2010

Reports and Financial Statements

of Banca Popolare di Milano and the BPM Group

BANCA POPOLARE DI MILANO

Report and Financial Statements of Banca Popolare di Milano and the BPM Group

BANCA POPOLARE
DI MILANO

Co–operative Bank founded in 1865
Parent Bank of the BPM – Banca Popolare di Milano – Banking Group
Share capital at 31.12.2010: Euro 1,660,220,780
Milan Company Register no. 00715120150
Enrolment in the National Register of Cooperative Companies No. A109641
Head Office and General Management:
Piazza F. Meda 4, Milan – Italy
www.bpm.it

Member of the Interbank Guarantee Fund

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

2010

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Directors and Officers General Management and Independent Auditors

Board of Directors

Chairman
Massimo Ponzellini

Deputy Chairmen
Mario Artali
Graziano Tarantini

Directors
Antoniogiorgio Benvenuto
Francesco Bianchi (***)
Giovanni Bianchini
Giuseppe Coppini
Enrico Corali
Claudio Danelon
Franco Debenedetti
Franco Del Favero.
Carlo Dell'Aringa
Roberto Fusilli
Piero Lonardi
Marcello Priori
Leone Spozio
Jean-Jacques Tamburini
Michele Zefferino

Board of Statutory Auditors

Chairman
Salvatore Rino Messina

Sindaci
Carlo Bellavite Pellegrini
Enrico Castoldi
Stefano Salvatori
Ezio Simonelli

Arbitrators
Italo Ciancia
Anna Maria Sanchirico
Carlo Felice Varini

General Management

General Manager
Fiorenzo Dalu

Co-General Manager
Enzo Chiesa

Deputy General Manager
Roberto Frigerio (*)

Head Office Managers
Maurizio Biliotti (**)
Angelo Pellegatta
Giovanni Antonio Pipi

Independent Auditors

Reconta Ernst & Young S.p.A.

(*) Financial Reporting Manager
(**) On secondment to Asset Management Holding S.p.A. from 3.3.2011
(***) Resigned on 30.03.2011

Notice of Ordinary and Extraordinary General Meeting

The Members of Banca Popolare di Milano Scrl are called to the ordinary and extraordinary general meeting, which will be held at first calling on 29 April 2011, at 9.00 a.m., at the registered office in Milan, Piazza Filippo Meda 4, to discuss the following agenda:

Ordinary part

1. Reports of the Board of Directors and the Board of Statutory Auditors on the 2010 financial statements. Review of the financial statements; related resolutions;
2. Review of the Bank's remuneration policy and related resolutions;
3. Appointment of two directors, pursuant to art. 2386 of the Italian Civil Code and 33 paras. 3 and 4 of the Articles of Association;
4. Aappointment of an alternate Auditor, pursuant to art. 2401 of the Italian Civil Code and 41, para. 19 of the Articles of Association;
5. Amendment to the Regulations for General Meetings, subject to approval of the amendments to the articles of association mentioned in point 1 of the extraordinary part. Related resolutions;

Extraordinary part

1. Amendments to arts 13, 17, 29, 32, 33, 36 and 41 of the Articles of Association. Related resolutions.

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Members eligible to attend the Meeting and to exercise their voting right, are those who have been included in the Register of Members for at least ninety days before the day of the general meetings at first calling and for whom the Bank has received the related certificate issued by an intermediary belonging to the centralised system of Monte Titoli SpA, pursuant to art. 83-sexies of D.Lgs. 58/98 (and subsequent amendments). Members will therefore have to ask the intermediaries with whom their shares are registered to send the Bank the required communication. Members whose shares are already lodged with the Bank for safe custody and administration must nonetheless request the required certification in writing from the Bank's branches where the shares are deposited. Alternatively, they can go in person to the Bank's Shareholders' Office in Piazza Filippo Meda 4, Milan, between 9.00 a.m. and 1.30 p.m., where they can ask for and immediately pick up the document (the so-called "Attestation of Communication") to be presented at the Meeting to facilitate registration procedures at the entrance.
Without prejudice to art. 83-sexies, D.Lgs. 58/98 (and subsequent amendments), note that these communications can be requested from 1 April 2011 to 27 April 2011 (inclusive).
Members holding shares which are still in printed form must deliver the shares to an intermediary in time for them to be input into the centralised electronic administration system in accordance with current regulations.
If there are not enough members to form a quorum at the first meeting called for 29 April 2011 in accordance with article 30 of the Articles of Association, the meeting will be held at

second calling

on 30 April 2011, at 9.00 a.m., at Fieramilanocity – Pavilion 4 Viale Scarampo – Porta Teodorico 11, Milan with the same agenda.

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Each Member is entitled to one vote, regardless of the number of shares that they own; postal voting is not allowed.

Every member entitled to attend meetings can ask by means of a written proxy to be represented by another member, who can act as proxy for just two other members; proxies cannot be given to persons who are not allowed to be proxyholders under the applicable regulations. There is a proxy form at the bottom of each member's "Attestation of Communication"; otherwise, copies can be found at the Bank's head office and branches and on the website (www.bpm.it).

Proxies cannot be given with the name of the representative left blank and the signature of the person delegating has to be authenticated by an officer at the Bank's head office or one of its branches, or by the intermediary who issued the "Communication to attend the Members' Meeting" or by a public official.

Legal entities, with the exception of Italian and foreign Undertakings for Collective Investment in Transferable Securities (UCITS), as well as foreign collective entities and legal entities, can only attend meetings in the person of their legal representative; alternatively, the legal representative can give a proxy to another member in accordance with the previous two paragraphs.

For attendance purposes, only the certifications and proxies handed over by each participant when registering for the first time that they enter the meeting will be considered valid.

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With reference to points 3 and 4 of the Agenda of the Ordinary part of the General Meeting, note that to appoint directors and officers, the General Meeting will decide with a relative majority without application of the list voting system in accordance with the Articles of Association.

We would remind Members that each candidate has to be presented by at least three hundred Members or, alternatively, by Members representing a total of 0.5% of the share capital, registered in the Register of Members at least ninety days before the date of the General Meeting at first calling, who can prove, according to the prescribed methods, their right to attend and to vote at General Meetings.

To replace the director elected on the minority list - in accordance with the Articles of Association and the Regulations for General Meetings – those who were on the same list as the director to be replaced automatically become candidates providing they confirm their candidature in writing at least fifteen days prior to the date of the General Meeting.

All candidatures for office - together with their curriculum vitae and the declarations by which they individually accept their candidacy and confirm, under their own responsibility, that there are no reasons for ineligibility or incompatibility, and that they meet the requirements prescribed by law or by the Articles of Association for holding office, as well as, for candidates to the office of director, the profile of independence as per art. 147-ter, para. 4, D.Lgs. 58/98 (and subsequent amendments) and as per art. 3 of the Code of Conduct of Listed Companies (the March 2006 version adopted by the Bank) - have to be filed in time to allow the Bank to fulfil the related operating and disclosure requirements, and in any case, by 14 April 2011 for the office of director and 16 April 2011 for the office of alternate auditor.

By the deadlines mentioned above, candidatures for office must be filed - together with the related documentation required by law and by the Articles of Association - at the head office of the Bank (Chairman's Secretariat, Piazza Filippo Meda 4, Milan) during office hours (Monday-Friday from 8.25 a.m. to 4.55 p.m.) or, alternatively, by sending a certified e-mail (PEC) to emittentebpm@pec.gruppobipiemme.it by 4.55

p.m. on the day of the deadline. In this case, we recommend sending the original paper documents to the Bank by the day prior to the General Meeting at first calling.

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Note that Members who represent at least one fortieth of the total number of Members can, within five days of this notice being published, ask for additional matters to be added to the agenda for discussion (except for those matters on which, by law, the General Meeting has to decide based on a proposal from the Board of Directors or on the basis of a project or report prepared by them), stating in the request the additional matters being proposed. By law, any additional matters added to the agenda have to be announced at least ten days prior to the Meeting.

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Members are reminded that if they want to exercise these rights, the Bank has to be allowed to verify, by the deadlines and with the methods foreseen in the specific regulations, that they are entitled to exercise such rights (in particular, by means of the communication as per art. 83-sexies of D.Lgs. 58/98 and subsequent amendments).

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Please note that:
– the documentation relating to the items on the agenda - as well as the Report on Corporate Governance and Ownership Structure of the Bank for 2010, prepared in accordance with art. 123-bis of D.Lgs. 58/98 (and subsequent amendments) - will be made available to the general public from 14 April 2011, pursuant to the law, at the Bank's head office in Piazza Filippo Meda 4, Milan, at the offices of Borsa Italiana SpA and on the Bank's website (www.bpm.it);
– the candidatures for office mentioned in points 3 and 4 of the agenda for the ordinary part of the General Meeting - together with the accompanying documentation - will be made available to the general public from 19 April 2011, pursuant to the law, at the Bank's head office in Piazza Filippo Meda 4, Milan, at the offices of Borsa Italiana SpA and on the Bank's website (www.bpm.it);
– as regards the bond loan with obligatory conversion entitled "Convertendo BPM 2009/2013 - 6.75%", in accordance with art. 8 of the related Regulation, we would like to inform you that the conversion period of these bonds into the Bank's shares has been suspended from today up to the date on which the shares go ex-dividend.

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Members will be able to obtain a copy of the documentation made available at the Bank's head office at their own expense.
This notice, which is also for the purposes of art. 84, para. 1, of Consob Regulation 11971/1999 (and subsequent amendments), was published on Thursday, 31 March 2011 in the daily newspapers "Il Sole 24 Ore" and "Italia Oggi".

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Information concerning the procedures for attending the meeting can be requested from the Bank's Shareholders' Office in Piazza Filippo Meda 4, Milan by telephoning the free-phone number 800-013090 on weekdays between 9.00 a.m. and 5.00 p.m.

for the Board of Directors
The Chairman
(Massimo Ponzellini)

Milan, 29 march 2011

Financial Statements of Banca Popolare di Milano

2010

Key figures and ratios of Banca Popolare di Milano

Introduction

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

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

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

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

1. the interest relating to the extraordinary charge incurred to settle the tax dispute at the end of 2010 has been transferred out of item 20 "Interest and similar expense" and booked to a new item called "Extraordinary tax items" in the reclassified statement;
2. the line item 70 "Dividend and similar income" no longer includes dividends from investments in associates and companies subject to joint control. they are now included under "Operating income" in the reclassified format;
3. "Net income from banking activities" includes line item 70 "Dividend and similar income", 80 "Profits (losses) on trading, 90 "Fair value adjustments in hedge accounting", 100 "Profits (losses) on disposal/repurchase", 110 "Profits (losses) on financial assets and liabilities designated at fair value " and 130 b) "Net losses/recoveries on impairment of financial assets available for sale". line item 100 a) "Profits/losses on disposal/repurchase of receivables" has been excluded;
4. "Other operating expenses (income)" (line item 190) recorded as part of "Operating expenses" in the official reporting format have been adjusted to exclude a portion of "Recoverable indirect taxes" and of the "Tax settlement charge" agreed at the end of 2010; "Depreciation of leasehold improvements" has also been increased. "Other operating expenses (income)", reclassified in this way, have been included in "Operating income" in the reclassified income statement;
5. "Other administrative expenses" (line item 150 b) have been reduced by the "Recoverable indirect taxes" discussed in point 4) above;
6. "Net adjustments to property equipment and intangible assets" (line items 170 and 180) have been increased in the reclassified income statement by the "Depreciation of leasehold improvements" discussed in point 4) above;
7. Net impairment adjustments to loans and financial assets" reported after "Operating profit" in the reclassified format, include line item 130, net of the sub-item 130.b) "Net impairment adjustments to loans to customers and financial assets held for sale" (reclassified under "Net income from banking activities") and line item 100.a) "Profits (losses) on disposal/repurchase of receivables" (removed from "Net income from banking activities");
8. the new item in the reclassified statement "Extraordinary tax items" include the charges for the tax settlement reached at the end of the year transferred from item 20 "Interest and similar expense" (see point 1) and from item 190 "Other operating expenses (income)" (for the part relating to higher taxes and fines); the lower taxes on the interest expense, on the other hand, have been booked to item 260 "Taxes on income from continuing operations".

Banca Popolare di Milano - Reclassified balance sheet

(euro/000)

Assets	31.12.2010	30.09.2010	31.12.2009	Change A-B		Change A-C	
	A	B	C	amount	%	amount	%
Cash and cash equivalents	204,587	159,302	597,840	45,285	28.4	–393,253	–65.8
Financial assets designated at fair value and hedging derivatives:	5,505,696	3,384,346	2,174,315	2,121,350	62.7	3,331,380	153.2
– Financial assets held for trading	*310,580*	*385,319*	*372,653*	*–74,739*	*–19.4*	*–62,072*	*–16.7*
– Financial assets designated at fair value through profit and loss	*331,377*	*457,016*	*433,810*	*–125,639*	*–27.5*	*–102,433*	*–23.6*
– Financial assets available for sale	*4,857,232*	*2,536,083*	*1,357,969*	*2,321,149*	*91.5*	*3,499,263*	*257.7*
– Hedging derivatives	*6,507*	*5,928*	*9,883*	*579*	*9.8*	*–3,376*	*–34.2*
Due from banks	2,017,156	3,148,487	2,509,679	–1,131,331	–35.9	–492,523	–19.6
Loans to customers	30,180,420	29,546,664	27,877,550	633,756	2.1	2,302,870	8.3
Fixed assets	2,910,456	2,801,526	2,667,938	108,930	3.9	242,518	9.1
Other assets	976,681	1,028,883	1,013,870	–52,202	–5.1	–37,189	–3.7
Total assets	**41,794,996**	**40,069,208**	**36,841,193**	**1,725,788**	**4.3**	**4,953,803**	**13.4**

Liabilities	31.12.2010	30.09.2010	31.12.2009	Change A-B		Change A-C	
	A	B	C	amount	%	amount	%
Due to banks	7,877,115	6,063,112	2,179,385	1,814,003	29.9	5,697,730	261.4
Due to customers	17,846,858	17,455,986	18,272,739	390,872	2.2	–425,881	–2.3
Securities issued	10,274,098	9,764,876	9,912,507	509,222	5.2	361,592	3.6
Financial liabilities and hedging derivatives:	830,540	1,204,115	1,508,046	–373,574	–31.0	–677,505	–44.9
– Financial liabilities held for trading	*238,532*	*603,679*	*175,704*	*–365,147*	*–60.5*	*62,828*	*35.8*
– Financial liabilities designated at fair value through profit and loss	*587,874*	*587,231*	*1,329,563*	*644*	*0.1*	*–741,689*	*–55.8*
– Hedging derivatives	*30,933*	*7,619*	*2,779*	*23,313*	*306.0*	*28,154*	*n.s.*
– Fair value change of financial liabilities in hedged portfolios	*–26,798*	*5,586*	*0*	*–32,385*	*n.s.*	*–26,798*	*n.s.*
Other liabilities	980,084	1,462,186	919,623	–482,102	–33.0	60,461	6.6
Provisions for specific use	332,780	348,421	381,649	–15,641	–4.5	–48,869	–12.8
Capital and reserves	3,530,664	3,614,685	3,565,484	–84,022	–2.3	–34,820	–1.0
Net income (loss) for the year (+/–)	122,857	155,827	101,761	–32,970	–21.2	21,096	20.7
Liabilities and shareholders' equity	**41,794,996**	**40,069,208**	**36,841,193**	**1,725,788**	**4.3**	**4,953,803**	**13.4**

Banca Popolare di Milano – Balance sheet – quarter by quarter

(euro/000)

Assets	2010				2009			
	31.12	30.9	30.6	31.3	31.12	30.9	30.6	31.3
Cash and cash equivalents	204,587	159,302	167,384	168,342	597,840	163,754	167,220	166,077
Financial assets at fair value and hedging derivatives:	5,505,696	3,384,346	3,366,107	2,192,626	2,174,315	2,180,162	2,322,182	2,970,370
– Financial assets held for trading	*310,580*	*385,319*	*489,089*	*370,698*	*372,653*	*447,216*	*433,405*	*472,643*
– Financial assets designated at fair value through profit and loss	*331,377*	*457,016*	*428,911*	*440,973*	*433,810*	*371,793*	*555,818*	*836,930*
– Financial assets available for sale	*4,857,232*	*2,536,083*	*2,441,077*	*1,371,008*	*1,357,969*	*1,303,259*	*1,257,583*	*1,554,172*
– Hedging derivatives	*6,507*	*5,928*	*7,030*	*9,946*	*9,883*	*57,895*	*75,376*	*106,624*
Due from banks	2,017,156	3,148,487	2,846,447	2,979,409	2,509,679	2,683,749	3,368,529	3,645,503
Loans to customers	30,180,420	29,546,664	28,739,945	28,111,117	27,877,550	27,161,284	27,221,843	26,884,667
Fixed assets	2,910,456	2,801,526	2,786,419	2,656,479	2,667,938	2,611,007	2,574,579	2,572,406
Other assets	976,681	1,028,884	1,210,138	1,224,871	1,013,870	1,214,651	1,507,760	1,120,560
Total assets	**41,794,996**	**40,069,208**	**39,116,439**	**37,332,843**	**36,841,193**	**36,014,608**	**37,162,113**	**37,359,584**

Liabilities	2010				2009			
	31.12	30.9	30.6	31.3	31.12	30.9	30.6	31.3
Due to banks	7,877,115	6,063,112	4,743,179	3,729,196	2,179,385	2,823,294	2,934,353	2,690,799
Due to customers	17,846,858	17,455,986	19,115,961	18,441,450	18,272,739	17,165,861	18,338,246	16,611,685
Securities issued	10,274,098	9,764,876	8,933,918	8,552,381	9,912,507	9,670,681	9,659,584	11,500,678
Financial liabilities and hedging derivatives:	830,540	1,204,115	1,126,390	1,117,612	1,508,046	1,657,422	1,731,346	2,077,002
– Financial liabilities held for trading	*238,532*	*603,679*	*378,963*	*220,316*	*175,704*	*241,314*	*272,163*	*279,819*
– Financial liabilities designated at fair value through profit and loss	*587,874*	*587,231*	*741,197*	*892,739*	*1,329,563*	*1,412,163*	*1,456,737*	*1,794,666*
– Hedging derivatives	*30,933*	*7,619*	*6,230*	*4,556*	*2,779*	*3,945*	*2,446*	*2,517*
– Fair value change of financial liabilities in hedged portfolios	*–26,798*	*5,586*	*0*	*0*	*0*	*0*	*0*	*0*
Other liabilities	980,084	1,462,186	1,090,340	1,416,649	919,623	1,209,072	1,070,392	1,038,776
Provisions for specific use	332,780	348,421	364,972	365,012	381,649	292,943	294,517	347,506
Capital and reserves	3,530,664	3,614,685	3,607,417	3,669,274	3,565,484	3,018,559	2,989,522	3,034,374
Net income (loss) for the year (+/–)	122,857	155,827	134,261	41,268	101,761	176,776	144,153	58,763
Liabilities and shareholders' equity	**41,794,996**	**40,069,208**	**39,116,439**	**37,332,843**	**36,841,193**	**36,014,608**	**37,162,113**	**37,359,584**

Banca Popolare di Milano - Reclassified income statement

(euro/000)

Line items	2010	2009	Change	
			Amount	%
Interest margin	**564,456**	**680,766**	**(116,310)**	**-17.1**
Non-interest margin:	**625,509**	**697,011**	**(71,502)**	**-10.3**
- Net fee and commission income	478,072	422,907	55,165	13.0
- Other income:	147,437	274,104	(126,667)	-46.2
- Dividends from investments in subsidiaries, associates and companies subject to joint control	*81,709*	*83,151*	*(1,442)*	*-1.7*
- Net income from banking activities	*12,842*	*142,559*	*(129,717)*	*-91.0*
- Other operating charges/income	*52,886*	*48,394*	*4,492*	*9.3*
Operating income	**1,189,965**	**1,377,777**	**(187,812)**	**-13.6**
Administrative expenses:	(776,848)	(876,446)	99,598	11.4
a) personnel expenses	*(526,256)*	*(627,415)*	*101,159*	*16.1*
b) other administrative expenses	*(250,592)*	*(249,031)*	*(1,561)*	*-0.6*
Net adjustments to property and equipment and intangible assets	(61,710)	(60,040)	(1,670)	-2.8
Operating expenses	**(838,558)**	**(936,486)**	**97,928**	**10.5**
Operating profit	**351,407**	**441,291**	**(89,884)**	**-20.4**
Net adjustments for impairment of loans and other activities	(212,773)	(275,953)	63,180	22.9
Net provisions for risks and charges	(5,168)	(11,477)	6,309	55.0
Profits (losses) from equity and other investments	198,703	17,100	181,603	n.s.
Extraordinary tax items	(139,312)	0	(139,312)	n.s.
Income (loss) before tax from continuing operations	**192,857**	**170,961**	**21,896**	**12.8**
Taxes on income from continuing operations	(70,000)	(69,200)	(800)	-1.2
Net income (loss) for the year	**122,857**	**101,761**	**21,096**	**20.7**

Basic EPS - Euro	**0.213**	**0.197**
Diluted EPS - Euro	**0.213**	**0.197**

Banca Popolare di Milano - Reclassified income statement quarter by quarter

(euro/000)

Line items	2010 Fourth quarter	2010 Third quarter	2010 Second quarter	2010 First quarter	2009 Fourth quarter	2009 Third quarter	2009 Second quarter	2009 First quarter
Interest margin	**146,223**	**143,663**	**136,060**	**138,510**	**145,102**	**157,635**	**195,203**	**182,826**
Non–interest margin:	**118,925**	**139,004**	**187,467**	**180,113**	**113,175**	**142,873**	**251,445**	**189,518**
– Net fee and commission income	116,404	109,587	119,644	132,437	109,844	109,348	109,404	94,311
– Other income:	2,521	29,417	67,823	47,676	3,331	33,525	142,041	95,207
– Dividends from investments in subsidiaries, associates and companies subject to joint control	*11,658*	*573*	*68,895*	*583*	*0*	*556*	*82,043*	*552*
– Net income from banking activities	*(21,165)*	*14,565*	*(14,154)*	*33,596*	*(5,703)*	*19,609*	*48,722*	*79,931*
– Other operating charges/income	*12,028*	*14,279*	*13,082*	*13,497*	*9,034*	*13,360*	*11,276*	*14,724*
Operating income	**265,148**	**282,667**	**323,527**	**318,623**	**258,277**	**300,508**	**446,648**	**372,344**
Administrative expenses:	(190,780)	(193,875)	(206,122)	(186,071)	(295,576)	(186,844)	(203,534)	(190,492)
a) personnel expenses	*(119,869)*	*(136,703)*	*(139,812)*	*(129,872)*	*(226,330)*	*(131,149)*	*(133,499)*	*(136,437)*
b) other administrative expenses	*(70,911)*	*(57,172)*	*(66,310)*	*(56,199)*	*(69,246)*	*(55,695)*	*(70,035)*	*(54,055)*
Net adjustments to property and equipment and intangible assets	(16,332)	(14,939)	(15,157)	(15,282)	(14,994)	(14,967)	(15,330)	(14,749)
Operating expenses	**(207,112)**	**(208,814)**	**(221,279)**	**(201,353)**	**(310,570)**	**(201,811)**	**(218,864)**	**(205,241)**
Operating profit	**58,036**	**73,853**	**102,248**	**117,270**	**(52,293)**	**98,697**	**227,784**	**167,103**
Net adjustments for impairment of loans and other activities	(81,882)	(41,707)	(32,659)	(56,525)	(58,835)	(47,783)	(113,736)	(55,599)
Net provisions for risks and charges	(2,780)	(78)	(2,834)	524	(6,617)	(2,092)	11,346	(14,114)
Profits (losses) from equity and other investments	124,467	(2)	74,238	0	15,731	0	5,996	(4,627)
Extraordinary tax items	(139,312)	0	0	0	0	0	0	0
Income (loss) before tax from continuing operations	**(41,471)**	**32,066**	**140,993**	**61,269**	**(102,014)**	**48,822**	**131,390**	**92,763**
Taxes on income from continuing operations	8,500	(10,500)	(48,000)	(20,000)	27,000	(16,200)	(46,000)	(34,000)
Net income (loss) for the year	**(32,971)**	**21,566**	**92,993**	**41,269**	**(75,014)**	**32,622**	**85,390**	**58,763**

Banca Popolare di Milano – Key figures

(euro/000)

Key balance sheet figures	31.12.2010 A	30.09.2010 B	31.12.2009 C	Change A–B (+/–)	Change A–B %	Change A–C (+/–)	Change A–C %
Loans to customers	30,180,420	29,546,664	27,877,550	633,756	2.1	2,302,870	8.3
of which: net non-performing loans	*348,507*	*320,600*	*262,664*	*27,907*	*8.7*	*85,843*	*32.7*
Direct deposits (*)	28,708,830	27,808,093	29,514,809	900,737	3.2	–805,979	–2.7
Indirect customer deposits	27,176,770	27,220,881	27,092,965	–44,111	–0.2	83,805	0.3
of which: assets under administration	*15,027,930*	*14,958,200*	*14,975,253*	*69,730*	*0.5*	*52,677*	*0.4*
of which: assets under management	*12,148,840*	*12,262,681*	*12,117,712*	*–113,841*	*–0.9*	*31,128*	*0.3*
Total assets	41,794,996	40,069,208	36,841,193	1,725,788	4.3	4,953,803	13.4
Shareholders' equity (excluding net income for the year)	3,530,664	3,614,685	3,565,484	–84,021	–2.3	–34,820	–1.0
Regulatory capital	4,650,426	4,939,900	5,066,073	–289,474	–5.9	–415,647	–8.2
of which: Tier 1 capital	*3,299,582*	*3,461,590*	*3,484,142*	*–162,008*	*–4.7*	*–184,560*	*–5.3*

Key income statement figures	31.12.2010 A	30.09.2010 B	31.12.2009 C	Change A–C (+/–)	Change A–C %
Interest margin	564,456	418,233	680,766	(116,310)	–17.1
Operating income	1,189,964	924,817	1,377,778	(187,814)	–13.6
Operating expenses	(838,558)	(631,447)	(936,486)	97,928	10.5
of which: personal expenses	*(526,256)*	*(406,387)*	*(627,415)*	*101,159*	*16.1*
Operating expenses, net of the charge to the Solidarity Fund (**)	(833,971)	(627,570)	(831,541)	(2,430)	–0.3
of which: personal expenses (**)	*(521,669)*	*(402,510)*	*(522,470)*	*801*	*0.2*
Operating profit	351,406	293,370	441,291	(89,885)	–20.4
Net impairment adjustments to loans and financial assets	(212,773)	(130,891)	(275,953)	63,180	22.9
Profit from current operations before tax	192,857	234,327	170,961	21,896	12.8
Net income for the year	122,857	155,827	101,761	21,096	20.7

Operating structure	31.12.2010 A	30.09.2010 B	31.12.2009 C	Change A–B (+/–)	Change A–B %	Change A–C (+/–)	Change A–C %
Headcount (employees and other personnel): amount	6,378	6,392	6,493	–14	–0.2	–115	–1.8
Number of branches	560	560	570	0	0.0	–10	–1.8

(*) This line item includes: Due to customers, securities issued and financial liabilities designated at fair value.
(**) The amounts shown are net of 4,587 thousand Euro for 2010 and 104,945 thousand Euro for 2009.

Banca Popolare di Milano – Key ratios

	31.12.2010	30.09.2010	31.12.2009
Structure ratios (%)			
Loans to customers/total assets	72.2	73.7	75.7
Fixed assets/Total assets	7.0	6.9	7.2
Direct deposits/total assets	68.7	69.4	80.1
Funds under management/indirect deposits	44.7	45.0	44.7
Loans to customers/Direct deposits	105.1	106.3	94.5
Profitability ratios (%) (annualised)			
Net income/Shareholders' equity (excluding net income) (ROE) (a)	3.5	5.7	2.9
Net income/Total assets (ROA)	0.3	0.5	0.3
Cost/Income	70.5	68.3	68.0
Cost/Income (*)	70.1	67.9	60.4
Risk ratios (%)			
Net non-performing loans/loans to customers	1.2	1.1	0.9
Coverage of gross non-performing loans to customers	51.5	52.6	54.4
Index of coverage of gross performing loans to customers	0.52	0.59	0.55
Productivity ratios (Euro/000) (b)			
Direct deposits per employee	4,501	4,350	4,546
Loans to customers per employee	4,732	4,622	4,293
Assets under management per employee	1,905	1,918	1,866
Assets under administration per employee	2,356	2,340	2,306
Capital ratios (%)			
Tier 1 capital/Risk-weighted assets (Core Tier 1)	12.6	13.6	14.1
Tier 1 capital/Risk-weighted assets (Tier 1)	13.4	14.4	14.9
Regulatory capital/Risk-weighted assets (Total capital ratio)	18.9	20.5	21.7
Information on the BPM stock			
Number of shares:	415,055,195	415,053,468	415,034,231
in circulation	414,567,722	414,565,995	412,619,051
treasury shares	487,473	487,473	2,415,180
Stock price at the end of the year - ordinary share (Euro)	2.64	3.49	4.98

(*) Net of the non-recurring charges relating to the personnel's enrolment with the Solidarity Fund.

a) Shareholders' equity at end of year.
b) Number of employees at end of year including personnel with other types of contract.

Banca Popolare di Milano – Banca Popolare di Milano – Reclassified income statement, net of non-recurring transactions

As required by CONSOB communication DEM/6064293 of 28 July 2006, the following table shows the effect on net income of the following non-recurring transactions.

(euro/000)

Line items	2010			2009			Change A - D		Change C - F	
	A = B + C	B	C	D = E + F	E	F	(+/–)	%	(+/–)	%
	Net income for the year	Net income from non-recurring transactions	Net income from recurring transactions	Net income for the year	Net income from non-recurring transactions	Net income from recurring transactions				
Interest margin	**564,456**	**0**	**564,456**	**680,766**	**0**	**680,766**	**(116,310)**	**–17.1**	**(116,310)**	**–17.1**
Non-interest margin:	**625,509**	**11,639**	**613,870**	**697,011**	**7,754**	**689,257**	**(71,502)**	**–10.3**	**(75,387)**	**–10.9**
– Net fee and commission income	478,072	0	478,072	422,907	0	422,907	55,165	13.0	55,165	13.0
– Other income:	147,437	11,639	135,798	274,104	7,754	266,350	(126,667)	–46.2	(130,552)	–49.0
– Dividends from investments in subsidiaries, associates and companies subject to joint control	*81,709*	*11,639*	*70,070*	*83,151*	*0*	*83,151*	*(1,442)*	*–1.7*	*(13,081)*	*–15.7*
– Net income from banking activities	*12,842*	*0*	*12,842*	*142,559*	*7,754*	*134,805*	*(129,717)*	*–91.0*	*(121,963)*	*–90.5*
– Other operating charges/income	*52,886*	*0*	*52,886*	*48,394*	*0*	*48,394*	*4,492*	*9.3*	*4,492*	*9.3*
Operating income	**1,189,965**	**11,639**	**1,178,326**	**1,377,777**	**7,754**	**1,370,023**	**(187,812)**	**–13.6**	**(191,697)**	**–14.0**
Administrative expenses:	(776,848)	(4,587)	(772,261)	(876,446)	(104,945)	(771,501)	99,598	11.4	(760)	–0.1
a) personnel expenses	*(526,256)*	*(4,587)*	*(521,669)*	*(627,415)*	*(104,945)*	*(522,470)*	*101,159*	*16.1*	*801*	*0.2*
b) other administrative expenses	*(250,592)*	*0*	*(250,592)*	*(249,031)*	*0*	*(249,031)*	*(1,561)*	*–0.6*	*(1,561)*	*–0.6*
Net adjustments to property and equipment and intangible assets	(61,710)	0	(61,710)	(60,040)	0	(60,040)	(1,670)	–2.8	(1,670)	–2.8
Operating expenses	**(838,558)**	**(4,587)**	**(833,971)**	**(936,486)**	**(104,945)**	**(831,541)**	**97,928**	**10.5**	**(2,430)**	**–0.3**
Operating profit	**351,407**	**7,052**	**344,355**	**441,291**	**(97,191)**	**538,482**	**(89,884)**	**–20.4**	**(194,127)**	**–36.1**
Net adjustments for impairment of loans and other activities	(212,773)	0	(212,773)	(275,953)	10,044	(285,997)	63,180	22.9	73,224	25.6
Net provisions for risks and charges	(5,168)	0	(5,168)	(11,477)	0	(11,477)	6,309	55.0	6,309	55.0
Profits (losses) from equity and other investments	198,703	199,046	(343)	17,100	0	17,100	181,603	n.s.	(17,443)	n.s.
Extraordinary tax items	(139,312)	(139,312)	0	0	0	0	(139,312)	n.s.	0	n.s.
Income (loss) before tax from continuing operations	**192,857**	**66,786**	**126,071**	**170,961**	**(87,147)**	**258,108**	**21,896**	**12.8**	**(132,037)**	**–51.2**
Taxes on income from continuing operations	(70,000)	(14,272)	(55,728)	(69,200)	24,544	(93,744)	(800)	–1.2	38,016	40.6
Net income (loss) after tax from continuing operations	**122,857**	**52,514**	**70,343**	**101,761**	**(62,603)**	**164,364**	**21,096**	**20.7**	**(94,021)**	**–57.2**

Non-recurring transactions:	2010	2009
Operating income:	**11,639**	**7,754**
Receipt of extraordinary dividend from Anima	*11,639*	
Public offering for the repurchase of subordinated Tier 1 financial instruments		*7,754*
Taxes on income (a)	***(440)***	***(2,506)***
Operating income, net of taxes on income	***11,199***	***5,248***
Operating expenses	**(4,587)**	**(104,945)**
Update of Solidarity Fund	*(4,587)*	*(104,945)*
Taxes on income (b)	***1,261***	***28,860***
Operating expenses, net of taxes on income	***(3,326)***	***(76,085)***
Net adjustments for impairment of loans and other transactions:		**10,044**
Gain on assignment without recourse of non-performing loans		*10,044*
Taxes on income ©		***(1,810)***
Adjustments, net of taxes on income		***8,234***
Profits from equity and other investments	**199,046**	
Gain on sale of custodian bank	*54,966*	
Gain on intraGroup sale of branches	*19,269*	
Gain on sale of investment in Anima	*124,811*	
Taxes on income (d)	***(22,131)***	
Profits from equity and other investments, net of taxes on income	***176,915***	
Cost of tax settlement	**(139,312)**	
Taxes on income (e)	***7,038***	
Cost of tax settlement, net of taxes on income	***(132,274)***	
Taxes on income (a+b+c+d+e)	**(14,272)**	**24,544**

Report on operations for 2010

The macroeconomic scenario and the banking system

The international economy

More than three years from the start of the crisis, the world economy has closed 2010 with a general increase in GDP. The first six months of the year in particular saw a rapid acceleration in economic growth, driven by foreign trade versus emerging nations and private consumption boosted by support policies. In the second half of 2010, on the other hand, world GDP lost speed because of a weakening in demand, which reflected the phasing out of tax incentives, and the persistent frailty of the job market.
According to the IMF's latest estimates, growth in the global economy in 2010 should come to 5.1%, although with considerable differences from area to area; while growth in developing countries has maintained rates that are similar to those prior to the crisis, most countries with advanced economies saw a slowdown, though a double-dip recession was thankfully avoided.

In the **United States**, the latest estimates published by the Bureau of Economic Affairs indicate that the economy grew by 3.2% during fourth quarter 2010 compared with the previous quarter, which is faster than in the third quarter (+2.6%) and 2.8% better than the same period in 2009. The increase reflects a positive contribution from private consumption, which rose by 4.4% during the fourth quarter (+2.4% in the third quarter), capital investment by non-residents (+4.4% in the same period) and of exports of goods and services (+8.5%).
The adoption of expansive budgetary measures in the form of "quantitative easing" by the American authorities contributed to an increase in public debt, which at the end of 2010 reached USD 14,000 billion.
2010 should close with annual GDP growth of 2.8% compared with the previous year, while the estimate for 2011 is of +3.1%. The labour market remains weak, however: in December the rate of unemployment came to 9.4%, better than in October (9.6%) and November (9.8%), but not as low as analysts were hoping for. According to the Chairman of the Federal Reserve, Ben Bernanke, it will take years for the rate to return to a normal level, given that the recovery is still not strong enough.
The Federal Reserve has kept its policy rate within a range of 0-0.25%. Inflation in December increased by 0.5% on the previous month and at 1.5% on a trend basis.

Changes (%) in main macreconomic variables

		2010	2011	2012
			latest forecasts	
GDP:				
	World	5,1	4,3	4,3
	Usa	2,8	3,1	2,8
	Euro Area	1,7	1,5	1,5
	Italy	1,1	1	1,3
	China	10,3	9	8,8
Private consumption:				
	Italy	0,7	0,7	0,9
Exports:				
	Italy	8,1	6,4	4,7
Consumer prices:				
	Italy	1,5	2,2	1,6
Unemployment rate:				
	Italy	8,5	9,2	9,7

Source: BPM Research Dept. elaborations based on data published by the main international economic organisations.

Based on government figures, **China** became the second largest economy in the world in 2010, overtaking Japan thanks to 10.3% growth in GDP. The trade surplus in 2010 fell by USD 13 billion compared with 2009 as a result of the boom in imports of semifinished and capital goods, but above all of raw materials such as oil, cereals and soya. The government's main objective in 2011 is to encourage internal demand, so as to reduce the proportion of exports.

In **Japan**, even though the fourth quarter saw GDP fall by 1.1% compared with the previous one, 2010 closed with growth of 3.9% on 2009, the best result of all G7 countries. The contraction in the fourth quarter was due to falling consumption, hit by the end of car purchase tax incentives and the slowdown in Japanese exports, hit by the rise in the yen's exchange rate against the dollar (at its highest for the last 15 years).

In the **Euro Area**, based on the estimates published by Eurostat, GDP in the last quarter of the year went up by 0.3% (trend rate), stable on the figure for the third quarter and down on the growth levels seen in the first two quarters of 2010 (respectively +0.4% and +1%), reflecting a weak performance on the part of Germany.

A comparison with the previous year shows Euro Area GDP for the whole of 2010 growing by 1.7%. The estimates for 2011 stop at 1.6% (source: European Commission), with a slight decline on 2010 because of the expected slowdown in the German economy. In December, industrial output went down by 0.1% compared with November, whereas it rose by 8% compared with December 2009. The rate of unemployment in December came to 10%, stable with respect to November, but up by 0.1% on December 2009. Among EU member countries, the highest levels of unemployment are in Spain (20.2%) and Latvia (18.3%), while the lowest are in Holland (4.3%) and Luxembourg (4.9%).
The ECB did not change its reference rate for the whole of 2010, staying at an all-time low of 1%. The Central Bank said that it was worried about inflation, which in December reached 2.2% y/y because of the increase in raw material prices. After what happened in Greece, towards the end of 2010, the high level of debt in certain Euro Area countries, such as Portugal, Spain and above all Ireland, is reflected in the widening differential between the yields on their sovereign securities and those on German Bunds.
In Ireland, the government intervened to save the banks, undermined by mortgage loans that have become far more risky now that the property bubble has exploded. In Spain, the government has had to incur high costs to pay unemployment benefits, pushing the budget deficit to a record high. However, the reassurances given by the President of the ECB Trichet about the likelihood of the Central Bank buying the government securities of countries in difficulty restored market confidence.

Germany continues to be the engine of the European recovery, posting a rise in GDP of 3.6% in 2010. However, the fourth quarter 2010 figures show a slowdown with respect to the previous quarters: even though GDP between October and December 2010 was 0.4% higher than in the previous quarter, it was lower than in the third quarter (+0.7%) and above all in the second quarter (+2.2%). This trend was influenced above all by the contraction in the building industry.
On a trend basis, fourth quarter GDP grew by 4%. The increase in GDP during 2010 was the highest since the end of the second world war, but it is expected to slow down in 2011 (+2.4%). During the last quarter of 2010 employment improved by 1% on the same period of 2009, with the service segment offering the most jobs. At the end of the year, the German rate of unemployment fell to 6.6%, making Germany the only G7 country that could claim a lower unemployment rate than in 2007, prior to the crisis.
In France, thanks to a good trend in consumption and in exports, GDP in fourth quarter 2010 grew by 0.3%. 2010 should close with an increase of 1.6%.

The Italian economy

According to figures published by Istat, in fourth quarter 2010 **Italy** posted GDP growth of 0.1% compared with the previous quarter (expressed in linked values using 2000 as the base year, after adjusting for working-day and seasonal variations), showing a slowdown in the rate of growth compared with the previous quarters (+0.3% in the third, +0.5% in the second and +0.5% in the first quarter of 2010). According to Istat the contraction is due to a decrease in industry's value added. Growth for the whole of 2010 comes to 1.3% (+1.2% after adjusting for working-day variations).
The estimates made by the European Commission for 2011 indicate trends for the Italian economy more or less than sale as in 2010 (+1.1%), given that private consumption is likely to remain penalised by the high rate of unemployment, the increase in commodity prices (especially oil and food raw materials) and the tax pressure which is bound to stay high.

In December 2010, industrial output reported an increase of 0.3% compared with November (+8.7% on December 2009), while on average the variance between the fourth and third quarters of the year is a contraction of 0.2%. On average for the whole of 2010, the index increased by 5.3% with respect to the previous year (having fallen in 2009 by 18.4%). As regards sales and orders received by industry in December, the seasonally-adjusted figures show a divergent trend compared with the previous month, with sales down by 0.3% and orders up by 5.4%. Comparing the figures for the last quarter with those of the previous one shows a positive variance of 1.7% in sales, while orders are stable, hit by the record prices for commodities, above all for oil. These put companies' profit margins under pressure and reduce the purchasing power of households, acting as a brake on consumer spending.

Foreign trade with non-EU countries in December posted an increase on the same month of the previous year of 19.2% in exports and 48.4% in imports. Compared with the previous quarter, fourth quarter exports went up by 1.9%, imports by 7%, bringing the change for the whole of 2010, compared with 2009, to +16.7% for exports and 29.8% for imports, mainly due to the higher cost of energy products. The foreign trade deficit came to 2.7 billion Euro in December, while in December 2009 it was of 138 million.

In December inflation grew by 0.4% on a trend basis, whereas the increase on the same period last year was of +1.9%.

Based on preliminary estimates by Istat, there has been no change in the number of people employed in December 2010 compared both with November and with a year ago. The number of people looking for a job went down by 0.5% versus November, while a comparison with December 2009 shows an increase of 2.5%. The unemployment rate at the end of 2010 comes to 8.6%, an increase of 0.2% compared with the end of 2009.

In 2010 Italy's public debt grew by 4.5%, coming in at 1,843 billion euro, more than 79 billion higher than in 2009 (including Euro 3.9 billion of loans granted to Greece). The stock of public debt as a percentage of GDP has reached 119%, which is higher than the government's target of 118.5% and also higher than the 116% in 2009, while the deficit at the end of 2010 came to 4.6%, which is better than the 5.4% posted in 2009.

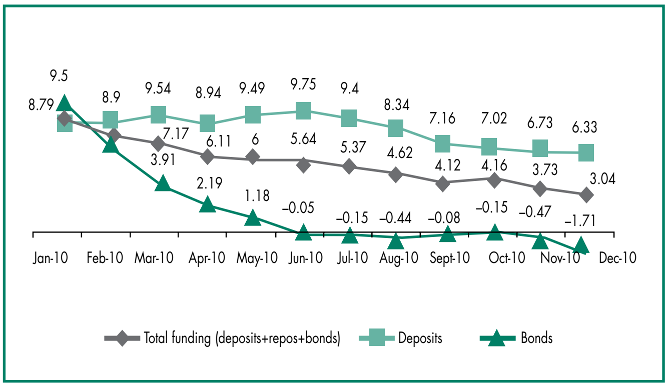
The Italian banking industry

The funding of Italian banks in December 2010, represented by resident customers' **deposits** and **bonds**, amounted to 2,191 billion euro, an increase over the year of 3.04% (+9.2% at the end of 2009). This growth was driven entirely by deposits (+6.33%) especially time deposits, whereas bonds went down by 1.71%.

During 2010, **loans** experienced a trend reversal, especially in the last few months of the year. In December, the growth on a trend basis in loans to households and non-financial companies came to 3.78% (+0.53% in December 2009), sustained by a good performance on the part of loans to households (+7.6% at the end of 2010) and by an upswing in loans to businesses: after hitting a low (–3.1%) in January 2010, they started growing again, returning to the same level as in January 2009. In December, the growth in loans to businesses came to 1.6% y/y (+1.2% in November), sustained mainly by loans to family businesses (+2.4%) and loans to small businesses (+1.5% in November). Comparing these figures with the EU averages, both loans to businesses and those to households are showing a much more positive trend. Overall, household and non-financial company loans in the Euro Area posted an annual increase of 2%, compared with +3.8% in Italy.

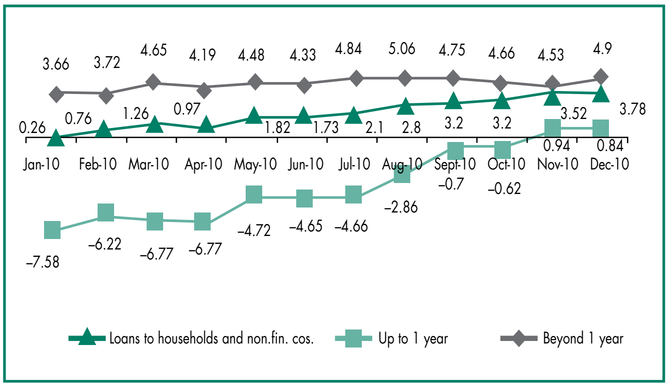
If we break down **loans** by duration, the long-term segment confirms its excellent trend, with growth in December on a trend basis of +4.9%, whereas the short-term element started recovering again from July, with a slight dip in the trend rate in December (0.84%) compared with November (+0.94%). In any case, in December 2010, the short-term element shows a distinct recovery compared with the trend in December 2009 (–7.47%).

Italian banks: changes in funding



Source: Abi

Italian banks: lending rates

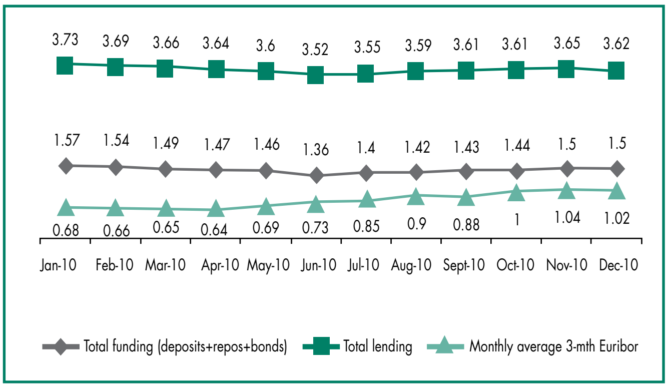


Source: Abi

As regards the quality of credit, in December 2010 gross non-performing loans came to more than 77.8 billion euro, around 2.1 billion Euro more than the previous month. From July the trend showed a slight deceleration up to November (+30.35% y/y with respect to +43% at the end of 2009), then it rose again slightly in December 2010 (+31.55% y/y). As a percentage of loans, gross non-performing loans in December represented 4% of loans, an increase on 3.3% at the end of 2009.

Net non-performing loans at December 2010 totalled Euro 46.9 billion, coming in at 2.46% of total loans, the highest figure for the whole of 2010 and rising compared with 2.03% at the end of 2009.

Interest rates compared with 3-mth Euribor



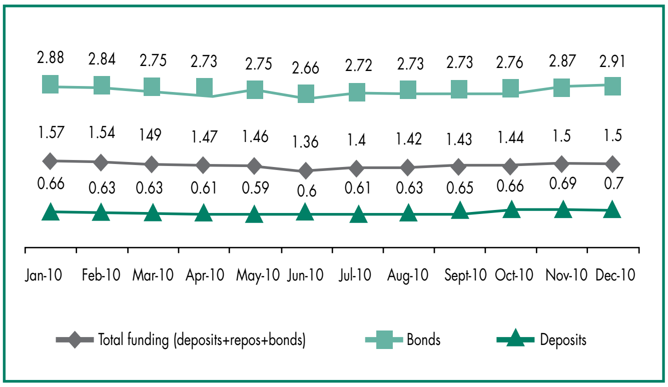
Source: Abi

Average 3-month Euribor stayed under 1% from January to October, when it began to grow, coming to 1.02% in December 2010. The trend in interest rates also reflected on the spread between the average rate on loans and the average rate on deposits of households and non-financial companies, which in 2010 averaged 216 bps, 26 bps lower than in 2009 (242 bps). When it met on 13 January 2011, the European Central Bank decided not to change its policy rate, leaving it at the all-time low of 1%.

Based on ABI data, the weighted-average rate on total loans to households and non-financial companies at December came to 3.62%, rising compared with June (the minimum of 3.52%), but in any case still lower than the figure in December 2009 (3.76%). The trend reversal in the second half of 2010 was also helped by the increase in rates applied to new transactions, both for loans to non-financial companies, rising to 2.79% (2.17% at December 2009), and for home-purchase loans to households. The latter, in particular, reached a low of 2.52% in June, returning in December 2010 to the same level as at the end of 2009 (2.97% versus 2.88% in December 2009).

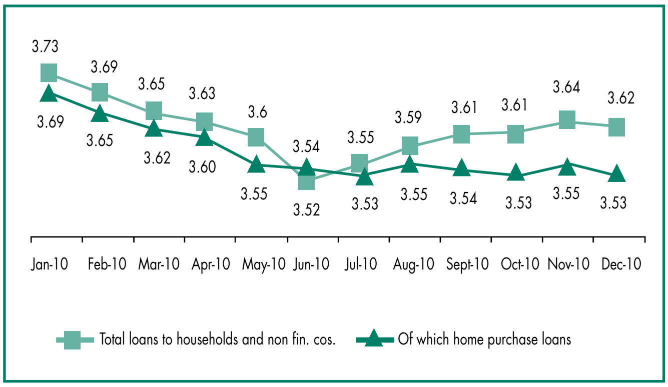
As regards deposits, the average rate applied to the deposits (including repos) of households and non-financial companies came to 0.7% in December 2010, in line with December 2009; the rate of remuneration on bonds that month was 2.91%. Overall, the average funding rate at year end came to 1.5%, 11 bps lower than in December 2009.

Italian banks: funding rates



Source: Abi

Italian banks: lending rates



Source: Abi

According to ABI, the trend rate of all banks' securities portfolio was positive, posting an annual rate of growth of +12.3% and raising the total amount to Euro 581 billion.

Financial and foreign exchange markets

The crisis that hit world economies and financial markets over the last three years continued to have an impact during 2010. The economic cycle showed a more marked improvement in the second half of the year, though the signs of recovery were still uncertain and by no means uniform.

Fears about some of the main industrialised nations' ability to reduce their public debt, and the timing of such a reduction, led to a general climate of uncertainty and worry, with high tension on financial markets, especially in April and May. One of the consequences of the sovereign debt crisis was to further delay the ECB's phasing-out of extraordinary monetary policies, bringing Europecloser to the United States from this point of view.

In Europe, the crisis hit Greece in particular, triggering off a domino effect of speculation on the yield curve of the countries considered most at risk, above all Ireland and Portugal, but also Spain and Italy. Widespread preoccupation about the stability and resistance of the Euro led to further tension, with stock markets' indices under pressure. Of them all, it was the financial sectors that were the worst hit by the crisis, on both equity and bond markets.

The year closed with a considerable difference between the performance of the high-deficit countries and those of central and northern Europe, leading to a substantial valuation gap between the various stock exchanges.

The **oil price** remained stable in the first part of the year, fluctuating within a range between 70 and 80 USD/bbl. The second half saw a progressive increase from just over 76 USD/bbl at the end of June to almost 93 USD/bbl at the end of December. Even though the demand for oil had gone up, OPEC decided not to adjust its production quotas. This resulted in declining stocks and higher prices. The IEA expects worldwide demand to grow by 1.5% in 2011.

The exchange rate of the Euro against the dollar was extremely volatile, especially during the fourth quarter of 2010. The US currency hit a quarterly low at the beginning of November (1.42 USD/EUR), put under pressure because of fears about America's high national debt following the Federal Reserve's aggressive policy of quantitative easing. Subsequently, news about the danger of insolvency on the part of certain highly indebted European countries (above all Ireland) weakened the single currency, which had the end of the year stood at 1.34 dollars. At the end of December the Euro was trading at 1.08 against the yen and at 0.86 against sterling.

In 2010, uncertainty about the economic recovery and fears for the public debts of certain European countries weighed on the performance of financial markets, which still look a long way from returning to complete normality: there are various contradictory situations that exist simultaneously, such as the enormous rise in the price of gold, which normally happens when people are expecting high inflation, while at the same time there are 10-year government securities that are quoting prices that discount expectations of inflation that are still very low.

The most acute phases of the crisis that hit Greece, Ireland and Portugal have also had important impacts on other countries of the Euro Area because of the risk of contagion which could spread through the interconnections between European banks.
The finance industry remains a dominant theme for 2011 as well.

The performance of equity markets has faithfully reflected investors' worries about a crisis that in Europe is hitting high-deficit countries and the banking system, but seems to have saved non-financial sectors. The main feature of 2010 was high price volatility: even though the fundamentals were steadily improving, indices experienced hefty corrections in April and May, subsequently improving in the second half of the year.
The S&P 500 index closed the year with progress of 12.8%.
Stock exchanges in Europe turned in very different performances: while the DAX closed the year with a performance of +12.5%, beaten only by Finland (+19.3%) and Norway (+13.8%), numerous markets closed with losses, and not only in high-deficit countries. The FTSEMib (the Milan Stock Exchange index) posted a loss of –13.2%, making it one of the worst stock exchanges after Greece (–38.5%) and Spain (–17.4%).

The **Cac40** (the French index) had a smaller loss of –3.3%; on the other hand, in addition to the German index (**Dax100**), the London **FTSE 100** index was also positive, posting a +9.3%
In this context, the banking sector also turned in a negative performance (–10.9%) on the Dow Jones Euro Stoxx Banks Index, which summarises the performance of the main European bank shares.
In the wake of this trend the Italian banking index (**FTSE All Share Italian banks**) in 2010 showed a negative change of 11.5%.

Asset management

The most recent figures (November 2010) for the total amount of securities in custody with Italian banks, Euro 1,540 billion, show that 45% of the total is held by consumer households (+0.8% y/y), 23.4% by financial institutions, 20.7% by insurance companies, 5.3% by non-financial companies and only 3% by public administrations and family businesses.
In December 2010, the assets of Italian and foreign open-ended mutual funds and sicavs come to around Euro 452.5 billion (Euro 449 billion in September, +1.1 billion Euro on the start of the year (+0.2%). In 2010, there was a change in the asset mix of funds, with an increase in the proportion of units in equity funds, up from 20.6% in 2009 to 22.9% in 2010, and in bond funds, which at December 2010 represented 41.1% of total assets (38.5% at the end of 2009). Liquidity funds experienced a sharp contraction, going from 20% in 2009 to 13.7% in 2010.
Bond funds are more dynamic, with total net inflows in 2010 of Euro 17.2 billion; the trend in flexible funds was particularly negative, with net outflows of Euro 23.9 billion in 2010.
Net inflows to equity funds in 2010 were positive for Euro 2.1 billion, boosted by emerging country shares, while balanced funds amounted to Euro 3.5 billion.

Significant events for Banca Popolare di Milano and for the BPM Group

2010 saw the completion of a number of deals both inside and outside the Group. They were designed, on the one hand, to rationalise and develop the Group's core business; on the other hand, to dispose of businesses that are no longer considered strategic, also for the future. The former include: the sale of a number of branches within the Group, the absorption of Bipiemme Private Banking Sim by the Parent Bank, the purchase of an investment in a factoring company, the start of operations in consumer credit through ProFamily and the development of on-line operations through the merger of WeBank and WeTrade; the latter includes the sale of the custodian bank activity. Lastly, decisions of strategic importance for the future of the Group were taken in the asset management field, in the form of an agreement with Monte dei Paschi di Siena and the Clessidra Group to create the largest independent asset manager in Italy, as well as in bancassurance with the repurchase of 100% of Bipiemme Vita and the search for a new leading partner with whom to develop this business.

The main transactions involving the Group in 2010 are detailed below.

IntraGroup sale of branches

As part of the plan to rationalise the territorial coverage of the BPM Group, the Boards of Directors of Banca Popolare di Milano, Banca di Legnano and Cassa di Risparmio di Alessandria agreed to transfer the following branches within the Group:

Selling bank	Purchasing bank	Branch
BPM	BDL	Lainate
BPM	BDL	Cuggiono
BPM	BDL	San Vittore Olona
BPM	BDL	Milano – Certosa
BPM	BDL	Castellanza
BPM	CRAL	Vercelli
BPM	CRAL	Genova
BDL	BPM	Arcisate
BDL	BPM	Bovisio Masciago
BDL	BPM	Bresso
CRAL	BPM	Voghera
CRAL	BPM	Mede

The overall valuation of these branches – based on the report drawn up by an independent expert – amounted to Euro 36 million, giving a multiple on total deposits of around 11%; The definitive price after adjustment according to certain contractual mechanisms came to Euro 29.6 million.
The deal was completed on 29 April 2010, effective 1 May 2010; The distribution structure was simplified even more as, with the exception of Mede, the branches and related assets transferred were immediately absorbed by the transferee banks' existing operations. As consequence of this transaction, the Group's distribution network now consists of 11 fewer branches, resulting in lower operating expenses and better customer services as the branches are now of the right size.

Merger of Bipiemme Private Banking SIM with Banca Popolare di Milano

In June 2010, Bipiemme Private Banking SIM – a subsidiary that specialises in portfolio management for high net-worth customers – was merged with Banca Popolare di Milano. This transaction was decided by the General Meetings of both companies on 20 and 24 April 2010 respectively.
This merger is part of a wider project regarding the "development paths for the financial advisory model" of the BPM Group. Among other objectives, this project seeks to introduce innovative policies for the provision of financial products and strengthen the central role of customers with a focus on their needs, while also promoting the best practices identified inside and outside the Group.
The accounting and tax effects of the merger run from 1 January 2010, so Bipiemme Private Banking SIM no longer features in the scope of consolidation.

Purchase of an interest in Factorit S.p.A.

On 29 July 2010, after obtaining authorisation from the competent Authorities and the outcome of a confirmation due diligence, Banca Popolare di Milano completed the acquisition of 30% of Factorit, a factoring company which collects and makes advances on trade receivables with related services, providing support to the business world in the area of financing and collecting domestic and international receivables.
This transaction followed the preliminary agreements signed on 25 February 2010 by Banca Popolare di Sondrio and Banca Popolare di Milano, acting as the purchasers, Banca Italease, acting as the seller, and Banco Popolare (the majority shareholder of Banca Italease), with a view to buying 90.5% of the company; As a result of this deal, Banca Popolare di Sondrio has taken over control of Factorit with a 60.5% interest, while the other 9.5% is still held by the Banco Popolare Group.
The price was set by the parties on the basis of the Company's net equity in 2009, namely Euro 170 million; for BPM this means an outlay of Euro 51 million to purchase a 30% stake.
This arrangement reflects the desire of the three co-operative banks to have a factoring company able to compete on the market, also for the benefit of the numerous banks that have special agreements with BPM.

Start of operations in consumer credit

On 24 May 2010 Pro-Family, a wholly-owned subsidiary of Banca Popolare di Milano, obtained authorisation from the Bank of Italy under art. 106 of the Consolidated Banking Act (CBA) to carry on business in the field of consumer credit. The first six months of 2010 were dedicated in particular to all of the activities involved in creating the structure of the "product factory" and of the sales network: this has involved hiring specialist staff, starting up the various activities geared to opening direct and indirect points of sale (so-called "financial shops"), completing the company's organisational and regulatory structure and making sure that the management system functioned properly.
ProFamily opened its doors for business with the inauguration in May of its first direct branch (in Milan). The distribution network of ProFamily was set up during the second half of 2010 and by the end of 2010 it had 25 points of sale, including 3 direct branches and 22 financial shops (see "Distribution network and Human resources" for details).
In January 2011 ProFamily signed an agreement with Adiconsum, a consumer rights association, to assess the level of ProFamily's compliance according to its contractual standards with the various laws that protect the rights of consumers and the users of financial services.
Reference should be made to the appropriate section in the consolidated financial statements of the BPM Group for further details on ProFamily's activities. We would merely point out here that in 2010 it granted loans for a total of Euro 50.7 million.

Merger between WeBank and WeTrade

The merger of WeTrade Sim with WeBank was the final stage of an initiative mentioned in the BPM Group's strategic plan, which had the purpose of developing on-line banking, as follows:
– on 2 February 2009, Banca Popolare di Milano Scarl acquired control over IntesaTRADE Società di Intermediazione Mobiliare SpA from Intesa Sanpaolo SpA. At the same time as this transaction, which took place on 30 July 2009, IntesaTRADE SIM SpA changed its name to WeTrade SIM SpA;
– following its transformation from a near-banking company into the Group's on-line bank, on 1 November 2009, We@Service SpA

began operating under the new name of WeBank SpA;
– on 9 March 2010 BPM's Board of Directors started integrating the two subsidiaries into one company;
– on 14 December 2010 the deed for the merger between WeTrade SIM SpA and WeBank SpA, both wholly owned by Banca Popolare di Milano, was stipulated. For statutory accounting and tax purposes, the merger will take effect from 1 January 2010. The merger resulted in the creation of a leading operator on the Italian on-line finance market that can cover all of an on-line customer's needs by combining ten years of experience in their respective market segments.

The merger of two companies is an integral part of the strategic plan, with which the BPM Group set the objective of becoming a point of reference in the Italian market for on-line banking and investment services, with a range of products and services able to satisfy all customers' banking and financial needs,

This transaction has permitted, on the one hand, to acquire customers who are highly active in on-line trading, leaving space for potential cross-selling of bank products, allowing the BPM Group to cover customer categories not currently served, such as advanced traders and, on the other, to rationalise IT structures and platforms dedicated to on-line trading, with synergies linked to volumes handled and central management of ancillary services.

The Merging Company will increase its share capital from €23,301,404 to €54,186,349 by issuing 30,884,945 new ordinary shares of par value €1 each with dividend rights from 1 January 2010, which will be assigned to Banca Popolare di Milano, the single shareholder of both companies, in exchange for the 1,875,000 ordinary shares of the Company Being Merged, which will be cancelled as a result of the merger.

Agreement to sell BPM's custodian bank activities to the BNP Paribas Group

On 19 April 2010 Banca Popolare di Milano S.c.a r.l. and BNP Paribas Securities Services signed an agreement to sell BPM's custodian bank activities to BNP.

This business unit includes all of the custodian banking services currently provided by BPM to "long only" and alternative funds under mandates from the BPM Group's asset management companies as well as external ones. The assets on deposit at the date of the deal amounted to Euro 20.3 billion, of which Euro 19.1 billion of long only funds, the rest being made up of hedge and property funds.

The deal was completed on 30 June 2010 at a price of Euro 55 million, giving the BPM Group a pre-tax capital gain of the same amount, with a positive effect of around 11 basis points on the Group's Core Tier1 and Total Capital Ratios.

This deal forms part of the BPM Group's strategy to concentrate on its core commercial activities, gradually disposing of all of the segments or companies that are no longer considered strategic from a prospective point of view, and which, as in this case, would need much higher volumes (to offset falling commission rates) to ensure adequate profitability.

Evolution of the Bancassurance segment

Further to the agreement signed on 23 December 2009 regarding the winding-up of their bancassurance partnership and having received the necessary legal clearance, on 17 June 2010 Banca Popolare di Milano S.c. a r.l. and Milano Assicurazioni S.p.A. agreed to transfer to Banca Popolare di Milano the 51% interest in Bipiemme Vita S.p.A. held by Milano Assicurazioni, for a total consideration of Euro 113 million.

As a result of this acquisition, Banca Popolare di Milano now holds the entire share capital of the insurance company which at the end of 2010 had technical reserves of Euro 3.3 billion and premiums of Euro 945 million.

Firm in the belief that the ability to offer insurance products to customers is of strategic importance for the future, BPM's Board of Directors immediately launched a process to reach a new bancassurance agreement with a partner of high standing, able to provide technical, product and management know-how.

In order to pursue this project, on 4 August 2010 Bipiemme Vita set up Bipiemme Assicurazioni SpA as a 100% subsidiary, which will operate in the field of accident (non-life) insurance. At present, the Group is active in this field thanks to brokerage agreements with various insurance companies and is reporting rapidly growing commercial results.

Bipiemme Assicurazioni Spa received ISVAP's authorisation on 22 December 2010 to carry on insurance business in the fields of accident, illness, fire and natural forces, other damage to property and general liability.

The process of selecting a new partner in 2010 saw the completion of two phases: receiving expressions of interest with non-binding offers and access to the data room. At the beginning of 2011, after the formulation of binding offers, we drew up a shortlist of interested parties from which the new partner will be chosen once the terms of the agreement have been negotiated.

This deal should be completed during the second half of this year.

Agreement in the asset management sector

On 30 December 2010 Banca Popolare di Milano, Banca Monte dei Paschi di Siena and Clessidra Sgr on behalf of the Clessidra Capital Partners II Fund, communicated the completion of the transaction announced on 29 October 2010, following the signing of the agreements, that they signed on 20 July, stipulated the that will lead to the birth of the largest independent operator in the asset management sector in Italy and one of the largest in Europe, with more than 40 billion Euro of assets under management.

The Partners have settled all of the details and closed the agreement, after having obtained the approval of the pertinent supervisory authorities on Tuesday 28 December.
Prima sgr and Anima sgr will now pass under the control of AM Holding (standing for Asset Management Holding), which is the holding company owned by the Partners which will perform the functions of coordination and strategic direction.
The purpose of this operation is to create an independent hub for the production and support of the various distribution networks for the investment products of Prima and Anima, so as to consolidate their leadership position in the Italian asset management market.

Combining the strengths of the two AMCs, which will initially remain separate entities, leads to distinctive features that are more or less unique on the domestic scene, giving life to a Group at the service of more than 150 different market players (among banking networks and networks of financial consultants), including two banking networks of national importance (BMPS and BPM) with more than 3,800 branches.
The new Group intends to raise the level of product and service innovation so as to respond more and more effectively to the changing needs of the market and the requirements of customers, based on the operating excellence of the two AMCs and its experience in running distribution networks.
The operation involves the BPM Group transferring its entire interest in Anima SGR, equal to around 96.3% of the share capital (75.7% BPM, 20% Banca di Legnano and 0.6% Cassa di Risparmio di Alessandria) to a holding company and subscribing a reserved increase in its share capital.
The sale of Anima SGR generated a gain of Euro 220 million for the BPM Group. Subsequently, Banca Popolare di Milano and Banca di Legnano subscribed the increase in capital of AM Holding for 185.7 million Euro and 69.6 million euro, respectively.
The share capital of AM Holding is now held:

- 38.11% by Clessidra Sgr on behalf of the Clessidra Capital Partners II Fund, through Lauro Quarantadue spa;
- 23.44% by Banca Monte dei Paschi di Siena;
- 36.30% by the BPM Group (of which 26.3% by Banca Popolare di Milano and 10% by Banca di Legnano).

Banca Etruria and Banca Finnat Spa also have an interest.

Increase in share capital of Banca Popolare di Mantova

On 16 September 2010 the Extraordinary Shareholders' Meeting of Banca Popolare di Mantova voted to increase the share capital from Euro 1,826,640 to a total par value of Euro 2,968,290, for an amount of Euro 1,141,650 by issuing 442,500 ordinary shares of par value Euro 2.58 each, to be offered under option to the shareholders at a price of Euro 44.58 each, including a share premium reserve of Euro 42.00, at a ratio of 5 shares for every 8 held. The shares subscribed by BPM on a pro quota basis amounted to 252,559. It then subscribed another 45,342 shares from the ones not taken up by other shareholders. At the end of the operation, BPM's interest in Banca Popolare di Mantova rose from 57.05% to 61.02%, where it now stands.
The subscription of the entire increase in capital allowed to Banca Popolare di Mantova to have new financial resources of almost 20 million euro, allowing it to develop the territorial policies foreseen in the three-year business plan for 2010-2012 approved by the Board of Directors on 20 January 2010.
During the first four months of 2010, the Bank had already opened new branch in Virgilio, frazione di Cerese and in Poggio Rusco. Now it has programmed the opening of six new branches in the period 2010-2012.

Increase in the share capital of Cassa di Risparmio di Alessandria

On 15 October 2010 the Extraordinary Shareholders' Meeting of Cassa di Risparmio di Alessandria approved an increase in share capital for a total of Euro 29,843,980 (of which a total par value of Euro 6,949,230 and Euro 22,894,750 of share premium reserve) by issuing 1,346,750 new shares with a par value of Euro 5.16 and a share premium reserve of Euro 17.

The increase in capital was fully subscribed, especially by Banca Popolare di Milano, which holds 80% of the Cassa. It subscribed on a pro quota basis, acquiring 1,077,400 shares at a price of Euro 22.16 for a total of Euro 23,875,184.

This increase in capital allowed the Cassa to reintegrate its capital after the loss made in the previous year and to have additional funds available to sustain future operations.

Transformation of index-linked policies with underlying Icelandic securities

During the course of 2005, the BPM Group's bank networks distributed two index-linked life insurance policies issued by Bipiemme Vita, called "Crescita più Minimo" (Growth with Minimum) and "Single Best", whose technical commitments were replicated by Bipiemme Vita by buying the following bonds:

- "EUR 62,500,000 Best of Growth Equity Index Linked Notes due 30 November 2010" issued by the Icelandic banks Kaupthing Bank hf; and
- "EUR 53,000,000 Equity Basket Linked Notes due 26 July 2012" issued by the Icelandic banks Islansbanki hf (formerly GlitnirBanki hf).

As a consequence of the crisis on international financial markets, the impact of which was particularly severe on Iceland, these two banks, Kaupthing Bank hf and Glitnir Banki hf, the issuers of these securities, were first subjected to a national moratorium and then declared bankrupt.
In this situation, Bipiemme Vita not only kept under observation the evolution of the crisis in Iceland, but above all took steps to claim its legal rights (and hence those of its customers) versus Kaupthing Bank hf and Glitnir Banki hf, registering as a creditor in the two bankruptcy proceedings.

Even if the contractual conditions of the two policies do not provide for any obligation to refund the amount of the original premium paid, Bipiemme Vita, with the Parent Bank's agreement, decided to transform these policies in order to protect the interests of the policy holders and to preserve as much as possible the relationship with its customers, whose policies had been placed by the networks of the BPM Group.

To be able to obtain the refund of the original premium paid, the policy holders of both of the above index-linked products have been granted the faculty to transform these two policies into two line 1 products with benefits guaranteed by Bipiemme Vita with specific funding with assets purchased to cover the related reserves. This was completed with considerable success in terms of the percentage of acceptances by the customers involved: over 99%.
From an accounting point of view, this operation has involved a pre-tax cost of around Euro 54.8 million (around 40 million after tax), all of which has been charged to Bipiemme Vita's income statement.

Tax audits

As already explained in the 2009 financial statements and interim report as of 30 June 2010 with regard to the tax audits on the years from 2004 to 2008, concerning transactions that generated elements of income from which are derived foreign tax credits as per art. 165 of the Consolidated Income Tax Act, as well as dividends from foreign sources as per art. 89.3 of the same Act, we would point out that an out-of-court settlement was reached with the Tax Authorities on 20 December 2010 concerning these matters. The settlement involves both Banca Popolare di Milano and the other entities of the BPM Group involved in the dispute.
For further details on the terms of this settlement, see Part B, Section 13 "Tax assets and liabilities" of these notes and Part B, Section 14 of the notes to the consolidated financial statements, which is also contained in this volume.

Distribution network and human resources

Distribution network

At 31 December 2010, the distribution network of Banca Popolare di Milano, which handles 1,012,000 private customers and businesses, has 589 points of contact with customers. The branch network has 560 retail branches, 10 fewer than at the end of 2009 following the rationalisation of the Group network carried out during the year. In addition to the 560 retail branches, there are also 4 large corporate branches, 10 SME units (specialising in small and medium enterprises) the same number as before) and 15 private banking centres which joined the Parent Bank's network in June 2010.

As mentioned previously in the section on "Significant events", the year saw completion of the plan to rationalise the territorial coverage of the BPM Group. This involved BPM selling 7 branches (5 to Banca di Legnano; 2 to CR Alessandria) and purchasing 5 branches (3 from Banca di Legnano; 2 from CR Alessandria), the latter immediately combined with the existing branches in the same places, except for the Mede branch.
During 2010 the Bank opened another branch and closed 5 branches.
The new branches opened were:

- no. 1057 in Via F. Zane 4, Salò (BS);
- no. 1058 in Piazza Amisani 5/6, Mede (PV) following the transfer of branches within the Group.

The branches closed were:

- no. 450 in Via Pia 48, Velletri;
- no. 511 in Via Battistotti Sassi 12, Milan;
- no. 1032 in Via Guglielmo Marconi 71, Bologna (branch 19);
- no. 521 in Via Volta 16, Magenta;
- no. 99 in Via Statale 70, Sant'Agostino (fraz. San Carlo).

and following transfers within the Group

- no. 227 in Piazza Zumaglini 25, Vercelli;
- no. 320 in Via Brigata Liguria 112, Genoa;
- no. 546 in Via Papa Giovanni XXIII 13/15, Castellanza;
- no. 94 in Largo Cavour 3, Lainate;
- no. 168 in Via Matteotti 4, S. Vittore Olona;
- no. 585 in Viale Certosa 302, Milan;
- no. 107 in Largo Chiesa Vecchia 1 (ang. Piazza della Vittoria), Cuggiono.

Distribution network of Banca Popolare di Milano at 31.12.2010

Distribution network	31.12.2010	31.12.2009	Change
Lombardy	**367**	**372**	**–5**
– Province of Milan	201	207	–6
– Other provinces in Lombardy	166	165	1
Other regions	**193**	**198**	**–5**
– Emilia Romagna	37	39	–2
– Lazio	83	84	–1
– Puglia	41	41	0
– Piedmont	10	11	–1
– Other	22	23	–1
Total branches in Italy	**560**	**570**	**–10**
SME units (1)	10	10	0
Large corporate branches (2)	4	4	0
Private banking centres (3)	15	0	15
Total distribution network	**589**	**584**	**5**

(1) The 10 SME units, which form part of the organisational structure of the Parent Bank, look after enterprises with revenues of up to Euro 50 million.

(2) The 4 Large Corporate branches, which also belong to the organisational structure of the Parent Bank, look after companies with revenues of more than Euro 50 million.

(3) 15 Private Banking Centres, belonging to Banca Popolare di Milano after the merger in the first half; these provide a personalised financial advisory service.

The other distribution channels

Financial advisors

At 31 December 2010, the Bank's network of financial advisors, which complements the traditional network, was made up of 50 sole agents (52 at 31 December 2009), whose main task is to place asset management and administration products. At the end of 2010, they had generated indirect deposits of Euro 277 million and funding and loans of Euro 50 and Euro 63 million respectively.

Internet banking

At the end of 2010 the number of customers of the Parent Bank that use the on-line channel managed by Webank comes to 354 thousand (+9.6% on 2009).

In particular, at the end of 2010 the Individuals segment of Banca Popolare di Milano, had 283 thousand account holders (+10.1% on 2009) registered for the on-line channel, with a 32% share of the Individuals segment; during 2010, 45 thousand new individual customers were acquired.

As for Companies, at the end of 2010 the number of BPM account holders registered for on-line services came to 71 thousand, 99% of them active, which is 61% of the Bank's total customers; around 14 thousand new customers were acquired during the year.

Human resources

In 2010, the first year of the 2010-2012 Strategic Plan, was characterised by the continuation of the process to raise efficiency, already begun in 2009, the main drivers of which were the second phase of the Solidarity Fund and intraGroup initiatives, such as the combination of certain branches and the decentralisation of operating activities.

At 31 December 2010, the Bank employs 6,378 people (115 fewer than the previous year), including 22 employees seconded from Group companies, 50 people hired as consultants and temps, less 30 seconded to other Group companies.
The number of employees of the Bank is down by 137 at the end of 2010, which without counting the two on secondment is the result of the following changes:

- new hires: **248** of whom:
  - 90 hired on the basis of expected turnover as foreseen by strategic plans;
  - 158 hired from other BPM Group companies

- leavers: **387** of whom:
  - 261 people who signed up for the Solidarity Fund;
  - 55 transferred to other Group companies;
  - 71 other resignations.

47% of employees are females, 1% more than in 2009.

Personnel (number at year end)	**31.12.2010**	**30.09.2010**	**Change A – B**		**31.12.2009**	**Change A - C**	
	A	**B**	**in value**	**in %**	**C**	**in value**	**in %**
a) managers	133	135	–2	–1.5	109	24	22.0
b) total officials	2,355	2,352	3	0.1	2,361	–6	–0.3
- of which: 3rd and 4th level	1,257	1,255	2	0.2	1,232	25	2.0
c) other employees	3,848	3,866	–18	–0.5	4,005	–157	–3.9
d) employees seconded to other companies	–30	–29	–1	–3.4	–32	2	6.3
Total employees	**6,306**	**6,324**	**–18**	**–0.3**	**6,443**	**–137**	**–2.1**
Employees seconded from other Group companies	22	21	1	4.8	18	4	22.2
Staff with project-related and other types of contract	50	47	3	6.4	32	18	56.3
Total personnel	**6,378**	**6,392**	**–14**	**–0.2**	**6,493**	**–115**	**–1.8**

Staff training

Staff training is crucial for the development of the Bank. Training is performed in order to create greater cohesion among employees and to spread a systemic and synergic vision, giving a total of 44,463 man/days' training to foster the corporate culture and models of integration. By the end of 2010 we had given:

- 33,286 days' training for the staff of Banca Popolare di Milano;
- 11,177 days' training for the staff of other Group companies.

The training programme mainly concerned:

- the activation of a project dedicated to recently appointed branch managers to facilitate the acquisition and consolidation of the skills that are typical of that role. Training courses were also planned for new hires on apprenticeship contracts, with days spent on explaining the values and types of behaviour to be promoted at work;
- the launch of a training campaign in support of the start-up of ProFamily and implementation of the New Financial Consultancy Model according to the guidelines of the Strategic Plan;
- the development, as part of career paths, of the project entitled "IT Transformation by means of a specific path dedicated to the internal staff" of the IT Department.

Particular attention was paid to the training given to comply with legal obligations, with constant follow-up to ensure awareness, stimulus and controls to check that the message is being applied; personnel with sensorial disabilities have received training courses using an integrated methodology designed specifically for them.

Principal balance sheet aggregates

As indicated in Part A – Section 2 of the notes, entitled "General method of preparation", the Bank's financial statements have been prepared using accounting methods based on the assumption that the Bank is a going concern. This assumption can be considered appropriate as the Bank has a history of adequate profitability, access to financial resources that are consistent with its liquidity requirements and a suitable level of capital.
Part E of the notes contains an explanation of the main risks and uncertainties to which the Bank is exposed, as well as the measures taken by the Bank to control, monitor and mitigate them.

Banking intermediation for customers

At 31 December 2010, the Bank's **total deposits**, made up of all customers' funds under management, amount to Euro 55,886 million, down (–1.3%) on December 2009 (– Euro 722 million). This is the result of a divergent trend between direct deposits, which have gone down by Euro 806 million (–2.7%) and indirect deposits, which have gone up slightly by 0.3%. The trend in the last quarter was totally the opposite, in fact compared with 30 September 2010 direct deposits increased by Euro 901 million, which more than offset the decline in indirect deposits.

Total customer deposits

(euro/000)

	31.12.2010	30.09.2010	Change A - B		31.12.2009	Change A - C	
	A	B	in value	in %	C	in value	in %
Direct deposits	28,708,830	27,808,093	900,737	3.2	29,514,809	–805,979	–2.7
Indirect deposits	27,176,770	27,220,881	–44,111	–0.2	27,092,965	83,805	0.3
of which:							
Assets under management	12,148,840	12,262,681	–113,841	–0.9	12,117,712	31,128	0.3
Assets under administration	15,027,930	14,958,200	69,730	0.5	14,975,253	52,677	0.4
Total direct and indirect deposits	**55,885,600**	**55,028,974**	**856,626**	**1.6**	**56,607,774**	**–722,174**	**–1.3**

Direct deposits

The aggregate **"direct deposits"**, which consists of amounts due to customers, securities issued and financial liabilities designated at fair value through profit and loss, comes to Euro 28,709 million at the end of 2010, a decrease of 2.7% on the end of 2009. Within this aggregate:

- **amounts due to customers** come at Euro 17,847 million with a decline of Euro 425.9 million on 2009 (–2.3%). This reduction is the net of the increase of repurchase agreements of Euro 227.9 million and the decline in deposits on current account of Euro 301.6 million and the decrease in "Other types of deposit" of Euro 352.2 million, the latter due to repayment of the amount owing to the special purpose entity "BPM Securitisation 2" for the securitisation of performing loans;

- **securities issued** amount to Euro 10,274 million, an increase of Euro 362 million (+3.6%) on 31 December 2009. This trend was also helped by, among other things, the increase in deposit certificates of some Euro 116 million. A contribution also came from a covered bond and a senior bond placed during the second half of the year, each for Euro 750 million. These more than offset the reimbursement on maturity of a senior bond in February for a nominal amount of Euro 1,250 million;

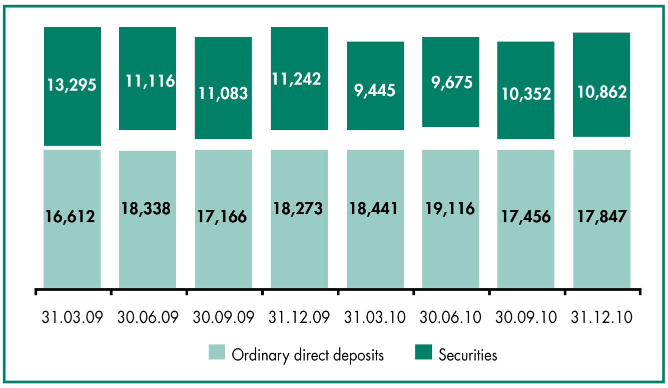
- **financial liabilities designated at fair value through profit and loss**, essentially represented by structured bond loans, come to Euro 588 million, which is down by 55.8% on 2009 because of the maturities of bonds placed and not replaced.

Breakdown of direct deposits

(euro/000)

	31.12.2010	30.09.2010	Change A - B		31.12.2009	Change A - C	
	A	B	in value	in %	C	in value	in %
Current and savings accounts	16,815,347	16,323,381	491,966	3.0	17,116,905	–301,558	–1.8
Repurchase agreements	456,029	519,531	–63,502	–12.2	228,172	227,857	99.9
Other types of deposit	575,482	613,074	–37,592	–6.1	927,662	–352,180	–38.0
Total due to customers	**17,846,858**	**17,455,986**	**390,872**	**2.2**	**18,272,739**	**–425,881**	**–2.3**
Bonds and structured securities	7,700,917	7,208,088	492,829	6.8	7,412,416	288,501	3.9
Subordinated liabilities	1,906,395	1,903,586	2,809	0.1	1,945,954	–39,559	–2.0
Other types of deposit	666,786	653,202	13,584	2.1	554,137	112,649	20.3
Total securities issued	**10,274,098**	**9,764,876**	**509,222**	**5.2**	**9,912,507**	**361,591**	**3.6**
Financial liabilities designated at fair value through profit and loss	**587,874**	**587,231**	**643**	**0.1**	**1,329,563**	**–741,689**	**–55.8**
Total direct deposits	**28,708,830**	**27,808,093**	**900,737**	**3.2**	**29,514,809**	**–805,979**	**–2.7**

Quarterly trend of direct deposits (euro/mn)



Direct deposits show an increase of 3.2% in the fourth quarter of 2010 compared with the previous one, after falling to a 2010 low of Euro 27,808 million in the third quarter.

This positive trend was sustained principally by the increase in "Securities issued" (+509 million Euro compared with September) following issuance of the Covered Bond of 750 million Euro and by a slight increase in the ordinary component (+2.2% versus September), particularly current accounts and savings deposit books (+3%).

Indirect deposits and assets under management

At 31 December 2010, the market value of indirect deposits from retail customers came to Euro 27,177 million, more or less stable with respect to Euro 27,093 million at the end of 2009 and to Euro 27,221 million in September 2010. The figure for assets under management is net of any duplications and that of assets under administration does not include the securities relating to the individual and collective portfolio management services provided by Anima and the insurance products offered by Bipiemme Vita since these are already included in assets under management; nor does it include those relating to institutional investors.

In detail, **assets under management** show a slight increase on 31 December 2009, coming in at Euro 12.149 million (+0.3%). This figure is the net of the decrease in funds and individual portfolio management schemes, of Euro 222 million and Euro 49 million respectively, and the increase in insurance-sector reserves and 'Other assets under management' which rose in 2009 by Euro 242.5 million and Euro 60 million respectively.

Analysing the various segments by type shows a decrease in the funds element of Euro 222 million (–3.4% on the end of 2009) to Euro 6,275 million. The reduction in the funds component is attributable to net outflows for Euro 419 million, partly offset by revaluations. This outflow from funds was concentrated in the second half of the year and involved monetary funds above all.

Individual portfolio management schemes are negative for Euro 49 million, compared with December 2009, amounting to Euro 2,110 million (–2.3%), again due to a negative trend in net deposits for Euro 79 million.

Lastly, **insurance-sector reserves** came to Euro 3,329 million, a rise of 7.9% on 31 December 2009; net inflows to insurance policies in 2010 came to Euro 175 million, compared with Euro 71 million in December 2009, in line with the significant growth in the bancassurance channel, which rose by around 10% during the year.
New production was mainly in life insurance, whereas in non-life, two new health policies and an accident policy were launched during the year for Affluent and Private Affluent customers.

Indirect deposits from ordinary customers at market value

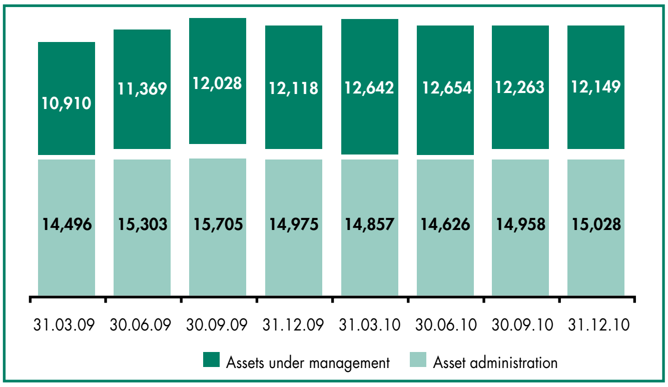
(euro/000)

	31.12.2010 A	30.09.2010 B	Change A - B in value	Change A - B in %	31.12.2009 C	Change A - C in value	Change A - C in %
Funds	6,274,494	6,418,897	–144,403	–2.2	6,496,380	–221,886	–3.4
Individual portfolio management (*)	2,109,922	2,131,977	–22,055	–1.0	2,159,035	–49,113	–2.3
Insurance-sector reserves	3,328,604	3,306,793	21,811	0.7	3,086,107	242,497	7.9
Other assets under management	435,820	405,014	30,806	7.6	376,190	59,630	15.9
Total assets under management	**12,148,840**	**12,262,681**	**–113,841**	**–0.9**	**12,117,712**	**31,128**	**0.3**
Assets under administration	**15,027,930**	**14,958,200**	**69,730**	**0.5**	**14,975,253**	**52,677**	**0.4**
Total indirect customer deposits	**27,176,770**	**27,220,881**	**–44,111**	**–0.2**	**27,092,965**	**83,805**	**0.3**

(*) includes securities-based portfolio management schemes, fund-based portfolio management schemes and cash accounts

Quarterly trend of indirect deposits

(euro/mn)



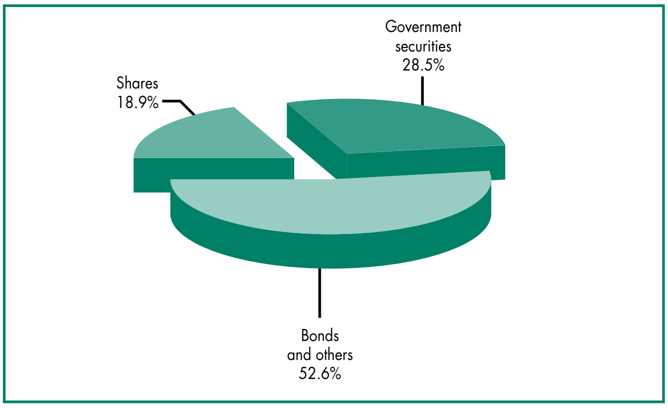
Indirect deposits are down slightly (-0.2% on September), affected by the weakness of the asset management sector that began in the third quarter of 2010.
In the fourth quarter, asset management posted a decline of 0.9% after a -3.1% in the third quarter.

This trend was mainly due to the weakness in the funds sector; to be precise, it suffered net outflows of 207 million euro.

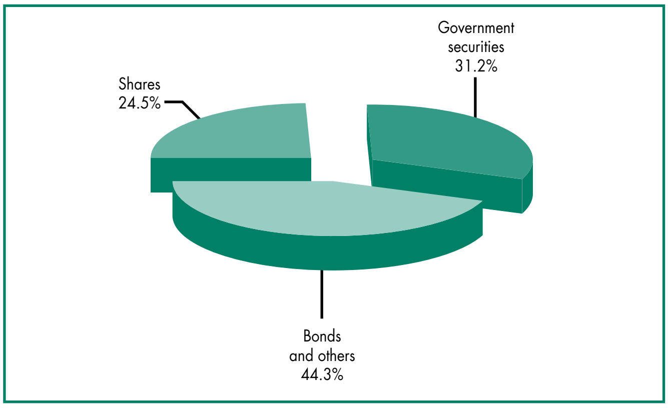
On the other hand, the rise in assets under administration continued during the second half (+0.5% in 4Q and +2.3% in 3Q), benefiting from the rising values of equities and bonds as financial markets recovered.

Customers' assets under administration amount to Euro 15,028 million, showing a growth (at market value) of Euro 53 million (+0.4%) compared with December 2009. The composition of assets under administration has changed in favour of the bond element, which went from 44.3% in 2009 to 52.6% at the end of 2010, while the equity element fell from 24.5% to 18.9%. The remaining 28.5% is represented by Government securities.

Distribution of assets under administration at December 2010



Distribution of assets under administration at December 2009



Loans to customers

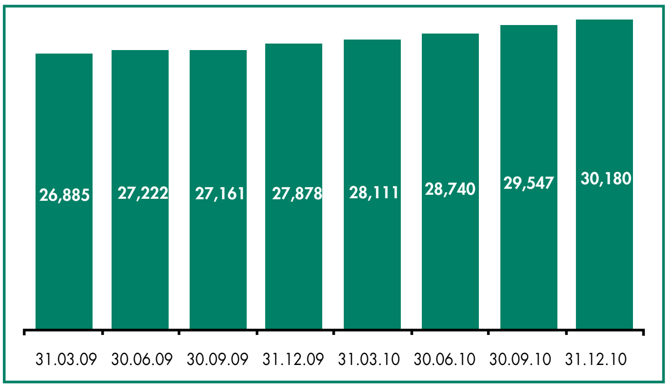
At 31 December 2010 **loans to customers** amount to Euro 30,180 million, recording an increase with respect to the previous year's figure of Euro 2,303 million (+8.3%).
This growth is the result of the increase in commercial loans classified under "Current accounts" and "Other transactions", which during the year increase by Euro 350 million and Euro 224 million respectively; the second item is made up principally of advances on bills, documents and similar instruments subject to collection and other amounts not settled via current accounts.
Also 'Mortgage loans' reported a significant rise in 2009. At 31 December 2010 this aggregate is of Euro 12,325 million reporting a rise of Euro 917 million equal to 8% on the same period of 2009. During 2010, disbursements of mortgages and loans reached Euro 4,7 billion, showing a strong recovery with respect to the figure recorded in 2009 (Euro 0.5 billion).

Breakdown of loans to customers

(euro/000)

	31.12.2010	30.09.2010	Change A - B		31.12.2009	Change A - C	
	A	B	in value	in %	C	in value	in %
Current accounts	3,688,863	3,730,814	–41,951	–1.1	3,338,630	350,233	10.5
Repurchase agreements	289,621	368,609	–78,988	–21.4	0	289,621	n.s.
Mortgage loans	12,324,748	12,042,789	281,959	2.3	11,407,800	916,948	8.0
Credit cards, personal loans and salary assignments	590,571	610,501	–19,930	–3.3	570,650	19,921	3.5
Finance leases	0	0	0	0.0	0	0	0
Other transactions	11,142,345	11,068,043	74,302	0.7	10,918,074	224,271	2.1
Impaired assets	1,821,276	1,478,617	342,659	23.2	1,464,890	356,386	24.3
Total loans to customers	**29,857,424**	**29,299,373**	**558,051**	**1.9**	**27,700,044**	**2,157,380**	**7.8**
Debt securities	322,996	247,291	75,705	30.6	177,507	145,489	82.0
Total loans to customers	**30,180,420**	**29,546,664**	**633,756**	**2.1**	**27,877,551**	**2,302,869**	**8.3**

Quarterly trend in loans to customers (euro/mn)



Starting from the second quarter there was a good recovery in loans to customers, again confirmed in the fourth quarter.

The growth of 2.1% in the fourth quarter was largely supported by the 2.3% increase in mortgage loans.

All of the other components, namely current accounts, personal loans and repurchase agreements, went down.

Asset quality

At December 2010, the net exposure for impaired assets amounts to Euro 1,821 million, 24.3% higher than in December 2009; the incidence on the total loans rises to 6% from 5.3% at the end of 2009.

Net non-performing loans come to Euro 349 million, which is still relatively low as a percentage of loans (1.2%), lower than the system average (2.46% – Source: ABI); the related adjustments, Euro 370 million, provide coverage of 51.5% versus 54.4% at the end of 2009.

Compared with 2009, net doubtful loans have decreased to Euro 776 million (Euro 890 million in December 2009), with a percentage on total loans of 2.6%; the related adjustments of Euro 100 million provide coverage of 11.4%. versus 14.6% in December 2009.

Overall, specific adjustments to impaired assets amount to Euro 517 million at the end of 2010, providing coverage of 22.1%, which is consistent with the level of collateralisation of this aggregate and substantially in line with the figure at the end of 2009 (24.9%).

Considering that general adjustments to the portfolio of performing loans, (Euro 148 million with coverage of 0.5%), total adjustments to total customer loans come to Euro 665 million, giving coverage of 2.2%, which is in line with December 2009.

Asset quality

(euro/000)

Gross exposure	31.12.2010		30.09.2010		31.12.2009		Change A – B		Change A – C	
	A	Incidence %	B	Incidence %	C	Incidence %	Absolute	%	Absolute	%
Impaired assets	**2,338,029**	**7.6**	**1,958,213**	**6.5**	**1,951,409**	**6.8**	**379,816**	**19.4**	**386,620**	**19.8**
a) Non-performing loans	718,436	2.3	677,066	2.2	575,433	2.0	41,370	6.1	143,003	24.9
b) Doubtful loans	875,652	2.8	1,024,411	3.4	1,042,062	3.7	–148,759	–14.5	–166,410	–16.0
c) Restructured positions	698,715	2.3	239,359	0.8	254,638	0.9	459,356	191.9	444,077	174.4
d) Overdue positions	45,226	0.1	17,377	0.1	79,276	0.3	27,849	160.3	–34,050	–43.0
Other assets	**28,507,119**	**92.4**	**28,234,398**	**93.5**	**26,555,326**	**93.2**	**272,721**	**1.0**	**1,951,793**	**7.3**
Total loans to customers	**30,845,148**	**100.0**	**30,192,611**	**100.0**	**28,506,735**	**100.0**	**652,537**	**2.2**	**2,338,413**	**8.2**

Adjustments	31.12.2010		30.09.2010		31.12.2009		Change A – B		Change A – C	
	A	Coverage %	B	Coverage %	C	Coverage %	Absolute	%	Absolute	%
Impaired assets	**516,753**	**22.1**	**479,596**	**24.5**	**486,519**	**24.9**	**37,157**	**7.7**	**30,234**	**6.2**
a) Non-performing loans	369,929	51.5	356,466	52.6	312,769	54.4	13,463	3.8	57,160	18.3
b) Doubtful loans	100,101	11.4	110,114	10.7	151,621	14.6	–10,013	–9.1	–51,520	–34.0
c) Restructured positions	44,414	6.4	11,462	4.8	17,244	6.8	32,952	287.5	27,170	157.6
d) Overdue positions	2,309	5.1	1,554	8.9	4,885	6.2	755	48.6	–2,576	–52.7
Other assets	**147,975**	**0.5**	**166,351**	**0.6**	**142,666**	**0.5**	**–18,376**	**–11.0**	**5,309**	**3.7**
Total adjustments	**664,728**	**2.2**	**645,947**	**2.1**	**629,185**	**2.2**	**18,781**	**2.9**	**35,543**	**5.6**

Net exposure	31.12.2010		30.09.2010		31.12.2009		Change A – B		Change A – C	
	A	Incidence %	B	Incidence %	C	Incidence %	Absolute	%	Absolute	%
Impaired assets	**1,821,276**	**6.0**	**1,478,617**	**5.0**	**1,464,890**	**5.3**	**342,659**	**23.2**	**356,386**	**24.3**
a) Non-performing loans	348,507	1.2	320,600	1.1	262,664	0.9	27,907	8.7	85,843	32.7
b) Doubtful loans	775,551	2.6	914,297	3.1	890,441	3.2	–138,746	–15.2	–114,890	–12.9
c) Restructured positions	654,301	2.2	227,897	0.8	237,394	0.9	426,404	187.1	416,907	175.6
d) Overdue positions	42,917	0.1	15,823	0.1	74,391	0.3	27,094	171.2	–31,474	–42.3
Other assets	**28,359,144**	**94.0**	**28,068,047**	**95.0**	**26,412,660**	**94.7**	**291,097**	**1.0**	**1,946,484**	**7.4**
Total loans to customers	**30,180,420**	**100.0**	**29,546,664**	**100.0**	**27,877,550**	**100.0**	**633,756**	**2.1**	**2,302,870**	**8.3**

Net interbank position

The **net interbank position** at 31 December 2010 shows the Bank as a net borrower for Euro 5,860 million, whereas at 31 December 2009 it was a net lender for Euro 330 million.

The significant difference of Euro 6.2 billion, is mainly due to:
- the increase in loans to customers of Euro 2.3 billion;
- the decrease in customer deposits of Euro 0.8 billion;
- the rise in net financial assets of Euro 3.3 billion for investments in government securities.

In any case, it should be noted that a good part of the interbank exposure, more than Euro 4.6 billion, has been allocated to finance the portfolio of financial assets, in particular the Parent Bank's portfolio of government securities. At the end of the year, this portfolio is in fact largely used as collateral in funding repos and/or open-market account (OMA) operations with the European Central Bank. Net of these transactions, the **net interbank position** at 31 December 2010 comes in at Euro 1.2 billion.

The interbank position

(euro/000)

	31.12.2010	30.09.2010	Change A - B		31.12.2009	Change A - C	
	A	B	(+/–)	%	C	(+/–)	%
Due from banks	2,017,156	3,148,487	–1,131,331	–35.9	2,509,679	–492,523	–19.6
Due to banks	7,877,115	6,063,112	1,824,003	29.9	2,179,385	5,707,730	261.9
Net interbank position	**–5,859,959**	**–2,914,625**	**–2,955,334**	**–101.4**	**330,294**	**–6,190,253**	**n.s.**

Financial assets

Financial assets, net of financial liabilities, come to Euro 5,263 million, more than doubled compared with the figure at 31 December 2009. Financial assets before deducting the liabilities increase by Euro 3,331 million on 2009, coming to 5,506.

Financial assets/liabilities: composition

(euro/000)

	31.12.2010	30.09.2010	Change A - B		31.12.2009	Change A - C	
	A	B	(+/–)	%	C	(+/–)	%
Financial assets held for trading	310,580	385,319	–74,739	–19.4	372,653	–62,073	–16.7
Financial assets designated at fair value through profit and loss	331,377	457,016	–125,639	–27.5	433,810	–102,433	–23.6
Financial assets available for sale	4,857,232	2,536,083	2,321,149	91.5	1,357,969	3,499,263	257.7
Hedging derivatives receivable	6,507	5,928	579	9.8	9,883	–3,376	–34.2
Total financial assets	**5,505,696**	**3,384,346**	**2,121,350**	**62.7**	**2,174,315**	**3,331,381**	**153.2**
Financial liabilities held for trading	238,532	603,679	–365,147	–60.5	175,704	62,828	35.8
Hedging derivatives payable	30,933	7,619	23,314	n.s.	2,779	28,154	n.s.
Fair value change of financial assets in hedged portfolios (+ /–)	–26,798	5,586	–32,384	n.s.	0	–26,798	n.s.
Total net financial assets	**5,263,029**	**2,767,462**	**2,495,567**	**90.2**	**1,995,832**	**3,267,197**	**163.7**

Financial assets held for trading amount to Euro 310.6 million, having decreased by Euro 62 million (–16.7%) versus the previous year because of the progressive reduction of the government security portfolio.
This amount includes Euro 72.4 million of debt securities and mutual funds and Euro 238.2 million represented by the positive value of trading derivatives, made up largely of derivatives traded with customers.

Financial assets at fair value, where the structured debt securities are classified, and open-ended funds for which there is a periodic assessment based on independent sources, come to Euro 331 million, down on the figures at the end of 2009 (–23.6 %), mainly because of the effect of the sale of certain positions.

Financial assets available for sale amount to Euro 4,857 million, showing a rise of Euro 3,499 million on December 2009. as a result of investments in Government securities, classified under securities available for sale.
The significant increase reported in the year is due to higher investments in government securities, with the aim of creating a buffer with the European Central Bank of readily liquid and refinanceable assets.

Financial liabilities held for trading – represented essentially by the negative value of trading derivatives – come to Euro 239 million, substantially in line with the positive derivative element classified under "financial assets held for trading", which, as mentioned, are largely made up of traded derivatives.

Fixed assets

At 31 December 2010, **fixed assets**, including **investments in associates and companies subject to joint control** and **property and equipment and intangible assets**, show an increase of Euro 243 million compared with the figure at the end of December 2009 (+9.1%), coming in at Euro 2,910 million.

In detail, the value of investments in associates and companies subject to joint control rises by Euro 256 million at Euro 2,090 million compared with 2009, mainly made up of:
Purchases and other changes:
- Increase in the share capital of Asset Management Holding S.p.A. (Euro 185.7 million);
- Purchase of 51% of Bipiemme Vita S.p.A. (Euro 113 million);
- Increase in the share capital of Bipiemme Vita S.p.A. (Euro 77 million);
- Purchase of 30% of Factorit in July 2010 (Euro 51 million);

In addition, there were the proceeds of the sale of Anima SGR S.p.A. of Euro 125 million.

Sales and other changes:
- Shares of Anima SGR for Euro 326 million;
- Reimbursement of the share capital of Tirving for Euro 34 million.

Property and equipment amount to Euro 586 million, declining by Euro 13 million, whereas intangible assets, to Euro 234 million, are stable compared with the end of 2009 (–0.1%). However, compared with September 2010 intangible assets have decreased by Euro 1.2 million after the amortisation of core deposits and software.

Composition of fixed assets

(euro/000)

	31.12.2010	30.09.2010	Change A – B		31.12.2009	Change A – C	
	A	B	(+/–)	%	C	(+/–)	%
Investments in associates and companies subject to joint control	2,090,024	1,979,517	110,507	5.6	1,833,943	256,081	14.0
Property and equipment	586,219	586,615	–396	–0.1	599,534	–13,315	–2.2
Intangible assets	234,213	235,394	–1,181	–0.5	234,461	–248	–0.1
Total financial assets	**2,910,456**	**2,801,526**	**108,930**	**3.9**	**2,667,938**	**242,518**	**9.1**

Shareholders' equity and capital adequacy

At 31 December 2010, **shareholders' equity**, including the net income for the year, amounts to Euro 3,654 million, a decrease of Euro 14 million versus the end of 2009. This decrease is attributable to the negative balance of Euro 81 million of reserves due to the valuation of financial assets available for sale.
Share capital and reserves together reach Euro 3,531 million.

Shareholders' equity: composition

(euro/000)

	31.12.2010	30.09.2010	Change A - B		31.12.2009	Change A - C	
	A	B	in value	in %	C	in value	in %
1. Share capital	1,660,221	1,660,214	7	0.0	1,660,137	84	0.0
2. Share premium reserve	189,639	189,646	–7	0.0	187,907	1,732	0.9
3. Reserves	1,243,961	1,243,961	0	0.0	1,207,930	36,031	3.0
4. (Treasury shares)	–1,850	–1,862	12	0.6	–9,192	7,342	79.9
5. Valuation reserves	–80,912	3,122	–84,034	n.s.	–895	–80,017	n.s.
6. Equity instruments	519,606	519,606	0	0.0	519,597	9	0.0
7. Net income (loss) for the year	122,857	155,827	–32,970	–21.2	101,761	21,096	20.7
Total	**3,653,521**	**3,770,514**	**–116,993**	**–3.1**	**3,667,245**	**–13,724**	**–0.4**

BPM's total capital ratio, which is used as an overall measure of solvency and calculated as the ratio between regulatory capital and total risk-weighted assets, comes to 18.9%, which is lower than the figure in December 2009 (21.7%).
The Tier 1 capital ratio, calculated as the ratio between Tier 1 capital and risk-weighted assets, comes to 13.4%, whereas the core Tier 1 ratio, which does not include preference shares, comes to 12.6%.

Lastly, as far as **regulatory capital** and Bank's policies for assessing the adequacy of its capital are concerned, please refer to the specific sections in the explanatory notes ("Part E – Information on risks and related hedging policies" and "Part F – Information on capital").

Income statement

Moving on to analyse the income statement figures, the Parent Bank's results in 2010 were positive, despite the economic and financial context which negatively affected, above all, the spread between borrowing and lending rates and credit quality.
in fact, the performance of the commercial and corporate banking divisions was negatively affected by the continuing low level of interest rates.
2010 closes with a net income of Euro 122.8 million, an increase of Euro 21.1 million compared with the same period of 2009 (+20.7%), which reflects lower operating income of Euro 187.8 million due to the narrowing of spreads between lending and borrowing rates, and to a lower result from financial management, offset by lower operating expenses of Euro 97.9 million, in this case due to the fact that 2009 reported non-recurring charges linked to the Solidarity Fund, and lower impairment adjustments to loans and lower charges to allowances for risks and charges of Euro 69.5 million.
The year also benefited from non-recurring items shown for Euro 198.7 million in "Profits from equity and other investments" (Euro 181.6 million more than in 2009), deriving from the sale of Anima Sgr and of the custodian bank business. These have more than offset extraordinary tax items of Euro 139.3 million.

Operating income

At 31 December 2010, **operating income** comes to Euro 1,190 million, a decrease of Euro 187.8 million (–13.6%) with respect to the previous year.

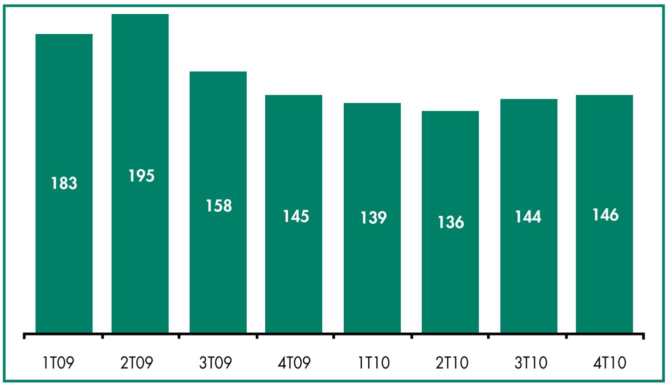
Interest margin

The **interest margin** amounts to Euro 564.5 million, showing a decline of Euro 116.3 million (–17.1%) with respect to the previous year.

Interest margin (euro/000)

	Year 2010	Year 2009	Change (+/–)	%
Interest and similar income	975,132	1,204,788	(229,656)	–19.1
Interest and similar expense	(410,676)	(524,022)	(113,346)	–21.6
Total interest margin	**564,456**	**680,766**	**(116,310)**	**–17.1**

Quarterly trend in interest margin (euro/mn)



The quarterly analysis of interest margin shows a gradual recovery starting in the third quarter of 2010, which marked a trend reversal compared with preceding quarters.

Starting from the third quarter of 2009 and until June 2010, interest margin fell steadily, mainly because of the pressure on spreads due to the level of interest rates.

