2013

Half-yearly report

of the BPM Group as at 30 June 2013

BANCA POPOLARE DI MILANO

Half-yearly report of the BPM Group as at 30 June 2013 (*)

BANCA POPOLARE
DI MILANO

Co-operative Bank founded in 1865
Parent Company of the BPM - Banca Popolare di Milano - Banking Group
Share capital at 30.06.2013: Euro 2,865,709,760.07
Milan Companies Register No. 00715120150
Enrolled on the National Register of Co-operative Companies No. A109641
Registered office and General management:
Milan – Piazza F. Meda, 4
www.bpm.it

Member of the Interbank Guarantee Fund

Registered Bank and Parent Company
of the BPM – Banca Popolare di Milano
Registered Banking Group

(*) Approved by the Management Board
of Banca Popolare di Milano at the meeting held on 27 August 2013

This english translation is not an official translation. This translation is for informational purposes only, has been prepared solely for the convenience of international readers and is not a substitute for the original italian document

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Directors and Officers, General Management and Independent Auditors

Supervisory Board

Chairman
Giuseppe Coppini

Deputy Chairman
Umberto Bocchino

Directors
Alberto Balestreri
Ruggiero Cafari Panico
Enrico Castoldi
Maurizio Cavallari
Carlo Frascarolo
Roberto Fusilli
Piero Lonardi
Mario Benito Mazzoleni
Flavia Daunia Minutillo
Maria Luisa Mosconi
Mauro Paoloni
Luca Raffaello Perfetti
Marcello Priori
Jean-Jacques Tamburini
Michele Zefferino

Management Board

Chairman
Andrea C. Bonomi

Managing Director and CEO
Piero Luigi Montani

Directors
Davide Croff
Alessandro Foti
Dante Razzano

General Management

Deputy General Manager
Roberto Frigerio (*)

Arbitration Committee

Italo Ciancia
Guido Mina
Anna Maria Sanchirico

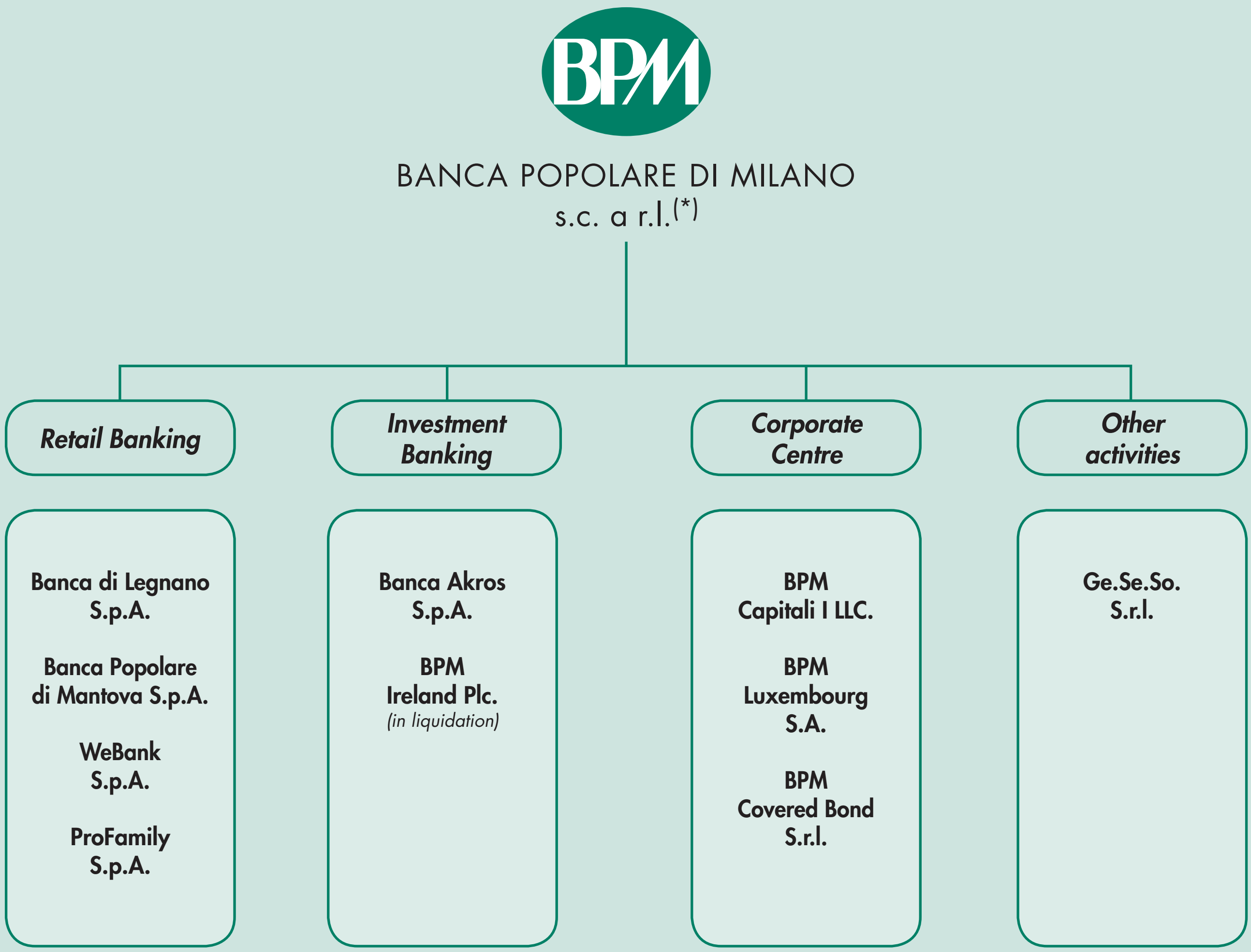
Independent Auditors

Reconta Ernst & Young S.p.A.

(*) Financial Reporting Manager

Key figures and ratios of the BPM Group

Structure of the BPM Group at 30 June 2013



(*) Banca Popolare di Milano is split into various sectors of activity: Retail Banking, Investment Banking, Corporate Centre and Corporate Banking; the other companies are shown in the table according to their main line of business.

Consolidated reclassified financial statements: general aspects

To give readers a more immediate understanding of the results for the period, a summary reclassified balance sheet and income statement have been prepared, in which line items have been aggregated and reclassified in keeping with market practice in such a way as to provide a clearer picture of performance. To allow the items in the reclassified statements to be easily reconciled with those in the official statements based on the Bank of Italy's Circular 262/05, schedules are included in the attachments that provide details of the various reclassifications and aggregations.

The following aggregations have been made in the reclassified balance sheet:

1. "Financial assets carried at fair value and hedging derivatives" include the following line items: 20 "Financial assets held for trading", 30 "Financial assets designated at fair value through profit and loss", 40 "Financial assets available for sale", 50 "Investments held to maturity", 80 "Hedging derivatives" and 90 "Fair value change of financial assets in hedged portfolios";
2. "Fixed assets" include the following line items: 100 "Investments in associates and companies subject to joint control", 120 "Property and equipment" and 130 "Intangible assets";
3. "Other assets" include line items: 140 "Tax assets" and 160 "Other assets";
4. "Financial liabilities and hedging derivatives" include line items: 40 "Financial liabilities held for trading", 50 "Financial liabilities designated at fair value through profit and loss", 60 "Hedging derivatives" and 70 "Fair value change of financial liabilities in hedged portfolios";
5. "Other liabilities" include line items: 80 "Tax liabilities" and 100 "Other liabilities";
6. "Provisions for specific use" comprise line items: 110 "Employee termination indemnities" and 120 "Allowances for risks and charges";
7. "Capital and reserves" include line items: 140 "Valuation reserves", 150 "Redeemable shares", 160 "Equity instruments", 170 "Reserves", 180 "Share premium reserve", 190 "Share capital" and 200 "Treasury shares".

The income statement line items have been reclassified and represented as follows:

1. The profits (losses) on investments carried at equity, recorded in line item 240 "Profits (losses) on investments in associates and companies subject to joint control" have been reported on a separate line forming part of "Operating income" in the reclassified income statement, but only with respect to the component relating to the results of the investees;
2. "Net income from banking activities" includes line item 70 "Dividend and similar income", 80 "Profits (losses) on trading", 90 "Fair value adjustments in hedge accounting", 100 "Profits (losses) on disposal/repurchase", 110 "Profits (losses) on financial assets and liabilities designated at fair value" and 130 b) "Net losses/recoveries on impairment of financial assets available for sale". The following have been excluded from this aggregate: line item 100 a) "Profits/losses on disposal/repurchase of loans";
3. "Other operating expenses/income" (line item 220) booked to "Operating expenses" on the accounting schedule have been reduced by the recovered portion of "indirect taxes and duties" and increased by the "depreciation of leasehold improvements". This item, reclassified in this way, has been included in "Operating income" in the reclassified income statement;
4. "Other administrative expenses" (line item 180 b) in the reclassified income statement have been reduced by the recovered portion of "indirect taxes and duties" discussed in point 3 above;
5. "Net adjustments to property and equipment and intangible assets" (line items 200 and 210) in the reclassified income statement have been increased by the "depreciation of leasehold improvements" discussed in point 3 above and decreased by the writedown of core deposits;
6. "Net adjustments for impairment of loans and other activities" reported after "Operating profit" in the reclassified format, include line item 130, net of the sub-item 130 b) "Net losses/recoveries on impairment of financial assets available for sale" (reclassified under "Net income from banking activities") and line item 100 a) "Profits (losses) on disposal/repurchase of loans" (removed from "Net income from banking activities");
7. "Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets" in the reclassified format include the line item 260 "Goodwill impairment", the writedown quota of core deposits discussed in point 5 above and a portion of the line item 240 "Profits (losses) on investments in associates and companies subject to joint control" relating to the writedown of the goodwill component included in the book value of investments carried at equity value. It also includes the line item 270 "Profits (losses) on disposal of investments".

BPM Group – Consolidated reclassified balance sheet

(Euro/000)

Assets	30.06.2013 A	31.03.2013 B	31.12.2012 C	30.06.2012 D	Change A – B amount	Change A – B %	Change A – C amount	Change A – C %
Cash and cash equivalents	226,984	228,473	285,892	427,010	–1,489	–0.7	–58,908	–20.6
Financial assets designated at fair value and hedging derivatives:	11,834,884	11,626,960	11,901,399	11,835,426	207,924	1.8	–66,515	–0.6
– Financial assets held for trading	*1,705,445*	*1,798,512*	*1,821,675*	*2,136,999*	*–93,067*	*–5.2*	*–116,230*	*–6.4*
– Financial assets designated at fair value through profit and loss	*259,500*	*261,137*	*259,321*	*376,610*	*–1,637*	*–0.6*	*179*	*0.1*
– Financial assets available for sale	*9,639,583*	*9,319,355*	*9,539,376*	*9,074,075*	*320,228*	*3.4*	*100,207*	*1.1*
– Hedging derivatives	*217,206*	*227,090*	*256,320*	*221,131*	*–9,884*	*–4.4*	*–39,114*	*–15.3*
– Fair value change of financial assets in hedged portfolios (+/–)	*13,150*	*20,866*	*24,707*	*26,611*	*–7,716*	*–37.0*	*–11,557*	*–46.8*
Due from banks	2,106,886	2,635,231	2,718,371	2,784,524	–528,345	–20.0	–611,485	–22.5
Loans to customers	34,038,161	35,089,999	34,790,891	34,947,529	–1,051,838	–3.0	–752,730	–2.2
Fixed assets	1,176,934	1,171,192	1,174,152	1,123,334	5,742	0.5	2,782	0.2
Other assets	1,582,527	1,870,486	1,604,300	1,503,944	–287,959	–15.4	–21,773	–1.4
Total assets	**50,966,376**	**52,622,341**	**52,475,005**	**52,621,767**	**–1,655,965**	**–3.1**	**–1,508,629**	**–2.9**

Liabilities and shareholders' equity	30.06.2013 A	31.03.2013 B	31.12.2012 C	30.06.2012 D	Change A – B amount	Change A – B %	Change A – C amount	Change A – C %
Due to banks	6,281,204	6,284,368	6,292,005	7,753,545	–3,164	–0.1	–10,801	–0.2
Due to customers	27,073,851	25,932,864	26,297,613	24,329,544	1,140,987	4.4	776,238	3.0
Securities issued	10,182,184	11,635,397	11,223,349	11,847,393	–1,453,213	–12.5	–1,041,165	–9.3
Financial liabilities and hedging derivatives:	1,968,230	2,323,552	2,671,336	2,926,406	–355,322	–15.3	–703,106	–26.3
– Financial liabilities held for trading	*1,315,536*	*1,448,291*	*1,585,447*	*1,794,464*	*–132,755*	*–9.2*	*–269,911*	*–17.0*
– Financial liabilities designated at fair value through profit and loss	*591,492*	*803,946*	*1,009,898*	*1,051,678*	*–212,454*	*–26.4*	*–418,406*	*–41.4*
– Hedging derivatives	*34,146*	*42,305*	*45,049*	*45,372*	*–8,159*	*–19.3*	*–10,903*	*–24.2*
– Fair value change of financial liabilities in hedged portfolios (+/–)	*27,056*	*29,010*	*30,942*	*34,892*	*–1,954*	*–6.7*	*–3,886*	*–12.6*
Other liabilities	1,214,926	1,761,078	1,271,219	1,232,870	–546,152	–31.0	–56,293	–4.4
Provisions for specific use	633,391	648,058	662,766	456,087	–14,667	–2.3	–29,375	–4.4
Capital and reserves	3,487,463	3,938,195	4,444,780	4,163,970	–450,732	–11.4	–957,317	–21.5
Minority interests (+/–)	19,520	41,574	41,631	43,296	–22,054	–53.0	–22,111	–53.1
Net income (loss) for the period (+/–)	105,607	57,255	–429,694	–131,344	48,352	n.s.	535,301	n.s.
Total liabilities and shareholders' equity	**50,966,376**	**52,622,341**	**52,475,005**	**52,621,767**	**–1,655,965**	**–3.1**	**–1,508,629**	**–2.9**

BPM Group – Consolidated reclassified balance sheet - quarter by quarter

(Euro/000)

Assets	**Year 2013**		**Year 2012**			
	30.6	**31.3**	**31.12**	**30.9**	**30.6**	**31.3**
Cash and cash equivalents	226,984	228,473	285,892	208,682	427,010	210,564
Financial assets designated at fair value and hedging derivatives:	11,834,884	11,626,960	11,901,399	12,095,768	11,835,426	11,830,544
– Financial assets held for trading	*1,705,445*	*1,798,512*	*1,821,675*	*2,119,184*	*2,136,999*	*1,959,894*
– Financial assets designated at fair value through profit and loss	*259,500*	*261,137*	*259,321*	*288,827*	*376,610*	*425,990*
– Financial assets available for sale	*9,639,583*	*9,319,355*	*9,539,376*	*9,369,042*	*9,074,075*	*9,249,458*
– Hedging derivatives	*217,206*	*227,090*	*256,320*	*290,658*	*221,131*	*173,798*
– Fair value change of financial assets in hedged portfolios (+/–)	*13,150*	*20,866*	*24,707*	*28,057*	*26,611*	*21,404*
Due from banks	2,106,886	2,635,231	2,718,371	2,586,078	2,784,524	2,764,365
Loans to customers	34,038,161	35,089,999	34,790,891	34,938,188	34,947,529	35,263,476
Fixed assets	1,176,934	1,171,192	1,174,152	1,148,316	1,123,334	1,499,047
Other assets	1,582,527	1,870,486	1,604,300	1,462,114	1,503,944	1,445,191
Total assets	**50,966,376**	**52,622,341**	**52,475,005**	**52,439,146**	**52,621,767**	**53,013,187**

Liabilities and shareholders' equity	**Year 2013**		**Year 2012**			
	30.6	**31.3**	**31.12**	**30.9**	**30.6**	**31.3**
Due to banks	6,281,204	6,284,368	6,292,005	7,840,081	7,753,545	8,995,750
Due to customers	27,073,851	25,932,864	26,297,613	24,548,918	24,329,544	23,159,014
Securities issued	10,182,184	11,635,397	11,223,349	11,121,085	11,847,393	12,212,336
Financial liabilities and hedging derivatives:	1,968,230	2,323,552	2,671,336	2,989,849	2,926,406	2,638,127
– Financial liabilities held for trading	*1,315,536*	*1,448,291*	*1,585,447*	*1,852,760*	*1,794,464*	*1,482,105*
– Financial liabilities designated at fair value through profit and loss	*591,492*	*803,946*	*1,009,898*	*1,056,942*	*1,051,678*	*1,084,491*
– Hedging derivatives	*34,146*	*42,305*	*45,049*	*47,230*	*45,372*	*34,686*
– Fair value change of financial liabilities in hedged portfolios (+/–)	*27,056*	*29,010*	*30,942*	*32,917*	*34,892*	*36,845*
Other liabilities	1,214,926	1,761,078	1,271,219	1,220,044	1,232,870	1,143,187
Provisions for specific use	633,391	648,058	662,766	448,931	456,087	463,971
Capital and reserves	3,487,463	3,938,195	4,444,780	4,332,663	4,163,970	4,289,717
Minority interests (+/–)	19,520	41,574	41,631	43,489	43,296	46,801
Net income (loss) for the period (+/–)	105,607	57,255	–429,694	–105,914	–131,344	64,284
Total liabilities and shareholders' equity	**50,966,376**	**52,622,341**	**52,475,005**	**52,439,146**	**52,621,767**	**53,013,187**

BPM Group – Consolidated reclassified income statement

(Euro/000)

Line items	First half 2013	First half 2012	Change amount	Change %
Interest margin	**415,786**	**455,086**	**(39,300)**	**–8.6**
Non-interest margin:	**470,101**	**338,904**	**131,197**	**38.7**
– Net fee and commission income	277,985	238,931	39,054	16.3
– Other income:	192,116	99,973	92,143	92.2
- Profits (losses) on investments carried at equity	*11,790*	*7,270*	*4,520*	*62.2*
- Net income from banking activities	*148,573*	*75,562*	*73,011*	*96.6*
- Other operating charges/income	*31,753*	*17,141*	*14,612*	*85.2*
Operating income	**885,887**	**793,990**	**91,897**	**11.6**
Administrative expenses:	(464,471)	(460,936)	(3,535)	–0.8
a) personnel expenses	*(319,970)*	*(314,394)*	*(5,576)*	*–1.8*
b) other administrative expenses	*(144,501)*	*(146,542)*	*2,041*	*1.4*
Net adjustments to property and equipment and intangible assets	(35,379)	(36,998)	1,619	4.4
Operating expenses	**(499,850)**	**(497,934)**	**(1,916)**	**–0.4**
Operating profit	**386,037**	**296,056**	**89,981**	**30.4**
Net adjustments for impairment of loans and other activities	(163,816)	(134,427)	(29,389)	–21.9
Net provisions for risks and charges	(8,355)	(6,887)	(1,468)	–21.3
Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets	0	(359,918)	359,918	100.0
Income (loss) before tax from continuing operations	**213,866**	**(205,176)**	**419,042**	**n.s.**
Taxes on income from continuing operations	(108,000)	70,314	(178,314)	n.s.
Income (loss) after tax from continuing operations	**105,866**	**(134,862)**	**240,728**	**n.s.**
Net income (loss) for the period	**105,866**	**(134,862)**	**240,728**	**n.s.**
Minority interests	(259)	3,518	(3,777)	n.s.
Parent company's net income (loss) for the period	**105,607**	**(131,344)**	**236,951**	**n.s.**
Basic EPS from continuing operations – Euro	**0.033**	**(0.041)**		
Diluted EPS from continuing operations – Euro	**0.033**	**(0.041)**		
Basic EPS – Euro	**0.033**	**(0.041)**		
Diluted EPS – Euro	**0.033**	**(0.041)**		

BPM Group – Consolidated reclassified income statement - quarter by quarter

(Euro/000)

Line items	Year 2013		Year 2012			
	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Interest margin	**225,003**	**190,783**	**201,629**	**202,343**	**228,519**	**226,567**
Non-interest margin:	**232,809**	**237,292**	**181,276**	**170,476**	**131,766**	**207,138**
– Net fee and commission income	146,271	131,714	142,242	115,319	119,826	119,105
– Other income:	86,538	105,578	39,034	55,157	11,940	88,033
- Profits (losses) on investments carried at equity	*3,886*	*7,904*	*9,782*	*4,625*	*4,077*	*3,193*
- Net income from banking activities	*69,205*	*79,368*	*14,135*	*38,829*	*(3,290)*	*78,852*
- Other operating charges/income	*13,447*	*18,306*	*15,117*	*11,703*	*11,153*	*5,988*
Operating income	**457,812**	**428,075**	**382,905**	**372,819**	**360,285**	**433,705**
Administrative expenses:	(235,755)	(228,716)	(430,073)	(219,546)	(217,475)	(243,461)
a) personnel expenses	*(158,006)*	*(161,964)*	*(340,419)*	*(156,868)*	*(145,239)*	*(169,155)*
b) other administrative expenses	(77,749)	(66,752)	(89,654)	(62,678)	(72,236)	(74,306)
Net adjustments to property and equipment and intangible assets	(17,977)	(17,402)	(17,874)	(17,438)	(18,668)	(18,330)
Operating expenses	**(253,732)**	**(246,118)**	**(447,947)**	**(236,984)**	**(236,143)**	**(261,791)**
Operating profit	**204,080**	**181,957**	**(65,042)**	**135,835**	**124,142**	**171,914**
Net adjustments for impairment of loans and other activities	(99,692)	(64,124)	(356,888)	(74,939)	(82,875)	(51,552)
Net provisions for risks and charges	(5,962)	(2,393)	(21,931)	(3,181)	(2,784)	(4,103)
Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets	1	(1)	(6,905)	3	(360,063)	145
Income (loss) before tax from continuing operations	**98,427**	**115,439**	**(450,766)**	**57,718**	**(321,580)**	**116,404**
Taxes on income from continuing operations	(50,000)	(58,000)	125,335	(32,275)	122,717	(52,403)
Income (loss) after tax from continuing operations	**48,427**	**57,439**	**(325,431)**	**25,443**	**(198,863)**	**64,001**
Net income (loss) for the period	**48,427**	**57,439**	**(325,431)**	**25,443**	**(198,863)**	**64,001**
Minority interests	(75)	(184)	1,651	(13)	3,235	283
Parent company's net income (loss) for the period	**48,352**	**57,255**	**(323,780)**	**25,430**	**(195,628)**	**64,284**

BPM Group – Key figures

(Euro/000)

Key balance sheet figures	30.06.2013 A	31.03.2013 B	31.12.2012 C	30.06.2012 D	Change A – B amount	Change A – B %	Change A – C amount	Change A – C %	Change A – D amount	Change A – D %
Loans to customers	34,038,161	35,089,999	34,790,891	34,947,529	–1,051,838	–3.0	–752,730	–2.2	–909,368	–2.6
of which: net non-performing loans	*1,019,032*	*910,472*	*854,288*	*790,203*	*108,560*	*11.9*	*164,744*	*19.3*	*228,829*	*29.0*
Fixed assets	1,176,934	1,171,192	1,174,152	1,123,334	5,742	0.5	2,782	0.2	53,600	4.8
Direct deposits (*)	37,847,527	38,372,207	38,530,860	37,228,615	–524,680	–1.4	–683,333	–1.8	618,912	1.7
Indirect customer deposits	30,383,034	30,424,137	30,630,109	30,795,362	–41,103	–0.1	–247,075	–0.8	–412,328	–1.3
of which: assets under administration	*16,086,569*	*16,317,246*	*16,866,094*	*17,500,669*	*–230,677*	*–1.4*	*–779,525*	*–4.6*	*–1,414,100*	*–8.1*
of which: assets under management	*14,296,465*	*14,106,891*	*13,764,015*	*12,987,693*	*189,574*	*1.3*	*532,450*	*3.9*	*1,308,772*	*10.1*
Total assets	50,966,376	52,622,341	52,475,005	52,621,767	–1,655,965	–3.1	–1,508,629	–2.9	–1,655,391	–3.1
Shareholders' equity (excluding net income (loss) for the period)	3,487,463	3,938,195	4,444,780	4,163,970	–450,732	–11.4	–957,317	–21.5	–676,507	–16.2
Regulatory capital	4,630,991	5,240,944	5,240,439	5,539,996	–609,953	–11.6	–609,448	–11.6	–909,005	–16.4
of which: Tier 1 capital	*3,393,124*	*3,882,392*	*3,882,023*	*4,178,809*	*–489,268*	*–12.6*	*–488,899*	*–12.6*	*–785,685*	*–18.8*

(Euro/000)

Key income statement figures	30.06.2013 A	31.03.2013 B	31.12.2012 C	30.06.2012 D	Change A – D amount	Change A – D %
Interest margin	415,786	190,783	859,058	455,086	(39,300)	–8.6
Operating income	885,887	428,075	1,549,714	793,990	91,897	11.6
Operating expenses	(499,850)	(246,118)	(1,182,865)	(497,934)	(1,916)	–0.4
of which: personnel expenses (**)	*(319,970)*	*(161,964)*	*(811,681)*	*(314,394)*	*(5,576)*	*–1.8*
Operating profit	386,037	181,957	366,849	296,056	89,981	30.4
Net adjustments for impairment of loans and other activities	(163,816)	(64,124)	(566,254)	(134,427)	(29,389)	–21.9
Income (loss) before tax from continuing operations	213,866	115,439	(598,224)	(205,176)	419,042	n.s.
Parent company's net income (loss) for the period	105,607	57,255	(429,694)	(131,344)	236,951	n.s.

Operating structure	30.06.2013 A	31.03.2013 B	31.12.2012 C	30.06.2012 D	Change A – B amount	Change A – B %	Change A – C amount	Change A – C %	Change A – D amount	Change A – D %
Headcount (employees and other personnel)	7,955	8,026	8,312	8,464	–71	–0.9	–357	–4.3	–509	–6.0
Number of branches	742	744	769	769	–2	–0.3	–27	–3.5	–27	–3.5

(*) This line item includes: amounts due to customers, securities issued and financial liabilities designated at fair value through profit and loss.
(**) Personnel expenses for the 2012 financial year included an amount of 212,666 million of non-recurring costs relating to the "2012 Solidarity Fund". Net of these costs, personnel expenses would be 599.015 million.

BPM Group – Key ratios

	30.06.2013	31.03.2013	31.12.2012	30.06.2012
Structure ratios (%)				
Loans to customers/Total assets	66.8	66.7	66.3	66.4
Fixed assets/Total assets	2.3	2.2	2.2	2.1
Direct deposits/Total assets	74.3	72.9	73.4	70.7
Funds under management/Indirect deposits	47.1	46.4	44.9	42.2
Loans to customers/Direct deposits	89.9	91.4	90.3	93.9
Profitability ratios (%) (annualised)				
Net income (loss)/Shareholders' equity (excluding net income (loss) for the period) (ROE) (a)	6.1	5.8	–9.7	–6.3
Net income (loss)/Total assets (ROA)	0.4	0.4	–0.8	–0.5
Cost/income (*)	56.4	57.5	76.3 (*)	62.7
Risk ratios (%)				
Net non-performing loans/Loans to customers	2.99	2.59	2.46	2.26
Coverage of gross non-performing loans to customers	53.9	55.0	55.8	47.9
Index of coverage of gross performing loans to customers	0.59	0.63	0.65	0.71
Productivity ratios (Euro/000) (b)				
Direct deposits per employee	4,758	4,781	4,636	4,398
Loans to customers per employee	4,279	4,372	4,186	4,129
Assets under management per employee	1,797	1,758	1,656	1,534
Assets under administration per employee	2,022	2,033	2,029	2,104
Capital adequacy ratios (%) (c)				
Tier 1 capital net of preference shares/Risk-weighted assets (Core Tier 1)	7.45	8.37	8.38	9.00
Tier 1 capital/Risk-weighted assets (Tier 1 ratio)	8.07	8.98	8.99	9.61
Regulatory capital/Risk-weighted assets (Total capital ratio)	11.02	12.12	12.14	12.74
Information on the BPM stock				
Number of shares:	3,229,622,702	3,229,621,379	3,229,621,379	3,229,621,379
in circulation	3,228,227,128	3,228,225,805	3,228,225,805	3,228,225,805
treasury shares	1,395,574	1,395,574	1,395,574	1,395,574
Official stock price at the end of the period – ordinary share (euro)	0.309	0.479	0.455	0.362

a) Shareholders' equity at end of period
b) Number of employees at end of period including personnel with other types of contract
c) From June 2011, the ratios take into account the additional requirements requested by the Bank of Italy
(*) Net of non-recurring costs relating to the "2012 Solidarity Fund", the cost/income ratio for the year ended 31.12.2012 would decrease from 76.3% to 62.6%

BPM Group – Consolidated reclassified income statement, net of non-recurring transactions

As required by CONSOB communication DEM/6064293 of 28 July 2006, the table below shows the impact of the following non-recurring transactions on the consolidated result.

Compared with the figures reported in the Interim Financial Report at 30 June 2012, note that - in line with the approach adopted for the 2012 financial statements - we have reclassified under non-recurring items the tax benefit relating to the reimbursement for tax periods prior to 2012 of the deductibility of IRAP on labour costs from taxable income for IRES purposes.

(Euro/000)

Line items	1st half 2013			1st half 2012			Change A – D		Change C – F	
	A = B + C	B	C	D = E + F	E	F	amount	%	amount	%
	Net income (loss)	Net income (loss) from non-recurring transactions	Net income (loss) from recurring transactions	Net income (loss)	Net income (loss) from non-recurring transactions	Net income (loss) from recurring transactions				
Interest margin	**415,786**	**0**	**415,786**	**455,086**	**0**	**455,086**	**(39,300)**	**-8.6**	**(39,300)**	**-8.6**
Non-interest margin:	**470,101**	**0**	**470,101**	**338,904**	**7,945**	**330,959**	**131,197**	**38.7**	**139,142**	**42.0**
– Net fee and commission income	277,985	0	277,985	238,931	0	238,931	39,054	16.3	39,054	16.3
– Other income:	192,116	0	192,116	99,973	7,945	92,028	92,143	92.2	100,088	108.8
- Profits (losses) on investments carried at equity	*11,790*	*0*	*11,790*	*7,270*	*0*	*7,270*	*4,520*	*62.2*	*4,520*	*62.2*
- Net income from banking activities	*148,573*	*0*	*148,573*	*75,562*	*7,945*	*67,617*	*73,011*	*96.6*	*80,956*	*119.7*
- Other operating charges/income	*31,753*	*0*	*31,753*	*17,141*	*0*	*17,141*	*14,612*	*85.2*	*14,612*	*85.2*
Operating income	**885,887**	**0**	**885,887**	**793,990**	**7,945**	**786,045**	**91,897**	**11.6**	**99,842**	**12.7**
Administrative expenses:	(464,471)	(2,185)	(462,286)	(460,936)	(506)	(460,430)	(3,535)	-0.8	(1,856)	-0.4
a) personnel expenses	*(319,970)*	*(2,185)*	*(317,785)*	*(314,394)*	*(506)*	*(313,888)*	*(5,576)*	*-1.8*	*(3,897)*	*-1.2*
b) other administrative expenses	*(144,501)*	*0*	*(144,501)*	*(146,542)*	*0*	*(146,542)*	*2,041*	*1.4*	*2,041*	*1.4*
Net adjustments to property and equipment and intangible assets	(35,379)	0	(35,379)	(36,998)	0	(36,998)	1,619	4.4	1,619	4.4
Operating expenses	**(499,850)**	**(2,185)**	**(497,665)**	**(497,934)**	**(506)**	**(497,428)**	**(1,916)**	**-0.4**	**(237)**	**0.0**
Operating profit	**386,037**	**(2,185)**	**388,222**	**296,056**	**7,439**	**288,617**	**89,981**	**30.4**	**99,605**	**34.5**
Net adjustments for impairment of loans and other activities	(163,816)	0	(163,816)	(134,427)	(255)	(134,172)	(29,389)	-21.9	(29,644)	-22.1
Net provisions for risks and charges	(8,355)	0	(8,355)	(6,887)	49	(6,936)	(1,468)	-21.3	(1,419)	-20.5
Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets	0	0	0	(359,918)	(360,203)	285	359,918	100.0	(285)	-100.0
Income (loss) before tax from continuing operations	**213,866**	**(2,185)**	**216,051**	**(205,176)**	**(352,970)**	**147,794**	**419,042**	**n.s.**	**68,257**	**46.2**
Taxes on income from continuing operations	(108,000)	(889)	(107,111)	70,314	143,933	(73,619)	(178,314)	n.s.	(33,492)	-45.5
Net income (loss) for the period	**105,866**	**(3,074)**	**108,940**	**(134,862)**	**(209,037)**	**74,175**	**240,728**	**n.s.**	**34,765**	**46.9**
Minority interests	(259)	3	(262)	3,518	3,487	31	(3,777)	n.s.	(293)	n.s.
Parent company's net income (loss) for the period	**105,607**	**(3,071)**	**108,678**	**(131,344)**	**(205,550)**	**74,206**	**236,951**	**n.s.**	**34,472**	**46.5**

Non-recurring transactions:	**(3,071)**	**(205,550)**
Other income:	**-**	**7,945**
Net income (loss) from banking activities: revaluation of BPM Ireland's AFS portfolio	*-*	*7,945*
Taxes on income (a)	*-*	*-*
Operating income, net of taxes	**-**	***7,945***
Administrative expenses: a) personnel expenses	**(2,185)**	**(506)**
Solidarity Fund	*(2,185)*	*(506)*
Taxes on income (b)	*601*	*139*
Personnel expenses, net of taxes	***(1,584)***	***(367)***
Net adjustments for impairment of loans and other activities	**-**	**(255)**
Adjustment of commitments to BPM Vita	*-*	**(255)**
Taxes on income (c)	*-*	**70**
Adjustments net of taxes	**-**	***(185)***
Net provisions for risks and charges	**-**	**49**
Provisions for contractual commitments relating to Bipiemme Vita	*-*	*49*
Taxes on income (d)	*-*	*(1)*
Net provisions for risks and charges, net of taxes	**-**	***48***
Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets	**-**	**(360,203)**
Adjustments to goodwill	*-*	*(335,425)*
Impairment of core deposits	*-*	*(24,778)*
Taxes on income (e)	*-*	*120,834*
Profits from equity and other investments, net of taxes on income	**-**	***(239,369)***
Taxes on income from continuing operations:	**(889)**	**143,933**
Tax benefit related to the reimbursement – for previous tax periods – of the deductibility of IRAP on labour costs from taxable income for IRES purposes	*(1,490)*	*22,891*
Taxes on income (a+b+c+d+e)	*601*	*121,042*
Minority interests	**3**	**3,487**
Overall impact of the above operations on minority interests	*3*	*3,487*

Half-yearly report on operations of the BPM Group

The macroeconomic scenario and the banking system

The international economy

In the first half of 2013, the growth of the world economy - according to the latest projections released by the OECD - has continued at a steady pace. However, fears of another downturn have not been completely eliminated. This is due to a further weakening in domestic demand, uncertainty about growth prospects in emerging countries and the situation in the Eurozone, where public finances have benefited from fiscal consolidation, but the unemployment figures and credit conditions remain alarming. According to the latest estimates published by the IMF in July, world GDP is expected to grow by 3.1% by the end of this year (same as in 2012). The price of Brent oil in June stood at 103 dollar a barrel, an increase of 7.2% on an annual basis.

In the **United States**, GDP in the second quarter of 2013 showed an annual growth of 1.7%, slightly higher than analysts' estimates. The Federal Reserve's monetary policy in the first half has been highly expansionary, with a policy rate that remained unchanged in the 0-0.25% range. The economic indicators show an increase in the household confidence and financial wealth has held up quite well, thanks to a positive performance by the stock market. The unemployment figures have also shown a positive trend, falling from 7.8% in December to 7.6% in June (source: U.S. Labor Department). However, it is worth mentioning that a number of automatic cuts in public spending came into force on 1 March, for a total of USD 85 billion a year till 2021, which could adversely affect unemployment and domestic demand in the coming months.

In **Japan**, GDP in the second quarter of the year grew by 2.6% on an annualised basis (+0.6% compared with the previous quarter), helped by an expansionary monetary policy that weakened the yen, in turn boosting exports.

In **China**, after growing by +7.5% annualised in the second quarter of 2013 (+7.7% in the first quarter of the year) in line with analysts' expectations, the economy, while still strong, is not showing any signs of improvement: in fact, in June, business activity posted a further weakening over the previous month, with the Purchasing Managers' Index (PMI) falling to a low for the last nine months. This is the consequence of a weakening in domestic demand and the deterioration in global demand. In the second quarter of the year, fears of a possible credit crunch have spread, following the introduction of restrictive measures by the Bank of China and the central government in Beijing to put a brake on the housing bubble and on the abundant liquidity that is in circulation.

In the **Eurozone**, estimates of **GDP** in the second quarter of the year indicate that a slight recovery is in place, with an increase of 0.3% (–0.2% in the first quarter of 2013 - Source: Eurostat), driven by Germany (+0.7%), the UK (+0.6%) and France (+0.5%). The country that suffered the worst decline among member nations was Cyprus (–1.4%). In July 2013, the IMF downgraded its GDP forecasts for the current year from +0.1% to -0.6%.
Industrial production in June increased by 0.7% compared with the previous month and by 0.3% over the same month in 2012. The most significant increases involved Ireland (+8.7%), Romania (+5.7%), Poland (+3.1%), Germany and Greece (both +2.5%), whereas the Netherlands posted the largest fall (–4.1%).
At the meeting on 2 May 2013, the European Central Bank cut its **main interest rate** to 0.50% from 0.75%, reaching a new all-time low.
In June 2013, the **unemployment rate** stood at 12.1%, up on December 2012 (11.8%) and on same period last year (11.4% – Source: Eurostat). The rate is still very high in Spain, which at 26.3% remains the country with the highest unemployment in the Eurozone, but there were modest signs of a trend reversal in April and May.
According to Eurostat's latest estimates, the annual rate of **inflation** at the end of June is expected to be 1.6%, lower than the figure in December 2012 (2.2%) as well as the same month last year (2.4%). The sectors that turned in the highest increases were food, alcohol and tobacco (3.2%), energy (1.6%) and services (1.4%).

The Italian economy

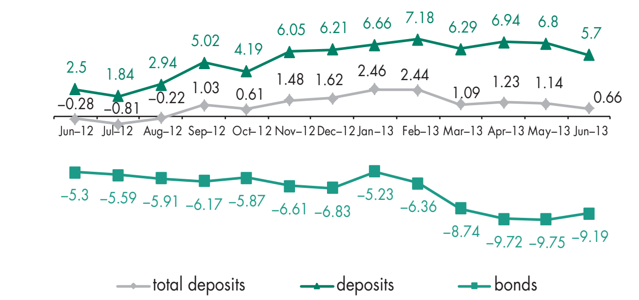
In **Italy**, according to ISTAT's latest estimates, GDP (corrected for calendar effects and seasonally adjusted) fell during the second quarter of the year by 0.2% from the previous quarter and by 2% compared with the second quarter of 2012. Confindustria's estimates for the end of the year indicate that GDP is expected to decline by 1.9%. The fall in domestic demand this year will come to 3.5%, household consumption will decline by 3%, while the prospects for the labour market remains negative (source: Confindustria).
The latest figures released by ISTAT for **industrial production** indicate that the seasonally adjusted index increased in June by 0.3% compared with May, whereas average industrial output for the April–June quarter suffered a decline of 0.9% compared with the previous quarter. On a trend basis, the index corrected for calendar effects fell in June by 2.1%, while the average for the first six months of the year decreased by 4% compared with the same period last year. There are negative trend changes in almost all sectors, with more pronounced falls in energy (–7.1%) and consumer goods (–3.3%), while the decline in intermediate goods is lower (–0.5%). On the other hand, there is growth in basic pharmaceutical goods and pharmaceutical preparations (+2.8%) and in the manufacture of transport equipment (+2.2).
According to the figures released by ISTAT, **consumer confidence** rose in June to 95.7, from 86.4 in May. Opinions and expectations regarding Italy's economic situation and inflation outlook have improved. On a regional basis, ISTAT notes that the improvement in confidence has spread throughout the country.
As regards **foreign trade**, according to ISTAT, June saw a decrease in both exports (–2.7%) and, to a greater extent, imports (–5.6%), compared with the same period of 2012. The decline in imports on a trend basis was caused, in particular, by a marked decrease in purchases of natural gas and crude oil from OPEC countries, of computers, electronic and optical equipment and means of transport (except motor vehicles) from China and motor vehicles from Germany, while the decline in exports is due to the high drop in sales of basic metals and metal products to Switzerland, Germany and the United States, of refined petroleum products to the United States and of means of transport (except motor vehicles) to OPEC countries. In the second quarter of the year, exports were slightly higher than the previous quarter (+0.4%), whereas imports fell (–2.1%). The quarterly trend in exports mainly reflects the increase of trade to countries outside the EU (+0.6%) while, in the same period, imports showed a decrease that was again attributable almost entirely to the non-EU Area (-3.4%). For the half-year, there has been a slight decline in exports (-0.4%), while imports turned in a marked decrease (–7%). In the first half of 2013, the trade surplus amounted to 12.3 billion euro (+3.6 billion in June only), a significant improvement on the same period last year (-0.6 billion). The surplus net of energy goods was 39.7 billion euro. Compared with the first half of 2012, the countries that had the highest growth in exports from Italy were the Mercosur countries (approx. +18%), Japan and Belgium (both +15%), Russia (+11%) and China (+8%), whereas the most significant increases in imports were from Russia (+18%), Belgium (+6%) and Austria (+2%). In June, the **consumer price index** for the entire country (NIC) was up by 0.3% on the previous month and by 1.2% on June 2012 (source: ISTAT). The highest headline increases in June were in education (+2.9%) and housing, water & electricity and fuel (+1.8%), whereas communications came in lower (–4.2%). Over the longer term, the largest price rises were in food products & soft drinks and transport (+0.6% for both), while communications again came in lower (–1%). The **Government's financing requirement** in the first six months of the year was approximately 17.2 billion (down from 29.9 billion in June 2012). The improvement, according to the figures issued the Economy and Finance Ministry, is the result of a reduction in central government spending and an increase in tax revenues.
Unemployment came to 12.1% in June, up from 11.2% in December and 1.2 percentage points higher over the last twelve months (source: ISTAT).

The banking industry

According to the figures released by ABI, the Italian Banking Association, in June 2013, total borrowing by Italian banks, represented by **deposits of resident customers** (current account deposits, time deposits, deposits repayable with notice and repurchase agreements) **excluding transactions with central counterparties and factoring transactions** and **bonds, net of repurchases by banks**, stood at Euro 1,735 billion, an increase on a trend basis of 0.66%, equal to a rise in the stock of deposits of more than Euro 11 billion, whereas compared with December the aggregate decreased by 1.5%, a fall in absolute terms of Euro 26 billion. This trend reflects a 5.7% increase in deposits, while bonds (recorded at nominal value, inclusive of subordinated liabilities and excluding those repurchased by banks) have fallen by 9.2%.

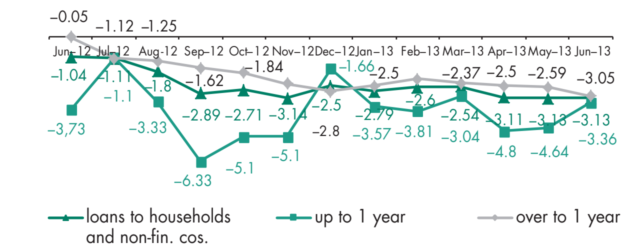
There has been a downward trend in bank loans to the private segment at the end of the first half of 2013; in June, **loans to households and non-financial companies** amounted to Euro 1,451 billion, representing a decrease of 3.1% compared with the same month in 2012, whereas, compared with December 2012, they fell by around 1.6%. Breaking this down by maturity, the short-term component (up to 1 year) had the largest downturn on a trend basis of 3.4%, while the long-term segment fell by 3%.

Italian banks: changes in funding



Source: ABI Monthly Outlook – July 2013

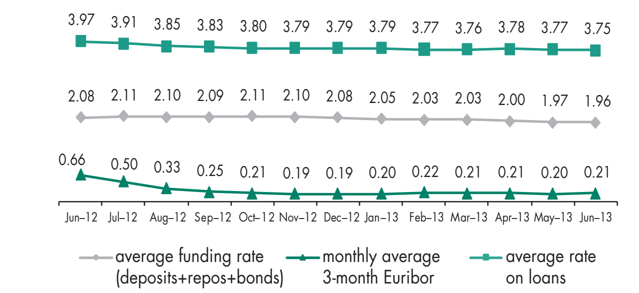
Italian banks: changes in lending



Source: ABI Monthly Outlook – July 2013

Gross non-performing loans in June 2013 reached Euro 138 billion, up by Euro 25 billion on the same period last year (+22%), while **non-performing loans net of writedowns** amounted to Euro 71 billion (Euro 16 billion higher than in June 2012), which brings the **ratio of net non-performing loans to total loans** in June to 3.75%, compared with 2.83% in June 2012.

Interest rates compared with 3-month Euribor – monthly averages



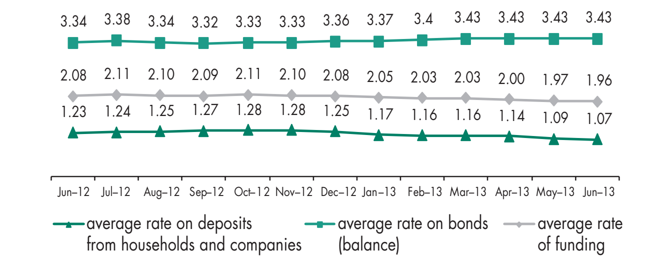
Source: ABI Monthly Outlook – July 2013

As regards interest rates, 3-month **Euribor** , which hit a low at the start of the year (0.19%), turned in an average for June of 0.21%, down by 45 basis points compared with the average for the same period last year, but up by 2 basis points compared with the average for December (0.19%).

Average rates on deposits and on loans fell slightly in June 2013 compared with 2012.

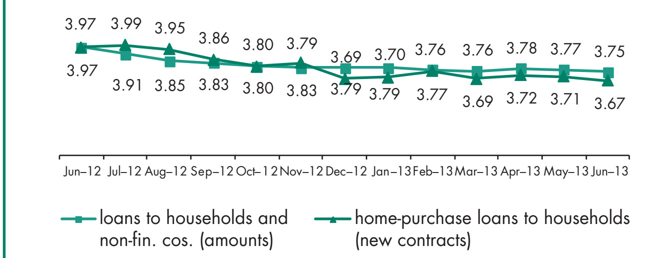
In detail, the **average interest rate on borrowings in Euros** applied to households and non-financial companies (on deposits, repos and bonds) in June came to 1.96% (2.08% in December and June 2012), while the **weighted average rate on total loans** to households and non-financial companies came to 3.75% (compared with 3.79% in December and 3.97% in June 2012). The **spread** between the average rate on loans and the average rate on borrowings from households and non-financial companies came to 179 basis points in June 2013 (189 basis points in June 2012 and 171 basis points in December 2012).

Italian banks: interest rate on funding



Source: ABI Monthly Outlook – July 2013

Italian banks: interest rates on loans



Source: ABI Monthly Outlook – July 2013

As regards the **securities portfolio**, ABI reports that in June 2013 the aggregate came to Euro 868 billion, up by 7% compared with 807.1 billion in June 2012.

Financial and foreign exchange markets

After an initial period of stability helped by the agreement on the Cyprus debt crisis (which included, among other things, the introduction of taxes on deposits exceeding Euro 100,000 at the country's two main banks), from mid-May, stock markets became more volatile and tensions rose on the sovereign debt of the EU's peripheral nations. Indeed, fears grew at the beginning of June about the doubts raised by the German Constitutional Court about the constitutional legitimacy of the OMT Programme (Outright Monetary Transactions, which is the programme introduced in September 2012 that allows the ECB to purchase unlimited volumes of government securities of countries that apply for assistance from the European Financial Stability Facility (EFSF) in exchange for commitments to implement appropriate reforms to public finances). Then, towards the end of the half-year, a further period of global financial turbulence erupted following the statements of the President of the Federal Reserve, who said he wanted to start reducing monetary stimuli in support of the U.S. economy. Since the Plan had previously been defined as unlimited, the announcement opened up the possibility of a monetary tightening by the United States' central bank.

In Italy the **10-year BTP/Bund spread**, which closed 2012 at 320 points, fell from the beginning of the year to reach a low of 246 points in late January, but together with the results of the parliamentary elections of 24 and 25 February, which rekindled fears about parliament not being able to form a viable government, started rising again to 346 points in late March. Subsequently, the spread fell back to pre-election levels, but then started climbing again in June to 308 points, closing the first half at 281 points.

In the first half of 2013 the Italian stock market index **(FTSE MIB)** fell by 6.4%, while the indices of the other main European stock markets were up: the London Stock Exchange **(FTSE 100)** by 5.4%, the French index **(CAC 40)** by 2.7% and the German index **(DAX 30)** by 4.6%.

The European banking sector index **(Euro Stoxx Banks)** fell in the first half by 9.8%, as did the **FTSE Italy All Share Banks** index which fell by 9.4%.

The European Central Bank decided at its May meeting to cut its main **refinancing rate** from 0.75% to 0.50% because of the difficulties that the Eurozone is having to face in pulling itself out of recession.

The **Euro**, which opened the year at 1.33 to the **dollar**, hit a high for the period (1.36) at the beginning of February 2013, whereas the low (1.28) was reached on 27 March, due to fears about the Italian political situation and rumours of possible confiscations of deposits over 100 thousand euro at Cypriot banks. The average exchange rate during the first six months of the year was 1.31.

With reference to the **yen**, in the first half of the year the rate was influenced by the exchange rate policy implemented by the government to devalue the Japanese currency, boosting the economy. The exchange rate against the euro fluctuated from a low of 113.93 at the start of the year, to a high of 133.26 in late May, ending the first half at 129. The average euro/yen exchange rate during the half-year was 125.

Asset management

The assets under management by **open-ended Italian and foreign mutual funds** in June came to 517 billion euro, up by 6% with respect to the end of 2012 (+29 billion euro). Net flows since the beginning of the year were positive for 31 billion euro (source: Assogestioni).

Within this aggregate, in June the Italian funds (some 30.4% of the total) recorded an increase in assets under management of 5% compared with the end of 2012 and net inflows of Euro 6.7 billion since the beginning of the year. Foreign funds (69.6% of the total) are up by 6% since the end of 2012, an increase of 24.3 billion euro to date.

A breakdown of open-ended mutual funds by type of investment shows a predominance of **bond funds** (51%), followed by equity funds (20%) and by **flexible funds** (16%), while the portion of balanced funds was 5.7%, that of **monetary funds** 5.5%. Lastly, **hedge funds** represent 1.3% of the total, unclassified funds 0.8%.

As regards **retail portfolio management schemes** , in June 2012 assets under management came to 93.5 billion euro compared with 92.9 billion euro in December 2012 (+0.6%).

Significant events for Banca Popolare di Milano and the BPM Group

The main events that took place in the first half of 2013 are reported below.

Plan to transform Banca Popolare di Milano into a joint-stock company and increase in capital

At the meetings held on **12 February, 19 March** and **25 March 2013**, the Management Board of Banca Popolare di Milano decided to give the go-ahead to the analyses and studies needed to establish the operational aspects of a project that would allow the Bank to complete its process of change by being transformed into a joint-stock company that would conserve the principles of the cooperative and mutual model, the terms of which were disclosed to the market by means of a specific press release.
Subsequently, on **10 May 2013**, the Management Board decided not to submit the plan to transform the Bank into a joint-stock company for the approval of the Extraordinary Meeting of Members already convened for 22 June 2013. The Management Board is still convinced that achieving a model of stable and transparent governance is an element of strategic importance. However, it has decided to give priority to increase in capital, which will be used to repay the Tremonti bonds, as detailed below.

At the meeting on **19 March 2013**, BPM's Management Board also decided to submit a proposal to the Extraordinary Meeting of Members of the Bank to approve an increase in capital of up to Euro 500 million, including any share premium, by issuing ordinary shares against payment to be offered to those eligible. The increase in capital is in order to redeem the financial instruments issued by the Bank under Legislative Decree no. 185/08, subscribed by the Ministry of Economy and Finance in December 2009 ("Tremonti bonds"), the aim being to relaunch BPM on a definitive basis.
The Extraordinary General Meeting of **22 June 2013** then approved - subject to the Bank of Italy's authorisation - the proposed increase in capital against payment of up to Euro 500 million (including any share premium) to be carried out by 30 April 2014, by issuing ordinary shares with no par value, with regular dividend and voting rights, to be offered under option to shareholders of the Bank in accordance with the first, second and third paragraphs of art. 2441 of the Civil Code.
The issue price of the newly issued ordinary shares and, consequently, the maximum number of ordinary shares to be issued and the allocation ratio will be determined, in accordance with normal market practice, by the Management Board closer to the time of the rights issue.
Barclays Bank PLC, Deutsche Bank AG, London Branch, J.P. Morgan Securities plc and Mediobanca - Banca di Credito Finanziario S.p.A. entered into a pre-underwriting agreement with the Bank, under which they have committed, as joint bookrunners, to guarantee – in accordance with the usual terms and conditions for this type of transaction – to subscribe for any shares offered as part of the rights issue but not taken up by shareholders, up to a maximum of Euro 500 million; the pre-underwriting agreement expires on 31 October 2013.

Simplification of the BPM Group's structure

As laid down by the guidelines of the 2012–15 Business Plan, there is an ongoing process for the simplification of the corporate structure of the Group focused on the core domestic business. With respect to the foregoing, the following changes have been made to the Group structure:

- cancellation of **BPM Fund Management** from the Dublin Companies Register on 19 January 2013. The company was put into voluntary liquidation in December 2011 and the liquidation procedure was completed on 28 September 2012. Furthermore, on 18 October 2012 we initiated the voluntary winding-up of **BPM Ireland**, which will presumably be completed by the end of the current year;
- absorption of **Akros Alternative Investments** Banca Akros, for which the merger deed was drawn up on 17 April 2013, with effect from 1 May 2013 and effective for accounting and tax purposes from 1 January 2013. The reasoning behind this operation was the liquidation of all the funds managed by Akros Alternative Investments (an asset management company held 100% by Banca Akros), as well as the fact that it is not envisaged that any new funds will be set up, nor that the company will manage mutual funds in the future.

Furthermore, as part of the simplification process, particular importance is attributed to the merger of **Banca di Legnano** with Banca Popolare di Milano, which has already been authorised by the Bank of Italy. The merger deed was signed on 22 July, with effect from 14 September 2013, and from 1 January 2013 for accounting and tax purposes. The merger was approved by the Extraordinary Shareholders' Meetings of Banca di Legnano and Banca Popolare di Milano on 21 and 22 June 2013 respectively, by approving the draft plan on the basis of an exchange ratio of 2.07 BPM ordinary shares for each BDL share.
Following the exercise of its right of withdrawal by Fondazione Cassa di Risparmio di Alessandria – the only other BDL shareholder other than Banca Popolare di Milano, with 2.2% of the share capital – in execution of the purchase commitment laid down in the merger plan, on 22 July 2013 BPM bought the 11,703,257 shares held by BDL involved in the withdrawal for a total of Euro 23,991,676.85 (i.e. at a price of Euro 2.05 per share). The merger will not therefore result in any exchange of shares or increase in the share capital of BPM.

Refund of the Tremonti bonds

On **26 June 2013**, the Bank of Italy authorised Banca Popolare di Milano to fully redeem the financial instruments as per Legislative Decree 185/08, converted with amendments into Law 2/09, issued by BPM for a total nominal amount of Euro 500 million and subscribed on 4 December 2009 by the Ministry of Economy and Finance ("Tremonti bonds"). The Bank then proceeded to refund these instruments on 28 June 2013.

Joint mediation procedure for the "Convertendo BPM 2009/2013 6.75%" bond loan

As mentioned in last year's financial statements, on **3 August 2012**, BPM, Adiconsum, Adoc and Federconsumatori signed a Memorandum of Understanding (which is available on BPM's website) to commence a joint mediation procedure for the "Convertendo BPM 2009/2013 – 6.75%" bond loan.
The following consumer associations registered with the National Council of Consumers and Users later adhered to the Memorandum of Understanding, which sets out the terms and conditions of membership of the procedure, agreeing with its contents: ACU, Adusbef, Altroconsumo, Assoutenti, Casa del Consumatore, Cittadinanzattiva, Confconsumatori and Movimento Consumatori. The memorandum lays down that the mediation procedure is free for customers and envisages that it can be adhered to by:

- individuals who during the period from 7 September 2009 to 30 December 2009 subscribed Convertendo bonds at a branch of the commercial banks of the BPM Group (i.e. in addition to the Parent Company, Banca di Legnano – along with CR Alessandria which is currently being merged – and Banca Popolare di Mantova);
- individuals who during the period from 15 June 2009 and 16 July 2009 bought option rights for the Convertendo bonds at a branch of the said banks of the BPM Group.

The approved Memorandum states that, in any case, the procedure excludes institutional investors and those who, being already shareholders of BPM, exercised their option rights in respect of the Convertendo bonds in the period from 15 June 2009 to 3 July 2009 or who also purchased, at any time, additional stock options to supplement those assigned to them, as well as customers who subscribed for Convertendo bonds independently through the Internet. The original term of access to the conciliation procedure was set at 30 April 2013.
However, due to the increasing number of requests received and the positive feedback from its customers about the joint mediation procedure, the deadline for submission of applications for admission has been **extended to 31 December 2013**. This extension, which was decided by BPM after consultation with the Consumer Associations that signed the Memorandum of 3 August 2012, is designed to allow access to the mediation procedure also to those who were unable to submit their application by 30 April 2013, the deadline originally set, even if they were interested in taking advantage of this opportunity.
The conditions and characteristics of the mediation procedure, which is free for customers, remain as they were.

In addition, to cope with the payments expected to be made under this procedure, BPM had included a specific provision in the financial statements at 31 December 2011 of Euro 40 million, subsequently increased in 2012 to a total of 47.4 million euro at Group level (of which Euro 45 million for Banca Popolare di Milano), in order to take better account of the findings resulting from the documentation gathered and the commitments assumed having signed the Memorandum of Understanding in August 2012, including the commitments taken on by Banca di Legnano and Banca Popolare di Mantova. As of 30 June 2013, taking into account any payments already made in favour of those entitled to them, the provision amounts to Euro 42.5 million.

Other significant events

Set out below are other events that occurred in the first half of 2013:

- With a view to the maturity – in April 2013 - of bonds amounting to Euro 1.25 billion issued under the EMTN programme, on 16 January 2013 Banca Popolare di Milano undertook a placement of a three year Unsecured Senior Bond with a nominal value of Euro 750 million and a fixed rate coupon of 4%, reserved for institutional investors. The yield is +360 bps over the 3-year midswap rate. The placement – which marks BPM's return to the institutional market after its last issue in April 2011 – was handled by Banca Akros, JP Morgan, Société Générale CIB and UBS. Orders of more than Euro 1.6 billion were received, which is over twice the issue value, equally split between Italian and foreign investors;

- On 19 March the Management Board of Banca Popolare di Milano decided, with regard to the "8.393% Noncumulative Perpetual Trust Preferred Securities" (the "Trust Preferred Securities") issued by BPM Capital Trust I representing a corresponding amount of "8.393% Noncumulative Perpetual Company Preferred Securities" (the "Company Preferred Securities") of BPM Capital I LLC guaranteed on a subordinated basis by Banca Popolare di Milano, not to pay the quarterly coupon on the Company Preferred Securities on the envisaged payment date of 2 April 2013. Consequently, on that date, neither was any interest paid on the Trust Preferred Securities, which were placed at the time with institutional investors. This optional suspension of interest payments, which is permitted by the regulations governing these securities, has been approved in accordance with the decisions taken previously to suspend payment of the annual coupons for Tier 1 securities, since the financial statements of the BPM at 31 December 2011 closed with a loss of Euro 505 million and no dividend was paid on the ordinary shares of BPM during the 12 months preceding the respective payment dates of the coupons.
  Similarly, on 4 June 2013, the Management Board of Banca Popolare di Milano decided not to proceed with the payment of the annual coupons of the "9% Perpetual Subordinated Fixed/Floating Rate Notes" (the "Perpetual Subordinated Notes") issued by the Bank and of the quarterly coupons of the "Company Preferred Securities" with reference to their payment dates, namely 25 June 2013 and 2 July 2013, respectively. Consequently, on 2 July 2013, interest was not paid on the Trust Preferred Securities either. These instruments, together with the Perpetual Subordinated Notes, were placed at the time with institutional investors.
  This optional suspension of the payment of interest is permitted by the regulations governing these securities, as the financial statements of BPM at 31 December 2012 closed with a loss of Euro 474 million and no dividend has been (or will be) declared or paid on the ordinary shares of BPM during the 12 months preceding the payment dates, nor are there, to date, any of the circumstances that would require the issuer to pay the remuneration on these securities;

- On 4 February the director Carlo Dell'Aringa resigned, with immediate effect, from his position as member of the Bank's Supervisory Board for reasons linked to his political commitments;

- In April, the directors Giovanni Bianchini, Filippo Annunziata (Chairman of the Supervisory Board), Federico Fornaro, Cesare Piovene Porto Godi and Anna Maria Pontiggia also resigned from their positions on the Supervisory Board of Banca Popolare di Milano. The reasons for these resignations were promptly announced to the market by means of press releases dated 18, 22 and 23 April, respectively;

- On 27 April 2013 the General Meeting of Members, having acknowledged the loss of Euro 429.7 million reported by the consolidated financial statements of the BPM Group for the year ended 31 December 2012 and the loss of Euro 474 million reported by the financial statements of the Parent Company for the year ended 31 December 2012 – in accordance with the terms already approved by the Supervisory Board at the meeting held on 4 April 2013 – approved the proposed coverage of the above mentioned loss for the year of BPM (of Euro 466.7 million taking account of an amount of Euro 7.2 million of the "Restricted reserve as per art. 6 of Legislative Decree 38/2005" that had been rendered unrestricted), by means of the utilisation of Euro 166.9 million of the "Share premium reserve" and Euro 299.8 million of the "Statutory reserve".
  Furthermore, after having approved the remuneration policies, to the extent of their powers under the law and the articles of association, the General Meeting of Members, as already mentioned above, also appointed, pursuant to art. 48 of the Articles of Association, Luca Raffaello Perfetti to the Supervisory Board to replace Carlo Dell'Aringa and, pursuant to art. 56 of the Articles of Association, Guido Mina to the Arbitration Committee as an acting arbitrator.
  With reference to item 5 on the agenda, the Meeting approved the amendments to arts. 10, 21 and 27 of the Regulations for General Meetings proposed by the Management Board, but did not approve the proposed amendment of art. 2 of the said Regulations regarding the possibility of voting electronically from remote locations;

- Following the resignation of Federico Fornaro, communicated to the market on 23 April, the Supervisory Board co-opted Carlo Frascarolo as a member of the Bank's Supervisory Board on 21 May, pursuant to art. 63, para. 3, of the Articles of Association, having consulted the Nominations Committee with regard to the required skills, and taking into account the indication made by Fondazione Cassa di Risparmio di Alessandria;

- The General Meeting of Members on 22 June 2013, which in the extraordinary part approved the proposed increase in capital, in the ordinary part took steps to integrate the Supervisory Board by appointing as directors Giovanni Maria Flick, Roberto Fusilli, Flavia Daunia Minutillo and Giacinto Sarubbi. In addition, as proposed by the Supervisory Board – to meet the commitments taken on with Fondazione Cassa di Risparmio di Alessandria – it confirmed Carlo Frascarolo as a member of the Supervisory Board in accordance with art. 63, paragraph 3 of the Articles of Association. These directors will end their period of office, together with the other members of the Supervisory Board, at the General Meeting of Members that will be held in the spring of 2014 in accordance with articles 2364-bis, paragraph 2, and 2364, paragraph 2, of the Civil Code.
  The General Meeting of Members also appointed Giuseppe Coppini as Chairman of the Supervisory Board. Lastly, in the ordinary part of the General Meeting, the Members integrated the Arbitration Committee by appointing Emilio Luigi Cherubini as an Alternate Arbitrator, whose term of office will expire on the same date as the current arbitrators, i.e. on approval of the financial statements for the year ending 31 December 2014;

- On 28 June, Giovanni Maria Flick resigned as a member of the Supervisory Board of Banca Popolare di Milano with immediate effect. The reasons for his resignation were duly communicated to the market with a press release on the same date.

Subsequent events after 30 June 2013

The events that took place after the end of the first half of 2013 are as follows:

- On **23 July**, following the required verifications of integrity, professionalism and independence, and after hearing the opinion of the Nominations Committee, the Supervisory Board declared pursuant to Article 47, paragraph 14, of the Articles of Association, that Giacinto Sarubbi was no longer a member of the Supervisory Board with immediate effect as his professional profile did not satisfy the specific requirements for the position as laid down in article 47, paragraph 5, point (i), of the Bank's Articles of Association, which are more stringent than those generally required by the applicable regulations;

- On **25 July** 2013, the Management Board, with participation extended to the members of the Supervisory Board, received the observations and assessments of the Bank of Italy following its inspection of the Bank that lasted from October 2012 to May 2013. In its inspection report, which closed with an overall opinion that was "partially unfavourable", the Supervisory Authority noted, among other things, that the Bank had embarked on a positive renewal project that has to be continued and brought to fruition as soon as possible in order to achieve a model of stable and transparent governance.
  The Management Board and the Supervisory Board then reviewed the findings of the Bank of Italy at meetings held respectively on 30 and 31 July 2013. They asked the Bank of Italy for an extension of the deadline for submission of responses to these findings and a new deadline was set: 23 September 2013.

Main initiatives in the first half of 2013

2012–15 Business Plan

As is generally known, in 2012 the Management Board of Banca Popolare di Milano reviewed and approved the Business Plan of the BPM Group for the next three years (2012-15). The main aim is to raise efficiency significantly and to strengthen BPM's role as a local bank that is close to households and small and medium-sized enterprises (SMEs). The plan is based on three guidelines:

- **a new way of working: simplicity, efficiency and meritocracy;**
- **technological and organizational innovation to become once again the "bank of reference" for "our" customers in "our" territories;**
- **a strong focus on risk, capital and liquidity for sustainable growth in the long term.**

These guidelines were then applied to **10 types of managerial action**, split into 30 projects, which are currently being implemented. At the end of June 2013, around 90% of these projects have been commenced and some have already been completed.

The main project milestones, grouped by area of intervention, are summarised below:

Simplification, efficiency and meritocracy:

- **simplify the corporate structure:** creation of a single bank through business combinations, pooling the product companies' specialist skills and strengthening governance of the Group with functional reports to the Parent Company. The first half of 2013 saw the start of various activities that will lead to the absorption of Banca di Legnano by Banca Popolare di Milano and the centralisation of ProFamily's functions. The integration process should be completed by the end of the first half of 2014. A new Group brand was established and a new institutional website (www.gruppobpm.it) released in the first half of 2013 to promote the Group's new image;
- **organisational simplification** of the Parent Company's head office and network structures, by reducing the number of intermediate hierarchical levels and laying down clearer functional responsibilities. Under this plan, the organisational structures of the head office have already been reduced in first half of the current year (150 at June 2013 compared with the initial total of 374, –60%), as have the hierarchical levels of the network (from 5 to 3, –40%), with the introduction of a new organisation chart;
- **rigorous control of costs**, by reducing the number of staff and payroll expenses, as well as administrative expenses. It is worth reiterating that a Framework Agreement was signed in December 2012, which provides for redundancy incentives for those who already qualify for or who will qualify for a pension and/or the conditions for accessing the Solidarity Fund for the banking sector (over 700 people), starting from the first quarter of 2013; the process of revising the in-house supplementary contract was initiated at the same time. An intense programme of staff requalification was activated as a result. Lastly, a series of spending review interventions has also been commenced;
- **meritocracy and enhancement of our personnel**, through a process of network and head office staff training, recognition of merit and skills, the promotion of equal opportunities in career paths and the professional development of young people. The development of a new personnel assessment process and bonus system was initiated as part of this effort.

Innovation:

- **radical innovation of the territorial model:** sales and marketing efforts and innovation will start by focusing on the Group's core areas and core customers: medium-to-high net worth individuals, companies and small businesses, through specific commercial policies. The Group's presence in the territory has already been revised at the beginning of 2013, introducing the new "hub and spoke" network model, with the creation of about 100 micro-markets and a spoke/hub ratio of 3.5. This model involved controlled decentralisation of decision-making powers and an integrated multi-channel approach by way of support;
- **technological innovation projects to strengthen the multi-channel approach**, with the creation of a series of innovative projects to define and launch new solutions for Group customers with a view to becoming the top multi-channel bank. The project for launching the new sales platform was initiated during the course of 2013 with activation of graphometric signatures for the signing of contracts;
- **significant growth in core segment profitability**, including companies, by reorganising the territorial model (a new type of customer segmentation has been developed with the identification of 10 homogeneous clusters and the establishment of 18 Corporate Centres divided into 8 geographical areas) and renewing the product range and how it is offered, with the creation of teams of product specialists.

Risk management:

- **monitoring of risk:** will be guaranteed by reallocating portfolios and capital on the basis of sector assessments and risk-return profiles, as well by reviewing the Group's lending policies. In this area, we are also undertaking to strengthen the processes and tools involved in monitoring and managing credit;
- **strengthening capital** paying constant attention to the levels of capitalisation and specific actions such as resolving the issues raised by the Bank of Italy, aimed at achieving the elimination of penalisations in the weighting of assets (add-ons), optimisation of RWA and a transition to internal rating models;
- **strengthening liquidity:** while BPM's liquidity position is already strong, it will be further increased by reducing the loan-to-deposit ratio and optimising the assets that are eligible for ECB purposes.

Main initiatives in the Retail Market Area

In line with the indications of the Business Plan, the commercial model of the BPM Group was involved in a complex and radical review of our physical presence in the territory at the beginning of the year, with the adoption of the **"hub & spoke"** model (for further details, see the section entitled "Distribution network of the Group"). It was also involved in a **new type of segmentation and "portfoliation" of customers**, which aims to make the best use of untapped potential and improve service to customers according to their needs and size, providing for dedicated models for offering products and services and systems for integrating Retail, Private Banking and Corporate customers. The Corporate Banking segment, in particular, has been reinforced and from the beginning of the year it now includes approximately 9,000 companies with a turnover of more than 15 million euro, managed by 81 resources (previously, the threshold was 50 million euro). Retail Banking's commercial chain, on the other hand, focuses on companies with a turnover of less than Euro 15 million.

Various initiatives were also developed during in the first half on behalf of customers (Individuals, Private Banking customers and Small Companies), based on the guidelines contained in the Plan, as detailed below.

Individual customers

During the first half of 2013, numerous initiatives were taken to increase customer profitability, while at the same time improving customer loyalty and satisfaction.
Efforts have been made to support and promote a consultative approach with customers in the Individuals segment through the use of statistical models of propensity, which detect customer needs and differentiate what the Bank can offer by customer segment, based on the peculiarities of each customer.
Both the service model and the tools/actions are based on the profile of the customers. We have split the commercial objectives, initiatives, monitoring and points of presence between the Mass and Affluent customer segments (with deposits below Euro 100 thousand and below Euro 500 thousand, respectively).
Numerous steps have been taken to increase our knowledge and monitoring of these new customer segments: for example, significant initiatives included the creation of new products and services for Active Seniors, Young People and New Italians.
Moving in this direction, the new sales platform – in production from July at the first pilot branches – is able to offer each customer "tailor-made products", based on their profile developed by the Bank of Italy, their purchasing behaviour and their value/age, also thanks to the development of new CRM models of products potentially worth offering to them.

Commercial offering

Product Catalogue
The products and services to be offered to Private Banking customers have been involved in an important process of rationalisation and simplification. This process led to the elimination of around 50 products. Strategies have been implemented to help customers migrate to the new catalogue, adopting the logic of "zero impact", i.e. without changing the pricing and without additional bureaucracy or costs to be borne by the customer.

Current accounts
A new marketing campaign called **"Mix the account"** began on 30 January with a view to acquiring new Private Banking

customers to achieve the 2013 sales objectives. The initiative was supported by a hefty communication plan that involved the main national newspapers, the more significant local press, radio networks and the use of street billboards and banners on websites with a large number of target visitors. The **"Mix the account"** campaign resulted in around 8,000 restricted current accounts being opened with deposits of around 490 million euro and more than 1,000 certificates of deposit for 54 million euro.

Mortgages and loans

Following the new kitchen approach to product communication, campaigns were launched with names like **"Squeeze the mortgage"**, **"Freeze the rate"** and **"Savour the fifth"**. The aim is to attract new customers through an important channel, namely mortgages and personal loans, by offering competitive terms and innovative characteristics.

E-money

During the first half of 2013, we developed a campaign in collaboration with MasterCard, called "Who brings a friend, finds a treasure", specifically for **Cartimpronta** card holders, who were given the opportunity to replace their existing card with the more prestigious Cartimpronta Gold, on the condition that they introduced a new customer for a Cartimpronta or, in the case of non current account holders, a package consisting of a current account plus Cartimpronta. The selection of e-money destined to Affluent and Private Banking customers has been enriched by the introduction of the "CartaSi Black MasterCard", a product dedicated to those who need a reliable and secure payment instrument with distinctive and exclusive characteristics, on sale from July 2013. As regards prepaid cards, in 2013, the CartaJe@ns card again channelled disbursements from the new Cresco Fund for the proper nutrition of new mothers and their children, as was the case for the Nasko Fund (which continues from 2010 with over 20 million euro paid out over three years). BPM has been selected as the sole partner of the Lombardy Region for disbursements from this fund.

Insurance products

In May 2013, a number of BPM branches carried out a pilot test on Bipiemme Assicurazioni's new **motor insurance** offer, which will be on sale throughout the BPM network from October 2013. Through this offer, the customer can buy a policy directly at their BPM branch, pay the premium by charging it to their current account, also on an instalment basis, receive information and, above all, benefit from rapid liquidation in the event of a claim and complete assistance.
With reference to **Class I** and **Class II** insurance policies, in addition to a brilliant performance in terms of production, the first half was characterised by an almost total review of the product range, which had as its main objectives:

- simplification of the range on offer;
- the best possible product specialisation;
- product differentiation for different customer targets.

Product innovation also involved **Class III** policies with the offer of the new Polizza Orizzonte 19, the Unit Linked Protetta policy and the Multiclass segment with the offer of the new BpmVita Multiscelta policy.

Asset management products

With reference to the asset management segment, on 1 January 2013 the review of Anima SGR's range of mutual funds came into effect, with the integration of Sistema Gestioni Attive, Sistema Gestioni Anima and Fondo di Fondi Capitale Più in a single system called **Sistema Anima** made up of 24 products. With this operation, certain funds have been renamed and merged, making it possible to create larger sized products which are more efficient to manage. Furthermore, the four sub-funds offered by the Capitale Più Fund of Funds have been transformed into four Sistema Anima funds, with a consequent change in the benchmarks and minimum subscription amounts, both for capital investment plans and for capital accumulation plans.
In first half of 2013 placement continued of the Traguardo funds (mixed bond fund with maturity), which was well received by customers, and "Personal su Misura", a new line of customised asset management was introduced in the Portfolio Management business. The offer of products with distribution agreements with leading foreign asset management companies continued for Private Banking customers.

BPM4U offer

As part of the offer dedicated to employees of private companies, from early 2013 we enhanced the offer of **"BPM4U"**, supported by a web platform that allows access to specially designed banking services and with facilitated interactivity, as well as the physical presence at the company of a financial advisor who can be available according to the customer's preferences.
This activity takes advantage of the communication methods that are typical of the web (Internet, intranet, newsletter, mailing, etc.) but, above all, it makes full use of the relationship building leverage that is possible through "one to one" or "one to many" meetings at the companies. During the period, 15 important new private firms became customers and the catchment area was expanded to new communities (such as public entities and associations) with a dedicated range of products with fresh graphics and new tools,

methods and contact opportunities. From the start of 2013, BPM4U was transformed from a contact channel that specialised in serving the employees of private companies, into a genuine welfare system perfectly integrated with corporate fringe benefits.

Distribution channels

The BPM Group's principal online channel continues to be **WeBank**, which, thanks to gradual expansion of the online trading service and the offer of mortgage loans, offers a complete product range to the Group's customers. WeBank is ranked as one of the five leading players in online banking, also thanks to constant focus on the quality of service and the development of applications.
The provision of internet banking services is in constant growth, both for customers of BPM Group banks and for direct customers. As regards customers of Group banks, on-line services have now reached a coverage of 43% of the entire Individual customer base (41% at the end of 2012). As regards direct customers, there has been an 11% increase in the customer base compared with June 2012, with 138 thousand customers, despite the complex market scenario, thanks to advertising and co-marketing initiatives and our policy of diversifying the product mix, for which the main targets were savings deposits, trading on-line and mortgage loans. Overall, at 30 June 2013, the BPM Group has 535,467 Individual customers that use its internet banking services.

In accordance with the Business Plan, the Group has started a new positioning strategy on the **BPM** mobile channel, developing a free application for smartphones and tablets called **"BPM Mobile"**. The application presents itself as a shop window and includes a number of useful tools. Indeed, BPM Mobile opens up a new channel of communication with customers to convey interesting news and commercial information, discounts, dedicated competitions and promotions and utility services (direct access to BPM Banking's mobile services; locating the nearest BPM branch or ATM; BPM toll-free numbers and useful numbers to contact in case of need). Two listening channels have also been provided and are much appreciated by customers who use them frequently: the **"Customer Care"** service, which has responded to the need for simple and immediate contacts, and the **"Rate the app"** function, which has made it possible to collect opinions and useful suggestions, leading to a review of BPM Mobile with the development of a new version that was issued in February 2013.
Lastly, of the sales channels most developed by the BPM Group in 2013 to enhance and acquire new customers, there was the expansion of typical B2B activities via BPM4U, the offer of banking services to employees and associates of private firms, public entities and associations. This area includes the management of institutional and commercial events (Stramilano, Harbour Club Swimming Cup, etc.), the development of B2B relationships (for example, with the Fondazione Welfare Ambrosiano for a micro-credit programme to help people in economic and social difficulty, CISL Milano (a trade union) for loans repayable by assigning a fifth of one's pension, etc.), as well as the agreements with associations and sports clubs, including one with AC Milan.

Private Banking customers

Again in 2013, BPM's Private Banking activity featured a constant focus on the customer relationship, despite a scenario characterised by increasing competition and extremely volatile markets for most of the period. BPM's Private Banking structure maintained its geographical coverage by means of 14 private banking branches located in central and northern Italy, the areas traditionally served by the Group. During the course of the half-year, the number of account managers fell by 4, going from 54 at the start of the year to 50 at the end of June. Funds handled fell slightly (–0.8%), but with a 2.2% rise in the "managed" component, which represents 53.6% of total funds. Product diversification commenced during the period with new commercial solutions, including **"Personal Su Misura"**, Anima SGR's new line of tailor-made portfolio management services which allows total personalisation of customers' asset allocation along with their advisors, enhancement of the types of bond funds with maturity proposed by Anima, the development of a multibrand offer thanks to distribution agreements with primary international asset management companies.

Small Business

During the first six months of 2013, the effects of the crisis had a serious impact on small business customer trends, which showed a negative balance of 420 units at 30 June 2013, mainly related to a deterioration in the number of account closures. On the other hand, the acquisition of new customers remained substantially in line with 2012, largely thanks to the **"Welcome Aziende 2013"** product, launched on 1 July 2012, which led to the acquisition of more than 6,000 new customers.

As regards the **granting of loans** to small businesses, there has been a decrease with respect to January–June 2012 of 3.3% in the number of transactions and 12% in the total amount disbursed. Efforts to facilitate access to credit for small firms continued, particularly by:

- launching a new product to enable companies to pay their suppliers earlier than they normally would have (1361 loans granted at 30/06/2013 for a total of Euro 118 million);
- marketing a product to finance the payment of taxes with a discount of 25bps on the normal pricing (556 dossiers at 30/06/2013 for a total of Euro 22 million);
- ensuring renewal by the Ministry of Economic Development, ABI and other industry associations of the agreement signed with the Ministry of Economy and Finance, which expired on 30/06/2013 and was extended to 30/09/2013, to allow the suspension or postponement of loan repayments;
- making ample use of the Guarantee Fund for SMEs, a fund set up under Law 662/96 to provide partial insurance for loans made by banks to small and medium-sized enterprises. At 30 June 2013 there were 183 dossiers for a total of Euro 46 million;
- providing loans for Euro 9 million (97 transactions) to condominiums to finance renovation or improvement of the building's energy rating;
- granting loans under the "Credit Now" agreement signed by the EIB and the Lombardy Region, which provides for the allocation of more than Euro 500 million for specific interventions in favour of Lombardy-based SMEs to help them manage their current financial position, in some cases also with co-financing from the banking system. The beneficiaries are SMEs, including artisans, with operations based in Lombardy for at least two years, in the manufacturing, business services, wholesale trade and construction sectors;
- strengthening the support given companies wanting to access low-interest funds through an agreement with a company that specialises in this sector to guarantee the constant presence of consultants in certain areas of Lombardy;
- in December 2012, signing an innovative agreement at European level with the European Investment Fund (EIF) to help micro-enterprises during their start-up and investment phases, in order to encourage the creation of new companies. These loans are to be funded 50% by BPM and 50% by the EIF and will be operative from October 2013;
- participation in initiatives in Lombardy promoted by the Chambers of Commerce in collaboration with associated Cofidi (loan guarantee consortia); the company benefits from an interest subsidy and, in some cases, waiving of the cost of the Cofidi guarantee.

With regards to the **SEPA project**, work continued on the migration of domestic bank transfers to SEPA transfers and we are preparing for the launch of "SDD – SEPA Direct Debit", the new pan-European collection service, which will replace the RID service from 1 February 2014.

Following the issue of Implementing Decree 55 of April 2013, which says that, within 12 months, Ministries, tax agencies and social security institutions will have to receive and pay invoices in electronic format only, efforts have been intensified with ICBPI, our partner in this project, to offer customers an **"Electronic Invoicing"** service: this is a system that permits easy digital management and filing of all invoices issued and received, in compliance with the legislation on electronic storage.

With respect to the **channels** used by small and medium-sized enterprises, work continued on the migration of customers' normal operations to remote channels. Various initiatives have been implemented in this connection, such as e-mail campaigns for the migration of operations to online channels, direct assistance to businesses to convert paper documents into data flows and static messages on BPM's Business Banking website.

Main initiatives in the Corporate Market Area

In the first half of 2013, in line with the Business Plan and with the aim to develop the value proposition offered to the Corporate segment, we introduced a new commercial segmentation which also involved reorganising the supply chain. As mentioned previously, this segment has in fact been reinforced and from the beginning of the year it includes around 9,000 companies with a turnover of more than 15 million euro, who are followed by 81 account managers. Three customer segments have been identified: Large Corporate (turnover of more than Euro 250 million, Upper Corporate (turnover of between Euro 50 and 250 million) and Middle Corporate (turnover of between Euro 15 and 50 million).
Alongside the eight Corporate Commercial Areas, which are distributed throughout the country, and the Large Corporate Commercial Area, which monitors large customers centrally, a number of technical/commercial product structures have been set up (Structured Finance, International, Special Situations, Value and Derivatives). Their purpose is to provide technical and marketing support to the commercial areas in their respective areas of competence, and to develop ideas and product innovations to be offered to customers with an integrated "account manager + specialist" service model.
A central marketing observatory dedicated to the Corporate world has also been created. Its aim is to develop and launch commercial initiatives for this segment, providing support for the Network with ideas and tools to help them achieve the sales targets assigned to them.
During the first half of 2013, the steps taken to limit exposures to the Large Corporate segment and the property sector continued. At the same time, several initiatives were commenced with a view to increasing the volume of business done with firms that have an adequate credit profile. The overall volume of loans fell by around 2.6%, partly due to the difficult economic situation, though this is in line with the contraction in bank loans at system level during the same period; in addition, revenues continued to hold up reasonably well thanks to careful pricing and specific initiatives to boost service margins.

Treasury & Investment Banking

With reference to the **Parent Company**, the liquidity position remained strong for the entire first half of 2013, while the portfolio of Italian government securities helped to top up the interest margin from commercial banking activities.
Work continued in the field of asset and liability management (ALM) to monitor the interest rate risk of the banking book and for Banca Popolare di Milano to oversee liquidity risk on behalf of all of the Group's commercial banks.
In particular, a better perception of the Italian banking sector by institutional investors made it easier for BPM to issue 750 million euro of senior debt at the beginning of the year. This pre-funding activity, together with the Group's good level of liquidity, was sufficient to cope with the maturity of approximately 1.2 billion euro in April and to maintain a liquidity profile that will continue to be very strong.
The fact that these liquidity conditions persisted in the second quarter of 2013 allowed BPM to repay 500 million euro of Tremonti bonds on 28 June. Lastly, the portfolio of financial assets remained essentially stable compared with the end of 2012, with Italian government securities at Group level unchanged at around 8.5 billion euro.

As regards **Banca Akros**, in the first half of 2013 the management of the company was based on prudence, in accordance with the set limits of risk tolerance, and oriented towards monitoring its main markets, protecting its market share and offering customers products and services in the areas on which the company has chosen to focus: market making and trading, brokerage, corporate finance/capital markets and private banking. In the first six months of the year, Banca Akros has achieved a positive result in terms of profitability, also in relation to efficient use of its regulatory capital, and confirmation of adequate capital ratios and liquidity levels.

Over-the-counter **market making** in government securities and corporate bonds continues to be an important activity, with around 29 billion euro of securities traded, in equity derivatives and treasury instruments; worth mentioning is the Bank's participation as co-dealer and market maker in the placement on the MOT market, in April, of the index-linked BTP-Italy, which had subscriptions of more than 17 billion euro.

As regards its competitive positioning, note that, in the first half of 2013, Banca Akros ranks as one of the leading brokers, in particular in bond markets on the DomesticMOT and EuroMOT segments of the Italian Stock Exchange, on the EuroTLX market and on the Hi-MTF market, as well as on the MTA, the online equities market of the Italian Stock Exchange.

Corporate Centre

The following is a summary of the main initiatives by the Corporate Centre in the field of Information Technology, Organisation, Risk Management, Control and Compliance.

Information Technology

IT activities on behalf of the Group's retail banks in the first half of 2013 were directed towards the following objectives:
- developing solutions in support of the 2012-2015 Business Plan;
- other relevant initiatives and regulations.

IT solutions in support of the Business Plan
The IT activities in support of the BPM Group's **commercial activities**, which have already been explained in the section on the "Retail Market Area", focused on the following initiatives:
- completion of the **"Hub & Spoke"** project at Banca Popolare di Milano and Banca di Legnano to revise the organisational structure of the network with a view to maximising operational efficiency;
- preparation, as part of the **"New Network System"** project, of the first release of the sales platform, which provides for a pilot scheme to start with and the introduction of the graphometric signature;
- continuation, as part of the **"Retail Development and Offer"** project, of bancassurance initiatives aimed at developing new insurance products and the launch of additional phases of the project to support commercial initiatives such as "e-Money", activation of the new "Private Banking" structure and the new "Deposit Account";
- activation of the **"BPM Next"** project to develop a new multi-channel strategy through the "remote" placement of products and services, the creation of a call centre with commercial objectives and the development of the main areas of technological innovation (i.e. mobile apps, social networks, etc.). This is the place to mention the start of the "New Commercial Website" project.

As regards the support provided by the Group's information systems in the fields of **simplification, efficiency and meritocracy**, the projects concerned are:
- continuation of the **"Integration of Banca di Legnano and ProFamily into BPM"** project, with the aim of creating a sole commercial bank to benefit from cost and revenue synergies;
- reorganisation of the head office as part of the **"Simplification of the head office structure"** project according to the **"New organisational model of BPM's central structures"**, designed to increase efficiency and hold down costs by optimising dimensions and reducing the number of hierarchical levels;
- the launch of a number of initiatives as part of the **"Spending Review"** with the objective of better cost control for the BPM Group. This includes the launch of the **"Postage"** project with a view to reducing communication costs for customers by improving the efficiency of the system and optimising the number of mailings by combining the items that have to be sent;
- the **"Technological Infrastructure"** initiative to reduce energy and other types of consumption and improve how the system performs;
- the start of the **"New staff information system"** project, which aims to create a new information system to support the administration, management and development of the Group's human resources;
- support for the **"Innovation"** project, which aims to establish new guidelines for the development of human resources by strengthening the methods used to assess performance and meritocracy, as well as to redesign career paths and ensure that suitable candidates are identified for positions of greater responsibility;
- completion of the **"Unified Help Desk"** project for the creation of a single support structure for the Group (network and central departments) that can provide support in a more effective and efficient manner, focusing on internal users;
- lastly, the start of activities in support of the **"Internal Communication"** project, which features targeted interventions to develop ideas and the means of internal communication within the Group, such as the creation of a new corporate intranet.

The IT activities in connection with **Risk Management** in accordance with the Business Plan involve the following:

- the start of activities in support of the **"Credit Risk Management"** project, which aims to strengthen the monitoring of credit risk by optimising the structures, processes and tools used in this field;
- continuation of the long-term work plan for **IT Security** to guarantee the monitoring of IT risks to improve operational risk and increase the level of protection of corporate assets;
- continuation of the **"Privacy Protection"** project to comply with the rules on the tracing of bank transactions.

Lastly, various activities have been undertaken in connection with **"Management Reporting"** and the **"New TIT system"** as part of the **"Management Reporting and Tools"** project, which aims to adapt the processes and tools of management control to meet the new strategic needs of the Bank.

