BANCO POPOLARE

Annual Report

2016

ANNUAL REPORT 2016

Banco Popolare Società Cooperativa

Registered office and General headquarters: Piazza Nogara, 2 - 37121 Verona
Fully paid up share capital as at 31 December 2016: euro 7,089,340,067.39
Tax Code, VAT No. and Verona Companies' Register Enrolment No. 03700430238
Member of the Interbank Deposit Guarantee Fund and the National Guarantee Fund
Parent Company of the Banco Popolare Banking Group
Enrolled in the register of Banking Groups

Note that following the merger between Banco Popolare Soc. Coop. and Banca Popolare di Milano S.c. a r.l., approved on 15 October 2016 by the respective Extraordinary Shareholders' Meetings, Banco BPM S.p.A. was established, effective 1 January 2017. Banco BPM S.p.A. is the parent company of the Banking Group of the same name, with registered office in Milan, Piazza F. Meda, 4; VAT number 09722490969; share capital: Euro 7,100,000,000.00.

OFFICERS, DIRECTORS AND INDEPENDENT AUDITORS AS AT 31 DECEMBER 2016

Board of Directors

Chairman	Carlo Fratta Pasini (*)
Deputy Chairman	Guido Castellotti (*)
Deputy Chairman	Maurizio Comoli (*)
Managing Director	Pier Francesco Saviotti (*)
Directors	Patrizia Codecasa
	Luigi Corsi
	Domenico De Angelis (*)
	Maurizio Faroni (*)
	Gianni Filippa
	Cristina Galeotti
	Andrea Guidi
	Valter Lazzari
	Daniela Montemerlo
	Giulio Pedrollo
	Enrico Perotti
	Claudio Rangoni Machiavelli
	Fabio Ravanelli
	Cecilia Rossignoli
	Sandro Veronesi
	Franco Zanetta
	Tommaso Zanini
	Cesare Zonca (*)
	Cristina Zucchetti

(*) members of the Executive Committee

Board of Statutory Auditors

Chairman	Pietro Manzonetto
Standing Auditors	Marco Bronzato
	Gabriele Camillo Erba
	Claudia Rossi
	Alfonso Sonato
Alternate Auditors	Chiara Benciolini
	Paola Pesci

General Management

General Manager	Maurizio Faroni
Joint General Manager	Domenico De Angelis

Ethics and Disciplinary Committee

Standing Members	Aldo Bulgarelli
	Luciano Codini
	Giuseppe Germani
Alternate Members	Matteo Bonetti
	Donato Vestita

Manager responsible for preparing the Company's financial reports

Gianpietro Val

Independent Auditors

Deloitte & Touche S.p.A.

LETTER TO SHAREHOLDERS

Dear Shareholders,

the first shareholders' meeting of Banco BPM S.p.A. has been convened to approve the 2016 financial statements of the banks which, following a long and complex merger process, have formed the new Banco BPM S.p.A..
Firstly, said financial statements reflect several structural trends that Italian banks are having to face, and which have presented difficulties so great that a growing number of them are not able to overcome alone.
More specifically, profit margins are falling mainly due to the record low levels of interest rates, to competition between intermediaries for a still weak demand for credit and to the inflexibility of the costs relating to traditional distribution networks.
Significant funds were requested of healthy banks to provide assistance to their competitors in difficulty. In 2016, after contributions to the Interbank Deposit Guarantee Fund (IDGF), to the Single Resolution Fund and to the National Resolution Fund to complete the rescue of 4 well-known banks and to write down participations in the Atlante Fund and in the Voluntary Scheme of the IDGF, Banco Popolare and BPM deducted the considerable figure of euro 261.7 million to the income statement.
In addition, provisions for non-performing loans resulting from the continuing economic crisis, from the loss in value of collateral and from the slow pace of enforced debt collection procedures weighed heavily on the accounts. As the Director General of the ABI (Italian Banking Association) recently admitted, the Italian banking industry is also struggling with the truly inconsistent price that the NPL market is paying for these loans when assigned en bloc, which are alone able to achieve the reduction in stock that the Regulator is continuously requesting and soliciting.
The impact of the merger operation itself added to these issues, that are common to all Italian banks. Both sets of financial statements have recorded significant one-off costs relating to the merger in their accounts, as well as increasing the coverage of non-performing loans, agreed with the ECB, which, as regards Banco Popolare, affected the 2016 financial statements, while as regards BPM, it will have an impact on the 2017 financial statements of Banco BPM, also given the much larger amount of extraordinary income that will be recorded following the merger.
The onerous overall result recorded (a loss of euro 1.7 billion, of which euro 279 million relating to the write-down of goodwill of the subsidiary company Banca Aletti, for Banco Popolare and a profit of euro 72.7 million for BPM) contrasts, however, with much more positive future prospects, driven by both the greater strategic scope of the new institution and by the start of the process of integration, which although in the initial stages at present, is already showing tangible signs of achieving the objectives of the 2019 business plan in an economic scenario that is proving to be even more challenging than expected.
The Board of Directors, which took office on 1 January 2017, therefore intends to enable all employees of Banco BPM to exploit the considerable positive potential of this "new beginning". It is not so much a case of being proud of the only successful bank merger to take place in 2016, without even having to ask other banks or contributors for money and/or resources, it is more about enjoying the opportunity that we have made so much effort to obtain, with awareness, industriousness and responsibility.
We are all perfectly aware that the future is rife with difficulties; we will all need to make a greater effort than in the past in terms of work, responsibility and risk governance, in the face of more equal salaries, at all levels, than in the past; in the house that we are building together, origins will not be as important as merit; on a day-to-day basis, our approach should be serene, based on the awareness that there are banking and non-banking enterprises, not to mention numerous households in our local areas, facing situations that are much more problematic and at times more dramatic than ours.
Banco BPM is therefore taking its first steps as a single, new bank with the above approach and philosophy. It has no intention of forgetting its past, and as a S.p.A. bank, it wants to continue to personally serve businesses and households in the spirit of the best people's credit.
Essentially, we will continue to pursue our "mission", by managing an orderly and rigorous integration process and, over time, by achieving all of the positive and significant results that the Business Plan envisages for the new Bank in terms of assets, compliance with liquidity requirements, cutting costs and increasing revenues and profit margins: a horizon, depicted by the logo of the new bank, which is difficult and beautiful at the same time.

Verona-Milan, 10 February 2017

The Board of Directors

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NOTICE OF CALL OF ORDINARY SHAREHOLDERS' MEETING

In accordance with articles 13 and 43 of the Articles of Association, the Ordinary Shareholders' Meeting of Banco BPM S.p.A. is hereby convened for **Saturday 8 April 2017, at 9 am, in Novara, at the Town Sports Complex "Terdoppio", Piazzale degli Sport Olimpici, 2** to discuss the following

AGENDA

1) Approval of the financial statements for the year ending 31 December 2016 of Banco Popolare – Società cooperativa and of Banca Popolare di Milano - Società cooperativa a responsabilità limitata, accompanied by the reports of the Board of Directors and of the Board of Statutory Auditors of Banco BPM S.p.A., as well as of the Independent Auditors of Banco Popolare - Società cooperativa and of Banca Popolare di Milano - Società cooperativa a responsabilità limitata; presentation of the consolidated financial statements of the Banco Popolare Group and of the Bipiemme Group - Banca Popolare di Milano. Relevant and consequent resolutions.
2) Decisions relating to remuneration and incentive policies; approval of the report pursuant to legislative provisions in force. Relevant and consequent resolutions.
3) Compensation plans based on the shares of Banco BPM S.p.A.: annual incentive system (2017) and three-yearly incentive system (2017-2019). Relevant and consequent resolutions.
4) Request for authorisation to purchase and dispose of treasury shares. Relevant and consequent resolutions.
5) Adoption of the Shareholders' Meeting Regulation. Relevant and consequent resolutions.

The following information is provided in compliance with the provisions of art. 125-*bis* of Italian Legislative Decree no. 58 of 24 February 1998 and subsequent amendments (Consolidated Law on Finance).

Attendance of meetings and representation

Parties with voting rights, who have sent notification to the Company of the authorised broker confirming their legitimate right to attend Shareholders' Meeting and to exercise voting rights, within the legal term (5 April 2017, third open market trading day prior to the date of the Meeting), may attend Shareholders' Meetings.
In accordance with the provisions of art. 83-*sexies* of the Consolidated Law on Finance and art. 22 of the Joint provision of the Bank of Italy and Consob of 22/02/2008 and subsequent amendments/additions (the "Joint Provision"), said notification shall be made to the Bank on the basis of evidence relating to the end of the accounting day of the seventh open market trading day prior to the date of the Meeting (**30 March 2017 - "record date"**).
Those who are registered as holders of Company shares after said date shall not have the right to attend or vote at the Meeting.
Shareholders whose shares have already been deposited in the file under the custody and administration, and which have therefore already been dematerialised, of the Parent Company Banco BPM S.p.A., or BPM S.p.A. or another Group bank, must in any event request, pursuant to art. 22 of the Joint Provision, the issue of the "notification" by **3 April 2017**, receiving a copy of the same, valid as a ticket for admission to the Shareholders' Meeting.
As regards Shareholders whose shares have been deposited with other authorised brokers, pursuant to the cited art. 22 of the Joint Provision, the request for the "notification" must also be made by 3 April 2017, ensuring that a copy of the same is issued.
The legitimate right to attend the meeting and to vote is valid if the notifications are received by the Company beyond the term of 5 April 2017, as long as before the start of the discussion of the meeting.
Shareholders who are in possession of shares that have not yet been dematerialised must deliver the same to Banco BPM S.p.A. or to another Group bank, or to another authorised broker, so that the same may be dematerialised and therefore request the issue of the "notification" so that they may participate in the Meeting.
Those with voting rights have the right to be represented at the Shareholders' Meeting, in compliance with legal provisions, by means of a proxy, and have the right to use the proxy form included at the end of the letter issued to the Shareholder by one of the Group banks or by another authorised broker, or the example of the proxy form available on the Company's website (www.bancobpm.it "Corporate Governance – Shareholders' Meetings" section) or at the registered office of Banco BPM S.p.A. (Group Corporate Affairs, Piazza Filippo Meda, 4 - 20121 Milan).
The proxy may be awarded by means of an electronic document, signed with an electronic signature pursuant to art. 21, paragraph 2 of Italian Legislative Decree of 7 March 2005, no. 82.

The Chairman of the Board of Directors, as Chairman of the Shareholders' Meeting, is fully authorised to ascertain, also through parties assigned by the same, that said proxies are in order and in general to decide on the right of those present to participate in the Meeting and to vote, to ascertain that the same is regularly constituted and that the quorum required to pass resolutions has been reached.

To this end, the Shareholders in question may (i) deliver the proxies awarded in paper form to branches of Banco BPM S.p.A. or of BPM S.p.A., or (ii) send the proxies by certified electronic mail to the following address assembleasoci@pec.bancobpm.it, by **6 April 2017**
If the representative transmits or delivers a copy of the proxy to the Company, at the time of validation of their right to attend the discussion of the Meeting, said representative must confirm, under his/her own responsibility, that it is a true copy of the original and the identity of the delegating party.
Any proxies submitted after the above-indicated date, or at the Shareholders' Meeting must in any event be completed as indicated above.

Representative appointed by the company

A proxy may also be freely awarded - with instructions to vote on all or some of the items on the agenda - to Società per Amministrazioni Fiduciarie Spafid S.p.A., Foro Buonaparte, 10 – 20121 Milan as "Appointed Representative" pursuant to art. 135-*undecies* of the Consolidated Law on Finance by the end of the second open market trading day prior to the date of the Shareholders' Meeting (and therefore by **6 April 2017**). Said proxy is only valid for proposals with relation to which voting instructions have been awarded. The proxy and the voting instructions may always be revoked within the above-indicated term.
To award the proxy to the Appointed Representative, a specific form available on the website must be used (www.bancobpm.it - "Corporate Governance – Shareholders' Meetings" section). The proxy form, if necessary, may be transmitted in paper form to any party that sends a request to Spafid S.p.A. assemblee@pec.spafid.it or to Banco BPM S.p.A. (Group Corporate Affairs - toll free number 800.013.090).

The original of the proxy, with the voting instructions reserved to the Appointed Representative, must be sent, by the above-indicated term of 6 April 2017, to the following address. Spafid S.p.A., Foro Buonaparte, 10 – 20121 Milan, Ref. "Proxy for BPM Shareholders' Meeting 2017", delivered by hand in office hours (from 9:00am to 5:00pm) or sent by registered mail with advice of receipt or sent by courier. Even though the original proxy and voting instructions may be sent as above, it may also be sent electronically to the certified email address assemblee@pec.spafid.it.Sending the proxy to the above-indicated certified electronic mail address, signed with an electronic signature pursuant to legislation in force, meet the requirement of the written form.

Supplement to the agenda and submission of new proposals for discussion

Shareholders who, also jointly, represent at least 1/40 of share capital, may, by means of a written request, made within ten days of the publication of this notice of call (18 March 2017), request to add further items to the Agenda to be discussed at the Shareholders' Meeting (with the exception of topics on which the Shareholders' Meeting resolves, by law, on a proposal of the Management body or on a draft or report drawn up by the same, other than those indicated in art. 125-ter, paragraph 1 of the Consolidated Law on Finance), indicating the further items to be added in their request, pursuant to art. 13.3 of the Articles of Association, or submit proposals for resolution on topics that are already on the agenda, in accordance with that envisaged by art. 126-*bis* of the Consolidated Finance Law. Those in possession of voting rights may individually submit proposals for resolution at the Shareholders' Meeting.
The written request must be submitted by registered letter to the Company (Group Corporate Affairs, Piazza Filippo Meda, 4 - 20121 Milan) or by e-mail to the certified e-mail address assembleasoci@pec.bancobpm.it.
The legitimation of the exercise of the right is confirmed by the deposit of a copy of the communication or certificate issued by the broker in accordance with legislation and regulations in force.
Shareholders that request a supplement to the list of items to be discussed or that submit proposals for resolution on topics that are already on the agenda must draw up a report illustrating the grounds for the proposals to discuss new topics or the grounds relating to further proposals for resolution submitted on topics that are already on the agenda. The report must be sent to the management body by the deadline for submission of the request for a supplement indicated above. The management body will make the report available to the public, together with any assessments of the same, simultaneous to the publication of the news of the supplement to the agenda or of the submission of further proposals for resolution, according to procedures envisaged by the law in force.
Any additions to the agenda or submissions of further proposals for resolution on topics that are already on the agenda will be notified, in the same format as prescribed for the publication of this notice of call, at least fifteen days prior to the date set for the Shareholders' Meeting (23 March 2017). The further proposals for resolution on topics that are already on the agenda will be made available to the public according to legal procedures, simultaneous to the publication of the news of their submission.

Right to ask questions on the items on the agenda

Those with voting rights may ask questions on the items on the agenda also prior to the Meeting, by sending the same within the third day prior to the Meeting (5 April 2017) by certified e-mail to assembleasoci@pec.bancobpm.it or by post to Banco BPM S.p.A., Group Corporate Affairs, Piazza Filippo Meda, 4 - 20121 Milan.
Those asking the questions must send the notifications confirming their legitimate voting rights - through their broker; if they have requested notification from their broker in order to attend the Shareholders' Meeting, the request should refer to said notification or at least the name of the broker in question.

Pertinent questions as regards the items on the agenda will receive a response in accordance with the law at the latest during the Shareholders' Meeting. The Company may provide the same answer to questions with the same content.

Information on share capital

The share capital subscribed and fully paid up by the Company corresponds, on the date of this notice, to euro 7,100,000,000.00 divided into 1,515,182,126 shares with no nominal value. As at the date of this notice, the Company does not hold any treasury shares.

Documentation

The reports of the Directors on each of the topics on the agenda as well as the remaining documentation, including proposals for resolution, the publication of which is envisaged prior to the Shareholders' Meeting, are made available to the public at the registered office of Banco BPM S.p.A. and at Borsa Italiana S.p.A., as well as published on the company website (www.bancobpm.it, "Corporate Governance – Shareholders' Meetings") section and on the website of the authorised storage mechanism www.emarketstorage.com, according to the terms and procedures envisaged by legislation in force.
Once said deposit has been made, Shareholders have the right to obtain a copy of the above documentation by sending a request to Banco BPM S.p.A. (Group Corporate Affairs - toll free number 800.013.090, certified email address assembleasoci@pec.bancobpm.it).

Requests for further information on the procedures for attending Shareholders' Meeting may be sent to Banco BPM S.p.A. (Group Corporate Affairs - Piazza Filippo Meda no. 4 - 20121 Milan) or by calling the toll free number 800.013.090 on working days between 9am and 5pm, or by sending a message to the certified email address assembleasoci@pec.bancobpm.it.

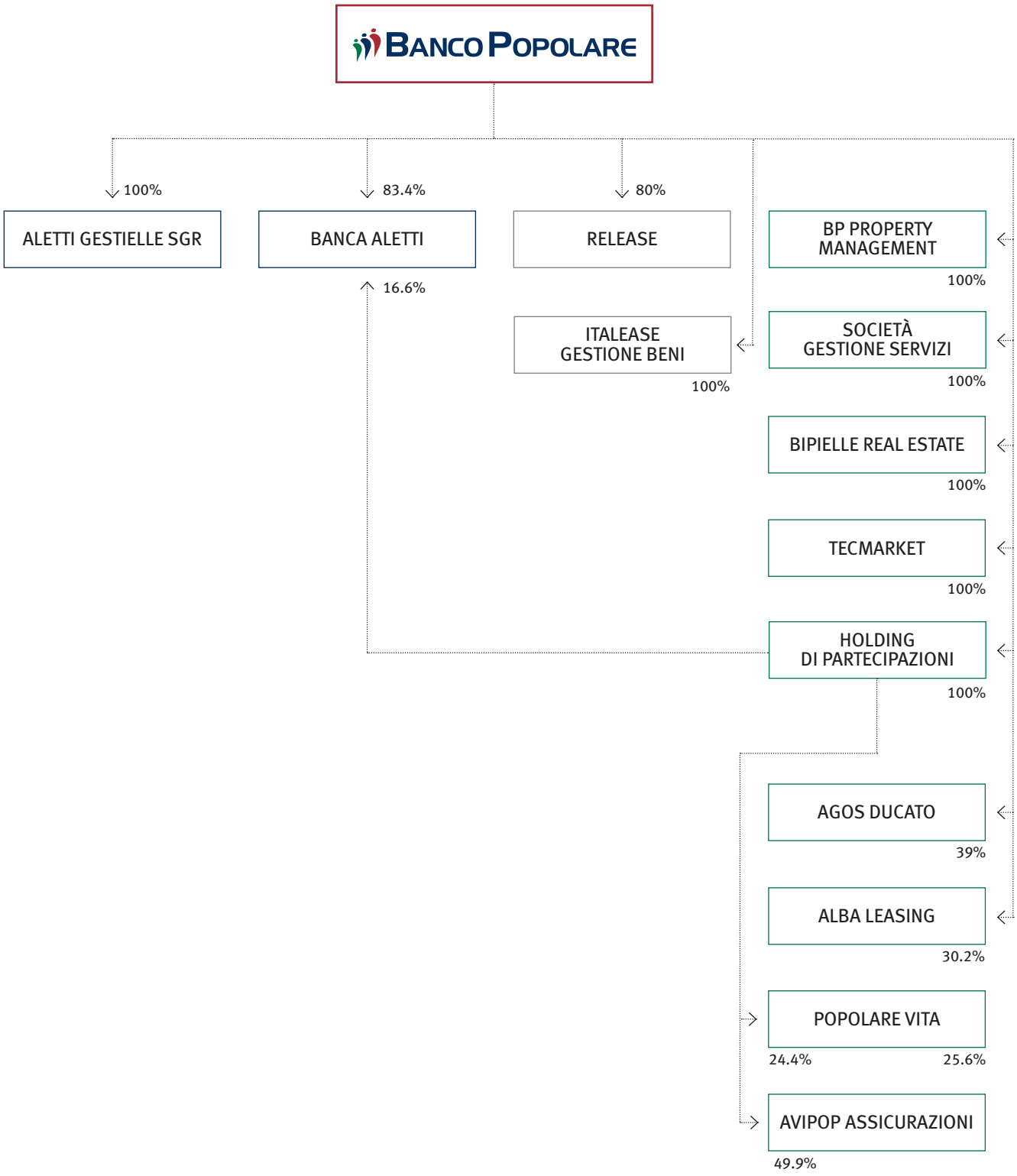
This notice of call - made also pursuant to art. 84 of Consob Regulation 11971/99 and subsequent amendments (Issuers' Regulation) - is published, pursuant to articles 125-bis of the Consolidated Law on Finance and 13.4 of the Articles of Association, on the company website (www.bancobpm.it, "Corporate Governance – Shareholders' Meetings" section) and an extract is also published in the daily newspapers "Il Sole 24 Ore" and "MF".

Verona, 28 February 2017

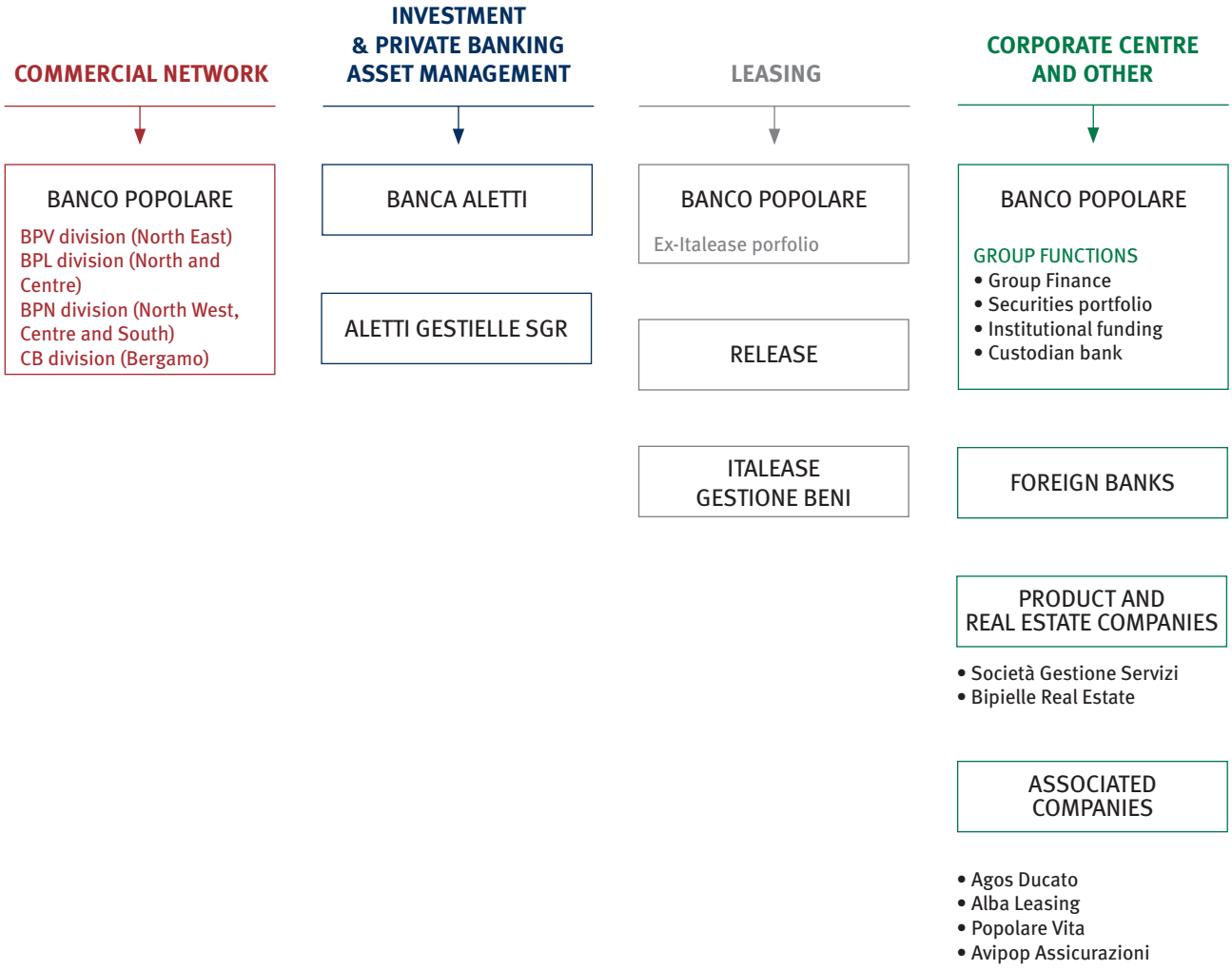
On behalf of the BOARD OF DIRECTORS
The Chairman
Carlo Fratta Pasini

REPORT ON OPERATIONS AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR

GROUP STRUCTURE: MAIN COMPANIES



GROUP STRUCTURE: BUSINESS LINES



The BPV division works with the trademarks: Banca Popolare di Verona, Banco S. Geminiano e S. Prospero, Banco S. Marco, Banca Popolare del Trentino and Cassa di Risparmio di Imola.

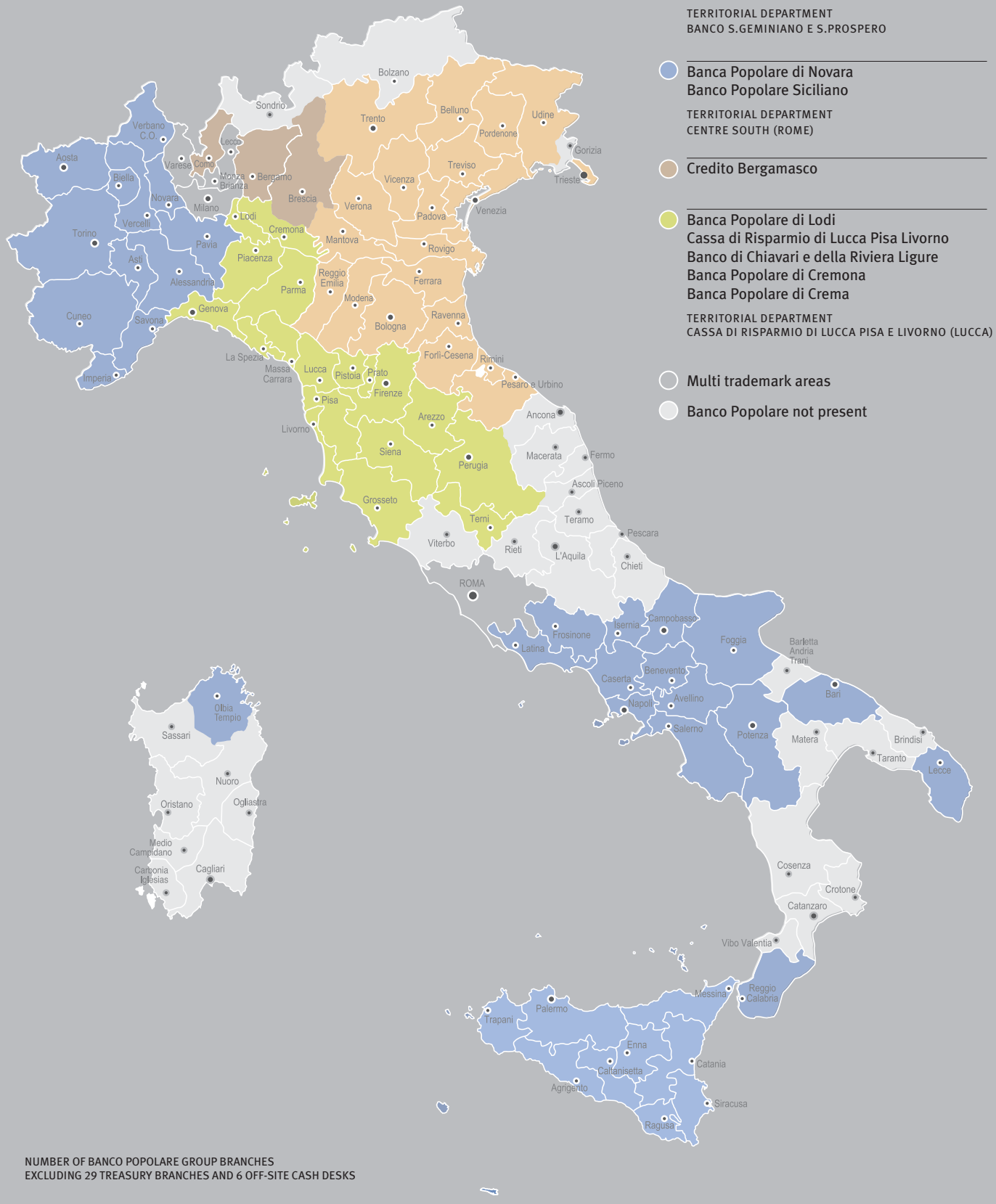
The BPL division works with the trademarks: Banca Popolare di Lodi, Cassa di Risparmio di Lucca Pisa e Livorno, Banco di Chiavari e della Riviera Ligure, Banca Popolare di Cremona and Banca Popolare di Crema.

The BPN division works with the trademarks: Banca Popolare di Novara and Banco Popolare Siciliano.

The CB division works with the trademark Credito Bergamasco.

GROUP TERRITORIAL NETWORK

Figures as at 31 12 2016



Banca Popolare di Verona
Banco S.Geminiano e S.Prospero
Banco San Marco
Banca Popolare del Trentino
Cassa di Risparmio di Imola

TERRITORIAL DEPARTMENT
BANCO S.GEMINIANO E S.PROSPERO

Banca Popolare di Novara
Banco Popolare Siciliano

TERRITORIAL DEPARTMENT
CENTRE SOUTH (ROME)

Credito Bergamasco

Banca Popolare di Lodi
Cassa di Risparmio di Lucca Pisa Livorno
Banco di Chiavari e della Riviera Ligure
Banca Popolare di Cremona
Banca Popolare di Crema

TERRITORIAL DEPARTMENT
CASSA DI RISPARMIO DI LUCCA PISA E LIVORNO (LUCCA)

Multi trademark areas

Banco Popolare not present

NUMBER OF BANCO POPOLARE GROUP BRANCHES
EXCLUDING 29 TREASURY BRANCHES AND 6 OFF-SITE CASH DESKS

Banco Popolare	1,662
Banca Aletti	33
Total	*1,695*

Banco Popolare Group Branches (*)	Number
Banco Popolare	1,662
Banca Aletti	33
Total	**1,695**

(*) Excluding 29 treasury branches and 6 off-site cash desks.

Presence abroad

The Group's foreign operations include a subsidiary company Banca Aletti Suisse and Representative Offices in China (Hong King and Shanghai), India (Mumbai) and Russia (Moscow).

GROUP FINANCIAL HIGHLIGHTS AND ECONOMIC RATIOS

Highlights

The highlights and main ratios of the Group, calculated on the basis of the reclassified financial statements, are presented below. The underlying calculations for these are illustrated in the "Results" section of this Report.
In previous years, the Banco Popolare Group exercised the option of designating financial liabilities issued by the bank at fair value ("fair value option") as an alternative to hedge accounting, also for issues classified as institutional. Measuring the financial liabilities placed on the institutional market at fair value also entails measuring the impact of the change in its own creditworthiness following the date of issue of the liability. Due to said previous option, the Group's profit (loss) is influenced to a significant extent by its creditworthiness measured on the basis of market quotations of the specific credit default swap. Given the fact that the economic impact of the fair value option has no value in terms of analysing the Group's effective profitability, in the tables below, it was considered appropriate to show the impact of the afore-mentioned fair value option in a separate item, also showing the profit (loss) of previous periods compared net of said impact[1].

(in millions of euro)	2016	2015	Change
Income statement figures			
Financial margin	1,442.6	1,686.9	(14.5%)
Net fee and commission income	1,318.2	1,425.4	(7.5%)
Operating income	3,060.1	3,663.0	(16.5%)
Operating expenses	(2,487.7)	(2,404.8)	3.4%
Income (loss) from operations	572.4	1,258.2	(54.5%)
Income (loss) before tax from continuing operations	(2,294.4)	344.9	
Net income (loss) without FVO	(1,685.9)	426.8	
FVO Impact	4.2	3.3	29.1%
Net income (loss)	(1,681.7)	430.1	

(in millions of euro)	31/12/2016	31/12/2015 (*)	Change
Statement of financial position figures			
Total assets	117,411.0	120,161.1	(2.3%)
Loans to customers (gross)	83,181.7	85,337.7	(2.5%)
Financial assets and hedging derivatives	25,650.4	27,454.9	(6.6%)
Shareholders' equity	7,575.3	8,493.6	(10.8%)
Customers' financial assets			
Direct funding	80,446.7	82,141.4	(2.1%)
Indirect funding	69,201.8	71,094.8	(2.7%)
- Asset management	36,425.6	35,371.9	3.0%
- Mutual funds and SICAVs	21,107.4	20,297.3	4.0%
- Securities and fund management	4,866.0	4,828.7	0.8%
- Insurance policies	10,452.1	10,245.8	2.0%
- Administered assets	32,776.3	35,722.9	(8.2%)
Information on the organisation			
Average number of employees and other staff (**)	16,626	16,972	
Number of bank branches (***)	1,731	1,848	

(*) The figures have been reclassified to provide a like-for-like comparison. The attachments contain a statement of reconciliation between the reclassified statement of financial position schedule published in the annual financial report as at 31 December 2015 and that restated in this schedule.
(**) Weighted average calculated on a monthly basis. This does not include the Directors and Statutory Auditors of Group Companies.
(***) Including treasury branches, off-site cash desks and foreign branches.

[1] It should also be noted that on 24 July 2014, the International Accounting Standard Board ("IASB") issued the final version of the new accounting standard "IFRS 9 – Financial Instruments". One of the changes introduced by the new standard is the elimination of income statement volatility resulting from changes in creditworthiness. The latter changes will now be recognised directly as changes in shareholders' equity, without passing through the income statement. Companies may apply this new approach for recognition of the same even before implementing the other changes introduced by the new accounting standard. The standard must be applied from 1 January 2018, however early application will be permitted starting from the date of validation and consequent implementation in Community law. Accounting standard IFRS 9 was validated by Regulation no. 2067 of 22 November 2016, published in the Official Gazette of the European Union on 29 November 2016. The proposed presentation of income statement figures therefore anticipates the expected change in the accounting recognition of this particular phenomenon, immediately providing an income statement result that is free of the impact of changes in creditworthiness.

Financial and economic ratios and other Group figures

	31/12/2016 (*)	31/12/2015 (*)
Alternative performance measures		
Profitability ratios (%)		
Financial margin / Operating income	47.14%	46.05%
Net fee and commission income / Operating income	43.08%	38.91%
Operating expenses / Operating income	81.29%	65.65%
Operational productivity figures (000s of euro)		
Loans to customers (gross) per employee (**)	5,003.1	5,028.1
Operating income per employee (**)	184.1	215.8
Operating expenses per employee (**)	149.6	141.7
Credit risk ratios (%)		
Net bad loans/Loans to customers (net)	8.23%	8.24%
Unlikely to pay/Loans to customers (net)	8.22%	9.42%
Net bad loans/Shareholders' equity	82.36%	76.04%
Other ratios		
Financial assets and hedging derivatives / Total assets	21.85%	22.85%
Derivative assets/Total assets	1.72%	2.30%
- trading derivatives/total assets	1.34%	1.89%
- hedging derivatives/total assets	0.38%	0.41%
Net trading derivatives (***)/Total assets	1.33%	1.03%
Gross loans/Direct funding	103.40%	103.89%
Regulatory capitalisation and liquidity ratios		
Common equity tier 1 ratio (CET1 capital ratio)	12.97%	13.15%
Tier 1 capital ratio	13.08%	13.15%
Total capital ratio	16.17%	15.91%
Tier 1 capital ratio/Tangible assets	4.39%	4.98%
Liquidity Coverage Ratio (LCR)	219.88%	180.95%
Leverage ratio	4.23%	4.98%
Banco Popolare stock		
Number of outstanding shares	827,760,910	362,179,606
Official closing prices of the stock		
- Maximum	9,15 (****)	16.33
- Minimum	1,79 (****)	8.91
- Average	3,54 (****)	13.89
Basic EPS	(2.774)	1.173
Diluted EPS	(2.774)	1.173

(*) The ratios were calculated excluding the economic effect of the FVO. The figures relating to the previous period have been restated to provide a like-for-like comparison.
(**) Arithmetic average calculated on a monthly basis which does not include the Directors and Statutory Auditors of Group companies, the amount of which is shown in the previous table.
(***) The aggregate of net trading derivatives corresponds to the mismatch, in absolute terms, between the derivatives included under item 20 of assets in the Statement of Financial Position "Financial assets held for trading" and item 40 of liabilities "Financial liabilities held for trading".
(****) During the year, a share capital increase operation was concluded; the prices of Banco Popolare stock prior to 6 June 2016 (start date of share capital increase and detachment of the relative rights) have been amended by applying the adjustment factor provided by Borsa Italiana (0.741939).

With reference to the alternative performance measures, note that the amounts used to calculate the same are shown in the previous table or in the consolidated financial statements.

GROUP REPORT ON OPERATIONS

ECONOMIC SCENARIO

The international scenario

2016 began with growing fears of a slowdown in the global economy, given the weak rate of growth in many emerging economies and the tensions recorded in China last summer. The abrupt devaluation of the Yuan and the instability associated with the persistent fall of oil prices and its repercussions on the economic prospects of exporting countries, set the foundations for a challenging start to the year. This uncertainty was exacerbated and extended in January by the violent fall in the main international stock prices. Nevertheless, over the next few months, the ongoing situation of the main developed and emerging economies proved to be slightly better than most had expected. The more favourable economic scenario, combined with the absence of any new macroeconomic crises, contributed to slowly belie the fears linked to the fate of the economy. Later in the year, the attention of operators shifted to the important political events of the year: the referendum in the United Kingdom on whether to remain in the EU, the presidential elections in the United States and, in a more domestic key, the referendum on constitutional reform in Italy. In the background, the economic scenario continued to be dominated by, on one side of the Atlantic, the attempts to standardise the FED's monetary policy, and on the other, the ECB's efforts to reflate the Eurozone.
The resilience of the advanced economies, albeit with different intensities, therefore compensated for the slowdown in newly industrialised and emerging countries, despite the reappearance of some geopolitical tensions; the main culprits being the failed coup in Turkey, the new bloody terrorist attacks by ISIS, the refugee emergency in Europe and renewed tension between the United States and Russia. In any event, international trade felt the repercussions of these hotbeds of tension in international relations and of the slowdown in emerging economies, which considerably stunted its growth.
Not even the outcomes of the above-mentioned political events provoked any significant negative impact. The victory of Brexit in the British referendum, given as unlikely on the eve of the vote, after a long period of uncertainty, the election of Donald Trump as the new President of the USA, who had not been the favourite in the polls, and the victory of the "no" in the Constitutional Referendum in Italy, although the latter was less unexpected, did not generate the negative repercussions envisaged on the financial markets, with the exception of the rapid reversal of share prices the day after Brexit, which was soon reabsorbed. The election of the new President of the United States, on the contrary, provoked a net improvement in the tone of the stock markets. In the absence of the expected shock, the economic scenario ended the year on a note of further recovery. In the first few days of 2017, the IMF confirmed the estimated rise in global GDP as +3.1% for 2016 (+3.2% in 2015).

More specifically, for the US economy, initial official estimates for 2016 indicate a growth rate of +1.6% for GDP (+2.6% in 2015), corroborated by the good results recorded in the third quarter (+3.5% in the quarter, annualised, against +1.4% in the second quarter, +0.8% in the first, followed by +1.9% in the fourth). Albeit with a certain amount of uncertainty in the first half of the year, growth was mostly driven by the encouraging uptrend in personal consumption, estimated as +2.7% yoy (+4.3%, +3.0% and +2.5% per quarter annualised, in the second, third and fourth quarters respectively). Gross fixed investment, on the contrary, recorded an estimated fall of -1.5% yoy (-7.9%, +3.0% and +10.7% in the second, third and fourth quarters respectively). The former was positively effected by the more lively tone of the labour market: the rate of unemployment fell to 4.9% over the year, compared to 5.3% in 2015. The latter, instead, were sustained to some extent by the corporate level of confidence (over the year, the Chicago PMI index steadily settled at values that indicate a phase of expansion), although partially blaming the expectations of a rise in interest rates by the FED. Lastly, the consumer price index recorded an increase of +2.1% in 2016 (+2.2% net of the more volatile food and energy components).

In China, the incentive measures and the public infrastructure plans adopted by the Government and the Central Bank succeeded in alleviating the slowdown of economic activity in 2016 (which alone represents almost 30% of the contribution to growth made by newly industrialised countries). For the whole of 2016, the estimated growth of GDP is 6.7% (+6.9% in 2015), mainly due to the rise in total domestic demand, corresponding to +6.9% yoy (+4.9% the previous year), able to offset the fall in net exports: -0.3% (against +2.0% in 2015). In December, the consumer price index rose by 2.1% yoy, bringing inflation for the year 2016 as a whole to 2.0% (1.5% in 2015), a result which is still a long way from the objective set by Beijing of 3.0% for 2017.
Japan's economy, also sustained by various public spending measures (13,500 billion Yen, envisaged in particular with a package of measures launched at the beginning of August), recorded an erratic trend for a fair part of the year, but started to strengthen from the third quarter onwards, and above all, in the fourth. The estimated increase in GDP for the whole of 2016 is +0.9%, triggered, amongst other things, by the +0.4% increase in private consumption and the +1.2% in corporate investment. The effectiveness of the ultra-expansive monetary policy adopted by the Bank of Japan to reflate the economy was threatened by consumer price figures in November: the core component was +0.1% yoy and the overall figure was +0.5% (against the annual increase of 0.8% recorded in 2015), still a fair way off the objective of 2% set by the Japanese Government.
Lastly, international inflation was boosted to some extent by commodity prices, which over the year recorded a steady uptrend, particularly metals and energy, despite a weak start: the spot contract price of WTI rose from USD 36.8 at the beginning of 2016 to USD 53.7 at the end of the year (+46%), after having touched lows of around USD 26 in January

and February, while the price of coal rose by around USD 38 to around USD 58 (+52.6%) and the price of copper rose by around 19%. The OPEC agreement at the end of November, strengthened by the result of the US elections, which sees a new President who is in favour of traditional sources of energy (oil, but above all coal), at the end of the year gave a new boost to energy prices, further fuelling market prices at global level.

The situation in Europe and Italy

According to the first available estimates, the Eurozone's economy has grown at a slightly faster rate than that of the United States for the first time in several years. In actual fact, overall performance saw a moderate rise in GDP for 2016, of 1.7% over the year.
The rate, which was lower than that of 2015 (+1.9%), reflected the slowdown in foreign trade, only partially offset at international level by, on one hand the lack of a negative impact from the US inventory cycle and, on the other hand, by higher public spending in China and Japan. The latter external developments were exacerbated by the negative impacts on consumer spending and corporate investment resulting from greater tension in the internal political and geo-political scenarios. Indeed, for the first time in many years, net exports made a negative contribution, albeit marginal (around -0.1%).
According to available estimates, growth was mainly driven by consumption (+1.7% over the year, after a temporary slowdown: zero change in the second quarter) and by investment (+2.1% yoy, but again recorded a downturn in the second quarter as regards investment in equipment), also boosted by the high use of production capacity. With regard to the former, the low rate of inflation and the increase of nominal wages negotiated in Germany, combined with the gradual improvement in the labour market, gave rise to an increase in real disposable personal income in the later quarters.
Based on initial estimates, inflation is improving rapidly: the upsurge recorded in December, +1.1% yoy, follows the +0.6% of November, and compares with the +0.2% of December 2015. Lastly, in January 2017, the index recorded a decided jump forward to 1.8% yoy, close to the 2% target set by the ECB. However, this substantial recovery appears to have been mostly due to the sustained trend of energy prices.
Despite this relatively lively development scenario in the Eurozone, albeit concentrated in the second half of the year, the Italian economy continues to plod on with a "stop and go" rhythm. Its rate of growth continues to be below the average of the Eurozone and reflects the system's difficulties in handling the constraints of European budgeting as well as structural issues, often relating to credit and production. However, from the beginning of the summer, the economic situation appeared to be recovering, with GDP rising by 0.1% in the second quarter against the first, and by 0.3% in the third, due to the contribution of the durable goods consumption component, particularly vehicles. The electoral deadline of the Constitutional Referendum did not appear to have an significant impact on the confidence of operators, households or companies, however it does represent a *vulnus* able to expose the domestic economy to greater uncertainty at a time when the cycle of consumption, which had started its recovery in 2013, was starting to weaken, both due to the expected downsizing of the contribution made by the purchase of vehicles and to the greater emphasis on saving of retail customers.
Even with the benefit to inventories, due to the positive impact of the result of the referendum on GDP in the latter part of Q4, forecasts for the whole of 2016 indicate an increase of this aggregate of +0.9% (a faster pace than the +0.6% in 2015), resulting from the 1.4% increase in household spending (+1.5% in 2015), the stable rise in investments in machinery and vehicles of +2.8%, compared with +2.9% in 2015, a recovery of investment in construction of +0.9% against -0.8% in 2015, and a new impetus from tax policies, confirmed by the 0.6% rise in Public Administration spending, against -0.6% recorded in 2015.
In the labour market, improvements on the employment front see a rate of employment of 57.3% in November 2016, compared to 56.4% in December 2015 and a rate of unemployment of 11.9%. Inflation continues to be well below the Eurozone average, making the management of monetary policy all the more complex for the ECB. In fact, in December the trend in consumer prices recorded an increase to +0.5% yoy, linked to the rise in the price of services relating to transport (+2.6%), unregulated energy (+2.4%) and unprocessed food (+1.8%), compared to +0.1% recorded in November. Despite the upsurge in December, average change for the year was negative, and corresponded to -0.1% for 2016, a deflationary situation that has not been seen since the end of the Fifties.
As regards public finances, in 2016, based on the latest available data, the situation appeared to have improved yoy: the net requirement of the Government, and for the first 11 months of the year, that of the Public Administration, fell by euro 11 and 10.5 billion respectively. In the first 9 months of the year, the net indebtedness of the latter, net of real estate disposals, recorded a decrease, bringing it to 2.3% of GDP, against 2.6% recorded in the first nine months of 2015. Again at the end of November, the debt of the Public Administration had, however, risen to euro 56.7 billion compared to the end of 2015, reaching euro 2,229.4 billion.

Monetary and economic policy interventions

Despite often conflicting expectations, monetary policy continued to be substantially expansive in the major industrialised countries. The contrasting growth forecasts in the advanced economies for the first half of 2016 and the lacklustre performance of the economies of newly industrialised nations, first and foremost, China and Brazil, resulted in a more prudent approach to monetary policy, also in the United States. More than a couple of increases to official interest rates had been expected over the course of 2016, as the FED appeared to be ready to normalise the monetary policy undertaken at the end of 2015. However, the decision to raise the official interest rates only came at the end of

the year, after seeing unemployment touch 4.6% in November (the lowest since August 2007 and close to the target of the Central US Bank) and the rate of inflation came close to its target of 2.0% (1.7% yoy cited previously), while prospects of the greater expansion of monetary policy became more likely after the election of the new President, Donald Trump. The reference interest rate on the FED Funds, with a spread of 0.25%-0.50% since December 2015, was raised further by 25 basis points to a spread of 0.5%-0.75% during a meeting held in December 2016, while the discount rate was increased by 25 basis points, therefore brought to 1.25%.
In turn, the ECB, still committed to boosting lending and inflation, with a target of close to, but in any event under 2.0%, continued to pursue its objectives to lower the cost of borrowing and to provide liquidity to the system through unconventional expansive measures. The expansive tone of monetary policy was considerably boosted in March, when the European Central Bank cut policy interest rates to a record low (refinancing rate to zero from the previous 0.05%, the rate on deposits to -0.4% from -0.3%) and increased the volume of monthly purchases of Government securities envisaged by the Quantitative Easing (QE) programme from euro 60 to 80 billion, also including investment grade corporate bonds (issued by enterprises).
In addition, the ECB also approved, starting June, a new cycle of loans conditioned by the disbursement of credit to enterprise and households (excluding mortgages to purchase homes), TLTRO2, with a 4-year term. As a result of the latter, bank intermediaries can obtain funds corresponding to up to 30% of their loans to the economy at a zero interest rate applied to the Main Refinancing Operations (MRO), benefitting in some case from negative interest rates if new loans exceed specific thresholds.
At a meeting on 8 September, expectations of further reflationary measures - especially in terms of the quantity of base money, given the interest rates - instead were partially disappointed. The Chairman Mario Draghi only confirmed the expansive stance and their willingness to intervene with extraordinary monetary measures if needed. The same thing happened at the meeting on 20 October. Lastly, after having reiterated its willingness to adopt further monetary support measures, on 8 December the European Central Bank finally approved a further extension of the QE: an additional 9 months, until December 2017, however at a pace of euro 60 billion per month (instead of the previous euro 80 billion), extending however the range of eligible securities to solve the problem of their scarcity.
It is important to note how the extended Quantitative Easing programme of the Central Bank was not fully embraced internally or in European political circles. In the presence of varying situation of macroeconomic growth and the greater vivacity of both commodity and consumer prices, in the Monetary Union there are fears, especially of Germany, that an ultra-expansive stance may light a dangerous inflationary flame. Furthermore, national budget policies, which are seeking greater elasticity, could be excessively indulged by the significant purchases of the bonds issued following said expansion.
The protective shield provided by the Central Bank has certainly dampened the impact of the shocks experienced during the year (Brexit in June and the Italian constitutional referendum in November) on the yields of sovereign bonds in Italy, and according to the latest analyses, also on the ratings of credit institutions, at a time when the results of the stress tests released in the third quarter have confirmed the solidity of the Italian banking system.

Financial market performance

The surprise generated by the almost painless absorption of the political results and geo-political shocks and by the publication of actual economic data generally better than expected, triggered a positive reaction in the financial markets after the shake-up in the first two months of the year, initially in the commodities markets, as mentioned previously, and in the share markets. The first stick market to react was the American one which, albeit with a certain level of volatility, started to rise from the end of the first quarter, boasting a series of record highs, culminating in the final push following the presidential elections, which lead to a cumulative rise of the S&P500 for the year of 9.5%. Up until November, the markets of the Old Continent were instead less reactive, given the greater political difficulties and the problems of the Monetary Union, despite the boost to QE made by the ECB in March. Towards the end of the year, the Eurostoxx 50 made a sudden reversal, closing the year with a slight increase of +0.7%. The best performing European stock markets included Germany, which started to pick up in the summer and closed the year with a modest gain (DAX index: +6.9%). On the contrary, the Italian market, penalised to some extent by the affairs of shares in the banking sector, recorded a negative performance of -10.2%, one of the worst at international level, a result which could have been even worse without the final boost received from the constitutional referendum and the US elections. The FTSE index for Italian banks in July recorded a loss of over 55% of its value compared to the beginning of the year and closed the year with a fall of 38%.
The European Government bond market was highly conditioned by the expansive policies of the ECB and particularly by the QE programme. A very large part of issues by Core European countries, in high demand also due to the difficulties of several segments of the European banking sector, recorded negative yields during the year. Based on Bloomberg's figures at the end of the third quarter, euro 4,600 billion (58.7% of total European Treasury bonds in circulation) offered returns of under zero, with a peak in Germany, where euro 1,260 million, corresponding to 85% of the Bund in circulation, offered negative market rates. The ten-year Bund fell to a daily average low of -0.19% at the beginning of July. More positive expectations for economic growth also led investors to invest in higher risk securities: the BTP benefitted considerably from this situation and negative returns characterised the short-term part of the curve over the year. The interest rate of 10-year BTP rose to a daily average of 1.53% in May, but then fell to a low of 1.08% at the beginning of September, despite future referendum deadline.
The improvement of the economic scenario and the more certain prospects of a rise in interest rates by the FED had a significant impact on the US Treasury market from the Autumn. The yield of ten-year T-bonds rose from a level of around

1.5% at the end of September to briefly exceeding 2.5% towards the end of the year, when the "promise" of the Federal Reserve to raise interest rates three times (instead of two) in 2017, gave this trend a further boost. The performance of the US markets also pushed up, albeit to a lesser extent, the interest rates of European governments. After a negative peak recorded close to the British referendum, the yields of 10-year Government securities gradually, but progressively recovered. Following the faster pace recorded in the USA, however, the uptrend became more lively. Interest rates on the 10-year Bund returned to positive figures in the last quarter, reaching around 0.40%. The interest rates on 10-year BTP rose, surpassing the 2% threshold close to the date of the referendum, and then fell slightly. After having touched a low at the beginning of the year of 98 basis points, the 10-year Btp-Bund spread fluctuating on a slight uptrend until it reached a high at the end of November of 187 basis points and, after having started to fall just before the constitutional Referendum, settled at a range of 170 and 150 basis points until the end of the year.

Domestic banking scenario

Discouraging growth expectations, especially in the first half of the year, influenced the investment decisions of companies, and to a lesser extent, households, which were less likely to make investments and therefore sought bank financing, increasing the deleveraging efforts of the former. On the supply side, in addition to feeling the impact of the above-cited expectations, the banking system continued to grapple with the heavy burden of non-performing loans, the low profit margins caused by the low levels of interest rates, the increasing burden of regulations implemented (or soon to be implemented) as well as, last but not least, the substantial exhaustion of the retail bank bond channel as a funding instrument, exacerbated by the significant rise in the perception of risk of the same of the general public following the scandals that involved several key domestic bank players.
The above-mentioned trends were partially offset by the previously mentioned unconventional expansive measures set in place again by the ECB (QE, negative interest rates, TLTRO2), which boosted the incentive to grant loans by banking institutions, lowering the cost of funding and increasing liquidity, as an advantageous alternative to market funding.
In this context, in 2016, based on data issued by the ABI, bank credit to the private sector fell in December by -0.6% yoy, while that to retail customers and enterprise fell by -0.5%. Loans to retail customers rose (+0.7% in November, last available figures), while corporate loans fell significantly (-2.3% in the same period). Changes in total assets depended also on their term: short-term loans fell in November by -6.8% yoy, medium-long term loans rose by 0.9%. These two phenomena very likely reflect the support given by the demand for loans by retail customers, confirmed by a further increase in the number of homes bought and sold in 2016.
In 2016, credit quality improved due not only to prospects of economic growth, although modest, but also to the result of careful credit rating management and of the stock of non-performing loans, as well as policies to increase provisions adopted, also on the recommendation of the Supervisory Authority, by banking intermediaries. The flow of new non-performing loans against total loans stabilised and even started to fall, while the percentage of total loans represented by net bad loans started to decrease, falling from 4.9% at the end of 2015 to 4.8% in November 2016 (latest figures available). In the twelve month period to November, net bad loans actually fell from euro 88.8 billion to euro 85.2 billion, corresponding to a decrease of -4.1%. This occurred despite the delay in the arrival of industry provisions - think of the notion of "Bad Bank" of the system disputed by the European authorities - which enable the problem to be solved structurally at sector level.
Total direct customer funding (deposits and bonds) recorded a fall of -1.3% yoy in December. These figures confirm the preference of customers for bank deposits, +4.2% yoy, instead of bank bonds, -19.9% on the same date. Customers continue to prefer liquidity, continuing, as mentioned, to consider bank bonds as high risk, a trend that has lasted since the regulations on bank bail-ins came into force. This preference has been indulged by the banks which, as mentioned, given the liquidity offered by the Central Bank, prefer to select their funding sources, favouring the less onerous ones. Looking more closely at deposits, there continues to be a trend within this aggregate to reorganise finances in favour of current accounts, which rose 9.8% yoy in November (last detailed data available), instead of fixed-term deposits, which fell by 21.0% (net of securitisations), and of those redeemable with a notice period, which fell by -0.5%.
The trend of bank interest income and expense rates for the period is the combined result of the above-mentioned factors. The bank interest spread, calculated as the difference between the average interest rate on loans and the average interest rate on total funding from retail and non-financial corporate customers, consequently closed 18 basis points down, falling from 2.06% in December 2015 to 1.88% in December 2016. The mark-up (calculated as the difference between the average interest rate on the above loans and the 3-month Euribor rate) decreased to 317 basis points (338 basis points in December 2015), while the mark-down (calculated as the difference between the 3-month Euribor rate and the interest rate on total funding) closed 3 basis points down, falling from 132 to 129 basis points in the same period.
Lastly, in the first eleven months of the year, the asset management industry recorded net funding of euro 54.4 billion (euro 130.0 billion as at November 2015), of which euro 33.6 billion in collective management (euro 91.6 billion) and euro 20.7 billion in portfolio management (euro 38.4 billion). Assets invested in open-ended Italian and foreign mutual funds at the end of the same period, amounted to euro 887.4 billion, against euro 851.8 billion as at November 2015.

Structural changes for the domestic banking system

From the end of 2015, a number of events and legislative provisions relevant to the structure of the Italian banking system took place. First of all, the procedure to reform cooperative banks was launched, and should be completed within 18 months from the issue, in June 2015, of the implementing provisions by the Bank of Italy, to transform cooperative banks into joint-stock companies (S.p.A.). Towards the end of the year, when important transformations into S.p.A., including that of Banco Popolare, had been approved, the Council of State suspended the aforementioned provisions, whilst waiting for a ruling by the Constitutional Court.
As regards other important legislative changes, the implementation of European regulations on procedures for the recovery and resolution of credit entities (so-called BRRD - Bank Recovery and Resolution Directive) was followed by its immediate application between the end of 2015 and the beginning of 2016, to rescue four Italian banks in difficulty (Banca Etruria, Banca Marche, CariFerrara and CariChieti). The Resolution Fund, created specifically within the Bank of Italy to manage situations of bank crises, led the operation, while the banking system covered rescue costs by allocating around euro 4 billion. Subordinated bondholders had to first absorb, jointly with shareholders, the losses accumulated over time by the four banks, in compliance with that provided for by European regulations (Legislative Decree no. 180 of 16 November 2015) to implement an ordered solution to the bank crisis. It was only later that subordinated bondholders without an adequate risk profile received relief in the form of the placement or subsequent purchase of similar portfolio instruments. The above events obviously translated into an increasing unwillingness of savers to hold bank bonds.
Of the various initiatives undertaken by the Government to facilitate the process of assigning the non-performing loans that are weighing down the banking systems, it is worth mentioning the launch of the GACS (Guarantee Securitisations Bad Loans) through Law Decree 18/2016 of 12 February 2016. This is a public guarantee scheme, which allows intermediaries to purchase a public guarantee on the safest (senior) bonds resulting from securitisations of bad loans, by paying the government structured commissions in order to promote the rapid repayment of the same.
In the first half of April, with the support of 44 Italian and foreign institutions, including banks, Bank foundations, insurance companies, social security entities as well as the Deposits and Loans Fund, an “alternative” private investment fund was launched, called Atlante, the objective of which is to sustain the unopted portion of future share capital increases issued by Italian banks, and to contribute to the disposal of the non-performing loans in the portfolios of domestic intermediaries. This instrument, which had initially resources amounting to around euro 4.2 billion at the time of its establishment, and which may use a lever of up to 110%, was immediately utilised for the listing of Banca Popolare di Vicenza and Veneto Banca, two banks in the North-East in serious difficulty. Regarding the establishment of “Atlante”, the Government also announced the adoption of further new measures to reduce credit collection times, after having already provided for the terms for executive and bankruptcy procedures to be simplified, streamlined and shortened in the 2016 Stability Law.
At the beginning of July, after having obtained the approval of the European authorities, the Government launched a scheme of public guarantees, with a maximum ceiling of euro 150 billion, and as a “precautionary” measure, which, together with the previously mentioned GACS, may be used by solvent banks and those in difficulty, to facilitate their refinancing through the ECB, in unexpected situations of a lack of liquidity, even if they do not have sufficient collateral to deliver to the Central Bank.
On 8 August, the Atlante 2 Fund was established which, in the second ten days of October, completed the due diligence to purchase a tranche of mezzanine notes issued by Monte Paschi di Siena. The price of the operation, which is still on stand-by due to the events which then emerged as regards Monte dei Paschi, is euro 1.7 billion.
In reality, the Siena-based bank had been required to increase its share capital by at least euro 5 billion after having “failed” the stress tests conducted by the EBA (Core Equity Tier 1 of -2.2% in 2018 in the stressed scenario). The Bank’s top management therefore immediately submitted an initial recovery plan based on two points: the deconsolidation of the entire portfolio of bad loans from the financial statements (euro 27.7 billion gross at March 2016) and a market recapitalisation of euro 5 billion. After a series of changes in the top management of the Bank and the proposal of an alternative plan submitted by the former Minister Corrado Passera, around mid-November the bank launched a voluntary IPO on BMPS subordinated bonds, with an obligation to reinvest the consideration in newly-issued ordinary shares, linked to the share capital increase launched later on 24 November by the Shareholders’ Meeting. The Offer, made towards the end of the year, did not attract enough subscriptions. Furthermore, the ECB refused to allow an extension for the share capital increase of beyond 31 December. As a market-based solution was no longer possible, public intervention was therefore sought. The ECB then advised of the need to raise at least euro 8.8 billion in fresh cash as a “precautionary” measure. At this point, the Executive decided to issue a decree enabling the Treasury to recapitalise Monte dei Paschi, increasing its controlling interest, based on statements from the Group’s top management, to around 70%. Said legislation, Decree Law 237/2016, containing urgent provisions to protect savings in the credit sector, also set in place the operating framework of our system for interventions of State aid for banks, in accordance with that envisaged by European legislation. Lastly, it should be noted that the procedures to reform the Cooperative banking system are still ongoing.

SIGNIFICANT EVENTS DURING THE YEAR

The main events which occurred during the year ending 31 December 2016 are described below.

The planned merger with Banca Popolare di Milano

In March 2016, the management bodies of Banco Popolare and Banca Popolare di Milano signed a memorandum of understanding for a merger operation, to be implemented by establishing a new banking company, in the form of a joint stock company.
On 24 May 2016, the Board of Directors of Banco Popolare and the Management Board of Banca Popolare di Milano approved the proposed merger as well as the Articles of Association of the new Parent Company, called Banco BPM S.p.A.

Structure of the transaction

The memorandum of understanding envisages that the operation takes place through what is known as a "merger by incorporation", namely through the establishment of a new parent company, which conducts banking activities and acts as a holding company for the group at the same time, as well as coordinating and supervising all of the companies belonging to the new Group.
The registered office of the new Parent Company is envisaged to be in Milan, and its administrative headquarters in Verona.

Therefore, the outcome of this merger is the transformation of Banco Popolare and of Banca Popolare di Milano from cooperative companies into a joint stock company, in compliance with the provisions of the Cooperative Bank Reform.
The management bodies of the parties have agreed that, given their respective contributions, the impact of the share capital increase undertaken by Banco Popolare, and the distribution of ordinary dividends from the profit for the year ending 31 December 2015 to the shareholders of Banco Popolare and Banca Popolare di Milano, the merger will be based on the following shareholding percentages:

- the shareholders of Banco Popolare are allocated 54.626% of the share capital of the new Parent Company;
- the shareholders of BPM are allocated 45.374% of the share capital of the new Parent Company.

Based on the agreements stated in the memorandum of understanding, subject to obtaining the necessary authorisations, it is envisaged that, immediately prior to the merger transaction, Banca Popolare di Milano demerges a division that includes the network of branches located in the provinces of Milan, Monza and Brianza, Como, Lecco and Varese and transfers the same to a subsidiary banking company. Said company, with registered and administrative offices in Milan, will run the network of banks, under the supervisions and coordination of the new Parent Company (which will provide centralised administrative, planning, treasury and other central services) and will have an efficient organisational structure consistent with the nature of a bank network, so as not to duplicate costs or create overlaps with the new Parent Company.
The agreements also envisage that, as soon as possible after the merger takes effect, the new Parent Company will demerge the network of branches that previously belonged to Banco Popolare located in the same provinces as the network of branches transferred by Banca Popolare di Milano, and will transfer them to the same beneficiary company.
Within a reasonable period of time from the date of completion of the demerger, and in any event, effective from the third year following the date on which the merger deed takes effect, the beneficiary company of the above mentioned demerger will be incorporated into the new Parent Company.

The binding conditions established by the Supervisory Body for the authorisation of the transaction

In its preliminary examination of the intentions stated by the top management of the two Groups, the European Central Bank established a series of binding conditions in order for it to issue its authorisation, based on the importance of the new legal entity within the European financial system.
One of the main conditions regarded further improving the solidity of the new Group's equity position, the adoption of a business plan that demonstrates profit margins that are sustainable in the medium term and a progressive reduction of the ratio of non-performing loans to total loans, as well as a higher average level of coverage of non-performing loans, with a view to reducing the amount of said loans over time.
As illustrated in more detail in the paragraph below, in order to strengthen its equity base and therefore also that of the future new Group, Banco Popolare has finalised a share capital increase for euro 1 billion, concluded on 1 July 2016 with the last payments.

With regard to the second requirement, Banco Popolare and Banca Popolare di Milano have prepared and approved the business plan for the new Group, which was illustrated to the market on 16 May 2016.

Regarding the third requirement, the average levels of coverage of bad loans, and more generally non-performing loans have been increased since the first quarter. The decisions taken regarding the recovery of bad loans, alongside those relating to the criteria and valuation parameters for the whole category of non-performing loans had a significant impact on the economic performance of the year, which closed with a loss of euro 1,681.7 million, after having deducted net value adjustments on loans of euro 2,539.3 million from the income statement, compared to euro 803.9 million last year.

The main steps of the process towards achieving the merger

In May, the confirmatory due diligence exercise conducted on Banca Popolare di Milano was concluded, in accordance with that envisaged in the memorandum of understanding. No elements emerged from said due diligence that required an adjustment to the shareholding percentages.

Following the completion of Banco Popolare's share capital increase transaction and in application of the above-cited shareholding percentages, the rates of exchange for the merger between Banco Popolare and BPM were established as 1 share of the new Parent Company for each Banco Popolare share and 1 share of the new Parent Company for every 6.386 shares of BPM in issue at the time the merger takes effect.

In July, the transaction received the approval of the Monopolies and Mergers Commission, pursuant to art. 16, paragraph 4 of Italian Law no. 287 of 10 October 1990.

Following the completion of the preliminary stage, the approval process was concluded in September and on 8 September, the Bank of Italy authorised the merger in accordance with the provisions of art. 57 of the Consolidated Banking Law. On 9 September, the European Central Bank issued the authorisation for the new Parent Company to exercise banking activities. In October, IVASS (Italian Supervisory Body for Insurance companies) authorised the new Parent Company to hold qualified equity investment in the insurance companies AviPop Assicurazioni, AviPop Vita, Popolare Vita, Bipiemme Vita and Bipiemme Assicurazioni, which currently belong to the companies involved in the merger.

The Extraordinary shareholders' meeting of Banco Popolare, held on 15 October, approved the Proposed Merger by a very large majority, as well as the deed of incorporation and the articles of association of the company resulting from the merger, called Banco BPM S.p.A.
On the same date, the Extraordinary shareholders' meeting of Banca Popolare di Milano took place, which approved the transaction.

Following these resolutions, the next steps of the merger were launched, entailing a request for the newly-issued shares of Banco BPM to be listed on the Electronic Equity Market (MTA), managed by Borsa Italiana.

On 13 December 2016, the merger deed was signed.

The finalisation of the transaction

The merger transaction was finalised following the registration of the merger deed on the relevant Company Registers of Verona and Milan on 1 January 2017. The merger took effect from an accounting and tax perspective on the same date.

The new Parent Company Banco BPM S.p.A. has a share capital of euro 7.1 billion, represented by 1,515,182,126 ordinary shares with no nominal value. The shares were listed on the MTA from 2 January 2017, at the same time as trading of the shares of the two banks participating in the merger was revoked.

And so a new Group has been established, the third largest Banking Group in Italy, characterised by extremely important aggregates (4 million customers and 2,500 branches, total assets of over euro 171 billion, over 25,000 employees and solid equity and liquidity ratios) and which holds a position of excellence in the high added value business segments of Asset Management, Corporate & Investment Banking, Private Banking, Bancassurance and Consumer Credit.

The administration and control system of the new Parent Company is based on a Board of Directors and a Board of Statutory Auditors. The Board of Directors has 19 members, with Carlo Fratta Pasini as Chairman, Giuseppe Castagna as Managing Director and Mauro Paoloni as Acting Deputy Chairman.
The Executive Committee, with Pier Francesco Saviotti as Chairman, has 6 directors, including the Managing Director, the Acting Deputy Chairman and the two Deputy Chairmen.
The General Management team is represented by Maurizio Faroni, as General Manager, and by Joint General Managers Domenico De Angelis and Salvatore Poloni.

Activities in progress on the date of preparation of this Report

Numerous projects have been set in place relating to activities concerning the implementation of the merger and the definition of the business and organisation model of the new Group, with a view to achieving the objectives set out in the 2016-2019 Business Plan.

Transaction to strengthen equity by euro 1 billion

In June 2016, the share capital increase transaction for euro 1 billion was successfully concluded, approved by the Extraordinary Shareholders' Meeting of 7 May.
More specifically, on 2 June, the Board of Directors approved the final conditions for the share capital increase, resolving to issue a maximum of 465,581,304 new shares, with no indication of a nominal value, with the same characteristics as the ordinary shares already in issue and with standard entitlement, to be offered under option to shareholders at a ratio of 9 Banco Popolare shares for every 7 shares held, at a price of euro 2.14 each, for a maximum total counter value of euro 996.3 million.
The subscription price represents a discount of 29.3% with respect to the Theoretical Ex Right Price, calculated on the basis of the closing price on 1 June 2016.
During the offer under option period, which started on 6 June and ended on 22 June, 359,863,966 option rights were exercised for the subscription of 462,682,242 shares, corresponding to 99.377% of the total shares offered, for a total counter value of around euro 990 million.
The option rights that were not exercised were offered on the stock market and, in the first two sessions of 24 and 27 June, were all sold. Taking into account the shares already subscribed following the offer period, 463,583,970 newly-issued ordinary shares were subscribed in total, for a total counter value of euro 992.1 million.
In accordance with the guarantee agreement signed on 2 June 2016, Mediobanca - Banca di Credito Finanziario S.p.A. and BofA Merrill Lynch, as Joint Global Coordinators and Joint Bookrunners, subscribed the remaining 1,997,334 shares for a counter value of euro 4.3 million.
Taking into account the shares already subscribed under option during the offer period, the share capital increase closed with the full subscription of the 465,581,304 newly-issued ordinary shares, for a total counter value of euro 996.3 million, to be fully ascribed to share capital.

Following registration on the Verona Company Register of the certification envisaged by art. 2444, paragraph 1 of the Italian Civil Code on 1 July 2016, Banco Popolare's share capital amounts to euro 7,089,340,067.39 and is comprised of 827,760,910 shares, with no indication of nominal value, with standard entitlement (1 January 2016) and with the same characteristics as the ordinary shares already in issue.

Process to redefine and simplify the corporate and organisational structure

Evolution of the network distribution model

In the first half of 2016, following the resolutions made in 2015 and 2016 by the Board of Directors of Banco Popolare, efforts to rationalise the commercial network continued.
Specifically:

- in January, the 12 Business Areas belonging to the different Divisions of Banco were grouped together, reducing the number of Business Areas in the Commercial Network from 75 to 63;
- in April, the simplification procedure was concluded with the closure of 120 Group branches, 31 of which belonged to the BPL Division, 44 to the BPN Division, 40 to the BPV Division and 5 to the Creberg Division.

Sale of the foreign subsidiary Banco Popolare Luxembourg

On 19 August 2015, Banco Popolare and Banque Havilland signed an agreement for the sale of 100% of the share capital of Banco Popolare Luxembourg SA to Banque Havilland SA, finalised on 29 February 2016 after obtaining the necessary authorisations from the relevant supervisory bodies.
The scope of the operation does not include the sale of the equity investment in Aletti Suisse, wholly owned by Banco Popolare Luxembourg, which on 4 January 2016 was transferred to Banca Aletti S.p.A., or the risks and benefits relating to the loans portfolio of Banco Popolare Luxembourg, which will continue to be held by Banco Popolare.
The counter value of the sale was around euro 21.5 million, plus the profit recorded up until the date of the sale, which amounted to euro 1.6 million. In accordance with the agreements between the parties, before the operation was finalised, Banco Popolare Luxembourg distributed a total sum of euro 55 million to its shareholder Banco Popolare, as available reserves, dividends and partial repayment of the share capital.
In accordance with the Group's strategic guidelines, by this operation Banco Popolare to continue to focus on its core domestic banking business and at the same time will enable private and institutional customers to maintain their investment arrangements, providing them with service continuity in Luxembourg.

Incorporation of the subsidiary Tiepolo Finance 2 S.r.l.

On 1 June, the merger by incorporation of Tiepolo Finance 2 S.r.l into the Parent Company became legally effective.
The merger took place without an exchange ratio, or cash payment, and did not entail any share capital increase for the incorporating company Banco Popolare.
The incorporated company was therefore cancelled from the Banking group.

Winding-up of Group companies

In July, the liquidation of the subsidiary company Banca Italease Funding LLC was completed, following the redemption of the Preferred Securities still outstanding, issued in 2006 for a total of euro 150 million.
The capital distributed by the company to its sole shareholder Banco Popolare amounted to euro 13.8 million; instead, no distribution of capital was made by the Trust.

During the year, the procedures to wind up the subsidiary companies Italease Finance S.p.A and Bipitalia Residential S.r.l, the securitisation SPE, and the associated company Società Sviluppo Territorio S.r.l. were completed. These operations did not have a significant impact on the Group's equity or economic situation.

Other events in the year

Closure of the exercise of the put option on RCS Mediagroup shares

In April, Banco Popolare signed a formal agreement with Pandette S.r.l. to settle and close the dispute underway regarding the execution of the put option contract, signed in 2006, and regarding 3,870,900 RCS shares.
The agreement entailed the transfer of all RCS shares to Pandette and the release of part of the provisions recognised against the risk relating to the dispute in question at the time of preparation of the financial statements of the previous years. The recovery, recorded in the income statement for the year 2016, amounted to euro 10.6 million.

Banco Popolare's participation in the Atlante Fund

Always in April, Banco Popolare made a commitment to subscribe quotas of the Atlante Fund, an alternative closed-end securities investment fund, exclusively reserved to professional investors and managed by Quaestio Capital Management SGR, for a total investment of euro 50 million.
During the year, following a request received from the SGR, Banco Popolare made four separate payments against call notices for a total amount of euro 49.5 million (euro 19.7 million in April, euro 10.1 million in June, euro 8.9 million on 25 November and lastly euro 10.8 million at the end of December 2016); in addition, on 29 December, the Atlante Fund made a partial repayment to Banco Popolare of euro 8.9 million.
Overall, the net payments made total euro 40.6 million; Banco Popolare's residual commitment is therefore euro 9.4 million.

For further details about the Atlante Fund and about the value recorded on the financial statements, which as at 31 December 2016 amounted to euro 20.9 million, please refer to the Notes to the Consolidated Financial Statements, part A - Accounting policies "A.4 - Fair value disclosure".

Inspections by the European Central Bank

On 16 May 2016, the ECB commenced an inspection concerning the management of credit risk, the risk management system and the accuracy of the method adopted to calculate the equity situation of the Banco Popolare Group. The on-site phase of this inspection has been completed; the preliminary results of the inspection were discussed on 4 November 2016. On the date of preparation of this Report, the report and the follow-up letter containing the draft recommendations had not been received.
Similarly, the ECB commenced two separate inspections of Banca Popolare di Milano; the first, relating to credit risk management, started on 30 May 2016, with the on-site phase concluded on 30 September 2016; the second, conducted by a different team of inspectors, and regarding the accuracy of the method adopted to calculate the equity situation, started on 4 July 2016, with the on-site phase concluded on 10 October 2016. The discussions of the preliminary results with top management took place on 27 September and 10 October 2016 respectively. In both cases, on the date of preparation of this Report, the report and the follow-up letter containing the draft recommendations had not been received.
The information acquired in conversations with the team of inspectors and with regard to the discussion of the preliminary results were taken into consideration for the independent valuation of loans for the preparation of the financial statements as at 31 December 2016. The final results of the inspection with be objectively evaluated once the report has been received from the Supervisory Body.

European stress test: communication of Banco Popolare's results

Banco Popolare participated in the 2016 EU-wide stress test conducted by the European Banking Authority (EBA), in collaboration with the Bank of Italy, the European Central Bank, the European Commissions and the European Systemic Risk Board (ESRB).
The 2016 stress test exercise does not have minimum thresholds to comply with and was based on the assumption of static financial statements for 31 December 2015 and therefore does not consider the business strategies and action that may have been implemented by management after said date.
The results, released on 29 July, confirmed the resilience and the solidity of Banco Popolare, with a CET1 ratio, after the impact of the Stress Test of 14.61% for the baseline scenario and 9.05% for the adverse scenario.

Assignment without recourse of bad loans

Over the year, the Banco Popolare Group finalised several assignments without recourse of bad loans, mostly unsecured loans, for a total of around euro 945 million, euro 930 million of which recorded by the Parent Company.
The most important of these refer to portfolio of unsecured bad loans: the first, sold in June, which included around 9 thousand debtors, the majority of which relating to current account overdrafts, for a total nominal value of 152 million, and the second, completed in October, comprised by around 9 thousand positions for a nominal value of approximately euro 619 million.

The assignments, completed en bloc pursuant to Law 130/1999, entailed the real and definitive transfer of the credit risk associated with the transferred items.

Note also that, as better illustrated in the section regarding significant events occurring after the end of the year in the Notes to the consolidated financial statements, in January, the new Parent Company Banco BPM S.p.A. formalised the assignment without recourse of a portfolio of unsecured bad loans, including around 1,800 positions for a total nominal value of approximately euro 641 million.

With regard to portfolios of bad loans, for which the Board of Directors of Banco Popolare had taken a formal decision on the recovery strategy for the same, which entailed encouraging their assignment to third party operators, the valuation of the financial statements has been updated in order to reflect the various recoverable cash flows resulting from the assignment, which is usually below the value recognised in the financial statements. For further details on valutational aspects, please consult the Notes to the consolidated financial statements, part A - Accounting policies and uncertainties with regard to the use of estimates for drawing up the financial statements.

Annual guarantee fee for the transformation of eligible DTA - Italian Legislative Decree no. 59 of 3 May 2016

Italian Decree Law no. 59 of 3 May 2016, converted into Italian Law no. 119 of 30 June 2016, introduced a special provision for "eligible" Deferred Tax Assets (DTA), namely deferred tax assets which meet the requirements of Italian Law no. 214 of 22 December 2011. The latter provision allows the above-mentioned "eligible DTA" to be transformed into tax credit in specific situations (recognition of losses and/or tax losses in the financial statements). More specifically, through the cited decree law, the national legislator has intervened, by providing that the transformability of "eligible DTA" into tax credit is subject to the optional payment of an annual fee, in the presence of "eligible DTA" that exceed the amount of taxes paid. The exercise of the option is irrevocable and is considered to have been exercised on payment of an annual fee regarding each year from 2015 to 2029.
On 19 June 2016, the Board of Directors of the Parent Company resolved to exercise the fee payment option illustrated above; the fee paid for 2015 amounted to euro 27.2 million.
For further details on the legislative provisions introduced, on the fees deducted from the income statement for 2016, on the implications of the recoverability of the book values of the eligible DTA and on prudential treatment, please refer to Part A - Accounting policies, in the section entitled "Other significant aspects relating to the Group's accounting policies".

Contributions to deposit guarantee schemes and resolution mechanisms

With Directives 2014/49/EU (Deposit Guarantee Schemes Directive – "DGSD") of 16 April 2014 and 2014/59/EU (Bank Recovery and Resolution Directive - "BRRD") of 15 May 2014 and the creation of the Single resolution Mechanism (EU Regulation no. 806/2014 of 15 July 2014), significant changes were made to European law concerning the governance of banking crises, with the strategic purpose of strengthening the single market and ensuring system-wide stability. Following the assimilation of these directives into national legislation, from 2015, credit entities must provide the financial resources needed to finance the Interbank Deposit Guarantee Fund (IDGF) and the National Resolution Fund, merged into the Single Resolution Fund (SRF) from 2016, by paying ordinary and, where necessary, extraordinary contributions. For 2016, the ordinary contribution paid by the Banco Popolare Group amounted to euro 44.3 million for the SRF and euro 22.3 million for the IDGF.

On 27 December 2016, a letter was received from the Bank of Italy regarding a request for two additional annual contributions, in accordance with the provisions of art. 1, paragraph 848 of Italian Law no. 208 of 28 December 2015, with a view to guaranteeing the National Resolution Fund sufficient financial resources to meet its obligations relating to the resolution intervention of the four banks (Banca Popolare dell'Etruria, Banca Marche, Cassa di Risparmio di Ferrara and Cassa di Risparmio di Chieti) launched in 2015, namely before the launch of the Single Resolution Mechanism. The additional contributions due from the Banco Popolare Group amounted to euro 88.8 million and, even though they have not yet been paid, in accordance with the provisions issued by the Bank of Italy, they have been entirely deducted from the income statement for 2016.
For further details on contributions to deposit guarantee systems and to resolution mechanisms and the relative impact of the amounts deducted from the income statement for 2016, which total euro 155.4 million, please refer to Part A - Accounting policies, in the section entitled "Other significant aspects relating to the Group's accounting policies".

Interbank Deposit Guarantee Fund - Voluntary Scheme

The banks of the Banco Popolare Group (Banco Popolare and Banca Aletti) belong to the Voluntary Scheme managed by the Interbank Deposit Guarantee Fund, established in November 2015, as an additional instrument with respect to the mandatory scheme and not subject to the restrictions of Community legislation. The objective of the Voluntary Scheme is to provide support to member banks in extraordinary receivership or which are collapsing or at risk of collapsing. In June 2016, the Assembly of the IDGF approved several statutory amendments to the Voluntary Scheme with a view to extending the scope of intervention of the fund and to increasing the commitment of members to provide financial resources from euro 300 million to euro 700 million; said resources will be provided on request by the members for specific interventions.
On 16 September 2016, Banco Popolare and Banca Aletti received letters from the IDGF regarding the payments to be made, totalling euro 14.2 million, corresponding to their share of the resources needed for the intervention resolved by the Management Board of the Voluntary Scheme to support the Cassa di Risparmio di Cesena through a share capital increase reserved to the Scheme, for the amount of euro 280 million, authorised by the ECB on 15 September 2016, plus a contribution of euro 1 million to cover expenses relating to the intervention and the operation of the Voluntary Scheme.
As at 31 December 2016, the residual commitment of the Banco Popolare Group to provide financial resources to the Voluntary Scheme amounted to euro 21.2 million.
For further details on the accounting treatment of the investment recognised against the resources paid to the Voluntary Scheme and the relative valuation as at 31 December 2016, please refer to Part A - Accounting policies, in the section entitled "Other significant aspects relating to the Group's accounting policies".

Agreements relating to employees

In accordance with the negotiation process and the objectives established last year, efforts in 2016 focused on the objectives of containing labour costs, reorganising the company supplementary pension scheme and developing Group supplementary Welfare.

In January, the above-mentioned efforts entailed, in strict coherence with the need to re-balance the number of employees in Professional areas and those in Middle Management previously considered and included in the agreement dated 3 November 2015, the signature of a further agreement regarding access to the Solidarity Fund, which resulted in a significant increase in the number of employees voluntarily leaving the company. Said increase, established as a maximum number of 200 employees through the Solidarity Fund, in addition to the 200 employees retiring and through previously-agreed access to the Solidarity Fund, was reserved, for a maximum of 180 employees, to Middle Managers and was also accompanied by an increase in the number of new employees hired/confirmed with a view to generational turnover, to be implemented between 30 April 2016 and 31 August 2017. The total estimated expense of this commitment was recorded in the statement of financial position and income statement as at 31 December 2015.

In February 2016, with a view to overall social and business sustainability, agreement was reached to implement a plan for voluntary suspension from work, with wages and contributions partially paid, for a total of 120,000 days, to be taken over the course of the year, organised in such a way as to conciliate with the employees' work-life balance.

In the fourth quarter of the year, negotiations with the trade unions focused on the stipulation, on 23 December 2016, agreements relating to the business combination with the BPM Group, through which the legislative framework to regulate the repercussions on workers resulting from the implementations of the 2016-2019 Strategic Plan relating to the merger process was defined, as well as the management of redundancies resulting from the corporate merger, corresponding to 1800 people, through the voluntary use of the sector-based Solidarity Fund.

With specific reference to the management of redundancies, the relative specific agreement envisages the opportunity to accommodate a number of requests for access to extraordinary early retirement funds, which may even be higher than the above-mentioned redundancy threshold and in any event limited to a total of 2100 employees, also

envisaging, if said increase of requests is reached, a maximum number of 400 new employees to be hired with a view to generational renewal during the three year period 2017, 2018 and 2019 as regards the Banco BPM Group.
Given the inclusion in said maximum number of new employees, the number of new employees already agreed for 2016 and 2017, as a leaving incentive, an amount corresponding to 85% of net pay for each employee has been agreed as an extraordinary measure.

In accordance with the relevant accounting standards, the total charge estimated for the commitments made has been fully deducted from the income statement for 2016.

With regard instead to interventions regarding supplementary pensions and welfare, negotiations were focused on the objective to concentrate the pension schemes currently in place in a Single Group Fund, launched in December 2015 and formalised with the agreement signed on 28 September 2016, through which a final agreement was reached on the establishment of a Single Group Fund, effective 1 January 2017, establishing the implementation stages for the concentration of the Group's Pension Funds and confirming, the current Pension Fund of the BP Group as the "container" for the latter.
This agreement was also accompanied by the definition of further specific interventions to sustain the personal and family needs of employees in terms of social security and national insurance contributions, as well as regarding the life-work balance, with a view to improving and stabilising the framework of People Care initiatives supported by the Group for some time now.

RESULTS

Introduction

The statement of financial position and income statement schedules shown below have been reclassified, according to operating criteria, in order to provide clear indications on the trend of the Group's general performance based on the economic-financial data that can be determined rapidly and easily.
The reclassification criteria are unchanged with respect to those applied as at 31 December 2015; however, several restatements of data relating to previous periods were necessary in order to guarantee a like-for-like comparison.

In particular, over the year, in-depth analyses were conducted to identify the most suitable accounting treatment for certain pension plans for employees, represented by defined contribution plans, classified as "internal" by social security legislation. More specifically, as these are plans established by Banco Popolare through the formation of a separate and autonomous asset pool, with the effects set forth in art. 2117 of the Italian Civil Code. Up until the 2015 financial statements, the assets of these plans, corresponding to euro 272.4 million, had been reported in the financial statements under asset item "160. Other assets" with a balancing entry in the corresponding liability item "120. a) Provisions for risks and charges - company pension plans", giving priority to the formal aspect of the separate asset pool established within the Group.
Starting from the interim report as at 30 June 2016, and adopting the approach of substance over form, the assets of the fund are not shown under assets, insofar as the only obligation for the Group is represented by the payment to the separate asset pool of the contributions defined on a contractual basis and there is no legal or substantial guarantee as to the repayment of the capital and/or the return to the beneficiaries. The obligation to declare the separate asset pool, pursuant to art. 2117 of the Italian Civil Code, which as at 31 December 2016 amounted to euro 291.1 million, is met by recording the same in the memorandum accounts.
For comparative purposes, the figures relating to the previous year have been restated to provide a like-for-like comparison with those recorded as at 31 December 2016. More specifically, on the basis of the above, note that the statement of financial position shows a decrease of the balance of asset item "160. Other assets" of euro 272.4 million, and a corresponding change in the liability item "120 Provisions for risks and charges, a) retirement benefits and similar commitments".
In addition, the statement of financial position included for comparative purposes as at 31 December 2015 shows, with respect to that originally published, a reduction of assets (item 20) and of liabilities and shareholders' equity (item 40) of euro 76.1 million, with a view to representing the fair value of certain types of derivative on an offsetting basis. In this regard, it should be noted that, pursuant to art. 2 of the Delegated Regulation no. 2205/2015, from 21 December 2016, the Banco Popolare Group is obliged to use centralised, specifically authorised or recognised clearing houses for certain types of derivative instruments, namely those known as Over The Counter. More specifically, Group banks - Banco Popolare and Banca Aletti - are members of the centralised London Clearing House (LCH) through several clearing brokers. With regard to the contractual documentation that regulates the cited derivative instruments, already in existence as at 31 December 2015, analyses conducted highlighted the need to represent the fair value on an offsetting basis, insofar as the requirements established by accounting standard IAS 32, paragraph 42, to proceed with offsetting, were considered to have been met. This means that, for financial year 2015, the negative fair values of derivatives with LCH, corresponding to euro 76.1 million, instead of being classified under the liability item "40. Financial liabilities held for trading" were reclassified, reducing the positive balance of the derivatives with the same clearing house, recognised under asset item "20. Financial assets held for trading". For further details on assets and liabilities netted in the statement of financial position, please refer to the content of the paragraph entitled "Financial assets netted in the statement of financial position, or subject to master netting arrangements or similar agreements" in Part B - Other information in the notes to the financial statements.

A reconciliation between the statement of financial position as at 31 December 2015, restated as illustrated, and that originally published (both the version of the official schedule envisaged by Bank of Italy Circular no. 262 and the reclassified one) is attached to this Report.

Disclosures on the business combinations and the reclassifications made to the financial statements envisaged by Circular no. 262/05, in compliance with the requirements of Consob as per communication no. 6064293 dated 28 July 2006 are shown below:

The main reclassifications made with respect to the balances present in the items of the official income statement schedule in order to prepare the reclassified schedule are illustrated below:

- dividends on shares classified under financial assets available for sale and assets held for trading (item 70) have been reclassified under the net financial result;
- the profits and losses on the disposal of loans, not represented by debt securities, (included in item 100) have been grouped, together with net losses/recoveries on impairment of loans, under item "Net adjustments on loans to customers";

- the profits and losses on the disposal of financial assets available for sale, receivables represented by debt securities and financial liabilities (recognised under item 100) have been stated under the net financial result. This last aggregate also includes adjustments due to impairment on debt securities classified in the loans portfolio, which in the financial statements are shown under item 130;
- recoveries on taxes and other costs (included in item 220) have been booked directly against administrative expenses, where the relative cost has been recognised, rather than being indicated in the reclassified aggregate "other net operating income";
- the amortisation of leasehold improvement costs (recorded in item 220) has been stated together with value adjustments on property and equipment and intangible assets, rather than stated together with other net operating income;
- the portion of the economic results pertaining to investee companies carried at equity (included in item 240) has been stated in a specific item which represents, together with the interest margin, the aggregate defined as the financial margin;
- the aggregate "Losses/recoveries on investments in associates and companies subject to joint control, goodwill, and other intangible assets" includes all adjustments relating to goodwill, to other intangible assets, and to investments in associates and companies subject to joint control made following annual impairment testing;
- the impact of the change in creditworthiness on financial liabilities issued by the Bank, designated at fair value (FVO), recorded under item 110, is shown as a separate item in the reclassified income statement, together with the relative tax (recognised in item 290 of the income statement).
- the allocations to provisions for risks and charges of disputes, which regard interest accrued during the year or in previous years, recorded under item 160 of the income statement, contribute to the direct adjustment of the interest margin.

A reconciliation between the reclassified income statement and that drawn up on the basis of Circular no. 262 is provided in the attachments and includes comments explaining the reclassifications made.

Consolidated income statement figures

Reclassified income statement items *(in thousands of euro)*	**2016**	**2015**	**Change**
Interest margin	1,318,061	1,545,386	(14.7%)
Profits (losses) on investments in associates and companies subject to joint control carried at equity	124,547	141,479	(12.0%)
Financial margin	**1,442,608**	**1,686,865**	**(14.5%)**
Net fee and commission income	1,318,158	1,425,410	(7.5%)
Other net operating income	101,861	109,644	(7.1%)
Net financial result (without FVO)	197,517	441,081	(55.2%)
Other operating income	**1,617,536**	**1,976,135**	**(18.1%)**
Operating income	**3,060,144**	**3,663,000**	**(16.5%)**
Personnel expenses	(1,470,173)	(1,433,610)	2.6%
Other administrative expenses	(852,244)	(804,860)	5.9%
Net value adjustments on property and equipment and intangible assets	(165,284)	(166,362)	(0.6%)
Operating expenses	**(2,487,701)**	**(2,404,832)**	**3.4%**
Income (loss) from operations	**572,443**	**1,258,168**	**(54.5%)**
Net adjustments on loans to customers	(2,539,331)	(803,933)	215.9%
Net adjustments on receivables due from banks and other assets	(40,799)	(54,181)	(24.7%)
Net provisions for risks and charges	(24,737)	(50,791)	(51.3%)
Value adjustments on goodwill	(279,000)	-	
Profits (Losses) on disposal of investments in associates and companies subject to joint control and other investments	17,031	(4,400)	
Income (loss) before tax from continuing operations	**(2,294,393)**	**344,863**	
Taxes on income from continuing operations	583,117	70,518	726.9%
Income (loss) after tax from discontinued operations	2,524	(7,280)	
Income (loss) attributable to minority interests	22,848	18,684	22.3%
Net income (loss) without FVO	**(1,685,904)**	**426,785**	
Change in the Bank's creditworthiness (FVO)	5,853	4,912	19.2%
Taxes on the change in creditworthiness (FVO)	(1,609)	(1,624)	(0.9%)
Impact of the change in creditworthiness (FVO)	**4,244**	**3,288**	**29.1%**
Parent Company's net income (loss)	**(1,681,660)**	**430,073**	

Reclassified consolidated income statement – Quarterly changes

Reclassified income statement items *(in thousands of euro)*	FY 2016				FY 2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1 (*)
Interest margin	303,192	323,612	339,719	351,538	368,860	387,465	401,969	387,092
Profits (losses) on investments in associates and companies subject to joint control carried at equity	31,249	29,822	27,362	36,114	40,958	39,203	36,672	24,646
Financial margin	**334,441**	**353,434**	**367,081**	**387,652**	**409,818**	**426,668**	**438,641**	**411,738**
Net fee and commission income	367,889	310,961	322,483	316,825	340,184	314,141	350,204	420,881
Other net operating income	30,984	24,298	22,739	23,840	37,323	23,497	20,267	28,557
Net financial result (without FVO)	13,754	84,991	40,883	57,889	267,785	29,967	50,315	93,014
Other operating income	**412,627**	**420,250**	**386,105**	**398,554**	**645,292**	**367,605**	**420,786**	**542,452**
Operating income	**747,068**	**773,684**	**753,186**	**786,206**	**1,055,110**	**794,273**	**859,427**	**954,190**
Personnel expenses	(507,149)	(314,117)	(323,378)	(325,529)	(423,317)	(327,702)	(342,176)	(340,415)
Other administrative expenses	(255,589)	(192,654)	(199,380)	(204,621)	(316,253)	(161,021)	(162,573)	(165,013)
Net value adjustments on property and equipment and intangible assets	(55,434)	(46,641)	(32,863)	(30,346)	(73,851)	(33,696)	(26,321)	(32,494)
Operating expenses	**(818,172)**	**(553,412)**	**(555,621)**	**(560,496)**	**(813,421)**	**(522,419)**	**(531,070)**	**(537,922)**
Income (loss) from operations	**(71,104)**	**220,272**	**197,565**	**225,710**	**241,689**	**271,854**	**328,357**	**416,268**
Net adjustments on loans to customers	(839,586)	(719,323)	(296,026)	(684,396)	(229,143)	(199,483)	(193,920)	(181,387)
Net adjustments on receivables due from banks and other assets	(32,767)	(658)	(9,062)	1,688	(23,171)	(5,150)	(22,286)	(3,574)
Net provisions for risks and charges	(17,253)	(5,497)	1,389	(3,376)	14,603	(15,768)	(6,428)	(43,198)
Value adjustments on goodwill	(279,000)	-	-	-	-	-	-	-
Profits (Losses) on disposal of investments in associates and companies subject to joint control and other investments	13,873	2,873	596	(311)	(108)	(246)	(3,959)	(87)
Income (loss) before tax from continuing operations	**(1,225,837)**	**(502,333)**	**(105,538)**	**(460,685)**	**3,870**	**51,207**	**101,764**	**188,022**
Taxes on income from continuing operations	251,629	156,603	39,303	135,582	72,593	(5,285)	(23,328)	26,538
Income (loss) after tax from discontinued operations	4,009	-	(5)	(1,480)	307	200	(6,523)	(1,264)
Income (loss) attributable to minority interests	2,551	14,717	2,639	2,941	7,684	5,869	1,199	3,932
Net income (loss) without FVO	**(967,648)**	**(331,013)**	**(63,601)**	**(323,642)**	**84,454**	**51,991**	**73,112**	**217,228**
Change in the Bank's creditworthiness (FVO)	(2,277)	(1,627)	(5,281)	15,038	(6,295)	7,057	16,771	(12,621)
Taxes on the change in creditworthiness (FVO)	627	447	2,288	(4,971)	2,082	(2,334)	(5,546)	4,174
Impact of the change in creditworthiness (FVO)	**(1,650)**	**(1,180)**	**(2,993)**	**10,067**	**(4,213)**	**4,723**	**11,225**	**(8,447)**
Parent Company's net income (loss)	**(969,298)**	**(332,193)**	**(66,594)**	**(313,575)**	**80,241**	**56,714**	**84,337**	**208,781**

(*) The figures relating to the first quarter of 2015 have been restated to provide a like-for-like comparison.

Note that, in accordance with that envisaged by the reference international accounting standard (IFRS 3), the Banco Popolare Group's income statement includes the economic impacts deriving from the allocation of the difference from the merger with the Banca Popolare Italiana Group and of the price paid for the acquisition of Banca Italease (so-called Purchase Price Allocation – PPA) with reference to the current year 2016 and the previous one compared. In this regard, note that the economic impacts in question were gradually reduced and some of them are no longer significant. The only residual economic impacts of any note relate to the amortisation charges for intangible assets with a definite useful life recorded after the acquisition of the Banca Popolare Italiana Group and recognised under "Other net operating income". The impact on income (loss) before tax from continuing operations recorded in the income statement for 2016 amounted to euro -25.5 million (euro -28.7 million in 2015).
The overall effect on the net consolidated result was therefore euro -17.3 million as at 31 December 2016 (euro -15.4 million in 2015).

In compliance with the instructions contained in Consob Communication no. DEM/6064293 of 28 July 2006, the following paragraphs provide information on the effects that non-recurrent events or transactions had on the consolidated economic result of the years compared.

For the purposes of identifying the non-recurrent components, the following approaches are used on the whole:

- the results of disposal transactions relating to all fixed assets (investments in associates and companies subject to joint control, property and equipment) are considered to be non-recurrent;
- gains and losses on non-current assets held for sale and discontinued operations are considered to be non-recurrent;
- the income statement components associated with improvements, reorganisations, etc. (e.g. expenses for use of the redundancy fund, leaving incentives) are considered to be non-recurrent;

- income statement components for a significant amount which are not destined to reoccur frequently (e.g. fines, impairments of fixed assets, effects associated with legislative changes, exceptional results, etc.) are considered to be non-recurrent;
- impacts on the income statement, as long as significant, resulting from valuation aspects and/or changes in parameters in the application of the valuation methods applied on an on-going basis are instead considered to be recurrent.

In the light of the above criteria, in addition to the amounts already included in items that are per se non-recurrent (e.g. profit (loss) on assets held for sale), the income statement result as at 31 December 2016:

- was penalised by the impact of the decision to start increasing the average level of coverage of non-performing loans from the first quarter of 2016, in line with that requested by the ECB at the time of the initial examination of the planned merger between Banco Popolare and Banca Popolare di Milano;
- benefitted from the impact resulting from the decrease in the book value of own financial liabilities issued at fair value due to the decrease in the creditworthiness of Banco Popolare with respect to the end of the previous year (euro +5.9 million before tax). For the same reason, the income statement as at 31 December 2015 had been positively impacted by euro 4.9 million before tax;
- benefitted, in item "Net income (loss) (without FVO)" from the recognition of a profit of euro 25.3 million, before tax, resulting from the earn-out for the sale of an investment held in the Istituto Centrale delle Banche Popolari Italiane S.p.A. (sale completed in 2015). Instead, in the previous year gains resulting from the sale of the shares held in ICBPI and Arca SGR were recognised, classified as financial assets available for sale, totalling euro 241.2 million;
- was penalised, under the item "Personnel expenses" by the inclusion of non-recurring expenses relating to the reduction of surplus personnel through the System Solidarity Fund. The agreement signed on 23 December 2016 relating to 748 resources entailed deducting euro 198.6 million from the 2016 income statement. Last year, expenses of a similar nature amounting to euro 94.6 million were deducted;
- was penalised, under item "other administrative expenses" by the inclusion of the expense relating to the annual fee to be paid to maintain the transformability of "eligible DTA" into tax credit in the event of losses and/or tax losses for the year. The share of the afore-mentioned system fee charged to the income statement in 2016, but relating to the previous year amounted to euro 27.2 million before tax. Again, under "Other administrative expenses", extraordinary expenses of euro 31.7 million were recognised relating to the merger transaction with the BPM Group, as well as the extraordinary contributions requested by the National Resolution Fund totalling euro 88.8 million. Last year, similar charges amounting to euro 113.9 million were charged to the income statement;
- was penalised, under "net value adjustments on property and equipment and intangible assets" by the inclusion of adjustments relating to several properties, classified as property and equipment purchased for investment purposes, with a view to adjusting their book value to the estimated recoverable value, amounting in total to euro 32 million. For the same reason, the income statement for the previous year had suffered a negative impact of euro 45.2 million;
- was penalised, under "net adjustments on receivables due from banks and other assets", by the deduction of long-term write-downs of financial assets available for sale amounting to euro 23.1 million, related in particular to the Atlante Fund for euro 19.7 million and the remainder to the investment held in the Voluntary Scheme of the IDGF with relation to the intervention of the latter in the rescue of Cassa di Risparmio di Cesena;
- was penalised by the recognition of allocations to provisions for risks and charges relating to tax disputes of euro 10 million and to legal disputes with an investee company of euro 4.8 million. Last year, non-recurrent expenses charged to the same item amounted to euro 45.1 million;
- was penalised by the recognition of "value adjustments on goodwill" of euro 279 million, following annual impairment testing on intangible assets with an indefinite useful life allocated to the Investment Banking & Asset Management CGU;
- was penalised, under "taxes on income from continuing operations" for the inclusion of an expense relating to the settlement of a tax dispute for euro 10.3 million. Instead, the income statement for the previous year had benefitted from the recognition of deferred tax assets relating to the prior tax losses of the incorporated company Banca Italease for euro 85.1 million.

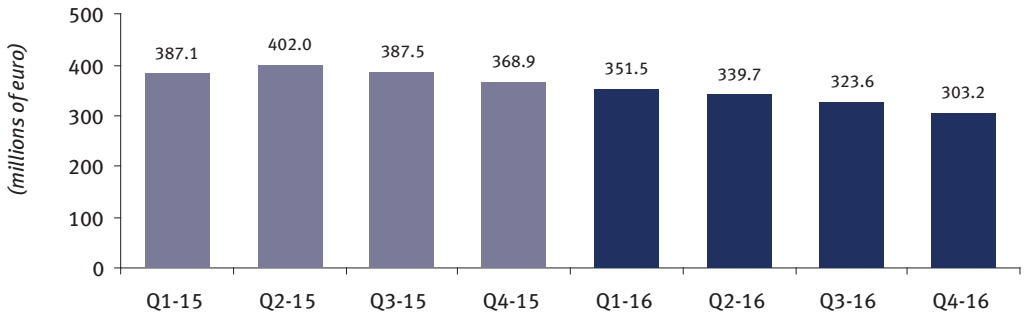
The main income statement items as at 31 December 2016 are illustrated below, compared with the figures for the previous year.

Operating income

Interest margin

(in thousands of euro)	2016	2015	Absolute change	% change
Financial assets held for trading	122,627	167,651	(45,024)	(26.9%)
Financial assets designated at fair value through profit and loss	(717)	717	(1,434)	
Financial assets available for sale	326,480	347,998	(21,518)	(6.2%)
Investments held to maturity	170,324	148,159	22,165	15.0%
Net interest due to banks	(37,943)	(49,134)	(11,191)	(22.8%)
Net interest due to customers	1,523,814	1,822,228	(298,414)	(16.4%)
Hedging derivatives (net balance)	(28,277)	30,030	(58,307)	
Net interest on other assets/liabilities	8,291	12,775	(4,484)	(35.1%)
Debt securities issued	(583,846)	(529,682)	54,164	10.2%
Financial liabilities held for trading	(28,115)	(219)	27,896	not significant
Financial liabilities designated at fair value through profit and loss	(154,577)	(405,137)	(250,560)	(61.8%)
Total	**1,318,061**	**1,545,386**	**(227,325)**	**(14.7%)**

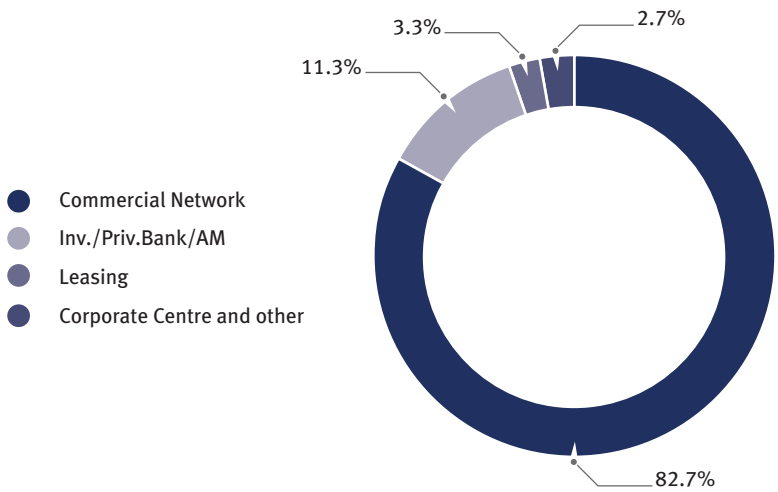
Interest margin



The **interest margin** amounted to euro 1,318.1 million, compared to euro 1,545.4 million last year, with a contribution of euro 303.2 million in the fourth quarter, compared to euro 323.6 million in the third. The interest margin reflected the further fall in interest rates (1-month Euribor fell by 18 basis points year on year, while the 3-month Euribor recorded a fall of 19 basis points in the same period), high competitive pressure on the pricing of loans to customers, as well as the fall in the profitability of the securities portfolio. In this context, the negative impact of the above phenomena on the interest margin was mitigated by the fall in the cost of institutional funding and by measures to contain the fall of the mark-down with respect to the above-mentioned fall recorded by market rates.

(in thousands of euro)	2016	2015 (*)	Absolute change	% change
Commercial Network	1,089,651	1,378,060	(288,409)	(20.9%)
Investment Banking, Private Banking, Asset Management	149,507	186,036	(36,529)	(19.6%)
Leasing	43,839	43,146	693	1.6%
Corporate Centre and Other	35,064	(61,856)	96,920	156.7%
Total interest margin	**1,318,061**	**1,545,386**	**(227,325)**	**(14.7%)**

(*) The figures relating to the previous year have been restated to provide a like-for-like comparison.



The Commercial Network, which represents 82.7% of the item's results, reported net interest down by 20.9%. The fall in the interest margin for 2016 with respect to the previous year is due both to the fall in the average volume of loans by around euro 1.1 billion, and to the decrease of the average customer spread from 178 bps at the end of December 2015 to 157 bps as at 31 December 2016. More specifically, the fourth quarter of 2016 felt the competitive pressure on the pricing of loans, recording a fall in the average customer spread of a further 7 basis points compared to the third quarter, partly mitigated by the containment of the network mark-down, which showed an improvement of 3 basis points, recording -81 bps as at 31 December 2016.
The interest margin of the Investment Banking and Asset Management segment showed a fall due to the lower returns of the securities portfolio of the subsidiary company Banca Aletti, the latter influenced in turn by lower placement volumes of certificates during the year, which generates the liquidity used to increase the volume of said portfolio. The Leasing Division maintained a contribution to the Group's result in line with that of last year, due to non-recurring income related to the settlement of securitisation transactions.
Lastly, the considerable reduction in the stock of institutional bond issues led to a fall in the cost of institutional funding and therefore to an improvement in the performance of the Corporate Centre segment in 2016.

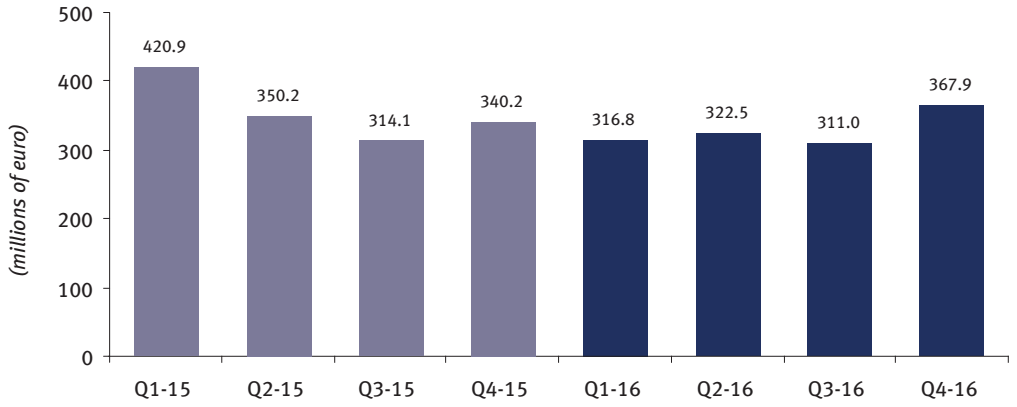
Profits (losses) on investments in associates and companies subject to joint control carried at equity

Profits (losses) on investments in associates and companies subject to joint control carried at equity amounted to a profit of euro 124.5 million, compared to euro 141.5 million recorded as at 31 December 2015 (euro 31.3 million in the fourth quarter of 2016). The positive contribution to the result for the year is mainly due to the equity investments held in Agos Ducato (euro 90.0 million compared to euro 105.2 million last year), in Popolare Vita (euro 19.7 million compared to euro 25.0 million as at 31 December 2015), in Avipop Assicurazioni (euro 11.1 million compared to euro 8 million in the corresponding period of the previous year) and in Energreen (euro 1.1 million compared to euro 2.5 million as at 31 December 2015); Alba Leasing made a positive contribution of euro 1.8 million.

Net fee and commission income

(in thousands of euro)	2016	2015	Absolute change	% change
Management, brokerage and advisory services	591,929	709,116	(117,187)	(16.5%)
Distribution of savings products	448,420	543,274	(94,854)	(17.5%)
- Placement of securities	20,528	3,822	16,706	437.1%
- Asset management	332,740	406,880	(74,140)	(18.2%)
- Bancassurance	95,152	132,572	(37,420)	(28.2%)
Consumer credit	26,203	35,636	(9,433)	(26.5%)
Credit cards	31,151	31,764	(613)	(1.9%)
Custodian bank	18,187	17,299	888	5.1%
Trading securities, currencies and acceptance of orders	44,575	56,150	(11,575)	(20.6%)
Other	23,393	24,993	(1,600)	(6.4%)
Current account management and loans to customers	508,525	496,899	11,626	2.3%
Collection and payment services	112,702	120,173	(7,471)	(6.2%)
Guarantees given	50,768	50,397	371	0.7%
Other services	54,234	48,825	5,409	11.1%
Total	**1,318,158**	**1,425,410**	**(107,252)**	**(7.5%)**

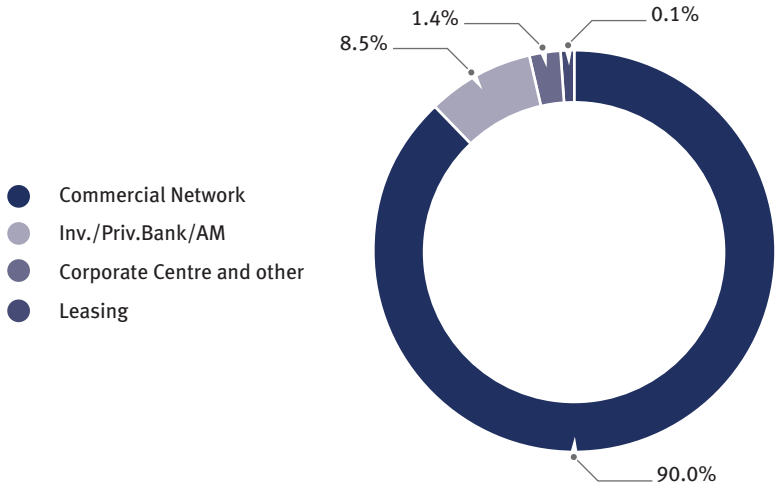
Net fee and commission income



Net fee and commission income amounted to euro 1,318.2 million, down 7.5% compared to euro 1,425.4 million recorded last year, which had also benefited from a particularly favourable and difficult to repeat trend in the asset management segment. The fall recorded for the year was mainly due to commitments of the distribution networks regarding numerous extraordinary events related to the integration project with the BPM Group.

(in thousands of euro)	2016	2015 (*)	Absolute change	% change
Commercial Network	1,187,347	1,344,132	(156,785)	(11.7%)
Investment Banking, Private Banking, Asset Management	111,968	69,263	42,705	61.7%
Corporate Centre and Other	18,814	12,525	6,289	50.2%
Leasing	29	(510)	539	
Total net fee and commission income	**1,318,158**	**1,425,410**	**(107,252)**	**(7.5%)**

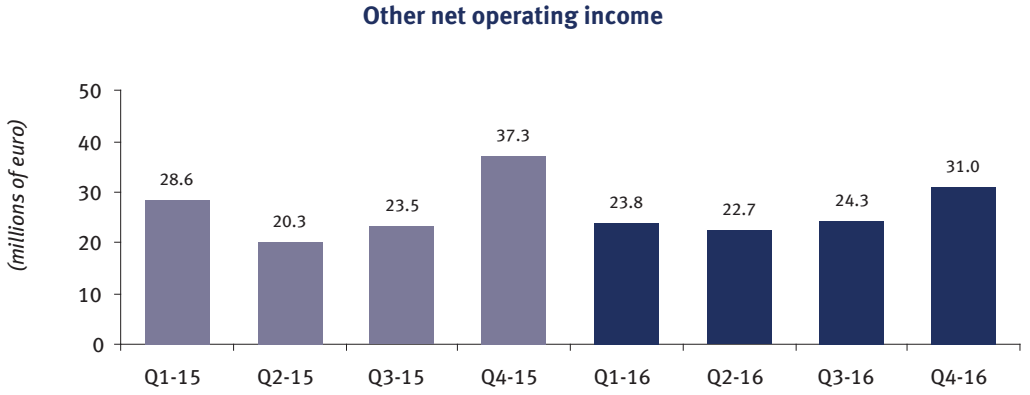
(*) The figures relating to the previous year have been restated to provide a like-for-like comparison.



As with the interest margin, the Commercial Network represents by far the largest source of fee and commission income, down by 11.7% compared to last year, due to lower volumes of investment products placed and specifically the mutual funds of the subsidiary Aletti Gestielle SGR. Investment Banking & Asset Management showed an increase linked both to its activities as arranger of insurance products made in the first quarter by Banca Aletti and to the rise in the level of refunds of commissions by the Parent Company relating to the placement of mutual funds. The Corporate Centre segment improved its performance against last year, due to the increase in fee and commission income from custodian banking activities.

Other net operating income

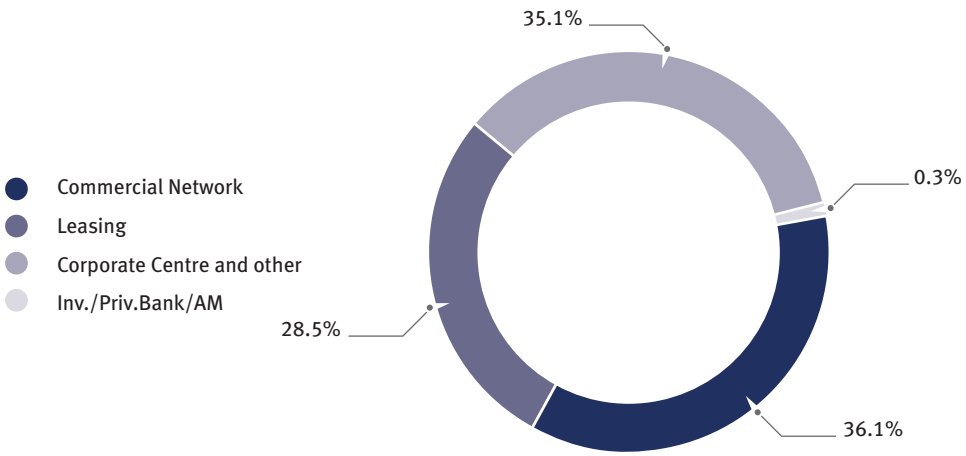
(in thousands of euro)	2016	2015	Absolute change	% change
Income on current accounts and loans	45,813	51,773	(5,960)	(11.5%)
Rents receivable	56,724	55,905	819	1.5%
Maintenance on property and leased assets	(10,957)	(15,483)	(4,526)	(29.2%)
Other income and charges	32,233	41,280	(9,047)	(21.9%)
Subtotal	**123,813**	**133,475**	**(9,662)**	**(7.2%)**
Client relationship (PPA)	(21,952)	(23,831)	(1,879)	(7.9%)
Total	**101,861**	**109,644**	**(7,783)**	**(7.1%)**



Other net operating income totalled euro 101.9 million, compared to euro 109.6 million recorded last year. The fall in income generated by "commissioni di istruttoria veloce" (fast-track fees) led to a corresponding fall in the expenses linked to maintaining leased assets and in amortisation expenses relating to the client relationship. The fall in this item is therefore due to lower income generated by transactions with third parties, included in the sub-item "other income and charges".

(in thousands of euro)	2016	2015 (*)	Absolute change	% change
Commercial Network	44,664	52,624	(7,960)	(15.1%)
Leasing	35,336	15,037	20,299	135.0%
Corporate Centre and Other	43,439	65,355	(21,916)	(33.5%)
Investment Banking, Private Banking, Asset Management	374	459	(85)	(18.5%)
Total business areas	**123,813**	**133,475**	**(9,662)**	**(7.2%)**
PPA	(21,952)	(23,831)	(1,879)	(7.9%)
Total other net operating income	**101,861**	**109,644**	**(7,783)**	**(7.1%)**

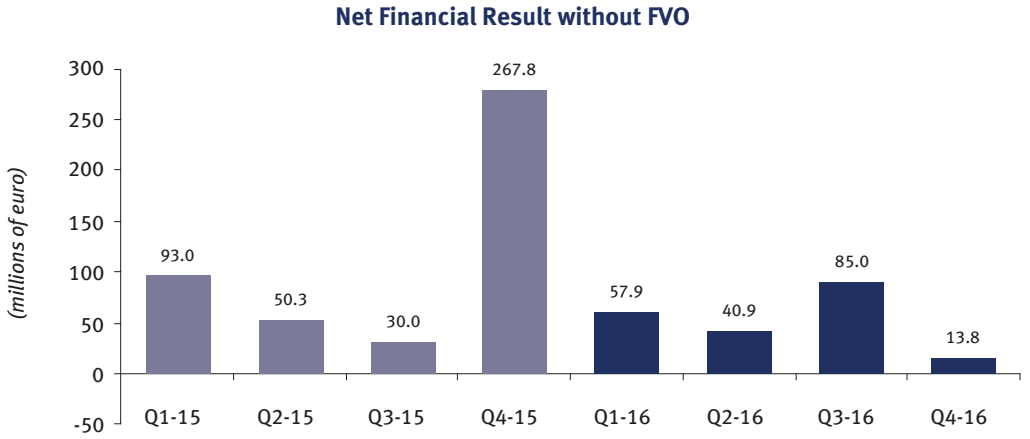
(*) The figures relating to the previous year have been restated to provide a like-for-like comparison.



As regards the Commercial Network, the result for 2016 is mainly linked to "commissioni di istruttoria veloce", which were down compared to the figure recorded in the previous year of around euro 8 million. The contribution of Leasing to the consolidated result, up compared to that of December 2015, is related to income from the rental of properties resulting from credit collection, net of lower charges relating to the maintenance of the same. Instead, the result of the Corporate Centre is due to amounts received from renting the properties of other Group real estate companies to third parties, as well as income from Tecmarket, the latter recording additional growth compared to the previous year. Nevertheless, the figure for this segment is down compared to 2015, insofar as last year's contribution included non-repeatable income resulting from transactions of around euro 17.9 million (against euro 2.3 million in 2016).

Net financial result

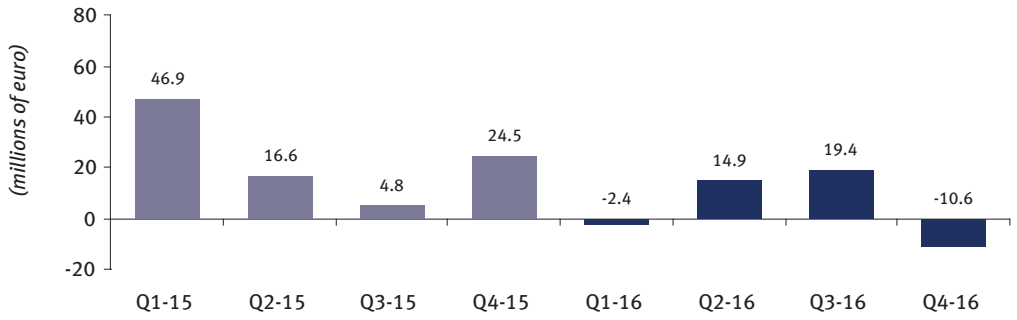
(in thousands of euro)	2016	2015	Absolute change	% change
Dividends and similar income on financial assets	12,332	14,721	(2,389)	(16.2%)
Fair value adjustments in hedge accounting	787	1,427	(640)	(44.8%)
Banca Aletti	21,243	90,682	(69,439)	(76.6%)
Securities portfolio and Parent Company derivatives	163,155	334,251	(171,096)	(51.2%)
Total net of FVO	**197,517**	**441,081**	**(243,564)**	**(55.2%)**
Change in creditworthiness (FVO)	5,853	4,912	941	19.2%
Total	**203,370**	**445,993**	**(242,623)**	**(54.4%)**



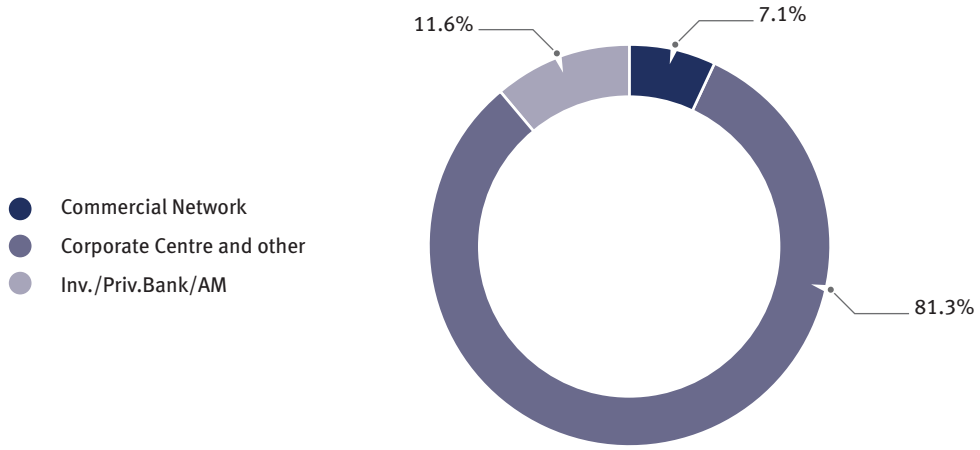
The **net financial result without FVO** recorded a profit of euro 197.5 million, compared to euro 441.1 million last year (the contribution of the fourth quarter was euro 13.8 million) and benefitted from the positive contribution of euro 25.3 million resulting from the recognition of an adjustment to the sale price (earn-out) of shares held in ICBPI S.p.A. (sale completed last year), while the 2015 figure had benefitted from gains linked to the sale of shares held in ICBPI and Arca SGR for a total of euro 241.2 million. Net of these non-recurring components, the item would have recorded a decrease due to the lower trading volumes recorded this year compared to last year.

Due to the downgrade in Banco Popolare's creditworthiness, the impact of the **change in creditworthiness on financial liabilities issued designated at fair value (FVO)** as at 31 December 2016 was a positive amount of euro 5.9 million (euro 4.2 million after taxes), in 2015, the contribution had also been a positive euro 4.9 million (euro 3.3 million after taxes).

Net Financial Result of Banca Aletti

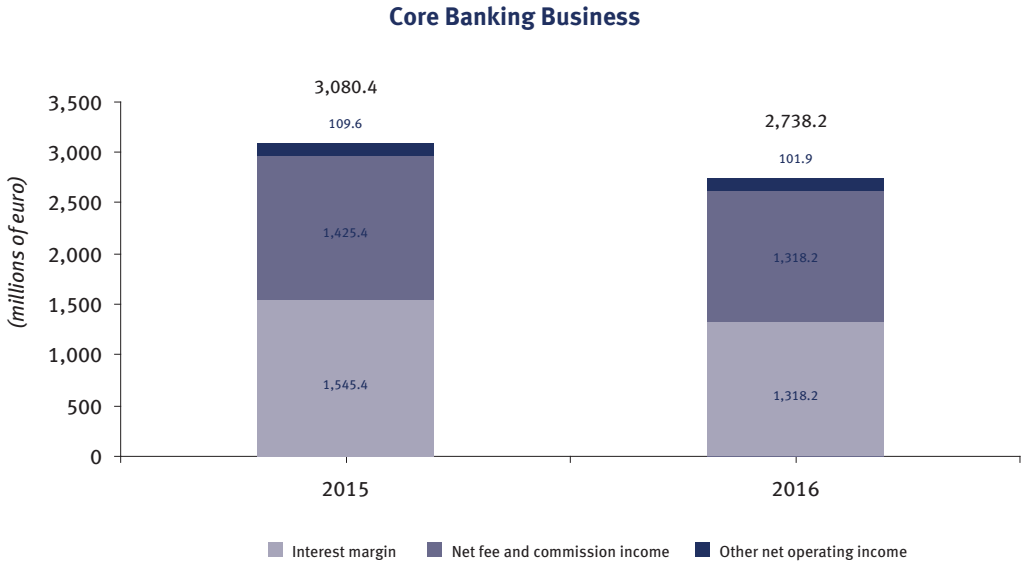


(in thousands of euro)	2016	2015	Absolute change	% change
Commercial Network	14,094	12,361	1,733	14.0%
Investment Banking, Private Banking, Asset Management	23,008	90,075	(67,067)	(74.5%)
Corporate Centre and Other	160,511	338,635	(178,124)	(52.6%)
Leasing	(96)	10	(106)	
Total business areas	**197,517**	**441,081**	**(243,564)**	**(55.2%)**
FVO Impact	5,853	4,912	941	19.2%
Total net financial result	**203,370**	**445,993**	**(242,623)**	**(54.4%)**



The contribution of the Investment Banking segment to the consolidated net financial result, net of the change in creditworthiness of its own liabilities issued, is mostly due to the result of the subsidiary Banca Aletti, which was positive and amounted to euro 21.2 million (euro 90.7 as at 31 December 2015). As illustrated above, this result is due to the downtrend of the markets, which influenced customers' investment decisions, cutting the placement volumes of certificates (which penalised the net financial result, but which contribute to stabilising the mark-down to the level of the interest margin) and the overall trading activity of the subsidiary.

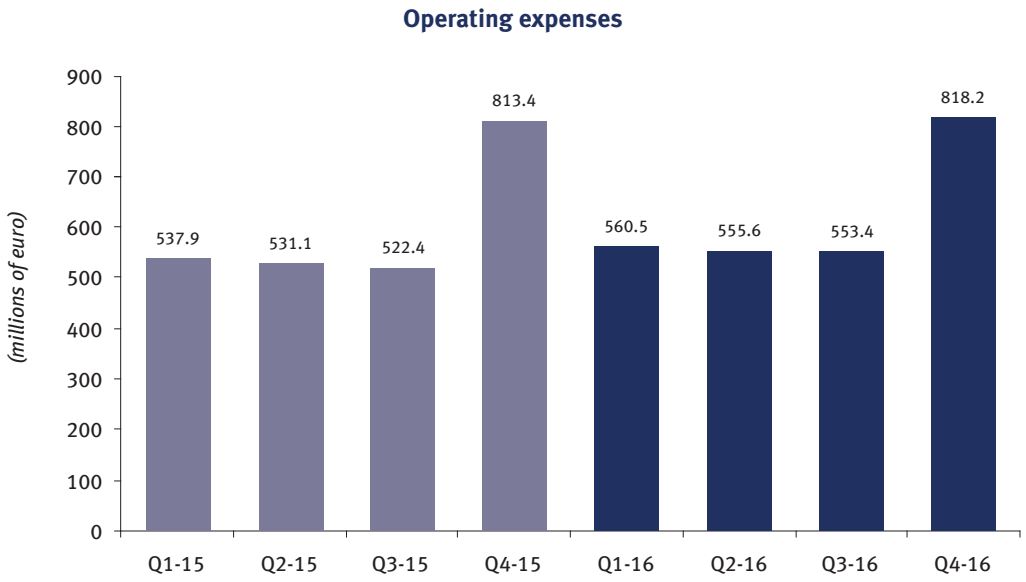
The contribution of the Corporate Centre business area to the net financial result was lower than that of last year, due to the absence of the profits recorded in the fourth quarter of 2015 resulting from the sale of shares held in ICBPI and Arca Sgr, while the result of the securities portfolio and profits on trading generated by the Parent Company's treasury rose.
By virtue of the above-illustrated performance, total **operating income** for the year amounted to euro 3,060.1 million, down 16.5% compared to the figure of euro 3,663.0 million recorded the previous year.



Taking only the revenues of the "core banking business" into account, represented by the sum of the aggregates relating to the interest margin, net fee and commission income and other net income, euro 2,738.2 million was recorded in 2016, down by 11.1% compared to the figure for the previous year.

Operating expenses

(in thousands of euro)	2016	2015	Absolute change	% change
Personnel expenses	**1,470,173**	**1,433,610**	**36,563**	**2.6%**
- Leaving incentives and solidarity funds	198,600	94,563	104,037	110.0%
- Other personnel expenses	1,271,573	1,339,047	(67,474)	(5.0%)
Other administrative expenses	**852,244**	**804,860**	**47,384**	**5.9%**
- Taxes and duties	240,273	251,798	(11,525)	(4.6%)
- Services and advisory services	256,494	231,041	25,453	11.0%
- Properties	171,227	184,667	(13,440)	(7.3%)
- Postal, telephone and stationery	28,641	31,106	(2,465)	(7.9%)
- Maintenance and rentals for furniture, machines and equipment	35,535	27,871	7,664	27.5%
- Advertising and representation	22,654	23,510	(856)	(3.6%)
- Other administrative expenses	297,611	264,353	33,258	12.6%
- Recovery of expenses	(200,191)	(209,486)	(9,295)	(4.4%)
Value adjustments on property and equipment	**165,284**	**166,362**	**(1,078)**	**(0.6%)**
- Value adjustments on property and equipment	70,947	74,608	(3,661)	(4.9%)
- Value adjustments on intangible assets	54,644	41,547	13,097	31.5%
- Value adjustments on improvements to third party assets	8,020	8,809	(789)	(9.0%)
- Net losses on impairment	31,673	41,398	(9,725)	(23.5%)
Total	**2,487,701**	**2,404,832**	**82,869**	**3.4%**



Personnel expenses, amounting to euro 1,470.2 million, showed a 2.6% rise compared to euro 1,433.6 million recorded last year, due exclusively to the higher costs incurred for the redundancy fund, related to the agreement signed on 23 December 2016, totalling euro 198.6 million (compared to euro 94.6 million in 2015). Net of these non-recurring components, the item would have recorded a 5% decrease due the reduction in the average number of employees (-350 FTE resources year on year). As at 31 December 2016, the total number of employees was 16,382 "full time equivalents" against 16,731 resources employed on 31 December 2015 and 16,657 as at 30 September 2016.

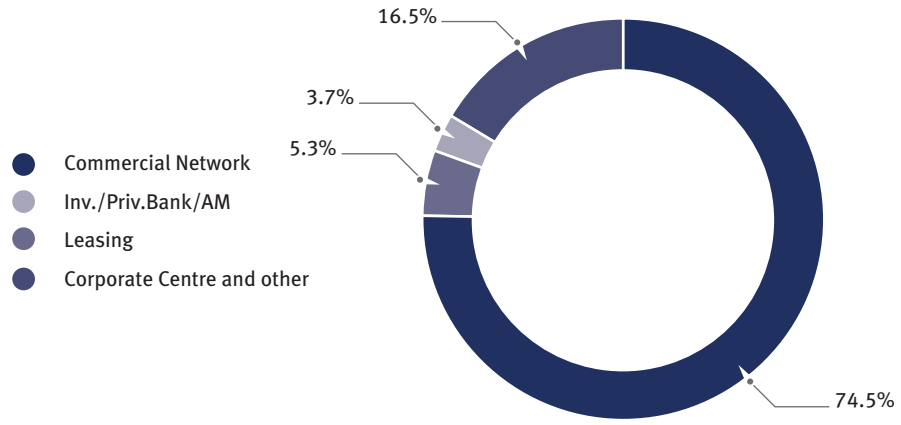
Careful cost control measures were also implemented for **other administrative expenses**, which, excluding "systemic charges" (linked to the ordinary contributions to the Single Resolution Fund (SRF) of euro 44.3 million, to the Deposit Guarantee Scheme (DGS) of euro 22.3 million, the extraordinary contribution to the National Resolution Fund of euro 88.8 million, as well as the fees paid to maintain the deductibility of DTA in 2015 and 2016 totalling euro 54.4 million), totalling euro 209.9 million, and the costs relating to the merger charged to the income statement to date (euro 31.7 million), show a fall of 5.0% compared to the figure for 2015, when total expenses of euro 162.3 million had been recorded. Considering also the charges for the above-illustrated expenses, administrative expenses amounted to euro 852.2 million, up 5.9% compared to euro 804.9 million recorded in 2015.

Value adjustments on property and equipment and intangible assets for the year amounted to euro 165.3 million, slightly down compared to euro 166.4 million recorded as at 31 December 2015 and included extraordinary value adjustments of around euro 32 million recorded in order to bring the book value of several properties classified as investments in line with the recoverable value estimated on the basis of the most recent appraisals (as at 31 December 2015, adjustments of euro 41.4 million had been recognised). Net of the non-recurrent components illustrated, this item would have recorded a rise due to the higher investments made in the period.

Total **operating expenses** amounted to euro 2,487.7 million, compared to euro 2,404.8 million recorded in 2015. The cost/income ratio for the period, calculated as the ratio of total operating expenses to total operating income, net of non-recurrent components and "systemic charges" was 66.4%.

(in thousands of euro)	2016	2015 (*)	Absolute change	% change
Commercial Network	1,850,851	1,825,058	25,793	1.4%
Investment Banking, Private Banking, Asset Management	131,678	128,531	3,147	2.4%
Leasing	91,434	104,002	(12,568)	(12.1%)
Corporate Centre and Other	410,155	343,628	66,527	19.4%
Total business areas	**2,484,118**	**2,401,219**	**82,899**	**3.5%**
PPA	3,583	3,613	(30)	(0.8%)
Total operating expenses	**2,487,701**	**2,404,832**	**82,869**	**3.4%**

(*) The figures relating to the previous year have been restated to provide a like-for-like comparison.



The increase in the operating expenses of the Commercial Network is due to the higher charges for "systemic charges". The fall in total costs for Leasing is solely attributable to the lower value adjustments for impairment on certain properties obtained as *datio in solutum* (transfer in lieu of payment), carried out to adjust the book value to the updated appraisal values. The Corporate Centre business area recorded higher operating expenses due to the higher systemic charges incurred during the year with respect to those incurred last year, specifically represented by the cost, corresponding to euro 54.4 million, to maintain the deductibility of DTA.

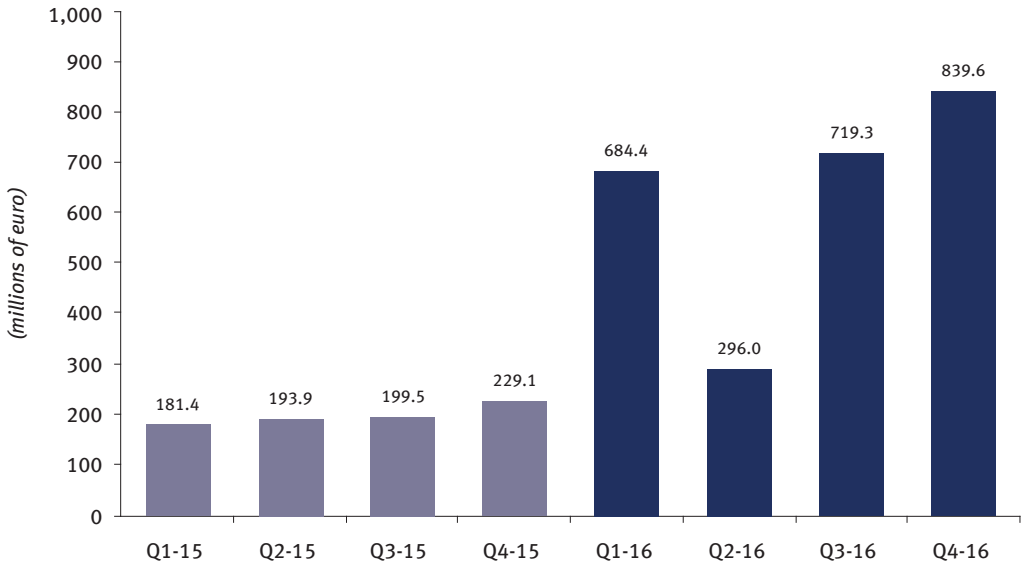
Income (loss) from operations

By virtue of the above-illustrated performance, the **income (loss) from operations** amounted to euro 572.4 million, compared to euro 1,258.2 million recorded last year.

Adjustments and provisions

(in thousands of euro)	2016	2015	Absolute change	% change
Non-performing loans	**2,615,808**	**899,905**	**1,715,903**	**190.7%**
Bad loans	1,930,174	499,654	1,430,520	286.3%
Unlikely to pay	678,915	367,404	311,511	84.8%
Past due	6,719	32,847	(26,128)	(79.5%)
Performing loans	**(76,477)**	**(95,972)**	**(19,495)**	**(20.3%)**
Total	**2,539,331**	**803,933**	**1,735,398**	**215.9%**

Net adjustments on loans to customers



Net adjustments on impairment of loans to customers were euro 2,539.3 million compared to euro 803.9 million in 2015. The cost of credit, measured by the ratio of net value adjustments on loans to gross loans, shows, as already mentioned, a high level of discontinuity with the past, due to the decisions taken to raise the average level of coverage of non-performing loans.
In addition, the income statement for the period included **net adjustments on impairment of other assets** of euro 40.8 million (euro 54.2 million in 2015), almost entirely represented by adjustments on shares held in the portfolio of financial assets available for sale. These adjustments included the write-down of the shares in the Atlante Fund of euro 19.7 million and of the share held in the Voluntary Scheme of the IDGF of euro 3.4 million.

Net provisions for risks and charges totalled euro 24.7 million against euro 50.8 million of the previous year and were mostly represented by the estimated expenses of legal and tax disputes.

Value adjustments on goodwill, of euro 279 million represent the charge deducted following annual impairment testing on intangible assets with an indefinite useful life allocated to the Investment Banking & Asset Management Cash Generating Unit.

During the year **profits on disposal of investments in associates and companies subject to joint control and other investments** of euro 17.0 million were recorded, mostly resulting from the disposal of owned property (euro -4.4 million as at 31 December 2015).

Income (loss) before tax from continuing operations amounted to a loss of euro 2,294.4 million compared to a profit of euro 344.9 million last year.

Other revenue and cost items

Taxes on income from continuing operations as at 31 December 2016, due to the recognition of deferred tax assets relating to the tax loss recorded in the year, were a positive euro 583.1 million (euro +70.5 million as at 31 December 2015, and benefitted from the recognition of the tax asset relating to the tax loss of the incorporated Banca Italease).

Income after tax from discontinued operations was euro 2.5 million as at 31 December 2016 against a loss of euro 7.3 million recorded last year, and refers to the contribution of an investee real estate company held for sale.

Considering the share of losses pertaining to minority interests of euro 22.8 million and the FVO impact (euro +4.2 million after tax), 2016 closed with a **loss for the year** of euro 1,681.7 million, compared to a net profit of euro 430.1 million recorded last year.

Consolidated statement of financial position figures

The reclassified statement of financial position represents a simple aggregation of the items envisaged in the statement of financial position layout as per the Bank of Italy Circular no. 262 dated 22 December 2005.
The main aggregations regarding the statement of financial position are as follows:

- the asset item “Financial assets and hedging derivatives” encompasses the financial instruments shown in the portfolios relating to “Financial assets held for trading”, “Financial assets designated at fair value through profit and loss”, “Financial assets available for sale”, “Investments held to maturity” and “Hedging derivatives” shown under assets items 20, 30, 40, 50 and 80 in the Bank of Italy schedule;
- the residual asset item “Other assets” aggregates the “Fair value change of financial assets in macro fair value hedge portfolios”, “Tax assets” and “Other assets” (respectively asset items 90, 140 and 160);
- the grouping of the amount due to customers (item 20) and securities issued (classified under items 30 and 50, as a function of the application or otherwise of the fair value option) into a single item;
- the inclusion of the financial instruments recognised in the financial statements in portfolios relating to “Financial liabilities held for trading” and “Hedging derivatives” (respectively liability items 40 and 60) as a single aggregate;
- the grouping of the “Liability provisions” for “Employee termination indemnities” (item 110) and “Provisions for risks and charges” (item 120) into a single item;
- the residual liability item “Other liabilities” includes the “Fair value change of financial liabilities in macro fair value hedge portfolios”, “Tax liabilities” and “Other liabilities” (respectively liability items 70, 80 and 100);
- the indication of “capital and reserves” as an aggregate, net of any treasury shares held (financial statement items 140, 160, 170, 180, 190 and 200).

Reclassified asset items *(in thousands of euro)*	31/12/2016	31/12/2015 (*)	Changes	
Cash and cash equivalents	648,255	587,383	60,872	10.4%
Financial assets and hedging derivatives	25,650,351	27,454,945	(1,804,594)	(6.6%)
Due from banks	4,559,188	2,817,832	1,741,356	61.8%
Loans to customers	75,840,234	78,421,634	(2,581,400)	(3.3%)
Investments in associates and companies subject to joint control	1,195,214	1,166,324	28,890	2.5%
Property and equipment	1,977,766	2,132,633	(154,867)	(7.3%)
Intangible assets	1,751,895	2,042,120	(290,225)	(14.2%)
Non-current assets held for sale and discontinued operations	77,369	109,983	(32,614)	(29.7%)
Other assets	5,710,731	5,428,245	282,486	5.2%
Total	**117,411,003**	**120,161,099**	**(2,750,096)**	**(2.3%)**

(*) The figures have been reclassified to provide a like-for-like comparison.

Reclassified liability and shareholders' equity items *(in thousands of euro)*	31/12/2016	31/12/2015 (*)	Changes	
Due to banks	16,017,401	16,334,739	(317,338)	(1.9%)
Due to customers, debt securities issued and financial liabilities designated at fair value through profit and loss	80,446,701	82,141,444	(1,694,743)	(2.1%)
Financial liabilities and hedging derivatives	9,438,062	8,488,476	949,586	11.2%
Liability provisions	1,133,434	1,060,648	72,786	6.9%
Liabilities associated with non-current assets held for sale and discontinued operations	960	342,265	(341,305)	(99.7%)
Other liabilities	2,729,597	3,246,793	(517,196)	(15.9%)
Minority interests	69,568	53,169	16,399	30.8%
Shareholders' equity	7,575,280	8,493,565	(918,285)	(10.8%)
- Capital and reserves	9,256,940	8,063,492	1,193,448	14.8%
- Net income (loss)	(1,681,660)	430,073	(2,111,733)	
Total	**117,411,003**	**120,161,099**	**(2,750,096)**	**(2.3%)**

(*) The figures have been reclassified to provide a like-for-like comparison.

Reclassified consolidated statement of financial position - Quarterly changes

Reclassified asset items *(in thousands of euro)*	31/12/2016	30/09/2016	30/06/2016	31/03/2016	31/12/2015 (*)
Cash and cash equivalents	648,255	605,267	580,670	604,189	587,383
Financial assets and hedging derivatives	25,650,351	28,782,260	29,365,769	29,385,957	27,531,012
Due from banks	4,559,188	3,668,825	3,495,568	3,029,278	2,817,832
Loans to customers	75,840,234	78,180,080	79,445,812	78,155,055	78,421,634
Investments in associates and companies subject to joint control	1,195,214	1,163,773	1,133,181	1,203,124	1,166,324
Property and equipment	1,977,766	2,006,657	2,110,293	2,122,719	2,132,633
Intangible assets	1,751,895	2,039,579	2,043,017	2,041,533	2,042,120
Non-current assets held for sale and discontinued operations	77,369	84,383	75,374	80,400	109,983
Other assets	5,710,731	5,420,404	5,449,173	5,528,164	5,428,245
Total	**117,411,003**	**121,951,228**	**123,698,857**	**122,150,419**	**120,237,166**

(*) The figures have been reclassified to provide a like-for-like comparison.

