (included in the real estate funds) consists of the rents (contractually established) that the tenant of the property undertakes to pay the property owner for an agreed number of years. These rents are discounted and capitalised using:

- > the initial value of the rent received;
- > the discounting rate for the rent received;
- > the final net income capitalisation rate after implementation.

The first rate is obtained through a linear combination of a market indicator, a spread for illiquidity risk, a spread for the risk associated with real estate investment and a spread for sector/planning risk (included in discount rates according to an asset-dependent approach). The marginal impact of each of the four components will therefore reflect the valuer's market sensitivity and its forecasts and expectations regarding market trends. The exit rate, by contrast, is the factor that makes it possible to convert an indication of future income into an indication of present value. This is also determined using a linear combination: the inputs are taken from the financial market and reference real estate market. In particular, the risk out rate is inferred by the valuer by observing transactions in the reference market.

In accordance with current legislation, the assets in real estate funds are valued by independent experts every six months. The valuations, assumptions and inputs used by the independent experts are then approved by the Company's risk management.

For some more significant equity securities, the Bank has determined the fair value of these instruments on the basis of valuation methods provided for in legal theory (DCF) and with the support of external advisors.

The shares measured at fair value Level 3 also include the shares of Sia S.p.A. in which an equity investment of 2.85% is held. Also in this case, the most commonly used methods have been used to determine fair value, with the help of an external advisor specialising in this field of valuation. The main variables used relate to the Company's financial position and are supplemented by recent market transactions. In particular, it should be noted that Banca Mediolanum holds 4,878,325 shares under "Financial assets held for trading" relating to SIA S.p.A. As they are not listed, these shares were valued using approaches deemed consistent with this type of asset class, such as the DDM (dividend discount model) and the multiple method, in the most recent transactions. The approaches described above resulted in a value of the shares held (2.85% of SIA S.p.A.) of €63 million, with a write-up at year-end of €7 million.

It should be noted that the determination of the value at 31 December 2020 did not take into account the recent MoU - Memorandum of Understanding - signed between SIA S.p.A. and Nexi S.p.A. on 5 October 2020, which provides for a future combination of the two companies; if the proposed merger plan is implemented by the two companies (the merger agreement had not yet been signed at the end of 2020, nor had the relevant formalities prior to the merger been fulfilled) and according to the current exchange price assumption described in the MoU, Banca Mediolanum would hold 7,688,728 new shares of the Company post-merger, giving rise to a write-up of the price of the new shares on the basis of the stock prices at which the share exchange will take place.

With respect to the Cedacri S.p.A. equity security, classified in the HTCS portfolio, the fair value of the Company in question at 31 December 2020 was assessed by an independent expert on the basis of the most recent plans adopted by the Company and the most widely used market practices, and the aforementioned negotiations were not taken into account as these circumstances took place in 2021. The carrying amount of these shares as at 31 December 2020 was €77.5 million.

Less significant unlisted equity securities have been assumed to be equal to their historical cost in the absence of facts and information considered sufficiently reliable to determine the fair value reliably, such as recent transactions to be taken as a reference or the presence of inherent characteristics of the company that allow it to be compared with other listed players.

The shares of the Atlante Fund were valued on the basis of the assessments made by the asset management company DEA CAPITAL Alternative Funds SGR.

Fair value level 3 relating to assets and liabilities not measured at fair value on a recurring basis includes receivables and payables from/to customers and banks and real estate assets.

For short-term receivables and payables from/to customers and banks the fair value was assumed to be equal to the carrying amount, as this was considered a good approximation. For medium/long-term performing and non-performing exposures (past due by more than 90 days and unlikely to pay), mainly consisting of loans to customers for mortgage contracts, the measurement of fair value took into account the discounting of contractual flows. A fair value corresponding to the carrying amount was assumed for non-performing exposures (bad loans). The assumptions underlying the determination of fair value, which are specific to the model and not observable in the market, determine classification at Level 3. The fair value of properties directly owned by the Company has, in general, been determined using the “comparative” method.

A.4.2 Valuation processes and sensitivity

For a more detailed analysis of the techniques, inputs and valuation processes adopted for instruments classified in level 3 of the fair value hierarchy, please see the previous paragraph. This section includes the disclosure on fair value required by IFRS 13. Fair value is defined as the consideration that could be received to sell an asset or paid to transfer a liability, in an ordinary transaction between counterparties on the reference market on the measurement date. A financial instrument is considered quoted on an active market if the quoted prices are readily and regularly available on the regulated market (understood as a trading platform, dealer or broker) and such prices represent actual market transactions that take place regularly in normal trading. Alternative valuation models (mark to model) are used if market prices or other observable inputs are not available. Banca Mediolanum uses valuation methods in line with methods generally accepted and used by the market. The valuation models include techniques based on discounting future cash flows (and estimated volatility) and are reviewed periodically to ensure full consistency with the valuation objectives.

A.4.3 Fair value hierarchy

For a description of the fair value hierarchy, please see the paragraph entitled “Fair value reporting – Qualitative information”.

Description of migrations between asset valuation levels

Banca Mediolanum has a policy in place for the recognition of the fair value level of individual positions. The policy establishes the rules for both the definition of an “active market” and the consequent operating procedure for valuing portfolios in order to avoid any discretion in the identification of levels.

With regard to Banca Mediolanum’s portfolio, at 31 August 2020 a change was recorded in the fair value level of one security, from level 1 to level 3. This change was necessary to reflect the discontinuation of listing in accordance with the criteria defined in the Bank’s active market policy. The need to use an internal pricer, also defined through the use of data not directly available on the market, resulted in the assignment of this security to FV level 3.

No other changes in fair value levels were recognised during the monthly controls on the Bank’s securities portfolios.

A.4.4 Other information

There are no situations in which the maximum and best use of a non-financial asset differs from its current use. Moreover, there are no situations in which financial assets and liabilities managed on a net basis relating to market risks or credit risk are measured at fair value on the basis of the price that would be received from the sale of a net long position or the transfer of a net short position.

QUANTITATIVE INFORMATION

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by fair value level

€/t	31/12/2020			31/12/2019		
Assets/liabilities measured at fair value	L1	L2	L3	L1	L2	L3
1. Financial assets at fair value through profit or loss	135,743	624	164,376	163,454	1,929	157,879
a) Financial assets held for trading	102,260	624	67,550	129,547	1,929	60,519
b) Financial assets designated at fair value	-	-	-	-	-	-
c) Other financial assets mandatorily measured at fair value	33,483	-	96,826	33,907	-	97,360
2. Financial assets at fair value through other comprehensive income	664,008	-	83,470	886,873	-	63,494
3. Hedging derivatives	-	-	-	-	24	-
4. Tangible assets	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
TOTAL	799,751	624	247,846	1,050,327	1,953	221,373
1. Financial liabilities held for trading	51	78,271	-	-	77,132	-
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	29,318	-	-	31,043	-
TOTAL	51	107,589	-	-	108,175	-

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

A.4.5.2 Changes during the year in assets measured at fair value on a recurring basis (Level 3)

€/t	Financial assets at fair value through profit or loss				Financial assets at fair value through other comprehensive income	Hedging derivatives	Tangible assets	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily measured at fair value				
1. Opening balances	157,879	60,519	-	97,360	63,494	-	-	-
2. Increases	15,176	8,285	-	6,891	19,976	-	-	-
2.1. Purchases	7,608	730	-	6,878	166	-	-	-
2.2. Profits booked to:	7,568	7,555	-	13	-	-	-	-
2.2.1. Income statement	7,568	7,555	-	13	-	-	-	-
- of which, capital gains	7,438	7,451	-	13	-	-	-	-
2.2.2. Shareholders' equity	-	X	X	X	-	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-	-	-
2.4. Other increases	-	-	-	-	19,810	-	-	-
3. Decreases	(8,679)	(1,254)	-	(7,425)	-	-	-	-
3.1. Sales	(813)	(813)	-	-	-	-	-	-
3.2. Redemptions	(874)	-	-	(874)	-	-	-	-
3.3. Losses charged to:	(6,992)	(441)	-	(6,551)	-	-	-	-
3.3.1. Income statement	(6,992)	(441)	-	(6,551)	-	-	-	-
- of which, capital losses	(7,985)	(420)	-	(7,565)	-	-	-	-
3.3.2. Shareholders' equity	-	X	X	X	-	-	-	-
3.4. Transfers to other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	-	-	-	-	-	-	-	-
4. Closing balances	164,376	67,550	-	96,826	83,470	-	-	-

A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by fair value level

€/t	31/12/2020				31/12/2019			
	CA	LI	L2	L3	CA	LI	L2	L3
1. Financial assets measured at amortised cost	25,048,599	12,913,517	-	13,580,467	21,862,341	11,431,968	-	11,603,943
2. Tangible assets held for investment purposes	-	-	-	-	-	-	-	-
3. Non-current assets and disposal groups	-	-	-	-	-	-	-	-
TOTAL	25,048,599	12,913,517	-	13,580,467	21,862,341	11,431,968	-	11,603,943
1. Financial liabilities measured at amortised cost	24,745,076	-	-	24,748,887	22,580,952	-	68,516	22,520,514
2. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
TOTAL	24,745,076	-	-	24,748,887	22,580,952	-	68,516	22,520,514

Key:
CA = Carrying amount
LI = Level 1
L2 = Level 2
L3 = Level 3

A.5 - REPORTING OF DAY ONE PROFIT/LOSS

Nothing to report

Part B - Information on the statement of financial position

It should be noted that, with regard to the comparative balances, the balances published in the financial statements for the year ended 31 December 2019, reclassified according to Circular 262 of the Bank of Italy Update VI, have been carried forward where necessary.

ASSETS

Section 1 – Cash and cash equivalents – Item 10

1.1 Cash and cash equivalents: breakdown

€/t	31/12/2020	31/12/2019
a) Cash	1,782	2,440
b) Demand deposits with central banks	5,000	-
TOTAL	6,782	2,440

Cash and cash equivalents, amounting to €6,782 thousand (including €87 thousand in foreign currency), consisted of the balance of cash in euro and foreign currency at the Milan 3 branch and the stock of banknotes at ATMs installed at Banco Mediolanum's head office and the office premises of the financial advisors.

Section 2 - Financial assets at fair value through profit or loss - Item 20

2.1 Financial assets held for trading: breakdown by type

€/t	31/12/2020			31/12/2019		
	L1	L2	L3	L1	L2	L3
A. On-balance sheet assets						
1. Debt securities	102,260	-	-	129,546	-	-
1.1 Structured notes	60,426	-	-	49,556	-	-
1.2 Other debt securities	41,834	-	-	79,990	-	-
2. Equity securities	-	-	67,550	-	-	60,519
3. Units in investment funds (UCIs)	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
TOTAL (A)	102,260	-	67,550	129,546	-	60,519
B. Derivative instruments						
1. Financial derivatives	-	624	-	1	1,929	-
1.1 for trading	-	624	-	1	1,99	-
1.2 associated with the fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 for trading	-	-	-	-	-	-
2.2 associated with the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
TOTAL (B)	-	624	-	1	1,929	-
TOTAL (A+B)	102,260	624	67,550	129,547	1,929	60,519

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

The “Equity securities” item recorded a difference of €7.1 million compared with the comparative period. This change is mainly due to the revaluation of SIA S.p.A. shares (+€7 million). For more information, please see paragraph A.4.I. “Fair value levels 2 and 3: valuation techniques and inputs used” and section 3 “Significant events after the reporting date”.

2.2 Financial assets held for trading: breakdown by borrower/issuer/counterparty

€/t	31/12/2020	31/12/2019
A. ON-BALANCE SHEET ASSETS		
1. Debt securities	102,260	129,546
a) Central banks	-	-
b) General governments	6	79,990
c) Banks	102,254	49,556
d) Other financial corporations	-	-
of which: insurance companies	-	-
e) Non-financial corporations	-	-
2. Equity securities	67,550	60,519
a) Banks	-	-
b) Other financial corporations	4,550	4,519
of which: insurance companies	-	-
c) Non-financial corporations	63,000	56,000
d) Other issuers	-	-
3. Units of UCIs	-	-
4. Loans	-	-
a) Central banks	-	-
b) General governments	-	-
c) Banks	-	-
d) Other financial corporations	-	-
of which: insurance companies	-	-
e) Non-financial corporations	-	-
f) Households	-	-
TOTAL (A)	169,810	190,065
B. DERIVATIVE INSTRUMENTS		
a) Central counterparties	-	-
b) Other	624	1,930
TOTAL (B)	624	1,930
TOTAL (A+B)	170,434	191,995

2.5 Other financial assets mandatorily measured at fair value: breakdown by type

€/t	31/12/2020			31/12/2019		
	L1	L2	L3	L1	L2	L3
1. Debt securities	-	-	-	-	-	-
1.1 Structured notes	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Equity securities	-	-	243	-	-	243
3. Units in investment funds (UCIs)	33,483	-	96,583	33,907	-	97,117
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
TOTAL	33,483	-	96,826	33,907	-	97,360

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

2.6 Other financial assets mandatorily measured at fair value: breakdown by borrower/issuer

€/t	31/12/2020	31/12/2019
1. Equity securities	243	243
of which: banks	-	-
of which: other financial corporations	243	243
of which: non-financial corporations	-	-
2. Debt securities	-	-
a) Central banks	-	-
b) General governments	-	-
c) Banks	-	-
d) Other financial corporations	-	-
of which: insurance companies	-	-
e) Non-financial corporations	-	-
3. Units in investment funds (UCIs)	130,066	131,024
4. Loans	-	-
a) Central banks	-	-
b) General governments	-	-
c) Banks	-	-
d) Other financial corporations	-	-
of which: insurance companies	-	-
e) Non-financial corporations	-	-
f) Households	-	-
TOTAL	130,309	131,267

Section 3 – Financial assets at fair value through other comprehensive income – Item 30

3.1 Financial assets at fair value through other comprehensive income: breakdown by type

€/t	31/12/2020			31/12/2019		
	L1	L2	L3	L1	L2	L3
1. Debt securities	493,259	-	-	886,861	-	-
1.1 Structured notes	-	-	-	-	-	-
1.2 Other debt securities	493,259	-	-	886,861	-	-
2. Equity securities	170,749	-	83,470	12	-	63,494
3. Loans	-	-	-	-	-	-
TOTAL	664,008	-	83,470	886,873	-	63,494

Key:

L1 = Level 1
L2 = Level 2
L3 = Level 3

The “equity securities” item increased by €178.7 million compared with the comparative period. It should be recalled that as of 1 January 2020, this item includes among level 1 assets the valuation of the Mediobanca security classified among financial assets at fair value through other comprehensive income.

It should be recalled that on 28 January 2020, the Board of Directors decided to reclassify the equity investment in Mediobanca from a strategic equity investment to a financial equity investment in the Held To Collect and Sell category. For the Mediobanca Group, the investment in Mediobanca had historically been a strategic investment. In particular, due to adherence to the shareholders’ agreement and representation in the corporate bodies, as of 2008 the investment in Mediobanca was classified under “Equity investments in associates and joint ventures”. The strategic nature was also strengthened at the time by the establishment together with Mediobanca of a company with a 50% joint shareholding. However, the strategic relationship underwent a series of events over the years that gradually led to its reconfiguration. In particular, in addition to the disposal of the joint venture, over the years the portion of the share capital within the scope of the shareholders’ agreement gradually decreased from the original 46%, finally falling below the minimum validity threshold of 25% in 2018 due to cancellations. Subsequently, in light of this situation, the remaining shareholders, representing 20.94% of the share capital as of 1 January 2019, signed a new Consultation Agreement that was less stringent than the previous agreement. Unlike the previous shareholders’ agreement, this agreement no longer included any restrictions on the availability of shares, and assigned a more incisive role to the Mediobanca Board of Directors in the submission of the list of directors to the Shareholders’ Meeting.

New external events took place in late 2019, creating a context of particular uncertainty regarding the state of governance of the investee company, with the exit of Unicredit from its shareholder structure and the disposal of its shareholding on the market, and the entry of Delfin into the shareholding structure without entering into the consultation agreement. The corporate bodies were then renewed during 2020. These elements of uncertainty created a need to redefine the strategic position that Banca Mediolanum intended to pursue in allocating this investment, as there was uncertainty as to whether it would actually be possible to significantly influence Mediobanca’s future governance.

The Mediobanca Group therefore decided that the conditions to exercise significant influence in the future did not exist, given the substantial transformation of Mediobanca into a public company, and opted for a change of strategy aimed at maximising the value of the equity investment, no longer from a medium/long-term perspective, but also making use of market opportunities with a view to greater flexibility.

It was therefore decided to reclassify this asset under financial instruments (IFRS 9) in the “Held To Collect & Sell” category. At 31 December 2020, therefore, the share was measured at market value (€7.54 per share), recognising a capital loss on the initial recognition value (€9.8 per share) with a balancing entry in the “Other comprehensive income” (OCI) reserve in equity. The overall gross impact on shareholders’ equity was €51.7 million.

Level 3 capital securities include Cedacri S.p.A. shares with a value of €77.5 million at the end of 2020 (€57.9 million at 31 December

2019). For more information, please see paragraph A.4.I. "Fair value levels 2 and 3: valuation techniques and inputs used" and section 3 "Significant events after the reporting date".

3.2 Financial assets at fair value through other comprehensive income: breakdown by borrower/issuer

€/t	31/12/2020	31/12/2019
1. Debt securities	493,259	886,861
a) Central banks	-	-
b) General governments	391,084	785,703
c) Banks	102,175	101,158
d) Other financial corporations	-	-
of which: insurance companies	-	-
e) Non-financial corporations	-	-
2. Equity securities	254,219	63,506
a) Banks	170,741	-
b) Other issuers:	83,478	63,506
- other financial corporations	310	143
of which: insurance companies	-	-
- non-financial corporations	83,168	63,363
- other	-	-
3. Loans	-	-
a) Central banks	-	-
b) General governments	-	-
c) Banks	-	-
d) Other financial corporations	-	-
of which: insurance companies	-	-
e) Non-financial corporations	-	-
f) Households	-	-
TOTAL	747,478	950,367

3.3 Financial assets at fair value through other comprehensive income: gross value and overall adjustments

€/t		Gross value			Overall value adjustments			Overall partial write-offs*
		Stage 1	of which: Instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Debt securities		493,817	493,817	-	-	(558)	-	-
Loans		-	-	-	-	-	-	-
TOTAL	31/12/2020	493,817	493,817	-	-	(558)	-	-
TOTAL	31/12/2019	887,722	887,722	-	-	(861)	-	-
of which: purchased or originated impaired financial assets		X	X	-	-	X	-	-

* Value to be displayed for information purposes

Section 4 – Financial assets measured at amortised cost – Item 40

4.1 Financial assets measured at amortised cost: breakdown by type of loans to banks (Part 1 of 2)

€/t	31/12/2020					
	Carrying amount			Fair value		
	Stages 1 and 2	Stage 3	of which: purchased or originated impaired	L1	L2	L3
A. Loans to central banks	284,116	-	-	-	-	284,116
1. Deposits at notice	-	-	-	X	X	X
2. Mandatory reserve	284,116	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X
4. Other	-	-	-	X	X	X
B. Loans to banks	271,815	-	-	10,091	-	261,769
1. Loans	261,769	-	-	-	-	261,769
1.1 Current accounts and demand deposits	37,046	-	-	X	X	X
1.2 Deposits at notice	-	-	-	X	X	X
1.3 Other loans:	224,723	-	-	X	X	X
- Reverse repurchase agreements	134,042	-	-	X	X	X
- Leasing loans	-	-	-	X	X	X
- Other	90,681	-	-	X	X	X
2. Debt securities	10,046	-	-	10,091	-	-
2.1 Structured notes	-	-	-	-	-	-
2.2 Other debt securities	10,046	-	-	10,091	-	-
TOTAL	555,931	-	-	10,091	-	545,885

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

4.1 Financial assets measured at amortised cost: breakdown by type of loans to banks (Part 2 of 2)

€/t	31/12/2019					
	Carrying amount			Fair value		
	Stages 1 and 2	Stage 3	of which: purchased or originated impaired	L1	L2	L3
A. Loans to central banks	128,516	-	-	-	-	128,516
1. Deposits at notice	-	-	-	X	X	X
2. Mandatory reserve	128,516	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X
4. Other	-	-	-	X	X	X
B. Loans to banks	171,176	-	-	10,108	-	161,069
1. Loans	161,069	-	-	-	-	161,069
1.1 Current accounts and demand deposits	26,428	-	-	X	X	X
1.2 Deposits at notice	39,600	-	-	X	X	X
1.3 Other loans:	95,041	-	-	X	X	X
- Reverse repurchase agreements	30,137	-	-	X	X	X
- Leasing loans	-	-	-	X	X	X
- Other	64,904	-	-	X	X	X
2. Debt securities	10,107	-	-	10,108	-	-
2.1 Structured notes	-	-	-	-	-	-
2.2 Other debt securities	10,107	-	-	10,108	-	-
TOTAL	299,692	-	-	10,108	-	289,585

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

4.2 Financial assets measured at amortised cost: breakdown of loans to customers by type (Part 1 of 2)

€/t	31/12/2020					
	Carrying amount			Fair value		
	Stages 1 and 2	Stage 3	of which: purchased or originated impaired	L1	L2	L3
1. Loans	11,735,488	58,333	1,885	-	-	13,034,582
1.1 Current accounts	333,086	5,549	-	X	X	X
1.2 Reverse repurchase agreements	-	-	-	X	X	X
1.3 Mortgages	8,145,747	44,351	-	X	X	X
1.4 Credit cards, personal loans and salary-backed loans	1,470,742	6,283	1,669	X	X	X
1.5. Leasing loans	-	-	-	X	X	X
1.6 Factoring	-	-	-	X	X	X
1.7 Other loans	1,785,913	2,150	216	X	X	X
2. Debt securities	12,698,847	-	-	12,903,426	-	-
2.1 Structured notes	-	-	-	-	-	-
2.2 Other debt securities	12,698,847	-	-	12,903,426	-	-
TOTAL	24,434,335	58,333	1,885	12,903,426	-	13,034,582

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

4.2 Financial assets measured at amortised cost: breakdown of loans to customers by type (Part 2 of 2)

€/t	31/12/2019					
	Carrying amount			Fair value		
	Stages 1 and 2	Stage 3	of which: purchased or originated impaired	L1	L2	L3
1. Loans	10,171,595	63,232	1,459	-	-	11,314,358
1.1 Current accounts	271,543	6,963	-	X	X	X
1.2 Reverse repurchase agreements	-	-	-	X	X	X
1.3 Mortgages	7,199,244	47,829	-	X	X	X
1.4 Credit cards, personal loans and salary-backed loans	1,423,988	6,273	1,291	X	X	X
1.5. Leasing loans	-	-	-	X	X	X
1.6 Factoring	-	-	-	X	X	X
1.7 Other loans	1,276,820	2,167	168	X	X	X
2. Debt securities	11,327,822	-	-	11,421,860	-	-
2.1 Structured notes	-	-	-	-	-	-
2.2 Other debt securities	11,327,822	-	-	11,421,860	-	-
TOTAL	21,499,417	63,232	1,459	11,421,860	-	11,314,358

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

4.3 Financial assets measured at amortised cost: breakdown of loans to customers by borrower/issuer

€/t	31/12/2020			31/12/2019		
	Stages 1 and 2	Stage 3	of which: purchased or originated impaired assets	Stages 1 and 2	Stage 3	of which: purchased or originated impaired assets
1. Debt securities	12,698,847	-	-	11,327,822	-	-
a) General governments	12,698,504	-	-	11,327,350	-	-
b) Other financial corporations	343	-	-	472	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial corporations	-	-	-	-	-	-
2. Loans to:	11,735,488	58,333	1,885	10,171,595	63,232	1,459
a) General governments	121	-	-	106	-	-
b) Other financial corporations	1,254,509	2,022	-	918,441	2,083	-
of which: insurance companies	20,104	-	-	17,512	-	-
c) Non-financial corporations	400,224	4,710	165	233,280	8,975	168
d) Households	10,080,634	51,601	1,720	9,019,768	52,174	1,291
TOTAL	24,434,335	58,333	1,885	21,499,417	63,232	1,459

4.4 Financial assets measured at amortised cost: gross value and overall value adjustments

€/t	Gross value				Overall value adjustments			Overall partial write- offs*
	Stage 1	of which: Instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	12,720,207	12,720,207	-	-	(11,314)	-	-	-
Loans	11,794,603	-	521,153	130,785	(16,683)	(17,701)	(72,452)	-
TOTAL 31/12/2020	24,514,810	12,720,207	521,153	130,785	(27,997)	(17,701)	(72,452)	-
TOTAL 31/12/2019	21,334,287	11,348,009	503,957	131,473	(21,574)	(17,561)	(68,241)	-
of which: purchased or originated impaired financial assets	X	X	833	1,549	X	(17)	(479)	-

* Value to be displayed for information purposes

4.4a Loans measured at amortised cost subject to Covid-19 support measures: gross value and overall value adjustments

€/t	Gross value				Overall value adjustments			Overall partial write- offs*
	Stage 1	of which: Instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
1. Loans subject to forbearance compliant with the GL	239,898	-	33,064	1,450	683	1,361	308	-
2. Loans subject to other forbearance measures	-	-	-	-	-	-	-	-
3. New loans	108,288	-	17,944	37	38	231	7	-
Total 31/12/2020	348,186	-	51,008	1,487	721	1,592	315	-
Total 31/12/2019	-	-	-	-	-	-	-	-

* Value to be displayed for information purposes

Section 5 – Hedging derivatives – Item 50

5.1 Hedging derivatives: breakdown by type of hedge and level

€/t	31/12/2020				31/12/2019			
	Fair value			NV	Fair value			NV
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives								
1. Fair value	-	-	-	33,732	-	24	-	44,076
2. Cash flows	-	-	-	-	-	-	-	-
3. Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
TOTAL	-	-	-	33,732	-	24	-	44,076

Key:

NV: Notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

5.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

€/t	Fair value							Cash flows		Foreign inv.
	Specific									
	debt securities and interest rates	equity securities and equity indices	currencies and gold	credit	commodities	other	Generic	Specific	Generic	
1. Financial assets at fair value through other comprehensive income	-	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	-	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
TOTAL ASSETS	-	-	-	-	-	-	-	-	-	-
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
TOTAL LIABILITIES	-		-	-	-	-	-	-	-	
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

Section 7 - Equity investments - Item 70

7.1 Equity investments: information on investment relationships

Company name	Registered office	Operational HQ	% held	% votes available
A. Exclusive subsidiaries				
Mediolanum Vita S.p.A.	Basiglio	Basiglio	100.0%	100%
Mediolanum Comunicazione S.p.A.	Basiglio	Basiglio	100.0%	100%
PI Servizi S.p.A.	Basiglio	Basiglio	100.0%	100%
Mediolanum International Life DAC	Dublin	Dublin	100.0%	100%
Mediolanum Assicurazioni S.p.A.	Basiglio	Basiglio	100.0%	100%
Mediolanum Gestione Fondi SGR p.A.	Basiglio	Basiglio	100.0%	100%
Mediolanum International Funds Ltd*	Dublin	Dublin	95.4%	95.4%
Mediolanum Fiduciaria S.p.A.	Basiglio	Basiglio	100.0%	100%
EuroCQS S.p.A.	Basiglio	Rome	100.0%	100%
Flowe S.p.A. - SB	Basiglio	Basiglio	100.0%	100%
Bankhaus August Lenz & Co. AG	Munich	Munich	100.0%	100%
Banco Mediolanum S.A.	Valencia	Barcelona	100.0%	100%

(*) The remaining 4.54% interest is held indirectly by Banca Mediolanum through Banco Mediolanum. As reported above, on 25 June 2020 the Luxembourg-based company Gamax Management AG was merged by incorporation into Mediolanum International Funds Ltd.

7.2 Significant equity investments: carrying amount, fair value and dividends received

For the reporting regarding this item, please see the description in the consolidated financial statements.

7.3 Significant equity investments: accounting information

For the reporting regarding this item, please see the description in the consolidated financial statements.

7.5 Equity investments: changes during the year

€/t	31/12/2020	31/12/2019
A. Opening balances	1,925,360	1,467,154
B. Increases	680,949	1,068,343
B.1 Purchases	-	94,200
B.2 Write-backs		
B.3 Write-ups	624,201	816,651
B.4 Other changes	56,748	157,492
C. Decreases	(1,013,348)	(610,137)
C.1 Sales		
of which: Business combinations		
C.2 Value adjustments	-	(54,320)
C.3 Write-downs	(62,386)	(15,631)
C.4 Other changes	(950,962)	(540,186)
D. Closing balances	1,592,960	1,925,360
E. Total write-ups	624,201	816,651
F. Total adjustments	(62,386)	(69,951)

As of 2019, the "Equity investments" item includes the valuation of total equity investments using the equity method, as specified in greater detail in the financial statements as at 31 December 2019. According to this valuation method, the items **Write-ups** and **Write-downs** include the share of results and changes in the valuation reserve pertaining to the investee companies and the item **Other decreases** includes the dividends received.

In accordance with IAS 36 and taking into account the recommendations of the joint Bank of Italy/Consob/ISVAP document of 3 March 2010, the reporting on the impairment testing performed on the equity investments in place at 31 December 2020 is provided below. The impairment process aims to verify that the carrying amount of the equity investments does not exceed the recoverable amount, i.e. the greater of the value in use and the possible sale price on the market (fair value net of selling costs or exchange value) of the equity investments. In order to carry out the impairment testing on equity investments, the directors of Banca Mediolanum were assisted by a company with specific experience in company valuations (the independent expert). The impairment testing was conducted on the basis of the methods and assumptions described below.

7.9 Other information

EQUITY INVESTMENTS TESTED FOR IMPAIRMENT

It should be noted that impairment testing is carried out on all equity investments for which there are one or more elements that may constitute specific indicators that require the valuation of the recoverable amount of the equity investment.

In this specific case, in particular, where there is a goodwill value recognised in the consolidated financial statements, within the carrying amount of the equity investment, a specific impairment test is carried out, on the basis of best market practice, in order to assess its recoverability.

It should also be noted that Banca Mediolanum's wholly direct or indirect equity investments are accounted for using the equity method. This approach consists of adjusting the value of the equity investment to the value of the subsidiary's equity at each closing date, unlike any implicit goodwill, which, where present, is tested for impairment. It should also be noted that all the subsidiaries are audited, and the Bank's financial statements, as Parent Company, are approved only after approval of the subsidiaries' financial statements.

At 31 December 2020, impairment testing was carried out for those equity investments presenting goodwill in the consolidated financial statements of the Mediolanum Group, in particular, Banco Mediolanum and EuroCQS.

Equity investment	% held	Carrying amount to be tested for impairment (€/m)
Banco Mediolanum S.A.	100.0%	258.2
EuroCQS S.p.A.	100.0%	64.8

VALUATION METHODS

As in previous years, the recoverable amount of the equity investments has been determined by reference to their value in use.

For the determination of value in use, IAS 36 provides for the possibility of using the financial method known as the Discounted Cash Flow (DCF) method. This method identifies the value in use of an equity investment, or company, by estimating the future (operational) cash flows it generates, discounted to reflect the explicit time frame over which it is assumed that these will be achieved.

In operating practice, when credit companies are valued, the Free Cash Flow to Equity (FCFE) approach, known in the Anglo-Saxon world as the Dividend Discount Model (DDM) in the Excess Capital version, is used. This determines the value of a company on the basis of future cash flows that it will be able to distribute to its shareholders, without affecting the assets necessary to sustain the expected development and in accordance with the capital regulations imposed by the supervisory authority, discounted at a rate that expresses the specific risk. It should also be noted that although the phrase "Dividend Discount Model" contains the word "dividend", the cash flows considered by the model are not the dividends that are expected to be distributed to shareholders, but the cash flows that a shareholder could potentially benefit from within the limits of the capital resources required by company operations.

BANCO MEDIOLANUM

The recoverable value of Banco Mediolanum was estimated considering the value in use obtained from the application of the Excess Capital version of the Dividend Discount Model valuation methodology, in accordance with the prevailing principles, on the basis of the 2021-2025 business plan (2021-2025 Plan) approved by the directors of Banco Mediolanum and Banca Mediolanum S.p.A., updated with the most recent projections.

The 2021-2025 Plan and the recent projections were developed on a reasonable and consistent basis, representing the best estimate currently available to management of the future economic performance of Banco Mediolanum. In particular, the objective of developing Banca Mediolanum's typical business model in Spain has been confirmed, based on the experience and track record of the management of the Mediolanum Group, with sustained development of the sales network and a consequent increase in net funding and assets under management. The plan incorporates an update of the most recent expectations concerning the trend in interest rates in the forecasting period, the expected evolution of funding based on volumes and the sales network in place at 31 December 2020 and the forecast of the profitability of assets under management. The main figures and parameters considered when determining the recoverable value of the equity investment are described below:

- > expected cash flows inferred from the plan's objectives and the most recent projections;
- > growth in the Family Banker sales network, from 1,318 to 3,268;
- > an increase in assets under administration at an average annual rate of 13.2%;
- > the available cash flows were estimated assuming a minimum capitalisation level (CET I ratio) equal to 11.6% of risk-weighted assets (RWAs), in line with the SREP Decision communicated by the Supervisory Authority;
- > the cost of capital was estimated at 10.06% based on the Capital Asset Pricing Model and considering the following parameters:
 - > a risk-free rate of 0.2%, based on the average historical half-yearly return on 10-year bonds issued by the Spanish government;
 - > the beta coefficient of 1.31, which indicates the risk level of a specific equity with respect to the equity market as a whole, estimated on the basis of the average value of a sample of companies operating in the Spanish banking sector;
 - > a market premium, i.e. the difference in the return required by investors for an investment in equity securities compared with a risk-free investment, quantified at 6%, in line with the most common professional practice;
 - > a specific risk premium, estimated conservatively at 2.0% to take into account the volatility underlying the achievement of the plan.

At the end of the explicit planning horizon, Banco Mediolanum's value was estimated on the basis of the available flow in 2025, conservatively excluding the contribution of institutional cash, and considering a long-term growth rate of 1.5%, in line with long-term inflation expectations. Particularly stressed sensitivity analyses were carried out, which concerned, separately:

- > the cost of capital;
- > the long-term growth rate;
- > net profitability.

When reasonable changes were made to the aforementioned basic assumptions, there were no cases in which the recoverable amount of the CGU was less than its carrying amount.

In light of the analyses conducted, the Directors did not identify any elements that would indicate impairment.

BANKHAUS AUGUST LENZ A.G.

As regards the value of the equity investment in the German subsidiary, it should be recalled that at the end of the previous year, in response to the Board resolution of 28 January 2020, this value was substantially reduced to zero due to the allocation of other liabilities amounting to €30 million. This expense was determined during the disposal phase according to the scenarios assumed. At the end of the 2020 financial year, the amounts set aside by the company to meet the estimated disposal costs were €7.7 million, and, at the moment, the provision made in the 2019 financial statements is still considered consistent with the assumed scenarios. For this reason, it was not deemed necessary to make further provisions.

At the end of the current year, the value of the equity investment reflects the capital increases carried out during 2020, after deducting the recurring losses, carried out to cover the ordinary losses generated in 2020 and in the first quarter of 2021.

EUROCQS S.p.A.