Organisation

During the first half of 2013, the Parent Company introduced various other organisational changes to improve the effectiveness, operational efficiency and flexibility of the Group's sales and marketing activities. With the new "Hub & Spoke" model mentioned previously, management decided to redesign the role of the branch, replace the 10 Territorial Areas with 6 Territorial Districts (or Hubs) and eliminate the SME Branches and the positions that operated in them.

The following functions were activated during the second quarter in compliance with the 2012-2015 Business Plan:

- **Communication**, to supervise internal communication, corporate identity & communication and events, sponsorships and charity;
- **Investor Relations**, to supervise financial communication to analysts and investors;
- **General Counsel**, to supervise the general secretariat, corporate affairs and legal areas;
- **Organisation**, to supervise the organisational structure and models, processes, legislation, planning and monitoring activities and projects;
- **Human Resources**, to supervise personnel administration, management and development;
- **Market (Chief Commercial Officer)**, to supervise the commercial, channel and product areas;
- **Operations (Chief Operating Officer)**, to supervise purchases, corporate real estate and facility management, Group IT (except for IT Development) and Unified Support, as well as activation of the **Smart Centre Function** (formerly known as the Service Centre);
- **Finance (Chief Financial Officer)**, to supervise the accounting, finance, investments, planning and control areas;
- **Audit**, to supervise the overall system of internal control in close coordination with the Supervisory Board;
- **Loans (Chief Lending Officer)**, only with regard to matters concerning Credit Policies and Reporting, Credit Monitoring, Credit Legal Advice, Protection of Credit and Granting of Loans.

Risk Management

With reference to the **"Risk Control"** function, during the first half of 2013 the usual risk management activity continued, involving a series of control activities for the identification, measurement or assessment, monitoring, prevention or mitigation of risks, as well as communication to corporate bodies. In addition to the usual monitoring and periodic reporting to senior management and corporate bodies, the following main activities were also carried out:

In the **Credit Risk** area:

- the periodic reports have been rendered more efficient, moving from a strictly accounting approach to a more management-oriented point of view, with the aim of producing monthly reports that are able to highlight potential risk factors on a more timely basis;
- the recommendation of the Basel Committee for a "Large Exposures QIS" (i.e. Quantitative Impact Study for the measurement and control of large exposures) has been acted upon;
- an analysis of the issues raised by the Internal Rating System Validation Function has been carried out; these will have to be dealt with over the coming months in light of the launch of the "Basel 2" Business Plan Project;
- analyses have been carried out for the merger of Banca di Legnano with Banca Popolare di Milano with regard to the impact on the internal rating system and data warehouse used for management reporting, as well as for the rating system.

In the **Market & Liquidity Risk** area:

- a periodic report has been prepared for the functions concerned (Corporate and Loans) on the exposure to counterparty risk arising from the Bank's activity in over the counter (OTC) derivatives: this report, produced periodically, provides a market-oriented measure of exposure to the risk of default of the counterparties (corporate and institutional) with which the commercial banks of the BPM Group stipulate derivative contracts;
- new IT solutions for the management of securities have been introduced.

In the **Operational Risk** area:

- constant support has been provided to network and head office structures on the process of recognising operational losses, with ongoing classroom training on the subject of operational risk with particular attention to the process of Loss Data Collection and the tools used in it;
- checks have been performed on the results of the Self Risk Assessment (SRA) carried out during the previous year, and implementation of the 2013 SRA has started. On the basis of previous results, this year's SRA will focus on the risks that were assessed as medium-high to extreme and will focus particularly on Lending and the Governance and Support processes related to it.

During the first half of 2013, the **"Capital Adequacy Models and Data Quality"** function focused, among other things, on the following activities:

- we prepared **2012-2013 Internal Capital Adequacy Process (ICAAP) report**, which, in addition to providing details of the various types of risk and mitigation and monitoring activities implemented, allowed us to determine the overall internal capital necessary to cover all risks and to evaluate the adequacy of available capital resources on the basis of the limits established by the Supervisory Authority and the Bank's risk appetite;
- we calculated our capital requirements on a consolidated and individual level and estimated the effects on capital of extraordinary transactions indicated by the Strategic Plan and those arising from normal application of the Basel 3 rules;
- important activities have been implemented to support the sales network by providing tools to assess as much as possible the creditworthiness of the counterparties to which the Group is exposed;
- support has been provided to the pricing of new loans to allow the account managers to assess the profitability of the proposed transactions on the basis of the customer's rating and the product's characteristics;
- support has been provided to verify correct application of the weightings in the calculation of RWA for subsequent removal of the Bank of Italy's higher weighting requirements ("add-ons") and in the collection and submission of quarterly information required by the EFM to guarantee the commitments assumed by the Bank versus the Tremonti bonds.

Network Controls and Compliance

Network controls

During the first half of 2013, the Internal Audit function continued its usual work focusing on the assessment and mitigation of risks, in order to ensure oversight of the "system of controls". This has been done by means of a work methodology based on risks and processes, allied with best practices for the sector and that complies with the new Control Model adopted by the Bank. With respect thereto, the following were performed for BPM and for the Group companies:

- 44 audits of processes in accordance with the Audit Plan drawn up at the start of the year (of which 37 are ongoing at 30 June);
- 14 extraordinary unplanned audits completed and 4 still in progress.

With regard to audit activities at the Commercial Network of BPM, Banca di Legnano and Banca Popolare di Mantova, 147 interventions have been performed, of which 67% on the Parent Company.

The monitoring of the status of measures taken to address the matters raised by the Supervisory Authority following the inspection carried out in 2010 continued and has been completed.

Lastly, various members of the Audit function provided constant support to the Bank of Italy's inspectors during the inspection that ended in May 2013.

Compliance

During the first half of 2013, in connection with the Compliance function model, all the checks considered necessary were performed, as well the issue of opinions for consultative support to the various organisational functions. More in detail, the most significant regulatory areas were:

- identifying the rules applicable to the Bank and assessing their impact on its processes and procedures;
- performing the evaluations foreseen in the plan to assess the adequacy and effectiveness of the procedures adopted by the Bank in its investment services, implementing instructions from the Bank of Italy and the provisions of Consolidation Banking Act, application of the Organisational Model under Legislative Decree 231/01 and other legislation;
- checks on implementation of corrective measures designed to fill certain gaps that were detected by interacting with the structures responsible for implementing them;
- taking part in regulatory consultations, also through working groups of trade associations (ABI, Assosim, etc.);
- providing assistance to the structures responsible for the development of staff training to raise employees' awareness of non-compliance risk.

Distribution network and human resources

Distribution network

As envisaged in the 2012–15 Business Plan, from the start of 2013, the distribution network of the BPM Group was subject to an organisational review process with the **new segmentation and portfoliation of customers** and the adoption of a new **Hub & Spoke commercial network model**, together with the optimisation and resizing of the network.

In particular, the **new segmentation and portfoliation** of customers, which has been operative as from January 2013, aims to optimise the untapped potential of customers and to improve the service thereto, based on their needs and size and envisages offering models dedicated to systems for integration of Retail, Private banking and Corporate. In particular, the Corporate Banking segment has been strengthened, with greater centralisation and a simplification of the service levels and with the identification of three customer segments: Large Corporate (turnover in excess of Euro 250 million), Upper Corporate (turnover between Euro 50 and 250 million) and Middle Corporate (turnover between Euro 15 and 50 million). Retail Banking's commercial chain is focused on individual and corporate customers with a turnover of less than Euro 15 million. Following the process of revision of segmentation thresholds, BPM's 10 SMEs branches and 5 Large Corporate branches were transformed into Corporate Centres and a further 3 Centres were added. Currently, Corporate Banking comprises 18 Corporate Centres split into 8 Commercial Areas.

The **Hub & Spoke project** envisages a flexible model to monitor and develop the territory, in order to provide a more professional and efficient service to customers, through:

- the identification of approximately 100 micro-markets with the creation of branch clusters consisting of a hub branch and up to a maximum of four spoke branches;
- the identification of six territorial districts that coordinate the branches, with the introduction, for the coverage of a specific micro-market, of multi–branch managers for individuals and businesses;
- the selective closure of branches with negative margins and limited market potential, by means of the amalgamation of 25 branches.

In particular, the new model envisages a controlled decentralisation of decision-making powers in certain areas (pricing and credit) and foresees the presence of multi-branch managers, who are responsible for the achievement of financial targets set for medium/high earning customers assigned to them, with a view to the optimisation of customer service. The new model has led to the redesigning of commercial roles with the following characteristics:

- expansion of the role of the hub branch manager to take on responsibility for the entire micro-market;
- redefinition of the figurehead role in the spoke branches, with the introduction of the position of officer in charge of operations;
- more flexibility and efficiency in the management of mass market customers, with the introduction of a mass market sales team which is assigned a unique customer portfolio;
- gradual convergence of the roles of administrative staff towards more commercial roles, with, as a consequence, additional responsibility for the placement of simple products and services.

At 30 June 2013, BPM Group's distribution network consisted of 742 retail branches (including the two virtual branches of the online bank), of which 92 are hubs; there were also 18 Corporate Banking Centres and 16 Private Banking Centres (of which 14 of Banca Popolare di Milano and 2 of Banca Akros).
Compared with the situation at 31 December 2012, there are 27 fewer retail branches, following the amalgamation of the same number of BPM branches (25 on 18 March and 2 on 3 June), whereas, as a result of the previously mentioned strengthening of the segment, there are 18 Corporate Centres.
ProFamily, the consumer credit company dedicated to families, completed a reorganisation of its branch network at the end of June 2013. This was based on the principles of quality, proximity to the Group's banking network and the potential to develop synergies with the Parent Company. This reorganisation led to the closure of 14 indirect points of sale and 15 agency mandates, bringing its distribution network to 25 branches (including 4 direct branches and 21 financial shops) supported by 23 sole or multi agents.

BPM Group distribution network at 30 June 2013

Distribution network	30.06.2013 A	31.12.2012 B	Change A – B	30.06.2012 C	Change A – C
Total branches	742	769	–27	769	–27
Corporate banking centres [1]	18	15	3	15	3
Private banking centres [2]	16	17	–1	17	–1
Financial shops and direct branches [3]	25	39	–14	40	–15
Total distribution network	**801**	**840**	**–39**	**841**	**–40**

[1] Following the new segmentation and portfoliation, the Corporate Banking Centres have replaced the 10 SME units which catered for companies with revenues of up to Euro 50 million and the 5 Large Corporate branches, which looked after companies with revenues of more than Euro 50 million. The new Corporate Banking Centres handle the following types of customers: Large Corporate (turnover in excess of Euro 250 million), Upper Corporate (turnover between Euro 50 and 250 million) and Middle Corporate (turnover between Euro 15 and 50 million).
[2] The 16 Private Banking Centres, 14 belonging to Banca Popolare di Milano and 2 to Banca Akros, provide customised advisory services on financial matters.
[3] The financial shops and direct branches provide financial advice and loans to households.

Branches of Group banks	30.06.2013		31.12.2012	Change	30.06.2012	Change
	A	%	B	A – B	C	A – C
Banca Popolare di Milano	516	70%	543	–27	544	–28
Banca di Legnano	206	28%	206	0	206	0
Banca Popolare di Mantova	17	2%	17	0	17	0
WeBank [1]	2	0%	2	0	1	1
Banca Akros	1	0%	1	0	1	0
Total branches	**742**	**100%**	**769**	**–27**	**769**	**–27**

[1] Increase in the number of branches to meet organisational and technological needs.

Geographical distribution of branches	30.06.2013		31.12.2012	Change	30.06.2012	Change
	A	%	B	A – B	C	A – C
Lombardia	465	63%	475	–10	475	–10
Piemonte	102	14%	103	–1	103	–1
Lazio	71	10%	80	–9	80	–9
Puglia	40	5%	41	–1	41	–1
Emilia Romagna	31	4%	35	–4	35	–4
Other regions	33	4%	35	–2	35	–2
Total branches	**742**	**100%**	**769**	**–27**	**769**	**–27**

The other distribution channels

With reference to other distribution channels, at 30 June 2013, the network of financial advisors, which is complementary to the traditional network and geared principally to placing asset management and administration products, is made up of 47 sole agents (30 reporting to BPM and 17 to Banca Akros), with a decrease of 19 compared with 30 June 2012.

The branch network, with its strong local roots, is being integrated more and more by the services offered by remote channels such as internet banking and the call centre.

With respect to internet banking, during the first half of 2013, important results were achieved in terms of the distribution and utilisation of services by customers; at 30 June 2013 the BPM Group had 640,970 customers who use the internet banking services, of whom 535,467 individual customers and 105,503 companies.

The number of Group customers that use the online channel rose by 5.5% on the end of June 2012. This means an increase of 30 thousand individual customers and over 2,500 companies versus the previous year; overall, more than 12 million e-banking and e-trading instructions were transmitted through the Group's on-line channel during the first half of 2013.

The telephone banking service of the commercial banks of the Group had around 390 thousand customers at 30 June 2013 (compared with around 360 thousand at the end of June 2012); there is also a multilingual call centre to respond to the needs of foreign customers.

Human resources

Based on the guidelines of the Group's 2012-2015 Business Plan, HR management activities during the first half of 2013 focused on the following aspects:

- introduction and consolidation of the organisational redesign of BPM's Retail commercial network ("Hub & Spoke") and the introduction of the same model for Banca di Legnano as well. At the same time, plans have been drawn up to reallocate those freed up by the reorganisation and rationalisation of Banca di Legnano's retail network;
- activation of the new central structure of Banca Popolare di Milano which will be completed in the second half of 2013;
- formalisation and implementation of the "2013 Bonus System" with the involvement of Group companies with a strong orientation to enhancement of the Group's human resources, essentially on the basis of merit;
- monitoring those who accepted voluntary retirement as a result of activating the Solidarity Fund in accordance with the Framework Agreement of 6 December 2012 and consequent management of turnover;
- centralisation of various operational functions as a result of ProFamily's reorganisation;
- attention to diversity, also by taking part in "Diversitalavoro", which allowed BPM to win the "Diversity&Inclusion Award 2013".

Personnel

At 30 June 2013 Group personnel, including employees, project workers and staff on other types of contracts, amounted to 7,955, a decrease of 357 compared with the end of 2012 and of 509 compared with 30 June 2012.
On 6 December 2012 a framework agreement was entered into that, following the guidelines laid down by the Business Plan, provides for a voluntary retirement plan for those who are already or will be eligible for a pension or who meet the conditions for access to the sector's Solidarity Fund, as from the first quarter of 2013.
The first window in March 2013 resulted in the retirement of 251 employees who, together with a further 53 retirements in June, contributed to the overall reduction of 357 units with 304 units in the first half of the year (259 of which at the Parent Company).
Moreover, note that, within this aggregate, people employed in commercial network functions represent 68.4% of the total; 1,050 persons have a part-time contract (13% of total employees).

Personnel (number)	**30.06.2013**	**31.12.2012**	**Change A – B**		**30.06.2012**	**Change A – C**	
	A	**B**	**amount**	**%**	**C**	**amount**	**%**
a) managers	172	182	–10	–5.5	200	–28	–14.0
b) total officials	2,898	3,074	–176	–5.7	3,130	–232	–7.4
– of which: 3rd and 4th level	*1,531*	*1,644*	*–113*	*–6.9*	*1,684*	*–153*	*–9.1*
c) other employees	4,830	4,970	–140	–2.8	5,025	–195	–3.9
Total employees	**7,900**	**8,226**	**–326**	**–4.0**	**8,355**	**–455**	**–5.4**
Staff with project-related and other types of contract	55	86	–31	–36.0	109	–54	–49.5
Total personnel	**7,955**	**8,312**	**–357**	**–4.3**	**8,464**	**–509**	**–6.0**

Number of employees by company	**30.06.2013 A**	**31.12.2012 B**	**Change A – B**	**30.06.2012 C**	**Change A – C**
Banca Popolare di Milano	5,928	6,187	–259	6,289	–361
Banca di Legnano	1,285	1,332	–47	1,344	–59
Banca Popolare di Mantova	68	71	–3	72	–4
Banca Akros	271	274	–3	278	–7
ProFamily	100	102	–2	103	–3
WeBank	193	203	–10	203	–10
Other companies [1]	55	57	–2	66	–11
Total employees	**7,900**	**8,226**	**–326**	**8,355**	**–455**
Contract staff	55	86	–31	109	–54
Total personnel	**7,955**	**8,312**	**–357**	**8,464**	**–509**
of which total head office personnel	**2,524**	**2,698**	**–174**	**2,741**	**–217**
of which total network personnel	**5,431**	**5,614**	**–183**	**5,723**	**–292**

[1] Since 30 September 2012, BPM Ireland does not have any personnel (–8 units) following the start of the voluntary liquidation procedure

Training, management and development of human resources

An intense programme has been started, as outlined in the Business Plan, to accompany people through:

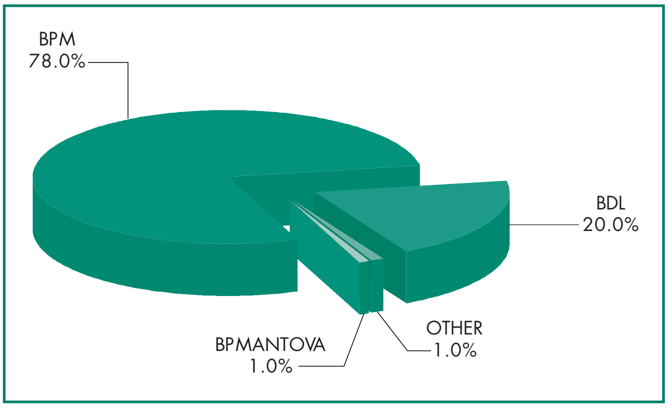
- the promotion of merit, focusing on talent, skills, competencies and motivation;
- the reduction of training and experience gaps, identifying appropriate interventions for training and development for those already in the Bank and for future recruits;
- the implementation of projects for change in the head office and network structures of the BPM Group, supporting the upgrading of resources and the development of new skills;
- the promotion of equal opportunities and the enhancement of female leadership.

The 2013 Training Plan is designed to support the role skills in a logic of investment in people, in particular to:

- support implementation of the Hub & Spoke model, contributing to the qualification of new professionals and the conversion of those coming from different roles;
- enhance the professional and commercial skills of account managers and those who are in contact with customers in order to encourage more advice-oriented activity and quality of service also at the counter;
- develop a greater awareness and ability to govern operational and credit risks;
- reduce training and experience gaps and update technical and product skills;
- bring in a new mindset, new skills and state-of-the-art management tools.

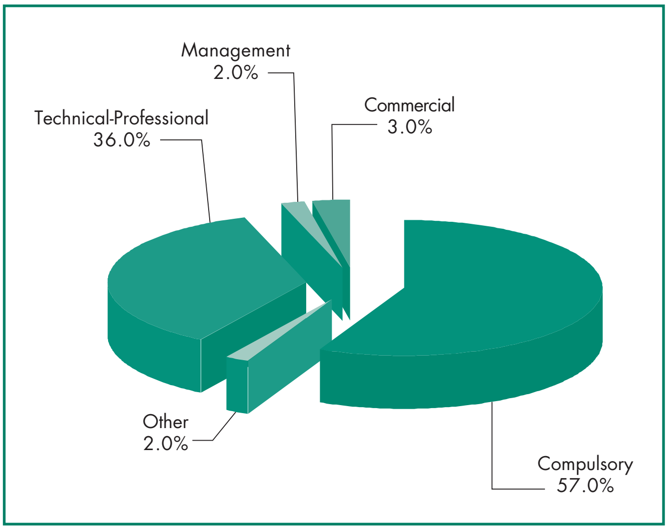
The 2013 Training Plan will be partially funded; "Building a future of value: the skills for change", the plan presented by BPM last April, has in fact been approved by the Banking and Insurance Fund (BIF).

Training: man-days broken down by company



Overall, at Group level, 13,400 days training were provided during the period, 78% of which were dedicated to the training of Parent Company staff, as planned.

Training: man-days by type of training



The breakdown by training area shows the main topics dealt with during the first half of 2013, where 57% was devoted to compulsory training, while 43% was devoted to professional training for role development (started in April 2013) in connection with implementation of the Hub & Spoke model.

A review of the Contribution Management System is currently in progress with a view to improving the performance assessment procedure. The new system, which focuses primarily on the qualitative dimension of individual contributions, will be oriented towards greater clarification of the organisational behaviour expected for each role and will adopt a more structured method of assessment to ensure higher levels of objectivity and differentiation of professional performances.
Evaluation of the quality of the individual's performance will become one of the parameters to reward those who make a significant contribution to the Group's results, with a constant and continuous commitment, effective management of complex issues and efficiency-oriented work methods able to ensure quality output.

The BPM Group's scope of consolidation

Reference should be made to the section on accounting policies for the details of changes in the scope of consolidation. The following tables show the contribution made by each Group company to the formation of total assets and consolidated net income.

Contribution made by each BPM Group company to consolidated total assets

(Euro/000)

Company	% held (*)	Total assets	Eliminations and consolidation adjustments	Contribution to consolidated total assets	% contribution to consolidated total assets
Parent Company:					
Banca Popolare di Milano		**41,640,085**	**–2,836,290**	**38,803,795**	**76.14**
Companies consolidated line-by-line:		**20,405,439**	**–8,242,858**	**12,162,581**	**23.86**
Banca di Legnano	100.00	6,314,437	–423,428	5,891,009	11.56
Banca Akros	96.89	3,440,304	–709,838	2,730,466	5.36
WeBank	100.00	3,484,284	–2,063,011	1,421,273	2.79
ProFamily	100.00	941,532	–29,554	911,978	1.79
Bpm Covered Bond	80.00	4,084,992	–3,523,940	561,052	1.10
Banca Popolare di Mantova	61.86	494,937	–1,436	493,501	0.97
Bpm Securitisation 2	n.a.	1,268,479	–1,123,270	145,209	0.28
Bpm Capital I	100.00	191,048	–183,541	7,507	0.01
Ge.Se.So.	100.00	1,463	–1,142	321	0.00
Bpm Ireland	99.99	262		262	0.00
Bpm Luxembourg	99.97	183,701	–183,698	3	0.00
Total		**62,045,524**	**–11,079,148**	**50,966,376**	**100.00**

(*) Based on equity ratios

Contribution made by the individual Group companies to consolidated net income

(Euro/000)

Company	% held (*)	Net income (loss) as per financial statements	Net income (loss) pertaining to the Group	Consolidation adjustments	Contribution to consolidated net income (loss)	% contribution to consolidated net income (loss)
Parent Company:						
Banca Popolare di Milano		**85,599**	**85,599**	**–5,160**	**80,439**	**76.17%**
Companies consolidated line-by-line:		**25,001**	**24,740**	**428**	**25,168**	**23.83%**
Bpm Capital I	100.00	9,822	9,822		9,822	9.30%
Banca Akros	96.89	7,646	7,408	–52	7,356	6.97%
Banca di Legnano	100.00	5,627	5,627	453	6,080	5.76%
WeBank	100.00	3,881	3,881		3,881	3.67%
Banca Popolare di Mantova	61.86	59	36		36	0.03%
Ge.Se.So.	100.00	21	21		21	0.02%
Bpm Ireland	99.99	–7	–7		–7	–0.01%
Bpm Luxembourg	99.97	–113	–113		–113	–0.11%
ProFamily	100.00	–1,935	–1,935	27	–1,908	–1.81%
Total			**110,339**	**–4,732**	**105,607**	**100%**

(*) Based on equity ratios

Reconciliation of the Parent Company and consolidated net income

(Euro/000)

Net income (loss) of Banca Popolare di Milano	**85,599**
Net income (loss) pertaining to companies consolidated line-by-line	24,740
Net income (loss) pertaining to companies consolidated at equity	11,792
Effect of reversing intraGroup dividends	–6,790
Reversal of the writedowns/revaluations of consolidated investments made in BPM's separate financial statements	–6,137
Other adjustments	–3,597
Net income (loss) of the BPM Group	**105,607**

Principal balance sheet aggregates

Banking intermediation for customers

At 30 June 2012, the direct and indirect **"total deposits"** of the BPM Group amount to 68,231 million euro, stable versus March 2012 (–0.8%) and slightly down by 1.3% compared with the end of 2012.

Total customer deposits

(Euro/000)

	30.06.2013	31.03.2013	Change A – B		31.12.2012	Change A – C		30.06.2012
	A	B	amount	%	C	amount	%	D
Direct deposits	37,847,527	38,372,207	–524,680	–1.4	38,530,860	–683,333	–1.8	37,228,615
Indirect deposits	30,383,034	30,424,137	–41,103	–0.1	30,630,109	–247,075	–0.8	30,488,362
of which:								
Assets under management	*14,296,465*	*14,106,891*	*189,574*	*1.3*	*13,764,015*	*532,450*	*3.9*	*12,987,693*
Assets under administration [1]	*16,086,569*	*16,317,246*	*–230,677*	*–1.4*	*16,866,094*	*–779,525*	*–4.6*	*17,500,669*
Total direct and indirect deposits	**68,230,561**	**68,796,344**	**–565,783**	**–0.8**	**69,160,969**	**–930,408**	**–1.3**	**67,716,977**

Direct deposits

Direct deposits

(Euro/000)

	30.06.2013	31.03.2013	Change A – B		31.12.2012	Change A – C		30.06.2012
	A	B	amount	%	C	amount	%	D
Due to customers	27,073,851	25,932,864	1,140,987	4.4	26,297,613	776,238	3.0	24,329,544
Securities issued	10,182,184	11,635,397	–1,453,213	–12.5	11,223,349	–1,041,165	–9.3	11,847,393
Financial liabilities designated at fair value through profit and loss	591,492	803,946	–212,454	–26.4	1,009,898	–418,406	–41.4	1,051,678
Total direct deposits	**37,847,527**	**38,372,207**	**–524,680**	**–1.4**	**38,530,860**	**–683,333**	**–1.8**	**37,228,615**

Direct deposits: breakdown by company

(Euro/000)

	30.06.2013	31.03.2013	Change A – B		31.12.2012	Change A – C		30.06.2012
	A	B	amount	%	C	amount	%	D
Banca Popolare di Milano	29,566,963	30,201,503	–634,540	–2.1	30,311,123	–744,160	–2.5	28,379,134
Banca di Legnano	5,070,196	5,091,543	–21,347	–0.4	5,227,506	–157,310	–3.0	5,340,988
Banca Akros	776,936	792,271	–15,335	–1.9	673,773	103,163	15.3	1,492,564
Banca Popolare di Mantova	302,810	284,146	18,664	6.6	255,656	47,154	18.4	226,751
WeBank	2,851,965	2,800,459	51,506	1.8	2,722,751	129,214	4.7	2,471,974
Other companies [1]	1,523,701	1,605,128	–81,427	–5.1	1,891,398	–367,697	–19.4	1,944,011
Consolidation eliminations/adjustments	–2,245,044	–2,402,843	157,799	6.6	–2,551,347	306,303	12.0	–2,626,807
Total direct deposits	**37,847,527**	**38,372,207**	**–524,680**	**–1.4**	**38,530,860**	**–683,333**	**–1.8**	**37,228,615**

(1) of which Euro 502 million at 30 June 2013 relates to the debt contracted by "BPM Securitisation 2" with the subscribers of the bonds issued for the securitisation (July 2006) and Euro 671 million refers to the securitisation of mortgage loans in order to issue asset backed securities (ABS) (December 2011).

Direct deposits: description

(Euro/000)

	30.06.2013 A	31.03.2013 B	Change A – B amount	Change A – B %	31.12.2012 C	Change A – C amount	Change A – C %	30.06.2012 D
Current and savings accounts	22,505,933	22,298,946	206,987	0.9	21,886,201	619,732	2.8	22,673,562
Repurchase agreements	4,375,574	3,414,374	961,200	28.2	4,173,536	202,038	4.8	1,296,079
Other types of deposit	192,344	219,544	–27,200	–12.4	237,876	–45,532	–19.1	359,903
Due to customers	**27,073,851**	**25,932,864**	**1,140,987**	**4.4**	**26,297,613**	**776,238**	**3.0**	**24,329,544**
Bonds and structured securities	7,040,759	8,327,570	–1,286,811	–15.5	7,800,340	–759,581	–9.7	8,515,546
Subordinated liabilities	2,053,262	2,085,168	–31,906	–1.5	2,106,211	–52,949	–2.5	2,063,271
Other types of deposit	1,088,163	1,222,659	–134,496	–11.0	1,316,798	–228,635	–17.4	1,268,576
Securities issued	**10,182,184**	**11,635,397**	**–1,453,213**	**–12.5**	**11,223,349**	**–1,041,165**	**–9.3**	**11,847,393**
Financial liabilities designated at fair value through profit and loss	**591,492**	**803,946**	**–212,454**	**–26.4**	**1,009,898**	**–418,406**	**–41.4**	**1,051,678**
Total direct deposits	**37,847,527**	**38,372,207**	**–524,680**	**–1.4**	**38,530,860**	**–683,333**	**–1.8**	**37,228,615**

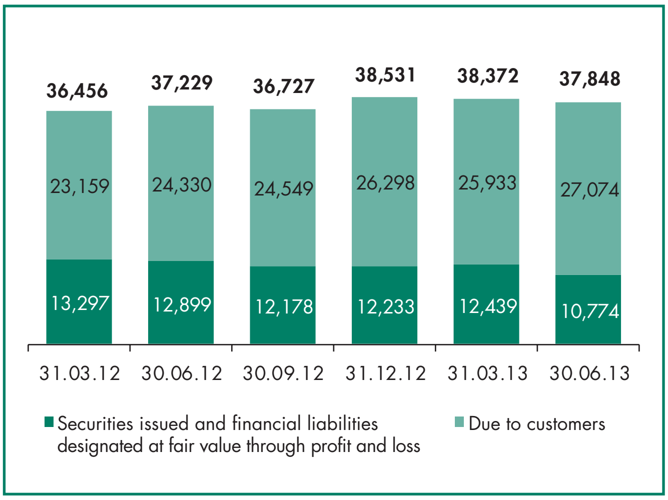
The aggregate **"Direct deposits"** – consisting of amounts due to customers, securities issued and financial liabilities designated at fair value through profit and loss – comes to Euro 37,848 million at 30 June 2013, with a slight decrease of 1.4% with respect to the figure at the end of 2012.

As regards the change with respect to last December, please note the following:

- **amounts due to customers** come to Euro 27,074 million, a rise of 3% (+ Euro 776 million). The increase in current and savings accounts (+Euro 620 million) contributed to this result, due to the growth in demand deposits and restricted deposits. Repurchase agreements also increase (+ Euro 202 million), largely consisting of transactions entered into by BPM on the MTS market with a view to diversifying its sources of funding;
- **securities issued** amount to Euro 10,182 million, a decrease of 9.3% (– Euro 1,041 million). This contraction is attributable for Euro 568 million to deposits from institutional customers and for Euro 472 million to domestic deposits. The contraction in the institutional component is largely attributable to the maturity in the first part of April of debt securities issued under the EMTN programme for a nominal value of Euro 1.25 billion, partially offset by the placement at the beginning of the year of another senior issue for a nominal value of Euro 750 million, also as part of the EMTN programme. As regards retail customer deposits, the reduction of Euro 472 million is due to non–renewal of part of the certificates of deposit and bonds that expired during the half–year;
- **financial liabilities designated at fair value through profit and loss**, represented by bonds placed with retail customers, amount to Euro 591 million, with a sharp decline (–41.4%), again due to repayments not offset by new issues during the period.

The Group's market share of direct deposits (excluding repos with central counterparties) is 1.74% (updated to May 2013), a slight contraction compared with December 2012 (1.77%).

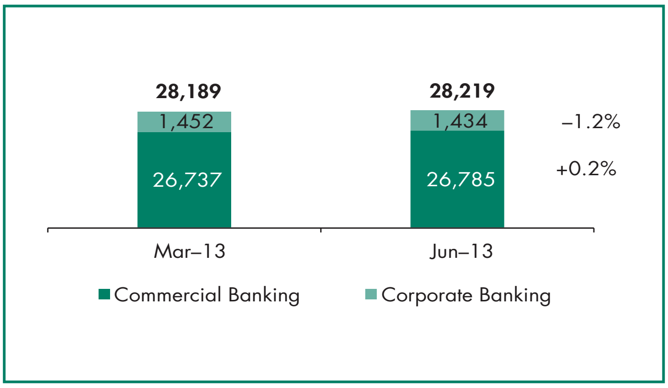
Quarterly trend of direct deposits (Euro/million)



The aggregate of direct deposits shows a slight decrease (–1.4%) compared with March. This result mediates the growth in customer deposits for Euro 1,141 million with the contraction of Euro 1,665 million in securities issued and liabilities designated at fair value (–13.4%).
The growth in amounts due to customers during the quarter is explained by the increase in demand and restricted deposits for Euro 207 million and the increase in repurchase agreements (+ Euro 961 million) for transactions carried out by the Parent Company on the MTS market in order to diversify funding sources.

Regarding securities issued and financial liabilities designated at fair value through profit and loss, the reduction of Euro 1,665 million is due to the maturity of senior bonds with a nominal value of Euro 1.25 billion, in addition to the decision not to renew certificates of deposit and bonds placed with retail customers that expired during the period for over Euro 400 million.

Funding by line of business (Euro/million)



As regards funding by line of business, the average quarterly volumes of the commercial banking sector – which comprise direct deposits from individuals and businesses with turnover of less than Euro 15 million euro – with respect to the first quarter of 2013, show growth of 0.2%, driven by deposits on demand.

Average corporate banking volumes (which include the deposits of corporate customers with a turnover greater than Euro 15 million) continued the contraction that began in mid–2011, falling by 1.2% compared with the first quarter of 2013.

Indirect deposits and assets under management

At 30 June 2013, the volume of **indirect deposits with ordinary customers**, at market value, amount to Euro 30,383 million, substantially stable both compared with the end of December 2012 (–0.8%) that with respect to 31 March 2013; within this figure can be seen the growth in assets under management, whereas the trend in assets under administration has been penalised.

Breakdown of indirect customer deposits at market value

(Euro/000)

	30.06.2013	31.03.2013	Change A – B		31.12.2012	Change A – C		30.06.2012
	A	B	Amount	%	C	Amount	%	D
Funds [1]	7,491,076	7,350,584	140,492	1.9	7,129,773	361,303	5.1	6,545,630
Individual portfolio management [2]	2,458,969	2,508,344	–49,375	–2.0	2,566,948	–107,979	–4.2	2,515,599
Insurance-sector reserves[1]	4,346,420	4,247,963	98,457	2.3	4,067,294	279,126	6.9	3,926,464
Total assets under management	**14,296,465**	**14,106,891**	**189,574**	**1.3**	**13,764,015**	**532,450**	**3.9**	**12,987,693**
Assets under administration [3]	**16,086,569**	**16,317,246**	**–230,677**	**–1.4**	**16,866,094**	**–779,525**	**–4.6**	**17,500,669**
Total indirect customer deposits	**30,383,034**	**30,424,137**	**–41,103**	**–0.1**	**30,630,109**	**–247,075**	**–0.8**	**30,488,362**

(1) the figures for June 2012 have been restated through a reallocation by product of the line item "other assets under management" included in the related figures
(2) includes securities-based portfolio management schemes, fund-based portfolio management schemes and cash accounts
(3) the figure for June 2012 has been restated net of institutional customers of Banca Akros included in the related figure

Assets under management at market value: breakdown by placement agent

(Euro/000)

	30.06.2013	31.03.2013	Change A – B		31.12.2012	Change A – C		30.06.2012
	A	B	Amount	%	C	Amount	%	D
Banca Popolare di Milano	10,537,164	10,427,640	109,524	1.1	10,157,420	379,744	3.7	9,509,386
Banca di Legnano	2,836,329	2,767,307	69,022	2.5	2,702,820	133,509	4.9	2,608,621
Banca Popolare di Mantova	24,471	21,794	2,677	12.3	18,550	5,921	31.9	14,644
WeBank	97,782	90,555	7,227	8.0	81,396	16,386	20.1	80,485
Banca Akros	800,718	799,595	1,123	0.1	803,829	–3,111	–0.4	774,557
Total assets under management	**14,296,465**	**14,106,891**	**189,574**	**1.3**	**13,764,015**	**532,450**	**3.9**	**12,987,693**

Assets under management at 30 June 2013 amount to Euro 14,296 million, up by 3.9% compared with December 2012, due to net positive deposits in the period of Euro 556 million.

An analysis by technical form shows an increase in the **funds** component of Euro 361 million (+5.1%) compared with the end of 2012, to Euro 7,491 million; the growth of this sector benefited from the flow of net deposits, positive for Euro 408 million.
Assets under **individual portfolio management** report a decrease compared with December 2012 (–4.2%), coming to Euro 2,459 million, with net outflows of Euro 115 million in the first six months of the year only partially offset by the upturn in the market.
Insurance sector reserves have increased by Euro 279 million compared with 31 December 2012, amounting to Euro 4,346 million (+6.9%), due to net deposits of some Euro 262 million since the beginning of the year, thanks to the placement of unit linked policies.

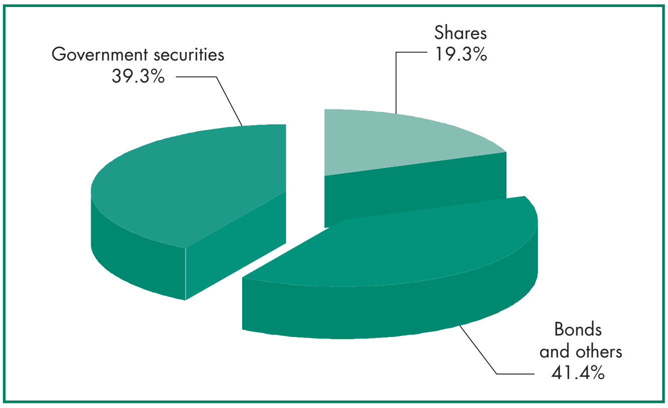
Assets under administration come to Euro 16,087 million at 30 June 2013, a decrease of 4.6% compared with December 2012, partly due to the trend in market prices and partly because of customers' preference for asset management products.

Assets under management at market value: breakdown by placement agent

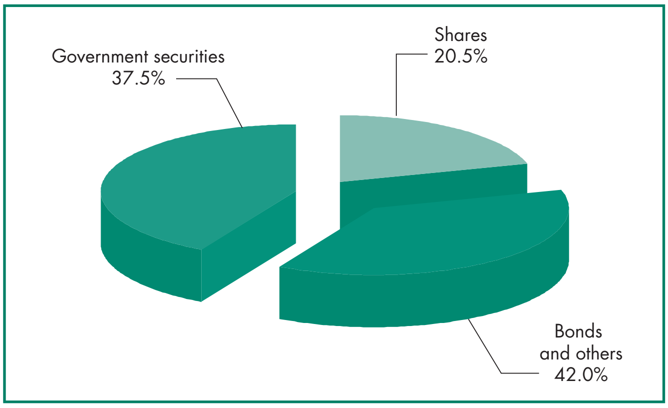
(Euro/000)

	30.06.2013	31.03.2013	Change A – B		31.12.2012	Change A – C		30.06.2012
	A	B	Amount	%	C	Amount	%	D
Banca Popolare di Milano	10,807,867	10,986,394	–178,527	–1.6	11,289,830	–481,963	–4.3	12,020,219
Banca di Legnano	2,945,576	2,988,999	–43,423	–1.5	3,092,700	–147,124	–4.8	3,051,310
Banca Popolare di Mantova	128,030	130,463	–2,433	–1.9	131,447	–3,417	–2.6	129,381
WeBank	1,314,713	1,296,741	17,972	1.4	1,282,476	32,237	2.5	1,258,912
Banca Akros	1,065,297	1,092,200	–26,903	–2.5	1,209,000	–143,703	–11.9	1,168,000
Eliminations	–174,914	–177,551	2,637	1.5	–139,359	–35,555	–25.5	–127,153
Assets under administration	**16,086,569**	**16,317,246**	**–230,677**	**–1.4**	**16,866,094**	**–779,525**	**–4.6**	**17,500,669**

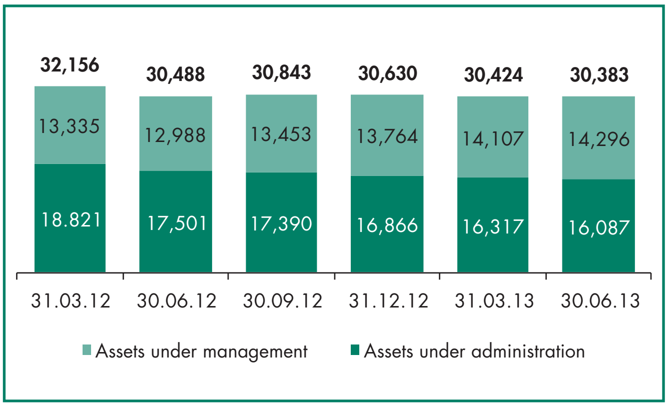
Distribution of assets under administration at June 2013



Distribution of assets under administration at December 2012



Quarterly trend of indirect deposits (Euro/million)



Compared with March 2013, indirect deposits are substantially stable (–0.1%), mediating the decrease in assets under administration (–1.4%) with the growth in assets under management (+1.3%).
In particular, with regard to assets under management, there has been a favourable trend in mutual funds (+1.9%) and in the insurance sector (+2.3%), while individual portfolio management shows a downward trend (–2%).
The 1.4% reduction in assets under administration has been considerably affected by the reallocation of customers' investments in favour of asset management products.

Loans to customers

At 30 June 2013, **loans to customers** amount to Euro 34,038 million and are down on December 2012 (– Euro 753 million; –2.2%). This trend, which has been strongly influenced by the general economic slowdown currently underway, is affected by the downturn in commercial loans and, above all, in mortgage loans (– Euro 307 million) and current accounts (– Euro 490 million).

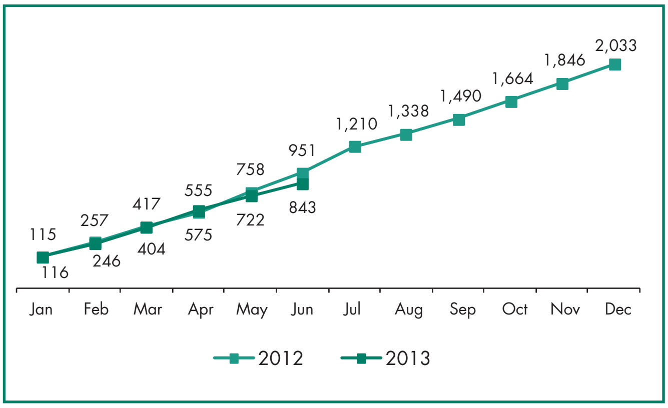
As regards the dynamics of commercial loans, based on management figures by customer segment (calculated on average monthly balances according to the organisational segmentation), the aggregate has fallen by 4.3% compared with the end of 2012; on the one hand, the Individuals segment, which represents about 31% of the total, remains substantially stable; on the other hand, the Corporate Banking segment has fallen by 6.9% and the Small Business segment by 5.5%. The demand for credit on the part of businesses remained weak for the technical forms used to support working capital and capital investment.
This trend is also confirmed by making a comparison with March 2013, where an overall decline of 2.5% has been affected by the contraction in both Corporate Banking (–3.8%) and Small Businesses (–3.4%), against the substantial stability of Individuals.

With reference to the trend in loans to the Individuals segment, a positive contribution was made by ProFamily and WeBank loans. WeBank also reported growth in loan volumes of 22.6% compared with the end of 2012, helped by the granting of mortgage loans in the half–year of Euro 172 million. Also ProFamily registered a growth in loans both compared with the end of 2012 (+ Euro 66 million; equal to 8%) and with respect to 31 March 2013 (+3.1%), reaching Euro 896 million at 30 June 2013.

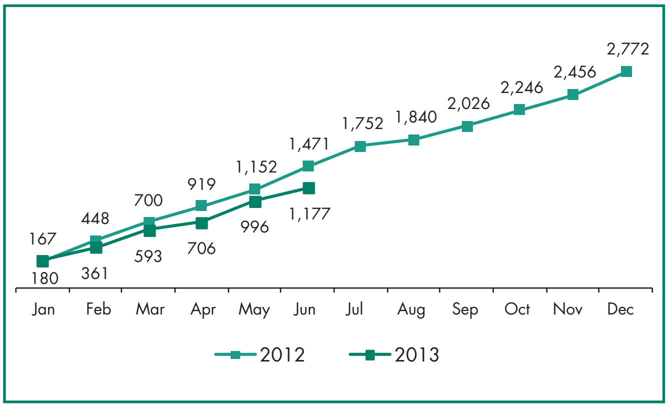
New mortgages granted in the first half of 2013 totalled Euro 1,177 million, 20% less than in the same period of 2012, whereas new personal loans to individuals and loans to companies came to around Euro 843 million, showing a reduction of 11.4% on the first half of 2012.

The Group's market share of loans (excluding repurchase agreements with central counterparties) came to 1.86% (May 2013 figure), which has remained unchanged when compared with December 2012 (1.87%).

Loans granted (cumulative amounts) (Euro/million)



Mortgage loans granted (cumulative amounts) (Euro/million)



Breakdown of loans to customers

(Euro/000)

	30.06.2013	31.03.2013	Change A – B		31.12.2012	Change A – C		30.06.2012
	A	B	Amount	%	C	Amount	%	D
Mortgage loans	**16,435,735**	**16,717,358**	**–281,623**	**–1.7**	**16,742,675**	**–306,940**	**–1.8**	**16,909,365**
Other types of deposit	**17,460,235**	**18,191,167**	**–730,932**	**–4.0**	**17,866,526**	**–406,291**	**–2.3**	**17,886,145**
Current accounts	3,889,833	4,215,290	–325,457	–7.7	4,380,269	–490,436	–11.2	4,346,487
Repurchase agreements	128,330	784,373	–656,043	–83.6	50,339	77,991	154.9	53,105
Credit cards, personal loans and salary assignments	1,539,673	1,517,145	22,528	1.5	1,475,707	63,966	4.3	1,334,526
Finance leases	285,468	285,497	–29	0.0	292,866	–7,398	–2.5	343,838
Other loans	8,422,112	8,501,921	–79,809	–0.9	8,904,373	–482,261	–5.4	9,253,919
Impaired assets	3,194,819	2,886,941	307,878	10.7	2,762,972	431,847	15.6	2,554,270
Total loans to customers	**33,895,970**	**34,908,525**	**–1,012,555**	**–2.9**	**34,609,201**	**–713,231**	**–2.1**	**34,795,510**
Debt securities	142,191	181,474	–39,283	–21.6	181,690	–39,499	–21.7	152,019
Total loans to customers	**34,038,161**	**35,089,999**	**–1,051,838**	**–3.0**	**34,790,891**	**–752,730**	**–2.2**	**34,947,529**

Loans to customers: breakdown by company

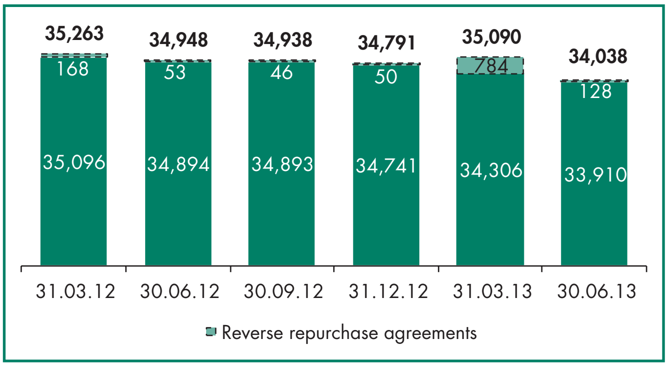
(Euro/000)

	30.06.2013	31.03.2013	Change A – B		31.12.2012	Change A – C		30.06.2012
	A	B	Amount	%	C	Amount	%	D
Banca Popolare di Milano	27,771,846	29,107,686	–1,335,840	–4.6	28,986,977	–1,215,131	–4.2	28,954,317
Banca di Legnano	5,196,366	5,315,813	–119,447	–2.2	5,491,009	–294,643	–5.4	5,657,289
Banca Popolare di Mantova	461,229	438,878	22,351	5.1	426,721	34,508	8.1	430,618
WeBank	881,196	796,980	84,216	10.6	718,979	162,217	22.6	592,665
Banca Akros	368,293	315,605	52,688	16.7	233,608	134,685	57.7	305,314
ProFamily	896,498	869,213	27,285	3.1	830,426	66,072	8.0	651,220
Other companies [1]	4,923,505	5,207,662	–284,157	–5.5	4,909,199	14,306	0.3	5,216,674
Consolidation eliminations/adjustments	–6,460,772	–6,961,838	501,066	7.2	–6,806,028	345,256	5.1	–6,860,568
Total	**34,038,161**	**35,089,999**	**–1,051,838**	**–3.0**	**34,790,891**	**–752,730**	**–2.2**	**34,947,529**

(1) of which at 30 June 2013 Euro 507 million related to the securitisation of commercial mortgage loans by "BPM Securitisation 2" in 2006 and Euro 614 million to the securitisation of mortgage loans for the issue of ABS securities in 2011 (through the same vehicle "BPM Securitisation 2") and Euro 3,618 million relating to "BPM Covered Bonds".

Quarterly trend in loans to customers

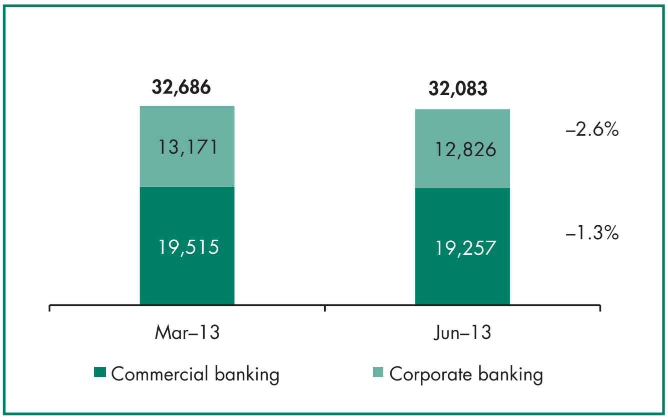
(Euro/million)



The dynamics of the second quarter 2013 have been strongly influenced by the general economic slowdown currently underway. Loans to customers show a decrease of Euro 1,052 million (–3%), due for Euro 656 million to lower repurchase agreements with Cassa di Compensazione e Garanzia and for Euro 396 million to lower commercial loans.

Loans by line of business

(Euro/million)



Analysing the breakdown by lines of business, the average quarterly volumes confirm a downward trend in corporate banking and commercial banking.

In particular, the commercial banking segment is down on the first quarter of 2013 (–2.6%); the Corporate Banking segment also decreases by 1.3%, driven by the reduction in financial investments.

Asset quality

The economic situation remained critical in the first few months of 2013, with negative effects on asset quality that has further deteriorated as the first half progressed. Structural difficulties continue within the construction sector, towards which the Group has significant exposure. The severe crisis in the construction sector continues to be highlighted more and more by sector ratios as they come available, as shown by the ISTAT's index of production in this sector (investment in buildings and ordinary maintenance), which shows a hefty 12.5% decline in the first five months of 2013, compared with the same period in 2012.
As regards the forecast for the whole of 2013, the National Association of Builders (ANCE) expects to see an overall decline in building investment of 5.6%. Even though this figure shows a slight improvement on 2012 (–7.6%), it would give an overall decline in the last 5 years (2008–2013) of 29.1%. The decline was mainly concentrated in "new housing" for which the forecast is a reduction of 14.3% in 2013, and in non–residential buildings (–8.6% estimated for 2013). Prospects are positive only for investments in housing redevelopment, with forecast growth of 2.3% in 2013, helped by the stimulus given by tax incentives.

Even if at a slower pace than before, in the first half of 2013 companies continued to use the new form of "reserved" pre–bankruptcy composition with creditors provided for in the "Development Decree" from September 2012, further influencing the trend in impaired loans and adjustments made in the first half of 2013.

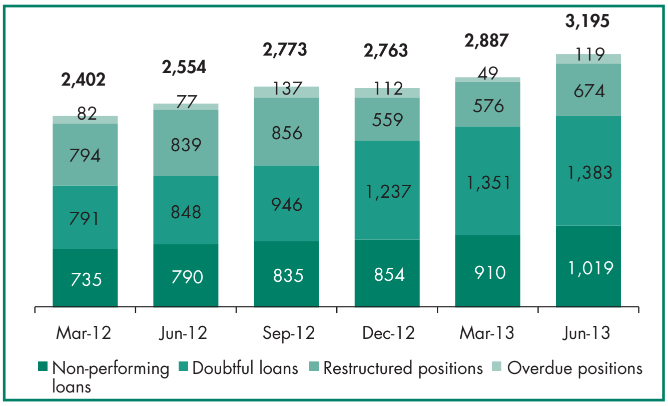
At 30 June 2013 **gross impaired assets** showed a significant growth, equal to Euro 586 million (+14% on 31 December 2012). In detail, compared with the situation at 31 December 2012, we can see:
- an increase of Euro 279 million (+14%) in **non-performing loans**, to Euro 2,211 million, due to the ongoing problems in the economic environment. 68% of this increase took place in the second quarter of 2013, reflecting the tricky macroeconomic scenario and, above all, the difficulties encountered not only by the property sector, but also by manufacturing industry and commerce;
- an increase of Euro 176 million (+11%) in **doubtful loans**, to Euro 1,714 million, mainly concentrated in the first quarter of 2013;
- an increase of Euro 123 million (+20%) in **restructured loans**, to Euro 736 million, due to the restructuring of the debt of two counterparties that at 31 December were classified one as performing and the other as doubtful.

This trend was reflected in the higher proportion of gross impaired loans to total loans, which went from 11.5% at 31 December 2012 to the present level of 13.4%. In particular, the percentage of gross non-performing loans on total loans of the Group is equal to 6.2% (5.3% at 31 December 2012).

As regards the coverage of the loan portfolio, note that:
- overall, the coverage ratio has risen from 4.5% at 31 December 2012 to 5% at 30 June 2013;
- the level of coverage of non-performing loans increased from 55.8% at the end of 2012 to the current coverage of 53.9%. This level increases to 63.5% if no account is taken of write offs of individual positions made in the past. The reduction in the coverage ratio is partly attributable to the provision of a new loan, guaranteed by the Ministry of Economy and Finance, in favour of a customer with a significant exposure in extraordinary administration, and the sale without recourse during the first half of small amounts that had already been written down to zero;
- for doubtful loans, the level of coverage went from 19.6% at the end of 2012 to 19.3% at 30 June 2013, with an increase in adjustments from Euro 301 million at the end of 2012 to the current Euro 331 million;
- with respect to restructured loans, the slight decrease in level of coverage, which went from 8.7% in 2012 to the current 8.4% is attributable to the classification as doubtful of certain positions that up till 31 December had been classified as restructured;
- with respect to **performing loans**, the prudent approach adopted by the Group has led to the classification of various positions (which, up to 31 December, were included in the high risk rating class) as impaired loans, due to the impact of a worsening of the economic situation. This change led to a modest decrease in total adjustments to performing loans, the coverage of which stands at 0.59% (0.65% at the end of 2012).

Overall, total impaired loans at 30 June 2013, net of adjustments, amount to Euro 3,195 million, up by 15.6% with respect to the figure at the end of 2012.

Net impaired loans (Euro/million)



On a quarterly basis, the trend in asset quality shows that total **impaired assets, gross of adjustments**, of Euro 4,791 million has increased by 9.7% with respect to 31 March 2013, driven by the growth in gross non-performing loans (+9.4%).

Impaired assets net of adjustments, that amount to Euro 3,195 million at 30 June 2013, increase by 10.7% with respect to 31 March 2013 and by 15.6% on 31 December 2012.

Coverage of loans

(%)

coverage	Mar–12	Jun–12	Sep–12	Dec–12	Mar–13	Jun–13
Total problem loans	**27.8**	**28.6**	**28.4**	**34.3**	**33.9**	**33.3**
Non-performing loans	47.1	47.9	48.9	55.8	55.0	53.9
Doubtful loans	18.5	18.2	16.6	19.6	18.8	19.3
Restructured positions	9.5	11.0	11.0	8.7	8.3	8.4
Overdue positions	7.0	7.4	6.4	7.3	7.5	8.1
Performing loans	0.77	0.71	0.68	0.65	0.63	0.59
Total adjustments to loans	**3.2**	**3.5**	**3.6**	**4.5**	**4.6**	**5.0**

The quarterly analysis of the level of coverage of loans reflects the considerations set out above.

In detail, the coverage degree of net non-performing loans reaches 53.9% at 30 June 2013 (55.8% at 31 December 2012) decreasing by 1.9 pp. compared with December 2012.

The coverage of doubtful loans has remained substantially stable with respect to 31 December 2012 (>19%), as has the coverage of restructured loans (>8%).
Overall, the coverage of total of problem loans is equal to 33.3% compared with 34.3% at the end 2012.

Asset quality

(Euro/000)

Gross exposure	30.06.2013		31.03.2013		31.12.2012		Change A – B		Change A – C		30.06.2012	
	A	%	B	%	C	%	Amount	%	Amount	%	D	%
Impaired assets	**4,790,829**	***13.4***	**4,367,785**	***11.9***	**4,204,301**	***11.5***	**423,044**	**9.7**	**586,528**	**14.0**	**3,578,614**	***9.9***
a) Non-performing loans	2,211,214	*6.2*	2,021,450	*5.5*	1,931,926	*5.3*	189,764	9.4	279,288	14.5	1,516,223	*4.2*
b) Doubtful loans	1,714,148	*4.8*	1,665,037	*4.5*	1,538,639	*4.2*	49,111	2.9	175,509	11.4	1,036,463	*2.9*
c) Restructured positions	735,837	*2.1*	628,275	*1.7*	612,662	*1.7*	107,562	17.1	123,175	20.1	942,539	*2.6*
d) Overdue positions	129,630	*0.4*	53,023	*0.1*	121,074	*0.3*	76,607	144.5	8,556	7.1	83,389	*0.2*
Other assets	**31,026,947**	***86.6***	**32,408,699**	***88.1***	**32,236,029**	***88.5***	**–1,381,752**	**–4.3**	**–1,209,082**	**–3.8**	**32,624,166**	***90.1***
Total gross loans to customers	**35,817,776**	***100.0***	**36,776,484**	***100.0***	**36,440,330**	***100.0***	**–958,708**	**–2.6**	**–622,554**	**–1.7**	**36,202,780**	***100.0***

Adjustments	30.06.2013		31.03.2013		31.12.2012		Change A – B		Change A – C		30.06.2012	
	A	Coverage %	B	Coverage %	C	Coverage %	Amount	Difference in coverage	Amount	Difference in coverage	D	Coverage %
Impaired assets	**1,596,010**	***33.3***	**1,480,844**	***33.9***	**1,441,329**	***34.3***	**115,166**	**–0.6**	**154,681**	**–1.0**	**1,024,344**	***28.6***
a) Non-performing loans	1,192,182	*53.9*	1,110,977	*55.0*	1,077,638	*55.8*	81,205	–1.0	114,544	–1.8	726,020	*47.9*
b) Doubtful loans	331,122	*19.3*	313,728	*18.8*	301,394	*19.6*	17,394	0.4	29,728	–0.4	188,224	*18.2*
c) Restructured positions	62,165	*8.4*	52,150	*8.3*	53,457	*8.7*	10,015	0.1	8,708	–0.3	103,956	*11.0*
d) Overdue positions	10,541	*8.1*	3,989	*7.5*	8,840	*7.3*	6,552	0.6	1,701	0.8	6,144	*7.4*
Other assets	**183,605**	***0.59***	**205,641**	***0.63***	**208,110**	***0.65***	**–22,036**	**0.0**	**–24,505**	**–0.1**	**230,907**	***0.71***
Total adjustments	**1,779,615**	***5.0***	**1,686,485**	***4.6***	**1,649,439**	***4.5***	**93,130**	**0.4**	**130,176**	**0.4**	**1,255,251**	***3.5***

Net exposure	30.06.2013		31.03.2013		31.12.2012		Change A – B		Change A – C		30.06.2012	
	A	%	B	%	C	%	Amount	%	Amount	%	D	%
Impaired assets	**3,194,819**	***9.4***	**2,886,941**	***8.2***	**2,762,972**	***7.9***	**307,878**	**10.7**	**431,847**	**15.6**	**2,554,270**	***7.3***
a) Non-performing loans	1,019,032	*3.0*	910,473	*2.6*	854,288	*2.5*	108,559	11.9	164,744	19.3	790,203	*2.3*
b) Doubtful loans	1,383,026	*4.1*	1,351,309	*3.9*	1,237,245	*3.6*	31,717	2.3	145,781	11.8	848,239	*2.4*
c) Restructured positions	673,672	*2.0*	576,125	*1.6*	559,205	*1.6*	97,547	16.9	114,467	20.5	838,583	*2.4*
d) Overdue positions	119,089	*0.3*	49,034	*0.1*	112,234	*0.3*	70,055	142.9	6,855	6.1	77,245	*0.2*
Other assets	**30,843,342**	***90.6***	**32,203,058**	***91.8***	**32,027,919**	***92.1***	**–1,359,716**	**–4.2**	**–1,184,577**	**–3.7**	**32,393,259**	***92.7***
Total net loans to customers	**34,038,161**	***100.0***	**35,089,999**	***100.0***	**34,790,891**	***100.0***	**–1,051,838**	**–3.0**	**–752,730**	**–2.2**	**34,947,529**	***100.0***

Net interbank position

The net interbank position at 30 June 2013 shows a negative balance (net borrowing) of Euro 4,174 million, which is worse than the previous figures (also negative) of Euro 3,574 million at December 2012 and Euro 3,649 million at March 2013. This trend is largely attributable to the decrease in amounts due from banks, which at 30 June were Euro 612 million lower than at 31 December 2012 and Euro 528 million lower than in March 2013. This reduction is largely due to full repayment of the Tremonti bonds on 28 June 2013 for Euro 500 million, while the trend in other balance sheet items did not result in significant liquidity needs. In fact, against a reduction in loans to customers of Euro 753 million, there has been a reduction in direct deposits in the first half of Euro 683 million, as well as an increase in net financial assets of Euro 219 million.

However, when examining the difference between amounts due to and from banks, the following elements have to be taken into account:

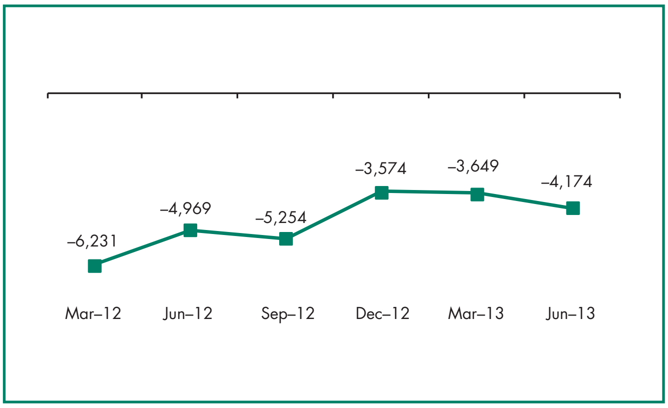
- part of the interbank exposure (Euro 4.6 billion out of a total of Euro 6.3 billion) comes from open market operations with the European Central Bank (LTRO);
- the net interbank position includes secured net borrowing of Euro 114 million that derives from repurchase agreements;
- the amounts due from banks shown in the financial statements of BPM Securitisation 2 and BPM Covered Bond, for a total of Euro 575 million, relate to liquidity that is not immediately available.

Net of these components, the unsecured net interbank position at 30 June 2013 is close to zero.

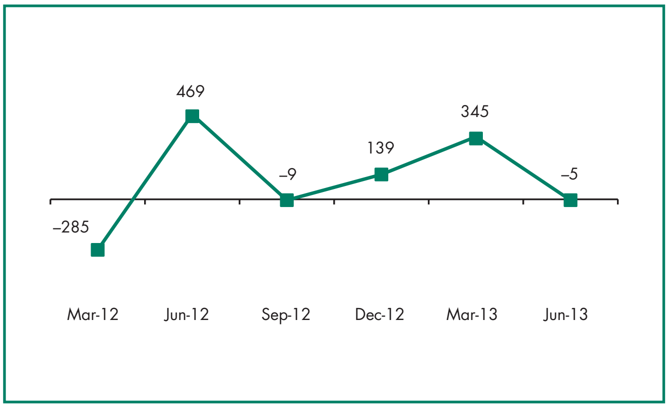
Difference between amounts due from and due to banks (Euro/000)

	30.06.2013	31.03.2013	Change A – B		31.12.2012	Change A – C		30.06.2012
	A	B	amount	%	C	amount	%	D
Due from banks	2,106,886	2,635,231	–528,345	–20.0	2,718,371	–611,485	–22.5	2,784,524
Due to banks	6,281,204	6,284,368	–3,164	–0.1	6,292,005	–10,801	–0.2	7,753,545
Total	**–4,174,318**	**–3,649,137**	**–525,181**	**–14.4**	**–3,573,634**	**–600,684**	**–16.8**	**–4,969,021**

Difference between amounts due from and due to banks
(Euro/million)



Unsecured net interbank position (Euro/million)



Liquidity position

The main indicators of the liquidity situation at the end of the half-year have remained at adequate levels.
The net liquidity balance, which is the sum of free eligible assets with the inflows and outflows expected over a given time horizon, shows a positive balance at the end of June of Euro 2,736 million, with reference to the cash flows expected over the next month, while the liquidity balance over the next three months comes to Euro 2,551 million.
The financial requirements of the commercial banks, which reflect the difference between the volumes arising from commercial deposits and loans with customers, stood at Euro 4.2 billion (management figures) at the end of June 2013, down on the same period

last year, when it amounted to Euro 5.4 billion. This reflects, among other things, the lower liquidity needs due to the slowdown in loans to customers which, as detailed above, have fallen year on year by more than Euro 900 million.
The assets eligible as collateral with the European Central Bank at the end of June amounted to around Euro 12 billion, a figure that is broadly in line with the balance at the end of March and at the end of December 2012. The balance at the end of June is committed for Euro 4.6 billion in transactions with the ECB and Euro 4.7 billion in repo transactions, while the remaining Euro 2.7 billion is represented by free assets.

Financial assets

Financial assets of the BPM Group, net of financial liabilities held for trading, amount to Euro 10,458 million, slightly up on the December 2012 figure (+ Euro 218 million; +2.1%) as well as on the March 2013 figure (+ Euro 350 million; +3.5%).

In detail, the net balance of financial assets and financial liabilities held for trading of Euro 390 million at 30 June 2013 is up by Euro 154 million on December 2012 and by Euro 40 million on March 2013, benefiting from the decline in trading financial liabilities attributable to Banca Akros. This aggregate is largely represented by the trading book of Banca Akros, whose operations mainly consist of trading, market making and risk management with dynamic hedging strategies within a system of operating limits.

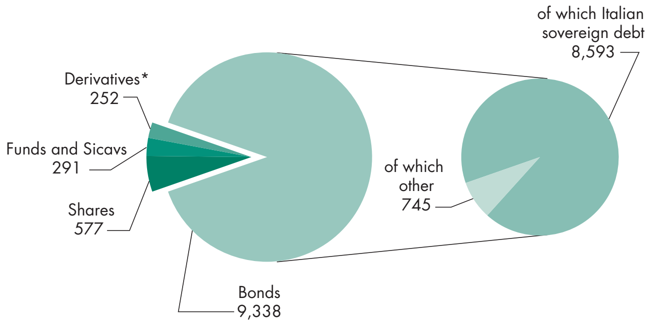
Financial assets designated at fair value through profit and loss, which include structured debt securities and open-ended funds for which regular valuations are available from independent sources, come to Euro 260 million, substantially in line with the figure at the end of 2012 (+0.1%) and at March 2013 (-0.6%).

Financial assets available for sale amount to Euro 9,640 million, up both on March 2013 (+3.4%) and on the end of 2012 (+1.1%). The increase compared with December 2012 is mainly attributable to the Parent Company's portfolio of Italian government bonds, which increased during the period by Euro 196 million.

Financial assets/liabilities of the Group: breakdown (Euro/000)

	30.06.2013	31.03.2013	Change A – B		31.12.2012	Change A – C		30.06.2012
	A	B	amount	%	C	amount	%	D
Financial assets held for trading	1,705,445	1,798,512	–93,067	–5.2	1,821,675	–116,230	–6.4	2,136,999
Financial assets designated at fair value through profit and loss	259,500	261,137	–1,637	–0.6	259,321	179	0.1	376,610
Financial assets available for sale	9,639,583	9,319,355	320,228	3.4	9,539,376	100,207	1.1	9,074,075
Hedging derivatives receivable	217,206	227,090	–9,884	–4.4	256,320	–39,114	–15.3	221,131
Fair value change of financial assets in hedged portfolios (+/–)	13,150	20,866	–7,716	–37.0	24,707	–11,557	–46.8	26,611
Total financial assets	**11,834,884**	**11,626,960**	**207,924**	**1.8**	**11,901,399**	**–66,515**	**–0.6**	**11,835,426**
Financial liabilities held for trading	1,315,536	1,448,291	–132,755	–9.2	1,585,447	–269,911	–17.0	1,794,464
Hedging derivatives payable	34,146	42,305	–8,159	–19.3	45,049	–10,903	–24.2	45,372
Fair value change of financial liabilities in hedged portfolios (+/–)	27,056	29,010	–1,954	–6.7	30,942	–3,886	–12.6	34,892
Total net financial assets	**10,458,146**	**10,107,354**	**350,792**	**3.5**	**10,239,961**	**218,185**	**2.1**	**9,960,698**

Breakdown of net financial assets portfolio (Euro/million)



(*) Mainly include hedging derivatives and, to a lesser extent, loans

As regards the type of securities in portfolio, at 30 June 2013 financial assets are made up of bonds for around 90% (of which Euro 8,593 million relating to Italian sovereign debt). Equities, mutual funds and Sicavs in total represent 8%. The remainder consists mainly of hedging derivatives and, to a lesser extent, loans.

Financial assets/liabilities of the Group: breakdown by company

(Euro/000)

	30.06.2013	31.03.2013	Change A – B		31.12.2012	Change A – C		30.06.2012
	A	B	amount	%	C	amount	%	D
Banca Popolare di Milano	8,847,786	8,602,256	245,530	2.9	8,717,822	129,964	1.5	8,513,448
Banca Akros	901,278	899,483	1,795	0.2	906,609	–5,331	–0.6	732,747
BPM Ireland	–	–	–	–	–	–	–	61,346
Banca di Legnano	189,765	150,661	39,104	26.0	152,252	37,513	24.6	167,423
Banca Popolare di Mantova	3,001	1,597	1,404	87.9	1,581	1,420	89.8	1,633
WeBank	684,344	715,124	–30,780	–4.3	849,105	–164,761	–19.4	873,583
Other companies	35,523	20,183	15,340	76.0	4,854	30,669	n.s.	36,876
Consolidation eliminations/adjustments	–203,551	–281,950	78,399	27.8	–392,262	188,711	48.1	–426,358
Total net financial assets	**10,458,146**	**10,107,354**	**350,792**	**3.5**	**10,239,961**	**218,185**	**2.1**	**9,960,698**

Fixed assets

At 30 June 2013, total **fixed assets**, including **investments in associates and companies subject to joint control, property and equipment and intangible assets**, amount to Euro 1,177 million, substantially stable compared with December 2012 (+0.2%) and 31 March 2013 (+0.5%).

In detail, **investments in associates and companies subject to joint control** amount to Euro 358 million, slightly up on the end of 2012 (+3.4%) and substantially stable versus March 2013 (+0.9%). Compared with December 2012, the increase of Euro 12 million is essentially attributable to the investments in Bipiemme Vita (Euro 3 million) and AM Holding (Euro 9 million) and is mainly due to the results achieved by these companies during the period.

Property and equipment amount to Euro 745 million, stable compared with March 2013 (–0.6%) and down on the figure of Euro 13 million at the end of 2012, reflecting the trend in depreciation.

Intangible assets (consisting mainly of software) amount to Euro 74 million, higher than in March 2013 (+ Euro 7 million) and at the end of 2012 (+ Euro 4 million) for investments made during the period.

Fixed assets: breakdown

(Euro/000)

	30.06.2013	31.03.2013	Change A – B		31.12.2012	Change A – C		30.06.2012
	A	B	amount	%	C	amount	%	D
Investments in associates and companies subject to joint control	357,642	354,596	3,046	0.9	346,039	11,603	3.4	323,246
Property and equipment	745,093	749,380	–4,287	–0.6	757,938	–12,845	–1.7	735,894
Intangible assets	74,199	67,216	6,983	10.4	70,175	4,024	5.7	64,194
Total fixed assets	**1,176,934**	**1,171,192**	**5,742**	**0.5**	**1,174,152**	**2,782**	**0.2**	**1,123,334**

Provisions for specific use

At 30 June 2013, provisions for specific use amount to Euro 633 million, of which Euro 142 million relating to employee termination indemnities and the other Euro 491 million to allowances for risks, charges and legal disputes.

Shareholders' equity and capital adequacy

At 30 June 2013, the **Group's** shareholders' equity, including income for the period of Euro 105.6 million, amounts to Euro 3,593 million, down compared with the end of 2012 (–10.5%) and with March 2013 (–10.1%).

In detail, capital and reserves – excluding net income for the period – together come to Euro 3,487 million, Euro 451 million lower than in March 2013 as a result of full repayment of the Tremonti bonds (Euro 500 million) on 28 June 2013. Compared with the end of 2012, the reduction of Euro 957 million also takes account of the losses of Euro 429.7 million incurred in 2012 and the decrease in valuation reserves (– Euro 26 million), mainly attributable to the government bond portfolio (which was affected by gains realised on disposals during the period and the reduction in fair value).

Group shareholders' equity: breakdown

(Euro/000)

	30.06.2013	31.03.2013	Change A – B		31.12.2012	Change A – C		30.06.2012
	A	B	amount	%	C	amount	%	D
1. Share capital	2,865,710	2,865,709	1	0.0	2,865,709	1	0.0	2,865,709
2. Share premium reserve	9	166,897	–166,888	–100.0	166,897	–166,888	–100.0	166,902
3. Reserves	586,149	420,863	165,286	39.3	850,557	–264,408	–31.1	850,557
4. (Treasury shares)	–859	–859	–	–	–859	–	–	–863
5. Valuation reserves	36,454	–14,415	50,869	n.s.	62,476	–26,022	–41.7	–218,335
6. Equity instruments	–	500,000	–500,000	–100.0	500,000	–500,000	–100.0	500,000
7. Net income (loss) for the period pertaining to the Group	105,607	57,255	48,352	84.5	–429,694	535,301	n.s.	–131,344
Total	**3,593,070**	**3,995,450**	**–402,380**	**–10.1**	**4,015,086**	**–422,016**	**–10.5**	**4,032,626**

Valuation reserves of the Group: breakdown

(Euro/000)

	30.06.2013	31.03.2013	Change A – B		31.12.2012	Change A – C		30.06.2012
	A	B	amount	%	C	amount	%	D
Financial assets available for sale	69,077	14,763	54,314	n.s.	92,429	–23,352	–25.3	–185,923
Actuarial gains (losses) on defined-benefit pension plans	–40,616	–35,940	–4,676	–13.0	–35,940	–4,676	–13.0	–23,097
Share of valuation reserves connected with investments carried at equity	–5,449	–6,680	1,231	18.4	–7,455	2,006	26.9	–22,757
Special revaluation laws	13,442	13,442	–	–	13,442	–	–	13,442
Total	**36,454**	**–14,415**	**50,869**	**n.s.**	**62,476**	**–26,022**	**–41.7**	**–218,335**

Minority interests

At 30 June 2013 minority interests amounted to Euro 19.5 million, a decrease of Euro 22 million compared with March 2013 and December 2012. This decrease is attributable to the acquisition by the Parent Company of the interest held by Fondazione Cassa di Risparmio di Alessandria in Banca di Legnano, against the latter's right to withdraw as part of the plan to merge Banca di Legnano with Banca Popolare di Milano (for further details, see the section "Significant events for Banca Popolare di Milano and the BPM Group").

Minority interests: breakdown

(Euro/000)

	30.06.2013	31.03.2013	Change A – B		31.12.2012	Change A – C		30.06.2012
	A	B	amount	%	C	amount	%	D
1. Share capital	2,370	14,457	–12,087	–83.6	14,458	–12,088	–83.6	14,463
2. Share premium reserve	12,727	27,038	–14,311	–52.9	27,038	–14,311	–52.9	27,099
3. Reserves	4,229	430	3,799	n.s.	5,738	–1,509	–26.3	5,741
4. Treasury shares	–	–	–	–	–	–	–	–
5. Valuation reserves	–65	–535	470	87.9	–447	382	85.5	–489
6. Equity instruments	–	–	–	–	–	–	–	–
7. Net income (loss) for the period pertaining to minority interests	259	184	75	40.8	–5,156	5,415	105.0	–3,518
Total	**19,520**	**41,574**	**–22,054**	**–53.0**	**41,631**	**–22,111**	**–53.1**	**43,296**

Valuation reserves of minority interests: breakdown

(Euro/000)

	30.06.2013	31.03.2013	Change A – B		31.12.2012	Change A – C		30.06.2012
	A	B	amount	%	C	amount	%	D
Valuation reserves: financial assets available for sale	–25	–392	367	93.6	–302	277	91.7	–394
Valuation reserves: actuarial gains (losses) on defined-benefit pension plans	–40	–132	92	69.7	–132	92	69.7	–79
Valuation reserves: share of valuation reserves connected with investments carried at equity	–	–11	11	100.0	–13	13	100.0	–16
Valuation reserves: special revaluation laws	–	–	–	–	–	–	–	
Total	**–65**	**–535**	**470**	**87.9**	**–447**	**382**	**85.5**	**–489**

Available for sale financial assets valuation reserves

At 30 June 2013, available for sale financial assets valuation reserves – inclusive of the portion attributable to minority interests – consist of a positive balance of Euro 69 million, which is lower than the balance at 31 December 2012 of Euro 92 million, due to disposals made during the course of the quarter and a fall in prices of domestic government securities.

Valuation reserves on assets available for sale: breakdown (Euro/000)

	30.06.2013			30.06.2012			Change	
	Gross book value	Tax effect	Net book value	Gross book value	Tax effect	Net book value	A – B	
	a1	a2	A = a1 – a2	b1	b2	B = b1 – b2	amount	%
Debt securities, of which:	**–17,125**	**5,661**	**–11,464**	**85,162**	**–28,136**	**57,026**	**–68,490**	**–120.1**
Italian sovereign debt	14,443	–4,777	9,666	119,730	–39,594	80,136	–70,470	–87.9
Sovereign debt of other countries	–	–	–	–	–	–	–	–
Other	–31,568	10,438	–21,130	–34,568	11,458	–23,110	1,980	8.6
Equities	**84,646**	**–5,844**	**78,802**	**35,395**	**–2,731**	**32,664**	**46,138**	**141.3**
Mutual funds	**2,435**	**–721**	**1,714**	**3,611**	**–1,174**	**2,437**	**–723**	**–29.7**
Valuation reserves AFS	**69,956**	**–904**	**69,052**	**124,168**	**–32,041**	**92,127**	**–23,075**	**–25.0**

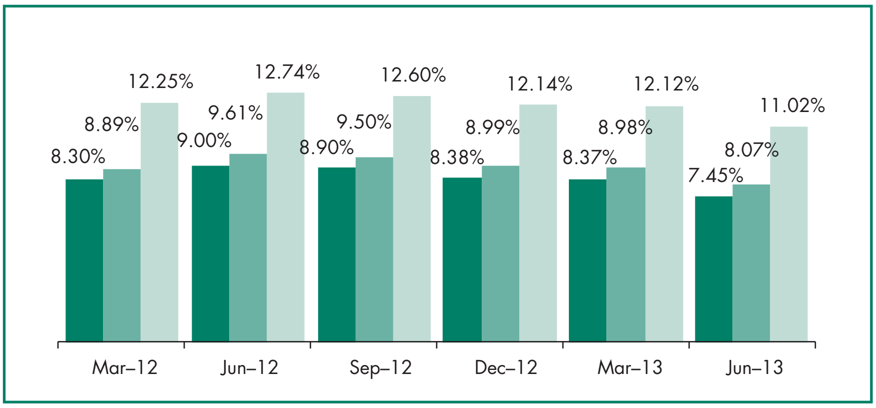
Regulatory capital

At 30 June 2013, consolidated regulatory capital amounts to Euro 4,631 million, a decrease compared with 31 December 2012 mainly due to full repayment on 28 June 2013 of its Tremonti bonds (the financial instruments as per Legislative Decree 185/08, converted with amendments into Law 2/09, issued by BPM for a total nominal amount of Euro 500 million). In particular, in June 2013, regulatory capital consists of Tier 1 capital of Euro 3,393 million and Tier 2 capital of Euro 1,238 million.

The Total Capital Ratio (between regulatory capital and total risk-weighted assets) comes to 11.02%, the Tier 1 Capital Ratio (between core capital and risk-weighted assets) comes to 8.07%, while the Core Tier 1 ratio, which excludes the preference shares from Tier 1 capital, comes to 7.45%.

Note that from June 2011 the Group's capital ratios take into account the higher weightings ("add-ons") requested of BPM by the Bank of Italy. The effect of these add-ons led to an increase in risk-weighted assets of Euro 7.1 billion, which corresponds to a higher capital requirement of Euro 566 million. The impact of the higher requirements is estimated at 151 bps on the Core Tier 1 Ratio, 163 bps on the Tier 1 Ratio and 223 bps on the Total Capital Ratio. Note that these add-ons were requested at the time by the Bank of Italy and can therefore be revised by the Supervisory Authority once the weaknesses found previously have been resolved.

Quarterly trend of capital ratios



Income statement

Moving on to analyse the income statement, the first half of 2013 closed with **net income** of Euro 105.6 million, compared with a net loss of Euro 131.3 million in the first half of 2012; if we then look at the result without non-recurring items (for further details, see the "Reclassified income statement, net of non-recurring transactions"), the net income at June 2013 shows an increase of 46.5% compared with 30 June 2012. In particular, it should be noted that, even though the first half of 2013 was still affected by the weakness in the macroeconomic scenario and bank lending continues to be slow, the operating margin grew as proof of the Group's ability to operate profitably and to carefully monitor operating expenses.
Adjustments to loans are still high, reflecting the negative economic scenario, the resulting deterioration in the loan portfolio and the will to maintain adequate levels of coverage.

Operating income

In June 2013, operating income comes to Euro 885.9 million, an increase with respect to the first half of 2012 (+11.6%).
This figure is the net of the following changes:

- a decrease in the interest margin from Euro 455.1 million to Euro 415.8 million (–8.6%);
- an increase in net fee and commission income of Euro 39.1 million (+16.3%);
- an increase in other income (+ Euro 92.1 million) which benefits from the improvement in net income from banking activities.

Interest margin

Consolidated **interest margin** comes to Euro 415.8 million, a decrease of Euro 39.3 million (–8.6%) compared with the first half of 2012. This result is affected by the lower contribution made by the commercial margin, which has fallen by Euro 27.7 million (–7.5%) and by the higher margin from Treasury and Investment Banking for Euro 9.7 million (+9.3%). The interest margin has benefited from the lower burden of interest accrued but not paid on the "Trust preferred securities" and "Perpetual subordinated notes" for a total of Euro 20.7 million (Euro 17.5 million in the first half of 2012) as a result of the suspension of payment of such interest approved by the Management Board of the Parent Company (for further details, see the section in this report on "Significant events for the Banca Popolare di Milano and the BPM Group").

Interest margin

(Euro/000)

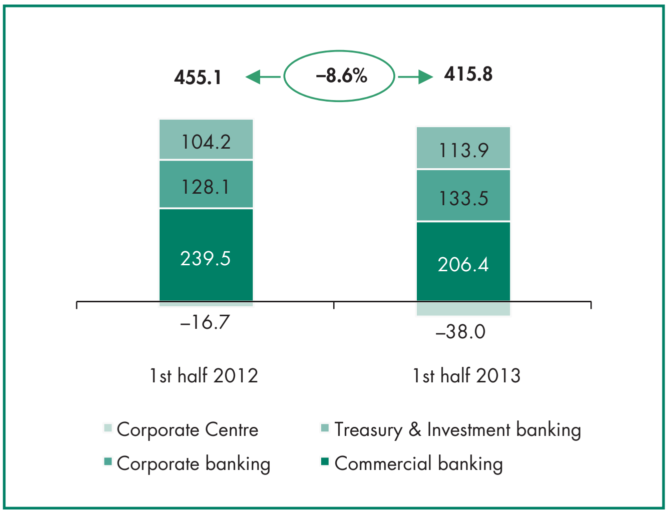
	First half 2013	First half 2012	Change	
			amount	%
Interest and similar income	712,398	813,410	(95,628)	–11.8
Interest and similar expense	(296,612)	(358,324)	56,328	15.7
Total interest margin	**415,786**	**455,086**	**(39,300)**	**–8.6**

Interest margin: breakdown by company

(Euro/000)

	First half 2013	First half 2012	Change	
			amount	%
Banca Popolare di Milano	322,387	351,939	(29,552)	–8.4
Banca di Legnano	51,718	61,191	(9,473)	–15.5
WeBank	9,861	11,980	(2,119)	–17.7
ProFamily	14,736	10,000	4,736	47.4
Banca Akros	3,977	10,168	(6,191)	–60.9
Banca Popolare di Mantova	4,353	4,624	(271)	–5.9
BPM Ireland	–	(303)	303	100.0
Other companies	12,965	(10,644)	23,609	n.s.
Consolidation eliminations/adjustments	(4,211)	16,131	(20,342)	n.s.
Total interest margin	**415,786**	**455,086**	**(39,300)**	**–8.6**

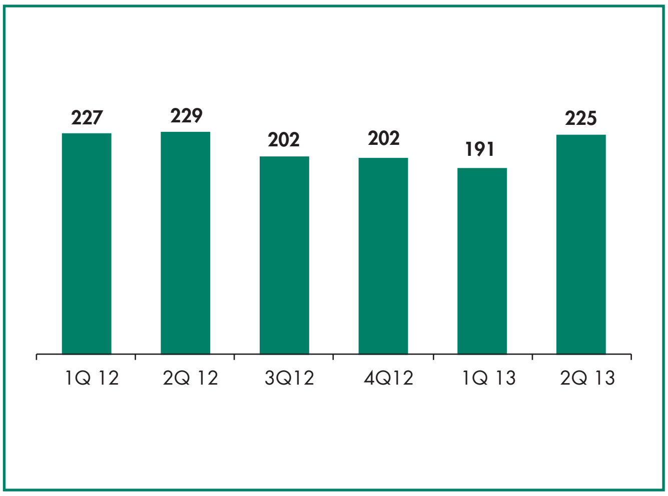
Trend in interest margin by business line (Euro/mn)



Breaking down interest margin by business line, the following trends emerge:

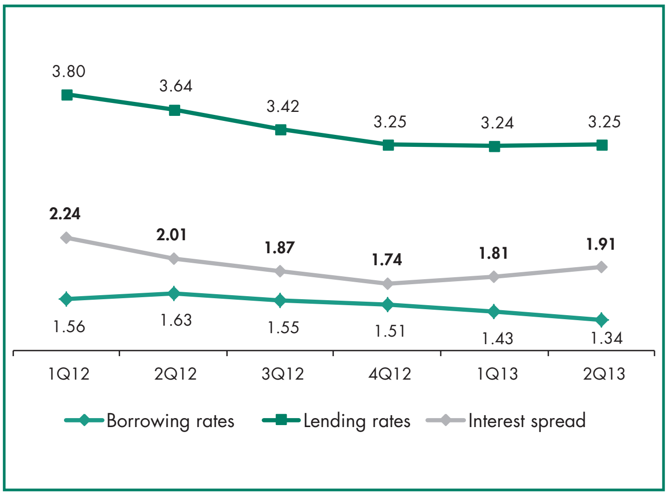
- **commercial margin (commercial and corporate banking):** this has decreased by Euro 27.7 million (–7.5%) compared with the previous year. This decrease is mainly attributable to a narrowing of the spread between lending and borrowing rates, which has fallen by some 26 bps compared with the same period of the previous year, coming in at 1.87% (average for the half-year) compared with 2.13% in the same period last year. This narrowing of the spread is mainly due to the fall in lending rates (– 47 bps), which were affected by the decline in reference rates (3–month Euribor fell by 66 bps between the first half of 2012 and the first half of 2013);
- **treasury & investment banking margin:** this amounts to Euro 113.9 million, up on the previous year (+ Euro 9.7 million) mainly as a result of the Parent Company's contribution to the interest margin, which benefited from the return on its securities portfolio;
- **other interest margin (Corporate Centre):** this amounts to a negative margin of Euro 38 million compared with the negative margin of Euro 16.7 million for the first half of 2012. The margin contribution of this aggregate, which includes the cost of funding from institutional investors and the return on equity (as well as other residual components), was adversely affected during the period by, among other things, the lower return on equity as a result of a lower level of Euribor rates compared with the first half of 2012.

Quarterly trend in interest margin (Euro/mn)



The analysis of the **quarterly trend** in the interest margin shows an increase in the second quarter of 2013 with respect to the first quarter (+ Euro 34.2 million; +17.9%). The interest margin benefits from the lower charge for the interest accrued but not paid on the "Trust preferred securities" and "Perpetual subordinated notes", as mentioned previously.
The commercial margin has increased (+3.9%) after the negative trend that characterised previous quarters, benefiting from the increase in the interest spread (+9 bps compared with the first quarter of 2013) thanks to a decline in the cost of funding.
Worth noting is the higher contribution from investment banking, up 2.3% from the previous quarter. This increase benefited from the greater profitability of the securities portfolio.

Quarterly trend in BPM Group interest spread (%)



The quarterly analysis of the interest spread shows a positive trend in 2013, after the prolonged downturn seen in the various quarters of 2012; there has been an increase of 9 bps compared with the first quarter, especially in the second quarter.

