Consolidated financial statements of the BPM Group

2011

Key figures and ratios of the BPM Group

Structure of the BPM Group at 31 December 2011

BANCA POPOLARE DI MILANO S.c. a r.l. (*)

Retail Banking	*Investment Banking*	*Wealth Management*	*Corporate Center*	*Other activities*
Banca di Legnano S.p.A.	Banca Akros S.p.A.	Akros Alternative Investments SGR S.p.A.	BPM Capital I Llc.	Ge.Se.So. S.r.l.
Cassa di Risparmio di Alessandria S.p.A.	BPM Ireland Plc.	BPM Fund Management Ltd. in liquidation	BPM Luxembourg S.A.	
Banca Popolare di Mantova S.p.A.			BPM Covered Bond S.r.l.	
WeBank S.p.A.				
ProFamily S.p.A.				

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

Consolidated reclassified financial statements: general aspects

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

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

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

1. the 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 Profits (losses) on investments carried at equity, recorded in line item 240 "Profits (losses) on investments in associates and companies subject to joint control" has been reported in a separate line forming part of "Operating income" in the reclassified income statement;
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". The following have been excluded from this aggregate: line item 100 a) "Profits/losses on disposal/repurchase of loans";
4. the "Other operating charges/income" (line item 220) recorded as part of "Operating expenses" in the official reporting format have been adjusted to exclude a recovered portion of "Indirect taxes" and of the "Tax settlement charge" agreed at the end of 2010; "Depreciation of leasehold improvements" has also been increased. "Other operating charges/income", reclassified in this way, have been included in "Operating income" in the reclassified income statement;
5. "Other administrative expenses" (line item 180 b) have been reduced by the "Recovered indirect taxes" discussed in point 4) above;
6. "Net adjustments to property and equipment and intangible assets" (line items 200 and 210) have been increased in the reclassified income statement by the "Depreciation of leasehold improvements" discussed in point 4) above;
7. "Net adjustments for impairment of loans and other activities" reported after "Operating profit" in the reclassified format, include line item 130, net of the sub-item 130 b) "Net losses/recoveries on impairment of financial assets held for sale" (reclassified under "Net income from banking activities") and line item 100 a) "Profits (losses) on disposal/repurchase of loans" (removed from "Net income from banking activities");
8. the item in the reclassified statement "Extraordinary tax items" include the charges for the tax settlement reached at the end of 2010 transferred from item 20 "Interest and similar expense" (see point 1) and from item 220 "Other operating charges/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 290 "Taxes on income from continuing operations". This item only has a value in the fourth quarter of 2010.

Consolidated reclassified balance sheet

(euro/000)

Assets	31.12.2011	30.09.2011	31.12.2010	Change A-B		Change A-C	
	A	B	C	amount	%	amount	%
Cash and cash equivalents	241,315	216,048	264,208	25,267	11.7	–22,893	–8.7
Financial assets designated at fair value and hedging derivatives:	10,860,878	10,750,844	12,295,231	110,034	1.0	–1,434,353	–11.7
– Financial assets held for trading	*2,040,312*	*2,274,432*	*1,877,498*	*–234,120*	*–10.3*	*162,814*	*8.7*
– Financial assets designated at fair value through profit and loss	*529,750*	*629,075*	*1,784,520*	*–99,325*	*–15.8*	*–1,254,770*	*–70.3*
– Financial assets available for sale	*8,100,279*	*7,636,919*	*8,557,363*	*463,360*	*6.1*	*–457,084*	*–5.3*
– Hedging derivatives	*168,244*	*200,513*	*75,674*	*–32,269*	*–16.1*	*92,570*	*122.3*
– Fair value change of financial assets in hedged portfolios (+/–)	*22,293*	*9,905*	*176*	*12,388*	*125.1*	*22,117*	*n.s.*
Due from banks	2,104,004	1,277,583	2,488,570	826,421	64.7	–384,566	–15.5
Loans to customers	35,685,563	36,209,485	35,537,428	–523,922	–1.4	148,135	0.4
Fixed assets	1,483,622	1,927,934	1,998,110	–444,312	–23.0	–514,488	–25.7
Technical insurance reserves reassured with third parties	0	0	5,642	0	n.s.	–5,642	–100.0
Other assets	1,555,645	1,386,806	1,368,251	168,839	12.2	187,394	13.7
Total assets	**51,931,027**	**51,768,700**	**53,957,440**	**162,327**	**0.3**	**–2,026,413**	**–3.8**

Liabilities and shareholders' equity	31.12.2011	30.09.2011	31.12.2010	Change A-B		Change A-C	
	A	B	C	amount	%	amount	%
Due to banks	9,465,678	6,642,569	7,107,417	2,823,109	42.5	2,358,261	33.2
Due to customers	21,398,576	23,579,501	23,817,805	–2,180,925	–9.2	–2,419,229	–10.2
Securities issued	12,632,270	12,869,968	12,070,146	–237,698	–1.8	562,124	4.7
Financial liabilities and hedging derivatives:	2,835,245	2,739,866	1,842,215	95,379	3.5	993,030	53.9
– Financial liabilities held for trading	*1,677,642*	*1,623,953*	*1,150,710*	*53,689*	*3.3*	*526,932*	*45.8*
– Financial liabilities designated at fair value through profit and loss	*1,086,922*	*1,055,571*	*669,009*	*31,351*	*3.0*	*417,913*	*62.5*
– Hedging derivatives	*31,883*	*19,569*	*49,294*	*12,314*	*62.9*	*–17,411*	*–35.3*
– Fair value change of financial liabilities in hedged portfolios (+/–)	*38,798*	*40,773*	*–26,798*	*–1,975*	*–4.8*	*65,596*	*–244.8*
Other liabilities	1,059,850	1,750,320	1,395,439	–690,470	–39.4	–335,589	–24.0
Provisions for specific use	476,797	391,213	432,438	85,584	21.9	44,359	10.3
Technical reserves	0	0	3,308,463	0	n.s.	–3,308,463	–100.0
Capital and reserves	4,628,822	3,613,164	3,737,196	1,015,658	28.1	891,626	23.9
Minority interests (+/–)	48,122	135,227	140,351	–87,105	–64.4	–92,229	–65.7
Net income (loss) (+/–)	–614,333	46,872	105,970	–661,205	n.s.	–720,303	n.s.
Total liabilities and shareholders' equity	**51,931,027**	**51,768,700**	**53,957,440**	**162,327**	**0.3**	**–2,026,413**	**–3.8**

Consolidated reclassified balance sheet - quarter by quarter

(euro/000)

Assets	2011				2010			
	31.12	30.9	30.6	31.3	31.12	30.9	30.6	31.3
Cash and cash equivalents	241,315	216,048	240,002	221,087	264,208	208,929	213,680	212,935
Financial assets designated at fair value and hedging derivatives:	10,860,878	10,750,844	9,584,190	13,154,923	12,295,231	10,296,325	10,285,995	4,666,478
– Financial assets held for trading	*2,040,312*	*2,274,432*	*1,690,574*	*1,711,854*	*1,877,498*	*2,309,097*	*2,301,182*	*1,913,192*
– Financial assets designated at fair value through profit and loss	*529,750*	*629,075*	*699,638*	*1,748,093*	*1,784,520*	*1,950,842*	*1,943,907*	*841,313*
– Financial assets available for sale	*8,100,279*	*7,636,919*	*7,069,060*	*9,619,103*	*8,557,363*	*5,909,538*	*5,874,811*	*1,804,009*
– Hedging derivatives	*168,244*	*200,513*	*125,080*	*76,221*	*75,674*	*126,848*	*166,095*	*107,964*
– Fair value change of financial assets in hedged portfolios (+/–)	*22,293*	*9,905*	*–162*	*–348*	*176*	*0*	*0*	*0*
Due from banks	2,104,004	1,277,583	2,555,802	2,891,947	2,488,570	3,752,284	3,610,777	3,685,303
Loans to customers	35,685,563	36,209,485	35,788,852	35,295,668	35,537,428	34,700,540	33,411,775	33,362,548
Fixed assets	1,483,622	1,927,934	1,891,900	1,989,782	1,998,110	1,950,931	1,904,749	1,891,552
Technical insurance reserves reassured with third parties	0	0	0	6,477	5,642	5,893	5,486	0
Non–current assets held for sale and discontinued operations	0	0	4,472,886	0	0	0	0	0
Other assets	1,555,645	1,386,806	1,436,394	1,842,751	1,368,251	1,475,054	1,644,682	1,475,228
Total assets	**51,931,027**	**51,768,700**	**55,970,026**	**55,402,635**	**53,957,440**	**52,389,956**	**51,077,144**	**45,294,044**

Liabilities and shareholders' equity	2011				2010			
	31.12	30.9	30.6	31.3	31.12	30.9	30.6	31.3
Due to banks	9,465,678	6,642,569	6,830,836	6,136,783	7,107,417	5,445,566	3,921,235	3,264,309
Due to customers	21,398,576	23,579,501	22,791,943	25,379,846	23,817,805	23,500,680	24,876,922	22,762,099
Securities issued	12,632,270	12,869,968	13,860,338	12,324,471	12,070,146	11,402,179	10,755,317	10,594,995
Financial liabilities and hedging derivatives:	2,835,245	2,739,866	1,932,716	1,940,499	1,842,215	2,233,208	2,394,674	2,412,231
– Financial liabilities held for trading	*1,677,642*	*1,623,953*	*964,538*	*1,040,533*	*1,150,710*	*1,533,046*	*1,536,114*	*1,214,450*
– Financial liabilities designated at fair value through profit and loss	*1,086,922*	*1,055,571*	*972,136*	*875,700*	*669,009*	*686,957*	*852,330*	*1,193,225*
– Hedging derivatives	*31,883*	*19,569*	*43,133*	*125,859*	*49,294*	*7,619*	*6,230*	*4,556*
– Fair value change of financial liabilities in hedged portfolios (+ /–)	38,798	*40,773*	*–47,091*	*–101,593*	*–26,798*	*5,586*	*0*	*0*
Liabilities associated with non–current assets held for sale and discontinued operations	0	0	4,243,756	0	0	0	0	0
Other liabilities	1,059,850	1,750,320	1,970,728	1,732,869	1,395,439	2,001,124	1,521,166	1,708,877
Provisions for specific use	476,797	391,213	405,130	418,646	432,438	505,189	521,009	478,173
Technical reserves	0	0	0	3,425,571	3,308,463	3,228,435	3,062,612	0
Capital and reserves	4,628,822	3,613,164	3,756,830	3,860,416	3,737,196	3,834,573	3,824,038	3,892,877
Minority interests (+/–)	48,122	135,227	135,076	141,270	140,351	131,049	129,955	130,382
Net income (loss) (+/–)	–614,333	46,872	42,673	42,264	105,970	107,953	70,216	50,101
Total liabilities and shareholders' equity	**51,931,027**	**51,768,700**	**55,970,026**	**55,402,635**	**53,957,440**	**52,389,956**	**51,077,144**	**45,294,044**

Consolidated reclassified income statement

(euro/000)

Line items	2011	2010	Change	
			Amount	%
Interest margin	**824,771**	**733,227**	**91,544**	**12.5**
Non–interest margin:	**527,079**	**730,903**	**(203,824)**	**–27.9**
– Net fee and commission income	523,207	610,767	(87,560)	–14.3
– Other income:	3,872	120,136	(116,264)	–96.8
– Profits (losses) on investments carried at equity	*(4,113)*	*(124)*	*(3,989)*	*n.s.*
– Net income from banking activities	*(27,026)*	*86,008*	*(113,034)*	*n.s.*
– Other operating charges/income	*35,011*	*34,252*	*759*	*2.2*
Operating income	**1,351,850**	**1,464,130**	**(112,280)**	**–7.7**
Administrative expenses:	(958,629)	(1,019,511)	60,882	6.0
a) personnel expenses	*(650,625)*	*(697,159)*	*46,534*	*6.7*
b) other administrative expenses	*(308,004)*	*(322,352)*	*14,348*	*4.5*
Net adjustments to property and equipment and intangible assets	(86,319)	(80,177)	(6,142)	–7.7
Operating expenses	**(1,044,948)**	**(1,099,688)**	**54,740**	**5.0**
Operating profit	**306,902**	**364,442**	**(57,540)**	**–15.8**
Net adjustments for impairment of loans and other activities	(483,431)	(244,640)	(238,791)	–97.6
Net provisions for risks and charges	(111,628)	(11,143)	(100,485)	n.s.
Profits (losses) from equity and other investments	(419,219)	55,019	(474,238)	n.s.
Extraordinary tax items	0	(178,469)	178,469	100.0
Income (loss) before tax from continuing operations	**(707,376)**	**(14,791)**	**(692,585)**	**n.s.**
Taxes on income from continuing operations	66,697	(86,635)	153,332	n.s.
Income (loss) after tax from continuing operations	**(640,679)**	**(101,426)**	**(539,253)**	**n.s.**
Income (loss) after tax from discontinued operations	19,475	212,546	(193,071)	–90.8
Net income (loss)	**(621,204)**	**111,120**	**(732,324)**	**n.s.**
Minority interests	6,871	(5,150)	12,021	n.s.
Parent company's net income (loss)	**(614,333)**	**105,970**	**(720,303)**	**n.s.**

Basic EPS from continuing operations – Euro	**(0.793)**	**(0.263)**
Diluted EPS from continuing operations – Euro	**(0.793)**	**(0.263)**
Basic EPS – Euro	**(0.767)**	**0.178**
Diluted EPS – Euro	**(0.767)**	**0.178**

Consolidated reclassified income statement – quarter by quarter

(euro/000)

Voci	2011				2010			
	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Interest margin	**204,565**	**203,947**	**208,985**	**207,274**	**188,820**	**183,219**	**181,171**	**180,017**
Non-interest margin:	**91,345**	**105,259**	**156,462**	**174,013**	**150,868**	**193,855**	**147,006**	**239,174**
- Net fee and commission income	121,007	124,143	132,902	145,155	151,787	138,982	146,069	173,929
- Other income:	(29,662)	(18,884)	23,560	28,858	(919)	54,873	937	65,245
- Profits (losses) on investments carried at equity	*(7,428)*	*(498)*	*270*	*3,543*	*1,240*	*1,329*	*(2,733)*	*40*
- Net income from banking activities	*(34,048)*	*(27,307)*	*17,630*	*16,699*	*(8,896)*	*46,487*	*(7,293)*	*55,710*
- Other operating charges/income	*11,814*	*8,921*	*5,660*	*8,616*	*6,737*	*7,057*	*10,963*	*9,495*
Operating income	**295,910**	**309,206**	**365,447**	**381,287**	**339,688**	**377,074**	**328,177**	**419,191**
Administrative expenses:	(222,806)	(229,346)	(260,729)	(245,748)	(248,804)	(255,609)	(265,158)	(249,940)
a) personnel expenses	*(140,397)*	*(163,717)*	*(175,606)*	*(170,905)*	*(161,277)*	*(181,308)*	*(180,245)*	*(174,329)*
b) other administrative expenses	*(82,409)*	*(65,629)*	*(85,123)*	*(74,843)*	*(87,527)*	*(74,301)*	*(84,913)*	*(75,611)*
Net adjustments to property and equipment and intangible assets	(26,053)	(20,207)	(20,128)	(19,931)	(21,153)	(19,748)	(19,608)	(19,668)
Operating expenses	**(248,859)**	**(249,553)**	**(280,857)**	**(265,679)**	**(269,957)**	**(275,357)**	**(284,766)**	**(269,608)**
Operating profit	**47,051**	**59,653**	**84,590**	**115,608**	**69,731**	**101,717**	**43,411**	**149,583**
Net adjustments for impairment of loans and other activities	(303,809)	(66,585)	(70,604)	(42,433)	(92,538)	(49,249)	(36,013)	(66,840)
Net provisions for risks and charges	(110,099)	816	(1,420)	(925)	(5,296)	(3,089)	(723)	(2,035)
Profits (losses) from equity and other investments	(420,026)	0	506	301	(53)	82	54,990	0
Extraordinary tax items	0	0	0	0	(178,469)	0	0	0
Income (loss) before tax from continuing operations	**(786,883)**	**(6,116)**	**13,072**	**72,551**	**(206,625)**	**49,461**	**61,665**	**80,708**
Taxes on income from continuing operations	116,697	(15,200)	(3,982)	(30,818)	(132)	(22,334)	(30,884)	(33,285)
Income (loss) after tax from continuing operations	**(670,186)**	**(21,316)**	**9,090**	**41,733**	**(206,757)**	**27,127**	**30,781**	**47,423**
Income (loss) after tax from discontinued operations	104	26,045	(7,971)	1,297	205,307	11,703	(8,196)	3,732
Net income (loss)	**(670,082)**	**4,729**	**1,119**	**43,030**	**(1,450)**	**38,830**	**22,585**	**51,155**
Minority interests	8,877	(530)	(710)	(766)	(533)	(1,093)	(2,470)	(1,054)
Parent company's net income (loss)	**(661,205)**	**4,199**	**409**	**42,264**	**(1,983)**	**37,737**	**20,115**	**50,101**

Key figures

(euro/000)

Key balance sheet figures	31.12.2011 A	30.09.2011 B	31.12.2010 C	Change A-B amount	Change A-B %	Change A-C amount	Change A-C %
Loans to customers	35,685,563	36,209,485	35,537,428	–523,922	–1.4	148,135	0.4
of which: net non-performing loans	*685,211*	*568,985*	*467,766*	*116,226*	*20.4*	*217,445*	*46.5*
Fixed assets	1,483,622	1,927,934	1,998,110	–444,312	–23.0	–514,488	–25.7
Direct deposits (*)	35,117,768	37,505,040	36,556,960	–2,387,272	–6.4	–1,439,192	–3.9
Indirect customer deposits	32,109,802	33,755,484	45,489,022	–1,645,682	–4.9	–13,379,220	–29.4
of which: assets under administration	*19,033,637*	*19,626,608*	*21,523,970*	*–592,971*	*–3.0*	*–2,490,333*	*–11.6*
of which: assets under management	*13,076,165*	*14,128,876*	*23,965,052*	*–1,052,711*	*–7.5*	*–10,888,887*	*–45.4*
Total assets	51,931,027	51,768,700	53,957,440	162,327	0.3	–2,026,413	–3.8
Shareholders' equity (excluding net income for the year)	4,628,822	3,613,164	3,737,196	1,015,658	28.1	891,626	23.9
Regulatory capital	5,422,915	4,467,951	4,012,598	954,964	21.4	1,410,317	35.1
of which: Tier 1 capital	*3,938,253*	*3,007,809*	*2,880,537*	*930,444*	*30.9*	*1,057,716*	*36.7*

Key income statement figures	31.12.2011 A	30.09.2011 B	31.12.2010 C	Change A–C amount	Change A–C %
Interest margin	824,771	620,206	733,227	91,544	12.5
Operating income	1,351,850	1,055,940	1,464,130	(112,280)	–7.7
Operating expenses	(1,044,948)	(796,089)	(1,099,688)	54,740	5.0
of which: personnel expenses	*(650,625)*	*(510,228)*	*(697,159)*	*46,534*	*6.7*
Operating profit	306,902	259,851	364,442	(57,540)	–15.8
Net adjustments for impairment of loans and other activities	(483,431)	(179,622)	(244,640)	(238,791)	–97.6
Income (loss) before tax from continuing operations	(707,376)	79,507	(14,791)	(692,585)	n.s.
Parent Company's net income (loss)	(614,333)	46,872	105,970	(720,303)	n.s.

Operating structure	31.12.2011 A	30.09.2011 B	31.12.2010 C	Change A–B amount	Change A–B %	Change A–C amount	Change A–C %
Headcount (employees and other personnel)	8,467	8,475	8,602	–8	–0.1	–135	–1.6
Number of branches	770	769	782	1	0.1	–12	–1.5

(*) This line item includes: Due to customers, securities issued and financial liabilities designated at fair value through profit and loss.

Key ratios

	31.12.2011	30.09.2011	31.12.2010
Structure ratios (%)			
Loans to customers/Total assets	68.7	69.9	65.9
Fixed assets/Total assets	2.9	3.7	3.7
Direct deposits/Total assets	67.6	72.4	67.8
Funds under management/Indirect deposits	40.7	41.9	52.7
Loans to customers/Direct deposits	101.6	96.5	97.2
Profitability ratios (%) (annualised)			
Net income (loss)/Shareholders' equity (excluding net income (loss) for the year) (ROE) (a)	–13.3	1.7	2.8
Net income (loss)/Total assets (ROA)	–1.2	0.1	0.2
Cost/Income ratio	*77.3*	*75.4*	*75.1*
Risk ratios (%)			
Net non-performing loans/Loans to customers	1.92	1.57	1.32
Coverage of gross non-performing loans to customers	47.0	47.5	51.0
Index of coverage of gross performing loans to customers	0.76	0.51	0.58
Productivity ratios (Euro/000) (b)			
Direct deposits per employee	4,148	4,425	4,250
Loans to customers per employee	4,215	4,273	4,131
Assets under management per employee	1,544	1,667	2,786
Assets under administration per employee	2,248	2,316	2,502
Capital adequacy ratios (%) (c)			
Tier 1 capital net of preference shares/Risk-weighted assets(Core Tier 1)	8.02	6.03	7.07
Tier 1 capital/Risk-weighted assets (Tier 1)	8.60	6.60	7.78
Regulatory capital/Risk-weighted assets (Total capital ratio)	11.84	9.80	10.83
Information on the BPM stock			
Number of shares:	3,229,621,379	415,071,635	415,055,195
in circulation	3,228,243,804	415,071,635	414,567,722
treasury shares	1,377,575	0	487,473
Official stock price at the end of the period - ordinary share (euro) (d)	0.30	0.57	0.86

a) Shareholders' equity at end of the year
b) Number of employees at end of period including personnel with other types of contract
c) From June 2011, the ratios take into account the additional requirements requested by the Bank of Italy.
d) the stock prices at September 2011 (1.77 euro) and December 2010 (2.64 euro) have been restated to take account of the adjustment (equal to 0.3241) decided at the time of the increase in capital.

Consolidated reclassified income statement, net of non-recurring transactions

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

Non-recurring transactions excluded from the normalised net result relate to assessments (e.g. impairment of goodwill and investments as well as the provision to cover legal risks) affected by events that occurred during the fourth quarter, as a result of a worsening of the economic situation.

(euro/000)

Line items	2011			2010			Change A - D		Change C - F	
	A = B + C	B	C	D = E + F	E	F	amount	%	amount	%
	Net income (loss)	Net income (loss) from non-recurring transactions	Net income (loss) from recurring transactions	Net income (loss)	Net income (loss) from non-recurring transactions	Net income (loss) from recurring transactions				
Interest margin	**824,771**	**0**	**824,771**	**733,227**	**0**	**733,227**	**91,544**	**12.5**	**91,544**	**12.5**
Non-interest margin:	**527,079**	**(38,400)**	**565,479**	**730,903**	**0**	**730,903**	**(203,824)**	**–27.9**	**(165,424)**	**–22.6**
- Net fee and commission income	523,207	0	523,207	610,767	0	610,767	(87,560)	–14.3	(87,560)	–14.3
- Other income:	3,872	(38,400)	42,272	120,136	0	120,136	(116,264)	–96.8	(77,864)	–64.8
- Profits (losses) on investments carried at equity	*(4,113)*	*0*	*(4,113)*	*(124)*	*0*	*(124)*	*3,989*	*n.s.*	*3,989*	*n.s.*
- Net income from banking activities	*(27,026)*	*(38,400)*	*11,374*	*86,008*	*0*	*86,008*	*(113,034)*	*n.s.*	*(74,634)*	*n.s.*
- Other operating charges/income	*35,011*	*0*	*35,011*	*34,252*	*0*	*34,252*	*759*	*2.2*	*759*	*2.2*
Operating income	**1,351,850**	**(38,400)**	**1,390,250**	**1,464,130**	**0**	**1,464,130**	**(112,280)**	**–7.7**	**(73,880)**	**–5.0**
Administrative expenses:	(958,629)	(1,214)	(957,415)	(1,019,511)	(5,666)	(1,013,845)	60,882	6.0	56,430	5.6
a) personnel expenses	*(650,625)*	*(1,214)*	*(649,411)*	*(697,159)*	*(5,666)*	*(691,493)*	*46,534*	*6.7*	*42,082*	*6.1*
b) other administrative expenses	*(308,004)*	*0*	*(308,004)*	*(322,352)*	*0*	*(322,352)*	*14,348*	*4.5*	*14,348*	*4.5*
Net adjustments to property and equipment and intangible assets	(86,319)	0	(86,319)	(80,177)	0	(80,177)	(6,142)	–7.7	(6,142)	–7.7
Operating expenses	**(1,044,948)**	**(1,214)**	**(1,043,734)**	**(1,099,688)**	**(5,666)**	**(1,094,022)**	**54,740**	**5.0**	**50,288**	**4.6**
Operating profit	**306,902**	**(39,614)**	**346,516**	**364,442**	**(5,666)**	**370,108**	**(57,540)**	**–15.8**	**(23,592)**	**–6.4**
Net adjustments for impairment of loans and other activities	(483,431)	0	(483,431)	(244,640)	0	(244,640)	(238,791)	–97.6	(238,791)	–97.6
Net provisions for risks and charges	(111,628)	(87,500)	(24,128)	(11,143)	0	(11,143)	(100,485)	n.s.	(12,985)	–116.5
Profits (losses) from equity and other investments	(419,219)	(419,822)	603	55,019	54,966	53	(474,238)	n.s.	550	n.s.
Extraordinary tax items	0	0	0	(178,469)	(178,469)	0	178,469	100.0	0	n.s.
Income (loss) before tax from continuing operations	**(707,376)**	**(546,936)**	**(160,440)**	**(14,791)**	**(129,169)**	**114,378**	**(692,585)**	**n.s.**	**(274,818)**	**n.s.**
Taxes on income from continuing operations	66,697	89,632	(22,935)	(86,635)	(5,021)	(81,614)	153,332	n.s.	58,679	71.9
Income (loss) after tax from continuing operations	**(640,679)**	**(457,304)**	**(183,375)**	**(101,426)**	**(134,190)**	**32,764**	**(539,253)**	**n.s.**	**(216,139)**	**n.s.**
Income (loss) after tax from discontinued operations	19,475	19,475	0	212,546	212,546	0	(193,071)	–90.8	0	n.s.
Net income (loss)	**(621,204)**	**(437,829)**	**(183,375)**	**111,120**	**78,356**	**32,764**	**(732,324)**	**n.s.**	**(216,139)**	**n.s.**
Minority interests	6,871	(48)	6,919	(5,150)	(955)	(4,195)	12,021	n.s.	11,114	n.s.
Parent company's net income (loss)	**(614,333)**	**(437,877)**	**(176,456)**	**105,970**	**77,401**	**28,569**	**(720,303)**	**n.s.**	**(205,025)**	**n.s.**

Non-recurring transactions:	**(437,877)**	**77,401**
Other income:	**(38,400)**	**–**
Net income (loss) from banking activities: writedown of Bpm Ireland's AFS portfolio	*(13,790)*	–
Writedown of Delmi	*(24,610)*	–
Taxes on income (a)	–	–
Operating income, net of taxes on income	***(38,400)***	**–**
Administrative expenses: a) personnel expenses	**(1,214)**	**(5,666)**
Adjustment of Solidarity Fund	*(1,214)*	*(5,666)*
Taxes on income (b)	*334*	*1,558*
Personnel expenses, net of taxes	***(880)***	***(4,108)***
Net provisions for risks and charges	**(87,500)**	**–**
Provisions for contractual commitments related to Bipiemme Vita	*(13,300)*	–
Provisions for contractual commitments relating to Asset Management Holding	*(30,800)*	–
Provisions for contractual commitments relating to the sale of the custodian bank business	*(1,500)*	–
Provision for Bpm Ireland closure costs	*(1,900)*	–
Provisions for risks on the Convertendo Bond	*(40,000)*	–
Taxes on income (c)	*13,586*	–
Net provisions for risks and charges, net of taxes	***(73,914)***	**–**
Profits from equity and other investments:	**(419,822)**	**54,966**
Adjustments to goodwill	*(335,871)*	**–**
Adjustments to the investment in AM Holding	*(83,951)*	–
Gain on sale of custodian bank	–	*54,966*
Taxes on income (d)	*53,176*	*(15,116)*
Profits from equity and other investments, net of taxes on income	***(366,646)***	*39,850*
Cost of tax settlement	**–**	**(178,469)**
Taxes on income (e)	–	*8,537*
Cost of tax settlement, net of taxes on income	**–**	***(169,932)***
Taxes on income from continuing operations:	**89,632**	**(5,021)**
Elimination of BPM Ireland's deferred tax assets	*(6,165)*	–
Flat-rate tax on freeing up of goodwill, net of deferred tax	*28,701*	–
Taxes on income (a+b+c+d+e)	*67,096*	*(5,021)*
Income (loss) after tax from discontinued operations	**19,475**	**212,546**
Net income (loss) of Bpm Vita	*19,776*	*(7,650)*
Net income (loss) of Anima SGR	*(301)*	*220,196*
Minority interests	**(48)**	**(955)**
Overall impact of the above operations on minority interests	*(48)*	*(955)*

Report on operations of the BPM Group for the year 2011

Significant events for the BPM Group

As regards "Significant events for the BPM Group" please read the related chapter in the Report on Operations of Banca Popolare di Milano.

Main initiatives of the year

In addition, note that on 19 July 2011 the Board of Directors of Banca Popolare di Milano approved the Business Plan of the BPM Group which was developed taking into account the recommendation made by the Bank of Italy as a result of its inspections in 2010-2011, the macroeconomic scenario in April/May 2011 - one of gradual recovery even if still fraught with uncertainty - and certain operational measures taken in 2010. The Plan focuses on monitoring risk, reviewing credit policies and streamlining loans, on increasing funding volumes in order to stabilise liquidity, on improving structural efficiency, and on capital strength. Talking of which, the Plan takes into account the increase in capital approved at the board meeting on 27 September 2011 for an amount of Euro 0.8 billion and the effects of early conversion of the Convertendo Loan. As regards extraordinary activities, the Plan includes the effects of the merger of Cassa di Risparmio di Alessandria with Banca di Legnano, whereas there are no plans for external growth through acquisitions nor asset disposal, except for the sale of 81% of Bipiemme Vita to the Covéa Group, which was completed in September.

However, given the significant changes that have emerged during the year in terms of economic and interest rate trends, as well as the new system of corporate governance introduced at the Parent Company, a new business plan will be prepared by the end of the first half of 2012, with new lines of action and new budgetary targets for the Group.

Ordinary operations

As regards the ordinary activities of the BPM Group, the following are the initiatives that involved the main business lines in 2011.

Commercial Banking

The commercial banking area includes operations with households, small businesses and SMEs (i.e. companies with sales of less than Euro 50 million). Direct deposits increased by 1.4% and loans by 1.7% in 2011, based on the average balances in December.

The Household Segment

During the course of 2011, the Group's commercial activities developed along the lines identified by the business plan, focusing on relationships with customers and improving the services offered. The following products are worth mentioning in particular:

- **Contomaxiquattro**: this is a new account (launched in the second half of 2011) designed to replace "Conto unduetre" introduced at the beginning of the year: it has the same objectives, but at the same time adjusts the terms to the current market conditions.
- **Linea giovani B1**: this is a new product line specially for young people, which we have already discussed as part of the initiatives of the Business Plan;
- **Placement of mortgages through specialized web portals: (Mutuionline and Simutuo)**:the Group offers through its online channel the main types of mortgage loans (fixed rate, variable rate and rate with cap) with highly selective access filters so as to acquire only customers of medium/high standing.

The BPM Group has also launched or taken part in other initiatives, such as:

- **Fondo Nasko**: Fondo Nasko: a joint project with the Lombardy Region, which includes the provision of grants to mothers, resident in Lombardy, who are in difficulty or in need. The grants are made through a prepaid card called Je@ns, which the Bank makes available free of charge. The project won the 2011 edition of the "ABI Award for Innovation in Banking Services" and the prestigious "National Award for Innovation (Award of Awards)", which was handed over to the Bank last June by Giorgio Napolitano, President of the Republic, at the Quirinale Palace. In light of the success of this initiative, which at year end sees about 1,900 girls supported by this programme, the Lombardy Region has doubled the amount it sets aside to finance the Fund, with a new allocation of an additional Euro 5,000,000;

- **Servizio GeoBLOCK**: this is the Banca Popolare di Milano Group's new fraud prevention system, introduced in July 2011, which aims to stem losses from fraud on international ATM cards. After only a few months from its launch, it has already generated significant economic benefits. In particular, during the period from January to July 2011, before Geoblock came into force, cumulative fraud amounted to 970,555 euro, 116% up on the same period in 2010. Since the introduction of the system, in the period from July to December 2011, the cumulative impact of ATM fraud was 119,193 euro, a saving of more than Euro 2 million on the same period of 2010.

In response to the objectives of reducing the environmental impact that goes under the name of the "European Union 20/20/20 Climate and Energy Package", the BPM Group has confirmed its commitment to carry out part of the activities in an eco-sustainable way and to support the development of sustainability initiatives through its commercial policy. In 2011 BPM became the bank of reference for the photovoltaic sector (with electricity self-produced in Foggia and Milan, and the fact that for years it has used electricity exclusively from renewable sources), thanks to the significant results in terms of new acquisitions and volumes achieved by a specialist unit which offers advice to branches and customers.

An agreement has also been signed with Legambiente for the "Eternit free" campaign, a public awareness campaign initiated by Legambiente and Azzeroco2 which will start to produce results in the first half of 2012. The Group offers a wide range of financing and advisory services to support investment in renewable energy, energy efficiency and the environment.
As regards loans to individuals and households, in 2011 the Group provided more than 70 million euro to finance the installation of photovoltaic panels, the purchase of vehicles with reduced environmental impact (electric, natural gas or LPG), new generation boilers, new windows or roof insulation.

During 2011, the Group continued its efforts to reduce emissions of carbon dioxide from the Bank's activities to zero. After the North Park Wood in Milan and the Po and Orba Park in Alessandria, a new BPM Wood (2.5 hectares) was inaugurated at the Urban Park of Aguzzano, North-East of Rome, a green area of around 60 hectares, born after long battles waged by neighbourhood committees and environmental organizations to prevent it being built on.
In the field of asset management, "Anima Traguardo" is a new product launched in 2011, which to date has generated net deposits since the start of the year of around 100 million euro. This product falls in the category of bond funds redeemable on maturity with an annual coupon.