During the fourth quarter the rise in interest margin was of 1.8%, lower than the increase reported in the third quarter 2010 (+5.6%). The improvement is attributable to the growth in volumes.

Breaking down interest margin by business line, we can see that:

Interest margin by line of business

(euro/000)

	Year 2010	Year 2009	Change	
			in value	in %
Commercial margin (Retail and Corporate banking)	543,400	636,000	(92,600)	–14.6
Investment banking margin	34,600	3,700	30,900	n.s.
Other interest margin (Corporate Centre)	–13,544	41,066	(54,610)	–133.0
Total interest margin	**564,456**	**680,766**	**(116,310)**	**–17.1**

- The commercial margin, which derives from the handling of deposits and loans with ordinary customers, decreases by Euro 92.6 million (–14.6%) because of the lower level of mark-down on deposits with respect to the previous year (34 bps in 2010 compared with 69 bps in 2009), despite the slight increase in annual average volumes (+Euro 162 million). There followed a lower contribution to interest margin from funding products of around Euro 70 million.
The low level of interest rates also penalised the mark up on loans (176 bps compared with 188 bps in 2009) which led to a lower contribution to the margin from lending products of Euro 22 million, despite the increase in average annual volumes of loans of Euro 480 million;
- The interest margin from investment banking has gone up by Euro 30.9 million compared with the previous year, due to the higher securities portfolio after investing in government securities;
- Other interest margin worsened compared with the previous year by Euro 54.6 million, due to the decline of 20 bps in the mark down on funding from institutional investors. Moreover, the 2009 figure included maximum overdraft fees (Euro 30.8 million), which at that time formed part of interest margin.

Non-interest margin

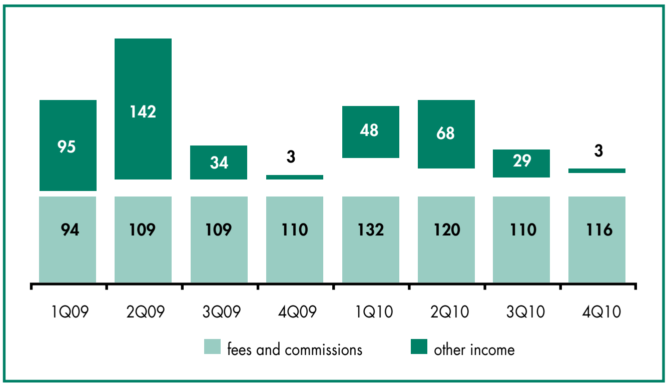
Non-interest margin, Euro 625.5 million, decreased by 10.3% in 2010 compared with 2009. This result is mainly influenced by the decline of Euro 126.7 million in the result of financial activities, partly offset by the increase in net fee and commission income of Euro 478.1 million (+13% on the end of 2009).

Non-interest margin

(euro/000)

	Year 2010	Year 2009	Change	
			in value	in %
Net fee and commission income	**478,072**	**422,908**	**55,164**	**13.0**
Other income:	**147,436**	**274,104**	**(126,668)**	**–46.2**
Dividends from investments in associates and companies subject to joint control	81,709	83,151	(1,442)	–1.7
Net income from banking activities	12,842	142,559	(129,717)	–91.0
Other operating expenses (income)	52,885	48,394	4,491	9.3
Non-interest margin	**625,508**	**697,012**	**(71,504)**	**–10.3**

Quarterly trend in non-interest margin (euro/mn)



The quarterly analysis shows a fall in **"non-interest margin"** that began in the third quarter and got worse during the fourth quarter, when there was a 14.4% contraction compared with the previous quarter.

This trend was influenced entirely by other income, which declined because of the **negative result of the financial activity**, which showed a loss of Euro 21 million during the fourth quarter, compared with a profit of Euro 15 million in the third quarter del 2010.

"Net fee and commission income" in the fourth quarter saw a positive trend, with a slight increase compared with the previous quarter, helped by the rise in "management, dealing and advisory services" (+ Euro 49 million) and in "other services" (+ Euro 25 million).

Net fee and commission income come to Euro 478.1 million, which is up on the previous year (+13%). To compare like with like, it has to be borne in mind that the 2009 figure does not include maximum overdraft fees for the first half of 2009, which were booked to interest margin for Euro 30.5 million. Net of this effect, the increase would have been of Euro 25 million (+5.4%).
Within this figure:

- an increase (+Euro 25.8 million, +17.2%) in fees from "management, dealing and advisory services" is due to higher fees and commission on asset management, thanks to the good trend in fees linked to insurance products, and to higher commissions earned on the placement of securities, amounting to Euro 2.2 billion versus Euro 1.9 billion in 2009;
- a decrease of Euro 6.5 million in net fee and commission income from the management of current accounts;
- a significant rise in "other services" of Euro 35 million, also thanks to higher lending commissions of Euro 11.2 million.

Net fee and commission income

(euro/000)

	Year	Year	Change	
	2010	**2009**	**in value**	**in %**
Fee and commission income	**527,192**	**491,945**	**35,247**	**7.2**
Fee and commission expense	**(49,120)**	**(69,037)**	**(19,917)**	**–28.8**
Total net fee and commission income	**478,072**	**422,908**	**55,164**	**13.0**
Composition:				
guarantees given and received	28,752	24,525	4,227	17.2
credit derivatives	–	–	–	–
management, dealing and advisory services	205,717	179,916	25,801	14.3
collection and payment services	69,497	72,186	(2,689)	–3.7
servicing for securitisation transactions	1,674	2,079	(405)	–19.5
management of current accounts	99,769	106,221	(6,452)	–6.1
other services	72,663	37,981	34,682	91.3
Total net fee and commission income	**478,072**	**422,908**	**55,164**	**13.0**

The **"net income from banking activities"** amounted to Euro 12.8 million with a contraction of Euro 142.6 million compared with 2009. Within this aggregate there has been:

- a decline in **"profits (losses) on trading"**, amounting to Euro 5.3 million compared with a positive result in 2009 of Euro 103.9 million. This contraction is largely due to lower trading in interest rate derivatives to stabilise interest margin. This activity generated gains of Euro 85 million in 2009 compared with Euro 10 million in 2010. Moreover, gains on securities of Euro 17.7 million were booked in 2009 (compared with Euro 1.3 million in 2010), largely attributable to the recovery in the market price of securities that had been written down in 2008;
- a **"profit on the disposal of financial assets/liabilities"** of Euro 14.2 million (Euro 22.3 million in the first half of 2009);
- a **"profits (losses) on financial assets and liabilities designated at fair value"** of Euro 3.8 million, with a reduction of Euro 32.4 million with respect to the previous year. Once again, the lower result is due to the revaluation that benefited 2009 thanks to significant recoveries in the valuations of debt securities and mutual funds that had been heavily written down in 2008.

Net income from banking activities (euro/000)

	Year 2010	Year 2009	Change in value	Change in %
Dividends	4,950	2,585	2,366	91.5
Net income from trading	5,312	103,858	(98,546)	–94.9
Net income from hedging	(252)	(2,534)	2,282	90.1
Profits/losses on disposal or repurchase of financial assets/ liabilities	14,204	22,334	(8,130)	–36.4
Net profit (loss) from financial assets/liabilities designated at fair value	3,795	36,240	(32,445)	–89.5
Net impairment adjustments/writebacks to loans: financial assets available for sale	(15,167)	(19,924)	4,757	23.9
Total net income on financial activities	**12,842**	**142,559**	**(129,717)**	**–91.0**

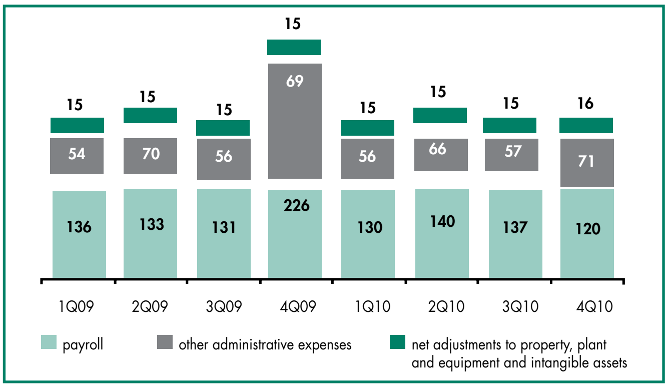
Operating expenses

At 31 December 2010, operating expenses – made up of administrative expenses and net adjustments to property and equipment and intangible assets – amount to Euro 838.6 million, with a decrease of Euro 97.9 million (+10.5%) compared with December 2009; the cost/income ratio (between operating expenses and operating income) comes to 70.5%, 2.5 bps higher compared with 2009 (68%), due to the fall in operating income.

Operating expenses: composition (euro/000)

	Year 2010	Year 2009	Change in value	Change in %
Administrative expenses:	**(776,848)**	**(876,446)**	**99,598**	**11.4**
a) personnel expenses	*(526,256)*	*(627,415)*	*101,159*	*16.1*
b) other administrative expenses	*(250,592)*	*(249,031)*	*(1,561)*	*–0.6*
Net adjustments to property and equipment and intangible assets	**(61,710)**	**(60,040)**	**(1,670)**	**–2.8**
Total	**(838,558)**	**(936,486)**	**97,928**	**10.5**

Quarterly trend in operating expenses (euro/mn)



In detail, **payroll** amounts to Euro 526.3 million, which is Euro 101.1 million lower on the previous year. The 2009 figure included a provision of Euro 105 million for charges linked to the Solidarity Fund. On the other hand, 2009 did not include Euro 10.6 million of payroll costs of Bipiemme Private Banking SIM, which was merged with the Bank from 1 January 2010 for accounting purposes. So to compare like with like, the 2009 figure should be reduced by Euro 105 million for the Solidarity Fund provision and increased by Euro 10.6 million for the payroll costs of Bipiemme Private Banking SIM. The 2010 balance should also be adjusted for Euro 4.6 million of higher Solidarity Fund charges expensed in 2010 due to the effect of discounting the charge to the provision and the additional costs incurred following the entry into force of Decree 78 of 31/5/2010, converted into Law 122 of 30/7/2010, as explained more fully in section 9 of Part C – Information on the Income Statement, to which reference should be made.

Same-basis comparison of payroll costs (euro/000)

	Year 2010	Year 2009	Change in value	Change in %
Payroll	**(526,256)**	**(627,415)**	**101,159**	**–16.1**
Charge to the Solidarity Fund	4,587	105,000		
Personnel of BPM Private Banking		(10,600)		
Pro-forma payroll costs	**(521,669)**	**(533,015)**	**11,346**	**–2.1**

This comparison of pro-forma payroll costs at 31 December 2010 shows that they decreased by Euro 11.3 million on the previous year (–2.1%), because of:

- lower costs because of the trend in inflows and outflows: Euro 28.2 million;
- higher costs for the charge to the indemnity provision reserved to managers Euro 6.1 million;
- pay rises under the national labour contract and other salary adjustments: Euro 10.9 million.

At December 2010 the number of employees of the Bank decreased by 137 units, coming to 6,306, mainly thanks to the 261 people who signed up for the Solidarity Fund.

Other administrative expenses amount to Euro 250.6 million, net of the reclassifications for indirect taxes; they are slightly higher than the equivalent figure for 2009 (+0.6%). In particular, there was:

- a decrease of Euro 6.5 million in purchases of professional services versus lower professional fees, to be considered together with the increase of Euro 4.6 million in purchases of assets and non professional services for sub-contract work, previously booked under professional services;
- a decrease of Euro 2.3 million in IT expenses, mainly for lower hardware and software rental charges and data transmission costs. This effect is in line with the progressive reduction of costs initiated in previous years thanks to lower IT costs that benefit from the gradual reduction in the cost of the contract for the basic software licences and the hire of the central processor;
- higher indirect taxes of Euro 1.2 million, not offset by the increase in recoveries which rose to Euro 0.5 million;
- a rise of Euro 2.7 million in the item "Other expenses".

Comparing expense items at the end of 2009 and 2010 shows that constant attention has been paid to keeping operating expenses under control.

Other administrative expenses: composition

(euro/000)

	Year 2010	Year 2009	Change in value	Change in %
IT expenses	(78,862)	(81,155)	2,293	2.8
Expenses for buildings and furniture	(50,385)	(48,983)	(1,402)	–2.9
Property rents and leases	(36,264)	(35,623)	(641)	–1.8
Other expenses	(14,121)	(13,360)	(761)	–5.7
Purchases of assets and non-professional services	(62,217)	(57,606)	(4,611)	–8.0
Purchases of professional services	(28,728)	(34,399)	5,671	16.5
Insurance premiums	(2,948)	(2,707)	(241)	–8.9
Advertising expenses	(13,343)	(12,329)	(1,014)	–8.2
Indirect taxes and duties	(52,599)	(51,357)	(1,242)	–2.4
Other	(7,518)	(5,977)	(1,541)	–25.8
Total	**(296,600)**	**(294,513)**	**(2,087)**	**–0.7**
Reclassification of "recoverable indirect taxes"	46,008	45,482	526	1.2
Total	**(250,592)**	**(249,031)**	**(1,561)**	**–0.6**

Net adjustments to property and equipment and intangible assets

Net adjustments to property and equipment and intangible assets come to Euro 61.7 million, +2.8% up on 2009, due to the amortisation of software under licence.

Net adjustments, provisions and other items

The aggregate consisting of net impairment adjustments to loans and financial assets and net provisions for risks and charges reflects a lower overall charge of Euro 69.5 million compared with 2009, coming in at 217.9 million euro, detailed as follows:

- net adjustments to loans for Euro 208.1 million, almost entirely made up of adjustments to loans to customers;

- adjustments to profits/losses on disposal/repurchase of receivables with a negative balance of Euro 8.2 million compared with a positive balance of Euro 12 million in 2009;

- net adjustments to other financial transactions positive for Euro 3.5 million compared with a negative result of Euro 6.7 million in 2009;

- allowances for risks and charges amount to Euro 5.2 million, relating principally to recovery procedures.

Net impairment adjustments to loans: breakdown

(euro/000)

Transactions/Income elements	Adjustments			Writebacks			Year 2010	Year 2009	Change	
	Specific	Portfolio	Total	Specific	Portfolio	Total			(+/–)	%
Loans:	**(289,156)**	**(7,795)**	**(296,951)**	**86,810**	**2,049**	**88,859**	**(208,092)**	**(281,244)**	**73,152**	**26.0**
Due from banks	–	–	–	275	224	499	499	(1,440)	1,939	134.7
Loans to customers	(289,156)	(7,795)	(296,951)	86,535	1,825	88,360	(208,591)	(279,804)	71,213	25.5
Profits/losses on disposal /repurchase of receivables	**–**	**–**	**–**	**–**	**–**	**–**	**(8,184)**	**11,965**	**(20,149)**	**–168.4**
Other financial transactions	**(5,563)**	**(1,021)**	**(6,584)**	**10,045**	**42**	**10,087**	**3,503**	**(6,674)**	**10,177**	**152.5**
Total	**(294,719)**	**(8,816)**	**(303,535)**	**96,855**	**2,091**	**98,946**	**(212,773)**	**(275,953)**	**63,180**	**22.9**

The "cost of credit" (customer loan adjustments/total customer loans) has fallen from 98 basis points at 31.12.2009 to 71 basis points in 2010.

The aggregate made up of **profits (losses) from equity and other investments** shows a positive balance of Euro 199 million, mainly due to:

- profits on investments in associates and companies subject to joint control related to the sale of Anima SGR for Euro 125 million, which took place on 28 December 2010;
- profits on investments of Euro 74.2 million include the gain on sale of the custodian bank business in April 2010 for Euro 54.9 million and gains on the sale of branches as part of the BPM Group's territorial rationalisation plan.

Lastly, the **extraordinary tax items** aggregate reported a negative balance of Euro 139.3 million, which refers to the out-of-court settlement on the matters disputed by the Tax Authorities as described in the section dedicated to "significant events".

Net income for the year

At 31 December 2010, the **profit from current operations before tax** comes to Euro 192.9 million, up on the previous year (+12.8%). Having booked **taxes on income from continuing operations** of Euro 70 million, with an effective tax rate of 36.3% versus 40.5% in 2009, the net income comes to Euro 122.9 million, which is Euro 21.1 million (+20.7%) higher than the previous year.

Statement of cash flow

BPM's cash flow statement at 31 December 2010 shows cash absorption of Euro 56.7 million, compared with cash generation the previous year of Euro 478.6 million.

During 2010, **operating activities** absorbed a total of Euro 261 million in cash, while:

- **operations** produced liquidity of Euro 328 million, more or less half the figure in 2009 (Euro 618 million);
- **financial assets** absorb cash for Euro 5,563 million compared with that generated in 2009 of Euro 1,580 million, thanks to the good trend in loans to customers and the increase in financial assets available for sale following investment in government securities, classified as securities available for sale;
- **financial liabilities** generate cash of Euro 4,973 million, compared with an absorption of cash of Euro 2,123 million in 2009, mainly for investment in government securities, which also help collateralise the amounts due to banks for Euro 4 billion.

During the same period, **investing activities** gave rise to an absorption of cash of Euro 66 million, mainly for the changes in investments in associates and companies subject to joint control (increase in capital of Asset Management Holding, purchase and increase in capital of Bipiemme Vita S.p.A, purchase of Factorit, sale of Anima SGR).
After the distribution of dividends following the allocation of the 2009 net income of Euro 66 million, the total cash absorbed during the year amounted to Euro 393 million.

Banca Popolare di Milano - Cash flow statement (indirect method)

(euro/000)

A. OPERATING ACTIVITIES	Year 2010	Year 2009
1. Cash generated from operating profits	328,324	617,648
2. Cash generated/absorbed by financial assets	–5,562,711	1,579,836
3. Cash generated/absorbed by financial liabilities	4,973,295	–2,122,528
Net cash generated/absorbed by operating activities	**–261,092**	**74,956**
B. INVESTING ACTIVITIES		
1. Cash generated by	482,384	83,153
2. Cash absorbed by	–548,763	–234,143
Net cash generated/absorbed by investing activities	**–66,379**	**–150,991**
C. FINANCING ACTIVITIES		
Net cash generated/absorbed by financing activities	**–65,782**	**478,595**
TOTAL NET CASH GENERATED/ABSORBED IN THE PERIOD	**–393,253**	**402,560**
Reconciliation		
Line items		
Cash and cash equivalents at the beginning of the year	597,840	195,280
Total net cash generated/absorbed in the period	–393,253	402,560
Cash and cash equivalents: effect of change in exchange rates	–	–
Cash and cash equivalents at the end of the period	**204,587**	**597,840**

Key: (+) generated (–) absorbed

Report on Corporate Governance and Ownership Structure as per art. 123-bis, CFA. Cross-reference.

Banca Popolare di Milano has prepared the Report on Corporate Governance and Ownership Structure for 2009, as required by art. 123-bis Consolidated Finance Act (CFA).

This report, which was approved by the Board of Directors on 29 March 2011, is available to Members and the general public within the terms of law at Borsa Italiana S.p.A. and in the "Governance" section of the website www.bpm.it, as well as in paper form at the Bank's head office and at the General Meeting.

BPM shareholders, stock price and ratings

Shareholders

As of 31 December 2010, there were 52,082 registered members and a further 45,017 shareholders not recorded in the Register of Members, making an overall total of 97,099.

As already detailed in the information prepared on the basis of art. 123-bis CFA, at 31 December 2010, according to the information held by the Bank, the following relevant persons have been identified (with their percentage shareholding):

- **CM/CIC Group** with 4.990% of the share capital (split between various companies of the same group);
- **Société Générale**, with 4.303% of the share capital;
- **Norges Bank** with 2.200% of the share capital;
- **UBI Pramerica SGR** with 2.052% of the share capital (ownership split among 11 funds managed by the company making the declaration);
- **Dimensional Fund Advisors L.P.** with 2.002% of the share capital with holding split between 26 subsidiary companies/funds and certain individual portfolio management schemes.

On 22 December 2010, based on the registration of the dividend coupons submitted, the Bank gave notice to 23 Shareholders that they had exceeded the limit of 0.50% of the share capital, pursuant to art. 30 of the Banking Code and art. 21 of the Articles of Association.

The composition of BPM's shareholders reflects its status as a "listed co-operative bank". In fact, if on the one hand one can see the presence in the Bank's share capital of a large number of small shareholders (individuals), confirming the importance of the personal profile and mutual bond between the Members, which are the historical principles that inspire the co-operative banking movement, on the other, in recent years there has been a growing proportion of institutional investors, confirming the constant interest that the market has versus the BPM Group (45% of share capital).

The Bank's Ordinary and Extraordinary General Meeting was held on 24 April 2010. 2,624 Members participated: 1,708 in person and 916 by proxy.
As an experiment, to test whether more people can get involved in the life of the Bank, three rooms were equipped with video-conferencing facilities to allow local Members in Bologna, Rome and Foggia to watch the General Meeting.

Lastly, in 2010 we again prepared the "Social Responsibility Report of the BPM Group" (2009), which was made available to the Members and the general public - also in English – at Borsa Italiana S.p.A. and on the Bank's website. The hard-copy document is available at the all branches and at the registered offices of Group banks.

Criteria used for admitting new members (information pursuant to last paragraph of article 2528 of the Italian Civil Code)

The last paragraph of article 2528 of the Italian Civil Code requires "directors to illustrate the criteria for admitting new members in their report on operations". BPM's Articles of Association accordingly provide as follows:
In article 11, that "the status of member is acquired through subscription to newly-issued shares, or the purchase or inheritance of existing shares. Prospective members must apply to the Board of Directors in writing, according to the methods and terms laid down by the Board. Resolutions to approve or reject applications for membership must be taken bearing in mind the Bank's interests, the rules embodied in these articles and the spirit of the co-operative principle and notified to the person concerned within ten days";
again in article 11, with regard to the reconsideration process, that "the Board of Directors must reconsider an application for membership where requested to do so by the Arbitration Committee established under these articles; a representative of the prospective member joins the committee for the purposes of its relevant deliberations. A request for reconsideration must be submitted within thirty days of communication of the resolution for rejection. The Arbitration Committee must announce its findings within twenty days of receiving the request for reconsideration. Those whose applications for membership have been denied continue to exercise the rights relative to the shares held, subject to the provisions of article 21" (limits on share ownership);
In article 16, that "the Board of Directors may cancel membership in cases where the member:

- becomes disqualified, incapacitated or incurs a judgement that involves permanent or temporary disqualification from holding public office;
- is made bankrupt or subject to some other process designed to protect the interests of creditors;
- is in serious default in relation to obligations under the law or these Articles of Association;
- is in breach of contractual obligations to the Bank.

Without prejudice to the provisions of article 2533 of the Italian Civil Code, the order cancelling membership may be submitted to the reconsideration of the Arbitration Committee within twenty days of receiving notification of the cancellation; the committee will receive representations from the member concerned, in person or by proxy, and from the Board of Directors, and will announce its findings within twenty days of receiving the complaint.
Membership status is lost when the entire shareholding is disposed of, however this is found out by the Bank, which then has to communicate this circumstance to the person concerned".

As regard relations with Members and the ways in which the qualification of Member is acquired, they are governed by the framework resolution on "Rules for the admission of members and management of relationships with Members", originally adopted in February 2002 and subsequently updated by the board resolutions of 1 April 2003, 3 June 2008, 20 January 2009 and, lastly, 18 January 2011.
The text of the resolution is available on the Bank's website, in the section "Shareholders and Members", where there are also all of the Bank's press releases, corporate documents (in Italian and, usually, in English) and the guidelines for the participation of Members at General Meetings, as well as the instructions and forms needed to apply for admission as Member.

In particular, the resolution:

- confirms the setting up of a "Members' Relations Commission" which reviews applications for admission to membership, cases of exclusion from the Register of Members and waivers on the part of the Bank of its preference guarantee on BPM shares. The Commission prepared an internal regulation for itself as approved by the Board of Directors on 25 June 2009; it is made up of a maximum of five members of the Board of Directors (all without executive powers, the majority of whom independent and at least one elected in a minority list);

- defines requirements and procedures for the admission of new members, which depends on the prospective member's effective espousal of the Bank's aims, its objective interests and its co-operative spirit. This requirement is deemed to be satisfied if the application is presented by a Shareholder with a minimum holding of 100 shares and is accompanied by a written undertaking to maintain this number of shares over time;

- includes in the situations that do not permit admission to Membership not only the same conditions as those indicated in the Articles of Association for the declaration of exclusion, but also the verified condition of "intermediary" of the real applicant, where it is not possible to assess the existence of the requisites and the absence of situations that do not permit admission also in the case of the real shareholder who appointed the intermediary;

- redefines the attachments and the declarations needed for the Members' Commissions and the Board of Directors to assess applications;

■ establishes the conditions and procedures for cancelling a member, confirming the cases envisaged under the Articles of Association, specifying that these include a member's failure to retain the required number of shares over time (100 shares) or, in any case, the observation on the part of the Bank that the person no longer owns any shares;

■ outlines the criteria for maintaining the Members' Register and the Shareholders' Register, envisaging the creation of a specific "Members Address File", in which, after obtaining their express consent, we insert their addresses (as well as their other personal details, which are already contained in the Members' Register) so that this information can be consulted (and extracts obtained) by other members wanting access, also to favour more acquaintances and interrelations among the shareholders;

■ provides – following the said amendment of 18 January 2011 – an integration of the methods by which the request for admission to Member can be delivered through a delegated person;

■ gives the Members' Relations Commission, together with the Company Contact, the task to study and propose to the Board of Directors potential amendments and improvements to the Charter of Values and Commitments and to make proposals for its application and distribution within the BPM Group.

In application of the "Framework resolution for rules concerning the admission and handling of Members" (last amended on 18/01/2011), as regards the three-year period 2008-2010, the results of applications for admission and the cases of cancellation/forfeiture over this period were as follows (note that in the interests of greater transparency, forfeitures have been split between "forfeitures for cancellation resolutions according to the Articles of Association" and "forfeitures for other reasons" for which no specific board resolution is needed).

	2008	**2009**	**2010**
Members admitted	1,091	4,543	2,418
Members readmitted	21	4	13
Rejected applications	1	0	0
Memberships forfeited because of death and other reasons	149	303	191
Memberships cancelled ex art.16 of the Articles of Association (resolution of the Board of Directors)	22	1.640	981

The reasons for Members' non-admission/cancellation/forfeiture include:

■ as regards rejected applications for admission to the Members' register, incomplete or unsuitable documentation presented by the applicants or situations that do not permit them to acquire the status of Member (in particular, the prospective member carrying out acts that are damaging or in contrast with the interests of the Bank);

■ as regards cancelled memberships, the reasons are those foreseen in art. 16 of the Articles of Association, in particular: "Breach of contractual obligations to the Bank" and "the complete loss of share ownership". For the purposes of correctly presenting its shareholder base, once a year BPM cancels all those names from its Register of Members who are no longer owners of its shares. As communicated to the persons concerned, they could be reinstated in the Register of Members provided they were able to prove that they held the minimum required number of shares before the date of cancellation (as shown in the above table on the line "Members readmitted");

■ or the Memberships forfeited, the reasons, which do not require a board resolution, were principally the request of the member concerned, or their death.

The composition of the Members' Relations Commission was renewed after the Board of Directors' resolution of 29 June 2010. During 2010, it held 19 meetings during which it carried on its usual investigatory activity prior to presenting to the Board of Directors resolutions for the admission and cancellation of Members (2,418 applications were accepted). In addition, on the Board's request, it looked after certain important projects approved at the board meetings in the course of 2009;

■ The "Members' Project", a long-term plan to relaunch a policy of paying particular attention to the members in order to expand the shareholder base and to increase the clientele and create greater customer loyalty. This plan aims to generate "more and better" content for the mutualistic nature of the Bank, as well as a to promote and facilitate participation in the life of the co-operative;

■ the Charter of Values and Commitments, a document that the various structures of the Bank have devoted a lot of work to, focuses on the positive steps to be taken. It acts as a point of reference in terms of values and guidelines for the decision-making processes and day-to-day acts performed by those who operate in the Group to ensure that they are coherent with the culture and Corporate Social Responsibility (CSR) of the Bank, thereby affirming the strategic and not contingent choice of the "Charter" and of CSR in BPM. During 2010 a specialist rating agency assessed the application of the Charter of Values. The results were presented to the Commission and Management at the end of the year and then approved together with the guidelines by the Board of Directors on 1 March 2011. The assessment showed that there was widespread sensitivity for the five theme areas analysed, helped by the Bank's co-operative status, which was considered a positive influence. This year's results were good in the Customers and Local Community area, an historical point of strength of BPM. The analysis of the Human Resources area, on the other hand, found a need for more organic and effective management to strengthen the organisation and reinforce the processes of identification of the values that are already deeply rooted in the Bank's staff. Lastly, as regards the Environment area, the numerous measures already taken to improve the Bank's environmental impact ought to be included in a more organic framework of environmental strategy;

■ Portability of proxies; to encourage even greater Member participation and accepting the recommendations of the Bank of Italy, the Commission, on behalf of the Board of Directors, has prepared a series of proposals aimed at this. The most important points include the idea of increasing the number of proxies that can be expressed by each Member (currently two) and the possibility of remote participation and voting at the AGM by opening secondary meeting places in other cities. In January/February 2011, based on the work of the Commission, the Board of Directors approved a proposal to amend the Articles of Association.

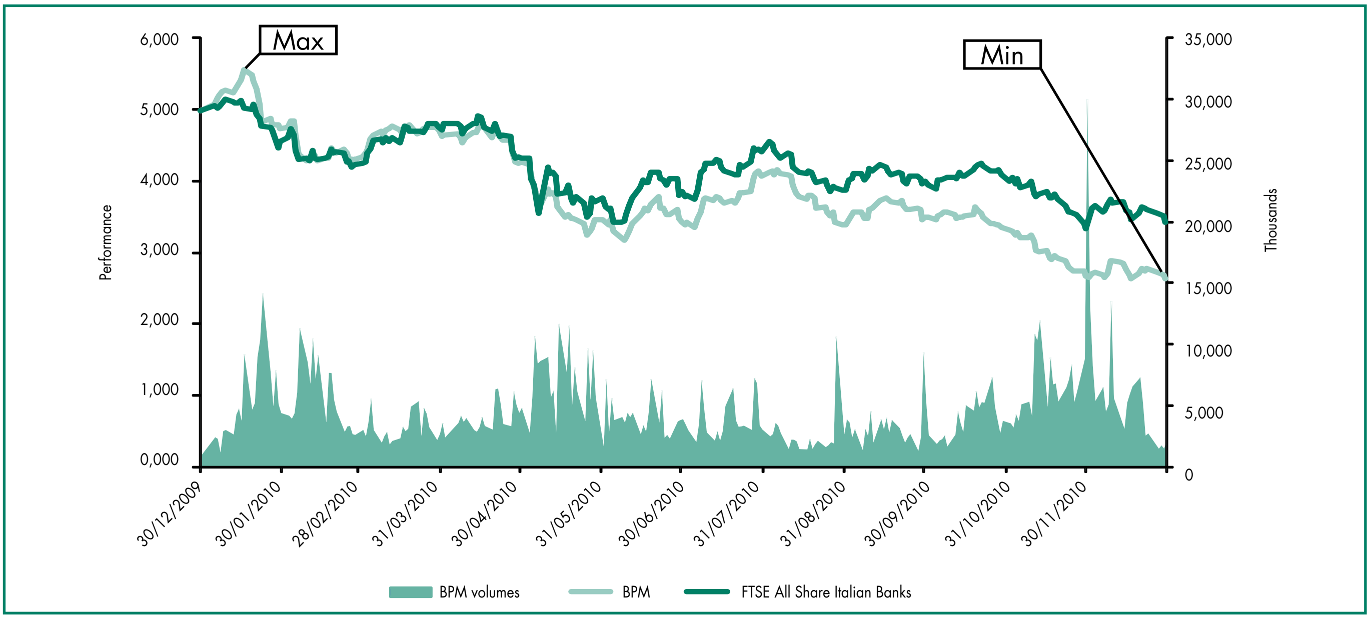
The Commission is also involved in constantly monitoring and checking the results of these projects.

Performance of BPM stock

In 2010, uncertainties about the economic recovery affected the performance of financial markets in Europe. The sovereign debt crisis, which involved certain peripheral European countries, had negative consequences on the performances of some stock exchanges, especially those of bank shares. The main European Stock Exchange indices have turned in negative performances since the start of the year, namely **The FtseMib** (an index of the Milan Stock Exchange) reported a negative change of –13.2% and the **Cac40** (a French index) of –3.3%; on the other hand, the **Dax100** (a German index) grew by 16.1%, and the **Ftse100** (a London Stock Exchange index) by 9.3%.
In this context, also the banking sector turned in a negative performance (–10.9%) on the Dow Jones Euro Stoxx Banks Index, which summarises the performance of the main European bank shares.
Following this trend, also the Italian bank index (FTSE Italia All Share Italian Banks) posted a negative change of 11.5% in 2010.

The following chart shows the BPM stock trend (–47% from the start of the year) compared with that of the **Ftse Italia All Share Banks** index. The BPM stock reached a high (€5.57) in January and a low (€2.64) at the end of year. The average daily trading volumes amount to 4.7 million shares.

Performance of the share price of Banca Popolare di Milano during the course of 2010



The Bank is holding 487,473 of its own shares ("treasury shares") at 31 December 2010.
In April 2010, following the resolution at the AGM to distribute dividends to shareholders, 1,924,328 shares were assigned to the 6,814 employees entitled to this right, related to the dividend reserved for the personnel according to Art. 47 of the Articles of Association.
During 2010 the development of the Members' Project continued according to the guidelines approved by the Board of Directors. The objectives to widen the shareholder base (as foreseen in the 2010-2012 Business Plan) and to create greater loyalty on the part of Members who are also customers have been further developed:

- offering Member Customers banking services at advantageous terms;

- joining the customer programme "Counting on you". Members represent more than 11% of those who have signed up for the programme and the points distributed to them as members of the Club in 2010 are worth some Euro 140,000, including "Loyalty Points", Welcome Points" and "20% increase on monthly operations";

- offering non-banking services;

- our periodic meetings with Members and qualified speakers on a variety of topics.

Rating

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

BPM rating

Rating agency	Last update	Long-term debt	Short-term debt	Outlook
Moody's	29 June 2010	A1	P-1	Stable
Fitch Ratings	28 May 2010	A-	F2	Stable
Standard & Poor's	15 December 2010	A-	A-2	Negative

On 29 June 2010, at the end of the credit observation period for the Bank's ratings, Moody's confirmed its Long-Term Deposit, Senior Unsecured Debt and Issuer Ratings (A1) and its Short Term Deposit rating (P-1). The Outlook has been confirmed as "stable" on all of the ratings.

On 28 May Fitch confirmed its long- and short-term ratings, A/F2 respectively, and revised the outlook of the Bank's rating from "stable" to "negative", taking account of the general deterioration of the macroeconomic context and the repercussions this is having on the entire banking sector.

Report on the principles used for pursuing the purpose of mutuality pursuant to article 2545 of the Italian Civil Code

The issue of the co-operative nature and mutual form of co-operative banks has been the subject of numerous and even conflicting interpretations in academic debate. Considering the complexity and the different forms that mutuality has in the different types of co-operative, this report seeks to provide an overview of the notion of mutuality that is relevant to co-operative banks in the current legal framework.

In this sense, the stated applicability of the 2003 company law reforms to co-operative banks and specifically the new rules on co-operatives, despite the restrictions specified in the special provisions introduced by new article 150-bis of the Banking Act (by article 38 of Decree 310/04), confirms the membership of such banks in the varied "family" of co-operative institutes, even if not "predominantly mutualistic".

In this sense, the memorandum to Decree 6/03 (with reference to article 5 of Law 366/01) stresses that "co-operatives other than (those) constitutionally recognised as such, provided they comply with the legal rules and model, have (indeed should have) a social function, an intrinsic value, a specific meritoriousness, which sets them apart from ordinary profit-seeking enterprises", underlining that they "must have and retain the structural and functional requirements characterising their kind (one man, one vote, open door, etc.) with only those legally permitted reliefs or exceptions".

In other words, the legislator allows the possibility of creating, within the reconfirmed standard co-operative model, corporate entities in which – like co-operative banks – the mutualistic purpose may be attenuated and co-exist, in compliance with the co-operative governance model, with a profit-seeking purpose, as reflected in the possibility of distributing the full amount of earnings, the grant of rights over the assets to shareholders who are not members, and the favour accorded to institutional investors in the matter of share ownership limits.

The legitimacy of different degrees of mutuality, to include profit-seeking entities, has also been confirmed by the European legislator. In fact, EC Regulation 1435/03, which introduced a legal form for the European co-operative society, allows this possibility, with the society's articles of association containing different rights concerning the allocation of earnings (and hence of investor shareholders who do not use its services).

As confirmed by the legislator, co-operative banks also possess a mutual aspect, albeit attenuated, to which the governing bodies should direct their efforts and on which they should give an account once a year in this report, required by article 2545 of the Italian Civil Code.

Mutuality as management of services for members ("internal mutuality")

The legislator – above all in Decree 310/04 – characterises the "internal" mutuality of co-operative banks in a specific fashion relative to other co-operative enterprises and other types of co-operative bank. On the one hand, the law allows them the option of including "returns" for Members in their articles of association (article 150-bis, paragraph 6 of the Banking Act), thereby excluding that economic benefit of this kind can represent the typical reason for membership of the co-operative. On the other hand, given the declared non-applicability of articles 2512 and 2513 of the Italian Civil Code, it confirms that statutory duties concerning the exercise of banking activities predominantly for their members do not apply to co-operative banks.

Given this legal framework, the Bank has conducted a number of surveys which have provided interesting insights into the identity and image of BPM and Members' expectations.

Reference should be made to the BPM Group's Social Responsibility Report for a detailed analysis of the type and profile of the stakeholder "member". In order to expand the shareholder base and offer Members services that as much as possible match their particular status within the Co-operative, in line with the 2010-2012 Strategic Plan, the Members' Project launched in July 2009 was further developed during 2010 according to the guidelines approved at the time by the Board of Directors. In addition to a redesign of the banking, financial and insurance products and services, this project also will enable Member customers to obtain further benefits and an exclusive range of non-banking services.

The Project envisages a series of actions which can be summarised as follows:

- creation of the "BPM Members Club";

- the following offered to Members who are also customers:
1) personal loans, mortgage loans, current accounts at special conditions for Members' households, Cartaimpronta, insurance products, custody of securities (free for BPM shares and bonds and reduced for Anima SGR's funds);
2) the "Counting on you" programme, already in operation for customers, which awards more benefits to Members depending on their use of banking products, rewarding their loyalty;

- non-banking services offered to all Members by showing the "BPM Members Club" card. Careful selection of services in the field of health, personal care and leisure time, as well as attention in the choice of authorised suppliers has given preference to excellent products and services that the Bank believes can act as a way of strengthening the relationship of trust with the Bank's shareholder base, having listened to their needs and requests;

- training of the commercial network to emphasise the strategic nature of the Project.

However, it is worth pointing out at this stage that compared with a downward trend over the last decade, the fact that the Bank is paying more attention to raising the loyalty of existing Members and to acquiring new ones has been achieving significant results for the second year running, accepting all applications for admission (2,418) with an further increase in the number of Members.

Still with reference to the management of services for members, an informed mutual exchange with members implies effective, ongoing communications. Accordingly, the Bank has long used specific methods and channels of information and dialogue with its members, such as:

- the BPM Group's Social Report, prepared once a year in order to provide its stakeholders (including its Members) with greater information and to identify – as far as possible with their direct contribution – objectives for improvement that can be measured using specific performance indicators;

- the "Letter to the Members", which is an effective tool used by the Bank to inform Members at least once a year of major events affecting the Bank and its results;

- the corporate website (www.bpm.it), with a special section for "Shareholders and Members" which includes the Bank's press releases and official documents (usually in both Italian and English) and all the information needed to allow Members to take part in general meetings, as well as the instructions and forms needed to file their membership application;

- the website "www.clubsocibpm.it", which Members can access with their user ID and password to visualise all of the banking products and services proposed by BPM, as well as the list of non-banking services offered by authorised suppliers. It is also possible to interact through the website, both to know about the initiatives being offered by the Club and to sign up for them (as in the case of the recent prize draw "Vacanza più");

- a direct communication channel through the e-mail address "bpmclubsoci@bpm.it" and the freephone no. 800 013 090, which are used more and more often by all Members to ask for information and communications.

Communication activity is also an essential prerequisite for effective, informed participation by the members in the bank's corporate life, being another specific aspect of the mutuality of co-operative banks.
In addition to these initiatives reserved for Members and customers, we also launched a challenging activity of training and awareness-building to the Bank staff, particularly those of the Commercial Network, to stimulate and support the acquisition of new Members from among customers. Together with the heads of the departments concerned, we drew up a programme that ranged from a re-affirmation of the Bank's co-operative values to the creation of specially prepared manuals as didactic and information support. It has given a wide number of BPM employees the tools to help expand the Bank's membership base among customers.

Mutuality as effective participation in the co-operative's model and company life

The one-man one-vote organisational model of co-operative banks – based on the adoption of the "co-operative model", meaning a particular method of production based on the equality of members – does not allow the formation of controlling majorities and represents the fundamental and typical device through which such banks achieve their original model of "corporate democracy".

As you know, BPM has extensively reformed its rules of governance since 2002 (as described in detail in the Bank's "Report on Corporate Governance and Ownership Structure" prepared in accordance with art. 123-bis of CFA), in order to enhance the presence and contribution of its members within the decision-making and supervisory bodies and generally to foster their active and widespread participation in company life.

From this point of view, BPM introduced "voting lists" for the appointment of Directors back in December 2002 (it was subsequently made obligatory for listed companies by the Consolidated Finance Act, as amended by Law 262/05 and Decree 303/06 and for banks by the Provision of the Governor of the Bank of Italy of 4 March 2008 and the related Clarification Note of 19 February 2009 in order to ensure adequate representation of the various components of the shareholder base on the corporate bodies). This then led to the admission, from April 2003 and again at the General Meeting in May 2006, of four members from "member minorities" to the Board's overall number of twenty.

Continuing broader representation of "member minorities" on the Board of Directors, in December 2008 the Bank's General Meeting of members called to amend the Articles of Association – approving, among other things, a reduction in the number of members of the Board of Directors from 20 to 16 (to which are currently added two additional directors to represent strategic and industrial partners in accordance with the contractual commitments taken by the Bank) – authorised a significant reduction in the "majority premium", envisaging in the Articles of Association the assignment of half plus one of the number of Directors to be appointed to the list that obtains a majority of the votes.

As a result, following the appointment of the corporate bodies at the General Meeting of 25 April 2009, the Board of Directors of BPM is currently made up of eighteen directors, ten of whom taken from the list that obtained the highest number of votes and six from the "member minorities", as well as two directors appointed by the Bank's strategic and industrial partners (Fondazione Cassa di Risparmio di Alessandria and Crédit Industriel et Commercial).

This enhancement of "member minorities" is also reflected in the composition of the Executive Committee (where since 2003 there has always been a representative of each of the "minorities".

Similarly, there is one Director for each minority on the Board Financing Committee, and at least one minority Director is on all of the board committees and commissions of a fact-finding and proposal-making nature.

Still with a view to enhancing members' contribution to company life, BPM's strategy has focused on encouraging – as far as possible and with the utmost respect for members' independence – their aggregation into associations representing like interests, obviously bearing in mind the Bank's general interests and observance of the co-operative model.

The criteria adopted by the Bank for admitting new members (2,418 membership applications were received in 2010), the strict respect for the share owning limits under article 30.2 of the Banking Code and art. 21 of the Articles of Association (23 challenges raised in 2010) and ongoing reviews of the actual composition of members (with members who no longer own shares being struck off) have all been discussed in the earlier section of this report on "Shareholders", as required by article 2528 of the Italian Civil Code.

For a co-operative bank like BPM which has a large number of shareholders, general meetings represent an important occasion for meeting and discussing with its Members. Bearing this in mind the Bank has also encouraged, in compliance with the provisions of law and its own articles of association, the largest and most informed possible attendance at such meetings by its Members, by providing all those tools and procedures that make for orderly, knowledgeable participation. In this connection, on an experimental basis to test whether more people can get involved in the life of the Bank, for the AGM in April 2010 three rooms were equipped with video-conferencing facilities to allow local Members in Bologna, Rome and Foggia to watch the General Meeting, though without being able to join the debate or vote. In fact, meetings traditionally have a very high

attendance (on average around 4,500 members took part in person or by proxy in the meetings held in the three years 2008-2010, with a peak participation at the Meeting when seats on the board were up for renewal); in particular in 2009, at the time of the renewal of the corporate bodies, there was exceptional level of participation with 10,000 Members present, either in person and by proxy. And it was during this last General Meeting, that a new electronic instrument, (the totem touch screen) was introduced to hold a secret ballot, making it possible for more than 5,000 Members to vote in two and a half hours and to give the results less than half an hour after voting had closed, making considerable savings in terms of the funds and human resources needed to hold the AGM.
To foster an even greater participation of Members at the Bank's General Meetings the Board of Directors of Banca decided to submit, with the prior authorization of the Bank of Italy, to the Extraordinary General Meeting – to be held on 29/30 April 2011 (respectively at first and second calling) together with the Ordinary General Meeting for the approval of the financial statements – certain amendments to the Articles of Association concerning, among other things, an increase in the number of proxies which each Member can hold (up from two to three), as well as the possibility of holding the Bank's AGM by using remote communication systems.

Mutuality as service to the region and local community

Article 45 of the Constitution recognises the social function of mutual co-operation. Co-operative banks, even though not falling into "predominantly mutualistic" category, perform an important, recognised role in the region in support of the local economy (particularly by providing access to credit to households and SMEs) and community.

As recently stressed by the chairman of the National Association of Co-operative Banks, the essential elements that set the specific co-operative banking model apart are the "proximity" and the stability of relationships with customers, their "social responsibility" and democratic governance. The interaction between these elements "makes co-operative banks important players in local economic development, with their contributing increasing in proportion to the strength of their market position". The expectations of members of co-operative banks therefore represent "a virtuous balance between motives of personal benefit and benefit for the community, reflected in the bank's economic management".

This is why BPM gave itself a Charter of Values and Commitments. The Charter is meant to spread a culture of responsible action, making explicit the values and standards of conduct that the Bank undertakes to respect in relations with its stakeholders. It was drawn up by the Members' Relations Commission and once it had been accepted by the various Members' Associations, it was approved by the Board of Directors on 7 July 2009. During the board meeting of 29 September 2009, on the express request of the Members' Relations Commission, the Board of Directors chose Osvaldo Tettamanzi (Manager of the Investments in associates and companies subject to joint control and Corporate Affairs Department) as the person in charge of applying the Charter for the Group.

On this basis, Banca Popolare di Milano has always sought to be a point of reference for households and small and medium enterprises in the regions where it operates. Reference should be made to the details in this respect contained in the other sections of this report, and also in the Social report. It is nonetheless pointed out that over 87% of the Bank's current customers are represented by households, while 90% of the remainder consists of small businesses. Proximity to the territory is confirmed by the localisation of BPM's customers (66% of individual customers and 65% of corporate customers are located in Lombardy).

The strong regional ties – forged in over 140 years of business – place BPM at the centre of local social and solidarity initiatives and those for enhancing artistic, cultural and environmental assets.

In this regard, art. 47 of the Articles of Association requires, among other things, the Bank's Board of Directors to allocate an amount of not more than 2% of net income as approved by the previous year's General Meeting to the reserve set up for charitable works and initiatives of social benefit. In this connection, we would point out that in recent years BPM has set aside amounts close to the maximum permitted by the Articles of Association, with total disbursements in the three years 2008-2010 of around Euro 5.1 million.

The many initiatives of this kind supported by BPM in 2010 (as described in more detail in the Social Report) included:

- in the medical and research sphere, donations to the Fondazione Don Carlo Gnocchi, to AIRC (Associazione Italiana Ricerca sul Cancro), to the Istituto di Ricerche Farmacologiche Mario Negri, to the Associazione Amici del Centro Dino Ferrari, to the Associazione Dialisi e Malattie Renali and the Associazione per l'Aiuto ai Giovani Diabetici di Bologna;

- in the cultural sphere, the sponsorship of numerous activities (Fondazione Teatro alla Scala, Museo Poldi Pezzoli, Fondazione Triennale di Milano, Fondazione Orchestra Verdi, "Pomeriggi Musicali – La Milanesiana", Ente Festival Pianistico Internazionale di Brescia e Bergamo, Associazione Cultura e Lavoro, Fondazione per la collaborazione tra i Popoli, Associazione Amici di Miart, Hangar Bicocca, Museo Maga di Gallarate, Festival di Villa Arconati, the contribution to restoration work for the Church of San Maurizio al Monastero Maggiore, Villa Necchi-Campigli (FAI), support for the Istituto Luigi Sturzo, the Fondazione Collegio Universitario di Milano, and the study grants made to Fondazione Famiglia Legnanese, to the Istituto Nazionale per lo Studio e la Cura dei Tumori and to Università Commerciale Luigi Bocconi;

- in the sphere of solidarity and support for weak and socially disadvantaged categories, initiatives in favour of Fondazione per la Sussidiarietà, Fondazione Emergency, Opera San Francesco per i Poveri, Fondazione San Giacomo, Fondazione San Benedetto, AVSI Associazione Volontari per il Servizio Internazionale, Fondazione Banco Alimentare and support for the victims of the earthquake in Abruzzo.

Related party transactions

As you know, the rules governing related party transactions aim to limit the risk that the proximity of certain people (so called "related parties") to the company's decision-making bodies might compromise the objectivity and impartiality of business decisions, with possible distortions in the resource allocation process, exposure of the company to risks which are not adequately measured or controlled and potential damage to the company and its stakeholders.

Ever since December 2002, following the introduction of the disclosure requirements of art. 71-bis of Consob's Issuers' Regulations applicable at that time and in compliance with the recommendations of the Code of Conduct of Listed Companies, the BPM Group adopted specific and detailed internal procedures for related party transactions, which have subsequently been updated as a result of legislative changes.

In order to implement Article 2391-bis of the Italian Civil Code, Consob issued a special regulation entitled "Regulation on related party transactions" (see Consob resolution no. 17221 of 12 March 2010 and no. 17389 of 23 June 2010), after which Consob laid down specific instructions and application guidelines (Communication DEM/10078683 of 24 September 2010).

In this context, Banca Popolare di Milano replaced the previous internal procedure and approved – by a unanimous board resolution passed with the advance approval of a committee formed by totally independent directors – the "Regulation of the BPM Group on related party transactions and rules of conduct regarding the interests of directors and managers", which is available in the "Governance" section of Bank's website: (http://www.bpm.it/governance/scheda_parti_correlate.shtml).

By generally providing that the transparency regime and new procedures regarding decision-making mechanisms were to take effect on 1 December 2010 and 1 January 2011 respectively, this "Regulation":

- identifies related parties of the BPM Group;
- lays down how related party transactions are to be handled and approved, differentiating between transactions of greater or lesser relevance and those that are exempt; in this context, it identifies the criteria of "relevance" to be applied and cases of exemptions in line with Consob's guidelines;
- identifies rules with respect to transactions with related parties carried out by its subsidiaries;
- identifies the concept of "independent director" relevant for regulation purposes;
- defines the method and timing for which the information on related party transactions, together with any supporting documentation, is provided to the independent directors (on the Related Parties Committee) who express an opinion on the related party transactions, as well as to the administration and control bodies, prior to approval, as well as during and after execution of such transactions;
- lays down the disclosure (and accounting) requirements as a result of entering into related party transactions.

The Bank has drawn up specific implementation instructions to accompany this Regulation (which have been adopted by BPM's subsidiaries, except in the case of Banca Popolare di Mantova which has adopted its own regulation as it is an issuer of shares that are widely held by the general public). These instructions are designed to define certain aspects regarding the correct management of transactions with related parties, to optimise the monitoring and management of the positions of related party transactions by operators, as well as the relevant powers of authorisation.

Moreover, with particular reference to the transactions that form part of the Bank's main business, i.e. granting credit, the IT procedures currently used by the Bank make it possible, among other things, the immediate reporting – and consequent automatic centralisation with the right head office structures – of all credit line operations to all persons that come under the concept of a related party.

As regards the relationships between BPM and its subsidiaries and associates, and with other related parties, we would point out that such transactions have been carried out as part of the Bank's normal day-to-day activities. They are regulated at market conditions for transactions of that type and, where these do not exist, based on an adequate remuneration of the costs incurred to produce the services rendered.
It should be noted in particular that:

- there were no atypical or unusual transactions during 2010 with "related parties" or any such that would significantly affect the balance sheet, income statement or financial position and hence requiring disclosure to the market in accordance with the Consob's Issuers' Regulation;

- all loans to subsidiaries and associates, as well as to other affiliates were subjected to Board approval regardless of the amount, as foreseen in the current Credit Line Regulations (without prejudice to the instructions on related party transactions contained in the "Guidelines);
- also subject to board resolution – i.e. approved by an unanimous vote of Directors and with the required agreement of the Board of Statutory Auditors – are the transactions carried out directly or indirectly with persons that fall into the field of application of art. 136 of the Banking Code ("Obligations of bank corporate officers").

For more details, reference should be made to the section "Significant events" of this report, and note that during 2010:
- two merger transactions have been completed: the merger of Bipiemme Private Banking SIM SpA with Banca Popolare di Milano, as per art. 2505 of the Italian Civil Code, and the merger between WeBank and WeTrade SIM;
- Banca Popolare di Milano, Banca di Legnano and Cassa di Risparmio di Alessandria have also carried out a reciprocal transfer of 12 branches for a total value of Euro 29.6 million,

but these transactions do not fall into the relevance parameters for the purposes of preparing an information document under the current rules.

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

(In thousands of euro)

Counterparty	**Nature of relationship**	**Total credit granted minimum**	**Total credit granted maximum**
Banca Akros SpA	Subsidiary company	19,677,164	21,870,164
BPM Ireland PLC	Subsidiary company	3,511,235	6,811,876
WeBank SpA	Subsidiary company	265,000	666,000
Banca di Legnano SpA	Subsidiary company	716,826	1,249,494
Anima SGR SpA, (Line 1)	Subsidiary company(*)	36	1,200,086
Anima SGR SpA (Line 2)	Subsidiary company(*)	1,097,700	2,432,850
Banca Popolare di Mantova SpA	Subsidiary company	331,000	381,000
BPM Covered Bond Srl	Subsidiary company	4,724,680	7,863,373
Cassa di Risparmio di Alessandria SpA	Subsidiary company	621,000	631,000
ProFamily SpA	Subsidiary company	789	300,970
SelmaBipiemme Leasing SpA	Subsidiary company	471,058	571,058
Factorit SpA	Subsidiary company	250,000	320,000

(*) Subsidiary until 29.12.2010

The following is a summary of the credit line relationships (understood as the overall credit positions granted) maintained during 2010 by companies of the BPM Group with the Parent Bank or by the Bank with other subsidiary companies or associates.

(In thousands of euro)

Group companies	Counterparty	Nature of relationship	Total credit granted minimum	Total credit granted maximum
Banca di Legnano SpA	BPM	Parent company	1,043,000	1,043,000
Banca di Legnano SpA	Banca Akros SpA	Both subsidiaries of BPM	800,000	925,000
Cassa di Risparmio di Alessandria SpA	BPM	Parent company	641,000	641,000
Cassa di Risparmio di Alessandria SpA	Banca Akros SpA	Both subsidiaries of BPM	150,000	550,000

Moreover, during the course of 2010:
– as part of the normal operations of the Group, bonds have been reimbursed, each for an amount of 200 million euro, issued and subscribed by BPM Group companies;
– Banca di Legnano too part as an "additional seller" in the Parent Company's Guaranteed Bank Bond issue. As part of this transaction, Banca di Legnano sold to BPM Covered Bond (a special purpose entity controlled by BPM) an initial portfolio of residential mortgage loans of Euro 479 million, granting the SPE a loan of the same amount.

Further information on related party transactions can be found in the specific section of the notes, while the following is a list of the balances on the books of the Parent Bank at 31 December 2010:

1) with subsidiary companies:
- Due to BPM: Euro 1,793,611 thousand;
- Due by BPM: Euro 2,112,562 thousand;
- Guarantees and commitments: Euro 1,492,606 thousand.

2) with joint ventures:
- Due to BPM: Euro 20,533 thousand;
- Due by BPM: Euro 4,529 thousand.

3) with companies subject to significant influence (associates):
- Due to BPM: Euro 741,603 thousand, relating to SelmaBipiemme Leasing (Euro 351,622 thousand), Factorit (Euro 241,376 thousand), Pitagora 1936 (Euro 12,106 thousand), Asset Management (Euro 136,499);
- Due by BPM: Euro 12,378 thousand, relating to Aedes Bipiemme Real Estate (Euro 4,195 thousand), Wise Venture SGR (Euro 1,150 thousand), Etica SGR (Euro 30 thousand), SelmaBipiemme Leasing (Euro 466 thousand), Factorit (Euro 6,307 thousand) and Pitagora 1936 (Euro 230 thousand);
- Guarantees and commitments: Euro 8,756 thousand, relating to SelmaBipiemme Leasing (Euro 8,677 thousand) and Wise Venture SGR (Euro 79 thousand).

Investments held by Directors, Statutory Auditors, General Manager and Managers with strategic responsibilities at 31 December 2010

	Name and surname	Company	Number of shares			
			at 31.12.2009	Purchases	Sales	at 31.12.2010
Directors	Massimo Ponzellini	BPM	1,300	6,230		7,530
	Mario Artali	BPM	4,000	1000		5,000
	indirect ownership through spouse	BPM	1,100	1000		2,100
	Graziano Tarantini	BPM	3,684	3,700		7,384
	indirect ownership through spouse	BPM	307			307
	Beniamino Anselmi	BPM	1,000			1,000 (1)
	Antoniogiorgio Benvenuto	BPM	1,000			1,000
	Francesco Bianchi	BPM	200			200
	Giovanni Bianchini	BPM	1,898			1,898
	indirect ownership through spouse	BPM	952			952
	Giuseppe Coppini	BPM	1,500			1,500
	indirect ownership through spouse	BPM	300			300
	Enrico Corali	BPM	120			120
	Claudio Danelon	BPM	8,100(2)			8,100
	indirect ownership through spouse	BPM	1,100(2)			1,100
	Franco Debenedetti	BPM	200			200
	Franco Del Favero	BPM	9,900			9,900
	indirect ownership through spouse	BPM	300			300
	Carlo Dell'Aringa	BPM	1,000(3)			1,000
	Roberto Fusilli	BPM	16,049			16,049
	Piero Lonardi	BPM	14,010			14,010
	Roberto Mazzotta	BPM	1,000			1,000(4)
	Marcello Priori	BPM	5,680			5,680
	indirect ownership through spouse	BPM	414			414
	Leone Spozio	BPM	10,727			10,727
	indirect ownership through spouse	BPM	5,182			5,182 (5)
	Jean-Jacques Tamburini	BPM	1,100			1,100
	Michele Zefferino	BPM	6,852			6,852
	indirect ownership through spouse	BPM	532			532
Acting Statutory Auditors	Salvatore Rino Messina	BPM	1,000			1,000
	Carlo Bellavite Pellegrini	BPM	1,700			1,700
	indirect ownership through spouse	BPM	500			500
	Enrico Castoldi	BPM	56			56
	Stefano Salvatori	BPM	1,100			1,100
	Ezio Simonelli	BPM	16,512	100		16,612
	indirect ownership through spouse	BPM	1,000	9,000		10,000

(cont.)

	Name and surname	Company	Number of shares			
			at 31.12.2009	Purchases	Sales	at 31.12.2010
Alternate Statutory Auditors	Emilio Cherubini	BPM	5,000			5,000
	Enrico Radice	BPM	13,880			13,880
	Giuseppe Zanzottera	BPM	1,000			1,000 (6)
	Giorgio Zoia	BPM	7,010			7,010
	indirect ownership through spouse	BPM	5,019		5,019	0
General Manager	Fiorenzo Dalu	BPM	21,482	424(7)		21,906
	indirect ownership through spouse	BPM	1,082			1,082
Co-General Manager	Enzo Chiesa	BPM	15,000	189(7)		15,189
Deputy General Manager	Roberto Frigerio	BPM	4,319	337(7)		4,656
	indirect ownership through spouse	BPM	1,000			1,000
Central Management (8)	Members of General Management together	BPM	23,492	3,273(9)		26,765
	indirect ownership through spouse	BPM	3,220	2,000		5,121

1) position as of 29.6.2010, date of leaving office
2) position as of 8.6.2010, date from which office held
3) position as of 9.11.2010, date from which office held
4) position as of 21.5.2010, date of leaving office
5) situation at 5.9.2010, date of spouse's death
6) situation at 31.7.2010, date of death
7) from allocation of 2009 net income
8) 4 managers at 31.12.2009; 5 from 1.1.2010 to 15.7.2010; 4 at 31.12.2010
9) of which 1,273 from allocation of the 2009 net income

Subsequent events

After the year end the following events occurred:

Amalgamation of branches with negative profit margins

The plan to rationalise the distribution structure included the closure of 13 small and medium-sized branches of Banca Popolare di Milano on 14 February 2011. This operation, which involved branches with negative profit margins and limited potential in the area, will lead to the amalgamation of a similar number of BPM branches. The project follows the resolution of the Board of Directors of Banca Popolare di Milano, which met on 27 October 2010.

This project forms part of the programmes foreseen under the BPM Group's 2010-2012 Strategic Plan to raise the efficiency of the territorial network with various measures involving the automation and amalgamation of branches.
The main benefits of such amalgamations are cost reductions thanks to staff savings (around 35) and lower rent payments.

Proposal of amendments to the articles 13, 17, 29, 32, 33, 36 and 41 of the Articles of Association

At its meetings on 21 December 2010 and 18 January 2011, the Board of Directors resolved to submit, with the prior authorization of the Bank of Italy, to the Extraordinary Shareholders' Meeting – due to be held on 29/30 April 2011 (respectively at first and second calling) together with the Ordinary Shareholders' Meeting to approve the financial statements – amendments to Articles 13, 17, 29, 32, 33, 36 and 41 of the Articles of Association.
The amendments concern:

- an increase in the number of proxies which each Member can hold (up from two to three);
- the possibility of holding the Bank's AGM by using remote communication systems;
- giving the Board of Directors the authority to decide (as per art. 2365 of the Italian Civil Code) on mergers involving companies that are wholly owned by BPM;
- updating of articles of association to bring them into line with the legislation currently in force (adoption of the EU Shareholders' Rights Directive regarding the requirements for attending and voting at General Meetings, and deadlines for the submission of lists of candidates for office) and the repeal of articles that are not longer effective (elimination of the mandate for an increase in capital as the period for conversion of the related bond loan has expired).

Negotiations with Fondazione Cassa di Risparmio di Alessandria

Following cancellation of the shareholder agreements that expired in September 2010, at the meeting on 16 February 2011 BPM's Board of Directors gave the Chairman a mandate to finalise negotiations the Fondazione di Cassa di Risparmio di Alessandria to buy 15% of Cassa di Risparmio di Alessandria, among other things, as well as to amend its Articles of Association to allow BPM to overcome existing restrictions on certain extraordinary matters (such as reserved increases in capital, the disposal of business units, mergers and spin-offs).

Outlook

After 31 December 2010 and with reference in particular to the first quarter of 2011, the of the BPM's results are on target, which takes into account the ongoing situation of uncertainty in the overall macroeconomic picture. After a 2010 that saw a recovery in GDP that was higher than expected, even if only slightly, 2011 still features uncertainties regarding the ability of certain European countries to keep their sovereign debt under control.

This created a difficult situation in institutional debt markets which caused problems for banks issuing senior securities in January and February. Despite this, the BPM Group managed to place a 10-year subordinated security worth almost 500 million Euro and to reopen the last issue of a covered bond worth another 350 million, thereby repaying the senior debt of 1 billion Euro that matured in February.

The trend in loans is higher than expected, confirming the fact that the economic cycle has recommenced reasonably well. It also confirms the work that we did in 2010, in line with the Strategic Plan, to improve our penetration of the sectors and regions that the Group has chosen to enter, leading to an increase in market share above all among SMEs and private individuals.

The Group will face the year that has just begun well aware of the uncertainties and risks associated with the current situation, using as leverage the strength and solidity that are typical of banks with strong territorial roots and which operate mainly by servicing households and SMEs.

As regards Investment Banking, BPM aims to consolidate the good results achieved to date, benefiting from the gradual evolution of financial markets.

At a stage in the economic cycle when there is not expected to be any short-term relief in the pressure on revenues and while the question of a deterioration in credit risk still remains delicate, a key matter will in any case remain the current tight control over costs, but without starving the initiatives of the new Business Plan of support.

Members,

Before seeking your approval of the 2010 financial statements, the Board wishes to express its appreciation for the efforts of all those who contributed to another year of business growth.

Our warmest thanks go to the Members, whose invaluable support and participation are deciding factors in the long-term survival of the Bank and stimulate the creation of value. We also thank all those customers who chose our products and services.

We must also express our heartfelt gratitude to the General Manager, the other members of Management and all the Bank's staff, whose commitment and determination were fundamental to achieving our objectives.

We would also like to express our gratitude to all of those - managers, officials and staff - who left the Bank during 2010.

Our thanks also go to Consob (Italy's stockmarket regulator), the Italian Office of Fair Trading, the Italian Stock Exchange (Borsa Italiana S.p.A.) and to the Bank of Italy, for their constant, active collaboration during the course of the year. In particular, we wish to thank the Governor Mario Draghi and the entire Board of the Bank of Italy, as well as its senior managers of the Bank of Italy's Milan office, for their unfailing courtesy and helpfulness.

Lastly, we must also thank the BPM Board of Statutory Auditors for their unflagging vigilance in monitoring the Bank's activities.

Proposed allocation of the net income for the year

Members,

The 2010 financial statements show a **net income** of Euro 122,856,581.63
Before discussing the proposal of allocation, we would like to point out that as regards the restricted reserve as per Decree 38/2005, an amount of Euro 2,281,851.03 has become available at 31.12.2010, this being the difference between:

- Euro 3,831,388.06 deriving from the realisation during the course of 2010 of profits on the disposal of financial assets designated at fair value through profit and loss; this amount has already been booked to the income statement in prior periods following the application of the fair value principle); given that this amount does not come from realised profits, it was posted to a restricted reserve and therefore not included in the allocation of net income in previous years;

and

- Euro 1,549,537.03 relating to the unrealised profits booked to the 2010 income statement on application of the fair value principle to financial instruments not covered by hedges and for this reason booked to a restricted reserve at the time the net income was allocated.

Having said this, the Board of Directors would like to propose that you approve the financial statements at 31 December 2010, together with the following distribution of net income, which involves paying a dividend of Euro 0.10 per share.

	(Euro)
Net income for the year 2010	**122,856,581,63**
+ amount freed up from the restricted reserve as per art. 6 of Decree 38/2005	2,281,851,03
Net income to be allocated	**125,138,432,66**
– 10% to the legal reserve	12,513,843,27
– 15% to the statutory reserve	18,770,764,90
– interest on financial instruments issued as per Art. 12 of Decree 185/2008 subscribed by the Economy and Finance Ministry	42,500,000,00
– to the shareholders: Euro 0.10 for each of the 415,070,878 shares outstanding (*)	41,507,087,80
Residual balance: to the unrestricted reserve	**9,846,736,69**

(*) The amount takes account of 15,683 shares issued in 2011 following the conversion of 1,098 bonds of the "Convertendo BPM 2009/2013" loan and will be updated at the General Meeting based on the number of shares in circulation that are entitled to dividends.

With reference to this proposal, you should note that:

- as already mentioned, the net income for 2010 has been increased by Euro 2,281,851.03 being the part of the restricted reserve under Decree 38/2005 set up in previous years that was freed up during the year, net of the profit earned (but not realised) during 2010 deriving from the application of the fair value principle to financial instruments (mutual fund units and structured securities) not covered by hedges.
Once this allocation has been made, the balance on the restricted reserve will be Euro 16,707,135.64;

- the legal reserve was calculated on the amount of net income including the portion sent to the restricted reserve, so that the fair value profits (previously not subjected to the reserve) effectively realised in 2010 were subjected to the legal reserve;

- following the issue of the financial instruments ex Art. 12 of Decree 185/2008 (Tremonti bonds) and the verification of the conditions for the payment of interest, the allocation of the net income was affected by the attribution of Euro 42,500,000.00 for the payment of interest on the loan in question for the period 1.7.2010-30.6.2011.

***

As regards payment of the amount to be allocated to employees under art. 47 of the Articles of Association of Euro 10,177,128.32, as detailed in "Part C - Information on the income statement, Section 9", the Board of Directors has decided that said amount is to be attributed entirely in ordinary shares of Banca Popolare di Milano that are already in circulation: to this end, in addition to using 487,473 treasury shares currently in the Bank's portfolio, the Board of Directors would like to propose to you the possibility of using the unrestricted portion of the "reserve for treasury shares", currently with a balance of Euro 17,634,716.25, to purchase the additional shares needed to make this payment.

This means that under this proposal:

- pursuant to art. 47 of the Articles of Association, the transfer value of the shares to be granted to employees is equal to the average market price in the thirty days prior to the grant, meaning that on today's date the employees would be granted around 3.4 million shares;

- once these shares have been allocated to employees, the reserve for treasury shares will be reinstated by the amount of Euro 10,177,128.32, due to the removal of treasury shares temporarily held by the Bank and the settlement of the obligation to employees.

Lastly, you are invited - according to established practice - to empower the Board of Directors, until the next General Meeting, to manage the "reserve for treasury shares" and thus to buy and sell the Bank's shares on the MTA in accordance with the procedures set out in article 144 bis, paragraph 1, letter b) of the current Regulations that implement Decree 58/98 concerning issuers, within the limit imposed by the amount of the reserve as increased from time to time by sales of shares (in the course of normal trading activities designed to promote active trading in the stock. and – in compliance with the provisions contained in the Articles of Association or under schemes for the allocation of shares to employees or to collective funds in which employees have invested - to give shares to employees at prices, including below market value, to be fixed from time to time at the Board's discretion.

The Board of Directors

Milan, 29 March 2011

Separate financial statements

Banca Popolare di Milano – Balance sheet

(in euro)

Assets		31.12.2010	31.12.2009
10.	Cash and cash equivalents	204,587,335	597,839,859
20.	Financial assets held for trading	310,580,467	372,652,502
30.	Financial assets designated at fair value through profit and loss	331,376,708	433,810,028
40.	Financial assets available for sale	4,857,231,607	1,357,968,975
50.	Investments held to maturity	0	0
60.	Due from banks	2,017,155,790	2,509,678,968
70.	Loans to customers	30,180,420,032	27,877,550,445
80.	Hedging derivatives	6,507,007	9,882,887
90.	Fair value change of financial assets in hedged portfolios (+ / -)	0	0
100.	Investments in subsidiaries, associates and companies subject to joint control	2,090,024,246	1,833,943,207
110.	Property and equipment	586,219,329	599,534,320
120.	Intangible assets	234,212,825	234,460,532
	of which:		
	– goodwill	*144,581,438*	*136,584,086*
130.	Tax assets	523,027,461	398,783,221
	a) current	*228,026,420*	*158,736,228*
	b) deferred	*295,001,041*	*240,046,993*
140.	Non-current assets held for sale and discontinued operations	0	0
150.	Other assets	453,653,438	615,087,975
Total assets		**41,794,996,245**	**36,841,192,919**

Banca Popolare di Milano – Balance sheet

(in euro)

Liabilities and shareholders' equity		31.12.2010	31.12.2009
10.	Due to banks	7,877,115,077	2,179,384,803
20.	Due to customers	17,846,858,212	18,272,739,210
30.	Securities issued	10,274,098,250	9,912,506,717
40.	Financial liabilities held for trading	238,532,201	175,703,715
50.	Financial liabilities designated at fair value through profit and loss	587,874,210	1,329,563,218
60.	Hedging derivatives	30,932,517	2,778,747
70.	Fair value change of financial liabilities in hedged portfolios (+ /–)	–26,798,490	0
80.	Tax liabilities	44,104,342	63,531,626
	a) current	*0*	*37,625,771*
	b) deferred	*44,104,342*	*25,905,855*
90.	Liabilities associated with non-current assets held for sale and discontinued operations	0	0
100.	Other liabilities	935,979,717	856,090,304
110.	Employee termination indemnities	125,593,744	139,951,373
120.	Allowances for risks and charges:	207,186,213	241,697,960
	a) post employment benefits	*60,572,364*	*59,195,957*
	b) other allowances	*146,613,849*	*182,502,003*
130.	Valuation reserves	–80,912,004	–894,941
140.	Redeemable shares	0	0
150.	Equity instruments	519,605,536	519,596,526
160.	Reserves	1,243,960,885	1,207,930,421
170.	Share premium reserve	189,638,643	187,907,374
180.	Share capital	1,660,220,780	1,660,136,924
190.	Treasury shares (-)	–1,850,170	–9,191,741
200.	Net income (loss) for the year (+ / –)	122,856,582	101,760,683
Total liabilities and shareholders' equity		**41,794,996,245**	**36,841,192,919**

Banca Popolare di Milano – Income statement

(in euro)

Line items		2010	2009
10.	Interest and similar income	975,132,374	1,204,788,235
20.	Interest and similar expense	(422,838,869)	(524,021,853)
30.	**Interest margin**	**552,293,505**	**680,766,382**
40.	Fee and commission income	527,192,120	491,944,519
50.	Fee and commission expense	(49,119,789)	(69,037,422)
60.	**Net fee and commission income**	**478,072,331**	**422,907,097**
70.	Dividend and similar income	86,659,130	85,735,589
80.	Profits (losses) on trading	5,312,430	103,857,942
90.	Fair value adjustments in hedge accounting	(251,729)	(2,533,658)
100.	Profits (losses) on disposal or repurchase of:	6,019,276	34,299,342
	a) loans	*(8,184,346)*	*11,965,295*
	b) financial assets available for sale	*11,713,063*	*11,324,353*
	c) investments held to maturity	*0*	*0*
	d) financial liabilities	*2,490,559*	*11,009,694*
110.	Profits (losses) on financial assets and liabilities designated at fair value	3,795,257	36,239,659
120.	**Net interest and other banking income**	**1,131,900,200**	**1,361,272,353**
130.	Net losses/recoveries on impairment:	(219,756,327)	(307,841,993)
	a) loans	*(208,091,907)*	*(281,244,334)*
	b) financial assets available for sale	*(15,167,432)*	*(19,923,851)*
	c) investments held to maturity	*0*	*0*
	d) other financial activities	*3,503,012*	*(6,673,808)*
140.	**Net income from banking activities**	**912,143,873**	**1,053,430,360**
150.	Administrative expenses:	(822,856,696)	(921,927,734)
	a) personnel expenses	*(526,256,133)*	*(627,415,261)*
	b) other administrative expenses	*(296,600,563)*	*(294,512,473)*
160.	Net provisions for risks and charges	(5,167,907)	(11,477,253)
170.	Net adjustments to/recoveries on property and equipment	(30,995,888)	(30,589,691)
180.	Net adjustments to/recoveries on intangible assets	(26,974,903)	(25,419,995)
190.	Other operating expenses/income	(31,995,512)	89,844,553
200.	**Operating expenses**	**(917,990,906)**	**(899,570,120)**
210.	Profits (losses) on investments in subsidiaries, associates and companies subject to joint control	124,485,136	17,151,388
220.	Valuation differences on property, equipment and intangible assets measured at fair value	0	0
230.	Goodwill impairment	0	0
240.	Profits (losses) on disposal of investments	74,218,479	(50,945)
250.	**Income (loss) before tax from continuing operations**	**192,856,582**	**170,960,683**
260.	Taxes on income from continuing operations	(70,000,000)	(69,200,000)
270.	**Income (loss) after tax from continuing operations**	**122,856,582**	**101,760,683**
280.	Income (loss) after tax from discontinued operations	0	0
290.	**Net income (loss) for the year**	**122,856,582**	**101,760,683**

	Basic EPS – Euro	**0.213**	**0.197**
	Diluted EPS – Euro	**0.213**	**0.197**

Banca Popolare di Milano – Statement of comprehensive income

(in euro)

Line items		2010	2009
10.	**Net income (loss) for the year**	122,856,582	101,760,683
	Other comprehensive income (net of tax)		
20.	Financial assets available for sale	(76,341,393)	39,746,813
30.	Property and equipment	0	0
40.	Intangible assets	0	0
50.	Hedges of foreign investments	0	0
60.	Cash flow hedges	0	0
70.	Foreign exchange differences	0	0
80.	Non-current assets held for sale	0	0
90.	Actuarial gains (losses) on defined benefit plans	(3,675,670)	266,460
100.	Share of valuation reserves connected with investments carried at equity	0	0
110.	**Total comprehensive income (net of tax)**	**(80,017,063)**	**40,013,273**
120.	**Total comprehensive income (Line items 10+110)**	**42,839,519**	**141,773,956**

Banca Popolare di Milano – Changes in shareholders' equity at 31 December 2010

(in euro)

(in euro)	Amounts as at 31.12.2009	Changes in opening balances	Amounts as at 1.1.2010	Allocation of net income of the previous year		Changes for the period								Shareholders' equity as at 31.12.2010
							Operation on shareholders' equity							
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Total comprehensive income at 31.12.2010	
Share capital:	**1,660,136,924**	**0**	**1,660,136,924**	**0**	**0**	**0**	**83,856**	**0**	**0**	**0**	**0**	**0**	**0**	**1,660,220,780**
a) ordinary shares	1,660,136,924		1,660,136,924				83,856							1,660,220,780
b) other shares	0		0											0
Share premium reserve	**187,907,374**	**0**	**187,907,374**	**0**	**0**	**0**	**(***) 1,731,269**	**0**	**0**	**0**	**0**	**0**	**0**	**189,638,643**
Reserves:	**1,207,930,421**	**0**	**1,207,930,421**	**35,969,725**	**0**	**60,739**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**1,243,960,885**
a) retained earnings	1,207,930,421		1,207,930,421	35,969,725		(**) 60,739								1,243,960,885
b) other	0		0											0
Valuation reserves	**–894,941**	**0**	**–894,941**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**–80,017,063**	**–80,912,004**
Equity instruments	**519,596,526**	**0**	**519,596,526**	**0**	**0**	**0**	**0**	**0**	**0**	**9,010**	**0**	**0**	**0**	**519,605,536**
Treasury shares	**–9,191,741**	**0**	**–9,191,741**	**0**	**0**	**0**	**7,341,571**	**0**	**0**	**0**	**0**	**0**	**0**	**–1,850,170**
Net income (loss) for the year	**101,760,683**	**0**	**101,760,683**	**–35,969,725**	**(*) –65,790,958**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**122,856,582**	**122,856,582**
Shareholders' equity	**3,667,245,246**	**0**	**3,667,245,246**	**0**	**–65,790,958**	**60,739**	**9,156,696**	**0**	**0**	**9,010**	**0**	**0**	**42,839,519**	**3,653,520,252**

(*) The line item includes:
- Dividend to shareholders of 41,455,341 euro;
- interest on the financial instruments issued on 4 December 2009 and subscribed by the Economy and Finance Ministry for 24,335,617 euro.

(**) This is the merger surplus reserve that arose on absorption of Bipiemme Private Banking SIM S.p.A.

(***) This is the difference between the average purchase price of the treasury shares and the normal value of the shares assigned to employees.

Banca Popolare di Milano – Changes in shareholders' equity at 31 December 2009 (in euro)

(in euro)	Amounts as at 31.12.2008	Changes in opening balances	Amounts as at 1.1.2009	Allocation of net income of the previous year		Changes for the period								Shareholders' equity as at 31.12.2009
							Operation on shareholders' equity							
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Total comprehensive income at 31.12.2009	
Share capital:	**1,660,136,924**	**0**	**1,660,136,924**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**1,660,136,924**
a) ordinary shares	1,660,136,924		1,660,136,924											1,660,136,924
b) other shares	0		0											0
Share premium reserve	**188,022,970**	**0**	**188,022,970**	**0**	**0**	**0**	**(**) –115,596**	**0**	**0**	**0**	**0**	**0**	**0**	**187,907,374**
Reserves:	**1,171,550,928**	**0**	**1,171,550,928**	**37,606,833**	**0**	**–1,227,340**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**1,207,930,421**
a) retained earnings	1,171,550,928		1,171,550,928	37,606,833		(*) –1,227,340								1,207,930,421
b) other	0		0											0
Valuation reserves	**–40,908,214**	**0**	**–40,908,214**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**40,013,273**	**–894,941**
Equity instruments	**4,209,660**	**0**	**4,209,660**	**0**	**0**	**0**	**0**	**0**	**0**	**(***) 515,386,866**	**0**	**0**	**0**	**519,596,526**
Treasury shares	**–9,567,295**	**0**	**–9,567,295**	**0**	**0**	**0**	**9,306,375**	**–8,930,821**	**0**	**0**	**0**	**0**	**0**	**–9,191,741**
Net income (loss) for the year	**78,868,738**	**0**	**78,868,738**	**–37,606,833**	**–41,261,905**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**101,760,683**	**101,760,683**
Shareholders' equity	**3,052,313,711**	**0**	**3,052,313,711**	**0**	**–41,261,905**	**–1,227,340**	**9,190,779**	**–8,930,821**	**0**	**515,386,866**	**0**	**0**	**141,773,956**	**3,667,245,246**

(*) The line item includes:
- amount taken from the reserve for the contribution in favour of the Guarantee Fund for SMEs in connection with the issue of so-called "Tremonti Bonds", for an amount of 7,500,000 euro, net of the tax recovery of 2,063,000 euro;
- reclassification of 4,209,660 Euro from "Equity instruments", following redemption without conversion of the "Banca Popolare di Milano 21.12.2004/2009" convertible bond loan.

(**) This is the difference between the average purchase price of the treasury shares and the normal value of the shares assigned to employees.

(***) The line item includes:
- the financial instruments issued on 4 December 2009 and subscribed by the Economy and Finance Ministry for 500,000,000 euro;
- the value of the conversion option embedded in the "Convertendo BPM 2009/2013 6.75%" bond loan for an amount of 19,596,526 euro;
- reclassification of 4,209,660 Euro from "Reserve for retained earnings", following redemption without conversion of the "Banca Popolare di Milano 21.12.2004/2009" convertible bond loan.

Banca Popolare di Milano – Statement of cash flows (indirect method)

(in euro)

A. OPERATING ACTIVITIES	2010	2009
1. Cash flow from operation	**328,323,797**	**617,648,129**
– net income of the year (+/–)	122,856,582	101,760,683
– gains/losses on financial assets held for trading and on financial assets/liabilities designated at fair value through profit and loss (–/+)	22,927,606	–47,803,859
– gains/losses on hedging activities (–/+)	251,729	2,533,658
– net losses/recoveries on impairment (+/–)	235,543,729	328,822,400
– adjustments to/net recoveries on property and equipment and intangible assets (+/–)	57,970,791	56,009,686
– net provisions for risks and charges and other costs/revenues (+/–)	16,739,420	120,925,155
– taxes and duties to be settled (+)	71,080,284	72,551,794
– net adjustments to/recoveries on discontinued operations net of tax effect (+/–)	0	0
– other adjustments (+/–)	–199,046,344	–17,151,388
2. Cash flow from/used in financial assets	**–5,562,710,624**	**1,579,835,517**
– financial assets held for trading	39,652,560	422,308,654
– financial assets designated at fair value through profit and loss	106,087,881	–33,043,758
– financial assets available for sale	–3,620,391,427	442,940,283
– due from banks: repayable on demand	–16,259,549	113,080,946
– due from banks: other	509,282,034	681,954,655
– loans to customers	–2,527,738,737	–249,669,512
– other assets	–53,343,386	202,264,249
3. Cash flow from/used in financial liabilities	**4,973,295,154**	**–2,122,527,798**
– due to banks: repayable on demand	–181,091,561	285,972,615
– due to banks: other	5,878,821,835	–1,221,045,767
– due to customers	–425,880,998	1,250,459,067
– securities issued	361,726,557	–1,151,476,462
– financial liabilities held for trading	62,828,486	–71,544,364
– financial liabilities designated at fair value through profit and loss	–745,851,700	–680,440,692
– other liabilities	22,742,535	–534,452,195
Net cash flow from (used in) operating activities	**–261,091,673**	**74,955,848**
B. INVESTING ACTIVITIES		
1. Cash flow from	**482,384,026**	**83,152,606**
– sales of investments in subsidiaries, associates and companies subject to joint control	326,334,672	0
– dividends collected on investments in subsidiaries, associates and companies subject to joint control	81,709,085	83,151,606
– sales/reimbursements of investments held to maturity	0	0
– sales of property and equipment	104,855	1,000
– sales of intangible assets	0	0
– sales of business branches	74,235,414	0
2. Cash flow used in	**–548,762,929**	**–234,143,382**
– purchases of investments in subsidiaries, associates and companies subject to joint control	–505,012,107	–203,755,363
– purchases of investments held to maturity	0	0
– purchases of property and equipment	–17,282,626	–17,121,618
– purchases of intangible assets	–16,179,161	–13,266,401
– purchases of business branches	–10,289,035	0
Net cash flow from (used in) investing activities	**–66,378,903**	**–150,990,776**
C. FINANCING ACTIVITIES		
– issue/purchase of treasury shares	0	259,958
– issue/purchase of equity instruments	9,010	519,596,526
– dividends distributed and other	–65,790,958	–41,261,905
Net cash flow from (used in) financing activities	**–65,781,948**	**478,594,579**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**–393,252,524**	**402,559,651**

RECONCILIATION

Line items	2010	2009
Cash and cash equivalents at the beginning of the year	597,839,859	195,280,208
Net increase (decrease) in cash and cash equivalents	–393,252,524	402,559,651
Cash and cash equivalents: foreign exchange effect	0	0
Cash and cash equivalents at the end of the year	**204,587,335**	**597,839,859**

Key: (+) generated (–) absorbed

Explanatory Notes

- Part A – Accounting policies
- Part B – Information on the balance sheet
- Part C – Information on the income statement
- Part D – Comprehensive income
- Part E – Information on risks and related hedging policies
- Part F – Information on capital
- Part G – Business combinations
- Part H – Related party transactions
- Part I – Share-based payments
- Part L – Segment reporting

Part A
Accounting policies

A.1 – General Part

Section 1 - Declaration of conformity with IFRS

The financial statements of Banca Popolare di Milano at 31 December 2010 in application of Decree 38 of 28 February, are prepared in accordance with the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), with the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and of the Standing Interpretations Committee (SIC) as approved by the European Commission, pursuant to the EC Regulation no. 1606 of 19 July 2002, ruling at the date of the financial statements.
IAS/IFRS have been applied taking into account the "framework" for the preparation and presentation of financial statements", with particular regard to the fundamental principle of substance over form and the concepts of relevance and materiality.

The financial statements have been prepared in accordance with the Bank of Italy's instructions - pursuant to art. 9.1, of Decree 38 of 28 February 2005 - with the document of 22 December 2005 which gave rise to the Circular 262/05 "Bank financial statements: formats and rules for their preparation". These instructions, which lay down strict rules about the format of the financial statements and the methods of preparation and contents of the explanatory notes.

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

The IAS/IFRS standards and the SIC and IFRIC interpretation documents in force at 31 December 2010, as approved by the European Commission, and listed in Part A below, have been applied in preparing the financial statements. As regards the standards approved at 31 December 2010, that section shows the standards that have to be applied from 1 January 2010, to the extent that they relate to banking activities.

Sezione 2 – General method of preparation

The financial statements are made up of the financial statement schedules (balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity and cash flow statement prepared according to the indirect method) and the explanatory notes, accompanied by the directors' report on operations, illustrating the situation of the Bank.
The financial statements are prepared clearly and give a true and fair view of the assets and liabilities, financial position, results, changes in shareholders' equity and cash flows for the year; the accounts reported in the financial statements correspond to those found in the Bank's accounting records, which reflect the administrative events occurred during the year.
In accordance with article 5.2 of Decree 38 dated 28 February 2005, the financial statements have been prepared using the Euro as the reporting currency. In particular, in line with the regulations issued by the Bank of Italy, the financial statements are prepared in Euro without decimals and the explanatory notes and directors' report on operations are prepared in thousands of euro, unless indicated otherwise. Roundings have been made taking into account the Bank of Italy's instructions.
No exceptions have been made in applying IAS/IFRS.
The report on operations and the explanatory notes contain the information required by international accounting standards, by law, by the Bank of Italy and by Consob, in addition to other non-obligatory information considered necessary to give a true and fair view of the of the Bank's situation.

Contents of the financial statements

Balance sheet and income statement
The balance sheet and the income statement are made up of items, sub-items and other details.
The balance sheet and the income statement also include items with zero balances in both years. In the income statement, revenue items are without a sign, whereas costs are shown in brackets.

Statement of comprehensive income
The statement of comprehensive income shows the economic result for the year taking into account the changes in value booked to the valuation reserves.
The statement of comprehensive income also includes items with zero balance in both years; negative amounts are shown in brackets.

Changes in shareholders' equity
This statement shows the composition of the equity accounts and the changes in them that took place during the current and previous years, split between share capital, capital reserves, retained earnings, valuation reserves and the result of comprehensive income. Treasury shares are deducted from shareholders' equity.

Statement of cash flow
The statement of cash flows for the year and for the previous year has been prepared according to the indirect method, based on which the cash flows deriving from operations are represented by the result for the year adjusted to take account of the effects of non-monetary transactions. Cash flows are split between cash flow generated by operations, by investing activities and by funding activities. In the statement, cash flows generated are without a sign, whereas cash flows absorbed have a minus sign.

Contents of the explanatory notes
The explanatory notes include the information required by international accounting standards and by Circular 262/2005 of the Bank of Italy, and subsequent amendments. The financial statements have been prepared by applying the general principles laid down in IAS 1 "Presentation of financial statements".

Going concern: the accounting principles have been adopted with a view to the Bank continuing in business as going concerns; they also respond to the accrual principle, the concepts of relevance and materiality of accounting information, and the prevalence of substance over form.

Accrual principle: The financial statements have been prepared on the basis of the accrual principle and the method of cost, except for the following financial assets and liabilities, which have been measured at fair value: financial instruments held for trading (including derivatives), financial instruments valued at fair value (in application of the fair value option) and financial instruments available for sale.

Consistency and presentation: the methods of presentation and classification of the items in the financial statements are kept the same from one financial period to the next, except in the case where a change is required by an international accounting standard or by an interpretation or it is not required to raise the meaningfulness of the accounting presentation. In the event of a change and to the extent possible, the new approach is adopted retroactively and the nature, reason and amount of the items affected by the change are disclosed. The presentation and classification of the line items complies with the Bank of Italy's instructions for banks' financial statements.

Relevance, materiality and aggregation: the balance sheet and income statement are made up of line items (indicated by numbers), sub-items (indicated by letters) and other details. Line items, sub-items and other details constitute the account headings of the financial statements. The formats comply with those laid down by the Bank of Italy in its Circular 262/2005. New line items can be added provided that their content is not the same as others already envisaged in the format and only if the amounts concerned are significant. Other information is provided in the explanatory notes. Sub-items foreseen in the format can be grouped together when one of the two following conditions exists:
a) the amount of the sub-items is insignificant;
b) aggregation adds clarity to the financial statements; in this case, the notes analyse the aggregated sub-items separately.

Line items in the balance sheet and income statement are cross-referenced to the notes in which they are explained. Items with zero balances in both years one are still shown. The tables in the notes are only provided if they contain figures for one of the two years.

No offsetting of balances: assets and liabilities and costs and revenues cannot be offset against each other except as required or permitted by IAS/IFRS or by an interpretation of them, or by instructions issued by the Bank of Italy for banks' financial statements. Measuring assets net of impairment charges, such as the provision for bad and doubtful accounts, is not considered offsetting.

Comparative information: comparative figures from the previous year are provided for all information in the financial statements - including that of a qualitative nature if this helps explain the Bank's situation - unless IAS/IFRS require or allow otherwise. If the accounts are not comparable, those of the previous year are adjusted to make them so; any lack of comparability and the adjustments made (or the fact that it was not possible to adjust the figures) is disclosed and explained in the notes. The main amendments to the comparative figures in these financial statements are listed below:

- The liquidity that arose from reimbursement of the assets being securitised ("auto-securitisations"), as for those used to issue covered bonds, has been reclassified and offset against the cash owed to the SPE in a single credit balance versus this vehicle, as clarified by the Bank of Italy in June 2010.
- "Personnel-related expenses", which include training costs and those for travel and accommodation incurred by employees working out of town have been reclassified from item 150 b) "Administrative expenses: other administrative expenses" to item 150 b) "Administrative expenses: payroll", based on the instructions provided by the Bank of Italy in its letter of clarification no. 159710/11 of 22 February 2011.

The following table summarises the impact of these reclassifications on the financial statements at 31 December 2009:

Balance sheet	**31.12.2009 Restated**	**31.12.2009 Published**	**Effects of reclassifications**
Asset line items			
Loans to customers	27,877,550,445	27,272,711,285	604,839,160
Other assets	615,087,975	1,453,291,308	–838,203,333
Total assets	**36,841,192,919**	**37,074,557,092**	**–233,364,173**
Liabilities and shareholders' equity			
Due to customers	18,272,739,210	18,494,643,835	–221,904,625
Other liabilities	856,090,304	867,549,852	–11,459,548
Total liabilities and shareholders' equity	**36.841.192.919**	**37.074.557.092**	**–233.364.173**

Income statement	**31.12.2009 Restated**	**31.12.2009 Published**	**Effects of reclassifications**
Administrative expenses:	(921,927,734)	(921,927,734)	0
a) personnel expenses	(627,415,261)	(623,492,060)	(3,923,201)
b) Other administrative expenses	(294,512,473)	(298,435,674)	3,923,201

Section 3 – Subsequent events

As regards IAS 10, after 31 December 2010, the reference date of the financial statements, and up to 29 March 2011, the date on which the Bank's Board of Directors reviewed the draft financial statements and authorised their publication, no facts or events took place that might require adjusting the financial statements.

For more complete information, reference should be made to the report on operations in the chapter entitled "Subsequent events".

Section 4 – Other aspects

Use of estimates and assumptions when preparing the financial statements

The preparation of financial statements also requires the use of estimates and assumptions that may determine significant changes in the amounts reported in the balance sheet and income statement, and in the information relating to contingent assets and liabilities disclosed therein. The determination of these estimates involves using the available information and making subjective judgements, including on the basis of historical trends, used for deriving reasonable assumptions for reporting the results of operations. By their very nature the estimates and assumptions used may vary from year to year, meaning that reported amounts may differ materially as a result of changing one of the subjective bases used.
The main areas in which management is required to make subjective judgements are as follows:
- the quantification of losses for the impairment of loans and other financial assets in general;
- the determination of the fair value of financial instruments to be used for reporting purposes;
- the use of valuation models for measuring the fair value of financial instruments that are not quoted on active markets;
- the assessment of the reasonableness of the value of goodwill and other intangible assets;
- the quantification of employee-related provisions and allowances for risks and charges;
- the estimates and assumptions relating to the recoverability of deferred tax assets.

The description of the accounting policies adopted for the principal reporting aggregates provides details of the principal assumptions and subjective judgements made for the purposes of preparing the financial statements. More details on the composition and amounts of such estimated items can be found in the specific sections of the explanatory notes.

Italian Group tax election

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

Annual report

The annual report at 31 December 2010, which consists of the separate and consolidated financial statements, have been audited by Reconta Ernst & Young S.p.A., in compliance with the shareholders' resolution of 21 April 2007, which appointed this firm to audit the financial statements for the years 2007-2015.
The report was approved by the Bank's Board of Directors on 29 March 2011, pursuant to art. 154-ter para. 1, of Decree 58/98, which lays down that Italian issuers publish their annual report with both separate and consolidated financial statements, if prepared, the report on operations and the certification required by art. 154 bis para. 5 within 120 days of the year end.

Half-yearly report

The Bank prepared and published on 26 August 2010 the half-yearly report at 30 June 2010 of the BPM Group, in accordance with art. 154-ter of D. Lgs. 58/98 introduced by Decree 195/2007 which adopted the European regulations on the transparency of listed companies (EC/2004/109). This half-yearly report was subjected to a limited audit by Reconta Ernst & Young S.p.A., in compliance with CONSOB Communication 97001574 of 20 February 1997 and CONSOB resolution 10867 of 31 July 1997, in accordance with the shareholders' resolution of 21 April 2007.

Interim report on operations

The Bank prepared and published on 11 May 2010 and 9 November 2010 quarterly reports on operations of the BPM Group at 31 March 2010 and 30 September 2010 respectively, in accordance with art. 154-ter, para. 5 of Decree 58/98, introduced by Decree 195/2007. Quarterly reports are not audited.

Going concern

As indicated in Section 2 - General method of preparation, the Bank's financial statements have been prepared using accounting methods based on the assumption that the Bank is a going concern. This assumption can be considered appropriate as the Bank has a history of adequate profitability, access to financial resources that are consistent with its liquidity requirements and a suitable level of capital.

Section E of the notes contains an explanation of the main risks to which the Bank is exposed, as well as the measures taken by the Bank to control, monitor and mitigate them.

Accounting standards

The following is a list of the International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and Interpretations adopted by the European Commission as at 31 December 2010 with an indication of the EC Regulations with which they were adopted.

Accounting standards		EC adoption regulation	
			Amendments
IAS 1	Presentation of financial statements	1274/08	53/09; 70/09; 494/09; 243/10
IAS 2	Inventories	1126/08	70/09
IAS 7	Cash flow statement	1126/08	1260/08; 1274/08; 70/09; 494/09; 243/10
IAS 8	Net income or loss for the period, fundamental errors and changes in accounting policies	1126/08	1274/08; 70/09
IAS 10	Events after the balance sheet date	1126/08	1274/08; 70/09; 1142/09
IAS 11	Contract work in process	1126/08	1260/08; 1274/08
IAS 12	Taxes on income	1126/08	1274/08; 495/09
IAS 16	Property and equipment	1126/08	1260/08; 1274/08; 70/09; 495/09
IAS 17	Leases	1126/08	243/10
IAS 18	Revenues	1126/08	69/09
IAS 19	Employee benefits	1126/08	1274/08; 70/09
IAS 20	Accounting for government grants and disclosure of government assistance	1126/08	1274/08; 70/09
IAS 21	Effects of changes in foreign exchange rates	1126/08	1274/08; 69/09; 494/09
IAS 23	Financial charges	1260/08	70/09
IAS 24	Related party disclosures (**)	1126/08	1274/08; 632/10 (*)
IAS 26	Measurement and representation of pension funds in the financial statements	1126/08	
IAS 27	Consolidated and separate financial statements	494/09	
IAS 28	Investments in associates and companies subject to joint control in associated companies	1126/08	1274/08; 70/09; 494/09; 495/09
IAS 29	Financial reporting in hyperinflationary economies	1126/08	1274/08; 70/09
IAS 31	Interests in joint ventures	1126/08	70/09; 494/09
IAS 32	Financial instruments: disclosure	1126/08	1274/08; 53/09; 70/09; 494/09; 495/09;1293/09 (*)
IAS 33	Earnings per share	1126/08	1274/08; 494/09; 495/09
IAS 34	Interim financial reporting	1126/08	1274/08; 70/09; 495/09
IAS 36	Impairment of assets	1126/08	1274/08; 69/09; 70/09; 495/09; 243/10
IAS 37	Provisions, contingent liabilities and contingent assets	1126/08	1274/08; 495/09
IAS 38	Intangible assets	1126/08	1260/08; 1274/08; 70/09; 495/09; 243/10
IAS 39	Financial instruments: recognition and measurement (except for certain instructions on how to book hedging transactions)	1126/08	1274/08; 53/09; 70/09; 494/09;495/09; 824/09; 839/09; 1171/09; 243/10
IAS 40	Investment property	1126/08	1274/08; 70/09
IAS 41	Agriculture	1126/08	1274/08; 70/09
IFRS 1	First-time adoption of IAS/IFRS	1136/09	1164/09; 550/10; 574/10 (*); 662/10 (*)
IFRS 2	Share-based payment	1126/08	1261/08; 495/09; 243/10; 244/10
IFRS 3	Business combinations	495/09	
IFRS 4	Insurance contracts	1126/08	1274/08; 1165/09
IFRS 5	Non-current assets held for sale and discontinued operations	1126/08	1274/08; 70/09; 494/09; 1142/09; 243/10
IFRS 6	Exploration for and evaluation of mineral resources	1126/08	
IFRS 7	Financial instruments: disclosures	1126/08	1274/08; 53/09; 70/09; 495/09; 824/09; 1165/09; 574/10 (*)
IFRS 8	Operating sectors	1126/08	1274/08; 243/10; 632/10 (*)

Interpretations		EC adoption regulation	
			Amendments
IFRIC 1	Changes in existing decommissioning, restoration and similar liabilities	1126/08	1260/08; 1274/08
IFRIC 2	Members' shares in co-operative entities and similar instruments	1126/08	53/09
IFRIC 4	Determining whether an arrangement contains a lease	1126/08	254/09
IFRIC 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds	1126/08	
IFRIC 6	Liabilities arising from participating in a specific market – Waste electrical and electronic equipment	1126/08	
IFRIC 7	Applying the restatement approach under IAS 29 – Financial reporting in hyperinflationary economies	1126/08	1274/08
IFRIC 9	Restatement of embedded derivatives	1126/08	495/09; 1171/09; 243/10
IFRIC 10	Interim financial statements and impairment	1126/08	1274/08
IFRIC 12	Service concession arrangements	254/09	
IFRIC 13	Customer loyalty programmes	1262/08	
IFRIC 14	IAS 19 – The limit relates to an asset servicing a defined-benefit plan, the forecast minimum contribution and their interaction	1263/08	1274/08; 633/10 (*)
IFRIC 15	Agreements for the Construction of Real Estate	636/09	
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	460/09	243/10
IFRIC 17	Distributions of Non-cash Assets to Owners	1142/09	
IFRIC 18	Transfers of Assets from Customers	1164/09	
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	662/10 (*)	
SIC 7	Introduction of the Euro	1126/08	1274/08; 494/09
SIC 10	Government assistance – No specific relation to operating activities	1126/08	1274/08
SIC 12	Consolidation – Special purpose entities	1126/08	
SIC 13	Jointly controlled entities – Non-monetary contributions by venturers	1126/08	1274/08
SIC 15	*Operating leases – Incentives*	1126/08	1274/08
SIC 21	Taxes on income – Recovery of revalued non-depreciable assets	1126/08	
SIC 25	Taxes on income – Changes in the tax status of an entity or its shareholders	1126/08	1274/08
SIC 27	Evaluating the substance of transactions involving the legal form of a lease	1126/08	
SIC 29	Service concession arrangements: supplementary information	1126/08	1274/08; 254/09
SIC 31	Revenue – Barter transactions involving advertising services	1126/08	
SIC 32	Intangible assets – Website costs	1126/08	1274/08

(*) The BPM Group will apply the regulation from 1/1/2011, as foreseen by the rules and indicated in the following table requested by IAS 8 § 30.
(**) EC Regulation 632/10 lays down a new version of IAS 24, so from 1 January 2011 the regulations previously in force will no longer be applicable for the purposes of this standard.

List of EC Regulations of the European Commission

Regulation no.	Publication in the Official Journal of the European Union	
1126/2008 of 03.11.2008	L. 320 of 29.11.2008	The Regulation brings together in a single text all of the accounting standards and interpretations contained in the previous Regulation 1725/2003 and subsequent amendments.
1260/2008 of 10.12.2008	L. 338 of 17.12.2008	
1261/2008 of 16.12.2008	L. 338 of 17.12.2008	
1262/2008 of 16.12.2008	L. 338 of 17.12.2008	
1263/2008 of 16.12.2008	L. 338 of 17.12.2008	
1274/2008 of 17.12.2008	L. 339 of 18.12.2008	

Regulation no.	Publication in the Official Journal of the European Union
53/2009 of 21.01.2009	L. 17 of 22.01.2009
69/2009 of 23.01.2009	L. 21 of 24.01.2009
70/2009 of 23.01.2009	L. 21 of 24.01.2009
254/2009 of 25.03.2009	L. 80 of 26.03.2009
460/2009 of 04.06.2009	L. 139 of 05.06.2009
494/2009 of 03.06.2009	L. 149 of 12.06.2009
495/2009 of 03.06.2009	L. 149 of 12.06.2009
636/2009 of 22.07.2009	L. 191 of 23.07.2009
824/2009 of 09.09.2009	L. 239 of 10.09.2009
839/2009 of 15.09.2009	L. 244 of 16.09.2009
1136/2009 of 25.11.2009	L. 311 of 26.11.2009
1142/2009 of 26.11.2009	L. 312 of 27.11.2009
1164/2009 of 27.11.2009	L. 314 of 01.12.2009
1165/2009 of 27.11.2009	L. 314 of 01.12.2009
1171/2009 of 30.11.2009	L. 314 of 01.12.2009
1293/2009 of 23.12.2009	L. 347 of 24.12.2009
243/2010 of 23.03.2010	L. 77 of 24.03.2010
244/2010 of 23.03.2010	L. 77 of 24.03.2010
550/2010 of 23.06.2010	L. 157 of 24.06.2010
574/2010 of 30.06.2010	L. 166 of 01.07.2010
632/2010 of 19.07.2010	L. 186 of 20.07.2010
633/2010 of 19.07.2010	L. 186 of 20.07.2010
662/2010 of 23.07.2010	L. 193 of 24.07.2010

Starting from the financial statements for the year beginning on or after 1 January 2010, we have applied the following regulations:

EC Regulation	Publication in the Official Journal of the European Union	
70/2009 of 23.01.2009	L. 21 of 24.01.2009	only for the part of the amendments linked to IFRS 5, whereas the remainder of the document was already applied in the 2009 financial statements.
254/2009 of 25.03.2009	L. 80 of 26.03.2009	
460/2009 of 04.06.2009	L. 139 of 05.06.2009	
494/2009 of 03.06.2009	L. 149 of 12.06.2009	
495/2009 of 03.06.2009	L. 149 of 12.06.2009	
636/2009 of 22.07.2009	L. 191 of 23.07.2009	
839/2009 of 15.09.2009	L. 244 of 16.09.2009	
1136/2009 of 25.11.2009	L. 311 of 26.11.2009	
1142/2009 of 26.11.2009	L. 312 of 27.11.2009	
1164/2009 of 27.11.2009	L. 314 of 01.12.2009	
243/2010 of 23.03.2010	L. 77 of 24.03.2010	
244/2010 of 23.03.2010	L. 77 of 24.03.2010	
550/2010 of 23.06.2010	L. 157 of 24.06.2010	

In accordance with IAS 8 § 30, the following are the regulations that include accounting standards, amendments and interpretations adopted by the European Commission up to 31 December 2010 that will have to be applied after that date, but which the Bank has opted, where possible, not to apply in advance.

EC Regulation	**Publication in the Official Journal of the European Union**	**Date implemented**
1293/2009 of 23.12.2009	L. 347 of 24.12.2009	start date of the first financial year beginning after 31 January 2010
574/2010 of 30.06.2010	L. 166 of 01.07.2010	start date of the first financial year beginning after 30 June 2010
632/2010 of 19.07.2010	L. 186 of 20.07.2010	start date of the first financial year beginning after 31 December 2010
633/2010 of 19.07.2010	L. 186 of 20.07.2010	start date of the first financial year beginning after 31 December 2010
662/2010 of 23.07.2010	L. 193 of 24.07.2010	start date of the first financial year beginning after 30 June 2010

EU Regulation 1293/2009 makes amendments to IAS 32 as regards accounting for rights in the case where the liabilities issued are denominated in a different currency from the issuer's functional currency. In particular, if rights, options or warrants are offered in proportion to all of the shareholders, they have to be classified as equity instruments, even if issued in a different currency from the issuer's functional currency.
Implementation of the standard amended would not have any impact on the 2010 financial statements of the Bank.

EU Regulation 574/2010 amends IFRS 1, providing an optional exemption to entities that are applying IAS for the first time relating to the comparative information required by IFRS 7 on fair value and liquidity risk.
Implementation of the standard amended would not have any impact on the 2010 financial statements of the Bank.

EU Regulation 632/2010 envisages a revision of IAS 24 "Related party disclosures": in particular, it introduces a new simplified definition of "related party" and offers a partial exclusion of disclosure in the case of transactions and relations with subsidiaries (or joint ventures or associates) controlled by the State.
Implementation of the amended standard would not have any impact on the 2010 financial statements of the Bank.

EU Regulation 633/2010 concerns IFRIC 14 and amends the interpretation of the standard in the case of advance payment of a minimum contribution, which can now be booked as an asset rather than being written off as an expense.
Implementation of the amended standard would not have any impact on the 2010 financial statements of the Bank.