In detail, after the falling trend which characterised 2012, **lending rates** have remained substantially stable, coming in at 3.24% in the first quarter of 2013 and 3.25% in the second quarter.

Borrowing rates, on the other hand, have decreased in recent quarters after the growth seen in the first half of 2012 due to the higher proportion of term deposits with rising issue rates. In particular, the average rate on deposits in the second quarter of 2013 was 1.34%, compared with 1.43% in the first quarter of 2013.

Non-interest margin

The **non-interest margin** of Euro 470.1 million increased in the first six months of 2013 by 38.7% compared with the same period in 2012, benefiting from an increase in net fee and commission income (+ Euro 39.1 million) and the income from banking activities (+ Euro 73 million).

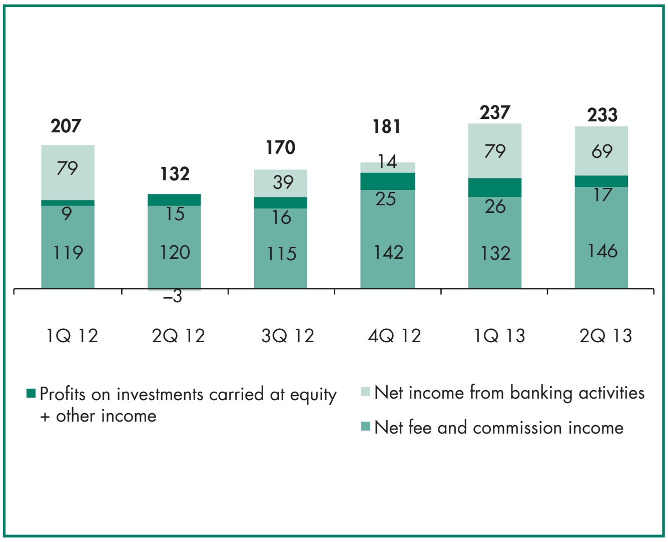
Non-interest margin

(Euro/000)

	First half 2013	First half 2012	Change	
			amount	%
Net fee and commission income	**277,985**	**238,931**	**39,054**	**16.3**
Other income:	**192,116**	**99,973**	**92,143**	**92.2**
Profits (losses) on investments carried at equity	11,790	7,270	4,520	62.2
Net income (loss) from banking activities	148,573	75,562	73,011	96.6
Other operating charges/income	31,753	17,141	14,612	85.2
Non-interest margin	**470,101**	**338,904**	**131,197**	**38.7**

Quarterly trend in non-interest margin

(Euro/mn)

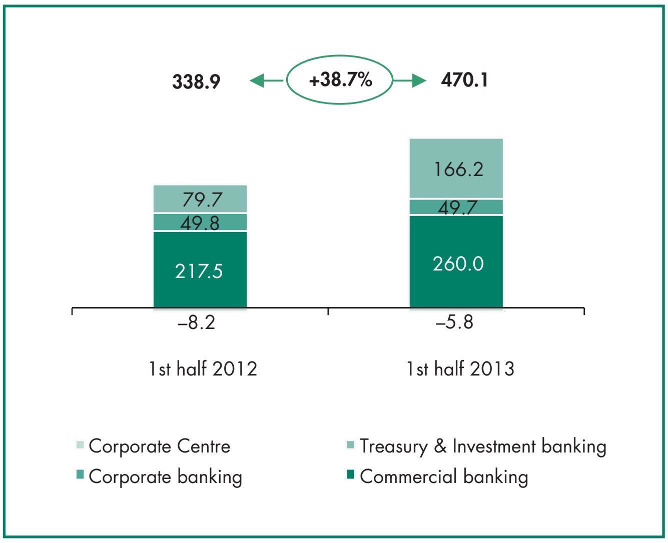


The quarterly analysis of the non–interest margin shows a slight contraction in the last quarter (–1.9%). In particular, the decrease of Euro 4.5 million was affected by a reduction in net income from banking activities (– Euro 10.2 million) though it continued at a good level – and in other income.

Net fee and commission income has increased by Euro 14.6 million to Euro 146.3 million. This result is attributable almost exclusively to higher commissions from management, advisory and dealing services in the placement of financial products during the quarter.

The net income from banking activities in the second quarter of 2013 reflects lower profits on disposal of financial assets/ liabilities (– Euro 36.9 million compared with the first quarter of 2013), only partially offset by the higher contribution from financial assets held for trading.

Trend in non-interest margin by business line (Euro/mn)



Analysing non-interest margin by business line, the following trends emerge:

- **commercial banking margin:** increased by Euro 42.4 million (+19.5%) over the previous year, due to higher placement fees;
- **corporate banking margin:** essentially unchanged from last year;
- **treasury & investment banking margin:** equal to Euro 166.2 million, more than double the previous year, mainly due to the proceeds of the Parent Company's securities portfolio, for gains on disposal of government securities.

Net fee and commission income

Net fee and commission income

(Euro/000)

	First half 2013	First half 2012	Change	
			amount	%
Fee and commission income	**321,773**	**280,526**	**41,247**	**14.7**
Fee and commission expense	**(43,788)**	**(41,595)**	**(2,193)**	**–5.3**
Total net fee and commission income	**277,985**	**238,931**	**39,054**	**16.3**
Breakdown:				
guarantees given and received	9,414	9,245	169	1.8
credit derivatives	–	(23)	23	100.0
management, dealing and advisory services	125,390	84,833	40,557	47.8
collection and payment services	38,207	40,598	(2,391)	–5.9
servicing for securitisation transactions	–	–	–	–
management of current accounts	33,211	38,011	(4,800)	–12.6
other services	71,763	66,267	5,496	8.3
Total net fee and commission income	**277,985**	**238,931**	**39,054**	**16.3**

Net fee and commission income: details by company

(Euro/000)

	First half 2013	First half 2012	Change	
			amount	%
Banca Popolare di Milano	212,084	180,917	31,167	17.2
Banca di Legnano	49,195	39,747	9,448	23.8
Banca Popolare di Mantova	2,192	1,732	460	26.6
WeBank	4,830	4,182	648	15.5
Banca Akros	11,733	11,614	119	1.0
BPM Ireland	–	256	(256)	n.s.
ProFamily	(708)	701	(1,409)	n.s.
Other companies	(810)	(133)	(677)	n.s.
Consolidation eliminations/adjustments	(531)	(85)	(446)	n.s.
Total net fee and commission income	**277,985**	**238,931**	**39,054**	**16.3**

Net fee and commission income in June 2013 amounts to Euro 278 million, an increase of Euro 39.1 million with respect to the first half of 2012 (+16.3%). The increase is mainly attributable to net fee and commission income from management, dealing and advisory services that are up by Euro 40.6 million and which benefit, among other things, from the placement of indirect borrowing and asset management products in the first half of 2013.

Other income

Other income of Euro 192.1 million has grown compared with June 2012 by Euro 92.1 million, mainly thanks to the higher contribution of **net income from banking activities** (+ Euro 73 million), and the contribution from **net income from other operating charges/income** of Euro 31.8 million (+ Euro 14.6 million), which benefits from income from rapid processing fees of Euro 13.5 million, introduced in the second quarter of 2012 (Euro 4.1 million at 30 June 2012). There has also been a positive contribution from **income from investments carried at equity** (+ Euro 4.5 million) mainly attributable to the positive results of AM Holding (Euro 8.5 million), Bipiemme Vita (Euro 3.2 million) and Factorit (Euro 3.2 million), which offset the negative results of Selma Bipiemme Leasing (– Euro 3.8 million).

Net income (loss) from banking activities

Net income (loss) from banking activities

(Euro/000)

	First half 2013	First half 2012	Change	
			amount	%
Dividends	9,036	9,753	(717)	–7.4
Profits (losses) on trading	28,951	29,192	(241)	–0.8
Fair value adjustments in hedge accounting	(3,647)	15,129	(18,776)	n.s.
Profits/(losses) on disposal or repurchase of financial assets/liabilities	119,808	32,675	87,133	266.7
Profits/(losses) on financial assets and liabilities designated at fair value	7,980	7,654	326	4.3
Net losses/recoveries on impairment: financial assets available for sale	(13,555)	(18,841)	5,286	28.1
Total net income from banking activities	**148,573**	**75,562**	**73,011**	**96.6**

Net income from banking activities: details by company

(Euro/000)

	First half 2013	First half 2012	Change	
			amount	%
Banca Popolare di Milano	110,379	19,668	90,711	n.s.
Banca di Legnano	4,610	5,634	(1,024)	–18.2
Banca Popolare di Mantova	105	75	30	40.0
WeBank	1,117	(54)	1,171	n.s.
Banca Akros	32,813	23,492	9,321	39.7
BPM Ireland	–	10,577	(10,577)	n.s.
Other companies	–	13,763	(13,763)	n.s.
Consolidation eliminations/adjustments	(451)	2,407	(2,858)	n.s.
Total net income from banking activities	**148,573**	**75,562**	**73,011**	**96.6**

"Net income from banking activities", comes in at Euro 148.6 million, Euro 73 million up on the first half of 2012. The following should be noted regarding the components of this aggregate:

- **dividends** amount to Euro 9 million, broadly in line with the figure in June 2012;
- **profits (losses) on trading** turned in a positive balance of about Euro 29 million, stable compared with the first six months of 2012;
- **fair value adjustments in hedge accounting** amounted to a loss of Euro 3.6 million compared with income of Euro 15.1 million for the same period last year. Bear in mind that the 2012 result included gains on the partial unwinding of hedge accounting derivatives on the repurchase of financial liabilities that were being hedged, whereas repurchases of own financial liabilities in the first half of 2013 were minimal;
- **profits from the sale or repurchase of financial assets/liabilities** amount to Euro 119.8 million, up by Euro 87.1 million on the first half of 2012, mainly due to gains on disposal of domestic government bonds by the Parent Company;
- **profits (losses) on financial assets and liabilities designated at fair value** show a positive balance of Euro 8 million, stable compared with June 2012;
- **Net losses/recoveries on impairment relating to financial assets available for sale** amount to a loss of Euro 13.6 million and mostly relate to specific adjustments to mutual fund.

Operating expenses

In the period ended 30 June 2013, **operating expenses** – made up of administrative expenses and net adjustments to property and equipment and intangible assets – amounted to Euro 499.9 million, a slight increase compared with the same period in 2012 (+0.4%). The cost/income ratio has fallen by 6.3 p.p. to 56.4%.

Operating expenses: breakdown

(Euro/000)

	First half 2013	First half 2012	Change	
			amount	%
Administrative expenses:	**(464,471)**	**(460,936)**	**(3,535)**	**–0.8**
a) personnel expenses	(319,970)	(314,394)	(5,576)	–1.8
b) other administrative expenses	(144,501)	(146,542)	2,041	1.4
Net adjustments to property and equipment and intangible assets	**(35,379)**	**(36,998)**	**1,619**	**4.4**
Total	**(499,850)**	**(497,934)**	**(1,916)**	**–0.4**

Operating expenses: details by company

(Euro/000)

	First half 2013	First half 2012	Change	
			amount	%
Banca Popolare di Milano	(384,414)	(373,110)	(11,304)	–3.0
Banca di Legnano	(72,929)	(78,423)	5,494	7.0
Banca Popolare di Mantova	(4,805)	(4,797)	(8)	–0.2
WeBank	(20,519)	(24,032)	3,513	14.6
Banca Akros	(28,708)	(30,099)	1,391	4.6
BPM Ireland	(10)	(939)	929	98.9
ProFamily	(11,056)	(9,958)	(1,098)	–11.0
Other companies	(1,428)	(2,267)	839	37.0
Consolidation eliminations/adjustments	24,019	25,691	(1,672)	–6.5
Total operating expenses	**(499,850)**	**(497,934)**	**(1,916)**	**–0.4**

In detail, **personnel expenses** amount to Euro 320 million, 5.6 million up (+1.8%) on the first half of 2012, which benefited, among other things, from the cancellation of the portion of earnings reserved for BPM employees (under art. 60 of the Articles of Association) because of the loss incurred during the period. On the other hand, expenses in the first half of 2013 include variable components based on the results for approximately Euro 19.4 million (including the portion of earnings under the Articles of Association, as mentioned above). Note that, compared with the first half of 2012, the wages component is shrinking because of a lower average headcount, which reflects the voluntary redundancies at the end of 2012 and March 2013.

Other administrative expenses: breakdown

(Euro/000)

	First half 2013	First half 2012	Change	
			amount	%
IT expenses	(41,639)	(38,763)	(2,876)	–7.4
Expenses for buildings and furniture	(26,509)	(27,718)	1,209	4.4
Property leases	*(19,489)*	*(20,501)*	*1,012*	*4.9*
Other expenses	*(7,020)*	*(7,217)*	*197*	*2.7*
Purchases of assets and non-professional services	(31,098)	(33,516)	2,418	7.2
Purchases of professional services	(22,402)	(16,332)	(6,070)	–37.2
Insurance premiums	(2,013)	(1,873)	(140)	–7.5
Advertising expenses	(5,730)	(10,264)	4,534	44.2
Indirect taxes and duties	(47,326)	(49,215)	1,889	3.8
Other	(2,504)	(7,211)	4,707	65.3
Total	**(179,221)**	**(184,892)**	**5,671**	**3.1**
Reclassification of "recoverable indirect taxes"	34,720	38,350	(3,630)	–9.5
Total	**(144,501)**	**(146,542)**	**2,041**	**1.4**

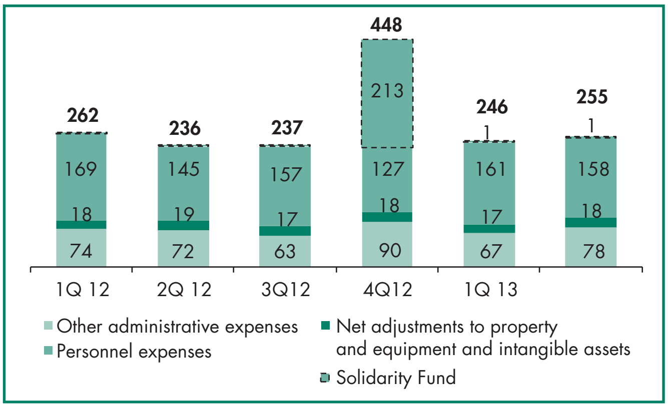
Other administrative expenses amount to Euro 144.5 million (net of reclassified indirect tax recoveries), a slight decrease on the first half of 2012 (–1.4%), helped by a constant focus on cost control. In particular, there was:

- an increase in "purchases of professional services" (+ Euro 6.1 million) as a result of the consulting services used to support various projects of the Business Plan, and in IT expenses (+ Euro 2.9 million), mainly due to higher expenses for software maintenance;
- a contraction in "advertising expenses" (– Euro 4.5 million) mainly attributable to the Parent Company (– Euro 1.2 million) and to WeBank (– Euro 2.7 million);
- a decline in "purchases of assets and non professional services" (– Euro 2.4 million)

Net adjustments to property and equipment and intangible assets come to Euro 35.4 million, down on the figure of Euro 4.4 million of June 2012.

Quarterly trend in operating expenses

(Euro/mn)



The quarterly analysis of **operating expenses** shows them rising in the second quarter of 2013, after the contraction that characterised the various quarters in 2012.

In detail, **personnel expenses** in the second quarter of 2013 fell compared with the previous quarter, benefiting from the retirement of those who had joined the Solidarity Fund, while **other administrative expenses** show an increase on the first quarter of 2013, due to higher expenses mainly linked to initiatives in the Business Plan.

Net adjustments, provisions and other items

Net adjustments for impairment of loans and other activities amount to Euro 163.8 million in the first half of 2013 and are higher than the amount of Euro 134.4 million reported in the same period in 2012 (+ Euro 29.4 million; +21.9%). This increase is mainly attributable to the difficult economic environment and a general deterioration in credit standing that particularly concerned the construction industry, to which the Group has a considerable exposure, as well as manufacturing and commerce.

The following have contributed to the increase in net adjustments for impairment of loans and collateral:

- specific adjustments to loans for Euro 246.3 million euro, whereas in the first half of 2012 about Euro 223.5 million was allocated to this item;
- collective portfolio adjustments of some Euro 5.7 million, compared with Euro 2.7 million in the same period of 2012;
- writebacks for a total of Euro 88.2 million.

Given the above measures, the cost of credit, which is the ratio of annualised net loan adjustments to total loans outstanding, increased from 77 bps in June 2012 to 96 bps in the first half of 2013 (+19 bps). For further analysis, reference should be made to the section in this report on "Asset quality".

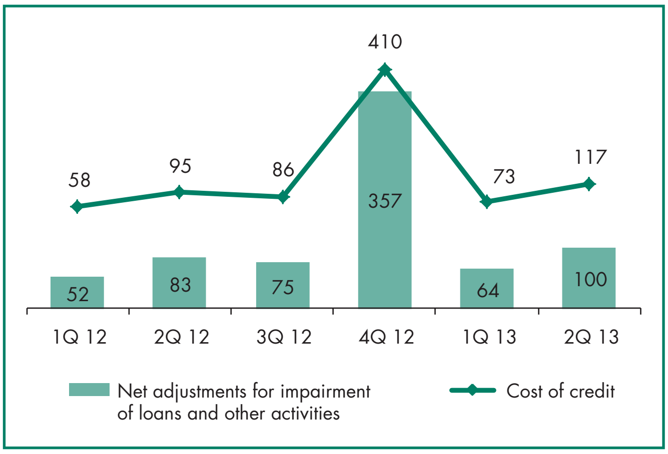
The **provisions for risks and charges** amount to Euro 8.4 million, compared with Euro 6.9 million in the first half of 2012.

Net adjustments for impairment of loans and other activities: breakdown

(Euro/000)

Transactions/ Income elements	Adjustments			Writebacks			First half 2013	First half 2012	Change	
	Specific	Portfolio	Total	Specific	Portfolio	Total			Amount	%
Loans:	**(239,532)**	**(1,654)**	**(241,186)**	**53,117**	**26,181**	**79,298**	**(161,888)**	**(127,420)**	**(34,468)**	**–27.1**
Due from banks	–	(338)	(338)	–	360	360	22	(423)	445	n.s.
Loans to customers	(239,532)	(1,316)	(240,848)	53,117	25,821	78,938	(161,910)	(126,997)	(34,913)	–27.5
Profits/losses on disposal/repurchase of loans	**–**	**–**	**–**	**450**	**–**	**450**	**450**	**(7)**	**457**	**n.s.**
Other financial activities	**(6,779)**	**(4,056)**	**(10,835)**	**8,340**	**117**	**8,457**	**(2,378)**	**(7,000)**	**4,622**	**n.s.**
Total	**(246,311)**	**(5,710)**	**(252,021)**	**61,907**	**26,298**	**88,205**	**(163,816)**	**(134,427)**	**(29,389)**	**–21.9**

Quarterly trend in net adjustments for impairment of loans and other activities (Euro/mn) and the annualised cost of credit (bps)



The quarterly analysis of adjustments to loans and other activities shows an amount of Euro 99.7 million in the second quarter of 2013, which is higher than the figure in the first quarter.

The cost of credit shows a similar trend, arriving at 117 bps on a quarterly basis, compared with 73 bps in the first quarter of 2013.

Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets

The line item **profits and losses from equity and other investments and adjustments to goodwill and intangible assets** comes to zero, compared with the negative balance of Euro 359.9 million in the first half of 2012 (attributable to writedowns of goodwill and core deposits following the outcome of the impairment tests).

Net income (loss) for the period

At 30 June 2013, after recording taxes of Euro 108 million, **net income for the period** amounts to Euro 105.9 million, compared with a net loss of Euro 134.9 million in the first half of 2012.

Net of **minority interests** (some Euro 0.3 million), the **net income attributable to the Parent Company** amounts to Euro 105.6 million.

Statement of cash flows

The following statement of cash flows of the BPM Group for the period ended 30 June 2013 shows cash absorption of Euro 58.9 million, compared with cash absorption of Euro 185.7 million in the first six months of 2012.

During the first half-year of 2013, **operating activities** generated total cash of Euro 464.4 million, and we would point out in particular that:

- **cash flow from operations** amounts to Euro 419.3 million, up by Euro 180 million compared with the same period in 2012, due to the positive result of the period;
- **financial assets net of financial liabilities** generated liquidity of Euro 45 million compared with an absorption of cash of Euro 39 million of June 2012.

Investing activities absorbed cash of Euro 23.4 million, compared with cash absorption of Euro 14.3 million in the first half of 2012.

BPM Group – Consolidated statement of cash flows (indirect method)

(Euro/000)

A. OPERATING ACTIVITIES	First half 2013	First half 2012
1. Cash flow from operations	419,318	238,698
2. Cash flow from/used in financial assets	1,180,327	–929,086
3. Cash flow from/used in financial liabilities	–1,135,212	890,380
Net cash flow from/used in operating activities	**464,433**	**199,992**
B. INVESTING ACTIVITIES		
1. Cash flow from	0	734
2. Cash flow used in	–23,351	–15,015
Net cash flow from/used in investing activities	**–23,351**	**–14,281**
C. FINANCING ACTIVITIES		
Net cash flow from/used in financing activities	**–499,990**	**–16**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**–58,908**	**185,695**

Reconciliation

Line items	First half 2013	First half 2012
Cash and cash equivalents at the beginning of the period	285,892	241,315
Net increase (decrease) in cash and cash equivalents	–58,908	185,695
Cash and cash equivalents: foreign exchange effects	0	0
Cash and cash equivalents at the end of the period	**226,984**	**427,010**

Key: (+) generated (–) absorbed

Related party transactions

As is generally known, the rules governing related party transactions aim to limit the risk that belonging to or, in any case, the proximity of certain people (so-called "related parties") to the company's decision–making bodies might compromise the impartiality of corporate decisions and the exclusive pursuit of the company's interests, with possible distortions in the process of allocating resources, exposure of the company to risks which are not adequately measured or controlled, and potential damage to the company and its stakeholders.

Talking of which, in compliance with the legal provisions introduced concerning disclosure requirements with regard to related party transactions, as per art. 71-bis of Consob's Issuers Regulation (now repealed), since December 2002 the BPM Group has a specific internal procedure that – by identifying the persons and the specific types of transactions involved within of the Group – has strengthened the authorisation process and the level of the related reporting profile. This procedure was subsequently updated according to the legislative changes that took place in this area, with the latest version contained in the "Regulation of the BPM Group on related party transactions and rules of conduct regarding the interests of directors and managers", though from 2013 it is no longer in force as it has been absorbed by another broader internal regulation (see below).

In March 2010, Consob issued a special measure called the "Regulation regarding related party transactions" (see Consob Regulation 17221 of 12 March 2010 and 17389 of 23 June 2010), which was followed by further guidance and guidelines for its application in Consob communications (in particular, Communication DEM/10078683 of 24 September 2010). Its purpose was to implement art. 2391-bis of the Italian Civil Code, which delegates to Consob the definition of general principles of transparency and substantial and procedural fairness of transactions with related parties, to be reflected in specific internal regulations by companies that have recourse to risk capital.

For completeness of information, we would also point out that on 12 December 2011 the Bank of Italy, in its role as bank supervisor, issued special rules on risk assets and conflicts of interest with related entities, implementing Resolution no. 277 dated 29 July 2008 of the CICR (the Interministerial Banking Commission).

Following the introduction of this regulation, in 2012 the BPM Group adopted a single set of "Rules for related parties", prepared in accordance with both of the regulations mentioned previously (those issued by the Bank of Italy and Consob), which are available on the Bank's website www.gruppobpm.it (see for a detailed description). This was published in June 2012 with effect from 31 December of that year and replaced the previous internal regulation which only implemented the Consob regulation.

In particular, these Rules:

i. set out the criteria for the identification of the BPM Group's related parties (hereinafter "Related Parties");
ii. define the quantitative limits for the assumption by the Banking Group of risk-weighted assets of Related Parties, determining the relevant means for their computation, regulating, at the same time, the system of internal controls on transactions with Related Parties;
iii. establish the manner in which transactions with Related Parties are approved, differentiating between lesser and more significant transactions and defining in this context the role and the duties of an independent Member of the Management Board, assisted by a competent independent expert;
iv. set out cases for exemptions and exceptions for certain types of transactions with Related Parties;
v. lay down the disclosure requirements (also for accounting purposes) as a result of entering into related party transactions.

The Bank then drew up suitable "implementation instructions" (adopted individually by BPM Group companies) to accompany these "Rules". These are designed to define certain aspects regarding the correct management of transactions with related parties, to optimise the monitoring and management of the related positions by operators, as well as the relevant powers of authorisation.

Therefore, having set out the general legal framework and regulatory system for "related parties" within the Group, it should be pointed out that, with particular reference to the granting of loans (one of the Bank's main businesses), the IT procedures currently used by the Bank make it possible, among other things, to recognise immediately – and consequently to centralise automatically with the pertinent head office structures – any lines of credit granted to those who are considered a related party.

Having said this by way of general introduction, as regards the first half of 2013 and, in particular, the relationships between BPM and its subsidiaries and associates, as well as with other related parties, we would point out that any such transactions have been carried out as part of the Bank's normal day-to-day activities. They are regulated at market conditions for transactions of that type and, where these do not exist, based on an adequate remuneration of the costs incurred to produce the services rendered.

In this regard, we would point out in particular that:

- except as specified below, there were no atypical or unusual transactions during the first half of 2013 with related parties or any such that would significantly affect the balance sheet, income statement or financial position and hence requiring disclosure to the market in accordance with the Consob's Issuers Regulation in force;
- all loans to subsidiaries and associates, as well as to other affiliates were subjected to Board approval regardless of the amount, as foreseen in the internal Credit Line Regulations (without prejudice to the instructions on related party transactions contained in the "Rules");
- also subject to board resolution – approved by a unanimous vote of the members of the Management Board and with the agreement of the entire Supervisory Board – are the transactions carried out directly or indirectly with persons that fall into the scope of application of art. 136 of the Banking Code ("Obligations of bank corporate officers"), as amended by art. 24-ter of Law 221 dated 17 December 2012 (converting Legislative Decree 179/2012);
- at the level of individual (and non-recurring) transactions:
  - on 17 April 2013, the deed of merger for the absorption of Akros Alternative Investments SGR SpA by Banca Akros SpA was stipulated, prepared pursuant to the combined provisions of arts. 2501-ter and 2505 of the Italian Civil Code and with effect from 1 May 2013, already approved on 15 November 2012 by the Board of Directors of Banca Akros SpA (a subsidiary of BPM) and the Board of Directors of Akros Alternative Investments SGR SpA (a company wholly owned by Banca Akros). This merger by absorption consisted of a transaction between related parties. Taking account of the fact that the mergee is a Group company (and entirely held by Banca Akros), in accordance with applicable governing regulations and with the BPM Group's internal policy, the transaction benefited from exemptions from the rules on related parties, as foreseen in such circumstances;
  - on 22 June 2013, the Extraordinary General Meeting of BPM approved the merger of Banca di Legnano SpA with Banca Popolare di Milano. In this regard, it is worth recalling (see the report in the 2012 Financial Statements) that on 4 December 2012 the Management Board of BPM and the Board of Directors of Banca di Legnano SpA, pursuant to arts. 2501-ter and 2505-bis of the Italian Civil Code, approved their Merger Plan, including the involvement of a related party outside the Group, namely Fondazione Cassa di Risparmio di Alessandria (holder of 2.2% of the share capital of Banca di Legnano SpA).
    Specific safeguards have therefore been activated as required by current regulations, also at corporate level, on the subject of related parties. Under these specific conditions, this merger was identified as being a "less relevant" related party transaction and, therefore, subject to less stringent approvals as envisaged by law in such cases. Although this event took place after the end of the period under review, the merger deed was stipulated on 22 July 2013, with effect for legal purposes from 14 September 2013 and from 1 January 2013 for accounting and tax purposes.

With reference to the requirements of art. 5, para. 8, of Consob Regulation 17221/2010 (and subsequent amendments) on interim accounting information, note that as part of its normal operations the Bank carried out a number of transactions with related parties during the first half of 2013 that would qualify as being of "greater relevance" (under Consob's regulation and the related internal procedure); in particular, these transactions were carried out with direct or indirect subsidiary companies or associates of the Bank. In this connection, with particular reference to credit line relationships (understood as the overall credit positions granted), the following is a summary table of the credit line relationships maintained by BPM with these companies, approved or revised by BPM during the period and falling within the said relevance parameters.

(Euro/000)

Counterparty	**Nature of relationship**	**Total credit granted – minimum**	**Total credit granted – maximum**
Banca Akros SpA	Subsidiary company	22,837,164	22,860,164
Banca di Legnano SpA	Subsidiary company	1,018,441	1,018,447
BPM Covered Bond Srl	Subsidiary company	7,809,868	8,242,127
ProFamily SpA	Subsidiary company	1,121,900	1,121,966
WeBank SpA	Subsidiary company	666,224	1,076,224
Anima SGR SpA	Associated company	300,306	700,306
Pitagora Finanziamenti contro cessione del quinto SpA	Associated company	295,589	295,616
Credit Industriel et Commercial	Strategic Partner (*)	483,186	485,365

(*) Strategic partner of BPM, the Articles of Association of which attribute particular prerogatives both in terms of representation on the Supervisory Board and on related sub-committees, as well as the determining vote in the process of appointment of the Management Board. In consideration of the principle of "substance over form" referred to by Consob and by IAS 24, the Bank has deemed it appropriate to include this entity in the application of the aforementioned Consob regulations.

Again for information purposes, the following is a summary table of the credit line relationships (understood as the overall credit positions granted) approved or revised during the period by companies of the BPM Group with the Parent Company or with other subsidiary companies or associates of BPM and falling under the said relevance parameters.

(Euro/000)

Group companies	**Counterparty**	**Nature of relationship**	**Total credit granted – minimum**	**Total credit granted – maximum**
Banca di Legnano SpA	Bipiemme	Parent company	1,043,057	1,043,057
Banca di Legnano SpA	Banca Akros SpA	Both subsidiaries of BPM	800,000	800,000

Lastly, again with regard to intercompany transactions, note that in the first half of 2013:

- the subsidiary WeBank – under the "Multi–originator" Programme for the issue of bonds, structured at the time by the Parent Company – sold to the SPV "BPM Covered Bond" (a subsidiary of BPM) a portfolio of residential mortgage loans of nominal value of Euro 433 million, granting the vehicle a loan of the same amount;
- as part of ordinary operations within the Group and with the application of conditions at market level – bonds have been issued for Group companies ("private placements") for a total nominal value of Euro 250 million.

BPM's shareholders, stock price and ratings

Shareholders

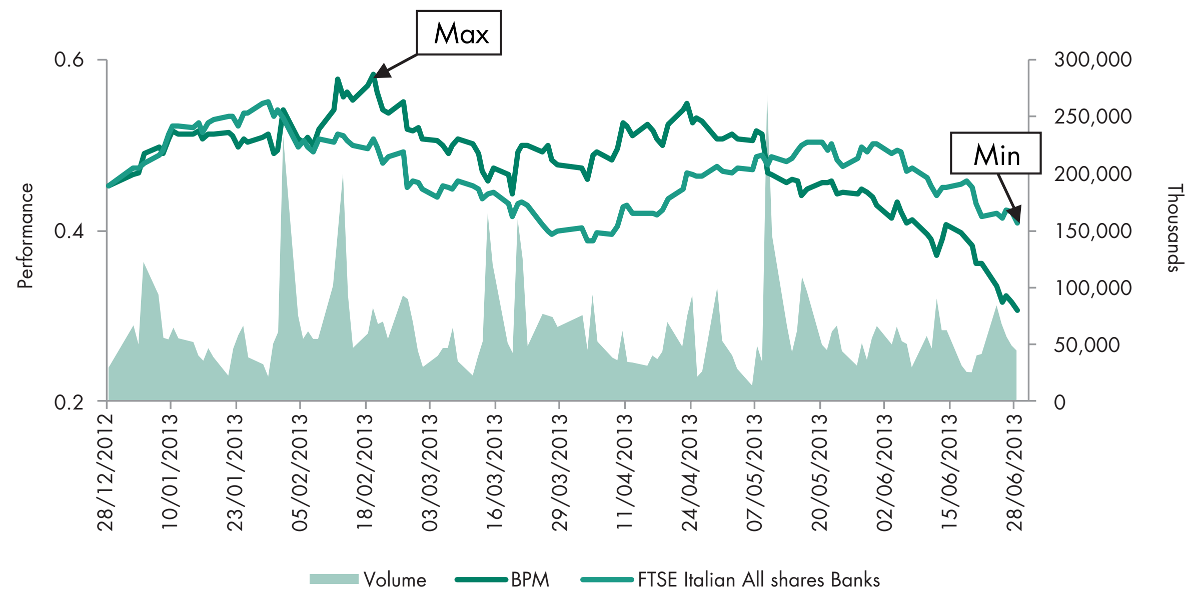
As of 30 June 2013, there were 55,815 registered members and a further 58,107 shareholders not recorded in the Register of Members, making an overall total of 113,922. During the course of the first half of 2013, 294 new Members were admitted, whereas 141 Members were excluded because of death.

The share capital at 30 June 2013 amounts to Euro 2,865,709,760 and consists of 3,229,622,702 ordinary shares; 1,395,574 treasury shares are held by the Bank.

Performance of BPM stock

Even though the economic environment is still weak, the main international financial markets turned in positive performances in the first half of 2013. In detail, the first six months of 2013 were characterised by the crisis in Cyprus and its possible contagion to other Eurozone countries, the slowdown in growth of the Chinese economy, while, at a macro level, there were some signs of improvement in the U.S. economy.
Individual performances saw the American index (S&P’s 500) rise by 12.6%, the London index (FTSE 100) by 5.4%, the German index (DAX 30) by 4.6% and the French index (CAC 40) by 2.7%. The performance of the Milan stock market index (FTSE MIB), however, was negative as it fell by 6.4%.
Worth noting is the particular weakness of the banking sector in the first half of 2013; the European sector index (Euro Stoxx Banks) fell by 9.8%, as did the Italian one (FTSE Italia All Share Banks) which posted a decline of 9.4%. Among the various components of this index, the BPM stock turned in a negative performance of 32.1%, presumably due to the slower pace of the transformation project which had helped the stock rise in the first months of the year, allowing it to reach its highest level for the period and outperform the sector index.
Since the start of the year, the BPM stock has fluctuated within a range that went from a low of Euro 0.3070 on 28 June 2013 to a high of Euro 0.5830 on 19 February 2013. Average daily trading volumes in the first half of 2013 were 63 million shares.

Performance of the share price of Banca Popolare di Milano during the first half of 2013



Ratings

The following table on "Ratings" summarises the ratings given by the international rating agencies Standard & Poor's, Fitch Ratings and Moody's.

Banca Popolare di Milano rating at 30 June 2013

Rating agency	Date of review	Long-term debt	Short-term debt	Outlook
Standard & Poor's	3 August 2012	BB+	B	Negative
Fitch Ratings	28 August 2012	BBB–	F3	Negative
Moody's	16 May 2013	Ba3	N–P	RuR (1)

(*) RuR = Rating Under Review

The most recent rating reviews for Banca Popolare di Milano by the main international rating agencies are as follows:

- on 3 August 2012, **Standard & Poor's** downgraded BPM's medium/long–term debt from BBB– to BB+ and its short–term debt from A–3 to B, removing the negative creditwatch that began on 2 April 2012. This was motivated by the expectation of an increase in the vulnerability of Italian banks, particularly with respect to credit risk in the economy, as the recession in Italy was worse than expected.
  Recently – after the end of the first half of 2013 – on 24 July 2013, Standard & Poor's carried out various rating adjustments for the Italian banking sector and again lowered its long–term rating of Banca Popolare di Milano and Banca Akros (from BB+ to BB), removing the negative creditwatch posted on 12 July 2013 as a result of the downgrade of Italy's sovereign rating (from BBB+ to BBB), which took place on 9 July. According to Standard & Poor's, this downgrading reflects the increase in economic and sector risk for Italian banks, while their opinion on the individual risk factors that go to form BPM's rating stays the same. S&P confirmed its short–term rating (B) and negative outlook;
- on 28 August 2012, **Fitch Ratings** downgraded BPM's medium–long term debt from BBB to BBB–; this formed part of a general downgrading by Fitch Ratings of eight medium–sized Italian banks. The decision reflected the expectation that credit quality would remain under pressure given today's difficult operating environment. The outlook was negative for the entire sample and is linked to Fitch's expectations of a scenario in which access to funding will be more and more difficult and there will be increasing pressure on profitability.
  After the end of the half–year, on 26 July 2013, as part of a process of revision of the ratings of eight Italian mid–sized banks, Fitch Ratings placed BPM's viability rating (bbb–), long–term rating (BBB–) and short–term rating (F3) on negative credit watch. This creditwatch reflects Fitch Ratings' expectation with regard to BPM's ability to complete the reinforcement, and consequent improvement, of the Bank's corporate governance;
- on 16 May 2013, **Moody's** lowered BPM's long–term rating to Ba3 from Baa3 and its short–term rating to N–P from P–3. The long–term debt rating is still under review for a possible downgrade. This action is primarily due to expectations of a deterioration in credit quality in 2013 and 2014 and a weakness in revenues. Previously, on 14 May 2012, during a review of the Italian banking system, **Moody's** downgraded its rating on 26 Italian banks, but did not change its rating on BPM, both on medium to long–term debt (Baa3) and on short–term debt (P–3).

Subsequent events

Significant events subsequent to the first half of 2013 have been reported in the section of this report on “Significant Events for Banca Popolare di Milano and the BPM Group”.

Outlook

After the first half of 2013, based on the information available to date, the operating performance of the Group will continue along the lines of growth indicated in the 2012–2015 Consolidated Business Plan, as approved by the Management Board of the Parent Company in July 2012, albeit in an environment of persistent problems in the national and local macroeconomic scenario.
In particular, the level of market interest rates will continue to affect the interest margin for the rest of 2013 and the forecast of negative GDP growth could affect the cost of credit, although for the latter part of the year the recession that has been going on since 2011 is expected to end, with foreign demand and exports as the main elements driving growth. Banking – which is inevitably affected by the current weak scenario – will be able to benefit from an upturn in the economic cycle and a recovery in investment.

Subsequent to 30 June 2013, the BPM Group's commercial performance is focused on strengthening its presence on the territory and the level of service to customers, while, at the same time, maintaining tight control over risks. Particular attention will still be paid to cost containment, both through the previously planned headcount reduction by means of employees signing up with the Solidarity Fund and through the completion of the projects aimed at organisational simplification.

Risks and uncertainties

The information on the risks and uncertainties to which the Group is exposed is provided in the report on operations and in the explanatory notes.
In particular, the risks associated with the persistence of the economic situation affect the valuation methods used to measure credit risk. The report on operations and explanatory notes show the effects of these valuations. More generally, the financial risks (credit risk and market risk) and operational risk are explained in Part E of the notes, while the information on capital solidity is provided in Part F of the notes.

The Group is expected to continue operating in the foreseeable future, so this Interim Report has been prepared on a going-concern basis.

Opt-out from the obligation to publish a prospectus in the event of significant transactions

Pursuant to art. 3 of Consob Resolution no. 18079 of 20 January 2012, the Management Board of Banca Popolare di Milano has decided to take advantage of the opt-out provided for in arts. 70, paragraph 8, and 71, paragraph 1-bis of Consob Regulation no. 11971/99 (as amended).

Half-yearly condensed consolidated financial statements of the BPM Group

Half-yearly condensed consolidated financial statements

Consolidated balance sheet

(Euro/000)

Asset line items		30.06.2013	31.12.2012	30.06.2012
10.	Cash and cash equivalents	226,984	285,892	427,010
20.	Financial assets held for trading	1,705,445	1,821,675	2,136,999
30.	Financial assets designated at fair value through profit and loss	259,500	259,321	376,610
40.	Financial assets available for sale	9,639,583	9,539,376	9,074,075
50.	Investments held to maturity	0	0	0
60.	Due from banks	2,106,886	2,718,371	2,784,524
70.	Loans to customers	34,038,161	34,790,891	34,947,529
80.	Hedging derivatives	217,206	256,320	221,131
90.	Fair value change of financial assets in hedged portfolios (+/–)	13,150	24,707	26,611
100.	Investments in associates and companies subject to joint control	357,642	346,039	323,246
110.	Technical insurance reserves reassured with third parties	0	0	0
120.	Property and equipment	745,093	757,938	735,894
130.	Intangible assets	74,199	70,175	64,194
	of which:			
	– goodwill	*0*	*0*	*0*
140.	Tax assets	924,774	948,626	862,304
	a) current	*178,204*	*152,489*	*138,974*
	b) deferred	*746,570*	*796,137*	*723,330*
	of which Law 214/11	*491,985*	*525,599*	*635,797*
150.	Non-current assets held for sale and discontinued operations	0	0	0
160.	Other assets	657,753	655,674	641,640
Total assets		**50,966,376**	**52,475,005**	**52,621,767**

Consolidated balance sheet

(Euro/000)

Liabilities and shareholders' equity		30.06.2013	31.12.2012	30.06.2012
10.	Due to banks	6,281,204	6,292,005	7,753,545
20.	Due to customers	27,073,851	26,297,613	24,329,544
30.	Securities issued	10,182,184	11,223,349	11,847,393
40.	Financial liabilities held for trading	1,315,536	1,585,447	1,794,464
50.	Financial liabilities designated at fair value through profit and loss	591,492	1,009,898	1,051,678
60.	Hedging derivatives	34,146	45,049	45,372
70.	Fair value change of financial liabilities in hedged portfolios (+/–)	27,056	30,942	34,892
80.	Tax liabilities	126,943	140,026	84,791
	a) current	*51,250*	*20,437*	*16,016*
	b) deferred	*75,693*	*119,589*	*68,775*
90.	Liabilities associated with non-current assets held for sale and discontinued operations	0	0	0
100.	Other liabilities	1,087,983	1,131,193	1,148,079
110.	Employee termination indemnities	142,147	147,167	143,548
120.	Allowances for risks and charges:	491,244	515,599	312,539
	a) post employment benefits	*82,255*	*86,764*	*81,117*
	b) other allowances	*408,989*	*428,835*	*231,422*
130.	Technical reserves	0	0	0
140.	Valuation reserves	36,454	62,476	–218,335
150	Redeemable shares	0	0	0
160.	Equity instruments	0	500,000	500,000
170.	Reserves	586,149	850,557	850,557
180.	Share premium reserve	9	166,897	166,902
190.	Share capital	2,865,710	2,865,709	2,865,709
200.	Treasury shares (–)	–859	–859	–863
210.	Minority interests (+/–)	19,520	41,631	43,296
220.	Net income (loss) for the period (+/–)	105,607	–429,694	–131,344
Total liabilities and shareholders' equity		**50,966,376**	**52,475,005**	**52,621,767**

Consolidated income statement

(Euro/000)

Income statement line items		First half 2013	First half 2012
10.	Interest and similar income	712,398	813,410
20.	Interest and similar expense	(296,612)	(358,324)
30.	**Interest margin**	**415,786**	**455,086**
40.	Fee and commission income	321,773	280,526
50.	Fee and commission expense	(43,788)	(41,595)
60.	**Net fee and commission income**	**277,985**	**238,931**
70.	Dividend and similar income	9,036	9,753
80.	Profits (losses) on trading	28,951	29,192
90.	Fair value adjustments in hedge accounting	(3,647)	15,129
100.	Profits (losses) on disposal or repurchase of:	120,258	32,668
	a) loans	*450*	*(7)*
	b) financial assets available for sale	*119,774*	*17,678*
	c) investments held to maturity	*0*	*0*
	d) financial liabilities	*34*	*14,997*
110.	Profits (losses) on financial assets and liabilities designated at fair value	7,980	7,654
120.	**Net interest and other banking income**	**856,349**	**788,413**
130.	Net losses/recoveries on impairment:	(177,821)	(153,261)
	a) loans	*(161,888)*	*(127,420)*
	b) financial assets available for sale	*(13,555)*	*(18,841)*
	c) investments held to maturity	*0*	*0*
	d) other financial activities	*(2,378)*	*(7,000)*
140.	**Net income from banking activities**	**678,528**	**635,152**
150.	Net insurance premiums	0	0
160.	Other net insurance income (expense)	0	0
170.	**Net income from banking and insurance activities**	**678,528**	**635,152**
180.	Administrative expenses:	(499,191)	(499,286)
	a) personnel expenses	*(319,970)*	*(314,394)*
	b) other administrative expenses	*(179,221)*	*(184,892)*
190.	Net provisions for risks and charges	(8,355)	(6,887)
200.	Net adjustments to/recoveries on property and equipment	(21,640)	(21,611)
210.	Net adjustments to/recoveries on intangible assets	(11,527)	(37,972)
220.	Other operating expenses/income	64,261	53,298
230.	**Operating expenses**	**(476,452)**	**(512,458)**
240.	Profits (losses) on investments in associates and companies subject to joint control	11,790	7,270
250.	Valuation differences on property, equipment and intangible assets measured at fair value	0	0
260.	Goodwill impairment	0	(335,425)
270.	Profits (losses) on disposal of investments	0	285
280.	**Income (loss) before tax from continuing operations**	**213,866**	**(205,176)**
290.	Taxes on income from continuing operations	(108,000)	70,314
300.	**Income (loss) after tax from continuing operations**	**105,866**	**(134,862)**
310.	Income (loss) after tax from discontinued operations	0	0
320.	**Net income (loss) for the period**	**105,866**	**(134,862)**
330.	Minority interests	(259)	3,518
340.	**Parent Company's net income (loss) for the period**	**105,607**	**(131,344)**
	Basic EPS from continuing operations – Euro	**0.033**	**(0.041)**
	Diluted EPS from continuing operations - Euro	**0.033**	**(0.041)**
	Basic EPS – Euro	**0.033**	**(0.041)**
	Diluted EPS - Euro	**0.033**	**(0.041)**

Statement of consolidated comprehensive income

(Euro/000)

This prospectus has been changed from that contained in Circular 262/2005 of the Bank of Italy to take account of the changes introduced by IAS 1 (Presentation of Financial Statements), which requires a separate indication of the components that will never be transferred to the income statement from those that may subsequently be reversed to the net result for the year.

Line items		First half 2013	First half 2012
10.	**Net income (loss) for the period (*)**	**105,866**	**(134,862)**
	Other comprehensive income, net of tax, without reversal to the income statement	**(4,605)**	**(2,338)**
20.	Property and equipment	0	0
30.	Intangible assets	0	0
40.	Actuarial gains (losses) on defined benefit plans	(4,584)	(2,376)
50.	Non-current assets held for sale	0	0
60.	Share of valuation reserves connected with investments carried at equity	(21)	38
	Other comprehensive income, net of tax, with reversal to the income statement	**(21,035)**	**150,527**
70.	Hedging of foreign investments	0	0
80.	Foreign exchange differences	0	0
90.	Cash flow hedges	0	0
100.	Financial assets available for sale	(23,075)	139,106
110.	Non-current assets held for sale	0	0
120.	Share of valuation reserves connected with investments carried at equity	2,040	11,421
130.	**Total other comprehensive income (net of taxes)**	**(25,640)**	**148,189**
140.	**Total comprehensive income (Line items 10+130)**	**80,226**	**13,327**
150.	Total consolidated comprehensive income of minority interests	(141)	3,341
160.	**Total Parent Company's consolidated comprehensive income**	**80,085**	**16,668**

(*)	*Parent Company's net income (loss) for the period*	*105,607*	*(131,344)*
	Minority interests	*259*	*(3,518)*
	Net income (loss) for the period	***105,866***	***(134,862)***

The statement of comprehensive income is a restatement of the result for the period that includes changes in the value of assets booked directly to the valuation reserves (net of tax).

Statement of changes in consolidated shareholders' equity as at 30 June 2013

(Euro/000)

	Amounts as at 31.12.2012	Change in opening balance	Amounts as at 1.1.2013	Allocation of net income of the previous year		Changes for the period									Shareholders' equity as at 30.06.2013	Group shareholders' equity as at 30.06.2013	Minority interests as at 30.06.2013
							Operations on shareholders' equity										
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares (*)	Purchase of treasury shares	Extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Total comprehensive income for 1st half 2013			
Share capital:	**2,880,167**	**0**	**2,880,167**	**0**	0	**-12,088**	1	0	**0**	**0**	**0**	**0**	**0**	**2,868,080**	**2,865,710**	**2,370**
a) ordinary shares	2,880,167	0	2,880,167	0	0	-12,088	1	0	0	0	0	0	0	2,868,080	2,865,710	2,370
b) other shares	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Share premium reserve	**193,935**	**0**	**193,935**	**-172,102**	**0**	**-9,106**	9	0	**0**	**0**	**0**	**0**	**0**	**12,736**	**9**	**12,727**
Reserves:	**856,295**	**0**	**856,295**	**-262,895**	0	**-3,021**	-1	0	**0**	**0**	**0**	**0**	**0**	**590,378**	**586,149**	**4,229**
a) retained earnings	836,689	0	836,689	-262,895	0	-3,021	0	0	0	0	0	0	0	570,773	566,544	4,229
b) other	19,606	0	19,606	0	0	0	-1	0	0	0	0	0	0	19,605	19,605	0
Valuation reserves:	**62,029**	**0**	**62,029**	**0**	0	**0**	0	**0**	**0**	**0**	**0**	**0**	**-25,640**	**36,389**	**36,454**	**-65**
a) available for sale	92,127	0	92,127	0	0	0	0	0	0	0	0	0	-23,075	69,052	69,077	-25
b) cash flow hedges	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
c) Actuarial gains (losses) on defined-benefit pension plans	-36,072	0	-36,072	0	0	0	0	0	0	0	0	0	-4,584	-40,656	-40,616	-40
d) Non-current assets held for sale and discontinued operations	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
e) Share of valuation reserves connected with investments carried at equity	-7,468	0	-7,468	0	0	0	0	0	0	0	0	0	2,019	-5,449	-5,449	0
f) Special revaluation laws	13,442	0	13,442	0	0	0	0	0	0	0	0	0	0	13,442	13,442	0
Equity instruments	**500,000**	**0**	**500,000**	**0**	**0**	**0**	0	**0**	**0**	**-500,000**	**0**	**0**	**0**	**0**	**0**	**0**
Treasury shares	**-859**	**0**	**-859**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-859**	**-859**	**0**
Net income (loss) for the period	**-434,850**	**0**	**-434,850**	**434,997**	**-147**	**0**	0	**0**	**0**	**0**	**0**	**0**	**105,866**	**105,866**	**105,607**	**259**
Shareholders' equity	**4,056,717**	**0**	**4,056,717**	**0**	**-147**	**-24,215**	9	**0**	**0**	**-500,000**	**0**	**0**	**80,226**	**3,612,590**	**3,593,070**	**19,520**
Group shareholders' equity	**4,015,086**	**0**	**4,015,086**	**0**	**0**	**-2,110**	9	**0**	**0**	**-500,000**	**0**	**0**	**80,085**	**3,593,070**	**3,593,070**	
Minority interests	**41,631**	**0**	**41,631**	**0**	**-147**	**-22,105**	0	**0**	**0**	**0**	**0**	**0**	**141**	**19,520**		

(*) The change refers to the exercise of 147 BPM 2009/2013 warrants due to expire, which involved the issue of 1,323 shares for a value of Euro 9,011.

Statement of changes in consolidated shareholders' equity as at 30 June 2012

(Euro/000)

	Amounts as at 31.12.2011	Change in opening balance	Amounts as at 1.1.2012	Allocation of net income of the previous year		Changes for the period									Shareholders' equity as at 30.06.2012	Group shareholders' equity as at 30.06.2012	Minority interests as at 30.06.2012
							Operations on shareholders' equity										
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Total comprehensive income for 1st half 2012				
Share capital:	**2,883,418**	**0**	**2,883,418**	**0**	**0**	**–3,246**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**2,880,172**	**2,865,709**	**14,463**
a) ordinary shares	2,883,418	0	2,883,418	0	0	–3,246	0	0	0	0	0	0	0	2,880,172	2,865,709	14,463
b) other shares	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Share premium reserve	**185,204**	**0**	**185,204**	**–805**	**0**	**9,607**	**–5**	**0**	**0**	**0**	**0**	**0**	**0**	**194,001**	**166,902**	**27,099**
Reserves:	**1,480,334**	**0**	**1,480,334**	**–617,675**	**0**	**–6,361**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**856,298**	**850,557**	**5,741**
a) retained earnings	1,460,728	0	1,460,728	–617,675	0	–6,361	0	0	0	0	0	0	0	836,692	830,951	5,741
b) other	19,606	0	19,606	0	0	0	0	0	0	0	0	0	0	19,606	19,606	0
Valuation reserves:	**–364,289**	**0**	**–364,289**	**–2,724**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**148,189**	**–218,824**	**–218,335**	**–489**
a) available for sale	–325,423	0	–325,423	0	0	0	0	0	0	0	0	0	139,106	–186,317	–185,923	–394
b) cash flow hedges	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
c) Actuarial gains (losses) on defined-benefit pension plans	–20,800	0	–20,800	0	0	0	0	0	0	0	0	0	–2,376	–23,176	–23,097	–79
d) Non-current assets held for sale and discontinued operations	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
e) Share of valuation reserves connected with investments carried at equity	–34,232	0	–34,232	0	0	0	0	0	0	0	0	0	11,459	–22,773	–22,757	–16
f) Special revaluation laws	16,166	0	16,166	–2,724	0	0	0	0	0	0	0	0	0	13,442	13,442	0
Equity instruments	**500,000**	**0**	**500,000**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**500,000**	**500,000**	**0**
Treasury shares	**–852**	**0**	**–852**	**0**	**0**	**0**	**9**	**–20**	**0**	**0**	**0**	**0**	**0**	**–863**	**–863**	**0**
Net income (loss) for the period	**–621,204**	**0**	**–621,204**	**621,204**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**–134,862**	**–134,862**	**–131,344**	**–3,518**
Shareholders' equity	**4,062,611**	**0**	**4,062,611**	**0**	**0**	**0**	**4**	**–20**	**0**	**0**	**0**	**0**	**13,327**	**4,075,922**	**4,032,626**	**43,296**
Group shareholders' equity	**4,014,489**	**0**	**4,014,489**	**0**	**0**	**1,485**	**4**	**–20**	**0**	**0**	**0**	**0**	**16,668**	**4,032,626**	**4,032,626**	
Minority interests	**48,122**	**0**	**48,122**	**0**	**0**	**–1,485**	**0**	**0**	**0**	**0**	**0**	**0**	**–3,341**	**43,296**		

Consolidated statement of cash flows – indirect method

(Euro/000)

A. OPERATING ACTIVITIES	1st half 2013	Year 2012	1st half 2012
1. Cash flow from operations	**419,318**	**651,343**	**238,698**
– net income (loss) for the period (+/–)	105,607	–429,694	–131,344
– profits/losses on financial assets held for trading and on financial assets/liabilities designated at fair value through profit and loss (–/+)	–15,702	–96,750	–107,112
– profits/losses on hedging activities (–/+)	3,647	–16,124	–15,129
– Net losses/recoveries on impairment (+/–)	185,108	617,294	166,508
– net adjustments to property and equipment and intangible assets (+/–)	33,167	428,091	395,008
– net provisions for risks and charges and other costs/revenues (+/–)	18,378	258,127	13,716
– net insurance premiums to be collected (–)	0	0	0
– other insurance revenues/charges to be collected (–/+)	0	0	0
– taxes and duties to be settled (+)	100,903	–94,823	–75,679
– net adjustments/write-backs to discontinued operations net of tax effect (+/–)	0	0	0
– other adjustments (+/–)	–11,790	–14,778	–7,270
2. Cash flow from/used in financial assets	**1,180,327**	**–565,596**	**–929,086**
– financial assets held for trading	121,892	300,676	7,061
– financial assets designated at fair value through profit and loss	3,363	288,518	155,289
– financial assets available for sale	–157,005	–931,711	–783,435
– due from banks: repayable on demand	–710,517	394,308	1,479
– due from banks: other	1,322,024	–1,009,300	–682,422
– loans to customers	589,555	336,448	599,388
– other assets	11,015	55,465	–226,446
3. Cash flow from/used in financial liabilities	**–1,135,212**	**44,099**	**890,380**
– due to banks: repayable on demand	306,567	–68,006	–62,456
– due to banks: other	–317,368	–3,105,667	–1,649,677
– due to customers	772,352	4,891,181	2,927,062
– securities issued	–998,255	–1,476,679	–820,101
– financial liabilities held for trading	–269,911	–92,195	116,822
– financial liabilities designated at fair value through profit and loss	–411,908	–80,402	–34,029
– other liabilities	–216,689	–24,133	412,759
Net cash flow from (used in) operating activities	**464,433**	**129,846**	**199,992**
B. INVESTING ACTIVITIES			
1. Cash flow from	**0**	**1,541**	**734**
– sales of investments in associates and companies subject to joint control	0	0	0
– dividends collected on investments in associates and companies subject to joint control	0	0	0
– sales of investments held to maturity	0	0	0
– sales of property and equipment	0	1,541	734
– sales of intangible assets	0	0	0
– sales of subsidiaries and business branches	0	0	0
2. Cash flow used in	**–23,351**	**–86,793**	**–15,015**
– purchases of investments in associates and companies subject to joint control	0	–5,860	–5,860
– purchases of investments held to maturity	0	0	0
– purchases of property and equipment	–8,720	–58,181	–3,661
– purchases of intangible assets	–14,631	–22,752	–5,494
– purchases of subsidiaries and business branches	0	0	0
Net cash flow from (used in) investing activities	**–23,351**	**–85,252**	**–14,281**
C. FINANCING ACTIVITIES			
– issue/purchase of treasury shares	10	–17	–16
– issue/purchase of equity instruments	–500,000	0	0
– dividends distributed and other	0	0	0
Net cash flow from (used in) financing activities	**–499,990**	**–17**	**–16**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**–58,908**	**44,577**	**185,695**

RECONCILIATION

Line items	1st half 2013	Year 2012	1st half 2012
Cash and cash equivalents at the beginning of the period	285,892	241,315	241,315
Net increase (decrease) in cash and cash equivalents	–58,908	44,577	185,695
Cash and cash equivalents: foreign exchange effects	0	0	0
Cash and cash equivalents at the end of the period	**226,984**	**285,892**	**427,010**

Key: (+) generated (–) absorbed

Explanatory notes

Part A – Accounting policies

A.1 – General Part

Section 1 – Declaration of conformity with IFRS

The "Half-yearly condensed consolidated financial statements of the BPM Group" at 30 June 2013, in application of art. 154-ter, para. 2 of Legislative Decree 58 of 24 February 1998, are prepared in accordance with the IAS/IFRS *(International Accounting Standards/International Financial Reporting Standards)*, issued by the International *Accounting Standards Board (IASB)*, with the related interpretations of the *International Financial Reporting Interpretations Committee* (IFRIC) and of the *Standing Interpretations Committee* (SIC) as endorsed by the European Commission, pursuant to the EC Regulation no. 1606 of 19 July 2002.
IAS/IFRS have been applied taking into account the "Framework for the preparation and presentation of financial statements", with particular regard to the fundamental principle of substance over form and the concepts of relevance and materiality.

Account has been taken not only of the instructions contained in the Bank of Italy's Circular 262 of 22 December 2005, but also of the guidelines issued by the Italian Accounting Board (OIC) on applying IAS/IFRS in Italy.

In preparing the half-yearly condensed consolidated financial statements the IAS/IFRS in force as at 30 June 2013 have been applied (including all SIC and IFRIC interpretations). For an overview of the principles approved in 2013 and those approved in previous years, the application of which is planned for the year 2013 (or future years), please refer to "Section 5 – Other Aspects" below, where the main impacts for the Group are explained.

Section 2 – General method of preparation

The half-yearly consolidated report including the half-yearly condensed consolidated financial statements, the interim report on operations and the certification required by art. 154 bis para. 5 of the CFA, has been published within sixty days from the end of the first half of the year. The Independent Auditors' report on the half-yearly condensed consolidated financial statements has been published within the same term.
The half-yearly condensed consolidated financial statements have been prepared in compliance with IAS 34 "Interim financial reporting" applicable to interim financial information, and are made up of the financial statement schedules (balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flow prepared according to the indirect method) and summarised explanatory notes; they are accompanied by the report on operations which covers all of the companies included in the consolidation.
For reasons of consistency with the information provided in the annual financial statements, we have preferred to prepare the notes to the half-yearly condensed consolidated financial statements with the same numbering as was used in the tables of the financial statements at 31 December 2012.
The half-yearly consolidated financial statements have been prepared using the euro as the reporting currency. In particular, in line with the instructions issued by the Bank of Italy, the amounts reported in the financial statements and in the explanatory notes, as well as those indicated in the report on operations, are expressed in thousands of Euro, unless otherwise specified. Roundings have been made on the basis of the Bank of Italy's recommendations.

The financial statement schedules comply with Bank of Italy Circular 262/2005 and subsequent updates and, in addition to the figures at 30 June 2013, show the following comparative figures, suitably adjusted where necessary to ensure that they are truly comparable:
- Balance sheet: 31 December 2012 and 30 June 2012;
- Income statement: first half 2012;
- Statement of comprehensive income: first half 2012;
- Statement of changes in shareholders' equity: 30 June 2012;
- Statement of cash flow (prepared according to the indirect method): 31 December 2012 and 30 June 2012.

The half-yearly consolidated report relates to the companies (subsidiaries, associates and joint ventures) included in the scope of consolidation as detailed in the chapter below entitled "Scope of consolidation and consolidation procedures", which also reports the changes that took place during the period.

Use of estimates and assumptions when preparing the half-yearly financial statements

The preparation of half-yearly consolidated financial statements also requires the use of estimates and assumptions that may determine significant changes in the amounts reported in the balance sheet and income statement, and in the information relating to contingent assets and liabilities disclosed therein. The determination of these estimates involves using the available information and making subjective judgements, including on the basis of historical trends, used for deriving reasonable assumptions for reporting the results of operations.
These estimates and assumptions have been made on a going concern basis and are strongly influenced by growing uncertainty in the current economic and market climate, characterised by extremely volatile financial indicators and the very high levels of deterioration in credit quality.
The parameters and information used to determine estimates and assumptions are heavily influenced by these factors, which by their very nature are hard to predict. As a consequence, the estimates and assumptions used may vary from period to period, meaning that reported amounts may differ materially as a result of changing one of the subjective bases used.
The estimates and assumptions are subject to review to take into account any changes that have taken place during the period.

The main areas in which management is required to make subjective judgements are as follows:
- the quantification of losses that are inherent in risk exposures, typically represented by "impaired" loans and "performing" loans, as well as by other financial assets;
- the use of valuation models for measuring the fair value of financial instruments that are not quoted on active markets;
- the determination of the fair value of financial instruments to be used for reporting purposes;
- the assessment of the reasonableness of the value of goodwill and other intangible assets;
- the quantification of employee-related provisions and allowances for risks and charges;
- the estimates and assumptions relating to the recoverability of deferred tax assets.

These values are closely linked to the evolution of the national and international socio-economic context and the performance of financial markets, which in turn generate significant impacts on interest rate trends, price fluctuations, actuarial bases and the creditworthiness of counterparties.

The half-yearly condensed consolidated financial statements have been prepared in accordance with the general principles laid down in IAS 1 "Presentation of Financial Statements".

Going concern.
The accounting principles have been adopted with a view to the Group companies continuing in business as going concerns; they also respond to the accrual principle, the concepts of relevance and materiality of accounting information, and the prevalence of substance over form. The assumptions underlying the preparation of the financial statements on a going-concern basis are explained in the section of the report on operations entitled "Outlook for operations". It is believed that, at present, there is no uncertainty about the Group's ability to continue in business as a going concern, in accordance with the provisions of IAS 1. The accounting policies adopted are consistent with this assumption and have therefore not changed compared with 31 December 2012.

Comparative information.
Comparative figures from previous periods are provided for all information in the financial statements – including that of a qualitative nature if this helps explain the Group's situation – unless IAS/IFRS, or their interpretation, or instructions from the Bank of Italy on the financial statements of banks require or allow otherwise. If the accounts are not comparable, those of the previous period are adjusted to make them so; any lack of comparability and the adjustments made (or the fact that it was not possible to adjust the figures) is disclosed and explained in the notes. Section 5 – "Other aspects" reports the changes made in these financial statements to comparative figures.

Section 3 – Scope of consolidation and consolidation procedures

The "half-yearly consolidated report of the BPM Group" includes the balance sheet and income statement of Banca Popolare di Milano (parent company) and its direct and indirect subsidiaries. As required by IAS/IFRS, the scope of consolidation now includes companies operating in dissimilar sectors to that of the parent company.
The scope of consolidation also includes special purpose entities when they are under the Group's effective control, whether or not it has an equity interest in them. Assuming they satisfy the required conditions, special purpose entities formed for the purposes of securitisations carried out after 1 January 2004 have been consolidated in accordance with SIC 12, and the derecognition rules contained in IAS 39 have been applied.

Subsidiaries are defined as all those companies and entities over which the Group has the power to control their financial and operating policies; this is normally deemed to be the case when the parent owns more than half of the voting power. Both existing and potential voting power at the date of preparing the financial statements is taken into account for the purposes of verifying the existence of control by the Group.
The Group considers as joint ventures those companies in which the voting rights and joint control over a business activity are equally shared, directly or indirectly, by Banca Popolare di Milano and by another entity. Also considered a joint venture is an investment in which control over the economic activity and strategic policies of the investee is shared with other entities under contractual agreements, even if the voting rights are not held equally.
Associates, i.e. companies subject to significant influence, are defined as all those enterprises over which the Group is able to exercise significant influence but not control. This influence is presumed to exist when the Group has between 20% and 50% of the voting power.
Interests held below the threshold of 20% fall within the scope of consolidation and are classified as Investments only in relation to the existence of partnership agreements, under which the Parent Company has the possibility to intervene in the company's management decisions.
Interests of 20% or more in which only capital rights are held, directly or indirectly, in a portion of the investments, without any access to the company's decision-making and management strategies, are excluded from the scope of consolidation and shown under "Financial assets available for sale".
Companies that are not equity investments but for which voting shares have been received in pledge are not consolidated in view of the fact that the purpose of this instrument is to secure credit and not to exercise control and power over financial and economic policies.

Changes in the scope of consolidation

Changes in the scope of consolidation with respect to 31 December 2012 involve the following companies:

Banca di Legnano
The Extraordinary General Meeting of Members on 22 June 2013 approved – among other things – the merger by absorption into Banca Popolare di Milano of the subsidiary Banca di Legnano S.p.A. Fondazione Cassa di Risparmio di Alessandria – the sole shareholder of BDL apart from Banca Popolare di Milano, with a holding of 2.2% – abstained by not participating in the related resolution.
Accordingly, the Fondazione was entitled to a right of withdrawal in accordance with paragraph 1 b) and g) of Art. 2437 of the Civil Code at a price determined by the Board of Directors of BDL – in accordance with Art. 2437-ter of the Civil Code – of Euro 2.05 for each BDL share.
Following the exercise of the right of withdrawal by the Fondazione, on 22 July 2013, BPM acquired the 11,703,257 BDL shares held by the Fondazione (equating to 2.2% of BDL's share capital), for a total of Euro 23,991,676.85 (equal to the unit price of Euro 2.05 per BDL share), thus leading to BPM holding the entire share capital of BDL.
As at 30 June 2013, the right of withdrawal by the Fondazione as of 30 June 2013 amounted, in substance, to an option exercisable by the Fondazione to resell the BDL shares to BPM in exchange for a predetermined consideration; consequently, in accordance with paragraph 18 of IAS 32, as a result of the aforementioned option, the BDL shares owned by the Fondazione were considered to be a financial liability; consequently, for the purpose of this interim report (taking account of the exercise of the right of withdrawal) Banca di Legnano has been consolidated based on the percentage held of 100%.

Banca Popolare di Mantova
The Parent Company's holding in Banca Popolare di Mantova has increased to 61.86% (from 61.57% at 31 December 2012) due to further purchases of shares made during the period.

Bpm Fund Management
On 19 January 2013 the Company was cancelled from the Dublin companies register and it is no longer part of the BPM Group.

GSN North America Inc.
Following the increase in share capital of USD 1,001,000 that took place in February 2013, Banca Akros's percentage holding has fallen from 31.81% to 25.23%, since the latter did not subscribe to the shares it was entitled to.

Akros Alternative Investments SGR
Effective as of 1 May 2013, the company was merged into Banca Akros (which already held the entire share capital of the former). The transaction was effective for accounting and tax purposes as from 1 January 2013. Accordingly, starting from this interim report, the Company no longer falls within the scope of consolidation. The impact on the BPM Group's results and financial position is nil.

Bpm Luxembourg
In June 2013, BPM (attributable portion of 99%) and Banca Akros (attributable portion of 1%) paid in capital of Euro 415 thousand to cover prior year losses.

ProFamily
In June 2013, BPM paid in capital of Euro 5 million to partially cover prior year losses.

Bipiemme Vita
On 30 April 2013, an Extraordinary General Meeting of the company approved a capital increase in the form of a bonus share issue of a nominal amount of Euro 14.5 million by means of the issue of 2,900,000 ordinary shares through an allocation of distributable reserves. Following this transaction, the company's share capital went from Euro 211,340,000 to Euro 225,840,000. The Parent Company BPM was assigned 551,000 new shares with a nominal value of Euro 2,755,000, without any change in the equity interest (19%).

1. Investments in significant subsidiary companies and in companies subject to joint control (carried at equity) and those over which significant influence is exercised: disclosures

	Company name	Share capital in Euro/Original currency	Head office	Nature of holding (1)	Nature of investment		Voting rights (2)
					Holder	% held	
A.	**Controlling investments**						
	Parent Company						
	Banca Popolare di Milano S.c.a r.l.	2,865,709,760.07	Milan				
A. 1	**Companies consolidated line-by-line**						
1	Banca di Legnano S.p.A.	531,086,559	Legnano	1	Banca Popolare di Milano S.c.a r.l.	100.00	97.80
2	Banca Akros S.p.A.	39,433,803	Milan	1	Banca Popolare di Milano S.c.a r.l.	56.89	
					Banca di Legnano S.p.A.	40.00	
3	Banca Popolare di Mantova S.p.A.	2,968,290	Mantua	1	Banca Popolare di Milano S.c.a r.l.	61.86	
4	WeBank S.p.A.	54,186,349	Milan	1	Banca Popolare di Milano S.c.a r.l.	100.00	
5	BPM Ireland Plc. – in liquidation	257,586	Dublin	1	Banca Popolare di Milano S.c.a r.l.	99.99	
6	BPM Capital I Llc.	24,500,000	Delaware (USA)	1	Banca Popolare di Milano S.c.a r.l.	100.00	
7	BPM Luxembourg S.A.	255,000	Luxembourg	1	Banca Popolare di Milano S.c.a r.l.	99.00	
					Banca Akros S.p.A.	1.00	
8	ProFamily S.p.A.	50,000,000	Milan	1	Banca Popolare di Milano S.c.a r.l.	100.00	
9	Ge.Se.So. S.r.l.	10,329	Milan	1	Banca Popolare di Milano S.c.a r.l.	100.00	
10	BPM Covered Bond S.r.l.	10,000	Rome	1	Banca Popolare di Milano S.c.a r.l.	80.00	
11	BPM Securitisation 2 S.r.l. (*)	10,000	Rome	4	Banca Popolare di Milano S.c.a r.l.	n.a.	n.a.
B.	**Investments carried at equity**						
B. 1	**Companies under joint control**						
1	Calliope Finance S.r.l.	600,000	Conegliano	7	Banca Popolare di Milano S.c.a r.l.	50.00	
2	GSN North America Inc. (**)	USD 4.40	Delaware (USA)	7	Banca Akros S.p.A.	25.23	
B. 2	**Companies subject to significant influence (associates)**						
1	SelmaBipiemme Leasing S.p.A.	41,305,000	Milan	8	Banca Popolare di Milano S.c.a r.l.	40.00	
2	Aedes Bipiemme Real Estate SGR S.p.A.	5,500,000	Milan	8	Banca Popolare di Milano S.c.a r.l.	39.00	
3	Asset Management Holding S.p.A.	5,765,463	Milan	8	Banca Popolare di Milano S.c.a r.l.	25.57	
					Banca di Legnano S.p.A.	9.72	
4	Factorit S.p.A.	85,000,002	Milan	8	Banca Popolare di Milano S.c.a r.l.	30.00	
5	Etica SGR S.p.A.	4,500,000	Milan	8	Banca Popolare di Milano S.c.a r.l.	24.44	
6	Pitagora 1936 S.p.A.	9,400,000	Turin	8	Banca Popolare di Milano S.c.a r.l.	24.00	
7	Wise Venture SGR S.p.A.	1,250,000	Milan	8	Banca Popolare di Milano S.c.a r.l.	20.00	
8	Bipiemme Vita S.p.A. (***)	225,840,000	Milan	8	Banca Popolare di Milano S.c.a.r.l.	19.00	

Key:
(1) Nature of holding:
1. majority of voting rights at general meetings
2. dominant influence at ordinary general meeting
3. agreements with other shareholders
4. other forms of control (IAS 27 para. 40)
5. co-ordinated control under art. 26.1 of Decree 87/92
6. co-ordinated control under art. 26.2 of Decree 87/92
7. joint control
8. significant influence

(2) Voting rights at Ordinary General Meetings. Voting rights are only shown if they differ from the percentage held in the share capital.

(*) These companies are consolidated line-by-line as the Group has most of the benefits and risks (SIC 12 "Consolidation – Special purpose entities").
(**) GSN North America Inc. has been included in investments under joint control because of a clause in the Stockholders' Agreement stipulated by its shareholders, which provides for a qualified majority (76%) to carry out a series of transactions concerning the ordinary and extraordinary management of the company.
(***) Bipiemme Vita S.p.A. is classified as a company "subject to significant influence" on the basis of the partnership agreement stipulated with the Covéa Group to create a strategic partnership in bancassurance.

Scope of consolidation of the BPM Group as at 30 June 2013

Sector	Company			
Banking companies	Banca Popolare di Milano S.c. a r.l.	WeBank S.p.A. 100%	Banca Akros S.p.A. 96.89%	Banca di Legnano S.p.A. 100%
	Banca Popolare di Mantova S.p.A. 61.86%			
Finance-sector companies	BPM Capital I Llc. 100%	BPM Ireland Plc. *(in liquidation)* 99.99%	BPM Luxembourg S.A. 99.97%	
	Calliope Finance S.r.l. 50%	GSN North America Inc. 24,45%		
(Special purpose vehicles)	Bpm Covered Bond S.r.l. 80%	BPM Securitisation 2 S.r.l. n.a.		
Asset management and mutual funds	Aedes Bipiemme Real Estate SGR S.p.A. 39%	Asset Management Holding S.p.A. 35.29%	Etica SGR S.p.A. 24.44%	Wise Venture SGR S.p.A. 20%
Insurance companies	Bipiemme Vita S.p.A. 19%			
Consumer credit	ProFamily S.p.A. 100%	Pitagora 1936 S.p.A. 24%		
Leasing companies	SelmaBipiemme Leasing S.p.A. 40%			
Factoring companies	Factorit S.p.A. 30%			
Other activities	Ge.Se.So. S.r.l. 100%			

Companies consolidated line-by-line

Companies consolidated using the equity method

The percentage shareholdings are based on equity ratios.

2. Other information

Consolidation procedures

Investments in associates and companies subject to joint control are consolidated on a line-by-line basis, while non-controlling interests are reported using the equity method. According to IAS 31, investments in joint ventures (companies subject to joint control) are carried at equity.

Line-by-line consolidation: this method of consolidation involves combining the contents of subsidiary company balance sheets and income statements on a "line by line" basis. Subsidiaries are consolidated line-by-line from the date of acquisition, i.e. from the date when the Group acquires control, and they are excluded from the scope of consolidation from the date on which control is transferred outside the Group. The financial statements of subsidiaries used to prepare the consolidated financial statements refer to the same period and are prepared with the same accounting policies of the Parent Company, adjusted where necessary for consistency. All intragroup (or "intercompany") balances and transactions, including any unrealised post-tax profits resulting from intragroup transactions, are eliminated in full upon consolidation. The result of the comprehensive income statement for a subsidiary is attributed to minority interests even if this means that the minority interests have a negative balance.
If the Parent Company loses control of a subsidiary, it:

- eliminates the assets (including any goodwill) and the liabilities of the subsidiary;
- eliminates the book values of any minority interests in the former subsidiary;
- eliminates any accumulated exchange differences booked to shareholders' equity;
- recognises the fair value of the proceeds received;
- recognises the fair value of any interest maintained in the former subsidiary;
- recognises any gain or loss in the income statement;
- reclassifies the interest pertaining to the parent company in the items previously recognised in the statement of comprehensive income in the income statement or in retained earnings, as appropriate.

Acquisitions are accounted for according to the "acquisition method" in accordance with IFRS 3 as amended by Regulation 495/2009, under which all business combinations, except for those between companies under common control, are treated like genuine business acquisitions for accounting purposes. Application of the acquisition method requires: identification of the acquirer (i.e. the identity of the entity that takes control of a group or entity); the acquisition date (i.e. the date on which the acquirer obtains control of the acquiree); recognition at the purchase date of the identifiable assets acquired and liabilities assumed (including contingent liabilities) at their respective fair values. In addition, for each business combination, any minority interests in the acquiree may be recognised at fair value or in proportion to the share of the minority interest in the identifiable net assets of the acquiree.
Goodwill is initially valued at cost, which arises as the surplus between the sum of the consideration paid plus any minority interests and the fair value of the net assets (identifiable assets acquired less liabilities) taken on by the Group. If the acquisition cost is lower than the fair value of the net assets acquired, the difference is expensed to income for the period.
After initial recognition, goodwill is measured at cost less any impairment losses. For impairment testing purposes, goodwill acquired in a business combination is, from the acquisition date, allocated to the cash-generating unit or units of the Group expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.
If goodwill has been allocated to a cash-generating unit and the Group disposes of part of the assets of that unit, the goodwill associated with the business being divested is included in the carrying amount when determining the gain or loss on disposal. The goodwill associated with the divested business is determined on the basis of the relative values of the divested business and the cash-generating unit retained.

The identification of the fair value of the assets acquired and liabilities assumed has to be completed within a year of the acquisition.
In the case of a "step acquisition" (one that takes place in various stages), the acquirer has to recalculate the interest held in the acquiree prior to gaining control at its fair value at the acquisition date and book any gain or loss to the income statement.
Consistent with this, sales of minority shares that do not entail a loss of control does not have any impact on the income statement, but translates into changes in group shareholders' equity.
The costs related to the acquisition (except those for issuing debt securities or equities, which follows the rules laid down in IAS 32 and IAS 39) are charged to the income statement in the period when they are incurred.

Consolidation using the equity method: the equity method, which is used to value investments in associates and companies subject to joint control, requires the investment to be initially recorded at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. Goodwill relating to the associate is included in the carrying amount of the investment and is not subjected to amortisation or impairment tests.
The income statement reflects the Group's portion of the associate's result for the year. In the event that an associate books adjustments directly to equity, the Group recognises its portion of the adjustments in equity and shows it separately in the statement of comprehensive income. The value of the investment is also reduced by the amount of any dividends received periodically by the Group.

The overall value of the investment is subjected to impairment testing in accordance with IAS 28 and IAS 36. If the losses are greater than the carrying value of the investment, the Group books the losses to the extent of that value, i.e. writing it down to zero without recognising any additional loss, unless it has an obligation to make payments on behalf of the associate.
Unrealised gains relating to transactions between and with associates are eliminated upon consolidation in proportion to the equity interest held. Any unrealised losses are eliminated upon consolidation, unless there is evidence of impairment of the assets transferred.
For the purposes of consolidating investments in associated companies, their financial statements at the reporting date have been used. If no information is available under IAS/IFRS, then the financial statements prepared under local accounting standards are either adjusted accordingly or used directly for consolidation purposes provided the differences between local and international accounting standards are insignificant.

Consolidation of subsidiaries classified as "Non-current assets held for sale and discontinued operations" under IFRS 5: if an investment in a subsidiary is classified as a non-current asset held for sale, it is fully consolidated in accordance with IFRS 5; this means that the assets and liabilities relating to the unit being divested are presented separately from other assets and liabilities in the balance sheet, while a single amount is shown in the income statement to represent the costs and revenues of the operating unit being disposed of.

Translation of financial statements of foreign operations

The financial statements of foreign subsidiaries, whose business is based or conducted in a country or a currency different from the parent company's, are translated into euro, using the following procedures:
a) the assets and liabilities of each foreign entity are translated at the closing rates at the balance sheet date;
b) income and expense items in the income statements of each foreign entity are translated using average rates for the period;
c) the foreign exchange differences relating to the equity of consolidated subsidiaries are recognised in a specific reserve forming part of consolidated shareholders' equity and reversed to the income statement when the subsidiary is sold.

For investments carried at equity expressed in a currency other than the euro, the historical exchange rate is applied for individual purchases and sales, whereas changes attributable to the recognition of the investee's results are translated at the average exchange rate for each period of reference.

Section 4 – Subsequent events

No events have taken place after the balance sheet date that suggest amending the information provided in the consolidated interim report.
For more complete information on events after the first half of 2013, reference should be made to the half-yearly report on operations in the chapter entitled "Subsequent events and outlook of the BPM Group for the rest of the year".

Section 5 – Other aspects

Comparative information

It should be noted that, by means of its roneographed letter No. 51159 of 16 January 2013, the Bank of Italy provided clarification concerning the classification in financial statements of "rapid processing fees", indicating that this income, the nature of which is a cost recovery, should be recorded in the income statement line item 220 "Other operating expenses/income".
In order to provide a consistent comparison with the figures for the first half of 2012, amounts previously recorded in the line item 40 "Fee and commission income" have been reclassified.

Set out below is a reconciliation between the income statement for the first half of 2012, as originally published, and that restated for comparative purposes, to take account of the aforementioned reclassifications.

Consolidated income statement

(Euro/000)

Income statement line items		First half 2012 published	Reclassifications	First half 2012 restated
10.	Interest and similar income	813,410	0	813,410
20.	Interest and similar expense	(358,324)	0	(358,324)
30.	**Interest margin**	**455,086**	**0**	**455,086**
40.	Fee and commission income	284,628	(4,102)	280,526
50.	Fee and commission expense	(41,595)	0	(41,595)
60.	**Net fee and commission income**	**243,033**	**(4,102)**	**238,931**
70.	Dividend and similar income	9,753	0	9,753
80.	Profits (losses) on trading	29,192	0	29,192
90.	Fair value adjustments in hedge accounting	15,129	0	15,129
100.	Profits (losses) on disposal or repurchase of:	32,668	0	32,668
	a) loans	*(7)*	*0*	*(7)*
	b) financial assets available for sale	*17,678*	*0*	*17,678*
	d) financial liabilities	*14,997*	*0*	*14,997*
110.	Profits (losses) on financial assets and liabilities designated at fair value	7,654	0	7,654
120.	**Net interest and other banking income**	**792,515**	**(4,102)**	**788,413**
130.	Net losses/recoveries on impairment:	(153,261)	0	(153,261)
	a) loans	*(127,420)*	*0*	*(127,420)*
	b) financial assets available for sale	*(18,841)*	*0*	*(18,841)*
	d) other financial activities	*(7,000)*	*0*	*(7,000)*
140.	**Net income from banking activities**	**639,254**	**(4,102)**	**635,152**
170.	**Net income from banking and insurance activities**	**639,254**	**(4,102)**	**635,152**
180.	Administrative expenses:	(499,286)	0	(499,286)
	a) personnel expenses	*(314,394)*	*0*	*(314,394)*
	b) other administrative expenses	*(184,892)*	*0*	*(184,892)*
190.	Net provisions for risks and charges	(6,887)	0	(6,887)
200.	Net adjustments to/recoveries on property and equipment	(21,611)	0	(21,611)
210.	Net adjustments to/recoveries on intangible assets	(37,972)	0	(37,972)
220.	Other operating expenses/income	49,196	4,102	53,298
230.	**Operating expenses**	**(516,560)**	**4,102**	**(512,458)**
240.	Profits (losses) on investments in associates and companies subject to joint control	7,270	0	7,270
260.	Goodwill impairment	(335,425)	0	(335,425)
270.	Profits (losses) on disposal of investments	285	0	285
280.	**Income (loss) before tax from continuing operations**	**(205,176)**	**0**	**(205,176)**
290.	Taxes on income from continuing operations	70,314	0	70,314
300.	**Income (loss) after tax from continuing operations**	**(134,862)**	**0**	**(134,862)**
320.	**Net income (loss) for the period**	**(134,862)**	**0**	**(134,862)**
330.	Minority interests	3,518	0	3,518
340.	**Parent Company's net income (loss) for the period**	**(131,344)**	**0**	**(131,344)**

Italian Group tax election

Banca Popolare di Milano and the Italian companies in the Group have elected to file for tax on a group basis since 2004, in accordance with arts 117-129 of the Income Tax Consolidation Act (ITCA), introduced by Decree 344/2003. This optional tax regime makes it possible for each of the subsidiaries to calculate its tax charge for the year and then transfer the equivalent taxable income (or tax loss) to the parent company, adjusting for intercompany interest according to the rules on the deductibility of interest expense. It then calculates a single taxable income or tax loss for the entire group, adding together the profits and subtracting the losses of the individual companies, filing a single tax return and declaring a single amount payable to or receivable from the Tax Authorities.

The Parent Company and the subsidiaries taking part in the Italian group tax regime have signed contracts that regulate the compensatory flows related to the transfers of taxable income and tax losses. These flows are determined by applying the IRES rate currently in force to the taxable income of the companies concerned. For companies with tax losses, the compensatory flow, calculated as above, is recognised by the consolidating company to the consolidated company for the losses incurred after joining the Italian group tax regime, to the extent that such losses are covered by the taxable income of the Group. The losses incurred prior to joining the Italian group tax regime have to be offset by the consolidated company against its own taxable income in accordance with current tax rules.

The compensatory flows determined in this way are recorded as receivables and payables versus the companies taking part in the Italian group tax regime and classified in “Other assets” and “Other liabilities”, with the contra-entry going to “Taxes on income from continuing operations”.

Deadlines for approval and publication of report

The Management Board of the Parent Company has reviewed the BPM Group's half-yearly report at 30 June 2013 and authorised its publication on 27 August 2013, in accordance with art. 154-ter of Legislative Decree 58/98 introduced by Legislative Decree 195/2007, which adopted European legislation on the transparency of listed companies (2004/109/EC). The condensed consolidated interim financial statements are subjected to a limited audit by Reconta Ernst & Young S.p.A., in compliance with Consob Communication no. 97001574 of 20 February 1997 and with Consob Resolution no. 10867 of 31 July 1997 and in accordance with the decision of the General Meeting of Members' of 21 April 2007.

Change in the accounting standards endorsed by the European Commission

The following table lists the changes to the standards and interpretations approved by the European Commission in 2013 or in previous years, application of which became compulsory from 2013, but for which no significant impacts were identified for the purposes of preparing these condensed consolidated interim financial statements.

International accounting standards in force from 2013

Approved Regulation	Publication in the Official Journal of the European Union	Title and comments	In force from
Amendments to existing policies			
475/2012 of 05.06.2012	L. 146 of 06.06.2012	**Amendments to IAS 1** "Presentation of financial statements" – *Presentation of items of Other Comprehensive Income* The objective of these amendments is to clarify the presentation of the increasing number of items Other Comprehensive Income and to help users of financial statements to distinguish between items of the Other Comprehensive Income that may or may not be reclassified subsequently in the statement of income (loss) for the year.	1 July 2012
		Amendments to IAS 19 – "Employee Benefits" The amendments should help users of financial statements to understand better how defined benefit plans affect a company's financial position, results of operations and cash flows. The purpose of this standard is to define the accounting treatment and disclosure requirements for employee benefits.	1 January 2012 (early application)
1255/2012 of 11.12.2012	L. 360 of 29.12.2012	**Amendments to IFRS 1** "First-time adoption of International Financial Reporting Standards" – *Severe hyperinflation and removal of fixed dates for first-time adopters* The objective of the amendments is to authorise entities affected by severe hyperinflation to use fair value instead of cost for assets and liabilities in the opening balance sheet.	1 January 2013
		Amendments to IAS 12 "Income taxes" – Deferred Tax: *Recovery of Underlying Assets* The objective of the amendments is to introduce an exception to the measurement principle, in the form of a presumption concerning the fair value model to be applied to determine the carrying amount of an investment property: an entity has to determine the amount of the deferred tax liability or asset in a manner consistent with the expected manner of recovery or settlement, using the related tax rate.	1 January 2013
		IFRS 13 "Fair value measurement" The standard defines the concept of fair value (the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date) and provides a reference framework for the measurement at fair value of financial and non-financial assets and liabilities. Furthermore, on the basis of the standard, additional disclosures are required about fair value measurements.	1 January 2013
		IFRIC 20 "Stripping costs in the production phase of a surface mine"	1 January 2013
1256/2012 of 13.12.2012	L. 360 of 29.12.2012	**Amendments to IFRS 7** – Financial Instruments: Disclosures – *Offsetting financial assets and liabilities* These amendments require entities to provide disclosures that permit an assessment of the real or potential effects of offsetting arrangements on the financial position.	1 January 2013
183/2013 of 4.3.2013	L. 61 of 05.03.2013	**Amendments to IFRS 1** – "First-time adoption of International Financial Reporting Standards" – *Government loans* The objective of the amendment is to give relief from full retrospective application of the requirements relating to government loans with a below-market rate of interest.	1 January 2013
301/2013 of 27.03.2013	L. 90 of 28.03.2013	**Amendments to IFRS 1,** to IAS 1, to IAS 16, to IAS 32 and to IAS 34 – "Annual improvements cycle 2009-2011"	1 January 2013

International accounting standards (IAS/IFRS) and related interpretations (SIC/IFRIC) endorsed by the European Commission, application of which is mandatory after 30 June 2013

Pursuant to paragraph 30 and 31 of IAS 8, the following are the Regulations that have made changes to accounting standards already in force, endorsed by the European Commission, of which mandatory application runs from 1 January 2014 or some later date in the case of financial statements that coincide with the calendar year. The Group has not taken the option of early application.