Reclassified liability and shareholders' equity items *(in thousands of euro)*	31/12/2016	30/09/2016	30/06/2016	31/03/2016	31/12/2015 (*)
Due to banks	16,017,401	16,165,041	16,204,063	16,633,706	16,334,739
Due to customers, debt securities issued and financial liabilities designated at fair value through profit and loss	80,446,701	81,394,679	83,146,243	82,673,483	82,141,444
Financial liabilities and hedging derivatives	9,438,062	10,555,297	10,252,235	9,658,268	8,564,543
Liability provisions	1,133,434	984,025	1,001,457	1,319,218	1,060,648
Liabilities associated with non-current assets held for sale and discontinued operations	960	-	-	-	342,265
Other liabilities	2,729,597	4,220,639	4,131,641	3,757,944	3,246,793
Minority interests	69,568	72,111	87,187	49,848	53,169
Shareholders' equity	7,575,280	8,559,436	8,876,031	8,057,952	8,493,565
- Capital and reserves	9,256,940	9,271,798	9,256,200	8,371,527	8,063,492
- Net income (loss)	(1,681,660)	(712,362)	(380,169)	(313,575)	430,073
Total	**117,411,003**	**121,951,228**	**123,698,857**	**122,150,419**	**120,237,166**

(*) The figures have been reclassified to provide a like-for-like comparison.

Loan brokering activities

The trends in the main statement of financial position items as at 31 December 2016 are illustrated below, compared with the figures as at 31 December of the previous year.

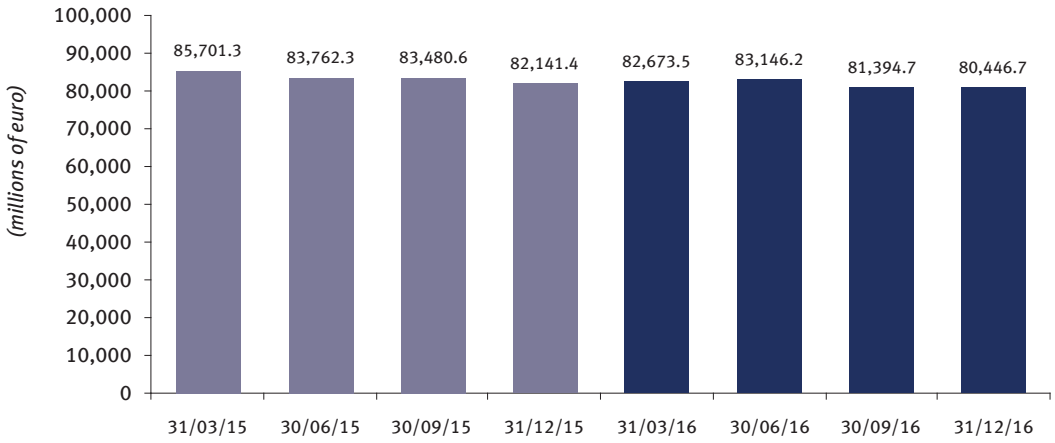
Note that, in order to understand the contribution of the former Banca Italease, incorporated into the Parent Company on 1 January 2015, and its subsidiaries, the analysis of the loans component as at 31 December 2016 is also shown in a version that separates the contribution of the "Leasing" Division from that of the rest of the Banco Popolare Group.

Direct funding

(in thousands of euro)	31/12/2016	% impact	31/12/2015 (*)	% impact	Absolute change	% change
Due to customers	**58,671,580**	**72.9%**	**53,470,382**	**65.1%**	**5,201,198**	**9.7%**
Deposits and current accounts	48,546,250	60.3%	43,600,987	53.1%	4,945,263	11.3%
current accounts and demand deposits	46,332,101	57.6%	40,551,672	49.4%	5,780,429	14.3%
time deposits	2,214,149	2.8%	3,049,315	3.7%	(835,166)	(27.4%)
Repurchase agreements	7,704,649	9.6%	7,743,323	9.4%	(38,674)	(0.5%)
Loans and other payables	2,420,681	3.0%	2,126,072	2.6%	294,609	13.9%
Securities	**21,775,121**	**27.1%**	**28,671,062**	**34.9%**	**(6,895,941)**	**(24.1%)**
Bonds and other securities	20,147,800	25.0%	27,782,717	33.8%	(7,634,917)	(27.5%)
Certificates of deposit	1,627,321	2.0%	888,345	1.1%	738,976	83.2%
Total direct funding	**80,446,701**	**100.0%**	**82,141,444**	**100.0%**	**(1,694,743)**	**(2.1%)**

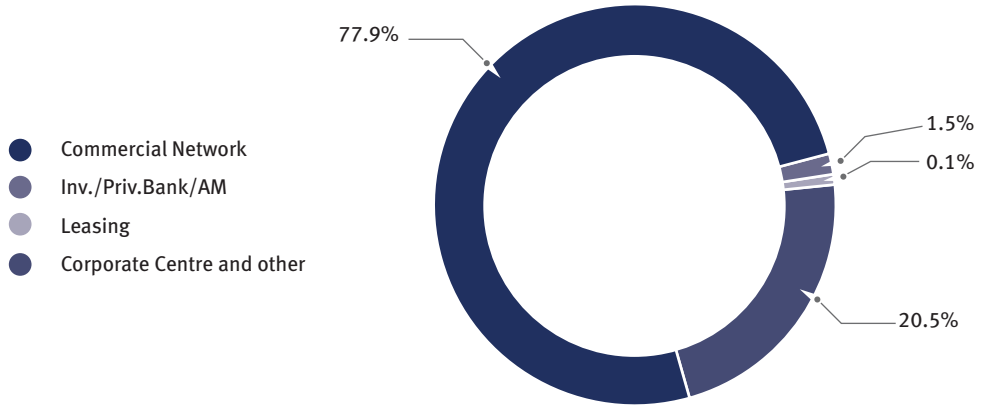
(*) The figures relating to the previous year have been restated to provide a like-for-like comparison.

Direct funding



As at 31 December 2016, direct funding totalled euro 80.4 billion, showing a decrease of 2.1% compared to euro 82.1 billion as at 31 December 2015 (-1.2% in the fourth quarter). Given the increase of this component in the strict sense, represented by current accounts and deposits of the commercial network (+14.6 year on year, rising from euro 39.9 to 45.8 billion), the component represented by bond issues was purposely reduced (-27.5% year on year, falling from euro 27.8 to 20.2 billion) which, maturing in 2016, were not replaced with new issues in accordance with the decision to reduce the weight of funding instruments that are relatively more onerous. In the last quarter of the year, the rise in funding in the strict sense was able to offset the fall in the bond component, and, therefore, the fall of the aggregate in question of euro 0.9 billion is entirely due to the decrease of repurchase agreements and specifically of those with the clearing and guarantee house. Note that the aggregate does not include the stable funding guaranteed by the stock of certificates issued by the Group, which as at 31 December 2016 reached euro 4.6 billion.

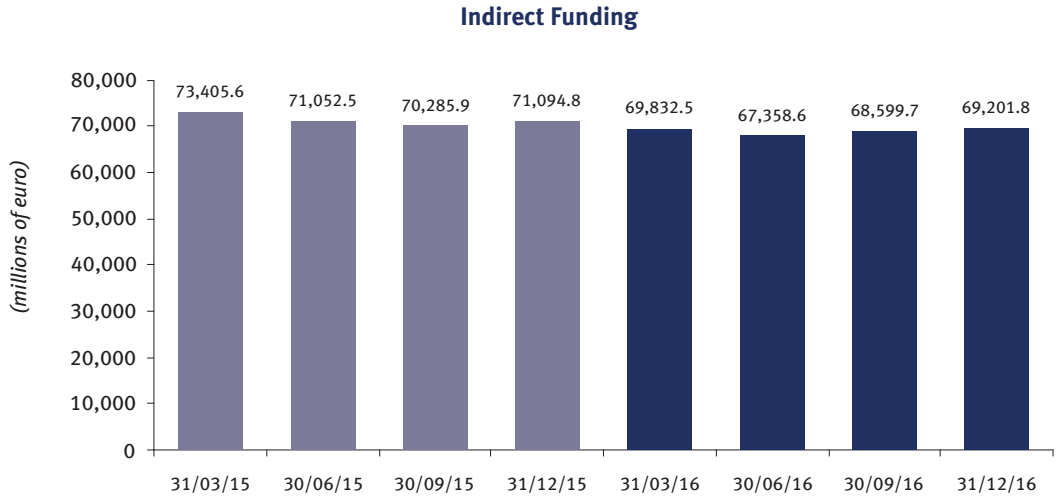
(in thousands of euro)	31/12/2016	% impact	31/12/2015	% impact	% change
Commercial Network	62,721,710	78.0%	62,659,338	76.3%	0.1%
Investment Banking, Private Banking, Asset Management	1,195,387	1.5%	1,005,458	1.2%	18.9%
Leasing	18,835	0.0%	26,954	0.0%	(30.1%)
Corporate Centre and Other	16,510,769	20.5%	18,449,694	22.5%	(10.5%)
Total direct funding	**80,446,701**	**100.0%**	**82,141,444**	**100.0%**	**(2.1%)**



The funding related to the Commercial Network is substantially stable as the early repayment of costly retail bond issues was offset by the rather significant growth in direct funding in the strict sense (current accounts and deposits) in both the corporate and retail segment. As regards the Investment Banking & Asset Management sector, the increase was due to growth in securities lending transactions by the subsidiary Banca Aletti. The funding attributed to the Corporate Centre recorded a sharp decrease due to the fall in bonds held by institutional customers, with a view to reducing the cost of funding, while repurchase agreements with the Clearing and Guarantee House were stable.

Indirect funding

(in thousands of euro)	31/12/2016	% impact	31/12/2015	% impact	Absolute change	% change
Managed assets	**36,425,550**	**52.6%**	**35,371,884**	**49.8%**	**1,053,666**	**3.0%**
mutual funds and SICAVs	21,107,402	30.5%	20,297,341	28.5%	810,061	4.0%
securities and fund management	4,866,045	7.0%	4,828,702	6.8%	37,343	0.8%
insurance policies	10,452,103	15.1%	10,245,841	14.4%	206,262	2.0%
of which: Lawrence Life policies	*2,033,725*	*2.9%*	*2,303,750*	*3.2%*	*(270,025)*	*(11.7%)*
Administered assets	**32,776,296**	**47.4%**	**35,722,893**	**50.2%**	**(2,946,597)**	**(8.2%)**
Total indirect funding	**69,201,847**	**100.0%**	**71,094,777**	**100.0%**	**(1,892,931)**	**(2.7%)**

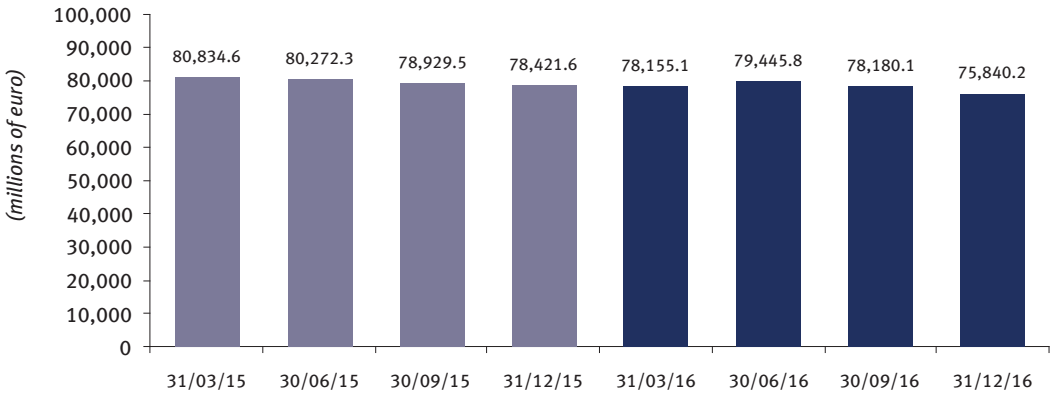


Indirect funding recorded a fall of 2.7% year on year. The managed component, corresponding to euro 36.4 billion, performed well over the year (+3%), due to the good performance of placements of structured funds by Aletti Gestielle SGR, while the administered component, corresponding to euro 32.8 billion, fell by 8.2%. In the last quarter of the year, total indirect funding increased by euro 602 million, rising from euro 68.6 billion as at 30 September 2016 to euro 69.2 billion as at 31 December 2016, with the administered component, corresponding to euro 32.8 billion, accounting for the majority of the increase (euro +444 million).

Loans to customers

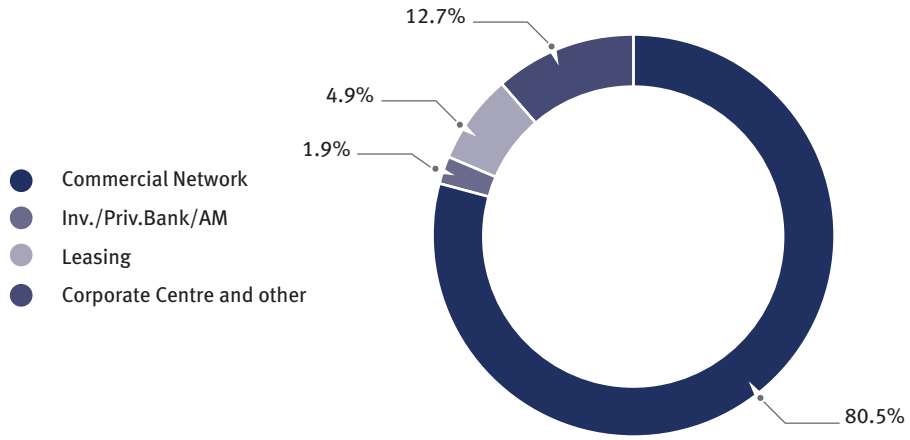
(in thousands of euro)	31/12/2016	% impact	31/12/2015	% impact	Absolute change	% change
Current accounts	9,529,672	12.6%	10,534,914	13.4%	(1,005,242)	(9.5%)
Repurchase agreements	6,540,186	8.6%	6,518,837	8.3%	21,349	0.3%
Mortgage loans	38,128,508	50.3%	39,127,839	49.9%	(999,331)	(2.6%)
Credit cards, personal loans and salary-backed loans	355,346	0.5%	311,381	0.4%	43,965	14.1%
Financial leases	2,969,384	3.9%	3,417,984	4.4%	(448,600)	(13.1%)
Factoring	7,597	0.0%	7,976	0.0%	(379)	(4.8%)
Other loans	17,966,931	23.7%	18,011,993	23.0%	(45,062)	(0.3%)
Debt securities	342,610	0.5%	490,710	0.6%	(148,100)	(30.2%)
Total net loans to customers	**75,840,234**	**100.0%**	**78,421,634**	**100.0%**	**(2,581,400)**	**(3.3%)**

Net loans to customers



As at 31 December 2016, total net loans had reached the figure of euro 75.8 billion, down compared to the figure of euro 78.4 billion recorded as at 31 December 2015 (-3.3%).
Before value adjustments, Group loans amounted to euro 83.2 billion as at 31 December 2016, down compared to euro 85.3 billion as at 31 December 2015 (-2.5%).
The fall in the annualized gross loans is attributable to the assignments of non-performing loans and to the gradual reduction of the loans of the Leasing Division, as well as value adjustments relating to increasing the coverage of non-performing loans.

(in thousands of euro)	31/12/2016	% impact	31/12/2015	% impact	% change
Commercial Network	61,100,133	80.6%	63,268,800	80.7%	(3.4%)
Investment Banking, Private Banking, Asset Management	1,425,186	1.9%	1,363,933	1.7%	4.5%
Leasing	3,716,525	4.9%	4,418,065	5.6%	(15.9%)
Corporate Centre and Other	9,598,390	12.7%	9,370,836	11.9%	2.4%
Total net loans	**75,840,234**	**100.0%**	**78,421,634**	**100.0%**	**(3.3%)**



The Commercial Network recorded a fall in net customer loans related both to the fall in the stock of non-performing loans, with in the year on year comparison fell mainly due to the impact of higher adjustments charged to the income statement to increase coverage levels, and to the fall in average performing loans of euro 1.1 billion, as the significant flow of new disbursements (especially of mortgage loans to purchase property) was not able to offset the natural amortisation of other technical forms. Loans relating to the Investment Banking & Asset Management segment were substantially stable, and are represented by repurchase agreements and securities lending. On the contrary, the expected fall in stock of the Leasing segment continued, while the Corporate Centre segment recorded loans substantially in line with last year, given that the stock of repurchase agreements with the Clearing and Guarantee House was at the same levels as 2015.

Credit quality

(in thousands of euro)	31/12/2016		31/12/2015		Absolute change	% change
	Net exposure	% impact	Net exposure	% impact		
Bad loans	6,238,860	8.2%	6,458,285	8.2%	(219,425)	(3.4%)
Unlikely to pay	6,234,237	8.2%	7,389,842	9.4%	(1,155,605)	(15.6%)
Past due	95,265	0.1%	208,934	0.3%	(113,669)	(54.4%)
Non-performing loans	**12,568,362**	**16.6%**	**14,057,061**	**17.9%**	**(1,488,699)**	**(10.6%)**
Performing loans	**63,271,872**	**83.4%**	**64,364,573**	**82.1%**	**(1,092,701)**	**(1.7%)**
Total loans to customers	**75,840,234**	**100.0%**	**78,421,634**	**100.0%**	**(2,581,400)**	**(3.3%)**

(in thousands of euro)	31/12/2016				31/12/2015				Change in gross exposure	Change in gross exposure %	Change in total value adjustments
	Gross exposure	Total value adjustments	Net exposure	Coverage	Gross exposure	Total value adjustments	Net exposure	Coverage			
a) Bad loans before derecognition of receivables relating to insolvency proceedings	15,598,245	(9,359,385)	6,238,860	60.00%	14,785,936	(8,327,651)	6,458,285	56.32%	812,309	5.5%	1,031,734
b) Bad loans relating to insolvency proceedings derecognised	4,682,253	(4,682,253)	-		4,315,322	(4,315,322)	-				
Bad loans after derecognition of receivables relating to insolvency proceedings (a-b)	10,915,992	(4,677,132)	6,238,860	42.85%	10,470,614	(4,012,329)	6,458,285	38.32%	445,378	4.3%	664,803
Unlikely to pay	8,618,725	(2,384,488)	6,234,237	27.67%	9,911,135	(2,521,293)	7,389,842	25.44%	(1,292,410)	(13.0%)	(136,805)
Past due	119,175	(23,910)	95,265	20.06%	263,423	(54,489)	208,934	20.68%	(144,248)	(54.8%)	(30,579)
Non-performing loans	**19,653,892**	**(7,085,530)**	**12,568,362**	**36.05%**	**20,645,172**	**(6,588,111)**	**14,057,061**	**31.91%**	**(991,280)**	**(4.8%)**	**497,419**
of which: forborne	**5,182,834**	**(1,390,247)**	**3,792,587**		**3,937,060**	**(923,468)**	**3,013,592**		**1,245,774**	**31.6%**	**466,779**
Performing loans	**63,527,825**	**(255,953)**	**63,271,872**	**0.40%**	**64,692,481**	**(327,908)**	**64,364,573**	**0.51%**	**(1,164,656)**	**(1.8%)**	**(71,955)**
of which: forborne	**2,549,974**	**(36,452)**	**2,513,522**		**3,613,274**	**(56,127)**	**3,557,147**		**(1,063,300)**	**(29.4%)**	**(19,675)**
Total loans to customers	**83,181,717**	**(7,341,483)**	**75,840,234**	**8.83%**	**85,337,653**	**(6,916,019)**	**78,421,634**	**8.10%**	**(2,155,936)**	**(2.5%)**	**425,464**

The Bank of Italy Circular no. 272 dated 30 July 2008 as updated envisages the option to derecognise the portion of bad loans deemed unrecoverable from the accounts. The cited regulation includes the decision made by competent corporate bodies which, by means of a specific resolution, have acknowledged the non-recoverability of all or part of the loan or have ceased collection proceedings for economic reasons, as a circumstance for derecognition. The Group exercised this option in the current year and in previous years, as illustrated in more details in the notes to the financial statements - Part E - credit risk, in the paragraph entitled "Disclosure on derecognition regarding bad loans of debtors subject to insolvency proceedings". The derecognition regarded the part deemed non-recoverable of all receivables due from debtors, who, during the year, were subject to insolvency proceedings (bankruptcy, administrative compulsory liquidation, arrangement with creditors, extraordinary receivership of large companies in difficulty), even though Banco Popolare was regularly admitted as a creditor in the insolvency proceedings for the entire amount of the receivable in question.
More specifically, in 2016, bad loans (to the extent of the part deemed non-recoverable) amounting to euro 1,243.9 million were derecognised. At the time of derecognition, specific adjusting entries were in place for euro 448.7 million, following value adjustments on loans already charged to the income statement. Therefore, the derecognition resulted in further charges to the income statement for the year of euro 795.2 million.
In 2016, insolvency proceedings involving receivables totalling euro 920.9 million that had already been derecognised in previous years, were finalised.
As a result of the above changes, as at 31 December 2016, bad loans derecognised relating to insolvency proceedings that were still under way amounted to euro 4,682.3 million.
In order to calculate the effective level of coverage of bad loans, the amount of the above-mentioned derecognised receivables must also be taken into account.

Non-performing loans (bad loans, unlikely to pay and past due), net of value adjustments, amounted to euro 12,568.4 million as at 31 December 2016 and recorded a 10.6% drop with respect to euro 14,057.1 million recorded at the beginning of the year. The reduction in this aggregate is mainly due to adjustments on loans charged to the income statement over the year.
Net non-performing loans represented 16.6% of total net loans to customers, down on the figure of 17.9% recorded at the end of 2015; a similar trend was recorded for the percentage represented by the same before value adjustments, corresponding to 23.6% (24.2% at the end of 2015). Including also the receivables to be derecognised, the rate of coverage of non-performing loans was 48.4%, an increase of around five percentage points compared to 43.7% recorded as at 31 December 2015.

More specifically, bad loans before and after value adjustments amounted to euro 10,916.0 million and euro 6,238.9 million respectively (+4.3% and -3.4% respectively compared to 31 December 2015), while the percentage represented by the same of total loans to customers before and after value adjustments, was 13.1% and 8.2% respectively (against 12.3% and 8.2% respectively as at 31 December 2015). Taking into account receivables for bad loans relating to debtors undergoing legal proceedings, which as at 31 December were still in progress, but had already been derecognised from the accounts, the rate of coverage was 60.0%, against 56.3% as at 31 December 2015.

Unlikely to pay before and after value adjustments amounted to euro 8,618.7 million and euro 6,234.2 million respectively (-13.0% and -15.6% respectively compared to 31 December 2015), while the percentage represented by the same of total loans to customers before and after value adjustments, was 10.4% and 8.2% respectively (against 11.6% and 9.4% respectively at the end of last year). The rate of coverage was 27.7%, against 25.4% recorded at the end of last year.

Past due loans before and after value adjustments amounted to euro 119.2 million and 95.3 million respectively, and were down 54.8% and 54.4%, respectively, compared to the end of 2015. The rate of coverage was 20.1% (20.7% at the end of 2015).

The rate of coverage of performing loans was 0.40%, down from 0.51% as at 31 December 2015 and reflected the increasing quality of the performing loan portfolio. Excluding exposures to repurchase agreements and securities lending, which are essentially risk free, from the calculation, the rate of coverage is 0.45% (0.56% as at 31 December 2015).

Leasing Division

(in thousands of euro)	31/12/2016		31/12/2015		Absolute change	% change
	Net exposure	% impact	Net exposure	% impact		
Bad loans	1,111,340	28.8%	1,148,066	24.7%	(36,726)	(3.2%)
Unlikely to pay	1,065,285	27.6%	1,285,150	27.7%	(219,865)	(17.1%)
Past due	7,603	0.2%	21,361	0.5%	(13,758)	(64.4%)
Non-performing loans	**2,184,228**	**56.7%**	**2,454,577**	**52.8%**	**(270,349)**	**(11.0%)**
Performing loans	**1,669,330**	**43.3%**	**2,192,688**	**47.2%**	**(523,358)**	**(23.9%)**
Total loans to customers	**3,853,558**	**100.0%**	**4,647,265**	**100.0%**	**(793,707)**	**(17.1%)**

(in thousands of euro)	31/12/2016				31/12/2015				Change in gross exposure	Change in gross exposure %	Change in total value adjustments
	Gross exposure	Total value adjustments	Net exposure	Coverage	Gross exposure	Total value adjustments	Net exposure	Coverage			
Bad loans	2,169,370	(1,058,030)	1,111,340	48.77%	2,056,037	(907,971)	1,148,066	44.16%	113,333	5.5%	150,059
Unlikely to pay	1,459,078	(393,793)	1,065,285	26.99%	1,699,344	(414,194)	1,285,150	24.37%	(240,266)	(14.1%)	(20,401)
Past due	8,246	(643)	7,603	7.80%	22,830	(1,469)	21,361	6.43%	(14,584)	(63.9%)	(826)
Non-performing loans	**3,636,694**	**(1,452,466)**	**2,184,228**	**39.94%**	**3,778,211**	**(1,323,634)**	**2,454,577**	**35.03%**	**(141,517)**	**(3.7%)**	**128,832**
Performing loans	**1,704,043**	**(34,713)**	**1,669,330**	**2.04%**	**2,236,623**	**(43,935)**	**2,192,688**	**1.96%**	**(532,580)**	**(23.8%)**	**(9,222)**
Total loans to customers	**5,340,737**	**(1,487,179)**	**3,853,558**	**27.85%**	**6,014,834**	**(1,367,569)**	**4,647,265**	**22.74%**	**(674,097)**	**(11.2%)**	**119,610**

As regards the Leasing Division, total non-performing loans (comprised of bad loans, unlikely to pay and past due), net of value adjustments, amounted to euro 2,184.2 million as at 31 December 2016, down 11.0% against euro 2,454.6 million recorded at the beginning of the year. Considering that the Group no longer directly disburses leases, the performing portfolio continues to fall (the reduction against 31 December 2015 was -23.9%). The percentage represented by non-performing loans net of adjustments out of total net loans to customers rose from 52.8% at the end of 2015 to 56.7% as at 31 December 2016 (a similar increase was recorded for the percentage represented by the same before value adjustments, rising to 68.1% from the previous 62.8%). The rate of coverage of non-performing loans was 39.9%, compared to 35.0% at the end of 2015.

More specifically, bad loans before and after value adjustments amounted to euro 2,169.4 million and euro 1,111.3 million respectively (+5.5% and -3.2% respectively compared to 31 December 2015), while the percentage represented by the same of total loans to customers before and after value adjustments was 40.6% and 28.8% respectively (against 34.2% and 24.7% respectively at the end of the previous year). The rate of coverage was 48.8%, up compared to 44.2% last year. If properties used as collateral are taken into consideration, the rate of coverage of bad loans exceeds 100% of gross exposures.

Unlikely to pay before and after value adjustments amounted to euro 1,459.1 million and euro 1,065.3 million respectively (down by 14.1% and 17.1% respectively compared to 31 December 2015), while the percentage represented by the same of total loans to customers before and after value adjustments, was 27.3% and 27.6% respectively (28.3% and 27.7% respectively for the previous year). The rate of coverage was 27.0%, up compared to 24.4% last year. If properties used as collateral are taken into consideration, the rate of coverage of unlikely to pay is over 100%.

Past due loans before and after value adjustments amounted to euro 8.2 million and euro 7.6 million respectively. The rate of coverage was 7.8%, compared to 6.4% last year.

The coverage of performing loans was 2.04% (1.96% as at 31 December 2015).

Financial assets

(in thousands of euro)	31/12/2016	% impact	31/12/2015 (*)	% impact	Absolute change	% change
Financial assets held for trading	3,164,542	12.3%	3,981,740	14.5%	(817,198)	(20.5%)
Financial assets designated at fair value through profit and loss	4,304	0.0%	18,600	0.1%	(14,296)	(76.9%)
Financial assets available for sale	12,090,988	47.1%	12,910,696	47.0%	(819,708)	(6.3%)
Investments held to maturity	8,368,223	32.6%	7,779,168	28.3%	589,055	7.6%
Total securities portfolio	**23,628,057**	**92.1%**	**24,690,204**	**89.9%**	**(1,062,147)**	**(4.3%)**
Derivative trading and hedging instruments	2,022,294	7.9%	2,764,741	10.1%	(742,447)	(26.9%)
Total financial assets	**25,650,351**	**100.0%**	**27,454,945**	**100.0%**	**(1,804,594)**	**(6.6%)**

(*) The figures for the year have been reclassified to provide a like-for-like comparison.

The breakdown by type of assets is as follows:

(in thousands of euro)	31/12/2016	% impact	31/12/2015 (*)	% impact	Absolute change	% change
Debt securities	22,034,399	85.9%	22,989,507	83.7%	(955,108)	(4.2%)
Equity instruments	723,960	2.8%	788,639	2.9%	(64,679)	(8.2%)
UCIT units	869,698	3.4%	912,058	3.3%	(42,360)	(4.6%)
Total securities portfolio	**23,628,057**	**92.1%**	**24,690,204**	**89.9%**	**(1,062,147)**	**(4.3%)**
Derivative trading and hedging instruments	2,022,294	7.9%	2,764,741	10.1%	(742,447)	(26.9%)
Total financial assets	**25,650,351**	**100.0%**	**27,454,945**	**100.0%**	**(1,804,594)**	**(6.6%)**

(*) The figures for the year have been reclassified to provide a like-for-like comparison.

The Group's financial assets as at 31 December 2016 amounted to euro 25,650.4 million, down on the figure of euro 27,454.9 million recorded as at 31 December 2015 rendered comparable (-6.6%); the decrease can be seen mainly in financial assets held for trading, which recorded a fall of 20.5% (euro -817.2 million) and in financial assets available for sale, which recorded a fall of 6.3% (euro -819.7 million). An analysis by asset type indicates that this decrease mostly regarded debt securities, which as at 31 December 2016, represented over 85% of the portfolio (compared to 83.7% as at 31 December 2015).

Financial assets held for trading

(in thousands of euro)	31/12/2016	% impact	31/12/2015 (*)	% impact	Absolute change	% change
Debt securities	2,686,819	56.6%	3,381,931	54.1%	(695,112)	(20.6%)
Equity instruments	270,470	5.7%	354,652	5.7%	(84,182)	(23.7%)
UCIT units	207,253	4.4%	245,157	3.9%	(37,904)	(15.5%)
Total securities portfolio	**3,164,542**	**66.7%**	**3,981,740**	**63.7%**	**(817,198)**	**(20.5%)**
Financial and lending derivatives	1,578,883	33.3%	2,269,580	36.3%	(690,697)	(30.4%)
Total	**4,743,425**	**100.0%**	**6,251,320**	**100.0%**	**(1,507,895)**	**(24.1%)**

(*) The figures for the year have been reclassified to provide a like-for-like comparison.

Regarding the debt securities component of financial assets held for trading, euro 1.2 billion is represented by Italian Government securities, while the remainder is comprised by corporate securities issued mainly by Italian and foreign banks.

The equity trading portfolio instead mainly regards securities relating to leading Italian and foreign companies.

Financial assets designated at fair value through profit and loss

(in thousands of euro)	31/12/2016	% impact	31/12/2015	% impact	Absolute change	% change
Debt securities	-	-	13,393	72.0%	(13,393)	
Equity instruments	565	13.1%	1,277	6.9%	(712)	(55.8%)
UCIT units	3,739	86.9%	3,930	21.1%	(191)	(4.9%)
Total	**4,304**	**100.0%**	**18,600**	**100.0%**	**(14,296)**	**(76.9%)**

Financial assets designated at fair value through profit and loss include investments in UCIT units (Undertakings for collective investment in transferable securities), mostly comprised by shares of hedge funds managed by the subsidiary company Aletti Gestielle SGR.

Equity instruments exclusively relate to the value of the insurance policy subscribed by Banco Popolare to cover the liabilities of the S.I.PRE. paid to some executives.

Financial assets available for sale

(in thousands of euro)	31/12/2016	% impact	31/12/2015	% impact	Absolute change	% change
Debt securities	10,979,357	90.8%	11,815,015	91.5%	(835,658)	(7.1%)
Equity instruments	452,925	3.7%	432,710	3.4%	20,215	4.7%
UCIT units	658,706	5.4%	662,971	5.1%	(4,265)	(0.6%)
Total	**12,090,988**	**100.0%**	**12,910,696**	**100.0%**	**(819,708)**	**(6.3%)**

As at 31 December 2016, the portfolio of debt securities was comprised by Italian Government securities with a total book value of euro 8.6 billion.
The remainder of the debt securities portfolio is comprised of securities issued by international organisations (EIB, IBRD etc.) and by corporate securities mainly issued by Italian and foreign banks.

UCIT units mainly include real estate funds of euro 30 million, share funds of euro 249.7 million, bond funds of euro 41.1 million and flexible funds of euro 330.3 million.
The portfolio of equity instruments is represented by investments whose value is less than 20% of the share capital of said companies, which is not considered a strategic investment by the Banco Popolare Group. The main investments in shareholdings of this nature refer to Dexia Crediop, amounting to euro 55.4 million, the Istituto Centrale delle Banche Popolari Italiane for euro 32.4 million, Palladio Holding for euro 29.8 million, the investment in the Bank of Italy for euro 91.7 million, A4 Holding for euro 15.8 million, Autostrade del Brennero for euro 21.2 million, Factorit for euro 20.1 million, S.A.C.B.O. for euro 20.4 million, SIA for euro 48.2 million, Seief for euro 12.3 million, Archimede 1 for euro 10.0 million, Veneto Sviluppo for euro 6.9 million, Unipol SAI for euro 7.2 million and lastly Ente Autonomo Fiera di Verona for euro 7.6 million.

Investments held to maturity

(in thousands of euro)	31/12/2016	% impact	31/12/2015	% impact	Absolute change	% change
Debt securities	8,368,223	100.0%	7,779,168	100.0%	589,055	7.6%
Total	**8,368,223**	**100.0%**	**7,779,168**	**100.0%**	**589,055**	**7.6%**

This item is almost entirely represented by Italian Government debt securities and, with regard to the prices as at 31 December 2016, latent gains were around euro 144 million.

Exposure to sovereign risk

In 2016, continued growth in the Eurozone led to a new phase of lower sovereign risk attributed to peripheral European countries. In actual fact, this growth contributed further to the process of rebalancing public finances in the zone and represented a factor of relative stabilisation of the existing imbalances.
Several particularly positive "surprises" came from the peripheral Eurozone countries. At the end of November, Portugal's GDP recorded a rise of 1.6% in the third quarter of 2016, compared to the same quarter of 2015 (+0.8% on the previous quarter). Furthermore, Spain's GDP recorded a rise of 3.3% (against the government's estimate of 3.2%), while the unemployment rate, at around 30% in the 4th quarter of 2015, fell to 21% at the end of 2016. After having reaching a high of 169 basis points at the end of June, the ten-year Bonos-Bund spread fell to a low of 110 basis points at the end of October, then fluctuating around this value until and including December. Positive news was even received from Greece. After recording a 0.8% rise in GDP in 2016, the Greek Central Bank envisages a rise of +2.5% in 2017, indicating the end of the economic crisis that has plagued Greece for years. The level of unemployment fell to 22.6% in the third quarter from 27.8% in the first. The combination of all of this economic news facilitates the plan of aid envisaged for Greece and the reaching of an agreement with the IMF to lighten Greek debt from 2018. The spread of ten-year Greek bonds against the Bund fell rapidly from 1,121 basis points at the beginning of February to 624 basis points at the beginning of December. In Ireland, where in the third quarter, the economy recorded a growth rate yoy of 6.9%, the deficit/GDP ratio is expected to fall to +0.9% (+1.9% in 2015), and the rate of unemployment in December is expected to be 7.2% (8.9% in December 2015) compared to the European average of +9.8%. The spread of ten-year Irish government bonds against the German Bund was therefore far from warning levels: it touched a low of 29 basis points at the beginning of the year, and recorded a high mid-June (95 basis points), then settling at 65 basis points at the end of the year.
Lastly, the relatively flexible approach adopted by the European authorities, especially towards Italy, which was granted a deficit on the 2016 budget, with unprecedented room for flexibility, of around euro 13.6 billion due to the economic reforms implemented, had a fairly positive impact. The goodwill of the market was however guaranteed for the entire year, to a significant extent, by the quantitative easing policy adopted by the ECB. Within this reference framework, the spread of the ten-year BTP against the ten-year German Bund, after recording a low of 96 basis points during the first few days of 2016, then came under pressure and reached a high of around 150 basis points due to the significant slowdown of emerging countries, weak oil prices and non-performing loans affecting the profit margins and stability of the European banking system, particularly Italian banks. After a further improvement (new low of around 102 basis points), in the Spring, the spread started to widen again, as the consultation on Brexit and above all the Constitutional referendum drew near (annual high of 197 basis points at the end of November). The spread overcame the victory of the Euro-sceptics and the rejection of the Constitutional reform practically unscathed, then embarked on a downtrend, closing the year at 173 basis points.

The Group's total exposure in sovereign debt securities as at 31 December 2016 was euro 18,368.5 million, and is provided below, broken down by country (in thousands of euro):

Countries	Debt securities	of which Parent Company	Loans	of which Parent Company	Total
Italy	18,109,202	17,216,450	255,876	255,876	18,365,078
Austria	1,549	-	-	-	1,549
Other EU countries	1,853	-	-	-	1,853
Total EU Countries	**18,112,604**	**17,216,450**	**255,876**	**255,876**	**18,368,480**
USA	16	-	-	-	16
Argentina	48		-	-	48
Total other countries	**64**	**-**	**-**	**-**	**64**
Total	**18,112,668**	**17,216,450**	**255,876**	**255,876**	**18,368,544**

The exposure is represented almost exclusively by debt securities issued by central and local governments of euro 18,112.7 million, mostly issued by EU Member States. This position is held mostly by the Parent Company Banco Popolare which, as at 31 December, held a total of euro 17,216.4 million, relating only to Italian government securities. The exposure represented by loans granted to the Italian State is marginal and amounts to euro 255.9 million.

The tables below provide more detailed information on the breakdown of the exposure in debt securities to EU countries, which represented nearly the entire exposure, by accounting portfolio, residual life brackets and fair value hierarchy.

Financial assets held for trading

Country	Maturing by 2017	Matures between 2017 and 2021	Matures between 2021 and 2026	Matures beyond 2026	Total fair value as at 31/12/16	Total fair value by hierarchy		
						LEVEL 1	LEVEL 2	LEVEL 3
Italy	132,620	812,133	294,748	57	1,239,558	1,239,556		2
Other EU countries		-	-		-	-		
Total	**132,620**	**812,133**	**294,748**	**57**	**1,239,558**	**1,239,556**	**-**	**2**
of which Parent Company	**350**	**51,715**	**294,742**	**2**	**346,809**	**346,807**		**2**

Financial assets available for sale

Country	Maturing by 2017	Matures between 2017 and 2021	Matures between 2021 and 2026	Matures beyond 2026	Total fair value as at 31/12/16	Net AFS Reserve	Value adjustments	Total fair value by hierarchy		
								LEVEL 1	LEVEL 2	LEVEL 3
Italy	941,971	5,103,573	2,530,397	-	8,575,941	(14,642)	-	8,566,841	9,100	-
Total	**941,971**	**5,103,573**	**2,530,397**	**-**	**8,575,941**	**(14,642)**	**-**	**8,566,841**	**9,100**	**-**
of which Parent Company	**941,971**	**5,103,573**	**2,530,397**	**-**	**8,575,941**	**(14,642)**		**8,566,841**	**9,100**	

Investments held to maturity

Country	Maturing by 2017	Matures between 2017 and 2021	Matures between 2021 and 2026	Matures beyond 2026	Total book value as at 31/12/16	Total fair value	Total fair value by hierarchy		
							LEVEL 1	LEVEL 2	LEVEL 3
Italy	1,455,399	2,066,103	4,772,197	2	8,293,701	8,437,683	8,437,683		
Other EU countries	3,402	-	-	-	3,402	3,402	3,402		
Total	**1,458,801**	**2,066,103**	**4,772,197**	**2**	**8,297,103**	**8,441,085**	**8,441,085**	**-**	**-**
of which Parent Company	**1,455,399**	**2,066,102**	**4,772,197**	**-**	**8,293,698**	**8,437,680**	**8,437,680**	**-**	**-**

The majority of investments in sovereign debt securities of EU countries regard Italian government bonds and, as illustrated above, around 7% of these have been classified in the portfolio of financial assets held for trading, 47% in the financial assets available for sale portfolio, while the remaining 46% has been classified as investments held to maturity.

Net Interbank Position

Due from banks

(in thousands of euro)	31/12/2016	% impact	31/12/2015	% impact	Absolute change	% change
Due from central banks	**1,977,986**	**43.4%**	**376,946**	**13.4%**	**1,601,040**	**424.7%**
Due from other banks	**2,581,202**	**56.6%**	**2,440,886**	**86.6%**	**140,316**	**5.7%**
Current accounts and demand deposits	595,904	13.1%	613,381	21.8%	(17,477)	(2.8%)
Time deposits	110,941	2.4%	181,012	6.4%	(70,071)	(38.7%)
Repurchase agreements	508,004	11.1%	692,546	24.6%	(184,542)	(26.6%)
Debt securities	100,198	2.2%	104,755	3.7%	(4,557)	(4.4%)
Other loans	1,266,155	27.8%	849,192	30.1%	416,963	49.1%
Total loans (A)	**4,559,188**	**100.0%**	**2,817,832**	**100.0%**	**1,741,356**	**61.8%**

Due to banks

(in thousands of euro)	31/12/2016	% impact	31/12/2015	% impact	Absolute change	% change
Due to central banks	**12,020,001**	**75.0%**	**11,958,009**	**73.2%**	**61,992**	**0.5%**
Refinancing operations (TLTRO, TLTRO2)	12,000,000	74.9%	11,958,009	73.2%	41,991	0.4%
Other payables	20,001	0.1%	-	-	20,001	
Due to other banks	**3,997,400**	**25.0%**	**4,376,730**	**26.8%**	**(379,330)**	**(8.7%)**
Current accounts and demand deposits	611,703	3.8%	666,187	4.1%	(54,484)	(8.2%)
Time deposits	75,759	0.5%	258,663	1.6%	(182,904)	(70.7%)
Repurchase agreements	1,328,609	8.3%	1,550,218	9.5%	(221,609)	(14.3%)
Other payables	1,981,329	12.4%	1,901,662	11.6%	79,667	4.2%
Total payables (B)	**16,017,401**	**100.0%**	**16,334,739**	**100.0%**	**(317,338)**	**(1.9%)**
Mismatch loans/payables (A) - (B)	**(11,458,213)**		**(13,516,907)**		**(2,058,694)**	**(15.2%)**
Due to central banks: refinancing operations	**(12,000,000)**		**(11,958,009)**		**41,991**	**0.4%**
Interbank balance (excl. refinancing operations)	**541,787**		**(1,558,898)**		**2,100,685**	
Mismatch towards central banks (excl. refinancing operations)	**1,957,985**		**376,946**		**1,581,039**	**419.4%**
Interbank balance towards other banks	**(1,416,198)**		**(1,935,844)**		**(519,646)**	**(26.8%)**

Net interbank exposure as at 31 December 2016 amounted to 11,458.2 million, compared to the balance of 13,516.9 million at the end of last year. The exposure to the ECB amounted to euro 12 billion, stable compared to 31 December 2015, and was entirely represented by TLTRO II.
If net exposures towards central banks are not considered (in reality linked to the mandatory reserve), the net interbank balance towards other banks is negative, and amounts to euro -1,416.2 million (euro -1,935.8 million as at 31 December of last year).

Investments in associates and companies subject to joint control

Investments in associates and companies subject to joint control as at 31 December 2016 amounted to euro 1,195.2 million, compared with euro 1,166.3 million as at 31 December 2015.

The change recorded in the year includes the impact resulting from the valuation of investments in associated companies using the equity approach. More specifically, the increase resulting from the recognition of the share of results recorded by associated companies during the year (euro +124.5 million) as well as from the change in the Group's share of the reserves of said companies (euro +5.3 million) was partially offset by the reduction resulting from the distribution of dividends (euro -100.3 million).

Property and equipment

(in thousands of euro)	31/12/2016	31/12/2015	Absolute change	% change
Property and equipment used in operations	**634,426**	**651,864**	**(17,438)**	**(2.7%)**
Property and equipment held for investment purposes	**1,343,340**	**1,480,769**	**(137,429)**	**(9.3%)**
- held by Release	758,483	791,483	(33,000)	(4.2%)
- held by other Group companies	584,857	689,286	(104,429)	(15.2%)
Total property and equipment (item 120)	**1,977,766**	**2,132,633**	**(154,867)**	**(7.3%)**
Property and equipment held for sale (item 150)	**77,023**	**80,200**	**(3,177)**	**(4.0%)**
Total property and equipment	**2,054,789**	**2,212,833**	**(158,044)**	**(7.1%)**

The breakdown of property and equipment used in operations is shown in the table below:

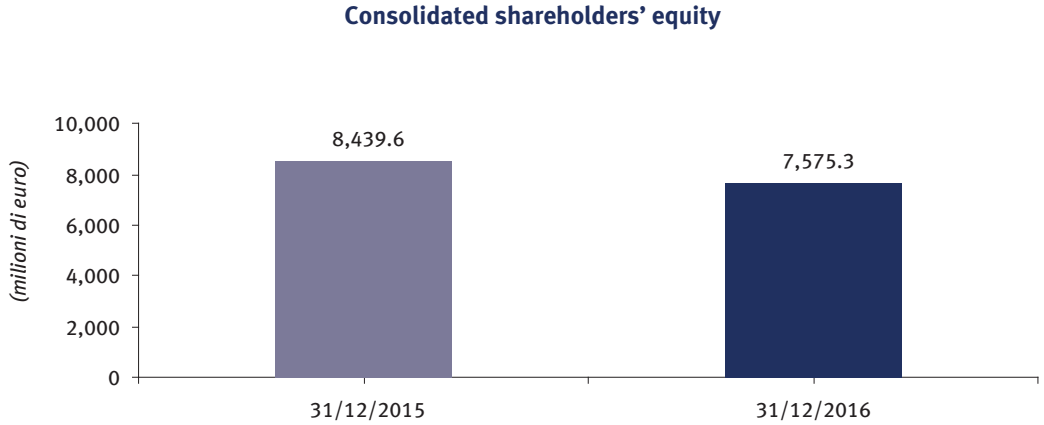
Property and equipment used in operations *(in thousands of euro)*	31/12/2016 Book value	31/12/2015 Book value
1. Owned assets	**634,144**	**651,564**
- land	213,737	215,898
- buildings	348,140	363,577
- other	72,267	72,089
2. Assets acquired under financial lease	**282**	**300**
- land	-	-
- buildings	282	294
- other	-	6
Total	**634,426**	**651,864**

The breakdown of property and equipment held for investment purposes is shown in the table below:

Property and equipment held for investment purposes *(in thousands of euro)*	31/12/2016		31/12/2015	
	Book value	Fair Value	Book value	Fair Value
1. Owned assets	**1,335,350**	**1,522,973**	**1,465,615**	**1,673,786**
- land	631,929	653,691	711,749	743,299
- buildings	703,421	869,282	753,866	930,487
2. Assets acquired under financial lease	**7,990**	**7,990**	**15,154**	**17,191**
- land	5,720	5,720	11,324	13,224
- buildings	2,270	2,270	3,830	3,967
Total	**1,343,340**	**1,530,963**	**1,480,769**	**1,690,977**

As at 31 December 2016, the total property and equipment held by the Group amounted to euro 2,054.8 million, compared to euro 2,212.8 million at the end of the previous year. With regards to property and equipment used in operations, the decrease is due to the normal process of depreciation, which more than offset purchases during the year. With regard instead to assets held for investment purposes, the net reduction of euro 137.4 million is also due, in addition to depreciation for the year, to the transfer of property amounting to around euro 75 million to the category of property and equipment held for sale, as well as to value adjustments of euro 32.4 million recorded to align the book value of several properties with the lower recoverable value emerging from the most recent appraisals conducted.
As regards property and equipment held for sale, as at 31 December 2016 this item included euro 77.0 million of property and equipment (euro 80.2 million as at 31 December 2015), which includes a property worth euro 72.7 million, for which the deed of sale, signed in December, is subject to a condition precedent envisaged for assets of artistic and cultural interest, while the remainder regards properties resulting from credit collection activities of the former Italease group.

Shareholders' equity and solvency ratios



The Group's consolidated shareholders' equity as at 31 December 2016, including valuation reserves and net income (loss) for the year, amounted to euro 7,575.3 million, compared to the figure at the end of 2015, of euro 8,493.6 million.
The change seen over the year, a reduction of euro 918.3 million, includes on one hand, the effects of the share capital increase of the Parent Company, completed on 1 July, which led to the recognition of an increase of own funds, net of directly attributable costs of euro 970.9 million, and on the other, the comprehensive income recorded as at 31 December 2016, in terms of the share pertaining to the Group, which was a negative euro 1,830.1 million, following the loss recorded in the year of euro 1,681.7 million and the fall in valuation reserves of euro 148.4 million.
In addition, negative changes were also the result of the payment of dividends by the Parent Company of euro 54.3 million and the contribution of euro 5.5 million in charity donations made in accordance with the resolution of the Shareholders' Meeting on 19 March 2016.

The following table shows the breakdown of valuation reserves and the changes over the year:

(in thousands of euro)	Financial assets available for sale	Property and equipment	Foreign investment hedges	Cash flow hedges	Special revaluation laws	Actuarial gains/(losses) on defined benefit pension plans	Investments in associates and companies subject to joint control carried at equity	Total
Initial balance	257,116	217	-	(1,612)	2,314	(63,490)	(17,281)	177,264
Increases	165,362	-	111	2,125	-	8,953	8,249	184,800
Decreases	(306,084)	-	(337)	(702)	-	(23,832)	(2,313)	(333,268)
Final balance	**116,394**	**217**	**(226)**	**(189)**	**2,314**	**(78,369)**	**(11,345)**	**28,796**

As regards in particular the valuation reserve for financial assets available for sale, the following table shows the breakdown as at 31 December 2016 compared with the figures for the previous year.

Categories	Positive reserve 2016	Negative reserve 2016	Total reserve 2016	Positive reserve 2015	Negative reserve 2015	Total reserve 2015
Debt securities	71,026	(70,391)	635	169,347	(7,513)	161,834
of which government securities:						
- Italian	45,509	(60,150)	(14,641)	142,266	-	142,266
- foreign	-	-	-	-	(661)	(661)
Equity instruments	118,022	(1,948)	116,074	92,534	(631)	91,903
UCIT units	10,069	(10,384)	(315)	12,318	(8,939)	3,379
Total	**199,117**	**(82,723)**	**116,394**	**274,199**	**(17,083)**	**257,116**

The valuation reserves of financial assets available for sale attributable to the Group totalled euro 116.4 million after tax and derived from the imbalance of positive net reserves of euro 199.1 million and net negative reserves of euro 82.7 million. The most significant reserves are those relating to the valuation of capital instruments, which total euro 116.1 million and mainly regard equity investments held in S.I.A. S.p.A. for euro 27.2 million, in Autostrada del Brennero S.p.A. for euro 19.8 million, in I.C.B.P.I. S.p.A. for euro 17.5 million and in S.A.C.B.O. S.p.A. for euro 11.7 million.

The following table provides a reconciliation between the Parent Company's shareholders' equity and net income (loss) for the period with the corresponding consolidated balances.

(in thousands of euro)	Shareholders' equity	Net income (loss)
Balance as at 31/12/2016 as per the Parent Company's financial statements	**6,144,828**	**(1,308,698)**
Impact of the consolidation of subsidiaries	1,179,140	(135,608)
Impact of the valuation at net equity of associated companies	211,518	124,547
Cancellation of the dividends received during the period from subsidiaries and associates		(346,452)
Other consolidation adjustments	39,794	(15,449)
Balance as at 31/12/2016 as per the consolidated financial statements	**7,575,280**	**(1,681,660)**

Capital ratios

From 1 January 2014, the new harmonised regulations for banks and investment companies contained in (EU) Regulation no. 575/2013 ("CRR") and in directive no. 2013/36/EU ("CRD IV") dated 26 June 2013 came into force. These transpose the standards defined by the Basel Committee for banking supervision (so-called Basel 3 framework) to the European Union.

The new regulations have introduced a transition period, during which several items will be calculated or deducted at different percentages for each year. Generally, a share is attributed to Common Equity Tier 1 (CET1), while the remainder of the aggregate is split between Additional Tier 1 (AT1) and Tier 2 (T2) capital, or attributed to Risk-Weighted Assets (RWA).
A gradual process of elimination (phase-out over a period of time extended to 2021 under the "grandfathering" system) is also envisaged for equity instruments that do not fully meet the calculation requirements of the new regulations.

The minimum capital requirements for 2016 are as follows:

- a minimum common equity tier 1 ratio (Common Equity Tier 1 capital ratio: "CET1 ratio") of: 4.5% + 2.5% Capital Conservation Buffer: "CCB"; [(1)]
- a minimum Tier 1 capital ratio of: 6.0% + 2.5% of CCB;
- minimum total capital ratio of: 8% + 2.5% of CCB.

The capital conservation buffer must, in any event, consist of high quality funds.

With regard to the measurement of risk-weighted assets, note that the Banco Popolare Group is authorised to use the following methods based on its own internal models:

- internal system to measure credit risk relating to corporate and retail customers, according to the advanced approach (Advanced IRB), to calculate the relative consolidated and separate capital requirements.
  The model applies at individual level to Banco Popolare Soc. Coop.;
- internal model to measure market risk (generic and specific on equity instruments, generic on debt securities and position-related for UCIT units) to calculate the relative separate and consolidated capital requirements.
  The model applies at individual level to Banco Popolare Soc.Coop. and to Banca Aletti S.p.A.;
- internal model to measure operating risk (AMA) to calculate the relative separate and consolidated capital requirements.
  The model applies at individual level to Banco Popolare Soc.Coop., to Banca Aletti S.p.A., to SGS Soc. Cons., and to BP Property Management Scarl and has been extended, from the reference date of 30 June 2016, to Aletti Gestielle SGR S.p.A and to the Leasing Division of the Parent Company[(2).]

In a communication dated 23 September 2016, the Bank of Italy stated that the countercyclical capital buffer for the fourth quarter of 2016 was set at zero percent.

On 20 November 2015, the European Central Bank (ECB) notified Banco Popolare of the minimum consolidated capital ratios to be complied with by the bank on an ongoing basis. The decision is based on Article 16 of EU Regulation no. 1024 of 15 October 2013, which confers on the ECB the power to require any supervised bank to hold own funds in excess of the minimum capital requirements laid down by current regulations.
The minimum ratio required by the Regulator is a Common Equity Tier 1 ratio (CET1 ratio) of 9.55%.

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(1) On 4 October 2016, the Bank of Italy, in update 18 of Circular Letter 285, reduced the CCB to 1.25% for 2017 and to 1.875% for 2018.
(2) Decision of the European Central Bank notified on 15 June 2016.

Applying the transition rules in force as at 31 December 2016, the capital ratios are as follows:

- Common Equity Tier1 (CET1) Ratio of 13.0%, compared to 13.2% at the end of December 2015;
- Tier 1 Capital Ratio of 13.1%;
- Total Capital Ratio of 16.2%, compared to 15.9% at the end of December 2015.

The level of own funds as at 31 December 2016, enables Banco Popolare to fully comply with the Regulators' requirements, both with respect to the calculation rules currently applicable in the transition period, as well as when the new capital requirements shall apply in full.

The pro-forma CET1 ratio calculated on the basis of rules that will take effect at the end of the transitional period (so-called CET1 ratio fully phased) is estimated to be around 11.4%, compared to 12.4% as at 31 December 2015.

Liquidity position and leverage ratio

The Delegated Regulation (EU) no. 61/2015 came into force on 1 October 2015, and requires banks to maintain a certain level of liquidity measured with reference to a short-term horizon (Liquidity Coverage Ratio, "LCR"). The regulation envisages a gradual phase-in ([3]). As at 31 December 2016, Banco Popolare's LCR was higher than 200%.

In the near future, the introduction of a further liquidity requirement is envisaged, measured on a longer time horizon called the Net Stable Funding Ratio ("NSFR"). The above ratio, calculated in accordance with the most recent rules set by the Quantitative Impact Study and including protected capital certificates, is higher than 100%.

Lastly, note that the Leverage Ratio was 4.2% as at 31 December 2016, while the level at full implementation is estimated at 3.6%.

In this regard, note that from September 2016, the legislative changes set forth in the (EU) Delegated Regulation 2015/62 of 10 October 2014 and the new technical standards set forth in (EU) Implementing Regulation 2016/428 of 23 March 2016 came into force. The asset items on the statement of financial positions that constitute exposures and the composition of the aggregates from which this coefficient originates have been amended.

Note that this ratio is currently not mandatory. The Basel Committee proposed a minimum level of 3%.

[3] 60% from 1 October 2015; 70% from 1 January 2016; 80% from 1 January 2017; 100% from 1 January 2018.

RESULTS BY BUSINESS SEGMENT

Introduction

As at 31 December 2016, the segments are as follows:

- Commercial Network;
- Investment & Private Banking, Asset Management;
- Leasing;
- Corporate Centre and Other.

A brief illustration of the breakdown of the various segments is provided below.

The **"Commercial Network"** segment represents the cornerstone of the development of the Group's commercial activities throughout Italy and is the backbone of the Group's organisational structure. This organisational model, centred on the Network Divisions, which ensures a balanced coverage at national level, is instrumental to the development of a product and service offer in step with the customer needs characterising the different market territories of the banks.
The business of this segment is represented by traditional loan brokerage activities in Italy and the provision of related financial services targeting both retail (private individuals and small businesses) and corporate customers.

The **"Investment & Private Banking, Asset Management"** segment includes the companies that carry out investment banking and asset management activities. The subsidiaries included in this segment are:

- Aletti & C. Banca di Investimento Mobiliare S.p.A.
- Aletti Gestielle SGR S.p.A.

The **"Leasing"** segment includes data relating to activities connected to the Group's Leasing business, the scope of which encompasses:

- activities relating to the contracts of the former Banca Italease S.p.A., which was merged into Banco Popolare Soc. Coop. in March 2015.
- Release S.p.A.
- Italease Gestione Beni S.p.A. and its subsidiaries.

The **"Corporate Centre and Other"** segment includes, amongst other activities, also direction and support functions, the portfolio of owned securities, the treasury and the Group's Asset and Liability Management, the stock of bond issues placed on institutional markets, equity investments (in particular insurance Joint Ventures and the equity investment in the consumer credit company Agos Ducato), service companies and companies operating in the real estate sector, as well as Banca Aletti Suisse.
Lastly, all the consolidation entries not specifically attributable to the previous business segments have been included in this residual segment.

Note that for the purpose of reconciling segment results with consolidated results the effect of the purchase price allocation of business combinations referring to the acquisition of the former Banca Popolare Italiana Group and of the former Banca Italease are shown separately in a specific column called "PPA – Purchase Price Allocation".

For a like-for-like comparison, note that the figures relating to previous periods have been restated on the basis of the same criteria used as at 31 December 2016, established in coherence with the characteristics of internal reporting.

	Group	Commercial Network	Investment & Private Banking, Asset Management	Leasing	PPA & FVO	Corporate Centre
Operating income						
2016	3,060,144	2,335,756	284,857	79,108	(21,952)	382,375
2015	3,663,000	2,787,177	345,833	57,683	(23,831)	496,138
Operating expenses						
2016	(2,487,701)	(1,850,851)	(131,678)	(91,434)	(3,583)	(410,155)
2015	(2,404,832)	(1,825,058)	(128,531)	(104,002)	(3,613)	(343,628)
Income (loss) from operations						
2016	572,443	484,905	153,179	(12,326)	(25,535)	(27,780)
2015	1,258,168	962,119	217,302	(46,319)	(27,444)	152,510
Net income (loss) without FVO						
2016	(1,685,904)	(1,237,610)	105,669	(168,581)	(17,281)	(368,101)
2015	426,785	211,510	144,279	(125,169)	(15,430)	211,595
Net income (loss)						
2016	(1,681,660)	(1,237,610)	105,669	(168,581)	(13,037)	(368,101)
2015	430,073	211,510	144,279	(125,169)	(12,142)	211,595
Net loans						
2016	75,840,234	61,100,133	1,425,186	3,716,525	-	9,598,390
2015	78,421,634	63,268,800	1,363,933	4,418,065	-	9,370,836
Direct funding						
2016	80,446,701	62,721,710	1,195,387	18,835	-	16,510,769
2015	82,141,444	62,659,338	1,005,458	26,954	-	18,449,694

The following paragraphs provide details on the individual segments focusing first on the performance of the income statement, then providing a more detailed analysis of the main commercial and other activities performed, providing a breakdown that is consistent with the internal organisation of the segment in question.

Commercial Network

	2016	2015 (*)	absolute change	% change
Interest margin	1,089,651	1,378,060	(288,409)	(20.9%)
Financial margin	**1,089,651**	**1,378,060**	**(288,409)**	**(20.9%)**
Net fee and commission income	1,187,347	1,344,132	(156,785)	(11.7%)
Other net operating income	44,664	52,624	(7,960)	(15.1%)
Net financial result (without FVO)	14,094	12,361	1,733	14.0%
Other operating income	**1,246,105**	**1,409,117**	**(163,012)**	**(11.6%)**
Operating income	**2,335,756**	**2,787,177**	**(451,421)**	**(16.2%)**
Personnel expenses	(1,042,565)	(1,024,851)	17,714	1.7%
Other administrative expenses	(789,867)	(779,069)	10,798	1.4%
Net value adjustments on property and equipment and intangible assets	(18,419)	(21,138)	(2,719)	(12.9%)
Operating expenses	**(1,850,851)**	**(1,825,058)**	**25,793**	**1.4%**
Income (loss) from operations	**484,905**	**962,119**	**(477,214)**	**(49.6%)**
Net adjustments on loans to customers	(2,191,953)	(631,365)	1,560,588	247.2%
Net provisions for risks and charges	-	(11,500)	11,500	
Income (loss) before tax from continuing operations	**(1,707,048)**	**319,254**	**(2,026,302)**	
Taxes on income from continuing operations	469,438	(107,744)	577,182	
Parent Company's net income (loss)	**(1,237,610)**	**211,510**	**(1,449,120)**	

(*) The figures have been reclassified to provide a like-for-like comparison.

Economic performance

Total operating income for the Commercial Network, compared to last year, was down 16.2%, corresponding in absolute terms to euro 451.4 million. The interest margin made a significant contribution to this drop, partially also due to other operating income, which is ideally represented by the non-interest margin.

The downtrend of the interest margin reflected the fall in the average volume of loans, the further reduction of interest rates and significant competitive pressure on the pricing of customer loans.
In this context, the negative impact of the above phenomena on the interest margin was mitigated by measures to contain the fall of the mark-down with respect to the fall recorded by market interest rates.

The trend of performing loans showed a downturn of 2.77% in terms of volume compared to the end of 2015, despite a considerable rise in disbursements of mortgage loans to customers, particularly retail.
Commercial strategies were addressed to the main segments of reference: retail customers, where medium-long term mortgage loans were granted at competitive rates, and local SMEs, as a result of funds from the Targeted Longer-Term Refinancing Operation (TLTRO II), an extraordinary measures of the ECB to support the disbursement of loans to the real economy.
The main component that positively influenced the performance of the Private sector continues to be that of mortgage loans for the purchase of homes, due to the competitive offer of mortgage loans and to the improvement in the demand of retail customers linked to the improved prospects of the residential property market.

Direct funding was substantially unchanged (+0.10%) compared to the end of 2015, with a shift in the weights of stable funding and on demand deposits. This rebalancing reflects the changed funding requirements due to the above-mentioned fall in loans and is related to the action taken by the Group to balance its cost of funding profile (mainly through the use of bond issues).
Funding in the form of current accounts and demand deposits recorded an increase of 13.5% compared to the end of 2015. This situation is due to the lower interest rates and to the absence of aggressive offer policies on other funding instruments given the high availability of low cost funds disbursed by the ECB.
Furthermore, the climate of uncertainty in the financial markets could have driven a share of households to postpone their investment decisions, leaving time deposits and matured bonds temporarily in their current accounts.

Other operating income recorded a fall of 11.6% compared to last year, due above all to the lower contribution of investment products placed given the negative performance of the stock markets, which influenced the investment decisions of customers, and to the fall in the amount of “commissioni di istruttoria veloce” paid by customers, following the settlement of positions, the update of pricelists and the application of new calculation criteria, which respond better to the customer’s need for flexibility.

2016 was a complex year in terms of the financial markets. In fact, investors has to face important economic and political events: the result of the Brexit, the US Presidential elections and the constitutional referendum in Italy.
These factors had a significant impact on the subscription volumes of investment products, down 34% compared to last year (euro 10.4 billion against euro 15.7 billion in 2015 with the same scope), generating net fee and commission income of euro 254 million compared to euro 416 million in 2015.
With a view to diversifying their investments, customers favoured flexible asset management products, able to combine the exposure on the financial markets with varying degrees of protection.
In this regard, the Bank’s product policy concentrated mainly on proposing asset management instruments, supplementing the Group’s traditional offer with mutual funds and SICAVs of important market Asset Managers, multi-segment insurance policies and certificates with different levels of protection (mutual funds placed for euro 3.5 billion, SICAV for euro 1.0 billion, Segment I policies for euro 0.7 billion and Segment III for euro 1.1 billion).

Commission related to the MLT loan segment was substantially in line with the final figures for 2015. Several accounting settlements with the insurance partner influenced the economic results of brokered loans and insurance protection.
Interest and exchange rate hedging recorded a rise of 18%, due mostly to a more lively performance in interest rate hedging.
The specialist corporate finance segment instead recorded a fall of 18%, mainly due to the non-banking financial services of foreign partners, partially offset by direct disposal without recourse services, the offer of which was recently integrated with Banco’s internal departments.
Fee and commission income from foreign operations were down slightly compared to 2015 (-1%) as well as that generated by transactional banking services (-1.81%), mainly due to an overall review of brokerage and collection arrangements.

In terms of operating expenses, an increase in “other administrative expenses” was recorded, which, without the Commercial Network’s share of systemic charges (Interbank Deposit Guarantee Fund and Resolution Fund) corresponding to euro 29.1 million, is substantially in line with last year.

"Personnel expenses" were up slightly (+1.7%) as they reflected costs relating to the leaving incentive policies undertaken by the company both this year and in 2015; excluding extraordinary impacts from the analysis, personnel costs for the year would have been down by 5.6%.

By virtue of the above trends, income from operations, corresponding to euro 484.9 million, fell by euro 477.2 million compared to 2015, corresponding to a percentage reduction of 49.6%.

Net value adjustments to loans, which amounted to euro 2,192.0 million, were up significantly compared to last year, mainly due to the extraordinary adjustments addressed to increasing the levels of coverage for the stock of bad loans and non-performing loans requested by the Supervisory Authority.

Commercial business activities - Private Customers

"Private customers" means all private parties whose personal assets are below one million euro[1]. A further classification separates the "Affluent" segment from the "Universal" one: the former, the "Affluent" segment includes customers with assets (deposits) of between euro 50 thousand and 1 million; the latter, the "Universal" segment, encompasses customers with personal assets of less than euro 50 thousand. Within this segmentation, different quality-based targets are also identified: shareholders, students, young people, the more senior customers etc.
The scope of the Private Customers Department also includes enterprises represented by SBO (Small Business Operators) with a turnover of up to euro 250 thousand, whose financial and operational requirements are very similar to those of private individuals.
Overall, the Private Customers Department encompasses around 2.5 million customers (natural persons and companies) who are current account holders (including card accounts), distributed equally between the network divisions.
In December 2016, the customer breakdown was as follows:

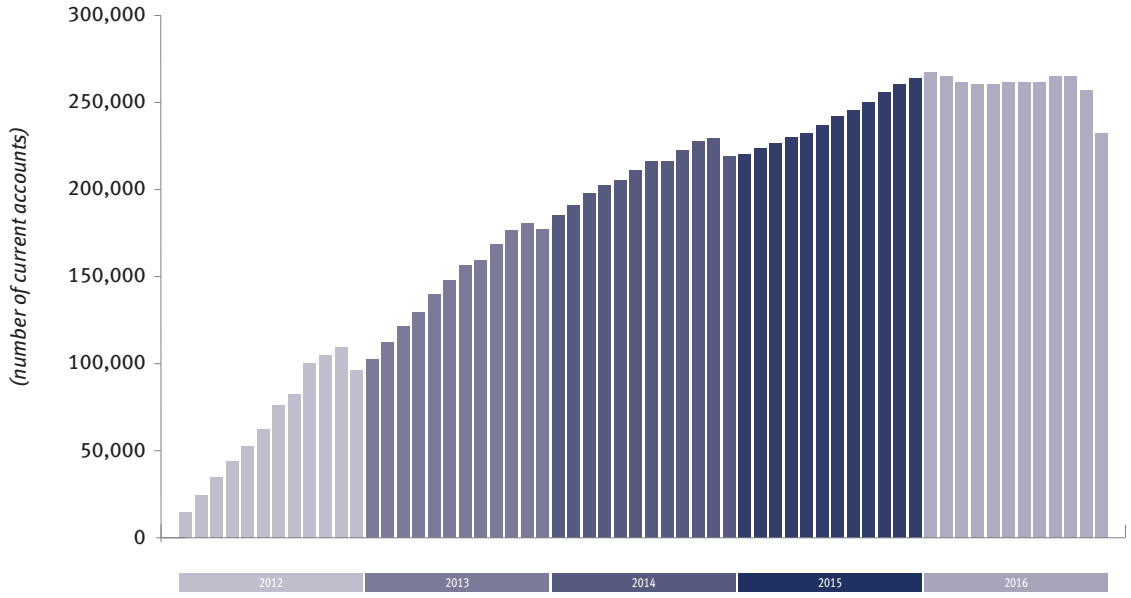
Segment	% of customers with current account
Universal	73%
Affluent	18%
SBO (Small business operators)	5%
Other Retail segments	4%
Total Private Customers with a current account (including card accounts)	**2.5 million**

Products, services and loans for retail customers

The accounts base, after five years of significant growth, stabilised in 2016, but then fell in November, and above all December. As regards acquisition, the Conto You continues to be the most successful account, also due to the commercial features of the same, which are particularly advantageous for specific customer targets. As regards retention, the customer care project called "ThankYou", dedicated to customers about to leave the bank, and loyalty programmes, always focused on preserving customer relations, continued.
In 2016, retail customers opened around 186 thousand new accounts, with a decrease from the beginning of the year (balance net of closed accounts) of around 31 thousand accounts.
Between 2012 and the end of 2016, on the other hand, the net balance of accounts rose by around 230 thousand, as shown by the graph below.

(1) A specific type of offer and a service coordinated by the Group and Banca Aletti is envisaged for "Private Customers" with assets exceeding one million euro.

Net number of current accounts



Traditional current accounts and loyalty schemes for private customers

Conto You

Again in 2016, Conto You was confirmed as the most successful account, with around 68,000 new accounts opened (more than triple compared to 2015). Conto You is an effective product, which is able to attract new customers, thanks, among other things, to "no account fees" and the securities portfolio included.

Accounts for young people

For years, Banco has offered successful products to customers aged "0-11" with Brucoconto and "12-30" with Let's Bank. The products and the services addressed to this very special target are revised each year, both in terms of the non-banking offer (specific rewards catalogue) and more traditional banking needs.

ThankYou

One again in 2016, Banco Popolare focused on maximising the length of its relationship with specific customer targets, in order to avoid the same leaving the bank.

The loyalty programme breaks down into "ThankYou" and "ThankYou Premium" depending on the capitalisation bracket of the customer.

The programme envisages that the customers involved initially receive a welcome reward and, based on their level of loyalty and on the increase of the amount of capital they hold with the Bank, are then eligible to receive further rewards.

The recognition of special and exclusive benefits for these customers is completed by a particularly advantageous range of banking services.

Multichannels for private customers

In 2016, Banco Popolare recorded a further increase in the use of multichannel communication by its customers. This positive trend confirms the increasing interest for customers to manage their accounts remotely, also due to the high market penetration of Pcs, tablets and smartphones and internet connections.

Banco Popolare considers the multichannel approach as a strategic asset for the future, as its will play an increasingly important role in customer relations, leaving the branches to focus on evolved advisory services.

The table below illustrates the main figures for multichannel services.

Product/Service	End of 2015 figures	End of 2016 figures	% Change
No. of Home Banking - YouWeb/YouApp Customers	1,137,270	1,237,772	8.84
No. of YouCall - Telephone Banking Customers	1,048,335	1,159,007	10.56
No. of On Line Trading Customers	51,414	52,950	2.99

You Services

In 2016, You Services benefitted from implementations that enabled the service level of online services to continue to be one of the best in the banking sphere.
The main developments were as follows:

- implementation of new functions, including car motor tax, the CBill circuit, bank transfers for tax deductions, the real time transfer of funds between accounts;
- improved information content, including a clearing financial statement of the customer's investments, more complete notifications via app, a further optimisation for access for the visually impaired;
- personalisation of content with a tutorial function and the option of setting your preferred transactions so that they can be accessed more quickly.

YouApp

YouApp is the application which enables the customer to manage his accounts while on the move on his smartphone or tablet. Within the offering, this is the channel that recorded the highest growth, with around 268,000 customers (+42%) who performed over 2 million transactions (+84%) and a total of over 17 million accesses.

Over the year, the following were added:

- transaction functions such as the payment of motor tax, bank transfers for tax deductions, fast transfers between accounts;
- information functions including repayment plans for loans, clearer and more exhaustive reports, more detailed notifications.

Non-banking You Services: YouWin and YouShop

YouWin

The current banking scenario is characterised by a high level of attention on topics such as customer loyalty and the ability to personally involve customers. In this regard, multichannel services have invested in YouWin, a games and contests portal, which over time has gained recognition and a strong identity.
Access is free of charge from both YouWeb and YouApp. In addition, from 2016, YouWin Special came online, an instant-win which rewards customers who use online channels with the greatest frequency.

YouShop

YouShop is the e-commerce portal established in 2014 which, over the years, has acquired increasing visibility. Thanks to direct access from YouWeb, multichannel customers have access to an extensive catalogue of over 400 items. Banco Popolare has a twofold objective: on one hand, to create a non-banking offering for customers and on the other, to invest in a high-growth sector such as e-commerce which will be able to make a positive contribution to company results. Last year, numerous proposals of discounted products were made to customers, especially at times of traditional festivities.

YouShop can also be accessed through our branches, where traditional customers can access an online platform with the help of branch personnel. The e-commerce portal also enables the cross-selling rate of our clientele to be increased, by offering, with a simplified procedure, ad hoc loans for up to euro 3,000 at 0% (TAN and TAEG 0%).

YouBanking

YouBanking is the brand name of Banco Popolare's online product reserved for new customers. In 2016, it once again produced very good results in terms of overall growth, despite the fall in savings accounts due to changes in the trend of market interest rates.
The table below illustrates the main figures of existing accounts:

Total YouBanking accounts	31/12/2016	31/12/2015	31/12/2014	31/12/2013	31/12/2012
YouBanking current accounts (including Premium)	99,411	70,505	47,404	27,877	10,256
YouBanking savings accounts (including RendiConto)	42,927	49,716	46,160	30,105	11,590
Total	**142,338**	**120,221**	**93,564**	**57,982**	**21,846**

The excellent results achieved demonstrate the competitiveness of the YouBanking offer in the Italian scenario, which includes no stamp duty on the portfolio which, for new accounts, has been extended to 31 December 2017.

Contact Centre
Contact Centres provide private and business customers with active support by telephone, IVR (Interactive Voice Response), e-mail and new technologies.
The main activities in 2016 regarded:

- the management of chats, a new information channel available from November 2016 for YouApp users;
- providing before- and after- sales support to customers with regard to YouBanking products (including finalising accounts opened online) and after-sales support for prepaid cards;
- the governance of some social media (overseeing the reviews published on the stores where it is possible to download YouApp and of posts published on finanzaonline.com regarding the YouBanking services);
- customer assistance to support the launch of new schemes during the year as part of the Customer Experience.

The Contact Centre also provides the following:

- support in the placement of Ducato Personal Loans relating to branch events called "Loan Days";
- support for anti-fraud services on payment cards or direct channels;
- the management of succession paperwork (handling relations with the securities back office and fiscal and legal offices).

Payment instruments

Traditional E-money (Cards)
In 2016, Banco Popolare mainly focused on consolidating the products currently offered in the catalogue and on fine-tuning existing ones.
The positive trend recorded in previous years was confirmed, with an overall increase in the stock of payment cards of over 4% compared to last year. Interest is growing in the products directly issued by the bank (debit cards, YouCard and YouCard Business), with a total of 350,000 new cards.
In general, the use of e-money has increased, both in terms of the number of transactions and in the amount spent, a sign of the upward trend to use them not only for "important" purchases, but also for daily expenditure.

In this overall framework, the world of credit cards also recorded a slight increase in stock (+0.1%) compared with last year.

Mobile payments
As regards Mobile Payments, Banco Popolare continued to develop and innovate this sphere as it has in previous years. Based on the use of smartphones, Mobile Payments is the most promising channel in terms of the increased use of e-money instead of cash and lays the foundation for an increasingly wider range of services.

Chat&Cash
Chat&Cash is the Banco Popolare application for smartphones, which enables instant payment to all of those subscribing to the service in the address book of the holder (P2P). Transactions are extremely simple and intuitive, as they adopt the same "use experience" that characterises the most common and widespread messaging apps.
The application is available for the main iOS, Android and Windows Phone platforms and can be downloaded and activated by anyone who has a smartphone (whether they are existing or prospective Banco Popolare customers).
The main changes introduced in 2016 can be summarised in the following four points:

- a functional review with a view to further improving user experience;
- the introduction of the concept of a wallet, able to accommodate and manage both an "electronic wallet" and Banco Popolare cards. In this way, a user can register his debit cards (Cashpoint card) and/or the other cards issued directly by banco Popolare (YouCard, KDue, etc.). Thanks to the wallet, the user can also receive notifications relating to the use of the cards registered and to the most important events (e.g. cards close to expiry, blocked cards, etc.). The registered cards can also be used for instant payments, without having to use a rechargeable electronic wallet and therefore surpassing the limits imposed by said product;
- launch of important partnerships with national players (specifically the IVSGroup and the Movincom consortium whose members include operators at national level), with a view to extending the perimeter of authorised users and to extend the use of Chat&Cash also to the purchase of goods and services (P2B).

Private mortgage loans

In 2016, the double figure trend of disbursements of mortgage loans to consumer households continued, although at a slower pace than in 2015.
Disbursements of mortgage loans to Banco Popolare private customers made a significant contribution to this trend (an increase of over 20% compared to last year, exceeding euro 2 billion).
This growth was driven by the competitiveness of mortgage loans of the Group and by the improvement in the demand from retail customers, also due to the improved prospects of the residential property market.
40% of total disbursements were made to new customers.

Banco Popolare essentially sought to adapt existing products to the conditions of the new economic scenario. As in previous years, efforts continued to provide support to customers that have suffered considerably from the current economic crisis or that have been affected by natural disasters, by renegotiating loans or suspending instalments.

YouBanking and YouBanking Premium Mortgages
The volume of mortgage loans made to private customers recorded a particularly positive trend in 2016, once again recording an increase over the same period of the previous year.
The "YouBanking" campaign initially, followed by the "YouBanking Premium" made a significant contribution. These offers were particularly appreciated by customers due to spreads correlated to the length of the loan.

The offer was revised on 19 December 2016 to harmonise its conditions given the establishment of BancoBPM.

Consumer credit

In 2016, the positive trend in the disbursement of consumer credit continued. Banco Popolare disbursed 44,500 consumer loans, amounting to a total of over euro 787 million.
Almost all of the personal loans granted to private customers were disbursed by the product company Agos Ducato, with whom Banco has further strengthened its partnership.

Savings/investment products and services

2016 was a complex year in terms of the financial markets. In fact, investors has to face decidedly unexpected economic and political events: the most important of these were the result of the Brexit, the US Presidential elections and the constitutional referendum in Italy.

With a view to diversifying their investments, customers of the Group favoured flexible asset management products, able to combine the exposure on the financial markets with varying degrees of protection.

In this regard, the Bank's product policy therefore concentrated mainly on proposing asset management instruments; in particular mutual funds and SICAVs of important Italian and foreign Asset Managers, multi-segment insurance policies and certificates with different levels of protection.

Again in 2016, the subscription by customers of Banco Popolare bonds was residual. This trend is also due to a market that is still characterised by very low (in some cases negative) interest rates. On the contrary, a rise in issues of Certificates of Deposit was recorded.

Asset management
The funding volumes for asset management products recorded during the year confirm our customers' preference for flexible forms of investment and the will to delegate their investment choices and the diversification of the financial assets in their portfolios to experienced professionals.
Given the above, subscriptions to mutual funds and multiasset and multimanager SICAVs reached around euro 3,857 million in 2016.

With a view to completing the range of asset management products, Banco Popolare extended its commercial offering by adding the financial instruments of the most important and prestigious international investment houses (Schroder, JPMorgan, Invesco), focusing on several specific products.

Certificates
In 2016, customers continued to subscribe Aletti Certificates for a total of around euro 1,167 million.
These products offer the opportunity to invest in different underlying share instruments (indices or single securities), while at the same time enabling the investor to benefit from a certain level of protection and at the same time to receive conditioned coupon income.

More specifically, in order to offer a wide diversification of underlying instruments consistent with market scenarios, the structures were index-linked to the main European share indices (e.g. FTSE/MIB, Eurostoxx50, CAC40, S&P500, Nikkei, Ibex), as well as individual shares.

Group bond issues
Given the extensive liquidity provided by the ECB, the Bank consequently decreased medium-term funding, in many cases redeeming several bonds that incorporated this option in favour of the Issuer, in advance with respect to their set maturity.

In 2016, the bonds issued were addressed to Retail customers and amounted to a total of around euro 252 million, of which around euro 197 million in structured products, with an average maturity of between 3 and 5 years.

To diversify the bond portfolios of its customers, over the year three bond issues made by Unicredit were placed for a total amount of around euro 831 million.

In 2016, around 1,244 million Certificates of Deposit with maturities of between 6 and 24 months were subscribed.

Other investment instruments and initiatives to benefit customers
In 2016, Equity Crowdfunding operations were consolidated, namely the collection of venture capital, regulated by Consob, for innovative start-up companies through on-line portal operators. During the year, many of the portals with which the Bank had signed agreements changed their procedures to the direct validation of the transaction online, therefore simplifying the finalisation of orders.
Banco Popolare provided this service to around forty new innovative companies, this contributing to the development of this sector.

Bancassurance Life
In 2016, the Group continued to distribute insurance products through Popolare Vita, a joint-venture with the Unipol Group, and through the Irish company The Lawrence Life Assurance.

Total premiums collected amounted to around euro 1,824 million, of which euro 1,197 million related to premiums issued by Popolare Vita and around euro 627 million to those issued by Lawrence Life.

During the first half of the year, due to the downtrend of market returns, the placement of traditional Segment I policies was suspended and replaced by multi-segment "hybrid" products (Popolare Vita Multiramo Prospettiva and Popolare Vita Multiramo Doppia Scelta), which invest their premiums partially in Separate Portfolios, with guaranteed capital and partially in Unit-Linked Insurance Funds.
This enables the customer's need for safety to be satisfied as well as the opportunity to increase the capital invested in the medium term. Multi-segment policies recorded premiums of around 487 million over the year.

Unit-Linked policies were placed through the Irish company Lawrence Life, which invests the premiums in flexible funds and envisages the distribution of capital in the first years of the product's life.

Lastly, to meet the growing need for pensions and to therefore benefit from the tax advantages offered by this product, significant efforts were made to place a product called PIP Pensione Sicura (Safe Pension) by Popolare Vita, with decidedly interesting results.

Bancassurance Protection
In 2016, the range of products in the Non-Life Segment was extended and enhanced:

- a new Temporary Life Insurance policy with decreasing capital and a single premium linked to mortgage loans was launched, which enables up to four joint mortgage holders to be insured for a maximum amount of euro 500,000. The policy can be funded if issued at the same time as the mortgage loan;
- the healthcare policy called Salute Advance, launched in 2015, was improved with a "Plus" version, which increases the overall offering of this product;
- a new policy was introduced called "Corporate Legal Protection", in collaboration with DAS Assicurazioni, targeted at small and medium sized enterprises with a maximum of 20 employees.

Products, services and loans for SBO - Small Business Operators

Given the economic scenario in 2016, the Banco Popolare Group continued to provide support to Small Business Operators through dedicated products, services and sales initiatives, with a view to better meet the needs of these customers.

Current accounts
In 2016, Banco Popolare continued to offer new Small Business Operator customers the "YouBusiness" current account, which features two highly innovative technological services: "YouPOS Mobile", which enables takings to be managed outside of the place of business and "YouCard Business", which enables the petty cash expenses of the business to be optimised.

This account was added to the "Idea" range of current accounts, which envisages a personalised account based on the business activity in question and on the different requirements and approaches when conducting bank transactions, and which also includes a "Sviluppo" version, featuring very interesting conditions, and the opportunity for the customer to judge the real quality of the service on a trial basis, before making a final decision and therefore keeping the accounts open.

Loans and lending
In 2016, the Short and Medium/Long Term "Loans Catalogue" for SBO customers was updated, with a view to promptly meeting all of their financial requirements.

For details of the main changes made, please refer to the "Loans and lending" section in the part on Business of this Report on Operations.

Furthermore the needs of specific customer targets continued to be met through specific products such as "Orizzonte Donna" addressed to female entrepreneurs and the range of "Tourism" loans, addressed to the tourist and hotel industry.

For details of the main changes made, please refer to the "Loans and lending" section in the part on Business.

Insurance policies
In addition to the insurance policies addressed to SBO customers "Allrisk Commerce", "Allrisk Business", "Credit Protection Insurance" (CPI) and "Temporary Life Insurance" (TCM), in March 2016, a new policy called "Corporate Legal Protection" was launched, created in collaboration with Avipop Assicurazioni.
To provide the assistance and the services relating to the new "Corporate Legal Protection" policy, Avipop is working in collaboration with DAS Assicurazioni, a leading company in Italy and Europe, whose high level of specialisation enables it to provide high quality standards, which reflect positively on the services offered to customers.

Commercial activities - Business Customers

Business customers, with a turnover exceeding euro 250 thousand, and current account holders, amounting to around 171 thousand as at 31 December 2016, break down into the various segments as follows:

Segment	Single customers with c/a
Large Corporate	1%
Mid Corporate	22%
Small Business	73%
Entities	2%
Other	2%
Total	**100%**

Large Corporate
The "Large Corporate" segment includes companies with a turnover, at group risk level, exceeding euro 350 million and/or a turnover exceeding euro 250 million and loans exceeding euro 50 million. Large Corporate customers are managed directly by a team of dedicated customer managers and analysts, who are part of the Business Department.

Mid Corporate
The Mid Corporate segment comprises individual companies or companies belonging to a risk group, with a turnover of between euro 5 and 350 million and total loans of the customer risk group of less than euro 50 million. These customers are handled by the Corporate customer managers, who work out of Business Branches since 2015 (following the reorganisation of the distribution model in 2014).

Small Business
Small Business customers, which comprise companies with a turnover of between euro 250 thousand and 5 million and businesses in the agricultural sector with a turnover of up to euro 1.5 million, are handled through portfolios allocated to customer relationship managers located in traditional branches or hubs.

Entities
The Entities segment mostly comprises the Public Administration in the strict sense (local, provincial and regional authorities, healthcare organizations and institutions etc.) and the companies partly owned by or controlled by the same (previously municipalised).
This type of customer, although included in a portfolio model, which envisages that customers are managed by corporate managers, located at Business Branches, is however coordinated by the Institutions, Entities and Third Sector Department to ensure the most effective commercial supervision, given the specific nature of this segment. For a more complete description of this department, please refer to the relative section.

The breakdown of customers (single customers with a current account) by turnover bracket confirms the substantial concentration in the category of up to euro 25 million (around 97%), already recorded in previous years, confirming Banco Popolare's vocation for managing medium sized businesses.

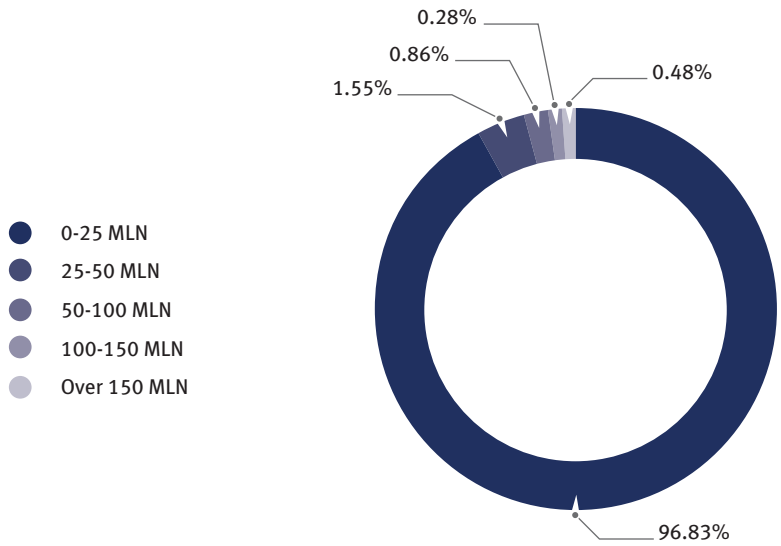


Figure 1 - Breakdown of Business customers in 2016 by turnover bracket.

As regards the breakdown of customers by business sector, commercial and manufacturing activities continued to represent the largest share, followed by those related to the construction industry and to the agricultural sphere.

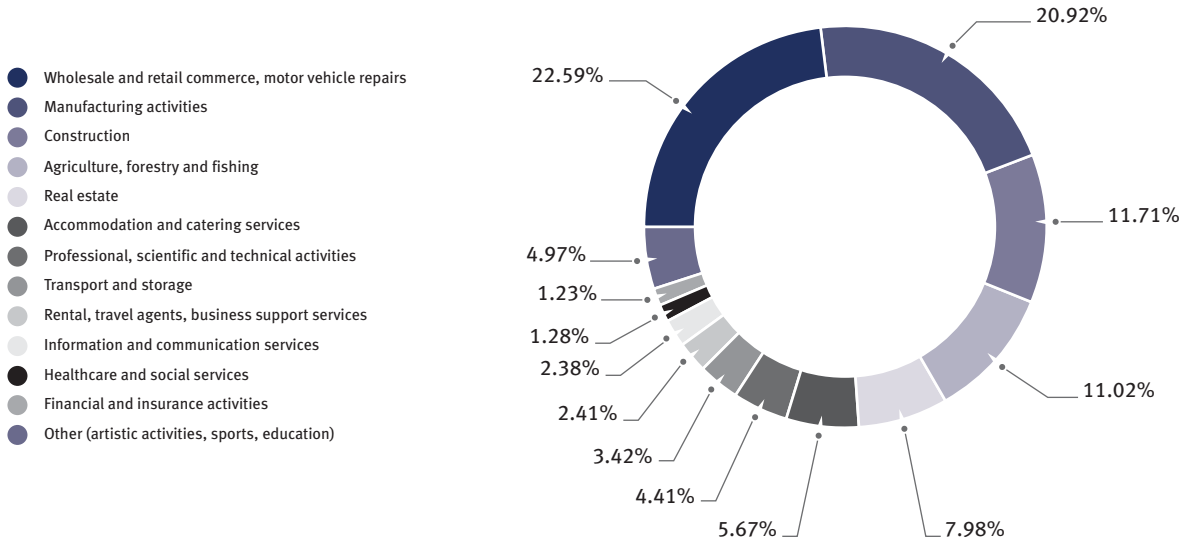


Figure 2-. Breakdown of Business Customers in 2016 by business sector.

Products and services for the Business segments

In 2016, also due to the use of facilitated national and supranational instruments, the Banco Popolare Group further increased its support to the world of business by continuing to strengthen the Bank-Business partnership and confirming its role as the reference Bank in the main areas served.

In this period, loans disbursed to creditworthy businesses increased steadily, consolidating growth also given the first signs of recovery.

The contents of the following paragraphs "Loans and Lending" and "Insurance policies" also regards SBO Small Business Operator customers.

Current accounts
As regards current accounts, in 2016 Banco Popolare confirmed the availability of two "different" current accounts, "Easy Business" addressed to Small Business Customers and "Corporate Service Pack Start Sviluppo" dedicated to Corporate Customers. The two solution differ as a function of the specific needs of the two segments, with very advantageous economic conditions.

These products have been added to the lines of current accounts addressed to new customers: the "Idea" range of products, which envisages a personalised account based on the business activity in question and on the different requirements and approaches when conducting bank transactions, and the Sviluppo lines, featuring very interesting conditions, and the opportunity to judge the real quality of the service on a trial basis, before making a final decision and therefore keeping the accounts open ("Provaci!" account and the "Sviluppo" versions of the "Idea" range).

Loans and lending
In 2016, efforts continued to fine-tune and develop all types of loan, with a view to create products that increasingly meet the needs of the Customer.

In this regard, the volumes recorded for the "Mortgage Loan with Covenant" product were significant, a loan that offers benefits to customers in terms of spread, advantageous conditions which depend on the channelling of specific commercial flows established by contract between the Customer and the Bank.

The volume of medium/long term loans benefitted from the use of funding originating from the fact that Banco Popolare joined the "Targeted Longer Term Refinancing Operation" (TLTRO II) programme, the extraordinary measure envisaged by the ECB to support the disbursement of loans to the real economy.
Banco Popolare also utilised specific funding provided by the EIB and the Deposits and Loans Fund, enabling its Customers to benefit from the economic advantages resulting from the lower cost of this funding option.

Also in 2016, the Ceiling of the "Flexible Business Mortgage Loan" was confirmed, an innovative loan product which starts with an analysis of the financial flows to support the investment and ends with a highly-personalised medium-term loan. The objective is to enable the customer to choose the best repayment option based on factors such as: the type of business activity, any seasonal factors, the invoicing cycle, etc. In addition, the customer also has the option of making further adjustments "during" so that the same is able to have the best financial balance possible at any given time.
This therefore resulted in a net decrease of other more traditional forms of loan, which are characterised by a higher level of rigidity in terms of the repayment plan, which are not always optimal for the Customer or the Bank. Therefore the "Flexible Business Mortgage Loan" has enabled Banco Popolare to offer a highly innovative product, which is unique in the domestic banking industry, and which extends the range of instalment-based loan products, as it is able to manage "irregular" "customisable" repayment plans, which may be "changed over time".

In 2016, other facilitated forms of lending were further promoted to facilitate access to credit and to support the growth and development plans of its Customers. In particular, the acquisition of "eligible" system guarantees issued by third parties, for example, the Italian Government (through the Guarantee Fund for SMEs, ISMEA/SGFA and SACE) and the European Union (through the European Investment Fund - EIF).
Access to the "Capital Goods Ceiling" (so-called Sabatini bis) was also positive. Banco Popolare was the first domestic banking group to activate this new instrument with special terms to encourage new investment, and has recorded significant disbursement volumes with an important specific market share.

Collaboration continued with national and local organisations that seek to provide support to Businesses in their development and innovation processes, in particular:

- the collaboration between Banco Popolare and RetImpresa (Business Networks), to provide support to companies belonging to the Business Networks, enhanced by a specific offer featuring a dedicated trademark "InRete" and competitive pricing;
- various Partnership Agreements with Scientific and Technological Parks, which house highly innovative businesses, mainly with a view to providing assistance in the form of Facilitated Lending.

To complete efforts to support loans, the two new specific structured solutions were confirmed, to sustain female entrepreneurs and the tourism/hotel industry:

- Banco Popolare confirmed its commitment to the sphere of female entrepreneurs through "Orizzonte Donna, which features an overall ceiling of euro 100 million addressed to supporting credit to female businesses and freelance female workers, regardless of which sector they are in. "Orizzonte Donna" was established as part of the Memorandum of Understanding promoted by ABI, called "Memorandum of Intent for the growth of businesses with a majority female shareholding and self-employed women", in agreement with the Ministry for Economic Development, the Department of Equal Opportunities of the Council of Ministers and the main Associations in the business world.
- The new range of "Tourism" loans, dedicated to the Hotel industry, also launched due to Banco Popolare's presence in areas with a very high percentage of hotel and catering facilities to encourage restoration works and investment.

In 2016, activities relating to the so-called industry "moratorium" continued, as a result of the impact of the "2015 Credit Agreement" (signed by ABI, Confindustria and the other major Trade Associations), which Banco Popolare joined in April 2015. "Enterprise in Recovery" measures were confirmed, entailing the suspension and/or lengthening of existing loans and "Enterprise and the PA" to encourage the release of receivables "certified" as certain, liquid and payable, owed to enterprise by the "Public Administration".

Commercial initiatives

Also in 2016, the Banco Popolare Group confirmed its vocation as a Benchmark Bank, by setting in place a series of schemes for Business customers aimed to encourage the strong recovery and, possibly, the further development of their business activities.

The main commercial initiatives were addressed to supporting the customer's day-to-day business:

- "Let's Support the Recovery" scheme - aimed at the disbursement of Short Term loans with payment by instalment, for amounts proportional to the turnover of the deserving businesses. The objective is to support the financial requirements of the day-to-day business, to enable them to benefit from expected growth phase and to consolidate their competitive position in the relative markets;
- The "Recharge MLT" scheme, addressed to Businesses that benefitted from a Medium/Long Term loan, whose payment plan was close to expiry, with a view to evaluating the early repayment of the residual debt and the simultaneous approval of a new MLT loan with payment by instalment to meet the various financial requirements of the business;
- The "Increase your Business Share" scheme, focused on increasing and strengthening the intensity of relations between the Bank and the Business, addressed to multi-bank customers deemed worthy of a tangible sign of the Bank's trust. The scheme was addressed to enterprises whose credit facilities could be increased significantly, enabling them to increase the use of the same, to acquire new commercial cash flows and to attract high added value business, benefitting both the customer and for the Bank.

Other schemes focused on increasing the channels of cash flows and commercial drawdowns (self-liquidating options and direct debit facilities for Italian and foreign payments) and on improving the Agreed/Drawn down ratio.

Resources were also invested in developing "behavioural" analysis models, with a view to focusing the work of customer relations managers on optimising the unexploited business potential of a select customer target (profit margin indicators, Risks Centre and market shares of business operations) and in parallel increase customer retention.

Support following disastrous events

In order to provide maximum support to the areas in the Lazio, Marche, Umbria and Abruzzo Regions, struck by the earthquake on 24 August and by a later one on 30 October 2016, Banco Popolare approved the application, on its own initiative, of improved and more extensive solutions with respect to those prescribed by the legal provisions issued in this regard. More specifically, it envisaged the suspension of loans, without any fee, for a longer period of 12 months, applying the suspension measure on its own initiative, without the customer having to make a specific request and expending the scope of beneficiaries of said facilities also to non resident customers who own property located in the Towns declared as being in a State of Emergency.

The Banco Popolare Group also intervened on further occasions to support its customers that were hard hit by exceptional climatic events in 2016, specifically in Veneto, Lombardy and Sardinia.

In accordance with legislative provisions and the orders of the Civil Protection corps, Banco Popolare agreed to suspend the payment of instalments of loans for those that effectively needed this, on condition that the head office or operational headquarters were located in one of the Towns hit. The suspension of the payment of the instalment was agreed without the application of any costs or commission charged to the customer.

Lastly, for the whole of 2016, the further suspension of the instalments of mortgage loans was agreed for the populations of Emilia Romagna, Lombardy and Veneto hit by the earthquake in May 2012 and by the later floods and exception events in 2013 and 2014.

Agriculture

In 2016, commercial efforts continued with the reconfirmation of Agreements with the main parties of the agrifood chain, particularly with regard to Protection Consortia of farms (see "Asnacodi" Agreement) and of Organic producers (see FederBio Agreement).

Furthermore, following agreements with several Regional Paying Bodies (Veneto and Emilia Romagna) and with AGEA (Agency for disbursements in agriculture), Banco Popolare made a loan facility available, with a view to paying part or all of the PAC contribution due from agricultural enterprises in advance, at competitive economic conditions and undertaking to provide responses on the result of credit rating assessments in very short timeframes.

In 2016, the important commercial initiative called "RDP (Rural Development Programme) - We are with you 100%" continued, the aim of which is to provide financial support for the investments that the enterprises intend to make by benefitting from RDP contributions envisaged for 2014-2020. More specifically, in 2016, the first Calls for Bids relating to the Programme were made by the Regions and consequently the first rankings of beneficiaries of state contributions were prepared.

The RDP and related state contributions envisaged for agricultural and agrifood companies represent an exclusive and powerful engine for investments in the agriculture sector and, consequently, an interesting opportunity for Banco Popolare, which has decided to provide financial support through both short-term products (dedicated to different options of anticipating the state contribution) and medium-long term products (dedicated to supporting investment).

In 2016, the credit assessment procedure for agricultural enterprises continued to be adopted and fine-tuned; this is an innovative assessment system that takes the specific nature of businesses in this sector into account. This procedure together with the service model developed through the Customer relationship managers allocated to the Network and the range of "Semina" (Sow) lending products, makes Banco Popolare one of the Italian banks with the most focus on the development of the Agricultural sector.

To confirm this, the range of "Semina" products was further extended in 2016, with the release of the following products:

- "Agrarian loans for Purchase from Dealers", aimed to provide support to agricultural enterprises for the purchase of raw materials and goods to be used in running their businesses from participating Dealers authorised by the Bank (for example, Agrarian Consortia, animal fodder suppliers, etc.);
- "Green Credit for Business Networks" for agricultural enterprises that have signed a Business network contract.
- Optimisation of the loan facility called "Seasoning Excellence", addressed to agricultural enterprises that produce and/or age or refine high quality agrifood products, which provides then with financial support to sustain the seasoning cycle as well as the opportunity to personalise the arrangement and repayment method.

Lastly, confirming its vicinity to the needs of specific territories and production sectors, Banco Popolare participated in the "Memorandum of Understanding to relaunch the Dairy Sector", promoted by ABI and by the Agrifood Ministry (MIPAAF) to provide support to cow milk producers so that they are able to overcome the current period of difficulty in this sector. The Memorandum envisages the option of requesting a suspension of up to 30 months of the payment of existing medium/long term loans, and is correlated to the Ministerial Decree known as the "Milk Decree" which includes further measures to consolidated short term liabilities and to sustain new investment.

Insurance policies

As a result of the partnership launched some time ago with Avipop Assicurazioni, in 2016, the Group continued to offer its "non-life" insurance policies, linked both to credit (Allrisk Commerce and Allrisk Enterprise and Credit Protection Insurance for mortgage loans and loans) as well as stand-alone policies (Temporary Life Insurance, Civil Liability).

To further extend the range of insurance products of the non-life segment for enterprises, in March 2016, Banco Popolare, in collaboration with Avipop Assicurazioni, launched a new policy called "Corporate Legal Protection", an innovative coverage solution for enterprises with regard to civil, administrative and criminal proceedings.

Hedging Financial Risk

In 2016, the Banco Popolare Group closed 3,229 hedges against financial risk with Business Customers (+13% compared to last year): hedges against exchange rate risk totalled 911, corresponding to euro 641 million, while those against interest rate risk totalled 2,318, corresponding to euro 1,446 million. In terms of the type of the same, transactions carried out in 2016 break down substantially into Fixed Rate (IRS) and Maximum Rate (CAP) for hedges against interest rate risk and Flexible Forward for hedges against exchange rate risk.

As at 31 December 2016, the portfolio of active derivatives with Customers indicated the presence of 6,937 transactions (+15.9% compared to 2015) which corresponds to a notional commercial value of euro 4,834 million (+1.9%).

Corporate Finance

In 2016, Banco Popolare continued with its Corporate Financing activities, with a view to enhancing the offer of structured and value-added financial services addressed mainly to the SME and Large Corporate segments. The activities main regarded supporting acquisitions and development and industrial conversion/restoration plans, also following exceptional events such as generational succession or specific project financing.

2016 saw a recovery in the number of transactions that Banco Popolare organised, directly or together with other financial institutions, in terms of market or structured transactions with pooled lending.

Nonetheless, constant attention was also dedicated to portfolio management, with a view to continually optimising credit risk and to monitoring a specialist portfolio and returns.
The economic returns on these activities showed an increase in commission income linked to new loans, while a slowdown in recurrent commission was noted.

Beyond the specific nature of the activities carried out, this area continues to represent an important driver for the overall development of customer relations, providing, in terms of a service model, systematic support for specialist financing to the commercial networks, as well as support to commercial development and the negotiation and structuring of the activities.

Purchase of commercial receivables in the form of discounts without recourse
In 2016, Banco Popolare confirmed and consolidated the development of services in the sector of corporate lending assisted by the assignment of commercial receivables without recourse. In this regard, the objective is to facilitate top customers to assign their commercial receivables and to draw up personalised agreements.

Transactional banking services

Over the year, transactional banking services were enhanced by product/service solutions with a high level of innovation able to meet even the most complex management/operating needs of customers.

You Invoice
YouInvoice, Banco Popolare's electronic invoicing service continued to be successful in 2016, proving popular with professionals and businesses. This is demonstrated by the growing number of fiscal documents processed and stored in "substitute" mode in accordance with the law.
This success was also made possible by a series of technological developments issued over the course of the year.

E-Billing
During the year, the bank continued to serve companies that receive payments by means of postal slips (known as Billers), with a view to assisting them to efficiently managing their payments through a range of evolved and personalised services.
The volume and the number of bills handled were in line with those of last year (over 2.6 million bills with a countervalue of around euro 500 million), despite the presence of external events that lowered the number of bills in circulation (for example, the inclusion of the TV license, for private use, in the electricity bill).

In this regard, the launch of the "Cbill" service for business customers was particularly important; by subscribing to a single contract and a multibank approach, the "Billers" can now extend their payment network to all participating Banks (almost the whole of Italy).

During the year, the new online payment service for Road Tax was launched, following a specific agreement with the ACI (Italian Automobile Club), directly from their PC, tablet or smartphone.

In addition, an agreement to join the "Payment Gateway" platform was signed with the Agency for a Digital Italy (AgID), which will enable all customers to make payments to the Public Administration in a simple, safe and standardised manner throughout Italy.

YouCash
YouCash represents a particularly innovative development, which entails the installation of avant-garde safes in customer companies, where traders can pay in the cash collected in notes. Once the notes are inside the safe, they become the property and the responsibility of the Bank, which credits the amounts onto the current account of the trader with a value date equal to the date on which the notes were placed in the safe. The notes are collected by a party security firm, depending on requirements and the online monitoring of the safe.

This instrument seeks to facilitate the management of cash by commercial enterprises:
- in operational terms, because it releases the trader from the need to go to the Bank to pay in cash;
- in financial terms, because it avoids holding takings for an amount of time, any shortages and loss of value;
- in terms of security, because it safeguards the enterprise from the risk of robbery.

Once the experimental stage, activated in mid 2015, was completed, in 2016, as envisaged by the development plan, the Service was extended to the entire perimeter of Banco Popolare and permitted the collection of around euro 12.5 million in payments.

Multichannels for business customers: Remote Banking and Youbusiness Web Portal

As part of the long-term strategic project to revise Banco Popolare's online platform, in 2016, the functional renewal of YouBusiness Web continued, the Portal for online services addressed to enterprise.

The new functional interface, initially released to new customers, was gradually extended to all YouBusiness Web customers in the first few months of the year.
In 2016, new services were made available on YouBusiness Web such as, for example, the single bank transfer, the bank transfer for tax deductions, urgent bank transfers and the "CBill" service for the payer.

In compliance with EBA regulations regarding the security of online payments, a specific function of YouBusiness Web was created, dedicated entirely to security, providing information and advice to customers.

The distribution of personal credentials for access to YouBusiness Web, with a view to the provision of the remote digital signature service, was completed. This activity has enabled the online signature of contracts (for example to open a YouCard Business on line) and of forms in general.

With regard to the traditional Remote Banking services (active and passive) provided by Banco Popolare, they have also been updated, in line with the continuous developments of Corporate Interbanking standards.

By virtue of these upgrades and initiatives, the YouBusinessWeb recorded an increase in the number of members in 2016 (+5.13%).

Presence abroad

Banco Popolare serves its customers through a dedicated commercial Network, comprised by around 60 foreign specialists with extensive technical-commercial skills, able to fully support their customers in their commercial activities with companies abroad.
In addition to the dedicated commercial network, Banco Popolare is also assisted by:

- 6 Foreign-trade offices, with a total of over 100 resources, located in its traditional areas (Bergamo, Verona, Modena, Lodi, Lucca, Novara) to guarantee a better service to business customers;
- 4 Representation offices (Mumbai, Shanghai, Hong Kong and Moscow) able to assist customers directly in the relevant foreign country.

In 2016, commercial activities were characterised by the initiatives illustrated below.

Agreements with leading institutions
In order to extend the services offered to its customers, Banco Popolare has signed agreements with leading institutions (ICE, Chamber of Commerce, SACE) which are able to provide a wide range of complementary services (e.g. legal, fiscal, commercial and tax advice).
ICE: In 2016, Banco Popolare renewed its collaboration agreement with ICE (Agency for the promotion and internationalisation of Italian companies abroad) for 2017-2018, the objective of which is to provide information services and specific advice. This agreement means that Banco's customers may receive services relating to Countries in which Banco Popolare is not present. From the start of this collaboration, Banco Popolare has brought a total of over 1,000 customers into contact with ICE.
Chambers of Commerce: In 2016, Banco Popolare continued to work with the Italo-Chinese and Italo-Lithuanian Chambers of Commerce for the provision of internationalisation services to Banco Popolare customers at special rates and to promote forms of cooperation (business days, business to business meetings between Banco customers and foreign operators). Furthermore, the close collaboration with DE International (a company of the Italo-German Chamber of Commerce that specialises in offering internationalisation services for the German market) continued.
SACE: In 2016, Banco Popolare signed the renewal of the Convention on financial guarantees with SACE (Institute for Insurance Services of Foreign Trade), which envisages the opportunity for Banco Popolare to disburse loans with a SACE guarantee. Of the products designed in collaboration with SACE, it is worth noting the IT.EX loan (funding working capital), the JET loan (to support business internationalisation projects) and discounts on SACE policy transfers (for the discount, without recourse, of bills guaranteed by a Supplier Credit Policy issued by SACE).

Products and Services
In 2016, Banco Popolare continued with the development of new cutting edge channels, with information and order functions, addressed to companies that work with or intend to work with firms abroad. In particular:

- YouWorld, an information platform that enables businesses to access an exhaustive and continuously updated amount of information on foreign trade (e.g. political-institutional overview of a country, customs and fiscal regulations, contractual obligations, tenders, lists of professionals) and provides references for potential foreign suppliers or buyers (organised by country, type of goods or services);
- You Trade Finance, which enables goods operations to be managed (International guarantees - already operational, Documented Receivables, Import-Export documents), on-line, simplifying and optimising the

Bank-Customer relationship. You Trade Finance, which is in reality an evolution of the You Business Web platform, enables digital documents to be exchanged between the bank and the customer, by means of a guided and constantly traced procedure, able to guarantee the utmost safety (e.g. use of a digital signature) and guaranteeing the reduction in the time and the monitoring of the state of progress of a file by the customer.

Commercial activities, Institutional customers, Entities and the Third Sector

The coordination and commercial support relating to Institutional Customers, the Public Administration (Public Entities and companies part-owned by the P.A.), Religious Entities, the Third Sector, as well as the activities of Centralised Alliances and of Soft Financing, has been entrusted to Department of Institutional Customers, Entities and the Third Sector.

Institutional Counterparties

Relations with Institutional Counterparties are overseen by means of a complete management model, which encompasses managers and staff who are specialised in terms of the customers in question, and a dedicated branch to meet specific operating requirements and to act as a custodian bank.

Institutional counterparties are the main supervised parties such as Insurance companies and Non-banking Finance companies, SGRs, SIMs, open and closed-end Mutual Funds, Bank Foundations, Social Security and National Insurance entities and local associations (Confidi). Furthermore, Institutional Counterparties also encompass the State, Constitutional Bodies, Central State Entities and several Companies part-owned by the Central P.A..

Institutional customers include around 980 counterparties, with total direct funding of over euro 6 billion on average, indirect funding of around euro 17 billion on average and loans of around euro 2.3 billion on average.

The Office which handles Institutional Counterparties also manages the operations performed by Banco Popolare Group Companies.

To more effectively manage relations, the services offered have been harmonised and commercial strategies have been developed for this type of customer, with particular emphasis on asset management (direct and administered) and on services (transactional bank, collection and payment services).

Commercial partnership with allies external to the Group managed centrally

Door-to-door sales of Banco's products and services, through commercial partnerships, is managed centrally by a specific Business Area, which manages 13 branches, and is part of the Department of Institutional Customers, Entities and the Third Sector.

Direct supervision through a wholly dedicated structure enables commercial agreements to be constantly developed in view of legislative changes as well as better economic returns for Banco and better supervision of operating risks especially as regard Money Laundering Legislation.
In collaboration with the "allies", we serve around 30,000 customers.

The market of door-to-door sales of banking products and services through networks of Financial Advisors belonging to groups that do not have banks in their area is a high potential one and the organisational model specifically set in place and the knowhow acquired to date by Banco have given us the opportunity to further develop a business that is constantly growing in the market.

In 2016, two new dedicated branches were opened in Genoa and La Spezia.

Entities

Entity customers are comprised by the Public Administration in the strict sense (Local, Provincial and Regional Authorities, healthcare organisations and institutions etc.) and by the companies partly owned by or controlled by the same (previously municipalised).

They are managed by the Entities department which, by adopting a service model based on the presence of specialists in Banco's historic areas, provide support to the Commercial Network in defining commercial strategies and business development policies for Entity customers.

As at 31 December 2016, around 2,900 counterparties were served, with average invested capital exceeding euro 1.1 billion and direct deposits of euro 0.7 billion.

As at 31 December 2016, the Banco Popolare Group handled over 1,000 Public Administration entities, in the strict sense, broken down as follows:

Type of Entity	Breakdown %
Municipalities - Unions of municipalities and Mountain communities	44%
Schools	40%
Healthcare organisations and hospitals	1%
Other	15%
Total	**100%**

In 2016, commercial activities were conducted in full respect of the Group's guidelines, with special attention paid to economic results, as well as:

- the economic-financial situation of the counterparties, to mitigate credit risk;
- minimising commitments on the localization of services, to facilitate any future policies to rationalise the network;
- reducing contributions/sponsorships.

During the year, important changes were made to the process to manage loan applications for public counterparties in the strict sense. Following these changes, the preliminary checks stages of the lending process is now performed by the Entities department.

Overall, 632 tenders and requests for extensions and renewals were analysed and processed, of which 184 related to non-managed entities.

The provision of Treasury and Cash services was the first of the Group's services to be certified according to the Uni EN ISO 9001 standard. Since 2007, the external certification body (Certiquality) conducts an annual assessment of the effectiveness and adequacy of our management system, focusing on the commitment of managers to the application of quality standards and the continual improvement achieved in recent years.

Since 2007, Banco Popolare has been certified for quality in the "Design and disbursement of Treasury and Cash Services to Public Entities". In 2015, the new version of Standard ISO 9001 was published, based on an approach for processes that incorporate so-called "risk-based thinking", which enables the organisation to determine what internal and external factors are able to influence the achievement of planned objectives of its quality management processes and systems and to set in place preventive measures to minimise these risks.

In 2016, Banco obtained ISO 9001 2015 Certification.

Religious Entities

A team of specialists dedicated to the religious world, which breaks down into Secular Clergy (with specific regard to dioceses and parishes) and Regular Clergy (congregations and religious orders), work in the bank's traditional areas, providing support to the branches in handling day-to-day activities and forging direct relations with its referents of the religious sphere (around 4,500 counterparties served).

Of the schemes implemented in 2016, we draw attention, in particular, to the development of the "cash pooling" service, which relates to several of the main religious congregations, with a view to making financial and treasury management more efficient, prioritising solidarity between related entities.

Third Sector

This department handles the sphere of "no profit" and voluntary organisations (NPO, Associations, Foundations, Social Cooperatives etc.), a sector which is growing fast and which has a large presence in Banco Popolare's traditional areas (around 20,000 counterparties served). The organisational structure is based on specialists who work in the bank's traditional areas, providing support to the branches in handling day-to-day activities and forging direct relations with the main referents of the Third Sector.

Of the schemes set in place in 2016, we draw attention in particular to the following:

1. the development of products designed to meet the growing need for credit in the world of social cooperatives, by setting in place transactions "without recourse" in arrangements with Territorial Government Offices to handle the "initial welcome" of migrants;
2. the support provided to customers for fund raising activities, based on the activation of transactional banking services.

The synergies developed with all of the operators involved in Banco's distribution model have gradually led to a greater understanding and knowledge of the Third Sector, enabling us to strengthen existing relations and develop new "chains" with positive results on related sectors.

Soft Financing and Guarantee Bodies

In 2016, Banco continued to work with "suppliers" of funds/credit at advantageous conditions.
At supranational level, in 2016, Banco disbursed loans with the use of funds obtained from the European Investment Bank (EIB) totalling euro 434 million, used to grant loans to Mid-Caps and SMEs.

At domestic level, Banco Popolare disbursed loans with the use of funds obtained from the Deposits and Loans Fund (DLF), under the Fifth ABI/DLF Convention (called "Business Platform"), for investment programmes of SMEs, Mid Caps and businesses belonging to Networks/Production Chains. With regard to the latter agreement, in 2016, around 2,200 new operations were concluded for disbursed amount of around euro 430 million.
Again on the domestic front, against the funding agreement signed with the Deposits and Loans Fund in 2014, as part of the so-called "Capital Goods Ceiling" ("New Sabatini"), established to benefit Micro, Small and Medium Enterprises operating in Italy and belonging to all production sectors that invest in machinery, plant, capital goods and newly manufactured equipment for production use, as well as in hardware, software and digital technologies, to be used in already existing or new production plants, situated anywhere in Italy, around 400 new operations were concluded for a disbursed amount of around euro 110 million.

In regional terms, Banco works with the financial companies of the Region in question, in particular Veneto Sviluppo (Veneto), Finpiemonte (Piedmont) and Finlombarda (Lombardy), to grant subsidised loans/joint loans to local SMEs through the use of the funds made available by the Regional authorities themselves through the afore-cited financial companies.

Loans financed by subsidised funds active as at 31 December 2016 totalled around euro 2.2 billion, corresponding to around 10,000 transactions.

Guarantee instruments for enterprise
Given the importance of guarantees to facilitate access to credit, in particular of Small and Medium Enterprises, Banco has made considerable efforts in the sphere of guarantees, needed for the disbursement of credit facilities, by signing/entering into specific agreements and conventions with the operators and providers of guarantees.
More specifically, after having completed the disbursement of a total of euro 120 million in loans secured by the guarantee of the Risk Sharing Instrument portfolio, Banco signed an agreement with the European Investment Fund (EIF), as part of the Juncker Plan, to sustain enterprises that are highly focused on technological innovation, research and development through a specific guarantee mechanism called InnovFin SME Guarantee, backed by the European Fund for Strategic Investments.

Banco is also involved in the main subsidised guarantee instruments, including the following national guarantee Funds/Bodies:

- Guarantee Fund for SMEs, specialised in the protection of bank loans addressed to meeting the financial needs of the company;
- ISMEA (Institution of Services for the AgriFood Market) formerly SGFA (AgriFood Funds Management Company) for the issue of direct or subsidiary guarantees, joint-guarantees and counter guarantees to agricultural businesses.
- SACE (Insurance Services for Foreign Trade), specialised in the issue of guarantees for companies with a high focus on internationalisation, with which Banco signed a new arrangement in 2016.

The above-mentioned Funds benefit from the ultimate guarantee of the State, which allows the Bank to lower the production costs of lending and to apply special terms to loans guaranteed by the same.

Support to families and young people
Banco is part of national and regional schemes to sustain families and young people. At national level, following an agreement signed with the Ministry for the Economy and Finance - Department of the Treasury, Banco may grant its customers that meet legal requirements, mortgage loans guaranteed by the "Guarantee Fund for the first home" (established with Law 147/2013), to purchase the same or for renovation work, or work to increase the energy efficiency of property used as the main home.

Support to SMEs in areas struck by natural disasters

Again in 2016, efforts continued to assist the recovery of production activities in areas struck by natural disasters. Of the financial aid provided, we draw attention to the specific agreements with the Deposits and Loans Fund in order to obtain funds to use to grant loans, at advantageous conditions, guaranteed by the State to residents in the Provinces of Bologna, Modena, Ferrara, Mantova, Reggio Emilia and Rovigo, who were stuck by an earthquake in 2012, both to pay taxes, duties and/or social security and national insurance contributions, and to rebuild property. At the beginning of 2016, in Veneto, Banco participated in the extension of the extraordinary financial support measure for the SMEs damaged by the disastrous events of the summer of 2015, by using the Regional Rotation Funds set forth in the Single Provisions for the development of the Production System in Veneto (Regional Decree 2216/2013).

Other State subsidies for businesses

With regard to measures to support SMEs, Banco channels state subsidies to SMEs (lower interest or grants) envisaged by national or regional legislation, such as, for example, contributions at lower interest rates of the Lombardy Region allocated to businesses in the tourist, hotel and commercial sectors for investments ("Lombardia Concreta" programme), as well as to industrial, commercial and tourist businesses under an initiative called "Credit Now", contributions at lower interest rates to artisan enterprises in Liguria, disbursed by Artigiancassa (management company) pursuant to Italian Law 949/52 and the contributions for investment in plant and equipment granted by the Puglia Region to SMEs belonging to various sectors of economic activity that invest in production.

Investment & Private Banking, Asset Management

	2016	2015	absolute change	% change	2016	2015	% change	2016	2015	% change
	Investment & Private Banking, Asset Management	Investment & Private Banking, Asset Management			Inv. Banking	Inv. Banking		Asset Management	Asset Management	
Interest margin	**149,507**	**186,036**	**(36,529)**	**(19.6%)**	**148,585**	**184,126**	**(19.3%)**	**922**	**1,910**	**(51.7%)**
Financial margin	**149,507**	**186,036**	**(36,529)**	**(19.6%)**	**148,585**	**184,126**	**(19.3%)**	**922**	**1,910**	**(51.7%)**
Net fee and commission income	111,968	69,263	42,705	61.7%	31,424	(24,969)		80,544	94,232	(14.5%)
Other net operating income	374	459	(85)	(18.5%)	271	345	(21.4%)	103	114	(9.6%)
Net financial result (without FVO)	23,008	90,075	(67,067)	(74.5%)	21,243	90,682	(76.6%)	1,765	(607)	
Other operating income	**135,350**	**159,797**	**(24,447)**	**(15.3%)**	**52,938**	**66,058**	**(19.9%)**	**82,412**	**93,739**	**(12.1%)**
Operating income	**284,857**	**345,833**	**(60,976)**	**(17.6%)**	**201,523**	**250,184**	**(19.5%)**	**83,334**	**95,649**	**(12.9%)**
Personnel expenses	(61,327)	(62,726)	(1,399)	(2.2%)	(53,373)	(54,058)	(1.3%)	(7,954)	(8,668)	(8.2%)
Other administrative expenses	(69,848)	(65,154)	4,694	7.2%	(59,320)	(54,501)	8.8%	(10,528)	(10,653)	(1.2%)
Net value adjustments on property and equipment and intangible assets	(503)	(651)	(148)	(22.7%)	(140)	(243)	(42.4%)	(363)	(408)	(11.0%)
Operating expenses	**(131,678)**	**(128,531)**	**3,147**	**2.4%**	**(112,833)**	**(108,802)**	**3.7%**	**(18,845)**	**(19,729)**	**(4.5%)**
Income (loss) from operations	**153,179**	**217,302**	**(64,123)**	**(29.5%)**	**88,690**	**141,382**	**(37.3%)**	**64,489**	**75,920**	**(15.1%)**
Net adjustments on loans to customers	(85)	(53)	32	60.4%	(85)	(53)	60.4%	-	-	
Net adjustments on receivables due from banks and other assets	(21)	(5,006)	(4,985)	(99.6%)	(21)	(5,006)	(99.6%)	-	-	
Net provisions for risks and charges	310	2,630	(2,320)	(88.2%)	310	2,637	(88.2%)	-	(7)	
Recoveries (losses) on investments in associates and companies subject to joint control, goodwill and other intangible assets	(1,610)	(37)	1,573	4251.4%	(1,605)	(6)	not significant	(5)	(31)	(83.9%)
Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments	-	(1)	1		-	-		-	(1)	
Income (loss) before tax from continuing operations	**151,773**	**214,835**	**(63,062)**	**(29.4%)**	**87,289**	**138,954**	**(37.2%)**	**64,484**	**75,881**	**(15.0%)**
Taxes on income from continuing operations	(46,104)	(70,556)	(24,452)	(34.7%)	(25,529)	(46,351)	(44.9%)	(20,575)	(24,205)	(15.0%)
Parent Company's net income (loss)	**105,669**	**144,279**	**(38,610)**	**(26.8%)**	**61,760**	**92,603**	**(33.3%)**	**43,909**	**51,676**	**(15.0%)**

The performance of the Investment & Private Banking, Asset Management sector reflected the lacklustre performance of the financial markets in the period and showed a deterioration in 2016 compared to the previous year's results, with income from operations of euro 153.2 million, down by around euro 64.1 million (-29.5%) compared to the figure for 2015. This fall was due to the drop in operating income of euro 61.0 million, as a result of the reduction of both the profit margin generated by Asset management products (euro 83.3 million in 2016 compared to euro 95.6 million in 2015) and of income from product structuring and the issue of certificates of Investment Banking (euro 201.5 million in 2016 compared to euro 250.2 million in 2015), against the substantial stability of operating expenses (euro 131.7 million in 2016 compared to euro 128.5 million in 2015), the latter net of the system expenses deducted from the income statement for both years. Income (loss) before tax from continuing operations for the sector was therefore down by euro 63.1 million, and stood at euro 151.8 million, compared to euro 214.8 million last year. Net of the tax burden, net income for 2016 was euro 105.7 million (-26.8%).

Investment & Private Banking

Economic trend in the sector

Investment & Private Banking, carried out by the Group subsidiary Banca Aletti, closed 2016 with a result that overall was lower than that of the previous year, due to a fall in operating income of euro 201.2 million compared to euro 250.2 in 2015.
This total income was achieved by the following business lines: transactions in OTC derivatives, trading in listed securities and derivatives, capital market transactions and, lastly, investment management and private banking.

Transactions in OTC derivatives always represent the business line which makes the highest contribution to total income of Banca Aletti, amounting to euro 123.4 million (against euro 149.3 million last year), with placements of structured products totalling euro 7 billion (euro 7.8 billion last year).
In 2016, the structuring of products addressed to the retail customers of the Group's commercial network (for which Banca Aletti provides both a creative service and a "ceiling-based" placement service on all product types, in order to guarantee the stability of the price during the placement windows and to free the distribution networks from the risk of unsold products) witnessed a fall in both the volumes of structured products relating to the bond issues made, and in the volume of those relating to the issue of certificates, only partly offset by the rise in volumes of products placed with third parties external to the Group. The operating income generated by the business line (euro 123.4 million) provided a substantially stable contribution to the interest margin, which was euro 142.5 million against euro 149.1 million last year, to the detriment of the net financial result, which instead was euro 22.5 million against euro 101.5 million in 2014. The level of retrocession fees paid to Banco Popolare's distribution network for the placement of certificates issued, fell to euro 41.0 million in 2016, against euro 100.8 million last year.

Trading in listed securities and derivatives (proprietary trading, market making on single stock futures/trading and market making on government supranational and corporate bonds) generated revenues of euro 9.4 million, significantly lower compared to euro 26.9 million last year, due to a fall in volumes. Therefore, the contribution to the interest margin in 2016 fell compared to 2015 (euro 10.6 and 37.2 million respectively), partially offset by a less negative performance in terms of net financial result, which amounted to euro -1.2 million, compared to euro -10.3 million last year.

Capital Markets transactions and Trading on behalf of third parties generated total operating income of approximately euro 17.1 million, a considerable increase on the result in 2014 (euro 13.9 million).

In Investment Management and Private Banking operations, operating income came to euro 55.0 million, with performance substantially in line with that of last year, when the same were euro 56.9 million. More specifically, the negative impact on the interest margin was euro -4.5 million (euro -2.2 million in 2015), while net fee and commission income was euro 59.5 million (euro 59.1 million in 2015). In particular, managed assets of Banca Aletti of euro 15.4 billion generated net fee and commission income of euro 52.5 million compared to euro 51.6 million in 2015.

As regards income, which fell by euro 48.7 million compared with last year, operating expenses increased in absolute terms by around euro 4.0 million, rising from euro 108.8 million in 2015 to euro 112.8 million in 2016. More specifically, personnel expenses, amounting to euro 53.4 million and down against euro 54.1 million last year, include euro 4.2 million of expenses relating to the redundancy fund, while other administrative expenses amount to euro 59.3 million, up against euro 54.5 million recorded last year, and include non-recurring charges totalling euro 5.9 million (euro 10.1 million in 2015). Due to this trend, income from operations was euro 88.7 million, down on the figure recorded last year of euro 141.4 million.

If we consider that in 2016, an adjustment was made to the value of the equity interest held in the subsidiary company Banca Aletti Suisse of euro 1.6 million, while allocations to provisions for risks and charges were positive by euro 0.3 million (against a positive euro 2.6 million in 2015), gross income from operations was euro 87.3 million compared to euro 139.0 million recorded last year.
After the relevant tax burden, the net income for this segment was euro 61.8 million, down compared to the euro 92.6 million recorded last year.

Below we provide greater details on the business lines discussed above.

Transactions in OTC derivatives

Derivative Instruments and Structured Products - Financial Engineering

In 2016, the fall in market interest rates made structured and plain vanilla products linked to interest rates less appealing, while the range of products in various currencies and exposed to credit was diversified. Volumes linked to interest rate hedges of corporate customers reached around euro 1.9 billion.

On the share and exchange markets, trading in 2016 was characterised on one hand by the search for better risk hedging strategies for the risks related to the structuring and placement of structured products distributed to Group customers, and on the other hand, by the search for opportunities linked to the assumption of new risk positions, concentrated on assets and liquid maturities.

Structuring suffered from the climate that had been created in the financial markets, plus new regulations on "complex products", which introduced stricter criteria for the distribution of structured products to Retail customers. Consequently, on one hand, this area recorded a lower demand for products that are index-linked to the share markets, while on the other, investors appeared to be increasingly interested in instruments that wholly protect capital (instruments characterised by a low level of complexity).

Corporate & Institutional Sales

Group Networks Distribution
In the global economic scenario, the Group's structuring activities and distribution strategies were characterised on one hand from the search for diversification, in terms of product lines and investment asset classes, and on the other by the desire to create an offering that focuses on yield as well as minimises risk.
As regards Certificates, almost euro 1 billion was placed, confirming customers' appreciation of products that enable participation in the dynamics of the stock markets while benefiting from forms of capital protection.
Certificates were placed alongside third party bonds denominated in US dollars, unit-linked policies that invest in the corporate and government bond asset class, and a new segment of GIS (Gestielle Investment SICAV) was launched, which, for the first time enables customers to undertake share market exposure by exploiting algorithms to control and reduce investment volatility.

Corporate and Institutional Sales
The commercial strategies of the distribution networks and the portfolio decisions of institutional customers in 2016 were conditioned by the gradual fall in yields from the euro and by continuing market volatility.
Risk hedging with corporate customers and the fall in the levels of medium-long term rates continued to drive the use of instruments to hedge liabilities index-linked to variable interest rates. Specific attention continues to be focused on exposure to exchange rate risk, considering the volatility of the Euro in relation to the major currencies and the uncertainty of the scenario.

Trading in listed securities and derivatives

Trading & Brokerage

Group customers adopted investment strategies characterised by a greater risk appetite, with a view to obtaining higher yields by increasing the use of managed asset instruments, which enabled them to benefit from the diversification effect, which is otherwise difficult to replicate. Trading activities overall were decidedly down on the previous year; the impact on the bond segment was the most evident, exacerbated by yields close to zero, while the share segment was less hard hit, recording results in line with the general downturn recorded by the markets.
To curb this negative trend, during the year a series of countermeasures were adopted, the most important of which are as follows:

- the extension of the Dynamic Best Execution approach of the bond segment to Institutional customers as well;
- the use of ExtraMot, the multilateral trading system regulated by Borsa Italiana;
- the introduction of the London Stock Exchange to the interlinked foreign markets.

The subsidiary company Banca Aletti once again achieved first place in the Equiduct market in terms of volumes traded in the Italian share segment and came second in the Hi-MTF bond segment; compared to last year, its share of the ETF market increased, improving its ranking from 8th to 6th place on the classification drawn up by Assosim and continued to hold 4th place on the SEDEX market.

Capital Market Transactions

Equity Capital Market

In 2016, 3 listing operations on the MTA took place, against 11 carried out on the AIM Italia; in addition, 5 share capital increases against payment were performed on the MTA and 16 Takeover Bids.

In this regard, the subsidiary company Banca Aletti participated in the following operations: placement and guarantee consortium relating to the Public Offer of shares for the listing of ENAV; public purchase offers of Del Clima, Ansaldo STS, Bolzoni, Engineering, RCS, Pininfarina, Italcementi, Moleskine shares and quotas of Real Estate Funds Polis, Alpha, Immobiliare Dinamico and Delta; placement consortium for the listing of Innova Italy 1 on AIM Italia, as Placing Agent.

In June, the subsidiary company Banca Aletti also acted as Financial Advisor for the share capital increase of Banco Popolare.

In the second half of the year, Glenalta Food, for which the subsidiary company Banca Aletti acted as Nominated Advisor on AIM Italia, announced its Business Combination with GF Group, for which, before the effective merger date envisaged in February 2017, the Bank will be asked to issue the envisaged statement of adequacy pursuant to the Nomad Regulations of the AIM, following the completion of the due diligence envisaged by said Regulations. Following the Business Combination, Banca Aletti will act as Nominated Advisor to Orsero S.p.A., the name of the company resulting from the Business Combination.

Debt Capital Market

In 2016, the subsidiary company Banca Aletti participated, as Lead Manager in the structuring and placement of a bond issue of Finanziaria Internazionale Holding addressed to Institutional investors, with a term of 18 months and amounting to euro 40 million and, as Co-Lead Manager, in the placement of a senior bond of Buzzi Unicem S.p.A., also addressed to institutional investors, with a term of 7 years and amounting to euro 500 million.
With regard to placements addressed to Retail customers, in 2016, Banca Aletti participated in three Public Offers of bonds of the IBRD (World Bank) and three of the EIB.

Furthermore, over the year, Banca Aletti acted as Joint Arranger in the restructuring of a securitisation transaction for the trade receivables of Agos Ducato, originally structured in 2012, for a total amount of around euro 1.85 billion, and participated as Joint-Arranger in a further two securitisation transactions for the trade receivables of Agos Ducato, amounting to euro 1.24 and 1.34 billion respectively, also participating as Co-Manager in the relative placement.

Lastly, in October, Banca Aletti was selected for the second time, after October 2014, by the Ministry of the Economy and Finance to act as Co-Dealer for the tenth issue of BTP Italia, the 8-year security index-linked to Italian inflation, issued for a total of around euro 5.2 billion.

Investment Management

For the whole of 2016, the strategies adopted for portfolio management saw a preference for the share asset class over bonds, and within the latter, a preference for Italian Government and investment grade Corporate bonds. Customers continued to prefer a wide currency diversification of the portfolios.
The strategic decisions are mainly based on the following factors: expectations of positive global economic growth (albeit moderate and revised downwards, but without any corruption of the economic cycle), the measures of Central Banks (conventional and otherwise) to support the economic situation, the stabilisation of commodity prices and the resilience of the share markets to periods of volatility.
For the entire period, portfolio management adopted a tactical approach for strategic investments with regard to exposure to various risk factors, which also enabled profits to be made, thus consolidating results as they arose.
Overall, the portfolios managed closed the year with positive overall gross performance on average in line with/exceeding that of the benchmarks.
Portfolios managed on a total return basis achieved positive results, on average around +2% for absolute return profiles and +4.5% for flexible ones.
As at 31 December 2016, assets under management totalled around euro 16 billion, up against euro 15 billion recorded at the end of 2015.

With regard to the Investment Advisory service, which works with direct and accredited Private customers, as at 31 December 2016, 53 contracts were active, with a value of around euro 107 million.
Over the year, efforts continued to make procedures efficient and compliant, with specific regard to changes in the legislative framework.

In the second half of the year, the Global Financial Investments Service provided increasing support to the Private Customer Network in the provision of investment services (GPI) and financial advice, with the assistance of specialists with a view to better coordinating the provision of the various types of financial advisory services.

Private Banking

At the end of 2016, Banca Aletti recorded a global amount of "assets under management" (administered and managed) of euro 15.4 billion.
The year was characterised by a slight rise in the non-interest margin in the private segment (at Group level) compared to the average figure for last year and by the deterioration of the financial margin. It is worth noting the tenacity of the contribution made by recurrent income from investment and services and asset management.
These positive results were achieved in a complex share market situation, where the main global markets recorded different levels of negative trends, weakening the trend to rebuild diversified investment portfolios.
In this climate of uncertainty, even though interbank monetary interest rates had shifted towards negative structural yields, customers showed renewed interest in very short-term investments, represented by the volumes of direct demand funding.
The overall impact on investment services with a higher added value and more generally on asset management was to maintain a net positive cash flow, with a particular attraction for investment choices characterised by controlled risk.
The year confirmed the signs of a modest recovery within a framework of economic uncertainty and the prudence of customers when assessing investment choices both in the real economy and in the financial markets, preferring "wait and see" positions. Even in this context, the numerous strategies and measures taken to increase assets in the medium term and to extend the scope of customers, enabled a significant positive result to be obtained in terms of net funding.

Private-corporate cross selling (Pri-Corp) also recorded positive funding flows, in line with those of last year, confirming the high medium-term potential of the market.

Asset Management

Economic trend in the sector

2016 represented a year in which the solidity of Aletti Gestielle Sgr's business model was confirmed, even in a market characterised by high volatility and increased uncertainty, as also reflected by the lower growth rates of funding at industry level. The company continued to innovate, proposing a range of products able to immediately meet the expectations and the changing risk appetite of its customers. Over the year, therefore, on one hand the multiasset and multimanager product segment was extended, and on the other, the presence of absolute return and corporate bond products increased. Even in a more complex market scenario, the service model demonstrated its distinctive features, providing the distribution network with new and increasingly advanced elements of information and qualified training.
As regards the income statement results of Aletti Gestielle for the year ending 31 December 2016, net fee and commission income fell by euro 13.7 million, dropping from euro 94.2 million in 2015 to euro 80.6 million in 2016. Administrative expenses fell by euro 0.9 million compared to 2015 (-4.6%), recording euro 18.6 million at year end.
Net income for the year, which amounted to euro 43.9 million, recorded a fall of 15% compared to 2015. The cost/income ratio for 2016 was 22.52%, slightly worse than that recorded last year (20.57%).
Lastly, note that as at 31 December 2016, the Banco Popolare Group was in thirteenth place (like last year) in the ranking of asset management groups published by Assogestioni, with a market share of 1.7%, and total managed assets of euro 33 billion.

Performance of Placements and Assets of Aletti Gestielle SGR

The most important events that regarded Aletti Gestielle SGR during the year mostly concerned the range of products, and in particular the introduction of new UCITS, characterised by the presence of a placement window and the distribution of proceeds. The new products introduced during the year are as follows:

- on 16 February 2016, the Board of Directors established the Gestielle Cedola Corporate Plus fund, placed between 7 March and 29 April 2016;
- on 11 May 2016, the Board of Directors established the Gestielle Cedola Fissa III fund, placed between 30 May and 29 July 2016;

- on 7 July 2016, the Board of Directors established the Gestielle Cedola Multi Target III fund and the Gestielle Cedola Multimanager Smart Beta fund, placed respectively between 1 August and 14 October 2016, and between 1 September and 11 November 2016;
- on 12 October 2016, the Board of Directors established the Gestielle Cedola Multi Target IV fund and the Gestielle Cedola Multimanager Quality fund, placed between 7 November and 30 December 2016;
- on 25 November 2016, the Board of Directors established the Gestielle Cedola Corporate and the Gestielle Cedola Corporate Professionale funds, operational from 2 January 2017.

With regard to regulatory changes, over the year several amendments were made to offer documents, including changes to bring the same in line with the implementing legislation of the AIFM Directive and calculation methods for incentive commission. On 7 July 2016, the Board of Directors also resolved to make some changes to the Regulations of the Gestielle Cedola Obbligazioni Bancarie Euro fund, renamed "Gestielle Absolute Return Defensive", regarding investment policy, the charges regime and the transformation from the distribution of proceeds to accumulation, reopening the placement from 1 September 2016.
At the end of the year, the funds established by Aletti Gestielle recorded positive net funding of euro 226 million and the assets of own funds amounted to euro 16,730 million.
With regard to Gestielle Investment Sicav, established in Luxembourg, for which the company acts as Management Company, net funding in 2016 was euro -175 million and, at the end of the year, the assets of Gestielle Investment Sicav amounted to euro 266 million.
In 2016, the company recorded a rise in managed assets in Italian funds from euro 16,046 million at the end of 2015 to euro 16,729 million at the end of 2016, marking an increase of 4%. In addition, also taking account of the managed assets relating to the Sicav established in Luxembourg, total assets under management amounted to euro 16,996 million at the end of 2016.
As regards the management and development of the "extra captive" market (namely sales activities promoted at placement banks and networks that do not belong to the Banco Popolare Group), in 2016 total net funding rose to euro 135.7 million, euro +138 million of which regarded active and operating commercial partnerships and euro -2.3 million related to inactive or dormant networks and direct customers of the SGR (this figure is before coupons distributed for funds totalling euro 17.3 million). At the end of the year, assets pertaining to these placement agents totalled euro 1,714 million, corresponding to around 10.1% of the total assets of UCITs managed by the SGR.

Aletti Fiduciaria

As regards trust fund management, we first and foremost draw attention to the completion on 20 December 2016 of the procedure to enrol Aletti Fiduciaria S.p.A in the separate section of the unified roll under art. 106 of the Consolidated Banking Law. Even though this sector continue to experience difficulties, which in recent years have led to a natural reduction in the total amount of assets managed, also experienced by many competitors, in 2016 Aletti Fiduciaria S.p.A managed in any event to maintain a good position among the main companies in this sector, with 1,230 customers and 1,430 accounts, with total assets managed or in trust funds amounting to around euro 1,630 million, recording a profit of euro 180 thousand for the year that has just ended.
In 2017, the company will reap the benefits of the synergies resulting from the Banco Popolare-BPM merger and from the impact of the re-opening of so-called Voluntary Disclosure, offering important services for the tax management of assets and securities deposited abroad.
Furthermore, the year which has just ended was also characterised by consistent efforts to promote protection and transmission services for personal and company equity, guaranteeing considerable assistance to the Banca Aletti and Banco Popolare network. The substantial stability of operations is confirmation that even in periods of crisis, that the role of qualified provider of fiduciary and trust fund services played by Aletti Fiduciaria can make a valid contribution to the satisfaction of the private and corporate customers of the Group.

Leasing

	2016	2015 (*)	absolute change	% change
Interest margin	**43,839**	**43,146**	**693**	**1.6%**
Financial margin	**43,839**	**43,146**	**693**	**1.6%**
Net fee and commission income	29	(510)	539	
Other net operating income	35,336	15,037	20,299	135.0%
Net financial result (without FVO)	(96)	10	(106)	
Other operating income	**35,269**	**14,537**	**20,732**	**142.6%**
Operating income	**79,108**	**57,683**	**21,425**	**37.1%**
Personnel expenses	(9,686)	(11,988)	(2,302)	(19.2%)
Other administrative expenses	(43,584)	(43,380)	204	0.5%
Net value adjustments on property and equipment and intangible assets	(38,164)	(48,634)	(10,470)	(21.5%)
Operating expenses	**(91,434)**	**(104,002)**	**(12,568)**	**(12.1%)**
Income (loss) from operations	**(12,326)**	**(46,319)**	**(33,993)**	**(73.4%)**
Net adjustments on loans to customers	(254,494)	(143,914)	110,580	76.8%
Net provisions for risks and charges	327	(1,798)	2,125	
Recoveries (losses) on investments in associates and companies subject to joint control, goodwill and other intangible assets	(43)	(92)	(49)	(53.3%)
Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments	(803)	(5,188)	(4,385)	(84.5%)
Income (loss) before tax from continuing operations	**(267,339)**	**(197,311)**	**70,028**	**35.5%**
Taxes on income from continuing operations	75,336	53,112	22,224	41.8%
Income (loss) attributable to minority interests	23,422	19,030	4,392	23.1%
Parent Company's net income (loss)	**(168,581)**	**(125,169)**	**43,412**	**34.7%**

(*) The figures have been reclassified to provide a like-for-like comparison.

Economic performance

The Leasing segment, which includes assets relating to the lease agreements of the former Banca Italease, recognised from March 2015 by Banco Popolare, and those of Release and Italease Gestione Beni, together with its subsidiaries, is a sector that recorded a gradual fall in volumes of assets (as in previous years) following the decision to no longer directly provide funding in the form of lease agreements. Nevertheless, the segment recoded total operating income in 2016 of euro 79.1 million, up euro 21.4 million compared to euro 57.7 million recorded last year.
This increase is substantially due to Other net operating income, which recorded an increase of euro +20.3 million, attributable to Release for around euro 14 million (of which euro 4.1 million due to higher rental income, lower expenses for real estate assets and higher out-of-period income compared to 2015, which also included euro 9.9 million in extraordinary expenses relating to one transaction) and to the former Banca Italease for around euro 4.4 million (out-of-period income due to the reversal of surplus provisions).
Operating expenses (euro 91.4 million against euro 104.0 million) fell by euro 12.6 million, due to a euro 2.3 million fall in personnel expenses and a euro 10.5 million fall in value adjustments on property and equipment and intangible assets (lower impairment of real estate).
The positive impacts illustrated led to an improvement of euro 34 million in Income (loss) from operations compared to last year (euro -12.3 million compared to euro -46.3 million).
The cost of credit was euro -254.5 million, up compared to euro -143.9 million last year (extraordinary manoeuvres corresponding to around euro -90 million on Release and euro -40 million on the former Banca Italease).
Profits/(losses) on disposals of investments in associates and companies subject to joint control and other investments, corresponding to euro -0.8 million, improved compared to euro -5.2 million last year. This figure included the impairment on the sale of a property belonging to Release of euro -3.8 million.
A loss of euro 168.6 million was recorded for the year, therefore worse than the euro -125.2 million recorded last year, mainly due to the increase of adjustments on loans.