EU Regulation 662/2010 endorses IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"; this interpretation provides clarification regarding the accounting treatment by the debtor of the equity instruments issued to extinguish, wholly or partially, one of its own financial liabilities following renegotiation of the contract.
Implementation of this interpretation would not have any impact on the 2010 financial statements of the Bank.

Lastly, for information's sake, the following are the accounting standards, amendments and interpretations issued by the IASB at the date of the financial statements and not yet endorsed by the European Commission (and therefore not applicable until this takes place).

Standard/Interpretation	Date of IASB approval	Date implemented
IFRS 9 "Financial Instruments"- 1st Phase	12 November 2009	Financial years beginning on or after 1 January 2013
Improvements to IFRSs	6 May 2010	Financial years beginning on or after 1 January 2011
Amendment to IFRS 9 "Financial Instruments"- 1st Phase	28 October 2010	Financial years beginning on or after 1 January 2013
"Practice Statement Management Commentary"	8 December 2010	On a voluntary basis from 8 December 2010
"Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters – amendments to IFRS 1"	20 December 2010	Financial years beginning on or after 1 July 2011
"Deferred Tax. Recovery of Underlying Assets – amendments to IAS 12"	20 December 2010	Financial years beginning on or after 1 January 2012

On 12 November 2009 the IASB approved the first part concerning the classification and measurement of financial assets and liabilities of **IFRS 9 "Financial Instruments"**, the standard intended to replace IAS 39, which is expected to become obligatory in financial statements for the years beginning on or after 1 January 2013. At the date of the financial statements the European Commission has not yet adopted the first part of the new standard as it is waiting to express an overall opinion on the entire standard, which will also consist of Phase 2 (ED "Amortised Cost and Impairment" published in November 2009 and amended in January 2011), Phase 3 (ED "Hedge Accounting" published in December 2010) and Phase 4 (ED "Asset and Liability Offsetting" published in January 2011). Phases 2, 3 and 4 of the new standard, for which the feedback from market operators is currently being analysed, will be definitively approved by the IASB by the end of 2011 in order to comply with the calendar for first-time adoption.

The standards amended by the "Improvements to IFRSs" that conclude the 2008-2010 cycle of annual improvements to IFRS are shown below.

- **IFRS 1**. Amendments concern: the changes in accounting policies during the transition year, the use of deemed cost for transactions subject to a regulated interest rate and the rates of revaluation of deemed cost.
- **IFRS 3**. Instructions are provided to make considerations regarding business combinations that took place prior to the effective date of the revised version of the standard; it also provides specifications regarding the accounting treatment of transactions with share-based payment following a business combination; it introduces the concept of "Measurement of non-controlling interests", i.e. the buyer has to measure any non-controlling interest in the entity acquired at fair value or in proportion to the identifiable net assets.
- **IFRS 7**. Further explanations are given on the disclosures to be made in the financial statements.
- **IAS 1**. This introduces additional disclosure in the "Statement of changes in shareholders' equity".
- **IAS 27**. This supplies indication for the amendments resulting from the new IAS 27 to IAS 21, 28 and 31.
- **IAS 34**. It specifies the interim information required to be given for significant events and transactions.
- **IFRIC 13**. It provides additional information on the fair value of bonus points that are awarded.

On 28 October 2010, the IASB published a supplement to **IFRS 9 "Financial Instruments"** on accounting for financial liabilities. This supplement changes the accounting treatment of changes in counterparty risk in the valuation of financial liabilities designated at fair value (according to the "fair value option"). It insists on booking part of the fair value change attributable to counterparty risk to the statement of comprehensive income (as a component of shareholders' equity) in order to avoid excessive volatility in the income statement.

On 8 December 2010, the IASB published a document entitled **"Practice Statement on Management Commentary"**, a broad, non-binding framework for the presentation of narrative reporting to accompany financial statements prepared in accordance with IFRS. This document permits entities to adapt the information provided to the particular circumstances of their business, with suggestions for more meaningful disclosure about the most important resources, risks and relationships that can affect an entity's value, and how they are managed.

On 20 December 2010 IASB published two amendments to **IFRS 1**. In particular, it exempts entities that are adopting IAS/IFRS for the first time from having to restate derecognition transactions that took place prior to the transition. It also provides guidance on how to present IAS/IFRS-compliant financial statements after a year in which the entity did not present IAS/IFRS-compliant financial statements because of high inflation in its functional currency.

On 20 December 2010 IASB also published an amendment to **IAS 12 "Taxes on income"**. The standard says that an entity has to calculate deferred taxation on an asset based on the expectation that the book value of the asset will be recovered by it being used or sold. This made it difficult and subjective to assess whether the value would have been recovered through its use or sale when the asset was valued on the basis of the fair value model under IAS 40. This amendment furnishes a practical solution to the problem by introducing the assumption that the book value of an asset will normally be recovered by selling it.

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

The accounting policies followed in preparing the financial statements at 31 December 2010, as regards the reclassification, recognition, measurement and derecognition of the various asset and liability items, as well as the recognition of revenues and costs, are presented below. A description of the impact on the income statement is also given, when significant.

1 – Financial assets held for trading

Recognition

The initial recognition of a financial asset purchased under a "regular way" contract takes place on the settlement date; assets purchased under other types of contract are recognised on the trade date. Gains and losses arising between the trade and settlement dates on financial assets recognised on the settlement date are recorded in the income statement.
Financial assets held for trading are initially recognised at fair value, which generally corresponds to their purchase price, except for the related transaction costs or proceeds, which are booked directly to the income statement.
Any derivatives implicit in hybrid contracts that are not closely related to them, providing they have the characteristics to meet the definition of a derivative, are spun off from the host contract and booked at fair value (excluding any derivatives that are included in complex instruments classified under the fair value option).

Classification

This category comprises financial assets that are held principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. A financial asset is classified as held for trading if, regardless of why it was acquired, it is part of a portfolio for which there is evidence of a recent actual pattern of short-term profit-taking. This category includes exclusively debt and equity securities and the positive value of derivative instruments, except for those designated as effective hedging instruments (which are booked to asset line item 80 "Hedging derivatives").

A derivative is a financial instrument or other contract with all three of the following characteristics:
a) its value changes in response to changes in a specific interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index, or other variables;
b) it requires no initial net investment or little initial net investment relative to other types of contracts that have a similar response to changes in market conditions;
c) it is settled at a future date.

This category consists of financial and credit derivatives. Financial derivatives include forward purchase and sale contracts involving currency and securities, derivative contracts with or without an underlying security that are tied to interest rates, an index or other assets and currency derivatives.
Credit derivatives refer to those contracts under which the person purchasing protection transfers the underlying credit risk of a certain asset to the person selling protection. The object of such transactions is represented by the credit risk held by the end recipient of the related funds.

Derivatives include those embedded in other hybrid financial instruments which have been recognised separately from the host instrument to the extent that:
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- the embedded instrument, even if separated, meets the definition of a derivative;
- the hybrid instrument is not measured at fair value with changes in value reported in profit or loss.

Measurement and recognition of components affecting the income statement

After initial recognition, financial assets held for trading are measured at their fair value. If the fair value of a financial asset becomes negative, it is accounted for as a financial liability.
Realised gains and losses on disposal or redemption and unrealised gains and losses arising on changes in fair value relative to purchase cost, determined on the basis of daily weighted average price, are included in profit or loss for the period in which they arise, under line item 80 "Profits (losses) on trading".

Gains and losses arising on changes in fair value of derivative instruments linked with the fair value option are recorded under item 110 "Profits (losses) on financial assets and liabilities designated at fair value".
The fair value of investments quoted in active markets is determined with reference to the market bid price reported at the balance sheet date. The fair value of investments for which no price is quoted on an active market is determined using estimates and valuation models that take account of all the risk factors related to the instruments along with published price quotations, if available. These techniques may take account of prices reported for recent similar market transactions, discounted cash flows, option pricing models and other well-established methods used in financial markets.

Derecognition
A financial asset is derecognised when the right to receive cash flows from the asset has expired, or when all the risks and rewards associated with holding this asset are effectively transferred.
Conversely, if legal ownership of a financial asset has effectively been transferred but the bank retains substantial part of the rewards and benefits of the asset sold, it continues to be reported as an asset in the balance sheet.

2 – Financial assets available for sale

Recognition
The initial recognition of a financial asset purchased under a "regular way" contract takes place on the settlement date; assets purchased under other types of contract are recognised on the trade date. Gains and losses arising between the trade and settlement dates on financial assets recognised on the settlement date are recorded in equity.
Financial assets held for sale are initially recognised at fair value which normally corresponds to the price paid inclusive of costs and revenues directly attributable to the transaction.

Classification
Investments "available for sale" are those financial assets (money market securities, other debt or equity instruments, mutual funds), that are intended to be held for an indefinite period and which may be sold for reasons of liquidity, changes in interest rates, exchange rates and market prices. This category excludes derivatives but includes investments in equities not representing controlling interests in subsidiaries, associates and joint ventures (i.e. minority investments) not managed for trading purposes.

Measurement and recognition of components affecting the income statement
Financial assets available for sale are measured at fair value recognising:
- in the income statement, the interest calculated under the effective interest rate method, which takes account of the amortisation of both the transaction costs and the difference between cost and the redemption amount;
- to equity, increasing or decreasing a specific reserve (net of tax) the proceeds or charges deriving from a change in the fair value (excluding exchange gains or losses on monetary instruments, booked to profit and loss).

Gains and losses realised on disposal are recognised in the income statement of the period in which they arise, under item 100 b) "Profits (losses) on disposal or repurchase of financial assets available for sale".
At the time of derecognition of a financial asset from the balance sheet (e.g. when an asset is sold) or when an impairment losses becomes apparent, the related equity reserve set up previously because of the change in fair value is also reversed to the income statement.

Impairment losses are recognised in the income statement under item 130 b) "Net impairment adjustments to financial assets available for sale", when the initial fair value, less any repayment of capital and amortisation, is greater than the asset's recoverable amount. Any reversals of impairment losses are recorded in profit or loss in the case of debt securities and in shareholders' equity in the case of equities. The amount of the reversal may not be greater than the amortised cost that the instrument would have had in the absence of the impairment losses previously recognised.

The existence of objective evidence of impairment in value is reviewed at every annual and interim balance sheet date.

Investments in equity instruments that are not quoted in active markets and whose fair value cannot be determined reliably are kept at cost less any impairment losses.

Method used for determining impairment

As regards financial assets available for sale, a negative change in fair value is only considered an impairmentif it is deemed a loss in value on the basis of the following two circumstances:

- if one or more negative events take place after initial recognition of the financial asset;
- if this event has a negative impact on future expected cash flows.

The factors that are taken into consideration as being indicative of a critical situation are: the announcement or start of financial restructuring plans or, in any case, significant financial difficulties, a significant downgrade in the issuer's rating, a significant deterioration in the book net equity shown in the latest published accounts, or market capitalisation that is significantly lower than book net equity.

In this case, the indicators of market values and parameters are also checked with reference to any specific information that may be available concerning the company's situation to assess whether the conclusions drawn from the market correspond to reality in terms of the company being in a critical state.

For equities, another factor to be taken into consideration is a significant or prolonged reduction in fair value below the purchase cost. In this regard, the following quantitative limits have been set for the process of identifying signs of impairment:

- a decrease in fair value at the balance sheet date of more than 50% of the original book value;
- a decrease in fair value of more than 20% of the original book value for 18 consecutive months.

If there is impairment, the loss in value that arose during the year and any equity reserve created up to the balance sheet date are booked to the income statement.

Derecognition

A financial asset is derecognised when the right to receive cash flows from the asset has expired, or when all the risks and rewards associated with holding this asset are effectively transferred.

Conversely, if legal ownership of a financial asset has effectively been transferred but the bank retains substantial part of the rewards and benefits of the asset sold, it continues to be reported as an asset in the balance sheet.

3 – Investments held to maturity

Investments held to maturity comprise non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the intention and ability to hold to maturity.

The Bank has not classified any financial assets in this category.

4 – Loans and receivables

Recognition

Loans are recognised in the financial statements only when the Bank is a party to the loan agreement. This means that the loan must be unconditional and the creditor acquires a right to payment of the contractually agreed sums. Loans are initially recognised on the date of disbursement or, in the case of debt securities, on the settlement date, on the basis of the related fair value, which usually corresponds to the amount disbursed or the subscription price, including the costs/proceeds directly attributable and determinable at the transaction's origination, even if paid on a later date. Costs refunded by the debtor are excluded even if they have the above characteristics.
If fair value is less than the amount disbursed or settled due to the application of a lower interest rate than the market one or that usually applied to loans with similar characteristics, the asset is initially measured as the amount of future cash payments discounted at a market rate of interest. Any difference between the initial measurement and the amount disbursed/settled is recorded in the income statement at the time of initial recognition, except for loans granted to employees for which this difference is amortised over the shorter of the expected period of employment and the duration of the loan.
Receivables arising from the sale of goods or services are recognised at the time the sale or service is completed, meaning the moment in which it is possible to recognise the income and hence the right to its receipt.

Classification

Loans and receivables form part of the wider category of non-derivative financial assets that call for fixed or determinable payments and which are not quoted on an active market. They originate when the Bank provides money, goods or services directly to a debtor without the intent of selling the related receivable. This category therefore does not include loans and receivables originated with the intent of being sold immediately or in the short term.
They include loans to customers and banks, disbursed directly or acquired from third parties, trade finance, repurchase agreements other than trading ones and loans originating from finance leases. They also include debt securities, not quoted in an active market, arising from loan restructuring.

Measurement and recognition of components affecting the income statement

After initial recognition, loans are valued at their amortised cost, corresponding to the initially recognised amount less principal repayments and impairment losses plus any reversal of impairment losses and amortisation (calculated using the effective interest rate method) of any difference between the initial amount and the maturity amount, including the related costs/income directly allocated to the individual loan.
The effective interest rate is the rate that exactly discounts the expected stream of future cash payments through maturity to the net carrying amount of the financial asset or liability on initial recognition, which includes both the directly attributable transaction costs and all the fees paid or received between parties to the contract. For the purposes of determining the effective interest rate, the cash flows are estimated taking into account all the financial instrument's contractual terms that might influence amounts and maturities, but not future bad debts. The calculation includes all the payments between the parties which form an integral part of the interest, even if otherwise specified (fees, expenses, etc), the transaction costs and all other premiums or discounts.
The amortised cost method is not applied to short-term loans as the duration would be insignificant for the effects of discounting them. These loans, in the same way as the revocable credits, are therefore maintained at historical cost.
At each balance sheet date, the financial assets classified among loans and receivables are reviewed to identify those displaying objective evidence of impairment as a result of events subsequent to their initial recognition.
A financial asset or group of financial assets is considered to be impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events arising after the asset's initial recognition and if the loss event (or events) has a reliably determined effect on the future expected cash flows from the financial asset or group of assets.

Objective evidence that a financial assets is impaired includes the following events:
- significant financial difficulty of the issuer or debtor;
- actual breach of contract, such as a default or delinquency in interest or principal payments;
- granting by the lender to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, of a concession that the lender would not otherwise consider;
- probability of bankruptcy or other financial reorganisation of the debtor;
- disappearance of an active market for that financial asset due to the debtor's financial difficulties;

- observable data indicating that there is a significant decrease in the estimated future cash flows, even if not attributable to individual assets, due to:
  - deterioration in the state of payments by debtors within a group;
  - national or local economic conditions associated with defaults by a debtor group.

First of all, we value the assets that represent the impaired exposures classified in the different categories of risk required by current Bank of Italy regulations and BPM's own rules on reclassifying loans to the following categories of risk:

- **Non-performing loans**
  Amounts owed by borrowers in a state of default or substantially similar situations.
- **Doubtful loans**
  Amounts owed by borrowers in temporary difficulties whose recovery is anticipated within a reasonable period of time. Positions that have been persistently overdue and/or over credit limit for more than 270 days are also included in this category.
- **Restructured positions**
  Loans for which the bank (or pool of banks) agree to amend the original terms of the agreement due to adverse changes in the borrower's performance and financial status, where such amendments give rise to a loss.
- **Overdue positions**
  Loans to borrowers not classified in the preceding categories of risk which, at period end, report positions that have been persistently overdue and/or over credit limit for more than 180 days.

The Bank's front offices classify the loans in the different categories in co-ordination with the functions in charge of monitoring and recovering credit, except for those that are overdue and/or over the credit limit for more than 180 days, which are recognised automatically.

Assets that have been valued individually and for which no objective evidence of loss has been identified, are put into groups of financial assets with similar characteristics in terms of credit risk and then assessed on a collective basis. Assets that have been valued individually and for which a loss provision has been booked, or for which no provision has been made despite the fact that there is objective evidence of impairment, are put into groups of financial assets with similar characteristics in terms of credit risk and then assessed for impairment on a collective basis.

If there is objective evidence of impairment, the amount of the impairment loss is determined as the difference between the asset's book value at the time of valuation (amortised cost) and the present value, calculated using the asset's original effective interest rate, of the expected future cash flows for principal and interest less collection costs, taking into account any guarantees securing the positions, and any advances received (excluding future losses that have not yet emerged). The determination of present value of the future cash flows of a secured financial asset reflects the cash flows that could arise by exercising the guarantee less the related realisation costs, regardless of the actual probability of exercise. If a loan has a variable interest rate, the discount rate for measuring the loss is the current effective interest rate determined under the contract. Cash flows relating to loans and receivables expected to be recovered in the short term are not discounted.

In the event of impairment, the carrying amount of the asset should be reduced to its recoverable amount by setting up an allowance account, deducted directly from the asset and recognised through the income statement. If the loan is regarded as uncollectable, it is written off through the related allowance.
If, in a subsequent period, the amount of the impairment decreases and the decrease is objectively related to an event occurring after the write-down (such as an improvement in the debtor's credit rating), the write-down is eliminated or reduced by recording a reversal in the income statement.
The reversal of the impairment loss may not be greater than the amortised cost of the receivable had the impairment not been recognised.
Reversals of impairment losses, like reversals associated with the passage of time, for interest earned in the period on the basis of the original effective interest rate (previously used for calculating the impairment loss), are recognised at each financial statements date under item 130 a) "Net adjustments for the impairment of loans" in the income statement.

The impairment of loans and advances for which no objective evidence of loss has been individually identified, is assessed on a collective basis.
Performing loans (i.e. those to borrowers who have not yet displayed specific risks of default at the balance sheet date) are divided into like categories of risk, for which the estimated impairment is estimated on the basis of past experience. The assessment also takes into consideration the country risk of the country in which the counterparty resides.
Provisions against performing loans are determined using a risk management-based model that seeks to achieve the greatest possible synergies (to the extent allowed by the various regulations) with the approach required for regulatory purposes by the "New capital accord" known as Basel II.
In particular, the logic underlying the Basel 2 approach has been suitably revised to shift the valuation model from the concept of expected loss, which also considers future elements that cannot be ascertained at the time of the valuation, to that of incurred loss. This type of risk generally leads to losses that are still unknown at the time of the valuation, but which there is reason to believe have effectively taken place at the balance sheet date ("incurred but not reported losses").
From an operating point of view, the best possible proxy for determining the credit quality of a counterparty is the rating, as calculated by the models developed internally as part of the "Basel 2: – Credit Risk" project.
All of the positions identified using the methods explained above are valued on a collective basis by determining the amount of adjustments to be booked to the income statement, as the product of the exposure at the balance sheet date, the probability of default (PD) and the loss in case of default (LGD).

This valuation is updated at every annual and interim reporting date with reference to the entire portfolio of performing loans at such date.

Loan interest is classified as "Interest and similar income" (line item 10) and recognised on an accrual basis.

A similar method is used for determining specific and general write-downs against guarantees given which do not represent derivative contracts. For financial guarantees, IAS 39 lays down that the amount to be shown as a liability in the balance sheet after initial recognition is the higher of the amount determined according to IAS 37 and the initial amount discounted for the commission collected and recognised in accordance with IAS 18. The liabilities resulting from this valuation process are booked to line item 100 "Other liabilities" in accordance with the Bank of Italy's instructions".

Derecognition
A loan or receivable is derecognised when the right to receive cash flows from the financial asset has expired, or when all the risks and rewards associated with holding this asset are effectively transferred or when the asset is regarded as definitively irrecoverable upon completion of all the necessary recovery procedures. Conversely, if the legal ownership of loans has been effectively transferred and the Bank retains substantially all their rewards and benefits, these loans continue to be reported as assets in the Bank's balance sheet, with the consideration received from the purchaser recognised as a liability.

5 – Financial assets designated at fair value through profit and loss

Recognition
The initial recognition of a financial asset purchased under a "regular way" contract takes place on the settlement date; assets purchased under other types of contract are recognised on the trade date. Gains and losses arising between the trade and settlement dates on financial assets recognised on the settlement date are recorded in the income statement.
Financial assets designated at fair value through profit and loss are initially recognised at fair value, which generally corresponds to their purchase price. Their transaction costs or proceeds are recorded directly in the income statement.

Classification

This category includes:

- debt securities with embedded derivatives (other than those for trading) for which the conditions exist to separate the embedded derivative;
- debt securities not included under financial assets held for trading and the object of cash flow hedging for which measurement at fair value is carried out to reduce and/or eliminate any accounting mismatch;
- open-ended funds (including speculative ones), for which regular valuations are available from independent sources and which, not being held for short-term trading, form part of a duly documented investment strategy, designed to achieve an overall return based on the change in the fair value of the instrument itself, with regular detailed reports on their performance provided to management.

Measurement and recognition of components affecting the income statement

After initial recognition, financial assets are measured at their fair value.

The fair value of investments quoted in active markets is determined with reference to the market bid price reported at the balance sheet date. The fair value of investments for which no price is quoted on an active market is determined using estimates and valuation models that take account of all the risk factors related to the instruments along with published price quotations, if available. These techniques may take account of prices reported for recent similar market transactions, discounted cash flows, option pricing models and other well-established methods used in financial markets.

Realised gains and losses on disposal or redemption and unrealised gains and losses arising on changes in fair value relative to purchase cost, determined on the basis of daily weighted average price, are included in profit or loss for the period in which they arise, under the line item 110 "Profits (losses) on financial assets and liabilities designated at fair value".

The same treatment is applied to derivative assets linked with the fair value option, the effect of which is included in the income statement under item 110 "Profits (losses) on financial assets and liabilities designated at fair value".

In accordance with article 6 of Decree 38 dated 28 February 2005, the portion of net income for the year, corresponding to gains recorded in the income statement, less the related tax charge, arising from the application of the fair value principle, must be recorded in a restricted reserve which reverses as and when the gains are realised. The amount reported in the restricted reserve refers to the net gains on financial assets and liabilities, not hedged by derivatives, and those on hedged financial instruments.

Derecognition

A financial asset is derecognised when the right to receive cash flows from the asset has expired, or when all the risks and rewards associated with holding this asset are effectively transferred.

6 – Hedging derivatives

Classification

Hedging seeks to reduce or transfer the risk associated with individual assets and liabilities or groups of assets and liabilities. The instruments that may be used for hedging are derivatives (including purchased options) and non-derivative financial instruments, only if they hedge the risk of changes in foreign currency exchange rates. These instruments are classified in the balance sheet as "Hedging derivatives", either as assets (item 80) or liabilities (item 60) depending on whether they have a positive or negative fair value at the reporting date.

The following table reports the types of hedges used by the Bank:

1) **fair value hedge**:

- **specific**: a hedge of the exposure to changes in the fair value of recognised assets or liabilities or unrecorded commitments, or a portion thereof, that is attributable to a particular risk;
- **macrohedging**: this is the hedging of a monetary amount contained in a portfolio of financial assets and liabilities (or part of them) with a view to reducing fluctuations in fair value due to interest rate risk. Net amounts deriving from offsetting assets and liabilities cannot be the object of macrohedging.

2) **cash flow hedge**: a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability (such as future interest payments on variable rate debt) or a forecasted transaction that will affect reported net income or loss;

A transaction qualifies for hedge accounting if there is formal documentation of the relationship between the hedging instrument and risks hedged, of the enterprise's risk management and strategy for undertaking the hedge and how it will assess the hedging instrument's effectiveness. Furthermore, the hedge's effectiveness must be tested at its inception and prospectively throughout its life.

The effectiveness of hedges is checked at each reporting date, as follows:
- prospective tests: which justify the application of hedge accounting to the extent they demonstrate the expected effectiveness of the hedge in future periods;
- back tests: which measure over time the extent to which actual results differ from the hedge carried out.

A hedge is assumed to be highly effective if the expected and actual changes in the fair value or cash flows of the hedging instrument almost entirely offset the changes in the hedged item, i.e. when the ratio between changes in the fair value of the two financial instruments remains within an interval of between 80% and 125%.

Hedge accounting is discontinued in the following circumstances:
a) the hedging derivative ceases to be or is no longer highly effective;
b) the derivative expires, is sold, terminated or exercised;
c) the hedged item is sold, expires or is redeemed;
d) the hedge no longer meets the criteria to qualify for hedge accounting.

In cases (a), (c) and (d) the hedging contract is reclassified to line item 20 "Financial assets held for trading" or to line item 40 "Financial liabilities held for trading".

Measurement and recognition of components affecting the income statement
Hedging derivatives are initially and subsequently measured at fair value. The fair value of the derivatives is based on prices published on regulated markets or provided by financial markets, on option pricing models or on discounted future cash flow models.

The gains and losses arising on changes in fair value are treated differently for the various types of hedge:
1a) **Specific hedge of fair value**: changes in the fair value of the hedged item attributable only to the hedged risk are recognised in the income statement at line item 90 "Fair value adjustments in hedge accounting" in the same way as changes in the fair value of the derivative instrument; any difference, which represents the ineffective portion of the hedge, determines the consequent impact on net income or loss. If the hedging relationship no longer meets the conditions required to qualify for hedge accounting and the hedging relationship is discontinued, the difference between the carrying amount of the hedged item at the time the hedge ceases and its value had the hedge never existed, is amortised to profit or loss over the remaining life of the hedged item on the basis of its effective rate of return. Differences relating to non interest-bearing financial instruments are immediately recorded in profit or loss. If the hedged item is sold or redeemed, the unamortised portion of fair value is immediately recognised in profit or loss;
1b) **Generic hedge of fair value**: changes in the fair value of assets and liabilities that are the object of macro hedges are recognised in line item 90 "Fair value adjustments in hedge accounting" in the income statement and in line item 90 "Fair value change of financial assets in hedged portfolios" under assets or in line item 70 "Fair value change of financial liabilities in hedged portfolios" under liabilities. If the hedging relationship no longer meets the conditions required to qualify for hedge accounting, the relationship is discontinued, the amount is reversed to item 90 "Fair value change of financial assets in hedged portfolios" of assets or item 70 "Fair value change of financial liabilities in hedged portfolios" of liabilities and amortised in the income statement over the estimated life of the elements hedged by the macro hedge. If the hedge no longer applies as the elements being hedged have been cancelled or reimbursed, the portion of fair value not yet amortised is recognised immediately to profit and loss.
2) **Cash flow hedges**: the changes in fair value of the hedging derivative are booked to shareholders' equity in item 140 "Valuation reserves", for the effective portion of the hedge, and to profit and loss in item 90 "Fair value adjustments in hedge accounting" for the part that is not considered effective. When the cash flows being hedged occur and are reported in profit or loss, the related gain or loss on the hedging instrument is transferred from shareholders' equity to the corresponding account in the income statement. If the hedging relationship no longer meets the conditions required to qualify for hedge accounting, the relationship is discontinued and all the cumulative gains or losses reported under shareholders' equity at that date remain within equity until the flows relating to the risk originally hedged occur, at which point they are reversed to item 90 "Profits (losses) on trading" in the income statement. If it is felt that the transactions are no longer probable, all of the losses and all of the gains in suspense are immediately reversed to the income statement.

7 – Investments in associates and companies subject to joint control

Recognition

The initial recognition of investments in other companies purchased under a "regular way" contract takes place on the settlement date; assets purchased under other types of contract are recognised on the trade date.
Investments in associates and companies subject to joint control are initially recognised at cost.

Classification

The term investments in associates and companies subject to joint control refers to investments in the capital of other companies (generally represented by shares or quotas) classified as interests in subsidiaries, associates or joint ventures. The following definitions apply:
(a) Subsidiary company: an entity over which the parent exercises "dominant control", meaning the power to govern its financial and operating policies so as to obtain the related benefits;
(b) Associated company: an entity over which the investor has significant influence and which is neither a subsidiary nor a joint venture as far as the investor is concerned. Significant influence is presumed to exist if the investor holds, directly or indirectly through subsidiaries, 20% or more of the voting power of the investee. Companies in which the bank has an interest of more than 20% are not considered as being subject to a significant influence if, directly or indirectly, it only holds capital rights over a part of the investments and there is no access to the decision-making strategies or management of the company.
(c) Joint ventures: joint ventures are considered such when the voting rights and control over the economic activity of the company are shared equally by the Bank and by another entity. Also considered a joint venture is an investment in which control over the economic activity and strategic policies of the investee is shared with other entities under contractual agreements, even if the voting rights are not held equally.

Measurement and recognition of components affecting the income statement

Investments in subsidiary, associated companies and joint ventures are reported in the parent's financial statements using the cost method, less any impairments in value.
The impairment adjustments to investments are booked to the income statement in line item 210 "Profit (loss) of investments in associates and companies subject to joint control", in the same way as writebacks (up to cost).
Dividends from investments are recorded in the period in which they are approved under line item 70 "Dividend and similar income".

Derecognition

Investments are derecognised when all the risks and rewards associated with holding this investment are effectively transferred.

8 – Property and equipment

Recognition

Property and equipment are initially recorded at purchase price or production cost, including all directly attributable costs of purchase or of bringing the asset to working condition.
Non-routine maintenance expenditure is included in the carrying value of the asset or recorded as a separate asset, as appropriate, only when it is probable that the future economic benefits will flow to the enterprise and the cost can be measured reliably. Expenditure on repairs, maintenance or other work to ensure the functioning of assets is recognised as an expense in the period incurred.

Classification

This line item mostly refers to land, buildings used for business purposes and those held for investment, systems, vehicles, furniture, fittings and equipment of any kind.
Assets used for business purposes are those held for use in the supply of goods and services or for administrative purposes, while investment assets include property held to earn rentals or for capital appreciation or both. The land and buildings held are mostly used as branches and offices of the Bank.

As regards property, the components relating to land and buildings are treated separately for accounting purposes as they have different useful lives. Land is attributed an unlimited useful life and is therefore not depreciated, whereas buildings are depreciated as they have a limited useful life. An increase in the value of the land on which a building stands does not affect the determination of the building's useful life.

If a property includes a part used for business and a part held to earn rentals or for capital appreciation, it is classified on the basis of whether these parts can be sold separately or otherwise. If they can be sold separately, they are recorded separately as business property and investment property accordingly. If the portions cannot be sold separately, the entire property is classified as a business property, unless only an insignificant portion of the property is used for business purposes.

Measurement and recognition of components affecting the income statement

Subsequent to initial recognition, items of property and equipment, including investment property, are carried at cost less any accumulated depreciation and any accumulated impairment losses. Property and equipment are systematically depreciated over their useful lives on a straight-line basis and the amount is booked to item 170 "Net adjustments to property and equipment". Land is not being depreciated, regardless of whether it was separately acquired or forms part of the value of buildings, since it has an unlimited useful life. Works of art are not being depreciated since their useful life cannot be estimated and their related value usually increases over time.
Depreciation starts when the asset is available and ready for use, or when it is in the required place and conditions to be able to operate. In the first year of depreciation the charge is recognised in proportion to the period the asset is effectively used.
Depreciable assets are adjusted for any impairment losses whenever events or changes in circumstance indicate that their carrying amount might not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the lower of the asset's fair value, less any costs of disposal, and its related value in use, meaning the present value of future cash flows generated by the asset. Any adjustments are recorded in the income statement, under item 170 "Net adjustments to property and equipment".
If the reasons behind the recognition of an impairment loss no longer exist, the loss may be reversed but by no more than the carrying amount that the asset would have had (net of depreciation) if no impairment losses had been recognised in prior years.
Apart from specific determination of the useful life of individual assets, the Bank is depreciating its property and equipment over the following residual lives:

- Property: up to 30 years
- Furniture, machines, vehicles: from 3 to 10 years
- Plant and leasehold improvements: from 3 to 12 years

Derecognition
Items of property and equipment are eliminated from the balance sheet on disposal or when the assets are permanently withdrawn from use and, therefore, no future economic benefits are expected from their disposal or use. Gains or losses arising from the retirement or disposal of items of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the assets and are recognised in the income statement on the date they are eliminated from the books.

9 – Intangible assets

Recognition
Intangible assets are recorded at cost, as adjusted for any related charges, only if it is probable that the future economic benefits attributable to the asset will be realised and if the cost of the asset can be measured reliably. In the absence of these conditions, the cost of the intangible asset is expensed to income in the period incurred.

Goodwill, recognised as an asset at the date of acquisition, is initially measured at cost which, in a business combination, represents the excess of the acquisition cost over the fair value of the assets and liabilities acquired.
If this difference is negative (i.e. badwill) or if the goodwill is not justified by the acquired company's future economic benefits, the difference is recorded directly in the income statement.

Classification
Intangible assets include software due to be used over a number of years, intangible assets linked to the enhancement of relationships with customers and goodwill.

• **Software**: software licences, not associable with a tangible asset, are treated as intangible assets. The cost incurred to purchase and implement the specific software is recognised in the balance sheet as "Own software", providing all the rights relating to the software have been acquired; if only the user licence has been purchased this is classified as a "User licence".

• **Intangible assets linked to the enhancement of relationships with customers**: these are represented by enhancement created at the time of business combinations of asset management relationships, insurance portfolios and core deposits. These assets, all of which have a finite useful life, are originally measured by discounting the flows that represent the profit margins over a period that reflects the residual, contractual or estimated duration of the relationships outstanding at the time of the combination. They are amortised on a straight-line basis over the period when the main economic benefits are expected to arrive, in the case of relationships that do not have a predetermined expiry date, and in declining quotas over the period of duration of the contracts, in the case of relationships that do have a predetermined expiry date.

• **Goodwill**: in accordance with IFRS 3, this represents the future economic benefits generated by assets that cannot be identified individually or measured separately in the books.

Measurement and recognition of components affecting the income statement
After initial recognition, intangible assets with a "finite" life are carried at cost less accumulated amortisation and any accumulated impairment losses.
Amortisation is charged on a straight-line basis over the asset's estimated useful life. and is booked under item 180 "Net adjustments to/recoveries on intangible assets".
Amortisation starts when the asset is available for use, or when it is in the place and conditions allowing it to operate in the established manner. In the first year of amortisation the charge is recognised in proportion to the period the asset is effectively used. Amortisation is stopped from the earlier of the date when the intangible asset is classified as "held for sale" or the date on which the asset is derecognised. If there is evidence of impairment, the asset's recoverable amount should be estimated at each balance sheet date. The amount of the impairment loss, expensed to income under item 180 "Net adjustments to/recoveries on intangible assets", is the difference between the carrying amount of an asset and its recoverable value.

Subsequent to initial measurement, goodwill is measured at cost less any cumulative impairment losses. Goodwill purchased as part of a business combination is not amortised, but is tested annually for impairment, or more often if events or changed circumstances indicate evidence of a possible impairment loss.
The cash-generating unit to which the goodwill refers is identified for this purpose. The amount of any impairment loss is determined as the amount by which the goodwill's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the cash-generating unit's fair value, less any costs of disposal, and its related value in use. Value in use is represented by the present value of the estimated cash flows for the years of operation of the cash generating units, including those deriving from its disposal at the end of its useful life. Any adjustments are recorded in the income statement under item 230 "Goodwill impairment".

Derecognition
An intangible asset is eliminated from the balance sheet on disposal or when no future economic benefits are expected from its use and subsequent disposal. Gains or losses arising from the retirement or disposal of an intangible asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset.

10 – Non-current assets held for sale and discontinued operations

This aggregate includes non-current assets held for sale, disposal groups and related liabilities in accordance with IFRS 5, i.e. those groups of assets and liabilities for which a disposal process is currently underway with a high probability that the book value will be realised principally by them being sold.
For the Bank, a sale is considered highly probable only once the authorisations required by law have been obtained.

As a result of being classified in this category these assets are measured at the lower of their carrying amount and the related fair value less the costs of disposal. In the hypotheses in which the assets being disposed of are depreciated, the depreciation process comes to an end in the year that the assets are reclassified to non-current assets held for sale. The related impact on the balance sheet and income statement is shown separately in the financial statements, in accordance with IFRS 5. The results, income and charges, deriving from the subsequent disposal, are booked to the pertinent income statement item (item 280 "Income (loss) after tax from discontinued operations").

The Bank does not have any assets in this category at the balance sheet date.

11 – Current and deferred taxation

Taxes on income, calculated in compliance with local tax laws, are booked on an accrual basis, on a consistent basis with the method of recognising the income and expenses which generated them. They therefore represent the balance of current and deferred taxation on the income for the year. Current tax assets and liabilities include the net balance of the Bank's tax positions versus the Italian tax authorities.
In particular, these items include the net balance of current tax liabilities for the year, calculated according to a prudent estimate of the tax charge for the year, based on current law and tax rates, and current tax assets represented by advance payments and other tax receivables for withholding tax incurred or other tax credits from prior years which the Bank has asked to offset against future taxes. Current tax assets also include tax credits for which the Bank has asked the competent tax authorities to reimburse.
Taking the Group tax election into account, the tax positions of the Bank and those originated by other Group companies are handled separately from an administrative point of view.

Current taxation

"Assets and liabilities for current taxes" are recognised at the amount due or recoverable in respect of the taxable profit (loss), applying current tax rates and rules; these basically refer to the taxes that will be reported in the tax return.
Current taxes that have not yet been paid at the reporting date, either in whole or part, are classified as "current tax liabilities". Overpayments, giving rise to a recoverable tax credit, are booked as "current tax assets".
Taking the Group tax election into account, the net balance of the current tax situations of the individual subsidiaries involved in the Group tax filing is shown in line item 150 "Other assets" or in line item 100 "Other liabilities", depending on whether it is positive or negative, with the contra-entry shown as current taxation in the income statement.

Deferred taxation

The effect of applying tax regulations in the separate financial statements leads to differences between taxable income and the book net income that may be permanent or temporary.

Permanent differences have a defined nature and consist of income or costs that are totally or partially exempt or not deductible for tax. Conversely, temporary differences simply cause a timing difference that involves the earlier or later settlement of tax compared with the period to which it refers, producing a difference between the carrying amount of an asset or liability in the balance sheet and its tax base. Temporary differences may be either "deductible temporary differences" or "taxable temporary differences".

"Deductible temporary differences" indicate a future reduction in taxable profit which therefore gives rise to "deferred tax assets", to the extent that these differences result in amounts that are taxable in the period they are recognised, resulting in an earlier payment of the tax relative to the recognition of the associated accounting profit. These temporary differences give rise to tax assets when they determine a lower future tax charge, provided that there is a sufficient amount of taxable profit in future years against which the taxes paid in advance can be recovered.
"Deferred tax assets" are recognised for all deductible temporary differences if it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.
Differences between higher taxable profit compared with accounting profit are principally the result of:

- positive components of income taxed in years prior to those in which they are recognised for accounting purposes;
- negative components of income that are deductible for tax in periods subsequent to those in which they were recognised for accounting purposes.

Deferred tax assets may also be recognised for the carry forward of unused tax losses and unused tax credits.

"Taxable temporary differences" indicate a future increase in taxable profit which therefore gives rise to "deferred tax liabilities", to the extent that these differences result in amounts that are taxable in periods subsequent to those in which they were reported in the income statement, resulting in a deferred payment of the tax relative to the recognition of the associated accounting profit. These temporary differences give rise to tax liabilities when they determine a higher future tax charge.
"Deferred tax liabilities" are recognised for all taxable temporary differences except for equity reserves in suspense for tax purposes or those for which there are no plans to be distributed to shareholders.
Differences between lower taxable profit compared with accounting profit are principally the result of:

- positive components of income taxable in periods subsequent to those in which they were recognised for accounting purposes;
- negative components of income that are deductible for tax in periods prior to those in which they are recognised for accounting purposes.

Deferred tax assets and liabilities are recognised using the balance sheet liability method on the basis of the temporary differences between the carrying amount of assets and liabilities in the balance sheet and the amount attributed for tax purposes. They are measured using tax rates, already enacted at the balance sheet date, that will apply to the period when the asset is realised or the liability is settled.
When different tax rates apply to different levels of taxable income, deferred tax assets and liabilities are measured using the weighted average rate for the period to which the financial statements refer.
Deferred tax assets and liabilities are offset if they relate to taxes levied by the same tax authority and when there is a legally enforceable right of set-off.
If the deferred tax assets and liabilities refer to items affecting the income statement, the matching entry is to taxes on income in the income statement.

If deferred tax assets and liabilities refer to transactions directly affecting equity with no impact on the income statement (recognition of actuarial gains and losses, valuations of financial instruments available for sale and of cash flow hedging derivatives), the matching entry is to the specific equity reserve concerned.
If the deferred tax assets recognised in the income statement exceed the total amount of current and deferred tax charges, this gives rise to tax income, classified as an increase in profit before tax.

12 – Allowances for risks and charges

Allowances for risks and charges are liabilities whose amount and timing are uncertain and which are recognised in the financial statements when all the following conditions are met:
a) a present obligation exists at the balance sheet date as a result of a past event. The obligation must be a legal one (arising from contracts, legislation or other legal provisions) or a constructive one (arising when the enterprise creates valid expectations in other parties that it will discharge the obligation even if not falling into the category of legally enforceable obligations);
b) it is probable that an outflow of financial resources will be required;
c) a reliable estimate can be made of the amount of the obligation.

Allowances for risks and charges include provisions for pensions and similar commitments (long-term and post-employment benefits, covered by IAS 19) and allowances for risks and charges (covered by IAS 37).

The long-term benefits relating to long-service bonuses payable to employees after achieving 25 or 30 years of service, as well as indemnities payable to managers, are reported in item 120 b) "Allowances for risks and charges - other provisions". These benefits are recorded in accordance with the actuarial method described in IAS 19, also used for post-employment benefits with the difference that the full amount of any actuarial gains and losses is recognised immediately in profit and loss in the period they arise, as are any changes in the liability due to revisions in the related plan. These provisions are determined on the basis of appraisals by an independent actuary.

Post-employment benefits are classified as either "defined contribution plans" or "defined benefit plans", according to the legal and economic substance of the obligation.

Under defined contribution plans, an enterprise pays fixed contributions by contract into a separate fund and so has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service. The contribution is accounted for on an accrual basis in item 150 a) "Payroll" as a expense for employee benefits.
Defined benefit plans are structured quite differently. In fact, in this case, the Bank guarantees benefit payments to those entitled by assuming the actuarial risk itself but not that of the investment, insofar as the amounts set aside to satisfy the pensioners' entitlements are not invested in specific assets that are separate from those of the Bank in general. These plans, which are funded through a specific accounting reserve, are reported in item 120 a) "Allowances for risks and charges: pensions and similar commitments". In this case the future benefits payable have been valued by an independent actuary using the "projected unit credit method".

Line item 120 b) "Allowances for risks and charges: other provisions" also includes the provisions for presumed losses relating to legal disputes, including recovery procedures, and other estimated outlays for outstanding legal obligations at the balance sheet date, including staff leaving incentives and related social security costs payable under specified circumstances.
If the effect of the time value of money is material, then provisions are discounted to the present value of the expenditure expected to be required to settle the obligation. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. As a result of discounting, the amount of provisions recognised in the balance sheet increases every period to reflect the passage of time. This increase is reported under line item 160 "Net provisions for risks and charges".
Provisions are adjusted at every balance sheet date to reflect the current best estimate; if the reasons for past provisions no longer apply, the related amount is reversed.

13 – Securities issued

Recognition

These are initially recognised upon receipt of the sums raised or issue of the debt securities; they are measured at the fair value of the liabilities, usually corresponding to the amount collected or the issue price, plus any additional costs/proceeds directly attributable to the individual funding transaction and not reimbursed by the creditor.

The portion of convertible bonds with the characteristics of a liability are recognised as payables less their issue costs. The fair value of the portion of the debt representing a financial liability is determined upon issue using the market price of an equivalent non-convertible bond; this amount, classified as a long-term payable, is adjusted using the amortised cost method until it is extinguished through conversion or redemption. The remainder of the amount collected is attributed to the conversion option which is recognised under shareholders' equity caption 150 "Equity instruments".

Classification

Payables form part of the wider category of financial instruments, comprising those transactions for which there is an obligation to pay other parties specified amounts on specified dates.

Payables include all technical forms of funding from banks and customers (deposits, current accounts, loans). They include operating payables other than those relating to the suppliers of goods and services, which are shown in item 100 "Other liabilities".

Securities issued comprise listed and unlisted securities issued (including interest-bearing securities, certificates of deposit, banker's drafts), less any repurchases. They include securities which are due at the balance sheet date but have not yet been repaid. They exclude any own issue securities that have not yet been placed with third parties.

Measurement and recognition of components affecting the income statement

After initial recognition, financial liabilities are measured at amortised cost, using the effective interest rate method. This method does not apply to short-dated liabilities for which the time factor is irrelevant; in fact, these liabilities remain on the books for the amount to be paid.

Interest expense on debt instruments is classified under item 20 as "interest and similar expense".

Derecognition

Financial liabilities are removed from the balance sheet when the specific contractual obligation has been extinguished or there has been a significant change in the contractual conditions. Repurchases of own liabilities are treated in the same way as an extinguishment of the liability or part thereof. The difference between the carrying amount of the liability extinguished and the amount paid for it is included in the income statement under item 100 d) "Profits (losses) on disposal or repurchase of financial liabilities".

In the case of repurchasing securities previously issued, the related asset and liability balances are both eliminated. Any subsequent sale of repurchased securities in issue is treated, for accounting purposes, like a new issue and so recorded at the new issue price with no impact on the income statement.

14 – Financial liabilities held for trading

Classification

This category comprises:

- the negative value of trading derivatives measured at fair value, including derivatives that are implicit in hybrid instruments;
- short positions, meaning the sale of financial assets (money market securities, other debt and equity instruments) not yet owned, arising from securities trading and which are measured at the related ask prices.

Measurement and recognition of components affecting the income statement

Financial liabilities held for trading are booked at fair value with recognition of the valuation effects to the income statement in item 80 "Profits (losses) on trading".

Gains and losses arising on changes in fair value of derivative instruments linked with the fair value option are recorded under item 110 "Profits (losses) on financial assets and liabilities designated at fair value".

15 – Financial liabilities designated at fair value through profit and loss

Recognition

Financial liabilities designated at fair value through profit and loss are initially recognised at fair value, which generally corresponds to the amount received. The related transaction costs (including placement fees) are booked immediately to the income statement, except for the "up-front fees" collected by the Bank on an advance basis which are booked on a pro-rata basis over time.

Classification

This category includes:

- this category includes structured instruments issued (hybrid debt instruments whose yield is linked to equity instruments, foreign currencies, to credit instruments or indexes) if the characteristics of the embedded derivative at the time of the issue are such as to require its separation;
- instruments that are the object of cash flow hedging.

Measurement and recognition of components affecting the income statement

Financial liabilities designated at fair value subsequent to initial recognition are measured at fair value.

The fair value of securities issued quoted in active markets is determined with reference to the market bid price reported at the balance sheet date. The fair value of securities issued for which no price is quoted on an active market is determined using estimates and valuation models that take account of all the risk factors related to the instruments along with published price quotations, if available. These techniques may take account of prices reported for recent similar market transactions, discounted cash flows, option pricing models and other well-established methods used in financial markets.

Realised gains and losses on redemption and unrealised gains and losses arising on changes in fair value relative to issue price are included in profit or loss for the period in which they arise, under the line item 110 "Profits (losses) on financial assets and liabilities designated at fair value ".

The same treatment is applied to derivative liabilities linked with the fair value option, the effect of which is included in the income statement under item 110 "Profits (losses) on financial assets and liabilities designated at fair value".

Interest expense on debt instruments is classified under item 20 as "interest and similar expense".

Derecognition

Financial liabilities are removed from the balance sheet when the specific contractual obligation has been extinguished. Repurchases of own liabilities are treated in the same way as an extinguishment of the liability or part thereof. The difference between the carrying amount of the liability extinguished and the amount paid for it is included in profit or loss.

In the case of repurchasing securities previously issued, the related asset and liability balances are both eliminated. Any subsequent sale of repurchased securities in issue is treated, for accounting purposes, like a new issue and so recorded at the new issue price with no impact on the income statement.

16 – Foreign currency transactions

Recognition

Foreign currency transactions are recorded, on initial recognition, in the reporting currency, by applying to the foreign currency amount the exchange rate prevailing on the date of the transaction.

Classification

Foreign currency assets and liabilities include not only those explicitly denominated in a currency other than the euro, but also those with financial indexation clauses linked to the Euro exchange rate against a specific currency or against a specific basket of currencies.

For translation purposes assets and liabilities denominated in a foreign currency are divided into monetary items (classified as current balances) and non-monetary items (classified as non-current balances).

Monetary items are money held and assets and liabilities to be received or paid in fixed or determinable amounts of money. Non-monetary items are characterised by the absence of a right to receive or an obligation to pay a fixed or determinable amount of money.

Measurement and recognition of components affecting the income statement

At each balance sheet or interim reporting date, the amounts originally denominated in a foreign currency are valued as follows:

- monetary items are translated at the closing rate for the period;
- non-monetary items carried at historical cost are translated using the exchange rate at the date of their first-time recognition;
- non-monetary items carried at fair value are translated using the rate ruling at the time the fair value was calculated.

Foreign exchange differences arising between the transaction date and settlement date of monetary items are recognised in profit or loss in the period in which they arise, like those arising from the translation of monetary items at different rates to those originally used, or those used on translation of the prior period financial statements at the closing date.

As far as non-monetary items are concerned, if the gains or losses are recorded in equity, the foreign exchange differences relating to these items are also booked under shareholders' equity in the period in which they arise. Conversely, if the gains or losses are recorded in the income statement, the related foreign exchange differences are also recorded in the income statement.

17 – Other information

Finance and operating leases

a) **Bank as lessee**: the lease agreements stipulated by the Bank as lessee are all operating leases. Total lease payments are recognised in the income statement under item 150 b) "Administrative expenses: other administrative expenses" over the terms of the leases themselves. If an operating lease is extinguished before its maturity, all the payments required by the lessor by way of penalty, are recorded as an expense in the period of the lease's extinguishment.

b) **Bank as lessor**: the lease agreements stipulated by the Bank as lessor may be operating or finance leases. In the case of finance leases reported as assets, the present value of the payments owed by the lessee is recorded as a receivable. The difference between the receivable's gross value and its present value is recorded as unrealised financial income under item 10 "Interest and similar income". Finance lease income is recognised in accordance with the terms of the contract, using the net investment method before tax, reflecting a constant periodic rate of return.

Sale and leaseback transactions (repurchase agreements, securities lending and swaps)

Securities sold and subject to repurchase are classified as committed financial instruments, when the purchaser has a contractual right to resell or recommit them; the counterparty's liability is included in liabilities due to other banks, other deposits and customer deposits. Securities purchased in relation to a repurchase agreement are recorded as loans or advances to other banks and/or to customers. The difference between the sale price and the purchase price is recorded as interest over the life of the transaction. Securities loaned continue to be reported in the balance sheet, while securities borrowed are not reported unless they are sold to other parties, in which case the purchase or sale is recorded and the gains and losses recognised in the income statement. The obligation at the date of return must be recognised as trading liabilities at fair value.

Employee termination indemnities

Following the reform of supplementary pensions (Decree 252 of 5 December 2005, introduced by the Budget Law 2007) the portions of severance indemnities accrued up to 31 December 2006 stay in the company, whereas those accruing from 1 January 2007 have to be transferred to supplementary pension funds, depending on the explicit or tacit choice of the employee, or maintained in the company and then subsequently transferred to a treasury fund set up with INPS.

The consequence of this is that:

- The severance indemnities that accrued up to 1 January 2007 (or to the date when the decision was made to assign them to a supplementary pension fund) continues to be shown as a "post-employment benefit" classified as a "defined-benefit plan"; subsequently the liability linked to the "accrued severance indemnities" is submitted to an actuarial assessment, which compared with the methods applied up until 31 December 2006, no longer takes account of the average annual increase in wages and salaries, as the employee benefits are to be considered almost entirely accrued (with the sole exception of the revaluationequal to a fixed amount of 1.5% plus 75% of the increase in ISTAT's consumer price index). The full amount of actuarial gains and losses, defined as the difference between the book value of the liability and the present value of obligations at period end, are recognised directly to shareholders' equity at line item 130 "Valuation reserve";

- the portions accruing from 1 January 2007 are shown as a "defined-contribution plan", as the company's obligation ceases at the moment in which its pays the accrued severance indemnity to the fund chosen by the employee; so the amount of the portions, accounted for on an accrual basis as part of payroll costs, is determined on the basis of the contributions due, without applying any actuarial methods of calculation. Note that the severance indemnities accruing kept in the company and then transferred to INPS, the amounts paid year after year to the treasury fund run by INPS do not include the revaluation applied by law; consequently, the burden of revaluing the amounts paid by the company falls on INPS.

Obligations to employees are evaluated by an independent actuary every six months.

Offsetting of financial instruments
Financial assets and financial liabilities may be offset, with the net balance reported in the financial statements, where there is a legal right of set-off and there is the intention of settling the transactions at the net amount or realising the asset and settling the liability at the same time.

Allocations of net income
Article 47 of the BPM articles of association allows the Bank's Board of Directors to allocate the portion of net income due to employees either wholly or partly in cash or by granting shares, including through new issues.
Under IFRS 2 the cost to be recognised is the fair value of the employment services received.This cost is recognised as a cost of the period with the matching entry reported under payables, if settlement is expected in cash, or under shareholders' equity if settlement is through the issue of new shares.

Share capital
a) Share issue costs: the incremental costs attributable to the issue of new shares or options or relating to the acquisition of a new business are included, net of tax, as a deduction from the amounts raised.
b) Dividends on ordinary shares: dividends on ordinary shares are recorded as a reduction in shareholders' equity in the year in which the shareholders approve their distribution.
c) Treasury shares: treasury shares purchased are reported with a negative sign as part of shareholders' equity (and so are not the object of any valuation adjustments). If these shares are subsequently resold, any proceeds are classified in treasury shares up to the amount of the book value of the shares themselves. Any positive or negative difference between the sale price of treasury shares and the corresponding book value is classified as an increase or decrease in "share premium reserve" respectively.

Recognition of revenues and costs
Revenues are recognised:
- in the case of the sale of goods or products, when it is probable that the economic benefits of the transaction will be received and they can be reliably quantified;
- in the case of services, once they have been rendered.

The following is a summary of the method of recognition of the more important income statement items:

Interest income and expense
For instruments valued using the method of amortised cost, interest income and expense are accrued to the income statement over time on the basis of the instrument's effective yield, for all other instruments, interest is accounted for on the basis of the contractual interest rate and is always accrued over time.
Default interest is recorded in the income statement only when it is collected.

Dividends
Dividends are reported in the income statement of the period in which the shareholders approved their distribution.

Fees and commissions
These are generally recognised on an accrual basis in accordance with the provision of the service (net of discounts and allowances); in particular:
- fees and commissions relating to syndicated loans are recognised as revenue when the organisation of the syndicated loan is completed, provided the Bank has not financed part of the loan itself or has financed part of the loan at the same effective interest rate as the other syndicate members;

- fees and commissions on the negotiation or participation in negotiation of a transaction for another party, such as fees for preparing the purchase of shares or the purchase/sale of a business, are recognised upon completion of the underlying transaction;
- management fees and other fees relating to advisory services are recognised in accordance with the terms of the related contracts and nonetheless using an appropriate time horizon. Management fees relating to investment funds are accounted for proportionately over the period the service is provided. The same principle applies to fees on wealth management and custody services;
- upfront fees received in connection with bond issues and any hedging transactions are recognised on an accrual basis.

Profits (losses) on trading

Profits and losses from trading in financial instruments are booked to the income statement on completion of the sale based on the difference between the selling price of the instruments and their book value.
In addition to unrealised gains and losses, trading profits and losses, this item includes the result of measuring contracts for the purchase and sale of securities not yet settled at the date the financial statements are prepared.

Costs

The costs are booked to the income statement at the same time as the related revenues; costs that cannot be matched directly with revenues are charged immediately to profit and loss.

A.3 – Disclosure on fair value

Methods of determining fair value

IAS 39 "Financial instruments: recognition and measurement", at paragraph 9, defines fair value as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. When defining fair value it is of fundamental importance that the entity can be assumed to be fully operative and that there is no need to liquidate or substantially reduce the activity or carry out transactions at unfavourable conditions. The fair value reflects the credit quality of the instrument as it incorporates the counterparty risk.
This standard requires that all financial instruments be valued at fair value, except for:

- financial assets classified as "investments held to maturity" and "loans and receivables";
- investments in equity instruments for which it is not possible to establish a reliable fair value;
- non-trading financial liabilities to which the fair value option has not been applied.

Fair value hierarchy

On 27 November 2009 the European Commission adopted with Regulation 1165/2009 the document entitled Improving Disclosures about Financial Instruments - Amendments to IFRS 7 Financial Instruments: Disclosures, published by the IASB on 5 March 2009.

The main change introduced by this Regulation and included in the new instructions issued by the Bank of Italy for the preparation of banks' financial statements consists of the obligation to classify fair value measurements on the basis of a hierarchy of levels that reflect the reliability of the inputs used in the assessments.
A distinction is made between the following levels:
a) level 1 - quoted market prices (without adjustments) in an active market - according to the definition given by IAS 39 - for the assets or liabilities being measured;
b) level 2 - inputs other than quoted prices as in the previous point, which can be observed directly (prices) or indirectly (derived from prices) on the market;
c) level 3 - inputs that are not based on observable market data.

The hierarchy of the measurement models therefore gives absolute priority to official prices quoted on active markets to be applied directly to the assets or liabilities being measured (effective market quotes - **Level 1**). The existence of official prices quoted on an active market is the best sign of fair value.
In the absence of such information, one has to look at recent transactions ("no active market for the instrument being measured") or data concerning similar assets and liabilities ("comparable approach") or measurement techniques based on pricing models with observable inputs (**Level 2**).
In other cases, one has to use measurement techniques based on "non-observable" input data, which tends to be much more discretional (**Level 3**).

The distinction between fair value level 2 and level 3 depends on the definition of "observable" input data, which is explained in the paragraph below on Level 2.

The BPM Group has prepared specific guidelines and at the same time equipped itself with pricing tools for the various types of financial instruments handled by the Parent Bank and other Group companies, so as to provide operating support for users in terms of measurement tools and parameters that they can use.

LEVEL 1 – Effective market quotes

Based on IFRS 7, a price for a financial instrument quoted on an active market is the best possible estimate of its fair value. Fair value level 1 is in fact based on the principle that the best valuation of a financial instrument is that of a market that is considered "active", where the prices expressed by it represent the effective possibility of realisation without any need for further adjustment (i.e. a model-based valuation is not required). Moreover, it is believed that this market price already incorporates all of the financial instrument's risk factors (market risk, issuer risk, liquidity risk, etc.); for this reason, prices quoted on active markets should not be adjusted in any way. Examples of this are Stock Exchanges, trading circuits organised among market makers and/or MTF (Multi Trading Facilities) systems.

Considering the instruments in portfolio, the following are considered "active markets":
- the markets run by Borsa Italiana (e.g. MTS, MOT, MTA);
- ECB exchange rates;
- other regulated markets that satisfy the minimum quantity requirements to be considered an active market;
- unregulated trading systems (e.g. Bloomberg Trading System) which can provide what is considered an "active market" quote providing certain requisites in terms of the number of price variations in a month and a minimum number of contributors are satisfied.

For financial instruments listed on active markets, the following can be used:
- the bid price for assets held or to be acquired;
- the ask price for liabilities to be issued and liabilities outstanding;
- the mid price in the case of risk profiles that offset each other.

If the same financial instrument is listed on more than one active market, the quotation to be used is the one on the market that is most significant.

Examples of level 1 application

Securities traded on regulated markets - Equities or bonds valued at a price posted on an official stock exchange.

Corporate bond with an active market - A bond valued at the CBBT (Composite Bond Bloomberg Trader) price, when this has the characteristics to be considered an active market price.

Regulated derivatives - Official closing prices of derivative contracts traded on regulated markets (e.g. the IDEM, Eurexchange, Liffe, CME, CBOT) are normally considered level 1 inputs.

Short positions - The considerations made previously also apply to short positions in securities.

Spot transactions in foreign currency - The measurements of FX Spot trades are considered level 1 as they are valued at the official ECB fixing of the day, which is considered the equivalent of a price quoted on an active market.

UCITS - Units of mutual funds whose NAV (net asset value) is quoted or available from the Fund Administrator with a frequency in line with the settlement of the units being liquidated.

LEVEL 2 – Comparable approach

Level 2 includes assets and liabilities that to be measured need one of the two following approaches:
- the use of prices quoted on markets that are not considered active or prices quoted on active markets for contracts with similar, but not identical characteristics;
- the use of valuation methods (pricing models) that require input data which can be observed directly (in the same way as quoted prices) or indirectly (i.e. derived from prices) on the market.

For an input to be considered "observable", it has to have at least the following characteristics:
- it has to be easily and regularly accessible by all participants in the market to which the data relates and be distributed regularly through appropriate information channels (stock exchanges, info providers, brokers, market makers, websites);
- it has to represent a quote that can effectively be executed in normal market transactions between independent parties;
- the data has to be updated continuously and regularly.

In other words, level 2 inputs are represented by all of those market data that, while not being prices of contracts traded on active markets, are observable quotes of parameters from which one can draw a reliable estimate of the contracts fair value, making use of valuation models. Normally, these are techniques that are widely used by the market and which therefore present a low level of model risk.

Examples of inputs that are directly "observable" are:

- the yield curve (i.e. the forward curve of risk-free interest rates);
- the volatilities of OTC options on short- and long-term interest rates;
- the volatilities of OTC options on exchange rates;
- CDS spread curves.

In other cases, the input cannot be directly observed on the market, but has to be deduced from quoted prices through suitable mathematical techniques. Starting from the quoted price of the individual contract, given that all of the other pricing inputs are known, the unknown data can be extracted by means of inversion algorithms. Examples of inputs that are indirectly "observable" are:

- implicit equity volatilities (obtainable from the prices of quoted options);
- bond credit spreads (obtainable from the quoted prices of bonds).

The application of the mathematical techniques mentioned previously to obtain the market data that cannot be observed directly presumes that, apart from awareness of the contract price, all of the other market data involved in valuing the contract in question are known. More in general, and as mentioned previously, it is felt that an asset or liability whose fair value is being measured can be classified as level 2 if the contractual terms are observable (both directly and indirectly) or able to be estimated by using a valuation technique based on observable inputs. The market inputs that cannot be corroborated by observable market data are classified as level 3.

Mark-to-model methods

The main mark-to-model methods used by the BPM Group for securities that are not quoted on active markets are based on the following steps.

Securities not quoted on active markets

The mark-to-model value of securities not quoted on active markets is calculated as follows:

- determination of future cash flows; in particular, in the case of securities that contain implicit options, the value of the option is determined in advance;
- discounting the cash flows quantified in the previous point, using discount curves that include the issuer's credit spread so as to take account of the credit risk factor as well.

Financial derivatives

The mark-to-model value of derivatives not quoted on active markets is calculated as follows:

- non-option instruments (interest rate swaps, forward rate agreements, overnight interest swaps, etc.) are valued by discounting their cash flows;
- financial options: in the case of plain vanilla options, the Black and Scholes closed formula is used. For more complex future cash flows ("pay-offs"), a Monte Carlo-type method is used, generating a sufficiently large number of simulations (from 20,000 to 100,000) to reflect the trend in the risk factors underlying the option and measuring the pay-off for each path. In this case the price of the derivative is obtained by calculating the average of the values for each scenario.

Bonds classified under the fair value option

They are measured on the basis of the discounted cash flows, valuing any implicit derivative with the techniques explained earlier.

Equities and mutual funds

Active market prices are used for equities and the NAV published by the management company, if considered representative of the fair value, is used for mutual funds if an active market price is not available.
Mutual fund are classified as follows:

- Level 1: open-ended mutual funds with a NAV published daily;
- Level 2: hedge funds with a NAV published monthly;
- Level 3: closed-end and other funds.

Given that valuation results can be influenced considerably by the assumptions that are used, above all for the timing of future cash flows, the discount rates adopted and the methods of estimating credit risk, estimated fair values may differ from those realised in an immediate sale of the financial instruments.

LEVEL 3 – Mark-to-model approach

Level 3 is characterised by the fact that at least one input for the mark-to-market estimate cannot be taken directly from "observable" market parameters, while at the same time being quantitatively relevant for the measurement of the fair value. This means making assumptions and using estimating methods to quantify such inputs. From the point of view of the procedures for verifying and validating the pricing models and market data, level 3 complies with the same qualitative standards of control and verification that regulate the entire pricing process, whatever the fair value.
IFRS 7 permits the use of "non-observable" market data to measure fair value in situations where "observable" inputs are not available. Figures classified as "non observable" according to the definitions made in connection with Level 2, if useful for measuring the entire fair value, lead to the classification of the financial instrument in Level 3.

As regards balance sheet items whose fair value is calculated only for disclosure purposes in the notes, the Bank operates as follows:

Loans to customers and time deposits with banks
The discounted cash flow method is used. Contractual cash flows are weighted on the basis of PD (Probability of Default) and LGD (Loss Given Default), i.e. the rate of loss expected in the event of insolvency. For retail and corporate customers, the indicators are integrated into a matrix of reliability ratings with the customers analysed on the basis of internal procedures for assessing credit worthiness. For interbank balances, we use the parameters provided by external rating agencies; the cash flows on loans suffering from impairment are quantified on the basis of the repayment plan.

Sight loans and deposits
The fair value is equal to the book value. Sight loans and deposits are assumed to have immediate contractual maturities coinciding with the balance sheet date; the fair value is therefore more or less the same as the book value.

Impaired assets
The book value is considered an approximation of fair value.

Bonds valued at amortised cost
These liabilities get included in level 1 if there is a quote considered "active market", that satisfies the requisites foreseen in terms of the number of price variations in a month and the minimum number of contributors; otherwise, the bonds are measured by discounting the future cash flows.

Other securities in issue
The fair value is assumed to be the same as the book value based on their characteristics and duration.

A.3.1. Transfers between portfolios

The Bank has not reclassified any of its financial instruments.

A.3.2 Fair value hierarchy

A.3.2.1 Accounting portfolios: breakdown by level of fair value

Financial assets and liabilities designated at fair value through profit and loss	31.12.2010				31.12.2009			
	L1	L2	L3	Total	L1	L2	L2	Total
1. Financial assets held for trading	13,608	230,881	66,091	**310,580**	94,972	202,043	75,638	**372,653**
2. Financial assets designated at fair value through profit and loss	128,190	199,615	3,572	**331,377**	169,167	200,692	63,951	**433,810**
3. Financial assets available for sale	4,218,296	87,053	551,883	**4,857,232**	548,308	269,426	540,235	**1,357,969**
4. Hedging derivatives	–	6,507	–	**6,507**	–	9,883	–	**9,883**
Total	**4,360,094**	**524,056**	**621,546**	**5,505,696**	**812,447**	**682,044**	**679,824**	**2,174,315**
1. Financial liabilities held for trading	–	204,940	33,592	**238,532**	–	165,187	10,517	**175,704**
2. Financial liabilities designated at fair value through profit and loss	–	587,874	–	**587,874**	–	1,308,678	20,885	**1,329,563**
3. Hedging derivatives	–	28,863	2,070	**30,933**	–	1,940	839	**2,779**
Total	**–**	**821,677**	**35,662**	**857,339**	**–**	**1,475,805**	**32,241**	**1,508,046**

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

Level 3 financial assets as a whole amount to 621.5 million Euro and represent 11.3% of the total of financial assets designated at fair value through profit and loss (31.2% at 31 December 2009).
Level 3 financial liabilities, on the other hand, amount to 35.7 million Euro and account for 4.2% of the total liabilities designated at fair value through profit and loss (2.1% at 31 December 2009). The increase in this percentage derives essentially from the reimbursement of a substantial portion of securities issued classified as financial liabilities designated at fair value.

The composition of level 3 financial assets designated at fair value through profit and loss is shown in the following table:

	Debt securities	Equities	Mutual funds	Derivatives	31.12.2010	Debt securities	Equities	Mutual funds	Derivatives	31.12.2009
Financial assets held for trading	45,559	1	–	20,531	**66,091**	50,084	–	–	25,554	**75,638**
Financial assets designated at fair value through profit and loss	667	–	2,905	–	**3,572**	59,696	–	4,255	–	**63,951**
Financial assets available for sale	125,822	264,701	161,360	–	**551,883**	128,757	278,043	133,435	–	**540,235**
	172,048	**264,702**	**164,265**	**20,531**	**621,546**	**238,537**	**278,043**	**137,690**	**25,554**	**679,824**

As can be seen from this classification, financial assets designated at fair value through profit and loss are made up of:

a. Debt securities: 172.1 million euro. These are structured or subordinated secureties issuedd directly by leading Italian or international banks. There are no ABSs or CDOs, or securities whose performance is linked to underlying portfolios.

b. Equities: 264.7 million euro. These are essentially minority interests in unlisted finance and non-finance companies.
Note that for some of these financial instruments, for a total of 61.7 million euro, it has not been possible to make reasonable estimates of their fair value. In accordance with IAS 39, para. AG 81, these instruments have therefore been maintained at their original purchase cost, which is in any case close to the book net equity value of the companies concerned.

c. Mutual funds: 164.3 million euro. These are :
- Closed-end property funds: 82.7 million euro;
- Closed-end funds: 78.7 million euro;
- Open Hedge Funds: 2.9 million euro.

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

d. Financial derivatives: 20.5 million Euro booked under financial assets held for trading. These are financial derivatives valued at fair value stipulated with institutional counterparties and customers. As regards derivatives with customers, financial assets designated at fair value through profit and loss Level 3 include, among others, those positions for which the quota of fair value adjustment that takes account of credit risk (i.e. the so-called “credit risk adjustment”) is significant compared with the overall value of the financial instrument.

As regards the fair value sensitivity analysis of Level 3 instruments, as requested by IFRS 7, para. 27 B, changes in the input parameters show that:
- in the case of debt securities and their respective derivatives (representing around 31% of all Level 3 financial assets), an analysis was carried out to measure their sensitivity to changes in interest rates (-/+ 11.4 million for changes in the curve of +/- 100 bps) and in credit spreads (-/+ 4.1 million to changes in spreads of +/- 25 bps);
- in the case of equities (representing around 43% of all Level 3 financial assets) and units in UCITS (representing around 26% of all Level 3 financial assets), these are instruments whose value depends on a variety of input data that are often not available with objective criteria, but rather require important estimates and assumptions that limit the possibility of using sensitivity analysis.

For more information on the sensitivity of financial instrument values to changes in the main input parameters, reference should be made to the overall analyses carried out on the trading book in Part E of these notes.

A.3.2.2 Annual changes in financial assets designated at fair value through profit and loss (level 3)

	FINANCIAL ASSETS				
	Held for trading	Designated at fair value	Available for sale	Hedging	Total
1. Opening balance	**75,638**	**63,951**	**540,235**	**–**	**679,824**
2. Increases	**4,714**	**77,865**	**71,589**	**–**	**154,168**
2.1. Purchases	6	71,262	56,917	–	128,185
2.2. Profits booked to:	1,270	1,775	14,606	–	17,651
2.2.1. Income statement	1,270	1,775	48	–	3,093
- of which gains	1,245	46	–	–	1,291
2.2.2. Equity	X	X	14,558	–	14,558
2.3. Transfer from other levels	1,324	–	–	–	1,324
2.4. Other increases	2,114	4,828	66	–	7,008
3. Decreases	**14,261**	**138,244**	**59,941**	**–**	**212,446**
3.1. Sales	–	124,564	669	–	125,233
3.2. Redemptions	2	–	–	–	2
3.3. Losses booked to:	11,246	12,576	40,775	–	64,597
3.3.1. Income statement	11,246	12,576	2,924	–	26,746
- of which: unrealised losses	8,302	98	2,924	–	11,324
3.3.2. Equity	X	X	37,851	–	37,851
3.4. Transfer to other levels	1,920	–	8,047	–	9,967
3.5. Other decreases	1,093	1,104	10,450	–	12,647
4. Closing balance	**66,091**	**3,572**	**551,883**	**0**	**621,546**

A.3.2.3 Annual changes in financial liabilities designated at fair value through profit and loss (level 3)

	FINANCIAL LIABILITIES			
	Held for trading	Designated at fair value	Hedging	Total
1. Opening balance	**10,517**	**20,885**	**839**	**32,241**
2. Increases	**27,354**	**–**	**1,236**	**28,590**
2.1. Issues	12,658	–	–	12,658
2.2. Losses booked to:	14,692	–	1,236	15,928
2.2.1. Income statement	14,692	–	1,236	15,928
- of which: unrealised losses	14,692	–	1,236	15,928
2.2.2. Equity	X	X	–	–
2.3. Transfer from other levels	–	–	–	–
2.4. Other increases	4	–	–	4
3. Decreases	**4,279**	**20,885**	**5**	**25,169**
3.1. Redemptions	–	–	–	–
3.2. Repurchases	–	–	–	–
3.3. Profits booked to:	3,847	–	–	3,847
3.3.1. Income statement	3,847	–	–	3,847
- of which gains	2,734	–	–	2,734
3.3.2. Equity	X	X	–	–
3.4. Transfer to other levels	–	20,885	–	20,885
3.5. Other decreases	432	–	5	437
4. Closing balance	**33,592**	**–**	**2,070**	**35,662**

Part B
Information on the balance sheet

Assets

Section 1 – Cash and cash equivalents
Line item 10

This line item includes legal tender, including foreign bank notes and coins and unrestricted deposits with the central bank.

1.1 Cash and cash equivalents: breakdown

	31.12.2010	31.12.2009
a) Cash	204,587	197,840
b) Unrestricted deposits with central banks	–	400,000
Total	**204,587**	**597,840**

Section 2 – Financial assets held for trading
Line item 20

This line item includes financial assets (debt securities, equities, mutual funds, derivatives), classified in the trading portfolio, including expired and deteriorated derivatives.
Assets sold that do not meet the requirements of IAS 39 to be cancelled from the financial statements ("sold and not cancelled") and impaired assets are rebooked to the relevant accounts.

2.1 Financial assets held for trading: description

Line items/Amounts	Level 1	Level 2	Level 3	31.12.2010	Level 1	Level 2	Level 3	31.12.2009
A. Cash assets								
1. Debt securities	3,880	13,423	45,559	**62,862**	86,378	12,804	**50,084**	**149,266**
1.1 Structured securities	1,531	4,077	45,552	**51,160**	7,485	3,338	**50,084**	**60,907**
1.2 Other debt securities	2,349	9,346	7	**11,702**	78,893	9,466	–	**88,359**
2. Equities	6	–	1	**7**	–	–	–	–
3. Mutual funds	9,434	–	–	**9,434**	8,591	–	–	**8,591**
4. Loans	–	–	–	–	–	–	–	–
4.1. Repurchase agreements	–	–	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–	–	–
Total A	**13,320**	**13,423**	**45,560**	**72,303**	**94,969**	**12,804**	**50,084**	**157,857**
B. Derivatives								
1. Financial derivatives:	288	217,458	20,531	**238,277**	3	189,239	**25,554**	**214,796**
1.1 dealing	288	211,420	17,106	**228,814**	3	170,972	**21,959**	**192,934**
1.2 linked to fair value option	–	6,038	3,425	**9,463**	–	18,267	**3,595**	**21,862**
1.3 other	–	–	–	–	–	–	–	–
2. Credit derivatives:	–	–	–	–	–	–	–	–
2.1 dealing	–	–	–	–	–	–	–	–
2.2 linked to fair value option	–	–	–	–	–	–	–	–
2.3 other	–	–	–	–	–	–	–	–
Total B	**288**	**217,458**	**20,531**	**238,277**	**3**	**189,239**	**25,554**	**214,796**
Total (A+B)	**13,608**	**230,881**	**66,091**	**310,580**	**94,972**	**202,043**	**75,638**	**372,653**

Composition of sub-items A.1.1 "Structured debt securities"

Type of securities	Livello 1	Livello 2	Livello 3	31/12/2010	Livello 1	Livello 2	Livello 3	31/12/2009
Reverse floaters	1,531	–	45,552	**47,083**	–	1,195	**48,223**	**49,418**
Credit linked notes	–	4,077	–	**4,077**	–	2,143	**1,861**	**4,004**
Index linked	–	–	–	–	–	–	–	–
Other	–	–	–	–	7,485	–	–	**7,485**
Total	**1,531**	**4,077**	**45,552**	**51,160**	**7,485**	**3,338**	**50,084**	**60,907**

Subordinated financial assets
There are no financial assets held for trading with subordination clause at the balance sheet date.

2.2 Financial assets held for trading: breakdown by debtor/issuer

Line items/Amounts	31.12.2010	31.12.2009
A. CASH ASSETS		
1. Debt securities	**62,862**	**149,266**
a) Governments and central banks	2,451	78,891
b) Other public entities	10	15
c) Banks	48,978	58,767
d) Other issuers	11,423	11,593
2. Equities	**7**	**–**
a) Banks	1	–
b) Other issuers:	6	–
- insurance companies	–	–
- finance-sector companies	–	–
- non-financial companies	6	–
- other	–	–
3. Mutual funds	**9,434**	**8,591**
4. Loans	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total A	**72,303**	**157,857**
B. DERIVATIVES		
a) Banks	168,394	137,604
- fair value	168,394	137,604
b) Customers	69,883	77,192
- fair value	69,883	77,192
Total B	**238,277**	**214,796**
TOTAL (A+B)	**310,580**	**372,653**

The distribution of financial assets by debtor/issuer sector is in accordance with Bank of Italy rules.

Mutual funds: composition by main category of open-ended funds

Line items/Amounts	31/12/2010	31/12/2009
Equity	2,823	2,390
Bond/Money-market	6,611	6,201
Other	–	–
Total	**9,434**	**8,591**

2.3 Cash assets held for trading: changes of the year

Change/Underlying assets:	Debt securities	Equities	Mutual funds	Loans	Total
A. Opening balance	**149,266**	**–**	**8,591**	**–**	**157,857**
B. Increases	**1,422,578**	**1,555**	**2,413**	**–**	**1,426,546**
B1. Purchases	1,416,723	1,550	1,570	–	1,419,843
B2. Positive change in fair value	777	1	831	–	1,609
B3. Other changes	5,078	4	12	–	5,094
C. Decreases	**1,508,982**	**1,548**	**1,570**	**–**	**1,512,100**
C1. Sales	1,426,389	1,522	1,560	–	1,429,471
C2. Reimbursement	76,967	–	–	–	76,967
C3. Negative change in fair value	2,975	–	–	–	2,975
C4. Transfer to other portfolios	–	–	–	–	–
C5. Other changes	2,651	26	10	–	2,687
D. Closing balance	**62,862**	**7**	**9,434**	**–**	**72,303**

The opening balances include 42,956 thousand Euro related to own securities used for funding repurchase agreements.

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

This line item includes all cash financial assets (debt securities, equities, mutual funds) designated at fair value, with the results following the valuation booked to the income statement, on the basis of the "fair value option" recognised by IAS 39, 28 and 31.
The following instruments are classified in this category:

debt securities with embedded derivatives;

debt securities not classified as financial assets held for trading and whose cash flows have been hedged;

open-ended funds (including speculative ones), for which regular valuations are available from independent sources and which, not being held for short-term trading, form part of a duly documented investment strategy, designed to achieve an overall return based on the change in the fair value of the instrument itself, with regular detailed reports on their performance provided to Bank's management.

Assets sold that do not meet the requirements of IAS 39 to be cancelled from the financial statements ("sold and not cancelled") and impaired assets are rebooked to the relevant accounts.

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

Line items/Amounts	Level 1	Level 2	Level 3	31.12.2010	Level 1	Level 2	Level 3	31.12.2009
1. Debt securities	**52,417**	**1,420**	**667**	**54,504**	**49,333**	**2,921**	**59,696**	**111,950**
1.1 Structured securities	52,417	1,420	667	54,504	49,333	2,921	59,696	111,950
1.2 Other debt securities	–	–	–	–	–	–	–	–
2. Equities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
3. Mutual funds	**75,773**	**198,195**	**2,905**	**276,873**	**119,834**	**197,771**	**4,255**	**321,860**
4. Loans	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
4.1 Structured	–	–	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–	–	–
Total	**128,190**	**199,615**	**3,572**	**331,377**	**169,167**	**200,692**	**63,951**	**433,810**
Cost	**117,236**	**200,113**	**8,670**	**326,019**	**147,923**	**201,470**	**71,456**	**420,849**

The amounts reported as "cost" correspond to the purchase cost of financial assets held at the balance sheet date.
The amount booked to "Structured financial instruments: level 3" includes two credit link notes for a total of 477 thousand Euro (59,696 thousand Euro at 31.12.09).

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

Type of transaction/ Amounts	Natural hedges	Structured financial instruments	Financial asset portfolios managed internally based on fair value	31.12.2010	Natural hedges	Structured financial instruments	Financial asset portfolios managed internally based on fair value	31.12.2009
1. Debt securities	**–**	**54,504**	–	**54,504**	**–**	**111,950**	**–**	**111,950**
1.1 Structured securities	–	54,504	**–**	54,504	–	111,950	–	111,950
1.2 Other debt securities	–	–	**–**	–	–	–	–	–
2. Equities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
3. Mutual funds	–	**–**	**276,873**	**276,873**	**59,108**	**–**	**262,752**	**321,860**
4. Loans	–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**–**	**54,504**	**276,873**	**331,377**	**59,108**	**111,950**	**262,752**	**433,810**

The amount in the "structured financial instruments" column includes specifically hedged securities. of 52,417 thousand Euro (49,333 thousand Euro at 31.12.2009).

Subordinated financial assets
At the balance sheet date, there are no financial instruments with subordination clauses.

3.2 Financial assets designated at fair value through profit and loss: breakdown by debtor/issuer

Line items/Amounts	31.12.2010	31.12.2009
1. Debt securities	**54,504**	**111,950**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	54,504	111,950
d) Other issuers	–	–
2. Equities	**–**	**–**
a) Banks	–	–
b) Other issuers:	–	–
– insurance companies	–	–
– finance–sector companies	–	–
– non–financial companies	–	–
– other	–	–
3. Mutual funds	**276,873**	**321,860**
4. Loans	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total	**331,377**	**433,810**

The distribution of financial assets by debtor/issuer sector is in accordance with Bank of Italy rules.

Mutual funds: composition by main category of open-ended funds

Line items/Amounts	31.12.2010	31.12.2009
Bond/Money-market	**21,694**	**3,799**
of which: "Capit. PIU' bond" fund issued by Anima SGR	1,090	1,077
Equity	**49,003**	**114,108**
of which: funds issued by Anima SGR		
– Anima Europa	–	59,108
– Obiettivo Rendimento cumulativo	35,118	34,440
– Capit. PIU' comparto azionario	991	896
Funds of funds	**188,207**	**187,883**
of which hedge funds issued by "Akros Alternative Investments SGR", a company in which the subsidiary Banca Akros has an interest:		
– Akros Market Neutral	64,890	64,828
– Akros Long/Short Equity	82,815	82,796
– Akros Absolute Return	21,038	20,799
– Akros Dynamic	19,464	19,460
Other	**17,969**	**16,070**
of which: funds issued by Anima SGR		
– Capit. PIU' comparto bilanciato 15	1,065	1,040
– Capit. PIU' comparto bilanciato 30	1,028	995
Total	**276,873**	**321,860**

3.3 Financial assets designated at fair value through profit and loss: changes of the year

Change/Underlying assets:	Debt securities	Equities	Mutual funds	Loans	Total
A. Opening balance	**111,950**	**–**	**321,860**	**–**	**433,810**
B. Increases	**78,967**	**–**	**42,596**	**–**	**121,563**
B1. Purchases	69,262	–	30,896	–	100,158
B2. Positive change in fair value	1,294	–	2,529	–	3,823
B3. Other changes	8,411	–	9,171	–	17,582
C. Decreases	**136,413**	**–**	**87,583**	**–**	**223,996**
C1. Sales	123,511	–	85,709	–	209,220
C2. Reimbursement	1,548	–	–	–	1,548
C3. Negative change in fair value	123	–	45	–	168
C4. Other changes	11,231	–	1,829	–	13,060
D. Closing balance	**54,504**	**–**	**276,873**	**–**	**331,377**

Section 4 – Financial assets available for sale
Line item 40

This line item includes all the financial assets (debt securities, equities, etc) classified in the "available for sale" portfolio. Equities essentially include interests in companies which in accordance with international accounting standards, are not defined as investments in associates and companies subject to joint control.

Assets sold that do not meet the requirements of IAS 39 to be cancelled from the financial statements ("sold and not cancelled") and impaired assets are rebooked to the relevant accounts.

4.1 Financial assets available for sale: breakdown

Line items/Amounts	Level 1	Level 2	Level 3	31.12.2010	Level 1	Level 2	Level 3	31.12.2009
1. Debt securities	**4,155,812**	**72,132**	**125,822**	**4,353,766**	**498,452**	**265,020**	**128,757**	**892,229**
1.1 Structured securities	–	–	–	–	–	–	–	–
1.2 Other debt securities	4,155,812	72,132	125,822	4,353,766	498,452	265,020	128,757	892,229
2. Equities	**62,479**	**1,473**	**264,701**	**328,653**	**49,852**	**4,406**	**278,043**	**332,301**
2.1 Valued at fair value	62,479	1,473	203,014	266,966	49,852	4,406	222,449	276,707
2.2 Valued at cost	–	–	61,687	61,687	–	–	55,594	55,594
3. Mutual funds	**5**	**13,448**	**161,360**	**174,813**	**4**	**–**	**133,435**	**133,439**
4. Loans	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**4,218,296**	**87,053**	**551,883**	**4,857,232**	**548,308**	**269,426**	**540,235**	**1,357,969**

The increase in item 1.2 "Other debt securities" is principally due to the purchase of Italian government securities.

As required by IFRS 7 para. 30, the following is a list of the equities valued at cost at the balance sheet date:

Composition	Level 1	Level 2	Level 3	31.12.2010	Level 1	Level 2	Level 3	31.12.2009
Alba Leasing S.p.A.	–	–	35.388	35.388	–	–	35.388	35.388
Release S.p.A.	–	–	11.680	11.680	–	–	11.534	11.534
Equinox Two	–	–	7.804	7.804	–	–	–	–
Istituto Europeo Oncologico	–	–	3.527	3.527	–	–	3.527	3.527
Sesto Immobiliare	–	–	2.845	2.845	–	–	–	–
Other equities	–	–	443	443	–	–	5.155	5.155
Total	**–**	**–**	**61.687**	**61.687**	**–**	**–**	**55.594**	**55.594**

Subordinated financial assets

	Level 1	Level 2	Level 3	31.12.2010	Level 1	Level 2	Level 3	31.12.2009
1.2 Other debt securities, of which issued by banks:								
– Subordinated Bonds Banca Popolare di Vicenza 20.12.2007/2017	–	–	23,589	**23,589**	–	–	24,323	**24,323**
– Subordinated Bonds Banca Popolare dell'Etruria e Lazio 28.9.2007/2017	–	–	21,658	**21,658**	–	–	22,054	**22,054**
– Subordinated Bonds Banca Popolare di Mantova 03.12.2004/2014	–	95	–	**95**	–	–	–	**–**
– Subordinated Bonds Banco Popolare 2010/2020 5/11 6%	18,579	–	–	**18,579**	–	–	–	**–**
Total	**18,579**	**95**	**45,247**	**63,921**	**–**	**–**	**46,377**	**46,377**

4.2 Financial assets available for sale: breakdown by debtor/issuer

Line items/Amounts	31.12.2010	31.12.2009
1. Debt securities	**4,353,766**	**892,229**
a) Governments and central banks	4,068,889	488,493
b) Other public entities	–	–
c) Banks	284,877	403,736
d) Other issuers	–	–
2. Equities	**328,653**	**332,301**
a) Banks	195,090	192,661
b) Other issuers:	133,563	139,640
- insurance companies	–	–
- finance-sector companies	59,753	53,527
- non-financial companies	73,810	86,113
- other	–	–
3. Mutual funds	**174,813**	**133,439**
4. Loans	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total	**4,857,232**	**1,357,969**

The distribution of financial assets by debtor/issuer sector is in accordance with Bank of Italy rules.

Mutual funds: composition by main categories of closed-end funds

Line items/Amounts	31.12.2010	31.12.2009
Equity	33,658	25,903
Bond/Money-market	–	–
Property funds	82,679	56,180
Other	58,476	51,356
Total	**174,813**	**133,439**

"Other" also includes investments in Sicars (Société d'Investissement en Capital à Risque) and in foreign private equity firms that the Ufficio Italiano Cambi (U.I.C. - the Italian Exchange Office) has identified as fund units.

Details of equities written down in the income statement are reported below:

Line items/Amounts	Gross value	Accumulated writedowns	Net book value at 31.12.2010	Writedowns of the year booked to income statement	Writedowns of the year booked to equity	Writedowns for the year, which offset writebacks to equity
Equities:						
• CIC - Credit Industriel et Commercial	55,282	–9,159	46,123	–	3,521	–
• Fiera di Milano S.p.A.	7,646	–3,045	4,601	(430)	324	–
• Comital S.p.A	6,731	–2,557	4,174	(2,057)	–	–
• Banca Popolare dell'Etruria (*)	3,900	–2,094	1,806	(2,094)	–	–
• Genextra S.p.A.	4,889	–3,098	1,791	(581)	–	–
• Gabetti S.p.A.	3,523	–2,050	1,473	(1,324)	–	–
• Aedes S.p.A.	4,917	–4,741	176	–	–	–
• Risanamento	–	–	–	(8,395)	–	–
• Coronet S.p.A.	–	–	–	(286)	–	–
Total	**86,888**	**–26,744**	**60,144**	**(15,167)**	**3,845**	**–**

(*) The writedown for the year of 2,094 thousand Euro booked to the income statement includes 1,549 thousand Euro released from the equity reserve.

4.3 Financial assets available for sale with specific hedge

At the balance sheet date there is a financial asset available for sale with a fair value hedge against interest rate risk:

Name	31.12.2010	31.12.2009
Banca Intesa 21.12.05/20	46,519	49,104
Total	**46,519**	**49,104**

4.4 Financial assets available for sale: changes of the year

Change/Underlying assets:	Debt securities	Equities	Mutual funds	Loans	Total
A. Opening balance	**892,229**	**332,301**	**133,439**	**–**	**1,357,969**
B. Increases	**5,009,236**	**47,506**	**56,727**	**–**	**5,113,469**
B1. Purchases	4,943,396	25,743	46,122	–	5,015,261
B2. Positive change in fair value	27	9,264	10,605	–	19,896
B3. Writebacks	–	3,845	–	–	3,845
– booked to income statement	–	X	–	–	–
– booked to shareholders' equity	–	3,845	–	–	3,845
B4. Transfer from other portfolios	–	–	–	–	–
B5. Other changes	65,813	8,654	–	–	74,467
C. Decreases	**1,547,699**	**51,154**	**15,353**	**–**	**1,614,206**
C1. Sales	1,088,017	6,786	526	–	1,095,329
C2. Reimbursement	322,533	–	–	–	322,533
C3. Negative change in fair value	94,622	30,750	4,332	–	129,704
C4. Writedowns for impairment	–	13,618	–	–	13,618
– booked to income statement	–	13,618	–	–	13,618
– booked to shareholders' equity	–	–	–	–	–
C5. Transfer to other portfolios	–	–	–	–	–
C6. Other changes	42,527	–	10,495	–	53,022
D. Closing balance	**4,353,766**	**328,653**	**174,813**	**–**	**4,857,232**

The opening and closing balances of "debt securities" include 279,590 and 1,992,810 thousand Euro respectively related to own securities used for funding repurchase agreements.

Note the following with reference to the following sub-items:

Sub-item B5. "Other changes" – Debt securities: includes 13,207 thousand Euro as a result of absorbing Bipiemme Private Banking Sim.

Sub-item C4. "Writedown for impairment - booked to the income statement" – Equities: this includes writedowns of the shareholdings in the following companies:

Risanamento	8,395
Comital S.p.A.	2,057
Gabetti S.p.A.	1,324
Genextra S.p.A.	581
Banca Popolare dell'Etruria	545
Fiera di Milano S.p.A.	430
Coronet S.p.A.	286
Total	**13,618**

Section 5 – Investments held to maturity
Line item 50

At the balance sheet the Group has no investments held to maturity.

Section 6 – Due from banks
Line item 60

This line item reports unlisted financial assets (Level 2 and Level 3) due from banks (overdrafts, security deposits, debt securities, etc) that have been classified in the loan portfolio ("loans and receivables"). They include operating receivables connected with the provision of financial services. Assets sold that do not meet the requirements of IAS 39 to be cancelled from the financial statements ("sold and not cancelled") and impaired assets are rebooked to the relevant accounts.

6.1 Due from banks: description

Type of transaction/Amounts	**31.12.2010**	**31.12.2009**
A. Due from central banks	**190,633**	**266,005**
1. Restricted deposits	–	–
2. Compulsory reserve	190,616	265,916
3. Repurchase agreements	–	–
4. Other	17	89
B. Due from banks	**1,826,523**	**2,243,674**
1. Current accounts and unrestricted deposits	931,084	914,823
2. Restricted deposits	761,985	1,215,197
3. Other loans:	128,841	113,654
3.1 Repurchase agreements	97,432	96,873
3.2 Finance leases	–	–
3.3 Other	31,409	16,781
4. Debt securities	4,613	–
4.1 Structured securities	–	–
4.2 Other debt securities	4,613	–
Total book value	**2,017,156**	**2,509,679**
Total fair value	**2,039,255**	**2,509,962**

The "compulsory reserve" includes the "accessible" portion of this reserve.
See Part A - Accounting Policies for an explanation of the criteria used to determine fair value.

Subordinated financial assets
There are no due from bankswith subordination clause at the balance sheet date.

Impaired assets

Type of transaction/Amounts	**31.12.2010**	**31.12.2009**
B.2. Restricted deposits	1,625	1,113
B.3.3 Other loans: other	–	387
Total	**1,625**	**1,500**

6.2 Due from banks with specific hedges

There are no assets with specific hedges at the balance sheet date.

6.3 Finance leases

There are no due from banksin respect of finance leases at the balance sheet date.

Section 7 – Loans to customers
Line item 70

This line item shows unlisted financial instruments (Level 2 and Level 3) due from customers (loans, lease transactions, factoring transactions, debt securities, etc.) allocated to "loans and receivables".
Assets sold that do not meet the requirements of IAS 39 to be cancelled from the financial statements ("sold and not cancelled") and impaired assets are rebooked to the relevant accounts.

7.1 Loans to customers: description

Type of transaction/Amounts	Performing	Impaired	31.12.2010	Performing	Impaired	31.12.2009
1. Current accounts	3,688,863	457,257	4,146,120	3,338,630	456,419	3,795,049
2. Repurchase agreements	289,621	–	289,621	–	–	–
3. Mortgage loans	12,324,748	853,794	13,178,542	11,407,800	688,026	12,095,826
4. Credit cards, personal loans and salary assignments	590,571	17,685	608,256	570,650	10,535	581,185
5. Finance leases	–	–	–	–	–	–
6. Factoring	–	–	–	–	–	–
7. Other transactions	11,142,345	492,540	11,634,885	10,918,073	309,910	11,227,983
8. Debt securities	322,996	–	322,996	177,507	–	177,507
8.1 Structured securities	–	–	–	–	–	–
8.2 Other debt securities	322,996	–	322,996	177,507	–	177,507
Total book value	**28,359,144**	**1,821,276**	**30,180,420**	**26,412,660**	**1,464,890**	**27,877,550**
Total fair value	**29,902,818**	**1,821,276**	**31,724,094**	**27,851,361**	**1,464,890**	**29,316,251**

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

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

"Other transactions" mostly refer to advances on bills, documents and similar instruments subject to collection, other amounts not settled via current accounts, loans to post offices and to Cassa Depositi e Prestiti, derivative transaction margin changes at clearing houses, operating loans, bills and documents discounted without recourse.

Discounted bills are reported at their face value, less any deferred income; they also include those sent for collection by the Bank's own branches or others.

Subordinated financial assets

Type of transaction/Amounts	31.12.2010	31.12.2009
7. Other transactions: subordinated loans granted to insurance companies	4,895	4,901
8.2 Other debt securities: BPM Capital Trust 01/2049 02/07 Perpetual.	89,037	89,030
Total	**93,932**	**93,931**

Subordinated financial assets versus insurance companies refer to loans granted to Bipiemme Vita S.p.A., with the following characteristics: original amount of 4,800 thousand Euro granted on 27/6/2003 with unspecified maturity – interest rate, 12-month Euribor + 250 b.p.

The BPM Capital Trust securities come from the public purchase offer (P.P.O.) made for the company on 30 December 2009.

Line item 3. "Mortgage loans" includes the following portfolios of securitised loans:

	Performing	Impaired	31.12.2010	Performing	Impaired	31.12.2009
• BPM Securitisation 2 S.r.l.:						
- carried out in 2006 for 2,011.3 million euro	765,750	39,869	805,619	931,796	41,210	973,006
- Securitisation of commercial mortgage backed securities (CMBS), carried out in 2009 for 1,291.1 million euro	421,358	43,475	464,833	708,527	37,729	746,256
• Covered Bond S.r.l.:						
- carried out in 2008 for 1,218 million euro, in 2009 for 1,305 million Euro and in 2010 for 1,137 million euro.	3,019,781	41,750	3,061,531	2,181,061	29,079	2,210,140
Total	**4,206,889**	**125,094**	**4,331,983**	**3,821,384**	**108,018**	**3,929,402**

For more details on these transactions, see Part E - Section 1 - Credit risk - C.1 Securitisation transactions and C.3 Covered bond transactions.

7.2 Loans to customers: breakdown by debtor/issuer

Type of transaction/Amounts	Performing	Impaired	31.12.2010	Performing	Impaired	31.12.2009
1. Debt securities	**322,996**	**–**	**322,996**	**177,507**	**–**	**177,507**
a) Governments	–	–	–	–	–	–
b) Other public entities	–	–	–	–	–	–
c) Other issuers	322,996	–	322,996	177,507	–	177,507
- non-financial companies	125,619	–	125,619	–	–	–
- finance-sector companies	124,212	–	124,212	130,649	–	130,649
- insurance companies	73,165	–	73,165	46,858	–	46,858
- other	–	–	–	–	–	–
2. Loans to:	**28,036,148**	**1,821,276**	**29,857,424**	**26,235,153**	**1,464,890**	**27,700,043**
a) Governments	16,922	–	16,922	928	–	928
b) Other public entities	56,894	4,079	60,973	58,233	3,028	61,261
c) Other parties	27,962,332	1,817,197	29,779,529	26,175,992	1,461,862	27,637,854
- non-financial companies	16,188,248	1,385,879	17,574,127	15,370,280	1,057,562	16,427,842
- finance-sector companies	4,504,856	144,698	4,649,554	4,047,014	131,878	4,178,892
- insurance companies	13,817	–	13,817	12,450	–	12,450
- other	7,255,411	286,620	7,542,031	6,746,248	272,422	7,018,670
Total	**28,359,144**	**1,821,276**	**30,180,420**	**26,412,660**	**1,464,890**	**27,877,550**

The distribution of financial assets by debtor/issuer sector is in accordance with Bank of Italy rules.

7.3 Loans to customers with specific hedges

Type of transaction/Amounts	31.12.2010	31.12.2009
1. Loans with specific fair value hedges:	**18,739**	**25,330**
a) interest rate risk	18,739	25,330
b) exchange risk	–	–
c) credit risk	–	–
d) other risks	–	–
2. Loans with specific cash flow hedges:	**–**	**–**
a) interest rate risk	–	–
b) exchange risk	–	–
c) other	–	–
Total	**18,739**	**25,330**

Loans with specific fair value hedges are stated at cost as adjusted for the fair value of the hedged risk. This refers to the residual balance of a fixed-rate mortgage of 17,155 thousand Euro (23,256 thousand Euro at 31.12.2009) hedged against interest rate risk.

7.4 Finance leases

There are no loans in respect of finance leases at the balance sheet date.

Section 8 – Hedging derivatives
Line item 80

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

8.1 Hedging derivatives: breakdown by type of hedge and level

	31.12.2010					31.12.2009				
	L1	L2	L3	Fair value	VN	L1	L2	L3	Fair value	VN
A. Financial derivatives	**–**	**6,507**	**–**	**6,507**	**1,200,000**	**–**	**9,883**	**–**	**9,883**	**40,705**
1) Fair value	–	6,507	–	6,507	1,200,000	–	9,883	–	9,883	40,705
2) Cash flows	–	–	–	–	–	–	–	–	–	–
3) Foreign investments	–	–	–	–	–	–	–	–	–	–
B. Credit derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1) Fair value	–	–	–	–	–	–	–	–	–	–
2) Cash flows	–	–	–	–	–	–	–	–	–	–
Total	**–**	**6,507**	**–**	**6,507**	**1,200,000**	**–**	**9,883**	**–**	**9,883**	**40,705**

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

The amount of 6,507 thousand Euro booked at 31.12.2010 relates to the positive value of the derivatives stipulated to hedge the interest rate risk of the core deposits for a notional of 1.2 billion euro.
The balance at 31.12.2009 of 9,883 thousand Euro relates to the valuation at the spot exchange rate of the effective portion of the cross currency swaps taken out to the hedge exchange risk (which expired during 2010) on the sterling investment in Tirving, shown in the balance sheet under "Investments in associates and companies subject to joint control".

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

Transactions/Type of hedge	Fair Value						Cash flows		Foreign investments
	Specific					Generic	Specific	Generic	
	Interest rate risk	Exchange rate risk	Credit risk	Price risk	Other risks				
1.Financial assets available for sale	–	–	–	–	–	X	–	X	X
2. Loans and advances	–	–	–	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 transactions	–	–	–	–	–	X	–	X	–
Total assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1.Financial liabilities	–	–	–	X	–	X	–	X	X
2. Portfolio	X	X	X	X	X	6,507	X	–	X
Total liabilities	**–**	**–**	**–**	**–**	**–**	**6,507**	**–**	**–**	**–**
1. Expected transactions	X	X	X	X	X	X	–	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	–	X	–	–

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

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

At the reference date there are no assets with hedges ("macrohedging") in the financial statements.

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

This line item reports investments in subsidiaries (IAS 27), joint ventures (IAS 31) and companies over which the investor exercises a significant influence (associates-IAS 28).

10.1 Investments in subsidiaries, associates and companies subject to joint control: disclosures

Name	Share capital		Unit value	Head office	% Held	% voting rights(1)
A. Investments in subsidiary companies						
Unlisted Banks						
1. WeBank S.p.A.	Euro	54,186,349	Euro 1	Milano	100.00	
2. Banca di Legnano S.p.A.	Euro	472,573,272	Euro 1	Legnano	93.51	
3. Cassa di Risparmio di Alessandria S.p.A.	Euro	76,441,530	Euro 5.16	Alessandria	80.00	
4. Banca Popolare di Mantova S.p.A.	Euro	2,968,290	Euro 2.58	Mantova	61.02	
5. Banca Akros S.p.A.	Euro	39,433,803	Euro 1	Milano	56.89	
Unlisted financial institutions						
6. Tirving Ltd	GBP	5,000	GBP 1	Dublino (Irlanda)	100.00	
7. BPM Capital I LLC	Euro	24,500,000		Delaware (USA)	100.00	
8. ProFamily S.p.A.	Euro	50,000,000	Euro 1	Milano	100.00	
9. BPM Ireland Plc	Euro	257,586	Euro 1	Dublino (Irlanda)	99.99	
10. BPM Luxembourg S.A.	Euro	255,000	Euro 1.25	Lussemburgo	99.00	
11. BPM Covered Bond S.r.l.	Euro	10,000	Euro 1	Roma	80.00	
Unlisted insurance companies:						
12. Bipiemme Vita S.p.A.	Euro	180,500,000	Euro 5	Milano	100.00	
Other unlisted companies						
13. Ge.Se.So. S.r.l.	Euro	10,329		Milano	100.00	
B. Companies subject to joint control						
Unlisted financial institutions						
1. Calliope Finance S.r.l.	Euro	600,000	Euro 1	Conegliano (TV)	50,00	
C. Associates						
Unlisted financial institutions						
1. SelmaBipiemme Leasing S.p.A.	Euro	41,305,000	Euro 0.5	Milano	40.00	
2. Aedes Bipiemme Real Estate SGR S.p.A.	Euro	5,500,000	Euro 1	Milano	39.00	
3. Factorit S.p.A.	Euro	85,000,002	Euro 1	Milano	30.00	
4. Etica SGR S.p.A.	Euro	4,000,000	Euro 10	Milano	27.50	
5. Asset Management Holding S.p.A.	Euro	5,605,791	Euro 1	Milano	26.30	
6. Pitagora 1936 S.p.A.	Euro	9,400,000	Euro 1	Torino	24.00	
7. Wise Venture SGR S.p.A.	Euro	1,250,000	Euro 1	Milano	20.00	

(1) Voting rights at ordinary shareholders' meeting. Voting rights are only shown if they differ from the percentage held in the share capital.

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

Name	Total assets	Total revenues	Net income (loss)	Equity (including income/loss)	Book value	Fair value
A. Investments in subsidiary companies					**1,809,696**	
Unlisted Banks					**1,450,032**	
1. WeBank S.p.A.	1,967,535	67,670	(9,118)	49,785	76,040	X
2. Banca di Legnano S.p.A.	4,756,183	278,464	105,386	1,269,636	995,514	X
3. Cassa di Risparmio di Alessandria S.p.A.	2,468,375	99,613	(11,729)	151,565	277,635	X
4. Banca Popolare di Mantova S.p.A.	423,399	15,677	319	41,496	45,959	X
5. Banca Akros S.p.A.	2,703,288	149,847	20,108	174,683	54,884	X
Unlisted financial institutions					**113,347**	
6. Tirving Ltd	1,204	1,215	1,187	1,190	9	X
7. BPM Capital I LLC	188,608	13,452	(317)	21,915	21,915	X
8. ProFamily S.p.A.	95,371	934	(11,912)	37,912	50,000	X
9. BPM Ireland Plc	607,428	18,733	1,124	26,195	41,163	X
10. BPM Luxembourg S.A.	188,914	13,185	(381)	315	252	X
11. BPM Covered Bond S.r.l.	49	119	0	10	8	X
Unlisted insurance companies :					**246,309**	
12. Bipiemme Vita S.p.A.	4,368,690	1,089,894	(31,807)	176,790	246,309	–
Other unlisted companies					**8**	
13. Ge.Se.So. S..r.l.	1,217	2,128	7	214	8	X
B. Companies subject to joint control					**0**	
Unlisted financial institutions					**0**	
1. Calliope Finance S.r.l.	43,749	3,428	19	1,010	0	X
C. Associates					**280,328**	
Unlisted financial institutions					**280,328**	
1. SelmaBipiemme Leasing S.p.A.	2,667,413	99,843	(7,458)	92,347	35,038	–
2. Aedes Bipiemme Real Estate SGR S.p.A.	8,400	5,881	653	6,963	2,145	–
3. Factorit S.p.A.	1,438,704	79,906	10,014	161,204	51,625	–
4. Etica SGR S.p.A.	6,026	4,368	290	4,190	1,100	–
5. Asset Management Holding S.p.A.	1,011,395	212,396	2,960	431,264	185,707	–
6. Pitagora 1936 S.p.A.	126,786	55,377	3,352	25,556	3,456	–
7. Wise Venture SGR S.p.A.	3,899	4,840	74	1,984	1,257	–
Total					**2,090,024**	

The figures shown are drawn from the financial statements at 31.12.2010, which were used to prepare the consolidated financial statements, except for those of SelmaBipiemme Leasing S.p.A. which are taken from the financial statements for the year ended 30 June 2010.

The "total revenues" column reports the overall amount of income before tax.

The fair value of investments in associates is reported only for listed companies.

As regards the investments held in significant subsidiaries carried in the Bank's financial statements at a value that is higher than the corresponding portion of their net equity shown in the latest available balance sheet, please note that:

WeBank S.p.A.
The book value of the investment, which has increased following the absorption of WeTrade SIM S.p.A., has been subjected to an impairment test, the results of which are shown in the notes to the consolidated financial statements together with an explanation of the method used.