Approved Regulation	Publication in the Official Journal of the European Union	Title and comments	In force from
1254/2012 of 11.12.2012	L. 360 of 29.12.2012	**IFRS 10** "Consolidated financial statements" The objective is to provide a sole model for consolidated financial statements based on a new concept of control, applicable to all types of entity and that requires the existence of all the following conditions: 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. The new standard replaces IAS 27; "Consolidated and separate financial statements" and SIC 12 "Consolidation – Special purpose entities".	1 January 2014
		IFRS 11 "Joint arrangements" This outlines the accounting by entities that jointly control an arrangement. These principles are based on rights and obligations of the parties to the arrangements and which the entities need to determine in order to identify the nature thereof: a joint operation (accounted for as assets or liabilities based on the share of assets held jointly or of liabilities incurred jointly) or a joint venture (that has to be solely accounted for under the equity method). The new standard replaces IAS 31 "Interests in joint ventures" and SIC 13 "Jointly controlled entities – Non-monetary contributions by venturers".	1 January 2014
		IFRS 12 "Disclosure of interests in other entities" The objective of the standard is to require the disclosure of information that enables users of financial statements to evaluate: the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. The disclosure requirements apply to entities that have an interest in: subsidiaries, joint arrangements, associates and unconsolidated structured entities.	1 January 2014
		Amendments to IAS 27 "Separate financial statements" and to **IAS 28** "Investments in associates and joint ventures" These standards have been revised in light of the introduction of IFRS 10, 11 and 12.	1 January 2014
1256/2012 of 13.12.2012	L. 360 of 29.12.2012	**Amendments to IAS 32** "Financial instruments: presentation" – *Offsetting Financial Assets and Financial Liabilities* These amendments require the net amount of financial assets and liabilities to be reported when this reflects future cash flow which an entity may expect to obtain from the settlement of two or more distinct financial instruments, where a legal right exists and the entity is willing to offset.	1 January 2014
313/2013 of 04.04.2013	L. 95 of 05.04.2013	**Amendments to IFRS 10** "Consolidated financial statements", **to IFRS 11** "Joint arrangements" **and to IFRS 12** "Disclosure of interests in other entities" – *Transitional provisions* These consist of amendments aimed at simplifying the transition to IFRS 10, 11 and 12 limiting the requirement to provide comparative information to only the preceding comparative period.	1 January 2014

International accounting standards (IAS/IFRS), amendments and interpretations issued by the IASB and still to be endorsed by the European Commission

For information purposes, set out below are the accounting standards, amendments and interpretations issued by the IASB, the application of which is subject to endorsement by the European Commission and, consequently, are not yet applicable to these financial statements.

Standard/Interpretation/Amendment	Date of IASB approval	indicative effective date
IFRS 9 "Financial Instruments" 1st part	12/11/2009	Financial years beginning on or after 1 January 2013
Amendment to IFRS 9 "Financial Instruments" – Addition to IFRS 9 for Financial Liability Accounting	28/10/2010	Financial years beginning on or after 1 January 2013
Amendment to IFRS 9 "Financial Instruments" – Deferral of Mandatory Effective date of IFRS 9 to 2015	16/12/2011	Postponement of effective date of standard to financial years beginning on or after 1 January 2015
Amendment to IFRS 10, IFRS 12 and IAS 27: Investment Entities	31/10/2012	Financial years beginning on or after 1 January 2014
IFRIC 21 "Levies"	20/05/2013	Financial years beginning on or after 1 January 2014
Amendment to IAS 36 "Impairment of Assets"	29/05/2013	Financial years beginning on or after 1 January 2014
Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" – Novation of Derivatives and Continuation of Hedge Accounting	27/06/2013	Financial years beginning on or after 1 January 2014

A.2 – Part relating to the main line items in the financial statements

Accounting policies

The accounting policies followed in preparing the condensed consolidated interim financial statements at 30 June 2013, as regards the reclassification, recognition, measurement and derecognition of the various asset and liability items, as well as the recognition of revenues and costs, as approved by the European Commission.

For a complete description of the accounting policies, reference should be made to the 2012 annual report of the BPM Group.
It is worth remembering that, effective 1 January 2013, IFRS 13 (Fair value measurement) has become applicable. This sets out in a single IFRS requirements relating to the determination of fair value previously included in various standards. Under this new standard, the application of which is prospective, the concept of fair value remains substantially unchanged (new guidelines are provided for its application) and it introduces new disclosure requirements, for which reference should be made to Section A.4 "fair value disclosures".

A.3 – Disclosures relating to transfers between portfolios of financial assets

In the current or prior periods, BPM Group companies have not carried out any portfolio reclassifications of financial assets from categories measured at fair value into categories carried at amortised cost.

A.4 – Fair value disclosures

Qualitative information

Introduction

In December 2012 the European Commission adopted, with (EU) Regulation No. 1255/2012, the new standard IFRS 13 "Fair value measurement", which is applicable as from 1 January 2013.
This standard sets out in a single IFRS information relating to methodologies for the determination of fair value, which previously had been included in various accounting standards (mainly IAS 39 and IFRS 7).
As regards the type of financial instruments to be measured at fair value, the requirements of paragraph 9 of IAS 39 remain valid, that is, fair value measurement applies to all financial instruments with the exception of: financial assets classified as "investments held to maturity" and "loans and receivables"; investments in equity instruments for which it is not possible to establish a reliable fair value; non-trading financial liabilities to which the fair value option has not been applied. Moreover, it is worth reiterating that accounting standards and the Bank of Italy require, in any event, to disclose the fair value of assets and liabilities measured at amortised cost (receivables and payables, securities issued).

Paragraph 9 of IFRS 13 defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date".
The new standard is based on the definition of market based fair value, in that the fair value of assets or liabilities should be measured based on the characteristics thereof that a market participant would take into account.
Fair value measurement assumes a transaction involving the sale of an asset or the transfer of a liability taking place in the principal market for the asset or liability, or in the absence of a principal market, the most advantageous market for the asset or liability.
Compared with the previous definition provided by IAS 39, there is no emphasis on an "arm's-length transaction between knowledgeable, independent parties", that is, on the neutrality of the transaction, but on a concept of fair value based on an exit price. In fact, the price should reflect the view of the participant that sells the asset or that pays to transfer the liability at the measurement date. There is thus no longer an issue of inconsistency of financial statement presentation between those measuring fair value as a seller and those as a buyer.

Under these circumstances, there is a need for the fair value of financial instruments to reflect the risk an entity will not fulfil an obligation by means of appropriate adjustments to take account of the credit standing of the counterparty and of the issuer.
As regards the measurement of the risk an entity will not fulfil an obligation, note that the Group made an estimate thereof at 30 June 2013 and the impact thereof, compared with the fair value methodology adopted previously, was not significant.

A.4.1 Fair value Levels 2 and 3: valuation techniques and inputs used

In the absence of quoted prices in active markets, financial instruments should be classified in Level 2 or 3.
Classification in Level 2 rather than Level 3 depends on the observability of significant market inputs used in determining fair value. Observable inputs are parameters developed using market data, such as publicly available information about actual events or transactions and that reflect the assumptions that market participants would use when pricing the asset or liability; unobservable inputs, on the other hand, are parameters for which no market data is available and which are developed on the basis of the best information available in relation to assumptions that market participants would use to determine a price for a particular financial instrument.
A financial instrument has to be classified entirely in a single level; if inputs belonging to different levels of the fair value hierarchy are used to value an instrument, the instrument being valued is categorised in its entirety in the level of the lowest level input that is significant to the entire measurement.
Consequently, in cases where observable market inputs (Level 2) and unobservable inputs (Level 3) are used for the valuation of a financial instrument, if the latter are deemed significant, as defined below, the instrument is categorised in Level 3 of the fair value hierarchy.
As required by IFRS 13, the BPM Group uses valuation techniques "appropriate in the circumstances and which maximise the use of relevant observable inputs"; furthermore, the techniques are consistent with those commonly used by market participants: market approach, cost approach and income approach.

The valuation techniques are used continuously and consistently over time unless alternative valuation techniques exist that provide a more appropriate measurement of fair value (for example, in the case of the development of new markets, information that is no longer available or new information or different market conditions).
The fair value used for measuring financial instruments is determined on the basis of the criteria set out below, which assume, as indicated above, the use of observable or unobservable inputs.

LEVEL 2 – Measurement methods based on observable market parameters

For Level 2 instruments, an input is directly or indirectly "observable", when it is continuously available to all market participants with a regular distribution of information through appropriate channels (Stock Exchange, data providers, brokers, market makers, websites, etc.).
The measurement of a financial instrument is based on prices which can be derived from market quotations of similar assets (comparable approach) or by valuation techniques for which all relevant factors – including credit spreads and liquidity – are derived from observable market parameters (mark-to-model approach).
The comparable approach requires a search for transactions on active markets, relating to instruments that are comparable to the instrument being valued. The valuation techniques used in the mark–to–model approach are those commonly used and accepted as market "best practice".
Level 2 inputs are defined as:
- quoted prices for similar assets or liabilities in active markets;
- prices quoted for the instrument being analysed or for similar instruments on inactive markets (i.e. markets where there are few transactions, the prices are not current or vary substantially over time and between different market makers or little information is made public);
- observable market inputs other than quoted prices (e.g. interest rates or yield curves, volatility, credit curves, etc.);
- market-corroborated inputs (that is, derived from observable market inputs or corroborated by correlation analysis). In this case, the input is deduced from quoted prices through suitable mathematical techniques.

With respect to the portfolio of financial instruments on hand, those falling within **Level 2** are over the counter (OTC) financial and credit derivatives, bonds without official prices expressed by an active market, financial liabilities measured at fair value and hedge funds.

OTC financial derivatives
Interest rate, foreign exchange, equity, commodity and inflation derivatives, if not traded on regulated markets, are considered "Over The Counter" (OTC) instruments, i.e. bilaterally traded with market counterparties. Their measurement is carried out through specific pricing models, where present, powered by input parameters (such as interest rate curves, volatility matrices, exchange rates) which are observable, but not quoted on regulated or active markets.
Furthermore, to determine the fair value, account is also taken of the risk that the obligation will not be fulfilled.
The methodology used in evaluating these contracts is as follows:
- non-option instruments (interest rate swaps, forward rate agreements, overnight interest swaps, domestic currency swaps, etc.): the valuation techniques use discounted cash flow models whereby certain or expected cash flow is discounted. In the event that linear or quasi-linear OTC derivatives incorporate optional components, the latter are measured using the same methodologies adopted for options;
- financial options:
  - in the case of plain vanilla options, the most used methodologies fall within a forward risk-neutral framework and are based on analytical Black-like formulas, whereby the volatility depends on the maturity date and strike price (volatility skew).
  - For more complex pay-offs (typically, equity basket options or path dependent equity options), while remaining risk-neutral, use is made of mathematical methodologies based on Monte Carlo simulation, whereby the option pay-off is measured by means of simulations with a sufficiently high level of repetitions (between 20,000 and 100,000) relating to the trend of the risk factors underlying the option. The price of the derivative is thus obtained by calculating the average of the values arising from each scenario.
  - For the types of products that are not among those managed by the Bank's internal systems, an external assessment is made.

OTC credit derivatives

Credit derivatives traded by the Group consist of simple single name credit default swap contracts and ITRAXX indices bilaterally traded with market counterparties. Their measurement is based on an estimate of the implicit default probability curve for the issuer or issuers underlying the contract, arrived at using a bootstrapping technique based on market price, whereby the expected cash flow from the contract is weighted.

Bonds without official prices expressed in an active market

As regards plain vanilla bonds, that is, without any option or derivative component, a discounted cash flow (DCF) model is used, based on discounted expected future cash flow, which, in the case of floating-rate coupons, is estimated based on forward rates implicit in the curves for the indexing.

In the case of bonds with an option component (for example, structured bonds), the component is estimated based on the same methodologies adopted for stand-alone options, thus maintaining consistency between bonds with embedded options and the measurement of derivatives which feature the same type of option. For these types of bonds, the level of the fair value hierarchy assigned to the derivative component contributes, on the basis of an analysis of the significance of the amount of the option in comparison to the overall value of the bond, to the definition of the fair value hierarchy level of the bond, as required by specific internal policy.

The credit standing of the issuer is built in to the measurement of bonds and is obtained from credit spread curves relating to the issuer.

Investment funds

The valuation of the individual units of investment funds is carried out on the basis of the NAV (net asset value) reported by the management company or by the data provider.

LEVEL 3 – Measurement methods based on unobservable market parameters

Level 3 includes all financial instruments that are not quoted on an active market, for which the determination of fair value has to be done through valuation models that require the use of parameters that are not directly observable in the market.

Unobservable inputs have to be used to the extent that relevant observable inputs are not available and, therefore, unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. Measurement has to be performed using the best information available in the circumstances, internal data included.

The measurement of assets and liabilities pertaining to Level 3 is generally carried out using the same valuation methodologies as those used for Level 2 instruments; the difference lies in the fact that input parameters used in the pricing model are unobservable. The valuation techniques for the latter, as detailed below, make use of various approaches, depending on the parameter. Unobservable inputs may be: derived using mathematical techniques based on prices of options or price quotations by brokers or market-makers (for example, correlations or implicit volatility), or arrived at by extrapolation from observable data (for example, credit spread curves), or obtained from historical figures (for example, volatility of investment funds) or based on a comparable approach.

Set out below are the instruments categorised within Level 3:

- debt securities. They include structured financial instruments issued directly by leading issuers, including structured credit products such as CDOs (Collateralised Debt Obligations) and credit derivatives on index tranches, ABSs (Asset Backed Securities). The fair value is determined by the DCF method of discounting expected cash flows, adjusted appropriately to reflect issuer risk;
- unquoted equities. These are essentially minority interests in unquoted financial and non-financial companies. These instruments are measured with reference to significant transactions in the same stock or similar securities observed in a reasonable period of time compared with the valuation date, the method of market multiples of comparable companies and, to a lesser extent, alternative valuation methods based on financial parameters, earnings and net assets. In particular, for certain minority interests, in line with generally accepted valuation techniques, use is made of the excess capital variant of the dividend discount model (DDM) income approach. In accordance with this method, the value of the asset being measured is equal to the sum of: 1) present value of estimated distributable dividends in the so-called "explicit period" (period covered by the business plan), 2) excess/lack of Core Tier 1 Capital at the end of the explicit period, 3) terminal value comprising the perpetual return of normalised dividends. Securities for which it is impossible to estimate the fair value on a reasonable basis are maintained at their original purchase cost in accordance with IAS 39, paragraph AG 81;
- mutual funds. These are closed-end funds and hedge funds that do not fall into Levels 1 and 2. The fair value is determined by applying the NAV reported by the management company, as this is considered the most reliable estimate of the fair value of the instrument, being an exit value on disposal of the investment;

- OTC derivatives. These are financial derivatives stipulated with institutional counterparties, the valuation of which is based on the same pricing models as those used for Level 2 valuations and which differ therefrom due to the extent of the observability of the inputs used for the pricing techniques (reference is mainly made to correlations and implicit volatility). As regards derivatives with customers, included with financial assets and liabilities categorised in Level 3, among others, are those positions for which the portion of the fair value adjustment that takes account of the risk that the obligation will not be fulfilled is significant compared to the overall value of the financial instrument.

Since the results of the assessments can be significantly influenced by the assumptions used, principally the timing of future cash flows, the discount rates used and the methodologies for estimating credit risk, the estimated fair values may differ from those that could be achieved in an immediate sale of the securities.

Amounts due to and from banks and customers, Securities issued

For other financial instruments carried at amortised cost and classified substantially among the amounts due to and from banks or customers, and among the securities issued, a fair value has been determined for disclosure purposes in the notes.

In particular:

- for medium-term impaired loans (non-performing and doubtful loans), the fair value is determined by discounting, at a risk-free market rate, the contract flows or those quantified on the basis of repayment plans, net of forecast losses;
- for medium to long-term performing loans, the method used involves discounting cash flows. Contractual cash flows are weighted on the basis of PD (Probability of Default) and LGD (Loss Given Default), i.e. the rate of loss expected in the event of insolvency. In particular:
  - for loans to retail and corporate customers, the indicators are integrated into a matrix of reliability ratings with the customers analysed on the basis of internal procedures for assessing credit standing;
  - for interbank balances, we use the parameters provided by external rating agencies;
- for assets and liabilities due on demand or with a short-term or indeterminate maturity, the book value is considered a reasonable approximation of fair value;
- for debt securities classified as held in the "Due from banks or customers" portfolio, fair value is determined through the use of prices quoted in markets or by the use of valuation models, as described above for financial assets and liabilities carried in the balance sheet at fair value.

For bonds carried in the balance sheet at amortised cost, the valuation falls into Level 1 if there is a quoted price in an "active market"; otherwise, the valuation is done by discounting the cash flows on the basis of the relevant interest rate curve. As regards valuation techniques, bonds are valued, where available, based on quoted prices, which already include an assessment of credit risk. In the absence of market prices, subordinated bonds are valued using internal models, basing creditworthiness on the implicit spreads of similar bonds (comparable approach).

A.4.2 Valuation processes and sensitivity

The Group's valuation processes are subject to verification that extends to the valuation techniques for all financial instrument positions. The valuation, also for accounting purposes, of all financial assets and liabilities classified in the trading and AFS portfolios at fair value is carried out by specific internal functions, depending on the individual Group entity.

The BPM Group has procedures in place and manuals that describe the valuation techniques and inputs used.

For certain valuations relating to a limited group of financial instruments, the Group is assisted by companies external to the BPM Group that, as the case may be, supply the prices of the assets and liabilities or the pricing models used.

For financial instruments, the fair value of which is based on a valuation model, analysis of the sensitivity of such instruments to market data is done by means of standard perturbation techniques, which, acting on input parameters to the pricing model, determine corresponding changes in the fair value of the instrument. Sensitivity is obtained individually for each curve or risk factor by applying to the latter an increase or decrease (perturbation or shift) of a pre-defined size, obtaining as an output the corresponding change in fair value. In the case of non scalar risk factors, such as those pertaining to an interest rate curve or volatility surface, a uniform shift is generally applied to the entire structure, thus obtaining an estimate of the sensitivity to parallel movements of the corresponding curve.

A.4.3 Fair value hierarchy

The fair value hierarchy, according to IFRS 13, has to be applied to all financial instruments for which their fair value is recognised in the balance sheet. In this regard, for these instruments top priority is given to the official prices available in active markets and a lower priority to the use of unobservable inputs, as they are more discretionary. Fair value is therefore determined through the use of prices obtained from financial markets in the case of instruments quoted on active markets, or, for other financial instruments, by using valuation techniques with the aim of estimating the fair value (exit price).

Based on the type of input used, the valuation techniques categorise fair value into the following three levels:
- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly;
- Level 3 – unobservable inputs for the asset or liability.

The procedures for classifying financial instruments in the three levels are as follows:

LEVEL 1 – Quoted prices (unadjusted) in active markets

Financial instruments have to be classified as Level 1 if they have been valued using prices quoted on active markets for identical instruments to those being evaluated, without making any adjustments.
A quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment. Any adjustment results in the categorisation of a financial instrument within a lower level (for example, no immediate access to information or the lack of availability of a price at the measurement date).
A market is considered active for a certain financial instrument on a certain date if in the previous 20 days changes in prices were recorded on at least 50% of the working days considered.
Markets in which inputs might be observable for certain financial instruments are: securities markets, direct and assisted exchange markets (for example, over-the-counter markets, the prices of which are public), brokered markets (for example, electronic trading platforms), principal-to-principal and autonomous markets.
Those normally considered to be principal markets are:
- MOT and MTS circuits for government bonds and for non-government bonds;
- MTA circuits for Italian equities and international regulated stock exchanges for foreign equities;
- official ECB exchange rates of the day for spot foreign exchange transactions.

Where a principal market has not been identified for a certain financial instrument, the reference market to be considered is that which is most advantageous.
The above considerations also apply to short positions in securities.

For financial instruments quoted on active markets, the current bid price is used for financial assets and the ask price for financial liabilities at the end of the reporting period.

LEVEL 2 AND 3

In the absence of quoted prices in active markets, financial instruments have to be classified in Levels 2 or 3.
Classification in Level 2 rather than Level 3 depends on the observability of significant market inputs used in determining the fair value.

CRITERIA FOR TRANSFERS BETWEEN LEVELS

The transfer of a financial instrument from Level 1 to Level 2 of the fair value hierarchy and vice versa is based mainly on the degree of liquidity of the instrument at the time of recognition of its quoted price that determines the use of a quoted price in an active market rather than a price obtained from a pricing model. In practice, if, for a financial asset or liability, there are objective indications of a significant loss or the lack of availability of a price in an active market (absence of multiple prices from market makers, prices that have not changed much or which are inconsistent), the instrument is categorised in Level 2 of the fair value hierarchy and, in certain cases, recourse is made to a model-based valuation. This categorisation may no longer be necessary, if, for the same financial instrument, a price in an active market once again becomes available, with a corresponding transfer to Level 1.
Such an event mainly arises with debt securities, whereas derivatives listed on regulated markets normally pertain to Level 1, given that, for these, a price is normally provided by the relevant stockmarket. Vice versa, OTC derivatives are normally valued based on pricing models and thus are categorised in Level 2 or 3 of the fair value hierarchy, based on the significance of the input data.

A transfer from Level 2 to Level 3 and vice versa is determined by the weighting or the significance, at various times during the life of the financial instrument, of the unobservable input variables compared to the overall valuation of the instrument. In order to define whether an input is significant or not for the purpose of the categorisation of the fair value of an instrument, three significance thresholds have been adopted. Of these, the first two relate to the significance of unobservable market parameters, while the third specifically relates to adjustments to the fair value of OTC derivatives to reflect in the mark-to-market the risk that the obligation will not be fulfilled.
The two thresholds relating to input data are mutually exclusive and are applied on the basis of whether it is possible (first threshold) or not possible (second threshold) to accurately isolate the components of the financial instrument that, for the valuation thereof, require unobservable inputs. In other words, the first threshold applies if a financial instrument can be exactly broken down into more simple financial instruments, some of which require unobservable inputs, while the second applies in cases where it is not possible to isolate or unbundle from the instrument the component influenced by the unobservable factor.
In detail:

1. the first threshold (fair value ratio threshold) is defined based on the ratio of the fair value of the contractual component valued with unobservable inputs (for example, an implicit option) to the fair value of the entire contract: if this ratio equals or is less than 5%, the impact of the unobservable input is not considered significant for the purpose of the determination of the fair value and the latter is categorised as Level 2; otherwise, the contract is classified as Level 3;
2. the second threshold (sensitivity ratio threshold) is defined based on the sensitivity of the price of the financial instrument to the unobservable parameter: an input is considered not to be significant for the purpose of the determination of fair value if changes in the unobservable input of plus or minus 5% produce a change in the absolute amount of the fair value of the instrument equal to or less than 5% of the fair value, with a consequent classification as Level 2; otherwise, the contract is classified as Level 3. The shock is applied to the unobservable parameter in a symmetric manner, thus acknowledging in the classification any asymmetry of the nonlinearity of the pricing function.

As regards adjustments made to the fair value of OTC derivatives, to establish the degree of significance of these adjustments, a materiality threshold is defined for counterparty risk (CVA ratio threshold). This is identified based on the ratio of the amount of the reduction in fair value, which represents the estimate of counterparty risk, to the overall fair value of the contract, that is, with the inclusion of counterparty risk. If this ratio is equal to or less than 20%, the impact of the adjustment for counterparty risk is not considered significant for the purpose of the determination of fair value and the latter is assigned to the level it would have been classified in, in the absence of the CVA. Otherwise, the entire fair value is classified as Level 3.

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities carried at fair value on a recurring basis: breakdown of fair value levels

Financial assets and liabilities carried at fair value	L1	L2	L3	30.06.2013	L 1	L 2	L 3	31.12.2012
1. Financial assets held for trading	316,868	1,277,079	111,498	**1,705,445**	122,221	1,587,021	112,433	**1,821,675**
2. Financial assets designated at fair value through profit and loss	129,070	102,499	27,931	**259,500**	124,770	101,208	33,343	**259,321**
3. Financial assets available for sale	8,755,783	127,172	756,628	**9,639,583**	8,607,805	174,426	757,145	**9,539,376**
4. Hedging derivatives	–	199,947	17,259	**217,206**	–	235,054	21,266	**256,320**
Total	**9,201,721**	**1,706,697**	**913,316**	**11,821,734**	**8,854,796**	**2,097,709**	**924,187**	**11,876,692**
1. Financial liabilities held for trading	127,542	1,115,459	72,535	**1,315,536**	21,093	1,491,807	72,547	**1,585,447**
2. Financial liabilities designated at fair value through profit and loss	–	568,573	22,919	**591,492**	–	985,619	24,279	**1,009,898**
3. Hedging derivatives	–	26,946	7,200	**34,146**	–	36,892	8,157	**45,049**
Total	**127,542**	**1,710,978**	**102,654**	**1,941,174**	**21,093**	**2,514,318**	**104,983**	**2,640,394**

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

Level 3 financial assets as a whole amount to 913 million euro and represent 7.7% of the total of financial assets designated at fair value through profit and loss (7.8% at 31 December 2012); Level 3 financial liabilities amounted to 103 million euro, representing 5.3% of total financial liabilities designated at fair value (4% at 31 December 2012).

The following table shows the breakdown of financial assets designated at fair value in Level 3:

Financial assets carried at fair value: breakdown by product	Debt securities and Loans	Equities	Mutual funds	Derivatives	30.06.2013	Debt securities	Equities	Mutual funds	Derivatives	31.12.2012
Financial assets held for trading	42,242	4	–	69,252	**111,498**	45,203	1	–	67,229	**112,433**
Financial assets designated at fair value through profit and loss	23,108	–	4,823	–	**27,931**	28,798	–	4,545	–	**33,343**
Financial assets available for sale	92,205	440,869	223,554	–	**756,628**	147,470	390,262	219,413	–	**757,145**
Hedging derivatives	–	–	–	17,259	17,259	–	–	–	21,266	21,266
	157,555	**440,873**	**228,377**	**86,511**	**913,316**	**221,471**	**390,263**	**223,958**	**88,495**	**924,187**

As can be seen from this classification, financial assets carried at fair value are made up of:

a. Debt securities and Loans: 157.6 million euro. These are structured or subordinated debt securities issued directly by leading Italian or international banks.
b. Equities: 440.9 million euro. These are essentially minority interests in unlisted finance and non-finance companies. Note that for some of these financial instruments, for a total of 13.5 million euro, it has not been possible to make reasonable estimates of their fair value. In accordance with IAS 39, para. AG 81, these instruments have therefore been maintained at their original purchase cost, which is in any case close to the book net equity value of the companies concerned.
c. Mutual funds: 228.4 million euro. These are:
   - Closed-end property funds: 73.7 million euro;
   - Closed-end funds: 149.9 million euro;
   - Open-end hedge funds: 4.8 million euro.

These financial instruments are valued on the basis of the NAV communicated by the management company, as this is considered a more reliable estimate than the instrument's fair value, given that NAV is the "exit value" that would be applied if the investment were to be sold.

d. Financial derivatives: 86.5 million euro booked under financial assets held for trading. These are financial derivatives valued at fair value stipulated with institutional counterparties and customers. As regards derivatives with customers, financial assets designated at fair value through profit and loss Level 3 include, among others, those positions for which the quota of fair value adjustment that takes account of credit risk is significant compared with the overall value of the financial instrument.

Analysis of sensitivity of unobservable parameters (Level 3)

Valuation techniques and input for the estimation of Level 3 fair value – assets and liabilities

(Euro/000)

	Parameter	Valuation technique	Fair value at 30.06.2013	
			assets	liabilities
Financial assets/liabilities held for trading (inclusive of linked derivatives)				
Interest rate derivatives	correlation between interest rates	based on historical data	–	–3,985
	inflation volatility	inferred from brokers' quotes	5,285	–4,477
	correlation between interest rates	third party valuation	–	–18,462
	credit spread	extrapolation	1,586	–
Equity derivatives	correlations between equities	based on historical data	619	–
	correlations between equity indices	inferred from brokers' quotes	19,333	–3,197
	correlations between indices and currencies	based on historical data	42,325	–42,413
	volatility of funds	based on historical data	19	–
	"how much" correlation	based on historical data	85	–
Bonds	correlation between different interest rates	calibration/mathematical techniques	41,910	–
	credit spread	extrapolation	335	–1
Equities/equity investments	EBITDA, price	comparable approach, historical cost	1	–
Financial assets/liabilities designated at fair value through profit and loss				
Bonds issued	Inflation volatility	based on historical data	–	–22,919
Bonds		third party valuation	23,108	–
UCITS	NAV (quarterly/six monthly/annual)		4,823	–
Financial assets available for sale				
Bonds	Correlation between interest rates and inflation + inflation volatility	based on historical data	89,780	–
Bonds	historical cost	historical cost	1,000	–
Loans		appraisal amount	1,425	–
Equities/equity investments	EBITDA, estimated dividend flow, price	comparable approach, income methods (DDM), historical cost	440,869	–
UCITS	NAV (quarterly/six monthly/annual)		223,554	–
Hedging derivatives				
Interest rate derivatives	correlation between interest rates	third party valuation	–	–7,200
Equity derivatives	Historical volatility	based on historical data	17,259	–
TOTAL			**913,316**	**–102,654**

The following table sets out an analysis of the sensitivity of the fair value of Level 3 instruments to a change in unobservable parameters:

Net sensitivity of fair value to changes in unobservable input:

(Euro/000)

	portfolio classification	parameter	valuation technique	fair value at 30.06.2013	30.06.2013	
					favourable changes	unfavourable changes
Equity derivatives						
	Financial assets/liabilities held for trading	correlation between equity indices	inferred from brokers' quotes	277	176	–419
	Financial assets/liabilities held for trading	"how much" correlation	based on historical data	85	4	–20
	Hedging derivatives	volatility of equities	based on historical data	17,509	8	–1
Interest rate derivatives						
	Financial assets/liabilities held for trading	credit spread	extrapolation	1,586	108	–112
Bonds						
	Financial assets available for sale	volatility inflation rates correlation interest rates and inflation	based on historical data	86,560	135	–332
Equities/equity investments						
	Financial assets available for sale	EBITDA, expected dividend flows, price	growth rate "g"	298,209	10,895	–9,322
Total				**404,226**	**11,326**	**–10,206**

In particular, for minority equity investments valued using the DDM method, sensitivity was performed by varying the growth rate "g" used to estimate future dividends by +/– 0.5%.
For more information on the sensitivity of financial instrument values to changes in the main input parameters, reference should be made to the overall analyses carried out on the trading book in Part E of these notes.

A.4.5.2 Annual changes in financial assets carried at fair value (Level 3)

		Financial assets				Total
		held for trading	designated at fair value through profit and loss	available for sale	hedging	
1.	**Opening balance**	**112,433**	**33,343**	**757,145**	**21,266**	**924,187**
2.	**Increases**	**49,064**	**2,484**	**119,106**	**–**	**170,654**
2.1.	Purchases	18,940	1,086	28,119	–	48,145
2.2.	Profits booked to:	25,780	875	–	–	26,655
2.2.1.	Income statement	25,780	875	–	–	26,655
	– of which gains	*20,889*	*828*	–	–	*21,717*
2.2.2.	Shareholders' equity	X	X	61,322	–	61,322
2.3.	Transfer from other levels	427	–	–	–	427
2.4.	Other increases	3,917	523	29,665	–	34,105
3.	**Decreases**	**49,999**	**7,896**	**119,623**	**4,007**	**181,525**
3.1.	Sales	19,728	7,260	3,021	–	30,009
3.2.	Redemptions	–	–	20,000	–	20,000
3.3.	Losses booked to:	17,929	270	13,317	4,007	35,523
3.3.1.	Income statement	17,929	270	13,317	4,007	35,523
	– of which: unrealised losses	*16,953*	*270*	*13,314*	*4,007*	*34,544*
3.3.2.	Shareholders' equity	X	X	13,247	–	13,247
3.4.	Transfer to other levels	4,458	–	41,287	–	45,745
3.5.	Other decreases	7,884	366	28,760	–	37,010
4.	**Closing balance**	**111,498**	**27,931**	**756,628**	**17,259**	**913,316**

A.4.5.3 Annual changes in liabilities carried at fair value (Level 3)

		Financial liabilities			Total
		held for trading	designated at fair value through profit and loss	hedging	
1.	**Opening balance**	**72,547**	**24,279**	**8,157**	**104,983**
2.	**Increases**	**22,310**	**369**	**971**	**23,650**
2.1.	Issues	–	–	–	–
2.2.	Losses booked to:	21,626	–	–	21,626
2.2.1.	Income statement	21,626	–	–	21,626
	– of which: unrealised losses	*12,742*	–	–	*12,742*
2.2.2.	Shareholders' equity	X	X	–	–
2.3.	Transfer from other levels	–	–	–	–
2.4.	Other increases	684	369	971	2,024
3.	**Decreases**	**22,322**	**1,729**	**1,928**	**25,979**
3.1.	Redemptions	–	–	–	–
3.2.	Repurchases	–	–	–	–
3.3.	Profits booked to:	10,301	938	1,928	13,167
3.3.1.	Income statement	10,301	938	1,928	13,167
	– of which gains	*9,139*	*938*	*1,928*	*12,005*
3.3.2.	Shareholders' equity	X	X	–	–
3.4.	Transfer to other levels	2,639	–	–	2,639
3.5.	Other decreases	9,382	791	–	10,173
4.	**Closing balance**	**72,535**	**22,919**	**7,200**	**102,654**

Disclosures relating to transfers between Level 1 and Level 2 in the first half of 2013

During the course of the first half of 2013 the following transfers took place:

Financial assets held for trading
- Euro 3.2 million from Level 1 to Level 2;
- Euro 11.3 million from Level 2 to Level 1.

Financial assets available for sale
- Euro 4.9 million from Level 1 to Level 2;
- Euro 18.7 million from Level 2 to Level 1.

These transfers mainly relate to data having become available or no longer being available regarding prices quoted in organised markets and that, due to volumes traded and the frequency of the prices reported, permit or do not permit, on the basis of the parameters indicated above, the categorisation of the instruments in Level 1.

Information concerning exposures to sovereign debt

With reference to the request received by ESMA (European Securities Markets Authority) with Communication ESMA/2011/226 of 28 July 2011 and by Consob Communication DEM/11070007 of 5 August 2011, with reference to the figures shown at 30 June 2013 in the above item A.4.5.1 "Assets and liabilities carried at fair value on a recurring basis: breakdown of fair value levels", the following is the BPM Group's exposure to sovereign debt, consisting mainly of Italian government securities.

The table shows the following information of the accounting portfolios by individual country:
- fair value hierarchy level;
- nominal value;
- book value at 30 June 2013;
- effect of the valuation recognized in the income statement for the period with respect to securities classified as "Financial assets held for trading" and "Financial assets designated at fair value through profit and loss";
- effect of the gross overall valuation recognised at the date of the balance sheet as shareholders' equity under "Revaluation reserves", in relation to securities classified as "Financial assets available for sale".

Financial assets carried at fair value: debt securities

(Euro/000)

Accounting portfolios/issuers	L1				L2				L3		
	Nominal value	Book value 30.6.2013	Valuation booked to income statement	Valuation booked to shareholders' equity	Nominal value	Book value 30.6.2013	Valuation booked to income statement	Valuation booked to shareholders' equity	Nominal value	Book value 30.6.2013	Valuation booked to income statement
1. Financial assets held for trading	**23,474**	**23,860**	**–107**	**X**	**6,158**	**3,871**	**–278**	**X**	**32**	**30**	**1**
Italy	22,281	22,813	–84	X	288	300	22	X	1	1	–
Austria	1,018	1,007	6	X	3,518	3,206	38	X	31	29	1
Argentina	157	24	–28	X	2,352	365	–338	X	–	–	–
China	10	11	–	X	–	–		X	–	–	–
Greece	7	4	–1	X	–	–		X	–	–	–
Germany	1	1	–	X	–	–		X	–	–	–
2. Financial assets designated at fair value through profit and loss	**–**	**–**	**–**	**X**	**–**	**–**	**–**	**X**	**–**	**–**	**–**
3. Financial assets available for sale	**8,593,154**	**8,570,097**	**–1,740**	**14,443**	**–**	**–**	**–**	**–**	**5**	**5**	**–**
Italy	8,593,154	8,570,097	–1,740	14,443	–	–	–	–	5	5	–
Total	**8,616,628**	**8,593,957**	**–1,847**	**14,443**	**6,158**	**3,871**	**–278**	**–**	**37**	**35**	**1**

For comparison purposes, the situation at 31 December 2012 is set out below

Financial assets carried at fair value: debt securities

(Euro/000)

Accounting portfolios/issuers	L1				L2				L3		
	Nominal value	Book value 30.6.2012	Valuation booked to income statement	Valuation booked to shareholders' equity	Nominal value	Book value 30.6.2012	Valuation booked to income statement	Valuation booked to shareholders' equity	Nominal value	Book value 30.6.2012	Valuation booked to income statement
1. Financial assets held for trading	**8,856**	**8,454**	**563**	**X**	**2,659**	**1,359**	**68**	**X**	**1**	**1**	**–**
Italy	5,310	5,395	248	X	336	329	23	X	1	1	–
Austria	3,380	2,992	312	X	651	629	–5	X	–	–	–
Argentina	166	67	3	X	1,613	337	50	X	–	–	–
Mexico	–	–	–	X	59	64	–	X	–	–	–
2. Financial assets designated at fair value through profit and loss	**–**	**–**	**–**	**X**	**–**	**–**	**–**	**X**	**–**	**–**	**–**
3. Financial assets available for sale	**8,417,104**	**8,404,339**	**–**	**119,730**	**–**	**–**	**–**	**–**	**5**	**5**	**–**
Italy	8,417,104	8,404,339	–	119,730	–	–	–	–	5	5	–
Total	**8,425,960**	**8,412,793**	**563**	**119,730**	**2,659**	**1,359**	**68**	**–**	**6**	**6**	**–**

The following table shows these values restated by issuer:

Breakdown by issuer	**Nominal value**	**Book value 30.6.2013**	**Valuation booked to income statement**	**Valuation booked to shareholders' equity**
Italy	**8,615,729**	**8,593,216**	**–1,802**	**14,443**
Financial assets available for sale	8,593,159	8,570,102	–1,740	14,443
– of which maturing in 2013	*569,365*	*570,342*	–	*–108*
– of which maturing from 2014 to 2015	*2,905,265*	*2,897,867*	–	*20,762*
– of which maturing from 2016 to 2020	*4,483,529*	*4,466,302*	*176*	*–5,827*
– of which maturing beyond 2020	*635,000*	*635,591*	*–1,916*	*–384*
Financial assets held for trading	22,570	23,114	–62	X
Austria	**4,567**	**4,242**	**45**	**–**
Financial assets held for trading	4,567	4,242	45	X
Argentina	**2,509**	**389**	**–366**	**–**
Financial assets held for trading	2,509	389	–366	X
China	**10**	**11**	**–**	**–**
Financial assets held for trading	10	11	–	X
Greece	**7**	**4**	**–1**	**–**
Financial assets held for trading	7	4	–1	X
Germany	**1**	**1**	**-**	**-**
Financial assets held for trading	1	1	-	X
Total	**8,622,823**	**8,597,863**	**–2,124**	**14,443**

In addition to these exposures, asset item 70 "Loans to customers" includes exposures to the Italian Government and to Italian local public entities for 232 million euro, not subject to specific value adjustments.
At 31 July 2013, the potential gains on the "available-for-sale" government bond portfolio total 67 million euro (versus 14 million euro at 30 June 2013).

For comparison purposes, the situation at 31 December 2012 is set out below

Breakdown by issuer	**Nominal value**	**Book value 30.6.2012**	**Valuation booked to income statement**	**Valuation booked to shareholders' equity**
Italy	**8,422,756**	**8,410,069**	**271**	**119,730**
Financial assets available for sale	8,417,109	8,404,344	–	119,730
– of which maturing in 2013	*1,629,365*	*1,640,733*	–	*9,742*
– of which maturing from 2014 to 2015	*3,748,265*	*3,730,404*	–	*62,894*
– of which maturing from 2016 to 2020	*2,639,479*	*2,635,238*	–	*43,288*
– of which maturing beyond 2020	*400,000*	*397,969*	–	*3,806*
Financial assets held for trading	5,647	5,725	271	X
Austria	**4,031**	**3,621**	**307**	**–**
Financial assets held for trading	4,031	3,621	307	X
Argentina	**1,779**	**404**	**53**	**–**
Financial assets held for trading	1,779	404	53	X
Mexico	**59**	**64**	**–**	**–**
Financial assets held for trading	59	64	–	X
Total	**8,428,625**	**8,414,158**	**631**	**119,730**

In addition to these exposures, asset item 70 "Loans to customers" at 31 December 2012 includes exposures to the Italian Government and to Italian local public entities for about 257 million euro.

A.5 Information on the so-called "day one profit/loss"

IAS 39 requires a financial instrument to be initially recorded at its fair value, which is normally the amount paid or collected for the transaction; in other words, at the cost or amount paid for financial assets or the amount received for financial liabilities. On initial recognition, the fair value of a financial instrument does not always coincide with the price paid or received; this difference is defined as a "day-one profit/loss".
If there is a difference between these values, the fair value of the instrument has to be accounted for rather than the transaction price, but only if the fair value is calculated from other observable market transactions on the same instrument or if it is determined by the use of valuation techniques, whose inputs originate from information derived from observable markets. In such cases the difference between the transaction price and the fair value on initial recognition is immediately charged to income. This criterion applies to the instruments that fall into one of the classes that require the booking of the instrument at fair value through profit and loss: fair value option and trading book.
With regard to these categories we specify as follows:

1. Instruments quoted on an active market. In this case the concept of "day-one profit" is not usually applied since on initial recognition in the financial statements the fair value of a financial instrument which falls within Level 1 of the fair value hierarchy coincides with the transaction price.

2. Instruments not quoted on an active market. In this case, classification of the financial instrument in Levels 2 or 3 of the fair value hierarchy leads to a different accounting treatment of the difference between fair value and the transaction price.

In the case of Level 2, initial recognition, in many cases, sees fair value substantially coincide with the transaction price. Any differences between price and fair value go through the income statement on the first remeasurement of the financial instrument.

In the case of Level 3, the presence of model risk and/or input not directly observable in the market significantly influence the outcome of the assessment, to be compared with the transaction price. In this case the difference, if positive, is amortised over the residual life of the financial instrument ("day–one profit") or of the holding period, if this is thought to be lower; if this difference is negative, it is charged directly to income for prudence sake ("day–one loss").

Subsequent to initial recognition of the fair value, mark to model valuations are made using the same methodology and the same input sources as were used when we calculated the fair value on day one.
Subsequent changes in fair value after day one will therefore be linked to the trend in the related risk factors to which the instrument is exposed (interest rates, equity prices, exchange rates, etc.) and booked directly to the income statement.

At 30.06.2013 the "day-one profit" – taken on the initial date of the financial instruments that have a significant model risk and/or parameters not directly observable in the market – not yet allocated to the income statement amounts to around 1.5 million. There are no "day–one losses" booked to the income statement.

Part B – Information on the balance sheet - Assets

Section 2 – Financial assets held for trading
Line item 20

This line item includes financial assets (debt securities, equities, mutual funds, derivatives), classified in the trading portfolio, including expired and deteriorated derivatives.
The underlying technical forms also include assets sold that do not satisfy the requirements of IAS 39 to be eliminated from the financial statements ("sold but not eliminated") and impaired assets.

2.1 Financial assets held for trading: breakdown by product

Line items/Amounts	Level 1	Level 2	Level 3	30.06.2013	Level 1	Level 2	Level 3	31.12.2012
A. Cash assets								
1. Debt securities	**110,576**	**108,793**	**42,242**	**261,611**	**58,337**	**60,045**	**45,203**	**163,585**
1.1 Structured securities	731	33,385	41,928	76,044	4,927	24,036	44,922	73,885
1.2 Other debt securities	109,845	75,408	314	185,567	53,410	36,009	281	89,700
2. Equities	**84,339**	**–**	**4**	**84,343**	**44,530**	**–**	**1**	**44,531**
3. Mutual funds	**35**	**–**	**–**	**35**	**29**	**–**	**–**	**29**
4. Loans	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
4.1 Repurchase agreements	–	–	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–	–	–
Total A	**194,950**	**108,793**	**42,246**	**345,989**	**102,896**	**60,045**	**45,204**	**208,145**
B. Derivatives								
1. Financial derivatives:	**121,918**	**1,167,747**	**69,252**	**1,358,917**	**19,325**	**1,524,983**	**67,229**	**1,611,537**
1.1 trading	121,918	1,158,128	66,019	1,346,065	19,325	1,504,441	63,419	1,587,185
1.2 linked to the fair value option	–	9,619	3,233	12,852	–	20,542	3,810	24,352
1.3 other	–	–	–	–	–	–	–	–
2. Credit derivatives:	**–**	**539**	**–**	**539**	**–**	**1,993**	**–**	**1,993**
2.1 trading	–	539	–	539	–	1,993	–	1,993
2.2 linked to the fair value option	–	–	–	–	–	–	–	–
2.3 other	–	–	–	–	–	–	–	–
Total B	**121,918**	**1,168,286**	**69,252**	**1,359,456**	**19,325**	**1,526,976**	**67,229**	**1,613,530**
Total (A+B)	**316,868**	**1,277,079**	**111,498**	**1,705,445**	**122,221**	**1,587,021**	**112,433**	**1,821,675**

As regards the criteria used for determining the fair value and the classification of financial instruments in the three levels of the fair value hierarchy, they are defined in Part A "Accounting Policies".

Line item "B.1.2 – Derivatives linked to the fair value option", includes the fair value of derivatives related to the instruments for which the fair value option has been adopted. These derivatives are mainly to hedge the risks inherent in the issue of bonds for which the Group has taken advantage of the fair value option according to IAS 39, paragraph 9. Such risks arise from possible fluctuations in interest rates and from the presence of options that are embedded in the structured securities issued.

Subordinated financial assets

A. Cash assets	Level 1	Level 2	Level 3	30.06.2013	Level 1	Level 2	Level 3	31.12.2012
1.2 Debt securities – Other	**9,178**	**6,124**	**98**	**15,400**	**2,556**	**1,111**	**1**	**3,668**
– Issued by banks	3,384	6,121	98	9,603	997	1,111	1	2,109
– Issued by finance–sector companies	2,260	3	–	2,263	491	–	–	491
– Issued by insurance companies	3,322	–	–	3,322	1,068	–	–	1,068
– Issued by other companies	212	–	–	212	–	–	–	–
Total	**9,178**	**6,124**	**98**	**15,400**	**2,556**	**1,111**	**1**	**3,668**

Subordinated assets consist of debt securities held by Banca Akros for normal trading operations.

Section 3 – Financial assets designated at fair value through profit and loss
Line item 30

This line item includes all cash financial assets (debt securities, equities, mutual funds) designated at fair value, with the results following the valuation booked to the income statement, on the basis of the "fair value option" recognised by IAS 39, 28 and 31.
The following instruments are classified in this category:
- debt securities with embedded derivatives;
- debt securities not classified as financial assets held for trading and whose cash flows have been hedged;
- open-ended funds (including hedge funds), for which regular valuations are available from independent sources and which, not being held for short-term trading, form part of a duly documented investment strategy, designed to achieve an overall return based on the change in the fair value of the instrument itself, with regular detailed reports on their performance provided to management.

The underlying technical forms also include assets sold that do not satisfy the requirements of IAS 39 to be eliminated from the financial statements ("sold but not eliminated") and impaired assets.

3.1 Financial assets designated at fair value through profit and loss: breakdown by product

Line items/Amounts	Level 1	Level 2	Level 3	30.06.2013	Level 1	Level 2	Level 3	31.12.2012
1. Debt securities	**67,577**	**102,499**	**23,108**	**193,184**	**66,560**	**101,208**	**28,798**	**196,566**
1.1 Structured securities	56,186	54,647	23,108	133,941	55,761	52,677	28,798	137,236
1.2 Other debt securities	11,391	47,852	–	59,243	10,799	48,531	–	59,330
2. Equities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
3. Mutual funds	**61,493**	**–**	**4,823**	**66,316**	**58,210**	**–**	**4,545**	**62,755**
4. Loans	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
4.1 Structured	–	–	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–	–	–
Total	**129,070**	**102,499**	**27,931**	**259,500**	**124,770**	**101,208**	**33,343**	**259,321**
Cost	**122,380**	**102,735**	**31,906**	**257,021**	**121,256**	**101,674**	**37,533**	**260,463**

As regards the criteria used for determining the fair value and the classification of financial instruments in the three levels of the fair value hierarchy, they are defined in Part A "Accounting Policies".
The amounts reported as "cost" correspond to the purchase cost of financial assets held at the balance sheet date.
The remainder of the structured securities classified in level 3 includes, among other things, two Credit Link Notes for 3.602 million euro (2.533 million euro at 31.12.12).

Subordinated financial assets

At the balance sheet date, the portfolio of assets designated at fair includes subordinated securities issued by insurance companies of 6.198 million.

Section 4 – Financial assets available for sale
Line item 40

This line item includes all the financial assets (debt securities, equities, etc) classified in the "available for sale" portfolio. Equities essentially include interests in companies which, in accordance with international accounting standards, are no longer defined as equity investments (i.e. investments in associates and companies subject to joint control).

The underlying technical forms also include assets sold that do not satisfy the requirements of IAS 39 to be eliminated from the financial statements ("sold but not eliminated") and impaired assets.

4.1 Financial assets available for sale: breakdown by product

Line items/Amounts	Level 1	Level 2	Level 3	30.06.2013	Level 1	Level 2	Level 3	31.12.2012
1. Debt securities	**8,695,480**	**127,172**	**90,780**	**8,913,432**	**8,552,590**	**174,426**	**146,045**	**8,873,061**
1.1 Structured securities	–	46,494	89,775	136,269	–	47,329	83,728	131,057
1.2 Other debt securities	8,695,480	80,678	1,005	8,777,163	8,552,590	127,097	62,317	8,742,004
2. Equities	**59,386**	**–**	**440,869**	**500,255**	**54,311**	**–**	**390,262**	**444,573**
2.1 Valued at fair value	59,386	–	427,375	486,761	54,311	–	376,849	431,160
2.2 Valued at cost	–	–	13,494	13,494	–	–	13,413	13,413
3. Mutual funds	**917**	**–**	**223,554**	**224,471**	**904**	**–**	**219,413**	**220,317**
4. Loans	**–**	**–**	**1,425**	**1,425**	**–**	**–**	**1,425**	**1,425**
Total	**8,755,783**	**127,172**	**756,628**	**9,639,583**	**8,607,805**	**174,426**	**757,145**	**9,539,376**

As regards the criteria used for determining the fair value and the classification of financial instruments in the three levels of the fair value hierarchy, they are defined in Part A "Accounting Policies".

In accordance with the provisions of IAS 39 on the derecognition of financial assets, line item "1.2 Other debt securities" also includes debt securities as part of repurchase agreements made on securities portfolio for 4,391.838 million euro (4,366.942 million euro at 31.12.2012).

Line item 2. Equities includes equity interests that do not qualify as subsidiaries, associates or joint ventures.
The following table shows the composition of securities carried at fair value, as well as those valued at cost, which have been maintained at their initial book value as it is not possible to determine a reliable fair value, as required by IFRS 7 § 30.

Breakdown of line item 2.1. Equities carried at fair value	**% held**	**Level 1**	**Level 2**	**Level 3**	**30.06.2013**	**Level 1**	**Level 2**	**Level 3**	**31.12.2012**
Banks:		**38,815**	**–**	**298,208**	**337,023**	**37,293**	**–**	**256,909**	**294,202**
Banca Popolare dell'Etruria	0.24	86	–	–	86	342	–	–	342
Cassa di Risparmio di Asti	18.20	–	–	128,735	128,735	–	–	100,750	100,750
CIC – Credit Industriel e Commercial	0.93	38,729	–	–	38,729	36,951	–	–	36,951
Dexia Crediop S.p.A.	10.00	–	–	111,324	111,324	–	–	103,504	103,504
Istituto Centrale delle Banche Popolari Italiane S.p.A.	4.98	–	–	58,149	58,149	–	–	52,655	52,655
Financial institutions and other companies:		**20,571**	**–**	**129,167**	**149,738**	**17,018**	**–**	**119,940**	**136,958**
Alba Leasing S.p.A.	9.83	–	–	36,452	36,452	–	–	30,281	30,281
Cedacri S.p.A.	5.48	–	–	5,321	5,321	–	–	5,321	5,321
Comital – Participatory instruments	n.a.	–	–	2,794	2,794	–	–	3,656	3,656
Edipower S.p.A. (which Delmi S.p.A. was merged into)	2.03	–	–	28,639	28,639	–	–	27,198	27,198
Equinox Two "A"/"R"	6.98	–	–	10,192	10,192	–	–	10,676	10,676
Expo Piemonte S.p.A.	6.65	–	–	1,058	1,058	–	–	1,134	1,134
Fenice Holding S.p.A.	5.28	–	–	6,783	6,783	–	–	6,783	6,783
Fiera di Milano S.p.A.	2.52	4,709	–	–	4,709	4,165	–	–	4,165
Genextra S.p.A.	3.18	–	–	525	525	–	–	525	525
Istituto Europeo Oncologico	3.46	–	–	2,821	2,821	–	–	3,099	3,099
Italtel SpA – Participatory instruments "A"	n.a.	–	–	793	793	–	–	–	–
Italtel SpA – Participatory instruments "B"	n.a.	–	–	793	793	–	–	–	–
Targetti SpA – Participatory instruments	n.a.	–	–	2,520	2,520	–	–	2,520	2,520
Premuda	7.19	3,316	–	–	3,316	3,227	–	–	3,227
Release S.p.A.	2.92	–	–	9,346	9,346	–	–	11,408	11,408
Risanamento	6.68	12,091	–	–	12,091	9,096	–	–	9,096
SIA S.p.A.	2.31	–	–	18,841	18,841	–	–	12,011	12,011
Unione Fiduciaria	4.94	–	–	1,602	1,602	–	–	4,610	4,610
Other equities	–	455	–	687	1,142	530	–	718	1,248
Total		**59,386**	**–**	**427,375**	**486,761**	**54,311**	**–**	**376,849**	**431,160**

Breakdown of line item 2.2. Equities valued at cost	**% held**	**Level 1**	**Level 2**	**Level 3**	**30.06.2013**	**Level 1**	**Level 2**	**Level 3**	**31.12.2012**
Bank of Italy	0.29	–	–	8,724	8,724	–	–	8,724	8,724
Sesto Immobiliare – Participatory instruments	n.a.	–	–	2,899	2,899	–	–	2,899	2,899
Other equities		–	–	1,871	1,871	–	–	1,790	1,790
Total		**–**	**–**	**13,494**	**13,494**	**–**	**–**	**13,413**	**13,413**

The following table shows financial assets with a subordination clause.

Subordinated financial assets

	Level 1	**Level 2**	**Level 3**	**30.06.2013**	**Level 1**	**Level 2**	**Level 3**	**31.12.2012**
1. Debt securities	**22,088**	**18,738**	**–**	**40,826**	**–**	**–**	**41,288**	**41,288**
1.2 Other debt securities	22,088	18,738	–	40,826	–	–	41,288	41,288
Issued by banks	22,088	18,738	–	40,826	–	–	41,288	41,288
Issued by finance-sector companies	–	–	–	–	–	–	–	–
Issued by insurance companies	–	–	–	–	–	–	–	–
Total	**22,088**	**18,738**	**–**	**40,826**	**–**	**–**	**41,288**	**41,288**

Section 6 – Due from banks
Line item 60

This line item reports unquoted financial assets (Level 2 and Level 3) due from banks (overdrafts, security deposits, debt securities, etc) that have been classified in the loan portfolio ("loans and receivables"). They include operating receivables connected with the provision of financial services.

The underlying technical forms also include assets sold that do not satisfy the requirements of IAS 39 to be eliminated from the financial statements ("sold but not eliminated") and impaired assets.

6.1 Due from banks: breakdown by product

Type of transaction/Amounts	30.06.2013	31.12.2012
A. Due from central banks	**402,322**	**177,104**
1. Restricted deposits	–	–
2. Compulsory reserve	402,280	177,054
3. Repurchase agreements	–	–
4. Other	42	50
B. Due from banks	**1,704,564**	**2,541,267**
1. Current accounts and unrestricted deposits	903,674	1,614,191
2. Restricted deposits	174,230	161,261
3. Other loans:	623,217	757,844
3.1 Repurchase agreements	328,951	328,749
3.2 Finance leases	–	–
3.3 Other	294,266	429,095
4. Debt securities	3,443	7,971
4.1 Structured securities	–	–
4.2 Other debt securities	3,443	7,971
Total (book value)	**2,106,886**	**2,718,371**
Total (fair value)	**2,119,861**	**2,733,351**

See Part A – Accounting Policies for an explanation of the criteria used to determine fair value.

Subordinated financial assets

There are no loans to banks with subordination clause at the balance sheet date, as at the end of the previous year.

Impaired assets

Type of transaction/Amounts	30.06.2013	31.12.2012
B.2 Restricted deposits	427	424
B.3.3 – Other loans: other	–	–
Total	**427**	**424**

Section 7 – Loans to customers
Line item 70

This line item shows unquoted financial instruments (Level 2 and Level 3) due from customers (loans, lease transactions, factoring transactions, debt securities, etc.) allocated to "loans and receivables".
The underlying technical forms also include assets sold that do not satisfy the requirements of IAS 39 to be eliminated from the financial statements ("sold but not eliminated") and impaired assets.

7.1 Loans to customers: breakdown by product

Type of transaction/Amounts	30.06.2013			31.12.2012		
	Performing	Impaired		Performing	Impaired	
		Purchased	Other		Purchased	Other
1. Current accounts	3,889,833	–	**733,664**	4,380,269	–	**670,240**
2. Repurchase agreements	128,330	–	**–**	50,339	–	**–**
3. Mortgage loans	16,435,735	–	**1,574,748**	16,742,675	–	**1,413,595**
4. Credit cards, personal loans and salary assignments	1,539,673	–	**50,642**	1,475,707	–	**38,354**
5. Finance leases	285,468	–	**72,264**	292,866	–	**79,425**
6. Factoring	–	–	**–**	–	–	**–**
7. Other loans	8,422,112	–	**763,501**	8,904,373	–	**561,358**
8. Debt securities	142,191	–	**–**	181,690	–	**–**
8.1 Structured securities	1,407	–	**–**	1,231	–	**–**
8.2 Other debt securities	140,784	–	**–**	180,459	–	**–**
Total (book value)	**30,843,342**	**–**	**3,194,819**	**32,027,919**	**–**	**2,762,972**
Total (fair value)	**34,184,135**	**–**	**3,194,819**	**34,880,179**	**–**	**2,762,972**

See Part A – Accounting Policies for an explanation of the criteria used to determine fair value.

Current account balances due from customers include transactions "in transit" or "in suspense" relating to such accounts; these balances are not affected by non-cash debits and credits relating to bill and document collection services.

"Other loans" mostly relate to advances on bills, documents and similar instruments subject to collection, other amounts not settled via current accounts, receivables from post offices and the Cassa Depositi e Prestiti, derivative transaction margin changes at clearing houses, bills and documents discounted without recourse and operating loans associated with the provision of financial services (those associated with the payment of supplies of goods and non-financial services are shown under "Other assets").
Discounted bills are reported at their face value, less any deferred income; they also include those sent for collection by the Bank's own branches or others.

This also includes lease contracts that involve transfer of the risks, with BPM as lessor, relating to assets under construction and those waiting to be leased.

The "Impaired" column includes non–performing loans, doubtful loans, restructured loans and overdue positions, net of value adjustments, as defined by the Bank of Italy. Details of these exposures are given in Part E of the notes – asset quality.

Subordinated financial assets

Type of transaction/Amounts	30.06.2013	31.12.2012
7. Other transactions: subordinated loans granted to insurance companies	36,709	37,002
8.2 Other debt securities	8,043	7,839
Total	**44,752**	**44,841**

Subordinated financial assets versus insurance companies at 30.06.2013 refer to:

a) a loan granted on 27/6/2003 by the Parent Company and Banca di Legnano to Bipiemme Vita S.p.A., for an original amount of 8 million euro with unspecified maturity – interest rate 12-month Euribor + 250 b.p.;

b) two loans granted to Bipiemme Vita S.p.A. by the Parent Company, the first for an original amount of 8 million euro, granted on 31/3/2011 with a 5-year duration – interest rate 5-year MID SWAP + 270 b.p., the second for an original amount of 26.05 million euro, granted on 21/3/2012 with a 10-year duration – interest rate 12-month Euribor.

"Other debt securities" relate for 1.406 million euro to the convertible loan issued by Pitagora, an associated company: this loan was subscribed in part at the end of December 2011 and in part in February 2012; reimbursement of the security is subject to repayment of loans received by the issuing company; the residual amount of 6.637 million relates to PHARMA Finance securities originating from third party securitisations and which are subordinated by their terms to superior classes.

The line item 3. "Mortgage loans" includes the balances, at the respective dates, of the following portfolio of securitised loans:

	Performing	Impaired	30.06.2013	Performing	Impaired	31.12.2012
• **BPM Securitisation 2 S.r.l.:**						
- carried out in 2006 for 2,011.3 million euro	468,823	37,737	506,560	515,862	38,080	553,942
- Securitisation of commercial mortgage backed securities (CMBS), carried out in 2011 for 974 million euro (*)	593,476	15,341	608,817	685,348	11,367	696,715
• **Covered Bond S.r.l.:**						
- carried out in 2008 for 1,218 million euro, in 2009 for 1,305 million euro, in 2010 for 1,616 million euro and in 2011 for 639 million euro	3,538,183	80,919	3,619,102	3,389,190	77,144	3,466,334
Total	**4,600,482**	**133,997**	**4,734,479**	**4,590,400**	**126,591**	**4,716,991**

(*) the bank has subscribed all of the securities issued by the special purpose vehicle.

For details of the above transactions, see the following sections of Parte E of these Explanatory notes "Information on risks and related hedging policies":

1 – Credit risk
- "C.1 Securitisation transactions"
- "C.3 Covered bond transactions"

3 – Liquidity risk
- Self-securitisations

Section 8 – Hedging derivatives
Line item 80

This line item reports financial derivatives used for hedging purposes, which have a positive fair value at the balance sheet date.

8.1 Hedging derivatives: breakdown by type of hedge and level

	FV 30.06.2013					FV 31.12.2012				
	Level 1	Level 2	Level 3	Total	NV	Level 1	Level 2	Level 3	Total	NV
A. Financial derivatives	**–**	**199,947**	**17,259**	**217,206**	**2,485,278**	**–**	**235,054**	**21,266**	**256,320**	**2,305,278**
1) Fair value	–	199,947	17,259	217,206	2,485,278	–	235,054	21,266	256,320	2,305,278
2) Cash flows	–	–	–	–	–	–	–	–	–	–
3) Foreign investments	–	–	–	–	–	–	–	–	–	–
B. Credit derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1) Fair value	–	–	–	–	–	–	–	–	–	–
2) Cash flows	–	–	–	–	–	–	–	–	–	–
Total	**–**	**199,947**	**17,259**	**217,206**	**2,485,278**	**–**	**235,054**	**21,266**	**256,320**	**2,305,278**

Key: NV = Notional value L1 = Level 1 L2 = Level 2 L3 = Level 3

As regards the criteria used for determining the fair value and the classification of financial instruments in the three levels of the fair value hierarchy, they are defined in Part A "Accounting Policies".

The table presents the positive book value (fair value) of hedging derivative contracts, including the amount accruing at the balance sheet date, for hedges made through hedge accounting. This instrument is used to manage accounting hedges of financial instruments recognised in balance sheet items that do not envisage their measurement at fair value through profit or loss.
The hedging of financial liabilities represented by securities are normally handled through the fair value option. The fair value option was adopted for structured debt securities and fixed-rate securities issued by Group banks, whose risk of changes in fair value has been hedged with derivatives; derivatives used as part of the "fair value option" are classified in the trading book.

With regard to the objectives and strategies underlying hedge you should refer to the information provided in Part E – Information on risks and related hedging policies – Section 2 – Market Risk.

8.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge (book value)

Transactions/Type of hedge	Fair Value						Cash flows		Foreign investments
	Specific					Generic	Specific	Generic	
	interest rate risk	exchange rate risk	credit risk	price risk	several risks				
1. Financial assets available for sale	1,788	–	–	17,259	–	X	–	X	X
2. Loans and receivables	–	–	–	X	–	X	–	X	X
3. Investments held to maturity	X	–	–	X	–	X	–	X	X
4. Portfolio	X	X	X	X	X	277	X	–	X
5. Other transactions	–	–	–	–	–	X	–	X	–
Total assets	**1,788**	**–**	**–**	**17,259**	**–**	**277**	**–**	**–**	**–**
1. Financial liabilities	197,882	–	–	X	–	X	–	X	X
2. Portfolio	X	X	X	X	X	–	X	–	–
Total liabilities	**197,882**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	–
1. Expected transactions	X	X	X	X	X	X	–	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	–	X	–	–

This table reports the positive fair value of hedging derivatives, according to the asset or liability hedged and the type of hedge taken out.

As regards the breakdown by hedged portfolio, as part of financial liabilities, the amount relates:

- for 67.3 million, to the positive value of financial derivatives (for a total notional value of 458 million) entered into to hedge the interest rate of "Banca Popolare di Milano subordinated (Lower Tier 2) bond loan, fixed rate 7.125%", booked to "Securities issued" on the liabilities side of the balance sheet;
- for 130.5 million, to the positive value of financial derivatives (based on the notional value of the securities issued for 1.791 billion) stipulated by BPM Covered Bond (the SPV) with external counterparties to hedge against interest-rate risk the interest payable on the fixed-rate covered bonds issued by the Parent Bank; the fixed-rate coupons of the covered bonds get transformed into floating-rate coupons at Euribor plus a spread.

The amount of 17.26 million relates to a put option purchased to hedge the price of an equity instrument recorded in "Financial assets available for sale".
The amount of 1.79 million relates to a swap that specifically hedges the interest rate risk of fixed rate government securities recorded as "Financial assets available for sale".
The amount indicated in item 4. "Portfolio" refers for 0.3 million to the positive value of derivatives taken out by a subsidiary to hedge the interest rate on mortgages for a notional amount of 40 million.
Of the amount of 256.3 million at 31.12.2012 in table 8.1 above, 103 million relates to the positive value of the derivatives entered into by the Parent Company to hedge the interest rate risk of "Banca Popolare di Milano subordinated (Lower Tier 2) bond loan, fixed rate 7.125%", booked to the balance sheet liability component "Securities issued", 132 million relates to the positive value of the derivatives stipulated by the special purpose entity BPM Covered Bond (based on the notional value of the securities issued as of that date of 1.791 billion) and 21.3 million relates to the hedge of the price risk of an equity.

Section 9 – Fair value change of financial assets in hedged portfolios
Line item 90

This item includes the positive balance of fair value changes in the assets covered by macrohedges against interest rate risk.

9.1 Fair value adjustment of hedged assets: breakdown by hedged portfolio

Fair value adjustment of hedged assets/Members of the Group	30.06.2013	31.12.2012
1. Positive adjustment	**13,573**	**24,707**
1.1 of specific portfolios:	13,573	24,707
a) loans	7,509	10,295
b) financial assets available for sale	6,064	14,412
1.2 overall	–	–
2. Negative adjustment	**423**	**–**
2.1 of specific portfolios	–	–
a) loans	423	–
b) financial assets available for sale	–	–
2.2 overall	–	–
Total	**13,150**	**24,707**

The fair value adjustment of hedged assets concerns:

- a portfolio of fixed rate government securities for a nominal value of 1.505 billion (2.505 billion at 31 December 2012) recorded in “Financial assets available for sale”;
- a portfolio of mortgages with a cap option, included in “loans to customers” for a nominal value of 167.276 million.

The related hedging derivatives, which at 30 June 2013 have a positive valuation of 0.3 million and a negative valuation of 25.464 million, are shown under the balance sheet liability component “Hedging derivatives”.
Income and expenses relating to the valuation of hedging derivatives and the hedged portfolio are recognised in the income statement under “Fair value adjustments in hedge accounting”.

9.2 Assets covered by macrohedges against interest rate risk

Assets hedged	30.06.2013	31.12.2012
1. Loans and receivables	167,276	130,079
2. Financial assets available for sale	1,505,000	2,505,000
3. Portfolio	–	–

The amount relating to loans refers to the hedge set up by a subsidiary on mortgage loans for a nominal value of 167,276 million.

The amount attributable to the assets available for sale highlights the value of a portfolio of fixed-rate government securities hedged for interest rate risk in table 9.1 above.

Section 10 – Investments in associates and companies subject to joint control Line item 100

This item includes investments in joint ventures (or companies subject to joint control as per IAS 31) and associates (or companies subject to significant influence as per IAS 28).

10.1 Investments in companies subject to joint control (carried at equity) and associates: disclosures

Company name	Share capital in Euro/Original currency	Head office	Nature of holding (1)	Nature of investment		Voting rights (2)
				Holder	% held	
A Companies carried at equity						
A.1 Companies subject to joint control						
Unquoted financial institutions						
1 Calliope Finance S.r.l.	600,000	Conegliano (TV)	1	Banca Popolare di Milano S.c.a r.l.	50.00	
2 GSN North America Inc. formerly ESN North America Inc. (*)	USD 4.40	Delaware (USA)	1	Banca Akros S.p.A.	25.23	
A.2 Associates						
Unquoted financial institutions						
1 SelmaBipiemme Leasing S.p.A.	41,305,000	Milan	2	Banca Popolare di Milano S.c.a r.l.	40.00	
2 Aedes Bipiemme Real Estate SGR S.p.A.	5,500,000	Milan	2	Banca Popolare di Milano S.c.a r.l.	39.00	
3 Asset Management Holding S.p.A.	5,765,463	Milan	2	Banca Popolare di Milano S.c.a r.l.	25.57	
				Banca di Legnano S.p.A.	9.72	
4 Factorit S.p.A.	85,000,002	Milan	2	Banca Popolare di Milano S.c.a r.l.	30.00	
5 Etica SGR S.p.A.	4,500,000	Milan	2	Banca Popolare di Milano S.c.a r.l.	24.44	
6 Pitagora 1936 S.p.A.	9,400,000	Turin	2	Banca Popolare di Milano S.c.a r.l.	24.00	
7 Wise Venture SGR S.p.A.	1,250,000	Milan	2	Banca Popolare di Milano S.c.a.r.l.	20.00	
Unquoted insurance companies						
8 Bipiemme Vita S.p.A. (**)	225,840,000	Milan	2	Banca Popolare di Milano S.c.a.r.l.	19.00	

Key:
(1) Nature of holding: 1. joint control 2. significant influence
(2) Voting rights at ordinary general meeting. Voting rights are only shown if they differ from the percentage held in the share capital.

(*) GSN North America Inc. has been included in investments under joint control because of a clause in the Stockholders' Agreement stipulated by its shareholders, which provides for a qualified majority (76%) to carry out a series of transactions concerning the ordinary and extraordinary management of the company.
(**) Bipiemme Vita S.p.A. is classified as a company "subject to significant influence" on the basis of the partnership agreement stipulated with the Covéa Group to create a strategic partnership in bancassurance.

10.2 Investments in companies subject to joint control and associates: accounting information

Name	30.06.2013		31.12.2012	
	Book value	Fair value	Book value	Fair value
A. Companies carried at equity				
A.1 Companies subject to joint control				
Unquoted financial institutions				
1 Calliope Finance S.r.l.	907	X	512	X
2 GSN North America Inc.	189	X	243	X
A.2 Associates				
Unquoted financial institutions				
1 SelmaBipiemme Leasing S.p.A.	30,838	-	32,931	-
2 Aedes Bipiemme Real Estate SGR S.p.A.	2,585	-	2,563	-
3 Asset Management Holding S.p.A.	196,067	-	186,817	-
4 Factorit S.p.A.	59,199	-	57,800	-
5 Etica SGR S.p.A.	1,315	-	1,290	-
6 Pitagora 1936 S.p.A.	6,630	-	6,627	-
7 Wise Venture SGR S.p.A.	524	-	580	-
Unquoted insurance companies				
8 Bipiemme Vita S.p.A.	59,388	-	56,676	-
Total	**357,642**		**346,039**	

Section 12 – Property and equipment
Line item 120

12.1 Property and equipment: breakdown of assets carried at cost

Assets/Amounts	30.06.2013	31.12.2012
A. Functional assets		
1.1 owned by company	**719,428**	**731,954**
a) land	289,078	288,458
b) buildings	353,187	364,436
c) furniture	24,703	25,392
d) electronic equipment	18,913	19,373
e) other	33,547	34,295
1.2 purchased under finance lease	**–**	**–**
a) land	–	–
b) buildings	–	–
c) furniture	–	–
d) electronic equipment	–	–
e) other	–	–
Total A	**719,428**	**731,954**
B. Investment property:		
2.1 owned by company	**25,665**	**25,984**
a) land	4,679	5,016
b) buildings	20,986	20,968
2.2 purchased under finance lease	**–**	**–**
a) land	–	–
b) buildings	–	–
Total B	**25,665**	**25,984**
Total (A+B)	**745,093**	**757,938**

This line item reports property and equipment (buildings, plant, machinery and other tangible assets, including work of art) used in the business which are governed by IAS 16 and investment properties (land and buildings) which are governed by IAS 40.

12.2 Property and equipment: breakdown of assets carried at fair value or revalued

At the balance sheet date, as at the end of the previous year, there are no property and equipment that has been measured at fair value.

Section 13 – Intangible assets
Line item 130

This line item reports intangible assets in accordance with IAS 38, which are all valued at cost.

13.1 Intangible assets: breakdown by type of assets

Assets/Amounts	Finite life	Indefinite life	30.06.2013	Finite life	Indefinite life	31.12.2012
A.1 Goodwill	**X**	**–**	**–**	**X**	**–**	**–**
A.1.1 of the Group	X	–	–	X	–	–
A.1.2 of minority interests	X	–	–	X	–	–
A.2 Other intangible assets	**74,199**	**–**	**74,199**	**70,175**	**–**	**70,175**
A.2.1 Assets valued at cost:	74,199	–	74,199	70,175	–	70,175
a) Internally generated intangible assets	1,085	–	1,085	967	–	967
b) Other assets	73,114	–	73,114	69,208	–	69,208
A.2.2 Assets carried at fair value:	–	–	–	–	–	–
a) Internally generated intangible assets	–	–	–	–	–	–
b) Other assets	–	–	–	–	–	–
Total	**74,199**	**–**	**74,199**	**70,175**	**–**	**70,175**

A.1 Goodwill

"Goodwill" was fully written down after the performance of impairment testing for the purposes of the consolidated interim financial report at 30 June 2012.

A.2 Other intangible assets

As required by paragraph 118 letter a) of IAS 38, software has all been classified under intangible assets with a finite useful life; it is being amortised over a period of between 3 and 7 years.

Line item A.2.1 b) "Other assets" with a finite life is made up as follows:

	30.06.2013	31.12.2012
Software	**73,114**	**69,208**
	73,114	**69,208**

Section 16 – Other assets
Line item 160

This line item reports assets that are not classified elsewhere in the balance sheet. In particular, accrued income includes income not capitalised as part of the related financial assets; leasehold improvements are those not attributable to "property and equipment". It also includes receivables from the provision of non-financial goods and services.

16.1 Other assets: breakdown

	30.06.2013	31.12.2012
Accrued income	**39,979**	**6,159**
Leasehold improvements	**22,565**	**23,381**
Other assets	**595,209**	**626,134**
Items being processed	182,574	343,383
Duty-paid paper and other instruments	12,161	1,923
Cheques drawn on third-party current accounts	44,160	70,643
Advances paid to tax authorities on behalf of others	36,813	14,846
Other tax-related items	107,135	75,131
Non-interest bearing guarantee deposits on own account	2,831	2,825
Prepayments (not capitalised)	67,294	54,215
Consolidation difference	–	–
Other	142,241	63,168
Total	**657,753**	**655,674**

"Leasehold improvements" include the expenses incurred on assets not related to "Property and equipment", and the depreciation charge is recognised in the income statement under "Other income and expenses".
"Items being processed" contain mainly cash receipts, ATM withdrawals, bills and payments in process and still to be charged.
"Other tax-related items" include tax credits to be reimbursed, receivables involved in acting as a tax withholding agent and other items not recognised in the balance sheet under "Tax assets".

Part B – Information on the balance sheet - Liabilities and shareholders' equity

Section 1 – Due to banks
Line item 10

This line item reports amounts due to banks in all their technical forms (deposits, current accounts, loans). They include operating payables connected with the provision of financial services.

1.1 Due to banks: breakdown by product

Type of transaction/Amounts	30.06.2013	31.12.2012
1. Due to central banks	**4,630,217**	**4,602,804**
2. Due to banks	**1,650,987**	**1,689,201**
2.1 Current accounts and unrestricted deposits	468,882	162,316
2.2. Restricted deposits	439,988	728,286
2.3 Loans	670,627	792,181
2.3.1 Repurchase agreements	443,039	478,913
2.3.2 Other	227,588	313,268
2.4 Payables for commitments to repurchase own equity instruments	–	–
2.5. Other payables	71,490	6,418
Total	**6,281,204**	**6,292,005**
Fair value	**6,373,696**	**6,382,070**

See Part A – Accounting Policies for an explanation of the criteria used to determine the fair value.

The balance of "Due to central banks", at the date of the balance sheet, is composed primarily of financing transactions with the Bank of Italy within the Eurosystem and secured by pledged securities.

Sub-item 2.3.1 "Repurchase agreements" also includes financial liabilities deriving from repurchase agreements with central banks based on own securities and on securities received as part of reverse repurchase agreements.

Section 2 – Due to customers
Line item 20

This line item reports amounts due to customers in all their technical forms (deposits, current accounts, loans), derivative transaction margin changes at clearing houses and operating payables other than those for the supply of goods and services.

2.1 Due to customers: breakdown by product

Type of transaction/Amounts	30.06.2013	31.12.2012
1. Current accounts and unrestricted deposits	18,097,159	17,790,211
2. Restricted deposits	4,408,774	4,095,989
3. Loans	4,509,545	4,353,408
3.1 Repurchase agreements	4,375,574	4,173,536
3.2 Other	133,971	179,872
4. Payables for commitments to repurchase own equity instruments	–	–
5. Other payables	58,373	58,005
Total	**27,073,851**	**26,297,613**
Fair value	**27,073,851**	**26,297,613**

See Part A – Accounting Policies for an explanation of the criteria used to determine fair value.

Sub-item 3.1 "Repurchase agreements" also includes financial liabilities deriving from repurchase agreements with customers based on own securities and on securities received as part of reverse repurchase agreements.

Line item 5 "Other payables" also comprises operating payables related to financial services received.

Section 3 – Securities issued
Line item 30

This item includes securities issued (including certificates of deposit and banker's drafts), valued at their amortised cost. The amount reported is stated net of repurchased securities and also includes securities which have matured at the balance sheet date but have not yet been repaid.
The amount of these securities comprises their principal, accrued interest at the balance sheet date and, in the case of hedged securities, the effective portion of the associated hedge.

3.1 Securities issued: breakdown by product

Type of security/ Amounts	30.06.2013				31.12.2012			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. bonds	9,094,021	4,571,934	4,504,658	–	9,906,551	5,032,038	4,754,944	–
1.1 structured	–	–	–	–	–	–	–	–
1.2 other	9,094,021	4,571,934	4,504,658	–	9,906,551	5,032,038	4,754,944	–
2. other securities	1,088,163	–	–	1,088,163	1,316,798	–	–	1,316,798
2.1 structured	–	–	–	–	–	–	–	–
2.2 other	1,088,163	–	–	1,088,163	1,316,798	–	–	1,316,798
Total	**10,182,184**	**4,571,934**	**4,504,658**	**1,088,163**	**11,223,349**	**5,032,038**	**4,754,944**	**1,316,798**

The fair value column shows the theoretical market value of financial instruments at the date of preparation of the financial statements. As regards the criteria used for determining the fair value and the classification of financial instruments in the three levels of the fair value hierarchy, they are defined in Part A "Accounting Policies".

With reference to line item 1.2 "Other bonds", the following table shows the composition of the bonds outstanding at 30/06/2013 of the issue programmes of EMTN and Covered Bonds. With reference to the latter, please read the Part E, point C.3 below on covered bond transactions.

	30.06.2013					31.12.2012				
	Amount issued	Nominal value net of repurchases	Book value	Fair Value		Amount issued	Nominal value net of repurchases	Book value	Fair Value	
				Level 1	Level 2				Level 1	Level 2
Euro Medium Term Notes Issue Programme										
• Fixed rate	1,225,000	1,183,539	1,261,240	1,220,653	–	1,725,000	1,643,675	1,775,283	1,721,676	–
Of which: subordinated	*475,000*	*448,410*	*513,265*	*469,987*	–	*475,000*	*448,410*	*546,588*	*487,286*	–
• Floating rate	1,650,000	1,337,719	1,338,068	1,254,903	50,218	1,650,000	1,342,244	1,342,377	1,243,967	50,330
Of which: subordinated	*600,000*	*541,893*	*541,975*	*515,178*	–	*600,000*	*541,758*	*541,834*	*501,803*	–
Total EMTN Bonds:	**2,875,000**	**2,521,258**	**2,599,308**	**2,475,556**	**50,218**	**3,375,000**	**2,985,919**	**3,117,660**	**2,965,643**	**50,330**
Of which: subordinated	*1,075,000*	*990,303*	*1,055,240*	*985,165*	–	*1,075,000*	*990,168*	*1,088,422*	*989,089*	–
Covered Bond Issues										
• Covered Bonds of Banca Popolare di Milano S.c.a r.l 9.10.2009/17.10.2016 3.5%.	1,000,000	873,365	956,532	978,739	–	1,000,000	873,215	958,767	974,921	–
• Guaranteed Bank Bonds ("OBG") Banca Popolare di Milano S.c.a r.l. 4.11.2010/16.11.2015 3.25%	1,100,000	899,980	939,304	968,300	–	1,100,000	899,680	935,928	960,478	–
• Guaranteed Bank Bonds ("OBG") Banca Popolare di Milano S.c.a r.l. 18.7.2011/18.1.2014 floating rate (*)	1,000,000	–	–	–	–	1,000,000	–	–	–	–
Total Covered Bonds	**3,100,000**	**1,773,345**	**1,895,836**	**1,947,039**	**–**	**3,100,000**	**1,772,895**	**1,894,695**	**1,935,399**	**–**

(*) The issue was all repurchased by the Company and the securities were used for refinancing operations with the European Central Bank.

EMTN Bonds

The EMTN bonds form part of two multi-year programmes for the issue of medium–term euro securities approved by the Board of Directors. Of the first programme, which was approved on 11 September 2000, now expired and not renewed, the last bond of 160 million euro, called "Banca Popolare di Milano subordinated (Upper Tier 2) Rate 7.625% – 29.6.01–11" was repaid on 29 June 2011.

The second programme, which was approved on 2 December 2003 for two billion euro, was gradually increased over time to reach the amount of 10 billion euro with a resolution of the Board of Directors of 22 April 2008. At the interim balance sheet date there are five Bond Loans outstanding for a total of 2.875 billion euro (3.375 billion euro at 31.12.2012), so the residual margin that can still be used amounts to 7.125 billion euro (6.625 billion euro at 31.12.2012).
The nominal value of the EMTN securities is shown net of the securities that have been repurchased by the Parent Company and other Group companies for an amount of 354 million euro (389 million euro at 31.12.2012).

During the course of 2013 the following bond was issued:
- "Banca Popolare di Milano 2013/2016 Fixed rate 4% – 23.1.13–22.1.16", with an original nominal value at time of issue of 750 million.

and the following bond was redeemed:
- "Banca Popolare di Milano 2011/2013 Fixed rate 4% – 15.4.13", with an original nominal value at time of issue of 1,250 million.

Covered bonds (guaranteed bank bonds))

The nominal value of the Guaranteed Bank Bonds shown at points 1 and 2 of the above table is stated net of securities that have been repurchased of 126.635 million and 200.020 million, respectively, of which the following have been cancelled:

- 121.935 million euro of the BPM 9.10.2009/17.10.2016 3.5% bond;
- 187.120 million euro of the BPM 4.11.2010/16.11.2015 3.25% bond.

Breakdown of line item "2.2 Other securities – other"

This item includes certificates of deposit subscribed by customers and bankers' drafts. In particular:

Type of security/ Amounts	30.06.2013				31.12.2012			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Certificates of deposit subscribed by customers	955,013	–	–	955,013	1,181,525	–	–	1,181,525
Bankers' drafts	133,150	–	–	133,150	135,273	–	–	135,273
Total	**1,088,163**	**–**	**–**	**1,088,163**	**1,316,798**	**–**	**–**	**1,316,798**

Since most of these instruments are short-term or on demand, their book value is a reasonable approximation of their fair value. These financial instruments are therefore conventionally classified Level 3.

3.2 Breakdown of line item 30 “Securities issued”: subordinated securities

Unlisted bonds (type B.1.2) comprise the following subordinated securities:

Bond	30.06.2013	31.12.2012	Original nominal amount issued	Bond issue price	Interest rate	Issue date/ maturity	Notes
Innovative capital instruments (Tier 1):	**272,761**	**285,043**					
Preference shares – Bpm Capital Trust I – 8.393%	71,211	74,018	160,000	100	Floating	02.07.2001 Perpetual	1
Perpetual Subordinated Fixed/Floating Rate Notes – 9%	201,550	211,025	300,000	98.955	Floating	25.6.2008 Perpetual	2
Hybrid capital instruments (Upper Tier 2):	**651**	**651**					
Subordinated bond of Banca Popolare di Milano (Upper Tier 2) – Floating rate – 18 June 2008/2018	651	651	17,850	100	Floating	18.6.2008/18	3
Subordinated liabilities (Lower Tier 2):	**1,779,850**	**1,820,517**					
Banca Popolare di Milano subordinated bond loan (Lower Tier 2) Floating rate – 29.6.05-15 (issued as part of the EMTN Programme)	541,975	541,834	600,000	99.716	Floating	29.6.2005/15	4
Banca Popolare di Milano Subordinated bond loan (Lower Tier 2) Fixed rate 4.5% 18 April 2008/2018	265,957	272,941	252,750	100	4.50%	18.4.2008/18	5
Banca Popolare di Milano subordinated bond loan (Lower Tier 2) Floating rate 20 October 2008/2018	454,042	454,543	502,050	100	Floating	20.10.2008/18	6
Banca Popolare di Milano subordinated bond loan (Lower Tier 2) Rate – 7.125% – 01 March 2011/2021 (issued as part of the EMTN Programme)	513,265	546,588	475,000	99.603	7.125%	01.03.2011/21	7
Banca Popolare di Mantova subordinated bond loan – 03/12/2004-03/12/2014 (Lower Tier 2)	4,611	4,611	5,000	100	Floating	3.12.2004/14	8
TOTAL	**2,053,262**	**2,106,211**					

1	Preference shares – Bpm Capital Trust I – 8.393%
Issue price:	The Subordinated Bonds were issued at par, at a price of 100% of their nominal value
Interest rate:	Fixed rate 8.393% until 2 July 2011; floating rate (Euribor + 4.70%) starting from 2 July 2011
Quotation:	Luxembourg Stock Exchange (*)
Early redemption clause:	These securities may be redeemed early starting from 2 July 2011, subject to authorisation from the Bank of Italy
Subordination clause:	The preference shares have been issued with the clauses required by the Bank of Italy for inclusion in Tier 1 capital; this means that in the event the Bank goes into liquidation, the holders of such shares have priority over ordinary shareholders, but are subordinated to all other creditors.
Other information:	The preference shares have been issued by BPM Capital I LLC (through Bpm Capital Trust I), a North American company wholly owned by the Parent Company. There is a "loss absorption" clause, whereby there is an option not to make a pay-out to employees on the preference shares if Banca Popolare di Milano does not have any distributable net earnings or if it does not pay any dividends on its ordinary shares. There is also provision for a "capital deficiency event", whereby the preference shares may be used to reinstate the Tier 1 capital ratio if it goes below 5%. Any undistributed interest may not be accumulated. 16 December 2009 was the closing date of the Public Purchase Offer (acceptance period 7 December – 16 December 2009) for the Preference Shares issued by the vehicle company BPM Capital Trust I, which obtained 55.54% acceptance for a nominal value of the securities accepting the offer of 88,866,000 euro. The repurchase price (ex-coupon) was 96%. As decided by the Management Board of the Parent Company, on the basis of the security's regulation, no payment was made of interest accrued on the bonds on maturity of the quarterly coupons as of 2 July 2012, 2 October 2012, 2 January 2013, 2 April 2013 and 2 July 2013, as the Parent Company's 2011 and 2012 financial statements closed with a loss and no dividend has been paid on BPM's ordinary shares.