As regards insurance products, new production involved the traditional policies most appreciated by customers, namely "Certezza 10", "Crescita con Bonus" and "Crescita Diamond 10".
"Certezza 10" is a single premium policy with detachable coupon, a maturity of 10 years and a minimum revaluation of 1.5%, whereas "Crescita con bonus" is a Line I policy subscribable with a single payment able to reward customer loyalty with an extra yield every 5 years. "Crescita Diamond 10" is a revaluable policy with a minimum guaranteed yield.

The Small Business and SME Segment

During 2011 the Group adhered to various new initiatives being promoted at national or local level, while continuing those launched in 2010 to support households and the local economy in their respective territories, among which:

1. on 24 March 2011, the Bank adhered to the agreement to provide credit to small and medium-sized enterprises. On 16 February the Ministry of Economy and Finance, ABI and other trade associations signed an agreement that identifies new measures in favour of healthy businesses with growth prospects, aimed at rebalancing the capital structure and widening access to credit. In particular, the new agreement aims to redress the balance of companies' financial structures by:
- extending the deadline imposed by the so-called "Joint Announcement";
- extending the medium/long-term loans (mortgages) that have benefited from being suspended under the Joint Announcement, with coverage of interest rate risk;
- granting bank loans in connection with increases in capital carried out by companies;

2. offering business customers funds made available by the Cassa Depositi e Prestiti, which were reserved for SMEs, as well as those provided by the European Investment Bank;

3. making ample use of the Guarantee Fund for SMEs, a fund set up under Law 662/96 to provide a partial insurance for loans made by banks to small and medium-sized enterprises;

4. in December 2011 BPM adhered to the "Credit Now" agreement. EIB and the Lombardy Region signed an agreement for the allocation of more than 500 million euro targeted for interventions, also by means of co-financing with the banking system, in favour of Lombard SMEs to provide support for working capital and current financial needs. The beneficiaries are SMEs, including artisans, with operations based in Lombardy for at least two years, in the manufacturing, business services, wholesale trade and construction sectors.

Moreover, during the year we continued rationalization of the product catalogue and a pricing review which involved simplifying and revising the provision of ordinary loans and financing, as well as special credit, to companies.
The pricing of lending products was revised by introducing a risk-adjusted pricing model. The new model provides for differentiated pricing according to the duration of the loan, the type of underlying rate, any guarantees that have been given and the counterparty's rating.
The supply of current accounts was revised and rationalized by reviewing all special arrangements.

With the objective of responding more effectively to the specific needs of corporate customers, a process of simplifying the product range was launched. This led to the introduction of new accounts in the catalogue, such as the "Conto Welcome 2011" chosen by over 70% of new customers. Among the new products in the catalogue, there is a new version of the "Mutuo agrario rinegoziabile" (renegotiable farming loan).

In accordance with BPM's strategy, a further boost was given to the migration of customers to remote channels. For this we implemented various initiatives, such as:
- e-mailing campaigns encouraging migration to online channels;
- messages transmitted along with bank statements;
- targeted text messages;
- static messages on BPM's Business Banking website;
- creation of software for BPM's Business Banking customers to make their data streams standard or compatible with those of the Bank.

The Corporate Banking Segment

The corporate banking segment (which includes businesses with a turnover of more than Euro 50 million) shows a 6.8% reduction in lending in 2011, based on average balances in December. This was influenced by the particular economic situation and, above all, by the guidelines of the 2011-13/15 Business Plan, which for this area focus, among other things, on containing the volume of loans to large corporates and financial institutions, with particular reference to syndicated loans and financial receivables.

The Treasury & Investment Banking Segment

During 2011, work continued in the field of asset and liability management (ALM) to monitor the interest rate risk of the banking book and for Banca Popolare di Milano to oversee liquidity risk on behalf of all of the Group's commercial banks.
The following steps have been taken with the aim of maintaining a solid and balanced liquidity position:
- the government bond portfolio has been increased in order to create a suitable buffer of liquid assets;
- some bond issues were made on the institutional market under the EMTN programme, as well as an issue of guaranteed bank bonds (so-called "covered bonds"), which substantially replaced similar securities in maturity;
- the bank participated in open market operations with the ECB and, in particular, in the second half of the year, it took part in 3-year Long-Term Refinancing Operations (LTRO).

Lastly, in December, the Bank took part in the programme of government-backed bond issues under Decree 201 of December 2011, with a 1.5 billion euro bond.

As regards **Banca Akros**, its business activities took place in very difficult circumstances on financial markets because of fears about the sustainability of various euro-zone countries' sovereign debt and prospects of an international recession, resulting in increased risk aversion on the part of institutional traders and customers in general. In this context, Banca Akros has confirmed its strategy of focusing on customer service and high operational expertise which, together with a constant focus on risk management and cost control, has allowed it to make a profit, even though it is substantially less than in previous years.

In its **brokerage activity** on financial markets, Banca Akros has:
- strengthened its position as one of the leading operators in the bond markets, taking 2nd place on the Domestic MOT and EuroMOT segments of the Italian Stock Exchange (with a market share of 18.8% in both) and 3rd place on the EuroTLX market (with a market share of 17.1%) (source: Assosim - Conto Terzi);
- repeated its 5th place on the MTA, the Online Equities Market of the Italian Stock Exchange, with a substantial increase in market share to 6.6% (+1.7%) thanks to the transactions generated by Webank, the online bank of the BPM Group (source: Assosim - Conto Terzi);
- achieved 5th place in futures on the FTSE MIB index and 3rd place in equity futures, and has repeated its 1st place in derivatives on the IDEX power market run by Borsa Italiana (source: Assosim - Conto Terzi).

In terms of international initiatives in the service of customers, we can confirm the strategic activities of **ESN - European Securities Network**, the partnership in equities research and trading set up by Banca Akros with nine other European investment banks which are independent and active in their national stock markets, leaders in terms of the coverage of their analysis of listed Mid & Small Cap companies in Europe (Source: StarMine - Thomson-Reuters).

Considerable **market-making** activity in **Eurobonds** with trading volumes during the year of more than 78 billion euro, spot and forward forex, and options, with more than 130 billion euro, and in **equity derivatives** where the Bank again confirmed its internationally recognized leadership in OTC transactions (Source: "Risk Italia"); the activity in **interest rate derivatives** reports a growth of 26% in notional volumes traded, helped by an increase in transactions on the part of institutional and corporate customers induced by very low interest rates. Financial assets held for trading and available for sale have been managed in the interests of prudent market risk control and optimization of risk/return.

In **capital markets**, there was the Bank's involvement, acting as Joint Global Coordinator, in the Parent Company's increase in capital, which ended successfully in December despite the difficult situation of financial markets, as well as in Intesa San Paolo's increase in capital, in the role of Co-Lead Manager, in the listing of Ferragamo and in the increase in capital for Bioera's re-admission to trading on the Stock Exchange. In **M&A and Advisory**, Akros acted as consultant for Banca IFIS in the acquisition and PPO for Toscana Finanza and for Cassa di Risparmio di San Miniato in the sale of Banca Sintesi.

There was significant activity in the **Debt Capital Market**, with the placement to institutional investors of various bank issues, including important issues by the European Investment Bank (EIB), as well as participation as Joint Lead Manager in Terna's 10-year bond issue worth 1.25 billion euro.

The Corporate Centre Segment

In the corporate centre segment we summarize the main initiatives in the field of Information Technology, Organization, Control and Compliance.

Information Technology

IT activities on behalf of the Group's retail banks in 2011 were directed towards the following objectives:
- strengthening logical security measures (risk management and the internal control system);
- adapting procedures to new Italian and EU regulations.

Risk management and the internal control system
For the management of risk and the strengthening of controls, activities in 2011 focused on the following areas:
- The completion of the **"A Distanza Distinguo"** project, which is designed to strengthen controls over the Commercial Network by developing a system of remote checks based on indicators applied to the main operating areas (Finance, Credit & Loans, etc.),
- the development of activities related to the **"ARCO Project"** (Harmonization of control functions to provide leverage in risk management governance and cost optimization), which provides for a streamlining of the various control functions aimed at improving communication flows and the identification of synergies and technological tools to support operations;
- activation of a new three-year work plan in the **Computer Security** area with the objective of improving the overall supervision of IT risk, taking into consideration the Bank's business expectations and the standards of reference for the security environment (ISO27001).

Adapting procedures to new regulations
The software design work carried out to create solutions to support sales channels, for the adaptation of procedures to new Italian and European regulations, to strengthen logical security measures and to ensure continuity of service mostly envisage implementing the results at all Group banks simultaneously.
During 2011, the BPM Group concentrated on:
- realization of the project **CCD** to adapt the Information System to the requirements of the new European Directive on Consumer Credit;
- completion of the installation of special "kiosks" at agencies for consultation by customers of the forms required by the regulations on **Transparency** (e.g. "Information Sheets"), making the administrative tasks of keeping records faster and more efficient;
- continuation of the **Transparency Intervention Plan** to complete the residual implementations on Contracts, DDS and Information Sheets as provided by the Bank of Italy;
- continuation of the **anti-money laundering (AML)** project, including completion of interventions to respond to the observations made by the Bank of Italy's inspectors and the regulatory update for "Group Anti-Money Laundering" and "Relationships with Foreign Banks";
- continuation of the **Usury** project, which consists of a series of interventions on the information system, for proper implementation of controls arising from the anti-usury regulations;
- completion of activities to achieve **MiFID Level 3** on the conduct to follow in the distribution of illiquid products (bank bonds, insurance and financial policies, certificates and OTC derivatives).

Organization

In the organizational area, during 2011 we made several interventions to revise the structures and to rationalize and reorganize the activities, taking into account changes in the regulatory scenario and the objectives of the Strategic Plan. The main interventions are summarized below.

Structures

- In March 2011 we carried out a structural revision of the Personnel Department. The intention was, firstly, to reiterate the responsibility of strategic governance of human resource at Group level and, secondly, to strengthen the overall supervision of certain areas of activity, while at the same time simplifying and rationalizing the structures. Changes were also made to the **Organization of the Commercial Network**, involving new criteria for classification by size of branch and the activation of new professional roles. The reason for these changes was to make the distribution network more efficient, especially in the field of operational services, while maintaining oversight by those responsible for coordination.
- In July 2011 the central structure was revised, eliminating the previous Divisions and introducing a single **Central Management**, reporting in line to General Management, within which **executives** are called to work with coordination and governance functions on operational areas defined from time to time. These functions also extend to the Group's Commercial Banks. At the same time, we introduced the position of Chief Risk Officer **(CRO)**, who reports directly to the General Manager, with the task of ensuring a comprehensive and unified supervision of risks at Group level. The new organizational structure became operational on 1 October 2011.
- In September 2011, pursuant to regulations issued by the Bank of Italy, a specific **AML Function** was established as part of the Parent Company's Network Controls and Compliance Department, so as to concentrate skills in this area and establish a dedicated unit to contrast the risk of money laundering and financing terrorism. To this end, we also prepared the **Group's ALM Regulation**, which defines an organic model for managing risks of money laundering and financing terrorism at Group level (December 2011).
- Lastly, in December 2011 and under a specific commitment taken by BPM with the Supervisory Authority, we set up a new **"Guarantee Monitoring"** function as part of the Lending Department, in order to have unified oversight that is constantly active and structured according to the active guarantee portfolio, ensuring that they maintain the qualitative and quantitative requirements over time.

Rationalization and reorganization of activities

in this context we would highlight the following:

- the intervention on the portfolio input processes, reducing the amount of administrative work with low added value for the commercial network through a centralized structure for inputting portfolio lists and those relating to advances on invoices submitted by customers;
- review of processes for the management of treasury agencies;
- rationalization of the relationship extinction process so as to streamline the administrative work of branches.

The "Mortgage Centre" project is of particular importance as part of the plan to optimize the credit granting process. The plan has highlighted certain ways of improving efficiency, the main points being:

- dematerialisation of documents;
- transferring certain operations from the network to centralized structures.

A production model has therefore been developed that centralizes the "processing" of mortgage loans being granted to individuals at a new internal structure called the "Mortgage Centre"; certain activities, including the dematerialisation of documents, are supported by an external specialist provider.

The project provides for an initial "pilot" stage designed to:

- check the reliability of the process and get feedback from the branches involved;
- allow the Mortgage Centre to grow gradually using internal resources.

After the "pilot" phase, the study provides for step-by-step expansion of the process to the commercial networks of the Group banks.

Network Controls and Compliance

As regards the model of the Compliance Department, all actions necessary were carried out during 2011 in those areas where the greatest risks of non-compliance had been found and where the Group is involved in implementing various projects. More in detail, this department carried out the following activities in 2011:

- identifying the rules applicable to the Group and assessing their impact on the Bank's processes and procedures;
- performing the evaluations and tests foreseen in the plan to assess the adequacy and effectiveness of the procedures adopted by the Bank in its investment services, implementing instructions from the Bank of Italy and the provisions of Consolidation Banking Act, application of the Organizational Model under Legislative Decree 231/01 and other legislation;
- checks on implementation of corrective measures designed to fill certain gaps that were detected by interacting with the structures responsible for implementing them;
- taking part in regulatory consultations, also through working groups of trade associations (ABI, Assosim, etc.);
- answering requests from the Supervisory Authorities;
- providing assistance to the structures responsible for the development of staff training to raise employees' awareness of non-compliance risk;
- carrying out compliance checks on corporate behaviour, in particular on second-level controls of branch activities through the Operational Control and Judiciary Research Area, which performs verification services also on behalf of the Financial Reporting Manager and Privacy Officer, in addition to those required by the Supervisory Body under Legislative Decree 231/01;
- giving support to the Supervisory Body under Legislative Decree 231/01.

Distribution network and human resources

Distribution network

At 31 December 2011, the BPM Group's distribution network had 839 points of contact with customers, consisting of 770 Retail branches (including the virtual branches), 4 Large Corporate branches, 10 SME units, 17 Private Banking Centres (of which 15 of Banca Popolare di Milano and 2 of Banca Akros), as well as 35 direct branches and 3 financial shops of ProFamily, the new consumer credit company.

Overall, the total number of Group branches has decreased by 12 compared with December 2010, as a result of the following changes:

- during the first quarter of 2011, as part of the rationalization of the branch network, the Parent Company closed 13 branches, transferring their assets immediately to other BPM branches. These transfers involved 8 branches in Lombardy, 2 in Lazio, 2 in Emilia Romagna and 1 in Piedmont;

Furthermore, the period from June to September saw the closure of another 3 branches (1 in Lazio and 2 in Lombardy), bringing the reduction in the Parent Company's branch network to 16;

- during 2011 Cassa di Risparmio di Alessandria closed 2 branches (in Valenza and Alessandria);
- since the beginning of the year, Banca Popolare di Mantova has opened 6 new branches, continuing to implement its plan of territorial development with 1 in Curtatone, 1 in Volta Mantovana, 1 in Goito, 1 in Guidizzolo and 2 in Mantua, one of which in the new head office inaugurated in October.

ProFamily's distribution network increased by another 13 points of sale during 2011 compared with December 2010. The network is now made up as follows:

- 3 direct branches, one in Milan, one in Rome and one in Bologna;
- 35 financial shops: 2 in Lombardy, 6 in Lazio, 5 in Emilia Romagna, 4 in Tuscany, 4 in Apulia, 4 in Friuli-Venezia-Giulia, 2 in Sardinia, 2 in Veneto, 2 in Abruzzo, 1 in Campania, 1 in Piedmont, 1 in Basilicata and 1 in Marche.

BPM Group distribution network at 31 December 2011

Distribution network	31.12.2011	31.12.2010	Change
	A	B	A – B
Total branches	**770**	**782**	**–12**
SME units [1] and Large Corporate branches [2]	**14**	**14**	**0**
Private banking centres [3]	**17**	**17**	**0**
Financial shops and direct branches [4]	**38**	**25**	**13**
Total distribution network	**839**	**838**	**1**

(1) The 10 SME units, which form part of the organizational structure of the Parent Company, look after companies with revenues of up to Euro 50 million.
(2) The 4 Large Corporate branches, which also belong to the organizational structure of the Parent Company, look after companies with revenues of more than Euro 50 million.
(3) The 17 "Private Banking Centres" provide customised advisory services on financial matters.
(4) The financial shops and direct branches provide financial advice and loans to households.

Branches of Group banks	31.12.2011		31.12.2010	Change
	A	%	B	A – B
Banca Popolare di Milano	544	71%	560	–16
Banca di Legnano	117	15%	117	0
Cassa di Risparmio di Alessandria	90	12%	92	–2
Banca Popolare di Mantova	17	2%	11	6
WeBank	1	0%	1	0
Banca Akros	1	0%	1	0
Total branches	**770**	**100%**	**782**	**–12**

Geographical distribution of branches	31.12.2011		30.12.2010	Change
	A	%	B	A – B
Lombardy	475	62%	479	–4
Piedmont	104	14%	107	–3
Lazio	80	10%	83	–3
Apulia	41	5%	41	0
Emilia Romagna	35	5%	37	–2
Other regions	35	5%	35	0
Total branches	**770**	**100%**	**782**	**–12**

The other distribution channels

Financial advisors

At 31 December 2011, the network of financial advisors, which is complementary to the traditional network and geared principally to placing asset management and administration products, is made up of 84 sole agents (53 reporting to BPM, 23 to Banca Akros and 8 to ProFamily), with an increase of 3 compared with 31 December 2010.

Remote channels

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

Internet Banking / Phone Banking

The on-line banking services of the BPM Group achieved important results in terms of distribution and utilisation by customers.

At 31 December 2011 the BPM Group offers internet banking services to 580,564 individual customers and companies through the following websites:
- BPM Banking (300,818 individuals and 75,887 companies);
- BL Banking (45,685 individuals and 14,696 companies);
- CRA Banking (21,125 individuals and 7,731 companies);
- BM Banking (2,254 individuals and 989 companies);
- WeBank (110,566 individuals and 813 companies).

The number of Group customers that use the online channel rose by 9.4% on the end of 2010 During 2011, 80,834 individual customers and 18,731 companies registered for on-line services,
Overall, more than 21 million e-banking and e-trading instructions were transmitted through the Group's on-line channel during 2011.

The telephone banking service for the commercial banks of the Group (Banca Popolare di Milano, Banca di Legnano, Cassa di Risparmio di Alessandria, Banca Popolare di Mantova and WeBank) has more than 334 thousand customers at 31 December 2011; in addition, we have a multi-lingual call centre to respond to the needs of foreign customers.

Human resources of the Group

The process of streamlining which began in November 2009 was completed in the third quarter of 2011, due to activation of the Solidarity Fund for BPM, Banca di Legnano e Cassa di Risparmio di Alessandria and, in parallel, the centralization at the Parent Company of certain functions currently performed by other Group banks, which has been partially completed.
During the period under review, the Bank approved the document on remuneration policies, in accordance with the recommendation of the Bank of Italy, and signed an agreement with trade unions to introduce an incentive scheme to enhance the value of individual merit in BPM.

The BPM Group has 8,467 employees at 31 December 2011, a decrease of 135 compared with December 2010, including freelance personnel.

This change compared with December 2010 is the result of:

- new hires: **214** of whom:
  - 145 hired on the basis of expected turnover at the Group's commercial banks and to cover those who signed up for the Solidarity Fund;
  - 69 hired to support the Business Plan initiatives related to ProFamily and WeBank and new hires by Banca Popolare di Mantova to support the branch plan.

- leavers: **263** of whom:
  - 54 for the deconsolidation of Bipiemme Vita, which was sold to the Covéa Group in September 2011;
  - 105 people who signed up for the Solidarity Fund;
  - 104 left the Group due to resignation, retirement, etc.

in addition to a decrease of **86** under other types of contract (project workers, temps, etc.).

Without counting freelancers, Group personnel has decreased by 49 since the start of the year.

The programme of leavers under the Solidarity Fund was concluded in September 2011 with the last time slot which involved 46 people at the Parent Company and 12 at Banca di Legnano and Cassa di Risparmio di Alessandria.
The total number of leavers since the introduction of the Solidarity Fund (December 2009) comes to 655: 105 in 2011, 321 in 2010 and 229 in 2009.

Personnel (number at year end)	**31.12.2011**	**31.12.2010**	**Change A – B**	
	A	**B**	**Amount**	**%**
a) managers	196	208	–12	–5.8
b) total officials	3,117	3,133	–16	–0.5
– including: 3rd and 4th level	*1,673*	*1,695*	*–22*	*–1.3*
c) other employees	5,044	5,065	–21	–0.4
Total employees	**8,357**	**8,406**	**–49**	**–0.6**
Staff with project-related and other types of contract	110	196	–86	–43.9
Total personnel	**8,467**	**8,602**	**–135**	**–1.6**

Number of employees by company	31.12.2011 A	31.12.2010 B	Change A–B
BPM	6,265	6,336	–71
Banca di Legnano	807	809	–2
C.R. Alessandria	560	560	0
Banca Pop. di Mantova	74	56	18
Akros	273	277	–4
ProFamily	100	72	28
WeBank	202	165	37
Bipiemme Vita	0	54	–54
Other	76	77	–1
Total employees	**8,357**	**8,406**	**–49**
Freelancers	110	196	–86
Total personnel	**8,467**	**8,602**	**–135**

Remuneration policies

On 7 June 2011 the Board of Directors of Banca Popolare di Milano approved the "Document on the Remuneration and Incentive Policies of the BPM Group" to ensure proper preparation and implementation of the Group's remuneration and incentive schemes and to ensure that payment systems are not inconsistent with BPM's objectives and corporate values, long-term strategies and policies of prudent risk management; above all, to ensure that the various forms of incentive payments based on financial instruments or linked to BPM's performance take into account the risks assumed, as well as the capital and the liquidity needed to fund its activities.

The main points are:

- a redefinition of so-called "key personnel", given the more precise indications contained in the new rules provided by the Bank of Italy;
- in addition to the criteria already envisaged by the Bank for the determination of the variable element, the use of performance indicators to be measured net of the risks involved over a long-term horizon;
- a timely indication of the ratio between the fixed and variable elements;
- a remodulation of the criteria for the composition and deferral of the variable element of remuneration;
- the introduction of mechanisms to correct the variable element of remuneration accrued but not yet paid after the event;
- a redefinition of the criteria for the determination and attribution of the variable element of remuneration for the internal control functions.

In particular, from 2011, the Bank has decided to link the variable element of pay to an incentive scheme that differs by corporate population groups, depending on their level of responsibility; it envisages in particular:

- a specific incentive scheme for "key personnel";
- a specific incentive scheme for the rest of the Bank's staff;
- incentive schemes for the other members of staff of the subsidiaries.

In accordance with the instructions of the Bank of Italy, which foresee that all incentive schemes have to be based on effective, lasting results and that they have to take account of the risks assumed, the following parameters have been set for gaining access to the incentives (so-called "Access Gates"), which are valid for all personnel.
The Board of Directors has established a new document on the Bank's remuneration and incentive policies, which were approved by the General Meeting of Members on 25 June with a nearly unanimous vote.
The same Members' Meeting also approved - in extraordinary session - the amendment of Art. 47 of the Articles of Association relating to the allocation of net income, eliminating the annual allocation of a portion of pre-tax income to the Board of Directors and senior managers who hold key roles and providing that the amount to be allocated to other employees being paid entirely in shares subject to a three-year retention period before the assignee can dispose of them.

Incentive scheme for "key personnel"

As laid down in the regulations, the bonus pool for the key personnel of each company (Parent Company and subsidiaries) is defined at individual company level depending on the extent to which specific targets are reached in terms of profit and growth, risks assumed, "gate" objectives and the qualitative objectives established each year.

The definition of the amount of the bonus pool make use of periodic analyses of market pay trends that take into consideration the Group's comparative competitors. The bonus payable to each recipient takes into account their compliance with current regulations, the qualitative and quantitative results that they achieve and their sustainability over time, tending towards a long-term vision of their performance.

In particular, with regard to Banca Popolare di Milano, a remuneration and incentive scheme was introduced for key personnel - already from the current year and based on the 2011 results - laying down specific criteria for the determination and distribution of the variable element paid to staff (based on criteria of partial deferral, the application of a correction after the event and allocation of a portion in shares).

Incentive scheme for the rest of the Parent Company's staff

The incentive scheme provides for quantitative and qualitative objectives assigned at the start of the year - to the individual or to the team, depending on the organisational level - and an incentive calculated at the end of the year based on a target incentive and the extent to which the objectives have been achieved. The target incentive is established at role level for members of staff with individual objectives and at grade level for those with team objectives. It is known beforehand and depends on 100% achievement of the individual or group objectives assigned to them.

Given the "gate" objectives defined for this scheme, the objective parameters and targets assigned, the scheme self-finances itself through the results; this means that there are restrictions and rules governing the way that the scheme works, such that when a minimum overall result is achieved, the minimum total bonus foreseen in the budget becomes payable and that when the minimum result is exceeded, the higher resources available a company level are able to finance the higher bonuses due, up to a maximum amount indicated upfront which cannot be exceeded.

Incentive scheme for the members of staff of the subsidiaries

In accordance with the instructions of the Bank of Italy, the subsidiaries lay down the pay policy rules applicable to their personnel, taking into account the criteria of proportionality and specificity indicated by the Bank of Italy, as well as the Parent Company's guidelines.

The remuneration policy documents of the subsidiaries have to be checked by the Parent Company. The amount of the bonuses to be distributed at a total company and individual level have to take account of the specific results achieved overall, at business unit level. Moreover, as foreseen in the regulations, it will be measured net of the risks of a long-term time horizon, considering the level of capital resources and liquidity needed to finance the activities undertaken and the achievement of qualitative objectives laid down year to year. In the event that the individual variable pay is particularly significant, the rules of deferral and adjustment after the event have to be applied.

The bonus payment process for 2010 was completed at the end of 2011 with the allocation of the portion in shares of the variable element paid up front to key personnel, applying the rules laid down in the "Document on the Remuneration and Incentive Policies of the Banca Popolare di Milano Group".

Furthermore, as part of the incentive system for the other employees of the Parent Company, we completed the process of assigning them objectives: the experience of this first implementation has allowed us to initiate a review phase to consolidate the application for the following year, directing the system towards a continuous compliance in the direction indicated by the internal control functions and the Supervisory Bodies, based on the principle that rewards performance measurable from an economic and financial point of view by short-term indicators and measurable in the medium to long term also by qualitative indicators.

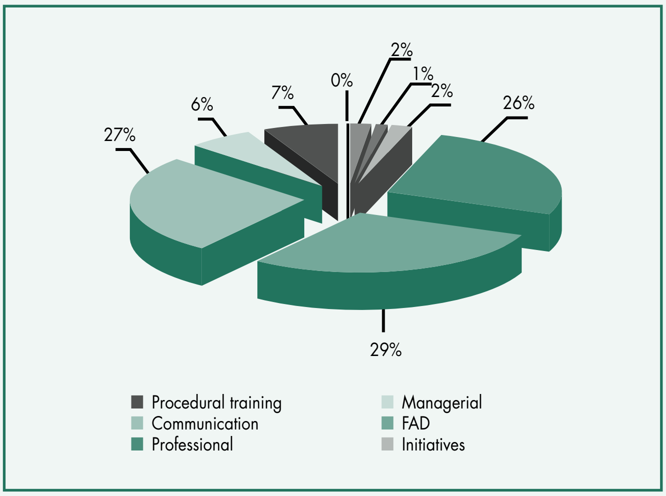
Training policies

Given the current and future economic and social context, BPM focuses on the competitive value of its employees to enhance their skills and promote personal growth through the dissemination of tools that are able to accompany their career path.
Training forms part of this approach, with a total of 41,341 days' training being given at Group level in 2011, of which 30,180 to employees of Banca Popolare di Milano and 11,161 to employees of other Group companies.
In particular, training was carried out on the following topics:

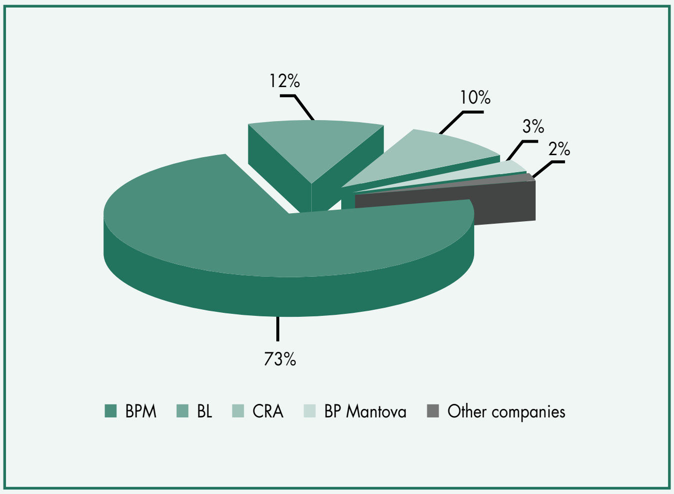
- support for commercial roles and the Strategic Plan through a training plan to help implementation of the New Model for the Financial Advisory Service and an advanced training project for SME and Corporate account managers to raise their level of specialization;
- risk prevention and compliance with regulatory requirements defined by national laws and regulations, particularly those of Isvap and ALM issues;
- support for managerial roles, with particular attention to the project dedicated to newly appointed BPM bank managers;
- support for Network and Head Office structures for training dedicated to the disabled with individual projects for their insertion and development of their role within the company;
- greater involvement on the part of internal specialist functions.

The breakdown by training area and by company is shown below. The main topics dealt with in 2011, where ample space was devoted to matters of commercial communication (Isvap project, 27%) and professional training for role development (26%) and remote training particularly on legal and regulatory matters (Isvap, D.lgs 231, D.lgs 81 etc. 29%).

Man-days at 31 December 2011



Man-days broken down by company at 31 December 2011



The BPM Group's scope of consolidation

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

Contribution made by each BPM Group cmpany to consolidated total assets

(euro/000)

Company	% held (*)	Total assets	Eliminations and consolidation adjustments	Contribution to consolidated total assets	% Contribution to consolidated total assets
Parent Company:					
Banca Popolare di Milano		**42,979,636**	**–4,109,904**	**38,869,732**	**74.85**
Companies consolidated line-by-line:		**21,092,533**	**–8,031,238**	**13,061,295**	**25.15**
Banca di Legnano	100.00	4,645,622	21,982	4,667,604	8.99
Banca Akros	96.89	3,210,505	–452,010	2,758,495	5.31
Cassa di Risparmio di Alessandria	80.00	2,508,663	–13,285	2,495,378	4.81
WeBank	100.00	2,543,140	–1,681,439	861,701	1.66
Bpm Covered Bond	80.00	4,234,282	–3,664,031	570,251	1.10
Banca Popolare di Mantova	61.39	459,737	604	460,341	0.89
Bpm Ireland	99.99	651,581	–204,651	446,930	0.86
ProFamily	100.00	438,142	–25,951	412,191	0.79
Bpm Securitisation 2	n.a.	1,743,339	–1,604,867	138,472	0.27
Fondo Akros Long/Short Equity	81.60	170,493	–36,043	134,450	0.26
Fondo Akros Market Neutral	94.41	66,175	0	66,175	0.13
Fondo Akros Absolute Return	81.00	29,667	0	29,667	0.06
Fondo Akros Dynamic	100.00	17,170	0	17,170	0.03
Akros Alternative Investments SGR	96.89	3,787	–2,302	1,485	0.00
Bpm Fund Management	99.99	415	0	415	0.00
Bpm Capital I	100.00	184,404	–184,117	287	0.00
Ge.Se.So.	100.00	1,228	–1,046	182	0.00
Bpm Luxembourg	99.97	184,183	–184,082	101	0.00
Total		**64,072,169**	**–12,141,142**	**51,931,027**	**100**

(*) Based on equity ratios

Contribution made by the individual Group companies to consolidated net income

(euro/000)

Company	% held (*)	Net income (loss) as per financial statements	Net income (loss) pertaining to the Group	Consolidation adjustments	Contribution to consolidated net income (loss)
Parent Company:					
Banca Popolare di Milano		**–505,469**	**–505,469**	**89,922**	**–415,547**
Companies consolidated line-by-line:		**–194,872**	**–189,421**	**–9,365**	**–198,786**
Banca di Legnano	100.00	–121,435	–121,435	–2,929	–124,364
Bpm Ireland	99.99	–32,657	–32,657	–3,100	–35,757
ProFamily	100.00	–10,525	–10,525	30	–10,495
Cassa di Risparmio di Alessandria	80.00	–11,869	–9,495	83	–9,412
Fondo Akros Long/Short Equity	81.60	–6,575	–5,365		–5,365
Fondo Akros Market Neutral	94.41	–2,996	–2,829		–2,829
Banca Popolare di Mantova	61.39	–3,181	–1,953	–588	–2,541
Fondo Akros Dynamic	100.00	–2,537	–2,537		–2,537
Fondo Akros Absolute Return	81.00	–2,827	–2,290		–2,290
Banca Akros	96.89	1,537	1,489	–2,861	–1,372
WeBank	100.00	–1,317	–1,317		–1,317
Bpm Capital I	100.00	–652	–652		–652
Bpm Luxembourg	99.97	–268	–268		–268
BPM FUND MANAGEMENT	99.99	–115	–115		–115
Ge.Se.So.	100.00	12	12		12
Akros Alternative Investments SGR	96.89	533	516		516
Total			**–694,890**	**80,557**	**–614,333**

(*) Based on equity ratios

The following table shows in summary form the reconciliation of the Parent Company's net income with that of the Group at 31 December 2011.

Reconciliation of the Parent Company and consolidated net income

(euro/000)

Net income of Banca Popolare di Milano	**–505,469**
Net income (loss) pertaining to companies consolidated line-by-line	–189,421
Net income (loss) pertaining to companies consolidated at equity	–4,113
Effect of reversing intraGroup dividends	–108,069
Reversal of the writedowns of consolidated investments made in the separate financial statements	372,305
Reversal of the impairment of goodwill booked in the separate financial statements of Banca di Legnano	160,798
Impairment of goodwill booked in the consolidated financial statements	–335,871
Other adjustments	–4,493
Net income of the BPM Group	**–614,333**

Principal balance sheet aggregates

The development of the balance sheet aggregates in 2011 reflects, on the one hand, the current economic and financial crisis, which deteriorated especially in the second half of the year; and, on the other, the action taken by management in line with the Business Plan in order to:

- improve risk supervision and streamline loans;
- develop volumes, stabilizing liquidity;
- increase capital strength by successfully completing a major increase in capital.

Note that during the third quarter of 2011, 81% of Bipiemme Vita, held by Banca Popolare di Milano, was sold to the French insurance group, Covéa. The company was therefore consolidated at equity in December and September 2011, whereas in 2010 it had been fully consolidated on a line-by-line basis. To permit a straight comparison between the various aggregates, the prior year figures have been restated in the following tables, highlighting the insurance company's balance sheet figures on a separate line.