The recoverable value of EuroCQS was estimated considering the value in use obtained from the application of the Excess Capital version of the Dividend Discount Model valuation methodology, in accordance with the prevailing principles, on the basis of the Business Plan approved by the directors of EuroCQS S.p.A. and Banca Mediolanum S.p.A.

The Plan and the recent projections were developed on a reasonable and consistent basis, representing the best estimate currently available to management of the future economic performance of the Company.

The valuation quantities and parameters considered when determining the recoverable value are described below:

- > expected cash flows inferred from the plan's objectives and the most recent projections;
- > the cost of equity capital was estimated at 9.72% based on the Capital Asset Pricing Model and considering the following parameters:
- > A risk-free rate of 0.82%, the 6-month average gross yield of 10-year BTPs;
- > a beta coefficient, which indicates the correlation factor between the actual return of a share and the overall return of the reference market, assumed to be 1.15, based on the average value of a sample of companies operating in the consumer finance sector;
- > a market premium, i.e. the difference in the return required by investors for an investment in equity securities compared with a risk-free investment, quantified at 6%, in line with the most common professional practice;
- > a specific risk premium, estimated conservatively at 2.0% to take into account the volatility underlying the achievement of the plan.

At the end of the explicit planning horizon, the value of the equity investment was estimated on the basis of the available flow in 2025. Particularly stressed sensitivity analyses were carried out, which concerned, separately:

- > cost of equity capital;
- > the long-term growth rate;
- > net profitability.

When reasonable changes were made to the aforementioned basic assumptions, there were no cases in which the recoverable amount of the CGU was less than its carrying amount.

In light of the analyses conducted, the directors did not identify any elements that would indicate impairment.

Section 8 - Tangible assets - Item 80

8.1 Tangible assets for business use: breakdown of assets measured at cost

€/t	31/12/2020	31/12/2019
1. Own assets	60,685	63,160
a) land	32,796	32,796
b) buildings	21,125	21,773
c) furniture	2,619	3,339
d) electronic equipment	2,666	2,711
e) other	1,479	2,541
2. Assets acquired under finance leases	60,050	64,753
a) land	-	-
b) buildings	60,053	64,753
c) furniture	-	-
d) electronic equipment	-	-
e) other	-	-
TOTAL	120,736	127,913
of which: obtained through the realisation of collateral	-	-

8.6 Tangible assets for business use: changes during the year

€/t	Land	Buildings	Furniture	Electronic equipment	Other	TOTAL
A. Gross opening balances	32,796	116,645	21,785	22,223	2,797	196,247
A.1 Total net impairment losses	-	(30,120)	(18,446)	(19,512)	(256)	(68,334)
A.2 Net opening balances	32,796	86,526	3,339	2,711	2,541	127,913
B. Increases:	-	5,066	301	1,166	1,128	7,658
B.1 Purchases	-	4,679	299	506	1,128	6,609
- of which business combinations	-	-	-	-	-	-
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Increases in fair value recognised in	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Foreign exchange gains	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	X	X	X	-
B.7 Other changes	-	387	2	660	-	1,049
C. Decreases:	-	10,413	1,021	1,210	2,190	14,834
C.1 Sales	-	-	-	-	-	-
- of which business combinations	-	-	-	-	-	-
C.2 Depreciation	-	8,752	1,021	1,210	-	10,983
C.3 Impairment losses recognised in	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Decreases in fair value recognised in	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Foreign exchange losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) tangible assets held for investment purposes	-	-	X	X	X	-
b) non-current assets and disposal groups	-	-	-	-	-	-
C.7 Other changes	-	1,661	-	-	2,190	3,851
D. Net closing balances	32,796	81,178	2,619	2,666	1,479	120,736
D.1 Total net impairment losses	-	(38,542)	(19,467)	(50,843)	(18,702)	(98,500)
D.2 Gross closing balances	32,796	119,720	22,086	23,389	1,735	199,722
E. Valuation at cost	-	-	-	-	-	-

Section 9 - Intangible assets - Item 90

9.1 Intangible assets: breakdown by type of asset

€/t	31/12/2020		31/12/2019	
	Definite life	Indefinite life	Definite life	Indefinite life
A.1 Goodwill	X	-	X	-
A.2 Other intangible assets	44,955	-	46,209	-
A.2.1 Assets measured at cost	44,955	-	46,209	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	44,955	-	46,209	-
A.2.2 Assets measured at fair value	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
TOTAL	44,955	-	46,209	-

9.2 Intangible assets: changes during the year

€/t	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		TOTAL
		DEF	INDEF	DEF	INDEF	
A. Opening balances				46,209		46,209
A.1 Total net impairment losses				-		-
A.2 Net opening balances				46,209		46,209
B. Increases				16,381		16,381
B.1 Purchases				16,381		16,381
- of which business combinations				-		-
B.2 Increases in internal intangible assets	X			-		-
B.3 Write-backs	X			-		-
B.4 Increases in fair value	-			-		-
- in shareholders' equity	X			-		-
- in the income statement	X			-		-
B.5 Foreign exchange gains				-		-
B.6 Other changes				-		-
C. Decreases				(17,635)		(17,635)
C.1 Sales				-		-
- of which business combinations				-		-
C.2 Value adjustments				(17,635)		(17,635)
- Amortisation	X			(17,635)		(17,635)
- Write-downs	-			-		-
+ shareholders' equity	X			-		-
+ income statement	-			-		-
C.3 Decreases in fair value:	-			-		-
- in shareholders' equity	X	-	-	-	-	-
- in the income statement	X			-		-
C.4 Transfers to non-current assets held for sale	-			-		-
C.5 Foreign exchange losses	-			-		-
C.6 Other changes	-			-		-
D. Net closing balances	-			44,955		44,955
D.1 Total net value adjustments	-			-		-

Section 10 - Tax assets and tax liabilities - Item 100 of assets and Item 60 of liabilities

10.1 Deferred tax assets: breakdown

€/t	31/12/2020	31/12/2019
Offset in the income statement	72,877	83,653
Offset in shareholders' equity	12	24
TOTAL	72,889	83,677

10.2 Deferred tax liabilities: breakdown

€/t	31/12/2020	31/12/2019
Offset in the income statement	(10,857)	(23,853)
Offset in shareholders' equity	(4,557)	(3,909)
TOTAL	(15,414)	(27,762)

10.3 Changes in prepaid taxes (offset in the income statement)

€/t	31/12/2020	31/12/2019
1. Initial amount	83,653	86,159
2. Increases	19,044	17,858
2.1 Prepaid taxes recognised during the year	19,044	17,858
a) relating to previous years	105	169
b) due to the change in accounting policies	-	574
c) write-backs	-	-
d) other	18,939	17,115
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
- of which business combinations	-	-
3. Decreases	(29,820)	(20,364)
3.1 Prepaid taxes cancelled during the year	(29,820)	(19,943)
a) reversals	-	-
b) write-downs due to non-recoverability	-	-
c) due to the change in accounting policies	-	-
d) other	(29,820)	(19,943)
3.2 Reductions in tax rates	-	-
3.3 Other decreases:	-	(421)
a) conversion into tax credits pursuant to Law 214/2011	-	-
b) other	-	(421)
- of which business combinations	-	-
4. Final amount	72,877	83,653

10.3 *bis* Changes in prepaid taxes pursuant to Law 214/2011

€/t	31/12/2020	31/12/2019
1. Initial amount	6,171	6,171
2. Increases	618	-
- of which business combinations	-	-
3. Decreases	(851)	-
3.1 Reversals	(851)	-
3.2 Transformation into tax credits	-	-
a) deriving from operating losses	-	-
b) deriving from tax losses	-	-
3.3 Other decreases	-	-
4. Final amount	5,938	6,171

10.4 Changes in deferred taxes (offset in the income statement)

€/t	31/12/2020	31/12/2019
1. Initial amount	(23,853)	(12,077)
2. Increases	(9,575)	(20,086)
2.1 Deferred taxes recognised in the year	(9,575)	(20,086)
a) relating to previous years	-	-
b) due to the change in accounting policies	-	(108)
c) other	(9,575)	(19,978)
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
- of which business combinations	-	-
3. Decreases	22,571	8,310
3.1 Deferred taxes cancelled during the year	22,571	8,310
a) reversals	-	-
b) due to the change in accounting policies	-	-
c) other	22,571	8,310
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	-
- of which business combinations	-	-
4. Final amount	(10,857)	(23,853)

10.5 Changes in prepaid taxes (offset in shareholders' equity)

€/t	31/12/2020	31/12/2019
1. Initial amount	24	3,218
2. Increases	79	770
2.1 Prepaid taxes recognised during the year	79	770
a) relating to previous years	-	-
b) due to the change in accounting policies	-	574
c) other	79	196
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
- of which business combinations	-	-
3. Decreases	(91)	(3,964)
3.1 Prepaid taxes cancelled during the year	(91)	(3,964)
a) reversals	-	(574)
b) write-downs due to non-recoverability	-	-
c) due to the change in accounting policies	-	-
d) other	(91)	(3,390)
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	-
- of which business combinations	-	-
4. Final amount	12	24

10.6 Changes in deferred taxes (offset in shareholders' equity)

€/t	31/12/2020	31/12/2019
1. Initial amount	(3,909)	(2,949)
2. Increases	(1,472)	(3,253)
2.1 Deferred taxes recognised in the year	(1,472)	(3,253)
a) relating to previous years	-	-
b) due to the change in accounting policies	-	(108)
c) other	(1,472)	(3,145)
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	824	2,293
3.1 Deferred taxes cancelled during the year	824	2,293
a) reversals	-	108
b) due to the change in accounting policies	-	-
c) other	824	2,185
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	-
4. Final amount	(4,557)	(3,909)

10.7 Other information

Tax dispute

With regard to the tax dispute also reported in previous years, on 24 April 2020 the Major Taxpayers Office of the Regional Tax Department for Lombardy served Banca Mediolanum with assessment notices for IRES (corporate income tax) and IRAP (regional production tax) purposes concerning transfer prices for 2015. These assessment notices – which present identical charges to those of previous years – claim total additional taxable income of €94.6 million, including €23.5 million due to a recalculation from 57.43% to 64.25% of the retrocession of the management fees of the mutual funds promoted by the subsidiary Mediolanum International Funds and placed in Italy by the bank, as well as additional taxable income of €70.3 million deriving from the allocation to the bank of 23.83% of the performance fees. In total, additional taxes of €31.2 million were charged (including IRES of €26.0 million and IRAP of €5.3 million). Subsequently, on 8 May 2020, further assessment notices were served for the 2016 year, notifying additional taxable income totalling €70.6 million, including €24.4 million due to a recalculation from 57.43% to 64.25% of the retrocession of management fees, as well as additional taxable income of €46.2 million deriving from the allocation to the bank of performance fees of 21.1%. In total, additional taxes of €23.3 million were charged (including IRES of €19.4 million and IRAP of €3.9 million).

In view of the subjective nature of the charges and the diligent work done by the Company, which prepared the documentation provided for in transfer pricing legislation, the Italian Agency of Revenue has ruled that the administrative tax penalties do not apply. The company challenged the assessment notices with the Milan Provincial Tax Commission. These assessment notices were also issued under the framework settlement agreement signed on 18 December 2018 between the companies of the Mediolanum Group concerned and the Revenue Agency. Accordingly, the receipt of the assessment notices was expected and does not change the risk assessment and the consequent provisioning, as also determined at the time of approval of the 2019 financial statements. The company therefore continued to provision for the higher taxes potentially due in respect of the recalculation of the retrocession of management fees at a percentage of 64.25%, net of the corresponding recovery of the amount already paid to the Irish tax authorities in respect of such higher taxable income.

As previously reported, no provision has been made for the allocation to the bank of the performance fees, as there was confidence, partly due to the support of an authoritative tax firm, that during the arbitration procedure this finding will not be upheld, in line with market practice and evidence.

Arbitration proceedings

For the assessment notices relating to the years 2014 (served on 19 December 2019), 2015 and 2016, applications were submitted in May 2020 for the commencement of the procedure provided for by European Arbitration Convention No. 90/436/EC (the "MAP"), which allows the decision to be referred to arbitration between the Italian and Irish tax authorities.

With regard to the years 2010-2013, in June 2020 the amicable treaty procedure commenced pursuant to Article 24 of the Convention against double taxation between Italy and Ireland, the aim of which is to obtain a tax credit from the Irish authority corresponding to the higher taxable income assessed in Italy. This application was declared admissible by the competent Italian authorities on 11 November 2020. For the years 2019 to 2023, recourse was instead made to an Advanced Pricing Agreement (by application submitted on 1 August 2019), in which the tax authorities are asked to agree on the correct remuneration to be received by the Company from its Irish affiliate.

As at 31 December 2020, the total provision set aside for the above dispute was €28.8 million and the charge for the period under review was €4.3 million.

Section 12 - Other assets - Item 120

12.1 Other assets: breakdown

€/t	31/12/2020	31/12/2019
Receivables from the tax authorities	108,530	165,413
Receivables from financial advisors	III	1,241
Advances to suppliers and professionals	9,229	5,970
Security deposits	252	246
Receivables from employees	III	129
Other receivables	122,296	117,906
Assets for transit items	19,300	24,020
Accrued income	2,967	16,151
Prepaid expenses	14,102	10,966
Receivables from parent companies, subsidiaries, associates and affiliates	6,239	7,802
Other sundry assets	21,089	20,474
TOTAL	304,226	370,318

LIABILITIES

Section 1 - Financial liabilities measured at amortised cost - Item 10

1.1 Financial liabilities measured at amortised cost: breakdown of payables to banks by type

€/t	31/12/2020				31/12/2019			
	CA	Fair value			CA	Fair value		
		L1	L2	L3		L1	L2	L3
1. Payables to central banks	944,986	X	X	X	-	X	X	X
2. Payables to banks	82,267	X	X	X	89,127	X	X	X
2.1 Current accounts and demand deposits	75,652	X	X	X	65,382	X	X	X
2.2 Deposits at notice	4,076	X	X	X	20,513	X	X	X
2.3 Loans	-	X	X	X	-	X	X	X
2.3.1 Repurchase agreements	-	X	X	X	-	X	X	X
2.3.2 Other	-	X	X	X	-	X	X	X
2.4 Payables for commitments to repurchase own instruments	-	X	X	X	-	X	X	X
2.5 Lease liabilities	1,615	X	X	X	1,839	X	X	X
2.6 Other payables	924	X	X	X	1,393	X	X	X
TOTAL	1,027,253	-	-	1,027,253	89,127	-	-	89,127

Key:

CA = Carrying amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

Payables to banks amounted to €1,027.2 million, up compared with the figure at 31 December 2019 (€89.1 million). The change was primarily due to growth in payables to central banks (+€945 million).

1.2 Financial liabilities measured at amortised cost: breakdown of payables to customers by type

€/t	31/12/2020				31/12/2019			
	CA	Fair value			CA	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	20,972,087	X	X	X	17,854,405	X	X	X
2. Deposits at notice	71,675	X	X	X	220,942	X	X	X
3. Loans	2,360,318	X	X	X	4,049,505	X	X	X
3.1 Repurchase agreements	2,360,318	X	X	X	4,049,505	X	X	X
3.2 Other	-	X	X	X	-	X	X	X
4. Payables for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Lease liabilities	60,769	X	X	X	64,740	X	X	X
6. Other payables	252,973	X	X	X	234,020	X	X	X
TOTAL	23,717,822	-	-	23,721,634	22,423,612	-	-	22,431,387

Key:
CA = Carrying amount
L1 = Level 1
L2 = Level 2
L3 = Level 3

Payables to customers came to €23,717.8 million, up €1,294.2 million compared with 31 December 2019. The increase was mainly due to growth in current accounts and demand deposits (+€3,117.7 million). This change was partially offset by the decrease in payables for repurchase agreements of €1,689.2 million.

1.3 Financial liabilities measured at amortised cost: breakdown of securities in issue by type

€/t	31/12/2020				31/12/2019			
	CA	Fair value			CA	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. Bonds	-	-	-	-	68,213	-	68,516	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	-	-	-	-	68,213	-	68,516	-
2. Other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
TOTAL	-	-	-	-	68,213	-	68,516	-

Key:
CA = Carrying amount
L1=Level 1
L2=Level 2
L3=Level 3

1.4 Details of subordinated payables/securities

€/t	31/12/2020	31/12/2019
Subordinated securities	-	11,834
- banks	-	-
- customers	-	11,834
TOTAL	-	11,834

1.6 Lease liabilities

€/t	31.12.2020	
Breakdown of contractual flows of lease agreements according to the contractual term	Payables to banks	Payables to customers
Up to 1 year		154
Over 2 years to 3 years		43
Over 3 years to 4 years		429
Over 4 years to 5 years		1,330
Over 5 years	1,615	58,812
Overall total	1,615	60,769

Section 2 - Financial liabilities held for trading - Item 20

2.1 Financial liabilities held for trading: breakdown by type

€/t	31/12/2020					31/12/2019				
	NV	Fair value			Fair value *	NV	Fair value			Fair value *
		L1	L2	L3			L1	L2	L3	
A. On-balance sheet liabilities										
1. Payables to banks	-	-	-	-	-	-	-	-	-	-
2. Payables to customers	50	51	-	-	51	-	-	-	-	-
3. Debt securities	-	-	-	-	X	-	-	-	-	X
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
TOTAL (A)	50	51	-	-	51	-	-	-	-	-
B. Derivative instruments										
1. Financial derivatives	X	-	78,271	-	X	X	-	77,132	-	X
1.1 For trading	X	-	78,271	-	X	X	-	77,132	-	X
1.2 Associated with the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	X	-	-	-	X	X	-	-	-	X
2.1 For trading	X	-	-	-	X	X	-	-	-	X
2.2 Associated with the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
TOTAL (B)	X	-	78,271	-	X	X	-	77,132	-	X
TOTAL (A+B)	X	51	78,271	-	X	X	-	77,132	-	X

Key:

NV= Nominal or notional value

L1=Level 1

L2=Level 2

L3=Level 3

Fair value*= Fair value calculated excluding changes in value due to a change in the issuer's credit rating since the issue date

Section 4 – Hedging derivatives – Item 40

4.1 Hedging derivatives: breakdown by type of hedge and hierarchical level

€/t	31/12/2020				31/12/2019			
	Fair value			NV	Fair value			NV
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives	-	29,318	-	93,051	-	31,043	-	108,282
1) Fair value	-	29,318	-	93,051	-	31,043	-	108,282
2) Cash flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-	-	-	-
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
TOTAL	-	29,318	-	93,051	-	31,043	-	108,282

Key:
 NV= Notional value
 L1 = Level 1
 L2 = Level 2
 L3 = Level 3

4.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

€/t	Fair value							Cash flows		Foreign inv.
	Specific									
	debt securities and interest rates	equity securities and equity indices	currencies and gold	credit	commodities	other	Generic	Specific	Generic	
1. Financial assets at fair value through other comprehensive income	-	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	29,318	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
TOTAL ASSETS	29,318	-	-	-	-	-	-	-	-	-
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
TOTAL LIABILITIES	-	-	-	-	-	-	-	-	-	-
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

Section 6 - Tax Liabilities - Item 60

For the tables relating to quantitative data, please see Section 10 of the assets section.

Section 8 - Other liabilities - Item 80

8.1 Other liabilities: breakdown

€/t	31/12/2020	31/12/2019
Provision for agency termination indemnities	5,739	5,491
Payables to promoters, producers and mediators	46,173	27,255
Trade payables	48,740	48,886
Payables to parent companies, subsidiaries and associates	3,039	4,622
Payables to the tax authorities	32,814	96,966
Social security contributions	6,797	6,667
Payables to employees	22,080	23,390
Payables to professionals, directors and statutory auditors	2,087	2,230
Security deposits	13	13
Payables for transit items	199,345	204,935
Deferred income	3,368	4,010
Accrued expenses	322	334
Other sundry liabilities	9,727	9,500
TOTAL	380,244	434,299

Payables for transit items include RID payment instructions, bank transfers arranged by customers and settled on the Interbank Network in the early days of 2021 and other items in processing that are regularly closed during the early days of the new year.

Trade payables refer to goods and services received and not yet settled at the reporting date.

Payables to promoters, producers and mediators mainly include commissions to be paid to the network on new business.

Other sundry liabilities primarily consist of taxes to be paid on behalf of customers through F24.

Section 9 - Employee termination benefits - Item 90

9.1 Employee termination benefits: changes during the year

€/t	31/12/2020	31/12/2019
A. Opening balances	9,283	8,495
B. Increases	6,542	6,831
B.1 Provision for the year	6,188	5,917
B.2 Other changes	354	914
C. Decreases	(6,392)	(6,043)
C.1 Settlement payments	(6,352)	(6,043)
C.2 Other changes	(40)	-
D. Closing balances	9,433	9,283
TOTAL	9,433	9,283

9.2 Other information

As described in "Part A - Accounting policies", post-employment benefits, as a result of the supplementary pension scheme reform, are recognised under this item, and relate, for companies with an average of at least 50 employees during 2006, only to the portion accrued to 31 December 2006.

The provision therefore does not include portions that, as a result of the above reform, are paid into supplementary pension schemes or into the INPS treasury fund. Employee severance benefits accrued from 1 January 2007 constitute a "defined contribution plan" and are recognised in staff costs on the basis of the contributions due without the application of actuarial calculation methods.

The main assumptions used are:

- Mortality rate: table SIM2001;
- Inflation rate: 1.5%;
- Frequency rate of advance employee severance benefits: 3.7%;
- Turnover rate: 6%.

The discount rate adopted for the provision for employee severance benefits is consistent with the risk level of the cash flows to be discounted of liabilities by maturity and reflects current market conditions.

Section 10 - Provisions for liabilities and charges - Item 100

10.1 Provisions for liabilities and charges: breakdown

€/t	31/12/2020	31/12/2019
1. Provisions for credit risk relating to commitments and financial guarantees given	118	31
2. Provisions on other commitments and guarantees given	381	375
3. Company pension funds	-	-
4. Other provisions for liabilities and charges	289,498	265,605
4.1 legal and tax disputes	10,505	10,946
4.2 staff costs	-	-
4.3 other	278,993	254,659
TOTAL	289,997	266,011

10.2 Provisions for liabilities and charges: changes during the year

€/t	Provisions on other commitments and guarantees given	Pension funds	Other provisions for liabilities and charges	TOTAL
A. Opening balances	375		265,605	265,980
B. Increases	17		66,593	66,610
B.1 Provision for the year	-		52,161	52,161
B.2 Changes due to the passage of time	-		2,739	2,739
B.3 Changes due to changes in the discount rate	-		11,693	11,693
B.4 Other changes	17		-	17
- of which business combinations	-		-	-
C. Decreases	(11)		(42,700)	(42,711)
C.1 Utilisation during the year	-		(28,414)	(28,414)
C.2 Changes due to changes in the discount rate	-		-	-
C.3 Other changes	(11)		(14,286)	(14,297)
- of which business combinations	-		-	-
D. Closing balances	381		289,498	289,879

10.3 Provisions for credit risk relating to commitments and financial guarantees given

€/t	Provisions for credit risk relating to commitments and financial guarantees given			
	Stage 1	Stage 2	Stage 3	TOTAL
1. Commitments to disburse funds	116	2	-	118
2. Financial guarantees given	-	-	-	-
TOTAL	116	2	-	118

10.6 Provisions for liabilities and charges: other provisions

€/t	Balance as at 31/12/2019	Allocations in the period	Other changes	Utilisations in the period	Balance as at 31/12/2020
Provision name:					
- legal disputes	10,946	2,140	(1,817)	(764)	10,505
- other:					
Managers' allowance	79,868	15,986	(4,584)	(14,377)	76,893
Risk of misconduct by financial advisors	13,921	5,855	(5,474)	(1,549)	12,753
Additional customer allowance	118,442	24,678	(1,232)	(3,178)	138,710
Portfolio and structure allowance	33,868	13,791	(984)	(5,823)	40,852
Future expenses on distributed products	4,355	-	-	(693)	3,662
Sundry provisions	4,205	4,142	(194)	(2,030)	6,123
TOTAL	265,605	66,592	(14,285)	(28,414)	289,498

The above table shows the breakdown of, and changes in, the provisions in question.

The main estimation methods used to determine the provisions described above are described below.

The **Provision for legal disputes** mainly includes liabilities of a legal nature relating to pre-litigation and/or litigation situations, including the relevant portion of legal expenses. This provision is the result of reasonable and prudent estimates made by the legal department and is based on the success rates attributed to each case.

The **Additional customer allowance** comprises the legal indemnity payable to financial advisors when the service is terminated on their presumed retirement date. The basis of calculation depends on the commissions accrued, to which the statutory rates are applied. The liabilities thus determined are then subject to statistical-actuarial assessments, in order to take due account of other factors, such as turnover rates derived from the historical trend, the average duration of the liability and the associated discounting factors as well as estimated early disbursement dates - with respect to the presumed end date of the service - where there are circumstances such as a permanent allowance or death which provide for a simultaneous payment of the indemnity.

The **Provision for the risk of misconduct by financial advisors** includes estimated financial disbursements for liabilities incurred and expected to be incurred by the Bank for damage caused to customers due to misconduct by its network of financial advisors. This provision is the result of reasonable and prudent estimates by management, basing their assumptions on historical trends in losses that also take account of the most recent observations.

In addition to the contractual allowances due, the Group, through its own voluntary regulations, *-Regulations for Bonus Allowances* - pays additional and bonus allowances to its financial advisors for which appropriate provisions are made. These regulations are voluntary and discretionary in nature. The Bank can therefore update them at its sole discretion. At present, the amounts that may be necessary for the allowances provided for in the Regulations are reflected in the following provisions:

- > The **Managers' allowance** includes estimated liabilities of a solely bonus nature, i.e. not allowances due pursuant to law, which will be paid solely and exclusively to a specific category of identified agents who oversee, assist and coordinate several agent structures at regional and national level for specific business targets. The calculation is based on the remuneration received multiplied by a corrective factor and correlated to the expected payment date, which is the date on which the service will end on retirement. The liabilities thus determined are then subject to statistical-actuarial assessments, in order to take due account of other factors, such as turnover rates derived from the historical trend, the average duration of the liability and the associated discounting factors as well as estimated early disbursement dates - with respect to the presumed end date of the service - where there are circumstances such as a permanent allowance or death which provide for a simultaneous payment of the indemnity. It should also be noted that the payment, scheduled to take place within three years of the date of termination of the agency mandate, is in any case subject to conditions of access, first and foremost an absence of competitive activity in the two years following the termination of the mandate.
- > The **Portfolio and structure allowance** comprises the estimated contingent liabilities that may be created if the Bank, interposing itself between the financial adviser who transfers the portfolio and/or the structure and the financial advisor who acquires the portfolio and/or structure, records charges that may mainly be generated due to either a mismatch of cash flows between the transferring and succeeding financial advisers or a financial adviser's inability to satisfy the payables arising due to succession. It should be noted that the Regulations for Bonus Allowances adopted govern the transfer between financial advisors of responsibility for managing the portfolios of bank customers or the support and assistance of a financial advisors' structure. Transfers may be made either by active advisors or by advisors at the end of service. In the latter case the payment is subject to conditions of access, first and foremost an absence of competitive activity in the two years following the termination of the mandate.

For both of these allowances, the Bank plays an active economic role, interposing itself between the transferor and the successor, paying the transferring advisor directly and exercising the right of recourse over the succeeding advisor. Neither of these cash flows provides for the application of an interest rate in operations currently in progress. It is understood that if no successor is identified, no allowance is paid to the transferring advisor.

The future liabilities assumed by the Bank therefore stem only from the effect of future financial mismatches related to the different timing between payment and collection, the probability of an advisor not fulfilling his or her obligation, and no interest being applied.

The discount rate adopted for the above provisions is consistent with the risk level of the cash flows to be discounted of liabilities by maturity and reflects current market conditions.

Section 12 – Shareholders’ equity – Items 110,130,140,150,160,170 and 180

12.1 “Share capital” and “treasury shares”: breakdown

For more information on this section, please see Section 12.3.

12.2 Share capital - Number of shares: changes during the year

Units	Ordinary	Other
A. Shares existing at the beginning of the year	740,741,919	-
- fully paid-up	-	-
- not fully paid-up	-	-
A.1 Treasury shares (-)	7,006,963	-
A.2 Shares in issue: opening balances	733,734,956	-
B. Increases	1,254,929	-
B.1 New issues	634,007	-
- for payment	634,007	-
- business combinations	-	-
- bond conversion	-	-
- exercise of warrants	-	-
- other	634,007	-
- free of charge	-	-
- for employees	-	-
- for directors	-	-
- other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other changes	620,922	-
C. Decreases	-	-
C.1 Cancellation	-	-
C.2 Share buybacks	-	-
C.3 Transactions involving the sale of companies	-	-
C.4 Other changes	-	-
D. Shares in issue: closing balances	734,989,885	-
D.1 Treasury shares (+)	6,386,041	-
D.2 Shares existing at the end of the year	741,375,926	-
- fully paid-up	741,375,926	-
- not fully paid-up	-	-

Item B.3 Other changes includes the shares allotted during the year in implementation of the remuneration and incentive policies, as detailed in Part I of the Notes.

12.3 Share capital: other information

At 31 December 2020, the share capital, fully subscribed and paid up, amounted to €600.3 million, divided into 741,375,926 ordinary shares with no par value.

The company holds 6,386,041 treasury shares, with an equivalent value of €43.6 million at 31 December 2020.

12.4 Earnings reserves: other information

Earnings reserves include: the legal reserve, the extraordinary reserve, the FTA reserve and other earnings reserves.

Details of the breakdown of the company's shareholders' equity, showing the origin, availability and eligibility for distribution of the reserves, are set out in the table below.

€/t	Amount	Possibility of use (A, B, C)	Available amount	Summary of uses	
				to cover losses	other reasons
Capital:	600,297	-	-	-	-
Capital reserves, of which:					
Earnings reserves, of which:					
Legal reserve	121,026	B	121,026	-	-
Extraordinary reserve	1,280,978	A B C	1,280,978	-	-
FTA reserve	(71,218)	-	(71,218)	-	-
Reserve for treasury shares	43,570	-	-		
Other reserves: stock options	25,975	A B C	25,975	-	-
Other reserves: performance shares	13,233	A B C	13,233		
Other reserves: equity method (other changes)	320,708	B	-		
Other reserves, of which:					
merger reserve	4,260	A B C	4,260	-	-
Valuation reserve*	5,023	-		-	-
Other	4,724				
Interim dividends	-	-			
Share premium reserve	3,626	A B	3,626		
Total	2,352,201	-	1,377,880	-	-
Of which non-distributable portion		-		-	-
Of which distributable residual portion		-		-	-

Key:

A= for capital increase

B= to cover losses

C= for distribution to shareholders

(*) The reserve is unavailable pursuant to Article 6 of Legislative Decree No. 38/2005.

OTHER INFORMATION

1. Financial commitments and guarantees given

€/t	Nominal value of financial commitments and guarantees given			31/12/2020	31/12/2019
	Stage 1	Stage 2	Stage 3		
1. Commitments to disburse funds	965,149	16,332	67	981,548	679,455
a) Central banks	-	-	-	-	-
b) General governments	-	-	-	-	-
c) Banks	22	-	-	22	22
d) Other financial corporations	502,772	235	-	503,007	266,019
e) Non-financial corporations	174,201	89	18	174,308	127,819
f) Households	288,154	16,008	49	304,211	285,595
2. Financial guarantees given	55,368	-	-	55,368	55,368
a) Central banks	-	-	-	-	-
b) General governments	-	-	-	-	-
c) Banks	55,368	-	-	55,368	55,368
d) Other financial corporations	-	-	-	-	-
e) Non-financial corporations	-	-	-	-	-
f) Households	-	-	-	-	-

2. Other commitments and guarantees given

€/t	Nominal value	
	31/12/2020	31/12/2019
1. Other guarantees given	86,935	83,452
of which: non-performing credit exposures	18	24
a) Central banks	-	-
b) General governments	-	-
c) Banks	5,056	5,914
d) Other financial corporations	10,803	922
e) Non-financial corporations	6,961	8,513
f) Households	64,115	68,103
2. Other commitments	-	-
of which: non-performing credit exposures	-	-
a) Central banks	-	-
b) General governments	-	-
c) Banks	-	-
d) Other financial corporations	-	-
e) Non-financial corporations	-	-
f) Households	-	-

3. Assets pledged as collateral for liabilities and commitments

€/t	31/12/2020	31/12/2019
1. Financial assets at fair value through profit or loss	-	-
2. Financial assets at fair value through other comprehensive income	102,175	245,007
3. Financial assets measured at amortised cost	2,549,694	4,095,971
4. Tangible assets	-	-
of which: tangible assets constituting inventories	-	-

4. Asset management and trading on behalf of third parties

€/t	31/12/2020
1. Execution of orders on behalf of customers	5,390
a) purchases	803
1. settled	803
2. not settled	-
b) sales	4,587
1. settled	4,587
2. not settled	-
2. Individual portfolio management	367,372
3. Securities custody and administration	21,066,001
a) third-party securities in custody: connected to custodian bank operations (excluding portfolio management)	-
1. securities issued by the bank that prepares the financial statements	-
2. other securities	-
b) third-party securities in custody (excluding portfolio management): other	7,724,990
1. securities issued by the bank that prepares the financial statements	3,113
2. other securities	7,721,877
c) third-party securities held with third parties	7,589,961
d) own securities held with third parties	13,341,011
4. Other transactions	10,606,426

Part C - Information on the income statement

It should be noted that, with regard to the comparative balances, the balances published in the financial statements for 2019, reclassified according to Circular No. 262 of the Bank of Italy Update VI, have been carried forward where necessary.