2	Perpetual Subordinated Fixed/Floating Rate Notes – 9%
Issue price:	The bonds were issued below par, at a price of 98.955% of the nominal value
Interest rate:	Fixed rate of 9% until 25 June 2018; floating rate (3-month Euribor + spread of 6.18%) from 25 June 2018
Quotation:	Luxembourg Stock Exchange (*)
Early redemption clause:	these securities may be redeemed early starting from 25 June 2018, subject to authorisation from the Bank of Italy.
Early redemption:	The notes have been issued with the clauses required by the Bank of Italy for inclusion in Tier 1 capital; this means that in the event the Bank goes into liquidation, the holders of such shares have priority over ordinary shareholders, but are subordinated to all other creditors.
Other information:	There is also provision for: • optional suspension of interest payments if the Bank does not have distributable earnings and/or has not paid dividends for the last year ended prior to the payment date of the interest; • obligatory suspension of interest payments in the case of a "capital deficiency event", (which takes place when the total capital ratio falls below the minimum level required by the Supervisory Authority); • a "loss absorption" clause, whereby reimbursement of the notes is suspended if a Capital Deficiency Event takes place. Any undistributed interest may not be accumulated. 16 December 2009 was the closing date of the Public Purchase Offer (acceptance period 7 December – 16 December 2009), which obtained 34.92% acceptance for a nominal value of the securities accepting the offer of 104,750,000 euro. The repurchase price (ex-coupon) was 98%. As decided by the Management Board of the Parent Company, on the basis of the security's regulation, no payment was made by the Parent Company of interest accrued on the bonds on maturity of the quarterly coupons as of 25 June 2012 and 25 June 2013, as the Parent Company's 2011 and 2012 financial statements closed with a loss and no dividend has been paid on BPM's ordinary shares.

3	Subordinated bond of Banca Popolare di Milano (Upper Tier 2) – Floating rate – 18 June 2008/2018
Issue price:	The Subordinated Bonds were issued at par, at a price of 100% of their nominal value
Interest rate:	Floating rate (EONIA rate + 0.75%)
Quotation:	Not quoted
Early redemption:	Early redemption of the Subordinated Bonds is not foreseen
Subordination clause:	The Subordinated Bonds are "hybrid capital instruments" pursuant to the new Minimum Capital Requirements for Banks issued by the Bank of Italy. The Bond is issued with an Upper Tier II subordination clause, which means that in the event of the Bank being liquidated, bondholders will only be reimbursed after all non-subordinated creditors have been satisfied, except for those with an equal or higher level of subordination compared with the Subordinated Bonds.
Repurchases:	The Group has repurchased a total nominal amount of 17,200 thousand euro.

4	Subordinated bond of Banca Popolare di Milano (lower Tier 2) – Floating rate 29 June 2005/2015
Issue price:	The Subordinated Bonds were issued below par, at a price of 99.716% of the nominal value.
Interest rate:	Floating rate (3-month Euribor + 0.45% until June 2010, 3-month Euribor + 1.05% beyond that date).
Quotation:	Luxembourg Stock Exchange (*)
Early redemption:	The Bank may decide to redeem the loan early starting from the fifth year, subject to authorisation from the Bank of Italy.
Subordination clause:	The Subordinated Bonds are BPM's "Tier II subordinated liabilities" as classified according to the New Minimum Capital Requirement for Banks issued by the Bank of Italy. This means that if the Bank is liquidated, bondholders will only be reimbursed after all non-subordinated creditors have been satisfied, except for those with an equal or higher level of subordination compared with the Subordinated Bonds.
Other information:	The Bond, placed with institutional investors, forms part of the multiannual Euro Medium-Term Note (E.M.T.N.) issue programme approved by the Board of Directors on 2 December 2003.
Repurchases:	The Group has repurchased a total nominal amount of 58,107 thousand euro.

5	Subordinated bond of Banca Popolare di Milano (Lower Tier 2) – Fixed rate 4.50% 18 April 2008/2018
Issue price:	The Subordinated Bonds were issued at par, at a price of 100% of their nominal value
Interest rate:	Fixed interest rate of 4.50% gross per year
Quotation:	Not quoted
Early redemption:	Early redemption of the Subordinated Bonds is not foreseen
Subordination clause:	The Subordinated Bonds are BPM's "Tier II subordinated liabilities" as classified according to the New Minimum Capital Requirement for Banks issued by the Bank of Italy. This means that if the Bank is liquidated, bondholders will only be reimbursed after all non-subordinated creditors have been satisfied, except for those with an equal or higher level of subordination compared with the Subordinated Bonds.
Repurchases:	The Group has repurchased a total nominal amount of 1,162 thousand euro.

6	Subordinated bond of Banca Popolare di Milano (Lower Tier 2) – Floating rate 20 October 2008/2018	
	Issue price:	The Subordinated Bonds were issued at par, at a price of 100% of their nominal value
	Interest rate:	Floating rate (3-month Euribor 365 + 0.60% until 20 October 2013, 3-month Euribor + 1.50% after that date).
	Quotation:	Not quoted
	Early redemption:	After authorisation from the Bank of Italy, on 20 October 2013, on the date that that the securities went ex-coupon, the Issuer went ahead with early redemption of the entire Subordinated Bond, at a price of 100% of the nominal value.
	Subordination clause:	The Subordinated Bonds are BPM's "Tier II subordinated liabilities" as classified according to the New Minimum Capital Requirement for Banks issued by the Bank of Italy. This means that if the Bank is liquidated, bondholders will only be reimbursed after all non-subordinated creditors have been satisfied, except for those with an equal or higher level of subordination compared with the Subordinated Bonds.
	Repurchases:	The Group has repurchased a total nominal amount of 48,750 thousand euro.

7	Subordinated bond of Banca Popolare di Milano (Lower Tier 2) – Fixed rate 7.125% 1 March 2011/2021	
	Issue price:	The Subordinated Bonds are issued below par, at a price of 99.603% of the nominal value.
	Interest rate:	Fixed interest rate of 7.125% gross per year
	Quotation:	Luxembourg Stock Exchange (*)
	Early redemption:	Not foreseen
	Subordination clause:	The Subordinated Bonds are BPM's "Tier II subordinated liabilities" as classified according to the New Minimum Capital Requirement for Banks issued by the Bank of Italy. This means that if the Bank is liquidated, bondholders will only be reimbursed after all non-subordinated creditors have been satisfied, except for those with an equal or higher level of subordination compared with the Subordinated Bonds.
	Repurchases:	The Group has repurchased a total nominal amount of 26,590 thousand euro.

8	Subordinated bond loan of Banca Popolare di Mantova (Lower Tier 2) – 03/12/2004-03/12/2014	
	Issue price:	The Subordinated Bonds were issued below par, at a price of 100% of the nominal value.
	Interest rate:	– Fixed rate 2.73% the first coupon payable on 3 June 2005; – Floating rate (6-month Euribor + 0.50%) from 3 December 2005 to 3 December 2009; – Floating rate (6-month Euribor + 1%) for the period 3 June 2010 – 3 December 2014
	Quotation:	Not quoted
	Early redemption:	The Bank may decide to redeem the loan early starting from the fifth year, subject to authorisation from the Bank of Italy.
	Subordination clause:	The Subordinated Bonds are BPM's "Tier II subordinated liabilities" as classified according to the New Minimum Capital Requirement for Banks issued by the Bank of Italy. This means that if the Bank is liquidated, bondholders will only be reimbursed after all non-subordinated creditors have been satisfied, except for those with an equal or higher level of subordination compared with the Subordinated Bonds.
	Repurchases:	The Group has repurchased a total nominal amount of 395 thousand euro.

(*) Subordinated securities listed on the Luxembourg Stock Exchange have been classified as unlisted for IAS/IFRS purposes since their trading volumes are not such as to satisfy the definition of an active market, as explained in section A.3 of the Accounting Policies on "Fair value disclosures".

3.3 Securities issued with specific hedges

	30.06.2013	31.12.2012
1. Securities with specific fair value hedges:	**2,409,101**	**2,441,283**
a) interest rate risk	2,409,101	2,441,283
b) exchange risk	–	–
c) various risks	–	–
2. Securities with specific cash flow hedges:	**–**	**–**
a) interest rate risk	–	–
b) exchange risk	–	–
c) other	–	–

The table shows the bonds issued classified among the outstanding securities that have specific fair value hedges for interest rate risk at the year end.
The securities that have specific fair value hedges are as follows:

Loans with specific hedge:	**30.06.2013**	**31.12.2012**
Guaranteed Bank Bonds of Banca Popolare di Milano S.c.a r.l.	1,895,836	1,894,695
Banca Popolare di Milano subordinated bond loan (Lower Tier 2) Rate – 7.125% – 01 March 2011/2021 (issued as part of the EMTN Programme)	513,265	546,588
Total	**2,409,101**	**2,441,283**

As reported in Section 5.1 of the income statement, the net result of measuring hedging contracts and the underlying securities in issue generated a negative amount of 2.152 million (positive amount of 15.469 million in the first half of 2012), which has been recorded in the income statement line item 90 – "Fair value adjustments in hedge accounting". The 2012 result was mainly attributable to gains on partial closure of hedge accounting derivatives on repurchase of the securities that were being hedged.

Section 4 – Financial liabilities held for trading
Line item 40

This item includes debt securities and equities which make up "short positions" for trading and derivative financial instruments other than those formally designated as hedging instruments.

4.1 Financial liabilities held for trading: breakdown by product

Type Securities/ Amounts	30.06.2013						31.12.2012					
	NV	FV				FV*	NV	FV				FV*
		L1	L2	L3	Total			L1	L2	L3	Total	
A. Cash liabilities												
1. Due to banks	5,304	6,275	426	–	**6,701**	–	1,316	4,443	397	–	**4,840**	–
2. Due to customers	26,353	30,604	50	–	**30,654**	–	2,457	10,856	86	–	**10,942**	–
3. Debt securities	–	–	–	–	**-**	–	–	–	–	–	**-**	–
3.1 Bonds	–	–	–	–	**-**	–	–	–	–	–	**-**	–
3.1.1 Structured	–	–	–	–	**-**	X	–	–	–	–	**-**	X
3.1.2 Other bonds	–	–	–	–	**-**	X	–	–	–	–	**-**	X
3.2 Other securities	–	–	–	–	**-**	–	–	–	–	–	**-**	–
3.2.1 Structured	–	–	–	–	**-**	X	–	–	–	–	**-**	X
3.2.2 Other	–	–	–	–	**-**	X	–	–	–	–	**-**	X
Total A	**31,657**	**36,879**	**476**	**-**	**37,355**	**-**	**3,773**	**15,299**	**483**	**-**	**15,782**	**-**
B. Derivatives												
1. Financial derivatives		90,663	1,114,484	72,535	**1,277,682**			5,794	1,489,388	72,547	**1,567,729**	
1.1 Trading	X	90,663	1,096,784	69,523	**1,256,970**	X	X	5,794	1,469,027	69,914	**1,544,735**	X
1.2 Linked to the fair value option	X	–	17,700	3,012	**20,712**	X	X	–	20,361	2,633	**22,994**	X
1.3 Other	X	–	–	–	**-**	X	X	–	–	–	**-**	X
2. Credit derivatives		–	499	–	**499**			–	1,936	–	**1,936**	
2.1 Trading	X	–	499	–	**499**	X	X	–	1,936	–	**1,936**	X
2.2 Linked to the fair value option	X	–	–	–	**-**	X	X	–	–	–	**-**	X
2.3 Other	X	–	–	–	**-**	X	X	–	–	–	**-**	X
Total B	**X**	**90,663**	**1,114,983**	**72,535**	**1,278,181**	**X**	**X**	**5,794**	**1,491,324**	**72,547**	**1,569,665**	**X**
Total (A+B)	**X**	**127,542**	**1,115,459**	**72,535**	**1,315,536**	**X**	**X**	**21,093**	**1,491,807**	**72,547**	**1,585,447**	**X**

Key:
NV = Nominal or notional value FV = Fair value
FV* = Fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date.
L1= Level 1 L2= Level 2 L3= Level 3

As regards the criteria used for determining the fair value and the classification of financial instruments in the three levels of the fair value hierarchy, they are defined in Part A "Accounting Policies".

Line item "A. Cash liabilities" includes short positions of Banca Akros amounting to 37.355 million, of which 30.229 million related to debt securities and 7.126 million related to equity securities.

Line item "B.1.2 – Derivatives linked to the fair value option", includes the fair value of derivatives related to the instruments for which the fair value option has been adopted. These derivatives hedge the risks involved mainly in the issue of bonds for which the Group has used the fair value option in accordance with IAS 39, paragraph 9. Such risks arise from possible fluctuations in interest rates and from the presence of options that are embedded in the structured securities issued.

4.2 Breakdown of line item 40 “Financial liabilities held for trading”: subordinated liabilities

At the interim balance sheet date, there are subordinated liabilities to banks of 1,740 thousand euro (85 thousand euro at 31.12.2012) and to finance-sector companies of 119 thousand euro (7 thousand euro at 31.12.2012).

Section 5 – Financial liabilities designated at fair value through profit and loss
Line item 50

This line item reports securities issued designated at fair value with changes in fair value through profit or loss, under the option allowed by IAS 39 (“Fair value option”).

5.1 Financial liabilities designated at fair value through profit and loss: breakdown by product

Type of transaction/ Amounts	30.06.2013						31.12.2012					
	NV	FV				FV*	NV	FV				FV*
		L1	L2	L3	Total			L1	L2	L3	Total	
1. Due to banks	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	
1.1 Structured	–	–	–	–	**–**	X	–	–	–	–	**–**	X
1.2 Other	–	–	–	–	**–**	X	–	–	–	–	**–**	X
2. Due to customers	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Structured	–	–	–	–	**–**	X	–	–	–	–	**–**	X
2.2 Other	–	–	–	–	**–**	X	–	–	–	–	**–**	X
3. Debt securities	**574,423**	**–**	**568,573**	**22,919**	**591,492**	**–**	**977,149**	**–**	**985,619**	**24,279**	**1,009,898**	**–**
3.1 Structured	160,781	–	141,610	22,919	**164,529**	X	238,996	–	224,882	24,279	**249,161**	X
3.2 Other	413,642	–	426,963	–	**426,963**	X	738,153	–	760,737	–	**760,737**	X
Total	**574,423**	**–**	**568,573**	**22,919**	**591,492**	**–**	**977,149**	**–**	**985,619**	**24,279**	**1,009,898**	**–**

Key:
NV = Nominal or notional value FV = Fair value
FV* = Fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date.
L1= Level 1 L2= Level 2 L3= Level 3

As regards the criteria used for determining the fair value and the classification of financial instruments in the three levels of the fair value hierarchy, they are defined in Part A “Accounting Policies”.

Financial liabilities designated at fair value through profit and loss include financial liabilities represented by structured, fixed-rate bonds, which have been classified at fair value and are hedged by derivatives. This hedging concerns both the risk of changes in interest rates and the risk arising from the presence of embedded options. The Fair Value Option is used to eliminate or significantly reduce accounting mismatches, as an alternative to Hedge Accounting. Otherwise, the derivatives would still be carried at fair value, while the bonds would be recognized at amortised cost.
Derivatives used as part of the “fair value option” are classified in the trading book.
As regards the credit spread on own issues aimed at retail customers, it is believed that, from both a contractual and a commercial point of view, these issues will be reimbursed at nominal value on maturity according to the contract; moreover, for the assessment of fair value, our own credit rating has been valued taking into account that repurchases on the secondary market are carried out at substantially the same spread as at the time of issue.
It follows that the FV* field does not show the information requested as it is the same as the fair value already shown in the table.

In the income statement, interest income and expense also include positive or negative differentials or margins accrued or paid up to the balance sheet date on the related financial derivatives, whereas valuation gains and losses are recognized under line item 110. "Profits (losses) on financial assets/liabilities designated at fair value", with a presentation that is consistent with that adopted for the funding instruments for which the fair value option was adopted.

The structured debt securities issued included in financial liabilities designated at fair value through profit and loss are hedged for management purposes.

Purpose of using the fair value option and the financial liabilities concerned

Type of transaction/ Amounts	Natural hedges	Structured financial instruments	Portfolios of financial liabilities managed on the basis of the fair value	30.06.2013	Natural hedges	Structured financial instruments	Portfolios of financial liabilities managed on the basis of the fair value	31.12.2012
1. Due to banks	–	–	–					
1.1 Structured								
1.2 Other								
2. Due to customers	–	–	–					
2.1 Structured								
2.2 Other								
3. Debt securities	426,963	164,529	–	591,492	760,737	249,161	–	1,009,898
3.1 Structured	–	164,529	–	164,529	–	249,161	–	249,161
3.2 Other	426,963	–	–	426,963	760,737	–	–	760,737
Total	**426,963**	**164,529**	**–**	**591,492**	**760,737**	**249,161**	**–**	**1,009,898**

The table provides details of table 5.1 above and shows the carrying amount (fair value) of the liabilities for which the fair value option was adopted, distinguishing the method of use.
The natural hedge refers mainly to step-up bonds hedged against interest rate risk for management purposes.

Section 6 – Hedging derivatives
Line item 60

This line item reports financial derivatives used for hedging purposes, which have a negative fair value at the balance sheet date.

6.1 Hedging derivatives: breakdown by type of hedge and level

	30.06.2013					31.12.2012				
	Fair Value				NV	Fair Value				NV
	L1	L2	L3	Total		L1	L2	L3	Total	
A. Financial derivatives	**–**	**26,946**	**7,200**	**34,146**	**1,991,248**	**–**	**36,892**	**8,157**	**45,049**	**2,689,117**
1) Fair value	–	26,946	7,200	34,146	1,991,248	–	36,892	8,157	45,049	2,689,117
2) Cash flows	–	–	–	–	–	–	–	–	–	–
3) Foreign investments	–	–	–	–	–	–	–	–	–	–
B. Credit derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1) Fair value	–	–	–	–	–	–	–	–	–	–
2) Cash flows	–	–	–	–	–	–	–	–	–	–
Total	**–**	**26,946**	**7,200**	**34,146**	**1,991,248**	**–**	**36,892**	**8,157**	**45,049**	**2,689,117**

Key: NV = Notional value L1= Level 1 L2= Level 2 L3= Level 3

As regards the criteria used for determining the fair value and the classification of financial instruments in the three levels of the fair value hierarchy, they are defined in Part A "Accounting Policies".

The table shows the negative carrying amount (fair value) of the derivative hedging contracts for the hedges made through hedge accounting. This instrument is used to manage accounting hedges of financial instruments recognised in balance sheet items that do not envisage their measurement at fair value through profit or loss.
The hedging of financial liabilities represented by securities are normally handled through the fair value option. The fair value option was adopted for structured debt securities and fixed-rate securities issued by Group banks, whose risk of changes in fair value has been hedged with derivatives; derivatives used as part of the "fair value option" are classified in the trading book.

With regard to the objectives and strategies underlying hedge you should refer to the information provided in Part E – Information on risks and related hedging policies – Section 2 – Market Risk.

6.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

Transactions/Type of hedge	Fair value						Cash flows		Foreign investments
	Specific					Generic	Specific	Generic	
	interest rate risk	exchange rate risk	credit risk	price risk	several risks				
1. Financial assets available for sale	8,318	–	–	–	–	X	–	X	X
2. Loans and receivables	364	–	–	X	–	X	–	X	X
3. Investments held to maturity	X	–	–	X	–	X	–	X	X
4. Portfolio	X	X	X	X	X	25,464	X	–	X
5. Other transactions	–	–	–	–	–	X	–	X	–
Total assets	**8,682**	**–**	**–**	**–**	**–**	**25,464**	**–**	**–**	**–**
1. Financial liabilities	–	–	–	X	–	X	–	X	X
2. Portfolio	X	X	X	X	X	–	X	–	X
Total liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Expected transactions	X	X	X	X	X	X	–	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	–	X	–	–

The table shows the negative fair values of the hedging derivatives, broken down by asset or liability hedged and by the type of hedge. In particular, as regards assets, generic and specific fair value hedging was used to hedge against the risk of changes in interest rates on mortgages and bonds classified as "available for sale" in order to immunize them from possible adverse changes in interest rates.

Specific fair value hedge

- The amount indicated at item "1. Financial assets available for sale" relates to the negative fair value of financial derivatives of a notional amount of 357 million (50 million at 31/12/2012), stipulated by the Parent Company to hedge a debt security issued by an issuing bank at a nominal value of 50 million (50 million at 31/12/2012) and fixed rate government securities of 307 million (0 million at 31/12/2012) classified within;
- The amount indicated in item 2. "Loans and receivables" refers to the negative fair value of a financial derivative taken out by the Company to hedge a mortgage loan granted for a residual notional amount of 6.972 million euro (9.038 million euro at 31.12.2012).

Generic fair value hedge

The amount indicated in item 4. "Portfolio" refers for 17.879 million to the negative fair value of derivatives taken out by the Parent Company to cover the interest rate risk of a portfolio of fixed-rate bonds included in "Financial assets available for sale" for a notional amount of 1.5 billion (2.5 billion at 31/12/2012), and for 7.585 million to the negative value of derivatives taken out by a subsidiary to hedge the interest rate on mortgages for a notional amount of 127.276 million.

The prospective and retrospective tests performed during the first half of 2013 in accordance with the rules laid down in IAS 39 have confirmed the effectiveness of the hedges.
For more information on the financial assets and liabilities covered, please refer to the detailed tables presented in this part (Part B) of the Explanatory Notes, in the sections relating to balance sheet items in which there are items being hedged.

Section 7 – Fair value change of financial liabilities in hedged portfolios
Line item 70

This item includes the negative balance of fair value changes in the liabilities covered by macrohedges against interest rate risk.

7.1 Fair value change of financial liabilities in hedged portfolios

Fair value adjustment of hedged assets/Amounts	30.06.2013	31.12.2012
1. Positive adjustment of financial liabilities	27,056	30,942
2. Negative adjustment of financial liabilities	–	–
Total	**27,056**	**30,942**

This item relates to the fair value adjustment made to "core deposits" for which a generic fair value hedge was arranged in 2010 using derivatives.
During 2011, the hedges were closed and the amount reported at 30 June 2013 and 31 December 2012 represents the residual value of the effective portion of the hedge on the date of revocation, which will be released to income on a pro-rata basis up to the original maturity of the hedging transactions (latest envisaged maturity is March 2020).

Section 10 – Other liabilities
Line item 100

This line item reports liabilities that are not classified elsewhere in the balance sheet.

10.1 Other liabilities: breakdown

Description/Technical forms	30.06.2013	31.12.2012
Payables for the deterioration in:	**52,792**	**50,009**
Guarantees given	52,792	50,009
Share-based payments	**9,110**	**–**
Accrued liabilities	**9,838**	**295**
Other liabilities	**1,016,243**	**1,080,889**
Guarantee deposits received from third parties	7,789	9,916
Amounts payable to tax authorities on behalf of others	91,107	88,554
Amounts payable to tax authorities on own account	9,045	8,504
Adjustments for illiquid items concerning the portfolio	3,725	131,635
Amounts available to customers	170,658	153,433
Items being processed	533,255	484,359
Due to suppliers	96,354	110,919
Due to social security authorities	28,101	31,036
Personnel expenses	58,739	52,227
Deferred income (not capitalised)	1,412	1,462
Consolidation difference	540	91
Other	15,518	8,753
Total	**1,087,983**	**1,131,193**

Section 12 – Allowances for risks and charges
Line item 120

12.1 Allowances for risks and charges: breakdown

Line items/Amounts	30.06.2013	31.12.2012
1. Post-employment benefit obligations	**82,255**	**86,764**
2. Other allowances for risks and charges	**408,989**	**428,835**
2.1 legal disputes	80,483	86,264
2.2 personnel expenses	247,360	263,973
2.3 other	81,146	78,598
Total	**491,244**	**515,599**

The line item 2.1 “Other allowances for risks and charges – legal disputes” includes, among other things, the provision relating to the “Convertendo 2009-2013 6.75%” bond. As of 30 June 2013, taking into account any payments already made in favour of those entitled to them, the provision amounts to Euro 42.5 million (47.4 million at 31.12.2012).
The line item 2.2 “Other allowances for risks and charges – personnel expenses” includes the charges to sign up personnel with the Solidarity Fund in 2009 and 2012. These provisions total 214 million for the 2012 Solidarity Fund (223 million at 31.12.2012) and 19.7 million for the 2009 Solidarity Fund (28.6 million at 31.12.2012). The changes with respect to 31.12.2012 mainly refer to the indemnities paid during the period.
The line item 2.3 “Other allowances for risks and charges – other” includes, among other things, provisions for tax disputes, inclusive of the provision made by Banca Akros at 30 June 2013 to take account of the estimated charge relating to an ongoing tax dispute (see next paragraph).

Update concerning the main tax disputes

Banca Popolare di Milano

Assessment relating to stamp duty

On 1 July 2013 the Milan Regional Tax Office issued Banca Popolare di Milano with notice of the imposition of sanctions in relation to stamp duty – of an amount of some Euro 28 million, plus interest – by which it is claimed that an insufficient advance payment was made of the tax relating to the 2013 fiscal year. With this notice, the Tax Office did not concede BPM the right to use a tax credit, even though it results from the tax return filed for the prior year for stamp duty purposes, to offset the advance payment made for the subsequent year, since this was not foreseen by the original settlement.
The Bank deems the notice to be unsubstantiated and considers as legitimate the right to offset the credit against the advance payment, as evidenced by legislative provisions concerning stamp duty and by administrative practice. In this regard, an appeal has been filed and, based on the outcome thereof, the Bank will assess any further initiatives that need to be taken.

Substitute tax on foreign loans

As already indicated in the report on operations for the year ended 31.12.2012, the Tax Police commenced a tax inspection of BPM on 17 October 2012 and this is still ongoing. The scope thereof is direct taxation and other dues for the tax years 2007 to 2011.
In connection with the inspection, on 21 March the Tax Police issued the Bank with initial minutes of findings, which dispute the failure to apply substitute tax, in accordance with Art. 15 and thereafter of Presidential Decree 601/1973, to medium to long term loan contracts stipulated abroad (as part of a syndicate or directly with the customer) as from the second half of 2007 up to the end of 2009.
Assessments issued by the tax authorities subsequent to their minutes of findings (relating to transactions entered into in the second half of 2009) disputed the failure to pay the tax on an overall amount relating to the loans granted by the banking syndicates (and not just by BPM). Following an appeal filed by the Bank, the amount assessed was subsequently reduced to Euro 318,000, plus penalties and interest, with reference to the portion of the loans granted by BPM (for the half year disputed).
With respect to the assessment received, the Bank has filed an appeal.

Again, in connection with the aforementioned ongoing tax inspection and in relation to the same issue (failure to apply substitute tax), on 1 August 2013 the Tax Police issued the Bank with a second set of minutes of findings disputing in a similar fashion loan contracts entered into abroad in 2010 and 2011. Also in these circumstances, the Tax Police have disputed the failure to pay tax on the overall amount of the loans granted by all the banks belonging to the syndicate; the total amount of the substitute tax being disputed is Euro 44 million, plus penalties and interest, of which the portion of the tax relating to the loans granted by BPM amounts to around Euro 1.5 million.
As was the case for the previous dispute, it is hoped that the assessment to be issued by the tax authorities will immediately be only for the portion of tax directly related to the loans granted by the Bank.
In any event, once again, under the circumstances, BPM will embark on the most appropriate initiatives to protect its interests as a result of the formal notice of assessment that will be issued by the tax authorities.

Banca Akros

Subsequent to minutes of findings issued in December 2010, whereby the tax authorities notified the outcome of its inspection of Banca Akros for the 2007 tax year, in December 2012 an assessment and notice of imposition of sanctions were issued disputing, based on an assumed "abuse of rights", an alleged failure to apply withholding tax of some Euro 1,551,000, net of penalties and interest, in relation to certain financial transactions entered into by the Bank as part of its market making operations concerning Italian equity derivatives; a number of minor findings, which were simultaneously disputed, have been resolved. The Bank, convinced of the legitimacy of its conduct, as supported by qualified consultants, on 17 May 2013 filed an appeal with the Milan Provincial Tax Commissioners, opposing the tax authorities' claims.
As a result of the inspection that commenced in January 2012, on 9 May 2013 the tax authorities issued Banca Akros with minutes of findings disputing a number of financial transactions entered into thereby during the course of the 2008, 2009 and 2010 financial years, as part of its market making operations concerning Italian equity derivatives traded on the stock exchange.
In particular, based on an application of the so-called "abuse of rights" principle, the tax authorities have deemed the transactions in question to be repurchase agreements (or securities lending), with the consequences being: (i) an alleged failure by Banca Akros to apply withholding tax amounting to some Euro 93,083,000 (generally computed in the minutes at a rate of 27%), net of penalties and interest; (ii) alleged higher taxable income for IRAP purposes on which additional tax would be due of some Euro 7,862,210, net of penalties and interest.
Banca Akros, supported by the qualified opinion of its advisors, believes that the matters contested by the tax authorities in their minutes of findings – which have still not been formalised by the issue of an assessment by the tax authorities – should be deemed to be unsubstantiated both concerning the matters disputed as well as the technical rationale behind the position adopted by the tax authorities. Convinced of the legitimacy of its conduct, Banca Akros intends to argue its case and, with that objective, it has communicated its comments on the minutes of findings, prepared in accordance with Art. 12.7 of Law No. 212/2000 (so-called "Statute of taxpayers' rights"). In any event, taking into account the inevitable uncertainty that would arise in connection with any potential litigation, Banca Akros will assess the possibility of an out of court resolution to the matter, with the aim of reducing the amount of the claim, also in view of the tax regime applicable to dividends paid to European Union resident companies and entities.

Section 15 – Group shareholders' equity
Items 140, 160, 170, 180, 190, 200 and 220

This section explains the liability accounts shown in line items 140, 160, 170, 180, 190, 200 and 220.

15.1 "Share capital" and "Treasury shares": breakdown

		30.06.2013	31.12.2012
Share capital	**Euro**	**2,865,709,760,07**	**2,865,708,586,15**
No. of ordinary shares		**3,229,622,702**	**3,229,621,379**
Of which no. of treasury shares		**1,395,574**	**1,395,574**

Share capital: at the interim balance sheet date the Parent Company's share capital amounts to Euro **2,865,709,760.07**, it is fully subscribed and paid in and consists of **3,229,622,702** ordinary shares with an implicit value, given by the ratio of the amount of share capital to the number of outstanding shares, of Euro 0.887 each; the shares have no restrictions or privileges, and each share has the same rights in terms of dividends and repayment of capital.

Treasury shares: at the interim balance sheet date there are 1,395,574 shares in portfolio.

15.2 Share capital – Number of shares held by the Parent Company: changes during the year

Line items/Types	Ordinary	Other
A. Shares in issue at the beginning of the year	**3,229,621,379**	**–**
– entirely freed up	3,229,621,379	–
– not entirely freed up	–	–
A.1 Treasury shares (–)	–1,395,574	
B.2 Shares in issue: opening balance	**3,228,225,805**	**–**
B. Increases	**1,323**	**–**
B.1 New share issues	–	–
– for payment:	–	–
- of business combinations	–	–
- on conversion of bonds	–	–
- on exercise of warrants	1,323	–
- other	–	–
– bonus issues:	–	–
- to employees	–	–
- to directors	–	–
- other	–	–
B.2 Sale of treasury shares	–	–
B.3 Other increases	–	–
C. Decreases	**–**	**–**
C.1 Cancellation	–	–
C.2 Purchase of treasury shares	–	–
C.3 Disposal of businesses	–	–
C.4 Other decreases	–	–
D. Shares outstanding: closing balance	**3,228,227,128**	**–**
D.1 Treasury shares (+)	1,395,574	–
D.2 Shares in issue at the end of the period	3,229,622,702	–
– entirely freed up	3,229,622,702	–
– not entirely freed up	–	–

Line item A.1 Treasury shares. The number of treasury shares at 1.1.2013 mainly represents the portion not yet assigned of the 2,500,000 shares purchased in the fourth quarter of 2011, using the available portion of the "reserve for treasury shares", to be assigned to "key personnel" of BPM and the Group's commercial banks in accordance with the provisions of the "Document on the Remuneration and Incentive Policies of the BPM Group", approved by the Bank's Board of Directors and then by the General Meeting of Members held, respectively, on 7 and 25 June 2011.

Line item B.1 New share issues. At the end of the exercise period (31 May 2013) of the "Warrants on BPM Ordinary Shares 2009/2013", a total of 147 Warrants have been exercised, at the predetermined ratio of 9 BPM ordinary shares for each Warrant held, at a subscription price of Euro 6.811 per BPM share.
On 14 June 2013, Banca Popolare di Milano has therefore issued 1,323 new BPM ordinary shares, for a total of Euro 9,010.96 (of which Euro 1,173.92 attributable to the share capital and Euro 7,837.04 charged to the share premium reserve), and made them available to those entitled to them, according to the provisions of art. 4 of the Warrant Regulations.
Note that the Warrants not exercised by the 31 May 2013 deadline have become to all effects null and void from 1 June 2013, pursuant to art. 6 of the Warrant Regulations.

Line item D.1 Treasury shares. The 1,395,574 treasury shares represent the balance at 30.06.2013 (unchanged compared with 31.12.2012). At 30 June 2013, 571,082 shares were reserved for allocation to "key personnel", as the right to the allocation to personnel of the remaining shares has definitively ceased to exist.

Item D.2 Shares in issue at the end of the period. This is the number of Banca Popolare di Milano shares outstanding at 30.06.2013, a total of 3,229,622,702 (including 1,395,573 treasury shares), whose "implicit" value is 0.887 euro per share, taking into account the fact that the share capital amounts to Euro 2,865,709,760.07.

15.3 Share capital: other information

The Parent Company's share capital is variable and is represented by shares without an express nominal value, in accordance with the resolution of the general meeting held on 25 June 2011.
The Management Board can buy or reimburse shares of the Parent Company according to current regulations, within the limits of distributable earnings and unrestricted reserves in the latest approved financial statements, allocated for this purpose by the Members in General Meeting.
The provision for the purchase of treasury shares amounts to Euro 19,484,887 and is available for Euro 18,625,973, as adjusted for the value of the 1,395,574 treasury shares held in portfolio at the balance sheet date.
The shares, as governed by the Articles of Association, constitute a guarantee to the Bank for any commitments of a member towards the Bank.
No shareholder's interest may exceed 0.50% of the share capital. As soon as it becomes aware that this limit has been exceeded, the Parent Company serves formal notice of the breach on the shareholder concerned. The excess shares must be sold within a year of such notice; after this deadline, the related rights pertaining to these shares are acquired by the Bank until their disposal. This limit does not apply to mutual investment funds; the relevant limits in such cases are those imposed by the rules of the fund concerned.
The shares cannot be split. In the event that the shares are owned jointly, the rights of the joint owners have to be exercised by a common representative.
Dividends not claimed within five years from the date they become payable fall are absorbed by the Company.

15.4 Reserves: other information

Valuation reserves:

Financial assets available for sale: this includes the unrealised post-tax gains and losses arising on financial assets classified as "available for sale", as defined by IAS 39. Gains and losses are transferred from the fair value reserve to income when the financial asset is sold or if it becomes impaired.

Actuarial gains (losses) on defined-benefit pension plans: this includes actuarial gains and losses, deriving from the change of certain assumptions formulated in prior periods.

Share of valuation reserves connected with investments carried at equity: this includes portions of valuation reserves of companies consolidated using the equity method.

Special revaluation laws: this line item includes the reserve created on first-time adoption of IAS/IFRS as a result of valuing property and equipment at their "deemed cost", as allowed by the "IAS decree".

15.5 Equity instruments: breakdown and changes during the period

Equity instruments: changes during the period	30.06.2013	31.12.2012
A. Opening balance	**500,000**	**500,000**
B. Increases	**–**	**–**
B.1 Other increases	–	–
C. Decreases	**500,000**	**–**
C.1 Other decreases	500,000	–
D. Closing balance	**–**	**500,000**

This item includes the financial instruments (Tremonti bonds) issued on 4 December 2009, (art. 12 Decree 185/08) in favour of the Economy and Finance Ministry to improve the Group's regulatory capital and provide support for economic development with special attention for SMEs.
On 28 June 2013, after having been granted authorisation by the Bank of Italy, the Parent Company fully redeemed the "Tremonti Bond".

Section 16 – Minority interests
Line item 210

Minority interests relate to minority stakes held by third parties (as opposed to Banca Popolare di Milano) in Banca Popolare di Mantova (38.14% stake) and Banca Akros (3.11% stake).

16.1 Net income (loss) pertaining to minority interests: breakdown

Line items/Amounts	30.06.2013	31.12.2012
1. Share capital	2,370	14,458
2. Share premium reserve	12,727	27,038
3. Reserves	4,229	5,738
4. Treasury shares	–	–
5. Valuation reserves	–65	–447
6. Equity instruments	–	–
7. Net income (loss) pertaining to minority interests	259	–5,156
Total	**19,520**	**41,631**

16.2 Valuation reserves: breakdown

Line items/Elements	30.06.2013	31.12.2012
1. Financial assets available for sale	–25	–302
2. Property and equipment	–	–
3. Intangible assets	–	–
4. Hedging of foreign investments	–	–
5. Cash flow hedges	–	–
6. Foreign exchange differences		
7. Non-current assets held for sale	–	–
8. Actuarial gains (losses) on defined-benefit pension plans	–40	–132
9. Share of valuation reserves connected with investments carried at equity	–	–13
10. Special revaluation laws	–	–
Total	**–65**	**–447**

Other information

1. Guarantees given and commitments

Transactions	30.06.2013	31.12.2012
1) Financial guarantees	440,150	506,656
a) Banks	56,898	56,914
b) Customers	383,252	449,742
2) Commercial guarantees	3,124,664	3,166,435
a) Banks	138,932	86,387
b) Customers	2,985,732	3,080,048
3) Irrevocable commitments to grant finance	4,637,598	5,360,025
a) Banks	880,240	835,941
i) certain to be called on	305,490	200,441
ii) not certain to be called on	574,750	635,500
b) Customers	3,757,358	4,524,084
i) certain to be called on	355,022	558,760
ii) not certain to be called on	3,402,336	3,965,324
4) Commitments underlying credit derivatives: sale of protection	68,661	172,251
5) Assets pledged in guarantee for third-party obligations	52,635	81,770
6) Other commitments	88,990	118,089
Total	**8,412,698**	**9,405,226**

The amount of “guarantees given” is stated at nominal value net of any drawdowns and any adjustments.
“Financial guarantees given – banks” also include the commitments undertaken versus the Interbank Deposit Guarantee Fund.
The “irrevocable commitments to grant finance” are stated on the basis of the commitment given less the sums already disbursed and any adjustments. They exclude commitments arising from derivative contracts.
The “irrevocable commitments to grant finance” which are certain to be called on include forward and spot purchases of securities awaiting settlement and loans and deposits to be made on a specified future date.
“Commitments underlying credit derivatives: sales of protection” refer to the notional amount of such commitments, less the sums already disbursed and any adjustments.
“Assets pledged in guarantee for third-party obligations” include an amount of 48.117 million (76.151 million at 31.12.2012) relating to contribution quotas to the Default Fund paid into the Cassa di Compensazione e Garanzia for MTS Repo operations.

Guaranteed funding transactions

In accordance with the requirements of the Bank of Italy communicated on 16 February 2011 and 10 February 2012, assets not reported in the financial statements in compliance with IAS 39, which the Group has established as a guarantee of its own liabilities and commitments, are shown below.

At the interim balance sheet date, there are no repurchase agreements carried out with securities deriving from reverse repurchase agreements.

The following are the own bonds issued and repurchased as part of the refinancing operations with the European Central Bank – two of which covered by a Government guarantee pursuant to art. 8 of the Decree Law 201 of 6 December 2011, converted into Law no. 214 of 22 December 2011 – and provided as collateral for the advances received from central banks (OMO – Open Market Operations):

- "BPM 23.03.2012–2017 5.90%" bonds guaranteed by the Government, for a nominal value of 0.5 billion (0.5 billion at 31.12.2012);
- "BPM 23.03.2012–2015 4.90%" bonds guaranteed by the Government, for a nominal value of 1.0 billion (1.0 billion at 31.12.2012);
- Guaranteed Bank Bonds (covered bonds) "BPM CB 18.7.2011–18.1.2014 FR" for a nominal value of 1 billion (1 billion at 31.12.2012).

In addition, the following have been provided as collateral:

- "BPM Securitisation 15.01.06/43 Floating rate" bonds, arising from the securitisation carried out by the Parent Company in 2006, for a residual nominal value of 114.711 million euro (127.924 million euro at 31.12.2012);
- "BPM Securitisation 20.07.11/53 Floating rate A1" for a residual nominal value of 37.615 million euro (341 million at 31.12.2012) and "BPM Securitisation 20.07.11/53 Floating rate A2" for a nominal value of 139.268 million euro (147 million at 31.12.2012) arising from the securitisation carried out by the Parent Bank in 2011;
- securities arising from lending repurchase agreements or securities lending of a nominal value of 321.440 million (295.443 million at 31.12.2011).

Part C – Information on the consolidated income statement

Section 1 – Interest
Line items 10 and 20

1.1 Interest and similar income: breakdown

Description/Technical forms	Debt securities	Loans	Other transactions	1st half 2013	1st half 2012
1. Financial assets held for trading	3,369	–	1,812	5,181	3,855
2. Financial assets designated at fair value through profit and loss	4,791	–	–	4,791	8,170
3. Financial assets available for sale	111,471	–	–	111,471	136,952
4. Investments held to maturity	–	–	–	–	–
5. Due from banks	6,345	6,476	–	12,821	4,932
6. Loans to customers	4,534	554,690	–	559,224	647,443
7. Hedging derivatives	X	X	17,662	17,662	10,846
8. Other assets	X	X	1,248	1,248	1,212
Total	**130,510**	**561,166**	**20,722**	**712,398**	**813,410**

Line item 1. "Financial assets held for trading: other transactions" includes positive margins related to derivative contracts linked for operational purposes with financial assets and liabilities at fair value (under the fair value option) for 1.812 million. In 2012 there was a negative amount of 2.379 million which was included in the interest expense line item 5. "Financial liabilities held for trading: other transactions".

Line items 5 and 6 "Due from banks" and "Loans to customers" show, in the "Debt securities" column, interest income on own securities not quoted on active markets, classified in these portfolios. The "Loans" column also includes interest income accrued on repurchase agreements used for lending purposes.

1.2 Interest and similar income: differentials on hedging transactions

Line items	1st half 2013	1st half 2012
A. Positive differentials on hedging transactions	43,686	36,033
B. Negative differentials on hedging transactions	(26,024)	(25,187)
C. Balance (A–B)	**17,662**	**10,846**

The following table shows the breakdown of the differential balance, positive and negative, accrued on "hedging derivatives", reported in sub-item 7. "Hedging derivatives".

1.4 Interest and similar expense: breakdown

Description/Technical forms	Payables	Securities	Other transactions	1st half 2013	1st half 2012
1. Due to central banks	(15,858)	X	–	(15,858)	(28,524)
2. Due to banks	(6,851)	–	–	(6,851)	(11,702)
3. Due to customers	(120,234)	X	–	(120,234)	(128,656)
4. Securities issued	X	(141,418)	–	(141,418)	(172,302)
5. Financial liabilities held for trading	–	(455)	(313)	(768)	(3,158)
6. Financial liabilities designated at fair value through profit and loss	–	(11,474)	–	(11,474)	(13,972)
7. Other liabilities and provisions	X	X	(9)	(9)	(10)
8. Hedging derivatives	X	X	–	–	–
Total	**(142,943)**	**(153,347)**	**(322)**	**(296,612)**	**(358,324)**

Line items 2. and 3. "Due to banks/customers" in the "Payables" column include the interest related to amounts due for repurchase agreements on own securities and charges relating to amounts due for repurchase agreements on securities whose availability was obtained through reverse repurchase agreements.

Line item 4. "Securities issued" shows the interest expense accrued on bonds and certificates of deposit valued at amortised cost during the year.

Line item 5. "Financial liabilities held for trading", in the "Other transactions" column, shows a net negative balance of 0.313 million (0.268 million in the first half of 2012) which relates to differentials and positive/negative margins on derivatives operationally linked to financial assets and liabilities classified in the trading book and which accrue interest. These are multiflow derivatives (interest rate swaps) connected to fixed rate debt securities classified as held for trading.

Line item 6. "Financial liabilities designated at fair value through profit and loss" includes interest expense accrued on structured and fixed-rate bonds issued, hedged by derivative contracts.

Line item 8. "Hedging derivatives: other transactions" shows a nil amount, as the difference between the positive and negative differentials related to derivatives classified as hedges according to hedge accounting rules is positive and is therefore included in table 1.1 "Interest and similar income: breakdown".

Section 2 – Commission
Line items 40 and 50

2.1 Fee and commission income: breakdown

Type of service/Amounts	1st half 2013	1st half 2012
a) guarantees given	**15,824**	**15,623**
b) credit derivatives	**–**	**–**
c) management, dealing and advisory services:	**139,229**	**95,456**
1. trading of financial instruments	11,353	10,752
2. currency trading	2,307	2,297
3. portfolio management	1,647	2,416
3.1 individual	1,647	1,659
3.2 collective	–	757
4. custody and administration of securities	6,416	6,822
5. custodian bank	10	34
6. placement of securities	77,213	40,233
7. receipt and transmission of instructions	13,824	12,174
8. advisory services	588	1,874
8.1 on investments	47	–
8.2 on financial structure	541	1,874
9. distribution of third-party services	25,871	18,854
9.1 portfolio management	2,192	2,308
9.1.1 individual	2,175	2,283
9.1.2 collective	17	25
9.2. insurance products	21,846	13,468
9.3 other products	1,833	3,078
d) collection and payment services	**54,443**	**56,151**
e) servicing for securitisation transactions	**–**	**–**
f) factoring services	**–**	**–**
g) tax collection services	**–**	**–**
h) management of multilateral trading systems	**–**	**–**
i) management of current accounts	**33,211**	**38,011**
j) other services	**79,066**	**75,285**
Total	**321,773**	**280,526**

Note should be made, in particular, of the increases in the line items:

- c.6 placement of securities, attributable to the placement of third party bonds and to a higher level of fee and commission income from the placement of units of mutual funds;
- c.9.2 distribution of insurance products, attributable to an increase in the placement of insurance policies by the associated company Bipiemme Vita.

Line item j) "Other services" includes net fee and commission income on loans granted, fees for the use of safe deposit boxes and income from recharges of costs of other banking services.

2.2 Fee and commission income: product and service distribution channels

Channels/Amounts	1st half 2013	1st half 2012
a) at own branches:	**104,349**	**60,946**
1. portfolio management	1,647	2,416
2. placement of securities	76,858	39,712
3. distribution of third-party services and products	25,844	18,818
b) door-to-door:	**382**	**556**
1. portfolio management	–	–
2. placement of securities	355	520
3. distribution of third-party services and products	27	36
c) other distribution channels:	**–**	**1**
1. portfolio management	–	–
2. placement of securities	–	1
3. distribution of third-party services and products	–	–

2.3 Fee and commission expense: breakdown

Services/Amounts	1st half 2013	1st half 2012
a) guarantees received	**(6,410)**	**(6,378)**
b) credit derivatives	**–**	**(23)**
c) management and dealing services:	**(13,839)**	**(10,623)**
1. trading of financial instruments	(5,113)	(4,231)
2. currency trading	(5)	(6)
3. portfolio management	(380)	(322)
3.1. own	(380)	(322)
3.2. mandated by third parties	–	–
4. custody and administration of securities	(1,604)	(2,480)
5. placement of financial instruments	(5,944)	(2,681)
6. door-to-door sales of financial instruments, financial products and services	(793)	(903)
d) collection and payment services	**(16,236)**	**(15,553)**
e) other services	**(7,303)**	**(9,018)**
Total	**(43,788)**	**(41,595)**

Line item e) "Other services" includes, among other things, brokerage commissions and order processing fees.

Section 3 – Dividend and similar income
Line item 70

3.1 Dividend and similar income: breakdown

Line items/Income	Dividends	Income from mutual funds	1st half 2013	Dividends	Income from mutual funds	1st half 2012
A. Financial assets held for trading	892	–	892	674	308	982
B. Financial assets available for sale	7,225	919	8,144	6,344	2,427	8,771
C. Financial assets designated at fair value through profit and loss	–	–	–	–	–	–
D. Investments in associates and Companies subject to joint control	–	X	–	–	X	–
Total	**8,117**	**919**	**9,036**	**7,018**	**2,735**	**9,753**

Section 4 – Profits (losses) on trading
Line item 80

4.1 Profits (losses) on trading: breakdown

Transactions/Element of income	Unrealised gains (A)	Trading profits (B)	Losses (C)	Trading losses (D)	Net income (loss) [(A+B) – (C+D)]
1. Financial assets held for trading	**7,904**	**19,116**	**(17,727)**	**(2,839)**	**6,454**
1.1 Debt securities	2,350	13,418	(5,210)	(1,300)	9,258
1.2 Equities	936	5,461	(7,245)	(1,399)	(2,247)
1.3 Mutual funds	–	5	(1)	(4)	–
1.4 Loans	–	–	–	–	–
1.5 Other	4,618	232	(5,271)	(136)	(557)
2. Financial liabilities held for trading	**490**	**4,190**	**(391)**	**(1,113)**	**3,176**
2.1 Debt securities	105	851	(170)	(470)	316
2.2 Payables	–	–	–	–	–
2.3 Other	385	3,339	(221)	(643)	2,860
3. Other financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**35**
4. Derivatives	**593,688**	**732,111**	**(575,189)**	**(738,578)**	**19,286**
4.1 Financial derivatives	593,017	731,280	(574,555)	(737,677)	19,319
– On debt securities and interest rates	502,372	390,020	(490,474)	(390,350)	11,568
– On equities and stock indices	85,589	336,973	(79,150)	(343,140)	272
– On currency and gold	X	X	X	X	7,254
– Other	5,056	4,287	(4,931)	(4,187)	225
4.2 Credit derivatives	671	831	(634)	(901)	(33)
Total	**602,082**	**755,417**	**(593,307)**	**(742,530)**	**28,951**

The table shows the profits or losses attributable to the portfolio of financial assets and liabilities held for trading, with the exception of derivatives hedging financial instruments for which the fair value option was adopted, with the valuation results being shown in Section 7 – "Profits (losses) on financial assets and liabilities designated at fair value – Line item 110".

1. Financial assets held for trading: line item "1.5 Other" includes the profits and losses from trading in currency, gold and other precious metals.
3. Other financial assets and liabilities: foreign exchange differences: this sub-item includes the positive or negative balance of changes in the value of financial assets and liabilities in foreign currency, other than those designated at fair value, those subject to fair value hedging (exchange risk or fair value) or cash flow hedging (exchange risk), as well as changes in the value of hedging derivatives.
4. Derivatives: positive and negative differentials and margins are reported in the "trading profits" and "trading losses" columns respectively.

Section 5 – Fair value adjustments in hedge accounting
Line item 90

5.1 Fair value adjustments in hedge accounting: breakdown

Element of income/Amounts	1st half 2013	1st half 2012
A. Income relating to:		
A.1 Derivatives with fair value hedges	23,486	52,691
A.2 Financial assets with fair value hedges	2,259	7,867
A.3 Financial liabilities with fair value hedges	48,877	–
A.4 Cash flow hedges	–	–
A.5 Foreign currency assets and liabilities	–	–
Total income from hedging activities (A)	**74,622**	**60,558**
B. Charges relating to:		
B.1 Derivatives with fair value hedges	(56,161)	(8,215)
B.2 Financial assets with fair value hedges	(16,141)	(1,990)
B.3 Financial liabilities with fair value hedges	(5,967)	(35,224)
B.4 Cash flow hedges	–	–
B.5 Foreign currency assets and liabilities	–	–
Total charges from hedging activities (B)	**(78,269)**	**(45,429)**
C. Fair value adjustments in hedge accounting (A-B)	**(3,647)**	**15,129**

The table shows the net result of the fair value adjustments in hedge accounting. It therefore shows the realised income items booked to the income statement and arising from valuation of hedged assets and liabilities and the related derivative contracts, including any exchange differences. For information on the hedging derivatives, whose income and expenses must be entered on lines A.1 and B.1 of this table, please refer to Section 8 "Hedging derivatives – Line item 80" in assets and Section 6 "Hedging derivatives – Line item 60" of liabilities in Part B of these explanatory notes.
For more information on hedged financial assets and liabilities, please refer to the detailed tables set out in Part B of these explanatory notes, in the sections relating to balance sheet items in which there are items being hedged.

The table below shows the details of net income items.

Fair value adjustments in hedge accounting: details of income items

Line items/Amounts	Income	Expenses	1st half 2013 Net income (loss)	Income	Expenses	1st half 2012 Net income (loss)
1 Derivatives for fair value hedges:						
– Interest rate risk	23,487	(52,155)	(28,668)	52,691	(8,215)	44,476
– Exchange rate risk	–	–	–	–	–	–
– Credit risk	–	–	–	–	–	–
– Price risk	–	(4,006)	(4,006)	–	–	–
– Several risks	–	–	–	–	–	–
2 Financial assets with fair value hedges:						
– Specific hedges	2,259	(4,584)	(2,325)	1,755	(196)	1,559
– Generic hedges	–	(11,558)	(11,558)	6,112	(1,794)	4,318
3 Financial liabilities with fair value hedges:						
– Specific hedges	48,877	(5,967)	42,910	–	(35,224)	(35,224)
– Generic hedges	–	–	–	–	–	–
4 Financial derivatives for cash flow hedges:						
– Expected transactions	–	–	–	–	–	–
– Foreign investments	–	–	–	–	–	–
– Exchange rate risk	–	–	–	–	–	–
5 Foreign currency assets and liabilities:						
– Assets in foreign currency	–	–	–	–	–	–
– Liabilities in foreign currency	–	–	–	–	–	–
Total	**74,623**	**(78,270)**	**(3,647)**	**60,558**	**(45,429)**	**15,129**

The breakdown of the net result of fair value adjustments in hedge accounting with regard to their underlying positions is shown below.

Description	1st half 2013 Net income (loss)	1st half 2012 Net income (loss)
Assets:		
– Debt securities available for sale	698	(158)
– Equities available for sale	(2,228)	–
– Due from banks	–	–
– Loans to customers	35	(182)
Liabilities		
– Bonds in circulation	(2,152)	15,469
Net result of fair value adjustments in hedge accounting	**(3,647)**	**15,129**

The amount shown under "Loans to customers" relates to the generic hedging of a subsidiary's loans.
The income relating to "bonds in circulation" in the first half of 2012 originated from the partial unwinding of derivatives entered into by the SPV "Bpm Covered Bond" to hedge the bond issue. This unwinding took place at the same time as the partial cancellation of the covered bonds that had been issued, following the repurchase thereof by the Parent Company.

Section 6 – Profits (losses) on disposal/repurchase
Line item 100

6.1 Profits (losses) on disposal/repurchase: breakdown

Description/Element of income	1st half 2013			1st half 2012		
	Profits	Losses	Net income (loss)	Profits	Losses	Net income (loss)
Financial assets						
1. Due from banks	–	–	–	–	–	–
2. Loans to customers	450	–	450	–	(7)	(7)
3. Financial assets available for sale	119,999	(225)	119,774	19,219	(1,541)	17,678
3.1 Debt securities	119,913	(3)	119,910	18,983	(1,519)	17,464
3.2 Equities	86	(134)	(48)	225	–	225
3.3 Mutual funds	–	(88)	(88)	11	(22)	(11)
3.4 Loans	–	–	–	–	–	–
4. Investments held to maturity	–	–	–	–	–	–
Total assets	**120,449**	**(225)**	**120,224**	**19,219**	**(1,548)**	**17,671**
Financial liabilities						
1. Due to banks	–	–	–	–	–	–
2. Due to customers	–	–	–	–	–	–
3. Securities issued	81	(47)	34	15,145	(148)	14,997
Total liabilities	**81**	**(47)**	**34**	**15,145**	**(148)**	**14,997**
Total	**120,530**	**(272)**	**120,258**	**34,364**	**(1,696)**	**32,668**

The table shows the result arising from the sale of financial assets other than those held for trading and those designated at fair value, and the result arising from the repurchase of own financial liabilities (which was marginal in the first half of 2013).

Breakdown of “Financial assets: Due from banks and Loans to customers”

Line items/Amounts	1st half 2013			1st half 2012		
	Profits	Losses	Net income (loss)	Profits	Losses	Net income (loss)
1. Due from banks:						
Loans	–	–	–	–	–	–
Debt securities	–	–	–	–	–	–
2. Loans to customers:						
Loans	450	–	450	–	–	–
Debt securities	–	–	–	–	(7)	(7)
Total	**450**	**–**	**450**	**–**	**(7)**	**(7)**

Section 7 – Profits (losses) on financial assets and liabilities designated at fair value Line item 110

7.1 Profits (losses) on financial assets and liabilities designated at fair value: breakdown

Transactions/Element of income	Unrealised profits (A)	Profits on disposal (B)	Losses (C)	Losses on disposal (D)	Net income (loss) [(A+B)–(C+D)]
1. Financial assets	**8,133**	**47**	**(4,591)**	**–**	**3,589**
1.1 Debt securities	4,395	47	(4,415)	–	27
1.2 Equities	–	–	–	–	–
1.3 Mutual funds	3,738	–	(176)	–	3,562
1.4 Loans	–	–	–	–	–
2. Financial liabilities	**7,746**	**2,522**	**(1,248)**	**–**	**9,020**
2.1 Debt securities	7,746	2,522	(1,248)	–	9,020
2.2 Due to banks	–	–	–	–	–
2.3 Due to customers	–	–	–	–	–
3. Financial assets and liabilities in foreign currency: foreign exchange differences	**X**	**X**	**X**	**X**	**–**
4. Credit and financial derivatives	**2,927**	**–**	**(5,375)**	**(2,181)**	**(4,629)**
Total	**18,806**	**2,569**	**(11,214)**	**(2,181)**	**7,980**

This item includes capital gains and losses arising from the measurement at fair value of financial assets and liabilities classified in fair value option portfolios and their hedging derivatives.

Debt liabilities include the net result of bonds for which we made use of the fair value option, in the same way as the result of the derivatives hedging them. In this case, the use of the fair value option addresses the need to reduce the accounting mismatch that would otherwise result from measuring the financial liabilities issued at amortised cost and the related hedging derivatives at fair value. For further details, reference should be made to section 5 of liabilities with regard to "Financial liabilities designated at fair value through profit and loss".

Section 8 – Net losses/recoveries on impairment
Line item 130

8.1 Net losses/recoveries on impairment of loans: breakdown

Transactions/Element of income	Adjustments (1)			Writebacks (2)				1st half 2013	1st half 2012
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Other		A	B	A	B		
A. Due from banks	**–**	**–**	**(338)**	**–**	**–**	**360**	**–**	**22**	**(423)**
– Loans	–	–	(338)	–	–	360	–	22	(423)
– Debt securities	–	–	–	–	–	–	–	–	–
B. Loans to customers	**(6,306)**	**(233,226)**	**(1,316)**	**15,093**	**38,024**	**–**	**25,821**	**(161,910)**	**(126,997)**
– Purchased	–	–	–	–	–	–	–	–	–
- Loans	–	–	–	–	–	–	–	–	–
- Debt securities	–	–	–	–	–	–	–	–	–
– Other receivables	(6,306)	(233,226)	(1,316)	15,093	38,024	–	25,821	(161,910)	(126,997)
- Loans	(6,306)	(233,226)	(1,316)	15,093	38,024	–	25,821	(161,910)	(126,997)
- Debt securities	–	–	–	–	–	–	–	–	–
C. Total	**(6,306)**	**(233,226)**	**(1,654)**	**15,093**	**38,024**	**360**	**25,821**	**(161,888)**	**(127,420)**

Key: A = for interest B = Other writebacks

This item includes adjustments and writebacks to cover impairment of the financial instruments allocated to the "loans to customers" and "due from banks" portfolios. In particular, the "Write-offs" column shows the losses booked on final cancellation of the loans, while the "Other" column includes specific write-downs on impaired loans subject to analytical assessment. The portfolio adjustments are quantified on the performing financial instruments.
As part of the specific writebacks, column A mainly shows the writebacks represented by the release of interest on impaired loans measured at amortised cost.

8.2 Net losses/recoveries on impairment of financial assets available for sale: breakdown

Transactions/Income elements	Adjustments		Writebacks		1st half 2013	1st half 2012
	Specific		Specific			
	Write-offs	Other	A	B		
A. Debt securities	–	–	–	–	–	4,170
B. Equities	–	(2,359)	X	X	(2,359)	(11,902)
C. Mutual funds	–	(11,196)	X	–	(11,196)	(11,109)
D. Loans to banks	–	–	–	–	–	–
E. Loans to customers	–	–	–	–	–	–
F. Total	**–**	**(13,555)**	**–**	**–**	**(13,555)**	**(18,841)**

Key: A = for interest B = Other writebacks

Specific adjustments to equities relate to the write-offs and writedowns made to the investments held in the following companies and investment funds. An adjustment was also made to a bond.

Specific adjustments	1st half 2013	1st half 2012
Equities	**(2,359)**	**(11,902)**
Crédit Industriel et Commercial	–	(3,225)
Premuda S.p.A.	(68)	(6,846)
Alba Leasing S.p.A.	(710)	–
Banca Popolare dell'Etruria	(152)	(29)
Fiera di Milano S.p.A.	–	(429)
Genextra S.p.A	–	(744)
Terme Acqui	(25)	–
Gabetti S.p.A. – ordinary shares	(52)	–
Comital S.p.A.	(862)	(230)
Istituto Europeo di Oncologia S.r.l.	(277)	(268)
Aedes S.p.A.	(16)	–
Expo Piemonte	(197)	–
Unione Fiduciaria S.p.A.	–	(131)
Mutual funds	**(11,196)**	**(11,109)**
Fondo immobiliare Sammartini	(4,155)	(10,379)
Fondo Wisequity II	(1,558)	–
Cambria Co-Invest Fund	(100)	–
Fondo Immobiliare Italiano Goethe	(5,383)	–
China Opportunity Sicar	–	(730)
Total	**(13,555)**	**(23,011)**

8.3 Net losses/recoveries on impairment of investments held to maturity: breakdown

At the interim balance sheet date there are no financial assets held to maturity.

8.4 Net losses/recoveries on impairment of other financial activities: breakdown

Transactions/Income elements	Adjustments			Writebacks				1st half 2013	1st half 2012
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Other		A	B	A	B		
A. Guarantees given	–	(6,779)	(4,056)	–	8,340	–	117	(2,378)	(7,000)
B. Credit derivatives	–	–	–	–	–	–	–	–	–
C. Commitments to disburse funds	–	–	–	–	–	–	–	–	–
D. Other information	–	–	–	–	–	–	–	–	–
E. Total	**–**	**(6,779)**	**(4,056)**	**–**	**8,340**	**–**	**117**	**(2,378)**	**(7,000)**

Key: A = for interest B = Other writebacks

This line item shows the adjustments/writebacks made on guarantees given in conjunction with the expected loss in the event of their enforcement.
The adjustments, in the "Other" column, relate to provisions made on specific positions of guarantees given, while the portfolio adjustments are calculated by the same method adopted for collective writedowns.

Section 11 – Administrative expenses
Line item 180

11.1 Personnel expenses: breakdown

Personnel expenses also include:

- the cost of employees seconded to other companies (and the related recharges);
- costs for non-standard employment contracts (e.g. temporary and contract workers);
- reimbursement of cost of employees of other companies seconded to group companies;
- remuneration payable to the members of the Management Board and the Supervisory Board of the Parent Company and to the directors and the statutory auditors of the other Group companies;
- costs associated with share-based payments;
- provisions made, with contra-entry to "other liabilities", for productivity bonuses relating to the year, but paid the following year.

Type of expense/Sectors	1st half 2013	1st half 2012
1) Employees	**(315,766)**	**(307,438)**
a) wages and salaries	(208,680)	(216,786)
b) social security charges	(62,163)	(62,927)
c) employee termination indemnities	(10,930)	(12,069)
d) pension costs	–	–
e) charge to employee termination indemnities	(3,127)	(3,578)
f) charge to provision for post employment benefits:	(4,711)	(3,251)
– defined contribution	–	–
– defined benefit	(4,711)	(3,251)
g) payments to external supplementary pension funds:	(5,190)	(7,271)
– defined contribution	(5,190)	(7,271)
– defined benefit	–	–
h) costs associated with share–based payments	(9,110)	–
i) other staff benefits	(11,855)	(1,556)
2) Other personnel	**(1,063)**	**(2,307)**
3) Directors and Statutory Auditors	**(3,141)**	**(4,649)**
4) Retired personnel	**–**	**–**
Total	**(319,970)**	**(314,394)**

With reference to these types of expenses, we would point out the following:

Line item c) "employee termination indemnities" comprises, in addition to the persons who left during the year, also the termination indemnities paid directly to INPS and to pension funds.

Sub-item g) "payments to external supplementary pension funds – defined contribution" comprises the contribution paid to external retirement benefit plans.

Sub-item "h) costs associated with share-based payments" refers to the portion reserved to employees of the Parent Company, except for those who hold top management positions, in compliance with art. 60 based on the Articles of Association approved by the Extraordinary General Meeting of Members held on 22 October 2011. This portion is equal to 5% of the pre-tax profit of the Parent Company (i.e. "income before tax from continuing operations") calculated prior to the amount to be determined, unless the general meeting decides not to distribute dividends on the net income for the year. This amount is paid in the form of shares, which will be subject to a three-year retention period before the assignee can dispose of them. The reference value of the shares is the average of the Stock Exchange prices posted on the 30 days prior to their assignment.

No amount was recorded in the period ended 30 June 2012, since the loss incurred in the period meant there was no requirement to set aside a portion of earnings for employees.

Sub-item **"i) other staff benefits"** is illustrated in paragraph 11.4 of this Section.

The line item "3) Directors and Statutory Auditors" includes the following remuneration:

- 1.186 million to members of the Management Board of the Parent Company;
- 1.068 million to members of the Supervisory Board of the Parent Company;
- 0.595 million to members of the Boards of Directors of other consolidated companies;
- 0.292 million to members of the Boards of Statutory Auditors of other consolidated companies.

11.2 Average number of employees, by level

Line items	1st half 2013	1st half 2012
Employees	**7,499**	**7,790**
a) managers	171	197
b) officials	2,893	3,044
– of which: 3rd and 4th level	1,569	1,666
c) other employees	4,435	4,549
Other personnel	**63**	**107**
Consultants and temps	63	107
Total	**7,562**	**7,897**

The average number is calculated as the weighted average number of employees where the weighting is given by the number of months worked during the year. Part-time employees are conventionally considered at 50%.

Number of employees by category

Line items	1st half 2013	1st half 2012
Employees	**7,900**	**8,355**
a) managers	172	200
b) officials	2,898	3,130
– of which: 3rd and 4th level	1,531	1,684
c) other employees	4,830	5,025
Other personnel	**55**	**109**
Consultants and temps	55	109
Total	**7,955**	**8,464**

The number of employees includes 1,050 part-timers (1,135 at 30.06.2012), with an incidence of 13.3% of total personnel in service at the balance sheet date.

11.4 Other staff benefits

"Other staff benefits" include, among other things, contributions towards the running of staff canteens, the cost of subsidised-rate loans granted to employees and, with respect to the Solidarity Fund agreement stipulated in 2012, a financial expense to reflect discounting for the time value of money.
In the first half of 2012, this item included the positive impact of the reversal of emoluments accounted for in 2012, related to extraordinary incentives to staff that were not paid during 2012.

11.5 Other administrative expense: breakdown

Description/Technical forms	1st half 2013	1st half 2012
IT expenses	**(41,639)**	**(38,763)**
Maintenance and rent of hardware and software and data transmission	(35,447)	(33,567)
Services rendered by Group companies	–	–
ATM running costs	(714)	(570)
Outsourced IT services	(5,478)	(4,626)
Expenses for buildings and furniture	**(26,509)**	**(27,718)**
Property leases	**(19,489)**	**(20,501)**
Rents paid	(19,106)	(20,115)
Office machine lease charges	(383)	(386)
Other expenses	**(7,020)**	**(7,217)**
Maintenance	(4,083)	(4,117)
Cleaning	(2,937)	(3,100)
Purchases of assets and non-professional services	**(31,098)**	**(33,516)**
Telephone and postage	(7,818)	(8,694)
Sub-contract work	(5,489)	(6,533)
Security and cash counting services	(4,401)	(5,086)
Electricity, heating and water	(7,427)	(7,089)
Transport	(3,591)	(3,205)
Stationery and printing	(1,634)	(2,211)
Removals and porterage	(434)	(272)
Subscriptions to newspapers and magazines	(304)	(426)
Purchases of professional services	**(22,402)**	**(16,332)**
Professional fees	(15,212)	(9,780)
Legal expenses and company information	(7,002)	(6,431)
Directors' and statutory auditors' fees	(188)	(121)
Insurance premiums	**(2,013)**	**(1,873)**
Advertising expenses	**(5,730)**	**(10,264)**
Indirect taxes and duties	**(47,326)**	**(49,215)**
Other	**(2,504)**	**(7,211)**
Charity	(869)	(2,656)
Membership fees and fees mandatory by law	(2,055)	(1,798)
Other	420	(2,757)
Total	**(179,221)**	**(184,892)**

"Indirect taxes and duties" include indirect taxes (stamp duty and flat-rate tax) recharged to customers of 34,720 million; in the reclassified income statement, as indicated in the notes thereto, this amount has been reversed from both "other administrative expenses" and "other operating charges/income".

Section 12 – Net provisions for risks and charges
Line item 190

12.1 Net provisions for risks and charges: breakdown

Description/Technical forms	1st half 2012	1st half 2012
Provisions	**(14,000)**	**(18,264)**
Legal disputes	**(4,819)**	**(10,958)**
Other risks and charges	**(9,181)**	**(7,306)**
– Provision for recovery procedures	(499)	(4,252)
– Provision for other future charges	(8,682)	(3,054)
Reallocations	**5,645**	**11,377**
Legal disputes	**3,865**	**6,140**
Other risks and charges	**1,780**	**5,237**
– Provision for recovery procedures	753	2,734
– Provision for other future charges	1,027	2,503
Total	**(8,355)**	**(6,887)**

Net provisions for risks and charges relate to ongoing legal disputes and contractual disputes of a commercial nature, including the impact of discounting to account for the financial component linked to the time value of money.

Section 13 – Net adjustments to/recoveries on property and equipment
Line item 200

This line item includes the depreciation charge on property and other fixed assets.

13.1 Net adjustments to/recoveries on property and equipment: breakdown

Asset/Element of income	Depreciation (A)	Impairment adjustments (B)	Writebacks (C)	Net income (loss) (A+B–C)
A. Property and equipment				
A.1 Owned by company	(21,640)	–	–	(21,640)
– Used in the business	(21,167)	–	–	(21,167)
– For investment	(473)	–	–	(473)
A.2 Purchased under finance lease	–	–	–	–
– Used in the business	–	–	–	–
– For investment	–	–	–	–
Total	**(21,640)**	**–**	**–**	**(21,640)**

Net adjustments to/recoveries on property and equipment: comparison with the previous year

A.1 Owned property and equipment	1st half 2013	1st half 2012
– used in the business	(21,167)	(21,134)
– for investment	(473)	(477)
Total	**(21,640)**	**(21,611)**

Section 14 – Net adjustments to/recoveries on intangible assets
Line item 210

14.1 Net adjustments to/recoveries on intangible assets: breakdown

Asset/Element of income	Amortisation (A)	Impairment adjustments (B)	Writebacks (C)	Net income (loss) (A+B–C)
A. Intangible assets				
A.1 Owned by company	(11,527)	–	–	(11,527)
– Internally generated	(184)	–	–	(184)
– Other	(11,343)	–	–	(11,343)
A.2 Purchased under finance lease	–	–	–	–
Total	**(11,527)**	**–**	**–**	**(11,527)**

Net adjustments to/recoveries on intangible assets: comparison with the previous year

A.1 Intangible assets owned: other	1st half 2013	1st half 2012
Amortisation:	**(11,527)**	**(13,194)**
Internally generated	(184)	(176)
Other	(11,343)	(13,018)
Impairment adjustments:	**–**	**(24,778)**
Core deposits	–	(24,778)
Total	**(11,527)**	**(37,972)**

"Impairment adjustments" in the first half of 2012 relate to the write off of core deposits made as a result of impairment tests performed for the purpose of preparation of the Half-yearly Financial Report at 30 June 2012.

Section 15 – Other operating expenses/income
Line item 220

15.1 Other operating expenses: breakdown

Element of income/Amounts	1st half 2013	1st half 2012
Leasehold improvements recorded under "Other assets"	(2,212)	(2,193)
Other operating expenses	(2,656)	(3,423)
Total	**(4,868)**	**(5,616)**

15.2 Other operating income: breakdown

Element of income/Amounts	1st half 2013	1st half 2012
Recovery of taxes	34,720	38,350
Rental and leasing income	3,653	3,457
Income and IT services rendered to:	–	9
Group companies	–	–
Third parties	–	9
Recharge of costs	23,741	14,288
On deposits and overdrafts	16,829	7,565
Other	6,912	6,723
Other income	7,015	2,810
Total	**69,129**	**58,914**

	1st half 2013	1st half 2012
Total other operating expenses/income (line item 220)	**64,261**	**53,298**

"Tax recoveries" are mainly the stamp duty on current accounts and securities deposits and the flat-rate tax on medium-term loans.

Section 16 – Profits (losses) on investments in associates and companies subject to joint control Line item 240

16.1 Profits (losses) on investments in associates and companies subject to joint control: breakdown

Element of income/Sectors	1st half 2013	1st half 2012
1) Jointly controlled entities		
A. Income	**395**	**235**
1. Revaluations	395	235
2. Profits on disposal	–	–
3. Writebacks	–	–
4. Other income		–
B. Charges	**(54)**	**(30)**
1. Writedowns	(54)	(30)
2. Impairment charges	–	–
3. Losses on disposal	–	–
4. Other charges	–	–
Net income (loss)	**341**	**205**
2) Companies subject to significant influence		
A. Income	**15,289**	**8,998**
1. Revaluations	15,289	8,998
2. Profits on disposal	–	–
3. Writebacks	–	–
4. Other income	–	–
B. Charges	**(3,840)**	**(1,933)**
1. Writedowns	(3,840)	(1,933)
2. Impairment charges	–	–
3. Losses on disposal	–	–
4. Other charges	–	–
Net income (loss)	**11,449**	**7,065**
Total	**11,790**	**7,270**

The “revaluations” and “writedowns” lines show adjustments to investments in jointly controlled entities and companies subject to significant influence, to align them with the corresponding portion of the investees’ net equity at the balance sheet date, inclusive of the result for the period attributable to the Group.
Total net income attributable to the Group from investments carried at equity value amounted to 11.790 million. This amount, which is presented in the reclassified income statement as "Profit (loss) on investments carried at equity”, is attributable to the following:

- AM Holding: 8.518 million
- Bipiemme Vita: 3.205 million
- Factorit: 3.206 million
- SelmaBipiemme Leasing: (3,840) million
- Profits of other equity investments: 0.755 million
- Loss of other equity investments: (0.054) million.

Section 18 – Goodwill impairment
Line item 260

18.1 Goodwill impairment: breakdown

"Goodwill" was fully written down during the course of 2012.

Section 19 – Profits (losses) on disposal of investments
Line item 270

19.1 Profits (losses) on disposal of investments: breakdown

Element of income/Sectors	1st half 2013	1st half 2012
A. Buildings	**–**	**263**
– Profits on disposal	–	273
– Losses on disposal	–	(10)
B. Other assets	**–**	**22**
– Profits on disposal	1	24
– Losses on disposal	(1)	(2)
Net income (loss)	**–**	**285**

Section 22 – Minority interests
Line item 330

22.1 Breakdown of line item 330 "Minority interests"

Net income (loss) attributable to minority interests relates to the following consolidated companies:

Company	1st half 2013	1st half 2012
Net income (loss) from continuing operations attributable to minority interests		
Banca di Legnano	–	(3,437)
Banca Popolare Mantova	22	(412)
Banca Akros	237	343
Akros Alternative Investments SGR	–	(12)
Total	**259**	**(3,518)**

Section 24 – Earnings per share

The new international accounting standards (IAS 33) stress the importance of the "profit per share" ratio – commonly known as "EPS – earnings per share" –, making its disclosure compulsory:

- "Basic EPS", calculated by dividing the net income attributable to the holders of the ordinary shares of the Parent Company by the weighted average number of ordinary shares outstanding during the period;
- "Diluted EPS", calculated by dividing the net income by the weighted average number of ordinary shares outstanding during the period as adjusted for the dilutive effect of all potential shares, i.e. those financial instruments and/or contracts which give their owners the right to obtain ordinary shares.

The profit (or loss) from continuing operations during the year and the profit (or loss) from discontinued operations are shown separately.

24.1 Average number of ordinary shares

The average number of ordinary shares used in the calculation of **basic EPS** (3,228,226,026) has been determined taking into account the number of ordinary shares outstanding during the period, adjusted by the number of treasury shares held.

It should be noted that in the first half of 2013:

- the financial instruments issued under Art. 12 of Legislative Decree 185/2008 (so-called "Tremonti Bond") were fully redeemed;
- the "Warrants on BPM ordinary shares 2009/2013" issued in conjunction with the "Prestito Convertendo BPM 2011/2013 bond loan" reached maturity.

Accordingly, at 30 June 2013 there are no outstanding instruments that could have a dilutive effect on earnings per share; consequently the amounts of basic and diluted EPS reported below are identical.

Net income per share attributable to the Group

(in Euro)	1st half 2013	1st half 2012
Basic EPS from continuing operations	0.033	(0.041)
Basic EPS from discontinued operations	–	–
Basic EPS	0.033	(0.041)
Diluted EPS from continuing operations	0.033	(0.041)
Diluted EPS from discontinued operations	–	–
Diluted EPS	0.033	(0.041)

Part E – Information on risks and related hedging policies

Section 1 – The banking group's risks

Unless indicated otherwise, the information contained in Section 1 "Risks of the Banking Group" only refers to the banking group.

The figures are shown prior to elimination of intercompany transactions with other consolidated companies not included in the Banking Group and conventionally also include assets and liabilities of banking, financial and near-banking joint ventures in proportion to the interest held.

The only company consolidated line-by-line but not included in the banking group is Bpm Securitisation 2.
The joint ventures are Calliope Finance and GSN North America which are carried at equity in the consolidated financial statements.

Please note that the figures contained in the other sections of these notes (in part B and C) include the figures of companies which are not part of the banking group and exclude the figures relating to the joint ventures.

The risk monitoring and control process

In accordance with the role assigned thereto by the Supervisory Regulations (in particular, Circular 263/2006, Title I, Chapter 1) the Management Board of the Parent Company has responsibility for making strategic decisions concerning risk management and control at Group level, with a view to achieving an integrated and coherent risk management policy that, at the same time, takes into account the type of operations and associated risk profile of each BPM Group company.
The monitoring and control of risk is delegated to the Risk Management function of the Parent Company, which has the task of ensuring, at Group level, the monitoring of risk and implementation of the following processes:

- risk management, understood as the identification, measurement, evaluation, monitoring, reporting, control and mitigation of the risks to which the Group is exposed;
- assessing the adequacy of capital and liquidity, in relation to the Group's risk appetite and risk profile and the macroeconomic and market conditions.

Moreover, the Parent Company:

- ensures that the same methods, measurement criteria and control tools are used throughout the Group and that they are suitable for the type and size of the risks being assumed;
- makes sure that the corporate bodies of the subsidiary companies are involved in the decisions made concerning risk management procedures and policies.

As part of the review of the organisational structure envisaged by the 2012-2015 Business Plan, in April 2013 the Management Board of the Parent Company approved, with the objective of reinforcing the coordination of cross functional management, new Regulations for Committees. In particular, a new Risk Committee has been introduced, which has the objective of supporting the corporate bodies in the management, in an integrated manner, of individual types of risks to which the individual members of the Group and the Group as a whole are exposed.
The Bank's system of internal control (ICS) reflects an articulated, systemic vision, which sets out the general principles that are designed to ensure the correct and effective management of the systems to be checked for risks, defining, in particular, how they function and the guidelines for the monitoring and coordination of the Group companies' control activities.
As part of a more general process of value creation for the Group, the correct functioning, formalisation and updating of the Organisational Model for the ICS are also essential conditions for the maintenance of this process, given that the methods for carrying out business processes always have to be suitably aligned with the processes of governance and control.
This Model constitutes a point of reference for a common, standard approach on the part of the entire Group, which presumes widespread knowledge of its contents, complete awareness of the underlying assumptions and common acceptance of the values on which it is based.

The Parent Company also favours the development of a suitable corporate culture based on customer assistance, providing them with adequate information also regarding complaints and matters that need reporting. This represents, above all, a means of protection for customers, while also supplementing the Group's own ICS.

Based also on relevant generally accepted principles, on the Supervisory Regulations of the Bank of Italy (Circular 229/1999, Title IV, Chapter 11 and Circular 263/2006) and on the Code of Conduct of Borsa Italiana SpA, it is possible to affirm that the ICS consists of a set of rules, procedures and organisational structures that, through a suitable process of identification, permits:

- measurement, management and monitoring of the principal risks;
- is designed to permit the company to be run in a healthy, correct and consistent way in line with objectives set by the governing bodies;
- the safeguarding of the company's assets, the efficiency and effectiveness of its operations, the reliability of the financial reporting process and compliance with all laws and regulations.

The adequacy, efficacy and effective functioning of the System of Internal Control are assessed, according to their respective areas of competence, by:

- the Management Board of the Parent Company, which is responsible for risk management and internal controls in accordance with art. 39, paragraph 2.d of the Articles of Association, without prejudice to the powers and duties of the Supervisory Board;
- the MD & CEO of the Parent Company, who has been assigned the power to promote integrated risk management (art. 45, paragraph 2.e, of the Articles of Association);
- the Supervisory Board of the Parent Company, which is responsible for the assessment of the level of efficiency and adequacy of the internal control system, with particular regard to risk control, the internal audit function and the accounting and reporting system; it also checks that the Bank properly performs its strategic and management control activities over the other Group companies (art. 51.e of the Articles of Association);
- the Internal Control and Audit Committee of the Parent Company represents the means by which the Supervisory Board carries out its control functions and the Committee has to respond to it with up-to-date and timely information;
- the Parent Company functions of Internal Audit, which carries out audit work, Compliance, which has the objective of assessing compliance with the Bank's policies and Risk Management, which is responsible, at Group level, for the monitoring of risk as well as the implementation of risk management processes and the evaluation of liquidity and capital adequacy.

As regards the principal risks to which the Group is exposed, for credit, counterparty and concentration risk, the Parent Company ensures that a Group lending and credit management policy is defined and adopted, that "significant exposures" are monitored centrally and that the overall quality of the loan and commitment portfolio is kept under control. The Parent Company is also responsible for setting up and maintaining the internal rating system, which is currently used in various processes: granting/renewing credit, monitoring and measurement of credit risk, calculating portfolio adjustments, measuring risk-adjusted performance, defining risk-adjusted pricing for new lending operations and for ICAAP (Internal Capital Adequacy Assessment Process).

In matters of financial risks, the Management Board of the Parent Company identifies and authorises the Group companies that can assume and manage its own financial risks in compliance with the limits established by the Parent Company.

The limit system for other types of portfolio is organised as follows:

- company limits, meaning the maximum exposure that a group company may assume for financial risks; these macro-limits are established for each company by the Management Board of the Parent Company;
- directional limits, meaning the allocation of company limits to individual portfolios, to be defined in specific Regulations for Financial Operations for each group company.

The Group's Finance Committee (formerly Asset & Liability Management (ALM) Committee until April 2013) ensures the monitoring of operational limits and the coordination of investment policies in the Group's financial assets, as well as the implementation of liquidity policy and the monitoring and management of exposure to interest rate risk on the banking book.
In particular, the Committee monitors and directs interventions regarding the Group's short- and medium-term liquidity position and the risk/return profile of the Group's portfolio of financial assets.

In particular, the Committee performs the following tasks:
- monitoring the Group's operational and structural liquidity – by checking exposure to short–term liquidity gaps, the exposure on the interbank market, cash flow and the pricing of intragroup liquidity, by controlling operational and structural limits and early warning indicators and by the assessment of the results of stress tests laid down in the liquidity policy – and the definition of guidelines for managing liquidity;
- monitoring earnings performance and compliance with the operating limits attributed to the individual business units of Group companies;
- approving new banking book investments, within the limits established by the Management Board;
- monitoring the activities of Asset & Liability Management (ALM) and defining corrective policies to balance the exposure of the banking book to interest rate risk for the Group as a whole and for the individual companies.

As regards operational risk, the Parent Company has responsibility for setting up the system of operational risk management and control, this being understood as a structured series of processes, functions and resources for the identification, measurement, valuation and control of operational risk.
The Parent Company's Risk Management Department supervises activities in the field of Operational Risk and coordinates the Operational Risk Managers of the various Group banks.
Through the Risk Management function, the Parent Company ensures the measurement, monitoring and management of the Group's capital resources to comply with the regulatory obligations of the First and Second Pillar of Basel 2.
In particular, centralised control over the Group's capital adequacy, which involves comparing the amount of available capital with the capital requirements deriving from the risks to which the Group is exposed, on an actual and prospective basis, in conditions of normality and of stress, is carried out through the Internal Capital Adequacy Assessment Process, as required by the “New Minimum Capital Requirements for Banks” (Circular 263/2006 and subsequent updates).
The Parent Company also performs continuous measurement, monitoring and management of the consolidated capital ratios, defining their target levels in the medium term in line with the evolution of regulatory requirements and with the credit rating assigned to it by the agencies.

As regards the Second Pillar, in April 2013, the BPM Group sent its ICAAP report to the Bank of Italy on the actual position at 31 December 2012 and on the prospective position at 31 December 2013.
Lastly, as regards the requirements of the Third Pillar, Banca Popolare di Milano published its report disclosing details of risk monitoring and management on its website by the same deadline as that for the publication of the 2012 financial statements. A Third Pillar report will be published at least once a year.

1.1. Credit risk

Qualitative information

Credit risk management policies

Organisational aspects

The policies for managing and controlling the quality of the loan book and the associated risks are based on rules of sound and prudent management.
They are implemented through the processes of disbursing, managing and monitoring credit for which specific activities are required and special instruments made available for controlling the risk that varies according to the circumstances of the market and business sector and type of individual borrower.
At each company in the Group, the lending activity is supervised by a specific function dedicated to credit disbursement and control by means of well identified and suitably empowered structures. All of the structures involved are called upon to grant and manage credit, as well as to control credit risk, making use of appropriate procedures, of which the internal rating system is an integral part, to set up the dossier, determine credit-worthiness and, more generally, to follow the relationship over time.
The credit "chain" for commercial banks allows decisions on proposals to be taken locally by the commercial network, where the risk is low (in terms of rating) and the amounts involved fall within the responsibilities assigned by the current consolidated text of the Bank's credit line regulations. If the risk is classed as "medium" or "high" – and, in any case, as may be required by parameters laid down by the aforementioned consolidated text – the "Credit and Loans Function", which is a structure dedicated to the detailed analysis of a counterparty's credit–worthiness, takes over. This function is manned by specialist staff, who perform detailed reviews to assess in a consistent manner the risk involved and, then, either they take a decision on the application or they prepare a report to be submitted for approval at a higher level, in accordance with the responsibilities set out in the consolidated text of the Bank's credit line regulations.
Ratings can only be changed by "raters" specifically appointed for this purpose, who do not have any power of approval for loans. Any change that upgrades or downgrades the rating developed by the model is limited to within a certain range, it has to be motivated and usually has to be attributable to particular circumstances that have not be adequately reflected by the statistical models or in the presence of events involving particularly high risk.

Management, measurement and control systems

For the assessment of the credit standing of performing counterparties, the BPM Group uses an internal rating system (IRS) which has been developed over the last ten years. From a quantitative point of view, the Group has implemented statistical models for calculating the ratings to be given to counterparties split into four customer macrosegments based on turnover and/or size of credit line: Individuals, Small Businesses, SMEs (small and medium-sized enterprises) and Companies.

The internal rating system is used in the following processes:
- the assessment of credit-worthiness carried out when granting and renewing a line of credit;
- the measurement and control of existing risk;
- the definition of lending policies;
- reporting to management;
- collective writedown of loans in the balance sheet;
- risk-adjusted pricing;
- analytical management reporting;
- control over capital adequacy (ICAAP);
- measurement of value.

All of the credit processes use the counterparty rating as a decision-making "driver" and are considered in function of the specific nature of the various customer segments in order to optimise use of the resources involved in managing and monitoring credit, as well as to achieve a reasonable balance between commercial aggressiveness and effective credit management.

During the credit granting stage, whether as a first-time credit facility or for the renewal/review of a revocable line of credit, the rating is one of the key elements in defining which body has decision-making power: with the completion of the proposal according to the outcome of the customer assessment and the amount/category of risk of the loan being proposed, the system automatically assigns the decision-making level required for approval. It also has an influence on how the automatic renewal mechanism is applied to revocable positions.

Usually, subject to changes in the lending rules, the assignment to a particular decision-making body takes place as follows:

- with a rating in the "low risk" area, the decision can be taken at a local level, providing the amounts are below the assigned limits; otherwise, the decision is passed on to a higher level, in accordance with the current consolidated text on responsibilities concerning credit line regulations;
- with a rating classified as "medium or high risk", even for amounts that fall within approved local limits, the decision is taken by the Credit and Loans Function/Credit and Loans Committee for amounts that fall within their approved limits and at the conditions laid down in the consolidated text on responsibilities concerning credit line regulations;
- in the case of an override request, after the assignment of a definitive rating by the responsible function, which has no decision-making powers, the system updates the results of the applicant's assessment and then determines which function should be responsible for the approval thereof.