The analysis of the aggregates in the following pages shows the comparison with September 2011 and December 2010, as well as the quarterly trend.

Banking intermediation for customers

At 31 September 2011, **"total deposits"** of the BPM Group – made up of all funds under administration on behalf of customers – amount to 67,228 million euro, a contraction of 5.7% compared with September 2011, mainly because of the 6.4% drop in direct deposits and of 4.9% in indirect deposits, penalised by the extremely negative trend in financial markets, especially in the last quarter.
Compared with December 2010, taking into account the deconsolidation of Anima SGR, whose assets in funds placed with non-captive customers amounted to 8 billion euro, total deposits posted a decline of 8.2%, entirely due to indirect deposits (-14.3%).

Total customer deposits

(euro/000)

	31.12.2011	30.09.2011	Change A – B		31.12.2010	Change A – C	
	A	B	amount	%	C	amount	%
Direct deposits [1]	35,117,768	37,505,040	–2,387,272	–6.4	35,747,397	–629,629	–1.8
Indirect deposits	32,109,802	33,755,484	–1,645,682	–4.9	37,447,956	–5,338,154	–14.3
of which							
Assets under management [2]	*13,076,165*	*14,128,876*	*–1,052,711*	*–7.5*	*15,923,986*	*–2,847,821*	*–17.9*
Assets under administration	*19,033,637*	*19,626,608*	*–592,971*	*–3.0*	*21,523,970*	*–2,490,333*	*–11.6*
Total direct and indirect deposits	**67,227,570**	**71,260,524**	**–4,032,954**	**–5.7**	**73,195,353**	**–5,967,783**	**–8.2**
Bipiemme Vita	–	–	–	–	809,563	–809,563	–100.0
Total direct and indirect deposits	–	–	–	–	8,041,066	8,041,066	–100.0
Total direct and indirect deposits	**67,227,570**	**71,260,524**	**–4,032,954**	**–5.7**	**82,045,982**	**–14,818,412**	**–18.1**

(1) The figure for 2010 has been restated excluding Bipiemme Vita.
(2) The figure for 2010 has been restated excluding Anima SGR, which left the scope of consolidation on 29 December 2010.

Direct deposits

Direct deposits

(euro/000)

	31.12.2011	30.09.2011	Change A – B		31.12.2010	Change A – C	
	A	B	amount	%	C	amount	%
Due to customers (*)	21,398,576	23,579,501	–2,180,925	–9.2	23,008,242	–1,609,666	–7.0
Securities issued	12,632,270	12,869,968	–237,698	–1.8	12,070,146	562,124	4.7
Financial liabilities designated at fair value through profit and loss	1,086,922	1,055,571	31,351	3.0	669,009	417,913	62.5
Total direct deposits	**35,117,768**	**37,505,040**	**–2,387,272**	**–6.4**	**35,747,397**	**–629,629**	**–1.8**
Bipiemme Vita	–	–	–	–	809,563	–809,563	–100.0
Total direct deposits	**35,117,768**	**37,505,040**	**–2,387,272**	**–6.4**	**36,556,960**	**–1,439,192**	**–3.9**

(*) Figures for 2010 heve been restated.

Direct deposits: breakdown by company

(euro/000)

	31.12.2011	30.09.2011	Change A – B		31.12.2010	Change A – C	
	A	B	amount	%	C	amount	%
Banca Popolare di Milano	27,706,829	28,348,306	–641,477	–2.3	28,708,830	–1,002,001	–3.5
Banca di Legnano	3,167,575	3,124,958	42,617	1.4	3,120,525	47,050	1.5
WeBank	2,091,913	2,039,991	51,922	2.5	1,689,227	402,686	23.8
Cassa Risparmio di Alessandria	1,986,131	1,971,062	15,069	0.8	1,971,689	14,442	0.7
Banca Akros	422,949	2,194,342	–1,771,393	–80.7	564,328	–141,379	–25.1
Banca Popolare di Mantova	186,980	183,399	3,581	2.0	178,897	8,083	4.5
Other companies (*)	2,302,637	1,225,113	1,077,524	88.0	2,653,409	–350,772	–13.2
Consolidation eliminations/adjustments	–2,747,246	–1,582,131	–1,165,115	–73.6	– 3,139,508	392,262	12.5
Bipiemme Vita	–	–	–	–	*809,563*	*–809,563*	*–100.0*
Total direct deposits	**35,117,768**	**37,505,040**	**–2,387,272**	**–6.4**	**36,556,960**	**–1,439,192**	**–3.9**

(*) of which Euro 677 million at 31 December 2011 relates to the debt contracted by "BPM Securitisation 2", with the subscribers of the bonds issued for the securitisation (July 2006) and Euro 974 million refers to the securitisation of mortgage loans aimed at issuing asset backed securities (ABS) (December 2011).

Direct deposits: description

(euro/000)

	31.12.2011	30.09.2011	Change A – B		31.12.2010	Change A – C	
	A	B	amount	%	C	amount	%
Current and savings accounts (*)	20,682,826	21,400,159	–717,333	–3.4	22,273,162	–1,590,336	–7.1
Repurchase agreements (*)	536,891	2,117,446	–1,580,555	–74.6	693,203	–156,312	–22.5
Other types of deposit (*)	*178,859*	*61,896*	*116,963*	*189.0*	*41,877*	*136,982*	*n.s.*
Due to customers	**21,398,576**	**23,579,501**	**–2,180,925**	**–9.2**	**23,008,242**	**–1,609,666**	**–7.0**
Bonds and structured securities	8,689,396	9,332,912	–643,516	–6.9	9,348,696	–659,300	–7.1
Subordinated liabilities	2,079,039	2,078,902	137	0.0	1,764,164	314,875	17.8
Other types of deposit	1,863,835	1,458,154	405,681	27.8	957,286	906,549	94.7
Securities issued	**12,632,270**	**12,869,968**	**–237,698**	**–1.8**	**12,070,146**	**562,124**	**4.7**
Financial liabilities designated at fair value through profit and loss	**1,086,922**	**1,055,571**	**31,351**	**3.0**	**669,009**	**417,913**	**62.5**
Total direct deposits	**35,117,768**	**37,505,040**	**–2,387,272**	**–6.4**	**35,747,397**	**–629,629**	**–1.8**
Bipiemme Vita	–	–	–	–	809,563	–809,563	n.s.
Total direct deposits	**35,117,768**	**37,505,040**	**–2,387,272**	**–6.4**	**36,556,960**	**–1,439,192**	**–3.9**

(*) Figures for 2010 heve been restated.

The aggregate **"direct deposits"** - consisting of amounts due to customers, securities issued and financial liabilities designated at fair value through profit and loss - excluding Bipiemme Vita, which has been sold in September 2011 - comes to Euro 35,118 million at the end of December 2011, showing a decrease of Euro 2.4 billion (-6.4%) on September 2011 and of Euro 630 million (-1.8%) on the end of 2010, mainly because of the negative trend in amounts "due to customers". Within this aggregate, the key factors are as set out below:

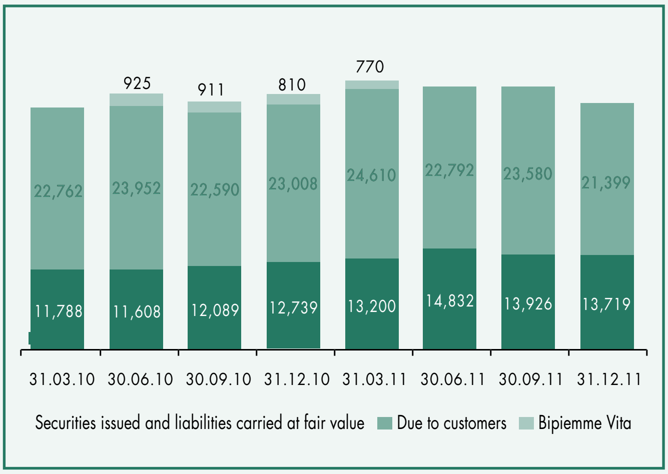
- **due to customers** come to 21,399 million euro, a decrease of 7% (-1,610 million euro) compared with December 2010 due the contraction in "current and savings accounts" of Euro 1,590 million. Compared with September 2011, the 9.2% decrease is mainly attributable to the contraction in "repurchase agreements" as there were no longer repurchase agreements on the MTS market for around euro 1.8 billion;

- **securities issued** amount to Euro 12,632 million, a decrease of euro 238 million compared with September 2011 mainly due to early conversion of the "Convertendo BPM 2009/13 – 6.75%" bond, in December, for Euro 400 million, as well as to loans that expired during the quarter, partly offset by the increase in certificates of deposit, classified under "other types of deposit", in line with customers' decisions to move into more remunerative forms of savings. This aggregate shows an increase compared with December 2010 of Euro 562 million, which was achieved mainly through an increase in certificates of deposit, with issues during the year of Euro 2.2 billion versus maturities of Euro 1.5 billion. During 2011, bonds were placed with retail customers for Euro 2.1 billion and the same again with institutional clients, which offset the significant maturities of the year, including repayment of a covered bond of Euro 1 billion and early conversion of the Convertendo loan. Of the various issues during the year, note that loans for a total of Euro 1,725 million were issued as part of the EMTN programme, versus repayments for a total of Euro 1,280 million. Dividing the stock under review by type of issue, the securities placed with institutional clients recorded a balance at the end of December 2011 of Euro 7,334 million (Euro 7,558 million at the end of 2010), while the securities placed with domestic customers amounted to Euro 5,298 million, up from the end of the previous year (Euro 4,512 million);

- **financial liabilities designated at fair value through profit and loss**, represented by bonds placed with retail customers, come in at Euro 1,087 million and have risen by 3% on September 2011 and by 62.5% compared with 2010, versus new issues of Euro 561 million and repayments of Euro 271 million.

In December 2011, the BPM Group's market share of deposits (including Cassa Depositi e Prestiti) was 1.80%, slightly up on December 2010 (1.78%).

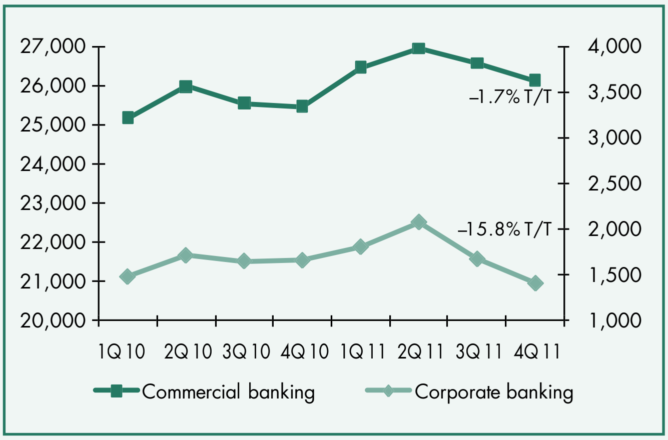
Quarterly trend of direct deposits (euro/mn)



With reference to the quarterly trend, direct deposits in the last quarter of 2011 showed a downward trend, after the positive one that characterized the first part of the year. In particular, the aggregate shows a decline of 6.4% versus the previous quarter. This trend was mainly affected by the reduction in "repurchase agreements" (– 1,580 million euro), classified under "customer deposits", due to fewer transactions on the MTS market.

With reference to "securities issued" and "liabilities carried at fair value", the slight overall decline (- 1.5% compared with the previous quarter) is due to early conversion of the "Convertendo BPM 2009/13 6.75%" bond for Euro 400 million, partly offset by the increase in certificates of deposit, classified under "other types of deposit".

Funding by line of business (euro/mln)



As regards funding by line of business, the average quarterly volumes of commercial banking (comprising direct deposits from customer, households and SMEs with turnover of less than 50 million euro) show a decrease of 1.7% compared with the previous quarter, while still remaining higher than in 2010.

Corporate banking volumes, which include the deposits of corporate customers with a turnover of more than Euro 50 million, are also down. The average balance fell during the quarter by Euro 265 million (–15.8% versus the previous quarter), returning to the same levels as the first quarter of 2010.

Indirect deposits and assets under management

At 31 December 2011, the volume of indirect deposits with ordinary customers, at market value, amounts to 32,110 million euro, showing a decrease of 4.9% on September 2011, following the contraction in assets under management (–7.5%) and assets under administration (–3%). Compared with 31 December 2010 on a comparable basis, taking into account the deconsolidation of Anima SGR at the end of 2010, the non–captive assets under management amounted to Euro 8 billion in December 2010, a contraction of 14.3%.

Composition of indirect customer deposits at market value (euro/000)

	31.12.2011	30.09.2011	Change A – B		31.12.2010	Change A – C	
	A	B	amount	%	C	amount	%
Funds	5,883,970	6,342,808	–458,838	–7.2	13,987,956	–8,103,986	–57.9
Individual portfolio management [(1)]	2,586,520	3,082,932	–496,412	–16.1	5,139,550	–2,553,030	–49.7
Insurance-sector reserves	3,970,825	4,083,312	–112,487	–2.8	4,186,925	–216,100	–5.2
Other assets under management	634,850	619,824	15,026	2.4	650,621	–15,771	–2.4
Total assets under management [(2)]	**13,076,165**	**14,128,876**	**–1,052,711**	**–7.5**	**23,965,052**	**–10,888,887**	**–45.4**
Assets under administration	**19,033,637**	**19,626,608**	**–592,971**	**–3.0**	**21,523,970**	**–2,490,333**	**–11.6**
Total indirect customer deposits	**32,109,802**	**33,755,484**	**–1,645,682**	**–4.9**	**45,489,022**	**–13,379,220**	**–29.4**

(1) includes: securities-based portfolio management schemes, fund-based portfolio management schemes and cash accounts
(2) on 29 December 2010 Anima SGR has been excluded from the scope of consolidation; however, the figure at 31 December 2010 includes the asset management products placed by Anima SGR.

Assets under management at market value: composition by placement agent

(euro/000)

	31.12.2011 A	30.09.2011 B	Change A – B amount	Change A – B %	31.12.2010 C	Change A – C amount	Change A – C %
Banca Popolare di Milano	9,639,481	10,598,227	–958,746	–9.0	12,148,840	–2,509,359	–20.7
Banca di Legnano	1,802,860	1,867,944	–65,084	–3.5	2,004,082	–201,222	–10.0
Banca Akros	776,297	775,134	1,163	0.2	849,773	–73,475	–8.6
Cassa di Risparmio di Alessandria	762,418	790,522	–28,104	–3.6	816,951	–54,533	–6.7
WeBank	67,517	67,254	263	0.4	74,499	–6,982	–9.4
Banca Popolare di Mantova	13,543	15,229	–1,686	–11.1	14,481	–937	–6.5
Akros Alternative Investments SGR	14,048	14,566	–518	–3.6	15,361	–1,313	–8.5
Anima S.G.R [1]	–	–	–	–	8,041,066	–8,041,066	–100.0
Total assets under management	**13,076,165**	**14,128,876**	**–1,052,711**	**–7.5**	**23,965,052**	**–10,888,887**	**–45.4**

(1) on 29 December 2010 Anima SGR has been excluded from the scope of consolidation; however, the figure at 31 December 2010 includes the asset management products placed by Anima SGR.

Assets under management at market value: composition by placement agent

(euro/000)

	31.12.2011 A	30.09.2011 B	Change A – B amount	Change A – B %	31.12.2010 C	Change A – C amount	Change A – C %
Banca Popolare di Milano	13,225,407	13,788,284	–562,877	–4.1	15,027,930	–1,802,523	–12.0
Banca di Legnano	1,979,492	1,994,821	–15,329	–0.8	2,115,464	–135,972	–6.4
Banca Akros	1,526,000	1,635,000	–109,000	–6.7	2,029,000	–503,000	–24.8
Cassa di Risparmio di Alessandria	1,173,699	1,194,821	–21,122	–1.8	1,242,467	–68,768	–5.5
WeBank	1,121,349	1,018,200	103,149	10.1	1,096,249	25,100	2.3
Banca Popolare di Mantova	130,209	138,044	–7,835	–5.7	157,962	–27,753	–17.6
Eliminations	–122,519	–142,562	20,043	14.1	–145,102	22,583	15.6
Assets under administration	**19,033,637**	**19,626,608**	**–592,971**	**–3.0**	**21,523,970**	**–2,490,333**	**–11.6**

Assets under management amount to 13,076 million euro, a reduction of 7.5% on September 2011 and of 17.9% (–Euro 2,848 million) on December, taking into account the deconsolidation of Anima SGR. This trend was influenced mainly by the negative performance by financial markets and by negative net deposits that from the start of the year came to Euro 1,634 million and which affected the BPM Group in the same way as the entire banking system (–Euro 33 billion from the beginning of 2011 just in the Italian and foreign funds – source Assogestioni).
The outflow by technical form can be broken down as follows:

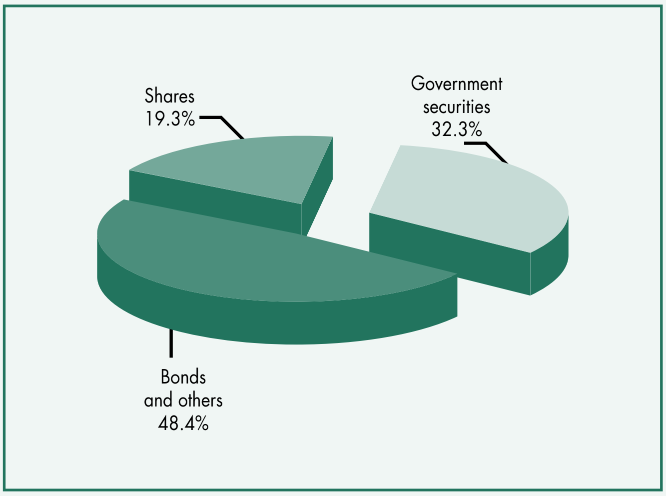
- mutual funds: – Euro 1,063 million;
- individual portfolio management: – Euro 301 million;
- insurance products: – Euro 270 million.

Analysing the composition of assets under management at the end of September 2011, it can be seen that the **mutual funds** element has gone down by 23% compared with the end of 2010, based on the same scope of consolidation. This fall, which was concentrated in the second half of the year, mainly involved the monetary funds, with negative net deposits of Euro 802 million since the beginning of the year.
The **individual portfolio management** segment has been affected by the departure of Anima SGR from the Group, coming in at Euro 2,587 million, a contraction of 24.7% versus the end of 2010 on a comparable basis.
Insurance reserves show a slight decrease of Euro 216 million compared with December 2010, amounting to Euro 3,971 million.

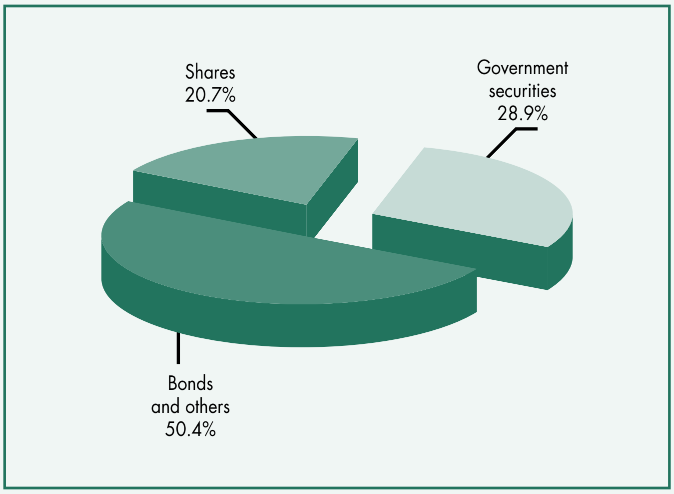
At 31 December 2011, **assets under administration** are down by 3% compared with September 2011 and by 11.6% compared with December 2010, reflecting the negative performance by financial markets. In fact, the nominal value of the stock held by the Group's commercial banks has declined by 4.2% compared with the end of 2010, net of the shares of the Parent Company. The Parent Company (– Euro 1,803 million) and Banca Akros (– Euro 203 million) mainly contributed to this reduction compared with the end of 2010.

Assets under administration by the Group's commercial banks consist of 48.4% bonds (50.4% at the end of 2010), 32.3% government securities (28.9%) and the other 19.3% shares (20.7%).

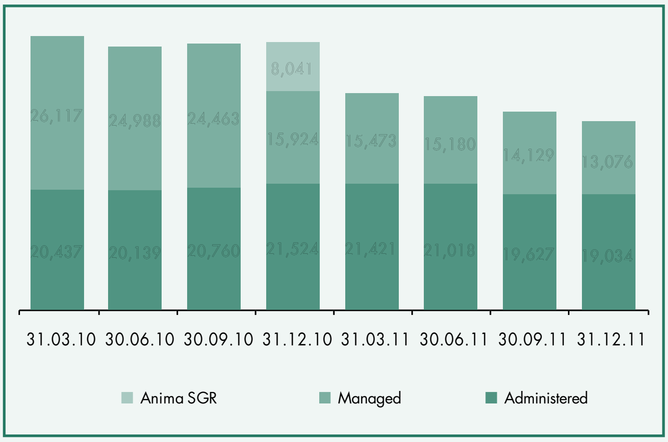
Distribution of assets under administration at December 2011



Distribution of assets under administration at December 2010



Quarterly trend of indirect deposits (euro/mln)



The quarterly analysis confirms a downward trend in assets under management during the third quarter, with a decrease of 49%, influenced by the negative performance in financial markets, above all in the second part of the year.

In the fourth quarter, assets under management showed a reduction of 7.5%, after falling by 6.9% in the third quarter. This trend has been mainly due to weakness in the funds sector, and more precisely to negative net deposits of some 463 million euro.

The trend in assets under administration in the second half of the year was also negative (-3% in the 4th quarter and -6.6% in the 3rd quarter), being affected by the downturn in financial markets which hit both equities and bonds.

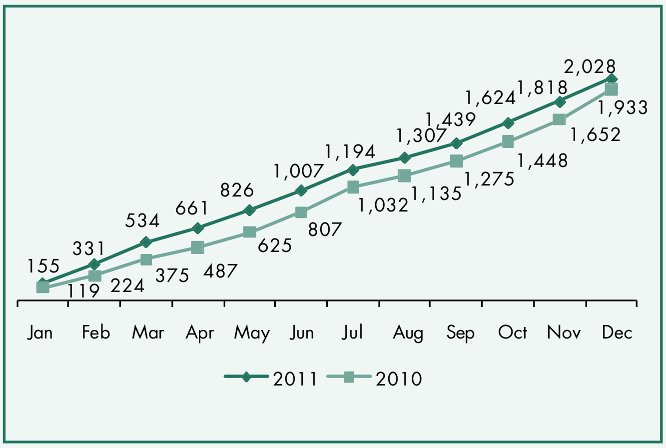
Loans to customers

At 31 December 2011, loans to customers amount to Euro 35,686 million, with a slight decline compared with September 2011 (–1.4%), but substantially stable compared with December 2010 (+0.4%), thanks to a good trend in "mortgage loans" which offset the contraction in "other transactions".
Operations in 2011 were characterized by a gradual downsizing of exposures to the Large Corporate segment, which includes companies with turnover over 50 million euro, and by an increase in loans to individual customers. In particular, a comparison of the average management figures for December shows a contraction in loans to large firms of more than Euro 800 million (–8%) compared with the end of 2010, whereas loans to private customers have risen by 1.4 billion euro and SMEs have remained largely stable. The contribution of new loans to total loans since the start of the year amounted to Euro 4.4 billion.

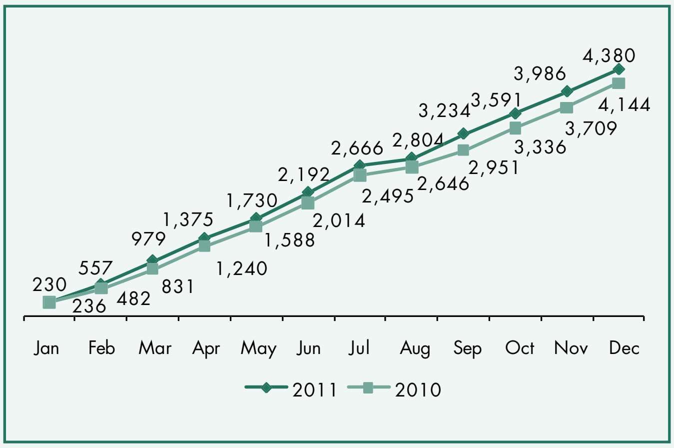
ProFamily also showed positive results, having launched its commercial offer in 2010. By the end of 2011 it achieved loans to customers of 402 million euro, a growth of 35.1% in the last quarter, supported by the development and consolidation of the distribution network, in addition to the development of a range of products that covers almost all consumer credit needs.

The Group's market share in December 2011 (resident customers, including Cassa Depositi e Prestiti) stood at 1.86%, a slight decrease compared with December 2010 (1.88%).

Loans granted (cumulative amounts)



Mortgage loans granted (cumulative amounts)



Breakdown of loans to customers

(euro/000)

	31.12.2011	30.09.2011	Change A – B		31.12.2010	Change A – C	
	A	B	Amount	%	C	Amount	%
Mortgage loans	16,981,294	16,803,372	177,922	1.1	15,640,678	1,340,616	8.6
Current accounts	4,554,018	4,795,397	–241,379	–5.0	4,877,897	–323,879	–6.6
Credit cards, personal loans and salary assignments	1,122,802	1,045,550	77,252	7.4	820,695	302,107	36.8
Finance leases	353,989	358,838	–4,849	–1.4	383,870	–29,881	–7.8
Repurchase agreements	40,150	263,461	–223,311	–84.8	151,946	–111,796	–73.6
Other transactions	10,158,096	10,500,431	–342,335	–3.3	11,332,145	–1,174,049	–10.4
Impaired assets	2,248,557	2,210,937	37,620	1.7	2,096,258	152,299	7.3
Total loans to customers	**35,458,906**	**35,977,986**	**–519,080**	**–1.4**	**35,303,489**	**155,417**	**0.4**
Debt securities	226,657	231,499	–4,842	–2.1	233,939	–7,282	–3.1
Total loans to customers	**35,685,563**	**36,209,485**	**–523,922**	**–1.4**	**35,537,428**	**148,135**	**0.4**

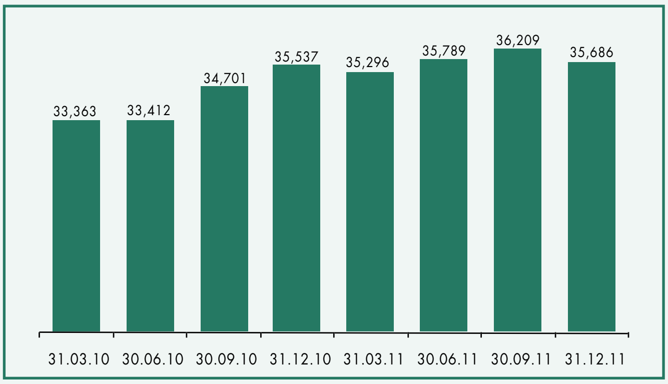
Loans to customers: breakdown by company

(euro/000)

	31.12.2011	30.09.2011	Change A – B		31.12.2010	Change A – C	
	A	B	Amount	%	C	Amount	%
Banca Popolare di Milano	29,347,315	29,434,612	–87,297	–0.3	30,180,420	–833,105	–2.8
Banca di Legnano	3,856,223	3,872,539	–16,316	–0.4	3,764,137	92,086	2.4
Cassa di Risparmio di Alessandria	2,232,478	2,278,304	–45,826	–2.0	2,231,328	1,150	0.1
WeBank	495,120	409,533	85,587	20.9	121,450	373,670	n.s.
Banca Popolare di Mantova	427,578	438,062	–10,484	–2.4	401,696	25,882	6.4
ProFamily	402,386	297,868	104,518	35.1	50,263	352,123	n.s.
Banca Akros	258,879	526,267	–267,388	–50.8	345,474	–86,595	–25.1
Other companies (*)	5,551,503	4,763,742	787,761	16.5	5,021,647	529,856	10.6
Consolidation eliminations/adjustments	–6,885,919	–5,811,442	–1,074,477	–18.5	–6,578,987	–306,932	–4.7
Total	**35,685,563**	**36,209,485**	**–523,922**	**–1.4**	**35,537,428**	**148,135**	**0.4**

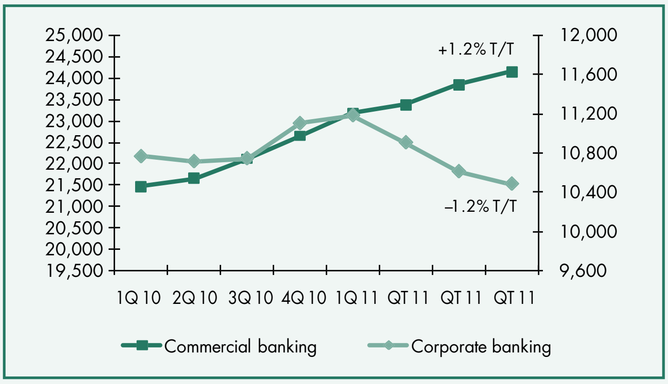
(*) of which at 31 December 2011 Euro 667 million related to the securitisation of commercial mortgage loans by "BPM Securitisation 2" in 2006 and Euro 932 million to the securitisation of mortgage loans for the issue of ABS securities in 2011 (through the same vehicle "BPM Securitisation 2") and Euro 3,761 million relating to "BPM Covered Bonds".

Quarterly trend in loans to customers (euro/mln)



After the growth recorded in the initial part of 2011, the last quarter saw a contraction in loans to customers of 1.4%. This decline is partly attributable to Banca Akros (– Euro 267 million), following the decline in "repos", and the reduction in "current accounts" (– Euro 241 million) and in "other transactions" (– Euro 342 million).
The increase of Euro 178 million (1.1%) in "mortgage loans" was thanks to new mortgages in the fourth quarter of Euro 1.1 billion.

Loans per line of business



As regards loans by line of business, the average quarterly volumes show a different trend for commercial banking compared with corporate banking.

In fact, the commercial banking segment continue to report positive growth rates, also confirmed in the fourth quarter (+1.2% Q/Q). Corporate banking, on the other hand, confirms the contraction in volume started in the second quarter of 2011 (–1.2% Q/Q), partly due to the action to reduce loans to large companies, in line with the strategies of the Business Plan.

Asset quality

The worsening economic situation over the last months of 2011 led to a downward revision of 2012's GDP forecast for Italy (IMF forecast –2.2%), reflecting a deterioration in credit quality which got worse in the last quarter of 2011 and continued into January and February 2012; in particular, the property sector, to which the BPM Group is highly exposed, has been one of the hardest hit by the crisis with selling times lengthening and prices falling.

This situation has led to a significant increase in gross impaired assets which rose by Euro 358 million (+12.9%) in 2011. In detail, compared with the situation at 31 December 2010, we can see:

- an increase of Euro 338 million (+35.4%) in non–performing loans, to Euro 1,294 million, largely (over 60%) concentrated in the last quarter of 2011, reflecting the above scenario and caused by exposures to entrepreneurial groups operating primarily in real estate that have been admitted to bankruptcy proceedings;
- a decrease of Euro 34 million (–3.3%) in doubtful loans, to Euro 988 million, substantially attributable to the transfer of positions to non–performing loans;
- a rise of Euro 76 million in restructured loans which, at Euro 816 million, show a decline compared with the figure booked in the third quarter of 2011 due to the transfer of two positions to the category of non–performing.

To deal with this process of credit deterioration, which, as we said, has continued into early 2012, the Bank has decided to adopt a particularly prudent attitude which has translated into:

- an increase in reserves to cover problem loans in the property sector, which – given its difficulties, leading to uncertainty about the validity of the guarantees underlying the mortgages – rose in one year from 11.6% to 15.6%;
- better coverage of performing loans by adjusting the LGD (Loss Given Default) estimates related to fears of the economic situation getting worse in 2012 as well;
- the inclusion in problem loans also of exposures to counterparties whose difficulties materialized during the first two months of 2012.

In this context, the overall adjustments made have resulted in a considerable increase in the level of coverage of impaired assets, which rose from 24.2% at the end of 2010 to 28% at the end of 2011 (+3.8%); in fact, the lower coverage of non–performing loans (–4%) is more than offset by the increase in coverage of doubtful loans (+6.2%) and restructured loans (+2.7%).
In particular, the coverage of non–performing loans in December 2011 stood at 47% compared with 51% at the end of 2010; This decrease is primarily due to the flow of new non–performing loans recorded in the fourth quarter, characterized by significant underlying collateral.
However, taking into account the total amount of loans written off during the year (Euro 583 million, of which Euro 206 million in 2011 alone), the coverage of non–performing loans in December 2011 would have come to 63.5%.

Overall, total impaired loans net of adjustments come to Euro 2,249 million at the end of 2011, compared with Euro 2,096 million at the end of 2010.

Lastly, as regards performing loans, we gradually increased their level of coverage in the fourth quarter from 0.51% at 30 September 2011 to 0.76% at 31 December 2011, reflecting the fears of a deterioration in the economic situation and a negative impact on the property sector. Please note that for positions past due and/or overdrawn by more than 90 days, even if classified under performing loans, we applied the same writedown policy as for balances past due and/or overdrawn by more than 180 days; from 1 January 2012, these positions will be classified as impaired past due and/or overdrawn balances under the new legislation on "Past due".