Cassa di Risparmio di Alessandria S.p.A.
The difference between the book value (277.6 million euro) and BPM's share of net equity (121.3 million Euro at 31.12.2010, inclusive of net loss for the year) is goodwill recognised on acquisition of the company, periodically submitted to impairment testing. The method used for this test is illustrated in the notes to the consolidated financial statements.

Banca Popolare di Mantova S.p.A.
The difference between the book value (45.9 million euro) and BPM's share of net equity (25.3 million Euro at 31.12.2010) is attributable to the fair value of its assets and liabilities and to goodwill. The method used for impairment testing goodwill is explained in the notes to the consolidated financial statements.

ProFamily S.p.A.
The company's equity includes the loss made in 2010, which discounts the costs incurred during the start-up phase of the company, in line with what was expected in the business plan.

BPM Ireland Plc
The company's equity at 31.12.2010 reflects its prior year losses and includes negative valuation reserves of securities available for sale for 5.1 million euro. These negative elements originate from negative changes in fair value due to market fluctuations that do not represent permanent impairment losses.

Bipiemme Vita S.p.A.
The book value of this investment takes account of the intangible assets and goodwill shown in the consolidated financial statements. For further details, see Part G of the explanatory notes to the consolidated financial statements.

Asset Management Holding S.p.A.
The investment was accounted for at the amount paid at the time of the increase in capital, adjusted for the portion contractually foreseen by way of price adjustment. This amount reflects the valuations of Prima SGR and Anima SGR - supported by expert appraisals - reached during the agreement on asset management explained in the report on operations.

Wise Venture SGR S.p.A.
The difference between the book value and BPM's portion of net equity does not represent a permanent impairment loss.

10.3 Investments in subsidiaries, associates and companies subject to joint control: changes during the year

	31.12.2010	31.12.2009
A. Opening balance	**1,833,943**	**1,610,804**
B. Increases	**675,957**	**223,529**
B.1 Purchases	505,012	203,755
B.3 Writebacks	–	17,541
B.3 Revaluations	–	–
B.4 Other increases	170,945	2,233
C. Decreases	**419,876**	**390**
C.1 Sales	326,335	–
C.2 Adjustments	317	390
C.3 Other decreases	93,224	–
D. Total balance	**2,090,024**	**1,833,943**
E. Total revaluations	**–**	**–**
F. Total adjustments	**231,137**	**306,262**

Detail of changes during the year

B. Increases	**675,957**
B.1 Purchases	**505,012**
• Purchase of 10,557,000 shares in BPM Vita S.p.A., 51% of the share capital	113,518
• Purchase of 25,500,000 shares in Factorit S.p.A.	51,625
• Purchase of 199 shares in Banca Popolare di Mantova S.p.A.	7
• Subscription of 5,605,791 shares in Asset Management Holding S.p.A.	185,707
• Subscription of 15,400,000 shares in BPM Vita S.p.A.	77,000
• Subscription of 40,000,000 shares in Profamily S.p.A.	40,000
• Subscription of 1,077,400 shares in Cassa di Risparmio di Alessandria S.p.A.	23,875
• Subscription of 297,901 shares in Banca Popolare di Mantova S.p.A.	13,280
B.4 Other increases	**170,945**
Proceeds of the sale of Anima SGR S.p.A.	124,811
Merger of WeTrade Sim with WeBank S.p.A. with an issue of 30,884,945 shares	45,241
Foreign exchange differences on the investment in Tirving	893
C. Decreases	**419,876**
C.1 Sales	**326,335**
• Sales of 18,011 shares in Anima SGR S.p.A.	326,335
C.2 Adjustments	**317**
• Writedown of BPM Capital I LLC	317
C.3 Other decreases	**93,224**
• Merger of Bipiemme Private Banking SIM S.p.A.	13,827
• Merger of WeTrade Sim with WeBank S.p.A. with extinction of 1,875,000 shares	45,241
• Liquidation of Società Milanese di Sviluppo e Formazione Musicale S.p.A. in liquidazione	241
• Loss following the liquidation of Soc. Milanese di Sviluppo e Formazione Musicale S.p.A. in liquidazione.	9
• Reimbursement of the share capital of Tirving	33,906

Details of line item F. Total adjustments			Gross book value	Line item F. Total	Net book value
A.	**Investments in subsidiary companies**				
	Unlisted Banks				
	Banca di Legnano S.p.A.		**1,143,776**	**148,262**	**995,514**
	Adjustments:				
	2004 Euro 148,262,327	following the impairment test carried out on 1.1.2004 at the time of the transition to IAS/IFRS			
	Cassa di Risparmio di Alessandria S.p.A.		**329,722**	**52,088**	**277,634**
	Adjustments:				
	2004 Euro 45,177,503	following the impairment test carried out at 31.12.2004			
	2008 Euro 6,911,000	following the impairment test carried out at 31.12.2008			
	Unlisted financial institutions				
	BPM Capital I LLC		**24,500**	**:2,585**	**21,915**
	Adjustments:				
	2002 Euro 382,621				
	2003 Euro 230,342				
	2004 Euro 236,146				
	2006 Euro 511,639				
	2007 Euro 256,831				
	2008 Euro 260,424				
	2009 Euro 389,968				
	2010 Euro 317,033				
	BPM Ireland PLC		**65,831**	**24,668**	**41,163**
	Adjustments:				
	2007 Euro 8,785,731				
	2008 Euro 32,025,286				
	Writebacks:				
	2009 Euro 16,143,083				
	BPM Luxembourg S.A.		**420**	**168**	**252**
	Adjustments:				
	2002 Euro 123,750				
	2003 Euro 44,550				
B.	**Companies subject to joint control**				
	Unlisted financial institutions				
	Calliope S.r.l.		**300**	**300**	**0**
	Adjustments:				
	2008 Euro 300,000				
C.	**Associates**				
	Unlisted financial institutions				
	SelmaBipiemme Leasing S.p.A.		**36,292**	**1,257**	**35,038**
	Adjustments:				
	1995 Euro 820,960				
	1996 Euro 435,910				
	Etica S.G.R. S.p.A.		**1,109**	**9**	**1,100**
	Adjustments:				
	2002 Euro 9,378				
	Wise Venture SGR S.p.A.		**3,057**	**1,800**	**1,257**
	Adjustments:				
	2005 Euro 1,800,000				
Total				**231,137**	

10.4 Commitments relating to investments in subsidiaries

Banca di Legnano S.p.A.

In December 2004 Credit Industriel et Commercial (hereafter "CIC"), as part of the agreement signed with Banca Popolare di Milano, participated in the increase in share capital of Banca di Legnano (hereafter "BDL"), subscribing 6.49% of its share capital.

The various agreements provide for a put option in favour of CIC on the interest held in BDL. This is an irrevocable sale option by CIC to BPM of the BDL shares held as a result of the increase in capital, exercisable under the following circumstances:

- termination of the Framework Agreement ;
- non-fulfilment by BPM of the obligations under the Framework Agreement (in particular those relating to the information to be given to CIC with regard to facts or events that constitute a violation of declarations or guarantees given by CIC, certain shareholder resolutions on specific matters, the minimum portion of BDL's profit to be distributed by way of dividend, the presence of a representative of CIC on the Board of Directors and Board of Statutory Auditors and any change of control over BDL).

The option price, from the 3rd year and for the entire duration of the agreement, is based on the effective value of the net equity at the exercise date of the option.

For the entire duration of the framework agreement, which expires on 31 December 2013, BPM is committed to maintaining control over BDL and CIC is committed to maintaining ownership of the BDL shares that it holds.

Bipiemme Vita

Being of the opinion that there were no longer the conditions to continue the joint project launched on 14 June 2006 in the field of bancassurance, Banca Popolare di Milano, Fondiaria-SAI and Milano Assicurazioni agreed to wind it up. BPM then repurchased the 51% of Bipiemme Vita held by Milano Assicurazioni (a member of the Fondiaria-SAI Group) on 17 June 2010. The contract winding up the agreements also provides for an earn-out mechanism in favour of Milano Assicurazioni. This is linked to the value of Bipiemme Vita and whether it exceeds certain thresholds, in the event that the BPM Group cedes control over the insurance company to third parties in the twelve months following 17 June 2010.

BPM Covered Bond S.r.l.

This is a registered brokerage company of which the Bank holds 80% of the share capital. It was acquired in 2008 as part of the BPM covered bonds issue programme. The other 20% of the share capital is held by a Dutch Foundation (a so-called "Stichting").

A shareholder agreement was signed that, among other things, grants a reciprocal option right between the shareholders for the stake held by the Stichting (20%). It will be possible for BPM to exercise its call option and for the Stichting to exercise its put option all at the one time during the six months after the deadline (the first between the date on which the covered bond issue programme comes an end and the date on which the bonds are redeemed in full). The price will be of equal to its nominal value.

10.5 Commitments relating to investments in joint ventures

We are not aware of any commitments relating to investments in joint ventures at the balance sheet date.

10.6 Commitments relating to investments in associates

Asset Management Holding S.p.A.

The strategic combination between Anima SGR and Prima SGR is explained in detail in the section on "Significant events" in the report on operations. Following this operation, the BPM Group:

- transferred all of its investment in Anima SGR to Asset Management Holding ("AM Holding");
- subscribed a reserved increase in capital of AM Holding, becoming the holder of a total interest of 36.30% of its share capital (of which 10% is held by Banca di Legnano).

The various agreements that have been signed establish various governance matters as well as:

- a commitment on the part of BPM to grant a loan to Anima on expiry of the subordinated loan 31.7.2007 - 31.7.2012, which allows the company to increase its regulatory capital by Euro 9 million. If Anima cannot include this new subordinated loan in its regulatory capital, BPM undertakes to make a sinking-fund payment to AM Holding, which will allocate it to Anima so as to guarantee this increase in its regulatory capital.
- Any adjustment (up or down) to the selling price of Anima linked to the net revenues earned by the BPM Group's network in the three-year period 2011-2013 (to be carried out by 31 May 2014). Based on the information currently available, such an adjustment looks highly improbable, as the flow of revenues shown in the forecasts falls within the contractual range of tolerance.

Factorit S.p.A.

On 29 July 2010, Banca Popolare di Milano and Banca Popolare di Sondrio ("BPS") bought 30% and 60.5% respectively of Factorit S.p.A. from Banca Italease which holds the residual 9.5%. On the same day, BPM and BPS signed a shareholder agreement to regulate the company's governance; In particular, BPM has the right to appoint two out of the seven directors, the chairman of the board of statutory auditors and an alternate statutory auditor. These agreements also provide for:

- BPM's willingness to sell a shareholding of not more than 5% of Factorit's share capital to Banca Italease, or to Banco Popolare or to another company controlled by it, at conditions to be negotiated;
- a right to sell in favour of BPM in the event that BPS decides to sell 50% of Factorit plus one share.

SelmaBipiemme Leasing S.p.A.

SelmaBipiemme Leasing (hereafter "Selma") is a subsidiary of Mediobanca through Compass.
Between BPM, Mediobanca and Compass there is a shareholder agreement lasting until 30 June 2012 which regulates their reciprocal rights and obligations in terms of the company's governance and disposal of the investment (providing for reciprocal sale and purchase options).

Call options have been taken out by Mediobanca/Compass and put options have been taken out by BPM for BPM's investment in Selma; these can be exercised in the event of cancellation or failure to renew the commercial agreement on the part of BPM, a change of control over BPM, sale of more than 50% of BPM's branch network and if there was no longer exclusive collaboration with Selma, on the one hand; and, on the other, in the event of cancellation on expiry of the commercial agreement by Selma.
Said options will have to be exercised within 180 days from the event which determined the exercise. The strike price for Compass/Mediobanca will be equal to their proportion of Selma's net equity as shown in its latest financial statements; the price will discount the restructuring charges that Selma will have to pay if it loses BPM's distribution channel. The strike price for BPM to exercise the option will be equal to the pro-rata economic value of the investee, determined on the basis of a method laid down in the agreement.
The agreement also includes a call option for BPM to buy Compass' investment in Selma, in the event that Compass loses control over Selma or Mediobanca loses control over Compass, or if a banking or insurance group acquires control over Mediobanca by a banking or insurance group. The strike price of the option, which will have to be exercised within 180 days of the event taking place, will be equal to their proportion of Selma's economic value determined by applying a pre-established method laid down in the agreement. In the event of exercise of said option, Compass will have the right to purchase, within 180 days from the transaction, the interest held at that date by Selma in Palladio Leasing S.p.A. and in Teleleasing S.p.A.

Wise Venture SGR S.p.A.

Banca Popolare di Milano is the principal investor in Wisequity II & Macchine Italia, a private equity fund launched by Wise Venture SGR (hereafter "Wise"), which concentrates on small- and medium-sized Italian companies, together with other leading institutional investors among which, the De Agostini Group, which is also one of the main sponsors of Wise.
In June 2005 the Bank signed an agreement with DeAgostini Invest (hereafter "DeA") and the founder members of the SGR (hereafter the "Members"), which led to the integration of BPM Private Equity SGR and Wise with the Bank acquiring 20% of Wise as a result. The agreement included matters of governance, limitations on share transfers, an option in favour of DeA to become a member of Wise, with a 20% stake sold pro-rata by the other members, and put and call options among the Members and BPM for its stake in Wise.
These agreements were amended (in January and June 2007) by means of supplementary agreements with which the Members sold their put and call options for BPM's stake in Wise to IDeA Alternative Investments SpA (hereafter IDeA, a company owned by De Agostini and the Members), DeA waived its call option for the stake in Wise and the Members sold to IDeA the bare ownership of 29% of the share capital, as well as a beneficial interest over their entire interest in Wise (80%).
These agreements expired during 2010 with the exception of the purchase option for BPM's investment in Wise, which can be exercised by IdeA, during a 12-month window that started on 22 July 2010. The price of the option is the portion of book net equity represented by the shares to be transferred, as shown in the latest financial statements. In January 2011, following the Partners' repurchase of full property over 80% of Wise and the acquisition of 100% control of IdeA by the De Agostini Group, the option regarding BPM's interest in Wise has returned once again to the Partners.

Section 11 – Property and equipment
Line item 110

11.1 Property and equipment: breakdown of assets carried at cost

Assets/Amounts	31.12.2010	31.12.2009
A. Assets used in business		
1.1 owned by company	**574,523**	**587,394**
a) land	240,142	239,396
b) buildings	278,087	293,498
c) furniture	19,681	17,706
d) electronic equipment	12,636	13,887
e) other	23,977	22,907
1.2 purchased under finance lease	**–**	**–**
a) land	–	–
b) buildings	–	–
c) furniture	–	–
d) electronic equipment	–	–
e) other	–	–
Total A	**574,523**	**587,394**
B. Investment property		
2.1 owned by company	**11,696**	**12,140**
a) land	4,615	4,615
b) buildings	7,081	7,525
2.2 purchased under finance lease	**–**	**–**
a) land	–	–
b) buildings	–	–
Total B	**11,696**	**12,140**
Total (A + B)	**586,219**	**599,534**

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

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

There is no property and equipment that has been measured at fair value at the balance sheet date.

11.3 Property and equipment used in the business: changes during the year

	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. Opening gross amount	**239,396**	**667,502**	**85,552**	**135,824**	**120,606**	**1,248,880**
A.1 Total net reductions in value	–	374,004	67,846	121,937	97,699	661,486
A.2 Net opening amount	**239,396**	**293,498**	**17,706**	**13,887**	**22,907**	**587,394**
B. Increases:	**746**	**2,301**	**4,477**	**3,142**	**7,186**	**17,852**
B.1 Purchases	746	2,238	4,168	3,135	6,996	17,283
B.2 Capitalised improvement expenditure	–	–	–	–	–	–
B.3 Writebacks	–	–	–	–	–	–
B.4 Fair value increases booked to	–	–	–	–	–	–
a) shareholders' equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
B.5 Positive exchange rate adjustments	–	–	–	–	–	–
B.6 Transfer from investment properties	–	–	–	–	–	–
B.7 Other increases	–	63	309	7	190	569
C. Decreases:	**–**	**17,712**	**2,502**	**4,393**	**6,116**	**30,723**
C.1 Sales	–	105	–	–	–	105
C.2 Depreciation	–	17,607	2,480	4,359	6,106	30,552
C.3 Impairment charges booked to	–	–	–	–	–	–
a) shareholders' equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
C.4 Fair value decreases booked to	–	–	–	–	–	–
a) shareholders' equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
C.5 Negative exchange rate adjustments	–	–	–	–	–	–
C.6 Transfers to:	–	–	–	–	–	–
a) investment properties	–	–	–	–	–	–
b) assets held for sale	–	–	–	–	–	–
C.7 Other decreases	–	–	22	34	10	66
D. Net closing balance	**240,142**	**278,087**	**19,681**	**12,636**	**23,977**	**574,523**
D.1 Total net reductions in value	–	391,512	70,278	125,770	103,621	691,181
D.2 Closing gross amount	**240,142**	**669,599**	**89,959**	**138,406**	**127,598**	**1,265,704**
E. Valuation at cost	**–**	**–**	**–**	**–**	**–**	**–**

Land and buildings:

Line item B.1 Purchases: these amounts relate to the purchase of the following real estate units:
- Busnago – Via San Rocco 12/A
- Roma – Viale Caravaggio 133-135-137

Line item B.7 Other increases: the amount refers to the gain made on the partial sale of the property in Piazzale Lagosta 9, Milan.

Furniture

Line item B.7 Other increases: the amount relates principally to fixed assets coming from the merger of BPM Private Banking SIM, for a total of 309 thousand euro.

Line item C.7 Other decreases: the amount relates to the sale of the fixed assets present in the branch offices transferred to Group banks.

Line item D. Net closing balance: the amount of 19,681 thousand Euro relates for 5,489 thousand Euro to works of art, the same as at 31.12.2009.

Electronic equipment:

Line item B.7 Other increases: the amount relates to fixed assets coming from the merger of BPM Private Banking SIM

Line item C.7 Other decreases: the amount relates to changes in the value of assets purchased in previous years for 5 thousand Euro and to the sale of fixed assets present in the branch offices transferred to Group banks for 29 thousand euro.

Other

Line item B.7 Other increases: the amount relates principally to fixed assets coming from the merger of BPM Private Banking SIM, for a total of 113 thousand euro.

Line item C.7 Other decreases: the amount relates to the sale of the fixed assets of the branch offices transferred to Group banks.

11.4 Investment properties: changes during the year

Investment properties are valued at cost.

	Land	Buildings	Total
A. Opening balance	**4,615**	**7,525**	**12,140**
B. Increases	**–**	**–**	**–**
B.1 Purchases	–	–	–
B.2 Capitalised improvement expenditure	–	–	–
B.3 Net fair value increases	–	–	–
B.4 Writebacks	–	–	–
B.5 Positive exchange rate adjustments	–	–	–
B.6 Transfers from buildings used in the business	–	–	–
B.7 Other increases	–	–	–
C. Decreases	**–**	**444**	**444**
C.1 Sales	–	–	–
C.2 Depreciation	–	444	444
C.3 Fair value decreases	–	–	–
C.4 Impairment charges	–	–	–
C.5 Negative exchange rate adjustments	–	–	–
C.6 Transfers to other asset portfolios	–	–	–
a) buildings used in the business	–	–	–
b) non-current assets held for sale and discontinued operations	–	–	–
C.7 Other decreases	–	–	–
D. Closing balance	**4,615**	**7,081**	**11,696**
E. Measurement at fair value	**4,868**	**9,354**	**14,222**

11.5 Commitments to purchase property and equipment

Contractual commitments to purchase property and equipment (unexecuted orders) amount to 3,156 thousand Euro at the balance sheet date (3,849 thousand Euro at 31.12.2009).

Section 12 – Intangible assets
Line item 120

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

12.1 Intangible assets: breakdown by type of assets

Assets/Amounts	Finite life	Indefinite life	31.12.2010	Finite life	Indefinite life	31.12.2009
A.1 Goodwill	X	144,581	144,581	X	136,584	136,584
A.2 Other intangible assets	89,632	–	89,632	97,877	–	97,877
A.2.1 Assets valued at cost:	89,632	–	89,632	97,877	–	97,877
a) Internally generated intangible assets	–	–	–	–	–	–
b) Other assets	89,632	–	89,632	97,877	–	97,877
A2.2 Assets valued at fair value:	–	–	–	–	–	–
a) Internally generated intangible assets	–	–	–	–	–	–
b) Other assets	–	–	–	–	–	–
Total	**89,632**	**144,581**	**234,213**	**97,877**	**136,584**	**234,461**

Composition of "Intangible assets with a finite life carried at cost"

Elements	31.12.2010	31.12.2009
Software	**56,923**	**63,444**
– Own software	29,869	31,514
– Software under licence	27,054	31,930
Core deposits	**32,709**	**34,433**
Total Line item A.2.1 b) Other assets	**89,632**	**97,877**
Of which not yet amortised:		
– Own software	6,906	2,591
– Software under licence	2,066	2,585
Total other assets not yet amortised	**8,972**	**5,176**

The amount relating to "core deposits" derives from the purchase price allocation process of the following businesses:

Description	Original amount	31.12.2010	31.12.2009
2008 - Acquisition of Unicredit Group branches	38,294	30,571	34,433
2010 – Acquisition of 3 branches from Banca di Legnano	1,359	1,268	–
2010 – Acquisition of 2 branches from Cassa di Risparmio di Alessandria	933	870	–
Total	**40,586**	**32,709**	**34,433**

For more information on the recognition of the activities acquired during the current year, reference should be made to "Part G – Business combinations" in the notes to the financial statements.

On the basis of IAS 38, para. 118 letter a), we inform that:

- the amount related to core deposits is amortised over 10 years;
- software has all been classified as intangible assets with a finite useful life is amortised over a period between 3 and 7 years, as illustrated below:

Description	Own software	Software under licence	31.12.2010	Own software	Software under licence	31.12.2009
Software amortised over 3 years	162	53	**215**	513	160	**673**
Of which not yet amortised	–	–	**–**	–	–	**–**
Software amortised over 6 years	25,212	23,897	**49,109**	22,589	25,562	**48,151**
Of which not yet amortised	*6,906*	*2,066*	***8,972***	*2,591*	*2,585*	***5,176***
Software amortised over 7 years	4,495	3,104	**7,599**	8,412	6,208	**14,620**
Of which not yet amortised	–	–	**–**	–	–	**–**
Total	**29,869**	**27,054**	**56,923**	**31,514**	**31,930**	**63,444**
Of which not yet amortised	*6,906*	*2,066*	***8,972***	*2,591*	*2,585*	***5,176***

12.2 Intangible assets: changes during the year

	Goodwill	Other intangible assets				Total
		Internally generated		Other		
		FIN.	INDEF.	FIN.	INDEF.	
A.Opening balance	**136,584**	**–**	**–**	**326,019**	**–**	**462,603**
A.1 Total net reductions in value	–	–	–	228,142	–	228,142
A.2 Net opening amount	**136,584**	**–**	**–**	**97,877**	**–**	**234,461**
B.Increases	**7,997**	**–**	**–**	**18,730**	**–**	**26,727**
B.1 Purchases	7,997	–	–	18,471	–	26,468
B.2 Increases in internally generated intangible assets	X	–	–	–	–	–
B.3 Writebacks	X	–	–	–	–	–
B.4 Fair value increases	X	–	–	–	–	–
– to shareholders' equity	X	–	–	–	–	–
– to income statement	X	–	–	–	–	–
B.5 Positive exchange rate adjustments	–	–	–	–	–	–
B.6 Other increases	–	–	–	259	–	259
C. Decreases	**–**	**–**	**–**	**26,975**	**–**	**26,975**
C.1 Sales	–	–	–	–	–	–
C.2 Adjustments	–	–	–	26,975	–	26,975
– amortisation	X	–	–	26,975	–	26,975
– writedowns	–	–	–	–	–	–
+ shareholders' equity	X	–	–	–	–	–
+ income statement	–	–	–	–	–	–
C.3 Fair value decreases	X	–	–	–	–	–
– to shareholders' equity	X	–	–	–	–	–
– to income statement	X	–	–	–	–	–
C.4 Transfers to non–current assets held for sale and discontinued operations	–	–	–	–	–	–
C.5 Negative exchange rate adjustments	–	–	–	–	–	–
C.6 Other decreases	–	–	–	–	–	–
D. Net closing amount	**144,581**	**–**	**–**	**89,632**	**–**	**234,213**
D.1 Total net adjustments	–	–	–	255,363	–	255,363
E. Closing gross amount	**144,581**	**–**	**–**	**344,995**	**–**	**489,576**
F. Valuation at cost	**–**	**–**	**–**	**–**	**–**	**–**

Key: **FIN.**: finite life **INDEF.**: indefinite life

Goodwill:
Goodwill refers to goodwill arising on the following mergers and business acquisitions:

Assets/Amounts	**Goodwill at 31.12.2009**	**Increases**	**Decreases**	**Goodwill at 31.12.2010**
Merger of Banca Agricola Milanese	16,330	–	–	16,330
Merger of Banca Briantea	6,145	–	–	6,145
Merger of Banca 2000	6,725	–	–	6,725
Purchase of the Pavia branch	342	–	–	342
Acquisition of Unicredit branches	107,042	–	–	107,042
Acquisition of Banca di Legnano branches	–	5,965	–	5,965
Acquisition of Cassa di Risparmio di Alessandria branches	–	2,032	–	2,032
Total	**136,584**	**7,997**	**–**	**144,581**

Other intangible assets:

B. Increases
Line item B.6 Other increases: the amount relates for 228 thousand Euro to software coming from the merger of BPM Private Banking SIM.

12.3 Other information

The following declarations are made as required by paragraphs 122 and 124 of IAS 38:

- there are no revalued intangible assets; as a result, there are no restrictions on distributing revaluation surpluses relating to intangible assets to shareholders (paragraph 124, letter b) of IAS 38);

- there are no intangible assets that have been acquired by way of a government grant (paragraph 122, letter c) of IAS 38);

- there are no intangible assets that have been pledged as security for liabilities (paragraph 122, letter d) of IAS 38);

- contractual commitments for the purchase of intangible assets (unexecuted orders) amount to 5,305 thousand Euro at 31.12.2010 (3,974 thousand Euro at 31.12.2009) (paragraph 122, letter e) of IAS 38);

- there are no leased intangible assets.

Section 13 – Tax assets and liabilities
Asset line item 130 and liability line item 80

In accordance with IAS 12, these line items show current and deferred tax assets (asset line item 130) and current and deferred tax liabilities (liability line item 80).

13.1 Deferred tax assets: breakdown

The types of timing difference giving rise to the recognition of deferred tax assets are as follows:

Description	IRES	IRAP	31.12.2010	31.12.2009
Deferred tax assets with contra-entry to the income statement:	**244,844**	**821**	**245,665**	**223,093**
– Tax losses	**–**	**–**	**–**	**–**
– Impairment adjustment to loans to customers and banks	**171,363**	**–**	**171,363**	**139,889**
– Other:	**73,481**	**821**	**74,302**	**83,204**
+ Valuation adjustments to trading financial assets and financial assets designated at fair value through profit and loss	1,309	42	1,351	1,350
+ Adjustments to securities issued	2,047	359	2,406	4,156
+ Adjustments to financial liabilities held for trading and financial liabilities designated at fair value through profit and loss	–	–	–	–
+ Adjustments for the impairment of guarantees given reported under other liabilities	7,315	–	7,315	8,307
+ Allowances for risks and charges	48,951	123	49,074	59,123
+ Costs of a mainly administrative kind	2,918	3	2,921	1,439
+ Other line items	10,941	294	11,235	8,829
Deferred tax assets with contra-entry to shareholders' equity:	**42,135**	**7,201**	**49,336**	**16,954**
– Valuation reserves:	**42,135**	**7,201**	**49,336**	**16,954**
+ Losses on financial assets available for sale	34,847	7,201	42,048	11,060
+ Actuarial gains/losses relating to payroll provisions	7,288	–	7,288	5,894
Total sub-items 130 b) Deferred tax assets	**286,979**	**8,022**	**295,001**	**240,047**

13.2 Deferred tax liabilities: breakdown

The types of timing difference giving rise to the recognition of deferred tax liabilities are as follows:

Description	IRES	IRAP	31.12.2010	31.12.2009
Deferred tax liabilities with contra-entry to the income statement:	**36,999**	**1,833**	**38,832**	**20,871**
- Revaluation of financial assets held for trading and financial assets designated at fair value through profit and loss	1,624	–	1,624	1,730
- Revaluation of hedging derivatives	–	–	–	–
- Portion of implicit fees contained in bonds measured at fair value, reported under other liabilities	344	57	401	401
- Portion of employee termination indemnities already recognised for tax	5,882	–	5,882	6,282
- Amortisation of intangible assets and depreciation of property and equipment already recognised for tax	12,720	1,776	14,496	12,361
- Other line items	16,429	–	16,429	97
Deferred tax liabilities with contra-entry to shareholders' equity:	**2,848**	**2,424**	**5,272**	**5,035**
- Valuation reserves	**2,848**	**2,424**	**5,272**	**5,035**
+ Gains on financial assets available for sale	2,848	2,424	5,272	5,035
Total sub-items 80 b) Deferred tax liabilities	**39,847**	**4,257**	**44,104**	**25,906**

"Other line items" mainly includes the deferred tax liabilities set aside during the year on capital gains realised by the Bank following the sale of the custodian bank business and the transfer of the branches, which are taxed over a period of five years.

Unrecorded deferred tax liabilities

No deferred tax liabilities have been provided in relation to the 144 million Euro of the Bank reserves in suspense for tax purposes on bonus issue increases in capital for 688,360 thousand euro, as no distribution is foreseen, so it is unlikely that the deferred tax would have to be paid. This amount has been formed over time as follows:

- 354,488 thousand Euro of this amount relates to an increase in capital in 1996 to adjust the par value of the shares from Lire 1,000 to Lire 5,000;
- 34,729 thousand Euro relates to an increase in capital in 2001 to raise the par value of the shares to Euro 3;
- 1,115 thousand Euro relates to Banca 2000, since absorbed;
- 26,570 thousand Euro relates to Bipiemme Immobili, since absorbed;
- 251,458 thousand Euro relates to an increase in capital in March 2007 to raise the par value of the shares from 3 Euro to 4 Euro. As regards this reserve, taking advantage of Law 266 of 23 December 2005 which permitted fiscal recognition of the higher values booked in the financial statement following the revaluation of certain fixed assets, the Bank decided to free up the balance of the revaluation of properties on the adoption of IAS, by paying the flat-rate tax required by that law (12% for depreciable assets and 6% for non-depreciable assets). The related "Valuation reserve" of 264,609 thousand Euro has all been transferred to share capital and is in suspense for tax purposes for an amount of 251,458 thousand euro.

The reserves in suspense for tax purposes (not booked to share capital) total 18,690 thousand euro. No deferred tax liabilities have been recorded in respect of reserves in suspense for tax purposes since the amount of unrestricted taxed reserves can be reasonably assumed that no events will occur triggering their taxation. These reserves refer to:

Reserve art. 14 Law 342, 21 November 2000 of 18,163 thousand euro. In accordance with art. 14 of Law 342 of 21 November 2000, the Bank decided to align the statutory and fiscal values of the buildings to which part of the merger deficit of Banca Agricola Milanese and Banca Briantea had been attributed, paying the flat-rate tax of 19%. An amount of 18,163 thousand euro, equal to the realignment made (22,423 thousand euro), net of flat-rate tax (4,260 thousand euro), was therefore transferred from the "unrestricted reserve" to the "reserve art. 14 Law 342, 21 November 2000". As with the valuation reserves, no deferred taxes (2 million euro) have been provided, because the reserve is not expected to be distributed;

Reserve ex art. 13.6 of Decree 124/93 of 527 thousand Euro (the amount of deferred taxes that have not been provided comes to around 150 thousand euro).

13.3 Change in deferred tax assets (with matching entry in income statement)

	31.12.2010	31.12.2009
1. Opening balance	**223,093**	**146,362**
2. Increases	**56,778**	**105,361**
2.1 Deferred tax assets arising in the year	56,131	105,361
a) relating to prior years	1,414	21
b) due to changes in accounting policies	–	–
c) writebacks	–	–
d) other	54,717	105,340
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	647	–
3. Decreases	**34,206**	**28,630**
3.1 Deferred tax assets cancelled in the year	34,206	28,630
a) reversals	34,206	28,630
b) written down as now considered unrecoverable	–	–
c) change in accounting policies	–	–
d) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	–	–
4. Carried forward	**245,665**	**223,093**

Sub-item 2.3. "Other increases" relates entirely to deferred tax assets deriving from the merger of Bipiemme Private Banking Sim.

The difference between deferred tax liabilities arising/cancelled during the period, 21,925 thousand euro, has been credited to the income statement under "taxes on income from continuing operations" (76,731 thousand Euro at 31.12.2009).

13.4 Change in deferred tax liabilities (with matching entry in income statement)

	31.12.2010	31.12.2009
1. Opening balance	**20,871**	**21,237**
2. Increases	**19,039**	**4,336**
2.1 Deferred tax assets arising in the year	18,964	4,336
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	18,964	4,336
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	75	–
3. Decreases	**1,078**	**4,702**
3.1 Deferred tax assets cancelled in the year	1,078	4,702
a) reversals	999	4,436
b) due to changes in accounting policies	–	–
c) other	79	266
3.2 Reduction in tax rates	–	–
3.3 Other decreases	–	–
4. Carried forward	**38,832**	**20,871**

Sub-item 2.3. "Other increases" relates entirely to the deferred tax liabilities deriving from the merger of Bipiemme Private Banking Sim.

The difference between deferred tax liabilities arising/cancelled during the period, 17,886 thousand euro, has been charged to the income statement under "taxes on income from continuing operations" (366 thousand Euro credited at 31.12.2009).

13.5 Change in deferred tax assets (with matching entry to shareholders' equity)

	31.12.2010	31.12.2009
1. Opening balance	**16,954**	**31,207**
2. Increases	**34,135**	**4,686**
2.1 Deferred tax assets arising in the year	34,060	4,686
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) writebacks	–	–
c) other	34,060	4,686
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	75	–
3. Decreases	**1,753**	**18,939**
3.1 Deferred tax assets cancelled in the year	1,753	16,901
a) reversals	1,753	16,901
b) written down as now considered unrecoverable	–	–
c) due to changes in accounting policies	–	–
d) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	–	2,038
4. Carried forward	**49,336**	**16,954**

The amount shown in item 3.3 "Other decreases" at 31.12.2009 derived from the tax deductibility of the contribution made to the Guarantee Fund for SMEs linked to the "Tremonti Bonds", which was debited to shareholders' equity.

13.6 Change in deferred tax liabilities (with matching entry to shareholders' equity)

	31.12.2010	31.12.2009
1. Opening balance	**5,035**	**8,825**
2. Increases	**1,747**	**872**
2.1 Deferred tax assets arising in the year	1,747	872
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	1,747	872
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. Decreases	**1,510**	**4,662**
3.1 Deferred tax assets cancelled in the year	1,510	4,662
a) reversals	1,510	4,662
b) due to changes in accounting policies	–	–
c) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	–	–
4. Carried forward	**5,272**	**5,035**

13.7 Other information

Breakdown of current taxation

	IRES	IRAP	Flat-rate tax	31.12.2010	31.12.2009
Current tax liabilities	–43,138	–31,981	–	–75,119	–147,611
Tax credit carried forward	–	–	–	–	–
Other tax credit	3,545	–	–	3,545	143
Withholding taxes	1,719	–	–	1,719	1,200
Advance payments	133,449	42,292	–	175,741	145,017
Total current taxation of the Parent Bank	**95,575**	**10,311**	**–**	**105,886**	**–1,251**
Group tax election:					
- current tax liabilities from Group companies	–11,058	X	X	–11,058	–41,940
- tax credits, advance payments and other withholding taxes	539	X	X	539	5,565
Receivable balance: asset line item 130 a)	**85,056**	**10,311**		**95,367**	**–**
Payable balance: liability line item 80 a)				**–**	**–37,626**

Item 130 a) "Current tax assets" amounts in total to 228,026 thousand Euro (158,736 thousand Euro at 31.12.2009) and includes the debit balance of current taxation detailed in the previous table for 95,367 thousand Euro and tax credits that cannot be offset for 132,659 thousand Euro (158,736 thousand Euro at 31.12.2009) relating to IRES, IRPEG, IRAP and ILOR for which rebates have been requested, of which:

- 114,478 thousand euro, in principal (124,914 thousand Euro at 31.12.2009);
- 18,181 thousand euro, in interest (33,822 thousand Euro at 31.12.2009).

Other information

As regards the Bank's tax position, 2010 saw the completion of a tax audit carried out by the Tax Authorities on fiscal years from 2004 to 2007 (subsequently extended to 2008) concerning IRES (corporate income tax) and IRAP (regional business tax) and particularly those transactions that generated elements of income from which are derived foreign tax credits pursuant to art. 165 of the Consolidated Income Tax Act, as well as dividends from foreign sources as per art. 89.3 of the same Act. The Bank has received a number of audit reports contesting certain matters in all of these years.
During 2009, the Tax Office notified to the Bank a tax audit report that contested certain matters relating to 2004. This was followed on 30 December 2009 by a tax assessment only for IRAP purposes with a request for higher taxes of 15,228 thousand euro, as well as 1,946 thousand Euro of interest up to 31.12.2009 and fines, against which the Bank has appealed.
On completion of the audit and notification in 2010 of the audit reports for all of the years, the Bank was able to quantify the total amount of the Tax Authorities' contestations at 248 million Euro for IRES and IRAP, in addition to fines (which can amount to between one and two times the taxes under dispute) and interest.

On 30 November 2010, the Board of Directors of the Bank was able to review the outcome of the tax audits, as explained above. After examining the situation in detail with the help of expert professionals, as well as the Bank's own structures, the Board of Directors carefully assessed the risks involved in entering complex tax litigation and the uncertainties of the final outcomes. Moreover, given the orientation of the Court of Cassation based on the jurisprudence on "abuse of rights" - the point of law that to a large extent underlies the matters in dispute - consideration was also given to the serious damage that the Bank could suffer from extended litigation and the possible fall-out that could impact its reputation, as well as its standing in financial markets.

So based on these considerations, while convinced that the transactions were carried out correctly at the time, the Board of Directors decided - as announced in a press release - to grant a mandate to the Chairman, authorising him to perform all acts necessary to come to an out-of-court settlement of these matters.
As a result of this mandate, on 20 December 2010 the Bank settled all of the matters in dispute out of court and came to an agreement in court about the appeal against the IRAP assessment for 2004. The amount agreed with the Tax Authorities to settle all of these disputes came to 151 million euro, as well as 12.2 million Euro of interest due by law. A substantial reduction of the fines was negotiated and in certain cases they were cancelled.
Bearing in mind that a provision was set up in 2005 to cover these tax positions and the fact that the interest paid under this settlement is tax-deductible, the overall impact on the Bank's income statement in 2010 comes to 132.3 million euro.

As regards the other disputes that were discussed in the previous report, matters that related to 2001, even though the assessment indicated higher IRPEG for 2,679 thousand Euro and higher IRAP for 372 thousand euro, plus fines, the sentence of the Regional Tax Commission deposited on 1/4/2010 rejected the Tax Authorities' appeal, thereby cancelling the entire assessment that BPN had impugned.

Following the tax audit report on 2005 at the former Bipiemme Immobili S.p.A., which the Bank absorbed in 2007, assessments were notified on 9 December 2010 claiming higher IRES of 230 thousand euro, IRAP for 29 thousand Euro and IVA for 93 thousand euro, plus fines.
Appeals have been duly filed against these claims as the Bank is convinced that they are without foundation.

During 2010 six payment requests were received for registration tax on the purchase of branches from Unicredit in 2008. They are claiming tax for a total of 4,091 thousand euro.
Appeals have duly been filed to obtain the cancellation of these requests.

Section 14 – Non-current assets held for sale and discontinued operations and associated liabilities Asset line item 140 and liability line item 90

At the date of the financial statements, the Bank does not have any non-current assets held for sale or discontinued operations and related liabilities.

Section 15 – Other assets
Line item 150

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

15.1 Other assets: breakdown

	31.12.2010	31.12.2009
Accrued income	**4,528**	**4,445**
Leasehold improvements	**19,417**	**19,395**
Other assets	**429,708**	**591,248**
Items being processed	155,788	249,516
Duty-paid paper and other instruments	6,654	5,481
Cheques drawn on third-party current accounts	60,843	64,726
Receivables from Group companies in connection with the Group tax return.	1	17,850
Advances paid to tax authorities on behalf of others	36,759	16,066
Other tax-related items	46,028	78,084
Non-interest bearing guarantee deposits on own account	2,696	2,669
Prepayments (not capitalised)	44,475	49,507
Other	76,464	107,349
Total	**453,653**	**615,088**

Liabilities and shareholders' equity

Section 1 – Due to banks
Line item 10

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

1.1 Due to banks: description

Type of transaction/Amounts	31.12.2010	31.12.2009
1. Due to central banks	**2,649,009**	**65,273**
2. Due to banks	**5,228,106**	**2,114,112**
2.1 Current accounts and unrestricted deposits	518,901	699,993
2.2 Restricted deposits	2,752,037	1,387,719
2.3 Loans	1,954,367	22,173
2.3.1 Repurchase agreements	1,954,367	9,523
2.3.2 Other	–	12,650
2.4 Payables for commitments to repurchase own equity instruments	–	–
2.5 Other payables	2,801	4,227
Total	**7,877,115**	**2,179,385**
Fair value	**7,877,696**	**2,180,039**

See Part A - Accounting Policies for an explanation of the criteria used to determine fair value.
As explained in the report on operations, the increase in loans to customers, together with the decrease in direct deposits and the considerable investment in government securities, has led to a net interbank balance with BPM as a net borrower, which is reflected in the hefty increase in amounts "Due to banks" (+5.7 billion euro).
Line item 2.3.1 "Repurchase agreements" also includes repurchase agreements based on securities received as part of reverse repurchase agreements.

1.2 Breakdown of line item 10 "Due to banks": subordinated debt

There are no subordinated amounts due to banks at the balance sheet date.

1.3 Breakdown of line item 10 "Due to banks": structured debts

There are no structured debts due to banks at the balance sheet date.

1.4 Due to banks with specific hedges

There are no amounts due to banks that been specifically hedged at the balance sheet date.

1.5 Finance lease payables

There are no finance leases payable to customers at the balance sheet date.

Section 2 – Due to customers
Line item 20

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

2.1 Due to customers: description

Type of transaction/Amounts	31.12.2010	31.12.2009
1. Current accounts and unrestricted deposits	16,621,751	17,010,124
2. Restricted deposits	193,596	106,781
3. Loans	456,030	271,390
3.1 Repurchase agreements	456,029	228,172
3.2. Other	1	43,218
4. Payables for commitments to repurchase own equity instruments	–	–
5. Other payables	575,481	884,444
Total	**17,846,858**	**18,272,739**
Fair value	**17,846,858**	**18,272,739**

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

Line item 3.1 "Repurchase agreements" also includes repurchase agreements based on securities received as part of reverse repurchase agreements.

Line item 5. "Other payables" includes the liabilities linked to assets involved in assignments of financial assets that do not meet the conditions laid down by IAS 39 for being completely eliminated from the financial statements ("liabilities for assets sold and not cancelled"). In particular, it includes a payable to the vehicle company "BPM Securitisation 2 S.r.l." for the securitisation explained in Part E – Section C of these notes.
This line item also comprises operating payables related to financial services received.

2.2 Breakdown of line item 20 "Due to customers": subordinated debts

There are no subordinated amounts due to customers at the balance sheet date.

2.3 Breakdown of line item 20 "Due to customers": structured debts

There are no structured debts due to customers at the balance sheet date.

2.4 Due to customers with specific hedges

There are no amounts due to customers that been specifically hedged at the balance sheet date.

2.5 Finance lease payables

There are no finance leases payable to customers at the balance sheet date.

Section 3 – Securities issued
Line item 30

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

3.1 Securities issued: description

Type of security/Amounts	31.12.2010				31.12.2009			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. bonds	9,607,312	6,424,875	2,667,313	240,951	9,358,370	5,459,286	3,470,620	375,527
1.1 structured	401,528	–	–	240,951	395,514	–	–	375,527
1.2 other	9,205,784	6,424,875	2,667,313	–	8,962,856	5,459,286	3,470,620	–
2. other securities	666,786	–	–	666,786	554,137	–	–	554,137
2.1 structured	–	–	–	–	–	–	–	–
2.2 other	666,786	–	–	666,786	554,137	–	–	554,137
Total	**10,274,098**	**6,424,875**	**2,667,313**	**907,737**	**9,912,507**	**5,459,286**	**3,470,620**	**929,664**

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

Item 1.1 "Securities – structured bonds" shows the "Convertendo BPM 2009/2013 6.75%" bond loan issued on 3 July 2009 as part of a series of measures to boost and stabilise the capital of the Bank, as approved by the Board of Directors during the meeting of 24 March 2009. For further details on this operation, reference should be made to the corresponding section of the notes to the financial statements at 31.12.2009. The value of the embedded derivative has been booked to "Equity instruments". The balances shown at 31.12.2010 (401,528 thousand euro) and at 31.12.2009 (395,514 thousand euro) include the interest accruing up to the balance sheet date of 11,672 thousand Euro and 6,642 thousand Euro respectively. Since 1 January 2010 (starting date for voluntary conversion prior to maturity), 1,468 bonds have been converted into 20,964 BPM shares.

The main characteristics of the two financial instruments are reported below:

Convertendo BPM 2009/2013 6.75%	
Issue price	The Bonds were issued at par, i.e. at 100% of their nominal value.
Nominal amount issued	Euro 406,285,100
No. of bonds issued	4,062,851
Minimum denomination of the bonds	Euro 100.
Subordination level	Senior.
Duration of the bond	From 3 July 2009 to 1 June 2013.
Interest	From the due date (3 July 2009) the bonds have a gross yield of 6.75% per year based on their nominal value and payable yearly from 1 June 2010 to 1 June 2013. The first coupon will have a duration from the due date (included) to 1 June 2010 (excluded).
Listing market	Not listed. The Bank reserves the faculty to require in the future to Borsa Italiana S.p.A. the admission to quotation of the bonds.
Compulsory conversion into shares of the Bank	Automatic conversion into BPM ordinary shares on maturity at the average market price (arithmetic average of the Official Prices of shares reported in the 20 trading days before the date of maturity), with a minimum conversion price of Euro 6 (16.667 shares for each bond) and a maximum conversion price of Euro 7 (14.286 shares for each bond).
Voluntary conversion	Faculty of the bondholder, from 1 January 2010, to convert before maturity at the conversion price of Euro 7.
Warrants on BPM ordinary shares 2009/2013	
Exercise ratio	9 new BPM shares for each warrant presented for conversion
Conversion period	Between 1 May and 1 June 2013.
Strike price	Euro 8 for each new share, of which Euro 4 by way of share premium reserve.
Listing market	The warrants are listed on the Italian Stock Exchange.

Item 1.2 **"Other bonds"** includes, amongst other things, the bonds issued as part of the EMTN programmes and the covered bonds (in this regard, see the explanation given below in part E, point C.3 "Covered Bond Operations"). The composition of these issues is detailed below:

	31.12.2010				31.12.2009			
	Nominal value net of repurchases	Book value	Fair Value		Nominal value net of repurchases	Book value	Fair Value	
			Level 1	Level 2			Level 1	Level 2
Euro Medium Term Notes Issue Programme								
• Fixed rate	300,000	309,919	172,489	144,070	300,000	315,215	168,913	144,186
Of which: subordinated (*)	*160,000*	*168,801*	*172,489*	–	*160,000*	*174,362*	*168,913*	–
• Floating rate	3,395,000	3,396,115	3,284,285	50,587	3,895,000	3,896,985	3,223,472	627,553
Of which: subordinated	*595,000*	*595,066*	*568,293*	–	*600,000*	*599,472*	–	*578,382*
Total EMTN Bonds:	**3,695,000**	**3,706,034**	**3,456,774**	**194,657**	**4,195,000**	**4,212,200**	**3,392,385**	**771,739**
Of which: subordinated	*755,000*	*763,867*	*740,782*	*0*	*760,000*	*773,834*	*168,913*	*578,382*
Covered Bond Issues								
• Guaranteed Bank Bonds of Banca Popolare di Milano S.c.a r.l. 15.7.2008/2011 5.5%	1,000,000	1,024,411	1,048,146	–	1,000,000	1,023,196	1,076,312	–
• Guaranteed Bank Bonds of Banca Popolare di Milano S.c.a r.l. 9.10.2009/17.10.2016 3.5%.	1,000,000	1,000,556	983,992	–	1,000,000	1,000,202	990,589	–
• Guaranteed Bank Bonds of Banca Popolare di Milano S.c.a r.l. 4.11.2010/16.11.2015 3.25%	750,000	746,896	733,444	–	–	–	–	–
Total Covered Bonds	**2,750,000**	**2,771,863**	**2,765,582**	**–**	**2,000,000**	**2,023,398**	**2,066,901**	**–**

EMTN Bonds

The EMTN bonds form part of two multi-year programmes for the issue of medium-term Euro securities approved by the Board of Directors.
Of the first programme, which was approved on 11 September 2000, now expired and not renewed, there are still in circulation 160 million Euro of the "Banca Popolare di Milano subordinated bond loan (Upper Tier 2) Rate 7.625% - 29.6.01-11".
The second programme, which was approved on 2 December 2003 for two billion euro, was gradually increased over time to reach the amount of 10 billion Euro with a resolution of the Board of Directors of 22 April 2008. At present, the programme is drawn down for an amount of 3,540 million Euro relating to nine bond loans currently outstanding, while the balance that can still be used amounts to 6,460 million euro.
The nominal value of the EMTN securities is shown net of the securities that have been repurchased for an amount of 5 million euro.

2010 saw repayment of the "Banca Popolare di Milano 2008/2010 TV% 15.02" loan originally of 1,250 million Euro and issuance of the "Banca Popolare di Milano 2010/2012 TV% 24.09" loan for a nominal value of 750 million euro.

Composition of line item "2.2 Other securities - other"

Item 2.2 includes the certificates of deposit subscribed by customers and the bankers' drafts, detailed as follows:

Type of security/Amounts	31.12.2010				31.12.2009			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Certificates of deposit subscribed by customers	**534,462**	**–**	**–**	**534,462**	**418,136**	**–**	**–**	**418,136**
of which:								
– short–term	529,258	–	–	529,258	411,810	–	–	411,810
– long–term	1,517	–	–	1,517	2,046	–	–	2,046
– matured and uncollected	3,687	–	–	3,687	4,280	–	–	4,280
Bankers' drafts	**132,324**	**–**	**–**	**132,324**	**136,001**	**–**	**–**	**136,001**
of which:								
– bankers' drafts	98,522	–	–	98,522	101,495	–	–	101,495
– other bank cheques	33,802	–	–	33,802	34,506	–	–	34,506
Total	**666,786**	**–**	**–**	**666,786**	**554,137**	**–**	**–**	**554,137**

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

3.2 Breakdown of line item 30 "Securities issued": subordinated securities

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

Bond	31.12.2010	31.12.2009	Original nominal amount issued	Bond issue price	Interest rate	Issue date/ maturity	Notes
Innovative capital instruments (Tier 1):	**213,544**	**214,880**					
Perpetual Subordinated Fixed/Floating Rate Notes – 9%	213,544	214,880	300,000 Euro	98.955	Floating	25.6.2008 Perpetual	1
Hybrid capital instruments (Upper Tier 2):	**354,376**	**373,286**					
Banca Popolare di Milano subordinated bond loan (Upper Tier 2) – Rate 7.625% - 29.6.01-11 (issued as part of the EMTN Programme)	168,801	174,362	160,000 Euro	99.202	7.625%	29.6.2001/11	2
Subordinated bond of Banca Popolare di Milano (Upper Tier 2) Rate- 2.7.01-31	182,172	189,617	171,882 Euro	100	Floating	2.7.2001/31	3
Subordinated bond of Banca Popolare di Milano (Upper Tier 2) – Floating rate – 18 June 2008/2018	3,403	9,307	17,850 Euro	100	Floating	18.6.2008/18	4
Subordinated liabilities (Lower Tier 2):	**1,338,475**	**1,357,788**					
Banca Popolare di Milano subordinated bond loan (Lower Tier 2) Floating rate – 29.6.05-15 (issued as part of the EMTN Prog.)	595,066	599,472	600,000 Euro	99.716	Floating	29.6.2005/15	5
Subordinated bond of Banca Popolare di Milano (Lower Tier 2) – Fixed rate 4.5% 18 April 2008/2018	277,117	279,475	252,750 Euro	100	4.50%	18.4.2008/18	6
Subordinated bond of Banca Popolare di Milano (Lower Tier 2) – Floating rate 20 October 2008/2018	466,292	478,841	502,050 Euro	100	Floating	20.10.2008/18	7
TOTAL	**1,906,395**	**1,945,954**					

1	**Perpetual Subordinated Fixed/Floating Rate Notes – 9%**	
	Issue price:	The bonds were issued below par, at a price of 98.955% of the nominal value
	Interest rate:	Fixed rate of 9% until 25 June 2018; Floating rate (3-month Euribor + spreadof 6.18%) from 25 June 2018
	Quotation:	Luxembourg Stock Exchange (*)
	Early redemption clause:	These securities may be redeemed early starting from 25 June 2018, subject to authorisation from the Bank of Italy.
	Early redemption:	The notes have been issued with the clauses required by the Bank of Italy for inclusion in Tier 1 capital; this means that in the event the Bank goes into liquidation, the holders of such shares have priority over ordinary shareholders, but are subordinated to all other creditors.
	Other information:	There is also provision for: • optional suspension of interest payments if the Bank does not have distributable earnings and/or has not paid dividends for the last year ended prior to the payment date of the interest; • obligatory suspension of interest payments in the case of a "capital deficiency event", (which takes place when the total capital ratio falls below the minimum level required by the Supervisory Authority); • a "loss absorption" clause, whereby reimbursement of the notes is suspended if a capital deficiency event takes place. Any undistributed interest may not be accumulated. 16 December 2009 was the closing date of the Public Purchase Offer (acceptance period 7 December – 16 December 2009), which obtained 34.92% acceptance for a nominal value of the securities accepting the offer of 104,750,000 Euro The repurchase price (ex-coupon) was 98%. At the date of preparation of the financial statements the nominal value of the security in circulation fell to Euro 195,250,000.

2	**Subordinated bond of Banca Popolare di Milano (Upper Tier 2) – Rate 7.625% - 29 June 2001/2011**	
	Issue price:	The Subordinated Bonds were issued below par, at a price of 99.202% of the nominal value.
	Interest rate:	Fixed interest rate of 7.625% gross per year
	Quotation:	Luxembourg Stock Exchange (*)
	Early redemption:	*"Tax reason" only after approval by the Bank of Italy*
	Subordination clause:	The Subordinated Bonds are "hybrid capital instruments" pursuant to the new Minimum Capital Requirements for Banks issued by the Bank of Italy. The Bond is issued with an Upper Tier II subordination clause, which means that in the event of the Bank being liquidated, bondholders will only be reimbursed after all non-subordinated creditors have been satisfied, except for those with an equal or higher level of subordination compared with the Subordinated Bonds.
	Other information:	The loan forms part of the multiannual Euro Medium Term Note (E.M.T.N.) issue programme, approved by the Board of Directors on 11 September 2000
3	**Subordinated bond of Banca Popolare di Milano (Upper Tier 2) – Floating rate – 2 July 2001/2031**	
	Issue price:	The Subordinated Bonds were issued at par, at a price of 100% of their nominal value
	Interest rate:	Fixed rate 7.625% up to 2 July 2011; floating rate (Euribor + 3.725%) starting from 2 July 2011
	Quotation:	Not listed
	Early redemption:	These securities may be redeemed early starting from 2 July 2011, subject to authorisation from the Bank of Italy
	Subordination clause:	The Subordinated Bonds are "hybrid capital instruments" pursuant to the new Minimum Capital Requirements for Banks issued by the Bank of Italy. The Bond is issued with an Upper Tier II subordination clause, which means that in the event of the Bank being liquidated, bondholders will only be reimbursed after all non-subordinated creditors have been satisfied, except for those with an equal or higher level of subordination compared with the Subordinated Bonds.
	Other information:	The subordinated loan was fully subscribed by Bpm Luxembourg S.A. to support an issue of preference shares by the vehicle BPM Capital Trust 1, for an amount of €160 million at an issue price of 100, with a perpetual duration and a fixed-rate coupon. A callable option has been fixed for the end of the tenth year and after this date, if the option is not exercised, the note will become floating-rate.
4	**Subordinated bond of Banca Popolare di Milano (Upper Tier 2) – Floating rate – 18 June 2008/2018**	
	Issue price:	The Subordinated Bonds were issued at par, at a price of 100% of their nominal value
	Interest rate:	Floating rate (EONIA rate + spread 0.75%)
	Quotation:	Not listed
	Early redemption:	Early redemption of the Subordinated Bonds is not foreseen
	Subordination clause:	The Subordinated Bonds are "hybrid capital instruments" pursuant to the new Minimum Capital Requirements for Banks issued by the Bank of Italy. The Bond is issued with an Upper Tier II subordination clause, which means that in the event of the Bank being liquidated, bondholders will only be reimbursed after all non-subordinated creditors have been satisfied, except for those with an equal or higher level of subordination compared with the Subordinated Bonds.
	Repurchases:	The Bank has repurchased a total of 14,450 thousand Euro of nominal value.

5	Subordinated bond of Banca Popolare di Milano (lower Tier 2) – Floating rate 29 June 2005/2015	
	Issue price:	The Subordinated Bonds were issued below par, at a price of 99.716% of the nominal value.
	Interest rate:	Floating rate (3-month Euribor + 0.45% until June 2010, 3-month Euribor + 1.05% beyond that date).
	Quotation:	Luxembourg Stock Exchange (*)
	Early redemption:	The Bank may decide to redeem the loan early starting from the fifth year, subject to authorisation from the Bank of Italy.
	Subordination clause:	The Subordinated Bonds are BPM's "Tier II subordinated liabilities" as classified according to the New Minimum Capital Requirement for Banks issued by the Bank of Italy. This means that if the Bank is liquidated, bondholders will only be reimbursed after all non-subordinated creditors have been satisfied, except for those with an equal or higher level of subordination compared with the Subordinated Bonds.
	Other information:	The Bond, placed with institutional investors, forms part of the multiannual Euro Medium-Term Note (E.M.T.N.) issue programme approved by the Board of Directors on 2 December 2003.
	Repurchases:	The Bank has repurchased a total of 5,000 thousand Euro of nominal value.
6	**Subordinated bond of Banca Popolare di Milano (Lower Tier 2) – Fixed rate 4.50% 18 April 2008/2018**	
	Issue price:	The Subordinated Bonds were issued at par, at a price of 100% of their nominal value
	Interest rate:	Fixed interest rate of 4.50% gross per year
	Quotation:	Not listed
	Early redemption:	Early redemption of the Subordinated Bonds is not foreseen
	Subordination clause:	The Subordinated Bonds are BPM's "Tier II subordinated liabilities" as classified according to the New Minimum Capital Requirement for Banks issued by the Bank of Italy. This means that if the Bank is liquidated, bondholders will only be reimbursed after all non-subordinated creditors have been satisfied, except for those with an equal or higher level of subordination compared with the Subordinated Bonds.
	Repurchases:	The Bank has repurchased a total of 750 thousand Euro of nominal value.
7	**Subordinated bond of Banca Popolare di Milano (Lower Tier 2) – Floating rate 20 October 2008/2018**	
	Issue price:	The Subordinated Bonds were issued at par, at a price of 100% of their nominal value
	Interest rate:	Floating rate (3-month Euribor 365 + spread 0.60% until 20 October 2013, 3-month Euribor + spread 1.50% after that date).
	Quotation:	Not listed
	Early redemption:	After authorisation from the Bank of Italy, on 20 October 2013, on the date that that the securities went ex-coupon, the Issuer went ahead with early redemption of the entire Subordinated Bond, at a price of 100% of the nominal value.
	Subordination clause:	The Subordinated Bonds are BPM's "Tier II subordinated liabilities" as classified according to the New Minimum Capital Requirement for Banks issued by the Bank of Italy. This means that if the Bank is liquidated, bondholders will only be reimbursed after all non-subordinated creditors have been satisfied, except for those with an equal or higher level of subordination compared with the Subordinated Bonds.
	Repurchases:	The Bank has repurchased a total of 35,750 thousand Euro of nominal value.

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

3.3 Securities issued with specific hedges

At the balance sheet date, the Bank does not have any hedging transactions outstanding on securities issued.

Section 4 – Financial liabilities held for trading
Line item 40

This line item reports financial derivatives.

4.1 Financial liabilities held for trading: description

Type of transaction/ Amounts	VN	FV				FV*	VN	FV				FV*
		L1	L2	L3	31.12.2010			L1	L2	L3	31.12.2009	
A. Cash liabilities												
1. Due to banks	–	–	–	–	**–**	–	–	–	–	–	**–**	–
2. Due to customers	–	–	–	–	**–**	–	–	–	–	–	**–**	–
3. Debt securities	–	–	–	–	**–**		–	–	–	–	**–**	
3.1 Bonds	–	–	–	–	**–**		–	–	–	–	**–**	
3.1.1 Structured	–	–	–	–	**–**	X	–	–	–	–	**–**	X
3.1.2 Other bonds	–	–	–	–	**–**	X	–	–	–	–	**–**	X
3.2 Other securities	–	–	–	–	**–**		–	–	–	–	**–**	
3.2.1 Structured	–	–	–	–	**–**	X	–	–	–	–	**–**	X
3.2.2 Other	–	–	–	–	**–**	X	–	–	–	–	**–**	X
Total A	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
B. Derivatives												
1. Financial derivatives		–	204,940	33,592	**238,532**			–	165,187	10,517	**175,704**	
1.1 Dealing	X	–	194,275	32,571	**226,846**	X	X	–	151,127	8,883	**160,010**	X
1.2 linked to fair value option	X	–	10,665	1,021	**11,686**	X	X	–	14,060	1,634	**15,694**	X
1.3 Other	X	–	–	–	**–**	X	X	–	–	–	**–**	X
2. Credit derivatives		–	–	–	**–**			–	–	–	**–**	
2.1 Dealing	X	–	–	–	**–**	X	X	–	–	–	**–**	X
1.2 Linked to fair value option	X	–	–	–	**–**	X	X	–	–	–	**–**	X
2.3 Other	X	–	–	–	**–**	X	X	–	–	–	**–**	X
Total B	**X**	**–**	**204,940**	**33,592**	**238,532**	**X**	**X**	**–**	**165,187**	**10,517**	**175,704**	**X**
Total (A+B)	**X**	**–**	**204.940**	**33.592**	**238.532**	**X**	**X**	**–**	**165.187**	**10.517**	**175.704**	**X**

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

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

Financial liabilities held for trading do not include any subordinated liabilities at the balance sheet date.

4.3 Breakdown of line item 40 "Financial liabilities held for trading": structured debts

Financial liabilities held for trading do not include any structured debts at the balance sheet date.

4.4 Trading cash financial liabilities (excluding short positions): changes during the year

As cash financial liabilities are only made up of short positions, details of changes of the year are not presented.

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

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

5.1 Financial liabilities designated at fair value through profit and loss: description

	NV	FV				FV*	NV	FV				FV*
		L1	L2	L3	31.12.2010			L1	L2	L3	31.12.2009	
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. Securities issued	580,651	–	587,874	–	**587,874**		1,313,500	–	**1,308,678**	**20,885**	1,329,563	
3.1 Structured	433,578	–	439,642	–	**439,642**	X	1,185,677	–	**1,182,150**	**20,885**	1,203,035	X
3.2 Other	147,073	–	148,232	–	**148,232**	X	127,823	–	**126,528**	**–**	126,528	X
Total	**580,651**	**–**	**587,874**	**–**	**587,874**		**1,313,500**	**–**	**1,308,678**	**20,885**	**1,329,563**	

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

For outstanding financial liabilities issued by the Bank, its own credit spread was not taken into consideration when determining the fair value.
These issues do not have subordination clauses and they are designed for non-institutional customers; so no account has been taken of changes in own credit rating to avoid taking profits on the writedown of liabilities issued following a downgrading of the Bank. Above all, in periods of high economic turbulence, this avoids the situation where the worse the change in the credit rating, the higher the profits that would be taken.
It follows that the FV* field does not show the information requested as it is the same as the Fair Value already shown in the table.

Financial liabilities designated at fair value through profit and loss include structured debt securities that have been hedged.

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

Type of transaction/Amounts	Natural hedges	Structured financial instruments	Portfolio of financial liabilities managed internally based on fair value	31.12.2010	Natural hedges	Structured financial instruments	Portfolio of financial liabilities managed internally based on fair value	31.12.2009
1. Due to banks	–	–	–	**–**	–	–	–	**–**
1.1 Structured	–	–	–	**–**	–	–	–	**–**
1.2 Other	–	–	–	**–**	–	–	–	**–**
2. Due to customers	–	–	–	**–**	–	–	–	**–**
2.1 Structured	–	–	–	**–**	–	–	–	**–**
2.2 Other	–	–	–	**–**	–	–	–	**–**
3. Securities issued	148,232	439,642	–	**587,874**	126,528	1,203,035	–	**1,329,563**
3.1 Structured	–	439,642	–	**439,642**	–	1,203,035	–	**1,203,035**
3.2 Other	148,232	–	–	**148,232**	126,528	–	–	**126,528**
Total	**148,232**	**439,642**	**–**	**587,874**	**126,528**	**1,203,035**	**–**	**1,329,563**

The natural hedge relates to step-up type bonds subject to an operating hedge for interest rate risk.

5.2 Detail of line item 50 "Financial liabilities designated at fair value through profit and loss": subordinated liabilities

There are no subordinated liabilities at fair value at the balance sheet date.

5.3 Financial liabilities designated at fair value through profit and loss: changes of the year

	Due to banks	Due to customers	Securities issued	Total
A. Opening balance	**–**	**–**	**1,329,563**	**1,329,563**
B. Increases	**–**	**–**	**52,389**	**52,389**
B1. Issues	–	–	19,250	**19,250**
B2. Sales	–	–	–	**–**
B3. Positive change in fair value	–	–	4,489	**4,489**
B4. Other changes	–	–	28,650	**28,650**
C. Decreases	**–**	**–**	**794,078**	**794,078**
C1. Purchases	–	–	–	**–**
C2. Reimbursement	–	–	752,099	**752,099**
C3. Negative change in fair value	–	–	326	**326**
C4. Other changes	–	–	41,653	**41,653**
D. Closing balance	**–**	**–**	**587,874**	**587,874**

Section 6 – Hedging derivatives
Line item 60

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

6.1 Hedging derivatives: breakdown by type of hedge and hierarchical levels

	31.12.2010					31.12.2009				
	L1	L2	L3	Fair value	NV	L1	L2	L3	Fair value	NV
A. Financial derivatives	–	28,863	2,070	30,933	1,267,301	–	1,940	839	2,779	70,917
1) Fair value	–	28,863	2,070	30,933	1,267,301	–	1,940	839	2,779	70,917
2) Cash flows	–	–	–	–	–	–	–	–	–	–
3) Foreign investments	–	–	–	–	–	–	–	–	–	–
B. Credit derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1) Fair value	–	–	–	–	–	–	–	–	–	–
2) Cash flows	–	–	–	–	–	–	–	–	–	–
Total	**–**	**28,863**	**2,070**	**30,933**	**1,267,301**	**–**	**1,940**	**839**	**2,779**	**70,917**

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

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

Transactions/Type of hedge	Fair Value						Cash flows		Foreign investments
	Specific					Generic	Specific	Generic	
	Interest rate risk	Exchange rate risk	Credit risk	Price risk	Other risks				
1. Financial assets available for sale	2,070	–	–	–	–	X	–	X	X
2. Loans and receivables	1,497	–	–	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 transactions	–	–	–	–	–	X	–	X	–
Total assets	**3,567**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Financial liabilities	–	–	–	X	–	X	–	X	X
2. Portfolio	X	X	X	X	X	27,366	X	–	X
Total liabilities	**–**	**–**	**–**	**–**	**–**	**27,366**	**–**	**–**	**–**
1. Expected transactions	X	X	X	X	X	X	–	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	–	X	–	–

The amount indicated in sub-item 1. "Financial assets available for sale" refers to the negative value of a financial derivative stipulated to hedge interest rate risk of a debt security for a notional amount of 50 million euro.
This amount refers to the negative value of a financial derivative that hedges the interest rate risk on a loan reported under sub-item 2 "Receivables" - loans to customers".

The amount of 27,366 thousand euro, booked at 31.12.2010 to Liabilities item 2. "Portfolio", relates to the negative value of derivatives taken out to hedge the interest rate risk of the core deposits for a notional of 1.2 billion euro.

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

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

7.1 Fair value change of financial liabilities in hedged portfolios

	31.12.2010	31.12.2009
1. Positive adjustment of financial liabilities	5,198	–
2. Negative adjustment of financial liabilities	–31,996	–
Total	**–26,798**	**–**

7.2 Financial liabilities covered by macrohedges against interest rate risk - composition

	31.12.2010	31.12.2009
Due to banks	–	–
Due to customers	–26,798	–
Securities issued	–	–
Financial liabilities held for trading	–	–
Financial liabilities designated at fair value through profit and loss	–	–
Total	–26,798	–

Section 8 – Tax liabilities
Line item 80

This item has already been dealt with in section 13 of Assets "Tax assets and liabilities", to which reference should be made.

Section 9 – Liabilities associated with non-current assets held for sale and discontinued operations
Line item 90

See section 14 of assets.

Section 10 – Other liabilities
Line item 100

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

10.1 Other liabilities: breakdown

Description/Technical forms	31.12.2010	31.12.2009
Payables for the deterioration in:	**35,072**	**37,927**
Guarantees given	35,072	37,927
Credit derivatives	–	–
Irrevocable commitments to grant finance	–	–
Share-based payments	**10,177**	**9,022**
Accrued liabilities	**32**	**35**
Other liabilities	**890,699**	**809,106**
Items in transit	–	–
Guarantee deposits received from third parties	493	637
Payables to Group companies in connection with the Group tax return.	18,161	13,366
Amounts payable to tax authorities on behalf of others	119,829	118,748
Amounts payable to tax authorities on own account	10,593	13,674
Adjustments for illiquid items concerning the portfolio	110,986	249
Amounts available to customers	138,393	132,794
Items being processed	316,643	343,378
Due to suppliers	83,633	75,588
Due to social security authorities	26,769	26,833
Payroll costs	43,092	48,968
Deferred income (not capitalised)	3,439	5,730
Other	18,668	29,141
Total	**935,980**	**856,090**

The increase in "Adjustments for illiquid items concerning the portfolio" is due to the new rules introduced by the European Payment Services Directive no. 64/2007/EC, better known as the "PSD". The PSD is a series of regulations that establishes common rules and standards for electronic collection and payment services in the various countries of Europe. Based on these rules, collections of trade receivables are to be debited on the due date with the same value date and availability and credited to the beneficiaries (cedents) on the day of interbank settlement (the day after the due date).

Section 11 – Employee termination indemnities
Line item 110

11.1 Employee termination indemnities: changes during the year

	31.12.2010	31.12.2009
A. Opening balance	**139,951**	**155,004**
B. Increases	**6,742**	**7,674**
B.1 Provision for the year	5,740	6,154
B.2 Other increases	1,002	1,520
C. Decreases	**21,099**	**22,727**
C.1 Indemnities paid	19,329	22,242
C.2 Other decreases	1,770	485
D. Closing balance	**125,594**	**139,951**

Item B.2 "Other increases" at 31.12.2010 includes, among other things, the severance indemnities for the employees hired as part of the "intraGroup sale of branches" by Banca di Legnano and Cassa di Risparmio di Alessandria for 161 thousand euro. This item also includes an amount of 542 thousand Euro for the severance indemnities of the employees of Bipiemme Private Banking SIM that were taken on by the Bank when the company was absorbed during the year.

Item C.2 "Other decreases" includes the 659 thousand Euro of severance indemnities transferred to Banca di Legnano and Cassa di Risparmio di Alessandria as part of the "intraGroup sale of branches". This item also includes the actuarial gain of 576 thousand Euro resulting from the periodic appraisal carried out by an independent actuary with contra-entry booked to an equity reserve (at 31.12.2009 an actuarial loss of 1,520 thousand Euro was booked to item B.2 "Other increases").

11.2 Other information

Following the reform of supplementary pensions (Decree 252 of 5 December 2005, introduced by the Budget Law 2007) the employee termination indemnities only relates to the amounts accrued up to 31.12.2006, as only these remain in the company, whereas the amounts accruing from 1 January 2007 onwards have to be either transferred to supplementary pension funds, depending on the explicit or tacit choice of the employee, or maintained in the company and then subsequently transferred to a treasury fund set up with INPS.
The severance indemnities that accrued up to 1 January 2007 (or to the date when the decision was made to assign them to a supplementary pension fund) continues to be shown as a "post-employment benefit" classified as a "defined-benefit plan"; subsequently the liability linked to the "accrued severance indemnities" is submitted to an actuarial assessment, which compared with the methods applied up until 31 December 2006, no longer takes account of the average annual increase in wages and salaries, as the employee benefits are to be considered almost entirely accrued (with the sole exception of the revaluation). The full amount of actuarial gains and losses, defined as the difference between the book value of the liability and the present value of obligations at period end, are recognised directly in the valuation reserve "actuarial gains and losses on defined-benefit pension plans".

The amount corresponding to the balance booked in the financial statements, calculated pursuant to the art. 2120 of the Italian Civil Code, comes to 145,737 thousand Euro (160,780 thousand Euro at 31 December 2009).
During the year, portions of severance indemnities for 7,931 thousand Euro were allocated to the INPS treasury fund (8,729 thousand Euro in 2009). At the balance sheet date, the INPS treasury fund amounts to 30,520 thousand Euro (23,984 thousand Euro at 31.12.2009).

During the year, portions of severance indemnities for 13,825 thousand Euro were allocated to the Bipiemme Pension Fund (13,384 thousand Euro in 2009).

The actuarial assumptions used by an independent actuary for determining the liability at the balance sheet date are as follows:

Demographic assumptions: the IPS55 tables were used for estimating death rates and the INPS 2000 tables for forecasting permanent disability; staff turnover was estimated at 3.5%, in line with the previous year.

Financial assumptions: the valuations used are based on an interest rate of 4.5% (corresponding to the estimated long-term return); this was unchanged with respect to 31.12.2009).

Economic assumptions: inflation was estimated at 2% (in line with 31.12.2009).

Section 12 – Allowances for risks and charges
Line item 120

12.1 Allowances for risks and charges: breakdown

Line items/Amounts	31.12.2010	31.12.2009
1. Post-employment benefit obligations	**60,572**	**59,196**
2. Other allowances for risks and charges	**146,614**	**182,502**
2.1 legal disputes	25,858	22,783
2.2 payroll costs	99,247	120,659
2.3 other	21,509	39,060
Total	**207,186**	**241,698**

Allowances for risks and charges: details

Line items/Amounts	31.12.2010	31.12.2009
1. Post-employment benefit obligations:	**60,572**	**59,196**
■ **Pension funds:**	**16,031**	**15,758**
– former Banca Popolare di Bologna e Ferrara	16,005	15,730
– former Banca Agricola Milanese	26	28
■ **Supplementary pension plan**	**44,541**	**43,438**
2. Other allowances for risks and charges:	**146,614**	**182,502**
2.1 legal disputes:	**25,858**	**22,783**
– provisions for estimated losses from legal disputes	25,858	22,783
2.2 payroll costs:	**99,247**	**120,659**
– solidarity Fund	70,957	98,012
– long–service bonuses	9,864	9,570
– indemnities specifically for managers	17,413	12,817
– estimated losses arising from disputes with employees	237	260
– other charges	776	–
2.3 other:	**21,509**	**39,060**
– recovery procedures	15,657	32,168
– charity and social fund	2,627	2,937
– miscellaneous charges	3,225	3,955
Total	**207,186**	**241,698**

12.2 Allowances for risks and charges: changes during the year

	Pension funds	Other provisions	Total
A. Opening balance	**59,196**	**182,502**	**241,698**
B. Increases	**11,478**	**27,969**	**39,447**
B.1 Provision for the year	3,355	20,021	23,376
B.2 Changes due to the passage of time	2,477	3,729	6,206
B.3 Changes due to changes in the discount rate	–	–	–
B.4 Other increases	5,646	4,219	9,865
C. Decreases	**10,102**	**63,857**	**73,959**
C.1 Utilizations of the year	10,102	55,415	65,517
C.2 Changes due to changes in the discount rate	–	–	–
C.3 Other decreases	–	8,442	8,442
D. Closing balance	**60,572**	**146,614**	**207,186**

12.3 Post-employment defined-benefit obligations

1. Explanation of provisions

Post-employment benefits consist of the following pension funds, whose main characteristics are summarised below:

a) Pension fund of former Banca Popolare di Bologna e Ferrara
This is a defined-benefit plan associated with the commitment by the former Banca Popolare di Bologna e Ferrara, now absorbed into BPM, to pay all its employees in retirement at the date of 31 December 1995 a defined pension in line with their grade whilst in service. The sum provided in the financial statements represents the amount of the mathematical reserve calculated on an actuarial basis. This is because management considers it necessary to recognise to the pensioners registered with the "Supplementary Pension Fund" the amounts envisaged in the Regulations.

b) Pension fund of former Banca Agricola Milanese
This represents the commitment by the former Banca Agricola Milanese, now absorbed into BPM, to pay a supplementary pension to its employees in retirement at the date of 31 December 1972; the liability represents an actuarial valuation of the mathematical reserve at the balance sheet date, as management considers it necessary to recognise a life-long annuity to the pensioners registered with the Pension Fund.

c) Supplementary pension plan of Banca Popolare di Milano
Under the rules of the supplementary pension plan, the commitment consists of:
- the payment of a supplementary pension to former retired employees whose state pension is less than a pre-defined percentage of the salary for the corresponding grade in service (known as employees with supplementary pensions);
- or, if the state pension paid by INPS is higher than this percentage, the payment to all pensioners of 50% of a monthly amount frozen at 31 December 1991.

Employees entering service after 28 April 1993 and those hired following absorption transactions no longer qualify for these benefits.
The amount provided in the financial statements represents the mathematical reserves calculated on an actuarial basis, as management considers it necessary to recognise the benefits envisaged by the Regulations to the current beneficiaries.

2. Change in provisions during the year

Changes in the provisions for post-employment benefits are shown in table 12.2.

Line item B.4 "Other increases" is entirely attributable to actuarial losses.

There are no provisions arising from business combinations.

All the post-employment benefits are funded and have not been valued in currencies other than the euro.

3. Change during the year in assets that service the plan and other information

None of the defined-benefit plans classified as post-employment benefits has any assets servicing them.

4. Reconciliation between the present value of the provisions, the present value of assets that service the plan and the assets and liabilities shown in the financial statements

None of the defined-benefit plans classified as post-employment benefits has any assets servicing them.

5. Main actuarial assumptions

For the purposes of determining the present value of defined-benefit obligations reported under the post-employment benefits in the balance sheet, the following actuarial assumptions (financial, demographic and economic) have been used for each pension plan.

a) Pension fund of former Banca Popolare di Bologna e Ferrara
Demographic assumptions: the IPS55 tables were used for estimating death rates.
Financial assumptions: the valuations used a compounded interest rate of 4.5% (corresponding to the estimated long-term return); unchanged with respect to 31.12.2009.
Economic assumptions: pensions were assumed to have zero future growth, in line with the previous year.

b) Pension fund of former Banca Agricola Milanese
Demographic assumptions: the IPS55 tables were used for estimating death rates.
Financial assumptions: the valuations used a compounded interest rate of 4.5% (corresponding to the estimated long-term return); unchanged with respect to 31.12.2009.
Economic assumptions: pensions were assumed to grow at 1% per annum, since the plan rules provide for indexation once every two years for certain pensioners, in line with the previous year.

C) Supplementary pension plan of Banca Popolare di Milano
Demographic assumptions: the IPS55 mortality tables were used in addition to the permanent disability tables prepared by INPS in 2000.
Financial assumptions: the valuations used a compounded interest rate of 4.5% (corresponding to the estimated long-term return); unchanged with respect to 31.12.2009.
Economic assumptions: pensions were assumed to grow at 80% of the annual inflation rate. Inflation was assumed to be 2% (the same as the previous year), so the assumed growth rate in pensions is 1.5% (also in line with the previous year). Annual wage inflation was established at 2.5% (unchanged with respect to the previous year). The annual rate of increase in the INPS pension ceiling has been set at 1.5%; the INPS pension ceiling amounts to 42,364 Euro (this is the figure announced by INPS, valid from 1.1.2010).

12.4 Allowances for risks and charges - other provisions

"Other allowances for risks and charges", shown in the table 12.1 above, are detailed as follows:

2.1. legal disputes: the provision covers the estimated obligations arising from outstanding legal disputes involving the Bank (see the explanation given below in Part E - Information on risks and related hedging policies - Section 1.4 Operational risk). The average timing for the payment of such obligations is around 3 years. The amount of this provision reflects the present value of the outlays needed to meet the estimated obligations, calculated at market interest rates.

2.2. payroll costs: the reserve covers mainly the charges relating to:

- employees entitled to the "Solidarity Fund", the current value of which was determined by applying the 3-year swap rate (1.9165%);
- long-service bonuses payable to employees after achieving 25 or 30 years of service;
- indemnities specifically for managers;
- the bonuses and indemnities in connection with the non-competition agreement reserved for the former employees of Bipiemme Private Banking SIM, which was absorbed during the current year.

As regards the last three obligations, the actuarial assumptions used by an independent actuary for determining the liability at the balance sheet date are as follows:

Demographic assumptions: the IPS55 tables were used for estimating death rates and the INPS 2000 tables for forecasting permanent disability; staff turnover was estimated at 3.5%, in line with the previous year.

Financial assumptions: the valuations used are based on an interest rate of 4.5% (corresponding to the estimated long-term return); this was unchanged with respect to 31.12.2009.

Economic assumptions: inflation was estimated at 2% (in line with 31.12.2009). Annual wage inflation was established at 2.5% (unchanged with respect to the previous year).

2.3. other: this item mainly includes an estimate of the obligations arising from recovery procedures against the Bank. The average timing for the payment of such obligations is around 3 years. The amount of this provision reflects the present value of the outlays needed to meet the estimated obligations, calculated at market interest rates.

Section 13 – Redeemable shares
Line item 140

At the balance sheet date the Bank has no redeemable shares in issue.

Section 14 – Equity
Line items 130, 150, 160, 170, 180, 190 and 200

This section explains the liability accounts shown in line items 130, 150, 160, 170, 180, 190 and 200 of liabilities.

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

		31.12.2010	31.12.2009
Share capital	euro	1,660,220,780	1,660,136,924
No. of ordinary shares		**415,055,195**	**415,034,231**
With nominal value of: Euro each		4	4
Of which no. of treasury shares		**487,473**	**2,415,180**

Share capital: at the date of the financial statements the share capital of the Bank is fully subscribed and paid in.

14.2 Share capital - Number of shares: changes during the year

Line items/Types	Ordinary	Other
A. Shares in issue at the beginning of the year	**415,034,231**	**–**
– entirely freed up	415,034,231	–
– not entirely freed up	–	–
A.1 Treasury shares (–)	–2,415,180	–
A.2 Shares outstanding: opening balance	**412,619,051**	**–**
B. Increases	**1,948,671**	**–**
B.1 New share issues	–	–
– for payment:	–	–
– of business combinations	–	–
– on conversion of bonds	20,964	–
– on exercise of warrants	–	–
– other	–	–
– bonus issues:	–	–
– to employees	–	–
– to directors	–	–
– other	–	–
B.2 Sale of treasury shares	–	–
B.3 Other increases	1,927,707	–
C. Decreases	**–**	**–**
C.1 Cancellation	–	–
C.2 Purchase of treasury shares	–	–
C.3 Disposal of businesses	–	–
C.4 Other decreases	–	–
D. Shares outstanding: closing balance	**414,567,722**	**–**
D.1 Treasury shares (+)	487,473	–
D.2 Shares in issue at the end of the year	415,055,195	–
– entirely freed up	415,055,195	–
– not entirely freed up	–	–

The treasury shares held at the beginning of the period (item A.1) come from the buy-back programme of up to 4,875,000 treasury shares launched by the Board of Directors in accordance with the authorisation given by the General Meeting of 19 April 2008, of which 2,459,820 have already been used for the assignment of shares to employees in May 2009.

Another 1,927,707 shares (item B.3) were assigned to employees on the basis of the amount owing to them under art. 47 of the Articles of Association, as resolved by the Board of Directors and approved by the Members as part of the distribution of net income for the year. The shares were assigned at a "normal" value of 4.68 Euro ("normal" value means the average market value for the 30 days prior to the assignment), for a total of 9,021,671.94 euro.

The other 487,473 shares (item D.1.) have remained in the Bank's portfolio at 31.12.2010.

14.3 Share capital: Other information

The Bank's share capital is variable and is represented by registered shares of par value Euro 4 (four) each.
The Board of Directors can buy or reimburse shares of the Bank according to current regulations, within the limits of distributable earnings and unrestricted reserves in the latest approved financial statements, allocated for this purpose by the Members in General Meeting; the provision for the purchase of treasury shares amounts to Euro 19,484,887 and at the moment it is unrestricted for Euro 17,634,716, once adjusted for the value of the treasury shares held in portfolio.
The shares are lodged from their origin and by agreement among the members as privileged surety in favour of the Bank to guarantee all obligations that the members may have towards it, even if the shares have not been deposited.
No shareholder's interest may exceed 0.50% of the share capital. As soon as it becomes aware that this limit has been exceeded, the Bank serves formal notice of the breach on the shareholder concerned. The excess shares must be sold within a year of such notice; after this deadline, the related rights pertaining to these shares are acquired by the Bank until their disposal. This limit does not apply to mutual investment funds; the relevant limits in such cases are those imposed by the rules of the fund concerned.
The shares cannot be split. In the event that the shares are owned jointly, the rights of the joint owners have to be exercised by a common representative.
Dividends not claimed within five years from the date they become payable fall are absorbed by the Bank

At the reference date of these financial statements the Bank owned directly 487,473 treasury shares, as already mentioned.

14.4 Reserves: other information

As required by paragraph 79, letter b) of IAS 1, a description of the nature and purpose of each reserve within shareholders' equity will now be provided. It also includes the information required by art. 2427, paragraph 7-bis, of the Italian Civil Code.

Share premium reserve:
The share premium reserve is a capital reserve containing the excess issue price of shares relative to their par value. This reserve also includes:
- differences arising on the conversion of bonds into shares;
- any positive or negative difference between the sale price of treasury shares and the corresponding book value.

Reserves:

Legal reserve: Under article 2430 of the Italian Civil Code it is compulsory to set up a legal reserve to protect share capital against any losses. The legal reserve is created through an annual allocation from net income, in accordance with the proportions established by law (Decree 385/93 – known as the "Banking Act"), until it reaches one-fifth of share capital.

Statutory reserve: This is created through an annual allocation from net income as decided each time by the shareholders, at the Board of Directors' recommendation, bearing in mind the provisions of article 47 of the Bank's Articles of Association, which establish that the amount allocated to the legal and statutory reserves may in no circumstances be less than 25% of net income (net of the mentioned restricted reserve); it is not subject to limitations under law or the Articles of Association.

Reserve for treasury shares: The purchase of treasury shares is governed by articles 2357 and 2357-bis of the Italian Civil Code. The reserve for treasury shares is ideally reduced at the time of recognising the cost of the shares purchased as a negative component of shareholders' equity.

Unrestricted reserve: this reserve is created through allocations from net income; its use is unrestricted since it is not subject to limitations under law or the Articles of Association.

Restricted reserve ex art. 6 of Decree 38/05: Restricted reserve ex art. 6 of Decree 38/05: Art. 6 of Decree 38/2005 establishes that the net income for the year cannot be distributed for the part corresponding to:

- unrealised gains booked to the income statement net of the related tax charge and other than those attributable to financial instruments, forex and hedging transactions that derive from the application of fair value or the equity method;
- reserves set up and adjusted as the direct contra-entry to the measurement of financial instrument and other assets at fair value.

This reserve can only be used to cover losses after unrestricted reserves and the legal reserve have been used.

Reserve ex art. 13.6 of Decree 124/93: this includes the tax benefits received for allocating part of employee severance indemnities to supplementary pension funds.

Reserve art. 14 Law 342, 21 November 2000: The reserve art. 14, Law 342 of 21.11.2000 relates to the tax recognition of the higher value recorded in the financial statements for the buildings to which to merger deficit arising on the absorption of Banca Agricola Milanese and Banca Briantea. In accordance with this law, in 2000 the Bank decided to align statutory amounts and fiscal amounts for assets to which part of this merger deficit had been allocated, paying a flat-rate tax of 19% as required. An amount of 18,163 thousand euro, equal to the realignment made (22,423 thousand euro), net of flat-rate tax (4,260 thousand euro), was therefore transferred from the "unrestricted reserve" to the "reserve art. 14 Law 342 of 21.11.00". If the reserve is used to cover losses, there cannot be any distribution of earnings until the reserve has been reintegrated, or reduced by an equivalent amount.

Merger surplus reserve: reserve generated as part of the merger with BPM of Bipiemme Immobili S.p.A. and BPM Private Banking SIM which took place on 23 June 2007 and 30 June 2010 respectively.

Equity instruments:
This item includes the amount of the financial instruments as per art. 12 of Decree 185/08 (so-called "Tremonti Bonds") and the equity element (value of the conversion option) of the "Convertendo BPM 2009/2013 6.75%" bond loan, split from the bond loan booked under item 30 of liabilities "Securities issued" as specified in point 14.5 below.

Valuation reserves:

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

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

Special revaluation laws: they include those reserves created under specific laws published before IAS/IFRS came into force: these reserves were booked to "Share capital" in 2001 as part of the bonus increase in capital for the conversion into Euro of the par value of the Bank's shares. This account reports the reserve created on first-time adoption of IAS/IFRS as a result of valuing property and equipment at their "deemed cost", as allowed by the "IAS decree". This reserve was booked to "capital" following resolution passed by the Extraordinary General Meeting of 15 February 2007, which authorised an increase in capital free of charge pursuant to art. 2442 of the Italian Civil Code, by raising the par value of the shares from Euro 3 to Euro 4.

Shareholders' equity line items are analysed below in accordance with art. 2427.1. 7-bis) of the Italian Civil Code, breaking them down by origin, by potential use and by possibility of distribution, as well as the ways in which they were used during the three years prior to the date of the preparation of the financial statements.

Nature/Description	31.12.2010						Summary of uses made in the last three years (b)		Tax restriction (c)
	Capital and reserves	Availability					To cover losses	For other reasons	
		% held	Possible uses (a)						
1. Share capital	**1,660,221**	**–**	**–**	**–**	**–**		**–**	**–**	**668,360**
2. Share premium reserve	**189,639**	**153,736**	**A**	**B**	**C**	**(1)**	**–**	**150,425**	**–**
3. Reserves	**1,243,961**	**909,346**							**18,690**
- of earnings									
a) legal	296,141	–	A	B	–	(2)	–	–	–
b) statutory	823,427	823,427	A	B	C		–	–	–
c) treasury shares	19,485	–	–	–	–		–	–	–
d) other:									
- unrestricted	30,138	30,138	A	B	C		–	(*) 5,437	–
- restricted reserve ex art. 6 of Decree 38/05	18,989	–	–	–	–	(3)	–	–	–
- reserve art. 13.6 Law 124/93	527	527	A	B	C		–	–	527
- other									
Reserve art. 14 Law 342, 21 November 2000	18,163	18,163	A	B	–		–	–	18,163
Merger surplus reserve	37,091	37,091	A	B	C		–	–	–
4. Equity instruments	**519,606**	**–**					**–**	**–**	**–**
5. (Treasury shares)	**–1,850**	**–**	**–**	**–**	**–**		**–**	**–**	**–**
6. Valuation reserves:	**–80,912**	**–**	**–**	**–**	**–**		–	–	–
– Financial assets available for sale	–61,699	–	–	–	–	(3)	–	–	–
– Actuarial gains (losses) on defined-benefit pension plans	–19,213	–	–	–	–	(4)	–	–	–
- Special revaluation laws: valuation of property and equipment at their deemed cost	–	–	–	–	–		–	264,609	–
Total	**3,530,665**	**1,063,082**							**687,050**
Restricted portion (b)		**18,163**							
Distributable portion		**1,044,919**							

(a) Possible uses: A = for increase in capital B = to cover losses C = for distribution to shareholders

(1) Pursuant to art. 2431 of the Italian Civil Code, the entire amount of the share premium reserve reserve can be distributed only if the legal reserve reaches one-fifth of share capital as required by art. 2430 of the Italian Civil Code. As a consequence, the portion of the share premium reserve reserve that is available for allocation has to be reduced by the amount still required for the legal reserve to reach the statutory limit.
(2) This reserve is unrestricted, also for free increases in share capital and distribution, but only for the part exceeding one fifth of the share capital (art. 2430.1 of the Italian Civil Code).
(3) This reserve is restricted pursuant to art. 6 of D. Lgs. 38/2005
(4) This reserve is restricted pursuant to art. 7 of D. Lgs. 38/2005

(b) Summary of uses made in the last three years (2007-2009):

- **Capital and valuation reserves**: reserves allocated to share capital for bonus issues of 415,034 thousand euro, carried out to increase the nominal value of shares from Euro 3 to Euro 4, in compliance with the resolution of the Extraordinary General Meeting of 15 February 2007:
  - **Share premium reserve**: for 150,425 thousand euro;
  - **Valuation reserves - special revaluation laws**: for 264,609 thousand euro.

(*) In 2009, in connection with the issue of 500 million Euro of financial instruments (art. 12 Decree 185/08) in favour of the Economy and Finance Ministry, the contribution as per art. 2.b) of the Ministry's decree of 25 February 2009 was made to the Guarantee Fund for SMEs. This contribution, which was set at 1.5% of the total amount of instruments issued, amounts to 7,500 thousand Euro and was booked net of tax to the "Unrestricted reserve" for 5,437 thousand euro.

(c) Tax restriction: amounts in tax suspension which in the event of distribution would form part of the company's taxable income (for further details please refer to column 'B' of the following table).

(d) Restricted portion: the restricted portion refers to L. 342/2000.

Tax position of equity accounts and their tax treatment upon distribution

Description of reserves	Reserves and provisions not forming part of the shareholders' income on distribution (a)	Reserves and provisions forming part of the company's taxable income (b)	Other reserves and provisions (c)	31.12.2010 (a +b + c)	31.12.2009 (in euro)
Share premium reserve	**189,638,643**	**–**	**–**	**189,638,643**	**187,907,374**
Reserves:	**–**	**18,689,958**	**1,225,270,927**	**1,243,960,885**	**1,207,930,421**
– of earnings:					
a) legal	–	–	296,141,164	296,141,164	285,785,521
b) statutory	–	–	823,426,958	823,426,958	797,537,848
c) treasury shares	–	–	19,484,887	19,484,887	19,484,887
d) other:					
– restricted reserve ex art. 6 of Decree 38/05	–	–	18,988,987	18,988,987	20,784,744
– unrestricted	–	–	30,138,296	30,138,296	28,617,568
– reserve art. 13.6 Law 124/93	–	527,111	–	527,111	527,111
– other:					
Reserve art. 14 Law 342, 21 November 2000	–	*18,162,847*	–	*18,162,847*	*18,162,847*
Merger surplus reserve	–	–	37,090,635	37,090,635	37,029,895
Equity instruments	**–**	**–**	**519,605,536**	**519,605,536**	**519,596,526**
Valuation reserves:	**–**	**–**	**–80,912,004**	**–80,912,004**	**–894,941**
– Financial assets available for sale	–	–	–61,699,478	–61,699,478	14,641,915
– Actuarial gains (losses) on defined–benefit pension plans	–	–	–19,212,526	–19,212,526	–15,536,856
Total (A)	**189,638,643**	**18,689,958**	**1,663,964,459**	**1,872,293,060**	**1,914,539,380**

(segue)

Description of reserves		Reserves and provisions not forming part of the shareholders' income on distribution (a)	Reserves and provisions forming part of the company's taxable income (b)	Other reserves and provisions (c)	31.12.2010 (a +b + c)	31.12.2009 (in euro)
Reserves allocated to share capital for bonus issues						
Share premium reserve	1	150,425,231	–	–	150,425,231	150,425,231
	2	68,476,471	–	–	68,476,471	68,476,471
	3	61,758,351	–	–	61,758,351	61,758,351
Valuation reserves: valuation of property and equipment at their deemed cost	1	–	251,457,503	13,151,496	264,608,999	264,608,999
Valuation reserve Law 576 of 2.12.1975	2	–	1,394,324	–	1,394,324	1,394,324
	3	–	4,291,016	–	4,291,016	4,291,016
Valuation reserve Law 72 of 19.3.1983	2	–	21,283,594	–	21,283,594	21,283,594
	3	–	72,577,049	–	72,577,049	72,577,049
Valuation reserve Law 413 of 30.12.1991	2	–	12,051,471	–	12,051,471	12,051,471
	3	–	129,180,893	230,980	129,411,873	129,411,873
Merger surplus reserve	2	1,531,881	–	8,835,013	10,366,894	10,366,894
Reserve art. 7 Law 218 of 30.7.1990	3	–	144,529,879	–	144,529,879	144,529,879
Reserve Law 218 of 30.7.1990	3	–	3,909,196	–	3,909,196	3,909,196
Reserve art. 55.3b Decree 917/86	3	–	–	142,938	142,938	142,938
Reserve art. 3 Law 787 of 5.12.1978	3	–	–	11,402,594	11,402,594	11,402,594
Extraordinary reserve	3	3	–	35,337,671	35,337,674	35,337,674
Former Banca 2000	4	–	1,114,514	–	1,114,514	1,114,514
Former Bipiemme Immobili	4	–	26,570,414	–	26,570,414	26,570,414
Total (B)		**282,191,937**	**668,359,853**	**69,100,692**	**1,019,652,482**	**1,019,652,482**
Total (A + B)		**471,830,580**	**687,049,811**	**1,733,065,151**	**2,891,945,542**	**2,934,191,862**

(1) Reserves allocated to share capital for bonus issues of 415,034 thousand euro, arising from the increase in the nominal value of shares from Euro 3 to Euro 4, in compliance with the resolution of the Extraordinary General Meeting of 15 February 2007.
(2) The Bank, following the resolution of the Extraordinary General Meeting of 21 April 2001, converted its share capital into Euro pursuant to D. Lgs. 213 of 24.6.1998, subsequently amended by D. Lgs. 206 of 15.06.1999. Using the reserves indicated, this conversion led to a bonus increase in capital of 113,573 thousand euro, by means of an increase in the par value of the shares from Lire 5,000 to Lire 5,808.81, simultaneously converting the share capital in euros giving each share a par value of Euro 3.
(3) Reserves allocated to share capital for bonus issues of 463,361 thousand Euro (897,191 thousand euro), arising from the increase in the nominal value of shares from Lire 1,000 to Lire 5,000, in compliance with the resolution of the Extraordinary General Meeting of 4 December 1996.
(4) Reserves allocated to share capital by the former Banca 2000 and by the former Bipiemme Immobili.

14.5 Equity instruments: composition and changes during the year

Equity instruments: changes during the year	31.12.2010	31.12.2009
A. Opening balance	**519,597**	**4,210**
B. Increases	**9**	**519,597**
B.1 Other increases	9	519,597
C. Decreases	**–**	**4,210**
C.1 Other decreases	–	4,210
D. Closing balance	**519,606**	**519,597**

Equity instruments comprise:

- the financial instruments issued on 4 December 2009 (Art. 12 DL 185/08) in favour of the Economy and Finance Ministry (MEF) of Euro 500,000,000;
- the value of the conversion option of 19,606 thousand euro, incorporated in the "Convertendo BPM 2009/2013 6.75%" bond loan, booked at an amount of 401,528 thousand Euro on the liabilities side of the balance sheet under "Line item 30 – Securities issued – unlisted structured bonds". This amount includes the interest currently accruing (11,672 thousand euro).

The characteristics of the capital instrument **"Banca Popolare di Milano strumenti finanziari ex Art. 12 DL 185/08"** are as follows:

Issuer	Banca Popolare di Milano
Investor	The Economy and Finance Ministry (EFM)
Financial instruments	Financial instruments convertible into ordinary shares of the Issuer, as foreseen below in the paragraph on the "Conversion rights for the Issuer to include without limit in their Core Tier I capital" (the Securities).
Subordination level	In the event of the Issuer's voluntary liquidation or if the Issuer is subject to a forced administrative liquidation or some other kind of bankruptcy proceeding, the receivable equal to the Nominal Value (as defined below) of the Securities will be subordinate to any other claim against the Issuer (including the claims deriving from subordinated liabilities, hybrid capitalisation instruments and innovative capital instruments) and will have the same degree of subordination as the ordinary shares during the liquidation. The Securities have the same degree of subordination as the ordinary shares also in the event of a going concern according to the following conditions: ■ losses that reduce the total capital ratio for regulatory purposes to 8% are absorbed entirely by the share capital and reserves; ■ losses that reduce the total capital ratio for regulatory purposes below 8% are absorbed in the same proportion by the Securities and the sum of the share capital and reserves. This degree of subordination takes the form of a change in the Securities' Initial Nominal Value, as follows: ■ if the total capital ratio falls below 8% because of losses, the Nominal Value of the Securities gets reduced in proportion (i.e. if the capital ratio fell to 4%, the Nominal Value would be reduced by 50%); ■ the Nominal Value of the Securities would then get increased with subsequent net incomes in the same proportion in which shareholders' equity gets increased by the same earnings, until it comes back to the Initial Nominal Value.
Subscription price	At par
Initial nominal value	Euro 50,000
Nominal value	The Initial Nominal Value, or the reduced value if the capital has been decreased because of losses, to the extent indicated in the paragraph on "Subordination".
Number of securities subscribed	10,000
Issue date/subscription	4 December 2009
Date of maturity	If not previously converted or redeemed, the Securities will mature and be reimbursed when the company's duration comes to an end or if the Issuer is involved in a voluntary or forced liquidation or some other kind of bankruptcy proceeding.
Conversion ratio	The **Conversion Ratio** reflects the number of ordinary shares of the Issuer into which each Security is convertible in the event that the Issuer exercises its Conversion Right (as defined below). The Conversion Ratio is equal to the ratio between the Initial Nominal Value and the average Reference Price (as defined in art. 4.1.7. of the Regulations of the Markets Organised and Run by Borsa Italiana S.p.A.) of the Issuer's ordinary shares during the 10 trading days prior to the Launch Date. This average price amounts to 3.2593 euro. The Conversion Ratio has therefore been set, rounding up, at 15,341. If during the life of the securities, an event takes place such that Borsa Italiana S.p.A. publishes an adjustment coefficient to be applied to the derivatives traded on the IDEM market with the Issuer's shares as the underlying, the Conversion Ratio will be amended by applying the same coefficient announced by Borsa Italiana S.p.A. The number of ordinary shares corresponding to the Conversion Ratio, as amended from time to time, represents the **Underlying Shares**.
Interest ratio	Without prejudice to what is foreseen in the point entitled "Payment Conditions", on 1 July of each year, starting on 1 July 2010 (each being an **Interest Payment Date**, starting with the First Interest Payment Date), the Issuer will pay interest (the **Interest**) on each Security on a deferred annual basis at the greater of: a) 8.5% of the Nominal Value for the years from 2009 to 2012, increased by 0.5% for the next four years and subsequently increased by another 0.5% every two years (i.e. 9% in 2013-2016, 9.5% in 2017-2018, 10% in 2019-2020 etc.) until it reaches 15% for 2039 and subsequent years; and b) an amount equal to (i) 105% in 2009, (ii) 110% in 2010, (iii) 115% in 2011-2017, and (iv) 125% in 2018 and subsequent years of any type of dividend paid in whatever form, including dividends in kind and extraordinary dividends for the distribution of reserves to the ordinary shares, as shown in the statutory financial statements, multiplied by the number of Underlying Shares, without exceeding the limit of 15% of the Nominal Value as mentioned in point (a) above; and c) in relation to 2011 and subsequent years, a percentage of the Nominal Value equal to the average yield on 30-year BTPs posted in the first quarter of the year in which the Interest is paid, plus 300 basis points for 2011-2012 and 350 basis points for 2013 and subsequent years. The Interest is paid annually on a deferred basis with a current value date. Any Interest that is not paid cannot be accumulated, which means that if it is not paid, it is understood as being definitively lost.
Interest payment conditions	The Interest is paid out of the distributable earnings of the Banca Popolare di Milano Banking Group, as shown in the latest consolidated financial statements of the Issuer available at the Interest Payment Date (the **Distributable Earnings**). The Interest is paid only if there are Distributable Earnings and within the limit of their amount. The Interest and any kind of dividends on the ordinary shares cannot be paid if the Issuer has a total capital ratio equal to or less than 8% as a result of losses.

Redemption Right in favour of the Issuer	At any moment in time after the Issue Date, the Issuer has the right to redeem all or part of the Securities. This right is to be exercised by writing to the EFM giving notice of between 30 and 60 days prior to the date on which it wants to redeem the Securities (the **Redemption Date**). For each Security, reimbursement will take place at its Initial Nominal Value in the case of redemption by 30 June 2013, 110% of the Initial Nominal Value in the case of redemption between 1 July 2013 and 30 June 2015 and subsequently at the higher of (i) 110% of the Initial Nominal Value and (ii) the market value of the Underlying Shares calculated as the average reference price of the Underlying Shares in the 30 days prior to the requested redemption date (the Redemption Reference Value) and in any case within the limits of a percentage of the Initial Nominal Value equal to: 130%, in the case of redemption between 1 July 2015 and 30 June 2016; 140%, in the case of redemption between 1 July 2016 and 30 June 2019; 150%, in the case of redemption between 1 July 2019 and 30 June 2022; 160%, in the case of redemption from 1 July 2022 onwards. In the event of redemption, the Interest accrues on a time basis up to the Redemption Date and will be calculated in proportion to the Interest paid at the Interest Payment Date immediately prior to the Redemption Date. The Issuer can exercise its Redemption Right subject to the approval of the Bank of Italy. To this end, the Issuer will have to send the Bank of Italy a specific request for authorisation.
Issuer's Right of Conversion	From the third year after the Issue Date, the Issuer has the right to convert all of the Securities, on condition that the overall value of the Underlying Shares, calculated as the average reference price in the 10 consecutive trading days prior to the date on which the Conversion right is exercised, is equal to or higher than 110% of the Initial Nominal Value. This right is to be exercised by writing to the EFM giving notice of between 30 and 60 days prior to the date on which it wants to convert the Securities (the **Conversion Date**). In the event of conversion, the Interest accrues on a time basis up to the Conversion Date and will be calculated in proportion to the Interest paid at the Interest Payment Date immediately prior to the Conversion Date. Exercising the Conversion Right is subject to an advance resolution authorising the related increase in capital.
Quotation	The Securities will not be listed on any organised market and no offer or listing prospectus will be published.

Other information

1. Guarantees given and commitments

Transactions	31.12.2010	31.12.2009
1) Financial guarantees	2,113,878	1,947,924
a) Banks	119,041	117,479
b) Customers	1,994,837	1,830,445
2) Commercial guarantees	3,098,818	2,841,175
a) Banks	80,780	73,314
b) Customers	3,018,038	2,767,861
3) Irrevocable commitments to grant finance	7,340,317	6,483,690
a) Banks	167,394	144,971
i) certain to be called on	167,394	139,971
ii) not certain to be called on	–	5,000
b) Customers	7,172,923	6,338,719
i) certain to be called on	19,655	4,944
ii) not certain to be called on	7,153,268	6,333,775
4) Commitments underlying credit derivatives: sale of protection	2,588	105,704
5) Assets pledged in guarantee for third-party obligations	6,175	6,301
6) Other commitments	286,969	–
Total	**12,848,745**	**11,384,794**

The amount of "guarantees given" is stated at nominal value net of any drawdowns and any adjustments.
Financial guarantees given – banks" also include the commitments undertaken versus the Interbank Deposit Guarantee Fund for 38,051 thousand Euro (35,577 thousand Euro at 31.12.2009).
The "irrevocable commitments to grant finance" are stated on the basis of the commitment given less the sums already disbursed and any adjustments. They exclude commitments arising from derivative contracts.
The "irrevocable commitments to grant finance" which are certain to be called on include forward and spot purchases of securities awaiting settlement and loans and deposits to be made on a specified future date.
"Commitments underlying credit derivatives: sales of protection" refer to the notional amount of such commitments, less the sums already disbursed and any adjustments.