Section 1 - Interest - Items 10 and 20

1.1 Interest income and similar income: breakdown

€/t	Debt securities	Loans	Other transactions	31/12/2020	31/12/2019
1. Financial assets at fair value through profit or loss:	479	-	-	479	2,975
1.1 Financial assets held for trading	479	-	-	479	1,829
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	-	-	-	-	1,146
2. Financial assets at fair value through other comprehensive income	1,281	-	X	1,281	2,988
3. Financial assets measured at amortised cost:	84,826	156,541	X	241,367	235,157
3.1 Loans to banks	-	188	X	188	427
3.2 Loans to customers	84,826	156,353	X	241,179	234,730
4. Hedging derivatives	X	X	-	-	-
5. Other assets	X	X	207	207	11
6. Financial liabilities	X	X	X	28,993	29,344
TOTAL	86,586	156,541	207	272,327	270,475
of which: interest income on impaired financial assets	-	2,301	-	2,301	2,415
of which: interest income on finance leases	-	-	-	-	-

1.2 Interest income and similar income: other information

1.2.1 Interest income on foreign-currency financial assets

€/t	31/12/2020	31/12/2019
Interest income on foreign-currency financial assets	188	400
TOTAL	188	400

1.3 Interest expense and similar expenses: breakdown

€/t	Payables	Securities	Other transactions	31/12/2020	31/12/2019
1. Financial liabilities measured at amortised cost	(54,315)	(657)	X	(54,972)	(41,943)
1.1 Payables to central banks	-	X	X	-	-
1.2 Payables to banks	(657)	X	X	(657)	(2,543)
1.3 Payables to customers	(53,658)	X	X	(53,658)	(36,388)
1.4 Debt securities in issue	X	(657)	X	(657)	(3,012)
2. Financial liabilities held for trading	(325)	-	-	(325)	(1,723)
3. Financial liabilities designated at fair value	-	-	-	-	-
4. Other liabilities and provisions	X	X	(2,339)	(2,339)	(3,013)
5. Hedging derivatives	X	X	(4,246)	(4,246)	(4,794)
6. Financial assets	X	X	X	(3,096)	(2,756)
TOTAL	(54,640)	(657)	(6,585)	(64,978)	(54,229)
of which: interest expense relating to lease liabilities	(1,395)	-	-	(1,395)	(1,425)

1.4 Interest expense and similar expenses: other information

1.4.1 Interest expense on foreign-currency liabilities

€/t	31/12/2020	31/12/2019
Interest expense on foreign-currency liabilities	(870)	(2,783)
TOTAL	(870)	(2,783)

1.5 Differentials relating to hedging transactions

€/t	31/12/2020	31/12/2019
A. Positive differentials relating to hedging transactions	-	-
B. Negative differentials relating to hedging transactions	(4,246)	(4,794)
C. Balance (A-B)	(4,246)	(4,794)

Section 2 - Fees and commissions - Items 40 and 50

2.1 Fee and commission income: breakdown

€/t	31/12/2020	31/12/2019
a) guarantees given	-	-
b) credit derivatives	-	-
c) management, intermediation and advisory services	612,824	602,000
1. trading of financial instruments	-	-
2. currency trading	-	-
3. individual portfolio management	4,803	3,978
4. securities custody and administration	1,480	1,264
5. custodian bank	-	-
6. placement of securities	40,956	60,560
7. receipt and transmission of orders	12,234	6,511
8. advisory activities	1,455	1,000
8.1 relating to investment	-	-
8.2 relating to financial structure	1,455	1,000
9. distribution of third-party services	551,896	528,687
9.1 portfolio management	348,092	340,768
9.1.1 individual	-	-
9.1.2 collective	348,092	340,768
9.2 insurance products	195,098	178,685
9.3 other products	8,706	9,234
d) collection and payment services	8,611	8,656
e) securitisation servicing services	-	-
f) factoring services	-	-
g) tax collection and treasury	-	-
h) management of multilateral trading facilities	-	-
i) keeping and management of current accounts	19,494	19,473
j) other services	19,249	20,737
TOTAL	660,178	650,866

2.2 Fee and commission income: distribution channels for products and services

€/t	31/12/2020	31/12/2019
a) at own branches:	-	-
1. portfolio management	-	-
2. placement of securities	-	-
3. services and products of third parties	-	-
b) solicitation:	597,655	593,225
1. portfolio management	4,803	3,978
2. placement of securities	40,956	60,560
3. services and products of third parties	551,896	528,687
c) other distribution channels:	-	-
1. portfolio management	-	-
2. placement of securities	-	-
3. services and products of third parties	-	-

2.3 Fee and commission expense: breakdown

€/t	31/12/2020	31/12/2019
a) guarantees received	-	-
b) credit derivatives	-	-
c) management and brokerage services:	(497,798)	(480,428)
1. trading of financial instruments	-	-
2. currency trading	-	-
3. portfolio management:	(181)	(66)
3.1 on own account	-	-
3.2 delegated to third parties	(181)	(66)
4. securities custody and administration	(636)	(254)
5. placement of financial instruments	-	-
6. financial solicitation	(496,981)	(480,108)
d) collection and payment services	(19,133)	(22,047)
e) other services	(15,276)	(11,128)
TOTAL	(532,207)	(513,603)

Section 3 - Dividends and similar income - Item 70

3.1 Dividends and similar income: breakdown

€/t	31/12/2020		31/12/2019	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	6	-	1,707	-
B. Other financial assets mandatorily measured at fair value	-	1,357	-	1,560
C. Financial assets at fair value through other comprehensive income	1,851	-	781	-
D. Equity investments	-	-	10,643	-
TOTAL	1,857	1,357	13,131	1,560

Section 4 - Net gains (losses) from trading - Item 80

4.1 Net gains (losses) from trading: breakdown

€/t	Capital gains (A)	Gains from trading (B)	Capital losses (C)	Losses from trading (D)	Net result [(A+B)-(C+D)]
1. Financial assets held for trading	7,732	2,346	(184)	(937)	8,957
1.1 Debt securities	281	2,223	(184)	(641)	1,679
1.2 Equity instruments	7,451	123	-	(293)	7,281
1.3 Units in investment funds (UCIs)	-	-	-	(3)	(3)
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	-	2,342	-	(144)	2,198
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	2,124	-	(1)	2,123
2.3 Other	-	218	-	(143)	75
3. Financial assets and liabilities: foreign exchange gains and losses	X	X	X	X	(404)
4. Derivative instruments	3	1,592	(155)	(11,016)	(4,451)
4.1 Financial derivatives	3	1,592	(155)	(11,016)	(4,451)
- On debt securities and interest rates	3	1,592	(155)	(11,015)	(9,575)
- On equity instruments and equity indices	-	-	-	(1)	(1)
- On currencies and gold	X	X	X	X	5,125
- Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges associated with the fair value option	X	X	X	X	-
TOTAL	7,735	6,280	(339)	(12,097)	6,300

Section 5 - Net gains (losses) from hedging - Item 90

5.1 Net gains (losses) from hedging: breakdown

€/t	31/12/2020	31/12/2019
A. Income relating to:		
A.1 Fair value hedging derivatives	-	-
A.2 Hedged financial assets (fair value)	-	508
A.3 Hedged financial liabilities (fair value)	-	-
A.4 Financial derivatives hedging cash flows	-	-
A.5 Assets and liabilities in foreign currencies	-	-
Total income from hedging (A)	-	508
B. Expenses relating to:		
B.1 Fair value hedging derivatives	(1,060)	(3,921)
B.2 Hedged financial assets (fair value)	(1,540)	-
B.3 Hedged financial liabilities (fair value)	-	-
B.4 Financial derivatives hedging cash flows	-	-
B.5 Assets and liabilities in foreign currencies	-	-
Total hedging expenses (B)	(2,600)	(3,921)
C. Net gains (losses) from hedging (A - B)	(2,600)	(3,413)
of which: result of hedges on net positions	-	-

Section 6 - Gains (losses) from disposal/repurchase - Item 100

6.1 Gains (losses) from disposal/repurchase: breakdown

€/t	31/12/2020			31/12/2019		
	Gains	Losses	Net result	Gains	Losses	Net result
A. Financial assets						
1. Financial assets measured at amortised cost	1	-	1	1	-	1
1.1 Loans to banks	-	-	-	-	-	-
1.2 Loans to customers	1	-	1	1	-	1
2. Financial assets at fair value through other comprehensive income	-	(80)	(80)	4	-	4
2.1 Debt securities	-	(80)	(80)	4	-	4
2.2 Loans	-	-	-	-	-	-
TOTAL ASSETS (A)	1	(80)	(79)	5	-	5
B. Financial liabilities measured at amortised cost						
1. Payables to banks	-	-	-	-	-	-
2. Payables to customers	-	-	-	-	-	-
3. Debt securities in issue	-	(1)	(1)	-	(123)	(123)
TOTAL LIABILITIES (B)	-	(1)	(1)	-	(123)	(123)

Section 7 - Net gain (loss) from other financial assets and liabilities at fair value through profit or loss - Item 110

7.2 Net change in value of other financial assets and liabilities at fair value through profit or loss: breakdown of other financial assets mandatorily measured at fair value

€/t	Capital gains (A)	Gains from disposals (B)	Capital losses (C)	Losses on disposals (D)	Net result [(A+B)-(C+D)]
1. Financial assets	590	58	(7,565)	(3)	(6,920)
I.1 Debt securities	-	-	(439)	-	(439)
I.2 Equity instruments	-	-	-	-	-
I.3 Units in investment funds (UCIs)	590	58	(7,126)	(3)	(6,481)
I.4 Loans	-	-	-	-	-
2. Foreign-currency financial assets: foreign exchange gains and losses	X	X	X	X	-
TOTAL	590	58	(7,565)	(3)	(6,920)

Section 8 - Credit-risk induced net value adjustments/write-backs - Item 130

8.1 Credit-risk induced net value adjustments relating to financial assets measured at amortised cost: breakdown

€/t	Value adjustments				Write-backs		31/12/2020	31/12/2019
	Stages 1 and 2	Stage 3		Stages 1 and 2	Stage 3			
		Write-offs	Other					
A. Loans to banks	(7)	-	-	-	-	(7)	(5)	
- Loans	-	-	-	-	-	-	-	
- Debt securities	(7)	-	-	-	-	(7)	(5)	
of which: purchased or originated impaired loans	-	-	-	-	-	-	-	
B. Loans to customers	(6,767)	(1,082)	(16,576)	213	5,554	(18,658)	(17,810)	
- Loans	(5,541)	(1,082)	(16,576)	213	5,554	(17,432)	(16,821)	
- Debt securities	(1,226)	-	-	-	-	(1,226)	(989)	
of which: purchased or originated impaired loans	-	-	-	-	-	-	(444)	
TOTAL	(6,774)	(1,082)	(16,576)	213	5,554	(18,665)	(17,815)	

8.1a Net value adjustments for credit risk relating to loans measured at amortised cost subject to Covid-19 support measures: breakdown

€/t	Net value adjustments			Total	Total
	Stages 1 and 2	Stage 3			
		Write-offs	Other	31/12/2020	31/12/2019
1. Loans subject to forbearance compliant with the GL	85,411		506,418	591,829	
2. Loans subject to other forbearance measures					
3. New loans	(269,116)	-	(6,944)	(276,060)	-
Total	(183,705)	-	499,474	315,769	

8.2 Credit risk-induced net value adjustments relating to financial assets at fair value through other comprehensive income: breakdown

€/t	Value adjustments			Write-backs		31/12/2020	31/12/2019
	Stages 1 and 2	Stage 3		Stages 1 and 2	Stage 3		
		Write-offs	Other				
A. Debt securities	-	-	-	303	-	303	1,426
B. Loans	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
of which: purchased or originated impaired financial assets	-	-	-	-	-	-	-
TOTAL	-	-	-	303	-	303	1,426

Section 10 - Administrative expenses - Item 160

10.1 Staff costs: breakdown

€/t	31/12/2020	31/12/2019
1) Employees	(162,472)	(160,965)
a) wages and salaries	(112,581)	(111,793)
b) social security contributions	(31,054)	(29,681)
c) severance indemnity	-	-
d) social security costs	-	-
e) provision for employee severance benefits	(6,192)	(5,917)
f) provision for pensions and similar obligations:	-	-
- defined contribution	-	-
- defined benefit	-	-
g) payments to external supplementary pension funds:	(1,766)	(1,764)
- defined contribution	(1,766)	(1,764)
- defined benefit	-	-
h) costs arising from share-based payment agreements	(2,553)	(921)
i) other employee benefits	(8,327)	(10,889)
2) Other staff in service	(6,679)	(3,828)
3) Directors and statutory auditors	(2,912)	(2,927)
4) Retired staff	-	-
5) Recoveries of expenses for employees seconded to other companies	7,172	7,681
6) Reimbursement of expenses for third-party employees seconded to the company	(2,300)	(2,361)
TOTAL	(167,192)	(162,400)

10.2 Average number of employees by category

Units	31/12/2020	31/12/2019
1) Employees	2,033	1,984
a) executives	83	88
b) management	367	345
c) other employees	1,583	1,551
2) Other staff	172	104
TOTAL	2,205	2,088

10.4 Other employee benefits

Other employee benefits, shown in Table 12.1 Staff costs, amounted to €9.2 million and mainly include contributions to company catering and costs incurred for insurance policies taken out for employees.

10.5 Other administrative expenses: breakdown

€/t	31/12/2020	31/12/2019
Information systems services	(75,439)	(76,690)
Infoprovider services	(10,901)	(10,532)
Financial services fees and charges	(742)	(1,104)
Other sundry services	(27,660)	(28,850)
Taxes and duties	(1,019)	(915)
Television and internet communications services	(3,695)	(4,039)
Measures in support of the banking system	(26,949)	(16,987)
Network consultancy and collaborations	(1,164)	(1,412)
Rentals, hiring, leases	(15,105)	(13,134)
Maintenance and repairs	(2,770)	(2,865)
Telephone and postal expenses	(9,524)	(9,187)
Other consultancy and collaborations	(17,643)	(18,668)
Contributions to "Family Banker Offices"	(1,394)	(1,554)
Consumables	(2,693)	(3,505)
Insurance	(2,101)	(2,082)
Membership contributions	(1,975)	(2,121)
Advertising and promotional expenses	(23,846)	(27,323)
Organisation of conventions	(5,176)	(15,344)
Sales network consulting, education and training	(1,017)	(3,156)
Energy utilities	(1,677)	(1,655)
Entertainment, gifts and donations	(6,798)	(6,491)
Market research	(634)	(737)
Search and selection of employees	(472)	(364)
Travel expenses	(259)	(1,352)
Search and selection of financial advisors	(212)	(145)
Other administrative expenses	(1,000)	(1,029)
TOTAL	(241,865)	(251,241)

Section 11 - Net provisions for liabilities and charges - Item 170

11.1 Net provisions for credit risk relating to commitments to disburse funds and financial guarantees given: breakdown

€/t	31/12/2020	31/12/2019
commitments to disburse funds and financial guarantees given	87	13
TOTAL	87	13

11.2 Net provisions relating to other commitments and guarantees given: breakdown

€/t	31/12/2020	31/12/2019
other commitments and guarantees given	6	168
TOTAL	6	168

11.3 Net provisions for other liabilities and charges: breakdown

€/t	31/12/2020	31/12/2019
Portfolio and structure allowance	(10,912)	(10,844)
Additional customer allowance	(25,340)	(24,465)
Risk of misconduct by financial advisors	(381)	2,087
Future expenses on distributed products	-	(973)
Legal disputes	(324)	(2,119)
Managers' allowance	(11,402)	(14,010)
Other provisions for liabilities and charges	(3,948)	(2,538)
TOTAL	(52,307)	(52,862)

Section 12 - Net value adjustments/write-backs of tangible assets - Item 180

12.1. Net value adjustments of tangible assets: breakdown

€/t	Amortisation (a)	Impairment losses (b)	Write-backs (c)	Net result (a + b - c)
A. Tangible assets				
A.1 For business use	(10,984)	-	-	(10,984)
- Owned	(3,383)	-	-	(3,383)
- Rights of use acquired through leasing	(7,601)	-	-	(7,601)
A.2 Held for investment purposes	-	-	-	-
- Owned	-	-	-	-
- Rights of use acquired through leasing	-	-	-	-
A.3 Inventories	X	-	-	-
B. Assets held for sale	-	-	-	-
TOTAL	(10,984)	-	-	(10,984)

Section 13 - Net value adjustments/write-backs of intangible assets - Item 190

13.1 Net value adjustments/write-backs of intangible assets: breakdown

€/t	Amortisation (a)	Impairment losses (b)	Write-backs (c)	Net result (a + b - c)
A. Intangible assets				
A.1 Owned	(17,634)	-	-	(17,634)
- Generated internally by the company	-	-	-	-
- Other	(17,634)	-	-	(17,634)
A.2 Rights of use acquired through leasing	-	-	-	-
B. Assets held for sale	-	-	-	-
TOTAL	(17,634)	-	-	(17,634)

Section 14 - Other operating income and expenses - Item 200

14.1/14.2 Other operating income and expenses: breakdown

€/t	31/12/2020	31/12/2019
Recovery of costs for procurement and services rendered	12,854	11,407
Rental income on owned properties	623	630
Chargebacks to customers	2,158	4,723
Chargebacks to advisors	24	37
Other sundry income	6,044	3,176
Total - Breakdown of "Other operating income"	21,703	19,973
Settlements and compensation	(3,281)	(1,365)
Other operating expenses - Depreciation of leasehold improvements	(2,951)	(2,456)
Other expenses	(3,129)	(3,200)
Total - Breakdown of "Other operating expenses"	(9,361)	(7,021)

Section 15 - Gains (losses) on equity investments - Item 220

15.1 Gains (losses) on equity investments: breakdown

€/t	31/12/2020	31/12/2019
A. Income	623,329	803,785
1. Write-ups	623,329	803,785
2. Profits on disposal	-	-
3. Write-backs	-	-
4. Other income	-	-
B. Expenses	(49,016)	(69,951)
1. Write-downs	(49,016)	(15,631)
2. Impairment losses	-	(54,320)
3. Losses on disposal	-	-
4. Other expenses	-	-
Net result	574,313	733,834

Write-ups and Write-downs include the shares of the results of the investee companies measured according to the equity method. The Value adjustments item in the previous year included the adjustment of the value of the equity investments in Mediobanca (-€24.3 million) and in the German subsidiary Bankhaus August Lenz (-€30 million), following impairment testing, totalling -€54.3 million.

Section 18 - Gains (losses) on disposal of investments - Item 250

18.1 Gains (losses) on disposal of investments: breakdown

€/t	31/12/2020	31/12/2019
A. Real property	-	-
- Profits on disposal	-	-
- Losses on disposal	-	-
B. Other assets	152	-
- Profits on disposal	153	-
- Losses on disposal	(1)	-
Net result	152	-

Section 19 - Taxes on income from continuing operations - Item 270

19.1 Taxes on income from continuing operations: breakdown

€/t	31/12/2020	31/12/2019
1. Current taxes (-)	5,204	3,741
2. Changes in current taxes in previous years (+/-)	(32)	(368)
3. Reduction of current taxes for the year (+)	-	-
3.bis Reduction of current taxes for the year due to tax credits pursuant to Law No. 214/2011 (+)	-	-
4. Change in prepaid taxes (+/-)	2,209	3,575
5. Change in deferred taxes (+/-)	12,995	(11,668)
6. Taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)	20,376	(4,720)

19.2 Reconciliation between theoretical tax liability and actual tax liability recognised

€/t	Rate	Value	Taxes
Determination of corporate income tax (IRES)			
Profit before tax including the tax credit due		413,604	
Theoretical tax charge	24.00%		(99,265)
Temporary differences taxable in future years		36,408	
Temporary differences deductible in future years		50,533	
Temporary differences from previous years		(50,170)	
Permanent differences		(554,610)	
Aid to Economic Growth (ACE)		-	
Total tax base		(104,235)	
Current income tax for the year			25,016
Taxes relating to tax disputes			(2,902)
Tax incentive for investments in innovative start-ups			
Tax relating to previous years			(39)
Current taxes in the income statement			22,076
Average rate on pre-tax profit	-5.34%		
Determination of corporate income tax (IRAP)			
Gross value of production before changes		71,532	
Employee deduction		(156,395)	
Deduction of compulsory, consortium and voluntary contributions		(17,859)	
Net value of production		(102,722)	
Theoretical tax charge	5.57%		5,722
Temporary differences taxable in future years			
Temporary differences deductible in future years			
Temporary differences from previous years		(11,193)	
Permanent differences		392,282	
Value of production		278,367	
Current income tax for the year			(15,505)
Taxes relating to tax disputes			(1,406)
Tax relating to previous years			7
Current taxes in the income statement			(16,904)
Average rate on value-added result	-16.46%		

Section 22 - Earnings per share

22.1 Average number of ordinary shares (fully diluted)

	31/12/2020	31/12/2019
Net profit (loss) (€/t)	433,980	597,231
Weighted average number of shares outstanding (units)	734,362,421	733,061,303
Adjustment for stock options with potential dilutive effect	3,406,177	4,079,702
Weighted average number of shares outstanding for diluted EPS purposes	737,768,598	737,141,005
Diluted earnings per share (€)	0.588	0.810

22.2 Other information

There is no other material information to report beyond that provided in the previous sections.

Part D - Comprehensive income

ANALYTICAL STATEMENT OF COMPREHENSIVE INCOME

Euro	31/12/2020	31/12/2019
10. Net profit (loss) for the year	433,980,479	597,230,937
Other income items without reversal to the income statement	(48,981,835)	(529,390)
20. Equity securities designated at fair value through other comprehensive income:	(31,960,780)	3,050
a) change in fair value	(31,960,780)	3,050
b) transfers to other items of shareholders' equity	-	-
30. Financial liabilities at fair value through profit or loss (changes in creditworthiness):	-	-
a) change in fair value	-	-
b) transfers to other items of shareholders' equity	-	-
40. Hedges on equity securities at fair value through other comprehensive income:	-	-
a) change in fair value (hedged instrument)	-	-
b) change in fair value (hedging instrument)	-	-
50. Tangible assets	-	-
60. Intangible assets	-	-
70. Defined benefit plans	(323,577)	(958,037)
80. Non-current assets and disposal groups	-	-
90. Share of valuation reserves of equity investments measured at equity	(15,400,834)	82,528
100. Income taxes relating to other income items without reversal to the income statement	(1,296,644)	343,069
Other income items with reversal to the income statement	1,154,178	19,760,369
110. Hedging of foreign investments:	-	-
a) changes in fair value	-	-
b) reversal to income statement	-	-
c) other changes	-	-
120. Foreign exchange gains and losses:	-	-
a) change in value	-	-
b) reversal to income statement	-	-
c) other changes	-	-
130. Cash flow hedges:	-	-
a) changes in fair value	-	-
b) reversal to income statement	-	-
c) other changes	-	-
of which: result of net positions	-	-
140. Hedging instruments (non-designated elements):	-	-
a) change in value	-	-
b) reversal to income statement	-	-
c) other changes	-	-
150. Financial assets (other than equity securities) at fair value through other comprehensive income:	(2,461,882)	11,129,183
a) changes in fair value	(1,445,995)	9,894,852
b) reversal to income statement	(1,015,886)	1,234,331
- credit-induced adjustments	(303,223)	(1,425,530)
- gains (losses) on disposals	(712,663)	2,659,861
c) other changes	-	-
160. Non-current assets and disposal groups:	-	-
a) changes in fair value	-	-
b) reversal to income statement	-	-
c) other changes	-	-
170. Share of valuation reserves of equity investments measured at equity:	2,902,191	12,783,030
a) changes in fair value	2,902,191	12,783,030
b) reversal to income statement	-	-
- impairment losses	-	-
- gains (losses) on disposals	-	-
c) other changes	-	-
180. Income taxes relating to other income items with reversal to the income statement	713,868	(4,151,843)
190. Total other income	(47,827,657)	19,230,979
200. Comprehensive income (Item 10+190)	386,152,822	616,461,916

Part E - Information on risks and the related hedging policies

Introduction

As mentioned above in the consolidated section, the internal control system consists of a set of rules, procedures and organisational structures designed to ensure the effectiveness and efficiency of corporate processes, safeguarding the value of the Company's assets and the good management of the assets held on behalf of customers, the reliability and integrity of accounting and management information, and compliance with internal and external reference regulations. Persons with managerial responsibilities play a fundamental role in defining an adequate organisational system and in establishing an effective and efficient internal control system. The control system is divided into several levels, corresponding to different levels of responsibility. In particular, it includes the following, in addition to the tasks institutionally assigned to the collegial supervisory and control bodies:

- > line controls: carried out directly by the person who carries out the activity and by the person responsible for supervising it. The purpose of these controls is to identify, measure or assess, monitor, mitigate and report the risks arising from ordinary business activity. They are generally carried out within the same organisational unit or function and are provided for directly by the same operating units, or carried out in the context of back-office activity, or where possible are incorporated into IT procedures;
- > risk or compliance controls (i.e. "second-level controls"): these are entrusted to structures other than operational ones, which, *inter alia*, have the task of helping – taking into account specific corporate activities – to define the methods for measuring risks and the operational limits assigned to delegated persons and of checking the consistency of operations with the objectives and levels of risk defined by the competent corporate bodies. In particular, this category includes controls on credit, market, capital and investment risks, operational risks, non-compliance risks, reputational risks and anti-money laundering risks. The functions responsible for these controls are the Risk Management, Compliance and Anti-Money Laundering functions, which are briefly described below among the other functions of Banca Mediolanum;
- > internal auditing activities ("third-level controls"): these are entrusted to the Internal Auditing unit, which is responsible, autonomously and independently of the operational lines, for the periodic assessment of the completeness, functionality and adequacy of the internal control system and entire information system, depending on the nature of the activity performed and the level of risks assumed.
- > In order to perform the verifications within their purview, the control functions have access to all company facilities, as well as information used to verify that outsourced corporate functions are properly performed. The management body and the control body are regularly informed of the activities conducted, so that appropriate and prompt corrective actions can be taken in the event of deficiencies or anomalies.

RISK MANAGEMENT FUNCTION

The Risk Management function (alternatively the risk control function) of Banca Mediolanum is responsible for implementing governance and risk management policies. The banking risks addressed by Risk Management are defined as the unfavourable future effects on the Bank's profitability that may be produced from various sources of uncertainty. Consequently, the risk control function is responsible for monitoring the Bank's and the Group's exposure to financial and credit risks and for assessing the capital impact of operational and reputational risks, constantly monitoring the capital adequacy and the liquidity position in relation to the company's and the Group's business, playing a guiding and coordinating role on issues relating to the institutional tasks of current and prospective risk management and control with regard to subsidiaries, the personnel of which participate in the respective Risk Management Functions. The Risk Management function therefore defines and maintains the framework for controlling and managing all the risks of the companies belonging to the Banking Group, i.e. it is responsible for overseeing Pillar I risks (credit, market and operational) and carries out qualitative and quantitative assessments of risks pursuant to Basel Pillar II (interest rate, liquidity and other risks), in accordance with the guidelines of the Board of Directors and the applicable regulatory provisions. It proposes the quantitative and qualitative parameters required to define the Risk Appetite Framework (RAF), including the stress

scenarios necessary to define risk tolerance. The function coordinates with the IT Sector Unit, which oversees first-level controls, to define the methods for assessing and controlling IT risk in order to supplement the findings made within the operational risk control framework with the evidence collected as part of the IT risk assessment process. It defines the procedures for assessing and controlling reputational risks in coordination with the other control functions. It should also be noted that the Risk Management function is also responsible for monitoring outsourcing risk, on the basis of the tasks and activities indicated by internal and external legislation, in relation to the processes of outsourcing activities and service activities to third parties adopted by the Bank. It is also responsible for drafting policy regulations concerning all significant risks, and identifies and develops quantitative methodologies for managing significant Pillar I and Pillar II risks. On an ongoing basis, for the Banking Group, it verifies the adequacy of the Risk Appetite Framework and coordinates the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP) for those activities specifically assigned and governed by the dedicated regulations. As specifically required by the current legislation, the Risk Management function provides guidance and coordination for all Mediolanum Group companies through various areas of activity that are strategic, managerial and technical/managerial in nature. The Risk Management function, following an assessment by the Risk Committee of the performance of the control activities, reports to the Board of Directors on the various components of the overall risk situation.

ANTI-MONEY LAUNDERING FUNCTION

The Anti-Money Laundering function is responsible, using a risk-based approach, for monitoring money laundering and terrorist financing risk and adapting processes according to changes in the regulatory environment.

It continuously checks that company procedures are consistent with the objective of preventing and combating infringements of external regulatory provisions (laws and regulations) and internal regulations on anti-money laundering and counter terrorist financing.

It pays particular attention to the adequacy of internal systems and customer due diligence and registration procedures, as well as systems for the detection, assessment and reporting of suspicious transactions. It reports directly to the Bank's Board of Directors and has access to all the Bank's information and to any information relevant to the performance of its duties.

COMPLIANCE FUNCTION

The Compliance function oversees the management of risks of non-compliance with regulations, using a risk-based approach, with regard to all company activities, making use, for the oversight of certain regulatory areas for which specialised supervision is envisaged, of specifically identified Specialist Units, to which certain phases of the compliance process are assigned, while maintaining responsibility for oversight.

In addition to the oversight of the reference regulatory framework, the function is responsible for specialist consulting, regulatory alert and gap analysis, verifying the appropriateness of business structures and processes with respect to the current regulatory framework and identifying actions to mitigate non-compliance risk.

The Compliance function of Banca Mediolanum S.p.A. also oversees non-compliance risks on behalf of the Italian companies of the Mediolanum Group, with which it has entered into appropriate service agreements.

Lastly, the function reports to the Board of Directors on the various components of the overall situation regarding compliance risk.

INTERNAL AUDIT FUNCTION

The Internal Audit function carries out continuous oversight in order to verify the effectiveness and efficiency of the control system, highlighting any shortcomings in the system, procedures and policies, and verifies and supplements the effectiveness of the overall process for managing financial, credit and operational risks. Internal Audit carries out independent and objective internal auditing and provides advice with the aim of improving the effectiveness and efficiency of the organisation of processes and the overall system of internal controls. It controls, including by means of spot checks, the regularity of operations and assesses the functionality of the overall internal control system, bringing to the attention of the Board of Directors and the Chief Executive Officer possible improvements to risk management policies, measurement tools and governance processes. It also carries out the above activities for Group companies with which it has entered into a specific agreement. It also coordinates at Group level with the equivalent functions at the subsidiaries and associated companies. It periodically reports on the results of its activities to the Board of Directors, the Board of Statutory Auditors and the Risk Committee. It immediately reports any serious irregularities to the Board of Statutory Auditors and to the Board of Directors.

In view of the business model adopted by the Bank, the function pays particular attention to controlling the operations of the Bank's network of financial advisors. Controlling the activities of the sales network and actions to mitigate the associated risks is a fundamental element of the internal control system. In particular, the Financial Advisors Audit Unit, according to the methods defined in the function's Methodological Framework and taking into account the relevant best practices, performs controls on the operations carried out by the Banca Mediolanum Financial Advisors Sales Network, using appropriate remote analysis tools and carrying out checks and inspections, including on the Sales Network and/or Customers, in order to prevent possible embezzlement and adverse events.

RISK COMMITTEE

This is the collegiate body that assists the Board of Directors in the assessment, carried out at least once a year, of the compliance, adequacy and effective functioning of the Internal Control System, ensuring that the main risks faced by the Company, including first- and second-pillar risks, are correctly identified and measured, managed and adequately monitored. The Committee assists the Board of Directors with the task of determining the guidelines for the Internal Control System of the Company and its subsidiaries and the periodic verification of its adequacy and effective functioning. In this context, the Committee pays particular attention to all activities that are instrumental and necessary for the Board to reach a correct and effective determination of the RAF (Risk Appetite Framework) and risk governance policies. In this regard, it assists the Board of Directors in determining the general ICAAP/ILAAP guidelines and expresses an opinion on their implementation and the results thereof with regard to capital adequacy and the management and control of liquidity risk of the Bank and the Group, as well as the results of the Parent Company's self-assessment of the related processes.

It assesses the work plan prepared by the Internal Audit function and receives periodic reports; it examines and assesses the observations made by the control functions, by the Board of Statutory Auditors and in the independent auditor's reports; it assesses the observations and proposals made following the audits of the Control and/or Supervisory Authorities; it reports to the Board

of Directors, at least every six months, upon approval of the financial statements and the half-yearly report, on the activities performed by the Committee itself; and it performs additional tasks relating to internal control assigned to it by the Board of Directors, particularly with regard to relations with the independent auditor.

Section 1 - Credit risk

QUALITATIVE INFORMATION

1. General aspects

The guidelines issued to manage credit risk provide information and general principles for the supervision of loan disbursement and the monitoring of credit portfolio quality. The task of assessing overall exposure to credit risk and the responsibility for defining risk measurement methodologies at the consolidated level are centralised with Banca Mediolanum. Exposure to credit risk must also be assessed at the individual level by each individual company within the scope of its competence, by monitoring and measuring the risk associated with the various types of instruments. Capital adequacy and, in particular, compliance with the solvency and credit risk concentration ratios established by the local Supervisory Authorities are periodically monitored by the competent offices of the respective companies.

It should be noted that with regard to the guidelines of the European Banking Authority (EBA) on the reporting and public disclosure of exposures subject to measures applied in response to the Covid-19 crisis (EBA/GL/2020/07 - *Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID 19 crisis*), express reference is made to the Public Disclosure document relating to the data at 31/12/2020 in the dedicated section of the Banca Mediolanum corporate website.

These guidelines, which were also transposed by the National Supervisory Authority in June 2020, require the representation of the following information on:

- > 1) loans subject to "moratoria" falling within the scope of the EBA Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19 crisis (EBA/GL/2020/02);
- > 2) loans subject to forbearance measures applied due to the Covid-19 crisis;

- > 3) new loans guaranteed by the State or other public body.

Impacts of the Covid-19 pandemic

Within the context of all the public and private emergency measures implemented by various national and European institutional bodies, since the Covid-19 pandemic was first announced, the banks immediately got involved in implementing these measures, which were mostly designed to support the social and economic fabric of the country.

As regards the spread of coronavirus infections, each European country, through their governing bodies, has adopted different restrictions to contain the infection, resulting in adverse effects on a number of economic sectors, subsequently establishing financial support measures in the form of subsidies for those affected. The involvement of the banks inevitably resulted in the intervention of both the trade associations of the various Member States of the Union and the Supervisory Bodies, which took action in different ways and at different times in each European State, also depending on the level of dissemination to the population, through a series of measures for both existing credit exposures and for dedicated financial subsidies directed at the sectors/population groups hit hardest by the pandemic.

Banca Mediolanum immediately reorganised its internal operating methods in order to support its customers by adopting the legally established support measures, as well as adopting its own commercial initiatives to meet customer needs.

In particular, the Bank supported its customers through its sales network and remote assistance systems, designing initiatives in the context of the credit business in support of households and businesses, supplementing the legislative measures in the "Cura Italia", "Liquidità" and "Agosto" Decrees with non-legislative measures promoted by trade associations, in addition to its own initiatives.

On the subject of legislative and non-legislative moratoria, mention should be made of the following measures that were applied in 2020:

- > the "Cura Italia" Legislative Decree No. 18 of 17/03/2020, converted by Law No. 27 of 30/04/2020, Article 54 (Gasparrini Fund).
- > the "Cura Italia" Legislative Decree No. 18 of 17/03/2020, converted by Law No. 27 of 30/04/2020, Article 56 (Micro and SME benefits), subsequently amended by Decree-Law No. 104 of 14/08/2020 (the "Agosto" Decree).
- > ABI moratorium "Enterprises in Recovery 2.0", Addendum of 6/03/2020, 22/05/2020 and 17/12/2020.
- > ABI Consumer moratorium of 21/04/2020 and 17/12/2020.

Banca Mediolanum also signed two different agreements to assist with the recovery of the Italian economy, badly affected by the Covid-19 emergency, and in particular:

- > Loans granted under the "Liquidity" Decree No. 23 of 8 April 2020 and guaranteed by the Central Guarantee Fund for SMEs and now, following the approval of the aforementioned government decrees, also extended to private entities, with an increase in the guarantee up to 100% for loans up to €30,000 and with a simplification of operating procedures.
- > Loans provided under SACE's Italian Guarantee Programme, an initiative to guarantee loans provided to address liquidity shortages and support the return to full operation of Italian companies.

In addition, to support customers affected by redundancy fund measures, Banca Mediolanum ordered the disbursement of a line of credit of up to €1,400 as an advance on future disbursements by the INPS.