Asset quality

(euro/000)

Gross exposure	31.12.2011		30.09.2011		31.12.2010		Change A – B		Change A – C	
	A	%	B	%	C	%	Amount	%	Amount	%
Impaired assets	3,123,770	8.5	2,954,740	7.9	2,766,172	7.6	169,030	5.7	357,598	12.9
a) Non-performing loans	1,293,646	3.5	1,084,375	2.9	955,260	2.6	209,271	19.3	338,386	35.4
b) Doubtful loans	987,880	2.7	963,611	2.6	1,021,614	2.8	24,269	2.5	–33,734	–3.3
c) Restructured positions	815,698	2.2	867,519	2.3	739,331	2.0	–51,821	–6.0	76,367	10.3
d) Overdue positions	26,546	0.1	39,235	0.1	49,967	0.1	–12,689	–32.3	–23,421	–46.9
Other assets	33,692,576	91.5	34,174,802	92.1	33,636,497	92.4	–482,226	–1.4	56,079	0.2
Total loans to customers	**36,816,346**	**100.0**	**37,129,542**	**100.0**	**36,402,669**	**100.0**	**–313,196**	**–0.8**	**413,677**	**1.1**

Adjustments	31.12.2011		30.09.2011		31.12.2010		Change A – B		Change A – C	
	A	%	B	%	C	%	Amount	%	Amount	%
Impaired assets	875,213	28.0	743,803	25.2	669,914	24.2	131,410	17.7	205,299	30.6
a) Non-performing loans	608,435	47.0	515,390	47.5	487,494	51.0	93,045	18.1	120,941	24.8
b) Doubtful loans	190,063	19.2	138,066	14.3	132,618	13.0	51,997	37.7	57,445	43.3
c) Restructured positions	74,257	9.1	84,946	9.8	47,141	6.4	–10,689	–12.6	27,116	57.5
d) Overdue positions	2,458	9.3	5,401	13.8	2,661	5.3	–2,943	–54.5	–203	–7.6
Other assets	255,570	0.76	176,254	0.51	195,327	0.58	79,316	45.0	60,243	30.8
Total adjustments	**1,130,783**	**3.1**	**920,057**	**2.5**	**865,241**	**2.4**	**210,726**	**22.9**	**265,542**	**30.7**

Net exposure	31.12.2011		30.09.2011		31.12.2010		Change A – B		Change A – C	
	A	%	B	%	C	%	Amount	%	Amount	%
Impaired assets	2,248,557	6.3	2,210,937	6.1	2,096,258	5.9	37,620	1.7	152,299	7.3
a) Non-performing loans	685,211	1.9	568,985	1.6	467,766	1.3	116,226	20.4	217,445	46.5
b) Doubtful loans	797,817	2.2	825,545	2.3	888,996	2.5	–27,728	–3.4	–91,179	–10.3
c) Restructured positions	741,441	2.1	782,573	2.2	692,190	1.9	–41,132	–5.3	49,251	7.1
d) Overdue positions	24,088	0.1	33,834	0.1	47,306	0.1	–9,746	–28.8	–23,218	–49.1
Other assets	33,437,006	93.7	33,998,548	93.9	33,441,170	94.1	–561,542	–1.7	–4,164	0.0
Total loans to customers	**35,685,563**	**100.0**	**36,209,485**	**100.0**	**35,537,428**	**100.0**	**–523,922**	**–1.4**	**148,135**	**0.4**

Net interbank position

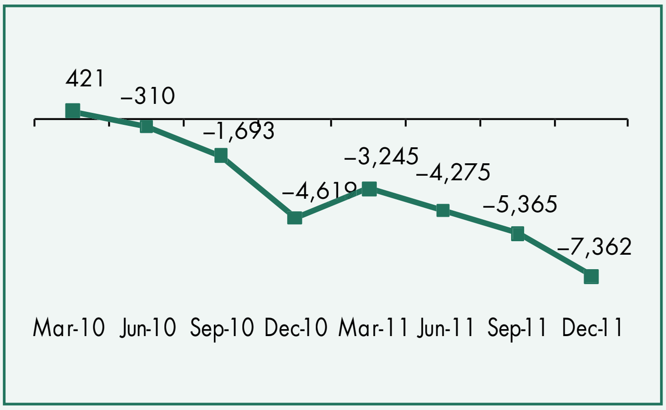
The net interbank position at 31 December 2011 shows a negative balance (net borrowing) of Euro 7,362 million, which compares with a negative balance in September 2011 of Euro 5,365 million and of Euro 4,619 million in December 2010.
This trend is mainly due to the significant growth in net financial assets during the year, an increase of around 2 billion euro, for investments in government bonds, and a reduction in direct deposits (– Euro 630 million).
It should however be noted that much of the interbank exposure, approximately Euro 7.5 billion out of a total of Euro 9.5 billion, is used in open market operations (OMO) with the European Central Bank, compared with Euro 2.6 billion in 2010.
Excluding these operations, and adjusting Euro 302.5 million due from banks for the amounts booked to this item in the financial statements of BPM Securitisation 2 and BPM Covered Bond – since this is temporary liquidity due to be transferred out in the short term – **the net interbank position** at 31 December 2011 was essentially zero, compared with negative positions at the end of September and at the end of 2010 respectively of 1.2 and 1.1 billion.

Interbank position

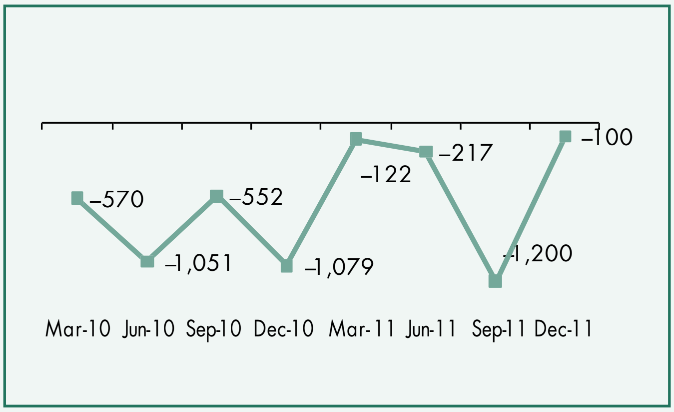
(euro/000)

	31.12.2011	30.09.2011	Change A – B		31.12.2010	Change A – C	
	A	B	Amount	%	C	Amount	%
Due from banks	2,104,004	1,277,583	826,421	64.7	2,488,570	–384,566	–15.5
Due to banks	9,465,678	6,642,569	2,823,109	42.5	7,107,417	2,358,261	33.2
Total	**–7,361,674**	**–5,364,986**	**–1,996,688**	**–37.2**	**–4,618,847**	**–2,742,827**	**–59.4**

Difference between amounts due from and due to banks (euro/mln)



Adjusted net interbank position (euro/mln)



Financial assets

The net financial assets of the BPM Group, net of financial liabilities held for trading, after the deconsolidation of Bipiemme Vita, amount to Euro 9,113 million, with an increase on the end of December 2010 (+27.5%), justified mainly by the Euro 1,884 million rise in net financial assets of the Parent Company. Compared with September 2011, the figure is substantially stable.

Financial assets/liabilities of the Group: composition (euro/000)

	31.12.2011	30.09.2011	Change A – B		31.12.2010	Change A – C	
	A	B	Amount	%	C	Amount	%
Financial assets available for sale (*)	8,100,279	7,636,919	463,360	6.1	5,671,520	2,428,759	42.8
Financial assets held for trading (*)	2,040,312	2,274,432	–234,120	–10.3	1,876,347	163,965	8.7
Financial assets designated at fair value through profit and loss (*)	529,750	629,075	–99,325	–15.8	695,278	–165,528	–23.8
Hedging derivatives receivable	168,244	200,513	–32,269	–16.1	75,674	92,570	122.3
Fair value change of financial assets in hedged portfolios (+/-)	22,293	9,905	12,388	125.1	176	22,117	n,s,
Total financial assets	**10,860,878**	**10,750,844**	**110,034**	**1.0**	**8,318,995**	**2,541,883**	**30.6**
Financial liabilities held for trading	1,677,642	1,623,953	53,689	3.3	1,150,710	526,932	45.8
Hedging derivatives payable	31,883	19,569	12,314	62.9	49,294	–17,411	–35.3
Fair value change of financial liabilities in hedged portfolios (+/-)	38,798	40,773	–1,975	–4.8	–26,798	65,596	244.8
Total net financial assets	**9,112,555**	**9,066,549**	**46,006**	**0.5**	**7,145,789**	**1,966,766**	**27.5**
Bipiemme Vita (net of eliminations)	–	–	–	–	3,976,236	–3,976,236	–100.0
Total net financial assets	**9,112,555**	**9,066,549**	**46,006**	**0.5**	**11,122,025**	**–2,009,470**	**–18.1**

(*) Figures for 2010 have been restated

Financial assets/liabilities of the Group: breakdown by company (euro/000)

	31.12.2011	30.09.2011	Change A – B		31.12.2010	Change A – C	
	A	B	Amount	%	C	Amount	%
Banca Popolare di Milano	7,147,203	6,886,279	260,924	3.8	5,263,029	1,884,174	35.8
Banca Akros	813,250	894,507	–81,257	–9.1	906,989	–93,739	–10.3
WeBank	695,848	695,443	405	0.1	463,426	232,422	50.2
BPM Ireland	401,018	425,820	–24,802	–5.8	525,335	–124,317	–23.7
Banca di Legnano	132,018	145,329	–13,311	–9.2	143,100	–11,082	–7.7
Cassa Risparmio di Alessandria	43,192	43,555	–363	–0.8	42,847	345	0.8
Banca Popolare di Mantova	1,598	1,564	34	2.2	1,489	109	7.3
Other companies	433,845	547,354	–113,509	–20.7	270,641	163,204	60.3
Bipiemme Vita	–	–	–	–	4,205,196	–4,205,196	–100.0
Consolidation eliminations/adjustments	–555,417	–573,302	17,885	3.1	–700,027	144,610	20.7
Total net financial assets	**9,112,555**	**9,066,549**	**46,006**	**0.5**	**11,122,025**	**–2,009,470**	**–18.1**

Financial assets available for sale amount to Euro 8,100 million, showing a rise of Euro 463 million on September 2011 and of Euro 2,429 million on 31 December 2010. This is principally attributable to the increase in the Parent Company's securities portfolio following the purchase of Italian government securities to stabilise the interest margin and to have a buffer of rapidly negotiable assets that could easily be refinanced with the ECB.

The net balance of financial assets and financial liabilities held for trading of Euro 363 million at 31 December 2011 is up by Euro 288 million on September 2011 and substantially stable compared with the end of 2010. This aggregate is largely represented by the trading book of Banca Akros, whose operations mainly consist of trading, market making and risk management with dynamic hedging strategies within a system of operating limits.

Financial assets designated at fair value through profit and loss – which include structured debt securities and open-ended funds for which regular valuations are available from independent sources - come to Euro 530 million, with a decrease compared with September 2011 (-15.8%) and at the end of 2010 (-23.8%), following the trend of securities in portfolio and the disposal of certain positions.

Fixed assets

At 30 June 2011, **fixed assets**, including **investments in associates and companies subject to joint control, property and equipment and intangible assets**, amount to Euro 1,484 million, slightly down on September 2011 (–Euro 444 million) and December 2010 (–Euro 514 million), following the impairment tests carried out resulting in the adjustment of goodwill of certain equity investments (for more details, please read sections 10. Investments in associates and companies subject to joint control and 13. Intangible assets in the Explanatory notes).

In detail, **investments in associates and companies subject to joint control** at 31.12.2011 (300.3 million) decline by euro 67.4 million with respect to December 2010 (367.8 million) in relation to the adjustments to the interest in AM Holding – of Euro 84 million – and booking the 19% stake held in Bipiemma Vita under "Companies subject to significant influence" (for further details, see section 10. Investments in associates and companies subject to joint control in the Explanatory notes).

Property and equipment amount to Euro 754 million substantially unchanged compared with the end of 2010.

Intangible assets come to euro 429 million decreasing by euro 444 million compared with December 2010. In addition to the impairment losses on goodwill of 335.8 million, the change also derives from the effects of the sale of 81% of Bipiemme Vita which resulted in the elimination of goodwill (15.3 million) and related intangible assets (74.6 million).
The impairment losses made concerned the goodwill recorded for the following companies:

- Banca di Legnano and Cassa Risparmio di Alessandria, for 321.2 million;
- Banca Popolare di Mantova, for 13.2 million;
- Akros Alternative Investment SGR, for 1.4 million.

Composition of fixed assets

(euro/000)

	31.12.2011	30.09.2011	Change A – B		31.12.2010	Change A – C	
	A	B	Amount	%	C	Amount	%
Investments in associated and companies subject to joint control	300,340	416,552	–116,212	–27.9	367,833	–67,493	–18.3
Property and equipment	754,431	739,493	14,938	2.0	757,331	–2,900	–0.4
Intangible assets	428,851	771,889	–343,038	–44.4	872,946	–444,095	–50.9
Total fixed assets	**1,483,622**	**1,927,934**	**–444,312**	**–23.0**	**1,998,110**	**–514,488**	**–25.7**

Allowances for specific use

At 31 December 2011, allowances for specific use amount to Euro 477 million, of which Euro 143 million relating to employee termination indemnities and Euro 334 million to allowances for risks and charges, prevalently for pension funds, other personnel expenses and disputes.

Shareholders' equity and capital adequacy

At 31 December 2011, **shareholders' equity**, inclusive of the loss for the year, come to euro 4,014 million with an increase of euro 171 million on the end of 2010 and of euro 354 million on September 2011. The increase in capital of Euro 800 million and early conversion of the Convertendo Loan, for approximately Euro 400 million, more than offset the Euro 275 million decrease in valuation reserves on financial assets available for sale, as a result of reductions in the fair value of government bonds (for details, see Part A in the Explanatory Notes), and the 2011 loss of Euro 614 million. Lastly, with reference to the "Share premium reserve", the decrease of Euro 23 million was mainly due to costs incurred in connection with the increase in capital, which amounted to Euro 30 million.

Group shareholders' equity: composition

(euro/000)

	31.12.2011	30.09.2011	Change A – B		31.12.2010	Change A – C	
	A	B	Amount	%	C	Amount	%
1. Share capital	2,865,709	1,660,287	1,205,422	72.6	1,660,221	1,205,488	72.6
2. Share premium reserve	166,907	188,923	–22,016	–11.7	189,639	–22,732	–12.0
3. Reserves	1,464,179	1,503,447	–39,268	–2.6	1,481,484	–17,305	–1.2
4. Treasury shares	–852	–	–852	n.s.	–1,850	998	53.9
5. Valuation reserves	–367,121	–239,493	–127,628	–53.3	–92,298	–274,823	–297.8
6. Equity instruments	500,000	500,000	–	–	500,000	–	–
7. Net income (loss) pertaining to the Group	–614,333	46,872	–661,205	n.s.	105,970	–720,303	n.s.
Total	**4,014,489**	**3,660,036**	**354,453**	**9.7**	**3,843,166**	**171,323**	**4.5**

Minority interests

At 31 December 2011 minority interests amounted to euro 48 million, a decrease compared with September and December, following the purchase by the Parent Company of 6.49% of Banca di Legnano from CIC.

Minority interests: composition

(euro/000)

	31.12.2011	30.09.2011	Change A – B		31.12.2010	Change A – C	
	A	B	Amount	%	C	Amount	%
1. Share capital	17,709	49,435	–31,726	–64.2	49,445	–31,736	–64.2
2. Share premium reserve	18,297	60,164	–41,867	–69.6	60,274	–41,977	–69.6
3. Reserves	16,155	21,029	–4,874	–23.2	22,632	–6,477	–28.6
4. Treasury shares	–	–	–	–	–	–	–
5. Valuation reserves	2,832	2,593	239	9.2	2,850	–18	–0.6
6. Equity instruments	–	–	–	–	–	–	–
7. Net income (loss) pertaining to minority interests	–6,871	2,006	–8,877	n.s.	5,150	–12,021	–233.4
Total	**48,122**	**135,227**	**–87,105**	**–64.4**	**140,351**	**–92,229**	**–65.7**

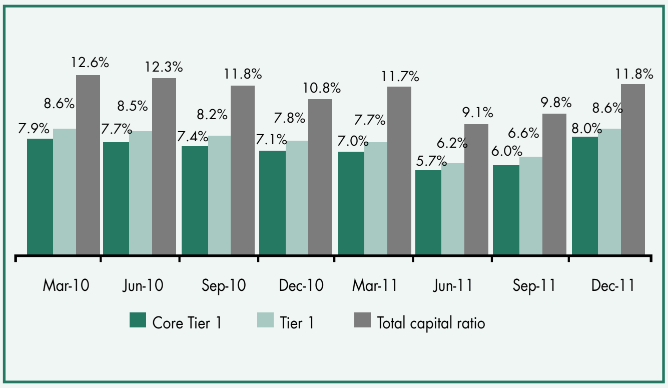
Regulatory capital

The consolidated regulatory capital comes to euro 5,423 million, an increase with respect to December 2010 (euro 4,013 million) after the increase in share capital (euro 800 million) and the early conversion of the "Convertendo BPM 2009/13 6.75%" bond for euro 400 million. In particular, the regulatory capital consists of the Tier 1 capital of euro 3,938 million and the Tier 2 capital of euro 1,485 million.

BPM's total capital ratio, calculated as the ratio between regulatory capital and total risk-weighted assets, comes to 11.83%, which is higher than the figure in September 2011 (9.8%).
The Tier 1 Capital ratio, which is the ratio between Tier 1 capital and risk-weighted assets, comes to 8.59%, whereas the Core Tier 1 ratio, which does not include preference shares, comes to 8.02%.

The capital ratios take account of the higher weightings requested by the Bank of Italy, included in the calculations from June 2011. Overall, implementation of these measures involved an increase in risk-weighted assets of Euro 7.9 billion, which corresponds to a higher capital requirement of Euro 633 million. The impact of the higher requirements requested by the Bank of Italy is estimated at 168 bps on the Core Tier 1, 180 bps on the Tier 1 and 247 bps on the Total Capital Ratio. Note that these additional requirements of the Bank of Italy may be reviewed once the measures required by the Supervisory Authority have been adopted and once the weaknesses mentioned in the inspection report have been resolved.

Quarterly trend of capital ratios



Income statement

The BPM Group closed 2011 with a **net loss** of Euro 614.3 million, compared with net income of Euro 106 million in 2010. The deterioration in the economic situation that got even worse during the last few months of 2011 and the subsequent downgrade of Italy's GDP forecasts for 2012 (IMF forecast –2.2%) have had a significant impact on year–end valuations. The result for the year was in fact dragged down by the booking of non–recurring items classified under "Profits (losses) from equity and other investments" and "Goodwill impairment" which together amount to Euro 419.2 million, after booking the results of the impairment tests on investments and goodwill in the fourth quarter. It should however be noted that this impairment adjustment only impacts the accounting entries, without any reflection on capital ratios and prospective profitability.
The deterioration of the macroeconomic environment is also reflected in a poorer quality of credit, which got worse in the last quarter of 2011 and continued into early 2012; in particular, the property sector, to which the BPM Group is highly exposed, has been one of the hardest hit by the crisis with selling times lengthening and prices falling.
The Bank has decided to adopt a particularly prudent attitude which has translated into:

- an increase in reserves to cover problem loans, which rose during the year from 24.2% to 28%. This growth was due in particular to loans to the property sector, which – given its difficulties, leading to uncertainty about the validity of the guarantees underlying the mortgages – rose during the year from 11.6% to 15.7%;
- better coverage of performing loans by adjusting the LGD estimates related to fears of the economic situation getting worse in 2012 as well;
- the inclusion in problem loans also of exposures to counterparties whose difficulties materialized during the first two months of 2012.

The result has therefore been a significant increase in loan impairment adjustments, which came to Euro 483.4 million versus Euro 244.6 million the previous year.
Lastly, still taking a conservative approach, during the year we expensed significant provisions for risks and charges, of which Euro 47.5 million to cover contractual commitments made as part of disposals of investments or business divisions and Euro 40 million for potential losses arising from litigation with the signers of the Convertendo Loan.

Note that if we eliminate non–recurring items from the 2011 result, almost entirely attributable to the impairment of goodwill and investments and the risk provisions mentioned above, we come to a normalized net result of Euro –176.5 million, which would compare with a normalized net profit the previous year of Euro 28.6 million.

Based on these normalized figures, operating income for the year amounted to Euro 1,390.3 million, a decrease of 5% on the previous year, which mediates the growth trend in interest margin of Euro 91.5 million (+12.5%) with lower fees and commission and a lower net financial result of Euro 165 million (–22.6%), the latter component being particularly affected by the negative performance of financial markets during the second half of the year. Thanks to careful and constant monitoring, operating expenses are Euro 50.3 million lower than in the previous year, a decrease of 4.6%.
As regards the trend in the last quarter, the operating result turned in significant growth over the previous quarter, reaching Euro 85.7 million versus Euro 60.6 million in the previous quarter (+41.4%), thanks to operating income which rose by Euro 25.1 million (+8.1%) and a slight decline in operating expenses.

Line item 310 "Income (loss) after tax from discontinued operations" includes the cost and revenue components relating to Bipiemme Vita and the capital gain on the sale of 81% of the Covéa insurance group in September 2011.

Operating income

In December 2011 operating income came in at euro 1,351.9 million, with a decline versus 2010 (-7.7%).
This figure is the net of the following changes:

- a rise in interest margin which passes from euro 733.2 million to euro 824.8 million (+12.5%), thanks to the improvement in commercial margin and to the contribution of investment banking;
- a reduction in fee and commission income of Euro 87.6 million, mainly due to fewer placements of bonds issued by third parties;
- a contraction in the result of financial activities of Euro 113 million mainly due to the losses on the securities portfolio of the Parent Company and of BPM Ireland, as well as the performance of Banca Akros.

Interest margin

Consolidated **interest margin** comes to Euro 824.8 million, an increase of Euro 91.5 million (+12.5%) compared with the end of 2010. This is mainly attributable to the Parent Company, which contributed 76% of the consolidated interest margin. In terms of average balances for management purposes, the change primarily reflects an increase in the spread with customers of the commercial banks (+23 bps) and an increase in volumes with customers of 4% on deposits and 5% on loans.

Interest margin

(euro/000)

	2011	2010	Change	
			Amount	%
Interest and similar income	1,559,936	1,203,914	356,022	29.6
Interest and similar expense	(735,165)	(470,687)	(264,478)	–56.2
Total interest margin	**824,771**	**733,227**	**91,544**	**12.5**

Interest margin: details by company

(euro/000)

	2011	2010	Change	
			Amount	%
Banca Popolare di Milano	624,104	564,456	59,648	10.6
Banca di Legnano	93,249	88,177	5,072	5.8
Cassa Risparmio di Alessandria	56,908	52,142	4,766	9.1
Banca Popolare di Mantova	8,724	8,800	(76)	–0.9
WeBank	14,532	(584)	15,116	n.s.
Banca Akros	12,560	13,425	(865)	–6.4
BPM Ireland	1,161	2,974	(1,813)	–61.0
ProFamily	9,206	364	8,842	n.s.
Other companies	6,151	9,599	(3,448)	–35.9
Consolidation eliminations/adjustments	(1,824)	(6,126)	4,302	70.2
Total interest margin	**824,771**	**733,227**	**91,544**	**12.5**

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

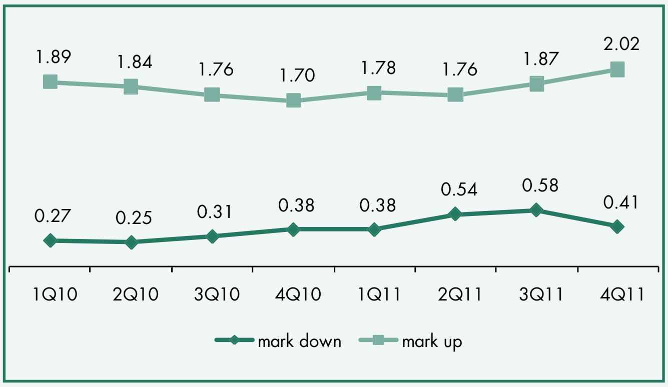
- **commercial margin (commercial and corporate banking)**: this has increased by Euro 107.4 million (+15.9%) compared with the previous year, thanks to the growth in the contribution to the lending margin by virtue of the repricing of assets, and in the contribution from funding that benefits from the higher mark-down of sight deposits, especially in the first half of the year;
- **investment banking margin**: this amounts to Euro 136.7 million, with strong growth on the previous year (+Euro 82.5 million), following the significant increase in the Parent Company's portfolio of government securities;
- **other interest margin (Corporate Centre)**: this is negative for Euro 95.4 million and is represented by the Corporate Centre's result, which was affected by the higher cost of institutional funding.

Quarterly trend in interest margin (euro/mln)

The quarterly analysis shows that the fourth quarter is substantially stable compared with the previous quarter. The interest margin in 2011 is higher than in 2010.

In particular, the interest margin in the fourth quarter 2011 is substantially stable with respect to the previous quarter, coming at euro 204.6 million. This result benefits from the increase in the interest margin of corporate banking (+7.2% Q/Q), thanks to the higher mark-up (+15 bps), which offset the reduction in the contribution to interest margin of the Corporate Centre, mainly due to the higher cost of funding.

Quarterly trend in the BPM Group's mark-up and mark-down



The quarterly analysis shows stability in the overall spread (243 bps) with respect to the third quarter of 2011 (244 bps), after the increase that began in the first quarter of 2011.
In detail, after returning in 2011 to the levels of the first half of 2010, in the fourth quarter the mark-up came to 202 bps. In particular, there is a rise of 15 bps compared with the third quarter of 2011 (from 1.87%).

After the gradual upward trend that started in the second half of 2010, the mark-down declined by 17 bps in the fourth quarter of 2011, going from 58 bps in the third quarter of 2011 to 41 bps at year-end due to the increased cost of deposits, especially for the increased weight of term deposits with issue rates growing in line with the higher yields on government bonds.

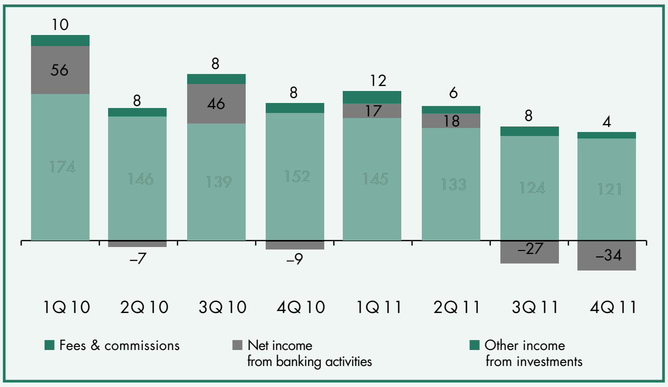
Non-interest margin

Non-interest margin, Euro 527.1 million, reports a decrease of 27.9% in 2011 on December 2010. This result was affected by net fee and commission, which came to Euro 523.2 million, a decrease of 14.3%, and the net result of banking activities, which was a loss of Euro 27 million, compared with income of Euro 86 million in December 2010.

Non-interest margin (euro/000)

	2011	2010	Change	
			Amount	%
Net fee and commission income	**523,207**	**610,767**	**(87,560)**	**–14.3**
Other income:	**3,872**	**120,136**	**(116,264)**	**–96.8**
Profits (losses) on investments carried at equity	(4,113)	(124)	(3,989)	n.s.
Net income (loss) from banking activities	(27,026)	86,008	(113,034)	n.s.
Other operating charges/income	35,011	34,252	759	2.2
Non-interest margin	**527,079**	**730,903**	**(203,824)**	**–27.9**

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



The quarterly analysis in the fourth quarter of 2011 shows a further decrease in non–interest margin (–13.2%) compared with the previous quarter, affected by the decline in net income from banking activities (– Euro 6.7 million) and by the loss on investments carried at equity (– Euro 6.9 million).

Net fee and commission income amounted to Euro 121 million, a decrease of Euro 3 million compared with the third quarter of 2011, primarily due to lower commissions from the placement of assets management products (mutual funds and insurance policies), which in the fourth quarter amounted to Euro 25.4 million compared with Euro 27.7 million in the third quarter of 2011.

Net fee and commission income

(euro/000)

	2011	2010	Change	
			Amount	%
Fee and commission income	**596,839**	**685,011**	**(88,172)**	**–12.9**
Fee and commission expense	**(73,632)**	**(74,244)**	**612**	**0.8**
Total net fee and commission income	**523,207**	**610,767**	**(87,560)**	**–14.3**
Composition:				
guarantees given and received	31,644	31,108	536	1.7
credit derivatives	(58)	(627)	569	90.7
management, dealing and advisory services	184,429	283,083	(98,654)	–34.8
collection and payment services	90,214	87,437	2,777	3.2
servicing for securitisation transactions	–	–	–	–
management of current accounts	120,148	129,104	(8,956)	–6.9
other services	96,830	80,662	16,168	20.0
Total net fee and commission income	**523,207**	**610,767**	**(87,560)**	**–14.3**

Net fee and commission income at December 2011 amounts to Euro 523.2 million, a decrease of Euro 87.6 million on December 2010 (–14.3%), attributable mainly to the drop in fees and commissions on "management, dealing and advisory services", which come to Euro 184.4 million compared with Euro 283.1 million in December 2010. Within this aggregate we would point out the contraction in placement fees which have fallen from Euro 84.3 million in 2010 to Euro 7.4 million in 2011. This decrease is the result of a strategic decision to reduce placements of third–party securities in favour of direct funding products. This has resulted in a sharp contraction in volumes placed during the year, which in 2011 decreased to Euro 201.4 million versus Euro 2,438.2 million in 2010.

Other income, which amounts to Euro 3.9 million (– Euro 116.3 million), reflects almost exclusively the decrease in net income from banking activities, which is Euro 113 million less than in December 2010.

Profits/losses from investments carried at equity posted a deficit of Euro 4.1 million mainly due to the losses made by Bipiemme Vita (– Euro 9.1 million) and Selma Bipiemme Leasing (– Euro 2 million), partially offset by the positive results achieved by AM Holding (Euro 2.9 million) and Factorit (Euro 2.9 million).

Net income on financial activities

(euro/000)

	2011	2010	Change	
			Amount	%
Dividends	33,477	96,687	(63,210)	–65.4
Profits (losses) on trading	49,641	(9,897)	59,538	n.s.
Fair value adjustments in hedge accounting	1,150	(1,835)	2,985	n.s.
Profits (losses) on disposal or repurchase of financial assets/liabilities	30,039	18,198	11,841	65.1
Profits (losses) on financial assets and liabilities designated at fair value	(75,679)	(1,454)	(74,225)	n.s.
Net losses/recoveries on impairment: financial assets available for sale	(65,654)	(15,691)	(49,963)	n.s.
Total net income on financial activities	**(27,026)**	**86,008**	**(113,034)**	**n.s.**

The **"net income (loss) from financial activities"** presents a negative balance of Euro 27 million, which compares with a positive one of Euro 86 million reported in 2010 (- Euro 113 million). Within this aggregate:

• **"profits (losses) on trading"** and **"dividends"** decrease by Euro 3.7 million in 2011 compared with the same period last year. This trend mediates the 30 million euro growth in the result of the Parent Company, mainly due to transactions in derivatives hedging interest rates for ALM management, with the contraction in the contribution of Banca Akros which decreased by Euro 43.9 million during the year (Euro 18.4 million in 2011 versus 62.3 million the previous year). In the latter case, the reduction in results is due to the general contraction in work flows from institutional clients, with negative repercussions specifically on market making. The bond segment was affected in particular by the poor performance of government securities and by the widening of spreads on many bond issues caused by the crisis in the so-called "peripheral sovereign states". As for the equity segment, the strong decline in demand for derivatives on shares and stock indices resulted in an average reduction in the equity delta hedging portfolio and in the income elements associated with it, such as dividend income.

■ **"fair value adjustments in hedge accounting"** with a positive balance of Euro 1.2 million compared with a negative balance of Euro 1.8 million in the previous year. This result shows the imbalance between fair value of the hedging instrument and the hedged asset or liability;

■ **"profits on disposal or repurchase of assets/financial liabilities"** of Euro 30 million, an increase of Euro 12 million on the previous year. The result for the year, which derives from repurchases of financial liabilities by the Parent Company amounts to Euro 22.2 million, plus gains on disposals of "Financial assets available for sale" of Euro 7.8 million;

■ **"profits (losses) on financial assets and liabilities designated at fair value"** with a negative balance of Euro 75.7 million, which is the net amount of various items, including losses of Euro 39.5 million on mutual funds and debt securities, mostly held by the Parent Company, and losses of Euro 15.8 million on the securities held by BPM Ireland. Again the widening of the spreads for many bond issues together with the negative performance by equity indices contributed to generate the losses in question;

■ **"net losses/recoveries on impairment: financial assets available for sale"** negative for Euro 65.7 million with a deterioration of Euro 50 million with respect to December 2010 (– Euro 15.7 million).
This writedown derives from impairment tests on investments classified as "Assets available for sale" (Delmi and Alba Leasing) (see section 8 of the Explanatory Notes). This aggregate also includes the reversal to the income statement of Euro 14 million from the negative valuation reserve for securities classified as "financial assets available for sale" of BPM Ireland, following the decision to close the subsidiary.

Operating income by line of business

The results by line of business confirm the prevalence of operating income made by commercial banking, which includes the results of household customers and SMEs. At December 2011, the contribution made by commercial banking accounts for 81.3% of total operating income; Corporate banking, which includes the results of companies with sales of more than Euro 50 million, contributes 18.7% to the consolidated result. The contribution made by treasury and investment banking, which includes the results of the finance activities of the Group's commercial banks, as well as those of Banca Akros and BPM Ireland, comes to 10.6% of total operating income. Following the deconsolidation of Anima SGR and Bipiemme Vita, income from the wealth management segment only includes the results of Banca Akros' Private Banking division and those of Akros Alternative Investments.

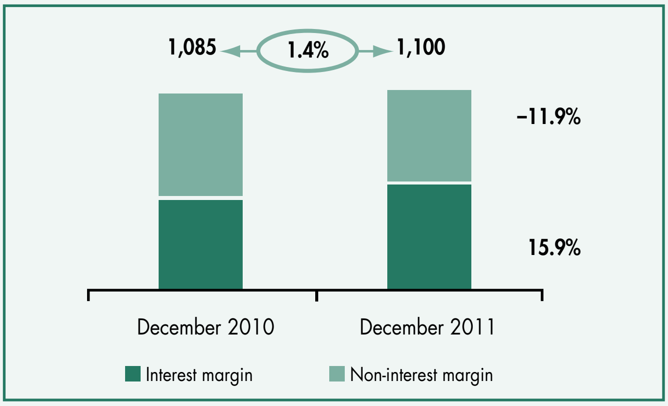
Operating income (euro/mln)

	Commercial Banking	Corporate Banking	Treasury & Invest Bkg	Wealth Management	Corporate Center	Totale
Interest margin	**601.6**	**181.8**	**136.7**	**0.1**	**–95.4**	**824.8**
% change p/y	15.9%	15.8%	152.7%	n.s.	n.s.	12.5%
Non-interest margin	**498.0**	**71.4**	**6.5**	**3.7**	**–52.5**	**527.1**
% change p/y	–11.9%	6.0%	–95.3%	–38.2%	n.s.	–27.9%
Total operating income	**1,099.6**	**253.3**	**143.2**	**3.7**	**–147.9**	**1,351.9**
% change p/y	**1.4%**	**12.8%**	**–25.2%**	**–37.5%**	**n.s.**	**–7.7%**
% of total	**81.3%**	**18.7%**	**10.6%**	**0.3%**	**–10.9%**	**100.0%**

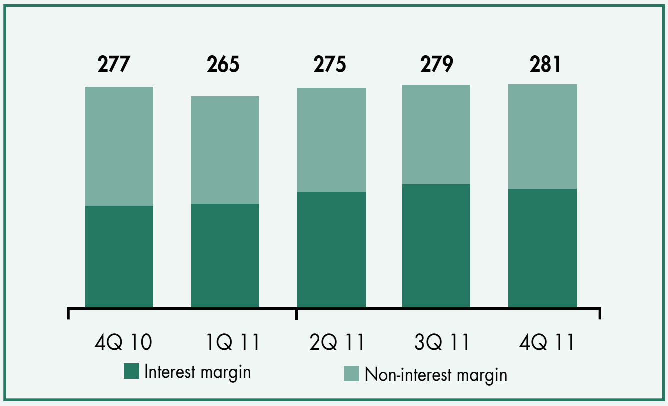
Commercial Banking

In December 2011, total operating income of Commercial Banking shows a slight increase (+1.4%) over the same period of 2010 to Euro 1,100 million, which is the net of 15.9% growth in interest margin and a 11.9% decline in non-interest margin (–11.9%). In detail, net interest margin benefited mainly from the growth in volumes and, to a lesser extent, the improvement in the spread (+14 basis points compared with December 2010), supported by a 18 basis point increase in the mark-down, which more than offset the 4 basis point contraction in the mark-up. The non-interest margin has been weighed down by lower fees and commissions from the placement of third-party securities only partly offset by the trend in net service income (+Euro 17 million compared with 2010).