2. Assets pledged as guarantees for own liabilities and commitments

Portfolio	31.12.2010	31.12.2009
1. Financial assets held for trading	47,600	64,042
2. Financial assets designated at fair value through profit and loss	25,637	–
3. Financial assets available for sale	3,897,799	395,082
4. Investments held to maturity	–	–
5. Due from banks	–	–
6. Loans to customers	3,061,531	2,210,140
7. Property and equipment	–	–

Items 1,2 and 3 report the fair value, inclusive of accrued interest, of securities:
- bankers' drafts pledged with the Bank of Italy for 25,637 thousand Euro (21,087 thousand Euro at 31.12.2009);
- for funding repurchase agreements carried out using securities reported on the asset side of the balance sheet for 1,992,809 thousand Euro (322,546 thousand Euro at 31.12.2009);
- advances for pooling operations for 1,952,590 thousand Euro (115,491 thousand Euro at 31.12.2009).

Item 6. "Loans to customers" includes the loans that guarantee the covered bonds issued each year from 2008.

Guaranteed funding transactions

With reference to the funding transactions guaranteed by securities not shown on the asset side of the balance sheet, it should be noted that:

- as collateral for the funding repo transactions shown in item 20 "Due to customers", securities have been given in guarantee for a total of 365,236 thousand Euro (at market value), coming from lending repo transactions;
- as collateral for the advances received from central banks (OMT - Open Market Transactions), securities have been given in guarantee for a nominal value of 923,950 thousand euro, namely "BPM Securitisation 2041 FR% A", deriving from the securitisation of commercial mortgage backed securities (CMBS) carried out by the Bank in 2009.

3. Information on operating leases

The assets leased by the Bank basically consist of:

- POS equipment;
- central computer;
- motor vehicles under long-term rental contracts.

The POS equipment is installed on the premises of authorised businesses and allows the holders of "Pagobancomat" cards and other credit and debit cards to pay for goods and services from such businesses.
The current contract signed in 2009 expires on 31 December 2012, after which it may be extended by agreement between the parties.
The lease charges are fixed throughout the term of the lease and are paid on a monthly basis.
The current contract provides that, if the agreement is terminated, the Bank has an option to buy the POS equipment installed on the premises of authorised businesses under the terms and conditions to be agreed between the parties. The economic value of the POS equipment will be determined on the basis of ordinary depreciation rates and methods contained in the current tax tables.

The computer lease forms part of an omnicomprehensive contract signed on 31 March 2009 with IBM for the integrated management of various services, including:

- technological evolution/substitution of the storage infrastructure;
- provision of the services needed to support technological renovation;
- maintenance of central hardware;
- software licences and new releases for the operating system and certain subsystems;
- software assistance services, both remote and on-site (up to March 2013);

The operating lease of the computer continues up to March 2013 with an option to buy it back.

Motor vehicles under long-term rental contracts are leased for a contractual term of 48 months, with the provision of full service assistance (maintenance, insurance, ownership tax, breakdown service, etc.). There is no option to acquire the vehicles at the end of the lease.

During the course of 2010 the Bank paid operating lease payments totalling 5,660 thousand Euro (6,845 thousand Euro in 2009) and long-term vehicles rental costs of 738 thousand Euro (548 thousand Euro in 2009).

Future operating lease and car rental payments under outstanding contracts fall due as follows:

Leased assets	Within 1 year	Between 1 and 5 years	Over 5 years	31.12.2010	Within 1 year	Between 1 and 5 years	Over 5 years	31.12.2009
POS	2,289	2,464	–	4,753	2,328	5,378	–	7,706
Central computer	2,952	3,432	–	6,384	2,999	6,384	–	9,383
Vehicles	1,277	1,524	–	2,801	548	1,096	–	1,644
Total	**6,518**	**7,420**	**–**	**13,938**	**5,875**	**12,858**	**–**	**18,733**

4. Administration and dealing on behalf of third parties

This section describes the transactions carried out by the Group on behalf of third parties.

Type of services	31.12.2010	31.12.2009
1. Execution of instructions on behalf of customers		
a) Purchases	115,443	101,335
1. settled	111,696	92,201
2. not settled	3,747	9,134
b) Sales	185,866	170,615
1. settled	183,298	170,537
2. not settled	2,568	78
2. Portfolio management	**–**	**–**
a) individual	–	–
b) collective	–	–
3. Custody and administration of securities		
a) Third-party securities on deposit as custodian bank (excluding portfolio management schemes)	–	7,561,771
1. securities issued by the reporting bank	–	161,279
2. other securities	–	7,400,492
b) third-party securities held on deposit (excluding assets managed): other	26,391,846	27,835,749
1. securities issued by the reporting bank	3,675,843	4,131,455
2. other securities	22,716,003	23,704,294
c) third-party securities deposited with third parties	21,831,056	28,423,899
d) portfolio securities deposited with third parties	7,003,878	3,568,236
4. Other transactions		
1. Collection of receivables on behalf of third parties: debit and credit adjustments		
a) Debit adjustments	7,239,747	6,705,408
1. Current accounts	30,274	29,046
2. Central portfolio	7,209,473	6,676,362
3. Cash	–	–
4. Other accounts	–	–
b) Credit adjustments	7,350,733	6,705,657
1. Current accounts	44,531	64,756
2. Presenters of notes and documents	7,302,289	6,637,197
3. Other accounts	3,913	3,704
2. Receipt and transmission of instructions and brokerage		
a) purchases	7,993,093	9,194,107
b) sales	4,567,466	5,831,601
3. Other transactions		
a) collection of notes and other instruments on behalf of third parties	7,313,720	6,668,861
b) portfolio management services offered to customers	2,109,921	2,159,035

As regards the following amounts note that:

Service 1. "Execution of instructions on behalf of customers": it includes purchase and sale transactions, forward contracts traded on Italy's future's market (MIF) and derivatives traded on Italy's derivatives market (IDEM) in which the Group banks executes orders received from its customers. The amount of such transactions was as follows:

	31.12.2010	31.12.2009
a) Purchases	**88,813**	**93,067**
1. settled	85,066	83,933
2. not settled	3,747	9,134
b) Sales:	**160,427**	**165,419**
1. settled	157,859	165,341
2. not settled	2,568	78

Service 2. "Portfolio management": portfolio management on behalf of customers has been carried out by the subsidiary company, Anima S.G.R.; the amount of the assets managed is disclosed in 4.4.3 b) below

Service 3 "Custody and administration of securities": securities received for custody and administration, including those received and held in guarantee, are stated at their nominal value. Line item 4.3.b) also includes securities received from third parties to guarantee lending transactions, for which the bank provides custodian and administration services.

Service 4. Other transactions – 1 "Collection of receivables on behalf of third parties: debit and credit adjustments": the notes and documents received by the Bank subject to collection or after collection and for which the Bank handles collection on behalf of third parties, must only be recorded in the balance sheet (as cash, due from banks and customers, amounts due to banks and customers) at the time these amounts are settled. As a result, the notes portfolio has been reclassified in the financial statements according to settlement date, by making the accounting adjustments specified.

Service 4. Other transactions – 2 " Receipt and transmission of instructions and brokerage": all transactions are included in this line item by contract date, even if not settled at period end.

Part C
Information on the income statement

Section 1 – Interest
Line items 10 and 20

1.1 Interest and similar income: breakdown

Description/Technical forms	Debt securities	Loans	Other transactions	2010	2009
1. Financial assets held for trading	2,030	0	20,836	22,866	21,571
2. Financial assets available for sale	38,350	0	0	38,350	30,986
3. Investments held to maturity	0	0	0	0	0
4. Due from banks	109	25,904	0	26,013	47,685
5. Loans to customers	10,683	800,813	0	811,496	1,042,486
6. Financial assets designated at fair value through profit and loss	6,665	0	0	6,665	5,609
7. Hedging derivatives	X	X	3,803	3,803	11,914
8. Other assets	X	X	65,939	65,939	44,537
Total	**57,837**	**826,717**	**90,578**	**975,132**	**1,204,788**

The decrease in this item, which in total has gone from 1.2 billion Euro to 975 million euro, is essentially due to the decline in the interest earned on loans, because of the drop in interest rates.

Line item **"1. Financial assets held for trading: other transactions"** includes the positive margins from derivative contracts connected for management purposes with financial assets and liabilities designated at fair value ("fair value option") for 20,836 thousand Euro (15,367 thousand Euro at 31.12.2009).

Line item **"5. Loans to customers"** shows interest other than that reported in "writebacks" that accrued during the year on positions classified as "impaired" at the balance sheet date, for 24,961 thousand Euro (55,667 thousand Euro at 31.12.2009).

1.2 Interest and similar income: differentials on hedging transactions

The following table shows the composition differential balance, positive and negative, accrued on "hedging derivatives", reported in the previous table 1.1 at "7. Hedging derivatives".

Line items/Amounts	2010	2009
A. Positive differentials on hedging transactions:	6,475	26,783
B. Negative differentials on hedging transactions:	(2,672)	(14,869)
C. Balance (A-B)	**3,803**	**11,914**

1.3 Interest and similar income: other information

1.3.1 Interest income on financial assets in foreign currency

Line items/Amounts	2010	2009
On financial assets in foreign currency	14,435	29,361

"Interest and similar income" on financial assets in foreign currency relates to income received and accrued on assets in currencies outside the euro-zone.

1.3.2 Interest income from finance leases

The Bank does not have any outstanding finance lease transactions.

1.4 Interest and similar expense: breakdown

Description/Technical forms	Payables	Securities	Other transactions	2010	2009
1. Due to central banks	(2,885)	X	–	(2,885)	(1,517)
2. Due to banks	(44,780)	X	–	(44,780)	(30,530)
3. Due to customers	(71,221)	X	–	(71,221)	(118,678)
4. Securities issued	X	(265,016)	–	(265,016)	(337,180)
5. Financial liabilities held for trading	–	(365)	(1,049)	(1,414)	(591)
6. Financial liabilities designated at fair value through profit and loss	–	(25,350)	–	(25,350)	(35,526)
7. Other liabilities and provisions	X	X	(12,173)	(12,173)	–
8. Hedging derivatives	X	X	–	–	–
Total	**(118,886)**	**(290,731)**	**(13,222)**	**(422,839)**	**(524,022)**

The trend in interest spreads during 2010 has meant that, like interest income, interest expense has also fallen quite dramatically, for a total of over 101 million euro.

Composition of item 4. "Securities issued"

Line items/Amounts	2010	2009
Bonds	(260,753)	(318,722)
Certificates of deposit	(4,263)	(18,458)
Other securities	–	–
Total	**(265,016)**	**(337,180)**

"Bonds" include interest on subordinated bonds of 53,729 thousand Euro (85,937 thousand Euro in 2009), on bonds convertible into shares of 32,923 thousand Euro (18,055 thousand Euro in 2009) and on covered bonds of 96,289 thousand Euro (64,305 thousand Euro in 2009).

Line item **"5. Financial liabilities held for trading: other transactions"** shows the negative margins resulting from derivative contracts linked for management purposes with financial assets and liabilities held in the trading portfolio for 1,049 thousand Euro (591 thousand Euro in 2009).

Item 7. **"Other liabilities and provisions"** includes default interest of 12,165 thousand Euro paid in connection with the tax settlement for the fiscal periods 2004-2008.

1.5 Interest and similar expense: differentials on hedging transactions

No differentials on hedging transactions have been reported as interest expense. See the corresponding table at point 1.2.

1.6 Interest and similar expense: other information

1.6.1 Interest expense on foreign currency liabilities

Line items/Amounts	2010	2009
On foreign currency liabilities	(7,233)	(7,926)

Interest expense on foreign currency liabilities relates to that paid and accrued on liabilities in currencies outside the euro-zone.

1.6.2 Interest expense on finance leases

The Bank does not have any outstanding finance lease transactions.

Section 2 – Commission
Line items 40 and 50

2.1 Fee and commission income: breakdown

Type of service/Amounts	2010	2009
a) guarantees given	**29,303**	**25,115**
b) credit derivatives	**–**	**–**
c) management, dealing and advisory services:	**211,290**	**185,601**
1. trading of financial instruments	185	232
2. currency trading	7,164	6,546
3. portfolio management	–	–
3.1. individual	–	–
3.2. collective	–	–
4. custody and administration of securities	10,355	9,923
5. custodian bank	8,932	12,654
6. placement of securities	137,967	112,547
7. receipt and transmission of instructions	14,750	18,111
8. advisory services	–	–
8.1 on investments	–	–
8.2 on financial structure	–	–
9. distribution of third-party services	31,937	25,588
9.1. portfolio management	5,246	4,722
9.1.1. individual	5,246	4,722
9.1.2. collective	–	–
9.2. insurance products	22,632	16,444
9.3. other products	4,059	4,422
d) collection and payment services	**97,911**	**100,546**
e) servicing for securitisation transactions	**1,674**	**2,079**
f) factoring services	**–**	**–**
g) tax collection services	**–**	**–**
h) management of multilateral trading systems	**–**	**–**
i) management of current accounts	**99,769**	**106,221**
j) other services	**87,245**	**72,383**
Total	**527,192**	**491,945**

Sub-item i) "management of current accounts" includes, among other things, the unauthorised overdraft indemnity, commission for going into the red for more than 29 consecutive days and income from the application of periodical or floating expenses on both debtor and creditor current accounts of its own customers (e.g. fees, liquidation expenses, cheque book issuing expenses, expenses for the recording of movements not covered by a fixed fee).

Line item j) Other services includes 63,453 thousand Euro in fees earned on short-term loans (52,310 thousand Euro at 31.12.2009) and 1,869 thousand Euro for the use of safe deposits (1,772 thousand Euro at 31.12.2009).

2.2 Fee and commission income: product and service distribution channels

Channels/Amounts	2010	2009
a) own branches:	**168,686**	**136,807**
1. portfolio management	–	–
2. placement of securities	136,897	111,332
3. distribution of third-party services and products	31,789	25,475
b) door-to-door:	**1,214**	**935**
1. portfolio management	–	–
2. placement of securities	1,066	862
3. distribution of third-party services and products	148	73
c) other distribution channels:	**4**	**393**
1. portfolio management	–	–
2. placement of securities	4	353
3. distribution of third-party services and products	–	40

2.3 Fee and commission expense: breakdown

Services/Amounts	2010	2009
a) guarantees received	**(551)**	**(590)**
b) credit derivatives	**–**	**–**
c) management and dealing services:	**(5,573)**	**(5,685)**
1. trading of financial instruments	(224)	(301)
2. currency trading	(6)	(6)
3. portfolio management:	–	–
3.1. own	–	–
3.2. mandated by third parties	–	–
4. custody and administration of securities	(3,283)	(3,589)
5. placement of financial instruments	–	–
6. door-to-door sales of financial instruments, financial products, and services	(2,060)	(1,789)
d) collection and payment services	**(28,414)**	**(28,360)**
e) other services	**(14,582)**	**(34,402)**
Total	**(49,120)**	**(69,037)**

Section 3 – Dividend and similar income
Line item 70

3.1 Dividend and similar income: breakdown

Line items/Income	Dividends	Income from mutual funds	2010	Dividends	Income from mutual funds	2009
A. Financial assets held for trading	–	–	–	–	–	–
B. Financial assets available for sale	3,655	1,295	4,950	1,712	872	2,584
C. Financial assets designated at fair value through profit and loss	–	–	–	–	–	–
D. Investments in associates and companies subject to joint control	81,709	X	81,709	83,152	X	83,152
Total	**85,364**	**1,295**	**86,659**	**84,864**	**872**	**85,736**

The following table lists the dividends received during the year from subsidiaries (IAS 27) and companies under significant influence (IAS 28), along with the corresponding amounts received in the previous year.

Composition of line item "D. Investments in associates and companies subject to joint control"

Name	2010	2009
A. Investments in significant subsidiary companies	**81,004**	**82,554**
Banca di Legnano S.p.A.	21,652	56,341
Anima SGR S.p.A. (1)	27,489	–
BPM Ireland	11,000	–
Banca Akros S.p.A.	8,659	6,730
Bipiemme Vita S.p.A.(2)	8,330	–
Bipiemme Private Banking Sim S.p.A. (3)	1,500	255
WeTrade Sim S.p.A.	1,219	–
Tirving Ltd	1,155	1,108
Anima SGR S.p.A.(4)	–	10,465
Bipiemme Gestioni SGR S.p.A.(4)	–	4,241
Cassa di Risparmio di Alessandria S.p.A.	–	2,909
Banca Popolare di Mantova	–	505
B. Companies under joint control	**–**	**–**
C. Companies subject to significant influence	**705**	**598**
Aedes BPM Real Estate SGR	665	558
Wise Venture SGR	40	40
Total	**81,709**	**83,152**

(1) The amount shown here relates for 15,850 thousand Euro to the ordinary dividend and for 11,639 thousand Euro to the extraordinary dividend distributed at the end of the year prior to the sale of the investment to Asset Management Holding Spa, following completion of the agreement on asset management explained in the report on operations".
(2) Bipiemme Vita was reclassified to "Investments in significant subsidiary companies" after control was acquired in June 2010.
(3) The company was absorbed by the Parent Bank on 30 June 2010.
(4) These are dividends distributed by the two companies during 2009 prior to the merger of Anima SGR with Bipiemme Gestioni SGR S.p.A.

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

4.1 Profits (losses) on trading: breakdown

Transactions/Element of income	Unrealised profits (A)	Trading profits (B)	Unrealised losses (C)	Trading losses (D)	Net income (loss) (A+B) – (C+D)
1. Financial assets held for trading	**8,243**	**4,179**	**(8,865)**	**(76)**	**3,481**
1.1 Debt securities	777	2,758	(2,975)	(40)	520
1.2 Equities	1	4	–	(26)	(21)
1.3 Mutual funds	831	12	–	(10)	833
1.4 Loans	–	–	–	–	–
1.5 Other	6,634	1,405	(5,890)	–	2,149
2. Financial liabilities held for trading	**–**	**–**	**–**	**–**	**–**
2.1 Debt securities	–	–	–	–	–
2.2 Payables	–	–	–	–	–
2.3 Other	–	–	–	–	–
3. Other financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**14,282**
4. Derivatives	**31,758**	**341,113**	**(56,071)**	**(320,844)**	**(12,451)**
4.1 Financial derivatives:	31,758	341,113	(56,071)	(320,844)	(12,451)
– On debt securities and interest rates	31,591	341,107	(51,129)	(320,843)	726
– On equities and stock indices	167	6	(4,942)	(1)	(4,770)
– On currency and gold	X	X	X	X	(8,407)
– Other	–	–	–	–	–
4.2 Credit derivatives	–	–	–	–	–
Total	**40,001**	**345,292**	**(64,936)**	**(320,920)**	**5,312**

1. Financial assets for trading: other include the profits and losses from trading in currency, gold and other precious metals.

3. Other financial assets and liabilities: foreign exchange differences: this sub-item includes the positive or negative balance of changes in the value of financial assets and liabilities in foreign currency, other than those designated at fair value, those subject to fair value hedging (exchange risk or fair value) or cash flow hedging (exchange risk), as well as changes in the value of hedging derivatives.

4. Derivatives: positive and negative differentials and margins are reported in the "trading profits" and "trading losses" columns respectively".

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

5.1 Fair value adjustments in hedge accounting: breakdown

Element of income/Amounts	2010	2009
A. Income relating to:		
A.1 Derivatives with fair value hedges	5,641	12,505
A.2 Financial assets with fair value hedges	1,925	2,936
A.3 Financial liabilities with fair value hedges	31,996	–
A.4 Cash flow hedges	–	–
A.5 Foreign currency assets and liabilities	–	–
Total income from hedging activities (A)	**39,562**	**15,441**
B. Charges relating to:		
B.1 Derivatives with fair value hedges	(34,125)	(3,042)
B.2 Financial assets with fair value hedges	(491)	(129)
B.3 Financial liabilities with fair value hedges	(5,198)	(14,804)
B.4 Cash flow hedges	–	–
B.5 Foreign currency assets and liabilities	–	–
Total charges from hedging activities (B)	**(39,814)**	**(17,975)**
C. Fair value adjustments in hedge accounting (A-B)	**(252)**	**(2,534)**

Fair value adjustments in hedge accounting: details of income items

	2010			2009		
Line items/Amounts	**Income**	**Charges**	**Net income (loss)**	**Income**	**Charges**	**Net income (loss)**
1 Derivatives hedging fair value:						
• Interest rate risk	5,641	(33,232)	(27,591)	12,505	(810)	11,695
• Exchange rate risk	–	(893)	(893)	–	(2,232)	(2,232)
• Credit risk	–	–	–	–	–	–
• Price risk	–	–	–	–	–	–
• Other risks	–	–	–	–	–	–
2 Financial assets hedged (fair value):						
• Specific hedges	1,925	(491)	1,434	2,936	(129)	2,807
• Generic hedges	–	–	–	–	–	–
3 Financial liabilities hedged (fair value):						
• Specific hedges	–	–	–	–	(14,804)	(14,804)
• Generic hedges	31,996	(5,198)	(26,798)	–	–	–
4 Financial derivatives hedging cash flows:						
• Transaction expected	–	–	–	–	–	–
• Foreign investments	–	–	–	–	–	–
• Exchange rate risk	–	–	–	–	–	–
5 Foreign currency assets and liabilities:						
• Assets in foreign currency	–	–	–	–	–	–
• Liabilities in foreign currency	–	–	–	–	–	–
Total	**39,562**	**(39,814)**	**(252)**	**15,441**	**(17,975)**	**(2,534)**

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

6.1 Profits (losses) on disposal/repurchase: breakdown

Description/Element of income	2010			2009		
	Profits	Losses	Net income (loss)	Profits	Losses	Net income (loss)
Financial assets						
1. Due from banks	–	–	–	111	–	111
2. Loans to customers	–	(8,184)	(8,184)	31,282	(19,428)	11,854
3. Financial assets available for sale	11,983	(270)	11,713	11,529	(205)	11,324
3.1 Debt securities	10,978	(269)	10,709	6,690	(4)	6,686
3.2 Equities	1,005	–	1,005	4,839	(201)	4,638
3.3 Mutual funds	–	(1)	(1)	–	–	–
3.4 Loans	–	–	–	–	–	–
4. Investments held to maturity	–	–	–	–	–	–
Total assets	**11,983**	**(8,454)**	**3,529**	**42,922**	**(19,633)**	**23,289**
Financial liabilities						
1. Due to banks	–	–	–	–	–	–
2. Due to customers	1,899	–	1,899	1,954	–	1,954
3. Securities issued	956	(364)	592	9,073	(17)	9,056
Total liabilities	**2,855**	**(364)**	**2,491**	**11,027**	**(17)**	**11,010**
Total	**14,838**	**(8,818)**	**6,020**	**53,949**	**(19,650)**	**34,299**

Of the profit relating to "Financial assets available for sale – 3.2 Equities", 860 thousand Euro came from the disposal of the interest in Epsilon SGR, an unlisted company. The corresponding amount of 4,839 thousand Euro in 2009 related principally, for 1,615 thousand euro, to the partial sale of the interest in SSB S.p.A, an unlisted company, and for 2,946 thousand Euro to the total disposal of the interest in Cerved Group S.p.A., also an unlisted company.

Composition of "Financial assets: Due from banks and Loans to customers"

	2010			2009		
Line items/Amounts	**Profits**	**Losses**	**Net income (loss)**	**Profits**	**Losses**	**Net income (loss)**
1. Due from banks:	**–**	**–**	**–**	**111**	**–**	**111**
Loans	–	–	–	–	–	–
Debt securities	–	–	–	111	–	111
2. Loans to customers:	**–**	**–**	**–**	**31,282**	**(19,428)**	**11,854**
Loans	–	(8,156)	(8,156)	29,472	(19,428)	10,044
Debt securities	–	(28)	(28)	1,810	–	1,810
Total	**–**	**(8,184)**	**(8,184)**	**31,393**	**(19,428)**	**11,965**

The loss of 8,156 thousand Euro for 2010 relates to the assignment without recourse of a doubtful loan. The profit of 10,044 thousand Euro recorded in 2009 related to the assignment of non-performing loans in December.

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

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

Transactions/Element of income	Unrealised profits (A)	Profits on disposal (B)	Losses (C)	Losses on disposal (D)	Net income loss) (A+B) – (C+D)
1. Financial assets	**3,823**	**13,759**	**(168)**	**(12,899)**	**4,515**
1.1 Debt securities	1,294	1,746	(123)	(11,070)	(8,153)
1.2 Equities	–	–	–	–	–
1.3 Mutual funds	2,529	12,013	(45)	(1,829)	12,668
1.4 Loans	–	–	–	–	–
2. Financial liabilities	**326**	**3,461**	**(4,489)**	**(640)**	**(1,342)**
2.1 Debt securities	326	3,461	(4,489)	(640)	(1,342)
2.2 Due to banks	–	–	–	–	–
2.3 Due to customers	–	–	–	–	–
3. Financial assets and liabilities in foreign currency: foreign exchange differences	**X**	**X**	**X**	**X**	**212**
4. Credit and financial derivatives	**3,820**	**11,141**	**(1,294)**	**(13,257)**	**410**
Total	**7,969**	**28,361**	**(5,951)**	**(26,796)**	**3,795**

For the purposes of the limits imposed by art. 6 of Decree 38/2005 on the distribution of earnings, we would point out that in 2010 unrealised capital gains were booked, net of tax, for 1,549 thousand Euro (6,411 thousand Euro in 2009) on mutual funds and structured securities not hedged by derivatives. Moreover, part of the restricted reserve under Decree 38/2005 set up in previous years became distributable for an amount of 3,831 thousand Euro (8,207 thousand Euro in 2009) deriving from the effective realisation during 2010 of gains on the sale of financial assets designated at fair value through profit and loss. This amount already flowed through the income statement in prior years on application of the fair value option.

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

8.1 Net losses/recoveries on impairment to loans: breakdown

Transactions/Element of income	Adjustments			Writebacks				2010	2009
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Other		A	B	A	B		
A. Due from banks									
– Loans	–	–	–	–	275	–	224	499	(1,440)
– Debt securities	–	–	–	–	–	–	–	–	–
B. Loans to customers									
– Loans	(88,198)	(200,958)	(7,795)	8,034	78,501	–	1,825	(208,591)	(279,804)
– Debt securities	–	–	–	–	–	–	–	–	–
Total	**(88,198)**	**(200,958)**	**(7,795)**	**8,034**	**78,776**	**–**	**2,049**	**(208,092)**	**(281,244)**

Key: A = for interest B = Other writebacks

The "writebacks – for interest" include writebacks associated with the time value of money, corresponding to the interest earned in the year on the basis of the original effective interest rate previously used to calculate any writedowns.

8.2 Net losses/recoveries on impairmen to financial assets available for sale: breakdown

Transactions/Element of income	Adjustments		Writebacks		2010	2009
	Write-offs	Other	A	B		
A. Debt securities	–	–	–	–	–	–
B. Equities	(8,395)	(6,772)	X	X	(15,167)	(19,924)
C. Mutual Funds	–	–	X	–	–	–
D. Loans to banks	–	–	–	–	–	–
E. Loans to customers	–	–	–	–	–	–
F. Total	**(8,395)**	**(6,772)**	**–**	**–**	**(15,167)**	**(19,924)**

Key: A = for interest B = other writebacks

Specific value adjustments relate to the write-offs and writedowns made to the investments held in the following companies:

Specific adjustments	2010	2009
Write-offs	**(8,395)**	**–**
• Risanamento	(8,395)	–
Altre	**(6,772)**	**(19,924)**
• Banca Popolare dell'Etruria	(2,094)	–
• Comital S.p.A.	(2,057)	(499)
• Gabetti S.p.A.	(1,324)	(726)
• Genextra S.p.A	(581)	(699)
• Fiera di Milano S.p.A.	(430)	(2,939)
• Coronet S.p.A.	(286)	(379)
• Credit Industriel et Commercial	–	(12,680)
• Banca Italease S.p.A	–	(2,002)
Total	**(15,167)**	**(19,924)**

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

At the balance sheet the Group has no investments held to maturity

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

Transactions/Element of income	Adjustments			Writebacks				2010	2009
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Other		A	B	A	B		
A. Guarantees given	(105)	(5,458)	(1,021)	–	10,045	–	42	3,503	(6,674)
B. Credit derivatives	–	–	–	–	–	–	–	–	–
C. Commitments to disburse funds	–	–	–	–	–	–	–	–	–
D. Other transactions	–	–	–	–	–	–	–	–	–
E. Total	**(105)**	**(5,458)**	**(1,021)**	**–**	**10,045**	**–**	**42**	**3,503**	**(6,674)**

Key: A = for interest B = other writebacks

Section 9 – Administrative expenses
Line item 150

9.1 Personnel expenses: breakdown

In addition to employee payroll costs, these costs include:

- the cost of employees seconded to other companies and the related recharges);
- costs for non-standard employment contracts (e.g. temporary and contract workers);
- reimbursement of cost of employees of other companies seconded to the Bank;
- Directors' and Statutory Auditors' fees (including charges incurred on the stipulation of civil liability insurance policies for Directors and Statutory Auditors);
- costs associated with share-based payments;
- provisions made, with contra-entry to "other liabilities", for productivity bonuses relating to the year, but paid the following year.

Type of expense/Amounts	2010	2009
1) Employee payroll costs	**(520,097)**	**(620,170)**
a) wages and salaries	(338,784)	(338,033)
b) social security charges	(97,560)	(96,272)
c) termination indemnities	(21,977)	(22,402)
d) pension costs	–	–
e) charge to employee termination indemnities	(5,740)	(6,154)
f) charge to provision for pensions and similar commitments:	(5,832)	(5,281)
– defined contribution	–	–
– defined benefit	(5,832)	(5,281)
g) payments to external supplementary pension funds:	(9,244)	(9,373)
– defined contribution	(9,244)	(9,373)
– defined benefit	–	–
h) costs associated with share–based payments	(10,177)	(9,022)
i) other staff benefits	(30,783)	(133,633)
2) Other payroll costs	**(1,939)**	**(1,705)**
3) Directors and Statutory Auditors	**(3,760)**	**(3,502)**
4) Retired personnel	**–**	**–**
5) Recharge of costs for employees seconded to other companies	**2,902**	**1,933**
6) Reimbursement of costs for third–party employees seconded to BPM	**(3,362)**	**(3,971)**
Total	**(526,256)**	**(627,415)**

The sub-item "c) termination indemnities" includes, in addition to the cost of 221 thousand Euro for those who left in 2010 (289 thousand Euro in 2009), also the severance indemnities paid directly to INPS for 7,931 thousand Euro (8,729 thousand Euro in 2009) and to the BPM Pension Fund for 13,825 thousand Euro (13,384 thousand Euro in 2009).

Sub-item "g) payments to external supplementary pension funds: defined contribution" includes the contribution paid to the BPM Pension Plan.

Sub-items "h) costs associated with share-based payments" refers to the portion reserved to employees, in compliance with art. 47 of the Articles of Association. This portion is equal to 5% of the pre-tax profit for the year, calculated before this amount, unless the Members' Meeting decides not to distribute dividends out of the net income for the year. The forms and methods of disbursement of this amount are delegated to the Board of Directors; if the latter decides to pay it all or in part by granting shares, the point of reference is their "normal" value, i.e. the average market value for the 30 days prior to the assignment.

Again according to art. 47 of the Articles of Association, an amount of 0.25% of the pre-tax profit is reserved for the Board of Directors.
Having said this, based on the results of the 2010 financial statements, the "Profit from current operations before tax" (i.e. the pre-tax profit mentioned above), defined before calculating the amounts to be allocated to the employees and to the Board of Directors, came to Euro 203,542,566.37 (Euro 180,433,438.73 at 31.12.2009). So bearing in mind the requirement of the Articles, the amounts to be granted to the employees and to the Board of Directors were Euro 10,177,128.32 (Euro 9,021,671.94 at 31.12.2009) and Euro 508,856.42 (Euro 451,083.60 at 31.12.2009) respectively.
After deducting these amounts, the profit from current operations before tax came to Euro 192,856,581.63 (Euro 170,960,683.19 at 31.12.2009) as reported in line item 250 of the income statement.
As regards payment of the amount to be allocated to employees, the Board of Directors decided that the amount of Euro 10,177,128.32 is to be attributed entirely in outstanding ordinary shares of Banca Popolare di Milano: to this end, in addition to using 487,473 treasury shares currently in the Bank's portfolio, the Members will be expressed asked at the general Meeting to approve the possibility of using the unrestricted portion of the "reserve for treasury shares", currently with a balance of Euro 17,634,716.25, to purchase the additional shares needed to make this payment.
Details of sub-item "i) other staff benefits" are provided below in paragraph 9.4 of this Section.
Line item "3) Directors and Statutory Auditors" includes fees paid to Directors for 2,949 thousand Euro (2,717 thousand Euro in 2009) and to Statutory Auditors for 811 thousand Euro (785 thousands of Euro in 2009).

9.2 Average number of employees, by level

Line items	2010	2009
Employees	**5,923**	**6,127**
a) managers	123	94
b) total officials	2,298	2,328
– of which: 3rd and 4th level	1,242	1,248
c) other employees	3,536	3,731
d) employees seconded to other companies	–34	–26
Other personnel	**68**	**67**
Employees seconded from other Group companies	28	23
Other types of contract (consultants and temps)	40	44
Total	**5,991**	**6,194**

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

Number of employees by category

Line items	31.12.2010	31.12.2009
Employees	**6,306**	**6,443**
a) managers	133	109
b) total officials	2,355	2,361
– of which: 3rd and 4th level	1,257	1,232
c) other employees	3,848	4,005
d) employees seconded to other companies	–30	–32
Other personnel	**72**	**50**
Employees seconded from other Group companies	22	18
Other types of contract (consultants and temps)	50	32
Total	**6,378**	**6,493**

The number of employees includes 949 part-timers (946 at 31.12.2009), with an incidence of 15% of total personnel in service at the balance sheet date.
Changes in the number of employees are shown in the "Human resources" chapter of the report on operations, to which you are referred.

9.3 Defined-benefit pension plans: total costs

	2010	2009
• Pension cost:	**(3,355)**	**(2,519)**
– BPM supplementary pension plan	(3,355)	(2,519)
– Plan of the former Banca Popolare Bologna e Ferrara	–	–
– Plan of the former Banca Agricola Milanese	–	–
• interest expense:	**(2,477)**	**(2,762)**
– BPM supplementary pension plan	(1,768)	(2,020)
– Plan of the former Banca Popolare Bologna e Ferrara	(708)	(740)
– Plan of the former Banca Agricola Milanese	(1)	(2)
Total	**(5,832)**	**(5,281)**

Composition of "actuarial gains (losses) posted to shareholders' equity"

Line items	31.12.2009	Change	31.12.2010
BPM supplementary pension plan	(8,677)	(4,291)	(12,968)
Plan of the former Banca Popolare Bologna e Ferrara	(6,001)	(1,354)	(7,355)
Plan of the former Banca Agricola Milanese	(1)	(1)	(2)
Total actuarial gains (Losses)	**(14,679)**	**(5,646)**	**(20,325)**

9.4 Other staff benefits

Composition of line item " i) other staff benefits"

Line items	2010	2009
Contributions towards the running of staff canteens	(6,495)	(6,668)
Adjustments to the managers' indemnity fund	(6,070)	138
Subsidised-rate loans given to employees	(5,056)	(4,743)
Social initiatives	(1,461)	(1,549)
Bursaries	(516)	(512)
Long-service bonuses	(954)	(1,335)
Solidarity Fund	(4,587)	(104,945)
Other	(5,644)	(13,519)
Total	**(30,783)**	**(133,133)**

The increase in the "managers' indemnity fund" reflects the higher number of managers, which rose from 109 to 133 in 2010.

The "Solidarity Fund" relates to the charges in connection with the signing in 2009 of the agreement on the Solidarity Fund between the Bank and the Trade Unions, as explained in the report on operations at 31.12.2009. Considering the time horizon that this commitment entails, joining the Fund, which is entirely voluntary, involved booking in 2009 a charge of 3,543 thousand euro, prior to discounting, out of a total cost of 108,488 thousand euro.

This year, following the introduction of Decree 78 of 31/5/2010, converted into Law 122 of 30/7/2010, which extended up to a maximum of 12 months the period between achieving the pension requirement and effective payment of the pension, the Fund was supplemented by a further 4,587 thousand euro.
The amount of 4,587 thousand Euro in 2010 relates:

- for 2,854 thousand euro, to additional charges compared with the commitment taken on in 2009;
- for 1,733 thousand euro, to charges related to the passing of time.

"Other" includes, among the more significant items, the costs relating to the staff leaving incentives paid during the reference periods for 1,529 thousand Euro (9,735 thousand Euro in 2009), costs for staff training courses of 1,739 thousand Euro (1,733 thousand Euro in 2009) and the costs of board and lodging for employees working out of town and mileage allowances for 1,461 thousand Euro (1,564 thousand Euro in 2009).

9.5 Other administrative expense: breakdown

Type of expense/Amounts	2010	2009
IT expenses	**(78,862)**	**(81,155)**
Maintenance and rent of hardware and software and data transmission	(43,400)	(45,443)
Services rendered by Group companies	(30,145)	(31,011)
ATM running costs	(1,619)	(1,330)
Outsourced IT services	(3,698)	(3,371)
Expenses for buildings and furniture	**(50,385)**	**(48,983)**
Property rents and leases	**(36,264)**	**(35,623)**
Rents paid	(36,162)	(35,554)
Office machine lease charges	(102)	(69)
Other expenses	**(14,121)**	**(13,360)**
Maintenance	(9,252)	(8,502)
Cleaning	(4,869)	(4,858)
Purchases of assets and non professional services	**(62,217)**	**(57,606)**
Telephone and postage	(12,649)	(12,618)
Sub-contract work	(19,008)	(15,107)
Security and cash counting services	(10,942)	(10,879)
Electricity, heating and water	(10,849)	(10,834)
Transport	(2,797)	(2,301)
Stationery and printed matters	(4,251)	(4,312)
Removals and porterage	(1,272)	(1,166)
Subscriptions to newspapers and magazines	(449)	(389)
Purchases of professional services	**(28,728)**	**(34,399)**
Professional fees	(15,454)	(20,684)
Legal expenses and company information	(13,156)	(13,613)
Directors' and statutory auditors' fees	(118)	(102)
Insurance premiums	**(2,948)**	**(2,707)**
Advertising expenses	**(13,343)**	**(12,329)**
Indirect taxes and duties	**(52,599)**	**(51,357)**
Other expenses	**(7,518)**	**(5,977)**
Charity	(3,901)	(3,151)
Membership fees	(2,698)	(2,618)
Other	(919)	(208)
Total	**(296,600)**	**(294,513)**

An examination of the various items making up "other administrative expenses", which have increased overall by around 2 million euro, 0.7% of the total, shows careful monitoring to hold down operating expenses.

"Charity" includes an amount of 1,526 thousand Euro (1,577 thousand Euro at 31.12.2009) which the Board of Directors decided to allocate to the charity and social fund for 2010 under art. 47 of the Articles of Association; in particular: the amount is 1.5% of 2009 net income.

Breakdown of indirect taxes and duties”

	2010	2009
Stamp duty	(35,689)	(37,365)
Flat-rate tax	(11,382)	(8,909)
Other indirect taxes and duties	(3,173)	(2,733)
I.C.I. (local property tax)	(2,355)	(2,350)
Total	**(52,599)**	**(51,357)**

Section 10 – Net provisions for risks and charges
Line item 160

10.1 Net provisions for risks and charges: breakdown

Element of income/Amount	2010	2009
Provisions	**(13,373)**	**(18,556)**
Legal disputes	**(8,674)**	**(9,143)**
Other risks and charges:	**(4,699)**	**(9,413)**
Provision for recovery procedures	(2,573)	(8,729)
Commitments to the Interbank Guarantee Fund	–	–
Provision for tax disputes	(342)	(684)
Provision for other future charges	(1,784)	–
Reallocations	**8,205**	**7,079**
Legal disputes	**3,016**	**5,072**
Other risks and charges:	**5,189**	**2,007**
Provision for recovery procedures	5,097	2,007
Commitments to the Interbank Guarantee Fund	–	–
Provision for tax disputes	89	–
Provision for other future charges	3	–
Total	**(5,168)**	**(11,477)**

Section 11 – Net adjustments to/recoveries on property and equipment
Line item 170

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

Asset/Element of income	Depreciation (A)	Impairment adjustments (B)	Writebacks (C)	Net income loss) (A + B – C)
A. Property and equipment				
A.1 Owned by company	(30,996)	–	–	(30,996)
– Used in the business	(30,552)	–	–	(30,552)
– For investment	(444)	–	–	(444)
A.2 Purchased under finance lease	–	–	–	–
– Used in the business	–	–	–	–
– For investment	–	–	–	–
Total	**(30,996)**	**–**	**–**	**(30,996)**

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

A.1 Owned property and equipment	2010	2009
– used in the business	(30,552)	(30,146)
– for investment	(444)	(444)
Total	**(30,996)**	**(30,590)**

Section 12 – Net adjustments to/recoveries on intangible assets Line item 180

12.1 Net adjustments to/recoveries on intangible assets: breakdown

Asset/Element of income	Amortisation (A)	Impairment adjustments (B)	Writebacks (C)	Net income (loss) (A + B – C)
A. Intangible assets				
A.1 Owned by company	(26,975)	–	–	(26,975)
– Internally generated	–	–	–	–
– Other	(26,975)	–	–	(26,975)
A.2 Purchased under finance lease	–	–	–	–
Total	**(26,975)**	**–**	**–**	**(26,975)**

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

A.1 Intangible assets owned by the company: other	2010	2009
Core deposits	(4,016)	(3,861)
Own software	(11,139)	(10,838)
Software under licence	(11,820)	(10,721)
Total	**(26,975)**	**(25,420)**

Section 13 – Other operating expenses/income
Line item 190

13.1 Other operating expenses: breakdown

Element of income/Amount	2010	2009
Depreciation of leasehold improvements recorded under "Other assets"	(3,740)	(4,030)
Other operating expenses	(136,290)	(8,670)
Total	**(140,030)**	**(12,700)**

"Other operating expenses" include the charge for the tax settlement for the tax periods 2004-2008 of 127,148 thousand Euro (116,327 of additional taxes (IRES/IRAP) and 10,821 thousand Euro of fines).
To this amount has to be added 12,165 thousand Euro of default interest, which has been booked to "Interest and similar expense".
This settlement has already been discussed in section 13 of assets, in the chapter entitled "other information" of these notes to which reference shold be made.

13.2 Other operating income: breakdown

Element of income/Amount	2010	2009
Recovery of taxes	46,008	45,481
Rental and leasing income	7,610	8,511
Income and IT services rendered to:	8,725	6,732
Group companies	8,725	6,732
Third parties	–	–
Recharge of costs:	23,147	24,371
On deposits and overdrafts	11,416	12,344
Other	11,731	12,027
Other income	22,546	17,450
Total	**108,036**	**102,545**

	2010	2009
Total other operating expenses (income) (line item 190)	**(31,994)**	**89,845**

"Other income" includes the revenues for services rendered to Group companies, other than IT services, for 10,416 thousand Euro (9,776 thousand Euro at 31.12.2009).

Section 14 – Profits (losses) on investments in subsidiaries, associates and companies subject to joint control - Line item 210

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

Element of income/Amount	2010	2009
A. Income	**124,811**	**17,541**
1. Revaluations	–	–
2. Profits on disposal	124,811	–
3. Writebacks	–	17,541
4. Other income	–	–
B. Charges	**(326)**	**(390)**
1. Writedowns	–	–
2. Impairment charges	(317)	(390)
3. Losses on disposal	(9)	–
4. Other charges	–	–
Net income (loss)	**124,485**	**17,151**

Element of income/Amount	2010	2009
A. Income	**124,811**	**17,541**
2. Profits on disposal:		
• Anima Sgr S.p.A.	124,811	–
3. Writebacks		
• We Service S.p.A.	–	1,398
• BPM Ireland	–	16,143
B. Charges	**(326)**	**(390)**
2. Impairment charges:		
• BPM Capital I	(317)	(390)
3. Losses on disposal		
• Società Milanese di Sviluppo e Formazione Musicale S.p.A.	(9)	–

The profit on disposal of 124,811 thousand Euro relates to the sale of Anima SGR S.p.A., as explained in the chapter on “Significant events” in the report on operations, to which you are referred.

Section 15 – Valuation differences on property, equipment and intangible assets measured at fair value – Line item 220

The Bank does not measure property and equipment and intangible assets at fair value.

Section 16 – Goodwill impairment Line item 230

During the year, the Bank did not adjust any amounts of goodwill after carrying out impairment tests.

Section 17 – Profits (losses) on disposal of investments Line item 240

17.1 Profits (losses) on disposal of investments: breakdown

Element of income/Amount	2010	2009
A. Buildings	**64**	**–**
– Profits on disposal	64	–
– Losses on disposal	–	–
B. Other assets	**74,154**	**(51)**
– Profits on disposal	74,235	1
– Losses on disposal	(81)	(52)
Net income (loss)	**74,218**	**(51)**

The profits on disposal of "Other assets" relate:

- for 54,966 thousand Euro to the profit realised by the Bank on the sale of the custodian bank business to BNP Paribas Securities Services completed on 30 June 2010;
- for 19,269 thousand Euro to the unrealised profits realised as part of the plan to rationalise the territorial coverage of the BPM Group, which involved selling 5 branches to Banca di Legnano (for 10,502 thousand euro) and 2 branches to Cassa di Risparmio di Alessandria (for 8,767 thousand euro).

These transactions are explained in the report on operations, to which you are referred.

Section 18 – Taxes on income from continuing operations
Line item 260

18.1 Taxes on income from continuing operations: breakdown

Element of income/Amount	2010	2009
1. Current taxes (–)	(75,119)	(147,611)
2. Change in prior period taxes on income (+/–)	1,080	3,352
3. Reduction in current taxes (+)	–	–
4. Change in deferred tax assets (+/–)	21,925	74,693
5. Change in deferred tax liabilities (+/–)	(17,886)	366
6. Taxes on income for the year (–) (–1+/–2+3+/–4+/–5)	**(70,000)**	**(69,200)**

Taxes on income from continuing operations: breakdown based on the type of tax

Element of income/Amount	2010	2009
1. Current taxes (–):	**(75,119)**	**(147,611)**
IRES	(43,138)	(106,087)
IRAP	(31,981)	(41,524)
Other taxes on income	–	–
2. Change in prior period taxes on income (+/–):	**1,080**	**3,352**
IRES	1,188	3,676
IRAP	(108)	(324)
Other taxes on income	–	–
3. Reduction in current taxes (+):	**–**	**–**
IRES	–	–
IRAP	–	–
Other taxes on income	–	–
4. Change in deferred tax assets (+/–):	**21,925**	**74,693**
IRES	22,085	75,041
IRAP	(160)	(348)
5. Change in deferred tax liabilities (+/–):	**(17,886)**	**366**
IRES	(17,694)	100
IRAP	(192)	266
6. Taxes on income for the year (–1+/–2+3+/–4+/–5)	**(70,000)**	**(69,200)**

Summary: by type of tax

Element of income/Amount	2010	2009
IRES	(37,559)	(27,270)
IRAP	(32,441)	(41,930)
Other taxes on income	–	–
Total	**(70,000)**	**(69,200)**

18.2 Reconciliation between the theoretical and current tax burden

Element of income/Amount	2010			
	IRES		IRAP	
	Taxable income	Tax	Taxable income	Tax
Profit before taxes	**192,857**			
Theoretical tax charge (27.5%)		53,036		
Amounts of net revenues subject to IRAP			**811,755**	
Theoretical tax charge (4.82%)				39,127
Items debited/credited to equity that are relevant for tax purposes in 2010	–	–	–	–
Temporary differences taxable in future years	–68,485	–18,833	–7,138	–344
Temporary differences deductible in future years	199,980	54,995	1,532	74
Reversal of temporary differences from prior years:				
Elimination of deductible temporary differences	–123,341	–33,918	–5,650	–272
Elimination of taxable temporary differences	2,770	762	3,306	159
Differences not reversing in future years:				
Permanent negative changes in taxable income	–215,561	–59,279	–159,701	–7,698
Permanent positive changes in taxable income	167,605	46,091	19,937	935
Taxable income for IRES purposes	**155,825**			
Other changes	1,033	284		
1. Current taxes: IRES		**43,138**		
Taxable income for IRAP purposes – Net value of production			**663,501**	
Other changes			–	–
1. Current taxes: IRAP				**31,981**

Element of income/Amount	2009			
	IRES		IRAP	
	Taxable income	Tax	Taxable income	Tax
Profit before taxes	**170,961**			
Theoretical tax charge (27.5%)		47,014		
Amounts of net revenues subject to IRAP			**1,046,109**	
Theoretical tax charge (4.82%)				50,422
Items debited/credited to equity that are relevant for tax purposes in 2009	–7,500	–2,062	–	–
Temporary differences taxable in future years	–17,255	–4,745	–9,227	–445
Temporary differences deductible in future years	376,334	103,492	156	8
Reversal of temporary differences from prior years:				
Elimination of deductible temporary differences	–93,373	–25,678	–4,669	–225
Elimination of taxable temporary differences	10,963	3,015	11,428	551
Differences not reversing in future years:				
Permanent negative changes in taxable income	–111,742	–30,729	–209,833	–10,114
Permanent positive changes in taxable income	57,382	15,780	27,528	1,327
Taxable income for IRES purposes	**385,770**			
Other changes	–	–		
1. Current taxes: IRES		**106,087**		
Taxable income for IRAP purposes – Net value of production			**861,492**	
Other changes			–	–
1. Current taxes: IRAP				**41,524**

Section 19 – Income (loss) after tax from discontinued operations Line item 280

During 2010, the Bank did not recognise any gains or losses relating to "disposal groups".

Section 20 – Other information

The report on operations provides additional information on the Bank's income statement, also as regards the various business segments.

Section 21 – Earnings per share

The new international accounting standards (IAS 33) stress the importance of the "profit per share" ratio (commonly known as "EPS – earnings per share", making it compulsory to disclose information for its two different versions as follows:
- Basic EPS, calculated by dividing the net income for the period by the weighted average number of ordinary shares outstanding during the period;
- Diluted EPS, calculated by dividing the net income for the period by the weighted average number of ordinary shares outstanding during the period as adjusted for the effect of all dilutive potential shares.

21.1 Average number of ordinary shares

The average number of ordinary shares used in the calculation of EPS (481,777,158) has been determined taking into account:
- the average number of ordinary shares issued taking into account the average number of treasury shares in portfolio (average of the balance at the end of each month);
- the average number of shares that will be issued on conversion of the "Prestito Convertendo BPM 2009/2013" bond loan, based on the minimum conversion price of 6 Euro per share. The average has been calculated on the bonds outstanding at the end of each month multiplied by 16.67 (conversion ratio that reflects the conversion price of 6 Euro).

When determining the average number of shares to be used in calculating diluted EPS, account was not taken of the number of shares potentially in circulation as a result of the conversion of the financial instruments as per art. 12 of Decree 185/2008 ("Tremonti Bonds") as this conversion does not have any dilutive effect; in fact, were all of the "Tremonti Bonds" to be converted, there would be an increase in earnings per share.

The warrants issued together with the "Prestito Convertendo BPM 2009/2013" bond loan have not been taken into consideration for the purposes of calculating diluted EPS as they do not have a dilutive effect, given that the strike price is higher than the average market price of the shares.

So the total number of shares used to calculated diluted EPS is the same as was used to calculate Basic EPS.

The net income used as the numerator to calculate Basic (and Diluted) EPS has been increased by the interest charged to the income statement on the "Prestito Convertendo BPM 2009/2013 bond loan" and decreased by the amount set aside to pay the interest on the "Tremonti Bonds".

Net income per share

(in euro)	2010	2009
Basic EPS	0.213	0.197
Diluted EPS	0.213	0.197

Part D

Comprehensive income

Analytical statement of comprehensive income

	Line items	Gross amount	Income tax	Net amount
10.	**Net income (loss) for the year**	**X**	**X**	**122,857**
	Other comprehensive income			
20.	Financial assets available for sale:	(107,092)	30,751	(76,341)
	a) change in fair value	(106,993)	30,519	(76,474)
	b) reversal to income statement	(99)	232	133
	– impairment adjustments	1,549	(74)	1,475
	– profits/losses on disposal	(1,648)	306	(1,342)
	c) other changes	–	–	–
30.	Property and equipment	–	–	–
40.	Intangible assets	–	–	–
50.	Hedging of foreign investments:	–	–	–
	a) change in fair value	–	–	–
	b) reversal to income statement	–	–	–
	c) other changes	–	–	–
60.	Cash flow hedges:	–	–	–
	a) change in fair value	–	–	–
	b) reversal to income statement	–	–	–
	c) other changes	–	–	–
70.	Foreign exchange differences:	–	–	–
	a) change in value	–	–	–
	b) reversal to income statement	–	–	–
	c) other changes	–	–	–
80.	Non-current assets held for sale:	–	–	–
	a) change in fair value	–	–	–
	b) reversal to income statement	–	–	–
	c) other changes	–	–	–
90.	Actuarial gains (losses) on defined benefit plans	(5,070)	1,394	(3,676)
100.	Share of valuation reserves of investments in associates and companies subject to joint control valued under the equity method:	–	–	–
	a) change in fair value	–	–	–
	b) reversal to income statement	–	–	–
	– impairment adjustments	–	–	–
	– profits/losses on disposal	–	–	–
	c) other changes	–	–	–
110.	**Total comprehensive income**	**(112,162)**	**32,145**	**(80,017)**
120.	**Total comprehensive income (Line items 10+110)**	**X**	**X**	**42,840**

Part E
Information on risks
and related heging policies

Introduction

1. The process of adjustment to the new Basel 2 capital adequacy framework

The new Basel II rules on capital adequacy came into effect on 1 January 2008. This also affects banks like the BPM Group, which for 2007 had opted to remain under the old Basel I rules.
The new rules were introduced by the Bank of Italy's circular no. 263 of 27 December 2006 entitled "New Minimum Capital Requirement for Banks", which reiterates the New Basel Accord on Capital.
The new capital adequacy framework is based on three pillars:

- **the first pillar** defines the new system of minimum capital requirements for credit/counterparty risk, market risk and operational risk;

- **the second pillar** envisages a process of supervision on the part of the Supervisory Authorities designed to ensure that banks equip themselves with adequate systems for monitoring and measuring risks and develop strategies and procedures for assessing capital adequacy;

- **the third pillar** concerns the provision of information to the general public and the rules for the diffusion of transparent and standardised information to the market on capital adequacy and risks. Basel 2 does in fact introduce obligations to publish information on capital adequacy, risk exposure and the general characteristics of the systems used to identify, measure and manage such risks.

As regards adjusting to the new requirements of the first pillar, for credit risk the BPM Group began in 2004 a process of adjustment of its own models, processes and IT systems to the new minimum capital requirements, taking advantage of the investments made ever since the '90s in systems for assessing the credit worthiness of the various customer segments based on internal rating models. All of the credit processes use the counterparty rating as a decision-making "driver" and are considered in function of the specific nature of the various customer segments in order to optimise use of the resources involved in managing and monitoring credit, as well as to achieve a reasonable balance between commercial aggressiveness and effective credit management.
The BPM Group is substantially in line with the requisites laid down by the Bank of Italy for the use of internal rating systems also for calculating capital requirements.
As regards market risk, on 17 May 2007 the Bank of Italy authorised Banca Akros, BPM's investment bank where the Group's trading portfolio has been allocated, to use an internal model to calculate its capital requirements for market risk.
The new rules have also introduced the obligation to calculate the capital requirement for operational risk, which was not foreseen under the old rules. In June 2008, the Parent Bank decided to adopt the standardised approach for Banca Popolare di Milano, Banca di Legnano, Cassa di Risparmio di Alessandria and Banca Akros, a method that presupposes good corporate governance, as well as adequate internal controls and an effective system of operational risk management.

Pillar 2 introduces the Supervisory Review Process (SRP), which is designed to support the quantitative rules with an interactive process between the supervisory authority and the banks to take account of the peculiarities and risk profiles of the individual banking group.

The SRP consists of two integrated phases:

- The first is the Internal Capital Adequacy Assessment Process (ICAAP), which involves the Group carrying out its own evaluation of its current and prospective capital adequacy, taking into account:
  - any risks not covered by the capital requirements of Pillar I;
  - any particular adverse situations (stress testing);
  - of the strategic objectives of the Group;
  - the organisational structure and of the internal control systems.
- The second consists of the Supervisory Review and Evaluation Process (SREP), which is carried out by the supervisory authority. It consists of a series of remote checks and inspections, the purpose being to ascertain that intermediaries have equipped themselves with capital and organisational controls that are appropriate for the risks that they have taken on, ensuring overall operational equilibrium.

Pillar II complies with the principle of proportionality, according to which the application of the ICAAP process has to be commensurate to the characteristics, dimensions and complexity of the banks concerned. To facilitate implementation, the Bank of Italy has split the banks and banking groups into three classes in descending order of complexity.
In line with a gradual development of the ICAAP process and in application of the principle of proportionality underlying the new rules, for the first complete ICAAP report to the Bank of Italy, in April 2010 the BPM Group adopted a Class 2 format integrated by internal methods already used for management purposes, and in one case also for reporting purposes for credit, concentration, market and interest rate risk on the banking book, as well as operational, business and investment risk.
In April 2010, the BPM Group presented its first report to the Bank of Italy in a complete format, based on the situations at 31 December 2009, whereas the prospective assessment was based on the situation at 31 December 2010.

The ICAAP report is based, among other things, on the following points:
- definition of the governance model with the attribution of duties that the regulations assign to the body that has the function of strategic supervision, to the body with the management function and to the one with the control function;
- definition of the role and functions assigned for ICAAP purposes to the various corporate bodies and functions;
- identification of the risks to be submitted for evaluation;
- measurement of individual risks and determination of the internal capital required for each of them;
- determination of total capital and its reconciliation with regulatory capital;
- evaluation of the capital adequacy of the BPM Group;
- stress tests.

For example, consistently with the rules and in consideration of the traditional governance model adopted by the BPM Group, the role and responsibilities of corporate bodies within ICAAP have been designated as follows:
- the duties that the regulations assign to the body that has the function of strategic supervision are attributed to the Board of Directors of the Parent Bank, which defines the guidelines and approves the Group's risk management policies;
- the duties that the regulations assign to the body with management functions are attributed to the Operational Management Committee of the Parent Bank, which applies the risk policies and ensures implementation of the ICAAP process;
- the duties that the regulations assign to the body with the control function are attributed to the Board of Statutory Auditors of the Parent Bank, which monitors the risk management and control system and ensures that it meets the regulatory requirements.

As regards the risks to be submitted for evaluation, the BPM Group has drawn up a "Risk Map", which includes the other risks identified internally to which the Group is or could be exposed, in addition to the risks indicated in Pillar 1 of Basel 2.
In addition to the risks of Pillar I, the Group has taken the following risks into consideration by means of an internal division, for which controls, monitoring systems and in certain cases internal capital measurement methods have been developed:
- liquidity risk;
- interest rate risk of the banking book;
- strategic and business risk;
- reputational risk;
- concentration risk;
- securitisation risk;
- equity investment risk;
- residual risk;
- downgrading risk.

Particular attention has been given to the question of stress tests. For this purpose, an appropriate "Policy for the application of stress tests" has been drawn up and approved by the Board of Directors of the Parent Bank. It contains the guidelines for the preparation of stress tests, the methods used to measure the effects of these tests on the Group's exposures to the significant risks to which it is or could be exposed and the duties and responsibilities of the structures that have to implement them and assess the results. The policy has also been integrated with a flowchart that shows the methods of transmission of potential shocks from the macroeconomic scenarios to the variables that impact directly on the Bank's capital requirements for each of the risks being measured (overall internal capital) and on the capital resources available to the Group (overall capital).

Circular 263 requires banks to carry out stress tests to evaluate the effects on risk of specific events (sensitivity analysis) or of joint movements of a series of economic and financial variables on the assumption of adverse scenarios (scenario analysis). As in previous reports, the BPM Group has given preference to scenario analyses as they are closer to reality, which is highly complex and impossible to break down into specific events. We have therefore chosen a set of economic and financial variables whose movements have a significant impact on all of the major risks to which the Group is exposed.

Three stress scenarios have been identified, with a high, medium and low intensity, each corresponding to a year in the past.
In any case, we have retained the possibility of stressing a single risk by applying specific stress events - also from a qualitative point of view - to particular businesses or risks to which the Group is exposed, which then integrate those produced by scenario analysis.
Lastly, as regards the requirements of the Pillar III rules, the Bank published its first report disclosing details of risk monitoring and management on its website by the same deadline as publication of the 2010 financial statements. A Pillar 3 report will be published at least once a year.

2. The risk monitoring and control process

As regards the role of the Corporate Bodies laid down by the Supervisory Rules, the new version of the Group Regulations, which were revised during 2010, have formalised the role of strategic supervision attributed to the Board of Directors of the Parent Bank. This document reiterates that it is the duty of the Parent Bank's Board of Directors to establish the lines of strategy to be adopted in matters of risk management and control, with a view to achieving an integrated and coherent risk management policy based on prudential rules, which at the same time takes into account the type of operations and related risk profiles of each Group company.
In particular, the Board of Directors of the Parent Bank establishes the risk propensity of the BPM Group and, hence, the operating limits of reference.
The task of monitoring and controlling Group risks, which also includes that of supervising the Asset & Liability Management (ALM) process, is delegated by the Board of Directors to the Parent Bank's Risk Management function.
The parent company:

- ensures that the same methods, measurement criteria and control tools are used throughout the Group and that they are suitable for the type and size of the risks being assumed;
- decides with regard to the adoption of internal risk measurement systems to be used, also for the purpose of regulatory capital absorption, and is responsible for their implementation and for monitoring that they function properly;
- makes sure that the corporate bodies of the subsidiary companies are involved in the decisions made concerning risk management procedures and policies.

As laid down in the "System of Internal Control - Organisational Model", the responsibility for organising and evaluating the System of Internal Control is attributed to the Bank's main governance and control bodies (Administrative Bodies, Top Management, Board of Statutory Auditors) and to the Internal Auditing Department, in accordance with the instructions issued by the Supervisory Authority.
In designing, managing and monitoring the System of Internal Control, with a view to improving how it functions, the Board of Directors has the support of the Director in charge of supervising the internal control system and of the Board's Internal Control Committee, which has both a consultative and a proactive role.

The adequacy, efficacy and effective functioning of the System of Internal Control are assessed at least once a year, according to their respective areas of competence, by:

- the Director in charge of supervising the internal control system, with particular regard to the identification of risks (in compliance with the Code of Conduct of Listed Companies);
- the Board's Internal Control Committee;
- the Internal Audit function.

The General Management of the Parent Bank ensures observance of the risk policies and procedures.
As regards the principal risks to which the Group is exposed, for credit, counterparty and concentration risk, the Parent Bank ensures that a Group lending and credit management policy is defined and adopted, that "significant exposures" are monitored centrally and that the overall quality of the loan and commitment portfolio is kept under control. The Parent Bank is also responsible for building and maintaining the internal rating system, which is currently used in various processes: granting credit, risk monitoring and measurement, calculating portfolio adjustments, measuring risk-adjusted performance, defining risk-adjusted pricing and for ICAAP (to assess the Group's capital adequacy).
In matters of financial risks, the Board of Directors of the Parent Bank identifies and authorises the Group companies that can assume and manage its own financial risks in compliance with the limits established by the Parent Bank.

The limit system for other types of portfolio is organised as follows:

- company limits, meaning the maximum exposure that a group company may assume for market risks; these macro-limits are established for each company by the Board of Directors of the Parent Bank;
- directional limits, meaning the allocation of company limits to individual portfolios, to be defined in specific Regulations for Financial Operations for each group company. During 2010, the Boards of Directors of BPM drew up and approved the new Finance Regulations, which govern the Bank's financial activity on own account, solely for transactions involving the banking book.

In the second half of 2008, the Parent Bank set up an ALM Committee with the objective of ensuring adequate monitoring of operating limits and the coordination of the investment policies applied to the Group's financial assets, as well as implementation of the liquidity policy.
In particular, the ALM Committee monitors and directs interventions regarding the Group's short- and medium-term liquidity position and the risk/return profile of the Group's portfolio of financial assets.

In particular, the Committee performs the following tasks:

- monitoring the Group's liquidity management (checking exposure to short-term liquidity gaps, the exposure on the interbank market, liquidity flows and the pricing of intragroup liquidity by controlling early warning indicators and evaluation of the results of stress tests laid down in the liquidity policy) and the definition of guidelines;
- monitoring earnings performance and compliance with the operating limits attributed to the individual business units of Group companies;
- approving new banking book investments, within the limits established by the Board of Directors;
- monitoring the activities of Asset & Liability Management (ALM) and defining corrective policies to balance the exposure to interest rate risk of the Group as a whole and of the individual companies.

As regards operating risk, the Parent Bank has responsibility for setting up the system of operational risk management and control, this being understood as a structured series of processes, functions and resources for the identification, measurement and control of operational risk.
The Parent Bank's Risk Management Department supervises activities in the field of operational risk and coordinates the Operational Risk Managers of the various Group banks from a functional point of view through the Parent Bank's Operational Risk Sector.
Through the Risk Management function, the Parent Bank ensures the measurement, monitoring and management of the Group's capital resources. Centralised control over the Group's capital adequacy, which involves comparing the amount of available capital with the capital requirements deriving from the risks to which the Group is exposed, on an actual and prospective basis, in conditions of normality and of stress, is carried out through the Internal Capital Adequacy Assessment Process (ICAAP), as required by the "New Minimum Capital Requirements for Banks" (Circular 263/2006).
The Parent Bank also performs continuous measurement, monitoring and management of the consolidated capital ratios, defining their target levels in the medium term in line with the evolution of regulatory requirements and with the credit rating assigned to it by the agencies.

Section 1 – Credit risk

Qualitative information

1. Credit risk management policies

1. 1 Organisational aspects

The policies for managing and controlling the quality of the loan book and the associated risks are established by the Credit Policies Committee in compliance with the guidelines contained in the Group's strategic plan, based on rules of prudent management.
The policies established by the Committee are implemented through the processes of disbursing, managing and monitoring credit for which specific activities are required and special instruments made available for controlling the risk that varies according to the circumstances of the market and business sector and type of individual borrower.
At each company in the Group, the lending activity is supervised by a specific function dedicated to credit disbursement and control by means of well identified and suitably empowered structures as part of a system of discretional decision-making limits established by the Board of Directors and formalised as part of the rules and regulations that govern this area. All of the structures involved are called upon to grant and manage credit, as well as to control credit risk, making use of appropriate procedures, of which the rating system is an integral part, to set up the dossier, determine credit-worthiness and, more generally, to follow the relationship over time.
The credit "chain" for the commercial banks offers the possibility that in the presence of low risk (in rating terms) and for amounts that form part of the duties foreseen in the current Credit Line Regulations, proposals can be decided locally by the Commercial Network. If the risk is considered "medium" or "high" - and in any case in accordance with the parameters laid down in the Credit Line Regulations - the "Credit and Loans Function", which is the structure that is able to make a more detailed analysis of the customer's credit-worthiness, takes over. This function comprises specialists who, by virtue of their greater experience, carry out the necessary reviews for analysing the proposed loan and deciding accordingly or who prepare a report for presentation to the Bank's management boards and committees, in accordance with the power established by the Credit Line Regulations (Management Financing Committee and Board Financing Committee).
Ratings can only be changed by "raters" specifically appointed for this purpose, who do not have any power of approval for loans. Any change that upgrades or downgrades the rating developed by the model has to be motivated and usually has to be attributable to particular circumstances that have not be adequately reflected by the statistical models or in the presence of events involving particularly high risk.

In order to mitigate credit risk more effectively, General Management has the power to modify, but only in a restrictive sense, the formalities laid down in the Credit Line Regulations for loan applications handled by the levels below that of the Committees.

1. 2 Management, measurement and control systems

As regards adjusting to the new requirements of the first pillar of Basel 2, for credit risk the BPM Group began in 2004, a process of adjustment of its own models, processes and IT systems to the new minimum capital requirements, taking advantage of the investments made ever since the end of the '90s in systems for assessing the credit worthiness of the various customer segments based on internal rating models for the exposures to corporate and retail customers.

The internal rating models cover four ordinary customer segments, classified by turnover and/or size of credit line: Individuals, Small Businesses, SMEs and Corporates.
The internal rating system is used in the following processes:
- the assessment of credit-worthiness carried out when granting and renewing a line of credit;
- the measurement and control of existing risk;
- the definition of lending policies;
- customer stratification;
- reporting to management;
- collective writedown of loans in the balance sheet;
- risk-adjusted pricing;
- analytical management reporting;
- control over capital adequacy (ICAAP process);
- measurement of value.

All of the credit processes use the counterparty rating as a decision-making "driver" and are considered in function of the specific nature of the various customer segments in order to optimise use of the resources involved in managing and monitoring credit, as well as to achieve a reasonable balance between commercial aggressiveness and effective credit management.

We would point out that during the course of 2010:
- the estimate of the risk parameters was updated: for the Probability of Default (PD), the historical depth of the data was increased to include a period of 7 years (2003-2009) for all four customer segments; for the Loss Given Default (LGD), the historical period of cure-rate estimates was updated, bringing it into line with the period used for estimating PD;
- the Validation function completed its report on the positioning compared with the minimum regulatory requirements, both organisational and functional, in accordance with the instructions contained in the "New Minimum Capital Requirements for Banks" (Bank of Italy's Circular 263/2006 and subsequent amendments). This was followed by the report by the Internal Auditing function as part of the Level III controls.

Banca Popolare di Milano is therefore substantially in line with the requisites laid down by the Bank of Italy for the use of internal rating systems also for calculating capital requirements.

During the granting of credit, whether as a first-line credit facility or for the renewal/review of a revocable line of credit, the rating is the key element in defining which body has decision-making power: with the completion of the proposal according to the outcome of the customer assessment and the amount/category of risk of the loan being proposed, the system automatically assigns the decision-making level required for approval. It also has an influence on how the automatic renewal mechanism is applied to revocable positions.

Usually, subject to changes in the lending rules, the assignment to a particular decision-making body takes place as follows:
- with a rating in the "low risk" area, the decision can be taken at a local level, providing the amounts are below the assigned limits; otherwise, the decision is passed to a higher level in accordance with the current Credit Line Regulations;
- with a rating in the "medium or high risk" area, also for amounts that are below the local limits. the decision is up to the Lending Department/ Committees, within their limits and at the conditions laid down in the Credit Line Regulations;
- in the case of an override request, after the assignment of the definitive rating by the Rater, the system updates the results of the applicant's assessment and then determines the decision-making function.

The credit granting process: Corporate, SME and Small Business segments

In light of the development of the new rating models, which entered production at the end of October 2007 for the Corporate and SME segments and in March 2008 for the Small Business segment, a complete review of the Group's lending processes was carried out.
During the preliminary investigation, certain anagraphical-type controls were inserted with a view to verifying correct segmentation of counterparties to ensure application of the appropriate rating model at the time of the assessment.
A central role in the guidelines of this process review was given to the utility of the rating, with the objective of providing users with more information on:
- details of all of the elements that led to the definitive rating;
- the visibility of the historical rating for the last 12 months;
- details of the reasons for exclusion from the rating calculation (financial statements too remote in time, qualitative questionnaire expired, etc.).

Given that the rating constitutes an essential element in assessing a customer, it is not allowed to go ahead with a preliminary investigation if any of the elements needed to calculate the rating is missing, both for the applicant and for any guarantors.
Moreover, during the course of the preliminary investigation, it is possible for the relationship manager to ask for a change or "override" of the applicant's rating or that of any guarantors, providing there is good reason and adequate documentation.
Such requests are evaluated by specialist raters in the Lending Department, who do not have decision-making power in the lending process; the evaluation and assignment of the definitive rating is entirely up to the rater, who can refuse or accept the change.
The decision to provide an override function exclusively for these segments depends on the desire to take into account information contributed by sector experts to integrate the automatic rating with non-standard data of a qualitative nature.

The credit granting process: Individuals segment

As regards the Individuals segment, the process of granting credit differs during the investigatory phases depending on the product that the customer has requested (overdraft, mortgage, personal loan and credit cards).
The dossier includes not only the acceptance rating, but also an internal behavioural analysis, if one has been carried out, ("performance rating"), as well as the application of common rules over the granting of credit (e.g. external negative deeds control, internal risk situations, limits on the ratio between repayments and income, the presence of residual debt on the building, limits on the "loan to value", the maximum age of the applicant, etc.).
The process of renewal/review of the credit line granted to individuals provides for the use of the performance rating system as a support in determining:
- automatic renewal (without any change in existing credit lines);
- risk analysis during the preliminary investigation.

Credit monitoring process

Control over the credit risk in individual exposures belonging to the performing loan portfolio is guaranteed by a monitoring process that systematically examines internal and external events and information to identify any signs of a deterioration in the relationship, proposing suitable changes to the rating.

Performance control is therefore reflected in the rating level, providing a single approach to measuring credit risk.

The entire process is characterised by:

- a high level of operating automation;
- centralised management of control policies;
- the transparency and traceability of the decisions taken by the operators assigned to control functions;
- the interaction between these control functions and the commercial network on internal rating matters, making sure that integrity is maintained.

Within this process, there is also a rating modification activity (known as "override"), which is assigned to specific functions (known as "raters") without decision-making powers. Rating changes can take place on the initiative of a rater when risk situations clearly arise without having been flagged by the performance control systems, or to update a rating when information has not been processed in the right way by the automatic rating systems. Rating changes can also be requested by the managers of the relationship as part of the processes of confirmation or revision of credit lines, which are then assessed by the raters.
Rater interventions are only admitted for businesses and are restricted to within a particular range of adjustment.
The Parent Bank also uses a system of limits on loan exposures for specific purposes, essentially to avoid excessive concentration of risk with a single customer or group of related customers in relation to the free capital. This limit system is defined and updated periodically.

1.3 Credit risk mitigation techniques

Banca Popolare di Milano requests guarantees against credit risk on a selective basis according to the customer's credit rating. In this case, granting the loan depends on obtaining the guarantee. Guarantees are either secured, particularly by mortgages (which represent around 60% of the acquired guarantee portfolio) and securities, or unsecured.
In the case of mortgages, these have a value that is two or three times the obligation being guaranteed, depending on its term.
In the case of a guarantee in the form of securities, market prices are assessed periodically. In other cases the valuation process follows the procedures and frequency applied to the specific form of guarantee received.
Unsecured guarantees are obtained after evaluating the size of the guarantor's assets and personal credit rating.
The format of the standard agreements used for obtaining both secured and unsecured guarantees has been revised as part of the Basel 2 project and complies with the related rules, meaning that it does not contain any contractual restrictions that might undermine the legal validity of the guarantees.

To monitor the value of properties lodged in guarantee, the Bank has defined a process with the following features:

- survey of the properties in a specific guarantee management procedure, which includes pre-existing guarantees as the paper dossiers have now been digitised;
- geographical location by recording the so-called cadastral microzone (according to the Land Register);
- automatic revaluation by means of a procedure of valuation that uses the data contained in the guarantee management software according to the market values of real estate provided annually by the Property Market Observatory (part of the Territorial Agency).

With a view to guaranteeing high quality for the requirement of an "external expert appraisal", the Bank has introduced a process of "canalisation" based on the following requisites:

- identification of two providers on the national territory to which to assign appraisals by means of a web-based request/receipt procedure, which forms an integral part of the review process;
- standardisation of the acquisition process;
- automatic integration of the appraisal data in the guarantee management procedure.

In order to ensure effective monitoring of guarantees, the Bank has defined:

- the general requisites to be submitted to control with regard to personal guarantees, property guarantees and financial pledges (cash and cash equivalents);
- various types of support (mainly reports) for use by the bank functions to whom the monitoring process will be assigned (currently being revised).

The "collateral management" function has the exclusive task of monitoring guarantees for the entire Group with regard to:

- changes in value;
- maturity;
- associated insurance premiums;
- cancellations, external appraisals and negative acts;
- intervention with relationship managers for the implementation of measures to sort out anomalous situations.

1.4 Impaired financial assets

A specialist unit in the Lending Department will have the task of checking credit positions and identifying problem loans; in accordance with the internal Regulations, this function is responsible for deciding the degree of impairment, translating into a specific classification of the credit being reviewed.
Once a status of "impairment" has been defined, this function takes specific steps, together with the commercial network, to restore the position to a performing one. If this is not possible, a disengagement plan is agreed; if this fails then the positions in default are referred to the Parent Bank's Legal Department for the purposes of initiating specific procedures to protect our credit.

Quantitative information

A. Asset quality

A.1 Impaired and performing positions: balance, impairment adjustments, change, distribution by business segment and geographical location

A.1.1 Distribution of credit exposures by originating portfolio and credit quality (book value)

Portfolio/quality	Non-performing loans	Doubtful loans	Restructured positions	Overdue positions	Other assets	Total
1. Financial assets held for trading	–	3,218	1,199	50	296,672	301,139
2. Financial assets available for sale	–	–	–	–	4,353,766	4,353,766
3. Investments held to maturity	–	–	–	–	–	–
4. Due from banks	1,625	–	–	–	2,015,531	2,017,156
5. Loans to customers	348,507	775,551	654,301	42,917	28,359,144	30,180,420
6. Financial assets designated at fair value through profit and loss	–	–	–	–	54,504	54,504
7. Financial assets due for disposal	–	–	–	–	–	–
8. Hedging derivatives	–	–	–	–	6,507	6,507
31.12.2010	**350,132**	**778,769**	**655,500**	**42,967**	**35,086,124**	**36,913,492**
31.12.2009	**262,664**	**891,941**	**237,394**	**74,391**	**30,298,964**	**31,160,514**

A.1.2 Distribution of credit exposures by originating portfolio and credit quality (gross and net amounts)

Portfolio/quality	Impaired assets			Performing			Total (net exposure)
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	
1. Financial assets held for trading	6,130	1,663	4,467	X	X	296,672	301,139
2. Financial assets available for sale	–	–	–	4,353,766	–	4,353,766	4,353,766
3. Investments held to maturity	–	–	–	–	–	–	–
4. Due from banks	7,965	6,340	1,625	2,015,531	–	2,015,531	2,017,156
5. Loans to customers	2,338,029	516,753	1,821,276	28,507,119	147,975	28,359,144	30,180,420
6. Financial assets designated at fair value through profit and loss	–	–	–	X	X	54,504	54,504
7. Financial assets due for disposal	–	–	–	–	–	–	–
8. Hedging derivatives	–	–	–	X	X	6,507	6,507
31.12.2010	**2,352,124**	**524,756**	**1,827,368**	**X**	**147,975**	**35,086,124**	**36,913,492**
31.12.2009	**1,959,382**	**492,992**	**1,466,390**	**X**	**142,667**	**30,298,964**	**31,160,514**

The portfolio adjustments relating to "Loans to customers" of 147,975 thousand Euro represent 0.52% of performing loans (142,667 thousand Euro at 31.12.2009, 0.54% of performing loans").

In loans to customers there are loans of 620,842 thousand Euro that are being renegotiated as part of collective agreements with overdue and unpaid instalments of 1,795 thousand euro; the overdue and unpaid instalments of the other performing customer loans that are not being renegotiated total 19,602 thousand euro. The following is an ageing analysis of the overdue amounts in both these figures.

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	Beyond 1 year	Total
Loans being renegotiated	1,326	192	12	262	3	1,795
Other performing loans	14,921	4,434	212	33	2	19,602

A.1.3 Cash loans and off-balance sheet exposures to banks: gross and net amounts

Types of exposure/amounts	Gross exposure	Specific adjustments	General adjustments	Net exposure
A. CASH EXPOSURES				
a) Non-performing loans	7,965	6,340	X	1,625
b) Doubtful loans	–	–	X	–
c) Restructured positions	–	–	X	–
d) Overdue positions	–	–	X	–
e) Other assets	2,403,890	X	–	2,403,890
TOTAL A	**2,411,855**	**6,340**	**–**	**2,405,515**
B. OFF-BALANCE SHEET EXPOSURES				
a) Impaired	–	–	X	–
b) Other	543,350	X	423	542,927
TOTAL B	**543,350**	**–**	**423**	**542,927**

A.1.4 Cash loans to banks: changes in gross impaired exposures

Description/Categories	Non-performing loans	Doubtful loans	Restructured positions	Overdue positions
A. Gross exposure	**–**	**7,973**	**–**	**–**
– including exposures sold but not eliminated	–	–	–	–
B. Increases	**8,223**	**250**	**–**	**–**
B.1 Transfers from performing positions	–	–	–	–
B.2 Transfers from other categories of impaired exposures	8,223	–	–	–
B.3 Other increases	–	250	–	–
C. Decreases	**258**	**8,223**	**–**	**–**
C.1 Transfers to performing positions	–	–	–	–
C.2 Write-off	–	–	–	–
C.3 Collections	–	–	–	–
C.4 Recovery through disposals	–	–	–	–
C.5 Transfers to other categories of impaired exposures	–	8,223	–	–
C.6 Other decreases	258	–	–	–
D. Closing gross exposure	**7,965**	**–**	**–**	**–**
– including exposures sold but not eliminated	–	–	–	–

A.1.5 Cash loans to banks: changes in total adjustments

Description/Categories	Non-performing loans	Doubtful loans	Restructured positions	Overdue positions
A. Total writedowns	**–**	**6,473**	**–**	**–**
– including exposures sold but not eliminated	–	–	–	–
B. Increases	**6,615**	**–**	**–**	**–**
B.1 adjustments	–	–	–	–
B.2 transfers from other categories of impaired exposures	6,250	–	–	–
B.3 other increases	365	–	–	–
C. Decreases	**275**	**6,473**	**–**	**–**
C.1 writebacks	–	223	–	–
C.2 writebacks on collection	–	–	–	–
C.3 write-offs	–	–	–	–
C.4 transfers to other categories of impaired exposures	–	6,250	–	–
C.5 other decreases	275	–	–	–
D. Total adjustments	**6,340**	**–**	**–**	**–**
– including exposures sold but not eliminated	–	–	–	–

A.1.6 Cash loans and off-balance sheet exposures to customers: gross and net amounts

Types of exposure/amounts	Gross exposure	Specific adjustments	General adjustments	Net exposure
A. CASH EXPOSURES				
a) Non performing loans	718,436	369,929	X	348,507
b) Doubtful loans	875,652	100,101	X	775,551
c) Restructured positions	698,715	44,414	X	654,301
d) Overdue positions	45,226	2,309	X	42,917
e) Other assets	32,589,892	X	147,975	32,441,917
TOTAL A	**34,927,921**	**516,753**	**147,975**	**34,263,193**
B. OFF BALANCE EXPOSURES				
a) Impaired	335,978	17,973	X	318,005
b) Other	12,242,537	X	9,940	12,232,597
TOTAL B	**12,578,515**	**17,973**	**9,940**	**12,550,602**

A.1.7 Cash loans to customers: change in gross impaired exposures

Description/Categories	Non-performing loans	Doubtful loans	Restructured positions	Overdue positions
A. Gross exposure	**575,434**	**1,042,062**	**254,639**	**79,276**
– including exposures sold but not eliminated	39,995	76,989	–	4,506
B. Increases	**348,992**	**1,228,509**	**462,330**	**260,762**
B.1 Transfers from performing positions	5,696	967,364	420,247	133,314
B.2 Transfers from other categories of impaired exposures	319,966	179,242	38,626	122,108
B.3 Other increases	23,330	81,903	3,457	5,340
C. Decreases	**205,990**	**1,394,919**	**18,254**	**294,812**
C.1 Transfers to performing positions	–	605,546	1	102,465
C.2 Write-offs	151,594	30,515	–	–
C.3 Collections	54,279	217,348	18,253	10,203
C.4 Recovery through disposals	–	58,291	–	–
C.5 Transfers to other categories of impaired exposures	117	480,122	–	179,703
C.6 Other decreases	–	3,097	–	2,441
D. Closing gross exposure	**718,436**	**875,652**	**698,715**	**45,226**
– including exposures sold but not eliminated	66,380	75,642	–	1,230

Sub-item B.3 "Other increases" with reference to "Doubtful loans" and "Overdue positions" include positions at the recently acquired branches for 1,784 and 2,441 thousand Euro respectively.

Sub-item C.6 "Other decreases" with reference to "Doubtful loans" and "Overdue positions" include positions that were transferred as part of the sale of branches for 3,097 and 2 thousand Euro respectively.

A.1.8 Cash loans to customers: change in total adjustments

Description/Categories	Non-performing loans	Doubtful loans	Restructured positions	Overdue positions
A. Total writedowns	**312,769**	**151,621**	**17,244**	**4,885**
– including exposures sold but not eliminated	8,748	4,595	–	129
B. Increases	**239,282**	**51,926**	**36,511**	**12**
B.1 adjustments	210,995	51,673	33,561	2
B.2 transfers from other categories of impaired exposures	27,997	–	2,950	–
B.3 other increases	290	253	–	10
C. Decreases	**182,122**	**103,446**	**9,341**	**2,588**
C.1 writebacks	25,401	34,736	9,341	2,447
C.2 writebacks on collection	5,127	6,555	–	–
C.3 write-offs	151,594	30,515	–	–
C.4 transfers to other categories of impaired exposures	–	30,947	–	–
C.5 other decreases	–	693	–	141
D. Total adjustments	**369,929**	**100,101**	**44,414**	**2,309**
– including exposures sold but not eliminated	14,622	3,492	–	45

Sub-item B.3 "Other increases" with reference to "Doubtful loans" and "Overdue positions" include total writedowns of positions at the recently acquired branches for 253 and 10 thousand Euro respectively.

Sub-item C.6 "Other decreases" with reference to "Doubtful loans" and "Overdue positions" include total writedowns of positions that were transferred as part of the sale of branches for 693 and 141 thousand Euro respectively

A.2 Classification of exposures on the basis of external and internal rating

A.2.1 Distribution by cash loans by class of external rating

Exposures	Class of external rating						Without rating	Total at 31/12/2010
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Cash loans	**7,242,036**	**433,384**	**1,806**	**89,069**	**–**	**–**	**29,573,481**	**37,339,776**

"Without rating" is mainly attributed to loans to customers, to which an internal rating is assigned.

The risk classes for external ratingsindicated in this table refer to the levels of credit-worthiness given to debtors according to the Bank of Italy's capital adequacy rules. The reconciliation between risk classes and ratings of rating agencies used is reported below:

Class of external rating	*Ratings used by the rating agencies*			
		Standard & Poor's	Moody's	
1	from	AAA	Aaa	good asset quality and liquidity, with a minimum/modest risk level
	to	AA-	Aa3	
2	from	A+	A1	satisfactory asset quality and liquidity, with a medium/low risk level
	to	A-	A3	
3	from	BBB+	Baa1	acceptable asset quality, liquidity and risk level
	to	BBB-	Baa3	
4	from	BB+	Ba1	acceptable asset quality, limited liquidity and acceptable risk level if care is taken
	to	BB-	Ba3	
5	from	B+	B1	assets under observation and constant monitoring of risk level
	to	B-	B3	
6	Lower than	B-	B3	assets under close observation, with clear difficulties on the part of the debtor.

A.2.2 Distribution by cash loans and "off-balance sheet" exposures by class of internal rating

Exposures	Class of internal rating									Total 31.12.2010
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Class 7	Class 8	Class 9	
A. Cash loans	**1,975,077**	**3,647,258**	**4,626,047**	**4,537,539**	**3,538,477**	**1,890,467**	**1,125,051**	**404,962**	**534,781**	**22,279,659**
Companies	322,614	1,036,874	1,341,039	1,800,321	1,311,763	583,178	358,501	X	X	6,754,290
SMEs	713,284	1,086,655	1,518,066	1,106,655	1,040,127	644,029	309,438	113,992	288,067	6,820,313
Small Business	185,226	284,942	569,152	467,334	448,869	384,026	293,919	114,170	129,583	2,877,221
Individuals	753,953	1,238,787	1,197,790	1,163,229	737,718	279,234	163,193	176,800	117,131	5,827,835
C. Guarantees given	**672,020**	**516,674**	**558,744**	**546,225**	**519,902**	**245,846**	**80,013**	**9,098**	**16,624**	**3,165,146**
Companies	442,876	374,831	403,916	412,994	394,718	187,525	57,714	X	X	2,274,574
SMEs	201,089	98,701	96,020	61,555	78,242	26,435	10,324	4,456	10,343	587,165
Small Business	27,812	42,071	57,661	67,763	43,207	20,359	10,343	4,035	5,939	279,190
Individuals	243	1,071	1,147	3,913	3,735	11,527	1,632	607	342	24,217

The internal rating table has been prepared using the internal rating systems illustrated at point "D. Credit risk measurement models". These models are those used in the credit risk management and control systems.
The first rating classes includecontain exposures to customers with a better credit quality, while the latter ones represent exposures of a lesser quality.

Line item "A. Cash exposures" refers only to "Loans to customers", excluding "Impaired assets", intercompany transactions, "repurchase agreements" and loans to governments and public entities. The amounts reported include portfolio adjustments.

Line item "C. Guarantees given" excludes "Guarantees given to impaired customers" and intercompany transactions. The amounts reported include portfolio adjustments.

A.3 Distribution of exposures guaranteed by type of guarantee

A.3.1 Guaranteed exposures to banks

	Net exposure	Secured guarantees (1)			Unsecured guarantees (2)									Total (1)+(2)
					Credit derivatives					Guarantees given				
						Altri derivati								
		Property	Securities	Other secured guarantees	CLN	Govern-ments and central banks	Other public entities	Banks	Other parties	Govern-ments and central banks	Other public entities	Banks	Other parties	
1. Guaranteed cash exposures	**97,432**	**–**	**97,432**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**97,432**
1.1. totally guaranteed	97,432	–	97,432	–	–	–	–	–	–	–	–	–	–	97,432
- of which impaired	–	–	–	–	–	–	–	–	–	–	–	–	–	–
1.2. partly guaranteed	–	–	–	–	–	–	–	–	–	–	–	–	–	–
- of which impaired	–	–	–	–	–	–	–	–	–	–	–	–	–	–
2. Guaranteed off-balance sheet exposures	**1,010**	**–**	**–**	**353**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**657**	**–**	**1,010**
2.1. totally guaranteed	1,010	–	–	353	–	–	–	–	–	–	–	657	–	1,010
- of which impaired	–	–	–	–	–	–	–	–	–	–	–	–	–	–
2.2. partly guaranteed	–	–	–	–	–	–	–	–	–	–	–	–	–	–
- of which impaired	–	–	–	–	–	–	–	–	–	–	–	–	–	–

A.3.2 Guaranteed exposures to customers

	Net exposure	Secured guarantees (1)			Unsecured guarantees (2)									Total (1)+(2)
					Credit derivatives					Guarantees given				
						Other derivatives								
		Property	Securities	Other secured guarantees	CLN	Govern-ments and central banks	Other public entities	Banks	Other parties	Govern-ments and central banks	Other public entities	Banks	Other parties	
1. Guaranteed cash exposures	**15,682,809**	**11,599,806**	**373,386**	**333,857**	**–**	**–**	**–**	**–**	**–**	**–**	**3,058**	**95,464**	**2,416,254**	**14,821,825**
1.1. totally guaranteed	13,778,889	11,156,500	80,503	282,759	–	–	–	–	–	–	393	74,351	2,184,383	13,778,889
- of which impaired	913,627	808,828	1,797	6,264	–	–	–	–	–	–	20	110	96,608	913,627
1.2. partly guaranteed	1,903,920	443,306	292,883	51,098	–	–	–	–	–	–	2,665	21,113	231,871	1,042,936
- of which impaired	170,168	52,645	1,997	8,860	–	–	–	–	–	–	–	106	17,095	80,703
2. Guaranteed off-balance sheet exposures	**2,304,335**	**790,421**	**30,466**	**153,463**	**–**	**–**	**–**	**–**	**–**	**–**	**10**	**18,920**	**731,777**	**1,725,057**
2.1. totally guaranteed	762,141	59,505	17,753	90,614	–	–	–	–	–	–	10	9,564	584,695	762,141
- of which impaired	51,092	56	119	37,471	–	–	–	–	–	–	–	6,967	6,479	51,092
2.2. partly guaranteed	1,542,194	730,916	12,713	62,849	–	–	–	–	–	–	–	9,356	147,082	962,916
- of which impaired	143,795	84,551	86	1,733	–	–	–	–	–	–	–	4,812	6,035	97,217

B. Credit distribution and concentration

B.1 Segment distribution of cash and "off-balance sheet" exposures to customers (book value)

Exposures/Counterparties	Governments			Other public entities			Finance-sector companies		
	Net exposure	Specific adjustments	General adjustments	Net exposure	Specific adjustments	General adjustments	Net exposure	Specific adjustments	General adjustments
A. Cash exposures									
A.1 Non-performing loans	–	–	X	–	–	X	2,321	14,757	X
A.2 Doubtful loans	–	–	X	–	–	X	109,748	13,403	X
A.3 Restructured positions	–	–	X	4,079	126	X	32,528	3,517	X
A.4 Overdue positions	–	–	X	–	–	X	101	14	X
A.5 Other exposures	4,088,262	X	–	56,904	X	–	4,640,485	X	6,848
TOTAL A	**4,088,262**	**–**	**–**	**60,983**	**126**	**–**	**4,785,183**	**31,691**	**6,848**
B. Off-balance sheet exposures									
B.1 Non-performing loans	–	–	X	–	–	X	31	–	X
B.2 Doubtful loans	–	–	X	–	–	X	750	2	X
B.3 Other impaired assets	–	–	X	–	–	X	8,008	533	X
B.4 Other exposures	–	X	–	90,803	X	–	3,185,750	X	117
TOTAL B	**–**	**–**	**–**	**90,803**	**–**	**–**	**3,194,539**	**535**	**117**
TOTAL (A + B)	**4,088,262**	**–**	**–**	**151,786**	**126**	**–**	**7,979,722**	**32,226**	**6,965**
TOTAL (previous year)	**568,311**	**–**	**–**	**80,371**	**1,413**	**2**	**6,391,386**	**32,958**	**7,127**

Exposures/Counterparties (cont)	Insurance companies			Non-financial companies			Other parties		
	Net exposure	Specific adjustments	General adjustments	Net exposure	Specific adjustments	General adjustments	Net exposure	Specific adjustments	General adjustments
A. Cash exposures									
A.1 Non-performing loans	–	–	X	222,265	230,758	X	123,921	124,414	X
A.2 Doubtful loans	–	–	X	517,308	63,504	X	148,495	23,194	X
A.3 Restructured positions	–	–	X	617,694	40,771	X	–	–	X
A.4 Overdue positions	–	–	X	28,612	1,653	X	14,204	642	X
A.5 Other exposures	86,982	X	–	16,313,873	X	121,127	7,255,411	X	20,000
TOTAL A	**86,982**	**–**	**–**	**17,699,752**	**336,686**	**121,127**	**7,542,031**	**148,250**	**20,000**
B. Off-balance sheet exposures									
B.1 Non-performing loans	–	–	X	31,966	7,208	X	187	381	X
B.2 Doubtful loans	–	–	X	94,656	4,264	X	380	356	X
B.3 Other impaired asset	–	–	X	181,953	5,198	X	74	31	X
B.4 Other exposures	38,509	X	–	8,430,196	X	9,467	487,339	X	356
TOTAL B	**38,509**	**–**	**–**	**8,738,771**	**16,670**	**9,467**	**487,980**	**768**	**356**
TOTAL (A + B)	**125,491**	**–**	**–**	**26,438,523**	**353,356**	**130,594**	**8,030,011**	**149,018**	**20,356**
TOTAL (previous year)	**87,286**	**–**	**–**	**22,797,583**	**341,024**	**128,274**	**9,553,827**	**129,270**	**19,378**

B.2 Geographical distribution of cash and "off-balance sheet" exposures to customers (book value)

Exposures/Geographical areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. Cash exposures										
A.1 Non-performing loans	346,092	363,131	2,415	6,789	–	9	–	–	–	–
A.2 Doubtful loans	775,206	100,078	345	23	–	–	–	–	–	–
A.3 Restructured positions	654,301	44,414	–	–	–	–	–	–	–	–
A.4 Overdue positions	42,889	2,307	28	2	–	–	–	–	–	–
A.5 Other transactions	31,526,688	145,117	735,788	2,091	163,292	616	1	–	16,148	151
TOTAL A	**33,345,176**	**655,047**	**738,576**	**8,905**	**163,292**	**625**	**1**	**–**	**16,148**	**151**
B. Off-balance sheet exposures										
B.1 Non-performing loans	32,184	7,589	–	–	–	–	–	–	–	–
B.2 Doubtful loans	95,786	4,622	–	–	–	–	–	–	–	–
B.3 Other impaired assets	190,035	5,762	–	–	–	–	–	–	–	–
B.4 Other exposures	10,049,908	9,831	1,999,335	108	183,354	1	–	–	–	–
TOTAL B	**10,367,913**	**27,804**	**1,999,335**	**108**	**183,354**	**1**	**–**	**–**	**–**	**–**
TOTAL (A+B)	**43,713,089**	**682,851**	**2,737,911**	**9,013**	**346,646**	**626**	**1**	**–**	**16,148**	**151**
TOTAL (previous year)	**36,500,274**	**635,622**	**2,717,594**	**19,304**	**244,349**	**3,532**	**–**	**844**	**16,547**	**144**

B.3 Geographical distribution of cash and "off-balance sheet" exposures to banks (book value)

Exposures/Geographical areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. Cash exposures										
A.1 Non-performing loans	–	–	1,625	6,340	–	–	–	–	–	–
A.2 Doubtful loans	–	–	–	–	–	–	–	–	–	–
A.3 Restructured positions	–	–	–	–	–	–	–	–	–	–
A.4 Overdue positions	–	–	–	–	–	–	–	–	–	–
A.5 Other transactions	1,947,834	–	452,817	–	1,132	–	1,989	–	118	–
TOTAL A	**1,947,834**	**–**	**454,442**	**6,340**	**1,132**	**–**	**1,989**	**–**	**118**	**–**
B. Off-balance sheet exposures										
B.1 Non-performing loans	–	–	–	–	–	–	–	–	–	–
B.2 Doubtful loans	–	–	–	–	–	–	–	–	–	–
B.3 Other impaired assets	–	–	–	–	–	–	–	–	–	–
B.4 Other exposures	308,072	382	206,695	14	18,119	–	6,595	18	3,446	9
TOTAL B	**308,072**	**382**	**206,695**	**14**	**18,119**	**–**	**6,595**	**18**	**3,446**	**9**
TOTAL (A+B)	**2,255,906**	**382**	**661,137**	**6,354**	**19,251**	**–**	**8,584**	**18**	**3,564**	**9**
TOTAL (previous year)	**2,630,372**	**–**	**1,024,359**	**6,500**	**7,061**	**–**	**7,663**	**29**	**1,928**	**44**

B.4 Significant exposures

	31.12.2010	31.12.2009
a) Nominal amount	16,974,352	0
b) Weighted amount	975,561	0
c) Number	6	0

The measurement at 31 December 2010 was carried out on the basis of the latest updates of Circular 263, which made major changes to the rules on risk concentration.
Based on the new rules, the amount of the cash and risk assets and off-balance sheet transactions of a single customer or related group of customers equal to 10% or more of the Bank's regulatory capital is considered a "significant exposure". To this end, the exposure is considered without applying the related weighting factors. Under the previous rules, a weighted exposure of more than 10% of regulatory capital was considered a significant exposure.

As a result, at an individual level, the following are reported as significant exposures:
- Exposure to BPM Group companies for a total nominal amount of 9.6 billion euro, with a weighted value of 33 million euro;
- Exposures to four Italian banking groups for a nominal amount of 3.3 billion Euro and an overall weighted value of 942 million;
- Exposures to the Italian government for securities in portfolio with a nominal value of 4.1 billion Euro and a weighted value of zero.

Under the previous rules, there would only have been one significant exposure to a leading Italian banking group with a weighted value of 518 million euro.

The figure at 31 December 2009 is the one calculated on the basis of the rules in force at that time.

C. Securitisation transactions and disposal of assets

C.1 Securitisation transactions

Qualitative information

BPM Securitisation 2 S.r.l.

In July 2006 the Bank finalised the securitisation operation which involved transferring without recourse, as permitted by Law 130 of 30 April 1999, a portfolio of around 2,011.3 million Euro in performing loans to BPM Securitisation 2 S.r.l. These loans refer to property and other secured loans given by the Bank itself and backed by first-degree mortgages.

The BPM Securitisation 2 operation was given a rating by the three main agencies: Standard & Poor's, Moody's and Fitch. The same agencies will look after the annual monitoring for the entire duration of the operation.
The operation involved BPM Securitisation 2 S.r.l. issuing in July 2006 the following series of senior securities with limited recourse for a total of 2,015.3 million euro, with ratings of AAA, AA and BBB, listed on the Luxembourg Stock Exchange and destined for the domestic and international market, and a subordinated line of credit made available by the Bank.

Security	Original amount (in millions of euro)	Amount at 31.12.2010 (in millions of euro)	Characteristics
Class A1 – AAA/Aaa/AAA	**350**	**–**	expected average weighted life of 1.57 years and credit enhancement of 5.82%, bearing interest of 3-month Euribor +6 basis points.
Class A2– AAA/Aaa/AAA	**1,574.6**	**741.7**	expected average weighted life of 6.72 years and credit enhancement of 5.82%, bearing interest of 3-month Euribor +14 basis points.
Class B – AA/Aa2/AA	**40.3**	**34.5**	expected average weighted life of 9.45 years and credit enhancement of 3.82%, bearing interest of 3-month Euribor +20 basis points.
Class C – BBB/Baa2/BBB	**50.4**	**50.4**	expected average weighted life of 14.25 years and credit enhancement of 1.32%, bearing interest of 3-month Euribor +70 basis points.
	2,015.3	**826.6**	

The senior securities feature a sequential type of amortisation profile, with pro-rata amortisation being adopted upon the occurrence of certain events agreed with the rating agencies. There is also a clean-up option in the Parent Bank's favour if the residual nominal value of the securitised portfolio (expected maturity 15 July 2020) is equal to 10% or less of the portfolio's initial nominal value.
The "Class C" of 50.4 million Euro was initially all subscribed by the subsidiary BPM Ireland which then sold it to the Parent Bank in March 2007.
At 31.12.2010, the whole of "Class A1", 833 million Euro of "Class A2" and 5.8 million Euro of "Class B" were reimbursed.
Moreover, the Bank bought back various tranches of Class A2 securities from 2008 to 2010 worth a total of 143 million Euro at the balance sheet date.

Banca Popolare di Milano, acting as the servicer, continues to manage collections of the portfolio that was assigned and to maintain relationships with customers directly, transferring on a day-to-day basis the collections of principal and interest of the portfolio to the Collection Account at the custodian bank, net of the sums received by way of insurance premiums; these are deducted to pay the premiums to the respective insurance companies and mortgage instalment collection fees paid by customers for the service.

Servicing is performed by an in-house department of the Bank, which under the Servicing Agreement looks after:
- each day, the activities involved in handling collections and checking cash flows;
- each month, balancing the month's transactions according to the internal monthly report with the daily schedules;
- each quarter, preparing the report (containing the information on the performance of the securitised portfolio) to be sent to the functions that monitor the portfolio (the arranger, the special purpose vehicle, the cash manager, the paying agent and the rating agencies), calculating the weighted average rate and the notional capital for the swap (split between fixed- and floating-rate mortgages), handling the collection of fees and commissions, expense reimbursements and interest on the servicing activity and on the line of credit granted to the entity. A statement of the collection account is also sent at the same time as the quarterly report.

For the purposes of the monitoring envisaged by the CSA, the quarterly report, once validated by the Trustee, is sent internally to the:
- Risk Management Department;
- Middle Office and Controls desk;
- Accounts Department;

so as to acquire the figures needed to carry out its duties in managing the swap.

The securitisation does not lead to additional credit risk because it involves performing mortgage loans.

The accounting treatment of the securitisation in the financial statements of Banca Popolare di Milano is as follows:
1) securitised mortgage loans have remained on the books as part of loans to customers, under a separate item ("mortgage loans");
2) the debt for the financing received from the special purpose vehicle has been booked to due to customers in the sub-item "other payables", generating in the income statement under interest expense the payable side of the swap, including the portion of them not collected;
3) the interest income on these mortgage loans has remained in the same item of the financial statements, namely "interest income on loans to customers";
4) interest expense, represented by the payable side of the swap, is booked to "Interest expense on amounts due to customers";
5) the expenses linked to the operation have been split in the income statement on an accrual basis according to their expected maturity.

The securitised mortgage loans have not been eliminated from the financial statements as the Bank has maintained all of the risks and benefits, given that there has not been any substantial change in the exposure to the variability and timing of the net financial flows of the assets transferred. In particular, given the technical characteristics of the operation, the lack of recognition is principally linked to the concession of the subordinated line of credit, the excess spread mechanism and the stipulation of swap contracts with the arranger.

The notional value of the two swaps, one for the fixed-rate mortgages, the other for the floating-rate mortgages, is represented by the amount of the securitised loans at the start of the operation, subsequently declining as the portfolio is repaid.
Based on these contracts, at each quarterly payment date, BPM pays the flat quarterly Euribor including a spread of 0.0115% to the arranger and receives:
- on the floating-rate mortgages, the difference between the weighted average rate of the loans (including margin) and the weighted average spread on them, calculated at the beginning of the quarter;
- on the fixed-rate mortgages, the lower between 3% and the lower rate applied to this category of loans.

With the excess spread mechanism, the special purpose vehicle sets up a reserve in favour of BPM which is paid quarterly, it being essentially the fruit of the positive difference between the interest income on the loans, the interest expense on the notes issued and the swap differential.

Based on the cash flows of these contracts explained above:
- BPM effectively ensures itself the interest income on the mortgage loans, remunerating the financing received at Euribor plus a spread, which is shown under "Interest expense on amounts due to customers";
- the special purpose vehicle ensures itself the payable rate to remunerate the subscribers of the notes.

The characteristics of the operation and the consequent accounting treatment explained above lead to the non-recognition in the balance sheet of the swaps as derivatives, as the flow of interest income associated with the securitised mortgage loans is already reflected in the income statement for the period under interest income and expense.

At the date of the financial statements the securitisation transaction is represented as follows:

(euro/000)

Line items	**31.12.2010**	**31.12.2009**
Principal balance sheet aggregates		
Loans to customers:	**807,757**	**976,763**
Securitised mortgage loans	805,619	973,006
Credit exposure to the SPV due to the offsetting of the liquidity originated by the reimbursement of the securitised assets against the positions owed to the SPV.	2,138	3,757
Due to customers	**569,692**	**771,006**
Economic result of the operation	**19,902**	**23,480**

Other securitisation transactions

The Bank holds certain securities in its loan book that are linked to the securitisations of third-party issuers. These investments are of relatively modest amounts and constitute a residual alternative form of loan diversification.

Quantitative information

C.1.1 Exposures arising from securitisation transactions broken down by quality of the underlying assets

Quality of underlying assets/ Exposures	Cash exposures						Guarantees given						Lines of credit					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. With own underlying assets:	**142,720**	**143,064**	**50,401**	**50,582**	**19,393**	**19,426**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) Impaired	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
b) Other	142,720	143,064	50,401	50,582	19,393	19,426	–	–	–	–	–	–	–	–	–	–	–	–
B. With underlying assets of third parties:	**35,175**	**35,175**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) Impaired	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
b) Other	35,175	35,175	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–

As foreseen in the Bank of Italy's Circular 262/2005, in the event that assets sold still remain in the balance sheet of the Bank, the table shows the gross and net exposures of the "retained risk" measured as an imbalance between assets sold and the corresponding liabilities at the sale date (July 2006) and at the reference date of the financial statements.
As regards item A. "With own underlying assets", the amounts shown relate to the "BPM Securitisation 2" operation and represent for the:

- senior exposures, Class A2 notes issued by the special purpose vehicle and repurchased by BPM between 2008 and 2010;
- mezzanine exposures, Class C notes issued by the special purpose vehicle and repurchased by BPM in March 2007;
- *junior exposures, the subordinated loan outstanding at the balance sheet date, which was granted by the BPM to BPM Securitisation 2 to absorb the initial losses.*

C.1.2 Exposures deriving from the main "own" securitisations broken down by type of asset securitised and by type of exposures

Type of securitised asset/Exposures	Cash exposures						Guarantees given						Lines of credit					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks
A. Completely cancelled from the financial statements	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
B. Partially cancelled from the financial statements	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
C. Not cancelled from the financial statements	**143,064**	**–**	**50,582**	**–**	**19,426**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
C.1 BPM Securitisation 2 S.r.l.	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
– Residential mortgage loans	143,064	–	50,582	–	19,426	–	–	–	–	–	–	–	–	–	–	–	–	–

C.1.3 Exposures arising from the main securitisation transactions of "third parties" broken down by type of securitised asset and by type of exposures

Type of securitised assets/Exposures	Cash exposures						Guarantees given						Lines of credit					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks
A.1 C.P.G.	7,425	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
– Mortgage loans	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
A.2 Asset Backed J 13 TV	27,750	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
– Receivables	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–

The amounts in the "book value" column include accrued interest.