Customers were informed about these initiatives through publication on the corporate websites. Despite the continuation of the health emergency for around 11 months in 2020, it should be noted that the Bank's loan portfolio has not been particularly adversely affected by the crisis situations that a part of the population and economic sectors, including at the European and global level, are experiencing. Without taking into account the effect of the various government initiatives undertaken by individual European States, the trend in credit positions at full capacity, which has deteriorated, has not shown an increase in unexpected values. Monitoring of risk indicators showed a trend that was maintained within the normal physiological deterioration parameters, without actually resulting in a deterioration in the credit quality of the existing portfolios at the consolidated level. With specific regard to the first- and second-level performance monitoring controls, no particular alert situations were identified during the year: all indicators were stable in accordance with the business model implemented by the Bank and characterised by a low risk profile. No significant changes were observed in the Risk Appetite Framework indicators, which always remained below the appetite and tolerance limits. The performing portfolio also did not show any abnormal percentages of SICR criteria with respect to the analysis of the monitoring of the staging allocation process.

Finally, the non-performing portfolio did not register any significant change in exposure and the cost of credit risk remained at the levels recorded in previous years, in accordance with the provisions made during strategic planning.

Credit risk management therefore continued in accordance with the current policies, credit policies and procedures, providing for ad hoc processes aligned with the instructions of the Supervisory Authorities in the case of credit exposures subject to interventions related to the Covid-19 pandemic.

2. Credit risk management policies

2.1 Organisational aspects

Lending in its various forms, whether for the purpose of purchasing a specific real estate or consumer asset, or in order to meet other financial needs, is an integral part of the commercial strategy of Banca Mediolanum and the other companies of the Banking Group.

In line with the Group mission, lending is complementary to the primary activity of distributing products in the areas of banking services and asset management, protection and pensions. The Group's lending policies are based on the utmost prudence and are oriented towards the development and consolidation of the relationship established with customers who hold assets invested in products managed by the Group companies.

Specifically with regard to Banca Mediolanum, the Loans department is responsible for ensuring adequate implementation of the Bank's lending policy, in accordance with applicable legislation. The Loans department consists, in particular, of the Loan Operations, Ordinary Loans, Special Loans and Loan Service & Collection sections (divided into the Loans under Observation, Loan Document Management and After-Sales offices) and the "Credit Quality Monitoring" managerial support unit.

The Credit Operations section manages relations with customers and with the sales network, providing a support service that covers the entire logistical and administrative process of credit applications, both ordinary and special, and may assume an approval role solely for applications involving a low level of risk and limited amounts.

The Ordinary Loans section oversees all processes related to the approval and disbursement of ordinary loans (credit lines, loans, unsecured loans) and the management of guarantees. Within the limits of the powers granted, it approves credit facilities for retail and corporate customers and informs and presents applications to higher bodies on matters not within its purview, expressing a non-binding opinion on the merits.

The Special Loans section is responsible for the process of approving and granting mortgage loans by the Bank, in accordance with the guidelines and rules defined in the Credit Risk Policy. It produces reports on the activity carried out for the Department Manager and collaborates with the Credit Quality Monitoring unit and the Risk Management function in drafting internal regulations and operational lending policies for special loans.

The Credit Services & Collection section aims to maximise synergies in after-sales management processes relating to ordinary and special loans. Within this category, the Loans office performs "Early Collection" activities, aiming for the repayment of positions that are showing the first signs of impairment and subsequently managing the positions until the proposed transition to bad loans and participating in the formulation and proposal of strategies and policies on credit management, defining the methodological

principles and technical rules for managing credit risk.

The Credit Quality Monitoring unit oversees the first-level controls carried out by the management sections, liaising with the Compliance function on transparency and with the Risk Management function with regard to the auditing of operational risks. The unit also develops and analyses periodic reporting (both managerial and operational) and oversees the control of the correct contribution to public and private credit bureaus.

2.2 Management, measurement and control systems

Credit quality is controlled by means of a systematic review of risk information, with the support of specific operating procedures, by each Group Company at every stage of the credit process.

When granting loans, it is essential to fully understand the customer's economic and financial situation and to seek the most appropriate form of credit, taking into account the reasons for the loan application and the customer's creditworthiness, income and assets. To this end, during the application phase, the Company acquires all the information necessary to assess the consistency between the income received, the amount of the exposure (including outstanding commitments) and the technical form and purpose of the loan. In carrying out this verification activity, performance and financial analysis systems and information from public and private credit bureaus are used. Particular attention is then paid to the assessment of guarantees. All positions are also subject to periodic review by the appropriate structures within the competent units. Control of the progress of accounts is carried out by means of continuous monitoring of existing credit lines with particular attention to higher-risk positions. Performance ratings are assigned for both the Retail and Corporate segments using the CRS (Credit Rating System) procedure and the outsourcer Cedacri. For the Private segment of Banca Mediolanum, which constitutes the main portfolio in terms of exposure, the rating model is estimated and calibrated using internal data. In assessing creditworthiness, in order to make the data input into the model as complete as possible, both internal data (demographic and performance) and external data (credit bureau and CRIF reports) were taken into account, using a modular approach. For transactions with bank counterparties, the policies in place provide for the use of an internal rating model that defines methods for assessing the creditworthiness of all transactions undertaken by the Bank's treasury.

The credit safeguarding methods used by each company are periodically reported to the respective boards of directors.

The second-level monitoring process, set up by the Risk Management function, is designed to analyse the credit quality and dynamics of risk exposures along fundamental regulatory and management guidelines by calculating synthetic risk indicators and representing their development over time in order to prepare plans of action necessary to mitigate or avoid risk factors.

In particular, the Risk Management function prepares:

- > Periodic reports: these are reports drawn up periodically to monitor the quality of the credit portfolio through the calculation of key risk indicators and the presentation of certain risk variables/parameters. In the context of these reports, there is a focus on compliance with the limits and parameters defined in the RAF and the evolutionary trend of the credit portfolio.
- > "Large-scale" controls: these are controls applied to the credit portfolio as a whole or to its relevant sub-group (e.g. customer segment, geographical area, type of loan, etc.) that reveal any potentially "abnormal" behaviours of the portfolio being analysed. If the warning thresholds defined in correspondence with the large-scale controls are exceeded, on-the-spot controls may be performed to explore the anomalies detected in individual positions.
- > "On-the-spot" controls: these are controls carried out on individual credit positions within samples selected by Risk Management on the basis of specific criteria. On-the-spot controls can be activated either downstream of large-scale controls or independently of them. As they focus on individual credit positions, these controls may entail the acquisition of application documents and assessments of the realisable value of the guarantees associated with the credit exposure. As part of on-the-spot controls, Risk Management checks that all the information necessary to assess the credit and trace the recovery process is entered into automatic internal procedures. The available documentation on the basis of which the competent structure for the first-level assessment carries out its own analysis is also controlled.

In particular, large-scale and on-the-spot controls have been defined in order to verify:

- > Correct performance monitoring: the aim of the control, which is carried out on individual positions, is to identify performing positions that present internal and/or external anomalies in order to define the most appropriate corrective actions with the first-level structures, preventing the deterioration of the credit rating and the impairment of the loan portfolio.
- > Correct classification of positions: on the basis of internal policies for classifying non-performing positions and the rules relating to the performance monitoring process, Risk Management verifies that the rules for classifying positions (both performing and in default) are applied appropriately on the basis of indicators that can detect any misclassification. In particular, an assessment is performed of negative external events (e.g.: credit bureau and CRIF) resulting in further deterioration of the credit rating of the position, including signs that might lead to outright non-recoverability. In the case of controls on individual positions, for each verified case, the assessments are documented in a summary comment indicating the outcome of the checks performed.

- > Consistency of provisions: Risk Management verifies, for homogeneous credit portfolios, the correct application of the impairment approaches indicated in internal policies. These checks are performed at both the large-scale level, taking into account the entire performing/non-performing portfolio, and the on-the-spot level.
- > Adequacy of the recovery process: the Risk Management function helps to define the recovery process and verifies that the operational units actually comply with the relevant procedures: adequacy is assessed by identifying critical issues and collaborating with the appropriate structures to identify corrective actions. Risk Management also performs an independent control of the figures presented by the first-level structures relating to management time and amounts recovered.

2.3 Methods of measuring expected losses

The expected credit loss (ECL) approach set forth in IFRS 9 requires financial intermediaries to restructure the credit risk management process, including strategic planning, the measurement of credit risk variables, monitoring and reporting activities, and the performance measurement and risk-based pricing system.

The risk parameters used to calculate the ECL are: PD (Probability of Default), LGD (Loss Given Default) and EAD (Exposure at Default). According to the IFRS 9 expected credit loss model, a loss can be recognised without the event that causes impairment of a receivable (the impairment trigger) necessarily occurring. The bank always recognise the expected loss over a time horizon of 12 months, while expected losses for the residual life of the receivable are calculated in respect of assets for which there is a significant increase in credit risk after initial recognition.

This accounting standard introduces a three-stage classification model for financial assets and provides for the recognition of different expected loss amounts according to the level of deterioration of the credit quality of the financial instruments.

Stage allocation

Below are the three stages indicated by the accounting standard.

- > Stage 1: exposures not subject to significant impairment of credit quality since origination or purchase, or that are characterised by negligible credit risk at the reporting date. For assets in this segment, the ECL is measured within a 12-month time frame (12-month ECL).
- > Stage 2: "performing" exposures whose original credit quality has deteriorated significantly and whose credit risk is not negligible, although they cannot yet be classified as non-performing.
- > If at the valuation date there is a significant increase in the credit risk of the instrument, the expected loss is measured over a time horizon that covers the lifetime of the instrument until maturity (lifetime ECL). In the case of the credit portfolio, the criteria defined for determining Stage 2 are: deterioration of the rating, forborne classification, past due by more than 30 days and internal classification as part of the performance monitoring process. With regard to the securities portfolio, Stage 2 classification depends on the deterioration of the rating of the security or the issuer according to the internal policies defined by the bank.
- > Stage 3: exposures whose credit risk has increased to the point that the instrument is considered to be impaired, i.e. classified as non-performing; this stage also includes financial instruments in default. The latter category includes all assets presenting objective evidence of impairment.

Loans

In order to measure significant increases in credit risk, loans are classified in stages by relationship type; different relationships with the same borrower may then be classified into different stages depending on whether or not the following rules apply.

Stage 2 Private and business segment

Specifically, a transition from Stage 1 to Stage 2 is determined when at least one of the following occurs:

- > Deterioration of the rating: the rating recorded at the observation date is at least two notches lower than the rating observed when the loan was originated.
- > Forborne: Performing forborne credit facilities.
- > Past due 30 days: there is a past due period of more than 30 days.
- > Internal monitoring process results: the offices responsible for credit monitoring identify performance anomalies that could result in a significant increase in credit risk (management watch-lists).

Securities

Securities are classified by purchase tranche, with a single staging rule that verifies the rating of the financial instrument, initially showing the quality of the issue or alternatively the issuer's creditworthiness. Several purchase tranches attributable to the same security (same ISIN) may be classified at different stages depending on the deterioration of the credit rating recorded on the purchase date, pursuant to the FIFO (first in, first out) criterion.

Stage 1 allocation concerns exposures whose credit quality has not deteriorated since the time of purchase.

Stage 2 Securities portfolio

Stage 2 classification involves comparing the rating of the security or the issuer on the tranche purchase date and on the reporting date. If the rating class has declined by two or more notches since the purchase date and the security has a speculative grade rating on the observation date, the tranche is classified as Stage 2. Securities with an investment grade rating according to the ECAI rating scales at the reporting date are always classified at Stage 1 due to the use of the low credit risk exemption.

Expected Credit Loss estimate and inclusion of forward-looking scenarios

The ECL of the Bank's credit portfolio is calculated on the basis of the ratings assigned to the various customer segments (Retail/Corporate) developed by the Cedacri CRS (Credit Rating System) procedure.

In order to calculate the lifetime ECL, a PD curve of up to 30 years is associated with each individual rating. The lifetime PD curve identifies the probability that a borrower (associated with a certain rating class) will default between the reporting date and the year on the curve node. The updating process involves the incorporation in the estimates of a forward-looking component on the first three years of the PD curve according to estimated macroeconomic scenarios. In the LGD assessment, a distinction is made between the "private segment" for which a separate LGD is applied according to the type of account, quantified on the basis of market benchmark analyses and internal recovery rate figures, and the "corporate segment" for which the econometric models implemented by Cedacri as part of the CRS procedure are applied. To calculate the ECL of the securities portfolio, financial instruments are divided into three categories based on the segment to which the issuer belongs: financial, business or government institutions. The rating associated with each issue is established using the criteria described in the internal policies. The relative PD and LGD curves have been developed for each segment, using market best practices and taking the specific features of the portfolios into account.

Forward-looking information is incorporated into the ECL calculation (on either a 12-month or lifetime basis) by means of the probability of default component. Satellite models connect the PD performance with macroeconomic variables, thus simulating

the prospective performance of the risk parameter with estimates of economic drivers. The forward-looking scenarios act in particular on the first three years of estimation of the parameters, while from the fourth year onwards the estimates obtained remain stable and are perpetuated over time.

Following the economic and financial crisis caused by the spread of COVID-19, European institutions have taken a number of actions in order to limit its continued impact. In addition to taking direct action through moratoria and national funds to support European economies, the authorities have stressed the importance of maintaining a high level of quality of financial information in banks' financial statements, while also avoiding excessive pro-cyclicality in estimates and distortion of information due to the period of stress. Of particular interest was the accounting standard IFRS 9, which, while not directly within the responsibility of the European authorities, is a central element with the calculation of the expected credit loss (ECL). The ECL not only quantifies the expected future loss on loans based on historical evidence in the estimation processes of the statistical models but also incorporates forward-looking information through a component that aims to simulate future performance. The purpose of forward-looking scenarios is to simulate future trends in macroeconomic variables (GDP, unemployment, etc.), which are incorporated annually into the calculation of the ECL of the loan portfolio.

These projections are typically provided by bank research centres, or in their absence, by accredited information providers. During the COVID-19 emergency, there has been a series of different scenario publications, by both information providers and authorities or industry experts, with different forecasts, including in the light of the series of adverse events and actions in support of the economy implemented by European governments and authorities. This diversity of scenarios and future outlooks could have led to an uneven impact on the financial statements of European banks. In order to avoid this misalignment, the Supervisory Authorities distributed macroeconomic scenarios with the aim of having them adopted by all significant banks for the 2020 half-year reports. Banca Mediolanum, in this regard, decided to align itself with this approach and proceeded to adopt the ECB and Bank of Italy scenarios published on 4 June 2020 when calculating the ECL on its loan portfolio. An extract from the main macroeconomic indicators used for the estimates is provided below:

	BASE		MILD		ADVERSE	
	EU GDP	UNMP	EU GDP	UNMP	EU GDP	UNMP
2020	(8.70%)	9.80%	(5.90%)	8.80%	(12.60%)	11.30%
2021	5.20%	10.10%	6.80%	8.50%	3.30%	12.50%
2022	3.30%	9.10%	2.20%	8.00%	3.80%	11.20%

Banca Mediolanum did not implement the update of the macroeconomic scenarios carried out by the Supervisory Authorities in December as they were better than the forecasts for June. This would have resulted in a reduction in the expected credit loss that the Bank assessed as non-prudent.

2.4 Credit risk mitigation techniques

In return for granting credit, Banca Mediolanum obtains suitable guarantees from the counterparty, such as collateral on property, and typical personal guarantees, such as sureties, and other atypical guarantees, such as mandates to sell, endorsements, letters of patronage and specially dedicated forms of insurance linked to salary-backed loan products offered by EuroCQS. Although such guarantees are ancillary to the assessment of the customer's creditworthiness, great importance is given to the estimated value of the guarantee where prudential haircuts are applied, appropriately differentiated by type of collateral, the value of which is periodically reviewed according to the market value.

Banca Mediolanum does not apply processes for offsetting credit risk exposures with opposite sign entries in the financial statements or off-balance sheet.

Credit risk mitigation (CRM) techniques consist of contracts ancillary to the loan or other instruments and techniques that result in a reduction of credit risk, which is recognised when calculating capital requirements and, in terms of management, in internal policies. The recognised credit risk mitigation techniques are divided, for supervisory purposes, into two general categories:

- > Real protection.
- > Personal protection.

Real credit protection consists of:

- > financial collateral relating to cash, certain financial instruments, gold provided through pledge agreements, transfer of ownership to secure assets, repurchase agreements and securities lending and borrowing;
- > master netting agreements;
- > on-balance sheet netting;
- > real estate mortgages.

Rights in rem, pledges and other rights with equivalent content relating to assets with an adequate degree of liquidity and a sufficiently stable market value over time are recognised as credit risk mitigation techniques. This category includes guarantees provided through a pledge. The financial product pledged, directly or indirectly, must be included among the following products:

- > current account balances at the Bank;
- > government or government guaranteed bonds and eligible securities;
- > units in investment funds and investment companies with variable capital;
- > insurance policy restrictions;
- > assets under management;
- > bonds and certificates of deposit issued by our Bank and by other banks;
- > reverse repurchase agreements on listed, eligible or government bonds with ordinary customers with an agreement for later sale to the counterparty;

- > listed bonds;
- > listed equities.

If the guarantee net of internal policy haircuts does not fully cover the amount of the credit line granted, the loan is fully classified to the full risk category.

Credit risk arising from mortgage loans is mitigated by the guarantee provided by the property, which may be residential, semi-residential or non-residential. The property in question must be located in Italy. The maximum loan to value ratio is 85% for residential property provided as security (more than 80% only if there is a mortgage insurance policy in place) and 70% of the appraised value of semi-residential property. Semi-residential property is understood as property that meets the following requirements:

the maximum area intended for non-residential use must not exceed 40% of the appraised value of the property. the unit must be located in a residential area.

the borrower must be a self-employed person who intends to use the property as his or her primary residence. In the case of mortgage loans granted to employees of the companies of the Mediolanum Group or to employees of the sales network of the Mediolanum Group, the loan-to-value ratio may be increased to 95% if there is a mortgage insurance policy in place.

In the case of non-residential property, the maximum loan-to-value ratio is 50%. This percentage may be increased up to 80% if there is an irrevocable mandate to sell on the Group's products and other financial assets held by customers for an LTV ratio of between 50% and 80%.

In the case of mortgage transactions intended to finance the liquidity needs of owners of unencumbered property (or in the case of interventions on properties encumbered by a mortgage for previous loan transactions with counter-repayment in progress) the maximum LTV ratio is 50%.

The Bank takes a cautious approach to such operations and implements control procedures, such as verifying the accuracy and quality of the document prepared by the valuer, which are essential requirements for the risk analysis. Any indication of approval of a mortgage must always be supported by a valid valuation report which must provide an estimated value that is consistent with the loan amount requested and certify, as far as possible, the building's compliance with building and planning regulations. Otherwise, the application will be rejected or the loan reduced so that it is proportionate to the real value of the property (depending on its marketability, location, etc.). The reference property value is the lower of the purchase price and the value in the valuation report. The valuation is carried out by referenced and affiliated experts who always fulfil the requirements of independence and professionalism. The specific technical function established within the Special Loans section of the Loans department is responsible for checking that the internal procedures for drawing up the valuation report have been correctly followed. The first-level structure also performs a periodic control (due diligence on valuations) involving a second, different valuation company on a pre-defined sample of applications: this control verifies the soundness of the process in place and provides a revaluation consistent with the condition and market of property provided as collateral. As part of the second-level control process, the Risk Management function carries out quarterly controls on the revaluation of property provided as collateral. In particular, in agreement with the Loans department, any deviation (change) between the revalued value of the property and the last available value provided by a valuer is controlled, in order to identify properties which have decreased significantly in value. The Risk Management function also periodically controls the consistency of the valuation of secured properties in the context of the IT procedures used by the Bank and checks that there is a connection between the loan relationship and the corresponding mortgage guarantee.

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

In addition to collateral and personal guarantees, there is the irrevocable mandate to sell on the Group's products and other financial assets held by the customer. The mandate to sell has the undoubted advantage of being the leanest form of guarantee from an operational standpoint, although it does not constitute any prerogative or privilege on the part of the Bank in the event of insolvency proceedings. Furthermore, as an atypical guarantee, mandates to sell are not eligible for the purpose of reducing capital absorption and are therefore not recognised as collateral for the purpose of mitigating credit risk, although they help to facilitate the decision whether or not to grant a normal credit facility. The risks assumed under this form of guarantee will therefore necessarily be considered full risks.

Through EuroCQS, credit is provided in the form of salary-backed loans (repaid through salary deductions of up to either 20% or 50%). These financing methods, according to the regulations, are "guaranteed" by specifically dedicated forms of insurance that cover the risks related to the death of the debtor/employee or loss of employment. Such forms of risk "mitigation", which are established by legislation governing this method of disbursement, are not recognised as regulatory guarantees eligible for more favourable weightings: therefore, all these exposures are weighted according to the rules for other unsecured types.

3. Non-performing credit exposures

3.1 Management strategies and policies

The Bank's NPL management strategy was defined on the basis of an analysis of the historical management capacity, the external context, the characteristics of the non-performing portfolio in terms of technical form and the limited level of the non-performing portfolio. In terms of possible recovery actions, internal management prevails, and in the out-of-court phase of the recovery process, positions for which early collection activities have not been successfully performed are entrusted to specialised partners. In addition, restructuring and forbearance policies are considered in line with recent operations. Given the level of the non-performing portfolio, transfer strategies (securitisations) with derecognition of the assets transferred were not considered. Objectives for closing positions (including by returning loans to performing credit exposures) and the actions to be taken were defined in the NPL operational management plan, in line with recent management, which resulted in an adequacy assessment of the recovery process. The objectives set out in the three-year plan were established in terms of NPLs gross and net of impairment by type of non-performing loan (past due exposures, UTPs and bad loans), as an absolute value and as a percentage of total exposures to customers, in accordance with the RAF indicators. Lastly, the inflows and outflows of non-performing credit exposures and the sources of reduction of non-performing loans were defined, distinguishing between repayments/early repayments, the realisation of collateral and transitions to new bad debt positions. The objectives set result in an essentially unchanged level of the NPL ratio, which is already low, net of adjustments.

The assessment of the quality of the portfolio for the impairment process is divided into two distinct phases:

- > identification of assets to be subjected to analytical, rather than collective, valuation;
- > the quantification and accounting recognition of the loss in accordance with the rules for the specific type of impairment adopted.

- > The phase of identifying the assets to be valued analytically rather than collectively requires that performing loans be subjected to collective valuation in accordance with IFRS 9.
- > Loans classified as “non-performing” according to the reporting criteria established in current supervisory regulations (past due exposures, UTPs and bad loans), regardless of the significance of each individual exposure, are subject to analytical valuation, with a distinction being made between an “analytical-flat rate” valuation and an “analytical-individual valuation”.
- > Non-performing forbore exposures, even if they do not constitute a separate category of defaulted loans, given that they come under the category of bad loans, UTPs or past due exposures, are subject to analytical-flat rate valuation or analytical-individual valuation depending on which class they belong to and the presence of breaches of advised limits/overdrafts/past due amounts.

Impaired financial assets

On-balance sheet financial assets (loans and debt securities) and off-balance sheet financial assets (guarantees given, irrevocable and revocable commitments to disburse funds, etc.) are defined as “impaired” when the relevant debtors fall into the “non-performing” category as defined in Commission Implementing Regulation (EU) No. 680/2014 as amended (Implementing Technical Standards; hereinafter, ITS). Financial instruments included in the “Financial assets held for trading” portfolio and derivative contracts are excluded.

Non-performing loans can therefore be identified as a type of item characterised by difficult recoverability of the position since the counterparty’s creditworthiness is impaired. As a result of prudential supervisory regulations, there is increased capital absorption for this category of loans.

Non-performing loans are allocated, depending on severity, to the categories of past-due exposures, unlikely to pay exposures and bad loans.

Past due exposures

These are cash exposures other than those classified as bad loans or UTPs which, on the reporting reference date, have been past due or in breach of an advised limit for more than 90 days and comply with the materiality thresholds defined by legislation. Past-due exposures are determined with regard to individual borrowers.

The status of being past due or in breach of an advised limit must be continuous. In particular, in the case of exposures repayment by instalment, the unpaid instalment most in arrears is taken into account. Where a borrower has multiple exposures that have been past due for more than 90 days, the longest period of arrears is taken into account.

In the case of “revocable” credit facilities where the established credit limit has been breached (including if due to the compounding of interest), the calculation of days of the period of breach begins either from the first date of non-payment of interest that results in the breach, or from the date of the first request for return of the capital, whichever occurs first.

The total exposure to a borrower is recognised as past due if, at the reporting date, the higher of the two following values is equal to or higher than the threshold of 5%: a) the average past due exposure as a percentage of the entire exposure recorded on a daily basis in the previous quarter; and b) the past due exposure as a percentage of the entire exposure at the reference date.

For the purposes of calculating the materiality threshold, without prejudice to the requirement of a continuous past due position of more than 90 days, any parts past due by less than 90 days on other exposures are taken into account in the numerator. Any default interest required from the customer is not taken into account in the numerator. The denominator is calculated by taking into account the carrying amount of the securities and cash exposure for other credit positions. Past-due exposures include exposures to parties fulfilling the conditions for inclusion in past-due exposures that have one or more credit facilities that meet the definition of “non-performing exposures with forbearance measures” pursuant to Implementing Regulation (EU) No. 680/2014 – Implementing Technical Standards.

Unlikely to pay exposures

Unlikely to pay exposures are on- and off-balance sheet exposures to a borrower that the Bank regards as unlikely to pay its credit obligations fully (principal and/or interest) without recourse to actions such as the realisation of collateral. This valuation is made regardless of the presence of any amounts (or instalments) past due and unpaid if there are elements that imply a situation of risk of default by the borrower (for example, a crisis in the business sector in which the borrower operates).

Unless the requirements are met for classification as bad loans, unlikely to pay positions include:

- > all exposures to parties fulfilling the conditions for inclusion in unlikely to pay exposures that have one or more credit facilities that meet the definition of “Non-performing exposures with forbearance measures”;
- > all exposures to issuers that have not duly fulfilled their payment obligations (principal and/or interest) in relation to listed debt securities. To this end, the “grace period” established in the contract or, in the absence thereof, by the listing market of the security, is recognised;
- > all exposures to borrowers that have applied for an arrangement with creditors with rights reserved to file ancillary documents at a later date (pursuant to Article 161 of the Italian Bankruptcy Law) from the date of submission of the application until its outcome is known. The exposures in question are classified as bad loans if new objective elements exist that cause the Bank to classify the borrower in this category, or if the exposures were already bad loans when the application was made;
- > cases of applications for composition with creditors on a going-concern basis (Article 186-bis of the Bankruptcy Law), from the date of submission of the application until its outcome is known. If a composition with creditors on a going-concern basis takes place with the disposal of the company in operation or its contribution to one or more companies (including newly incorporated entities) not within the borrower’s economic group, it should be noted that the exposure must be reclassified to performing assets. However, this is not an option in the case of disposal or contribution to a company within the borrower’s economic group, presuming that the parent company/controlling company was involved, in the interest of the entire group, in the decision-making process that led the borrower to apply for a composition with creditors. In this situation, the exposure to the transferee company continues to be reported as an impaired asset and is also recognised among non-performing forborne exposures. Exposures to borrowers that have initiated insolvency proceedings pursuant to the rules governing the “over-indebtedness” crisis of parties not eligible to file for bankruptcy proceedings (“civil insolvency”) are also classified as unlikely to pay. In the event of subsequent approval by the court of the restructuring agreement, the relevant exposures are also classified as non-performing forborne exposures. Lastly, on- and off-balance sheet exposures in respect of which, due to the deterioration of the borrower’s economic and financial conditions, the bank has agreed to amend the original contractual conditions that gave rise to a loss (excluding restructured loans) are categorised as unlikely to pay exposures. This classification is guided by the principle that, at the time of the amendment, the previous past due date is “set to zero” and the allocation of the renegotiated exposure to non-performing exposures implies an assessment of the borrower’s status on the basis of the unlikely to pay principle.

Bad loans

These are all on- and off-balance sheet exposures to borrowers that are insolvent (even if not legally established as such) or in substantially equivalent situations, regardless of any loss forecasts made by the Bank. Furthermore, all exposures to parties fulfilling the conditions for inclusion in bad loans that have one or more credit facilities that meet the definition of “Non-performing

exposures with forbearance measures” are included in this category. Exposures whose anomalous situations result from their country risk characteristics are excluded. Lastly, exposures to borrowers that have initiated insolvency proceedings pursuant to the rules governing the “over-indebtedness” crisis of parties not eligible to file for bankruptcy proceedings (“civil insolvency”) are also classified as bad loans if new objective elements exist that cause the Bank to classify the borrower in this category or if the exposures are already classified as bad loans when the application is made.

3.2 Write-offs

Banca Mediolanum does not have a write-off policy in place. Financial assets were written off on completion of the credit recovery process, as indicated by the internal policies and procedures.

3.3 Purchased or originated impaired financial assets

In accordance with IFRS 9, loans already considered non-performing from the time of initial recognition in the financial statements (or at the date of disbursement or purchase), depending on the degree of credit risk associated with them, are defined as purchased or originated credit-impaired assets (POCI). These types of credit positions, when they fall within the scope of application of impairment pursuant to IFRS 9, are measured by determining a provision to cover the credit risk at the time of initial recognition, which covers the entire residual life of the loan, typical of non-performing positions. Since these are non-performing loans, they are initially recognised in Stage 3, without prejudice to the possibility of being reclassified in the course of their lifetime to Stage 2 if they are found to be no longer non-performing on the basis of a credit risk analysis.

4. Financial assets subject to commercial renegotiation and forbore exposures

Exposures may be subject to amendments to contractual terms favourable to the borrower in order to make repayment of the same sustainable if the borrower is in difficulty. Such changes may be short-term (e.g. by extending an existing condition) or long-term (e.g. by revising the interest rate of a loan) and result in the classification of these exposures as forbore. Forborne exposures are subject to specific provisions for classification and, if the forbearance measures are applied to performing exposures, these are classed as Stage 2 exposures. All forbore exposures are monitored by the relevant company functions. These functions verify the effectiveness of the measures granted by recording subsequent improvements or deterioration in the customer's financial situation. If, at the end of the observation period, the position meets all the criteria laid down by law, it is no longer included in forbore receivables; if, however, these criteria are not met, the exposure remains among forbore exposures.

During 2020, all initiatives in support of customers affected by the economic effects of the Covid-19 pandemic were granted in accordance with the EBA guidelines issued on 02/04/2020 (EBA/GL/2020/02), updated on 02/12/2020 (EBA/GL/2020/15), with which the Bank of Italy declared compliance by Note 4 of 12/05/2020. Except for distressed customer situations not related to the Covid-19 pandemic, the legislative and non-legislative moratoria did not result in the reclassification of any exposures as forbore, performing or non-performing, since as they represented a collective measure in response to the health emergency they were aimed at addressing systemic, and not individual, risks. Therefore, in line with the EBA's instructions, credit exposures were not automatically considered to be subject to SICRs (significant increases in credit risk) or distressed restructuring.

Throughout the moratoria, the Bank classified positions in accordance with its existing policies and practices, prioritising the assessment of counterparties for which the effects of the Covid-19 pandemic are more likely to become financial difficulties or longer-term insolvency, leading to insolvency of the debtor. Once the moratorium has been completed, as well as within the periodic monitoring processes of the credit portfolio, for evaluation purposes of non-performing classifications, debtors who experience late payments or who are identified by automatic external anomaly detection systems, depending on the severity of the anomaly detected, are given priority.

In terms of its own measures, rolled out at the start of the pandemic, involving the suspension of two payments for the mortgage and unsecured loans in the Bank's loan portfolio, the initiatives were aimed at a customer target selected according to appropriate

criteria that excluded customers in a state of objective difficulty, and assessed individual requests received on a case-by-case basis in accordance with the policies in force for the purposes of classification as forborne.

As part of the control framework prepared by the Risk Management function, a large-scale audit was added in order to identify anomalies attributable to the correct classification of the regulatory state and the attribute of forbearance, giving priority to initiatives with more relevance than the stock of the loan portfolio.

Non-performing forborne exposures

Non-performing forborne credit exposures are defined as individual on-balance sheet exposures and revocable and irrevocable commitments to disburse funds that meet the definition of “Non-performing exposures with forbearance measures”. Such exposures are included, depending on the case, in bad loans, unlikely to pay positions or past due exposures and do not form a separate category of impaired assets. Cases in which a credit exposure is restructured with the intent of settling the position are also included among bad loans.

The legislation on the new definition of default (new DOD), which came into force on 1 January 2021, aims to harmonise the method of identifying non-performing loans in European jurisdictions and requires significant action to include the adjustments necessary for full compliance. The Mediolanum Group, for the legal entities whose business is affected by the new rule, has launched two different projects: the first involves its IT outsourcers and is aimed at transposing the recent regulatory requirements into the IT procedures used to classify non-performing loans (detection); the second aims to adapt the internal rating system by retrospectively reconstructing the new definition of default in order to consider its impacts in the process of estimating the risk parameters used to calculate the expected credit loss for the purposes of IFRS 9.