Operating income (euro/mln)



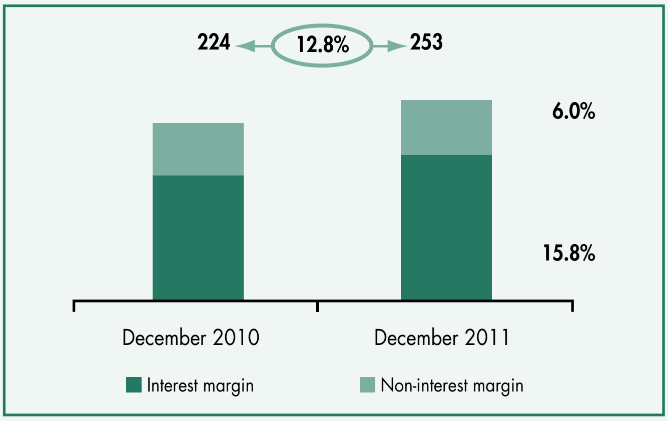
Quarterly performance (euro/mln)



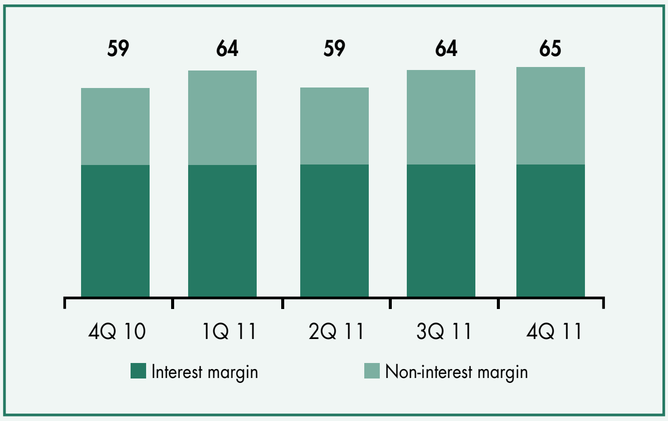
Corporate Banking

As regards **Corporate banking** the total operating income rises by 12.8% in December 2011 compared with the previous year, thanks to both interest margin (+15.8%) and non-interest margin (+6%). In detail, the net interest margin benefited from the significant improvement in the mark-up (+25 basis points), the non-interest margin from around 4 million euro of lending fees.

Operating income (euro/mln)



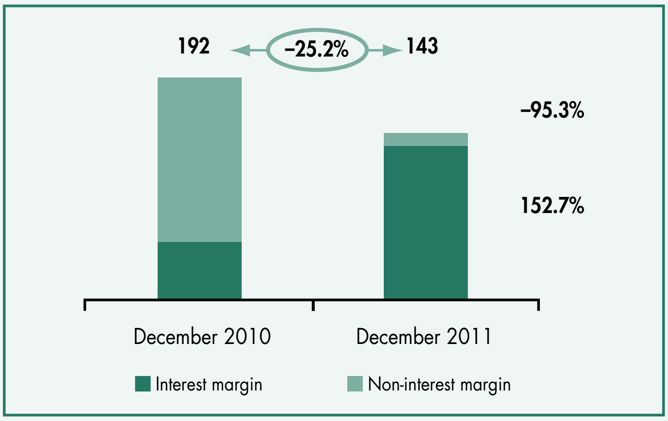
Quarterly performance (euro/mln)



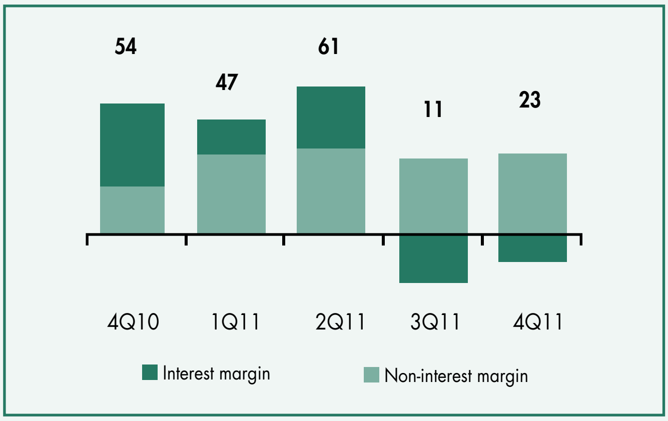
Treasury & Investment Banking

In the **Treasury & Investment Banking sector**, total revenues at December 2011 come to Euro 143.2 million, a decrease of 25.2% (- Euro 48.3 million) compared with 2010.
This trend is attributable to the significant growth in net interest income which has increased by around Euro 83 million over the same period in 2010, rising from Euro 54.1 million to Euro 136.7 million, mainly due to the significant increase in the Parent Company's securities portfolio, in contrast to the decrease in net non-interest income, which went from Euro 137.4 in 2010 to Euro 6.5 million in December 2011.
As mentioned in the comment on "net income from banking activities", this contraction is due to the lower result from the portfolio of securities valued at fair value of the Parent Company and BPM Ireland, the writedown of assets available for sale, as well as the lower result made by Banca Akros.

Operating income (euro/mln)



Quarterly performance (euro/mln)



Wealth Management

With reference to the **Wealth Management** sector, following the deconsolidation of Anima SGR and Bipiemme Vita, income in December 2011 decreased to Euro 3.7 million (–37.5% on the end of 2010).

Operating expenses

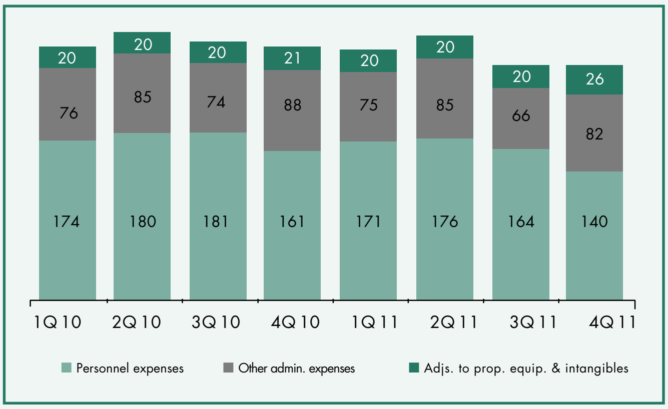
Compared with 2010, 2011 shows a 5% contraction in **operating expenses** - made up of **personnel expenses, other administrative expenses and net adjustments to property** and **equipment and intangible assets** - which amounted to Euro 1,044.9 million, mainly due to the 6.7% reduction in personnel expenses compared with December 2010.
The cost/income ratio comes to 77.3%, which is up on December 2010 (75.1%), penalised by the reduction in operating income despite tight control over operating expenses.

Operating expenses: composition

(euro/000)

	2011	2010	Change	
			Amount	%
Administrative expenses:	**(958,629)**	**(1,019,511)**	**60,882**	**–6.0**
a) personnel expenses	*(650,625)*	*(697,159)*	*46,534*	*–6.7*
b) other administrative expenses	*(308,004)*	*(322,352)*	*14,348*	*–4.5*
Net adjustments to property and equipement and intangible assets	**(86,319)**	**(80,177)**	**(6,142)**	**7.7**
Total	**(1,044,948)**	**(1,099,688)**	**54,740**	**–5.0**

Quarterly trend in operating expenses (euro/mln)



The quarterly analysis of operating expenses shows a progressive decline in this line item during the last two quarters, mainly because of the trend in personnel expenses.

The quarterly change in other administrative expenses reflects the same trend as in 2010, but with slightly lower balances at the end of the year due to the policy of cost control.

In detail, personnel expenses amounts to Euro 650.6 million, 6.7% down on 2010, principally as a result of the following changes:

- the reduction in the labour cost of the commercial banks (–37.6 million euro) has benefited from the members of the Solidarity Fund who left in 2010 and 2011, as well as the absence of certain variable elements in 2011 for the Parent Company (commercial incentives and employee profit-sharing under art. 60 of the Articles of Association);
- a decrease in the variable elements of remuneration linked to the results of Banca Akros, which led to lower personnel expenses of Euro 11.4 million compared with the previous year;
- an increase in labour cost at ProFamily (+2.1 million euro) as it hired 28 specialised employees during the year and at Banca Popolare di Mantova (+Euro 1.1 million) with 18 new hires to support its branch plan.

Other administrative expenses amount to Euro 308 million (net of reclassified indirect tax recoveries), a drop of 4.5% compared with December 2010, helped by a constant focus on cost control.

Other administrative expenses: composition

(euro/000)

	2011	2010	Change	
			Amount	%
IT expenses	(70,811)	(73,129)	2,318	–3.2
Expenses for buildings and furniture	(59,942)	(61,960)	2,018	–3.3
Property leases	*(43,496)*	*(43,027)*	*(469)*	*1.1*
Other expenses	*(16,446)*	*(18,933)*	*2,487*	*–13.1*
Purchases of assets and non-professional services	(75,036)	(84,935)	9,899	–11.7
Purchases of professional services	(38,514)	(41,411)	2,897	–7.0
Insurance premiums	(3,965)	(4,810)	845	–17.6
Advertising expenses	(28,319)	(26,787)	(1,532)	5.7
Indirect taxes and duties	(91,081)	(77,635)	(13,446)	17.3
Other	(12,179)	(12,548)	369	–2.9
Total	**(379,847)**	**(383,215)**	**3,368**	**–0.9**
Reclassification of "indirect tax recoveries"	71,843	60,863	10,980	–18.0
Total	**(308,004)**	**(322,352)**	**14,348**	**–4.5**

The trend in other administrative expenses shows different dynamics for the commercial banks and for the development of new initiatives. The decrease of Euro 14.3 million compared with the same period in 2010 mainly relates to:

- lower costs on the part of the Parent Company for Euro 11.3 million, achieved by implementing new contractual arrangements with suppliers, postponing certain non-priority improvements and decreasing purchases of goods and non-professional services;
- a rise in the costs of ProFamily of Euro 2.1 million compared with 2010.

Net adjustments to property and equipment and intangible assets come to Euro 86.3 million, 7.7% up on December 2010 (+ Euro 6.1 million). This increase is mainly due to the trend in amortisation on intangible assets which includes an amount of Euro 4 million for adjustments to "core deposits" following the impairment tests carried out at Banca Popolare di Mantova.

Net adjustments, provisions and other items

This aggregate, which consists of **net adjustments for impairment of loans and other transactions** amounts to Euro 483.4 million, an increase of Euro 244.6 million compared with 2010 (+Euro 238.8 million) following the evolution in impaired loans, as explained in the section on "asset quality", which translated into an increase in **net impairment adjustments to loans compared** with the previous year (+244.2 million), concentrated in the last quarter of 2011.

The following contributed to this dynamic:

- specific adjustments to non-performing loans for 326 million euro, of which 53% accounted for in the fourth quarter of 2011;
- Euro 172 million to cover doubtful, restructured and overdue positions, of which 32% accounted for in the fourth quarter;
- Euro 63 million, on the other hand, are due to general adjustments to the performing portfolio , mainly concentrated in the fourth quarter;
- writebacks amounted to over 78 million.

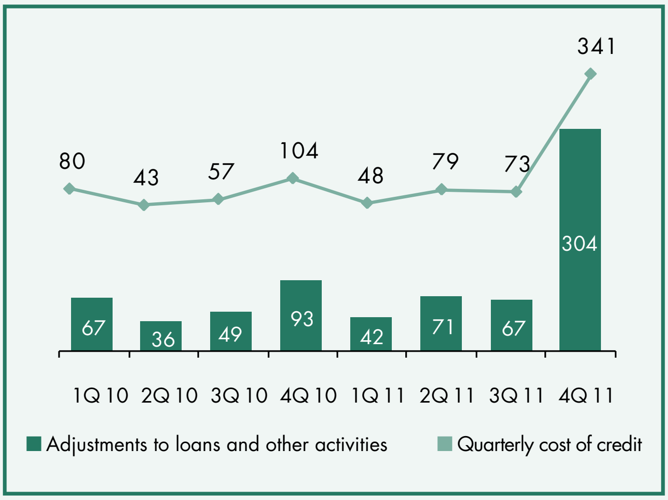
Given the above measures, the cost of credit, which is the ratio of net loan adjustments to total loans outstanding, increased from 69 bps in 2010 to 135 bps in 2011 due to the evolution of impaired loans, as described in the section on "Asset quality".

Net adjustments for impairment of loans and other activities: composition

(euro/000)

Transactions/Income elements	Adjustments			Recoveries			2011	2010	Change	
	Specific	Portfolio	Total	Specific	Portfolio	Total			Amount	%
Loans:	**(498,687)**	**(63,130)**	**(561,817)**	**76,151**	**3,137**	**79,288**	**(482,529)**	**(238,310)**	**(244,219)**	**–102.5**
Due from banks	(1,221)	(88)	(1,309)	304	340	644	(665)	(2,081)	1,416	68.0
Loans to customers	(497,466)	(63,042)	(560,508)	75,847	2,797	78,644	(481,864)	(236,229)	(245,635)	–104.0
Profits/losses on disposal/repurchase of loans	**(102)**	**–**	**(102)**	**–**	**–**	**–**	**(102)**	**(8,184)**	**8,082**	**98.8**
Other financial activities	**(4,521)**	**(376)**	**(4,897)**	**3,746**	**351**	**4,097**	**(800)**	**1,854**	**(2,654)**	**n.s.**
Total	**(503,310)**	**(63,506)**	**(566,816)**	**79,897**	**3,488**	**83,385**	**(483,431)**	**(244,640)**	**(238,791)**	**–97.6**

Quarterly trend in Net impairment adjustments to loans and other activities (Euro/mn) and the annualised cost of credit (bps) (euro/mln)



The quarterly analysis of impairment adjustments to loans in the last quarter of 2011 shows an amount of Euro 304 million versus Euro 67 million in the previous quarter, as a result of the attentive and cautious approach that the Group thought it best to take considering the macroeconomic scenario which emerged late in the year. The annualised cost of credit of 73 bps in the third quarter increased to 341 bps in the fourth quarter. The coverage of performing loans has increased, reaching 0.8% against 0.5% in September, while the coverage of impaired loans increased from 25% to 28%.

The **provisions for risks and charges**, which reached Euro 111.6 million (Euro 11.1 million in 2010), relate to recovery procedures, legal disputes and other charges of Euro 67.5 million (of which 40 million set aside for the Convertendo Loan), an estimate of the possible future payment to AM Holding as an adjustment to the selling price of Anima SGR (Euro 30.8 million), contractual compensation for the Covéa Group for the Greek securities in the investment portfolio of Bipiemme Vita and other charges arising from the sale agreement for the 81% stake in this insurance company (Euro 13.3 million).

Profits (losses) from equity and other investments

The line item **profits (losses) from equity and other investments** is negative for Euro 419.2 million, principally due to the booking in the fourth quarter of 2011 of adjustments to goodwill for a total of Euro 335.8 million - following the results of the impairment tests (for more details see Section 13 of the Notes) - and the investment in AM Holding for Euro 84 million (see Section 10 of the Notes). In 2010 the item "profits (losses) from equity and other investments" had a positive balance of Euro 55 million arising from the sale of the custodian bank activity.

Income (loss) after tax from discontinued operations

This income of Euro 19.5 million is largely attributable to the capital gain on sale of BPM's 81% stake in Bipiemme Vita.

Net income (loss)

In December 2011, the **net loss for the year**, after booking recoveries of income taxes of Euro 66.7 million, which take into account a net benefit of Euro 28.7 million from the freeing up of goodwill for tax purposes (see Section 14 of the Notes on assets), reaches Euro 621.2 million compared with net income in 2010 of Euro 111.1 million. Note that **extraordinary tax items** of Euro 178.5 million were charged in 2010, relating to the out-of-court settlement of disputes initiated by the Tax Authorities.

Net of the **loss attributable to minority interests**, the **loss of the Parent Company** amounts to Euro 614.3 million.

Cash flow statement

The following statement of cash flow of the BPM Group at 31 December 2011 shows a cash absorption of Euro 23 million, compared with Euro 388 million in 2010.

In 2011, **operating activities** used cash totaling Euro 884 million. **Operations** generated Euro 484 million of cash flow, despite a loss for the year of Euro 614 million. In fact this result was significantly influenced by remeasurements that have no effect on cash flow, such as loan writedowns, provisions for risks and charges and impairment adjustments to goodwill.
The figures for the **cash flow from/used in financial assets and liabilities** are influenced, in 2010, by the consolidation of Bipiemme Vita and, in 2011, by its exclusion from the scope of consolidation.

During the same period, **investing activities** generated cash of Euro 176 million following the sale of the 81% interest in Bipiemme Vita.
Furthermore, note that **financing activities** generated cash flow of Euro 685 million, due to the increase in capital, net of related costs, to Euro 769 million and the distribution of dividends and interest on the Tremonti Bonds during 2011.

BPM Group - Consolidated statement of cash flow (indirect method)

(euro/000)

A. OPERATING ACTIVITIES	2011	2010
1. Cash flow from operations	484,421	263,216
2. Cash flow from/used in financial assets	689,856	–10,167,945
3. Cash flow from/used in financial liabilities	–2,058,291	9,724,425
Net cash flow from/used in operating activities	**–884,014**	**–180,304**
B. INVESTING ACTIVITIES		
1. Cash flow from	226,581	275,454
2. Cash flow used in	–50,721	–417,451
Net cash flow from/used in investing activities	**175,860**	**–141,997**
C. FINANCING ACTIVITIES		
Net cash flow from/used in financing activities	**685,261**	**–65,782**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**–22,893**	**–388,083**

Reconciliation

Line items	2011	2010
Cash and cash equivalents at the beginning of the year	264,208	652,291
Total net increase (decrease) in cash and cash equivalents	–22,893	–388,083
Cash and cash equivalents: foreign exchange effects	–	–
Cash and cash equivalents at the end of the year	**241,315**	**264,208**

Key: (+) generated (–) absorbed

Information on the main Group companies

For a complete description of the BPM Group, information on the results of the companies included in the scope of consolidation are shown below. Key income statement and balance sheet figures are provided for each company, together with a brief commentary.

Companies consolidated line-by-line

Banca di Legnano S.p.A.

Before examining the income statement and balance sheet aggregates, it is worth noting that on 7 February 2012, Cassa di Risparmio di Alessandria and Banca di Legnano signed the merger agreement with effect towards third parties from 11 February 2012, while for accounting and tax purposes, the merger takes effect from 1 January 2012.
That being said, the 2011 financial statements of Banca di Legnano are shown below.

Banca di Legnano – Reclassified balance sheet

(euro/000)

Assets	31.12.2011	30.09.2011	31.12.2010	Change A–B		Change A–C	
	A	B	C	amount	%	amount	%
Cash and cash equivalents	27,104	22,046	28,165	5,058	22.9	–1,061	–3.8
Financial assets designated at fair value and hedging derivatives:	136,313	148,013	145,444	–11,700	–7.9	–9,131	–6.3
– Financial assets held for trading	*8,916*	*6,623*	*3,607*	*2,293*	*34.6*	*5,309*	*147.2*
– Financial assets designated at fair value through profit and loss	–	–	–	–	–	–	–
– Financial assets available for sale	*127,397*	*141,390*	*141,837*	*–13,993*	*–9.9*	*–14,440*	*–10.2*
– Hedging derivatives	–	–	–	–	–	–	–
Due from banks	116,425	110,210	74,562	6,215	5.6	41,863	56.1
Loans to customers	3,856,223	3,872,539	3,764,137	–16,316	–0.4	92,086	2.4
Fixed assets	403,517	587,382	589,172	–183,865	–31.3	–185,655	–31.5
Other assets	106,040	157,978	154,703	–51,938	–32.9	–48,663	–31.5
Total assets	**4,645,622**	**4,898,168**	**4,756,183**	**–252,546**	**–5.2**	**–110,561**	**–2.3**

Liabilities and shareholders' equity	31.12.2011	30.09.2011	31.12.2010	Change A–B		Change A–C	
	A	B	C	amount	%	amount	%
Due to banks	317,775	338,692	193,104	–20,917	–6.2	124,671	64.6
Due to customers	2,018,367	2,031,768	2,184,640	–13,401	–0.7	–166,273	–7.6
Securities issued	890,483	841,388	832,266	49,095	5.8	58,217	7.0
Financial liabilities and hedging derivatives:	263,020	254,486	105,963	8,534	3.4	157,057	148.2
– Financial liabilities held for trading	*4,295*	*2,684*	*2,344*	*1,611*	*60.0*	*1,951*	*83.2*
– Financial liabilities designated at fair value through profit and loss	*258,725*	*251,802*	*103,619*	*6,923*	*2.7*	*155,106*	*149.7*
– Hedging derivatives	–	–	–	–	–	–	–
Other liabilities	90,876	213,437	143,380	–122,561	–57.4	–52,504	–36.6
Provisions for specific use	29,481	23,762	27,194	5,719	24.1	2,287	8.4
Capital and reserves	1,157,055	1,170,067	1,164,250	–13,012	–1.1	–7,195	–0.6
Net income (loss) (+/–)	–121,435	24,568	105,386	–146,003	n.s.	–226,821	–215.2
Total liabilities and shareholders' equity	**4,645,622**	**4,898,168**	**4,756,183**	**–252,546**	**–5.2**	**–110,561**	**–2.3**

Other information	31.12.2011	30.09.2011	31.12.2010	Change A–B		Change A–C	
	A	B	C	amount	%	amount	%
Indirect customer deposits at market value	3,782,352	3,862,765	4,119,546	–80,413	–2.1	–337,194	–8.2
– of which assets under management	*1,802,860*	*1,867,944*	*2,004,082*	*–65,084*	*–3.5*	*–201,222*	*–10.0*
Headcount at year-end (*)	822	822	808	0	0.0	14	1.7
Number of branches	117	117	117	0	0.0	0	0.0

(*) employees + net secondees + temps

Comparing the **balance sheet** with the figures at 31 December 2010 shows the following:

- an increase in **loans to customers** of Euro 92 million, to Euro 3,856 million (+2.4%), boosted above all by mortgages (+4.3%) and credit cards and personal loans (+8.7%);
- **direct deposits**, euro 3,168 million, made up of amounts due to customers, securities issued and financial liabilities designated at fair value through profit and loss, grows by 1.5% (+ Euro 47 million). This aggregate mediates the growth in bonds with the decrease in amounts due to customers, because of the portfolio restructuring of customers who favoured more remunerative forms of term investment with respect to sight deposits;
- **financial assets available for sale** decrease from Euro 141.8 million to Euro 127.4 million mainly because of the writedown of the investment in Cassa di Risparmio di Asti (with the contra–entry going to valuation reserves), for Euro 14.2 million;
- **investments in associates and companies subject to joint control**, of Euro 108.6 million at the end of 2010, have fallen to Euro 85.9 million following the writedown of the interest in Asset Management Holding S.p.A.;
- **indirect deposits**, expressed at market values, amount to Euro 3,782 million, an 8.2% decrease on December 2010 (– Euro 337 million), where the reduction is distributed between assets under administration (– Euro 136 million; –6.4%) and assets under management (– Euro 201 million; –10.0%). The negative effect of the change in prices on assets under management at the beginning of the year was 1.9% of indirect deposits and 4.0% of assets under management. Total deposits show a decrease of Euro –290 million (–4.0%).

Banca di Legnano S.p.A. – Reclassified income statement

(euro/000)

Income statement line items	2011	2010	Change	
			Amount	%
Interest margin	**93,249**	**88,177**	**5,072**	**5.8**
Non-interest margin:	**64,694**	**84,022**	**(19,328)**	**–23.0**
– Net fees and commission	55,930	63,746	(7,816)	–12.3
– Other income:	8,764	20,276	(11,512)	–56.8
– Dividends from equity investments	*3,849*	*13,352*	*(9,503)*	*–71.2*
– Net income from banking activities	*1,023*	*3,661*	*(2,638)*	*–72.1*
– Other operating charges/income	*3,892*	*3,263*	*629*	*19.3*
Operating income	**157,943**	**172,199**	**(14,256)**	**–8.3**
Administrative expenses:	(90,477)	(91,173)	696	0.8
a) personnel expenses	*(56,589)*	*(57,265)*	*676*	*1.2*
b) other administrative expenses	*(33,888)*	*(33,908)*	*20*	*0.1*
Net adjustments to property and equipment and intangible assets	(4,972)	(5,055)	83	1.6
Operating expenses	**(95,449)**	**(96,228)**	**779**	**0.8**
Operating result	**62,494**	**75,971**	**(13,477)**	**–17.7**
Net adjustments for impairment of loans and other activities	(34,196)	(19,901)	(14,295)	–71.8
Net provisions for risks and charges	(7,203)	(201)	(7,002)	n.s.
Profits (losses) from equity and other investments	(183,494)	87,339	(270,833)	n.s.
Extraordinary tax items	0	(18,822)	18,822	n.s.
Income (loss) before tax from continuing operations	**(162,399)**	**124,386**	**(286,785)**	**n.s.**
Taxes on income from continuing operations	40,964	(19,000)	59,964	n.s.
Net income (loss)	**(121,435)**	**105,386**	**(226,821)**	**n.s.**

At 31 December 2011 Banca di Legnano closed with a loss of Euro 121.4 million, compared with net income of Euro 105.4 million the previous year. If we eliminate non-recurring items from the 2011 result, almost entirely attributable to the impairment of goodwill and investments and the risk provisions mentioned above, we come to a normalized net result of Euro 15.5 million, which would compare with a normalized net profit the previous year of Euro 36.7 million.

An analysis of the **principal income statement aggregates** shows that:

- **interest margin** of Euro 93.2 million (+5.8%) has risen by Euro 5.1 million thanks to the increase in the commercial margin (+7.0%) which benefited from the growth in the mark-down- of deposits and in the mark-up of loans;
- **net fee and commission income** of Euro 55.9 million has fallen by Euro 7.8 million (-12.3%), affected by the contraction in placement fees of Euro 8.6 million following the significant reduction in placements of third-party securities in favour of direct funding products;
- **dividends from equity investments**, Euro 3.8 million compared with Euro 13.4 million in 2010, decreased by Euro 9.5 million, due to the elimination of the dividend of Anima Sgr (Euro 7.3 million in 2010) and to the lower dividend distributed by Banca Akros (Euro 3.8 million versus Euro 6.1 million);
- **operating expenses** amounted to Euro 95.4 million, at 31 December 2011 and show a reduction on the previous year of Euro 0.8 million (–0.8%), due to the 1.2% reduction in personnel expenses and a substantial stability in other administrative expenses;
- **net impairment adjustments to loans and other activities** increase by 71.8% to Euro 34.2 million (Euro 19.9 million in 2010). The net impairment adjustments to performing loans amount to Euro 1.4 million, whereas specific writedowns of impaired assets, net of writebacks, come to Euro 32.8 million versus Euro 15.8 million in 2010 (+107.6%). The strong increase in the last part of the year is due to the deterioration of a significant corporate position for Euro 9 million, and Euro 6 million in higher adjustments for more prudent coverage of performing loans (adjustment to estimates of LGD indicators) and past due loans;

- **provisions for risks and charges** show a strong increase from Euro 0.2 million in 2010 to Euro 7.2 million in 2011 to cover contractual commitments made as part of disposals of investments;
- **profits (losses) from equity and other investments** amount to Euro 183.5 million in 2011, after booking the results of the impairment tests on investments and goodwill in the fourth quarter.

The **income (loss) before tax from continuing operations** amounts to - Euro 162.4 million at the end of 2011, compared with Euro 124.4 million in 2010.
Taxes on income are positive for Euro 41.0 million, leading to a **net loss for the year** of Euro 121.4 million, compared with net income of Euro 105.4 million in 2010.

Cassa di Risparmio di Alessandria S.p.A.

Before examining the income statement and balance sheet aggregates, as mentioned in the section on Banca di Legnano, we would point out that the merger deed for the absorption of Cassa di Risparmio di Alessandria by Banca di Legnano was signed on 7 February 2012. Having said this, we will now comment on the 2012 financial statements of Cassa di Risparmio di Alessandria.

Cassa di Risparmio di Alessandria – Reclassified balance sheet

(euro/000)

Assets	31.12.2011	30.09.2011	31.12.2010	Change A–B		Change A–C	
	A	B	C	amount	%	amount	%
Cash and cash equivalents	30,332	27,336	27,983	2,996	11.0	2,349	8.4
Financial assets designated at fair value and hedging derivatives	44,689	45,208	44,500	–519	–1.1	189	0.4
– Financial assets held for trading	*16,726*	*16,597*	*15,468*	*129*	*0.8*	*1,258*	*8.1*
– Financial assets designated at fair value through profit and loss	–	–	–	–	–	–	–
– Financial assets available for sale	*27,963*	*28,611*	*29,032*	*–648*	*–2.3*	*–1,069*	*–3.7*
– Hedging derivatives	–	–	–	–	–	–	–
Due from banks	37,783	50,324	38,570	–12,541	–24.9	–787	–2.0
Loans to customers	2,232,478	2,278,304	2,231,328	–45,826	–2.0	1,150	0.1
Fixed assets	66,521	56,904	58,362	9,617	16.9	8,159	14.0
Other assets	96,860	82,364	67,632	14,496	17.6	29,228	43.2
Total assets	**2,508,663**	**2,540,440**	**2,468,375**	**–31,777**	**–1.3**	**40,288**	**1.6**

Liabilities and shareholders' equity	31.12.2011	30.09.2011	31.12.2010	Change A–B		Change A–C	
	A	B	C	amount	%	amount	%
Due to banks	286,593	279,221	236,358	7,372	2.6	50,235	21.3
Due to customers	1,234,102	1,222,870	1,260,561	11,232	0.9	–26,459	–2.1
Securities issued	601,413	610,554	619,782	–9,141	–1.5	–18,369	–3.0
Financial liabilities and hedging derivatives	152,113	139,291	92,999	12,822	9.2	59,114	63.6
– Financial liabilities held for trading	*1,497*	*1,653*	*1,653*	*–156*	*–9.4*	*–156*	*–9.4*
– Financial liabilities designated at fair value through profit and loss	*150,616*	*137,638*	*91,346*	*12,978*	*9.4*	*59,270*	*64.9*
– Hedging derivatives	–	–	–	–	–	–	–
Other liabilities	53,008	89,753	59,175	–36,745	–40.9	–6,167	–10.4
Provisions for specific use	41,417	43,452	47,936	–2,035	–4.7	–6,519	–13.6
Capital and reserves	151,886	151,703	163,293	183	0.1	–11,407	–7.0
Net income (loss) (+/–)	–11,869	3,596	–11,729	–15,465	n.s.	–140	–1.2
Total liabilities and shareholders' equity	**2,508,663**	**2,540,440**	**2,468,375**	**–31,777**	**–1.3**	**40,288**	**1.6**

Other information	31.12.2011	30.09.2011	31.12.2010	Change A–B		Change A–C	
	A	B	C	amount	%	amount	%
Indirect customer deposits at market value	1,936,117	1,985,343	2,059,418	–49,226	–2.5	–123,301	–6.0
– of which assets under management	*762,418*	*790,522*	*816,951*	*–28,104*	*–3.6*	*–54,533*	*–6.7*
Headcount at year-end (*)	563	571	585	–8	–1.4	–22	–3.8
Number of branches	90	90	92	0	0.0	–2	–2.2

(*) employees + net secondees + temps

An analysis of the principal balance sheet aggregates shows:
■ substantial stability in **loans to customers**, which come in at Euro 2,232 million (+0.1% compared with December 2010), continuing the policy of extending maturities with relative growth in the medium/long-term component;
■ stability in **direct deposits** - consisting of amounts due to customers, securities issued and financial liabilities designated at fair value through profit and loss - at Euro 1,986 million (+0.7% on December 2010);
■ a sharp reduction in **indirect customer deposits**, at market value, to Euro 1,936 million (-6% on December 2010) because of the very negative trend in financial markets;
■ the distribution network has been reduced by two branches compared with December 2010 (from 92 to 90), following the closure of branch L in Alessandria and agency no. 2 in Valenza.

Cassa di Risparmio di Alessandria – Conto Economico Riclassificato

(euro/000)

Line items	2011	2010	Change	
			Amount	%
Interest margin	**56,908**	**52,142**	**4,766**	**9.1**
Non-interest margin:	**31,168**	**35,207**	**(4,039)**	**–11.5**
- Net fee and commission income	30,641	32,136	(1,495)	–4.7
- Other income:	527	3,071	(2,544)	–82.8
- Dividends from equity investments	–	–	–	–
- Net income from banking activities	*(485)*	*1,910*	*(2,395)*	*n.s.*
- Other operating charges/income	*1,012*	*1,161*	*(149)*	*–12.8*
Operating income	**88,076**	**87,349**	**727**	**0.8**
Administrative expenses:	(62,892)	(65,922)	3,030	4.6
a) personnel expenses	*(38,916)*	*(41,370)*	*2,454*	*5.9*
b) other administrative expenses	*(23,976)*	*(24,552)*	*576*	*2.3*
Net adjustments to property and equipment and intangible assets	(4,429)	(4,219)	(210)	–5.0
Operating expenses	**(67,321)**	**(70,141)**	**2,820**	**4.0**
Operating result	**20,755**	**17,208**	**3,547**	**20.6**
Net adjustments for impairment of loans and other activities	(32,643)	(7,373)	(25,270)	n.s.
Net provisions for risks and charges	(829)	(701)	(128)	–18.3
Profits (losses) from equity and other investments	201	3,049	(2,848)	–93.4
Extraordinary tax items	0	(18,812)	18,812	n.s.
Income (loss) before tax from continuing operations	**(12,516)**	**(6,629)**	**(5,887)**	**–88.8**
Taxes on income from continuing operations	647	(5,100)	5,747	112.7
Net income (loss)	**(11,869)**	**(11,729)**	**(140)**	**–1.2**

At 31 December 2011, Cassa di Risparmio di Alessandria posted a loss of Euro 11.9 million, much the same as the loss of Euro 11.7 million at the end of 2010, which also included a number of non-recurring items. The bank operating results benefited from the positive impact of the interest margin (+9.1%) and a reduction in operating costs (-4%), though it is strongly affected by impairment adjustments to loans.