C.1.4 Exposures to securitisation broken down by portfolio and by type

Exposures/portfolio	Financial assets held for trading	Financial assets fair value option	Financial assets available for sale	Investments held to maturity	Receivables	31.12.2010	31.12.2009
1. Cash exposures	**–**	**–**	**–**	**–**	**35,175**	**35,175**	**41,619**
– "Senior"	–	–	–	–	35,175	35,175	41,619
– "Mezzanine"	–	–	–	–	–	–	–
– "Junior"	–	–	–	–	–	–	–
2. Off-balance sheet exposures	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– "Senior"	–	–	–	–	–	–	–
– "Mezzanine"	–	–	–	–	–	–	–
– "Junior"	–	–	–	–	–	–	–

C.1.5 Total amount of securitised assets underlying junior securities or other forms of credit support

Assets/Amounts	Traditional Securitisations	Synthetic securitisations
A. Own underlying assets:	**805,619**	**–**
A.1 Completely cancelled	–	X
1. Non-performing loans	–	X
2. Doubtful loans	–	X
3. Restructured positions	–	X
4. Overdue positions	–	X
5. Other assets	–	X
A.2 Partially cancelled	–	X
1. Non-performing loans	–	X
2. Doubtful loans	–	X
3. Restructured positions	–	X
4. Overdue positions	–	X
5. Other assets	–	X
A.3 Not cancelled	805,619	–
1. Non-performing loans	22,756	–
2. Doubtful loans	16,880	–
3. Restructured positions	–	–
4. Overdue positions	233	–
5. Other assets	765,750	–
B. Underlying assets of third parties:	**–**	**–**
B.1 Non-performing loans	–	–
B.2 Doubtful loans	–	–
B.3 Restructured positions	–	–
B.4 Overdue positions	–	–
B.5 Other assets	–	–

C.1.6 Interests in special purpose entities

Name	Registered office	% held
BPM Securitisation 2 S.r.l. (*)	Rome	n.a.

(*) There is no holding in the special purpose vehicle mentioned above; the company is consolidated to take account of the "continuing involvement".

C.1.7 Servicing activities - Collections of securitised receivables and reimbursement of securities issued by the special purpose vehicle

Special purpose vehicle	Securitised assets (at the end of period)		Collections of receivables during the year		Percentage of securities reimbursed (at the end of period)					
					Senior		*Mezzanine*		*Junior*	
	Impaired	Performing	Impaired	Performing	Impaired	Performing	Impaired	Performing	Impaired	Performing
BPM Securitisation 2 S.r.l.	39,869	765,750	1,211	190,810		60.50%		0%		0%

C.2 Disposal of assets

C.2.1 Financial assets sold and not cancelled

Technical forms/ Portfolio	Financial assets held for trading			Financial assets designated at fair value through profit and loss			Financial assets available for sale			Financial assets held to maturity			Due from banks			Loans to customers			Total	
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	31.12.2010	31.12.2009
A. Cash assets	**–**	**–**	**–**	**–**	**–**	**–**	**1,992,810**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**805,619**	**–**	**–**	**2,798,429**	**1,295,552**
1. Debt securities	–	–	–	–	–	–	1,992,810	–	–	–	–	–	–	–	–	–	–	–	1,992,810	322,546
2. Equities	–	–	–	–	–	–	–	–	–	X	X	X	X	X	X	X	X	X	–	–
3. Mutual funds	–	–	–	–	–	–	–	–	–	X	X	X	X	X	X	X	X	X	–	–
4. Loans	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	805,619	–	–	805,619	973,006
B. Derivatives	**–**			**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**–**	**–**
Total 31.12.2010	**–**	**–**	**–**	**–**	**–**	**–**	**1,992,810**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**805,619**	**–**	**–**	**2,798,429**	**–**
of which impaired	–						–									39,869			39,869	–
Total 31.12.2009	**42,956**	**–**	**–**	**–**	**–**	**–**	**279,590**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**973,006**	**–**	**–**	**–**	**1,295,552**
of which impaired	–						–									41,210			–	41,210

Key: A = Financial assets sold and fully recognised (book value);
B = Financial assets sold and partially recognised (book value);
C = Financial assets sold and partially recognised (full value).

The amounts under "Financial assets held for trading" and under "Financial assets available for sale" refer to securities used for repurchase agreements.
The amount indicated in the "Loans to customers" column relates to the "BPM Securitisation 2 Srl" operation carried out by the Bank and explained above.

C.2.2 Financial liabilities for financial assets sold and not cancelled

Liabilities/Asset portfolio	Financial assets held for trading	Financial assets designated at fair value through profit and loss	Financial assets available for sale	Financial assets held to maturity	Due from banks	Loans to customers	Total
1. Due to customers	**–**	**–**	**74,356**	**–**	**–**	**569,692**	**2,598,415**
a) for assets fully recognised	–	–	74,356	–	–	569,692	644,048
b) for assets partially recognised	–	–	–	–	–	–	–
2. Due to banks	**–**	**–**	**1,954,367**	**–**	**–**	**–**	**–**
a) for assets fully recognised	–	–	1,954,367	–	–	–	1,954,367
b) for assets partially recognised	–	–	–	–	–	–	–
Total 31.12.2010	**–**	**–**	**2,028,723**	**–**	**–**	**569,692**	**2,598,415**
Total 31.12.2009	**42,948**	**–**	**279,530**	**–**	**–**	**771,006**	**1,093,484**

"Due to customers" are reduced by the amount of the notes issued by BPM Securitisation 2 and repurchased by BPM for around 143 million euro.

C.3 Covered bond transactions

Guaranteed Bank Bonds ("covered bond") issue programme.

On 13 November 2007 the Board of Directors of the BPM authorised a 10-year Programme, with annual issues of Guaranteed Bank Bonds ("covered bonds") for a maximum of Euro 2 billion per year and a maximum total amount of Euro 10 billion, based on the sale of mortgage loans originated by BPM to a special purpose vehicle.

The Programme forms part of a wider strategy that is designed:
- to reduce funding costs thanks to the high standing of the covered bonds, as instruments issued directly by a bank with redemption guaranteed by a separate capital fund. In the event of the issuing bank going bankrupt, the bearers of covered bonds can in fact claim off high quality assets specifically segregated for this purpose, which means that they are willing to accept a lower yield compared with the holders of similar but unguaranteed bonds;
- to diversify its sources of funding, including the international market;
- to extend the average maturity of its debt profile by having access to the covered bond market;
- to meet the needs of investors with a strong aversion to risk.

The rules governing the issuance of covered bonds are contained in the following legislative sources:
a) Law 80 of 14 May 2005, which introduced art. 7-bis of Law 130 of 30 April 1999, which essentially defines the field of application of the rules;
b) the Regulations introduced by the Economy and Finance Ministry no. 310 of 14 December 2006, which govern: i)the maximum ratio between the bonds covered by guarantee and the assigned assets; ii) the types of assets that can be assigned, both originally and on subsequent integration; iii) the characteristics of the guarantee that the special purpose vehicle has to give;
c) the Supervisory Authority's Instructions of 17 May 2007, which not only have the general task of activating the rules contained in art. 7-bis, but also regulate: i) the requirements of the banks issuing such bonds; ii) the criteria that the assigning banks have to adopt for the valuation of the assets being assigned; iii) the methods for integrating the assets originally assigned; iv) the checks that banks have to perform, or have the auditors perform, to ensure compliance with the legal obligations.
In March 2010 the rules were changed to reinforce the regulatory framework of Italian covered bonds in order to encourage their use.

The main changes are designed to clarify certain concepts, such as:
- the capital requirements have to be satisfied at the time of the transfer;
- the transfer limits have to be considered also in light of any covered bonds issued by other members of the banking group, which will therefore have assigned part of their assets to guarantee the operation;
- the substitution of suitable assets included in the separate capital fund of the transferee with other assets of the same type originated by the transferor bank is allowed, providing this faculty is expressly foreseen in the programme and in the issue prospectus.
- in order to avoid overlapping checks, the asset monitor can organise its activity as verification of the checks carried out by the issuing bank as part of the so-called "agreed-upon procedures".

Based on what we have said, the system for issuing covered bonds provides for:

- the existence of a special purpose vehicle or SPV, whose sole purpose is to purchase the assets assigned by originator banks and to provide a guarantee for the subscribers of the covered bonds. In this regard, BPM acquired 80% of the quotas of an SPV specifically set up for the purpose under Law 130, called "BPM Covered Bond S.r.l." (formerly Duse Finance S.r.l.). The other 20% is held by Stichting Horizonburg, a Dutch foundation;
- the disbursement of a subordinated loan by the financing banks to the SPV at the same time as BPM (the sole issuing bank) issues the securities so that it can buy the assets;
- effective assignment by the originator banks to the SPV of high credit quality receivables that form a separate capital fund pursuant to Law 130/99 to satisfy the bearers of the covered bonds;
- the provision of a guarantee by the SPV in favour of the bondholders, up to the limits of the separate capital fund.

As regards the guarantee, the rules laid down by the Economy and Finance Ministry require that the guarantee given by the SPV to the bearers of the covered bonds be irrevocable, "at first request", unconditional and autonomous with respect to the obligations taken on by the issuing bank.
The ongoing integrity and adequacy of the guarantee for the investor take the form of "over-collateralisation" which derives from the obligation taken on by the originator bank to ensure that the value of the assigned assets forming part of the "cover pool" at any moment in time (both on issue and during the life of the loan) is higher than the covered bonds that were issued; in particular, the minimum variance between the two amounts is defined by the rating agencies based on the characteristics of the issuer.

Again with a view to ensuring that the SPV is able to fulfil the obligations deriving from the guarantee that it has given, the issuing bank, using suitable asset and liability management techniques, has to ensure a reasonable balance between the maturities of the cash flows generated by the assigned assets included in the SPV's separate capital fund, and the maturities of the payments due by the issuing bank in connection with the

covered bonds issued and the costs of the operation. Unlike a traditional securitisation, the bond payments are independent of the cash flows and of the performance of the portfolio underlying the guarantee, as the programme's final guarantor is BPM, which remains totally exposed to the risks and benefits associated with the assigned assets.
An asset coverage test is carried out once a month to check compliance with the guarantee level required by the rating agencies; in the event that overcollateralisation is lower than the amount indicated by the rating agencies (which means that the cover pool is insufficient for the bonds issued), the portfolio has to be topped up by the originator banks with new assets entirely originated by the same banks; assets that are suitable to replace those that are extinct and/or impaired, or with supplementary assets.

BPM's Covered Bond Issue Programme have been awarded ratings by Fitch (AAA) and by Moody's (Aaa); the same agencies will look after ongoing monitoring for the entire period of the Programme to ensure that the rating adequately reflects the credit risk of the securities issued and that the quality of the cover pools transferred is in line with the rating assigned to the covered bonds.

At the balance sheet date, the Programme features three tranches of guaranteed bank bonds, the first two for an amount of one billion Euro and the most recent for an amount of 750 million euro, in exchange for the assignment without recourse to "BPM Covered Bond S.r.l. (the SPV) of performing loans (the "cover pool") for a cumulative assignment price of 4.1 billion euro; of these, 0.5 billion Euro were transferred by Banca di Legnano.
To date, it has not been necessary to top up the portfolio of receivables initially transferred from time to time.

The current year's issue (750 million euro) has a covered bonds multi-originator structure as the roles of originator bank and financing bank are played by two entities (Banca Popolare di Milano and Banca di Legnano) while the issuing bank is BPM. The two previous issues were more straightforward as BPM acted as the originator, the financing bank and the issuer.

The main reasons for using loans originated by Banca di Legnano were:
- a credit quality in line with BPM's lending policies so as to maintain the low risk profile of the cover pool, in line with the current one;
- higher collateral available for the new disbursements and/or to top up the existing collateral in the event of changes in the required level of overcollateralisation.

Contractually, the transfer was carried out directly by Banca di Legnano, which granted the loan to the BPV to buy the cover pool. As for BPM, the loan is subordinated to repayment of the covered bonds by the issuer or by the guarantor, BPM Covered Bond.
BPM acts as counterparty of the cover pool swap, also for BDL's part of the portfolio, which will periodically receive its portion of the excess spread through BPM; this amount will act as remuneration for the subordinated loan granted to the Vehicle.
The mechanism for sharing the excess spread between BPM and BDL is regulated by an agreement between the two banks based on criteria of economic neutrality. The allocation of the excess spread reflects the Bank's share of the assets transferred under the Programme.

As regards the method of determining the transfer price, in accordance with the Bank of Italy's instructions, we would point out the following:
- for the first two issues, the book values of the loans transferred, as shown in the latest approved and audited financial statements, were used as the starting point;
- for the other tranche in 2010, we used the loans originated up to 30 June 2010, as certified by the auditors in accordance with art. 5 section II of the rules governing guaranteed bank bonds. They certified that the criteria used for determining the transfer price of the loans were the same as those used in preparing the financial statements.

These operations did not generate any assignment gains or losses and the securitised assets have not suffered any writedowns or other value adjustments.

The following are the main characteristics of the cover pools involved in the assignment and of the guaranteed bank bonds that were issued:

Type of securitised assets:	**Home mortgage loans**
Quality of securitised assets:	**Performing positions**
Distribution by sector of the assigned debtors:	**100% Individuals**

Date of assegnment of the Cover Pool	**June 2008**	**June 2009**	**October 2010**	**Total**
Amount of the assets sold (in millions of Euro):	**1,218**	**1,305**	**1,616**	**4,139**
Banca Popolare di Milano	1,218	1,305	1,137	3,660
Banca di Legnano	–	–	479	479
Number of mortgage loans sold:	**12,229**	**11,681**	**15,504**	**39,414**
Banca Popolare di Milano	*12,229*	*11,681*	*10,110*	*34,020*
Banca di Legnano	–	–	*5,394*	*5,394*
Distribution by sector of the assigned debtors:				
100% Individuals				
Type of securities issued				
Guaranteed Bank Bonds ("OBG") Banca Popolare di Milano				
Amount issued (in millions of Euro):	**1,000**	**1,000**	**750**	**2,750**
Bond reoffer price	99.784	99.558	99.451	
Issue date/maturity of the covered bonds	**15.7.2008**	**9.10.2009**	**4.11.2010**	
	15.7.2011	17.10.2016	16.11.2015	
Interest rate	Fixed rate	Fixed rate	Fixed rate	
	5.5% for 3 years	3.5% for 3 years	3.25% for 3 years	
Expected Issue Ratings	**Moody's:**	**Moody's:**	**Moody's:**	
	Aaa	Aaa	Aaa	
	Fitch: AAA	**Fitch:** AAA	**Fitch:** AAA	

Overall distribution of the securitised assets by geographical area at the date of the third assignment

	North-West	**North-East**	**Centre**	**South and Islands**
Banca Popolare di Milano	74.74%	6.02%	14.27%	4.97%
Banca di Legnano	99.47%	0.17%	0.07%	0.29%

For the originator banks, the covered bond programme has given rise to a series of contractual commitments, the most important ones at the time of the third issue being the concession of:

- a subordinated line of credit for Euro 3,654 million to pay the subordinated loans to BPM Covered Bond Srl, so that it can buy the cover pools. This line of credit was quantified by taking as a point of reference the transfer prices of the cover pool tranches, net of the liquidity held by the SPV. The Programme envisages a commitment on the part of the Bank to grant further loans, also to purchase the cover pools underlying future issues, as part of the same Programme;
- a capital market line of credit granted by BPM for Euro 3,654 million, maturity 30 September 2020, to subscribe the Cover Pool Swap Transaction contract in favour of BPM Covered Bond S.r.l., in order to swap on a monthly basis the interest of the cover pool (an inflow for BPM) against a floating rate linked to Euribor plus a spread (an outflow for BPM). The notional of the swap follows to a certain extent the performance of the assigned portfolio and in part considers the investment outstanding and the liquidity of the SPV. The capital market line of credit (the same as the subordinated line of credit) will be increased at the time of any new assignment of assets to the SPV as a result of new issues of covered bonds and to integrate/substitute receivables in order to continue satisfying the ratio between the cover pool and the bonds issued.

The role of the originator

Banca Popolare di Milano and Banca di Legnano, acting as the servicer, each for its share, continue to manage collections of the assigned receivables and to maintain relationships with customers directly, transferring each day onto the collection account the mortgage loan instalments (principal and interest) that it collects, net of collection fees and insurance premiums (to be transferred to the respective insurance companies).

In addition, the financing banks look after the SPV's cash management, transferring on a daily basis the inflows into the collection account to the transaction account, from which they flow either into the reserve account (for the portion that remains at the disposal of the SPV by way of liquidity) or into the investment account (for the surplus liquidity to be invested). At the time of determining the excess spread, these accounts are reduced to zero with the balances being transferred to the transaction account.

Internal risk measurement and control systems

The rules governing covered bonds mean that the cover pool is extremely dynamic in nature, so the issuing and assigning bank is required to be continuously involved, which leads to a need to create a rigorous monitoring system.
A control model has been approved, which provides for three levels of monitoring:

■ **First level internal control** (performed by the Special Unit that manages the covered bonds and the securitisation), which as the main organisational structure involved, handles servicing at a Group level and the related controls (see paragraph C.1 "Securitisation transactions") as well as the checks to ensure that the issue operations are carried out properly;

■ **Asset Monitor** is a role performed by an independent third party (PricewaterhouseCoopers Spa), which periodically verifies (generally at the time of the half-yearly and annual reports) the regularity of the operations and the integrity of the guarantee in favour of the investors, issuing a specific report. In particular, the Asset Monitor checks:

- the quality and integrity of the assets assigned in guarantee. Periodically, the Asset Monitor is required to check compliance with the limits and parameters for the assignment of the assets and in the case of subsequent integrations, ensures that they satisfy the criteria of eligibility laid down by the Bank of Italy;
- compliance with the ratios between the covered bonds issued and the assets assigned in guarantee established by the Regulations;
- observation of the limits to assignment set by the Regulations based on Capital adequacy ratios and on the Tier 1 ratio;
- the effectiveness and adequacy of the risk hedges provided by the derivatives taken out in connection with the operation.

It has been agreed that the checks carried out by the Asset Monitor and the assessments regarding the results of the operations would be the subject of a half-yearly report addressed to the Bank's Board of Statutory Auditors.

■ **The Internal Auditing Department**, as part of the audit plan, checks at least once a year the functionality, adequacy, consistency and effectiveness of the controls implemented by the Special Unit. The results of these checks, together with those carried out by the Asset Monitor, are brought to the attention of top management.

Accounting treatment of the operation

From what we have explained to date, it is worth reiterating that the purpose of covered bond operations is to fund the bank at more competitive conditions, providing assets to guarantee the bonds issued (in this case, residential Mortgage loans). As regards the accounting treatment of this operation in the financial statements:

■ The SPV "BPM Covered Bond S.r.l." is held 80% by BPM and shown in line item 100 "Investments in associates and companies subject to joint control", which means that it is consolidated in the Group's financial statements on a line-by-line basis;

■ The subordinated loans made to the SPV are not shown separately in the financial statements because, even though they are booked to "Other assets" at the time they are disbursed, for presentation purposes in the financial statements, they get offset, up to the same amount, against the amounts due to the SPV ("Due to customers") which show the assignments at their initial transfer prices; these loans are not subject to remeasurement as the credit risk is entirely reflected in the valuation of the loans being covered;

■ The loans assigned continue to be shown on the assets side of the originator banks' balance sheets in line item 70 "Loans to customers - mortgage loans", as the banks have kept the risk of losses on the loans, in the same way that they continue to be the beneficiaries of the collections deriving from them as a result of the Cover Pool Swap Transaction for BPM and as a consequence of the "BDL Subordinated Loan Agreement" and the "Master Receivables Purchase Agreement" for BDL. Mortgage loans also change on the basis of the events affecting them (in terms of volumes and valuations). The collection of principal and interest on the loans is paid each day into the collection account, at the same time booking a reduction in the debt owing to the SPV. The interest income is booked to line item 10 "Interest income: loans to customers". This collection comes about for BPM by regulation of the active leg of the Cover Pool Swap and for BDL as a consequence of the contracts mentioned above.

■ The debt owing to the SPV, which initially records the collection of the assignment price of the mortgage loans that are not cancelled from the balance sheet, is booked to item 20 of liabilities "Due to customers" under "Other payables". Subsequently, it incurs the movement relating to the payment of the instalment payments in the collection account, so only for the volume movements and not for the valuations. The debt is then offset, up to the same amount, by the subordinated loan granted to the SPV.

- The covered bonds issued by BPM are booked to liabilities as part of item 30 "Securities issued" and the related interest expense is in the form of a fixed annual coupon.

- BPM Covered Bond has taken out hedging derivatives with external counterparties, with which it exchanges Euribor plus a spread (received by BPM) against the annual coupons of the covered bonds issued; coupons that will be passed on to BPM with the excess spread by way of remuneration for the subordinated loans. The hedging derivatives in practice transform the fixed-rate coupons of the covered bonds into floating-rate coupons at Euribor plus a spread. The valuation effects of these derivatives are only reflected in the consolidated financial statements (for further details, see section C.3 "Covered bond transactions" in the consolidated financial statements).

As in any classic securitisation, the characteristics of the operation and the consequent accounting treatment as explained above lead to the non-recognition in the balance sheet of the cover pool swap between BPM and BPM Covered Bond as the flow of the interest income linked to the securitised mortgage loans is already reflected in the income statement.

As regards the presentation of this operation in the balance sheet and income statement, please refer to the next table which shows the account headings affected and the related amounts.

At the date of the financial statements the securitisation transaction is represented as follows:

euro/000

Line items	**31.12.2010**	**31.12.2009**
Principal balance sheet aggregates		
Loans to customers:	**3,220,638**	**2,237,250**
Cover Pool	3,061,531	2,210,140
Credit exposure to the SPV due to the offsetting of the liquidity originated by the reimbursement of the securitised assets against the positions owed to the SPV.	159,107	27,110
Securities issued: Covered bonds issued	**2,771,863**	**2,023,398**
Economic result of the operation	**53,797**	**46,818**

Quantitative information

Total amount of securitised assets underlying junior securities or other forms of credit support

Assets/Amounts	Traditional securitisations	Synthetic securitisations
A. Own underlying assets:	**3,061,531**	**–**
A.1 Completely cancelled	–	X
1. Non-performing loans	–	X
2. Doubtful loans	–	X
3. Restructured positions	–	X
4. Overdue positions	–	X
5. Other assets	–	X
A.2 Partially cancelled	–	X
1. Non-performing loans	–	X
2. Doubtful loans	–	X
3. Restructured positions	–	X
4. Overdue positions	–	X
5. Other assets	–	X
A.3 Not cancelled	3,061,531	–
1. Non-performing loans	12,326	–
2. Doubtful loans	28,800	–
3. Restructured positions	–	–
4. Overdue positions	624	–
5. Other assets	3,019,781	–
B. Underlying assets of third parties:	**–**	**–**
B.1 Non-performing loans	–	–
B.2 Doubtful loans	–	–
B.3 Restructured positions	–	–
B.4 Overdue positions	–	–
B.5 Other assets	–	–

Interests in special purpose entities

Name	Registered office	% held
BPM Covered Bond S.r.l.	Rome	80

Servicing activities - Collections of securitised receivables and reimbursement of securities issued by the special purpose vehicle

Special purpose vehicle	Securitised assets (at the end of period)		Collections of receivables during the year		Percentage of securities reimbursed (at the end of period)	
					Senior	
	Impaired	Performing	Impaired	Performing	Impaired assets	Performing assets
BPM Covered Bond S.r.l.	41,750	3,019,781	548	372,674	0%	0%

D. Credit risk measurement models

The internal rating models refer to four ordinary customer segments, classified according to the following parameters:

- **Individuals** (consumer households);

- **Small Businesses**: this portfolio includes all Small Businesses in the form of companies, partnerships, one-man firms, micro-businesses and individuals with VAT number with a turnover of less than 5 million Euro who have been granted lines of credit of up to 1 million Euro (also adding together various exposures at BPM Group level);

- **SMEs**: these are small and medium-sized enterprises with a turnover of between 5 and 50 million Euro or with a turnover of less than 5 million Euro (or no turnover at all), but with lines of credit of between 1 million and 12.5 million Euro by individual bank and in terms of total exposure at BPM Group level;

- **Companies**: this category includes large corporatefirms with a turnover of more than 50 million Euro (or without this, with lines of credit of more than 12.5 million euro).

All of the models have been developed internally on representative samples of the BPM Group's customer portfolio. The models' performances are assessed once a month on an independent basis by the Convalidation function by applying a series of defined statistical tests. The rating is assigned to the counterparty, quite apart from the type of credit that has been requested (so-called "counterparty rating).

The rating model for the Individuals segment is a system in which the following elements converge at the time that credit is granted for the first time (the counterparty acceptance phase):

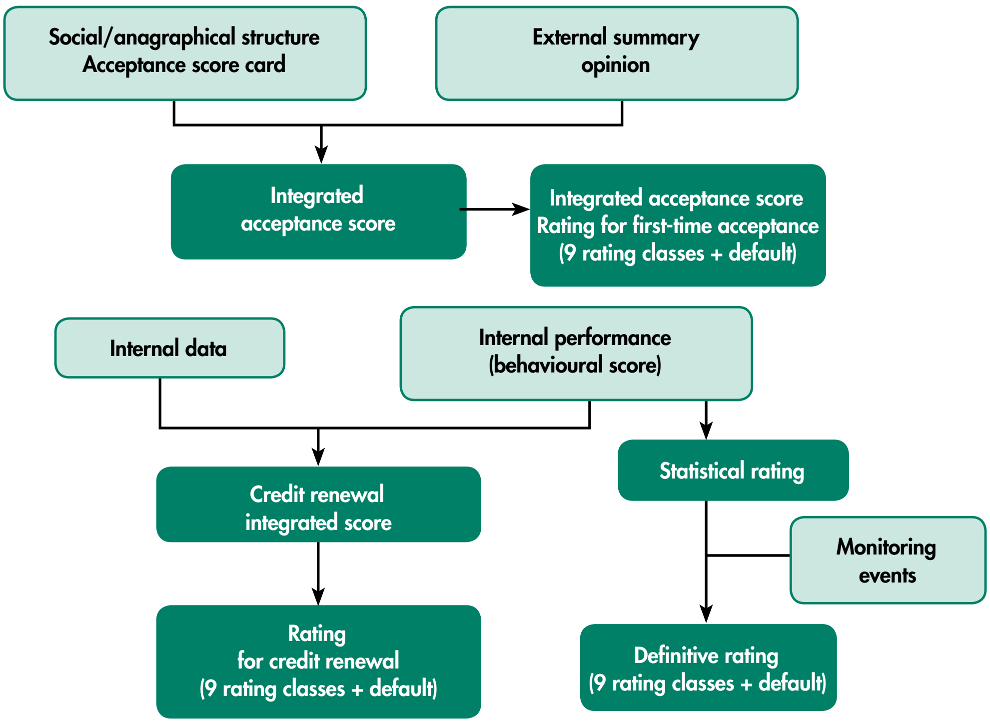
- background information about the counterparty and the product;

- a summary opinion about the counterparty's credit-worthiness from an external information bureau.

During the credit renewal phase, further information of a quantitative and analytical nature is added (behavioural information - customer monitoring phase and the counterparty credit renewal phase).

Monitoring the statistical rating involves monitoring interventions, split into negative acts, CR risk indicators relating to the borrower and early warning signals; when they take place, the system automatically proposes a downgrade of the rating, based on a series of rules that assess the extent of the anomaly in relation to the value of the counterparty's rating. The proposal to downgrade by the monitoring system is subject to approval by the dedicated structure.

The rating is expressed on a scale of nine classes numbered from 1 (best) to 9 (worst). Each rating class is then associated with a probability of default (PD) based on the Group's past experience.



As regards the **Small Business segment**, the internal rating system consists of the following modules:

- **financial module**: based on information acquired from financial statements and tax returns, broken down by companies, other entities with full accounting records and those with simplified accounting records;

- **internal performance module**: designed to observe the credit behaviour of the counterparty versus the Group by means of aggregate information by risk category;

- **external performance module**: designed to observe the behaviour of the counterparty versus the banking system, developed on the basis of information deriving from the census of exposures kept at the Centrale Rischi (Central Risk File - CR).

The three modules in question go to make up an integrated statistical score, split into nine rating classes from 1 (best) to 9 (worst), to which a probability of default (PD) is associated with a time horizon of one year, again based on the Group's historical data.

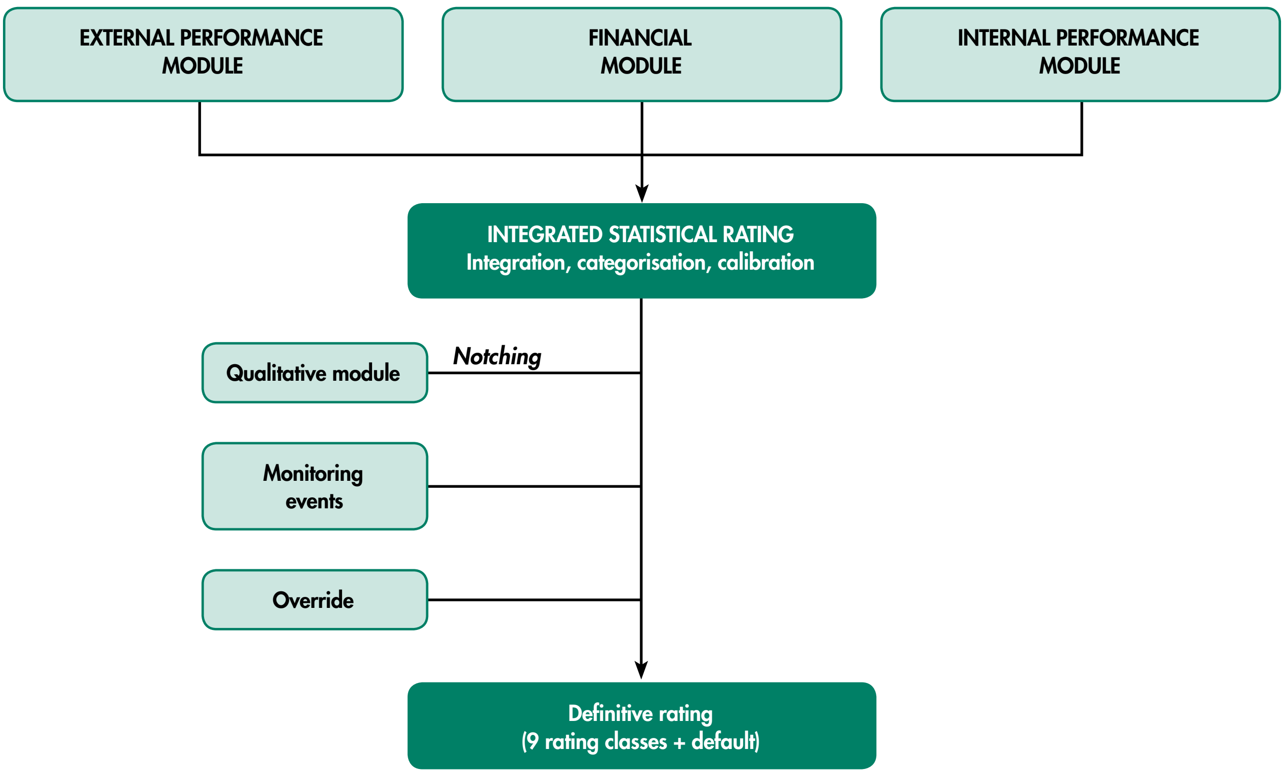
The following elements get added to the rating:

- **qualitative module**, based on company information gathered by means of questionnaires submitted at the time that the Electronic Credit Line Dossier (PEF) was filled in. These go to form a final rating through a process of notching (adjusted up or down according to the rating class given);

- **monitoring interventions**, , split into negative acts, CR risk indicators relating to the borrower and early warning signals"; when they take place, the system automatically proposes a downgrade of the rating resulting from the integration of the statistical rating and the qualitative questionnaire, based on a series of rules that assess the extent of the anomaly in relation to the value of the counterparty's rating. The proposal to downgrade by the monitoring system is subject to approval by the dedicated structure;

- **override**, a change in the rating produced by the process described up to this point, based on discretional assessments made by the relationship managers and suitably approved.

The following is a graphical summary of the model's structure:



For an estimate of the probability of default of counterparties belonging to the **SME** segment, the BPM Group uses a model that consists of various elementary modules, which are suitably combined in such as way as to produce a first-time rating or a performance rating, according to the type of information available, both expressed on a scale of 1 (best) to 9 (worst).

The elementary modules making up the model are as follows:

- **financial statement module**: for an assessment of the figures in the financial statements, developed by an external provider (Centrale dei Bilanci - the Central Financial Statements File);

- **internal performance module**: designed to observe the credit behaviour of the counterparty versus the Group by means of aggregate information by risk category;

- **external performance module**: designed to observe the behaviour of the counterparty versus the banking system, developed on the basis of information deriving from the census of exposures kept at the Centrale Rischi (CR);

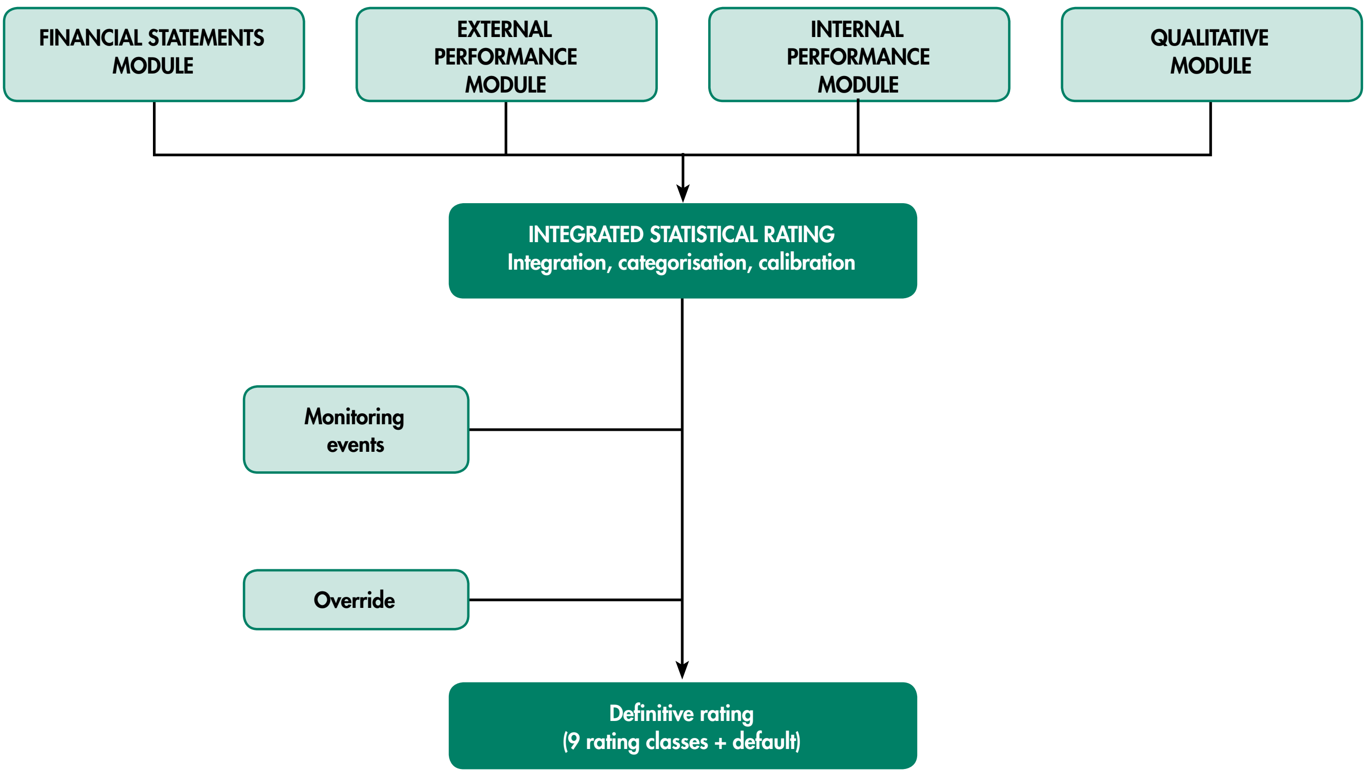
- **qualitative module**: to assess information on the counterparty's corporate structure and the context in which it operates. This is a module that was developed using statistical methods on the internal population of the BPM Group.

The results of these various modules are then combined by statistical techniques to produce an integrated score; this score is then split into the nine rating classes. Various other elements can then be added on to these ratings, such as:

- **monitoring interventions**, split into negative acts, CR risk indicators relating to the borrower and early warning signals; they propose a downgrade of the statistical rating based on a series of rules that assess the extent of the anomaly in relation to the value of the counterparty's rating. The proposal to downgrade by the monitoring system is subject to approval by the dedicated structure;

- **override**, a change in the rating produced by the process described up to this point, based on discretional assessments made by the relationship managers and suitably approved.

The model can be represented graphically as follows:



The elementary modules that make up the internal rating model for the Companies segment are as follows:

- **financial statement module**: developed by an external provider (Centrale dei Bilanci) with statistical methods using system data;

- **external performance module**: designed to observe the behaviour of the counterparty versus the banking system, developed on the basis of information deriving from the census of exposures kept at the Centrale Rischi (Central Risk File - CR).

The results of these various modules are then combined by statistical techniques to produce an integrated statistical score; this score is categorised in seven rating classes numbered from 1 (best) to 9 (worst), to each of which a probability of default (PD) is associated based on the Group's historical data.
The model also puts particular emphasis on the qualitative element based on the opinion of the relationship manager and not included in the statistical engine, all consistent with the size of the segment and the type of business.

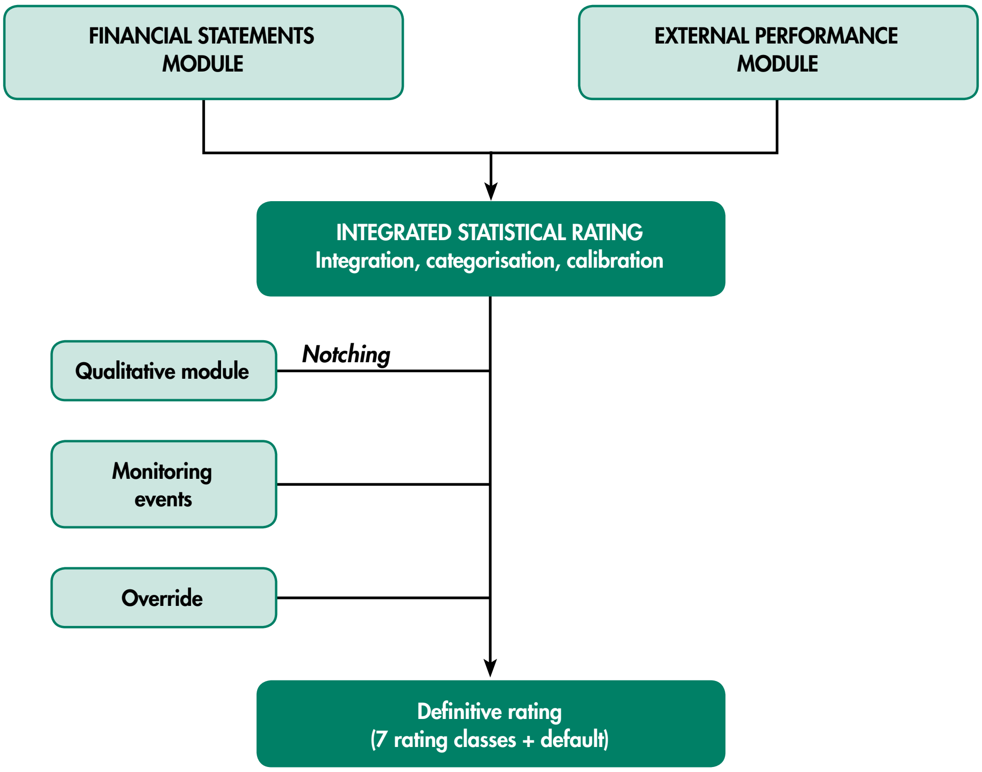
Various other elements can then be added on to these ratings, such as:

- **qualitative module** – a qualitative analysis of the sector strategic risk, the economic and financial risk and the internal performance risk. The fact that the counterparty belongs to certain economic groups is also analysed;

- **monitoring interventions** – split into negative acts, CR risk indicators relating to the borrower and early warning signals; they propose a downgrade of the statistical rating based on a series of rules that assess the extent of the anomaly in relation to the value of the counterparty's rating. The proposal to downgrade by the monitoring system is subject to approval by the dedicated structure;

- **override** – a change in the rating produced by the process described up to this point, based on discretional assessments made by the relationship managers and suitably approved.

The model can be represented graphically as follows:



Running the internal rating models is the responsibility of the Parent Bank's Risk Management Department, which performs the following activities:

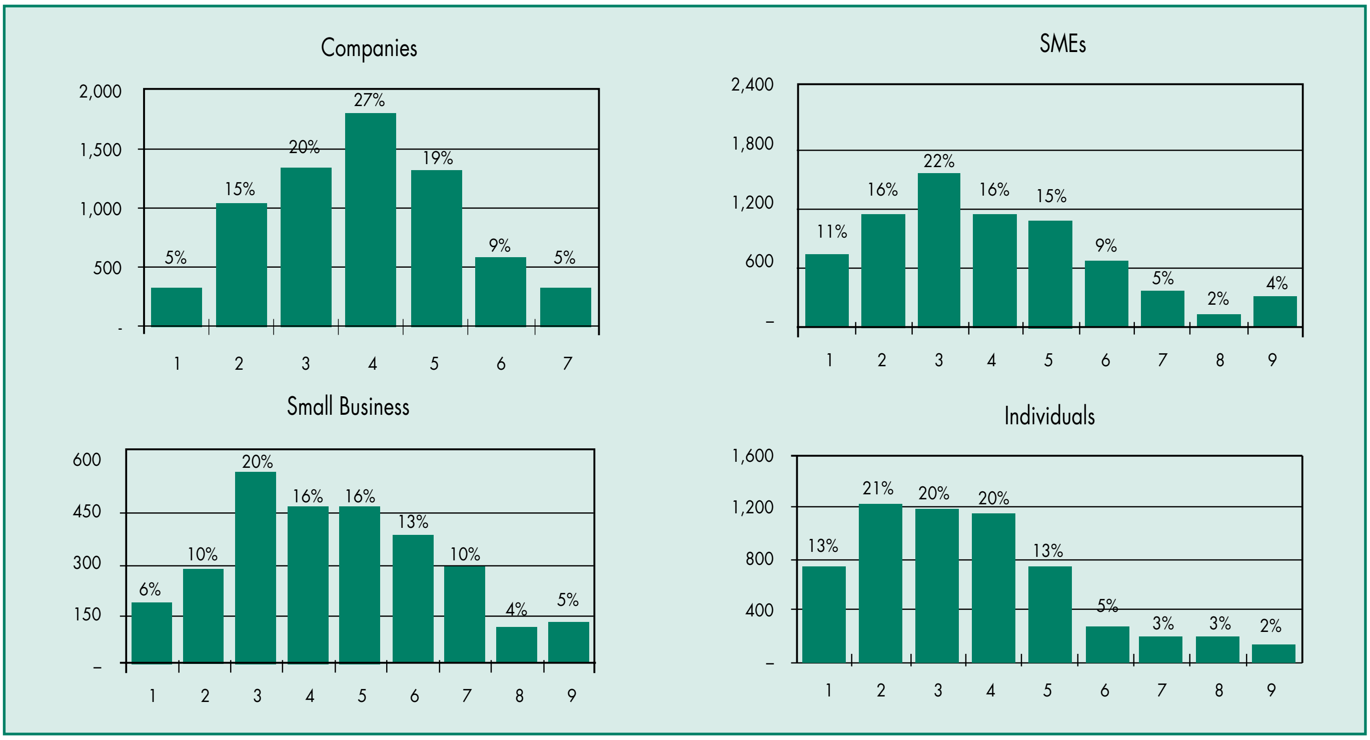
- developing and maintaining the internal rating models and the probability of default (PD), the loss given default (LGD) and the exposure at default (EAD);
- monitoring unrated positions and rating distribution in order to monitor the reasons for exclusions from the rating calculation and any peculiarities in the rating distribution;
- analysing the performance of rating models that involve analyses of backtesting on the individual rating elements;
- producing reports for management, for the Board of Directors and the various committees of the Parent Bank.

The following shows the trend in the breakdown of cash performing loans during 2010 (prior to impairment adjustments) among the four customer segments submitted to internal rating models:

(Amounts in millions of euro)	December 2010			September 2010			June 2010			March 2010		
Segment	**Amount***	**Weighting %**	**Number of customers**	**Amount***	**Weighting %**	**Number of customers**	**Amount***	**Weighting %**	**Number of customers**	**Amount***	**Weighting %**	**Number of customers**
Companies	8,147	32.81%	1,017	7,860	32.44%	1,030	7,902	33.18%	1,063	7,468	31.92%	1,044
SMEs	7,242	29.17%	5,776	7,308	30.16%	5,920	7,146	30.00%	5,955	7,390	31.58%	5,819
Small Business	3,019	12.16%	39,208	2,746	11.33%	38,870	2,565	10.77%	38,081	2,479	10.59%	38,016
Individuals	6,423	25.87%	164,757	6,314	26.06%	169,519	6,204	26.05%	165,598	6,062	25.91%	163,699
Total	24,831	100%	210,758	24,227	100%	215,339	23,817	100%	210,697	23,398	100%	208,578

*This amount includes the "unrated" positions (at 31/12/2010 Companies 1,393, SMEs 422, Small Businesses 142 and Individuals 595).

The following charts show the subdivision within each segment of the various grades of credit quality in terms of the amounts disbursed and still outstanding at 31 December 2010. The x axis shows the rating classes by declining credit quality: the first rating classes contain the exposures to borrowers with a higher credit quality, whereas the latter classes show the exposures of a lower quality. The y axis shows the cash exposure in millions of euro.



Section 2 - Market risks

Introduction

General common aspects of the market risk management processes adopted by the BPM Group

1. Organisational aspects

In the BPM Group, financial assets are split between the trading book and the banking book, which are characterised by the following operating strategies:

1. The **trading book** includes financial instruments held with a view to benefiting in the short term from positive changes between buy and sell prices through directional and absolute yield strategies and managing position books as market maker;
2. The **banking book** consists of:
- positions that are invested long-term with a view to obtaining stable returns over time with a low level of volatility;
- derivatives traded on behalf of customers (so-called "balanced trades") without keeping position books open;
- treasury and exchange rate book;
- financial instruments traded with a view to covering the interest rate mismatch caused by the commercial banks' funding and lending activities (Asset & Liability Management - ALM).

The new system of operating limits established that Banca Akros, the Group's investment bank, is the only company of the BPM Group authorised to manage the trading book.

The banking book, on the other hand, has been assigned to the Parent Bank, to the other commercial banks of the Group, to BPM Ireland and to other companies authorised to take on financial risk.

In the same way at the Parent Bank and at the Group's other commercial banks, since 2008 we have been gradually running down the trading book; this means that the assets and liabilities that are still in this portfolio have an operating destination that is included in those listed under the operating strategies of the banking book.

Operating limits have been redetermined in line with the types of portfolio assigned. The following types of operating limits have been assigned to the commercial banks and BPM Ireland, among others:

- sensitivity of the portfolio (at fair value) to the trend in interest rates and credit spreads: a limit is set on the potential change in value of the portfolio as a result of a movement of +/-100 bps in interest rates and +/-25 bps in credit spreads;
- sensitivity of interest margin: this limit is quantified on the basis of the potential change in interest margin in the subsequent twelve months caused by a parallel shift in the rate curve of +/-100 bps;
- stop loss limits;
- quantitative limits for total portfolio exposures and concentration limits for individual issuers. The quantitative limits for the treasury book are expressed in the form of maximum mismatch between assets and liabilities for the different maturities;
- qualitative limits on the composition of the portfolio, with issuer risk limits by type of counterparty, by type of rating and by country risk.

Banca Akros has broken them down by specific sub-areas and individual risk factors in accordance with overall company limits established by the Parent Bank. More specifically:

- VaR and sensitivity limits;
- stop loss limits;
- overall directional exposure to interest rate risk, expressed in terms of nominal position equivalent of 10-year government securities;
- exposure to short-term rates, expressed in an equivalent number of futures on Euribor;
- exposure to different maturities along the rate curve, expressed in nominal positions;
- limits by issuer rating class for non-government securities;
- overall directional exposure to equity risk and on individual shares/equity indices/mutual fund units;
- limits to other types of risk generated by positions in options (so-called "Greeks");
- exposure to exchange rate risk, differentiated according to currency pairs, both overnight and intraday (delta factor in the case of options).

2. Risk measurement methods

The banks where the banking book has been allocated use systems of measuring risk that are based on interest rate sensitivity and credit spread sensitivity.

The Parent Bank's Risk Management Department has developed the following risk monitoring tools using the Kondor+ application:
- interest rate sensitivity: on changes in interest rates, the system calculates the change in the net present value of the portfolio based on set rate scenarios, usually +/- 100 bps, applied to the various Euribor/swap curves for each currency;
- credit spread sensitivity: as regards bonds, in addition to the sensitivity mentioned above, the change in net present value is also measured by applying a shift of +/- 25bps to the euribor/swap discount curve. As regards floating rate securities the curve with which the forward rates are estimated remains unchanged.

2.1 Interest rate risk and price risk - regulatory trading book

Qualitative information

A. General aspects

A.1 Sources of interest rate risk

The Bank's main activities giving rise to interest rate risk are:

- management of the bond and government security portfolio;
- transactions in interest rate derivatives, both on regulated markets (e.g. Euribor futures) and over the counter, mainly interest rate swaps, overnight interest swaps, forward rate agreements.

A.2 Sources of price risk and objectives and strategies underlying trading assets

The "price risk" is mainly generated by positions in derivatives of the "portable alpha" type, in portfolio with a notional value of around 60 million euro.
The aim of these derivatives is to benefit from the outperformance achieved by a portfolio manager with respect to a reference index (equity indices and/or credit indices).
This strategy is also with a view to long-term investment, the objective being to generate returns that are not related to market trends or volatility.

A.3 Objectives and strategies underlying trading activity

As pointed out in the section on organisational aspects, management of the securities portfolio is based on the following operating strategies:

a) support for the activities of the commercial networks in the form of funding repurchase agreements and, for the rest, support for secondary market activities on behalf of customers (the so-called "baskets").
b) cash management, by investing in government securities and/or securities of primary banking issuers, in order to have "easily negotiable assets" or those that are considered "eligible assets" for refinancing transactions with the Central Bank;
c) investment based on a logic of asset allocation with a view to obtaining a constant margin of contribution over time by investing in secureties issuedd by issuers with a good credit standing (i.e. "investment grade).

As regards operations in interest rate derivatives, this is largely handled as support for the banking book. This includes proprietary positions taken on by trading in interest rate derivatives to reduce the variability of the interest margin on the banking book or in the derivatives taken out specifically to hedge portfolio securities.

Lastly, over-the-counter (OTC) derivative brokerage is performed for customers, but exclusively in the form of balanced trades, i.e. without keeping position books open.

B. Management processes and methods of measuring interest rate risk and price risk

B.1 Internal processes for managing and controlling interest rate risk

Reference should be made to the section entitled "General common aspects of the market risk management processes adopted by the BPM Group".

B. 2 Internal processes for managing and controlling price risk

The current system of operating limits gives the Finance Director an operating mandate of 200 million euro, as a portfolio limit for portable alphas.

B.3 Methods used to analyse sensitivity to interest rate risk

Reference should be made to the section entitled "General common aspects of the market risk management processes adopted by the BPM Group".

B.4 Methods used for the analysis of price risk

The Bank monitors the risk of the portfolio subject to price risk by analysing performance at individual position level. In addition to the position limit, there is also stop-loss to put an annual limit on the maximum loss that can be incurred.

Quantitative information

1. Regulatory trading book: distribution by residual duration (repricing date) of the financial assets and liabilities in cash and financial derivatives - Summary table

Type/residual duration	Sight	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**–**	**47,759**	**2,662**	**10,731**	**–**	**171**	**1,415**	**–**
1.1 Debt securities	–	47,759	2,662	10,731	–	171	1,415	–
– with early redemption option	–	–	–	–	–	–	–	–
– other	–	47,759	2,662	10,731	–	171	1,415	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. Cash liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**12,723,209**	**3,385,088**	**2,886,317**	**3,148,636**	**1,109,440**	**985,744**	**–**
3.1 With underlying security	–	5,658,155	1,786,597	2,357,205	36,279	–	–	–
– options	–	1,843	104	15,807	28,182	–	–	–
+ long positions	–	915	52	7,894	–	–	–	–
+ short positions	–	928	52	7,913	28,182	–	–	–
– other derivatives	–	5,656,312	1,786,493	2,341,398	8,097	–	–	–
+ long positions	–	2,828,275	957,680	1,171,894	4,120	–	–	–
+ short positions	–	2,828,037	828,813	1,169,504	3,977	–	–	–
3.2 Without underlying security	–	7,065,054	1,598,491	529,112	3,112,357	1,109,440	985,744	–
– options	–	363,405	35,500	4,286	282,791	57,266	93,048	–
+ long positions	–	171,114	17,750	2,143	158,069	28,633	40,439	–
+ short positions	–	192,291	17,750	2,143	124,722	28,633	52,609	–
– other derivatives	–	6,701,649	1,562,991	524,826	2,829,566	1,052,174	892,696	–
+ long positions	–	3,078,168	601,463	166,779	1,879,714	576,587	446,348	–
+ short positions	–	3,623,481	961,528	358,047	949,852	475,587	446,348	–

1. Regulatory trading book: distribution by residual duration (repricing date) of the financial assets and liabilities in cash and financial derivatives - Summary table

Currency: Euro

Type/residual duration	Sight	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**–**	**47,759**	**2,662**	**10,731**	**–**	**–**	**10**	**–**
1.1 Debt securities	–	47,759	2,662	10,731	–	–	10	–
– with early redemption option	–	–	–	–	–	–	–	–
– other	–	47,759	2,662	10,731	–	–	10	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. Cash liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**9,526,479**	**2,378,179**	**1,681,511**	**3,125,253**	**1,109,440**	**974,090**	**–**
3.1 With underlying security	–	3,081,225	915,343	1,181,600	32,286	–	–	–
– options	–	928	52	7,914	28,182	–	–	–
+ long positions	–	464	26	3,957	–	–	–	–
+ short positions	–	464	26	3,957	28,182	–	–	–
– other derivatives	–	3,080,297	915,291	1,173,686	4,104	–	–	–
+ long positions	–	1,292,293	514,048	660,424	3,712	–	–	–
+ short positions	–	1,788,004	401,243	513,262	392	–	–	–
3.2 Without underlying security	–	6,445,254	1,462,836	499,911	3,092,967	1,109,440	974,090	–
– options	–	363,405	35,500	4,286	282,791	57,266	93,048	–
+ long positions	–	171,114	17,750	2,143	158,069	28,633	40,439	–
+ short positions	–	192,291	17,750	2,143	124,722	28,633	52,609	–
– other derivatives	–	6,081,849	1,427,336	495,625	2,810,176	1,052,174	881,042	–
+ long positions	–	2,692,243	567,383	149,226	1,868,430	576,587	440,521	–
+ short positions	–	3,389,606	859,953	346,399	941,746	475,587	440,521	–

1. Regulatory trading book: distribution by residual duration (repricing date) of the financial assets and liabilities in cash and financial derivatives - Summary table

Currency: US Dollars

Type/residual duration	Sight	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**–**	**–**	**–**	**–**	**–**	**171**	**1,405**	**–**
1.1 Debt securities	–	–	–	–	–	171	1,405	–
– with early redemption option	–	–	–	–	–	–	–	–
– other	–	–	–	–	–	171	1,405	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. Cash liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**2,958,479**	**892,607**	**1,186,581**	**11,729**	**–**	**–**	**–**
3.1 With underlying security	–	2,515,733	815,305	1,166,061	3,993	–	–	–
– options	–	519	52	7,893	–	–	–	–
+ long positions	–	257	26	3,937	–	–	–	–
+ short positions	–	262	26	3,956	–	–	–	–
– other derivatives	–	2,515,214	815,253	1,158,168	3,993	–	–	–
+ long positions	–	1,504,807	403,753	509,255	408	–	–	–
+ short positions	–	1,010,407	411,500	648,913	3,585	–	–	–
3.2 Without underlying security	–	442,746	77,302	20,520	7,736	–	–	–
– options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
– other derivatives	–	442,746	77,302	20,520	7,736	–	–	–
+ long positions	–	330,845	16,807	10,655	5,457	–	–	–
+ short positions	–	111,901	60,495	9,865	2,279	–	–	–

1. Regulatory trading book: distribution by residual duration (repricing date) of the financial assets and liabilities in cash and financial derivatives - Summary table

Currency: Pounds Sterling

Type/residual duration	Sight	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Debt securities	–	–	–	–	–	–	–	–
– with early redemption option	–	–	–	–	–	–	–	–
– other	–	–	–	–	–	–	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. Cash liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**105,362**	**88,520**	**14,121**	**–**	**–**	**–**	**–**
3.1 With underlying security	–	21,174	40,148	7,167	–	–	–	–
– options	–	396	–	–	–	–	–	–
+ long positions	–	194	–	–	–	–	–	–
+ short positions	–	202	–	–	–	–	–	–
– other derivatives	–	20,778	40,148	7,167	–	–	–	–
+ long positions	–	11,635	29,481	163	–	–	–	–
+ short positions	–	9,143	10,667	7,004	–	–	–	–
3.2 Without underlying security	–	84,188	48,372	6,954	–	–	–	–
– options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
– other derivatives	–	84,188	48,372	6,954	–	–	–	–
+ long positions	–	40,655	14,780	6,898	–	–	–	–
+ short positions	–	43,533	33,592	56	–	–	–	–

1. Regulatory trading book: distribution by residual duration (repricing date) of the financial assets and liabilities in cash and financial derivatives - Summary table

Currency: Swiss Francs

Type/residual duration	Sight	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Debt securities	–	–	–	–	–	–	–	–
– with early redemption option	–	–	–	–	–	–	–	–
– other	–	–	–	–	–	–	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. Cash liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**3,579**	**–**	**2,000**	**11,654**	**–**	**11,654**	**–**
3.1 With underlying security	–	608	–	1,000	–	–	–	–
– options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
– other derivatives	–	608	–	1,000	–	–	–	–
+ long positions	–	608	–	1,000	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	2,971	–	1,000	11,654	–	11,654	–
– options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
– other derivatives	–	2,971	–	1,000	11,654	–	11,654	–
+ long positions	–	121	–	–	5,827	–	5,827	–
+ short positions	–	2,850	–	1,000	5,827	–	5,827	–

1. Regulatory trading book: distribution by residual duration (repricing date) of the financial assets and liabilities in cash and financial derivatives - Summary table

Currency: Yen

Type/residual duration	Sight	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Debt securities	–	–	–	–	–	–	–	–
– with early redemption option	–	–	–	–	–	–	–	–
– other	–	–	–	–	–	–	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. Cash liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**66,137**	**2,128**	**276**	**–**	**–**	**–**	**–**
3.1 With underlying security	–	1,052	1,064	276	–	–	–	–
– options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
– other derivatives	–	1,052	1,064	276	–	–	–	–
+ long positions	–	1,052	987	138	–	–	–	–
+ short positions	–	–	77	138	–	–	–	–
3.2 Without underlying security	–	65,085	1,064	–	–	–	–	–
– options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
– other derivatives	–	65,085	1,064	–	–	–	–	–
+ long positions	–	607	77	–	–	–	–	–
+ short positions	–	64,478	987	–	–	–	–	–

1. Regulatory trading book: distribution by residual duration (repricing date) of the financial assets and liabilities in cash and financial derivatives - Summary table

Currency: Canadian Dollars

Type/residual duration	Sight	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Debt securities	–	–	–	–	–	–	–	–
– with early redemption option	–	–	–	–	–	–	–	–
– other	–	–	–	–	–	–	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. Cash liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**1,643**	**760**	**–**	**–**	**–**	**–**	**–**
3.1 With underlying security	–	1,248	760	–	–	–	–	–
– options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
– other derivatives	–	1,248	760	–	–	–	–	–
+ long positions	–	624	380	–	–	–	–	–
+ short positions	–	624	380	–	–	–	–	–
3.2 Without underlying security	–	395	–	–	–	–	–	–
– options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
– other derivatives	–	395	–	–	–	–	–	–
+ long positions	–	197	–	–	–	–	–	–
+ short positions	–	198	–	–	–	–	–	–

1. Regulatory trading book: distribution by residual duration (repricing date) of the financial assets and liabilities in cash and financial derivatives - Summary table

Currency: Other currencies

Type/residual duration	Sight	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Debt securities	–	–	–	–	–	–	–	–
– with early redemption option	–	–	–	–	–	–	–	–
– other	–	–	–	–	–	–	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. Cash liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**61,530**	**22,894**	**1,828**	**–**	**–**	**–**	**–**
3.1 With underlying security	–	37,115	13,977	1,101	–	–	–	–
– options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
– other derivatives	–	37,115	13,977	1,101	–	–	–	–
+ long positions	–	17,256	9,031	914	–	–	–	–
+ short positions	–	19,859	4,946	187	–	–	–	–
3.2 Without underlying security	–	24,415	8,917	727	–	–	–	–
– options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
– other derivatives	–	24,415	8,917	727	–	–	–	–
+ long positions	–	13,500	2,416	–	–	–	–	–
+ short positions	–	10,915	6,501	727	–	–	–	–

2. Regulatory trading book: distribution of exposures in equities and equity indices for the main countries of the listing market

Type of transactions/ Quotation index	Listed							Unlisted
	Italy	France	Great Britain	Holland	Spain	USA	Germany	
A. Equities	6	–	–	–	–	–	–	1
– long positions	6	–	–	–	–	–	–	1
– short positions	–	–	–	–	–	–	–	–
B. Purchases/sales of equities not yet settled	–	–	–	–	–	–	–	–
– long positions	–	–	–	–	–	–	–	–
– short positions	–		–	–	–	–	–	–
C. Other derivatives on equities	–	–	–	–	–	–	–	28,182
– long positions	–	–	–	–	–	–	–	28,182
– short positions	–	–	–	–	–	–	–	–
D. Derivatives on equity indices	–	–	–	–	–	–	–	–
– long positions	–	–	–	–	–	–	–	–
– short positions	–	–	–	–	–	–	–	–

Line item B. "Purchases/sales of equities not yet settled" relate to purchase and sale transactions, stipulated but not yet settled at the date of preparation of the financial statements shown at fair value.

3. Regulatory trading book - internal models and other methodologies used for sensitivity analysis

The description of exposure to interest rate risk of the Parent Bank also includes the bond portfolio classified under securities at line items 30 (financial assets designated at fair value through profit and loss) and 40 (financial assets available for sale) in the balance sheet which, even though they form part of the banking book for supervisory reporting purposes, is treated as part of the risks of the trading book as they share risk measurement systems and operational responsibility.

As regards the securities that form part of the financial assets available for sale, which represent the bulk of the Bank's bond portfolio, the average weighted duration at the end of 2010 comes to 3.6 years.

As regards the sensitivity of BPM's securities portfolio to a uniform shift in the interest rate curve of one percentage point, at the end of the period the impact was of -153.1 million Euro in the event of an increase in interest rates. This is up compared with the end of 2009, when the sensitivity impact was of -15.8 million euro.
The following table shows the sensitivity trend during the course of 2010.

BPM - Sensitivity of the fair value of the securities portfolio to changes in interest rates

Total securities + hedging swaps (in millions of Euro)

Change in rates	31 December 2010	Average	Min	Max	31 December 2009
+100 bps	–153.1	–72.0	–173.8	–16.6	–15.8
–100 bps	160.7	75.7	18	182.5	17.0

The increase in the figure for sensitivity is justified by the effect of the significant purchase of Italian government securities (BTPs in particular), for the purpose of stabilising interest margin and creating a liquidity buffer.

The sensitivity of the portfolio of interest rate derivatives (to mitigate the variability of the interest margin of the banking book) at the end of 2010, based on a parallel shift in the rate curve of +/- 100 basis points, shows a sensitivity of -20.8 million Euro in the case of a rate increase and of 21.4 million Euro in the case of a decrease of 100 basis points in the rate curve.

BPM - Sensitivity of the fair value of the derivatives portfolio to changes in interest rates

Total securities + hedging swaps (in millions of Euro)

Change in rates	31 December 2010	Average	Min	Max	31 December 2009
+100 bps	–20.8	–18.3	–25.6	–12.1	–39.4
–100 bps	21.4	18.8	12.3	28.7	39.8

The following table shows the trend in the overall sensitivity of the securities and derivatives portfolio during 2010.

BPM - Total sensitivity of the fair value of the securities derivatives portfolio to changes in interest rates (in millions of Euro)

Change in rates	31 December 2010	Average	Min	Max	31 December 2009
+100 bps	–173.9	–90.3	–199.4	–28.8	–55.2
–100 bps	182.1	94.6	30.2	211.1	56.9

The effects on the principal income statement and balance sheet aggregates of a change of +/-100 b.p. The effects on shareholders' equity are generated by debt securities classified under financial assets available for sale, shown in the balance sheet at 4,353.8 million euro.

BPM - Effect of a+/-100 change in the rate curve on: (milioni di euro)

Rate change	Net interest and other banking income	Shareholders' equity	Result for the year
+100 bps	–3.1	–149.9	Same effect as that on net interest and other banking income net of the related tax effect
–100 bps	3.3	157.4	

As regards credit spread sensitivity, given a 25 bps increase in credit spreads, the potential change in the value of the portfolio is around -60.2 million euro.

The following table shows the trend during the year in credit spread sensitivity given changes in credit default spreads of +/- 25 b.p.

BPM - Sensitivity of the portfolio with changes in credit spread (milioni di euro)

Widening of credit spreads	Credit Spread Sensitivity				
	31 December 2010	Average	Min	Max	31 December 2009
+25 bps	–60.2	–30.3	–68.3	–11.2	–16.8
–25 bps	61.4	30.8	11.3	69.7	17.1

BPM - Effects of a +/-25 bps change in credit spreads on:			(in millions of Euro)
Widening of credit spreads	**Net interest and other banking income**	**Shareholders' equity**	**Result for the year**
+25 bps	–1.3	–58.9	Same effect as that on net interest and other banking income net of the related tax effect
–25 bps	1.2	60.2	

The trend in credit spreads saw a widening during the course of 2010 compared with the end of 2009, even if with a contraction in the second half of the year compared with the end of the first half. The iTraxx Europe index, which shows changes in the credit default spread (i.e. the premium/cost to take on/hedge credit risk) on a basket of 125 "entities" or European issues among the more liquid at the time and with an investment grade rating (at least BBB-/Baa3 and with an outlook of at least stable), narrowed by some 31 bps, going from 73.6 at the end of 2009 to 104.95 bps at the end of 2010.

The iTraxx Europe Crossover index, which is made up of non-investment grade borrowers, so with ratings below BBB-/Baa3 and a negative outlook, closed 2010 in line with its level at the beginning of the year (437.5 bps at 31.12.2010 versus 431.8 bps at 1.1.2010), even if with a considerable increase in the first nine months of the year which was reabsorbed in the fourth quarter.

2.2 Interest rate risk and price risk – Banking book

Qualitative information

A. General aspects, management processes and methods of measuring interest rate risk and price risk

A.1 Sources of interest rate risk and price risk

Interest rate risk of the banking book arises from:

a. assets and liabilities generated by treasury activities and so includes interbank deposits given and received(discretionary interest rate risk);
b. investments in bonds classified under line item 30 "Financial assets designated at fair value through profit and loss" and line item 40 "Financial assets available for sale", whose risk has been examined as part of the trading book;
c. maturity transformation activities related to commercial operations (so-called "structural risk"). This risk is defined as being structural because generated indirectly by the funding and lending policies of the Group's commercial banks. On the other hand, like the risk explained in the previous two points, the risk taken on by the trading book is considered discretional in nature because it is taken on voluntarily.

The price risk of the banking book is generated by equities and by mutual fund units, classified under line items "30. Financial assets designated at fair value through profit and loss", "40. Financial assets available for sale" and "100. Investments in associates and companies subject to joint control". Operations involving mutual fund units come under the responsibility of the Finance Manager, who has been delegated powers that include a portfolio ceiling and an annual stop loss).

A.2 Internal management processes and methods of measuring interest rate risk and price risk

General aspects

The system of managing and controlling the interest rate risk of the banking book is centralised at the Parent Bank, both for risk management and the related hedging and as regards monitoring and controlling the operating limits.
In particular, it is up to the Parent Bank to manage the interest rate risk of the banking book and the related hedging for all entities of the BPM Group. Responsibility for the management of interest rate risk and hedging is concentrated in the ALM Committee for all Group entities.
The trading portfolio is outwith the perimeter as it is managed by Banca Akros.

Operational management of ALM is performed by a desk in the Finance Department devoted to managing structural interest rate risk, which is delegated to the ALM Committee to perform the hedging according to the set guidelines.

Since 2009 there is an hedge accounting policy, prepared by the Parent Company, which also includes:

- the preparation of a method document on the accounting aspects of managing hedges according to the rules of hedge accounting;

- definition of the organisational processes for managing hedges, with particular reference to the identification of the players who are involved, the definition of their roles and responsibilities, a description of their activities and mapping of the operating processes.

As regards price risk, operations involving mutual fund units come under the responsibility of the Finance Manager, who has been delegated powers that include a portfolio ceiling and an annual stop loss.

A.2.1 Methodologies used for sensitivity analysis of interest rate risk and price risk

As regards the methodological aspects, monitoring the banking book's interest rate risk is based on traditional asset and liability management tools, namely:

- analysis of the gap, positioning assets and liabilities in the time bands for their maturity and/or repricing;
- analysis of interest margin, to quantify the impact on interest margin of applying deterministic shifts of +/- 100 bps to the interest rate curve;
- analysis of the economic value that through duration gap techniques quantifies the impact of a predetermined shift in the interest curve on the fair value of assets and liabilities;
- a liquidity analysis to check the short/medium-term liquidity trend.

Starting from the end of 2007, the BPM Group has equipped itself with a new model for evaluating sight items or "core deposits", whose typical stability and partial lack of sensitivity to changes in interest rates have been identified with a statistical/predictive model, which takes into account a significant historical series of customer behaviours.
This modelling has been carried out by analysing BPM's volumes and rates during the period January 2001 – December 2006, with a view to establishing:

- the effective level of indexing of interest rates, identifying what part of sight items behaves like a fixed rate item and what part behaves like a floating rate item;
- the high continuity of the aggregates making them similar to medium/long-term assets/liabilities.

Two different economic models have therefore been developed:

- an interest rate analysis model, which identifies a repricing rule measuring the rate reaction of deposits to changes in market reference interest rates;
- a volume analysis model, which describes a continuity profile of the amounts on deposit so as to establish the historical trend in the evolution of such aggregates and identify the volatile ("non-core") element and the stable ("core") element.

Monitoring price risk takes place by analysing the trend in individual positions.

B. Fair value hedging

The fair value hedges are currently limited to nine micro fair value hedges carried out through interest rate swaps (fixed rate for floating rate).

The hedging strategy is designed to minimise the duration of banking book assets and liabilities.

C. Cash flow hedging

According to the IFRS rules, the BPM Group does not have any cash flow hedges.

However, it does have derivatives that are connected with the issue of structured securities placed with retail customers. The coupon on these issues is entirely or partly linked to the appreciation of a series of parameters, such as share prices, stockmarket indices, interest rates, commodity prices, inflation rates etc.

In most cases, an interest rate swap is taken out that involves receiving the same amount of coupon as payable to investors in the structured security, and paying out a floating-rate interest linked to euribor plus or minus a specified spread.

The cost of the structured issue is therefore represented by the Euribor rate (usually 6-month Euribor) plus or minus a certain spread.

D. Hedging of foreign investments

At 31 December 2010 BPM did not have any transactions outstanding to hedge foreign investments.

Quantitative information

1. Banking book: distribution by residual duration (repricing date) of financial assets and liabilities Summary table

Type/residual duration	Sight	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**13,435,373**	**11,510,398**	**3,653,167**	**885,511**	**4,489,123**	**1,394,832**	**1,237,442**	**–**
1.1 Debt securities	197,018	102,093	616,391	255,460	2,991,290	293,371	280,256	–
- with early redemption option	–	–	–	–	–	–	–	–
- other	197,018	102,093	616,391	255,460	2,991,290	293,371	280,256	–
1.2 Loans to banks	652,898	1,263,409	94,611	–	–	1,625	–	–
1.3 Loans to customers	12,585,457	10,144,896	2,942,165	630,051	1,497,833	1,099,836	957,186	–
- on current account	4,121,699	–	–	–	–	71,805	–	–
- other loans	8,463,758	10,144,896	2,942,165	630,051	1,497,833	1,028,031	957,186	–
- with early redemption option	1,335,132	5,748,542	1,695,162	527,799	1,429,963	735,756	952,291	–
- other	7,128,626	4,396,354	1,247,003	102,252	67,870	292,275	4,895	–
2. Cash liabilities	**20,000,416**	**8,980,427**	**2,275,956**	**1,683,496**	**1,825,599**	**1,687,727**	**–**	**–**
2.1 Due to customers	17,250,347	474,506	114,670	6,818	517	–	–	–
- on current account	16,165,050	–	–	–	–	–	–	–
- other payables	1,085,297	474,506	114,670	6,818	517	–	–	–
- with early redemption option	–	–	–	–	–	–	–	–
- other	1,085,297	474,506	114,670	6,818	517	–	–	–
2.2 Due to banks	2,746,417	4,017,298	1,101,374	12,026	–	–	–	–
- on current account	44,842	–	–	–	–	–	–	–
- other payables	2,701,575	4,017,298	1,101,374	12,026	–	–	–	–
2.3 Debt securities	3,652	4,488,623	1,059,912	1,664,652	1,825,082	1,687,727	–	–
- with early redemption option	–	–	–	–	–	–	–	–
- other	3,652	4,488,623	1,059,912	1,664,652	1,825,082	1,687,727	–	–
2.4 Other liabilities	–	–	–	–	–	–	–	–
- with early redemption option	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
3. Financial derivatives	**203,986**	**446,552**	**508,011**	**2,417,412**	**1,749,036**	**1,150,000**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
- other derivatives	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	203,986	446,552	508,011	2,417,412	1,749,036	1,150,000	–	–
- options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
- other derivatives	203,986	446,552	508,011	2,417,412	1,749,036	1,150,000	–	–
+ long positions	101,993	131,651	242,261	17,412	1,644,181	1,100,000	–	–
+ short positions	101,993	314,901	265,750	2,400,000	104,855	50,000	–	–

Sub-item "1.2 Loans to banks" includes the amount related to the Compulsory Reserve.

1. Banking book: distribution by residual duration (repricing date) of financial assets and liabilities
Summary table

Currency: Euro

Type/residual duration	Sight	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**13,425,738**	**11,039,821**	**3,625,522**	**883,529**	**4,489,123**	**1,393,207**	**1,237,442**	**–**
1.1 Debt securities	197,018	102,093	616,391	255,460	2,991,290	293,371	280,256	–
- with early redemption option	–	–	–	–	–	–	–	–
- other	197,018	102,093	616,391	255,460	2,991,290	293,371	280,256	–
1.2 Loans to banks	646,535	1,132,257	94,611	–	–	–	–	–
1.3 Loans to customers	12,582,185	9,805,471	2,914,520	628,069	1,497,833	1,099,836	957,186	–
- on current account	4,119,700	–	–	–	–	71,805	–	–
- other loans	8,462,485	9,805,471	2,914,520	628,069	1,497,833	1,028,031	957,186	–
- with early redemption option	1,335,132	5,748,542	1,695,162	527,799	1,429,963	735,756	952,291	–
- other	7,127,353	4,056,929	1,219,358	100,270	67,870	292,275	4,895	–
2. Cash liabilities	**19,888,480**	**8,143,903**	**2,214,282**	**1,683,496**	**1,825,599**	**1,687,727**	**–**	**–**
2.1 Due to customers	17,140,057	474,506	114,670	6,818	517	–	–	–
- on current account	16,054,760	–	–	–	–	–	–	–
- other payables	1,085,297	474,506	114,670	6,818	517	–	–	–
- with early redemption option	–	–	–	–	–	–	–	–
- other	1,085,297	474,506	114,670	6,818	517	–	–	–
2.2 Due to banks	2,744,771	3,181,051	1,041,413	12,026	–	–	–	–
- on current account	43,196	–	–	–	–	–	–	–
- other payables	2,701,575	3,181,051	1,041,413	12,026	–	–	–	–
2.3 Debt securities	3,652	4,488,346	1,058,199	1,664,652	1,825,082	1,687,727	–	–
- with early redemption option	–	–	–	–	–	–	–	–
- other	3,652	4,488,346	1,058,199	1,664,652	1,825,082	1,687,727	–	–
2.4 Other liabilities	–	–	–	–	–	–	–	–
- with early redemption option	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
3. Financial derivatives	**203,986**	**446,552**	**508,011**	**2,417,412**	**1,749,036**	**1,150,000**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
- other derivatives	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	203,986	446,552	508,011	2,417,412	1,749,036	1,150,000	–	–
- options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
- other derivatives	203,986	446,552	508,011	2,417,412	1,749,036	1,150,000	–	–
+ long positions	101,993	131,651	242,261	17,412	1,644,181	1,100,000	–	–
+ short positions	101,993	314,901	265,750	2,400,000	104,855	50,000	–	–

1. Banking book: distribution by residual duration (repricing date) of financial assets and liabilities Summary table

Currency: US Dollars

Type/residual duration	Sight	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**3,256**	**305,997**	**26,567**	**1,929**	**–**	**1,625**	**–**	**–**
1.1 Debt securities	–	–	–	–	–	–	–	–
- with early redemption option	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
1.2 Loans to banks	615	23,614	–	–	–	1,625	–	–
1.3 Loans to customers	2,641	282,383	26,567	1,929	–	–	–	–
- on current account	1,643	–	–	–	–	–	–	–
- other loans	998	282,383	26,567	1,929	–	–	–	–
- with early redemption option	–	–	–	–	–	–	–	–
- other	998	282,383	26,567	1,929	–	–	–	–
2. Cash liabilities	**99,474**	**721,687**	**61,613**	**–**	**–**	**–**	**–**	**–**
2.1 Due to customers	97,839	–	–	–	–	–	–	–
- on current account	97,839	–	–	–	–	–	–	–
- other payables	–	–	–	–	–	–	–	–
- with early redemption option	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
2.2 Due to banks	1,635	721,410	59,961	–	–	–	–	–
- on current account	1,635	–	–	–	–	–	–	–
- other payables	–	721,410	59,961	–	–	–	–	–
2.3 Debt securities	–	277	1,652	–	–	–	–	–
- with early redemption option	–	–	–	–	–	–	–	–
- other	–	277	1,652	–	–	–	–	–
2.4 Other liabilities	–	–	–	–	–	–	–	–
- with early redemption option	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
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	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–

1. Banking book: distribution by residual duration (repricing date) of financial assets and liabilities Summary table

Currency: Pounds Sterling

Type/residual duration	Sight	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**456**	**35,785**	**10**	**–**	**–**	**–**	**–**	**–**
1.1 Debt securities	–	–	–	–	–	–	–	–
- with early redemption option	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
1.2 Loans to banks	453	7,842	–	–	–	–	–	–
1.3 Loans to customers	3	27,943	10	–	–	–	–	–
- on current account	3	–	–	–	–	–	–	–
- other loans	–	27,943	10	–	–	–	–	–
- with early redemption option	–	–	–	–	–	–	–	–
- other	–	27,943	10	–	–	–	–	–
2. Cash liabilities	**6,250**	**31,485**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Due to customers	6,250	–	–	–	–	–	–	–
- on current account	6,250	–	–	–	–	–	–	–
- other payables	–	–	–	–	–	–	–	–
- with early redemption option	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
2.2 Due to banks	–	31,485	–	–	–	–	–	–
- on current account	–	–	–	–	–	–	–	–
- other payables	–	31,485	–	–	–	–	–	–
2.3 Debt securities	–	–	–	–	–	–	–	–
- with early redemption option	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
2.4 Other liabilities	–	–	–	–	–	–	–	–
- with early redemption option	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
- other derivatives	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	–	–	–	–	–	–	–
- options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
- other derivatives	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–

1. Banking book: distribution by residual duration (repricing date) of financial assets and liabilities
Summary table

Currency: Swiss Francs

Type/residual duration	Sight	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**308**	**49,044**	**39**	**–**	**–**	**–**	**–**	**–**
1.1 Debt securities	–	–	–	–	–	–	–	–
- with early redemption option	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
1.2 Loans to banks	306	22,633	–	–	–	–	–	–
1.3 Loans to customers	2	26,411	39	–	–	–	–	–
- on current account	2	–	–	–	–	–	–	–
- other loans	–	26,411	39	–	–	–	–	–
- with early redemption option	–	–	–	–	–	–	–	–
- other	–	26,411	39	–	–	–	–	–
2. Cash liabilities	**2,644**	**59,341**	**61**	**–**	**–**	**–**	**–**	**–**
2.1 Due to customers	2,633	–	–	–	–	–	–	–
- on current account	2,633	–	–	–	–	–	–	–
- other payables	–	–	–	–	–	–	–	–
- with early redemption option	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
2.2 Due to banks	11	59,341	–	–	–	–	–	–
- on current account	11	–	–	–	–	–	–	–
- other payables	–	59,341	–	–	–	–	–	–
2.3 Debt securities	–	–	61	–	–	–	–	–
- with early redemption option	–	–	–	–	–	–	–	–
- other	–	–	61	–	–	–	–	–
2.4 Other liabilities	–	–	–	–	–	–	–	–
- with early redemption option	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
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	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–

1. Banking book: distribution by residual duration (repricing date) of financial assets and liabilities Summary table

Currency: Yen

Type/residual duration	Sight	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**2,579**	**74,408**	**990**	**–**	**–**	**–**	**–**	**–**
1.1 Debt securities	–	–	–	–	–	–	–	–
- with early redemption option	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
1.2 Loans to banks	1,969	72,196	–	–	–	–	–	–
1.3 Loans to customers	610	2,212	990	–	–	–	–	–
- on current account	335	–	–	–	–	–	–	–
- other loans	275	2,212	990	–	–	–	–	–
- with early redemption option	–	–	–	–	–	–	–	–
- other	275	2,212	990	–	–	–	–	–
2. Cash liabilities	**628**	**16,107**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Due to customers	628	–	–	–	–	–	–	–
- on current account	628	–	–	–	–	–	–	–
- other payables	–	–	–	–	–	–	–	–
- with early redemption option	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
2.2 Due to banks	–	16,107	–	–	–	–	–	–
- on current account	–	–	–	–	–	–	–	–
- other payables	–	16,107	–	–	–	–	–	–
2.3 Debt securities	–	–	–	–	–	–	–	–
- with early redemption option	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
2.4 Other liabilities	–	–	–	–	–	–	–	–
- with early redemption option	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
- other derivatives	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	–	–	–	–	–	–	–
- options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
- other derivatives	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–

1. Banking book: distribution by residual duration (repricing date) of financial assets and liabilities Summary table

Currency: Canadian Dollars

Type/residual duration	Sight	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**213**	**363**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Debt securities	–	–	–	–	–	–	–	–
- with early redemption option	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
1.2 Loans to banks	213	300	–	–	–	–	–	–
1.3 Loans to customers	–	63	–	–	–	–	–	–
- on current account	–	–	–	–	–	–	–	–
- other loans	–	63	–	–	–	–	–	–
- with early redemption option	–	–	–	–	–	–	–	–
- other	–	63	–	–	–	–	–	–
2. Cash liabilities	**100**	**1,576**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Due to customers	100	–	–	–	–	–	–	–
- on current account	100	–	–	–	–	–	–	–
- other payables	–	–	–	–	–	–	–	–
- with early redemption option	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
2.2 Due to banks	–	1,576	–	–	–	–	–	–
- on current account	–	–	–	–	–	–	–	–
- other payables	–	1,576	–	–	–	–	–	–
2.3 Debt securities	–	–	–	–	–	–	–	–
- with early redemption option	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
2.4 Other liabilities	–	–	–	–	–	–	–	–
- with early redemption option	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
- other derivatives	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	–	–	–	–	–	–	–
- options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
- other derivatives	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–

1. Banking book: distribution by residual duration (repricing date) of financial assets and liabilities Summary table

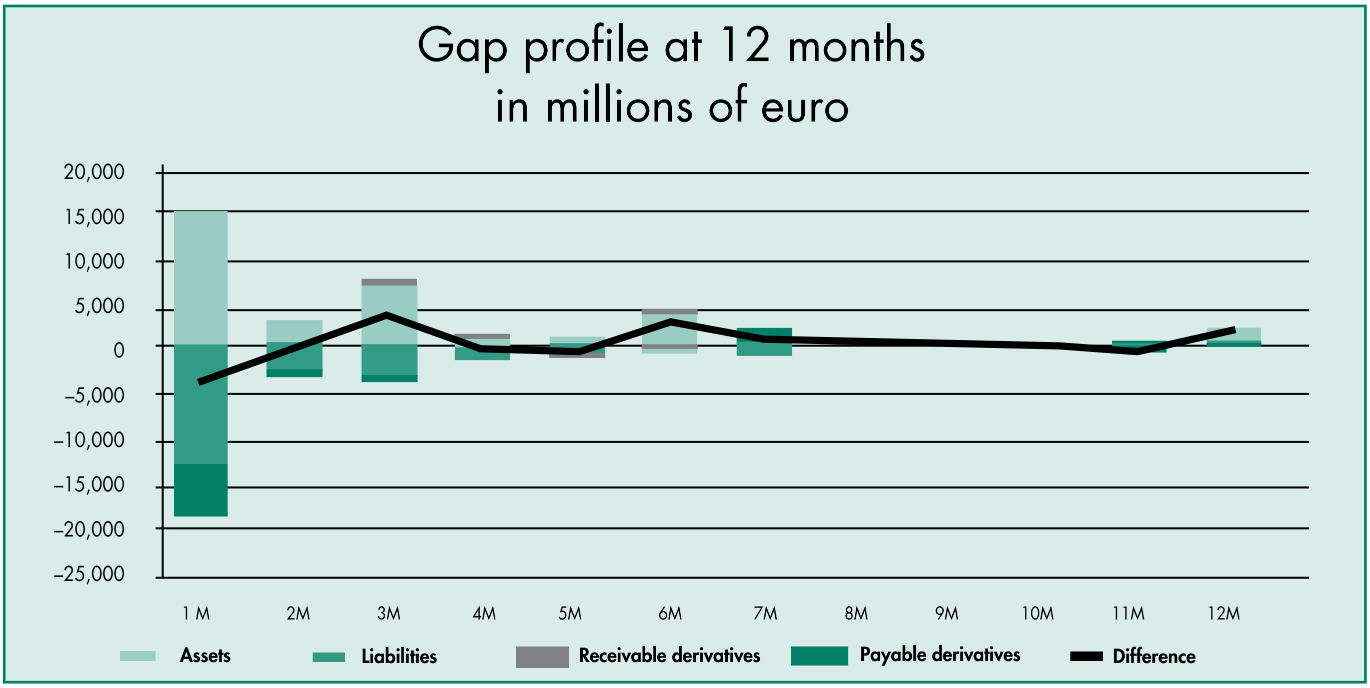
Currency: Other currencies

Type/residual duration	Sight	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**2,823**	**4,980**	**39**	**53**	**–**	**–**	**–**	**–**
1.1 Debt securities	–	–	–	–	–	–	–	–
- with early redemption option	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
1.2 Loans to banks	2,807	4,567	–	–	–	–	–	–
1.3 Loans to customers	16	413	39	53	–	–	–	–
- on current account	16	–	–	–	–	–	–	–
- other loans	–	413	39	53	–	–	–	–
- with early redemption option	–	–	–	–	–	–	–	–
- other	–	413	39	53	–	–	–	–
2. Cash liabilities	**2,840**	**6,328**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Due to customers	2,840	–	–	–	–	–	–	–
- on current account	2,840	–	–	–	–	–	–	–
- other payables	–	–	–	–	–	–	–	–
- with early redemption option	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
2.2 Due to banks	–	6,328	–	–	–	–	–	–
- on current account	–	–	–	–	–	–	–	–
- other payables	–	6,328	–	–	–	–	–	–
2.3 Debt securities	–	–	–	–	–	–	–	–
- with early redemption option	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
2.4 Other liabilities	–	–	–	–	–	–	–	–
- with early redemption option	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
- other derivatives	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	–	–	–	–	–	–	–
- options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
- other derivatives	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–

2. Banking book - internal models and other methodologies used for sensitivity analysis

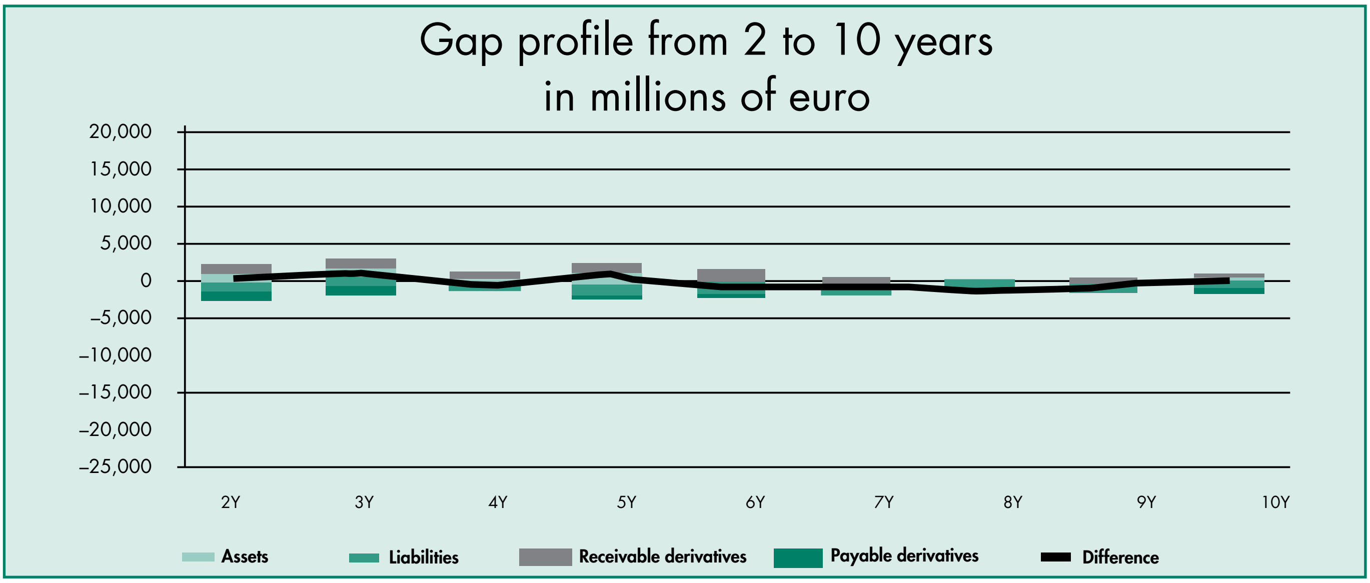
Based on the exposures at 31 December 2010, in the event of a +100 bps shift in the rate curve, the overall change in interest margin over the next 12 months would be +10 million euro, whereas in the event of a reduction of 100 bps, the change would be –18 million euro.
The level of sensitivity of interest margin is far lower than it was at the end of 2009, when it stood at +51.8 million Euro in the case of a parallel shift of +100 basis points on the rate curve, and at -60.9 million Euro in the case of a movement of –100 basis points.
Assets' contribution to interest margin did not suffer any major changes: as well as an increase in floating-rate mortgage loans (+1.5 billion euro), the largest increase concerned the purchase of BTPs (for some 3.2 billion euro) with maturities of up to 10 years, which raised the duration of the assets, but with a zero impact on the change in interest margin within the gapping period.
Liabilities, on the other hand, have seen a significant increase compared with December 2009 in short-term funding (amounts due to banks +5.6 billion euro); even though it is fixed-rate, by maturing beyond six months, according to the assumptions of the ALM system, it is immediately refinanced at the forward market rate up to the end of 12 months, thereby contribution to interest margin.
Therefore - compared with the end of 2009 - versus a shock of +100 basis points, the impact of the liabilities side makes the figures worse, as it lowers the delta of the total positive margin. On the other hand, versus a shock of -100 basis points, the impact of the liabilities side makes the figures better, as it lowers the delta of the total negative margin.
Moving on to analyse the exposure to interest rate risk, as can be seen from the following charts, at 31 December 2010 there was an exposure to interest risk that was concentrated mainly on the short-term segment of the curve (up to 6 months), in line with Group policy, which in matters of structural risk has always given preference to forms of lending and borrowing that would minimise volatility in the interest margin.
In this analysis, the fixed rate assets and liabilities are classified in time bands according to their residual life, whereas the floating rate items are allocated to the various time bands according to the renegotiation date of the interest rate. Renewals on maturity are not envisaged.
Sight assets and liabilities, as described in the method section, are allocated to the various time bands according to their theoretical maturity resulting from the modelling of their behaviour in terms of duration and reactivity to changes in interest rates.
In the one-month band, the gap between assets and liabilities is negative: on the liabilities side weigh the volatile component of customer current accounts (around 4 billion euro), restricted deposits for other banks nearing maturity (3 billion euro) and the EMTN bonds in refixing (around 1 billion euro), while on the assets side the items with the most impact are floating-rate mortgage loans in refixing (5 billion euro).
The gap becomes substantially flat at two months and then turns positive at three months because of the floating-rate mortgage loans in refixing (3 billion euro). The modelling of advances and bills subject to collection also have an impact on the one- to three-month bands (around 1.9 billion euro).
Repurchase agreements with banks (900 million euro) and bonds nearing maturity and in refixing (200 million euro) lead to small negative gaps on the four- and five-month bands.
The mismatch turns positive again in the six-month band led by floating-rate mortgage loans in refixing (1.4 billion euro) and by other amounts falling due not settled via current accounts (1.1 billion euro).
The mismatch is substantially flat in the time bands from seven to eleven months, subsequently turning positive again in the twelve-month band because of floating-rate mortgage loans with annual repayments in refixing (850 million euro) and stand-by loans to customers falling due (600 million euro).

mln euro



From an analysis of the gaps in the 2-10 year segment, there is a long position (negatively exposed to a decline in interest rates) up to 5 years and a short position (negatively exposed to a rise in interest rates) from 6 to 10 years.
The sign of the mismatch is significantly affected by derivatives, essentially for hedging purposes according to the rules on hedge accounting, and the portion of current account deposits that behave like medium/long-term liabilities because of the way the model is designed (7 billion Euro up to 10 years in the next chart). Because of the modelling, a part of these deposits is similar to fixed-rate items. This position is partially offset on the assets side where there are fixed-rate mortgage loans falling due for more than 2 billion euro, and BTPs purchased during 2010 for over 3 billion euro.
There are no significant gaps beyond 10 years.

mln euro



Price risk

The portfolio exposed to risk price at 31 December 2010 amounts to 780.3 million Euro and is made up of:

- mutual funds for 276.9 million euro, classified under item 30 "Financial assets designated at fair value through profit and loss";
- equities for 328.6 million Euro and mutual funds for 174.8 million euro, classified under item 40 "Financial assets available for sale".

As already mentioned in part A.3 "Fair value disclosures" in the "Accounting policies" section, equities and mutual funds included in this portfolio are instruments whose value depends on a variety of input data that are often not available with objective criteria, but rather require important estimates and assumptions that limit the possibility of using sensitivity analysis.

2.3 Exchange risk

Qualitative information

A. General aspects, management processes and methods of measuring exchange risk

The Parent Bank's forex operations are substantially limited to servicing the needs of the commercial functions.
Foreign exchange activities are limited to transactions involving currency gains (interest margin or commissions and fees collected in foreign currency) and foreign banknotes for the purchase and sale of currency by the branch network.
There is also a forex brokerage service for customers, but without keeping significant position books open.

A.1 Sources of exchange rate risk

The main sources of exchange rate risk are:

- loans and deposits in foreign currency with corporate and/or retail customers;
- purchases of securities and/or investments in associates and companies subject to joint control and other financial instruments in foreign currency;
- dealing in foreign notes;
- receipt and/or payment of interest, dividends, administrative expenses, etc.

A.2 Internal processes for managing and controlling exchange rate risk

The new system of operating limits allows the Finance Manager to hold an overnight currency position of 5 million Euro. Moreover, the sum of the absolute values of the open positions in all foreign currencies must not exceed the limits set, and periodically reviewed, by the Regulation for Financial Operations approved by the Board of Directors. There is also a stop loss of 1 million euro.
This position is monitored through Kondor+, a front-office application.

B. Exchange rate risk hedging

The exchange rate risk generated by loans and deposits on the banking books of the commercial banks and by investing in securities and/or investments in associates and companies subject to joint control is systematically hedged by carrying out funding (and/or lending) transactions in the same currency.
The forex position created by income flows in foreign currency (interest income/expense, fees and commissions) and foreign banknote transactions with customers tend to be hedged by carrying out forex transactions in the reverse direction.

Quantitative information

1. Distribution by currency of assets, liabilities and derivatives

Line items	Currency					
	US Dollars	Pounds Sterling	Yen	Canadian Dollars	Swiss Francs	Other Currencies
A. Financial assets	**340,257**	**36,252**	**77,977**	**577**	**49,390**	**7,895**
A.1 Debt securities	884	–	–	–	–	–
A.2 Equities	–	–	–	–	–	–
A.3 Loans to banks	25,853	8,295	74,165	513	22,939	7,374
A.4 Loans to customers	313,520	27,957	3,812	64	26,451	521
A.5 Other financial assets	–	–	–	–	–	–
B. Other assets	**5,378**	**6,449**	**1,543**	**1,098**	**4,496**	**1,560**
C. Financial liabilities	**882,774**	**37,736**	**16,735**	**1,676**	**62,048**	**9,168**
C.1 Due to banks	783,006	31,486	16,107	1,576	59,353	6,328
C.2 Due to customers	97,839	6,250	628	100	2,633	2,840
C.3 Debt securities	1,929	–	–	–	62	–
C.4 Other financial liabilities	–	–	–	–	–	–
D. Other liabilities	**–**	**–**	**–**	**–**	**–**	**–**
E. Financial derivatives	**4,987,665**	**208,004**	**68,542**	**2,402**	**5,578**	**86,253**
– options	8,464	396	–	–	–	–
+ Long positions	4,219	194	–	–	–	–
+ Short positions	4,245	202	–	–	–	–
– Other derivatives	4,979,201	207,607	68,542	2,402	5,578	86,253
+ Long positions	2,751,119	103,612	2,861	1,200	1,728	43,118
+ Short positions	2,228,082	103,995	65,681	1,202	3,850	43,135
Total assets	**3,100,973**	**146,507**	**82,381**	**2,875**	**55,614**	**52,573**
Total liabilities	**3,115,101**	**141,933**	**82,416**	**2,878**	**65,898**	**52,303**
Imbalance (+/–)	**–14,128**	**4,575**	**–35**	**–3**	**–10,284**	**270**

2. Internal models and other methodologies for the sensitivity analysis

BPM did not use internal sensitivity analysis models for exchange risk.
The Parent Bank's forex operations are substantially limited to servicing the needs of the commercial functions.
Moreover, in the supervisory reports filed in 2010 the capital requirements for exchange rate risk were always equal to zero as the net forex position was always below 2% of regulatory capital.

2.4 Derivatives

A. Financial derivatives

As regards OTC derivatives, leaving aside which portfolio they were held in, average notionals in 2010 came to 7,620,518 thousand Euro relating to interest rate swaps, 1,453,003 thousand Euro of cap/floor options, 105,066 thousand Euro of exchange rate options, 5,246 thousand Euro of options on debt securities and 124,683 thousand Euro of options on equities and indices.

A.1 Regulatory trading book: notional values at the end of period and average national values

Underlying assets/Type of derivatives	Total 31.12.2010		Total 31.12.2009	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**7,759,774**	**1,636,400**	**7,535,891**	**1,385,000**
a) Options	1,573,742	1,400,000	1,672,304	–
b) Swaps	6,186,032	–	5,863,587	–
c) Forward	–	–	–	–
d) Futures	–	236,400	–	1,385,000
e) Other	–	–	–	–
2. Equities and stock indices	**57,278**	**–**	**57,275**	**–**
a) Options	57,278	–	57,275	–
b) Swaps	–	–	–	–
c) Forward	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
3. Currency and gold	**5,049,339**	**–**	**3,085,404**	**–**
a) Options	95,542	–	43,663	–
b) Swaps	4,536,880	–	2,775,350	–
c) Forward	416,917	–	266,391	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
4. Goods	**–**	**–**	**–**	**–**
5. Other underlyings	**–**	**–**	**–**	**–**
Total	**12,866,391**	**1,636,400**	**10,678,570**	**1,385,000**

A.2 Banking book: notional values at the end of period and average notional values

A.2.1 hedging

Underlying assets/Type of derivatives	Total 31.12.2010		Total 31.12.2009	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**2,467,301**	**–**	**70,917**	**–**
a) Options	–	–	–	–
b) Swaps	2,467,301	–	70,917	–
c) Forward	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
2. Equities and stock indices	**–**	**–**	**–**	**–**
a) Options	–	–	–	–
b) Swaps	–	–	–	–
c) Forward	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
3. Currency and gold	**–**	**–**	**40,705**	**–**
a) Options	–	–	–	–
b) Swaps	–	–	40,705	–
c) Forward	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
4. Goods	**–**	**–**	**–**	**–**
5. Other underlyings	**–**	**–**	**–**	**–**
Total	**2,467,301**	**–**	**111,622**	**–**

A.2.2 Other derivatives

Underlying assets/Type of derivatives	Total 31.12.2010		Total 31.12.2009	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**668,205**	**–**	**1,398,542**	**–**
a) Options	–	–	–	–
b) Swaps	668,205	–	1,398,542	–
c) Forward	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
2. Equities and stock indices	**–**	**–**	**85,544**	**–**
a) Options	–	–	85,544	–
b) Swaps	–	–	–	–
c) Forward	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
3. Currency and gold	**–**	**–**	**–**	**–**
a) Options	–	–	–	–
b) Swaps	–	–	–	–
c) Forward	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
4. Goods	**–**	**–**	**–**	**–**
5. Other underlyings	**–**	**–**	**–**	**–**
Total	**668,205**	**–**	**1,484,086**	**–**

A.3 Financial derivatives: positive gross fair value – breakdown by products

Portfolio/Type of derivatives	Positive fair value			
	Total 31.12.2010		Total 31.12.2009	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	**228,813**	**–**	**192,933**	**–**
a) Options	30,376	–	33,559	–
b) Interest rate swaps	112,335	–	116,745	–
c) Cross-currency swaps	80,294	–	38,657	–
d) Equity swaps	–	–	–	–
e) Forward	5,808	–	3,972	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
B. Banking book - hedging	**6,507**	**–**	**9,883**	**–**
a) Options	–	–	–	–
b) Interest rate swaps	6,507	–	–	–
c) Cross-currency swaps	–	–	9,883	–
d) Equity swaps	–	–	–	–
e) Forward	–	–	–	–
f Futures	–	–	–	–
g) Other	–	–	–	–
C. Banking book – other derivatives	**9,464**	**–**	**21,862**	**–**
a) Options	–	–	1,390	–
b) Interest rate swaps	9,464	–	20,472	–
c) Cross-currency swaps	–	–	–	–
d) Equity swaps	–	–	–	–
e) Forward	–	–	–	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
Total	**244,784**	**–**	**224,678**	**–**

A.4 Financial derivatives: negative gross fair value – breakdown by products

Portfolio/Type of derivatives	Negative fair value			
	Total 31.12.2010		Total 31.12.2009	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	**226,847**	**–**	**160,009**	**–**
a) Options	40,355	–	12,243	–
b) Interest rate swaps	98,175	–	100,353	–
c) Cross-currency swaps	82,085	–	42,181	–
d) Equity swaps	–	–	–	–
e) Forward	6,232	–	5,232	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
B. Banking book - hedging	**30,933**	**–**	**2,779**	**–**
a) Options	–	–	–	–
b) Interest rate swaps	30,933	–	2,779	–
c) Cross-currency swaps	–	–	–	–
d) Equity swaps	–	–	–	–
e) Forward	–	–	–	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
C. Banking book – other derivatives	**11,686**	**–**	**15,695**	**–**
a) Options	–	–	2,603	–
b) Interest rate swaps	11,686	–	13,092	–
c) Cross-currency swaps	–	–	–	–
d) Equity swaps	–	–	–	–
e) Forward	–	–	–	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
Total	**269,466**	**–**	**178,483**	**–**

A.5 OTC financial derivatives – Regulatory trading book: notional values, positive and negative gross fair values by counterparty – contracts that do not form part of compensation agreements

Contracts that do not form part of compensation agreements	Government and Central Banks	Other public entities	Banks	Finance sector companies	Insurance companies	Non financial companies	Other parties
1) On debt securities and interest rates							
– notional value	–	480,817	5,029,099	625,698	62,951	1,396,297	164,911
– positive fair value	–	2,876	74,397	7,848	–	39,127	3,422
– negative fair value	–	–11,038	–90,507	–1,322	–26,054	–3,715	–4,698
– future exposure	–	4,393	31,331	2,907	–	8,755	744
2) Equities and stock indices							
– notional value	–	–	–	56,333	–	945	–
– positive fair value	–	–	–	13,450	–	396	–
– negative fair value	–	–	–	–	–	–	–
– future exposure	–	–	–	13,525	–	–	–
3) Currency and gold							
– notional value	–	–	4,723,308	20,181	–	272,334	33,516
– positive fair value	–	–	84,533	–	–	1,996	767
– negative fair value	–	–	–80,256	–3,619	–	–5,107	–531
– future exposure	–	–	47,015	202	–	2,489	335
4) Other instruments							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
– future exposure	–	–	–	–	–	–	–

A.6 OTC financial derivatives – Regulatory trading book: notional values, positive and negative gross fair values by counterparty – contracts that do not form part of compensation agreements

Contracts that do not form part of compensation agreements	Government and Central Banks	Other public entities	Banks	Finance sector companies	Insurance companies	Non financial companies	Other parties
1) On debt securities and interest rates							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
2) Equities and stock indices							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
3) Currency and gold							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
4) Other instruments							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–

A.7 OTC financial derivatives – Banking book: notional values, positive and negative gross fair values by counterparty – contracts that do not form part of compensation agreements

Contracts that do not form part of compensation agreements	Government and Central Banks	Other public entities	Banks	Finance sector companies	Insurance companies	Non financial companies	Other parties
1) On debt securities and interest rates							
– notional value	–	–	3,135,506	–	–	–	–
– positive fair value	–	–	15,971	–	–	–	–
– negative fair value	–	–	–42,618	–	–	–	–
– future exposure	–	–	25,803	–	–	–	–
2) Equities and stock indices							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
– future exposure	–	–	–	–	–	–	–
3) Currency and gold							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
– future exposure	–	–	–	–	–	–	–
4) Other instruments							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
– future exposure	–	–	–	–	–	–	–

A.8 OTC financial derivatives – Banking book: notional values, positive and negative gross fair values by counterparty – contracts that do not form part of compensation agreements

Contracts that do not form part of compensation agreements	Government and Central Banks	Other public entities	Banks	Finance sector companies	Insurance companies	Non financial companies	Other parties
1) On debt securities and interest rates							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
2) Equities and stock indices							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
3) Currency and gold							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
4) Other instruments							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–

A.9 Residual life of financial derivatives "over the counter": notional values

Underlying/Residual life	Within 1 year	Between 1 and 5 years	Over 5 years	Total
A. Regulatory trading book:	**6,845,606**	**3,538,232**	**2,482,553**	**12,866,391**
A.1 Financial derivatives on debt securities and interest rates	1,807,358	3,469,863	2,482,553	7,759,774
A.2 Financial derivatives on equities and stock indices	–	57,278	–	57,278
A.3 Financial derivatives on exchange rates and gold	5,038,248	11,091	–	5,049,339
A.4 Financial derivatives on other instruments	–	–	–	–
B. Banking book	**274,862**	**1,710,644**	**1,150,000**	**3,135,506**
B.1 Financial derivatives on debt securities and interest rates	274,862	1,710,644	1,150,000	3,135,506
B.2 Financial derivatives on equities and stock indices	–	–	–	–
B.3 Financial derivatives on exchange rates and gold	–	–	–	–
B.4 Financial derivatives on other instruments	–	–	–	–
Total	**7,120,468**	**5,248,876**	**3,632,553**	**16,001,897**
Total (previous year)	**5,600,555**	**4,283,283**	**2,390,440**	**12,274,278**

A.10 Financial derivatives "over the counter": counterparty risk/financial risks – Internal models

The Bank does not use EPE-type internal models for calculating the future credit exposure of transactions exposed to counterparty risk (EPE stands for Expected Positive Exposure).