Corporate Centre and Other

	2016	2015 (*)	absolute change	% change
Interest margin	**35,064**	**(61,856)**	**96,920**	
Profits (losses) on investments in associates and companies subject to joint control carried at equity	124,547	141,479	(16,932)	(12.0%)
Financial margin	**159,611**	**79,623**	**79,988**	**100.5%**
Net fee and commission income	18,814	12,525	6,289	50.2%
Other net operating income	43,439	65,355	(21,916)	(33.5%)
Net financial result (without FVO)	160,511	338,635	(178,124)	(52.6%)
Other operating income	**222,764**	**416,515**	**(193,751)**	**(46.5%)**
Operating income	**382,375**	**496,138**	**(113,763)**	**(22.9%)**
Personnel expenses	(356,595)	(334,045)	22,550	6.8%
Other administrative expenses	51,055	82,743	(31,688)	(38.3%)
Net value adjustments on property and equipment and intangible assets	(104,615)	(92,326)	12,289	13.3%
Operating expenses	**(410,155)**	**(343,628)**	**66,527**	**19.4%**
Income (loss) from operations	**(27,780)**	**152,510**	**(180,290)**	
Net adjustments on loans to customers	(92,799)	(28,601)	64,198	224.5%
Net adjustments on receivables due from banks and other assets	(40,778)	(49,175)	(8,397)	(17.1%)
Net provisions for risks and charges	(25,374)	(40,123)	(14,749)	(36.8%)
Recoveries (losses) on investments in associates and companies subject to joint control, goodwill and other intangible assets	(277,347)	129	(277,476)	
Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments	17,828	2,053	15,775	768.4%
Income (loss) before tax from continuing operations	**(446,250)**	**36,793**	**(483,043)**	
Taxes on income from continuing operations	76,199	182,428	(106,229)	(58.2%)
Income/(loss) after tax from discontinued operations	2,524	(7,280)	9,804	
Income (loss) attributable to minority interests	(574)	(346)	228	65.9%
Parent Company's net income (loss)	**(368,101)**	**211,595**	**(579,696)**	

(*) The figures have been reclassified to provide a like-for-like comparison.

Corporate Centre is the sector which aggregates all the contributions to the consolidated financial statements not managed by the other business lines. Specifically, Corporate Centre includes the contributions to the income statement of the Finance Department of the Parent Company Banco Popolare, the Bancassurance and Consumer Credit sectors thanks to the joint ventures with Popolare Vita and Avipop on one side and Agos Ducato on the other, respectively, the Group's real estate and service companies, custodian bank operations as well as the centralised management of functions for the entire Group (such as cost management, human resources, etc.).

Economic trend in the sector

The positive trend of the financial margin (euro +80 million) was substantially due to the marked fall in the stock of institutional bond issues, which led to a reduction in the cost of funding.
As regards profits on investments in associates and companies subject to join control carried at equity, the Group's share included the results of Agos Ducato and the bancassurance joint ventures. The lower contribution with respect to last year was due both to the associated company Agos Ducato (which last year had generated a pro-rata profit of euro 105.2 million, against that of 2016 of euro 90 million), and to the insurance segment with Popolare Vita, whose contribution fell by over euro 5 million compared to last year.

Net fee and commission income and other net operating income overall were down by euro 15.6 million, recording a figure of euro 62.3 million. More specifically, the income generated by services provided to third parties by Tecmarket increased significantly to euro 37.4 million (compared to euro 33.2 million last year). However, the increase recorded over the year was fully absorbed by extraordinary income relating to collections from transactions with former directors, corresponding to euro 27.8 million in 2015.

The net financial result was euro 160.5 million, euro 25.3 million of which was generated by the earn-out relating to the disposal of investments held in ICBPI, resulting in a decrease, compared to 2015, of euro 178.1 million. In 2015, the result had been influenced by several extraordinary components, including a profit of euro 241.2 million on the disposal of investments held in ICBPI and Arca SGR. Group Finance made a positive contribution (euro +8.8 million).

Operating expenses rose due to the fact that other administrative expenses recorded higher charges relating to maintaining the deductibility of Deferred Tax Assets (eligible DTA), corresponding in total to euro 54.4 million, as well as the expenses incurred for the merger with Banca Popolare di Milano of euro 31.7 million. More specifically,

personnel expenses were negatively impacted in both periods compared by the allocation of the cost of redundancy funds, which in the current year was higher than in 2015, and leaving incentives linked to all outgoing Group resources. Value adjustments on property and equipment and intangible assets, corresponding to euro 104.6 million, include the value adjustments made to bring the book value of properties in line with the most updates appraisals, and relate to real estate companies included in the scope of the Corporate Centre.

Given the trend in the income and expenses illustrated above, the segment recorded an operating loss with respect to the profit recorded last year.

Adjustments on loans relate to the foreign subsidiaries of the Group and directional positions of the Group.
Adjustments on other assets include the impact of the impairment of financial assets available for sale, which was euro 40.8 million (euro 49.2 million last year), which also included the adjustments relating to the Atlante Fund of euro 19.7 million and to C.R. Cesena for euro 3.4 million.
Provisions for risks and charges substantially reflects both the allocations made to cover tax-related risks of around euro 10 million and those made to cover legal disputes.

2016 was characterised by the deduction from the income statement of value adjustments on goodwill allocated to the Investment Banking & Asset Management CGU of euro 279 million, following the annual impairment test conducted on intangible assets with an indefinite useful life.

Income taxes included the charge linked to the closure of a tax dispute of euro 10.3 million, and were positive insofar as linked to the recognition of deferred tax assets on the tax loss recorded in the year, while last year they included the recognition of the tax asset on the tax losses of Italease of euro 85.1 million, as well as the positive tax burden on the income for this sector for the period (result net of the profits resulting from the disposal of investments illustrated above, which enjoyed a very low tax rate).

The figure for non-current assets held for sale mainly refers to the contribution of an investee real estate company classified as under disposal as due to be sold; the figure for last year which was a loss of euro 7.3 million, was due to the sale of the foreign investee company BP Luxembourg, sold in February 2016.

Considering the trends in the items described above, the Corporate Centre contributed a net loss of euro 368.1 million to the consolidated results of the Group, mostly attributable to the previously illustrated adjustments of the value of goodwill relating to the Investment Banking & Asset Management CGU.

Group Finance

The Parent company coordinates and oversees the management policies of its structural asset and liability items, as well as those of the other Group companies, to optimize available capital, identify adequate funding strategies and transactions for the Group, through action on domestic and international markets, as well as to monitor liquidity requirements and dynamics, and the management of portfolios of securities and of other financial instruments held by the Group.
Group Finance activities are performed by the following organisational units: ALM, Funding and Liquidity, Capital Management and Finance Support, Proprietary Portfolio Management and Group Treasury.

ALM

The decisions on interest rate management for the Banking Book, taken by the Finance Committee, aim to reduce the volatility of the economic value as a result of changes in interest rates in accordance with the provisions of the “Second Pillar” of Basel 2.
The Group uses an Asset and Liability Management (ALM) system in order to develop risk measurements and a valuation model for demand items. The model’s characteristics of stability and partial insensitivity to change in interest rates are described in the systems using a statistical/predictive model.
The Group’s limits provided for a low exposure to interest rate risk.
In 2016, as in the previous year, to eliminate the accounting mismatching deriving from the valuation of bonds, the Bank adopted hedge accounting for bonds classified in the accounts as “institutional or equivalent”, or the valuation of bonds whose purchase/listing price may be influenced by changes in the Bank’s creditworthiness. Hedge accounting rules have not replaced the fair value option, which continues to be applied to issues classified in the accounts as “retail or equivalent”.

Funding and Liquidity

The coordination and supervision of asset items mainly regards liquidity risk and interest rate risk.
Liquidity risk, generated by the time mismatch between expected cash inflows and outflows on a short and medium-long time horizon, is monitored in two different ways:

- the monitoring of the cumulative short-term operating liquidity mismatch, over timeframes of overnight, 1 day to 5 days, 1, 2 and 3 weeks to 1 month, 2 months and 3 months;
- the monitoring of the cumulative medium-long-term structural liquidity mismatch, both on a static basis, measuring liquidity requirements by constructing the liquidity gap on single timeframes, and on a dynamic basis, estimating the liquidity requirements in different forecast scenarios, characterised by changes in several financial parameters able to influence the liquidity profile over time (funding plan).

In line with previous years, in 2016, the Group's liquidity position continued to be strong, characterised by a wide liquidity buffer, further extended over the year, which enabled it to easily manage institutional maturities and the redemptions of retail bond issues (step up callable).
During the year (i) two bond issues were placed in January and June with the commercial network of one of the largest national banks for a total amount of euro 1.5 billion (ii) two issues Certificates by Banca Aletti in June and July, also placed with the commercial network of one of the most important national banks for a total amount of euro 0.32 billion.
Also in 2016, the Group's portfolio of eligible securities was further consolidated, mainly through (i) the restructuring of three self-securitisation operations (BPL5 - BPL6 - BPL7), as a result of which additional liquidity was generated from the portfolio of eligible securities, corresponding to around euro 1.8 billion (net of the haircuts applied); (ii) the issue of a self-covered bond of euro 1 billion in February. These measures together more than offset the reduction of the eligible securities portfolio following the partial amortisation of the self-securitisation operations and the maturity of the covered bonds issued by Banco and held in the portfolio of the same.
Furthermore, in the first half of 2016, the maturity of two issues of self-covered bonds was extended to 2019, specifically, that of series VII for the figure of euro 1.5 billion, issued under the Residential Covered Bonds Programme, and that of series IV, issued under the Commercial Covered Bonds Programme, the amount of which has reduced to euro 1.25 billion (from euro 1.5 billion).
Lastly, at the end of the year, the Group had an exposure in monetary policy operations with the ECB of around euro 12 billion, slightly higher than the euro 11.95 billion recorded at the end of 2015. This exposure is totally comprised by TLTRO II, maturing in June 2020. In fact, during 2016, Banco had switched its exposure to the ECB by repaying the TLTRO early and drawing down substantially the same amount on the TLTRO II, therefore lengthening the maturity of said liability and at the same time reducing the funding costs.

Capital Management and Finance Support

Capital Management was characterised mainly by the following events:

Redemptions on maturity
As regards the subordinated liabilities issued by the Group, in 2016, five Tier 2 securities were redeemed at their natural maturity, with a value of around euro 470 million in total at the time of the redemption.

Early Redemption of Additional Tier 1 Instruments
In June 2016, the additional Tier 1 instrument issued by Banca Italease Capital Trust was redeemed early on the first call date, for a nominal amount of euro 150 million and a market value of around euro 17 million at the time of the early redemption.

The activities performed in 2016 enabled the capital ratios to be maintained well above the minimum requirements of current legislation.

Management of Proprietary Portfolios

The strategies described below were followed in managing financial instruments under assets.

Positions in the HFT category
As regards trading activity, we draw attention to the fact that in addition to that usually performed on government asset class, trades made through financial issues, both Italian and foreign, also denominated in dollars and pounds, were particularly intense.
As regards Italian Government securities, trading activities were performed in two main directions: on one hand, we sought to reduce the directional exposure on fixed-rate securities, gradually bringing the position to zero at the end of the year, preferring variable-rate Government securities; on the other hand, inframonthly arbitrage activities were increased both on the long-term section of the curve of BTP and on the CCT segment.

In addition to the above illustrated strategies, operations to sell options on BTP were also implemented, with a view to increasing returns on investments by collecting premiums, as well as obtaining a long position (sale of put options) at levels of return that are retained interesting and/or making a profit/obtaining a short position (sale of call options) at levels of returns that are instead retained as too low. Lastly, as regards the CCT segment, strategies for term sales and purchases were implemented to maximise the contribution of the investments to capital expenditure, dampening the impact of the "pull to par" of securities above par with a short residual life.

As regards issues of non government bonds, a diversification strategy was implemented over the year, as can be seen by the end-of-year results, combined with the reduction of the level of interest rate and duration risk resulting from holding these instruments. In fact, not only maturities were always more focused on the short term (in particular in 2017 and also partially in 2018), but also the subordinated Tier 2 component was reduced by a nominal amount of around euro 100 million in terms of stock, to enable senior, less risky notes to be issued. The prevalence of non domestic issuers at variable rates, also denominated in foreign currencies, above all the US dollar, should also be noted.

Lastly, note how, in line with last year, the component of bond securities that are not eligible within the ECB was used as partial collateral for medium-term structured funding operations with two leading market counterparties, maturing on 30 June 2017 and April 2018.

Positions in the HTM category
Following the considerable increase in stock of around euro 2 billion in nominal value made in 2015, investments in Italian government securities recorded in this accounting category were maintained substantially stable over the year, intervening only at the maturity of the securities in order to maintain the stock in the portfolio constant also in line with budget objectives. At the end of 2016, the nominal amount of Italian government securities in the HTM portfolio, exclusively BTP, corresponded to euro 8 billion and was characterised by an average life of around 4.5 years, just a few months higher than that of the end of 2015.

Positions in the AFS category
The level of risk of the Government bond component recorded in this accounting category, represented exclusively by Italian Government securities, was substantially changed, specifically with regard to interest rate risk, to reduce which, it was decided to increase the variable-rate component, the stock of which at the end of 2016 had a nominal value of around 5 billion, to the detriment of the fixed-rate one which, on the same date, had a stock of just under half.
The increase of the percentage of variable-rate Government securities was obtained mainly through the purchase of Inflation BTP transformed into securities index-linked to Euribor rates through Interest Rate Swaps, set in place by distributing the purchases over maturities of between 2 and 10 years.
The implementation of this strategy, as well as the replacement of maturing securities with purchases on the medium-long part of the curve, resulted in an increase of residual average life: more specifically, the fixed-rate component saw this value rise by around 1 year, reaching around 3.5 years at the end of the year.
As regards non-government bond investments, there was a slight increase in the total nominal amount, which at the end of 2016 had a stock of just over euro 2 billion and a residual average life of around 3.5 years. Again as regards this component of the bond portfolio recorded as AFS, note how a greater degree of diversification was sought, increasing investments and operations on financial foreign issuers denominated in US dollars, which reached a countervalue of just under euro 200 million at the end of the year.

Positions in Mutual Investment Funds
Indirect exposure to the major financial share markets, which represents the main risk factor resulting from the portfolio of mutual investment funds recorded as AFS, was constantly maintained under 30%, without any significant changes over the year.
The turnover generated by the management of this portfolio was considerably lower than last year, above all due to the differing economic results recorded by the investment funds and the high volatility of the financial markets in question, preferring to act on the total countervalue of the portfolio (maintained on average between around euro 550 million and 650 million) with the objective of tactically grasping some potential deals on the main financial markets (bond, share and currency).
Lastly, a reduction of around euro 35 million was made in investments in funds of hedge funds, in favour of investments in quotas of mutual investment funds with daily NAV calculation, whose main underlying instruments are Italian and foreign bonds and shares.

Group Treasury

Money Market
In 2016, the money markets were substantially stable, due to the continuation (and extension) of quantitative easing programmes by the European Central Bank. The liquidity of the Eurosystem continued to increase, reaching around euro 1,200 billion, mainly due to QE purchases. Financial conditions overall were therefore extremely favourable, demonstrating a fair degree of tenacity even in situations of uncertainty such as the outcome of the referendum in the United Kingdom.
Over the year, the expansive approach adopted by the ECB encouraged expectations of lower monetary interest rates and the consequent fall of interest rates on all maturities of the curve. The Eonia rate reflected the fall in official interest rates, closing the year at -0.35% (from -0.24% at the beginning of 2016). The quarterly Euribor fell to -0.32% (from -0.13%).
In this situation of low interest rates, the Group's short-term liquidity requirements, on average lower than those of last year (by around euro -2 billion), were mostly met through the refinancing of owned assets on the secured market.

Funding activities on the money market were guided by principles of optimising available collateral and reducing the cost of funding, seeking the best conditions and the highest diversification of funding sources.
These operations were almost all conducted through the Clearing and Guarantee House (CC&G) in order to minimise counterparty risk.

During 2016 Banco Popolare's collateralised assets recorded:

- average loans of around euro 6 billion (-1%), of which around euro 5.7 billion guaranteed by CC&G (+10%);
- average funding of around euro 8 billion (-21%), of which around euro 7.9 billion guaranteed by CC&G (-21%);

Also due to the gradual fall in liquidity requirements and lower market volatility, in 2016 the total volumes traded by Banco Popolare on the secured market recorded a drop compared to last year, amounting to around euro 678 billion (around -10%).

Foreign Exchange Market
In 2016 numerous events influenced the Forex market. At the beginning of the year, fears of an abrupt contraction of the Chinese economy combined with the fall in commodity and crude oil prices led to an aversion to risk which drove investors to prefer "safe haven" assets, such as gold, or currencies such as the Japanese Yen, which recorded an appreciation of over 15% against the single currency. At the same time, the process of devaluation of the British pound against all of the main currencies began, in view of the referendum called in June to decide whether the UK should remain in the European Union, following which, the depreciation of the British pound against all of the main cross currencies accelerated (-20% against the Euro). During the last part of the year, the market's attention turned to the election of the US President: in the period prior to the election, changes in exchange rates were substantially anaesthetised by the wait, but after the election of Donald Trump, the dollar become gradually stronger, reaching 1.05.

Given low market volatility with abrupt movements due to specific events, the approach adopted sought to exploit medium-term trends with tactical short-term positions, with less "intraday trading" activity. This enabled economic returns to be improved with respect to last year, generating, on the other hand, a significant fall in the overall volumes traded on the market.

Commercial services

The commercial activities of Banco Popolare Group are, net of the operations of subsidiary and/or investee companies, are performed by four divisions, Banca Popolare di Verona, Banca Popolare di Novara, Banca Popolare di Lodi and Credito Bergamasco.
At Parent Company level, in 2016, the Commercial Department was comprised of different macro areas:

- Commercial Planning, Customer Care, Alliance Development, which are staff functions;
- Private Customers, Business Customers, Foreign Commercial services, which are line functions.

Each of the above oversees specific and strategic business areas, as illustrated in brief below.

- Commercial Planning, assists the Commercial Department in the budgeting and long-term planning processes of the Group, setting objectives and monitoring commercial results;
- Customer Care, whose objective is to promote a culture of quality and external and internal customer satisfaction within the Group, by monitoring the ability of corporate functions to respond to market needs, as well as by managing banking and financial claims with a view to preserving customer loyalty and trust;
- Development and Alliances, responsible for carrying out and coordinating the activities of the Divisions and of Group Banks, with a view to developing the Group's business and retail customer base, as well as customer retention, in addition to identifying external partners interested in supporting the Bank's growth;
- Private Customers Department, whose objective is to maximise the value creation and the economic contribution of the Private customer business at Group level (including the SBO segment - Small Business Operators, with a turnover of up to euro 250 thousand), by systematically understanding the needs of customers, overseeing the range of products offered, developing distribution channels and developing service models;
- Business Customers Department, responsible for maximising the value creation and the economic contribution of the business related to medium and large companies, at Group level;
- Foreign Commercial Services, established to oversee the range of foreign products and services, guiding the development process for new products and the development of existing ones, as well as to develop and manage correspondent relations with the Group's foreign banks.

Details of the measures set in place and of the commercial results achieved are provided in the section entitled "Results by business segment".

Real Estate Sector

Operations in the real estate sector involve the management of the Group's instrumental assets and the enhancement and disposal of non-instrumental assets.
BP Property Management is the Group company in which all service operations are concentrated relating to the management and maintenance of instrumental property assets (technical and administrative), as well as those regarding the management of rentals (receivable and payable) instrumental to the core business.
With regard to instrumental assets, 120 branches were closed and the resources of the same were transferred to other branches.
The distribution structure of resources in important owned properties as at 31 December, can be considered completed, as can the release of the properties that up until that time were leased by third parties.
With a view to making the space occupied more efficient and reducing the costs of managing the same, the renegotiation of lease instalments, also for amounts under euro 25 thousand, continued, obtaining both economic and organisational/contractual benefits.
At the same time, we continued to seek new spaces that were suitable for bank agencies and/or offices, where personnel could be transferred to, with a view to obtaining better market conditions and surface areas consistent with the number of resources involved.
The active management of contracts and spaces, along with the closing of several branches has resulted in a savings of over euro 10 million yoy.

During 2016, the compliance measures resulting from investigations and surveys shared with the manager of the Eracle Fund - to which some of the Group's instrumental property was contributed in 2009 - continued and most were completed.

The important energy saving project continued, which includes the remote management and adjustment of the technological plant and the transformation of the lighting systems from the current fluorescent technology to new LED technology.

Bipielle Real Estate continued the work to enhance the value of non-instrumental assets and the purchase and sale of such assets. This Group company is in charge of managing non-instrumental assets it owns and those owned by direct subsidiaries or companies held by Banco Popolare (with the exception of Italease and Release).

Although 2016 again represented a difficult period for the real estate market, sales were markedly higher than last year both in terms of turnover and profit, which were euro 106 million and euro 16.5 million respectively.
The most important transaction regarded the sale of the property in Milan, via Bagutta, called Garage Traversi to a real estate fund, concluded after a long town planning procedure to transform the authorised use of the property from a garage that had not been operational for several years, to a commercial property.
A hotel in Venice, piazza San Marco was also sold, obtaining significant capital gains with respect to its book value.

Work also continued for the purpose of generating income from free spaces, including those deriving from the closing of branches as a result of the rationalisation of the network. In relation to the latter, legal compliance or restructuring works have been carried out and/or planned in order to legally change the official use of the premises, also based on several important preliminary lease agreements which have already been signed.

In relation to the most important income property, significant extraordinary works continued on the property in Rome owned by the subsidiary Sviluppo Comparto 8, following the renewal of the lease contract, signed at the end of 2013, with the lessee World Food Programme for an additional five years. As the contract expires soon, negotiations are underway to renew the contract for a term that will make the property attractive to investors.
Another important lease agreement regards that renewed with FCA Partecipazioni by the subsidiary company Manzoni 65 srl relating to the historic Roman head office of Fiat. The renewal of the agreement for 6 years will enable a good profit margin to be obtained.

The subsidiary company BRF Property, which owns an area in Parma, also achieved excellent results. Following the approval of the Urban Plan, with the concession of a medium-large surface area of up to 2,500 square metres as suitable for the sale of food, the company entered into an Urban Planning Agreement with the City Council and sold a plot of land for commercial use to a shareholder, Pizzarotti, with the simultaneous resale of the same to Aspiag (Despar) which, in November, inaugurated its sales outlet. The total sale value was euro 5.5 million.

Last December, the subsidiary company TT Toscana Tissue signed a preliminary agreement with Centralcarta Srl for the sale of the remaining owned properties at a price of euro 1.5 million.

Significant profits were also made on the sale of a property in France, held by the subsidiary company Liberty, which had very successfully completed the renovation approval procedure to obtain a building permit last year.

The subsidiary company PMG made excellent progress in its dealings with the public administration in Genoa and Nervi, with a view to fully exploiting the respective areas disposed of. Important operators have been contacted regarding the sale of plots of land.

The re-launch of the properties owned by the subsidiary company Terme Ioniche has also been very successful, as after years of inactivity of the previous partner, these tourist hotel properties have started to generate income, with an improvement plan underway for a farm it also owns which covers a total of 220 hectares.

The most complex cases include the subsidiary Sviluppo Comparto 8, which also owns developable plots of land in Lombardy and Piedmont: one of the most critical cases is the approval of the proposed project submitted to the City Council of Collegno (TO), while the proposed Implementation Plan submitted to the City Council of Cologno Monzese appears to be progressing better; appeals have been lodged before the Regional Administrative Court for both cases.

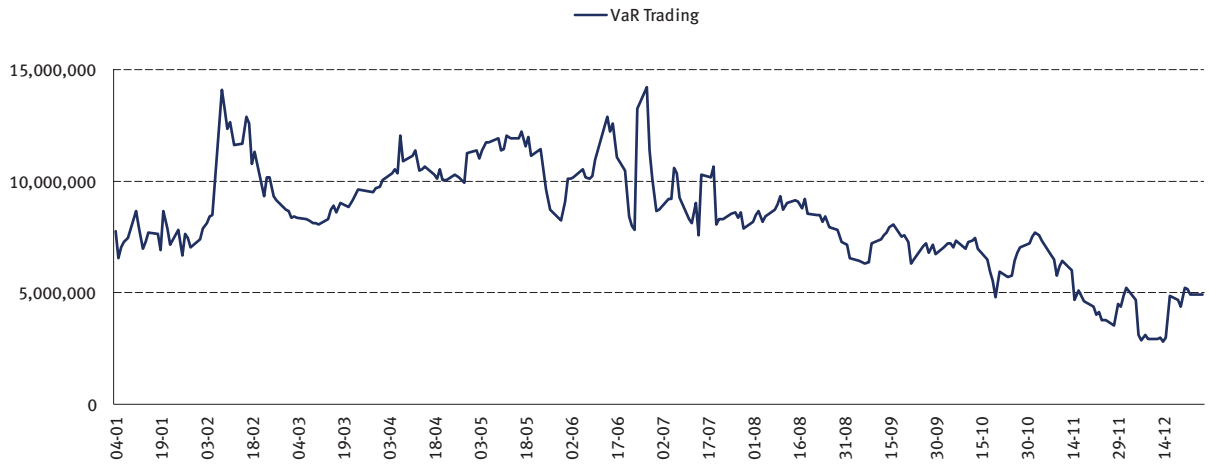
The management and remarketing of properties, both owned and deriving from defaulted lease contracts, on behalf of the companies in the Banca Italease sub-group is carried out by Italease Gestioni Beni (IGB).
2016 can be considered a vintage year, leaving the difficult crisis of recent years behind it, even though the anticipated recovery is going to be slow and not without obstacles. The market for small and large-scale industrial use, overall, was characterised by a rise in transactions, although prices and values are still weak.
Given this scenario, the nature of the products sold by IGB are open to specific negative aspects, linked to the location and type of the asset, the purpose it is used for and the condition in which the asset has been left by the previous lessee. Furthermore, a large share of the properties managed are vacant and therefore are difficult to sell.
For this reason, IGB has entered into numerous new lease agreements, which has enabled it to reduce operating costs.
By working with leading commercial networks, in 2016, IGB achieved a sales plan, which entailed the sale of 66 properties, already on the books of the Banca Italease sub-group as receivables, for the sum of around euro 27.7 million.

RISK MANAGEMENT

Capital adequacy and main risks

In 2016, the limited expansion of the Eurozone's economy was accompanied by a monetary policy with acquiescent liquidity conditions and interest rates close to zero, albeit influenced by the uncertainty of the geo-political scenario. Medium-term macroeconomic prospects, which are still experiencing an overall climate of uncertainty, continue to require the strengthening of capital adequacy, constant and strict risk management and the maintenance of high reserves of liquidity.
The current level of Own Funds and of risk-weighted assets means that Banco Popolare is easily able to comply with both the regulatory thresholds and the specific threshold required by the Regulator.
Regulatory capital adequacy is monitored on a quarterly basis, as part of the new Risk Appetite Framework developed by the Banco Popolare Group between 2014 (definition of the guidelines) and 2015 (structuring and fine-tuning of the overall system) and regards the Group's risk appetite levels. This framework envisages specific internal thresholds, defined with a view to drawing out any potential problems relating to the Group's banking activities and therefore, activating the escalation processes and taking the appropriate corrective action. The monitoring conducted in 2016, on a quarterly basis as part of the Group RAF Tableau de Bord, did not highlight any problems as regards the above-cited capital ratios.
With a view to properly and promptly managing the risks to which it is exposed, the Banco Popolare Group uses a complex set of policies, processes, methods and tools, which are described briefly in the following paragraphs. The relative in-depth explanations are contained in the Notes to the financial statements (Part E).
As regards the processes and the tools used to manage and control the quality of the loans portfolio, a key element is represented by internal ratings calculated by models that are differentiated and estimated specifically for each customer segment. The rating represents a valuation, referring to a time horizon of 12 months, made on the basis of all reasonably accessible information, both quantitative and qualitative, expressed by means of a classification on a ranking scale, of the ability of a party to whom a loan has been granted or is to be granted to honour its contractual obligations. Rating plays a key role in loan granting, credit product disbursement, monitoring and management processes. In particular, it plays a role in deciding which the competent bodies to approve loans are, as well as on the mechanism for the automatic renewal of uncommitted credit facilities, and it contributes to determining automatic interception in the monitoring and management process (Watchlist).
Credit risk is managed by means of a portfolio risk estimation model, VaR, which is a default model, applied on a monthly basis mainly to credit exposures of Banco Popolare Group banks, with regard to performing loans, cash loans and endorsement credits, of ordinary and otherwise resident customers. This model enables operating capital absorption to be estimated, taking into account the portfolio concentration and the assumption of a joint non-fulfilment of counterparties, in a predefined context of significant macroeconomic variables. The confidence interval used is 99.9% and the time horizon of reference is one year. At the end of the model's simulation process, the maximum potential loss of the loans portfolio is broken down into the expected loss component and the unexpected loss component. For other exposures, other than performing loans of ordinary and financial resident customers, risk is managed and controlled through the use of supervisory regulatory metrics (Standard/Irb).
The classification of non-performing exposures is conducted in line with the criteria established by the EBA.
The management of non-performing loans in the Banco Popolare Group is based, to a great extent, on a model that assigns the management of a specific set of loans (portfolio) to specialist resources. The use of management models that are not based on specialist resources is limited to positions classified as Past Due and Unlikely to Pay, for amounts under the established materiality threshold.
The monitoring, management and assessment of non-performing loans is supported by structured processes and by a specific management procedure.
More specifically, value adjustments are quantified by applying the average LGD estimated by Risk management on a forfeit basis to Past Due positions regardless of their amount and to those classified as Unlikely to Pay or Bad Loans for amounts below a materiality threshold, while for amounts over said threshold, they are quantified analytically by the manager. Value adjustments valued analytically by the management are periodically reviewed.
As regards the management control of financial risk, the identification, measurement and operating control of the risk positions of Group Banks is conducted by means of a sophisticated position-keeping and risk control system, which continuously monitors exposure levels and compliance with the operating limits defined by the Parent Company's Board of Directors and the Boards of Directors of Group Banks.
Financial risks are monitored on a daily basis by using deterministic indicators (sensitivity to market risk factors and referred to the issuer) as well as probabilistic indicators (Value at Risk - VaR). The VaR, which indicates the maximum potential loss associated with market movements in unexceptional conditions, represents a synthetic risk measurement. The approach used to calculate the VaR is that of historical simulation models. The values calculated are provided with a confidence interval of 99% and a time horizon of one day. The correlations used are those implicit in historical scenarios applied to estimate the empirical distribution of values in the trading portfolio.

Daily VaR BANCO POPOLARE GROUP
Regulatory trading portfolio



The most important risk component is the specific risk of debt securities and the generic and specific component of shares. Changes in these securities can be attributed to the Group's overall risk trend. More specifically, up until mid-November 2016, the risk depended on the specific risk component of debt securities, while subsequently the fall in the exposure on these financial products shifted the greater portfolio risk to the share component. For details of the VaR in terms of single risk factor, please refer to Part E of the Notes to the financial statements.

As regards operational risks, with a view to ensuring a more "accurate" measurement of the exposure to these risks, the improvement of operating practices and risk measurement techniques, the medium-term reduction of the frequency and gravity of events of operating loss and the adoption of "solutions" in line with industry best practice, the Group has developed a measurement and management system (rules and processes, parties, roles and responsibilities, models and IT applications) in line with the legislative requirements envisaged for advanced AMA models.

Risk is measured by means of an internal method based on a quantitative and qualitative analysis along VaR logic. The quantitative assessment is based on internal loss data, gathered through a loss collection process. This data is combined with external loss data pertaining to the Italian banking scenario (inbound flows of the DIPO consortium, set up by the major Italian Banking Groups within the ABI - Italian Banking Association), and on data deriving from the risk self assessment, in which also qualitative information resulting from the ongoing assessment of the internal and external operational context are used.

The trend recorded in recent years in terms of operating loss, as well as the ongoing analysis of the internal and external operating context and forecasts, indicate that the production activities of the Banco Popolare Group are performed in an operating context that is retained substantially favourable.

This opinion is also confirmed, inter alia, by the downtrend recorded by operating losses recorded between 2007 and 2016, behind which are first, second and third level controls that have been considerably strengthened over the period considered, as well as continuous measures to prevent and mitigate risk.

In line with mission of the Banco Popolare Group, which has a dominant commercial and retail orientation, the main absorption of economic capital regards the "Commercial practices" category, followed by "Litigation", which together represent the predominant portion of total risk and which, for the most part, arise in the Group's sales networks.

With reference to the category of "External Fraud", given the tendency for criminals to adopt increasingly sophisticated techniques (e.g. identity theft, IT fraud etc.), the Group is constantly reinforcing physical and logical security, therefore containing these phenomena both in terms of frequency and the average impact on loss events of this kind.

The Group takes the measures established in the Mitigation plan (e.g. training, implementation of applications processes/procedures etc.) as protection against the main risk factors that arise.

In terms of liquidity, in addition to making the standard periodic measurements of the liquidity profile, the Banco Popolare Group became compliant with the relevant legislation regarding reporting on a monthly/quarterly basis on the LCR (Liquidity Coverage Ratio) and SF (Stable Funding) indicators envisaged by the provisions of Basel 3, according to the new rules that came into effect with the publication of the Delegated Act by the European Commission; in addition, monthly reporting of ALMM (Additional Liquidity Monitoring Metrics) was also launched.

In 2016, in line with the approach adopted by the banking sector in continental Europe, the Group grasped the opportunity to extend the term of the instruments made available by the European Central Bank in order to provide liquidity to the European banking system (TLTRO) by replacing TLTRO-1 with TLTRO-2.

For further information on credit, financial and operational risk, please refer to Part E in the Notes to the financial statements, which is dedicated to risk management. The same chapter also contains detailed information on structured credit products, on exposures towards Special Purpose Entities, on securitisation transactions and operations in derivatives.

Outlook for Group risks and objectives

The continuing conditions of uncertainty in the economic scenario and financial markets, particularly in the medium term, make predicting the outlook in terms of risk a difficult task. In general terms, the Group's objectives are to take a prudent approach and to continuously monitor activities with a view to limiting the impact of potential adverse changes, including unexpected ones, in the economic scenario.

On this basis, as regards credit risk, recent performance combined with the objectives pursued in terms of the composition of loans, would suggest a prudential improvement of the risk profile, with reference to both performing loans and, thanks to allocation policies, to the non-performing portfolio.

The group's interest rate risk continues to reflect a bullish profile, which would mean that a rise in interest rates would improve its interest margin. As regards liquidity risk, the Group continued to make efforts to maintain its strong position, which, even given continuing market uncertainty as to developments of the current economic crisis, enable it to look to the future with a certain degree of confidence, even in view of the new Banco BPM Group.

As regards operational risk, the organisational and technological measures set in place some time ago at Group level and specific measures taken to mitigate the risks implemented in recent years, which were further strengthened as part of measures which resulted in the Group obtaining AMA validation for regulatory purposes, have led to an organisation and transactions with a low risk profile, confirmed by the level of operating losses recorded in the accounts relating to newly occurring risk events.

The above-described outlook for Group risks and objectives refers to the individual situation of the former Banco Popolare Group and does not encompass the effects and the new risk factors resulting from the merger with the former BPM Group.

SUPERVISORY, CONTROL AND SUPPORT ACTIVITIES

Human resources

Despite the continuing complex overall economic and social context, the Banco Popolare Group pursued policies to invest its resources, above all in the spheres of Welfare and HR management. The objective was to strengthen the competences of all personnel to be able to face an increasingly competitive market, which entails observing the rules relating to professionalism and ethics when dealing with customers and stakeholders in general.
The focus on human resources was encouraged to a great extent by the introduction of totally revised methods and tools, which facilitate the improvement of service quality and the competences of the resources in question, in accordance with the various legislative provisions in force.

Breakdown and evolution of the workforce

The breakdown of personnel by category and gender as at 31 December 2016 as regards the Banco Popolare Group is illustrated in the following table:

Categories	2016								2015	
	Men			Women			Total	of which BP	Total	of which BP
	Full time	Part time	Total	Full time	Part time	Total				
Executives	237	-	237	16	-	16	253	202	265	214
Middle Managers	4,856	35	4,891	1,615	272	1,887	6,778	5,825	7,013	6,048
White collar workers	4,608	85	4,693	3,513	1,702	5,215	9,908	8,782	9,970	8,850
Other personnel	41	3	44	3	-	3	47	19	50	22
Companies abroad	14	-	14	7	-	7	21		19	-
Total no. of employees	**9,756**	**123**	**9,879**	**5,154**	**1,974**	**7,128**	**17,007**	**14,828**	**17,317**	**15,134**
Supply contracts	-	-	-	-	-	-	-	-	20	20
Total workforce	**9,756**	**123**	**9,879**	**5,154**	**1,974**	**7,128**	**17,007**	**14,828**	**17,337**	**15,154**
of which:										
apprentices	-	-	-	-	-	-	-	-	3	-
job training or new recruit contracts	2	-	2	-	-	-	2	-	2	-
permanent contracts	9,745	123	9,868	5,148	1,974	7,122	16,990	14,817	17,295	15,122
temporary contracts	9	-	9	6	-	6	15	11	17	12
supply contracts	-	-	-	-	-	-	-	-	20	20

The objectives of the Business Plan for 2016 were pursued, in addition to the figure due to normal turnover, also through the subscription to the Solidarity Fund by 300 employees who met the requirements imposed by the social security reform, as well as 89 employees who accepted leaving incentives.
The significant efforts made led to the confirmation of 93 resources in the Group, plus 112 new recruits in accordance with trade union agreements signed.
Objectives to make the organisation more efficient for 2017 continued, in line with the trend envisaged by the Plan, by means of the voluntary retirement, for those that have already met pension requirements, the residual portion of the solidarity fund and normal turnover. Furthermore, the introduction of younger people to the organisation is planned, with a view to generational turnover.
In 2016, continuous efforts were made to manage variable personnel costs, a commitment that made it possible to obtain excellent results in terms of containing and optimising provisions for holiday leave, accumulated hours, also enabling residual leave, the amount of which is increasingly negligible, to be used up.

Recruitment policies and management of professional mobility

In 2016, the Group continued to work on the repositioning of resources, in line with the envisaged objectives to reduce the number of overall employees, but always with an eye on the level of service provided to customers.
In view of this, almost all of the resources hired in 2016 were young people in their first job, seeking to guarantee the generational turnover needed to strengthen the Commercial Network.

Development, Training and Assessment policies

In 2016, Banco Popolare again confirmed its intention to invest in Development and Training programmes and, in line with best market practices, continued to adopt new management policies that seek to obtain a better level of conciliation between an employee's private life and work life and a fairer approach to managing diversity.

To confirm the focus on the quality of the service provided to Group resources, in 2016, UNI EN ISO 9001 Quality certification was updated to the 2015 version for Development, Training, Assessment, Pay Policies, Equal Opportunities and Work Life Balance, as well as the definition of management policies. The certification was also extended to Selection activities.

Management Development

In 2016, Banco Popolare identified integration and transversality as the main objectives for the development of Group resources, to be achieved by searching for, experimenting and creating innovative tools and interactive methods.
In this regard, we draw attention to:

- the launch of a new Talent project called "Study Tour Experience", in which 65 high potential resources undergo intensive training in banking and innovative management, as well as making company visits to leading firms in the domestic and international markets. Training in the classroom was conducted by SDA Bocconi, and was mostly in English;
- the continuation of the Job Exploration Days project, an initiative addressed to Top Performers of the Group, identified and selected on the basis of an assessment of results obtained and performance. The Human Resources Department has given these colleagues "doses" of professional orientation, through "on the field" experience of working in a bank, the knowledge of the "jobs" that are entailed and of the skills possessed by the colleagues that do these jobs;
- the completion of the Complementary Stage, a programme which entailed working alongside professionals, which enabled numerous resources to have better idea of how the bank works and better awareness of the value of the service provided and received;
- the experimentation, which will finish in the first half of 2017, of a format called "Tutti a bordo" (All aboard), which enables people to create useful initiatives to boost their knowledge within their specific field. A Web App community was used to gather ideas and to share multimedia content.

Management policies

In 2016, work mostly regarded the management of the succession plans of top executives, in compliance with the requirements of Supervisory Regulations and the recommendations of Borsa Italiana's Code of Self-Regulation.
These succession plans have been drawn up for top executive positions as well as for the other levels of management; in line with the relevant guidelines and best practices, the objective of these plans is to valorise internal talent and to achieve greater transparency in terms of professional career paths.
On completion of the process, groups of resources were identified, considered as most suitable, according to the criteria defined and approved by the Board of Directors (assessment of technical knowhow and experience, assessment of potential, assessment of performance, etc.) for the succession of the Group's main management positions.
For Banco Popolare, over 370 possible candidates were identified as suitable to cover the management positions of the central offices and around 1,000 for the commercial network.
For Banca Aletti, around 26 possible candidates were identified as suitable to cover the management positions of the central offices and around 20 for the commercial network.
Over the year, the You&Us portal was also made available to all Group resources, dedicated to sharing information on various initiatives addressed to personnel in terms of selection, assessment, training, development and pay policies. This tool, created using modern website design and implementation techniques, facilitates access and use of all remote services also from "mobile" devices.

Equal Opportunities and Work Life Balance

In 2016, the Equal Opportunities and WLB office extended the activities of Welfare 2.0 through innovative projects and training initiatives on work life balance, diversity management and wellbeing.
Again in 2016, the experimentation of Smart Working continued to be the major tool to manage the work life balance, extending the pilot to the Group's main locations.
To promote an inclusive company culture, training courses on the management and the enhancement of diversity were designed and a policy for the proactive management of maternity/paternity was drawn up and fine-tuned.
Lastly, with a view to increasing wellbeing in the company, training and information events were promoting, starting with healthy eating.

Training

In 2016, the training activities addressed to all of the Group's Human resources were mostly provided with the contribution of the team of internal teachers employed by the Training School and with the direct involvement in the classroom of the various Departments in question.
In 2016, a total of 775,520 training hours were imparted: the table below shows the breakdown by the various types of training course and the level of attendees.

Level	Attendees	Management training	Position-specific courses	Central office training	Compulsory training	Project training	Training on request	Total
Executives	228	3,356	-	596	549	1,462	1,062	7,025
Middle Managers	6,657	34,219	15,369	35,965	178,074	58,006	8,519	330,152
Professional areas	9,442	3,180	56,998	29,829	257,223	81,145	9,968	438,343
Total	**16,327**	**40,755**	**72,367**	**66,390**	**435,846**	**140,613**	**19,549**	**775,520**

In addition to the usual training courses provided to all Group resources, training initiatives in 2016 focused on guaranteeing full support to achieving the company's strategic objectives, through specific training projects to prepare people to face an increasingly competitive market, which entails observing the rules characterised by the need for professionalism and ethics when dealing with customers and stakeholders, at the same time improving the quality of the service provided to the customer.
Based on this, training priorities focused on:

- developing the managerial skills of the Group's key Head Office and Network Managers;
- enhancing the area of creditworthiness analysis and performance monitoring for the main positions in the entire loans supply chain;
- enhancing the ability to dialogue with private customers and in particular those in the Private and Affluent segments;
- enhancing and developing the skills of all Resources holding various positions at the Head Office.

To confirm the focus on the quality of the service provided, also in 2016, we successfully passed the annual audit for IQNET Quality certification for training activities, issued by Certiquality, for the implementation of the quality system adopted in previous years, in compliance with the standards envisaged by the new standard UNI EN ISO 9001:2015.
Training on the anti-corruption procedures envisaged by Model 231/01 continued. The initiatives taken during the year regarded:

- a course in the classroom dedicated to the new nominations for Managers of services, functions or offices of Central Departments;
- the completion of the online course specifically designed on the topic for all Group Resources.

Selection and Assessment
In 2016, Assessment activities were significantly boosted. The most important projects regarded in particular:

- recruitment: continually searching for and selecting young people looking for their first job, mainly with a view to strengthening the commercial network, with the objective of being able to recognise high potential resources in time;
- Affluent Customer Managers project: managerial mapping and technical verification for all Group resources in this position, with the objective of understanding technical knowledge and mapping managerial skills, also analysing the training needs of these colleagues;
- managerial assessments focused on the resources that are part of succession plans, with a view to identifying the potential of resources that are strategic to Banco Popolare;
- Selection to identify the participants in the Study Tour Experience project: a development path focused on the Group's talent in the pipeline;
- design of a technical assessment of professionalism for Banca Aletti in collaboration with the Training School.

Apprenticeships and Placements
Employer branding initiatives continued, through participation in career days organised by Universities; furthermore, existing relations with the Placement offices of the major Italian universities were strengthened. These initiatives highlight the importance for the Group to strengthen its ties with Local Entities and the academic world. Work placements once again proved to be a useful way for young graduates and pre-graduates to obtain on-the-job training and experience in various Group companies. The entire Group continues to adopt a standardised recruiting process, in the same way as the requirements to access the selection process have not changed.

Pay Policies

Detailed information on pay policies and on the Group's incentive schemes is contained in the "Report on Group pay and incentive policies" prepared in accordance with that envisaged by Bank of Italy and Consob regulations. The "Report on pay" contains qualitative information, reflecting the pay policies for 2017, and quantitative information, which illustrates the manner in which said policies were implemented in 2016. The qualitative part of the cited report is submitted to the approval of the shareholders' meeting.

Trade Union relations and regulations

In 2016, negotiations launched in previous years continued. The purpose of the same is to cut operating expenses, also making use of possible levers to cut labour costs but adopting measures to defend employment and with a view to generational renewal. The numerous agreements signed since the beginning of the year, which are contributing to meeting the above objectives are illustrated in the section addressed to significant events occurring during the year, to which the reader should refer.

Welfare schemes
In this sphere, as illustrated in the section on significant events during the year, significant efforts were dedicated to the detailed and complex negotiations relating to the Group's supplementary pension arrangements, which began in 2015 and lasted around one year, which led to the final agreement on a Single Group Pension Fund.
At the same time as the commitment to rationalise supplementary pension arrangements, the Social Parties also agreed on several important schemes to improve Group Welfare, reaching specific agreements, through which, due to specific tax and social security benefits envisaged by the 2016 Stability Law, the value of company bonuses and supplementary Welfare stipulated in 2015, were further improved, envisaging in particular, both the extension of the Welfare services available through the use of "figurative" economic amounts already established for all employees, and the individual option for employees whose income is under euro 50,000, to convert monetary quotas of the company bonus into "figurative" economic amounts, increasing those already allocated for the use of said services.
The development of Group Welfare received a further impetus through the establishment of specific People Care schemes, which entailed: the confirmation, also for 2017, of the life insurance cover policy, by increasing the economic contribution of the company to improve services for the sick, by extending the option to use Supplementary Healthcare already in place, with a view to improving the mechanisms to refund amounts paid for healthcare services insured by the Assistance Schemes already in place within the Group, by consolidating a "figurative" annual budget allocated to the Welfare Account of each employee, together with the further extension of the range of Welfare Services, with a view to improving the ability to meet the varying needs of employees and their families.
These schemes, which therefore improved the company's Welfare Plan, also entailed the active involvement of employees through communication and information campaigns, as well as looking in more depth into the requirements to which the available resources should be allocated.
Part-time employment was also a specific focus of the Social Parties, which confirmed the criteria for the use of this option, already established by the company, as well as the acceptance of a significant number of further requests for part-time work, subsequently established at the time of the agreements made for the merger process with the BPM Group, with regard to the need to limit the structural surplus of personnel.

Labour disputes and disciplinary measures
In 2016, the total number of labour disputes at Group level fell compared to last year (from 189 as at 31.12.2015 to 165 as at 31.12.2016). The level of labour unrest was therefore in the norm, and below the industry average: this confirms the trend recorded in previous years and bears witness to the Group's focus on standards, rights and duties, which represent a cornerstone of its policy of corporate social responsibility. Labour disputes were handled, privileging, where possible, and in line with company policy, conciliation (7 disputes were settled over the course of the year); in cases in which a settlement of the dispute could not be reached, rulings were requested of the Judicial Authority, the outcome of which were in the great majority of cases, made in the company's favour.

Disciplinary procedures, implemented in collaboration with the HR Services of Divisions and Group Companies, and mainly based on the results of assessments made by the control functions, are characterised by criteria of rigour, fairness and consistency, respecting the prerogatives and rights of employees and in compliance with the provisions of the "disciplinary code".

Internal audit

The Parent Company's Audit Department is responsible, on one hand, from the perspective of third level control, including on-site audits, for examining the regular performance of operations and the evolution of risks and, on the other hand, for assessing the completeness, the adequacy, the functioning and the reliability of the organisational structure and of the other components of the internal control system, bringing possible improvements to the risk management system to the attention of management bodies, as well as the tools to measure and control the same, also with regard to the Risk Appetite Framework (RAF).

The Audit Department is responsible for conducting internal audits of all central and peripheral organisations of the banking Group's Italian companies; it also performs the planning, coordination and control function for the units tasked with auditing the foreign entities belonging to the Group.

The audits conducted in 2016 regarded the following areas:

- governance and compliance, with regard to the RAF, ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process) processes, to decision-making processes

relating to regulations on conflicts of interest, to the Group's privacy governance, to anti-money laundering processes, to information flows and reporting to corporate bodies, to significant transactions, to the process to design and manage external communication initiatives through social media, as well as regarding business continuity and disaster recovery;
- credit and funding, in particular, the organisational processes relating to the management of credit positions classified as bad loans, the credit management performed by the Divisions, the control of self-liquidating loans, the periodic monitoring and reassessment process for real estate collateral, Covered Bond issue programmes and corporate finance services. In addition, internal validated models (AIRB models) were verified;
- finance and provision of investment service, in particular future transactions, asset management activities to safeguard subscribers with reference to Italian UCITS, the issue of financial instruments included in the regulatory capital of Banco Popolare, as well as the overall process of managing, measuring and monitoring liquidity and the framework adopted. Auditing activities were also carried out on assessing the correctness and completeness of the management P&L and of backtesting;
- operations, with regard to the interbank alarm centre, the management of relations with the Public Administration, the preparation of the disclosure to the public by Entities (Pillar 3), the process to prepare, check and send prudential supervisory and statistical reports (FINREP and COREP), as well as the purchasing management process;
- information and communication technology, with specific reference to the analysis of the platform dedicated to mobile payment services, the process to manage remote banking services and with regard to the protection of personal data.

With regard to checking the compliance of the pay and incentive system with the law, as established by supervisory regulations, an audit was concluded, which enabled the overall adequacy of the controls adopted to be ascertained.

Audits conducted on the distribution network looked at the organisational processes adopted, compliance with internal regulations as well as the conduct of employees.

In accordance with the definition of Internal Audit envisaged by international principles, the Audit Department also provides an advisory service, sharing its experience in this sphere mainly by participating in projects and working groups. The most important projects that involved the Internal Audit function in 2016 included the process to adopt the new international accounting standard (IFRS 9) and the processes to implement Market Abuse II and Mifid II regulations.
Furthermore, the Audit Department conducted a survey with a view to assessing the awareness and the extensiveness of risk culture within the Banco Popolare Network, by distributing questionnaires to 100 branch managers.

Compliance

The Banco Popolare Group attaches specific importance to managing the risk of non-compliance with legislation, based on the tenet that the observance of the laws and the regulations envisaged by the Supervisory Authority to safeguard substantial correctness in business relations with customers are key to the banking business, which by its own nature is founded on a relationship of trust.
In 2016, measures were taken to strengthen the organisational structure, the processes, the methods and the IT instruments that support the Compliance Function, with a view to boosting the governance and management of the risk of non-compliance, with regard to all of the legislative areas in question. In particular:
- the process of conducting ex-post checks was redesigned, with a view to guaranteeing a greater incisiveness to control measures and greater dialogue and interaction between the owner processes and the Compliance offices, seeking to increase the awareness of risk and a culture of control at all levels of the company;
- the process of annual planning of ex post checks was revised. More specifically, the methods adopted were revised, with a view to greater standardisation of planning procedures, ensuring that the same are applied from a risk-based logic;
- the Governance Risk Control (GRC) application module was implemented to support planning, measurement, assessment and reporting processes for the risk of non-compliance. This new tool also envisages the management of tracking activities for the main elements of non-compliance and the relative measures to mitigate the same, with immediate evidence of replanning and delays.

In addition to guaranteeing the traceability of the activities performed by the department, the increased level of automation of the above-indicated processes guarantees greater accuracy and reliability of the data and of the information produced. The GRC solution, which will be used by the company's main control functions, will also encourage the internal integration and coordination between the functions themselves.

The Compliance Function directly manages the most important topics in terms of the risk of non-compliance for the Group mainly relating to the following areas:

- provision of banking services and transversal governance;
- provision of investment services;
- provision of collective asset management and fiduciary services.

The Compliance Function manages compliance in all other legislative areas, with the collaboration of other internal structures with specific skillsets, adopting pre-established interaction models and methods approved by Top Management Bodies.

Investment services

In 2016, the Group extended its control measures with relation to the provision of investment services to its customers, with a view to increasingly focusing on the interests and the needs of the customer. In addition, control over the structuring and distribution of complex products was enhanced with regard to the entire product governance process.
Lastly, with regard to the markets, activities continued throughout 2016 to bring the Group in line with new legislation regarding market abuse, introduced from 3 July 2016 by the Regulation of the European Parliament and Council 596/2014 so-called "MAR" and by the Market Abuse Directive (MAD II).

Collective investment

With regard to the asset management sector, over the year, the Banco Popolare Group implemented the service to calculate the value of the share of UCITS established and managed by the subsidiary company Aletti Gestielle SGR, to which it provided support in the implementation of the operating and control processes - also with regard to the activities performed as custodian bank - as well as in the management of potential conflicts of interest related to the outsourcing of the service in question to the Parent Company.

The above was conducted in a legislative framework that is currently being redefined, due to the issue of implementation regulations, at European and domestic level, for Directive 2014/91/EU ("UCITS V"), and, more specifically, the Delegated Regulation (EU) 2016/438 of 17/12/2015 regarding the obligations of UCITS custodians, and more recently, the Provision of the Bank of Italy dated 23/12/2016, which amends the Regulation of the Bank of Italy dated 19/01/2015 on collective investment management, published on 4 January 2016, for which the Parent Company and the SGR have followed the legislative procedure by participating, through their respective Trade Associations, in the market consultation launched in July of last year.

With regard to the subsidiary company Aletti Gestielle, over the year, processes were implemented to establish, classify and monitor new products issued, also with regard to the level of complexity of the same with respect to the customers to whom they are addressed, and the remuneration of distribution networks, in accordance with the principles dictated by the Company's product governance policy, maintaining significant synergies with the distribution networks in question, and in particular those of the Banco Popolare Group, with a view to providing all possible information and support to its sales networks, to increasingly improve the level of knowledge of investment products with respect to the needs of Customers.

Banking Services and preventing usury

During 2016, the Banco Popolare Group continued the process of fine-tuning and further reinforcing of organisational procedures that seek to guarantee compliance with regulations that have recently been amended by various legislative provisions. We draw special attention to:

- Legislative Decree no. 72 of 21 April 2016 regarding consumer credit secured by real estate, which assimilates Community Directive 17/2014, known as the Mortgage Credit Directive (MCD) into our legal system. These new rules, which have introduced important changes such standardising the pre-contractual information provided to the consumer; the effects of applying the directive and the organisational, operating and relational changes relating to the customer had a significant impact;
- the decree of the Interministerial Committee for Credit and Savings dated 29 September 2016, implementing Chapter I bis of Title VI of the Consolidated Law on Banking (TUB), in execution of that envisaged by Legislative Decree no. 72 on consumer credit secured by real estate, which introduced significant changes to the legislation by regulating important aspects relating to transparency. These changes required significant changes to adapt internal regulations (specifically regarding loans in foreign currencies and pre-contractual documentation);
- the Provision dated 30 September 2016 of the Bank of Italy regarding the "Transparency of banking and financial transactions and services. Correctness in relations between intermediaries and customers", which integrated the previous Provisions on transparency dated 29 July 2009 by also changing several profiles contained in the previously-adopted regulation, with a view to assimilating legislation introduced in 2016 (assimilation of the cited Community Directive 17/2014 and of the consequent Legislative Decree no. 72 regarding consumer credit secured by real estate, as well as the implementation under articles 120 *undecies* and 120 *duodecies* - Chapter I bis Title VI of the Consolidated Law on Banking respectively on credit rating assessment and property valuation);
- the "Instructions for the recognition of global average effective interest rates pursuant to the laws on usury"

(law 108/96) of the Bank of Italy, which defined and clarified several doubts as to interpretation regarding the classification of transactions by category as well as the recognition and the calculation of interest rates for the period;
- Law 49 of 8 April 2016 (conversion of Decree Law 14 February 2016, art. 17 bis) and relative implementing provisions contained in the Decree of the Ministry of the Economy and Finance. With the entry into force of the legislation in question on 1 October 2016, the legislative framework that changes the procedures for the calculation and liquidation of interest as regards anatocism was completed;
- Legislative Decree no. 30 of 15 February 2016 in force from 9 March 2016 (which assimilated so-called BRRD Directive 2014/59/EU) under which several articles of the Consolidated Banking Law were amended regarding the repayment of receivables that may be asserted vis-à-vis banks in administrative compulsory liquidation. In compliance with the legislative provision, important measures were taken in terms of transparency and correspondence with customers.

Technological and administrative services

Banco Popolare has entrusted the development of the Group's applications and technologies, the robustness of the production engine, activities relating to Security, on a strict basis, and After Sales and Assistance Services, as well as the continuous monitoring of potential advantages for the business resulting from the development of new technologies to Società Gestione Servizi (hereinafter SGS).
SGS core activities are organised into the following specialist organisational units to cover its four main areas of expertise:
- Applications Development, coordinated by General Management, which is expected to develop effective and efficient IT solutions;
- Production, responsible for the adequacy of the technological infrastructure and the continuity of processing for the Group;
- Security, the first point of contact for all topics regarding physical security, IT security and health and safety in the workplace of the Group;
- After Sales and Assistance Services, covering administrative, middle and back office structures, as well as surveillance and logistics services.

In 2016, in implementation of the 2016-2017 Operating Plan, SGS established seven project areas:
1. Innovation & Digital Branch: innovation and acceleration of digitalisation to sustain the growth of the customer base and the offer of new products and services;
2. Credit Quality: support to the monitoring and the management of loans, with a view to gradually reducing the cost of credit;
3. Investment Banking e Wealth Management: new technologies and a new advisory model to reinforce the offer and reduce selling times;
4. Traditional Bank Management: improvement of service levels and development of key components to manage the day-to-day business;
5. Security & Cybercrime: continuous updating of Security controls;
6. Legislation and Governance: boost compliance in order to respond to legislative constraints and greater risk control;
7. IT 4 IT: maintenance and development of levels of technological adequacy.

In the second half of the year, efforts intensified following requests received from the Parent Company regarding the analysis and evaluation of existing IT solutions, in preparation for the merger with Banca Popolare di Milano to create the new Banco BPM Group, operational from 1 January 2017.

Applications development

Credit
Within the Credit business area, SGS provided technical support to the various repurchase and securitisation activities to sustain the Group's liquidity, following the rationalisation of the entire funding structure (ABS and Covered Bond securitisations). With regard to the management of guarantee, a new version of the procedure to manage Guarantees issued by Entities was activated, which improved the automation and the efficiency of the process. As regards the dematerialisation of contracts (paperless project), the first loan agreement with a digital signature was issued (Multiple loan), which represents the pilot for the whole area.

Finance
With regard to the Finance business area, the Web Advisory service, which provides support to the off-site transactions of Private Customer managers of Banca Aletti, was improved; with regard to Banco Popolare, the new Operations Advice model was distributed to all branches, at the same time as the introduction of the new MIFID questionnaire; the securities loan service was also introduced for Banco's Retail customers.

Branches
To provide support to the Branch Network, the branch TP was revised as well as a series of applications to support network activities with a view to making operations more streamlined, simple and efficient; a new application was activated that enables Branches to manage personalised correspondence to customers. The project to integrate the previous tools used by the branch for effective commercial planning and customer management (A.G.I.Re, G.I.O.CO and STARS) into the new product YouDesk, the new commercial desk, was completed.

Commercial channels
With regard to innovative commercial channels, the heart of the Innovation and Digital Branch programme of the Operating Plan, efforts focused on enabling customers to access functions on all channels, allowing the same to make indifferent use of the various technologies and tools used to communicate with the Bank; from a user friendliness perspective, the graphics of the homepage of YouApp were revised and the infrastructure of the YouWeb application was changed and can now be accessed directly from mobile devices, making the disposal of the YouMobile site possible; "proximity marketing" was experimented for the first time through the branch wifi networks. During the year, the corporate Portal, common to all Group entities was revised, improving user friendliness and performance. With regard to foreign business, as envisaged by the Operating Plan, the YouTrade Finance portal was released, which enables foreign-goods operations (International guarantees, Documentary Credit, Documented Imports-Exports, with and without recourse discounts) to be manged online.

Risk management and control systems
With regard to systems to support Control activities, SGS continued to develop tools to monitor processes and the associated controls (GRC), data quality control (DAC, Mapac, etc.) and to fulfil the requests of Supervisory bodies (reporting, AQR, ESMA-EMIR, Quadra, etc.) enabling increasingly better control over compliance risk and of the security of company information.
As regards providing support to risk management, SGS continued to update the systems that manage risk monitoring. More specifically, it worked on the development of Rating systems, counterparty, liquidity and inflation risk analysis and reporting for the Risks Department.

Production

As regards the technological infrastructure, the Production Department of SGS always seeks to provide the best support possible to applications development teams, by constantly strengthening infrastructures and optimising their use and relative governance.
In 2016, the memory capacity and information processing speed were increased, updating the technological infrastructure to the latest standards.
With regard to connectivity and securitisation, various projects were set in place with a view to increasing security, in particular, the activation of a new module, which separates internal connectivity from the outgoing one on the internet and enables access to external resources by the company network to be monitored; in addition, specific equipment to monitor the network, both in terms of state of health and security, was activated.
Over the year, with a view to improving energy efficiency, the release of a function called (WOL-Wake-On-Lan) was completed for branch workstations, to switch workstations off and then on remotely, therefore optimising the costs relating to energy consumption by workstations.
In 2016, SGS addressed significant efforts to corporate projects, which entailed considerable transversal work on all of the applications system, on the telecommunications network and on the configuration of processing power.

Business Continuity
Business Continuity projects were developed with a twofold focus, on one hand communication practices with critical suppliers, on the other, the increasing attention on developing "cyber resilience" as regards operations. Resilience, therefore, not only in terms of adapting information systems to specific conditions of use, but also in terms of development, changing its working conditions when faced with unexpected events, with a view to guaranteeing the provision of services.

Safety and Security

Safety and Security are fundamental components to the development of any business, they are strategic and distinctive assets, especially with regard to the extent of knowledge required to defend us from the numerous dangers and/or risks present in the operating environment. This sphere is fundamental to the full implementation of innovation in information systems, characterised by differing technologies (mobile, cloud) and by the availability of increasingly large IT platforms to exploit ("big data" and "data analytics").

Logical security
Over the year, projects focused on the area of cybercrime and specifically on the new types of risks emerging, with a view to protecting the operating environment. In this regard, we therefore focused on extending technical-organisational-procedural measures relating to digital identity, on the correlation of the information characterising IT incidents and last but not least, the impact of relevant technologies on customers, such as mobile devices and social

networks. Ongoing projects regard preventing fraud, by using increasingly complex analytics, both in terms of identity management and closely related security architectures, to create increasingly complex protective filters/shields to defend the assets managed of both the business and the customer.

Physical security
As regards physical security, projects focused on the technologies exposed to the public in terms of cash withdrawal, payment and information services (ATM). The protection process for spaces and physical goods was developed and strengthened, given the high interest of criminals, while the use of protection mechanisms at the entrance to branches continues, as well as the custody of valuables, time-delayed cash disbursement and centralised alarm systems on company data networks. More specifically, over the year, further projects were set in place to protect the caveau and the artistic heritage.

Health and safety
As regards health and safety in the workplace, in accordance with the dictates of the law, the relevant structures implemented the measures envisaged by specific provisions regarding the assessment and mitigation of risk, the control of preventive measures set in place, the fine-tuning of action plans relating to organisational factors (technologies, organisation, operating conditions). The approach adopted seeks to fully safeguard the health, the integrity and the dignity of employees in a work environment which encourages the psycho-physical well-being of the worker.

Privacy
The main projects in the Privacy sphere related to legislative requirements regarding the treatment of files of records of the activities performed with IT tools (so-called new art. 4 Statute of Workers) and the European Regulation on the treatment of personal data, drawn up after four years of preparation (so-called GDPR). These are important, complex and far-reaching events, which open companies up to more stimulating topics of "digital transformation", namely the process of renewal that the infrastructures must undergo, extending as far as the possible change of the entity's business model.

After sales and assistance services

With regard to the network assistance model, in 2016, Assito, the application that provides support to the operating advisory process, was extended to the Finance area.
A project called "Aletti Assito" was also launched, which envisages creating an assistance environment dedicated to the private bankers of Banca Aletti integrated with Assisto Business; the Aviva Group was incorporated as the second level of the "Bancassicurazione assistance" process and the Direct Tax Office was connected for domestic payments.
Assisto Performance Management was created to support the governance and management of Network assistance: data warehouse, dashboard, multidimensional analysis of the "Voice of the Network", of assistance KPIs and of tickets.
The Assisto model has now been fully implemented in the entire back office structure and has increased the efficiency of the same, boasting a significant recovery of productivity.

Technological projects and investments

Legal compliance

Italian Legislative Decree 231/2001 – Corporate administrative liability
In 2016, procedures were set in place to revise the mapping of "231 risks" of the Administration and Budget Department, as well as to update the "231" system of Banco Popolare through the implementation of the architecture of information flows to the Supervisory Body from the company's operating structures. The mapping exercise was finalised and the model were adopted/updated for a further 10 Group companies.

Applications systems
In 2016, SGS performed numerous activities to ensure compliance with legislative changes, which required significant adaptations and developments of infrastructures and applications.
As regards Anti-money laundering, customer risk profile management was implemented in Gianos 3D, and a new function that managed "Automatic Anomaly Indicators" was released.
As regards anatocism, the new legislative framework requires the implementation of new calculation and payment procedures for interest on current accounts and payment accounts.
With regard to legislation on Transparency, the Elise procedure was implemented as regards pre-contractual, contractual and post-contractual loan disclosures (new Standardised European Disclosure Template, relating to Consumer Credit secured by real estate); the management of soft loans was extended to guarantee new legislation in this regards (so-called "Sabatini Ter").
A check of the foreign beneficiaries of money transfers organised by customers was implemented in the foreign procedure Pr.E.M.I.A., thanks to its connection to the Siron Embargo application.

In the finance area, an update of the Sia Eagle procedure was released, which manages numerous legislative changes relating to market abuse.
We also draw attention to the changes imposed in terms of reporting to the ECB (new MMSR Money Market Statistical Reporting application) and obligations for the exchange of information between tax authorities imposed by the Common Reporting Standard CRS/DAC2 (new application which enables reporting data from different sectors to be managed).

Financial regulations and processes

Market abuse - updates on controls relating to market abuse in response to new MAR and MAD2 Regulation
With a project that encompassed the whole of 2016, internal Regulations and the relative controls relating to changes made by the European Regulation were updated. More specifically, standards and processes relating to internal dealing, the management and communication of privileged information and monitoring and reporting suspicious market abuse transactions were reviewed.

Securities lending - extension of the service to Retail customers with AUA
By extending the Securities Lending service to Retail customers with AUA, a service which up until August 2016 was exclusively reserved to Private customers, the Group extended the range of services/products offered to customers, which gave them the opportunity to benefit from an additional flow of income. The service offered also increases the Group's profitability, due to the spread between the commission earned from market counterparties and that paid to the customer.

Conflicts of interest - assessment of measures
In 2016, the periodic assessment was conducted to identify the nature, type and conditions of conflict relating to each investment and/or accessory service and to evaluate the effectiveness of the measures adopted to date.
This assessment is one of the initiatives envisaged by the policy for the management of conflicts of interest adopted pursuant to the MiFID Directive and implementing national legislation.

Banca Aletti Portfolio Management - opportunity to use interest rate derivatives for Portfolio Management
In 2016, a project was launched and completed, which made it possible to use interest rate derivatives for Banca Aletti's Portfolio Management. With regard to both Portfolios reserved to institutional customers and those of private and retail customers, it is now possible to use the derivative for hedging purposes as well as, where contractually envisaged, for trading purposes. This move responded to a pressing request by Banca Aletti, as well as that of its major institutional customers, providing an additional instrument for management strategies which is essential to tackle the possible future increase of interest rates.
As also noted at the time of the feasibility analysis conducted with the assistance of Prometeia, the completion of the project enabled Banca Aletti's Portfolio Management service to stand above the rest, especially as regards Private and Retail customers, as this is practically the only one of its kind in the Italian market.

Execution policy – dynamic best execution
Continuing its efforts to guarantee the best possible result in customer order execution, the Banco Popolare Group has extended the "Dynamic Best Execution" model to the execution of orders relating to foreign shares traded on regulated markets or foreign MTF to which Banca Aletti does not have direct access. More specifically, Banca Aletti has adopted the Dynamic Best Execution model of the intermediary KCG Europe Limited, which identifies the best execution venue by comparing different venues on the same regulation circuit of the reference market for said instrument. The Dynamic Best Execution model is applied to foreign share instruments listed on markets, a list of which is made available, on each occasion, on the websites of Group Banks. Orders for share instruments admitted for trading on foreign markets that do not relate to the execution venues to which the intermediary KCG applies dynamic best execution, will continue, as now, to be traded on the main market adopting the "specific stock market" procedure, through the broker.

Advice on investments - fine-tuning the model
With specific reference to the provision of the advisory service and to the adequacy assessment model, note that in 2015 a project was conducted called "2015 Investment Services" with a view, amongst other things, to fine-tuning:

- the process to profile and classify customers by updating the MiFID questionnaire.
- the process to provide advice, establishing a clear advisory scope, introducing new measures to manage conflicts of interest as well as ex post controls on transactions.
- the annual and infra-annual commercial planning process, with a view to enhancing, also in this sphere, the wealth of information that the Bank has on its customers, illustrated in more detail in the chapter on the Budget.

Credit regulations and processes

Ordinary Credit
As regards the Credit granting processes, the extension of the Electronic Loan Application (ELA) to all remaining types of customer was completed, and, at the same time, the relative regulations were updated.

A new application, developed as part of ELA made the loan process even more efficient, as it enables all stages of the process to be traced, from approval to the signature of the agreement, computerises the checks and the supporting documents, generates digital versions of the agreements with the option of an electronic signature, automatically acquires the certain date and electronically files that which has not yet been computerised. At the same time, the activities to perform and the documentation to acquire to finalise lines of credit were reengineered.
Related to this activity, the review of loan agreements is currently underway, to render them paperless, therefore reducing their number.
In addition, in order to cut customer response times and to encourage a direct exchange of information to internal assistance groups, the instruments available to request credit support have been rationalised. To this end, the technological platform that supports the help desk has been changed, and is now able to publish operating solutions for the most requested topics, as well as fully tracking applications.

Irregular Credit
As regards non-performing loans, a series of measures were implemented to improve recovery processes. With regard to exposures classified:

- as "unlikely to pay", a new process was implemented, which enables action (including judicial) vis-à-vis the debtor and the guarantors, to be anticipated to the time of the default and therefore to make the management of the position more efficient;
- as "bad loans", measures have been implemented, both internal and as regards external suppliers, to improve the completeness of the data in the Bank's information system, with a view to enrich the information available and to be able to activate competitive processes relating both to judicial auctions and to those for the assignment of receivables.

In addition, the processes to conduct periodic or event-based reviews of the analytical evaluations to update provisioning were improved, as well those to accredit or attribute tasks to external experts to acquire surveys of property used as collateral for "bad loan" positions and their immediate sale value.

Other Risk Management projects

With regard to models to estimate credit, market and operational risk, readers are referred to Part E of the Notes to the Financial Statements entitled "The Internal Basel Project".

Group Risk Appetite Framework
In 2016, the Risk Appetite Framework was further improved with the introduction of detailed indicators for credit, operating and market risk.
All of the indicators contained in the Group RAF are measured and monitored at least quarterly. Please refer to Part E of the Notes to the financial statements for more details.

Risk-based incentive system
The 2016 Group Incentive System was drawn up on the basis of new Supervisory provisions regarding "Pay and incentive policies and practices" issued by the Bank of Italy (7th Update of Circular 285/2013). In this context, the conditions for the activation of the 2016 incentive system have been aligned with the Group RAF, but setting capital gateways and liquidity consistent with the same.

Liquidity Risk
In 2016, the Group continued with the optimisation of the process to generate Basel III indicators in order to meet both the changes and the tight deadlines imposed by the law. Note that the phase-in for the entry into force of the LCR threshold (Liquidity Coverage Ratio - short-term indicator) envisages a threshold reduced to 60% from 2015; this is expected to be increased by 10% each year until it reaches 100% in 2018; for 2016, the threshold is set at 70%, while for 2017 it will be 80%.
In line with the legislative changes introduced by European directive, as well as the new guidelines envisaged by the ECB, in 2016, the Group prepared the new Self Assessment Report for Internal Liquidity Adequacy Assessment Processes (ILAAP), similar to that in effect as regards capital adequacy (ICAAP).

Counterparty Risk
In 2016, the management of controls on risk exposure measurement using operating methods was further optimised, ensuring a high level of ongoing effectiveness and efficiency.

Communication

Media relations continued as a combination of forging relations with national/local media and communication through social media. Banco Popolare has consolidated its programme to manage and use the main social networks, planning its own presence and interaction with the public by means of the dissemination of news and information relating both to the institutional sphere and to events, projects and initiatives that take place in the local areas.

With regard to the production and propagation of information, during the year, over 200 press releases were written and issued relating to price sensitive, commercial, institutional aspects or dedicated to cultural and social initiatives set in motion by Banco Popolare, both directly or through the historic brand names of the commercial network. Numerous press conferences were held on the occasion of exhibitions, programmes and events promoted or sponsored by Banco, directly or in collaboration with institutions, companies, entities and associations that operate in the various local communities.

Collaboration with national and local radio and television broadcasters continued, adopting the same approach as last year. Together with widespread communication campaigns on social topics and initiatives, the spaces and the channels available to present the experiences and the business projects of customers and members were boosted and extended, by sharing the success stories of artisans, traders and entrepreneurs with the media.

Banco Popolare's commercial communication involved the constant presence of its range of products and services on the main channels, the national and local Radio channel and the world of the Internet. Products and services offered to households and enterprise regarded loans for the purchase of a home, through a simple and competitive mortgage loan (with a spread starting from 0.95%) and the promotion of innovative solutions for the management of collection and payment services, also by offering an evolved platform for specialist transactions abroad. Thanks to a plan that featured the main national radio stations (RTL, RDS, 101, 105, etc., where the Banco Popolare brand was promoted) alongside numerous local broadcasters located in the bank's historic areas (where the service and products sold under the local brand name were promoted), the pressure on the target audience was continual and qualified. Web-based plans further promoted the range of services and products offered, particularly to young and evolved customers.

In 2016, schemes continued with a view to providing communication space and visibility to Italian businesses, by presenting the success stories of small and medium sized Italian companies in the media, also due to the consolidation of the publication of "La Notizia Popolare", Banco's free press, available in hardcopy and online (www.lanotiziapopolare.it), and which can also be consulted through the specific App. Through this medium, around 130 stories of local businesses were published, talking about what is popular today and highlighting an Italy with a spirit of sacrifice, which, despite the current difficult scenario, invests in change and innovation, without preconceived ideologies and looking towards the future with optimism.

Over the year, the graphics and the content of the company intranet were revised: the new intranet, with a cleaner and more user friendly environment, enables institutional, commercial and regulatory information to be conveyed more quickly to a wider company population, at the same time offering new tools to search for documents and the rapid consultation of the content.

BANCO&NOI Flash, the online daily newspaper established in 2012, has become an important source of information for Group employees, featuring various topics such as commercial initiatives, local events, social events, recording a rise in average daily accesses.

The publication of Noi Popolari, the quarterly newsletter, continued, addressed to pensioners that worked for Banco Popolare in the past. This publication focuses on topics that are important to the daily lives of the target audience, making the reader the centre of attention with his life experiences, interest and his people's "soul". The number of contributions in the form of letters and photographs continues to rise, a sign of the increasing involvement of the readers. In the Spring, the website www.noipopolari.it was also launched, where each association of pensioners in local areas has a space to promote the initiatives of its members, recount what they have achieved, thus reinforcing the sense of belonging to the community. The website and the newsletter have contributed to further strengthening the bond with associations of former employees, an active part of a community where the values of the people are recognised today as there were in the past.

In line with the objective of encouraging the participation of all colleagues in the life of the Group and to share the most important institutional events, on a number of occasions, a medium called "Diretta Banco" was used, which enables all colleagues to participate in Top Management and Chairman's meetings through audio and video conferencing tools.

Another successful series of "Incontri Popolari" (Meeting the People) were held, 20 appointments in 15 different cities, with the participation of over 8 thousand people. An opportunity for discussion and debate, reflecting on the profound and shared meaning that popular tradition and culture have for our communities and for the country.

With regard to events organised throughout the country, those hosted by the branches are particularly significant. In fact, almost 400 events took place, including inaugurations and anniversaries of branches, presentations of books, practical demonstrations in the food and wine/artisan spheres. The purpose of these events is to interact with customers in the bank's premises, to enhance the relation of mutual trust and knowledge.

The Bank organised a wide number of initiatives in its historic areas, with over 110 meetings focusing on the world of business and agriculture. These meeting were organised out of the banking environment, in venues in which the entrepreneurs conduct their business activities, therefore highlighting what the local area produces and how it evolves.

Around 70 events were organised with regard to the world of professionals, called "Eventi You", with the aim of enabling enthusiasts of various activities to experience an event in the company of renowned sports men and women and not only, with a view to forging new commercial relations and strengthening existing ones. Around 3,500 guests participated in the various editions of YouBike, YouTennis, YouCook, YouCharme and so on.

Over 700 conventions were hosted in the Group's various locations, meeting the many requests received from entities, institutions, professional rolls and associations from the local area.

Various initiatives in the "square" have seen Banco Popolare and Local Foundations involved in organising charity events: in particular, the Volunteers' Festivals, which took place in Verona, Lodi, Novara and Lucca and the "Pasta in the Square" projects, in collaboration with several local NPOs, which are dedicated to assisting those in difficulty or emarginated.

Lastly, promotional gadgets were designed for customers, distributed through the branches, based on the different seasons of the year. We draw attention in particular to the new graphics of our business cards, which have become increasingly function with the inclusion of the QR-Code which sends the use to the website of the branch in question, providing information on the address and opening days and times. A single card contains the HUB branch and the Spoke branch details, as well as the numbers to call in the case of the theft or loss of debit or credit instruments.

Investor Relations

In 2016, Banco Popolare's Investor Relations team managed a total of 78 events, usually with the involvement of Group top management, which entailed meeting with 379 investment funds (from both the stock market and the bond market), financial analysts and rating agencies. These were supplemented by 6 telephone conferences held with audio webcasts over the year to present the Group's financial performance to the market as at 31 December 2015, as at 31 March 2016, as at 30 June 2016 and as at 30 September 2016, as well as the Merger with BPM and the BP-BPM Business Plan for 2016/2019, therefore reaching a total of 84 events.

	no. of events	% of total	no. of parties involved	% of total
Industry conferences (stock market) (*)	7	9.0%	136	36.0%
Industry conferences (bond market) (*)	3	3.8%	18	4.7%
Roadshows (stock market)	5	6.4%	91	24.0%
- of which: Italy	*1*	*1.3%*	*30*	*7.9%*
- of which: United Kingdom	*3*	*3.8%*	*55*	*14.5%*
- of which: other European countries	*1*	*1.3%*	*6*	*1.6%*
Other individual and/or group meetings, telephone conferences and video conferences (stock market)	48	61.6%	119	31.4%
Other individual and/or group meetings, telephone conferences and video conferences (bond market) (**)	10	12.8%	10	2.6%
Meetings with rating agencies (***)	5	6.4%	5	1.3%
Total	**78**	**100%**	**379**	**100%**
Presentations in conference call/webcast (***)	6			
Total including presentations in conference call/webcast	**84**			

(*) Excluding investors that attended any "Floor presentations" of the industry conferences.
(**) The other meetings also include any due diligences associated with the bond market.
(***) The attendees at the presentations in conference call/webcast count as one only.
The number of parties involved means the number of legal entities (investment funds, analysis houses, rating agencies etc.).
As regards the Roadshows, number of events means the number of days dedicated to said activity by financial team/branch involved.

As regards the stock market, the Group attended 7 industry conferences, organised in various European cities by leading research and brokerage firms, which entailed meetings with 136 investors, corresponding to 36% of the total number of parties reached over the year; furthermore, the Investor Relations team coordinated 5 roadshow days, meeting a total of 91 investors.
With regard to the bond market, the Group attended 3 industry conferences, meeting with 18 investors.
The remaining parties (equity and debt security investors and analysts and rating agencies) were able to communicate with Banco Popolare management on 63 other occasions (other direct meetings, teleconferences and/or video conferences).

Lastly, note that at the end of 2016, the Banco Popolare stock is "covered" by around 17 stock research companies (of which: 7 have made positive recommendations, 8 neutral and 2 negative), with which the Investor Relations function continuously liaised with over the year.

OTHER INFORMATION

Members and Shareholders

Banco Popolare's share capital is held by private investors, with a high level of fragmentation.

As at 31 December 2016, the Group had over 106,000 Members (of which 33 institutional[1]). Of these, around 89% have deposited their shares with the Group. Members are mostly resident in the Group's five regions that represent the Group's historic roots: Veneto, Lombardy, Piedmont, Emilia Romagna and Tuscany. These figures demonstrate the connection between the status of member and the status of customer, which has also characterised the spirit of cooperative people's banks, the foundation for a solid loyal relationship.
If in addition to Members we also consider the around 205,000 non-member Shareholders, who held Banco Popolare shares at the end of 2016 (of which 1,147 institutional investors), the total number of parties holding shares rises to around 311,000.

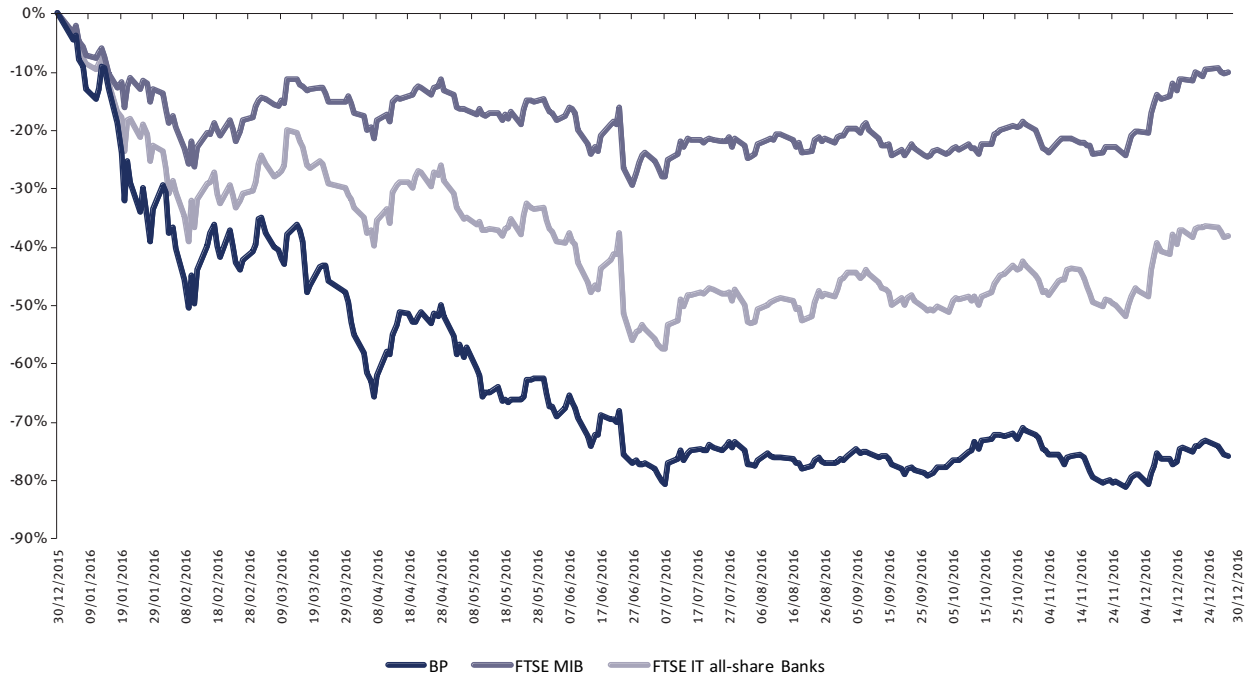
According to information available on the Consob website, as at 31 December 2016, there were no institutional investors with an investment of over 3% of Banco Popolare's share capital.

Banco Popolare stock

The European financial markets reacted better than expected to the geopolitical shocks of "Brexit", the US elections and the Italian referendum, due above all to the trend recorded in the latter part of the year, closing 2016 in slightly positive territory, with a Eurostoxx index that had risen about one percentage point. More specifically, the London stock exchange recorded the best performance, managing to close 2016 at record highs, with a rise of 13.9% (in local currency), followed by Frankfurt, whose index closed with gains of 6.9%; a similar trend was also recorded for Paris, which rose by 4.0%, while Madrid lost around 3.0%.
Piazza Affari was the worst of the major European countries, with the FTSE MIB falling by 10.2%. The main cause was the banking sector, with losses that almost halved the FTSE Italy All-Share Banks (-38.2% over 12 months), exacerbated by the impact of the rescue of the 4 Central Italian banks, as well as the difficulties encountered with the share capital increases of Banca Popolare di Vicenza, Veneto Banca and lastly Mps.
After sustaining a share capital increase of euro 1 billion in the first half of the year as part of the proposed merger with BPM, Banco Popolare suffered more than the industry average, recording a fall of 75.9% over 12 months. This fall, similar to that recorded on Piazza Affari in Milan and by the Italian banking index, was focused on the first six month of the year, a period in which the stock lost 77.4% of its value. Subsequently, even though it touched a record low on 28 November of 1.786, the Banco Popolare stock recorded a recovery of 6.9% in the second half of the year, the period in which the share capital increase was concluded, excellent results were achieved for the EBA 2016 stress tests and the merger with BPM was approved by the extraordinary shareholders' meetings.

The following graph shows the performance of Banco Popolare stock between 30 December 2015 and 30 December 2016 compared with the FTSE MIB and FTSE Italy All-Share Banks indexes.

(1) "Type of Party" breakdown of Institutional Investors: Insurance Companies, Central Banks, Investment Banks, Bank Foundations, Mutual Funds, Pension Funds, Sovereign Funds, Credit Institutions, Undertakings for Collective Investment, Asset management Companies, Stock Brokerage Firms and Investment Companies.



Closing price of Banco Popolare stock(*) ***Reference period: 01/01/2016 - 31/12/2016***	
Period high - 5 January 2016	9.148
Period low - 28 November 2016	1.786
Average for the period	3.535
Closing price at 30/12/2016	2.292

(*) Prices before 6 June 2016 adjusted for the share capital increase Adjustment factor: 0.741939

There were 827,760,910 Banco Popolare shares outstanding at the end of 2016, up compared to 362,179,606 at the end of 2015, due to the previously-mentioned share capital increase, corresponding to a capitalisation of the stock of around euro 1.9 billion.

The capitalisation of companies listed on Piazza Affari, the market on which the Banco Popolare stock is listed, was euro 524.9 billion at the end of 2016, corresponding to 31.8% of Italian GDP. The year closed with 387 listed companies, 244 of which on the MTA (71 on the Star segment), 66 on the Global Equity Market and 77 on AIM Italia, and during 2016 there were 20 new admissions, of which 14 IPO. Share trading reached a daily average of euro 2.5 billion, with 297,000 contracts (+6.1% compared to 2015). Overall, over 74.9 million contracts were exchanged, with a counter value of over euro 619.5 billion.

Group ratings

Rating agency	Type of Rating	Rating as at 31/12/2016	Rating as at 31/12/2015
Moody's Investors Service	Long Term on Deposits	Ba1 (Stable outlook)	Ba3 (Under Review for possible upgrade)
	Long Term on Senior Unsecured Debt	Ba2 (Negative outlook)	Ba3 (Stable outlook)
	Short term	NP	NP
Fitch Ratings	Long term (IDR)	BB- (Stable outlook)	BB (Stable outlook)
	Short term (IDR)	B	B
DBRS	Long term	BBB Low (Stable trend)	BBB Low (Stable trend)
	Short term	R-2 middle (Stable trend)	R-2 middle (Stable trend)

Changes in the ratings of the Banco Popolare Group during 2016, broken down by rating agency, are described below.

Moody's Investors Service (Moody's)

On 25 January 2016, Moody's concluded the review for possible upgrade of the Long Term rating on deposits of Banco Popolare, which began on 29 October 2015, raising it from "Ba3" to "Ba2" and giving it a Stable Outlook.

Subsequently, on 13 April 2016, Moody's put the Long-Term rating on deposits "Ba2", the Long-Term rating on senior debt "Ba3", as well as the Baseline Credit Assessment "b2" of Banco Popolare under review for possible upgrade at the same time. The long-term ratings were confirmed respectively as "Ba2" and "Ba3" and the short-term ratings were confirmed as "Not-Prime".

Lastly, on 20 October 2016, following the approval on 15 October of the Proposed Merger between Banco Popolare and Banca Popolare di Milano by the Extraordinary Shareholders' Meetings of the two banks, Moody's completed the review for possible upgrade in which it had placed the ratings of Banco Popolare. More specifically, the agency upgraded the long-term rating on deposits from "Ba2" to "Ba1" (with a Stable Outlook), the long-term rating on senior debt from "Ba3" to "Ba2" (with a Negative Outlook) and the Baseline Credit Assessment from "b2" to "b1". The short-term rating was confirmed as "Not-Prime".

Fitch Ratings (Fitch)

On 21 April 2016, Fitch confirmed the Long-Term IDR rating "BB" for both Banco Popolare and its subsidiary Banca Aletti, however changing the Outlook from "Stable" to "Negative". On the same date, the Short-Term rating "B" and the Viability Rating "bb" were confirmed.

Subsequently, on 23 December 2016, Fitch changed the long-term IDR rating of Banco Popolare from "BB" to "BB-", revising the Outlook from "Negative" to "Stable", and the Viability rating from "bb" to "bb-". The short-term rating was confirmed as "B".

DBRS

On 31 March 2016, DBRS confirmed all of the ratings assigned to Banco Popolare.

The table below summarises the ratings assigned at the end of 2016 to the Banco Popolare Group and to the subsidiary Banca Aletti.

Rating agency	Type of Rating	Banco Popolare	Banca Aletti
Moody's Investors Service	Long Term on Deposits	Ba1 (Stable outlook)	
	Long Term on Senior Unsecured Debt	Ba2 (Negative outlook)	
	Short term	NP	
	Baseline Credit Assessment (BCA)	b1	
Fitch Ratings	Long term (IDR)	BB- (Stable outlook)	BB- (Stable outlook)
	Short term (IDR)	B	B
	Viability rating	bb-	n.a.
	Support rating floor	*No Floor*	n.a.
	Support	5	3
DBRS	Long term	BBB Low (Stable trend)	
	Short term	R-2 middle (Stable trend)	
	Intrinsic Assessment	BBB Low	
	Support Assessment	SA-3	

The required ratings of Group companies that have debt issues are indicated.

PERFORMANCE OF THE MAIN GROUP COMPANIES

A summary of the main investments in Group companies is presented below, with an indication of the most significant statement of financial position, income statement and operating balances as at 31 December 2016.
As regards the Parent Company, Banco Popolare, please refer to the separate financial statements.

Banca Aletti

(in millions of euro)	31/12/2016	31/12/2015	Changes
Income statement figures			
Interest margin	148.6	184.1	(19.3%)
Net fee and commission income	31.4	(25.0)	
Operating income	201.5	250.2	(19.4%)
Operating expenses	(112.8)	(108.8)	3.7%
Income (loss) from operations	88.7	141.4	(37.3%)
Income (loss) before tax from continuing operations	87.3	139.0	(37.2%)
Income (loss) after tax from continuing operations	61.8	92.6	(33.3%)
Income (loss) for the year	61.8	92.6	(33.3%)
Statement of financial position figures			
Total assets	15,870.0	17,097.6	(7.2%)
Loans to customers (net)	1,387.5	1,334.1	4.0%
Financial assets and hedging derivatives	5,167.7	7,090.3	(27.1%)
Shareholders' equity	943.0	929.4	1.5%
Customers' financial assets			
Direct funding	935.9	645.1	45.1%
Indirect funding	18,379.7	17,489.4	5.1%
- Asset management	16,539.8	15,599.4	6.0%
- Mutual funds and SICAVs	642.1	653.6	(1.8%)
- Securities and fund management	15,714.4	14,827.9	6.0%
- Insurance policies	183.3	117.9	55.4%
- Administered assets	1,839.9	1,890.0	(2.7%)
Information on the Organisation			
Average number of employees	459.6	452.3	1.6%
Number of bank branches	33.0	33.0	-

	31/12/2016	31/12/2015	Changes
Profitability ratios (%)			
Financial margin/Operating income	73.7%	73.6%	0.2%
Net fee and commission income/Operating income	15.6%	(10.0%)	
Operating expenses/Operating income	56.0%	43.5%	28.7%
ROA	0.4%	0.5%	(28.1%)
ROE	7.0%	11.1%	(36.7%)
Operational productivity figures			
Gross loans to customers per employee (€/1000)	3,019.0	2,949.3	2.4%
Operating income per employee (€/1000)	437.3	553.1	(20.9%)
Operating expenses per employee (€/1000)	244.9	240.5	1.8%
Capitalisation ratios			
Common Equity Tier 1 ratio	48.0%	26.8%	
Tier 1 capital ratio	48.0%	26.8%	
Total capital ratio	48.0%	26.8%	
Tier 1 capital ratio/Tangible assets	5.6%	5.1%	
Leverage ratio	13.9%	5.0%	
Other ratios			
Financial assets/Total assets	32.6%	41.5%	
Derivative assets/Total assets	14.7%	18.4%	
Net trading derivatives/Total assets	(9.8%)	(31.4%)	
Loans to customers/Direct funding	148.3%	206.8%	

For a more detailed description of the main events regarding Banca Aletti, please refer to the section of this Report on Operations that regards business segments, and particularly Investment & Private Banking.

Aletti Gestielle SGR

(in millions of euro)	31/12/2016	31/12/2016	Changes
Income statement figures			
Operating income	83.2	95.5	(12.9%)
Income (loss) from operations	64.5	75.9	(15.0%)
Net income (loss)	43.9	51.7	(15.1%)
Statement of financial position figures			
Total assets	264.7	274.4	(3.5%)
Shareholders' equity	201.4	209.1	(3.7%)
Asset volumes			
Net assets of UCITs managed	16,996.1	16,482.4	3.1%
Subscriptions	4,670.2	6,445.0	(27.5%)
Redemptions	4,242.9	4,134.6	2.6%
Other figures			
Average number of employees (*)	71	68	4.4%

(*) Arithmetic average calculated on a monthly basis. Directors and Statutory Auditors are excluded from this aggregate.

For a more detailed description of the main events regarding Aletti Gestielle SGR, please refer to the section of this Report on Operations that regards business segments, and particularly the Asset Management segment.

Other equity investments

(in millions of euro)	Total assets	Shareholders' equity (*)	Direct Funding	Indirect Funding	Net loans	Income (Loss)
Banks						
Banca Aletti & C. (Suisse)	123.3	33.6	88.3	266.7	9.2	(1.2)
Bipielle Bank (Suisse)	93.9	47.3	4.3	-	1.9	(1.1)
Financial companies						
Aletti Fiduciaria	9.3	7.9	-	1,215.2	1.1	0.2
Release	2,508.4	337.6	18.8	-	1,574.9	(117.1)
Other companies						
Società Gestione Servizi - BP	301.2	106.5	-	-	1.0	0.1
Holding di Partecipazioni Finanziarie Banco Popolare	550.5	549.2	-	-	-	34.2
Bipielle Real Estate	1,070.0	1,024.4	-	-	-	11.6
Tecmarket Servizi	29.4	16.7	-	-	-	4.0
Italease Gestione Beni	102.2	60.5	-	-	7.1	0.4

(*) Amount inclusive of the income (loss) for the year.

Relations with subsidiaries and associates

Please refer to the Notes to the Consolidated Financial Statements, part H, for a full description of related party transactions.

Treasury shares of the Parent company and of subsidiaries

Please refer to section 15 - Group Shareholders' Equity in Part B of the Notes to the Consolidated Financial Statements.

MUTUAL AID AND SCHEMES IN THE PUBLIC INTEREST

Criteria adopted within company operations to achieve its mutual aid objectives

This paragraph is drawn up pursuant to art. 2545 of the Italian Civil Code, which provides that directors of Cooperative companies, even if the main purpose of such is not mutual aid, must, in the report to the financial statements "specifically indicate the criteria adopted within company operations to achieve its mutual aid objectives".

The objective to continue to focus on the socio-economic aspects of the historic areas in which the banks that are now part of Banco Popolare are based, was pursued by confirming an organisational model based on Territorial Divisions, fully integrated within the Parent Company bank, established in the traditional historic areas with strong ties to the local communities.

The need to safeguard close relations with the local area was also guaranteed by the articles of association, with regard to the composition of the Management body, which must include Representatives from all of the Bank's traditional historic areas.

As envisaged by art. 4 of the Articles of Association regarding the company purpose, the Company collects deposits and exercises credit, in its various forms, vis-à-vis both its own members and non-members, based on the principles of People's Credit". Banco Popolare has always paid special attention to its local areas, through a widespread network which enables it to serve the needs of Small and Medium Enterprise as well as cooperatives and retail customers. Lastly, in view of its institutional objectives, Banco has envisaged its member-customers special terms and conditions for specific services, also through its subsidiaries. This is especially important at times like the present, in which the country continues to experience a difficult socio-economic scenario.

In this way, Banco Popolare has taken a direct approach to mutual aid - considering the relationship between its members, who provide capital to the bank and receive services as customers - and an indirect one, considering the interaction between the bank and the socio-economic context, seeking to serve the local community.

With regard to the stakeholder structure, as at 31 December 2016, Banco Popolare had over 106,000 members the majority of which resident in the five regions that represent its historic roots: Veneto, Lombardy, Piedmont, Emilia Romagna and Tuscany. As at the afore-mentioned date, 90% of the total number of Members had deposited their shares with the Banco Popolare Group's territorial network, confirming the member-customer ties that characterise the spirit of cooperative people's banks as a foundation for a solid relationship of trust and loyalty. Note in this regard that all member applications received were examined on the basis of the articles of association, of the Regulations approved by Banco's Board of Directors. With respect to the corporate structure declared as at 31 December 2015, note that the transitory provision envisaged by art. 56 of Banco Popolare's Articles of Association became applicable on 30 September 2016, leading to the cancellation of over 97,000 Members who held a number of shares that was less than the minimum quantity envisaged by art. 10 of said Articles of Association.

The Shareholders' Meetings of Banco Popolare have been particularly important as they enable Members to participate directly in company life.

Ensuring compliance with the legal and statutory rules that regulate the status of member and the life of the Company is a foregone conclusion. In this perspective, Banco Popolare has always been committed to encouraging as many Members as possible to attend the important annual general meeting, with a view to upholding the principle of collective democracy with the objective to encourage the direct participation of Shareholders in the relative resolutions. These efforts are represented, in organisational terms, by giving the Members that participate in the Shareholders' meeting the opportunity for a large number to attend by providing adequate space and services and by enabling the same to exercise their company rights in the best way possible.

On 19 March 2016, the Annual Ordinary Shareholders' Meeting of Banco Popolare was held in Lodi, which saw the participation of 44,095 Members (of which 7,898 attended directly and 37,087 by proxy) confirming the solid tradition of wide attendance and participation that has characterised the Banco Popolare Group's banks for decades. The Shareholders' Meeting approved the financial statements of Banco Popolare as well as the allocation of the share of the profits for the period to charitable purposes and in the public interest.
On 7 May 2016, the Ordinary and Extraordinary Shareholders' Meeting was held in Verona, which approved the proposal to strengthen equity by the amount of euro 1 billion: this operation was an important part of the business combination between Banco Popolare and Banca Popolare di Milano.

Products and services offered

In line with the prevailing principle of mutual aid, the Group provides various forms of support to economic development and makes donations, with a focus on its Members-customers, as well as organising initiatives to enhance the social and civil community in its historic areas.

As in the past, the Group's nationwide coverage has not affected its local approach, as the way in which its banking activities are organised enables it to place a high level of attention on the local community, strengthening its local roots.

Charity events have always represented one of Banco Popolare's institutional purposes and an excellent way to pursue its objectives of mutual aid and solidarity.

Lastly, note that each year the Group has issued a Social Report, which contains a detailed description of the main initiatives undertaken vis-à-vis its stakeholders, including all charity events.

Disclosure on initiatives for the purpose of charity, assistance and in the public interest

Banco intends to continue, without interruption, to play its traditional role and to be continually present, and has confirmed its commitment to the areas of its historic roots, seeking to consolidate and develop relations with the local communities, adopting the founding principles of popular credit.
Even though achieving this objective mean tackling a continuing difficult socio-economic scenario, these unfavourable conditions did not prevent Banco Popolare from responding to its best ability to all initiatives that are worth supporting, particularly those submitted by Voluntary associations that work in the socio-cultural sphere or in the area of education and research, which have been the most affected by the reduction of public funding.

The following paragraphs illustrate the initiatives that Banco Popolare divisions have been involved in during the year.

Banca Popolare di Verona Division

The activities of the Banca Popolare di Verona Division are integrated with those of the Foundations operating in the local areas. In addition to the historic area of the Banca Popolare di Verona, the BPV Division encompasses the areas of Banco San Marco and Banca Popolare del Trentino as well as the Territorial Department of San Geminiano and San Prospero, which in turn encompasses the area of Cassa di Risparmio di Imola.

Banca Popolare di Verona

Supporting education and research
Special attention was paid to the initiatives launched by the University of Verona, through the continuing sponsorship of three three-year research doctorates and the continuation of the "Business Networks and Banco Popolare" project to study the growth potential of the businesses that join a network, as well as conferences on economic/legal matters. The Bank continued to support medical research by establishing annual study grants and supporting the organisation of a Higher Course in Geriatrics. Support for the "Provincial Committee for School and Professional Orientation - COSP Verona" to guide the training and professional decisions of young people (Itinera Project) continued, as well as that for the Parish Centre of Verona University for student training. Other areas of activity include contributions to municipalities and schools to set in place study grants for deserving students in secondary school; to the Diocese of Verona for a training project in journalism for high school students, promoted by the weekly periodical "Verona Fedele"; to the Cà Foscari University (VE), for the organisation of courses for students reading a degree in Marketing. The Bank also provided support to public and private schools of all levels and types, for educational programmes and to maintain school buildings.

Healthcare
The disbursements to local healthcare organisations and associations, which work in the healthcare field, enabled the purchase of healthcare equipment and instrumentation, ambulances and minibuses for the transport of the elderly and the disabled, and healthcare training and research. These disbursements included: a contribution to the Local Committee of the Italian Red Cross Bardolino Baldo Garda (VR) for the purchase of a new ambulance, and that to the NPO Social Solidarity Cooperative Monteverde in Badia Calavena (VR) for the purchase of vehicles to transport the disabled, support to the NPO Healthcare Operating Service in Sona (VR) for the purchase of a capnometrics device for respiratory monitoring and to the NPO Orsa Maggiore Association (TN) for the purchase of healthcare and first aid equipment. The Italian Rescuers Association - Verona Section benefited from a disbursement for the continuation of training for voluntary rescuers, while as regards activities to spread awareness of autism, support was provided to the M. Arte Association, to promote an event entitled "Euritimie: Talenti Speciali accedono alle Arti" (Special Talents enter Arts). Funds were also donated to: the Sacro Cuore Don Calabria di Negar Hospital for a project on the respiratory

function of students in the fifth year of high school in Verona and the NPO Amici del Mondo Association (VI) to manage a course to become a Sonographer, who specialises in performing ultrasound exams.

Social and solidarity initiatives

The Bank pays great attention to associations and charity organisations that work in the social sphere. We draw attention to: the support provided to the NPO Ronda della Carità Amici di Bernardo (VR) for the construction of the "Cittadella della Ronda" and that to the NPO Progetto Serena for the organisation of a training course to prepare rescue dogs for glycaemic crises in diabetes patients. We continued to work with the Social Cooperative "Il Samaritano" for the "Casa Solidale" project; with the Italian Sports Centre for the Handicap & Sports project "The 2016 Great Challenge"; with the Opera Don Calabria Study Centre for the project "Colle per la Famiglia". Funds were disbursed to support the establishment of the Solidarity Emporium, for the free distribution of essential items to families in need and to the Congregation of the San Filippo Neri Oratory to manage a soup kitchen for the poor. Other contributions include those to the Diocese of Verona for the "A big heart a home" project; to the NPO Association of Volunteers of Telefono Rosa for a communication campaign on gender violence and discrimination; to the NPO Doctors for Peace Association for a project entitled "The Right of the Elderly to Smile"; to the NPO ABC Association and Families of those suffering from Alzheimer's in Verona to develop programmes to provide daily support for those afflicted with the disease. Funds were also disbursed to the NPO Stella Mattutina Association; to the Più di Uno Association; and to Volunteer Groups in the area of Vicenza. Other benefitting from disbursements included the NPO Centre for Life Help and the NPO Altre Parole Foundation (VI); the Ilizia Project Association (PD); the La Mimosa di Guidizzolo Association (MN) and the Auser Centre (TN).

Protecting and enhancing artistic and architectural heritage

The Bank also places significant focus on the preservation of historic - architectural assets, by seeking to enhance the historic and cultural capital that belongs to the community. The Italian Fund for the Environment - F.A.I. received support for a project entitled "I 200 del Fai" 2016, the Captei TNT Group for the restoration of historic chapiters, the Italian Red Cross - Local Committee of Castiglione Delle Stiviere (MN) for the restoration of the Sala Mine and the organisation of the International Museum of the Red Cross. Other contributions made to safeguard religious buildings included those to: The Parish Church of San Pietro Martire da Verona in Sant'Anastasia (VR); Parish Church of Santi Apostoli (VR); Parish Church of Beata Vergine Maria in dall'Oca Bianca (VR); Parish Church of S. Fermo Minore in Brà (VR); Parish Church Santa Maria in Organo (VR); Parish Church SS. Redentore di Lonigo (VI); Parish Church Santa Maria delle Grazie in S. Donà di Piave (VE); Parish Church S. Pietro Apostolo in Fontanelle (TV).

Promoting culture

Of the numerous events that received the Bank's support in 2016, contributions were made to: the Committee for Celebrations in Honour of San Zeno for the book entitled "San Zeno Maggiore a Verona"; the Parish Church of Santa Maria in Organo (VR) for a photographic exhibition on Tarsie; to the Studium Generale Marcianum Foundation (VE) and to the Academy of Agriculture, Science and Literature (VR) for cultural activities. Support continue to be provided to: The Literary Society of Verona; the E. F. Dall'Abaco State Music Conservatory; the Diocesan Curia in Vicenza - Biblical Festival; Cultural Association of Dedicated Music; the Poveri Servi della Divina Provvidenza Congregation; the Friends of Music Society; NPO I Philharmonics Association; Procuratoria di San Marco (VE); Association for Antique Games (VR) - Street Games Festival "Tocati". Again in 2016, the Bank supported the NPO Intercultura, to fund a study grant for abroad, addressed to deserving students from the Verona area.

Organisation of events, shows and publishing activities

In 2016, the Bank continued to focus in particular on the entertainment sphere by supporting events with significant artistic value. Contributions were again made to City Council of Verona for "Estate Teatrale Veronese" (Verona Summer Theatre), to the "Art and Wine" exhibition and for events linked to the 750th anniversary of the birth of Dante; to the University of Verona for the X International Symposium "Grapevine Physiology and Biotechnology" and for the Wolpertinger Conference; to the Fondazione Atlantide Teatro Stabile (Atlantide Permanent Theatre) of Verona for theatre activities. Contributions were also made to the IDEM Association - Forging Relations for the "Festival of Beauty - The Masters of the Spirit", the NPO Le Pietre Scartate for a conference entitled "Le pietre scartate: vite inutili o pietre angolari?", the Association of Italian Wine Makers and Wine Experts for the 71st Enologist Congress and to the Consortium for the Protection of Soave and Recioto Wines (VR) for the event entitled "Soave Versus". Support was also provided to: the Cultural Group "Man-city-Territory" (TN) and the Nuovo Ensemble of Desenzano Association (BS). The Bank continued to promote the local area by supporting publications and local events, also by making its own facilities available.

Sport and Leisure

The Bank demonstrated its support to the world of amateur sport, due to its educational and social importance, particularly as regards young people, families and disabled athletes. The most important events sponsored include: Sports Committee Marco Rizzotti Trophy (VE) for the XXX edition of the Sailing Trophy and Panathlon International Club (ME). Support was also given to the Polisportiva Libertas Martignacco A.S.D. (UD) for the sports activities of young athletes and a contribution was again given to the A.S.D. Venicemarathon Club (VE) for amateur sports activities.

Giorgio Zanotto Foundation

Banca Popolare di Verona also contributes to the local area through the Giorgio Zanotto Foundation, which it is a founding partner of. Established in 2001, the Foundation seeks to maintain the memory and the ideals of Giorgio Zanotto alive. The latter served the city, contributing to its political and administrative life, and as Chairman of Banca Popolare di Verona, contributed to the cultural, social and economic development of the city. The Giorgio Zanotto Foundation pursues objectives in the public interest, working in collaboration with public and private entities, with the specific aim of enhancing Verona and its intellectual heritage.

Initiatives in the social and solidarity sphere
In terms of solidarity, it sponsored several musical and theatre shows for the AGBD Verona to raise funds, among others, for important causes in the medical-hospital sector. It also contributed to the project for schools promoted by the Diocese of Verona dedicated to "New lifestyles", and sponsored the convention on the disabled "Le pietre scartate, vite inutili o pietre angolari?". It funded the Verona leg of the festival on the cinema and autism promoted by the Verona-based NPO The Fantastic 15. It disbursed three study grants, in the name Giorgio Zanotto, to sponsor young people reading degrees in economics or law at the University of Verona. A further study grant was addressed to a doctorate in theology for a young research student from Verona. It continued to participate in the marketing project for the local area entitled "To Be Verona" addressed to studies and research in Verona's tourism sector, and support continued of the project entitled "Angeli del Bello/Verona" to promote a civic approach and to protect communal areas of the city. A contribution was also made to the Female University Halls of Residence Don Nicola Mazza for the purchase of a PC.

Promoting culture
The Foundation promoted numerous initiatives relating to the celebrations of two important historic events: the 150th anniversary of the joining of Veneto to Italy and the centenary of the First World War. Support continues to the annual cycle of conferences on the Great War organised by the University of Verona, and support was given to organise an exhibition called "Album dal Fronte" by the Cultural Association Gino Franzi. The Foundation promoted the publication and the presentation of the book by Luciano Rognini "Governanti di Verona" and contributed to the publication of a study on "Credit and notaries" written by the Verona-born intellectual Marcella Lorenzini. In collaboration with Banco Popolare, it supported the organisation of a double event for schools and citizens on the theme of "Three mirrors for Pirandello. Realty and representation in the *Novelle per un anno*". It worked with the Centre of European Culture Sant'Adalberto and with the Convent of San Bernardino (VR) for the organisation of events and conferences on cultural themes, Faith and interreligious dialogue. It sponsored the first edition of the "Verona Mountain Film Festival" and confirmed its support of the 2016 Biblical Festival. It contributed to the organisation of the traditional cycle of conferences entitled "The contemporary world: understanding the problems for a responsible commitment" organised by the Female University College Don Nicola Mazza. It sponsored the Scaligero dell'Alpe Choir for its 70th anniversary and for the summer event "InCanto d'Estate", and contributed to the Concert Season of the Verona Friends of Music Association. It sponsored the organisation of a cycle of conferences dedicated to Maria Callas, promoted by the International Festival Scaligero Maria Callas, and the initiatives of the Peter Maag Fund. It continued to support the cultural association Fucina Culturale Machiavelli, which works to bring Verona's young people closer to music and the theatre.

Banco S. Geminiano e S. Prospero

Supporting education and research
Banco promoted and funded the II edition of the "Con Merito" (with merit) initiative, which awarded 79 study grants to the most deserving students of Higher Education institutes in Modena. Contributions were also made for the educational activities of the Istituto Comprensivo Montecuccoli di Guiglia (MO).
Amounts were disbursed to the Foundation of Chartered Accountants and Accounting Experts of Modena and to the Association of Tax Magistrates, Provincial Section of Modena for the organisation of training and refresher courses.

Social, solidarity and healthcare initiatives
In 2016, contributions were made, amongst others, to the Provincial Committee for Unicef in Modena, to the NPO CEIS Foundation, to the NPO Open Door Association and to the NPO Association of Rescue Volunteers of Modena for support in their volunteer work.
Disbursements to local healthcare entities and associations that work in the welfare sphere, we draw attention to those made to the University Hospital of Modena for the purchase of an EEG system to be installed in the paediatrics department of the Polyclinic, to the Association to Support Child Haematology and Oncology for the social care project "La Casa di Fausta", and to CuraRE - NPO Association for the Women's and Children's Hospital in Reggio Emilia to support the MIRE project for care and assistance in maternity and infancy.

Promoting culture and enhancing artistic and architectural heritage
Funds were distributed to the Creative Consortium Cultural Association to support the organisation of an exhibition of works by Maestro Gianni Valbonesi on the occasion of the Festival of Philosophy and to the Municipality of Reggio Emilia to organise initiatives in the honour of Monducci.

Contributions were again addressed to the Dante Alighieri Society in Reggio Emilia, to promote the "Il Tema più Bello" contest and to the NPO Bologna Festival Association, to support its activities. Contributions made to safeguard our artistic heritage included those to the Basilica di San Petronio (BO) for restoration works on the apse, the side and the internal chapels; to the Confraternity of the Immaculate Conception of Maria Santissima di Fiumalbo (MO) to support the rebuilding of the Parish Church; to the Parish Church of S. Maria Nascente e San Genesio in Brescello (RE) for the conservative restoration of the Parish Church, and to the Military Academy of Modena for the rebuilding of the "Galleria dei Bronzi".

Organisation of events, shows and publishing activities
Again in 2016, Banco maintained its traditional support of the Municipal Theatre of Modena Foundation, the Theatres Foundation in Reggio Emilia, to the Emilia Romagna Theatre Foundation - Public Regional Permanent Theatre for their respective artistic activities and the Gioacchino Rossini Choir Association in Modena for the concert season. Other contributions included those to the Modenamoremio Society to Promote the Historic Centre for the organisation of concerts, to the House of Enzo Ferrari Museum Association and to the cultural association Fabricanda di Vignola (O) for the event entitled "Lo schermo dietro il sipario". The San Prospero Basilica in Reggio Emilia received funds as a contribution for the celebrations of the Patron Saint, as did the Parish Church of Santa Margherita (RE) for the organisation of the Christmas concert.

The Banco S.Geminiano e S.Prospero Religious Foundation

In 2016, the Banco S.Geminiano e S.Prospero Religious Foundation supported the activities of the Dioceses of Modena - Nonantola, Reggio Emilia - Guastalla, Carpi. The most important interventions in the Archdiocese of Modena - Nonantola include: works to strengthen the parish church of Bomporto and of the Sanctuary of S.Clemente and the artistic restoration of the mosaic in the church of S. Giuseppe di Felice sul Panaro, the restoration of the parish churches in Cognento (MO), S.Teresa (MO) and Montecuccolo and of the Oratory of S.Anna di Polinago e antica Pieve di Rubbiano; the musical and liturgical training of the students of the Musical Chapel of the Cathedral through the "Vivere il Sapere" Foundation; research and publications on religious signs in the City's districts (Centro Studi Majestas – MO). In the Diocese of Reggio Emilia - Guastalla, restoration works were performed on the rectory of the Parish Church of Poviglio and building works on the Parish Church of Montecavolo. In the Diocese of Carpi, funds were disbursed to restore structures damaged by the earthquake.

Banca Popolare di Lodi Division

The activities of the BPL Division, in addition to its historic areas, also cover the areas of Crema, Cremona, Genoa and Chiavari, as well as those of the Cassa di Risparmio di Lucca Pisa e Livorno. With regard to donations, the BPL Division works directly and through the foundations located in its areas: BPL Foundation, Popolare Crema Foundation for the Territory and Banca Popolare di Cremona Foundation.

Banca Popolare di Lodi

Initiatives in the social, healthcare and solidarity spheres
Banca Popolare di Lodi continued to pay considerable attention to this sector. The contributions made in 2016 included those to: the NPO Il Volo degli Angeli Association in Castelnuovo Bocca d'Adda (LO) for the purchase of a "Blood gas analyser" to be donated to Lodi Hospital – Codogno section; the NPO CAF Association in Milan for a benefit evening to support the assistance centre for young people and families in need; to the Municipality of Cremona, to support the "Solidarity Fund for social fragility"; the Società Marcé Italia in Milan, to organise a convention on "mental health"; Auser Sammartinese di San Martino (LO) and the Cooperative Amicizia of Codogno (LO) to organise charity events; the Lombardy Green Jackets Association in Corteolona (PV) to support the specific activities performed in civil and environmental protection. We also draw attention to the contribution made to the NPO Un Nuovo Dono in Pavia, addressed to building a residential centre for those with serious handicaps.

Promoting education and learning
Banca Popolare di Lodi has sponsored numerous projects in the sphere of education and learning set in place by different entities. Of these, we draw attention to the funds disbursed to Confartigianato Imprese di Cremona for the publication of a book on the food education of adolescents; the contribution to the NPO La Tartaruga Association for the purchase of teaching materials for the Primary School of S. Ambrogio di Cremona. As regards schools, we draw attention to: the action taken to support the Istituto Comprensivo Leonardo Da Vinci di Milano for a teaching project with a view to launching a section in their primary school based on the "Montessori" method; the contribution to the Artistic High School Piazza di Lodi for the organisation of an exhibition of artwork made by the students specialising in painting and to raise funds to build art laboratories. The Bank also disbursed funds to the Technical Economic and Technological Institution Agostino Bassi (LO) with a view to financing a "Three-year course in Buildings and Territorial management" for surveyors who have just received their diploma. The Degree course, which will be conducted at the San Francesco College in Lodi, is the only one of its kind offered in Italy that meets the requirements of the European directive for new registrations in professional associations from 2020.

Promoting culture: art, music, folklore and shows
With regard to promoting art and culture, contributions were again made to the Amilcare Ponchielli Theatre Foundation in Cremona and to the Antonio Stradivari Museum of the Violin Association in Cremona, in order to encourage initiatives addressed to the Bank's shareholders/customers and to boost the musical and theatrical arts. An annual contribution was again made to the Luigi Cesaris Association in Lodi. Of the contributions made and addressed to the activities of the municipalities, note those to the Municipalities of Rivolta d'Adda (LO), Lodi, Cremona and Valera Fratta (LO) for the staging of festivals and fairs with a view to enhancing local excellence and traditions. There were also a fair number of contributions to local parishes, including: The Parish Church of Purificazione Maria Vergine di Felino (PR) for the organisation of the musical "The Betrothed"; Parish Church of SS. Gervasio e Protasio di Ossago Lodigiano (LO) for the organisation of a concert for the 90th anniversary of the sanctuary; Parish Church of Santa Maria Addolorata di Lodi for the organisation of a festival in honour of the Patron Saint; Parish Church of San Martino Vescovo di Livraga (LO) for the 50th anniversary of priesthood of the parish priest; Parish Church of SS. Antonio Abate e Francesca Cabrini di Sant'Angelo Lodigiano (LO) and the Parish Church of S. Caterina di Alessandria di Caselle Lurani (LO) to support oratory activities. With a view to safeguarding the artistic and architectural heritage of the local area, we draw attention to the contribution made to the Parish Church of San Donato di Sesto Calende (VA), to support the restoration of the Abbey of San Donato which dates back to the IX century, frescoed in the XV and XVIII century. Numerous disbursements were made to support initiatives organised by associations in the local areas; these included, in Cremona, Confcommercio, Confartigianato, the Rotary Club and the Torre di Controllo Association; in the Lodi area, the Association "let's live our district together", the Association Mons. Luciano Quartieri, the As.Co.Me.Ri in Brembio, the Association Amici di Via Roma in Codogno and the Corpo Bandistico Santa Cecilia in Senna Lodigiana; in Milan, the Business Culture Centre, the Foundation for the School of the Jewish Community and the New Traders Association of Via Rembrandt.

Sport and Leisure
Again in 2016, contributions were made to support initiatives promoted by amateur sports clubs, with the intention of promoting a culture of "being together for our psychological and Physical wellbeing". The contribution to the Lodi based Group Pioneers and Veterans of Sport in Lodi, and to the C.S.I. Italian Sports Centre in Lodi, which contributed to staging the IV edition of "Play all Day", the traditional sports event addressed to children and families from the Lodi area. The associations sponsored also include: the BMW Motorrad Club of Cremona for the organisation of the 2016 motor rally; the A.S.D. Beautiful Lodi to replace technical materials; the U.S. Livraga Ciclismo for the organisation of the 64th Communal Trophy; the A.S.D. Lorenzo Mola - Pedale Casalese for the organisation of 4 junior cycle contests; the Fishing Sport Association Tre Colli of Somaglia (LO) for the traditional contest and the A.S.D. Old Socks of San Martino in Strada (LO) for support in the youth basketball section.

Banca Popolare di Lodi Foundation

Supporting education and research
In 2016, the project launched in 2015 with the University of Milan continued, the objective of which was the analysis and reuse of food surpluses from Large Scale Retailers. Again this year, with Banca Popolare di Lodi, the "Con Merito" (With merit) project continued, which has involved the fifth year of public and private schools in the province of Lodi, the aim of which is to promote the most deserving students that had taken their high school diploma exam in 2016 with study grants. Other minor contributions were made to various schools and higher education institutes in the Lodi area to replace apparatus and for IT equipment.

Healthcare
The project launched in 2015 with the Department of Child Neuro Psychiatry in Lodi to provide IT support to children with learning disorders continued. The first year of the project has enabled 235 children to be treated. Furthermore, a programme has been launched with the ASST of Lodi, to be implemented in 2017, regarding Avoidable Delay, extending the network of defibrillators in the Lodi area and setting up an app which indicates their location and use.

Social welfare
Again in 2016, the Social Welfare sector absorbed the majority of the resources disbursed by the Foundation. An initiative, funded in collaboration with the Cariplo Foundation called Re-generating Social Value is now in its second year. This project, which regards the spheres of Food, Work and Home, won a tender of the Cariplo Foundation, which awarded a contribution of euro 1.6 million for the three-year period 2015-2017. In 2016, an important renovation project was sponsored, in collaboration with the Opere Pie Foundation of Codogno, as well as initiatives in cooperation with Caritas Lodigiana to open a new citizen's dormitory.

Protecting and enhancing artistic heritage
Again in 2016, the Foundation decided to continue its efforts to enhance the artistic heritage of the Lodi area, by publishing, with the publishing house Bolis, a book on Historic residence in the Lodi area. The proceeds from sales of the books was devolved to FAI for the restoration of the illuminated manuscripts of the temple of the Crowned in Lodi.

Promoting Culture and Art
Like every year, the Foundation promoted important artistic events staged in the Bipielle Art Area, organising, in collaboration with Associations and local artists and otherwise, nine exhibitions that were always able to attract a

satisfactory number of visitors. In addition, in October an exhibition of masterpieces by Flemish artists owned by Banco Popolare was staged, linked to the theme of Misericordia. The exhibition of Mattonelle d'Artista (artist's tiles) continued to be organised at the Foundation's head offices, which has now become one of the most popular permanent art collections in Lodi. For some years now, the Foundation has been one of the main sponsors of the Exhibition of Ethnic Photography, which takes place in Lodi in October.

Recreation
The focus on the social well-being of the community has guided the Foundation's presence in the world of sport and leisure, entailing contributions for the organisation of concerts, theatre shows, cultural and sports events, as well as for the improvement or the construction of recreational and sports facilities.

Banca Popolare di Cremona Foundation

In 2016, the Banca Popolare di Cremona Foundation provided its support to fifty local projects, activities, initiatives and events. In the healthcare-welfare sphere, funds were awarded to both entities that operate in the health sector and those active in supporting various forms of social and individual hardship. In this sector, we draw attention to, amongst others, the work addressed to furnishing "After us" properties, mini-apartments for the disabled - organised by the NPO Casa Robbiani Foundation. Also in this sphere, contributions were made to: build a safe house for women that are victims of domestic violence, organised by the NPO "Aida", the Association Against Violence to Women; purchase a vehicle to transport the disabled, by the San Daniele Po Community; purchase a motorised wheelchair for the disabled by the Red Cross of Cremona. The traditional donation to Unitalsi was made again, to support pilgrimages to the Lourdes Sanctuary. In the area of education and culture, together with numerous projects for schools, associations and entities, an important contribution was made for the organisation of an exhibition on the individual and the inventions of Janello Torriani, staged by the Municipality of Cremona. Contributions were also made to support religious entities that had undertaken commitments to renovate, restore or maintain areas for community life.

Popolare Crema Association for the Territory

In 2016, the Popolare Crema Association for the Territory supported around three hundred and twenty entities, in the various scopes of intervention envisaged by its by-laws. Once again this year the social sphere represented the area to which the majority of efforts were directed. In this regard, to enhance the commitment of numerous voluntary associations active in the area, the Association sponsored the second edition of the initiative called "Festival of Volunteers" promoted by Cisvol, the Service Centre for Volunteers. With regard to healthcare assistance, the Association also supported the work of the Italian Red Cross. Instead, an automatic device for heart massage, used for cardio-pulmonary reanimation, was donated to the Major Public Hospital of Cremona. In the cultural sphere, the Association, a founding partner of the S.Domenico Theatre, provided support to the wealth of ordinary activities as well as contributing to an exhibition on Art from Crema in the first half of the 20th century, loaning several works from its private art collection. The Civic Museum of Crema was enriched with the purchase, guided by the Association, of antique coined, forged by the Mint of Crema, of which only one example remains. Also in 2016, the Association supported the publication of the book entitled "Insula Fulcheria", an annual repertory edited by the Civic Museum of Crema and the Crema area; the Galmozzi Research Centre, which continued its research on the history of the Crema area and the cultural Association "Imondidicarta", for the wine and food festival. Improvements were made to the nature parks in the local area, the Serio, Adda and Oglio. Initiatives in the field of education included: one hundred and sixteen study grants awarded as part of the fifth edition of the training day on saving. An important contribution was also made to facilities that assist students after school, as well as that offered to adults who are already working, to enable them to enlarge or complete their upper and university education. As regards sports, over eighty associations received donations. The "Crema European city of sport 2016" event was the peak event of the season. The Equestrian Rehabilitation Centre, with the support of the Association, succeeded in maintaining its work in the field of the handicapped, despite cuts in public financing. Lastly, numerous contributions were made to support restoration work on monuments and artistic assets, the most important of which was that on the city's Cathedral.

Banco di Chiavari e della Riviera Ligure

Charity and support of the local area in 2016
Banco di Chiavari e della Riviera Ligure made contributions to support numerous entities in the local area in various sectors. In the social sphere, again this year, the Bank confirmed its contribution to the Diocese Charity Madonna del Bambino-Villaggio del Ragazzo in San Salvatore di Cogorno, which has been active since the end of the second world war, and which handles the training and entry into the world of work of young people with handicaps and difficulties. Banco also participated in a project entitled "The beach for everyone", promoted by the Municipality of Chiavari to build a sandy shore reserved to the disabled. It also continued to support the Community of Sant'Egidio in Genoa, in its commitments to the Nutritional Centre in Malawi. As regards the cultural sphere, Banco sponsored the "Drama School of Mariangela Melato" part of the Permanent Theatre of Genoa, active since the Sixties and an excellent organisation for young talent in the field of drama. A contribution was also made to the Carlo Felice Theatre Foundation in Genoa, a benchmark for the dissemination of culture in this city. Lastly, study grants were awarded to young people that

participated in the concert season promoted by the Association Amici del Carlo Felice e del Conservatorio Niccolo' Paganini in Genoa.

Cassa di Risparmio di Lucca Pisa Livorno

Social and solidarity initiatives

In the social sphere, contributions were made to the NPO La Calamita Association, to set up an oratory designed to be able to accommodate the disabled as well and to the ARCI 690 "Chernobyl Project" which each year welcomes children from Belorussia for short holidays. The contribution made to the AICS Music Association enabled funds to be raised for a project entitled "A house for Matteo", a child afflicted by a rare congenital neurodegenerative disease. The Cassa also provided support to the Fondo Vivere Association, which supports citizens from Versilia in conditions of socio-economic hardship. Other contributions were made to the Public Assistance White Cross as part of the "Cardio-Protected Schools" project and to the Horizons Association, which on the occasion of thirty years from the Chernobyl tragedy, organised an event dedicated to Belorussian children. A contribution was again made to the Lucca Tuareg Association, which operates in North Niger in areas of extreme poverty, and to the Art and Psychology Association of Lucca, which has launched several projects, including the dissemination of classical music in healthcare and social housing, and the production of the short film entitled "Days of Puccini" made by disabled people. The donation made to "Il Mondo che Vorrei" (The World I Would Like) Association contributed to the production of a short film on the railway disaster in Viareggio.

Promoting culture

Funds were disbursed to the Garfagnana Photo-Cinema Association for the photographic exhibition entitled "The Ghosts of Auschwitz". The contribution to the Fraternità di Misericordia di Maria led to the publication of a book on local history entitled "Lucca XX - The history of the twentieth century in the province. The events, the news, the economy and the key players". Again a contribution was made to Confartigianato Imprese Lucca for the organisation of a competition "Handicrafts and School", established with the aim of making primary and secondary school children aware of this sector. With the support of the Cassa, the Brumier Laboratory organised a series of meetings and shows entitled "To work kids", which involved the students of the Musical High Schools of Lucca and Modica; the Cultural Theatre Association nel bicchiere organised a travelling festival in Scansano of Theatre, Wine and Performances, now in its fifth edition. The Bank also supported various associations dedicated to the organisation of concerts in the local area: the Funny Mendelsshon Music Association for the International Festival of Music in San Giuliano Terme, the Cultural Association Musicastrada for the traditional Christmas Gospel concerts, the Italian Club Federation and Unesco Centres for the concert of the world famous American lutenist Hopkinson Smith, the NPO Stefano Strada Foundation for the international contest of classic guitar with young international talents and lastly, the Giacomo Puccini Philharmonic and the Polyphonic orchestras from Lucca for the organisation of a cycle of concerts. Support to the Maestro D'Olio Association enabled the wine and food exhibition "extraLucca Summer Edition" to take place. Lastly, a contribution was again made to the Lucense Association for a training course and international workshops regarding the papermaking district of Capannori

Organisation of events, shows and publishing activities

Contributions were made to Ascom Confcommercio in Lucca for the organisation of the Notte Bianca (white night, museums are free) and to the First of May Committee for the organisation of the First of May exhibition in Fornaci. The Cassa also made contributions to the Livorno Garden Club, for the V edition of the exhibition-market of unusual and rare plants grown in the garden of the prestigious Villa Mimbelli and to the Lucca Garden Club on the occasion the X year of foundation of the Association. Contributions were also made to: the Hoteliers' Association of Viareggio for conventions: the Italian Institute of Safety for "Pisa loves safety 2016" for an even dedicated to occupational safety; the Historic Association of San Miniato for a series of events in the municipalities of San Miniato, Santa Croce sull'Arno and Castelfranco. Other contributions were made to the National Alpine Association, for the 73rd anniversary of the battle of Nikolajewka, and to the Cultural Association Artarchia for artistic-cultural events in the town of Buti.

Sport and Leisure

The Cassa provided support to: the San Francesco di Sales Institute to organise a day of sport dedicated to students; the Punto Handy, A non-profit association for social utility, which actively works with schools to help children with disabilities and to involve normal children in the topic of integration; the A.S.D. Association Diversamente marinai (disabled Sailors) with regard to the Off Shore sailing championship; the National Union of Veterans of Sport for celebrations on the occasion of the 50th anniversary of its foundation.

Religious sphere

The Cassa provides support to the work of the Archdioceses in Pisa, Florence, Lucca and Livorno. It contributed to the activities of the Diocese of Fiesole for the preparation and opening to the public of the seminary's library. The contribution made to the Tusac Province of San Francesco Stimmatizzato enables a charity gala to be held for the "Roots of Bethlehem" project, which sustains a home for the elderly in Bethlehem. Aid was also given to the Equestrian order of the Santo Sepolcro of Jerusalem dedicated to the rehabilitation of children with multiple disabilities. The contribution made to the Paris of S. Maria Assunta was used to build the new Parish Church.

Banca Popolare di Novara Foundation for the Territory

The Banca Popolare di Novara Foundation continued in its commitment to sponsor social and cultural initiatives and to assisting the economic development of the local area. The Banca Popolare di Novara Division worked alongside the Foundation, providing disbursements to the amateur sports sphere in particular.

Supporting education and research
The Foundation provided support to education for schemes at university level (University of Eastern Piedmont), dedicated to young people in secondary and high school (project entitled "Students from schools in Novara towards the new economy") and in primary school (Mirafiore Foundation for schools in the province of Cuneo and a project entitled "Robotics Learning Laboratory" of the Lucrezia Tangorra foundation in Novara), as well as providing school IT equipment. Scientific research received a specific commitment, to the I3P - Innovative Enterprise Incubator of Turin Polytechnic, for the organisation of Start Cup 2016, a contest between innovative young businesses in Piedmont and the Aosta Valley, and to research in the sphere of oncology (Humanitas Foundation, AIL and LILT).

Healthcare
Healthcare continued to be a focus of the Foundation, especially given the constant reduction of state contributions to this sector. The University Hospital "Maggiore della Carità" in Novara, the Hospital in Borgomanero and the Hospital in Alessandria received support for the purchase of surgical, diagnostic and treatment equipment, while the Hospital in Alba-Bra to improve patient comfort. In addition to these, contributions were made for the purchase of vehicles (for example to transport the disabled in wheelchairs assigned to the Social Integration Assistance Association in Bracciano), medical equipment and defibrillators or to implement healthcare programmes.

Social and solidarity initiatives
Continuing social emergencies led the Foundation and the BPN Division to assign contributions to numerous entities dedicated to assisting the weaker brackets of the population: the municipalities of Borgosesia, Novara and Varallo received funds for projects to assist families and unemployment; for the purchase of essential items for the Caritas and Diocese of Novara; for projects of the NPO II Focolare of Vigevano and the Association Certosa 1515 of Turin. The following associations received support, together with many others: the AGDB - Association of Parents of Down Children in Arona for a project related to entrance in the world of work, the ANGSA NPO in Novara-Vercelli (Association of Parents of Autistic Children), the ANFFAS (National Association of Families of children with intellectual and relational disabilities); the NPO Freedom and Hope Association of Novara, which helps women who have been the victim of violence, badly treated and exploited.

Protecting and enhancing artistic and architectural heritage
The Foundation provided support for projects relating to buildings and assets in the Diocese of Novara; these included the conservative restoration of the parish church of the Vergine Assunta di Grignasco. A large contribution was made to the Jewish Community of Vercelli for the restoration of the Sacred Scroll of the Synagogue in Biella, the most ancient still in use in the world (XIII century). Funds for the restoration and enhancements of works of art were given to the Borgogna Museum in Vercelli and to the Calderini Museum in Varallo.

Sport and Leisure
Contributions made to amateur sports associations were mostly disbursed by the BPN Division. More specifically, they sponsored the so-called minor sports: gymnastics (Libertas Vercelli), fencing (Pro Novara 1881), running (Atletica Trinacria), roller hockey (Azzurra Novara), tennis (Libertas Verrès), skiing (Sci Club Valle Vigezzo) and local small-medium sized associations: S.S.D. Arcobaleno di Borgosesia (VC), U.S. Vinzaglio (NO), A.S.D. Sci club Pernate (NO), A.S.D. Lozzolo (VC). A contribution was again made to the "Ofantiadi" of Pescopagano (PZ), a sports-cultural event, which involves the basin of the Ofanto river, between Campania, Basilicata and Puglia.

Promoting culture
As regards the cultural sphere, the Foundation continued to sponsor the Teatro Regio in Turin for the programme entitled "La scuola all'Opera", which promotes music to young people. Drama and literature for young people received support through a disbursement to the Novara association "Le Rêve et la vie". Funds were disbursed to the NPO Gerardino Romano Foundation in Castelvenere (BN) for cultural activities in the social solidarity sphere to recover the values of legality and justice. In addition to numerous other small donations to associations active in the cultural sector, contributions were again made to the Novara Jazz Festival and for the organisation of the theatre season of the NPO Theatre Coccia Foundation in Novara.

Organisation of events and shows
We draw attention to contributions made to the Ducci Foundation in Rome, for the ceremony to award the 2016 Peace Prize, to the Pro Loco Association in Stresa for the Stresa Narrative Award, to the Eventi Sonori Association in Alessandria for "Monferrato in musica", to the "Amici della Musica" in Novara for the celebration of 70 years of activity.

Credito Bergamasco Foundation

The Credito Bergamasco Foundation promotes progress in the local areas through the enhancement of artistic heritage, and by promoting medical research and education, supporting organisations and associations that work in the cultural, religious and sports spheres, with special attention focused on solidarity.

Social and solidarity initiatives
The projects sponsored in 2016 includes the support to a re-education project in legality of the Casa Circondariale of Bergamo, through the publication of pieces written by prisoners on pedagogically sensitive issues in the magazine called "Spazio". Other initiatives included contributions made to the Paolo Belli Association for the fight against leukaemia, to the Cure Palliative Association in Bergamo, to the Cappuccini monks in Bergamo for the management of the soup kitchen and to the Academy of Sport for Solidarity. The Credito Bergamasco Foundation, as part of the project entitled "Ti farò battere forte il cuore...con il defibrillatore" (I will make your heart beat stronger...with the defibrillator), donated one of these devices to each high school in Bergamo that didn't have one, and organised a course for students.

Supporting research
In 2016, the Creberg Foundation sponsored the project entitled "IORT - Acceleratore lineare per radioterapia intraoperatoria" for the Breast Care department of the Pope John XXIII Hospital in Bergamo. This contribution was in addition to the historic support that the Foundation has always made to the hospital. An important contribution was made to the Italian League for the Fight against Tumours, to support the research project "Clicca il neo" for the early diagnosis of skin tumours.

Promoting culture
Over the year, the Credito Bergamasco Foundation organised numerous exhibitions, including the travelling exhibition for the occasion of the Jubilee of Misericordia 2016, exhibiting works owned by Banco Popolare linked to the theme of Misericordia, in Lodi, Bergamo and Romano di Lombardia. In May, the Foundation celebrated 10 years of its exhibition activities by organising a collection dedicated to Evaristo Baschenis at the head office of Credito Bergamasco ten years after the first exhibition dedicated to the same Bergamo-born painter. In October, the Creberg Foundation organised an exhibition dedicated to the Eighteenth century with works by Giambattista Tiepolo and other great artists from this era, also promoting related initiatives in Palazzo Creberg and in the local area. In 2016, the Creberg Foundation organised 7 exhibitions at the Historic Building of Credito Bergamasco and 18 events in the local area. Also as regards cultural initiatives, in 2016, the Creberg Foundation continued to support the NPO Intercultura Association, contributing to the funding of study grants for study programmes abroad addressed to deserving students.

Protecting and enhancing artistic and architectural heritage
Within a project called "Grandi Restauri" (Great Restorations), the Creberg Foundation sustained and contributed to work on a painting by Paris Bordon, three painting by Giovan Paolo Cavagna and two masterpieces by Giovan Battista Moroni. Important delicate restoration work was carried out on the Pala and the Lunetta by Enea Salmeggia Chiesa della Natività di Maria a Desenzano al Serio (BG).
The Foundation also sponsored the restoration of a cycle of frescoes discovered in the Chapel of the Addolorata della Chiesa del Paradiso di Clusone (BG), as well as some wooden furniture in the Parish Church of Zandobbio (BG). In 2016, the Foundation also sponsored the project of the Civic Museum of Natural Science in Bergamo for the conservative restoration of original fossil remains of Mammuthus primigenius.

Sport
Again in 2016, contributions were made to sponsoring initiatives in the sports and social spheres organised by numerous amateur sports societies: these included the Runners from Bergamo, the Valle Brembana - Zogno Athletics society (BG), the Paratico Athletics society - Paratico (BS), the Italian Alpine - Bergamo Section.

OUTLOOK FOR BUSINESS OPERATIONS

In 2017, economic growth should continue, again at a limited pace, in the current positive direction, fuelled by corporate investment and by the recovery in exports, together with the tenacity of consumption, albeit at a slower pace of growth, thanks to the durable goods component. The monetary policy of the European Central Bank will continue to provide a means to dampen tensions, both in terms of funding and banking risk, as well as providing a boost to economic growth.
In this context, the expansion of bank credit, although fuelled by underlying positive factors, will reflect political uncertainty and, above all, the procedure required to restructure the national banking system. Bank loans to the private sector will fall further in 2017, as related to a period of generalised assignment of bad loans within the Italian credit system. The latter will represent an unprecedented "cleaning" of financial statements of historic proportions. In fact, net of assignments, the above-mentioned aggregate should increase considerably. More specifically, the demand for loans, stimulated by low interest rates, will be sustained, as regards retail customers, by spending on durable goods and by the reawakening of the real estate market, which will fuel requests for personal and mortgage loans; as regards that from enterprise, it will benefit from the economic growth that will sustain investments and exports.
In 2017, credit quality will improve quickly, following the structural measures to assign non-performing loans, expected within the system as a whole, and due to the slowdown in the rise of new bad loans.
Fluctuations in the trend of direct funding appear to be destined to continue for the whole of 2017, with characteristics similar to those of 2016: the stock of bank bonds will suffer a further significant drop, due to the risk perceived by customers after the recent bank scandals; deposits will increase significantly, especially those in current accounts, but not to an extent sufficient to offset the fall in the bond component. The combined effect of the above should lead to a further downtrend in volumes of direct customer funding. However, the extensive amount of liquidity still provided by the ECB will continue to finance a fair part of funding, although said contribution will then stabilise, enabling an overall lower cost of funding to be maintained.
Bank interest rates on deposits will continue to be low due to increasing competitive tensions associated with less restrictive conditions on the supply side, given short-term rates (3-month Euribor) that will continue to be negative for the whole of 2017. Interest rates on loans will reflect the expansive approach of monetary policy. The bank spread will therefore continue to be substantially stable.
The customer margin will have room for improvement, returning to a positive change for the year in question, in the light of the moderate increase estimated for performing loans and due to the substantial stability of the spread, with a positive impact on the interest margin. The flow of net fee and commission income should continue to positively reflect the uptrend of asset management and brokerage. Net interest and other banking income, however, will reflect the negative contribution of the result from trading and the fair value assessment, and is expected to fall considerably against the values recorded in the recent past. Net interest and other banking income is therefore expected to further decrease slightly.
Costs will benefit from the streamlining of the workforce, but will reflect the higher charges resulting from the growing burdens imposed by supervisory regulations. A stronger recovery and the reduced flow of new non-performing loans will reduce adjustments on loans, even though the need to maintain high levels of coverage, and/or to raise them further following the launch of the market for assignments of bad loans, will have a contrary effect.

In 2017, the Banco BPM Group will be committed to the implementation of the projects outlined in the 2016-2019 Strategic Plan, giving priority to IT integration and to rendering the organisational unit dedicated to the management of non-performing loans fully operational.
Management will concentrate on recovering profit margins, beginning to reap the benefits of the first synergies resulting from the merger.
Income performance may benefit from a further reduction in the cost of funding, from a rise in loans and an increase in the commissions made on management, brokerage and advisory services, which will at least partially offset the expected downturn of the contribution from financial services.
Cutting operating costs through rationalisation, improving operating efficiency and specific spending review measures will be the top priorities, alongside the gradual disposal of non-performing loans, both by means of internal workout and assignments.

Significant events occurring after the end of the financial year

In compliance with special instructions issued by the Bank of Italy, significant events occurring after the end of the financial year are illustrated in the Notes to the financial statements, part A, Section 4.

Milan, 10 February 2017

The Board of Directors

DECLARATION OF THE MANAGING DIRECTOR AND THE MANAGER RESPONSIBLE FOR PREPARING THE COMPANY'S FINANCIAL REPORTS

From the merger between Banco Popolare Soc. Coop. and Banca Popolare di Milano S.c. a r.l., approved on 15 October 2016 by the respective Extraordinary Shareholders' Meetings, Banco BPM S.p.A. was established, effective 1 January 2017. By effect of said extraordinary transaction, the Board of Directors of Banco BPM S.p.A., at a meeting held on 10 February 2017, is bound to approve the draft financial statements as at 31 December 2016 of Banco Popolare Soc. Coop. and of Banca Popolare di Milano S.c. a r.l..
Given the above, the certification envisaged by art. 154-bis of Italian Legislative Decree no. 58 of 24 February 1998 is provided below, in accordance with the model established by art. 81-ter of Consob Regulation no. 11971/99, for the consolidated financial statements of Banco Popolare Soc. Coop. issued by the Managing Director and by the Manager responsible for preparing the company's financial reports of Banco BPM S.p.A..