An analysis of the **principal income statement aggregates** shows:
■ **interest margin** came to Euro 56.9 million, compared with Euro 52.1 million in the same period of the previous year, an increase of 9.1%. The main reason for this increase was a higher volume of loans, despite a slight reduction in the spread between borrowing and lending rates with customers, which fell from 2.57% to 2.47% during the year, and despite the increased use of the funding from the Group's treasury function;
■ **net fee and commission income** fell by Euro 1.5 million in 2011: there is a general increase in the various components of income from services, with the exception of the income from assets under administration as unlike the previous year, there were no longer the significant placements of securities issued by third parties. This was the result of a strategic decision by the Bank and the

Group to give preference to direct deposits from retail customers instead of using the interbank market;

- **operating expenses** show a reduction of 4%, going from Euro 70.1 to Euro 67.3 million. Within this aggregate, Personnel expenses went from Euro 41.4 to Euro 38.9 million, decreasing by 6%; other administrative expenses have gone from Euro 24.5 to Euro 24 million, a reduction of 2.3%;
- **net impairment adjustments to loans and other activities** amount to Euro 32.6 million, with a strong rise from Euro 7.4 million in 2010 as a result of the deterioration in the overall economic scenario and a worse outlook for a substantial exposure to the public sector;
- **income (loss) before tax from continuing operations** is negative for Euro 12.5 million, which is worse than the previous year's loss. After income taxes for 2011, the **net loss for the year** comes to Euro 11.9 million.

Banca Popolare di Mantova S.p.A.

During 2011, the bank completed the Branch Plan as foreseen in its Business Plan. Six new branches have been opened in Curtatone, Volta Mantovana, Goito, Mantova-Cittadella, Guidizzolo and Mantova-Palazzo Agricoltura, and the head office has been transferred to new premises in the Mantova-Palazzo Agricoltura building.

Having said this, we will now comment on the 2011 financial statements of Banca Popolare di Mantova.

Banca Popolare di Mantova – Reclassified balance sheet

(euro/000)

Assets	**31.12.2011**	**30.09.2011**	**31.12.2010**	**Change A–B**		**Change A–C**	
	A	**B**	**C**	**Amount**	**%**	**Amount**	**%**
Cash and cash equivalents	4,013	3,510	3,347	503	14.3	666	19.9
Financial assets designated at fair value and hedging derivatives:	2,042	2,032	2,161	10	0.5	–119	–5.5
– Financial assets held for trading	*717*	*723*	*879*	*–6*	*–0.8*	*–162*	*–18.4*
– Financial assets designated at fair value through profit and loss	–	–	–	–	–	–	–
– Financial assets available for sale	*1,325*	*1,309*	*1,282*	*16*	*1.2*	*43*	*3.4*
– Hedging derivatives	–	–	–	–	–	–	–
Due from banks	5,882	4,036	2,847	1,846	45.7	3,035	106.6
Loans to customers	427,578	438,062	401,696	–10,484	–2.4	25,882	6.4
Fixed assets	9,413	7,375	6,426	2,038	27.6	2,987	46.5
Other assets	10,809	10,017	6,922	792	7.9	3,887	56.2
Total assets	**459,737**	**465,032**	**423,399**	**–5,295**	**–1.1**	**36,338**	**8.6**

Liabilities and shareholders' equity	**31.12.2011**	**30.09.2011**	**31.12.2010**	**Change A–B**		**Change A–C**	
	A	**B**	**C**	**Amount**	**%**	**Amount**	**%**
Due to banks	223,897	223,095	192,158	802	0.4	31,739	16.5
Due to customers	126,081	124,869	112,634	1,212	1.0	13,447	11.9
Securities issued	43,804	42,063	52,907	1,741	4.1	–9,103	–17.2
Financial liabilities and hedging derivatives:	17,539	16,935	14,028	604	3.6	3,511	25.0
– Financial liabilities held for trading	*444*	*468*	*672*	*–24*	*–5.1*	*–228*	*–33.9*
– Financial liabilities designated at fair value through profit and loss	*17,095*	*16,467*	*13,356*	*628*	*3.8*	*3,739*	*28.0*
– Hedging derivatives	–	–	–	–	–	–	–
Other liabilities	9,858	16,496	9,980	–6,638	–40.2	–122	–1.2
Provisions for specific use	246	177	195	69	39.0	51	26.2
Capital and reserves	41,493	41,485	41,178	8	0.0	315	0.8
Net income (loss) (+/–)	–3,181	–88	319	–3,093	n.s.	–3,500	n.a.
Total liabilities and shareholders' equity	**459,737**	**465,032**	**423,399**	**–5,295**	**–1.1**	**36,338**	**8.6**

Other information	**31.12.2011**	**30.09.2011**	**31.12.2010**	**Change A–B**		**Change A–C**	
	A	**B**	**C**	**Amount**	**%**	**Amount**	**%**
Indirect customer deposits at market value	143,752	153,274	172,443	–9,522	–6.2	–28,691	–16.6
– of which assets under management	*13,543*	*15,229*	*14,481*	*–1,686*	*–11.1*	*–938*	*–6.5*
Headcount (*)	75	72	57	3	4.2	18	31.6
Number of branches	17	16	11	1	6.3	6	54.5

(*) employees + net secondees + temps

An analysis of the principal **balance sheet aggregates** shows:

- At June 2011, **loans to customers** amount to Euro 427.6 million with an increase of 6.4% compared with 31 December 2010, boosted mainly by mortgages, which have risen by Euro 31 million;
- **"direct deposits"** come to 187 million euro, an increase of 8 million euro compared with 31 December 2010, benefiting from the growth in amounts "due to customers" (+ Euro 13 million).
- The volume of **indirect deposits from ordinary customers**, at market value, comes to Euro 143.8 million, 16.6% down on the end of 2010.

Banca Popolare di Mantova – Reclassified income statement (euro/000)

Line items	2011	2010	Change	
			Amount	%
Interest margin	**8,724**	**8,800**	**(76)**	**–0.9**
Non-interest margin:	**3,524**	**2,668**	**856**	**32.1**
– Net fee and commission income	3,338	2,545	793	31.2
– Other income:	186	123	63	*51.2*
– Dividends from equity investments	*–*	*–*	*–*	*–*
– Net income from banking activities	*56*	*2*	*54*	*n.s.*
– Other operating charges/income	*130*	*121*	*9*	*7.4*
Operating income	**12,248**	**11,468**	**780**	**6.8**
Administrative expenses:	(8,706)	(7,566)	(1,140)	*–15.1*
a) personnel expenses	*(4,732)*	*(3,669)*	*(1,063)*	*–29.0*
b) other administrative expenses	*(3,974)*	*(3,897)*	*(77)*	*–2.0*
Net adjustments to property and equipment and intangible assets	(591)	(254)	(337)	*–132.7*
Operating expenses	**(9,297)**	**(7,820)**	**(1,477)**	**–18.9**
Operating result	**2,951**	**3,648**	**(697)**	**–19.1**
Net adjustments for impairment of loans and other activities	(6,613)	(2,621)	(3,992)	–152.3
Net provisions for risks and charges	(9)	(8)	(1)	n.s.
Profits (losses) from equity and other investments	–	–	–	–
Income (loss) before tax from continuing operations	**(3,671)**	**1,019**	**(4,690)**	**n.s.**
Taxes on income from continuing operations	490	(700)	1,190	*n.s.*
Net income (loss)	**(3,181)**	**319**	**(3,500)**	**n.s.**

An analysis of the **principal income statement aggregates** shows that:

- **interest margin** comes to Euro 8.7 million, showing a slight decrease (–0.9%) compared with 31 December 2010, due to the increased cost of borrowing;
- **net fee and commission income** comes to Euro 3.3 million, an increase of 31.2% on 2010;
- **operating expenses** amount to Euro 9.3 million, an increase of Euro 1.5 million compared with the prior year (+19.2%), principally due to higher property costs and the people hired in connection with the Branch Plan.

Income before tax from continuing operations is showing a loss of Euro 3.7 million, compared with a profit of Euro 1 million in 2010. After recording recoveries of **taxes on income from continuing operations** of Euro 0.5 million, 2011 ended with a net loss of Euro 3.2 million compared with a profit of Euro 0.3 million in 2010.

WeBank S.p.A.

The period of rapid growth in WeBank's direct banking activity continued in 2011, despite the complex economic and financial situation in Italy and abroad. Moreover, completion of the integration of the former WeTrade platform, a company acquired in late 2010, has allowed WeBank to offer itself to the market with a completely new trading service that can cover all segments, from long-term investors to frequent traders, also thanks to the introduction of new features and new markets (foreign options and more bonds on offer).

WeBank – Reclassified balance sheet

(euro/000)

Assets	**31.12.2011**	**30.09.2011**	**31.12.2010**	**Change A–B**		**Change A–C**	
	A	**B**	**C**	**amount**	**%**	**amount**	**%**
Cash and cash equivalents	–	–	–	–	–	–	–
Financial assets designated at fair value and hedging derivatives:	702,616	701,824	463,816	792	0.1	238,800	51.5
– Financial assets held for trading	*12*	*6*	*9,884*	*6*	*108.8*	*–9,872*	*–99.9*
– Financial assets designated at fair value through profit and loss	–	–	–	–	–	–	–
– Financial assets available for sale	*695,706*	*695,631*	*453,756*	*75*	*0.0*	*241,950*	*53.3*
– Hedging derivatives	–	–	–	–	–	–	–
– Fair value change of financial assets in hedged portfolios	*6,899*	*6,187*	*176*	*712*	*11.5*	*6,723*	*n.s.*
Due from banks	1,292,932	1,107,095	1,257,616	185,837	16.8	35,316	2.8
Loans to customers	495,120	409,533	121,450	85,587	20.9	373,670	n.s.
Fixed assets	7,492	7,496	7,968	–4	–	–476	–6.0
Other assets	44,979	54,814	20,900	–9,835	–17.9	24,079	115.2
Total assets	**2,543,140**	**2,280,762**	**1,871,750**	**262,378**	**11.5**	**671,390**	**35.9**

Liabilities and shareholders' equity	**31.12.2011**	**30.09.2011**	**31.12.2010**	**Change A–B**		**Change A–C**	
	A	**B**	**C**	**amount**	**%**	**amount**	**%**
Due to banks	341,673	169,974	98,399	171,698	101.0	243,274	247.2
Due to customers	2,091,913	2,039,991	1,689,227	51,922	2.5	402,686	23.8
Securities issued	–	–	–	–	–	–	–
Financial liabilities and hedging derivatives:	6,769	6,381	390	388	6.1	6,379	n.s.
– Financial liabilities held for trading	–	–	–	–	–	–	–
– Financial liabilities designated at fair value through profit and loss	–	–	–	–	–	–	–
– Hedging derivatives	*6,769*	*6,381*	*390*	*388*	*6.1*	*6,379*	*n.s.*
– Fair value change of financial liabilities in hedged portfolios	–	–	–	–	–	–	–
Other liabilities	38,262	39,753	31,839	–1,491	–3.8	6,423	20.2
Provisions for specific use	1,684	1,916	2,110	–232	–12.1	–426	–20.2
Capital and reserves	64,156	23,408	58,903	40,748	174.1	5,253	8.9
Net income (loss) (+/-)	–1,317	–662	–9,117	–655	98.9	7,800	–85.6
Total liabilities and shareholders' equity	**2,543,140**	**2,280,762**	**1,871,750**	**262,378**	**11.5**	**671,390**	**35.9**

Other information	**31.12.2011**	**30.09.2011**	**31.12.2010**	**Change A–B**		**Change A–C**	
	A	**B**	**C**	**amount**	**%**	**amount**	**%**
Indirect customer deposits at market value	1,188,866	1,085,454	1,170,748	103,412	9.5	18,118	1.5
– of which assets under management	67,517	67,254	74,499	263	0.4	–6,982	–9.4
Headcount at year-end (*)	246	246	239	0	0	7	2.9
Number of branches	1	1	1	0	0	0	0

(*) employees + net secondees + temps

Comparing the main **balance sheet aggregates** with the figures at 31 December 2010 shows the following:

- **customer deposits** - made up of amounts "due to customers", "securities issued" and "financial liabilities designated at fair value through profit and loss" - turned in significant growth compared with the end of 2010, coming in at Euro 2,092 million (+Euro 403 million). This growth is mainly attributable to "restricted deposits", following the intense advertising campaign carried out during the year and competitive pricing, which led to a considerable increase in the number of customers and related funds;
- **indirect deposits**, expressed at market value, amount to Euro 1,189 million, broadly in line with the end of the previous year despite the fall in stock values during 2011, bolstered by the administered portion which offset the contraction in the managed portion;
- **loans to customers** have increased by Euro 374 million compared with December 2010, mainly thanks to WeBank's mortgages;
- **shareholders' equity** (including the net loss for the period) comes to Euro 62.8 million, with share capital of Euro 54.2 million.

WeBank – Reclassified income statement (euro/000)

Line items	2011	2010	Change	
			amount	%
Interest margin	**14,532**	**(584)**	**15,116**	**n.s.**
Non-interest margin	**35,503**	**38,693**	**(3,190)**	**–8.2**
Net fee and commission income	7,316	10,860	(3,544)	–32.6
Other income:	28,186	27,833	353	1.3
Profits (losses) on investments carried at equity	–	–	–	–
Net income from banking activities	*87*	*(110)*	*197*	*n.s.*
Other operating charges/income	*28,099*	*27,943*	*156*	*0.6*
Operating income	**50,034**	**38,109**	**11,925**	**31.3**
Administrative expenses:	(44,264)	(44,563)	299	0.7
a) personnel expenses	*(17,530)*	*(18,134)*	*604*	*3.3*
b) other administrative expenses	*(26,734)*	*(26,429)*	*(305)*	*–1.2*
Net adjustments to property and equipment and intangible assets	(4,141)	(3,975)	(166)	–4.2
Operating expenses	**(48,405)**	**(48,538)**	**133**	**0.3**
Operating result	**1,629**	**(10,429)**	**12,058**	**n.s.**
Net adjustments for impairment of loans and other activities	(1,153)	(630)	(523)	–82.9
Net provisions for risks and charges	42	(719)	761	n.s.
Profits (losses) from equity and other investments	–	–	–	–
Income (loss) before tax from continuing operations	**519**	**(11,778)**	**12,297**	**n.s.**
Taxes on income from continuing operations	(1,836)	2,661	(4,497)	n.s.
Net income (loss)	**(1,317)**	**(9,117)**	**7,800**	**85.5**

In detail, **operating income** amounts to Euro 50 million, an increase of 31.3% compared with Euro 38.1 million in 2010. Within this aggregate:

- **interest margin shows** a positive balance of 14.5 million euro, mainly due to the good performance of the treasury activity, whose returns were also able to cover the interest expense related to the promotional rate applied to time deposit accounts during the year to ensure adequate growth in volumes and customers (+Euro 403 million direct funding in 2011);
- **non-interest margin** has gone down by Euro 3.2 million influenced by the trend in net fee and commission income on trading activities.

Operating expenses amount to Euro 48.4 million, in line with the 2010 figure. Within this aggregate:

- **personnel expenses** amount to Euro 17.5 million, a decrease of 3.3% compared with 2010;
- **administrative expenses** amount to 26.7 million, substantially in line with the previous year, and include the marketing and outbound costs involved in the advertising campaigns that launched the WeBank account on television networks and online channels, production costs related to maintenance and technology infrastructure projects designed to introduce new features and products, costs related to the banking activity, as well as intra-group costs for services provided by BPM;

- **net adjustments to property and equipment and intangible assets** come to Euro 4.1 million, slightly up on the prior year figure (+ Euro 0.2 million).

Al 31 December 2011, the **operating result** shows a positive balance of Euro 1.6 million, considerably better than the 2010 result, which was negative for Euro 10.4 million.

Net impairment adjustments to loans and financial assets amount to Euro 1.2 million, an increase of Euro 0.5 million on 2010.

Income before tax from continuing operations comes to Euro 519 million, compared with a negative result in 2010 of Euro 11.8 million.

Banca Akros – Reclassified balance sheet

(euro/000)

Assets	31.12.2011 A	30.09.2011 B	31.12.2010 C	Change A–B amount	Change A–B %	Change A–C amount	Change A–C %
Cash and cash equivalents	100	133	123	–33	–24.8	–23	–18.7
Financial assets designated at fair value and hedging derivatives:	2,382,165	2,383,873	2,013,876	–1,708	–0.1	368,289	18.3
– Financial assets held for trading	*1,901,385*	*2,157,570*	*1,814,044*	*–256,185*	*–11.9*	*87,341*	*4.8*
– Financial assets designated at fair value through profit and loss	–	–	–	–	–	–	–
– Financial assets available for sale	*480,780*	*226,303*	*199,832*	*254,477*	*112.4*	*280,948*	*140.6*
– Hedging derivatives	–	–	–	–	–	–	–
– Fair value change of financial assets in hedged portfolios	–	–	–	–	–	–	–
Due from banks	506,300	1,900,002	255,890	–1,393,702	–73.4	250,410	97.9
Loans to customers	258,879	526,267	345,474	–267,388	–50.8	–86,595	–25.1
Fixed assets	41,927	46,535	47,542	–4,608	–9.9	–5,615	–11.8
Other assets	21,134	33,643	40,383	–12,509	–37.2	–19,249	–47.7
Total assets	**3,210,505**	**4,890,453**	**2,703,288**	**–1,679,948**	**–34.4**	**507,217**	**18.8**

Liabilities and shareholders' equity	31.12.2011 A	30.09.2011 B	31.12.2010 C	Change A–B amount	Change A–B %	Change A–C amount	Change A–C %
Due to banks	998,405	981,005	775,123	17,400	1.8	223,282	28.8
Due to customers	422,949	2,194,342	564,328	–1,771,393	–80.7	–141,379	–25.1
Securities issued	–	–	–	–	–	–	–
Financial liabilities and hedging derivatives:	1,568,915	1,489,366	1,106,884	79,549	5.3	462,031	41.7
– Financial liabilities held for trading	*1,568,915*	*1,489,366*	*1,106,884*	*79,549*	*5.3*	*462,031*	*41.7*
– Financial liabilities designated at fair value through profit and loss	–	–	–	–	–	–	–
– Hedging derivatives	–	–	–	–	–	–	–
– Fair value change of financial liabilities in hedged portfolios	–	–	–	–	–	–	–
Other liabilities	38,482	41,609	61,152	–3,127	–7.5	–22,670	–37.1
Provisions for specific use	21,793	20,055	21,118	1,738	8.7	675	3.2
Capital and reserves	158,424	160,926	154,575	–2,502	–1.6	3,849	2.5
Net income (loss) (+/–)	1,537	3,150	20,108	–1,613	–51.2	–18,571	–92.4
Total liabilities and shareholders' equity	**3,210,505**	**4,890,453**	**2,703,288**	**–1,679,948**	**–34.4**	**507,217**	**18.8**

Other information	31.12.2011 A	30.09.2011 B	31.12.2010 C	Change A–B amount	Change A–B %	Change A–C amount	Change A–C %
Indirect customer deposits or market value	2,302,297	2,410,134	2,878,773	–107,837	–4.5	–576,476	–20.0
– of which assets under management	776,297	775,134	849,773	1,163	0.2	–73,476	–8.6
Headcount at year-end (*)	285	288	290	–3	–1.0	–5	–1.7
Number of branches	1	1	1	0	0	0	0

(*) employees + net secondees + temps

An analysis of the **principal balance sheet aggregates** shows:

- **financial assets and liabilities** consist of securities and financial derivatives, the fair value of which ("marked to market") is mainly represented by prices drawn from active markets or determined based on observable parameters. Government, supranational and bank securities represent almost all of the bank's debt securities at 31 December 2011. The average VaR ("Value at Risk, 99%, 1 day") for the year came to Euro 713 thousand: the substantial stability (3.8%) compared with 2010, despite the sharp increase in the volatility of financial variables, reflects the fact that we maintained prudent management of market risk;
- the Bank holds no Greek, Portuguese or Irish sovereign bonds.
- the balance sheet does not contain any **goodwill or other intangible assets** with an indefinite useful life.
- **shareholders'equity** amounts to Euro 160 million;
- the Core Tier 1 Ratio is equal to 17% at the end of the year.

Banca Akros – Reclassified income statement

(euro/000)

Line items	2011	2010	Change	
			amount	%
Interest margin	**12,560**	**13,425**	**(865)**	**–6.4**
Non-interest margin	**48,048**	**90,117**	**(42,069)**	**–46.7**
Net fee and commission income	26,688	25,221	1,467	5.8
Other income:	21,360	64,896	(43,536)	–67.1
Net income from banking activities	*20,039*	*63,669*	*(43,630)*	*–68.5*
Other operating charges/income	*1,321*	*1,227*	*94*	*7.7*
Operating income	**60,608**	**103,542**	**(42,934)**	**–41.5**
Administrative expenses:	(49,571)	(62,307)	12,736	20.4
a) personnel expenses	*(30,416)*	*(41,810)*	*11,394*	*27.3*
b) other administrative expenses	*(19,155)*	*(20,497)*	*1,342*	*6.5*
Net adjustments to property and equipment and intangible assets	(4,509)	(4,356)	(153)	–3.5
Operating expenses	**(54,080)**	**(66,663)**	**12,583**	**18.9**
Operating result	**6,528**	**36,879**	**(30,351)**	**–82.3**
Net adjustments for impairment of loans and other activities	1,401	(1,505)	2,906	n.s.
Net provisions for risks and charges	(2,085)	(4,318)	2,233	51.7
Profits (losses) from equity and other investments	(788)	(1)	(787)	n.s.
Income (loss) before tax from continuing operations	**5,056**	**31,055**	**(25,999)**	**–83.7**
Taxes on income from continuing operations	(3,519)	(10,947)	7,428	67.9
Net income (loss)	**1,537**	**20,108**	**(18,571)**	**–92.4**

An analysis of the **principal income statement aggregates** shows:

- **operating income** of Euro 60.6 million, 41.5% down on 2010;
- **interest margin** which maintains a large positive sign thanks to the effective composition of the portfolio of financial instruments and the development of repos and securities lending;
- **non-interest margin** has declined by Euro 42.1 million, influenced by the negative trend in financial activity which reflects the negative performance of financial markets;
- **net income from banking activities** which is down because of a general contraction in business with institutional customers. The bond fund has suffered from the negative performance by government securities and the widening of spreads on many bond issues, following the crisis of the "peripheral sovereign states", while the drop in demand for options on equities and indices has resulted in an average reduction of the share portfolio used for "delta hedging" and of income elements associated with it, such as dividend income;
- **net fee and commission income** up 5.8% compared with 2010, primarily for the successful subscription and placement of securities during the year;
- **operating expenses** of Euro 54.1 million, 19% down on the Euro 66.7 million in 2010;
- **income from continuing operations**, already net of investment writedowns, which comes to Euro 5.1 million.

As regards the investments held by Banca Akros, the following is worth mentioning:

Akros Alternative Investments SGR S.p.A.

Akros Alternative Investments SGR, which is wholly owned by Banca Akros, operates in the field of Italian hedge fund management. It manages three funds of hedge funds and one so-called "single manager" pure hedge fund, giving priority to transparency and risk control.
At the end of 2011, the worldwide hedge fund industry was reckoned to have assets under management of approximately USD 2,010 billion (USD 1,900 billion at the end of 2010), with positive net inflows. In Italy, on the other hand, net flows were negative: the assets under management by Italian hedge funds came to a total of around 10 billion euros at 31 December 2011, a contraction of about 20%.
Akros SGR's net flow, considering subscription and redemption requests received as of 31.12.2011, was negative for Euro 22.6 million. The value of total assets under management at the end of 2011 amounted to Euro 189 million. Akros Alternative Investments ranks 15th in the sector ranking by assets under management (16th at the end of 2010).

The Company's operating income at 31.12.2011 came to Euro 3.5 million, which is higher than at the end of 2010. The bottom line is positive, with net income of Euro 533 thousand compared with Euro 501 thousand at 31.12.2010.

ESN North America Inc.

ESN North America Inc. specialises in the purchase and sale of European shares for North American institutional investors and acts as execution broker on American capital markets on behalf of European institutional customers.

CM-CIC Securities (Crédit Mutuel Group) is the largest shareholder with 50.71% of the share capital, followed by Banca Akros with 39.36%, whereas Bankia Bolsa (formerly Caja Madrid Bolsa) owns 9.93%.

The company closed the first half of 2011 with a loss of USD 1,366 thousand (at 31.12.2010 it made a loss of USD 840 thousand). This result reflects the ongoing difficulties encountered by the equity brokerage business, above all because of the sharp reduction in trading volumes of US investors in European shares, as well as the booking of an extraordinary charge because of uncertainty about the recovery of tax losses in subsequent years. The company still has sufficient resources in line with U.S. regulations.

The results of the other companies of the BPM Group consolidated line-by-line are as follows

ProFamily S.p.A.

ProFamily, the BPM Group company that specializes in consumer credit, started operating in May 2010, the date it opened its first branch. It has now strengthened its distribution network and achieved an excellent level of growth in terms of loan volumes and its ability to attract new customers to the BPM Group. This strengthening took place at the same time as it implemented all of the regulatory changes that affected the consumer credit sector.

The company ended 2011 with a network of 3 direct branches located in Milan, Bologna and Rome, and an indirect network of financial shops consisting of 35 points of sale distributed in regions where the BPM Group is not present and structured with the granting of 32 mandates to operate as financial agencies. 2011 saw another 14 agency mandates being granted and the opening of 15 points of sale, effectively extending BPM's territorial coverage. The captive network of BPM Group banks now has 770 outlets which, along with 38 that operate under the ProFamily brand, provide extensive coverage of the whole of Italy.

An analysis of the principal balance sheet aggregates shows that loans to customers have a balance of Euro 402.4 million compared with Euro 50.2 million the previous year. In addition to the loans from the BPM Group's network, in 2011 ProFamily's direct sales network placed loans of Euro 243.4 million versus Euro 26.4 million in 2010, of which Euro 125.2 million in the automotive sector, Euro 81.4 million for other specific purposes, Euro 21.9 million in personal loans, Euro 14.9 million in loans against assignment of one-fifth of the borrower's salary with delegation of payment.

An analysis of the **principal income statement aggregates** shows:
- **operating income** of Euro 10.6 million;
- **operating expenses** of Euro 21.5 million, up on the figure of Euro 16.3 million at the end of 2010;
- **loan adjustments** of Euro 3.6 million. Non-performing loans have been written down for 100% of the residual credit.

The net loss amounts to Euro 10.5 million, compared with Euro 11.9 million in 2010. This result reflects the costs that ProFamily had to incur to impose itself on the market as a serious competitor, progressing from a start-up business to one that is fully operational; That said, as was expected, the volume of loans and related revenue was not sufficient to offset all of the company's fixed costs in 2011.

BPM Ireland Plc

The Management Board of Banca Popolare di Milano, as the Parent Company, and subsequently the Board of Directors of BPM Ireland plc, decided at their respective meetings of 20 December 2011 and 2 February 2012 to run down the portfolio and close operations; the subsequent liquidation of BPM Ireland should be completed by early 2013.
These decisions, together with the negative performance of financial markets, made the company close 2011 with a net loss of Euro 32.7 million compared with a profit of Euro 1.1 million at 31 December 2010.
The loss for the year was affected by the net income from banking activities (aggregating items 80, 90, 100 and 110 of the income statement) which was lower than at 31 December 2010, down from an already negative value of Euro 1.2 million at 31 December 2010 to a negative value of Euro 12.7 million at the end of December 2011.
The result also reflects the charging to income of the Euro 13.8 million of capital losses recognized on securities classified as "financial assets available for sale", previously allocated to an equity reserve, of Euro 1.9 million for staff redundancy costs and the release of rented premises because of the closure, in addition to Euro 6.2 million deriving from the cancellation of deferred tax assets.

BPM Fund Management (Ireland) Ltd. – in voluntary liquidation

Following the decision to go ahead with the reorganization of the asset management sector, centralizing foreign activities in a single Luxembourg vehicle, namely Anima Management Holding SpA, on 1 July 2011 we formally closed the "DIF" multi-segment fund, an undertaking for collective investment harmonized with Directives 85/611/EEC and 88/220/EEC managed by BPM Fund Management. Subsequently, on **19 December 2011**, an extraordinary general meeting was held to approve the liquidation of the company that had virtually exhausted its corporate mission.

BPM Capital I L.L.C. – BPM Luxembourg S.A.

These two companies, the former based in Delaware and the latter in Luxembourg, continued to manage the securities issued as part of a specific project launched in 2001 to boost the Group's capital.

During the period, having resolved to increase the capital resources of BPM Capital I up to a maximum of Euro 2 million, to be paid according to the company's actual needs, Banca Popolare di Milano made a first non-interest bearing shareholders' loan of Euro 0.5 million.

BPM Covered Bond S.r.l.

This is a registered brokerage company (under art. 106 Decree 385/93) of which the Bank holds 80%. The other 20% is held by a Dutch foundation.

This investment was acquired as part of a programme for issuing covered bonds, which, in accordance with the law, envisages the without-recourse assignment of high-quality assets (performing home-purchase loans) to a vehicle company. These assets constitute segregated assets in accordance with the guarantee that the vehicle grants to the bearers of the bank bonds.

The results of BPM Group companies carried at equity are as follows

Bipiemme Vita S.p.A.

Note that on 8 September 2011 Banca Popolare di Milano sold its majority stake to the Covéa Group, retaining a 19% share in the company.

The insurance company continued its activity with a view to maintaining a high level of satisfaction of its customers' needs by means of constant monitoring and adjustment of the product portfolio, taking great care over the financial management of the policies with guaranteed capital and yield.

An analysis of the principal balance sheet aggregates shows:
- the volume of investments comes to Euro 3,767 million, 10% lower than in 2010; of total investments, 76% (Euro 2,867 million) is represented by financial assets available for sale, while 21% (Euro 788 million) is represented by financial assets designated at
- gross technical reserves amount to Euro 3,461 million (Euro 3,308 million at the end of 2010);

From an economic point of view, the premiums collected (net of reinsurance) came to Euro 511 million (46% down on last year). The year closed with a loss, calculated on the basis of IAS/IFRS, of Euro 51.8 million (versus a loss of Euro 31.8 million at 31 December 2010).

Lastly, we would point out that, on 15 February 2012, the extraordinary general meeting of Bipiemme Vita decided to strengthen its solvency margin by increasing the share capital on a cash basis in several tranches, up to a maximum of Euro 34 million. A first tranche of Euro 21.8 million (Banca Popolare di Milano's share: Euro 4.1 million) has already been paid.

For the same purpose, in the first quarter of 2012 BPM Vita issued a ten-year subordinated loan of Euro 26 million, which was fully subscribed by Banca Popolare di Milano.

Calliope Finance S.r.l.

Calliope Finance is a registered financial brokerage company (under Art. 106 D. Lgs. No. 385/93) which was formed as a 50/50 joint venture between Banca Popolare di Milano and LB UK RE Holdings Limited, a company of the Lehman Brothers Group which crashed world-wide. The company's purpose is the concession of mezzanine loans (usually guaranteed by a second mortgage or secured by a pledge over the shares of the companies being financed) for trading in property portfolios and/or property development.

The company ended the year under review with a loss of Euro 1.9 million (compared with a substantial breakeven at 31 December 2010); this loss has brought the share capital to below the legal minimum, so the shareholders will be asked to take the necessary measures.

SelmaBipiemme Leasing S.p.A.

SelmaBipiemme Leasing SpA (40% held by Banca Popolare di Milano) closed its half-yearly financial statements at 31 December 2011 with a loss of Euro 3.4 million compared with a profit of Euro 2 million a year ago.
Operating income amounts to Euro 14 million compared with Euro 19.7 million at 31 December 2010; The contraction is attributable not only to non-payment of dividends (Euro 2.7 million), but also to lower net interest income, which was negatively affected by the increase in funding cost and lower income-earning volumes, despite benefiting from an improvement in spreads on new loans and a less negative effect caused by the "stickiness" of interest rates.

From a commercial standpoint, 2,893 contracts were stipulated during the year (3,258 the previous year) for a total of Euro 234.4 million, a decrease of 11.2% in number and of 6% in value; loans to customers have decreased by 3.3%, from Euro 2,368.2 million to Euro 2,290.1 million, taking into account the slowdown in commercial activity.

Following the drastic reduction in the core business, the subsidiary Teleleasing SpA was put into liquidation by an extraordinary general meeting on 23 February 2012.

Aedes BPM Real Estate SGR S.p.A.

The company, which is held 39% by Banca Popolare di Milano, currently manages five closed-end real estate funds. These are the "Investietico" fund designed for retail customers and listed on the Italian stock market, whose assets are mostly invested in nursing homes and office premises, and the "Dante Retail", "Virgilio", "Petrarca" and "Boccaccio" funds, both of which are reserved for institutional investors. Despite the decline in assets under management (of Euro 72 million) and hence in fees (of Euro 0.3 million), the year's result is better than in 2010 thanks to a reduction in costs (of Euro 0.5 million).

Net income at 31 December 2011 comes to Euro 0.9 million (Euro 0.7 million at 31 December 2010).

Asset Management Holding S.p.A.

This holding company, in which the Group has a total interest of 36.30% (10% is held by Banca di Legnano), performs coordination and strategic direction for Prima SGR and Anima SGR, the subsidiaries acquired under the asset management agreements between Banca Monte dei Paschi di Siena, Banca Popolare di Milano and the Clessidra Group at the end of 2010.
During the year, the holding company carried on activities to simplify and streamline the group's corporate structure, in accordance with the said agreements. In particular:

- Prima Holding has been merged with Asset Management Holding in order to shorten the investment chain and, at the same time, to eliminate the costs associated with having two different corporate structures with the same purpose;
- The merger of Prima SGR and Anima SGR has been completed, leading to the birth of the largest independent operator in the field of asset management in Italy, with over Euro 35 billion of assets under management, a commercial network of 150 partners that guarantee distribution through more than 7,000 bank branches and 15,000 financial advisors and consultants.