The credit granting process: Corporate, SME and Small Business segments

In the process of granting of credit to counterparties within the "Businesses" segments (Corporates, SMEs and Small Businesses) as defined on the basis of size thresholds in the annual process of segmentation, a central role was given to the use of ratings, with the aim of providing users with all relevant information on the relationship:

- details of all of the elements that led to the definitive rating;
- the visibility of the historical rating for the last 12 months;
- details of the reasons for exclusion from the rating calculation (financial statements too remote in time, qualitative questionnaire expired, etc.).

In addition to applying common rules over the granting of credit (e.g. external negative deeds control, internal risk situations, etc.), the rating also constitutes an essential element in assessing a customer, so it is not allowed to go ahead with a preliminary investigation if any of the elements needed to calculate the rating is missing, both for the applicant and for any guarantors.
Moreover, during the course of the preliminary investigation, it is possible for the relationship manager to ask for a change in or "override" of the applicant's rating or that of any guarantors, providing the request is substantiated and supported by adequate documentation.
Such requests are evaluated by specialist raters in the Credit and Loans Function, who do not have decision-making power in the lending process; the evaluation and assignment of the definitive rating is entirely up to the raters, who can refuse or accept the change.
The decision to provide an override function exclusively for these segments depends on the desire to take into account information contributed by sector experts to integrate the automatic rating with non-standard data of a qualitative nature.

For Small Business customers alone, there is automatic renewal of consecutive lines of credit in order to lessen the burden of administrative duties on the sales network.
For consecutive lines of credit of a customer in the Small Business segment to be automatically renewed, however, all the following requirements have to be satisfied simultaneously:

- the Small Business customer has to be included in the Retail Branch portfolio;
- the customer has to have had a low risk rating for at least 6 consecutive months;
- lines of credit have expired or are due to expire in the following month and they fall within the responsibilities of the head of the operating unit which has the relationship (Branch/Hub Manager for the micro-market in question) in accordance with current responsibilities assigned by the consolidated text on credit line regulations.

In any case, Small Business positions already under automatic renewal in the previous period are excluded from automatic renewal.

The credit granting process: Individuals segment

As regards the Individuals Segment, the process of granting credit differs during the investigatory phases depending on the product that the customer has requested (overdraft, mortgage or personal loan).
The dossier includes not only the acceptance rating, but also an internal behavioural analysis, if one has been carried out, ("performance rating"), as well as the application of common rules over the granting of credit (e.g. external negative deeds control, internal risk situations, limits on the ratio between repayments and income, the presence of residual debt on the building, limits on the "loan to value", the maximum age of the applicant, etc.).
The process of renewal/review of the credit line granted to individuals provides for the use of the performance rating system as a support in determining:

- automatic renewal (without any change in existing credit lines);
- risk analysis during the preliminary investigation.

Credit monitoring process

Control over the credit risk in individual performing exposures is guaranteed by a monitoring process that systematically examines internal and external events and information to identify any signs of a deterioration in the relationship, proposing suitable changes to the rating.

Performance control is therefore reflected in the rating level, providing a single approach to measuring credit risk.

The entire process is characterised by:

- a high level of operating automation;
- centralised management of control policies;
- the transparency and traceability of the decisions taken by the operators assigned to control functions;
- the interaction between these control functions and the commercial network on internal rating matters, making sure that integrity is maintained.

As part of this process, it is also possible to change a rating (known as an "override"), a faculty that is assigned to a specific function without decision-making powers, which is involved in monitoring the loan portfolio. Rating changes can take place on the initiative of this structure when risk situations clearly arise without having been flagged by the performance control systems, or to update a rating when information has not been processed in the right way by the automatic rating systems. Rating changes can also be requested by the managers of the relationship as part of the processes of confirmation or revision of credit lines, which are then assessed by the monitoring structure. It can only intervene for companies and has to stay within a specific variation range.

Closely related to credit risk is concentration risk, which results from particularly high exposures to counterparties or groups of connected counterparties, or that belong to the same economic sector, engaged in the same activity, or that reside or do business in the same geographical area.
The Group uses therefore a system of limits on loan exposures for specific purposes, essentially to avoid excessive concentration of risk with a single customer or group of related customers in relation to the free capital. This limit system is defined and updated periodically.

Credit risk mitigation techniques

The BPM Group requests guarantees against credit risk on a selective basis according to the customer's credit rating. In this case, granting the loan depends on obtaining the guarantee. Guarantees are either secured, particularly by mortgages and securities, or unsecured.

In the case of mortgages, the value of the registration is equal to:
- one and a half times the amount of funding granted for any length of time to individuals (twice in case of taking on a mortgage on the subdivision of a building loan);
- twice the amount of funding granted for any length of time to companies.

In order to ensure effective acquisition and management of guarantees, the Group has defined the general requisites to be submitted to control with regard to property guarantees, financial pledges (cash and cash equivalents) and personal guarantees.

For property mortgages, there is a specific monitoring process characterised by:
- setting up a master file of property granted as collateral for mortgage loans;
- the continuous update of databases, by means of internal control processes or by the automatic acquisition of information from specialised suppliers (e.g. the value indicated by an expert appraisal);
- the automatic revaluation of the value of the property based on price trends shown periodically by the real estate market observatory (Land Registry Office).

In the case of a guarantee in the form of securities, market prices are assessed periodically.
For other types of collateral, the valuation process follows the procedures and frequency applicable to the specific form of guarantee received.
Unsecured guarantees are obtained after evaluating the size of the guarantor's assets and personal credit rating.

In May 2011, the Parent Company set up an interdepartmental taskforce to handle the massive task of verifying the mortgage guarantees linked to a substantial proportion of the mortgage loans granted to Individuals. In April 2012, the recovery and definition activities have also been extended to guarantees underlying the taking on of building loans, commercial loans, securitised mortgage loans and residual loans to individuals; in January 2013, work started on the recovery of Banca di Legnano's mortgage loans, which, subsequent to the merger with BPM that is planned to take place on 14 September 2013, will become part of the Parent Company's mortgage portfolio. In light of the extended scope of the mortgage clean up, it is expected to be completed by the end of 2013.
This involves the collection, completion and electronic filing of all documentation concerning the guarantees backing mortgage loans with subsequent alignment of the information contained in the database if it is found to be inconsistent with the paperwork.

In January 2012, the Parent Company set up a specific structure within the Credit and Loans Function with the task of monitoring the guarantees collected for credit protection.
Another new structure, called the Mortgage Centre, was set up under the Back Office in June 2012, to centralise the processing of mortgage loans granted to individuals, including all of the activities related to the collection of guarantees.

Impaired financial assets

Specialist units within the Credit and Loans Function have the task of managing credit positions, comprising overdue and non-performing loans and of following the recovery process.
Once an "impairment" status has been ascertained, these units take steps, together with the commercial network, to restore the position to a performing one. If this is not possible, a disengagement plan is agreed; if this fails, the positions in default are referred to a specific department for the purposes of initiating specific procedures to protect the Group's credit.
It is hereby disclosed that the Group has not been party to any purchases of impaired loans from third parties.

Quantitative information

A. Asset quality

A.1 Impaired and performing positions: balance, impairment adjustments, change, distribution by business segment and geographical location

Tables A.1.1. and A.1.2 comprise both the figures related to companies belonging to the banking group and to other consolidated companies. At 30 June 2013, the only consolidated company that does not form part of the Banking Group is Bpm Securitisation 2 Srl.

These tables only include the figures related to companies belonging to the Banking Group. These include, conventionally, a proportion of the assets and liabilities of the Group's banking, financial and instrumental joint ventures. At 30 June 2013, the joint ventures are Calliope Finance Srl and GSN North America Inc.

A.1.1 Distribution of credit exposures by originating portfolio and credit quality (book value)

Portfolio/quality	Banking group					Other companies		Total
	Non-performing loans	Doubtful loans	Restructured positions	Overdue positions	Other assets	Impaired	Other	
1. Financial assets held for trading	1	1,439	2,860	147	1,616,620	–	–	**1,621,067**
2. Financial assets available for sale	–	–	1,425	–	8,913,432	–	–	**8,914,857**
3. Investments held to maturity	–	–	–	–	–	–	–	**–**
4. Due from banks	427	–	–	–	1,961,261	–	145,198	**2,106,886**
5. Loans to customers	1,019,032	1,383,026	673,672	119,089	30,843,342	–	–	**34,038,161**
6. Financial assets designated at fair value through profit and loss	–	–	14,553	–	178,631	–	–	**193,184**
7. Financial assets due for disposal	–	–	–	–	–	–	–	**–**
8. Hedging derivatives	–	–	–	–	217,206	–	–	**217,206**
Total 30.06.2013	**1,019,460**	**1,384,465**	**692,510**	**119,236**	**43,730,492**	**–**	**145,198**	**47,091,361**
Total 31.12.2012	**854,713**	**1,239,373**	**574,300**	**112,487**	**45,473,279**	**–**	**359,597**	**48,613,749**

With regard to "financial assets held for trading", the "non-performing loans" of Euro 1 thousand relate to bonds issued by Landsbanki.

A.1.2 Distribution of credit exposures by originating portfolio and credit quality (gross and net amounts)

Portfolio/quality	Impaired assets			Performing			Total net exposure
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	Specific adjustments	Net exposure	
A. Banking group							
1. Financial assets held for trading	5,292	845	4,447	X	X	1,616,620	**1,621,067**
2. Financial assets available for sale	6,817	5,392	1,425	8,913,432	–	8,913,432	**8,914,857**
3. Investments held to maturity	–	–	–	–	–	–	**–**
4. Due from banks	9,698	9,271	427	1,962,413	1,152	1,961,261	**1,961,688**
5. Loans to customers	4,790,829	1,596,010	3,194,819	31,026,947	183,605	30,843,342	**34,038,161**
6. Financial assets designated at fair value through profit and loss	16,531	1,978	14,553	X	X	178,631	**193,184**
7. Financial assets due for disposal	–	–	–	–	–	–	**–**
8. Hedging derivatives	–	–	–	X	X	217,206	**217,206**
Total A	**4,829,167**	**1,613,496**	**3,215,671**	**X**	**184,757**	**43,730,492**	**46,946,163**
B. Other companies included in the scope of consolidation	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Financial assets held for trading	–	–	–	X	X	–	**–**
2. Financial assets available for sale	–	–	–	–	–	–	**–**
3. Investments held to maturity	–	–	–	–	–	–	**–**
4. Due from banks	–	–	–	145,198	–	145,198	**145,198**
5. Loans to customers	–	–	–	–	–	–	**–**
6. Financial assets designated at fair value through profit and loss	–	–	–	X	X	–	**–**
7. Financial assets due for disposal	–	–	–	–	–	–	**–**
8. Hedging derivatives	–	–	–	X	X	–	**–**
Total B	**–**	**–**	**–**	**X**	**–**	**145,198**	**145,198**
Total 30.06.2013	**4,829,167**	**1,613,496**	**3,215,671**	**X**	**184,757**	**43,875,690**	**47,091,361**
Total 31.12.2012	**4,243,039**	**1,462,166**	**2,780,873**	**X**	**209,284**	**45,832,876**	**48,613,749**

The following table shows the aggregate of "Loans to customers" (item 5 of the previous table, in the "net performing exposures" column), the values of loans subject to renegotiation in collective agreements and other exposures, as requested by the Bank of Italy in its communication of 16 February 2011 (total amount of 756.973 million). Overdue positions for both groups are broken down by maturity.

	Up to 1 month (*)	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	Over 1 year	Total
Loans being renegotiated	7,294	35,852	30,460	1,690	279	**75,575**
Other performing loans	190,711	1,826,177	141,201	34,025	7,744	**2,199,858**

(*) The balance of "Other exposures up to 1 month" does not include loans with one instalment overdue by 1 day for 1,918 million euro (1,575 million euro at 31.12.2012)

A.1.3 Banking Group – Cash loans and off-balance sheet exposures to banks: gross and net amounts

Types of exposure/amounts	Gross exposure	Specific adjustments	General adjustments	Net exposure
A. CASH EXPOSURES	**–**	**–**	**–**	**–**
a) Non-performing loans	9,699	9,271	X	428
b) Doubtful loans	–	–	X	–
c) Restructured positions	–	–	X	–
d) Overdue positions	–	–	X	–
e) Other assets	2,624,301	X	1,152	2,623,149
Total A	**2,634,000**	**9,271**	**1,152**	**2,623,577**
B. OFF-BALANCE SHEET EXPOSURES	**–**	**–**	**–**	**–**
a) Impaired	3	3	X	–
b) Other	1,417,560	X	59	1,417,501
Total B	**1,417,563**	**3**	**59**	**1,417,501**
Total (A+B)	**4,051,563**	**9,274**	**1,211**	**4,041,078**

A.1.4 Banking Group – Cash loans to banks: changes in gross impaired exposures

Description/Categories	Non-performing loans	Doubtful loans	Restructured positions	Overdue positions
A. Gross exposure at the beginning of period	**9,629**	**–**	**–**	**–**
– including exposures sold but not eliminated	–	–	–	–
B. Increases	**70**	**–**	**–**	**–**
B.1 transfers from performing positions	–	–	–	–
B.2 transfers from other categories of impaired exposures	–	–	–	–
B.3 other increases	70	–	–	–
C. Decreases	**–**	**–**	**–**	**–**
C.1 transfers to performing positions	–	–	–	–
C.2 write–offs	–	–	–	–
C.3 collections	–	–	–	–
C.4 recovery through disposals	–	–	–	–
C.5 transfers to other categories of impaired exposures	–	–	–	–
C.6 other decreases	–	–	–	–
D. Closing gross exposure at the end of the period	**9,699**	**–**	**–**	**–**
– including exposures sold but not eliminated	–	–	–	–

A.1.5 Banking Group – Cash loans to banks: changes in total adjustments

Description/Categories	Non-performing loans	Doubtful loans	Restructured positions	Overdue positions
A. Total writedowns at the beginning of the period	**9,204**	**–**	**–**	**–**
– including exposures sold but not eliminated	–	–	–	–
B. Increases	**67**	**–**	**–**	**–**
B.1 adjustments	–	–	–	–
B.1.bis losses on disposal	–	–	–	–
B.2 transfers from other categories of impaired exposures	–	–	–	–
B.3 other increases	67	–	–	–
C. Decreases	**–**	**–**	**–**	**–**
C.1 writebacks	–	–	–	–
C.2 writebacks on collection	–	–	–	–
C.3 write-offs	–	–	–	–
C.4 transfers to other categories of impaired exposures	–	–	–	–
C.5 other decreases	–	–	–	–
D. Total writedowns at the end of the period	**9,271**	**–**	**–**	**–**
– including exposures sold but not eliminated	–	–	–	–

A.1.6 Banking Group – Cash loans and off-balance sheet exposures to customers: gross and net amounts

Type of exposure/amounts	Gross exposure	Specific adjustments	General adjustments	Net exposure
A. Cash exposures				
a) Non-performing loans	2,216,606	1,197,574	X	1,019,032
b) Doubtful loans	1,715,638	332,771	X	1,382,867
c) Restructured positions	753,793	64,143	X	689,650
d) Overdue positions	129,630	10,541	X	119,089
f) Other assets	39,826,599	X	183,605	39,642,994
TOTAL A	**44,642,266**	**1,605,029**	**183,605**	**42,853,632**
B. Off-balance sheet exposures				
a) Impaired	466,529	31,756	X	434,773
b) Other	7,016,649	X	11,631	7,005,018
TOTAL B	**7,483,178**	**31,756**	**11,631**	**7,439,791**
TOTAL (A+B)	**52,125,444**	**1,636,785**	**195,236**	**50,293,423**

A.1.7 Banking Group – Cash loans to customers: change in gross impaired exposures

Description/Categories	Non-performing loans	Doubtful loans	Restructured positions	Overdue positions
A. Gross exposure at the beginning of period	**1,937,318**	**1,539,785**	**630,285**	**121,074**
– including exposures sold but not eliminated	98,219	47,909	–	7,044
B. Increases	**336,415**	**726,085**	**171,114**	**285,614**
B.1 transfers from performing positions	6,951	567,161	70,260	276,172
B.2 transfers from other categories of impaired exposures	289,844	83,716	61,353	8,247
B.3 other increases	39,620	75,208	39,501	1,195
C. Decreases	**57,127**	**550,232**	**47,606**	**277,058**
C.1 transfers to performing positions	–	112,461	–	195,079
C.2 write–offs	20,871	12,898	–	–
C.3 collections	34,078	72,656	34,515	5,204
C.4 recovery through disposals	450	–	–	–
C.5 transfers to other categories of impaired exposures	1,691	352,091	13,091	76,287
C.6 other decreases	37	126	–	488
D. Closing gross exposure at the end of the period	**2,216,606**	**1,715,638**	**753,793**	**129,630**
– including exposures sold but not eliminated	114,478	40,221	–	12,045

A.1.8 Banking Group - Cash loans to customers: change in total adjustments

Description/Categories	Non-performing loans	Doubtful loans	Restructured positions	Overdue positions
A. Total writedowns at the beginning of the period	**1,083,030**	**303,043**	**58,833**	**8,840**
– including exposures sold but not eliminated	24,472	2,313	–	374
B. Increases	**172,991**	**99,142**	**13,843**	**1,977**
B.1 adjustments	127,107	97,885	12,563	1,977
B.1.bis losses on disposal	–	–	–	–
B.2 transfers from other categories of impaired exposures	43,400	1,257	1,280	–
B.3 other increases	2,484	–	–	–
C. Decreases	**58,447**	**69,414**	**8,533**	**276**
C.1 writebacks	30,806	7,767	2,455	276
C.2 writebacks on collection	6,320	4,069	1,424	–
C.2.bis profits on disposal	450	–	–	–
C.3 write–offs	20,871	12,898	–	–
C.4 transfers to other categories of impaired exposures	–	44,680	1,257	–
C.5 other decreases	–	–	3,397	–
D. Total writedowns at the end of the period	**1,197,574**	**332,771**	**64,143**	**10,541**
– including exposures sold but not eliminated	30,798	1,869	–	729

B. Distribution and concentration of credit exposures

B.4 Significant exposures

	30.06.2013	31.12.2012
a) Nominal amount	10,743,507	11,374,246
b) Weighted amount	677,400	1,228,661
c) Number	4	5

Based on the rules on capital adequacy (Circular 263), the amount of cash risk assets and off-balance sheet transactions of a single customer or related group of customers equal to 10% or more of the consolidated regulatory capital is considered a "significant exposure". To this end, the exposure is considered without applying the related weighting factors.

As a result, the following are reported as significant exposures:

- Exposures to the Italian government with a nominal value of 8.727 billion mainly related to securities in portfolio with a weighted value of zero;
- Exposure to a foreign banking group with a nominal value of 0.79 billion euro, and a weighted value of 182 million euro;
- Exposures to two leading Italian banking groups of a nominal amount of 1.227 billion with an overall weighted value of 495 million.

C. Securitisation transactions and disposal of assets

C.1 Securitisation transactions

Qualitative information

Securitisation transactions of the Parent Company

In 2006 the Parent Company finalised the securitisation operation which involved transferring without recourse, as permitted by Law 130 of 30 April 1999, a portfolio of around 2,011.3 million euro in performing loans to BPM Securitisation 2 S.r.l. These loans refer to property and other secured loans given by the Parent Company itself and backed by first-degree mortgages. For further details, reference should be made to BPM's 2012 financial statements.

As regards the presentation of this operation from an accounting point of view, the notes issued by BPM Securitisation 2 are shown in the consolidated financial statements in item 30 "Securities issued", net of the securities repurchased by the Parent Company.

As at the balance sheet date, the securitisation transaction is presented as follows in the interim report of the BPM Group:

Euro/000

	30.06.2013	31.12.2012
Principal balance sheet aggregates		
Loans to customers	506,560	553,942
Due from banks (cash and cash equivalent of the special purpose vehicle)	38,597	42,152
Securities issued	336,021	374,642
Economic result of the operation	**3,443**	**11,850**

Other securitisation transactions

The Bank holds certain securities in its loan book that are linked to the securitisations of third-party issuers. These investments are of relatively modest amounts and constitute a residual alternative form of loan diversification.

Quantitative information

C.1.1 Exposures arising from securitisation transactions broken down by quality of the underlying assets

Quality of underlying assets/Exposures	Cash exposures					
	Senior		Mezzanine		Junior	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. With own underlying assets:	**115,532**	**115,617**	**50,401**	**50,498**	**11,790**	**11,780**
a) Impaired	–	–	–	–	–	–
b) Other	115,532	115,617	50,401	50,498	11,790	11,780
B. With underlying assets of third parties:	**45,401**	**45,401**	**4,170**	**4,170**	**–**	**–**
a) Impaired	–	–	–	–	–	–
b) Other	45,401	45,401	4,170	4,170	–	–

Quality of underlying assets/Exposures	Guarantees given						Lines of credit					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. With own underlying assets:	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) Impaired	–	–	–	–	–	–	–	–	–	–	–	–
b) Other	–	–	–	–	–	–	–	–	–	–	–	–
B. With underlying assets of third parties:	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) Impaired	–	–	–	–	–	–	–	–	–	–	–	–
b) Other	–	–	–	–	–	–	–	–	–	–	–	–

Gross and net exposures shown in this table – with reference to own securitisations where the assets sold have remained in the balance sheet of the Parent Company – relate to the “retained risk” measured as the difference between the assets sold and the corresponding liabilities at the sale date (July 2006) and at the reference date of the financial statements.
As regards item A. "Own underlying assets", the amounts shown relate to the “BPM Securitisation 2” operation and are represented as follows:

- the senior exposures include the Class A2 notes issued by the special purpose vehicle and repurchased by the Parent Company from 2008 to the balance sheet date;
- mezzanine exposures include Class C notes issued by the special purpose vehicle and purchased by BPM Ireland on the date of completion of the securitisation and which were then sold by the latter to the Parent Company in March 2007;
- junior exposures are represented by the share held by BPM Securitisation 2 and destined to absorb the first losses.

The amount of the retained risk at the start of the transaction (July 2006) was some 73 million euro, that is, the amount of the securitised loans and the subordinated loan granted to the SPV, net of the debt owing to the SPV and purchased by third parties.
Consequently, the gross exposure columns for the Senior and Mezzanine tranches show the historical amount, increased by the impact of further repurchases and decreased by pool factor redemptions. The gross exposure column for the Junior tranche shows the amount of the subordinated loan granted to the SPV, reduced by the impact of periodic repayments.

The net exposure columns show gross amounts adjusted for accrued interest at the balance sheet date.

The exposures to third-party securitisations (line B. "with underlying assets of third parties") are cash related and are represented by securities issued by third-party SPVs, as detailed in table C.1.3.

C.1.2 Exposures deriving from the main "own" securitisations broken down by type of asset securitised and by type of exposures

Type of securitised asset/Exposures	Cash exposures						Guarantees given						Lines of credit					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks
A. Completely eliminated from the financial statements	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
B. Partially eliminated from the financial statements	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
C. Not eliminated from the financial statements	**115,617**	–	**50,498**	–	**11,780**	–	–	–	–	–	–	–	–	–	–	–	–	–
C.1 BPM Securitisation 2 S.r.l.	115,617	–	50,498	–	11,780	–	–	–	–	–	–	–	–	–	–	–	–	–
– Residential mortgage loans																		

The table shows the exposures incurred by the Group in respect of each own securitisation, also indicating the contractual forms applicable to the assets sold. The "Adjustments/writebacks" column shows any adjustments and writebacks for the year, as well as writedowns and revaluations recognised in the income statement or directly to an equity reserve.

C.1.3 Exposures arising from the main securitisation transactions of "third parties" broken down by type of securitised asset and by type of exposures

Type of assets Securitised/Exposures	Cash exposures						Guarantees given						Lines of credit					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks
A.1 C.P.G.	1,098	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
– Mortgage loans																		
A.2 Asset Backed J 13 TV	13,136	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
– Debt securities (ABS)																		
A.3 Pharmafin 3 cl. A	28,700	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
– Receivables																		
A.4 Pharmafin 3 cl. B	2,467	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
– Receivables																		
A.5 Pharmafin 3 cl. C	–	–	4,170	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
– Receivables																		

The amounts in the "book value" column include accrued interest.

C.1.4 Exposures to securitisation broken down by portfolio and by type

Exposures/portfolio	Financial assets held for trading	Financial assets designated at fair value through profit and loss	Financial assets available for sale	Investments held to maturity	Receivables	30.06.2013	31.12.2012
1. Cash exposures	**–**	**–**	**–**	**–**	**49,571**	**49,571**	**54,381**
– Senior	–	–	–	–	45,401	45,401	50,225
– Mezzanine	–	–	–	–	4,170	4,170	4,156
– Junior	–	–	–	–	–	–	–
2. Off–balance sheet exposures	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– Senior	–	–	–	–	–	–	–
– Mezzanine	–	–	–	–	–	–	–
– Junior	–	–	–	–	–	–	–

The table shows the exposures taken on by the Group in respect of each third-party securitisation and the portfolios in the financial statements to which these assets have been allocated.

C.1.5 Total amount of securitised assets underlying junior securities or other forms of credit support

Assets/Amounts	Traditional securitisations	Synthetic securitisations
A. Own underlying assets:	**506,560**	**–**
A.1 Completely eliminated	–	X
1. Non-performing loans	–	X
2. Doubtful loans	–	X
3. Restructured positions	–	X
4. Overdue positions	–	X
5. Other assets	–	X
A.2 Partially eliminated	–	X
1. Non-performing loans	–	X
2. Doubtful loans	–	X
3. Restructured positions	–	X
4. Overdue positions	–	X
5. Other assets	–	X
A.3 Not eliminated	**506,560**	–
1. Non-performing loans	30,229	–
2. Doubtful loans	6,356	–
3. Restructured positions	–	–
4. Overdue positions	1,152	–
5. Other assets	468,823	–
B. Underlying assets of third parties:	**–**	**–**
B.1 Non-performing loans	–	–
B.2 Doubtful loans	–	–
B.3 Restructured positions	–	–
B.4 Overdue positions	–	–
B.5 Other assets	–	–

Line item A.3 "Not eliminated" includes underlying assets recorded in the balance sheet, broken down by quality of credit, relating to the securitisation of performing residential mortgages using BPM Securitisation 2.

C.1.6 Interests in special purpose entities

Name	Registered office	% held
BPM Securitisation 2 S.r.l.	Rome	n.a.

There is no holding in the special purpose vehicle mentioned above. In any case, the company has been consolidated on the basis of "continuing involvement".

C.1.7 Servicing activities – Collections of securitised receivables and reimbursement of securities issued by the special purpose vehicle

Special purpose vehicle	Securitised assets (at the end of period)		Collections of receivables during the year		Percentage of securities reimbursed (at the end of period)					
					Senior		Mezzanine		Junior	
	Impaired	Performing	Impaired	Performing	Impaired assets	Performing assets	Impaired assets	Performing assets	Impaired assets	Performing assets
BPM Securitisation 2 S.r.l.	37,737	468,823	584	51,961		77.03%		0%		0%

C.2 Disposal of assets

Financial assets sold but not eliminated

Qualitative information

"Financial assets sold but not fully eliminated" by the Group relate to the following cases:

- the securitisation of loans carried out through the SPV "Bpm Securitisation 2", as described in detail in paragraph "C.1 Securitisation transactions" in the separate financial statements of the Parent Company;
- typical transactions concerning repurchase agreements and securities lending, with which the Group's Banks obtain funding from the sale of securities owned by them.

Quantitative information

C.2.1 Financial assets sold but not eliminated: book value and full value

Technical forms/ Portfolio	Financial assets held for trading			Financial assets designated at fair value through profit and loss			Financial assets available for sale			Investments held to maturity			Due from banks			Loans to customers			Total	
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	30.06.2013	31.12.2012
A. Cash assets	**17,428**	**–**	**–**	**–**	**–**	**–**	**4,422,063**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**506,560**	**–**	**–**	**4,946,051**	**4,922,155**
1. Debt securities	16,688	–	–	–	–	–	4,422,063	–	–	–	–	–	–	–	–	–	–	–	4,438,731	4,368,078
2. Equities	760	–	–	–	–	–	–	–	–	X	X	X	X	X	X	X	X	X	760	135
3. Mutual funds	–	–	–	–	–	–	–	–	–	X	X	X	X	X	X	X	X	X	–	–
4. Loans	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	506,560	–	–	506,560	553,942
B. Derivatives	**–**	**–**	**–**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**–**	**–**
Total 30.06.2013	**17,428**	**–**	**–**	**–**	**–**	**–**	**4,422,063**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**506,560**	**–**	**–**	**4,946,051**	**X**
of which impaired	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	***37,737***	**–**	**–**	***37,737***	***X***
Total 31.12.2012	**1,271**	**–**	**–**	**–**	**–**	**–**	**4,366,942**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**553,942**	**–**	**–**	**X**	**4,922,155**
of which impaired	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	***38,080***	**–**	**–**	***X***	***38,080***

Key:
A = Financial assets sold and fully recognised (book value);
B = Financial assets sold and partially recognised (book value);
C = Financial assets sold and partially recognised (full value).

The table shows the book value of financial assets sold but not eliminated and fully recognised as assets in the balance sheet.
Line 1. "Debt Securities" in the "Financial assets held for trading" and "Financial assets available for sale" columns only includes securities sold as part of repurchase agreements.
With respect to MTS Repo market transactions, the margin deposited of 263 million to further guarantee collateralization was recorded in the financial statements under "Loans to customers".
Line "2. Equities" under "Financial assets held for trading" includes securities used for securities lending transactions.
The amount shown in line 4. "Loans" refers to the loans involved in the "BPM Securitisation 2" securitisation without derecognition carried out by the Parent Company in 2006.

C.2.2 Financial liabilities for financial assets sold but not eliminated: book value

Liabilities/Asset portfolio	Financial assets held for trading	Financial assets designated at fair value through profit and loss	Financial assets available for sale	Investments held to maturity	Due from banks	Loans to customers	Total
1. Due to customers	**16,536**	**–**	**4,058,777**	**–**	**–**	**–**	**4,075,313**
a) for assets fully recognised	16,536	–	4,058,777	–	–	–	4,075,313
b) for assets partially recognised	–	–	–	–	–	–	–
2. Due to banks	**860**	**–**	**319,640**	**–**	**–**	**–**	**320,500**
a) for assets fully recognised	860	–	319,640	–	–	–	320,500
b) for assets partially recognised	–	–	–	–	–	–	–
3. Securities issued	**–**	**–**	**–**	**–**	**–**	**336,021**	**336,021**
a) for assets fully recognised	–	–	–	–	–	336,021	336,021
b) for assets partially recognised	–	–	–	–	–	–	–
Total 30.06.2013	**17,396**	**–**	**4,378,417**	**–**	**–**	**336,021**	**4,731,834**
Total 31.12.2012	**1,279**	**–**	**4,309,482**	**–**	**–**	**374,642**	**4,685,403**

The table shows the book value of financial liabilities recorded as an opposite entry to financial assets sold and not fully eliminated from the balance sheet. "Securities issued" include the liabilities issued by the special purpose vehicle "BPM Securitisation 2" as part of the securitisation.

C.2.3 Disposal of assets with liabilities that only have recourse to transferred assets: fair value

Technical forms/Portfolio	Financial assets held for trading		Financial assets designated at fair value through profit and loss		Financial assets available for sale		Investments held to maturity (fair value)		Due from banks (fair value)		Loans to customers (fair value)		Total	
	A	B	A	B	A	B	A	B	A	B	A	B	30.06.2013	31.12.2012
A. Cash assets	**17,428**	**–**	**–**	**–**	**4,422,063**	**–**	**–**	**–**	**–**	**–**	**545,912**	**–**	**4,985,403**	**4,955,832**
1. Debt securities	16,668	–	–	–	4,422,063	–	–	–	–	–	–	–	4,438,731	4,368,078
2. Equities	760	–	–	–	–	–	X	X	X	X	X	X	760	135
3. Mutual funds	–	–	–	–	–	–	X	X	X	X	X	X	–	–
4. Loans	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**545,912**	**–**	**545,912**	**710,097**
B. Derivatives	**–**	**–**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**–**	**–**
Total assets	***17,428***	***–***	***–***	***–***	***4,422,063***	***–***	***–***	***–***	***–***	***–***	***545,912***	***–***	***4,985,403***	***4,955,832***
C. Associated liabilities	**17,396**	**–**	**–**	**–**	**4,378,417**	**–**	**–**	**–**	**–**	**–**	**336,021**	**–**	**X**	**X**
1. Due to customers	***16,536***	***–***	***–***	***–***	***4,058,777***	***–***	***–***	***–***	***–***	***–***	***–***	***–***	***X***	***X***
2. Due to banks	**860**	**–**	**–**	**–**	**319,640**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**X**	**X**
3. Securities issued	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**336,021**	**–**	**X**	**X**
Total liabilities	**17,396**	**–**	**–**	**–**	**4,378,417**	**–**	**–**	**–**	**–**	**–**	**336,021**	**–**	**4,731,834**	**4,685,403**
Net book value 30.06.2013	**32**	**–**	**–**	**–**	**43,646**	**–**	**–**	**–**	**–**	**–**	**209,891**	**–**	**253,569**	**X**
Net book value 31.12.2012	**–8**	**–**	**–**	**–**	**57,460**	**–**	**–**	**–**	**–**	**–**	**212,977**	**–**	**X**	**270,429**

Key:
A = Financial assets sold and fully recognised
B = Financial assets sold and partially recognised

The table shows the fair value of financial assets sold but not eliminated, fully recognised as assets in the balance sheet, as well as the related liabilities.
With regard to assets, line "1. Debt securities" includes the fair value of securities sold under repurchase agreements, line "2. Equities" shows the fair value of securities loaned as part of securities lending transactions, while the associated liabilities relate respectively to the fair value of the repurchase agreements and securities lending entered into with the aforementioned owned securities.
The amount shown in line 4. "Loans" refers to the fair value of loans involved in the "BPM Securitisation 2 srl" securitisation without derecognition carried out by the Parent Company in 2006; the associated liabilities show the fair value of the notes issued by the SPV.

B. Financial assets sold and fully eliminated with recognition of continuing involvement

Qualitative information

The Group does not have any financial assets sold and fully eliminated for which it needs to recognise continuing involvement.

Quantitative information

The Group does not have any financial assets sold and fully eliminated for which it needs to recognise continuing involvement.

C.3 Banking group – covered bond transactions

Guaranteed Bank Bonds ("covered bond") issue programme

On 13 November 2007 the Board of Directors of the Parent Company BPM authorised a 10-year Programme, with annual issues of Guaranteed Bank Bonds ("covered bonds") for a maximum of 2 billion euro per year and a maximum total amount of 10 billion euro, based on the sale of mortgage loans originated by BPM to a special purpose vehicle. The programme was extended during 2010 to mortgage loans originated by the subsidiary Banca di Legnano and, from the first half of 2013, to those originated by WeBank.

At the date of this consolidated interim report, the Group approved the issue of four series of covered bonds, for a total of 4.1 billion euro, following the assignment without recourse to the special purpose vehicle "BPM Covered Bond S.r.l." of five portfolios for a total of 5.2 billion of Performing loans (known as the "Cover Pool").
In 2011, under the programme, the "Banca Popolare di Milano Scarl 15.7.2008/2011 5.5%" loan was repaid for a nominal amount of 1 billion euro. At the date of this consolidated interim report, there are three series of covered bonds outstanding, for a total of 3.1 billion euro, of which the latest issue for 1 billion euro (BPM 18.7.2011/18.1.2014 FR%) has all been repurchased by the Parent Company and the related securities have been used for refinancing operations with the European Central Bank.
For further details on the evolution of the Covered Bond programme, please refer to the corresponding section of the Notes to the 2012 Financial Statements of the Parent Company.

As regards the accounting treatment of this operation in the consolidated financial statements:
- mortgage loans sold to the special purpose vehicle remain in the sub-item "Mortgage loans" as they have been sold to a company included in the scope of consolidation;
- the covered bonds are reported under securities issued and their book value includes the valuation effects of the hedge accounting (fair value hedge);
- the Covered Bond Swap contracts between the Special Purpose Vehicle (SPV) and the market counterparties outside the Group are shown in item 80 "Hedging derivatives" under assets and item 60 "Hedging derivatives" under liabilities.

The consolidated income statement consists of the following elements:
- line item "Interest income" reports interest on mortgage loans sold (Cover Pool);
- "Interest expense" shows the interest on the Covered Bonds issued at a fixed rate;
- "interest" includes differentials on the hedging derivative (which transforms the interest rate of the covered bonds from fixed to floating);
- line 90 "net income from hedging" shows the fair value change of the hedging contract and of the item being hedged.

At the balance sheet date, the securitisation is represented in the interim report of the BPM Group as follows:

(Euro/000)

Line items	30.06.2013	31.12.2012
Principal balance sheet aggregates		
Loans to customers: Cover Pool	3,619,102	3,466,334
Due from banks: liquidity of the SPV	430,139	680,793
Hedging derivatives receivable: Covered Bond Swap between BPM Covered Bond and market counterparties	130,545	132,018
Securities issued: Covered Bonds issued	1,895,836	1,895,026
Economic result of the operation	**39,421**	**97,307**

Quantitative information

Total amount of securitised assets underlying junior securities or other forms of credit support

Assets/Amounts	Traditional securitisations	Synthetic securitisations
A. Own underlying assets:	**3,619,102**	**–**
A.1 Completely eliminated	–	X
1. Non-performing loans	–	X
2. Doubtful loans	–	X
3. Restructured positions	–	X
4. Overdue positions	–	X
5. Other assets	–	X
A.2 Partially eliminated	–	X
1. Non-performing loans	–	X
2. Doubtful loans	–	X
3. Restructured positions	–	X
4. Overdue positions	–	X
5. Other assets	–	X
A.3 Not eliminated	**3,619,102**	–
1. Non-performing loans	49,599	–
2. Doubtful loans	24,906	–
3. Restructured positions	–	–
4. Overdue positions	6,414	–
5. Other assets	3,538,183	–
B. Underlying assets of third parties:	**–**	**–**
B.1 Non-performing loans	–	–
B.2 Doubtful loans	–	–
B.3 Restructured positions	–	–
B.4 Overdue positions	–	–
B.5 Other assets	–	–

Interests in special purpose vehicle

Name	Registered office	% held
BPM Covered Bond S.r.l.	Rome	80%

Servicing activities – Collections of securitised receivables and reimbursement of securities issued by the special purpose vehicle

Special purpose vehicle	Securitised assets (at the end of period)		Collections of receivables during the year		Percentage of securities reimbursed (at the end of period)	
					Senior	
	Impaired	Performing	Impaired	Performing	Impaired assets	Performing assets
BPM Covered Bond S.r.l.	80,919	3,538,183	1,282	197,277		0%

D. Banking Group – Credit risk measurement models

Running the internal rating models is the responsibility of the Parent Company's Risk Management Department, which performs the following activities:

- developing and maintaining the internal rating models and estimating the probability of default (PD) and the loss given default (LGD);
- analysing the performance of rating and LGD models, which also involve analyses of backtesting and benchmarking on the individual rating elements by the Convalidation function that is separate from the models' development function;
- producing reports for the Group's Governing Bodies.

The estimate of the risk parameters was updated in the first half of 2013:

- for the Probability of Default (PD), the historical depth of the data was increased to include a period of ten years (2003-2012) for all four customer segments (Individual customers, Small Businesses, SMEs and Enterprises);
- for the Loss Given Default (LGD), the historical period of cure-rate estimates was updated, bringing it into line with the period used for estimating PD.

Rating models and estimating the probability of default (PD)

The internal rating models refer to four ordinary customer segments, classified according to the following parameters:

- **Individuals:** consumer households;
- **Small Business:** this portfolio includes all companies, partnerships, one-man firms, micro-businesses and individuals with a VAT number with a structure (turnover or total assets) of less than 5 million euro, or, in the absence of financial statement figures, those with an overall exposure (granted facilities) of less than 5 million euro;
- **SMEs:** these include counterparties with a structure (turnover or total assets) of between 5 and 50 million euro, or, in the absence of financial statement figures, those with an overall exposure (granted facilities) of between 5 million and 50 million euro;
- **Companies:** this category includes large corporate firms with a structure (turnover or total assets) of more than 50 million euro (or, if outside this range, with an overall exposure (granted facilities) of more than 50 million euro).

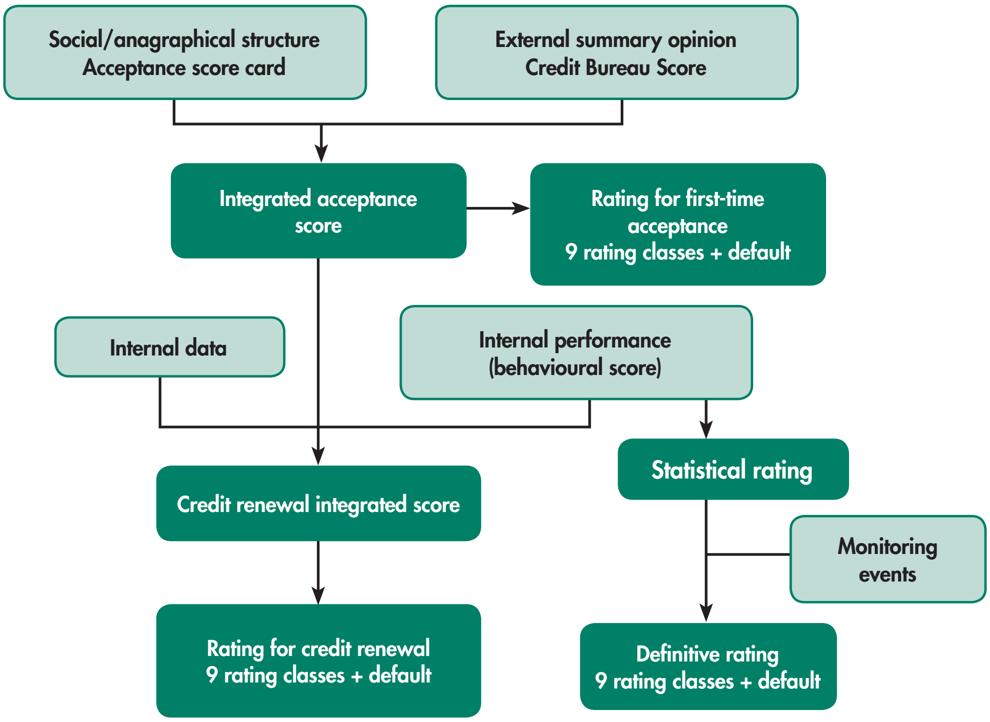
All of the models have been developed internally on representative samples of the BPM Group's customer portfolio. The models' performances are assessed quarterly on an independent basis by the Validation function by applying a series of defined statistical tests. The rating is assigned to the counterparty, quite apart from the type of credit that has been requested (so-called "counterparty rating"). The Internal Rating System (IRS) is extended to all commercial banks in the BPM Group.

The rating model for the **Individuals** segment is a system in which the following elements converge at the time that credit is granted for the first time (the counterparty acceptance phase):

- background information about the counterparty and the product;
- a summary opinion about the counterparty's credit-worthiness from an external information bureau.

During the monitoring and renewal phase for a facility or in the event of new credit being granted, further information of a quantitative and analytical nature is added (behavioural information).
Monitoring the statistical rating involves monitoring events, split into negative acts, CR risk indicators relating to the borrower (kept on the Central Risk File) and early warning signals; when they take place, the system automatically proposes a downgrade of the rating, based on a series of rules that assess the extent of the anomaly in relation to the value of the counterparty's rating. The monitoring system's proposed downgrading is subject to approval by a dedicated structure, which has no decision-making powers.
The rating is expressed on a scale of nine classes numbered from 1 (best) to 9 (worst). Each rating class is then associated with a probability of default (PD) at 1 year based on the Group's past experience.

The following is a graphical summary of the model's structure:



As regards the **Small Business** segment, the internal rating system consists of the following modules:

- **the financial module**, based on information acquired from financial statements and tax returns, broken down by companies, other entities with full accounting records and those with simplified accounting records;
- **the internal performance module**, designed to observe the credit behaviour of the counterparty versus the Group by means of aggregate information by risk category;
- **the external performance module**, designed to observe the behaviour of the counterparty versus the banking system, developed on the basis of information deriving from the census of exposures kept at the Centrale Rischi (Central Risk File – CR).

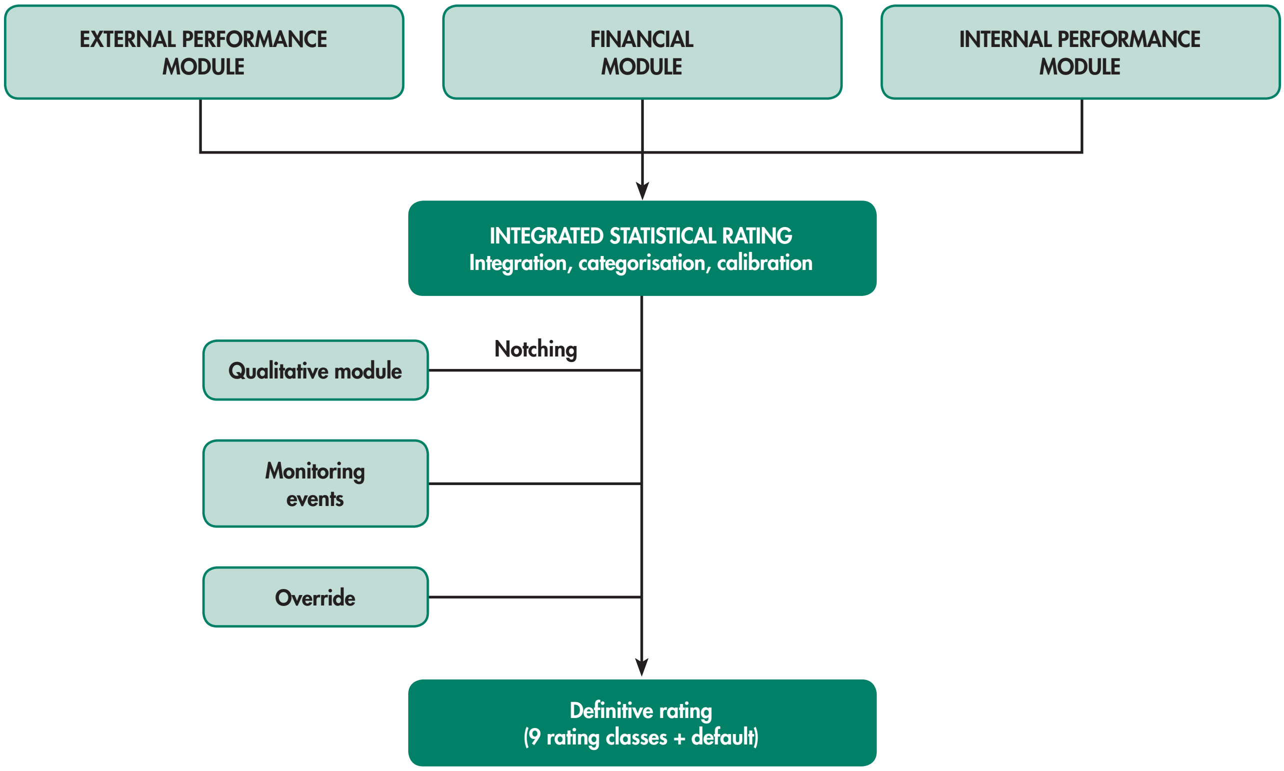
The three modules in question go to make up an integrated statistical score, split into nine rating classes from 1 (best) to 9 (worst).

The following elements get added to the rating:

- **the qualitative module**, based on company information gathered by means of questionnaires submitted to the commercial manager at the time that the Electronic Credit Line Dossier (ECLD) was compiled. These go to form a final rating through a process of notching (adjusted up or down according to the rating class given);
- **monitoring interventions**, split into negative acts, CR risk indicators relating to the borrower and early warning signals; when they take place, the system automatically proposes a downgrade of the rating resulting from the integration of the statistical rating and the qualitative questionnaire, based on a series of rules that assess the extent of the anomaly in relation to the value of the counterparty's rating. The proposal to downgrade by the monitoring system is subject to approval by the dedicated structure;
- **override**, a change in the rating produced by the process described up to this point, based on discretional assessments made by the relationship managers and suitably approved by a structure with no decision-making powers, which is also involved in monitoring of the loan portfolio. An override can also take place on the initiative of this monitoring structure.

The definitive rating, split into nine rating classes from 1 (best) to 9 (worst), to each of which a probability of default (PD) is associated based on the Group's historical data.

The following is a graphical summary of the model's structure:



For an estimate of the probability of default of counterparties in the **SME** segment, the BPM Group uses a model that consists of various elementary modules, which are suitably combined in such a way as to produce a first-time rating or a performance rating, according to the type of information available, both expressed on a scale of 1 (best) to 9 (worst).

The elementary modules making up the model are as follows:

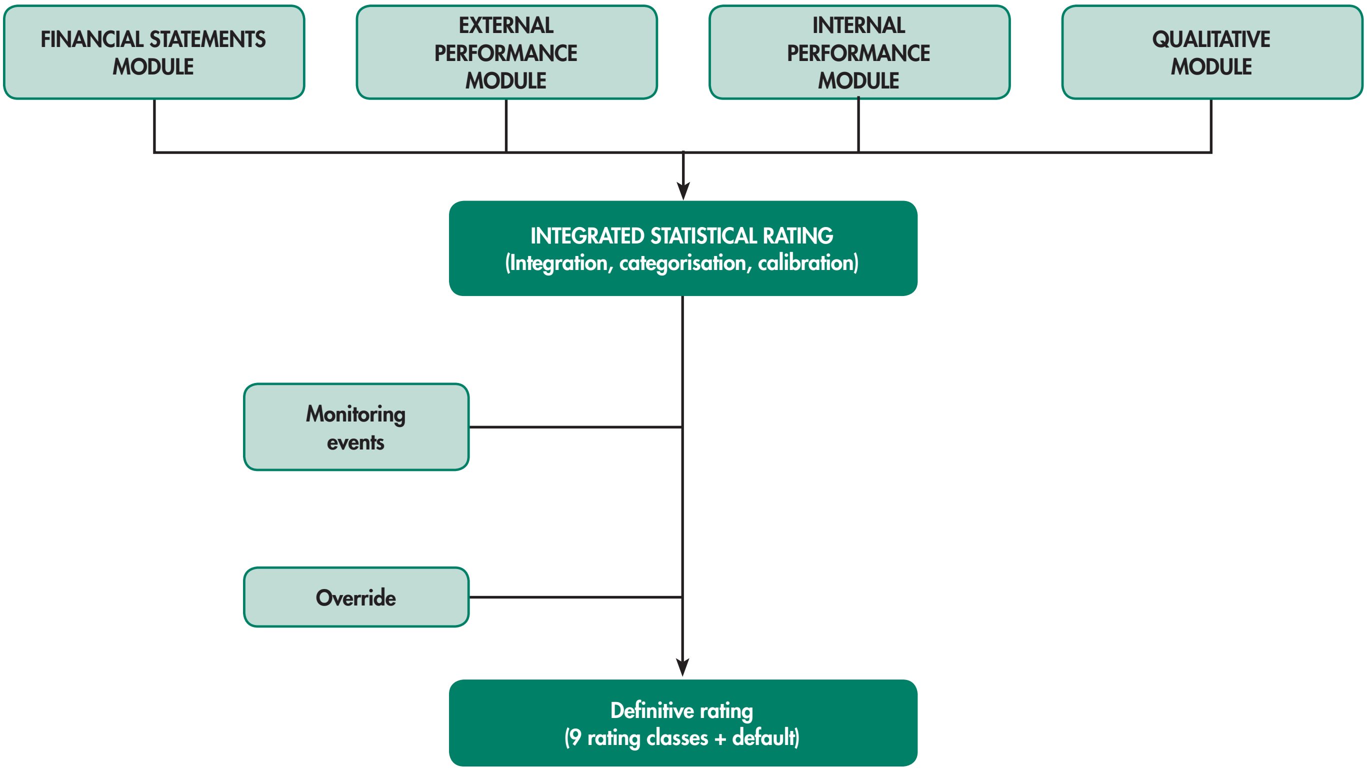
- **the financial statement module,** for an assessment of the figures in the financial statements, developed by an external provider (the Central Financial Statements File);
- **the internal performance module**, designed to observe the credit behaviour of the counterparty versus the Group by means of aggregate information by risk category;
- **the external performance module**, designed to observe the behaviour of the counterparty versus the banking system, developed on the basis of information deriving from the census of exposures kept at the Centrale Rischi (Central Risk File – CR);
- **the qualitative module**, to assess information on the counterparty's corporate structure and the context in which it operates.

The results of these various modules are then combined by statistical techniques to produce an integrated score; this score is then split into the nine rating classes. Various other elements can then be added on to these ratings, such as:

- **monitoring interventions**, split into negative acts, CR risk indicators relating to the borrower and early warning signals; they propose a downgrade of the statistical rating based on a series of rules that assess the extent of the anomaly in relation to the value of the counterparty's rating. The proposal to downgrade by the monitoring system is subject to approval by the dedicated structure;
- **override**, a change in the rating produced by the process described up to this point, based on discretional assessments made by the relationship managers and suitably approved by a structure with no decision-making powers, which is also involved in monitoring of the loan portfolio. An override can also take place on the initiative of this monitoring structure.

The definitive rating, split into nine rating classes from 1 (best) to 9 (worst), to each of which a probability of default (PD) is associated based on the Group's historical data.

The model can be represented graphically as follows:



The elementary modules that make up the internal rating model for the **Companies** segment are as follows:

- **the financial statement module,** developed by an external provider (Centrale dei Bilanci) with statistical methods using system data;
- **the external performance module,** designed to observe the behaviour of the counterparty versus the banking system, developed on the basis of information deriving from the census of exposures kept at the Centrale Rischi (Central Risk File - CR).

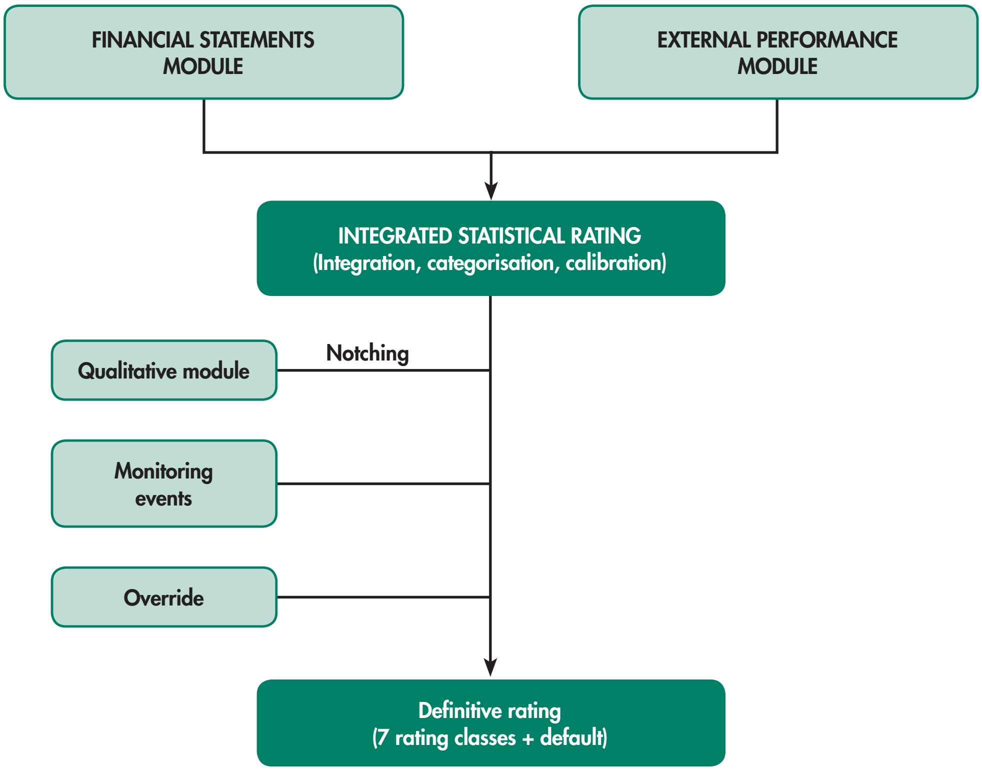
The results of these various modules are then combined by statistical techniques to produce an integrated statistical score; this score is categorised in seven rating classes numbered from 1 (best) to 7 (worst).
The model also puts particular emphasis on the qualitative element based on the opinion of the relationship manager and not included in the statistical engine, all consistent with the size of the segment and the type of business.

Various other elements can then be added on to these ratings, such as:

- **the qualitative module**, a qualitative analysis of the sector strategic risk, the economic and financial risk and the internal performance risk;
- **monitoring interventions**, split into negative acts, CR risk indicators relating to the borrower and early warning signals; they propose a downgrade of the statistical rating based on a series of rules that assess the extent of the anomaly in relation to the value of the counterparty's rating. The proposal to downgrade by the monitoring system is subject to approval by the dedicated structure;
- **override**, a change in the rating produced by the process described up to this point, based on discretional assessments made by the relationship managers and suitably approved by a structure with no decision-making powers, which is also involved in monitoring of the loan portfolio. An override can also take place on the initiative of this monitoring structure.

The definitive rating, split into seven rating classes from 1 (best) to 7 (worst), to each of which a probability of default (PD) is associated based on the Group's historical data.

The model can be represented graphically as follows:



LGD model

For the determination of Loss Given Default (LGD), the BPM Group uses a "work-out" model, founded on the observation of the events of interest (exposure to default, expenses incurred for the recovery, recoveries, guarantees, etc.) of default positions closed in the past. The database on which the model has been formed consists of statistics of all past non-performing positions for which the recovery process was concluded during the historical period for which a consistent and complete database is available.
The main determinants in the quantification of Loss Given Default are: the technical form of the loan, the exposure, the existence and type of guarantees supporting the position and anagraphical-type variables (individual/sole proprietorship, geographical location, etc.).
The Loss Given Default model is constructed in such a way as to be applied to all customers at a single facility level. The personal and dimensional characteristics of the counterparties are considered genuine variables by the model.

The LGD estimate runs through the following steps:

- determination of a **nominal recovery rate**, including direct and indirect costs, recognised in the case of previous non-performing counterparties. The recovery rate on non-performing positions springs from the relationship between recoveries collected by the bank, net of legal and administrative costs that may be incurred to regain possession of the sums involved, and the exposure of the customer at the time that it was considered in dispute. Referring to the economic loss, indirect costs and all movements after the transfer of the position to non-performing are included in the calculation, either as additional charges or as recoveries. The amounts of such flows are discounted using as the reference date the date of transfer of the position to non-performing;
- determination of the duration of recovery;
- estimate of a parameter of recalibration (the so-called "cure-rate") for the calculation of the overall LGD, in order to consider the different states of deterioration included in the default. Three aggregates are used to determine this amount:
  - the probability of transfer from performing to doubtful/past-due;
  - the probability that a counterparty is transferred from doubtful/past-due to non-performing;
  - reduction, or increase, of the exposure at the time of transfer to doubtful/past-due to that of the subsequent transfer to non-performing.

The cure rate is determined by the product of these three factors. In this way, the LGD rate for positions not in non-performing is determined by weighting the LGD on non-performing positions by the cure-rate.

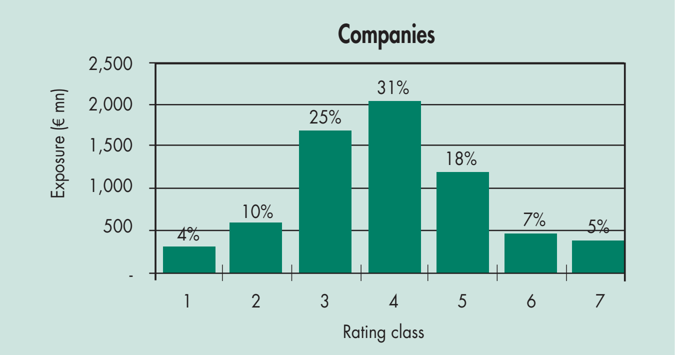
The following is the situation at 30 June 2013 of performing loans (prior to impairment adjustments) split between the four customer segments subject to internal rating models for the Group's four commercial banks (Banca Popolare di Milano, Banca di Legnano, Banca Popolare di Mantova and WeBank).

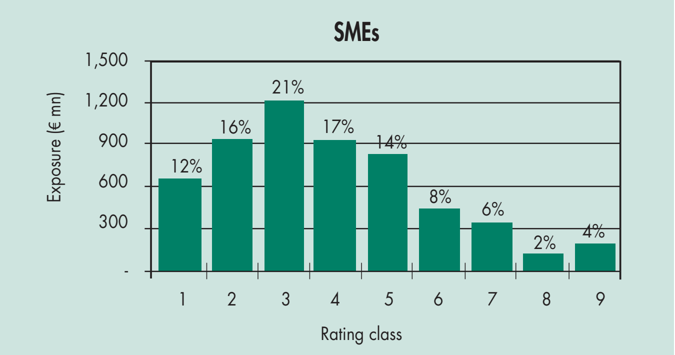
(Amounts in millions of euro)

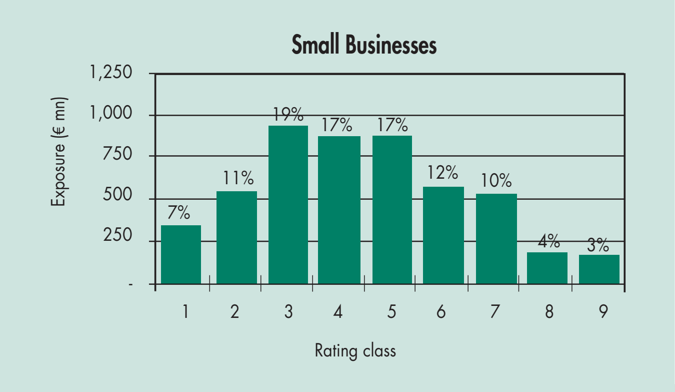
Segment subject to internal rating	**June 2013**	
	Amount (*)	**Weighting %**
Companies	6,815	25.2%
SMEs	5,824	21.6%
Small Businesses	5,040	18.6%
Individuals	9,338	34.6%
Total	**27,017**	**100%**

(*) This amount includes the "unrated" positions (Companies 204, SMEs 123, Small Businesses 73 and Individuals 901)

The following charts show the subdivision within each segment of the Group's four commercial banks of the various grades of credit quality in terms of the amounts disbursed and still outstanding at 30 June 2013. The x axis shows the rating classes by declining credit quality: the first rating classes contain the exposures to borrowers with a higher credit quality, whereas the latter classes show the exposures of a lower quality.







1.2. Banking Group – Market risk

General common aspects of the market risk management processes adopted by the BPM Group

1. Organisational aspects

The role of strategic supervision is attributed for the whole of the BPM Group to the Parent Company's Board of Directors. It establishes the guidelines for risk management and control for each of the companies in the Group, so as to create an integrated management policy, while at the same time taking account of the each bank's specific risk profiles and the extent to which they are interconnected.

In the field of financial risk, BPM's Board of Directors establishes the Group's propensity for risk and the related macro-limits (corporate limits), delegating to the individual Group companies to define their own policies and limits (management limits) in compliance with the general guidelines.

In the BPM Group, financial assets are split between the trading portfolio and the banking book, these two portfolios being broken down as follows:

1. the **trading book** includes financial instruments held with a view to benefiting in the short term from positive changes between buy and sell prices through directional and absolute yield strategies and managing position books as market maker;
2. the **banking book** consists of:
   - positions traded for cash management purposes, by investing in government securities and/or securities of primary banking issuers, in order to have "easily negotiable assets" or those that are considered "eligible assets" for refinancing transactions with the Central Bank;
   - traded securities to be used for guarantee and/or repo transactions with customers;
   - positions that are invested long-term with a view to obtaining stable returns over time with a low level of volatility;
   - derivatives traded on behalf of customers (so-called "balanced trades") without keeping position books open;
   - treasury and forex portfolio and financial instruments traded with a view to covering the interest rate mismatch caused by the commercial banks' funding and lending activities (Asset & Liability Management – ALM).

The new Group Regulation established that Banca Akros, the Group's investment bank, is the only company of the BPM Group authorised to manage the trading book.

The banking book, on the other hand, has been mainly assigned to the Parent Company and to the other commercial banks of the Group.

Different types of operating limits are envisaged in line with the type of portfolio assigned. The following types of limits have been assigned to BPM and the other commercial banks, among others:

- sensitivity of the portfolio (at fair value) to the trend in interest rates and credit spreads: a limit is set on the potential change in value of the portfolio as a result of a movement of +/–100 bps in interest rates and +/–25 bps in credit spreads;
- sensitivity of interest margin: this limit is quantified on the basis of the potential change in interest margin in the subsequent twelve months caused by a parallel shift in the rate curve of +/–100 bps;
- stop loss limits;
- quantitative limits for total portfolio exposures and concentration limits for individual issuers;
- qualitative limits on the composition of the portfolio, with issuer risk limits by type of counterparty, by type of rating and by country risk.

Banca Akros has applied the limits to specific sub-areas and individual risk factors in accordance with overall limits established by the Parent Company.

2. Risk measurement methods

2.1 Commercial banks

The portfolio managed by the commercial banks is subject to monitoring and reporting by the Parent Company's Risk Management Department.
The Parent Company has not developed any models for analysing sensitivity to price risk; monitoring the portfolio subject to price risk does in fact take place when we analyse the performance of individual positions.

2.2 Banca Akros

As regards market risk, over the years the Bank has developed its own quantitative and organisational model (i.e. an internal model). The main indicator used to quantify risk is Value-at-Risk (VaR), calculated according to the Montecarlo method. This method involves estimating the distribution of potential profits and losses by recalculating the value of the portfolio according to the various simulated risk factor scenarios generated according to the dynamics of volatility and correlation implicit in the historical trend of the factors. The estimate of the maximum potential loss is identified on the basis of a suitable percentile of the distribution. The contribution made by historical correlations gives rise to the so-called "diversification effect", according to which the economic effects of changes in individual market variables on the portfolio can, to a certain extent, offset each other, compared with the situation in which these variables are considered separately.

The main types of risks that this method identifies are:
- delta risk (price sensitivity of a financial instrument to risk factors), that is:
  - price risk, in the case of the equity market;
  - interest rate risk, in the case of fixed or floating rate positions;
  - exchange risk, in the case of the forex market;
- gamma risk (sensitivity to the delta factor of a financial instrument to the underlying risk factors);
- vega risk (price sensitivity of a financial instrument to the volatility of risk factors);
- rho risk (price sensitivity of a financial instrument to interest rate risk);
- theta risk (price sensitivity of a financial instrument to the passage of time).

It is not permitted to assume market risk in relation to factors that risk having a significant impact, for which the Bank does not have systems or models that have been checked and convalidated by the Pricing and Market Risk Control Model Validation Office.
The individual financial contracts are represented in the VaR model on a "full evaluation" basis, i.e. by a series of theoretical evaluation models implemented in the risk calculation model. The non-linear "partial revaluation" method is used in a limited number of cases [(1)]. The pricing models are subjected to checks to ensure that they have been formulated correctly in theory, that correct input data is used and that the numerical results obtained are reasonable. The checks carried out are documented in specific manuals.

The parameters of the VaR model are:
- historical period used for estimating volatility and empirical correlations: 12 months (252 observations);
- confidence interval: 99%, unilateral;
- holding period: 1 day;
- weighting factor: 0.992.

The historical series of risk factors are updated on a daily basis. The 10-day VaR calculation is estimated by applying the scaling of the square root law, but is also done for the purpose of verifying the prudence of this approach on the capital requirement, a direct calculation of the extent of risk-taking by adopting the log yields obtained over a 10-day time frame.

(1) These include a small number of options, for which the non-linear partial revaluation model makes it possible to represent the payoffs of the options in a way that is reasonably complete (up to the second order, including cross gamma risks). Certain plain vanilla options with baskets of equities as their underlying are also handled using the same method of partial revaluation.

Starting with the supervisory report of June 2007, following recognition by the Bank of Italy, Banca Akros now uses its own internal model based on VaR metrics also to determine the capital requirement for the following market risks that derive from trading:

- generic and specific risk on equities;
- generic risk on debt securities;
- position risk on investments in mutual fund units (excluding investments in hedge funds);
- exchange risk on all assets/liabilities in the financial statements.

The calculation of the capital requirements for market risk, and for the risk factors mentioned above, is therefore carried out on the basis of the internal model ("regulatory VaR") and the results it produces for three portfolios: fixed income, equity and FX.
The prudential capital requirements for the specific risk component on debt securities and credit default swap contracts (single name and index), which was not mentioned in the risks discussed previously, is calculated on the basis of the Standardised Approach. For the same reason, the credit derivative book is excluded from the internal model used for calculating minimum capital requirements.

In addition to regulatory VaR calculated under current conditions, Banca Akros has implemented a model for calculating regulatory VaR under conditions of stress (so-called stressed VaR) that was developed in 2010 and which adopts, as a scenario of greatest severity, the time period comprised between 10 March 2008 – 10 March 2009 ("Lehman" scenario). This model was subjected to testing, with a positive outcome, by the Supervisory Body and, as required by rules on capital adequacy, it has been used to compute the capital requirement for market risk as from the last quarter of 2011, as well as for management purposes.

For internal purposes, the Pricing Models Validation and Market Risk Control Office had already developed in 2010 an extension to the regulatory model to include the specific risk component of debt securities in the measurement of market risk (so-called "credit spread VaR"). This extended version of the VaR model makes it possible to quantify the contribution made by issuer risk to the expected daily stop-loss limit. The specific risk is mapped against the series of curves of the bond credit spread of the debt issuers present in the portfolio, taken from the prices of the more liquid bonds listed on active markets. A series of generic credit spread curves has also been defined, split by rating and business sector, as a proxy for those issuers to which a specific credit spread cannot be attributed. The historical series of issuer curves are updated on a daily basis. Quantification of the credit spread VaR is carried out using the same approach as for other risk factors (Montecarlo simulation of the expected scenarios), including the effects of diversification on the portfolio implicit in the historical trends in credit spreads.
In order to keep the risk perimeters of the two measurements separate (regulatory VaR, calculated on the recognised risk factors, and internal VaR, calculated on the extended perimeter which includes credit spreads), an organisational and IT procedure, which is similar and supplementary to that used for regulatory VaR, has been created. This procedure also involves mapping the positions of the risk factors represented by the risk curves of the individual issuers and preparing reports on the portfolio VaR including the credit spread factor. The report output generated by the model on this specific development reflects similar processing performed for regulatory VaR and is filed to create a historical record in the market risk repository.

Again, with respect to the measurement of issuer risk for internal purposes, the MRC Office has implemented the calculation of the Incremental Default Risk Charge (IRC), which identifies the impact on the trading portfolio of default risks (or potential losses due to the insolvency of an issuer) and of migration of rating class (that is, potential direct or indirect losses incurred by changes to the credit rating of one or more issuers). The estimation model behind the adopted IRC (Merton equity factor model in CreditManager methodology) is based on the use of historical rating transition matrices with reference to the rating of each issuer (obligor), while correlations between issuers are estimated by means of an ample set of indices used to map each obligor.
Currently, the model is used for bonds included in the trading portfolio and it provides a daily estimate of the IRC over a liquidity time horizon of a year with a confidence interval of 99.9%. These estimates are used, for the time being, purely for information purposes in order to monitor the model, which is still under development. Implementation is still ongoing with reference to the calculation of the IRC extended to options implicit in bonds, to the inclusion of credit derivatives and to the quantification of the IRC for derivatives which have government bonds as an underlying.

1.2.1 Interest rate risk and price risk – regulatory trading book

Qualitative information

A. General aspects

A.1 Sources of interest rate risk

The Group's main activities giving rise to interest rate risk are:
- management of the bond and government security portfolio;
- transactions in interest rate derivatives, both on regulated markets (e.g. Euribor futures) and over the counter, mainly interest rate swaps, overnight interest swaps, forward rate agreements.

A.2 Sources of price risk and objectives and strategies underlying trading assets

A.2.1 Banca Popolare di Milano

No trading transactions have been entered into that have led to any positions exposed to price risk.

A.2.2 Banca Akros

Price risk is generated by the equities trading portfolio. The main types of financial instruments traded are: equities, options on individual shares or equity indices, both regulated and OTC, futures with underlying securities or equity indices and, on a residual basis, OTC financial instruments on mutual funds.

This activity, which mainly relates to the domestic equity market, can be split essentially into three parts:
- market making on regulated and OTC equity derivatives (single stock and index), through which the pertinent desk offers its quotations in electronic form on regulated markets (Italian Stock Exchange and Eurex) or off-market. The execution of instructions from customers and counterparties, through which it is possible take advantage of market opportunities of relative value and event as part of the dynamic management of the risks that are typical of the portfolio (delta risk, covered principally by buying and selling underlying equities, vega risk, gamma risk, rho and theta risk). The price risk taken on lies within the operating limits established by the Board of Directors;
- arbitrage or "spread" strategies between regulated and OTC derivatives on equity indices or between equity indices and stocks. This activity is carried on through directional and optional trading strategies on the underlying financial instruments, within established operating limits;
- management of OTC derivatives index-linked to baskets of equities, listed international stockmarket indices (individual or in baskets) and mutual funds.

A.3 Objectives and strategies underlying trading activity

A.3.1 Banca Akros

Trading in interest rate derivatives is designed to optimise the flows generated by the need on the part of institutional customers (banks, funds, insurance companies, leasing and consumer credit companies) and corporate customers to hedge their interest rate risk in directional terms and/or in terms of volatility, taking on the risk in a proprietary sense, handling it with dynamic hedging strategies. The Bank operates prevalently as a market maker on first and second generation OTC derivatives, principally on the Euro and, to a lesser extent, the US dollar curves. The overall management of risks deriving from positions in interest rate derivatives also envisages recourse to trading in government or supranational securities listed on the MTS or traded on multilateral trading systems, of regulated futures on short- and medium/long-term interest rates and regulated and OTC options on the same interest rate futures. The pricing models used for valuing OTC derivatives are subject to validation ("model testing") by the Pricing and Market Risk Control Model Validation Office, which also attests to the reliability of the market parameters used as input to the models for calculating the daily mark-to-market adjustments to transactions.

B. Management processes and methods of measuring interest rate risk and price risk

B.1 Internal processes for managing and controlling interest rate risk

Reference should be made to the section entitled "General common aspects of the market risk management processes adopted by the BPM Group".

B.2 Internal management processes and methods of measuring price risk

Reference should be made to the section entitled "General common aspects of the market risk management processes adopted by the BPM Group".

B.3 Methods used to analyse sensitivity to interest rate risk

B.3.1 Banca Popolare di Milano

For BPM, the main indicators used to measure exposures to interest rate risk are interest rate sensitivity and credit spread sensitivity, which measure the change in the fair value of the portfolio in predetermined scenarios of variances in interest rates and widening/ narrowing of credit spreads.

B.3.2. Banca Akros

For the measurement of exposures to interest rate risk, the main indicator is portfolio VaR, calculated both with regulatory parameters, to determine the maximum potential loss relating to generic risk and volatility, and in the version extended to include issuer specific credit spread VaR risk, so as to take account of credit spreads as well. Alongside this, we also use analyses of sensitivity to risk factors of rate, volatility and credit spread curves when debt securities and credit derivatives are involved, as well as stress tests on this portfolio.

B. 4 Methods used for the analysis of price risk

B.4.1 Banca Popolare di Milano

No trading transactions have been entered into that have led to any positions exposed to price risk.

B.4.2. Banca Akros

Banca Akros measures the price risk (or equity risk) of the trading portfolio through an estimate of the daily value at risk, using the methods already discussed (see "General common aspects of the market risk management processes and measurement methods adopted by the BPM Group"). In particular, the VaR model used identifies both the generic component of price risk and the specific one due to the individual risk factors (equities), taking account of the non-linear dynamics caused by the portfolio of equity options (gamma factor); it also measures the element of risk due to the volatility of individual share prices, as well as the other risks involved in derivative transactions.

3. Regulatory trading book – internal models and other methodologies used for sensitivity analysis

3.1 Interest rate risk

3.1.1 Banca Popolare di Milano

The exposure to interest rate risk of the Parent Company also includes the bond portfolio classified under securities at line items 30 "Financial assets designated at fair value through profit and loss" and 40 "Financial assets available for sale" in the balance sheet; which, even though they form part of the banking book for supervisory reporting purposes, is treated as part of the risks of the trading book as they share risk measurement systems and operational responsibility.

The bulk of the bond portfolio is composed of securities belonging to line item 40. "Financial assets available for sale", whose duration (defined as the weighted average maturity compared with the timing of the cash flow profile) at the end of June 2013 amounted to 2.22 years (2.03 years at the end of 2012).

As regards the sensitivity analysis of BPM's securities portfolio (including the related hedging swaps), understood as the change in value of the portfolio when faced by a parallel and uniform shift of the interest rate curve by one percentage point (100 bps), at year end a figure of –218.3 million euro was recorded in the event of a rise in interest rates, an increase over the figure recorded at the end of 2012, namely –201.4 million.

The following table shows the sensitivity trend during the course of the first half of 2013.

BPM – Sensitivity of the fair value of the securities portfolio and related hedging swaps to a change in interest rates (in millions of Euro)

	Total securities + hedging swaps				
Change in rates	**30 June 2013**	**Average 1st half 2013**	**Min 1st half 2013**	**Max 1st half 2013**	**31 December 2012**
+100 *bps*	–218.3	–213.7	–241.2	–168.6	–201.4
–100 *bps*	225.9	221.1	174.4	249.6	207.8

The sensitivity of the portfolio of interest rate derivatives (to mitigate the variability of the interest margin of the banking book) at the end of the period, based on a parallel shift in the rate curve of +/– 100 basis points, shows a sensitivity of 1.8 million euro in the case of a rate increase and of –1.1 million euro in the case of a decrease of 100 basis points in the rate curve.

BPM – Sensitivity of the fair value of the derivatives portfolio to changes in interest rates (in millions of Euro)

	Other derivatives				
Change in rates	**30 June 2013**	**Average 1st half 2013**	**Min 1st half 2013**	**Max 1st half 2013**	**31 December 2012**
+100 *bps*	1.8	–10.0	–26.9	3.2	–7.5
–100 *bps*	–1.1	11.8	–2.3	29.4	9.4

The following table shows the trend in the overall sensitivity of the securities portfolio and related hedging swap and derivatives during the first half of 2013.

BPM – Total sensitivity of the fair value of the securities derivatives portfolio to changes in interest rates (in millions of Euro)

Change in rates	**30 June 2013**	**Average 1st half 2013**	**Min 1st half 2013**	**Max 1st half 2013**	**31 December 2012**
+100 *bps*	–216.5	–223.7	–268.1	–165.4	–208.9
–100 *bps*	224.8	232.9	172.1	278.9	217.1

The effects on the principal income statement and balance sheet aggregates of a change of +/–100 bps. The effects on shareholders' equity are generated by debt securities classified under financial assets available for sale, shown in the balance sheet at 7.958 billion euro.

BPM – Effect of a +/–100 change in the rate curve on:			(in millions of Euro)
Rate change	**Net interest and other banking income**	**Shareholders' equity**	**Result for the year**
+100 *bps*	–6.4	–211.9	Same effect as that on interest margin net of the related tax effect
–100 *bps*	6.6	219.2	

As regards credit spread sensitivity, given a 25 bps increase in credit spreads, the potential change in the value of the portfolio is around –71.6 million euro.

The following table shows the trend during the year in credit spread sensitivity given changes in credit default spreads of +/– 25 b.p.

BPM – Sensitivity of the portfolio with changes in credit spread					(in millions of Euro)
Widening of credit spreads	**Credit spread sensitivity**				
	30 June 2013	**Average 1st half 2013**	**Min 1st half 2013**	**Max 1st half 2013**	**31 December 2012**
+25 *bps*	–71.6	–70.1	–79.1	–55.3	–67.3
–25 *bps*	72.2	70.7	55.8	79.8	68.0

BPM – Effects of a +/-25 bps change in credit spreads on:			(in millions of Euro)
Widening of credit spreads	**Net interest and other banking income**	**Shareholders' equity**	**Result for the year**
+25 *bps*	–2.1	–69.5	Same effect as that on interest margin net of the related tax effect
–25 *bps*	2.1	70.1	

The trend in credit spreads showed a certain degree of stability during the first half of 2013. The iTraxx Europe index, which shows changes in the credit default spread (i.e. the premium/cost to take on/hedge credit risk) of a basket of 125 "entities" or European issues among the more liquid at the time and with an investment grade rating (at least BBB–/Baa3 and with an outlook of at least stable), posted a closing level at the end of the first half of the year in line with the 2012 year end figure (going from 117.43 bps at the end of December 2012 to 119.55 bps at the end of June 2013).
The iTraxx Europe Crossover index, which is made up of non–investment grade borrowers, thus with ratings below BBB–/Baa3 and with a negative outlook, closed the first half of 2013 in line with the beginning of the year (475 bps at 30.6.2013 compared to 484 bps at 31.12.2012).

3.1.2 Banca Akros

3.1.2.1 Trend in market risk

The amount of the average regulatory Value at Risk of the trading book under the regulatory configuration, related solely to the market risks included in the scope of the internal model recognised for supervisory purposes and adopting standard parameters (holding period of 1 day and a confidence interval of 99 per cent), came to around 582 thousand euro during the course of the first half of 2013, up slightly with respect to the prior year first half, for which the average regulatory VaR was 532 thousand euro (+9%).

The variation in the measurement of risk in the first half of 2013 ranged from 362 thousand euro to 866 thousand euro, slightly tighter than that for the previous year, which ranged from 329 thousand euro to 986 thousand euro. Based on these figures, the average utilisation of the regulatory VaR operating limit for the entire trading room (1,750 thousand euro) equalled 33% (30% in the first half of 2012), fluctuating between a minimum of 21% and a maximum of 49% (between 19% and 56% in 2012).

The risk metric evidenced an average trend characterised by a certain degree of stability: with the exception of a few peaks which promptly returned to normal, VaR has remained stable at around the average value for the period of just below 600 thousand euro, showing a slightly upward trend during the latter part of the period (732 thousand euro at 28 June 2013). Within a context of crisis and with markets that are still uncertain and volatile, the assumption of risks in the trading book, even though they have increased slightly, has remained prudent, being determined, among other things, by an awareness of the trading book risk, even where there has been no substantial change in the positions, could rise significantly in extreme situations due to rapid increases in volatility and correlations between risk factors (with a decrease in diversification benefit).

The main levels of regulatory VaR (average, maximum, minimum and period-end) for the first half of 2013, both for the entire trading portfolio and for the areas of risk into which it is split, are shown in the following table. The diversification effect is quantified for average and year-end VaR, given that these figures are comparable. The same table shows the number of exceptions found in relation to regulatory VaR (i.e. events in which the loss actually recorded exceeded the loss estimate calculated the previous day) both for tests carried out considering the hypothetical change in portfolio value ("hyp."), and considering the actual change ("act.").

99% – 1 Day 1st half 2013	**Fixed Income Area**	**Equity area**	**FX area**	**Diversific. Effect**	**Total risk**
Average VaR EUR (000)	292	441	67	–219	582
Max VaR EUR (000)	627	643	142	(*)	866
Min VaR EUR (000)	129	297	9	(*)	362
Last VaR EUR (000)	583	462	57	–371	732
no. of hyp./act. exceptions	1/0	0/0	1/6	n.s.	0/0

(*) The diversification effect is quantified only for the measurement of average and last VaR and not for those of maximum and minimum VaR, as these figures refer to different days.

Figures of regulatory VaR related to the first half 2012 have been reported for comparison purposes.

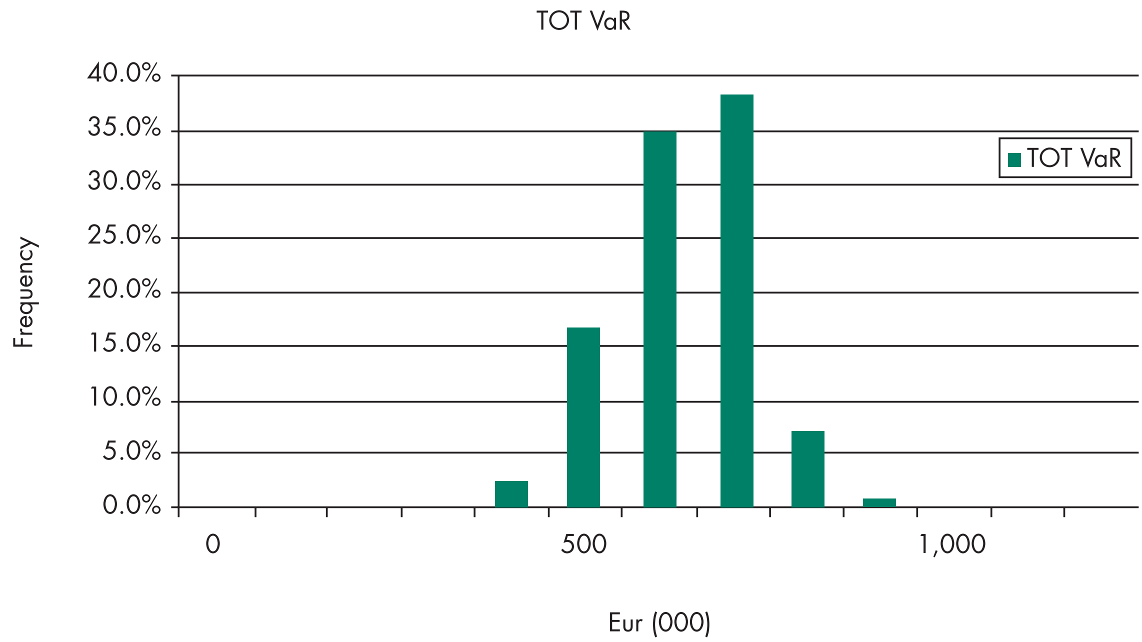
99% – 1 Day 1st half 2012	**Fixed Income Area**	**Equity area**	**FX area**	**Diversific. Effect (*)**	**Total risk**
Average VaR EUR (000)	409	255	119	–250	532
Max VaR EUR (000)	689	698	271	(*)	986
Min VaR EUR (000)	263	106	29	(*)	329
Last VaR EUR (000)	198	160	71	–148	281
no. of hyp./act. exceptions	0/1	0/1	4/6	n.s.	0/0

(*) The diversification effect is quantified only for the measurement of average and last VaR and not for those of maximum and minimum VaR, as these figures refer to different days.

Moving on to look at regulatory VaR for the three macro aggregates ("Areas of risk") that the VaR of the entire trading book can be broken down into – Fixed income, FX and FX derivatives and Equity, it can be seen that, in the first half of 2013, the most significant contribution was, on average, generated by equity (average daily VaR of 441 thousand euro), followed by the fixed income area of risk (292 thousand euro) and by foreign exchange (FX and FX derivatives area of risk, 67 thousand euro). From a comparison with the prior year first half, it can be seen that there has been a notable change in the structure of trading book risks, with an inversion of the magnitude of interest rate risk and equity risk. The average daily VaR for the fixed income area of risk fell from an amount of 409 thousand euro in the first half of 2012 to 292 thousand euro (–29%), whereas equity went from an average VaR of 255 thousand euro in the first two quarters of the prior year to 441 thousand euro (+73%). It can thus be seen that there has been an inversion of the roles of the main asset classes, the reasons for which are attributable to two factors: renewed interest in equity markets and the related volatility that has led to, both with regard to customers and to proprietary trading, an increased risk appetite for the domestic equity segment and evidence, during the course of the last quarters, of price shocks concerning individual securities and indices that led, in VaR estimates, to a higher risk being attributed to this segment. Even if significantly lower compared with the previous year, the trading book still has a significant exposure to interest rates, mainly because of market making on OTC derivatives and Eurobonds and proprietary trading. There was a declining trend in the daily VaR of the FX and FX derivatives area of risk compared with the previous year, for which the measure of maximum expected daily loss fell, on average, from 119 thousand euro in 2012 to 67 thousand euro in the first half of 2013 (–43%). The high volatility expressed by the currency market, a reflection of the ongoing tensions generated by the Euro–zone crisis, suggested reducing the amount of risk assumed also in this sector.

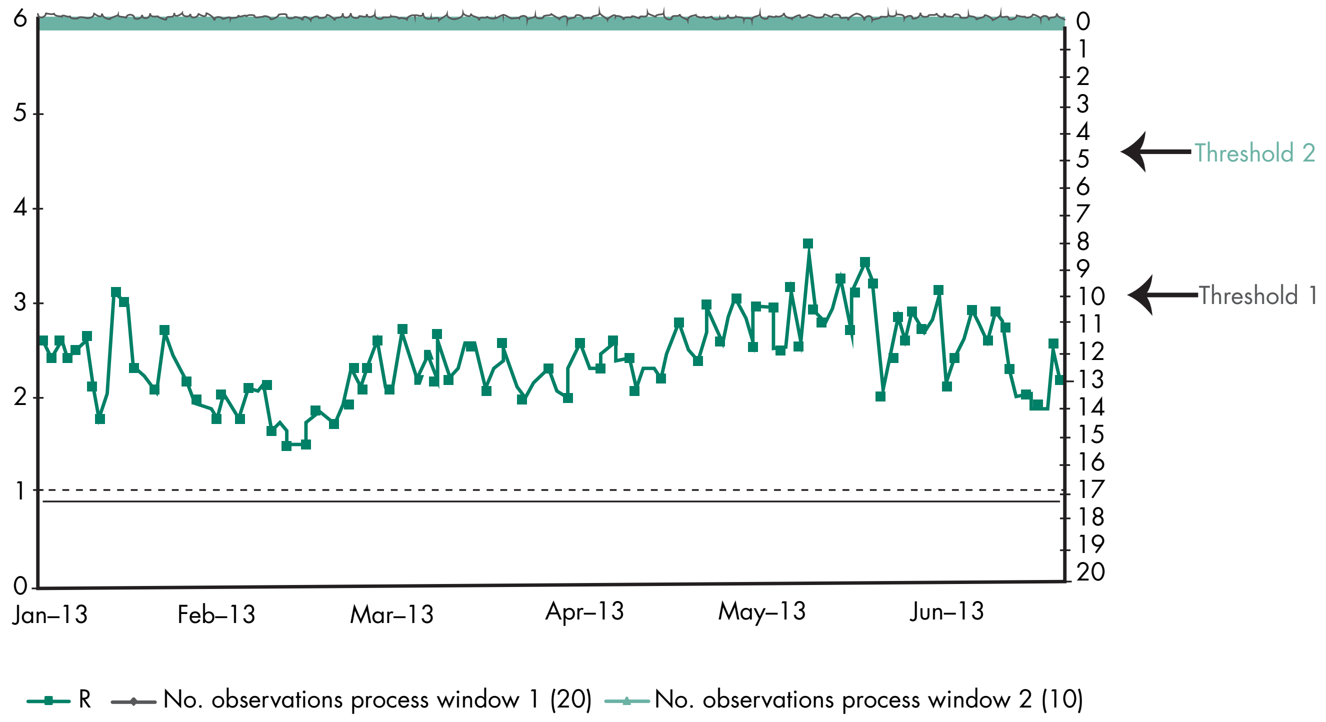
The average impact of the diversification effect, measured as the absolute difference between total regulatory VaR and undiversified VaR for the three areas of risk, is 27%, down slightly compared with the previous year, for which the impact was –32%. Therefore, the diversification benefit remained more or less constant in both halves, representing about one third of undiversified VaR.