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AND SUBSEQUENT AMENDMENTS AND ADDITIONS

1. The undersigned, Giuseppe Castagna, as Managing Director of Banco BPM S.p.A. and Gianpietro Val, as Manager responsible for preparing the company's financial reports of Banco BPM S.p.A. hereby certify, also in consideration of the provisions of art. 154-bis, paragraphs 3 and 4, of Italian Legislative Decree no. 58 dated 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 formation of the consolidated financial statements of Banco Popolare Soc. Coop. in 2016.
2. The assessment of the adequacy and of the effective application of the administrative and accounting procedures for the formation of the consolidated financial statements of Banco Popolare Soc. Coop. as at 31 December 2016 was based on an internal model set in place by Banco Popolare Soc. Coop., developed on the basis of the Internal Control – Integrated Framework (COSO)" and, for the IT component, the "Control Objectives for IT and related Technology (COBIT)", which represent the standard for the internal audit system generally accepted at international level.
3. We also hereby certify that:
   3.1 the consolidated financial statements of Banco Popolare Soc. Coop. as at 31 December 2016:
      a) were drawn up in compliance with the applicable international accounting standards recognised in the European Community as per EC Regulation no. 1606/2002 of the European Parliament and Council, dated 19 July 2002;
      b) comply with the results of the accounting records and journal entries;
      c) are suitable for providing a true and fair view of the statement of financial position, income statement and financial situation of the issuer and of all the companies included within the scope of consolidation.

   3.2 The report on operations includes a reliable analysis of operating performance and results, as well as the situation of the issuer Banco Popolare Soc. Coop. and of all of the companies included within the scope of consolidation, together with a description of the main risks and uncertainties to which the same are exposed.

Milan, 10 February 2017

signed by:
Giuseppe Castagna
Managing Director

signed by:
Gianpietro Val
Manager responsible for preparing the Company's financial reports

INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT PURSUANT TO ART. 14 AND 16 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

To the Shareholders of
Banco BPM S.p.A.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Banco Popolare Group, which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated income statement, statement of consolidated comprehensive income, statement of changes in consolidated shareholders' equity and consolidated statement of cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

The Company's Directors are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/05 and the requirements of national regulations issued pursuant to art. 43 of Italian Legislative Decree n° 136/15.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) issued pursuant to art. 11 of Italian Legislative Decree 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation that give a true and fair view of consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Banco Popolare Group as at December 31, 2016, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/05 and the requirements of national regulations issued pursuant to art. 43 of Italian Legislative Decree n° 136/15.

Other Matters

Banco Popolare Group consolidated financial statements as at December 31, 2015 has been audited by another Auditor, who has expressed his unmodified opinion in February 23, 2016 on that financial Statement.

Report on Other Legal and Regulatory Requirements

Opinion on the consistency of the report on operations and of certain information included in the report on corporate governance with the consolidated financial statements

We have performed the procedures indicated in the Auditing Standard (SA Italia) n° 720B in order to express, as required by law, an opinion on the consistency of the report on operations and of certain information included in the report on corporate governance required by art. 123-bis, n° 4, of Italian Legislative Decree n° 58/98, which are the responsibility of the Directors of Banco BPM S.p.A., with the consolidated financial statements the Banco Popolare Group as at December 31, 2016. In our opinion the report on operations and the information included in the report on corporate governance referred to above are consistent with the consolidated financial statements of the Banco Popolare Group as at December 31, 2016.

DELOITTE & TOUCHE S.p.A.

Signed by
Michele Masini
Partner

Milano, Italy
March 15, 2017

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

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Asset items	31/12/2016	31/12/2015 (*)
10. Cash and cash equivalents	648,255	587,383
20. Financial assets held for trading	4,743,425	6,251,320
30. Financial assets designated at fair value through profit and loss	4,304	18,600
40. Financial assets available for sale	12,090,988	12,910,696
50. Investments held to maturity	8,368,223	7,779,168
60. Due from banks	4,559,188	2,817,832
70. Loans to customers	75,840,234	78,421,634
80. Hedging derivatives	443,411	495,161
90. Fair value change of financial assets in macro fair value hedge portfolios (+/-)	66,914	76,675
100. Investments in associates and companies subject to joint control	1,195,214	1,166,324
120. Property and equipment	1,977,766	2,132,633
130. Intangible assets	1,751,895	2,042,120
of which: goodwill	1,109,895	1,388,895
140. Tax assets	3,677,941	2,999,403
a) current	211,989	171,684
b) deferred	3,465,952	2,827,719
of which pursuant to Italian Law 214/2011	2,447,962	2,445,112
150. Non-current assets held for sale and discontinued operations	77,369	109,983
160. Other assets	1,965,876	2,352,167
Total assets	**117,411,003**	**120,161,099**

(*) The figures for the year have been reclassified to provide a like-for-like comparison.

Liability and shareholders' equity items	31/12/2016	31/12/2015 (*)
10. Due to banks	16,017,401	16,334,739
20. Due to customers	58,671,580	53,470,382
30. Debt securities issued	15,041,815	16,568,441
40. Financial liabilities held for trading	8,145,975	7,497,914
50. Financial liabilities designated at fair value through profit and loss	6,733,306	12,102,621
60. Hedging derivatives	1,292,087	990,562
70. Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)	-	457
80. Tax liabilities	274,146	355,475
a) current	8,554	21,011
b) deferred	265,592	334,464
90. Liabilities associated with non-current assets held for sale and discontinued operations	960	342,265
100. Other liabilities	2,455,451	2,890,861
110. Employee termination indemnities	325,339	334,613
120. Provisions for risks and charges:	808,095	726,035
a) retirement benefits and similar commitments	94,180	89,796
b) other provisions	713,915	636,239
140. Valuation reserves	28,796	177,264
170. Reserves	2,140,394	1,795,715
190. Share capital	7,089,340	6,092,996
200. Treasury shares (-)	(1,590)	(2,483)
210. Minority interests (+/-)	69,568	53,169
220. Net income (loss) for the year (+/-)	(1,681,660)	430,073
Total liabilities and shareholders' equity	**117,411,003**	**120,161,099**

(*) The figures for the year have been reclassified to provide a like-for-like comparison.

CONSOLIDATED INCOME STATEMENT

Items	2016	2015
10. Interest and similar income	2,325,419	2,778,692
20. Interest and similar expense	(1,006,162)	(1,207,506)
30. Interest margin	**1,319,257**	**1,571,186**
40. Fee and commission income	1,402,795	1,498,466
50. Fee and commission expense	(84,637)	(73,056)
60. Net fee and commission income	**1,318,158**	**1,425,410**
70. Dividends and similar income	23,653	31,201
80. Profits (losses) on trading	60,435	75,479
90. Fair value adjustments in hedge accounting	787	1,427
100. Profits (losses) on disposal or repurchase of:	36,306	378,854
a) loans	(92,440)	37,686
b) financial assets available for sale	131,164	341,356
d) financial liabilities	(2,418)	(188)
110. Profits (losses) on financial assets and liabilities designated at fair value through profit and loss	(10,260)	(3,321)
120. Net interest and other banking income	**2,748,336**	**3,480,236**
130. Net losses / recoveries on impairment of:	(2,487,681)	(920,771)
a) loans	(2,441,799)	(886,616)
b) financial assets available for sale	(41,158)	(27,215)
d) other financial transactions	(4,724)	(6,940)
140. Net income from banking activities	**260,655**	**2,559,465**
170. Net income from banking and insurance activities	**260,655**	**2,559,465**
180. Administrative expenses:	(2,531,759)	(2,453,491)
a) personnel expenses	(1,463,926)	(1,423,372)
b) other administrative expenses	(1,067,833)	(1,030,119)
190. Net provisions for risks and charges	(33,268)	(76,591)
200. Net adjustments to/recoveries on property and equipment	(102,620)	(116,006)
210. Net adjustments to/recoveries on intangible assets	(76,596)	(65,378)
220. Other operating income/expense	325,135	364,697
230. Operating expenses	**(2,419,108)**	**(2,346,769)**
240. Profits (losses) on investments in associates and companies subject to joint control	124,246	141,341
260. Value adjustments on goodwill	(279,000)	-
270. Profits (losses) on disposal of investments	17,332	(4,262)
280. Income (Loss) before tax from continuing operations	**(2,295,875)**	**349,775**
290. Taxes on income from continuing operations	588,843	68,894
300. Income (Loss) after tax from continuing operations	**(1,707,032)**	**418,669**
310. Income (loss) after tax from discontinued operations	2,524	(7,280)
320. Net income (Loss)	**(1,704,508)**	**411,389**
330. Net income (Loss) attributable to minority interests	22,848	18,684
340. Parent Company's net income (loss)	**(1,681,660)**	**430,073**
Basic EPS (euro)	*(2.774)*	*1.173*
Diluted EPS (euro)	*(2.774)*	*1.173*

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

	Items	31/12/2016	31/12/2015
10.	**Net income (Loss)**	**(1,704,508)**	**411,389**
	Other comprehensive income after tax without reclassification to profit or loss		
40.	Defined benefit plans	**(14,883)**	11,607
60.	Share of valuation reserves related to investments in associates carried at equity	-	272
	Other comprehensive income after tax with reclassification to profit or loss		
70.	Foreign investment hedges	**(226)**	**-**
90.	Cash flow hedges	1,423	2,246
100.	Financial assets available for sale	(140,722)	(18,384)
120.	Share of valuation reserves related to investments in associates carried at equity	5,936	(3,097)
130.	**Total other comprehensive income after tax**	**(148,472)**	**(7,356)**
140.	**Comprehensive Income (Items 10+130)**	**(1,852,980)**	**404,033**
150.	Consolidated comprehensive income attributable to minority interests	22,852	18,676
160.	**Consolidated comprehensive income attributable to the Parent Company**	**(1,830,128)**	**422,709**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

31 December 2016 *(In thousands of euro)*	Balance as at 31/12/2015	Changes in opening balance	Balance as at 01/01/2016	Allocation of net income from previous year		Changes in the year								Shareholders' equity as at 31/12/2016	Group shareholders' equity as at 31/12/2016	Minority interests as at 31/12/2016
							Operations on shareholders' equity						Comprehensive income 2016			
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity investments			
Share Capital:	**6,164,044**	**-**	**6,164,044**	**-**		**-**	**1,036,344**	**-**					**(56)**		**7,200,332**	**7,089,340**	**110,992**
a) ordinary shares	6,164,044	-	6,164,044	-		-	1,036,344	-					(56)		7,200,332	7,089,340	110,992
b) other shares	-	-	-	-		-	-	-					-		-	-	-
Share premium reserve	**-**	**-**	**-**	**-**		**-**	**-**	**-**					**-**		**-**	**-**	**-**
Reserves:	**1,796,363**	**-**	**1,796,363**	**351,221**		**136**	**(25,703)**	**-**	**-**		**-**		**(352)**		**2,121,665**	**2,140,394**	**(18,729)**
a) retained earnings	1,751,796	-	1,751,796	351,221		47	(25,703)	-	-				(352)		2,077,009	2,095,646	(18,637)
b) other	44,567	-	44,567	-		89	-	-			-		-		44,656	44,748	(92)
Valuation reserves	**177,421**	**-**	**177,421**	**-**		**-**							**-**	**(148,472)**	**28,949**	**28,796**	**153**
Equity instruments	**-**	**-**	**-**							**-**					**-**	**-**	**-**
Treasury shares	**(2,483)**	**-**	**(2,483)**			**-**	**893**	**-**							**(1,590)**	**(1,590)**	**-**
Net income (loss)	**411,389**	**-**	**411,389**	**(351,221)**	**(60,168)**									**(1,704,508)**	**(1,704,508)**	**(1,681,660)**	**(22,848)**
Shareholders' equity	**8,546,734**	**-**	**8,546,734**	**-**	**(60,168)**	**136**	**1,011,534**	**-**	**-**	**-**	**-**		**(408)**	**(1,852,980)**	**7,644,848**	**7,575,280**	**69,568**
- Group	**8,493,565**		**8,493,565**	**-**	**(59,827)**	**136**	**971,534**	**-**	**-**	**-**	**-**		**-**	**(1,830,128)**	**7,575,280**		
- minority interests	**53,169**	**-**	**53,169**	**-**	**(341)**	**-**	**40,000**	**-**					**(408)**	**(22,852)**	**69,568**		

The figures shown in the column "Allocation of net income from previous year - Dividends and other allocations" include:
- euro 54.3 million as a dividend distributed by the Parent Company (euro 0.15 to each of the 362,179,606 ordinary shares) and euro 5.5 million as charity donations, in accordance with the resolution of the Shareholders' Meeting on 19 March 2016;
- euro 0.3 million as dividends distributed to third parties by Group subsidiaries.
Regarding the change in the year related to the issue of new Group shares, corresponding to euro 971.1 million, euro 970.9 million regards the share capital increase finalised by Banco Popolare, net of the relative transaction costs.
Minority interests, corresponding to euro 40 million, refers to the portion of the share capital increase of the subsidiary company Release subscribed by third party shareholders.

31 December 2015 *(In thousands of euro)*	Balance as at 31/12/2014	Changes in opening balance	Balance as at 01/01/2015	Allocation of net income from previous year		Changes in the year								Shareholders' equity as at 31/12/2015	Group shareholders' equity as at 31/12/2015	Minority interests as at 31/12/2015
							Operations on shareholders' equity						Comprehensive income for the year			
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity investments			
Share Capital:	**6,145,076**	**-**	**6,145,076**	**-**		**(41,028)**	**60,000**	**-**					**(4)**		**6,164,044**	**6,092,996**	**71,048**
a) ordinary shares	6,145,076	-	6,145,076	-		(41,028)	60,000	-					(4)		6,164,044	6,092,996	71,048
b) other shares	-	-	-	-		-	-	-					-		-	-	-
Share premium reserve	**1,500,870**	**-**	**1,500,870**	**(1,471,870)**		**(29,000)**	**-**	**-**					**-**		**-**	**-**	**-**
Reserves:	**2,232,849**	**-**	**2,232,849**	**(512,991)**		**76,579**	**(55)**	**-**	**-**		**-**		**(19)**		**1,796,363**	**1,795,715**	**648**
a) retained earnings	2,194,682	-	2,194,682	(512,991)		70,179	(55)	-	-				(19)		1,751,796	1,751,056	740
b) other	38,167	-	38,167	-		6,400	-	-			-		-		44,567	44,659	(92)
Valuation reserves	**184,777**	**-**	**184,777**	**-**		**-**							**-**	**(7,356)**	**177,421**	**177,264**	**157**
Equity instruments	**-**	**-**	**-**							**-**					**-**	**-**	**-**
Treasury shares	**(2,618)**	**-**	**(2,618)**			**5**	**130**	**-**							**(2,483)**	**(2,483)**	**-**
Net income (Loss) for the period	**(1,984,605)**	**-**	**(1,984,605)**	**1,984,861**	**(256)**									**411,389**	**411,389**	**430,073**	**(18,684)**
Shareholders' equity	**8,076,349**	**-**	**8,076,349**	**-**	**(256)**	**6,556**	**60,075**	**-**	**-**	**-**	**-**		**(23)**	**404,033**	**8,546,734**	**8,493,565**	**53,169**
- Group	**8,064,219**		**8,064,219**	**-**	**-**	**6,562**	**75**	**-**	**-**	**-**	**-**		**-**	**422,709**	**8,493,565**		
- minority interests	**12,130**	**-**	**12,130**	**-**	**(256)**	**(6)**	**60,000**	**-**					**(23)**	**(18,676)**	**53,169**		

CONSOLIDATED STATEMENT OF CASH FLOWS

Direct method

A. Operating activities	31/12/2016	31/12/2015 (*)
1. Cash flow from operations	**699,247**	**2,071,166**
- interest received (+)	2,325,419	2,778,692
- interest paid (-)	(1,006,162)	(1,207,506)
- dividends and similar income (+)	23,653	31,201
- net fee and commission income (+/-)	1,318,158	1,425,410
- personnel expenses (-)	(1,451,228)	(1,410,127)
- net premiums collected (+)	-	-
- other insurance income/expense (+/-)	-	-
- other costs (-)	(1,049,714)	(1,032,954)
- other revenues (+)	550,752	1,424,836
- taxes	(14,155)	68,894
- costs/revenues after tax from discontinued operations (+/-)	2,524	(7,280)
2. Cash flow from/used in financial assets	**1,205,832**	**4,257,098**
- financial assets held for trading	1,406,688	262,120
- financial assets designated at fair value through profit and loss	(15,914)	(48,857)
- financial assets available for sale	778,550	580,257
- loans to customers	139,550	535,588
- due from banks: repayable on demand	17,473	561,779
- due from banks: other loans	(1,758,778)	1,658,970
- other assets	638,263	707,241
3. Cash flow from/used in financial liabilities	**(2,032,403)**	**(3,481,556)**
- due to banks: repayable on demand	(54,484)	(439,169)
- due to banks: other payables	(262,854)	(609,409)
- due to customers	5,201,198	(1,308,332)
- debt securities issued	(1,526,626)	(141,134)
- financial liabilities held for trading	648,061	1,438,401
- financial liabilities designated at fair value through profit and loss	(5,369,315)	(2,922,558)
- other liabilities	(668,383)	500,645
Net cash flow from/used in operating activities	**(127,324)**	**2,846,708**
B. Investing activities		
1. Cash flow from:	**1,152,499**	**29,610**
- sales of investments in associates and companies subject to joint control	53	-
- dividends collected on investments in associates and companies subject to joint control	-	-
- sales/redemptions of investments held to maturity	1,139,694	-
- sales of property and equipment	12,752	29,610
- sales of intangible assets	-	-
- sales of subsidiaries and business branches	-	-
2. Cash flow used in:	**(1,905,152)**	**(2,968,208)**
- purchases of investments in associates and companies subject to joint control	-	(694)
- purchases of investments held to maturity	(1,798,667)	(2,800,851)
- purchases of property and equipment	(39,183)	(108,673)
- purchases of intangible assets	(67,302)	(57,990)
- purchases of subsidiaries and business branches	-	-
Net cash flow from/used in investing activities	**(752,653)**	**(2,938,598)**
C. Financing activities		
- issues/purchases of treasury shares	1,001,017	60,000
- issues/purchases of equity instruments	-	-
- dividend distribution and other allocations	(60,168)	(256)
Net cash flow from/used in financing activities	**940,849**	**59,744**
Net cash flow from/used in activities during the year	**60,872**	**(32,146)**

(*) The figures have been reclassified to provide a like-for-like comparison.

Reconciliation	31/12/2016	31/12/2015
- Cash and cash equivalents at the beginning of the year	587,383	619,529
- Net cash flow from/used in activities during the year	60,872	(32,146)
- Cash and cash equivalents: foreign exchange effect	-	-
Cash and cash equivalents at the end of the year	**648,255**	**587,383**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Declaration for the exemption from the obligation to publish the Consolidated Financial Statements in extensible electronic format (XBRL language)

We hereby specifically declare, without reservation, that Banco Popolare Società Cooperativa is exempt from the obligation to submit its consolidated financial statements in extensible electronic format pursuant to the provisions of art. 3 of the Council of Ministers Presidential Decree dated 10 December 2008, insofar as it is a joint stock company listed on a regulated market (Electronic Equity Market - MTA, managed by Borsa Italiana S.p.A.).

The Legal Representative
Avv. Carlo Fratta Pasini

PART A – ACCOUNTING POLICIES

A.1 - GENERAL PART

Section 1 - Statement of compliance with the international accounting standards

These consolidated financial statements, in compliance with Italian Legislative Decree no. 38 of 28 February 2005, have been drawn up according to the IAS/IFRS, issued by the International Accounting Standard Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), validated by the European Commission, as defined in EC Regulation no. 1606 of 19 July 2002.

The following documents have been used to interpret and apply the international accounting standards, although they have not been validated by the European Commission:

- Framework for the Preparation and Presentation of Financial Statements ("Framework");
- Implementation Guidance, Basis for Conclusions and any other documents prepared by the IASB or IFRIC as a supplement to issued accounting standards.

The accounting standards applied in preparing these financial statements are those in effect as at 31 December 2016 (including the SIC and IFRIC interpretation documents).

For an overview of the standards validated during 2016 or those validated in prior years, whose application is expected for 2016 (or for future years), reference is made to "Section 5 – Other Aspects", below, which also illustrates the main impacts for the Group.

The notices received from the Supervisory Authorities (Bank of Italy, Consob and ESMA) have also been taken into consideration, as the same provide recommendations on the disclosures to be made in the Financial Report on aspects of particular importance or on the accounting treatment of certain transactions.

Section 2 - General preparation principles

The consolidated financial statements comprise the statement of financial position, income statement, statement of comprehensive income, statement of changes in shareholders' equity, statement of cash flows and the notes to the financial statements, and are accompanied by the Directors' report on operations and on the general situation of the consolidated companies.

The financial statements and the contents of the notes to the financial statements have been prepared in keeping with the provisions of the Bank of Italy in Circular no. 262 of 22 December 2005 "Bank Financial Statements: Layouts and Rules for Preparation" and the subsequent updates (most recently, the update published on 15 December 2015). Specifically, this was a Circular issued by the Bank of Italy in exercising its powers established by the above-mentioned Legislative Decree 38/2005 (hereinafter also referred to as "Circular no. 262").

These financial statements are drawn up using the Euro as functional currency.

The amounts shown in the financial statements and the data illustrated in the tables in the notes to the financial statements are expressed in thousands of euro, unless specified otherwise.

The consolidated financial statements are drawn up clearly and provide a true and fair view of the equity and financial situation and economic result of Banco Popolare and its subsidiaries for the year, as illustrated in more detail in Section 3 - Scope of consolidation and consolidation methods" below. The financial statements used to prepare the consolidated financial statements are those prepared by the subsidiaries as at 31 December 2016, adjusted, if necessary, to comply with IAS/IFRS.

Should the information required by the international accounting standards and the provisions of the above-mentioned Circular be deemed insufficient to provide a true and fair view, the notes to the financial statements provide supplementary information necessary for this purpose.
If, in exceptional cases, the application of provisions envisaged by the international accounting standards is incompatible with the true and fair view of the statement of financial position, financial situation and economic result, it would not be applied. The notes to the financial statements will set forth an explanation of the reasons for any departure and its influence on the representation of the equity and financial situation and economic result.

The financial statements have been drawn up in observance of the following general principles:

- *going concern:* the financial statements have been drawn up with a view to the Group's business activities as a going-concern;
- *accrual accounting:* the financial statements have been drawn up on an accruals basis with the exception of cash flows information;
- *presentation consistency:* the presentation and classification of the items in the financial statements are consistent from one year to another unless the standard or interpretation requires a change in presentation or another presentation or classification is no longer appropriate taking into account that matters envisaged by IAS 8. In this latter case, disclosure is provided in the report with regard to the changes made with respect to the previous year;
- *materiality and aggregation:* the statement of financial position and income statement schedules are made up of items (identified by Arabic numerals), sub-items (identified by letters) and by additional detailed disclosure (the "of which" captions of the items and sub-items). The items, sub-items and related detailed disclosure represent the financial statement accounts. The financial statements are compliant with those established by the Bank of Italy in Circular No. 262 dated 22 December 2005 and subsequent amendments. Additional items can be added to the afore-mentioned financial statements if their content is not attributable to any of the items already envisaged by the schedules and only if the amounts involved are significant. The sub-items envisaged by the statements can be grouped together when one of the following two conditions applies:
  a) the amount of the sub-items is immaterial;
  b) the aggregation favours a clear financial statement presentation; in this case, the notes separately describe the sub-items that have been aggregated.

  Accounts which do not present amounts either for the year to which the financial statements refer or the previous year are not indicated in the statement of financial position or income statement;
- *predominance of substance over form:* the transactions and other events are recognised and stated in compliance with their substance and economic entity and not just their legal form;
- *offsetting:* assets and liabilities, income and expenses are not offset, unless this is permitted or required by an international accounting standard or by an interpretation of the same or the provisions set forth by the aforementioned Bank of Italy Circular;
- *comparative information:* comparative information is provided for each statement of financial position and income statement item relating to the previous year, unless an accounting standard or interpretation does not permit this or requires different presentation. The balances relating to the previous year can be appropriately adjusted, where necessary, for the purpose of ensuring the comparability of the information relating to the year underway. Any non-compatibility, adaptation or impossibility of the latter are reported and commented on in the notes.

The Notes to the financial statements are divided into sections: A-Accounting policies, B-Information on the consolidated statement of financial position, C-Information on the consolidated income statement, D-Statement of consolidated comprehensive income, E-Information on risks and relative hedging policies, F-Information on consolidated shareholders' equity, G-Business combinations regarding companies or divisions, H-Transactions with related parties, I-Share-based payment agreements, and L-Segment reporting.
Each part of the notes is organised into sections, and each section describes a single element of operations.

Accounting policies and uncertainties with regard to the use of estimates for drawing up the financial statements (pursuant to the provisions of IAS 1 and the recommendations set forth in the Bank of Italy/Consob/Isvap documents no. 2 of 6 February 2009 and no. 4 of 3 March 2010)

The application of certain accounting standards necessarily involves recourse to estimates and assumptions which affect the values of the assets and liabilities recorded in the financial statements and the disclosure provided with regard to the potential assets and liabilities.
The assumptions underlying the estimates made take into account all the information available as of the date of

preparation of the financial statements, as well as the hypotheses considered reasonable in light to past experience and the particular moment being experienced by the financial markets. In this regard, note that the situation caused by the current economic and financial crisis has made it necessary to make assumptions concerning the future trend characterised by significant uncertainty.
Precisely in consideration of the uncertain situation, it cannot be excluded that the hypotheses adopted, however reasonable, might not be confirmed by future scenarios in which the Group finds itself operating. The results which will be achieved in the future could therefore differ from the estimates made for the purpose of drawing up the financial statements and could consequently make adjustments necessary which at present cannot be foreseen or estimated with respect to the book value of the assets and liabilities recorded in the financial statements.

The following paragraphs illustrate the accounting policies considered most critical to the truthful and correct portrayal of the Group's equity, economic and financial situation, both in terms of the materiality of the values to be recognised in the financial statements affected by said policies and the high level of judgement required for valuations that for which management need to use estimates and assumptions, referring the reader to the specific sections of the notes to the financial statements for detailed information on the valuation processes conducted as at 31 December 2016.

Determination of estimated impairment losses on loans disbursed and other financial assets recognised under statement of financial position assets

Loans represent one of the items subject to estimates most exposed to chioces made by the Group in terms of disbursement and risk management and monitoring.
More specifically, the Group manages the risk of default of borrowers by continuously monitoring customer accounts in order to assess their ability to repay the amount borrowed, based on their economic-financial situation. Monitoring in this way enables any signs of loan deterioration to be intercepted and therefore an estimate can be made of the value adjustment to be recognised against these loans either on an analytical basis or on a lump-sum basis, the latter calculated by considering the likelihood of insolvency, and the impairment recorded in the past on loans of a similar nature.
For loans for which objective evidence of impairment has not be assessed individually, a collective valuation process is implemented, based on loss percentages constructed on time series, suitably adjusted to take current conditions on the valuation date into account.
When assessing the value of loans, actual data and information that is certain on the date of preparation of the financial statements are of key importance. However, there are other equally important factors, such as:

- the reference context, from a macroeconomic and legislative-regulatory perspective, which influences management's vision in terms of future expectations and rigour in the valuation process. Said context is particularly important given the prolonged nature of the current economic-financial crisis, which could entail the further deterioration of borrowers;
- the outcome of the application of models to estimate the cash flows that individual borrowers (or portfolios of borrowers with similar risk profiles) are able to pay in order to meet, wholly or in part, the obligations they have undertaken with the Group and estimates of the presumed sale value of property or of other collateral. Within the range of possible approaches relating to estimation models permitted by the reference international accounting standards, the use of a method or the selection of certain estimation parameters may have a significant influence on the valuation of loans. These methods and parameters are necessarily updated through a continuous process in order to best represent the estimated realisable value of the credit exposure.

In this regard, it should be noted that the valuation of loans from 31 March 2016 has been influenced by a significant element of discontinuity with respect to standard operations, represented by the signature on 23 March 2016 of the memorandum of understanding for the business aggregation of Banco Popolare with Banca Popolare di Milano, illustrated in the section entitled "Significant events during the year" contained in the "Report on operations".
After the signature of the cited memorandum of understanding, in its preliminary examination of the intentions stated by the top management of the two groups, the European Central Bank established a series of binding conditions in order for it to issue its authorisation, based on the future importance of the new legal entity within the European financial system. One of the main conditions entailed the need for the new parent company Banco BPM to possess, right from the beginning, a convincing plan to reduce non-performing loans, which may not be higher or characterised by a level of coverage below the average values of Italian banks of an equivalent importance.
With regard to said request, from the first quarter of 2016, the valuations of the loans of the Banco Popolare Group were characterised by a faster than usual pace of the process to review analytical valuations, also with a view to identifying specific portfolios that could potentially be sold. The impact resulting from the new valuations, calculated on the basis of the most updated information available as regards their potential and/or means of recovery, was recognised under the income statement item "130. Net losses/recoveries on impairment of loans", insofar as it can be considered as a change in estimate in accordance with accounting standard IAS 8.
In 2016, the exposure in bad loans was carefully analysed, with a view to identifying specific portfolios for which it would be possible to judge whether the possible assignment of the same to third parties was the best option, rather than continuing with standard credit collection activities by the specific internal departments. Efforts also continued with a view to finding potential buyers and to examining the purchase offers received. As illustrated in the section

dedicated to significant events during the year in the Report on operations, to which the reader is referred, these activities enabled the Banco Popolare Group to finalise several assignments of bad loans over the course of 2016.
With regard to portfolios of bad loans, for which the Board of Directors of Banco Popolare had taken a formal decision on the recovery strategy for the same, which entailed encouraging their assignment to third party operators, the valuation of the financial statements has been updated in order to reflect the various recoverable cash flows resulting from the assignment, which is usually below the value recognised in the financial statements. If expectations of recovering cash flows from the borrower and/or from settlement procedures are on a par, the assignment price is influenced by the high rates of return that operators specialising in the management of "distressed assets" investors intend to achieve, which are usually higher than the actual original interest rates used to draw up the financial statements, when establishing the present value of the cash flows expected to be recovered on the loans.
In the light of the above, it is important therefore to note that alternative monitoring criteria or different methods, parameters or assumptions in the process to estimate the recoverable value of Group credit exposures, influenced incidentally by the possible strategies to recover the same, as well as by the deterioration of the economic-financial crisis, may lead to different valuations with respect to those conducted for the preparation of the financial statements as at 31 December 2016.

Estimated impairment losses in relation to intangible assets and investments in associates

On a yearly basis, upon preparing the financial statements, intangible assets and investments in associates recognised in the statement of financial position assets are tested for impairment. The impairment test is usually conducted by determining the value in use or the fair value of the assets and verifying that the carrying amount of an intangible asset or investment is lower than its value in use or fair value, net of costs to sell, whichever is greater.
The financial and economic crisis that unfolded starting from 2008, has deeply changed the scenarios in which the Group operated and will operate, requiring organisational and structural measures and obliging the bank to operate in a context characterised by considerable uncertainty.
Impairment testing relating to the "Commercial Network" and "Private & Investment Banking" cash generating units, to which almost all intangible assets with an undefined useful life have been allocated, was conducted using the Value in Use obtained through the application of the Dividend Discount Model (DDM), based on which the value of a company depends on the dividend flows that it is capable of generating with a view to the future. In the case in point, the method used is Excess Capital DDM, which assumes that the economic value of a company is equal to the sum of the present value of future cash flows (Expected Dividends) generated over the selected planning timeframe, which can be distributed to shareholders while maintaining a suitable level of capitalisation to guarantee expected future development, and the perpetual capitalisation of the normalised dividend for the last year of the forecast, based on a pay-out ratio depending on profitability at full operation.
In this regard, it is important to note that the parameters and the information used to verify the recoverability of goodwill (particularly the cash flows envisaged for the various CGUs, as well as the discounting rates used) were heavily influenced by the macroeconomic and market situation, which could undergo changes that we are currently unable to predict.
Part B of the Notes to the Financial Statements, Section 13 - Intangible assets, provides an illustration of the main assumptions underlying the verification of the recoverability of goodwill and a sensitivity analysis of the recoverable value of the cash generating unit with respect to the valuation parameters considered most important.
As regards equity investments, note that the non availability, as at the date of preparation of the draft consolidated financial statements, of the draft financial statements of the investee companies and of their updated business plans, introduces further elements of uncertainty to the process of assessing the value of equity investments. In these circumstances, we can therefore not exclude the possibility that the value attributed to the equity investments based on the information available may, in the future, not be fully representative of the recovery value.

Determination of the fair value of financial assets and liabilities

In the event of financial instruments that are not listed on active markets or illiquid and complex instruments, adequate valuation processes need to be set in place, characterised by a certain amount of subjective judgement as regards the choice of the valuation model and of the relative input parameters, which sometimes cannot be observed in the market. There are margins of subjectivity in the valuation with regard to whether certain parameters are observable or not, and in the consequent classification in correspondence with the fair value hierarchy levels.
For qualitative and quantitative information on the method adopted to measure the fair value of instruments recognised at fair value through profit and loss in the financial statements and for those values at amortised cost, please refer to the contents of the Notes to the Financial Statements, Part A.4 - Fair value disclosure.

Estimating impairment losses on financial assets available for sale

With regard to financial assets available for sale, identifying objective evidence of losses in a critical element, in the presence of which the reduction in the fair value must be recognised as a balancing entry in the income statement, rather than a specific reserve of shareholders' equity. With regard to equity instruments and investments in private equity funds and in similar investment vehicles, the policy approved by the Group establishes parametric thresholds

connected to the significant or prolonged nature of the reduction in fair value, which, once exceeded, requires the recognition of a loss to the income statement, save for exceptional and justified circumstances.
More specifically, as part of a number of industry schemes to assist banks in financial difficulty, over the course of 2016, investments were made in the Atlante Fund, which subscribed the share capital increases of Banca Popolare di Vicenza and Veneto Banca, and in the voluntary scheme of the Interbank Deposit Guarantee Fund, which intervened to support the Cassa di Risparmio di Cesena. The fair value measurement of these investments and the consequent need to write them down in the income statement, entailed considerable judgement aspects, also as regards the situation of uncertainty as to the prospects of the underlying assets.

Impairment testing on financial assets available for sale is illustrated in Section 4 of Part B of Assets in these Notes to the Financial Statements.

Estimating the recoverability of deferred tax assets

The Group has significant deferred tax assets among its assets, mainly deriving from temporary differences between the income statement recognition date of given business costs and the date when said costs may be deducted, and, to a lesser extent, resulting from tax losses carried forward. The recognition of these assets and the subsequent maintenance in the statement of financial position entails a judgement as to the potential recoverability of the same. Said judgement of recoverability is based on the legislative tax provisions in force on the date of preparation of the financial statements. These provisions permit deferred tax assets that meet the requirements established by Law no. 214 of 22 December 2011 to be transformed into tax credit in the event that a "statutory loss", a "tax loss" for IRES purposes or a "net negative value of production" for IRAP purposes is recorded, therefore making there recovery certain, regardless of the ability to generate future profits. With regard to deferred tax assets resulting from tax losses for IRES purposes, current legislation allows the same to be carried forward without any time restriction. For said deferred tax assets and for the residual assets resulting from temporary differences other than those previously cited, the judgement of probability is based on the income forecasts contained in the strategic plan.
In this regard, it is important to note that verifying the recoverability of the recognition values of deferred tax assets is a valuation that requires significant elements of judgement.
The recoverability could also be negatively influenced by circumstances that are not foreseeable at the present time, such as changes to the current tax legislation or changes in the macroeconomic or market scenario, which would then require an update of the income forecasts used as a basis to estimate future taxable income. For this reason, the recoverability of the DTA that cannot be transformed into tax credit will be continuously monitored with regard to changes in tax legislation and in the results recorded, which may be negatively influenced by the economic and market scenario.

Section 14 - Tax assets and tax liabilities, contained in Part B - Assets in these Notes to the Financial Statements, provides information on the nature and on the tests conducted as regards the recognition or otherwise of deferred tax assets.

Estimating provisions for risks and charges

The companies belonging to the Group are defendants in a wide range of lawsuits and tax disputes. The complexity of the situations and corporate deals that underlie the outstanding disputes, along with the difficulties in the interpretation of applicable law, require significant elements of judgement to estimate the liabilities that may result when pending lawsuits are settled. The difficulties lie in assessing if and what may be due and how much time will elapse before liabilities materialise and are particularly evident when the proceedings are at the initial stage and/or the relative preliminary analysis is underway. The specific nature of the matter disputed and the consequent absence of case law relating to similar disputes, not to mention the differing opinions expressed by judgement bodies both at the various levels of the proceedings and by bodies at the same level over time, make a valuation of the potential liabilities difficult even when the provisional rulings relating to the courts of first instance are available. Previous experience demonstrates that in a number of cases, the rulings made by the judges in the courts of first instance were then completely overturned on appeal or in the supreme court, which may be in favour or not in favour of Group companies. On the basis of the above, the classification of potential liabilities and the consequent valuation of the provisions needed is based on subjective elements of judgement. It cannot therefore be ruled out that following the issue of the final ruling, allocations made to provisions for risks and charges on the basis of the potential liabilities of lawsuits and tax disputes may turn out to be lacking or surplus to requirements.
For the disclosure of the main risk positions of the Group relating to legal disputes (clawback actions and lawsuits underway) and to tax disputes with the Tax Authority, the reader should refer to Section 12 - Provisions for risks and charges contained in Part B of Liabilities in these Notes to the Financial Statements.

Estimating the recoverable value of real estate assets held for investment purposes

The Group possesses real estate for investment purposes, mostly originating from properties repossessed to close an original credit position (so-called "*datio in solutum*" - acceptance in lieu) or from an agreement to settle a dispute. For these assets, in the event of indicators that could potentially show an impairment loss, the recoverable value has to be

established, recognising a write-down if said value should be lower than the book value. The recoverable value is estimated by means of an external appraisal, and suffers from a certain amount of subjectivity insofar as the current prices for similar assets, used as benchmark values, are subject to adjustments to reflect the specific features of each property; the fair value calculated in this way is classified as level 3 in the fair value hierarchy, as illustrated in the paragraph entitled "A.4 – Fair value disclosure" in these notes to the financial statements. In this regard, note that the difficulties related to this estimation process are particularly evident in the current scenario of the Italian property market, the reference market for almost all of the Group's properties. This market has been characterised by a trend of falling prices and a downtrend of the number of transactions and in the future, we can therefore not exclude a potential further reduction of the recoverable value if the real estate crisis should worsen with respect to the situation as at the date of the appraisals.

Estimating obligations relating to employee benefits

The calculation of the liabilities associated to employee benefits, with specific reference to defined benefit plans and to long-term benefits, implies a certain degree of complexity; the outcome of assessments depends, to a large extent, on the actuarial assumptions used in both demographic terms (such as mortality rates and employee turnover) and financial terms (such as discounting rates and rates of inflation). The judgement expressed by management is therefore fundamental when selecting the most suitable technical bases for the assessment in question, which is influenced by the socio-economic climate in which the Group operates, as well as the performance of the financial markets. The main actuarial assumptions and the sensitivity analysis of liabilities with respect to the actuarial assumptions retained most important are illustrated in sections 11 and 12 of liabilities, contained in Part B of these Notes to the Financial Statements, for Employee termination indemnities and for defined benefit company retirement plans respectively.

The list of valuation processes shown above is included simply to provide readers of the financial statements with a better understanding of the main areas of uncertainty, and it should in no way be considered as implying that, to date, alternative assumptions can prove more appropriate. Moreover, financial statement valuations are formulated on the basis of the going concern principle: the directors have not identified any elements relating to operations or to the evolution of the equity and financial situation that could cast doubts as to the ability of Group companies to be able to continue to operate as usual. Disclosures on financial risks and related controls are set forth in "Part E - Information on risks and on relative hedging policies" of the Notes to the financial statements, as well as in the Group's report on operations.

Section 3 - Scope of consolidation and consolidation methods

The consolidated financial statements include the statement of financial position and income statement results of the Parent Company and its direct and indirect subsidiaries, including structured entities, in accordance with that envisaged by accounting standard IFRS 10.

The reference date of the consolidated financial statements coincides with the closure date of the financial statements of the Parent Company. In the event of subsidiary companies which end the period on a date other than that of the Parent Company, the same are consolidated on the basis of the statement of financial position and income statement drawn up as at the reference date of the consolidated financial statements. Where necessary, the financial statements of consolidated entities, possibly drawn up on the basis of different accounting criteria, are rendered compliant with the standards of the Group.
Controlled entities are consolidated from the date on which the Group acquires control, according to the purchase method, and cease to be consolidated from the moment in which a situation of control no longer exists. The existence of control is continuously assessed, when the facts and the circumstances indicate the presence of a change in one or more of the three elements representing the control requirement, illustrated in paragraph "2. Valuations and assumptions used to establish the scope of consolidation" below.

Full consolidation entails acquiring the statement of financial position and income statement aggregates of subsidiary entities "line-by-line", a balancing entry which eliminates the investment held by the Group in the entity, and the recognition, under the appropriate items, of minority interests. More specifically, for subsidiary entities controlled by means of an equity investment, the portion of shareholders' equity, income (loss) for the year and comprehensive income pertaining to minority interests is indicated as a separate item in the respective schedules of the consolidated financial statements (respectively in items: "210. Minority interests", "330. Income (loss) attributable to minority interests", "150. Consolidated comprehensive income attributable to minority interests").
The costs and revenues of the subsidiary entity are consolidated from the date on which control was acquired. The costs and revenues of a subsidiary sold are included in the income statement up until the date of the disposal; the difference between the sale price and the book value of the net assets of the same is recognised under the income statement item "270. Profits (Losses) on disposal of investments". In the event of the partial disposal of a subsidiary entity, which does not result in a loss of control, the difference between the sale price and the relative book value is recognised as a balancing entry of shareholders' equity.
For further details on the accounting treatment used in the event of the acquisition of control, changes in shareholdings

and loss of control, the reader should refer to the paragraph entitled “Business combinations, goodwill and changes in shareholdings” contained in Part “A.2 - Key financial statement items” in these Notes to the Financial Statements.

The assets, liabilities, off-balance sheet transactions, income and expenses relating to transactions between consolidated companies are eliminated in full. For further details on the process to cancel a specific type of derivative instrument, the reader should refer to the paragraph below “Cancellation of infragroup derivatives linked to own liabilities designated at fair value through profit and loss”.

The statement of financial position and income statement results of the consolidated companies whose operating currency is different from the Euro are translated based on the following rules:

- assets and liabilities are translated at the exchange rate in effect at the end of the period;
- the revenues and costs on the income statement are translated at the average exchange rate for the period;
- all exchange rate differences originated by the translation are recognised in a specific and separate reserve under shareholder’s equity. Said reserve is eliminated through a concurrent debit/crediting of the income statement when the investment is disposed of.

Investments in associates and companies subject to joint control held for sale are recorded in compliance with the reference international accounting standard IFRS 5, which regulates the recording of non-current assets held for sale.

With regard to the consolidation of associates and companies subject to joint control based on the equity method, the reader should refer to Part “A.2 - Key financial statement items” in these notes to the financial statements.

Cancellation of infragroup derivatives linked to own liabilities designated at fair value through profit and loss

The adoption of the fair value option for some bond issues, as illustrated in the paragraph entitled “Financial liabilities designated at fair value through profit and loss and determination of own creditworthiness” in “Part A.2 – Key financial statement items”, necessarily implies a series of assumptions with regard to the recognition of derivatives used as operational hedges in the consolidated financial statements. For the above issues, the fair value designation is closely linked to the actual methods the Group uses to carry out its hedging strategies, managing its market exposure in “bulk” terms, not through an equivocal or determinable relation with an individual loan or with a loan portfolio. More specifically, hedges linked to the bond issues of the Group are managed by the Group’s investment bank, Banca Aletti. Infragroup derivatives entered into with Banca Aletti are recorded by the latter in its “trading portfolio” and managed in bulk along with the other trading instruments, in observance of the limits of position and risk which can be held by Banca Aletti. In general, it can be stated that:

- by adopting the fair value option, the issuer can represent in the accounts the operational strategy of hedging all risks associated with the bond issues. This is also reflected in the risk exposure of the “banking portfolio”, where the issues and related hedging derivatives are classified;
- for Banca Aletti, the risk position resulting from entering into said derivatives is added to the other existing positions or to be created with market counterparties, to be managed based on a portfolio strategy, within the set risk limits. The set of those positions is recorded in the “trading portfolio”;
- at consolidated level, this means that the risks associated with the “banking portfolio” are substantially hedged, and the actual risk exposure of the Group is the exposure resulting from management by Banca Aletti.

As at 31 December 2016, consolidation procedures envisage that the derivatives stipulated between Group companies are cancelled. In order to correctly recognise the risks related to the Group’s “trading portfolio” and to the “banking portfolio”, which would change following the cited cancellation, the derivatives that Banca Aletti has ideally stipulated with the market (in its trading portfolio) to hedge the liabilities issued by the Parent Company (in its banking portfolio), must be reclassified from the “trading portfolio” to the “banking portfolio”. Essentially, said reclassification is made assuming that said derivatives correspond perfectly to those stipulated by the Parent Company, as the bulk management of risks carried out by Banca Aletti makes it impossible to accurately identify the specific derivative contracts entered into with external counterparties. Said assumption is supported by the fact that the Banca Aletti desks, which act as counterparties to the Parent Company, transfer the risks relating to the fair value option to the market, and that the potential risk position undertaken by the same, corresponds to an approved decision, which ignores the risks undertaken by entering into said derivative contracts.

1. Equity investments in exclusively controlled companies

	Company name	Operational headquarters	Registered office	Type of relationship (1)	Investment relationship		% of available votes (2)
					Holder	% held	
	Banco Popolare soc. coop.	Verona	Verona		Parent Company		
1.	Aletti & C. Banca di Investimento Mobiliare S.p.A.	Milan	Milan	1	Banco Popolare	83.440%	100.000%
					Holding di Partecipazioni	16.560%	
2.	Aletti Fiduciaria S.p.A.	Milan	Milan	1	Banca Aletti & C.	100.000%	100.000%
3.	Aletti Gestielle SGR S.p.A.	Milan	Milan	1	Banco Popolare	100.000%	100.000%
4.	Arena Broker S.r.l.	Verona	Verona	1	Holding di Partecipazioni	57.300%	57.300%
5.	Banca Aletti & C. (Suisse) S.A.	CH - Lugano	CH - Lugano	1	Banca Aletti & C.	100.000%	100.000%
6.	Bipielle Bank (Suisse) S.A. (in liquidation)	CH - Lugano	CH - Lugano	1	Banco Popolare	100.000%	100.000%
7.	Bipielle Real Estate S.p.A.	Lodi	Lodi	1	Banco Popolare	100.000%	100.000%
8.	BRF Property S.p.A.	Parma	Parma	1	Partecipazioni Italiane	51.114%	51.114%
					Banco Popolare	14.314%	14.314%
9.	BP Covered Bond S.r.l.	Milan	Milan	1	Banco Popolare	60.000%	60.000%
10.	BP Property Management Soc. Consortile a r.l.	Verona	Verona	1	Banco Popolare	92.309%	100.000%
					Bipielle Real Estate	4.615%	
					Banca Aletti & C.	1.000%	
					S.G.S. BP	1.000%	
					Aletti Gestielle SGR	0.538%	
					Holding di Partecipazioni	0.538%	
11.	BP Trading Immobiliare S.r.l.	Lodi	Lodi	1	Bipielle Real Estate	100.000%	100.000%
12.	Essegibi Promozioni Immobiliari S.p.A.	Milan	Milan	1	Italease Gestione Beni	100.000%	100.000%
13.	FIN.E.R.T. S.p.A. (in liquidation)	Rome	Rome	1	Banco Popolare	80.000%	80.000%
14.	HCS S.r.l.	Milan	Milan	1	Italease Gestione Beni	100.000%	100.000%
15.	Holding di Partecipazioni Finanziarie Banco Popolare S.p.A.	Verona	Verona	1	Banco Popolare	100.000%	100.000%
16.	Immobiliare Marinai d'Italia S.r.l.	Lodi	Lodi	1	Banco Popolare	100.000%	100.000%
17.	Italease Gestione Beni S.p.A.	Milan	Milan	1	Banco Popolare	100.000%	100.000%
18.	Liberty S.r.l.	Lodi	Lodi	1	Banco Popolare	100.000%	55.000%
19.	Lido dei Coralli S.r.l.	S.T. di Gallura (SS)	S.T. di Gallura (SS)	1	Bipielle Real Estate	100.000%	100.000%
20.	Manzoni 65 S.r.l.	Milan	Milan	1	Bipielle Real Estate	100.000%	100.000%
21.	Mariner S.r.l. (*)	Lodi	Lodi	1	Bipielle Real Estate	100.000%	100.000%
22.	Meleti S.r.l.	Lodi	Lodi		Perca	100.000%	100.000%
23.	Milano Leasing S.p.A. (in liquidation)	Milan	Milan	1	Banco Popolare	99.999%	99.999%
24.	Nadir Immobiliare S.r.l.	Lodi	Lodi	1	Bipielle Real Estate	100.000%	100.000%
25.	Partecipazioni Italiane S.p.A. (in liquidation)	Milan	Milan	1	Banco Popolare	99.966%	100.000%
26.	Perca S.r.l.	Lodi	Lodi		Immobiliare Marinai d'Italia	100.000%	100.000%
27.	P.M.G. S.r.l. (in liquidation)	Milan	Milan	1	Banco Popolare	84.000%	84.000%
28.	Release S.p.A.	Milan	Milan	1	Banco Popolare	80.000%	80.000%
29.	Sirio Immobiliare S.r.l.	Lodi	Lodi	1	Bipielle Real Estate	100.000%	100.000%
30.	Società Gestione Servizi BP Soc. Consortile p. az.	Verona	Verona	1	Banco Popolare	88.500%	100.000%
					Banca Aletti & C.	10.000%	
					Aletti Gestielle SGR	0.500%	
					Bipielle Real Estate	0.500%	
					Holding di Partecipazioni	0.500%	
31.	Sviluppo Comparto 2 S.r.l.	Milan	Milan	1	Bipielle Real Estate	100.000%	100.000%
32.	Sviluppo Comparto 6 S.r.l.	Lodi	Lodi	1	Bipielle Real Estate	100.000%	100.000%
33.	Sviluppo Comparto 8 S.r.l.	Lodi	Lodi	1	Bipielle Real Estate	100.000%	100.000%
34.	Tecmarket Servizi S.p.A.	Verona	Verona	1	Banco Popolare	100.000%	100.000%
35.	Terme Ioniche S.r.l.	Milan	Milan	1	Bipielle Real Estate	100.000%	100.000%
36.	Tiepolo Finance S.r.l.	Lodi	Lodi	1	Banco Popolare	60.000%	60.000%
37.	TT Toscana Tissue S.r.l.	Lodi	Lodi	1	Banco Popolare	100.000%	100.000%
38.	Bipitalia Residential S.r.l. (in liquidation) (**)	Milan	Milan	1	Banco Popolare	100.000%	100.000%
39.	BP Mortgages S.r.l. (**)	Milan	Milan	4	-	0.000%	
40.	BPL Mortgages S.r.l. (**)	Conegliano V. (TV)	Conegliano V. (TV)	4	-	0.000%	
41.	BPV Mortgages S.r.l. (in liquidation) (**)	Verona	Verona	4	Banco Popolare	100.000%	100.000%
42.	Erice Finance S.r.l. (**)	Conegliano V. (TV)	Conegliano V. (TV)	4	-	0.000%	
43.	Gestielle Hedge Low Volatility (***)	Milan	Milan	4	Banco Popolare	43.840%	
					Banca Aletti & C.	12.092%	

Company name	Operational headquarters	Registered office	Type of relationship (1)	Investment relationship		% of available votes (2)
				Holder	% held	
44. Italfinance Securitisation VH 1 S.r.l. (**)	Conegliano V. (TV)	Conegliano V. (TV)	4	Banco Popolare	9.900%	9.900%
45. Italfinance Securitisation VH 2 S.r.l. (**)	Conegliano V. (TV)	Conegliano V. (TV)	4	-	0.000%	
46. Leasimpresa Finance S.r.l. (**)	Conegliano V. (TV)	Conegliano V. (TV)	4	-	0.000%	
47. Pami Finance S.r.l. (**)	Milan	Milan	4	-	0.000%	

(1) Type of relationship:
1 = majority of voting rights in the ordinary shareholders' meeting
4 = other forms of control
(2) Availability of votes in the ordinary shareholders' meeting, distinguishing between actual and potential
(*) Company undergoing disposal in accordance with IFRS 5.
(**) Special Purpose Entity for securitisation transactions originated by the Group.
(***) UCIT units managed by the Group.

Changes in the scope of consolidation

The changes in the scope of consolidation with respect to the situation as at 31 December 2015 are shown in the table below.

Companies consolidated line-by-line no longer in the scope of consolidation	
Company no longer consolidated due to disposal	
Company name	
Banco Popolare Luxembourg S.A.	
Company no longer consolidated due to merger	
Name of merged company	**Name of merging company**
Tiepolo Finance II S.r.l.	Banco Popolare Soc. Coop.
Companies no longer consolidated due to company liquidation	
Italease Finance S.p.A.	
Banca Italease Funding LLC	
Banca Italease Capital Trust	

Companies consolidated at equity no longer in the scope of consolidation
Borgo del Forte S.r.l.
Società Sviluppo Territorio S.r.l.
Edilchiara Immobiliare S.r.l.

Note that the liquidation of the investee companies shown in the previous table did not have an impact on the Group's statement of financial position or income statement as the value of the shareholdings was already aligned with the pro-rata shareholders' equity values in the final liquidation financials statements.

2. Valuations and assumptions used to establish the scope of consolidation

The scope of consolidation is established in accordance with the provisions contained in international accounting standard IFRS 10 "Consolidated financial statements". Based on the cited standard, the requirement of control is the basis for the consolidation of all types of entity, including structured entities, and is met when an investor simultaneously has:

- the power to direct the relevant activities of the entity;
- is exposed to or benefits from variable returns resulting from its involvement with the entity;
- has the ability to use its power to affect the amount of said returns (link between power and returns).

IFRS 10 establishes therefore that, in order to possess control, the investor must have the ability to direct the relevant activities of the entity, by virtue of a legal right or of a mere state of fact, and must also be exposed to changes in the results that result from said power.
The Group therefore consolidates all types of entity when all three control elements are present.

Generally, when an entity is considered direct by virtue of voting rights, control results from holding over half of the voting rights.

In the other cases, establishing the scope of consolidation requires all factors and circumstances that give the investor the practical ability to unilaterally conduct the relevant activities of the entity (actual control). To this end, a set of factors has to be considered, such as, merely by way of example:

- the purpose and the design of the entity;
- the identification of the relevant activities and how they are managed;
- any right held by means of contractual arrangements which awards the power to direct the relevant activities, such as the power to establish the financial and operating policies of the entity, the power to exercise majority voting rights in the decision-making body or the power to appoint or remove the majority of the body with decision-making functions;
- any voting rights that may potentially be exercised and that are considered substantial;
- involvement with the entity in the role of agent or principal;
- the nature and dispersion of any rights held by other investors.

The following paragraphs provide further details on the scope of entities controlled exclusively as at 31 December 2016, broken down into companies controlled through voting rights and structured entities.

Companies controlled through voting rights

With reference to the Group's situation as at 31 December 2016, companies in which a majority of voting rights in the ordinary shareholders meeting is held are considered to be exclusively controlled, insofar as there is no evidence that other investors have the practical ability to direct the relevant activities.
As regards companies in which half or a lower amount of voting rights are held, as at 31 December 2016, there are no arrangements, statutory clauses, or situations able to establish that the Group has the practical ability to unilaterally direct the relevant activities.

Consolidated structured entities

The control of structured entities, namely entities for which voting rights are not considered relevant to establish control, is retained to exist where the Group has contractual rights to manage the relevant activities of the entity and is exposed to the variable returns of the same. On this basis, the consolidated structured entities recognised by the Group are represented by the SPEs for securitisation transactions and by Mutual investment funds.
For the disclosure on exposures and the relative risks as regards said entities, pursuant to standard IFRS 12, please refer to the content of Part E - Section 1 - "C. Securitisation transactions" and "D. Disclosure on structured entities (other than companies for securitisations)".

Special Purpose Entities for securitisation transactions
With regard to Special Purpose Entities for securitisation transactions, the elements retained as relevant for the purpose of identifying control and therefore the need for any consolidation, are represented by:

1. the purpose of said SPEs;
2. exposure to the outcome of the transaction;
3. the ability to direct the relevant activities through servicing contracts;
4. the ability to arrange for their liquidation.

Mutual investments funds
As regards mutual investment funds, in order to establish the existence of control, the Group considers all of the facts and circumstances to establish whether it is acting as an agent or principal. The Group is considered to act as a principal, and therefore has control and must consolidate the funds, when the following conditions are fulfilled simultaneously:

(i) it acts as the fund manager and no substantial rights are held by other investors;
(ii) the Group is exposed to the variable returns of the fund, by directly holding relevant interests in addition to any other form of risk exposure related to the economic results of the fund (such as management and performance commissions);
(iii) it is able to influence said returns by exercising its power as fund manager.

As at 31 December 2016, like as at 31 December 2015, the only UCITs consolidated was represented by the Gestielle Hedge Low Volatility fund: this is a fund managed by the Group company, Aletti Gestielle SGR S.p.A. with relation to which the exposure to variable returns, mainly resulting from the interest held by the Parent Company, was retained significant. Overall, the Group holds 55.932% of the units in circulation of the fund.

3. Investments in exclusively controlled companies with significant minority interests

As at 31 December 2016, there were no minority interests in subsidiary companies considered significant by the Group, either individually or as a whole, as also shown in the table of "Section 16 - Minority interests" contained in Part B of liabilities in these notes to the financial statements; the same is true for the financial statements as at 31 December 2015. There are no disclosures relating to paragraphs 3.1 and 3.2 below.

3.1 Minority interests, voting rights available to minority interests and dividends distributed to minority interests

No disclosure is made for the reasons illustrated in the introduction.

3.2 Equity investments with significant minority interests, accounting information

No disclosure is made for the reasons illustrated in the introduction.

4. Significant restrictions

As at 31 December 2016, there are no legal or substantial constraints or restrictions able to hinder the rapid transfer of capital resources within the Group. The only restrictions are those related to legislation and regulations, which may require a minimum amount of own funds to be maintained, or to the provisions of the Italian civil code on allocatable profits and reserves.
Furthermore, we hereby state that there are no protection rights held by minority interest able to restrict the Group's ability to access or to transfer assets between Group companies or to settle Group liabilities, also with regard to the fact that, there are no subsidiary companies with significant minority interest, as illustrated in the paragraph above.

5. Other information

All subsidiaries draw up financial statements as at 31 December 2016, corresponding to the end date of the consolidated financial statements (and the separate financial statements of the Parent Company).

Section 4 - Events occurring after the date of the financial statements

The following paragraphs illustrate the most significant events that occurred between the date of the financial statements and the approval of the draft financial statements by the Board of Directors, relating to Banco BPM S.p.A., the company established on 1 January 2017 following the merger between Banco Popolare Soc. Coop. and Banca Popolare di Milano S.c. a r.l..

Process to define the corporate and organisational structure of the Banco BPM Group

The establishment of the Banco BPM Group marked the launch of activities to define its corporate and organisational structure; these included, effective 1 January 2017, the completion of the transfer of a business division by the former Banca Popolare di Milano S.c.a r.l., represented by the entire network of branches of the latter, to Banca Popolare di Mantova S.p.A. which, effective from the same date, changed its company name to Banca Popolare di Milano S.p.A..
Following said transfer, the share capital of Banca Popolare di Milano S.p.A. amounts to euro 326.8 million, 99.97% of which is held by the parent company Banco BPM S.p.A..

Assignment without recourse of bad loans

As part of the Group's Business Plan, which envisages the assignment of bad loans amounting to euro 8 billion, in January, Banco BPM formalised the assignment without recourse of a portfolio of unsecured bad loans, including around 1,800 positions for a total nominal value of approximately euro 641 million.
The portfolio was acquired by Marte SPV, an SPE owned by Hoist Finance, one of the most important pan-European financial institutions in the Non-Performing Loans market.
The assignment was completed *en bloc* pursuant to Law 130/1999 and for the Banco BPM Group it entails the real and definitive transfer of credit risk associated with the transferred items.
Given the planned transaction, the loans to be assigned were valued in the financial statements as at 31 December 2016 on the basis of the estimated amounts to be recovered from said assignment.

Section 5 - Other aspects

Financial statements approval and publication terms

Art. 154-ter of Italian Legislative Decree 59/98 (CFL), prescribes that within one hundred and twenty days from the end of the financial year, the financial statements must be approved and the financial report consisting of the draft individual financial statements and the consolidated financial statements, the report on operations and the declaration of the Manager responsible for preparing the Company's financial reports pursuant to article 154-bis, paragraph 5, must be published.
Note that following the merger between Banco Popolare Soc. Coop. and Banca Popolare di Milano S.c. a r.l., approved on 15 October 2016 by the respective Extraordinary Shareholders' Meetings, Banco BPM S.p.A. was established, effective 1 January 2017. By effect of said extraordinary transaction, the Board of Directors of Banco BPM S.p.A. is therefore bound to approve the draft financial statements as at 31 December 2016 of Banco Popolare Soc. Coop. and of Banca Popolare di Milano S.c. a r.l.. The declaration set forth in art. 154-bis, paragraph 5 of the Consolidated Law on Finance, contained in this annual report is issued by the Managing Director and by the Manager responsible for preparing the company's financial reports of Banco BPM S.p.A..
Given the above, note that the draft financial statements of Banco Popolare Soc. Coop. were approved by the Board of Directors of Banco BPM S.p.A. at a meeting held on 10 February 2017 and will be submitted to the approval of the Shareholders' Meeting of Banco BPM S.p.A., convened for 8 April 2017.

Auditing

The financial statements for the year and the consolidated financial statements as at 31 December 2016 are audited by Deloitte & Touche S.p.A., with registered office in Milan, via Tortona no. 25, enrolled on the Register of Independent Statutory Auditors held by the Ministry for the Economy and Finance, following the assignment awarded to said company for 2016-2024, by means of a resolution of the shareholders' meeting of Banco Popolare Soc. Coop. on 19 March 2016. The full auditors' report, together with the annual financial report, is made available to the public, pursuant to art. 154-ter of Italian Legislative Decree 58/98.
With regard to the merger between Banco Popolare Soc. Coop. and Banca Popolare di Milano S.c. a r.l., note that the respective Shareholders' Meetings, which approved the merger on 15 October 2016, resolved to award auditors PricewaterhouseCoopers S.p.A., with registered office in Milan, via Monte Rosa no. 91, enrolled on the Register of Independent Statutory Auditors held by the Ministry for the Economy and Finance, the assignment of the independent auditing of the accounts of Banco BPM S.p.A. Said assignment will last for the legal term (9 financial years) starting from the effective date of the merger (1 January 2017).

New accounting standards/interpretations or amendments to existing standards/interpretations validated by the IASB/IFRIC

The following paragraphs illustrate new accounting standards or amendments to existing standards approved by the IASB, as well as new interpretations or amendments to existing ones, published by the IFRIC, showing separately those applicable to financial year 2016 and those applicable in subsequent years.

IAS/IFRS accounting standards and relative SIC/IFRIC interpretations approved and to be applied on a compulsory basis in the preparation of 2016 financial statements

Regulation no. 29/2015 of 17 December 2014 – IAS 19 "Employee Benefits"
The aim of the amendment is to clarify, also by means of application guidelines, how the contributions provided by employees or by third parties should be recorded in the accounts, based on the distinction as to whether or not they are envisaged in the formal conditions of defined benefit plans, and whether or not they are related to the number of years in service.

Regulation no. 2173 of 24 November 2015 - IFRS 11 "Joint Arrangements"
The changes to standard IFRS 11 establish the accounting principles for the acquisition of a "Joint Operation" that represents a business activity, pursuant to IFRS 3.

Regulation no. 2231 of 2 December 2015 – IAS 16 "Property, plant and equipment", IAS 38 "Intangible assets"
Clarifications are provided on the depreciation and amortisation methods considered acceptable. More specifically, it is established that a depreciation/amortisation approach based on the revenues generated by a business activity that reflects the use of a tangible or intangible asset is not appropriate, insofar as said revenues generally reflect other factors beyond the use of the economic benefits of the asset.

Regulation no. 2441 of 18 December 2015 – IAS 27 "Separate financial statements"
The option is introduced to apply the equity method, illustrated in IAS 28 "Investments in Associates and Joint Ventures", to the separate financial statements to record investments in associates and joint ventures, in addition to the current cost or fair value options.

Regulation no. 2406 of 18 December 2015 – IAS 1 "Presentation of Financial Statements"
The amendment, entitled "Disclosure initiative" seeks to improve the effectiveness of financial statement disclosures, by encouraging the application of professional judgement to decide what information to disclose, in terms of materiality and means of aggregation. The clarifications seek to corroborate the concept of the "materiality" of the information to apply to all parties that comprise the financial statements and emphasises that aggregations of significant items or explanations of immaterial data should be avoided, as they may hinder the understanding of the financial statements.
As regards the representation of the items envisaged for the schedules of the statement of financial position, the profit for the year and other comprehensive income items, for example, it is clarified that in the statement of comprehensive income, the share of changes in reserves pertaining to associated companies or joint ventures valued under equity, must be presented in aggregate form as a single item, distinguishing them based on the fact that they are components that may in the future be reclassified to the income statement.

Regulation no. 1703 of 22 September 2016 - IFRS 10 "Consolidated financial statements", IFRS 12 "Disclosure of interests in other entities" and IAS 28 "Investments in Associates and Joint Ventures"
The amendments introduced seek to provide clarification as to the requirements for the accounting of investment entities and to provide for exemptions in specific circumstances.

Lastly, note Regulations no. 2343 of 15 December 2015 – "Annual Improvements - 2012-2014 Cycle" (IFRS 5, IFRS 7 and IAS 19, IAS 34) and no. 28/2015 of 17 December 2014 - Annual Improvements - 2010-2012 Cycle" (IFRS 2, IFRS 3, IFRS 8 and IAS 16, IAS 24 and IAS 38), which provide some clarifications on the above-cited standards with a view to solving some inconsistencies or providing methodological clarification.

Note that the application of the above-illustrated amendments did not have any significant impact on the Group.

IAS/IFRS accounting standards and SIC/IFRIC interpretations approved, the application of which takes effect after 31 December 2016

The following paragraphs illustrate the main accounting standards/interpretations or amendments of the same issued by the IASB/IFRIC and validated by the European Commission, which will be applicable on a mandatory basis subsequent to FY 2016 and for which, where permitted, the Banco Popolare Group has not opted for voluntary application.

Regulation no. 2067 of 22 November 2016 - IFRS 9 "Financial instruments"

Very briefly, the main changes regard the following four aspects:

- the classification and measurement of financial assets (hereinafter also defined as "Classification and Measurement" or C&M). This is based on the business model and on the characteristics of the cash flows of financial instruments, and envisages three accounting categories (amortised cost, fair value through profit or loss, fair value through Other Comprehensive Income). With respect to the current IAS 39, the portfolios of financial assets available for sale and investments held to maturity have therefore been eliminated, as well as the option of separating embedded derivatives for all financial assets. As regards financial liabilities, the current rules for classification and measurement are still valid;
- the accounting of so-called "own credit risk", namely of changes in the fair value of liabilities designated under the fair value option, attributable to fluctuations of its own creditworthiness. The new standard envisages that these changes must be recognised in an equity reserve, instead of in the income statement as envisaged instead by standard IAS 39. The amendments eliminates a source of volatility from income statement results, which has become particularly evident at times of economic-financial crisis;
- the acknowledgement and recognition of hedge accounting relations (hereinafter also defined as hedge accounting for the sake of brevity), with the objective of guaranteeing greater alignment between the representation of underlying hedges in the accounts and risk management logic;
- the introduction of a single impairment model, to be applied to all financial assets not measured at fair value through profit and loss, based on a concept of forward-looking expected loss. The objective of the new approach is to guarantee a more immediate recognition of losses with respect to the "incurred loss" model envisaged by IAS 39, on the basis of which losses must only be recognised if there is objective evidence of impairment subsequent to the initial recognition of the asset. More specifically, the model envisages that exposures should be classified into three separate stages:
  - stage 1: to be measured on the basis of an estimate of expected forward-looking loss with reference to a time horizon of one year. Stage 1 includes performing financial assets for which no significant impairment has been observed with respect to the date of initial recognition;

- stage 2: to be measured on the basis of an estimate of expected forward-looking loss with reference to a time horizon corresponding to the entire residual life of the financial assets. Stage 2 includes performing financial assets that have undergone significant impairment with respect to initial recognition;
- stage 3: to be measured on the basis of an estimate of expected forward-looking loss, based on a 100% likelihood of default. Stage 3 includes financial assets that are considered non-performing.

The mandatory application of the standard is envisaged from 1 January 2018, with an option for the early application of the standard as a whole or of the changes relating to the accounting treatment of "own credit" for financial liabilities designated at fair value.

The implementation project

Given the importance of the amendments introduced by the new standard IFRS 9, the Group launched a specific project, which seeks to:

- identify the impacts of the new standard on existing administrative and accounting processes, and more generally on all of the Group's activities and organisation (analyses and preliminary decisions);
- define the changes to be made to the afore-mentioned processes and activities in order to guarantee the compliance of the Group with the new standard (design of the target operating model);
- implement the necessary changes to the organisational system, the information systems, and more generally to all of the Group processes impacted by the legislative amendments introduced (development and impact analyses).

The structure of the project reflects the four major changes introduced by the new standard illustrated previously: Classification and Measurement (C&M), Impairment, Own credit risk and Hedge Accounting, which are entrusted to specific working groups.
The project is jointly led by the Administration and Budget and Risk Departments and entails the active involvement of representatives from the Loans, Commercial, Organisation, IT, Finance and Planning & Control departments. The results of the activities performed to date and the strategic decisions to be taken have been brought to the attention of the Steering Committee, comprised by all of the Department Heads involved directly or indirectly in the implementation of the standard. The Impact Assessment required by the EBA on the reference situations as at 31 December 2015 was submitted to both the Committee and the Board of Directors. The project is under the specific supervision of the ECB as well (so-called IFRS9 Thematic Review).
The same methodological approach is used for each of the project's main areas (C&M, Impairment, Hedge Accounting, Own Credit Risk), broken down into the following, previously-mentioned three macro activity stages: analysis and preliminary decisions, design of the target operating model and development and impact assessment.

Classification and Measurement - In order to comply with standard IFRS 9, which introduces a model in which the classification of financial assets is guided, on one hand, by the contractual characteristics of the cash flows of the instruments and, on the other hand, by the purpose for which they are held, project work focused on identifying the business model currently used and that to be prepared, as well as establishing the manner in which the test on the contractual characteristics of cash flows should be conducted (known as Solely Payment of Principal and Interests or SPPI Test for short).
Exploiting our extensive experience in analysing financial instruments (both securities and loans) already present in the Groups financial statements in order to identify the correct classification at the time of the future First Time Adoption (FTA) of the standard, guidelines for the SPPI test of financial assets have been drawn up, based on decision trees, and target operating models for the two macro areas of finance and loans have been defined.
As regards the debt securities already recognised on the financial statements, a detailed analysis was conducted of the characteristics of the cash flows of the instruments classified under IAS 39 at amortised cost (those classified in the Loans and Financial assets held to maturity portfolios) and in the category of Financial assets available for sale. The purpose of the analysis was to identify assets which, having not passed the SPPI test, will have to be measured at fair value, with impacts on the income statement pursuant to IFRS 9. More specifically, all assets with a balance exceeding euro 500,000 and maturing after 1 January 2018 were analysed. The analysis initially analysed assets recognised as at 31 December 2015, and were then repeated on a quarterly basis with a view to identifying any new assets in the portfolio that had not been previously analysed. From the analyses conducted, it emerged that only a limited percentage of debt securities did not pass the SPPI test. These are mainly financial instruments that create concentrations of credit risk (e.g. securities of securitisation transactions) and certain structured securities.
With regard to loans, the approach adopted for the analysis varied depending on whether the portfolios referred to standard products classified on the basis of catalogues or product information sheets, common to the retail, small business and mid-corporate areas, rather than "tailor made" disbursements, which are characteristic of large corporate customers and of structured finance. For the first type of portfolio, the analysis focused on examining all of the fact sheets illustrating the products currently sold, with a view to checking the contractual characteristics of the same in order to pass the SPPI test and, subsequently, checking to what extent the loans in the portfolio are actually covered. For all "tailor made" loans (around 10% of the performing portfolio of the Banco Popolare Group as at 31 December 2015), the analyses conducted entailed testing each individual loan, adopting the approach of covering the existing exposure. At the current advanced stage of the analyses, a specific type of standard product has been identified

(regarding a marginal number of disbursements with respect to the group's total exposure) and several "tailor made" contracts which, due to specific clauses, would lead to the failure of the SPPI test.
For all financial assets, including loans and debt securities, which show a mismatch between the frequency of the instalment and the level of the interest rate, whether the same would pass the SPPI test will be checked by conducting a Benchmark Cash Flow Test as well, the method for which is currently being developed in collaboration with Risk Management. Instead, a method for carrying out the credit risk assessment has yet to be identified (an integral part of the so-called "look through test"), envisaged by the standard to analyse instruments with credit risk tranching (such as securitised loans for example).
With regard to the driver for the classification of financial assets represented by the "business model", on the basis of the analyses conducted, the trading portfolios currently used are considered to be equivalent to the "Sell" business model. The portfolio of financial assets available for sale (AFS) will be substantially equivalent to, also in the future, the "Hold to collect and Sell" business model and any financial assets that do not pass the SPPI test (at present very marginal), will be necessarily considered as equivalent to the "Sell" model. With regard, instead, to assets currently classified as loans or Financial Assets held to maturity, prior experience (analyses of sales of assets classified in these accounting categories) leads us to retain the "Hold to Collect" business model as applicable. The formalisation of operating rules for the business model assessment and for the on-going monitoring of the portfolios, in particular identifying the thresholds at which the assets are considered frequent, but not significant sales (individually and as an aggregate) or infrequent, even if for a significant amount (usually for portfolios at amortised cost), is an activity that will be conducted in the first half of 2017 according to the project's work plan. At the current stage of the analyses, for equity investments included in the portfolio of Financial assets available for sale, the option to classify equity instruments at fair value, charged to net equity (FVTOCI without recycling to the income statement) is likely to be exercised. Instead, analyses are still underway as to the classification to attribute to units of mutual investment funds (open and closed end funds).
No impact in terms of classification or measurement is envisaged for the segment of trading or hedging derivatives.
As regards loans, although in general terms, the current procedure adopted to manage both exposures towards retail counterparties and corporate customers can be considered equivalent to a "Hold to Collect" business model, the identification of the classification category will be confirmed in the light of the procedures for the management of financial instruments on the date of first time application of IFRS 9.
In conclusion, the application of the new classification and measurement rules introduced by standards IFRS 9 is not expected to have a significant impact on first time application, however the entity of financial instruments to be measured at fair value and charged to the income statement is expected to rise, with a consequent likely increase in the volatility of results in subsequent years.

Own Credit Risk - With regard instead to the opportunities offered by the standard to directly recognise changes in fair value resulting from changes in the credit rating of financial liabilities designated at fair value on initial recognition, at net equity rather than on the income statement, we are currently evaluating the early adoption of this specific change, starting from 1 January 2017.

Impairment - With regard to the guidelines on impairment, which envisages separate projects for loans and securities, the progress made so far is as follows:

- the procedures for tracking the credit quality of portfolios of financial assets measured at amortised cost and at fair value with a balancing entry in net equity, have substantially been defined;
- the parameters to establish any significant deterioration of credit risk are currently being defined, in order to correctly allocate performing loans to stage 1 or stage 2;
- with regard to "impaired" exposures, the Group shows substantial alignment in terms of the definitions of accounting and regulatory default and this leads us to believe that the current logic adopted for the classification of exposures in the "non-performing/impaired exposures" category may be the same that will be applied in the future to identify assets to be classified as stage 3;
- models are currently being identified, including forward-looking information, for staging (relating to the use of PD as a relative indicator of impairment) and to calculate expected credit loss (ECL) at one year (for stage 1 exposures) and lifetime (for stage 2 and stage 3 exposures). In this regard, the Banco Popolare Group is currently focused on using future single macroeconomic scenarios.

With regard to tracking credit quality, in accordance with the guidelines of the regulator which seek to encourage the high quality implementation of the standard, the significant deterioration of creditworthiness should be determined at single relationship level, by comparing the quality of the financial instrument at the time of valuation with that at the initial time of disbursement or acquisition. Only at first time application, for certain categories of exposures (usually debt securities acquired) will it be possible to use the so-called "low credit risk exemption" envisaged by the standard, which would lead exposures which, on the date of transition to the new standard, are "investment grade" (or equivalent), to be considered as stage 1 and the remaining performing loans as stage 2.
At the current stage of development of the project, the main factors to be taken into consideration in order to transfer the exposure from stage 1 to stage 2 have been identified as:

- the change in the lifetime probability of default with respect to the time of initial recognition in the financial statements of the financial instrument; the specific criterion has not yet been established in detail insofar as the valuation will be made by adopting a "relative" criterion;

- any presence of a past due of at least 30 days;
- any granting of "forbearance measures" after the disbursement of the loan.

With specific reference to exposures represented by debt securities, establishing a "significant increase of credit risk" with respect to the acquisition date requires the identification of a reference methodology in order to establish the residual quantities of the individual transactions to which a credit quality/rating at origination can be associated, to be compared to that as at the reporting date. To this end, the "first-in-first-out" or "FIFO" method, used to discharge sales and refunds, is considered to permit a more transparent management of the portfolio and the continual update of the credit rating.
The first application of the new impairment model will certainly lead to higher value adjustments to financial assets (both receivables and debt securities) with respect to those recognised in the financial statements where the current accounting standard IAS 39 has been applied.
In the light of the progress of the project in question, at present we cannot provide precise indications regarding the possible impact that the application of the new impairment model as at 1 January 2018 will have.

Hedge Accounting - Based on the analyses conducted to date as part of this project, we are considering exercising the option which envisages the opportunity to continue to apply the current rules envisaged by standard IAS 39.

Note that the above may undergo changes as a result of new valuations that will be made as part of the new project setup which was launched following the conclusion of the business combination with the Banca Popolare di Milano group.

Regulation no. 1905 of 22 September 2016 - IFRS 15 "Revenue from Contracts with Customers"

The standard, published by the IASB on 28 May 2014, introduces a single model for the recognition of all revenues originating from contracts with customers and replaces the previous standards/interpretations on revenues (IAS 18, IAS 11, IFRIC 13, IFRIC 15, IFRIC 18, SIC 31). On the basis of this model, the entity must recognise revenues on the basis of the fee that it expects to receive for the assets or the services provided, calculated on the basis of the following five steps:

- identify the contract, defined as an agreement with commercial substance between two or more parties able to generate rights and obligations;
- identify the performance obligations in the contract;
- determine the transaction price, namely the amount to which an entity expects to be entitled in exchange for the transfer of goods and services;
- allocate the transaction price to each performance obligation on the basis of the stand-alone selling price;
- recognise the revenue allocated to the single performance obligation when the same is satisfied, namely when the customer obtains control of the good or the services. This recognition takes into account the fact that some services may be rendered at a specific point in time or over a period of time.

For example, the up-front commission received from a customer for an asset management service entails the recognition of a revenue based on the performance obligations identified in the contract, regardless of whether the revenue is certain or not. In this case, if on the date of signature, the good or service transferred cannot be identified, the up-front commission must be considered as an advance and booked to the income statement at the time when the performance obligation for which the consideration has been established is retained to have been satisfied.

In this regard, note that the Group has not yet launched a formal project to assess the impacts, which in any event are not expected to be significant.

Accounting standards IAS/IFRS and SIC/IFRIC interpretations issued by IASB/IFRIC, awaiting validation

Of the accounting standards issued by the IASB of potential interest to the Group, we draw attention to standard IFRS 16 "Leasing", the compulsory application of which is envisaged from 1 January 2019, subject to the future validation of the European Commission.
More specifically standard IFRS 16, issued by the IASB on 13 January 2016, introduces new rules for the accounting recognition of lease contracts for both lessors and lessees, replacing the previous standards/interpretations (IAS 17, IFRIC 4, SIC 15 and SIC 27). A lease is defined as a contract whose execution depends on the use of an identified asset and that conveys the right to control the use of the asset for a period of time in exchange for consideration.
The change regards the recognition of the lessee in the financial statements, for which the distinction between operating lease and financial lease is no longer made for accounting purposes. The new standard envisages recognising the assets and liabilities originating from the contract in the statement of financial position; more specifically, the lessee must recognise a liability based on the present value of future lease payments as a balancing entry to the recognition under assets of the right-of-use asset of the lease contract. After initial recognition, the right-of-use is depreciated for the term of the contract or the useful life of the asset; the liability is gradually reduced by effect of the lease payments made and interest is recognised on the same, to be booked to the income statement. Exemptions are envisaged, with a view to reducing the costs arising from the adoption of the new standard for contracts with terms of under twelve months and those for insignificant amounts.

As regards the lessor, the current rules for the accounting of lease contracts are substantially confirmed, differentiated on the basis of whether it is an operating or finance lease.
In this regard, note that the Group has not yet started any assessment of the impact, with a view to establishing the scope and relative accounting treatment of the assets used under lease contracts; as regards assets granted under leases, no significant impacts are envisaged, insofar as the accounting rules established by the current accounting standard IFRS 17 for lessors have been substantially maintained.

For the sake of completeness, a list of further standard or interpretations, issued by the IAS/IFRIC but not yet validated, is set out below, which, although of potential interest to the Group, are not retained as having any significant impact on the Group's equity or income situation, or on financial statement disclosures:

- Interpretation IFRIC 22 regarding "Foreign currency transactions and advance consideration" issued by the IFRIC on 8 December 2016, with a view to clarifying the accounting treatment of transactions that involve the advance payment of considerations in a foreign currency;
- Amendments to IAS 40 "Transfers of investment property" issued by the IASB on 8 December 2016, to clarify time of transfer of property to, or from, investment property, identified as "change in use";
- Projects to improve several IFRS "2014-2016" (IFRS1, IFRS12 and IAS28) issued by the IASB on 8 December 2016, to provide several clarifications that seek to resolve some inconsistencies or illustrate methods.
- Amendments to IFRS 4 "Applying IFRS 9 Financial instruments with IFRS 4 Insurance Contracts" issued by the IASB on 12 September 2016 in order to solve problems linked to the application of standard IFRS 9, before the implementation of the standard which will replace IFRS 4 on insurance contracts relating to companies engaged in insurance activities;
- Amendments to standard IFRS 2 "Classification and measurement of share-based payment transactions" issued by the IASB on 20 June 2016, which seeks to clarify the measurement and recognition criteria to be adopted for certain types of transactions with share-based payments;
- Amendments to standard IFRS 15 "Clarifications to IFRS 15 - Revenue from contracts with customers" issued by the IASB on 12 April 2016, which provides several clarifications and practical expedients for the transition to the new standard;
- Amendments to IAS 7 "Disclosure Initiative" issued by the IASB on 29 January 2016, which seeks to provide users of financial statements which greater information to assess whether changes in liabilities for loans are due to changes in cash flows from financing activities;
- Amendments to IAS 12 "Income taxes" issued by the IASB on 19 January 2016 to provide some clarification and examples on the recognition of deferred tax assets relating to losses on debt securities measured at fair value.

Notes for the correct comparison of financial statement schedules and disclosures

Over the year, in-depth analyses were conducted to identify the most suitable accounting treatment for certain pension plans for employees, represented by defined contribution plans, classified as "internal" by social security legislation. More specifically, as these are plans established by Banco Popolare through the formation of a separate and autonomous asset pool, with the effects set forth in art. 2117 of the Italian Civil Code. Up until the 2015 financial statements, the assets of these plans, corresponding to euro 272.4 million, had been reported in the financial statements under asset item "160. Other assets" with a balancing entry in the corresponding liability item "120. a) Provisions for risks and charges - company pension plans", giving priority to the formal aspect of the separate asset pool established within the Group.
Starting from the financial statements as at 30 June 2016, and adopting the approach of substance over form, it was retained that the assets of the fund should not be shown autonomously and separately in the statement of financial position, insofar as the only obligation for the Group is represented by the payment to the separate asset pool of the contributions defined on a contractual basis and there is no legal or substantial guarantee as to the repayment of the capital and/or the return to the beneficiaries. The separate asset pool, which as at 31 December 2016 amounted to euro 291.1 million, meets the requirements of art. 2117 of the Italian Civil Code, as it is recorded in the memorandum accounts.

For comparative purposes, the figures relating to the previous year have been restated to provide a like-for-like comparison with those recorded as at 31 December 2016. More specifically, on the basis of the above, note that the statement of financial position shows a decrease of the balance of asset item "160. Other assets" of euro 272.4 million. A corresponding reduction is recorded for the liability item "120 a) retirement benefits and similar commitments.

In addition, the statement of financial position included for comparative purposes as at 31 December 2015 shows, with respect to that originally published, a reduction of assets (item 20) and of liabilities and shareholders' equity (item 40) of euro 76.1 million, with a view to representing the fair value of certain types of derivative on an offsetting basis. In this regard, it should be noted that, pursuant to art. 2 of the Delegated Regulation no. 2205/2015, from 21 December 2016, the Banco Popolare Group is obliged to clear certain types of derivative instruments, namely those known as

Over The Counter, by using centralised, specifically authorised or recognised, clearing houses. More specifically, Group banks - Banco Popolare and Banca Aletti - are members of the centralised London Clearing House (LCH) through several clearing brokers. With regard to the contractual documentation that regulates the cited derivative instruments, already in existence as at 31 December 2015, analyses conducted highlighted the need to represent the fair value on an offsetting basis, insofar as the requirements established by accounting standard IAS 32, paragraph 42, to proceed with offsetting, were considered to have been met. This means that, for financial year 2015, the negative fair values of derivatives with LCH, corresponding to euro 76.1 million, instead of being classified under the liability item "40. Financial liabilities held for trading" were reclassified, reducing the balance of the derivatives with the same clearing house, recognised under asset item "20. Financial assets held for trading". For further details on assets and liabilities netted in the statement of financial position, please refer to tables 6 and 7 "Financial assets netted in the statement of financial position, or subject to master netting arrangements or similar agreements" contained in Part B - Other information in these notes to the financial statements.

A reconciliation between the statement of financial position as at 31 December 2015, restated as illustrated, and that originally published (both the version of the official schedule envisaged by Bank of Italy Circular no. 262 and the reclassified one) is attached to this Report.

With regard to the tables illustrating the breakdown by product of financial liabilities held for trading (Section 4 of Part B of the liabilities in the notes to the financial statements), note that the comparative balances of FY 2015 for certain items have been restated, with a view to guaranteeing a like-for-like comparison with the classification criteria adopted to draw up the financial statements as at 31 December 2016. This specifically regards the balances relating to certain derivative financial instruments issued by Banca Aletti, known as certificates, for which the issuer guarantees the return of a significant share of the premium initially paid in by the customer, regardless of the trend of the financial parameters to which the same are index-linked (euro 3,841.4 million as at 31 December 2015). Adopting the approach of the substantial prevailing over the formal, also bearing in mind that there is no need for separation in this category of liabilities, we decided to classify the fair value of the instruments in question, previously recognised under trading derivatives, as "Cash liabilities - Debt securities - Other structured securities". The classification under trading liabilities also took the business model into account: the issue of certificates, made by a specific trading unit of the subsidiary company Banca Aletti, in actual fact pursues the objective of making a short-term profit by actively managing the risks emerging from a complex portfolio of financial instruments, to be realised continuously also with regard to repurchases made by the same issuer from its customers.
The remaining types of certificates (those that are not guarantees or guaranteed for an insignificant share of the premium, as well as those with the premium protected according to certain conditions) continue to be classified under "financial derivatives".
In this regard, note that the differing recognition of certificates in the accounts based on the characteristics of the same, as illustrated previously, required IT and procedural adaptations, which were completed during the course of 2016; as regards FY 2015, while waiting for said implementations, specific information on the number of certificates with unconditional protection of capital was provided at the foot of the table relating to the breakdown by product type of financial liabilities held for trading in the notes to the financial statements (euro 3,841.4 million).
Consistent recognition criteria was adopted for the completion of section "2.4 Derivative financial instruments" contained in Part E of these notes to the financial statements; as regards the restatements made on comparative data as at 31 December 2015, please refer to the notes shown at the foot of each table contained in the cited section.

Other significant aspects relating to the Group's accounting policies

Fee to guarantee the convertibility of DTA

Article 11 of Italian Decree Law no. 59 of 3 May 2016, converted, with amendments, by Italian Law no. 119 of 30 June 2016, introduced an optional regime by virtue of which the taxpayer may transform so called "eligible" DTA - Deferred Tax Assets - into tax credit for future use, subject to the payment of an annual guarantee fee. The new rule seeks to overcome the criticism of the European Commission regarding the previous system which was retained as potentially incompatible with the State aid scheme. Based on the new provision, by exercising the option, the taxpayer is bound to pay an annual fee for financial years staring from 31 December 2015 until 31 December 2029.
The exercise of the option is irrevocable, and the payment of the fee relating to financial year 2015 is considered conduct implying intent.
Failure to opt for this arrangement entails the loss of the right to convert "eligible DTA" into tax credit.
The annual fee is calculated by applying a rate of 1.5% to "Type 2 eligible DTA". This aggregate corresponds to any positive difference between:

- the total amount of eligible DTA recognised in the financial statements: said aggregate corresponds to the difference between the eligible DTA recognised in the financial statements at the end of each financial year for which the fee must be paid and those recognised for the year ending 31 December 2007, plus the amount of deferred tax assets converted into tax credit from the year ending 31 December 2007; and

- the amount of the taxes paid, corresponding to the sum of (i) IRES and relative additional taxes paid from tax year 2008, (ii) IRAP paid from tax year 2013, (iii) substitute taxes paid from tax year 2008 to tax year 2014 to realign the values of property, plant and equipment, goodwill and other intangible assets.

The law also envisages that, for entities that have opted for the national tax consolidation scheme, the calculation of taxable income, as illustrated above, must be made as a whole, meaning that it considers the sum of the eligible DTA of individual companies belonging to the scope of tax consolidation and the sum of the taxes paid by the consolidating entity, regarding IRES, and of the individual consolidated companies, regarding other taxes (IRAP and substitute taxes).
The Banco Popolare Group has opted to maintain the option to transform "eligible DTA" into tax credit. The option was exercised by paying the fee relating to 2015 of euro 27.2 million in July. The fee relating to 2016, which will be paid in 2017 by the term envisaged for the payment of the balance of income tax, is estimated to be euro 27.2 million.
Although to date there has been no official announcement by the competent authorities as to the accounting treatment for the fee in question, the analyses conducted led us to retain that the annual fee should be recognised under costs, *pro rata temporis*; substantially, it relates to a charge associated to a basis of calculation - the "Type 2 DTA" - the elements of which change over time, dependent on the re-entry of eligible DTA and the taxes paid on each occasion up until the end of each year for which the payment of the fee is envisaged. The fee relating to 2016 and that relating to 2015, totalling euro 54.4 million, were recognised under the income statement item "Other administrative expenses", in accordance with that provided for by the provisions that regulate bank financial statements for the similar categories of "fees paid" and "insurance premiums".

Contributions to deposit guarantee schemes and resolution mechanisms

With Directives 2014/49/EU (Deposit Guarantee Schemes Directive – "DGSD") of 16 April 2014 and 2014/59/EU (Bank Recovery and Resolution Directive - "BRRD") of 15 May 2014 and the creation of the Single resolution Mechanism (EU Regulation no. 806/2014 of 15 July 2014), significant changes were made to European law concerning the governance of banking crises, with the strategic purpose of strengthening the single market and ensuring system-wide stability. Following the assimilation of these directives into national legislation, from FY 2015, credit entities must provide the financial resources needed to finance the Interbank Deposit Guarantee Fund (IDGF) and the National Resolution Fund (merged into the Single Resolution Fund (SRF) from FY2016), by paying ordinary and where necessary extraordinary contributions.

In compliance with the DGSD directive, the IDGF has envisaged that Italian banks must pay ordinary annual contributions until the target level is reached, corresponding to 0.8% of total guaranteed deposits of the Italian banks that are members of the IDGF. Said level must be reached by 3 July 2024. The extent of the contribution requested of the individual bank is proportional to the amount of its guaranteed deposits as at 30 September of each year, with respect to the total guaranteed deposits of the Italian member banks of the IDGF and the degree of risk relating to the member bank with guaranteed deposits with respect to the level of risk of all of the other member banks of the IDGF.

As envisaged by the BRRD, Italian banks must make annual ordinary contributions until the SRF has acquired financial resources that are at least 1% of the total guaranteed deposits of all authorised credit entities in all participating Member States. This level must be reached by 1 January 2024. The contributions from each entity are calculated based on the ratio of the amount of their liabilities (net of guaranteed deposits and own funds, for entities belonging to a group, of intergroup liabilities) to the total liabilities (net of guaranteed deposits and own funds) of Italian banks and of the relative level of risk of each credit entity to the level of risk of all other Italian banks.

Note that if the available financial resources of the IDGF and/or of the SRF are insufficient, respectively to guarantee reimbursement to depositors or to fund the resolution, it is envisaged that the credit entities must then make extraordinary contributions.

In the financial statements as at 31 December 2016, the ordinary contribution was recognised under item "180. Other administrative expenses" in application of IFRIC 21 interpretation "Levies", on the basis of which the liability relating to the payment of a levy (the contributions in question have been considered the equivalent of a levy for accounting purposes), emerges from the time at which the "obligating event" arises, namely at the time of the obligation to pay the annual fee. With regard to the contribution in question, the time the "obligating event" arises has been identified in the first quarter for the SRF and in the third quarter for the IDGF. More specifically:

- the ordinary contribution to the SRF for 2016 amounts to euro 44.3 million (the contribution as at 31 December 2015 was euro 38.0 million). In this regard, note that said contribution was fully paid "in cash" insofar as the Group did not opt to exercise the right to pay 15% through irrevocable payment commitments;
- the total contribution requested by the IDGF for 2016 is euro 22.3 million (the amount requested for 2015 was limited to euro 10.3 million as required only for the second half), of which euro 5.1 million is directed to the Solidarity Fund, managed by the IDGF, and established under the 2016 stability law to reimburse the bondholders affected by the resolution provisions of the four banks in November 2015. As communicated by the IDGF, in November and December 2016, the ordinary contribution of all member banks, which for 2016 was set as euro 448.8 million, was then reduced to euro 348.8 million (the share of the Banco Popolare Group was euro 17.7 million), in order to finance the cited Solidarity Fund with a figure of euro 100 million (the

share of the Banco Popolare Group was euro 5.1 million). The lower ordinary contribution in 2016 will, with all other conditions equal, increase the contributions which will be required in subsequent years until the target level is reached, which corresponds to 0.8% of protected deposits by 3 July 2024. In order to reach this target, the IDGF has also asked members for additional contributions of euro 3.4 million, in order to recover the resources used for the interventions made, to be divided over the period 2016-2024. The share of the contribution requested by the IDGF was reduced by euro 9.4 million (Banco Popolare Group's share was reduced by euro 0.5 million), corresponding to the amount collected by the IDGF from the liquidation procedure of Banca Network Investimenti and retroceded to the members who in 2012 had participated in the relative recovery.

Also note that, on 27 December 2016, a letter was received from the Bank of Italy regarding a request for two additional annual contributions, in accordance with the provisions of art. 1, paragraph 848 of Italian Law no. 208. of 28 December 2015. These provisions establish the procedures through which the national banking system guarantees the National Resolution Fund sufficient financial resources to meet the obligations it had undertaken before the launch of the Single Resolution Mechanism, in the event that the ordinary and extraordinary contributions already paid were not sufficient for the resolutions launched. More specifically, the cited law envisages that the banks pay additional contributions which, in addition to those made to the SRF, must in any event be within the overall limit envisaged by articles 70 and 71 of EU Regulation no. 806/2014; for 2016 alone, two further annual amounts are envisaged. Considering the financial requirements of the resolution operation of the four banks (Banca Popolare dell'Etruria, Banca Marche, Cassa di Risparmio di Ferrara and Cassa di Risparmio di Chieti) as a whole, launched at the end of 2015, the Bank of Italy proceeded with the call for the two further amounts envisaged for 2016. In a subsequent letter dated 25 January 2017, the Bank of Italy stated that the notice dated 27 December 2016 was binding and unconditional and, as such, must give rise to the recognition of a liability, as envisaged by IFRIC 21 interpretation "Levies". The share of the additional contributions requested of the Banco Popolare Group, which amounts to euro 88.8 million, was therefore charged to the income statement item "180. "Other administrative expenses", as a balancing entry to liability item "100. Other liabilities".
At the end of its letter dated 27 December 2016, the Bank of Italy stated that the decision taken previously could be reconsidered in the future also with regard to changes in the legislative framework that will take place with the conversion into law of Decree Law no. 237 of 23 December 2016. In fact, said decree envisages that the Bank of Italy may establish that additional contributions "may be due in a period of time established by the same, not exceeding five years". In the light of changes in the legislative framework currently underway, it cannot be ruled out that a different "obligating event" other than that existing at the date of preparation of the financial statements may be identified.
Lastly, note that the start of the resolution of the crisis of the cited four banks on 22 November 2015 had entailed the Group paying euro 113.9 million, as an extraordinary contribution to the National Resolution Fund, fully charged in 2015 to the income statement item "180. Other administrative expenses".

Interbank Deposit Guarantee Fund - Voluntary Scheme

The banks of the Banco Popolare Group (Banco Popolare and Banca Aletti) belong to the Voluntary Scheme managed by the Interbank Deposit Guarantee Fund (hereinafter also referred to as the "Voluntary Scheme" of the IDGF) established in November 2015, with the objective of providing support to member banks in extraordinary receivership or which are collapsing or at risk of collapsing.
On 25 January 2016, the IDGF approved its first intervention to provide funds to Banca Tercas of euro 217.9 million, following the decision of the European Commission, which had asked Banca Tercas to return the rescue funds received in 2014 from the IDGF, retaining the same incompatible with the regulations for State aid. More specifically, with a decree dated 18 April 2016, the Ministry for the Economy and Finance (MEF) ordered Banca Tercas to return said contribution to the IDGF, which was credited, in April 2016, to the consortium banks that had participated in the intervention in 2014 (the share due to the Banco Popolare Group was euro 14.2 million). At the same time, the Voluntary Scheme arranged for an amount corresponding to the sums returned to be debited from the consortium banks (the share due from the Banco Popolare Group was euro 14.3 million). Overall, therefore, this operation did not have a significant impact on the Group's income statement for 2016.
In June 2016, the Shareholders' Meeting of the IDGF approved several statutory amendments to the Voluntary Scheme, including those that seek to extend the opportunities to support banks by intervening and adopting measures in a timely manner, therefore enabling members to intervene in situations in which measures to reduce or convert tier 1 equity instruments have not been adopted in advance. In addition, an increase of the amount of resources that the member banks undertake to provide was approved. The maximum commitment of the banks that are members of the Voluntary Scheme was set as euro 700 million (compared to the previous 300 million), to be divided in proportion to the amount of the protected deposits of the individual bank with respect to the total amount of protected deposits of the member banks of the Scheme.
The Management Board of the Voluntary Scheme subsequently approved an intervention to assist the Cassa di Risparmio di Cesena through participation in a reserved share capital increase of euro 280 million. After obtaining the approval of the ECB on 15 September 2016, on 16 September 2016, the IDGF asked the member banks to pay their share of the financial resources needed to finalise the abovementioned share capital increase. The total share requested of the Group banks that are members of the Voluntary Scheme (Banco Popolare and Banca Aletti) was euro 14.2 million.

Euro 14.1 million of this amount represented an investment in the equity of the Voluntary Scheme, classified in the accounting portfolio "Financial assets available for sale" (indirect possession of tier 1 equity instruments of Cassa di Risparmio di Cesena). The difference with respect to the total disbursement, of euro 0.1 million, was charged to the income statement under "Other administrative expenses", as it is a payment made to cover the expenses of intervention and operations.
As at 31 December 2016, the fair value of this investment was estimated as euro 10.7 million. Therefore, this led to the recognition of an impairment of euro 3.4 million, charged to the income statement item "130. Net losses/recoveries on impairment".
As at the date of the financial statements, the residual commitment of the Banco Popolare Group to the Voluntary Scheme, recognised in the accounts under "off-balance sheet credit exposures" amounts to euro 21.2 million.
In this regard, note that the accounting treatment of the contribution and of the relative commitments illustrated above, is in line with the Technical note of the Bank of Italy sent by the IDGF to its members on 31 October 2016.

Treatment of bad loans relating to debtors subject to insolvency proceedings - write-offs

Banks can record losses on non-performing loans in the accounts in two different ways. The first entails writing down the portion of the exposure that is retained unrecoverable; the second, instead is based on the direct "removal" of the expected loss (so-called "write-off"). The option to derecognise the portion of bad loans deemed unrecoverable from the accounts is envisaged by the Bank of Italy Circular no. 272 "Accounts matrix". This regulation includes the decision made by competent corporate bodies which, by means of a specific resolution, have acknowledged the non-recoverability of all or part of the loan or have ceased collection proceedings for economic reasons, as a circumstance for derecognition. Banco Popolare Group banks exercised this option in 2016 and in previous years. The derecognition regards the part deemed unrecoverable of all receivables due from debtors who have been subject to insolvency proceedings (bankruptcy, administrative compulsory liquidation, arrangement with creditors, extraordinary receivership of large companies in difficulty), even though the banks were regularly admitted as creditors in the insolvency proceedings for the entire amount of the receivable in question.
In this regard, it is important to note that the procedure to derecognise receivables adopted by the Banco Popolare Group must be considered a valid alternative with respect to maintaining the receivable in the financial statements by recognising it in a current adjustment fund; in other words, this procedure should not in any way be seen as a judgement of the greater irrecoverability of the receivable written off, with respect to the receivable which continues to be recognised in the financial statements and written down through an adjustment fund, simply because an insolvency proceeding has not yet been launched.
The choice between the two accounting practices - write-off or write-down - does not affect the financial statement value of item "70. Loans to customers", in both cases shown after losses. Nevertheless, the use of the write-off, from an accounting perspective, leads to an underestimation of the effective coverage rates, insofar as it does not show the lower level of risk of the remaining non-performing loans held in the financial statements after the write-off. By deciding to derecognise the above-cited loans, the Group in reality has eliminated the portion of the bad loan that was fully covered by value adjustments already charged to the income statement - therefore the portion that had a coverage rate of 100% - maintaining the portion of the bad loan retained recoverable in the financial statements, insofar as supported by valid guarantees; the relative coverage rate of the exposure maintained in the financial statements is consequently significantly reduced. Given the accounting practice adopted, based on its interpretation of the previously-cited Circular, the Banco Popolare Group believes that the level of coverage of individual bad loans must be calculated taking the whole exposure into account, i.e. both the portion derecognised insofar as retained unrecoverable - even though attempts to recover the entire exposure are still underway by means of standard insolvency procedures - and the portion not derecognised and therefore still shown in the financial statements. For this reason, in Part E - Credit Risk - Credit Quality (Tables A.1.6, A.1.7, A.1.8), as well as in the section containing the comments on the results in the Group report on operations, the disclosure on the level of coverage of bad loans is provided in two different versions: "Bad loans before derecognition against insolvency procedures" and "Bad loans after derecognition against insolvency procedures". In addition, for full disclosure, at the foot of tables B.1 and B.2 relating to the breakdown by sector and by geography of cash and "off-balance sheet" exposures to customers, contained in Part E - Credit Risk in the notes to the financial statements, a specific disclosure is made on total value adjustments on bad loans, which would have been shown if, as an alternative to the "write-off", the Group had used the accounting approach based on the recognition of an adjustment fund.

A.2 - KEY FINANCIAL STATEMENT ITEMS

The financial statements as at 31 December 2016 were drawn up applying the same accounting standards used for drawing up the consolidated financial statements for the previous year, supplemented by the amendments validated and in force from 2016, as illustrated in Section 5 – Other Aspects, A.1 General Part.

The accounting standards applied are illustrated below, broken down by financial statement item.

1- Financial assets held for trading

This category exclusively contains debt securities and equity instruments, UCIT units and the positive value of derivative contracts held for trading, as well as derivatives related to assets and liabilities designated at fair value through profit and loss. Derivative contracts include those embedded in structured financial instruments that have been recognised separately from their host contract because:

- their economic characteristics and risks are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of derivative;
- the hybrid instruments to which they belong are not designated at fair value through profit or loss with the related changes recorded in the income statement.

Financial assets are initially recognised on the settlement date in case of debt securities and equity instruments, and on the subscription date for derivative contracts.
Upon their initial recognition, financial assets held for trading are designated at fair value, which generally corresponds to the price paid, excluding transaction costs or revenues that are directly attributable to the financial instruments, that are recognised in the income statement. Any derivatives embedded in complex contracts, which are not closely related to their host contracts and qualify as derivatives, are separated from their host contracts and designated at fair value, while the host contracts are accounted for according to their relevant accounting standard.

Subsequent to initial recognition, financial assets held for trading are designated at fair value, with recognition of changes as a matching balance to the income statement.

To determine the fair value of financial instruments listed on an active market, market listings are used. In the absence of an active market, estimate methods and valuation models are used that take into account all the risk factors associated with the instruments and that are based on market inputs, such as: methods based on the valuation of other listed instruments that are substantially the same, discounted cash flow analysis, option pricing models, and values recognised in recent comparable transactions. Please refer to “Part A.4 – Fair value disclosure” for details on how fair value is determined.

In the event that no reliable estimate of the fair value is possible in keeping with the above guidelines, equity instruments and related derivatives are valued at cost and are written down in the event of impairment losses. Said impairment losses cannot be reversed.

Financial assets are derecognised when the contractual rights to receive the cash flows generated by the assets have expired, or when the financial assets are disposed of, and all risks and rewards of ownership of the assets have been substantially transferred.
Trading profits or losses and gains or losses as a result of the valuation of the trading portfolio are recognized in income in the item “80. Profits (losses) on trading”, except for income or loss on derivatives connected with the fair value option, which are classified in item “110. Profits (losses) on financial assets and liabilities designated at fair value through profit and loss”.

Reclassifications to other categories of financial assets (Loans, Financial assets available for sale, Investments held to maturity) are possible only in rare circumstances or if certain conditions for recognition are met as explained in the following paragraph “18 - Other information, Reclassifications among financial asset portfolios (amendment to IAS 39)”.

2 - Financial assets available for sale

This category includes non-derivative financial assets not designated as Loans, Assets held for trading, Investments held to maturity or Assets designated at fair value.
Specifically, this category also includes shareholdings that are not held for trading and do not qualify as investments in subsidiaries, associates and entities under joint control, including private equity investments, as well as the portion of subscribed syndicated loans that had been designated at origin as available for sale and bonds not held for trading.
Financial assets are initially recognised on the settlement date in case of debt securities and equity instruments, and on the disbursement date for other financial assets not classified as loans.
Upon their initial recognition, assets are designated at fair value, which generally corresponds to the price paid, including transaction costs or revenues that are directly attributable to the instruments.
With regard to assets recognised after the reclassification from the “Investments held to maturity” portfolio, the difference between the fair value, as at the reclassification date, and the book value, is recognised in a specific shareholders’ equity reserve, in the same way as subsequent changes in fair value.
Recognition following a reclassification of “Financial assets held for trading” can take place only in rare circumstances and in any event only if the asset is no longer held for trading in the short term as described in the following paragraph “18 - Other information, Reclassifications among financial asset portfolios (amendment to IAS 39)”, to which reference

is made. In this case, assets will be recognized at their fair value at the time of transfer, which shall represent the new amortised cost for debt securities.

Subsequent to initial recognition, assets available for sale continue to be designated at fair value with recognition of the portion of interest resulting from the application of amortised cost in the income statement, while income or losses generated by changes in fair value are recognized in a specific shareholders' equity reserve until the financial asset is derecognised or an impairment loss is recognised, and the entire difference between the book value and the sale price or fair value is recognized through profit or loss. Please refer to "Part A.4 – Fair value disclosure" for details on how fair value is determined.

In the event that no reliable estimate of the fair value is possible, equity instruments and related derivatives are valued at cost and are written down in the event of impairment losses.
Impairment tests to assess if there is objective evidence of impairment are conducted at each balance sheet date or interim reporting date. For further details on events reflecting an impairment loss, please see the information set forth in the following paragraph "18 - Other information, Methods for determining impairment losses on financial assets".

For equity instruments, a possible sign of impairment is represented by a significant or prolonged reduction in fair value below the original book value. The Group's impairment policy thus establishes parametric thresholds (connected to the significant or prolonged nature of the reduction in fair value) which, once exceeded, requires the recognition of a loss to the income statement, save for exceptional circumstances. These thresholds have been established taking into account the specific features and distinctive nature of the various types of investment.
In particular, for equity instruments, surpassing one of the following thresholds is considered evidence of impairment:

- a reduction of fair value exceeding 30% with respect to the original book value; or
- a persistent decrease for an uninterrupted period exceeding 24 months.

In addition to direct investments in company equity (equity instruments in the strict sense), the Group also holds investments in private equity funds and in similar investment vehicles (UCIT units, SICAVs, investments in associates and companies subject to joint control or other similar structures) whose objective is to invest directly and/or through other private equity funds and corporate vehicles in equity instruments and similar instruments. As this type of investments have a medium-long time horizon, surpassing one of the following thresholds is considered evidence of impairment:

- a reduction of fair value exceeding 40% with respect to the original book value; or
- a persistent decrease for an uninterrupted period exceeding 60 months; or
- a reduction of fair value exceeding 30% and lasting for an uninterrupted period exceeding 36 months.

In the absence of a violation of the above automatic thresholds, qualitative analyses are carried out to check for impairment in case of:

- debt securities that show a decrease in fair value greater than 20% of the original book value, adjusted by the amortised cost;
- equity instruments that show a decrease in fair value greater than 20% of the original book value or lasting for more than 12 months.

In the latter cases, a difference between the fair value and the book value is not by itself sufficient to conclude that an impairment loss has occurred. This evidence is simply an initial sign of possible impairment, which must, nonetheless, be supplemented by a qualitative analysis to identify any negative events which could lead to the belief that the book value of the assets may not be fully recovered.
The impairment loss recognised following exceeding the automatic thresholds or qualitative analysis is charged to the income statement as a cost for the year. If the reasons for an impairment loss are no longer valid due to an event occurring after the impairment was originally recognised, write-backs are recognised in the income statement if referring to debt securities or loans, or to a specific shareholders' equity reserve in case of equity instruments. For debt securities and loans, the write-backs, in any event, cannot result in a book value higher than the instrument's amortised cost in the absence of previous adjustments.
Financial assets are derecognised when the contractual rights to receive the cash flows generated by the assets have expired, or when the financial assets are disposed of, and all risks and rewards of ownership of the assets have been substantially transferred.
Financial assets available for sale can be reclassified under "Investments held to maturity", if:

- a change occurs in the intent or ability to hold the asset to maturity;
- no reliable fair value measurement is available (rare circumstances);
- the tainting rule period has expired and the portfolio of investments held to maturity can be reinstated.

In this case, the profits and losses previously held temporarily in the shareholders' equity reserve are amortised for the residual term of the investment adopting the effective interest rate method.

It is also possible to carry out a reclassification in the "Loans" portfolio, when conditions are met as described in the following paragraph "18 - Other information, Reclassifications among financial asset portfolios (amendment to IAS 39)".

3- Investments held to maturity

This category includes debt securities with fixed or determinable payments and fixed maturity date, which the Group has the intention and ability to hold to maturity. If, as a result of a change in intention or ability it is no longer suitable to recognise an investment as held to maturity, the asset is reclassified as available for sale.

Financial assets are initially recognised on the settlement date. Upon their initial recognition, financial assets classified in this category are designated at fair value, which generally corresponds to the price paid, including any transaction costs or revenues that are directly attributable.
If the recognition in this category follows a reclassification from Financial assets available for sale or Financial assets held for trading, the fair value of the asset at the date of reclassification is recognised as the asset's new amortised cost. For reclassifications of Financial assets held for trading, which is possible in rare circumstances, please refer to the following paragraph "18 - Other information, Reclassifications among financial asset portfolios (amendment to IAS 39)".

Subsequent to initial recognition, investments held to maturity are measured at amortised cost, using the effective interest rate method. Gains or losses from changes in fair value of investments held to maturity are recognised in the income statement at the time the assets are derecognised. Impairment tests to assess if there is objective evidence of impairment are conducted at each balance sheet or interim reporting date. In case of objective evidence, the impairment is measured as the difference between the asset's book value and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the impairment loss is recognised in the income statement. If the reasons for an impairment loss are no longer valid due to an event occurring after the impairment was recognised, write-backs are recognised in the income statement.

Financial assets are derecognised when the contractual rights to receive the cash flows generated by the assets have expired, or when the financial assets are disposed of, and all risks and rewards of ownership of the assets have been substantially transferred.
The only possible reclassification out of this portfolio is to the portfolio of "Financial assets available for sale", if there is no longer any intention or it is no longer possible to hold these assets to maturity.
If a significant amount of investments held to maturity are disposed of or transferred before their maturity, the entire portfolio must be reclassified to the category of financial assets available for sale and it is then prohibited to classify any assets as held to maturity for the current and next two full financial years (tainting rule), unless the sales and the reclassifications:

- are so close to maturity or to the exercise date of the call option of the financial asset that the fluctuations in the interest rate on the market would have no material effect on the fair value of the financial asset;
- occur after having received substantially all the original principal of the financial asset;
- are attributable to an isolated, non-recurring event, out of the company's control that could not reasonably be foreseen, for example a material downgrading of the creditworthiness of the entity which issued the financial asset.

4– Loans

Loans include loans to customers and to banks, either originated or acquired from third parties, with fixed or determinable payments, that are not listed in an active market and that were not originally designated as financial assets available for sale. Loans include trade receivables and securities acquired as a result of a private placement or subscription, with fixed or determinable payments, not listed on an active market. As to loans acquired without recourse, they are classified as loans, provided there are no contract provisions that significantly alter the risk exposure of the assignee company.
Cash loans include loans originated through financial leases (which, in line with IAS 17, are recognised according to the "financial method"). These also include assets waiting to be granted under financial lease, including real estate under construction. Assets waiting to be leased are recognised on stipulation of the contract, under loans for "Other operations" and are transferred to loans for "financial leases" when the contracts begin to generate income.
This category also includes "repurchase agreements" requiring the securities to be sold on expiry and "securities lending" transactions backed by the deposit of a collateral in cash which the lender has full access to. Said transactions are recognised as loans and do not give rise to any changes in the portfolio of owned securities.

Loans are initially recognised on the disbursement date or, in case of debt securities, on the settlement date, based on the fair value of the financial instrument. The recognition is usually equal to the amount disbursed, or the subscription price, including costs/income directly associated to the individual loan and that can be determined from the start of the

transaction, although settled later on. Costs are excluded, that, although carrying the above characteristics, are repaid by the borrowing counterparty or fall under normal internal administrative costs.
If the recognition in this category follows a reclassification from Assets available for sale or Financial assets held for trading, the book value is equal to the fair value of the asset at the date the transfer is decided, which is recognised as the asset's new amortised cost. For more information please refer to the following paragraph "18 - Other information, Reclassifications among financial asset portfolios (amendment to IAS 39)".

For loans that are not negotiated at arm's length market conditions, the fair value is determined using specific valuation techniques. The difference compared with the amount disbursed or the subscription price is recognised directly in the income statement.

After initial recognition, loans are valued at amortised cost, equal to the initial recognition value decreased/increased by repayments of principal, net losses/recoveries and the amortisation – calculated according to the effective interest rate method – of the difference between the amount disbursed and the amount repayable at maturity, typically comparable to the costs/income directly associated to the individual loan. The effective interest rate is determined by calculating the rate that is equivalent to the loan's present value of future principal and interest cash flows, to the amount disbursed including costs/income associated with the loan. The estimate of cash flows must take into account all the contractual provisions which could influence the amounts and maturities, without considering the expected loss on the loan. This accounting method, based on a financial logic, spreads the economic effect of costs/income throughout the loan's expected residual life. The amortised cost method is not used for short-term loans, whose limited life span makes the application of discounting immaterial. Said loans are measured at historical cost and their costs/income are recognised in the income statement on a straight-line basis throughout the loan contract life. The same measurement criterion is used for loans without a defined maturity or demand loans.

At each balance sheet or interim report date, loans are reviewed in order to identify loans that due to events occurred after their initial recognition, show objective evidence of an impairment loss, as explained in the following paragraph "18 - Other information - Methods for determining impairment losses on financial assets". This includes loans considered as non-performing (bad loans, unlikely to pay, past due) in accordance with the definitions established by the supervisory provisions in force (Bank of Italy Circular no. 272 "Matrix of accounts") and referred to by Bank of Italy Circular no. 262 "Bank financial statements: layouts and rules for preparation" insofar as retained consistent with IAS/IFRS standards in terms of objective evidence of impairment.

These non-performing loans undergo an analytical assessment process which seeks to identify expected cash flows. For some similar categories of non-performing loans, the assessment processes envisage that the loss forecasts are based on a forfeit/statistical calculation method, to be applied analytically to each individual position; this regards, for example, loans for insignificant amounts or past due loans, namely loans which show uninterrupted overdrafts or late payments, automatically identified by the Group's IT procedures, based on the cited rules of the Supervisory Authority. All adjustments made to non-performing loans are reported as "Specific value adjustments", in compliance with the provisions set forth in the Bank of Italy Circular no. 262.

The amount of the value adjustment made to each loan corresponds to the difference between the loan's book value in the financial statements or interim report at the time of measurement (amortised cost) and the present value of expected future cash flows, using the original effective interest rate. The latter discounting rate is updated on the basis of the parameter to which the active loan agreement is indexed (e.g. the Euribor rate); as at 31 December 2016, said update was also made for bad loans originating from loans at floating interest rates.
Expected cash flows take into consideration the expected recovery time, the estimated realisable value of guarantees, and possible costs incurred to recover the credit exposure. The cash flows for loans that are expected to be recovered within a short period of time are not discounted.

The adjustment is posted to the income statement. The original loan value is reinstated in following financial years to the extent that the reasons for their original adjustment no longer apply, provided said valuation can be objectively correlated to an event that occurred after the adjustment. Recoveries are recognised in the income statement and in any case cannot exceed the loan's amortised cost had no adjustments been carried out in the past.

Individual loans that give no objective evidence of impairment, namely performing loans, are subject to collective valuation. These valuations are carried out by categories of similar loans/receivables in terms of the credit risk and the related loss percentages can be estimated taking into account time series, based on elements observable as of the valuation date, which make it possible to estimate the value of the latent loss in each category of loans. More specifically, for performing loans, covered by internal models, collective value adjustments are calculated as the product of exposure and PD (Probability of Default) and LGD (Loss Given Default) parameters, established according to the Basel 2 approach, suitably corrected in order to reflect the current conditions on the valuation date and the time that passes between the impairment of the creditworthiness of the debtor and the classification as non-performing over the year.

Detailed information on exposures of non-performing loans (bad loans, unlikely to pay, past due) and performing loans is provided in the "Credit Quality" tables contained in Part E of the Notes. In this regard, in accordance with the regulations of the Bank of Italy, specific information is also provided on "Forborne exposures" (subject to forbearance measures). Forbearance refers to measures of tolerance, in terms of changes to and/or the refinancing of an existing loan, granted only to customers in financial difficulty, or to prevent the financial difficulty of the same, which could have a negative effect on his ability to fulfil his original contractual obligations. They are not granted to a borrower with the same risk profile but who is not in financial difficulty. The tolerance measures must be identified in terms of individual credit lines and may regard the exposures of borrowers classified both as performing and non-performing status. In any event, renegotiated exposures must not be considered forborne when the borrower is not in a situation of financial difficulty.

Loans sold are derecognised from assets in the financial statements or interim reports only if the sale entails the substantial transfer of all risks and rewards associated with the loans. On the contrary, should the risks and rewards associated with the sold loans be retained, the loans will continue to be recognised under assets in the financial statements or interim reports, although from a legal point of view the loan ownership has been effectively transferred. In the event that the substantial transfer of risks and rewards cannot be verified, loans are derecognised from the financial statements or the interim reports if control of the loans has been relinquished. Otherwise, if even partial control has been retained, the loans will continue to be recognised in the financial statements and the interim reports to the extent of the Group's residual involvement, measured based on the exposure to the changes in value of the loans sold and to their changes in cash flows. Lastly, loans sold are derecognised from the financial statements or interim reports if the contractual rights to receive the relevant cash flows are retained, with the concurrent obligation to pay said flows, and nothing more, to third parties.

5- Financial assets designated at fair value through profit and loss

On initial recognition, financial assets are designated at fair value through profit and loss, only if:

1. they are hybrid contracts containing one or more embedded derivatives, and the embedded derivative significantly changes the cash flows that would otherwise be expected from the contract;
2. designation at fair value through profit and loss provides more reliable disclosure, as:
   i. it eliminates or considerably reduces the inconsistency in valuation, that would otherwise be caused by measuring assets or liabilities or recognising the associated gains and losses on different bases;
   ii. a group of financial assets, financial liabilities, or both is managed and its performance designated at fair value according to a documented risk management or investment strategy, and group reporting is provided internally to executives with strategic responsibilities based on this approach.

The financial assets in question are designated at fair value from initial recognition, which is carried out based on the settlement date. Initial income and expenses are immediately charged to the income statement.
Please refer to "Part A.4 – Fair value disclosure" for details on how fair value is determined.

Financial assets are derecognised when the contractual rights to receive the cash flows generated by the assets have expired, or when the financial assets are disposed of, and all risks and rewards of ownership of the assets have been substantially transferred.

6- Hedging transactions

Asset and liability items include financial hedging derivatives, which at the date of the financial statements or interim report showed a positive and negative fair value, respectively.

Hedges seek to neutralise potential losses recognisable on a given financial instrument or a group of financial instruments, attributable to a specific risk, by offsetting them with the gains recognisable on a different financial instrument or group of financial instruments in the event that said risk should actually materialise.
IAS 39 provides for the following types of hedges:

- fair value hedges, which seek to hedge exposure to changes in the fair value of a financial statement asset or liability, attributable to a specific risk;
- cash flow hedges, which seek to hedge the exposure to changes in future cash flows attributable to specific particular risks associated with financial statement items;
- hedges of foreign currency transactions, which seek to hedge the risks of investment in a foreign company expressed in foreign currency;
- macro fair value hedging, with the goal of reducing fair value fluctuations attributable to the interest rate risk, of monetary amounts deriving from a portfolio of financial assets and liabilities (including "core deposits"). Net amounts deriving from the mismatch of assets and liabilities cannot be subject to macro hedging.

At the level of the consolidated financial statements, only derivatives entered into with an external counterparty to the Group may be designated as hedging instruments. The results associated with internal transactions carried out between various Group entities are eliminated.
Derivatives can be designated as hedges provided that the hedging relationship between the hedged instrument and the hedging instruments is formally documented, and it is effective at the time of origination of the hedge and prospectively throughout its entire life. The hedge effectiveness depends on the extent to which the changes in the fair value or in the expected cash flows of the hedged instrument are actually offset by those of the hedging instrument. Therefore, effectiveness is measured by comparing said changes, while considering the aim pursued by the company when the hedge was established.
A hedge is effective (within the limits established as a range of 80% to 125%) when changes in the fair value (or in the cash flows) of the hedging instrument neutralise almost completely the changes in the hedged instrument attributable to the hedged risk. Hedging effectiveness is assessed at each balance sheet date or interim reporting date, using:

- prospective tests, that justify the application of hedging accounting in that they demonstrate its expected effectiveness;
- retrospective tests, demonstrating the hedge's actual effectiveness achieved over the period being examined. In other words, these tests measure how far the actual results deviate from perfect hedging.

Should the above tests fail to confirm the effectiveness of the hedging, both retrospectively and prospectively, hedge accounting, as described above, is discontinued. In this case, the hedging derivative contract is reclassified under instruments held for trading. The hedged instrument is recognised in its specific category at a value equal to its fair value at the time effectiveness ceased, and returns to being measured based on the criteria in use in its original category.

Hedging derivatives are designated at fair value. In particular:

- for fair value hedges, the changes in fair value of the hedged element are offset by the changes in fair value of the hedging instrument. Said offsetting is recognised by charging the changes in value referring both to the hedged element (referring to the changes generated by the underlying risk factor), as well as to the hedging instrument to the income statement. Any resulting difference, which represents the partial ineffectiveness of the hedge, represents the net effect on the income statement. The recognition of fair value changes through profit or loss referring to the hedged element, attributable to the risk being hedged, is applied even if the hedged element is a financial asset available for sale; in the absence of a hedge, said change would be recognised as a matching entry to shareholders' equity;
- for cash flow hedges, the portion of changes in the fair value of the derivative that are determined to be an effective hedge is recognised directly at equity, while it is recognised through profit and loss only when changes in cash flows to be offset arise in the hedged item. The portion of gains or losses of the hedging instrument that is considered ineffective is charged to the income statement. Said portion is equal to any difference between the cumulative fair value of the hedging instrument and the cumulative fair value of the hedged instrument. In any event, the fluctuations in fair value of the hedged item and the related hedge must lie within the 80%-125% range;
- hedges of investments in foreign currency are accounted for using the same method as for cash flow hedges.

Hedging financial assets and liabilities are derecognised when the contractual rights to receive the cash flows generated by the assets have expired, or when the financial assets/liabilities are disposed of, and all risks and rewards of ownership of the assets have been substantially transferred.

7- Investments in associates and companies subject to joint control

This item includes investments in associates or companies subject to joint control, which are carried at equity.
Associates are companies which are not subsidiaries, on which the Group has a significant influence. The company exercises a significant influence in all cases where it holds 20% or more of voting rights in the investee, and, irrespective of the shareholding percentage, whenever it has the power to participate in business and financial decisions of the investees, by virtue of specific legal relations, such as shareholders' agreements, the purpose of which is to ensure that the members of the agreement are represented in the management bodies and to safeguard a consistent management approach, without, however, controlling the same. Companies subject to joint control are enterprises where the joint control is based on a contract or other agreement whereby it is necessary to obtain the unanimous consensus of all the parties sharing the control to make strategic financial and operating decisions.

Financial assets are initially recognised on the settlement date. Upon their initial recognition, financial assets classified in this category are carried at cost, including any goodwill paid for at the time of acquisition, which, therefore, is not independently, separately recorded. The book value is subsequently increased or decreased to reflect the share of profit or loss of the investees attributable to the Group generated after the acquisition date, as a matching entry to the consolidated income statement item "240. Profits (losses) on investments in associates and companies subject to joint control". Dividends received from investees are deducted from the book value of the investees.
Should it be necessary to carry out adjustments due to changes in shareholders' equity of the investee that have not

been recognised in the investee's income statement (for ex. as a result of the designation at fair value of financial assets available for sale, as a result of the valuation of actuarial gains/losses on defined benefit plans), the share of the above changes attributable to the Group is recognised directly in the shareholders' equity item "140. Valuation reserves".
When applying the equity approach, the most recent available financial statements of the associated company or company subject to joint control are used, suitably adjusted to take into account any significant events or transactions that have taken place between the last available financial statements of the investee company and the reference date of the consolidated financial statements. If the investee company adopts accounting standards that are different to those of the Group, changes are made to the financial statements of the investee.

If there is evidence that the value of an investment may be impaired, the recoverable value of the investment is estimated, which is the higher of the fair value, net of costs to sell, and the value in use. The value in use is calculated by discounting the future cash flows that the investment could generate, including the final disposal value of the investment. An impairment loss is recognised to the income statement if the book value, including goodwill, is lower than the recoverable value. If the reasons for an impairment loss are no longer valid due to an event occurring after the impairment was recognised, write-backs are recognised in the income statement, up to the amount of the impairment previously recognised.
Financial assets are derecognised when the contractual rights to receive the cash flows generated by the assets have expired, or when the financial assets are disposed of, and all risks and rewards of ownership of the assets have been substantially transferred.

8- Property and equipment

Property and equipment include land, operating property, real estate investments, technical plant, furniture, fittings and equipment of any type. This is property and equipment held to be used for the production or provision of goods and services, to be rented to third parties, or for administrative use, and are expected to be used for more than one period. Property and equipment also include assets related to finance lease contracts which returned to the company's ownership following the termination of the contracts and the concurrent closure of the original credit position. This item also includes assets used under finance lease contracts, provided that the legal ownership of the assets rests within the leasing company.
Said item also includes leasehold improvements and incremental expenses incurred on third party assets, whenever they are identifiable and distinguishable tangible assets. More specifically, these are costs to renovate rented property, sustained to render them suitable for their intended use. These costs are classified in the specific category to which they refer (e.g. technical plant, equipment).
Property and equipment are initially carried at cost, which includes the purchase price and all accessory charges directly attributable to the acquisition of the asset and bringing it to working conditions. Extraordinary maintenance costs entailing an increase in future economic benefits are included in the asset's book value, while other ordinary maintenance costs are charged to the income statement.
Property withdrawn following the closure of the original credit position ("datio in solutum" - transfer in lieu of payment) will be recognised at the lower of the gross loan value recognised at the time of withdrawal of the asset, and:

- the "market value" deriving from a specific appraisal, if the property is not expected to be classified under "non-current assets held for sale and discontinued operations" within a short time;
- the "immediate sale value" derived from a specific appraisal, which adjusts the "market value" with a view to sale in a quite short-term time frame, when it is known at the termination date that the property will be subsequently allocated under "non-current assets held for sale and discontinued operations";
- the price during trading, if on initial recognition concrete negotiations for sale are in course, demonstrated by commitments undertaken by the interested parties to the negotiations.

Property and equipment, including "non-operating" property, are carried at cost, less any depreciation and impairment. Property and equipment are systematically depreciated throughout their useful life, using the straight-line method, with the exception of:

- land, whether purchased separately or as part of the value of the buildings standing on it, in that land has an unlimited life. If its value is embedded in the value of the buildings built on it, in virtue of the application of the component approach, land is considered a separate asset from the building. The separation of the value of the land and the value of the building is based on appraisals by independent experts;
- works of art, because the useful life of a masterpiece cannot be estimated and its value normally is destined to increase with time.

At each balance sheet or interim reporting date, if there is any indication that an asset may be impaired, the asset's book value is compared with its recoverable amount, that is, equal to the higher of the asset's fair value, net of costs to sell, and its value in use, understood as the present value of future cash flows originated by the asset. Any adjustments are charged to the income statement. Whenever the reasons for the impairment loss are no longer valid, recoveries are recognised, which must not exceed the asset's value had no impairment taken place in the past, net of accrued depreciation.

Property and equipment is derecognised from the statement of financial position at the time of disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal.

9- Intangible assets

Intangible assets are non-monetary, identifiable and non-physical assets, owned to be used on a long-term basis. Intangible assets are carried at cost, adjusted to account for accessory charges, only if it is likely that the future economic benefits attributable to the asset will be realised, and if the cost of the asset can be reliably determined. Otherwise, the cost of the intangible asset is recognised in the income statement during the year it was incurred.
Intangible assets include goodwill, which is the difference between the price paid for a business combination and the fair value of the net identifiable assets purchased, as illustrated in greater detail in paragraph "18 – Other information, Business combinations, goodwill and changes in interest holdings."
Goodwill is not amortised, but must be regularly tested for impairment to verify the adequacy of its book value.
Specifically, goodwill must be tested any time there is evidence of impairment, and in any case at least once a year. To this end, the cash-generating unit to which the goodwill is allocated is identified. The amount of any impairment is determined based on the difference between the book value of the goodwill and its recoverable amount, if lower. Said recoverable amount is equal to the higher of the fair value of the cash-generating unit, net of costs to sell, and its value in use. The value in use is the present value of future cash flows expected from cash-generating units to which goodwill was allocated. The resulting adjustments are charged to the income statement. No subsequent recoveries can be recognised.

Other intangible assets are recognised as such if they are identifiable and originate from legal or contract rights.
The cost of intangible assets, with definite useful life, is amortised on a straight-line basis over their useful life. If the useful life is undefined, no amortisation is carried out, only periodic assessments of the adequacy of the book value. At each balance sheet date or interim reporting date, if there is evidence of impairment, the asset's recoverable amount is estimated. The amount of the loss, recognised in the income statement, is equal to the difference between the asset's book value and recoverable value.

Intangible assets are derecognised from the statement of financial position at the time of disposal or when no future economic benefits are expected from it.

10- Non-current assets held for sale and discontinued operations and liabilities associated with non-current assets held for sale and discontinued operations

Non-current assets and liabilities held for sale and discontinued operations are classified under this item. Classification under this item is possible when the sale is considered to be highly probable. Specifically, these assets/liabilities are designated at the lower of the book value and their fair value, net of costs to sell. If the non-current assets held for sale can be amortised/depreciated, the amortisation/depreciation process ceases from the year the assets are classified under non-current assets held for sale and discontinued operations. The associated income and charges are recognised in the income statement in a separate item net of the tax effect when they refer to discontinued operations. In this case the same income statement information is disclosed in a separate item also for the comparative periods shown in the financial statements.

11- Current and deferred taxation

These items include current and deferred tax assets, and current and deferred tax liabilities relating to income taxes.

Income taxes, calculated in compliance with current tax regulations, are accounted for based on the accrual principle, consistent with the recognition of the costs and revenues that generated the taxes in the financial statements. Therefore, this represents the tax charge, equal to the balance of current taxes and deferred tax assets and liabilities, relating to the income for the year. Income taxes are charged to the income statement, with the exception of those relating to items charged or credited directly to shareholders' equity, as they as well are consistently recognised directly through shareholders' equity.

In particular, current tax liabilities (assets) for the current and previous years reflect the amount of income taxes that are expected to be paid (recovered) to/from the tax authorities, based on a prudent estimate, applying the tax rates and tax regulations in force at the reporting date (interim reporting). Current tax assets and liabilities are shown as a net balance in the statement of financial position, in case the settlement is executed based on the net balance, owing to the existence of a legal right to offsetting.

Deferred tax assets and liabilities are calculated based on temporary differences arising between the tax values of the individual assets and liabilities and their book values, without any time limits.

Deferred tax assets are recognised in the financial statements or the interim reports when it is probable that they can be recovered, which is assessed based on the ability of the company concerned and of the Group, as a result of the "tax consolidation" scheme, to continue to generate positive taxable income in future financial years, also taking account of the tax provisions in force at all times, such as Law no. 214/2011, which permits the transformation of certain deferred tax assets that meet specific conditions, into credits. Deferred tax liabilities are recognised in the financial statements or interim reports, with the sole exceptions of assets recognised in the financial statements at an amount higher than the value recognised for tax purposes and of reserves subject to tax on distribution, where it is reasonable to believe that no operations will be performed deliberately that would trigger taxation.
Recognised deferred tax assets and liabilities are systematically measured to account for any changes in regulations or tax rates, as well as for any changes in the subjective positions of the Group companies.

12- Provisions for risks and charges

Provisions for risks and charges consist of liabilities whose amount or expiry are uncertain, and are recognised in the financial statements only if:

- there is a current obligation (legal or implicit) as a result of a past event;
- it is likely that an outflow of resources will be required to produce economic benefits to settle the obligation;
- the amount of the probable future outflow can be reliably estimated.

Provisions for risks and charges include provisions for long-term benefits and post-employment benefits covered by IAS 19 as well as provisions for risks and charges covered by IAS 37.
Provisions for risks and charges do not include write-downs due to impairment of guarantees given, equivalent credit derivatives under IAS 39 and irrevocable commitments to disburse funds, which are recognised under "Other liabilities".
The sub-item "other provisions for risks and charges" includes allocations for possible losses on lawsuits, including clawback actions, estimated outlays for customer complaints regarding securities brokerage, tax disputes as well as a reliable estimate of other outlays due to any other legal or implicit obligation outstanding at the balance sheet or interim reporting date.
Whenever the time factor is significant, provisions are discounted using current market rates. The effect of discounting is recognised in the income statement, as is the increase in provisions as a result of the passing of time.
The provisions allocated are re-examined at each date of the financial statements and adjusted to reflect the best current estimate. When the outflow of resources to produce economic benefits to settle the obligation is unlikely, the allocation is reversed.
In addition, each provision must be used to pay for outlays for which the provision itself had been originally set aside.

As explained in the paragraph below "18 - Other information, Employee termination indemnities and other employee benefits", the sub-item "company retirement plans and similar obligations" includes defined-benefit plans, namely pension funds backed by a capital repayment and/or return guarantee in favour of beneficiaries. Benefits to be paid in the future are measured by an external actuary, using the "projected unit credit method", as required by IAS 19.

13- Payables and debt securities issued

The items "Due to banks", "Due to customers" and "Debt securities issued" include various forms of interbank and customer loans and funding carried out through certificates of deposit and bonds outstanding, net of any repurchased amount. These also include loans recorded by lessees as part of financial leases, as well as repurchase agreements and securities lent against collateral in cash, which the lender has full access to.

These financial liabilities are initially recognised when the amounts collected are received or the debt securities are issued. Initial recognition is carried out based on the fair value of the liabilities, generally equal to the amount received or the issue price, plus any additional costs/income directly attributable to the individual funding or issue transaction and not paid back by the lending counterparty. Internal administrative costs are excluded.
Repurchase agreements with the obligation to repurchase are recognised as funding transactions for the amount paid spot.

Subsequent to initial recognition, financial liabilities are measured at amortised cost, using the effective interest rate method. Short-term liabilities are an exception, if the time factor is immaterial. They are stated at their received value and any incurred costs are charged to the income statement on a straight-line basis over the contractual life of the liability. Moreover, funding instruments under an effective hedge are measured based on the standards envisaged for hedging transactions.

For structured instruments, provided that the requirements under IAS 39 are met, the embedded derivative is separated out from the host contract and designated at fair value as a trading asset/liability. In this case, the host contract is recognised at amortised cost.

Financial liabilities are derecognised from the financial statements or interim reports when expired or cancelled. Derecognition also takes place in the event of repurchases of securities issued. The difference between the book value of liabilities and the purchase price paid is recorded in the income statement. The subsequent placement of own securities following their repurchase is considered as a new issue, recognised at the new placement price, with no effects on the income statement.

14- Financial liabilities held for trading

This item includes the negative amount of trading derivative contracts designated at fair value and cash financial liabilities held for trading.
It also includes the negative valuations of derivatives associated with the assets and liabilities designated at fair value through profit and loss, embedded derivatives, which were separated from their host financial instruments under IAS 39, as well as liabilities originating from technical overdrafts generated by securities trades.
Initial recognition is based on the fair value of liabilities, that generally corresponds to the collected amount, excluding transaction costs or income directly associated with the instruments, which are directly charged to the income statement.
Please refer to "Part A.4 – Fair value disclosure" for details on how fair value is determined.

Gains and losses from changes in fair value and/or from the sale of trading instruments are recognised in the income statement.
Financial liabilities are derecognised from the financial statements or interim reports when expired or cancelled.
Trading profits or losses and gains or losses as a result of the valuation of the trading portfolio are recognized in income in the item "80. Profits (losses) on trading", except for income or loss on derivatives connected with the fair value option, which are classified in item "110. Profits (losses) on financial assets and liabilities designated at fair value through profit and loss"

15- Financial liabilities designated at fair value through profit and loss

On initial recognition, financial liabilities are designated at fair value through profit and loss only if:

- they are hybrid contracts containing one or more embedded derivatives, and the embedded derivative significantly changes the cash flows that would otherwise be expected from the contract;
- or designation at fair value through profit and loss provides more reliable disclosure, as:
  i. it eliminates or considerably reduces the inconsistency in valuation, that would otherwise be caused by measuring assets or liabilities or recognising the associated gains and losses on different bases;
  ii. a group of financial assets, financial liabilities, or both is managed and its performance designated at fair value according to a documented risk management or investment strategy. Group disclosure is provided internally, on this basis, to executives with strategic responsibilities.

The financial liabilities in question are designated at fair value from initial recognition. Initial income and expenses are immediately charged to the income statement.
Financial liabilities are derecognised from the financial statements or interim reports when expired or cancelled. For financial liabilities represented by securities issued, derecognition is carried out also in case or repurchase: the difference between the book value of liabilities and the purchase price is recorded in the income statement. The subsequent placement of own securities following their repurchase is considered as a new issue, recognised at the new placement price, with no effects on the income statement.
For more details on the scope of Group liabilities under the fair value option and the method used to determine fair value and quantify its creditworthiness, please refer to paragraph "18 – Other information", and the subsequent "Part A.4 - Fair value disclosure".

16- Foreign currency transactions

Upon initial recognition, foreign currency transactions are recorded in the functional currency, and the exchange rate applied to the amount expressed in foreign currency is the one in effect at the date of the transaction.

At each balance sheet date or interim reporting date, items expressed in foreign currencies are measured as follows:

- cash items are translated at the exchange rate in effect at the closing date;
- non-cash items carried at their historical cost are translated at the exchange rate in effect at the transaction date;
- non-cash items designated at fair value are translated at the exchange rate in effect at the closing date.

Exchange rate differences originated by the settlement of cash items, or by the translation of cash items at rates other than the initial ones, or by the conversion of the previous financial statements, are charged to the income statement at the time they arise.

When a gain or loss from a non-cash item is carried at equity, the relevant exchange rate difference is also carried at equity. Conversely, when a gain or loss is recognised in the income statement, the associated exchange rate difference is also recognised in the income statement.

17- Insurance assets and liabilities

No insurance companies are included in the scope of consolidation.

18- Other information

a) Contents of other financial statement items

Cash and cash equivalents

This item includes legal tender, including foreign banknotes and coins and demand deposits with the Central Bank of the country or countries where the Group operates through its companies or branches.
The item is recognised at face value. The face value of foreign currencies is translated into Euro at the closing exchange rate at the period-end date.

Fair value change of financial assets and financial liabilities in macro fair value hedge portfolios

These items include, respectively, changes in financial assets or liabilities subject to macro hedging of interest rate risk, based on the respective balance, whether positive or negative.

Other assets

This item includes assets not attributable to the other statement of financial position asset items. For example, this item may contain:

a) gold, silver and precious metals;
b) accrued income other than that capitalised on the related financial assets;
c) any inventories of assets according to the definition of IAS 2;
d) receivables associated with providing non-financial goods or services.

Leasehold improvements and incremental expenses incurred on third party assets other than those attributable to the item “property and equipment” are also included, insofar as they cannot be separated from the assets to which they refer and therefore cannot be used independently (e.g. building work). These costs are recognised under other assets because the lease contract represents a form of control over the assets for the lessee, the use of which is expected to produce economic benefits. These costs are recognised to the income statement in the shortest period between that in which the improvements and the additional expenses may be used and the residual duration of the rental agreement, including the renewal period, if there is evidence in this regard.

These may also include any remainders (of the “borrower’s balance”) of items in transit or suspended not attributed to the specific accounts, because they are of immaterial amounts.

Other liabilities

This item records liabilities not attributable to the other statement of financial position liability items.
For example, this item contains:

a) payment agreements that under IFRS 2 must be classified as payables;
b) the initial recognition of guarantees given, the equivalent credit derivatives under IAS 39 and irrevocable commitments to disburse funds, as well as the subsequent write-downs due to their impairment;
c) payables associated with the payment of non-financial goods or services received;
d) accrued liabilities other than those to be capitalised on the related financial liabilities.

Employee termination indemnities and other employee benefits

According to IAS 19, employee termination indemnities represent a "post-employment benefit".
Following the supplementary pension reform, under Italian Legislative Decree no. 252 of 5 December 2005, new regulations were introduced for employee termination indemnities accrued beginning from 1 January 2007, recognised for accounting purposes.
In particular, for companies which had at least 50 employees in 2006, from an accounting perspective, employee termination indemnities accrued from 1 January 2007 are considered a "defined contribution plan"; the charge is limited to the benefits established under the Italian Civil Code, without applying any actuarial methodology.
Otherwise, the provisions for employee termination indemnities accrued up to 31 December 2006 will continue to be accounted for as a "defined benefit plan".
In general terms, the "post-employment plans" - which include, beyond the Provisions for employee severance indemnities, Pension funds - are classified into two categories, "defined benefits" and "defined contributions" on the basis of the relative characteristics.
More specifically, in defined contribution plans, the cost is represented by contributions accrued during the year, since the company only has the obligation to pay the contributions defined by contract to a fund, and has therefore no legal or implicit obligation to pay other amounts in addition to said contributions in the event that the fund does not have sufficient assets to pay all the benefits to employees.
In defined benefit plans, the actuarial and investment risk, namely the risk that contributions are insufficient or that the assets in which contributions are invested do not generate a sufficient return, is borne by the company. The liability is calculated by an external actuary using the "Projected unit credit method". On the basis of the cited method, all future disbursements have to be estimated on the basis of demographic and financial assumptions, and are then discounted to take into account the time that will pass before the actual payment, and to be re-proportioned on the basis of the ratio of the years of service accrued and the theoretical seniority estimated at the time the benefit is disbursed. The actuarial value of the liability calculated in this way must then be adjusted by the fair value of any assets underlying the plan (net liabilities/assets).
The actuarial gains and losses that originate from changes in the previous actuarial assumptions, as a result of the actual experience or as a result of changes to the actuarial assumptions themselves, lead to the re-measurement of the net liability and are recognised as a balancing entry of a net equity reserve. Said gains and losses are recorded in the "Statement of comprehensive income".
The "Projected unit credit method" described above, is also used to measure long-term benefits, such as "seniority bonuses" awarded to employees. Unlike that described for "defined benefit plans", actuarial gains and losses relating to the measurement of long-term benefits are recognised immediately in the income statement.