QUANTITATIVE INFORMATION

A. Credit quality

A.1 Non-performing and performing credit exposures: amounts, value adjustments, trends and economic distribution

A.1.1 Distribution of financial assets by portfolio and credit quality (carrying amount)

€/t		Bad loans	Unlikely to pay	Non-performing past due	Performing past due	Other performing	TOTAL
1. Financial assets measured at amortised cost		22,614	30,005	5,715	34,557	24,955,709	25,048,600
2. Financial assets at fair value through other comprehensive income		-	-	-	-	493,259	493,259
3. Financial assets designated at fair value		-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value		-	-	-	-	-	-
5. Financial assets held for sale		-	-	-	-	-	-
TOTAL	31/12/2020	22,614	30,005	5,715	34,557	25,448,968	25,541,859
TOTAL	31/12/2019	21,705	36,861	4,666	53,754	22,632,216	22,749,202

A.1.2 Distribution of financial assets by portfolio and credit quality (gross and net values)

€/t	Non-performing				Performing			TOTAL (net exposure)
	Gross exposure	Overall value adjustments	Net exposure	Overall partial write-offs*	Gross exposure	Overall value adjustments	Net exposure	
1. Financial assets measured at amortised cost	130,785	(72,452)	58,333	-	25,035,964	(45,697)	24,990,267	25,048,600
2. Financial assets at fair value through other comprehensive income	-	-	-	-	493,817	(558)	493,259	493,259
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	X	X	-	-
5. Financial assets held for sale	-	-	-	-	-	-	-	-
TOTAL 31/12/2020	130,785	(72,452)	58,333	-	25,529,781	(46,255)	25,483,526	25,541,859
TOTAL 31/12/2019	131,473	(68,241)	63,232	-	22,725,966	(39,996)	22,685,970	22,749,202

* Value to be displayed for information purposes

€/t	Assets clearly of poor credit quality		Other assets
	Cumulative capital losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	102,884
2. Hedging derivatives	-	-	-
TOTAL 31/12/2020	-	-	102,884
TOTAL 31/12/2019	-	-	131,500

A.1.3 Distribution of financial assets by maturity brackets (carrying amounts)

€/t	Stage 1			Stage 2			Stage 3		
	1 day to 30 days	Over 30 days to 90 days	Over 90 days	1 day to 30 days	Over 30 days to 90 days	Over 90 days	1 day to 30 days	Over 30 days to 90 days	Over 90 days
1. Financial assets measured at amortised cost	5,374	-	1	620	22,453	6,111	6	982	45,564
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-	-	-	-
TOTAL 31/12/2020	5,374	-	1	620	22,453	6,111	6	982	45,564
TOTAL 31/12/2019	6,732	-	-	1,756	37,183	8,083	10	2,491	47,553

A.1.4 Financial assets, commitments to disburse funds and financial guarantees given: changes in overall value adjustments and overall provisions (Part 1 of 2)

€/t	Overall value adjustments									
	Stage 1 assets					Stage 2 assets				
	Financial assets measured at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs	Financial assets measured at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs
Overall initial adjustments	21,575	861	-	-	22,436	17,561	-	-	-	17,561
Increases in acquired or originated financial assets	14,426	42	-	-	14,467	2,079	-	-	-	2,079
Derecognitions other than write-offs	(1,705)	-	-	-	(1,705)	(425)	-	-	-	(425)
Credit-risk induced net value adjustments/write-backs (+/-)	(6,299)	(345)	-	-	(6,644)	(1,514)	-	-	-	(1,514)
Contractual changes without cancellations	-	-	-	-	-	-	-	-	-	-
Changes in estimation methods	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly in the income statement	-	-	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-	-	-	-
Overall final adjustments	27,997	558	-	-	28,554	17,701	-	-	-	17,701
Recoveries from collection of financial assets subject to write-offs	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly in the income statement	-	-	-	-	-	-	-	-	-	-

A.1.4 Financial assets, commitments to disburse funds and financial guarantees given: changes in overall value adjustments and overall provisions (Part 2 of 2)

€/t	Overall value adjustments						Of which: purchased or originated impaired financial assets	Overall provisions for commitments to disburse funds and financial guarantees given			TOTAL
	Stage 3 assets										
	Financial assets measured at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs	Stage 1		Stage 2	Stage 3		
Overall initial adjustments	68,241	-	-	68,241	-	646	28	3	-	108,269	
Increases in acquired or originated financial assets	234	-	-	234	-	195	158	3	-	18,144	
Derecognitions other than write-offs	(173)	-	-	(173)	-	-	(30)	(7)	-	(2,340)	
Credit-risk induced net value adjustments/write- backs (+/-)	7,151	-	-	7,151	-	(344)	(40)	3	-	(2,248)	
Contractual changes without cancellations	-	-	-	-	-	-	-	-	-	-	
Changes in estimation methods	-	-	-	-	-	-	-	-	-	-	
Write-offs not recognised directly in the income statement	(3,001)	-	-	(3,001)	-	(2)	-	-	-	(3,001)	
Other changes	-	-	-	-	-	-	-	-	-	-	
Overall final adjustments	72,452	-	-	72,452	-	495	116	2	-	118,824	
Recoveries from collection of financial assets subject to write- offs	-	-	-	-	-	-	-	-	-	-	
Write-offs recognised directly in the income statement	(622)	-	-	622	-	-	-	-	-	-	

A.1.5 Financial assets, commitments to disburse funds and financial guarantees given: transfers between different stages of credit risk (gross and nominal values)

€/t		Gross exposure/nominal value					
		Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3	
		From Stage 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1
	1. Financial assets measured at amortised cost	243,753	197,827	13,248	8,229	8,658	1,194
	2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-
	3. Financial assets held for sale	-	-	-	-	-	-
	4. Commitments to disburse funds and financial guarantees given	12,454	12,378	37	51	3	2
TOTAL	31/12/2020	256,207	210,205	13,285	8,280	8,661	1,196
TOTAL	31/12/2019	257,860	304,765	16,333	4,330	16,471	2,048

A.1.5a Loans subject to Covid-19 support measures: transfers between the various stages of credit risk (gross values)

€/t		Gross values/nominal value					
		Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3	
		From Stage 1 to Stage 2	From Stage 1 to Stage 2	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1
A. Loans measured at amortised cost		28,674	11,176	121	2,649	108	-
A.1 subject to forbearance compliant with the GL		11,429	10,960	121	2,623	72	-
A.2 subject to other forbearance measures		-	-	-	-	-	-
A.3 new loans		17,245	217	-	25	37	-
B. Loans measured at fair value through other comprehensive income		-	-	-	-	-	-
B.1 subject to forbearance compliant with the GL		-	-	-	-	-	-
B.2 subject to other forbearance measures		-	-	-	-	-	-
B.3 new loans		-	-	-	-	-	-
Total	31/12/2020	28,674	11,176	121	2,649	108	-
Total	31/12/2019	-	-	-	-	-	-

A.1.6 On- and off-balance sheet credit exposures to banks: gross and net values

€/t	Gross exposure		Overall value adjustments and overall provisions	Net exposure	Overall partial write-offs*
	Non-performing	Performing			
A. ON-BALANCE SHEET CREDIT EXPOSURES					
a) Bad loans	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to pay	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
c) Non-performing past due exposures	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
d) Performing past due exposures	X	-	-	-	-
- of which: forborne exposures	X	-	-	-	-
e) Other performing exposures	X	760,680	(320)	760,360	-
- of which: forborne exposures	X	-	-	-	-
TOTAL A	-	760,680	(320)	760,360	-
B. OFF-BALANCE SHEET CREDIT EXPOSURES					
a) Non-performing	-	X	-	-	-
b) Performing	X	61,069	(5)	61,064	-
TOTAL B	-	61,069	(5)	61,064	-
TOTAL A+B	-	821,749	(325)	821,424	-

* Value to be displayed for information purposes

A.1.7 On- and off-balance sheet credit exposures to customers: gross and net values

€/t	Gross exposure		Overall value adjustments and overall provisions	Net exposure	Overall partial write-offs*
	Non-performing	Performing			
A. ON-BALANCE SHEET CREDIT EXPOSURES					
a) Bad loans	68,737	X	(46,124)	22,613	-
- of which: forborne exposures	7,864	X	(4,105)	3,759	-
b) Unlikely to pay	54,444	X	(24,440)	30,004	-
- of which: forborne exposures	18,929	X	(8,968)	9,961	-
c) Non-performing past due exposures	7,604	X	(1,888)	5,716	-
- of which: forborne exposures	2,023	X	(501)	1,522	-
d) Performing past due exposures	X	36,938	(2,381)	34,557	-
- of which: forborne exposures	X	3,338	(301)	3,037	-
e) Other performing exposures	X	24,834,423	(43,553)	24,790,870	-
- of which: forborne exposures	X	87,429	(2,730)	84,699	-
TOTAL A	130,785	24,871,361	(118,386)	24,883,760	-
B. OFF-BALANCE SHEET CREDIT EXPOSURES					
a) Non-performing	85	X	(2)	83	-
b) Performing	X	3,460,946	(492)	3,460,454	-
TOTAL B	85	3,460,946	(494)	3,460,537	-
TOTAL A+B	130,870	28,332,307	(118,880)	28,344,297	-

* Value to be displayed for information purposes

A.1.7a On-balance sheet loan exposures to customers subject to Covid-19 support measures: gross and net values

€/t	Gross exposure	Overall value adjustments and overall provisions	Net exposure	Overall partial write-offs
A. NON-PERFORMING CREDIT EXPOSURES	-	-	-	-
a) subject to forbearance compliant with the GL	-	-	-	-
b) Subject to other forbearance measures	-	-	-	-
c) New loans	-	-	-	-
B. UNLIKELY TO PAY CREDIT EXPOSURES	1,445	311	1,134	-
a) subject to forbearance compliant with the GL	1,438	307	1,131	-
b) Subject to other forbearance measures	-	-	-	-
c) New loans	7	4	3	-
C. PAST-DUE NON-PERFORMING CREDIT EXPOSURES	41	4	37	-
a) subject to forbearance compliant with the GL	12	1	11	-
b) Subject to other forbearance measures	-	-	-	-
c) New loans	29	3	26	-
D. PERFORMING PAST DUE EXPOSURES	134	-	134	-
a) subject to forbearance compliant with the GL	-	-	-	-
b) Subject to other forbearance measures	-	-	-	-
c) New loans	134	-	134	-
E. OTHER PERFORMING EXPOSURES	399,061	2,313	396,748	-
a) subject to forbearance compliant with the GL	272,963	2,044	270,919	-
b) Subject to other forbearance measures	-	-	-	-
c) New loans	126,098	269	125,829	-
TOTAL (A+B+C+D+E)	400,681	2,628	398,053	-

A.1.9 On-balance sheet credit exposures to customers: changes in gross non-performing exposures

€/t	Bad loans	Unlikely to pay	Non-performing past due
A. Initial gross exposure	65,192	60,313	5,968
- of which: exposures transferred and not written off	-	-	-
B. Increases	12,390	25,207	27,321
B.1 inflows from performing exposures	-	11,392	23,047
B.2 inflows from purchased or originated impaired financial assets	-	-	107
B.3 transfers from other categories of non-performing exposures	11,892	7,645	726
B.4 contractual changes without cancellations	-	-	-
B.5 other increases	498	6,170	3,441
C. Decreases	8,845	31,076	25,685
C.1 outflows to performing exposures	552	9,963	12,816
C.2 write-offs	3,458	1,355	134
C.3 collections	1,485	4,536	3,127
C.4 proceeds from disposals	-	-	-
C.5 losses from disposals	-	-	-
C.6 transfers to other categories of non-performing exposures	708	12,068	7,488
C.7 contractual changes without cancellations	-	-	-
C.8 other decreases	2,642	3,154	2,120
D. Final gross exposure	68,737	54,444	7,604
- of which: exposures transferred and not written off	-	-	-

A.1.9bis On-balance sheet credit exposures to customers: changes in gross forborne exposures by credit quality

€/t	Forborne exposures: non-performing	Forborne exposures: performing
A. Initial gross exposure	27,611	57,136
- of which: exposures transferred and not written off	-	-
B. Increases	13,578	82,067
B.1 inflows from performing non-forborne exposures	509	63,038
B.2 inflows from performing forborne exposures	3,826	X
B.3 inflows from non-performing forborne exposures	X	5,539
B.4 inflows from non-performing non-forborne exposures	6,430	216
B.5 other increases	2,813	13,274
C. Decreases	12,373	48,436
C.1 outflows to performing non-forborne exposures	X	31,687
C.2 outflows to performing forborne exposures	5,539	X
C.3 outflows to non-performing forborne exposures	X	3,826
C.4 write-offs	144	-
C.5 collections	1,657	9,176
C.6 proceeds from disposals	-	-
C.7 losses from disposals	-	-
C.8 other decreases	5,033	3,747
D. Final gross exposure	28,816	90,767
- of which: exposures transferred and not written off	-	-

A.1.II On-balance sheet non-performing credit exposures to customers: changes in overall value adjustments

€/t	Bad loans		Unlikely to pay		Non-performing past due	
	TOTAL	of which: forborne exposures	TOTAL	of which: forborne exposures	TOTAL	of which: forborne exposures
A. Overall initial adjustments	(43,487)	(2,756)	(23,452)	(10,119)	(1,302)	(132)
- of which: exposures transferred and not written off	-	-	-	-	-	-
B. Increases	(8,121)	(1,837)	(10,507)	(2,494)	(1,900)	(490)
B.1 value adjustments of purchased or originated impaired assets	-	X	-	X	-	X
B.2 other value adjustments	(4,238)	(849)	(10,047)	(2,476)	(1,854)	(483)
B.3 losses from disposals	-	-	-	-	-	-
B.4 transfers from other categories of non-performing exposures	(3,883)	(988)	(460)	(18)	(46)	(7)
B.5 contractual changes without cancellations	-	-	-	-	-	-
B.6 other increases	-	-	-	-	-	-
C. Decreases	5,484	488	9,519	3,645	1,314	121
C.1 write-backs from valuation	567	52	2,212	1,156	426	88
C.2 write-backs from collection	1,459	292	2,064	1,490	253	14
C.3 profits from disposals	-	-	-	-	-	-
C.4 write-offs	3,458	144	1,355	-	134	-
C.5 transfers to other categories of non-performing exposures	-	-	3,888	999	501	19
C.6 contractual changes without cancellations	-	-	-	-	-	-
C.7 other decreases	-	-	-	-	-	-
D. Overall final adjustments	(46,124)	(4,105)	(24,440)	(8,968)	(1,888)	(501)
- of which: exposures transferred and not written off	-	-	-	-	-	-

A.2 Classification of financial assets, commitments to disburse funds and financial guarantees given on the basis of external and internal ratings

A.2.1 Distribution of financial assets, commitments to disburse funds and financial guarantees given: by external rating classes (gross values)

Exposures	External rating classes						Unrated	TOTAL
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets measured at amortised cost	343	67,419	13,065,539	33,333	-	-	12,000,116	25,166,750
- Stage 1	343	67,419	13,065,539	33,333	-	-	11,348,178	24,514,812
- Stage 2	-	-	-	-	-	-	521,153	521,153
- Stage 3	-	-	-	-	-	-	130,785	130,785
B. Financial assets at fair value through other comprehensive income	-	81,910	411,907	-	-	-	-	493,817
- Stage 1	-	81,910	411,907	-	-	-	-	493,817
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
C. Financial assets held for sale	-	-	-	-	-	-	-	-
- Stage 1	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
TOTAL (A+B+C)	343	149,329	13,477,446	33,333	-	-	12,000,116	25,660,567
of which: purchased or originated impaired financial assets	-	-	-	-	-	-	2,381	2,381
D. Commitments to disburse funds and financial guarantees given								
- Stage 1	-	-	-	-	-	-	1,020,517	1,020,517
- Stage 2	-	-	-	-	-	-	16,332	16,332
- Stage 3	-	-	-	-	-	-	67	67
TOTAL (D)	-	-	-	-	-	-	1,036,916	1,036,916
TOTAL (A+B+C+D)	343	149,329	13,477,446	33,333	-	-	13,037,032	26,697,483

The table shows a breakdown of exposures to rated counterparties and exposures without an external rating (CERVED). The rating agencies provide a summary opinion on the creditworthiness of the counterparties.

The rating companies used to prepare the table are: Moody's, Standard & Poor's and Fitch.

In the event that several agencies have rated the same counterparty, the following order of priority is used, as defined in the specific policy document: Moody's, Standard & Poor's and lastly Fitch.

However, the Risk Management function may, following appropriate considerations and on a prudential basis, modify the rating resulting from the automatic allocation and calculation system, where deemed necessary. The following is a reconciliation between the risk classes and the ratings of the agencies used, indicating whether they are investment grade/speculative grade.

Creditworthiness class	CERVED	ECAI		
		MOODY'S	STANDARD & POOR'S	FITCH
1		Aaa Aa1 Aa2 Aa3	AAA AA+ AA AA-	AAA AA+ AA AA-
2	Al.1 Al.2 Al.3 A2.1 A2.1 A3.1	A1 A2 A3	A+ A A-	A+ A A-
3	Bl.1 Bl.2	Baa1 Baa2 Baa3	BBB+ BBB BBB-	BBB+ BBB BBB-
4	B2.1 B2.2	Ba1 Ba2 Ba3	BB+ BB BB-	BB+ BB BB-
5	Cl.1 Cl.2	B1 B2 B3	B+ B B-	B+ B B-
6	Cl.2 C2.1	Caaa/Ca/C	CCC/C	CCC/C

Investment Grade

Speculative Grade

A.2.2 Distribution of on- and off-balance sheet exposures by internal rating classes

The bank does not have models for defining internal ratings.

A.3 Distribution of secured credit exposures by type of guarantee

A.3.1 Secured on- and off-balance sheet credit exposures to banks (Part 1 of 2)

€/t	Gross exposure	Net exposure	Collateral (I)				Personal guarantees (2)	
			Property - mortgages	Property - finance leases	Securities	Other collateral	Credit derivatives	
							CLNs	Other derivatives CCPs
1. Secured on-balance sheet credit exposures:	134,042	134,042	-	-	133,981	-	-	-
I.1. fully secured	134,042	134,042	-	-	133,981	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-
I.2. partially secured	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-
2. Secured off-balance sheet credit exposures:	-	-	-	-	-	-	-	-
2.1. fully secured	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-
2.2. partially secured	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-

A.3.1 Secured on- and off-balance sheet credit exposures to banks (Part 2 of 2)

€/t	Personal guarantees (2)								TOTAL (1) + (2)
	Credit derivatives			Unsecured loans					
	Other derivatives			General governments	Banks	Other financial corporations	Other entities		
	Banks	Other financial corporations	Other entities						
1. Secured on-balance sheet credit exposures:	-	-	-	-	-	-	-	133,981	
1.1. fully secured	-	-	-	-	-	-	-	133,981	
- of which non-performing	-	-	-	-	-	-	-	-	
1.2. partially secured	-	-	-	-	-	-	-	-	
- of which non-performing	-	-	-	-	-	-	-	-	
2. Secured off-balance sheet credit exposures:	-	-	-	-	-	-	-	-	
2.1. fully secured	-	-	-	-	-	-	-	-	
- of which non-performing	-	-	-	-	-	-	-	-	
2.2. partially secured	-	-	-	-	-	-	-	-	
- of which non-performing	-	-	-	-	-	-	-	-	

A.3.2 Secured on- and off-balance sheet credit exposures to customers (Part 1 of 2)

€/t	Collateral (1)						Personal guarantees (2)	
	Gross exposure	Net exposure	Property - mortgages	Property - finance leases	Securities	Other collateral	Credit derivatives	
							CLNs	Other derivatives
								CCPs
1. Secured on-balance sheet credit exposures:	8,527,280	8,463,731	8,154,225	-	-	54,000	-	-
1.1. fully secured	8,414,007	8,354,451	8,149,199	-	-	52,757	-	-
- of which non-performing	77,623	43,291	42,880	-	-	-	-	-
1.2. partially secured	113,273	109,280	5,026	-	-	1,243	-	-
- of which non-performing	4,698	1,003	946	-	-	-	-	-
2. Secured off-balance sheet credit exposures:	29,466	29,371	2,262	-	-	4,001	-	-
2.1. fully secured	23,379	23,294	2,262	-	-	2,464	-	-
- of which non-performing	-	-	-	-	-	-	-	-
2.2. partially secured	6,087	6,077	-	-	-	1,537	-	-
- of which non-performing	-	-	-	-	-	-	-	-

A.3.2 Secured on- and off-balance sheet credit exposures to customers (Part 2 of 2)

€/t	Personal guarantees (2)							TOTAL (1) + (2)
	Credit derivatives			Unsecured loans				
	Other derivatives			General governments	Banks	Other financial corporations	Other entities	
	Banks	Other	Other entities					
1. Secured on-balance sheet credit exposures:		--	-	107,157	6,455	-	93,940	8,415,777
1.1. fully secured		--	-	16,220	6,455	-	91,967	8,316,598
- of which non-performing		--	-	-	2	-	188	43,070
1.2. partially secured		--	-	90,937	-	-	1,973	99,179
- of which non-performing		--	-	31	-	-	25	1,002
2. Secured off-balance sheet credit exposures:		--	-	-	-	-	18,756	25,019
2.1. fully secured		--	-	-	-	-	18,563	23,289
- of which non-performing		--	-	-	-	-	-	-
2.2. partially secured		--	-	-	-	-	193	1,730
- of which non-performing		--	-	-	-	-	-	-

B. Distribution and concentration of credit exposures

B.1 Distribution of on- and off-balance sheet credit exposures to customers by sector (carrying amount) (Part 1 of 2)

		General governments		Financial corporations		Financial corporations (of which: insurance companies)	
€/t		Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. On-balance sheet credit exposures							
A.1 Bad loans		-	-	-	-	-	-
- of which forborne exposures		-	-	-	-	-	-
A.2 Unlikely to pay		-	-	2,021	(5,474)	-	-
- of which forborne exposures		-	-	2,021	(5,474)	-	-
A.3 Non-performing past due exposures		-	-	-	-	-	-
- of which forborne exposures		-	-	-	-	-	-
A.4 Performing exposures		13,089,715	(11,632)	1,254,853	(3,536)	20,104	-
- of which forborne exposures		-	-	-	-	-	-
TOTAL A		13,089,715	(11,632)	1,256,875	(9,010)	20,104	-
B. Off-balance sheet credit exposures							
B.1 Non-performing exposures		-	-	-	-	-	-
B.2 Performing exposures		-	-	513,760	(49)	-	-
TOTAL B		-	-	513,760	(49)	-	-
TOTAL (A+B)	31/12/2020	13,089,715	(11,632)	1,770,636	(9,059)	20,104	-
TOTAL (A+B)	31/12/2019	(12,193,148)	10,757	(1,187,913)	7,903	1	-

B.1 Distribution of on- and off-balance sheet credit exposures to customers by sector (carrying amount) (Part 2 of 2)

€/t	Non-financial corporations		Households	
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. On-balance sheet credit exposures				
A.1 Bad loans	3	(2,080)	22,611	(44,043)
- of which forborne exposures	-	-	3,758	(4,105)
A.2 Unlikely to pay	4,686	(7,121)	23,297	(11,844)
- of which forborne exposures	1,444	(725)	6,495	(2,769)
A.3 Non-performing past due exposures	21	(3)	5,694	(1,886)
- of which forborne exposures	-	-	1,522	(501)
A.4 Performing exposures	400,224	(4,007)	10,080,633	(26,760)
- of which forborne exposures	4,062	(124)	83,675	(2,907)
TOTAL A	404,934	(13,212)	10,132,235	(84,533)
B. Off-balance sheet credit exposures				
B.1 Non-performing exposures	18	-	65	(2)
B.2 Performing exposures	181,155	(96)	367,912	(347)
TOTAL B	181,173	(96)	367,977	(349)
TOTAL (A+B)	586,107	(13,307)	10,500,212	(84,882)
TOTAL (A+B)	(378,534)	9,716	(9,425,319)	79,995

B.2 Distribution of on- and off-balance sheet credit exposures to customers by geographical area (Part 1 of 2)

€/t	Italy		Other European countries		America	
	Net exposures	Overall value adjustments	Net exposures	Overall value adjustments	Net exposures	Overall value adjustments
A. On-balance sheet credit exposures						
A.1 Bad loans	22,604	46,086	9	37	-	-
A.2 Unlikely to pay	29,878	24,354	126	86	-	-
A.3 Non-performing past due exposures	5,689	1,779	-	-	26	109
A.4 Performing exposures	24,775,959	45,784	39,972	126	3,359	7
Total (A)	24,834,131	118,003	40,107	249	3,385	116
B. Off-balance sheet credit exposures						
B.1 Non-performing exposures	82	2	-	-	1	-
B.2 Performing exposures	1,061,877	487	819	5	26	-
Total (B)	1,061,959	489	819	5	27	-
Total (A+B)	31/12/2020	25,896,089	118,492	40,926	254	116
Total (A+B)	31/12/2019	23,136,081	108,169	40,096	190	6

B.2 Distribution of on- and off-balance sheet credit exposures to customers by geographical area (Part 2 of 2)

€/t	Asia		Rest of world	
	Net exposures	Overall value adjustments	Net exposures	Overall value adjustments
A. On-balance sheet credit exposures				
A.1 Bad loans	-	-	-	-
A.2 Unlikely to pay	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-
A.4 Performing exposures	5,182	13	954	6
Total (A)	5,182	13	954	6
B. Off-balance sheet credit exposures				
B.1 Non-performing exposures	-	-	-	-
B.2 Performing exposures	68	-	37	-
Total (B)	68	-	37	-
Total (A+B)	31/12/2020	5,251	13	991
Total (A+B)	31/12/2019	2,906	4	1,075

B.3 Distribution of on- and off-balance sheet credit exposures to banks by geographical area (Part 1 of 2)

		Italy		Other European countries		America	
		Net exposures	Overall value adjustments	Net exposures	Overall value adjustments	Net exposures	Overall value adjustments
€/t							
A. On-balance sheet credit exposures							
A.1 Bad loans		-	-	-	-	-	-
A.2 Unlikely to pay		-	-	-	-	-	-
A.3 Non-performing past due exposures		-	-	-	-	-	-
A.4 Performing exposures		481,365	116	277,320	202	1,675	3
Total (A)		481,365	116	277,320	202	1,675	3
B. Off-balance sheet credit exposures							
B.1 Non-performing exposures		-	-	-	-	-	-
B.2 Performing exposures		55,802	-	5,261	5	-	-
Total (B)		55,802	-	5,261	5	-	-
Total (A+B)	31/12/2020	537,167	116	282,582	207	1,675	3
Total (A+B)	31/12/2019	289,388	96	220,072	141	4,196	34

B.3 Distribution of on- and off-balance sheet credit exposures to banks by geographical area (Part 2 of 2)

€/t	Asia		Rest of world	
	Net exposures	Overall value adjustments	Net exposures	Overall value adjustments
A. On-balance sheet credit exposures				
A.1 Bad loans	-	-	-	-
A.2 Unlikely to pay	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-
A.4 Performing exposures	-	-	-	-
Total (A)	-	-	-	-
B. Off-balance sheet credit exposures				
B.1 Non-performing exposures	-	-	-	-
B.2 Performing exposures	-	-	-	-
Total (B)	-	-	-	-
Total (A+B)	31/12/2020	-	-	-
Total (A+B)	31/12/2019	-	-	-

B.4 Large exposures

€/t	31/12/2020
a) Amount (carrying amount)	19,434,454
b) Amount (weighted value)	1,004,596
c) Number	4

The number and amount of large risks have been determined in accordance with existing EU and national provisions. The provisions specify the nominal value of exposures as the parameter for identifying large risks.

C. Securitisation

QUALITATIVE INFORMATION

The company has no exposures arising from its own securitisation operations.

QUANTITATIVE INFORMATION

C.1 Exposures arising from the main “own” securitisation operations, by type of securitised asset and type of exposure

The company has no exposures arising from its own securitisation operations.

C.2 Exposures arising from the main “third-party” securitisation operations, by type of securitised asset and type of exposure.

€/t	On-balance sheet exposures						Guarantees given						Credit facilities					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Carrying amount	Adjustments/write-backs	Carrying amount	Adjustments/write-backs	Carrying amount	Adjustments/write-backs	Carrying amount	Adjustments/write-backs	Carrying amount	Adjustments/write-backs	Carrying amount	Adjustments/write-backs	Carrying value	Adjustments/write-backs	Carrying value	Adjustments/write-backs	Carrying amount	Adjustments/write-backs
F-E Mortgages srl	343	-																

E. Sale transactions

A. Financial assets sold but not fully derecognised

QUALITATIVE INFORMATION

Financial assets sold but not derecognised relate to repurchase agreements with the Cassa di Compensazione e Garanzia.

QUANTITATIVE INFORMATION

E.1 Financial assets sold but fully recognised and related financial liabilities: carrying amount

€/t	Financial assets sold but fully recognised				Related financial liabilities		
	Carrying amount	of which: subject to securitisation operations	of which: subject to repurchase agreements	of which impaired	Carrying amount	of which: subject to securitisation operations	of which: subject to repurchase agreements
A. Financial assets held for trading	-	-	-	X	-	-	-
1. Debt securities	-	-	-	X	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily measured at fair value	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
C. Financial assets designated at fair value	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets at fair value through other comprehensive income	-	-	-	-	10,093	-	10,093
1. Debt securities	-	-	-	-	10,093	-	10,093
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortised cost	2,336,616	-	2,336,616	-	2,350,226	-	2,350,226
1. Debt securities	2,336,616	-	2,336,616	-	2,350,226	-	2,350,226
2. Loans	-	-	-	-	-	-	-
TOTAL 31/12/2020	2,336,616	-	2,336,616	-	2,360,319	-	2,360,319
TOTAL 31/12/2019	3,974,103	-	3,974,103	-	4,049,506	-	4,049,506

F. Credit risk measurement models

In its simplest sense, credit risk can be attributed to three fundamental variables: the exposure at the time of default of the counterparty (EAD), the probability of the counterparty defaulting (PD) and the actual loss at the time of default (LGD). With regard to the classes of exposure in respect of which the capital requirement for credit risk is calculated, it was decided, on the basis of the qualitative and quantitative considerations explained below, to focus exclusively on:

- > unsecured retail exposures;
- > exposures secured by property.

The portfolios above (i.e. the portfolios to which stress testing can be applied) include assets in which the Bank intends to continue to invest in the near future while limiting its exposure to other asset classes. Lastly, the stress scenarios are also applied to “past due” exposures. Thus, for each asset class and for each portfolio, all exposures, both performing and non-performing, at a given baseline date are considered in determining the crisis scenarios. Although unsecured retail credit portfolios are limited in terms of overall exposure, it is considered necessary to assess the effect that adverse macroeconomic conditions and extreme events would have on ordinary banking operations. It is therefore important to carry out stress tests for these types of loans in order to understand how the intrinsic riskiness of this type of asset would be affected by the occurrence of hypothetical extreme events.

Section 2 – Market risk

2.1 Interest rate risk and price risk – regulatory trading book

QUALITATIVE INFORMATION

A. General aspects

The “trading book”, as defined in the prudential regulations on market risk, includes the portfolio of financial instruments subject to the reference capital requirements. In particular, the financial positions authorised for management of trading activity are placed in this portfolio. With respect to banking operations, the objectives and strategies underlying this trading activity, carried out on an exclusively own account basis, are common to the principles applied in other business areas, such as the diversification of investments, risk control and attention to market opportunities.

In particular, the positions in the trading portfolio mainly consist of positions in bonds, with the remainder in equity securities, hedging derivatives and money market instruments.

As with the other banking portfolios, there are more domestic government securities in the trading book than securities of other issuers. It thus represents a level of default risk in line with country of residence risk. In the classic management of trading positions, the remaining investment in non-government bonds is hedged in terms of interest rate risk, possibly through listed derivatives (futures) or short positions. In line with the banking book, the trading positions on government securities also have a limited interest rate risk profile, as evidenced by the low average duration of the portfolios.

Banca Mediolanum's overall securities portfolio

Rating composition (S&P Equivalent)

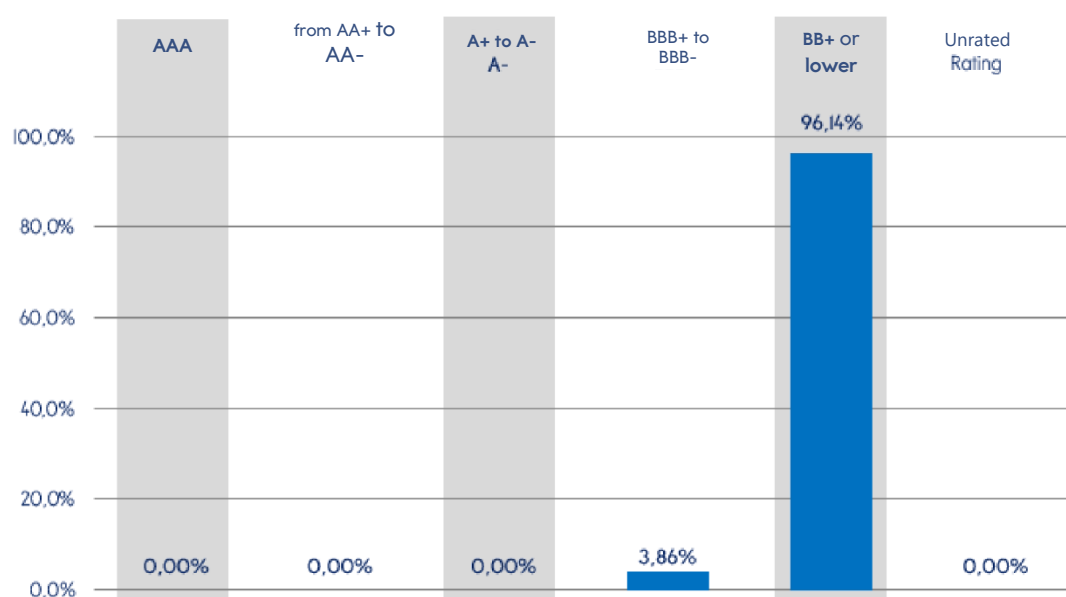
Spot data (31/12/2020 vs 31/12/2019)

€/t	31/12/2020		31/12/2019	
	Val.	chge	Val.	chge
TOTAL PORTFOLIO	13,242,926	100.0%	12,303,086	100%
AAA	-	0.00%	-	0.0%
AA+ to AA-	10,139	0.08%	20,359	0.2%
A+ to A-	71,066	0.54%	50,393	0.4%
BBB+ to BBB-	13,064,097	98.65%	12,182,779	99.0%
BB+ or lower	97,625	0.74%	49,556	0.4%
Unrated	-	0.0%	-	0.0%

Rating composition of Banca Mediolanum's trading book

S&P Equivalent (December 2020)

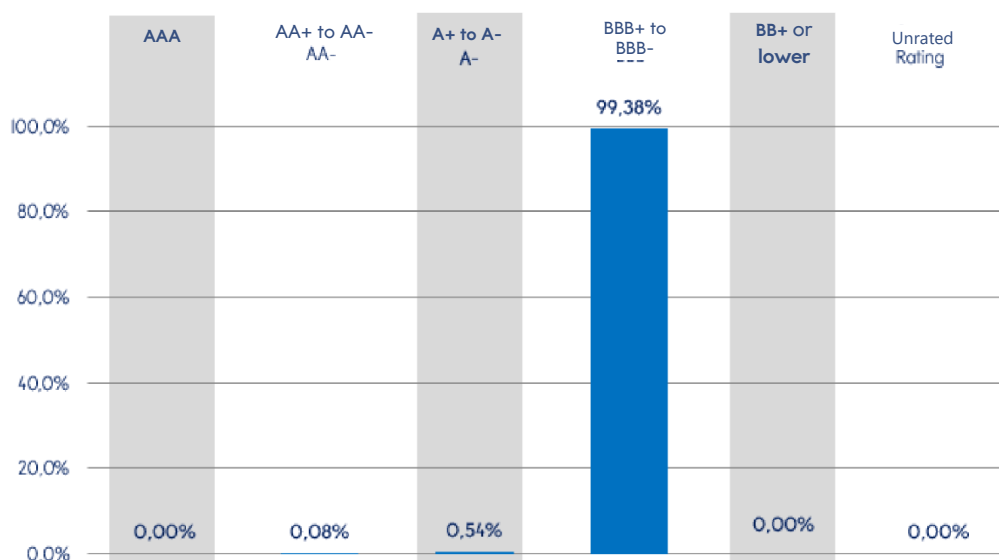
Portfolio value: €101,548/thousand



Rating composition of Banca Mediolanum's HTCS, HTC and OTHER portfolio

S&P Equivalent (December 2020)

Portfolio value: €13,141,378/thousand



Impacts of the Covid-19 pandemic

The continuation of the health emergency for almost all of 2020 had a major effect on trends in the financial markets, representing a systemic adverse factor at global level that had probably not been included by any financial institution in the set of possible adverse scenarios that all banks, regularly and with increasing levels of sophistication, have used in order to understand the effects of stress scenarios on the performance of the financial markets in which they operate.

The consequences of the lockdown, the shutting down of certain production and commercial activities and the financial support that governments have had to provide to the public health sector, have had the inevitable result of revising all the GDP growth forecasts of the individual countries downwards, resulting in tensions on the financial markets and impacts that were equal to or even greater than during the 2008 crisis.

Naturally, the Risk Management functions of the Banca Mediolanum Group also paid close attention to this aspect, continuously monitoring, the possible effects that economic market indicators could determine for particular risks on the portfolios of the Bank and also on customers.