The next graph shows the frequency distribution of the daily regulatory VaR values for the entire trading book posted during the first half of 2013. There is clearly a concentration of values in the range between 500 and 700 thousand euro, into which fall 75% of the sample observations.



Unlike the measure of regulatory VaR, which is calculated with regard to current market conditions, the corresponding metric related to a stress scenario (stressed VaR) differentiates itself in that this is calculated on the same positions, but by taking as reference points a volatile time period and particularly severe correlations. Direct comparison between the two figures therefore makes it possible to readily identify the contribution to risk that could result from a significant deterioration in market conditions, all other positions being equal. This makes it possible to overcome the intrinsic limit in the measurement of VaR which is to base future estimates of correlations and volatility on a relatively recent time window, leading potentially to an underestimation of the prospective risk (the so–called "procyclicality effect").

The average value of stressed regulatory VaR for the first half of 2013 was 1,373 thousand euro, evidencing an increase with respect to the corresponding figure of 951 thousand euro for the first half of 2012, while the variation of stressed VaR ranged from 962 thousand euro to 1,922 thousand euro. Based on these figures, it follows that, in the first half of 2013, daily average VaR under conditions of stress was around 2.4 times that computed under ordinary conditions, which confirms the degree of severity of the chosen stress scenario ("Lehman" scenario). The ratio between VaR and stressed VaR has increased compared with the previous year due to the impact of an increase in positions as well as the fact that the scenario of greatest severity particularly penalised the equity segment, which, as has been seen, has taken on increased importance within the portfolio. The trend in the first half of 2013 in the ratio between the stressed measure and that under current conditions showed that VaR under conditions of stress was always higher than that under current conditions, which is consistent with the assumption that, for all the risk factors being considered, the historical period used to calculate stressed VaR represents the scenario of greatest severity even when compared to current market conditions. A comparison between VaR and stressed VaR is the basis for a number of control mechanisms for the persistence of the stress scenario severity characteristics adopted ("Lehman scenario") with reference to the risk factors considered. The following chart shows the trend in the VaR/VaR ratio during the first two quarters of 2013 and the outcome of the two control processes based on the number of times the alarm thresholds for this indicator were exceeded. The early warning thresholds, which indicate that the choice of stress scenario may need to be reviewed, were never reached, confirming the choice of stress scenario adopted.



The average value of credit spread VaR in the first half of 2013 amounted to 619 thousand euro (virtually unchanged compared with 612 thousand euro in the first half of 2012) and, in the period, it fluctuated between a minimum of 339 thousand euro and a maximum of 854 thousand euro (between 396 thousand euro and 955 thousand euro in 2012). The assumption of risk associated with fluctuations in credit spreads originates mainly from the cash component determined by the portfolio of government and corporate debt securities (banks in particular), against which there are partial hedges made using credit derivatives. The latter are represented by single name credit default swaps or CDS index contracts to purchase protection to cover part of the issuer risk generated by the securities component.

The trend of internal VaR over time reflects that of the regulatory measurement, demonstrating a degree of stability close to average value throughout the period and showing only a slight tendency to recovery during the second half of June, reaching a figure of around 806 thousand euro at the end of the period. Use of the corresponding limit was limited also for the operational measurement of risk, equal on average to 29% and with a fluctuation interval of between 16% and 41%.

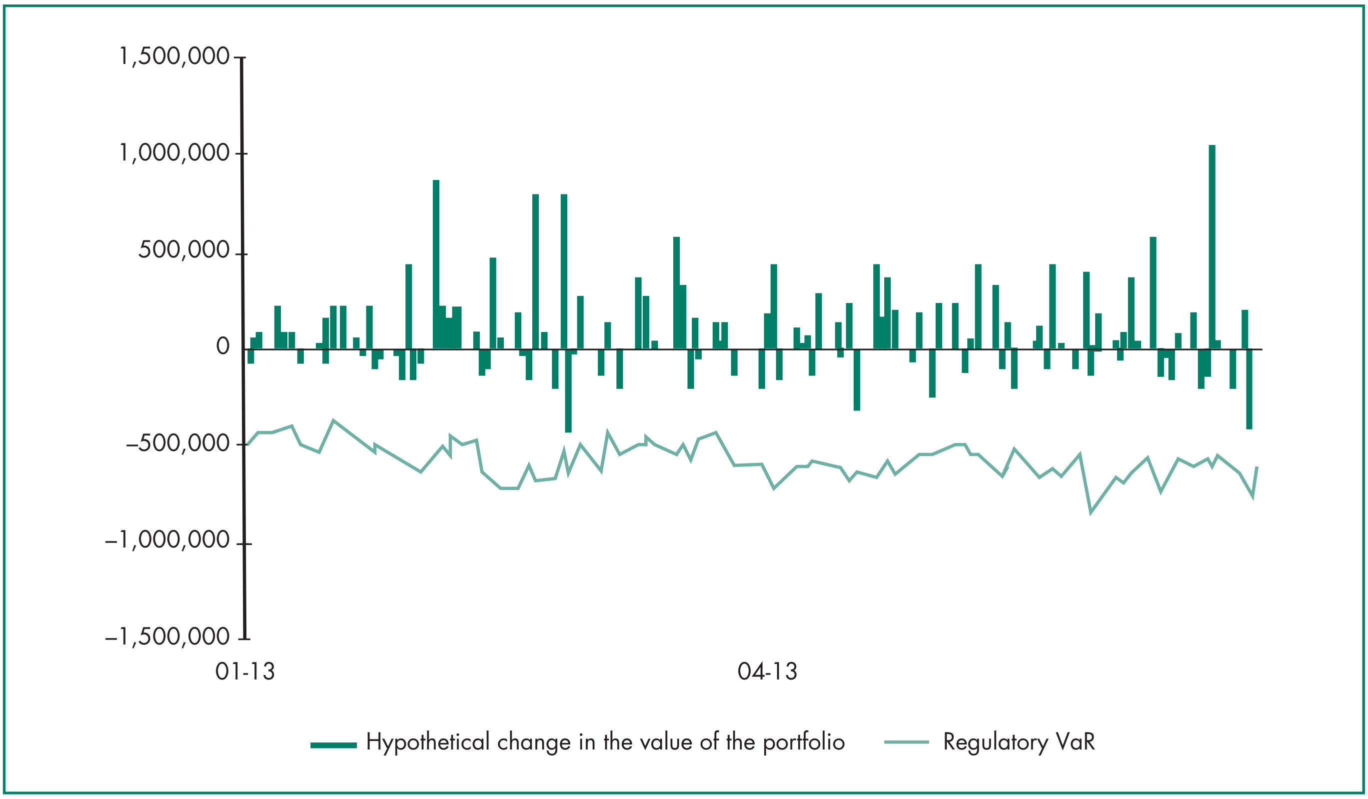
The maximum potential loss under stress conditions calculated on the basis of the internal measurement ("stressed credit spread VaR"), with reference to the same scenario adopted for regulatory VaR, amounted, in the first half of 2013, to 1,360 thousand euro, corresponding to 2.2 times the current average credit spread VaR.

For the calculation of the prudential requirement (regulatory measurement), the capital absorbed just by issuer risk is determined according to "Standardised Approach".

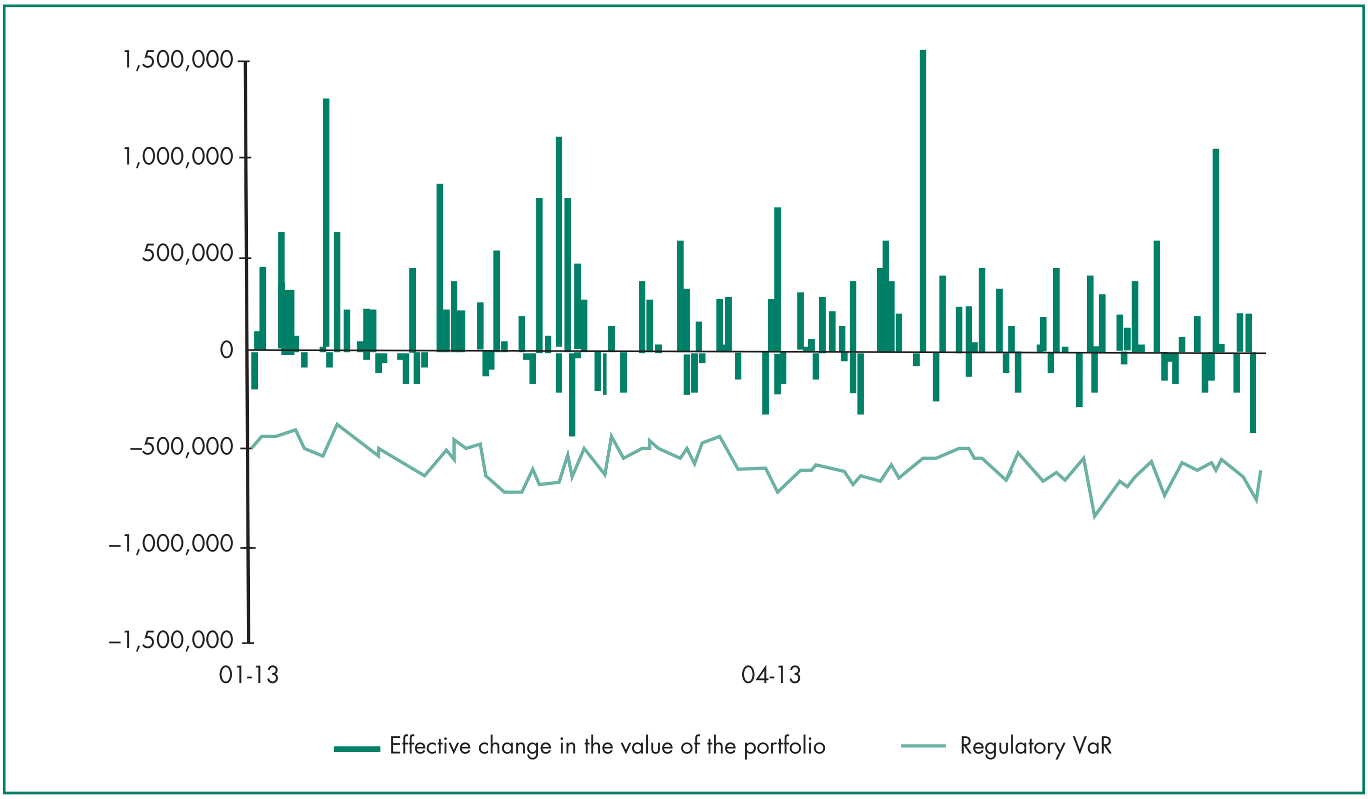
Comparing the trends in metrics of regulatory VaR and credit spread VaR in the first half of 2013, it can be seen that the maximum expected daily loss estimated based on the measure extended to issuer risk is, on average, higher than the regulatory measure by some 37 thousand euro (+6%) with respect to the measure that only includes general risks, already considering the effects of diversification between risks. The risk component associated with fluctuations in credit spread (issuer risk), a factor that is not present in regulatory VaR, was, on average, 392 thousand euro (maximum amount of 689 thousand euro, minimum amount of 215 thousand euro). Accordingly, the diversification gain between general risks and specific risks associated with debt securities almost completely absorbed the latter.

Backtesting with respect to regulatory VaR for the entire trading portfolio during the first half of 2013, as in the first half of 2012, did not come up with any event that exceeded the maximum daily loss, neither in the tests carried out in hypothetical mode, nor in actual mode (that which identifies the actual change in value as that obtained by excluding the operating results of the day, fees and accrued coupons).

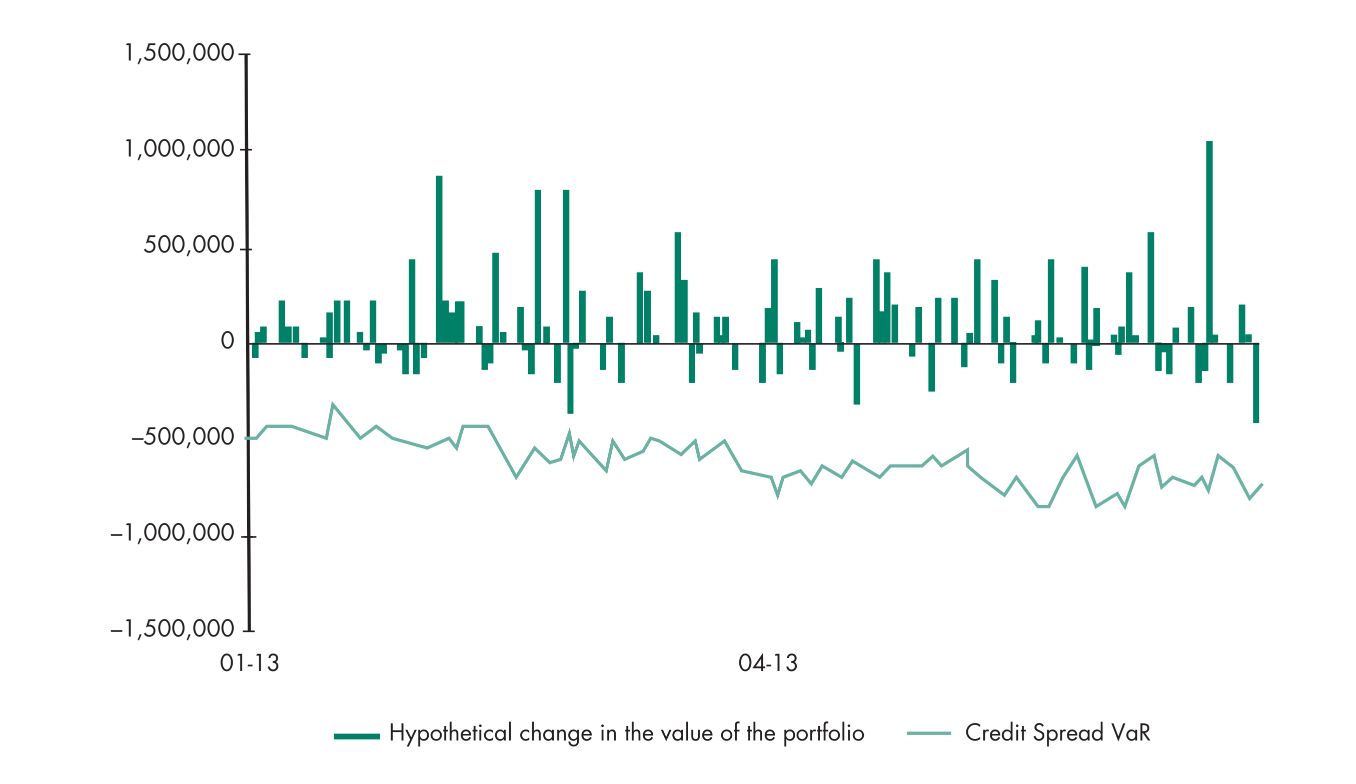
The following chart gives a comparison between regulatory VaR at the end of the day and the daily changes in portfolio value of the next business day for hypothetical backtesting purposes.

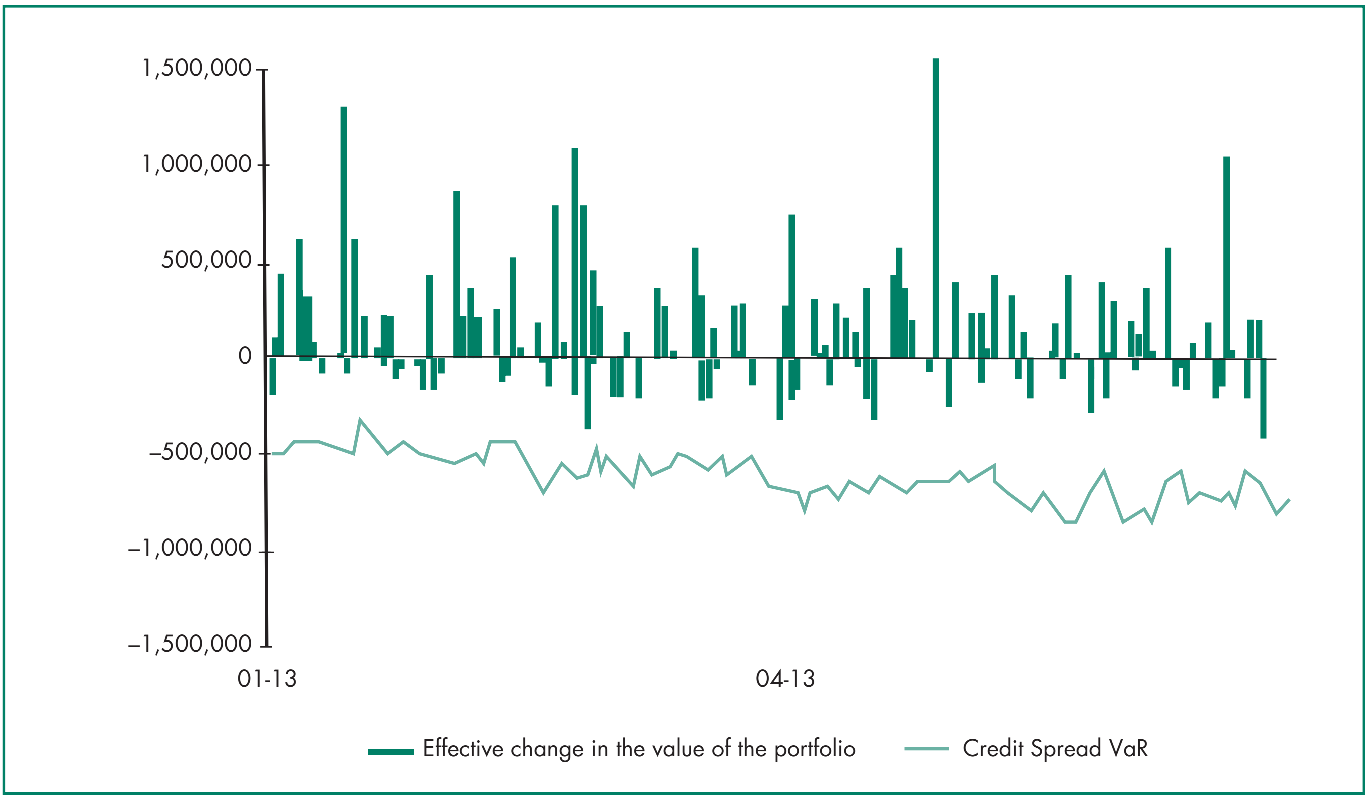


Even backtesting performed in actual mode did not evidence regulatory VaR calculated ex-ante having been exceeded.



Moving on to backtesting against the extended measure of credit spread VaR (i.e. including issuer risk in both factors), again, in this case, there was no evidence of the risk measure having been exceeded, neither in hypothetical mode nor in actual mode.





Banca Akros regularly carries out stress testing on its trading portfolio in order to determine any weaknesses in the portfolio that fall outside the possibilities of regulatory risk measurement and to ascertain the ability of the Bank's regulatory capital to absorb any potential losses. The types of stress scenarios (hypothetical and specific) involve all the major risk factors of the portfolio and

get disrupted both jointly (historical and hypothetical scenarios) and individually (specific scenarios). In particular, sensitivity tests to credit spread VaR are performed for each issuer curve and for rating/segment curves, aggregating them by rating class, sector of activity or portfolio. The scenarios adopted foresee a deterioration in creditworthiness as a result of a widening in credit spreads of +25 and +50 basis points. To take account of possible negative impacts resulting from indebtedness, symmetrical improvement scenarios of credit spread (–25 and –50 basis points) have also been implemented. In addition to these tests, we also estimate the impacts for non–parallel changes in credit curves (deepening and flattening of the yield curve).
During the first half of 2013, the most unfavourable specific stress scenarios were those which assumed significant widening of credit spreads, even for investment grade issuers, particularly those with good credit ratings (AA or less), accompanied by a flight–to–quality movement for other risk factors. In addition to these, in order to assess the potential impact thereof, scenarios were adopted that envisaged specific, large movements in the interest rate curve (parallel movements of the Euro curve tilting around a pivot point) and, in a limited number of cases, substantial idiosyncratic shocks on specific equities. Generally speaking, the results of historical and hypothetical scenarios are less drastic.
The potential impact on the income statement of certain interest rate and credit spread shock scenarios for the entire trading portfolio at the end of June 2013 is summarised in the following table. In particular, due to the effect of an assumed parallel widening of the credit spread curve of +25 and +50 basis points, the negative change in the portfolio would be – Euro 1,251 thousand and – Euro 2,484 thousand, respectively. Of the interest rate scenarios, a parallel upwards movement of the entire Euro interest rate curve of +50 basis points would lead to a fall in the value of the entire trading book of some Euro 2,209 thousand, while a downward movement of the short and medium term element of the Euro interest rate curve, along with a rise in medium to long term interest rates (tilting down-up), would produce a drop in the portfolio of Euro 739 thousand.

(thousands of Euro)

Interest Rates				Credit Spread			
–50 bps	**+50 bps**	**Tilting Down-Up**	**Tilting Up-Down**	**–50 bps**	**–25 bps**	**+25 bps**	**+50 bps**
3.537	–2.209	–739	346	2.606	1.264	–1.251	–2.484

3.1.2.2 Trend in interest rate risk

The following table shows the average, maximum, minimum and the last VaR for the first half of 2013, with the equivalent figures for the previous year alongside them.

99% – 1 Day Euro/000	**Fixed income area first half 2013**	**Fixed income area first half 2012**
Average VaR	292	409
Max VaR	627	689
Min VaR	129	263
Last VaR	583	198
No. of hyp. exceptions	0	1

3.1.2.3 The trend in price risk

The following table shows the average, maximum, minimum and year-end VaR for the first half of 2013, together with the corresponding amounts for the same period of the previous year.

99% – 1 Day Euro/000	Equity risk first half 2013	Equity risk first half 2012
Average VaR	441	255
Max VaR	643	698
Min VaR	297	106
Last VaR	462	160
No. of hyp. exceptions	0	1

1.2.2 Interest rate risk and price risk – Banking book

Qualitative information

A. General aspects, management processes and methods of measuring interest rate risk and price risk

Interest rate risk is substantiated in the potential impact that unexpected changes in market interest rates have on current earnings (cash flow risk) and the Group's shareholders' equity (fair value risk). This risk occurs typically on positions in the banking book, namely:

- customers' loans and deposits;
- own bonds;
- own issues for institutional investors;
- interbank operations;
- operations with the European Central Bank (OMO);
- hedging derivatives.

Interest rate risk is therefore measured from the point of view of both income statement and the balance sheet.

From the point of view of the income statement, interest rate risk arises from the possibility that an unexpected change in interest rates generates a reduction in net interest income, and hence in Group profits. This risk depends, therefore, on:

- a shift in the time structure of loans and deposits in the case of fixed-rate items;
- a misalignment of the review periods of rate conditions in the case of floating-rate items.

From the point of view of the balance sheet, interest rate risk arises from the possibility that an unexpected change in interest rates generates a decrease in the values of all balance sheet items, destabilising the Group's capital.

The main sources of interest rate risk can be schematised as follows:

- repricing risk: risk arising from timing mismatches in maturities and repricing of assets and liabilities; the main features of this type of risk are:
  - yield curve risk: risk resulting from exposure of balance sheet items to changes in slope and shape of the yield curve;
  - basis risk: risk from imperfect correlation in the variations of the rates earned and paid on different instruments, even with similar repricing structures;
- optionality risk: risk resulting from embedded options in the banking book items.

The BPM Group monitors – both at consolidated level and at the level of individual legal entity – the banking book's exposure to adverse changes in interest rates, in terms of both the income statement and the balance sheet.
Measuring the interest rate risk on the banking book is done using integrated methods of Asset and Liability Management (ALM). In particular, the risk measurements used are:

- the change in interest margin expected as a result of a parallel shock on the spot rate curve of +/–100 basis points (earnings perspective);
- the change in economic value as a result of a parallel shock on the spot rate curve of +/–200 basis points (capital perspective), as defined in the Second Pillar of Basel II.

The impact on the interest margin is due to the reinvestment/ refinancing at new market conditions of the principal amount due (reinvestment/refinancing risk) and to the change in the coupon element(repricing risk, only for floating rate operations). The impact on the interest margin is obtained by mapping the items at the actual dates at risk, or the date of payment of principal amounts for fixed rate transactions and the next repricing date after the cut-off for floating rate transactions.
This approach, known as the repricing gap, implies the adoption of a time horizon (known as the "gapping period"), of one year according to market best practices.
The impact on the economic value is measured according to a full evaluation approach, or as the change in fair value of the items mapped in each time band following a parallel shock in the curve of spot rates.
The methodologies used for analysing sensitivity to interest rate risk also include behavioural modelling of demand deposits and prepayments of the mortgage portfolio.

As for the modelling of demand deposits, the BPM Group adopts statistical models able to grasp both the persistence of volumes over time and the responsiveness of rates to market conditions; in particular:

- the volume analysis model makes it possible to represent the element of aggregate demand items considered stable as a portfolio of amortizing to maturity items;
- the rate analysis model makes it possible to identify the proportion of demand items that react to movements in a market parameter considered significant and to measure the time needed to make the adjustment (viscosity effect).

These models have been run on historical data from 2002 to 2012.

Lastly, the risk of prepayment on the mortgage portfolio is measured through a CPR -type model (Constant Prepayment Rate), which estimates a prepayment rate for each time band, based on historical data updated to 2012.

B. Fair value hedging

Since 2009, a Hedge Accounting Policy drawn up by the Parent Company is in force. It defines the methodology and the organisational process for managing hedges of interest rate risk, with particular reference to the players involved, the definition of roles and responsibilities and the description of planned activities and mapping processes.
This policy also gives the Parent Company the responsibility for managing the interest rate risk of the BPM Group's banking book, both as regards monitoring the exposure and compliance with the operational limits and for its management and hedging activities.

The responsibility for managing interest rate risk and hedging activities is centralized in the Parent Company's Asset and Liability Management (ALM) Committee, for any legal entity included in the scope of the policy (which excludes Banca Akros).
The ALM Committee establishes guidelines for active management of the assets and liabilities side of the financial statements and sets up all interest rate risk hedging transactions. Such hedging transactions, as approved by the ALM Committee, are carried out by a desk at the ALM & Funding Department of Banca Popolare di Milano. This department has also been delegated the power to implement operating hedging strategies, taking positions on the interest rate curve with a view to reducing the exposure to the interest rate risk generated by the Bank's commercial activities in deposits and loans.
Hedging of interest rate risk has the objective of protecting the banking book from changes in the fair value of deposits and loans due to movements in the interest rate curve or to reduce the variability of cash flows related to a particular asset or liability.

The main types of hedge derivatives used are represented by Interest Rate Swap (IRS), Overnight Indexed Swap (OIS), Cross Currency Swap (CCS) and options on interest rate (cap, floor, collar).

The hedging activity carried on by the BPM Group is reflected in the books (hedge accounting) in two ways:

- micro fair value hedge: hedging of the fair value of assets or liabilities specifically identified and represented mainly by bonds issued or purchased;
- macro fair value hedge: hedging of homogeneous pools of assets or liabilities not individually identifiable and represented mainly by loans to ordinary customers.

C. Cash flow hedging

According to the IFRS rules, the BPM Group does not have any cash flow hedges.

D. Hedging of foreign investments

The BPM Group has no foreign investment hedges.

2. Banking book: internal models and other methodologies used for sensitivity analysis

As described in the methodological section, the exposure to interest rate risk in terms of profitability is measured by the change in the interest margin expected over a period of one year following a parallel shock on the spot rate curve of +/–100 basis points.

The following table shows the average and actual results of the estimate of this change at 30 June 2013. For consistency with respect to the measurement of interest rate risk from a capital point of view, the result of the estimates obtained by applying a shock of +/– 200 basis points is also shown.

In millions of euro

Floating	Figure at 30 June 2013	Average figure for first half 2013
Sensitivity of interest margin +100bps	0.7	14.6
Sensitivity of interest margin –100 bps	–2.2	–6.1
Sensitivity of interest margin +200bps	–1.0	26.9
Sensitivity of interest margin –200 bps	–4.0	–7.1

The exposure to interest rate risk from a capital point of view is measured by the maximum absolute change in economic value (fair value) following a parallel shock on the spot rate curve of +/–200 basis points.

The following table shows the average and actual results of the estimate of this change at 30 June 2013. For consistency with respect to the measurement of interest rate risk from an economic point of view, the result of the estimates obtained by applying a shock of +/–100 basis points is also shown.

In millions of euro

Floating	Figure at 30 June 2013	Average figure for first half 2013
Sensitivity of the economic value +100bps	–234.2	–217.8
Sensitivity of the economic value –100bps	223.7	189.1
Sensitivity of the economic value +200bps	–464.9	–432.7
Sensitivity of the economic value –200bps	322.4	267.7

As shown in the following table, the maximum absolute change in fair value is then compared with the regulatory capital.

In millions of euro

Floating	Figure at 30 June 2013	Average figure for first half 2013
Maximum absolute change in fair value (+/–100bps) in relation to Regulatory Capital	4.5%	4.1%
Maximum absolute change in fair value (+/–200bps) in relation to Regulatory Capital	8.9%	7.9%

As indicated in the reference standard, in the case of downward scenarios the application of an implicit floor equal to zero ensures that interest rates can not turn negative.

1.2.3 – Exchange risk

Qualitative information

A. General aspects, management processes and methods of measuring exchange risk

Banca Popolare di Milano
The Parent Company's forex operations are substantially limited to servicing the needs of the commercial functions.
Foreign exchange activities are limited to transactions involving currency gains (interest margin or commissions and fees collected in foreign currency) and foreign banknotes for the purchase and sale of currency by the branch network.
There is also a forex brokerage service for customers, but without keeping significant position books open.

Banca Akros
Exchange rate risk is managed internally by a specific desk, where forex and forex derivative transactions are also focused with a view to hedging the currency exposure of any of the Bank's assets.

A.1 Sources of exchange rate risk

The main sources of exchange rate risk are:
- loans and deposits in foreign currency with corporate and/or retail customers;
- purchases of securities and/or equity investments and other financial instruments in foreign currency;
- trading in foreign notes;
- receipt and/or payment of interest, dividends, administrative expenses, etc.;
- at Banca Akros, the forex desk and the currency operations of the other desks.

A.2 Internal processes for managing and controlling exchange rate risk

Banca Popolare di Milano
The system of operating limits allows the Finance Manager to hold an overnight currency position of 5 million Euro. Moreover, the sum of the absolute values of the open positions in all foreign currencies must not exceed the limits set, and periodically reviewed, by the Regulation for Financial Operations approved by the Board of Directors. There is also a stop loss of 1 million euro.
This position is monitored through the front-office application (Kondor+).

Banca Akros
Banca Akros assumes exchange risk within the established operating limits.
The principal indicator of exposure to exchange rate risk is the VaR of the FX Area, which includes analysing the sensitivity to exchange rate and interest rate risk, the risk of volatility and the effect of non-linear trends by the options portfolio (gamma and vega risk), using the methods explained above (see "General common aspects related to the management processes and methods adopted by the Bank").

B. Exchange rate risk hedging

The exchange rate risk generated by loans and deposits on the banking books of the commercial banks and by investing in securities and/or equity investments is systematically hedged by carrying out funding (and/or lending) transactions in the same currency.
The forex position created by income flows in foreign currency (interest income/expense, fees and commissions) and foreign banknote transactions with customers tend to be hedged by carrying out forex transactions in the reverse direction.

2. Internal models and other methodologies for the sensitivity analysis

2.1. Banca Popolare di Milano

BPM did not use internal sensitivity analysis models for exchange risk.
The Parent Company's forex operations are substantially limited to servicing the needs of the commercial functions.
Moreover, in the supervisory reports of the first half of 2013, the capital requirements for exchange rate risk were always equal to zero as the net forex position was always below 2% of regulatory capital.

2.2. Banca Akros

Banca Akros uses its own internal model based on VaR metrics also to calculate the exchange risk

The following table shows the average, maximum, minimum and VaR at the end of 2012, together with the corresponding amounts for the previous year.

99% – 1 Day **Euro/000**	**Exchange rate risk**	
	30 June 2013	**30 June 2012**
Average VaR EUR (000)	67	119
Max VaR EUR (000)	142	271
Min VaR EUR (000)	9	29
Last VaR EUR (000)	57	71
No. of exceptions	6	6

There was a declining trend for the daily VaR of the "FX and FX derivatives" Area compared with the previous year. The high volatility expressed by the currency market, a reflection of the ongoing tensions generated by the Euro-zone crisis, suggested reducing the amount of risk assumed also in this sector.

1.3 – Banking group – Liquidity risk

Qualitative information

A. General aspects, management processes and methods of measuring liquidity risk

A.1 Sources of liquidity risk

Liquidity risk is the risk that the BPM Group may not be able to meet its definite and foreseeable payment commitments with reasonable certainty. Normally, two types of liquidity risk are identified: **Funding Liquidity Risk**, i.e. the risk that the Group may not be able to meet its payment commitments and obligations efficiently because of an inability to raise funds without jeopardising its normal business activity and/or its financial situation; **Market Liquidity Risk**, i.e. the risk that the Group may not be able to liquidate an asset without incurring a capital loss because of the limited depth of the market and/or as a result of the timing with which it is necessary to carry out the transaction. In this second definition, liquidity risk comes very close to traditional market risk. The main difference between the two types of risk lies in the fact that while market risk measures the sensitivity of a position's value to possible future scenarios, liquidity risk concentrates on the ability to finance present and future payment commitments in normal and in stress situations.

A.2 Internal procedures for managing and controlling liquidity risk

In the BPM Group, the governance of liquidity risk is regulated by the Group's liquidity policy, which sets out:

- the liquidity risk governance model;
- responsibilities of the corporate bodies and business functions;
- the threshold of tolerance to liquidity risk;
- the tools for managing and monitoring liquidity risk;
- the tools for mitigating liquidity risk;
- the contingency funding plan;
- guidelines for defining and monitoring the funding plan.

Liquidity risk governance model

Liquidity governance is centralised at the Parent Company. Operative management of liquidity is coordinated by the Parent Company on a centralised basis, subject to appropriate exemptions, with part of liquidity management being done on a decentralised basis at the individual Group companies.

Responsibilities of corporate and business functions

The policy identifies the role and responsibilities of the corporate bodies involved in liquidity governance and management.
In particular:

- the Management Board of the Parent Company sets the threshold of tolerance to liquidity risk and is responsible for maintaining a level of liquidity consistent with this threshold. It is responsible for setting governance policies and management processes related to liquidity risk; more in general, it also approves the methods of managing and monitoring liquidity risk;
- the Group Finance Committee is responsible for managing operational and structural liquidity and the related risk in the states of "normality", "observation" and "stress" as defined in the Contingency Funding Plan;
- the Group's Liquidity Crisis Committee is responsible for managing operational and structural liquidity in a state of "crisis", with the aim of restoring liquidity to a state of "normality";
- the Supervisory Board of the Parent Company is responsible for ensuring the adequacy and compliance of the process of managing, monitoring and controlling liquidity risk with respect to the legislative requirements and in accordance with the tasks assigned to it by the Company's Articles of Association.

The Group has also defined the roles and responsibilities of the corporate functions involved in the process of managing and monitoring liquidity risk, such as the operational functions (finance, treasury, commercial network), the control functions (risk management, compliance, internal audit) and the function in charge of processing the pricing system for the internal transfer of funds.

Threshold of tolerance to liquidity risk

The threshold of tolerance to liquidity risk is understood as the maximum risk exposure considered to be sustainable in the context of the "normal course of business" (going concern), integrated with stress scenarios. It is defined in terms of limits on a set of indicators that must be respected in both short– and long–term liquidity management.

Tools for managing and monitoring liquidity risk

The liquidity risk is monitored through the following instruments:

- Operative maturity ladder: the report provides the liquidity requirement for a time horizon of up to twelve months, aggregating imbalances between cash inflows and outflows that occur in different time zones and adding to this the balance of available liquidity reserves;
- Structural maturity ladder: this report aims to monitor the maintenance of an adequate ratio between long-term assets and liabilities, i.e. to limit the exposure to refinancing for maturities over twelve months. The relationship between sources and uses of liquidity and the degree of maturity transformation are also monitored;
- Early Warning Indicators (EWI) for any liquidity tensions. We have identified a set of indicators for early detection of potential tensions in the Group's liquidity position. They provide market indicators and internal indicators, i.e. based on specific indicators of the Group's liquidity situation. Monitoring these indicators, in addition to allowing for timely identification of the deterioration of certain key variables, helps to determine the status of the liquidity situation between "normality", "observation", "stress" and "crisis";
- stress tests of the Group's ability to withstand adverse scenarios.

Tools for mitigating liquidity risk

As tools for mitigating liquidity risk, the liquidity policy requires the Group to keep an adequate amount of cash reserves to maintain a liquidity profile that is consistent with the threshold of tolerance to this kind of risk, compliance with specific limits placed on certain variables, both operational and structural, and an appropriate diversification of funding sources.

Contingency Funding Plan

The Contingency Funding Plan is an integral part of the policy and sets out to protect the Group and the individual Group companies from situations of crisis of different magnitudes. The Contingency Funding Plan describes a series of non-binding actions that can be taken to overcome the crisis.

In particular, it describes:

- the mechanism for activating the states of "observation", "stress" and "crisis";
- identification of the functions involved and their responsibilities;
- possible action plans with an indication of the estimated cash recoverable by each of them;
- communication management in cases of stress and crisis.

Quantitative information

a. Net interbank position

The net interbank position at 30 June 2013 shows a negative balance (net borrowing) of Euro 4,174 million, up with respect to the negative balance of Euro 3,574 million as of December 2012 and Euro 3,649 million as of March 2013. Much of this trend is attributable to a decrease in amounts due from banks, which at 30 June had fallen by Euro 611.5 million with respect to 31 December 2012 and by Euro 528.4 million compared with March 2013. A good part of this decrease is due to the complete redemption of the Tremonti Bond on 28 June 2013 of Euro 500 million, whereas movements on other balance sheet components did not trigger any significant liquidity requirements. In the period, in fact, against a decrease in loans to customers of Euro 752.7 million there was a fall in direct deposits of Euro 683.3 million, as well as an increase in net financial assets of Euro 218.8 million.

When looking at the net interbank position, the following components should be borne in mind:

- much of the interbank exposure, Euro 4,630 million out of a total of Euro 6,218.2 million, is used in open market operations (OMO) with the European Central Bank;
- the net interbank position includes secured net deposits of some Euro 114 million, deriving from repurchase agreements;
- amounts due from banks recorded in the financial statements of Bpm Securitisation 2 and Bpm Covered Bond totalling Euro 575 million relate to liquidity that is not immediately unrestricted.

Net of the above components, the unsecured net interbank position at 30 June 2013 is close to zero.

b. Liquidity position

The indicators of liquidity position at the end of the period have remained at an adequate level.
The net liquidity balance – which is the aggregate of unencumbered eligible assets arising from expected inflows and outflows over a given timescale – at the end of June amounts to a positive balance of Euro 2,736 million with reference to flows expected over 1 month, whereas the 3 month liquidity balance comes to Euro 2,551 million.
The funding needs of the commercial banks, which reflect the difference between volumes arising from commercial activities in customer deposits and loans, came to Euro 4.2 billion (management figures) at the end of June 2013, down on the same period of the previous year, for which the figure amounted to Euro 5.4 billion. This trend was impacted, among other things, by lower liquidity requirements, due to a slowdown in lending to customers, which, as detailed above, fell year on year by more than Euro 900 million.
Eligible assets with the European Central Bank at the end of June amount to some Euro 12 billion, a figure which is substantially in line with the balance at the end of March and with that at the end of December 2012. Of the balance at the end of June, Euro 4.6 billion was committed to transactions with the ECB and Euro 4.7 billion was employed for repurchase agreements, whereas the remainder of Euro 2.7 billion consisted of unencumbered assets.

The following is an analysis of the main financial obligations maturing over the next twelve months.

Main financial liabilities in maturity – management figures (millions of Euro)

	07/13	08/13	09/13	10/13	11/13	12/13	01/14	02/14	03/14	04/14	05/14	06/14	Total
Securities issued (senior, subordinated, covered bonds)	–	–	542	111	–	82	746	–	–	–	–	–	1,481
Securities issued (retail issues)	144	89	98	517	208	5	279	125	3	91	14	2	1,575
Certificates of deposit (retail)	166	65	84	78	69	58	67	68	39	46	37	32	809
Total	**310**	**154**	**724**	**706**	**277**	**145**	**1,092**	**193**	**42**	**137**	**51**	**34**	**3,865**

Conventionally, based on IFRS 7, callable instruments have been considered as falling due at the first call date foreseen in the issue regulations.

Looking at the maturities of financial liabilities for the next 12 months (so at the same level of customer loans and deposits), the funding requirement of 3.9 billion euro is amply covered by the portfolio of financial assets eligible for refinancing with the ECB, on the one hand, and by the expected renewal on maturity of the liabilities represented by the retail issues placed by the commercial network, on the other.

Self-securitisations

At the date of this interim report, there is an ongoing self-securitisation undertaken by the Bank in December 2011.

Securitisation of mortgages and issue of Asset Backed Securities (ABS)
In December 2011 the Parent Company completed a securitisation of mortgages with a view to issuing Asset Backed Securities (ABS). This operation was carried out through a sale without recourse to the vehicle company BPM Securitisation 2 Srl (which had already acted as the issuer in the securitisation launched in July 2006 and still outstanding) of a portfolio of performing loans for a total of 974 million euro, deriving from commercial loans secured by first mortgages and unsecured loans granted by BPM.

For more information please read the financial statements at 31.12.2012 of the Parent Company.

At the date of this interim report, the securitisation transaction is represented as follows:

(Euro/000)

Line items	30.06.2013	31.12.2012
Principal balance sheet aggregates		
Loans to customers:	608,817	696,715
Due from banks:	106,601	317,445
Economic result of the operation	**6,678**	**19,891**

1.4 Banking group – Operational risk

Qualitative information

A. General aspects, management processes and methods of measuring operational risk

Main sources of operational risk
In line with the "New Minimum Capital Requirements for Banks" issued by the Bank of Italy, operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. This type includes losses due to frauds, human resources, breakdown of operations, non-availability of systems, breach of contract, natural disasters and legal risks, whereas strategic risk and reputational risk are excluded.
The supervisory regulations also say that banks have to equip themselves with operational risk management systems that are suitable for their size and risk profile and able to guarantee the identification, measurement, monitoring and control of such risk over time.
Unlike credit and market risk, operational risk is not taken on by the Group on the basis of strategic decisions, as it is inherent in its ordinary operations.

Organisational aspects
The Group has adopted the Standardised Approach (TSA) to calculate the amount of capital absorbed by operational risk for Banca Popolare di Milano, Banca di Legnano and Banca Akros and applies the Basic Indicator Approach (BIA) for the other Group companies.

This method is adequate for the size and risk profile of the Group and helps to improve the efficiency and effectiveness of processes as well as to reduce the impact and probability of onerous losses arising; furthermore, this is a preparatory step in a gradual evolution towards more advanced models of risk evaluation.

From this point of view, Banca Popolare di Milano at Group level has taken steps:

- to define and formalise a model for governing operational risk and guidelines for the entire system of operational risk management;
- to regulate in accordance with company rules the duties and responsibilities assigned the various functions involved, giving a detailed description of their activities;
- to prepare suitable periodic reports for top management of the individual banks and for the Parent Company's corporate bodies on operational risk and operating losses;
- to evaluate the adequacy and effectiveness of the system implemented by defining operating criteria and methods.

Model of Governance

For the management of the Group's operational risk, it was decided to adopt a centralised model of governance at the Parent Company which provides for the definition of principles and methodologies that are common to all of the banks.
The model assigns to Banca Popolare di Milano, as the Parent Company, the task of coordinating and supervising all of the operating activities carried on by the individual banks in the Group through:

- a strategic level involving the Management Board, the Supervisory Board, the Internal Control and Audit Committee with the support of the Risk Management Department;
- a more operational level involving the Operational Risk Sector of the Parent Company and the Operational Risk Owners identified within each of the banks.

The system of managing operational risk

Banca Popolare di Milano has implemented a system for managing operational risk at Group level by means of:

- an organisational process of collecting data on operating losses and insurance recoveries that involves and responsibilises the various bank functions, guaranteeing the completeness, reliability and updating of the data;
- activation of the Risk Self Assessment tool, an annual process of identifying, assessing and measuring (where possible) the Group's exposure to operational risk in its main business processes and support carried out by means of questionnaires sent to the Process Owner by Operational Risk Management;
- the definition of criteria and methods for linking the Group's activities to the regulatory lines of business for the calculation of the individual and consolidated capital ratio;
- the implementation of a system of periodic reporting to top management and the operating functions on the main loss events and operational risks identified;
- the preparation of training tools for top management and the operating functions to encourage their involvement and to provide guidelines to the staff concerned for identifying and reporting such risk;
- an annual review of the entire system of operational risk management by means of a process of internal self-assessment, which allows the Group to evaluate the effectiveness of its strategies and the adequacy of the system implemented according to the Group's risk profile.

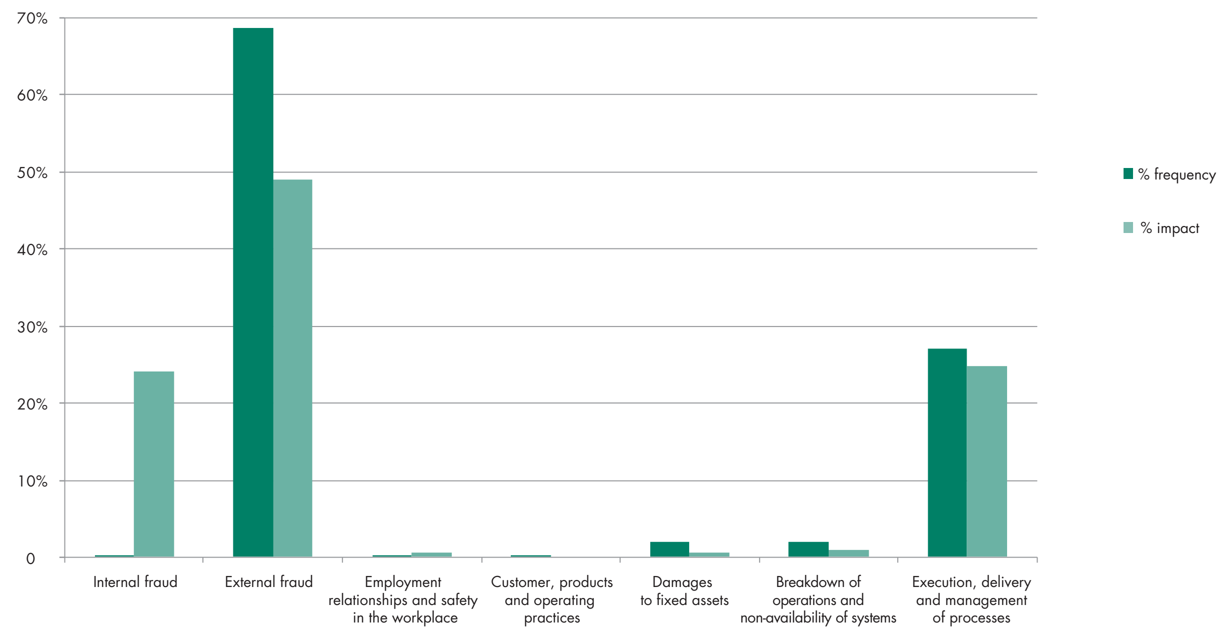
Loss data collection

One of the key aspects of the operational risk management system is loss data collection (LDC). Its purpose is to provide a picture over time of the trend in the more significant loan losses; it also represents a statistical basis necessary for a better risk analysis and for the adoption of advanced VaR models and for calculating the amount of capital absorbed by operational risk.
Detailed internal rules guarantee consistency in the classification of events within each Group bank, while at an operational level Group banks have been equipped with suitable procedures for collecting loss data and efficient management of all steps of the process.

By means of the reporting system, on a quarterly basis, operational loss data is brought to the attention of the corporate bodies of the Parent Company and of the other banks within the scope of application of the TSA model. Similar reports are also produced for the corporate bodies of the other commercial banks for which the BIA method is applied (Banca Popolare di Mantova and WeBank).

During the first half of 2013, the main sources of operating losses, in terms of impact, were the categories entitled "External fraud", "Execution, delivery and management of processes" and "Internal fraud", followed by the categories "Breakdown of operations and non-availability of systems", "Damages to fixed assets" and "Employment relationships and safety in the workplace". The main source of operating losses, in terms of frequency, was the category entitled "External fraud", followed by "Execution, delivery and management of process", "Damages to fixed assets" and "Breakdown of operations and non-availability of systems".

% Distribution of losses of the BPM Group in the first half of 2013



Identifying operational risk

Once a year, the Risk Self Assessment (RSA) process is implemented for the identification and analysis of operational risk. Based on last year's results, during the course of the first half, SRA activities were set up to focus this year on elementary risks analysed last year, for which the residual risk score was between "medium-high" and "extreme". Furthermore, particular attention will be paid to the lending process and to governance and support processes relating thereto.

Based on the experience gained in previous years, in the first half of the year improvements were made to the methodological approach of the Risk Self Assessment model; in particular, in addition to taking into account an assessment of the "design" of the system of internal control, the process owners are asked to perform a so-called "agitated" self-assessment.

The model used for assessing "residual risk" considers the evaluations of both the economic and reputational impact expressed by the process owners, taking into account the design and evaluation of internal controls that monitor individual risks as well as the "agitated" assessment thereof.

Lastly, in order to target risk mitigation measures in the best way possible, we have identified and investigated in detail the causes of the risks assessed during the Risk Self Assessment.

Business Continuity Plan

The Business Continuity Plan allows the Parent Company to verify its ability to restore vital and critical processes in the event of a disaster. Through a structure set up specifically to manage the Plan:

- formalises the effective maintenance procedure;
- the crisis simulation plan gets tested;
- the continuity of vital and critical processes is guaranteed;
- mitigation steps are evaluated, widening the scope of the business continuity plan to new scenarios and to new processes.

Quantitative information

Lawsuits pending

Legal risk can derive from a failure to comply with laws, regulations or directives from the Supervisory Authorities or from unfavourable changes in the legislative framework. The impact of this risk may take the form of fines or other sanctions or it may involve the Group in legal proceedings. So in principle, it concerns all corporate functions that are affected by legislative, regulatory and other legal provisions.

Banca Popolare di Milano

The lawsuits outstanding at 30 June 2013 mostly fall into the following categories:

- **erroneous application of interest rates:** there are 221 lawsuits outstanding for which 7.3 million euro has been provided for possible losses;
- **operational errors in the provision of services to customers:** there are 279 lawsuits outstanding for which 10.5 million euro has been provided for possible losses;
- **financial lawsuits:** these are disputes associated with financial advisory activities (documentary errors, incorrect information on financial risks, etc); as far as lawsuits are concerned, there are specific provisions of 16.1 million euro for the 167 lawsuits that are outstanding.

Furthermore, it should be noted that a provision of Euro 40.4 million has been made as an estimate of the risk relating to issues connected with the placement of the "BPM Convertendo 2009-2013 6.75%" bond (reference should also be made to disclosures made in the report on operations). Of this provision, which initially amounted to 40 million in 2011 and which was increased by another 5 million in 2012, 4.6 million was used in the first half of 2013 due to payments made under a signed settlement protocol.

Banca di Legnano

The lawsuits outstanding at 30 June 2013 fall into three categories:

- **erroneous application of interest rates:** there are 33 lawsuits outstanding for which 1.2 million euro has been provided for possible losses;
- **operational errors in the provision of services to customers:** there are 29 lawsuits outstanding for which 280 thousand Euro has been provided in previous years for possible losses;
- **financial lawsuits:** In this last case, 460 thousand euro has been provided for possible losses in the 22 lawsuits outstanding.

Following the signature of a settlement protocol in August 2012, in relation to issues concerning the placement of the "Convertendo BPM 2009/2013 – 6.75%" Bond, at 30 June 2013 the Bank has provided 1.8 million euro for the expected costs of settlements reached with its customers. Of this provision, which initially amounted to 2 million in 2012, some 200 thousand euro has been used due to payments made in the first half of 2013.

Banca Akros

It should be noted that appropriate provision has been made for liabilities that could arise from lawsuits, claims, action taken in court and out of court and the costs of external advisers. Specific provisions made over the years for potential losses that could arise from disputes and lawsuits, including claims for damages, action taken in court and out of court, claims from customers and related legal expenses amount to 5.9 million euro at 30 June 2013.

Banca Popolare di Mantova

Lawsuits outstanding at 30 June 2013 are of the following kinds:

- **operational errors in the provision of services to customers:** there are 2 pending lawsuits, for which no specific provision has been made;
- **financial lawsuits:** there are 2 lawsuits outstanding for which 6 thousand euro has been provided for possible losses.

Following the signature of a settlement protocol in August 2012, in relation to issues concerning the placement of the "Convertendo BPM 2009-2013 – 6.75%" Bond, at 30 June 2013 the Bank has provided 217 thousand euro for the expected costs of settlements reached with its customers. Of this provision, which initially amounted to 350 thousand in 2012, 133 thousand euro has been used due to payments made in the first half of 2013.

WeBank

Lawsuits outstanding at 30 June 2013 are of the following kinds:

- **operational errors in the provision of services to customers:** there are 12 lawsuits pending for which provisions of 364 thousand euro have been made;
- **financial lawsuits:** there are 8 lawsuits for which 442 thousand euro have been provided.

Part F – Information on consolidated capital

Section 1 – Consolidated capital

A. Qualitative information

Capital management involves a range of policies and decisions needed to define its size, as well as the best combination of the various alternative capitalisation instruments to ensure that the capital and consolidated ratios of the BPM Group are consistent with the risk profile taken on in full compliance with the requirements of the Supervisory Authority.

As regards the policies adopted regarding compliance with the capital adequacy requirements, as well as the policies and processes adopted in the field of capital management, reference should be made to Section 2 below, entitled "Regulatory capital and capital adequacy ratios".

B. Quantitative information

B1. Consolidated capital: breakdown by type of company

Equity line items	Banking group	Insurance companies	Other companies	Eliminations and consolidation adjustments	Total	of which Group	of which minority interests
Share capital	2,868,070	–	10	–	2,868,080	2,865,710	2,370
Share premium reserve	12,736	–	–	–	12,736	9	12,727
Reserves	590,378	–	–	–	590,378	586,149	4,229
Equity instruments	–	–	–	–	–	–	–
(Treasury shares)	–859	–	–	–	–859	–859	–
Valuation reserves:	36,389	–	–	–	36,389	36,454	–65
– Financial assets available for sale	69,052	–	–	–	69,052	69,077	–25
– Property and equipment	–	–	–	–	–	–	–
– Intangible assets	–	–	–	–	–	–	–
– Hedging of foreign investments	–	–	–	–	–	–	–
– Cash flow hedges	–	–	–	–	–	–	–
– Foreign exchange differences	–	–	–	–	–	–	–
– Non–current assets held for sale and discontinued operations	–	–	–	–	–	–	–
– Actuarial gains (losses) on defined–benefit pension plans	–40,656	–	–	–	–40,656	–40,616	–40
– Share of valuation reserves connected with investments carried at equity	–5,449	–	–	–	–5,449	–5,449	–
– Special revaluation laws	13,442	–	–	–	13,442	13,442	–
Net income (loss) (+/–) of the Group and minority interests	105,866	–	–	–	105,866	105,607	259
Shareholders' equity	**3,612,580**	**–**	**10**	**–**	**3,612,590**	**3,593,070**	**19,520**

Section 2 – Regulatory capital and capital adequacy ratios

2.1 Scope of application of the regulation

The Bank of Italy in its Circular no. 263 of 27 December 2006 ("New Minimum Capital Requirements for Banks") and subsequent updates, redesigned the rules on the capital adequacy of banks and banking groups, implementing the EC Directives on the capital adequacy of financial intermediaries: New Basel Capital Accord ("Basel 2").
The new structure of the minimum capital rules is based on three Pillars:

- Pillar 1 highlights the importance of measuring risks and capital, envisages compliance with minimum capital requirements to cope with some of the main types of risks faced by the banking and financial sector (credit, counterparty, market and operational); to this end, there is provision for alternative methods of calculating capital requirements with various levels of complexity in the measurement of risk and the type of organisation needed to keep them under control;
- Pillar 2 requires financial intermediaries to adopt a strategy and process of control over capital adequacy, both current and prospective, emphasising the importance of governance as an element of fundamental importance, also from the point of view of the Supervisory Authority, which is responsible for checking the reliability and fairness of this internal assessment;
- Pillar 3 introduces obligations to publish information on capital adequacy, risk exposure and the general characteristics of the systems used to identify, measure and manage such risks.

The instructions on consolidated regulatory capital and capital ratios are applied to the Parent Company and to the other banking, financial and near-banking companies in which 20% or more of the share capital is held with voting rights at ordinary general meeting. Given that the scope of consolidation for financial statements purposes is wider than that used to calculate the regulatory capital and capital adequacy ratios at a Group level, the calculation only includes the elements that relate to the banking, financial and near-banking companies. Moreover, the banking and financial joint ventures (carried at equity in the consolidated financial statements) have been consolidated on a proportional basis in the calculation of Group regulatory capital and capital ratios.

The calculation of regulatory capital and of significant exposures is carried out starting from the consolidated number of the Banking Group, whereas the capital requirements needed to cover the various types of risk (credit, counterparty, market) are determined as the sum of the individual requirements of the entities forming part of the scope of consolidation (net of intercompany balances). The capital requirement for operational risk is calculated by using a combination of the Standardised Method and the Basic Method, as explained below.

2.2 Bank regulatory capital

A. Qualitative information

Regulatory capital represents the first line of protection against the risks involved in the overall banking business and represents the first parameter of reference for assessments regarding bank solidity.
This is made up of the sum of base (Tier I) capital - included 100% in the calculation - and supplementary (Tier II) capital, which is allowed up to the limit of Tier I capital, net of certain deductions.
To take account of the impact of applying international accounting standards on the calculation of regulatory capital, certain "prudential filters" were introduced; these are applied to the figures in the IAS/IFRS financial statements so as to safeguard the quality of the regulatory capital and reduce the potential volatility brought about by introducing these new standards.
Generally speaking, the approach recommended by the Basel Committee and by the Committee of European Banking Supervisors (CEBS), for activities other than trading, provides for 100% deduction of any capital losses resulting from measurement at fair value from Tier I capital and the partial inclusion of any capital gains resulting from measurement at fair value in Tier II capital (this is called the "asymmetric approach").
Moreover, on 18 May 2010 the Bank of Italy partially revised this approach in line with the adjustments made by the other main EU countries, giving banks the chance to completely neutralise capital gains and losses, but only on the securities issued by the Central Administrations of countries belonging to the European Union and included in the portfolio of financial assets available for sale.

The BPM Group decided to take advantage of this option granted by the Bank of Italy, thereby neutralising the gains and losses (booked from 1 January 2010) on the securities issued by the Central Administrations of countries belonging to the European Union and included in the portfolio of financial assets available for sale. This option has been applied in the calculation of consolidated regulatory capital and in the individual regulatory capitals of Group banks from 30 June 2010. It is worth mentioning that – at 30 June 2013 – unrealised gains not computed as forming part of consolidated regulatory capital amount to 10 million euro (at the end of 2012 gains not computed amounted to 81 million euro).

In December 2010 the Bank of Italy issued various updates to Circular 263; in particular, for regulatory capital the changes concerning innovative and non–innovative capital instruments have been adopted. The innovative instruments issued by the Parent Company (both directly and through Bpm Capital I) prior to the introduction of the new rules are subject to transitional instructions (so–called "grandfathering"), which make it possible continue including them in regulatory capital.

From Tier I and Tier II capital get subtracted, 50% each, the "items to be deducted", namely equity interests, as well as – if they have the characteristics for being included in the regulatory capital of the issuers – innovative and non–innovative capital instruments, hybrid capitalisation instruments and subordinated instruments held by banks, finance-sector companies and insurance companies.

The subordinated liabilities that cannot be included in Tier II capital and the third level subordinated liabilities net of the negative prudential filters are elements that make up Tier III capital. This aggregate can only be used to cover the minimum capital requirements for market risk. Subordinated liabilities cannot exceed 50% of Tier I capital.

In consolidated regulatory capital, each line item of Tier I and Tier II capital includes a portion that belongs both to the Banking Group and to minority interests.

Based on the rules as they stand, the BPM Group's regulatory capital at the balance sheet date is made up as follows:

- **Tier 1 capital**
  - **Positive elements:** paid-in share capital, share premium reserve, reserves, net income for the period attributed to regulatory capital, innovative capital instruments (subject to transitional instructions);
  - **Positive prudential filters of Tier 1 capital:** financial instruments according to Art. 12. D.L. 185/2008 ("Tremonti Bonds");
  - **Negative elements:** treasury shares, goodwill and other intangible assets, loss for the period, loss for the period of minority interests;
  - **Negative prudential filters of Tier 1 capital:** negative reserves on securities available for sale;
  - **Items to be deducted from Tier 1 capital:** 50% of equity interests in banks and financial institutions that exceed 10% of the investee's capital.

- **Tier 2 capital**
  - **Positive elements:** valuation reserves of property and equipment and securities available for sale, subordinated liabilities of second level;
  - **Prudential filters of Tier 2 capital:** excluded portion of positive reserves on securities available for sale;
  - **Items to be deducted from Tier 2 capital:** 50% of equity interests in banks and financial institutions that exceed 10% of the investee's capital.

- **Items to be deducted from total Tier 1 and 2 capital:** there are no items to be deducted.

B. Quantitative information

Quantitative information on consolidated regulatory capital is reported below:

	30.06.2013	31.12.2012
A. Tier 1 capital before the application of prudential filters	**3,590,612**	**3,577,313**
B. Prudential filters of Tier 1 capital:	–15,589	482,061
B.1 Positive IFRS prudential filters (+)	–	500,000
B.2 Negative IFRS prudential filters (–)	–15,589	–17,939
C. Tier 1 capital inclusive of items to be deducted (A + B)	**3,575,023**	**4,059,374**
D. Items to be deducted from Tier 1 capital	–181,899	–177,351
E. Total Tier 1 capital (C – D)	**3,393,124**	**3,882,023**
F. Tier 2 capital before the application of prudential filters	**1,433,896**	**1,545,743**
G. Prudential filters of Tier 2 capital:	–14,130	–9,976
G.1 Positive IFRS prudential filters (+)	–	–
G.2 Negative IFRS prudential filters (–)	–14,130	–9,976
H. Tier 2 capital inclusive of items to be deducted (F + G)	**1,419,766**	**1,535,767**
J. Items to be deducted from Tier 2 capital	–181,899	–177,351
L. Total Tier 2 capital (H – J)	**1,237,867**	**1,358,416**
M. Items to be deducted from total Tier 1 and 2 capital	–	–
N. Regulatory capital (E + L – M)	**4,630,991**	**5,240,439**
O. Tier 3 capital	–	–
P. Regulatory capital including Tier 3 capital (N + O)	**4,630,991**	**5,240,439**

Composition of consolidated regulatory capital at the respective dates:

TIER 1 CAPITAL	30.06.2013	31.12.2012
Positive elements	**3,731,013**	**4,149,609**
Share capital	2,868,070	2,880,157
Share premium reserve	12,281	193,935
Reserves	543,822	811,842
Innovative capital instruments	263,922	263,675
Net income for the period attributed to regulatory capital (*)	42,918	–
Prudential filters of Tier 1 capital:	**–**	**500,000**
Financial instruments as per art. 12 of D.L. 185/2008	–	500,000
Negative elements	**–140,401**	**–572,296**
Treasury shares or quotas	–859	–859
Goodwill	–65,305	–66,167
Other intangible assets	–74,237	–70,231
Loss for the period attributed to the regulatory capital	–	–429,694
Minority interests	–	–5,345
Negative prudential filters of Tier 1 capital:	**–15,589**	**–17,939**
Negative reserves on securities available for sale	–15,589	–17,939
Capital resources involved in forward purchase commitments	–	–
Tier 1 capital inclusive of items to be deducted	**3,575,023**	**4,059,374**
Items to be deducted from Tier 1 capital	**–181,899**	**–177,351**
50% of equity interests in banks and financial institutions that exceed 10% of the investee's capital	–181,899	–177,351
50% of investments in insurance companies	–	–
Total Tier 1 capital	**3,393,124**	**3,882,023**

TIER 2 CAPITAL	30.06.2013	31.12.2012
Positive elements	**1,433,896**	**1,545,743**
Valuation reserves: property and equipment	13,442	13,442
Valuation reserves: securities available for sale	28,259	19,951
Innovative capital instruments that cannot be included in Tier 1 capital	–	–
Hybrid capital instruments	–	–
Tier 2 subordinated liabilities	1,392,195	1,512,350
Negative elements		
Prudential filters of Tier 2 capital:	**–14,130**	**–9,976**
Excluded portion of positive reserves on securities available for sale.	–14,130	–9,976
Capital resources involved in forward purchase commitments	–	–
Tier 2 capital inclusive of items to be deducted	**1,419,766**	**1,535,767**
Items to be deducted from Tier 2 capital	**–181,899**	**–177,351**
50% of equity interests in banks and financial institutions that exceed 10% of the investee's capital	–181,899	–177,351
50% of investments in insurance companies	–	–
Total Tier 2 capital	**1,237,867**	**1,358,416**

Total items to be deducted from Tier 1 and 2 capital	**–**	**–**
Total regulatory capital	**4,630,991**	**5,240,439**
Tier 3 capital	–	–
Total regulatory capital including Tier 3	**4,630,991**	**5,240,439**

(*) Determined by attributing to regulatory capital the amount required by the parent company's articles of association as legal reserve and statutory reserve.

Note that, on 28 June 2013, the financial instruments issued under Legislative Decree 185/2008 (so-called "Tremonti Bond") were fully redeemed.

The innovative capital instruments, hybrid capital instruments and subordinated liabilities which are included in Tier 1 and Tier 2 capital along with the capital and reserves are listed below.

Bond	30.06.2013		Original nominal amount issued		Bond issue price	Interest rate	Issue date/ maturity	Early redemption from
	Book value	Contribution to regulatory capital						
TIER 1 CAPITAL								
Innovative capital instruments (Tier 1): (*)	**272,761**	**263,922**						
Preference shares - Bpm Capital Trust I – 8.393%	71,211	71,129	160,000	Euro	100	Floating	02.07.2001 Perpetual	02.07.2011
Perpetual Subordinated Fixed/Floating Rate Notes – 9%	201,550	192,793	300,000	Euro	98.955	Floating	25.06.2008 Perpetual	25.6.2018
TIER 2 CAPITAL								
Hybrid capital instruments (Upper Tier 2):	**651**	**–**						
Banca Popolare di Milano subordinated bond loan (Upper Tier 2) – Floating rate – 18 June 2008/2018 (**)	651	–	17,850	Euro	100	Floating	18.6.08/2018	n. p.
Subordinated liabilities (Lower Tier 2) (***):	**1,779,850**	**1,392,195**						
Subordinated bond of Banca Popolare di Milano (Lower Tier 2) Floating rate – 29.6.05-15	541,975	240,000	600,000	Euro	99.716	Floating	29.6.05/2015	29.6.2010
Banca Popolare di Milano Subordinated bond loan (Lower Tier 2) Fixed rate 4.5% 18 April 2008/2018	265,957	251,519	252,750	Euro	100	4.50%	18.4.08/2018	n. p.
Banca Popolare di Milano subordinated bond loan (Lower Tier 2) Floating rate 20 October 2008/2018	454,042	453,345	502,050	Euro	100	Floating	20.10.08/2018	20.10.2013
Banca Popolare di Milano subordinated bond loan (Lower Tier 2) Fixed rate 7.125% (issued as part of the EMTN Programme)	513,265	445,331	475,000	Euro	99.603	7.125%	01.03.2011/21	n. p.
Banca Popolare di Mantova subordinated bond loan – 03/12/2004-03/12/2014 (Lower Tier 2)	4,611	2,000	5,000	Euro	100	Floating	03.12.2004/14	3.12.2009

(*) Innovative capital instruments can be included in Tier 1 capital for an amount not exceeding 15% of the Tier 1 capital (including the innovative instruments), before subtracting the items to be deducted; the portion exceeding that limit can be included in Tier 2 capital.
(**) Not included in the calculation as more than 10% repurchased.
(***) Subordinated liabilities can be included up to a limit of 50% of Tier 1 capital. gross of items to be deducted. At 30 June 2013 the amount is completely calculable in the regulatory capital.

2.3 Capital adequacy

A. Qualitative information

The capital ratios are determined according to the method foreseen in the Basel 2 Capital Accord, adopted by the Bank of Italy in its Circular no. 263 of 27 December 2006.

Based on the instructions of the Supervisory Authority, banks and banking groups have to maintain an amount of regulatory capital that is higher than the total minimum capital requirement (this being the sum of the requirements for credit and counterparty risk, market risk and operational risk).
Banks belonging to banking groups that do not show capital deficits at a consolidated level can reduce their individual capital requirement by 25%. Given that this condition has been satisfied, BPM and the other banks in its Group can apply this reduction.

Credit and counterparty risk
The capital requirement for credit and counterparty risk is 8% of risk-weighted assets. This risk is determined on the basis of the standardised approach.

Market risks
The total capital requirement for market risk is the sum of the requirements calculated for regulatory position risk, concentration risk, exchange rate risk and commodity risk.
The Standardised Approach is used by the BPM Group, except for Banca Akros which from 2007 has been authorised by the Bank of Italy to use internal models.

Operational risk
The capital requirement for operational risk is calculated by using a combination of the Standardised Method and the Basic Method. According to the Standardised Approach, the capital requirement is determined by applying distinct regulatory coefficients to the three-year average of net interest and other banking income for each line of business foreseen in the regulations. In BPM's case, this method is applied to consolidated net interest and other banking income (excluding Banca Popolare di Mantova and WeBank). The Basic Approach, which provides for a capital requirement of 15% of the three-year average of net interest and other banking income, is applied to the consolidated net interest and other banking income of the non-banking companies and to Banca Popolare di Mantova and WeBank.

The following coefficients take on particular importance for the assessment of capital solidity:
- The Tier 1 capital ratio, represented by the ratio between Tier 1 capital and total risk-weighted assets;
- The Core Tier 1 capital ratio, represented by the ratio between Tier 1 capital (net of innovative capital instruments) and total risk-weighted assets;
- the Total capital ratio, represented by the ratio between regulatory capital and total risk-weighted assets.

Specific ("add-on") requirements of the Bank of Italy
Following its inspection of the Parent Company between 2010 and 2011, the Bank of Italy asked for the following urgent measures to be applied in the calculation of our capital requirements from 30 June 2011:
1. the ineligibility of mortgages on residential and non-residential buildings;
2. a one-third increase in the weighting normally used for loans to construction companies, property companies and real estate funds;
3. a 100% increase in the capital requirement for operational risk.

In the calculation at 30 June 2013, applying these measures led to the non-application of the benefits in terms of a lower weighting for mortgage-backed loans, which meant reallocating them to the "companies and other entities" and "retail exposures" portfolios. An increase in risk-weighted assets of 1,991 million euro, which corresponds to a higher capital requirement of 159 million euro.
The higher requirement as a result of these measures (points 2 and 3) was disclosed as a "specific capital requirement" and reported in the following table under sub-item "B.5 Other calculation elements". At 30 June this requirement amounts to 407 million euro (which corresponds to risk-weighted assets of 5,084 million euro) and is attributable for 203 million euro to the higher weighting of loans to the property sector and 204 million for the doubling of the requirement for operational risk.
Overall, implementation of these measures involved an increase in risk-weighted assets of 7,075 million euro, which corresponds to a higher capital requirement of 566 million euro.

Accordingly, as a result of the above and having taken account of the redemption of the so-called "Tremonti Bond" of Euro 500 million on 28 June 2013, our capital ratios at 30 June 2013 were as follows:

- Core Tier 1 capital ratio of 7.45% (8.38% at 31.12.2012);
- Tier 1 capital ratio of 8.07% (8.99% at 31.12.2012);
- Total capital ratio of 11.02% (12.14% at 31.12.2012).

The impact of the higher requirements requested by the Bank of Italy is estimated at 151 basis points on the Core Tier 1 Capital Ratio, 163 basis points on the Tier 1 Capital Ratio and 223 basis points on the Total Capital Ratio. Note that the aforementioned additional requirements were requested by the Bank of Italy and may be reviewed by the Supervisory Authority once the weaknesses reported have been resolved.

In addition, full subscription of the capital increase resolved by the General Meeting of Members of 22 June 2013 for a maximum amount of 500 million euro (see the Interim Report on Operations – paragraph "Significant Events for Banca Popolare di Milano and the BPM Group") would have a positive impact of 119 basis points on the above capital ratios.

After deducting the portion absorbed by credit and counterparty risk, market risk, operational risk and the specific requirements of the Bank of Italy, the Group's surplus capital amounts to 1,269 million.

B. Quantitative information

The following table shows the situation of the capital requirements at 30 June 2013.
Compared with 31 December 2012 the capital ratios are lower mainly due to a decrease in regulatory capital attributable to the redemption of the Tremonti Bond (of Euro 500 million, with a negative impact on the Core Tier I Ratio of 116 basis points); this was partially offset by a positive impact attributable to a decrease in risk-weighted assets of more than Euro 1 billion, with a positive impact on the Core Tier I Ratio of 23 basis points.

Categories/amounts	Non-weighted amounts		Weighted/required amounts	
	30.06.2013	31.12.2012	30.06.2013	31.12.2012
A. RISK-WEIGHTED ASSETS				
A.1 Credit and counterparty risk	**52,357,826**	**53,291,403**	**33,828,713**	**34,914,797**
1. Standardised approach	52,308,264	53,237,022	33,807,413	34,890,750
2. Method based on internal ratings				
2.1 Basic				
2.2 Advanced				
3. Securitisations	49,562	54,381	21,300	24,047
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			**2,706,297**	**2,793,184**
B.2 Market risk			**45,393**	**43,730**
1. Standardised approach			13,596	22,378
2. Internal models			31,797	21,352
3. Concentration risk			–	–
B.3 Operational risk			**203,721**	**203,721**
1. Basic approach			7,454	7,454
2. Standardised approach			196,267	196,267
3. Advanced approach			–	–
B.4 Other prudential requirements			**–**	**–**
B.5 Other calculation elements (*)			**406,765**	**412,364**
B.6 Total minimum requirements			**3,362,176**	**3,452,999**
C. RISK ASSETS AND CAPITAL ADEQUACY RATIOS				
C.1 Risk-weighted assets (**)			**42,027,195**	**43,162,488**
C.2 A) Tier 1 capital (net of innovative capital instruments)/Risk-weighted assets (Core Tier 1 capital ratio)			**7.45%**	**8.38%**
C.2 B) Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)			**8.07%**	**8.99%**
C.3 Regulatory capital including Tier 3/Risk-weighted assets (Total capital ratio)			**11.02%**	**12.14%**

(*) This item includes specific capital requirements required by the Bank of Italy.
(**) Risk-weighted assets (Line item C.1) are the product of total minimum capital requirements and the reciprocal of the obligatory minimum ratio for credit risk, namely 8%.

Part G – Business combinations

Section 1 – Transactions carried out during the year

1.1 Business combinations

During the period no business combinations within the scope of IFRS 3 were completed.

Section 2 – Transactions carried out after the end of the period

2.1 Business combinations

No combinations involving companies or businesses within the scope of IFRS 3 have been carried since the end of the period.

Part H – Related party transactions

1. Information relating to the remuneration of key management personnel

As a result of the Extraordinary General Meeting of Members on 22 October 2011, the Parent Company changed its system of corporate governance, adopting the "two-tier" model which envisages:

- a Supervisory Board elected by the General Meeting of Members and vested with the control functions foreseen by law and the Articles of Association;
- the Management Board, elected by the Supervisory Board, which is responsible for running the business.

Other Group companies have maintained the traditional system of governance, typically with a Board of Directors and, where applicable, a Board of Statutory Auditors.

The fees accruing to the administrative and control bodies in the first half of 2013 – booked to the income statement in line item 180 a) "Personnel expenses" – amount to 3.141 million, as follows:

- Management Board of the Parent Company: 1.186 million;
- Supervisory Board of the Parent Company: 1.068 million;
- Boards of Directors of subsidiaries: 0.595 million;
- Boards of Statutory Auditors of subsidiaries: 0.292 million.

Information relating to the remuneration of key management personnel

The information required by paragraph 16 of IAS 24 is provided below in relation to managers belonging to the senior management teams of group companies and of the Parent Company.

	1st half 2013	1st half 2012
Salaries and other short-term benefits	2,520	2,604
Post-employment benefits (1)	211	221
Termination benefits (2)	1,309	2,404

(1) Represents the annual charge to the employee termination indemnities and pension fund.
(2) The 2013 amount relates to indemnities paid to the General Manager of one of the subsidiaries; the 2012 amount relates to indemnities paid to the General Manager of the Parent Company.

2. Related party disclosures

For further details on the procedures governing related party transactions, please refer to the specific section in the Parent Company's report on operations.

A. Joint ventures and companies subject to significant influence

Line items	30.06.2013			30.06.2012		
	Joint ventures	Companies subject to significant influence	Total	Joint ventures	Companies subject to significant influence	Total
Balance sheet: assets	**8,989**	**587,258**	**596,247**	**18,513**	**652,773**	**671,286**
Financial assets held for trading	–	11,912	**11,912**	–	17,470	**17,470**
Due from banks	–	–	**–**	–	926	**926**
Loans to customers	8,989	575,346	**584,335**	18,513	634,377	**652,890**
Balance sheet: liabilities	**2,825**	**295,528**	**298,353**	**4,561**	**338,663**	**343,224**
Due to customers	2,825	162,376	**165,201**	4,561	84,182	**88,743**
Securities issued	–	114,690	**114,690**	–	117,829	**117,829**
Financial liabilities held for trading	–	18,462	**18,462**	–	22,600	**22,600**
Financial liabilities designated at fair value through profit and loss	–	–	**–**	–	114,052	**114,052**
Balance sheet: guarantees and commitments	**–**	**111,042**	**111,042**	**813**	**152,269**	**153,082**
Guarantees given	–	6,060	**6,060**	–	19,160	**19,160**
Commitments	–	104,982	**104,982**	813	133,109	**133,922**
Income statement	**188**	**71,118**	**71,306**	**334**	**51,122**	**51,456**
Interest income	239	8,694	**8,933**	345	9,687	**10,032**
Interest expense	–	(7,681)	**(7,681)**	(1)	(5,610)	**(5,611)**
Fee and commission income	–	69,334	**69,334**	13	46,425	**46,438**
Fee and commission expense	(51)	–	**(51)**	(23)	–	**(23)**
Recharge of personnel expenses for staff seconded to third parties	–	315	**315**	–	262	**262**
Other operating income	–	456	**456**	–	358	**358**

The column entitled "Companies subject to significant influence" conventionally includes the figures relating to the subsidiaries of associates, to CIC – Crédit Industriel e Commercial (a participating company), Fondazione Cassa di Risparmio di Alessandria and its subsidiaries and the BPM Pension Fund.

B. Other related parties

The following table reports transactions and balances between group companies and members of the Management Boards and of the Supervisory Board and of the Boards of Directors and of Statutory Auditors, as well as key management personnel of group companies, and other parties related to them.

Management Board of the Parent Company		Members of the Board	Companies controlled by members of the Board	Relatives of members of the Board	Companies controlled by relatives of members of the Board
Loans	Granted	10	–	–	–
	Drawdowns	–	–	–	–
Deposits		763	–	–	–
Indirect deposits (at market value)		367	–	–	–
Assets under management (at market value)		–	–	–	–
Guarantees given		–	–	–	–
Interest income		–	–	–	–
Interest expense		–	–	–	–
Commission and other income		–	–	–	–
Amounts recognised for professional and consultancy services		–	–	–	–

Boards of Directors of other Group companies		Members of the Board	Companies controlled by members of the Board	Relatives of members of the Board	Companies controlled by relatives of members of the Board
Loans	Granted	3,171	2,334	1,635	44,248
	Drawdowns	2,415	2,300	1,446	17,953
Deposits		2,957	102	13,975	7,174
Indirect deposits (at market value)		7,392	–	25,942	60,038
Assets under management (at market value)		4,868	39	1,480	–
Guarantees given		–	–	–	7
Interest income		23	7	11	336
Interest expense		(26)	–	(117)	(170)
Commission and other income		25	–	12	22
Amounts recognised for professional and consultancy services		–	–	–	–

Supervisory Board of the Parent Company		Members of the Board	Companies controlled by members of the Board	Relatives of members of the Board	Companies controlled by relatives of members of the Board
Loans	Granted	225	14	96	–
	Drawdowns	91	–	4	–
Deposits		1,769	23	222	118
Indirect deposits (at market value)		1,409	–	247	270
Assets under management (at market value)		855	–	219	–
Guarantees given		–	–	7	–
Interest income		1	–	–	–
Interest expense		(17)	–	–	–
Commission and other income		13	–	3	–
Amounts recognised for professional and consultancy services		–	–	–	–

Boards of Statutory Auditors of other Group companies		Members of the Board of Statutory Auditors	Companies controlled by members of the Board of Statutory Auditors	Relatives of members of the Board of Statutory Auditors	Companies controlled by relatives of members of the Board of Statutory Auditors
Loans	Granted	417	–	161	159
	Drawdowns	356	–	79	–
Deposits		1,180	–	56	180
Indirect deposits (at market value)		1,947	–	42	–
Assets under management (at market value)		82	–	59	–
Guarantees given		8	–	–	–
Interest income		5	–	1	–
Interest expense		(8)	–	–	–
Commission and other income		4	–	2	2
Amounts recognised for professional and consultancy services		–	–	–	–

General Management		Members of General Management	Companies controlled by members of General Management	Relatives of members of General Management	Companies controlled by relatives of members of General Management
Loans	Granted	1,435	–	63	78
	Drawdowns	742	–	8	49
Deposits		1,462	–	690	–
Indirect deposits (at market value)		1,646	–	429	–
Assets under management (at market value)		605	–	856	1
Guarantees given		–	–	–	–
Interest income		5	–	–	2
Interest expense		(7)	–	(6)	–
Commission and other income		3	–	5	2
Amounts recognised for professional and consultancy services		–	–	–	–

Proportion of related party transactions

On the basis of Consob Communication DEM/6064293 of 28.7.2006 and in addition to the requirements of the international accounting standard on "Related party disclosures" (IAS 24), we also provide information on related party transactions or balances as classified by IAS 24, and their impact on the balance sheet and income statement of the Group.

Impact of related party transactions or balances on:	30.06.2013			30.06.2012		
	Book value	Related parties		Book value	Related parties	
		Absolute amount	%		Absolute amount	%
Asset line items:						
20. Financial assets held for trading	1,705,445	11,912	0.7%	2,136,999	17,470	0.8%
60. Due from banks	2,106,886	–	–	2,784,524	926	n.s.
70. Loans to customers	34,038,161	609,778	1.8%	34,947,529	681,609	1.9%
Liabilities:						
20. Due to customers	27,073,851	195,872	0.7%	24,329,544	111,216	0.5%
30. Securities issued	10,182,184	114,690	1.1%	11,847,393	117,829	1.0%
40. Financial liabilities held for trading	1,315,536	18,462	1.4%	1,794,464	22,600	1.3%
50. Financial liabilities designated at fair value through profit and loss	591,492	–	–	1,051,678	114,052	10.8%
Income statement line items:						
10. Interest and similar income	712,398	9,324	1.3%	813,410	10,589	1.3%
20. Interest and similar expense	(296,612)	(8,032)	2.7%	(358,324)	(5,785)	1.6%
40. Fee and commission income	321,773	69,427	21.6%	280,526	46,527	16.6%
50. Fee and commission expense	(43,788)	(51)	0.1%	(41,595)	(23)	0.1%
180. Administrative expenses (*)	(499,191)	315	n.s.	(499,286)	262	n.s.
220. Other operating expenses/income	64,261	456	0.7%	53,298	358	0.7%

(*) The amount reported versus related parties is the balance between the recovery of expenses relating to Group personnel seconded to associates and administrative expenses versus other related parties.

Part I – Share-based payments

A. Qualitative information

1. Description of share-based payments

Allocations of net profit

Under art. 60 of the Parent Company's Articles of Association, an annual allocation is made to current employees – except those who hold senior management positions – or to collective funds where they are registered, of 5% of the Parent Company's pre–tax profit ("Income (loss) before tax from continuing operations"), calculated before determining this amount, unless the Meeting decides not to distribute a dividend out of earnings for the year. The amount is allocated in the form of shares that are subject to a restriction, in that the assignee cannot dispose of them for three years (for the purposes of the tax exemption); the reference value of shares granted is equal to the average stock price posted during the 30 days preceding the award.

Based on IFRS 2, the amount to be paid to employees is considered an expense for the year and recognised in the income statement under "Personnel expenses", for an amount equal to the fair value of the labour received, with the contra–entry booked to shareholders' equity.

Incentive scheme for "key personnel"

Following the issuance by the Bank of Italy of the "Supervisory Provisions concerning remuneration policies and practices and incentives in banks and banking groups" on 30 March 2011 and art. 123–ter of D.Lgs 58/1998, the Parent Company has prepared the annual update of the "Document on remuneration and incentive policies of the BPM Banking Group", available on the www.gruppobpm.it website. The "2013 Policy" has been approved by the Management Board, by the Supervisory Board and by the Members at the Ordinary General Meeting of 27 April 2013.

With regard to so–called "key personnel" (that is, those whose professional duties have or may have a significant impact on the risk profile of the Group and of the individual Banks/Companies that make it up) and the variable element of remuneration, which is designed to recognise merit and the results achieved, the Parent Company has established an incentive system based on effective and lasting results and which also takes into account the risks assumed, laying down a number of parameters to which the recognition of bonuses is subject (so–called "access gates"); there is also an after–the–event correction mechanism which allocates each deferred portion (in the manner explained below) subject to meeting the "access gates" set for the year prior to the allocation thereof.

The variable element of remuneration is paid as follows: 50% in cash and 50% in BPM shares (excluding managers who have responsibility for internal control).

As regards the portion paid in shares, the number of shares is determined by dividing the amount of the variable compensation due by the average price in the thirty days prior to the grant, also making reference for the deferred portion to the value posted in the year of settlement of the upfront allotment. 60% of the share element is attributed to the beneficiary upfront in the year after the accrual period (the so–called "year of settlement"), but with a retention period of two years, while 40% of the shares is deferred in equal parts over a period of three years from the year after that of settlement, with a retention period of one year, which starts from the end of the whole period and is subject to the after–the–event correction mechanism referred to above.

60% of the cash element is paid in the year of settlement, while the other 40% is deferred over a period of three years from the year following the settlement, and is also subject to the after–the–event correction mechanism.

The shares used to service the plan are acquired once specific resolutions have been passed by the Management Board of the Parent Company.

As established in IFRS 2, the transaction explained in this paragraph is considered an expense for the year and recognised in the income statement under "Personnel expenses", for an amount equal to the fair value of the labour received, with the contra–entry booked to shareholders' equity.

For “heads of internal control functions”, the entire amount of the annual bonus is paid only in cash.

B. Quantitative information

2. Other information

With regard to the interim condensed consolidated financial statements, an amount of 9.110 million, equating to 5% of the Parent Company's "Income (loss) before tax from continuing operations” has been accounted for under personnel expenses in the sub–item h) “costs associated with share-based payments”. No cost was recorded in the first half of 2012 as the Parent Company's negative results attributed to the failure to meet the conditions set out in Art. 60 of the Articles of Association concerning the allocation to employees of a share of profits normally reserved for them.

As regards the incentive scheme for key personnel, in relation to the activities carried out in 2012 and 2011, the first parameter (the so–called "access gate") did not exceed the threshold, which means that no bonus will be paid, neither the upfront portion nor the deferred portion.
Moreover, the after-the-event correction mechanism for the deferred variable element led to the non payment of the first two instalments (out of three in total) of deferred variable remuneration relating to the bonus pertaining to 2010. No amount has therefore been booked to personnel expenses.

Part L – Segment reporting

Consolidated results by business segment

This section presents the consolidated results broken down by business segment on the basis of IFRS 8 "Operating Segments".