Valuation reserves

This item includes valuation reserves for financial assets available for sale, foreign investment hedging, cash flow hedging, and for foreign currency translation differences, as well as for "individual assets", discontinued operations, the portion of valuation reserves of investments carried at equity and actuarial gains (losses) on defined benefit plans. It also includes the revaluation reserves recognised in compliance with special revaluation regulations, also if subject to "tax exemption".

Share capital and treasury shares

Share capital includes common and preferred stock issued by the bank net of any capital already subscribed but not yet paid up at the balance sheet or interim reporting date. This item includes any treasury shares held by the bank. The latter are shown with a minus sign in the same item under statement of financial position liabilities.
The original cost of repurchased treasury shares and the gains or losses originated by their subsequent sale are recognised as changes to shareholders' equity.
Transaction costs relating to operations on share capital, such as share capital increases, are recorded as a decrease in shareholders' equity, net of any related tax benefits.

Minority interests

This item shows the portion of consolidated shareholders' equity attributable to shares owned by minority shareholders, calculated based on "equity ratios". The amount is calculated net of any treasury shares repurchased by consolidated companies.

b) Illustration of other significant accounting treatments

Dividends and revenue recognition

Revenues are recognised when they are received or, on any event, when it is likely that future benefits will be received and these benefits can be reliably quantified. In particular:

- default interest, if provided for by contract, is recorded in the income statement only when actually collected;
- dividends are recognized in the income statement when the legal right to collect them ensues, and, therefore, when their distribution is resolved;
- profits and losses from the brokerage of trading financial instruments are recognised in the income statement at the time of recognition of the transaction, based on the difference between the price paid or collected and the fair value of the instrument, only when the fair value can be determined by making reference to current observable market transactions or using valuation techniques whose inputs are observable market parameters; otherwise, said profits and losses are distributed over time taking the nature and the term of the instrument into account. Please refer to "Part A.4. Fair value disclosure" for details on how fair value is determined and on whether parameters are observable or not;
- for bond issues designated at fair value that are not listed on active markets, the valuation technique used to calculate the fair value takes a spread adjustment as an adjustment factor to discount cash flows, with the goal of sterilising, from the issue date, the profits implicit in the contractual conditions of the bonds, net of the related transaction costs.

Share-Based Payments

Share-based payments are payments made to employees, as a consideration for work performed, based on capital shares, that may, for example, consist of the assignment of:

- stock options;
- stock grants.

Considering how difficult it is to directly estimate the fair value of work received in exchange for the assignment of shares, it is possible to indirectly measure the value of services received, by referring to the fair value of the equity-linked instruments at their assignment date. The fair value of payments settled through the issue of shares is recognised as "Personnel expenses", with a matching entry as an increase in "Reserves", based upon the accrual principle.
In detail, when assigned shares cannot be immediately "used" by employee, but can be used when the employee has completed a given term of service, the company shall pay the cost as a consideration for the service provided throughout the vesting period.

Offsetting financial instruments

In accordance with IAS 32, paragraph 42, financial assets and financial liabilities may be offset and the net balance may be reported in the financial statements if the entity:

- has a legally enforceable right to make said offsets, currently exercisable in all circumstances, where they refer to regular business operations or to situations of default, insolvency or bankruptcy of the parties;
- intends either to settle the transactions on a net basis, or to settle the same on a gross basis, the substantial effects of which are equivalent to a settlement on a net basis.

For derivative instruments covered by offsetting arrangements, which meet the requirements illustrated above, Circular 262 envisages that all trading derivatives and all hedging derivatives may be offset. If the imbalance of trading derivatives is the opposite sign of that of the imbalance of all hedging derivatives, said imbalances are to be reported on a net basis: usually, the net balance will be allocated to the trading portfolio rather than as hedging derivatives, depending on the prevailing absolute value of the imbalance of trading derivatives compared to that of hedging derivatives.
In accordance with the requirements of accounting standard IFRS 7, further information is provided in the tables contained in Part B - Other information in these explanatory notes.

Securitisations - derecognition from financial statements of financial assets transferred

In securitisation transactions, the transfer of financial assets to an SPE, even if with recourse, entails the derecognition of these assets from the financial statements, only if there is a substantial transfer of the risks and the benefits.
For securitisations originated by the Group, on the settlement date of the transaction, no derecognition of the receivables was made from the financial statements, even though transferred. In reality the Group maintained the risk of the receivable associated to the securitised portfolio and the relative benefits, through the subscription of the tranche of the junior securities, namely of the securities that bear the risk of the initial losses, or through the assumption of similar exposures. Consequently, the receivables continue to be recognised in the separate financial

statements of the originator bank as “Assets sold and not derecognised”; the amount collected from the transfer is recognised as a balancing entry to the payable owed to the SPE, net of the securities subscribed by the bank in question. In the consolidated financial statements, the main impact of the consolidation of the SPE and of the relative capital from the securitisation, if the requirements of control envisaged by IFRS 10 are fulfilled, is that the securities issued by the SPE and subscribed by entities not belonging to the Group are recorded in the Statement of Financial Position.
For the purposes of Part E of these notes to the consolidated financial statements, the receivables transferred as part of securitisation transactions are considered “Assets sold and not derecognised”, unless the originator Group banks have not subscribed, from the issue date, all of the liabilities issued by the SPE (so-called self-securitisation transactions).
Tiepolo Finance is the only exception to the above-described general rule, for which on first-time adoption of the international accounting standards, the Group made use of the option not to recognise in the financial statements assets underlying securitisations performed before 1 January 2004, which had been derecognised based on the previous accounting standards. As at 31 December 2016, the junior security issued by Tiepolo Finance, subscribed for a nominal value of euro 50.5 million and classified in the portfolio of “Financial assets available for sale”, was recorded with a value of zero, insofar as entirely written down.
In addition, for securitisations settled by the former Italease Group, the agreements made on 24 December 2009 between Banca Italease and Alba Leasing, following the finalisation of the acquisition of control of Banca Italease by the Banco Popolare Group and the relative reorganisation of leasing activities, resulted in the full derecognition of the receivables originated by the banking channel, the risks and benefits of which were entirely posted to Alba Leasing.
Please refer to the disclosure contained in these Notes to the consolidated financial statements, “Part E - Section 1 - C. Securitisation Transactions”.

Off-balance sheet credit exposures - guarantees given and commitments

Off-balance sheet credit exposures represented by the guarantees given and by irrevocable commitments to disburse funds, give rise to provisions, to the extent to which an outflow of economic resources to fulfil the legal obligation is considered likely. Said exposures undergo a process of analytical assessment, if there is a high probability of default of the individual position; otherwise, the provision is calculated on a collective basis, taking into account the probability of loss of a portfolio of similar securities. The procedure for making a collective estimation of performing off-balance sheet exposures is conducted by applying the same criteria used for the collective assessment of receivables, taking a conversion factor into account. As indicated in the paragraph entitled “12 - Provisions for risks and charges”, the funds relating to the write-down of guarantees given and commitments to disburse funds are recognised under statement of financial position item “100. Other liabilities”; in accordance with the provisions contained in Circular no. 262; the balancing entry is the income statement item “130 d) Net losses/recoveries on impairment of other financial transactions”.

Reclassifications among financial asset portfolios (amendment to IAS 39)

On 13 October 2008, the IASB approved amendments to IAS 39 and IFRS 7, validated along a fast-track procedure by the European Commission on 15 October 2008 with Regulation no. 1004/2008.
Based on said amendments, under given circumstances it is now possible to reclassify financial instruments recognised as “Financial assets held for trading” or “Financial assets available for sale” when purchased, into another accounting category. Prior to said amendments, the general rule prohibited reclassifications to other categories, with the exception of reclassifications between “Financial assets available for sale” and “Investments held to maturity”, as previously described under said categories of financial assets.
Based on the provisions of paragraphs 50D and 50E of IAS 39, the following financial instruments may be reclassified:

- financial instruments, other than derivatives, previously classified as financial assets held for trading. As a result of the adoption of the “fair value option”, financial instruments in the category “Financial assets designated at fair value through profit and loss” cannot be reclassified. The new accounting category of allocation is “Loans”. To qualify for reclassification, at the reclassification date, the financial instrument must meet the prescribed requirements to be classified in the “Loans” portfolio, and the company must no longer intend to trade the financial instruments being reclassified, having decided to hold them for the foreseeable future or to maturity;
- non-derivative financial instruments classified as “Financial assets available for sale” can be reclassified to the accounting category “Loans” if at the reclassification date the financial instrument met the definition of “Loans” and the company now intends to and can hold the instrument for the foreseeable future or to maturity.

Any other non-derivative debt or equity instrument can be reclassified from the category “Financial assets held for trading” to the category “Financial assets available for sale” or from the category “Financial assets held for trading” to “Investments held to maturity” (debt instruments only), whenever said instruments are no longer held for trading in the short term. However, this is permitted only in rare circumstances, as illustrated in paragraph 50 B.

The reclassified financial asset is recorded in its new category (“Loans”, “Investments held to maturity”, “Financial assets available for sale”) at its fair value on the reclassification date, representing the new cost or amortised cost.

Once reclassified, financial instruments shall comply with the measurement and recognition rules of the category of allocation, without prejudice to that specified below. Therefore, the effective rate of return must be determined calculated to be used as of the reclassification date for assets valued at amortised cost.
For reclassified assets, any future positive change in cash flows contributes to the determination of the effective interest rate at the date the projection is revised, and shall be accounted for throughout the instrument's residual life instead of changing the asset's book value with a matching entry in the income statement, as envisaged for non-reclassified assets.
Vice versa, any subsequent reductions in estimated cash flows as of the reclassification date shall comply with prior regulations, meaning they shall be immediately charged to the income statement in the event of impairment.
Gains and losses that were previously suspended in equity reserves for Financial assets available for sale, if referring to an instrument with a fixed maturity shall be amortised over the entire investment term according to the amortised cost principle. Vice versa, if the instrument has no fixed maturity (for ex. perpetual instruments), it shall remain suspended in the equity reserve until sold or cancelled.
In the event of reclassification of the financial asset, up until its cancellation, it is necessary to report the consequent effects and those that would have arisen in the absence of the reclassification, as explained in the following sub-section "A.3 – Disclosure on transfers between portfolios of financial assets".

Business combinations, goodwill and changes in interest holdings

A business combination involves the union of businesses or separate business activities in a single entity obliged to draw up financial statements.
A combination may give rise to an investment relationship between the purchasing Parent Company and the subsidiary acquired. In such circumstances, the purchaser applies standard IFRS 3 in the consolidated financial statements while in the separate financial statements the interest holding acquired as an investment in the subsidiary is recorded, applying accounting standard IAS 27 "Separate financial statements".
A combination may also envisage the purchase of the net assets of another entity, including any eventual goodwill, or the acquisition of the capital of another entity (mergers, conferrals, business segment acquisitions). A combination of this type does not translate into an investment relationship similar to that between the parent and subsidiary company and therefore in this case accounting standard IFRS 3 applies also in the separate financial statements of the purchaser.
Business combinations are recorded using the purchase method, on the basis of which the identifiable assets acquired and the identifiable liabilities undertaken, including any potential ones, must be recorded at the respective fair values as of the acquisition date.
With regard to each business combination, the minority interests can be recorded at fair value or in proportion to the portion held in the identifiable net assets of the company acquired.
Any excess in the transferred price with respect to the fair value of the identifiable net assets is recorded as goodwill and allocated, as of the acquisition date, to the individual cash generating units, or groups of cash generating units which should benefit from the synergies of the combination, irrespective of the fact that the other assets and liabilities of the entity acquired are assigned to these units or groups of units.
If the transfer price is lower than the fair value of the identifiable net assets, the difference is recorded immediately in the income statement as revenue in the item "Other operating income", after having carried out a new measuring aimed at assessing the correct identification processes for all the activities acquired and the liabilities undertaken.

The price transferred in a business combination equates to the fair value, as of the acquisition date, of the assets transferred, the liabilities incurred and the equity instruments issued by the purchaser in exchange for obtaining control over the entity acquired. The price which the purchaser transfers in exchange for the entity acquired includes any asset or liability emerging from an agreement on the potential price, to be recorded as of the acquisition date on the basis of the fair value. Changes to the transferred price are possible if they derive from additional information on events or circumstances which existed as of the acquisition date and are recognisable within the business combination measuring period (or rather within twelve months of the date of acquisition, as will be specified further on). Any other change which derives from events or circumstances subsequent to the acquisition, such as for example that acknowledged to the seller linked to achievement of specific income-related performances, must be recognised in the income statement.

Identification of the fair value of the assets and liabilities must be finalised definitively within a maximum period of twelve months as from the acquisition date (measuring period).

The costs relating to the acquisition, which include brokerage commission, advisory, legal, accounting and professional costs, general administrative expenses, including those for the upkeep of an acquisitions office, are recorded in the income statement at the time they are incurred, with the exception of the costs for issuing shares and debts securities which are recorded on the basis of the matters laid down by standards IAS 32 and IAS 39.

If control is achieved by means of subsequent acquisitions (business combinations carried out in several phases), the shareholding previously held is measured at fair value as of the acquisition date and the difference with respect to the previous book value must be recorded in the income statement. With regard to these combinations, the goodwill shall

be determined by the surplus of the transferred prices increased by the fair value of the interest previously held with respect to the fair value of the identifiable net assets of the acquired entity.

Once control has been obtained and the acquisition method previously described applied, any further increase or decrease in the shareholding in a subsidiary company which continues to be controlling is recorded as a transaction between shareholders. Therefore, the book value of the group and minority shareholders' equity must be adjusted to reflect the changes in the holding in the subsidiary. Any difference between the value for which the minority interests are adjusted and the fair value of the price received or paid must be recorded directly in the group shareholders' equity.

In the presence of an event that results in a loss of control, the effect to be recognised in the income statement is equal to the difference between (i) the sum of the fair value of the price received and of the fair value of the residual interest held and (ii) the prior book value of the assets (including goodwill), of the liabilities of the subsidiary, and any minority shareholder's equity. The amounts previously recognised in the statement of comprehensive income (such as for example the revaluation reserves of financial assets available for sale) must be recorded in compliance with the matters required in the event that the parent company has directly disposed of the assets and the related liabilities (by means of reclassification in the income statement or under retained earnings).

The fair value of any shareholding held in the former controlling investment must be considered equal to the fair value at the time of initial recognition of a financial asset on the basis of IAS 39, or, if appropriate, equal to the cost at the time of initial recognition in an associated company or a jointly-controlled entity.

Transactions achieved for reorganisation purposes, between two or more businesses or corporate assets forming part of the Banco Popolare Group, are not considered to be business combinations. The international accounting standards do not in fact discipline the transactions under joint control, which are recorded with continuity at purchase values in the financial statements of the purchaser, if they do not present a significant influence on future cash flows. This is in compliance with the matters envisaged by IAS 8 par.10, which requires, in the absence of a specific standard, that use of one's own judgement when applying an accounting standard be adopted for the purpose of providing relevant, reliable, prudent disclosure which reflects the economic essence of the transaction.

Methods for determining impairment losses on financial assets

At each balance sheet date, all financial assets, except those designated at fair value through profit or loss, are subject to impairment testing to verify whether there is objective evidence of impairment that may compromise the recoverability of the investment.
In detail, the objective evidence of impairment affecting an asset or a group of financial assets can be associated with the following negative events:

- significant financial difficulties experienced by the issuer or the borrower;
- breach of contract, for example a default or failure to make payment of interest or principal when due;
- giving the beneficiary an allowance, that the bank took in consideration primarily for economic or legal reasons related to the beneficiary's financial difficulties, and which otherwise would not have been granted;
- likelihood that the borrower may file for bankruptcy or other financial restructuring procedures;
- disappearance of an active market related to the financial asset in question due to the issuer's financial difficulties. However, the disappearance of an active market caused by the fact that the company's instruments are no longer publicly traded is not evidence of a reduction in fair value;
- events that point at a significant decrease in the issuer's future cash flows (which include the general local or domestic economic conditions in which the issuer operates).

Furthermore, objective evidence of impairment for an investment in an equity instrument may materialise in the event of the following additional negative events:

- significant changes negatively affecting the technological, economic or regulatory environment in which the issuer operates, indicating that the investment can no longer be recovered;
- a prolonged or significant reduction in fair value below the purchase price.

In the event that objective impairment occurs as a result of one or more events that occurred after the initial recognition of the asset, it is necessary to calculate the impairment loss, according to different rules for financial instruments measured at amortised cost or assets designated at fair value with changes carried at equity.
With regard to the determination of impairment losses, please refer to that described for "Investments held to maturity", "Due from banks and customers" for assets valued at amortised cost, and "Financial assets available for sale" for assets designated at fair value with a matching entry in a specific equity reserve.

Financial liabilities designated at fair value through profit and loss and determination of own creditworthiness

To obtain funding, the Group issues different types of bonds, both at a fixed rate and structured types (index-linked to share components, to exchange rates, to interest rate structures, inflation rates or similar indices). The risks resulting

from said issues are hedged by the Group, as part of its overall market risk management, also by means of entering into derivative contracts.

From an accounting perspective, some of these contracts are designated as hedges according to the rules of Hedge Accounting, and in particular of the "fair value hedge", as illustrated in paragraph "6 - Hedging transactions"; in particular, these are hedges of bond issues addressed to institutional customers.

For hedges that are not eligible for the rules of Hedge Accounting, asymmetric accounting would be created, resulting from the different measurement criteria applied to the bond issue - valued at amortised cost - and to the operational hedge derivative instrument - measured at fair value. The Group overcomes this asymmetry by designating bond issues subject to operational hedging at fair value (so-called "Fair Value Option"). In addition to simplifying the administrative and accounting management of hedges, with specific reference to structured issues, the adoption of the Fair Value Option instead of hedge accounting, is closely linked to the actual methods the Group uses to carry out its hedging policies, by managing its market exposure globally and not through a discrete relation with the issued bond. In actual fact, the Group's operating model envisages that the market risks related to the issues of Group banks are managed by Banca Aletti, as investment bank, which acts as the counterparty for the hedge derivatives stipulated by the issuing banks. The risks undertaken in this way by Banca Aletti are managed jointly with the other derivatives, in place or to be set in place, according to an overall "portfolio" approach, which seeks to pursue a given risk/return profile which is compatible with the risk limits established.
Unlike Hedge Accounting, whose accounting rules require that only fair value changes attributable to the hedged risk can be recognised on hedged instruments, the Fair Value Option requires the recognition of all fair value changes, irrespective of the hedged risk factor that generated them, including the issuer's credit risk, to the extent that market participants consider it an important factor in determining the price of a hypothetical exchange transaction. Please refer to "Part A.4 – Fair value disclosure" for details on how fair value and the relative hierarchy are determined.

More specifically, for issues addressed to the Group's retail customers, the fair value measurement is made on the basis of the prices observed in the system of organised exchange of Group securities, which confirm the credit spreads in place on the issue date.

For issues addressed to institutional customers, the valuation method is based on a cash flow discounting model, which considers both the curve of risk-free interest rates and the creditworthiness curve of Banco Popolare, both observed on the reference date of the valuation. The creditworthiness curve is plotted by maximising the use of observable market parameters considered significant, based on the related liquidity; these parameters were identified in the Credit Default Swap (CDS) curve in Banco Popolare's name, as a function of the level of subordination of the issue and the maturity date. The impact resulting from the change in the Bank's creditworthiness, between the issue date and the valuation date, is quantified by calculating the difference between the fair value obtained, considering all risk factors to which the bond is exposed, including credit risk, and the fair value obtained considering the same factors, with the exclusion of the change in credit risk arising during the period.
With regard to the potential volatility of economic results related to changes in own creditworthiness, highlighted by the economic and financial crisis underway since 2008, issues of this type, made from the second half of 2009, are usually recognised according to Hedge Accounting rules. Otherwise, the Fair Value Option rules are applied to prior issues, as the designation is irrevocable; these issues represent the main source of volatility of the economic results attributable to Banco Popolare's creditworthiness.

With regard to recognition criteria for statement of financial position and income statement components, note that, in accordance with the provisions of Circular no. 262:

- derivatives that are associated operationally to liabilities designated at fair value are classified as "Financial assets held for trading" or "Financial liabilities held for trading";
- the spreads and the margins accrued on the derivatives up until the valuation date are recorded, depending on the balance, under "interest income" or "interest expense", consistent with the accrual recorded for the bond issues subject to operational hedges;
- the profits and losses resulting from the disposal or valuation of both bond issues under the Fair Value Option, and of the related derivatives, are recognised under the income statement item "110. Profits (losses) on financial assets and liabilities designated at fair value through profit and loss".

A.3 - DISCLOSURE ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

A.3.1 Reclassified financial assets: book value, fair value and effects on the comprehensive income

On 15 October 2008, the European Commission approved Regulation no. 1004 by means of which the amendments to IAS 39 were acknowledged with reference to the reclassification of financial instruments, and to IFRS 7 with regard to the related disclosure obligations.
On the basis of this amendment, it is therefore possible to reclassify in another category - in the presence of specific conditions - financial instruments recorded, at the time of purchase, within the sphere of the category of financial

assets held for trading or the category of financial assets available for sale, as described in detail in the above "Part A.2", to which reference is made for further information.

On the basis of the afore-mentioned legislative changes:

- during the meeting held on 28 October 2008, Banco Popolare's Management Board resolved to reclassify certain financial assets not listed on active markets held by the Bank for trading purposes, taking into account that the crisis situation which characterised the world financial markets would not have permitted it to reasonably pursue the objectives which had justified the recognition of said financial instruments in the category of financial assets held for trading forcing the same to be held for the foreseeable future or until maturity. As permitted by the amendment of IAS 39, due to the exceptional situation, the transfer was essentially carried out on the basis of the prices as at 1 July 2008, since the reclassification was resolved before 1 November 2008;
- during 2009, Efibanca's Board of Directors resolved the reclassification of the UCIT units held in closed-end private equity funds from the "Financial assets held for trading" portfolio to the "Financial assets available for sale" portfolio. This reclassification was carried out on a similar basis to other investments of this type held, which Efibanca had already placed in item "40 - Financial assets available for sale", given the stability of this type of investment, also taking into account that the world financial market crisis would not have made it possible for these instruments to be traded in the short-term. Since this transfer was resolved after 1 November 2008, the book value in the pertinent accounting category is represented by the fair value as at 30 June 2009, or rather as of the date when the related transfer was resolved, as envisaged by the reference accounting standards. Note that the cited positions were recorded in Banco Popolare's assets portfolio following the merger by incorporation of the subsidiary company Efibanca, effective for accounting purposes as of 1 January 2011.

In 2016, no further reclassifications of the portfolio took place.

The following table shows the book value of the reclassified assets remaining as at 31 December 2016, the relative fair value, the income components recorded in the period and the economic impact that would have been recorded in the same period if the transfer had not been carried out.

Type of financial instrument	Source portfolio	Target portfolio	Book value as at 31.12.2016	Fair value as at 31.12.2016	Income items in absence of the transfer (before tax)		Income items registered in the year (before tax)	
					Valutational	Other	Valutational	Other
Debt securities	Financial assets held for trading (item 20)	Due from banks (item 60)				252		222
Debt securities	Financial assets held for trading (item 20)	Loans to customers (item 70)	30,591	30,040	(298)	623		740
UCIT units	Financial assets held for trading (item 20)	Financial assets available for sale (item 40)				41		41
Total			**30,591**	**30,040**	**(298)**	**916**		**1,003**

Debt securities

As at 31 December 2016, the reclassified portfolio represented by debt securities was comprised of a single security from a corporate issuer - financial institution - and 2 Asset Backed Securities (ABS). As regards this portfolio, during the year, a fall of euro 66 million in debt securities was recorded, due to the redemption of two securities of corporate issuers and an ABS in the portfolio as at 31 December 2016, as well as a decrease of euro 1.1 million in terms of nominal value, due to the partial redemption of ABS.
The book value of the position in debt securities as at 31 December 2016 amounted to euro 30.6 million (euro 97.4 million as at 31 December 2015) and their fair value came to euro 30 million (euro 97.3 million as at 31 December 2015).
More specifically, the reclassified ABS, with a counter value recognised in the financial statements as at 31 December 2016 of euro 6.6 million (equal to the nominal value) belong to the senior class, namely the category of securities with contractual right of priority for the payment of the principal and interest. The underlying instruments are generally represented by residential mortgage loans of European countries.
With reference to the corporate security, outstanding with a nominal value of euro 25 million, corresponding to a book value of euro 24 million, it is a subordinated debt issue of a leading Italian bank.

As at 31 December 2016, the valuation at amortised cost rather than at fair value, had an overall positive effect of euro 0.6 million, compared to a positive euro 0.2 million as at 31 December 2015 (as emerges from the difference between the "Book value as at 31/12/2016" column and the "Fair value as at 31/12/2016"). More specifically, this impact is the result of:

- the failure to recognise net gains due to the adjustment to fair value of euro 0.5 million; gains which would have been recorded if the securities had stayed in the assets held for trading portfolio;
- the recognition of income items represented by additional interest income due to the application of the amortised cost to the reclassified assets of euro 1.1 million.

In terms of the impact on the comprehensive income of the period, the reclassification resulted in the recording of:

- additional interest income due to the application of an amortised cost of 0.3 million;
- a lower negative net result by 0.1 million, which would have been deducted from the income statement if the transfer had not taken place, and which results from the valuation and from the redemption of the securities.

Therefore, the income statement result as at 31 December 2016 was euro 0.4 million higher than it would have been in the absence of the reclassification from the financial assets held for trading portfolio to the loans portfolio (equal to the difference between the "Income items registered in the year" column and the "Income items in the absence of transfer" column).

UCIT units

As at 31 December 2016, the book value of the UCIT units transferred was zero (euro 57 thousand as at 31 December 2015), due to the final distribution from the liquidation of the units made in the third quarter of 2016.

A.3.2 Reclassified financial assets; effects on the comprehensive income before reclassification

Under IFRS 7, in the year of the reclassification it is required to disclose the effects on comprehensive income before reclassification. In this regard, it is noted that during 2016 no transfers of portfolios were carried out, and, therefore, there is no disclosure to be provided.

A.3.3 Transfers of financial assets held for trading

For the reasons underlying the reclassification, please refer to the previous paragraph A.3.1.
In addition, note that at the time when Banco Popolare had carried out the reclassification, the IASB had expressly considered the deterioration of the world's financial markets that had occurred during the third quarter of 2008 as an example of "rare circumstances", as stated in their press release of 13 October 2008.

A.3.4 Effective interest rate and cash flows expected from reclassified assets

There is no disclosure to make as no portfolio reclassification was made in 2016.

A.4 – FAIR VALUE DISCLOSURE

QUALITATIVE INFORMATION

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market operators, under current market conditions on the valuation date in the main market or in a more advantageous market (exit price).
To measure the fair value of (financial and non-financial) assets and liabilities, IFRS 13 establishes a three-tiered fair value hierarchy, based on the observability or otherwise of market parameters:

1. **Listed prices taken from active markets (Level 1)**
   The valuation is made on the basis of listed (non-adjusted) prices in active markets for identical assets or liabilities.
2. **Valuation methods based on observable market parameters (Level 2)**
   The valuation of the financial instrument is based on prices that can be taken from market listings for similar assets or by means of valuation techniques in relation to which all the significant factors, including the lending and liquidity spreads, are taken from observable market data. This level implies reduced elements of discretion in the valuation since all the parameters pertain to the market (for the same security and for similar securities) and the calculation methods make it possible to replicate listings present on active markets.
3. **Valuation methods based on market parameters which cannot be observed (Level 3)**
   The determination of the fair value resorts to valuation techniques which are based, to a significant extent, on significant inputs which cannot be inferred from the market and therefore involve estimates and assumptions by management.

The methods to determine the fair value are illustrated below:

- for financial instruments measured in the financial statements at fair value;
- for financial instruments measured at amortised cost;
- for non-financial assets represented by the real estate investments held by the Group.

Financial assets/liabilities held for trading, Financial assets/liabilities designated at fair value through profit and loss, Financial assets available for sale, Hedging derivatives

For these financial instruments designated at fair value in the financial statements, the Banco Popolare Group has established a "fair value policy", which assigns the maximum priority to the prices listed on active markets and lower priority to the use of inputs which cannot be observed, in line with the above-described fair value hierarchy. More specifically, this policy defines:

- the rules to identify market data, the selection/hierarchy of information sources and the price configurations needed to measure the value of the financial instruments in active markets, classified as level 1 of the fair value hierarchy ("Mark to Market Policy");
- the valuation techniques and the relative input parameters in all cases in which the Mark to Market Policy cannot be adopted ("Mark to Model Policy").

Mark to Market

To determine fair value, the Group uses information based on market data, whenever available, obtained from independent sources, insofar as this is considered the best evidence of fair value. In this case, the fair value is the market price of the same instrument assessed, meaning without changes in or restructuring of the instrument, which can be taken from the listings expressed by an active market (and classified as level 1 in the fair value hierarchy). A market is considered active when transactions are performed with sufficient frequency and at sufficient volumes to provide information that can determine a price on a constant basis. The following are generally considered active markets:

- regulated securities and derivative markets, with the exception of the "Luxembourg" stock market;
- organised trading systems;
- certain OTC electronic trading networks (e.g. Bloomberg), when given circumstances are in place based on the presence of a certain number of contributors with executable offers, characterised by bid-ask spreads – i.e., the difference between the price a seller is offering for a security (ask price) and the price a buyer is willing to pay (bid price) – falling within a given tolerance threshold;
- the secondary market for UCIT units, expressing the official NAV (Net Asset Value), based on which the issuing asset management company guarantees the settlement of the units in a short time frame. This regards, in particular, open-ended, harmonised UCIT units, characterised, by type of investment, by high levels of transparency and liquidity.

Mark to Model

When the Mark to Market policy is not applicable, because there are no prices directly observable on active markets, it is necessary to use valuation techniques that maximise the use of information available on the market, based on the following valuation approaches:

1. *Comparable approach*: in this case the instrument's fair value is derived from the prices observed in recent transactions in similar instruments on active markets, suitably adjusted in the instruments and in the market conditions;
2. *Valuation Model*: in the absence of observable transaction prices for the instrument being measured or similar instruments, it is necessary to apply a valuation model. The model must provide proven reliability in estimating hypothetical "operational" prices and therefore must be generally accepted by market participants.

In particular:

- debt securities are measured by discounting expected cash flows, suitably adjusted to account for issuer risk;
- unlisted equity instruments are measured by referring to direct transactions of the same security or similar securities observed over a suitable time frame as compared to the valuation date, using the comparably company market multiples method, and subordinately using financial, income and equity valuation methods;
- investments in UCIT units other than open-ended harmonised ones, are measured on the basis of the NAV made available by the fund administrator or by the management company. These investments typically include private equity funds, real estate funds and hedge funds.
- derivative contracts are measured based on multiple models, depending on the input factors (interest rate risk, volatility, exchange rate risk, price risk, etc.) which affect their valuation, taking account of several fair value adjustments as described in the paragraph below entitled "A.4.1 Fair value levels 2 and 3: valuation techniques and input used". In order to discount future cash flows, the Banco Popolare Group uses the OIS ("Overnight Indexed Swap") curve, considered as the expression of a risk-free rate.

This was classified in level 2 instead of level 3 as significant inputs used for the purpose of determining the fair value were observed on the market. A financial instrument must be classified in its entirety in a single level. Therefore, when the measurement technique uses input from multiple levels, the entire measurement must be classified in the level of the hierarchy where the lowest level of input is classified, where it is deemed significant for calculating the fair value as a whole.

The following types of investment are normally considered as level 2:

- OTC financial derivatives whose fair value is obtained through pricing models, which may use both observable and non-observable input. However, the latter parameters are judged to be insignificant in calculating the overall fair value;
- equity instruments that are not listed on active markets, measured using market multiple techniques, referring to a selected sample of companies that are comparable to the company being valued, or measured based on actual transactions executed in a time frame that is reasonably near the reference date;
- third party or own debt securities that are not listed on active markets, whose input, including credit spreads, is taken from market sources;
- hedge funds featuring significant transparency and liquidity, measured based on the NAV provided by the management company/fund administrator.

The following financial instruments are generally considered level 3:

- hedge funds characterised by significant levels of illiquidity, and for which the process to evaluate the equity of the fund requires a considerable amount of assumptions and estimates. The fair value is measured on the basis of the NAV. Said NAV may be suitably corrected to account for the fund's diminished liquidity, i.e., the period of time between the date of the request for redemption and that of the actual redemption, as well as for possible exit commissions relating to the investment;
- real estate funds measured on the basis of the last available NAV;
- private equity funds measured on the basis of the last available NAV, adjusted if necessary to take into account events that were not recognised in the measurement of the price or to reflect a different valuation of the assets underlying the fund in question;
- illiquid stock for which no recent or comparable transactions have been observed, usually measured on the basis of the equity model;
- debt securities characterised by complex financial structures, for which sources that are not publicly available are usually used; these are non-binding quotations and moreover not corroborated by market data;
- debt securities issued by parties in financial difficulty, for which the management has to use its own judgement to establish the "recovery rate", as no significant prices can be observed on the market.

Due to and from banks and customers, Debt securities issued, Investments held to maturity

For the other financial instruments recognised at amortised cost and substantially classified as due to and from banks or customers, debt securities issued or investments held to maturity, fair value was determined for reporting purposes in the Notes to the financial statements, as required by the applicable accounting standard IFRS 7. In particular:

- for performing medium/long-term loans (mostly mortgage loans and leases), fair value is determined on the basis of cash flows, suitably adjusted for expected losses, quantified on the basis of the same parameters used to calculate the book value of collective adjustments (PD and LGD). Said flows are discounted on the basis of a risk-free market rate, plus a component considered as expressing risk and uncertainty. The fair value determined in this manner is classified under level 3 of the hierarchy;
- as regards "non-performing loans" (bad loans, unlikely to pay and past due), the measurement of the fair value is significantly influenced by parameters that cannot be observed on the market, represented by the envisaged recovery flows, recovery times and the discounting rates requested by the market for investments in similar assets. For this reason, the fair value determined in this manner is classified under level 3 of the fair value hierarchy;
- for debt securities classified in the portfolio of "Investments held to maturity" or "Due from banks or customers", even following a portfolio reclassification, the fair value is measured by using prices obtained on active markets or valuation models, as described above for financial assets and liabilities designated at fair value through profit and loss.

With regard to medium-long term performing and non-performing loans, note that the methods and the assumptions used to estimate fair value are based on subjective valuations; for this reason, the fair value shown in the financial statements for disclosure purposes only, could be significantly different to the values calculated for different purposes, just as it may not be comparable to those provided by other financial institutions.

Non-financial assets – Real estate investments held for investment purposes (ex IAS 40)

These are real estate investments mainly deriving from loan recovery operations, valued at cost, for which, pursuant to accounting standards IAS 40 and IFRS 13, it is necessary to disclose the fair value and the triple hierarchy in the notes

to the financial statements, based on the observability or otherwise of the inputs, regardless of the measurement techniques adopted, as illustrated below.
The fair value is mainly determined through external appraisals, which use current prices of similar assets (value per square metre, prices for similar transactions) as a benchmark. Adjustments are usually made to this value to reflect the specific characteristics of the asset subject to valuation. These can include, by way of example, its geographic and commercial position, accessibility and infrastructures present, the urban planning context, its maintenance status, size, any appurtenances and the state of external/internal plant. In the event of situations in which the asset is difficult to sell, further prudential adjustments may be made to align to the sale policies that company management intends to pursue. By way of said adjustments, the fair value obtained in this way is, as a rule, classified as level 3 in the fair value hierarchy, insofar as it significantly depends on the estimates made by the management, which are necessarily characterised by elements of judgment and subjectivity.
There may be cases, which, however are considered insignificant, where the fair value of real estate investments may be considered at level 2, as they are determined based on parameters considered observable on active markets. In these cases a sufficient volume of transactions must exist, occurring in a recent time frame with respect to the valuation date, and no significant adjustments may have been made, due to the considerable similarity between the unit to be valued and the units subject to the cited transactions. This may be the case for sales prices per square metre or rental costs for properties considered equivalent due to their intrinsic characteristics and location (ex. residential units in a building/area with a sufficient number of comparable units or an office located in a business district with several similar buildings containing comparable offices).
IFRS 13 assumes that the current use of the asset is the highest and best use of said asset, unless the market or other factors suggest that the market participants may use the asset differently in order to maximise its value. For certain real estate investments, the determination of the fair value may therefore take account of potential "redevelopment" of the current use of the property, to the extent to which there is evidence to support the fact that the market participants consider said potential future development for the purpose of determining the transaction price.

A.4.1 Fair value levels 2 and 3: valuation techniques and input used

For assets and liabilities designated at fair value on a recurring basis, for which there are no prices directly observable on active markets, the fair value must be determined using the "Comparable Approach" or the "Model Valuation", as described in the previous paragraph. Note that for the Banco Popolare Group, the only items designated at fair value on a recurring basis are financial assets and liabilities, as illustrated below.

Debt securities
These are measured by discounting expected cash flows (Discounted Cash Flow Method), suitably adjusted to account for issuer risk. For structured securities, it is necessary to measure the optional component, also taking account of suitable spreads to reflect the liquidity risk and model risk which may characterise such structures.

Unlisted equity instruments
These are measured by referring to direct transactions of the same security or similar securities observed over a suitable time frame as compared to the valuation date, using the comparably company market multiples method, and subordinately using financial, income and equity valuation methods.

Investments in UCIT units, other than open-ended harmonised UCIT
These are measured on the basis of the NAV made available by the fund administrator or by the management company. These investments typically include private equity funds, real estate funds and hedge funds.

Over The Counter (OTC) Derivatives
These are measured on the basis of multiple models, depending on the type of instrument and input factors (interest rate risk, volatility, exchange rate risk, price risk, etc.) which affect their valuation. The discounting of future cash flows is made on the basis of the risk-free interest rate curve, identified as the OIS ("Overnight Indexed Swap") curve. The values obtained using the valuation models are adjusted to take account of certain fair value adjustments factors, in order to best reflect the sale price of an actually possible market transaction. These factors are specifically model risk, liquidity risk and counterparty risk, illustrated here below.

Model risk: this adjustment is made to cover the risk that the pricing models, though validated, may generate fair values not directly observable or not immediately comparable with market prices. In general, this is the case for structured products, whose valuation is highly complex and for which the break down into elementary components which can be "summed" (host instrument and embedded derivative) may generate imprecisions in the valuation, or in the event of pricing algorithms or types of pay-offs that are particularly "exotic", which do not have a suitable degree of dissemination on the market, or in the presence of models that are highly sensitive to variables that are difficult to observe on the market.

Liquidity risk: this adjustment is made to take account of the size of the "bid/ask spread", i.e., the actual cost of unfreezing positions in OTC derivatives in markets with low efficiency. The effect of the liquidity risk adjustment is

greater the more the product is structured, due to the related hedging/unfreezing costs, where the valuation model is not sufficiently confirmed and disseminated among operators, because this makes the valuations more random.

Counterparty risk: adjustments for counterparty risks on performing derivatives are made to reflect:

- the counterparty's credit risk, known as the Credit Valuation Adjustment (CVA);
- the risk of non-fulfilment of one's own contractual obligations ("own credit risk"), known as the Debit Valuation Adjustment (DVA).

The consideration of own credit risk in the designation of a financial liability at fair value is consistent with the valuation made for an entity that holds the same instrument as a financial asset, and is expressly envisaged by IFRS 13 ("non-performance risk").
CVA and DVA are determined for each separate legal entity belonging to the Group, on the basis of the expected future exposure generated by the derivative contracts, the probability of default (PD) of the parties, and the relative losses (LGD). More specifically, the calculation of expected exposure takes into account the effects resulting from the existence of "netting and collateral agreements", which are able to mitigate counterparty risk. For the Group, these "collateral agreements" are presented by "Credit Support Annex" (CSA) contracts stipulated with the counterparties, whose derivative transactions are regulated by the "ISDA Master Agreement", on the basis of which the parties must pay real financial guarantees, based on the overall mark to market performance of the derivatives underlying the same CSA. When estimating PD, maximum use of market parameters is made, referring to Credit Default Swap quotations, where available, against internal parameters.
More specifically, the model to calculate CVA/DVA envisages that, for each derivative, counterparty risk must correspond to the sum of the following two components:

- "Bilateral CVA": which is the potential loss in the event that the future exposure is positive for the Group, adjusted to account for the possibility that the Group may default before the counterparty;
- "Bilateral DVA": which seeks to recognise the benefit in the event that it does not meet its contractual obligations, if the expected exposure is negative for the Group. Said benefit is then mitigated to account for the probability that, during the transaction, the counterparty may default before the Group.

The table below summarises the main types of derivatives existing in the Group, mainly attributable to positions held by Banca Aletti and by the Parent Company, indicating the related valuation models and main input:

Derivative category	Product	Valuation models	Main input of the model
Financial derivatives on interest rates	Swap	Discounted Cash Flow	Interest rate curves, interest rate volatility, interest rate correlation
	Cap - Floor	Bachelier - Analytical	
	European Swaption	Bachelier - Analytical	
	Bermuda Swaption	Hull-White one-factor mixture – Trinomial tree	
	CMS Spread Option	Bachelier - Analytical	
	CMS cap/floor/swap	Hagan Convexity adjustment	
	Bond Option	Black and Scholes - Analytical	
	Bond Futures option	Binomial tree	
Derivatives on inflation rates	Swap, Cap - Floor	Lognormal Forward Inflation Model - Analytical	Interest rate and inflation rate curves, interest/inflation rate volatility/correlation, calibrated on market prices
Derivatives on shares / equity indices / exchange rates	Single asset plain vanilla options	Black and Scholes - Analytical	Equity/forex volatility, interest rate and exchange rate curves, spot prices of equity indices, dividends, repo rates
	Single asset American options	Black and Scholes – Binomial tree (equity) – finite differences (forex)	
	Exotic options	Black and Scholes – Monte Carlo	
	European options on baskets	Black and Scholes /Black and Scholes Mixture - Analytical	Equity/forex volatility, interest rate and exchange rate curves, spot prices of equity indices, dividends, repo rates, correlations
	American Barrier Options and Spread Options	Local Volatility – Monte Carlo	
	American Barrier Options on exchange rate	Trinomial tree	
	Autocallable options	Hybrid Black and Scholes, two-factor Hull and White – Monte Carlo	Equity/forex/interest rate volatility, correlations, interest rates, exchange rates, spot prices of equity indices, dividends, repo rates
	Dividend Swap	Discounted Cash Flow - Analytical	Interest rates, exchange rates, dividends, repo rates
Credit derivatives	Credit Default Swap	Discounted Cash Flow - Analytical	Interest rates, Credit Default Swap curve

The techniques, the parameters for determining the fair value, and the criteria for assignment under the fair value hierarchy are defined and formalised in a specific fair value policy adopted by the Banco Popolare Group. The reliability of the fair value measurements is also guaranteed by the verifications carried out by a Risk Management department. This department, which is independent from the Front Office units that hold the positions, periodically reviews the list of pricing models to be used under the Fair Value Policy: these models must represent market standards or best practices and the related calibration techniques must guarantee a result in line with valuations capable of reflecting the "current market conditions". In detail, to correctly determine the fair value, each product is associated to a pricing model generally accepted by the market and selected based on the characteristics and market variables underlying said product. For highly complex products or in the event that the existing valuation model for the products is deemed lacking or inadequate, an internal process is launched to supplement the current models. Based on this process, the Risk Management department conducts an initial stage of validation of the pricing models, which may be native to the position keeping system or issued by a specific internal department. This is followed by a stage conducted by the same department, to guarantee constant reliability of the previously validated model.
In detail, the validation aims at verifying the theoretical robustness of the model through independent repricing, possible calibration of the parameters and comparison with counterparties' prices. If the validation is successful, the use of the models is still subordinate to approval by specific internal committees of the Group. Following the validation stage, continuous revision is planned in order to confirm the accuracy and adherence to the market of the pricing models used by the Group, through suitable actions, if necessary, on the models and the related underlying theoretical assumptions. In order to cover the risk that the pricing models, though validated, may generate fair values not immediately comparable with market prices, a suitable adjustment will be made for "Model risk", as described above.

A.4.2 Processes and sensitivity of valuations

Euro 3.1 million of level 3 exposures is represented by debt securities resulting from corporate restructuring operations, as well as by exposures related to bonds issued by several Icelandic banks, subject to liquidation procedures; for these exposures, which have a nominal value of euro 92.2 million, a one percentage increase/decrease in recovery expectations would lead to an increase or decrease in the fair value of the same of around 0.5 million.

The remaining financial instruments classified as level 3 are mostly represented by equity instruments, and to a residual extent by UCITS units and by several ABS; for these investments, no quantitative sensitivity analysis of the fair value was conducted, with respect to the change in non-observable inputs, insofar as the fair value was acquired from external sources without making any adjustment or was generated by a model with specific inputs (for example, the company's capital values) and for which alternative values cannot be reasonably envisaged.

A.4.3 Fair value hierarchy

For the purpose of preparing the disclosure on transfers between levels set out in the following paragraphs A.4.5.1, A.4.5.2 and A.4.5.3, it is noted that, for securities in the hierarchy as at 31 December 2016 which had a different level of fair value than as at 31 December 2015, it was assumed that the transfer between levels occurred with regard to the balances at the beginning of the reference period.

A.4.4 Other information

For the disclosure concerning the highest and best use required by IFRS 13, refer to the information at the bottom of table A.4.5.4, relating to the item "property and equipment held for investment purposes".
It must also be specified that the Group did not use the option of measuring the fair value at overall portfolio level, in order to fully recognise the counterparty risk associated with positions in derivative contracts grouped in the same "Credit Support Annex" - CSA agreement, as described in the paragraph above entitled "A.4.1 Fair value levels 2 and 3: valuation techniques and input used". In this case, the counterparty risk associated with the single derivative is determined on the basis of its marginal contribution to the expected net exposure generated by all contracts stipulated with a specific counterparty within the same CSA.

QUANTITATIVE INFORMATION

A.4.5 Fair value hierarchy

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

As established by the previously cited standard IFRS 13, recurring valuations refer to those assets or liabilities measured at fair value in the statement of financial position, on the basis of that envisaged or permitted by the relevant international accounting standards. In this regard, note that for the Banco Popolare Group, the only assets and liabilities measured at fair value on a recurring basis are financial assets and liabilities, as shown in the table below:

Assets/Liabilities measured at fair value	31/12/2016			31/12/2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	3,278,325	1,449,371	15,729	4,210,070	2,023,886	17,364
2. Financial assets designated at fair value through profit and loss	3,532	559	213	3,671	1,254	13,675
3. Financial assets available for sale	11,348,833	382,967	359,188	12,214,279	251,883	444,534
4. Hedging derivatives	-	443,411	-	-	495,161	-
5. Property and equipment	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	**14,630,690**	**2,276,308**	**375,130**	**16,428,020**	**2,772,184**	**475,573**
1. Financial liabilities held for trading	705,798	7,440,177	-	459,179	7,038,708	27
2. Financial liabilities designated at fair value through profit and loss	6,352,952	380,354	-	10,863,200	1,239,421	-
3. Hedging derivatives	-	1,292,087	-	-	990,562	-
Total	**7,058,750**	**9,112,618**	**-**	**11,322,379**	**9,268,691**	**27**

Financial assets

The financial instruments valued on the basis of prices pertaining to active markets (Level 1) or determined on the basis of observable market parameters (Level 2) represent 97.8% of total financial assets designated at fair value (97.6% as at 31 December 2015).

The instruments valued significantly on the basis of non-observable parameters (Level 3) represent a marginal share (2.2% against 2.4% in 2015) of total financial assets designated at fair value through profit and loss, 95.8% of which are financial assets available for sale.
More specifically, level 3 financial assets amounted to euro 375.1 million and are represented by the following types of investment:

- unlisted equity instruments of euro 264.5 million, mostly valued on the basis of internal equity models. Note that equity instruments includes the figure of euro 10.7 million, which is the investment in the Voluntary Scheme of the Interbank Deposit Guarantee Fund, valued on the basis of the appraisal made available to members by the IDGF, based on the Dividend Discount Model (DDM). For further details, refer to the paragraph entitled "Other significant aspects relating to the Group's accounting policies" contained in "Section 5 - Other aspects" in Part A of these notes to the consolidated financial statements;
- UCIT units of euro 101.6 million, represented by private equity funds or equivalent (euro 55.2 million), real estate funds (euro 30.2 million), hedge funds (euro 15.4 million) and bond funds (euro 0.8 million); these funds are characterised by significant levels of illiquidity, and for which the process to evaluate the equity of the fund requires a considerable amount of assumptions and estimates;
- debt securities of euro 9 million, represented by several instruments linked to bonds issued by Icelandic banks subject to liquidation procedures (euro 1.5 million), by ABS issued by the SPE Sunrise S.r.l. established for the securitisation of Agos Ducato S.p.A.'s consumer credit (euro 5.9 million), and several bonds acquired as part of the restructuring of several credit exposures (euro 1.6 million).

The UCIT units include the investment in the Atlante Fund, the book value of which as at 31 December 2016 was euro 20.9 million. As illustrated in the report on operations, the Atlante Fund is an alternative closed-end securities investment fund, managed by Quaestio Capital Management SGR S.p.A., launched on 29 April 2016, the objective of which is to sustain the unopted portion of future share capital increases promoted by Italian banks, and to contribute to the disposal of the non-performing loans in the portfolios of domestic intermediaries.
The Fund has equity of euro 4,294 million (4,294 shares with a nominal value of euro 1 million); as at 31 December 2016, the counter value of the amounts called was euro 3,445.7 (corresponding to 81.09% of the subscriptions collected). In this context, in April 2016, Banco Popolare committed to purchasing 50 shares of the Fund, for a total investment of euro 50 million; as at 31 December 2016, the payments made by Banco Popolare amounted to euro 40.6 million (the figure of euro 9.4 million represents the remaining commitment to be invested in the fund).

The amounts called by the Fund were used to subscribe the share capital increases of Banca Popolare di Vicenza for euro 1,810 million (euro 146.3 million of which was paid in January 2017) and of Veneto Banca for euro 1,616.6 million (euro 296.4 million of which was paid in January 2017).
On 31 January 2017, the SGR announced the Net Asset Value (NAV) of the fund which, as at 31 December 2016 was euro 3,480.5 million (euro 819,135.413 is the unit value of the share), obtained by measuring the investment held in Banca Popolare di Vicenza and Veneto Banca at cost.
In this regard, note that the value of the Fund's equity, obtained by measuring the equity investments on the basis of assessments made by an independent expert, appointed by the SGR itself, was around 24% lower than the initial value of the investment. Said assessments are based on stock market multiples (ratio of price and tangible net equity) applied to the tangible net equity of the two banks as at 30 June 2016, plus the payments made up to 31 December 2016. As stated by the expert in question, this valuation is subject to a considerable amount of uncertainty due to the limited availability of objective data and to a calculation method that is only based on share market multiples, even though these companies are unlisted and are at the beginning of a significant restructuring and merger process. As regards the uncertainty relating to the future prospects of the assets underlying the Atlante Fund, when establishing the book value of the investment, the minimum value of the range of values resulting from said assessments was used as reference, also not taking into account the payments to the capital accounts of the investees made at the time of the last call of December 2016. With respect to the book value of euro 40.6 million, an impairment of euro 19.7 million was recognised under item "130. Net losses on impairment of financial assets available for sale"

Financial assets include euro 2,022.3 million in derivative instruments held for trading and hedging. In particular:

- listed derivatives (futures and options) corresponding to euro 148.2 million, are measured on the basis of the prices provided by the Clearing Houses (level 1);
- Over The Counter (OTC) derivatives, which amount to euro 1,874.1 million, are measured on the basis of models, which use observable market parameters to a significant extent, or on the basis of prices originating from independent sources (level 2).

Financial liabilities

Financial liabilities held for trading classified as level 1 refer to listed derivatives amounting to euro 255.7 million and to technical overdrafts on securities listed in active markets of euro 450.1 million; the remaining financial liabilities held for trading, corresponding to euro 7,440.2 million, were classified as level 2.

Financial liabilities designated at fair value are represented by own bond issues subject to hedging by means of derivative instruments, for which the fair value option has been activated. More specifically, the securities classified as level 1, which as at 31 December 2016 represented 94.4% of the total liabilities measured at fair value (item 50 of statement of financial position liabilities), are represented by bonds placed with retail customers, for which listings present on the organised trading system relating to Group securities, considered an active market, were used. For further details on the method for determining the financial liabilities under the fair value option, reference should be made to the paragraph above entitled "Financial assets/liabilities held for trading, Financial assets/liabilities designated at fair value through profit and loss, Financial assets available for sale, Hedging derivatives" in Part A - Fair value disclosure" in these notes to the financial statements.

Hedging derivatives have a negative fair value of euro 1,292.1 million and are fully classified as level 2.

Transfers between fair value levels (Level 1 and Level 2)

In 2016, the transfers from level 1 to level 2 refer to two debt securities, classified in the portfolio of "Financial assets available for sale" of euro 31.6 million (value at the beginning of the year), for which, as at 31 December 2016, the conditions envisaged by the Group Fair Value Policy for a listing expressed by an active market had not been met, unlike the situation at the beginning of the year.

In the same period, transfers from level 2 to level 1 regarded the following portfolios:

- financial assets available for sale of euro 53.6 million (value at the beginning of the year);
- financial liabilities designated at fair value through profit and loss of euro 213.5 million (value at the beginning of the year).

This refers in particular to a limited number of debt securities (including the group's bond issues) for which, as at 31 December 2016, it was possible to rely on prices contributed on active markets, according to the Group's Fair Value Policy, also following the listing of some bonds issued by the group.

Impact of the Credit Value Adjustment (CVA) and of the Debit Value Adjustment (DVA) on the fair value determination of derivative financial instruments

Based on the method illustrated in the paragraph above entitled "A.4.1 Fair value levels 2 and 3: valuation techniques and input used", as at 31 December 2016, adjustments made to the fair value of derivative instruments, to account for counterparty risk corresponded to the sum of the following components:

- "Bilateral CVA", which entailed a cumulative loss, in terms of lower assets/higher liabilities, of euro 10.3 million;
- "Bilateral DVA", which entailed a cumulative benefit, in terms of higher assets/lower liabilities, of euro 9.9 million.

As at 31 December 2016, cumulative CVA/DVA adjustments therefore totalled a negative euro 0.4 million (as at 31 December 2015, the balance of said adjustments was a negative euro 1 million).

A.4.5.2 Annual changes in assets designated at fair value on a recurring basis (level 3)

	Financial assets held for trading	Financial assets designated at fair value through profit and loss	Financial assets available for sale	Hedging derivatives	Property and equipment	Intangible assets
1. Opening balance	**17,364**	**13,675**	**444,534**	**-**	**-**	**-**
2. Increases	**3,451**	**38**	**101,040**	**-**	**-**	**-**
2.1. Purchases	266	-	68,073	-	-	-
2.2. Profits charged to:						
2.2.1. Income statement	2,070	38	18,954	-	-	-
- of which capital gains	-	21	-	-	-	-
2.2.2. Shareholders' equity	X	X	13,849	-	-	-
2.3. Transfers from other levels	21	-	-	-	-	-
2.4. Other increases	1,094	-	164	-	-	-
3. Decreases	**(5,086)**	**(13,500)**	**(186,386)**	**-**	**-**	**-**
3.1. Sales	(4,813)	(15)	(44,860)	-	-	-
3.2. Redemptions	(22)	-	(11,292)	-	-	-
3.3. Losses charged to:						
3.3.1. Income statement	(147)	(12,954)	(34,610)	-	-	-
- of which capital losses	(44)	(12,916)	(21)	-	-	-
3.3.2. Shareholders' equity	X	X	(3,715)	-	-	-
3.4. Transfers to other levels	-	-	(91,700)	-	-	-
3.5. Other decreases	(104)	(531)	(209)	-	-	-
4. Closing balance	**15,729**	**213**	**359,188**	**-**	**-**	**-**

As regards the portfolio of "Financial assets available for sale", the transfer from level 3, corresponding to euro 91.7 million, refers to the shares held in the Bank of Italy; as at 31 December 2016, the fair value measurement was classified as level 2 in the fair value hierarchy, insofar as based on the prices of transactions actually performed on the shares in question between independent market operators. These transactions were made at the nominal value, corresponding to the book value of the shares.

A.4.5.3 Annual changes in liabilities designated at fair value on a recurring basis (level 3)

	Financial liabilities held for trading	Financial liabilities designated at fair value through profit and loss	Hedging derivatives
1. Opening balance	**27**	**-**	**-**
2. Increases	**-**	**-**	**-**
2.1. Issues	-	-	-
2.2. Losses charged to:			
2.2.1. Income statement	-	-	-
- of which capital losses	-	-	-
2.2.2. Shareholders' equity	X	X	-
2.3. Transfers from other levels	-	-	-
2.4. Other increases	-	-	-
3. Decreases	**(27)**	**-**	**-**
3.1. Redemptions	-	-	-
3.2. Buy-backs	-	-	-
3.3. Profits charged to:			
3.3.1. Income statement	(27)	-	-
- of which capital gains	-	-	-
3.3.2. Shareholders' equity	X	X	-
3.4. Transfers to other levels	-	-	-
3.5. Other decreases	-	-	-
4. Closing balance	**-**	**-**	**-**

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

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis *(in thousands of euro)*	31/12/2016				31/12/2015			
	Book value	FV Level 1	FV Level 2	FV Level 3	Book value	FV Level 1	FV Level 2	FV Level 3
1. Investments held to maturity	8,368,223	8,512,204	-	-	7,779,168	8,054,465	-	-
2. Due from banks	4,559,188	-	4,555,701	2,851	2,817,832	24,830	2,791,762	3,404
3. Loans to customers	75,840,234	23,535	30,455,773	47,254,706	78,421,634	64,983	29,146,443	53,979,431
4. Property and equipment held for investment purposes	1,343,340	-	-	1,530,963	1,480,769	-	-	1,690,977
5. Non-current assets held for sale and discontinued operations	76,680	-	-	76,680	108,133	-	-	108,133
Total	**90,187,665**	**8,535,739**	**35,011,474**	**48,865,200**	**90,607,536**	**8,144,278**	**31,938,205**	**55,781,945**
1. Due to banks	16,017,401	-	16,011,482	-	16,334,739	-	16,334,739	-
2. Due to customers	58,671,580	-	58,671,580	-	53,470,382	-	53,470,382	-
3. Debt securities issued	15,041,815	10,527,404	4,702,733	26,381	16,568,441	14,417,567	2,242,666	43,875
4. Liabilities associated with non-current assets held for sale and discontinued operations	960	-	-	960	336,831	-	-	336,831
Total	**89,731,756**	**10,527,404**	**79,385,795**	**27,341**	**86,710,393**	**14,417,567**	**72,047,787**	**380,706**

For items "5. Non-current assets held for sale and discontinued operations" and "4. Liabilities associated with non-current assets held for sale and discontinued operations" the book value of which shown must be considered as only referring to assets and liabilities designated at fair value through profit and loss, net of selling costs. For assets and liabilities measured at cost, please refer to the specific disclosure contained in "Section 15 - Non-current assets held for sale and discontinued operations and related liabilities" in Part B of these notes to the financial statements.

Assets and liabilities not designated at fair value

For the disclosure of the fair value and the levels of the hierarchy of financial assets and liabilities valued at cost, as well as for real estate investments, reference should be made to the content of the paragraphs above "Due to and from banks and customers, Debt securities issued, Investments held to maturity" and "Non-financial assets – Real estate investments held for investment purposes (ex IAS 40)".
Almost all investments held to maturity, with a fair value of euro 8,512.2 million, refer to Italian government bonds held by the Parent Company (99.1%); the fair value disclosure only used quotations available on active markets (level 1).

With regard to portfolios of "Due to/from customers/banks":

- level 2 usually includes demand exposures or those with short-term maturities, for which the fair value is assumed as the same as the book value, insofar as retained to be a good approximation, as permitted by accounting standard IFRS 7;
- level 3 encompasses all "non-performing" exposures, as well as medium-long term performing exposures, mostly represented by receivables for mortgage agreements and financial leases granted to customers.

With regard to the cited portfolios, the rules followed for classification in the hierarchy levels, as well as the techniques and parameters used to estimate the fair value to be indicated in the financial statements for disclosure purposes only, require significant elements of judgement; it cannot therefore be ruled out that a different approach to said parameters or the use of alternative valuation techniques may lead to significantly different fair values, also depending on the purpose for which the same are being calculated.

Assets and liabilities measured at fair value on a non-*recurring* basis

As at 31 December 2016 the items in the financial statements measured at fair value on a non-recurring basis, entirely classified as level 3, related to the assets and correlated liabilities held for sale under IFRS 5, and were attributable to:

- several real estate investments totalling euro 76.3 million;
- the contribution of assets and liabilities relating to the controlling interest in Mariner, net of the effects of intergroup transactions.

A.5 Disclosure on "day one profit/loss"

Pursuant to IFRS 7 paragraph 28, as regards the Bank's financial instruments, options sold relating to capital-guaranteed portfolios had been identified, for which there was a difference between the fair value measured upon initial recognition (transaction price) and the amount determined at that same date using the "Day 1 Profit" valuation technique. In view of the type of products, the fact that input parameters are not observable and no reference prices exist for similar products on an active market, the difference was distributed pro-rata temporis, as described in "Part A – Accounting policies" in the paragraph "Dividends and revenue recognition". In the current year, the cited options matured, leading to the recognition in the income statement of the remaining euro 27 thousand under "Profits (losses) on trading".

PART B - INFORMATION ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

Section 1 - Cash and cash equivalents - Item 10

1.1 Cash and cash equivalents: breakdown

	31/12/2016	31/12/2015
a) Cash	648,255	587,383
b) Demand deposits with Central Banks	-	-
Total	**648,255**	**587,383**

Section 2 - Financial assets held for trading - Item 20

2.1 Financial assets held for trading: breakdown by product

Items/Values	31/12/2016			31/12/2015 (*)		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	2,668,092	18,725	2	3,380,784	1,146	1
1.1 Structured securities	364,378	1,088	-	395,381	1,085	-
1.2 Other debt securities	2,303,714	17,637	2	2,985,403	61	1
2. Equity instruments	270,456	-	14	354,637	-	15
3 UCIT units	191,540	-	15,713	221,917	5,892	17,348
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	**3,130,088**	**18,725**	**15,729**	**3,957,338**	**7,038**	**17,364**
B. Derivatives						
1. Financial derivatives:	148,237	1,430,646	-	252,732	2,016,848	-
1.1 trading	148,237	1,214,506	-	252,732	1,711,632	-
1.2 under the fair value option	-	216,140	-	-	305,045	-
1.3 other	-	-	-	-	171	-
2. Credit derivatives:	-	-	-	-	-	-
2.1 trading	-	-	-	-	-	-
2.2 under the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	**148,237**	**1,430,646**	**-**	**252,732**	**2,016,848**	**-**
Total (A+B)	**3,278,325**	**1,449,371**	**15,729**	**4,210,070**	**2,023,886**	**17,364**

(*) The figures for the previous year have been reclassified to provide a like-for-like comparison

Debt securities do not include financial assets related to securitisation transactions.
Sub-item "1.2 Other debt securities" includes subordinated financial assets issued by banks, insurance companies and financial companies for a book value of euro 429 million classified as level 1 (last year they amounted to euro 537.7 million).
Last year, financial trading derivatives classified as level 2 included the gross receivable, the subject of legal dispute, recognised following the exercise of the put option, granted by Pandette Finanziaria S.r.l. (Pandette) to Banco Popolare, concerning the sale of 3,870,900 ordinary shares of RCS Media Group S.p.A.. The receivable amounted to euro 113.5 million. In the first half of 2016, Banco Popolare signed an agreement with Pandette S.r.l. in which the dispute was settled and closed. Said agreement entailed the recognition of a recovery of euro 10.6 million in the income statement against the write-downs deducted from the income statement in previous years.
The balance of financial liabilities held for trading as at 31 December 2015, and specifically "financial derivatives" shows a decrease of euro 76.1 million, due to the offsetting of the lower negative fair value of certain OTC derivatives stipulated with central counterparties, previously recognised under liabilities item "40. Financial liabilities held for

trading". As at 31 December 2016, said offset amounted to euro 207.4 million, as shown in the specific tables contained in Part B - Other information, to which the reader should refer.
Additional details on the restatements made are provided in Part A - Accounting policies" in these notes to the financial statements, in "Notes for the correct comparison of financial statement schedules and disclosures".

The table below presents the breakdown of UCIT units.

Items/Values	31/12/2016	31/12/2015
Share Funds	8,771	3,136
Bond Funds	22,954	21,381
Liquidity Funds	58,397	62,213
Flexible Funds	101,758	135,522
Hedge Funds	15,373	22,878
Real Estate Funds	-	27
Total	**207,253**	**245,157**

2.2 Financial assets held for trading: breakdown by debtor/issuer

Items/Values	31/12/2016	31/12/2015 (*)
A. Cash assets		
1. Debt securities	**2,686,819**	**3,381,931**
a) Governments and Central Banks	1,241,714	1,859,682
b) Other public entities	22	43
c) Banks	772,494	878,007
d) Other issuers	672,589	644,199
2. Equity instruments	**270,470**	**354,652**
a) Banks	92,828	115,633
b) Other issuers:	177,642	239,019
- insurance companies	15,616	23,270
- financial companies	463	19,061
- non-financial companies	161,563	196,688
- other	-	-
3. UCIT units	**207,253**	**245,157**
4. Loans	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
Total A	**3,164,542**	**3,981,740**
B. Derivatives		
a) Banks		
- Fair value	1,177,990	1,578,921
b) Customers		
- Fair value	400,893	690,659
Total B	**1,578,883**	**2,269,580**
Total (A+B)	**4,743,425**	**6,251,320**

(*) The figures for the previous year have been reclassified to provide a like-for-like comparison

The balance as at 31 December 2015 of B "Derivatives - b) Customers" shows a decrease of euro 76.1 million, with respect to the figure originally published, as illustrated in table 2.1 above, to which the reader is referred.

Section 3 - Financial assets designated at fair value through profit and loss - Item 30

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

Items/Values	Total 31/12/2016			Total 31/12/2015		
	L1	L2	L3	L1	L2	L3
1. Debt securities	-	-	-	-	-	13,393
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	13,393
2. Equity instruments	-	559	6	-	1,254	23
3. UCIT units	3,532	-	207	3,671	-	259
4. Loans	-	-	-	-	-	-
4.1 Structured	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total	**3,532**	**559**	**213**	**3,671**	**1,254**	**13,675**
Cost	**3,672**	**7,330**	**19,124**	**3,681**	**6,928**	**19,160**

Debt securities do not include financial assets related to securitisation transactions or subordinated securities.
"Equity instruments" usually include certain insurance contracts designed to build up the funding required to pay out supplementary pension benefits to some executives upon their retirement. The fair value designation of these investments is linked to the cost of employee benefits to be recognized under retirement benefits in compliance with IAS 19.

The table below presents the breakdown of UCIT units.

Items/Values	31/12/2016	31/12/2015
Share Funds	3,532	3,765
Hedge Funds	55	-
Real Estate Funds	152	165
Total	**3,739**	**3,930**

3.2 Financial assets designated at fair value through profit and loss: breakdown by debtor/issuer

Items/Values	31/12/2016	31/12/2015
1. Debt securities	**-**	**13,393**
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	13,393
2. Equity instruments	**565**	**1,277**
a) Banks	3	12
b) Other issuers:	562	1,265
- insurance companies	556	1,242
- financial companies	-	-
- non-financial companies	-	-
- other	6	23
3. UCIT units	**3,739**	**3,930**
4. Loans	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
Total	**4,304**	**18,600**

Section 4 - Financial assets available for sale - Item 40

4.1 Financial assets available for sale: breakdown by product

Items/Values	31/12/2016			31/12/2015		
	L1	L2	L3	L1	L2	L3
1. Debt securities	10,763,619	206,764	8,974	11,600,439	185,901	28,675
1.1 Structured securities	-	-	1,582	-	-	2,418
1.2 Other debt securities	10,763,619	206,764	7,392	11,600,439	185,901	26,257
2. Equity instruments	12,193	176,203	264,529	13,277	65,982	353,451
2.1 Designated at fair value	12,193	176,203	261,744	13,277	65,982	347,225
2.2 Valued at cost	-	-	2,785	-	-	6,226
3. UCIT units	573,021	-	85,685	600,563	-	62,408
4. Loans	-	-	-	-	-	-
Total	**11,348,833**	**382,967**	**359,188**	**12,214,279**	**251,883**	**444,534**

The exposure in debt securities totals euro 10,979 million (euro 11,815 million last year) and is represented almost entirely by bonds issued by Governments and banks. With regard to hedging interest rate risk, undertaken to obtain absolute returns on short term interest rates, please refer to the following table “4.3 Financial assets available for sale subject to micro hedging”.

Sub-item “1.2 Other debt securities” includes subordinated financial assets towards banks, insurance companies and financial companies of euro 275.7 million (NV euro 302.6 million), euro 266.7 million classified as level 1 and euro 9 million as level 2. The sub-item also includes senior notes related to securitisation transactions of euro 5.9 million (NV euro 23.5 million) classified as level 3.

Level 2 equity instruments include the stake held in the share capital of the Bank of Italy of euro 91.7 million, while level 3 equity instruments include the stakes held in the share capital of the Istituto Centrale delle Banche Popolari of euro 32.4 million, in Palladio Holding of euro 29.8 million, in Dexia Crediop of euro 55.4 million and in the Voluntary Scheme of the Interbank Deposit Guarantee Fund - IDGF (indirect possession of tier 1 equity instruments of Cassa di Risparmio di Cesena) of euro 10.6 million.

Level 1 UCIT units are represented exclusively by open-ended harmonised funds, for which a daily NAV is always available, while level 3 includes the book value of the shares held in the Atlante Fund of euro 20.9 million (indirect possession of tier 1 equity instruments of Banca Popolare di Vicenza and Veneto Banca).

The table below presents the breakdown of UCIT units.

Items/Values	31/12/2016	31/12/2015
Share Funds	249,693	181,892
Balanced Funds	7,557	11,823
Bond Funds	41,145	131,586
Flexible Funds	330,310	310,855
Real Estate Funds	30,001	26,815
Total	**658,706**	**662,971**

4.2 Financial assets available for sale: breakdown by debtor/issuer

Items/Values	31/12/2016	31/12/2015
1. Debt securities	**10,979,357**	**11,815,015**
a) Governments and Central Banks	8,575,943	9,611,603
b) Other public entities	-	-
c) Banks	1,688,190	1,708,049
d) Other issuers	715,224	495,363
2. Equity instruments	**452,925**	**432,710**
a) Banks	184,498	184,703
b) Other issuers:	268,427	248,007
- insurance companies	7,191	8,363
- financial companies	108,658	100,309
- non-financial companies	152,578	139,335
- other	-	-
3. UCIT units	**658,706**	**662,971**
4. Loans	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
Total	**12,090,988**	**12,910,696**

4.3 Financial assets available for sale subject to micro hedging

Items/Values	31/12/2016	31/12/2015
1. Financial assets subject to micro fair value hedging	**5,763,980**	**4,446,881**
a) interest rate risk	5,763,980	4,446,881
b) exchange rate risk	-	-
c) credit risk	-	-
d) multiple risks	-	-
2. Financial assets subject to micro cash flow hedging	**-**	**-**
a) interest rate risk	-	-
b) exchange rate risk	-	-
c) other	-	-
Total	**5,763,980**	**4,446,881**

Impairment testing on financial assets available for sale

For these financial statements, the Group conducted an in-depth valuation of its portfolio of financial assets available for sale (AFS), to identify any impairment indicators, which would then lead to write-downs on the income statement corresponding to the difference between the fair value and the book value of the financial assets. The impairments recorded in 2016 on financial assets available for sale totalled euro 41.2 million (against euro 27.2 million as at 31 December 2015), booked to item 130 b) “Net losses on impairment of financial assets available for sale” of the income statement.

Equity instruments and UCIT units

In line with last year, the valuation of the equity instruments classified in the financial statements as financial assets available for sale was conducted on the basis of the provisions of the specific impairment policy adopted by the Group. This policy envisages, except in exceptional circumstances, parametric thresholds for equity instruments, which, once exceeded, lead to the consequent write-down.

These thresholds have been established taking into account the specific features of the various types of investment. In addition to direct investments in company equity in the strict sense, shares in private equity funds and in similar investment vehicles (UCIT units, SICAVs, investments in associates and companies subject to joint control or other similar structures) whose mission is to invest directly and/or through other private equity funds and other corporate vehicles, are also considered equity instruments. Said Private Equity assets are characterised by a medium-long term time horizon: the underlying investments are actually made, on average, over a five/seven year period and the relative divestments require at least three years.

As illustrated in "Part A – Accounting policies", impairment must be recognised when any of the following conditions occur:
- for share/equity investments in the strict sense:
  - a reduction of fair value exceeding 30% with respect to the original book value; or
  - a persistent decrease for an uninterrupted period exceeding 24 months.

- for investments in private equity assets:
  - a reduction of fair value exceeding 40% with respect to the original book value; or
  - a persistent decrease for an uninterrupted period exceeding 60 months; or
  - a reduction of fair value exceeding 30% and lasting for an uninterrupted period exceeding 36 months.

This latter type of investment on the date of the financial statements, amounted to euro 140.9 million and the relative valuation reserves, before tax and after impairments recorded during the year, amounted to a positive euro 10.7 million (corresponding to the imbalance formed by positive reserves of euro 13.5 million and negative reserves of euro 2.8 million).

The main adjustments recorded in 2016 on share/equity investments in the strict sense and on investments in private equity assets, as illustrated above, are listed below:
- Atlante Fund (indirect possession of tier 1 equity instruments of Banca Popolare di Vicenza and Veneto Banca) of euro 19.7 million;
- Unipolsai Ord of euro 3.7 million;
- IDGF Voluntary Scheme (indirect possession of tier 1 equity instruments of Cassa di Risparmio di Cesena) of euro 3.4 million;
- Palladio Holding of 2.7 million;
- Mid Capital Mezzanine Fund of euro 2.0 million.

With reference to the investments held in the Atlante Fund and in the IDGF Voluntary Scheme (Cassa di Risparmio di Cesena) and the relative measurement at fair value as at 31 December 2016, please refer to Part A - Accounting Policies (Part A.1 - 5. Other aspects - Other significant aspects relating to the Group's accounting policies and Part A.4 - Fair value disclosure).

Section 5 - Investments held to maturity - Item 50

5.1 Investments held to maturity: breakdown by product

	Total 31/12/2016				Total 31/12/2015			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	8,368,223	8,512,204	-	-	7,779,168	8,054,465	-	-
- structured	-	-	-	-	-	-	-	-
- other	8,368,223	8,512,204	-	-	7,779,168	8,054,465	-	-
2. Loans	-	-	-	-	-	-	-	-
Total	**8,368,223**	**8,512,204**	**-**	**-**	**7,779,168**	**8,054,465**	**-**	**-**

The segment of investments held to maturity is almost entirely comprised of Italian Government securities purchased by the Parent Company following the specific resolutions of the Board of Directors. The portfolio includes BTP maturing between 2017 and 2025 with a nominal value of euro 8 billion. During the year, Government securities with a nominal value of euro 1,650 million were purchased.

5.2 Investments held to maturity: breakdown by debtor/issuer

	31/12/2016	31/12/2015
1. Debt securities	**8,368,223**	**7,779,168**
a) Governments and Central Banks	8,298,153	7,696,824
b) Other public entities	-	-
c) Banks	55,885	68,669
d) Other issuers	14,185	13,675
2 Loans	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
Total	**8,368,223**	**7,779,168**
Total FV	**8,512,204**	**8,054,465**

5.3 Investments held to maturity subject to micro hedging

There were no investments held to maturity subject to micro hedging during the year in question, or at the end of the previous one.

Section 6 - Due from banks - Item 60

6.1 Due from banks: breakdown by product

Transaction type/Amounts	Total 31/12/2016				Total 31/12/2015			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Due from Central Banks	**1,977,986**	**-**	**1,977,986**	**-**	**376,946**	**-**	**376,946**	**-**
1. Time deposits	-	X	X	X	-	X	X	X
2. Mandatory reserves	1,965,732	X	X	X	367,111	X	X	X
3. Repurchase agreements	-	X	X	X	-	X	X	X
4. Other	12,254	X	X	X	9,835	X	X	X
B. Due from banks	**2,581,202**	**-**	**2,577,715**	**2,851**	**2,440,886**	**24,830**	**2,414,816**	**3,404**
1. Loans	2,481,004	-	2,478,155	2,851	2,336,131	-	2,334,974	3,404
1.1 Current accounts and demand deposits	595,908	X	X	X	613,385	X	X	X
1.2 Time deposits	110,941	-	-	-	181,012	-	-	-
1.3 Other loans:	1,774,155	X	X	X	1,541,734	X	X	X
- Repurchase agreements	508,004	X	X	X	692,546	X	X	X
- Financial leases	2,781	X	X	X	3,113	X	X	X
- Other	1,263,370	X	X	X	846,075	X	X	X
2. Debt securities	100,198	-	99,560	-	104,755	24,830	79,842	-
2.1 Structured securities	-	X	X	X	-	X	X	X
2.2 Other debt securities	100,198	X	X	X	104,755	X	X	X
Total	**4,559,188**	**-**	**4,555,701**	**2,851**	**2,817,832**	**24,830**	**2,791,762**	**3,404**

Item 2.2 Other debt securities includes subordinated securities issued by Italian and foreign banks recognised in the financial statements for euro 100.2 million (NV euro 120 million).

For more details on impaired assets, please refer to “Part E – Information on risks and relative hedging policies, Section 1 – Credit risk”.

6.2 Due from banks subject to micro hedging

There are no receivables due from banks subject to micro hedging.

6.3 Financial leases

	31/12/2016						31/12/2015					
	Non-performing loans	Minimum payments			Gross investment		Non-performing loans	Minimum payments			Gross investment	
		Share capital	of which guaranteed residual value	Interest		of which non-guaranteed residual value		Share capital	of which guaranteed residual value	Interest		of which non-guaranteed residual value
On demand	-	10	-	3	13	-	-	10	-	3	13	-
Up to 3 months	-	78	-	11	89	-	-	76	-	12	88	-
From 3 months to 1 year	-	266	-	36	302	-	-	260	-	42	302	-
From 1 year to 5 years	-	1,761	350	110	1,866	-	-	1,464	-	148	1,612	-
Over 5 years	-	666	551	5	671	-	-	1,312	901	17	1,329	-
Undefined term	-	-	-	-	-	-	-	-	-	-	-	-
Net total	**-**	**2,781**	**901**	**165**	**2,941**	**-**	**-**	**3,122**	**901**	**222**	**3,344**	**-**

The financial lease transactions shown in the table relate to operations of the former Banca Italease and Release.
The minimum payments refer exclusively to instalments for performing loans due after the reference date of the financial statements.

Section 7 - Loans to customers - Item 70

7.1 Loans to customers: breakdown by product

Transaction type/Amounts	Total 31/12/2016						Total 31/12/2015					
	Book value			Fair Value			Book value			Fair Value		
	Performing	Non-performing		L1	L2	L3	Performing	Non-performing		L1	L2	L3
		Purchased	Other					Purchased	Other			
Loans	**62,929,262**	**-**	**12,568,362**	**-**	**30,313,175**	**47,079,647**	**63,873,862**	**-**	**14,057,062**	**-**	**29,010,894**	**53,686,711**
1. Current accounts	8,032,835	-	1,496,837	X	X	X	8,451,984	-	2,082,930	X	X	X
2. Repurchase agreements	6,540,186	-	-	X	X	X	6,518,837	-	-	X	X	X
3. Mortgage loans	31,749,545	-	6,378,963	X	X	X	32,391,824	-	6,736,015	X	X	X
4. Credit cards, personal loans and salary-backed loans	342,645	-	12,701	X	X	X	295,106	-	16,275	X	X	X
5. Financial leases	1,224,032	-	1,745,352	X	X	X	1,507,681	-	1,910,303	X	X	X
6. Factoring	7,597	-	-	X	X	X	7,470	-	506	X	X	X
7. Other loans	15,032,422	-	2,934,509	X	X	X	14,700,960	-	3,311,033	X	X	X
Debt securities	**342,610**	**-**	**-**	**23,535**	**142,598**	**175,059**	**490,710**	**-**	**-**	**64,983**	**135,549**	**292,720**
8. Structured securities	-	-	-	X	X	X	-	-	-	X	X	X
9. Other debt securities	342,610	-	-	X	X	X	490,710	-	-	X	X	X
Total	**63,271,872**	**-**	**12,568,362**	**23,535**	**30,455,773**	**47,254,706**	**64,364,572**	**-**	**14,057,062**	**64,983**	**29,146,443**	**53,979,431**

Note that the Group did not purchase any non-performing loans of a significant value.

Gross loans amounted to euro 83,181.7 million (euro 85,337.7 million last year), while total value adjustments were euro 7,341.5 million (euro 6,916.0 million last year). Net loans to customers amounted to euro 75,840.2 million, down 3.3% with respect to the stock of 2015 (euro 78,421.6 million). The decrease was mainly due to the increase in the average level of coverage of non-performing loans in line with that requested by the ECB at the time of the initial examination of the planned merger between Banco Popolare and Banca Popolare di Milano.
Over the year, assignments of gross non-performing loans was made for around euro 945 million, which had an impact of euro 92.4 million on the income statement.

"Repurchase agreements" include liquidity transactions with the Clearing and Guarantee House of euro 5,536 million (euro 5,679 million last year).

"Debt securities" includes ABS of euro 175.1 million relating to securitisation transactions, of which:

- euro 6.6 million (NV euro 6.6 million) in senior issues related to third party transactions;
- euro 62 million (NV euro 84.6 million) in junior notes (BNT PORTFOLIO 2014-2042 TF-NV 84.6 million) issued by the SPE that manages the securitisation of the loans portfolio of Banca della Nuova Terra S.p.A.;
- euro 106.5 million (NV 231.8 million) in junior notes resulting from securitisations originated by the Banco Popolare Group, against assets that have been fully eliminated from the financial statements. More specifically, said securities refer to positions relating to the former Banca Italease Group, whose recognition results from the cancellation of the underlying receivables. The risks and benefits relating to said receivables were transferred to Alba Leasing under the "Agreement on securitised receivables".

For further details please refer to the information contained in Part E, Section 1, "C. Securitisation transactions".

The item also includes euro 167.5 million of other securities issued by financial companies. In particular, it includes subordinated securities amounting to euro 76.5 million, euro 50 million of which issued by Agos Ducato, euro 24 million by UGF Unipol and euro 2.5 million by Eurovita Assicurazioni.

7.2 Loans to customers: breakdown by debtor/issuer

Transaction type/Amounts	31/12/2016			31/12/2015		
	Performing	Non-performing		Performing	Non-performing	
		Purchased	Other		Purchased	Other
1. Debt securities	**342,610**	**-**	**-**	**490,710**	**-**	**-**
a) Governments	-	-	-	-	-	-
b) Other public entities	-	-	-	-	-	-
c) Other issuers	342,610	-	-	490,710	-	-
- non-financial companies	5,051	-	-	-	-	-
- financial companies	311,046	-	-	466,798	-	-
- insurance companies	26,513	-	-	23,912	-	-
- other	-	-	-	-	-	-
2. Loans to:	**62,929,262**	**-**	**12,568,362**	**63,873,862**	**-**	**14,057,062**
a) Governments	255,873	-	3	209,247	-	1,589
b) Other public entities	319,773	-	13,760	361,820	-	15,859
c) Other parties	62,353,616	-	12,554,599	63,302,795	-	14,039,614
- non-financial companies	34,297,676	-	10,722,124	35,453,680	-	12,050,520
- financial companies	11,376,606	-	237,126	10,605,940	-	240,798
- insurance companies	25,809	-	-	36,807	-	-
- other	16,653,525	-	1,595,349	17,206,368	-	1,748,296
Total	**63,271,872**	**-**	**12,568,362**	**64,364,572**	**-**	**14,057,062**

7.3 Loans to customers subject to micro hedging

	31/12/2016	31/12/2015
1. Receivables subject to micro fair value hedging:	33,540	35,410
a) Interest rate risk	33,540	35,410
b) Exchange rate risk	-	-
c) Credit risk	-	-
d) Multiple risks	-	-
2. Receivables subject to micro cash flow hedging:	-	-
a) Interest rate risk	-	-
b) Exchange rate risk	-	-
c) Expected transactions	-	-
d) Other hedged assets	-	-
Total	**33,540**	**35,410**

7.4 Financial leases

	31/12/2016						31/12/2015					
	Non-performing loans	Minimum payments			Gross investment		Non-performing loans	Minimum payments			Gross investment	
		Share capital	of which guaranteed residual value	Interest		of which non-guaranteed residual value		Share capital	of which guaranteed residual value	Interest		of which non-guaranteed residual value
On demand	14,568	13,056	3,120	2,237	15,293	-	1,612	12,036	920	2,722	14,758	-
Up to 3 months	64,182	21,720	607	5,548	27,268	-	64,968	27,929	2,383	7,148	35,077	-
From 3 months to 1 year	763,969	100,292	13,314	22,312	122,604	-	652,486	118,123	15,846	28,248	146,371	-
From 1 year to 5 years	492,833	576,622	161,565	87,305	663,927	-	425,816	572,413	91,739	114,700	687,114	-
Over 5 years	409,800	566,576	345,909	41,449	608,025	-	765,421	794,201	433,178	69,054	863,254	-
Undefined term	-	91	-	-	91	-	-	-	-	-	-	-
Net total	**1,745,352**	**1,278,357**	**524,515**	**158,851**	**1,437,208**	**-**	**1,910,303**	**1,524,702**	**544,066**	**221,872**	**1,746,574**	**-**

The financial lease transactions shown in the table relate to operations of the former Banca Italease and Release.
The minimum payments refer exclusively to rent of performing loans due after the reference date of the financial statements. With regard to said loans:

- euro 4 million are past due;
- there are portfolio value adjustments of euro 24.2 million;
- gains for the year amount to euro 0.8 million.

Section 8 - Hedging derivatives – Item 80

8.1 Hedging derivatives: breakdown by hedge type and level

	FV 31/12/2016			NV 31/12/2016	FV 31/12/2015			NV 31/12/2015
	L1	L2	L3		L1	L2	L3	
A) Financial derivatives	**-**	**443,411**	**-**	**8,953,665**	**-**	**495,161**	**-**	**12,169,251**
1) Fair value	-	443,411	-	8,953,665	-	495,161	-	12,169,251
2) Cash flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B) Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**443,411**	**-**	**8,953,665**	**-**	**495,161**	**-**	**12,169,251**

Key
FV = Fair Value
NV = notional value

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

Transaction/Type of hedge	Fair Value						Cash Flows		Foreign investments
	Micro					Macro	Micro	Macro	
	Interest rate risk	Exchange rate risk	Credit risk	Price risk	Multiple risks				
1. Financial assets available for sale	-	-	-	-	-	X	-	X	X
2. Loans	-	-	-	X	-	X	-	X	X
3. Investments held to maturity	X	-	-	X	-	X	-	X	X
4. Portfolio	X	X	X	X	X	-	X	-	X
5. Other loans	-	-	-	-	-	X	-	X	-
Total assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial liabilities	443,411	-	-	X	-	X	-	X	X
2. Portfolio	X	X	X	X	X	-	X	-	X
Total liabilities	**443,411**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Expected transactions	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	-	X	-	-

Section 9 - Fair value change of financial assets in macro fair value hedge portfolios - Item 90

9.1 - Fair value change of hedged assets: breakdown by hedged portfolios

Fair value change of hedged financial assets / Amounts	31/12/2016	31/12/2015
1. Positive change	**66,914**	**76,675**
1.1 in specific portfolios:	66,914	76,675
a) loans	66,914	76,675
b) financial assets available for sale	-	-
1.2 overall	-	-
2. Negative change	**-**	**-**
2.1 in specific portfolios:	-	-
a) loans	-	-
b) financial assets available for sale	-	-
2.2 overall	-	-
Total	**66,914**	**76,675**

The fair value change of financial assets in macro hedge portfolios refers to changes in fair value, attributable to fluctuations in interest rates relating to several specific portfolios of customer loans, the amount of which is shown in table 9.2 below.
The related hedging derivatives, which show a negative value as at 31 December 2016, are shown in the item 60 “Hedging derivatives” under liabilities.

Income and charges from the valuation of hedging derivatives and the hedged portfolio are recognised under item 90 "Fair value adjustments in hedge accounting".

9.2 Assets subject to macro interest rate risk hedging

Assets hedged	31/12/2016	31/12/2015
1. Loans	901,736	1,057,054
2. Financial assets available for sale	-	-
3. Portfolio	-	-
Total	**901,736**	**1,057,054**

The amount of loans subject to macro hedging was euro 901.7 million. More specifically, this regards a portfolio of fixed interest rate mortgage loans, recorded in the financial statements under "loans to customers". During the year, no hedges of this type were set in place; the change in assets subject to hedging with respect to the previous year is due to the normal development of the amortisation plans of the loans, already envisaged when the hedge was set in place.

Section 10 - Investments in associates and companies subject to joint control – Item 100

As at 31 December 2016, the book value of "Investments in associates and companies subject to joint control" was euro 1,195.2 million, referring to:

- significant equity investments of euro 1,119.1 million (euro 1,099.4 million as at 31 December 2015), as shown, by individual equity investment, in table 10.2 below;
- non-significant equity investments of euro 76.1 million (euro 66.9 million as at 31 December 2015), as shown, overall, in table 10.4 below;

The scope of "significant equity investments" was established on the basis of the materiality of the book value of the investment and the share in the investee's assets with respect to the same items in the consolidated financial statements.

10.1 Equity investments: information on investment relationships

	Company name	Registered office	Operational headquarters	Type of relationship (a)	Investment relationship		% of available votes
					Holder	% held	
A.	**Companies subject to joint control**						
	N/A						
B.	**Companies subject to significant influence**						
1.	Agos Ducato S.p.A.	Milan	Milan	1	Banco Popolare	39.000%	39.000%
2.	Alba Leasing S.p.A.	Milan	Milan	1	Banco Popolare	30.151%	30.151%
3.	Aosta Factor S.p.A.	Aosta	Aosta	1	Banco Popolare	20.690%	20.690%
4.	Arcene Immobili S.r.l. (in liquidation)	Lodi	Lodi	1	Banco Popolare	50.000%	50.000%
5.	Arcene Infra S.r.l. (in liquidation)	Lodi	Lodi	1	Banco Popolare	50.000%	50.000%
6.	AviPop Assicurazioni S.p.A.	Milan	Milan	1	Holding di Partecipazioni	49.999%	49.999%
7.	Bussentina S.c.a.r.l. (in liquidation)	Rome	Rome	1	Bipielle Real Estate	20.000%	20.000%
8.	Energreen S.A.	L - Luxembourg	L - Luxembourg	1	Banco Popolare	45.000%	45.000%
9.	GEMA Magazzini Generali BPV - BSGSP S.p.A.	Castelnovo Sotto (RE)	Castelnovo Sotto (RE)	1	Banco Popolare	33.333%	33.333%
10.	HI-MTF SIM S.p.A.	Milan	Milan	1	Banca Aletti	25.000%	25.000%
11.	Immobiliare Centro Milano S.p.A.	Milan	Milan	1	Release	33.333%	33.333%
12.	Motia Compagnia di Navigazione S.p.A.	Venice	Venice	1	Banco Popolare	25.000%	25.000%
13.	Popolare Vita S.p.A.	Verona	Verona	1	Banco Popolare	25.612%	50.000%
					Holding di Partecipazioni	24.388%	
14.	Renting Italease S.r.l.	Rome	Rome	1	Italease Gestione Beni	50.000%	50.000%
15.	S.E.T.A. Società Edilizia Tavazzano S.r.l. (in liquidation)	Milan	Milan	1	Banco Popolare	32.500%	32.500%
16.	Soc. Coop. fra le Banche Pop. "L.Luzzatti" S.c.r.l.	Rome	Rome	1	Banco Popolare	26.693%	26.693%

(a) Type of relationship:
1 = investment in share capital

10.2 Significant equity investments: book value, fair value and dividends received

Company name	Book value	Fair Value	Dividends received
A. Companies subject to joint control			
N/A			
B. Companies subject to significant influence			
Agos Ducato S.p.A.	718,777	-	72,150
Alba Leasing S.p.A.	120,623	-	-
Popolare Vita S.p.A.	279,699	-	22,926
Total	**1,119,099**	-	**95,076**

No disclosure has been made in the “Fair Value” column insofar as there are no listed investments (IFRS 12.20), just as there is no investee company measured at fair value, considered as an expression of the relative recovery value, after impairment (IAS 36.130).
Note also that the dividends received over the year have been used to reduce the book value of the equity investment (as illustrated in “Part A - Accounting policies” in these notes to the financial statements), insofar as the profits which they originated from were recognised in the financial statements as at 31 December 2015 due to the valuation at net equity.

10.3 Significant equity investments: accounting information

The table below shows the figures extracted from the draft financial statements as at 31 December 2016 approved by the Board of Directors and provided by associated companies or, where not available, by the most recent statements of financial position (related to 100% of the equity investment and not to the percentage held by the Group, as envisaged by accounting standard IFRS 12). Note that the valuation at net equity was made on the basis of these figures.

Company name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Interest margin	Value adjustments and recoveries on property and equipment and intangible assets	Income (Loss) before tax from continuing operations	Income (Loss) after tax from continuing operations	Income (Loss) after tax from discontinued operations	Net Income (Loss) for the year (1)	Other comprehensive income components after tax (2)	Comprehensive income (3) = (1) + (2)
A. Companies subject to joint control														
N/A														
B. Companies subject to significant influence														
Agos Ducato S.p.A.	X	14,456,527	1,776,846	14,132,406	208,844	1,593,800	X	X	333,309	228,938		228,938	108	229,046
Alba Leasing S.p.A.	X	4,773,398	199,597	4,519,616	47,801	108,112	X	X	3,704	2,371	-	2,371	-	2,371
Popolare Vita S.p.A.	X	9,248,205	40,569	8,707,763	38,543	1,611,111	X	X	50,837	40,277	-	40,277	6,255	46,532

Reconciliation between net assets and the book value of investees in the financial statements

	Net assets (*)	% investment	Net assets held	Goodwill	Other adjustments	Book value
A. Companies subject to joint control						
N/A						
B. Companies subject to significant influence						
Agos Ducato S.p.A.	1,892,123	39.000%	737,928	-	(19,151)	718,777
Alba Leasing S.p.A.	405,578	30.151%	122,286	-	(1,663)	120,623
Popolare Vita S.p.A.	542,468	50.000%	271,234	10,647	(2,182)	279,699

(*) corresponding to the sum of the "Financial assets, "Non-financial assets" net of "Financial liabilities", "Non-financial liabilities" indicated in table 10.3 above.

Agos Ducato is a financial company controlled by the international group Crédit Agricole through Crédit Agricole Consumer Finance. The company operates in the retail customer credit market, in which it disburses loans mostly addressed to the purchase of goods and services and personal loans.
Popolare Vita S.p.A is an insurance company operating in the life insurance sector, controlled by Unipol Gruppo Finanziario S.p.A. The company provides the life insurance productions of the Unipol Group to the distribution networks of the Banco Popolare Group under an exclusive arrangement.
Alba Leasing operates in the leasing sector, and was established from the restructuring of the former Banca Italease group. The company disburses loans in the form of lease contracts, and its products are placed through the banking channel, including the Banco Popolare Group network.

10.4 Non-significant equity investments: accounting information

The following table contains accounting information, shown cumulatively by type of investment relationship, regarding companies not subject to significant influence. The information was extracted from the latest financial statements or the latest accounting reports available and calculated with reference to the investment held by the Group, as envisaged by accounting standard IFRS 12.

		Book value of the investment	Total assets	Total liabilities	Total revenues	Income (Loss) after tax from continuing operations	Income (Loss) after tax from discontinued operations	Net income (Loss) for the year (1)	Other comprehensive income components after tax (2)	Comprehensive income (3) = (1) + (2)
A.	**Companies subject to joint control**									
	N/A									
B.	**Companies subject to significant influence**	**76,115**	**658,573**	**549,297**	**139,466**	**12,872**	**-**	**12,872**	**2**	**12,874**

10.5 Investments in associates and companies subject to joint control: annual changes

		31/12/2016	31/12/2015
A.	**Opening balance**	**1,066,324**	**1,061,412**
B.	**Increases**	**129,891**	**142,784**
	B.1 Purchases	-	694
	B.2 Recoveries	-	-
	B.3 Revaluations	-	-
	B.4 Other increases	129,891	142,090
C.	**Decreases**	**(101,001)**	**(37,872)**
	C.1 Sales	(53)	-
	C.2 Adjustments	-	-
	C.3 Other decreases	(100,948)	(37,872)
D.	**Closing balance**	**1,195,214**	**1,166,324**
E.	**Total revaluations**	-	-
F.	**Total adjustments**	**(625,921)**	**(625,921)**

The changes over the year refer mainly to the impact of the update in the valuation of equity investments at net equity. More specifically:

- other increases include the share of the profits for the year recorded by investee companies pertaining to the Group for a total of euro 124.6 million (details are provided in section 16 of the income statement). This item

also includes positive changes pertaining to the Group in the reserves of the same companies and amounting to euro 5.3 million;
- other decreases include negative changes pertaining to the Group in the reserves of the same companies amounting to euro 0.5 million and the impact of euro 100.3 million relating to the distribution of dividends.

The impairment tests conducted with regard to the book value of investments in associates and companies subject to joint control as at 31 December 2016 did not indicate the need to make any value adjustments.

10.6 Valuations and assumptions to establish the existence of joint control or significant influence

Significant influence means having the power to participate in the operating and financial decisions of the entity, by virtue of the voting rights held, or in the event of special contractual agreements, as also illustrated in "Part A - Accounting policies" in these notes to the financial statements. As at 31 December 2016, the scope of companies subject to significant influence related to companies in which voting rights of 20% or more are held, without however having the power to exclusively direct the relevant activities of the entity, as shown in table 10.1 above.
As at 31 December 2016, there were no entities subject to joint control, namely entities for which the unanimous consensus of all the parties sharing the control has to be obtained to make strategic financial and operating decisions.

In this regard, it should be noted that to establish the type of control of the bancassurance companies Popolare Vita S.p.A. and Avipop Assicurazioni S.p.A., required numerous elements of judgement, due to the complex value generation structure. More specifically, the decision relating to classification of said equity investments in the scope of companies over which the Group has "significant influence" was taken after taking the following factors into account, and giving them adequate weighting:
- relevant assets that generate the variable returns of the company. These were identified as the structuring of insurance products and the management of the relative risks by the insurance partner and the distribution of products, managed by the Banco Popolare Group;
- the complex governance structure established by shareholder agreements. The above agreements give specific voting rights to shareholders on certain specific topics, relating both to mere protection rights and to rights considered substantial in terms of directing the relevant activities of the company;
- way-out mechanisms, resulting from the combination of the put option held by the insurance company and the call option held by Banco Popolare. These options have been retained as not substantial insofar as they cannot be exercised at the present time. For more information on the commitments made by Banco Popolare as regards the put option granted, please refer to the content of paragraph 10.8 below.

10.7 Commitments relating to investments in companies subject to joint control

There are no investments in companies subject to joint control.

10.8 Commitments relating to investments in companies subject to significant influence

Commitments deriving from consumer credit agreements with Crédit Agricole

Banco Popolare signed a shareholders' agreement with Crédit Agricole Consumer Finance - CACF (Crédit Agricole Group) for a ten year term, expiring on 22 December 2018 and renewable on the express agreement of the parties for a further 5 years. Under this agreement, among other things, if, within a business combination/reorganisation project with other Banks which control a company operating in consumer credit, Banco acquires a company operating in the afore-mentioned sector, it must make best efforts to offer Agos Ducato the opportunity to purchase the new entity indirectly acquired, at market price.

Commitments deriving from bancassurance agreements

Commitments to UnipolSAI

The clauses in the shareholders' agreements assign control of Popolare Vita to UnipolSAI (now part of the UGF Group) and involve the granting of a put option to UnipolSai and a call option to Banco Popolare in the event that the partnership is wound up. Specifically, according to the provisions of the shareholders' agreement, UnipolSAI may resell its 50% plus one share in the share capital of Popolare Vita to Banco Popolare, if one of the following occur:
- change of control of Banco Popolare;
- violation of the exclusive rights granted by Banco Popolare under the distribution agreement and/or serious violations of said agreement;
- Banco Popolare's failure to renew the distribution agreement;
- Popolare Vita's failure to renew the distribution agreement as a result of a decision taken through favourable vote of the board directors designated by the Company, provided that at the expiry date of the distribution agreement (31 December 2017) the amount of premiums issued is 20% lower than that set forth in the Business Plan (underperformance);

- the Banco Popolare Group ceases to own an investment of at least 50% of the company's share capital less one share.

Market conditions have significantly changed from those at the time the shareholders' agreements were signed. The most recent three-year plan approved by Popolare Vita's Board of Directors actually forecast lower amounts of premiums issued than those indicated in the business plan used as reference at the time of signature of the agreements.
At the present time, on the basis of the most recent financial information published by the UnipolSAI Group, Popolare Vita is consolidated on a line-by-line basis by the afore-mentioned Insurance Group.

If the option is exercised, the value of the sale will be determined by an independent expert appointed by the parties, using the current market method specified in the shareholders' agreements.
The distribution agreement between Popolare Vita and Banco Popolare's networks has a term of ten years, expiring on 31 December 2017, and can be renewed for additional periods of 5 years; the term envisaged for any withdrawal from the distribution agreement is 30 June 2017.

Commitments to Aviva Italia Holding

Banco Popolare and Aviva Italia Holding have signed a shareholders' agreement to govern the business aspects of their partnership and the corporate governance rules of Avipop Assicurazioni. The agreement also envisages the granting of a put option to Aviva Italia Holding and a call option to Banco Popolare in the event that the partnership is wound up. Specifically, according to the shareholders' agreement, Aviva Italia Holding may resell its 50% (plus one share) of the share capital of Avipop Assicurazioni to Banco Popolare, if one the following occur:

- change of control of Banco Popolare;
- serious violation by Banco Popolare of the exclusive rights granted by the distribution agreement;
- Banco Popolare's failure to renew the distribution agreement;
- Avipop Assicurazioni's failure to renew the distribution agreement as a result of a decision taken through favourable vote of the board directors designated by the Company, provided that at the expiry date of the distribution agreement (31 December 2017) the amount of premiums issued is 70% lower than that set forth in the Business Plan (underperformance);
- the entry into force of a law and/or the issue of a provision, before the first expiry of the Agreement, which eliminates the exclusivity restriction provided by the distribution agreement;
- the issue of a provisions which, before the first expiry of the Agreement, requires that Banco Popolare distribute insurance products in the protection segment with parties other than Avipop Assicurazioni;
- underperformance (understood as the achievement of a total volume of product sales - before redemptions - in any period of three years starting from 1 January 2009, lower than 20% in terms of value of premiums collected, than that set forth in the business plan for the same three-year period).

If the option is exercised, the value of the sale will be determined by an independent expert appointed by the parties, using the current market method specified in the shareholders' agreements.

The distribution agreement between Avipop Assicurazioni and Banco Popolare's networks has a term of ten years, expiring on 31 December 2017, and can be renewed for additional periods of 5 years; the term envisaged for any withdrawal from the distribution agreement is 30 June 2017.

At the present time, on the basis of the most recent financial information published by the Aviva Italia Holding Group, Avipop Assicurazioni is consolidated on a line-by-line basis by the afore-mentioned Insurance Group.

10.9 Significant restrictions

For equity investments subject to significant influence, there are no significant restrictions to the transfer of funds as regards companies of the Banco Popolare Group, with the exception of those related to legislation and regulations, which may require a minimum amount of own funds to be maintained, or the provisions of the Italian civil code on eligible profits and reserves.

10.10 Other information

Criteria used for determining the recoverable value of the investments in associates and companies subject to joint control for the purpose of drawing up the financial statements as at 31 December 2016

Based on the provisions of IAS 36, a comparison was made between the book value recognised for investments in associates and companies subject to joint control and their recoverable value, represented by the higher of fair value net of costs to sell and value in use. Based on the comparison made, the need to make adjustments for impairment did not emerge.

Section 11 - Technical reserves borne by reinsurers – Item 110

The Group does not hold investments in insurance companies.

Section 12 - Property and equipment - Item 120

As at 31 December 2016, property and equipment amounted to euro 1,977.8 million, compared with euro 2,132.6 million recorded in the previous year.

12.1 Property and equipment used in operations: breakdown of assets carried at cost

Assets/Amounts	Total 31/12/2016	Total 31/12/2015
1.1 Owned assets	**634,144**	**651,564**
a) land	213,737	215,898
b) buildings	348,140	363,577
c) furniture	32,707	35,580
d) electronic equipment	34,181	31,387
e) other	5,379	5,122
1.2 Assets acquired under financial lease	**282**	**300**
a) land	-	-
b) buildings	282	294
c) furniture	-	-
d) electronic equipment	-	-
e) other	-	6
Total	**634,426**	**651,864**

12.2 Property and equipment held for investment purposes: breakdown of assets carried at cost

Assets/Amounts	31/12/2016				31/12/2015			
	Book value	Fair Value			Book value	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Owned assets	**1,335,350**	**-**	**-**	**1,522,973**	**1,465,615**	**-**	**-**	**1,673,786**
a) land	631,929	-	-	653,691	711,749	-	-	743,299
b) buildings	703,421	-	-	869,282	753,866	-	-	930,487
2. Assets acquired under financial lease	**7,990**	**-**	**-**	**7,990**	**15,154**	**-**	**-**	**17,191**
a) land	5,720	-	-	5,720	11,324	-	-	13,224
b) buildings	2,270	-	-	2,270	3,830	-	-	3,967
Total	**1,343,340**	**-**	**-**	**1,530,963**	**1,480,769**	**-**	**-**	**1,690,977**

12.3 Property and equipment used in operations: breakdown of revalued assets

The Group does not hold property and equipment designated at fair value through profit and loss.

12.4 Property and equipment held for investment purposes: breakdown of assets designated at fair value through profit and loss

The Group does not hold property and equipment designated at fair value through profit and loss.

12.5 Property and equipment used in operations: annual changes

Assets/Amounts	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. Gross opening balance	**216,416**	**695,874**	**293,726**	**517,164**	**80,916**	**1,804,096**
A.1 Total net impairment	(518)	(332,003)	(258,146)	(485,777)	(75,788)	(1,152,232)
A.2 Net opening balance	**215,898**	**363,871**	**35,580**	**31,387**	**5,128**	**651,864**
B. Increases	**4**	**11,116**	**5,756**	**20,078**	**2,151**	**39,105**
B.1 Purchases	2	10,615	5,677	16,539	2,076	34,909
B.2 Capitalised leasehold improvement costs	-	-	-	-	-	-
B.3 Recoveries	-	-	-	-	-	-
B.4 Increases in fair value charged to:	-	-	-	-	-	-
- a) shareholders' equity	-	-	-	-	-	-
- b) income statement	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	1	1
B.6 Transfers from properties held for investment purposes	-	370	-	-	-	370
B.7 Other increases	2	131	79	3,539	74	3,825
C. Decreases	**(2,165)**	**(26,565)**	**(8,629)**	**(17,284)**	**(1,900)**	**(56,543)**
C.1 Sales	-	(358)	(52)	(38)	(12)	(460)
C.2 Depreciation	-	(21,759)	(8,551)	(13,648)	(1,813)	(45,771)
C.3 Losses on impairment charged to:	-	-	-	-	-	-
- a) shareholders' equity	-	-	-	-	-	-
- b) income statement	-	-	-	-	-	-
C.4 Decreases in fair value charged to:	-	-	-	-	-	-
- a) shareholders' equity	-	-	-	-	-	-
- b) income statement	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to:	(1,727)	(3,063)	-	-	-	(4,790)
- a) property and equipment held for investment purposes	(1,727)	(3,063)	-	-	-	(4,790)
- b) non-current assets held for sale and discontinued operations	-	-	-	-	-	-
C.7 Other decreases	(438)	(1,385)	(26)	(3,598)	(75)	(5,522)
D. Net closing balance	**213,737**	**348,422**	**32,707**	**34,181**	**5,379**	**634,426**
D.1 Total net impairment	(518)	(350,252)	(266,665)	(495,753)	(77,517)	(1,190,705)
D.2 Gross closing balances	**214,255**	**698,674**	**299,372**	**529,934**	**82,896**	**1,825,131**
E. Valuation at cost	-	-	-	-	-	-

12.6 Property and equipment held for investment purposes: annual changes

Assets/Amounts	Land	Buildings	Total
A. Opening balance	**723,073**	**757,696**	**1,480,769**
B. Increases	**15,753**	**10,415**	**26,168**
B.1 Purchases	524	3,750	4,274
- of which business combinations	-	-	-
B.2 Capitalised leasehold improvement costs	-	1,980	1,980
B.3 Increases in fair value	-	-	-
B.4 Recoveries	-	737	737
B.5 Exchange gains	-	-	-
B.6 Transfers from properties used in operations	1,727	3,063	4,790
B.7 Other increases	13,502	885	14,387
C. Decreases	**(101,177)**	**(62,420)**	**(163,597)**
C.1 Sales	(10,637)	(9,326)	(19,963)
- of which business combinations	(5,370)	(2,301)	(7,671)
C.2 Depreciation	-	(25,176)	(25,176)
C.3 Decreases in fair value	-	-	-
C.4 Losses on impairment	(16,350)	(16,060)	(32,410)
C.5 Exchange losses	-	-	-
C.6 Transfers to other portfolios of assets	(74,121)	(1,028)	(75,149)
a) properties used in operations	-	(370)	(370)
b) non-current assets held for sale	(74,121)	(658)	(74,779)
C.7 Other decreases	(69)	(10,830)	(10,899)
D. Closing balance	**637,649**	**705,691**	**1,343,340**
E. Designation at fair value through profit and loss	659,411	871,552	1,530,963

Losses on impairment were generated by the adjustment of the book value of several properties to a lower recoverable value, which emerged from the most recent property appraisals made.

12.7 Commitments to purchase property and equipment

There are no commitments to purchase property and equipment.

Section 13 - Intangible assets - Item 130

13.1 Intangible assets: breakdown by type of asset

Assets/Amounts	31/12/2016		31/12/2015	
	Defined term	Undefined term	Defined term	Undefined term
A.1 Goodwill	X	1,109,895	X	1,388,895
A.1.1 Pertaining to the Group	X	1,109,895	X	1,388,895
A.1.2 Attributable to minority interests	X	-	X	-
A.2 Other intangible assets	419,800	222,200	431,025	222,200
A.2.1 Assets carried at cost:	419,800	222,200	431,025	222,200
a) Internally generated intangible assets	-	-	-	-
b) Other assets	419,800	222,200	431,025	222,200
A.2.2 Assets designated at fair value through profit and loss:	-	-	-	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	-	-	-	-
Total	**419,800**	**1,332,095**	**431,025**	**1,611,095**

Intangible assets with undefined term are represented by goodwill and trademarks, for which impairment tests were conducted as illustrated in paragraph 13.1.1 below.
Intangible assets with defined term include the valuation of Client Relationships, acquired as part of the Banca Popolare Italiana Group business combination transaction and amount to euro 211.6 million; the remainder mainly relates to software.

13.1.1 Undefined term intangible assets: impairment testing

Pursuant to IAS 36, all undefined term intangible assets must undergo impairment testing at least once a year to verify the recoverability of their value. The Group has decided to conduct impairment testing as at 31 December of each year, and in any event in the presence of loss indicators.

If it is not possible to directly determine the recoverable value of the specific intangible asset recognised in the financial statements, the recoverable value of the cash generating unit to which the asset belongs must be estimated. With specific reference to goodwill, paragraph 80 of the aforementioned accounting standard specifies that for impairment testing, at the acquisition date, goodwill acquired through a business combination must be allocated to each of the acquirer's cash generating units or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.
Each unit or group of units to which the goodwill is so allocated shall:

(a) represent the lowest level within the entity at which the goodwill is monitored for internal management purposes;
(b) not be larger than an operating segment determined in accordance with IFRS 8 "Operating Segments".

To identify cash generating units (CGU) to which assets subject to impairment testing are to be allocated, the potential units identified must generate significant cash flows that are independent from those deriving from other potential units identified.

On the basis of these definitions, as at 31 December 2016, the CGU identified with undefined term intangible assets that must undergo impairment testing were as follows:

- Commercial Network CGU - It is comprised (i) of the Network Divisions resulting from the merger by incorporation of the Network Banks into Banco Popolare (ii) by the Large Corporate Department and (iii) by the Institutions, Entities and Third Sector Department. This CGU has no accounting basis and is recorded by means of management control metrics;
- Private & Investment Banking CGU - It includes Banca Aletti and its subsidiaries as the activities carried out by the investee companies are ancillary to the controlling company's activities;
- Bancassurance Life CGU - Refers to Popolare Vita, a company that operates in the Life Bancassurance segment;
- Bancassurance Protection CGU - Refers to Avipop Assicurazioni, a company that operates in the Bancassurance Protection segment.

The identification of CGUs identified is consistent with that used for impairment testing in preparing the financial statements as at 31 December 2015.

The following paragraphs illustrate the methods and the assumptions used for impairment testing which was conducted on the basis of:

- the instructions of international accounting standard IAS 36;
- the recommendations issued in a joint letter signed by the Bank of Italy, Consob and Ivass dated 3 March 2010;
- the main suggestions contained in a document issued by the Italian Valuation Body (I.V.B.) entitled "impairment tests on goodwill at times of financial and real crises" dated 14 June 2012;
- the recommendations issued by Consob in communication no. 3907 of 19 January 2015.

Also note that, as required by the aforementioned Supervisory Authorities, the procedure and the valuation parameters for the impairment testing of goodwill and the other intangible assets with undefined useful lives were approved autonomously by the Board of Directors in advance of approval of the draft financial statements for 2016.

A. Method to calculate the book value of individual CGUs

In line with the 2011-2015 financial statements, a method based on operational measurements was used to calculate the book value of the Commercial Network CGU. To this end, the book value was calculated as the sum of the following:

- Common Equity Tier 1 capital (CET1), namely the required capital against weighted risk assets relating to the CGU, in line with Basel 3 regulations, which will come into force in the reference cash flow period;
- goodwill and other intangible assets both defined and undefined term associated to the CGU;
- other assets representing elements to deduct for the purpose of calculating the above-mentioned Common Equity Tier 1 capital.

For the remaining CGUs, which correspond to one or more legal entities, the reference value has been specifically established as the sum of the book values of the company's statement of financial position assets and liabilities and of goodwill.

The following table shows the reference values of the individual CGUs as at 31 December 2016, indicating the relative intangible assets with undefined term to be subject to impairment testing allocated to each CGU. The allocation criteria are the same as those used at the time of preparation of the financial statements as at 31 December 2015.

C.G.U.	Reference value	of which: goodwill	of which: trademarks
Commercial Network	3,067	616	222
Private & Investment Banking	1,615	697	-
Bancassurance Life	307	25	-
Bancassurance Protection	110	51	-
Total	**5,099**	**1,389**	**222**

Management believes that these reference values for the CGUs are consistent with the calculation methodologies of the respective recoverable values described below.

B. Criteria used to determine the recoverable value of CGUs

Based on international accounting standards, the amount of any impairment is determined by the difference between the book value of the CGU, calculated on the basis of the above-described criteria, and its recoverable value, if lower. Recoverable value is defined as the higher between:

- Value in Use, namely the present value of future cash flows that are envisaged to result from the continuous use of a specific asset or from a CGU;
- Fair Value, less selling costs, namely the amount that could be obtained from the sale of an asset, in an arm's length transaction between informed and willing parties.

Impairment testing was conducted for all CGUs using the Value in Use obtained through the application of the Dividend Discount Model (DDM).
According to the Dividend Discount Model, the value of a company is based on the dividend flows that it is capable of generating with a view to the future. In the case in point, the method used is Excess Capital DDM, which assumes that the economic value of a company is equal to the sum of the present value of future cash flows (Expected Dividends) generated over the selected time period of planning, which can be distributed to shareholders while maintaining a suitable level of capitalisation to guarantee expected future development, and the perpetual capitalisation of the normalised dividend for the last year of the forecast, based on a payout ratio depending on profitability at full operation. The application of the DDM entails the use of the following formula:

$$W = \sum_{k=0}^{n} \frac{D_k}{(1+i)^k} + TV + SA$$

where:
W = General value of economic capital
i = Cost of own capital (Ke)
Dk = Dividends that can be distributed in an explicit period with a level of capitalisation in line with current regulations
n = Number of years of the explicit period
TV = Residual value or Terminal value calculated as the present value of a perpetual yield represented by the average sustainable Dividend for the years subsequent to the explicit planning period
SA = Value of any surplus assets

In analytical terms, the Terminal Value is calculated as follows:

$$TV = \frac{D_{n+1}}{i-g}(1+i)^{-n}$$

where:
Dn+1 = Average sustainable dividend expected after the explicit planning period
g = Expected long-term growth rate of the dividend after the explicit planning period. This growth rate should refer to the nominal long-term growth rate of the economy. In fact, it is prudentially assumed that in the long term, each sector and each company in the sector will converge towards a growth rate equal to that of the economy as a whole
i = Cost of own capital (Ke).

With regard to the CGUs operating in the Bancassurance segment, the entry into force of Solvency II (1 January 2016) and the consequent preparation of the Own Risk and Solvency Assessment (ORSA Report) by insurance companies made it possible for these CGUs to use the DDM with Excess Capital instead of the Appraisal Value used in prior years.

B.1 - Estimated cash flows

The cash flows that may be distributed in the explicit period (Dk) were calculated based on the 2017-2019 statement of financial position-income statement figures of the CGUs, taking into account a minimum level of capital estimated on the basis of a Common Equity Tier 1 (CET1) target of 9.55%, representing the best estimate of the minimum capital level that the ECB has asked the Banco Popolare Group to meet on an ongoing basis to complete the latest Capital Decision requested by the ECB are part of the Supervisory Review and Evaluation Process (SREP) conducted.

More specifically, the income and equity forecasts of the Commercial and Private & Investment Banking CGUs were prepared only for the purpose of impairment testing, using the consolidated budget of the new Banco BPM Group and the budget of the subsidiary company Banca Aletti relating to 2017 respectively as reference. The 2018 and 2019 forecasts were developed for revenues and operating costs using rates of change that were consistent with those envisaged at the time the 2016-2019 Strategic plan of the new Banco BPM Group was drawn up, although adjusted to exclude the expected benefits of synergies resulting from the merger. With regard to value adjustments on loans, the 2018 and 2019 forecasts were estimated taking the assumptions of transition between the various categories of loans into account as well as assumptions as to the assignment of bad loans envisaged in the Plan and relating to specific CGUs.

With reference to the Bancassurance CGU, the flows distributable over the specific period (Dk) were therefore calculated starting from the Own Risk and Solvency Assessment 2015-2018 approved by the individual companies in 2016, considering a minimum capital level estimated on the basis of a target solvency ratio of 135% for Bancassurance Protection and 130% for Bancassurance Life.
To estimate the terminal value, the average sustainable dividend after the explicit period was calculated as a function of expected profitability in the long term. The latter was estimated in reference to a long-term growth rate equivalent to the nominal growth rate of the economy at 2%, in line with the target inflation established by the monetary stability policy of the ECB for the long term.

B.2- Cash flow discounting rates

To discount the dividends that may be distributed to shareholders, a Cost of Capital was used, consistent with the return required of investments with characteristics similar to those of the asset under analysis. The Cost of Capital (Ke) was calculated on the basis of the Capital Asset Pricing Model (CAPM), according to which the returns on a high-risk business must be equal to the sum of a no-risk rate (R_f) and a risk premium (MRP), as a function of the specific level of risk of the business:

$$K_e = R_f + \beta \times (MRP)$$

More specifically, the no-risk component (R_f), which encompasses in any event the so-called "Country Risk" is calculated, in line with the 2015 Test, using the 1-year average yield of 10-year Italian government bonds (BTP).
The beta (ß) coefficient measures the risk of the specific business or of the operating sector in terms of the correlation between the effective yield of a share and the overall yield of the reference market.
More specifically, in line with the 2015 Test, the following were used:
a) for the Commercial Network CGU: an indicator relating to a sample of comparable companies (listed Italian banks) recorded by Bloomberg;
b) for the Private and Investment Banking CGU: an average indicator of a sample of companies operating in the Private Banking segment and in the Investment Banking segment recorded by Bloomberg.
The coefficient was measured on a daily basis for a time horizon of 5 years.
A market risk premium (MRP) of 5.3% was calculated on the basis of the sources used by measurement practices.

C. Overview of the methods used and the main valuation parameters

The following table summarises the methods used to calculate the recoverable value and the main parameters:

C.G.U.	Criteria to calculate the recoverable value	Discounting rate "Ke"	Growth rate of terminal value "g"
Commercial Network	Value in use – Dividend Discount Model	7.84%	2.00%
Private & Investment Banking	Value in use – Dividend Discount Model	7.66%	2.00%
Bancassurance Life	Value in use – Dividend Discount Model	7.46%	2.00%
Bancassurance Protection	Value in use – Dividend Discount Model	7.46%	2.00%

D. Summary of results

On the basis of the guidelines illustrated, the impairment test as at 31 December resulted in the need to recognise a write-down of goodwill relating to the Private & Investment Banking CGU for a total of euro 279 million. No recognition of any adjustment for goodwill or trademarks was deemed necessary for the other CGUs.

As stated in Part A of these notes, given the particularly uncertain market and regulatory situation, it cannot be excluded that the assumptions made, however reasonable and prudent, may not be confirmed by future scenarios in which the Group finds itself operating.

E. Sensitivity analysis

In compliance with IAS 36, a sensitivity analysis was conducted on the parameters used for the valuation, in order to verify changes in the recoverable values.
More specifically, the gap between the recoverable value and the reference book value was analysed in the event that the growth rate (g) and/or the cost of capital (Ke) rose or fell with respect to the rates actually used:

Commercial Network CGU
Growth rate of terminal value "g"/Discounting rate "ke"
(difference between recoverable value and reference value in millions of euro)
(percentage of value in use)

		(Ke)			
		7.84%		8.75%	
(g)	1.50%	444	12.6%	(93)	(3.1%)
	2.00%	593	16.2%	0	0.0%
	2.50%	770	20.1%	108	3.4%

Private & Investment Banking CGU
Growth rate of terminal value "g"/Discounting rate "ke"
(difference between recoverable value and reference value in millions of euro)
(percentage of value in use)

		(Ke)			
		7.66%		8.16%	
(g)	1.50%	(318)	(24.5%)	(367)	(29.4%)
	2.00%	(279)	(20.9%)	(335)	(26.1%)
	2.50%	(233)	(16.8%)	(297)	(22.6%)

Bancassurance Life CGU
Growth rate of terminal value "g"/Discounting rate "ke"
(difference between recoverable value and reference value in millions of euro)
(percentage of value in use)

		(Ke)			
		7.46%		10.99%	
(g)	1.50%	82	21.2%	(8)	(2.6%)
	2.00%	103	25.2%	-	-
	2.50%	129	29.5%	9	2.8%

Bancassurance Protection CGU
Growth rate of terminal value "g"/Discounting rate "ke"
(difference between recoverable value and reference value in millions of euro)
(percentage of value in use)

		(Ke)			
		7.46%		10.04%	
(g)	1.50%	31	21.8%	(5)	(4.5%)
	2.00%	41	27.1%	-	-
	2.50%	53	32.5%	5	4.6%

A sensitivity analysis was also conducted on the same Commercial Network and Private & Investment Banking CGUs, changing the income flows considered in the forecasts and the CET1 target ratio, the results of which are summarised in the tables below:

Commercial Network CGU
% Change of net income/target CET1
(difference between recoverable value and reference value in millions of euro)
(percentage of value in use)

		TIER I			
		9.55%		11.66%	
CHANGE OF NET INCOME	5.00%	816	21.0%	223	6.8%
	0.00%	593	16.2%	-	-
	-5.00%	370	10.8%	(223)	(7.9%)

Private & Investment Banking CGU
% Change of net income/target CET1
(difference between recoverable value and reference value in millions of euro)
(percentage of value in use)

		TIER I			
		9.55%		11.05%	
CHANGE OF NET INCOME	5.00%	(236)	(17.1%)	(268)	(19.9%)
	0.00%	(279)	(20.9%)	(311)	(23.8%)
	-5.00%	(322)	(24.9%)	(354)	(28.1%)

As regards the Bancassurance Protection and Bancassurance Life CGUs, sensitivity analysis was also conducted, changing the target Solvency Ratios, the results of which are summarised in the tables below:

Bancassurance Life CGU
Discounting rate "ke"/Solvency Ratio
(difference between recoverable value and reference value in millions of euro)
(percentage of value in use)

		(Solvency Ratio)			
		130%		259%	
(ke)	7.21%	116	27.4%	14	4.3%
	7.46%	103	25.2%	-	-
	7.71%	92	23.0%	(13)	(4.3)%

Bancassurance Protection CGU
Discounting rate "ke"/Solvency Ratio
(difference between recoverable value and reference value in millions of euro)
(percentage of value in use)

		(Solvency Ratio)			
		135%		295%	
(ke)	7.21%	47	29.9%	7	5.6%
	7.46%	41	27.1%	-	-
	7.71%	35	24.3%	(6)	(5.7)%

F. Intrinsic signs of impairment

As at 31 December 2016, consolidated shareholders' equity was euro 7.6 billion, against a market capitalisation of euro 1.9 billion. A significant misalignment remains, even if the tangible shareholders' equity as at 31 December 2016 of euro 5.8 billion is used as a reference. This is certainly not a new situation, as it was also recorded in previous years. Listing for all Italian banks show significant discounts also with respect to tangible shareholders' equity. The impairment test was conducted taking the existence of external impairment indicated above into due account. The reasons for this misalignment should essentially be sought in the heavy heritage of the global economic crisis which hit the banking sector quite vigorously, penalised by low interest rates and a considerable increase in the cost of credit resulting from the financial difficulties suffered by corporate and retail customers due to the economic crisis. This situation is compounded by the significant negative influence of the weight of the stock of bad loans. Generally speaking, the market attributes a recoverable value aligned to the fair value to this category of non-performing loans. This valuation is naturally misaligned for the Italian banking system by the value at which the above-mentioned loans

are recognised in the financial statements, as the latter valuation, in accordance with the provisions of the reference accounting standards, does not consider and cannot consider the rates of return requested by investors that specialise in the purchase of distressed assets, or the up-front costs of credit collection activities that in Italy continue to require very long timeframes.
In this regard, note that market values are the result of assessments of the financial community, assessments which, by their very nature, remain focused on short-term targets and estimates, which are therefore not able to fully reflect the company's medium/long term growth potential. Instead, valuations expressed for the purpose of drawing up these financial statements are the result of extrapolating the economic value of the CGUs based on their specific income generation capacity, which is not fully recognised by the financial markets. This assessment expresses itself over a wider period than that adopted by the financial community and leaves aside the singular nature of the current economic-financial context, even if taken into due account.

Lastly, note that, as an additional guarantee, an independent expert (KPMG Corporate Finance) issued a fairness opinion on both the adequacy of the valuation methods adopted by the Group, that were judged to be reasonable and not arbitrary, as well as on the correct application of the same.

13.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: internally generated		Other intangible assets:		Total
		Defined	Undefined	Defined	Undefined	
A. Gross opening balance	**4,680,504**	**-**	**-**	**1,455,521**	**222,200**	**6,358,225**
A.1 Total net impairment	(3,291,609)	-	-	(1,024,496)	-	(4,316,105)
A.2 Net opening balance	**1,388,895**	**-**	**-**	**431,025**	**222,200**	**2,042,120**
B. Increases	**-**	**-**	**-**	**83,765**	**-**	**83,765**
B.1 Purchases	-	-	-	67,302	-	67,302
B.2 Increases in internal intangible assets	X	-	-	-	-	-
B.3 Recoveries	X	-	-	-	-	-
B.4 Increases in fair value	-	-	-	-	-	-
- at equity	X	-	-	-	-	-
- through profit and loss	X	-	-	-	-	-
B.5 Exchange gains	-	-	-	2	-	2
B.6 Other increases	-	-	-	16,461	-	16,461
C. Decreases	**(279,000)**	**-**	**-**	**(94,990)**	**-**	**(373,990)**
C.1 Sales	-	-	-	-	-	-
C.2 Adjustments	(279,000)	-	-	(76,596)	-	(355,596)
- Amortisation	X	-	-	(76,596)	-	(76,596)
- Write-downs	(279,000)	-	-	-	-	(279,000)
+ shareholders' equity	X	-	-	-	-	-
+ income statement	(279,000)	-	-	-	-	(279,000)
C.3 Decreases in fair value	-	-	-	-	-	-
- at equity	X	-	-	-	-	-
- through profit and loss	X	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Other decreases	-	-	-	(18,394)	-	(18,394)
D. Net closing balance	**1,109,895**	**-**	**-**	**419,800**	**222,200**	**1,751,895**
D.1 Total net adjustments	(3,493,602)	-	-	(1,088,827)	-	(4,582,429)
E. Gross closing balance	**4,603,497**	**-**	**-**	**1,508,627**	**222,200**	**6,334,324**
F. Valuation at cost	-	-	-	-	-	-

Purchases of other intangible assets mainly include new applications developments to improve organisational efficiency, sales initiatives and legislative changes.
Item C.2 Adjustments - Amortisation, includes the share of amortisation relating to the Client Relationships acquired through business combinations amounting to euro 21.9 million, while the remainder refers to the process of amortisation of applications software.
Item C.2 Adjustments - Write-downs, includes the income statement adjustments made on goodwill of euro 279 million, following the results of the impairment test illustrated above.

13.3 Other information

As at 31 December 2016 there were no commitments relating to intangible assets.

Section 14 - Tax assets and liabilities – Item 140 under assets and Item 80 under liabilities

Information on deferred tax assets (DTA), on transformable DTA and on assessments of recoverability

As at 31 December 2016, the Banco Popolare Group recognised Deferred Tax Assets (DTA), after checking that the values recognised were sustained by a judgement of probability as to the recoverability of the same, in compliance with the provisions of accounting standard IAS 12. In order to reach said judgement, current tax legislation was taken into consideration, with specific reference to the rules for the transformability of said deferred tax assets into tax credit, and the Group's ability to generate future taxable income, also on the basis of the "tax consolidation scheme".
The following paragraphs illustrate the main categories of DTA recognised in the financial statements as at 31 December 2016 and the tests conducted to sustain their recoverability.

Deferred tax assets - breakdown

As at 31 December 2016, total DTA amounted to euro 3,465.9 million (euro 2,827.7 million as at 31 December 2015), of which euro 3,395.2 million had an impact on the income statement, while euro 70.7 million were recorded as a matching balance to shareholders' equity, in accordance with the entries they referred to. For an analysis of the breakdown of these DTA, please refer to the table entitled "14.1 Deferred tax assets: breakdown".

As at 31 December 2016, the deferred tax assets that meet the requirements of Italian Law no. 214 of 22 December 2011 ("Law 214/2011") for transformation into tax credit corresponded to euro 2,448.0 million (against euro 2,445.1 million as at 31 December 2015). The provisions of the cited Law and later, the regulations introduced by Law 147/2013 (so-called 2014 Stability Law), envisage the transformation of DTA into tax credit in the event that a "statutory loss", a "tax loss" for IRES purposes or a "net negative value of production" for IRAP purposes is recorded. This provision includes write-downs of receivables not yet deducted in accordance with the time limits in force at the time under art. 106, paragraph 3 of the Italian Consolidated Income Tax Law (TUIR), and the negative components of goodwill and of other intangible assets deductible in subsequent tax years, in accordance with art. 103 of the TUIR (so-called "eligible DTA").
More specifically, as at 31 December 2016, the eligible DTA of the Group originated from:

- deductible temporary differences relating to write-downs of receivables exceeding the immediate deductibility threshold envisaged by tax legislation with reference to credit and financial entities only of euro 1,731.4 million (1,727.6 million as at 31 December 2015);
- deductible temporary differences relating to goodwill and other intangible assets recorded in previous years of euro 716.6 million (euro 717.5 million as at 31 December 2015);

For further details on the breakdown and on changes in eligible DTA, please refer to the tables contained in the paragraph below entitled "14.3.1 Changes in deferred tax assets pursuant to Italian Law 214/2011 (as a matching balance to the income statement)".

It is important to note that the significant amount of deferred tax assets recognised in the financial statements is mainly due to the tax treatment envisaged by Italian tax legislation relating to write-downs and losses on receivables recognised in the income statement up until 2015, only a limited percentage of which was deductible from taxable income with regard to the year of recognition in the financial statements, while the surplus was deducted in subsequent years, in accordance with the percentages envisaged by the tax laws in force at the time; for the majority of other European countries, said write-downs were fully deductible, and charged to the income statement for the competent year. In this regard, note that the tax treatment of the cited adjustments on loans has changed considerably following the amendments introduced by Italian Decree Law no. 83 of 27 June 2015 ("Decree Law 83/2015") converted into Italian Law no. 132 of 6 August 2015. Art. 16 of Decree Law 83/2015 renewed art. 106 of the TUIR, by permitting the full deduction of value adjustments on loans recognised in the financial statements from the tax year underway as at 31 December 2016. With regard to write-downs of loans not yet deducted, Decree Law 83/2015 has introduced a deduction mechanism based on a time horizon of ten financial years (up until 2025). At the same time, the regulations applicable to transformable DTAs were revised: art. 17 of the cited Decree has blocked the transformation into tax credit of DTAs relating to goodwill and to other newly recognised intangible assets. Following the provisions introduced by Decree Law 83/2015, the amount of eligible DTA will no longer increase in the future and lower taxable incomes will be created due to the greater alignment of the taxable income base and financial statement results.
With specific reference to the DTA in question, note that art. 11 of Italian Decree Law no. 59 of 3 May 2016, converted into law on 30 June 2016, conditioned the maintenance of their transformability into tax credit to the payment of an annual fee, to be made on an optional, irrevocably binding basis, if the requirements are met, with reference to tax years starting from 2015 up until 2029. The fee in question is deductible from direct taxes. In order to guarantee the transformability of the DTA into tax credit and to avoid the negative impacts which would have otherwise affected regulatory capital, on 19 June 2016, the Parent Company's Board of Directors resolved to exercise the option by paying the fee due for 2015. For further details on the fee scheme, please refer to the paragraph entitled "Other significant aspects relating to the Group's accounting policies" contained in "Section 5 - Other aspects" in Part A of these notes to the consolidated financial statements.

As at 31 December 2016, residual non transformable DTAs amounted to euro 1,018 million (euro 382.6 million as at 31 December 2015), of which euro 615.1 million resulted from IRES tax losses carried forward (euro 47.5 million as at 31 December 2015) and euro 402.9 million resulted from costs and losses deductible in subsequent years with respect to that of recognition in the financial statements (euro 335.1 million as at 31 December 2015).

Deferred tax assets - tests of recoverability

With regard to DTA that are eligible for transformation into tax credit (euro 2,448.0 million, corresponding to 70.6% of total DTA recognition in the financial statements as at 31 December 2016), the tax regulation introduced by Italian Law 214/2011, together with the exercise of the option of the annual fee, illustrated above, by providing certainty as to their recovery, impacted the test of recoverability envisaged by IAS 12, implying that all of the above-mentioned DTA had passed the same. This treatment is in line with the provisions contained in the Bank of Italy/CONSOB/Isvap Document no. 5 of 15 May 2012 "Accounting treatment of deferred tax assets resulting from Law 214/2011".

With regard to the remaining non transformable DTA, in line with the provisions of accounting standard IAS 12, their recognition and subsequent maintenance in the financial statements are strictly dependent on the ability of the Group and/or of the individual companies to generate future taxable income (so-called "tax capability"). To this end, the Group's non transformable DTA underwent a recoverability test based on a forecasting model of future taxable income, which distinguished IRES DTA from IRAP DTA.

The recoverability test was conducted on the basis of the following elements of information and assumptions:

- reference is made to tax legislation in force;
- the estimates of future taxable income were made on the basis of forecasts of income flows prepared from the "2016-2019 Strategic Plan" of the Banco BPM Group, approved on 16 May 2016;
- Deferred Tax Liabilities (DTL) were offset against DTA if they both related to the same tax year.

The tests conducted in this way identified non transformable DTA as recoverable in a reasonably defined time horizon that was longer than the specific period referred to by the strategic plan.
Specific attention was paid to the DTA on tax losses (euro 615.1 million as at 31 December 2016), mostly related to the Parent Company and amounting to euro 571.9 million in 2016.
Pursuant to the provisions of accounting standard IAS 12, the recognition of these DTA is conditioned by the fact that the loss is due to clearly identifiable reasons which are unlikely to repeat themselves in the future, and by the existence of convincing evidence as to the available of sufficient taxable income before said tax losses fall due. In this regard, these conditions are considered to be fulfilled in the light of the considerations and factors illustrated below:

- financial year 2016 is the first year in which Banco Popolare (as parent company) recorded a tax loss which led to the recognition of a tax loss also with relation to the group's consolidated results. Said loss originates from the recognition over 2016 of a series of costs of an extraordinary nature insofar as related to the decision to go ahead with the merger with Banca Popolare di Milano. One of the conditions of the merge transaction agreed with the Supervisory Body was a significant increase in the average level of coverage of non-performing loans. Pursuing this objective entailed recognising value adjustments on loans of an extraordinary nature. The success of the merger transaction and the launch of the measures envisaged in the strategic plan also entailed recognising extraordinary expenses, both administrative and personnel (expenses relating to measures launched to encourage surplus personnel to leave). Lastly, the income statement for the year was influenced by other significant charges of a non-recurrent nature, such as for example the extraordinary contributions requested by the Bank of Italy in its role of the body for the national resolution of bank crises. For further details, refer to the paragraph entitled "Other significant aspects relating to the Group's accounting policies" contained in Part A - "Section 5 - Other aspects" of these notes to the consolidated financial statements;
- tax legislation does not set time limits for the recovery of the IRES tax loss (art. 84, paragraph 1, of Italian Presidential Decree no. 917 of 22 December 1986);
- the 2016-2019 strategic plan of Banco BPM S.p.A. envisages the achievement of net income exceeding euro 1 billion in 2019. The estimates based on income forecasts drawn up for the years following 2019 show the availability of sufficient future taxable income to recover the DTA in a defined time horizon.

14.1 Deferred tax assets: breakdown

		IRES	IRAP	Other taxes	31/12/2016	31/12/2015
A)	**Matching balance to the Income Statement**					
	Loan write-downs deductible in coming years	1,569,721	164,689	-	1,734,410	1,730,467
	Allocations and adjustments deductible in coming years	93,246	1,056	-	94,302	93,740
	Book values lower than the tax values recognised following the fair value designation of financial assets through profit and loss	16,161	48	-	16,209	20,772
	Personnel expenses and allocations to employee termination indemnities deductible in coming years	155,773	-	-	155,773	128,743
	Value adjustments on real estate deductible in coming years	52,754	286	-	53,040	49,157
	Costs deductible in coming years resulting from exemptions for goodwill and other intangible assets	589,301	127,298	-	716,599	717,459
	Tax losses carried forward	615,068	-	-	615,068	47,457
	Other cases of misalignment between book and tax values	9,364	474	-	9,838	5,040
	Total A	**3,101,388**	**293,851**	**-**	**3,395,239**	**2,792,835**
B)	**Matching balance to Shareholders' Equity**					
	Book values lower than the tax values recognised from the fair value designation of financial assets available for sale through profit and loss	33,455	6,959	-	40,414	7,902
	Other cases of misalignment between book and tax values	28,252	2,047	-	30,299	26,982
	Total B	**61,707**	**9,006**	**-**	**70,713**	**34,884**
	Total (A+B)	**3,163,095**	**302,857**	**-**	**3,465,952**	**2,827,719**

14.2 Deferred tax liabilities: breakdown

		IRES	IRAP	Other taxes	31/12/2016	31/12/2015
A)	**Matching balance to the Income Statement**					
	Book values exceeding tax values recognised following the fair value designation of financial instruments through profit and loss	3,117	593	-	3,710	316
	Book values exceeding tax values recognised following the process of tax amortisation of goodwill and other intangible assets	16,927	3,327	-	20,254	18,082
	Book values exceeding tax values recognised following value adjustments calculated solely for tax purposes	5,508	433	-	5,941	13,133
	Deferred taxes on income of subsidiaries taxable in coming years	1,231	2,488	-	3,719	-
	Capital gains taxable in coming years	-	-	-	-	3,918
	Book values exceeding tax values recognised following the Purchase Price Allocation carried out for business combination transactions	21,542	3,554	-	25,096	26,235
	Adjustments on other intangible asset taxable in coming years	119,287	24,118	-	143,405	150,606
	Other cases of misalignment between book and tax values	13,214	1,382	-	14,596	25,571
	Total A	**180,826**	**35,895**	**-**	**216,721**	**237,861**
B)	Matching balance to Shareholders' Equity					
	Book values lower than the tax values recognised from the fair value designation of financial assets available for sale through profit and loss	34,631	13,821	-	48,452	95,659
	Other cases of misalignment between book and tax values	364	55	-	419	944
	Total B	**34,995**	**13,876**	**-**	**48,871**	**96,603**
	Total (A+B)	**215,821**	**49,771**	**-**	**265,592**	**334,464**

14.3 Changes in deferred tax assets (as a matching balance to the income statement)

	31/12/2016	31/12/2015
1. Opening amount	**2,792,835**	**3,504,136**
2. Increases	**713,417**	**222,481**
2.1 Deferred tax assets recorded during the year	711,507	218,700
a) referring to previous years	19,281	55,252
b) due to changes in accounting criteria	-	-
c) recoveries	-	-
d) other	692,226	163,448
2.2 New taxes or increases in tax rates	1,006	-
2.3 Other increases	904	3,781
3. Decreases	**(111,013)**	**(933,782)**
3.1 Deferred tax assets cancelled during the year	(103,254)	(119,723)
a) reversals	(86,130)	(97,692)
b) write-downs due to unrecoverability	(8,171)	(15,056)
c) changes in accounting criteria	-	-
d) other	(8,953)	(6,975)
3.2 Decreases in tax rates	(946)	(7,962)
3.3 Other decreases	(6,813)	(806,097)
a) transformation into tax credit pursuant to Italian Law 214/2011	(6,029)	(804,660)
b) other	(784)	(1,437)
4. Closing amount	**3,395,239**	**2,792,835**

14.3.1 Changes in deferred tax assets pursuant to Italian Law 214/2011 (as a matching balance to the income statement)

	Total 31/12/2016	Total 31/12/2015
1. Opening amount	**2,445,112**	**3,178,998**
2. Increases	**10,363**	**71,840**
- of which business combinations	-	-
3. Decreases	**(7,513)**	**(805,726)**
3.1 Reversals	(1,349)	(1,065)
3.2 Transformation into tax credit	(6,029)	(804,661)
a) resulting from losses for the year	(6,029)	(804,062)
b) resulting from tax losses	-	(599)
3.3 Other decreases	(135)	-
- of which business combinations	-	-
4. Closing amount	**2,447,962**	**2,445,112**

The DTA transformed into tax credit in 2016 totalled euro 6 million, relating only to the consolidated company Release (DTA transformable into tax credit in 2015 amounted to euro 804.7 million).

The table below summarises the "Transformable DTA" recognised in the financial statements, referring to the different tax provisions that generated them:

Type of asset underlying the transformable DTA	31/12/2016		31/12/2015	
	Total Transformable DTA	of which relating to the Parent Company	Total Transformable DTA	of which relating to the Parent Company
Write-downs of receivables under paragraph 3, art. 106 TUIR (Italian Consolidated Income Tax Law)	1,731,364	1,703,692	1,727,652	1,703,299
Amortisation of "goodwill" under paragraphs 3 and 3-bis of art. 103 TUIR (Italian Consolidated Income Tax Law)	615,103	613,811	615,965	613,814
Amortisation of "other intangible assets" under paragraphs 1 and 3-bis of art. 103 TUIR (Italian Consolidated Income Tax Law)	101,495	101,495	101,495	101,495
Total	**2,447,962**	**2,418,998**	**2,445,112**	**2,418,608**

14.4 Changes in deferred tax liabilities (as a matching balance to the income statement)

	31/12/2016	31/12/2015
1. Opening amount	**237,861**	**273,231**
2. Increases	**11,505**	**14,492**
2.1 Deferred tax liabilities recorded during the year	11,312	4,427
a) referring to previous years	7	794
b) due to changes in accounting criteria	-	-
c) other	11,305	3,633
2.2 New taxes or increases in tax rates	32	-
2.3 Other increases	161	10,065
3. Decreases	**(32,645)**	**(49,862)**
3.1 Deferred tax liabilities cancelled during the year	(32,555)	(30,616)
a) reversals	(12,662)	(29,961)
b) due to changes in accounting criteria	-	-
c) other	(19,893)	(655)
3.2 Decreases in tax rates	(89)	(5,755)
3.3 Other decreases	(1)	(13,491)
4. Closing amount	**216,721**	**237,861**

14.5 Changes in deferred tax assets (as a matching balance to shareholders' equity)

	31/12/2016	31/12/2015
1. Opening amount	**34,884**	**50,756**
2. Increases	**50,846**	**9,175**
2.1 Deferred tax assets recorded during the year	50,846	8,965
a) referring to previous years	3	-
b) due to changes in accounting criteria	-	-
c) other	50,843	8,965
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	210
3. Decreases	**(15,017)**	**(25,047)**
3.1 Deferred tax assets cancelled during the year	(14,807)	(19,733)
a) reversals	(14,807)	(19,733)
b) write-downs due to unrecoverability	-	-
c) due to changes in accounting criteria	-	-
d) other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	(210)	(5,314)
4. Closing amount	**70,713**	**34,884**

14.6 Changes in deferred tax liabilities (as a matching balance to shareholders' equity)

	31/12/2016	31/12/2015
1. Opening amount	**96,603**	**105,628**
2. Increases	**47,997**	**96,254**
2.1 Deferred tax liabilities recorded during the year	47,997	95,614
a) referring to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	47,997	95,614
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	640
3. Decreases	**(95,729)**	**(105,279)**
3.1 Deferred tax liabilities cancelled during the year	(95,619)	(104,991)
a) reversals	(95,615)	(104,991)
b) due to changes in accounting criteria	-	-
c) other	(4)	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	(110)	(288)
4. Closing amount	**48,871**	**96,603**

14.7 Other information

Group tax situation

For an assessment of the risks relating to litigation in progress with the Tax Authority and relative developments in 2016 (new disputes that have emerged or disputes concluded and/or settled), please refer to the content of Section 12 - Provisions for risks and charges – Item 120 of liabilities, where the allocations made to liabilities judged to be likely are made, pursuant to the provisions of accounting standard IAS 37.