B. Credit derivatives

B.1 Credit derivatives: notional values at the end of period and average notional values

Type of transaction	Regulatory trading book		Banking book	
	su un singolo soggetto	**su più soggetti (basket)**	**su un singolo soggetto**	**su più soggetti (basket)**
1. Purchases of protection				
a) Credit default products	–	–	–	–
b) Credit spread products	–	–	–	–
c) Total rate of return swaps	–	–	–	–
d) Other	–	–	–	–
Total 31/12/2010	**–**	**–**	**–**	**–**
Average amounts	**–**	**–**	**–**	**–**
Total 31/12/2009	**–**	**–**	**–**	**–**
2. Sales of protection				
a) Credit default products	–	–	–	–
b) Credit spread products	–	–	–	–
c) Total rate of return swaps	–	–	–	–
d) Other	–	–	–	2,588
Total 31/12/2010	**–**	**–**	**–**	**2,588**
Average amounts	**–**	**–**	**–**	**88,518**
Total 31/12/2009	**–**	**–**	**–**	**105,704**

Sale of protection relates to structured securities "Credit Link Notes" present in the asset portfolio.

B.2 OTC credit derivatives: positive gross fair value – breakdown by products

Portfolio/Type of derivatives	Positive fair value	
	Total 31.12.2010	Total 31.12.2009
A. Regulatory trading book:	**–**	**–**
a) Credit default products	–	–
b) Credit spread products	–	–
c) Total rate of return swaps	–	–
d) Other	–	–
B. Banking book	**2,254**	**61,400**
a) Credit default products	–	–
b) Credit spread products	–	–
c) Total rate of return swaps	–	–
d) Other	2,254	61,400
Total	**2,254**	**61,400**

B.3 OTC credit derivatives: negative gross fair value – breakdown by products

Portfolio/Type of derivatives	Negative fair value	
	Totale 31.12.2010	Totale 31.12.2009
A. Regulatory trading book:	**–**	**–**
a) Credit default products	–	–
b) Credit spread products	–	–
c) Total rate of return swaps	–	–
d) Other	–	–
B. Banking book	**–**	**–**
a) Credit default products	–	–
b) Credit spread products	–	–
c) Total rate of return swaps	–	–
d) Other	–	–
Total	**–**	**–**

B.4 OTC credit derivatives: positive and negative gross fair values by counterparty – contracts that do not form part of compensation agreements

Contracts that do not form part of compensation agreements	Government and Central Banks	Other public entities	Banks	Finance sector companies	Insurance companies	Non financial companies	Other parties
Regulatory trading							
1) Purchase of protection							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
– future exposure	–	–	–	–	–	–	–
2) Sale of protection							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
– future exposure	–	–	–	–	–	–	–
Banking book							
1) Purchase of protection							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
2) Sale of protection							
– notional value	–	–	811	1,777	–	–	–
– positive fair value	–	–	477	1,777	–	–	–
– negative fair value	–	–	–	–	–	–	–

B.5 OTC credit derivatives: positive and negative gross fair values by counterparty – contracts that form part of compensation agreemnets

Contracts that form part of compensation agreements	Government and Central Banks	Other public entities	Banks	Finance sector companies	Insurance companies	Non financial companies	Other parties
Regulatory trading							
1) Purchase of protection							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
2) Sale of protection							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
Banking book							
1) Purchase of protection							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
2) Sale of protection							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–

B.6 Residual life of credit derivatives: notional values

Underlying/Residual life	Within 1 year	Between 1 and 5 years	Over 5 years	Total
A. Regulatory trading book	**–**	**–**	**–**	**–**
A.1 Credit derivatives with qualified reference obligation	–	–	–	–
A.2 Credit derivatives with unqualified reference obligation	–	–	–	–
B. Banking book	**–**	**1,777**	**811**	**2,588**
B.1 Credit derivatives with qualified reference obligation	–	*1,777*	811	2,588
B.2 Credit derivatives with unqualified reference obligation	–	–	–	–
Total	**–**	**1,777**	**811**	**2,588**
Total (previous year)	**–**	**1,704**	**104,000**	**105,704**

B.7 Credit derivatives: counterparty and financial risk – Internal models

The Bank does not use EPE-type internal models for calculating the future credit exposure of transactions exposed to counterparty risk (EPE stands for Expected Positive Exposure).

C. Financial and credit derivatives

C.1 OTC Financial and credit derivatives: net fair values and future exposure by counterparty

	Governments and central banks	Other public entities	Banks	Finance sector companies	Insurance companies	Non financial companies	Other parties
1) Bilateral financial derivative agreements							
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
– future exposure	–	–	–	–	–	–	–
– net counterparty risk	–	–	–	–	–	–	–
2) Bilateral credit derivative agreements							
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
– future exposure	–	–	–	–	–	–	–
– net counterparty risk	–	–	–	–	–	–	–
3) Cross product agreements							
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
– future exposure	–	–	–	–	–	–	–
– net counterparty risk	–	–	–	–	–	–	–

Section 3 – Liquidity risk

Qualitative information

A. General aspects, management processes and methods of measuring liquidity risk

A.1 Sources of liquidity risk

Liquidity risk is the risk that the Bank may not be able to meet its definite and foreseeable payment commitments with reasonable certainty. Normally, two types of liquidity risk are identified: Funding Liquidity Risk, i.e. the risk that the Bank may not be able to meet its payment commitments and obligations efficiently because of an inability to raise funds without jeopardising its normal business activity and/or its financial situation; Market Liquidity Risk, i.e. the risk that the Bank may not be able to liquidate an asset without incurring a capital loss because of the limited depth of the market and/or as a result of the timing with which it is necessary to carry out the transaction. In this second definition, liquidity risk comes very close to traditional market risk. The main difference between the two types of risk lies in the fact that while market risk measures the sensitivity of position's value to possible future scenarios, liquidity risk concentrates on the ability to finance present and future payment commitments in normal and in stress situations.

A.2 Internal procedures for managing and controlling liquidity risk

Responsibility for the management of liquidity and of the risk that derives from it lies with the Board of Directors, which delegates to the Assets & Liabilities Management (ALM) Committee matters concerning operating and strategic management under normal circumstances, whereas a special committee has been set up to handle crisis situations.
The guidelines of the liquidity management policy establish that:

- **governance rules**: cash management is coordinated by the Parent Bank and is carried out on a centralised basis, while also permitting decentralised management at the individual Group entities based on suitable mandates;
- **an adequate level of diversification in the sources of finance** is maintained in terms of the types of products, counterparties, markets and maturities;
- **an adequate profile of liquidity** and easily negotiable assets is maintained;
- **stress tests are carried out periodically** with a view to quantifying the increase in the requirements when faced with realistic crisis scenarios;
- **liquidity utilisation is monitored** to ensure that it remains in line with the forecasts contained in the budget and the strategic plan.

The liquidity risk is controlled through the following instruments:

- **operative and strategic maturity ladder**: this report provides the liquidity requirement (surplus) for a certain time horizon (6 months), going to accumulate all of the imbalances between inflows and outflows that appear in the various time bands and adding to it the balance of assets that can be collateralised with the Central Bank and assets that are easily negotiable;
- **early warning signs** of any liquidity stress. Once certain levels are exceeded, it is possible that a crisis is in the offing, so the Liquidity Crisis Committee is activated. Early warning signals are made up of a series of market indicators, the BPM Group's own specific indicators, indicators deriving from the operating and strategic maturity ladder and indicators derived from stress tests;
- **stress test analyses** to assess the Bank's ability to manage liquidity risk in unfavourable scenarios, which include a systemic crisis and a specific crisis involving BPM and its reputation.

The Contingency Funding Plan is an integral part of the Liquidity Policy and its aim is to protect the Group and its individual companies from crises of varying dimensions, guaranteeing business continuity in situations of market stress as well as those specifically affecting the Group.
The Contingency Funding Plan describes a series of non-binding actions and provides a range of possible steps that can be taken to overcome the crisis. In particular it describes:

- the activation of states of stress and crisis;
- possible intervention plans;
- the functions involved.

Quantitative information

The net **interbank position** at 31 December 2010 shows the Bank as a net borrower for 5,860 million euro, whereas at 31 December 2009 it was a net lender for 330 million euro.

The significant difference of Euro 6.2 billion, is mainly due to:
- the increase in loans to customers of 2.3 billion euro;
- the decrease in direct deposits of 0.8 billion euro;
- the rise in net financial assets of 3.3 billion Euro for investments in government securities.

In any case, it should be noted that a good part of the interbank exposure, more than Euro 4.6 billion, is collateralised with government securities through funding repos and/or open market (OMA) transactions with the European Central Bank. Net of these transactions, the net interbank position at 31 December 2010 is substantially in balance.

Looking at the maturities of financial liabilities for the next 12 months (so at the same level of customer loans and deposits), the funding requirement of 9.4 billion Euro is amply covered by the portfolio of financial assets eligible for refinancing with the ECB, on the one hand, and by the expected renewal on maturity of the liabilities represented by the retail issues placed by the commercial network, on the other.
As mentioned in the section on subsequent events, the EMTN issue that fell due in February 2011 was replaced by a subordinated security (maturity 10 years) and by reopening the most recent covered bond issue.

Main financial liabilities in maturity – management figures												(in millions of Euro)
	01/11	**02/11**	**03/11**	**04/11**	**05/11**	**06/11**	**07/11**	**08/11**	**09/11**	**10/11**	**11/11**	**12/11**	**Total**
Securities issued (EMTN issues)	40	1,000										80	**1,120**
Securities issued (subordinated issues)			595(*)			160	172						**927**
Liabilities for the assets sold and not cancelled (estimate)			40			40			40			40	**160**
Covered bonds							1,000						**1,000**
Financial liabilities measured at fair value		50		206	19								**275**
Securities issued (retail issues)	26	81	3	3	106	26	49	19	47	13	4	1	**378**
Repurchase agreements	2,259	753	1,104	403	501								**5,020**
Certificates of deposit	36	108	112	28	85	37	27	23	20	23	28		**527**
Total	**2,361**	**1,992**	**1,854**	**640**	**711**	**263**	**1,248**	**42**	**107**	**36**	**32**	**121**	**9,407**

(*) Conventionally, based on IFRS 7, callable instruments have been considered as falling due at the first call date foreseen in the issue regulations. The final maturity of these instruments, if the Bank does not exercise its early redemption option, is 29 June 2015.

Securitisation of commercial mortgage backed securities (CMBS)

In March 2009, the Parent Bank completed a securitisation of mortgage loans, selling a portfolio of around 11 thousand positions with a residual debt of some 1.3 billion Euro to BPM Securitisation 2 S.r.l., a special purpose entity that existed already.
The operation consists of a without-recourse assignment of a portfolio of performing loans deriving from first mortgages and unsecured loans originated by BPM.
The purchase of this portfolio was financed by BPM Securitisation 2 with a corresponding payment to BPM of the countervalue, using the proceeds of issuing senior securities listed on the Dublin Stock Exchange with a rating from Fitch Ratings Ltd and unlisted, unrated junior securities.
The securities were all subscribed by BPM, mainly for the purpose of using the senior securities in repos and other refinancing transactions with Central Banks.
The junior securities will remain in BPM's portfolio and will only be negotiable with qualified investors. At the date of this report, all of the securities are still in BPM's portfolio.

The receivables were assigned at a price of 1,291,145 thousand euro, which the special purpose entity raised in March 2009 by issuing asset-backed securities with limited recourse for a total of 1,301,832 thousand euro.

Based on the commitments taken on, BPM has available two lines of credit for amounts equal to the following two classes of securities purchased:

Security	Amount in Euro	Characteristics
Class A – AAA rating	**923,950,000**	Maturity April 2041, coupon equal to 6-month Euribor +100 bps, listed on the Dublin Stock Exchange **("Senior Securities")**
Class B – Junior notes	**377,882,000**	Maturity April 2041, coupon equal to 6-month Euribor +400 bps, unrated and unlisted **("Junior Securities")**
	1,301,832,000	

Senior securities feature a sequential type of amortisation profile. There is also a clean-up option in the BPM's favour if the residual nominal value of the securitised portfolio (expected maturity: December 2017) is equal to 10% or less of the portfolio's initial nominal value.
The senior securities have an AAA rating (Fitch), whereas the junior securities include the amount needed to finance the cash reserve (1.30% of the principal amount of the portfolio assigned at the valuation date), made available to the special purpose entity through the subscription of the securities.

The purchase of the securities for an amount higher than the value of the portfolio sold made it possible to book to the accounts of the special purpose entity the cash reserve (1.3%) required by the rating agency (Fitch Ratings Ltd.), which monitors the situation annually for the entire duration.
BPM also acts as servicer for this operation, being charged with collecting the receivables and recovering any doubtful accounts.

This operation can be classified as an "autosecuritisation", as BPM (the originator) subscribed the ABS securities when they were issued by the special purpose entity BPM Securitisation 2 and still has them in its balance sheet at the date of this report.
Given that the Parent Bank has retained substantially all of the risks and benefits of the assets that were sold, it keeps the entire amount of these receivables in its balance sheet (applying the accounting treatment envisaged in IAS 39 for the category of financial instruments to which these belong).
At least until part of the junior securities are placed on the market, these assignment and purchase transactions, which are to be considered jointly according to the principle of substance over form, are in effect a straightforward transformation of receivables into financial instruments (securities), without there being any real economic effect.

At the date of the financial statements the securitisation transaction is represented as follows:

(euro/000)

Line items	31.12.2010	31.12.2009
Principal balance sheet aggregates		
Loans to customers:	**1,310,719**	**1,320,228**
Securitised mortgage loans	464,833	746,256
Credit exposure to the SPV due to the offsetting of the liquidity originated by the reimbursement of the securitised assets against the positions owed to the SPV.	845,886	573,972
Economic result of the operation	**17,971**	**32,780**

1. 1. Distribution of financial assets and liabilities by residual contractual duration

Summary table

Items/Time bands	Sight	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Unspecified duration
Cash assets	**12,585,486**	**579,129**	**485,098**	**832,695**	**1,105,638**	**990,016**	**1,418,811**	**10,250,803**	**8,999,070**	**75,434**
A.1 Government securities	5	–	–	–	–	299,732	39,335	3,175,038	556,191	–
A.2 Other debt securities	–	15,184	–	1,204	40	–	6	374,423	337,583	–
A.3 Mutual fund shares	461,120	–	–	–	–	–	–	–	–	–
A.4 Loans	12,124,361	563,945	485,098	831,491	1,105,598	690,284	1,379,470	6,701,342	8,105,296	75,434
– Banks	644,526	493,605	120,077	398,557	190,616	8,413	1,111	76,364	79,274	–
– Customers	11,479,835	70,340	365,021	432,934	914,982	681,871	1,378,359	6,624,978	8,026,022	75,434
Cash liabilities	**19,948,244**	**1,553,842**	**884,321**	**1,479,150**	**2,059,008**	**1,916,567**	**1,395,177**	**4,662,724**	**2,554,589**	**–**
B.1 Deposits and current accounts	16,743,689	1,387,244	480,318	683,011	449,079	231,909	34,152	623	22	–
– Banks	145,324	1,384,471	477,312	675,806	425,061	201,655	12,026	–	–	–
– Customers	16,598,365	2,773	3,006	7,205	24,018	30,253	22,126	623	22	–
B.2 Debt securities	3,652	5,894	5,188	92,905	1,359,443	684,873	1,361,025	4,662,101	2,554,567	–
B.3 Other liabilities	3,200,903	160,704	398,815	703,234	250,486	999,785	–	–	–	–
Off-balance sheet transactions	**7,845,771**	**1,107,720**	**542,166**	**1,747,809**	**3,293,007**	**2,531,119**	**2,972,734**	**4,155,838**	**1,449,702**	**165,912**
C.1 Financial derivatives with exchange of capital	414	1,107,716	542,166	1,725,471	3,190,751	1,904,837	2,416,149	81,629	–	–
– long positions	206	551,967	272,328	861,149	1,594,766	954,903	1,208,625	73,535	–	–
– short positions	208	555,749	269,838	864,322	1,595,985	949,934	1,207,524	8,094	–	–
C.2 Financial derivatives without exchange of capital	238,901	–	–	–	217	385	37,996	–	–	–
– long positions	127,846	–	–	–	217	–	37,996	–	–	–
– short positions	111,055	–	–	–	–	385	–	–	–	–
C.3 Deposits and loans to be received	–	–	–	–	–	–	–	–	–	–
– long positions	–	–	–	–	–	–	–	–	–	–
– short positions	–	–	–	–	–	–	–	–	–	–
C.4 Irrevocable commitments to grant finance	7,606,332	–	–	22,329	101,952	625,782	518,367	4,063,552	1,448,191	165,912
– long positions	411,786	–	–	22,329	101,952	625,782	518,367	4,063,552	1,448,191	82,956
– short positions	7,194,546	–	–	–	–	–	–	–	–	82,956
C.5 Financial guarantees given	124	4	–	9	87	115	222	10,657	1,511	–

1. 1. Distribution of financial assets and liabilities by residual contractual duration

Currency: Euro

Items/Time bands	Sight	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Unspecified duration
Cash assets	**12,575,725**	**466,001**	**477,266**	**684,820**	**1,007,297**	**980,130**	**1,410,639**	**10,133,333**	**8,995,515**	**75,434**
A.1 Government securities	5	–	–	–	–	299,732	39,335	3,175,038	554,782	–
A.2 Other debt securities	–	15,184	–	1,204	40	–	6	374,423	337,411	–
A.3 Mutual fund shares	461,120	–	–	–	–	–	–	–	–	–
A.4 Loans	12,114,600	450,817	477,266	683,616	1,007,257	680,398	1,371,298	6,583,872	8,103,322	75,434
– Banks	638,164	387,438	120,077	373,571	190,616	8,413	1,111	76,364	77,649	–
– Customers	11,476,436	63,379	357,189	310,045	816,641	671,985	1,370,187	6,507,508	8,025,673	75,434
Cash liabilities	**19,836,308**	**1,278,555**	**872,254**	**1,141,538**	**1,847,450**	**1,854,892**	**1,395,177**	**4,662,724**	**2,554,589**	**–**
B.1 Deposits and current accounts	16,631,753	1,111,957	468,341	345,399	237,708	171,948	34,152	623	22	–
– Banks	143,678	1,109,184	465,335	338,194	213,690	141,694	12,026	–	–	–
– Customers	16,488,075	2,773	3,006	7,205	24,018	30,253	22,126	623	22	–
B.2 Debt securities	3,652	5,894	5,098	92,905	1,359,256	683,159	1,361,025	4,662,101	2,554,567	–
B.3 Other liabilities	3,200,903	160,704	398,815	703,234	250,486	999,785	–	–	–	–
Off-balance sheet transactions	**7,511,157**	**493,042**	**262,469**	**881,956**	**1,940,670**	**1,517,238**	**1,734,894**	**3,871,037**	**1,449,466**	**165,912**
C.1 Financial derivatives with exchange of capital	–	493,038	262,469	859,618	1,845,021	904,421	1,211,343	73,643	–	–
– long positions	–	248,467	133,121	169,815	855,092	477,155	675,666	69,542	–	–
– short positions	–	244,571	129,348	689,803	989,929	427,266	535,677	4,101	–	–
C.2 Financial derivatives without exchange of capital	238,164	–	–	–	217	385	37,996	–	–	–
– long positions	127,475	–	–	–	217	–	37,996	–	–	–
– short positions	110,689	–	–	–	–	385	–	–	–	–
C.3 Deposits and loans to be received	–	–	–	–	–	–	–	–	–	–
– long positions	–	–	–	–	–	–	–	–	–	–
– short positions	–	–	–	–	–	–	–	–	–	–
C.4 Irrevocable commitments to grant finance	7,272,869	–	–	22,329	95,345	612,317	485,333	3,786,737	1,447,955	165,912
– long positions	410,133	–	–	22,329	95,345	612,317	485,333	3,786,737	1,447,955	82,956
– short positions	6,862,736	–	–	–	–	–	–	–	–	82,956
C.5 Financial guarantees given	124	4	–	9	87	115	222	10,657	1,511	–

1. 1. Distribution of financial assets and liabilities by residual contractual duration

Currency: US Dollars

Items/Time bands	Sight	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Unspecified duration
Cash assets	**3,377**	**11,212**	**7,539**	**137,034**	**91,530**	**8,805**	**8,119**	**72,016**	**3,555**	**–**
A.1 Government securities	–	–	–	–	–	–	–	–	1,409	–
A.2 Other debt securities	–	–	–	–	–	–	–	–	172	–
A.3 Mutual fund shares	–	–	–	–	–	–	–	–	–	–
A.4 Loans	3,377	11,212	7,539	137,034	91,530	8,805	8,119	72,016	1,974	–
– Banks	614	4,902	–	18,712	–	–	–	–	1,625	–
– Customers	2,763	6,310	7,539	118,322	91,530	8,805	8,119	72,016	349	–
Cash liabilities	**99,474**	**161,831**	**12,067**	**336,231**	**211,558**	**61,613**	**–**	**–**	**–**	**–**
B.1 Deposits and current accounts	99,474	161,831	11,977	336,231	211,371	59,961	–	–	–	–
– Banks	1,635	161,831	11,977	336,231	211,371	59,961	–	–	–	–
– Customers	97,839	–	–	–	–	–	–	–	–	–
B.2 Debt securities	–	–	90	–	187	1,652	–	–	–	–
B.3 Other liabilities	–	–	–	–	–	–	–	–	–	–
Off-balance sheet transactions	**222,986**	**497,330**	**226,670**	**859,431**	**1,290,883**	**886,113**	**1,219,615**	**190,358**	**236**	**–**
C.1 Financial derivatives with exchange of capital	–	497,330	226,670	859,431	1,284,276	886,113	1,186,581	7,986	–	–
– long positions	–	277,500	112,693	688,123	708,949	420,595	523,846	3,993	–	–
– short positions	–	219,830	113,977	171,308	575,327	465,518	662,735	3,993	–	–
C.2 Financial derivatives without exchange of capital	737	–	–	–	–	–	–	–	–	–
– long positions	371	–	–	–	–	–	–	–	–	–
– short positions	366	–	–	–	–	–	–	–	–	–
C.3 Deposits and loans to be received	–	–	–	–	–	–	–	–	–	–
– long positions	–	–	–	–	–	–	–	–	–	–
– short positions	–	–	–	–	–	–	–	–	–	–
C.4 Irrevocable commitments to grant finance	222,249	–	–	–	6,607	–	33,034	182,372	236	–
– long positions	–	–	–	–	6,607	–	33,034	182,372	236	–
– short positions	222,249	–	–	–	–	–	–	–	–	–
C.5 Financial guarantees given	–	–	–	–	–	–	–	–	–	–

1. 1. Distribution of financial assets and liabilities by residual contractual duration

Currency: Pounds Sterling

Items/Time bands	Sight	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Unspecified duration
Cash assets	**456**	**7,552**	**114**	**1,025**	**246**	**11**	**-**	**26,925**	**-**	**-**
A.1 Government securities	–	–	–	–	–	–	–	–	–	–
A.2 Other debt securities	–	–	–	–	–	–	–	–	–	–
A.3 Mutual fund shares	–	–	–	–	–	–	–	–	–	–
A.4 Loans	456	7,552	114	1,025	246	11	–	26,925	–	–
– Banks	453	7,552	–	291	–	–	–	–	–	–
– Customers	3	–	114	734	246	11	–	26,925	–	–
Cash liabilities	**6,250**	**31,485**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	6,250	31,485	–	–	–	–	–	–	–	–
– Banks	–	31,485	–	–	–	–	–	–	–	–
– Customers	6,250	–	–	–	–	–	–	–	–	–
B.2 Debt securities	–	–	–	–	–	–	–	–	–	–
B.3 Other liabilities	–	–	–	–	–	–	–	–	–	–
Off-balance sheet transactions	**-**	**47,335**	**38,245**	**370**	**19,411**	**88,520**	**14,121**	**-**	**-**	**-**
C.1 Financial derivatives with exchange of capital	–	47,335	38,245	370	19,411	88,520	14,121	–	–	–
– long positions	–	23,473	19,123	185	9,703	44,261	7,061	–	–	–
– short positions	–	23,862	19,122	185	9,708	44,259	7,060	–	–	–
C.2 Financial derivatives without exchange of capital	–	–	–	–	–	–	–	–	–	–
– long positions	–	–	–	–	–	–	–	–	–	–
– short positions	–	–	–	–	–	–	–	–	–	–
C.3 Deposits and loans to be received	–	–	–	–	–	–	–	–	–	–
– long positions	–	–	–	–	–	–	–	–	–	–
– short positions	–	–	–	–	–	–	–	–	–	–
C.4 Irrevocable commitments to grant finance	–	–	–	–	–	–	–	–	–	–
– long positions	–	–	–	–	–	–	–	–	–	–
– short positions	–	–	–	–	–	–	–	–	–	–
C.5 Financial guarantees given	–	–	–	–	–	–	–	–	–	–

1. 1. Distribution of financial assets and liabilities by residual contractual duration

Currency: Swiss Francs

Items/Time bands	Sight	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Unspecified duration
Cash assets	**307**	**18,634**	**51**	**6,667**	**5,797**	**39**	**-**	**18,529**	**-**	**-**
A.1 Government securities	–	–	–	–	–	–	–	–	–	–
A.2 Other debt securities	–	–	–	–	–	–	–	–	–	–
A.3 Mutual fund shares	–	–	–	–	–	–	–	–	–	–
A.4 Loans	307	18,634	51	6,667	5,797	39	–	18,529	–	–
– Banks	306	18,634	–	3,999	–	–	–	–	–	–
– Customers	1	–	51	2,668	5,797	39	–	18,529	–	–
Cash liabilities	**2,644**	**59,341**	**-**	**-**	**-**	**62**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	2,644	59,341	–	–	–	–	–	–	–	–
– Banks	11	59,341	–	–	–	–	–	–	–	–
– Customers	2,633	–	–	–	–	–	–	–	–	–
B.2 Debt securities	–	–	–	–	–	62	–	–	–	–
B.3 Other liabilities	–	–	–	–	–	–	–	–	–	–
Off-balance sheet transactions	**94,857**	**2,363**	**-**	**-**	**1,216**	**-**	**2,000**	**94,443**	**-**	**-**
C.1 Financial derivatives with exchange of capital	414	2,363	–	–	1,216	–	2,000	–	–	–
– long positions	206	121	–	–	608	–	1,000	–	–	–
– short positions	208	2,242	–	–	608	–	1,000	–	–	–
C.2 Financial derivatives without exchange of capital	–	–	–	–	–	–	–	–	–	–
– long positions	–	–	–	–	–	–	–	–	–	–
– short positions	–	–	–	–	–	–	–	–	–	–
C.3 Deposits and loans to be received	–	–	–	–	–	–	–	–	–	–
– long positions	–	–	–	–	–	–	–	–	–	–
– short positions	–	–	–	–	–	–	–	–	–	–
C.4 Irrevocable commitments to grant finance	94,443	–	–	–	–	–	–	94,443	–	–
– long positions	–	–	–	–	–	–	–	94,443	–	–
– short positions	94,443	–	–	–	–	–	–	–	–	–
C.5 Financial guarantees given	–	–	–	–	–	–	–	–	–	–

1. 1. Distribution of financial assets and liabilities by residual contractual duration

Currency: Yen

Items/Time bands	Sight	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Unspecified duration
Cash assets	**2,585**	**71,430**	**128**	**2,218**	**656**	**992**	**–**	**–**	**–**	**–**
A.1 Government securities	–	–	–	–	–	–	–	–	–	–
A.2 Other debt securities	–	–	–	–	–	–	–	–	–	–
A.3 Mutual fund shares	–	–	–	–	–	–	–	–	–	–
A.4 Loans	2,585	71,430	128	2,218	656	992	–	–	–	–
– Banks	1,969	70,779	–	1,417	–	–	–	–	–	–
– Customers	616	651	128	801	656	992	–	–	–	–
Cash liabilities	**628**	**14,726**	**–**	**1,381**	**–**	**–**	**–**	**–**	**–**	**–**
B.1 Deposits and current accounts	628	14,726	–	1,381	–	–	–	–	–	–
– Banks	–	14,726	–	1,381	–	–	–	–	–	–
– Customers	628	–	–	–	–	–	–	–	–	–
B.2 Debt securities	–	–	–	–	–	–	–	–	–	–
B.3 Other liabilities	–	–	–	–	–	–	–	–	–	–
Off-balance sheet transactions	**–**	**64,033**	**–**	**1,122**	**982**	**2,128**	**276**	**–**	**–**	**–**
C.1 Financial derivatives with exchange of capital	–	64,033	–	1,122	982	2,128	276	–	–	–
– long positions	–	607	–	561	491	1,064	138	–	–	–
– short positions	–	63,426	–	561	491	1,064	138	–	–	–
C.2 Financial derivatives without exchange of capital	–	–	–	–	–	–	–	–	–	–
– long positions	–	–	–	–	–	–	–	–	–	–
– short positions	–	–	–	–	–	–	–	–	–	–
C.3 Deposits and loans to be received	–	–	–	–	–	–	–	–	–	–
– long positions	–	–	–	–	–	–	–	–	–	–
– short positions	–	–	–	–	–	–	–	–	–	–
C.4 Irrevocable commitments to grant finance	–	–	–	–	–	–	–	–	–	–
– long positions	–	–	–	–	–	–	–	–	–	–
– short positions	–	–	–	–	–	–	–	–	–	–
C.5 Financial guarantees given	–	–	–	–	–	–	–	–	–	–

1. 1. Distribution of financial assets and liabilities by residual contractual duration

Currency: Canadian Dollars

Items/Time bands	Sight	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Unspecified duration
Cash assets	**213**	**–**	**–**	**321**	**41**	**–**	**–**	**–**	**–**	**–**
A.1 Government securities	–	–	–	–	–	–	–	–	–	–
A.2 Other debt securities	–	–	–	–	–	–	–	–	–	–
A.3 Mutual fund shares	–	–	–	–	–	–	–	–	–	–
A.4 Loans	213	–	–	321	41	–	–	–	–	–
– Banks	213	–	–	300	–	–	–	–	–	–
– Customers	–	–	–	21	41	–	–	–	–	–
Cash liabilities	**100**	**1,576**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
B.1 Deposits and current accounts	100	1,576	–	–	–	–	–	–	–	–
– Banks	–	1,576	–	–	–	–	–	–	–	–
– Customers	100	–	–	–	–	–	–	–	–	–
B.2 Debt securities	–	–	–	–	–	–	–	–	–	–
B.3 Other liabilities	–	–	–	–	–	–	–	–	–	–
Off-balance sheet transactions	**–**	**395**	**–**	**1,248**	**–**	**760**	**–**	**–**	**–**	**–**
C.1 Financial derivatives with exchange of capital	–	395	–	1,248	–	760	–	–	–	–
– long positions	–	197	–	624	–	380	–	–	–	–
– short positions	–	198	–	624	–	380	–	–	–	–
C.2 Financial derivatives without exchange of capital	–	–	–	–	–	–	–	–	–	–
– long positions	–	–	–	–	–	–	–	–	–	–
– short positions	–	–	–	–	–	–	–	–	–	–
C.3 Deposits and loans to be received	–	–	–	–	–	–	–	–	–	–
– long positions	–	–	–	–	–	–	–	–	–	–
– short positions	–	–	–	–	–	–	–	–	–	–
C.4 Irrevocable commitments to grant finance	–	–	–	–	–	–	–	–	–	–
– long positions	–	–	–	–	–	–	–	–	–	–
– short positions	–	–	–	–	–	–	–	–	–	–
C.5 Financial guarantees given	–	–	–	–	–	–	–	–	–	–

1. 1. Distribution of financial assets and liabilities by residual contractual duration

Currency: Other currencies

Items/Time bands	Sight	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Unspecified duration
Cash assets	**2,823**	**4,300**	**–**	**610**	**71**	**39**	**53**	**–**	**–**	**–**
A.1 Government securities	–	–	–	–	–	–	–	–	–	–
A.2 Other debt securities	–	–	–	–	–	–	–	–	–	–
A.3 Mutual fund shares	–	–	–	–	–	–	–	–	–	–
A.4 Loans	2,823	4,300	–	610	71	39	53	–	–	–
– Banks	2,807	4,300	–	267	–	–	–	–	–	–
– Customers	16	–	–	343	71	39	53	–	–	–
Cash liabilities	**2,840**	**6,328**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
B.1 Deposits and current accounts	2,840	6,328	–	–	–	–	–	–	–	–
– Banks	–	6,328	–	–	–	–	–	–	–	–
– Customers	2,840	–	–	–	–	–	–	–	–	–
B.2 Debt securities	–	–	–	–	–	–	–	–	–	–
B.3 Other liabilities	–	–	–	–	–	–	–	–	–	–
Off-balance sheet transactions	**16,771**	**3,222**	**14,782**	**3,682**	**39,845**	**36,360**	**1,828**	**–**	**–**	**–**
C.1 Financial derivatives with exchange of capital	–	3,222	14,782	3,682	39,845	22,895	1,828	–	–	–
– long positions	–	1,602	7,391	1,841	19,923	11,448	914	–	–	–
– short positions	–	1,620	7,391	1,841	19,922	11,447	914	–	–	–
C.2 Financial derivatives without exchange of capital	–	–	–	–	–	–	–	–	–	–
– long positions	–	–	–	–	–	–	–	–	–	–
– short positions	–	–	–	–	–	–	–	–	–	–
C.3 Deposits and loans to be received	–	–	–	–	–	–	–	–	–	–
– long positions	–	–	–	–	–	–	–	–	–	–
– short positions	–	–	–	–	–	–	–	–	–	–
C.4 Irrevocable commitments to grant finance	16,771	–	–	–	–	13,465	–	–	–	–
– long positions	1,653	–	–	–	–	13,465	–	–	–	–
– short positions	15,118	–	–	–	–	–	–	–	–	–
C.5 Financial guarantees given	–	–	–	–	–	–	–	–	–	–

Section 4 - Operational risks

Qualitative information

A. General aspects, management processes and methods of measuring operational risk

Main sources of operational risk

Operational risk forming part of the Basel Committee's Pillar I is defined by the Bank of Italy (see "New Minimum Capital Requirements for Banks") as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. This type includes losses due to frauds, human resources, breakdown of operations, non-availability of systems, breach of contract, natural disasters and legal risks, whereas strategic risk and reputational risk are excluded.

Unlike credit and market risk, operational risk is not taken on by the Group on the basis of strategic decisions, as it is inherent in its operations, being omnipresent.

The supervisory regulations also say that banks have to equip themselves with operational risk management systems that are suitable for their size and risk profile and able to guarantee the identification, measurement, monitoring and control of such risk over time.

Organisational aspects

In order to calculate the amount of capital absorbed by operational risk, from July 2008, the Board of Directors of Banca Popolare di Milano decided to adopt the standardised approach (TSA). It was also adopted by the other Group banks (Banca Popolare di Milano, Banca di Legnano, Cassa di Risparmio di Alessandria and Banca Akros). It was also decided to apply the Basic Indicator Approach (BIA) to the remaining Group companies.

Given their relatively small size and limited risk profile, in the case of Banca Popolare di Mantova and WeBank it was decided to apply the BIA method to calculate capital absorptions and to start for both a gradual process of adjustment to the Parent Bank's criteria and approach to operational risk management, a step that is indispensable prior to adopting the TSA method. During the second half of 2010, we implemented the new application for recording operating losses, already used by the Parent Bank, also at WeBank and Banca Popolare di Mantova.

The choice of the standardised approach is considered by the Bank suitable for the size and risk profile of the Group and for containing the impact and probability of suffering onerous losses, as well as for improving process efficiency and effectiveness.

Only for ICAAP purposes, these same Group banks have implemented an internal model for determining the capital required to cover operational risk. This is a preparatory step in a gradual evolution towards more advanced models of risk evaluation.

In order to ensure an effective and efficient system of operational risk management, Banca Popolare di Milano at Group level has taken steps:

- to define and formalise a model for governing operational risk and guidelines for the entire system of operational risk management;
- to regulate in accordance with company rules the duties and responsibilities assigned the various functions involved, giving a detailed description of their activities;
- to prepare suitable periodic reports for top management of the individual banks and for the Parent Bank's Board of Directors on operational risk and operating losses;
- to evaluate the adequacy and effectiveness of the system implemented by defining operating criteria and methods.

Model of Governance

For the management of operating risk, BPM has shared and formalised the adoption of a centralised model of governance, which assigns to it as the Parent Bank the coordination and supervision of all of the Group banks' operating activities.

This model provides for:

- a strategic level involving the Board of Directors, the Internal Control Committee, the Management Committee and the Risk Management Department;
- a more operational level involving the Operational Risk Sector and the Operational Risk Owners identified within each of the banks.

The system of managing operational risk

Banca Popolare di Milano has implemented a system for managing operational risk at Group level by means of:

- an organisational process of collecting data on operating losses and insurance recoveries that involves and responsibilises the various bank functions, guaranteeing the completeness, reliability and updating of the data;
- activation of the Risk Self Assessment tool, an annual process of identifying, assessing and measuring (where possible) the Group's exposure to operational risk in its main business processes, carried out by means of questionnaires sent to the Owner of the Process, and subsequent discussions with Operational Risk Management;
- the definition of criteria and methods for linking the bank's activities to the regulatory lines of business for the calculation of the individual and consolidated capital ratio;
- the implementation of a system of periodic reporting of the main loss events and operational risks identified to the strategic and operating functions concerned;
- the preparation of training tools and events for top management and the operating functions to encourage their involvement and to provide guidelines to the staff concerned for identifying and reporting such risk;
- an annual review of the entire system of operational risk management by means of a process of internal self-assessment, which allows the Group to evaluate the effectiveness of its strategies and the adequacy of the system implemented according to the Group's risk profile.

Business Continuity Plan

The Business Continuity Plan allows the Bank to verify its ability to restore vital and critical processes in the event of a disaster.

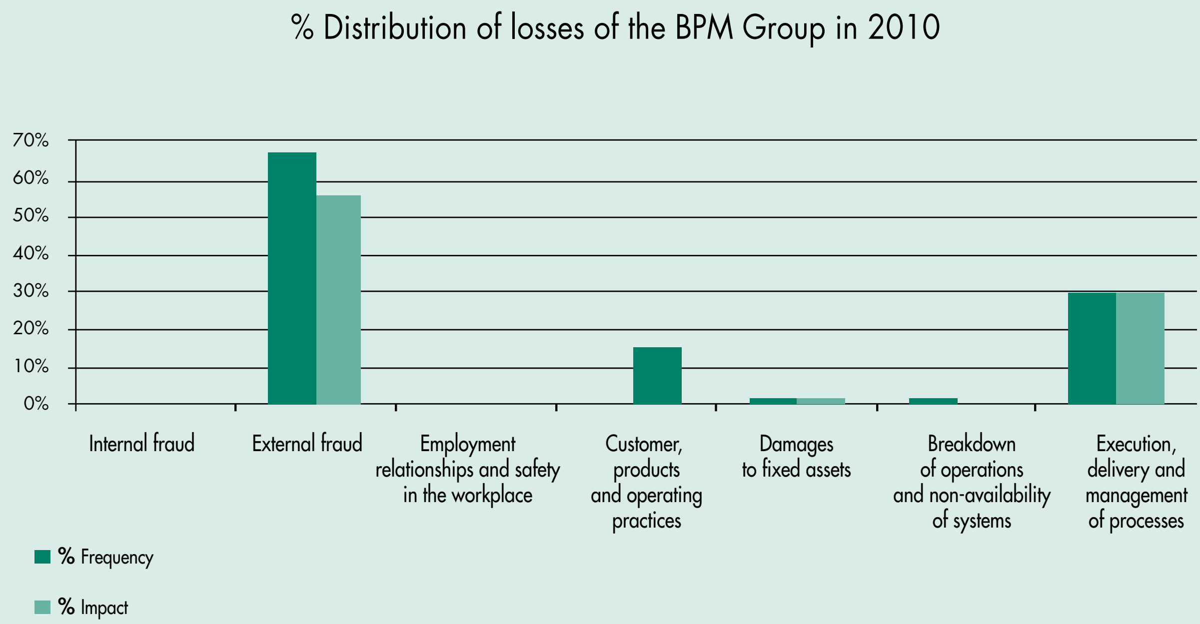
Through a structure set up specifically to manage the Plan:

- formalises the effective maintenance procedure;
- the crisis simulation plan gets tested;
- the continuity of vital and critical processes is guaranteed;
- mitigation steps are evaluated, widening the scope of the business continuity plan to new scenarios, such as that of a pandemic, and to new processes.

Loss data collection

One of the key aspects of the operational risk management system is loss data collection (LDC). Its purpose is to provide a picture over time of the trend in the more significant loan losses; it also represents a statistical basis necessary for a better risk analysis and for the adoption of advanced VaR models and for calculating the amount of capital absorbed by operational risk.
Detailed internal rules guarantee consistency in the classification of events within each Group bank, while at an operational level a new procedure for collecting loss data, already adopted by BPM, is gradually being installed at the other banks so that all of the steps in this process can be handled more efficiently. At the end of 2010, the new procedure was in use at Banca Popolare di Milano, Banca Popolare di Mantova and WeBank and we expect it to be extended to Banca di Legnano and Cassa di Risparmio di Alessandria during the first quarter of 2011.

During the course of 2010, the main source of operating losses was the category entitled "External fraud" both in terms of frequency and impact. The second category for the amount of losses generated was "Errors in the execution, delivery and process management". In third place comes "Customers, products and business practices", which includes the losses deriving from non-compliance with professional obligations to customers or the nature and characteristics of the product or service and fines for infringing tax regulations.



Identifying operational risk

Once a year, the Risk Self Assessment (RSA) process is implemented for the identification and analysis of operational risk. At the main Group banks, the business processes in the lending, finance and commercial areas are analysed, along with certain support processes, with a view to identifying the main factors of risk and define adequate ways of mitigating them.

Based on the experience gained over the last two years, in 2010 we carried out our third Self Risk Assessment for the evolution of the internal model for the determination of the OpVaR. To this end, during the first part of the year, the Process Owners were given a list of the elementary risks and their causes, which made it possible to map the risks involved in each activity subject to RSA.

A scenario analysis was then implemented on the basis of this map by identifying the frequency by impact classes determined in advance (differentiated by size of bank), maximum potential loss and reputational risk.

Quantitative information

Important lawsuits pending

The disputes outstanding at 31 December 2010 mostly fall into three categories:

- erroneous application of interest rates: there are 191 disputes outstanding for which 5.4 million Euro has been provided for possible losses.
- operational errors in the provision of services to customers: there are 258 disputes outstanding for which 11.7 million Euro has been provided for possible losses;
- lawsuits for financial claims: these are disputes associated with financial advisory activities (documentary errors, incorrect information on financial risks, etc). As far as lawsuits are concerned, there are specific provisions of 7.8 million Euro for the 222 disputes that are outstanding.

Part F
Information on capital

Section 1 – Individual capital

A. Qualitative information

Capital management involves a range of policies and decisions needed to define its size, as well as the best combination of the various alternative capitalisation instruments to ensure that the Bank's capital and capital ratios are consistent with the risk profile taken on in full compliance with the requirements of the Supervisory Authority.

As regards the policies adopted by the Bank concerning observance of capital requirements and the policies and processes adopted for managing capital, please refer to section 2 below on "Regulatory capital and capital adequacy ratios" and to the matters explained in Part F "Information on capital" of the consolidated financial statements.

B. Quantitative information

B.1 Individual capital: breakdown

Line items/Amounts	31.12.2010	31.12.2009
1. Share capital	**1,660,221**	**1,660,137**
2. Share premium reserve	**189,639**	**187,907**
3. Reserves	**1,243,961**	**1,207,930**
– of earnings	1,188,707	1,152,737
a) legal	296,141	285,785
b) statutory	823,427	797,538
c) treasury shares	19,485	19,485
d) other:	49,654	49,929
– unrestricted	30,138	28,617
– restricted reserve art. 6 of Decree 38/05	18,989	20,785
– Reserve art. 13.6 Law 124/93	527	527
– other	55,254	55,193
– reserve art. 14 Law 342 of 21 November 2000	18,163	18,163
– merger surplus reserve	37,091	37,030
4. Equity instruments	**519,606**	**519,597**
5. (Treasury shares)	**–1,850**	**–9,192**
6. Valuation reserves:	**–80,912**	**–895**
– financial assets available for sale	–61,699	14,642
– actuarial gains (losses) on defined–benefit pension plans	–19,213	–15,537
7. Net income (loss) for the year	**122,857**	**101,761**
Total	**3,653,522**	**3,667,245**

B.2 Valuation reserves of financial assets available for sale: breakdown

Assets/Amounts	Positive reserve	Negative reserve	31.12.2010	Positive reserve	Negative reserve	31.12.2009
1. Debt securities	3	–81,302	–81,299	553	–16,625	–16,072
2. Equities	38,661	–18,025	20,636	38,256	–1,485	36,771
3. Mutual funds	6,949	–7,985	–1,036	5,059	–11,116	–6,057
4. Loans	–	–	–	–	–	–
Total	**45,613**	**–107,312**	**–61,699**	**43,868**	**–29,226**	**14,642**

B.3 Valuation reserves of financial assets available for sale: changes during the year

	Debt securities	Equities	Mutual funds	Loans
1. Opening balance	**–16,072**	**36,771**	**–6,057**	**–**
2. Positive changes	**31,256**	**16,362**	**11,748**	**–**
2.1 Increases in fair value	26	13,109	10,604	–
2.2 Transfer of negative reserves to income statement	54	1,556	–	–
– for impairment	–	1,549	–	–
– on disposal	54	7	–	–
2.3 Other changes	31,176	1,697	1,144	–
3. Negative changes	**96,483**	**32,497**	**6,727**	**–**
3.1 Decreases in fair value	95,651	30,750	4,331	–
3.2 Impairment adjustments				
3.3 Reversal to income statement from positive reserves: on disposal	806	860	43	–
3.4 Other changes	26	887	2,353	–
4. Closing balance	**–81,299**	**20,636**	**–1,036**	**–**

Allocation of 2009 net income

Amounts in euro

Breakdown of net income for the year 2009, following the resolution of the Ordinary General Meeting of 24.4.2010:	**101,760,683.19**
• amount freed up from the restricted reserve as per art. 6 of Decree 38/2005	1,795,757.70
Net income to be allocated	**103,556,440.89**
• 10% to the legal reserve	10,355,644.09
• 25% to the statutory reserve	25,889,110.21
• interest on financial instruments issued as per Art. 12 of Decree 185/2008 subscribed by the Economy and Finance Ministry	24,335,616.44
• to the Shareholders, Euro 0.10 for each of the 414,553,412 shares in circulation, the amount of euro	41,455,341.20
• residual balance: to the unrestricted reserve	1,520,728.95
Closing balance	**0**

Section 2 – Regulatory capital and capital adequacy ratios

2.1 Regulatory capital

A. Qualitative information

Regulatory capital represents the first line of protection against the risks involved in the overall banking business and represents the first parameter of reference for assessments regarding bank solidity.
This is made up of the sum of base (Tier I) capital - included 100% in the calculation - and supplementary (Tier II) capital, which is allowed up to the limit of Tier I capital, net of certain deductions.
To take account of the impact of applying international accounting standards on the calculation of regulatory capital, certain "prudential filters" were introduced; these are applied to the figures in the IAS/IFRS financial statements so as to safeguard the quality of the regulatory capital and reduce the potential volatility brought about by introducing these new standards.
Generally speaking, the approach recommended by the Basel Committee and by the Committee of European Banking Supervisors (CEBS), for activities other than trading, provides for 100% deduction of any capital losses resulting from measurement at fair value from Tier I capital and the partial inclusion of any capital gains resulting from measurement at fair value in Tier II capital (this is called the "asymmetric approach"). Moreover, on 18 May 2010 the Bank of Italy partially revised this approach in line with the adjustments made by the other main EU countries, giving banks the chance to completely neutralise capital gains and losses, but only on the securities issued by the Central Administrations of countries belonging to the European Union and included in the portfolio of financial assets available for sale.

The BPM Group decided to take advantage of this option granted by the Bank of Italy, thereby neutralising the gains and losses (booked from 1 January 2010) on the securities issued by the Central Administrations of countries belonging to the European Union and included in the portfolio of financial assets available for sale. This option has been applied in the calculation of consolidated regulatory capital and in the individual regulatory capitals of Group banks from 30 June 2010. At 31 December 2010 - the capital losses not deducted from Tier I capital amount to 57.8 million euro.

From Tier I and Tier II capital get subtracted, 50% each, the "items to be deducted", namely equity interests, as well as - if they have the characteristics for being included in the regulatory capital of the issuers - innovative and non-innovative capital instruments, hybrid capitalisation instruments and subordinated instruments held by banks, finance-sector companies and insurance companies.
The equity interests and subordinated instruments held by insurance companies acquired prior to 20 July 2006 are deducted from the total of Tier I and Tier II capital up until 31 December 2012.

The subordinated liabilities that cannot be included in Tier II capital and the third level subordinated liabilities net of the negative prudential filters are elements that make up Tier III capital. This aggregate can only be used to cover the minimum capital requirements for market risk. Subordinated liabilities cannot exceed 50% of Tier I capital.

Based on the rules as they stand, the Bank's regulatory capital at the balance sheet date is made up as follows:

- **Tier 1 capital**

  - **Positive elements**: paid-in share capital, share premium reserve, reserves, innovative capital instruments (subject to transitional instructions) and retained earnings of the period;
  - **Positive prudential filters of Tier 1 capital**: financial instruments according to Art. 12. D.L. 185/2008 ("Tremonti Bonds")
  - **Negative elements**: treasury shares, goodwill and other intangible assets;
  - **Negative prudential filters of Tier 1 capital**: Negative reserves on securities available for sale;
  - **Items to be deducted from Tier 1 capital**: 50% of the equity interests in banks and financial institutions that exceed 10% of the investee's capital and investments in insurance companies.

- **Tier 2 capital 2**

  - **Positive elements**: Valuation reserves for securities available for sale, hybrid capital instruments and Tier 2 subordinated liabilities;
  - **Prudential filters of Tier 2 capital**: excluded portion of positive reserves on securities available for sale;
  - **Items to be deducted from Tier 2 capital**: 50% of the equity interests in banks and financial institutions that exceed 10% of the investee's capital and investments in insurance companies.

- • **Items to be deducted from total Tier 1 and 2 capital**: equity interests and subordinated instruments held by insurance companies acquired prior to 20 July 2006.

B. Quantitative information

Quantitative information on regulatory capital is reported below.

	31.12.2010	31.12.2009
A. Tier 1 capital before the application of prudential filters	**3,083,533**	**3,036,482**
B. Prudential filters of Tier 1 capital:	**467,961**	**485,648**
B.1 Positive IFRS prudential filters (+)	500,000	500,000
B.2 Negative IFRS prudential filters (-)	–32,039	–14,352
C. Tier 1 capital inclusive of items to be deducted (A + B)	**3,551,494**	**3,522,130**
D. Items to be deducted from Tier 1 capital	**–251,912**	**–37,988**
E. Total Tier 1 capital (C – D)	**3,299,582**	**3,484,142**
F. Tier 2 capital before the application of prudential filters	**1,630,368**	**1,648,574**
G. Prudential filters of Tier 2 capital:	**–**	**–1,043**
G.1 Positive IFRS prudential filters (+)	–	–
G.2 Negative IFRS prudential filters (-)	–	–1,043
H. Tier 2 capital inclusive of items to be deducted (F + G)	**1,630,368**	**1,647,531**
I. Items to be deducted from tier 2 capital	**–251,912**	**–37,988**
L. Total Tier 2 capital (H – I)	**1,378,456**	**1,609,543**
M. Items to be deducted from total Tier 1 and 2 capital	**–27,612**	**–27,612**
N. Regulatory capital (E + L – M)	**4,650,426**	**5,066,073**
O. Tier 3 capital	**–**	**–**
P. Regulatory capital including Tier 3 capital (N + O)	**4,650,426**	**5,066,073**

Composition of regulatory capital at the respective dates

	31.12.2010	31.12.2009
TIER 1 CAPITAL		
Positive elements	**3,305,125**	**3,267,882**
Capital	1,660,221	1,660,137
Share premium reserve	189,639	187,907
Reserves	1,224,747	1,192,394
Innovative and non-innovative capital instruments with maturities		191,298
Non-innovative capital instruments eligible for inclusion up to 35%	–	
Non-innovative capital instruments eligible for inclusion up to 50%	–	
Instruments subject to transitional rules	191,668	
Net income for the period attributed to regulatory capital	38,850	36,086
Prudential filters: items to be added to Tier 1 capital:	**500,000**	**500,000**
Financial instruments as per Art. 12 of D.L. 185/2008	500,000	500,000
Negative elements	**–221,592**	**–231,340**
Treasury shares or quotas	–1,850	–9,192
Goodwill	–130,111	–124,272
Other intangible assets	–89,631	–97,876
Prudential filters: items to be deducted from Tier 1 capital:	**–32,039**	**–14,352**
Negative reserves on debt securities available for sale	–19,559	–14,352
Negative reserves on equities and mutual funds available for sale	–12,480	–
Tier 1 capital inclusive of items to be deducted	**3,551,494**	**3,522,130**
Items to be deducted	**–251,912**	**–37,988**
50% of equity interests in banks and financial institutions that exceed 10% of the investee's capital	–140,164	–21,498
50% of investments in insurance companies	–111,748	–16,490
Total Tier 1 capital	**3,299,582**	**3,484,142**
Tier 2 capital		
Positive elements	**1,630,368**	**1,648,574**
Valuation reserves: securities available for sale	–	2,087
Hybrid capital instruments	319,708	319,370
Tier 2 subordinated liabilities	1,310,660	1,327,117
Negative elements	**–**	–
Prudential filters: items to be deducted from Tier 2 capital:	**–**	**–1,043**
Excluded portion (50%) of positive reserves on equities and mutual fund units available for sale.	–	–1,043
Tier 2 capital inclusive of items to be deducted	**1,630,368**	**1,647,531**
Items to be deducted	**–251,912**	**–37,988**
50% of equity interests in banks and financial institutions that exceed 10% of the investee's capital	–140,164	–21,498
50% of investments in insurance companies	–111,748	–16,490
Total Tier 2 capital	**1,378,456**	**1,609,543**
Total items to be deducted from Tier 1 and 2 capital	**–27,612**	**–27,612**
(Investments and subordinated liabilities issued by insurance companies purchased by the Bank before 20 July 2006)		
Equity investment in Bipiemme Vita	–22,812	–22,812
Subordinated liabilities issued by Bipiemme Vita	–4,800	–4,800
Total regulatory capital	**4,650,426**	**5,066,073**

The innovative capital instruments, hybrid capital instruments and subordinated liabilities which, together with the capital and reserves, are included in Tier 1 and Tier 2 capital are listed below.
As regards the characteristics of the financial instruments as per art. 12. of Decree 185/2008 reference should be made to Part B – Section 14 of the notes.

Bond	Book value at 31.12.2010	Contribution to regulatory capital	Original nominal amount issued	Bond issue price	Interest rate	Issue date/ maturity	Early redemption from
Tier 1 capital							
Innovative capital instruments subject to transitional rules (Tier 1) (*):	**213,544**	**191,668**					
Perpetual Subordinated Fixed/Floating Rate Notes – 9%	213,544	191,668	300,000 Euro	98.955	Floating rate	25.6.2008 Perpetual	25.6.2018
Tier 2 capital							
Hybrid capital instruments (Upper Tier 2):	**354,376**	**319,708**					
Banca Popolare di Milano subordinated bond loan (Upper Tier 2) – Rate 7.625% - 29.6.01-11 (issued as part of the EMTN Programme)	168,801	159,708	160,000 Euro	99.202	7,625%	29.6.01/2011	n. p.
Subordinated bond of Banca Popolare di Milano (Upper Tier 2) Rate- 2.7.01-31	182,172	160,000	171,882 Euro	100	Floating rate	2.7.01/2031	2.7.2011
Subordinated bond of Banca Popolare di Milano (Upper Tier 2) – Floating rate – 18 June 2008/2018 (**)	3,403	0	17,850 Euro	100	Floating rate	18.6.08/2018	n. p.
Subordinated liabilities (Lower Tier 2):	**1,338,475**	**1,310,661**					
Banca Popolare di Milano subordinated bond loan (Lower Tier 2) Floating rate – 29.6.05-15 (issued as part of the EMTN Programme)	595,066	595,000	600,000 Euro	99.716	Floating rate	29.6.05/2015	29.6.2010
Subordinated bond of Banca Popolare di Milano (Lower Tier 2) – Fixed rate 4.5% 18 April 2008/2018	277,117	250,626	252,750 Euro	100	4,50%	18.4.08/2018	n. p.
Subordinated bond of Banca Popolare di Milano (Lower Tier 2) – Floating rate 20 October 2008/2018	466,292	465,035	502,050 Euro	100	Floating rate	20.10.08/2018	20.10.2013
Total	**1,906,395**	**1,822,037**					

(*) Innovative capital instruments can be included in Tier 1 capital for an amount not exceeding 15% of the Tier 1 capital (including the innovative instruments), before subtracting the items to be deducted.
(**) Not included in the calculation as more than 10% repurchased.

2.2 Capital adequacy

A. Qualitative information

The capital ratios at 31 December 2010 are determined according to the method foreseen in the Basel II Capital Accord, adopted by the Bank of Italy in its Circular no. 263 of 27 December 2006.

Based on the instructions of the Supervisory Authority, banks and banking groups have to maintain an amount of regulatory capital that is higher than the total minimum capital requirement (this being the sum of the requirements for credit and counterparty risk, market risk and operational risk). Banks belonging to banking groups that do not show capital deficits at a consolidated level can reduce their individual capital requirement by 25%. Given that this condition has been satisfied, BPM and the other banks in its Group can apply this reduction.

Credit and counterparty risk
The capital requirement for credit and counterparty risk is 8% of risk-weighted assets. This risk is determined on the basis of the standardised approach.

Market risks
The total capital requirement for market risk is the sum of the requirements calculated for regulatory position risk, concentration risk, exchange rate risk and commodity risk.
BPM uses the Standardised Approach to determine these requirements. Within the Group, Banca Akros has been authorised to use internal models.

Operational risk
The capital requirement for operational risk is determined by means of the Standardised Approach, which involves applying distinct regulatory coefficients to net interest and other banking income for each line of business making up the Bank's activity.

The following coefficients take on particular importance for the assessment of capital solidity:
- The Tier 1 capital ratio, represents the ratio between Tier 1 capital and total risk-weighted assets;
- The Core Tier 1 capital ratio, is represented by the ratio between Tier 1 capital (net of innovative capital instruments) and total risk-weighted assets;
- The Total capital ratio, is represented by the ratio between regulatory capital and total risk-weighted assets.

As can be seen from the composition of regulatory capital and from the following breakdown of the minimum capital requirements, the Bank has a Tier 1 capital ratio of 13.43% (14.94% at 31.12.2009) and a total capital ratio of 18.92% (21.73% at 31.12.2009), so higher than the minimum requirement of 6%.

After deducting the portion absorbed by credit and counterparty risks, market risks and operational risks, the Group's surplus capital amounted to 2,685 million euro.

B. Quantitative information

Total risk-weighted assets for credit risks amount to 30,411,656 thousand Euro (28,391,728 thousand Euro at 31.12.2009). This is 2,019,928 thousand Euro (+7.1%) higher than at the end of 2009.

Overall, taking account of market and operational risk as well and the 25% reduction for banks belonging to banking groups, risk-weighted assets come to 24,573,540 thousand euro, an increase of 1,255,153 thousand Euro (+5.4%).

Categories/amounts	**Non-weighted amounts**		**Weighted/required amounts**	
	31.12.2010	**31.12.2009**	**31.12.2010**	**31.12.2009**
A. Risk-weighted assets				
A.1 Credit and counterparty risk	**46,343,062**	**40,724,024**	**30,411,656**	**28,391,728**
1. Standardised approach	46,307,886	40,682,405	30,382,421	27,986,077
2. Method based on internal ratings	–	–	–	–
2.1 Basic	–	–	–	–
2.2 Advanced	–	–	–	–
3. Securitisations	35,176	41,619	29,235	405,651
B. Regulatory capital requirements				
B.1 Credit and counterparty risk			**2,432,932**	**2,271,338**
B.2 Market risk			**20,924**	**34,723**
1. Standardised approach			20,924	34,723
2. Internal models			–	–
3. Concentration risk			–	–
B.3 Operational risk			**167,321**	**181,234**
1. Basic approach			–	–
2. Standardised approach			167,321	181,234
3. Advanced approach			–	–
B.4 Other prudential requirements			**–**	**–**
B.5 Other calculation elements (1)			**–655,294**	**–621,824**
B.6 Total minimum requirements			**1,965,883**	**1,865,471**
C. Risk assets and capital adequacy ratios				
C.1 Risk-weighted assets (2)			24,573,540	23,318,387
C.2 a) Tier 1 capital (net of innovative capital instruments)/Risk-weighted assets (Core Tier 1 capital ratio)			12.6%	14.1%
C.2 b) Tier 1 capital/Risk-weighted assets (Tier I capital ratio)			13.4%	14.9%
C.3 Regulatory capital including Tier 3/Risk-weighted assets (Total capital ratio)			18.9%	21.7%

(1) This amount is equal to the reduction of 25% of the individual capital requirements for banks belonging to banking groups.
(2) Risk-weighted assets (line item C.1) are the product of total minimum capital requirements (line item B.6) and 12.5 (the reciprocal of the obligatory minimum ratio, namely 8%).

Part G
Business combinations

Section 1 – Transactions carried out during the year

1.1 Business combinations

Name	Date of transaction a	Cost of transaction b	% held c	Net interest and other banking income d	Net income (loss) for the year e	Net income (loss) recognised on the acquisition date f
1. Banca di Legnano branches	1-05-2010	7.324	Acquisition of business unit	n.a.	n.a.	n.a.
2. Cassa di Risparmio di Alessandria branches	1-05-2010	2.965	Acquisition of business unit	n.a.	n.a.	n.a.
3. Merger of Bipiemme Private Banking SIM with Banca Popolare di Milano	30-06-2010	–	Merger by absorption of wholly-owned subsidiaries			

a) Date of acquisition of the branches
b) Cost that does not include ancillary charges: definitive amounts
f) Net income (loss) since the date of acquisition included in BPM's result

1.2 Other information on business combinations

1.2.1 Annual changes in goodwill

Assets/Amounts	Opening goodwill	Increases	Decreases	Closing goodwill
Merger of Banca Agricola Milanese	16,330	–	–	16,330
Merger of Banca Briantea	6,145	–	–	6,145
Merger of Banca 2000	6,725	–	–	6,725
Purchase of the Pavia branch	342	–	–	342
Acquisition of Unicredit branches	107,042	–	–	107,042
Acquisition of Banca di Legnano branches	–	5,965	–	5,965
Acquisition of Cassa di Risparmio di Alessandria branches	–	2,032	–	2,032
Total	**136,584**	**7,997**	**–**	**144,581**

1.2.2 Other information

A) IntraGroup sale of branches

Description of the transaction

As part of the plan to rationalise the territorial coverage of the BPM Group, the Boards of Directors of Banca Popolare di Milano, Banca di Legnano and Cassa di Risparmio di Alessandria agreed to transfer the following branches within the Group:

Selling bank	Purchasing bank	Branch
BPM	BDL	Lainate
BPM	BDL	Cuggiono
BPM	BDL	San Vittore Olona
BPM	BDL	Milan - Certosa
BPM	BDL	Castellanza
BPM	CRAL	Vercelli
BPM	CRAL	Genoa
BDL	BPM	Arcisate
BDL	BPM	Bovisio Masciago
BDL	BPM	Bresso
CRAL	BPM	Voghera
CRAL	BPM	Mede

Based on an independent appraisal, the overall valuation came to 36 million euro, which gives a multiple of around 11% of total deposits.
The deal was completed on 29 April 2010, effective 1 May 2010. The distribution structure was simplified even more as, with the exception of Mede, the branches and related assets transferred were immediately absorbed by another pre-existing branch of the transferee bank. As a result, the Group's distribution network had 11 fewer units on completion of this deal.
As regards Banca Popolare di Milano, the price of the two business units paid to the counterparties on 1 May 2010 was provisionally set at Euro 7,963,419 for the Banca di Legnano branches and Euro 4,057,181 for the Cassa di Risparmio di Alessandria branches, in both cases based on an expert appraisal.

These prices were subject to revision in accordance with the contractual clauses, leading to a definitive price of Euro 7,323,956 for the Banca di Legnano branches and Euro 2,965,079 for the Cassa di Risparmio di Alessandria branches; these adjustments were due to the fact that actual "Total deposits" at the date that the contract took effect were more than 5% lower than the reference figure.

Ancillary charges involved in this operation (professional fees, registration tax, etc.) have not been added to the acquisition cost in accordance with IFRS 3 Revised, which provides that these costs have to be written off in the period when they are incurred.

Definitive statement of assets and liabilities		Branches formerly of Banca di Legnano	Branches formerly of Cassa di Risparmio di Alessandria	Total branches acquired
Assets				
10.	Cash and cash equivalents	–	–	–
20.	Financial assets held for trading	28	–	28
60.	Due from banks	1,038	–	1,038
70.	Loans to customers	18,444	19,381	37,825
110.	Property and equipment	–	3	3
150.	Other assets	4,843	3,082	7,925
Total assets		**24,353**	**22,466**	**46,819**

Liabilities and equity				
10.	Due to banks	–	6,692	6,692
20.	Due to customers	19,558	13,438	32,996
30.	Securities issued	389	24	413
40.	Financial liabilities held for trading	28	–	28
100.	Other liabilities	4,330	2,173	6,503
110.	Employee termination indemnities	33	128	161
120.	Allowances for risks and charges:	15	11	26
	a) post employment benefits	–	–	–
	b) other allowances	15	11	26
Total liabilities		**24,353**	**22,466**	**46,819**

At the acquisition date, indirect deposits amounted to 35,661 thousand Euro for the branches of Banca di Legnano and 20,216 thousand Euro for those of Cassa di Risparmio di Alessandria

Purchase price allocation

The transaction has been booked in accordance with IFRS 3, which set out the rules for presenting business combination transactions in the financial statements, that is according to the purchase method.

This method requires the purchaser to account for the transaction at the date of acquisition, recognising its cost. In a transaction that provides for payment in cash, the purchase cost is represented by the agreed price, discounted if payment is foreseen in instalments. Under the circumstances, this operation was completed by means of a single exchange and the date of the exchange coincided with the date of acquisition, which took place on 1 May 2010.

With reference to that date, the cost of the acquisition has to be allocated at the fair value of the assets and liabilities of the business units purchased, identifying any further assets (previously not recognised by the seller) to which part of the cost should be attributed; whatever is left is goodwill, which can be said to be the amount paid by the buyer in order to exploit the future economic benefits deriving from those assets that are not recognised individually and separately in the books of account.

During the purchase price allocation process, customer-related intangible assets (not previously booked by Banca di Legnano and Cassa di Risparmio di Alessandria) were identified in connection with the funding activity through the management of so-called “core deposits”.

Core deposits represent an intangible asset linked to customer relationships which is generally recognised during business combinations in the banking field. The amount of the intangible asset linked to these core deposits is in fact inherent in the future benefits which the buyer of the funds will be able to enjoy thanks to the fact that it will have available funding for its credit and loans activity at a rate of remuneration that is lower than market rates.

The intangible asset therefore consists of a valuation of this future margin, which is called “deposit premium”, together with the other revenue items directly related to deposits (commissions and operating expenses). The deposit premium therefore represents an asset whose value derives from the evolution of funding rates and market rates of interest and the trend in the deposits raised. Valuing this asset depends on being able to identify the structural component of funding, thereby excluding sources of financing that have a high degree of volatility or which are in any case non-recurring. The intangible asset is considered to have a finite life as the valuation of the asset only takes into consideration the relationships that existed at the acquisition date and not the ability to replace them or to generate new relationships. Determining the fair value of this asset is based on discounting the flows that represent the profit margins generated by the deposits during a period that reflects the expected residual duration of the relationships that existed at the acquisition date.

The intangible asset is booked to item 120. "Intangible assets" in the balance sheet and the amortisation (included in item 180. "Net adjustments to/recoveries on intangible assets" of the income statement) is calculated on a straight-line basis over the period when the bulk of the economic benefits is expected to be received (10 years).

To summarise, the acquisition cost has been allocated as follows:

Description	Branches formerly of Banca di Legnano	Branches formerly of Cassa di Risparmio di Alessandria	Total
Recognition of the value of core deposits	1,359	933	2,292
Goodwill	5,965	2,032	7,997
Total acquisition cost	**7,324**	**2,965**	**10,289**

Impact of the acquisition on the income statement

Based on paragraph B64 point q) of IFRS 3, no additional information is provided as regards the impact on the income statement as the revenue items of the branches acquired have since been combined and are included in the Bank's income statement without being separately identifiable.

Allocation of goodwill to the Cash Generating Units

The operation did not involve any redefinition of the business segments. The goodwill was therefore all allocated to the Retail Banking segment, also considering the characteristics of the branches acquired.

B) Merger of Bipiemme Private Banking SIM with Banca Popolare di Milano

On 19 January 2010, the Board of Directors of Banca Popolare di Milano approved the merger of Bipiemme Private Banking SIM SpA with Banca Popolare di Milano, which was then approved by both companies' General Meetings held on 20 April and 24 April 2010 respectively.
This merger, which took effect on 30 June 2010, forms part of a wider project regarding the "development paths for the financial advisory model". Among other objectives, this project seeks to introduce innovative policies for the provision of financial products and strengthen the central role of customers with a focus on their needs, while also promoting the best practices identified inside and outside the Group.
Given that the sole purpose of this operation was reorganisation, it was accounted for in the books of the Parent Bank at the same book values as the SIM, without recognising any impacts on the income statement, except for those of the first half which pertain to the SIM prior to its merger. Accounting for this operation gave rise to a merger surplus reserve of 61 thousand Euro in the books of BPM, which has been booked to an equity reserve.

This amount is made up as follows:

a)	Shareholders' equity of the merged company, which was cancelled on absorption by BPM:	euro	13,887,859.18
b)	Value of the equity investment in the books of the Bank, which was cancelled on absorption of the SIM	euro	13,827,120.00
	Merger surplus reserve (a – b)	**euro**	**60,739.18**

Section 2 – Transactions carried out after the end of the year

No combinations involving companies or businesses have been carried since the end of the year.

Part H
Related party transactions

1. Information relating to the remuneration of key management personnel

Remuneration paid to the Directors, Statutory Auditors and General Managers

In accordance with article 78 of CONSOB resolution 11971 of 14 May 1999 and subsequent amendments, dealing with the implementation of regulations for the discipline of issuing bodies, the remuneration of the directors, statutory auditors and the general managers for all positions and duties carried out for the Bank and its subsidiaries – even if they have only remained in office for part of the year – are disclosed below. The amounts are stated net of VAT and compulsory social contributions.

Board of Directors

Individual	Description of office			Remuneration (euro/000)						
Name and surname	Position	Period in office	End of office (3)	Emoluments of office (4)				Benefits in kind (5)	Bonuses and other incentives	Other remuneration (7)
				Emoluments	Share of net income	Attendance fees (Board of Directors)	Attendance fees (Committees)			
Ponzellini Massimo	Chairman (1)	01-01-10/31-12-10	2012	658	29	14	–	3	–	–
Artali Mario	Deputy Chairman (1)	01-01-10/31-12-10	2012	158	29	15	–	3	–	53
Tarantini Graziano	Deputy Chairman (1)	01-01-10/31-12-10	2012	158	29	15	–	3	–	173
Anselmi Beniamino	Director	01-01-10/29-06-10	–	29	5	6	–	2	–	22
Benvenuto Antoniogiorgio	Director	01-01-10/31-12-10	2012	32	29	5	9	2	–	–
Bianchi Francesco	Director (1)	01-01-10/31-12-10	2012	58	29	4	–	2	–	39
Bianchini Giovanni	Director	01-01-10/31-12-10	2012	32	29	15	13	2	–	–
Coppini Giuseppe	Director	01-01-10/31-12-10	2012	32	29	16	13	2	–	–
Corali Enrico	Director	01-01-10/31-12-10	2012	32	29	15	–	2	–	143
Danelon Claudio	Director	08-06-10/31-12-10	2012	18	26	3	3	2	–	17
Debenedetti Franco	Director	01-01-10/31-12-10	2012	32	29	4	2	2	–	–
Del Favero Franco	Director (1)	01-01-10/31-12-10	2012	58	29	4	–	2	–	23
Dell'Aringa Carlo	Director (1)	09-11-10/31-12-10	2012	8	13	1	–	–	–	24
Fusilli Roberto	Director	01-01-10/31-12-10	2012	32	29	15	4	2	–	43
Lonardi Piero	Director (1)	01-01-10/31-12-10	2012	58	29	5	3	2	–	24
Mazzotta Roberto	Director	01-01-10/21-05-10	–	13	2	1	–	2	–	–
Priori Marcello	Director (2)	01-01-10/31-12-10	2012	92	29	5	5	2	–	103
Spozio Leone	Director	01-01-10/31-12-10	2012	32	29	16	6	2	–	–
Tamburini Jean Jacques	Director	01-01-10/31-12-10	2012	32	29	1	–	2	–	21
Zefferino Michele	Director (6)	01-01-10/31-12-10	2012	32	29	5	8	2	–	108

Notes:
(1) Member of the Executive Committee.
(2) Executive Director in charge of supervising the internal control system
(3) The Board of Directors will remain in office until the time of the members' meeting called to approve the financial statements for the year ended 31 December 2011.
(4) This includes: (i) emoluments for the year, (ii) 0.25% of the profit before taxes on income shown in the financial statements at 31.12.2010 (see section of the income statement 9.1 "payroll"), (iii) attendance fees for taking part in meetings of the Board of Directors and of the Executive Committee; (iv) Attendance fees for taking part in other committee meetings
(5) Insurance policy against accident and injury taken out by the Bank in favour of members of the Board of Directors and the Board of Statutory Auditors.
(6) Member of the Supervisory Committee. The related fee of 20 thousand Euro is included in "Other remuneration".
(7) This includes emoluments for offices held in subsidiary companies.

General management							
Individual	**Description of office**			**Remuneration (euro/000)**			
Name and surname	**Position**	**Period in office**	**End of office**	**Emoluments for offices held in the reporting company**	**Benefits in kind**	**Bonuses and other incentives**	**Other remuneration (1)**
Fiorenzo Dalu	General Manager	01-01-10/31-12-10	Unspecified	759	–	350	2

Notes: (1) This amount represents the value of the shares assigned to employees as a portion of the net income, as per art. 47 of the Articles of Association.

Board of Statutory Auditors									
Individual	**Description of office**			**Remuneration (euro/000)**					
Name and surname	**Position**	**Period in office**	**End of office (1)**	**Emoluments of office (2)**			**Benefits in kind (3)**	**Bonuses and other incentives**	**Other remuneration (4)**
				Emoluments	**Attendance fees**	**Attendance fees (Committees)**			
Salvatore Rino Messina	Chairman	01-01-10/31-12-10	2012	100	42	14	2	–	–
Carlo Bellavite Pellegrini	Auditor	01-01-10/31-12-10	2012	80	38	5	2	–	–
Enrico Castoldi	Auditor	01-01-10/31-12-10	2012	80	39	5	2	–	119
Stefano Salvatori	Auditor	01-01-10/31-12-10	2012	80	39	5	2	–	33
Ezio Simonelli	Auditor	01-01-10/31-12-10	2012	80	38	5	2	–	26

Notes:
(1) The Board of Statutory Auditors will remain in office until the time of the members' meeting called to approve the financial statements for the year ended 31 December 2011.
(2) This includes (i) emoluments for the year and (ii) attendance fees for taking part in meetings of the Board of Statutory Auditors, (iii) attendance fees for taking part in other committee meetings.
(3) Insurance policy against accident and injury taken out by the Bank in favour of members of the Board of Directors and the Board of Statutory Auditors.
(4) This includes emoluments for offices held in subsidiary companies.

Information relating to the remuneration of key management personnel

The information required by paragraph 16 of IAS 24 is provided below in relation to managers belonging to the Bank's senior management team.

Salaries and other short-term benefits (1)	5,068
Post-employment benefits (2)	380
Termination benefits (3)	909
Share-based payments (4)	12

(1) Includes the remuneration of the General Manager also disclosed in the previous point
(2) Represents the annual charge to the employee termination indemnities
(3) Represents the indemnities paid to managers who left in 2010
(4) This represents the value of the shares assigned to employees as per art. 47 of the Articles of Association.

2. Related party disclosures

A. Subsidiaries and companies subject to significant influence

The Bank's intercompany transactions and balances with subsidiaries and associated companies are as follows:

Line items	31.12.2010				31.12.2009			
	Subsidiary companies	Joint ventures	Company subject to significant influence	Totale	Subsidiary companies	Joint ventures	Company subject to significant influence	Totale
Balance sheet: assets	**1,793,611**	**20,533**	**741,603**	**2,555,747**	**1,480,434**	**22,163**	**385,103**	**1,887,700**
Financial assets held for trading	87,095	0	0	87,095	102,264	0	0	102,264
Financial assets designated at fair value through profit and loss	191	0	0	191	0	0	0	0
Financial assets available for sale	17,503	0	0	17,503	215,916	0	0	215,916
Due from banks	967,766	0	0	967,766	421,317	0	0	421,317
Loans to customers	721,056	20,533	741,603	1,483,192	740,937	22,163	385,103	1,148,203
Balance sheet: liabilities	**2,112,562**	**4,529**	**12,378**	**2,129,469**	**1,671,668**	**5,627**	**327,089**	**2,004,384**
Due to banks	1,277,437	0	0	1,277,437	914,808	0	0	914,808
Due to customers	63,517	4,529	12,378	80,424	262,076	5,627	62,230	329,933
Securities issued	552,528	0	0	552,528	413,214	0	93,322	506,536
Financial liabilities held for trading	95,761	0	0	95,761	71,216	0	0	71,216
Financial liabilities designated at fair value through profit and loss	123,319	0	0	123,319	10,354	0	171,537	181,891
Balance sheet: guarantees and commitments	**1,492,606**	**0**	**8,756**	**1,501,362**	**1,292,721**	**0**	**8,756**	**1,301,477**
Guarantees given	1,305,416	0	8,756	1,314,172	1,292,615	0	8,756	1,301,371
Commitments	187,190	0	0	187,190	106	0	0	106
Income statement	**81,442**	**447**	**19,955**	**101,844**	**117,658**	**(7,121)**	**29,081**	**139,618**
Interest income	20,099	1,432	6,705	28,236	25,387	2,483	12,427	40,297
Interest expense	(36,185)	0	(429)	(36,614)	(17,760)	(13)	(482)	(18,255)
Fee and commission income	9,132	5	12,509	21,646	60,586	0	15,676	76,262
Fee and commission expense	(5,650)	0	0	(5,650)	(24,929)	0	(1)	(24,930)
Dividends	81,004	0	705	81,709	82,554	0	598	83,152
Profits (losses) on disposal/ repurchase	0	0	0	0	2,196	0	0	2,196
Adjustments for the impairment of loans	0	(990)	0	(990)	0	(9,591)	0	(9,591)
Recharge of payroll costs for staff seconded to third parties	2,170	0	171	2,341	1,640	0	292	1,932
Cost of staff on secondment to the Bank	(3,950)	0	0	(3,950)	(3,954)	0	0	(3,954)
Administrative expenses	(25,524)	0	0	(25,524)	(28,000)	0	0	(28,000)
Other operating income	21,077	0	294	21,371	19,938	0	571	20,509
Profits (losses) on disposal of investments	19,269	0	0	19,269	0	0	0	0

B. Bank officers

The following table shows transactions between the Bank and members of the Board of Directors and Board of Statutory Auditors, as well as key management personnel, and other parties related to them (in particular members of the families and companies controlled by them and the members of their families).

Board of Directors		**Members of the Board of Directors**	**Companies controlled by members of the Board of Directors**	**Relatives of members of the Board of Directors**	**Companies controlled by relatives of members of the Board of Directors**
Loans	Granted	552	–	445	426
	Drawdowns	204	–	329	–
Deposits		2,017	4	224	200
Indirect deposits (at market value)		2,853	–	681	–
Assets under management (at market value)		1,474	–	275	–
Guarantees given		–	–	–	–
Interest income		2	–	6	–
Interest expense		(30)	–	(5)	–
Commission and other income		15	–	18	170
Amounts recognised for professional and consultancy services		–	–	–	–

Board of Statutory Auditors		**Members of the Board of Statutory Auditors**	**Companies controlled by members of the Board of Statutory Auditors**	**Relatives of members of the Board of Statutory Auditors**	**Companies controlled by relatives of members of the Board of Statutory Auditors**
Loans	Granted	1,982	–	112	–
	Drawdowns	1,975	–	109	–
Deposits		51	2	30	–
Indirect deposits (at market value)		36	–	2	–
Assets under management (at market value)		–	–	21	–
Guarantees given		–	–	–	–
Interest income		27	–	2	–
Interest expense		–	–	–	–
Commission and other income		2	–	1	–
Amounts recognised for professional and consultancy services		–	–	–	–

Direzione		**Membri di Direzione**	**Società controllate da membri di Direzione**	**Familiari di membri di Direzione**	**Società controllate da familiari di membri di Direzione**
Loans	Granted	1,044	–	51	27
	Drawdowns	364	–	–	17
Deposits		2,230	–	281	–
Indirect deposits (at market value)		1,374	–	269	–
Assets under management (at market value)		396	–	292	1
Guarantees given		–	–	–	–
Interest income		7	–	–	1
Interest expense		(27)	–	(3)	–
Commission and other income		6	–	5	1
Amounts recognised for professional and consultancy services		–	–	–	–

C. Group officers

The following table shows transactions between the Bank and members of the Board of Directors and Board of Statutory Auditors, as well as the general managers of other Group companies, and other parties related to them (in particular members of the families and companies controlled by them and the members of their families).

Board of Directors		**Members of the Board of Directors**	**Companies controlled by members of the Board of Directors**	**Relatives of members of the Board of Directors**	**Companies controlled by relatives of members of the Board of Directors**
Loans	Granted	4,031	65	1,033	23,928
	Drawdowns	2,811	60	933	15,305
Deposits		8,885	5	1,484	147
Indirect deposits (at market value)		6,950	–	2,621	42,406
Assets under management (at market value)		2,856	–	472	–
Guarantees given		–	–	–	–
Interest income		89	2	17	485
Interest expense		(59)	–	(21)	–
Commission and other income		38	2	35	6
Amounts recognised for professional and consultancy services		–	–	–	–

Board of Statutory Auditors		**Members of the Board of Statutory Auditors**	**Companies controlled by members of the Board of Statutory Auditors**	**Relatives of members of the Board of Statutory Auditors**	**Companies controlled by relatives of members of the Board of Statutory Auditors**
Loans	Granted	109	–	8	–
	Drawdowns	32	–	–	–
Deposits		400	–	18	–
Indirect deposits (at market value)		432	–	41	–
Assets under management (at market value)		–	–	–	–
Guarantees given		–	–	–	–
Interest income		1	–	–	–
Interest expense		(2)	–	–	–
Commission and other income		1	–	1	–
Amounts recognised for professional and consultancy services		–	–	–	–

General Management		**Members of General Management**	**Companies controlled by members of Senior Management**	**Relatives of members of Senior Management**	**Companies controlled by relatives of members of Senior Management**
Loans	Granted	1.183	–	232	39
	Drawdowns	916	–	204	22
Deposits		24	–	57	–
Indirect deposits (at market value)		175	–	13	–
Assets under management (at market value)		219	–	44	–
Guarantees given		–	–	–	–
Interest income		19	–	3	1
Interest expense		–	–	–	–
Commission and other income		4	–	1	1
Amounts recognised for professional and consultancy services		–	–	–	–

Proportion of related party transactions

On the basis of Consob Communication DEM/6064293 of 28.7.2006 and in addition to the requirements of the international accounting standard on "Related party disclosures" (IAS 24), we also provide information on related party transactions or balances as classified by IAS 24, and their impact on the balance sheet and income statement of the of the Bank.

Impact of related party transactions or balances on:	**31.12.2010**			**31.12.2009**		
	Book value	**Related parties**		**Book value**	**Related parties**	
		Absolute amount	**%**		**Absolute amount**	**%**
Asset line items:						
20. Financial assets held for trading	310,580	87,095	28,0	372,653	102,264	27,4
30. Financial assets designated at fair value through profit and loss	331,377	191	0,1			
40. Financial assets available for sale	4,857,232	17,503	0,4	1,357,969	215,916	15,9
60. Due from banks	2,017,156	967,766	48,0	2,509,679	421,317	16,8
70. Loans to customers	30,180,420	1,506,473	5,0	(*) 27,877,550	1,148,203	4,1
Liabilities:						
10. Due to banks	7,877,115	1,277,437	16,2	2,179,385	914,808	42,0
20. Due to customers	17,846,858	96,483	0,5	(*) 18,272,739	329,933	1,8
30. Securities issued	10,274,098	552,528	5,4	9,912,507	506,536	4,2
40. Financial liabilities held for trading	238,532	95,761	40,1	175,704	71,216	40,5
50. Financial liabilities designated at fair value through profit and loss	587,874	123,319	21,0	1,329,563	181,891	13,7
Income statement line items :						
10. Interest and similar income	975.132	28.898	3,0	1.204.788	40.297	3,4
20. Interest and similar expense	(422.839)	(36.761)	8,7	(524.022)	(18.255)	3,5
40. Fee and commission income	527.192	21.953	4,2	491.945	76.262	15,5
50. Fee and commission expense	(49.120)	(5.650)	11,5	(69.037)	(24.930)	36,1
70. Dividend and similar income	86.659	81.709	94,3	85.736	83.152	97,0
100. Profits/losses on disposal or repurchase of financial assets/liabilities:						
b) financial assets available for sale				11.324	2.196	19,4
130. Net losses/recoveries on impairment:						
a) loans	(208.092)	(990)	0,5	(281.244)	(9.591)	3,1
150. Administrative expenses	(822.857)	(27.133)	3,3	(921.928)	(30.067)	3,3
190. Other operating expenses (income)	(31.996)	21.371	n.s.	89.845	20.509	22,8
240. Profits (losses) on disposal of investments	74.218	19.269	26,0			

(*) Amounts restated and percentages recalculated

Part I
Share-based payments

A. Qualitative information

1. Description of share-based payments

Allocations of net income: under art. 47 of the Articles of Association, each year current employees (or collective funds representing them) are entitled to an amount equal to 5% of the pre-tax profit (income statement item "Profit from current operations before tax") calculated prior to the amount to be determined, unless the general meeting decides not to distribute dividends on the net income for the year. The forms and methods of disbursement of this amount are delegated to the Board of Directors; in the event that the Board decides to pay all or part of this amount in shares - as in 2010 and in previous years - the reference value will be equal to the average Stock Exchange price for the 30 days prior to the allocation. The allocation is made to all employees currently in service according to a formula based on agreements with the trade unions that provides for a fixed amount that is the same for everyone (for 60% of the total paid) and an amount linked to the individual's period of service (for the other 40%). Based on IFRS 2, the amount to be paid to employees is considered a cost for the year, measured at the fair value of the services received; the contra-entry is booked to "other liabilities" when at the balance sheet date it is foreseen that payment will be made in cash or in shares already in circulation, or to "shareholders' equity" if new shares are to be issued.

The quantity of shares required is obtained - under the authority granted to the Board of Directors by the shareholders - by using the "Reserve for treasury shares", without therefore increasing the number of shares in issue.

B. Quantitative information

2. Other information

As regards the allocation of earnings to the extent of 5% of the pre-tax profit, the cost at 31 December 2010, booked to payroll expenses in the sub-item "costs associated with share-based payments", came to 10,177 thousand Euro (9,022 thousand Euro at 31.12.2009), all of which was in ordinary shares of Banca Popolare di Milano already in circulation.

Part L

Segment reporting

Part L – Segment reporting

Segment information is provided at a consolidated level.

Certification of the separate financial statements pursuant to art. 81-ter of Consob Regulation no. 11971 dated 14 May 1999 and subsequent additions and amendments

1. Massimo Ponzellini, as Chairman of the Board of Directors, and Roberto Frigerio, as the Financial Reporting Manager of Banca Popolare di Milano S.c.a.r.l., certify, taking into account art. 154-bis, para. 3 and 4, of Decree 58 of 24 February 1998:

- the adequacy in relation to the characteristics of the company and
- the effective application of the administrative and accounting procedures for the preparation of the separate financial statements during the course of 2010.

2. The assessment of adequacy of the administrative and accounting procedures as a basis for the formation of the separate financial statements at 31 December 2010 is based on a model developed by Banca Popolare di Milano in line with that of the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (CoSO) , which represents a framework of reference that is generally accepted at international level.
In addition IT procedures have been evaluated using the "Control Objective for Information and Related Technologies" (COBIT), developed by Information System Audit and Control Association (ISACA) .

3. In addition, we certify that:

3.1 The separate financial statements:

a) Have been prepared in accordance with the international accounting standards (IAS/IFRS) applicable and recognised by the European Community as per (EC) Regulation 1606/2002 of the European Parliament and Council dated 19 July 2002;

b) Agree with the balances on the books of account and accounting entries;

c) Give a true and fair view of the assets and liabilities, results and financial situation of the issuer.

3.2 The report on operations includes a reliable analysis of the business trends and results, as well as of the general situation of the issuer, together with a description of the main risks and uncertainties to which it is exposed.

Milan, 29 March 2011

The Chairman of the Board of Directors	The Financial Reporting Manager
Massimo Ponzellini	Roberto Frigerio

Attachments

Reconciliation between balance sheet and reclassified balance sheet

(euro/000)

Line items of the reclassified balance sheet			Balance sheet line items:	31.12.2010	30.09.2010	31.12.2009
Cash and cash equivalents				**204,587**	**159,302**	**597,840**
	Line item	10	Cash and cash equivalents	204,587	159,302	597,840
Financial assets designated at fair value and hedging derivatives:				**5,505,696**	**3,384,346**	**2,174,314**
	Line item	20	Financial assets held for trading	310,580	385,319	372,653
	Line item	30	Financial assets designated at fair value through profit and loss	331,377	457,016	433,810
	Line item	40	Financial assets available for sale	4,857,232	2,536,083	1,357,969
	Line item	50	Investments held to maturity	0	0	0
	Line item	80	Hedging derivatives	6,507	5,928	9,883
	Line item	90	Fair value change of financial assets in hedged portfolios (+ / -)	0	0	0
Due from banks				**2,017,156**	**3,148,487**	**2,509,679**
	Line item	60	Due from banks	2,017,156	3,148,487	2,509,679
Loans to customers				**30,180,420**	**29,546,664**	**27,877,550**
	Line item	70	Loans to customers	30,180,420	29,546,664	27,877,550
Fixed assets				**2,910,456**	**2,801,526**	**2,667,938**
	Line item	100	Investments in associates and companies subject to joint control	2,090,024	1,979,517	1,833,943
	Line item	110	Property and equipment	586,219	586,615	599,534
	Line item	120	Intangible assets	234,213	235,394	234,461
non-current assets held for sale and discontinued operations				**0**	**0**	**0**
	Line item	140	non-current assets held for sale and discontinued operations	0	0	0
Other assets				**976,681**	**1,028,884**	**1,013,871**
	Line item	130	Tax assets	523,027	390,438	398,783
	Line item	150	Other assets	453,653	638,446	615,088
Total assets				**41,794,996**	**40,069,208**	**36,841,193**
Due to banks				**7,877,115**	**6,063,112**	**2,179,385**
	Line item	10	Due to banks	7,877,115	6,063,112	2,179,385
Due to customers				**17,846,858**	**17,455,986**	**18,272,739**
	Line item	20	Due to customers	17,846,858	17,455,986	18,272,739
Securities issued				**10,274,098**	**9,764,876**	**9,912,507**
	Line item	30	Securities issued	10,274,098	9,764,876	9,912,507
Financial liabilities and hedging derivatives:				**830,540**	**1,204,115**	**1,508,046**
	Line item	40	Financial liabilities held for trading	238,532	603,679	175,704
	Line item	50	Financial liabilities designated at fair value through profit and loss	587,874	587,231	1,329,563
	Line item	60	Hedging derivatives	30,933	7,619	2,779
	Line item	70	Fair value change of financial liabilities in hedged portfolios (+ / -)	–26,798	5,586	0
Liabilities associated with non-current assets held for sale and discontinued operations				**0**	**0**	**0**
	Line item	90	Liabilities associated with non-current assets held for sale and discontinued operations	0	0	0
Other liabilities				**980,084**	**1,462,186**	**919,622**
	Line item	80	Tax liabilities	44,104	55,590	63,532
	Line item	100	Other liabilities	935,979	1,406,596	856,090
Provisions for specific use				**332,780**	**348,421**	**381,649**
	Line item	110	Employee termination indemnities	125,594	127,243	139,951
	Line item	120	Allowances for risks and charges	207,186	221,178	241,698
Capital and reserves				**3,530,664**	**3,614,685**	**3,565,485**
	Line item	130	Valuation reserves	–80,912	3,121	–895
	Line item	140	Redeemable shares	0	0	0
	Line item	150	Equity instruments	519,606	519,606	519,597
	Line item	160	Reserves	1,243,961	1,243,961	1,207,930
	Line item	170	Share premium reserve	189,639	189,646	187,907
	Line item	180	Share capital	1,660,221	1,660,214	1,660,137
	Line item	190	Treasury shares (-)	–1,850	–1,862	–9,192
Net income (loss) for the year (+/–)				**122,857**	**155,827**	**101,761**
	Line item	200	Net income (loss) for the year (+/–)	122,857	155,827	101,761
Liabilities and shareholders' equity				**41,794,996**	**40,069,208**	**36,841,193**

Reconciliation between the income statement and reclassified income statement

(euro/000)

Reclassified income statement line items		Income statement line items	2010	2009
Interest margin			**564,456**	**680,766**
	Line item 10	Interest and similar income	975,132	1,204,788
	Line item 20	Interest and similar expense	(422,839)	(524,022)
	(–) Line item 20	*(partial) Interest expense on tax settlement*	*12,163*	
		Interest and similar expense	**(410,676)**	**(524,022)**
Non-interest margin			**625,509**	**697,011**
Net fee and commission income			**478,072**	**422,907**
	Line item 40	Fee and commission income	527,192	491,944
	Line item 50	Fee and commission expense	(49,120)	(69,037)
Other income			**147,437**	**274,104**
Dividends from investments in associates and companies subject to joint control			**81,709**	**83,151**
	Line item 70	Dividend and similar income	86,659	85,736
	(–) Line item 70	*Dividends from financial assets (HFT, FVO, AFS)*	*(4,950)*	*(2,585)*
		Dividends from investments in associates and companies subject to joint control	**81,709**	**83,151**
Net income from banking activities			**12,842**	**142,559**
	Line item 80	Net income from trading	5,312	103,858
	Line item 90	Net income from hedging	(252)	(2,534)
	Line item 100	Profits (losses) on disposal or repurchase of:	6,020	34,299
		a) loans	*(8,184)*	*11,965*
		b) financial assets available for sale	*11,713*	*11,324*
		c) investments held to maturity	*0*	*0*
		d) financial liabilities	*2,491*	*11,010*
	(–) Line item 100	*a) Profits (losses) on disposal or repurchase of receivables*	*8,184*	*(11,965)*
		Profits/losses on disposal or repurchase of financial assets/liabilities	**14,204**	**22,334**
	Line item 110	Profits (losses) on financial assets and liabilities designated at fair value	3,795	36,240
	(+) Line item 70	*Dividends from financial assets (HFT, FVO, AFS)*	*4,950*	*2,585*
	(+) Line item 130	*b) Net impairment adjustments/writebacks to loans: financial assets available for sale*	*(15,167)*	*(19,924)*
Other operating expenses (income)			**52,886**	**48,394**
	Line item 190	Other operating expenses (income)	(31,994)	89,845
	(–) Line item 190	(partial) - Recoverable portion of indirect taxes	(46,008)	(45,481)
	(+) Line item 190	(partial) - Depreciation of leasehold improvements	3,739	4,030
	(–) Line item 190	(partial) - Extraordinary tax items	127,149	
Operating income			**1,189,965**	**1,377,777**
Administrative expenses:			**(776,848)**	**(876,446)**
a) payroll			*(526,256)*	*(627,415)*
	Line item 150	a). Payroll	(526,256)	(627,415)
b) other administrative expenses			*(250,592)*	*(249,031)*
	Line item 150	b). Other administrative expenses	(296,600)	(294,512)
	(+) Line item 190	*(partial) - Other operating expenses (income) (recoverable portion of indirect taxes)*	*46,008*	*45,481*
Net adjustments to property and equipment and intangible assets			**(61,710)**	**(60,040)**
	Line item 170	Net adjustments to property and equipment	(30,996)	(30,590)
	Line item 180	Net adjustments to/recoveries on intangible assets	(26,975)	(25,420)
	(+) Line item 190	*(partial) - Other operating expenses (income) (depreciation of leasehold improvements)*	*(3,739)*	*(4,030)*
Operating expenses			**(838,558)**	**(936,486)**
Operating profit			**351,407**	**441,291**
Net adjustments for impairment of loans and other transactions			**(212,773)**	**(275,953)**
	Line item 130	Net losses/recoveries on impairment:	(219,756)	(307,842)
		a) loans	(208,092)	(281,244)
		b) financial assets available for sale	(15,167)	(19,924)
		c) investments held to maturity	0	0
		d) other financial activities	3,503	(6,674)
	(+) Line item 100	*a) Profits (losses) on disposal or repurchase of receivables*	*(8,184)*	*11,965*
	(–) Line item 130	*b) Net impairment adjustments/writebacks to loans: financial assets available for sale*	*15,167*	*19,924*
Net provisions for risks and charges			**(5,168)**	**(11,477)**
	Line item 160	Net provisions for risks and charges	(5,168)	(11,477)
Profits (losses) from equity and other investments			**198,703**	**17,100**
	Line item 210	Share of profit (loss) of investments in associates and companies subject to joint control	124,485	17,151
	Line item 220	Valuation differences on property, equipment and intangible assets measured at fair value	0	0
	Line item 230	Goodwill impairment	0	0
	Line item 240	Profits (losses) on disposal of investments	74,218	(51)
Extraordinary tax items			**(139,312)**	**0**
	(+) Line item 20	*(partial) Interest expense on tax settlement*	*(12,163)*	*0*
	(–) Line item 190	*(partial) - Extraordinary tax items*	*(127,149)*	*0*
Income (loss) before tax from continuing operations			**192,857**	**170,961**
Taxes on income from continuing operations			**(70,000)**	**(69,200)**
	Line item 260	Taxes on income on current operations	(70,000)	(69,200)
Net income (loss) for the year			**122,857**	**101,761**

Disclosure of amounts paid for the audit and other services in accordance with the Issuers' Regulations and Consob art. 149 duodecies.

The following table shows the information required by art. 149 duodecies of Consob's Issuers' Regulations on audit and other fees paid to Reconta Ernst & Young S.p.A. and companies belonging to the same network for the following services:

1. Audit services which include:
   – Audit of the annual accounts with a view to expressing an opinion on them;
   – Audit of the interim accounts.

2. Certification services, which include engagements with which the auditor evaluates a specific element: the valuation is carried out by another person who is responsible for it, whereas the auditor applies suitable criteria in order to come to a conclusion that provides the recipient with a degree of reliability with regard to the specific element in question. This category also includes the services involved in checking the accounting records kept for regulatory purposes.

3. Other services, which include engagements of a residual nature, for which an adequate level of detail has to be provided. For example, without being an exhaustive list, this category could include services such as: due diligence reviews on accounting, tax, legal and administrative matters and on the basis of agreed procedures. .

The fees shown in the table for 2010 are those established by contract, including forfeit expenses, index-linking and the supervisory contribution, if due.
In accordance with the instructions, they do not include any fees paid to secondary auditors or to members of their respective networks.
Separate figures are provided for the services rendered to the Parent Bank and those rendered to other companies of the BPM Group.

Type of service	**Service provided by**	**Fees** (euro/000)
Audit	Reconta Ernst & Young S.p.A.	525
Certification services (*)	Reconta Ernst & Young S.p.A.	170
Tax consultancy services		–
Other services (**)	Reconta Ernst & Young S.p.A.	176
Total		**871**

(*) Certification services mainly mean issuing comfort letters in connection with the EMTN programme, the Covered Bonds programme and the Convertendo BPM bond.
(**) Due diligence carried out on Prima SGR as part of the operation that led to the alliance between BPM, Monte Paschi and Clessidra in the asset management sector.