Primary reporting by business segment

The definition of the activities carried out by each BPM Group company represents the basis for their allocation to the relevant business segment. Broad customer groupings have been identified with regard to the numerous types of customer served by the Group, particularly by its retail banks which use a model that splits customers into different groups. These groupings have similar characteristics in terms of:

- type of products provided;
- distribution channels;
- risk-return profiles;.

The method used for segmenting customers is based on qualitative and quantitative criteria; in particular, as regards corporate customers, the reference parameter is represented by the following turnover thresholds:

- *retail customers*, up to Euro 15 million;
- *middle corporate*, over Euro 15 million and up to Euro 50 million;
- *upper corporate*, over Euro 50 million and up to Euro 250 million;
- *large corporate*, over Euro 250 million.

The customer segmentation model is also consistent with the principle used for allocating them to portfolios, adopted for setting commercial policies and representing the basis for management reporting.

The following segments have therefore been identified and reported:

- **"Retail Banking":** this contains the results of private, small and medium business customers of the Group's "retail" banks together with those of Banca Akros. In addition, this segment contains the results of the private banking business, the amounts related to WeBank and the financial statements figures of ProFamily.
- **"Corporate Banking":** this contains amounts relating to middle, upper and large corporate customers mainly related to the Parent Company;
- **"Treasury & Investment banking":** this contains the results of managing the bank's own securities portfolio, trading on its own account in securities and foreign exchange and treasury activities. This segment not only reports the financial activities typifying the Group's commercial banks, but also the results of Banca Akros, the Group's investment bank, and BPM Ireland (for which the figures relate only to 2012, since in October 2012 the company was put into voluntary liquidation);
- **"Wealth management":** this contains the results relating to the Group's asset management companies. The figures presented for this segment are limited to 2012 for the companies Akros Alternative Investments SGR and Bpm Fund Management; it is worth reiterating, in fact, that during 2013 Akros Alternative Investments was merged into Banca Akros and Bpm Fund Management was cancelled from the Irish companies register on the conclusion of the process of voluntary liquidation;
- **"Other activities":** this segment reports the results of Ge.Se.So. (a company which manages company canteens);
- **"Corporate Centre":** this covers services relating to the Group operations, its role as the receptacle for the investments portfolio, the subordinated liabilities and all the other assets and liabilities not allocated to the other business segments and as the counterparty to all the figurative/standard effects. The following companies are classified in this segment: BPM Capital I, BPM Luxembourg, the two special purpose entities Bpm Securitisation 2 and Bpm Covered Bond (set up for the mortgage loan securitisations and the covered bond issue programme).

For the purpose of reconciling the segment results and the consolidated results, please note that:

- the methods used for measuring the quantitative information shown below are the same as those used for management reporting purposes, which are also in line with the accounting policies applied in drawing up the consolidated financial statements;
- lastly, note that the main schedule also provides for the disclosure of eliminations between segments, which are shown in the column entitled "Cross-segment eliminations", as well as consolidation adjustments, which are shown in the column entitled "Other adjustments", and the results of the companies valued according to the equity method;
- it was not necessary to prepare the reconciliation schedule as there were no other reconciling items between the sum of the pre-tax results of the segments and the consolidated book result.

Definition of content

With reference to the information reported in the primary reporting formats, it is to be noted as follows:

- **"interest margin"** is determined according to the model of internal transfer rates used to measure the operating performances of all the centres of responsibility of the individual legal entities belonging to the Group;
- **"indirect costs"** contain an allocation of overheads based an internal cost-allocation model, which makes it possible to identify the business and service units and the relationships between them, so as to recognise their exchanges of value and put a price on them. The revenues and costs to be allocated, calculated in this way, are included in internal revenues and costs;
- the **"segment income (loss) before tax from continuing operations"** is obtained by deducting segment costs from segment revenues, including the effect of figurative income and expenses. The sum of all of the segment results is the same as the corresponding line item in the consolidated income statement;
- the balance sheet figures are those reported at the period end. **Liabilities** are stated net of share capital, reserves and net profit for the year.

A. Segment quantitative information

In order to make a comparison, the figures for the first half of 2012 have been restated, where necessary, to take account of the update of the customer "portfoliation", which in some cases led to a different allocation of customers between the various segments. Moreover, the review of the "internal transfer rates" system led to a different allocation of the interest margin to the various business units.

A.1 Segment results

The results by business segment are reported below:

- **"Retail banking"** reported a pre–tax loss of Euro 19.2 million, an improvement of Euro 360.4 million with respect to the comparison period. In details:
  - **Operating income** for Euro 466.3 million, with a rise of Euro 9.3 million versus the previous year. This result is mainly attributable to a positive contribution from service income (+43.7 million on the comparative figure) due, in particular, to a good performance from indirect deposits, which more than offset a decrease in interest margin (Euro –34.3 million) caused by a significant deterioration in the mark–down (–45 bps) not offset by an improvement in the mark–up (+32 bps);
  - **operating expenses** in line with the same period of last year;
  - **net impairment adjustments to loans**, Euro 74.5 million, have decreased by Euro 4.0 million, with respect to the previous year;
  - **profits (losses) from equity and other investments and adjustments to goodwill and intangible assets** amount to zero for the current year, while last year it amounted to a loss of Euro 348.5 million as a result of the verification process of the value of intangible assets arising from the allocation of the purchase price of the former Unicredit branches to core deposits and goodwill attributable to the CGUs included in the Commercial Banking segment, in particular:
    a) Banca di Legnano;
    b) WeBank;
    c) the former Unicredit branches, Banca 2000 and Pavia branch, which derive from business combinations made by the Parent Company for which the autonomous CGU has been identified as the Commercial Banking segment of the Parent Company.
- **"Corporate banking":** contributes with a pre–tax result of Euro 41.4 million, which shows a decline of Euro 23.4 million with respect to the comparative figure. The positive result contributed by a good performance of the interest margin (Euro 4.5 million compared with the previous year) together with an improvement in the mark–up (+26 bps) was annulled by an increase in adjustments to loans which amounted to Euro 92.9 million (Euro –30.7 million in the previous year).
- **"Treasury & Investment banking":** this contributes a pre–tax profit of Euro 242.4 million, an increase of Euro 108.9 million on last year. This positive trend in the interest margin (+9.7 million on the comparative figure) is accompanied by a significant increase in net income from banking activities of Euro 157.3 million (+87.1 million on the previous year).
  This increase is attributable to the following factors:
  - Euro 92.5 million from an increase in income achieved by the Parent Company, with the main contributory factor being gains on disposals of government securities (+100.6 million on the comparative figure);
  - Euro 5.6 million from an increase in income from Banca Akros's operations;
  - a loss of Euro 10.6 million from the closure of Bpm Ireland's operations.

In 2012 the CGU's result included Euro –11.7 million adjustment to the goodwill of Banca Akros.

- **"Wealth management":** presents only figures for the prior year relating to Akros Alternative Investments SGR.
- **"Other activities":** at present this segment only includes Ge.se.so.
- **"Corporate centre":** this reports a negative result of Euro 41.5 million, versus 21.9 million loss of the previous year.

Segment income statement

(Euro/000)

	Retail Banking	Corporate Banking	Treasury & Investment Banking	Wealth Management	Other activities	Corporate Centre	Cross segment eliminations	Other consolidation adjustments	Total
A. JUNE 2013									
Interest margin	206,640	133,736	113,955	0	4	–34,325	0	–4,224	415,786
Service income	259,667	49,531	8,795	0	1,086	–6,891	–2,233	–217	309,738
Profit/losses from financial management	0	0	157,336	0	0	–1,522	0	–7,241	148,573
Profits (losses) on investments in associates and companies subject to joint control at equity	0	0	0	0	0	11,790	0	0	11,790
Operating income	**466,307**	**183,267**	**280,086**	**0**	**1,090**	**–30,948**	**–2,233**	**–11,682**	**885,887**
Direct costs	–182,791	–9,593	–29,606	0	–1,017	–279,341	2,233	265	–499,850
Of which personnel expenses:	*–172,694*	*–8,656*	*–16,784*	*0*	*–935*	*–122,185*	*1,284*	*0*	*–319,970*
Indirect costs	–228,222	–39,421	–3,184	0	0	270,827	0	0	0
Operating expenses	**–411,013**	**–49,014**	**–32,790**	**0**	**–1,017**	**–8,514**	**2,233**	**265**	**–499,850**
Operating profit	**55,294**	**134,253**	**247,296**	**0**	**73**	**–39,462**	**0**	**–11,417**	**386,037**
Net impairment adjustments to loans, financial and other assets	–74,450	–92,871	–4,915	0	0	–2,077	0	2,142	–172,171
Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets	0	0	0	0	0	0	0	0	0
Income (loss) before tax from continuing operations	**–19,156**	**41,382**	**242,381**	**0**	**73**	**–41,539**	**0**	**–9,275**	**213,866**
B. JUNE 2012									
Operating income	**457,010**	**177,914**	**183,923**	**759**	**1,054**	**–11,653**	**–2,335**	**–12,682**	**793,990**
Operating expenses	**–409,559**	**–50,952**	**–34,649**	**–905**	**–979**	**–3,844**	**2,335**	**619**	**–497,934**
Net impairment adjustments to loans, financial and other assets	–78,498	–62,211	–4,102	–270	0	–6,687	0	10,454	–141,314
Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets	–348,477	0	–11,726	0	0	285	0	0	–359,918
Income (loss) before tax from continuing operations	**–379,524**	**64,751**	**133,446**	**–416**	**75**	**–21,899**	**0**	**–1,609**	**–205,176**
CHANGE A–B									
Operating income	**9,297**	**5,353**	**96,163**	**–759**	**36**	**–19,295**	**102**	**1,000**	**91,897**
Operating expenses	**–1,454**	**1,938**	**1,859**	**905**	**–38**	**–4,670**	**–102**	**–354**	**–1,916**
Net impairment adjustments to loans, financial and other assets	4,048	–30,660	–813	270	0	4,610	0	–8,312	–30,857
Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets	348,477	0	11,726	0	0	–285	0	0	359,918
Income (loss) before tax from continuing operations	**360,368**	**–23,369**	**108,935**	**416**	**–2**	**–19,640**	**0**	**–7,666**	**419,042**

Segment balance sheet

(Euro/000)

	Retail Banking	Corporate Banking	Treasury & Investment Banking	Wealth Management	Other activities	Corporate Centre	Cross segment eliminations	Other adjustments	Total companies
A. 30 JUNE 2013									
Total assets	**21,038,710**	**13,265,443**	**14,181,087**	**0**	**1,463**	**10,609,147**	**–966,357**	**–7,163,117**	**50,966,376**
of which investments carried at equity	0	0	0	0	0	357,642	0	0	357,642
Total liabilities (*)	**–27,683,167**	**–1,472,436**	**–8,102,670**	**0**	**–1,147**	**–16,972,984**	**966,357**	**5,912,261**	**–47,353,786**
B. 30 JUNE 2012									
Total assets	**20,930,707**	**14,096,861**	**14,726,711**	**3,708**	**1,404**	**11,544,053**	**–805,991**	**–7,875,686**	**52,621,767**
of which investments carried at equity	0	0	0	0	0	323,246	0	0	323,246
Total liabilities (*)	**–28,082,851**	**–1,659,284**	**–11,019,615**	**–888**	**–1,152**	**–15,183,134**	**805,991**	**6,595,088**	**–48,545,845**
CHANGE A – B									
Total assets	**108,003**	**–831,418**	**–545,624**	**–3,708**	**59**	**–934,906**	**–160,366**	**712,569**	**–1,655,391**
of which investments carried at equity	0	0	0	0	0	34,396	0	0	34,396
Total liabilities (*)	**399,684**	**186,848**	**2,916,945**	**888**	**5**	**–1,789,850**	**160,366**	**–682,827**	**1,192,059**

(*) not including shareholders' equity

Certification of the half-yearly condensed consolidated financial statements pursuant to art. 81-ter of Consob Regulation no. 11971 dated 14 May 1999 and subsequent additions and amendments

1.Piero Luigi Montani, as Managing Director and Chief Executive Officer, and Roberto Frigerio, as the Financial Reporting Manager of Banca Popolare di Milano S.c.a.r.l., certify, taking into account art. 154-bis, para. 3 and 4, of Decree 58 of 24 February 1998:

- the adequacy in relation to the characteristics of the company and
- the effective

application of the administrative and accounting procedures for the preparation of the half-yearly condensed consolidated financial statements at 30 June 2013, during the first half of 2013.

2. The assessment of adequacy of the administrative and accounting procedures as a basis for the formation of the half-yearly condensed consolidated financial statements at 30 June 2013 is based on a model developed by Banca Popolare di Milano in line with that of the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (CoSO), which represents a framework of reference that is generally accepted at international level.

3. In addition, we certify that:

3.1 the half-yearly condensed consolidated financial statements at 30 June 2013:
a) have been prepared in accordance with the international accounting standards (IAS/IFRS) applicable and recognised by the European Community as per (EC) Regulation 1606/2002 of the European Parliament and Council dated 19 July 2002;
b) agree with the balances on the books of account and accounting entries;
c) give a true and fair view of the assets and liabilities, results and financial situation of the issuer and of the companies included in the consolidation.

3.2 The half-yearly report on operations contains an analysis of the key events that took place during the first six months of the year, including their impact on the half-yearly condensed consolidated financial statements, together with a description of the main risks and uncertainties for the other six months of the year. The interim report on operations also includes an analysis of significant transactions with related parties.

Milan, 27 August 2013

Managing Director and Chief Executive Officer	Financial Reporting Manager
Piero Luigi Montani	Roberto Frigerio

Attachments

Reconciliation between the consolidated balance sheet and the consolidated reclassified balance sheet

(Euro/000)

Consolidated reclassified balance sheet line items			Consolidated balance sheet line items	30.06.2013	31.03.2013	31.12.2012	30.06.2012
Cash and cash equivalents				**226,984**	**228,473**	**285,892**	**427,010**
	Line item	10	Cash and cash equivalents	226,984	228,473	285,892	427,010
Financial assets designated at fair value and hedging derivatives:				**11,834,884**	**11,626,960**	**11,901,399**	**11,835,426**
	Line item	20	Financial assets held for trading	1,705,445	1,798,512	1,821,675	2,136,999
	Line item	30	Financial assets designated at fair value through profit and loss	259,500	261,137	259,321	376,610
	Line item	40	Financial assets available for sale	9,639,583	9,319,355	9,539,376	9,074,075
	Line item	50	Investments held to maturity	0	0	0	0
	Line item	80	Hedging derivatives	217,206	227,090	256,320	221,131
	Line item	90	Fair value change of financial assets in hedged portfolios (+/–)	13,150	20,866	24,707	26,611
Due from banks				**2,106,886**	**2,635,231**	**2,718,371**	**2,784,524**
	Line item	60	Due from banks	2,106,886	2,635,231	2,718,371	2,784,524
Loans to customers				**34,038,161**	**35,089,999**	**34,790,891**	**34,947,529**
	Line item	70	Loans to customers	34,038,161	35,089,999	34,790,891	34,947,529
Fixed assets				**1,176,934**	**1,171,192**	**1,174,152**	**1,123,334**
	Line item	100	Investments in associates and companies subject to joint control	357,642	354,596	346,039	323,246
	Line item	120	Property and equipment	745,093	749,380	757,938	735,894
	Line item	130	Intangible assets	74,199	67,216	70,175	64,194
Technical insurance reserves reassured with third parties				**0**	**0**	**0**	**0**
	Line item	110	Technical insurance reserves reassured with third parties	0	0	0	0
Non-current assets held for sale and discontinued operations				**0**	**0**	**0**	**0**
	Line item	150	Non-current assets held for sale and discontinued operations	0	0	0	0
Other assets				**1,582,527**	**1,870,486**	**1,604,300**	**1,503,944**
	Line item	140	Tax assets	924,774	962,910	948,626	862,304
	Line item	160	Other assets	657,753	907,576	655,674	641,640
Total assets				**50,966,376**	**52,622,341**	**52,475,005**	**52,621,767**
Due to banks				**6,281,204**	**6,284,368**	**6,292,005**	**7,753,545**
	Line item	10	Due to banks	6,281,204	6,284,368	6,292,005	7,753,545
Due to customers				**27,073,851**	**25,932,864**	**26,297,613**	**24,329,544**
	Line item	20	Due to customers	27,073,851	25,932,864	26,297,613	24,329,544
Securities issued				**10,182,184**	**11,635,397**	**11,223,349**	**11,847,393**
	Line item	30	Securities issued	10,182,184	11,635,397	11,223,349	11,847,393
Financial liabilities and hedging derivatives:				**1,968,230**	**2,323,552**	**2,671,336**	**2,926,406**
	Line item	40	Financial liabilities held for trading	1,315,536	1,448,291	1,585,447	1,794,464
	Line item	50	Financial liabilities designated at fair value through profit and loss	591,492	803,946	1,009,898	1,051,678
	Line item	60	Hedging derivatives	34,146	42,305	45,049	45,372
	Line item	70	Fair value change of financial liabilities in hedged portfolios (+/–)	27,056	29,010	30,942	34,892
Liabilities associated with non-current assets held for sale and discontinued operations				**0**	**0**	**0**	**0**
	Line item	90	Liabilities associated with non-current assets held for sale and discontinued operations	0	0	0	0
Other liabilities				**1,214,926**	**1,761,078**	**1,271,219**	**1,232,870**
	Line item	80	Tax liabilities	126,943	174,056	140,026	84,791
	Line item	100	Other liabilities	1,087,983	1,587,022	1,131,193	1,148,079
Provisions for specific use				**633,391**	**648,058**	**662,766**	**456,087**
	Line item	110	Employee termination indemnities	142,147	137,227	147,167	143,548
	Line item	120	Allowances for risks and charges	491,244	510,831	515,599	312,539
Technical reserves				**0**	**0**	**0**	**0**
	Line item	130	Technical reserves	0	0	0	0
Capital and reserves				**3,487,463**	**3,938,195**	**4,444,780**	**4,163,970**
	Line item	140	Valuation reserves	36,454	–14,415	62,476	–218,335
	Line item	150	Redeemable shares	0	0	0	0
	Line item	160	Equity instruments	0	500,000	500,000	500,000
	Line item	170	Reserves	586,149	420,863	850,557	850,557
	Line item	180	Share premium reserve	9	166,897	166,897	166,902
	Line item	190	Share capital	2,865,710	2,865,709	2,865,709	2,865,709
	Line item	200	Treasury shares (–)	–859	–859	–859	–863
Minority interests (+/–)				**19,520**	**41,574**	**41,631**	**43,296**
	Line item	210	Minority interests (+/–)	19,520	41,574	41,631	43,296
Net income (loss) for the period (+/–)				**105,607**	**57,255**	**–429,694**	**–131,344**
	Line item	220	Net income (loss) for the period (+/–)	105,607	57,255	–429,694	–131,344
Total liabilities and shareholders' equity				**50,966,376**	**52,622,341**	**52,475,005**	**52,621,767**

Reconciliation between the consolidated income statement and the consolidated reclassified income statement

(Euro/000)

Consolidated reclassified income statement line items		Consolidated income statement line items	First half 2013	First half 2012
Interest margin			**415,786**	**455,086**
	Line item 10	Interest and similar income	712,398	813,410
		Interest and similar income	712,398	813,410
	Line item 20	Interest and similar expense	(296,612)	(358,324)
		Interest and similar expense	(296,612)	(358,324)
Non-interest margin			**470,101**	**338,904**
Net fee and commission income			**277,985**	**238,931**
	Line item 40	Fee and commission income	321,773	280,526
		Fee and commission income	**321,773**	**280,526**
	Line item 50	Fee and commission expense	(43,788)	(41,595)
		Fee and commission expense	**(43,788)**	**(41,595)**
Other income			**192,116**	**99,973**
Profits (losses) on investments carried at equity			**11,790**	**7,270**
	(+) Line item 240	(partial) - Profits (losses) on investments in associates and companies subject to joint control (carried at equity)	11,790	7,270
Net income (loss) from banking activities			**148,573**	**75,562**
	Line item 70	Dividend and similar income	9,036	9,753
		Dividends	**9,036**	**9,753**
	Line item 80	Profits (losses) on trading	28,951	29,192
		Profits (losses) on trading	**28,951**	**29,192**
	Line item 90	Fair value adjustments in hedge accounting	(3,647)	15,129
		Fair value adjustments in hedge accounting	**(3,647)**	**15,129**
	Line item 100	Profits (losses) on disposal or repurchase of:	120,258	32,668
		a) loans	*450*	*(7)*
		b) financial assets available for sale	*119,774*	*17,678*
		c) investments held to maturity	*0*	*0*
		d) financial liabilities	*34*	*14,997*
	(–) Line item 100	a) Profits (losses) on disposal or repurchase of loans	(450)	7
		Profits/losses on disposal or repurchase of financial assets/liabilities	**119,808**	**32,675**
	Line item 110	Profits (losses) on financial assets and liabilities designated at fair value	7,980	7,654
		Profits (losses) on financial assets and liabilities designated at fair value	**7,980**	**7,654**
	(+) Line item 130	b) Net losses/recoveries on impairment: financial assets available for sale	(13,555)	(18,841)
		Net losses/recoveries on impairment: financial assets available for sale	**(13,555)**	**(18,841)**
Other operating expenses/income			**31,753**	**17,141**
	Line item 220	Other operating expenses/income	64,261	53,298
	(–) Line item 220	(partial) - Recoverable portion of indirect taxes	(34,720)	(38,350)
	(+) Line item 220	(partial) - Depreciation of leasehold improvements	2,212	2,193
Operating income			**885,887**	**793,990**
Administrative expenses:			**(464,471)**	**(460,936)**
a) personnel expenses			(319,970)	(314,394)
	Line item 180	a) Personnel expenses	(319,970)	(314,394)
b) other administrative expenses			(144,501)	(146,542)
	Line item 180	b) Other administrative expenses	(179,221)	(184,892)
	(+) Line item 220	(partial) – Other operating expenses/income (recoverable portion of indirect taxes)	34,720	38,350
Net adjustments to property and equipment and intangible assets			**(35,379)**	**(36,998)**
	Line item 200	Net adjustments to/recoveries on property and equipment	(21,640)	(21,611)
	Line item 210	Net adjustments to/recoveries on intangible assets	(11,527)	(37,972)
	(–) Line item 210	(partial) Net adjustments to/recoveries on intangible assets (impairment of core deposits)	0	24,778
	(+) Line item 220	(partial) – Other operating expenses/income (depreciation of leasehold improvements)	(2,212)	(2,193)
Operating expenses			**(499,850)**	**(497,934)**
Operating profit			**386,037**	**296,056**

(cont.)

Reconciliation between the consolidated income statement and the consolidated reclassified income statement

(Euro/000)

(cont.)

Consolidated reclassified income statement line items		Consolidated income statement line items	First half 2013	First half 2012
Net impairment adjustments of loans and other activities			**(163,816)**	**(134,427)**
	Line item 130	Net losses/recoveries on impairment of:	(177,821)	(153,261)
		a) loans	(161,888)	(127,420)
		b) financial assets available for sale	(13,555)	(18,841)
		c) investments held to maturity	0	0
		d) other financial activities	(2,378)	(7,000)
	(+) Line item 100	a) Profits (losses) on disposal or repurchase of loans	450	(7)
	(–) Line item 130	b) Net losses/recoveries on impairment: financial assets available for sale	13,555	18,841
Net provisions for risks and charges			**(8,355)**	**(6,887)**
	Line item 190	Net provisions for risks and charges	(8,355)	(6,887)
Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets			**0**	**(359,918)**
	Line item 240	Profits (losses) on investments in associates and companies subject to joint control	11,790	7,270
	Line item 250	Net result of valuation differences on property, equipment and intangible assets measured at fair value	0	0
	Line item 260	Goodwill impairment	0	(335,425)
	Line item 270	Profits (losses) on disposal of investments	0	285
	(+) Line item 210	*(partial) Net adjustments to/recoveries on intangible assets (impairment of core deposits)*	*0*	*(24,778)*
	(–) Line item 240	*(partial) - Profits (losses) on investments in associates and companies subject to joint control (carried at equity)*	*(11,790)*	*(7,270)*
Income (loss) before tax from continuing operations			**213,866**	**(205,176)**
Taxes on income from continuing operations			**(108,000)**	**70,314**
	Line item 290	Taxes on income from continuing operations	(108,000)	70,314
Income (loss) after tax from continuing operations			**105,866**	**(134,862)**
Net income (loss) for the period			105,866	(134,862)
Minority interests			**(259)**	**3,518**
	Line item 330	Minority interests	(259)	3,518
Parent company's net income (loss) for the period			**105,607**	**(131,344)**

Consolidated reclassified income statement net of non-recurring transactions – Quarter by quarter

(Euro/000)

Line items	Year 2013						Year 2012											
	2nd Quarter			1st Quarter			4th Quarter			3rd Quarter			2nd Quarter			1st Quarter		
	Net income (loss)	Net income (loss) from non-recurring transactions	Net income (loss) from recurring transactions	Net income (loss)	Net income (loss) from non-recurring transactions	Net income (loss) from recurring transactions	Net income (loss)	Net income (loss) from non-recurring transactions	Net income (loss) from recurring transactions	Net income (loss)	Net income (loss) from non-recurring transactions	Net income (loss) from recurring transactions	Net income (loss)	Net income (loss) from non-recurring transactions	Net income (loss) from recurring transactions	Net income (loss)	Net income (loss) from non-recurring transactions	Net income (loss) from recurring transactions
Interest margin	**225,003**	**0**	**225,003**	**190,783**	**0**	**190,783**	**201,629**	**0**	**201,629**	**202,343**	**0**	**202,343**	**228,519**	**0**	**228,519**	**226,567**	**0**	**226,567**
Non–interest margin:	**232,809**	**0**	**232,809**	**237,292**	**0**	**237,292**	**181,276**	**0**	**181,276**	**170,476**	**(3,302)**	**173,778**	**131,766**	**(726)**	**132,492**	**207,138**	**8,671**	**198,467**
– Net fee and commission income	146,271	0	146,271	131,714	0	131,714	142,242	0	142,242	115,319	0	115,319	119,826	0	119,826	119,105	0	119,105
– Other income:	86,538	0	86,538	105,578	0	105,578	39,034	0	39,034	55,157	(3,302)	58,459	11,940	(726)	12,666	88,033	8,671	79,362
- Profits (losses) on investments carried at equity	*3,886*	*0*	*3,886*	*7,904*	*0*	*7,904*	*9,782*	*0*	*9,782*	*4,625*	*0*	*4,625*	*4,077*	*0*	*4,077*	*3,193*	*0*	*3,193*
- Net income from banking activities	*69,205*	*0*	*69,205*	*79,368*	*0*	*79,368*	*14,135*	*0*	*14,135*	*38,829*	*(3,302)*	*42,131*	*(3,290)*	*(726)*	*(2,564)*	*78,852*	*8,671*	*70,181*
- Other operating charges/income	*13,447*	*0*	*13,447*	*18,306*	*0*	*18,306*	*15,117*	*0*	*15,117*	*11,703*	*0*	*11,703*	*11,153*	*0*	*11,153*	*5,988*	*0*	*5,988*
Operating income	**457,812**	**0**	**457,812**	**428,075**	**0**	**428,075**	**382,905**	**0**	**382,905**	**372,819**	**(3,302)**	**376,121**	**360,285**	**(726)**	**361,011**	**433,705**	**8,671**	**425,034**
Administrative expenses:	(235,755)	(1,162)	(234,593)	(228,716)	(1,023)	(227,693)	(430,073)	(212,833)	(217,240)	(219,546)	(55)	(219,491)	(217,475)	(342)	(217,133)	(243,461)	(164)	(243,297)
a) personnel expenses	*(158,006)*	*(1,162)*	*(156,844)*	*(161,964)*	*(1,023)*	*(160,941)*	*(340,419)*	*(212,833)*	*(127,586)*	*(156,868)*	*(55)*	*(156,813)*	*(145,239)*	*(342)*	*(144,897)*	*(169,155)*	*(164)*	*(168,991)*
b) other administrative expenses	*(77,749)*	*0*	*(77,749)*	*(66,752)*	*0*	*(66,752)*	*(89,654)*	*0*	*(89,654)*	*(62,678)*	*0*	*(62,678)*	*(72,236)*	*0*	*(72,236)*	*(74,306)*	*0*	*(74,306)*
Net adjustments to property and equipment and intangible assets	(17,977)	0	(17,977)	(17,402)	0	(17,402)	(17,874)	0	(17,874)	(17,438)	0	(17,438)	(18,668)	0	(18,668)	(18,330)	0	(18,330)
Operating expenses	**(253,732)**	**(1,162)**	**(252,570)**	**(246,118)**	**(1,023)**	**(245,095)**	**(447,947)**	**(212,833)**	**(235,114)**	**(236,984)**	**(55)**	**(236,929)**	**(236,143)**	**(342)**	**(235,801)**	**(261,791)**	**(164)**	**(261,627)**
Operating profit	**204,080**	**(1,162)**	**205,242**	**181,957**	**(1,023)**	**182,980**	**(65,042)**	**(212,833)**	**147,791**	**135,835**	**(3,357)**	**139,192**	**124,142**	**(1,068)**	**125,210**	**171,914**	**8,507**	**163,407**
Net adjustments for impairment of loans and other activities	(99,692)	0	(99,692)	(64,124)	0	(64,124)	(356,888)	0	(356,888)	(74,939)	0	(74,939)	(82,875)	0	(82,875)	(51,552)	(255)	(51,297)
Net provisions for risks and charges	(5,962)	0	(5,962)	(2,393)	0	(2,393)	(21,931)	(14,513)	(7,418)	(3,181)	0	(3,181)	(2,784)	0	(2,784)	(4,103)	49	(4,152)
Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets	1	0	1	(1)	0	(1)	(6,905)	(6,899)	(6)	3	0	3	(360,063)	(360,203)	140	145	0	145
Income (loss) before tax from continuing operations	**98,427**	**(1,162)**	**99,589**	**115,439**	**(1,023)**	**116,462**	**(450,766)**	**(234,245)**	**(216,521)**	**57,718**	**(3,357)**	**61,075**	**(321,580)**	**(361,271)**	**39,691**	**116,404**	**8,301**	**108,103**
Taxes on income from continuing operations	(50,000)	(1,170)	(48,830)	(58,000)	281	(58,281)	125,335	74,594	50,741	(32,275)	15	(32,290)	122,717	143,818	(21,101)	(52,403)	115	(52,518)
Income (loss) after tax from continuing operations	**48,427**	**(2,332)**	**50,759**	**57,439**	**(742)**	**58,181**	**(325,431)**	**(159,651)**	**(165,780)**	**25,443**	**(3,342)**	**28,785**	**(198,863)**	**(217,453)**	**18,590**	**64,001**	**8,416**	**55,585**
Income (loss) after tax from discontinued operations	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net income (loss) for the period	**48,427**	**(2,332)**	**50,759**	**57,439**	**(742)**	**58,181**	**(325,431)**	**(159,651)**	**(165,780)**	**25,443**	**(3,342)**	**28,785**	**(198,863)**	**(217,453)**	**18,590**	**64,001**	**8,416**	**55,585**
Minority interests	(75)	(2)	(73)	(184)	2	(186)	1,651	748	903	(13)	(1)	(12)	3,235	3,487	(252)	283	0	283
Parent company's net income (loss) for the period	**48,352**	**(2,334)**	**50,686**	**57,255**	**(740)**	**57,995**	**(323,780)**	**(158,903)**	**(164,877)**	**25,430**	**(3,343)**	**28,773**	**(195,628)**	**(213,966)**	**18,338**	**64,284**	**8,416**	**55,868**

Information on BPM Group companies

For a complete description of the BPM Group, information on the interim results of the main companies included in the scope of consolidation are shown below. Key income statement and balance sheet figures are provided for each company, together with a brief commentary.

Banca Popolare di Milano Soc. coop. a r.l.

Banca Popolare di Milano – Reclassified balance sheet

(Euro/000)

Assets	30.06.2013	31.03.2013	31.12.2012	30.06.2012	Change A – B		Change A – C	
	A	B	C	D	amount	%	amount	%
Cash and cash equivalents	164,278	169,914	214,345	373,252	–5,636	–3.3	–50,067	–23.4
Financial assets designated at fair value and hedging derivatives:	9,097,844	8,923,632	8,992,772	8,955,484	174,212	2.0	105,072	1.2
– Financial assets held for trading	*214,506*	*288,387*	*232,075*	*365,079*	*–73,880*	*–25.6*	*–17,568*	*–7.6*
– Financial assets designated at fair value through profit and loss	*259,687*	*261,319*	*259,520*	*314,289*	*–1,632*	*–0.6*	*168*	*0.1*
– Financial assets available for sale	*8,531,202*	*8,269,110*	*8,362,463*	*8,188,639*	*262,092*	*3.2*	*168,739*	*2.0*
– Hedging derivatives	*86,384*	*94,411*	*124,302*	*69,851*	*–8,027*	*–8.5*	*–37,919*	*–30.5*
– Fair value change of financial assets in hedged portfolios	*6,064*	*10,405*	*14,412*	*17,626*	*–4,340*	*–41.7*	*–8,348*	*–57.9*
Due from banks	1,270,439	1,411,641	1,361,910	1,720,357	–141,201	–10.0	–91,471	–6.7
Loans to customers	27,771,846	29,107,686	28,986,977	28,954,317	–1,335,840	–4.6	–1,215,131	–4.2
Fixed assets	2,095,725	2,079,307	2,089,236	2,138,165	16,418	0.8	6,489	0.3
Other assets	1,239,953	1,444,541	1,271,991	1,143,453	–204,589	–14.2	–32,038	–2.5
Total assets	**41,640,085**	**43,136,721**	**42,917,231**	**43,285,027**	**–1,496,636**	**–3.5**	**–1,277,146**	**–3.0**

Liabilities and shareholders' equity	30.06.2013	31.03.2013	31.12.2012	30.06.2012	Change A – B		Change A – C	
	A	B	C	D	amount	%	amount	%
Due to banks	6,872,456	6,824,906	6,893,982	9,185,020	47,550	0.7	–21,526	–0.3
Due to customers	19,925,692	18,928,420	19,633,571	17,062,003	997,273	5.3	292,121	1.5
Securities issued	9,302,689	10,775,847	10,064,867	10,669,599	–1,473,158	–13.7	–762,178	–7.6
Financial liabilities and hedging derivatives:	588,640	818,613	887,635	1,089,568	–229,973	–28.1	–298,995	–33.7
– Financial liabilities held for trading	*196,440*	*260,812*	*209,548*	*370,829*	*–64,372*	*–24.7*	*–13,108*	*–6.3*
– Financial liabilities designated at fair value through profit and loss	*338,582*	*497,237*	*612,685*	*647,532*	*–158,655*	*–31.9*	*–274,103*	*–44.7*
– Hedging derivatives	*26,561*	*31,554*	*34,460*	*36,315*	*–4,992*	*–15.8*	*–7,899*	*–22.9*
– Fair value change of financial liabilities in hedged portfolios	*27,056*	*29,010*	*30,942*	*34,892*	*–1,953*	*–6.7*	*–3,885*	*–12.6*
Other liabilities	980,069	1,361,018	968,328	947,236	–380,949	–28.0	11,741	1.2
Provisions for specific use	505,141	525,212	539,975	359,070	–20,071	–3.8	–34,834	–6.5
Capital and reserves	3,379,799	3,852,981	4,402,835	4,144,362	–473,182	–12.3	–1,023,036	–23.2
Net income (loss) for the period (+/–)	85,599	49,725	–473,960	–171,830	35,874	72.1	559,560	–118.1
Total liabilities and shareholders' equity	**41,640,085**	**43,136,721**	**42,917,231**	**43,285,027**	**–1,496,636**	**–3.5**	**–1,277,146**	**–3.0**

Other information	30.06.2013	31.03.2013	31.12.2012	30.06.2012	Change A – B		Change A – C	
	A	B	C	D	amount	%	amount	%
Indirect customer deposits at market value	21,345,031	21,414,034	21,447,250	21,529,605	–69,003	–0.3	–102,219	–0.5
– of which assets under administration	10,807,867	10,986,394	11,289,830	12,020,219	–178,527	–1.6	–481,963	–4.3
– of which assets under management	10,537,164	10,427,640	10,157,420	9,509,386	109,524	1.1	379,744	3.7
Headcount (*)	5,952	6,002	6,235	6,307	–50	–0.8	–283	–4.5
Number of branches	516	518	543	544	–2	–0.4	–27	–5

(*) Employees + net secondees + temps

Principal balance sheet aggregates

The aggregate "Direct deposits" – consisting of amounts due to customers, securities issued and financial liabilities designated at fair value through profit and loss – comes to Euro 29,567 million at 30 June 2013, with a decrease of 2.1% with respect to the figure in March 2013 and of 2.5% on December 2012. Within this aggregate:

- amounts **due to customers** amount to Euro 19,926 million, an increase of 5.3% compared with March 2013 (+ Euro 997 million) and +1.5% on December 2012 (+ Euro 292 million). Contributory factors to this increase in the period, among other things, were an increase in current and savings accounts (+ Euro 162 million in the period) and repurchase agreements (+ Euro 180 million), with the latter consisting of transactions entered into by BPM on the MTS market with a view to diversifying its sources of funding;
- **securities issued** amount to Euro 9,302.6 million, a decrease of 13.7% (– Euro 1,473 million) compared with March 2013 and of 7.6% on December 2012 (– Euro 762.2 million). This decrease in the period was attributable to the trend in the institutional component and the domestic component. With regard to the institutional component, the decrease is mainly attributable to the maturity in early April of debt securities issued under the EMTN programme for a nominal amount of Euro 1.25 billion, partially offset by a placement at the beginning of the year of another senior issue of a nominal amount of Euro 750 million, which was also within the EMTN programme. As regards retail customer deposits, the decrease is due to the non–renewal of part of the certificates of deposit and bonds that reached maturity in the period;
- **financial liabilities designated at fair value through profit and loss** amounted to Euro 339 million, down compared with March 2013 (–31.9%) and compared with December 2012 (–44.7%), also in this case as a result of repayments not offset by new issues in the period.

Indirect deposits

Indirect deposits at 30 June 2013 amount to Euro 21,345 million and are substantially stable compared both with the figures at the end of 2012 (–0.5%) and March 2013 (–0.3%).
Within this aggregate, **assets under management**, total Euro 10,537 million, up both on March (+1.1%) and on the end of 2012 (+3.7%). This performance benefited mainly from the good result in the funds segment, which increased by Euro 83 million (+1.4%) compared with the March 2013 and Euro 244 million (+4.2%) compared with the end of 2012, against a positive net flow of Euro 293 million. There has been a decrease in individual portfolio management (–2.6% compared with March 2013 and –5.2% compared with the end of 2012) impacted by net outflows of Euro 75 million, coming in at Euro 1,246 million. Insurance–sector reserves, which amount to Euro 3,306 million, have benefited from net positive deposits of Euro 198 million and have increased compared with March 2013 (+1.9%) and with the end of 2012 (+6.6%).

Assets under administration come to Euro 10,808 million at 30 June 2013, a decrease of 1.6% compared with March 2013 and –4.3% on December 2012, partially penalised by the negative trend in domestic financial markets. The decrease compared with December 2012 was primarily driven by a greater propensity by customers to asset management products.

Loans to customers

At 30 June 2013, **loans to customers** amount to Euro 27,772 million, a decline of 4.6% compared with March 2013 and of 4.2% compared with December 2012. In particular, compared with the end of 2012, there has been a decrease in current accounts (–11.8%), in other loans (–8.1%) and in mortgage loans (–3.1%). The decrease compared with March 2013 reflects the fact that there was no longer a component relating to repurchase agreements, together with a fall in mortgage loans (– Euro 311 million) and other loans (– Euro 321 million).

Management figures by customer segment (calculated using average monthly balances based on organisational segmentation) show a slight decrease of 1.4% in the individuals segment, which represents 28.1% of the total, whereas the businesses segment (which comprises Corporates, SMEs and Small Businesses) fell by 5.9%. This trend is confirmed by the quarterly performance. Compared with March 2013, there has been an overall decrease of 2.6%, with substantial stability in the individuals segment (–0.6%) and a reduction in the businesses segment (–3.4%).

New mortgages granted in the first half of 2013 totalled Euro 838 million, 24.8% less than in the same period of 2012, whereas new personal loans to individuals and loans to companies came to Euro 545 million, slightly down by 1.4% on June 2012. The latter figure includes loans granted under the ProFamily brand, placed by the BPM network.

Asset quality

The difficulties in the macroeconomic environment have again characterised the first half of 2013, continuing to impact asset quality. In particular, at 30 June 2013 gross impaired assets had grown by 16.2% compared with December 2012 (+ Euro 540 million) while total net impaired assets of Euro 2,631 million had increased by 19.2% compared with the end of 2012 (+12.6% compared with March 2013), representing 9.5% of the loan portfolio compared with 7.6% as of December 2012 and with 8% as of March 2013. The relative weighting of impaired loans is also obviously affected by the decrease in the basis for comparison.
Total specific adjustments to impaired assets come to a total of Euro 1,251 million, an increase of Euro 116 million with respect to December 2012 (+10.2%), providing coverage of 32.2%, compared with 34% at the end of 2012. If we also consider general adjustments to the performing loan portfolio of Euro 139 million providing a coverage of 0.55%, total adjustments made to loans to customers come to Euro 1,390 million, providing overall coverage of 4.8%, compared with 4.3% in March 2013 and December 2012.

Net non–performing loans amount to Euro 769 million, representing 2.8% of total net loans and which percentage remains below the system figure (3.75%, source ABI: latest available figure as of May 2013); the related adjustments of Euro 917 million provide coverage of 54.4%, a slight decrease with respect to the March 2013 figure (55.4%) and to that as of December 2012 (56.4%).
Compared with December 2012, net doubtful loans have increased by 17.7% to Euro 1,134 million, with a proportion of total loans of 4.1%, compared with 3.7% in March 2013 and 3.3% in December 2012; the related adjustments of Euro 271 million provide coverage of 19.3%, slightly down compared with December (20.1%) also due to the impact of the transfer to doubtful loans of certain positions backed by collateral.

Net interbank position

The net interbank position at 30 June 2013 shows a negative balance (net borrowing) of Euro 5,602 million, slightly worse than the negative balance of Euro 5,413 million as of March 2013 (–3.5%) and of Euro 5,532 as of December 2012 (–1.3%).
It should also be taken into account that the balance due to banks at 30 June of Euro 6,872.5 million includes an amount of Euro 4,326 million relating to LTRO transactions with the European Central Bank and an amount of Euro 1,624.9 pertaining to deposits received from other Group banks.

Net financial assets

Net financial assets amount to Euro 8,848 million, up on both March 2013 (+ Euro 245 million) and on the end of 2012 (+ Euro 130 million). The increase in the half–year was mainly attributable to the portfolio of Italian government securities that rose during the period by some Euro 195.7 million.

Fixed assets

At 30 June 2013 **fixed assets** amount to Euro 2,096 million, having remained substantially stable compared with March 2013 (+ some Euro 16 million; +0.8%) and with the balance at the end of 2012 (+0.3%).

Shareholders' equity

At 30 June 2013 **shareholders' equity**, inclusive of net income (loss) for the period, reaches Euro 3,465 million.
Capital and reserves – excluding net income for the period – amount to Euro 3,380 million, down by Euro 473 million compared with March 2013, attributable to the full redemption of the Tremonti Bonds that took place on 28 June. The decrease of more than Euro 1 billion compared with December 2012 takes account of a coverage of losses that were incurred in the 2012 financial year of Euro 474 million and a decrease in valuation reserves (– Euro 49 million), mainly driven by the value of the government securities portfolio (which was impacted by gains on disposals in the period, as well as a fall in fair value).

Banca Popolare di Milano – Reclassified income statement

(Euro/000)

Line items	First half 2013	First half 2012	Change	
			Amount	%
Interest margin	**322,387**	**351,939**	**(29,552)**	**–8.4**
Non-interest margin:	**361,297**	**245,319**	**115,978**	**47.3**
– Net fee and commission income	212,084	180,917	31,167	17.2
– Other income:	149,213	64,402	84,811	131.7
- Dividends from equity investments	*4,897*	*1,680*	*3,217*	*191.5*
- Net income from banking activities	*110,378*	*19,668*	*90,710*	*461.2*
- Other operating charges/income	*33,938*	*43,054*	*(9,116)*	*–21.2*
Operating income	**683,684**	**597,258**	**86,426**	**14.5**
Administrative expenses:	(359,676)	(345,993)	(13,683)	4.0
a) personnel expenses	*(246,254)*	*(232,714)*	*(13,540)*	*5.8*
b) other administrative expenses	*(113,422)*	*(113,279)*	*(143)*	*0.1*
Net adjustments to property and equipment and intangible assets	(24,738)	(27,117)	2,379	–8.8
Operating expenses	**(384,414)**	**(373,110)**	**(11,304)**	**3.0**
Operating profit	**299,270**	**224,148**	**75,122**	**33.5**
Net adjustments for impairment of loans and other activities	(132,266)	(112,907)	(19,359)	17.1
Net provisions for risks and charges	(41)	(5,714)	5,673	–99.3
Profits (losses) from equity and other investments, and adjustments to goodwill and intangible assets	6,136	(295,858)	301,994	n.s.
Income (loss) before tax from continuing operations	**173,099**	**(190,331)**	**363,430**	**n.s.**
Taxes on income from continuing operations	(87,500)	18,500	(106,000)	n.s.
Net income (loss) for the period	**85,599**	**(171,831)**	**257,430**	**n.s.**

Income statement of the period

The first half of 2013 closed with **net income** of Euro 85.6 million, compared with a net loss of Euro 171.8 million incurred in the first half of 2012, which was characterised by non-recurring expenses related to writedowns of equity investments based on the outcome of impairment testing. In particular, operating profit for the first half of 2013 increased by Euro 75 million, having benefited, in particular, from a positive contribution from net income from banking activities.

Operating income

In the first half of 2013, **operating income**, equal to Euro 683.7 million, increase by 14.5%, or Euro 86.4 million, with respect to the first half of 2012.
Within this aggregate, there has been a decrease of 8.4% (– Euro 29.6 million) in the **interest margin**, which comes to Euro 322.4 million. Based on the management figures by line of business, this result was impacted by the deterioration in the commercial margin, which, in the first six months, fell by Euro 17.2 million with respect to the first half of 2012, whereas the margin on securities and on treasury activities increased (+ Euro 8.9 million).
The fall in the commercial margin is mainly attributable to the shrinkage of the spread between lending and borrowing rates, which in 2013 has fallen by around 24 bps with respect to the first half of the previous year, arriving at 2.02% (average for the half–year) and, to a lesser extent, to a reduction in the volume of loans (–4.9% with respect to the average for the same half–year in June 2012).

Net fee and commission income amounts to Euro 212.1 million, having risen by 17.2% (+ Euro 31.2 million) on the figure recorded in the same period of the previous year; in particular, this aggregate benefited from placements made in the period with a consequent increase in net fee and commission income from management, dealing and advisory services of Euro 33.1 million.

Net income from banking activities amounts to Euro 110.4 million, up by Euro 90.7 million with respect to the first half of 2012, due to income in the period from the sale of government bonds. Overall, "Profits/losses on disposal or repurchase of financial assets/liabilities" amount to Euro 111.7 million (+ Euro 87.9 million). "Profits (losses) on financial assets and liabilities designated at fair value" have increased (+ Euro 5.5 million) due to gains on disposals of debt securities. On the other hand, there was a fall in "profits (losses) on trading" (– Euro 7.2 million) which reflected the dynamics of domestic markets.

In the first half of 2013, **dividends** were received from equity investments of Euro 4.9 million.

Operating expenses

In the first half of 2013, **operating expenses** come to Euro 384.4 million, an increase of 3% versus June 2012. The cost/income ratio comes to 56.2%, a decrease of 6.2 percentage points compared with the same period of 2012 (62.5%).

In detail, **personnel expenses** amount to Euro 246.3 million, up by Euro 13.5 million (+5.8%) with respect to the first half of 2012 that had benefited, among other things, from the cancellation of the portion of earnings reserved for employees (under Art. 60 of the Articles of Association), because of the recorded loss. Conversely, the cost for the first half of 2013 includes variable elements linked to results of some Euro 14 million, inclusive of the above mentioned portion required by the Articles of Association.
Note that, with respect to the first half of 2012, the wages component has decreased, reflecting a reduction in the Bank's average headcount triggered by voluntary redundancies at the end of 2012 and of the first leavers who had signed up for the Solidarity Fund – that was set up in December 2012 following the signature of a framework agreement.

Other administrative expenses are virtually unchanged with respect to 30 June 2012 and amount to Euro 113.4 million (+0.1%).

Net adjustments to property and equipment and intangible assets come to Euro 24.7 million.

Net adjustments for impairment of loans and other activities and provisions

Net adjustments for impairment of loans and other activities grew by 17.1% on the same period of 2012, from Euro 112.9 million in June 2012 to the current Euro 132.3 million, as a result of Euro 196.9 million of adjustments, attributable for Euro 94 million to specific adjustments to non-performing loans and Euro 80 million to cover doubtful exposures, less writebacks of Euro 64.6 million. The annualised cost of credit has gone from 78 bps in June 2012 to 95 bps now.
Net provisions for risks and charges amount to Euro 41 thousand, down on the charge for the first half of 2012 of Euro 5.7 million, due to smaller provisions having been made for recovery procedures and legal disputes.

Lastly, **profits (losses) from equity and other investments and adjustments to goodwill and intangible assets** in the first six months of 2013 came to a net gain of Euro 6.1 million due to writebacks, compared with a net loss of Euro 295.9 million in the first half of 2012, penalised by writedowns made as a result of the outcome of impairment testing.

Net income (loss) for the period

Income (loss) before tax from continuing operations for the first half of 2013 was a net income amount of Euro 173.1 million, compared with a loss in the same period of the previous year, penalised by non-recurring expenses related to the outcome of impairment testing.

Having booked **income taxes** of Euro 87.5 million, with an effective tax rate of 50.5%, the **net income (loss) for the period** comes to Euro 85.6 million.

Banca di Legnano S.p.A.

As laid down by the guidelines of the 2012–15 Business Plan, within the BPM Group there is an ongoing process to simplify the corporate structure and to focus on the core domestic business. As part of the process of simplification, of particular importance is the merger by absorption of Banca di Legnano into Banca Popolare di Milano, already authorised by the Bank of Italy and for which the deed of merger was stipulated on 22 July. The merger will be effective as from 14 September 2013, but from 1 January 2013 for accounting and tax purposes. The transaction was approved by extraordinary shareholders' meetings of Banca di Legnano and of Banca Popolare di Milano on 21 and 22 June 2013, respectively, based on the draft terms of merger and a predetermined exchange ratio of 2.07 BPM ordinary shares for each BDL share.

Following the exercise of the right of withdrawal by Fondazione Cassa di Risparmio di Alessandria – the only BDL shareholder other than Banca Popolare di Milano, with a holding of 2.2% – BPM, in the execution of the purchase commitment outlined in the draft terms of merger, purchased the 11,703,257 BDL shares subject to withdrawal for a total of Euro 23,991,676.85, corresponding to a price of Euro 2.05 per BDL share. Therefore, the merger will not result in any exchange of shares or increase in the share capital of BPM.

At 30 June 2013, Banca di Legnano's **distribution network** consists of 206 branches, of which 99 are located in Lombardy, 94 in Piedmont and 13 in Liguria, a situation which is unchanged with respect to 30 June 2012. BDL has 18 hubs, 82 spokes and 106 independent branches as at 30 June 2013.

At the end of June 2013, the **headcount** is 1,285, of which 64 members of staff are on secondment to the Parent Company, to which should be added 25 of the latter's employees seconded to Banca di Legnano, and 4 temporary members of staff. The total workforce at 30.6.2013 is thus 1,250 compared to 1,305 at the end of 2012 and 1,354 at the end of June 2012. Compared with the end of 2012, the number of employees has fallen by 47, of which 42 were voluntary redundancies signed up to the Solidarity Fund, with 33 of these redundancies in the period to March 2013 and 9 in the period to June 2013.

Set out below are the reclassified balance sheet at 30 June 2013 and the reclassified income statement for the period then ended, with prior year comparatives.

Banca di Legnano – Reclassified balance sheet

(Euro/000)

Assets	30.06.2013 A	31.03.2013 B	31.12.2012 C	30.06.2012 D	Change A – B amount	Change A – B %	Change A – C amount	Change A – C %
Cash and cash equivalents	57,493	54,753	66,855	49,744	2,740	5.0	–9,362	–14.0
Financial assets designated at fair value and hedging derivatives:	193,407	154,802	156,307	173,823	38,605	24.9	37,100	23.7
– Financial assets held for trading	*8,985*	*13,055*	*14,098*	*21,532*	*–4,070*	*–31.2*	*–5,113*	*–36.3*
– Financial assets designated at fair value through profit and loss	*0*	*0*	*0*	*0*	*0*	*0.0*	*0*	*0.0*
– Financial assets available for sale	*184,422*	*141,747*	*142,209*	*152,291*	*42,675*	*30.1*	*42,213*	*29.7*
– Hedging derivatives	*0*	*0*	*0*	*0*	*0*	*0.0*	*0*	*0.0*
Due from banks	365,009	343,945	322,436	245,286	21,064	6.1	42,573	13.2
Loans to customers	5,196,366	5,315,813	5,491,009	5,657,289	–119,447	–2.2	–294,643	–5.4
Fixed assets	242,816	244,138	245,309	219,066	–1,322	–0.5	–2,493	–1.0
Other assets	259,346	328,800	267,343	281,145	–69,454	–21.1	–7,997	–3.0
Total assets	**6,314,437**	**6,442,251**	**6,549,259**	**6,626,353**	**–127,814**	**–2.0**	**–234,822**	**–3.6**

Liabilities and shareholders' equity	30.06.2013 A	31.03.2013 B	31.12.2012 C	30.06.2012 D	Change A – B amount	Change A – B %	Change A – C amount	Change A – C %
Due to banks	24,496	29,530	85,586	30,324	–5,034	–17.0	–61,090	–71.4
Due to customers	3,605,730	3,539,886	3,432,907	3,533,817	65,844	1.9	172,823	5.0
Securities issued	*1,217,509*	*1,252,309*	*1,404,498*	*1,410,766*	*–34,800*	*–2.8*	*–186,989*	*–13.3*
Financial liabilities and hedging derivatives:	250,599	303,489	394,156	402,805	–52,890	–17.4	–143,557	–36.4
– Financial liabilities held for trading	*3,642*	*4,141*	*4,055*	*6,400*	*–499*	*–12.1*	*–413*	*–10.2*
– Financial liabilities designated at fair value through profit and loss	*246,957*	*299,348*	*390,101*	*396,405*	*–52,391*	*–17.5*	*–143,144*	*–36.7*
– Hedging derivatives	*0*	*0*	*0*	*0*	*0*	*0.0*	*0*	*0.0*
Other liabilities	136,400	266,100	182,685	158,716	–129,700	–48.7	–46,285	–25.3
Provisions for specific use	89,909	88,046	89,052	70,359	1,863	2.1	857	1.0
Capital and reserves	984,167	960,495	1,164,869	1,172,181	23,672	2.5	–180,702	–15.5
Net income (loss) for the period (+/–)	5,627	2,396	–204,494	–152,615	3,231	–134.8	210,121	–102.8
Total liabilities and shareholders' equity	**6,314,437**	**6,442,251**	**6,549,259**	**6,626,353**	**–127,814**	**–2.0**	**–234,822**	**–3.6**

Other information	30.06.2013 A	31.03.2013 B	31.12.2012 C	30.06.2012 D	Change A – B amount	Change A – B %	Change A – C amount	Change A – C %
Indirect customer deposits at market value	5,781,905	5,756,306	5,795,520	5,659,931	25,599	0.4	–13,615	–0.2
– of which assets under management	2,836,329	2,767,307	2,702,820	2,608,621	69,022	2.5	133,509	4.9
Headcount (*)	1,250	1,262	1,305	1,354	–55	–4.2	–104	–7.7
Number of branches	206	206	206	206	0	0.0	0	0.0

(*) Employees + net secondees + temps

Banca di Legnano – Reclassified income statement

(Euro/000)

Line items	First half 2013	First half 2012	Change	
			Amount	%
Interest margin	**51,718**	**61,191**	**(9,473)**	**–15.5**
Non-interest margin:	**61,563**	**50,344**	**11,219**	**22.3**
– Net fee and commission income	49,195	39,747	9,448	23.8
– Other income:	12,368	10,597	1,771	16.7
- Dividends from equity investments	*1,893*	*0*	*1,893*	*n.a.*
- Net income from banking activities	*4,610*	*5,634*	*(1,024)*	*–18.2*
- Other operating charges/income	*5,865*	*4,963*	*902*	*18.2*
Operating income	**113,281**	**111,535**	**1,746**	**1.6**
Administrative expenses:	(68,139)	(73,594)	5,455	7.4
a) personnel expenses	*(42,439)*	*(47,087)*	*4,648*	*9.9*
b) other administrative expenses	*(25,700)*	*(26,507)*	*807*	*3.0*
Net adjustments to property and equipment and intangible assets	(4,790)	(4,829)	39	0.8
Operating expenses	**(72,929)**	**(78,423)**	**5,494**	**7.0**
Operating profit	**40,352**	**33,112**	**7,240**	**21.9**
Net adjustments for impairment of loans and other activities	(22,886)	(14,442)	(8,444)	–58.5
Net provisions for risks and charges	(2,890)	(507)	(2,383)	n.a.
Profits (losses) from equity and other investments, and adjustments to goodwill and intangible assets	1	(247,278)	247,279	n.a.
Income (loss) before tax from continuing operations	**14,577**	**(229,115)**	**243,692**	**n.a.**
Taxes on income from continuing operations	(8,950)	76,500	(85,450)	n.a.
Net income (loss) for the period	**5,627**	**(152,615)**	**158,242**	**n.a.**

Banca Akros S.p.A.

Management of Banca Akros in the first half of 2013 has been based on prudence, in accordance with the set limits of risk tolerance, and oriented towards monitoring its main markets, protecting its market share and offering customers products and services in the areas on which the company has chosen to focus: market making and trading, brokerage, corporate finance/capital markets and private banking. In the first six months of the year, Banca Akros has achieved a positive result in terms of profitability, also in relation to efficient use of its regulatory capital, and has confirmed adequate capital ratios and liquidity levels.

In detail, over-the-counter market making in government securities and corporate bonds continued to be an important activity, with more than 29 billion euro of securities traded, as was market making in equity derivatives and treasury instruments; worth mentioning is the Bank's participation as co-dealer and market maker in the placement on the MOT market, in April, of the so-called index-linked BTP-Italy. The proprietary bond book, mainly represented by Italian government bonds and senior bonds issued by leading domestic banks, provided opportunities for capital gains during the first half, so the balance at the end of the period was slightly lower than at 31 December 2012. In line with the recommendations of the Group Business Plan, the first half saw the start of the extension national-wide of a project involving joint coverage with the Parent Company in the fields of corporate banking and corporate finance for business customers; the Bank also has significant operations on behalf of companies and institutional counterparties in hedging instruments for interest risk (with notional trading volumes of more than 13 billion euro) and exchange risk (49 billion euro) and in commodities, especially in the energy sector.

Regarding the competitive position of its brokerage activity on financial markets, in the first half of 2013, Banca Akros achieved the following rankings (source: Assosim - Conto Terzi):

- strengthened its presence at the head of bond markets taking 2nd place in the DomesticMOT and EuroMOT segments of the Italian stock exchange (with market shares that had grown to 16.5% and 17.4%, respectively) and in the EuroTLX market (with a market share that had grown to 19.7%), as well as 3rd place on the HI-MTF market (with a market share that had more than doubled to 25.5%), helped by the contribution of SABE, a proprietary system to search for best execution dynamics, in accordance with MiFID regulations, for the benefit of customers;
- reached 4th place on the MTA, the Online Equities Market of the Italian stock exchange (5th in the first half of 2012), with a substantial increase in market share to 8.4%;
- confirmed its 5th place in futures on the FTSE MIB index and 1st place in derivatives on the IDEX power market run by Borsa Italiana.

Customers are offered brokerage services on foreign stock markets through ESN - European Securities Network, the European partnership in equities research and trading set up by Banca Akros with eight other European investment banks which are independent and active on their respective national stock markets.

Furthermore, three new specialist mandates were won in connection with issuers listed on the Italian stock exchange, that bring to twelve the total number of mandates held.

In the field of Equity Capital Markets, the Bank took part in the quotation of Moleskine S.p.A. and in the syndicate for the increase in capital of RCS MediaGroup S.p.A. In the Debt Capital Market, the Bank participated with the role of lead manager and bookrunner, for the issue of a fixed-rate three-year institutional senior bond by the Parent Company, which was successfully placed in January for an amount of Euro 750 million, as well as for the placement of various bank issues.

In the advisory and M&A area, Banca Akros has participated, as financial advisor and as intermediary responsible for coordinating the collection of acceptances, in the takeover bid made by Meridiana SpA for Meridiana Fly SpA; the Bank has continued its securitisation activity on behalf of medium-sized banks and its credit advisory activity for the structuring of commodity loans.

In Private Banking, aimed at a select clientele in the affluent and high net-worth segments with an offer that specializes in tailor-made wealth management and administration, the value of assets under management and administration were substantially stable; the value of total assets at the end of the first half comes to approximately 1.9 billion euro. Work continued on the development of custody and settlement services to provide support for the market operations of independent asset management companies.

Note that following authorisation from the Bank of Italy, the merger of **Akros Alternative Investments SGR SpA** with Banca Akros was finalised with effect from 1 May 2013; the merger takes effect for tax and accounting purposes from 1 January 2013.

Banca Akros – Reclassified balance sheet

(Euro/000)

Assets	**30.06.2013 A**	**31.03.2013 B**	**31.12.2012 C**	**30.06.2012 D**	**Change A – B**		**Change A – C**	
					amount	**%**	**amount**	**%**
Cash and cash equivalents	170	192	240	306	–22	–11.4	–70	–29.1
Financial assets designated at fair value and hedging derivatives:	2,276,764	2,394,904	2,631,281	2,500,801	–118,140	–4.9	–354,517	–13.5
– Financial assets held for trading	*1,793,337*	*1,866,662*	*1,993,344*	*2,110,585*	*–73,325*	*–3.9*	*–200,007*	*–10.0*
– Financial assets designated at fair value through profit and loss	*0*	*0*	*0*	*0*	*0*	*n.s.*	*0*	*n.s.*
– Financial assets available for sale	*483,427*	*528,242*	*637,937*	*390,216*	*–44,815*	*–8.5*	*–154,510*	*–24.2*
– Hedging derivatives	*0*	*0*	*0*	*0*	*0*	*n.s.*	*0*	*n.s.*
– Fair value change of financial assets in hedged portfolios	*0*	*0*	*0*	*0*	*0*	*n.s.*	*0*	*n.s.*
Due from banks	731,865	889,302	880,523	1,821,439	–157,437	–17.7	–148,658	–16.9
Loans to customers	368,293	315,605	233,608	305,314	52,688	16.7	134,685	57.7
Fixed assets	40,864	41,434	41,812	41,083	–570	–1.4	–948	–2.3
Other assets	22,348	20,404	17,643	17,949	1,944	9.5	4,705	26.7
Total assets	**3,440,304**	**3,661,841**	**3,805,107**	**4,686,892**	**–221,537**	**–6.0**	**–364,803**	**–9.6**

Liabilities and shareholders' equity	**30.06.2013 A**	**31.03.2013 B**	**31.12.2012 C**	**30.06.2012 D**	**Change A – B**		**Change A – C**	
					amount	**%**	**amount**	**%**
Due to banks	1,031,504	1,109,273	1,146,877	1,177,387	–77,769	–7.0	–115,373	–10.1
Due to customers	776,936	792,271	673,773	1,492,564	–15,335	–1.9	103,163	15.3
Securities issued	*0*	*0*	*0*	*0*	*0*	*n.s.*	*0*	*n.s.*
Financial liabilities and hedging derivatives:	1,375,482	1,495,421	1,724,672	1,768,054	–119,939	–8.0	–349,190	–20.2
– Financial liabilities held for trading	*1,375,482*	*1,495,421*	*1,724,672*	*1,768,054*	*–119,939*	*–8.0*	*–349,190*	*–20.2*
– Financial liabilities designated at fair value through profit and loss	*0*	*0*	*0*	*0*	*0*	*n.s.*	*0*	*n.s.*
– Hedging derivatives	*0*	*0*	*0*	*0*	*0*	*n.s.*	*0*	*n.s.*
– Fair value change of financial liabilities in hedged portfolios	*0*	*0*	*0*	*0*	*0*	*n.s.*	*0*	*n.s.*
Other liabilities	45,114	61,453	53,011	53,066	–16,339	–26.6	–7,897	–14.9
Provisions for specific use	31,100	26,952	25,995	21,718	4,148	15.4	5,105	19.6
Capital and reserves	172,521	173,688	171,237	166,087	–1,167	–0.7	1,284	0.7
Net income (loss) for the period (+/–)	7,647	2,783	9,541	8,016	4,864	174.8	–1,895	–19.9
Total liabilities and shareholders' equity	**3,440,304**	**3,661,841**	**3,805,107**	**4,686,892**	**–221,537**	**–6.0**	**–364,804**	**–9.6**

Other information	30.06.2013 A	31.03.2013 B	31.12.2012 C	30.06.2012 D	Change A – B		Change A – C	
					amount	%	amount	%
Indirect customer deposits at market value	1,866,015	1,891,795	2,010,897	2,246,382	–25,780	–1.4	–144,882	–7.2
– of which assets under management (*)	800,718	799,595	800,790	772,112	1,123	0.1	–72	0.0
Headcount at period-end (**)	276	280	284	289	–4	–1.4	–8	–2.8
Number of branches	1	1	1	1	0	0.0	0	0.0

(*) assets under management as of June and December 2012 do not include any pension fund
(**) employees + net secondees + temps

Banca Akros – Reclassified income statement

(Euro/000)

Line items	First half 2013	First half 2012	Change	
			Amount	%
Interest margin	**3,977**	**10,168**	**–6,191**	**–60.9**
Non-interest margin:	**44,939**	**35,641**	**9,298**	**26.1**
– Net fee and commission income	11,733	11,614	119	1.0
– Other income:	33,206	24,027	9,179	38.2
Net income from banking activities	*32,813*	*23,492*	*9,321*	*39.7*
Other operating charges/income	*393*	*535*	*–143*	*–26.7*
Operating income	**48,916**	**45,809**	**3,107**	**6.8**
Administrative expenses:	–26,333	–27,960	1,627	–5.8
a) personnel expenses	*–16,566*	*–18,664*	*2,098*	*–11.2*
b) other administrative expenses	*–9,767*	*–9,296*	*–471*	*5.1*
Net adjustments to property and equipment and intangible assets	–2,375	–2,139	–235	11.0
Operating expenses	**–28,708**	**–30,099**	**1,392**	**–4.6**
Operating profit	**20,208**	**15,710**	**4,498**	**28.6**
Net adjustments for impairment of loans and other activities	165	–589	754	n.s.
Net provisions for risks and charges	–5,080	–103	–4,977	n.s.
Profits (losses) from equity and other investments, and adjustments to goodwill and intangible assets	0	–312	312	n.s.
Income (loss) before tax from continuing operations	**15,293**	**14,706**	**587**	**4.0**
Taxes on income from continuing operations	–7,647	–6,690	–957	–14.3
Net income (loss) for the period	**7,646**	**8,016**	**–370**	**–4.6**

WeBank S.p.A.

In the first half of 2013, despite a complex market scenario with a negative trend in the Italian economic cycle, WeBank continued to grow in line with budget targets. Particular attention was paid to the development and innovation of the product offering, growth of the customer base and an increase in cross–selling and brand awareness. The policy of diversification of product mix, which envisaged the main drivers of purchases as being savings deposits, online trading and mortgage loans, as well as advertising and co–marketing initiatives, have led to an increase in the customer base to 138,515, +11% compared with 124,816 customers as of June 2012, while the increase since the last year end was 5%.

During the first half there was a gradual fall in competitive pressure regarding deposits, with respect to both major online competitors and traditional and specialised banks and a promotion was started aimed at acquiring new customers with a promotional interest rate for restricted 3, 6 and 12 month savings deposits that helped to achieve Euro 2,852 million of direct deposits, up by Euro 380 million (+15%) compared with the same period in 2012 and by Euro 129 million (+5%) compared with the end of the previous year.

Lending operations, despite the negative market context in which the demand for mortgage loans fell a further 10% since the beginning of the year, after the already heavy decrease of 42% in 2012, closed the first half of 2013 with a total stock of some Euro 881 million, up by 49% compared with June 2012 and 23% compared with the beginning of the year.

Thanks to the introduction of new features, such as access to new bond markets as well as trading in previously non–marketed derivatives and the release of a new version of the T3 platform for the iPad, trading services achieved an increase in the number of customers for whom custody of securities is provided (46,650, +3% on June 2012) and in the stock of indirect deposits (assets under management and administration) which arrived at Euro 1,412 million, up by 4% compared with the end of 2012. Despite the performance of financial markets that was characterised by high volatility of the indices, in the first half 1,352,280 orders were executed, up by 11% with respect to the same period of 2012, leading to a significant increase in market share that stood at 9.3% and that compares with a general trend in the Italian market, whereby volumes fell by 7% with respect to the first half of the previous year.
There has been steady growth in the provision of internet banking services to BPM Group banks that has reached a coverage of 43% of the entire individual customer base (41% at the end of 2012) and 71% of the corporate customer base (70% at the end of 2012).

During the first half of 2013, the number of customers authorised to operate on websites managed by the company (3 commercial banks and WeBank) came to around 641 thousand, up by 6% compared with the same period in 2012. There has also been an increase in the number of customers giving instructions online (+ 7%), while the total number of transactions handled in the first six months of 2013 was some 68 million, in line with the prior year figure.

Webank – Reclassified balance sheet

(Euro/000)

Assets	30.06.2013 A	31.03.2013 B	31.12.2012 C	30.06.2012 D	Change A – B		Change A – C	
					amount	%	amount	%
Cash and cash equivalents	1	1	0	1	0	0.0	1	0.0
Financial assets designated at fair value and hedging derivatives:	691,929	725,875	859,694	882,639	–33,946	–4.7	–167,765	–19.5
– Financial assets held for trading	*1*	*0*	*0*	*12*	*1*	*0*	*1*	*0*
– Financial assets designated at fair value through profit and loss	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
– Financial assets available for sale	*684,565*	*715,414*	*849,399*	*873,642*	*–30,849*	*–4.3*	*–164,834*	*–19.4*
– Hedging derivatives	*277*	*0*	*0*	*0*	*277*	*0*	*277*	*0*
– Fair value change of financial assets in hedged portfolios	*7,086*	*10,461*	*10,295*	*8,985*	*–3,375*	*–32.3*	*–3,209*	*–31.2*
Due from banks	1,854,598	1,840,312	1,684,576	1,446,034	14,286	0.8	170,022	10.1
Loans to customers	881,196	796,980	718,979	592,665	84,217	10.6	162,217	22.6
Fixed assets	8,040	7,935	7,787	7,835	105	1.3	253	3.2
Other assets	48,520	41,882	38,020	41,540	6,638	15.8	10,500	27.6
Total assets	**3,484,284**	**3,412,984**	**3,309,056**	**2,970,715**	**71,300**	**2.1**	**175,228**	**5.3**

Liabilities and shareholders' equity	30.06.2013 A	31.03.2013 B	31.12.2012 C	30.06.2012 D	Change A – B		Change A – C	
					amount	%	amount	%
Due to banks	466,875	446,433	424,435	368,766	20,442	0.0	42,440	0.0
Due to customers	2,851,965	2,800,459	2,722,751	2,471,974	51,506	1.8	129,214	4.7
Securities issued	0	0	0	0	0	0	0	0
Financial liabilities and hedging derivatives:	7,585	10,751	10,589	9,057	–3,166	–29.4	–3,004	–28.4
– Financial liabilities held for trading	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
– Financial liabilities designated at fair value through profit and loss	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
– Hedging derivatives	*7,585*	*10,751*	*10,589*	*9,057*	*–3,166*	*–29.4*	*–3,004*	*–28.4*
– Fair value change of financial liabilities in hedged portfolios	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Other liabilities	41,734	43,609	45,162	36,165	–1,876	–4.3	–3,429	–7.6
Provisions for specific use	2,431	2,243	2,058	1,765	188	8.4	373	18.1
Capital and reserves	109,814	108,060	99,057	80,352	1,754	1.6	10,757	10.9
Net income (loss) for the period (+/–)	3,881	1,429	5,004	2,637	2,452	171.6	–1,123	–22.4
Total liabilities and shareholders' equity	**3,484,284**	**3,412,984**	**3,309,056**	**2,970,715**	**71,300**	**2.1**	**175,228**	**5.3**

Other information	30.06.2013 A	31.03.2013 B	31.12.2012 C	30.06.2012 D	Change A – B		Change A – C	
					amount	%	amount	%
Indirect customer deposits at market value	1,412,495	1,387,296	1,363,872	1,339,397	25,199	1.8	48,623	3.6
– of which assets under management	97,782	90,555	81,396	80,485	7,227	8.0	16,386	20.1
Headcount at period-end (*)	235	240	243	248	–5	–2.1	–8	–3.3
Number of branches	2	2	2	1	0	0.0	0	0.0

(*) employees + net secondees + temps

WeBank – Reclassified income statement

(Euro/000)

Line items	First half 2013	First half 2012	Change	
			Amount	%
Interest margin	**9,861**	**11,980**	**–2,119**	**17.7**
Non-interest margin	**18,402**	**17,681**	**721**	**4.1**
Net fee and commission income	4,829	4,182	647	15.5
Other income:	13,573	13,498	75	0.6
– Dividends from equity investments	*0*	*0*	*0*	*0.0*
– Net income from banking activities	*1,117*	*–55*	*1,172*	*2,130.9*
– Other operating charges/income	*12,456*	*13,553*	*–1,097*	*–8.1*
Operating income	**28,263**	**29,661**	**–1,398**	**–4.7**
Administrative expenses:	–18,537	–22,039	3,502	–15.9
a) personnel expenses	*–7,740*	*–8,866*	*1,126*	*–12.7*
b) other administrative expenses	*–10,797*	*–13,173*	*2,376*	*–18.0*
Net adjustments to property and equipment and intangible assets	–1,996	–1,993	–3	0.2
Operating expenses	**–20,533**	**–24,032**	**3,499**	**–14.6**
Operating profit	**7,730**	**5,629**	**2,101**	**37.3**
Net adjustments for impairment of loans and other activities	–434	–916	482	–52.6
Net provisions for risks and charges	–386	–203	–183	90.1
Profits (losses) from equity and other investments	0	0	0	0.0
Income (loss) before tax from continuing operations	**6,910**	**4,510**	**2,400**	**53.2**
Taxes on income from continuing operations	–3,029	–1,873	–1,156	61.7
Net income (loss) for the period	**3,881**	**2,637**	**1,244**	**47.2**

Banca Popolare di Mantova S.p.A.

Banca Popolare di Mantova, despite the ongoing difficult economic situation involving Italy and, more directly, banks and which has been more pronounced in the Province of Mantua since the earthquake in May 2012, has conducted its business activity, achieving good results and a more significant penetration of the territory, as confirmed by the rising number of customer relationships.

Banca Popolare di Mantova – Reclassified balance sheet

(Euro/000)

Assets	**30.06.2013 A**	**31.03.2013 B**	**31.12.2012 C**	**30.06.2012 D**	**Change A – B**		**Change A – C**	
					amount	**%**	**amount**	**%**
Cash and cash equivalents	5,040	3,611	4,451	3,671	1,429	39.6	589	13.2
Financial assets designated at fair value and hedging derivatives:	3,347	1,933	1,928	2,004	1,414	73.2	1,419	73.6
– Financial assets held for trading	*516*	*566*	*544*	*630*	*–50*	*–8.8*	*–28*	*–5.1*
– Financial assets designated at fair value through profit and loss	*0*	*0*	*0*	*0*	*0*	*–*	*0*	*–*
– Financial assets available for sale	*2,831*	*1,367*	*1,384*	*1,374*	*1,464*	*107.1*	*1,447*	*104.6*
– Hedging derivatives	*0*	*0*	*0*	*0*	*0*	*–*	*0*	*–*
Due from banks	6,226	5,887	10,046	4,476	339	5.8	–3,820	–38.0
Loans to customers	461,229	438,878	426,721	430,618	22,351	5.1	34,508	8.1
Fixed assets	8,653	8,781	8,908	9,164	–128	–1.5	–255	–2.9
Other assets	10,441	14,360	13,164	10,820	–3,919	–27.3	–2,723	–20.7
Total assets	**494,936**	**473,450**	**465,218**	**460,753**	**21,486**	**4.5**	**29,718**	**6.4**

Liabilities and shareholders' equity	**30.06.2013 A**	**31.03.2013 B**	**31.12.2012 C**	**30.06.2012 D**	**Change A – B**		**Change A – C**	
					amount	**%**	**amount**	**%**
Due to banks	143,844	136,657	155,534	184,954	7,187	5.3	–11,690	–7.5
Due to customers	261,628	241,606	205,859	175,508	20,022	8.3	55,769	27.1
Securities issued	31,174	31,675	37,983	39,423	–501	–1.6	–6,809	–17.9
Financial liabilities and hedging derivatives:	10,354	11,201	12,161	12,191	–847	–7.6	–1,807	–14.9
– Financial liabilities held for trading	*346*	*336*	*347*	*371*	*10*	*3.0*	*–1*	*–0.3*
– Financial liabilities designated at fair value through profit and loss	*10,008*	*10,865*	*11,814*	*11,820*	*–857*	*–7.9*	*–1,806*	*–15.3*
– Hedging derivatives	*0*	*0*	*0*	*0*	*0*	*–*	*0*	*–*
Other liabilities	9,894	14,239	15,575	10,361	–4,345	–30.5	–5,681	–36.5
Provisions for specific use	1,600	1,575	1,700	266	25	1.6	–100	–5.9
Capital and reserves	36,383	36,406	38,327	38,331	–23	–0.1	–1,944	–5.1
Net income (loss) for the period (+/–)	59	91	–1,921	–281	–32	–35.2	1,980	–103.1
Total liabilities and shareholders' equity	**494,936**	**473,450**	**465,218**	**460,753**	**21,486**	**4.5**	**29,718**	**6.4**

Other information	30.06.2013 A	31.03.2013 B	31.12.2012 C	30.06.2012 D	Change A – B		Change A – C	
					amount	%	amount	%
Indirect customer deposits at market value	152,502	152,257	149,997	144,025	245	0.2	2,505	1.7
– of which assets under management	24,472	21,794	18,550	14,644	2,678	12.3	5,922	31.9
Headcount (*)	77	77	78	79	0	–	–1	–1.3
Number of branches	17	17	17	17	–	–	–	–

(*) employees + net secondees + temps

Banca Popolare di Mantova – Reclassified income statement

(Euro/000)

Line items	First half 2013	First half 2012	Change	
			Amount	%
Interest margin	**4,353**	**4,624**	**(271)**	**–5.9**
Non-interest margin:	**2,712**	**1,934**	**778**	**40.2**
– Net fee and commission income	2,192	1,732	460	26.6
– Other income:	520	202	318	157.4
- Dividends from equity investments	*0*	*0*	*0*	*n.a.*
- Net income from banking activities	*105*	*75*	*30*	*40.0*
- Other operating charges/income	*415*	*127*	*288*	*226.8*
Operating income	**7,065**	**6,558**	**507**	**7.7**
Administrative expenses:	(4,413)	(4,391)	(22)	0.5
a) personnel expenses	*(2,555)*	*(2,449)*	*(106)*	*4.3*
b) other administrative expenses	*(1,858)*	*(1,942)*	*84*	*–4.3*
Net adjustments to property and equipment and intangible assets	(391)	(406)	15	–3.7
Operating expenses	**(4,804)**	**(4,797)**	**(7)**	**0.1**
Operating profit	**2,261**	**1,761**	**500**	**28.4**
Net adjustments for impairment of loans and other activities	(1,990)	(2,115)	125	–5.9
Net provisions for risks and charges	8	3	5	166.7
Profits (losses) from equity and other investments	0	0	0	n.a.
Income (loss) before tax from continuing operations	**279**	**(351)**	**630**	**n.a.**
Taxes on income from continuing operations	(220)	70	(290)	n.a.
Net income (loss) for the period	**59**	**(281)**	**340**	**n.a.**

ProFamily S.p.A.

The activities performed by ProFamily in the first half of 2013 reflect the particular moment of difficulty for the sector and socially. The Company, in fact – as a result of a reorganization of the distribution structure – handled, with upmost care, the revocation of mandates granted to the network of financial agents and planning for action needed to support the merger into the Parent Company envisaged for 2014.

The company offers a range of products that covers almost all consumer credit needs: the product range includes specific purpose loans (car, furniture, services, innovative products such as photovoltaic), personal loans, loans with delegation of payment and salary loans.

The distribution network consists – at 30 June 2013 – of 4 direct branches (3 in the regional territories of Milan, Bologna and Rome plus one in Bari) and an indirect network of financial shops consisting of 21 points of sale, structured through the granting of 23 mandates to operate as financial agencies. The aforementioned network is flanked by the distribution capacity of BPM Group's branches, which are structured for the distribution of ProFamily's range of personal loans and the assignment of one-fifth of the state pension.

Overall, in the first half of 2013, ProFamily completed 34,377 financing transactions amounting to a total of Euro 207 million, being a decrease of some Euro 112 million compared with the same period in 2012 (the reduction was due to the restructuring of the distribution network as well as a fall in consumption).
The direct commercial network of ProFamily placed loans of Euro 148.3 million during the period, compared with Euro 228.5 million in the same period of 2012. Of these, Euro 60.5 million was in the automotive sector, Euro 67.4 million was for other specific purposes, Euro 3.8 million was for personal loans and Euro 16.1 million was against assignment of one–fifth of the borrower's salary with delegation of payment, leading to around 21 thousand new customers for the BPM Group in the year. There were 2,233 operating agreements with sources of business at the end of June.
The BPM Group branch network distributed a volume of personal loans and one–fifth assignment products totalling Euro 58.8 million, a decrease of Euro 31.8 million on volumes granted in the first half of 2012.

As of June 2013, ProFamily had a market share of 0.9% as indicated by the Assofin Consumer Credit Observatory (1.2% without considering credit provided by cards).

The risk, although on the rise, remains at a low level and compares very well with industry figures. This comparison, however, is influenced by ProFamily's low maturity (the cost of credit as of June 2013, measured as the ratio of the annualised cost of writedowns to outstandings, is 1.44%).
In order to pursue the objectives set for ProFamily by the BPM Group's 2012–2015 Business Plan, approved by the Management Board of the Parent Company on July 2012, the Company is directing its efforts towards optimising the distribution structure, towards the realisation of synergies with the Parent Company and towards planning for the merger of ProFamily into BPM.
In detail, work on the optimisation of the distribution structure started towards the end of last year and was completed in the first half of 2013, with the reorganisation of the branch network, driven by principles of quality, proximity to the Group's banking network and the potential for the development of synergies with the Parent Company. This reorganisation led to the closure of 14 indirect points of sale and 15 agency mandates and was undertaken with care and attention in order to limit financial and reputational risks.
The focus on synergies with the Parent Company materialised through the pooling of ProFamily's and BPM's customer and product portfolios to attack the market with an integrated offering that includes ProFamily targeting BPM customers, BPM offering lines of credit and current accounts to ProFamily customers, the integration of ProFamily products into the product range that BPM offers the B2E segment and the proposal of banking products (e.g. card account) to ProFamily customers.
Regarding, instead, the merger of ProFamily into the Parent Company, during the period the parties have worked on a project to reorganise the head office structure that envisages the centralisation of activities within the Parent Company to take place in the short term.

The first half of 2013 ended with a headcount of 106, of which there were 100 employees, 6 agreements for contract staff, 3 Group secondments and 3 Parent Company secondments. Of the 100 employees, 18 are with the commercial network, while the central functions account for 82 employees, of which over one third is employed in loan assessment.

ProFamily – Reclassified balance sheet

(Euro/000)

Assets	30.06.2013 A	31.03.2013 B	31.12.2012 C	30.06.2012 D	Change A – B		Change A – C	
					amount	%	amount	%
Cash and cash equivalents	0	0	0	34	0	0	0	0
Financial assets designated at fair value and hedging derivatives:	0	0	0	0	0	0	0	0
– Financial assets held for trading	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
– Financial assets designated at fair value through profit and loss	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
– Financial assets available for sale	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
– Hedging derivatives	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Due from banks	29,246	36,117	28,029	191	–6,871	–19.0	1,217	4.3
Loans to customers	896,498	869,117	830,426	651,220	27,381	3.2	66,072	8.0
Fixed assets	7,821	8,039	8,486	8,865	–218	–2.7	–665	–7.8
Other assets	7,967	6,257	5,452	5,103	1,710	27.3	2,515	46.1
Total assets	**941,532**	**919,530**	**872,393**	**665,413**	**22,002**	**2.4**	**69,139**	**7.9**

Liabilities and shareholders' equity	30.06.2013 A	31.03.2013 B	31.12.2012 C	30.06.2012 D	Change A – B		Change A – C	
					amount	%	amount	%
Due to banks	877,895	853,576	803,589	606,815	24,319	2.8	74,306	9.2
Due to customers	7,009	11,642	12,219	11,109	–4,633	–39.8	–5,210	–42.6
Securities issued	0	0	0	0	0	0	0	0
Financial liabilities and hedging derivatives:	0	0	0	0	0	0	0	0
– Financial liabilities held for trading	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
– Financial liabilities designated at fair value through profit and loss	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
– Hedging derivatives	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Other liabilities	7,642	8,945	9,899	9,676	–1,303	–14.6	–2,257	–22.8
Provisions for specific use	2,717	3,517	3,482	295	–800	–22.7	–765	–22.0
Capital and reserves	48,204	43,204	49,475	39,475	5,000	11.6	–1,271	–2.6
Net income (loss) for the period (+/–)	–1,935	–1,354	–6,271	–1,957	–581	42.9	4,336	–69.1
Total liabilities and shareholders' equity	**941,532**	**919,530**	**872,393**	**665,413**	**22,002**	**2.4**	**69,139**	**7.9**

ProFamily – Reclassified income statement

(Euro/000)

Line items	First half 2013	First half 2012	Change	
			Amount	%
Interest margin	**14,736**	**10,000**	**4,736**	**47.4**
Non-interest margin	**222**	**1,153**	**(931)**	**–80.7**
– Net fee and commission income	(708)	701	(1,409)	–201.0
– Other income:	930	452	478	105.8
- Dividends from equity investments	*0*	*0*	*0*	*n.a.*
- Net income (loss) from banking activities	*0*	*0*	*0*	*n.a.*
- Other operating charges/income	*930*	*452*	*478*	*105.8*
Operating income	**14,958**	**11,153**	**3,805**	**34.1**
Administrative expenses:	(9,839)	(8,961)	(878)	9.8
a) personnel expenses	*(4,993)*	*(3,871)*	*(1,122)*	*29.0*
b) other administrative expenses	*(4,846)*	*(5,090)*	*244*	*–4.8*
Net adjustments to property and equipment and intangible assets	(1,217)	(997)	(220)	22.1
Operating expenses	**(11,056)**	**(9,958)**	**(1,098)**	**11.0**
Operating profit	**3,902**	**1,195**	**2,707**	**226.5**
Net adjustments for impairment of loans and other activities	(6,405)	(3,457)	(2,948)	85.3
Net provisions for risks and charges	34	(93)	127	–136.6
Profits (losses) from equity and other investments	0	0	0	n.a.
Income (loss) before tax from continuing operations	**(2,469)**	**(2,355)**	**(114)**	**4.8**
Taxes on income from continuing operations	534	398	136	34.2
Net income (loss) for the period	**(1,935)**	**(1,957)**	**22**	**–1.1**

Report of the Independent Auditors

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Auditors' review report on the interim condensed consolidated financial statements (Translation from the original Italian text)

To the Shareholders of
Banca Popolare di Milano S.c. a r.l.

1. We have reviewed the interim condensed consolidated financial statements, comprising the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flow and the related explanatory notes, of Banca Popolare di Milano S.c. a r.l. and its subsidiaries (the "BPM Group") as of June 30, 2013. Management Board of Banca Popolare di Milano S.c. a r.l. is responsible for the preparation of the interim condensed consolidated financial statements in conformity with the International Financial Reporting Standards applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to issue this review report based on our review.

2. We conducted our review in accordance with review standards recommended by Consob (the Italian Stock Exchange Regulatory Agency) in its Resolution no. 10867 of July 31, 1997. Our review consisted mainly of obtaining information on the accounts included in the interim condensed consolidated financial statements and the consistency of the accounting principles applied, through discussions with management, and of applying analytical procedures to the financial data presented in these consolidated financial statements. Our review did not include the application of audit procedures such as tests of compliance and substantive procedures on assets and liabilities and was substantially less in scope than an audit conducted in accordance with generally accepted auditing standards. Accordingly, we do not express an audit opinion on the interim condensed consolidated financial statements as we expressed on the annual consolidated financial statements.

   With respect to the consolidated financial statements of the prior year and the interim condensed consolidated financial statements of the corresponding period of the prior year, presented for comparative purposes, reference should be made to our reports issued on April 2, 2013 and on August 29, 2012, respectively.

3. Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements of BPM Group as of June 30, 2013 are not prepared, in all material respects, in conformity with the International Financial Reporting Standards applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Milan, August 29, 2013

Reconta Ernst & Young S.p.A.
Signed by: Davide Lisi, Partner

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

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