The National Tax Consolidation Scheme

Banco Popolare and the subsidiaries listed below have opted for the national tax consolidation scheme under Articles 117 to 129 of Italian Presidential Decree no. 917 of 22 December 1986. This option, valid for the tax period 2016-2018, refers to all Group Companies which meet the requirements of the aforementioned regulations and, specifically:

1. Aletti Fiduciaria S.p.A.;
2. Aletti Gestielle SGR S.p.A.;
3. Banca Aletti & C. S.p.A.;
4. Bipielle Real Estate S.p.A.;
5. BP Property Management s.c.r.l.;
6. BP Trading Immobiliare S.r.l.;
7. BRF Property S.p.A.;
8. Holding di Partecipazioni Finanziarie BP S.p.A.;
9. Italease Gestione Beni S.p.A.;
10. Lido dei Coralli S.r.l.;
11. Mariner S.r.l.;
12. Nadir Immobiliare S.r.l.;
13. P.M.G. S.r.l;
14. Release S.p.A.;
15. Sirio Immobiliare S.r.l.;
16. Società Gestione Servizi BP S.c.p.A.;
17. Sviluppo Comparto 6 S.r.l.;
18. Sviluppo Comparto 8 S.r.l.;
19. Tecmarket Servizi S.p.A.;
20. Toscana Tissue S.r.l.

During 2016, following confirmation of the option for the national tax consolidation scheme, Terme Ioniche S.r.l., Manzoni 65 S.r.l. and Sviluppo Comparto 2 S.r.l. are now included in the scope of "tax consolidation".

There are no associates for which we opted for the fiscal transparency regime under articles 115 and following of Italian Presidential Decree 917-1986.

Section 15 - Non-current assets held for sale and discontinued operations and related liabilities – Item 150 under assets and Item 90 under liabilities

15.1 Non-current assets held for sale and discontinued operations: breakdown by type of asset

	31/12/2016	31/12/2015
A. Individual assets		
A.1 Financial assets	-	-
A.2 Investments in associates and companies subject to joint control	-	-
A.3 Property and equipment	77,023	80,200
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
Total A	**77,023**	**80,200**
of which valued at cost	689	1,851
of which designated at fair value 1	-	-
of which designated at fair value 2	-	-
of which designated at fair value 3	76,334	78,349
B. Discontinued operations		
B.1 Financial assets held for trading	-	2,004
B.2 Financial assets designated at fair value through profit and loss	-	-
B.3 Financial assets available for sale	-	-
B.4 Investments held to maturity	-	-
B.5 Due from banks	-	17,296
B.6 Loans to customers	-	-
B.7 Investments in associates and companies subject to joint control	-	-
B.8 Property and equipment	-	2,813
B.9 Intangible assets	-	110
B.10 Other assets	346	7,561
Total B	**346**	**29,784**
of which valued at cost	-	-
of which designated at fair value 1	-	-
of which designated at fair value 2	-	-
of which designated at fair value 3	346	29,784
C. Liabilities related to individual assets held for sale	**-**	**-**
C.1 Debts	-	-
C.2 Securities	-	-
C.3 Other liabilities	-	(5,434)
Total C	-	(5,434)
of which valued at cost	-	(5,434)
of which designated at fair value 1	-	-
of which designated at fair value 2	-	-
of which designated at fair value 3	-	-
D. Liabilities related to discontinued operations		
D.1 Due to banks	-	(5,438)
D.2 Due to customers	-	(320,406)
D.3 Debt securities issued	-	-
D.4 Financial liabilities held for trading	-	(2,102)
D.5 Financial liabilities designated at fair value through profit and loss	-	-
D.6 Provisions	-	(5,660)
D.7 Other liabilities	(960)	(3,225)
Total D	**(960)**	**(336,831)**
of which valued at cost	-	-
of which designated at fair value 1	-	-
of which designated at fair value 2	-	-
of which designated at fair value 3	(960)	(336,831)

As regards non-current assets held for sale, this item includes euro 77.0 million of property and equipment (euro 80.2 million as at 31 December 2015), and includes a property worth euro 72.7 million, for which the deed of sale, signed in December, is subject to a condition precedent envisaged for assets of artistic and cultural interest.

The assets and liabilities associated with discontinued operations refer to the assets and liabilities of the subsidiary company Mariner classified as undergoing disposal pursuant to IFRS 5. More specifically, the balances indicated represent the contribution to the Group's consolidated financial statements as at 31 December 2016 and are therefore shown net of any intergroup relations.

As regards the assets and liabilities indicated under sub-items "of which designated at fair value 1/2/3" please refer to the content of "Part A.4 - Fair value disclosure".

15.2 Other information

There is no other information to report.

15.3 Information on investments in companies subject to significant influence, not carried at equity

There are no investments in companies subject to significant influence which are not carried at equity classified as held for sale.

Section 16 - Other assets – Item 160

16.1 Other assets: breakdown

	31/12/2016	31/12/2015 (*)
Due from Tax Authority (not classifiable under tax assets)	955,622	987,191
Receivables for the disposal of assets and the provision of services	18,004	18,817
Other income to be received	5,768	14,258
Cash and other values on hand	48,729	148,651
Items being processed	569,055	536,986
Items in transit between branches	63,146	233,877
Securities and coupons to be settled	4,879	22,637
Other operations to be settled	79	61
Leasehold improvements	56,929	58,310
Accrued income and prepayments not attributable to a specific item	18,086	16,920
Other items	225,579	314,459
Total	**1,965,876**	**2,352,167**

(*) The figures for the previous year have been reclassified to provide a like-for-like comparison

Following the restatement, as indicated in Part A - Accounting policies "Notes for the correct comparison of financial statement schedules and disclosures", the balance of "Other items" for 2015 was restated, which included the assets relating to the defined benefit pension plan of euro 272.4 million.

"Due from Tax Authority" mainly includes:

- tax credits for petitions for the refund of direct, indirect taxes and VAT submitted by Banco Popolare and by incorporated companies for a total of euro 405.9 million, euro 291.8 million of which as principal and euro 114.1 million as interest. The most important tax credits include IRPEG/ILOR taxes, which are the subject of a dispute for 1995 with the former Banca Popolare di Novara s.c.a r.l. (euro 86.5 million) and VAT credit for various years, for which a refund has been requested by the former Banca Italease S.p.A. (228.9 million);
- the tax credits resulting from higher payments on account of stamp duty, of substitute tax under former Italian Presidential Decree 601/73, of substitute tax applied to customers performed over the year and that will be recovered in netting in 2016 for a total of euro 248.5 million;
- tax credits due from the Tax Authority, following payments made provisionally pending a ruling of the court, for a total of euro 232.1 million. These include the payment associated with the proceedings regarding the claimed non-deductibility of costs relating to the attempted takeover of Banca Antonveneta by the former Banca Popolare Italiana in 2005 for euro 201.8 million;
- tax credits on foreign dividends, the refund of which has been requested of the Swiss Tax Authority by the subsidiary Banca Aletti in application of the rules envisaged for agreements against double taxation amount to euro 35.5 million. The credit refers to 2008, 2009, 2013 and 2014. With reference to the refunds requested of the Swiss Tax Authority, note that in the last few months of 2013, the Swiss Tax Authority approved the refunds for 2006, 2007, 2010, 2011 and 2012, while it reserved judgement as to the right of a refund for tax credits relating to 2008 and 2009. At the end of 2014, as the Bank has not

received any further answer, it asked the Swiss Tax Authority to make a formal ruling, as this step is required before the proceedings can be brought before the competent Swiss judge. In this regard, the Bank has received the support of specific legal and tax opinions from leading Italian and Swiss tax advisors, which retain the requests for refunds to be valid and justified. Nevertheless, solely with a view to lowering the amount, the opportunity of seeking a possible settlement of the dispute with the Swiss Tax Authority has been considered, as settling the dispute out of court is in any event retained as preferable to facing the costs, the lengthy period involved and the undeniable uncertainties of a dispute.

"Items being processed" mainly includes amounts waiting to be recorded and various suspended amounts, as well as debits not yet due to be charged to customer current accounts and received by external companies, relating to the domiciliation of bills to be charged to customer current accounts.

The item "Leasehold improvements" includes the costs capitalised relating to work carried out in branches which are located in third party properties, net of the depreciation charge calculated on the basis of the duration of the rental agreement.

"Other items" includes assets for Check Truncation transactions of euro 60.1 million and amounts charged to customers in January 2017 for the stamp duty on financial products of euro 87.3 million.

LIABILITIES

Section 1 - Due to banks – Item 10

1.1 Due to banks: breakdown by product

Transaction type/Amounts	31/12/2016	31/12/2015
1. Due to central banks	**12,020,001**	**11,958,009**
2. Due to banks	**3,997,400**	**4,376,730**
2.1 Current accounts and demand deposits	611,703	666,187
2.2 Time deposits	75,759	258,663
2.3 Loans	3,042,587	3,159,588
2.3.1 Repurchase agreements	1,328,609	1,550,218
2.3.2 Other	1,713,978	1,609,370
2.4 Payables for commitments to repurchase own equity instruments	-	-
2.5 Other payables	267,351	292,292
Total	**16,017,401**	**16,334,739**
Fair value - level 1	**-**	**-**
Fair value - level 2	**16,011,482**	**16,334,739**
Fair value - level 3	**-**	**-**
Total fair value	**16,011,482**	**16,334,739**

As at the date of the financial statements, "Due to central banks" refers entirely to Targeted Long Term Refinancing Operations (TLTRO II) with the European Central Bank.

1.2 Breakdown of item 10 "Due to banks": subordinated loans

At the reporting date, similarly to the end of the previous year, there are no subordinated loans payable to banks.

1.3 Breakdown of item 10 "Due to banks": structured debts

As at 31 December 2016, like the previous year, there are no payables that required the separation of embedded derivatives in accordance with IAS 39 (so-called "structured debts").

1.4 Due to banks subject to micro hedging

At the reporting date, in line with last year, there are no amounts due to banks subject to micro hedging.

1.5 Financial lease payables

	31/12/2016			31/12/2015		
	Minimum payments		Gross investment	Minimum payments		Gross investment
	Principal	Interest		Principal	Interest	
Up to 3 months	84	33	117	124	39	163
From 3 months to 1 year	255	95	350	670	101	771
From 1 year to 5 years	3,875	475	4,350	4,214	413	4,627
Over 5 years	-	-	-	-	-	-
Undefined term	-	-	-	-	-	-
Total	**4,214**	**603**	**4,817**	**5,008**	**553**	**5,561**

Section 2 - Due to customers – Item 20

2.1 Due to customers: breakdown by product

Transaction type/Amounts	31/12/2016	31/12/2015
1. Current accounts and demand deposits	46,332,101	40,551,672
2. Time deposits	2,214,149	3,049,315
3. Loans	8,591,913	8,373,348
3.1 Repurchase agreements	7,704,649	7,743,323
3.2 Other	887,264	630,025
4. Payables for commitments to repurchase own equity instruments	-	-
5. Other payables	1,533,417	1,496,047
Total	**58,671,580**	**53,470,382**
Fair value - level 1	**-**	**-**
Fair value - level 2	**58,671,580**	**53,470,382**
Fair value - level 3	**-**	**-**
Total fair value	**58,671,580**	**53,470,382**

Sub-item 3.1 “Repurchase agreements” includes transactions with the Clearing and Guarantee House of euro 7,432.6 million (last year, they amounted to euro 7,390.7 million).

2.2 Breakdown of item 20 “Due to customers”: subordinated loans

At the reporting date there are no subordinated loans payable to customers.

2.3 Breakdown of item 20 “Due to customers”: structured debts

As at 31 December 2016, like the previous year, there are no payables that required the separation of embedded derivatives in accordance with IAS 39 (so-called “structured debts”).

2.4 Due to customers subject to micro hedging

At the reporting date, in line with last year, there are no amounts due to customers subject to micro hedging.

2.5 Financial lease payables

At the reporting date the amounts payable to customers for financial leases were insignificant.

Section 3 - Debt securities issued – Item 30

3.1 Debt securities issued: breakdown by product

Type of security / Amounts	Total 31/12/2016				Total 31/12/2015			
	Book Value	*Fair Value*			Book Value	*Fair Value*		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	13,414,494	10,527,404	3,075,412	26,381	15,680,096	14,417,567	1,354,321	43,875
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	13,414,494	10,527,404	3,075,412	26,381	15,680,096	14,417,567	1,354,321	43,875
2. Other securities	1,627,321	-	1,627,321	-	888,345	-	888,345	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	1,627,321	-	1,627,321	-	888,345	-	888,345	-
Total	**15,041,815**	**10,527,404**	**4,702,733**	**26,381**	**16,568,441**	**14,417,567**	**2,242,666**	**43,875**

Securities issued includes the Covered Bonds issued by Banco Popolare, the book value of which amounts to euro 2,442.7 million (against 3,947.4 million as at 31 December 2015). In line with the instructions of the Supervisory Authority, this category includes funding repurchase agreements, amounting to euro 213.2 million, carried out with leading institutional counterparties, whose underlying assets are represented by the Covered Bonds.

3.2 Breakdown of item 30 "Debt securities issued": subordinated securities

As at the date of the financial statements, subordinated securities issued were represented by seven issues with a book value of euro 2,537.3 million (last year there were twelve issues with a book value of euro 3,161.5 million) of which one issue is represented by preference shares for the amount of euro 26.7 million (last year there were two issues with a book value of euro 44.2 million).
In 2016, four subordinated loans issued by the Parent Company, for a nominal amount of euro 422 million, were wholly redeemed as they had reached their contractual maturity.
During the period, an early redemption option was exercised for an eligible instrument of additional Tier 1 capital (Preferred Securities), previously guaranteed by the former Banca Italease, with a nominal value of euro 150 million, at the time placed through a foreign SPE and eligible for "grandfathering".
Trading in instruments issued by the Bank was extremely limited, following the provisions introduced by Delegated Regulation 241/2014 by the European Commission.
Pursuant to this regulation, the ECB authorised a ceiling for transactions in eligible additional Tier 1 and Tier 2 securities.
During the year, no eligible subordinated instruments were issued pursuant to EU Regulation 575/2013 (CRR).

The characteristics of the subordinated loans included in calculations for regulatory purposes are set forth in Part F – "Information on consolidated shareholders' equity".

3.3 Breakdown of item 30 "Debt securities issued": securities subject to micro hedging

	31/12/2016	31/12/2015
1. Securities subject to micro fair value hedging:	9,938,394	10,120,962
a) interest rate risk	9,938,394	10,120,962
b) exchange rate risk	-	-
c) multiple risks	-	-
2. Securities subject to micro cash flow hedging:	-	-
a) interest rate risk	-	-
b) exchange rate risk	-	-
c) other	-	-
Total	**9,938,394**	**10,120,962**

Section 4 - Financial liabilities held for trading – Item 40

4.1 Financial liabilities held for trading: breakdown by product

Transaction type/Amounts	31/12/2016					31/12/2015 (*)				
	NV	FV			FV*	NV	FV			FV*
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to banks	118	795	-	-	795	345	4,309	-	-	4,309
2. Due to customers	416,138	449,344	-	-	449,344	92,692	142,406	-	-	142,406
3. Debt securities	4,643,470	-	4,555,286	-	-	3,954,076	-	3,841,368	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	4,643,470	-	4,555,286	-	-	3,954,076	-	3,841,368	-	-
3.2.1 Structured	4,643,470	-	4,555,286	-	X	3,954,076	-	3,841,368	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**5,059,726**	**450,139**	**4,555,286**	**-**	**450,139**	**4,047,113**	**146,715**	**3,841,368**	**-**	**146,715**
B. Derivatives										
1. Financial derivatives	X	255,659	2,883,462	-	X	X	312,464	3,191,828	27	X
1.1 Trading	X	255,659	2,821,679	-	X	X	312,464	3,132,775	27	X
1.2 Under the fair value option	X	-	60,724	-	X	X	-	53,680	-	X
1.3 Other	X	-	1,059	-	X	X	-	5,373	-	X
2. Credit derivatives	X	-	1,429	-	X	X	-	5,512	-	X
2.1 Trading	X	-	1,429	-	X	X	-	5,512	-	X
2.2 Under the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**255,659**	**2,884,891**	**-**	**X**	**X**	**312,464**	**3,197,340**	**27**	**X**
Total (A+B)	**X**	**705,798**	**7,440,177**	**-**	**X**	**X**	**459,179**	**7,038,708**	**27**	**X**

FV = Fair Value
FV= Fair value calculated excluding changes in value due to changes in the issuer's creditworthiness with respect to the issue date*
NV = Nominal Value
L1 = Level 1
L2 = Level 2
L3 = Level 3
(*) The figures for the year have been reclassified to provide a like-for-like comparison.

The item "Cash liabilities – due to customers" exclusively includes technical overdrafts on listed shares issued by other companies, of the subsidiary Aletti & C. Banca di Investimento Mobiliare S.p.A..

"Other structured securities", which as at 31 December 2016 was euro 4,555.3 million, is represented by certificates issued by Banca Aletti, which envisage the protection of the premium paid in by the customer, or a share of the same, regardless of the trend of the financial parameters to which the same are index-linked. As at 31 December 2015, the balance of the cited issues was euro 3,841.4 million; this amount, previously recognised under "financial derivatives", was reclassified to provide a like-for-like comparison with the item "Other structured securities", without having any impact on the overall balance of financial liabilities held for trading.
In addition to the restatement illustrated above, the balance of financial liabilities held for trading as at 31 December 2015, and specifically "financial derivatives" shows a decrease of euro 76.1 million, due to the offsetting of the negative fair value of certain OTC derivatives stipulated with central counterparties against the higher positive fair value of derivatives with the same counterparty, recognised under asset item "20. Financial assets held for trading". As at 31 December 2016, the amount of financial derivatives held for trading with a negative fair value was euro 145.3 million; the remaining euro 62.1 million difference with respect to the figure of euro 207.4, offset, as shown in the specific tables shown in Part B - Other information, to which the reader should refer, refer to the offsetting of the negative fair value relating to financial derivatives used for hedging purposes, as shown in Section 6 - Hedging derivatives – Item 60".
Additional details on the restatements made are provided in Part A - Accounting policies" in these notes to the financial statements, in "Notes for the correct comparison of financial statement schedules and disclosures".
Derivatives under fair value option are represented by derivatives that are operationally linked to issues of bonds where the Group implemented the fair value option, in compliance with IAS 39, paragraph 9.

4.2 Breakdown of item 40 "Financial liabilities held for trading": subordinated liabilities

At the reporting date, similarly to the end of the previous year, there are no subordinated financial liabilities.

4.3 Breakdown of item 40 "Financial liabilities held for trading": structured debts

As at 31 December 2016, like the previous year, there are no payables that required the separation of embedded derivatives in accordance with IAS 39 (so-called "structured debts").

Section 5 - Financial liabilities designated at fair value through profit and loss – Item 50

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

Transaction type/Amounts	31/12/2016					31/12/2015				
	NV	FV			FV*	NV	FV			FV*
		L1	L2	L3			L1	L2	L3	
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	**6,786,185**	**6,352,952**	**380,354**	**-**	**6,774,408**	**12,108,118**	**10,863,200**	**1,239,421**	**-**	**12,137,841**
3.1 Structured	-	-	-	-	x	-	-	-	-	x
3.2 Other	6,786,185	6,352,952	380,354	-	x	12,108,118	10,863,200	1,239,421	-	x
Total	**6,786,185**	**6,352,952**	**380,354**	**-**	**6,774,408**	**12,108,118**	**10,863,200**	**1,239,421**	**-**	**12,137,841**

FV = Fair Value
FV= Fair value calculated excluding changes in value due to changes in the issuer's creditworthiness with respect to the issue date*
NV = Nominal Value
L1 = Level 1
L2 = Level 2
L3 = Level 3

Financial liabilities designated at fair value through profit and loss refer to plain vanilla bond issues which are fixed-rate or linked to equity instruments, exchange rates, inflation rates or interest rate structures, which have been hedged using derivative instruments. The use of the Fair Value Option therefore meets the need to cancel or significantly reduce accounting asymmetry, as an alternative to hedge accounting. Otherwise, derivatives would be valued at fair value in any event, while the bond loans would be recognised at amortised cost.
For the scope of securities under the fair value option and the method used to determine fair value and quantify changes in creditworthiness, please refer to "Part A – Accounting policies – A.2 Key financial statement items, 18 – Other information, Methods for determining the fair value of financial instruments".

Effect of the change in the Bank's creditworthiness on financial liabilities designated at fair value through profit and loss

Due to the change in Banco Popolare's creditworthiness with respect to the issue date of the financial liabilities designated at fair value through profit and loss outstanding as at 31 December 2016, the latter as a whole are recorded at a lower value than the issue value, corresponding to euro 41.1 million (compared with euro 35.2 million as at 31 December 2015).
The rise in cumulative gains as at 31 December 2016 compared to the end of the previous year had a positive economic impact of euro 5.9 million, attributable to the change in creditworthiness.
As creditworthiness is measured on the basis of market quotations of Banco Popolare's Credit Default Swap (CDS) curve, the positive impact on the income statement is mainly due to the deterioration of the CDS curve with respect to the end of the previous year.
The following table shows the cumulative effects of the change in the Bank's creditworthiness from the issue date of the loan, recorded in total on the income statement:

Creditworthiness effect	31/12/2016	31/12/2015
Cumulative gains / (losses)	41,101	35,248
Profits (losses) on creditworthiness change	5,853	4,912

It should be noted that the net cumulative gains recorded as at 31 December 2016 due to the changes in the Bank's creditworthiness, which led to a lower book value of liabilities, are expected to have a negative impact on future income statements to the extent that the liabilities will not be repurchased at prices in line with the recorded book value.
For the sake of completeness, note that, based on the supervisory regulations in force, the net cumulative gains attributable to the worsening of creditworthiness do not contribute to the calculation of own funds, as a result of the

application of prudent filters. The above gains also constitute non-distributable profits or reserves pursuant to the provisions of art. 6 of Italian Legislative Decree no. 38 of 28 February 2005.

5.2 Breakdown of item 50 "Financial liabilities designated at fair value through profit and loss": subordinated liabilities

Financial liabilities designated at fair value through profit and loss are represented by two issues represented by preference shares for the amount of euro 147.8 million (last year there were two issues with a book value of euro 211 million).

The characteristics of the subordinated loans included in calculations for regulatory purposes are set forth in Part F – "Information on consolidated shareholders' equity".

Section 6 - Hedging derivatives – Item 60

6.1 Hedging derivatives: breakdown by hedge type and level

	Fair Value 31/12/2016			NV 31/12/2016	Fair Value 31/12/2015			NV 31/12/2015
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives	**-**	**1,292,087**	**-**	**8,632,498**	**-**	**990,562**	**-**	**6,142,407**
1) Fair value	-	1,291,814	-	8,599,348	-	990,562	-	6,142,407
2) Cash flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	273	-	33,150	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**1,292,087**	**-**	**8,632,498**	**-**	**990,562**	**-**	**6,142,407**

NV = Nominal Value
L1 = Level 1
L2 = Level 2
L3 = Level 3

The Fair value amount as at 31 December 2016 does not include euro 62.1 million used to offset the higher positive fair value of derivatives with the same counterparty shown in asset item "20. Financial assets held for trading".

6.2 Hedging derivatives: breakdown by portfolio hedged and hedge type

Transaction/Type of hedge	Fair Value						Cash Flows		Foreign investments
	Micro					Macro	Micro	Macro	
	Interest rate risk	Exchange rate risk	Credit risk	Price risk	Multiple risks				
1. Financial assets available for sale	1,210,660	-	-	-	-	X	-	X	X
2. Loans	5,421	-	-	X	-	X	-	X	X
3. Investments held to maturity	X	-	-	X	-	X	-	X	X
4. Portfolio	X	X	X	X	X	-	X	-	X
5. Other loans	-	-	-	-	-	X	-	X	-
Total assets	**1,216,081**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial liabilities	-	-	-	X	-	X	-	X	X
2. Portfolio	X	X	X	X	X	75,733	X	-	X
Total liabilities	**-**	**-**	**-**	**-**	**-**	**75,733**	**-**	**-**	**-**
1. Expected transactions	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	-	X	-	273

Section 7 - Fair value change of financial liabilities in macro fair value hedge portfolios – Item 70

7.1 Fair value change of hedged financial liabilities

Fair value change of hedged liabilities/Group components	31/12/2016	31/12/2015
1. Positive change in financial liabilities	-	457
2. Negative change in financial liabilities	-	-
Total	**-**	**457**

7.2 Liabilities subject to macro interest rate risk hedging: breakdown

	31/12/2016	31/12/2015
1. Debts	-	-
2. Debt securities issued	-	-
3. Portfolio	-	115,000
Total	**-**	**115,000**

Section 8 - Tax liabilities – Item 80

This section was commented on in Section 14 of statement of financial position assets in Part B – Information on the statement of financial position, of these notes to the financial statements.

Section 9 - Liabilities associated with non-current assets held for sale and discontinued operations – Item 90

The information in this section was shown in Section 15 of statement of financial position assets in Part B – Information on the statement of financial position, of these notes to the financial statements.

Section 10 - Other liabilities – Item 100

10.1 Other liabilities: breakdown

	31/12/2016	31/12/2015
Due to Tax Authority (not classifiable under tax liabilities)	114,144	137,395
Due to personnel	8,574	88,833
Due to Social Security	44,414	4,065
Trade payables	106,075	115,626
Items in transit between branches not yet allocated to destination accounts	16,376	281,095
Amounts available to be paid to third parties	369,686	279,438
Bank transfers to be cleared	496,982	242,172
Items relating to securities transactions	226,407	17,787
Other items being processed	227,567	515,365
Adjustments for illiquid items in portfolio	20,484	618,174
Accrued liabilities and deferred income not attributable to a specific item	20,979	24,136
Other items	803,763	566,775
Total	**2,455,451**	**2,890,861**

The item “Due to Tax Authority (not classifiable under tax liabilities)” includes net tax liabilities such as VAT payable, withholdings on interest expense and income from employed work and similar, withholdings and other tax items not recognised under item 80 “Tax liabilities”.
The item “Due to personnel” mainly comprises charges relating to holidays accrued and not taken, to hours banked and not used and relative mandatory social security contributions.
The item “Bank transfers to be cleared” mainly regards UNIPAY bank transfers to be credited.

"Items relating to securities transactions" is comprised of securities cash purchase and sale transactions made between the end of one year and the beginning of the next.
"Adjustments for illiquid items in portfolio" includes mismatches of bills in the portfolio ("Portfolio of minority interests" and "Own portfolio").
"Other items" is mainly comprised of the following sub-items: "Hedging of risks for guarantees given and commitments" for euro 86.9 million and "Other items".
This latter category includes liabilities for payments relating to the Direct Debit SEPA circuit of euro 318.7 million, collections from F24 proxies and former S.A.C. of euro 85.2 million, as well as the effects of the line-by-line consolidation of the Gestielle Hedge Low Volatility fund of euro 63.5 million. Specifically, this is a fund in which the Group holds a majority of assets, for which the net asset value (NAV) of the fund was consolidated, recognising the NAV not attributable to the Group under other liabilities.

Section 11 - Employee termination indemnities – Item 110

11.1 Employee termination indemnities: annual changes

	31/12/2016	31/12/2015
A. Opening balance	**334,613**	**377,847**
B. Increases	**14,433**	**5,429**
B.1 Provisions for the year	4,364	4,888
B.2 Other increases	10,069	541
C. Decreases	**(23,707)**	**(48,663)**
C.1 Benefits paid	(20,703)	(30,428)
C.2 Other decreases	(3,004)	(18,235)
D. Closing balance	**325,339**	**334,613**

Item B.1 "Provisions for the year" includes charges recorded under item 180 a) "personnel expenses" on the income statement.

Items B.2 and C.2 "Other increases/decreases" include the actuarial gains/losses, with a net loss of euro 8.0 million recognised, after the relative tax, as a balancing entry to the valuation reserve and were recognised in the statement of comprehensive income for the year. Net capital gains as at 31 December 2015 were euro 16.1 million.

11.2 Other information

As described in "Part A – Accounting policies", following the reform of supplementary pension plans, employee termination indemnities in this financial statement item (for companies with an average of at least 50 employees during 2006, which represents almost all Group companies) refers only to the portion accrued up to 31 December 2006.
For these companies, therefore, the provisions do not include the portions which, as a result of the reform, have been paid to supplementary pension plans or to the Italian Social Security Institution (INPS) Treasury Fund. The portions of employee termination indemnities accrued from 1 January 2007 are classified as "defined-contribution plans" and are recognised under personnel expenses in the sub-item "employee termination indemnities", based on the contributions due, without applying actuarial calculation methods, as an offset to the recognition of "Other liabilities" on the statement of financial position, or to an outflow of cash or cash equivalents.

Main actuarial assumptions

The actuarial valuation of employee termination indemnities was carried out by an independent external actuary, based on the "accrued benefits" method, using the "Projected Unit Credit" criterion as per IAS 19. The following table shows the main demographic, economic and financial assumptions used for the valuation as at 31 December 2016 compared to that as at 31 December 2015.

Main actuarial assumptions for the valuation of employee termination indemnities	
Demographic assumptions (2016-2015):	
Employee mortality rate	**31/12/2016:** IPS55 Demographic basis for annuity insurance **31/12/2015:** RG48 Survival Table used by the State General Accounting Office
Frequency and amount of advances on employee termination indemnities	**31/12/2016:** 1.5% **31/12/2015:** Determined based on historical experience according to seniority of services: with reference to advances following the first, it has been established that 10% of employees who requested the first advance also request a second, 6 years from the first; as for the amount of advances, an amount of 70% has been assumed for the first and 45% for the second request
Frequency of turnover	**31/12/2016:** 1.0% **31/12/2015:** Determined based on historical experience according to age and gender
Probability of retiring	On reaching the first retirement requirement according to the provisions of General Mandatory Insurance
Financial assumptions (2015-2014):	
Yearly discounting rate	**31/12/2016:** 0.99% equal to the Iboxx Corporate AA 7-10 Y rate, with duration equal to the average duration of all benefits paid to employees of companies belonging to the Group (social security, employee termination indemnities and seniority bonuses), corresponding to 10 years
	31/12/2015: 1.42% equal to the Iboxx Corporate AA 7-10 Y rate, with duration equal to the average duration of all benefits paid to employees of companies belonging to the Group (social security, employee termination indemnities and seniority bonuses), corresponding to 8.7 years
Annual inflation rate	**31/12/2016:** 1.50%
	31/12/2015: 1.50% for 2016, 1.80% for 2017, 1.70% for 2018, 1.60% for 2019 and 2.00% from 2020 on. The resulting annual revaluation rates for employee termination indemnities will be 75% of the respective inflation rates increased by 1.5 percentage points (2.625% for 2016, 2.850% for 2017, 2.775% for 2018, 2.700% for 2019 and 3.000% from 2020 onwards)

Actuarial gains/losses recognised in the statement of comprehensive income

As illustrated in paragraph 11.1 above, the changes to certain actuarial assumptions for the valuation of employee termination indemnities as at 31 December 2016, with respect to the previous year, led to an overall increase in the fund of euro 8 million, corresponding to the sum of:

- net actuarial gains of euro 1.8 million, due to past experience, namely the differences between current demographic actuarial assumptions and what actually occurred;
- net actuarial losses of euro 5.0 million, due to a change in the actuarial assumption relating to "employee mortality rate";
- net actuarial losses of euro 4.8 million, due to changes in financial assumptions. More specifically, this breaks down into a loss of euro 12.8 million due to the change in the discounting rate and a profit of euro 8.0 million due to the change in the inflation rate.

As regards the discounting rate, which is one of the most important assumptions used in measuring obligations related to defined benefit plans, we referred to the yields of companies with "AA" ratings, considered the best indication of yields of high quality companies. In fact, the reference accounting standard, IAS 19, states that this rate must reflect the value over time of cash, but not the entity's specific credit risk, nor actuarial risk or investment risk, or even the risk that, in the future, the real figures may differ to the actuarial assumptions made. The standard also establishes that this rate must be calculated with reference to market returns as at the closing date of the year, of stock of leading companies in the country in which the entity operates (so-called "High Quality Corporate Bond Yield") and, alternatively, in the absence of a market for said securities, with reference to the returns of the government bonds market. More specifically, we referred to the "Iboxx Corporate AA" index, provided by info provider Markit, with a reference time horizon of 7-10 years, in line with the average duration of defined benefit plans. The decrease of the discounting rate by 43 basis points (0.99% as at 31 December 2016 against 1.42% as at 31 December 2015) is solely due to market changes, insofar as the reference parameter as at 31 December 2016 is the same as that used in the previous year.

Sensitivity analysis

As required by IAS 19, we conducted a sensitivity analysis of the obligation to the employee termination indemnity with respect to the actuarial assumption retained to be most significant, with a view to showing how the financial statement liability would change as a result of reasonably possible fluctuations of each of the actuarial assumptions. More specifically, the following table shows the changes in the employee termination indemnity, in the event that the

discounting and inflation rates rise or fall by 50 basis points, as well as assuming a higher turnover rate, corresponding to 1% of the parameters actually used.

	Change in TFR (employee termination indemnities) in absolute terms (*)	Change in TFR (employee termination indemnities) in percentage terms
Change in actuarial assumptions:		
- Discounting rate:		
-0.5%	(14,428)	(4.44%)
-0.5%	15,461	4.76%
- Inflation rate:		
-0.5%	9,374	2.89%
-0.5%	(9,039)	(2.78%)
- Turnover rate:		
-1%	(2,099)	(0.65%)

(*) the amounts in brackets indicate a decrease of the fund.

Section 12 - Provisions for risks and charges – Item 120

12.1 Provisions for risks and charges: breakdown

Item/Component	31/12/2016	31/12/2015 (*)
1. Company retirement plans	94,180	89,796
2. Other provisions for risks and charges	713,915	636,239
2.1 legal disputes	119,303	138,689
2.2 personnel expenses	450,841	366,173
2.3 Other	143,771	131,377
Total	**808,095**	**726,035**

(*) The figures for the year have been reclassified to provide a like-for-like comparison.

Company retirement plans

Retirement plans are represented by defined benefit plans, with a value of euro 94.2 million, euro 23.2 million of which refers to external plans.

As specified in Part A - Accounting Policies “Notes for the correct comparison of financial statement schedules and disclosures”, defined contribution plans, classified as internal and included last year under this item for euro 272.4 million, from 2016 are not represented separately in the statement of financial position insofar as the Group’s only obligation is to make payments into a defined contribution plan on a contractual basis; the Group is not exposed to any other risk, even if the plan has insufficient assets to pay the benefits to employees. The obligation to declare the separate asset pool, pursuant to art. 2117 of the Italian Civil Code, which as at 31 December 2016 amounted to euro 291.1 million, is met by recording the same in the memorandum accounts.

In compliance with the provisions of Circular no. 262, the financial statement attachments show the statement of “internal plans”.

Provisions for risks and charges - legal disputes

Other provisions for risks and charges include sub-item 2.1 “legal disputes” which refers to provisions for clawback actions of euro 12.7 million (euro 15.3 million as at 31 December 2015) and those for other pending proceedings for the remainder, corresponding to euro 106.6 million (euro 123.4 million as at 31 December 2015).

Risks related to existing legal disputes

The Group operates in a legal and regulatory scenario, which exposes it to a wide variety of legal proceedings, relating, for example, to the conditions applied to its customers, to the nature and characteristics of the products and financial services it sells, to administrative irregularities, to clawback actions for bankruptcies, and to labour law disputes. The relative risks undergo a specific analysis by the Group, with a view to make specific allocations to provisions for risks and charges, if the disbursement is retained likely, on the basis of the information available on each occasion. As

indicated in "Part A – Accounting policies" of these notes to the financial statements, the complexity of the situations and of corporate operations which are behind disputes imply considerable elements of subjective judgment, which may regard both what may be due and whether it is due and how much time will elapse before liabilities materialise.
The following paragraphs illustrate the main legal disputes in progress at the end date of the financial statements, characterised by highly complex profiles and/or significant potential outlay, merely for the purpose of illustrating the maximum risk exposure, regardless of the Group's opinion as the likelihood of losing the dispute. For many of these proceedings, the Group actually believes that the risk profiles of the same are limited and therefore, as they regard possible liabilities, it has not made any allocation to provisions; with regard to liabilities considered probable, a disclosure of said judgment and on the amount of the allocation made is provided only if this will not prejudice the outcome of the dispute with the counterparty, in court or as regards the settlement. In this regard, we must emphasise that, although the estimates made by the Group are retained reliable and compliant with the dictates of the reference accounting standards, we cannot however exclude that the costs to settle disputes may be significantly higher than the allocations made.

Area S.p.A. dispute
In July and September 2009, Banco Popolare (and others) were summoned, by means of separate actions brought by two separate groups of former shareholders of Area S.p.A..
In the first proceedings, 42 plaintiffs and 39 other parties requested that the defendants be ordered to pay compensation of euro 19.1 million, on the assumption of an alleged agreement between the former Banca Popolare di Lodi (BPL) S.c.a.r.l. and Banca Intesa S.p.A., which would have led among other things to the exclusion of Area S.p.A.'s minority shareholders, without the payment which would have been due on exercise of the right to withdraw as a consequence of the merger of Area S.p.A. in Bipielle Investimenti S.p.A..
In the second proceedings, 76 plaintiffs requested the sentencing of Banco Popolare, the former BPL S.p.A. and its former managing director, Mr. Gianpiero Fiorani, subject to ascertaining the alleged criminal liability of the latter and liability pursuant to Article 5 of Italian Legislative Decree no. 231/2001 of the two banks, to compensate the alleged damages of euro 25.2 million, inferring the same profiles as the first proceedings.
On 20 January 2010, Banca Intesa San Paolo summoned BPL and Mr. Fiorani in proceedings filed by 9 plaintiffs to extend the sentence to the Bank. In these proceedings, an order to pay alleged damages of euro 1.7 million was requested for the same reasons as the previous two cases.
The first two proceedings were concluded, with an order of the Milan Court of Appeal, which in judgements dated 13 and 19 December 2016, rejected the demands made by the counterparties, ordering the same to pay legal expenses.
The third proceeding has already been settled, following the order of the Milan Court on 8 May 2013, which had totally rejected the claims of the adversaries.
In the light of the ruling of the courts of the two instances, as well as on the advice of its legal advisors, Banco Popolare retains that it has valid arguments to counter the claims of the petitioning company also in the event of a ruling by the Supreme Court.

Raffaele Viscardi S.r.l.
The law suit, notified on 30 April 2009 and which has a petitum of around euro 46 million, concerns the operations of a branch in Salerno relating to the granting of agricultural loans to the plaintiff company, which alleges that it was led to subscribe Banco Popolare bonds to guarantee the sums disbursed and claims damages to its image due to reporting in the Italian Central Credit Register. On 5 May 2015, the Court of Salerno issued a ruling in favour of Banco, in response to which the opponent submitted an appeal.
Based on external legal advice, Banco Popolare believes the adversary claims are groundless.

Maflow SpA in Extraordinary Receivership
In a notice dated 14 April 2014, Maflow S.p.A., in extraordinary receivership, summoned Banco Popolare before the court, requesting: (i) a court order, together with others, to pay compensation for damages of euro 199 million, corresponding to the financial difficulties of Maflow, as calculated by the counterparty; (ii) a court order to return the amount allegedly received by Banco unlawfully from loans granted to Maflow from establishment to default. The above is all based on the assumption that Banco played a dominant role by influencing the financial management of Maflow.
In a ruling dated 14 December 2016, which was then appealed against, the Court of Milan totally rejected the claims of the petitioner in these Proceedings, also ordering the same to pay legal expenses.
In the light of the ruling of the court of first instance, and on the advice of its legal advisors, Banco Popolare retains that it has valid arguments to counter the claims of the petitioner in these Proceedings also in the event of a ruling by the Court of Appeal.

Potenza Giovanni
This dispute stems from relations between the former ICCRI and a company called CRIA and regards the renovation of a large building complex in Milan. In 1984, ICCRI granted various credit facilities, all secured with mortgages. The shareholder of CRIA at the time was Giovanni Potenza, who, due to economic difficulties being experienced by the company, agreed with ICCRI to transfer 87% of the company's shareholding to IMMOCRI (ICCRI's real estate company) by means of a shareholders' agreement.
Following the sale of the real estate assets of CRIA to the Norman Group, Mr. Giovanni Potenza filed, starting on 22 November 2001, a series of lawsuits to demonstrate the damages incurred by the sale of said real estate assets by

ICCRI and IMMOCRI at a price he retained as inadequate, as well as to obtain the annulment of the settlement agreements between the Norman Group and ICCRI and of the relative contract of sale of the assets.
Pending the outcome of the civil court of first instance, the plaintiff also initiated criminal proceedings accusing officials of ICCRI and associated companies of extortion. The accusations were then dismissed by the Public Prosecutor's Office.
An appeal has been made against the sentence of the court of first instance in 2009, which ruled in favour of the Bank and ordered the plaintiff to pay legal expenses.
Based on external legal advice, Banco Popolare believes it is likely that the ruling of the first instance will be confirmed.

Administrative Proceedings
On 17 July 2014, Banco Popolare received a formal written notice, insofar as jointly and severally obliged with those potentially responsible for the infringement, regarding the alleged infringement of anti-money laundering legislation (Italian legislative Decree no. 231/2007). The accusation regards the failure to report a transaction retained as suspicious, following inspections conducted by the Finance Police; the matter in question dates back to 2009 and regards the paying in of 41 non-transferrable banker's drafts for a total amount of euro 10.1 million.
With the support of various external legal advisors, Banco Popolare has made the appropriate risk assessments.

Cicerone Sarl - Porta Vittoria S.p.A.
On 7 August 2015, Cicerone Sarl and Porta Vittoria Spa (which in the meantime had declared bankruptcy), belonging to the Coppola Group, summoned Release, Banco Popolare and Piazza di Spagna View, disputing the nullity of the debt restructuring agreement of Cicerone Sarl, against Release, which originated the lease agreement for Hotel Cicerone in Rome. The opposing parties are requesting the reinstatement of the original lease agreement, as well as compensation for damages, quantified as euro 45 million.
On the advice of its legal advisors, Banco Popolare retains that it has valid arguments to counter the claims of the petitioning companies.

Kevios
By means of summons served on 18 December 2009, Kevios S.p.A. summoned the former Banca Italease before the Milan Court, so as to obtain the upholding of the request for compensation of damages of around euro 65 million, founded essentially on the alleged existence of numerous cases represented therein: abuse of economic dependence, abuse of the law and contractual breach, primarily attributable to the Bank.
In a final ruling issued on 28 July 2016, the Milan Court of Appeal confirmed that of the judge of the first instance, totally rejecting the claims of the petitioning company, also ordering the same to pay legal expenses to Banco.

Civil and criminal proceedings relating to the bankruptcies of the Dimafin Group
The Banco Popolare Group has been involved in a number of civil disputes relating to bankruptcy proceedings, filed by the former directors and the former owner of the Dimafin Group, as well as in a criminal proceeding relating to the default of the same business group.

On 22 April 2013, the Court of Rome ruled the Dimafin Bankruptcy case as lost. The latter appealed against this ruling, claiming the ineffectiveness of the termination agreement by mutual consent relating to the finance lease on the property called Palazzo Sturzo in Rome and the need to make the property available again (or, if this is not possible, to receive a corresponding amount in cash) as well as return all instalments of the lease paid.
Based on external legal advice and also given the favourable ruling of the court of first instance, Banco Popolare believes that the same decision will be confirmed in the appeal.

The bankruptcies of seven companies belonging to the Dimafin Group (Dimafin, Dima Costruzioni, Diemme Costruzioni, Ponente, Belchi, Stone & Project, Dimatour), represented by their various receivers, summoned Banco Popolare in June 2015, as the incorporating company of Banca Italease, together with other credit institutions, requesting a court order to pay compensation for damages allegedly suffered as a consequence of the restructuring agreements signed with the summoned parties and quantified as around euro 179 million.
In December 2016, the same bankruptcies summoned the pool of banks (including Banca Italease) which funded a rescue operation, with a view to obtaining: 1) the revocation of the related deeds with which the Dimafin Group transferred its properties to the Diaphora 1 Fund (managed by SGR Raetia) and 2) the ineffectiveness of the relative mortgages granted. The cases represent the refiling of claims already made in 2013 by the same receivers and concluded, in 2015, with a ruling of inadmissibility following the liquidation of the Diaphora 1 fund. Based on the reconstruction of the adversaries, the summoned banks allegedly acted unlawfully in order to recover their credit exposures with the Dimafin Group. On this premise, the petitioning receivers are requesting an order for the convened banks to pay a total of euro 88.5 million.
On the advice of its legal advisors, Banco Popolare retains that it has valid arguments to counter the claims of the adversaries.

Also Mr. Lucio Giulio Capasso, the former Sole Director of the Dimafin Group companies, at the beginning of 2016 filed, using a procedure that is not based on the rules set forth in the code of civil procedure, for an independent ruling against Banco Popolare and Release, which, together with other credit institutions, were asked to compensate alleged

damages totalling euro 3.7 million, regarding the same conduct already disputed by the proceedings related to the restructuring of the Dimafin Group's debt.
After an overall assessment of the agreements and the documents submitted to the court, Banco Popolare believes it has a valid case to argue against the accusations made.

In March 2016, the same owners of the Dimafin Group, represented by Mr. Raffaele Di Mario, summoned 23 parties before the court, including numerous credit institutions, requesting that the same be found jointly liable for the alleged fraudulent and negligent conduct of the parties summoned, retained responsible for the greater financial difficulties of the Dimafin Group companies and the consequent bankruptcy of the same. Said conduct is alleged to have brought the value of the shareholdings held by the claimant to zero. Mr. Di Mario is therefore claiming compensation of euro 700 million.
After an overall assessment of the agreements and the documents submitted to the court, Banco Popolare believes it has a valid case to argue against the accusations made.

As regards the criminal proceedings pending before the Court of Rome, relating to the default of the Dimafin Group, the Judge in the court of first instance indicted the members of the Executive Committee and the Board of Statutory Auditors of the former Banca Italease (in office in January 2009). The prosecution sustains that a pool financing operation conducted by Unicredit and Cassa di Risparmio di Bolzano, to the benefit of the Asset Management Company Raetia, approved by the Executive Committee of the former Banca Italease in January 2009, a contract which was then transferred to Release, incorporated the basis for the fraudulent and preferential bankruptcy, as well as the crime of failing to pay VAT, in collaboration with the directors of the bankrupt companies.
On 20 June 2012, during the investigation, the former Banca Italease also received a preventive seizure notice for euro 7.9 million, corresponding to the sum that is alleged to be preferential or groundless with relation to said pool operation.
With regard to this matter, our legal advisors retain that the accusations against the defendants are based only on a forced legal interpretation and that, consequently, the Bank's position, in terms of its possible civil liability, can be easily defended.

At the end of 2014, Banca Italease and other parties received a further summons relating to three separate financial lease agreements stipulated with Di Mario Group companies (Dimafin Spa and Dimatour). In this case, the plaintiff company, Bankruptcy of Diemme Costruzioni Spa, is requesting the annulment of the purchase agreement regarding a group of properties located in Pomezia, as well as the invalidity of the leasing agreements related to the same, and therefore the repayment of the total amount of euro 21.2 million by Banca Italease.
The proceedings are still at their preliminary stages; the hearing will be in February 2017.

Ittierre S.p.A.
The company was placed under extraordinary receivership. By means of a summons, both the former BPL and the former Banca Popolare di Novara S.p.A. ("BPN") were requested to return, pursuant to art. 67 of the Finance Law, the total sum of euro 16.6 million for the principal creditor and euro 4.9 million for the secondary creditor. An objection was raised as to the erroneous duplication of the request, which in reality referred to the same current account migrated from BPL to BPN following the swap of branches. Furthermore, the grounds of the request were challenged, due to the imprecision of the same insofar as the counterparty had not specified which remittances were being disputed. As regards the former BPN dispute, the judge is currently being replaced, as regards the other, a court-appointed expert witness in accounting admitted in September 2015, excluded the existence of revocable remittances to return the amounts, which was a positive development for the outcome of the case, the final hearing for conclusions will be held in April 2017.

Send S.r.l.
The company went bankrupt in 2009. The receivable results from a pool operation of euro 49.5 million with the Unicredit head office, addressed to the construction of a shopping centre in Vicenza and secured by a mortgage at the same level on the property complex funded. Banco's share was 28.80%. The pool receivables (and therefore also Banco's) have been regularly admitted to the bankruptcy proceedings due to the mortgage privilege.
The bankruptcy receiver filed a claim for damages against the Pool Banks for the amount of the loan. In August 2015, the Court assigned to the receivership stated its lack of jurisdiction. In November the receivership proceedings resumed before the Court of Venice, business section, with a final hearing for conclusions set for October 2017.

Inspection by Consob
On conclusion of an inspection, Consob, in resolution no. 19368 dated 17 September 2015, notified on 26 January 2016, resolved to apply administrative fines for alleged violations of art. 21 of Italian Legislative Decree no. 58/1998 and relative implementing provisions. The total amount of the fines applied to several company representatives of Banco Popolare and, as jointly liable, to Banco itself, is euro 261,500. The company representatives, together with Banco Popolare resolved to file an appeal to the competent Court of Appeal to revoke the provision relating to the fines and to recover the amount of the fines paid in the meantime. Consob appeared before the court as the opposing party, requesting the rejection of the appeal. In an order dated 7 October 2016, the Court of Appeal invited the appellants (Banco Popolare and the company representatives) to summarise in a brief the reasons for the opposition in question

stated in the appeal *per relationem*. To this end, the appellants were given until 15 November 2016 to respond and Consob was given until 15 December 2016 to respond. Following the submission of the respective briefs by the appellants and by Consob, on 12 January 2017, a hearing for discussion was held, after which the Court decided to take the case under advisement.

Provisions for risks and charges – personnel expenses

Sub-item "2.2 personnel expenses" amounts to a total of euro 450.8 million and is mostly comprised of Solidarity Funds of euro 363.8 million (of which euro 198.6 million was allocated in the current year), loyalty bonuses of euro 22.0 million, euro 39.5 million in expenses of the incentive system for the year, euro 7.4 million in provisions for the closure of the London pension plan and other minor expenses.

Provisions for risks and charges – other

Sub-item "2.3 Other" totalled euro 143.8 million (euro 131.4 million as at 31 December 2014).

As at 31 December 2016, this item was mostly comprised of provisions for the probable payment of:

- tax disputes with the Tax Authority;
- the expenses resulting from procedures to wind up equity investments;
- the expenses that are expected to be incurred due to the closure of several branches as part of the plan to reorganise the network;
- the foreseeable expenses relating to several possible interpretation developments of certain regulations for banking activities.

Given that a precise indication of said allocations to provisions could seriously prejudice the company's position in terms of the management of disputes relating to potential liabilities to be measured, in accordance with paragraph 92 of international accounting standard IAS 37, for some cases, no indication of the entity of the allocations made to the provisions for risks and charges or of the allocations charged to the income statement for the year has been provided in the notes to the financial statements.

Risks associated with current disputes with the Tax Authority

Banco Popolare, the companies that merged to form the same, the incorporated subsidiary companies and the subsidiary companies underwent various inspections by the Tax Authority in 2016 and in previous years. These activities concerned the taxable income declared for the purpose of income tax, VAT, registration tax, and more generally the manner in which the tax legislation in force at the time was applied. As a consequence of said inspections, the Banco Popolare Group is involved in numerous legal proceedings.

The potential liabilities relating to tax disputes underway that involve Banco Popolare and its subsidiaries amounted to euro 470.9 million as at 31 December 2016 (euro 406.4 million as at 31 December 2015), of which euro 432.9 million relate to notices of assessment, tax demands and payment notices and euro 38.0 million relate to formal reports on findings served or to be served (based on the daily reports on findings for the inspection currently underway). In this regard, note that the estimate of said potential liabilities relating to the notices of assessment does not consider any interest (with the exception of the assessments relating to 2005 of the former Banca Popolare Italiana and for liabilities classified as likely), while the estimate of potential liabilities relating to formal reports on findings served or to be served does not include interest or fines, insofar as they are not indicated in the latter document (with the exception of liabilities classified as likely).

Developments during the year

New disputes that emerged in the year and/or developments of existing disputes following formal reports on findings served and tax demands

The main increase of euro 82.5 million refers to notices served in December 2016 from the Large Taxpayers' Office of the Lombardy and Tuscany Regional Headquarters, to the former Banca Italease, the former Mercantile Leasing and Italease Gestione Beni relating to FY 2011.
The findings contained in the notices originate from the deductibility from IRES of the use of the taxed fund established against VAT paid to the Tax Authority, together with the relative interest, following the settlement finalised on 15 March 2011 between Banca Italease and its subsidiaries (Mercantile Leasing and Italease Gestione Beni) and the Tax Authority regarding the final settlement of a series of tax disputes. More specifically, in 2011, an agreement was signed with the Tax Authority by virtue of which the parties undertook to settle the individual pending disputes at the time, the individual assessments which have not yet been disputed, and the findings of each of the formal reports against payment by Banca Italease and its direct subsidiaries Mercantile Leasing and Italease Gestione Beni of the total amount of euro 210.1 million in additional taxes (primarily VAT), fines and interest. To cover this commitment, specific allocations were made to taxed provisions for risks and charges from financial statements relating to FY 2010.

After paying VAT and interest in 2011, the taxed provisions were used. The charges relating to VAT paid, and not recoverable and interest were retained deductible for the purpose of direct taxes in the same year.

The residual increase recorded in the year refers exclusively to findings inferred by the daily reports on findings for the inspection currently underway regarding Banco Popolare. In said reports on findings, the inspectors have extended allegations to all tax years regarding the failure to apply and consequently to pay withholding tax under art. 26, paragraph 5 of Italian Presidential Decree no 600/1973 on interest paid by Banco Popolare or by incorporated subsidiary companies against amounts deposited by subsidiary companies resident in Delaware (the LLC companies) obtained through the placement abroad of the financial instruments included in own funds (more specifically in the current additional Tier 1 capital), namely the so-called "preference shares or "preferred securities"[1].

Disputes concluded and/or settled during the year

During the year, outstanding disputes decreased by a total of euro 48.8 million.
The main reduction follows out-of-court settlements made by Banco Popolare with the Tax Authority at the end of December 2016 for a total amount of euro 48.7 million.
The settlement related to:

- the disputes regarding notices of assessment relating to the failure to apply withholding tax to interest paid by the incorporated Banca Italease (in FY 2007 to 2009) to subsidiary companies resident in Delaware, which defined overall potential liabilities for taxes, fines and interest estimated as a total of euro 8.5 million.
- the disputes regarding other notices of assessment served with relation to FY 2007, 2008 and 2009 to the former subsidiary Banca Italease. The main subject of these disputes was the claimed non deductibility of the use of a fund granted to Release as part of the corporate restructuring of the Italease Group, finalised before Banco Popolare gained control of the same, and amount to a total of euro 40.2 million.

As regards this settlement, the Tax Authority acknowledged the existence of an objective legislative uncertainty and did not apply any fine to the disputes regarding the failure to apply withholding tax to the interest paid to the companies resident in Delaware. With regard to the dispute regarding the non deductibility of the use of the fund granted, the Tax Authority acknowledged the deductibility of the other Group company, and only claimed the interest and a lower amount of fines. The above settlement entailed a total disbursement of euro 14.2 million, euro 10.9 million of which was charged to the income statement for the year.
The further reduction of potential liabilities originates, for euro 0.1 million, to the cancellation of the dispute regarding the settlement notice of substitute tax under Italian Presidential Decree 601/73 relating to the loan granted by the former Banca Popolare di Lodi spa to Sorgenia Power spa in 2009, which was cancelled by the Tax Authority following an internal review.
In addition to the above developments, during the year or after the end of the same, there were no significant developments regarding disputes in progress, with the exception of the filing on 11 April 2016 of the rulings made by the Provincial Tax Commission of Milan regarding the appeals submitted by Banco Popolare against the claims contained in the assessment notices relating to tax year 2009 of the former subsidiaries Banca Popolare di Lodi, Credito Bergamasco and Efibanca. The Commission upheld all of the appeals submitted, completely rejecting all of the claims of the Tax Authority, which totalled euro 58.4 million, retaining that the assessments were groundless as well as having been issued without fulfilling the obligation for preventive cross-examination envisaged by law. The Tax Authority has submitted an appeal.

Details of disputes unresolved as at 31 December 2016

Due to the developments illustrated in the paragraph above, the main tax disputes unresolved as at 31 December 2016 (potential liability equal to or exceeding euro 1 million) are as follows:

Disputes relating to Banco Popolare

- Banco Popolare (former Banca Popolare di Verona e Novara Soc. Coop.) - tax demand regarding IRAP tax paid to the Regional headquarters for Veneto for 2006. The claim refers to the application of the ordinary rate of 4.25% to the net value of production resulting from business activities performed in Veneto and in Tuscany, instead of the higher rate of 5.25% and amounts to a total of euro 7.1 million. An appeal has been submitted for this tax demand. The Provincial Tax Commission partially admitted the appeal and declared that the fines requested were not due. The Regional Tax Commission confirmed the ruling of the court of first instance, therefore cancelling the tax claim relating to higher IRAP regarding the Tuscany Regional Authority. An appeal submitted to the Supreme Court is still pending.
- Banco Popolare (former Banca Popolare Italiana Soc. Coop.) - notice of settlement regarding registration tax relating to the reclassification of the disposal of a portfolio of securities made in 2002 between Cassa di Risparmio di Pisa and Banca Popolare Italiana as a business segment disposal. The claims amount to euro

[1] The transactions to issue financial instruments included in own funds conducted prior to 2006 by Banca Popolare Italiana and Banca Italease were structured through subsidiary SPEs resident in the State of Delaware (the LLC companies) insofar as, at that time, based on the law at that time, it was not possible to directly issue this type of financial instrument in Italy.

14.5 million. In a ruling dated 18 October 2011, the Regional Tax Commission of Florence fully upheld the appeal submitted by Banco Popolare. The appeal submitted to the Court of Appeal is pending.

- Banco Popolare (former Banca Popolare Italiana Soc. Coop.) - notices of assessment relating to tax year 2005 regarding the claimed non-deductibility for IRES and IRAP purposes of costs and value adjustments to receivables relating to facts or actions classified as offences (it regards offence of false corporate reporting, obstacles to supervision and market turbulence alleged to have been committed by Banca Popolare Italiana with relation to the attempted takeover of Banca Antonveneta). The claims amount to euro 199.8 million (including interest and collection commission). In separate rulings filed on 15 October 2014, no. 8562 (IRES) and no. 8561 (IRAP), the Provincial Tax Commission of Milan, Section 22, fully rejected the appeals submitted by the Bank, although providing no reasons underlying its confirmation of the tax claim. We have appealed against the above ruling to the Regional Tax Commission of Lombardy. On 6 May 2015, the appeals lodged on 3 February 2015 were heard before the Milan Regional Tax Commission, section 2. By ruling no. 670 handed down on 19 May 2015, the Commission rejected the combined appeals submitted and confirmed the challenged rulings. An appeal has been submitted to the Supreme Court.
- Banco Popolare (former Banca Popolare Italiana Soc. Coop.) - notices of assessment served on 22 December 2014 relating to the formal report on findings dated 30 June 2011 for tax years 2006-2009. These notices also regard the claimed non-deductibility for IRES and IRAP purposes of costs retained as relating to facts or actions classified as offences. More specifically, they regard value adjustments on loans already disputed with reference to tax year 2005. Said value adjustments, although recognised by Banca Popolare Italiana in its financial statements for 2005, were deductible on a straight line basis over the following 18 financial years pursuant to the version in effect at the time of art. 106, paragraph three, of Italian Presidential Decree 22 December 1986 no. 917. The notices of assessment serviced therefore dispute the claimed non-deductibility of the quotas of the above-cited adjustments on loans deducted in 2006, 2007, 2008 and 2009. The claims amount in total to euro 15.8 million. An appeal was presented to the Provincial Tax Commission.
- Banco Popolare - notices of assessment and formal written notices of the fines relating to the finding regarding the failure to apply the withholding tax set forth in art. 26, paragraph 5 of Italian Presidential Decree 600/1973, to interest due on deposits made by foreign subsidiaries resident in the US State of Delaware relating to 2009, 2010, 2011, 2012, 2013, 2014 and 2015. The claims amount to euro 68.5 million. These disputes are included in the out-of-court settlement made with the Tax Authority, which in 2016 resulted in the closure of similar disputes relating to other years and other incorporated companies without the application of any fine.
- Banco Popolare - notices of assessment served on 23 December 2014 regarding 2009 for the former subsidiaries Banca Popolare di Lodi, Credito Bergamasco and Efibanca. The total claim amounts to euro 58.4 million. The Provincial Tax Commission has upheld all of the appeals submitted, cancelling the notices of assessment. The Tax Authority has appealed.
- Banco Popolare - dispute regarding tax demand relating to the 2011 tax year, whereby payment of euro 1.5 million was requested for IRAP, interest and fines, following the transmission of the tax return beyond the deadline set by art. 2, paragraph 8 of Italian Presidential Decree no. 322/1988. The appeal is pending before the Provincial Tax Commission. The hearing is set for February 2017.
- Banco Popolare (former Banca Italease) – settlement notices to recover the mortgage and cadastral taxes on a loan stipulated in 2006. The claim amounts to a total of euro 3.2 million. The appeal submitted by Banca Italease was upheld in the first and second instance. An appeal submitted to the Supreme Court is still pending.
- Banco Popolare (former Banca Italease) - notice of assessment that contain the finding regarding the deductibility from IRES of the use of the taxed provision established against VAT paid to the Tax Authority, together with the relative interest, following the settlement finalised between Banca Italease and the Tax Authority on 15 March 2011. The claims, including fines and excluding interest, amount to euro 52.8 million.
- Banco Popolare (former Mercantile Leasing) - notices of assessment that contain the finding for IRES and IRAP purposes regarding the deductibility from IRES of the use of the taxed provision established against VAT paid to the Tax Authority, together with the relative interest, following the settlement finalised between the Company and the Tax Authority on 15 March 2011. The claims, including fines and excluding interest, amount to euro 28.8 million.

Disputes relating to other subsidiary companies

- Bipielle Real Estate - notices of assessment regarding VAT and IRAP taxes for tax year 2005 served to Basileus S.r.l., (a subsidiary company sold in 2008, for which Bipielle Real Estate is fiscally liable for the years prior to the disposal). The claims amount to euro 11.3 million. In January 2012, the ruling of the Lodi Provincial Tax Commission was filed. The ruling annulled the notices of assessment issued against the company, ordering the Office to pay legal expenses. In a ruling issued in May 2013, the Regional Tax Commission of Milan, changing the ruling in the first instance, upheld the appeal submitted by the Tax Authority, confirming all of the claims. An appeal has been submitted to the Supreme Court. The possible “facilitated settlement” envisaged by art. 6 of Italian Decree Law no. 193/2016, converted into Italian Law no. 225/2016 is being evaluated.

- Aletti Fiduciaria - notice to recover taxes due by the fiduciary company pursuant to the personal liability of the shareholder under art. 36, paragraph 3, of Italian Presidential Decree no. 602/1973. The claim amounts to euro 7.9 million. The company's appeal was fully upheld in the first and second instance. The appeal to the Supreme Court filed by the Tax Authority is pending.
- Italease Gestione Beni - notice of assessment that contain the finding for IRES purposes regarding the deductibility from IRES of the use of the taxed provision established against VAT paid to the Tax Authority, together with the relative interest, following the settlement finalised between the company and the Tax Authority on 15 March 2011. The claims, including fines and interest, amount to euro 0.9 million.

Classification and valuation of potential liabilities in accordance with the provisions of accounting standard IAS 37

Potential liabilities associated with the proceedings regarding the claimed non-deductibility of costs relating to the attempted takeover of Banca Antonveneta by the former Banca Popolare Italiana

The potential liability regarding only the year 2005 amounts to euro 199.8 million, in addition to the potential liability relating to the associated notices of assessment for the years 2006, 2007, 2008 and 2009, estimated at euro 15.8 million, excluding interest and collection commissions.
With regard to the dispute, as at 31 December 2016, tax credits amounting to euro 201.9 million were due from the Tax Authority, following payments made provisionally. The amount paid is recognised in the financial statements under "Other assets". In this regard, we must emphasise that said payments are not retained such as to impact the risk of losing the dispute, which have been valued on the basis of the provisions of IAS 37: in fact, these amounts are paid as part of an automatic mechanism, which is unrelated to the groundlessness or otherwise of the related tax claims, and which will be known only after the ruling of the highest court.

The afore-mentioned potential liabilities were carefully assessed in light of the new negative rulings made in the courts of the first two instances.
An analysis of the order and the content of the ruling of the Regional Tax Commission shows that the Commission's decision on the merits of the case contains no specific justification and is based on a mere reference to the Authority's claims, with no express indication of the reasons for its decision not to accept the precise arguments laid out by Banco Popolare in support of its appeal. On this basis, it is believed that there are grounds to challenge the ruling before the Supreme Court, as it is possible to re-submit to the court all defensive arguments regarding aspects of legitimacy not considered by the judges in the first and second instances. On 18 December 2015, the appeal was submitted to the Supreme Court.
The detailed analyses carried out on this situation with the support of the advisors engaged to prepare the appeal, as well as the additional opinion requested from another authoritative expert on the topic, have confirmed the conviction that the Tax Authority's claim is illegitimate and that it is still possible for the defensive arguments to be considered and accepted in the case before the Supreme Court. These same analyses led the Board of Directors to confirm the classification of the potential liability as possible but not probable.
In light of the evaluations carried out, no provision has been recognised for the potential liabilities in question in the financial statements as at 31 December 2016.

Potential liabilities associated with other outstanding proceedings

The remaining potential liabilities associated with tax disputes amount to a total of euro 255.3 million.
With regard to all of the afore-mentioned disputes, as at 31 December 2016, tax credits amounting to euro 33.6 million were due from the Tax Authority, following payments made provisionally. This amount is also recognised in the financial statements under "Other assets".

In the light of the successful outcomes in the courts of first instance and/or the existence of valid grounds on which to challenge the claims made by the Tax Authority with regard to proceedings underway and also considering the specific opinions issued by authoritative external firms, the potential liabilities classified as possible but unlikely amount to a total of euro 182.8 million.
The potential liabilities classified as probable amount in total to euro 72.5 million and were fully debited from the income statement when the tax demands received were paid or are entirely covered by provisions allocated to the item "other provisions for risks and charges - other."

Inspections underway as at 31 December 2016

As at 31 December 2016, an inspection for IRES, IRAP and VAT purposes is underway against Banco Popolare for tax years 2013, 2014 and 2015 (up to 15 September).
The inspection was initiated on 16 September 2015 by the Verona Tax Police Branch of the Finance Police and was extended:

- on 21 September 2015, to tax years 2010 (a year that incidentally had already been the subject of an inspection by the Tax Authority), 2011 and 2012;

- on 16 February 2016, to tax years 2010, 2011 and 2012 relating to the incorporated Banca Italease;
- on 15 March 2016, it was extended to 31 December 2015.

Inspections are continuously monitored by Banco Popolare personnel. The findings contained in the daily inspection reports mostly regard the previously-mentioned allegations of the failure to apply the withholding tax set forth in art. 26, paragraph 5 of Italian Presidential Decree 600/1973, to interest due on deposits made by foreign subsidiaries resident in the US State of Delaware. These findings have been carefully examined and in line with the assessments already made as regards similar liabilities relating to assessment notices already received, the relative potential likely liabilities are covered by specific provisions.

12.2 Provisions for risks and charges: annual changes

	Retirement plans (*)	Other provisions	Total
A. Opening balance	**89,796**	**636,239**	**726,035**
B. Increases	**18,060**	**306,929**	**324,989**
B.1 Provisions for the year	45	302,636	302,681
B.2 Changes over time	957	250	1,207
B.3 Changes due to changes in the discounting rate	4,779	578	5,357
B.4 Other increases	12,279	3,465	15,744
C. Decreases	**(13,676)**	**(229,253)**	**(242,929)**
C.1 Uses during the year	(8,330)	(189,015)	(197,345)
C.2 Changes due to changes in the discounting rate	-	(4)	(4)
C.3 Other decreases	(5,346)	(40,234)	(45,580)
D. Closing balance	**94,180**	**713,915**	**808,095**

(*) The figures for the year have been reclassified to provide a like-for-like comparison.

Provisions mostly regard those relating to employees that cannot be considered certain (and therefore payable), recognised as a balancing entry to the income statement item "Personnel expenses". The allocations for the year for commitments made regarding the use of the Solidarity Fund for the banking sector amounted to euro 198.6 million, while euro 33.2 million was allocated to provisions for the incentive system and company bonus for the year.
Item C.1 "Uses during the year" includes the amounts used as a balancing entry to the payment of the personnel expenses and following the closure of revocatories and other disputes for which specific allocations had been made.

12.3 Defined benefit company retirement plans

1. Illustration of the characteristics of plans and related risks

With regard to the defined benefit supplementary pension plans, the determination of present values as required by IAS 19 "Employee benefits" is carried out by an independent Actuary.
The definition of financial forecast assumptions led to the adoption of a discounting rate of 0.99% (as at 31 December 2015 it was 1.42%) and a rising inflation rate of 1.5%, as illustrated in detail in paragraph "*4. Description of the main actuarial assumptions*" below. The method and the demographic economic and financial technical basis adopted differ from plan to plan. The technical-financial management system adopted for these valuations is full capitalisation.

As at the date of the financial statements, these provisions amounted to euro 94.2 million (euro 89.8 million as at 31 December 2015). Euro 0.9 million of the expenses for the year were recognised under the income statement item 150 a) - "Personnel expenses", while euro 12.4 million was recognised under the valuation reserve of shareholders' equity item "Actuarial profits (losses) relating to defined benefit plans".

Group defined benefit plans, which all relate to the Parent Company, are broken down into internal and external plans; over the course of the year, the commitments to retired employees of the former Banca Eurosistemi, the commitments to the Plan of the former Banca Italease and the commitment to employees and retirees of the former Credito Bergamasco were reclassified from external to internal plans. For further details, please refer to the content of the same section of the separate financial statements.

External plans refer to:

- commitments relating to the Plan of the former Banca S. Geminiano e S. Prospero;
- commitments relating to the Plan of the former Banca Popolare di Verona – Banco S. Geminiano e S. Prospero;
- commitments relating to the S.C.P. (Supplementary Corporate Plan) of the former Credito Bergamasco;
- commitments to former employees of the former London branch.

Internal plans refer to:

- commitments relating to the Plan of the former Banca Popolare Italiana (BPI);
- commitments relating to the former Chiavari Plan;
- commitments relating to the former Banca Industriale Gallaratese (BIG) Plan;
- commitments relating to the former Bipielle Adriatico Plan;
- commitments relating to the former Bpl Regulation 1961 and 1973 Plan;
- commitments relating to the former Banca Popolare Cremona Plan;
- commitments relating to the former Cassa di Risparmio di Lucca Plan;
- commitments relating to the former Cassa di Risparmio di Pisa Plan;
- commitments relating to the former Cassa di Risparmio di Livorno Plan;
- commitments to former executives relating to the Plan of the former Banca Popolare di Verona;
- commitments relating to equalising cheques issued to retired personnel of the former Banca Popolare di Verona and Novara and to a former executive;
- commitments relating to the Plan for retired personnel of the former Banca Eurosistemi;
- commitments made to employees and retired personnel of the former Credito Bergamasco;
- commitments relating to the Plan of the former Banca Italease.

For further details of defined benefit plans, please refer to the same section of the separate financial statements.

The statement of Banco Popolare's internal plans is shown as an attachment to the Parent Company's separate financial statements.

2. Changes during the year in net liabilities (assets) relating to defined benefit plans and repayment rights

		Total
A.	**Opening balance**	**89,782**
B.	**Increases**	**18,058**
	B.1. Pension cost associated with service	45
	B.2 Financial charges due to the passage of time	949
	B.3 Other actuarial losses	12,280
	B.4 Losses due to changes in the discounting rate	4,779
	B.5 Other increases	5
C.	**Decreases**	**(13,674)**
	C.1 Uses during the year	(8,330)
	C.2 Profits due to changes in the discounting rate	-
	C.3 Other actuarial profits	(4,671)
	C.4 Other decreases	(673)
D.	**Closing balance**	**94,166**

The book value of the defined benefit pension plans as at 31 December 2016 was euro 94.2 million, corresponding to the actuarial value of the liabilities, adjusted by the plan assets, the fair value of which amounted to euro 0.2 million, as indicated in paragraph 3 below.

Net actuarial losses totalled euro 12.4 million and were attributable to the following:

- the decrease of the discounting rate by 43 basis points, which led to a loss of euro 4.8 million;
- the fall in the inflation rate, which led to a gain of euro 3.8 million recognised under sub-item C.3 "Other actuarial profits";
- past experience, namely to differences between previous actuarial assumptions and what actually occurred, which led to the recognition of a net loss of euro 1.3 million, recorded under sub-items "B.3 Other actuarial losses" and "C.3 Other actuarial profits".
- the change in the actuarial assumption relating to the "employee mortality rate", which led to the recognition of a net loss of euro 10.1 million, recorded under sub-items "B.3 Other actuarial losses".

3. Information on the fair value of plan assets

According to IAS 19, plan assets are those held by an entity (a plan) that is legally separate from the entity that draws up the financial statements (external plan) and that may be used exclusively to pay or allocate benefits for employees and which are not available to the creditors of the entity that draws up the financial statements. Based on this definition, existing plan assets are those held by the Pension Plans for the employees of Credito Bergamasco and by the Pension Plan for Banco Popolare Group employees. These assets are the result of the investment of the periodic partial loan that the Parent Company grants to the plans to cover the payments envisaged by the same. The value of

these assets as at 31 December 2016 was euro 0.2 million against euro 0.5 million in December 2015; the difference with respect to the opening balance is due to payments made of euro 1.2 million, and to the sale of assets made to meets the obligations envisaged by the plans of euro 1.5 million. As at 31 December 2016, the assets were wholly represented by liquidity.
For the sake of completeness, note that there are several insurance plans, classified under item "30 Financial assets designated at fair value through profit and loss", the objective of which is to provide the funds needed to pay the indemnities of the plans set in place for several executives (called the "S.I.PRE. plan") and for the chairman, the fair value of which, as at 31 December 2016, totalled euro 0.5 million (around euro 1 million last year).

4. Description of the main actuarial assumptions

	31/12/2016		31/12/2015	
	Internal pension plan	External pension plan	Internal pension plan	External pension plan
Discounting rate	**0.99%**	**0.99%**	**1.42%**	**1.42%**
Inflation rate	**1.50%**	**1.50%**		
2016			1.50%	1.50%
2017			1.80%	1.80%
2018			1.70%	1.70%
2019			1.60%	1.60%
≥ 2020			2.00%	2.00%

With regard to the financial assumptions used to discount company pension plans, refer to the comments contained in "Section 11 - Employee termination indemnities – Item 110" above.

5. Information on the amount, timing and uncertainty of cash flows

As required by IAS 19, we conducted a sensitivity analysis of the obligation relating to pension plans with respect to the actuarial assumption retained to be most significant, with a view to showing how the financial statement liability would change as a result of reasonably possible fluctuations of said actuarial assumptions. More specifically, the following table shows the changes in the pension plans, in the event that the discounting and inflation rates rise or fall by 50 basis points with respect to the parameters actually used; the perimeter of the plans for which sensitivity analyses were carried out shows a book value of euro 90.4 million, representing almost all of the defined benefit plans.

	Change in defined benefit plans in absolute terms (*)	Change in defined benefit plans in percentage terms
discounting rate +0.5%	(4,478)	(4.95%)
discounting rate -0.5%	4,896	5.42%
inflation rate +0.5%	4,474	4.95%
inflation rate -0.5%	(4,128)	(4.57%)

(*) the (+) sign indicates an increase of the indemnity, the (-) sign indicates a decrease of the indemnity

6. Plan relating to several employers

There are no plans of this nature.

7. Defined benefit plans that share the risk between jointly-controlled entities

There are no plans of this nature.

12.4 Provisions for risks and charges – other provisions

For the disclosure relating to provisions for risks and charges - other provisions, please refer to the content of the paragraph above 12.1 "Provisions for risks and charges: breakdown".

Section 13 - Technical reserves – Item 130

The Group does not hold investments in insurance companies included in the scope of consolidation.

Section 14 - Redeemable shares – Item 150

14.1 Redeemable shares: breakdown

The Group did not hold redeemable shares at the date of the financial statements or at 31 December 2015.

Section 15 - Group Shareholders' Equity - Items 140, 160, 170, 180, 190, 200 and 220

15.1 Share capital and treasury shares: breakdown

The share capital as at 31 December 2016 was 7,089.3 million and consisted of 827,760,910 ordinary shares, with no nominal value, fully subscribed and paid up (362,179,606 ordinary shares at the end of 2015).
The item recorded an increase of euro 996.3 compared to the figure as at 31 December 2015, due to the shares subscribed and paid in under the share capital increase approved by the Shareholders' Meeting on 7 May 2016.
The cited share capital transaction also resulting in the charge of Euro 35.2 million to item "170. Reserves", after tax, corresponding to transaction costs minus the proceeds made from the sale of unopted rights (euro 25.4 million is the impact on reserves after the relative tax), in line with the provisions of accounting standard IAS 32.
For further details on the transaction, please refer to the section in this Report on Operations that illustrates the significant events that occurred during the year.

The item "treasury shares" is represented by no. 60,808 shares of the Parent Company, with a book value of 1.6 million.

15.2 Share capital – Number of Parent Company shares: annual changes

	Ordinary	Other
A. Shares issued at the beginning of the year	**362,179,606**	**-**
- fully paid-in	362,179,606	-
- not fully paid-in	-	-
A.1 Treasury shares (-)	(94,936)	-
A.2 Shares issued: opening balance	**362,084,670**	**-**
B. Increases	**465,615,432**	**-**
B.1 New issues	-	-
against payment:	465,581,304	-
- business combinations	-	-
- conversion of bonds	-	-
- exercised warrants	-	-
- other	465,581,304	-
scrip issue:	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sale of treasury shares	34,128	-
B.3 Other increases	-	-
C. Decreases	**-**	**-**
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	-	-
C.3 Business transfers	-	-
C.4 Other decreases	-	-
D. Shares issued: closing balance	**827,700,102**	**-**
D.1 Treasury shares (+)	60,808	-
D.2 Shares issued at the end of the year	827,760,910	-
- fully paid-in	827,760,910	-
- not fully paid-in	-	-

15.3 Share capital: other information

There is no information to report with respect to that illustrated in the previous points of this section.

15.4 Retained earnings: other information

	31/12/2016	31/12/2015
a) Legal reserve	133,402	114,711
b) Statutory reserve	18,884	156
c) Other retained earnings	1,943,360	1,636,189
Total	**2,095,646**	**1,751,056**

15.5 Other information

There is no other information to report with respect to that illustrated in the previous sections.

Section 16 - Minority interests – Item 210

16.1 Breakdown of item 210 "minority interests"

Company name	31/12/2016	31/12/2015
Investments in companies consolidated with significant minority interests	-	-
Other investments	69,568	53,169
Total	**69,568**	**53,169**

Minority interests amount to euro 69.6 million, against euro 53.2 million recorded as at 31 December 2015.
The increase in this item is mainly due to the share capital increase of the subsidiary company Release, in which an 80% stake is held, net of the share of the result pertaining to minority interests in the same company.

16.2 Equity instruments: breakdown and annual changes

There are no financial instruments issued by Group companies which are not fully owned.

Other information

1. Guarantees given and commitments

Transactions	Amount 31/12/2016	Amount 31/12/2015
1) Financial guarantees given	956,230	1,014,837
a) Banks	215,006	177,125
b) Customers	741,224	837,712
2) Commercial guarantees given	3,534,658	3,674,687
a) Banks	266,348	288,979
b) Customers	3,268,310	3,385,708
3) Irrevocable commitments to disburse funds	5,292,842	5,786,087
a) Banks	18,978	50,729
i) certain to be utilised	18,965	49,884
ii) uncertain to be utilised	13	845
b) Customers	5,273,864	5,735,358
i) certain to be utilised	1,933,504	3,051,892
ii) uncertain to be utilised	3,340,360	2,683,466
4) Commitments underlying credit derivatives: protection sales	-	-
5) Assets pledged to secure third party obligations	633	685
6) Other commitments	241,458	831,056
Total	**10,025,821**	**11,307,352**

2. Assets pledged to secure own liabilities and commitments

Portfolios	Amount 31/12/2016	Amount 31/12/2015
1. Financial assets held for trading	511,624	513,489
2. Financial assets designated at fair value through profit and loss	49,578	98,421
3. Financial assets available for sale	4,623,473	5,415,600
4. Investments held to maturity	5,637,184	4,797,752
5. Due from banks	1,089,123	647,940
6. Loans to customers	18,188,378	18,123,719
7. Property and equipment	-	-
Total	**30,099,360**	**29,596,921**

Amounts due to customers to secure own liabilities and commitments include mortgages transferred to the vehicle company BP Covered Bond to guarantee the holders of covered bonds issued by the Parent Company, for a book value of euro 11,480.5 million, as described in detail in paragraph E.4 Banking group - Covered bond transactions contained in Part E - Section 1 of these Notes to the financial statements.

As regards the assets pledged to secure the funding obtained from the ECB, please refer to the content of the notes to the financial statements of the Parent Company. The notes to the financial statements of the Parent Company also illustrate the details of the assets pledged to secure funding transactions, that are not shown elsewhere in the statement of financial position assets (and therefore are not shown in table "2. Assets pledged to secure own liabilities and commitments"). More specifically, this regards securities of securitisation transactions originated by the Group, its own issues of covered bonds repurchased and securities that have become available through loan repurchase agreements.

3. Information on operating leases

There were no material assets or liabilities under operating leases as at 31 December 2016.

4. Breakdown of investments associated with unit-linked and index-linked policies

As at 31 December 2016, the Group did not hold any investments associated with unit or index-linked policies.

5. Management and brokerage on behalf of third parties

Type of service	Amount 31/12/2016
1. Order execution on behalf of customers	
a) purchases	9,019,456
1. settled	8,944,391
2. not settled	75,065
b) sales	10,521,808
1. settled	10,439,749
2. not settled	82,059
2. Portfolio management	
a) Individual	15,714,408
b) Collective	-
3. Custody and safekeeping of securities	
a) third party securities in custody: associated with custodian bank services (excluding portfolio management)	11,749,525
1. securities issued by consolidated companies	190,009
2. other securities	11,559,516
b) third party securities in custody (excluding portfolio management): other	52,553,144
1. securities issued by consolidated companies	18,052,012
2. other securities	34,501,132
c) third party securities deposited with third parties	55,317,865
d) proprietary securities deposited with third parties	24,902,333
4. Other loans	-

The item "portfolio management" represents the total amount, at market value, of assets managed on behalf of other parties, excluding the liquidity component.

The securities under item “custody and safekeeping of securities” are recognised at their nominal value. These exclude the securities under portfolio management pursuant to point 2.

Financial assets and liabilities netted in the statement of financial position or subject to master netting arrangements or similar agreements

This section contains the disclosure required by accounting standard IFRS7 regarding the “netting of financial assets and liabilities” for financial instruments:

- which have been netted in the statement of financial position according to IAS 32;
- which could potentially be netted, in the event of certain conditions, but are shown as open balances on the statement of financial position insofar as regulated by “master netting arrangements or similar agreements” which however do not meet the criteria established by IAS 32 for statement of financial position netting.

When providing disclosure of said arrangements, the standard also requires the effect of real financial collateral (including cash collateral) received and pledged to be considered.

More specifically, the instruments netted in the statement of financial position refer to certain OTC derivatives with the counterparty London Clearing House (CH), for which it was retained that the contractual documentation governing the clearing mechanism with the counterparty complied with the requirements of IAS 32 for netting. The fair value amount netted in this way, illustrated in tables 6. and 7. below, in the columns entitled “Amount of financial liabilities netted in the statement of financial position (b)” and “Amount of financial assets netted in the statement of financial position (b)”,was used to offset the higher positive fair value of derivatives with the same counterparty, corresponding to euro 224.6 million. The net mismatch, which amounts to euro 17.2 million, is therefore recognised under asset item “20. Financial assets held for trading”.
For 31 December 2015, derivatives with a negative fair value with the counterparty LCH, corresponding to euro 76.1 million, previously shown in the column entitled “Related amounts not netted in the statement of financial position (d)”, were offset in the statement of financial position with the higher positive fair value of derivatives with the same counterparty, corresponding to euro 182.6 million. The net mismatch, which amounts to euro 106.5 million, is therefore recognised under asset item “20. Financial assets held for trading”. Further details on the restatements of these balances are provided in Part A - Accounting policies” in these notes to the financial statements, in “Notes for the correct comparison of financial statement schedules and disclosures”.

As regards instruments that could potentially be netted, in the event of certain conditions, and that should be included in tables 6 and 7 below in the columns “Related amounts not netted in the statement of financial position”, the Group has the following arrangements in place:

- for derivative instruments: “ISDA Master Agreement" and netting arrangements with clearing houses;
- for repurchase agreements: “Global Master Repurchase Agreements (GMRA)” and netting arrangements with the “Clearing and Guarantee House (CC&G)”;
- for securities lending transactions: “Global Master Securities Lending Agreements (GMSLA)”.

As regards derivatives, both used for trading and hedging, note that:

- those with a positive fair value total euro 2,022.3 million (shown under items 20 and 80 of assets in the statement of financial position), euro 1,924.9 million of which assisted by netting agreements (95.2% in percentage terms) as indicated in table 6 (column a);
- those with a negative fair value total euro 4,432.6 million (shown under items 40 and 60 of liabilities in the statement of financial position), euro 1,992.3 million of which assisted by netting agreements (45% in percentage terms) as indicated in table 7 (column a). Positions that are not subject to netting arrangements refer mainly to certificates contracts subscribed by customers issued by the subsidiary company Banca Aletti, which as at 31 December 2016, reported a fair value of euro 1,547.7 million.

With regard to securities lending transactions, note that in the following tables 6 and 7 are indicated the transactions that envisage the payment of cash collateral for which the lender has full access to, insofar as these are the only transactions that are shown on the statement of financial position. In order to reconcile the statement of financial position balances of securities lending transactions and repurchase agreements covered by netting arrangements or similar, note that the cited transactions are shown under “Repurchase agreements” shown in correspondence with the tables containing the breakdown of amounts due from and due to banks and customers, depending on the type of counterparty, contained in Part B – Information on the Consolidated Statement of Financial Position. The relative measurement criterion is amortised cost.

For the purpose of completing tables 6. and 7. below, in line with IFRS 7 and with the instructions contained in Circular no. 262, note that:

- the effects of the potential netting of statement of financial position values of financial assets and liabilities are indicated in column (d) “Financial instruments”, together with the fair value of the real financial collateral represented by securities;

- the effects of the potential netting of the exposure with the relative cash collateral are shown in column (e) "Cash deposits received/pledged as collateral".

These effects are calculated for each individual counterpart assisted by a master netting arrangement to the extent of the net exposure indicated in column (c).

Based on the above completion instructions, netting arrangements between financial instruments and the relative financial collateral enable the credit/debt exposure towards the counterparty to be significantly reduced, as indicated in column (f) "Net amount" indicated in tables 6. and 7. below.

6. Financial assets netted in the statement of financial position or subject to master netting arrangements or similar agreements

Type	Gross amount of financial assets (a)	Amount of financial liabilities netted in the statement of financial position (b)	Net amount of financial assets shown on the statement of financial position (c=a-b)	Related amounts not netted in the statement of financial position		Net amount	Net amount
				Financial instruments (d)	Cash deposits received as collateral (e)	31/12/2016 (f=c-d-e)	31/12/2015
1. Derivatives	1,924,915	207,360	1,717,555	1,365,099	346,273	6,183	94,280
2. Repurchase agreements	20,432	-	20,432	20,270	-	162	-
3. Securities lending	1,159,467	-	1,159,467	1,095,626	-	63,841	46,600
4. Other	-	-	-	-	-	-	-
Total 31/12/2016	**3,104,814**	**207,360**	**2,897,454**	**2,480,995**	**346,273**	**70,186**	**X**
Total 31/12/2015 (*)	**9,643,545**	**76,067**	**9,567,478**	**8,996,689**	**429,909**	**X**	**140,880**

(*) The figures for the year have been reclassified to provide a like-for-like comparison.

7. Financial liabilities netted in the statement of financial position or subject to master netting arrangements or similar agreements

Type	Gross amount of financial liabilities (a)	Amount of financial assets netted in the statement of financial position (b)	Net amount of financial liabilities shown on the statement of financial position (c=a-b)	Related amounts not netted in the statement of financial position		Net amount	Net amount
				Financial instruments (d)	Cash deposits used as collateral (e)	31/12/2016 (f=c-d-e)	31/12/2015
1. Derivatives	1,992,921	207,360	1,785,561	1,365,099	303,124	117,338	4,330
2. Repurchase agreements	-	-	-	-	-	-	-
3. Securities lending	558,032	-	558,032	531,485	-	26,547	9,645
4. Other loans	-	-	-	-	-	-	-
Total 31/12/2016	**2,550,953**	**207,360**	**2,343,593**	**1,896,584**	**303,124**	**143,885**	**X**
Total 31/12/2015 (*)	**12,136,359**	**76,067**	**12,060,292**	**11,117,791**	**928,526**	**X**	**13,975**

(*) The figures for the year have been reclassified to provide a like-for-like comparison.

8. Securities lending transactions

The following table shows the Group's securities lending transactions (active and passive), broken down by type of security (government securities, bank securities, other), by market counterparty (banks, financial intermediaries, customers), by the relative category (loan guaranteed by cash or by other securities).
These transactions are mostly performed by the Group company Banca Aletti: the securities borrowed, are usually used in mirror securities lending transactions (where the Group acts as lender) or as the underlying instruments of repurchase funding agreements.
Note that securities lending transactions that envisage the payment of cash collateral for which the lender has full access to, are recognised in the statement of financial position under due to/from banks or customers, in correspondence with the "repurchase agreement" category. Securities lending transactions whose collateral is represented by other securities or by cash which is not fully available to the lender, are not stated in the statement of financial position, but are shown under off-balance sheet exposures, for the relative counterparty risk.

The following table provides an indication of the loans and debts recognised in the financial statements as at 31 December 2016 against securities received and given as loans with collateral in the form of cash; the transactions that are not represented in the statement of financial position, as illustrated in the paragraph above, are shown at the fair value of the securities received or lent.

Type of securities lending transaction	Type of security		
	Government securities	Bank securities	Other securities
Securities received as a loan with collateral in the form of cash - Due from:			
a) Banks	50,874	4,769	99,702
b) Financial intermediaries	785,220	27,471	191,431
Total amount receivable for securities lending	**836,094**	**32,240**	**291,133**
Securities received as a loan with collateral in the form of securities or cash that is not available to the lender from:			
b) Financial intermediaries	-	-	-
c) Customers	24,273	1,289	2,696
Total (fair value)	**24,273**	**1,289**	**2,696**
Securities loaned with collateral in the form of cash - Due to:			
a) Banks	321,748	63,557	116,247
b) Financial intermediaries	-	5,302	51,178
c) Customers	-	-	-
Total amount payable for securities lending	**321,748**	**68,859**	**167,425**
Securities loaned with collateral in the form of securities to:			
a) Banks	320,403	11,208	12,036
b) Financial intermediaries	-	-	64,203
c) Customers	-	-	-
Total (fair value)	**320,403**	**11,208**	**76,239**

9. Disclosure on jointly controlled operations

As at the date of the financial statements, like last year, there are no arrangements in force that can be classified as “joint operations” under accounting standard IFRS 11, on the basis of which the parties which have joint control have rights to the assets and obligations on the liabilities relating to the arrangement.

PART C - INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

Section 1 - Interest – Items 10 and 20

1.1 Interest and similar income: breakdown

Item/Type	Debt securities	Loans	Other transactions	Total 2016	Total 2015
1. Financial assets held for trading	45,557	-	77,070	122,627	167,651
2. Financial assets designated at fair value through profit and loss	(717)	-	-	(717)	717
3. Financial assets available for sale	326,480	-	-	326,480	347,998
4. Investments held to maturity	170,324	-	-	170,324	148,159
5. Due from banks	4,353	25,765	400	30,518	51,645
6. Loans to customers	4,698	1,629,098	2,816	1,636,612	2,011,683
7. Hedging derivatives	X	X	-	-	30,030
8. Other assets	X	X	39,575	39,575	20,809
Total	**550,695**	**1,654,863**	**119,861**	**2,325,419**	**2,778,692**

The item “financial assets held for trading - other transactions” includes the spreads or the positive margins on derivative contracts operationally related to financial assets and liabilities designated at fair value through profit and loss (fair value option), as well as those operationally related to financial assets and liabilities held in the trading portfolio.
Financial assets designated at fair value through profit and loss show a negative balance as the interest income accrued and not yet collected on a debt security was written down.

	Total 2016	Total 2015
Interest on performing loans	2,065,273	2,431,049
Interest on loans classified as “non-performing"	260,146	347,643
Total	**2,325,419**	**2,778,692**

1.2 Interest and similar income: differences relating to hedging transactions

Items	2016	2015
A. Positive differences relating to hedging transactions	59,624	99,050
B. Negative differences relating to hedging transactions	(59,624)	(69,020)
C. Balance (A-B)	**-**	**30,030**

In 2016, unlike in 2015, the balance of differences is negative; therefore please refer to the table provided in point 1.5.

1.3 Interest and similar income: other information

1.3.1 Interest income on currency financial assets

Items	2016	2015
Interest income on currency financial assets	26,688	25,620

1.3.2 Interest income on financial lease transactions

Items	2016	2015
Interest income on financial lease transactions	39,952	55,651

1.4 Interest and similar expense: breakdown

Item/Type	Debts	Securities	Other transactions	Total 2016	Total 2015
1. Due to central banks	(4,865)	X	-	(4,865)	(9,537)
2. Due to banks	(27,486)	X	(36,110)	(63,596)	(91,242)
3. Due to customers	(111,047)	X	(555)	(111,602)	(163,655)
4. Debt securities issued	X	(583,846)	-	(583,846)	(529,682)
5. Financial liabilities held for trading	(27,990)	-	(125)	(28,115)	(219)
6. Financial liabilities designated at fair value through profit and loss	-	(154,577)	-	(154,577)	(405,137)
7. Other liabilities and funds	X	X	(31,284)	(31,284)	(8,034)
8. Hedging derivatives	X	X	(28,277)	(28,277)	-
Total	**(171,388)**	**(738,423)**	**(96,351)**	**(1,006,162)**	**(1,207,506)**

1.5 Interest and similar expense: differences relating to hedging transactions

Items	2016	2015
A. Positive differences relating to hedging transactions	131,931	111,936
B. Negative differences relating to hedging transactions	(160,208)	(111,936)
C. Balance (A-B)	**(28,277)**	**-**

1.6 Interest and similar expense: other information

1.6.1 Interest expense on currency liabilities

Items	2016	2015
Interest expense on financial currency liabilities	(5,476)	(4,911)

1.6.2 Interest expense on currency liabilities for financial lease transactions

The case in point is not present for the Group, in 2016 or in 2015; therefore, this table is omitted.

Section 2 - Net fee and commission income and expense – Items 40 and 50

2.1 Fee and commission income: breakdown

Type of service/Amounts	Total 2016	Total 2015
a) guarantees given	53,426	52,094
b) credit derivatives	-	-
c) management, brokerage and advisory services	643,236	749,606
1. financial instrument trading	11,113	14,133
2. currency trading	3,022	3,020
3. portfolio management	191,826	195,758
3.1 individual	30,046	34,698
3.2 collective	161,780	161,060
4. custody and safekeeping of securities	4,877	5,765
5. custodian bank	18,187	17,299
6. placement of securities	196,110	235,940
7. receiving and sending orders	38,623	49,315
8. advisory activities	1,382	1,386
8.1 on investments	1,382	1,386
8.2 on financial structure	-	-
9. distribution of third party services	178,096	226,990
9.1 portfolio management	797	1,558
9.1.1 individual	-	-
9.1.2 collective	797	1,558
9.2 insurance products	95,152	132,572
9.3 other products	82,147	92,860
d) collection and payment services	119,908	127,329
e) servicing for securitisation transactions	50	302
f) services for factoring transactions	-	-
g) tax office services	-	-
h) activities for the management of multilateral exchange systems	-	-
i) maintenance and management of current accounts	218,161	190,536
j) other services	368,014	378,599
Total	**1,402,795**	**1,498,466**

Euro 167.4 million of sub-item c) 6. “placement of securities” refers to commission income for the placement of UCIT units (euro 231.8 million in 2015), mostly related to products managed by the Group company Aletti Gestielle SGR (euro 111.7 million as at 31 December 2016; euro 122.3 million last year).

The sub-item j) “other services” includes commissions relating to cashpoint and credit card services of euro 44.2 million (euro 50.3 million as at 31 December 2015), the consideration for making funds available (Consideration for Credit Availability) of euro 247.4 million (euro 262.3 million in the previous year) and fee and commission income on loans to customers of euro 42.9 million (euro 44.1 million in 2015).

2.2 Fee and commission expense: breakdown

Service/Amounts	Total 2016	Total 2015
a) guarantees received	(2,658)	(1,697)
b) credit derivatives	-	-
c) management and brokerage services:	(51,307)	(40,481)
1. financial instrument trading	(8,141)	(10,318)
2. currency trading	(42)	-
3. portfolio management:	-	-
3.1 own	-	-
3.2 delegated by third parties	-	-
4. custody and safekeeping of securities	(5,711)	(5,566)
5. placement of financial instruments	(35,465)	(22,545)
6. door-to-door sales of financial instruments, products and services	(1,948)	(2,052)
d) collection and payment services	(7,206)	(7,156)
e) other services	(23,466)	(23,722)
Total	**(84,637)**	**(73,056)**

Sub-item c) 5. “placement of financial instruments” refers to commission expense paid to third party networks for the placement of UCIT units, mostly related to products managed by the Group company Aletti Gestielle SGR.

The sub-item e) “other services” includes commissions relating to cashpoint and credit card services of euro 14.8 million (euro 16.2 million as at 31 December 2015).

Section 3 - Dividends and similar income – Item 70

3.1 Dividends and similar income: breakdown

Item/Income	Total 2016		Total 2015	
	Dividends	Income from UCIT units	Dividends	Income from UCIT units
A. Financial assets held for trading	11,688	88	16,273	305
B. Financial assets available for sale	11,297	518	11,096	3,498
C. Financial assets designated at fair value through profit and loss	-	62	-	29
D. Investments in associates and companies subject to joint control	-	X	-	X
Total	**22,985**	**668**	**27,369**	**3,832**

Section 4 - Profits (losses) on trading – Item 80

4.1 Profits (losses) on trading: breakdown

Transactions/Income item	Capital gains (A)	Profits on trading (B)	Capital losses (C)	Losses on trading (D)	Net income (loss) [(A+B) - (C+D)] 2016
1. Financial assets held for trading	**28,517**	**58,999**	**(22,165)**	**(106,592)**	**(41,241)**
1.1 Debt securities	10,263	45,068	(16,783)	(29,363)	9,185
1.2 Equity instruments	16,298	12,384	(5,382)	(75,567)	(52,267)
1.3 UCIT units	1,956	88	-	(1,600)	444
1.4 Loans	-	-	-	-	-
1.5 Other	-	1,459	-	(62)	1,397
2. Financial liabilities held for trading	**45,928**	**15,279**	**(59,222)**	**(14,028)**	**(12,043)**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	9,909	8,492	(1,399)	(7,131)	9,871
2.3 Other	36,019	6,787	(57,823)	(6,897)	(21,914)
3. Other financial assets and liabilities: exchange rate differences	**X**	**X**	**X**	**X**	**37,608**
4. Derivatives	**1,504,423**	**3,382,686**	**(1,598,688)**	**(3,186,224)**	**76,111**
4.1 Financial derivatives:	1,499,846	3,380,622	(1,598,194)	(3,178,424)	77,764
- On debt securities and interest rates	1,041,956	2,527,903	(1,182,601)	(2,324,035)	63,223
- On equity instruments and share indices	447,220	852,712	(415,593)	(853,871)	30,468
- On currencies and gold	X	X	X	X	(26,086)
- Other	10,670	7	-	(518)	10,159
4.2 Credit derivatives	4,577	2,064	(494)	(7,800)	(1,653)
Total	**1,578,868**	**3,456,964**	**(1,680,075)**	**(3,306,844)**	**60,435**

Section 5 - Fair value adjustments in hedge accounting – Item 90

5.1 Fair value adjustments in hedge accounting: breakdown

Income item/Amounts	Total 2016	Total 2015
A. Revenues relating to:		
A.1 Fair value hedging derivatives	78,392	86,072
A.2 Hedged financial assets (fair value)	539,105	569,008
A.3 Hedged financial liabilities (fair value)	151,685	49,089
A.4 Financial hedging derivatives of the financial flows	337	-
A.5 Assets and liabilities in foreign currency	508	-
Total revenues of hedging activities (A)	**770,027**	**704,169**
B. Expenses relating to:		
B.1 Fair value hedging derivatives	(509,290)	(381,684)
B.2 Hedged financial assets (fair value)	(167,714)	(242,207)
B.3 Hedged financial liabilities (fair value)	(91,729)	(78,851)
B.4 Financial hedging derivatives of the financial flows	-	-
B.5 Assets and liabilities in foreign currency	(507)	-
Total hedging expense (B)	**(769,240)**	**(702,742)**
C. Fair value adjustments in hedge accounting (A-B)	**787**	**1,427**

Section 6 - Profits (losses) on disposal/repurchase – Item 100

6.1 Profits (losses) on disposal/repurchase: breakdown

Item/Income item	Total 2016			Total 2015		
	Profits	Losses	Net income (loss)	Profits	Losses	Net income (loss)
Financial assets						
1. Due from banks	8	-	8	142	(1)	141
2. Loans to customers	48,275	(140,723)	(92,448)	50,605	(13,060)	37,545
3. Financial assets available for sale	131,873	(709)	131,164	346,151	(4,795)	341,356
3.1 Debt securities	87,931	(703)	87,228	64,708	(4,788)	59,920
3.2 Equity instruments	26,368	(6)	26,362	243,463	(7)	243,456
3.3 UCIT units	17,574	-	17,574	37,980	-	37,980
3.4 Loans	-	-	-	-	-	-
4. Investments held to maturity	-	-	-	-	-	-
Total assets	**180,156**	**(141,432)**	**38,724**	**396,898**	**(17,856)**	**379,042**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	(5,347)	(5,347)	-	-	-
3. Debt securities issued	23,441	(20,512)	2,929	27,930	(28,118)	(188)
Total liabilities	**23,441**	**(25,859)**	**(2,418)**	**27,930**	**(28,118)**	**(188)**

Item 2. Loans to customers refers to the impact of the assignment without recourse of portfolios of non-performing loans to third parties completed during the year mainly by the Parent Company.
Profits on disposal of financial assets available for sale deriving from debt securities mainly refer to Italian Government bonds. The portion relating to equity instruments includes a profit of euro 25.3 million resulting from the earn-out for the sale of an investment held in the Istituto Centrale delle Banche Popolari Italiane, the sale was completed in 2015. Net income from equity instruments last year included gains made on the sale of ICBPI and Arca SGR for 241.2 million.

Section 7 - Profits (losses) on financial assets and liabilities designated at fair value through profit and loss – Item 110

7.1 Net change in value of financial assets/liabilities designated at fair value through profit and loss: breakdown

Transactions/Income item	Capital gains	Profits on disposal	Capital losses	Losses on disposal	Net income (loss) [(A+B) – (C+D)]
	(A)	(B)	(C)	(D)	2016
1. Financial assets	**30**	**14**	**(13,703)**	**(1,171)**	**(14,830)**
1.1 Debt securities	-	-	(12,862)	-	(12,862)
1.2 Equity instruments	9	-	(687)	(9)	(687)
1.3 UCIT units	21	14	(154)	(1,162)	(1,281)
1.4 Loans	-	-	-	-	-
2. Financial liabilities	**55,054**	**23,290**	**(15,012)**	**(3,483)**	**59,849**
2.1 Debt securities	55,054	23,290	(15,012)	(3,483)	59,849
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities in foreign currency: exchange rate differences	**X**	**X**	**X**	**X**	**-**
4. Credit and financial derivatives	**-**	**3,841**	**(56,579)**	**(2,541)**	**(55,279)**
Total	**55,084**	**27,145**	**(85,294)**	**(7,195)**	**(10,260)**

This item includes the net result of bonds for which the fair value option was used, in the same way as the result of their hedging derivatives. In this case, the use of the fair value option has satisfied the need to reduce the accounting asymmetry which would otherwise result from assessing the financial liabilities issued at amortised cost and the related hedging derivatives at fair value.
The impact resulting from changes to the fair value of the financial liabilities in question also includes the effects of changes to its own creditworthiness. Given that the creditworthiness of Banco Popolare has deteriorated since the beginning of the year, this has led to the recognition of a positive impact totalling euro 5.9 million in the income statement item in question. For further details, reference is made to section 5 of liabilities in the statement of financial position of these notes to the financial statements, in relation to "Financial liabilities designated at fair value through profit and loss".

Section 8 - Net losses/recoveries on impairment – Item 130

8.1 Net losses on impairment of loans: breakdown

Transactions/Income item	Value adjustments			Recoveries				Total	
	Specific		Collective	Specific		Collective		2016	2015
	Write-offs	Other		A	B	A	B		
A. Due from banks	-	-	-	-	51	-	-	51	(20,235)
- Loans	-	-	-	-	51	-	-	51	(236)
- Debt securities	-	-	-	-	-	-	-	-	(19,999)
B. Loans to customers	(855,465)	(2,247,347)	(76,135)	293,753	367,372	-	75,972	(2,441,850)	(866,381)
Non-performing loans purchased	-	-		-	-			-	-
- Loans	-	-	X	-	-	X	X	-	-
- Debt securities	-	-	X	-	-	X	X	-	-
Other loans	(855,465)	(2,247,347)	(76,135)	293,753	367,372	-	75,972	(2,441,850)	(866,381)
- Loans	(855,465)	(2,247,347)	(71,747)	293,753	367,372	-	75,972	(2,437,462)	(862,368)
- Debt securities	-	-	(4,388)	-	-	-	-	(4,388)	(4,013)
C. Total	**(855,465)**	**(2,247,347)**	**(76,135)**	**293,753**	**367,423**	**-**	**75,972**	**(2,441,799)**	**(886,616)**

Key:
A = From interest
B = Other recoveries

Value adjustments on the portfolio of debt securities recognised in sub-item B. Loans to customers refer to the write-down of the junior security relating to the securitisation of Banca della Nuova Terra in line with last year.
Value adjustments relating to sub-item B Loans to customers, "Recoveries Specific B - Other Recoveries" include the impact resulting from the recovery (due to the simple passing of time, etc.) of the effects of the discounting process of non-performing loans (mainly bad loans) and refer mainly to the Parent Company for euro 275.8 million.
Last year value adjustments on debt securities recognised in sub-item A. Due from banks referred to the effects of the total write-off of the remaining exposures held by the Parent Company in Banca delle Marche.

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

Transactions/Income item	Value adjustments		Recoveries		Total 2016	Total 2015
	Specific		Specific			
	Write-offs	Other	A	B		
A. Debt securities	-	(395)	-	-	(395)	(613)
B. Equity instruments	-	(17,589)	-	-	(17,589)	(24,268)
C. UCIT units	-	(23,174)	x	x	(23,174)	(2,334)
D. Loans to banks	-	-	x	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	**-**	**(41,158)**	**-**	**-**	**(41,158)**	**(27,215)**

Key:
A = From interest
B = Other recoveries

For details of financial assets subject to impairment, please refer to "Section 4 - Financial assets available for sale" in Part B of these notes to the consolidated financial statements.

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

In 2016 and in the previous year, there were no value adjustments to investments held to maturity.

8.4 Net losses on impairment of other financial transactions: breakdown

Transactions/Income item	Value adjustments			Recoveries				Total	
	Specific		Collective	Specific		Collective		2016	2015
	Write-offs	Other		A	B	A	B		
A. Guarantees given	(27)	(34,160)	-	-	24,151	-	5,004	(5,032)	24,904
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	-	-	-	-	-	-	-
D. Other transactions	-	(2,250)	-	-	2,558	-	-	308	(31,844)
E. Total	**(27)**	**(36,410)**	**-**	**-**	**26,709**	**-**	**5,004**	**(4,724)**	**(6,940)**

Key:
A = From interest
B = Other recoveries

Item A. Guarantees given mainly refers to net adjustments made against the aggregate of non-performing unsecured loans. Unsecured loans and irrevocable commitments to disburse funds to performing counterparties were subject to valuation on a collective basis in order to reflect the probability of an outlay of financial resources based on similar portfolios, in line with the calculation methodology for collective value adjustments on cash exposures.

Last year item D. Other transactions included the write-down of the unrecoverable portion of the coupons matured but not yet collected and the principal of the securities resulting from a securitisation transaction that had matured.

Section 9 - Net premiums – Item 150

This item is not considered relevant for the Group.

Section 10 - Net other income and expense from insurance activities – Item 160

This item is not considered relevant for the Group.

Section 11 - Administrative expenses – Item 180

11.1 Personnel expenses: breakdown

Type of expense/Amounts	Total 2016	Total 2015
1) Employees	**(1,447,230)**	**(1,402,663)**
a) wages and salaries	(888,523)	(930,915)
b) social security contributions	(228,244)	(246,244)
c) employee termination indemnities	(49,507)	(49,715)
d) social security expenditure	(468)	(239)
e) provision to employee termination indemnities	(4,366)	(4,890)
f) provision to pension fund and similar commitments:	(8,332)	(8,355)
- defined contribution	(7,344)	(7,338)
- defined benefit	(988)	(1,017)
g) payments to external supplementary pension plans:	(24,418)	(24,544)
- defined contribution	(24,410)	(24,544)
- defined benefit	(8)	-
h) costs deriving from payment agreements based on own equity instruments	-	-
i) other employee benefits	(243,372)	(137,761)
2) Other personnel in service	**(6,425)**	**(9,757)**
3) Directors and auditors	**(10,271)**	**(10,792)**
4) Retired personnel	**-**	**(160)**
Total	**(1,463,926)**	**(1,423,372)**

"1) Employees f) provision to pension fund and similar commitments: - defined contribution" refers to the share of the contribution paid by the Group of the funds classified under memorandum accounts, and be longer recognised in the financial statements under provisions for risks and charges.

11.2 Average number of employees by category

	2016	2015
Employees	16,504	16,806
a) executives	259	272
b) total middle managers	6,790	7,042
of which: 3rd and 4th level	3,606	3,600
c) other employees	9,455	9,492
Other personnel	122	166
Average number of personnel	**16,626**	**16,972**

The average number of employees does not include directors and auditors. In the case of part-time employees, it is conventionally considered to be 70 percent.

11.3 Defined benefit company retirement plans: costs and revenues

	Total 2016	Total 2015
- Pension cost associated with current service	(45)	(65)
- Financial charges	(958)	(952)
- Expected rate of return on plan assets	-	-
- Actuarial gains and losses	-	-
- Pension cost associated with past service	-	-
- Gains and losses from impairments or settlements	15	-
Total	**(988)**	**(1,017)**

11.4 Other employee benefits

The item related to other employee benefits is indicated in the previous table 11.1, point "i) other employee benefits" of euro 243.4 million, whereas the corresponding amount in 2015 was euro 137.8 million. This amount refers to contributions to canteen expenses, costs for insurance policies taken out in favour of employees, costs for employee professional refresher courses and loyalty bonuses, as well as the cost of leaving incentives provided during the year totalling euro 198.6 million (euro 94.6 million last year).

11.5 Other administrative expenses: breakdown

Type of service/Amounts	Total 2016	Total 2015
a) Expenses relating to real estate	(171,227)	(184,667)
- rentals and maintenance of premises	(138,398)	(146,516)
- cleaning expenses	(9,446)	(10,230)
- energy, water and heating	(23,383)	(27,921)
b) Indirect taxes and duties	(240,273)	(251,798)
c) Postal charges, telephone charges, printed materials and other office expenses	(28,641)	(31,106)
d) Maintenance and rentals for furniture, machines and plants	(35,535)	(27,871)
e) Professional and consulting services	(108,942)	(89,679)
f) Fees for surveys and information	(11,350)	(11,089)
g) Value supervision and escorting	(12,945)	(12,396)
h) Services from third parties	(147,552)	(141,362)
i) Advertising, representation and gifts	(22,654)	(23,510)
l) Insurance premiums	(12,846)	(13,915)
m) Transport, hiring and travel	(19,835)	(30,010)
n) Other costs and sundry expenses	(256,033)	(212,716)
Total	**(1,067,833)**	**(1,030,119)**

Item n) Other costs and sundry expenses as at 31 December 2016 includes the expenses incurred for the Interbank Deposit Guarantee Fund of euro 22.3 million (euro 10.3 million last year), and for the National Resolution Fund, both the ordinary contribution of euro 44.3 million and the extraordinary contribution of euro 88.8 million (in 2015, these were euro 38.0 million and 113.9 million respectively), as well as the expenses for maintaining the deductibility of DTA for 2015 and 2016 for a total of euro 54.4 million, which were not due last year.

Section 12 - Net provisions for risks and charges – Item 190

12.1 Net provisions for risks and charges: breakdown

	Provisions	Reallocation of surpluses	Total 2016	Total 2015
Risks and charges for legal disputes	(27,023)	17,407	(9,616)	(2,487)
Personnel risks and charges	-	-	-	-
Other risks and charges	(25,002)	1,350	(23,652)	(74,104)
Total	**(52,025)**	**18,757**	**(33,268)**	**(76,591)**

The provisions are mostly represented by the estimated expenses of legal disputes underway.
Last year the sub-item "Other risks and charges" included the provision for expenses relating to branch closures of euro 4.3 million and provisions for the unsuccessful outcome of tax disputes relating to previous years of euro 40.8 million.

Section 13 - Net value adjustments to/recoveries on property and equipment – Item 200

13.1 Net value adjustments to property and equipment: breakdown

Asset/Income item	Depreciation (a)	Losses on impairment (b)	Recoveries (c)	Net income (loss) (a + b + c) 2016
A. Property and equipment				
A.1 Owned	(68,705)	(32,410)	737	(100,378)
- Used in operations	(45,771)	-	-	(45,771)
- For investment	(22,934)	(32,410)	737	(54,607)
A.2 Acquired under financial lease	(2,242)	-	-	(2,242)
- Used in operations	-	-	-	-
- For investment	(2,242)	-	-	(2,242)
Total	**(70,947)**	**(32,410)**	**737**	**(102,620)**

Section 14 - Net value adjustments to/recoveries on intangible assets – Item 210

14.1 Net value adjustments to intangible assets: breakdown

Asset/Income item	Amortisation (a)	Losses on impairment (b)	Recoveries (c)	Net income (loss) (a + b + c) 2016
A. Intangible assets				
A.1 Owned	(76,596)	-	-	(76,596)
- Internally generated	-	-	-	-
- Other	(76,596)	-	-	(76,596)
A.2 Acquired under financial lease	-	-	-	-
Total	**(76,596)**	**-**	**-**	**(76,596)**

Section 15 - Other operating expenses and income – Item 220

15.1 Other operating expenses: breakdown

	Total 2016	Total 2015
Expenses on leased assets	(10,957)	(15,483)
Depreciation of expenses for leasehold improvements	(8,020)	(8,809)
Other	(43,337)	(50,756)
Total	**(62,314)**	**(75,048)**

The item “Other” includes the costs of legal settlements that exceed the provisions for risks allocated of euro 26.3 million (euro 26.1 million last year), operating losses relating to the management of branches (robberies, fraud, theft and other damages) of euro 5.2 million (euro 7.0 million in 2015), out of period expenses and other amounts, as well as costs regarding receivables assigned without recourse or whose risks and benefits were transferred from the former Banca Italease to Alba Leasing. Said costs were promptly re-charged (with other operating income) to the above company.
Last year, this item also included the cost relating to the revision of a rental contract on an owned property of euro 9.9 million.

15.2 Other operating income: breakdown

	Total 2016	Total 2015
Income on current accounts and loans	45,813	51,773
Tax recovery	170,634	177,283
Recovery of expenses	38,708	37,738
Rents receivable on real estate	56,724	55,905
Other	75,570	117,046
Total	**387,449**	**439,745**

The sub-item "income on current accounts and loans" refers to the "commissione di istruttoria veloce" (fast track fee) introduced by Italian Decree Law no. 201 of 6 December 2011, converted by Italian Law no. 214/2011.
Recovery of expenses mainly includes the recovery of legal expenses of euro 24.6 million (euro 27.4 million in the previous year) and recoveries of personnel expenses of euro 9.2 million (euro 5.5 million in 2015).
The sub-item "Other" includes net income relating to leasing and the relative chargeback of the costs incurred with regard to the receivables assigned without recourse or whose risks and benefits were transferred to Alba Leasing. Last year it included out-of-period income recorded following the collection of amounts resulting from various settlements and recoveries of around euro 23 million, plus net income of around euro 25 million following the recognition of receivables resulting from the closure of a securitisation transaction that had reached its natural maturity.

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

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

Income item/Sector	Total 2016	Total 2015
1) Jointly controlled companies		
A. Income	-	-
1. Revaluations	-	-
2. Profits on disposal	-	-
3. Recoveries	-	-
4. Other income	-	-
B. Expenses	-	-
1. Write-downs	-	-
2. Losses on impairment	-	-
3. Losses on disposal	-	-
4. Other expenses	-	-
Net Income (Loss)	-	-
2) Companies subject to significant influence		
A. Income	124,620	141,541
1. Revaluations	124,620	141,541
2. Profits on disposal	-	-
3. Recoveries	-	-
4. Other income	-	-
B. Expenses	(374)	(200)
1. Write-downs	(73)	(62)
2. Losses on impairment	-	-
3. Losses on disposal	(301)	-
4. Other expenses	-	(138)
Net Income (Loss)	**124,246**	**141,341**
Total	**124,246**	**141,341**

The items Revaluations and Write-downs include profits and losses deriving from the measurement at equity of investments subject to joint control and significant influence. More specifically, they refer to Popolare Vita for euro 19.7 million, Agos Ducato for euro 90.0 million, Avipop Assicurazioni for euro 11.1 million, Energreen for euro 1.1 million and Alba Leasing for euro 1.8 million.

Section 17 - Profit (loss) designated at fair value on property and equipment and intangible assets – Item 250

17.1 Profit (loss) designated at fair value (or revalued value) on property and equipment and intangible assets: breakdown

The Group does not hold property and equipment or intangible assets designated at fair value through profit and loss or revalued.

Section 18 – Value adjustments on goodwill – Item 260

18.1 Value adjustments on goodwill: breakdown

The results of tests on the recoverability of the goodwill recorded in the financial statements did not result in value adjustments of euro 279 million.

For a description of how impairment testing on goodwill is conducted, please refer to the content of Section 13 – Intangible assets, in part B of these notes to the consolidated financial statements.
Please refer to the content of Part A – Accounting policies for a description of the way in which losses on impairment of goodwill is calculated.

Section 19 - Profits (losses) on disposal of investments – Item 270

19.1 Profits (losses) on disposal of investments: breakdown

Income component/Amounts	Total 2016	Total 2015
A. Properties	15,667	(2,706)
- Profits on disposal	16,987	2,199
- Losses on disposal	(1,320)	(4,905)
B. Other assets	1,665	(1,556)
- Profits on disposal	2,195	338
- Losses on disposal	(530)	(1,894)
Net income (loss)	**17,332**	**(4,262)**

The gains on disposal of "Other assets" refer mainly to the disposals during the year of assets deriving from financial lease, relating to the sub-group Italease.

Section 20 - Taxes on income from continuing operations – Item 290

20.1 Taxes on income from continuing operations: breakdown

Income item/Sector	2016	2015
1. Current taxes (-)	(24,770)	(89,207)
2. Change in current taxes of prior periods (+/-)	(9,702)	3,063
3. Decreases in current taxes for the year (+)	-	32,078
3.bis Decreases in current taxes for the year due to tax credit pursuant to Law 214/2011 (+)	6,029	804,661
4. Change in deferred tax assets (+/-)	602,281	(713,645)
5. Change in deferred tax liabilities (+/-)	15,005	31,944
6. Income taxes for the period (-) (-1 +/- 2 + 3 + 3.bis +/- 4 +/- 5)	**588,843**	**68,894**

Taxes for the year mostly refer to deferred tax assets on the tax loss of the Parent Group, which will be offset against expected future taxable income.

The income statement for the year instead had benefited from the tax asset deriving from the prior tax losses of the subsidiary Banca Italease, incorporated in the first quarter of 2015, for a total of euro 85.1 million.

20.2 Reconciliation between theoretical tax expense and actual tax expense of the financial statements

IRES	2016		2015	
Income (loss) before tax from continuing operations		**(2,295,875)**		**349,775**
Negative components of gross profit definitively not relevant (+)		**505,891**		**177,465**
Non-deductible interest expense	50,203		61,312	
Losses on disposal/measurement of investments / AFS	31,731		28,483	
Non-deductible taxes other than income taxes	21,863		21,894	
Losses on non-deductible receivables	3,380		1,125	
Administrative expenses with limited deductibility	6,245		9,702	
Other non-deductible expenses	41,157		32,893	
Impairment of goodwill	279,000		-	
Losses of companies abroad	2,347		2,364	
Impact of consolidation of infragroup investments in associates and companies subject to joint control	21,878		-	
Provisions	21,650		11,473	
Other	26,437		8,219	
Positive components of gross profit definitively not relevant (-)		**(155,182)**		**(383,455)**
Not relevant portion of gains on disposal/measurement of investments/AFS	(163,800)		(368,845)	
Non-relevant portion of dividends before consolidation entries	(335,319)		(149,777)	
Cancellation of infragroup dividends	346,452		150,721	
Impact of consolidation of infragroup investments in associates and companies subject to joint control	-		(10,823)	
Other	(2,515)		(4,731)	
Final increases not related to gross profit components (+)		**1,033**		**1,458**
Other	1,033		1,458	
Final decreases not related to gross profit components (-)		**(226,951)**		**(333,121)**
Recovery of infragroup interest expense deductibility for tax consolidation scheme	(9,005)		(10,875)	
Lump-sum deduction of 10% IRAP and IRAP deduction on employee costs	(1,437)		(9,164)	
Share of income subsidisable for ACE (Aid for Economic Growth)	(192,886)		(169,594)	
Tax losses of previous years	-		(141,008)	
Other	(23,623)		(2,480)	
IRES calculation base to income statement		**(2,171,084)**		**(187,878)**
IRES nominal rate	27.50%		27.50%	
Actual IRES		**597,048**		**51,666**
IRES tax rate		**(26.01%)**		**14.77%**

IRAP	2016		2015 (*)	
Income (loss) before tax from continuing operations		**(2,295,875)**		**349,775**
Negative components of gross profit definitively not relevant (+)		**822,615**		**563,366**
Non-deductible interest expense	56,630		62,183	
Non-deductible portion of depreciation on assets used in operations	34,227		53,188	
Other non-deductible administrative expenses	157,950		139,431	
Personnel expenses net of allowed deductions (decrease in tax wedge, the disabled, etc.)	150,227		123,583	
Other value adjustments pursuant to item 130 Income Statement	20,242		53,394	
Net provisions for risks and charges	60,705		83,968	
Other operating expenses	7,811		170	
Losses on investments in associates and companies subject to joint control	-		5,552	
Non-relevant losses on the disposal of investments	-		4	
Impairment of goodwill	279,000		-	
Losses of companies abroad	2,347		2,364	
Impact of consolidation of infragroup investments in associates and companies subject to joint control	45,711		-	
Other	7,765		39,529	
Positive components of gross profit definitively not relevant (-)		**(56,989)**		**(230,700)**
Profits on investments in associates and companies subject to joint control	(144,093)		(141,479)	
Non-relevant portion of dividends before consolidation entries	(184,437)		(89,058)	
Cancellation of infragroup dividends	346,452		150,721	
Other operating income	(48,066)		(87,417)	
Non-relevant profits on disposal of investments	-		(238)	
Impact of consolidation of infragroup investments in associates and companies subject to joint control	-		(14,517)	
Other	(26,845)		(48,712)	
Final increases not related to gross profit components (+)		**1,802,059**		**65,350**
Adjustments to neutralise negative value of production	1,802,059		65,350	
Final decreases not related to gross profit components (-)		**(399)**		**(323,426)**
Other	(399)		(323,426)	
IRAP calculation base to income statement		**271,411**		**424,365**
IRAP weighted average nominal rate	5.19%		5.36%	
Actual IRAP		**(14,086)**		**(22,746)**
IRAP tax rate		**0.61%**		**(6.50%)**

(*) The figures for the year have been reclassified to provide a like-for-like comparison.

Non-relevant IRES and IRAP and other taxes	2016		2015 (*)	
Total impact		**5,881**		**39,974**
IRES - Current, pre-paid and deferred taxation of prior periods	7,167		40,666	
IRAP - Current, pre-paid and deferred taxation of prior periods	(855)		306	
Foreign taxes	(431)		(998)	
Non-relevant IRES and IRAP tax rate and other taxes		**(0.26%)**		**11.43%**

(*) The figures for the year have been reclassified to provide a like-for-like comparison.

Total taxes on gross profit	2016	2015
Total IRES + IRAP + Other taxes	**588,843**	**68,894**
Overall tax rate	**(25.65%)**	**19.70%**

Section 21 - Income (loss) after tax from discontinued operations – Item 310

21.1 Income (loss) after tax from discontinued operations: breakdown

Income item/Sector	Total 2016	Total 2015
1. Income	3,608	9,805
2. Expenses	(2,145)	(17,621)
3. Result of measurements of group of assets and related liabilities	-	-
4. Profit (loss) on disposal	(2,956)	-
5. Taxes and duties	4,017	536
Income (loss)	**2,524**	**(7,280)**

This item includes the contribution to the income statement for the year of the subsidiary company BP Luxembourg, sold in February; as well as the contribution generated by the net assets of the subsidiary company Mariner classified as undergoing disposal as at 31 December 2016.
The amount relating to last year referred mainly to the contribution of the subsidiary company BP Luxembourg, generated by net assets classified as undergoing disposal.

21.2 Breakdown of income taxes relating to discontinued operations

	Total 2016	Total 2015
1. Current taxation (-)	(2,279)	447
2. Change in deferred tax assets (+/-)	-	(479)
3. Change in deferred tax liabilities (-/+)	6,296	568
4. Income taxes for the year (-1+/-2+/-3)	**4,017**	**536**

Section 22 - Net income (loss) attributable to minority interests – Item 330

22.1 Breakdown of item 330 "Net income (loss) attributable to minority interests"

Company name	2016	2015
Investments consolidated with significant minority interests	-	-
Other investments	(22,848)	(18,684)
Total	**(22,848)**	**(18,684)**

Section 23 - Other information

There is no other important information to report in addition to what was already indicated in the previous sections.

Section 24 - Earnings per share

	31 December 2016			31 December 2015 (*)		
	Attributable result (in thousands of euro)	Weighted average of ordinary shares	EPS (euro)	Attributable result (in thousands of euro)	Weighted average of ordinary shares	EPS (euro)
Basic EPS	(1,681,660)	606,280,767	(2.774)	424,573	362,082,221	1.173
Diluted EPS	(1,681,660)	606,280,767	(2.774)	424,573	362,082,221	1.173

(*) The figures for the year have been reclassified to provide a like-for-like comparison.

24.1 Average number of ordinary shares with diluted capital

Note that as at 31 December 2016, Basic EPS coincides with Diluted EPS as there were no financial instruments with potential dilutive effects.

24.2 Other information

There is no other important information to report in addition to what was already indicated in the previous sections.

PART D – STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

Analytical statement of consolidated comprehensive income

Items	Gross amount	Income tax	Net amount
10. Net income (Loss)	**X**	**X**	**(1,704,508)**
Other comprehensive income without reclassification to profit or loss			
20. Property and equipment	-	-	-
30. Intangible assets	-	-	-
40. Defined benefit plans	(20,486)	5,603	(14,883)
50. Non-current assets held for sale	-	-	-
60. Share of valuation reserves related to investments in associates carried at equity	-	-	-
Other comprehensive income with reclassification to profit or loss			
70. Foreign investment hedges:	**(337)**	**111**	**(226)**
a) changes in fair value	(337)	111	(226)
b) reclassification to profit or loss	-	-	-
c) other changes	-	-	-
80. Exchange rate differences:	**-**	**-**	**-**
a) changes in value	-	-	-
b) reclassification to profit or loss	-	-	-
c) other changes	-	-	-
90. Cash flow hedges:	**2,125**	**(702)**	**1,423**
a) changes in fair value	2,125	(702)	1,423
b) reclassification to profit or loss	-	-	-
c) other changes	-	-	-
100. Financial assets available for sale:	**(220,429)**	**79,707**	**(140,722)**
a) changes in fair value	(123,859)	47,913	(75,946)
b) reclassification to profit or loss	(96,552)	31,794	(64,758)
- losses on impairment	(1,129)	31	(1,098)
- profit (loss) on disposal	(95,423)	31,763	(63,660)
c) other changes	(18)	-	(18)
110. Non-current assets held for sale:	**-**	**-**	**-**
a) changes in fair value	-	-	-
b) reclassification to profit or loss	-	-	-
c) other changes	-	-	-
120. Share of valuation reserves related to investments in associates carried at equity:	**8,221**	**(2,285)**	**5,936**
a) changes in fair value	8,221	(2,285)	5,936
b) reclassification to profit or loss	-	-	-
- losses on impairment	-	-	-
- profit (loss) on disposal	-	-	-
c) other changes	-	-	-
130. Total other comprehensive income	**(230,906)**	**82,434**	**(148,472)**
140. Comprehensive Income (Items 10+130)			**(1,852,980)**
150. Consolidated comprehensive income attributable to minority interests			22,852
160. Consolidated comprehensive income attributable to the Parent Company			**(1,830,128)**

PART E – INFORMATION ON RISKS AND RELATIVE HEDGING POLICIES

The document containing the information referring to the Banco Popolare Group and related to capital adequacy, exposure to risk and the general characteristics of the systems set in place to identify, measure, manage and control risk (the so-called "Pillar III"), in compliance with the circular of the Bank of Italy no. 285 of 17 December 2013 and specifically Part Eight of CRR EU Regulation no. 575/2013, is made available under the provisions of the regulations in the Investor Relations section of the web site www.bancopopolare.it.

Section 1 refers exclusively to the Banking Group, unless otherwise expressly indicated. The tables show figures gross of relations with other consolidated companies.

Section 1 - Risks of the Banking Group

The Banco Popolare Group and the companies that belong to the same seek to respect criteria of prudence and reduced exposure to risk in their business activities, as regards:

- the need for stability in the exercise of banking activities;
- the profiles of its investors;
- its cooperative origins and the values of cooperative lending (credito popolare).

The overall risk appetite of the Group is determined through the Risk Appetite Framework, regulated by specific RAF Regulations.
In line with its risk appetite, the Group and its subsidiaries specifically pursue the following:

- credit risk distribution, in line with the objective of mainly lending to retail customers and small and medium enterprises;
- market risk-taking in relation to commercial requirements as well as proprietary investment purposes;
- the careful monitoring of the liquidity for the purpose of ensuring the ability to promptly deal with expected and unexpected financial requirements;
- the exclusion of risks that are unrelated to core activities and an accurate assessment of initiatives that entail new types of risk;
- the development of increasingly complete and accurate risk monitoring methods, as well as an active approach to the management of corporate risk, by using the advanced hedging and mitigation techniques;
- asset balance, also in conditions of stress, by setting objectives in terms of financial leverage.

In order to adequately pursue these objectives, generally focused on prudent management, the risk governance process is based on specific organisational measures (regulations, systems, processes, resources, etc.) and on the availability of adequate capital coverage, as well as on an overall system of company values and incentives (for example, risk-based incentive systems), and on a selected organisational model, all of which contribute to reducing exposure to risk and/or to minimising its impacts.
In particular, the Group organises specific training and extensive dedicated training, also for the purpose of disseminating and promoting a solid and robust risk culture throughout the bank. In recent years, we would like to mention, in particular, several schemes, targeted to all Group personnel, carried out through specific courses (both classroom-based and online) on subjects such as operating risks, compliance, security, administrative liability of banks, MiFID regulations, anti-money laundering, and CAI (Interbank Register of Bad Cheques and Payment Cards) regulations, occupational health and safety and relating to work-related stress.

Group Risk Appetite Framework (RAF)

In 2014, the Banco Popolare Group issued specific guidelines relating to the RAF, which enabled the previous RAF framework to be evolved with a view to integrating further indicators (performance, first pillar adequacy, liquidity and financial leverage).
The Group's Risk Appetite Framework was fully set in place in 2015 with the approval of the new model (Target model) and of the relative Regulations.
The RAF represents the reference framework which defines - in accordance with the maximum level of risk that can be taken, the business model and the strategic plan - the risk appetite, the tolerance thresholds, risk limits, risk governance policies and reference processes required to define and implement them, in accordance with the content of Supervisory Instructions - New Prudential Supervision provisions for Banks.

More specifically, through its own Risk Appetite Framework, the Banco Popolare Group:

- steers its own strategy and risk management policies, focused on sound and prudent company operations;
- sets its risk objectives and verifies their correct application, in line with its business model, the company strategies pursued, the maximum risk that may be assumed, budget processes and self-assessment of capital adequacy, company organisation and Internal Control System;
- verifies the consistency of the objectives of capital adequacy, risk capital, liquidity and risk-adjusted performance, which are used as the basis of the strategic and operational planning processes, ICAAP, ILAAP, preparation and management of the Recovery Plan, determining and managing risk limits and the other related company processes;
- details the risk objectives in a set of indicators, differentiated as a function of the underlying measurement metrics which, considered jointly, determine the Group's risk appetite;
- defines the procedures for operational measures to activate if it is necessary to restore risk levels within the preset objectives or limits;
- establishes a single reference framework to manage the organisation and risk planning, governance and control processes, which roles, responsibilities, operating procedures, information flows are addressed to company Bodies and Functions (specifically Control functions), in accordance with the Guidelines of the European Banking Authority as regards the prudential supervisory process SREP.

In addition to formalising the roles and responsibilities of Company Bodies and Functions, the scope of application of the RAF and the overall system of indicators, measured and monitored periodically are extremely important.
More specifically, the Group has structured its Risk Appetite Framework on the basis of a scope that covers the areas illustrated below; suitable indicators have been identified for each area:

- regulatory and operating capital adequacy;
- liquidity and financial leverage;
- performance and profitability;
- compliance and money laundering.

Furthermore, the system of indicators set in place and structured, based on a pyramid approach, into (i) Primary, (ii) Complementary and (iii) Operating Indicators.

The RAF, understood as the process to determine the Group's risk appetite, primarily considers the establishment of risk/return objectives or the quantification of Risk Appetite, Risk Trigger, Risk Tolerance and Risk Capacity thresholds in terms of individual indicators. Risk/return objectives are established at least annually. It is therefore closely related to the process of operating planning (Budget) and strategic planning (Business Plan).
The RAF process also encompasses the measurement, monitoring and reporting of the so-called Risk Profile, namely the level of risk actually assumed and measured at a specific moment in time or period. The Risk Profile is periodically compared with the Risk Appetite threshold, with the Risk Tolerance threshold and with the other thresholds (Risk Trigger and Risk Limit). The results of measurements and monitoring are recorded in what is called the Group RAF Tableau de Bord, namely a single integrated report that is submitted to the Company Bodies on a quarterly basis.
Lastly, the process of "determining risk/return objectives" is related to the ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process) processes, to the preparation and management of the Recovery Plan and to the definition and management of the operating limits set for separate types of risk.
With regard to liquidity risk, the exposure limits are defined by means of the structure of the maturity ladder, where the future cash flows generated by the expiry of the financial and loan brokerage transactions are placed within the corresponding time brackets. Net requirements are established by means of the algebraic sum of expected in- and out-flows of liquidity. RAF thresholds are envisaged for liquidity risk and serve to verify the ability of available liquid reserves to ensure coverage of net liquidity requirements. Maximum thresholds are also envisaged for the concentration of funding by counterparty and wholesale source.

Risks considered significant for the Group

The Group is exposed to the following types of risk when conducting its traditional business activities:

- credit and counterparty risk; this category also includes concentration risk and residual risk;
- market risk, including basis risk;
- operating risk;
- interest rate risk of the banking portfolio;
- liquidity risk;
- business risk;
- risk relating to equity instruments in the banking portfolio;
- strategic risk;
- reputational risk;
- securitisation risk;

- real estate risk;
- goodwill risk;
- compliance (or non-conformity) risk;
- risk from defined benefit pension plans;
- hedge fund risk;
- country risk;
- transfer risk;
- ICT risk;
- risk of excessive financial leverage.

In addition to credit risk, market risk, liquidity risk and operating risk, which are illustrated extensively in the following paragraphs, the Banco Popolare Group has identified and monitors the following other risks.

Strategic risk: is the risk of a fall in income or capital as a result of changes in the competitive scenario or of wrong strategic business decisions, of an inappropriate implementation of strategic decisions, of a poor reaction or failure to react to changes in the competitive scenario. For example, the risk may come from unexpected changes in the key indices used as reference for the strategic plan (for example projected levels of GDP or inflation, retail customers' savings, expected corporate investments in different economic sectors or geographical areas, etc.), different to market expectations, leading to a positive effect on the Group's expected results, which then may not actually be fully achieved.
The constant monitoring of operating performance, of the company's key financials and of all the other important variables, whether the same are internal or external to the Group, allows this risk to be reduced to a minimum, making it possible to take timely corrective action and/or make adjustment should competitive or market circumstances change.

Reputational risk: is the risk of a fall in income or capital as a result of a negative perception of the bank's image in the eyes of customers, counterparties, bank shareholders, investors or supervisory authorities, as a result of specific critical events impacting, for example, specific operational areas, products or processes. The Banco Popolare Group makes a special effort to constantly improving its image and consolidating its reputation, and it implements a preventive policy on various fronts, in particular:

- customer protection, by guaranteeing an adequate information flow that enables them to make informed financial decisions;
- attentive and incisive verification, not only formal, of the coherence of operational procedures and company conduct with external and internal regulations and policies.

Strategic risk and reputational risk are characterized by the fact that they are risk classes that are mainly monitored by group structures, through the application of experimental assessment methodologies, also regarding their quantitative assessment.

Business risk: is the risk of incurring losses, in terms of a decrease in expected net interest and other banking income (net of the impact of credit and market risks), due to changes in the macro- or micro-economic environments, leading to a fall in volumes and/or margin squeeze, that may reduce the bank's ability to make profit.
In particular, the Group is exposed to the risk of fluctuations of commission income from investment services. This risk is managed and minimized through commercial policies and measures aimed at building customer loyalty, so as to render the provision of services stable and profitable, and at maintaining a high value added and innovative offer of products and services, in line with our customers' present and future needs.

Risk relating to equity instruments in the banking portfolio: is the current or future risk of a change in fair value resulting from market volatility or the situation of individual issuers. The equity instruments in question are equity instruments available for sale (AFS) and investments in associates and companies subject to joint control (item 100 of Assets in the consolidated financial statements).

Real estate risk: is the risk of a fall in the market value of proprietary real estate assets, as a result of price changes on the Italian real estate market. This risk is monitored by specific technical structures set up within the Group.

Securitisation risk: is the risk that the economic substance of a securitisation transaction is not fully reflected in risk assessment and management decisions. To manage this risk, Banco Popolare has set up a specialised structure in charge of defining securitisation transactions relating to its own assets. Among other things, this structure is in charge of selecting the portfolio to be disposed, of defining the structure to be adopted and of reviewing the documents prepared by the assigned lawyer.

Compliance risk (or non-conformity): regards the risk of incurring judicial or administrative penalties, relevant financial losses or reputational harm resulting from the infringement of mandatory provisions (laws or regulations), or self-regulations (e.g. articles of association, codes of conduct, codes of discipline).

Goodwill risk: is the present or future risk that the value of the goodwill recorded in the financial statements is higher than what can actually be realised.

Risk from defined benefit pension plans: is the risk that, as regards defined benefit pension plans, the contributions paid in/allocated are not sufficient to cover the benefits guaranteed in relation to unexpected demographic trends (so-called actuarial risk) and/or that the assets in which said contributions have been invested fail to make sufficient returns (so-called financial risk), with consequent additional amounts to be paid by the bank.

Country risk: is the risk of losses caused by events that occur in a country other than Italy. The concept of country risk is wider than that of sovereign risk as it refers to all exposures regardless of the nature of the counterparties, which may be natural persons, enterprises, banks or the public administration.

Transfer risk: is the risk that a bank, with exposure towards a party with funding in a currency different to that of its main source of income, incurs losses due to the difficulty of the debtor to convert its currency into the currency of the exposure.

Basis risk: within market risk, basis risk is the risk of losses caused by mismatches between the values of positions with opposite signs, which are similar but not identical. When considering this risk, banks must pay special attention; by calculating the capital requirement for the position risk according to the standardised approach, they can offset the positions in one or more equity instruments included in a share index with one or more positions in futures/other derivatives related to said index or they can offset opposite positions in futures on share indices, which are not identical in terms of maturity, composition or both.

Risk of excessive financial leverage: is the risk that a particularly high level of indebtedness with respect to own funds makes the bank vulnerable, meaning that corrective measures need to be adopted as regards the business plan, including the sale of assets, recognising losses, which could result in value adjustments to the remaining assets as well.

IT risk: is the risk of incurring economic losses, reputational damage and the loss of market share related to the use of Information and Communication Technology - ICT).

Hedge fund risk: is the risk of incurring operating losses resulting from the use of an estimated NAV instead of an effective NAV on the hedge funds (called Hedge Fund Risk) managed by Aletti Gestielle SGR.

Stress testing

The Group has used a detailed stress testing system for some time, understood as the set of quantitative and qualitative techniques used by the bank to assess its vulnerability to exceptional, but plausible events.
Stress tests aim to assess the effects on the bank's risks of specific events (sensitivity analysis) or of joint movements in a set of economic-financial variables in the event of adverse scenarios (scenario analysis), or with reference to individual risks (specific stress tests) or several risks together (joint stress test).
These tests allow identification of the risk factors that contribute more than others to this negative result and consequently allow implementation of loss-limiting strategies when these scenarios occur.
The Group uses these tools to support other risk management and measurement techniques, with a view to:

- providing a prospective view of risks and their economic and financial impacts;
- overcoming the limits of the risk management models based on historical data (i.e., the HVaR model with reading of the last 250 observations);
- providing input data for the capital and liquidity planning processes, also to quantify the Risk Trigger thresholds for the yearly determination of the Group's risk/return objectives;
- assessing the development of risk mitigation and recovery plans in certain stress situations. In fact, the stress tests are used to establish specific internal trigger thresholds, which once reached trigger the resolution plans as envisaged by the BRRD (Bank Recovery and Resolution Directive) regarding the prevention and management of banking and investment company crises.

The stress testing methods described above are applied as part of the Group ICAAP and ILAAP process, for the purpose of a more comprehensive, accurate assessment of future capital adequacy.

Risks associated with shareholding caps and with the exercise of voting rights

Art. 30 of the Consolidated Banking Law states that in a cooperative bank (banca popolare) no-one may possess an interest exceeding 1% of the share capital (and the articles of association may also establish lower thresholds, although no lower than 0.5%); UCITS are subject to the limits set by their own specific regulations. Under the cited art.