The adoption of the business model for the securities held with a prevalence of "held to maturity" government bonds did not have a significant impact on the impairment of the securities held and also present in the Bank's other accounting portfolios. Moreover, the results of the US election and news of the commercialisation of the first anti-Covid vaccines triggered a significant market recovery. This enabled the recovery of losses recorded during 2020 and also rewarded customers that were supported by the Family Banker network on the portfolio strategies to be adopted in periods of crisis.

In the light of what has been summarised above, the monitoring measures adopted by Banca Mediolanum relating to market risks do not show significant evidence of impacts arising from the Covid-19 pandemic that have significantly influenced the value of the accounting portfolios held.

B. Interest rate risk and price risk management procedures and measurement methods

The Parent Company's Risk Management function ensures that financial risk assessment methods are consistent across the various operating entities and helps to set credit limits and operating limits. Each Group Company is, however, directly responsible for controlling the risks assumed in accordance with the guidelines approved by the respective boards of directors in accordance with the principle of consistency between the complexity of the assets under management and the risk measures adopted. Interest rate risk is analysed using indicators of both portfolio composition (concentration limits, characteristics of admitted instruments, characteristics of issuers, etc.) and maximum loss (value at risk or VaR). The value at risk indicates the maximum potential observed loss with a certain level of probability α over a defined time frame, as a result of the movement of the financial markets: it is estimated using the historical simulation method. The historical simulation method, adopted by Banca Mediolanum, consists of determining both the portfolio value using the relevant parameters recorded on the market (risk factors) and the changes in this portfolio in response to changes in previously observed parameters.

Stressing in the context of VaR involves the generation of stochastic scenarios for the risk factors to which the proprietary portfolio is exposed. The stress arises from the fact that, while the VaR has a time horizon of one day, the stochastic scenarios have a horizon of one month, thus amplifying the shocks on the risk factors.

Analyses are added to this stressed VaR that entail the construction of a stressed scenario in which the shocks to be applied to the risk factors are defined. The value of the proprietary portfolio is then recalculated and used to calculate the gains and/or losses with respect to the baseline value. This no longer gives a potential distribution of losses, as with the VaR, but an individual loss value corresponding to the scenario defined. The scenarios used envisage both a parallel shift in the entire Italian government yield curve and a replication of the implicit credit risk in the crisis experienced in 2011.

VaR tables

Trading book - MARKET RISK

Period-end data (December 2020 vs December 2019)

€/t	31/12/2020	31/12/2019	% (%)
Nominal	96,969	130,000	(25%)
Market value	101,548	129,543	(22%)
Duration	0.55	1.09	(50%)
VaR 99% - 1 d	156	387	(60%)

Rather than the year-end values, the minimum, maximum and average values of the VaR measurement recorded for the trading portfolio in 2020 are shown below.

€/t	31/12/2020	31/12/2019	% (%)
Minimum value	37	75	(51%)
Average value	1,027	777	32%
Maximum value	2,215	1,956	13%

QUANTITATIVE INFORMATION

1. Regulatory trading book: distribution by time to maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives - EURO

€/t	Demand	Up to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years	Undetermined duration
1. On-balance sheet assets	-	56,456	-	-	41,169	3,973	1	-
1.1 Debt securities	-	56,456	-	-	41,169	3,973	1	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	56,456	-	-	41,169	3,973	1	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	-	-	-	-	51	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	51	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	3	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	3,196	3,151	6,172	43,585	63,948	85,647	-
+ Short positions	-	-	3,196	6,255	44,248	60,597	91,403	-
- Other derivatives								
+ Long positions	-	303,234	-	-	-	-	-	-
+ Short positions	-	151,760	4,017	8,146	62,281	68,046	75,168	-

1. Regulatory trading book: distribution by time to maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives - OTHER CURRENCIES

€/t	Demand	Up to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years	Undetermined duration
1. On-balance sheet assets	-	-	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	147,045	-	-	-	-	-	-
+ Short positions	-	81,119	-	-	-	-	-	-

2. Regulatory trading book: distribution of exposures in equity securities and equity indices by main country of listing

€/t	Listed ITALY	Unlisted
A. Equity securities		
Long positions	-	67,549
Short positions	-	-
B. Trading in equity securities not yet settled		
Long positions	-	-
Short positions	-	-
C. Other equity derivatives		
Long positions	1	-
Short positions	-	-
D. Equity index derivatives		
Long positions	-	-
Short positions	-	-

2.2 Interest rate risk and price risk - banking book

QUALITATIVE INFORMATION

A. General aspects, interest rate risk and price risk management procedures and measurement methods

Interest rate risk quantifies the potential impact that unexpected changes in the market term structure may have on the Bank's current profits and shareholders' equity. This risk is typically monitored for positions in the banking book.

The Group's "banking book" includes all financial instruments not included in the trading book, i.e. all line items (assets and liabilities) and off-balance sheet items that are not held for trading purposes. The banking book therefore includes lending, funding sources, assets classified to the HTCS portfolio and the fixed component of the securities portfolio (IFRS category: Held to Collect). Monitoring of interest rate risk on the banking book is carried out by the Parent Company based on an asset liability management model. The aims of a correct interest rate risk governance process are:

- > to manage the stability of net interest income, minimising the negative impact of rate changes (current profits perspective), mainly with a focus on the short term. The stability of net interest income is mainly affected by repricing risk, yield curve risk, basis risk, refixing risk and optionality risk;
- > to safeguard economic value, understood as the sum of the present value of the expected cash flows generated by both sides of the statement of financial position. Unlike current profits, the economic value perspective is medium/long-term and mainly relates to repricing risk;
- > to ensure that the interest rate risk that is assumed or can be assumed is correctly identified, measured, controlled and managed in accordance with formalised and shared methodologies and procedures;
- > to verify that the risk measurement models are consistent with the actual income results achieved by the various risk owners;
- > to maintain the quality of the risk measurement systems and risk management processes in line with market best practice;
- > to define the system of limits and powers attributed to the various levels of responsibility;
- > to ensure the production of accurate information and reporting for the various organisational levels responsible for the management and control activities;
- > to ensure compliance with the organisational requirements of national and international supervisory bodies.

Compliance with the above principles and the strategic guidelines defined by senior management is ensured by the activation of a process of control of operating practices, coordinated at various levels of the organisational structure. These controls are accompanied by a system of procedures that guides the monitoring of margin sensitivity and economic value sensitivity indicators, both based on the assumption of a parallel shift in the yield curve. On the basis of the analyses carried out on the risk profile of the Mediolanum Banking Group and on the risk appetite, it was deemed appropriate to incorporate indications of sensitivity to economic value within the Group's RAF, also reflected within the structure of the limits established by the current policy. The banking book controls also include controlling the credit risk inherent in transactions with institutional counterparties, according to the limits and operating methods approved by the Board of Directors of each Group company, in accordance with the provisions provided by the Parent Company.

With regard to the risk of significant changes in interest rates as a result of the economic crisis caused by the Covid-19 health emergency, the Bank did not raise any particular critical issues, nor did it need to adopt any specific management measures. The statement of financial position of Banca Mediolanum contains assets that primarily consist of a loan portfolio mainly indexed to variable rates with frequent repricing and a portfolio of financial instruments with a high proportion of variable rate securities; liabilities, meanwhile, consist of loans at market rates with collateralisation of securities and by retail funding with specific characteristics of stability and inelasticity.

Asset liability management process

Management of the rate risk calculated on line items is a typical asset liability management activity. The Mediolanum Banking Group has adopted an ALM system with which it oversees the performance of the Parent Company's annual net interest income and economic value (expressed as a percentage of its regulatory capital). This is also a fundamental tool for management to assess new funding and lending policies in relation to the Group's balance of assets and income, also providing support in the process of updating policies and revising limits and procedures. As shown in the table, at 31 December 2020 the Bank's position was sensitive to a possible negative shift in the interest rate, although this type of shock is an unrealistic hypothesis.

Change in annual net interest income

Spot data at 31 December 2020

€/t	Items sensitive to interest rate risk	+100bps	-100bps
Total assets (*)	27,544,096	136,781	(89,518)
Total liabilities (*)	(27,139,704)	(38,124)	24,816
Off-balance sheet (hedging derivatives)	25,070	1,579	-
TOTAL		100,235	(64,702)

(*) The values of statement of financial position items not sensitive to interest rate fluctuations are excluded.

QUANTITATIVE INFORMATION

1. Banking book: breakdown by residual duration (repricing date) of financial assets and liabilities - EURO

€/t	Demand	Up to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years	Undetermined duration
1. On-balance sheet assets	2,304,066	10,597,091	3,863,858	1,823,828	5,858,184	324,662	739,108	-
1.1 Debt securities	-	3,152,065	3,828,351	1,762,308	4,459,428	-	-	-
- with early redemption option	-	343	-	-	-	-	-	-
- other	-	3,151,722	3,828,351	1,762,308	4,459,428	-	-	-
1.2 Loans to banks	92,774	448,163	-	-	-	-	-	-
1.3 Loans to customers	2,211,292	6,996,862	35,507	61,521	1,398,756	324,662	739,108	-
- current account	338,089	232	7	16	101	289	-	-
- other loans	1,873,203	6,996,631	35,500	61,505	1,398,655	324,373	739,108	-
- with early redemption option	1,704,357	6,803,203	35,153	61,157	1,397,049	324,135	739,108	-
- other	168,846	193,428	347	347	1,606	238	-	-
2. On-balance sheet liabilities	21,236,550	2,032,979	274,722	129,991	975,128	24,043	957	-
2.1 Payables to customers	21,166,099	2,032,979	274,665	129,877	29,178	23,621	957	-
- current account	20,667,650	42,004	4,468	16,192	-	-	-	-
- other payables	498,450	1,990,975	270,197	113,685	29,178	23,621	957	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	498,450	1,990,975	270,197	113,685	29,178	23,621	957	-
2.2 Payables to banks	70,451	-	57	115	945,951	422	-	-
- current account	69,471	-	-	-	-	-	-	-
- other payables	980	-	57	115	945,951	422	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	6,344	8,310	15,425	112,892	146,456	166,700	-
+ Short positions	-	168,300	6,695	9,979	67,741	95,411	108,000	-
- Other derivatives								
+ Long positions	-	93,051	-	-	-	-	-	-
+ Short positions	-	1,645	1,666	3,393	26,428	28,582	31,336	-
4. Other off-balance sheet transactions								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

1. Banking book: breakdown by residual duration (repricing date) of financial assets and liabilities - OTHER CURRENCIES

€/t	Demand	Up to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years	Undetermined duration
1. On-balance sheet assets	4,661	-	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Loans to banks	4,661	-	-	-	-	-	-	-
1.3 Loans to customers	1	-	-	-	-	-	-	-
- current account	1	-	-	-	-	-	-	-
- other loans	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	66,569	4,076	-	-	-	-	-	-
2.1 Payables to customers	60,447	-	-	-	-	-	-	-
- current account	60,447	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Payables to banks	6,122	4,076	-	-	-	-	-	-
- current account	6,122	-	-	-	-	-	-	-
- other payables	-	4,076	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
4. Other off-balance sheet transactions								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

2.3 Currency risk

QUALITATIVE INFORMATION

A. General aspects, currency risk management procedures and measurement methods

The following risk profile includes all assets and liabilities (on- and off-balance sheet) in foreign currencies, including transactions in euro linked to foreign currency exchange rates. In these cases, limits on exposure to currency risk are established in terms of the equivalent value of the net position of the main trading currencies. In view of the limited operations that could be affected by exchange rate risk, this type of risk is residual: therefore, the Bank does not conduct detailed analyses with dedicated stress scenarios.

B. Currency risk hedging activities

On the basis of the details provided in Section A, there is nothing to report.

QUANTITATIVE INFORMATION

€/t	Currency			
	USD	GBP	CHF	OTHER CURRENCIES
A. Financial assets	6,009	1,393	816	993
A.1 Debt securities	-	-	-	-
A.2 Equity securities	4,550	-	-	-
A.3 Loans to banks	1,458	1,393	816	993
A.4 Loans to customers	1	-	-	-
A.5 Other financial assets	-	-	-	-
B. Other assets	27	19	6	14
C. Financial liabilities	68,414	1,444	787	
C.1 Payables to banks	10,198	-	-	
C.2 Payables to customers	58,216	1,444	787	
C.3 Debt securities	-	-	-	
C.4 Other financial liabilities	-	-	-	
D. Other liabilities	-	1	-	
E. Financial derivatives				
- Options				
+ Long positions	-	-	-	-
+ Short positions	-	-	-	-
- Other derivatives				
+ Long positions	146,643	320	37	45
+ Short positions	80,701	337	28	53
TOTAL ASSETS	152,679	1,732	859	1,052
TOTAL LIABILITIES	149,115	1,782	815	53
IMBALANCE (+/-)	3,564	(50)	44	999

Section 3 - Derivative instruments and hedging policies

3.1 Trading derivative instruments

A. Financial derivatives

A.1 Financial trading derivatives: period-end notional amounts

€/t	31/12/2020				31/12/2019			
	Over the counter			Organised markets	Over the counter			Organised markets
	Without CCPs		Without CCPs					
	CCPs	With netting arrangements	Without netting arrangements		CCPs	With netting arrangements	Without netting arrangements	
1. Debt securities and interest rates	-	-	235,980	-	-	-	235,704	-
a) Options	-	-	14,352	-	-	-	7,340	-
b) Swaps	-	-	221,628	-	-	-	228,185	-
c) Forwards	-	-	-	-	-	-	179	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and equity indices	-	-	3	-	-	-	3	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	3	-	-	-	3	-
3. Currencies and gold	-	-	228,171	-	-	-	431,748	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	228,171	-	-	-	431,748	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
TOTAL	-	-	464,154	-	-	-	667,455	-

A.2 Trading financial derivatives: positive and negative gross fair value – distribution by product

€/t	31/12/2020				31/12/2019			
	Over the counter				Over the counter			
	Without CCPs			Organised markets	Without CCPs			Organised markets
	CCPs	With netting arrangements	Without netting arrangements		CCPs	With netting arrangements	Without netting arrangements	
1. Positive fair value								
a) Options	-	-	57	-	-	-	41	-
b) Interest rate swaps		-	-	-		-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	567	-	-	-	1,888	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	1	-
TOTAL	-	-	624	-	-	-	1,930	-
2. Negative fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	-	77,271	-	-	-	74,342	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	1,000	-	-	-	2,790	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
TOTAL	-	-	78,271	-	-	-	77,132	-

A.3 OTC trading financial derivatives - notional values, gross positive and negative fair value by counterparty

€/t		CCPs	Banks	Other financial corporations	Other entities
Contracts not based on netting arrangements					
1) Debt securities and interest rates					
- notional value	X	235,980	-	-	
- positive fair value	X	57	-	-	
- negative fair value	X	77,271	-	-	
2) Equity securities and equity indices					
- notional value	X	-	-	3	
- positive fair value	X	-	-	-	
- negative fair value	X	-	-	-	
3) Currencies and gold					
- notional value	X	86,029	141,798	344	
- positive fair value	X	566	-	1	
- negative fair value	X	2	998	-	
4) Commodities					
- notional value	X	-	-	-	
- positive fair value	X	-	-	-	
- negative fair value	X	-	-	-	
5) Other					
- notional value	X	-	-	-	
- positive fair value	X	-	-	-	
- negative fair value	X	-	-	-	
Contracts based on netting arrangements					
1) Debt securities and interest rates					
- notional value	-	-	-	-	
- positive fair value	-	-	-	-	
- negative fair value	-	-	-	-	
2) Equity securities and equity indices					
- notional value	-	-	-	-	
- positive fair value	-	-	-	-	
- negative fair value	-	-	-	-	
3) Currencies and gold					
- notional value	-	-	-	-	
- positive fair value	-	-	-	-	
- negative fair value	-	-	-	-	
4) Commodities					
- notional value	-	-	-	-	
- positive fair value	-	-	-	-	
- negative fair value	-	-	-	-	
5) Other					
- notional value	-	-	-	-	
- positive fair value	-	-	-	-	
- negative fair value	-	-	-	-	

A.4 Residual life of OTC trading financial derivatives: notional values

€/t	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	TOTAL
A.1 Financial derivatives on debt securities and interest rates	16,133	62,281	157,566	235,980
A.2 Financial derivatives on equity securities and equity indices	-	3	-	3
A.3 Financial derivatives on currencies and gold	228,171	-	-	228,171
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
TOTAL 31/12/2020	244,304	62,284	157,566	464,154
TOTAL 31/12/2019	446,778	61,309	159,368	667,455

B. Credit derivatives

The Bank did not use credit derivatives during the year and at 31 December 2020 there were no outstanding positions on such instruments.

3.2 Accounting hedges

QUALITATIVE INFORMATION

A. Fair value hedging

Fair value hedges aim to neutralise adverse changes in the price of assets and liabilities recognised in the financial statements or of irrevocable commitments that, without a hedge, could affect financial performance for the year. Banca Mediolanum has adopted hedging policies through derivative instruments, exceptionally solely for exposures in its fixed-rate loan portfolio.

B. Cash-flow hedging

Nothing to report

C. Hedging of foreign investments

Nothing to report

D. Hedging instruments

Within the Banking Group, Banca Mediolanum hedges the interest rate risk of fixed or floating rate loans with caps using interest rate swap (IRS) or interest rate option (IRO) derivatives. Hedge accounting can only be adopted if the effectiveness of the hedge is observed at the beginning and throughout its life, i.e. changes in fair value or in the cash flows of the hedged instrument must be almost completely offset by corresponding changes recorded for the hedging instrument. This effectiveness is monitored periodically through specific tests: it is highly effective when changes in the fair value of the hedging instrument exactly offset changes in the hedged instrument. There are clear limits on how far a hedging instrument can deviate from a perfect hedge when offsetting changes in the hedged instrument. The effectiveness of the hedge must be assessed initially and continuously over the

life of the hedge. The source of the possible ineffectiveness of the hedge over time, on the hedging instrument side, is market fluctuations that are reflected unevenly on the two elements of the hedging relationship.

E. Hedged items

The hedged instruments are fixed rate loans and floating rate loans with caps. The accounting method selected by Banca Mediolanum to hedge these instruments is the “group microhedge”, where the hedged item consists of a group of instruments that are homogeneous in terms of the associated risk and can in any case be identified individually. One of the possible sources of ineffectiveness of the hedge is the dynamics over time of the “group” initially chosen: in fact, over the years the pool of loans can shrink due to early repayment, renegotiation, substitution, etc. As the hedged item changes, the relationship with the hedging instrument is also altered, generating a misalignment that can reduce effectiveness over time.

The effectiveness of hedges is assessed by carrying out periodic effectiveness tests, which fall into two categories:

- > Prospective test: this test justifies the application of hedge accounting, demonstrating the expected effectiveness of the hedge during its life, and enables the justification and continuation of the hedging relationship. This test must also be carried out on the date of inception of the hedge in order to start applying hedge accounting: in practice, it is a question of determining whether the hedging relationship would be maintained in the event of potential more or less extreme scenarios.
- > Retrospective test: this test reveals the degree of effectiveness of the hedge achieved in the period to which the test refers; in other words, it measures how far the actual results diverged from the perfect hedge. If the results fall within a defined range, hedge accounting may continue to be applied: otherwise, it must be discontinued.

QUANTITATIVE INFORMATION

A. Hedging financial derivatives

A.1 Hedging financial derivatives: period-end notional amounts

€/t	31/12/2020				31/12/2019			
	CCPs	Over the counter		Organised markets	CCPs	Over the counter		Organised markets
		Without CCPs				Without CCPs		
		With netting arrangements	Without netting arrangements			With netting arrangements	Without netting arrangements	
1. Debt securities and interest rates	-	-	126,783	-	-	-	152,358	-
a) Options	-	-	33,732	-	-	-	44,076	-
b) Swaps	-	-	93,051	-	-	-	108,282	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and equity indices	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
TOTAL	-	-	126,783	-	-	-	152,358	-

A.2 Hedging financial derivatives: gross positive and negative fair value – distribution by product

€/t	Positive and negative fair value								Change in value used to detect ineffectiveness of the hedge	
	31/12/2020				31/12/2019				31/12/2020	31/12/2019
	Over the counter			Organised markets	Over the counter			Organised markets		
	Without CCPs		CCPs		Without CCPs		CCPs			
	With netting arrangements	Without netting arrangements			With netting arrangements	Without netting arrangements				
Positive fair value										
a) Options	-	-	-	-	-	-	24	-	57	220
b) Interest rate swaps	-	-	-	-	-	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-	24	-	57	220
Negative fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	-	29,318	-	-	-	31,043	-	261	917
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
TOTAL	-	-	29,318	-	-	-	31,043	-	261	917

A.3 OTC hedging financial derivatives: notional values, gross positive and negative fair value by counterparty

€/t	CCPs	Banks	Other financial corporations	Other entities
Contracts not based on netting arrangements				
1) Debt securities and interest rates				
- notional value	X	126,783	-	-
- positive fair value	X	-	-	-
- negative fair value	X	29,318	-	-
2) Equity securities and equity indices				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Currencies and gold				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
4) Commodities				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts based on netting arrangements				
1) Debt securities and interest rates				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Equity securities and equity indices				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC hedging financial derivatives: notional values

€/t	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	TOTAL
A.1 Financial derivatives on debt securities and interest rates	6,705	26,428	93,650	126,783
A.2 Financial derivatives on equity securities and equity indices	-	-	-	-
A.3 Financial derivatives on currencies and gold	-	-	-	-
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
TOTAL 31/12/2020	6,705	26,428	93,650	126,783
TOTAL 31/12/2019	6,940	29,569	115,849	152,358

B. Hedging credit derivatives

Nothing to report.

C. Hedging non-derivative instruments

Nothing to report

D. Hedged instruments

D.1 Fair value hedges

€/t	Specific hedges					
	Specific hedges: carrying amount	Specific hedges – net positions: carrying amount of assets or liabilities (before netting)	Cumulative changes in the fair value of the hedged instrument	Discontinuation of hedge: residual cumulative changes in fair value	Change in value used to detect ineffectiveness of the hedge	Generic hedges: Carrying amount
A. ASSETS						
1. Financial assets at fair value through other comprehensive income - hedging of:	-	-	-	-	-	-
1.1 Debt securities and interest rates	-	-	-	-	-	x
1.2 Equity securities and equity indices	-	-	-	-	-	x
1.3 Currencies and gold	-	-	-	-	-	x
1.4 Loans	-	-	-	-	-	x
1.5 Other	-	-	-	-	-	x
2. Financial assets measured at amortised cost - hedging of:	132,200	-	25,981	187	(1,511)	-
1.1 Debt securities and interest rates	132,200	-	25,981	187	(1,511)	x
1.2 Equity securities and equity indices	-	-	-	-	-	x
1.3 Currencies and gold	-	-	-	-	-	x
1.4 Loans	-	-	-	-	-	x
1.5 Other	-	-	-	-	-	x
TOTAL 31/12/2020	132,200	-	25,981	187	(1,511)	-
TOTAL 31/12/2019	156,051	-	27,678	276	512	-
B. LIABILITIES						
1. Financial liabilities measured at amortised cost - hedging of:	-	-	-	-	-	-
1.1 Debt securities and interest rates	-	-	-	-	-	x
1.2 Currencies and gold	-	-	-	-	-	x
1.3 Other	-	-	-	-	-	x
TOTAL 31/12/2020	-	-	-	-	-	-
TOTAL 31/12/2019	-	-	-	-	-	-

E. Effects of equity hedging operations

Nothing to report.

Section 4 – Liquidity risk

QUALITATIVE INFORMATION

A. General aspects, liquidity risk management procedures and measurement methods

Banca Mediolanum's liquidity management model is structured in such a way as to ensure adequate liquidity levels in both the medium and long term. There are no identifiable problems with the liquidity conditions over the horizons indicated, thanks to the financial characteristics (duration and risk profile) of the instruments included in assets in the financial statements and the funding strategy adopted. From a structural point of view, Banca Mediolanum has "core" funding that substantially predominates over the volatile component of current accounts. At the same time, short-term collection policies are implemented through repurchase agreements and longer-term collection policies through deposits at notice. Liquidity risk is also overseen through the definition of guidelines for the implementation of the process of monitoring the indicators set out in the Risk Appetite Framework document. As part of the broader asset liability management model developed for the Mediolanum Banking Group, an operational and structural system of limits was established and a process of monitoring the maturity ladder was implemented. This method is outlined in the liquidity risk policy in the sections that define the Group's "ordinary" operations and supplements the instructions to be followed in "extreme but plausible" situations outlined in the "contingency funding plan". During the updating of the requirements of the reference regulations, Banca Mediolanum updated all documents and procedures relating to liquidity risk. Specifically, the policy adopted led to the implementation of a series of controls (and the production of the relevant reports) which can be summarised as follows: daily monitoring of operating liquidity limits relating to the treasury management of Banca Mediolanum; weekly monitoring on the scope of the Banking Group prepared and sent to the Supervisory Body; monthly calculation of regulatory liquidity ratios and preparation of the templates with specific additional information; quarterly reporting on structural liquidity control, to be brought to the attention of the Strategic Supervisory Body (also from a standpoint of compliance with the indicators defined in the RAF framework).

Liquidity risk stress testing procedures

Banca Mediolanum conducts daily liquidity monitoring under "normal course of business" conditions and incorporates this information into the analyses it performs periodically by simulating stress scenarios. These simulations are designed to replicate both systemic events (market stress scenarios – turbulence in the reference macroeconomic scenario) and events specific to the Bank (bank-specific stress scenarios – changes in commercial policies or customer behaviour). The systemic events considered in the simulation of stress scenarios generally concern:

- > shocks on the financial markets, resulting in a significant change in interest rate levels and credit spreads;
- > shocks on money market access conditions, replicating the substantial restriction post- September II;
- > shocks on the interbank market, accentuating the tension arising from poor liquidity.
- > The events specifically of interest to Banca Mediolanum generally concern:

- > substantial withdrawals of customer deposits;
- > the reputational harm suffered, with the consequent difficulty of renewing sources of financing on the money market;
- > the default of a major market counterparty or significant source of funding;
- > deterioration in the quality of credit assets;
- > a marked increase in the use of “committed” guaranteed lines;
- > a significant reduction in the roll-over capacity of short-term funding;
- > major haircuts to the assets included in the counterbalancing capacity. By recalculating the indicators described above in the context of the various stress scenarios, the effects on the expected behaviour of cash inflows and outflows over the time horizon considered are simulated, in terms of expected cash flow levels and timing, resulting in the re-definition of a maturity ladder for each simulated scenario.

Impacts of the Covid-19 pandemic

The attention paid by Banca Mediolanum to all aspects of risk presented by the Covid-19 pandemic also concerned the scope of management and mitigation of liquidity risk. Ongoing monitoring of daily liquidity and monitoring of short- and long-term liquidity indicators throughout 2020 confirmed that Banca Mediolanum holds a more than adequate liquidity position in any ordinary or extraordinary situation.

It should be noted that these indicators have not undergone any significant change, including in view of the measures taken by the Bank to support credit facilities in relation to all the measures and commitments undertaken due to the initiatives in the area of Covid-19.

QUANTITATIVE INFORMATION

1. Distribution of financial assets and liabilities by residual contractual duration (Part 1 of 2) - EURO

€/t	Demand	1 day to 7 days	Over 7 days to 15 days	Over 15 days to 1 month	Over 1 month to 3 months
A. On-balance sheet assets	830,594	25,004	138,366	305,328	1,365,290
A.1 Government securities	31	-	4,229	-	1,186,667
A.2 Other debt securities	514	-	-	51,662	11,260
A.3 UCI units	130,066	-	-	-	-
A.4 Loans	699,982	25,004	134,137	253,666	167,362
- Banks	163,914	-	134,133	21,319	-
- Customers	536,069	25,004	4	232,347	167,362
B. On-balance sheet liabilities	21,238,341	1,201,013	16,557	12,182	809,003
B.1 Deposits and current accounts	20,982,606	7,791	16,553	12,182	9,946
- Banks	69,471	-	-	-	-
- Customers	20,913,135	7,791	16,553	12,182	9,946
B.2 Debt securities	-	-	-	-	-
B.3 Other liabilities	255,735	1,193,222	3	-	799,057
C. Off-balance sheet transactions					
C.1 Financial derivatives with capital exchange					
- Long positions	-	5,956	1	24,649	51,000
- Short positions	-	5,231	-	-	142,560
C.2 Financial derivatives without capital exchange					
- Long positions	57	-	-	-	-
- Short positions	77,271	-	-	-	-
C.3 Deposits and loans to be received					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.4 Commitments to disburse funds					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-
C.7 Credit derivatives with capital exchange					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.8 Credit derivatives without capital exchange					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-

1. Distribution of financial assets and liabilities by residual contractual duration (Part 2 of 2) - EURO

€/t	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years	Undetermined duration
A. On-balance sheet assets	588,283	2,319,185	13,686,448	6,227,288	284,116
A.1 Government securities	331,346	1,797,740	9,622,718	3	-
A.2 Other debt securities	10,716	30,401	105,400	11,264	-
A.3 UCI units	-	-	-	-	-
A.4 Loans	246,221	491,043	3,958,330	6,216,021	284,116
- Banks	-	-	-	-	284,116
- Customers	246,221	491,043	3,958,330	6,216,021	-
B. On-balance sheet liabilities	275,931	131,204	980,193	25,000	-
B.1 Deposits and current accounts	6,165	20,686	-	-	-
- Banks	-	-	-	-	-
- Customers	6,165	20,686	-	-	-
B.2 Debt securities	-	-	-	-	-
B.3 Other liabilities	269,766	110,518	980,193	25,000	-
C. Off-balance sheet transactions					
C.1 Financial derivatives with capital exchange					
- Long positions	-	-	-	-	-
- Short positions	-	-	3	-	-
C.2 Financial derivatives without capital exchange					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.3 Deposits and loans to be received					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-
C.7 Credit derivatives with capital exchange					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.8 Credit derivatives without capital exchange					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-

1. Distribution of financial assets and liabilities by residual contractual duration (Part 1 of 2) - OTHER CURRENCIES

€/t	Demand	1 day to 7 days	Over 7 days to 15 days	Over 15 days to 1 month	Over 1 month to 3 months
A. On-balance sheet assets	4,988	-	-	-	-
A.1 Government securities	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-
A.3 UCI units	-	-	-	-	-
A.4 Loans	4,988	-	-	-	-
- Banks	4,988	-	-	-	-
- Customers	1	-	-	-	-
B. On-balance sheet liabilities	66,628	-	-	4,077	-
B.1 Deposits and current accounts	66,628	-	-	4,077	-
- Banks	6,181	-	-	4,077	-
- Customers	60,447	-	-	-	-
B.2 Debt securities	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-
C. Off-balance sheet transactions					
C.1 Financial derivatives with capital exchange					
- Long positions	-	5,247	-	-	141,798
- Short positions	-	5,942	1	24,448	50,735
C.2 Financial derivatives without capital exchange					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.3 Deposits and loans to be received					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.4 Commitments to disburse funds					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-
C.7 Credit derivatives with capital exchange					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.8 Credit derivatives without capital exchange					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-

1. Distribution of financial assets and liabilities by residual contractual duration (Part 2 of 2) - OTHER CURRENCIES

€/t	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years	Undetermined duration
A. On-balance sheet assets	-	-	-	-	-
A.1 Government securities	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-
A.3 UCI units	-	-	-	-	-
A.4 Loans	-	-	-	-	-
- Banks	-	-	-	-	-
- Customers	-	-	-	-	-
B. On-balance sheet liabilities	-	-	-	-	-
B.1 Deposits and current accounts	-	-	-	-	-
- Banks	-	-	-	-	-
- Customers	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-
C. Off-balance sheet transactions					
C.1 Financial derivatives with capital exchange					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.2 Financial derivatives without capital exchange					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.3 Deposits and loans to be received					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-
C.7 Credit derivatives with capital exchange					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.8 Credit derivatives without capital exchange					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-

Section 5 - Operational risks

QUALITATIVE INFORMATION

A. General aspects, operational risk management procedures and measurement methods

Banca Mediolanum defines operational risks as “the risk that illegal or inappropriate conduct by staff, technological shortcomings or malfunctions, errors or deficiencies in operating processes and external factors may result in economic or pecuniary losses and sometimes legal or administrative impacts”.

In line with industry regulations, Banca Mediolanum S.p.A. has adopted and regularly updates an operational risk management and control framework.

The Risk Management function is responsible for monitoring operational risk and collaborates with the Internal Audit Function to control and manage the operational risks arising from the operations of the sales network of Banca Mediolanum S.p.A.

It also coordinates with the Administration, Accounting and Financial Reporting section in controlling capital adequacy in respect of the requirements for own funds for operational risks of Banca Mediolanum S.p.A. and the Banking Group.

The organisational positioning of the Risk Management function is based on the principles of “separation” and “independence” with respect to the operational lines, reporting directly to the senior management of Banca Mediolanum S.p.A.

In the light of the characteristics of the Company’s business model and the nature of the activities carried out, particular attention is paid to the risks generated by the sales network and those generated by the multi-channel approach, i.e. by all the tools that enable contact and remote operation, including by defining decentralised safeguards and procedures for risk control, assessment, mitigation and prevention.

The reference framework for the management and control of operational risks consists of the following four sequential phases:

- > 1. “Identification”;
- > 2. “Measurement”;
- > 3. “Monitoring, Control and Reporting”;
- > 4. “Management”.

Each of these phases is characterised by specific objectives, models, methodologies and tools.

Identification is the activity of identifying and collecting information on operational risks through the consistent and coordinated processing of all relevant sources of information. The aim is to establish a complete information base. Identification takes place through the definition and classification of the information necessary for integrated operational risk management. The information necessary for this purpose is:

- > the qualitative and quantitative assessment of the risk exposure of the main corporate processes, as part of the annual risk self-assessment process;

- > internal loss data, accompanied by all the relevant information for the purposes of measuring and managing risks (including insurance and direct recoveries), collected through the loss data collection process;
- > preliminary analysis of the risk exposure arising from entry into new businesses or the signing of new contracts/commercial agreements, as well as following organisational/regulatory changes; performance indicators representative of operations and risks, internally known as “key risk indicators”, which form the basis of management analyses and part of the control model.

Measurement is the activity of analysing and assessing risk. The aim of this activity is to gain comprehensive knowledge of the overall risk profile of the enterprise, resulting in the quantification of:

- > regulatory capital: the capital requirement defined on the basis of regulatory provisions (Regulation (EU) 575/2013). Banca Mediolanum S.p.A. adopts the “standardised” approach to measuring regulatory capital for operational risk, calculating an individual capital requirement that contributes to the total capital requirement of the Banking Group;
- > economic capital: measurement of risks for internal purposes, using an integrated approach that reflects both actual losses from operational risks and potential losses, measured net of the effectiveness of the controls put in place to mitigate those risks. This measurement activity is therefore based on the results of the risk identification process, applying an actuarial statistical model, and constitutes a tool for controlling the adequacy of regulatory capital for operational risks.

Monitoring, Control and Reporting is a direct consequence of the preliminary phases of identification and measurement. They enable the analysis of the overall exposure to operational risks of the various business units and the prompt reporting of any critical issues encountered. The main tool used to carry out this process is periodic reporting to the business functions concerned, to senior management and to the Board of Directors.