The company has ended the year to 31 December 2011 with consolidated net income of Euro 7.9 million (Euro 3 million at 31 December 2010).

Etica SGR S.p.A.

Etica SGR, in which BPM has a 24.44% interest, ranks among the top asset management companies in the Italian market for ethical funds. The Valori Responsabili (Responsible Values) funds had net inflows during the year of Euro 7.5 million, helping to raise total assets under management to Euro 439 million, while fee and commission income amounted to Euro 5.2 million (+23.4% compared with the equivalent figure last year), while operating income have gone up by 19% to Euro 2.2 million. Since December 2010, the number of customers has gone up by 11.5%, reaching a total of 21,400. For the third year running, the Valori Responsabili funds won the "Lipper Fund Awards 2011" for the best performances at three and five years; they were also awarded the "Alto Rendimento" (High Yield) prize by Sole 24 Ore.
The general meeting of Etica SGR on 30 September 2011 launched an increase in capital of Euro 0.5 million by issuing 50,000 new ordinary shares. Through a subsidiary, Em.Ro. popolare - Società Finanziaria di Partecipazioni SpA, the BPER Group subscribed for 45,000 new shares, becoming a shareholder with a 10% interest. The other 5,000 new shares were subscribed by Banca Popolare Etica, which increased its stake to 45.47%.

The company ended the year under review with a profit of Euro 0.3 million (+20.4% compared with 2010).

Factorit S.p.A.

This product company, of which Banca Popolare di Milano holds 30% of the share capital, is one of the leaders on the Italian market in factoring and related services.

Factorit, which belongs to the Banca Popolare di Sondrio Banking Group, had a turnover during the year of Euro 11,179.7 million (Euro 11,340.6 million at 31.12.2010). The core business generated a satisfactory result in terms of operating income, Euro 55.5 million (Euro 59 million at 31.12.2010), including Euro 25 million of financial income and Euro 30.5 million of fees, both down on the previous year. Financial income is down because of the erosion of spreads caused by the gradual rise in the cost of funding, whereas fees have decreased due to the lower incidence of higher value-added products, maturity factoring in particular, on the total number of receivables transferred. Income before tax amounts to Euro 17.9 million, after charging net adjustments of Euro 17.3 million (Euro 26.9 million at 31.12.2010) and administrative expenses of Euro 22.7 million (Euro 18.9 million at 31 December 2010).

The company ended the period with net income of Euro 9.8 million (Euro 10 million at 31.12.2010).

Pitagora 1936 S.p.A.

Pitagora 1936 S.p.A. is a vehicle that owns Pitagora S.p.A., a company that operates mainly in the field of loans against the assignment of one-fifth of the borrower's salary. Apart from BPM (24%), the other shareholders in Pitagora 1936 S.p.A. are the "Wisequity II & Macchine Italia" fund (52%) and the managers of Pitagora S.p.A. (24%). Based on a specific mandate, Pitagora S.p.A. is also active in the field of loan intermediation in targeted customer segments, which permits BPM to grant new loans.

Given the subsidiary's need to strengthen its capital to comply with the limits imposed by the supervisory regulations, in December Pitagora 1936 S.p.A. issued a convertible bond in various tranches for a maximum of Euro 5.2 million, of which Euro 4.1 million have already been activated (the portion subscribed by BPM comes to around Euro 1 million). In February 2012, another tranche of this loan was activated for Euro 0.9 million (BPM's share is around Euro 0.2 million).

The company ended the year with consolidated net income of Euro 1.8 million (Euro 2.5 million at 31 December 2010).

Wise Venture SGR S.p.A.

Wise Venture SGR, which is held 20% by Banca Popolare di Milano and 80% by its own management, operates in the private equity sector. There are currently two funds managed by the company, named, respectively, "Wisequity II & Macchine Italia" - which ended its period of investment in July 2010 - and "Wisequity III", which is currently still fundraising.

The company had around Euro 292 million in assets under management at 31 December 2011, including the fund assets still to be paid in.

The net result is positive for Euro 0.9 million (breakeven at 31.12.2010).

Related party transactions

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.

In this regard, we would point out in particular that:
except as specified in the pertinent chapter in the Parent Company's report on operations, there were no atypical or unusual transactions during the first half of 2011 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' Regulations in force at the time;
any transactions carried out under art. 136 TUB ("Obligations of bank officers") were approved by the Group companies concerned and, if required, were also authorized by the Parent Company.

For further details on related party transactions, reference should be made to the pertinent section of the Parent Company's report on operations, as well as to the consolidated explanatory notes.

For details on related party transactions, reference should be made to Part H of the notes.

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

Reconciliation of the Parent Company's shareholders' equity and the consolidated shareholders' equity (euro/000)

Balances at 31.12.2011 as per the Parent Company's financial statements	**4,012,601**
Net surplus compared with the carrying values of the companies consolidated line-by-line and carried at equity	57,106
Valuation reserves of the companies consolidated line-by-line	–51,011
Net effect of reversing the gains on transfer of the business to Bipiemme Immobili in 2002	–4,207
Group shareholders' equity and result for the year ended 31.12.2011	**4,014,489**

Subsequent events and outlook for operations

Significant events

For news on subsequent events, see the specific chapter in the report of Banca Popolare di Milano.

Risks and uncertainties

The information on the risks and uncertainties to which the BPM Group is exposed is provided in the report on operations and in the explanatory notes.

In particular, the risks related to the deteriorating macroeconomic environment and high market volatility (which has also affected the performance of BPM's stock price) have conditioned the valuation methods used to measure credit risk, financial assets and goodwill. The report on operations and explanatory notes show the effects of these valuations on the bottom line and on BPM's capital solidity. More generally, the financial risks (credit risk and market risk) and operational risk are explained in Part E of the notes, while the information on capital solidity is provided in Part F of the notes.

As regards the going-concern assumption, the Directors confirm that they are reasonably certain that the Group will continue to operate in the foreseeable future and that the financial statements have therefore been prepared on a going-concern basis.
In fact, despite this year's loss, the Group's capital and financial structure and operating performance are not showing any symptoms that could lead one to have doubts about the going-concern assumption.

Outlook

As regards the outlook for operations, the macroeconomic and financial scenario at the end of 2011 was affected by elements of considerable weakness that could peak in 2012 (the most pessimistic forecasts from the IMF estimate a 2.2% fall in GDP). In such a recessive scenario, one has to be cautious when making forecasts.

After 31 December 2011 and with particular reference to the first two months of 2012, the Group's operating performance continued with the aim of optimising the loan portfolio, mainly addressed to households and SMEs, to strengthen the monitoring of risk, as well as to consolidate the liquidity position and maintain tight control over costs and capital expenditure.

From a commercial perspective, the early months of 2012 have seen a certain resilience in deposits and loans, resulting in a positive contribution to the interest margin and service income.

Moreover, taking into account the substantial changes still in progress regarding the economy, trends in interest rates, and the changes that have affected the Parent Company's governance, a new business plan will be drawn up in the first half of 2012 which will develop new lines of action and update the Group's objectives.

Consolidated financial statements

Consolidated Balance sheet

(euro/000)

Assets		31.12.2011	31.12.2010
10.	Cash and cash equivalents	241,315	264,208
20.	Financial assets held for trading	2,040,312	1,877,498
30.	Financial assets designated at fair value through profit and loss	529,750	1,784,520
40.	Financial assets available for sale	8,100,279	8,557,363
60.	Due from banks	2,104,004	2,488,570
70.	Loans to customers	35,685,563	35,537,428
80.	Hedging derivatives	168,244	75,674
90.	Fair value change of financial assets in hedged portfolios (+/–)	22,293	176
100.	Investments in associates and companies subject to joint control	300,340	367,833
110.	Technical insurance reserves reassured with third parties	0	5,642
120.	Property and equipment	754,431	757,331
130.	Intangible assets	428,851	872,946
	of which:		
	– goodwill	*335,425*	*686,663*
140.	Tax assets	862,662	744,706
	a) current	*153,401*	*324,881*
	b) deferred	*709,261*	*419,825*
160.	Other assets	692,983	623,545
	Total assets	**51,931,027**	**53,957,440**

Consolidated Balance sheet

(euro/000)

	Liabilities and shareholders' equity	31.12.2011	31.12.2010
10.	Due to banks	9,465,678	7,107,417
20.	Due to customers	21,398,576	23,817,805
30.	Securities issued	12,632,270	12,070,146
40.	Financial liabilities held for trading	1,677,642	1,150,710
50.	Financial liabilities designated at fair value through profit and loss	1,086,922	669,009
60.	Hedging derivatives	31,883	49,294
70.	Fair value change of financial liabilities in hedged portfolios (+/-)	38,798	–26,798
80.	Tax liabilities	85,270	122,771
	a) current	*8,049*	*1,644*
	b) deferred	*77,221*	*121,127*
100.	Other liabilities	974,580	1,272,668
110.	Employee termination indemnities	143,344	155,347
120.	Allowances for risks and charges:	333,453	277,091
	a) post employment benefits	*80,438*	*85,681*
	b) other allowances	*253,015*	*191,410*
130.	Technical reserves	0	3,308,463
140.	Valuation reserves	–367,121	–92,298
160.	Equity instruments	500,000	500,000
170.	Reserves	1,464,179	1,481,484
180.	Share premium reserve	166,907	189,639
190.	Share capital	2,865,709	1,660,221
200.	Treasury shares (-)	–852	–1,850
210.	Minority interests (+/-)	48,122	140,351
220.	Net income (loss) (+/-)	–614,333	105,970
	Total liabilities and shareholders' equity	**51,931,027**	**53,957,440**

Consolidated income statement

(euro/000)

Income statement line items		2011	2010
10.	Interest and similar income	1,559,936	1,203,914
20.	Interest and similar expense	(735,165)	(486,564)
30.	**Interest margin**	**824,771**	**717,350**
40.	Fee and commission income	596,839	685,011
50.	Fee and commission expense	(73,632)	(74,244)
60.	**Net fee and commission income**	**523,207**	**610,767**
70.	Dividend and similar income	33,477	96,687
80.	Profits (losses) on trading	49,641	(9,897)
90.	Fair value adjustments in hedge accounting	1,150	(1,835)
100.	Profits (losses) on disposal or repurchase of:	29,937	10,014
	a) loans	*(102)*	*(8,184)*
	b) financial assets available for sale	*7,805*	*12,318*
	c) investments held to maturity	*0*	*0*
	d) financial liabilities	*22,234*	*5,880*
110.	Profits (losses) on financial assets and liabilities designated at fair value	(75,679)	(1,454)
120.	**Net interest and other banking income**	**1,386,504**	**1,421,632**
130.	Net losses/recoveries on impairment:	(548,983)	(252,147)
	a) loans	*(482,529)*	*(238,310)*
	b) financial assets available for sale	*(65,654)*	*(15,691)*
	c) investments held to maturity	*0*	*0*
	d) other financial activities	*(800)*	*1,854*
140.	**Net income from banking activities**	**837,521**	**1,169,485**
170.	**Net income from banking and insurance activities**	**837,521**	**1,169,485**
180.	Administrative expenses:	(1,030,472)	(1,080,374)
	a) personnel expenses	*(650,625)*	*(697,159)*
	b) other administrative expenses	*(379,847)*	*(383,215)*
190.	Net provisions for risks and charges	(111,628)	(11,143)
200.	Net adjustments to/recoveries on property and equipment	(42,368)	(40,726)
210.	Net adjustments to/recoveries on intangible assets	(39,430)	(34,628)
220.	Other operating expenses/income	102,333	(72,300)
230.	**Operating expenses**	**(1,121,565)**	**(1,239,171)**
240.	Profits (losses) on investments in associates and companies subject to joint control	(88,290)	(136)
260.	Goodwill impairment	(335,871)	0
270.	Profits (losses) on disposal of investments	829	55,031
280.	**Income (loss) before tax from continuing operations**	**(707,376)**	**(14,791)**
290.	Taxes on income from continuing operations	66,697	(86,635)
300.	**Income (loss) after tax from continuing operations**	**(640,679)**	**(101,426)**
310.	Income (loss) after tax from discontinued operations	19,475	212,546
320.	**Net income (loss) for the year**	**(621,204)**	**111,120**
330.	Minority interests	6,871	(5,150)
340.	**Parent Company's net income (loss)**	**(614,333)**	**105,970**
	Basic EPS from continuing operations – Euro	**(0.793)**	**(0.263)**
	Diluted EPS from continuing operations – Euro	**(0.793)**	**(0.263)**
	Basic EPS – Euro	**(0.767)**	**0.178**
	Diluted EPS – Euro	**(0.767)**	**0.178**

Statement of consolidated comprehensive income

(euro/000)

Line items		2011	2010
10.	**Net income (loss) for the year (*)**	**(621,204)**	**111,120**
	Other comprehensive income (net of tax)		
20.	Financial assets available for sale	(258,683)	(92,493)
80.	Non-current assets held for sale	11,718	0
90.	Actuarial gains (losses) on defined benefit plans	2,438	(3,982)
100.	Share of valuation reserves connected with investments carried at equity	(30,428)	(1,373)
110.	**Total other comprehensive income (net of tax)**	**(274,955)**	**(97,848)**
120.	**Total comprehensive income (Line items 10+110)**	**(896,159)**	**13,272**
130.	Total consolidated comprehensive income of minority interests	7,003	(4,791)
140.	**Total Parent Company's consolidated comprehensive income**	**(889,156)**	**8,481**

(*) Parent Company's net income (loss)	*(614,333)*	*105,970*
Minority interests	*(6,871)*	*5,150*
Net income (loss) for the year	***(621,204)***	***111,120***

The statement of comprehensive income is a restatement of the result for the year as though changes in the value of assets booked directly to the valuation reserves (net of tax) during the year were made to pass through the income statement.

Statement of changes in consolidated shareholders' equity as at 31 December 2011

(euro/000)	Amounts as at 31.12.2010	Change in opening balance	Amounts as at 1.1.2011	Allocation of net income of the previous year		Changes for the year								Shareholders' equity as at 31.12.2011	Group shareholders' equity as at 31.12.2011	Minority interests as at 31.12.2011
							Operations on shareholders' equity									
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	*Stock options*	Total comprehensive income for 2011			
Share capital:	**1,709,666**	**0**	**1,709,666**	**0**	**0**	**–31,736**	**1,205,488**	**0**	**0**	**0**	**0**	**0**	**0**	**2,883,418**	**2,865,709**	**17,709**
a) ordinary shares	1,709,666		1,709,666			–31,736	(**) 1,205,488							2,883,418	2,865,709	17,709
b) other shares	0		0											0	0	0
Share premium reserve	**249,913**	**0**	**249,913**	**0**	**0**	**–41,977**	**(***) –22,732**	**0**	**0**	**0**	**0**	**0**	**0**	**185,204**	**166,907**	**18,297**
Reserves:	**1,504,116**	**0**	**1,504,116**	**20,374**	**0**	**–44,156**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**1,480,334**	**1,464,179**	**16,155**
a) retained earnings	1,484,510		1,484,510	20,374		–44,156								1,460,728	1,444,573	16,155
b) other	19,606		19,606											19,606	19,606	0
Valuation reserves:	**–89,448**	**0**	**–89,448**	**0**	**0**	**114**	**0**	**0**	**0**	**0**	**0**	**0**	**–274,955**	**–364,289**	**–367,121**	**2,832**
a) available for sale	–78,505		–78,505			11,765							–258,683	–325,423	–325,947	524
b) cash flow hedges	0		0											0	0	0
c) Actuarial gains (losses) on defined-benefit pension plans	–23,305		–23,305			67							2,438	–20,800	–20,384	–416
d) Non-current assets held for sale and discontinued operations	0		0			–11,718							11,718	0	0	0
e) Share of valuation reserves connected with investments carried at equity	–3,804		–3,804										–30,428	–34,232	–34,232	0
f) Special revaluation laws	16,166		16,166											16,166	13,442	2,724
Equity instruments	**500,000**	**0**	**500,000**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**500,000**	**500,000**	**0**
Treasury shares	**–1,850**	**0**	**–1,850**	**0**	**0**	**0**	**11,105**	**–10,107**	**0**	**0**	**0**	**0**	**0**	**–852**	**–852**	**0**
Net income (loss)	**111,120**	**0**	**111,120**	**–20,374**	**–90,746**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**–621,204**	**–621,204**	**–614,333**	**–6,871**
Shareholders' equity	**3,983,517**	**0**	**3,983,517**	**0**	**–90,746**	**–117,755**	**1,193,861**	**–10,107**	**0**	**0**	**0**	**0**	**–896,159**	**4,062,611**	**4,014,489**	**48,122**
Group shareholders' equity	**3,843,166**	**0**	**3,843,166**	**0**	**(*) –84,007**	**–39,268**	**1,193,861**	**–10,107**	**0**	**0**	**0**	**0**	**–889,156**	**4,014,489**	**4,014,489**	
Minority interests	**140,351**	**0**	**140,351**	**0**	**–6,739**	**–78,487**	**0**	**0**	**0**	**0**	**0**	**0**	**–7,003**	**48,122**		

(*) The line item includes:
– dividend for the Members of the Parent Bank of 41,507 Euro/000;
– interest on the financial instruments issued on 4 December 2009 and subscribed by the Economy and Finance Ministry for 42,500 Euro/000.
(**) The line item includes:
– the increase in share capital of 799,421 Euro/000, by the Parent Company issuing 2,664,736,714 new shares;
– early repayment of the «Convertendo BPM 2009/2013 – 6.75%» Bond of 405,977 Euro/000, by the Parent Company issuing 149,807,045 new shares;
– conversion of the «Convertendo BPM 2009/2013 – 6.75%» Bond made during the year and before early repayment of the loan for 90 Eur/000, by issuing 22,425 new shares.
(***) The amount refers:
– for 22,018 Euro/000 to the costs incurred in connection with the increase in share capital by the Parent Company of 30,370 Euro/000, net of the tax effect of 8,352 Euro/000, and
– for 714 Euro/000 to the difference between the average purchase price of treasury shares and the «fair» value of the shares allocated to employees.

Statement of changes in consolidated shareholders' equity as at 31 December 2010

(euro/000)	Amounts as at 31.12.2009	Change in opening balance	Amounts as at 1.1.2010	Allocation of net income of the previous year: Reserves	Allocation of net income of the previous year: Dividends and other allocations	Changes for the year: Changes in reserves	Operations on shareholders' equity: Issue of new shares	Operations on shareholders' equity: Purchase of treasury shares	Operations on shareholders' equity: Extraordinary dividends	Operations on shareholders' equity: Change in equity instruments	Operations on shareholders' equity: Derivatives on treasury shares	Operations on shareholders' equity: *Stock options*	Total comprehensive income for 2010	Shareholders' equity as at 31.12.2010	Group shareholders' equity as at 31.12.2010	Minority interests as at 31.12.2010
Share capital:	**1,709,041**	**0**	**1,709,041**				**1,919**	**0**	**0**	**0**	**0**	**0**	**0**	**1,709,666**	**1,660,221**	**49,445**
a) ordinary shares	1,709,041		1,709,041			–1,294	1,919							1,709,666	1,660,221	49,445
b) other shares	0		0											0	0	0
Share premium reserve	**237,056**	**0**	**237,056**	**0**	**0**	**–633**	**13,490**	**0**	**0**	**0**	**0**	**0**	**0**	**249,913**	**189,639**	**60,274**
Reserves:	**1,472,599**	**0**	**1,472,599**	**34,319**	**0**	**–2,811**	**0**	**0**	**0**	**0**	**9**	**0**	**0**	**1,504,116**	**1,481,484**	**22,632**
a) retained earnings	1,453,002		1,453,002	34,319		–2,811								1,484,510	1,461,878	22,632
b) other	19,597		19,597								9			19,606	19,606	0
Valuation reserves:	**9,333**	**0**	**9,333**	**0**	**0**	**–933**	**0**	**0**	**0**	**0**	**0**	**0**	**–97,848**	**–89,448**	**–92,298**	**2,850**
a) available for sale	15,756		15,756			–1,768							–92,493	–78,505	–79,230	725
b) cash flow hedges	0		0											0	0	0
c) Actuarial gains (losses) on defined-benefit pension plans	–19,456		–19,456			133							–3,982	–23,305	–22,706	–599
d) Share of valuation reserves connected with investments carried at equity	–3,170		–3,170			739							–1,373	–3,804	–3,804	0
e) Special revaluation laws	16,203		16,203			–37								16,166	13,442	2,724
Equity instruments	**500,000**	**0**	**500,000**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**500,000**	**500,000**	**0**
Treasury shares	**–9,192**	**0**	**–9,192**	**0**	**0**	**0**	**7,439**	**–97**	**0**	**0**	**0**	**0**	**0**	**–1,850**	**–1,850**	**0**
Net income (loss)	**102,925**	**0**	**102,925**	**–34,319**	**–68,606**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**111,120**	**111,120**	**105,970**	**5,150**
Shareholders' equity	**4,021,762**	**0**	**4,021,762**	**0**	**–68,606**	**–5,671**	**22,848**	**–97**	**0**	**0**	**9**	**0**	**13,272**	**3,983,517**	**3,843,166**	**140,351**
Group shareholders' equity	**3,892,404**	**0**	**3,892,404**	**0**	**(*) –65,791**	**–1,095**	**9,255**	**–97**	**0**	**0**	**9**	**0**	**8,481**	**3,843,166**	**3,843,166**	
Minority interests	**129,358**	**0**	**129,358**	**0**	**–2,815**	**–4,576**	**13,593**	**0**	**0**	**0**	**0**	**0**	**4,791**	**140,351**		

(*) The line item includes:
– dividend for the Members of the Parent Company of 41,455 Euro/000;
– interest on the financial instruments issued on 4 December 2009 and subscribed by the Economy and Finance Ministry for 24,336 Euro/000.

Consolidated statement of cash flow – indirect method

(euro/000)

A. OPERATING ACTIVITIES	31.12.2011	31.12.2010
1. Cash flow from operations	**484,421**	**263,216**
– net income (loss) (+/–)	–614,333	105,970
– profits/losses on financial assets held for trading and on financial assets/liabilities designated at fair value through profit and loss (–/+)	–46,329	–104,580
– profits/losses on hedging activities (–/+)	–1,150	1,835
– net losses/recoveries on impairment (+/–)	548,983	252,147
– net adjustments to property and equipment and intangible assets (+/–)	417,669	75,354
– net provisions for risks and charges and other costs/revenues (+/–)	126,343	25,365
– taxes and duties to be settled (+)	–58,720	86,635
– net adjustments/recoveries to discontinued operations net of tax effect (+/–)	23,873	–212,546
– other adjustments (+/–)	88,085	33,036
2. Cash flow from/used in financial assets	**690,294**	**–10,167,945**
– financial assets held for trading	–54,935	–165,632
– financial assets designated at fair value through profit and loss	114,168	–910,023
– financial assets available for sale	–2,885,228	–6,951,885
– due from banks: repayable on demand	–539,817	421,291
– due from banks: other	971,138	241,136
– loans to customers	–597,885	–2,969,785
– other assets	3,682,853	166,953
3. Cash flow from/used in financial liabilities	**–2,058,291**	**9,724,425**
– due to banks: repayable on demand	–300,470	–100,856
– due to banks: other	2,611,311	5,501,262
– due to customers	–1,660,962	1,703,919
– securities issued	854,888	80,369
– financial liabilities held for trading	526,932	197,043
– financial liabilities designated at fair value through profit and loss	407,723	–965,637
– other liabilities	–4,497,713	3,308,325
Net cash flow from (used in) operating activities	**–883,576**	**–180,304**
B. INVESTING ACTIVITIES		
1. Cash flow from	**226,143**	**275,454**
– sales of investments in associates and companies subject to joint control	0	0
– dividends collected on investments in associates and companies subject to joint control	0	0
– sales of property and equipment	1,143	292
– sales of intangible assets	0	0
– sales of subsidiaries and business branches	225,000	275,162
2. Cash flow used in	**–50,721**	**–417,451**
– purchases of investments in associates and companies subject to joint control	0	–307,696
– purchases of property and equipment	–41,219	–32,854
– purchases of intangible assets	–9,346	–31,279
– purchases of subsidiaries and business branches	–156	–45,622
Net cash flow from (used in) investing activities	**175,422**	**–141,997**
C. FINANCING ACTIVITIES		
– issue/purchase of treasury shares	769,268	0
– issue/purchase of equity instruments	0	9
– dividends distributed and other	–84,007	–65,791
Net cash flow from (used in) financing activities	**685,261**	**–65,782**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**–22,893**	**–388,083**

RECONCILIATION

Line items		
Cash and cash equivalents at the beginning of the year	264,208	652,291
Net increase (decrease) in cash and cash equivalents	–22,893	–388,083
Cash and cash equivalents at the end of the year	**241,315**	**264,208**

Key: (*) generated (–) absorbed

Consolidated explanatory notes

Part A

Accounting policies

A. 1 – General Part

Section 1
Declaration of conformity with IFRS

The consolidated financial statements at 31 December 2011, in application of Legislative Decree 38 of 28 February, are prepared in accordance with the IAS/IFRS (International Accounting Standards/International Financial Reporting Standards), issued by the International Accounting Standards Board (IASB), with the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and of the Standing Interpretations Committee (SIC) as endorsed by the European Commission, pursuant to the EC Regulation no. 1606 of 19 July 2002.

The consolidated financial statements have been prepared in accordance with instructions issued by the Bank of Italy – in compliance with the powers established by art. 9, paragraph 1, of Legislative Decree 8/2005 – under the Bank of Italy's Circular 262 of 22 December 2005 "Bank financial statements: formats and rules for their preparation", and subsequent update of 18 November 2009. These instructions establish the format of the financial statements and the related method of compilation, as well as the contents of the explanatory notes, and are binding.

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

In preparing the financial statements the IAS/IFRS in force as at 31 December 2011 have been applied (including all SIC and IFRIC interpretations) as listed in the attachments to these financial statements. For an overview of the principles approved in 2011 and those approved in previous years, the application of which is planned for the year 2011 (or future years), please refer to "Section 5 – Other Aspects" below, where the main impacts for the Group are explained.

Section 2
General method of preparation

The consolidated financial statements are made up of the compulsory financial statement schedules (balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flow prepared according to the indirect method) and the explanatory notes; they are accompanied by the report on operations which covers all of the companies included in the consolidation. The consolidated financial statements are drawn up clearly and give a true and fair view of the assets and liabilities, financial position, results of operations for the year, the change in shareholders' equity and cash flows.

In accordance with art. 5, paragraph 2, of Legislative Decree 38 of 28 February 2005, the consolidated financial statements have been prepared with the Euro as the reporting currency. In particular, in line with the instructions issued by the Bank of Italy, the amounts reported in the financial statements and in the explanatory notes, as well as those indicated in the report on operations, are expressed in thousands of euro, unless otherwise specified. Roundings have been made on the basis of the Bank of Italy's recommendations.

The consolidated financial statements have been prepared taking into account the following general principles laid down in IAS 1 "Presentation of Financial Statements" and the specific accounting principles endorsed by the European Commission and explained in the next Part A.2 "Part relating to the main line items in the financial statements" and in compliance with the general assumptions from the "Framework for the Preparation and Presentation of Financial Statements" issued by IASB with particular regard to the fundamental principle regarding the prevalence of substance over form, and the concept of relevance and materiality.

No exceptions have been made to the application of IAS/IFRS.

The report on operations and in the explanatory notes provide the information required by international accounting standards, by laws, by the Bank of Italy and by Consob (the National Commission for Securities and the Stock Exchange), as well as other information even if not required but nonetheless deemed necessary to give a true and fair view of the Group's situation.

Content of the financial statements

Balance sheet and income statement: the balance sheet and income statement are made up of line items, sub–items and other details. In the income statement (tables and explanatory notes), revenues are shown without a sign, whereas costs are shown in brackets.

Statement of comprehensive income: The statement of comprehensive income starts from the net income (loss) for the year and shows any changes in the value of assets booked directly to the valuation reserves (net of tax) during the year. This statement has been prepared showing the part attributable to the Group separately from the part attributable to minority interests. Negative figures in the statement of comprehensive income are shown in brackets.

Statement of changes in shareholders' equity: this statement shows the composition of and changes in shareholders' equity during the year, split between share capital, capital reserves, retained earnings, valuation reserves and the result of comprehensive income. Treasury shares are deducted from shareholders' equity. The portions of share capital, reserves and the result of comprehensive income pertaining to minority interests are shown separately from those of the Group.

Statement of cash flow: the statement of cash flows during the year and the previous year has been prepared according to the indirect method, whereby cash flows from operations are represented by the result for the year adjusted for costs and revenues of a non–monetary nature. 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.

Content of the explanatory notes: the explanatory notes include the information required by IAS/IFRS and by Circular 262/2005 of the Bank of Italy.
The explanatory notes are broken down in parts: A–Accounting policies, B–Information on the consolidated balance sheet, C–Information on the consolidated income statement, D–Consolidated comprehensive income, E–Information on risks and related hedging policies, F–Information on consolidated capital, G–Business combinations, H–Related party transactions, I–Share–based payments.
Each part of the note is divided into sections, each of which illustrates one aspect of operations.

Use of estimates and assumptions when preparing the consolidated financial statements

The preparation of consolidated financial statements also requires the use of estimates and assumptions that may determine significant changes in the amounts reported in the balance sheet and income statement, and in the information relating to contingent assets and liabilities disclosed therein. The determination of these estimates involves using the available information and making subjective judgements, including on the basis of historical trends, used for deriving reasonable assumptions for reporting the results of operations. By their very nature the estimates and assumptions used may vary from year to year, meaning that in future years the amounts reported in these consolidated financial statements 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 that are inherent in risk exposures, typically represented by "impaired" loans and "performing" loans, as well as by other financial assets;
- the use of valuation models for measuring the fair value of financial instruments that are not quoted on active markets;
- the determination of the fair value of financial instruments to be used for reporting purposes;
- the assessment of the reasonableness of the value of goodwill and other intangible assets;
- the quantification of employee–related provisions and allowances for risks and charges;
- the estimates and assumptions relating to the recoverability of deferred tax assets.

The description of the accounting policies applied to the main balance sheet aggregates explains the main assumptions and subjective judgements used in preparing the financial statements. Reference should be made to the specific sections of the notes for more detailed information about the composition and values of the items involved in such estimates.

The consolidated financial statements have been prepared in accordance with the general principles laid down in IAS 1 "Presentation of Financial Statements":

Going concern. The accounting principles have been adopted with a view to the Group companies continuing in business as going concerns; they also respond to the accrual principle, the concepts of relevance and materiality of accounting information, and the prevalence of substance over form. The assumptions underlying the preparation of the financial statements on a going–concern basis are explained in the section of the report on operations entitled "Outlook for operations".

Accrual principle. Except for the cash flow statement, the financial statements have been prepared in accordance with the accrual principle of accounting, whereby revenues and expenses are recognised according to their economic maturity, regardless of when they are paid, and according to the matching principle. Usually the cost method is applied, except for the following financial assets and liabilities, which have been measured at fair value: financial instruments held for trading (including derivatives), financial instruments carried at fair value (i.e. applying the fair value option) and financial instruments available for sale.

Consistency of 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 if it is 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 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. The sub–items of the tables can be grouped together if one the following two conditions occur:
a) the amount of the sub–items is immaterial;
b) combining them makes for greater clarity in the financial statements; in this case the explanatory notes show the sub–items separately.
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 previous periods are provided for all information in the financial statements – including that of a qualitative nature if this helps explain the Group's situation – unless IAS/IFRS, or their interpretation, or instructions from the Bank of Italy on the financial statements of banks require or allow otherwise. If the accounts are not comparable, those of the previous period are adjusted to make them so; any lack of comparability and the adjustments made (or the fact that it was not possible to adjust the figures) is disclosed and explained in the notes. Section 5 – "Other aspects" reports the changes made in these financial statements to comparative figures.

Section 3
Scope of consolidation and consolidation procedures

The financial statements of the BPM Group include the balance sheet and income statement of Banca Popolare di Milano (parent company) and its direct and indirect subsidiaries. As required by IAS/IFRS, the scope of consolidation now includes companies operating in dissimilar sectors to that of the parent company, as well as funds managed by fund management companies belonging to the Group, in which the Group itself is exposed to most of the variability in the fund's risks and returns, having subscribed to the majority of the shares.
The scope of consolidation also includes special purpose entities when they are under the Group's effective control, whether or not it has an equity interest in them. Assuming they satisfy the required conditions, special purpose entities formed for the purposes of securitisations carried out after 1 January 2004 have been consolidated in accordance with SIC 12, and the derecognition rules contained in IAS 39 have been applied.

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

Changes in the scope of consolidation
Changes in the scope of consolidation with respect to 31 December 2010 involve the following companies:

Bipiemme Vita
Following the agreements signed on 19 April 2011 by Banca Popolare di Milano and the Covéa Group, the strategic partnership in the field of life and non–life bancassurance was completed on 8 September 2011 by the Covéa Group acquiring 81% of Bipiemme Vita S.p.A., which holds 100% of Bipiemme Assicurazioni S.p.A. (non–life insurance).
This involved the exclusion from the scope of consolidation of Bipiemme Assicurazioni S.p.A. and, based on the agreement, the reclassification of the 19% interest now held in Bipiemme Vita S.p.A. under investments "subject to significant influence".
Note that when we were preparing the half–yearly report as at 30 June 2011, we consolidated these two companies in the manner prescribed by IFRS 5 in view of the fact that all of the approvals required by the competent authorities had already been obtained. This means that the assets and liabilities of Bipiemme Vita were shown separately from other assets and liabilities in the balance sheet using the items "Non–current assets held for sale and discontinued operations" and "Liabilities associated with non–current assets held for sale and discontinued operations"; in the income statement, all elements of cost and revenue pertaining to Bipiemme Vita were shown net of the tax in item 310 "Income (loss) after tax from discontinued operations".
Having said this, when preparing these consolidated financial statements, all cost and revenue items relating to Bipiemme Vita for the first half of the year and the capital gain on sale of the investment have been shown in the income statement on line item 310 "Income (loss) after tax from discontinued operations", including the related costs to sell. The company's result for the second half–year relating to the 19% stake maintained in Bipiemme Vita is shown in line item 240 "Profits (losses) on investments in associates and companies subject to joint control".

Tirving
On 22 February 2011, a shareholders' meeting put the company into liquidation; The liquidation procedure was completed on 29 November 2011 with the winding up of the company.

Banca Popolare di Mantova
The portion held by the Parent Company in Banca Popolare di Mantova increased slightly to 61.39% (61.02% at 31.12.2010), due to the purchases made during the year.