List of property owned by the bank with indication of revaluations

Abbiategrasso – Via Binaghi, 4	
Space sq.m.: 258; Basement sq.m. 89	
Historical cost	9.419
Revaluation Law L. 11.02.52 n. 74	910
Revaluation Law L. 05.11.73 n. 660	16.095
Revaluation Law L. 19.03.83 n. 72	190.640
Revaluation Law L. 30.12.91 n. 413	75.496
Merger deficit Bam e Briantea	122.430
Use of deemed cost on FTA 01/01/04	516.349
Gross book value	931.339
Total writedowns	547.431
Adjustments: depreciation	201.064
Adjustment of acc. depr. for use of deemed cost on FTA	346.367
Net book value	383.908

Accadia – Via Bonito, 7	
Space sq.m.: 103; Basement sq.m. 107	
Historical cost	62.146
Revaluation Law L. 19.03.83 n. 72	70.583
Revaluation Law L. 30.12.91 n. 413	36.142
Use of deemed cost on FTA 01/01/04	152.898
Gross book value	321.769
Total writedowns	226.078
Adjustments: depreciation	102.566
Adjustment of acc. depr. for use of deemed cost on FTA	123.512
Net book value	95.691

Agrate Brianza – Via Lecco, 2	
Space sq.m.: 439; Basement sq.m. 410	
Historical cost	203.577
Revaluation Law L. 19.03.83 n. 72	101.132
Revaluation Law L. 30.12.91 n. 413	313.951
Use of deemed cost on FTA 01/01/04	1.329.995
Gross book value	1.948.655
Total writedowns	1.185.231
Adjustments: depreciation	321.901
Adjustment of acc. depr. for use of deemed cost on FTA	863.330
Net book value	763.424

Apricena – Viale Aldo Moro, 42	
Space sq.m.: 1.442; Basement sq.m. 712	
Historical cost	867.874
Revaluation Law L. 02.12.75 n. 576	157.519
Revaluation Law L. 19.03.83 n. 72	1.379.746
Revaluation Law L. 30.12.91 n. 413	601.522
Use of deemed cost on FTA 01/01/04	1.393.723
Gross book value	4.400.384
Total writedowns	2.726.700
Adjustments: depreciation	1.594.467
Adjustment of acc. depr. for use of deemed cost on FTA	1.132.233
Net book value	1.673.684

Arcisate – Via Matteotti, 24	
Space sq.m.: 330; Basement sq.m. 342	
Historical cost	567.806
Revaluation Law L. 30.12.91 n. 413	332.064
Use of deemed cost on FTA 01/01/04	833.904
Gross book value	1.733.774
Total writedowns	1.009.086
Adjustments: depreciation	458.114
Adjustment of acc. depr. for use of deemed cost on FTA	550.972
Net book value	724.688

Arcore – Via Casati, 42	
Space sq.m.: 312; Basement sq.m. 168	
Historical cost	9.879
Revaluation Law L. 05.11.73 n. 660	10.779
Revaluation Law L. 19.03.83 n. 72	211.014
Revaluation Law L. 30.12.91 n. 413	79.972
Merger deficit Bam e Briantea	184.851
Use of deemed cost on FTA 01/01/04	544.101
Gross book value	1.040.596
Total writedowns	593.117
Adjustments: depreciation	232.891
Adjustment of acc. depr. for use of deemed cost on FTA	360.226
Net book value	447.479

Arese – Via Resegone, 5	
Space sq.m.: 360; Basement sq.m. 198	
Historical cost	90.726
Revaluation Law L. 19.03.83 n. 72	74.541
Revaluation Law L. 30.12.91 n. 413	171.369
Use of deemed cost on FTA 01/01/04	1.059.349
Gross book value	1.395.985
Total writedowns	827.130
Adjustments: depreciation	170.980
Adjustment of acc. depr. for use of deemed cost on FTA	656.150
Net book value	568.855

Argenta – Via Matteotti, 49	
Space sq.m.: 628; Basement sq.m. 0	
Historical cost	44.889
Revaluation Law L. 02.12.75 n. 576	12.985
Revaluation Law L. 19.03.83 n. 72	75.403
Revaluation Law L. 30.12.91 n. 413	139.414
Use of deemed cost on FTA 01/01/04	679.821
Gross book value	952.512
Total writedowns	564.211
Adjustments: depreciation	144.591
Adjustment of acc. depr. for use of deemed cost on FTA	419.620
Net book value	388.301

List of property owned by the bank with indication of revaluations

Arosio – Via Oberdan, 5	
Space sq.m.: 408; Basement sq.m. 375	
Historical cost	261.690
Revaluation Law L. 19.03.83 n. 72	22.361
Revaluation Law L. 30.12.91 n. 413	403.328
Use of deemed cost on FTA 01/01/04	891.539
Gross book value	1.578.918
Total writedowns	920.983
Adjustments: depreciation	316.042
Adjustment of acc. depr. for use of deemed cost on FTA	604.941
Net book value	657.935

Ascoli Satriano – Via Santa Maria del Popolo, 1/3	
Space sq.m.: 385; Basement sq.m. 0	
Historical cost	122.900
Revaluation Law L. 19.03.83 n. 72	132.729
Revaluation Law L. 30.12.91 n. 413	58.618
Use of deemed cost on FTA 01/01/04	428.169
Gross book value	742.416
Total writedowns	454.949
Adjustments: depreciation	162.525
Adjustment of acc. depr. for use of deemed cost on FTA	292.424
Net book value	287.467

Baranzate – Via Milano, 240	
Space sq.m.: 309; Basement sq.m. 140	
Historical cost	18.076
Revaluation Law L. 19.03.83 n. 72	100.709
Revaluation Law L. 30.12.91 n. 413	116.696
Use of deemed cost on FTA 01/01/04	749.084
Gross book value	984.565
Total writedowns	601.060
Adjustments: depreciation	124.892
Adjustment of acc. depr. for use of deemed cost on FTA	476.168
Net book value	383.505

Barlassina – Via Milano, 57	
Space sq.m.: 125; Basement sq.m. 0	
Historical cost	8.263
Revaluation Law L. 30.12.91 n. 413	128.888
Use of deemed cost on FTA 01/01/04	124.428
Gross book value	261.579
Total writedowns	137.379
Adjustments: depreciation	65.037
Adjustment of acc. depr. for use of deemed cost on FTA	72.342
Net book value	124.200

Barzanò – Via Manara, 16/18	
Space sq.m.: 342; Basement sq.m. 0	
Historical cost	144.860
Revaluation Law L. 05.11.73 n. 660	15.778
Revaluation Law L. 19.03.83 n. 72	176.313
Revaluation Law L. 30.12.91 n. 413	61.017
Merger deficit Bam e Briantea	42.786
Use of deemed cost on FTA 01/01/04	168.244
Gross book value	608.998
Total writedowns	302.111
Adjustments: depreciation	180.545
Adjustment of acc. depr. for use of deemed cost on FTA	121.566
Net book value	306.887

Basiglio – Piazza della Repubblica, 1	
Space sq.m.: 300; Basement sq.m. 150	
Historical cost	611.567
Gross book value	611.567
Total writedowns	95.168
Adjustments: depreciation	95.168
Net book value	516.399

Bellusco – Via Castello, 13	
Space sq.m.: 282; Basement sq.m. 166	
Historical cost	27.212
Revaluation Law L. 19.03.83 n. 72	112.231
Revaluation Law L. 30.12.91 n. 413	130.794
Use of deemed cost on FTA 01/01/04	788.529
Gross book value	1.058.766
Total writedowns	662.644
Adjustments: depreciation	142.307
Adjustment of acc. depr. for use of deemed cost on FTA	520.337
Net book value	396.122

Bentivoglio – Via Marconi, 58/A	
Space sq.m.: 279; Basement sq.m. 0	
Historical cost	7.573
Revaluation Law L. 02.12.75 n. 576	8.859
Revaluation Law L. 19.03.83 n. 72	50.098
Revaluation Law L. 30.12.91 n. 413	65.486
Use of deemed cost on FTA 01/01/04	593.499
Gross book value	725.515
Total writedowns	460.468
Adjustments: depreciation	74.224
Adjustment of acc. depr. for use of deemed cost on FTA	386.244
Net book value	265.047

Bereguardo – Via S. Antonio, 17	
Space sq.m.: 174; Basement sq.m. 0	
Historical cost	4.132
Revaluation Law L. 05.11.73 n. 660	6.309
Revaluation Law L. 19.03.83 n. 72	110.429
Revaluation Law L. 30.12.91 n. 413	41.394
Merger deficit Bam e Briantea	50.045
Use of deemed cost on FTA 01/01/04	213.240
Gross book value	425.549
Total writedowns	276.560
Adjustments: depreciation	121.975
Adjustment of acc. depr. for use of deemed cost on FTA	154.585
Net book value	148.989

Bernareggio – Via Prinetti, 23	
Space sq.m.: 276; Basement sq.m. 229	
Historical cost	64.411
Revaluation Law L. 19.03.83 n. 72	192.675
Revaluation Law L. 30.12.91 n. 413	93.505
Merger deficit Bam e Briantea	150.957
Use of deemed cost on FTA 01/01/04	558.442
Gross book value	1.059.990
Total writedowns	638.138
Adjustments: depreciation	252.922
Adjustment of acc. depr. for use of deemed cost on FTA	385.216
Net book value	421.852

List of property owned by the bank with indication of revaluations

Besnate – Largo Brianzoni
Space sq.m.: 293; Basement sq.m. 260

Historical cost	377.671
Revaluation Law L. 30.12.91 n. 413	335.133
Use of deemed cost on FTA 01/01/04	397.459
Gross book value	1.110.263
Total writedowns	660.769
Adjustments: depreciation	369.225
Adjustment of acc. depr. for use of deemed cost on FTA	291.544
Net book value	449.494

Bologna – Via Amendola, 12/A
Space sq.m.: 260; Basement sq.m. 175

Historical cost	109.868
Revaluation Law L. 19.03.83 n. 72	149.909
Revaluation Law L. 30.12.91 n. 413	281.126
Use of deemed cost on FTA 01/01/04	1.122.410
Gross book value	1.663.313
Total writedowns	1.060.432
Adjustments: depreciation	287.556
Adjustment of acc. depr. for use of deemed cost on FTA	772.876
Net book value	602.881

Bologna – Via Artieri, 2
Space sq.m.: 422; Basement sq.m. 97

Historical cost	10.668
Revaluation Law L. 11.02.52 n. 74	22.864
Revaluation Law L. 02.12.75 n. 576	83.442
Revaluation Law L. 19.03.83 n. 72	377.767
Revaluation Law L. 30.12.91 n. 413	492.302
Use of deemed cost on FTA 01/01/04	1.583.771
Gross book value	2.570.814
Total writedowns	1.633.661
Adjustments: depreciation	521.857
Adjustment of acc. depr. for use of deemed cost on FTA	1.111.804
Net book value	937.153

Bologna – Via Carbonesi, 9/11
Space sq.m.: 998; Basement sq.m. 374

Historical cost	1.135.615
Revaluation Law L. 11.02.52 n. 74	3.806
Revaluation Law L. 02.12.75 n. 576	191.565
Revaluation Law L. 19.03.83 n. 72	1.036.551
Revaluation Law L. 30.12.91 n. 413	1.186.028
Gross book value	3.553.565
Total writedowns	739.795
Adjustments: depreciation	739.795
Net book value	2.813.770

Bologna – Via Di Corticella, 184
Space sq.m.: 261; Basement sq.m. 39

Historical cost	5.927
Revaluation Law L. 02.12.75 n. 576	16.951
Revaluation Law L. 19.03.83 n. 72	54.075
Revaluation Law L. 30.12.91 n. 413	110.945
Use of deemed cost on FTA 01/01/04	500.215
Gross book value	688.113
Total writedowns	459.476
Adjustments: depreciation	111.976
Adjustment of acc. depr. for use of deemed cost on FTA	347.500
Net book value	228.637

Bologna – Via Emilia Ponente, 207
Space sq.m.: 225; Basement sq.m. 22

Historical cost	204.626
Revaluation Law L. 02.12.75 n. 576	13.986
Revaluation Law L. 19.03.83 n. 72	51.646
Revaluation Law L. 30.12.91 n. 413	67.306
Use of deemed cost on FTA 01/01/04	341.539
Gross book value	679.103
Total writedowns	415.003
Adjustments: depreciation	180.913
Adjustment of acc. depr. for use of deemed cost on FTA	234.090
Net book value	264.100

Bologna – Via Marconi 3/1
Space sq.m.: 600; Basement sq.m. 0

Historical cost	267.728
Revaluation Law L. 02.12.75 n. 576	35.951
Revaluation Law L. 30.12.91 n. 413	247.501
Use of deemed cost on FTA 01/01/04	1.832.407
Gross book value	2.383.587
Total writedowns	1.356.242
Adjustments: depreciation	277.609
Adjustment of acc. depr. for use of deemed cost on FTA	1.078.633
Net book value	1.027.345

Bologna – Via Righi, 18
Space sq.m.: 195; Basement sq.m. 122

Historical cost	28.898
Revaluation Law L. 02.12.75 n. 576	18.365
Revaluation Law L. 19.03.83 n. 72	87.781
Revaluation Law L. 30.12.91 n. 413	138.237
Use of deemed cost on FTA 01/01/04	1.028.715
Gross book value	1.301.996
Total writedowns	879.724
Adjustments: depreciation	150.145
Adjustment of acc. depr. for use of deemed cost on FTA	729.579
Net book value	422.272

Bologna – Via San Vitale, 89
Space sq.m.: 130; Basement sq.m. 9

Historical cost	13.114
Revaluation Law L. 02.12.75 n. 576	3.929
Revaluation Law L. 19.03.83 n. 72	53.712
Revaluation Law L. 30.12.91 n. 413	74.259
Use of deemed cost on FTA 01/01/04	515.622
Gross book value	660.636
Total writedowns	432.703
Adjustments: depreciation	79.303
Adjustment of acc. depr. for use of deemed cost on FTA	353.400
Net book value	227.933

List of property owned by the bank with indication of revaluations

Bologna – Via Toscana, 26
Space sq.m.: 265; Basement sq.m. 10

Historical cost	36.065
Revaluation Law L. 02.12.75 n. 576	15.787
Revaluation Law L. 19.03.83 n. 72	101.742
Revaluation Law L. 30.12.91 n. 413	128.370
Use of deemed cost on FTA 01/01/04	623.297
Gross book value	905.261
Total writedowns	533.981
Adjustments: depreciation	141.890
Adjustment of acc. depr. for use of deemed cost on FTA	392.091
Net book value	371.280

Brescia – Via Vittorio Emanuele II, 66
Space sq.m.: 1.210; Basement sq.m. 2.480

Historical cost	3.750.403
Revaluation Law L. 30.12.91 n. 413	2.896.171
Use of deemed cost on FTA 01/01/04	1.424.661
Gross book value	8.071.235
Total writedowns	4.238.206
Adjustments: depreciation	2.620.928
Adjustment of acc. depr. for use of deemed cost on FTA	1.617.278
Net book value	3.833.029

Bresso – Via Vittorio Veneto, 13
Space sq.m.: 339; Basement sq.m. 226

Historical cost	77.702
Revaluation Law L. 19.03.83 n. 72	118.551
Revaluation Law L. 30.12.91 n. 413	197.533
Use of deemed cost on FTA 01/01/04	1.473.885
Gross book value	1.867.671
Total writedowns	1.204.871
Adjustments: depreciation	207.560
Adjustment of acc. depr. for use of deemed cost on FTA	997.311
Net book value	662.800

Buccinasco – Via Emilia 5/A
Space sq.m.: 204; Basement sq.m. 34

Historical cost	556.565
Use of deemed cost on FTA 01/01/04	140.588
Gross book value	697.153
Total writedowns	314.338
Adjustments: depreciation	232.778
Adjustment of acc. depr. for use of deemed cost on FTA	81.560
Net book value	382.815

Buccinasco – Via Roma, 9
Space sq.m.: 329; Basement sq.m. 0

Historical cost	505.493
Revaluation Law L. 30.12.91 n. 413	249.484
Merger deficit Bam e Briantea	120.500
Use of deemed cost on FTA 01/01/04	1.559.727
Gross book value	2.435.204
Total writedowns	2.026.305
Adjustments: depreciation	564.045
Adjustment of acc. depr. for use of deemed cost on FTA	1.462.260
Net book value	408.899

Busnago – Via San Rocco 12/A
Space sq.m.: 340; Basement sq.m. 340

Historical cost	1.359.009
Gross book value	1.359.009
Total writedowns	8.191
Adjustments: depreciation	8.191
Net book value	1.350.818

Busto Arsizio – Via D. Crespi, 1 bis
Space sq.m.: 1.062; Basement sq.m. 290

Historical cost	31.683
Revaluation Law L. 11.02.52 n. 74	11.173
Revaluation Law L. 30.12.91 n. 413	408.760
Use of deemed cost on FTA 01/01/04	2.667.599
Gross book value	3.119.215
Total writedowns	1.517.018
Adjustments: depreciation	181.219
Adjustment of acc. depr. for use of deemed cost on FTA	1.335.799
Net book value	1.602.197

Cagnano Varano – Via Marconi, 6/8
Space sq.m.: 267; Basement sq.m. 339

Historical cost	466.877
Revaluation Law L. 30.12.91 n. 413	82.803
Use of deemed cost on FTA 01/01/04	102.398
Gross book value	652.078
Total writedowns	363.537
Adjustments: depreciation	256.927
Adjustment of acc. depr. for use of deemed cost on FTA	106.610
Net book value	288.541

Calco – Via Pomeo, 4/B
Space sq.m.: 310; Basement sq.m. 205

Historical cost	67.413
Revaluation Law L. 02.12.75 n. 576	20.282
Revaluation Law L. 19.03.83 n. 72	99.463
Revaluation Law L. 30.12.91 n. 413	54.130
Merger deficit Bam e Briantea	181.541
Use of deemed cost on FTA 01/01/04	381.640
Gross book value	804.469
Total writedowns	443.213
Adjustments: depreciation	177.452
Adjustment of acc. depr. for use of deemed cost on FTA	265.761
Net book value	361.256

Cambiago – Via Garibaldi, 2
Space sq.m.: 315; Basement sq.m. 78

Historical cost	237.710
Revaluation Law L. 30.12.91 n. 413	41.916
Merger deficit Bam e Briantea	146.425
Use of deemed cost on FTA 01/01/04	332.862
Gross book value	758.913
Total writedowns	400.231
Adjustments: depreciation	199.512
Adjustment of acc. depr. for use of deemed cost on FTA	200.719
Net book value	358.682

List of property owned by the bank with indication of revaluations

Canonica D'Adda – Via Matteotti, 15	
Space sq.m.: 122; Basement sq.m. 180	
Historical cost	271.796
Revaluation Law L. 30.12.91 n. 413	6.606
Merger deficit Bam e Briantea	8.583
Use of deemed cost on FTA 01/01/04	222.060
Gross book value	509.045
Total writedowns	265.036
Adjustments: depreciation	138.196
Adjustment of acc. depr. for use of deemed cost on FTA	126.840
Net book value	244.009

Carapelle – Piazza Aldo Moro	
Space sq.m.: 210; Basement sq.m. 261	
Historical cost	439.849
Revaluation Law L. 30.12.91 n. 413	51.860
Use of deemed cost on FTA 01/01/04	158.501
Gross book value	650.210
Total writedowns	354.513
Adjustments: depreciation	230.236
Adjustment of acc. depr. for use of deemed cost on FTA	124.277
Net book value	295.697

Carnate – Via Volta, 1	
Space sq.m.: 215; Basement sq.m. 140	
Historical cost	7.458
Revaluation Law L. 05.11.73 n. 660	5.744
Revaluation Law L. 19.03.83 n. 72	70.687
Revaluation Law L. 30.12.91 n. 413	26.426
Merger deficit Bam e Briantea	150.587
Use of deemed cost on FTA 01/01/04	566.539
Gross book value	827.441
Total writedowns	542.715
Adjustments: depreciation	126.346
Adjustment of acc. depr. for use of deemed cost on FTA	416.369
Net book value	284.726

Casalecchio – Via Marconi, 11/13	
Space sq.m.: 284; Basement sq.m. 134	
Historical cost	138.112
Revaluation Law L. 02.12.75 n. 576	14.382
Revaluation Law L. 19.03.83 n. 72	156.486
Revaluation Law L. 30.12.91 n. 413	151.552
Use of deemed cost on FTA 01/01/04	441.043
Gross book value	901.575
Total writedowns	498.445
Adjustments: depreciation	220.717
Adjustment of acc. depr. for use of deemed cost on FTA	277.728
Net book value	403.130

Casatenovo – Via Manzoni, 5	
Space sq.m.: 306; Basement sq.m. 68	
Historical cost	41.317
Revaluation Law L. 19.03.83 n. 72	225.227
Revaluation Law L. 30.12.91 n. 413	95.790
Merger deficit Bam e Briantea	176.747
Use of deemed cost on FTA 01/01/04	299.392
Gross book value	838.473
Total writedowns	451.689
Adjustments: depreciation	221.371
Adjustment of acc. depr. for use of deemed cost on FTA	230.318
Net book value	386.784

Casei Gerola – Piazza Meardi, 6 (ang. Via Mazzini)	
Space sq.m.: 726; Basement sq.m. 0	
Historical cost	292.737
Revaluation Law L. 19.03.83 n. 72	145.903
Revaluation Law L. 30.12.91 n. 413	33.063
Use of deemed cost on FTA 01/01/04	683.868
Gross book value	1.155.571
Total writedowns	698.396
Adjustments: depreciation	149.917
Adjustment of acc. depr. for use of deemed cost on FTA	548.479
Net book value	457.175

Cassano Magnago – Via Cinque Giornate, 25	
Space sq.m.: 271; Basement sq.m. 151	
Historical cost	4.518
Revaluation Law L. 30.12.91 n. 413	89.586
Use of deemed cost on FTA 01/01/04	714.912
Gross book value	809.016
Total writedowns	410.419
Adjustments: depreciation	42.840
Adjustment of acc. depr. for use of deemed cost on FTA	367.579
Net book value	398.597

Casteggio – Via Torino, 16	
Space sq.m.: 719; Basement sq.m. 382	
Historical cost	750.549
Revaluation Law L. 30.12.91 n. 413	57.912
Use of deemed cost on FTA 01/01/04	470.923
Gross book value	1.279.384
Total writedowns	534.423
Adjustments: depreciation	276.652
Adjustment of acc. depr. for use of deemed cost on FTA	257.771
Net book value	744.961

Castellanza – Via Papa Giovanni XXIII	
Space sq.m.: 376; Basement sq.m. 202	
Historical cost	160.164
Revaluation Law L. 30.12.91 n. 413	86.833
Merger deficit Bam e Briantea	364.120
Use of deemed cost on FTA 01/01/04	1.599.580
Gross book value	2.210.697
Total writedowns	1.653.116
Adjustments: depreciation	315.235
Adjustment of acc. depr. for use of deemed cost on FTA	1.337.881
Net book value	557.581

Cavaria – Via 25 Aprile, 2	
Space sq.m.: 497; Basement sq.m. 170	
Historical cost	40.367
Revaluation Law L. 19.03.83 n. 72	90.904
Revaluation Law L. 30.12.91 n. 413	94.112
Use of deemed cost on FTA 01/01/04	953.180
Gross book value	1.178.563
Total writedowns	715.259
Adjustments: depreciation	117.577
Adjustment of acc. depr. for use of deemed cost on FTA	597.682
Net book value	463.304

List of property owned by the bank with indication of revaluations

Cerignola – Corso Garibaldi, 46
Space sq.m.: 557; Basement sq.m. 415

Historical cost	1.785.908
Revaluation Law L. 30.12.91 n. 413	327.022
Use of deemed cost on FTA 01/01/04	239.998
Gross book value	2.352.928
Total writedowns	1.291.340
Adjustments: depreciation	943.160
Adjustment of acc. depr. for use of deemed cost on FTA	348.180
Net book value	1.061.588

Cernusco sul Naviglio – Piazza Gavazzi
Space sq.m.: 600; Basement sq.m. 180

Historical cost	1.011.430
Revaluation Law L. 30.12.91 n. 413	95.730
Use of deemed cost on FTA 01/01/04	1.082.088
Gross book value	2.189.248
Total writedowns	1.134.637
Adjustments: depreciation	516.277
Adjustment of acc. depr. for use of deemed cost on FTA	618.360
Net book value	1.054.611

Cerro Maggiore – Via San Carlo, 21
Space sq.m.: 303; Basement sq.m. 337

Historical cost	328.497
Revaluation Law L. 30.12.91 n. 413	284.899
Use of deemed cost on FTA 01/01/04	589.474
Gross book value	1.202.870
Total writedowns	714.698
Adjustments: depreciation	320.319
Adjustment of acc. depr. for use of deemed cost on FTA	394.379
Net book value	488.172

Chieuti – Via Aldo Moro, 79/81/83
Space sq.m.: 293; Basement sq.m. 0

Historical cost	347.160
Use of deemed cost on FTA 01/01/04	132.754
Gross book value	479.914
Total writedowns	190.379
Adjustments: depreciation	126.830
Adjustment of acc. depr. for use of deemed cost on FTA	63.549
Net book value	289.535

Ciampino – Via 4 Novembre, 45
Space sq.m.: 300; Basement sq.m. 0

Historical cost	175.856
Revaluation Law L. 05.11.73 n. 660	20.777
Revaluation Law L. 02.12.75 n. 576	10.579
Revaluation Law L. 19.03.83 n. 72	244.902
Revaluation Law L. 30.12.91 n. 413	203.914
Use of deemed cost on FTA 01/01/04	483.899
Gross book value	1.139.927
Total writedowns	731.204
Adjustments: depreciation	375.664
Adjustment of acc. depr. for use of deemed cost on FTA	355.540
Net book value	408.723

Codigoro – Via 4 Novembre, 30
Space sq.m.: 375; Basement sq.m. 0

Historical cost	82.098
Revaluation Law L. 02.12.75 n. 576	14.652
Revaluation Law L. 19.03.83 n. 72	67.483
Revaluation Law L. 30.12.91 n. 413	197.032
Use of deemed cost on FTA 01/01/04	564.153
Gross book value	925.418
Total writedowns	632.469
Adjustments: depreciation	221.402
Adjustment of acc. depr. for use of deemed cost on FTA	411.067
Net book value	292.949

Codigoro – Via Roma 53
Space sq.m.: 216; Basement sq.m. 0

Historical cost	2.778
Revaluation Law L. 02.12.75 n. 576	7.171
Revaluation Law L. 30.12.91 n. 413	89.801
Gross book value	99.750
Total writedowns	18.177
Adjustments: depreciation	18.177
Net book value	81.573

Cologno Monzese – Via Liguria, 1
Space sq.m.: 470; Basement sq.m. 214

Historical cost	122.791
Revaluation Law L. 19.03.83 n. 72	94.121
Revaluation Law L. 30.12.91 n. 413	226.050
Use of deemed cost on FTA 01/01/04	1.241.052
Gross book value	1.684.014
Total writedowns	1.025.930
Adjustments: depreciation	232.640
Adjustment of acc. depr. for use of deemed cost on FTA	793.290
Net book value	658.084

Comacchio – Viale Pascoli, 61 – Loc. Lido degli Estensi
Space sq.m.: 262; Basement sq.m. 0

Historical cost	100.147
Revaluation Law L. 02.12.75 n. 576	14.223
Revaluation Law L. 19.03.83 n. 72	197
Revaluation Law L. 30.12.91 n. 413	145.952
Use of deemed cost on FTA 01/01/04	534.408
Gross book value	794.927
Total writedowns	604.254
Adjustments: depreciation	181.085
Adjustment of acc. depr. for use of deemed cost on FTA	423.169
Net book value	190.673

Cormano – Via 24 Maggio, 1
Space sq.m.: 230; Basement sq.m. 126

Historical cost	18.933
Revaluation Law L. 19.03.83 n. 72	99.852
Revaluation Law L. 30.12.91 n. 413	111.621
Use of deemed cost on FTA 01/01/04	637.145
Gross book value	867.551
Total writedowns	547.692
Adjustments: depreciation	121.337
Adjustment of acc. depr. for use of deemed cost on FTA	426.355
Net book value	319.859

List of property owned by the bank with indication of revaluations

Cornate D'Adda – Via Marconi, 10
Space sq.m.: 318; Basement sq.m. 189

Historical cost	82.117
Revaluation Law L. 19.03.83 n. 72	196.341
Revaluation Law L. 30.12.91 n. 413	110.230
Merger deficit Bam e Briantea	131.410
Use of deemed cost on FTA 01/01/04	835.440
Gross book value	1.355.538
Total writedowns	898.984
Adjustments: depreciation	280.844
Adjustment of acc. depr. for use of deemed cost on FTA	618.140
Net book value	456.554

Corsico – Piazza Della Pianta, 8
Space sq.m.: 552; Basement sq.m. 215

Historical cost	1.043.787
Revaluation Law L. 30.12.91 n. 413	366.394
Merger deficit Bam e Briantea	413.743
Use of deemed cost on FTA 01/01/04	4.024.825
Gross book value	5.848.749
Total writedowns	4.788.317
Adjustments: depreciation	1.093.963
Adjustment of acc. depr. for use of deemed cost on FTA	3.694.354
Net book value	1.060.432

Cremona – Piazza 4 Novembre, 10
Space sq.m.: 473; Basement sq.m. 380

Historical cost	296.653
Revaluation Law L. 19.03.83 n. 72	129.638
Revaluation Law L. 30.12.91 n. 413	439.403
Use of deemed cost on FTA 01/01/04	1.818.071
Gross book value	2.683.765
Total writedowns	1.758.078
Adjustments: depreciation	519.486
Adjustment of acc. depr. for use of deemed cost on FTA	1.238.592
Net book value	925.687

Cusano Milanino – Via 24 Maggio, 2
Space sq.m.: 400; Basement sq.m. 150

Historical cost	6.068
Revaluation Law L. 19.03.83 n. 72	195.350
Revaluation Law L. 30.12.91 n. 413	180.862
Use of deemed cost on FTA 01/01/04	1.220.418
Gross book value	1.602.698
Total writedowns	935.798
Adjustments: depreciation	194.366
Adjustment of acc. depr. for use of deemed cost on FTA	741.432
Net book value	666.900

Desio – Via Garibaldi, 4
Space sq.m.: 278; Basement sq.m. 132

Historical cost	58.364
Revaluation Law L. 05.11.73 n. 660	7.123
Revaluation Law L. 19.03.83 n. 72	206.603
Revaluation Law L. 30.12.91 n. 413	98.634
Merger deficit Bam e Briantea	152.054
Use of deemed cost on FTA 01/01/04	646.822
Gross book value	1.169.600
Total writedowns	729.720
Adjustments: depreciation	270.884
Adjustment of acc. depr. for use of deemed cost on FTA	458.836
Net book value	439.880

Erba – Via Plinio, 18
Space sq.m.: 224; Basement sq.m. 124

Historical cost	514.115
Use of deemed cost on FTA 01/01/04	184.280
Gross book value	698.395
Total writedowns	289.475
Adjustments: depreciation	189.600
Adjustment of acc. depr. for use of deemed cost on FTA	99.875
Net book value	408.920

Ferrara – Via Bologna, 411/415
Space sq.m.: 184; Basement sq.m. 17

Historical cost	20.507
Revaluation Law L. 19.03.83 n. 72	38.170
Revaluation Law L. 30.12.91 n. 413	111.017
Use of deemed cost on FTA 01/01/04	266.291
Gross book value	435.985
Total writedowns	268.881
Adjustments: depreciation	89.738
Adjustment of acc. depr. for use of deemed cost on FTA	179.143
Net book value	167.104

Ferrara – Via Cairoli, 26
Space sq.m.: 740; Basement sq.m. 185

Historical cost	121.256
Revaluation Law L. 19.03.83 n. 72	300.632
Revaluation Law L. 30.12.91 n. 413	444.787
Use of deemed cost on FTA 01/01/04	2.270.874
Gross book value	3.137.549
Total writedowns	1.927.273
Adjustments: depreciation	441.501
Adjustment of acc. depr. for use of deemed cost on FTA	1.485.772
Net book value	1.210.276

Foggia – Piazza Marconi, 11
Space sq.m.: 413; Basement sq.m. 260

Historical cost	457.839
Revaluation Law L. 19.03.83 n. 72	750.670
Revaluation Law L. 30.12.91 n. 413	147.323
Use of deemed cost on FTA 01/01/04	641.571
Gross book value	1.997.403
Total writedowns	1.036.330
Adjustments: depreciation	518.557
Adjustment of acc. depr. for use of deemed cost on FTA	517.773
Net book value	961.073

List of property owned by the bank with indication of revaluations

Foggia – Piazza Umberto Giordano
Space sq.m.: 1.970; Basement sq.m. 315

Historical cost	5.396.975
Revaluation Law L. 30.12.91 n. 413	804.123
Use of deemed cost on FTA 01/01/04	746.818
Gross book value	6.947.916
Total writedowns	3.542.653
Adjustments: depreciation	2.568.747
Adjustment of acc. depr. for use of deemed cost on FTA	973.906
Net book value	3.405.263

Gaggiano – Via Carroccio, 27
Space sq.m.: 280; Basement sq.m. 19

Historical cost	54.221
Revaluation Law L. 05.11.73 n. 660	13.280
Revaluation Law L. 19.03.83 n. 72	178.999
Revaluation Law L. 30.12.91 n. 413	90.149
Merger deficit Bam e Briantea	167.025
Use of deemed cost on FTA 01/01/04	375.176
Gross book value	878.850
Total writedowns	546.872
Adjustments: depreciation	260.925
Adjustment of acc. depr. for use of deemed cost on FTA	285.947
Net book value	331.978

Gallarate – Via Manzoni, 17
Space sq.m.: 1.103; Basement sq.m. 719

Historical cost	37.102
Revaluation Law L. 11.02.52 n. 74	7.403
Revaluation Law L. 30.12.91 n. 413	352.518
Use of deemed cost on FTA 01/01/04	3.744.856
Gross book value	4.141.879
Total writedowns	2.006.249
Adjustments: depreciation	127.710
Adjustment of acc. depr. for use of deemed cost on FTA	1.878.539
Net book value	2.135.630

Gallarate (Arnate) – Via Cecchi
Space sq.m.: 250; Basement sq.m. 0

Historical cost	451.117
Use of deemed cost on FTA 01/01/04	208.851
Gross book value	659.968
Total writedowns	236.968
Adjustments: depreciation	147.535
Adjustment of acc. depr. for use of deemed cost on FTA	89.433
Net book value	423.000

Garbagnate – Via Verdi, 1/Via Roma
Space sq.m.: 404; Basement sq.m. 356

Historical cost	51.409
Revaluation Law L. 19.03.83 n. 72	191.326
Revaluation Law L. 30.12.91 n. 413	231.215
Use of deemed cost on FTA 01/01/04	1.247.066
Gross book value	1.721.016
Total writedowns	1.090.924
Adjustments: depreciation	250.224
Adjustment of acc. depr. for use of deemed cost on FTA	840.700
Net book value	630.092

Lacchiarella – Via Isonzo, 14
Space sq.m.: 297; Basement sq.m. 30

Historical cost	399.598
Revaluation Law L. 30.12.91 n. 413	169.413
Merger deficit Bam e Briantea	126.246
Use of deemed cost on FTA 01/01/04	2.956.162
Gross book value	3.651.419
Total writedowns	3.147.097
Adjustments: depreciation	441.937
Adjustment of acc. depr. for use of deemed cost on FTA	2.705.160
Net book value	504.322

Legnano – Via Nino Bixio
Space sq.m.: 217; Basement sq.m. 40

Historical cost	395.152
Revaluation Law L. 30.12.91 n. 413	47.628
Use of deemed cost on FTA 01/01/04	332.953
Gross book value	775.733
Total writedowns	402.459
Adjustments: depreciation	205.203
Adjustment of acc. depr. for use of deemed cost on FTA	197.256
Net book value	373.274

Legnano – Via Santa Caterina, 43
Space sq.m.: 1.872; Basement sq.m. 3.020

Historical cost	4.300.000
Gross book value	4.300.000
Total writedowns	418.533
Adjustments: depreciation	418.533
Net book value	3.881.467

Lentate sul Seveso – Via Roma, 37
Space sq.m.: 384; Basement sq.m. 214

Historical cost	417.790
Revaluation Law L. 30.12.91 n. 413	218.162
Use of deemed cost on FTA 01/01/04	528.065
Gross book value	1.164.017
Total writedowns	683.230
Adjustments: depreciation	328.986
Adjustment of acc. depr. for use of deemed cost on FTA	354.244
Net book value	480.787

Limbiate – Via Garibaldi, 10
Space sq.m.: 732; Basement sq.m. 506

Historical cost	252.742
Revaluation Law L. 19.03.83 n. 72	57.132
Revaluation Law L. 30.12.91 n. 413	331.335
Use of deemed cost on FTA 01/01/04	1.738.107
Gross book value	2.379.316
Total writedowns	1.451.906
Adjustments: depreciation	336.308
Adjustment of acc. depr. for use of deemed cost on FTA	1.115.598
Net book value	927.410

List of property owned by the bank with indication of revaluations

Lissone – Piazza Italia, 1	
Space sq.m.: 352; Basement sq.m. 148	
Historical cost	11.620
Revaluation Law L. 19.03.83 n. 72	127.823
Revaluation Law L. 30.12.91 n. 413	131.067
Use of deemed cost on FTA 01/01/04	718.859
Gross book value	989.369
Total writedowns	607.518
Adjustments: depreciation	144.879
Adjustment of acc. depr. for use of deemed cost on FTA	462.639
Net book value	381.851

Lissone – Via Matteotti/Piazza Italia, 1	
Space sq.m.: 262; Basement sq.m. 0	
Historical cost	307.874
Revaluation Law L. 30.12.91 n. 413	24.711
Use of deemed cost on FTA 01/01/04	593.751
Gross book value	926.336
Total writedowns	456.861
Adjustments: depreciation	149.869
Adjustment of acc. depr. for use of deemed cost on FTA	306.992
Net book value	469.475

Lomagna – Via Milano, 2	
Space sq.m.: 340; Basement sq.m. 220	
Historical cost	64.998
Revaluation Law L. 19.03.83 n. 72	166.881
Revaluation Law L. 30.12.91 n. 413	54.416
Merger deficit Bam e Briantea	244.728
Use of deemed cost on FTA 01/01/04	518.755
Gross book value	1.049.778
Total writedowns	560.202
Adjustments: depreciation	215.054
Adjustment of acc. depr. for use of deemed cost on FTA	345.148
Net book value	489.576

Lucera – Via Zuppetta	
Space sq.m.: 940; Basement sq.m. 132	
Historical cost	1.614.323
Revaluation Law L. 30.12.91 n. 413	309.299
Use of deemed cost on FTA 01/01/04	484.118
Gross book value	2.407.740
Total writedowns	1.256.703
Adjustments: depreciation	805.692
Adjustment of acc. depr. for use of deemed cost on FTA	451.011
Net book value	1.151.037

Macherio – Via Visconti di Modrone	
Space sq.m.: 300; Basement sq.m. 316	
Historical cost	288.345
Revaluation Law L. 30.12.91 n. 413	250.075
Use of deemed cost on FTA 01/01/04	570.401
Gross book value	1.108.821
Total writedowns	642.151
Adjustments: depreciation	274.053
Adjustment of acc. depr. for use of deemed cost on FTA	368.098
Net book value	466.670

Magenta – Via Volta, 1 (Ang. P.za Libertà)	
Space sq.m.: 1.385; Basement sq.m. 526	
Historical cost	717.374
Revaluation Law L. 19.03.83 n. 72	114.352
Revaluation Law L. 30.12.91 n. 413	799.937
Use of deemed cost on FTA 01/01/04	3.375.181
Gross book value	5.006.844
Total writedowns	2.957.363
Adjustments: depreciation	806.239
Adjustment of acc. depr. for use of deemed cost on FTA	2.151.124
Net book value	2.049.481

Magenta – Via Volta, 16	
Space sq.m.: 450; Basement sq.m. 114	
Historical cost	737.313
Revaluation Law L. 30.12.91 n. 413	44.798
Merger deficit Bam e Briantea	102.875
Use of deemed cost on FTA 01/01/04	517.349
Gross book value	1.402.335
Total writedowns	701.646
Adjustments: depreciation	395.870
Adjustment of acc. depr. for use of deemed cost on FTA	305.776
Net book value	700.689

Magnago – Piazza d'Armi, 27	
Space sq.m.: 270; Basement sq.m. 143	
Historical cost	44.995
Revaluation Law L. 19.03.83 n. 72	78.954
Revaluation Law L. 30.12.91 n. 413	126.015
Use of deemed cost on FTA 01/01/04	939.145
Gross book value	1.189.109
Total writedowns	898.192
Adjustments: depreciation	133.005
Adjustment of acc. depr. for use of deemed cost on FTA	765.187
Net book value	290.917

Manfredonia – Via Arcivescovado, 24/A	
Space sq.m.: 1.048; Basement sq.m. 0	
Historical cost	760.000
Gross book value	760.000
Total writedowns	96.267
Adjustments: depreciation	96.267
Net book value	663.733

Manfredonia – Via G. Di Vittorio, 66	
Space sq.m.: 220; Basement sq.m. 220	
Historical cost	414.456
Revaluation Law L. 30.12.91 n. 413	47.392
Use of deemed cost on FTA 01/01/04	248.317
Gross book value	710.165
Total writedowns	341.548
Adjustments: depreciation	178.738
Adjustment of acc. depr. for use of deemed cost on FTA	162.810
Net book value	368.617

List of property owned by the bank with indication of revaluations

Manfredonia – Via Tribuna, 65/67	
Space sq.m.: 705; Basement sq.m. 235	
Historical cost	859.201
Revaluation Law L. 19.03.83 n. 72	483.587
Revaluation Law L. 30.12.91 n. 413	247.924
Use of deemed cost on FTA 01/01/04	872.242
Gross book value	2.462.954
Total writedowns	1.221.777
Adjustments: depreciation	614.056
Adjustment of acc. depr. for use of deemed cost on FTA	607.721
Net book value	1.241.177

Mariano Comense – Via Pace / Viale Brianza	
Space sq.m.: 302; Basement sq.m. 163	
Historical cost	520.918
Revaluation Law L. 30.12.91 n. 413	109.672
Use of deemed cost on FTA 01/01/04	462.107
Gross book value	1.092.697
Total writedowns	528.852
Adjustments: depreciation	249.099
Adjustment of acc. depr. for use of deemed cost on FTA	279.753
Net book value	563.845

Marino – Piazza Matteotti	
Space sq.m.: 1.560; Basement sq.m. 380	
Historical cost	1.145.803
Revaluation Law L. 05.11.73 n. 660	32.285
Revaluation Law L. 02.12.75 n. 576	20.777
Revaluation Law L. 19.03.83 n. 72	623.226
Revaluation Law L. 30.12.91 n. 413	812.660
Use of deemed cost on FTA 01/01/04	2.571.957
Gross book value	5.206.708
Total writedowns	2.917.236
Adjustments: depreciation	1.266.563
Adjustment of acc. depr. for use of deemed cost on FTA	1.650.673
Net book value	2.289.472

Marino – Via Appia Nuova, 94 – Loc. Frattocchie	
Space sq.m.: 120; Basement sq.m. 0	
Historical cost	77.334
Revaluation Law L. 19.03.83 n. 72	64.719
Revaluation Law L. 30.12.91 n. 413	41.447
Use of deemed cost on FTA 01/01/04	115.143
Gross book value	298.643
Total writedowns	172.946
Adjustments: depreciation	96.227
Adjustment of acc. depr. for use of deemed cost on FTA	76.719
Net book value	125.697

Marino – Viale della Repubblica, 76 – Loc. Santa Maria della Mole	
Space sq.m.: 160; Basement sq.m. 160	
Historical cost	22.463
Revaluation Law L. 05.11.73 n. 660	20.930
Revaluation Law L. 02.12.75 n. 576	10.658
Revaluation Law L. 19.03.83 n. 72	80.468
Revaluation Law L. 30.12.91 n. 413	86.665
Use of deemed cost on FTA 01/01/04	643.166
Gross book value	864.350
Total writedowns	590.419
Adjustments: depreciation	133.423
Adjustment of acc. depr. for use of deemed cost on FTA	456.996
Net book value	273.931

Mattinata – Via Vittorio Veneto, 21	
Space sq.m.: 179; Basement sq.m. 191	
Historical cost	521.105
Revaluation Law L. 30.12.91 n. 413	76.837
Use of deemed cost on FTA 01/01/04	262.300
Gross book value	860.242
Total writedowns	424.407
Adjustments: depreciation	234.581
Adjustment of acc. depr. for use of deemed cost on FTA	189.826
Net book value	435.835

Meda – Corso Matteotti, 14	
Space sq.m.: 390; Basement sq.m. 164	
Historical cost	56.256
Revaluation Law L. 19.03.83 n. 72	165.266
Revaluation Law L. 30.12.91 n. 413	221.089
Use of deemed cost on FTA 01/01/04	885.405
Gross book value	1.328.016
Total writedowns	822.832
Adjustments: depreciation	239.162
Adjustment of acc. depr. for use of deemed cost on FTA	583.670
Net book value	505.184

Mediglia – Fraz. Bettolino – Via Orione, 2/B	
Space sq.m.: 168; Basement sq.m. 0	
Historical cost	430.124
Gross book value	430.124
Total writedowns	68.170
Adjustments: depreciation	68.170
Net book value	361.954

Melzo – Piazza della Vittoria, 2	
Space sq.m.: 364; Basement sq.m. 26	
Historical cost	324.988
Revaluation Law L. 05.11.73 n. 660	20.478
Revaluation Law L. 19.03.83 n. 72	224.922
Revaluation Law L. 30.12.91 n. 413	81.662
Merger deficit Bam e Briantea	91.952
Use of deemed cost on FTA 01/01/04	263.778
Gross book value	1.007.780
Total writedowns	523.966
Adjustments: depreciation	335.655
Adjustment of acc. depr. for use of deemed cost on FTA	188.311
Net book value	483.814

List of property owned by the bank with indication of revaluations

Merate – Via Trento, 43
Space sq.m.: 1.215; Basement sq.m. 0

Historical cost	398.685
Revaluation Law L. 19.03.83 n. 72	467.016
Revaluation Law L. 30.12.91 n. 413	312.192
Merger deficit Bam e Briantea	470.255
Use of deemed cost on FTA 01/01/04	1.946.756
Gross book value	3.594.904
Total writedowns	2.417.645
Adjustments: depreciation	903.062
Adjustment of acc. depr. for use of deemed cost on FTA	1.514.583
Net book value	1.177.259

Merate – Via Viganò, 2/4/8
Space sq.m.: 1.445; Basement sq.m. 475

Historical cost	108.322
Revaluation Law L. 02.12.75 n. 576	173.648
Revaluation Law L. 19.03.83 n. 72	858.072
Revaluation Law L. 30.12.91 n. 413	374.743
Merger deficit Bam e Briantea	898.567
Use of deemed cost on FTA 01/01/04	5.725.145
Gross book value	8.138.497
Total writedowns	4.991.130
Adjustments: depreciation	1.232.198
Adjustment of acc. depr. for use of deemed cost on FTA	3.758.932
Net book value	3.147.367

Milan – Corso Buenos Aires, 36
Space sq.m.: 294; Basement sq.m. 454

Historical cost	15.494
Revaluation Law L. 19.03.83 n. 72	836.660
Revaluation Law L. 30.12.91 n. 413	754.609
Use of deemed cost on FTA 01/01/04	2.663.943
Gross book value	4.270.706
Total writedowns	2.251.670
Adjustments: depreciation	678.005
Adjustment of acc. depr. for use of deemed cost on FTA	1.573.665
Net book value	2.019.036

Milan – Corso Genova, 29
Space sq.m.: 1.326; Basement sq.m. 640

Historical cost	971.116
Revaluation Law L. 30.12.91 n. 413	969.387
Use of deemed cost on FTA 01/01/04	5.528.086
Gross book value	7.468.589
Total writedowns	3.787.132
Adjustments: depreciation	737.529
Adjustment of acc. depr. for use of deemed cost on FTA	3.049.603
Net book value	3.681.457

Milan – Corso Manusardi, 3
Space sq.m.: 303; Basement sq.m. 377

Historical cost	51.645
Revaluation Law L. 05.11.73 n. 660	23.267
Revaluation Law L. 19.03.83 n. 72	434.588
Revaluation Law L. 30.12.91 n. 413	180.717
Merger deficit Bam e Briantea	487.168
Use of deemed cost on FTA 01/01/04	1.743.430
Gross book value	2.920.815
Total writedowns	1.610.670
Adjustments: depreciation	511.061
Adjustment of acc. depr. for use of deemed cost on FTA	1.099.609
Net book value	1.310.145

Milan – Corso Plebisciti, 19
Space sq.m.: 494; Basement sq.m. 200

Historical cost	415
Revaluation Law L. 11.02.52 n. 74	9.914
Revaluation Law L. 19.03.83 n. 72	361.520
Revaluation Law L. 30.12.91 n. 413	333.327
Use of deemed cost on FTA 01/01/04	2.151.044
Gross book value	2.856.220
Total writedowns	1.591.480
Adjustments: depreciation	317.860
Adjustment of acc. depr. for use of deemed cost on FTA	1.273.620
Net book value	1.264.740

Milan – Corso Sempione, 32/32A
Space sq.m.: 755; Basement sq.m. 1.169

Historical cost	703.162
Revaluation Law L. 30.12.91 n. 413	1.636.053
Use of deemed cost on FTA 01/01/04	4.203.851
Gross book value	6.543.066
Total writedowns	3.240.999
Adjustments: depreciation	1.196.122
Adjustment of acc. depr. for use of deemed cost on FTA	2.044.877
Net book value	3.302.067

Milan – Galleria De Cristoforis, 1
Space sq.m.: 5.006; Basement sq.m. 745

Historical cost	2.653.564
Revaluation Law L. 19.03.83 n. 72	2.655.522
Revaluation Law L. 30.12.91 n. 413	9.499.856
Use of deemed cost on FTA 01/01/04	15.767.319
Gross book value	30.576.261
Total writedowns	10.876.260
Adjustments: depreciation	3.811.714
Adjustment of acc. depr. for use of deemed cost on FTA	7.064.546
Net book value	19.700.001

Milan – Galleria De Cristoforis, 7/8
Space sq.m.: 3.650; Basement sq.m. 2.830

Historical cost	4.071.264
Revaluation Law L. 30.12.91 n. 413	12.539.599
Use of deemed cost on FTA 01/01/04	17.019.847
Gross book value	33.630.710
Total writedowns	13.138.160
Adjustments: depreciation	5.036.579
Adjustment of acc. depr. for use of deemed cost on FTA	8.101.581
Net book value	20.492.550

List of property owned by the bank with indication of revaluations

Milan – Piazza Meda, 2/4	
Space sq.m.: 24.825; Basement sq.m. 12.640	
Historical cost	1.334.284
Revaluation Law L. 11.02.52 n. 74	657.188
Revaluation Law L. 02.12.75 n. 576	1.137.472
Revaluation Law L. 19.03.83 n. 72	19.634.683
Revaluation Law L. 30.12.91 n. 413	19.853.715
Use of deemed cost on FTA 01/01/04	124.156.396
Gross book value	166.773.738
Total writedowns	74.079.865
Adjustments: depreciation	13.661.486
Adjustment of acc. depr. for use of deemed cost on FTA	60.418.379
Net book value	92.693.873

Milan – Piazza Medaglie d'Oro, 1	
Space sq.m.: 386; Basement sq.m. 109	
Historical cost	104.647
Revaluation Law L. 19.03.83 n. 72	287.860
Revaluation Law L. 30.12.91 n. 413	383.577
Use of deemed cost on FTA 01/01/04	1.627.144
Gross book value	2.403.228
Total writedowns	1.417.366
Adjustments: depreciation	356.306
Adjustment of acc. depr. for use of deemed cost on FTA	1.061.060
Net book value	985.862

Milan – Piazza Napoli, 16	
Space sq.m.: 258; Basement sq.m. 103	
Historical cost	15.494
Revaluation Law L. 19.03.83 n. 72	227.241
Revaluation Law L. 30.12.91 n. 413	226.103
Use of deemed cost on FTA 01/01/04	893.807
Gross book value	1.362.645
Total writedowns	784.983
Adjustments: depreciation	214.276
Adjustment of acc. depr. for use of deemed cost on FTA	570.707
Net book value	577.662

Milan – Piazza Wagner, 15	
Space sq.m.: 728; Basement sq.m. 134	
Historical cost	115.606
Revaluation Law L. 30.12.91 n. 413	1.050.960
Use of deemed cost on FTA 01/01/04	2.672.744
Gross book value	3.839.310
Total writedowns	1.678.050
Adjustments: depreciation	369.513
Adjustment of acc. depr. for use of deemed cost on FTA	1.308.537
Net book value	2.161.260

Milan – Piazzale Accursio, 18	
Space sq.m.: 3.006; Basement sq.m. 1.368	
Historical cost	1.586.543
Revaluation Law L. 19.03.83 n. 72	1.930.248
Revaluation Law L. 30.12.91 n. 413	1.139.780
Merger deficit Bam e Briantea	2.392.429
Gross book value	7.049.000
Total writedowns	1.066.572
Adjustments: depreciation	1.066.572
Net book value	5.982.428

Milan – Piazzale Lagosta, 9	
Space sq.m.: 240; Basement sq.m. 186	
Historical cost	19.695
Revaluation Law L. 19.03.83 n. 72	64.712
Revaluation Law L. 30.12.91 n. 413	84.304
Use of deemed cost on FTA 01/01/04	1.038.269
Gross book value	1.206.980
Total writedowns	658.216
Adjustments: depreciation	32.953
Adeguamento fondi per applicazione deemed cost in sede di FTA	625.263
Net book value	548.764

Milan – Piazzale Loreto	
Space sq.m.: 709; Basement sq.m. 687	
Historical cost	4.619.262
Revaluation Law L. 19.03.83 n. 72	775.047
Revaluation Law L. 30.12.91 n. 413	764.712
Use of deemed cost on FTA 01/01/04	1.685.578
Gross book value	7.844.599
Total writedowns	2.646.666
Adjustments: depreciation	513.043
Adjustment of acc. depr. for use of deemed cost on FTA	2.133.623
Net book value	5.197.933

Milan – Via A. da Recanate, 2	
Space sq.m.: 439; Basement sq.m. 280	
Historical cost	59.768
Revaluation Law L. 30.12.91 n. 413	224.233
Use of deemed cost on FTA 01/01/04	2.763.751
Gross book value	3.047.752
Total writedowns	1.661.459
Adjustments: depreciation	123.330
Adjustment of acc. depr. for use of deemed cost on FTA	1.538.129
Net book value	1.386.293

Milan – Via Amadeo	
Space sq.m.: 110; Basement sq.m. 7	
Historical cost	341.876
Use of deemed cost on FTA 01/01/04	97.507
Gross book value	439.383
Total writedowns	200.554
Adjustments: depreciation	141.324
Adjustment of acc. depr. for use of deemed cost on FTA	59.230
Net book value	238.829

List of property owned by the bank with indication of revaluations

Milan – Via Astesani, 46
Space sq.m.: 266; Basement sq.m. 222

Historical cost	21.691
Revaluation Law L. 19.03.83 n. 72	133.246
Revaluation Law L. 30.12.91 n. 413	150.786
Use of deemed cost on FTA 01/01/04	1.003.366
Gross book value	1.309.089
Total writedowns	877.473
Adjustments: depreciation	180.417
Adjustment of acc. depr. for use of deemed cost on FTA	697.056
Net book value	431.616

Milan – Via Bodoni, 1
Space sq.m.: 305; Basement sq.m. 156

Historical cost	2.944
Revaluation Law L. 19.03.83 n. 72	213.968
Revaluation Law L. 30.12.91 n. 413	191.210
Use of deemed cost on FTA 01/01/04	1.064.007
Gross book value	1.472.129
Total writedowns	894.284
Adjustments: depreciation	215.026
Adjustment of acc. depr. for use of deemed cost on FTA	679.258
Net book value	577.845

Milan – Via Capo Palinuro, 2
Space sq.m.: 700; Basement sq.m. 389

Historical cost	224.411
Revaluation Law L. 19.03.83 n. 72	162.932
Revaluation Law L. 30.12.91 n. 413	405.283
Use of deemed cost on FTA 01/01/04	2.321.444
Gross book value	3.114.070
Total writedowns	1.937.341
Adjustments: depreciation	414.261
Adjustment of acc. depr. for use of deemed cost on FTA	1.523.080
Net book value	1.176.729

Milan – Via del Lauro, 1
Space sq.m.: 2.140; Basement sq.m. 804

Historical cost	13.620.167
Gross book value	13.620.167
Total writedowns	1.403.478
Adjustments: depreciation	1.403.478
Net book value	12.216.689

Milan – Via Faruffini, 3
Space sq.m.: 272; Basement sq.m. 155

Historical cost	33.570
Revaluation Law L. 05.11.73 n. 660	17.172
Revaluation Law L. 19.03.83 n. 72	381.579
Revaluation Law L. 30.12.91 n. 413	153.530
Merger deficit Bam e Briantea	330.672
Use of deemed cost on FTA 01/01/04	814.167
Gross book value	1.730.690
Total writedowns	934.269
Adjustments: depreciation	370.682
Adjustment of acc. depr. for use of deemed cost on FTA	563.587
Net book value	796.421

Milan – Via Massaua, 4
Space sq.m.: 24.677; Basement sq.m. 15.787

Historical cost	85.333.521
Gross book value	85.333.521
Total writedowns	21.611.158
Adjustments: depreciation	21.611.158
Net book value	63.722.363

Milan – Via Massaua, 6
Space sq.m.: 34.376; Basement sq.m. 30.556

Historical cost	66.128.871
Gross book value	66.128.871
Total writedowns	7.883.725
Adjustments: depreciation	7.883.725
Net book value	58.245.146

Milan – Via Mazzini, 9/11
Space sq.m.: 7.702; Basement sq.m. 2.623

Historical cost	20.553.753
Revaluation Law L. 14.02.48 n. 49	109.027
Revaluation Law L. 11.02.52 n. 74	152.847
Revaluation Law L. 05.11.73 n. 660	536.941
Revaluation Law L. 02.12.75 n. 576	537.758
Revaluation Law L. 19.03.83 n. 72	5.326.440
Revaluation Law L. 30.12.91 n. 413	2.391.836
Merger deficit Bam e Briantea	8.371.398
Gross book value	37.980.000
Total writedowns	5.743.044
Adjustments: depreciation	5.743.044
Net book value	32.236.956

Milan – Via Montegani, 2
Space sq.m.: 312; Basement sq.m. 164

Historical cost	30.222
Revaluation Law L. 19.03.83 n. 72	213.293
Revaluation Law L. 30.12.91 n. 413	227.171
Use of deemed cost on FTA 01/01/04	1.017.111
Gross book value	1.487.797
Total writedowns	851.279
Adjustments: depreciation	221.838
Adjustment of acc. depr. for use of deemed cost on FTA	629.441
Net book value	636.518

Milan – Via Padova, 204
Space sq.m.: 339; Basement sq.m. 160

Historical cost	29.346
Revaluation Law L. 19.03.83 n. 72	228.882
Revaluation Law L. 30.12.91 n. 413	238.566
Use of deemed cost on FTA 01/01/04	888.267
Gross book value	1.385.061
Total writedowns	803.070
Adjustments: depreciation	225.334
Adjustment of acc. depr. for use of deemed cost on FTA	577.736
Net book value	581.991

List of property owned by the bank with indication of revaluations

Milan – Via Padova, 282
Space sq.m.: 383; Basement sq.m. 132

Historical cost	469.686
Revaluation Law L. 30.12.91 n. 413	241.623
Merger deficit Bam e Briantea	270.920
Use of deemed cost on FTA 01/01/04	2.586.417
Gross book value	3.568.646
Total writedowns	2.910.391
Adjustments: depreciation	497.505
Adjustment of acc. depr. for use of deemed cost on FTA	2.412.886
Net book value	658.255

Milan – Via Palmaria 2 app sub 563
Space sq.m.: 70; Basement sq.m. 0

Historical cost	5.357
Revaluation Law L. 30.12.91 n. 413	69.693
Gross book value	75.050
Total writedowns	17.762
Adjustments: depreciation	17.762
Net book value	57.288

Milan – Via Pianell, 52
Space sq.m.: 609; Basement sq.m. 241

Historical cost	56.518
Revaluation Law L. 30.12.91 n. 413	404.181
Use of deemed cost on FTA 01/01/04	1.782.961
Gross book value	2.243.660
Total writedowns	1.223.638
Adjustments: depreciation	203.772
Adjustment of acc. depr. for use of deemed cost on FTA	1.019.866
Net book value	1.020.022

Milan – Via Piave, 28
Space sq.m.: 216; Basement sq.m. 130

Historical cost	2.324
Revaluation Law L. 19.03.83 n. 72	307.550
Revaluation Law L. 30.12.91 n. 413	271.225
Use of deemed cost on FTA 01/01/04	962.878
Gross book value	1.543.977
Total writedowns	773.144
Adjustments: depreciation	218.573
Adjustment of acc. depr. for use of deemed cost on FTA	554.571
Net book value	770.833

Milan – Via Pontaccio, 23
Space sq.m.: 315; Basement sq.m. 215

Historical cost	105.785
Revaluation Law L. 19.03.83 n. 72	333.276
Revaluation Law L. 30.12.91 n. 413	481.532
Use of deemed cost on FTA 01/01/04	1.659.461
Gross book value	2.580.054
Total writedowns	1.435.312
Adjustments: depreciation	385.118
Adjustment of acc. depr. for use of deemed cost on FTA	1.050.194
Net book value	1.144.742

Milan – Via Ripamonti, 114
Space sq.m.: 245; Basement sq.m. 209

Historical cost	27.889
Revaluation Law L. 19.03.83 n. 72	127.048
Revaluation Law L. 30.12.91 n. 413	155.475
Use of deemed cost on FTA 01/01/04	1.070.760
Gross book value	1.381.172
Total writedowns	861.794
Adjustments: depreciation	162.568
Adjustment of acc. depr. for use of deemed cost on FTA	699.226
Net book value	519.378

Milan – Via Romagnoli, 1
Space sq.m.: 331; Basement sq.m. 150

Historical cost	394.160
Revaluation Law L. 30.12.91 n. 413	227.946
Merger deficit Bam e Briantea	350.509
Use of deemed cost on FTA 01/01/04	4.435.841
Gross book value	5.408.456
Total writedowns	4.655.017
Adjustments: depreciation	510.832
Adjustment of acc. depr. for use of deemed cost on FTA	4.144.185
Net book value	753.439

Milan – Via Ronchi, 2
Space sq.m.: 530; Basement sq.m. 570

Historical cost	239.961
Revaluation Law L. 19.03.83 n. 72	183.534
Revaluation Law L. 30.12.91 n. 413	433.751
Use of deemed cost on FTA 01/01/04	2.343.881
Gross book value	3.201.127
Total writedowns	2.010.924
Adjustments: depreciation	457.624
Adjustment of acc. depr. for use of deemed cost on FTA	1.553.300
Net book value	1.190.203

Milan – Via Rubens, 7/9
Space sq.m.: 194; Basement sq.m. 46

Historical cost	35.878
Revaluation Law L. 02.12.75 n. 576	71.271
Revaluation Law L. 19.03.83 n. 72	78.768
Revaluation Law L. 30.12.91 n. 413	197.341
Use of deemed cost on FTA 01/01/04	562.838
Gross book value	946.096
Total writedowns	621.507
Adjustments: depreciation	204.340
Adjustment of acc. depr. for use of deemed cost on FTA	417.167
Net book value	324.589

Milan – Via Salvini, 1
Space sq.m.: 300; Basement sq.m. 605

Historical cost	2.701.828
Use of deemed cost on FTA 01/01/04	428.664
Gross book value	3.130.492
Total writedowns	587.764
Adjustments: depreciation	473.724
Adjustment of acc. depr. for use of deemed cost on FTA	114.040
Net book value	2.542.728

List of property owned by the bank with indication of revaluations

Milan – Via Salvo D'Acquisto, 4	
Space sq.m.: 531; Basement sq.m. 340	
Historical cost	679.842
Revaluation Law L. 30.12.91 n. 413	423.728
Use of deemed cost on FTA 01/01/04	1.305.454
Gross book value	2.409.024
Total writedowns	1.554.148
Adjustments: depreciation	612.572
Adjustment of acc. depr. for use of deemed cost on FTA	941.576
Net book value	854.876

Milan – Via San Paolo, 12/16	
Space sq.m.: 6.200; Basement sq.m. 2.550	
Historical cost	745.455
Revaluation Law L. 11.02.52 n. 74	25.048
Revaluation Law L. 19.03.83 n. 72	4.652.294
Revaluation Law L. 30.12.91 n. 413	5.076.607
Use of deemed cost on FTA 01/01/04	32.962.156
Gross book value	43.461.560
Total writedowns	20.487.240
Adjustments: depreciation	3.434.549
Adjustment of acc. depr. for use of deemed cost on FTA	17.052.691
Net book value	22.974.320

Milan – Via Trenno, 12	
Space sq.m.: 183; Basement sq.m. 136	
Historical cost	845.265
Gross book value	845.265
Total writedowns	131.572
Adjustments: depreciation	131.572
Net book value	713.693

Milan – Via Turati, 26	
Space sq.m.: 268; Basement sq.m. 262	
Historical cost	144.608
Revaluation Law L. 19.03.83 n. 72	366.684
Revaluation Law L. 30.12.91 n. 413	557.076
Use of deemed cost on FTA 01/01/04	1.672.824
Gross book value	2.741.192
Total writedowns	1.458.985
Adjustments: depreciation	416.298
Adjustment of acc. depr. for use of deemed cost on FTA	1.042.687
Net book value	1.282.207

Milan – Via Zurigo, 14	
Space sq.m.: 138; Basement sq.m. 87	
Historical cost	568.051
Svalutazioni totali	-170.593
Use of deemed cost on FTA 01/01/04	141.118
Gross book value	538.576
Total writedowns	190.508
Adjustments: depreciation	129.853
Adjustment of acc. depr. for use of deemed cost on FTA	60.655
Net book value	348.068

Milan – Viale Abruzzi, 16	
Space sq.m.: 177; Basement sq.m. 204	
Historical cost	1.712.005
Gross book value	1.712.005
Total writedowns	192.524
Adjustments: depreciation	192.524
Net book value	1.519.481

Milan – Viale Corsica, 31	
Space sq.m.: 621; Basement sq.m. 150	
Historical cost	667.600
Revaluation Law L. 19.03.83 n. 72	55.440
Revaluation Law L. 30.12.91 n. 413	733.558
Use of deemed cost on FTA 01/01/04	1.337.358
Gross book value	2.793.956
Total writedowns	1.485.337
Adjustments: depreciation	624.939
Adjustment of acc. depr. for use of deemed cost on FTA	860.398
Net book value	1.308.619

Milan – Viale Monza, 169	
Space sq.m.: 199; Basement sq.m. 210	
Historical cost	27.889
Revaluation Law L. 19.03.83 n. 72	127.048
Revaluation Law L. 30.12.91 n. 413	155.475
Use of deemed cost on FTA 01/01/04	933.183
Gross book value	1.243.595
Total writedowns	726.902
Adjustments: depreciation	144.251
Adjustment of acc. depr. for use of deemed cost on FTA	582.651
Net book value	516.693

Missaglia – Via Merlini, 3	
Space sq.m.: 273; Basement sq.m. 357	
Historical cost	665.701
Revaluation Law L. 30.12.91 n. 413	278.681
Merger deficit Bam e Briantea	243.062
Use of deemed cost on FTA 01/01/04	1.873.718
Gross book value	3.061.162
Total writedowns	2.432.052
Adjustments: depreciation	635.316
Adjustment of acc. depr. for use of deemed cost on FTA	1.796.736
Net book value	629.110

Monte Sant'Angelo – Corso Umberto I, 55	
Space sq.m.: 31; Basement sq.m. 0	
Historical cost	31.504
Use of deemed cost on FTA 01/01/04	32.090
Gross book value	63.594
Total writedowns	43.869
Adjustments: depreciation	15.966
Adjustment of acc. depr. for use of deemed cost on FTA	27.903
Net book value	19.725

Monte Sant' Angelo – Piazza Roma, 4	
Space sq.m.: 134; Basement sq.m. 0	
Historical cost	45.448
Revaluation Law L. 19.03.83 n. 72	90.896
Revaluation Law L. 30.12.91 n. 413	34.169
Use of deemed cost on FTA 01/01/04	220.321
Gross book value	390.834
Total writedowns	212.868
Adjustments: depreciation	72.728
Adjustment of acc. depr. for use of deemed cost on FTA	140.140
Net book value	177.966

List of property owned by the bank with indication of revaluations

Monza – Piazza Roma/Piazza Carducci/Via Pretorio
Space sq.m.: 3.684; Basement sq.m. 1.112

Historical cost	2.877.772
Revaluation Law L. 30.12.91 n. 413	634.526
Use of deemed cost on FTA 01/01/04	10.733.853
Gross book value	14.246.151
Total writedowns	6.646.151
Adjustments: depreciation	1.413.971
Adjustment of acc. depr. for use of deemed cost on FTA	5.232.180
Net book value	7.600.000

Monza – Via Arosio, 1/Corso Milano
Space sq.m.: 211; Basement sq.m. 70

Historical cost	2.582
Revaluation Law L. 19.03.83 n. 72	80.051
Revaluation Law L. 30.12.91 n. 413	74.333
Use of deemed cost on FTA 01/01/04	788.184
Gross book value	945.150
Total writedowns	521.636
Adjustments: depreciation	70.939
Adjustment of acc. depr. for use of deemed cost on FTA	450.697
Net book value	423.514

Monza – Via San Martino, 5
Space sq.m.: 30; Basement sq.m. 370

Historical cost	497.964
Use of deemed cost on FTA 01/01/04	749.001
Gross book value	1.246.965
Total writedowns	646.897
Adjustments: depreciation	210.103
Adjustment of acc. depr. for use of deemed cost on FTA	436.794
Net book value	600.068

Muggiò – Via Buozzi, 1 / Via Italia
Space sq.m.: 369; Basement sq.m. 357

Historical cost	604.205
Revaluation Law L. 30.12.91 n. 413	315.489
Use of deemed cost on FTA 01/01/04	714.229
Gross book value	1.633.923
Total writedowns	982.553
Adjustments: depreciation	492.931
Adjustment of acc. depr. for use of deemed cost on FTA	489.622
Net book value	651.370

Opera – Via Mazzini, 2/Via Cavour
Space sq.m.: 617; Basement sq.m. 210

Historical cost	519.834
Revaluation Law L. 30.12.91 n. 413	394.901
Use of deemed cost on FTA 01/01/04	1.025.330
Gross book value	1.940.065
Total writedowns	1.147.510
Adjustments: depreciation	468.748
Adjustment of acc. depr. for use of deemed cost on FTA	678.762
Net book value	792.555

Orsenigo – Via Simone da Orsenigo, 2
Space sq.m.: 96; Basement sq.m. 85

Historical cost	212.420
Gross book value	212.420
Total writedowns	6.041
Adjustments: depreciation	6.041
Net book value	206.379

Orta Nova – Via Pietro Nenni, 53
Space sq.m.: 280; Basement sq.m. 0

Historical cost	257.061
Revaluation Law L. 19.03.83 n. 72	154.385
Revaluation Law L. 30.12.91 n. 413	62.944
Use of deemed cost on FTA 01/01/04	313.828
Gross book value	788.218
Total writedowns	427.426
Adjustments: depreciation	209.777
Adjustment of acc. depr. for use of deemed cost on FTA	217.649
Net book value	360.792

Osio Sotto – Corso Vittorio Veneto, 51
Space sq.m.: 343; Basement sq.m. 156

Historical cost	538.340
Revaluation Law L. 30.12.91 n. 413	165.821
Merger deficit Bam e Briantea	270.969
Use of deemed cost on FTA 01/01/04	2.163.907
Gross book value	3.139.037
Total writedowns	2.675.850
Adjustments: depreciation	627.522
Adjustment of acc. depr. for use of deemed cost on FTA	2.048.328
Net book value	463.187

Paderno d'Adda – Via Manzoni, 21
Space sq.m.: 168; Basement sq.m. 82

Historical cost	568.545
Gross book value	568.545
Total writedowns	92.441
Adjustments: depreciation	92.441
Net book value	476.104

Paderno Dugnano – Via Rotondi, 49
Space sq.m.: 498; Basement sq.m. 456

Historical cost	252.676
Revaluation Law L. 19.03.83 n. 72	57.198
Revaluation Law L. 30.12.91 n. 413	316.605
Use of deemed cost on FTA 01/01/04	1.229.048
Gross book value	1.855.527
Total writedowns	1.101.342
Adjustments: depreciation	322.589
Adjustment of acc. depr. for use of deemed cost on FTA	778.753
Net book value	754.185

Padua – Via Giotto (ang. Via del Carmine)
Space sq.m.: 630; Basement sq.m. 265

Historical cost	2.957.129
Use of deemed cost on FTA 01/01/04	309.859
Gross book value	3.266.988
Total writedowns	1.081.794
Adjustments: depreciation	861.995
Adjustment of acc. depr. for use of deemed cost on FTA	219.799
Net book value	2.185.194

List of property owned by the bank with indication of revaluations

Pantigliate – Viale Risorgimento, 61	
Space sq.m.: 343; Basement sq.m. 0	
Historical cost	80.872
Revaluation Law L. 05.11.73 n. 660	4.255
Revaluation Law L. 19.03.83 n. 72	128.407
Revaluation Law L. 30.12.91 n. 413	74.173
Merger deficit Bam e Briantea	131.613
Use of deemed cost on FTA 01/01/04	255.689
Gross book value	675.009
Total writedowns	385.899
Adjustments: depreciation	201.748
Adjustment of acc. depr. for use of deemed cost on FTA	184.151
Net book value	289.110

Parma – Strada Garibaldi, 12/12	
Space sq.m.: 896; Basement sq.m. 333	
Historical cost	2.627.983
Revaluation Law L. 30.12.91 n. 413	160.267
Gross book value	2.788.250
Total writedowns	434.018
Adjustments: depreciation	434.018
Net book value	2.354.232

Pavia – Via Riviera, 37	
Space sq.m.: 200; Basement sq.m. 80	
Historical cost	483.735
Use of deemed cost on FTA 01/01/04	138.128
Gross book value	621.863
Total writedowns	233.361
Adjustments: depreciation	176.925
Adjustment of acc. depr. for use of deemed cost on FTA	56.436
Net book value	388.502

Perego – Viale Brianza, 7/H	
Space sq.m.: 92; Basement sq.m. 46	
Historical cost	116.258
Use of deemed cost on FTA 01/01/04	91.722
Gross book value	207.980
Total writedowns	81.524
Adjustments: depreciation	40.923
Adjustment of acc. depr. for use of deemed cost on FTA	40.601
Net book value	126.456

Pero – Via Alessandrini, 1	
Space sq.m.: 526; Basement sq.m. 440	
Historical cost	221.697
Revaluation Law L. 19.03.83 n. 72	114.000
Revaluation Law L. 30.12.91 n. 413	352.267
Use of deemed cost on FTA 01/01/04	1.738.354
Gross book value	2.426.318
Total writedowns	1.459.700
Adjustments: depreciation	353.967
Adjustment of acc. depr. for use of deemed cost on FTA	1.105.733
Net book value	966.618

Pesaro – Via Mameli, 70	
Space sq.m.: 580; Basement sq.m. 374	
Historical cost	1.296.149
Revaluation Law L. 30.12.91 n. 413	118.027
Use of deemed cost on FTA 01/01/04	730.259
Gross book value	2.144.435
Total writedowns	599.726
Adjustments: depreciation	280.193
Adjustment of acc. depr. for use of deemed cost on FTA	319.533
Net book value	1.544.709

Peschici – Corso Garibaldi, 57	
Space sq.m.: 240; Basement sq.m. 0	
Historical cost	143.731
Revaluation Law L. 19.03.83 n. 72	160.978
Revaluation Law L. 30.12.91 n. 413	74.858
Use of deemed cost on FTA 01/01/04	176.354
Gross book value	555.921
Total writedowns	303.231
Adjustments: depreciation	158.584
Adjustment of acc. depr. for use of deemed cost on FTA	144.647
Net book value	252.690

Pieve Emanuele – Via Curiel, 4	
Space sq.m.: 230; Basement sq.m. 80	
Historical cost	18.279
Revaluation Law L. 05.11.73 n. 660	2.415
Revaluation Law L. 19.03.83 n. 72	107.738
Revaluation Law L. 30.12.91 n. 413	49.001
Merger deficit Bam e Briantea	128.781
Use of deemed cost on FTA 01/01/04	351.020
Gross book value	657.234
Total writedowns	369.685
Adjustments: depreciation	142.590
Adjustment of acc. depr. for use of deemed cost on FTA	227.095
Net book value	287.549

Pioltello – Viale Monza, 49 – Loc. Limito	
Space sq.m.: 360; Basement sq.m. 344	
Historical cost	245.123
Revaluation Law L. 19.03.83 n. 72	13.105
Revaluation Law L. 30.12.91 n. 413	283.831
Use of deemed cost on FTA 01/01/04	1.091.282
Gross book value	1.633.341
Total writedowns	1.028.017
Adjustments: depreciation	299.166
Adjustment of acc. depr. for use of deemed cost on FTA	728.851
Net book value	605.324

Poggio Imperiale – Piazza Imperiale, 2/6	
Space sq.m.: 200; Basement sq.m. 52	
Historical cost	63.782
Revaluation Law L. 19.03.83 n. 72	154.162
Revaluation Law L. 30.12.91 n. 413	49.828
Use of deemed cost on FTA 01/01/04	219.099
Gross book value	486.871
Total writedowns	299.604
Adjustments: depreciation	142.521
Adjustment of acc. depr. for use of deemed cost on FTA	157.083
Net book value	187.267

List of property owned by the bank with indication of revaluations

Rho – Via Curiel / Via Vanoni
Space sq.m.: 10.000; Basement sq.m. 0

Historical cost	3.535.780
Revaluation Law L. 30.12.91 n. 413	749.592
Use of deemed cost on FTA 01/01/04	7.891.161
Gross book value	12.176.533
Total writedowns	6.398.784
Adjustments: depreciation	1.670.683
Adjustment of acc. depr. for use of deemed cost on FTA	4.728.101
Net book value	5.777.749

Rho – Via Madonna, 32/Largo Kennedy, 1
Space sq.m.: 448; Basement sq.m. 235

Historical cost	338.478
Revaluation Law L. 19.03.83 n. 72	289.732
Revaluation Law L. 30.12.91 n. 413	284.342
Use of deemed cost on FTA 01/01/04	916.286
Gross book value	1.828.838
Total writedowns	983.529
Adjustments: depreciation	421.442
Adjustment of acc. depr. for use of deemed cost on FTA	562.087
Net book value	845.309

Rome – Piazzale Flaminio, 1
Space sq.m.: 6.540; Basement sq.m. 3.030

Historical cost	4.679.879
Revaluation Law L. 19.03.83 n. 72	3.322.549
Revaluation Law L. 30.12.91 n. 413	8.277.232
Use of deemed cost on FTA 01/01/04	25.323.705
Gross book value	41.603.365
Total writedowns	20.170.033
Adjustments: depreciation	5.768.397
Adjustment of acc. depr. for use of deemed cost on FTA	14.401.636
Net book value	21.433.332

Rome – Via Baldovinetti, 146/1
Space sq.m.: 865; Basement sq.m. 695

Historical cost	4.185.331
Use of deemed cost on FTA 01/01/04	1.137.461
Gross book value	5.322.792
Total writedowns	2.658.036
Adjustments: depreciation	1.938.601
Adjustment of acc. depr. for use of deemed cost on FTA	719.435
Net book value	2.664.756

Rome – Via Donna Olimpia 280/296 - Via G.F.Ingrassia, 2/10
Space sq.m.: 330; Basement sq.m. 330

Historical cost	1.090.236
Gross book value	1.090.236
Total writedowns	37.750
Adjustments: depreciation	37.750
Net book value	1.052.486

Rome – Via Ugo Ojetti, 74
Space sq.m.: 600; Basement sq.m. 507

Historical cost	710.040
Revaluation Law L. 19.03.83 n. 72	322.874
Revaluation Law L. 30.12.91 n. 413	1.072.469
Use of deemed cost on FTA 01/01/04	2.151.389
Gross book value	4.256.772
Total writedowns	2.702.003
Adjustments: depreciation	1.183.084
Adjustment of acc. depr. for use of deemed cost on FTA	1.518.919
Net book value	1.554.769

Rome – Via Vittorio Veneto, 1
Space sq.m.: 820; Basement sq.m. 409

Historical cost	2.270.823
Revaluation Law L. 30.12.91 n. 413	1.528.604
Use of deemed cost on FTA 01/01/04	5.112.258
Gross book value	8.911.685
Total writedowns	4.718.416
Adjustments: depreciation	1.538.711
Adjustment of acc. depr. for use of deemed cost on FTA	3.179.705
Net book value	4.193.269

Rome – Viale Caravaggio 133-135-137
Space sq.m.: 140; Basement sq.m. 100

Historical cost	1.624.486
Gross book value	1.624.486
Total writedowns	21.474
Adjustments: depreciation	21.474
Net book value	1.603.012

Rome Capannelle – Via Acerenza/Appia Nuova
Space sq.m.: 320; Basement sq.m. 0

Historical cost	603.904
Revaluation Law L. 30.12.91 n. 413	290.996
Use of deemed cost on FTA 01/01/04	407.169
Gross book value	1.302.069
Total writedowns	843.274
Adjustments: depreciation	516.239
Adjustment of acc. depr. for use of deemed cost on FTA	327.035
Net book value	458.795

San Giuliano Milanese – Via Fratelli Rizzi, 1
Space sq.m.: 518; Basement sq.m. 111

Historical cost	590.989
Revaluation Law L. 30.12.91 n. 413	343.638
Use of deemed cost on FTA 01/01/04	976.079
Gross book value	1.910.706
Total writedowns	1.140.837
Adjustments: depreciation	475.216
Adjustment of acc. depr. for use of deemed cost on FTA	665.621
Net book value	769.869

List of property owned by the bank with indication of revaluations

San Giuliano Milanese – Via Milano, 10/12	
Space sq.m.: 172; Basement sq.m. 27	
Historical cost	110.317
Revaluation Law L. 19.03.83 n. 72	74.406
Revaluation Law L. 30.12.91 n. 413	35.839
Merger deficit Bam e Briantea	78.221
Use of deemed cost on FTA 01/01/04	292.383
Gross book value	591.166
Total writedowns	328.907
Adjustments: depreciation	141.381
Adjustment of acc. depr. for use of deemed cost on FTA	187.526
Net book value	262.259

San Lazzaro di Savena – Via Emilia, 175	
Space sq.m.: 697; Basement sq.m. 90	
Historical cost	158.492
Revaluation Law L. 19.03.83 n. 72	195.281
Revaluation Law L. 30.12.91 n. 413	352.779
Use of deemed cost on FTA 01/01/04	1.604.587
Gross book value	2.311.139
Total writedowns	1.387.504
Adjustments: depreciation	360.282
Adjustment of acc. depr. for use of deemed cost on FTA	1.027.222
Net book value	923.635

San Severo di Puglia – Via Minuziano, 118	
Space sq.m.: 570; Basement sq.m. 190	
Historical cost	777.784
Revaluation Law L. 30.12.91 n. 413	159.599
Use of deemed cost on FTA 01/01/04	817.001
Gross book value	1.754.384
Total writedowns	981.925
Adjustments: depreciation	427.685
Adjustment of acc. depr. for use of deemed cost on FTA	554.240
Net book value	772.459

San Vittore Olona – Via Matteotti, 4	
Space sq.m.: 138; Basement sq.m. 159	
Historical cost	576.128
Gross book value	576.128
Total writedowns	83.936
Adjustments: depreciation	83.936
Net book value	492.192

Sant'Agostino – Via Statale, 70 – Loc. San Carlo	
Space sq.m.: 232; Basement sq.m. 0	
Historical cost	197.375
Revaluation Law L. 30.12.91 n. 413	158.850
Use of deemed cost on FTA 01/01/04	560.307
Gross book value	916.532
Total writedowns	731.462
Adjustments: depreciation	235.912
Adjustment of acc. depr. for use of deemed cost on FTA	495.550
Net book value	185.070

Saronno – Piazza De Gasperi, 13	
Space sq.m.: 967; Basement sq.m. 411	
Historical cost	348.623
Revaluation Law L. 19.03.83 n. 72	250.467
Revaluation Law L. 30.12.91 n. 413	619.367
Use of deemed cost on FTA 01/01/04	3.084.743
Gross book value	4.303.200
Total writedowns	2.390.567
Adjustments: depreciation	467.451
Adjustment of acc. depr. for use of deemed cost on FTA	1.923.116
Net book value	1.912.633

Saronno – Via Leonardo Da Vinci	
Space sq.m.: 246; Basement sq.m. 160	
Historical cost	397.330
Use of deemed cost on FTA 01/01/04	416.043
Gross book value	813.373
Total writedowns	281.433
Adjustments: depreciation	119.847
Adjustment of acc. depr. for use of deemed cost on FTA	161.586
Net book value	531.940

Saronno – Via Mazzini, 16/18	
Space sq.m.: 402; Basement sq.m. 69	
Historical cost	11.238
Revaluation Law L. 05.11.73 n. 660	47.901
Revaluation Law L. 19.03.83 n. 72	239.600
Revaluation Law L. 30.12.91 n. 413	102.657
Merger deficit Bam e Briantea	278.020
Use of deemed cost on FTA 01/01/04	645.923
Gross book value	1.325.339
Total writedowns	607.314
Adjustments: depreciation	231.240
Adjustment of acc. depr. for use of deemed cost on FTA	376.074
Net book value	718.025

Segrate – Piazza Centro Commerciale, 36	
Space sq.m.: 174; Basement sq.m. 0	
Historical cost	580.667
Gross book value	580.667
Total writedowns	92.199
Adjustments: depreciation	92.199
Net book value	488.468

Seregno – Via Montello/Circonvallazione	
Space sq.m.: 2.220; Basement sq.m. 1.602	
Historical cost	715.031
Revaluation Law L. 19.03.83 n. 72	568.341
Revaluation Law L. 30.12.91 n. 413	1.238.691
Use of deemed cost on FTA 01/01/04	8.573.909
Gross book value	11.095.972
Total writedowns	6.661.356
Adjustments: depreciation	1.753.821
Adjustment of acc. depr. for use of deemed cost on FTA	4.907.535
Net book value	4.434.616

List of property owned by the bank with indication of revaluations

Sesto San Giovanni – Piazza 4 Novembre, 28	
Space sq.m.: 473; Basement sq.m. 250	
Historical cost	18.076
Revaluation Law L. 19.03.83 n. 72	260.811
Revaluation Law L. 30.12.91 n. 413	254.383
Use of deemed cost on FTA 01/01/04	1.536.665
Gross book value	2.069.935
Total writedowns	1.233.987
Adjustments: depreciation	268.185
Adjustment of acc. depr. for use of deemed cost on FTA	965.802
Net book value	835.948

Settimo Milanese – Via Manzoni, 1	
Space sq.m.: 328; Basement sq.m. 234	
Historical cost	35.988
Revaluation Law L. 19.03.83 n. 72	118.950
Revaluation Law L. 30.12.91 n. 413	160.483
Use of deemed cost on FTA 01/01/04	1.164.268
Gross book value	1.479.689
Total writedowns	963.408
Adjustments: depreciation	171.460
Adjustment of acc. depr. for use of deemed cost on FTA	791.948
Net book value	516.281

Seveso – Via A. Monti	
Space sq.m.: 297; Basement sq.m. 0	
Historical cost	343.425
Gross book value	343.425
Total writedowns	34.343
Adjustments: depreciation	34.343
Net book value	309.082

Sumirago – Via Piave, 2	
Space sq.m.: 140; Basement sq.m. 35	
Historical cost	80.965
Use of deemed cost on FTA 01/01/04	253.939
Gross book value	334.904
Total writedowns	160.765
Adjustments: depreciation	36.109
Adjustment of acc. depr. for use of deemed cost on FTA	124.656
Net book value	174.139

Turin – Corso Vercelli, 109	
Space sq.m.: 338; Basement sq.m. 190	
Historical cost	984.580
Revaluation Law L. 30.12.91 n. 413	265.429
Use of deemed cost on FTA 01/01/04	152.210
Gross book value	1.402.219
Total writedowns	846.141
Adjustments: depreciation	652.121
Adjustment of acc. depr. for use of deemed cost on FTA	194.020
Net book value	556.078

Torremaggiore – Piazza Repubblica, 58	
Space sq.m.: 233; Basement sq.m. 135	
Historical cost	310.217
Revaluation Law L. 19.03.83 n. 72	255.242
Revaluation Law L. 30.12.91 n. 413	107.262
Use of deemed cost on FTA 01/01/04	216.879
Gross book value	889.600
Total writedowns	495.233
Adjustments: depreciation	308.633
Adjustment of acc. depr. for use of deemed cost on FTA	186.600
Net book value	394.367

Tradate – Via Vittorio Veneto/Via Dante	
Space sq.m.: 150; Basement sq.m. 154	
Historical cost	26.151
Revaluation Law L. 19.03.83 n. 72	90.052
Revaluation Law L. 30.12.91 n. 413	108.861
Use of deemed cost on FTA 01/01/04	329.238
Gross book value	554.302
Total writedowns	314.206
Adjustments: depreciation	107.530
Adjustment of acc. depr. for use of deemed cost on FTA	206.676
Net book value	240.096

Trescore Balneario – Via Marconi 5/7	
Space sq.m.: 168; Basement sq.m. 36	
Historical cost	997.710
Gross book value	997.710
Total writedowns	41.044
Adjustments: depreciation	41.044
Net book value	956.666

Treviglio – Via Fabio Filzi snc	
Space sq.m.: 244; Basement sq.m. 88	
Historical cost	864.984
Gross book value	864.984
Total writedowns	52.007
Adjustments: depreciation	52.007
Net book value	812.977

Trinitapoli – Corso Trinità, 13	
Space sq.m.: 408; Basement sq.m. 0	
Historical cost	542.408
Revaluation Law L. 30.12.91 n. 413	92.277
Use of deemed cost on FTA 01/01/04	321.092
Gross book value	955.777
Total writedowns	561.601
Adjustments: depreciation	326.152
Adjustment of acc. depr. for use of deemed cost on FTA	235.449
Net book value	394.176

List of property owned by the bank with indication of revaluations

Varedo – Via Umberto I, 126	
Space sq.m.: 200; Basement sq.m. 121	
Historical cost	6.448
Revaluation Law L. 19.03.83 n. 72	82.211
Revaluation Law L. 30.12.91 n. 413	82.341
Gross book value	171.000
Total writedowns	28.500
Adjustments: depreciation	28.500
Net book value	142.500

Varese – Via Avegno, 4	
Space sq.m.: 602; Basement sq.m. 313	
Historical cost	0
Revaluation Law L. 19.03.83 n. 72	413.166
Revaluation Law L. 30.12.91 n. 413	358.329
Use of deemed cost on FTA 01/01/04	2.528.118
Gross book value	3.299.613
Total writedowns	1.744.496
Adjustments: depreciation	335.851
Adeguamento fondi per applicazione deemed cost in sede di FTA	1.408.645
Net book value	1.555.117

Verona – Piazza Cittadella, 4	
Space sq.m.: 422; Basement sq.m. 381	
Historical cost	1.383.621
Revaluation Law L. 30.12.91 n. 413	4.234
Use of deemed cost on FTA 01/01/04	1.178.026
Gross book value	2.565.881
Total writedowns	1.227.147
Adjustments: depreciation	583.719
Adeguamento fondi per applicazione deemed cost in sede di FTA	643.428
Net book value	1.338.734

Vieste – Via Madonna della Libertà, 27	
Space sq.m.: 791; Basement sq.m. 303	
Historical cost	1.156.863
Revaluation Law L. 30.12.91 n. 413	205.157
Use of deemed cost on FTA 01/01/04	1.177.182
Gross book value	2.539.202
Total writedowns	1.355.662
Adjustments: depreciation	590.807
Adeguamento fondi per applicazione deemed cost in sede di FTA	764.855
Net book value	1.183.540

Villasanta – Piazza Martiri della Libertà, 13	
Space sq.m.: 442; Basement sq.m. 571	
Historical cost	429.763
Revaluation Law L. 30.12.91 n. 413	682.686
Use of deemed cost on FTA 01/01/04	1.141.111
Gross book value	2.253.560
Total writedowns	1.428.252
Adjustments: depreciation	597.207
Adjustment of acc. depr. for use of deemed cost on FTA	831.045
Net book value	825.308

Vimercate – Piazza Roma, 1	
Space sq.m.: 299; Basement sq.m. 128	
Historical cost	23.230
Revaluation Law L. 11.02.52 n. 74	996
Revaluation Law L. 05.11.73 n. 660	32.950
Revaluation Law L. 19.03.83 n. 72	226.404
Revaluation Law L. 30.12.91 n. 413	96.403
Merger deficit Bam e Briantea	207.106
Use of deemed cost on FTA 01/01/04	794.232
Gross book value	1.381.321
Total writedowns	756.553
Adjustments: depreciation	260.390
Adjustment of acc. depr. for use of deemed cost on FTA	496.163
Net book value	624.768

Voghera – Piazza C. Battisti, 10	
Space sq.m.: 1.991; Basement sq.m. 2.844	
Historical cost	792.261
Revaluation Law L. 02.12.75 n. 576	69.671
Revaluation Law L. 19.03.83 n. 72	790.730
Revaluation Law L. 30.12.91 n. 413	1.671.774
Use of deemed cost on FTA 01/01/04	8.092.858
Gross book value	11.417.294
Total writedowns	7.690.978
Adjustments: depreciation	1.814.712
Adeguamento fondi per applicazione deemed cost in sede di FTA	5.876.266
Net book value	3.726.316

Total Historical cost	**301.176.652**
Total RL48	**109.027**
Total RL52	**892.149**
Total RL73	**834.479**
Total RL75	**2.661.883**
Total RL83	**60.689.509**
Total RL91	**106.085.735**
Merger deficit Bam e Briantea	**18.039.295**
Total writedowns	**-170.593**
Total Use of deemed cost on FTA 01/01/04	**433.217.968**
Gross book value	**923.536.104**
Total Adjustments	**393.610.458**
Of which: Adjustments: depreciation	***141.504.814***
Of which: Adjustment of acc. depr. on FTA	***252.105.644***
Net book value	**529.925.646**
Total sq. m. (space + basement)	**335.448**

Report of the Board of Statutory Auditors

Members,

We have examined the draft financial statements of Banca Popolare di Milano Società Cooperativa a r.l. at 31 December 2010 prepared by the Directors in compliance with the law and applying international financial reporting standards (IAS/IFRS). The Board of Directors sent them to us on a timely basis on 29/3/2011 together with the schedules and attachments, accompanied by the report on operations.
The financial statements submitted for your attention consist of:

- the report on operations;
- the balance sheet;
- the income statement;
- the statement of comprehensive income;
- the statement of changes in shareholders' equity;
- the cash flow statement;
- the explanatory notes which contain a list of the main accounting policies and other explanations.

The documentation delivered to us also contains the certification of the Financial Reporting Manager in accordance with art. 154 bis of the CFA and the report of the independent auditors.

The Bank has also prepared a Remuneration Policy Document and a Report on Corporate Governance and Ownership Structure (art.123 bis CFA) which it has published in the ways laid down in art. 89 bis of Consob's Issuers' Regulations.
The financial statements for the year ended 31 December 2010 have been prepared in accordance with the IAS/IFRS adopted by the International Accounting Standards Board (IASB) and approved by the European Union, as well as with those that have already been interpreted; they have been applied in the ways recommended and updated to 2010.

Results

As is generally known, under Decree 39/10 and Decree 58/98 (CFA), auditing the company's accounting records and its results, as well as their agreement with the figures in the financial statements, is up to the independent auditors, whereas it is up to us to make any observations on the financial statements and to assess whether the company has complied with the law in matters of corporate governance and proper administration of the company in accordance with art. 149 of Decree 58/98 and art. 19 of Decree 39/10.
As regards the audit of the financial statements, Reconta Ernst & Young SpA, the independent auditors appointed at the General Meeting of 21 April 2007 for the years 2007-2015, issues a separate audit report.
As regards the adequacy of the accounting procedures and agreement of the figures in the financial statements with the books of account and the information contained generally in the annual report, the Financial Reporting Manager, Roberto Frigerio, has issued certification in this regard pursuant to art. 154 bis of the CFA, which has also been signed by the Bank's Chairman.
Even so, we also carried out targeted controls on the items in the financial statements so that we could come to our own conclusions and make any observations; this in accordance with the combined requirements of paras. III and IV of section 6 bis, chapter V, Book V of the Italian Civil Code and art. 153 of Decree 58/98 (CFA), thereby also implementing, with the necessary integrations, the requirements of art. 2429 of the Italian Civil Code.
The financial statements that the Directors submit for your attention have been prepared according to international financial reporting standards (IAS/IFRS), and therefore in a format that differs from that of art. 2424 and 2425 of the Italian Civil Code, given that the company, as a bank, also has to comply with specific instructions.
We can confirm that the financial statements have been prepared in accordance with the format required of banks and finance companies by EU Directive 86/635 and subsequent amendments, and that all of the documents mentioned above have been prepared in accordance with the requirements of Decree 87 of 27.1.1992, Decree 38 of 28.2.2005 and the Instructions issued by the Bank of Italy (in particular, Bank of Italy Circular 262 of 22.12.2005 and subsequent amendments).
As regards the numbers in the balance sheet and income statement, reference should be made to the analysis contained in the section entitled "Financial Statements", which we summarise below:

Balance sheet	euro
Total assets	**41,794,996,245**
Payables, provisions and liabilities	38,141,475,993
Share capital, share premium reserve and reserves	3,530,663,670
Net income for the year	122,856,582
Total liabilities and shareholders' equity	**41,794,996,245**

Income statement	euro
Interest margin	552,293,505
Net fee and commission income	478,072,331
Dividend and similar income	86,659,130
Profits (losses) on financial assets and liabilities designated at fair value	3,795,257
Net interest and other banking income	1,131,900,200
Net impairment adjustments	(219,756,327)
Net income from banking activities	912,143,873
Operating expenses	(917,990,906)
Profits (losses) from investments in associates and companies subject to joint control and profits (losses) on disposal of investments	198,703,615
Profit before taxes	192,856,582
Taxes	(70,000,000)
Net income for the year	**122,856,582**

Standards of conduct

Our examination was performed in accordance with the standards of conduct for statutory auditors recommended by the Consiglio Nazionale Dottori Commercialisti & Esperti Contabili (C.N.D.C.E.C.) and, accordingly, we referred to the legislation governing the preparation of financial statements with reference to the Italian Civil Code, with international accounting standards, and with Decree Law 58/98, as interpreted and adjusted to the application of IAS/IFRS, given Law 38 of 28/2/2005 in execution of EC Regulation 1606 of 18/7/2002, and as interpreted by O.I.C. (Italian Accounting Body).

Methods of preparing the financial statements

The financial statements have been prepared, in accordance with Decree 87 of 27/1/1992 and the provisions of the Bank of Italy (Bank of Italy Circular 262 of 22/12/2005 and subsequent amendments), applying - as per the provisions of Decree 38/2005 - the IAS/IFRS in force at the end of the year, taking into consideration the recommendations made by the O.I.C.

In preparing the financial statements, the Directors followed the requirements of art. 2423 of the Italian Civil Code to the extent necessary to comply with the international financial reporting standards, adopting fair value accounting where permitted and within reasonable limits, also in light of the new rules mentioned above that introduced a hierarchy of levels that reflect the reliability of the inputs used in the valuations.

Bearing this in mind, we have noted that:

- the methods of preparation laid down by art. 2423-bis of the Italian Civil Code have been respected, as they are compatible with IAS no. 1 (Presentation of financial statements), in accordance with the prudence principle in the valuation process and the accruals principle;
- the assets measured at fair value comply with the underlying logic of this valuation method, also as regards the accruals principle;
- the balance sheet complies with the provisions of Circular 262 of 22 December 2005 (and subsequent amendments) which requires a description of financial instruments by destination and function, as represented by their category;
- the income statement maintains the previous vertical format;
- prior year comparative figures are provided for each item;
- no compensation has been made between items, except as expressly permitted by IAS (Revenues);

- the explanatory notes to the financial statements have also been prepared in compliance with Circular 262 of 22 December 2005 (and subsequent amendments), which means that they explain the accounting policies and provide information on the balance sheet and income statement, as well as on those areas that are specific to the banking industry, by means of:
  - Information on comprehensive income;
  - Information on risks and related hedging policies;
  - Information on capital;
  - Business combinations;
  - Related party transactions;
  - Share-based payments;
  - Segment reporting;
  - the report on operations gives a complete picture of the company's situation and of the results of operations as a whole and in the various segments in which it operates; it also explains the more significant events that took place during the year, as well as subsequent events; it also includes comments on the outlook for the current year;
  - the activity carried on by the Bank and relationships with related parties are also explained; these are of a commercial and financial nature and they are in the company's interest that they are carried out, so there are specific procedures to be followed when executing them;
  - particularly large transactions that took place during the year and which are required to be communicated to the Members are explained by the Board of Directors in the documents attached to the financial statements. They are submitted for your examination and reference should be made to them;
  - the accounting policy on deferred taxation has been applied on the basis of IAS 12, which is substantially in line with Italian Accounting Principle 25 and the Directors explain this in the notes, also as regards the extent to which it is reasonable to expect deferred tax assets to be recovered;
  - the cash flow statement shows the nature and origin of the cash flows and has been prepared in accordance with IFRS 7 (Financial Instruments: Disclosures), as integrated by IAS 32 (Financial Instruments: Presentation) and 39 (Financial Instruments: Recognition and Measurement) with amendment for the fair value option;
  - labour cost takes account of deferred charges for defined benefits (the portion borne by the company) with a consequent assessment of the adequacy of the provision for employee termination indemnities; it also takes account of the cost of defined contribution supplementary pension plans from 1/1/2007 onwards, which charge impacts the income statement but does not affect the provision, as the future payment of benefits will not be up to the company. The valuation is consistent with IAS 19 (Employee Benefits);
  - steps were taken during the year to comply with Law 123/2007 and Decree 81 of 9/4/2008 (Protection of health and safety in the workplace) by identifying potential risk areas and checking the effectiveness of preventive measures.
  - the Directors have prepared a separate Report on Corporate Governance, taking account of the 2006 version of Borsa Italiana's Code of Conduct, which the company has ratified;
  - the explanatory notes describe the main risks to which the Company is exposed and the related hedging policies. Information is provided on capital adequacy (parts E and F).

The Directors have provided further information in the notes that they consider useful for a more complete picture of the company's operations and for a better understanding of the figures in the financial statements, giving additional data and information, in certain cases with reference to specific legal requirements.
In the same spirit, the Directors have provided information required by other requirements of the Civil Code and secondary regulations to which the company is subject. The Directors have also provided other information that they consider opportune to give a true and fair view of the company's assets and liabilities, financial position and results.

Accounting principles
The figures in the financial statements are shown on a going-concern basis (IAS 1), in accordance with International Financial Reporting Standards (IAS/IFRS) and, to the extent compatible, also with art. 2426 of the Civil Code (where applicable).
Having already said what we did about the adoption of IAS/IFRS and about the assets measured at fair value, we are not aware of any changes in accounting principle.

Fair value reserve
The differences in value resulting from application of fair value were already shown, net of the tax effect, in a separate equity reserve which is not distributable unless the events that permitted its initial recognition take place and to the extent allowed. The Directors have already discussed the nature and composition of the reserves and their evolution in the explanatory notes.

Deferred tax assets and liabilities
As regards the booking of deferred tax taxation in the financial statements, we agree with the approach taken by the Directors both as regards the deferred tax liabilities, which represent the accrual of tax charges that will be paid in future periods because of the application of certain tax benefits, and as regards deferred tax assets, as at present there are no reasons to assume that taxable income in the future will not be sufficient to recover the taxes paid in advance during the period in accordance with current tax legislation, where it differs in terms of the timing of the deductibility of certain costs, as reflected in the reversal of taxes for the year and for prior years.
We would also remind you that even after approval of the proposed dividend distribution at the AGM, there are still sufficient equity reserves to cover the residual amortisation, writedowns and other provisions deducted for tax purposes compared with those charged to the income statement, net of the related deferred tax liabilities.

Decree Law 231 of 8/6/2001
We acknowledge that the company introduced a set of regulations for the prevention of corporate offences pursuant to Decree 231/2001 according to the guidelines approved by the pertinent bodies, and that at least one of our members takes part systematically in the activities of the Supervisory Committee.
The model adopted was implemented during the year so as to respond to the provisions of new legislation, above all on matters of safety in the workplace and anti-money laundering.
We acknowledge that we have received periodic reports and communications from the Supervisory Committee and have taken part in meetings specifically with its members.

Decree Law 196 of 30/6/2003
We acknowledge that the company has prepared the Security Planning Document in accordance with Decree 196 of 30/6/2003. To this end, the Board of Directors has identified, in accordance with attachment B art. 26, the minimum requisites to be complied with for the specific type of banking activity that it carries on and the consequent legal obligations. This document and the related procedures also had to be implemented following the introduction of new legislation and they were updated during the year.

Inspections and checks
During the year, we carried out the periodic audit checks required of us by law.
As has already been mentioned, the task of auditing the accounting system and the financial statements is up to the independent auditors, and for this the company has appointed Reconta Ernst & Young S.p.A. We are not aware that any exceptions have been raised or anomalies reported with regard to the organisation and adequacy of the accounting system to give a true and fair view of the company's affairs.
We have come to similar conclusions, also with reference to the information and reports provided periodically by the Board of Directors in accordance with art. 150 of Decree 58/98, and on the basis of the audit work that we have carried out, by taking part in the activities of the Internal Control Committee and by analysing the various audit reports that are submitted to our attention.
During our work, we also held meetings with the independent auditors so that they could update us on the results of their work and exchange information in accordance with art. 150 of the CFA and Decree 39/10.
As regards the items in the financial statements submitted for your attention, the necessary checks have been carried out to be able to make the subsequent observations, as required by the auditing standards issued by the Italian Accountancy Profession (as represented by the Consiglio Nazionale dei Dottori Commercialisti ed Esperti Contabili).
These checks involved, in particular, the methods of preparation of the financial statements and the accounting policies, with specific attention to the question of provisions, as well as the methods used by the Directors and compliance with the prudence principle: no discrepancies have emerged with respect to the rules that govern the preparation of financial statements and the application of international accounting standards (IAS/IFRS).

Corporate Governance and Ownership Structure

The Directors report on this matter in accordance with art. 123 bis of Decree 58/98 and art. 89 bis of Consob's Issuers' Regulations, as well as the indications given in the "Format for the Report on Corporate Governance and Ownership Structure" prepared by Borsa Italiana, drawing up a specific report that is separate from the Report on Operations.

We have therefore also made our own comments in a separate document.

Other legal formalities and disclosures

We have amended the Regulations for the functioning of the Board of Statutory Auditors, which we delivered to the Board of Directors at the meeting on 21 December 2010. These Regulations govern the role and duties of the Board of Statutory Auditors in line with the principles laid down in the "Supervisory Instructions regarding the Organisation and Corporate Governance of Banks" according to Bank of Italy Provision 264010 of 4 March 2008 (and subsequent amendments) and the instructions contained in Decree 39/2010. In light of this decree, we have also received a copy of the independent auditors' management letter which outlines the key matters that arose during the audit.

As regards the checks, controls and disclosures mentioned in art. 149 of Decree 58/98, also taking account of the Standards of Conduct for Statutory Auditors issued by the Consiglio Nazionale dei Dottori Commercialisti ed Esperti Contabili, the recommendations made by the Supervisory Authorities and the other provisions linked to this decree, we can confirm that:

- we carried out the audit checks provided for under arts 149 and 151 of Decree 58/98; - we met 73 times during 2010, including the external checks carried out at branches and Group companies;

- we performed audits at BPM Ireland Plc and BPM Fund Management (February 2010);

- we took part in all of the meetings of the Board of Directors and Executive Committee, all 45 meetings of the Financing Committee, as well as all 21 meetings of the Internal Control Committee, 14 meetings of the Remuneration Committee, 18 meetings of the Members' Relations Commission and all 10 meetings of the Supervisory Committee;

- the activities of the Executive Committee and of the Board of Directors were performed in compliance with the law; any urgent decisions taken by the Executive Committee were always brought to the attention of and ratified by the Board of Directors, so we do not have any remarks to make on the respect for the principles of good management, which have always been observed;

- we have obtained from the Directors, at least quarterly, information on the company's activity and significant transactions, pursuant art. 150 of Decree 58/98; based on the information obtained, we were able to check that these were in compliance with the law and with the Articles of Association and were not manifestly imprudent, risky, in potential conflict of interest with resolutions passed by general meetings;

- to the extent of our duties, we became familiar with the Bank's business and monitored the adequacy of its organisational structure, the observance of the principles of good management and, after the Supervisory Authority's warning, the adequacy of the liquidity balances. To this end, we have gathered information from the heads of the various functions, through regular meetings with management, by carrying out direct checks on repetitive tasks and by taking part in the works of the Internal Control Committee and of the other Board Committees; we have also asked the Internal Auditing Department for reports on their work; we also reviewed all of the inspection reports that contained negative comments and all of the audit checks carried out on the various departments of the Bank and all of its subsidiaries.

- we received confirmation from the independent auditors regarding the adequacy of the accounting system, as well as its reliability in presenting a true and fair view of the company's affairs;

- we reviewed and evaluated the system of internal control so as to verify its independence, autonomy and separation from other functions, also in relation to the development and size of the business and to the particular obligations and restrictions to which the company is subject; in this connection, particular attention was paid, together with the Internal Control Committee, to analysing the various types of risk and the ways of handling them, with a specific focus on the Internal Capital Adequacy Assessment Process (ICAAP), as mentioned in the Report on Corporate Governance and Ownership Structure; we also checked the autonomy of the Compliance functions, which appears to be maintained also with the present structure, albeit in line with the network controls under the same management for an overall strengthening of the internal control structure. We also promoted constant implementation - backed by training - of the procedures linked to the obligations of intermediaries;

- we checked compliance with the law governing the format and contents of the financial statements, the report on operations and the explanatory notes; talking of which, we would remind you, as required by specific legal provisions, that:

- assets being used under operating leases are indicated together with their nature and future financial commitments;

- the composition, type and movement of shareholders' equity items are shown; in particular, under reserves the reserve of Euro 18,989 thousand is by nature a fair value reserve in accordance with art. 6 of Decree 38/2005, so its use is restricted until such time that the events that led to its measurement and recognition actually take place.

We can also confirm that:

■ we have checked the other engagements of the independent auditors or related parties, apart from the audit of the financial statements, with the following results:

■ the fees earned by Reconta Ernst & Young S.p.A. for their audit activities during 2010 total Euro 525 thousand (including forfeit expenses and the Consob contribution) plus out-of-pocket expenses and VAT for the Parent Bank and Euro 1,786 thousand for the other Group companies;

■ Reconta Ernst & Young S.p.A. was also given a fee of €346 thousand (plus out-of-pocket expenses and VAT) mainly for issuing comfort letters in connection with the EMTN programmes, the Covered Bond programmes and the due diligence on Prima SGR;

- decisions affecting the subsidiaries were taken in the interest of both the parent bank and the companies concerned, pursuant to art. 114, para. 2, Decree 58/98. This activity forms part of the normal operations of the Group and was undertaken in accordance with the general guidelines laid down by Consob and adopted by a specific internal procedure;
- related party transactions comply with the specific procedures approved by the Board of Directors and are commercial and financial in nature, they comply with market logic and the Group has an interest in carrying out such transactions, for which there is a specific procedure;
- the company has taken the Group tax election, which means that it files for tax in Italy together with its Italian subsidiaries;
- no unusual or atypical transactions have been noted;
- no transactions of particular importance have taken place during the year apart from those already explained by the Directors in the appropriate ways and reiterated in the documents that accompany the financial statements;
- we are not aware of any events in which the Directors might have had an interest, whether personally or on behalf of third parties;
- during the year we received the prescribed reports on complaints, money laundering and on the work performed by the internal control functions; we therefore carried out the required activities of verification and control, recommending that every effort be made to comply with the procedures;
- we have received and agreed with the reports prepared by the Chairman of the Internal Control Committee and from the Director who is a member of it;
- we have been informed - in cases where there has not been direct participation by us - about the work of the Internal Control Committee, the Remuneration Committee, the Members' Relations Commission and the Supervisory Committee set up under Decree 231/01;
- we have not received any claims pursuant to art. 2408 of the Italian Civil Code;
- we have received any comments from the independent auditors;
- for the appointment of the members of the Board of Directors and Board of Statutory Auditors, there are specific rules for listed companies, as laid down in the Finance Consolidation Act (and related rules for implementation), which have to be applied in the more restrictive sense envisaged in the Articles of Association;
- the dividend distribution proposed by the Board of Directors is not in contrast with the law, regulations or the Articles of Association. Lastly, we can confirm that we did not issue any opinions during the year, except in the cases envisaged or permitted by law, and in any case always within the limits of our own functions; we can also confirm that we have always replied to requests for certifications from the Supervisory Authorities.

Observations on the financial statements and on the proposal to approve them

Given that we did not receive any adverse comments from the independent auditors with regard to their periodic checks in connection with the annual financial statements and bearing in mind the considerations that we made above, we, the Board of Statutory Auditors, are of the opinion that the financial statements and the documentation being submitted by the Board of Directors for the approval of the General Meeting give a complete picture of the Bank's state of affairs as of 31 December 2010 according to the legal requirements.

In accordance with art. 144 quinquiesdecies of the Issuers' Regulations, approved by Consob with resolutions 11971/99 and subsequent amendments and integrations, an updated list of the positions held by us as the members of the Board of Statutory Auditors at the companies mentioned in Book V, Title V, Chapters V, VI and VII of the Italian Civil Code is available for the general public at the offices of Consob.

Milan, 13 April 2011

The Chairman
Salvatore Rino Messina

Acting Statutory Auditors
Carlo Bellavite Pellegrini
Enrico Castoldi
Stefano Salvatori
Ezio Simonelli

Report of the Independent Auditors

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Independent auditors' report
pursuant to art. 14 and 16 of Legislative Decree n. 39 dated January 27, 2010
(Translation from the original Italian text)

To the Shareholders
of Banca Popolare di Milano S.c. a r.l.

1. We have audited the financial statements of Banca Popolare di Milano S.c. a r.l. as of and for the year ended December 31, 2010, comprising the balance sheet, the income statement, the statement of comprehensive income, the changes in shareholders' equity, the statement of cash flows and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005 is the responsibility of Banca Popolare di Milano S.c. a r.l.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. Our audit was performed in accordance with auditing standards recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated April 6, 2010.

3. In our opinion, the financial statements of Banca Popolare di Milano S.c. a r.l. at December 31, 2010 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of Banca Popolare di Milano S.c. a r.l. for the year then ended.

4. The management of Banca Popolare di Milano S.c. a r.l. is responsible for the preparation of the Report on operations and the Report on Corporate Governance and Ownership Structure in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency with the financial statements of the Report on operations and the information included therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) presented in the Report on Corporate Governance and Ownership Structure, as required by the law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the Report on operations and the

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information reported therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2), letter b) presented in the Report on Corporate Governance and Ownership Structure, are consistent with the financial statements of Banca Popolare di Milano S.c. a r.l. as of December 31, 2010.

Milan, April 12, 2011

Reconta Ernst & Young S.p.A.
Signed by: Massimo Colli, Partner