Finally, the aim of the **Management** phase is to periodically assess “strategies for control and reduction of risk”, deciding, according to the nature and size of the risk, whether to assume it, implement mitigation policies or transfer it to third parties, in relation to the risk appetite expressed by senior management.

With regard to the estimation of operational risk carried out on the Company’s organisational units, with an approach and graduated depth depending on the expected risks and the nature of these units, the summary assessments showed a risk situation in line with the results for the previous year. However, certain activities were carried out to strengthen their oversight, including the automation of specific processes.

Impacts of the Covid-19 pandemic

All the initiatives adopted by Banca Mediolanum for internal work reorganisation, i.e. the recalibration of processes and procedures to obtain the highest service standards, including in remote working mode, as well as all credit delivery initiatives related to government decrees, have resulted in an increase in the level of assessment of possible operational risks inherent in the new operational situation. Since the first few months of the health emergency, Banca Mediolanum has established monitoring safeguards for certain parameters that could highlight possible operational risks relating to the different ways of managing many aspects of the Bank.

Losses resulting from the Covid-19 pandemic were identified and registered, also following specific recommendations provided in December by the European Banking Authority in the EBA/REP/2020/39 document, recording overall losses of approximately €2.9 million. Based on the criteria provided by the Authority, the impacts include part of the expenditure incurred during the year to purchase personal protective equipment, local sanitation activities, adjustments of employee and supplier salaries and IT infrastructure expenditure to enable remote processes to be carried out. The costs of cancelling certain company events scheduled by Banca Mediolanum and Banco Mediolanum for 2020 were also included in the calculation of the losses. The above figures allow for a very positive assessment since the losses resulting from the impact of the pandemic are relatively small, also due to the consideration that some costs “catalogued” as losses due to regulatory provisions, are in reality organisational efficiencies (e.g. the strengthening of the IT infrastructure). The result was due to both the organisational capabilities that Banca Mediolanum was able to adopt from the outset, the solutions identified for managing new management rules and the effective system for monitoring operational risks present at the Bank’s various organisational levels, coordinated and supervised by the Risk Management function.

QUANTITATIVE INFORMATION

During 2020, the risk assessment process covered almost all of the activities carried out, identifying more than 1,580 control points for operational risk which proved to be effective in more than 75% of cases; partially effective controls relate to a physiological risk related to the activity carried out or areas that require adaptation measures, mainly in terms of better formalisation. Specific mitigation actions have already been implemented for controls deemed partially ineffective. In other cases, measures designed to strengthen monitoring are being assessed.

Part F - Information on capital

Section 1 - Company capital

A. QUALITATIVE INFORMATION

Capital is the main means of safeguarding the stability of a bank. International and local supervisory bodies have established strict rules for determining the regulatory capital and minimum capital requirements that banks must meet. In order to comply with the requirements of the supervisory bodies, Banca Mediolanum adopts the measures necessary to maintain adequate capital monitoring. Constant monitoring of the Bank's capital helps to prevent situations of tension from arising. Monitoring of the Group's capital helps to prevent potential situations of tension from arising. This activity is entrusted to the strategic supervisory body (the Board of Directors), which is responsible for the Group's management functions, and is tasked with defining the guidelines for the various operational functions, including the relevant acceptable risk profiles (formalised in the Risk Appetite Framework (RAF) document). The RAF, which is reviewed periodically, is the frame of reference that determines the risk appetite, tolerance thresholds, risk limits, risk governance policies and the reference processes for defining and implementing such policies, in accordance with the risk capacity. At 31 December 2020, the ratios of Banca Mediolanum, calculated according to the new regulatory provisions in effect as of 1 January 2014, as subsequently updated, are above the regulatory thresholds.

B. QUANTITATIVE INFORMATION

B.1 Company capital: breakdown

€/t	31/12/2020	31/12/2019
1. Capital	600,297	600,234
2. Issue premiums	3,626	3,002
3. Reserves	1,743,255	1,296,204
- earnings	1,699,324	1,256,356
a) legal	121,026	121,026
b) pursuant to bylaws	-	-
c) treasury shares	-	-
d) other	1,578,298	1,135,330
- other	43,931	39,848
3.5 Interim dividends (-)	-	(154,045)
4. Equity instruments	-	-
5. (Treasury shares)	(43,570)	(47,808)
6. Valuation reserves	5,023	52,850
- Equity securities at fair value through other comprehensive income	5,782	39,117
- Hedges on equity securities at fair value through other comprehensive income		
- Financial assets (other than equity securities) at fair value through other comprehensive income	1,080	2,828
- Tangible assets		
- Intangible assets		
- Hedging of foreign investments		
- Cash flow hedges		
- Hedging instruments [non-designated elements]		
- Foreign exchange gains and losses		
- Non-current assets and disposal groups		
- Financial liabilities at fair value through profit or loss (changes in creditworthiness)		
- Actuarial gains (losses) relating to defined benefit pension plans	(393)	(147)
- Share of valuation reserves of equity investments measured at equity	(1,447)	11,052
- Special revaluation laws		
7. Net profit (loss) for the year	433,980	597,231
TOTAL	2,742,611	2,347,668

B.2 Valuation reserves for financial assets at fair value through other comprehensive income

€/t	31/12/2020		31/12/2019	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	1,080	-	3,814	(986)
2. Equity securities	57,566	(51,783)	42,063	(2,946)
3. Loans	-	-	-	-
TOTAL	58,645	(51,783)	45,877	(3,932)

The table does not include the valuation reserve of subsidiaries measured using the equity method, amounting to -€1,447 thousand.

B.3 Valuation reserves for available-for-sale financial assets: changes during the year

€/t	Debt securities	Equity securities	Loans
1. Opening balances	2,828	39,117	-
2. Increases	222	18,434	-
2.1 Fair value increases	215	18,434	-
2.2 Credit risk-induced value adjustments	-	X	-
2.3 Reversal to the income statement of negative reserves from disposal	7	X	-
2.4 Transfers to other items of shareholders' equity (equity securities)	-	-	-
2.5 Other changes	-	-	-
- of which business combinations	-	-	-
3. Negative changes	(1,970)	(51,769)	-
3.1 Fair value reductions	(1,182)	(51,769)	-
3.2 Credit risk induced write-backs	-	-	-
3.3 Reversal to the income statement from positive reserves: from disposal	(788)	X	-
3.4 Transfers to other items of shareholders' equity (equity securities)	-	-	-
3.5 Other changes	-	-	-
- of which business combinations	-	-	-
4. Closing balances	1,080	5,782	-

B.4 Valuation reserves related to defined benefit plans: annual changes

The valuation reserves relating to defined benefit plans amounted to €393 thousand, an increase of €246 thousand on the comparative period.

SECTION 2 – Own funds and regulatory ratios

For information on the capital ratios at this date and the comparison with previous periods, please see the section on own funds in the Group's reporting (Pillar III).

Part G - Business combinations involving businesses or business units

SECTION 1 – Operations performed during the year

1.1 Business combinations

There are no combinations to report during the year.

SECTION 2 - Combinations after the end of the year

2.1 Business combinations

There are no combinations to report after the end of the year.

SECTION 3 - Retrospective adjustments

There are no retrospective adjustments to report.

Part H - Related party transactions

On 23 September 2015, the Board of Directors of Banca Mediolanum resolved to adopt the “Group Regulations for the Management of Transactions with Related Parties of Banca Mediolanum and Affiliated Persons of the Mediolanum Banking Group” (the “Regulations on Related Parties and Affiliated Persons”) with effect from the start of trading of the Company's shares on the MTA. On 19 December 2018, the Board of Directors of Banca Mediolanum approved the update of the above Regulations with effect from 1 January 2019.

The Regulations on Related Parties and Affiliated Persons, drawn up in accordance with the principles established, *inter alia*, in the Regulations on Related Parties and in Consob Communication No. DEM/10078683 of 24 September 2010, as well as in Bank of Italy Circular No. 263, govern the preliminary investigation procedure leading up to the approval of material transactions (i) with affiliated persons of the Banca Mediolanum Banking Group and (ii) carried out by the Company, including through subsidiaries pursuant to Article 2359 of the Italian Civil Code, with related parties of Banca Mediolanum, in order to ensure their substantive procedural correctness and proper reporting to the market.

During the 2020 financial year, Banca Mediolanum entered into transactions with related parties. These transactions are part of the normal operations of the companies belonging to the Mediolanum Group and are regulated under market conditions.

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

- > the Fin. Prog. companies, wholly owned by the Doris family and the Fininvest company headed by Silvio Berlusconi;
- > “key management personnel” and close family members of “key management personnel” and companies subject to the control, including joint control, of key management personnel or their close family members;
- > the Chief Executive Officer, other members of the Board of Directors and Statutory Auditors, their close family members and companies subject to their control, including joint control.

Furthermore, for the purposes of the management of transactions with related parties, reference is made to the rules set out in Consob Regulation No. 17221/2010 (arising from the provisions of Article 2391-bis of the Italian Civil Code) and Bank of Italy Circular No. 263/2006 (Title V, Chapter 5) introduced in 2011 and subsequent updates, as well as the provisions pursuant to Article 136 of Legislative Decree No. 385/1993. Considering that the disclosure prepared pursuant to IAS 24 therefore also derives from the provisions cited above, it was considered, for merely prudential purposes, to continue to include Mediobanca in continuity with the approach adopted in previous years, even if at present the connection for the purposes of inclusion in the IAS 28 consolidation scope has ceased.

1. Information concerning the remuneration of key management personnel

€/t	Directors, executives, deputy general managers and statutory auditors	Other key management personnel
Emoluments and social security contributions	(2,884)	(1,996)
Other remuneration	-	(30)

2. Information on related party transactions

€/t	Mediolanum Group companies and other related parties
Asset items	
Financial assets held for trading	3,969
Financial assets at fair value through other comprehensive income	170,741
Loans to banks	144,692
Loans to customers	1,081,963
Other assets	9,373

Liability items	
Payables to banks	(75,575)
Payables to customers	(808,548)
Financial liabilities held for trading	(6,043)
Other liabilities	(7,684)
Provisions for liabilities and charges - commitments and guarantees given	(15)
Guarantees issued and commitments given	276

€/t	Mediolanum Group companies and other related parties
Income statement items	
Interest income and similar income	6,312
Interest expense and similar expenses	(1,441)
Net interest	4,871
Fee and commission income	538,476
Net fee and commission income	538,476
Net gains (losses) from trading	(761)
Credit-risk induced net value adjustments/write-backs	(370)
Administrative expenses	(9,797)
Net provisions for liabilities and charges - commitments and guarantees given	(9)
Other operating income and expenses	(42,954)

Part I - Share-based payment agreements

QUALITATIVE INFORMATION

Description of share-based payment agreements

STOCK OPTION PLANS

On 9 March 2010, the Board of Directors of Mediolanum S.p.A. approved the general guidelines for a share ownership plan for the directors and executives of the Company and its subsidiaries, called the "2010 Top Management Plan 2010" and a share ownership plan for the staff - i.e., members of the sales network - of the Company and its subsidiaries, called the "2010 Employee Plan" (collectively the "Plans"), which were subsequently submitted for approval by the extraordinary shareholders' meeting of 27 April 2010. In particular, pursuant to Article 84-bis, paragraph 3 of the Regulations for Issuers, the following is specified:

- > The 2010 Top Management Plan is for directors and executives of the Company and its subsidiaries who hold strategic roles within the Company and/or its subsidiaries.
- > The 2010 Employee Plan is for the staff of the Company and its subsidiaries, identified from time to time on the basis of the role held by each individual employee and his/her contribution to the development of the business.

The 2010 Top Management Plan specifies a vesting period for the options of three to five years from the grant date, and that the options can be exercised for a period of three years from the end of the vesting period. The 2010 Employee Plan specifies a vesting period for the options of five to ten years from the grant date, and that the options can be exercised for a period of three years from the end of the vesting period. Under both Plans, the exercise of the options is also conditional on the achievement of specific corporate and/or individual performance objectives. The Plans are designed to incentivise the beneficiaries and are also an appropriate tool for determining value creation and growth for the Company and, consequently, for shareholders. The 2010 Top Management Plan is considered appropriate to link the incentives offered to directors with particular mandates and executives with strategic roles both with the medium-term performance of the Company and the group and with individual performance, aligning the objectives and maximising value creation for shareholders.

The 2010 Employee Plan is an appropriate tool for linking employees' incentives to both individual results and the medium-term performance of the Company and the group and, consequently, to value creation for shareholders. Furthermore, the 2010 Employee Plan is a strong retention tool, due to the vesting period of the options.

On 8 July 2010, the Board of Directors of Mediolanum S.p.A. resolved by virtue of the powers conferred by the ordinary and extraordinary shareholders' meeting of 27 April 2010 to:

- > approve the regulations of the share ownership plans for company directors and executives (the "2010 Top Management Plan") and the plan for group and company employees (the "2010 Employee Plan");
- > increase the Company's capital for payment by a maximum of €160,000.00 through the issue of up to 1,600,000 shares to service the granting of options under the 2010 Top Management Plan;

- > increase the Company's capital for payment by a maximum of €131,744.20 through the issue of up to 1,317,442 shares to service the granting of options under the 2010 Employee Plan.

On 12 May 2011, the Board of Directors of Mediolanum S.p.A., with the agreement of the Remuneration Committee, resolved, *inter alia*, by virtue of the powers conferred by the ordinary and extraordinary shareholders' meeting of 27 April 2010 to:

- > approve the updating of the regulations of the share ownership plan for company directors and executives (the "2010 Top Management Plan") and the plan for group and company employees (the "2010 Employee Plan");
- > increase the share capital, partially executing the mandate conferred by the extraordinary shareholders' meeting of 27 April 2010, by a maximum of €188,200.00 through the issue of up to 1,882,000 ordinary shares to service the granting of options under the 2010 Top Management Plan;
- > increase the share capital, partially executing the mandate conferred by the extraordinary shareholders' meeting of 27 April 2010, by a maximum of €67,427.50 through the issue of up to 674,275 ordinary shares to service the granting of options under the 2010 Employee Plan.

On 10 May 2012, in execution of the mandate conferred by the extraordinary shareholders' meeting of 27 April 2010, as amended by the ordinary and extraordinary shareholders' meeting of 19 April 2012, the Board of Directors resolved to:

- > increase the share capital for payment by a maximum of €186,405.00 through the issue of up to 1,864,050 ordinary shares to service the granting of options under the 2010 Top Management Plan;
- > increase the share capital for payment by a maximum of €70,840.00 through the issue of up to 708,400 ordinary shares to service the granting of options under the 2010 Employee Plan.

On 9 May 2013, in execution of the mandate conferred by the extraordinary shareholders' meeting of 27 April 2010, as amended by the ordinary and extraordinary shareholders' meeting of 19 April 2012, the Board of Directors resolved to:

- > approve certain amendments and updates to the regulations of the share ownership plan for directors and executives of the Company and the Group ("2010 Top Management Plan") and the plan for Group and Company employees ("2010 Employee Plan") relating to certain specific corporate and/or individual performance targets which have to be achieved in order for the options to be exercised. The proposed amendments to the exercise conditions also apply to the options already granted in previous granting cycles;
- > increase the Company's capital for payment by a maximum of €136,155.00 through the issue of up to 1,361,550 shares to service the granting of options under the 2010 Top Management Plan;
- > increase the Company's capital for payment by a maximum of €95,100.00 through the issue of up to 951,000 shares to service the granting of options under the 2010 Employee Plan.

On 14 May 2014, in execution of the mandate conferred by the extraordinary shareholders' meeting of 27 April 2010, as amended by the ordinary and extraordinary shareholders' meeting of 19 April 2012, the Board of Directors resolved to:

- > increase the Company's capital for payment by a maximum of €97,335.0 through the issue of up to 973,350 shares to service the granting of options under the 2010 Top Management Plan;
- > increase the Company's capital for payment by a maximum of €121,425.00 through the issue of up to 1,214,250 shares to service the granting of options under the 2010 Employee Plan.

On 25 February 2015, in execution of the mandate conferred by the extraordinary shareholders' meeting of 27 April 2010, as amended by the ordinary and extraordinary shareholders' meeting of 19 April 2012, the Board of Directors resolved to:

- > increase the Company's capital for payment by a maximum of €700,000.00 through the issue of up to 7,000,000 shares to service the granting of options under the 2010 Employee Plan.

The issue price was determined in implementation and in full compliance with the objective criteria already approved by the shareholders' meeting resolution and already the subject of a fairness opinion of the independent auditor.

PERFORMANCE SHARE PLANS

On 16 April 2020, the ordinary shareholders' meeting of Banca Mediolanum, as in the previous year, approved the establishment of a new performance share plan, called:

- > the "2020 Top Management Plan - Key Personnel", for directors and executives of Banca Mediolanum and/or the subsidiaries of the Mediolanum Banking Group and/or the other companies of the Mediolanum Group;
- > the "2020 Top Management Plan - Other Personnel", for the "executive" senior management of Banca Mediolanum and/or the other companies of the Mediolanum Group;
- > the "2020 Employee Plan - Key Personnel" for employees, understood as members of the sales network of Banca Mediolanum and/or other Group companies that are classed as Key Personnel;
- > the "2020 Employee Plan - Other Personnel" for employees of Banca Mediolanum and/or other Group companies that are not classed as Key Personnel.

Under the Performance Share Plans, a portion of the variable component of the remuneration of beneficiaries, or of the non-recurring component for employees, is granted through the free assignment to each of the beneficiaries of rights ("Units") to receive, again free of charge, ordinary shares of Banca Mediolanum ("Shares") held by the same in the ratio of 1 ordinary share for each unit accrued.

The set of circumstances described led the Bank to view the transaction as a share-based payment to be settled with equity instruments ("Equity-settled share-based payment transaction") booked from the performance reference period and throughout the service period, in accordance with IFRS 2.

PHANTOM SHARE PLANS

The 2020 Remuneration Policies also allow the Bank to establish long-term incentive plans based on a multi-year future performance assessment. The Shareholders' Meeting of 16 April 2020 also approved a long-term incentive and loyalty plan called the "2020-2022 Phantom Share LTI Plan" aimed at various top key people who play crucial roles relating to particular responsibilities and/or competences and have a strong impact on the growth of the business and the governance of the Mediolanum Group.

The purpose of the Plan is to encourage and retain the top management and the Bank/Group personnel regarded as key to particular responsibilities and/or competences, with a strong impact on the business growth and governance of the Bank and the Group from a long-term perspective, and to link a component of the variable remuneration of the beneficiaries of the Plan to the achievement of certain corporate performance targets to be assessed over a multi-year future period, in order to align the interests of the beneficiaries with the pursuit of the priority objective of creating value for shareholders in a long-term perspective. Phantom shares are virtual units of measure that represent a right to payment the valuation of which replicates the performance of an ordinary share of the Bank and which, once vested under the terms and conditions set out in the Plan and after the Retention Period has elapsed, will be redeemed in cash through the payment of a sum to each Beneficiary free of charge.

QUANTITATIVE INFORMATION

1. Annual changes

	Total 31/12/2020			Total 31/12/2019		
	Number of options	Average exercise price (euro)	Average maturity	Number of options	Average exercise price (euro)	Average maturity
A. Opening balances	4,879,773	1.45	Jul-25	5,366,146	1.42	Apr-25
B. Increases	-		X	-		X
B1. New issues	-			-		
B2. Other changes	-		X	-		X
C. Decreases	560,255		X	486,373		X
C1. Cancelled			X			X
C2. Exercised	560,255	1.08	X	486,373	1.13	X
C3. Expired	-	-	X	-	-	X
C4. Other changes			X			X
D. Closing balances	4,319,518	1.50	Oct-25	4,879,773	1.45	Jul-25
E. Options exercisable at the end of the year	-	-	X	-	-	X

Under these stock option plans, at 31 December 2020, 634,007 new ordinary shares of Banca Mediolanum with regular dividend rights were issued, due to the exercise of options by the directors and employees of the Mediolanum Group companies. This entailed an increase in the ordinary capital of Banca Mediolanum of €63.4 thousand and an increase in the share premium reserve of €623.9 thousand. The cost pertaining to the year of the stock options expense, corresponding to the portion attributable to the year of the fair value of financial instruments distributed throughout the vesting period, was €1.4 million, in line with the previous year, resulting in a corresponding increase in the Bank's equity reserves.

The cost of the performance share expense for 2020, meanwhile, was €13.2 million.
The cost of the phantom share expense for 2020 was €1.1 million.

Part L - Segment reporting

For segment reporting please see Part L of the Notes to the consolidated financial statements.

Part M - Lease reporting

SECTION I – Lessor

QUALITATIVE INFORMATION

The adoption of IFRS 16 mainly relates to property leases. To estimate the lease term, the first renewal period provided for in the agreements was regarded as reasonably certain, unless any contractual clauses or specific circumstances resulted in the inclusion of additional renewals or vice versa in the term of the contract. These contracts generally do not include options to purchase the property at the end of the lease. Banca Mediolanum took advantage of the exemption allowed under IFRS 16:5 (a) in relation to short-term leases, understood as leases with a residual term of 12 months or less. Similarly, the Bank applied the exemption allowed under IFRS 16:5 (b) concerning leases in respect of which the underlying asset is of low value, i.e. leases in which the value of the single underlying asset does not exceed €5,000, when new. For such leases, the introduction of IFRS 16 does not entail the recognition of lease liabilities and the related right of use asset, but the lease payments are recognised in the income statement. Finally, it should be noted that the events referred to in IFRS 16, paragraph 59, letters b), c) and d) and paragraph 55 are not considered relevant for the Company.

QUANTITATIVE INFORMATION

For quantitative information on the rights of use acquired under the lease, please see Part B, Assets, Section 9 – Tangible assets. Information on lease liabilities is contained in Part B, Liabilities, Section I – Financial liabilities measured at amortised cost. Information on interest expense on lease liabilities and other charges related to the rights of use acquired with lease is set out in Part C, Income statement.

It should be noted that no gains and losses arising from sales and leaseback transactions, or income from sub-leasing transactions, have been recognised. The amortisation recognised in the year for rights of use acquired through leasing, broken down by underlying asset class, is shown below:

€/t	Amortisation 2020
ASSETS	
Rights of use acquired through leasing	
I. Tangible assets	(7,601)
I.1 land	
I.2 buildings	(7,601)
I.3 furniture	
I.4 electronic equipment	
I.5 other	

SECTION 2 - Lessor

QUALITATIVE INFORMATION

The Bank has outstanding leasing transactions in place as the lessor represented exclusively by lease agreements classified in the financial statements as operating leases. With regard to the ways in which the lessor manages the risk associated with the rights it holds over the underlying assets, it should be noted that the agreements include clauses prohibiting the lessee from assigning the agreement to third parties without the lessor's written consent, periodic rent updates according to the ascertained change in the ISTAT index of consumer prices for blue and white collar worker households, and a contractual expiry at the end of which, in the event of non-renewal where provided for, the lease agreement ceases and the premises are available to the lessor.

QUANTITATIVE INFORMATION

Payments due on operating leases were recognised in the income statement as income on an accrual basis.

1. Statement of financial position and income statement information

The Bank has not recognised lease loans. With regard to the assets granted under operating leases, as described above, the Bank has outstanding leasing transactions in place as the lessor represented by lease agreements for properties owned by Banca Mediolanum.

Payments due on operating leases were recognised in the income statement as income on an accrual basis. For further details, please see Part C – Section I4 – Other operating income and expenses – Item 200 of these Notes.

2. Finance leases

2.1 Classification of payments to be received by time bands and reconciliation with recognised lease loans

No data to report.

2.2 Other information

No data to report.

3. Operating leases

3.1 Classification of payments to be received by time bands

The lease payments due and to be received that are not discounted, divided by maturity, are shown below. It should be noted that the payments relate to the contractual rents provided for in the lease agreements for certain properties owned by Banca Mediolanum, which allow the lessees to withdraw prematurely in accordance with the notice provided for in the lease.

€/t	Lease payments to be received 2020
TIME BANDS	
Up to 1 year	684
Over 1 year to 2 years	642
Over 2 years to 3 years	642
Over 3 years to 4 years	79
Over 4 years to 5 years	79
Over 5 years	79
TOTAL	2,204

3.2 Other information

As previously mentioned, the Bank has outstanding leasing transactions in place as the lessor represented by lease agreements on properties. For information on how the Bank manages the risk associated with the rights it holds over the underlying assets, please see the paragraph headed "Qualitative information" in this section.

Disclosure of audit fees

The following tables provide details of the fees paid to the auditing firm PricewaterhouseCoopers S.p.A. and entities in the network to which the Independent Auditor belongs:

MEDIOLANUM GROUP (in euro, net of VAT and expenses)

TYPE OF SERVICES	PARTY PROVIDING THE SERVICE	COMPENSATION
Audit	PricewaterhouseCoopers S.p.A.	1,145,500
Certification services	PricewaterhouseCoopers S.p.A.	127,000
Other services	PricewaterhouseCoopers S.p.A.	45,500
TOTAL		1,318,000

It should be noted that for 2020 PwC audited the management reports of the mutual funds managed by the management companies of the Mediolanum Group; the relevant fees of €710,500 represent a cost for the funds and not for the companies conferring the audit mandate.

BANCA MEDIOLANUM S.P.A. (in euro, net of VAT and expenses)

TYPE OF SERVICES	PARTY PROVIDING THE SERVICE	COMPENSATION
Audit	PricewaterhouseCoopers S.p.A.	372,500
Certification services	PricewaterhouseCoopers S.p.A.	3,000
Other services	PricewaterhouseCoopers S.p.A.	43,000
TOTAL		418,500

Declaration of the Financial Reporting Officer



CERTIFICATION OF THE FINANCIAL STATEMENTS PURSUANT TO ARTICLE 154-BIS, PARAGRAPH 5 OF LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998 AND ARTICLE 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AS AMENDED

1. The undersigned, Massimo Antonio Doris, as the Chief Executive Officer, and Angelo Lietti, as the Financial Reporting Officer of Banca Mediolanum S.p.A., hereby certify, also taking account of Article 154-bis, paragraphs 3 and 4, of Legislative Decree No. 58 of 24 February 1998:
 - > the appropriateness in relation to the characteristics of the company and
 - > the effective application of the administrative and accounting procedures for the preparation of the financial statements as at 31 December 2020.
2. The assessment of the adequacy and effective application of the administrative and accounting procedures for the preparation of the financial statements as at 31 December 2020 was based on a process defined by Banca Mediolanum S.p.A. consistent with the Internal Control - Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission, which is a generally accepted international framework.
3. It is further certified that:
 - 3.1 the financial statements:
 - a) have been prepared in accordance with the international accounting standards recognised in the European Community in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 and Article 9 of Legislative Decree No. 38/2005;
 - b) correspond to the figures in the accounting books and records;
 - c) are suitable to provide a true and correct representation of the issuer's financial position and profit performance.
 - 3.2 The Report on Operations includes a reliable analysis of the performance and operating results, as well as the situation, of the issuer, together with a description of the main risks and uncertainties to which it is exposed.

Basiglio, 03 March 2021

The Financial Reporting Officer

(Angelo Lietti)

The Chief Executive Officer

(Massimo Antonio Doris)

Independent Auditor's Individual Report





Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of Banca Mediolanum SpA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Banca Mediolanum SpA (the “Company” or the “Bank”), which comprise the statement of financial position as of 31 December 2020, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended and the related notes including also a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2020 and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of this report. We are independent of the Company pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon; accordingly, we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

Sede legale: **Milano** 20145 Piazza Tre Torri 2 Tel. 02 77851 Fax 02 7785240 Capitale Sociale Euro 6.890.000,00 i.v. C.F. e P.IVA e Reg. Imprese Milano Monza Brianza Lodi 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 071 2132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 080 5640211 - **Bergamo** 24121 Largo Belotti 5 Tel. 035 229691 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 051 6186211 - **Brescia** 25121 Viale Duca d'Aosta 28 Tel. 030 3697501 - **Catania** 95129 Corso Italia 302 Tel. 095 7532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 055 2482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 010 29041 - **Napoli** 80121 Via dei Mille 16 Tel. 081 36181 - **Padova** 35138 Via Vicenza 4 Tel. 049 873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091 349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521 275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 085 4545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06 570251 - **Torino** 10122 Corso Palestro 10 Tel. 011 556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461 237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422 696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 040 3480781 - **Udine** 33100 Via Poscolle 43 Tel. 0432 25789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332 285039 - **Verona** 37135 Via Francia 21/C Tel. 045 8263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444 393311

Key Audit Matters
Auditing procedures performed in response to key audit matters

Valuation of Equity Investment

Notes to the financial statements:

Part A - Accounting policies, paragraph "5 - Equity investments"

Part B - Information on the statement of financial position, in the asset section "7 - Equity investments - Item 70", paragraph "7.9 Other information".

At 31 December 2020, Banca Mediolanum S.p.A. held equity investments in subsidiaries amounting to €1,593 million, valued with the equity method in accordance with International Financial Reporting Standard IAS 28 "Equity Investments in Associates and Joint Ventures", of which €323 million related to equity investments which the Bank's management tested for impairment in accordance with International Financial Reporting Standard IAS 36 "Impairment of Assets".

The estimate of the recoverable value of equity investments required a significant professional judgment of the management, which was supported by an independent expert, with regard to:

- the definition of the hypothesis and assumption underlining the estimate of the prospective cash flows of the investments and the assessment of the feasibility of business plans approved by the Boards of Directors of the subsidiaries;
- the choice of the valuation methodology considered most appropriate in the circumstances;
- the setting of the main valuation parameters and the components of the discount rate to be used to discount the prospective cash flow at the date of the financial statement.

In carrying out our audit procedures, we also were supported by the experts of the PwC network for company valuations, as the complexity of the valuation process requires a depth knowledge of the reference markets and specialist skills.

After understanding the relevant processes and controls within the process of analysis of the equity investments and of the definition of those selected for impairment testing, we carried out the following audit procedures:

- acquisition and analysis of the expert report used by management, also having discussion with him in relation to the selected valuation method, the models adopted, and the main valuation parameters used;
 - check, on a sample basis, of the accuracy and reasonableness of the provisional data used to determine future cash flows, also considering the current economic context, as well as the approval of the same by the competent management bodies near the end of the financial year;
 - assessment of the reasonableness of the main hypotheses and assumptions underlying the determination of the recoverable value of equity investments subject to impairment testing, including sensitivity analyses carried out independently on the main parameters used in the estimation process;
 - check of the mathematical accuracy of the model used to determine the value.
-

Key Audit Matters

Considering the complexity of the impairment test, characterized by high component of professional judgement and the use of complex estimation process, and considering the uncertainty of the market due to the pandemic, we considered this process to be a key audit matter.

Estimation of provisions for liabilities and charges related to indemnity payable to financial advisors

Notes to the financial statements:

Part A - Accounting policies, in paragraph "10 - Provisions for liabilities and charges"

Part B - Information on the statement of financial position, in Section 10 of liabilities "Provisions for liabilities and charges - Item 100"

Part C - Information on the income statement, section 11 "Net provisions for liabilities and charges - item 170"

The financial statements as at 31 December 2020 include provisions for liabilities and charges of €290 million, of which €256 million relates to contractual and bonus allowances paid to the financial advisors.

The valuation of provisions for liabilities and charges allocated for contractual and bonus allowances paid is based on contractual clauses and internal regulations, actuarial criteria and other historical and statistical parameters relating to the network's operations.

Considering the complexity of these aspects, characterized by high component of professional judgement, and the relevance of these financial statement items, we considered the valuation of provisions for liabilities and charges related to allowances paid to financial advisors as key audit matter.

Auditing procedures performed in response to key audit matters

Finally, we verified the completeness and adequacy of the information provided in the Notes, in accordance with the International Financial Reporting Standard IAS 36.

We understood and assessed the configuration of the controls relevant to the identification, monitoring and determination of provisions for liabilities and charges at 31 December 2020, as well as validated the related controls deemed relevant.

We discussed with the management and functions involved the nature of the provisions recorded in the financial statements and the methodological appropriateness of the assessments performed by them to determine the provisions for liabilities and charges, also with the support of the experts of the PwC network in relation to actuarial assessments.

Specifically, on a sample basis, we:

- obtained the calculation models used by management and verified their mathematical accuracy;
- verified the accuracy of input data and the reasonableness of the actuarial assumptions, hypothesis and methods used by management;
- analyzed the results of the audit activities carried out by the internal functions somehow involved in the process of determining the provisions for liabilities and charges;

Key Audit Matters

Auditing procedures performed in response to key audit matters

- analyzed the deviations between the accounting estimate of provisions for liabilities and charges in previous years and the actual values after the subsequent settlement of these charges, to understand the accuracy of the valuation process adopted.

Finally, we verified the completeness and adequacy of the information provided in the financial statements, in accordance with the relevant financial reporting standards.

Other Matters

The financial statement of Banca Mediolanum SpA for the year ended 31 December 2019 were audited by another auditor who expressed an unmodified opinion on those financial statements on 16 March 2020.

Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Company's ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.



Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- We concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014

On 9 April 2019, the shareholders of Banca Mediolanum SpA in general meeting engaged us to perform the statutory audit of the Company's and consolidated financial statement for the years ending 31 December 2020 to 31 December 2028.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the board of statutory auditors, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

The directors of Banca Mediolanum SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of Banca Mediolanum SpA as of 31 December 2020, including their consistency with the relevant financial statements and their compliance with the law.

We performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the financial statements of Banca Mediolanum SpA as of 31 December 2020 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of Banca Mediolanum SpA as of 31 December 2020 and are prepared in compliance with the law.



With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Milan, 23 March 2021

PricewaterhouseCoopers SpA

Signed by

Giovanni Ferraioli
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers.

Board of Statutory Auditors' report to the Shareholders' Meeting



BANCA MEDIOLANUM S.p.A.

Parent Company of the Mediolanum Banking Group

Registered office: Palazzo Meucci, Via F. Sforza, Basiglio, Milan 3

Share capital: €600,298,675.70 fully paid-up

Tax code and Milan Companies Register no. 02124090164

BOARD OF STATUTORY AUDITORS' REPORT TO THE SHAREHOLDERS' MEETING CALLED TO APPROVE THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

**(PURSUANT TO ARTICLE 153 OF LEGISLATIVE DECREE
NO. 58/1998 and ARTICLE 2429 OF THE ITALIAN CIVIL
CODE)**

Dear Shareholders,

With regard to the provisions of Article 153 of Legislative Decree No. 58 of 24 February 1998 and Article 2429, paragraph 2, of the Italian Civil Code, the Board of Statutory Auditors reports on activities carried out in accordance with the duties assigned by Article 149 of the aforementioned Legislative Decree.

Supervisory and control activities

In accordance with our mandate, we performed our supervisory and control activities, referring to the provisions of the Italian Civil Code, Legislative Decree No. 385 of 1 September 1993, Legislative Decree No. 58 of 24 February 1998 and Legislative Decree No. 39 of 27 January 2010, to the Articles of Association, to the provisions issued by the Authorities exercising supervisory and control activities and to the standards of conduct recommended by the National Council of Chartered Accountants and Accounting Experts, taking into account the reporting requirements contained in Consob Communication No. DEM/1025564 of 6 April 2001 for listed companies, as amended.