30 of the Consolidated Banking Law, should the bank determine that said threshold has been exceeded, and in any case within the terms envisaged by provisions in force, it must immediately notify the shareholder and the intermediary of said infringement. The shares exceeding the threshold must be transferred within one year of the notice, after which time the relevant capital rights accrued are acquired by the bank.
Art. 30 of the Consolidated Banking Law states that the shareholders of cooperative banks are entitled to only one vote, irrespective of the number of shares they hold. Pursuant to art. 23 of the Articles of Association of Banco Popolare, each Shareholder, on condition that the same is not a Board member or Statutory auditor, or employee of the company, or a member of the administrative or control bodies or an employee of companies directly or indirectly controlled, or of the independent auditors who have been assigned to audit the accounts, or the person legally responsible for auditing the accounts of Banco Popolare and that do not satisfy one of the other conditions of incompatibility provided for by law, may represent not more than ten other Shareholders at a Shareholders' Meeting, by means of a proxy.
In addition, note that in the Official Gazette dated 24 January 2015, Italian Legislative Decree no. 3 of 24 January 2015 was published ("Urgent measures for the banking system and investments"). The Decree, in force since 25 January 2015, was converted into law, with amendments, on 24 March (Law no. 33 of 24 March 2015).
This Law Decree (art. 1) envisages considerable changes to the regulation of cooperative banks, contained in Italian Legislative Decree no. 385 of 1 September 1993 (CBL), with regard to which we draw attention to the following:
A) general rules pertaining to cooperative banks, through the addition, in article 29 of the CBL of the following further provisions: (i) a new paragraph 2-bis, according to which the assets of a cooperative bank may not exceed the threshold of euro 8 billion, calculated at consolidated level in the case of a parent company; (ii) a new paragraph 2-ter, by virtue of which, if said threshold is surpassed, the Board of Directors of the cooperative bank are bound to convene a shareholders' meeting to resolve on the matter. If within one year of surpassing said threshold, the assets have not been brought to below the same, and the company has not been transformed into a joint stock company or liquidated, based on the circumstances and the extent by which the threshold has been surpassed, the Bank of Italy may issue a prohibition to enter into new transactions pursuant to article 78 of the CBL, or may implement the measures envisaged by national law on the extraordinary administration of banks (articles 70-77 CBL), or it may submit a proposal to the European Central Bank to revoke authorisation to engage in banking activity and to the Ministry of the economy and finance for administrative compulsory liquidation, without prejudice to the powers attributed to the Bank of Italy by the CBL to intervene and to grant sanctions; (iii) a new paragraph 2-quater, which prescribes that the Bank of Italy may dictate implementing provisions for art. 29 of the CBL, as amended. As a further amendment to art. 29, the text also envisages the abrogation of the current paragraph 3, under which the competent corporate bodies of cooperative banks may appoint the management and control bodies;
B) changes to regulations regarding transformations and mergers of cooperative banks, through the replacement of the entire wording of art. 31 of the CBL with provisions according to which resolutions for transformations into joint stock companies or mergers that result in joint stock companies must be passed by the formation and decision-making quorums prescribed by the same regulation; in the case of withdrawal, the regulation established in art. 28, amended, (according to which the right to reimbursement is restricted in accordance with that envisaged by the Bank of Italy, also as a departure from the law, where the shares must be included in the calculation of the bank's primary quality regulatory capital); the quorums of shareholders' meetings prescribed for transformation of cooperative banks into joint stock companies must also be applied to amendments to the articles of association as well as, in general, with regard to decisions regarding implementing the regulations to cooperative banks whose assets surpass the euro 8 billion threshold;
C) the rewording of art. 150-bis CBL (transitory and final provisions regarding cooperative banks), according to which: (i) the list of Italian Civil Code provisions applicable to cooperative banks has been amended; (ii) a provision, which marks a departure from the rules of the Italian Civil Code regarding cooperatives, which prescribes that the articles of association of cooperative banks must establish the maximum number of proxies that may be conferred by a member, specifying that, in any event, said number may not be less than 10 or more than 20.
Cooperative banks are bound to comply with the new general rules, and namely the new wording of art. 29 CBL within 18 months from the entry into force of the above-mentioned implementing provisions to be issued by the Bank of Italy: these provisions were issued by the Bank of Italy in its own Provision (in force since 27 June 2015), with which the 9th update of the Bank of Italy Circular no. 285 was stated, with the introduction in the third part of chapter 4 regarding "Cooperative banks".
Banco Popolare's Board of Directors, under the powers awarded to the same pursuant to art. 33.2, paragraph 2, letter y) of the Articles of Association, in application of art. 2365, paragraph 2, of the Italian Civil Code, at a meeting held on 15 September 2015, approved the compulsory amendments to the Articles of Association in accordance with that established by Decree Law no. 3 of 2015, as converted into Law 33/2015 and taking into account that established in the cited Update of Circular no. 285. Following the issue of the positive assessment provision by the Bank of Italy pursuant to art. 56 of Legislative Decree 385/1993, these amendments to the articles of association were recorded in the Verona Companies' Register on 15 December 2015.
At a meeting held on 15 September 2015, after consultation with the Board of Statutory Auditors, Banco Popolare's Board of Directors had also approved the launch of the project to transform the legal status of Banco Popolare from a limited liability joint-stock cooperative company into a joint-stock company and the plan containing the initiatives necessary for this purpose as well as the timing for their implementation, in line with legal deadlines. Subsequently, on 23 March 2016, following approval of the respective management bodies, Banco Popolare and Banca Popolare di Milano signed a memorandum of understanding regarding the fundamental points of a merger operation (so-called "merger by incorporation") between Banco Popolare and BPM, to be implemented, pursuant to art. 2501 and foll. of the

Italian Civil Code, through the creation of a new company with the legal status of a joint stock company, called Banco BPM Società per azioni.
For further details on the merger operation, please refer to the section in this Report on Operations that illustrates the significant events that occurred during the year.
The above-described merger enabled Banco Popolare to surpass the threshold of euro 8 billion in assets, pursuant to art. 29, paragraph 2-bis of the Consolidated Banking Law, in accordance with the provisions of art. 29, paragraph 2-ter of the Consolidated Banking Law, and to transform itself into a joint stock company.

The internal risk control system

The primary requirement of the risk management and control system is to protect the capital and financial solidity and the reputation of the Banco Popolare Group against undesirable events.
The entire process to manage and control the risks that the Group is exposed to is coordinated by Banco Popolare, in its dual capacity as Parent Company and entity in which all the functions of mutual interest to the Group are located, in particular the so-called "risk control function".
The Board of Directors of Banco Popolare has a fundamental role in the management and control of risk, at Group level, as it decides the strategic direction, approves risk management policies and assesses the level of efficiency and adequacy of the system of internal controls, in particular with regard to risk control. The Board of Directors resolves on changes to the "Risk Appetite Framework (RAF) Regulations" and to the "Group Risk Regulations" in relation to changes in management and in the reference market. The Board of Directors of subsidiary companies, on the basis of Group guidelines, establish management and operational procedures for their company risks.
As regards preparatory and advisory activities relating to the internal control and monitoring of corporate risks, the Board of Directors of the Parent Company has the support of the Risks Committee, set up within the same. The Committee for the Management of Group Risks, which is made up of the Managing Director and representatives of the Parent Company's main departments, assists the Parent Company's Board of Directors and the individual Boards of Directors in formulating risk policies and takes action to correct situations that do not comply with said policies.
The Board of Statutory Auditors oversees the effectiveness and adequacy of the system of risk management and control, as well as internal auditing and the working and adequacy of the entire system of internal control.
As envisaged by prudential supervision, the internal control system of a banking intermediary must envisage - in addition to the corporate Bodies that define and approve the general policies and guidelines - the presence of specific organisational units, dedicated to second level (Risk Management, Compliance and Anti Money Laundering, Internal Validation) and third level (Audit) controls.

The **Risks Department**, the organisational unit that reports directly to Banco Popolare's Managing Director, oversees, at Group level and in an integrated way, risk management, measurement and control processes, the process of validating internal models for risk measurement (internal validation), the process to prevent and counter money laundering and terrorist financing (anti money laundering) and the legal support and advisory process for the Parent Company and for Group Companies (legal). Compliance risk management is carried out by the Compliance Service which reports directly to the Managing Director.
The Risks Department and its internal structures are independent from operational functions and activities. More specifically, the organisational structure with a fundamental role in the management of risks is the Risk Management Service, which performs the so-called "risk management function" relating to the Parent Company, as well as on behalf of the Group's Italian banks and other companies by virtue of specific outsourcing contracts. It is responsible for coordinating the following activities:

- identifying, measuring and managing credit risk, contributing to the calculation of the corresponding minimum capital requirements and establishing, managing and optimising the Internal Rating System; developing and maintaining methods, models and measurement metrics for credit risk, with particular reference to internal models used to calculate risk factors (PD, LGD and EAD), as well as credit risk from an operational approach (credit-VaR);
- identifying, measuring and managing market risk; establishing measurement methods, verifying reliability periods, proposing and monitoring operating thresholds; validating pricing models and processes for financial instruments and contributing to the calculation of minimum capital requirements; identifying, measuring and managing counterparty risk; managing the risks of customers to whom the Group provides investment services and distributes financial products;
- establishing and developing methods to identify, assess, monitor and report transformation risks (interest rate and liquidity risk), identifying and establishing appropriate operating thresholds; measuring and managing said risks; preparing adequate reports for the Company's decision-making bodies and for the Companies monitored;
- identifying, measuring, monitoring, managing and mitigating operating risk; developing and updating methods, models and measurement metrics for operating risk at consolidated and individual level, from a regulatory and management perspective; establishing minimum capital requirements; identifying and establishing appropriate operating thresholds; formulating proposals for mitigation measures;
- estimating overall risk exposure; assessing the Group's recorded and future capital adequacy (ordinary and

stressed); proposing objectives, RAF thresholds and operating limits in terms of overall risk; identifying and modelling risk, even new types of risk; coordinating disclosure processes (financial statements, Third pillar, rating agencies); assessment of the risks and to what extent significant transactions meet RAF requirements, as well as verifying compliance with limits towards Related Parties;
- checking the performance monitoring of exposures classified as performing and non-performing loans, checking the consistency of classifications, the adequacy of the credit collection process and the adequacy of provisions.

The Risk Management Service also guarantees the development and continuous improvement of the methods, models and metrics for the measurement of risks, also through projects to implement and enact advanced models, to align with the standards that are gaining recognition at international level over time, to implement supervisory regulations and directives, and to develop increasingly effective controls.
Risk Management policy is developed through the Risk Management Committee and the Finance and ALM Committee of the Parent Company. The Finance and ALM Committee meets periodically and oversees market, interest rate and liquidity risk management measures, defining the Group's funding policies.
The current organisational structure of the Risk Management Service includes four in-line functions (Credit Risk, Market Risk, Operating Risk, Interest Rate and Liquidity Risk) and two "staff" Functions (Credit Monitoring and Control, Risk Integration and Policies) reporting to the Manager.
Again as regards internal control, the Bank has established an Internal Validation Service (reporting to the Risks Management Department), responsible for the processes to validate the Banco Popolare Group's risk measurement and management systems. These activities are performed independently both by the functions in charge of risk measurement and management and by the department responsible for Internal Auditing (Audit Department).
The above Function is therefore responsible for continuously and interactively validating risk measurement and management systems in order to assess their adequacy with respect to legislative requirements, operational needs as well as those of the relevant market.
Therefore, the following activities are considered to be exclusive to the Internal Validation function:

- validation, with a view to assessing the adequacy of risk measurement and management systems with respect to legislative requirements, operational needs as well as those of the relevant market and to formulating an opinion as to the overall performance of the above-cited systems, their regular functioning, their effective use in the various management areas, also by identifying any problem areas and any improvements needed;
- periodic analyses, with a view to verifying performance, calibrating parameters, and, in general, checking the correct functioning of risk measurement and management systems, as well as the execution of benchmarking and stress testing;
- periodic issue of recommendations to the functions involved in the risk measurement and management processes regarding performance and the functioning and the use of risk measurement and management systems;
- validation of internal systems for the measurement and monitoring of significant risks, considered such by ICAAP and ILAAP;
- transmission of a periodic disclosure on validation activities to the Audit Department, the Risks Committee and the Board of Statutory Auditors;
- preparation of validation reports to be submitted to the Board of Directors and to the Board of Statutory Auditors to assist resolutions declaring the compliance of risk measurement and management systems to legislative requirements and therefore in the application to the Supervisory Authority to use the same to calculate capital requirements;
- preparation of the annual validation report, indicating any problem areas and/or areas for improvement as regards risk measurement and management systems, to be submitted to the competent company functions, to the Audit Department and to Corporate Bodies.

Compliance risk management is carried out by the **Compliance Service** which reports directly to the Managing Director. It assists top management and Group companies to identify, assess, mitigate, manage and monitor so-called "compliance risk" of the activities performed by the Group's banking, financial and special purpose entities, guaranteeing the coordination and supervision of all compliance activities regarding Banco and Group Banks/Companies.
Internal Auditing of the Banco Popolare Group is carried out by Banco Popolare's **Audit Department** by conducting auditing and monitoring exercises - in loco and remotely - at the Group Banks and Product Companies, under a specific outsourcing contract, namely as Parent Company. The Audit Department reports directly to the Board of Directors through the Chairman, as well as reporting on a continuous basis to the Managing Director.
For further information on the activities performed by the Compliance and Internal Audit functions, refer to the corresponding sections in the Report on Operations.
Note that the description of the above departments and functions refers to the situation relating to the former Banco Popolare Group as at 31 December 2016.
For further information on the internal control system, on the legal auditing of accounts and on the certification of the compliance of accounting documents, ledgers and accounting entries with legal requirements by the Manager

responsible for preparing the Company's financial reports, refer to the Report on corporate governance and shareholding structure.

The Internal Basel Project

Over time, the Banco Popolare Group has launched numerous projects to improve its risk measurement, management and control system. Specifically, to date the Group has been authorised to use its internal models to calculate regulatory capital absorption with regard to the following Pillar I risks:

- credit risk (starting from the recording of 30 June 2012): the scope regards the advanced internal rating models (PD, for both monitoring and acceptance, and LGD) regarding loans to corporate and retail customers of Banco Popolare and the former subsidiary Credito Bergamasco. The standard regulatory approach will continue to be adopted, for prudential reasons, for loans portfolios that are not included in the scope of first validation A-IRB, including those relating to Banca Aletti and to former Banca Italease Group companies.
- market risk (starting from the recording of 30 June 2012): the scope is the generic and specific risk of equity instruments, the generic risk of debt securities and the risk relating to UCIT units for the trading portfolio of Banca Aletti and Banco Popolare. The remaining market risks will continue to be measured using the "standard" approach.
- operating risk: starting from reports dated 30 June 2014, adoption of the AMA (Advanced Measurement Approach) on the first validation perimeter, for Banco Popolare companies, Banca Aletti, SGS BP and BP Property Management. The roll-out perimeter, relating to the operating segments Aletti Gestielle SGR and the BP Leasing Division (former Banca Italease) was authorised for the above-cited approach from Supervisory reporting as at 30 June 2016. The other Group companies adopt the BIA (Basic Indicator Approach) method for reporting, in line with the adoption of the combined use of AMA/BIA, which envisages for the latter, if they do not surpass established materiality thresholds, the permanent use of the basic method (PPU, partial permanent use).

1.1 CREDIT RISK

QUALITATIVE INFORMATION

1. General aspects

Credit risk is the risk that a Group borrower (including therein counterparties to financial transactions in over the counter derivatives, Securities financing transactions SFT and transactions with long-term settlements – in this case, it is more correct to speak of counterparty risk) fully or partially fails to fulfil his obligations or that the creditworthiness of the same deteriorates, resulting in damage to the Group. In the area of credit risk, concentration risk is also important. This risk derives from exposure to counterparties, to a group of related counterparties insofar as they operate in the same economic sector or conduct the same business activity or belong to the same geographic area.

The Banco Popolare Group pursues lending policy objectives that seek to:

- support the growth of the business activities operating in its market territories, with a strong customer relationship focus on small and medium sized companies, as well as on retail customers;
- diversify its portfolio, limiting loan concentration on single counterparties/groups, on single sectors of economic activity or geographical areas;
- adopt a homogeneous and univocal credit management model based on harmonized and standardised rules, methodologies, processes, IT procedures and internal regulations.

The credit portfolio monitoring, carried out by the Parent Company's Loans Department, is focused on the performance analysis of risk profile of economic sectors, geographical areas, customer segments and types of granted credit lines, as well as on other analysed spheres of action, allowing the definition of possible corrective actions at central level. Reports are produced periodically and submitted to the Management Bodies of the Parent Company.

2. Credit risk management policies

2.1 Organisational aspects

The model for credit processes defined by Banco Popolare was designed on the basis of the following criteria:

- clear definition of the responsibilities of the functions involved: business functions, credit functions, control functions and risk management functions;
- extensive use of the principle of role overlapping;

- extensive use of rating in credit processes (credit policies, granting, disbursement, monitoring and assessment);
- extensive use of legislative tools and supporting procedures;
- risk assessment at Banking Group level for customer risk Group.

More specifically, in order to manage the credit risks of all Banking group Companies in a standardised way, as part of its supervision, coordination and control functions, the Parent Company:

- establishes the principles, the rules, the roles and the responsibilities for each stage of the credit processes;
- draws up Group credit policies, in line with the strategies, the risk appetite and the economic objectives approved by the Board of Directors, with a view to guiding the overall dimension, the risk profile and the diversification of the Banking Group's loans portfolio;
- establishes the principles and the rules for the assignment of decision-making powers and faculties as regards credit, guaranteeing a harmonised and consistent approach for the entire Banking Group;
- makes the most important credit decisions both directly, if there is primarily a Group interest to protect, and by setting "reliability ceilings", through the preparation of "prior opinions" that are not binding for Banking Group Companies;
- establishes the upper limits for "country risk";
- establishes the line controls and the risk management controls to be conducted, whether procedural, behavioural, overall or on a sample basis, suitable to guarantee compliance with the rules and with the parameters defined for each stage of the credit processes;
- monitors the trend of the loans portfolio overall, and of individual exposures, based on defined significance criteria;
- checks consistency between the guidelines provided and their application;
- establishes, for balance sheet purposes, the assessment criteria for loans in the portfolio differentiated by classification status of the exposure or the risk of the same, and verifies application thereof;
- establishes the requirements of the tools and of the procedures to support the activities regulated by the processes.

2.2 Management, measurement and control systems

The Banco Popolare Group makes use of an elaborate set of instruments to grant and manage credit and to monitor portfolio quality.

Rating plays a key role in loan granting, credit product disbursement, monitoring and management processes. Rating plays a role in deciding which the competent bodies to approve loans are, as well as on the mechanism for the automatic renewal of uncommitted credit facilities, and it contributes to determining automatic interception in the monitoring and management process - Watchlist. If positions appear to have conflicting ratings, the Rating Desk is requested to examine them and to assess the possible change of the rating in question (override process).

Granting credit envisages different stages for the assessment and the proposal, the approval and the finalisation of credit facilities, supported by electronic loan processes and practices that differ depending on the customer segment. The processes are structured to enable the acquisition of all relevant information also for the purposes of the variables that contribute to the assignment of the rating, an exhaustive assessment of creditworthiness and the formalisation of a consistent loan proposal, the approval by the competent Decision-making Body and the finalisation of loans that are conditional to the fulfilment of the provisions envisaged in the approval, the acquisition of guarantees and the signature of the contractual documents relating to the credit lines.
In this regard, in accordance with the provisions of the EBA, following a specific assessment of the financial difficulties of a customer and the granting of a measure of tolerance, forborne exposures are identified.

Positions that show the first negative signals are automatically included in a monitoring and management process, which envisages, through pre-coded stages, the intervention of different figures, with the objective of preventing the deterioration of the loan and taking all measures addressed to remove the reasons for said negative signals.
With respect to retail customers, a specific process is in place, supported by an IT procedure, which sets out precise actions along well defined timings to bring the position back to performing and to recover the defaulted amount.

Portfolio risk monitoring is also based on a default model that is applied on a monthly basis mainly to credit exposures of the Banco Popolare Group, with regard to performing loans, cash loans and endorsement credits, of resident customers. For further details on the general features of this model, refer to paragraph "D. Banking Group - Credit risk measurement models".
For exposures - other than performing loans with ordinary and financial resident customers - risk is controlled through the use of supervisory regulatory metrics (Standard/Irb).

2.3 Credit risk mitigation techniques

The Group has always kept a watchful eye on the acquisition of loan collaterals and securities, i.e. the use of applications and techniques that mitigate credit risk. When deemed necessary, the typical bank guarantees are acquired, namely mortgages on properties, collaterals on securities in addition to personal guarantees issued by the guarantors.
In general, the decision on the acquisition of a guarantee is based on the customer's creditworthiness and on the characteristics of the transaction. Following this analysis, it may be deemed appropriate to obtain additional guarantees to mitigate credit risk, considering the estimated recoverable value offered by the collateral.
The system for the recording of collateral property used to guarantee lending transactions enables an automatic periodic assessment of the property's value and identifies which properties require updated appraisals.
The value of the financial collaterals is constantly and automatically monitored, enabling a comparison between the present value of the collateral and the initial one, and to allow the manager to act promptly in the event that the collateral incurs a significant impairment loss.
As regards collateral represented by a pledge on securities, an automatic warning system is in place, which is triggered when impairment goes beyond a certain threshold value, reporting the same to the customer relationship manager so that the same may take prompt action.
With regard to derivative transactions with market counterparties, we favour entities with which we have entered into agreements requiring the provision of collateral, especially ISDA - Credit Support Annex, so as to obtain a significant credit risk mitigation.

2.4 Non-performing financial assets

The classification of non-performing exposures is conducted in line with the criteria established by the EBA. More specifically, the classification as non-performing is made:

- automatically, for exposures that reach the thresholds envisaged by the provisions of the Supervisory Authority as regards Past Due;
- by means of a decisions taken by an authorised Body (i) on a proposal generated automatically by the IT system, for exposures that reach the envisaged thresholds, on each occasion, by internal credit monitoring and management processes, or (ii) on the proposal of a proponent Body, for exposures that indicate the occurrence of events that may prejudice the "performing" status of the same.

The management of non-performing loans in the Banco Popolare Group is based, to a great extent, on a model that assigns the management of a specific set of loans (portfolio) to specialist resources.
Management responsibility changes depending on the classification status of the exposure:

- the management of exposures classified as Past Due and Unlikely to Pay is assigned, with the exception of exposures under a certain threshold, to specialist managers, who may work, depending on the importance of the exposure, for the Loans Department or for the Loans offices of the Network (Divisions and Business Areas).
  For these exposures, the managers of non-performing loans are responsible for the operating decisions relating to the loans assigned to the respective portfolios, in accordance with their decision making authority, and are assisted, as regards the administrative part, by (business) managers from the Network, where the portfolio containing the exposure is placed, as well as the related economic results;
- the management of exposures classified as Bad Loans is entirely assigned to specialist managers who report directly to the Loans Department or, as regards Release SpA, to managers of the same.
  For these exposures, "Bad Loans" managers are responsible, in accordance with their decision-making authority, both for operating and administrative decisions required for their management; the economic results contribute directly to the objectives of the Credit Collection Service of the Loans Department.

The Bodies hierarchically above the specialist manager are involved to provide support to the same, and if no action is taken by the latter to verify the most appropriate measures to take to manage customer relations.
The monitoring, management and assessment processes for non-performing loans are structured into specific stages and are supported by an operating procedure that enables the measures set in place to be traced.

The credit assessment made to establish the amount of expected loss relating to non-performing loans envisages different procedures depending on the status and the size of the exposure:

- for past due exposures, regardless of the amount, for Unlikely to pay exposures with forbearance below a specific threshold, as well as for Unlikely to pay exposures or Bad Loans under specific thresholds, the average LDG estimated by Risk Management is applied on a forfeit basis;
- for Unlikely to pay exposures with forbearance above the set materiality threshold, as well as Unlikely to pay exposures and Bad Loans for amounts exceeding specific pre-established thresholds, expected losses are assessed analytically by the manager, who in any event is proposed a floor calculated on the basis of a percentage LGD.

Expected losses valued analytically by the manager are periodically reviewed.

2.5 Control system relating to credit processes

The structure of the control system relating to credit processes is based on:

- I level controls (or line controls), addressed to ensuring that the processes are correctly carried out. First level controls include so-called "automatic" controls, namely performed directly by applications procedures, controls performed directly by operating structures and hierarchical controls, performed within the same chain of responsibility. II instance controls are performed through the credit structures of the Business Areas, in particular through "Credit Quality Managers", the credit monitoring structures located in the Divisions, the Credit Quality and Control Service within the Loans Department, as well as through specific structures for specific cases;
- II level controls (or risk and compliance controls), are the responsibility of the "Credit Monitoring and Control" structure within the Risks Department, and are addressed to ensuring that the risk management process is correctly implemented (by operating structures), verifying that the trend of individual exposures is being monitored, in particular non-performing ones, and to assessing the consistency of the classifications, the appropriateness of provisions and the adequacy of the recovery process.

QUANTITATIVE INFORMATION

A. Credit quality

With regard to quantitative information on credit quality, the term "credit exposures" excludes equity instruments and UCIT units, while the term "exposures" includes the abovementioned items.

A.1 Non-performing and performing loans: amounts, value adjustments, trends, economic and geographical breakdown

A.1.1 Breakdown of financial assets by portfolio and credit quality (book value)

Portfolio / Quality	Bad loans	Unlikely to pay	Past due - non-performing	Past due - performing	Other performing loans	Total
1. Financial assets available for sale	-	1,910	-	-	10,977,447	10,979,357
2. Investments held to maturity	-	-	-	-	8,368,223	8,368,223
3. Due from banks	69	-	-	23	4,559,096	4,559,188
4. Loans to customers	6,238,860	6,234,237	95,265	1,311,301	61,960,571	75,840,234
5. Financial assets designated at fair value through profit and loss	-	-	-	-	-	-
6. Financial assets held for disposal	-	-	-	-	-	-
Total 31/12/2016	**6,238,929**	**6,236,147**	**95,265**	**1,311,324**	**85,865,337**	**99,747,002**
Total 31/12/2015	**6,458,358**	**7,403,468**	**208,934**	**2,129,442**	**84,664,136**	**100,864,338**

Note that the figures contained in tables A.1.1 and A.1.2 refer to the values of the consolidated financial statements and are therefore net of any intercompany transactions between companies belonging to the scope of consolidation (regardless of whether they belong to the Banking Group or not); the following tables (A.1.3 to A.1.8) refer only to exposures held by companies of the Banking Group.

In accordance with the details required for exposures held by the Banking Group in the following tables A.1.3 and A.1.6, the disclosure on performing loans has been broken down into "Past due - performing" and "Other performing loans". Also note that non-performing financial assets (bad loans, unlikely to pay and past due) refer exclusively to exposures held by companies belonging to the "Banking Group"; in fact, there are no assets of this nature relating to "Other companies".

Analysis of the age of total financial assets that are past due but performing

As at 31 December 2016, performing loans, which also include "Financial assets held for trading" and "Hedging derivatives", totalled euro 91,867.5 million. An analysis of the age of past due loans is provided in line with that envisaged by IFRS 7 *"Financial Instruments: Disclosure"*, paragraph 37, letter a).

Exposure / Geographic Area	Performing loan by length of time past due					Total (Net Exposure)
	Past due up to 3 months	Past due between 3 and 6 months	Past due between 6 months and 1 year	Past due over 1 year	Not past due	
1. Financial assets held for trading	77	195	473	146	4,246,542	4,247,433
2. Financial assets available for sale	-	-	-	-	10,977,447	10,977,447
3. Investments held to maturity	-	-	-	-	8,368,223	8,368,223
4. Due from banks	10	-	-	13	4,559,096	4,559,119
5. Loans to customers	947,991	210,792	90,337	62,181	61,960,571	63,271,872
6. Financial assets designated at fair value through profit and loss	-	-	-	-	-	-
7. Financial assets held for disposal	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	443,411	443,411
Total 31/12/2016	**948,078**	**210,987**	**90,810**	**62,340**	**90,555,290**	**91,867,505**

Disclosure of the portfolio to which forbearance exposures belong

As at 31 December 2016, forbearance exposures amounted to euro 6,308.5 million (of which euro 3,795.0 million non-performing and euro 2,513.5 million performing) and were entirely allocated to the "Loans to customers" portfolio; for further information on said exposures, please refer to table A.1.6. below.

A.1.2 Breakdown of exposures by portfolio and credit quality (gross and net values)

Portfolio / Quality	Non-performing assets			Performing assets			Total (Net Exposure)
	Gross exposure (*)	Specific adjustments (*)	Net exposure	Gross exposure	Collective adjustments	Net exposure	
1. Financial assets available for sale	13,939	(12,029)	1,910	10,977,447	-	10,977,447	10,979,357
2. Investments held to maturity	-	-	-	8,368,223	-	8,368,223	8,368,223
3. Due from banks	345	(276)	69	4,559,119	-	4,559,119	4,559,188
4. Loans to customers	19,653,892	(7,085,530)	12,568,362	63,527,824	(255,952)	63,271,872	75,840,234
5. Financial assets designated at fair value through profit and loss	-	-	-	X	X	-	-
6. Financial assets held for disposal	-	-	-	-	-	-	-
Total 31/12/2016	**19,668,176**	**(7,097,835)**	**12,570,341**	**87,432,613**	**(255,952)**	**87,176,661**	**99,747,002**
Total 31/12/2015	**20,659,198**	**(6,588,438)**	**14,070,760**	**87,121,484**	**(327,906)**	**86,793,578**	**100,864,338**

(*) Gross non-performing customer loans set forth in point 4., including the part of the receivable retained non-recoverable, relating to debtors subject to insolvency proceedings still under way, which have been derecognised in advance with respect to the date of closure of the insolvency proceedings, would correspond to euro 24,336,145 thousand. Similarly, the relative specific value adjustments would amount to euro 11,767,783 thousand.

For information on the derecognitions made by the bank as regards non-performing loans, please refer to table A.1.6 below.

Portfolio held for trading and derivatives

The following table provides information on credit quality as regards credit exposures classified in the portfolio of financial assets held for trading (securities and derivatives) and hedging derivatives (not included in the previous table):

Portfolio / Quality	Assets with obvious poor credit quality		Other assets
	Cumulative capital losses	Net exposure	Net exposure
1. Financial assets held for trading	(67,514)	18,269	4,247,433
2. Hedging derivatives	-	-	443,411
Total 31/12/2016	**(67,514)**	**18,269**	**4,690,844**

Exposures with poor credit quality, whose book value is euro 18.3 million, refer exclusively to derivatives with customers.

A.1.3 Banking Group – Cash and off-balance sheet exposures to banks: gross values, net values and past due bracket

Cash exposures include all cash financial assets due from banks, regardless of the accounting portfolio to which they are allocated (trading, available for sale, held to maturity, loans, assets designated at fair value, financial assets held for disposal).

"off-balance sheet" exposures include all financial transactions other than cash ones, which entail assuming a credit risk, regardless of the purpose of said transactions, including therein exposures in derivatives.

Type of exposure/amounts	Gross exposure					Specific value adjustments	Portfolio value adjustments	Net exposure
	Non-performing assets				Performing assets			
	Up to 3 months	Between 3 and 6 months	Between 6 months and 1 year	Over 1 year				
A. Cash exposures								
a) Bad loans	-	-	-	345	X	(276)	X	69
- of which: forbearance exposures	-	-	-	-	X	-	X	-
b) Unlikely to pay	-	-	-	-	X	-	X	-
- of which: forbearance exposures	-	-	-	-	X	-	X	-
c) Past due - non-performing	-	-	-	-	X	-	X	-
- of which: forbearance exposures	-	-	-	-	X	-	X	-
d) Past due - performing	X	X	X	X	23	X	-	23
- of which: forbearance exposures	X	X	X	X	-	X	-	-
e) Other performing loans	X	X	X	X	6,726,686	X	(5)	6,726,681
- of which: forbearance exposures	X	X	X	X	-	X	-	-
Total A	**-**	**-**	**-**	**345**	**6,726,709**	**(276)**	**(5)**	**6,726,773**
B. Off-balance sheet exposures								
a) Non-performing	-	-	-	-	X	-	X	-
b) Performing	X	X	X	X	855,921	X	-	855,921
Total B	**-**	**-**	**-**	**-**	**855,921**	**-**	**-**	**855,921**
Total (A+B)	**-**	**-**	**-**	**345**	**7,582,630**	**(276)**	**(5)**	**7,582,694**

A.1.4 Banking Group – Cash exposures to banks: changes in gross non-performing loans

Type/Category	Bad loans	Unlikely to pay	Past due – non-performing
A. Gross exposure: opening balance	**361**	**259**	**-**
- of which: exposures sold not derecognised	-	-	-
B. Increases	**-**	**-**	**-**
B.1 inflows from performing loans	-	-	-
B.2 transfers from other categories of non-performing loans	-	-	-
B.3 other increases	-	-	-
C. Decreases	**(16)**	**(259)**	**-**
C.1 outflows to performing loans	-	-	-
C.2 write-offs	-	-	-
C.3 repayments	-	-	-
C.4 gains on disposals	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other categories of non-performing loans	-	-	-
C.7 other decreases	(16)	(259)	-
D. Gross exposure: closing balance	**345**	**-**	**-**
- of which: exposures sold not derecognised	-	-	-

A.1.4 bis Banking group - Cash exposures to banks: changes in gross forbearance exposures broken down by credit quality

As at 31 December 2016, as in the previous year, there were no forbearance exposures to banks; therefore the relative table is omitted.

A.1.5 Banking Group – Non-performing cash exposures to banks: changes in total value adjustments

Type/Category	Bad loans		Unlikely to pay		Past due – non-performing	
	Total	Of which: forbearance exposures	Total	Of which: forbearance exposures	Total	Of which: forbearance exposures
A. Total adjustments: opening balance	**289**	**-**	**39**	**-**	**-**	**-**
- of which: exposures sold not derecognised	-	-	-	-	-	-
B. Increases	**-**	**-**	**-**	**-**	**-**	**-**
B.1 value adjustments	-	-	-	-	-	-
B.2 losses on disposal	-	-	-	-	-	-
B.3 transfers from other categories of non-performing loans	-	-	-	-	-	-
B.4 other increases	-	-	-	-	-	-
C. Decreases	**(13)**	**-**	**(39)**	**-**	**-**	**-**
C.1 recoveries from valuation	(13)	-	(39)	-	-	-
C.2 recoveries from repayment	-	-	-	-	-	-
C.3 profits on disposal	-	-	-	-	-	-
C.4 write-offs	-	-	-	-	-	-
C.5 transfers to other categories of non-performing loans	-	-	-	-	-	-
C.6 other decreases	-	-	-	-	-	-
D. Total adjustments: closing balance	**276**	**-**	**-**	**-**	**-**	**-**
- of which: exposures sold not derecognised	-	-	-	-	-	-

A.1.6 Banking Group – Cash and off-balance sheet exposures to customers: gross values, net values and past due bracket

Cash exposures include all cash financial assets due from customers, regardless of the accounting portfolio to which they are allocated (trading, available for sale, held to maturity, loans, assets designated at fair value, financial assets held for disposal).

"Off-balance sheet" exposures include all financial transactions other than cash ones, which entail assuming a credit risk, regardless of the purpose of said transactions, including therein exposures in derivatives.

Type of exposure/amounts	Gross exposure					Specific value adjustments	Portfolio value adjustments	Net exposure
	Non-performing assets				Performing assets			
	Up to 3 months	Between 3 and 6 months	Between 6 months and 1 year	Over 1 year				
A. CASH EXPOSURES								
a) Bad loans before derecognition of receivables relating to insolvency proceedings	776	21	35,789	15,561,659	X	(9,359,385)	X	6,238,860
b) Bad loans relating to insolvency proceedings derecognised	-	-	-	4,682,253	X	(4,682,253)	X	-
c) Bad loans after derecognition of receivables relating to insolvency proceedings (a-b)	776	21	35,789	10,879,406	X	(4,677,132)	X	6,238,860
- of which: forbearance exposures	98	-	35,776	400,667	X	(210,121)	X	226,420
d) Unlikely to pay	3,406,618	430,649	863,327	4,034,828	X	(2,425,770)	X	6,309,652
- of which: forbearance exposures	2,338,954	326,222	477,965	1,566,058	X	(1,174,273)	X	3,534,926
e) Past due - non-performing	11,401	44,176	51,244	12,354	X	(23,910)	X	95,265
- of which: forbearance exposures	2,500	14,515	19,340	3,433	X	(6,136)	X	33,652
f) Past due - performing	X	X	X	X	1,343,759	X	(32,458)	1,311,301
- of which: forbearance exposures	X	X	X	X	325,715	X	(9,378)	316,337
g) Other performing loans	X	X	X	X	82,621,305	X	(223,494)	82,397,811
- of which: forbearance exposures	X	X	X	X	2,224,259	X	(27,074)	2,197,185
TOTAL A	**3,418,795**	**474,846**	**950,360**	**14,926,588**	**83,965,064**	**(7,126,812)**	**(255,952)**	**96,352,889**
B. OFF-BALANCE SHEET EXPOSURES								
a) Non-performing	300,129	-	-	-	X	(71,688)	X	228,441
b) Performing	X	X	X	X	9,582,464	X	(15,185)	9,567,279
TOTAL B	**300,129**	**-**	**-**	**-**	**9,582,464**	**(71,688)**	**(15,185)**	**9,795,720**
TOTAL (A+B)	**3,718,924**	**474,846**	**950,360**	**14,926,588**	**93,547,528**	**(7,198,500)**	**(271,137)**	**106,148,609**

Note that off-balance sheet performing exposures include exposures generated by derivative contracts with poor credit quality with a gross value of euro 18.3 million. For further details on the credit quality of derivatives and of assets held for trading, refer to the disclosure shown in table A.1.2. The value adjustments (specific and portfolio) relating to off-balance sheet exposures were generated by valuations of guarantees given and irrevocable commitments to disburse funds.

Disclosure on derecognition regarding bad loans of debtors subject to insolvency proceedings

The Bank of Italy Circular no. 272 dated 30 July 2008 (IV update dated 18 December 2012) envisages the option to derecognise the portion of bad loans deemed unrecoverable from the accounts. The cited regulation includes the decision made by competent corporate bodies which, by means of a specific resolution, have acknowledged the non-recoverability of all or part of the loan or have ceased collection proceedings for economic reasons, as a circumstance for derecognition. Group banks exercised this option in the current year and in previous years. The derecognition regarded the part deemed non-recoverable of all receivables due from debtors, who, during the year, were subject to insolvency proceedings (bankruptcy, administrative compulsory liquidation, arrangement with creditors, extraordinary receivership of large companies in difficulty), even though the banks were regularly admitted as creditors in the insolvency proceedings for the entire amount of the receivable in question.
More specifically, in 2016, bad loans (to the extent of the part deemed non-recoverable) amounting to euro 1,243.9 million were derecognised. At the time of derecognition, specific adjusting entries were in place for euro 448.7 million, following value adjustments on loans already charged to the income statement. Therefore, the derecognition resulted in further charges to the income statement for the year of euro 795.2 million.
In 2016, insolvency proceedings involving receivables totalling euro 920.9 million that had already been derecognised in previous years were finalised.
As a result of the above changes, as at 31 December 2016, the bad loans derecognised relating to insolvency proceedings that were still under way amounted to euro 4,682.3 million; said loans therefore must be taken into consideration when calculating the effective level of coverage of bad loans. To this end, for the cited loans in tables A.1.6, A.1.7 and A.1.8, the disclosure relating to gross exposures and to value adjustments is shown in two ways, namely before and after derecognition.

A.1.7 Banking Group – Cash exposures to customers: changes in gross non-performing loans

Type/Category	Bad loans before derecognition (*)	Bad loans after derecognition	Unlikely to pay	Past due – non-performing
A. Gross exposure: opening balance	**14,785,936**	**10,470,615**	**10,031,657**	**263,423**
- of which: exposures sold not derecognised	120,327	120,041	52,658	5,744
B. Increases	**3,023,703**	**2,979,828**	**2,813,735**	**154,423**
B.1 inflows from performing loans	192,321	192,321	2,067,144	121,317
B.2 transfers from other categories of non-performing loans	2,457,802	2,457,802	143,903	1,212
B.3 other increases	373,580	329,705	602,688	31,894
C. Decreases	**(2,211,394)**	**(2,534,451)**	**(4,109,970)**	**(298,671)**
C.1 outflows to performing loans	(720)	(720)	(558,849)	(42,769)
C.2 write-offs	(1,505,060)	(1,828,117)	(128,432)	(1,905)
C.3 repayments	(430,439)	(430,439)	(1,018,197)	(35,595)
C.4 gains on disposals	(99,843)	(99,843)	-	-
C.5 losses on disposal	(135,148)	(135,148)	(5,574)	-
C.6 transfers to other categories of non-performing loans	(526)	(526)	(2,384,005)	(218,386)
C.7 other decreases	(39,658)	(39,658)	(14,913)	(16)
D. Gross exposure: closing balance	**15,598,245**	**10,915,992**	**8,735,422**	**119,175**
- of which: exposures sold not derecognised	119,605	119,208	42,492	1,552

(*) The column shows bad loans including the part of the receivable retained non-recoverable, relating to debtors subject to insolvency proceedings still under way, which have been derecognised in advance (with respect to the date of closure of the insolvency proceedings).

A.1.7 bis Banking group - Cash exposures to customers: changes in gross forbearance exposures broken down by credit quality

Type/Category	Forbearance exposures: non-performing	Forbearance exposures: performing
A. Gross exposure: opening balance	**3,937,063**	**3,616,031**
- of which: exposures sold not derecognised	13,478	55,611
B. Increases	**2,515,925**	**874,069**
B.1 inflows from performing loans not subject to forbearance measures	749,368	361,053
B.2 inflows from performing loans subject to forbearance measures	1,617,418	X
B.3 inflows from non-performing forbearance exposures	X	372,291
B.4 other increases	149,139	140,725
C. Decreases	**1,267,460**	**1,940,126**
C.1 outflows to performing loans not subject to forbearance measures	X	100,697
C.2 outflows to performing loans subject to forbearance measures	372,291	X
C.3 outflows to non-performing forbearance exposures	X	1,617,418
C.4 write-offs	142,938	-
C.5 repayments	739,766	222,011
C.6 gains on disposals	4,224	-
C.7 losses on disposal	3,685	-
C.8 other decreases	4,556	-
D. Gross exposure: closing balance	**5,185,528**	**2,549,974**
- of which: exposures sold not derecognised	16,081	43,267

A.1.8 Banking Group – Non-performing cash exposures to customers: changes in total value adjustments

Type/Category	Bad loans before derecognition (*)	Bad loans after derecognition		Unlikely to pay		Past due – non-performing	
		Total	Of which: forbearance exposures	Total	Of which: forbearance exposures	Total	Of which: forbearance exposures
A. Total adjustments: opening balance	**8,327,651**	**4,012,329**	**36,144**	**2,549,271**	**874,091**	**54,489**	**13,236**
- of which: exposures sold not derecognised	43,789	43,503	-	4,978	-	423	-
B. Increases	**3,146,761**	**3,102,887**	**357,836**	**1,052,621**	**690,807**	**14,628**	**6,872**
B.1 value adjustments	2,155,596	2,155,596	127,754	934,201	577,414	11,704	4,174
B.2 losses on disposal	135,148	135,148	2,897	5,574	788	-	-
B.3 transfers from other categories of non-performing loans	677,273	677,273	168,255	22,432	9,772	226	-
B.4 other increases	178,744	134,870	58,930	90,414	102,833	2,698	2,698
C. Decreases	**(2,115,027)**	**(2,438,084)**	**(183,859)**	**(1,176,122)**	**(390,625)**	**(45,207)**	**(13,972)**
C.1 recoveries from valuation	(319,864)	(319,864)	(6,628)	(188,061)	(99,992)	(5,393)	(1,313)
C.2 recoveries from repayment	(66,868)	(66,868)	(1,421)	(77,772)	(33,878)	(138)	(109)
C.3 profits on disposal	(46,747)	(46,747)	(289)	(1,527)	(519)	-	-
C.4 write-offs	(1,505,060)	(1,828,117)	(70,769)	(128,432)	(72,010)	(1,905)	(159)
C.5 transfers to other categories of non-performing loans	(193)	(193)	-	(664,563)	(181,070)	(35,175)	(10,449)
C.6 other decreases	(176,295)	(176,295)	(104,752)	(115,767)	(3,156)	(2,596)	(1,942)
D. Total adjustments: closing balance	**9,359,385**	**4,677,132**	**210,121**	**2,425,770**	**1,174,273**	**23,910**	**6,136**
- of which: exposures sold not derecognised	48,430	48,033	202	4,365	925	156	26

(*) The column shows adjustments including those relating to bad loans of debtors subject to insolvency proceedings still under way, which have been derecognised in advance (with respect to the date of closure of the insolvency proceedings), with reference to the part retained non-recoverable.

A.2 Classification of exposures based on internal and external ratings

A.2.1 Banking Group - Breakdown of cash and "off-balance sheet" exposures by external rating classes

Exposure	External rating classes							
	AAA/AA-	A+/A-	BBB+/BBB-	BB+/BB-	B+/B-	Lower B-	Unrated	Total
A. Cash exposures	**246,446**	**1,047,896**	**23,529,666**	**636,462**	**555,266**	**-**	**77,842,414**	**103,858,150**
B. Derivatives	14,686	168,622	40,306	13,578	20	-	416,297	653,509
B.1 Financial derivatives	14,686	168,622	40,306	13,578	20	-	416,297	653,509
B.2 Credit derivatives	-	-	-	-	-	-	-	-
C. Guarantees given	**2,723**	**8,408**	**255,877**	**417,089**	**61,727**	**508**	**3,727,313**	**4,473,645**
D. Commitments to disburse funds	**3,031**	**250**	**102,541**	**40,927**	**10,132**	**28**	**5,194,623**	**5,351,532**
E. Other	**-**	**40,081**	**12,081**	**2,921**	**-**	**-**	**117,872**	**172,955**
Overall total	**266,886**	**1,265,257**	**23,940,471**	**1,110,977**	**627,145**	**536**	**87,298,519**	**114,509,791**

In line with the provisions contained in the Bank of Italy Circular no. 262, the exposures indicated in this table include exposures in UCIT units and the counterparty risk related to Securities Financial Transactions (SFT), limited to transactions granting or assuming securities or goods on loan. As indicated in said Circular, this table matches the exposures indicated in the above tables A.1.3 and A.1.6, with the exception of UCIT units.
The Banco Popolare Group adopts the creditworthiness assessments issued by the following External Credit Assessment Institutions (ECAI): Standard & Poor's ratings Services, Moody's Investors Service, Fitch Ratings.
The aforesaid agencies are valid for all the banks belonging to the Group. It should be noted that, if there are two assessments of the same customer, the more prudential assessment is adopted; in the case of three assessments, the intermediate one is adopted.

The table connecting the classes of risk with the ratings of the agencies used is shown below.

CLASS	Fitch Ratings	Moody's	Standard & Poor's
AAA/AA-	*from AAA to AA-*	*from Aaa to Aa3*	*from AAA to AA-*
A+/A-	*from A+ to A-*	*from A1 to A3*	*from A+ to A-*
BBB+/BBB-	*from BBB+ to BBB-*	*from Baa1 to Baa3*	*from BBB+ to BBB-*
BB+/BB-	*from BB+ to BB-*	*from Ba1 to Ba3*	*from BB+ to BB-*
B+/B-	*from B+ to B-*	*from B1 to B3*	*from B+ to B-*
Lower B-	*CCC+ and lower*	*Caa1 and lower*	*CCC+ and lower*

A.2.2 Banking Group - Breakdown of cash and "off-balance sheet" exposures by internal rating classes

The exposures to customers shown in tables A.2.2 are assigned, with the exception of that indicated in the Banks schedule, the ratings also used to calculated capital requirements for credit risk, limited to that included in regulatory portfolios Corporate and Retail.
Specifically with regard to business customers, four distinct rating models have been developed, based on the following customer segments: Large Corporate, Mid Corporate Plus, Mid Corporate and Small Business – and one for private customers. The counterparty rating system includes twelve rating classes for each single segment (eleven performing classes and one default). These are organised below by risk level.

Due from banks	Internal rating classes									
	AAA	AA	A	BBB	BB	B	CCC	Default	Unrated	Total
A. Cash exposures	**189**	**578,680**	**1,511,310**	**1,247,863**	**1,005,378**	**49,150**	**-**	**69**	**2,334,134**	**6,726,773**
B. Derivatives	**-**	**124,978**	**88,609**	**927**	**3,428**	**-**	**-**	**-**	**112,534**	**330,476**
B.1 Financial derivatives	-	124,978	88,609	927	3,428	-	-	-	112,534	330,476
B.2 Credit derivatives	-	-	-	-	-	-	-	-	-	-
C. Guarantees given	**34**	**18,190**	**31,003**	**305,289**	**27,568**	**445**	**-**	**-**	**73,091**	**455,620**
D. Commitments to disburse funds	**-**	**169**	**308**	**1,406**	**346**	**-**	**-**	**-**	**1,620**	**3,849**
E. Other	**-**	**52,309**	**11,440**	**2,227**	**-**	**-**	**-**	**-**	**-**	**65,976**
Overall total	**223**	**774,326**	**1,642,670**	**1,557,712**	**1,036,720**	**49,595**	**-**	**69**	**2,521,379**	**7,582,694**

Loans to customers	Internal rating classes							
	Low	Medium-low	Medium	Medium-high	High	Default	Unrated	Total
A. Cash exposures	**17,928,688**	**14,831,399**	**10,466,044**	**5,350,924**	**1,551,391**	**10,409,403**	**997,800**	**61,535,649**
B. Derivatives	**40,779**	**40,304**	**44,600**	**32,485**	**7,272**	**-**	**22,331**	**187,771**
B.1 Financial derivatives	40,779	40,304	44,600	32,485	7,272	-	22,331	187,771
B.2 Credit derivatives	-	-	-	-	-	-	-	-
C. Guarantees given	**1,424,625**	**724,530**	**896,536**	**424,351**	**68,269**	**155,379**	**44,849**	**3,738,539**
D. Commitments to disburse funds	**1,534,734**	**519,567**	**757,327**	**163,305**	**12,518**	**65,935**	**96,356**	**3,149,742**
E. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total segmented exposures	**20,928,826**	**16,115,800**	**12,164,507**	**5,971,065**	**1,639,450**	**10,630,717**	**1,161,336**	**68,611,701**
Total unsegmented exposures	**-**	**-**	**-**	**-**	**-**	**2,239,625**	**35,297,283**	**37,536,908**
Total	**20,928,826**	**16,115,800**	**12,164,507**	**5,971,065**	**1,639,450**	**12,870,342**	**36,458,619**	**106,148,609**

Exposure	Internal rating classes							
	Low	Medium-low	Medium	Medium-high	High	Default	Unrated	Total
Large Corporate	2,038,561	902,392	1,009,485	550,745	36,083	72,438	45,482	4,655,186
Mid Corporate Plus	1,552,831	2,855,885	2,337,641	1,169,709	137,078	1,487,213	206,418	9,746,775
Mid Corporate	3,361,326	2,097,416	4,024,385	2,023,397	278,272	3,391,783	545,819	15,722,398
Small Business	6,574,852	2,952,622	3,683,413	1,125,805	563,282	3,983,756	334,360	19,218,090
Private	7,401,256	7,307,485	1,109,583	1,101,409	624,735	1,695,527	29,257	19,269,252
Overall total	**20,928,826**	**16,115,800**	**12,164,507**	**5,971,065**	**1,639,450**	**10,630,717**	**1,161,336**	**68,611,701**

A.3 Breakdown of guaranteed exposures by type of guarantee

A.3.1 Banking Group - Guaranteed exposures to banks

	Value of net exposure	Collateral guarantees (1)				Personal guarantees (2)									Total (1)+(2)
						Credit derivatives					Endorsement credits				
							Other derivatives								
		Real estate mortgages	Real estate financial leases	Securities	Other collateral guarantees	CLN	Governments and central banks	Other public entities	Banks	Other parties	Governments and central banks	Other public entities	Banks	Other parties	
1. Guaranteed cash exposures	515,328	-	2,781	500,291	-	-	-	-	-	-	-	-	-	484	503,556
1.1. fully guaranteed	515,328	-	2,781	500,291	-	-	-	-	-	-	-	-	-	484	503,556
- of which non-performing loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2. partially guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non-performing loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Guaranteed "off-balance sheet" exposures	261,602	-	-	-	229,462	-	-	-	-	-	-	-	-	17,165	246,627
2.1. fully guaranteed	40,573	-	-	-	28,357	-	-	-	-	-	-	-	-	12,222	40,579
- of which non-performing loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2. partially guaranteed	221,029	-	-	-	201,105	-	-	-	-	-	-	-	-	4,943	206,048
- of which non-performing loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**776,930**	**-**	**2,781**	**500,291**	**229,462**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**17,649**	**750,183**

A.3.2 Banking group - Guaranteed exposures to customers

	Value of net exposure	Collateral guarantees (1)				Personal guarantees (2)									Total (1)+(2)
						Credit derivatives					Endorsement credits				
							Other derivatives								
		Real estate mortgages	Real estate financial leases	Securities	Other collateral guarantees	CLN	Governments and central banks	Other public entities	Banks	Other parties	Governments and central banks	Other public entities	Banks	Other parties	
1. Guaranteed cash exposures:	53,750,505	33,346,010	2,426,922	7,701,571	672,048	-	-	-	-	-	20,000	29,367	48,222	8,268,425	52,512,565
1.1. fully guaranteed	52,474,398	33,310,787	2,426,922	7,519,641	642,587	-	-	-	-	-	15,123	27,475	47,252	7,864,031	51,853,818
- of which non-performing loans	10,866,616	8,014,336	1,223,372	71,109	422,647	-	-	-	-	-	15,123	10,286	2,455	935,398	10,694,726
1.2. partially guaranteed	1,276,107	35,223	-	181,930	29,461	-	-	-	-	-	4,877	1,892	970	404,394	658,747
- of which non-performing loans	383,043	28,101	-	45,729	2,120	-	-	-	-	-	4,877	1,892	-	143,766	226,485
2. Guaranteed "off-balance sheet" exposures:	4,037,628	692,583	-	1,973,029	179,939	-	-	-	-	-	-	781	12,891	888,561	3,747,784
2.1. fully guaranteed	3,573,532	685,389	-	1,947,404	50,900	-	-	-	-	-	-	349	6,877	812,711	3,503,630
- of which non-performing loans	69,141	38,543	-	3,576	2,963	-	-	-	-	-	-	-	-	22,152	67,234
2.2. partially guaranteed	464,096	7,194	-	25,625	129,039	-	-	-	-	-	-	432	6,014	75,850	244,154
- of which non-performing loans	6,288	265	-	314	318	-	-	-	-	-	-	-	-	3,942	4,839
Total	**57,788,133**	**34,038,593**	**2,426,922**	**9,674,600**	**851,987**	**-**	**-**	**-**	**-**	**-**	**20,000**	**30,148**	**61,113**	**9,156,986**	**56,260,349**

B. Breakdown and concentration of exposures

B.1 Banking Group - Breakdown by sector of cash and "off-balance sheet" exposures to customers (book value)

Exposure/Counterparty	Governments			Other public entities			Financial companies			Insurance companies			Non-financial companies			Other parties		
	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
A. Cash exposures																		
A.1 Bad loans (*)	-	-	X	9	(1,037)	X	95,555	(101,160)	X	-	-	X	5,163,076	(3,652,583)	X	980,220	(922,352)	X
- of which: forbearance exposures	-	-	X	-	-	X	6,891	(4,158)	X	-	-	X	211,937	(201,902)	X	7,592	(4,061)	X
A.2 Unlikely to pay	3	(6)	X	13,752	(2,642)	X	141,506	(99,910)	X	315	(4,175)	X	5,569,510	(2,229,304)	X	584,566	(89,733)	X
- of which: forbearance exposures	-	-	X	6,399	(336)	X	90,939	(60,005)	X	-	-	X	3,196,572	(1,089,492)	X	241,016	(24,440)	X
A.3 Past due - non-performing	-	(1)	X	-	-	X	65	(33)	X	-	-	X	71,698	(18,577)	X	23,502	(5,299)	X
- of which: forbearance exposures	-	-	X	-	-	X	-	-	X	-	-	X	27,927	(5,182)	X	5,725	(954)	X
A.4 Performing loans	18,368,699	X	(69)	319,795	X	(942)	13,522,440	X	(19,001)	337,837	X	(15)	34,555,471	X	(185,620)	16,604,870	X	(50,305)
- of which: forbearance exposures	6	X	-	1,572	X	(5)	11,192	X	(76)	-	X	-	1,828,611	X	(27,217)	672,141	X	(9,154)
Total A	**18,368,702**	**(7)**	**(69)**	**333,556**	**(3,679)**	**(942)**	**13,759,566**	**(201,103)**	**(19,001)**	**338,152**	**(4,175)**	**(15)**	**45,359,755**	**(5,900,464)**	**(185,620)**	**18,193,158**	**(1,017,384)**	**(50,305)**
B. "Off-balance sheet" exposures																		
B.1 Bad loans	-	-	X	-	-	X	578	(922)	X	-	-	X	29,745	(27,397)	X	627	(969)	X
B.2 Unlikely to pay	-	-	X	8	(12)	X	110	(34)	X	-	-	X	193,981	(41,873)	X	1,166	(131)	X
B.3 Other non-performing assets	-	-	X	-	-	X	-	-	X	-	-	X	2,065	(342)	X	161	(8)	X
B.4 Performing loans	213,549	X	(148)	18,789	X	(29)	2,286,976	X	(405)	13,501	X	(37)	6,110,250	X	(11,153)	817,235	X	(3,413)
Total B	**213,549**	**-**	**(148)**	**18,797**	**(12)**	**(29)**	**2,287,664**	**(956)**	**(405)**	**13,501**	**-**	**(37)**	**6,336,041**	**(69,612)**	**(11,153)**	**819,189**	**(1,108)**	**(3,413)**
Total (A+B) 31/12/2016	**18,582,251**	**(7)**	**(217)**	**352,353**	**(3,691)**	**(971)**	**16,047,230**	**(202,059)**	**(19,406)**	**351,653**	**(4,175)**	**(52)**	**51,695,796**	**(5,970,076)**	**(196,773)**	**19,012,347**	**(1,018,492)**	**(53,718)**
Total (A+B) 31/12/2015	**19,537,744**	**(620)**	**(911)**	**423,547**	**(4,154)**	**(1,389)**	**16,450,589**	**(189,511)**	**(18,305)**	**331,598**	**-**	**(139)**	**54,316,482**	**(5,608,277)**	**(334,414)**	**19,456,452**	**(875,309)**	**(63,044)**

(*) Specific value adjustments on bad loans set forth in point A.1., including the part of the receivable retained non-recoverable, relating to debtors subject to insolvency proceedings still under way, which have been derecognised in advance with respect to the date of closure of the insolvency proceedings, would correspond to euro 9,359,385 thousand (instead of euro 4,677,132).

B.2 Banking Group - Geographical breakdown of cash and "off-balance sheet" exposures to customers (book values)

Exposure/Geographic Area	Italy		Other European countries		America		Asia		Rest of world	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. Cash exposures										
A.1 Bad loans (*)	6,214,139	(4,608,392)	22,415	(61,849)	543	(1,749)	1,522	(4,947)	241	(195)
A.2 Unlikely to pay	6,286,307	(2,402,544)	17,909	(6,080)	5,327	(16,962)	109	(184)	-	-
A.3 Past due - non-performing	95,219	(23,899)	46	(9)	-	(1)	-	(1)	-	-
A.4 Performing loans	82,001,693	(249,726)	1,221,118	(1,105)	438,861	(196)	39,195	(4,895)	8,245	(30)
Total A	**94,597,358**	**(7,284,561)**	**1,261,488**	**(69,043)**	**444,731**	**(18,908)**	**40,826**	**(10,027)**	**8,486**	**(225)**
B. "Off-balance sheet" exposures										
B.1 Bad loans	30,950	(29,288)	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	194,382	(42,050)	883	-	-	-	-	-	-	-
B.3 Other non-performing assets	2,226	(350)	-	-	-	-	-	-	-	-
B.4 Performing loans	9,240,244	(14,990)	212,972	(184)	1,966	(2)	4,391	(7)	727	(2)
Total B	**9,467,802**	**(86,678)**	**213,855**	**(184)**	**1,966**	**(2)**	**4,391**	**(7)**	**727**	**(2)**
Total A+B 31/12/2016	**104,065,160**	**(7,371,239)**	**1,475,343**	**(69,227)**	**446,697**	**(18,910)**	**45,217**	**(10,034)**	**9,213**	**(227)**
Total A+B 31/12/2015	**108,465,835**	**(6,979,555)**	**1,572,581**	**(89,333)**	**374,869**	**(14,526)**	**54,485**	**(10,409)**	**40,656**	**(2,250)**

(*) Specific value adjustments on bad loans set forth in point A.1., including the part of the receivable retained non-recoverable, relating to debtors subject to insolvency proceedings still under way, which have been derecognised in advance with respect to the date of closure of the insolvency proceedings, would correspond to euro 9,359,385 thousand (instead of euro 4,677,132).

In greater detail, Italian exposures are broken down by geographic area as shown in the table below:

Exposure/Geographic Area	North West Italy		North East Italy		Central Italy		South Italy and Islands	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. Cash exposures								
A.1 Bad loans	2,519,418	(1,932,166)	1,459,367	(859,137)	1,584,931	(1,240,357)	650,423	(576,732)
A.2 Unlikely to pay	3,109,381	(1,198,947)	1,363,091	(543,749)	1,325,826	(468,108)	488,009	(191,740)
A.3 Past due - non-performing	35,660	(10,004)	24,980	(5,571)	17,231	(4,551)	17,348	(3,773)
A.4 Performing loans	27,546,072	(104,917)	34,175,265	(76,277)	17,060,084	(47,710)	3,220,272	(20,822)
Total A	**33,210,531**	**(3,246,034)**	**37,022,703**	**(1,484,734)**	**19,988,072**	**(1,760,726)**	**4,376,052**	**(793,067)**
B. "Off-balance sheet" exposures								
B.1 Bad loans	10,991	(11,453)	12,926	(13,007)	5,721	(3,588)	1,312	(1,240)
B.2 Unlikely to pay	73,796	(26,556)	30,785	(5,820)	86,786	(8,963)	3,015	(711)
B.3 Other non-performing assets	868	(233)	1,247	(44)	67	(38)	44	(35)
B.4 Performing loans	3,069,547	(7,773)	2,570,246	(3,808)	3,219,432	(2,848)	381,019	(561)
Total B	**3,155,202**	**(46,015)**	**2,615,204**	**(22,679)**	**3,312,006**	**(15,437)**	**385,390**	**(2,547)**
Total (A+B) 31/12/2016	**36,365,733**	**(3,292,049)**	**39,637,907**	**(1,507,413)**	**23,300,078**	**(1,776,163)**	**4,761,442**	**(795,614)**
Total (A+B) 31/12/2015	**36,943,355**	**(3,105,350)**	**23,384,672**	**(1,396,428)**	**43,104,828**	**(1,715,462)**	**5,032,980**	**(762,315)**

B.3 Banking Group - Geographical breakdown of cash and "off-balance sheet" exposures to banks (book values)

Exposure/Geographic Area	Italy		Other European countries		America		Asia		Rest of world	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. Cash exposures										
A.1 Bad loans	-	-	69	(276)	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Past due - non-performing	-	-	-	-	-	-	-	-	-	-
A.4 Performing loans	4,909,575	-	1,543,334	-	206,605	-	17,798	-	49,392	(5)
Total A	**4,909,575**	**-**	**1,543,403**	**(276)**	**206,605**	**-**	**17,798**	**-**	**49,392**	**(5)**
B. "Off-balance sheet" exposures										
B.1 Bad loans	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
B.3 Other non-performing assets	-	-	-	-	-	-	-	-	-	-
B.4 Performing loans	408,397	-	256,800	-	26,204	-	76,367	-	22,179	-
Total B	**408,397**	**-**	**256,800**	**-**	**26,204**	**-**	**76,367**	**-**	**22,179**	**-**
Total A+B 31/12/2016	**5,317,972**	**-**	**1,800,203**	**(276)**	**232,809**	**-**	**94,165**	**-**	**71,571**	**(5)**
Total A+B 31/12/2015	**3,807,923**	**-**	**1,989,843**	**(289)**	**214,223**	**-**	**56,493**	**(39)**	**139,676**	**(4)**

B.4 Large exposures

From 1 January 2014, the new harmonised regulations for banks and investment companies contained in (EU) Regulation no. 575/2013 ("CRR") and in directive 2013/36/EU ("CRD IV") dated 26 June 2013 came into force. These transpose the standards defined by the Basel Committee for banking supervision (so-called Basel 3 framework) to the European Union.

As regards this item, recognition will be made of the amount (unweighted and weighted values) and the number of "risk positions" which represent a "large exposure" according to the provisions of Circular no. 286 of 17 December 2013 "Instructions for the preparation of prudential reports for banks and securities brokerage companies" issued by the Bank of Italy.

The exposure of an entity towards a customer or a group of related customers is considered a large exposure when its value is equal to or exceeds 10% of the eligible capital of the entity ("CRR", article 392).

Considering the effect of exemptions and of credit risk mitigation, large exposures must in any event respect the threshold of 25% of the entity's eligible capital.

As at 31 December 2016, eligible capital coincides with the amount of Own Funds.

On the basis of the new regulations, on the same date, 11 risk positions classified as "large exposures" were recognised with a total amount ("unweighted" exposure) of euro 48,274 million, corresponding to a weighted exposure of 6,013 million.
The main Groups indicated as "Large exposures" are:

- London Stock Exchange Group plc for euro 16,535 million (euro 706 million considering the weighting factors and the exemptions under art. 400 CRR) mostly comprised of repurchase agreements with the Clearing and Guarantee House;
- the Ministry of Economy and Finance for euro 18,192 million (euro 0.4 million considering the weighting factors and the exemptions under art. 400 CRR) mostly comprised of Government securities in the portfolio;
- the Tax Authority for euro 4,567 million (euro 55 million considering the weighting factors and the exemptions under art. 400 CRR) mostly comprised of tax-related entries.

The remaining 8 positions regard banking groups, central banks, subsidiaries of Central Administrations and private production companies.

Each of the positions reported is within the threshold of 25% of eligible capital.

	31/12/2016	31/12/2015
a) Amount (book value) (*)	48,274,133	48,351,711
b) Amount (weighted value) (*)	6,013,191	4,800,220
c) Number	11	9

(*) in thousands of euro

C. Securitisation transactions

This section illustrates the Group's exposure in terms of securitisations, both those in which the Group acts as the Originator of the receivables, and those in which the Group acts as an investor.
More specifically, with regard to third-party securitisations, illustrated in table C.2 below, the book value amounts to euro 74.5 million and represents the Group's only exposure in structured credit securities issued by third parties (in percentage terms equal to around 0.3% of the total investment held by the Group in debt securities). Part of these exposures were reclassified as at 30 September 2008 from the "Financial assets held for trading" to the "Loans to customers" portfolio, as described in Part A – Accounting policies, "A.3 - Disclosure of transfers between portfolios of financial assets"; as at 31 December 2016, the book value of securities of this type, subject to reclassification, amounted to euro 6.6 million.

Note that the instrument of securitisation has been gradually replaced by the issue of Covered Bonds, as illustrated in the paragraph below entitled "E.4 Banking Group – Covered Bond Transactions". Nevertheless, the Group is engaged in originated securitisation transactions with a view to refinancing assets in monetary policy operations with the Eurosystem. The Group set up a dedicated structure in the Parent Company's Finance Department that is able to organise the securitisations and Covered Bond issues. The collateralised portfolios of the transactions performed are constantly monitored by way of monthly and quarterly reports detailing the performance of principal and interest collections and the status of receivables.

Securitisations characterised by the full subscription by the Group of the debt securities issued by the SPE are called "originated securitisations" and their exclusive purpose is funding. In fact, Banco Popolare steps in by subscribing senior and mezzanine funds that are used to draw liquidity from the market through monetary policy operations with the Eurosystem or through repurchase agreements with market counterparts. These transactions are illustrated in Part E – Section 1 - Risks of the Banking Group. 1.3 Liquidity risk.

C.1 Securitisation transactions

QUALITATIVE INFORMATION

The following table shows securitisation transactions in place as at 31 December 2016, as well as originated securitisations derecognised from the financial statements as illustrated in more detail in the notes below the table.

SPE	Originator	Securities issue date	Transaction	Type of securitisation
Securitisations not derecognised from the financial statements				
Banco Popolare Group				
BP Mortgages S.r.l.	Banco Popolare (former BPN and former Credito Bergamasco)	June 2007	BP Mortgages 2	Performing residential mortgage loans
BP Mortgages S.r.l.	Banco Popolare (former BPV)	March 2007	BP Mortgages 1	Performing residential mortgage loans
Former Italease Group				
Italfinance Securitization Vehicle 2 S.r.l	Banco Popolare (former Banca Italease)	March 2007	ITA 9	Performing leases
Leasimpresa Finance S.r.l	Banco Popolare (former Banca Italease)	October 2006	Leasimpresa 2	Performing leases
Italfinance Securitization Vehicle S.r.l	Banco Popolare (former Banca Italease)	December 2005	ITA 8	Performing leases
Erice Finance S.r.l	Banco Popolare (former Banca Italease)	December 2005	ITA BEI	Performing leases
Securitisations fully derecognised from the financial statements				
Banco Popolare Group				
Tiepolo Finance S.r.l.	Banco Popolare (former BPL, former CR Lucca)	June 2001	Tiepolo	Bad mortgage and ordinary loans
Former Italease Group				
Italfinance Securitization Vehicle 2 S.r.l	Banco Popolare (former Banca Italease)	March 2007	ITA 9	Performing leases
Leasimpresa Finance S.r.l	Banco Popolare (former Banca Italease)	October 2006	Leasimpresa 2	Performing leases
Italfinance Securitization Vehicle S.r.l	Banco Popolare (former Banca Italease)	December 2005	ITA 8	Performing leases
Erice Finance S.r.l	Banco Popolare (former Banca Italease)	December 2005	ITA BEI	Performing leases
Originated securitisations derecognised from the financial statements				
Former Italease Group				
Italfinance Securitization Vehicle 2 S.r.l	Banco Popolare (former Banca Italease)	January 2009	ITA 11	Performing leases

As illustrated in "Part A - Accounting policies", securitisations not derecognised from the financial statements refer to transactions performed by the Group for which the risks and benefits were maintained.

The only securitisation transactions that are "fully derecognised from the financial statements" refer to:

- the "Tiepolo" transaction for which the option under IFRS 1 not to "recognise" the assets based on international accounting standards was applied, insofar as the transaction was finalised before 2004. As a result, the financial statements show the subscribed securities and any guarantees and commitments to disburse funds, adequately measured to reflect the P&L performance of the underlying assets;
- the transactions relating to the former Banca Italease Group, for which the portion of receivables in the banking sub-portfolio was derecognised and under a specific arrangement drawn up in 2009 with Alba Leasing, which substantially envisages the transfer of the risks and the benefits of the banking sub-portfolio. Said derecognition was also made for a single originated securitisation ITA 11. Therefore, in the table above, the securitisation transactions (ITA8, ITA9, Leasimpresa 2 and ITABEI) appear both as "Securitisations not derecognised from the financial statements" as regards the portion of receivables of the non-banking sub-portfolio whose risks and benefits are maintained by the Group, and as "Securitisations fully derecognised from the financial statements" as regards the portion of receivables of the banking sub-portfolio. For details of the cited arrangement with Alba Leasing, refer to the paragraph below entitled "Agreement on securitised loans between Banca Italease and Alba Leasing".

Transactions closed during the year

Bipitalia Residential
In March 2016, the only securitisation transaction made through the SPE Bipitalia Residential S.r.l was closed, and the existing securities were redeemed in advance. More specifically, on 18 March 2016, Banco Popolare signed the retrocession contract and repurchased the entire residual portfolio of mortgage loans underlying the securitisation transactions and on the payment date of 30 March 2016, the SPE made the early redemption of the securities still outstanding. On 24 March 2016, the Termination Letter was signed by all of the parties involved.

Italfinance Securitisation Vehicle 2 S.r.l. (ITA10)
Pami Finance S.r.l. (Quicksilver)
As regards the ITA 10 and Quicksilver securitisations, please refer to the section "Liquidity Risk" of these notes to the financial statements.

Securitisation transactions in place and significant events during 2016

Transactions relating to the former Banco Popolare Group

BP Mortgages 2 (June 2007)

On 22 June 2007, Banca Popolare di Novara and Credito Bergamasco, both now Banco Popolare sold landed residential mortgage loans and residential mortgage loans backed by a voluntary mortgage on the property to the SPE BP Mortgages S.r.l. The portfolio sold amounted to euro 1,610 million; on 29 June 2007, the SPE issued four classes of rated securities that were placed with institutional investors and two classes of unrated junior securities subscribed by the Originators; all of the classes of securities were listed on the "Irish Stock Exchange". As regards the transaction, the Originator Banks, now only Banco Popolare, acted as Servicers and managed the loan collection.

Loans portfolio

Bank	Value 31/12/2016	Value 31/12/2015
Banco Popolare	416,479	489,494

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

Issue characteristics

Class	Type	Issue value	Value as at 31/12/2016	Interest rate	Maturity	Rating Moody's/S&P/ Fitch (4)
A1	Senior	147,300	-	Euribor 3 months + 0.07%		
A2	Senior (1)	1,382,000	277,598	Euribor 3 months + 0.13%	July 2044	Aa2/A+/AA+
B	Mezzanine	28,200	28,200	Euribor 3 months + 0.25%	July 2044	Aa2/A/AA
C	Mezzanine (1)	36,200	36,200	Euribor 3 months + 0.66%	July 2044	Aa2/BBB+/BBB
M1	Junior (2)	8,639	8,639	Euribor 3 months + 2% + Additional return	July 2044	unrated
M2	Junior (3)	7,479	7,479	Euribor 3 months + 2% + Additional return	July 2044	unrated
	Total	**1,609,818**	**358,116**			

(1) Following their placement on the market, Banco Popolare purchased Senior securities amounting to a nominal value of euro 685.8 million and mezzanine securities for a nominal value of euro 11.4 million.
(2) The class M1 junior security was subscribed by the former Banca Popolare di Novara, now Banco Popolare.
(3) The class M2 junior security was subscribed by the former Creberg, now Banco Popolare.
(4) Rating as at 31 December 2016.

Significant events during 2016
In July 2016, Moody's upgraded the Class C Notes of the transaction from "A1" to "Aa2". In September 2016, several amendments were made to the contractual documentations in order to appoint "The Bank of New York Mellon, London branch" as the Transaction Bank.

Accessory financial transactions
To immunise the interest rate risk to which the SPE is exposed owing to the mismatch between the securitised mortgage rates and the yield of the issued bonds, the Originator Banks, now only Banco Popolare, entered an Interest Rate Swap agreement with the SPE, with Banca Aletti as intermediary.

Contractual agreements with an obligation to provide financial support to the SPE (IFRS 12, par. 14)
In June 2012, following the loss of the minimum rating needed for the issue of the guarantee relating to the agreement called "First Demand Guarantee", Banco Popolare set up a collateral account, segregated with respect to the Company's separate assets, the amount of which is reviewed annually on the Interest Payment Date in July, to take into account the amortisation of the portfolio assigned; as at 31 December 2016, the amount of collateral paid in was euro 12.4 million.

Financial support provided to the entity (IFRA 12, par. 15)
During the year no financial support other than that envisaged under the agreement was given.

BP Mortgages 1 (March 2007)

On 16 March 2007, Banca Popolare di Verona, now Banco Popolare, acting as Originator Bank, sold landed and residential mortgage loans to the SPE BP Mortgages S.r.l. for euro 1,476 million; on 11 April 2007, the SPE issued four classes of rated securities that were placed with institutional investors and one class of unrated junior securities subscribed by the Originator; all classes of securities were listed on the Luxembourg Stock Exchange. As regards the transaction, the Originator Bank acted as Servicer and managed the collection of receivables.

Loans portfolio

Bank	Value 31/12/2016	Value 31/12/2015
Banco Popolare	258,366	316,154

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

Issue characteristics

Class	Type	Issue value	Value 31/12/2016	Interest rate	Maturity	Rating Moody's/S&P/ Fitch (3)
A1	Senior	202,700	-	Euribor 3 months + 0.06%		
A2	Senior (1)	1,172,650	160,686	Euribor 3 months + 0.13%	April 2043	Aa2/A+/AA+
B	Mezzanine	25,300	25,300	Euribor 3 months + 0.19%	April 2043	Aa2/A/AA
C	Mezzanine	32,600	32,600	Euribor 3 months + 0.48%	April 2043	Aa2/BBB+/BBB-
M	Junior (2)	14,500	14,500	Euribor 3 months + 2.5% plus Additional return	April 2043	unrated
	Total	**1,447,750**	**233,086**			

(1) Following their placement on the market, Banco Popolare purchased Senior notes amounting to a nominal value of euro 429.6 million and mezzanine notes for euro 8.3 million.
(2) The junior notes were subscribed by the former Banca Popolare di Verona now Banco Popolare.
(3) Rating as at 31 December 2016.

Significant events during 2016
In July 2016, Moody's upgraded the Class C Notes of the transaction from "A2" to "Aa2".

Accessory financial transactions
To immunise the interest rate risk to which the SPE is exposed owing to the mismatch between the securitised mortgage rates and the yield of the issued bonds, the Originator Bank entered an Interest Rate Swap agreement with the SPE, with Banca Aletti as intermediary.

Contractual agreements with an obligation to provide financial support to the SPE (IFRS 12, par. 14)
In June 2012, following the loss of the minimum rating needed for the issue of the guarantee relating to the agreement called "First Demand Guarantee", Banco Popolare set up a collateral account, segregated with respect to the Company's separate assets, the amount of which is reviewed annually on the Interest Payment Date in July, to take into account the amortisation of the portfolio assigned; as at 31 December 2016, the amount of collateral paid in was euro 9.42 million.

Financial support provided to the entity (IFRA 12, par. 15)
During the year no financial support other than that envisaged under the agreement was given.

Tiepolo

In 2000, several network banks, Banca Popolare di Lodi and Cassa di Risparmio Lucca Pisa Livorno, now Banco Popolare, carried out the securitisation of bad mortgage and ordinary loans; more specifically, on 30 December 2000, the bad loans were sold to the SPE Tiepolo Finance S.r.l, which funded the purchase of the same by issuing bonds on

29 June 2001. As regards the transaction, Banco Popolare acted both as Servicer, managing the collection of loans, and as Cash Manager. The loans that at the time of the sale amounted to euro 153.5 million, as at 31 December 2016, amounted to euro 3.7 million (euro 5 million as at 31 December 2015). Banco Popolare holds the junior notes (class C), the value of which is euro 50.5 million, fully written down in previous years. As regards the performance of the transaction, the coupons due were written down by euro 0.1 million over the year. As at 31 December 2016, the credit exposure to the SPE Tiepolo Finance totalled euro 1.9 million.

Transactions relating to the former Banca Italease Group

The following paragraphs illustrate the financial support provided to transactions finalised by the former Italease Group and a description of the characteristics of each transaction.

Contractual agreements with an obligation to provide financial support to the SPE (IFRS 12, par. 14)

Agreement on securitised loans between Banca Italease and Alba Leasing (referred to as "Agreement on securitised loans")

On 24 December 2009, Alba Leasing and the former Banca Italease signed an agreement regarding the transfer to Alba Leasing of securitised loans originating from the banking channel.

The Agreement on securitised loans was structured to enable Alba Leasing to enjoy the economic-financial effects that would have been generated if the portfolio of securitised loans originating from the banking channel in place as at 31 December 2009 had been transferred to Alba Leasing on 31 March 2009. In this regard, it is envisaged that the risks relating to any failure to repay the loans included in the securitisations, originating from the banking channel, are assumed by Alba Leasing and that, similarly, Alba Leasing received the cash flows relating to the junior notes of the securitisations and any further rights to receive subsequent amounts, until the junior notes are fully covered.

Alba Leasing, in turn, has undertaken to pay the former Banca Italease the principal and interest amounts due with relation to the instalments and/or payments or portions of loans originating from the banking channel which, after 31 December 2009, were in default, plus, where due, any expense, cost and/or amount envisaged by the financial documentation of each securitisation with respect to the failure to pay - by the debtors on the relative contractual due dates - the instalments and/or payments or portions of loans originating from the banking channel. The former Banca Italease undertook an obligation vis-à-vis Alba Leasing to transfer these amounts to SPEs. The former Banca Italease undertook a similar obligation vis-à-vis Alba with regard to the loans in the non-banking sub-portfolio.

In execution of the above, Alba Leasing undertook to repay the principal amount of the junior notes relating to securitised loans originating from the banking channel to the former Banca Italease, after individual adjustments, in accordance with the rules and the priorities envisaged for each securitisation. The other payments that will be made by the SPEs to the former Banca Italease - related to the loans originating from the banking channel - will, as regards the portion related to the junior note and all other amounts subordinated to the same in the order of payments, pertain to Alba Leasing. With the exception of payments that will be made by the SPEs as remuneration for the junior notes, for the portion related to the securitised loans originating from the banking channel, all of the above refer to the period up to 31 March 2009.

By virtue of said agreement, in 2016, support was provided for the ITA9 securitisation through the repurchase of loans in default, corresponding to euro 0.4 million.

Repurchase of loans relating to contracts in default

Following the cited "Agreement on securitised loans between Banca Italease and Alba Leasing" in September 2010, an agreement amending the servicing contract between the former Banca Italease and the SPEs was signed, on the basis of which the former Banca Italease is bound to provide credit support, if certain conditions arise. In said cases, the former Banca Italease is committed to providing credit support (agreement no longer in place) through the disbursement of the receivables classified as in default to the SPE and/or to repurchase the same for an amount corresponding to at least the "Minimum *Collateralisation* Amount".

During 2016 loans in default for the ITA8 and ITA 9 securitisations were repurchased for the amount of euro 0.2 million and euro 6.6 million respectively.

Financial support provided to the entity (IFRS 12, par. 15)

During the year no financial support other than that envisaged under the agreement was given.

Description of transactions

ITA 8

In October 2005, Mercantile Leasing (which then merged into Banca Italease) and Banca Italease (merged into Banco Popolare) sold a portfolio of loans resulting from lease contracts to the SPE Italfinance Securitisation Vehicle S.r.l. for euro 1,128 million; on 7 December 2005 the SPE issued four classes of rated notes placed with institutional investors and one class of junior unrated notes subscribed by the Originators. The notes are listed on the Luxembourg Stock Exchange. As regards this transaction, the Originator Banks (now only Banco Popolare) acted as Servicer and managed the loans.

Loans portfolio

Bank	Value 31/12/2016	Value 31/12/2015
Banco Popolare (former Banca Italease)	30,537	44,247

Issue characteristics

Class	Type	Issue value	Value as at 31/12/2016	Interest rate	Maturity	Rating Moody's/S&P(*)
A	Senior	959,000	6,666	Euribor 3 months + 0.15%	March 2023	Aa2/AA-
B	Mezzanine	83,000	1,217	Euribor 3 months + 0.38%	March 2023	A1/A
C	Mezzanine	56,000	821	Euribor 3 months + 0.65%	March 2023	A3/BBB+
D	Mezzanine	18,500	272	Euribor 3 months + 2.15%	March 2023	A3/BBB
E	Junior	11,320	11,320	Euribor 3 months + 1% + Additional return	March 2023	unrated
	Total	**1,127,820**	**20,296**			

(*) rating as at 31 December 2016

The Notes are entirely held by Banco Popolare, euro 13.5 million refers to the non-banking sub-portfolio belonging to Banco Popolare and euro 6.8 million (euro 2.5 million in Senior Notes and euro 4.3 million in Junior Notes) refer to the banking sub-portfolio, to which the provisions contained in the "Agreement on securitised loans" illustrated in the previous paragraph "Agreement on securitised loans between Banca Italease and Alba Leasing" apply.

Significant events during 2016
In December 2016, Moody's upgraded the Senior and Mezzanine Notes, in particular:
- Series 1-A Notes rose from "A1" to "Aa2";
- Series 1-B Notes rose from "A3" to "A1";
- Series 1-C Notes rose from "Baa2" to "A3";
- Series 1-D Notes rose from "Baa3" to "A3".

In August 2016, Standard & Poor's upgraded the Senior and Mezzanine Notes, in particular:
- Series 1-B Notes rose from "A-" to "A";
- Series 1-C Notes rose from "BBB" to "BBB+";
- Series 1-D Notes rose from "BB" to "BBB".

Accessory financial transactions
The SPE signed an "Interest Rate Swap" agreement with BNP Paribas to hedge against the interest rate risk of the former.

ITABEI

Significant events during 2016
In September 2016, the Senior notes still outstanding, issued under the transaction, were fully redeemed. Following the full redemption of the notes, in the same month of September 2016, the swap entered into at the time by the special purpose entity and BNP Paribas to hedge interest rate risk were terminated and the cash reserve was released.

As at 31 December 2016, the receivables of the SPE Erice Finance amounted to euro 112.8 million.

ITA 9

In January 2007, Mercantile Leasing (merged into Banca Italease) and Banca Italease (merged into Banco Popolare) sold a portfolio of loans resulting from lease contracts to the SPE Italfinance Securitisation Vehicle 2 S.r.l. for euro 1,696 million. On 1 March 2007, the SPE issued four classes of rated notes that were placed with institutional investors and one class of unrated junior notes subscribed by the Originators. The notes are listed on the Luxembourg Stock Exchange. As regards this transaction, the Originator Banks (now only Banco Popolare) acted as Servicer and managed the loans.

Loans portfolio

Bank	Value 31/12/2016	Value 31/12/2015
Banco Popolare (former Banca Italease)	129,111	171,197

Issue characteristics

Class	Type	Issue value	Value as at 31/12/2016	Interest rate	Maturity	Rating Moody's/Fitch(*)
A	Senior	1,442,400	79,270	Euribor 3 months + 0.12%	January 2026	A2/AA
B	Mezzanine	125,000	15,610	Euribor 3 months + 0.28%	January 2026	Baa3/A-
C	Mezzanine	84,300	10,525	Euribor 3 months + 0.55%	January 2026	Ba2/BBB+
D	Mezzanine	27,900	3,490	Euribor 3 months + 0.75%	January 2026	B1/BBB-
E	Junior	16,272	16,272	Euribor 3 months + 10% + Additional return	January 2026	unrated
	Total	**1,695,872**	**125,167**			

(*) rating as at 31 December 2016

The Notes are entirely held by Banco Popolare, euro 67.5 million refers to the non-banking sub-portfolio belonging to Banco Popolare and euro 57.7 million (euro 41.1 million in Senior Notes, euro 9.3 million in Mezzanine Notes and euro 7.3 million in Junior Notes) refer to the banking sub-portfolio, to which the provisions contained in the "Agreement on securitised loans" illustrated in the previous paragraph "Agreement on securitised loans between Banca Italease and Alba Leasing" apply.

Significant events during 2016

In December 2016, Moody's upgraded the Senior Notes, in particular:
- Series 1-A Notes rose from "A3" to "A2";
- Series 1-B Notes rose from "Ba1" to "Baa3";
- Series 1-C Notes rose from "Ba3" to "Ba2".

In December 2016, Fitch upgraded the Senior Notes, in particular:
- Series 1-B Notes rose from "BBB" to "A-";
- Series 1-C Notes rose from "BB" to "BBB+";
- Series 1-D Notes rose from "B+" to "BBB-".

Accessory financial transactions
The SPE signed an "Interest Rate Swap" agreement with BNP Paribas to hedge against the interest rate risk of the former.

Leasimpresa 2

In June 2006, Leasimpresa (merged into Banca Italease) sold a portfolio of loans resulting from lease contracts to the SPE Leasimpresa Finance S.r.l for euro 1,026 million; on 16 October 2006, the SPE issued three classes of rated notes placed with institutional investors and one class of junior unrated notes subscribed by the Originator. The notes are listed on the Luxembourg Stock Exchange. As regards this transaction, the Originator Bank (now Banco Popolare) acted as Servicer and managed the loans.

Loans portfolio

Bank	Value 31/12/2016	Value 31/12/2015
Banco Popolare	63,071	80,496

Issue characteristics

Class	Type	Issue value	Value as at 31/12/2016	Interest rate	Maturity	Rating Moody's/S&P(*)
A	Senior	931,500	22,180	Euribor 3 months + 0.13%	December 2025	A1/AA-
B	Mezzanine	57,200	2,881	Euribor 3 months + 0.26%	December 2025	A1/A
C	Mezzanine	10,300	519	Euribor 3 months + 0.55%	December 2025	A1/A
D	Junior	17,200	17,200	Euribor 3 months + 15% + Additional return	December 2025	unrated
	Total	**1,016,200**	**42,780**			

(*) rating as at 31 December 2016

The Notes are entirely held by Banco Popolare, euro 8.5 million refers to the non-banking sub-portfolio belonging to Banco Popolare and euro 34.3 million (euro 17.3 million in Senior Notes, euro 2.5 million in Mezzanine Notes and euro 14.5 million in Junior Notes) refer to the banking sub-portfolio, to which the provisions contained in the "Agreement on securitised loans" illustrated in the previous paragraph "Agreement on securitised loans between Banca Italease and Alba Leasing" apply.

Significant events during 2016

In December 2016, Moody's upgraded the Senior Notes of the "Leasimpresa 2" transaction, in particular:

- Series 1-B Notes rose from "A3" to "A1";
- Series 1-C Notes rose from "Baa2" to "A1".

Accessory financial transactions

The SPE signed an "Interest Rate Swap" agreement with BNP Paribas to hedge against the interest rate risk of the former.

ITA 11

For information on the ITA 11 transaction, please refer to the content of the section entitled "Liquidity risk" in these Notes to the Financial Statements.

QUANTITATIVE INFORMATION

C.1 Banking group - Exposures resulting from main "proprietary" securitisations broken down by type of securitised asset and by type of exposure

Type of securitised asset/Exposure	Cash exposures					
	Senior		Mezzanine		Junior	
	Book value	Adjustments/ Recoveries	Book value	Adjustments/ Recoveries	Book value	Adjustments/ Recoveries
A. Fully derecognised	**-**	**-**	**464**	**-**	**123,393**	**(147)**
Non-performing assets:						
A.1 Bad loans	-	-	464	-	1,486	(147)
Performing assets						
A.2 Leasing	-	-	-	-	121,907	-
B. Partially derecognised	**-**	-	-	-	-	-
C. Not derecognised	**186,092**	**-**	**50,910**	**-**	**340,599**	-
Performing assets:						
C.1 Residential mortgage loans	56,235	-	22,088	-	61,218	-
C.2 Non-residential mortgage loans	129,857	-	28,822	-	102,933	-
C.3 Leasing	-	-	-	-	176,448	-

Guarantees given and credit lines are omitted as not present.

The exposures that are fully derecognised relate to the junior notes held by the group and classified under "Loans to customers", following the cited "Agreement on securitised loans" signed in 2009 between the former Banca Italease and Alba Leasing.

C.2 Banking group - Exposures resulting from main "third-party" securitisations broken down by type of securitised asset and by type of exposure

Type of securitised asset/Exposure	Cash exposures					
	Senior		Mezzanine		Junior	
	Book value	Adjustments/Recoveries	Book value	Adjustments/Recoveries	Book value	Adjustments/Recoveries
A.1 SUNRISE A 14-31 TV						
- consumer credit	5,880					
A.2 BANCAJA 6 A2 EUR /36						
- residential mortgages	4,094					
A.3 TDA IBERCAJA 35 TV						
- residential mortgages	2,488					
A.4 BNT PORT 14-42 TV						
- agricultural and livestock loans					62,025	(4,388)

Total exposure to these products amounts to euro 74.5 million (euro 101.8 million as at 31 December 2015), euro 5.9 million of which is classified in the "Financial assets available for sale" portfolio and euro 68.6 million of which under "Loans to customers".
For the exposure in "BN Port 14-42 TV", please refer to the content of the paragraph below.

Guarantees given and credit lines are omitted as not present.

C.3 Banking group - Shareholdings in special purpose entities for securitisation

The following paragraphs indicate which special purpose entities have been involved with companies of the Banking Group in structuring activities and in which the Group holds a shareholding.
More specifically, as regards the SPE created to conclude its own securitisation transactions; as described in "Part A – Accounting policies", "3. Scope of consolidation and methods", the separate equity of the same is consolidated insofar as the Group holds the contractual rights to manage the relevant activities of the entity and is exposed to the variable returns of the same, regardless of voting rights (with the exception of the securitisations made through the SPE Tiepolo Finance).
In addition, a shareholding is also held in "BNT Portfolio SPV". As this SPE was established in 2014 in order to finalise the securitisation of agrarian loans belonging to Banca della Nuova Terra, funded through the issue of a single tranche of notes for a nominal value of euro 397.8 million, subscribed by the Shareholder Banks of Banca della Nuova Terra, which include Banco Popolare (which has a 19.61% stake in the latter). Based on the agreements reached, the Parent Company subscribed the above-cited note for a nominal value of euro 84.6 million, recognised in the financial statements in the portfolio of "Loans to customers". As at 31 December 2016, the book value is equal to euro 62.0 million, net of total adjustments of euro 13.2 million (euro 4.4 million of which related to 2016) and of collections made.

The following table illustrates the overall assets and liabilities, as shown in the separate equity of the SPE.

Name of Securitisation / Name of SPE	Registered office	Consolidation	Assets			Liabilities		
			Loans	Debt securities	Other	Senior	Mezzanine	Junior
Tiepolo Finance S.r.l.	Lodi	Supervisory (*)	33,731		756			50,551
BNT Portfolio SPV srl	Milan	no	277,679		14,829			352,485
BP Mortgages Mar 2007	Milan	Accounting	258,684		39,357	160,686	57,911	14,563
BP Mortgages Jun 2007	Milan	Accounting	417,634		49,757	277,598	64,425	16,172
ITA 8/Italease Securitization vehicle	Treviso	Accounting (**)	30,537			6,666	2,310	11,320
ITA 9/Italease Securitization vehicle 2	Treviso	Accounting (**)	129,111			79,270	29,625	16,272
ITA 11/Italease Securitization vehicle 2	Treviso	Accounting (**)	187,896					187,001
ITA 9 BEI/Erice Finance	Treviso	Accounting (**)	112,795					
Leasimpresa 2/Leasimpresa Finance	Treviso	Accounting (**)	63,071			22,180	3,399	17,200

(*) The supervisory consolidation of the SPE relates only to the financial statements of the SPE and not to the separate equity of the securitisation
(**) The consolidation only regards the share of receivables and securities for which the risks and benefits are maintained, as illustrated in the paragraph above entitled "Agreement on securitised loans between Banca Italease and Alba Leasing".

C.4 Banking group - Special purpose entities for securitisations not consolidated

No disclosure is provided as all of the SPEs for securitisation are consolidated in the accounts. As regards the Tieopolo transaction, for which the exemption of not recognising the loans sold was applied in accordance with IFRS 1, please refer to the information on separate equity shown in table C.6 below.

C.5 Banking group - Servicer activities – originated securitisations: collection of securitised loans and redemption of securities issued by the special purpose entity for securitisations

SPE	Securitised assets (end-of-period)		Loan collections in the year		Percentage of redeemed securities (end-of-period)					
					senior		mezzanine		junior	
	Non-performing	Performing	Non-performing	Performing	non-performing assets	performing assets	non-performing assets	performing assets	non-performing assets	performing assets
Tiepolo Finance	3,530		1,301		100.00%		100.00%			
ITA 8/Italease Securitization vehicle	4,383	4,417	3,795	10,079		98.00%		100.00%		
ITA 9/Italease Securitization vehicle 2	16,254	50,769	10,748	29,411		93.00%		91.00%		
ITA 10/Italease Securitization vehicle 2	-	-	2,728	14,670		100.00%				100.00%
ITA 11/Italease Securitization vehicle 2	13,050	42,572	3,184	27,542		100.00%				51.00%
ITA 9 BEI/Erice Finance	16,101	41,372	5,271	20,432		100.00%		100.00%		
Leasimpresa 2/Leasimpresa Finance	19,773	32,894	3,699	18,012		97.00%		96.00%		
Quick Silver/Pami Finance	-	-	3,909	10,320		100.00%				100.00%

In accordance with the provisions of Circular no. 262, the amounts shown in the previous table relate to the role of Servicer in originated securitisation transactions in which the assets transferred are derecognised from the financial statements; as regards the transactions of the former Banca Italease, the amounts must be considered to refer to the banking sub-portfolio (see the paragraph above regarding the "Agreement on securitised loans").

C.6 Banking group - Special purpose entities for securitisations consolidated

The following information only refers to SPEs of the Banking Group and a summary of the figures relating to the separate equities of the securitisation transactions.
The figures relating to securitisation transactions that are consolidated in the accounts are provided in table C.3 above.

Company name	Registered office
Tiepolo Finance S.r.l.	Lodi – Via Polenghi Lombardo no. 13

Summary table of securitised assets and issued securities (by single SPE owned by the Banking Group)

Tiepolo transaction (SPE: Tiepolo Finance S.r.l.)

		31/12/2016	31/12/2015
A.	**Securitised assets**	**3,731**	**5,044**
	1) Loans	3,731	5,044
	- bad loans	3,731	5,044
	- other loans		
	2) Securities		
	3) Other assets		
B.	**Use of available funds from loan management**	**756**	**1,547**
	1) Available funds on current account	595	1,384
	2) Other loans		
	3) Repurchase agreements		
	4) Other assets	161	163
C.	**Issued securities**	**50,500**	**50,500**
	1) "Class A" securities		
	2) "Class B" securities		
	3) "Class C" securities	50,500	50,500
D.	**Loans received**		
	1) Securities lending		
	2) Subordinated loan		
E.	**Other liabilities**	**20,249**	**21,886**
	1) Accrued liabilities	62	160
	2) Other liabilities	20,187	21,726
F.	**Interest expense on issued securities**	**147**	**264**
G.	**Fees and commissions borne by the transaction**	**195**	**220**
	1) Servicing fees	61	86
	2) Other services	134	134
H.	**Other expenses**	**662**	**292**
	1) Other interest expense	47	119
	2) Other expenses	71	123
	3) Adjustments on loans	544	50
I.	**Interest generated by securitised assets**		
L.	**Other revenues**	**539**	**1,238**
	1) Interest income	-	-
	2) Recoveries on loans	532	1,238
	3) Out-of-period income	7	-

D. Disclosure on structured entities (other than companies for securitisations)

D.1 Structured entities consolidated

As at 31 December 2016, the only structured entity, other than SPE for securitisations, consolidated in the accounts (but not for supervisory purposes) is represented by the investment fund Gestielle Hedge Low Volatility, managed by a Group company, as described in "Part A – Accounting policies" in these notes to the financial statements.

The contribution to the consolidated financial statements amounts to euro 63.3 million in terms of total net assets and is represented by the imbalance of:

- assets of euro 126.7 million, euro 96.1 million of which is represented by UCIT units;
- liabilities of euro 63.5 million, shown under item "100. Other liabilities", euro 49.4 million of which is the share of capital held by third parties.

Over the year, no form of support was given and no support is intended to be given to the cited structured entity.

D.2 Structured entities not consolidated in the accounts

D.2.1 Structured entities consolidated for supervisory purposes

As at 31 December 2016 there is no disclosure to make.

D.2.2 Other structured entities

The Group holds an interest in investment funds (funds and SICAV), primarily in order to meet its own investment needs. The total exposure of said investments amounts to euro 874.2 million, euro 96.1 million of which is represented by shares held in the consolidated fund called "Gestielle Hedge Low Volatility", as illustrated in paragraph D.1 above. For further details, refer to the disclosure provided in the tables showing the breakdown of items 20, 30 and 40 of statement of financial position assets, contained in Part B of these notes to the financial statements.

The only structured entities not controlled by voting rights or similar, in which the Group's involvement is considered to go beyond merely holding a stake, are retained to be the funds and the SICAV set in place and managed by the Group company Aletti Gestielle SGR, and are not consolidated as the Group acts as an "agent".

As at 31 December 2016, the net asset value of the funds set in place and managed by the Group and not consolidated was euro 16,882.5 million.

The following table shows the total assets and liabilities of the Group in the above-illustrated structured entities.

Accounting portfolio	Book value of assets	Book value of liabilities	Maximum exposure to risk of a loss
Financial assets held for trading	84,000		84,000
Financial assets designated at fair value through profit and loss	3,532		3,532
Financial assets available for sale	234,064		234,064
Loans to customers	984,398		984,398
Total assets	**1,305,993**		**1,305,993**
Due to customers		1,556,643	
Debt securities issued		135,004	
Financial liabilities held for trading		13,879	
Other liabilities		199	
Total liabilities		**1,705,725**	

With regard to the table above, note that the maximum exposure to the risk of a loss, shown in the table does not consider the mitigation of the risks relating to the collateral underlying derivative contracts and securities lending recorded under assets which, as at 31 December 2016, showed a balance in the statement of financial position of euro 1,025.1 million. If said assets are excluded, the maximum exposure to the risk of a loss regards the investments held in UCIT units of euro 280.6 million and the positive balances of current accounts totalling euro 0.2 million.
Note also that during the year the Group did not provide, nor has any intention to provide, any financial support.

In addition, it should be noted that the Group manages and places investment funds, regardless of its equity investments. The Group's net revenues from these activities amounted to euro 301.9 million, euro 246.3 million of which referred to the placement of funds and SICAV managed by Group companies, as shown in the table below.

	2016
Net fee and commission income for managing collective portfolio	161,780
- of which for UCIT units managed by Aletti Gestielle SGR	*161,780*
Net fee and commission income for placing UCIT units	140,117
- of which for UCIT units managed by Aletti Gestielle SGR	*84,474*

For further details on the asset management of collective portfolios performed by the Group, please refer to the content of the Report on Operations, in the section entitled "Results by business segment".

E Sale transactions

A. Financial assets sold and not fully derecognised

QUALITATIVE INFORMATION

As at 31 December 2016, transfers that did not result in the derecognition from the financial statements of the underlying financial assets were represented by:

- securitisations of loans to customers (euro 832.9 million);
- repurchase agreements on own securities, mostly classified in the portfolio of "Investments held to maturity".

With regard to repurchase agreements, the reason why the security underlying the same was not "derecognised" is due to the fact that the bank substantially retains all of the risks and benefits associated to the security, as it has an obligation to repurchase it at term at a price established contractually. The securities transferred continue therefore to be recognised in the relative accounting portfolios; the consideration of the transfer is recognised under due to banks or to customers, depending on who the counterparty is. In this regard, note that the following tables do not show the repurchase agreements performed on securities that are not recognised in the financial statements, when the availability of the same relates to reverse repurchase agreements (refer to the content of the paragraph entitled "Other transactions" contained in Part B of these notes to the financial statements).

As regards the securitisation transactions illustrated in paragraph "C. Securitisation transactions", the reason why the same are not "derecognised" is due to the subscription, by the Group, of the tranche of junior securities or of similar exposures, which entail a risk of initial losses for the same and, equally, the benefit associated to the return on the portfolio of assets transferred. Following the transfer, the consideration received is recognised as a balancing entry to the recognition of a payable to the SPE, net of the tranche of securities subscribed or of uses in the form of liquid funds provided to the SPE as payments of the principal. The payable due to the SPE, recognised in this way, will decrease by virtue of the amounts collected by the originator acting as "servicer", and transferred to the same SPE.
Due to the consolidation of the SPE's assets, the latter liability is not shown in the consolidated financial statements; otherwise, the outstanding securities issued by the SPE and not subscribed by Group companies would be recorded under liabilities.

E.1 Banking group - Financial assets sold and not derecognised: book value and full value

Type/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 31/12/2016	Total 31/12/2015
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C		
A. Cash assets	**375,044**	**-**	**-**	**-**	**-**	**-**	**943,225**	**-**	**-**	**5,508,510**	**-**	**-**	**-**	**-**	**-**	**856,947**	**-**	**-**	**7,683,726**	**7,551,309**
1. Debt securities	326,511	-	-	-	-	-	943,225	-	-	5,508,510	-	-	-	-	-	24,009	-	-	6,802,255	6,441,870
2. Equity instruments	48,533	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	48,533	12,897
3. UCIT units	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	832,938	-	-	832,938	1,096,542
B. Derivatives	**-**	**-**	**-**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**-**	**-**
Total 31/12/2016	**375,044**	**-**	**-**	**-**	**-**	**-**	**943,225**	**-**	**-**	**5,508,510**	**-**	**-**	**-**	**-**	**-**	**856,947**	**-**	**-**	**7,683,726**	**X**
of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	110,697	-	-	110,697	X
Total 31/12/2015	**431,885**	**-**	**-**	**-**	**-**	**-**	**1,255,098**	**-**	**-**	**4,719,012**	**-**	**-**	**24,860**	**-**	**-**	**1,120,454**	**-**	**-**	**X**	**7,551,309**
of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	126,537	-	-	X	126,537

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)

E.2 Banking group - Financial liabilities associated with financial assets sold and not derecognised: book value

This table shows the liabilities recognised under "Due to customers" or "Due to banks" relating to transfers of financial assets that have not entailed a full derecognition from the financial statements.
More specifically, note that the liabilities associated to the assets transferred for securitisation transactions are included in "Due to customers", insofar as they are transactions performed through SPEs, subject to consolidation, but not part of the Banking Group (in the consolidated financial statements, said liabilities are instead recognised under "Debt securities issued").

Liability/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	**121,570**	**-**	**585,229**	**5,227,806**	**-**	**335,868**	**6,270,473**
a) relating to fully recognised assets	121,570	-	585,229	5,227,806	-	335,868	**6,270,473**
b) relating to partially recognised assets	-	-	-	-	-	-	**-**
2. Due to banks	**154,418**	**-**	**216,745**	**423,717**	**-**	**14,991**	**809,871**
a) relating to fully recognised assets	154,418	-	216,745	423,717	-	14,991	**809,871**
b) relating to partially recognised assets	-	-	-	-	-	-	**-**
3. Debt securities issued	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) relating to fully recognised assets	-	-	-	-	-	-	**-**
b) relating to partially recognised assets	-	-	-	-	-	-	**-**
Total 31/12/2016	**275,988**	**-**	**801,974**	**5,651,523**	**-**	**350,859**	**7,080,344**
Total 31/12/2015	**296,735**	**-**	**1,100,875**	**4,880,336**	**14,780**	**503,008**	**6,795,734**

E.3 Banking group - Sale transactions associated with liabilities with exclusive recourse to the assets sold: fair value

This table shows the fair value of the assets and associated liabilities relating exclusively to securitisation transactions insofar as they are considered the only cases that the Group possesses in which the transferee, namely the SPE, has exclusive recourse to the assets transferred, as in reality they represent the only cash flows available for the payment of the securities issued.

Type/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 31/12/2016	Total 31/12/2015
	A	B	A	B	A	B	A	B	A	B	A	B		
A. Cash assets	-	-	-	-	-	-	-	-	-	-	886,652	-	886,652	1,169,836
1. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Equity instruments	-	-	-	-	-	-	X	X	X	X	X	X	-	-
3. UCIT units	-	-	-	-	-	-	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	886,652	-	886,652	1,169,836
B. Derivatives	-	-	X	X	X	X	X	X	X	X	X	X	-	-
Total assets	-	-	-	-	-	-	-	-	-	-	886,652	-	886,652	1,169,836
C. Liabilities related to	-	-	-	-	-	-	-	-	-	-	335,868	-	X	X
1. Due to customers	-	-	-	-	-	-	-	-	-	-	335,868	-	X	X
2. Due to banks	-	-	-	-	-	-	-	-	-	-	-	-	X	X
3. Debt securities issued	-	-	-	-	-	-	-	-	-	-	-	-	X	X
Total liabilities	-	-	-	-	-	-	-	-	-	-	335,868	-	335,868	488,017
Net Value 31/12/2016	-	-	-	-	-	-	-	-	-	-	550,784	-	550,784	X
Net Value 31/12/2015	-	-	-	-	-	-	-	-	-	-	681,819	-	X	681,819

Key:
A = Financial assets sold and fully recognised
B = Financial assets sold and partially recognised

B. Financial assets sold and fully derecognised with recognition of continuous involvement

The case in point is not present for the Group at the date of the financial statements.

E.4 Banking group - Covered bond transactions

Covered bond issue programmes

QUALITATIVE INFORMATION

Strategic goals

The Covered Bonds issue is part of the Group's strategic plan, and represents a tool to diversify sources of funding, to reduce the relative cost and to extend the maturities of liabilities. In 2010, at Group level, the first Programme for the issue of Covered Bonds was launched, relating to residential mortgage loans ("Residential CB"). The maximum amount of CB that may be issued under the Programme was extended from the initial euro 5 billion to 10 billion in February 2011. Subsequently, on 13 December 2011, Banco Popolare's Board of Directors approved the implementation of a CB Programme relating to residential and commercial mortgage loans ("Commercial CB"), the total nominal value of which is euro 5 billion.

Structure of the Programmes

Under both of these Programmes, Banco Popolare acts as the Issuing Bank of the CB and, following the merger of several network banks into Banco Popolare, it also acts as the Bank Assigning the assets pursuant to art. 7-bis of Italian Law no. 130 of 30 April 1999 and as Lending Bank.
Banco Popolare and the former network banks (specifically, Banca Popolare di Verona S.G.S.P S.p.A, the former Banca Popolare di Novara S.p.A, the former Banca Popolare di Lodi S.p.A, the former Cassa di Risparmio Lucca Pisa Livorno S.p.A and the former Credito Bergamasco S.p.A.) made non-recourse assignments to the SPE BP Covered Bond S.r.l. (the "SPE" 60% of which is owned by Banco Popolare) of the relative monetary receivables relating (i) to mortgage loans with the characteristics set forth in art. 2, paragraph 1, letter a) of Italian MEF (Mortgage Loans) Decree for the Residential CB Programme and (ii) to landed mortgage loans and/or residential and commercial mortgage loans with the characteristics set forth in art. 2, paragraph 1, letters a) and b) of the MEF Decree, for the Commercial CB Programme.

Subordinated loan

In connection with the sale of the assets, the network banks, now Banco Popolare, granted a Subordinated Loan in favour of the SPE in order to provide it with the necessary financial resources to acquire the relevant loans (except in the case in which the SPE pays directly for the assets purchased); the SPE must repay the subordinated loan on the last date of final repayment or the extended redemption date of the CB, in compliance with the applicable priority and within the limits of the funds available, without prejudice to the fact that, at each interest payment date, the subordinated loan may be repaid in advance provided that the principal amount of the loan is equal or higher than the residual debt of the Covered Bonds issued and that the tests contemplated by the regulations and by contract are observed. Interest is paid on the subordinated loan of the Residential CB Programme at a rate equal to the average interest rate of the CB Series issued, plus any excess spread generated by the structure; for the Commercial CB Programme, the yield is equal to the excess spread generated by the structure.

Derivative Contracts

In relation to the issue of CB, the SPE currently has three derivative contracts on interest rates called "Mortgages Pool Swaps" and four contracts called "Covered Bond Swaps" (the latter only in the base of fixed-rate CB issues) in place to mitigate the interest rate risk related to the collections deriving from the cover pool and the coupon payments relating to the CB which must be made by the Issuer but which must be paid by the SPE in case of default of the Issuer. At consolidated level, the purpose of "Covered Bond Swaps" is to neutralise the exposure of the fixed-rate Covered Bond issue to interest-rate risk.

Guarantees

The SPE, in order to guarantee the repayment of the Covered Bonds should Banco Popolare not fulfil its obligations to pay, has issued an unconditional and irrevocable primary guarantee valid for separate assets for the benefit of the investors that will subscribe the Covered Bonds. The guaranteed amount is equal to total interest and principal that must be paid to the investors on each class of Covered Bond. The regulations require that the integrity of the guarantee should be ensured during the life of the Covered Bonds and to this end, the structure of the Programme contemplates a series of tests on the portfolio. The tests are carried out quarterly by the Group Finance Service, while the Risk Management Service verifies the same at least every six months. The accuracy of the tests is also verified, at the time of issue of the separate series of CB and subsequently on a quarterly basis, by an external party, the Asset Monitor which, in accordance with Supervisory Regulations, must be an Independent Auditor; the Internal Audit service verifies the adequacy of the checks made internally at least once a year. The management of the portfolio during the life of the

Programme is regulated by a Cover Pool Administration Agreement, signed by the SPE, by Banco Popolare (as Assigning Bank and Issuer), by the Representative of Covered Bondholders and by the Asset Monitor.

Testing effectiveness

The following tests are conducted to assess the effectiveness of the overall portfolio and of the portfolio sold by each Assigning Bank:

- the Nominal Value Test, which verifies that the nominal value of the residual loans in the portfolio sold is higher than the nominal value of the CB that have not been redeemed at that date;
- the NPV Test, which verifies that the present value of the residual loans in the portfolio sold is higher than the present value of the CB that have not been redeemed at that date;
- the Interest Coverage Test, which verifies that the interest collected and to be collected, net of the costs of the SPE, is higher than the interest to be paid to the holders of CB.

If the requirements of all of the tests are met, payments may be made in accordance with the "order of payment". In accordance with contractual documentation, the Asset Coverage Test must also be conducted on the portfolio, with a view to maintaining a certain level of over-collateralisation, which is the maximum ratio between the CB issued and the assets sold. The infringement of the regulatory and contractual tests leads to an obligation for the assigning banks, now only Banco Popolare, to add to the portfolio.

Collection and administrative management services

The collection and management of the loans sold is carried out by Banco Popolare, which acts as Servicer; the amounts collected are paid into accounts in the name of the SPE opened with Banco Popolare (Interim Account Bank), and transferred on a daily basis to the accounts of the SPE opened with Banco Popolare (Transaction Account Bank). Banco Popolare also acts as Administrative Servicer, namely it provides administrative services and fulfils tax-related requirements on behalf of the SPE.

QUANTITATIVE INFORMATION

Residential CB Programme

In previous years, the assigning banks sold ten portfolios of mortgage loans to the SPE; in 2016, Banco Popolare performed two new assignments of receivables. More specifically, on 25 May 2016, Banco Popolare sold a new portfolio of eligible assets (the eleventh) with a residual debt of around euro 1 billion, comprised of residential landed and mortgage loans. Subsequently, on 31 October 2016, Banco Popolare sold another portfolio of eligible assets (the twelfth) with a residual debt of around euro 945 million, comprised partially of receivables previously purchased from Banco Popolare following the restructuring of the securitisation transaction "BPL Mortgages 5", the characteristics of which were eligible for the Residential CB Programme and the remainder of further residential landed and mortgage loans originated by Banco Popolare itself.

To pay the purchase price of the various portfolios, the SPE utilised a Subordinated revolving Loan granted by the assigning banks and the available liquidity originating from the amortisation of the portfolio of receivables deposited in current accounts opened with Banco Popolare.

Furthermore, on 23 November 2016, Banco Popolare repurchased a portion of the mortgage loans previously sold to the SPE BP Covered Bond S.r.l. and classified as no longer "eligible" for a total residual debt of euro 704.3 million, the payment for which was made on the Guarantor Payment Date of 30 December 2016 by offsetting the partial early repayment of the Subordinated Loan granted by Banco Popolare to the SPE.

The table below shows the overall value of the loans sold to the SPE as at 31 December 2016:

Bank	Value as at 31/12/2016	Value as at 31/12/2015
Banco Popolare	9,801,064	9,806,828

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

The table below shows non-performing loans:

Bank	Value as at 31/12/2016	Value as at 31/12/2015
Banco Popolare	277,624	698,891

In 2016, the mortgage loans portfolio generated collections totalling euro 1,547 million, of which euro 1,357 million represented principal and euro 190 million represented interest.

Bonds issued by Banco Popolare

As part of the Residential CB Programme, Banco Popolare issued ten Series of CB, listed on the Luxembourg Stock Exchange, and one unlisted Registered Covered Bond; these bonds were subscribed by institutional investors or by Banco Popolare itself.

Overall, the bonds issued by Banco Popolare amounted to euro 12,450 million (euro 1,000 million relates to the Tenth Series issued on 22 February 2016), of which euro 1,750 million refer to the Fifth Series fully redeemed on maturity as at 31 December 2013, euro 1,250 million refer to the Third Series fully redeemed on maturity as at 31 March 2014, euro 1,250 million refer to the Second Series fully redeemed on maturity as at 30 September 2015 and euro 1,550 million refer to the Fourth Series fully redeemed on maturity as at 31 March 2016. Therefore, as at 31 December 2016, the securities issued and outstanding amounted to euro 6,650 million, and break down as follows:

Date of issue	Series/Tranche	Notional value	Coupon	Maturity	Issue price (flat quotation)	Moody's/DBRS Rating
03/03/2010	1st Series 1st Tranche (1)	1,000,000	3.625%	31/03/2017	99.401	A1/A
05/08/2010	1st Series 2nd Tranche (2)	400,000	3.625%	31/03/2017	100.432	A1/A
24/01/2011	Registered CB (3)	100,000	5.250%	03/04/2029	96.590	A1/A
05/04/2013	6th Series 1st Tranche (4)	150,000	4.000%	31/03/2023	99.482	A1/A
08/01/2014	7th Series 1st Tranche (5)	1,500,000	Eur 3M + 100 bps	31/03/2019(*)	100.000	A1/A
19/09/2014	8th Series 1st Tranche (5)	1,500,000	Eur 3M + 100 bps	30/09/2017	100.000	A1/A
05/03/2015	9th Series 1st Tranche (6)	1,000,000	0.75%	31/03/2022	99.917	A1/A
22/02/2016	10th Series 1st Tranche (5)	1,000,000	Eur 1M + 100 bps	31/03/2018	100.000	A1/A
		6,650,000				

(1) On 30 September 2011, Banco Popolare purchased a nominal of euro 5.8 million and on 2 December 2011 a nominal of euro 8.8 million, on 4 July 2012 a nominal of euro 20 million, on 18 September 2012 a nominal of euro 3 million, on 21 September 2012 a nominal of euro 10 million, totalling overall euro 47.6 million.
(2) The bonds were entirely subscribed by Banco Popolare, which used them for a REPO transaction.
(3) The bonds were placed in the form of a private placement with market investors.
(4) The securities were subscribed by Banca Generali S.p.A.
(5) The bonds were entirely subscribed by Banco Popolare and used as collateral in monetary policy operations with the Eurosystem.
(6) The securities were subscribed by institutional investors.
(*) In March 2016, the Maturity Date was extended from 31 March 2016 to 31 March 2019.

Other information

In February 2016, the Residential CB Programme was given a rating of "A" by DBRS Ratings Limited, at the same time waiving the Fitch rating on the same Programme, therefore the contractual documentation of the same was amended. Furthermore, in 2016, amongst other things, several contractual amendments were finalised, with a view to: (i) appointing a "Back-up Account Bank" (ii) extending the "Maturity Date" (from 31 March 2016 to 31 March 2019) and the "Extended Maturity Date" (from 31 March 2017 to 31 March 2020) of the Seventh Series of CB issued and (iii) bringing forward the "December 2016 Guarantor Payment Date" to 30 December 2016 (instead of 3 January 2017) only with regard to the order of payments relating to the principal. Lastly, in October 2016, Moody's increased the Programme rating from "A2" to "A1".

Commercial CB Programme

In previous years, the assigning banks sold six portfolios of mortgage loans to the SPE; in 2016, Banco Popolare performed one new assignment of receivables. More specifically, on 25 May 2016, Banco Popolare sold a new portfolio of eligible assets (the seventh) with a residual debt of around euro 0.2 billion, comprised of commercial and residential landed and mortgage loans. To pay the purchase price of the various portfolios, the SPE utilised a Subordinated revolving Loan granted by the assigning banks and the available liquidity originating from the amortisation of the portfolio of receivables deposited in current accounts opened with Banco Popolare. Furthermore, on 23 November 2016, Banco Popolare repurchased a portion of the mortgage loans previously sold to the SPE BP Covered Bond S.r.l. and classified as no longer "eligible" for a total residual debt of euro 198.7 million, the payment for which was made

on the Guarantor Payment Date of 3 January 2017 by offsetting the partial early repayment of the Subordinated Loan granted by Banco Popolare to the SPE.

The table below shows the overall value of the loans sold to the SPE as at 31 December 2016:

Bank	Value as at 31/12/2016	Value as at 31/12/2015
Banco Popolare	1,679,426	2,059,980

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

The table below shows non-performing loans:

Bank	Value as at 31/12/2016	Value as at 31/12/2015
Banco Popolare	50,226	161,579

In 2016, the mortgage loans portfolio generated collections totalling euro 358 million, of which euro 331 million represented principal and euro 27 million represented interest.

Bonds issued by Banco Popolare

Banco Popolare issued four Series of CB under the Commercial CB Programme, listed on the Luxemburg Stock Exchange; these bonds were entirely subscribed by Banco Popolare and used as collateral in monetary policy operations with the Eurosystem. Overall, the bonds issued by Banco Popolare correspond to euro 3,400 million, of which euro 900 million refer to the First Series and euro 800 million to the Second Series, both redeemed on maturity as at 31 March 2014, euro 200 million refer to the Third Series fully redeemed on maturity on 2 October 2015 and euro 250 million refer to the Fourth Series for which, on 3 October 2016, Banco Popolare exercised the partial early redemption option. Therefore, as at 31 December 2016, the securities issued and outstanding amounted to euro 1,250 million, and break down as follows:

Date of issue	Series	Notional value	Coupon	Maturity	Issue price (flat quotation)	Moody's Rating
04/04/2014	4th Series	1,250,000	Eur 3M + 30 bps	02/07/2019 (*)	100.00	A2
		1,250,000				

(*) In June 2016, the Maturity Date was extended from 2 July 2016 to 2 July 2019.

Other information

In 2016, amongst other things, several contractual amendments were finalised, with a view to: (i) appointing a "Back-up Account Bank" and (ii) extending the original "Maturity Date" (from 2 July 2016 to 2 July 2019) and the "Extended Maturity Date" (from 2 July 2046 to 2 July 2049) of the Fourth Series of CB issued. In October 2016, Moody's increased the Programme rating from "A3" to "A2".

Accounting representation

In the consolidated financial statements, the assigning banks, now only Banco Popolare, the Issuing Parent Company and the SPE are part of the Group and are consolidated line-by-line.
The accounting representation of the main asset items related to the issue of Covered Bonds is provided below:

- the mortgage loans sold by the assigning banks to the SPE continue to be recognised in the assets of the Statement of Financial Position under item 70 "Loans to customers", while the relative interest income is booked to the Income Statement under item 10 "Interest and similar income". As at 31 December 2016, the book value of mortgage loans under the Residential CB Programme was euro 9,801 million and euro 1,679 million under the Commercial CB Programme. This amount is subject to specific evidence among "Assets pledged to secure own liabilities and commitments" among Other information contained in Part B – Information on the Statement of financial position of these notes to the financial statements.

The CB issued are recorded under debt securities issued (item 30 of Liabilities) and valued according to fair value hedge accounting rules with the hedging derivative of the interest-rate risk signed by the SPE ("Covered Bond Swap"). The bonds issued also comprise loan transactions through repurchase agreements on the series of repurchased Covered Bonds, in line with the clarifications provided in this regard by the Supervisory Body. The book value of the CB as at 31 December 2016 amounted to euro 2,442.7 million and refers to the Residential CB Programme; note that the

issues of the Commercial CB Programme and part of those of the Residential CB Programme are not shown as they have been fully repurchased and used as collateral for monetary policy operations with the Eurosystem, as illustrated previously.

As described in Part E – Section 1 – Risks of the Banking Group – 1.1 Credit Risk - C. Securitisation transactions, as a result of "originated securitisations" generated by Banks or Group Companies, Banco Popolare subscribed securities eligible as collateral for monetary policy operations with the Eurosystem or for repurchase agreements with market counterparties. The originated securitisations outstanding as at 31 December 2016 are shown below.

F. Banking group - Credit risk measurement models

To measure the portfolio credit risk, the Risk Management Service avails itself of an econometric model fed by an extensive set of data and risk variables.

By resorting to Credit-VaR metrics, the model defines the distribution probability of losses in the loan portfolio for performing loans, cash loans and endorsement credits to resident retail and financial customers. The distribution is used for measuring the maximum potential loss along an annual timeframe and with a specific level of confidence.
In particular, to calculate the distribution, the model's processing engine uses a "MonteCarlo" simulation approach, which simulates a sufficiently high number of scenarios to produce a good empirical approximation of the theoretical distribution of loan portfolio losses.
The calculation of the maximum potential loss, which can be broken down in the classical Expected Loss and Unexpected Loss (Economic Capital), is affected by the concentration risk (generated by large exposures to single counterparts – name concentration – or types of peer counterparts in terms of geographical areas and/or industries, whose creditworthiness depends on one or more systematic factors – industry concentration) and by the systematic risk (generated by the impact of unexpected changes in macroeconomic factors on the probability of default of the single counterparts).
In addition to the loan portfolio concentration level, the impact of the above components on credit risk depends also on the structure of the correlation matrix of the probabilities of default, which is estimated by using a quantitative stress testing model (developed and updated in-house), which can link the decay rates of peer counterparts in terms of industry and geographical areas to a set of "first level" (international and national) and "second level" (regional) economic and financial factors.
Finally, the portfolio model is periodically stress tested to verify how sensitive the credit risk of the Group portfolio is to extreme changes (albeit plausible) of one (so called sensitivity analysis) or more (so called scenario analysis) economic and financial factors.

As at 31 December 2016, the expected operating loss, calculated on the scope of validation of Basel 3 (for which Banco Popolare has been authorised by the Bank of Italy to use internal rating systems to calculate capital requirements on credit risk) corresponded to 0.39% of the exposure in default, while total loss (expected and unexpected loss measured using the C-Var method with a confidence level of 99.9%) amounted to 1.63% of the exposure in default.

Internal models to estimate PD-Probability of Default and LGD-Loss Given Default have undergone a process of internal validation by the Risks Department and a third level control by the Audit Department: the outcome of these processes is illustrated in specific reports, submitted to the Corporate Bodies and to the Bank of Italy.

1.2 BANKING GROUP - MARKET RISKS

1.2.1 Interest rate risk and price risk - regulatory trading portfolio

QUALITATIVE INFORMATION

A. General aspects

Market risk is the risk that the Group may generate less revenues than expected, or suffer from the impairment of statement of financial position items or capital losses from financial positions held, due to sharp and adverse changes in market conditions, in particular interest rates, share prices, exchange rates, and the associated volatilities and correlations (generic risk), or due to events that may impair the issuer's redemption capability (specific risk). Market risks can materialize both with regard to the trading book, which includes trading instruments and the associated derivative instruments, and with regard to the banking book, which includes all financial assets and liabilities other than those included in the trading book.

The organisational model adopted by the Banco Popolare Group for the trading portfolios exposed to interest rate risk and price risk requires the centralisation:

- of the management of Treasury and of Proprietary Portfolio positions in Group Finance. The latter coordinates:
  - the management of short term liquidity and interest rate risk and exchange risk positions within the Group;
  - the optimisation of the overall risk/return profile, by diversifying risks across different asset classes of financial instruments;
- in the subsidiary Banca Aletti of the risk positions and the operating flows associated with securities, currency, OTC derivative trading and other financial assets. In addition to this, there are the main interest rate risk exposures from the trading portfolio of Banca Aletti relating to operations both on money markets, and the associated listed or plain vanilla derivatives (covered by the Trading & Brokerage Service), both on the markets of listed and OTC derivatives, and OTC structured products (covered by the Structured Products Service).

Additional positions are assigned to the Finance Department of the Parent Company, relating to treasury bonds deposited as security, residual positions deriving from trading activities that cannot be immediately transferred to Banca Aletti because they do not meet the minimum amount requirements contemplated by market settlement systems. Finally, there are additional positions that, from an operating point of view, are considered an investment-trading, but from an accounting viewpoint are classified in the banking portfolio.

Group Finance Portfolio

Within the Group Finance of the Banco Popolare Group, we can identify two main types of trading operations (according to supervisory classifications):

- the investment portfolio of Banco Popolare that represents the major source of generic interest-rate risk and credit spread risk of the Parent Company, that are recorded in the IAS accounting category Held-For-Trading, and it is almost completely a bond portfolio. At the end of 2016, the bond portfolio of Banco Popolare had a nominal value of around euro 1 billion, made up by about 65% of Financial securities and the remainder primarily by Italian Government and Corporate bonds. The total interest rate risk sensitivity (delta) at year-end, calculated assuming a parallel change in the interest-rate curve of 1 basis point, is about euro -45,000, and derives from a prevalence of exposures on the different nodes of the Euro interest rate curve.
  This portfolio also presents an overall exposure to credit spread risk of about euro -120 thousand, considering a 1 basis point shock. Around 57% of this exposure relates to Financial securities and the remainder primarily to Italian Government and Corporate bonds;
- the Banco Popolare Treasury portfolio contained no securities at the date of the financial statements.

The price risk on the share portfolio has an exposure that is the equivalent of below euro 14 million.

The Banco Popolare Group's Financial risk positions are monitored on a daily basis to verify their compliance with the operating thresholds set by the Board of Directors on the entire portfolio and on the single underlying assets.

Trading portfolio of Banca Aletti, held as part of its investment banking activities

In its capacity as Group investment bank, the subsidiary Banca Aletti holds a trading portfolio whose main exposures to the interest-rate risk are linked both to trading on the money market, the associated listed or plain vanilla derivatives, and that on the markets of derivatives and OTC structured product and listed derivatives, both covered by the Fixed Income Service.
Transactions in both plain vanilla and structured instruments and listed and unlisted derivatives, including trades on the secondary market of structured products issued or sold by the banks of the Group. The destructuring of complex transactions based on the underlying enables the centralised management of the interest rate, exchange rate and price risks within the specific offices of the Bank's Global Markets Department, which use sophisticated position keeping systems.
More specifically, the securities portfolio amounts to around euro 1,135 million, 67% of which is represented by Government bonds and 33% by Corporate bonds.
The overall exposure to credit spread risk is around euro -80,000 considering a 1 basis point shock, resulting mainly from Government bonds;
The total interest rate risk sensitivity (delta) at year-end, net of long and short exposures on different currencies and yield curve nodes, is about euro -105,000, assuming a parallel 1 basis point yield curve movement.

The main exposures to the equity risk are related to trading on cash markets and associated listed or plain vanilla derivatives on the derivatives and OTC structured products market and the listed derivatives market covered by the Equity Currency and Commodity Service.
In particular, the scope includes equity portfolios with their listed derivatives, held for trading, for market making transactions on single Stock Futures and for transactions relating to specialist services (continuous exposure to purchase/sale proposals) as well as transactions in structured instruments and listed and unlisted derivatives. The

destructuring of complex operations based on the underlying enables the centralised management of the interest rate, exchange rate and price risks within the specific Offices of the Function, which use a sophisticated position keeping system specialised in interest rate, exchange rate and price risks. The system is integrated with pricing models and risk measurement (Greeks) developed in-house and validated by the Parent Company's Risk Management Function. At year-end, the total price risk exposure of the derivative portfolio of the Equity Currency and Commodity Service is equivalent to a short position of less than euro 15 million, net of hedges with derivatives and cash financial assets.

Banca Aletti's risk positions are monitored on a daily basis to verify their compliance with the operating thresholds set by the Board of Directors on the entire portfolio and on the single underlying assets.

Additional residual portfolios of Banco Popolare monitored and managed by Banca Aletti or by the Parent Company's Finance Department

The Internal Regulation on Risk Positions fixes the operational limits in terms of stock, interest-rate risk sensitivity, asset allocation with respect to the type of issuer and related creditworthiness, as well as concentration on single names and rating class. These ceilings are monitored by the Market Risk Function on a daily basis. Daily and period reports provide an account of this activity and of the held exposures.
For additional information, please refer to the specific paragraph below dealing with risk management and measurement processes.

B. Interest-rate risk and price risk management process and measurement methods

The function in charge of controlling the financial risk management for all the Banks of the Group with the aim of identifying the type of risks, define the methods to measure risks, control limits at strategic level and verify the consistency between trade limits and the risk/return targets assigned, is the Market Risk Function.
In particular, for the identification, measurement, management and operating control of the risk positions of Group Banks, the Parent Company's Finance Department and Banca Aletti make use of a sophisticated position keeping and risk control system that provide a constant control over exposure levels and over the compliance with the operating limits defined by the Parent Company's Board of Directors and the Boards of Directors of Group Banks.
Risk control for trading activities in listed and unlisted derivatives and in structured products is based on a specific application specialising in interest/exchange rate derivatives and equity instruments.
In case of very complex and innovative structures, these models are complemented by pricing and sensitivity measurement models developed in house and certified by the Risk Management Service of the Parent Company.
This position keeping system is automatically fed by market platforms and by the sales networks in case of operations in cash and in listed derivatives. It is constantly aligned with accounting procedures and guarantees the constant measurement and control of position indicators, sensitivity and operational results. The position keeping system is also closely integrated with the Value at Risk control systems, developed by the Market Risk Function.
Financial risks are monitored on a daily basis by using deterministic indicators (sensitivity to market risk factors) as well as probabilistic indicators (VaR).
In particular, these indicators are considered the most appropriate instruments to ensure an effective and precise measurement and control of market risks generated by exposures to complex derivatives, also from a regulatory standpoint.
Value at Risk (VaR), which indicates the maximum potential loss associated with market movements in unexceptional conditions, represents a synthetic risk measurement. The method used to calculate the VaR belongs to the historical simulation VaR models. The values are calculated with a confidence level of 99% and a time horizon of one day. The observation period is 250 days. The correlations used are those implicit in historical scenarios applied to estimate the empirical distribution of values in the trading portfolio.
The current model covers generic risk, with the interest-rate risk, exchange-rate risk, equity risk and specific risk both of debt securities (separately measured as specific VaR) and of equity instruments (included, with the generic component, in the estimate of the equity VaR).
VaR reports are prepared, through which monitoring is ensured at Group level, at single bank level, by organisational unit, and by trading portfolio.
Said reports are sent to the Bank Head Office, the Parent Company's Finance Department and Audit Department.
During 2016, the Group continued to constantly improve market risk management, from a technological and methodological point of view, as well as with regard to organisational processes.
The Group uses a validated internal model for the quantification of the minimum capital requirements for market risk. The validation of the internal model was obtained for the scope that includes interest rate risk and equity risk. Correlation and dividend risks are also included.
The capital requirement is also calculated by adding the Stressed VaR measured to the VaR. The former is based on the same methodological framework as the VaR, but it considers changes of the parameters in particularly stressed market circumstances. The period chosen considers the shocks recorded between 1 April 2008 and 31 March 2009.

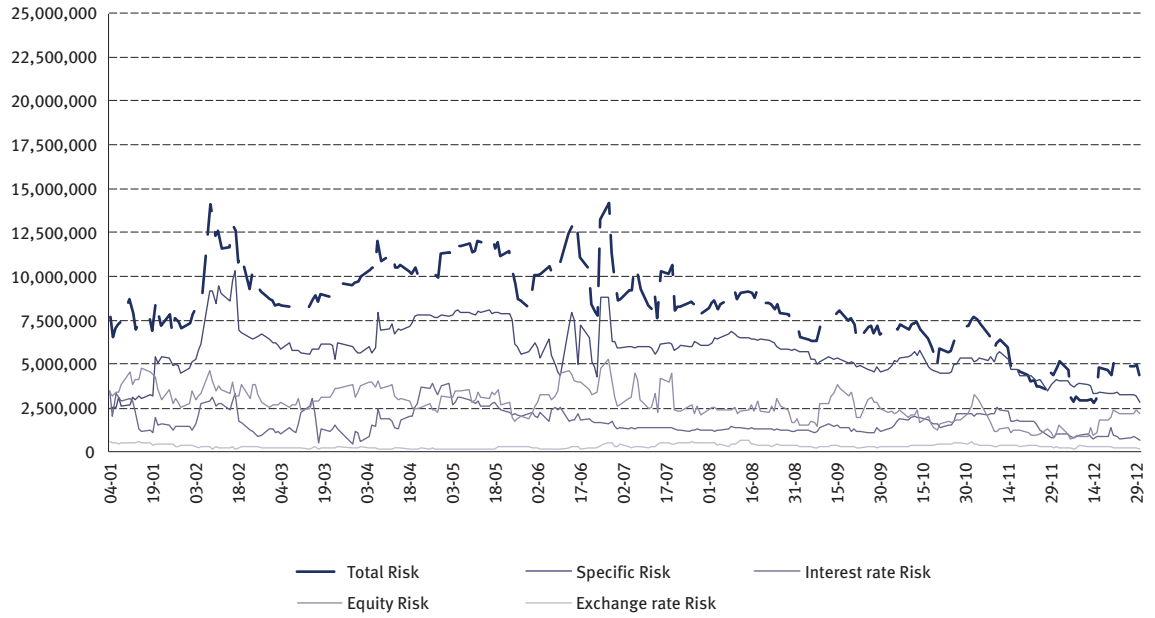
QUANTITATIVE INFORMATION

Regulatory trading portfolio: internal models and other sensitivity analysis methods

The Value at Risk (VaR) measurement considers interest rate risk, equity risk, exchange rate risk and credit spread risk, as well as the benefit of correlation between risks. Correlation and dividend risks are also included.

The graph and table below show the trend of VaR data for 2016, referring to the regulatory trading portfolio of the Banco Popolare Group.

Daily VaR and VaR by risk factor
BANCO POPOLARE GROUP: TRADING Portfolio



(in millions of euro)	2015	2016	average	maximum	minimum
Interest rate risk	3.728	0.642	1.720	3.888	0.477
Exchange rate risk	0.360	0.191	0.317	0.666	0.128
Equity risk	2.829	2.199	2.720	5.259	0.728
Dividends and Correlations	0.668	0.358	0.457	0.907	0.055
Total uncorrelated	7.584	3.390			
Diversification effect	-0.779	-1.214			
Total Generic Risk	**6.805**	**2.176**	**4.237**	**9.227**	**1.084**
Specific Risk Debt Securities	**2.772**	**2.844**	**5.723**	**10.327**	**2.479**
Combined Risk	**6.759**	**4.350**	**8.304**	**14.190**	**2.784**

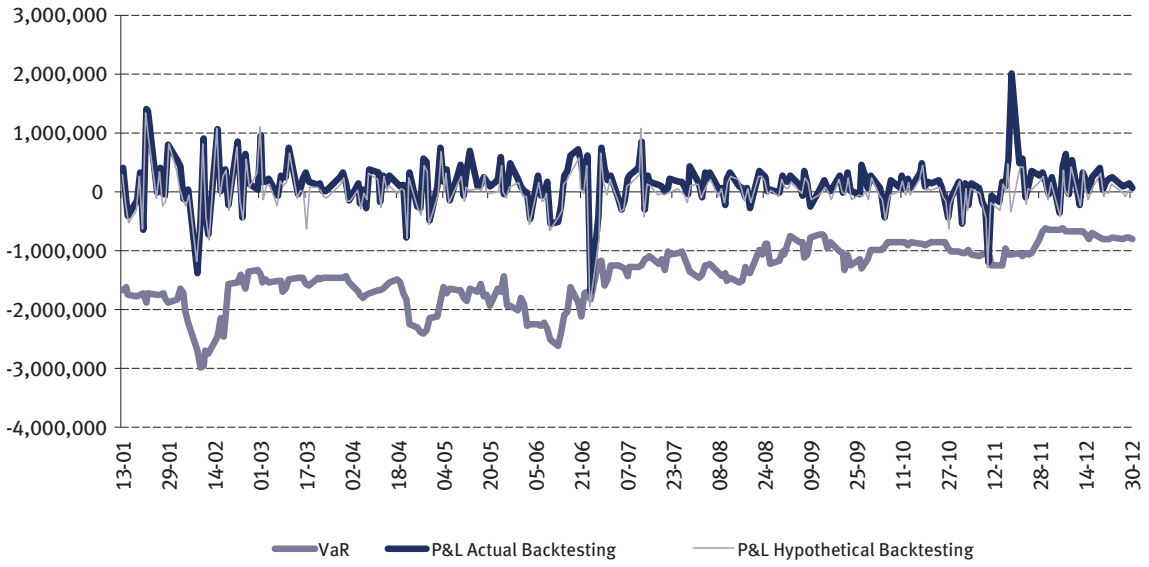
It can be seen that the most important risk component is the specific risk of debt securities and the generic and specific component of shares, due to the presence of positions in financial securities, Italian Government bonds and position in shares. Changes in these securities can be attributed to the Group's overall risk trend. More specifically, the portfolio showed a higher level of risk in the first half of the year, due both to the exposures and the market volatility of Italian Government securities. In the second half of the year, the risk started to fall, settling at values that were below the average values for the period.

Following the validation of the internal model for the calculation of the capital requirement relating to market risks, backtesting is conducted on a daily basis, with a view to verifying the solidity of the VaR model adopted. These tests are conducted on the regulatory trading portfolio of Banco Popolare and of Banca Aletti.

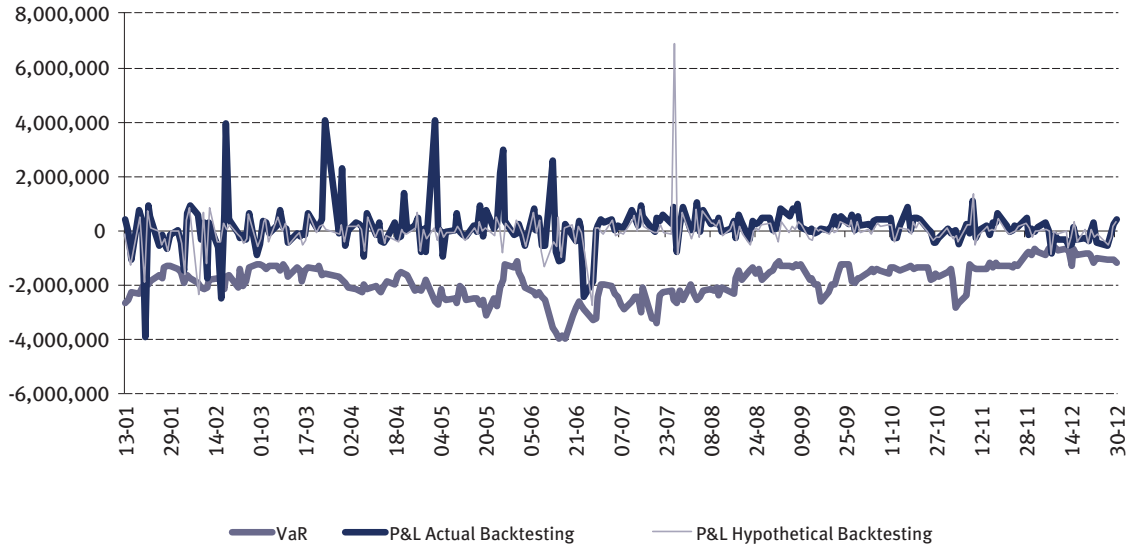
The graphs below show the backtesting relating to the VaR method, calculated on the generic risk of debt securities, generic and specific equity risk, interest rate risk and exchange rate risk.

For backtesting purposes, as envisaged by supervisory regulations in force, we used the equally-weighted VaR measurement instead of using a decay factor used in operational approaches.

Backtesting of Banco Popolare



Backtesting of Banca Aletti



Note that in the period in question, the number of exceptions (losses exceeding the VaR estimate) was higher than that which would have been recorded with the level of confidence used (the estimate at 99% implies that an exception is verified in 1% of the remaining cases: therefore over a 250 day period, this result is expected on 2-3 working days), due to sharp changes recorded for interest rates.

1.2.2 Interest rate and price risk – Banking portfolio

QUALITATIVE INFORMATION

A. General issues, management procedures and interest rate risk and price risk measurement methods

The interest rate risk borne by the Banco Popolare Group in correlation with its banking portfolio is mainly associated with the core activity performed by the bank acting as an intermediary in the process of transformation of maturities. In particular, the issue of fixed rate bonds, the granting of fixed rate commercial loans and funding from demand checking accounts represent a fair value interest rate risk; floating rate financial assets and liabilities represent a cash flow interest rate risk.
The Parent Company's Interest Rate and Liquidity Risks function is in charge of measuring and controlling the interest rate risk inherent in the banking portfolio, and it performs this function also on behalf of the banks and financial subsidiaries. This activity is performed on a monthly basis to verify that the limits in interest income or economic value of equity changes are complied with.
The structure in charge of managing the interest rate risk is the Parent Company's ALM function, which carries out this task also on behalf of the banks and subsidiary financial companies, and pursues the optimisation of the economic return from the bank's commercial activity in compliance with the set interest rate risk exposure limits.
In order to achieve its objective, this structure analyses exposure to interest rate risk by means of reports generated by the Asset & Liability Management procedure, to identify mismatches, in terms of repricing, between deposit and lending items, also in the light of off-balance sheet hedging transactions already set in place and to identify what new measures should be taken, if any.
Also in 2016, the Group reported a substantially "asset-sensitive" structural mismatch, partially mitigated by the profile of Release, which has a slightly "liability sensitive" risk profile.
As regards the methods used to estimate the risk of the banking portfolio, reference is made to what is indicated in a subsequent paragraph of this section dedicated to internal models and other analyses methods of sensitivity.
Alternative assets (funds of hedge funds) that are held for the strategic purpose of making the overall portfolio market neutral, are exposed to the price risk. We also have a portfolio consisting of minority interests, classified as financial assets available for sale.
As regards the methods used to estimate the risk of such assets, reference is made to what is indicated in the prior section whose subject matter is the regulatory trading portfolio, with reference to internal models and other analyses methods of sensitivity.

B. Fair value hedging

The risk management policy adopted by the Banco Popolare Group to comply with the requirements of the reference Regulations, seeks to stabilise net interest income and economic value in the event of interest rate changes. Over time, this has entailed hedging both fixed-rate and structured bond issues, transferring the risk to the market through specific hedges set up with OTC contracts (mainly IRS and interest rate options). Similarly, the Group has set in place, at different times, but for the same purpose, several macro hedges by means of OTC contracts to transform a part of fixed-rate loans disbursed to customers into floating rate transactions. All of these hedging transactions are performed through Banca Aletti.

As regards the accounting treatment of these hedging relations, the Group has adopted the fair value option for bond issues placed with ordinary customers, and the accounting rule of fair value hedges for bond issues placed with institutional investors and for loans to customers; both procedures seek to ensure a consistent accounting treatment with hedging derivatives, that are necessarily measured at fair value. For further details, reference is made to "Section A – Accounting policies" and to the comment to table "50. Financial liabilities measured at fair value" -"Section B – Information on the Statement of Financial position" of these notes to the consolidated financial statements.
The price risk of the alternative assets portfolio is monitored on a daily basis and is not hedged.

C. Cash flow hedging

In order to stabilise the cost of its floating rate deposits and reduce the asset mismatches, the Banco Popolare Group resorted to swap hedges called macro cash flow hedges.
The existing hedges have a total capacity in the notional amount of floating rate loans.