In particular, during the year:

- we monitored compliance with the law, the Articles of Association and compliance with the principles of proper administration as well as the adequacy of the organisational, administrative and accounting structure adopted by the company; we also verified the practical implementation by the company of the obligations established by specific provisions issued by the supervisory bodies;
- we attended the Shareholders' Meeting and meetings of the Board of Directors and on the basis of the information obtained, we did not detect any violations of the law or the Articles of Association, nor any manifestly imprudent, risky transactions, nor any transactions that could give rise to a conflict of interest such as to compromise the integrity of the company's assets;
- we periodically obtained information from the Directors on general operating performance and business outlook, as well as on the most significant transactions

carried out by the Company in terms of size and characteristics;

- during the year we assessed the activities carried out by the Control Functions, the efficiency and effectiveness of the internal control systems and the information system (ICT), with particular regard to risk control; with the help of the Control Functions and the independent auditor, we found that the main organisational and management areas were functioning normally overall;
- we noted the adoption of the safeguards for the management of the risk of money laundering and terrorist financing prepared on the basis of the Orders issued by the Bank of Italy in accordance with Legislative Decree No. 231 of 21 November 2007 as updated;
- we monitored the financial reporting process pursuant to Article 19 of Legislative Decree No. 39/2010 and the process of non-financial reporting pursuant to Legislative Decree No. 254/2016.

In the course of the supervisory activity described above, no significant facts emerged that required reporting to the competent authorities or mentioning in this report.

We acknowledge that we have been constantly updated by the sector managers on the resolutions adopted and the decisions taken by the Committees on the actions taken with reference to any irregularities found in the management of the company.

Relations with PricewaterhouseCoopers S.p.A. (hereinafter also referred to as the “independent auditor” or “PWC”), the statutory auditor, took the form of a periodic exchange of information pursuant to Article 2409-*septies* of the Italian Civil Code and Article 19 of Legislative Decree No. 39 of 27 January 2010.

The independent auditor informed us of the controls carried out, as provided for in Article 155, paragraph 2 of Legislative Decree No. 58/1998, and informed us that, as a result of these, no censurable facts or irregularities emerged that required reporting to the control bodies and to the supervisory authorities.

We were also sent the additional report pursuant to Article 1 (EC) Regulation 537/14, the conclusions of which are consistent with the above.

The Statutory Auditors carried out the self-assessment, which was reported to the Board of Directors, expressing an appropriate level of satisfaction for 2020 with regard to the size, composition and functioning of the Board, taking into account the complexity of the Bank's activities.

As in the previous financial year, the process was conducted with the support of an external independent consultant capable of ensuring autonomy of judgement and competence.

In view of the expiry of the term of office of the Board of Statutory Auditors in office, a reference document on the optimal composition of the Board of Statutory Auditors has been drafted and made available to shareholders in view of the renewal, providing the relevant instructions and recommendations in the light of the applicable national and European regulations and guidelines on the requirements for officers.

In accordance with the recommendations and instructions of Consob in the above communication, and taking into account the activities directly performed by us during 2020, we report the following:

1. Most significant economic, financial and capital transactions.

The Board of Statutory Auditors notes that during the year the Directors provided, with due frequency, information on the activities carried out and on the most significant economic, financial and capital transactions carried out by the Bank and the companies belonging to the Group during the year.

On the basis of the information obtained, the Board of Statutory Auditors did not become aware of any transactions that were not based on the principles of proper administration, were not approved and carried out in accordance with the law and the Articles of Association, were in conflict with the resolutions adopted by the Shareholders' Meeting, were manifestly imprudent or risky, were missing the necessary information in the event of the existence of interests of the Directors, or were such as to compromise the integrity of the company's assets.

For specific information on the characteristics of transactions and their economic effects, please see the Directors' Report on Operations.

The Report on Operations also indicates that, after the end of the year, no further events occurred that could have a significant impact on the financial position and results of operations of the Company, with the sole exceptions set out below.

In this regard, the following information is provided on events after the end of the year, in addition to the most significant events relating to 2020.

Merger by incorporation of SIA S.p.A. into NEXI S.p.A.

The final agreement for the merger by incorporation of SIA into Nexi was signed on 11 February 2021. The closing of the Merger is conditional upon the occurrence of certain standard conditions precedent for transactions of this type, including the obtainment of the relevant authorisations, including that of the competent Antitrust Authority. The economic impacts for the Mediolanum Group will be determined on the basis of the share swap on the merger date.

Extensive information on this has been provided in the Report on Operations.

Cedacri shares

In the first quarter of 2021 a framework agreement was finalised for the sale of the shares related to Cedacri held in the portfolio of financial assets at fair value through other comprehensive income. In the proposed accounting statement, the fair value of the company in question at 31 December 2020 was assessed by an independent expert on the basis of the most recent plans adopted by the company and the most widely used market practices, without taking account of the discussions in progress, as they involve circumstances that will come about in 2021.

As described in the Report on Operations, this agreement, which provides for the disposal of the shares at a value higher than that recorded at the end of the 2020 financial year, also establishes a series of contractual constraints that will be defined with the purchaser. If the negotiations reach a positive conclusion, the shares in the portfolio will be sold at a value no less than the valuation at 31 December 2020 and the relevant capital gain will be recognised as an increase in shareholders' equity, as provided for by the relevant category.

Extensive information on this has been provided in the Report on Operations.

German subsidiary Bankhaus August Lenz

As stated in the Report on Operations, it should be recalled that the value of the equity investment in the German subsidiary at the end of the previous year, by the Board resolution of

28 January 2020, was essentially eliminated.

At the end of the 2020 financial year, the amounts set aside by the company to meet the estimated disposal costs were €7.7 million, and, at the moment, the provision made in the 2019 financial statements is still considered consistent with the assumed scenarios. For this reason, it was not deemed necessary to make further provisions.

Extensive information on this has been provided in the Report on Operations.

Mediobanca

As mentioned in the Report on Operations, it will be recalled that on 28 and 29 January 2020, the Boards of Directors of Banca Mediolanum and Mediolanum Vita decided to reclassify the equity investment in Mediobanca from a strategic equity investment to a financial equity investment in the Held To Collect and Sell category.

New external events took place in late 2019, creating a context of particular uncertainty regarding the state of governance of the investee company, with the exit of Unicredit from its shareholder structure and the disposal of its shareholding on the market, and the entry of Delfin into the shareholding structure without entering into the consultation agreement.

The Mediolanum Group therefore decided that the conditions to exercise significant influence in the future did not exist, given the substantial transformation of Mediobanca into a public company, and opted for a change of strategy aimed at maximising the value of the equity investment, no longer from a medium/long-term perspective, but also making use of market opportunities with a view to greater flexibility.

It was therefore decided to reclassify this asset under financial instruments (IFRS 9) in the “Held To Collect & Sell” category.

At 31 December 2020, therefore, Banca Mediolanum and Mediolanum Vita valued the share at market value (€7.54 per share), recognising a capital loss on the initial recognition value (€9.8 per share) with a balancing entry in the “Other comprehensive income” (OCI) reserve in equity. The overall gross impact on the Group’s shareholders’ equity was -€66.4 million.

Extensive information on this has been provided in the Report on Operations.

Tax dispute

As described in the Report on Operations, with regard to the tax dispute (also reported in previous years), it should be noted that during 2020, further assessment notices were served for the years 2015-2016.

In view of the subjective nature of the charges and the diligent work done by the Company, which prepared the documentation provided for in transfer pricing legislation, the Italian Agency of Revenue has ruled that the administrative tax penalties do not apply. The company challenged the assessment notices with the Milan Provincial Tax Commission.

These assessment notices were also issued under the framework settlement agreement signed on 18 December 2018 between the companies of the Mediolanum Group concerned and the Revenue Agency. Accordingly, the receipt of the assessment notices was expected and does not change the risk assessment and the consequent provisioning, as also determined at the time of approval of the 2019 financial statements.

For the assessment notices relating to the years 2014, 2015 and 2016, applications were submitted for the commencement of the procedure provided for by European Arbitration Convention No. 90/436/EC (the “MAP”), which allows the decision to be referred to arbitration between the Italian and Irish tax authorities.

With regard to the years 2010-2013, in June 2020 the amicable treaty procedure commenced pursuant to Article 24 of the Convention against double taxation between Italy and Ireland, the aim of which is to obtain a tax credit from the Irish authority corresponding to the higher taxable income assessed in Italy. This application was declared admissible by the competent Italian authorities on 11 November 2020.

For the years 2019 to 2023, the Company meanwhile made use of an Advanced Pricing Agreement (by application submitted on 1 August 2019), in which the tax authorities are asked to agree on the correct remuneration to be received by the Company from its Irish affiliate.

On 31 December 2020, the Mediolanum Group set aside a total provision of €39.2 million for the tax dispute currently being resolved and incurred a charge for 2020 of €5.7 million.

2. Atypical and/or unusual related party transactions including intercompany transactions.

During the year, the Board of Statutory Auditors did not find or receive any instructions from the Board of Directors, the Financial Reporting Officer, the management, the independent auditor, the corporate control functions and the Boards of Statutory Auditors of the subsidiaries concerning the existence of atypical and/or unusual transactions undertaken with third parties, related parties or on an intercompany basis.

The related party transactions, including intercompany transactions, as described by the Directors in the Notes, which are part of the normal transactions of the companies belonging to the Mediolanum Group, took place under normal market conditions.

The Board of Statutory Auditors considers that the above transactions, which are ordinary in nature, are appropriate and in the interests of the company, and are related and inherent to the achievement of the corporate object.

3. Adequacy of the information provided in the directors' Report on Operations with regard to atypical and/or unusual intercompany or related party transactions.

In addition to what was stated in point 2, the Board of Statutory Auditors wishes to point out that, with respect to transactions concluded with related parties and/or affiliated persons, the Bank has adopted specific internal regulations, specific procedures and IT systems that ensure the ongoing management and monitoring of such transactions.

With regard to the prescribed reports, in relation to the transactions carried out by significant parties and persons closely associated with them (provisions on internal dealing), the Board of Statutory Auditors ascertained that the Company has adopted appropriate internal rules and procedures to make such reports through the adoption of the "Internal Dealing Regulation", which was updated and approved most recently at the meeting of the Board of Directors of 15 December 2020, in implementation of the rules laid down in Regulation (EU) 2019/2115, and always taking into account the interpretative guidelines provided by ESMA and the amendments made by Consob Resolution No. 19925 of 25 March 2017.

4. Supervisory activities provided for in the Consolidated Law on Statutory Auditing.

The Board of Statutory Auditors, identified by the Consolidated Law on Statutory Auditing as the "Internal Control and Audit Committee", oversaw: (i) the financial reporting process; (ii) the effectiveness of the internal control, internal audit and risk management systems; (iii) the statutory audit of the annual and consolidated accounts and (iv) the independence of the statutory auditor, in particular with regard to the provision of non-audit services.

It should be recalled that the independent auditors PWC S.p.A. were appointed to conduct

the statutory audit for the period 2020-2028 by the Shareholders' Meeting of 9 April 2019.

The Board of Statutory Auditors examined the plan of audit activities and the reports prepared by PWC S.p.A., whose activity complements the general framework of control functions established by law with reference to the financial reporting process.

These reports, issued pursuant to Article 14 of Legislative Decree 39/2010, show that the Group's financial statements and consolidated financial statements, prepared in accordance with the IAS/IFRS in force as at 31 December 2020, issued by the International Accounting Standards Board and adopted by the European Union, comply with the orders issued in implementation of Article 9 of Legislative Decree 38/2005. Therefore, they have been clearly prepared and provide a true and fair view of the financial position, profit and loss and cash flows for the year ended 31 December 2020.

Furthermore, in the opinion of the statutory auditors, the Report on Operations and the information referred to in paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b), of Article 123-bis of the Consolidated Law on Finance, contained in the Report on Corporate Governance, are consistent with the financial statements and comply with the law.

With reference to the IAS 36 standard, the joint Bank of Italy/Consob/ISVAP document No. 4 of 3 March 2010 and internal regulations transposing Law 262/2005, the Board of Statutory Auditors acknowledges that the Board of Directors approved the impairment procedure independently and in advance of the approval of the financial statements.

Reporting of the Covid-19 emergency

The Board of Statutory Auditors found that adequate information was provided in both the Report on Operations and the notes to the financial statements on the consequences arising from the Covid-19 epidemiological emergency and the actions/interventions undertaken by the Group, which were already regularly described at meetings of the Board of Directors.

As described in all the statements provided during 2020, since the start of the pandemic, the Mediolanum Group has maintained a solid capital structure that is currently able to withstand volatility and the financial market crisis.

The Mediolanum Group launched a series of actions and measures that enabled it to operate "remotely" without any impact on its operating systems and the service levels provided to customers.

The Italian Group companies also adopted all prevention and safety measures necessary to take account of the prescriptions of the Prime Ministerial Decree and the orders of the Region of Lombardy in response to the pandemic. The Group companies abroad (in Spain, Germany and Ireland) are continuing to make very extensive use of smart working, minimising the use of resources present in the office.

5/6. Notifications pursuant to Article 2408 and reports.

During 2020, the Board of Statutory Auditors did not receive any notifications pursuant to Article 2408 of the Italian Civil Code, and no reports were made.

7/8. Award of additional assignments to the independent auditor and other parties associated with it and the relevant costs.

The Board of Statutory Auditors operated as the Internal Control and Audit Committee (ICAC) and authorised the non-audit services provided by the independent auditor PwC and other entities in the PwC network, verifying that they did not fall within the categories prohibited pursuant to Article 5, paragraph 1 of Regulation (EU) No 537/2014 and that they did not compromise their independence with respect to the Company in performing the statutory audit.

The Board of Statutory Auditors has obtained evidence of the accounting by the Company of the following fees paid to PwC S.p.A., or to entities belonging to its international network, in relation to the mandates specified below:

MEDIOLANUM GROUP

(in euro, net of VAT and expenses)

• TYPE OF SERVICES	PARTY PROVIDING THE SERVICE	COMPENSATION
Audit	PricewaterhouseCoopers SpA and other entities of the PwC Network	1,145,500
Certification services	PricewaterhouseCoopers SpA and other entities of the PwC Network	127,000
Other services	PricewaterhouseCoopers SpA and other entities of the PwC Network	45,500
TOTAL		1,318,000

It should be noted that for 2020 PwC audited the management reports of the mutual funds managed by the management companies of the Mediolanum Group; the relevant fees of €710,500 represent a cost for the funds and not for the companies conferring the audit mandate.

BANCA MEDIOLANUM S.p.A.

(in euro, net of VAT and expenses)

TYPE OF SERVICES	PARTY PROVIDING THE SERVICE	COMPENSATION
Audit	PricewaterhouseCoopers SpA	372,500
Certification services	PricewaterhouseCoopers SpA	3,000
Other services	Other entities of the PwC Network	43,000
TOTAL		418,500

PwC has issued a specific statement certifying that no circumstances exist that could compromise its independence or cause incompatibility.

9. Opinions issued in accordance with the law.

During the year, the Board of Statutory Auditors expressed its opinion, in the cases provided for by law, without observations, including on the following main matters:

- Remuneration policies for directors vested with specific duties or positions pursuant to Article 2389 of the Civil Code;
- Appointment of the head of the “Compliance” control function;
- ICAAP and ILAAP;
- Powers of management and coordination of the Parent Company in respect of asset management companies;
- The process of outsourcing the Important Operational Functions, now called EIF “Essential or Important Functions”.

In 2020, the organisational structure of the internal control system was affected by the change of the head of the Compliance Function.

10. Participation of the Board of Statutory Auditors in meetings of the Board of Directors, the Shareholders’ Meeting and internal Board Committees.

During 2020, the members of the Board of Statutory Auditors:

- held 31 periodic meetings to carry out their own checks;
- attended 13 meetings of the Board of Directors;
- attended 1 Shareholders' Meeting;
- attended 11 meetings of the Risk Committee;
- attended 6 meetings of the Remuneration Committee;
- attended 3 meetings of the Appointments Committee;
- attended 2 meetings of the Independent Directors’ Committee;
- attended 2 board induction sessions.

11. Comments on observance of the principles of proper administration.

The Board of Statutory Auditors, including by attending meetings of the Board of Directors and the Risk Committee, on the basis of information gathered or received by the Directors and the entity responsible for auditing the accounts, monitored compliance with the principles of proper administration, checking that management decisions complied with the general criteria of economic rationality and that the directors complied with the obligation of diligence in performing their mandate.

The Board of Statutory Auditors has no observations to make in this regard.

12. Comments on the adequacy of the organisational structure.

The Board of Statutory Auditors monitored the adequacy of the Company's organisational structure for matters within its competence, through direct observation, the collection of information, discussions with the Control Functions and interviews with the representatives of PwC S.p.A.

No relevant findings have emerged.

13. Comments on the adequacy of the internal control system.

The internal control system, understood as being tasked with verifying compliance with the internal procedures, both operational and administrative, adopted in order to ensure proper management, to prevent possible risks of a financial and operational nature, as well as any fraud to the detriment of the company, is substantially appropriate for its size.

In performing its duties of monitoring the adequacy of the Control System, the Board of Statutory Auditors constantly liaised with the heads of the Control functions in order to (i) verify any requirements for qualitative and quantitative reinforcement of these functions, (ii) promote and ascertain the coordination of these functions, with regard to both the planning of activities and to greater integration and effectiveness.

During the year, there was effective coordination of activities and information flows between the various parties involved in control activities, including the Board of Statutory Auditors.

In particular, the Board of Statutory Auditors: (i) collected information on the activities carried out in meetings of the Risk Committee and meetings with the heads of Internal Audit, (ii) noted the contents of the Corporate Governance Report regarding the adequacy and effective functioning of the internal control system, and (iii) examined the 2020 Report prepared by the Internal Audit function, which assessed the internal control system as adequate overall for the needs of the Mediolanum Banking Group.

In addition to the above, the Board of Statutory Auditors continuously monitored the evidence that emerged from the activities carried out by Control Functions and/or detected by monitoring during the performance of its own activities, acknowledging their acceptance by the competent structures and their tracking and monitoring by the Control Functions.

The Board of Statutory Auditors, which until 1 September 2016 has the role of Supervisory Body, responsible for overseeing the effectiveness, functioning, observance and updating of the Organisation, Management and Control Model, for the purposes of Legislative Decree No. 231/2001, described the activities carried out during the year in its annual report, without flagging any significant or noteworthy critical issues, events or situations.

14. Comments on the adequacy and reliability of the administrative and accounting system.

On the basis of what was established and ascertained, the Board of Statutory Auditors did not find any significant shortcomings in the operational and control processes that could invalidate the assessment that administrative and accounting procedures were adequate and effective, for the purposes of properly representing the company's financial position and results of operations in accordance with the international accounting standards.

15. Comments on the adequacy of the instructions given to subsidiaries.

The Board of Statutory Auditors believes that the instructions given by the Company to its subsidiaries, pursuant to Article 114, paragraph 2, of Legislative Decree No. 58/1998 are suitable for promptly providing the parent company with the information necessary for the fulfilment of the disclosure obligations established by law.

16. Comments on any aspects identified relating to the exchange of information with the auditors.

During discussions with representatives of PWC S.p.A., pursuant to Article 150 of Legislative Decree No. 58/1998, the statutory auditor did not report any significant critical issues of the internal control system relating to the financial reporting process and no significant or noteworthy issues emerged in this Report.

17. Adherence to the Corporate Governance Code of the Committee for the Governance of listed companies.

The company complied with the Corporate Governance Code prepared by the Committee for Corporate Governance of companies listed on Borsa Italiana and updated its governance system as indicated in the Board of Directors' specific report on corporate governance.

The Board of Statutory Auditors monitored the procedures for the actual implementation of the corporate governance rules established by the codes of conduct with which Banca Mediolanum S.p.A. has stated that it complies.

Information on the corporate bodies

With regard to the corporate bodies, the Board of Statutory Auditors reports that:

- the Board of Directors, by a specific board resolution, made a positive assessment of the adequacy of its size, composition and functioning, providing complete information on this in the Corporate Governance Report;
- it assessed the correct application of the assessment criteria and procedures adopted by the Board of Directors with regard to the independence requirements of the relevant members, providing complete information on this in the Corporate Governance Report;
- it periodically verified that each of its members meet the independence requirements, both pursuant to the Consolidated Law on Finance and the Corporate Governance Code, providing complete information on this in the Corporate Governance Report;
- with regard to the provisions of Article 36 of Decree Law No. 201/2011 - the assumption or exercise of positions in supervisory or control bodies in competitor companies or groups of companies operating in the insurance or financial credit markets - the members of the Board of Directors and the members of the Board of Statutory Auditors assessed their respective situations and took decisions in order to comply with the said legislation.

Relations with the corresponding bodies of the subsidiaries

The Board of Statutory Auditors exchanged information with the Boards of Statutory Auditors of the subsidiaries, as required by Article 151, paragraph 2, of the Consolidated Law on Finance and the Bank of Italy's supervisory instructions, without identifying any significant events that should be reported in this Report.

18. Concluding assessments of the supervisory activities performed.

As a result of the supervisory activity carried out by the Board of Statutory Auditors, no censurable facts, omissions or irregularities emerged that should be reported in this Report.

19. Any proposals of the Board of Statutory Auditors to the Shareholders' Meeting.

The Board of Statutory Auditors does not believe it necessary to exercise its right to make proposals to the Shareholders' Meeting pursuant to Article 153, paragraph 2, of the Consolidated Law on Finance.

Considerations relating to the consolidated financial statements

The consolidated financial statements at 31 December 2020 have been prepared on the basis of the "Instructions for the preparation of the financial statements of banks and financial parent companies of banking groups" issued by the Bank of Italy with Circular No. 262 of 22 December 2005 as updated in application of Legislative Decree No. 38 of 28 February 2005. The interpretative documents issued during the course of 2020 by standard setters for the application of accounting standards in the context of the Covid-19 pandemic have also been taken into account in the preparation of the financial statements.

The financial statements consist of the consolidated balance sheet, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in shareholders' equity, the consolidated statement of cash flows and the consolidated notes and are also accompanied by a directors' report on operations.

The consolidated financial statements as at 31 December 2020 record a profit of €434.5 million, compared with €565.4 million in the previous year.

The statutory audit of the consolidated financial statements of Banca Mediolanum S.p.A. for the year ended 31 December 2020 is assigned to PWC S.p.A., which issued an unqualified report on (i) the consolidated financial statements and (ii) the consistency of the report on operations with the financial statements and its compliance with law.

The Consolidated Non-Financial Statement, prepared pursuant to Legislative Decree No. 254/16 as a separate report, was examined by PWC S.p.A., which issued the limited audit report today with no reservations.

Comments on the financial statements and their approval

With regard to the financial statements for the year ended 31 December 2020, which record a profit of €433,980,479 and the relevant annexes, which are submitted for your approval, please note that:

- a. We agree that the financial statements comply with the law in terms of their formation and structure and confirm that they have been prepared in accordance with the IAS/IFRS in force as at 31 December 2020; the financial statements and the contents of the notes comply with Bank of Italy Circular No. 262 of 22 December 2005, as updated. They therefore consist of the statement of financial position and income statement, the statement of comprehensive income, the statement of changes in shareholders' equity and the statement of cash flows, all compared with those of the previous year, and the notes to the financial statements, and are accompanied by the Board of Directors' report on operations. The interpretative documents issued during the course of 2020 by standard setters for the application of accounting standards in the context of the Covid-19 pandemic have also been taken into account in the preparation of the financial statements;
- b. The Report on Operations contains appropriate comments on the performance of the Bank and its subsidiaries, indicating events, transactions and projects concerning the activities of the Bank and the entire Group;

- c. The statutory auditor issued a report with an unqualified opinion on (i) the financial statements and (ii) the consistency of the report on operations with the financial statements and its compliance with the law.

In the light of the above, the Board of Statutory Auditors expresses a favourable opinion on the approval of the financial statements for the year ended 31 December 2020, which record a profit for the year of €433,980,479 and its allocation as proposed by the Board of Directors.

Basiglio, 23 March 2021

The Board of Statutory Auditors

Domenico Angelo Magno Fava (Chairman)

Antonella Lunardi (Standing Auditor)

Gian Piero Sala (Standing Auditor)

Ordinary Shareholders' Meeting of 15 April 2021



BOARD OF DIRECTORS' REPORT TO THE ORDINARY SHAREHOLDERS' MEETING OF 15 APRIL 2021



1. Financial Statements as at 31 December 2020.

- 1.1. Approval of the financial statements; Board of Directors' Report on Operations; Board of Statutory Auditors' Report and Independent Auditor's reports; Presentation of the consolidated financial statements as at 31 December 2020.
- 1.2. Distribution of the dividend.

Board of Directors' Report

**- pursuant to Article 125-ter of Legislative Decree No. 58/1998, as subsequently amended - to
the Ordinary Shareholders' Meeting of 15 April 2021, convened in a single call**

Dear Shareholders,

You have been called to an Ordinary Shareholders' Meeting to resolve, *inter alia*, on the following matter:

1. Financial statements as at 31 December 2020.

1.1 Approval of the financial statements; Board of Directors' Report on Operations; Board of Statutory Auditors' Report and Independent Auditor's reports; Presentation of the consolidated financial statements as at 31 December 2020.

1.2 Distribution of the dividend.

The Report sets out:

- in Section A point 1.1 on the agenda of the Bank's Shareholders' Meeting convened in a single call on 15 April 2021 (*"Approval of the financial statements; Board of Directors' Report on Operations; Board of Statutory Auditors' Report and Independent Auditor's Reports; Presentation of the consolidated financial statements as at 31 December 2020"*);
- in Section B point 1.2 on the agenda of the Bank's Shareholders' Meeting convened in a single call on 15 April 2021 (*"Distribution of the dividend"*).

In accordance with the applicable legislative provisions, the draft financial statements of the Bank for the year ended 31 December 2020 and the related reports (please see these for further analysis) will be made available to the public by 24 March 2021, from the registered office (Basiglio, Milan 3, Via F. Sforza, Palazzo Meucci) and the authorised storage mechanism "eMarket STORAGE" (www.emarketstorage.com), as well as on the Bank's website (www.bancamediolanum.it- Corporate Governance, Shareholders' Meeting section).

Section A

Explanatory report on point 1.1 of the agenda

“Approval of the financial statements; Board of Directors’ Report on Operations; Board of Statutory Auditors’ Report and Independent Auditor’s reports; Presentation of the consolidated financial statements as at 31 December 2020.”

The Board of Directors of Banca Mediolanum has called an Ordinary Shareholders’ Meeting to approve the Bank’s financial statements as at 31 December 2020.

On 3 March 2021, the Board of Directors approved the draft financial statements of the Bank for the year ended 31 December 2020 and the related report on operations, which shows a profit of €433,980,479.31. It should be noted that, together with the report on operations, the Bank will also make available the consolidated non-financial statement as at 31 December 2020 prepared by the Bank pursuant to Article 4 of Legislative Decree No. 254 of 30 December 2016, which includes Banca Mediolanum’s sustainability report. The Board of Directors has also approved the consolidated financial statements of the Mediolanum Group as at 31 December 2020.

Dear Shareholders,

In view of the above, we invite you to adopt the following resolutions: *“the Ordinary Shareholders’ Meeting of Banca Mediolanum S.p.A.:*

- *having noted the report on operations and the consolidated non-financial statement as at 31 December 2020 prepared by the Bank pursuant to Article 4 of Legislative Decree No. 254 of 30 December 2016, which includes Banca Mediolanum’s sustainability report,*
- *having noted the reports of the Board of Statutory Auditors and the independent auditor on the financial statements of Banca Mediolanum S.p.A. as at 31 December 2020, and the consolidated financial statements of the Mediolanum Group as at 31 December 2020 and the relevant reports,*

RESOLVES

- *to approve the financial statements of Banca Mediolanum S.p.A. as at 31 December 2020, which closed with a profit for the year of €433,980,479.31, as well as the related Board of Directors' report on operations, in all of their parts and results".*

Section B

“Distribution of the dividend”.

Further to what was announced to the market by Banca Mediolanum on 11 February and 3 March 2021 and the recommendations of the European Central Bank of 15 December 2020 and of the Bank of Italy “*on the distribution of dividends*” of 16 December 2020, the Bank’s Board of Directors decided to comply with the instructions of the prudential supervisory authorities and to adopt a proposal for the allocation of the profit for the year and the use of a portion of the reserves generated from the profits of previous years - contained in the draft financial statements for the year ended 31 December 2020 and in this explanatory report on item 1.2 on the agenda of the Shareholders' Meeting - in line with these recommendations, as explained in greater detail below.

In particular, in view of the above recommendations, the Bank's Board of Directors resolved to propose:

- 1) the distribution of a dividend in May 2021 of €0.02667 for each ordinary eligible share, from the profits for the 2020 financial year, and equivalent to the amount permitted by the aforementioned recommendation of the Bank of Italy, according to which the amount currently distributable must be limited to no more than 15% of the cumulative profits of 2019-20 or 20 basis points of the CET1 coefficient (in any case the lesser of two) at the date of approval of the 2020 financial statements;
- 2) the distribution of a dividend in October 2021 - subject to the absence of new orders and/or recommendations preventing distribution issued by the prudential Supervisory Authority - of €0.41333 for each ordinary eligible share from the profit for 2020 and €0.34 from reserves generated from profits from previous years.

It is therefore proposed to i) allocate the profit for the year of €323,401,132.12 and ii) to use a portion of the reserves generated from profits from previous years of €249,900,874.82 as shown in the

financial statements of Banca Mediolanum for the year ended 31 December 2020 (for which reference is made to Section A of this Report), as follows:

- (i) a total amount of €19,602,518.62 from the profits for 2020 as a dividend distribution during the month of May 2021, amounting to €0.02667 for each ordinary eligible share, with detachment of coupon no. 9 on 24 May 2021, the dividend record date of 25 May 2021 and the dividend payment date of 26 May 2021;
- (ii) a total amount of €553,699,488.32, including a total of €303,798,613.50 from the 2020 profits and a total of €249,900,874.82 from reserves generated from profits from previous years, totalling €0.75333 for each ordinary eligible share, with detachment of coupon no. 10 on 18 October 2021, the dividend record date of 19 October 2021 and the dividend payment date of 20 October 2021, payment of which to those entitled will take place subject to the condition subsequent that, by 1 October 2021, an order and/or recommendation is issued by the competent prudential supervisory authority that prevents the distribution of dividends; it is understood that, in this case, the Bank's Board of Directors and, where appropriate, the Shareholders' Meeting, may adopt the necessary or appropriate resolutions in accordance with the order and/or recommendation of the competent prudential supervisory authority;
- (iii) the amount of profits remaining after deducting the 2020 dividends proposed above to be allocated to the extraordinary reserve.

Without prejudice to full compliance with any further orders and/or recommendations issued by the competent authorities in terms of prudential supervision, the Bank will, after 1 October 2021, ascertain the lack of the impediments indicated by the supervisory authorities and consequently proceed with the distribution of the dividend referred to in point (ii) above.

The Bank believes that, including in the current economic and financial context, the proposed distribution subject to this Report is justified on the basis of: 1) an examination of the possible future

impact on the Bank's financial position and liquidity, which remain solid even in stress scenarios; 2) the strength of its business model, which, even in periods of crisis, has shown that it can generate value for stakeholders; and 3) the limited exposure to risk of its credit activities.

Dear Shareholders,

In view of the above, we invite you to adopt the following resolutions:

“the Ordinary Shareholders’ Meeting of Banca Mediolanum S.p.A., having acknowledged the explanatory report of the Board of Directors,

RESOLVES

- *to approve the allocation of earnings for 2020 and the use of part of the reserves generated from the profits of previous years of Banca Mediolanum S.p.A. as follows:*

(i) a total amount of €19,602,518.62 from the profits for 2020 as a dividend distribution, amounting to €0.02667 for each ordinary eligible share;

a. will be paid with the “ex-dividend date” of coupon no. 9 on 24 May 2021, the “record date” on 25 May 2021 and the payment date on 26 May 2021;

b. will be calculated on the number of outstanding shares eligible to receive the dividend on the record date, rounding down to the sixth decimal place;

(ii) a total amount of €553,699,488.32, including a total of €303,798,613.50 from the 2020 profits and a total of €249,900,874.82 from reserves generated from profits from previous years, totalling €0.75333 for each ordinary eligible share, with the right to the distribution of further dividends, which will be paid to those entitled only after the date of 1 October 2020, subject to the condition subsequent that, by the same date, an order and/or recommendation is issued by the competent prudential supervisory authority that prevents the distribution of dividends; it is understood that, in this case, the Bank's Board of Directors and, where appropriate, the Shareholders' Meeting, may adopt the necessary or appropriate

resolutions in accordance with the order and/or recommendation of the competent prudential supervisory authority; in the event that this condition does not apply, the Dividend:

- a) will be paid with the “ex-dividend date” of coupon no. 10 on 18 October 2021, the “record date” on 19 October 2021 and the payment date on 20 October 2021;*
 - b) will be calculated on the number of outstanding shares eligible to receive the dividend on the record date, rounding down to the sixth decimal place;*
- (iii) the amount of profits that will remain after deducting the Dividends referred to in points i) and ii), to the extraordinary reserve.*

Milan 3, 3 March 2021

For and on behalf of the Board of Directors

The Chairman

(Ennio Doris)

Glossary



Assets Under Management

These consist of: - managed assets, which include the assets of mutual funds and pension funds and the assets under management and technical reserves of the Life class; - non-managed assets, which include securities in custody (net of shares in the Group's funds), the technical reserves of the Non-Life class and the debit balances of current accounts.

Common Equity Tier 1 or CET 1

The highest quality capital component pursuant to the Basel III regulations, mainly consisting of ordinary paid-up capital, the relative share premium reserves, calculable net profit for the period, reserves and third-party equity (calculable within certain limits), net of certain regulatory adjustments, as provided for by Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013, as subsequently updated.

Common Equity Tier 1 Ratio or CET 1 Ratio

The solvency ratio expressed by the relationship between Common Equity Tier I and risk weighted assets (RWAs, as defined below) calculated on the basis of Basel III regulations in application of the provisions of Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013 and of Directive 2013/36/EU (CRD IV) as subsequently updated.

Family Bankers

The figurative wordmark used to describe the financial advisors of Banca Mediolanum.

Own funds

Own funds are made up of a series of items (net of negative items to be deducted) classified on the basis of capital quality and the ability to absorb losses determined pursuant to Part Two of Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013 as amended. Own funds consist of Tier I and Tier 2 capital.

Net inflows

Amount of subscriptions net of divestments.

RWA or risk-weighted assets

This is the risk-weighted value of on- and off-balance sheet assets. Depending on the types of assets concerned, bank assets are weighted by factors representing their risk level and default potential in order to calculate a capital adequacy indicator.

Total Capital Ratio

Solvency ratio expressed by the relationship between Total Capital and RWAs calculated on the basis of the Basel 2 regulation.

Consolidated basic earnings per share (EPS)

Ratio of consolidated net income to the weighted average number of ordinary shares outstanding.

Consolidated diluted earnings per share (EPS)

Diluted earnings per share are determined by dividing net profit by the weighted average number of shares outstanding in the period, excluding treasury shares, plus the number of shares that could potentially be added to those outstanding as a result of the assignment or disposal of treasury shares under stock option plans.