QUANTITATIVE INFORMATION

1. Banking portfolio: breakdown by residual maturity (by repricing date) of financial assets and liabilities

Currency of denomination: Euro

Type/Residual term	On demand	Up to 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 year and 5 years	Between 5 and 10 years	Over 10 years	Undefined term
1. Cash assets	**25,629,553**	**45,350,421**	**4,631,048**	**3,359,301**	**11,346,595**	**8,382,613**	**2,483,897**	**-**
1.1 Debt securities	204,757	5,929,799	661,107	1,377,530	5,100,674	6,104,603	145,625	-
- with early redemption option	2,193	73,875	49,987	23,912	24,791	21,612	80,131	-
- others	202,564	5,855,924	611,120	1,353,618	5,075,883	6,082,991	65,494	-
1.2 Loans to banks	1,416,540	4,273,243	80,223	4,364	2,875	154,920	-	-
1.3 Loans to customers	24,008,256	35,147,379	3,889,718	1,977,407	6,243,046	2,123,090	2,338,272	-
- current accounts	7,884,085	1,148,705	51,560	137,948	355,082	6,319	-	-
- other loans	16,124,171	33,998,674	3,838,158	1,839,459	5,887,964	2,116,771	2,338,272	-
- with early redemption option	3,204,931	28,655,207	2,067,252	508,022	2,446,632	1,682,770	2,318,358	-
- others	12,919,240	5,343,467	1,770,906	1,331,437	3,441,332	434,001	19,914	-
2. Cash liabilities	**49,905,430**	**13,728,118**	**2,837,190**	**5,448,512**	**21,100,262**	**1,678,906**	**230,338**	**-**
2.1 Due to customers	47,563,573	8,347,236	1,054,971	530,449	296,806	87,035	129,450	-
- current accounts	44,697,031	470,669	430,858	134,675	52,000	-	-	-
- other payables	2,866,542	7,876,567	624,113	395,774	244,806	87,035	129,450	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	2,866,542	7,876,567	624,113	395,774	244,806	87,035	129,450	-
2.2 Due to banks	2,119,438	851,383	105	15,253	12,279,413	444,399	2,937	-
- current accounts	504,308	-	-	-	-	-	-	-
- other payables	1,615,130	851,383	105	15,253	12,279,413	444,399	2,937	-
2.3 Debt securities	222,378	4,529,499	1,782,114	4,902,810	8,524,043	1,147,472	97,951	-
- with early redemption option	11,242	818,424	142,443	97	493,351	758	589	-
- others	211,136	3,711,075	1,639,671	4,902,713	8,030,692	1,146,714	97,362	-
2.4 Other liabilities	41	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	41	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	627	23,623	2,083	347	14	31	4,350	-
+ Short positions	-	5,257	2,753	4,408	13,950	2,302	2,405	-
- Other derivatives								
+ Long positions	26,499	3,468,935	1,085,410	1,621,385	3,512,663	-	1,000,000	-
+ Short positions	698,852	5,804,862	58,206	575,259	2,552,712	1,025,000	-	-
4. Other "off-balance sheet" transactions								
+ Long positions	-	1,872,330	-	-	-	-	210	-
+ Short positions	1,871,674	-	-	-	-	-	866	-

Currency of denomination: currencies other than the euro

Type/Residual term	On demand	Up to 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 year and 5 years	Between 5 and 10 years	Over 10 years	Undefined term
1. Cash assets	**412,816**	**553,015**	**96,803**	**1,176**	**70,703**	**47,583**	**320**	**-**
1.1 Debt securities	57,967	130,583	9,582	-	49,438	23,123	-	-
- with early redemption option	180	9,769	9,582	-	9,203	-	-	-
- others	57,787	120,814	-	-	40,235	23,123	-	-
1.2 Loans to banks	88,563	47,019	737	-	-	69	-	-
1.3 Loans to customers	266,286	375,413	86,484	1,176	21,265	24,391	320	-
- current accounts	28,463	-	-	-	-	1	-	-
- other loans	237,823	375,413	86,484	1,176	21,265	24,390	320	-
- with early redemption option	1,434	319	965	-	-	-	-	-
- others	236,389	375,094	85,519	1,176	21,265	24,390	320	-
2. Cash liabilities	**1,196,519**	**85,287**	**35,755**	**5,527**	**-**	**-**	**-**	**-**
2.1 Due to customers	1,186,060	13,500	35,755	5,527	-	-	-	-
- current accounts	1,185,908	13,500	15,525	5,527	-	-	-	-
- other payables	152	-	20,230	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	152	-	20,230	-	-	-	-	-
2.2 Due to banks	10,459	71,787	-	-	-	-	-	-
- current accounts	4,209	4,088	-	-	-	-	-	-
- other payables	6,250	67,699	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	566,351	1,989,972	475,991	1,382,820	6,436,242	499,825	-	-
+ Short positions	-	10,623,436	42,251	92,890	-	526,342	66,281	-
4. Other "off-balance sheet" transactions								
+ Long positions	-	2,630	1,907	12	-	-	-	-
+ Short positions	-	4,548	-	-	-	-	-	-

2. Banking portfolio: internal models and other sensitivity analysis methods

The Group makes use of an Asset & Liability Management procedure to measure on a monthly basis the impact ("sensitivity") from changes in the interest rate structure on the expected net interest, dividend and similar income and on the economic value of capital related to the banking portfolio.
With regard to the expected net interest, dividend and similar income, the ALM system estimates its changes on a one year horizon in the assumption of deterministic shocks of the interest rate curves (bps increases/decreases applied to all the interest rate curves as if it were a sudden, single and parallel change), and shocks to adjust to the forward rates implied in money market rates, and again shocks from projections that reflect alternative scenarios. Estimates are based on the assumption that the capital structure remains unchanged in terms of aggregate assets and liabilities, as well as in terms of financial characteristics (rates, spreads, duration).
With regard to the economic value of capital, the same assumptions on the interest rate curve changes are applied, measuring the change in present value of all transactions and comparing it with the value of own funds.
In line with the instructions provided by the Supervisory Authority as regards the fall of short-term market interest rates

below zero, starting from June 2016 reporting, risk measurement metrics have been updated, bring the floor applied to the development of future rates used for the calculation to -75 basis points. This configuration has restored a degree of symmetry to the impacts reported in the table, showing an increased level of risk for short and medium-long term indicators, which, in any event, is nothing out of the ordinary.
A third probability indicator is also used in the capital adequacy assessment (ICAAP process), which measures the value at risk based on the VaR methodology on a time horizon of 12 months and a confidence ratio of 99.9%. This indicator is subject to a maximum, also in terms of each individual company, and is monitored on a monthly basis.

Shown below are the main sensitivity data of the Group referring to 2016 compared with 2015, with regard to the banking book:

Risk ratios (%)	2016[1]				2015	
	31 December	average	maximum	minimum	31 December	average
For shift of + 100 bp						
Financial margin at risk / Financial margin	12.5%	10.0%	12.5%	6.4%	6.6%	5.1%
Economic value at risk / Economic value of capital	0.3%	-0.3%	1.7%	-2.3%	-0.9%	-0.5%
For shift of - 100 bp						
Financial margin at risk / Financial margin	-7.2%	-4.4%	0.3%	-9.7%	0.2%	-0.3%
Economic value at risk / Economic value of capital	-0.8%	-2.5%	-0.8%	-3.7%	-1.1%	-0.9%

According to normal operating procedures and internal regulations, Banco Popolare conducts periodic stress tests, applying instant or variable and parallel or non parallel shocks to the interest rate curves for the currencies of the items in the banking portfolio. Furthermore, on implementation of the ICAAP, the impact of extreme, but plausible, changes in risk factors on VaR is assessed, from the prospective of capital adequacy.

With regard to the banking portfolio, the Group also evaluates its exposure to the risk of default and to the migration of the rating class of debt securities classified as AFS, L&R and HTM using a method that envisages calculating the VaR Spread to include the Migration and Incremental Default Risk (IDR), to include the Default component, with a view to implementing the recommendations envisaged by the European Directive Fundamental Review dated March 2014.

The most important factor that impacted risk in 2016 was the increased volatility of credit spreads, which had repercussions on the specific debt securities risk component, in particular Government securities. Assets in the debt securities portfolio of the Banco Popolare Group totalled euro 18,000 million as at 31 December 2016, of which euro 15,500 million was represented by Italian Government securities.

Price risk monitoring and control activities for the funds of hedge funds banking portfolio are based on an internal VaR model. The risk is estimated by bringing back each fund to a combination of risk factors representing the management strategies (as well as a factor that can represent the relative specific risk component).
The price risk of the equity securities classified as assets available for sale is not subject to specific monitoring for the time being.

The “backtesting” results are not shown because the banking portfolio is valued at amortised cost and is therefore not covered by a specific process of evaluation of the management P&L, and therefore, of ex-post income components with which to compare the ex-ante risk estimates.

1.2.3 Exchange rate risk

QUALITATIVE INFORMATION

A. General issues, management procedures and exchange rate risk measurement methods

Exchange rate risk management is centralised at the Treasury for Group Finance operations and at the Equity Currency and Commodity Service for Banca Aletti. Exposures for Banco Popolare’s Treasury had a value of around euro 13 million, while with respect to Banca Aletti’s forex derivative trading, positions of around euro 8 million in value were recorded.

[1] The floor relating to the development of future rates was applied from reporting as at June 2016. The results compared have not been restated.

As regards the methods used to measure and control the exchange rate risk generated by the trading portfolio, reference is made to the section "Interest rate risk and price risk – Regulatory trading portfolio". As with the other risks, the adopted methods are not used to calculate capital requirements.

B. Exchange rate risk hedging

Exchange rate risk positions are monitored on a daily basis and are hedged so as to meet the Risk limits provided for each function.

QUANTITATIVE INFORMATION

1. Breakdown by currency of assets and liabilities and of derivatives

Items	Currencies					
	US Dollar	Swiss Franc	GB Pound	Hong Kong Dollar	Norwegian Krone	Other currencies
A. Financial assets	**1,400,252**	**190,181**	**96,193**	**4,832**	**361**	**30,358**
A.1 Debt securities	615,132	55,885	62,972	-	-	210
A.2 Equity instruments	48,703	8,725	-	-	-	-
A.3 Loans to banks	48,780	81,411	2,949	1,054	360	21,967
A.4 Loans to customers	687,637	44,160	30,272	3,778	1	8,181
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**12,515**	**49,810**	**3,478**	**-**	**923**	**8,061**
C. Financial liabilities	**796,729**	**52,957**	**137,560**	**15,791**	**108,647**	**266,037**
C.1 Due to banks	114,519	149	5,575	8	144	1,223
C.2 Due to customers	682,210	52,808	131,985	15,783	108,503	264,814
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**14,774**	**4,769**	**728**	**9**	**69**	**1,005**
E. Financial derivatives						
- Options						
+ Long positions	342,239	2,394	19,153	-	-	10,358
+ Short positions	290,134	1,253	7,547	-	-	26,013
- Other derivatives						
+ Long positions	658,063	22,735	109,881	63,490	131,209	443,217
+ Short positions	1,402,588	152,722	75,486	53,335	23,268	198,251
Total assets	**2,413,069**	**265,120**	**228,705**	**68,322**	**132,493**	**491,994**
Total liabilities	**2,504,225**	**211,701**	**221,321**	**69,135**	**131,984**	**491,306**
Mismatch (+/-)	**(91,156)**	**53,419**	**7,384**	**(813)**	**509**	**688**

2. Internal models and other sensitivity analysis methods

The exchange rate risks generated by the trading portfolio and the banking book are monitored through an internal VaR model extensively described in section "Interest rate risk and price risk – Regulatory trading portfolio", where the values assumed by this indicator are shown.

1.2.4 Derivative instruments

QUALITATIVE INFORMATION

Given the operations in derivatives, the Banco Popolare Group introduced specific and robust validation and control processes of the pricing models and the related market parameters.

Validation and control process of Market Parameters

The Banco Popolare Group adopted a Fair Value Policy defining the accounting rules to be used to value market parameters. To comply with this Policy, a strict process was put in place to count, validate and control the market parameters used to measure the market value and to estimate the risk of derivative positions. This process is carried out by the Parent Company's Risk Management Service.

In particular, this process regulates:

- the constant update of the Parameter Manual, containing the main parameters used and their most significant features, and the definition of the source;
- the constant update of parameter control methods;
- the daily validation and control of the listed parameters, automatically fed by external info-providers;
- the daily validation and control of illiquid parameters, from an accounting and management viewpoint.

In order to support control activities, the Group introduced an advanced application system (fed by the front office system and, for benchmarking purposes, by alternative and highly specialised info-providers) to monitor over time the performance of the parameters, featuring the statistical analysis of variations and operating warnings.

Validation and control process of Pricing Models of OTC derivative products

The Banco Popolare Group deals with OTC derivative instruments, and in order to measure them, it uses quantitative pricing models in line with market best practices already available in the Front Office application, or, for particular structures, models developed by Banca Aletti's financial engineering.
In order to ensure a precise and strict control over the adoption of new pricing models - be they market or in-house developed models - a validation process is in place, with the following features:

- model validation conducted by a specific validation organisational unit within the Risk Management Service;
- model validation based on strict consistency and robustness tests, conducted with the support of academic experts;
- official validation of new models by the Product Innovation Committee, with the collaboration of key corporate managers.

Note that, based on the current prudential policy pursued by the Group, innovative financial instruments can be entered only after a thorough analysis of the reliability and accuracy of their pricing models.

A limited number of OTC derivatives associated with matched trading, for which the related fair values are hardly reproducible by in-house developed theoretical models, due to their high complexity.
However, it is important to note that the Banco Popolare Group is not exposed to market risk in connection with these products, as matched trading does not ever entail the operator being exposed to risk positions. In order to correctly quantify the counterparty risk and give a correct accounting measurement, for these contracts the valuation is based upon information obtained from external contributors, through non-public sources. The percentage represented by these instruments will gradually decrease over time as contracts expire and due to the prudential policy cited above.

QUANTITATIVE INFORMATION

The table below illustrates the fair value of derivative positions of Banca Aletti (excluding forex futures transactions), with the corresponding pricing model in use. In its capacity as investment banking of the Banco Popolare Group, Banca Aletti manages the market risk associated with derivative trading.

Aggregate *(fair value in thousands of euro)*		**Number of Contracts/lots (in units)**	**Fair Value**	**Positive Fair Value**	**Negative Fair Value**
Total		**398,399**	**(1,549,557)**	**2,546,300**	**(4,095,857)**
of which:	Listed derivatives	389,304	(107,396)	148,237	(255,633)
of which:	Certificates measured with proprietary models of the Front Office system	1	(1,010)	-	(1,010)
of which:	Certificates measured with internal models developed by Banca Aletti's finance engineering	67	(1,546,723)	-	(1,546,723)
of which:	OTC derivatives measured with proprietary models of the Front Office system	1,234	(4,861)	20,571	(25,432)
of which:	OTC derivatives measured with internal models developed by Banca Aletti's finance engineering	7,781	109,642	2,374,779	(2,265,137)
of which:	OTC derivatives measured by external contributors	12	791	2,713	(1,922)

A. FINANCIAL DERIVATIVES

Note that the comparative balances as at 31 December 2015 were partially restated with respect to those originally published, in order to provide a like-for-like comparison with respect to 31 December 2016, as illustrated below:

- the notional amounts relating to options of the trading portfolio, shown in tables A.1 and A.9, indicate a reduction of euro 3,954.1 million, due to the reclassification of several certificates under other structured securities (euro 31.1 million with underlying "Equity instruments and share indices", euro 3,855.4 million with underlying "Debt securities and interest rates" and euro 67.5 million with underlying "Currencies and gold");
- the negative fair values relating to options of the trading portfolio, shown in table A.4, indicate a reduction of euro 3,841.4 million, due to the reclassification of several certificates under other structured securities;
- the notional and fair values contained in tables A.1, A.3 and A.4 have also been restated in order to represent in the column entitled "Central Counterparties", only derivatives listed on regulated markets traded with an authorised central counterparty, represented by regulated derivatives traded with the Clearing and Guarantee House. Otherwise, the balances originally published included several derivatives listed on the Sedex market as well as several OTC derivatives stipulated with the central counterparty London Clearing House under "central counterparties".

A.1 Regulatory trading portfolio: year-end notional values

Underlying assets/Type of derivative	Total 31/12/2016		Total 31/12/2015 (*)	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
1. Debt securities and interest rates	**91,590,043**	**-**	**104,178,292**	**-**
a) Options	31,782,715	-	42,474,973	-
b) Swap	57,077,443	-	58,988,674	-
c) Forward	38,092	-	-	-
d) Futures	2,691,793	-	2,714,645	-
e) Other	-	-	-	-
2. Equity instruments and share indices	**12,901,769**	**1,261,411**	**13,260,099**	**1,609,935**
a) Options	12,425,431	1,210,918	12,636,617	1,602,530
b) Swap	279,475	-	415,334	-
c) Forward	-	-	-	-
d) Futures	196,863	50,493	208,148	7,405
e) Other	-	-	-	-
3. Currencies and gold	**3,797,571**	**-**	**4,173,122**	**-**
a) Options	1,692,932	-	1,739,587	-
b) Swap	-	-	13,403	-
c) Forward	2,104,639	-	2,418,738	-
d) Futures	-	-	-	-
e) Other	-	-	1,394	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlying assets	**-**	**-**	**-**	**-**
Total	**108,289,383**	**1,261,411**	**121,611,513**	**1,609,935**

(*) The figures relating to the previous year have been restated to provide a like-for-like comparison.

A.2 Banking portfolio: year-end notional values

A.2.1 Hedging

Underlying assets/Type of derivative	Total 31/12/2016		Total 31/12/2015	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
1. Debt securities and interest rates	**17,552,762**	**-**	**18,243,024**	**-**
a) Options	-	-	-	-
b) Swap	17,552,762	-	18,243,024	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity instruments and share indices	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currencies and gold	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlying assets	**-**	**-**	**-**	**-**
Total	**17,552,762**	**-**	**18,243,024**	**-**

A.2.2 Other derivatives

Underlying assets/Type of derivative	Total 31/12/2016		Total 31/12/2015	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
1. Debt securities and interest rates	**7,511,670**	**-**	**12,138,380**	**-**
a) Options	-	-	20,685	-
b) Swap	7,511,670	-	12,117,695	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity instruments and share indices	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currencies and gold	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlying assets	**-**	**-**	**-**	**-**
Total	**7,511,670**	**-**	**12,138,380**	**-**

A.3 Financial derivatives: gross positive fair value – breakdown by products

Portfolios/Types of derivatives	Positive fair value			
	Total 31/12/2016		Total 31/12/2015 (*)	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
A. Regulatory trading portfolio	**1,493,264**	**64,380**	**1,877,528**	**74,962**
a) Options	692,309	64,380	800,471	74,527
b) Interest rate swap	771,998	-	1,053,969	-
c) Cross currency swap	-	-	46	-
d) Equity swap	1,980	-	1,206	-
e) Forward	26,977	-	21,825	-
f) Futures	-	-	-	435
g) Other	-	-	11	-
B. Banking portfolio - hedging derivatives	**415,842**	**-**	**426,570**	**-**
a) Options	-	-	-	-
b) Interest rate swap	415,842	-	426,570	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking portfolio - other derivatives	**240,186**	**-**	**329,091**	**-**
a) Options	-	-	95	-
b) Interest rate swap	240,186	-	328,996	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**2,149,292**	**64,380**	**2,633,189**	**74,962**

(*) The figures relating to the previous year have been restated to provide a like-for-like comparison.

A.4 Financial derivatives: gross negative fair value - breakdown by products

Portfolios/Types of derivatives	Negative fair value			
	Total 31/12/2016		Total 31/12/2015 (*)	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
A. Regulatory trading portfolio	**3,177,462**	**100,221**	**3,399,885**	**123,557**
a) Options	2,301,191	100,221	2,603,676	123,122
b) Interest rate swap	833,835	-	768,965	-
c) Cross currency swap	-	-	1,193	-
d) Equity swap	2,268	-	1,420	-
e) Forward	40,168	-	24,622	-
f) Futures	-	-	-	435
g) Other	-	-	9	-
B. Banking portfolio - hedging derivatives	**1,291,814**	**-**	**990,562**	**-**
a) Options	-	-	-	-
b) Interest rate swap	1,291,814	-	990,562	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking portfolio - other derivatives	**60,724**	**-**	**53,681**	**-**
a) Options	-	-	-	-
b) Interest rate swap	60,724	-	53,681	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**4,530,000**	**100,221**	**4,444,128**	**123,557**

(*) The figures relating to the previous year have been restated to provide a like-for-like comparison.

A.5 OTC financial derivatives: regulatory trading portfolio – notional values, positive and negative gross fair values by counterparty - contracts not included in netting agreements

Contracts not included in netting agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1. Debt securities and interest rates							
- notional value	-	4,598	5,866,423	240,103	-	4,128,260	1,791,619
- positive fair value	-	50	266	18,082	-	132,940	1,419
- negative fair value	-	-	1	2	-	1,811	1,768
- future exposure	-	-	10	4,504	-	17,485	44
2. Equity instruments and share indices							
- notional value	-	-	196,863	135,000	-	2,304	1,725,570
- positive fair value	-	-	-	-	-	77	-
- negative fair value	-	-	-	10,371	-	-	1,566,003
- future exposure	-	-	-	-	-	184	-
3. Currencies and gold							
- notional value	-	-	-	435,971	-	697,940	8,335
- positive fair value	-	-	-	18,614	-	9,497	177
- negative fair value	-	-	-	2,952	-	15,866	1,223
- future exposure	-	-	-	4,360	-	8,483	73
4. Other securities							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.6 OTC financial derivatives: regulatory trading portfolio – notional values, positive and negative gross fair values by counterparty - contracts included in netting agreements

Contracts included in netting agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1. Debt securities and interest rates							
- notional value	-	-	46,076,087	33,217,473	-	265,477	-
- positive fair value	-	-	504,781	294,582	-	17,700	-
- negative fair value	-	-	687,149	348,516	-	-	-
2. Equity instruments and share indices							
- notional value	-	-	9,942,824	899,208	-	-	-
- positive fair value	-	-	431,607	41,535	-	-	-
- negative fair value	-	-	436,351	57,282	-	-	-
3. Currencies and gold							
- notional value	-	-	2,226,137	422,072	-	7,115	-
- positive fair value	-	-	15,043	6,896	-	-	-
- negative fair value	-	-	41,256	6,626	-	11	-
4. Other securities							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

A.7 OTC financial derivatives: banking portfolio – notional values, positive and negative gross fair values by counterparty – contracts not included in netting agreements

Contracts not included in netting agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1. Debt securities and interest rates							
- notional value	-	-	2,098,340	-	-	-	-
- positive fair value	-	-	57,757	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
2. Equity instruments and share indices							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3. Currencies and gold							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
4. Other securities							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.8 OTC financial derivatives: banking portfolio – notional values, positive and negative gross fair values by counterparty – contracts included in netting agreements

Contracts included in netting agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1. Debt securities and interest rates							
- notional value	-	-	18,592,471	4,373,621	-	-	-
- positive fair value	-	-	393,807	204,464	-	-	-
- negative fair value	-	-	976,389	376,149	-	-	-
2. Equity instruments and share indices							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
3. Currencies and gold							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	273	-	-	-	-
4. Other securities							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

A.9 Residual life of OTC financial derivatives: notional values

Underlying assets/Residual life	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A. Regulatory trading portfolio	**42,165,451**	**50,849,031**	**15,274,900**	**108,289,382**
A.1 Financial derivatives on debt securities and interest rates	35,496,478	41,720,647	14,372,917	91,590,042
A.2 Financial derivatives on equity instruments and share indices	3,693,397	8,306,390	901,983	12,901,770
A.3 Financial derivatives on exchange rates and gold	2,975,576	821,994	-	3,797,570
A.4 Financial derivatives on other securities	-	-	-	-
B. Banking portfolio	**5,660,393**	**17,276,911**	**2,127,128**	**25,064,432**
B.1 Financial derivatives on debt securities and interest rates	5,660,393	17,276,911	2,127,128	25,064,432
B.2 Financial derivatives on equity instruments and share indices	-	-	-	-
B.3 Financial derivatives on exchange rates and gold	-	-	-	-
B.4 Financial derivatives on other securities	-	-	-	-
Total 31/12/2016	**47,825,844**	**68,125,942**	**17,402,028**	**133,353,814**
Total 31/12/2015 (*)	**38,528,647**	**96,358,568**	**17,105,704**	**151,992,919**

(*) The figures relating to the previous year have been restated to provide a like-for-like comparison.

A.10 OTC financial derivatives: counterparty risk/financial risk - Internal models

Counterparty risk is defined as the risk that the counterparty in a transaction defaults before the final settlement of the cash flows of said transaction (Art. 272 EU Regulation 575/2013).
To calculate the capital requirement for the exposure to counterparty risk on OTC Derivatives, the Banco Popolare Group used the "Market value method" (art. 274, EU Regulation 575/2013), while for operational and capital adequacy assessment purposes (ICAAP process), it uses internal models to estimate the exposure to risk related to the Basel 2 component. These models are based on the use of internal market risk estimate methods to determine the potential short term evolution of the fair value of positions, and it incorporates the benefits of market correlations and the impacts of guarantee agreements. To calculate risk-weighted assets for future exposures determined in this way, Internal PD and LGD estimates and the IRB-related weighting formulas for credit risks are then applied, when available.
As regards calculating the exposure to risk on the remainder of trades exposed to counterparty risk (Security Financing Transactions), an internal model is not currently used. The calculation and the weighting of the exposure for capital absorption purposes are regulated by CRM rules - the integral method with regulatory adjustments. The weighting of the exposure depends on the merit class of the counterparty.
The additional risk components envisaged by Basel 3 against CVA Risk and that of trading with Central Counterparties, are measured using the standard methods envisaged by EU Regulation 575/2013.
As regards the Risk Appetite Framework, with specific regard to counterparty risk, a trigger threshold is established at Group level. In addition, specific operating limits are envisaged for individual companies (Banco Popolare and Banca Aletti). These risk indicators are monitored on a monthly basis.

B. CREDIT DERIVATIVES

B.1 Credit derivatives: year-end notional values

Types of transactions	Regulatory trading portfolio		Banking portfolio	
	on a single subject	on several subjects (basket)	on a single subject	on several subjects (basket)
1. Protection purchases				
a) Credit default products	95,000	-	-	-
b) Credit spread products	-	-	-	-
c) Total rate of return swaps	-	-	-	-
d) Others	-	-	-	-
Total 31/12/2016	**95,000**	**-**	**-**	**-**
Total 31/12/2015	**250,000**	**-**	**-**	**-**
2. Protection sales				
a) Credit default products	-	-	-	-
b) Credit spread products	-	-	-	-
c) Total rate of return swaps	-	-	-	-
d) Others	-	-	-	-
Total 31/12/2016	**-**	**-**	**-**	**-**
Total 31/12/2015	**-**	**-**	**-**	**-**

B.2 OTC credit derivatives: positive gross fair value – breakdown by products

Portfolios/Types of derivatives	Positive fair value	
	31/12/2016	31/12/2015
A. Regulatory trading portfolio	-	2,004
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Others	-	2,004
B. Banking portfolio	-	-
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Others	-	-
Total	**-**	**2,004**

B.3 OTC credit derivatives: negative gross fair value – breakdown by products

Portfolios/Types of derivatives	Negative fair value	
	31/12/2016	31/12/2015
A. Regulatory trading portfolio	1,429	7,614
a) Credit default products	1,429	5,512
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Others	-	2,102
B. Banking portfolio	-	-
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Others	-	-
Total	**1,429**	**7,614**

B.4 OTC credit derivatives: (positive and negative) gross fair values by counterparty – contracts not included in netting agreements

The case in point is not present for the Group; therefore, this table is omitted.

B.5 OTC credit derivatives: (positive and negative) gross fair values by counterparty – contracts included in netting agreements

Contracts included in netting agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
Regulatory trading							
1. Protection bought							
- notional value	-	-	60,000	35,000	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	965	464	-	-	-
2. Protection sales							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
Banking portfolio							
1. Protection purchases							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
2. Protection sales							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

B.6 Residual life of OTC credit derivatives: notional values

Underlying assets/Residual life	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A. Regulatory trading portfolio	**60,000**	**35,000**	**-**	**95,000**
A.1 Credit derivatives with "qualified reference obligation"	-	25,000	-	25,000
A.2 Credit derivatives with "unqualified reference obligation"	60,000	10,000	-	70,000
B. Banking portfolio	**-**	**-**	**-**	**-**
B.1 Credit derivatives with "qualified reference obligation"	-	-	-	-
B.2 Credit derivatives with "unqualified reference obligation"	-	-	-	-
Total 31/12/2016	**60,000**	**35,000**	**-**	**95,000**
Total 31/12/2015	**140,000**	**110,000**	**-**	**250,000**

B.7 Credit derivatives: counterparty risk/financial risk – Internal models

The internal model used for estimating the counterparty risk of derivative instruments for management purposes is also applied to the credit derivatives in the portfolio.

C. FINANCIAL AND CREDIT DERIVATIVES

C.1 OTC financial and credit derivatives: net fair values and future exposure by counterparties

	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1) Financial Derivatives - Bilateral agreements	**-**	**-**	**1,378,879**	**603,320**	**-**	**37,693**	**-**
- positive fair value	-	-	77,920	100,919	-	17,700	-
- negative fair value	-	-	1,025,862	398,906	-	11	-
- future exposure	-	-	134,832	42,043	-	1,141	-
- net counterparty risk	-	-	140,265	61,452	-	18,841	-
2) Credit Derivatives - Bilateral agreements	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
- net counterparty risk	-	-	-	-	-	-	-
3) "Cross product" agreements	**-**	**-**	**555,732**	**57,887**	**-**	**-**	**-**
- positive fair value	-	-	179,589	21,253	-	-	-
- negative fair value	-	-	28,791	-	-	-	-
- future exposure	-	-	173,282	17,920	-	-	-
- net counterparty risk	-	-	174,070	18,714	-	-	-

In line with the provisions contained in Circular no. 262, the item "Net counterparty risk" must be considered to refer to the balance of the positive fair value, plus future exposure, and any current value of real guarantee received.

1.3 BANKING GROUP - LIQUIDITY RISK

QUALITATIVE INFORMATION

A. General aspects, management processes and measurement methods of the liquidity risk

Liquidity risk is generated by the time mismatch between expected cash in- and out-flows even in a very short time horizon. In addition to the difficulty/impossibility of hedging such mismatches, the liquidity risk can also entail an interest rate risk caused by the need to raise/lend funds at unknown rates that could be potentially unfavourable.
The Group's liquidity risk limits system envisages a first-level control represented by the system that monitors and controls the cumulative liquidity mismatch on the basis of that recommended by the supervisory authority, and ten-day monitoring of operating liquidity - generated by mismatches of the banking portfolio as a whole - for the following timeframes: 14 days, 1 month, 3 months, 6 months and 12 months and monthly monitoring of structural liquidity for those with terms exceeding one year. Second level controls are also in place for intra-day liquidity in accordance with specific BCBS Guidelines.
The Funding and Liquidity Function of the Group Finance Service is in charge of monitoring operating liquidity risk limits, according to the supervisory measurement system, as a first-level control; the Interest Rate and Liquidity Risk Function of the Risk Management Service is in charge of second-level controls, as well as monitoring mismatches of operating and structural liquidity through the Asset & Liability Management procedure also used to measure interest rate risk.
The daily, precise and constant measurement of the counterbalancing capacity plays an important role in assessing the Group's liquidity risk. The counterbalancing capacity is a reserve of rapidly available liquidity, corresponding to the financial asset instruments eligible for refinancing with the European Central Bank, after the required haircuts have been applied.
In accordance with the recommendations of the EBA in the Consultation Paper and with legislation in force, the Group conducts specific, periodic stress tests based on static and dynamic, systemic, specific and combined scenarios pertaining to the main financial statement items. In 2016, in line with the approach adopted by the banking sector in continental Europe, the Group grasped the opportunity to extend the term of the instruments made available by the European Central Bank in order to provide liquidity to the European banking system (TLTRO) by replacing TLTRO-1 with TLTRO-2.
Also in 2016, the Group's liquidity profile showed adequacy in the short and longer term, complying with the limits assigned.
In the same way, the risk metrics introduced by Basel III, LCR (Liquidity Coverage ratio) and SF (Stable Funding Ratio) as part of monthly Supervisory Reporting, in addition to the NSFR (Net Stable Funding Ratio) reported values in line with regulatory requirements.
Note that the phase-in for the entry into force of the LCR threshold, a short-term indicator, envisages a level reduced to 60% from October 2015 with an annual increase of 10% until it reaches 100% starting from 1 January 2018, equivalent to the medium-term indicator NSFR.
For 2016, regulatory LCR has therefore been set as 70%; in 2017, it will be 80%.

QUANTITATIVE INFORMATION

1. Time distribution of financial assets and liabilities by residual contract maturity. Currency of denomination: Euro

Item/Time bracket	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 month and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 year and 5 years	Over 5 years	Undefined Term
Cash assets	**26,382,069**	**163,138**	**360,040**	**1,285,509**	**3,115,143**	**4,122,642**	**7,841,656**	**30,425,098**	**26,241,848**	**2,017,641**
A.1 Government securities	140,077	-	-	-	367,352	150,763	1,880,394	7,268,288	6,960,706	-
A.2 Other debt securities	80,800	5	1,825	60,139	228,634	161,334	459,855	2,110,516	602,139	8,902
A.3 UCIT units	727,952	-	-	-	-	-	-	-	-	43,007
A.4 Loans	25,433,240	163,133	358,215	1,225,370	2,519,157	3,810,545	5,501,407	21,046,294	18,679,003	1,965,732
- Banks	1,431,692	26,432	13,291	85,714	217,166	85,180	4,718	4,638	155,587	1,965,732
- Customers	24,001,548	136,701	344,924	1,139,656	2,301,991	3,725,365	5,496,689	21,041,656	18,523,416	-
Cash liabilities	**48,585,254**	**1,567,402**	**759,986**	**2,661,727**	**5,509,160**	**2,858,374**	**4,600,744**	**29,398,816**	**4,504,580**	**156,150**
B.1 Deposits and current accounts	46,317,732	7,176	114,092	178,977	365,775	804,271	524,215	211,038	1,560	-
- Banks	623,193	-	-	-	-	-	8,004	-	-	-
- Customers	45,694,539	7,176	114,092	178,977	365,775	804,271	516,211	211,038	1,560	-
B.2 Debt securities	221,886	23,839	43,108	293,392	1,227,822	1,517,605	3,605,823	15,432,555	3,396,036	156,150
B.3 Other liabilities	2,045,636	1,536,387	602,786	2,189,358	3,915,563	536,498	470,706	13,755,223	1,106,984	-
"Off-balance sheet" transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	459,904	88,518	474,853	227,712	157,193	152,310	176,735	37,913	-
- Short positions	36,444	268,398	6,905	436,021	123,547	102,710	104,931	171,575	60,063	-
C.2 Financial derivatives without exchange of capital										
- Long positions	1,943,473	-	-	-	-	14	1,330	-	-	-
- Short positions	3,308,543	-	-	-	-	10,346	12,858	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	-	1,871,600	-	-	-	-	-	-	1,076	-
- Short positions	1,871,810	-	-	-	-	-	-	-	866	-
C.5 Financial guarantees given	9,780	49	-	704	512	3,443	2,176	6,825	54,944	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	1,429	-	-	-	-	-	-	-	-	-

2. Time distribution of financial assets and liabilities by residual contract maturity. Currency of denomination: Other currencies

Item/Time bracket	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 month and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 year and 5 years	Over 5 years	Undefined Term
Cash assets	**394,669**	**28,492**	**94,618**	**87,074**	**215,744**	**108,106**	**170,191**	**429,422**	**108,202**	**-**
A.1 Government securities	1	-	-	-	-	-	14	-	51	-
A.2 Other debt securities	59,236	-	62,138	-	38,346	62,341	150,214	316,030	55,526	-
A.3 UCIT units	7,529	-	-	-	-	-	-	-	-	-
A.4 Loans	327,903	28,492	32,480	87,074	177,398	45,765	19,963	113,392	52,625	-
- Banks	73,438	2,953	5,323	28,111	2,085	737	-	-	69	-
- Customers	254,465	25,539	27,157	58,963	175,313	45,028	19,963	113,392	52,556	-
Cash liabilities	**1,179,419**	**42,281**	**34,990**	**11,800**	**13,931**	**46,294**	**5,605**	**21,781**	**4,435**	**-**
B.1 Deposits and current accounts	1,173,019	42,281	17,439	11,800	13,931	15,622	5,605	-	-	-
- Banks	4,217	42,091	16,490	5,694	7,627	-	-	-	-	-
- Customers	1,168,802	190	949	6,106	6,304	15,622	5,605	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	6,400	-	17,551	-	-	30,672	-	21,781	4,435	-
"Off-balance sheet" transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	728,926	103,296	455,861	133,129	111,524	108,758	166,951	851	-
- Short positions	-	879,841	185,931	497,380	227,803	151,966	133,552	159,187	973	-
C.2 Financial derivatives without exchange of capital										
- Long positions	86,258	-	-	-	-	-	-	-	-	-
- Short positions	171,838	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	13	-	175	-	2,455	1,907	12	-	-	-
- Short positions	13	4,548	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

As described in Part E – Section 1 – Risks of the Banking Group – 1.1 Credit Risk - C. Securitisation transactions, as a result of "originated securitisations" generated by Banks or Group Companies, Banco Popolare subscribed securities eligible for refinancing with the ECB or for repurchase agreements with market counterparties. The originated securitisations outstanding as at 31 December 2016 are shown below.

Originated securitisations

SPE	Originator	Securities issue date	Transaction	Type of securitisation
Originated securitisations not derecognised from the financial statements				
Banco Popolare Group				
BPL Mortgages S.r.l.	Banco Popolare (Banco Popolare and former Credito Bergamasco)	June 2014	BPL Mortgages 7	Performing residential and commercial mortgages
BPL Mortgages S.r.l.	Banco Popolare (Banco Popolare and former Credito Bergamasco)	December 2012	BPL Mortgages 5	Performing residential mortgage loans
Former Italease Group				
Italfinance Securitization Vehicle 2 S.r.l	Banco Popolare (former Banca Italease)	January 2009	ITA 11	Performing leases

Significant events in 2016 relating to securitisation transactions

BPL Mortgages 6
In February 2016, the securitisation transaction BPL Mortgages 6 was closed, and the existing securities, entirely subscribed by Banco Popolare, were redeemed. More specifically, on 3 February 2016, Banco Popolare signed the retrocession agreement and repurchased the entire residual portfolio of mortgage loans underlying the securitisation transactions and on 19 February 2016, the SPE made the early redemption of the securities still outstanding. On 24 February 2016, the Termination Letter was signed by all of the parties involved.

BPV Mortgages
In March 2016, the only securitisation transaction made through the SPE BPV Mortgages S.r.l. was closed, and the existing securities, entirely subscribed by Banco Popolare, were redeemed in advance. More specifically, on 18 March 2016, Banco Popolare signed the retrocession agreement and repurchased the entire residual portfolio of mortgage loans underlying the securitisation transactions and on 30 March 2016, the SPE made the early redemption of the securities still outstanding. On 24 March 2016, the Termination Letter was signed by all of the parties involved.

BPL Mortgages 7
Under the plan to restructure the BPL Mortgages 7 transaction, in February 2016, Banco Popolare sold a further portfolio of landed, mortgage, agrarian and other loans disbursed to small and medium enterprise to the Special Purpose Entity BPL Mortgages S.r.l., and repurchased the receivables classified as "non-performing"; to fund the purchase of the subsequent portfolio, on 26 February 2016, the SPE issued a Second Series of asset-backed securities.

In July 2016, following the update of the method applied to SME securitisation transactions, the rating agency DBRS upgraded the rating of the Class A1 and Class A2 Senior Notes from "A" to "A (high)" and the Class B1 and Class B2 Mezzanine Notes from "BBB (high)" to "A (low)".

BPL Mortgages 5
Under the plan to restructure the "BPL Mortgages 5" transaction, in October 2016, Banco Popolare sold a further portfolio of receivables originating from residential landed and mortgage loans to the Special Purpose Entity BPL Mortgages S.r.l., and, at the same time, repurchased both the receivables classified as "non-performing" and those eligible for the Residential CB Programme of Banco Popolare itself. On 28 October 2016, the restructuring of the transaction was completed with the issue of a Second Series of asset-backed securities by the SPE.

In April 2016, DBRS upgraded the rating of the Class A1 Notes from "A" to "A (high)". In October 2016, as part of the restructuring of the transaction, Moody's assigned a rating of "A1" to the Senior Notes of the transaction.

It should also be noted that during 2016, the SPE BPL Mortgages S.r.l, received tax credit from the Tax Authority relating to securitisation transactions closed in previous years, for which a refund had been requested, totalling around euro 2.5 million, which it then ceded to Banco Popolare.

Italfinance Securitisation Vehicle 2 S.r.l. (ITA10)
In October 2016, the securitisation transaction ITA10 was closed, and the existing Junior securities were redeemed.
More specifically, on 6 October 2016, Banco Popolare and the SPE Italfinance Securitisation Vehicle 2 S.r.l. signed an agreement to repurchase the portfolio of residual loans resulting from lease agreements.
On 14 October 2016, the SPE redeemed the securities still outstanding and entirely subscribed by Banco Popolare. Subsequently, on 25 October 2016, all of the counterparties involved in the transaction signed the Termination Agreement.

Pami Finance S.r.l. (Quicksilver)
In December 2016, the securitisation transaction Quicksilver (QKS) was unwound, and the existing Junior securities were redeemed.
More specifically, on 6 December 2016, Banco Popolare and the SPE Pami Finance S.r.l. signed an agreement to repurchase the portfolio of residual loans resulting from lease agreements.
On 21 December 2016, the SPE redeemed the securities still outstanding and entirely subscribed by Banco Popolare.

Securitisation of mortgage, landed, agricultural and other loans disbursed to small and medium enterprises (SME) – S.P.E. BPL Mortgages (June 2014)

The securitisation transaction was originated by Banco Popolare Soc. Coop and by Credito Bergamasco, now Banco Popolare and entailed two stages: on 10 May 2014, the Originator Banks sold mortgage, landed, agricultural and other loans disbursed to small and medium enterprises (Small Business Enterprises - SME) to the SPE BPL Mortgages S.r.l. for a value of euro 1,801.3 million and on 30 June 2014, the SPE issued three classes of bonds. Under the plan to restructure the transaction, in February 2016, Banco Popolare (i) sold a further portfolio of mortgage loans disbursed to small and medium enterprise, partly represented by performing loans resulting from the unwinding of the BPL Mortgages 6 transaction, for a value of euro 2,574 million and (ii) repurchased the receivables initially sold to the SPE that were classified as “non-performing”. To fund the purchase of the subsequent portfolio, on 26 February 2016, the SPE issued a Second Series of asset-backed securities with three classes.

The Senior and Mezzanine notes were listed on the Irish Stock Exchange.
The Senior notes were used by Banco Popolare as collateral for monetary policy operations with the Eurosystem.

In the transaction, the Originator Banks, now only Banco Popolare, acted as Servicers, managing the collection of the receivables, and Banco Popolare also acted as Interim Account Bank and Cash Account Bank.

Loans portfolio

Bank	Value 31/12/2016	Value 31/12/2015
Banco Popolare	2,600,793	1,083,723

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

Issue characteristics

Class	Type	Issue value	Value as at 31/12/2016	Interest rate	Maturity	Rating Moody’s/DBRS (5)
A1	Senior (1)	1,077,400	215,573	Euribor 3 months + 0,3%	November 2054	A1/A high
B1	Mezzanine (1)	269,300	269,300	Euribor 3 months + 0,8%	November 2054	Baa1/A low
C1	Junior (2)	448,898	448,898	Additional Return	November 2054	unrated
A2	Senior (3)	1,936,000	1,342,271	Euribor 3 months + 0,3%	November 2054	A1/A high
B2	Mezzanine (3)	1,000	1,000	Euribor 3 months + 0,8%	November 2054	Baa1/A low
C2	Junior (4)	448,072	448,072	Additional Return	November 2054	unrated
	Total	**4,180,670**	**2,725,114**			

(1) Notes issued on 30 June 2014, listed on the Irish Stock Exchange and entirely subscribed by Banco Popolare.
(2) Junior notes issued on 30 June 2014, unlisted and subscribed by Banco Popolare.
(3) Notes issued on 26 February 2016, listed on the Irish Stock Exchange and entirely subscribed by Banco Popolare.
(4) Junior notes issued on 26 February 2016, unlisted and subscribed by Banco Popolare.
(5) Rating as at 31 December 2016.

Accessory financial transactions

The structure of the transaction envisages the establishment of a Cash Reserve of euro 80.8 million, constituted - at the initial date of issue of the securities - mainly through the disbursement of a subordinated loan totalling euro 76.9 million by Banco Popolare. As part of the restructuring of the transaction, on the issue date of the subsequent notes,

the initial cash reserve was increased through the disbursement of a further mortgage with limited repayment by Banco Popolare for an amount of around euro 85.6 million.

Securitisation of residential landed and mortgage loans– S.P.E. BPL Mortgages (December 2012)

The securitisation transaction was originated by Banco Popolare and Credito Bergamasco, now Banco Popolare. On 17 November 2012, the Originator Banks sold an initial portfolio of performing residential landed and mortgage loans to the SPE BPL Mortgages S.r.l. for a value of euro 2,505.2 million and on 21 December 2012, the SPE issued two classes of bonds. On 9 March 2013 the Originator Banks assigned a second portfolio of residential mortgage loans for a value of euro 1,088 million, funded on 28 March 2013 ("Notes Increase Date") through the increase in the amount of principal of partly paid notes issued by the Company in December 2012. Under the plan to restructure the transaction, in October 2016, Banco Popolare sold a further portfolio of receivables originating from residential landed and mortgage loans to the SPE BPL Mortgages S.r.l., with a value of euro 1,079 million and, at the same time, repurchased both the receivables initially sold to the SPE classified as "non-performing" and those eligible for the Residential CB Programme of Banco Popolare itself. On 28 October 2016, the restructuring of the transaction was completed with the issue of a Second Series of asset-backed securities by the SPE.
The Senior notes were listed on the Irish Stock Exchange and used by Banco Popolare as collateral for monetary policy operations with the Eurosystem.

In the transaction, the Originator Banks, now only Banco Popolare, acted as Servicers, managing the collection of the receivables and Banco Popolare also acted as Interim Account Bank and Transaction Bank.

Loans portfolio

Bank	Value 31/12/2016	Value 31/12/2015
Banco Popolare	2,670,766	2,714,620

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

Issue characteristics

Class	Type	Issue value	Value as at 31/12/2016	Interest rate	Maturity	Rating Moody's/DBRS (4)
A1	Senior (1)	2,440,400	1,146,127	Euribor 1 month + 0,3%	October 2058	A1/A high
B1	Junior (2)	1,148,455	392,765	Additional Return	October 2058	unrated
A2	Senior (3)	995,100	995,100	Euribor 1 month + 0,25%	October 2058	A1/A high
	Total	**4,583,955**	**2,533,992**			

(1) Note issued on 21 December 2012 for a nominal value of euro 1,701.3 million, increased by a nominal amount of euro 739.1 million on 28 March 2013, listed on the Irish Stock Exchange and fully subscribed by Banco Popolare.
(2) Junior Note issued on 21 December 2012 for a nominal value of euro 800.7 million, increased by a nominal amount of euro 347.8 million on 28 March 2013, unlisted and subscribed by Banco Popolare.
(3) Note issued on 28 October 2016, listed on the Irish Stock Exchange and fully subscribed by Banco Popolare.
(4) Rating as at 31 December 2016.

Accessory financial transactions

The structure of the transaction envisages the establishment of a Cash Reserve of euro 64 million, constituted mainly through the disbursement, which took place on 21 December 2012, of a subordinated loan totalling euro 60 million by the Originator Banks.

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In January 2009, Italease Network (merged into Banca Italease), Mercantile Leasing (merged into Banca Italease) and Banca Italease (merged into Banco Popolare), sold a portfolio of loans resulting from lease contracts to the SPE Italfinance Securitisation Vehicle 2 S.r.l. for euro 1,375 million.
On 21 January 2009, the SPE issued a class of senior rated notes for euro 1,031.6 million and a class of junior unrated notes for euro 343.9 million; both series were subscribed by the Originator Banks of the loans. In April 2013, the senior notes were fully redeemed. As at 31 December 2016, Banco Popolare holds junior notes with a nominal value of euro 187 million, 54.3 of which pertain to Alba Leasing by virtue of the "Securitised loan agreement".
As regards this transaction, the Originator Banks (merged into Banco Popolare) acted as Servicer and managed the loans.

1.4 BANKING GROUP - OPERATING RISKS

QUALITATIVE INFORMATION

A. General aspects, management processes and measurement methods of operating risk

Type of risk

Operating risk is the risk of suffering losses caused by inadequacy or failure attributable to procedures, human resources and internal systems, or caused by external events.
The strategic and reputational risks do not belong to this type of risk, while the legal risk is, considered as the risk of infringing laws and other regulations in force, of failing to comply with contract and extra-contract liabilities, as well as other litigations that may arise with counterparties in the course of business activities.

Risk sources

The main sources of operating risk are: the low reliability of operational processes - in terms of effectiveness/efficiency - internal and external frauds, operational mistakes, the qualitative level of physical and logical security, inadequate IT structure compared to the size of operations, the growing recourse to automation, the outsourcing of corporate functions, a limited number of suppliers, changes in strategies, incorrect personnel management and training policies and finally social and environmental impacts.

Risk management model and organisational structure

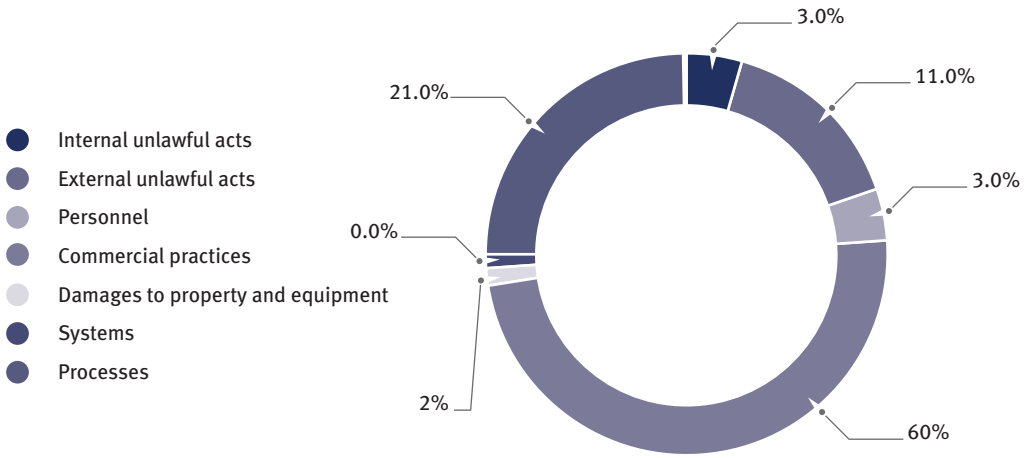
Also in compliance with the relevant regulations, the Banco Popolare Group adopted an operating risk management model that illustrates the management methods and the people involved in risk identification, measurement, monitoring, mitigation and reporting. In particular, the model refers to centralised oversight functions (governance and control functions) and decentralised oversight functions (coordinators and ORM contacts, which are specifically involved in the key processes of collecting operating loss data, continuously assessing the operating scenario and forecasting exposure to risk). This model is governed by specific Group Regulations approved by the Corporate Bodies.
For the operating risk identification and measurement phases, the Banco Popolare Group defined an internal method based on a quantitative and qualitative analysis along a VaR logic.
The quantitative assessment is based on internal loss data, gathered through a loss collection process. This data is combined with external loss data pertaining to the Italian banking scenario (inbound flows of the DIPO consortium, set up by the major Italian Banking Groups within the ABI - Italian Banking Association), and on data deriving from the risk self assessment, a structured process involving the heads of the various organisational structures. The purpose of this component is to complement the available quantitative data, in particular in case no historical loss data exist that may indicate the risk level associated with specific events (primarily related to low frequency and high impact events) or when certain corporate processes or operations are being revised in such a way as to change their risk exposure, and in general a prospective outlook is assigned to the global assessments. The qualitative findings of the continuous monitoring and assessment of the internal and external operating scenarios are also used in this process.
The Banco Popolare Group adopts a reporting model, organised in a management information system, addressed to Corporate Bodies and Top Management (significant losses and relative recoveries, overall risk assessment, capital absorption and risk management policies adopted and/or planned), and in an operating reporting system (operating losses recorded), with a view to adequately managing risk in the relative areas.
In order to calculate the capital requirement against operating risk, the Group adopted the standardized regulatory approach envisaged by supervisory provisions (combined with the basic method for companies not significant in size) up until the Supervisory report as at 31 March 2014.
In a letter dated 5 August 2014, the Bank of Italy approved the use of advanced supervisory methods (AMA – Advanced Measurement Approach), from the Supervisory Report dated 30 June 2014 for Banco Popolare companies, Banca Aletti, SGS BP and BP Property Management. The roll-out plan approved by the Regulator for the extension of AMA methods to Aletti Gestielle SGR and to Banco Popolare's Leasing Division (established in March 2015, following the merger of the former Banca Italease into the Parent Company) concluded with the authorisation by the ECB on 15 June 2016 for the use of the above-cited methods in those business segments, starting from Supervisory Reporting as at 30 June 2016.
The other Group companies adopt the BIA (Basic Indicator Approach) method for reporting, in line with the adoption of the combined use of AMA/BIA, which envisages for the latter, if they do not surpass established materiality thresholds, the permanent use of the basic method (PPU, partial permanent use).

QUANTITATIVE INFORMATION

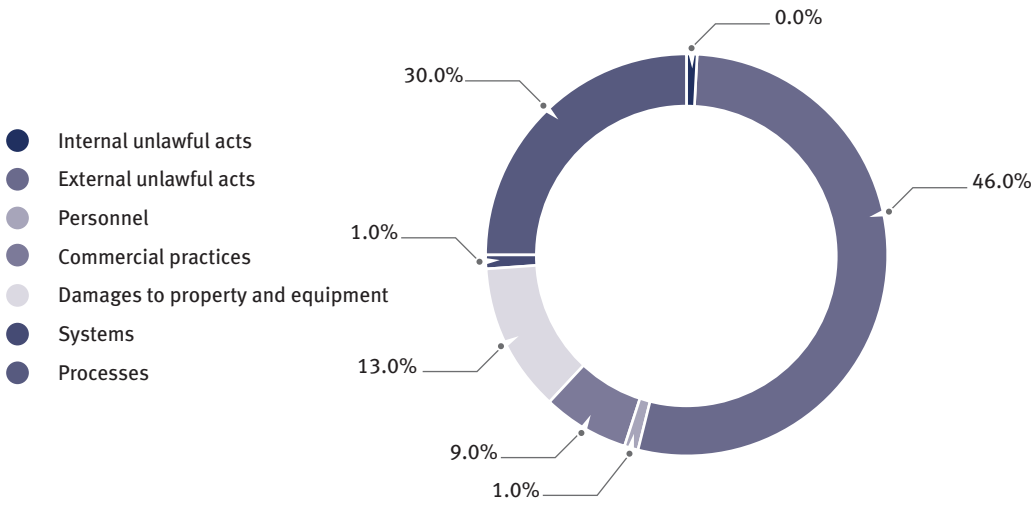
With regard to sources of operating risk, an analysis was conducted covering operating risk events, with gross losses greater than or equal to euro 200 (minimum reporting threshold), with a recording date on or before 1 January 2007.
The loss data in question, recorded in the Group's Loss Collection operational archive, is broken down by type of event, an can be filtered by impact and number of events, in line with the event classification scheme prescribed by the Regulator.

Percentage of operating losses by type of event (recording from 1 January 2007 – 31 December 2016)

Breakdown by impact on the income statement



Breakdown by number of events



Looking at the diagrams, we can see that the dominant categories in terms of impact regard:

- commercial practices, with losses resulting from the non-fulfilment of professional obligations towards customers, or due to the nature or features of a product or service rendered;
- processes, with losses due to shortcomings in the settlement of transactions or in process management, as well as losses due to relations with commercial counterparties, sales agents and suppliers;
- external unlawful acts, with losses due to fraud, misappropriation or infringement of laws by parties external to the bank.

Section 2 - Insurance company risks

The Group has a 50% investment in the insurance companies AviPop Assicurazioni and Popolare Vita, given the bancassurance agreements signed with the Aviva Group and the Fondiaria SAI Group.
Said investments fall within the scope of consolidation of companies valued at equity and are shown in the consolidated assets under Investments in associates and companies subject to joint control.

With regard to this type of risks, the weight of the above companies on total consolidated assets is of little significance.

Section 3 - Other company risks

No significant additional risks are reported for the remaining companies falling within the consolidation scope that are neither part of the Banking Group nor of insurance companies. As regards the Group's real estate companies, including those acquired following credit restructuring arrangements, note that the book value at which said real estate is recognised is consistent with the value stated in specific surveys and valuations.
The risk of impairment of real estate is in any event covered by a specific capital requirement - in terms of credit risk - which the Group calculates in accordance with regulatory methods. Furthermore, Risk Management uses internal operational methods to periodically check the adequacy of the regulatory capital requirement vis-à-vis real estate risk.

PART F - INFORMATION ON CONSOLIDATED SHAREHOLDERS' EQUITY

Section 1 - Consolidated shareholders' equity

A. QUALITATIVE INFORMATION

The Group's shareholders' equity is made up of the sum of the balances of the following statement of financial position liabilities:

- Capital net of repurchased treasury shares
- Share premium reserve
- Reserves
- Valuation reserves
- Equity instruments
- Net income (loss).

The information concerning the methods followed by the Group to pursue its asset management objectives is provided in the following sub-section 2.3.

B. QUANTITATIVE INFORMATION

The consolidated shareholders' equity as at 31 December 2016 totalled 7,644.8 million (of which 7,575.3 million pertaining to the Group and 69.5 million pertaining to minority shareholders) reporting a net increase of 901.9 million compared to the consolidated shareholders' equity as at 31 December 2015 amounting to 8,546.7 million (of which 8,493.6 pertaining to the Group and 53.2 pertaining to minority shareholders).

B.1 Consolidated shareholders' equity: breakdown by type of company

Shareholders' equity items	Banking group	Insurance companies	Other companies	Netting and adjustments on consolidation	31/12/2016
Share Capital	7,199,355	-	14,588	(13,611)	7,200,332
Share premium reserve	-	-	761	(761)	-
Reserves	2,085,128	-	57,748	(21,211)	2,121,665
Equity instruments	-	-	-	-	-
(Treasury shares)	(1,590)	-	-	-	(1,590)
Valuation reserves:	28,568	-	386	(5)	28,949
- Financial assets available for sale	116,394	-	-	-	116,394
- Property and equipment	-	-	378	-	378
- Intangible assets	-	-	-	-	-
- Foreign investment hedges	(226)	-	-	-	(226)
- Cash flow hedges	(189)	-	-	-	(189)
- Exchange rate differences	-	-	-	-	-
- Non-current assets held for sale	-	-	-	-	-
- Actuarial gains (losses) on defined benefit pension plans	(78,385)	-	8	-	(78,377)
- Share of valuation reserves related to investments in associates carried at equity	(11,340)	-	-	(5)	(11,345)
- Special revaluation laws	2,314	-	-	-	2,314
Income (loss) for the year (+/-) attributable to the Group and to minority interests	(1,704,410)	-	(4,189)	4,091	(1,704,508)
Shareholders' equity	**7,607,051**	**-**	**69,294**	**(31,497)**	**7,644,848**

B.2 Valuation reserves of financial assets available for sale: breakdown

Assets/amounts	Banking group		Insurance companies		Other companies		Netting and adjustments on consolidation		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	71,026	(70,390)	-	-	-	-	-	-	71,026	(70,390)
2. Equity instruments	118,462	(2,388)	-	-	-	-	-	-	118,462	(2,388)
3. UCIT units	10,069	(10,385)	-	-	-	-	-	-	10,069	(10,385)
4. Loans	-	-	-	-	-	-	-	-	-	-
Total 31/12/2016	**199,557**	**(83,163)**	**-**	**-**	**-**	**-**	**-**	**-**	**199,557**	**(83,163)**
Total 31/12/2015	**273,904**	**(16,788)**	**-**	**-**	**-**	**-**	**-**	**-**	**273,904**	**(16,788)**

B.3 Valuation reserves of financial assets available for sale: annual changes

	Debt securities	Equity instruments	UCIT units	Loans
1. Opening balance	**161,832**	**91,905**	**3,379**	**-**
2. Positive changes	**101,411**	**46,500**	**17,451**	**-**
2.1 Fair value increases	15,304	44,731	10,373	-
2.2 Transfer of negative reserves to the income statement	1,193	440	1,371	-
- due to impairment	-	440	1,126	-
- on disposal	1,193	-	245	-
2.3 Other changes	84,914	1,329	5,707	-
3. Negative changes	**(262,607)**	**(22,331)**	**(21,146)**	**-**
3.1 Fair value decreases	(170,635)	(17,424)	(6,208)	-
3.2 Losses on impairment	(631)	(1,749)	(315)	-
3.3 Transfer of positive reserves to the income statement: on disposal	(86,114)	(7)	(10,740)	-
3.4 Other changes	(5,227)	(3,151)	(3,883)	-
4. Closing balance	**636**	**116,074**	**(316)**	**-**

B.4 Valuation reserves for defined benefit plans: annual changes

	31/12/2016
1. Opening balance	**(63,494)**
2. Positive changes	**8,965**
2.1 Profits due to changes in financial assumptions	69
2.2 Other actuarial profits	2,588
2.3 Other changes	6,308
3. Negative changes	**(23,848)**
3.1 Losses due to changes in the financial assumptions	(5,988)
3.2 Other actuarial losses	(17,155)
3.3 Other changes	(705)
4. Closing balance	**(78,377)**

Section 2 - Own funds and capital adequacy ratios

2.1 Scope of application of regulations

From 1 January 2014, the new harmonised regulations for banks and investment companies contained in (EU) Regulation no. 575/2013 ("CRR") and in directive no. 2013/36/EU ("CRD IV") dated 26 June 2013 came into force. These transpose the standards defined by the Basel Committee for banking supervision (so-called Basel 3 framework) to the European Union.
The Regulations and the relative technical standards are directly applicable to national legislation and constitute the so-called "Single Rulebook".

Note that the regulations contained in the Single Rulebook envisage a period of transition for the gradual introduction of several new rules (so-called "phase-in").
In other words, during the Basel 3 transition period, several items will be calculated or deducted at different percentages for each year. Generally, a share is attributed to Common Equity Tier 1 (CET1), while the remainder of the aggregate is split between Additional Tier 1 (AT1) and Tier 2 (T2) capital, or attributed to Risk-Weighted Assets (RWA).

A gradual process of elimination (phase-out over a period of time extended to 2021 under the "grandfathering" system) is also envisaged for equity instruments that do not fully meet the calculation requirements of the new regulations.

The estimates of capital ratios that the Group is assumed to have at the end of the transition period are called "Basel 3 Fully Phased".

With regard to the measurement of risk-weighted assets, note that the Banco Popolare Group is authorised to use the following methods based on its own internal models:

- internal system to measure credit risk relating to corporate and retail customers, according to the advanced approach (Advanced IRB), to calculate the relative consolidated and separate capital requirements.
  The model applies at individual level to Banco Popolare Soc. Coop.;
- internal model to measure market risk (generic and specific on equity instruments, generic on debt securities and position-related for UCIT units) to calculate the relative separate and consolidated capital requirements.
  The model applies at individual level to Banco Popolare Soc.Coop. and to Banca Aletti S.p.A.;
- internal model to measure operating risk (AMA) to calculate the relative separate and consolidated capital requirements.
  The model applies at individual level to Banco Popolare Soc.Coop., to Banca Aletti S.p.A., to SGS Soc. Cons., and to BP Property Management Scarl and has been extended, from the reference date of 30 June 2016, to Aletti Gestielle SGR S.p.A and to the Leasing Division of the Parent Company[(1).]

As envisaged by regulations, in the provisions of its authorisation, the Supervisory Authority indicated the minimum consolidated level of capital requirement against credit, market, counterparty and operating risks as 85% (floor) of the capital requirement calculated according to the provisions of the Supervisory Instructions for banks in force up until 2006 (so-called "Basel 1").

As required by Circular no. 285, the prudential scope of consolidation includes banking and financial companies and special purpose entities belonging to the Banking group. These companies are consolidated on a line-by-line basis.

There are no restrictions or constraints to the transfer of equity resources between companies of a Banking group.

2.2. Own funds of the bank

A. QUALITATIVE INFORMATION

In accordance with the CRR and Circular no. 285, the amount of own funds held by a bank breaks down as follows: (i) common equity Tier 1; (ii) additional Tier 1; (iii) Tier 2.

Innovative and non-innovative equity instruments, hybrid capitalisation instruments and subordinated assets, held in other banking and financial companies not belonging to the Group, are deducted from said aggregates according to set percentages.
Equity investments, held in other banking and financial companies not belonging to the Group, and deferred tax assets (DTA) which are based on future profits and originate from temporary differences, are deducted to the extent of the percentage that exceeds specific exemption thresholds. The exempted percentage is weighted at 250% in RWA. The deferred tax assets resulting from tax losses carried forward are fully deducted from CET1.

Also equity investments in insurance companies and subordinated liabilities issued by the same companies are deducted, if calculated by the issuer for regulatory capital purposes, as well as other elements linked to the calculation of capital requirements.

Specifically referring to portfolios for which credit risk is measured using internal models, the amount of expected losses exceeding total value adjustments (so-called shortfall) resulting from the comparison carried out separately with regard to "exposures in default status" and "other exposure" is also deducted.
Any surplus between value adjustments and expected losses is instead included in Tier 2, up to a percentage of 0.6% of RWA on the credit risks calculated according to internal models.

(1) Decision of the European Central Bank notified on 15 June 2016.

Specific prudential filters are applied to safeguard the quality of the Own Funds and to reduce their potential volatility as a result of the adoption of international accounting standards IFRS/IAS.

Minority interests are admissible only to the extent of the amount covering third party risk. Up until 31 December 2017, the remaining percentage may be partially included in the calculation.

Communication regarding the prudential filters of the "Financial assets available for sale" portfolio

The option to neutralise unrealised profits and losses for the securities issued by the central government authorities of countries belonging to the European Union was revoked from 1 October 2016, due to the entry into force of (EU) Regulation no. 445 of 14 March 2016, which introduced new rules for the exercise of these options and of the discretionary powers envisaged by right of the Union, including those relating to articles 467 and 468 of the CRR.
More specifically, art. 14 of the cited Regulation no. 445 envisages that:

- unrealised losses pursuant to art. 467, par. 1, of the CRR, 60% must be included in common equity tier 1 in 2016, and 80% in 2017, "including therein losses relating to exposures towards central government authorities in the category of Financial assets available for sale". In any event, national legislation in place before the entry into force of Regulation no. 445 is applicable if it envisages higher percentages than those illustrated above.

On the contrary, art. 15 of the same Regulation states that

- 40% of the unrealised profits, pursuant to art. 468, par. 3, of the CRR, must be included in common equity tier 1 in 2016, and 20% in 2017, "including therein profits relating to exposures towards central government authorities in the category of Financial assets available for sale". In any event, national legislation in place before the entry into force of Regulation no. 445 is applicable if said legislation envisages higher applicable percentages than those illustrated above.

In a note dated 23 January 2017[(2)], the Bank of Italy clarified that, following the entry into force of the ECB regulation, from October 2016, significant banks must include in or deduct from CET1 respectively, the unrealised profits or losses resulting from exposures towards central government authorities in the AFS portfolio in accordance with the following percentages: 60% for 2016; 80% for 2017.
The residual amounts following the application of these percentages (i.e. 40% for 2016; 20% for 2017) must not be included in the calculation of own funds, as they continue to be classified as sterilised. In application of the transition regime envisaged by the CRR, the national regime in force as at 31 December 2013 is applied.

As at 31 December 2016, the valuation reserve of the securities issued by Central Government authorities of countries belonging to the European Union, after tax, was around a negative euro 25 million; in the absence of "sterilisation", the residual amount (40%, corresponding to around euro 10 million) would have led to a decrease of the same amount of CET1.

The Bank of Italy, in a communication dated 23 September 2016, determined that the countercyclical capital buffer for the fourth quarter of 2016 is set to zero percent.

1. Common Equity Tier 1 capital (CET1)

CET1 is primarily made up of paid-up capital, share premium reserves, net of prudential filters and regulatory deductions.

The following main aggregates are deducted from CET1:

- goodwill and other intangible fixed assets,
- the surplus between expected losses and value adjustments (so-called shortfall),
- significant investments in the CET1 instruments of other parties in the financial sector (for the part exceeding the exemption threshold),
- deferred tax assets which are based on future profits and originate from temporary differences (for the part exceeding the exemption threshold),
- deferred tax assets which are based on future profits and do not depend on temporary differences (for the entire amount).

[(2)] Clarification on the prudential treatment of unrealised profits and losses resulting from exposures towards central government authorities in the category of "Financial assets available for sale".

2. Additional Tier 1 capital (AT1)

AT1 is primarily made up of innovative and non-innovative equity instruments, net of regulatory deductions.
Among the positive elements, it includes the eligible share of 3 innovative and non-innovative "preference share" equity instruments.
An early redemption option is present in all 3 equity instruments, after 10 years of the issuance, subject to the prior authorisation of the European Central Bank.

As at 31 December 2016 are no outstanding equity instruments placed through foreign subsidiaries set-up "ad hoc" (Special Purpose Entities).

All the innovative and non-innovative instruments of the Banco Popolare Group, existing as at 31 December 2016, are subject to transitional regulations (grandfathering clause) which means that they can continue to be calculated, reducing them by 10% each year, reaching zero as at 31 December 2021.

The following main aggregates are deducted from AT1 (for the remaining shares attributed to Tier 1 during the transition period and up to the full extent of AT1):

- the surplus between expected losses and value adjustments (so-called shortfall),
- significant investments in the CET1 instruments of other parties in the financial sector (for the part exceeding the exemption threshold),
- deferred tax assets which are based on future profits and originate from temporary differences (for the part exceeding the exemption threshold).

3. Tier 2 capital (T2)

Tier 2 capital is primarily made up of subordinated liabilities issued, to the extent of the eligible percentage according to the legislation referred to above, net of regulatory deductions.

For all eligible liabilities, subordination requires that, in the event of liquidation or receivership, the holders of these securities be repaid only after all other creditors with higher claim have been repaid.
Early repayments, for all subordinated liabilities are subject to the prior authorisation of the European Central Bank.
The main contractual characteristics of the above mentioned instruments are described in the following tables.

Financial instruments included in calculation of Additional Tier 1 capital (AT1): main contractual conditions

ISIN	Issuer	type	issue date	maturity date	currency	interest rate	special clauses	issued amount	contribution to regulatory capital	Method of repayment	coupon
XS0304963373	Banco Popolare Soc.Coop.	pref	21/06/2007	perpetual	euro	6.756% fixed yearly until June 2017 then 3m Euribor + 188 bp	no step up	104,950,000	104,900,000	After prior approval of the Bank of Italy, bullet repayment upon maturity or early redemption option after 10 years from issuance	Yearly
XS0304963290	Banco Popolare Soc.Coop.	pref	21/06/2007	perpetual	euro	6.156% fixed yearly until June 2017 then 3m Euribor + 228 bp	step up	51,450,000	51,250,000	After prior approval of the Bank of Italy, bullet repayment upon maturity or early redemption option after 10 years from issuance	Yearly
IT0004596109	Banco Popolare Soc.Coop.	pref	29/03/2010	perpetual	euro	9% fixed yearly until March 2020 then 3m Euribor + 665 bp	step up	25,000,000	25,000,000	After prior approval of the Bank of Italy, bullet repayment upon maturity or early redemption option after 10 years from issuance	Yearly
Exclusion of eligibility under art. 28 of the Delegated Regulation (EU) no. 241/2014 of 7 January 2014 - ECB Authorisation 22 July 2015									-1,500,000		

Financial instruments included in calculation of Tier 2 capital (T2): main contractual conditions

ISIN	Issuer	type	issue date	maturity date	currency	interest rate	special clauses	issued amount	contribution to regulatory capital	Method of repayment	coupon
XS0284945135	Banco Popolare Soc.Coop.	sub	08/02/2007	08/02/2017	euro	3m Euribor + 35 bp until February 2012 then 3m Euribor + 95 bp	step up	81,650,000	-	early redemption option from 8 February 2012 after prior approval of the Bank of Italy	Quarterly
XS0504893701	Banco Popolare Soc.Coop.	sub	28/04/2010	28/04/2017	euro	4.75% fixed on a yearly basis	-	100,000,000	5,869,212	Bullet repayment upon maturity	yearly
XS0555834984	Banco Popolare Soc.Coop.	sub	05/11/2010	05/11/2020	euro	6% fixed on a yearly basis	-	710,027,000	540,863,246	Bullet repayment upon maturity	yearly
XS0632503412	Banco Popolare Soc.Coop.	sub	31/05/2011	31/05/2021	euro	6.375% fixed on a yearly basis	-	318,472,000	278,788,460	Bullet repayment upon maturity	yearly
IT0005120313	Banco Popolare Soc.Coop.	sub	30/07/2015	30/07/2022	euro	3m Euribor + 4.375%	-	499,930,000	499,930,000	Bullet repayment upon maturity subject to regulatory events	Quarterly
IT0004966823	Banco Popolare Soc.Coop.	sub	18/11/2013	18/11/2020	euro	5.5% fixed on a yearly basis	-	799,893,000	-	In 5 equal yearly instalments from 18 November 2016	yearly
Exclusion of eligibility under art. 28 of the Delegated Regulation (EU) no. 241/2014 of 7 January 2014 - ECB Authorisation 22 July 2015									-2,500,000		

The following aggregates are deducted from Tier 2 capital (for the residual amounts attributed to Tier 2 during the transition period):

- the surplus between expected losses and value adjustments (so-called shortfall),
- significant investments in the CET1 instruments of other parties in the financial sector (for the part exceeding the exemption threshold),
- deferred tax assets which are based on future profits and originate from temporary differences (for the part exceeding the exemption threshold).

Significant investments in the Tier 2 instruments of other parties in the financial sector are also deducted from Tier 2 capital.

B. QUANTITATIVE INFORMATION

BREAKDOWN OF OWN FUNDS		Total 31/12/2016	Total 31/12/2015
A.	Common Equity Tier 1 capital (CET1) before the application of prudential filters	7,553,245	8,380,937
	of which CET1 instruments subject to transitional provisions	-	-
B.	CET1 prudential filters (+/-)	(18,630)	(18,070)
C.	CET1 before items to be deducted and before the effects of the transitional regime (A +/- B)	7,534,615	8,362,867
D.	Items to be deducted from CET1	(3,119,266)	(2,824,899)
E.	Transitional regime - Impact on CET1 (+/-), including minority interest subject to transitional provisions	661,210	347,523
F.	Total Common Equity Tier 1 capital (CET1) (C - D +/- E)	5,076,559	5,885,491
G.	Additional Tier 1 capital (AT1) before items to be deducted and before the effects of the transitional regime	187,197	241,645
	of which AT1 instruments subject to transitional provisions	179,650	*193,430*
H.	Items to be deducted from AT1	-	-
I.	Transitional regime - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 by virtue of transitional provisions	(144,555)	(241,645)
L.	Total Additional Tier 1 capital (AT1) (G - H +/- I)	42,642	-
M.	Tier 2 capital (T2) before items to be deducted and before the effects of the transitional regime	1,446,759	1,603,370
	of which T2 instruments subject to transitional provisions	-	*46,294*
N.	Items to be deducted from T2	(129,633)	(143,869)
O.	Transitional regime - Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 by virtue of transitional provisions	(106,724)	(224,141)
P.	Total Tier 2 capital (T2) (M - N +/- O)	1,210,402	1,235,360
Q.	Total own funds (F + L + P)	6,329,603	7,120,851

Common Equity Tier 1 Capital as at 31 December 2016, amounted to euro 5,076.6 million, down compared to euro 5,885.5 million at the end of 2015.

The increase of around 1 billion of CET1 after the share capital increase was finalised, was more than offset by the net loss recorded during the year and by the recognition of deferred tax assets relating to the tax loss for the period, which, as already indicated, were fully deducted from the asset item in question.

Tier 2 Capital as at 31 December 2016 amounted to euro 1,210.4 million, down against euro 1,235.4 million as at 31 December 2015. The fall is mainly due to the annual reduction of the eligible subordinated liabilities in place at the beginning of the year, following the application of prudential supervisory rules.

Own funds therefore amounted to euro 6,329.6 million against euro 7,120.9 million recorded at the end of 2015.

2.3 Capital Adequacy

A. QUALITATIVE INFORMATION

Under the prudential regulatory provisions, the total capital requirement is the sum of the capital requirements required as a result of the credit, counterparty, market and operating risks.
These requirements in turn are the result of the sum of the individual requirements of the companies belonging to the Supervisory Group, stripped of the intercompany relations.

Following prudential regulatory instructions referring to 30 June 2012, the Banco Popolare Group was authorised by the Bank of Italy to use internal systems (Advanced IRB) to calculate capital requirements for credit and market risks, as better illustrated in paragraph 2.1 above.

With regard to exposures other than measured by the new internal models, which originate from credit and counterparty and market risk, the Group continues to adopt the respective "standard approaches".

With regard to operating risk, the Group adopted the "combined approach", as most Group companies had obtained, as of 30 June 2014, authorisation to use advanced internal models (AMA), while the remaining minor companies used the "base approach".

The capital management policies of the Banco Popolare Group aim, on the one side, at guaranteeing that the capital base be consistent with the total risk measure, with regulatory constraints, with the target rating and with corporate development plans, and, on the other side, at optimising the capital makeup, namely the set of elements making up regulatory capital, by selecting a mix of suited financial instruments to minimise the cost of capital.

B. QUANTITATIVE INFORMATION

Categories/amounts		Unweighted amounts	Weighted/required amounts	Unweighted amounts	Weighted/required amounts
		31/12/2016	31/12/2015	31/12/2016	31/12/2015
A.	**Risk assets**				
A.1	**Credit and counterparty risk**				
	1. Standardized method	46,799,903	46.576.056	19,687,290	20,948,605
	2. Method based on internal ratings				
	2.1 Basic	-	-	-	-
	2.2 Advanced	71,170,452	72.570.694	14,913,071	16,500,118
	3. Securitisations	74,911	102.381	64,729	80,290
B.	**Regulatory capital requirements**				
B.1	**Credit and counterparty risk**			**2,773,207**	**3,002,321**
B.2	Credit valuation adjustment risk			20,947	27,239
B.3	Settlement risk			-	-
B.4	**Market risk**				
	1. Standardized method			30,469	51,920
	2. Internal models			76,149	140,406
	3. Concentration risk			-	-
B.5	**Operating risk**				
	1. Basic method			12,702	30,444
	2. Standardized method			-	-
	3. Advanced method			217,495	327,200
B.6	**Other calculation elements**				
B.7	**Total prudential requirements**			**3,130,969**	**3,579,530**
C.	**Risk assets and capital ratios**				
C.1	Risk-weighted assets			39,137,113	44,744,125
C.2	Common Equity Tier 1 capital/Risk-weighted assets (CET1 capital ratio)			12.97%	13.15%
C.3	Tier 1 capital/ Risk-weighted assets (Tier 1 capital ratio)			13.08%	13.15%
C.4	Total own funds/Risk-weighted assets (Total capital ratio)			16.17%	15.91%

In accordance with Chapter 2, paragraph 7 (Part F of the Notes to the Separate Financial Statements, also applicable to the consolidated financial statements), of Circular no. 262 of the Bank of Italy ("Bank financial statements: layout and compilation rules"), in standardised methods, the "unweighted amounts" correspond to the value of the exposure including prudential filters, risk mitigation techniques and credit conversion factors.
As regards the method based on internal ratings, the "unweighted amounts" correspond to the value of the exposure "at the time of default" (EAD "Exposure At Default") and, in the case of guarantees given and commitments to disburse funds, they also take Credit Conversion Factors (CCF) into account.

The unweighted exposure to securitisations (A.1, point 3 in the table) is the sum of the nominal amounts of all junior, mezzanine and senior securities held in the portfolios of Group companies, net of the securities held relating to so-called originated securitisations.

As at 31 December 2016, risk-weighted assets amounted to euro 39.1 billion, falling significantly against euro 44.7 billion recorded at the end of 2015. This decrease is mainly due to the fall in credit and counterparty risks, with regard to both exposures measured using the standardised method (euro -1.3 billion), and to exposures whose risk is measured using internal models (euro -1.6 billion).
Risk-weighted assets relating to market risk also fell (euro -1.1 billion) as well as to operating risks (euro -1.6 billion).

The minimum capital requirements for 2016 are as follows:

- a minimum common equity tier 1 ratio (Common Equity Tier 1 capital ratio: "CET1 ratio") of: 4.5% + 2.5% Capital Conservation Buffer: "CCB"; [3]
- a minimum Tier 1 capital ratio of: 6.0% + 2.5% of CCB;
- minimum total capital ratio of: 8% + 2.5% of CCB.

On 20 November 2015 the European Central Bank (ECB) notified Banco Popolare of the minimum capital ratios to be complied with by the bank on an ongoing basis. The decision is based on Article 16 of EU Regulation no. 1024 of 15 October 2013, which confers on the ECB the power to require any supervised bank to hold own funds in excess of the minimum capital requirements laid down by current regulations.
The minimum ratio required by the Regulator is a Common Equity Tier 1 ratio (CET1 ratio) of 9.55%.

Applying the transition rules in force as at 31 December 2016, the capital ratios are as follows:

- Common Equity Tier1 (CET1) Ratio of 12.97%, compared to 13.15% at the end of December 2015;
- Tier 1 Capital Ratio of 13.08%;
- Total Capital Ratio was 16.17%, up against the end of December 2015, amounting to 15.91%.

The current level of own funds enables Banco Popolare to fully comply with the Regulators' requirements, both with respect to the calculation rules currently applicable in the transition period, as well as when the new capital requirements shall apply in full.

The pro-forma CET1 ratio calculated on the basis of rules that will take effect at the end of the transition period (so-called CET1 Ratio fully phased) is estimated at 11.4%.

[3] On 4 October 2016, the Bank of Italy, in update 18 of Circular Letter 285, reduced the CCB to 1.25% for 2017 and to 1.875% for 2018.

PART G – BUSINESS COMBINATIONS REGARDING COMPANIES OR DIVISIONS

Section 1 - Transactions achieved during the year

1.1 Business combinations

No business combination transactions were carried out outside the Group during the year.

As illustrated in the section of this Report regarding significant events occurring during the year, in June, the SPE Tiepolo Finance II S.r.l. was merged by incorporation into the Parent Company Banco Popolare.
This transaction was accounted for with continuity of values, since this was a combination among companies under joint control.

Section 2 - Business combinations after the reporting period

2.1 Business combinations

As fully illustrated in the section of the Report on Operations focused on significant events during the year, as of 1 January 2017, the merger between Banco Popolare Soc. Coop. and Banca Popolare di Milano S.c.a r.l. (hereinafter BPM for short) was finalised, creating a new banking company, with the legal status of a joint stock company, called Banco BPM S.p.A.

Based on the content of Part A - Accounting policies of these Notes to the Financial Statements, accounting standard IFRS 3 requires any business combination to be accounted for using the acquisition method, which entails the following steps:

- identification of the acquirer;
- calculation of the cost of the business combination;
- allocation of the purchase price (PPA).

This method applies to the business combination between Banco Popolare and BPM, even though the same was finalised as an actual merger, which gives rise to a new company, owned by the shareholders of the merged companies.

Identification of the acquirer;
Pursuant to IFRS 3, the acquirer is the entity that obtains control, meaning the power to establish the financial and operational policies of the entity acquired in order to obtain benefits from its business activities. In the specific case of a merger, the main indicators of said power are represented by (i) the number of new ordinary shares with voting rights issued with respect to the total number of ordinary shares with voting rights which will constitute the share capital of the acquiring company after the merger, (ii) the fair value of the entities that participate in the merger, (iii) the composition of the new corporate bodies of the acquiring company, (iv) the entity that issues the new shares.
With reference to the business combination in question, from an accounting perspective, the acquirer has been identified as Banco Popolare based on quantitative aspects regarding the number of new shares issued (54.626% held by the shareholders of the former Banco Popolare and 45.374% held by the shareholders of the former BPM) and the equity aggregates of the two groups participating in the merger.

Calculation of the cost of the business combination
IFRS 3 requires that the cost of a business combination is determined as the sum of the fair value, on the date of exchange: (i) of the assets transferred, (ii) the liabilities incurred and (iii) the equity instruments issued by the acquirer in exchange for obtaining control over the entity acquired.
With regard to the business combination between Banco Popolare and BPM, the cost of acquisition is euro 1,548 million, calculated by valuing the shares issued by the entity resulting from the merger (Banco BPM S.p.A.), allocated in exchange for BPM shares (687,498,738), on the basis of the respective fair value on the date of exchange (euro 2.252 per share, corresponding to the opening price on 2 January 2017, which represents the first market price available from the moment the transaction became legally effective).

Allocation of the purchase price (PPA).
As required by the cited accounting standard, the cost of the business combination must be allocated to the identifiable acquired assets, to the identifiable liabilities incurred, including potential ones, which must be measured

on the basis of the fair value on the date of the business combination, and the value of the minority stake in the acquired entity must also be recognised. The difference between the cost of the business combination and the value, measured at fair value, of the assets net of liabilities and potential liabilities must be recognised:

- as goodwill, if positive;
- as a profit on the income statement (so-called badwill), if negative, insofar as it results from an acquisition at a favourable price.

The business combination between Banco Popolare and BPM shows a negative difference between the cost of the business combination, as illustrated above and the book value of shareholders' equity of the BPM Group as at 31 December 2016, corresponding to euro 2.8 billion. In order to quantify the "badwill", the higher/lower fair values of the assets and of the liabilities of the BPM Group have to be calculated with respect to the respective book values. All additional identifiable assets must also be measured, as well as the potential liabilities not currently recognised by the entity acquired, the recognition of which is however required as part of the process of the purchase price allocation.
The main equity items of the BPM Group whose fair value must be calculated in order to compare the same with the book values are represented by "Loans to customers" "Equity investments", "Property and equipment" (particularly property) and "Debt securities issued". In addition to this, the values of any unrecognised intangibles must be recognised, such as for example trademarks, the values attributable to client relationships and any allocations made to risk funds associated to contingent liabilities.

In accordance with that permitted by standard IFRS 3, the identification of the fair value of the assets and liabilities acquired must be concluded within twelve months from the acquisition date and effective as of the acquisition in question; in this regard, note that on the date of preparation of this financial report, works is underway to find all of the information required and therefore the purchase price allocation process cannot be considered concluded.

The table below contains figures relating to BPM, namely the entity considered as acquired for accounting purposes, relating to the cost of the business combination, the equity interest held, the income statement results in terms of revenues and net profit of the BPM Group as at 31 December 2016.

Company name	Date of the transaction	(1)	(2)	(3)	(4)
Banca Popolare di Milano	01/01/2017	1,548,210	100%	1,601,697	72,724

(1) = Cost of the transaction.
(2) = Percentage of equity interests acquired with voting rights in the ordinary shareholders' meeting.
(3) = Total revenues of the BPM Group as at 31 December 2016 (net interest and other banking income).
(4) = Net profit of the BPM Group as at 31 December 2016.

Section 3 – Retrospective adjustments

It was not necessary to make any retrospective adjustment.

PART H - TRANSACTIONS WITH RELATED PARTIES

1. Information on compensation to directors and executives with strategic responsibilities

This information relates to those who, directly or indirectly, have the power and the responsibility to plan, manage and control the business activities of Group companies.
The table below summarises the compensation paid to directors, statutory auditors and executives with strategic responsibilities (general managers and other executives meeting the above characteristics).
In total, 258 assignments were entrusted to 159 people (including 41 executives).

(in thousands of euro)	2016	2015
Total gross compensation	**18,780**	**25,034**
of which:		
Non-executive directors and Statutory auditors	5,193	5,450
Non-employee executive directors	3,250	3,801
Employees	10,337	15,783
Short term benefits (e.g., car, lodging, accident insurance policy, medical assistance)	**86**	**73**
Post-employment benefits (e.g., pension fund, supplementary pension scheme)	**63**	**64**
Long-term benefits (if any)	-	-
Employee termination benefits (e.g., employee termination indemnities, other benefits)	**662**	**-**
Share-based payments (e.g., stock options/stock grants assigned during the year, share-based bonuses)	-	-

2. Information on transactions with related parties

Banco Popolare has adopted the "Applicable regulations of the notion of related parties pursuant to international accounting standard IAS 24". These "Applicable regulations", which are valid for Banco Popolare and for all Group companies, establish the following operating criteria to identify related parties:

a) Companies subject to significant influence and joint control: entities in which at least 20% of the voting rights that can be exercised during ordinary shareholders' meetings are held, directly or indirectly, or 10%, if the shares are listed on regulated markets and any other company or body that can be qualified as a related party as per IAS 24 as indicated above;
b) Executives with strategic responsibilities: are qualified as such in addition to the members of the Board of Directors and the standing members of the Board of Statutory Auditors of the Parent Company and of Group companies, the General Manager, the Joint General Manager and/or Deputy General Managers, the heads of the Parent Company Departments and Divisions and the Executives who cover senior roles as per the Articles of Association; any additional department heads may be identified by the Board of Directors;
c) Close family members of executives with strategic responsibilities: only family members that are able to influence (or be influenced by) the Executive with strategic responsibilities in the relationship between the latter and Banco Popolare or Group companies. The following are presumed to be as such, unless otherwise declared in writing by the executive, under the latter's own responsibility and containing adequate and analytical justification of the reasons that exclude any possible influence: spouses, common law spouses (including cohabitants whose status is not revealed in the family status certificate), offspring of the party, of the spouse or common law spouse, individuals dependent on the party, the spouse or common law spouse. Any other individual which the party believes may influence them (or be influenced by them) in their dealings with the bank or the other Group companies is also a related party;
d) Participative relations or strategic roles attributable to executives with strategic responsibilities and their close relatives: the following entities are considered to be related parties, those in which executives with strategic responsibilities or their close relatives: have control pursuant to Article 2359, paragraph 1 of the Italian Civil Code, or at least 20% of the voting rights which can be exercised during ordinary shareholders' meetings, or 10% if the company has shares listed on organised markets, or they cover the office of Chairman of the Board of Directors, Managing Director or representative endowed with powers of authority.
e) Group pension funds: the pension funds for Group employees and any other related body;
f) Holders of a significant investment: Mutual Investment Funds, or any other expressly authorised party, who act as a shareholder and who possess an interest greater than 2% in the share capital of Banco Popolare. Parties not belonging to the Group who hold an interest greater than 2% in other Group companies are also considered to be related parties. The company's Board of Directors can change this percentage both upwards and downwards, providing justification in relation to the significance of the investment/investment in an associate.

Financial and commercial transactions between subsidiary companies and those subject to significant influence and joint control.

Financial and commercial transactions with related parties fall within the sphere of ordinary operations and have been conducted as arm's length transactions.

The tables below indicate the statement of financial position and income statement transactions as at 31 December 2016 with the companies subject to significant influence, the joint ventures, management with strategic responsibilities (which include audit bodies) and other related parties.

	Entities exercising significant influence (1)	Associated companies	Joint ventures	Executives with strategic responsibilities	Other related parties	Total	% of consolidated total
Financial assets held for trading	-	24	-	-	17,302	17,326	0,37%
Financial assets available for sale	-	-	-	-	96,122	96,122	0,79%
Due from banks	-	-	-	-	48,659	48,659	1,07%
Loans to customers	-	1,506,982	-	8,932	119,193	1,635,107	2,16%
Other assets	-	9,382	-	-	25	9,407	0,09%
Due to banks	-	-	-	-	469,782	469,782	2,93%
Due to customers	6,460	296,895	-	14,775	421,386	739,516	1,26%
Debt securities issued	-	-	-	2,296	8,150	10,446	0,07%
Financial liabilities held for trading	-	-	-	-	2,384	2,384	0,03%
Financial assets and liabilities designated at fair value through profit and loss	1,988	-	-	414	3,577	5,979	0,09%
Other liabilities	-	3,150	-	256	151	3,557	0,09%
Guarantees given and commitments	-	116,714	-	62	81,850	198,626	2,03%

(1) Funds or other authorised parties who act as a Shareholder and who possess a shareholding greater than 2% of the share capital

	Entities exercising significant influence (1)	Associated companies	Joint ventures	Executives with strategic responsibilities	Other related parties	Total	% of consolidated total
Interest margin	(35)	17,191	-	56	(4,290)	12,922	0,98%
Net fee and commission income	-	130,485	-	19	257	130,761	9,92%
Administrative expenses/recoveries of expenses	-	1,207	-	(16,138)	(136)	(15,067)	0,60%
Other costs/revenues	-	643	-	5	-	648	0,04%

(1) Funds or other authorised parties who act as a Shareholder and who possess a shareholding greater than 2% of the share capital

Other transactions with other related parties

The table below discloses other transactions – supplies of goods and services and transactions on real estate – entered into with related parties, shown in the above table under "executives with strategic responsibilities" and "other related parties".

	Purchases and sales of goods and services	Rentals receivable	Rentals payable
a) Directors	-	-	-
b) Executives with strategic responsibilities	-	13	-
c) Close family members of the parties in letters a) and b)	-	-	-
d) Subsidiary, associated company or subject to significant influence by the parties in letters a) and b)	774	1,836	-

Other information

With reference to paragraph 8 of art. 5 "Disclosures to the public on related party transactions" of the Consob Regulation containing provisions for related party transactions (adopted by Consob with resolution no. 17221 of 12 March 2010 and then amended with resolution no. 17389 of 23 June 2010), the following paragraphs illustrate the most important transactions conducted in 2016.

Securitisation transactions - unwinding of the BPL6 transaction and restructuring of the BPL7 transaction

On 15 December 2015, Banco Popolare's Board of Directors resolved to proceed with the unwinding of the securitisation transaction called BPL Mortgages Series 6 (BPL6) and with the restructuring of the securitisation transaction called BPL Mortgages Series 7 (BPL7), the counterparty of which was BPL Mortgages S.r.l (the SPE).
In order to perform these transactions, on 3 February 2016, the portfolio underlying the BPL6 transaction, amounting to around euro 2.7 billion, was returned to Banco Popolare, and, on 19 February 2016, the SPE redeemed the outstanding securities in advance.
On 12 February 2016, as part of the BPL7 securitisation transaction, Banco Popolare sold the same SPE a further portfolio of performing loans, partially originating from the unwinding of the BPL6 transaction for a total residual debt of euro 2.57 billion and on 15 February 2016 repurchased the non-performing loans belonging to the BPL7 portfolio for the amount of around euro 189 million.
On 26 February, the SPE issued a Second Series of asset-backed securities in three classes, all subscribed by Banco Popolare, with characteristics that were the same as those of the corresponding initial classes of securities issued in 2014 under the same transaction:

- class A2 Notes (Senior Notes), legal maturity 25 November 2054, rated ("A1" by Moody's Investors Services and "A high" by DBRS) and listed on the Irish Stock Exchange for a nominal value of euro 1.94 billion;
- class B2 Notes (Mezzanine Notes), legal maturity 25 November 2054, rated ("Baa1" by Moody's Investors Services and "A low" by DBRS) and listed on the Irish Stock Exchange for a nominal value of euro 1 million;
- class C2 Notes (Junior Notes), unrated and unlisted, with a nominal value of euro 448 million.

Banco Popolare also increased the cash reserve of the BPL7 transaction deposited in the Cash Reserve Account by euro 85.6 million, by means of the disbursement of a further subordinated loan for the same amount, bringing the account to the target level of euro 166.4 million.
A revision of the credit lines granted to the SPE BPL Mortgages S.r.l was also conducted, with regard to the securitisation transactions performed by this company, which led to an overall reduction of its credit facility.

Securitisation transactions - unwinding of BPV Mortgages and Bipitalia Residential

On 9 February 2016, the Board of Directors of Banco Popolare resolved to proceed with the unwinding of two securitisation transactions called BPV Mortgages (completed in June 2009) and Bipitalia Residential (completed in June 2004) respectively, carried out by (i) the repurchase by Banco Popolare of the residual loans, which took place on 18 March 2016, for euro 713.8 million and 89.9 million respectively and (ii) the subsequent advance redemption of outstanding securities by the SPE, which took place on 30 March 2016.

Residential CB and Commercial CB Programmes of the Banco Popolare Group: sale of new portfolios of mortgages and contractual amendments

On 25 May 2016, in accordance with the resolutions passed by the Board of Directors of Banco Popolare on 28 April 2016, Banco Popolare finalised the sale of the following to the SPE BP Covered Bond S.r.l.: (i) under the Residential CB Programme, the eleventh portfolio of eligible assets, with a residual debt of around euro 1 billion, was sold; the purchase price was paid on 30 June 2016 by the SPE using the available liquidity deposited in its current accounts (the total residual value of the loans sold to the SPE as at 30 June 2016 was around euro 10 billion); (ii) under the Commercial CB Programme, the seventh portfolio of eligible assets, with a residual debt of around euro 143 million, was sold; the purchase price was paid by the SPE on 4 July 2016 using the available liquidity deposited in its current accounts (the total residual value of the loans sold to the SPE as at 30 June 2016 was around euro 2 billion).

The sale price of the two portfolios was calculated in accordance with the Supervisory Instructions of the Bank of Italy.

On 24 March 2016 and 16 June 2016, several contractual amendments relating to both the Residential CB and Commercial CB Programmes were also finalised with a view to: (i) extending the "Maturity Date" from 31 March 2016 to 31 March 2019 and the "Extended Maturity Date" from 31 March 2017 to 31 March 2020 of the Seventh Series of Residential CB and (iii) postponing the "Maturity Date" from 2 July 2016 to 2 July 2019 and the "Extended Maturity Date" from 2 July 2046 to 2 July 2049 of the Fourth Series of Commercial CB.

Securitisation transactions - restructuring of the BPL5 transaction

On 14 June 2016, the Board of Directors of Banco Popolare approved proceeding with the restructuring of the securitisation transaction called BPL Mortgages Series 5 (hereinafter BPL5) (performed in December 2012, regarding a portfolio of residential mortgage and landed loans disbursed by Banco Popolare, the residual debt of which amounted to around euro 2.5 billion and whose securities issued were fully subscribed by Banco Popolare), with a view to optimising the contribution of liquidity originating from the use of Senior Notes by Banco Popolare as collateral in monetary policy operations with the ECB.

In order to set this transaction in place, on 13 October 2016, the SPE BPL Mortgages S.r.l returned the loans belonging to the BPL5 portfolio to Banco Popolare, (i) whose characteristics were in line with those of the loans featured in previous assignments under Banco Popolare's Residential CB Programme and (ii) which were classified as non-performing loans, for a total amount which, at the time of the restructuring, was around euro 840 million.
On the same date, Banco Popolare sold, following an amendment of the existing contractual documentation, a further portfolio of mortgages disbursed by Banco Popolare to the SPE, for the amount of euro 1.08 billion.
On 28 October 2016, the SPE issued, under the BPL5 transaction, a new tranche of senior notes, for a nominal value of euro 995.1 million, with the same characteristics as those of the corresponding class of notes issued in 2012, with a rating of A1 from Moody's and A(high) from DBRS, listed on the Dublin Stock Exchange, with legal maturity in October 2058.
In addition, the notional balance of the existing Junior Notes was reduced in order to rebalance the credit enhancement of the structure, by around euro 755 million.

The technical and legal procedures of said return will be established with the rating agencies at the time of the structuring and the existing Junior Notes were partially redeemed early.

As part of the restructuring operation, a line of credit to be used to purchase notes, for a nominal amount of euro 600 million was granted, expiring in October 2058.

Covered Bond Issue Programme of the Banco Popolare Group - sale of a new portfolio of residential mortgage loans and issue of further series of Covered Bonds

The transaction, approved by the Board of Directors on 14 June 2016, follows the restructuring of the securitisation transaction BPL5 and involves the sale, on 31 October 2016, of a further portfolio of loans (the twelfth) originating from residential mortgages to the SPE BP Covered Bond S.r.l, under the Residential CB Programme, for the amount of around euro 940 million. Said portfolio is partially comprised by loans originating from the BPL5 transaction, while the remainder from other residential mortgages disbursed by Banco Popolare.
The purchase price of this further portfolio was paid on 30 December 2016 using cash held in the SPE's accounts.

Residential CB and Commercial CB Programmes of the Banco Popolare Group: repurchase of ineligible loans included in the cover pool of the Programmes

On 23 November 2016, to implement the transaction approved by the Board of Directors on 8 November 2016, Banco Popolare finalised the repurchase of a portion of mortgage loans sold under the Covered Bonds Programme performed by Banco Popolare respectively in February 2010 (the Residential CB programme) and in January 2012 (the Commercial CB Programme) which could no longer be classified as eligible insofar as:

i. they no longer met the criteria established under the respective CB programmes or;
ii. they were classified by Banco Popolare as bad, past due or unlikely to pay mortgage loans (as defined in the documents of the CB Programmes) or;
iii. they didn't meet the requirements envisaged by the CRR (EU Regulation no. 575 of 2013 of the European Parliament and Council dated 26 June 2013 relating to prudential requirements for credit entities and investment companies), such as, for example, mortgage loans whose assets were not evaluated by an external appraiser or were not periodically reviewed, or mortgage loans in which the risk of the debtor is correlated to the profitability of the property used as collateral.

Under the Residential CB Programme, a portfolio was repurchased for the amount of around euro 615 million; under the Commercial CB Programme, a portfolio was repurchased for the amount of around euro 185 million.

The payment of the repurchase price, calculated on the basis of the recognition values of the loans in the last approved financial statements of the SPE BP Covered Bond and taking into account any payments made up until the repurchase date, was made by offsetting it against the partial early repayment of the subordinated loans granted, under each of the CB Programmes, by Banco Popolare to the SPE, for the payment of the purchase price of the loans sold on each occasion.

Issue by Banco Popolare Soc. Coop. of Bonds subscribed by Banca Aletti

The operation in question regards the issue of bonds of Banco Popolare, subscribed by Banca Aletti, using liquidity resulting from funding collected from the issue of Certificates.
The Banco Popolare bonds are issued at same spread as the funding of the Certificates issued by Banca Aletti, whose economic conditions, on each occasion, are in line with those applied to retail products for so-called "fresh" funding.
For the Banco Popolare Group, this transaction is part of a strategy to diversify sources of funding and to stabilise the liquidity profile, which makes it possible to meet customer requirements by extending the range of products.
As at 31 December 2016, Banco Popolare made 35 bond issues for a total of euro 1,555.1 million, against a ceiling of euro 2.5 billion, established by the framework resolution renewed on 15 December 2015 and valid for the period between December 2015 and December 2016.

Revision of the funding arrangements of Banca Aletti

The Group's operating model envisages that the subsidiary company Banca Aletti is the main operating structure delegated to design, structure and provide products to the Group's customers, guaranteeing the liquidity of the same on the secondary market at all times to both private and institutional investors
By virtue of this role, Banca Aletti operates directly on the financial markets, acquiring the relative funding from Banco Popolare, which acts as the central treasury.
The constant growth of volumes on the secondary market of products addressed to Group customers has led to an increased need for refinancing of the subsidiary on the mutual account.
In order to improve treasury management and more accurately forecast liquidity requirements, as well as optimise operating liquidity, at a board meeting held on 19 July 2016, the Board of Directors of Banco Popolare resolved to change the refinancing procedures of the subsidiary company Banca Aletti.
The operation, which takes the form of a framework resolutions for the period between 1 July 2016 and 30 June 2017 enables Banca Aletti, amongst other things, to arrange deposit transactions with Banco Popolare to fund its liquidity requirements.
As at 31 December 2016, under the cited framework resolution, Banco and Banca Aletti stipulated 5 deposits for a total of euro 1.5 billion, one of which matured on 2 December 2016 for the figure of euro 50 million.

Alba Leasing S.p.A. - revision of credit lines

This transaction, finalised in June 2016, regards the revision and restructuring of the lines already granted by Banco Popolare to Alba Leasing, reducing the same from euro 489.7 million to 473 million, therefore reducing the agreed amount by euro 16.7 million.

Transaction to obtain liquidity

This transaction, re-approved by the Board of Directors on 23 March 2016 in the form of a framework agreement, regards transactions to obtain liquidity with Avipop Assicurazioni S.p.A., Popolare Vita S.p.A. and Aletti Gestielle SGR S.p.A., inter alia, as counterparties. The transaction is part of a strategy to diversify sources of funding and to stabilise the liquidity profile by increasing and lengthening the maturities of funding.
The transaction is expected to be completed through the placement of debt securities issued by the Banco Popolare Group, repurchase agreements, deposits, in the form of time deposits and certificates of deposit, for the latter including certificates issued by the Group's foreign branches.
Regarding the individual counterparties, note that in 2016, there were 15 time deposit transactions in place only with Aletti Gestielle SGR S.p.A for a total of euro 361.2 million, of which 14 amounting to a total of euro 336.2 were in place as at 31 December 2016.

PART I – SHARE-BASED PAYMENT AGREEMENTS

1. Description of share-based payment agreements

Share allocation plans addressed to executive members of the Management Board/Board of Directors and to executives of particular importance to the Banco Popolare Group

At a meeting held on 25 March 2011, the Supervisory Board approved the 2011 pay policies which, amongst other things, envisage the use of Banco Popolare shares as a form of payment of part of the bonus on achievement of the company objectives included in incentive systems. At a meeting held on 25 March 2011, the Management Board resolved to submit a share allocation plan addressed to employees and executives identified as among the "key personnel" to the approval of the Shareholders' Meeting, based on the provisions of the Bank of Italy as regards remuneration and incentive policies for banks, within the 2011 incentive system, as well as the treasury shares purchase programme for the purposes of the Plan. On 30 April 2011, the Ordinary Shareholders' Meeting approved the aforementioned Plan, assigning the Management Board all the powers necessary for effectively implementing the same and authorised the purchase of treasury shares to serve the Plan.

By implementing this Plan, Banco Popolare aimed to bring the manner in which bonuses of the incentive systems for employees and executives identified as belonging to the "key personnel" category are disbursed in line with the provisions of the Bank of Italy on remuneration and incentive policies for banks, with specific reference to the prevision that at least 50% of the bonus attributed under said systems must be paid in shares or related instruments.

Furthermore, the Plan seeks to converge management objectives with the interests of shareholders, rewarding the creation of value in the medium-long term by increasing the value of Banco Popolare's shares, enhancing the loyalty of the Group's strategic resources at the same time. Lastly, it is worth noting that under certain conditions, the Plan enables an economic benefit to be enjoyed by both employees - as shares are not subject to social security contributions - and the company, which is not bound to pay said social security contribution and therefore cuts costs.

Pursuant to art. 2357 of the Italian Civil Code, articles 132 of Italian Legislative Decree no. 58 of 24 February 1998 and 144-*bis* of the Issuers' Regulations, as well as the provisions of (EC) Regulation no. 2273/2003 of 22 December 2003, between 3 and 6 October 2011, a total of 1,400,000 shares were purchased to serve the Plan, with an investment of euro 1.7 million.

Following the results achieved, which led to the activation of the incentive system, and the individual performance of the assignees, in a meeting held on 20 March 2012, the Board of Directors resolved to allocate a total of 1,143,733 shares. The portion of shares assigned to the short-term bonus, corresponding to an initial 683,327 shares (60% of the total), was made available with the allocation of 536,863 shares to 13 assignees in March 2014 (the reduced number of shares is due to the waiver of the Managing Director and of another employee who left the company). The portion of shares relating to the deferred bonus, corresponding initially to 460,406 shares (40% of the total), matured in 2015, as the specific parameters set in accordance with Supervisory instructions were met, and 34,128 shares were made available to beneficiaries in April 2016. The lower number of shares to be allocated with respect to the initial number is due to the grouping of the same (on 10 March 2014 at a ratio of one new share for every 10), to the waiver of the Managing Director and to the loss of the right to the shares of two members of staff that left the company.
The number of shares was calculated by taking the arithmetic average of the official prices of the share recorded in the month prior to 30 April 2011 as the unit reference price.

At a meeting held on 9 February 2016, the Board of Directors resolved to submit the 2016 share allocation Plan addressed to certain executive members of the Board of Directors and to employees and other executives of particular importance to the Group, identified as among the "key personnel" to the approval of the Shareholders' Meeting, based on the provisions of the Bank of Italy as regards remuneration policies and practices in banks, as part of the 2015 incentive system, as well as the own share purchase programme for the purposes of the Plan. On 19 March 2016, the Shareholders' Meeting approved the above-mentioned Plan, specifically authorising the Board of Directors, and for the same the Chairman, the Managing Director and the General Manager, also separately, to purchase own shares, in one or more tranches, subject to the authorisation of the competent Supervisory Authority and in accordance with the limitations imposed by articles 2357 and 2357-*ter* of the Italian Civil Code and with the term of 18 months from the date of the resolution, for a maximum countervalue of euro 6.7 million; in any event not exceeding 468,701 ordinary Banco Popolare shares. Said shares will be used to increase the so-called "stock of shares" pursuant to Consob Resolution no. 16839 of 19 March 2009, in order to meet the obligations resulting from programmes and/or plans for the assignment and/or distribution of outstanding or future shares, to the executive members of the Board of Directors of Banco Popolare, to employees and other executives of particular importance and to employees of Group companies.

In a letter dated 27 July 2016, the European Central Bank issued the prescribed authorisations for the repurchase of own shares provided for in art. 78 of (EU) Regulation 575/2013.

By implementing this Plan, Banco Popolare has confirmed the procedure according to which the bonuses of the incentive systems, envisaged for certain executive directors, employees and other executives of the Banco Popolare Group, identified as belonging to the "key personnel" category are disbursed, in line with the provisions of the Bank of Italy on remuneration and incentive policies for banks, with specific reference to the provision that at least 50% of the bonus to be attributed under said systems must be paid in shares or related instruments. In this regard, note that the "key personnel" category includes those who, as regards to the position held, have or could have a significant impact on the Group's risk profile, identified on the basis of the procedures set forth in the "2015 remuneration policies" document.

Furthermore, the Plan seeks to converge management objectives with the interests of shareholders, rewarding the creation of value in the medium-long term by increasing the value of Banco Popolare's shares, enhancing the loyalty of the group's strategic resources at the same time. Lastly, it is worth noting that under certain conditions, the Plan is characterised by the fact that it enables an economic benefit to be enjoyed by both employees, as shares are not subject to social security contributions, and the company, which is not bound to pay said social security contribution and therefore cuts costs.

The shares related to the Plan will be allocated to the beneficiaries, as envisaged in the regulations of the 2015 incentive system, to the extent of 50% of the bonus accrued following the achievement of the envisaged results, with a retention period of 2 years for the portion of the bonus in short-term shares and one year for the portion of the bonus in deferred shares.

On 15 October 2016, the Extraordinary Shareholders' Meeting approved the award to the Board of Directors of Banco BPM S.p.A. of the authorisation, pursuant to articles 2357 and 2357-*ter* of the Italian civil code, to proceed with the purchase, in compliance with the restriction imposed by art. 2357, paragraph 1 of the Italian civil code, of a maximum number of ordinary shares not exceeding 1% of the initial share capital of Banco BPM, as well as the consequent disposal of the shares purchased, awarding a mandate to the Chairman and to the Managing Director, separately, to proceed with the purchase and the consequent disposal according to the terms and the procedures envisaged by the law and in accordance with that indicated in the Illustrative Report of the Board of Directors drawn up to illustrate the Proposed Merger, in any case, it being understood that: the authorisation to purchase its own shares will last for eighteen months from 1 January 2017, the effective date of the merger (while there is no time limit envisaged for the disposal of the own shares purchased); the own shares will be addressed to fulfilling, where necessary, commitments regarding the allocation of shares to directors, employees or co-workers, who have been hired by Banco Popolare Soc.Coop. and/or by Banca Popolare di Milano S.c. a r.l. pursuant to their respective own share allocation plans and/or pay policies currently in force.

For more details on the procedures and the terms for the allocation of the shares under the above-illustrated Plans, please refer to the respective disclosure documents drawn up in accordance with art. 84-bis of the Issuers' Regulations, deposited at the registered office of Borsa Italiana S.p.A. and also available to the general public on Banco BPM S.p.A.'s website www.bancobpmspa.it (*Historic Documentation - Banco Popolare* section).

PART L – SEGMENT REPORTING

Disclosure on operating segments was prepared in compliance with IFRS 8, which requires the operating segments to be identified on the basis of the systems used by Top Management to make operating decisions. Therefore, the identification of the operating segments and the disclosure presented in this paragraph are based on the internal reporting used by the Top Management in order to allocate resources to the different segments and assess their performance.

Criteria for the identification and aggregation of the operating segments

As regards criteria for the identification and aggregation of the operating segments, refer to the section in the report on operations called "Results by business area"

Segment results – income statement figures

2016	Total	Commercial Network	Invest. Bank, Priv. Bank., Asset Man.	Leasing	Corporate Centre and Other	PPA & FVO
Interest margin	1,318,061	1,089,651	149,507	43,839	35,064	-
Profits (losses) on investments in associates and companies subject to joint control carried at equity	124,547	-	-	-	124,547	-
Financial margin	**1,442,608**	**1,089,651**	**149,507**	**43,839**	**159,611**	**-**
Net fee and commission income	1,318,158	1,187,347	111,968	29	18,814	-
Other net operating income	101,861	44,664	374	35,336	43,439	(21,952)
Net financial result (without FVO)	197,517	14,094	23,008	(96)	160,511	-
Other operating income	**1,617,536**	**1,246,105**	**135,350**	**35,269**	**222,764**	**(21,952)**
Operating income	**3,060,144**	**2,335,756**	**284,857**	**79,108**	**382,375**	**(21,952)**
Personnel expenses	(1,470,173)	(1,042,565)	(61,327)	(9,686)	(356,595)	-
Other administrative expenses	(852,244)	(789,867)	(69,848)	(43,584)	51,055	-
Net value adjustments on property and equipment and intangible assets	(165,284)	(18,419)	(503)	(38,164)	(104,615)	(3,583)
Operating expenses	**(2,487,701)**	**(1,850,851)**	**(131,678)**	**(91,434)**	**(410,155)**	**(3,583)**
Income (loss) from operations	**572,443**	**484,905**	**153,179**	**(12,326)**	**(27,780)**	**(25,535)**
Net adjustments on loans to customers	(2,539,331)	(2,191,953)	(85)	(254,494)	(92,799)	-
Net adjustments on receivables due from banks and other assets	(40,799)	-	(21)	-	(40,778)	-
Net provisions for risks and charges	(24,737)	-	310	327	(25,374)	-
Recoveries (Losses) on investments in associates and companies subject to joint control, goodwill and other intangible assets	(279,000)	-	(1,610)	(43)	(277,347)	-
Profits (Losses) on disposal of investments in associates and companies subject to joint control and other investments	17,031	-	-	(803)	17,828	6
Income (loss) before tax from continuing operations	**(2,294,393)**	**(1,707,048)**	**151,773**	**(267,339)**	**(446,250)**	**(25,529)**
Taxes on income from continuing operations	583,117	469,438	(46,104)	75,336	76,199	8,248
Income (loss) after tax from discontinued operations	2,524	-	-	-	2,524	-
Income (loss) attributable to minority interests	22,848	-	-	23,422	(574)	-
Income (loss) without FVO	**(1,685,904)**	**(1,237,610)**	**105,669**	**(168,581)**	**(368,101)**	**(17,281)**
Change in the Bank's creditworthiness (FVO)	5,853	-	-	-	-	5,853
Taxes on change in the Bank's creditworthiness (FVO)	(1,609)	-	-	-	-	(1,609)
Impact of the change in creditworthiness (FVO)	**4,244**	**-**	**-**	**-**	**-**	**4,244**
Parent Company's net income (loss)	**(1,681,660)**	**(1,237,610)**	**105,669**	**(168,581)**	**(368,101)**	**(13,037)**

2015 (*)	Total	Commercial Network	Invest. Bank, Priv. Bank., Asset Man.	Leasing	Corporate Centre and Other	PPA & FVO
Interest margin	1,545,386	1,378,060	186,036	43,146	(61,856)	-
Profits (losses) on investments in associates and companies subject to joint control carried at equity	141,479	-	-	-	141,479	-
Financial margin	**1,686,865**	**1,378,060**	**186,036**	**43,146**	**79,623**	**-**
Net fee and commission income	1,425,410	1,344,132	69,263	(510)	12,525	-
Other net operating income	109,644	52,624	459	15,037	65,355	(23,831)
Net financial result (without FVO)	441,081	12,361	90,075	10	338,635	-
Other operating income	**1,976,135**	**1,409,117**	**159,797**	**14,537**	**416,515**	**(23,831)**
Operating income	**3,663,000**	**2,787,177**	**345,833**	**57,683**	**496,138**	**(23,831)**
Personnel expenses	(1,433,610)	(1,024,851)	(62,726)	(11,988)	(334,045)	-
Other administrative expenses	(804,860)	(779,069)	(65,154)	(43,380)	82,743	-
Net value adjustments on property and equipment and intangible assets	(166,362)	(21,138)	(651)	(48,634)	(92,326)	(3,613)
Operating expenses	**(2,404,832)**	**(1,825,058)**	**(128,531)**	**(104,002)**	**(343,628)**	**(3,613)**
Income (loss) from operations	**1,258,168**	**962,119**	**217,302**	**(46,319)**	**152,510**	**(27,444)**
Net adjustments on loans to customers	(803,933)	(631,365)	(53)	(143,914)	(28,601)	-
Net adjustments on receivables due from banks and other assets	(54,181)	-	(5,006)	-	(49,175)	-
Net provisions for risks and charges	(50,791)	(11,500)	2,630	(1,798)	(40,123)	-
Recoveries (Losses) on investments in associates and companies subject to joint control, goodwill and other intangible assets	-	-	(37)	(92)	129	-
Profits (Losses) on disposal of investments in associates and companies subject to joint control and other investments	(4,400)	-	(1)	(5,188)	2,053	(1,264)
Income (loss) before tax from continuing operations	**344,863**	**319,254**	**214,835**	**(197,311)**	**36,793**	**(28,708)**
Taxes on income from continuing operations	70,518	(107,744)	(70,556)	53,112	182,428	13,278
Income (loss) after tax from discontinued operations	(7,280)	-	-	-	(7,280)	-
Income (loss) attributable to minority interests	18,684	-	-	19,030	(346)	-
Income (loss) without FVO	**426,785**	**211,510**	**144,279**	**(125,169)**	**211,595**	**(15,430)**
Change in the Bank's creditworthiness (FVO)	4,912	-	-	-	-	4,912
Taxes on change in the Bank's creditworthiness (FVO)	(1,624)	-	-	-	-	(1,624)
Impact of the change in creditworthiness (FVO)	**3,288**	**-**	**-**	**-**	**-**	**3,288**
Parent Company's net income (loss)	**430,073**	**211,510**	**144,279**	**(125,169)**	**211,595**	**(12,142)**

(*) The figures relating to the previous year have been restated to provide a like-for-like comparison.

Segment results – statement of financial position figures

31 December 2016	Total	Commercial Network	Invest. Bank, Priv. Bank., Asset Man.	Leasing	Corporate Centre and Other	PPA
Loans to customers	75,840,234	61,100,133	1,425,186	3,716,525	9,598,390	-

31 December 2015	Total	Commercial Network	Invest. Bank, Priv. Bank., Asset Man.	Leasing	Corporate Centre and Other	PPA
Loans to customers	78,421,634	63,268,800	1,363,933	4,418,065	9,370,836	-

31 December 2016	Total	Commercial Network	Invest. Bank, Priv. Bank., Asset Man.	Leasing	Corporate Centre and Other	PPA
Due to customers, debt securities issued and financial liabilities designated at fair value through profit and loss	80,446,701	62,721,710	1,195,387	18,835	16,510,769	-

31 December 2015	Total	Commercial Network	Invest. Bank, Priv. Bank., Asset Man.	Leasing	Corporate Centre and Other	PPA
Due to customers, debt securities issued and financial liabilities designated at fair value through profit and loss	82,141,444	62,659,338	1,005,458	26,954	18,449,694	-

31 December 2016	Total	Commercial Network	Invest. Bank, Priv. Bank., Asset Man.	Leasing	Corporate Centre and Other	PPA
Investments in associates and companies subject to joint control	1,195,214	-	1,554	820	1,191,860	980

31 December 2015 (*)	Total	Commercial Network	Invest. Bank, Priv. Bank., Asset Man.	Leasing	Corporate Centre and Other	PPA
Investments in associates and companies subject to joint control	1,166,324	-	1,535	879	1,162,930	980

(*) The figures relating to the previous year have been restated to provide a like-for-like comparison.

Note that the majority of the assets and operating income were generated in Italy, confirming the deep-seated presence in the national territory, considered to be the Group's primary sphere of operations. The weight of activities and operating income earned abroad is significantly below the threshold of 5%.

ATTACHMENTS

Reconciliation between the items in the consolidated income statement and the reclassified consolidated income statement schedule for 2016

	Reclassified income statement items *(in thousands of euro)*	2016	Reclassifications	Reclassified schedule
10	Interest and similar income	2,325,419	(1,196) g)	
20	Interest and similar expense	(1,006,162)		
	Interest margin			*1,318,061*
	Profits (losses) on investments in associates and companies subject to joint control		124,547 a1)	
	Profits (losses) on investments in associates and companies subject to joint control carried at equity			*124,547*
	Financial margin			**1,442,608**
40	Fee and commission income	1,402,795		
50	Fee and commission expense	(84,637)		
	Net fee and commission income			*1,318,158*
220	Other operating expenses / income	325,135	(223,274) b)	
	Other net operating income			*101,861*
70	Dividends and similar income	23,653		
80	Profits (losses) on trading	60,435		
90	Fair value adjustments in hedge accounting	787		
100	Profits (losses) on disposal or repurchase	36,306	92,449 c)	
	Net losses / recoveries on impairment			
110	Profits (losses) on financial assets and liabilities designated at fair value	(10,260)	(5,853) d1)	
	Net financial result			*197,517*
	Other operating income			**1,617,536**
	Operating income			**3,060,144**
180 a)	*Personnel expenses*	(1,463,926)	(15,398) f) 9,151 b2)	*(1,470,173)*
180 b)	*Other administrative expenses*	(1,067,833)	15,398 f) 200,191 b1)	*(852,244)*
200	Net value adjustments to/recoveries on property and equipment	(102,620)	(8,020) b3)	
210	Net value adjustments to / recoveries on intangible assets	(76,596)	21,952 b4)	
	Net value adjustments on property and equipment and intangible assets			*(165,284)*
	Operating expenses			**(2,487,701)**
	Income (loss) from operations			**572,443**
130	Net losses / recoveries on impairment	(2,487,681)		
	Profits (losses) on disposal or repurchase		(92,449) c)	
	Net adjustments on loans to customers		-	*(2,539,331)*
	Net adjustments on receivables due from banks and other assets		-	*(40,799)*
190	*Net provisions for risks and charges*	(33,268)	7,335 e) 1,196 g)	*(24,737)*
240	Profits (losses) on investments in associates and companies subject to joint control	124,246	(124,246) a)	
260	Value adjustments on goodwill	(279,000)	-	
	Value adjustments on goodwill			*(279,000)*
270	Profits (Losses) on disposal of investments	17,332	(301) a2)	
	Profits (Losses) on disposal of investments in associates and companies subject to joint control and other investments			*17,031*
	Income (loss) before tax from continuing operations		**-**	**(2,294,393)**
290	Taxes on income from continuing operations	588,843	1,609 d2) (7,335) e)	
	Taxes on income from continuing operations			*583,117*
310	Income (loss) after tax from discontinued operations	2,524		
	Income (loss) after tax from discontinued operations			*2,524*
330	Income (Loss) attributable to minority interests	22,848		
	Income (loss) attributable to minority interests			*22,848*
	Impact of the change in creditworthiness (FVO)		**4,244 d)**	**4,244**
	Parent Company's net income (loss)	**(1,681,660)**	**-**	**(1,681,660)**

The letters shown beside the column "Reclassifications" have been included for the purpose of better understanding of the reclassifications carried out.

With reference to the reconciliation provided above, please note that:

- the item **"Profits (losses) on investments in associates and companies subject to joint control carried at equity"** shows the portion of the economic results pertaining to investee companies carried at equity (included in item 240) totalling euro 124.5 million (a1), and together with the interest margin, the aggregate is defined as the **"Financial margin"**;
- the item **"Other net operating income"** is represented by the financial statement item "220 Other operating expense/income", (i) with the recoveries on indirect taxes, legal fees and other expenses, totalling euro 200.2 million (b1), separated out, which, for reclassification purposes are shown in the item "Other administrative expenses" and (ii) separated out from the recovery of training costs of euro 9.2 million (b2) classified in "Personnel expenses". The aggregate of "Other net operating income" does not include the amortisation charges on costs for improvements to third party assets of euro 8.0 million (b3) (recognised in the reclassified item "Net value adjustments on property and equipment and intangible assets") and does include value adjustments to intangible assets with a definite useful life (client relationship) of euro 21.9 million (b4) (taken from item 210 of the official schedule). The effect of the aforementioned reclassifications was euro -223.3 million (b);
- the income statement item **"Net financial result"** includes dividends on shares classified under financial assets available for sale and financial assets held for trading (item 70), the "Profits (losses) on trading" (item 80), the "Fair value adjustments in hedge accounting" (item 90), and the "Profits (losses) on financial assets and liabilities designated at fair value through profit and loss" (item 110). It also includes "Profits (losses) on disposal or repurchase" (item 100), with the exception of the loss of euro 92.4 million (c) relating to the disposal of loans not represented by debt securities, classified in the operational aggregate "Net value adjustments on loans to customers". The net financial result is also represented after the impact of the FVO, which as at 31 December 2016 amounted to euro 5.9 million (d1);
- the item **"Personnel expenses"** is represented by the financial statement item "180 a) Personnel expenses" and by several charges functionally related to personnel, amounting to euro 15.4 million (f), recognised in the statement of financial position under item 180 b) "Other administrative expenses" and by the recovery of training costs of euro 9.2 million (b2), recorded under item "220 Other operating expense/income", as described above;
- the item **"Other administrative expenses"** is represented by the financial statement item 180 b), net of recoveries on indirect taxes, legal fees and other expenses, totalling euro 200.2 million (b1), included in the item "220 Other operating expense/income", as described above, and of several charges functionally related to personnel, amounting to euro 15.4 million (f), recognised in the reclassified item "Personnel expenses";
- the item **"Net value adjustments on property and equipment and intangible assets"** equals the statement of financial position items 200 and 210, gross of the portion of amortisation on costs for improvements to third party assets, for euro 8.0 million (b3), recognised in the item "220 Other operating expense/income" and net of the adjustments to intangible assets with definite useful lives (client relationship), grouped in the reclassified aggregate "Other net operating income", for euro 21.9 million (b4). The overall effect of the aforementioned adjustments on the aggregate was a positive figure of euro 13.9 million;
- total **"Net adjustments on loans to customers"** and **"Net adjustments on receivables due from banks and other assets"** starts from item 130 of the income statement "Net losses / recoveries on impairment". Specifically, "Net adjustments on loans to customers" include the value adjustments on exposures classified in the portfolio of loans to customers, on guarantees, commitments and credit derivatives (included in the aforementioned item 130), and includes the loss on disposal of loans, amounting to euro 92.4 million (c) (included in item 100). The aggregate "Net adjustments on receivables due from banks and other assets" instead includes the net adjustments for impairment of exposures classified in the portfolio "due from banks", "financial assets available for sale" and other transactions (included in item 130);
- the **"Net provisions for risks and charges"** corresponds to item 190 of the official income statement, without the provisions made against certain findings contained in the daily inspection reports issued in 2016 by the Tax Authority, for which the risk of losing was retained as likely to be euro 7.3 million (e). At the time of preparation of the financial statements as at 31 December 2015, the Group had already posted an adequate provision under "tax liabilities" against any additional payments following different interpretations of particularly complex tax matters, such as those of findings recorded in 2016. At the time of preparation of these Financial Statements, the above-cited provision was transferred from "tax liabilities" to "provisions for risks and charges", passing both provisions and value recoveries through the income statement. Regarding the preparation of the reclassified income statement, it was retained correct to deduct the cited provisions and value recoveries from "net provisions to risks and charges" and "Tax on income for the period from continuing operations" respectively. Several allocations, amounting to euro 1.2 million (g), were also removed from the item and recognised under the "interest margin" as they relate to allocations to provisions against disputes which regard interest accrued in the period or in previous years;
- **"Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments"** correspond to item 270 of the official income statement and to the net income on the disposal of investments carried at equity (a2) (which represents one of which of item 240 of the official income statement) (a);
- **"FVO impact"**, which is a positive euro 4.2 million (d), includes the effect of the change in the creditworthiness of liabilities issued by the bank, measured at fair value, recognised under income statement

item “110 Net income (loss) of financial assets and liabilities designated at fair value through profit and loss”, a positive amount of euro 5.9 million (d1), net of the related taxation in the negative amount of euro 1.6 million (d2), reclassified from the income statement item “290 Taxes on income for the period from continuing operations”.

Reconciliation between the items in the consolidated statement of financial position and the reclassified consolidated statement of financial position as at 31 December 2016

Asset items *(in thousands of euro)*		31/12/2016	31/12/2015 (*)
10.	Cash and cash equivalents	648,255	587,383
	Cash and cash equivalents	***648,255***	***587,383***
20.	Financial assets held for trading	4,743,425	6,251,320
30.	Financial assets designated at fair value through profit and loss	4,304	18,600
40.	Financial assets available for sale	12,090,988	12,910,696
50.	Investments held to maturity	8,368,223	7,779,168
80.	Hedging derivatives	443,411	495,161
	Financial assets and hedging derivatives	***25,650,351***	***27,454,945***
60.	Due from banks	4,559,188	2,817,832
	Due from banks	***4,559,188***	***2,817,832***
70.	Loans to customers	75,840,234	78,421,634
	Loans to customers	***75,840,234***	***78,421,634***
100.	Investments in associates and companies subject to joint control	1,195,214	1,166,324
	Investments in associates and companies subject to joint control	***1,195,214***	***1,166,324***
120.	Property and equipment	1,977,766	2,132,633
	Property and equipment	***1,977,766***	***2,132,633***
130.	Intangible assets	1,751,895	2,042,120
	Intangible assets	***1,751,895***	***2,042,120***
150.	Non-current assets held for sale and discontinued operations	77,369	109,983
	Non-current assets held for sale and discontinued operations	***77,369***	***109,983***
90.	Fair value change of financial assets in macro fair value hedge portfolios	66,914	76,675
140.	Tax assets	3,677,941	2,999,403
160.	Other assets	1,965,876	2,352,167
	Other assets	***5,710,731***	***5,428,245***
	Total assets	**117,411,003**	**120,161,099**

(*) The figures have been reclassified to provide a like-for-like comparison.

Liability and shareholders' equity items *(in thousands of euro)*	31/12/2016	31/12/2015 (*)
10. Due to banks	16,017,401	16,334,739
Due to banks	***16,017,401***	***16,334,739***
20. Due to customers	58,671,580	53,470,382
30. Debt securities issued	15,041,815	16,568,441
50. Financial liabilities designated at fair value through profit and loss	6,733,306	12,102,621
Due to customers, debt securities issued and financial liabilities designated at fair value through profit and loss	***80,446,701***	***82,141,444***
40. Financial liabilities held for trading	8,145,975	7,497,914
60. Hedging derivatives	1,292,087	990,562
Financial liabilities and hedging derivatives	***9,438,062***	***8,488,476***
110. Employee termination indemnities	325,339	334,613
120. Provisions for risks and charges	808,095	726,035
Liability provisions	***1,133,434***	***1,060,648***
90. Liabilities associated with non-current assets held for sale and discontinued operations	960	342,265
Liabilities associated with non-current assets held for sale and discontinued operations	***960***	***342,265***
70. Fair value change of financial liabilities in macro fair value hedge portfolios	-	457
80. Tax liabilities	274,146	355,475
100. Other liabilities	2,455,451	2,890,861
Other liabilities	***2,729,597***	***3,246,793***
210. Minority interests	69,568	53,169
Minority interests	***69,568***	***53,169***
Shareholders' equity		
140. Valuation reserves	28,796	177,264
170. Reserves	2,140,394	1,795,715
190. Share capital	7,089,340	6,092,996
200. Treasury shares (-)	(1,590)	(2,483)
Capital and reserves	***9,256,940***	***8,063,492***
220. Net income (loss)	(1,681,660)	430,073
Net income (loss)	***(1,681,660)***	***430,073***
Total liabilities and shareholders' equity	**117,411,003**	**120,161,099**

(*) The figures have been reclassified to provide a like-for-like comparison.

Reconciliation between the statement of financial position as at 31 December 2015 and the same restated for comparative purposes

Asset items *(in thousands of euro)*	31/12/2015	Reclassifications	31/12/2015
10. Cash and cash equivalents	587,383		587,383
20. Financial assets held for trading	6,327,387	(76,067)	6,251,320
30. Financial assets designated at fair value through profit and loss	18,600		18,600
40. Financial assets available for sale	12,910,696		12,910,696
50. Investments held to maturity	7,779,168		7,779,168
60. Due from banks	2,817,832		2,817,832
70. Loans to customers	78,421,634		78,421,634
80. Hedging derivatives	495,161		495,161
90. Fair value change of financial assets in macro fair value hedge portfolios (+/-)	76,675		76,675
100. Investments in associates and companies subject to joint control	1,166,324		1,166,324
120. Property and equipment	2,132,633		2,132,633
130. Intangible assets	2,042,120		2,042,120
of which: goodwill	1,388,895		1,388,895
140. Tax assets	2,999,403		2,999,403
a) current	171,684		171,684
b) deferred	2,827,719		2,827,719
of which pursuant to Italian Law 214/2011	2,445,112		2,445,112
150. Non-current assets held for sale and discontinued operations	109,983		109,983
160. Other assets	2,624,596	(272,429)	2,352,167
Total assets	**120,509,595**	**(348,496)**	**120,161,099**

Liability and shareholders' equity items *(in thousands of euro)*	31/12/2015	Reclassifications	31/12/2015
10. Due to banks	16,334,739		16,334,739
20. Due to customers	53,470,382		53,470,382
30. Debt securities issued	16,568,441		16,568,441
40. Financial liabilities held for trading	7,573,981	(76,067)	7,497,914
50. Financial liabilities designated at fair value through profit and loss	12,102,621		12,102,621
60. Hedging derivatives	990,562		990,562
70. Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)	457		457
80. Tax liabilities	355,475		355,475
a) current	21,011		21,011
b) deferred	334,464		334,464
90. Liabilities associated with non-current assets held for sale and discontinued operations	342,265		342,265
100. Other liabilities	2,890,861		2,890,861
110. Employee termination indemnities	334,613		334,613
120. Provisions for risks and charges	998,464	(272,429)	726,035
a) retirement benefits and similar commitments	362,225	(272,429)	89,796
b) other provisions	636,239		636,239
140. Valuation reserves	177,264		177,264
170. Reserves	1,795,715		1,795,715
190. Share capital	6,092,996		6,092,996
200. Treasury shares (-)	(2,483)		(2,483)
210. Minority interests (+/-)	53,169		53,169
220. Net income (loss) for the year (+/-)	430,073		430,073
Total liabilities and shareholders' equity	**120,509,595**	**(348,496)**	**120,161,099**

Reconciliation between the reclassified statement of financial position for FY 2015 and the same restated for comparative purposes

Reclassified asset items *(in thousands of euro)*	**31/12/2015**	**Reclassifications**	**31/12/2015**
Cash and cash equivalents	587,383		587,383
Financial assets and hedging derivatives	27,531,012	(76,067)	27,454,945
Due from banks	2,817,832		2,817,832
Loans to customers	78,421,634		78,421,634
Investments in associates and companies subject to joint control	1,166,324		1,166,324
Property and equipment	2,132,633		2,132,633
Intangible assets	2,042,120		2,042,120
Non-current assets held for sale and discontinued operations	109,983		109,983
Other assets	5,700,674	(272,429)	5,428,245
Total	**120,509,595**	**(348,496)**	**120,161,099**

Reclassified liability and shareholders' equity items *(in thousands of euro)*	**31/12/2015**	**Reclassifications**	**31/12/2015**
Due to banks	16,334,739		16,334,739
Due to customers, debt securities issued and financial liabilities designated at fair value through profit and loss	82,141,444		82,141,444
Financial liabilities and hedging derivatives	8,564,543	(76,067)	8,488,476
Liability provisions	1,333,077	(272,429)	1,060,648
Liabilities associated with non-current assets held for sale and discontinued operations	342,265		342,265
Other liabilities	3,246,793		3,246,793
Minority interests	53,169		53,169
Shareholders' equity	8,493,565		8,493,565
- Capital and reserves	8,063,492		8,063,492
- Net income (loss)	430,073		430,073
Total	**120,509,595**	**(348,496)**	**120,161,099**

Reconciliation between the consolidated statement of cash flows for FY 2015 and the same restated for comparative purposes

A. Operating activities	31/12/2015	Reclassifications	31/12/2015
1. Cash flow from operations	**2,071,166**	**-**	**2,071,166**
- interest received (+)	2,778,692		2,778,692
- interest paid (-)	(1,207,506)		(1,207,506)
- dividends and similar income (+)	31,201		31,201
- net fee and commission income (+/-)	1,425,410		1,425,410
- personnel expenses (-)	(1,410,127)		(1,410,127)
- net premiums collected (+)	-		-
- other insurance income/expense (+/-)	-		-
- other costs (-)	(1,032,954)		(1,032,954)
- other revenues (+)	1,424,836		1,424,836
- taxes	68,894		68,894
- costs/revenues after tax from discontinued operations (+/-)	(7,280)		(7,280)
2. Cash flow from/used in financial assets	**3,908,602**	**348,496**	**4,257,098**
- financial assets held for trading	186,053	76,067	262,120
- financial assets designated at fair value through profit and loss	(48,857)		(48,857)
- financial assets available for sale	580,257		580,257
- loans to customers	535,588		535,588
- due from banks: repayable on demand	561,779		561,779
- due from banks: other loans	1,658,970		1,658,970
- other assets	434,812	272,429	707,241
3. Cash flow from/used in financial liabilities	**(3,133,060)**	**(348,496)**	**(3,481,556)**
- due to banks: repayable on demand	(439,169)		(439,169)
- due to banks: other payables	(609,409)		(609,409)
- due to customers	(1,308,332)		(1,308,332)
- debt securities issued	(141,134)		(141,134)
- financial liabilities held for trading	1,514,468	(76,067)	1,438,401
- financial liabilities designated at fair value through profit and loss	(2,922,558)		(2,922,558)
- other liabilities	773,074	(272,429)	500,645
Net cash flow from/used in operating activities	**2,846,708**	**-**	**2,846,708**
B. Investing activities			
1. Cash flow from:	**29,610**	**-**	**29,610**
- sales of investments in associates and companies subject to joint control	-		-
- dividends collected on investments in associates and companies subject to joint control	-		-
- sales/redemptions of investments held to maturity	-		-
- sales of property and equipment	29,610		29,610
- sales of intangible assets	-		-
- sales of subsidiaries and business branches	-		-
2. Cash flow used in:	**(2,968,208)**	**-**	**(2,968,208)**
- purchases of investments in associates and companies subject to joint control	(694)		(694)
- purchases of investments held to maturity	(2,800,851)		(2,800,851)
- purchases of property and equipment	(108,673)		(108,673)
- purchases of intangible assets	(57,990)		(57,990)
- purchases of subsidiaries and business branches	-		-
Net cash flow from/used in investing activities	**(2,938,598)**	**-**	**(2,938,598)**
C. Financing activities			
- issues/purchases of treasury shares	60,000		60,000
- issues/purchases of equity instruments	-		-
- dividend distribution and other allocations	(256)		(256)
Net cash flow from/used in financing activities	**59,744**	**-**	**59,744**
Net cash flow from/used in activities during the year	**(32,146)**	**-**	**(32,146)**

Reconciliation	31/12/2015	Reclassifications	31/12/2015
- Cash and cash equivalents at the beginning of the year	619,529		619,529
- Net cash flow from/used in activities during the year	(32,146)		(32,146)
- Cash and cash equivalents: foreign exchange effect	-		-
Cash and cash equivalents at the end of the year	**587,383**	**-**	**587,383**

Country by Country reporting

The country by country reporting, introduced with art. 89 of Directive 2013/36/EU ("CRD IV"), assimilated into Italian law with the 4th update of the Bank of Italy circular no. 285 of 17 December 2013 (Part One, Heading III, chapter 2), envisages an annual obligation to provide information with reference to letters a), b), c), d), e) and f) of art. 89 of the CRD IV.

To this end, the information required is reported, broken down by each letter.

A) Name of companies established and nature of activities

The activities performed by the Banco Popolare Group are illustrated in the table below, which refers to that indicated in art. 317 of EU Regulation no. 575/2013 of the European Parliament and Council (CRR), supplemented with further specific activities.
These activities are grouped according to prevalence criteria, with the "business segments" which, in brief, refer to the internal operating structure of the Group and are referred to in the Report on Operations (paragraph "Results by business segment" and also in "Part L - Segment reporting" of the Notes to the Consolidated Financial Statements as at 31 December 2016.

Taken from CRR: par 4, art. 317, Table 2		Banco Popolare Group business segments			
Business line	**List of activities**	**Commercial and distribution (Branch Networks)**	**Invest. Bank, Priv. Bank., Asset Man.**	**Leasing**	**Corporate Centre and Other**
Financial business services (corporate finance)	Underwriting commitment for financial instruments or placement of financial instruments based on an irrevocable commitment	✔	✔		
	Services related to the underwriting commitment	✔	✔		
	Advice on investments	✔	✔		
	Research on investments and financial analysis and other forms of general advice regarding transactions in financial instruments	✔	✔		
Trading and sales	Trading on own behalf		✔		✔
	Receiving and sending orders regarding one or more financial instruments	✔	✔		
	Order execution on behalf of customers		✔		
	Placement of financial instruments without an irrevocable commitment	✔	✔		
	Management of multilateral trading systems		--		
Retail brokerage (Activities with natural persons or with SMEs that meet the criteria set forth in article 123 for the class of retail exposure)	Receiving and sending orders regarding one or more financial instruments	✔	✔		
	Order execution on behalf of customers	✔	✔		
	Placement of financial instruments without an irrevocable commitment	✔	✔		
Commercial banking services	Collection of deposits or other redeemable funds	✔			✔
	Securities lending transactions	✔			✔
	Financial leases	✔		✔	
	Issue of guarantees and unsecured guarantees	✔			✔
Retail banking (Activities with natural persons or with SMEs that meet the criteria set forth in article 123 for the class of retail exposure)	Collection of deposits or other redeemable funds	✔			
	Securities lending transactions	✔			
	Financial leases	✔		✔	
	Issue of guarantees and unsecured guarantees	✔			
Payments and settlements	Payment services	✔			
	Issue and management of payment instruments	✔			
Agency services	Custody and administration of financial instruments on behalf of customers, including custody and related services such as the management of cash/real guarantees		✔		✔
Asset management	Portfolio management		✔		
	Management of UCITS		✔		
	Other forms of portfolio management		✔		
Other support services and activities	Management of treasury and funding on own account				✔
	Portfolio management for investments in associates and companies subject to joint control				✔
	Management of IT activities				✔
	Management and maintenance of real estate assets				✔

With regard to the main content, the business segment:

- **"Commercial and Distribution"**, includes the management and sale of banking and financial products and services and loan brokerage activities addressed to both retail (private individuals and small businesses) and corporate customers. These activities are mostly conducted by the Parent Company's Commercial Network;
- **"Investment Banking, Private Banking, Asset management"**, includes the structuring of financial products, access to regulated markets, the support and development of specialist financial services for private customers (e.g. individual portfolios) and the promotion and management of funds and SICAV. These activities are conducted by specialist Group companies, such as Aletti & C. Banca d'Investimento Mobiliare, Aletti Fiduciaria and Aletti Gestielle SGR;
- **"Leasing"**, includes the management and administration of financial lease agreements set in place by the former Banca Italease Group; more specifically, it includes activities relating to the agreements of the former Banca Italease S.p.A., which was incorporated into the Parent Company Banco Popolare S.c.a.r.l. in March 2015, and to Release S.p.A. and Italease Gestione Beni S.p.A.;
- **"Corporate Centre and Other"**, includes activities relating to the operational sphere, the governance processes of the various Group entities and business support. These activities are mostly conducted by the central structures of the Parent Company, by Società Gestione Servizi BP and by the Group's real estate companies.

To a marginal extent with respect to the Group's total volumes, certain retail activities included in the above classifications are also conducted by the foreign subsidiary Bank Aletti & C. (Suisse) SA (specialist financial services for private customers). With reference to 31 December 2016, the weight of foreign activities was less than 5%, both in terms of total consolidated assets, and total consolidated income.

B) Turnover

The turnover refers to Net interest and other banking income, set forth in item 120 of the consolidated income statement, which as at 31 December 2016 amounted to euro 2,748.3 million (euro 3,480.2 million as at 31 December 2015). See in this regard the Consolidated Income Statement for 2016.

C) Number of employees on a full time equivalent basis

In terms of full time equivalent employees, the figure as at 31 December 2015 was 16,382 (16,731 as at 31 December 2015), also including CoCoPro contracts and Placements.

D) Profit or loss before tax

The Group's profit before tax corresponds to the sum of items 280 and 310 of the consolidated income statement, which is euro -2,293.4 million (euro 342.5 million as at 31 December 2015). See in this regard the Consolidated Income Statement for 2016.

E) Tax on profit or loss

The tax on the Group's profit for 2016 corresponds to the amount shown in item 290 of the consolidated income statement, which is a positive figure of euro 588.8 million (euro +68.9 million as at 31 December 2015). See in this regard the Consolidated Income Statement for 2016.

F) Public subsidies received

In 2016, the Banco Popolare Group received public subsidies for personnel training courses totalling euro 7.7 million (euro 5.0 million last year).

In this regard, note that, as regards the subsidies in question, in compliance with the provisions envisaged for the preparation of this report, the operations undertaken with the central banks for the purpose of financial stability or operations whose objective is to facilitate the transmission mechanism of monetary policy are excluded.

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