Akros Funds
The interests held by the Group in the funds managed by Akros have gone through the following changes:
- the units held by Parent Company in **Fondo Akros Market Neutral** have increased to 94.41% (93.12% at 31.12.2010);
- the units held by Parent Company in **Fondo Akros Long/Short Equity** have increased to 81.60% (81.35% at 31.12.2010);
- the **Fondo Akros Absolute Return** is held 15.98% by Banca Akros (14.67% at 31.12.2010). In addition, there is the 65.52% interest held by the Parent Company (60.13% at 31.12.2010).

1. Investments in subsidiaries

The following table lists the investments in subsidiaries. For information on investments in companies subject to joint control (carried at equity) and in companies subject to significant influence please read Part B – Information on the consolidated balance sheet – Section 10 Investments in associates and companies subject to joint control, of these explanatory notes.

Company name		Share capital in Euro/ Original currency	Registered office	Nature of holding (1)	Nature of investment		Voting rights (2)
					Holder	% held	
A.	**Controlling investments**						
	Parent Company						
	Banca Popolare di Milano S.c.a r.l.	2,865,708,586.15	Milano				
A. 1	**Companies consolidated line–by–line**						
1	Banca di Legnano S.p.A.	472,573,272	Legnano	1	Banca Popolare di Milano S.c.a r.l.	100.00	
2	Cassa di Risparmio di Alessandria S.p.A.	76,441,530	Alessandria	1	Banca Popolare di Milano S.c.a r.l.	80.00	
3	Banca Akros S.p.A.	39,433,803	Milan	1	Banca Popolare di Milano S.c.a r.l.	56.89	
					Banca di Legnano S.p.A.	40.00	
4	Banca Popolare di Mantova S.p.A.	2,968,290	Mantua	1	Banca Popolare di Milano S.c.a r.l.	61.39	
5	Akros Alternative Investments SGR S.p.A.	1,200,000	Milan	1	Banca Akros S.p.A.	100.00	
6	WeBank S.p.A.	54,186,349	Milan	1	Banca Popolare di Milano S.c.a r.l.	100.00	
7	BPM Ireland Plc.	257,586	Dublin	1	Banca Popolare di Milano S.c.a r.l.	99.99	
8	BPM Fund Management Ltd. *in liquidazione*	190,500	Dublin	1	Bpm Ireland Plc.	100.00	
9	BPM Capital I Llc.	24,500,000	Delaware (USA)	1	Banca Popolare di Milano S.c.a r.l.	100.00	
10	BPM Luxembourg S.A.	255,000	Luxembourg	1	Banca Popolare di Milano S.c.a r.l.	99.00	
					Banca Akros S.p.A.	1.00	
11	ProFamily S.p.A.	50,000,000	Milan	1	Banca Popolare di Milano S.c.a r.l.	100.00	
12	Ge.Se.So. S.r.l.	10,329	Milan	1	Banca Popolare di Milano S.c.a r.l.	100.00	
13	BPM Covered Bond S.r.l.	10,000	Rome	1	Banca Popolare di Milano S.c.a r.l.	80.00	
14	Fondo Akros Dynamic (*)	–	Milan	4	Banca Popolare di Milano S.c.a r.l.	100.00	n.a.
15	Fondo Akros Market Neutral (*)	–	Milan	4	Banca Popolare di Milano S.c.a r.l.	94.41	n.a.
16	Fondo Akros Long/Short Equity (*)	–	Milan	4	Banca Popolare di Milano S.c.a r.l.	81.60	n.a.
17	Fondo Akros Absolute Return (*)	–	Milan	4	Banca Popolare di Milano S.c.a r.l.	65.52	n.a.
					Banca Akros S.p.A.	15.98	n.a.
18	BPM Securitisation 2 S.r.l. (*)	10,000	Rome	4	Banca Popolare di Milano S.c.a r.l.	n.a.	n.a.

(*) These companies are consolidated line–by–line as the Group has most of the benefits and risks (SIC 12 "Consolidation – Special purpose entities").

Key:
(1) Nature of holding:
1. majority of voting rights at general meetings
2. dominant influence at ordinary general meeting
3. agreements with other shareholders
4. other forms of control (IAS 27 para. 40)
5. co–ordinated control under art. 26.1 of Decree 87/92
6. co–ordinated control under art. 26 of Decree 87/92
7. joint control
8. significant influence

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

Scope of consolidation of the BPM Group as at 31 December 2011

Sector	Company			
Banking companies	Banca Popolare di Milano S.c. a r.l.	WeBank S.p.A. 100%	Banca Akros S.p.A. 96.89%	Banca di Legnano S.p.A. 100%
	Cassa di Risparmio di Alessandria S.p.A. 80%	Banca Popolare di Mantova S.p.A. 61.39%		
Finance-sector companies	BPM Capital I Llc. 100%	BPM Ireland Plc. 99.99%	BPM Luxembourg S.A. 99.97%	
	Calliope Finance S.r.l. 50%	ESN North America Inc. 38.14%		
(Special purpose vehicles)	Bpm Covered Bond S.r.l. 80%	BPM Securitisation 2 S.r.l. n.a.		
Asset management and mutual funds	BPM Fund Management Ltd. in liquidation 99,99%	Akros Alternative Investments SGR S.p.A. 96,89%		
	Aedes Bipiemme Real Estate SGR S.p.A. 39%	Asset Management Holding S.p.A. 36.30%	Etica SGR S.p.A. 24.44%	Wise Venture SGR S.p.A. 20%
(Hedge funds)	Fondo Akros Dynamic 100%	Fondo Akros Market Neutral 94.41%	Fondo Akros Long/Short Equity 81.60%	Fondo Akros Absolute Return 81.00%
Insurance companies	Bipiemme Vita S.p.A. 19%			
Consumer credit	ProFamily S.p.A. 100%	Pitagora 1936 S.p.A. 24%		
Leasing companies	SelmaBipiemme Leasing S.p.A. 40%			
Factoring companies	Factorit S.p.A. 30%			
Other activities	Ge.Se.So. S.r.l. 100%			

Companies consolidated line-by-line

Companies consolidated using the equity method

The percentage shareholdings are based on equity ratios.

2. Other information

Consolidation procedures

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

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

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

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

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

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

directly to equity, the Group recognises its portion of the adjustments in equity and shows it separately in the statement of comprehensive income. The value of the investment is also reduced by the amount of any dividends received periodically by the Group.

The overall value of the investment is subjected to impairment testing in accordance with IAS 28 and IAS 36. If the losses are greater than the carrying value of the investment, the Group books the losses to the extent of that value, i.e. writing it down to zero without recognising any additional loss, unless it has an obligation to make payments on behalf of the associate.
Unrealised gains relating to transactions between and with associates are eliminated upon consolidation in proportion to the equity interest held. Any unrealised losses are eliminated upon consolidation, unless there is evidence of impairment of the assets transferred.

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

Translation of financial statements of foreign operations

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

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

Section 4
Subsequent events

In relation to IAS 10, the main events that took place after the balance sheet date (between 31 December 2011, the date of the consolidated financial statements, and 27 March 2012, when the draft financial statements were approved by the Management Board and forwarded to the Supervisory Board to approve the financial statements at a meeting convened on 12 April 2012) that are not reflected in the figures shown in the consolidated financial statements, are explained in BPM's 2011 report on operations in the section entitled "Subsequent events", to which reference should be made.

Section 5
Other aspects

Below there is a list of changes made to the comparative figures in these financial statements.

Balance Sheet

In its letter no. 125853 of 10 February 2012, the Bank of Italy provided guidance on securities lending transactions, among other things. In particular, the Bank of Italy pointed out that, in the case of securities lending without collateral or with collateral consisting of securities that do not pass the derecognition test under IAS 39, the lender and the borrower still recognise in their balance sheet, respectively, the security involved in the loan and any security given as collateral. Consequently, it is no longer necessary – as was done up to now – to show the transaction in the balance sheet by booking a "repo" (as an asset for the borrower and a liability for the lender) and a loan for securities lending (as an asset for the lender and a liability for the borrower). So as of 31.12.2011, these transactions are no longer recognised in receivables and payables versus banks or customers (depending on the counterparty). Furthermore, followed a detailed study of the Bank of Italy's regulations, we reclassified, within equity, the value of the "BPM ordinary share warrants 2009/2013" from "Equity instruments" to "Reserves", for an amount of Euro 19.6 million.

Income Statement

The letter of the Bank of Italy has also provided clarification on how certain income statement items should be classified; in particular:

- "personnel–related expenses" have been reclassified from "Administrative expenses: personnel expenses" to "Administrative expenses: other administrative expenses", when they involve:
  - analytical and documented reimbursements of costs incurred by employees for board and lodging;
  - analytical and documented reimbursements of car expenses determined on the basis of tariffs recognised as valid (such as those of ACI, the Italian Automobile Club) and mileage actually travelled;
  - costs for medical check–ups when hiring new recruits and those required by law for existing staff;
- for securities lending with collateral consisting of securities, or without collateral, the revenue from such transactions has to be booked by the lender in item 40. "Fee and commission income", whereas the cost incurred by the borrower has to be booked in item 50. "Fee and commission expense", without any impact on "Interest income" or "Interest expense"; we did not make any reclassification for 2010 as the amounts involved that year were insignificant.

We would also point out that, as required by IFRS 5, the income statement figures for 2010 originally published have been restated for comparative purposes, to reflect retroactively the economic effects of the sale, in 2011, of 81% of Bipiemme Vita Spa, which in turn owns 100% of the Bipiemme Assicurazioni Spa; these companies have been classified in 2011 as "non–current assets held for sale", in accordance with IFRS 5. For further details, reference should be made to the previous section entitled "Changes in the scope of consolidation".
In detail, the economic contribution and the result of the sale of these investments are shown in the income statement under "Income (loss) after tax from discontinued operations"; both in 2011 and in 2010.

Accordingly, the following are reconciliations between the 2010 financial statements (balance sheet and income statement) as originally published and the same restated for comparative purposes, to take all these reclassifications into account.

Consolidated Balance sheet

(euro/000)

Assets		31.12.2010 published	Reclassifications	31.12.2010 restated
10.	Cash and cash equivalents	264,208	0	264,208
20.	Financial assets held for trading	1,877,498	0	1,877,498
30.	Financial assets designated at fair value through profit and loss	1,784,520	0	1,784,520
40.	Financial assets available for sale	8,557,363	0	8,557,363
60.	Due from banks	2,535,990	–47,420	2,488,570
70.	Loans to customers	35,585,503	–48,075	35,537,428
80.	Hedging derivatives	75,674	0	75,674
90.	Fair value change of financial assets in hedged portfolios (+/–)	176	0	176
100.	Investments in associates and companies subject to joint control	367,833	0	367,833
110.	Technical insurance reserves reassured with third parties	5,642	0	5,642
120.	Property and equipment	757,331	0	757,331
130.	Intangible assets	872,946	0	872,946
	of which:			
	– goodwill	*686,663*	*0*	*686,663*
140.	Tax assets	744,706	0	744,706
	a) current	324,881	0	324,881
	b) deferred	419,825	0	419,825
160.	Other assets	623,545	0	623,545
Total assets		**54,052,935**	**–95,495**	**53,957,440**

(euro/000)

Liabilities and shareholders' equity		31.12.2010 published	Reclassifications	31.12.2010 restated
10.	Due to banks	7,154,837	–47,420	7,107,417
20.	Due to customers	23,865,880	–48,075	23,817,805
30.	Securities issued	12,070,146	0	12,070,146
40.	Financial liabilities held for trading	1,150,710	0	1,150,710
50.	Financial liabilities designated at fair value through profit and loss	669,009	0	669,009
60.	Hedging derivatives	49,294	0	49,294
70.	Fair value change of financial liabilities in hedged portfolios (+/–)	–26,798	0	–26,798
80.	Tax liabilities	122,771	0	122,771
	a) current	1,644	0	1,644
	b) deferred	121,127	0	121,127
100.	Other liabilities	1,272,668	0	1,272,668
110.	Employee termination indemnities	155,347	0	155,347
120.	Allowances for risks and charges:	277,091	0	277,091
	a) post employment benefits	85,681	0	85,681
	b) other allowances	191,410	0	191,410
130.	Technical reserves	3,308,463	0	3,308,463
140.	Valuation reserves	–92,298	0	–92,298
160.	Equity instruments	519,606	–19,606	500,000
170.	Reserves	1,461,878	19,606	1,481,484
180.	Share premium reserve	189,639	0	189,639
190.	Share capital	1,660,221	0	1,660,221
200.	Treasury shares (–)	–1,850	0	–1,850
210.	Minority interests (+/–)	140,351	0	140,351
220.	Net income (loss) for the year (+/–)	105,970	0	105,970
Total liabilities and shareholders' equity		**54,052,935**	**–95,495**	**53,957,440**

Consolidated income statement

(euro/000)

Income statement line items		31 December 2010 published	Reclassifications IFRS 5	Reclassifications Bank of Italy letter	31 December 2010 restated
10.	Interest and similar income	1,257,205	(53,291)		1,203,914
20.	Interest and similar expense	(483,519)	(3,045)		(486,564)
30.	**Interest margin**	**773,686**	**(56,336)**		**717,350**
40.	Fee and commission income	685,133	(122)		685,011
50.	Fee and commission expense	(76,897)	2,653		(74,244)
60.	**Net fee and commission income**	**608,236**	**2,531**		**610,767**
70.	Dividend and similar income	97,840	(1,153)		96,687
80.	Profits (losses) on trading	3,564	(13,461)		(9,897)
90.	Fair value adjustments in hedge accounting	(1,835)	0		(1,835)
100.	Profits (losses) on disposal or repurchase of:	13,302	(3,288)		10,014
	a) loans	*(8,184)*	*0*		*(8,184)*
	b) financial assets available for sale	*15,606*	*(3,288)*		*12,318*
	c) investments held to maturity	*0*	*0*		*0*
	d) financial liabilities	*5,880*	*0*		*5,880*
110.	Profits (losses) on financial assets and liabilities designated at fair value	22,661	(24,115)		(1,454)
120.	**Net interest and other banking income**	**1,517,454**	**(95,822)**		**1,421,632**
130.	Net losses/recoveries on impairment:	(252,147)	0		(252,147)
	a) loans	*(238,310)*	*0*		*(238,310)*
	b) financial assets available for sale	*(15,691)*	*0*		*(15,691)*
	c) investments held to maturity	*0*	*0*		*0*
	d) other financial activities	*1,854*	*0*		*1,854*
140.	**Net income from banking activities**	**1,265,307**	**(95,822)**		**1,169,485**
150.	Net insurance premiums	318,013	(318,013)		0
160.	Other net insurance income (expense)	(445,821)	445,821		0
170.	**Net income from banking and insurance activities**	**1,137,499**	**31,986**		**1,169,485**
180.	Administrative expenses:	(1,086,199)	5,825		(1,080,374)
	a) personnel expenses	*(702,574)*	*2,935*	*2,480*	*(697,159)*
	b) other administrative expenses	*(383,625)*	*2,890*	*(2,480)*	*(383,215)*
190.	Net provisions for risks and charges	(11,143)	0		(11,143)
200.	Net adjustments to/recoveries on property and equipment	(40,760)	34		(40,726)
210.	Net adjustments to/recoveries on intangible assets	(38,579)	3,951		(34,628)
220.	Other operating charges/income	(74,419)	2,119		(72,300)
230.	**Operating expenses**	**(1,251,100)**	**11,929**		**(1,239,171)**
240.	Profits (losses) on investments in associates and companies subject to joint control	27,087	(27,223)		(136)
260.	Goodwill impairment	0	0		0
270.	Profits (losses) on disposal of investments	55,031	0		55,031
280.	**Income (loss) before tax from continuing operations**	**(31,483)**	**16,692**		**(14,791)**
290.	Taxes on income from continuing operations	(77,593)	(9,042)		(86,635)
300.	**Income (loss) after tax from continuing operations**	**(109,076)**	**7,650**		**(101,426)**
310.	Income (loss) after tax from discontinued operations	220,196	(7,650)		212,546
320.	**Net income (loss) for the year**	**111,120**	**0**		**111,120**
330.	Minority interests	(5,150)	0		(5,150)
340.	**Parent Company's net income (loss)**	**105,970**	**0**	**0**	**105,970**

Italian group tax election

Banca Popolare di Milano and the Italian companies in the Group have elected to file for tax on a group basis since 2004, in accordance with arts 117–129 of the Income Tax Consolidation Act (ITCA), introduced by Decree 344/2003. This optional tax regime makes it possible for each of the subsidiaries to calculate its tax charge for the year and then transfer the equivalent taxable income (or tax loss) to the parent company, adjusting for intercompany interest according to the rules on the deductibility of interest expense. It then calculates a single taxable income or tax loss for the entire group, adding together the profits and subtracting the losses of the individual companies, filing a single tax return and declaring a single amount payable to or receivable from the Tax Authorities.
The Parent Company and the subsidiaries taking part in the group tax regime have signed contracts that regulate the compensatory flows related to the transfers of taxable income and tax losses. These flows are determined by applying the IRES rate currently in force to the taxable income of the companies concerned. For companies with tax losses, the compensatory flow, calculated as above, is recognised by the consolidating company to the consolidated company for the losses incurred after joining the Italian group tax regime, to the extent that such losses are covered by the taxable income of the Group. The losses incurred prior to joining the Italian group tax regime have to be offset by the consolidated company against its own taxable income in accordance with current tax rules.
The compensatory flows determined in this way are recorded as receivables and payables versus the companies taking part in the group tax regime and classified in "Other assets" and "Other liabilities", with the contra–entry going to "Taxes on income from continuing operations".

Deadlines for approval and publication of reports

1. Annual report
Art. 135–sexies of Legislative Decree 59/98 (CFA) lays down that the financial statements have to be approved and the annual report, consisting of the separate and consolidated financial statements, report on operations and the certificate referred to in art. 154–bis, paragraph 5., has to be published within one hundred and twenty days of the year–end.
The draft financial statements were approved by the Management Board of the Parent Company on 27 March 2012 and then sent to the Supervisory Board, which approved the document on 11 April 2012 (pursuant to art. 154–ter, paragraph 1, of Legislative Decree 58/98).

The consolidated financial statements (consisting of the balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity, statement of cash flow and explanatory notes) are audited by the Independent Auditors Reconta Ernst & Young S.p.A., according to Legislative Decree 39/2010, in execution of the resolution of the General Meeting of Members of 21 April 2007, which appointed this firm for the period from 2007 to 2015 included.

2. Half–yearly report
The Bank prepared and published on 25 August 2011 the half–yearly report at 30 June 2011 of the BPM Group, in accordance with art. 154–ter of Legislative Decree 58/98 introduced by Legislative Decree 195/2007 which adopted the European regulations on the transparency of quoted companies (EC/2004/109). The condensed half–yearly financial statements are subjected to a limited audit by Reconta Ernst & Young S.p.A., in compliance with Consob Communication no. 97001574 of 20 February 1997 and with Consob Resolution no. 10867 of 31 July 1997 and in accordance with the decision of the General Meeting of Members' of 21 April 2007.

3. Interim report on operations
The Bank prepared interim reports of the BPM Group at 31 March 2011 and 30 September 2011 in accordance with art. 154–ter, paragraph 5 of Legislative Decree 58/98, introduced by Legislative Decree 195/2007, and published them on 12 May 2011 and 10 November 2011, respectively. The interim report at 31 March 2011 was not audited, whereas the one at 30 September 2011 was prepared in accordance with IAS 34 solely for the purposes of the increase in capital. In fact, the figures at 30 September 2011 were included in the documentation for the Parent Company's increase in capital. The figures at 30 September were subjected to a limited audit by Reconta Ernst & Young S.p.A..

Change in the accounting standards endorsed by the European Commission

The following table lists the changes to the standards and interpretations approved by the European Commission in 2011 or in previous years, application of which became compulsory from 2011, but for which no significant impacts were identified for the purposes of preparing these financial statements.

International accounting standards in force from 2011

Approved Regulation	Publication in the Official Journal of the European Union	Title and comments	In force fron
Amendments to existing policies			
1293/2009 of 23.12.2009	L. 347 of 24.12.2009	**Amendments to IAS 32** – *Financial Instruments: Presentation* Clarifies how to account for certain rights when the instruments issued are denominated in a currency other than that of the issuer.	1 February 2010
632/2010 of 19.07.2010	L. 186 of 20.07.2010	**IAS 24** – *Related Party Disclosures* **Amendment to IFRS 8** – *Operating Segments* Simplifies the definition of "related party", while eliminating some inconsistencies and exempts public entities from certain disclosure requirements on related party transactions.	1 January 2011
149/2011 of 18.02.2011	L. 46 of 19.02.2011	**Improvements to IFRS**: *Amendments to: IFRS 1; IFRS 3; IFRS 7; IAS 1; IAS 27; IAS 34; IFRIC 13* Minor amendments mainly concerning disclosure	1 January 2011 1 July 2011 (for changes in IFRS 3).
New interpretation or amendments			
574/2010 of 30.06.2010	L. 166 of 01.07.2010	**Amendments to IFRS 1** – *Limited Exemption from Comparative IFRS 7 Disclosures for First–time Adopters* **Amendments to IFRS 7** – *Financial Instruments: Disclosures*	1 July 2010
633/2010 of 19.07.2010	L. 186 of 20.07.2010	**Amendments to IFRIC 14** – *Prepayments of a Minimum Funding Requirement* In cases where a defined benefit plan is subject to a minimum funding requirement, the amendment to IFRIC 14 requires treating this prepayment as an asset like any other advance payment.	1 January 2011
662/2010 of 23.07.2010	L. 193 of 24.07.2010	**IFRIC 19** – *Extinguishing Financial Liabilities with Equity Instruments* **Amendment to IFRS 1** – *First–Time Adoption of International Financial Reporting Standards* Provides guidance on accounting, by the debtor, of the equity instruments issued to extinguish completely or partially a financial liability as a result of renegotiating its terms.	1 July 2010

International accounting standards (IAS/IFRS) and related interpretations (SIC/IFRIC) endorsed by the European Commission, application of which is mandatory after 31 December 2011

Pursuant to paragraph 30 and 31 of IAS 8, the following are the Regulations that have made changes to accounting standards already in force, endorsed by the European Commission, of which mandatory application runs from 1 January 2012 or some later date in the case of financial statements that coincide with the calendar year. The Group has not taken the option of early application.

Approved Regulation	Publication in the Official Journal of the European Union	Title and comments	In force from
1205/2011 of 22.11.2011	L. 305 of 23.11.2011	**Amendments to IFRS 7** – *Financial Instruments: Disclosures – Transfers of Financial Assets* The changes are intended to enable users of financial statements to better evaluate risk exposures relating to such transfers and the effects of such risks on the entity's financial position. The aim is to promote transparency of information on transfers, especially those involving the securitisation of financial assets.	1 July 2011

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

The accounting policies followed in preparing the consolidated financial statements at 31.12.2011, as regards the reclassification, recognition, measurement and derecognition of the various asset and liability items, as well as the recognition of revenues and costs.

1 – Financial assets held for trading

Classification
In this category are classified the debt securities and equities, shares in investment funds and derivatives (except those designated as effective hedging instruments, recorded in assets under "Hedging derivatives") with a positive fair value. They must be held primarily for the purpose of profiting from short–term fluctuations in price or from the operator's profit 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.
Reclassifications to other categories of financial assets are not allowed, except when it is possible to reclassify assets other than derivatives, no longer held for trading purposes, in other categories foreseen by IAS 39 Financial Instruments: Recognition and Measurement (Financial assets held to maturity or financial assets available for sale when there are unusual events that are unlikely to recur in the short term, or credits when there is the intention and ability to hold them for the foreseeable future or until maturity), always assuming that the conditions for them being booked are satisfied. The transfer value is represented by the fair value at the time of reclassification. In the event of reclassification, a check is carried out to see if there are any embedded derivatives that have to be separated. The BPM Group has never exercised this option, neither for the current year nor for previous years.

The 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.

Recognition
Initial recognition of financial assets held for trading takes place, for securities, on the settlement date of the underlying purchase transactions – if settled on schedule according to current market practice (known as "regular way") – and, for derivatives, the trade date . In the case of recognition of financial assets at the settlement date, any changes in fair value recognised between the trade date and the settlement date are booked to the income statement.
Financial assets held for trading are initially recognised at fair value, which generally corresponds to the price paid, without considering any transaction costs or income, which are charged directly to income.
Any derivatives embedded in these complex financial instruments and separated from them from an accounting point of view (see the previous section on "Classification") are also recorded at fair value.

Measurement and recognition of components affecting the income statement

Following initial recognition, financial assets held for trading are measured at their current fair value, with any changes being booked to the income statement. If the fair value of a financial asset becomes negative, it is accounted for as a financial liability.

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. For more details, please read section 18 – Other information: Methods of determining the fair value of financial instruments.

Equities for which it is not possible to determine the fair value reliably in accordance with the above guidelines, and the derivatives related to them, which have to be settled through physical delivery of the equity instruments are maintained at cost and written down in the event of impairment losses. Such losses cannot later be restored.

Profits and losses from trading and capital gains and losses on changes in fair value compared with the purchase cost, determined on the basis of the weighted average cost on a daily basis, are recognised in the income statement for the period in which they emerge and booked to "Profits (losses) on trading".

Interest income on debt securities is calculated on the basis of the nominal interest rate. Dividends from equities are recorded when the right to receive them arises. Differentials and margins on derivatives are recognised on receipt or payment. Interest income and dividends appear in the income statement, respectively, under "Interest and similar income" and "Dividends and similar income". Differentials and margins on derivatives are allocated in the income statement to "Profits (losses) on trading", except for those that are operationally linked to financial assets or liabilities carried at fair value (subject to the fair value option) or linked to financial assets or liabilities classified as held for trading and with settlement of differentials or margins with various maturities ("multiflow" contracts), which are classified in the income statement as "Interest and similar income".

Derecognition

Financial assets are derecognised when the contractual right to receive cash flows from the financial asset is terminated, or if substantially all of the risks and benefits associated with holding that particular asset are transferred.

Conversely, if legal ownership of a financial asset has effectively been transferred, but the bank retains a substantial part of the rewards and benefits of the asset sold, it continues to be reported as an asset in the balance sheet. In such cases, the Group making the transfer recognises a liability to the buyers equal to the price received; the respective costs and revenues are recorded on the assets sold and any related liabilities.

2 – Financial assets available for sale

Classification

Investments "held for sale" are financial assets that will be maintained for an indefinite period and that can also be sold for reasons of liquidity, changes in interest rates, exchange rates and market prices. This category excludes derivatives, but includes financial assets not otherwise classified as receivables, assets held for trading, assets held to maturity or assets carried at fair value. In particular, this item includes equity investments not held for trading and which do not qualify as investments in subsidiaries, associates and joint ventures, including private equity investments.

Where allowed by IAS 39, reclassifications to the category "Financial assets held to maturity" are permitted. It is also possible to reclassify the debt securities not only in "Financial assets held to maturity", but also in "Receivables", when the company has the intention and ability to hold them for the foreseeable future or until maturity and assuming that the conditions for them to be booked are satisfied. The transfer value is represented by the fair value at the time of reclassification. The BPM Group has never taken advantage of this possibility, neither for the current year nor for previous years.

Recognition
Initial recognition of financial assets available for sale takes place on the settlement date of the underlying purchase transactions in the regular way. Any changes in fair value recognised between the trade date and the settlement date are booked to shareholders' equity.
Financial assets available for sale are initially recognised at fair value, which generally corresponds to the price paid, including any transaction costs or income directly attributable to the instrument concerned.
If, as permitted by IAS 39, the entry is made as a result of reclassification of financial assets held to maturity or, in the presence of unusual events, of financial assets held for trading, the carrying amount is represented by the fair value at the time of transfer.

Measurement and recognition of components affecting the income statement
After initial recognition, financial assets available for sale are measured at their current fair value , booking:
- to 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 (in the revaluation reserve), increasing or decreasing a specific reserve (net of tax) the unrealised gains and losses resulting from the measurement at fair value until such time that the financial asset is derecognised or an impairment loss is recognised. On derecognition of the financial asset from the balance sheet (e.g. in the case of the asset being sold) or on recognition of an impairment loss, the valuation reserve in question is reversed, in whole or in part, to the income statement. Exchange gains and losses on monetary instruments (e.g. debt securities) are charged directly to income.

The fair value is determined based on the guidelines already explained for financial assets held for trading. Equities for which it is not possible to determine the fair value reliably are maintained at cost and written down in the event of impairment losses. Such losses cannot later be restored.

Financial assets available for sale are tested for impairment at the end of each financial year or interim period to identify whether there is objective evidence of a deterioration in quality that might compromise the recoverability of the investment. In the case of the BPM Group, objective evidence of impairment, as defined by the IAS 39, was identified on the basis of 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.

In particular, the factors taken into account as indicators of critical circumstances were: the announcement or launch of financial restructuring plans or, in any case, significant financial difficulties, a significant downgrade in the issuer's rating , a material adverse change in book net equity since the last published financial statements, or a market capitalisation significantly lower than the book net equity.
The indicators relating to market values and parameters are verified with reference to specific information available on the company's situation to determine whether the indications given by the market do in fact reflect difficulties on the part of the company.

As regards equities, a significant or prolonged decrease in their fair value below the original purchase price is objective evidence of impairment. In this regard, the following quantitative limits were set for identification of the impairment:
- a decrease in fair value at the balance sheet date of more than 50% of the original book value;
- a decrease in the fair value below the original book value for a continuous period of 18 months.

Exceeding one of these two thresholds means that an impairment loss has to be recognised on the security.

If there is evidence of an impairment loss, the amount of the writedown, measured as the difference between the asset's original purchase cost and its current fair value, is recorded as an expense in the income statement for the year in "Net impairment adjustments/write–backs of financial assets available for sale" including any equity reserve accumulated up to the balance sheet date. If the reasons for impairment no longer exist because of an event that took place after recognising the loss, a write–back is booked to the income statement, if it refers to debt securities or loans and receivables, or to an equity reserve in case of equities. For debt securities and loans and receivables, the write–back cannot in any case lead to a book value that is higher than the previous writedown.

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. In such cases, the Group making the transfer recognises a liability to the buyers equal to the price received; the respective costs and revenues are recorded on the assets sold and any related liabilities.

3 – Investments held to maturity

Investments held to maturity comprise non–derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the intention and ability to hold to maturity.
The BPM Group has not classified any financial assets in this category.

4 – Loans and receivables

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 Group 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.
Receivables include loans to customers and banks, whether provided directly or acquired from third parties, securities acquired by subscription or private placement, with identified or identifiable payments, not quoted on active markets, debt securities not quoted on an active market deriving from debt restructurings and receivables arising from finance leases. They also include the swaps and repurchase agreements with a forward obligation to resell, other than those for trading purposes, and securities lending transactions in which the collateral is represented by cash that remains entirely at the lender's disposal. Such operations are accounted for as lending transactions and do not lead to any changes in the proprietary securities portfolio. In particular, repurchase agreements are recorded as loans for the amount paid spot. This category also includes operating receivables associated with the provision of financial services as defined in the Consolidated Banking Act (CBA) and the Consolidated Finance Act (CFA).
Reclassifications are not allowed in the other categories of financial assets under IAS 39.

Recognition
Loans are recognised in the financial statements only when the Group 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. Initial recognition of the loans takes place on the date of payment or, in the case of a debt security, on the settlement date of the underlying purchase transactions according to the timing provided by market practice ("regular way"), on the basis of the related fair value, which normally corresponds to the amount granted or the price paid, including costs/revenues directly attributable to the individual instrument and determinable from the outset of the operation, even if settled at a later date. Costs are excluded, even if they have the above characteristics, if they are subject to repayment by the debtor or can be considered normal internal administrative costs. In cases where the date of signing the contract does not coincide with the delivery date, a commitment to grant finance is recorded; this commitment ends on the date that the funds are disbursed.
For loans concluded on terms other than market conditions, where the fair value is lower than the amount disbursed or settled as a result of applying a lower interest rate than the market rate or the one normally charged for loans with similar characteristics, initial recognition is done for an amount equal to the future cash flows discounted at a market rate. The difference compared with the amount paid/settled is recognised in the income statement on initial booking, except for loans to employees for whom 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.
If recognition in the category of loans and receivables takes place when the company has the intention and ability to hold them for the foreseeable future or up to maturity, assuming it meets the conditions for booking, for reclassification from financial assets available for sale or from financial assets held for trading, the fair value of the asset at the date of reclassification is taken as the new amortised cost of the asset.

Measurement and recognition of components affecting the income statement

Following initial recognition, receivables are measured at amortised cost, equal to the initial value less any repayments of principal, reduced by adjustments and increased by any write–backs of the impairment test and adjusted accumulated amortisation – calculated under the effective interest rate method – of the difference between the amount paid and that repayable on maturity, which is typically attributable to ancillary costs/revenues booked directly to the individual loan.

The effective interest rate is the rate that equates the present value of future cash flows of loans, principal and interest, estimated during the expected life of the loan to its initial value, for fixed–rate instruments, or its carrying amount at each repricing date for floating–rate instruments. The estimate of cash flows takes into account all contractual terms which may affect the amounts and maturities, without considering the expected losses on the loan. 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. This accounting method, using a financial logic, makes it possible to distribute the economic effect of the costs/revenue over the residual life of the loan.
The amortised cost method is not used for short–term receivables for which the effect of discounting is immaterial. These receivables are valued at historical cost. The same method is applied to loans without a defined maturity or which can be revoked at any time.

Each time financial statements are prepared, a review of financial assets classified as loans is carried out to identify those which show objective signs of impairment as a result of events that occurred after they were booked. These signs become visible as a consequence of the following events in particular:

- significant financial difficulties on the part of the issuer or the debtor;
- situations of default on the part of the issuer or the debtor or non–payment of interest or principal;
- concession to the debtor or issuer, for economic or legal reasons linked to the financial difficulties of the issuer, of facilities that the Group would not otherwise have taken into account;
- probable bankruptcy of the debtor or issuer or their involvement in other insolvency proceedings;
- lack of access to an active market for that particular financial asset because of the financial difficulties of the debtor or issuer;
- deterioration in the quality of a homogeneous group of loans due for example:
  - to payment difficulties on the part of debtors within the group;
  - to national or local economic conditions that adversely affect the group.

The impairment test of the loans is divided into two phases:

a. the phase of individual or specific assessments, in which individual impaired loans are selected and the related losses estimated;
b. the phase of collective or portfolio assessments, in which latent potential losses on performing loans are estimated.

Firstly, we evaluate the assets representing the impaired exposures (non–performing loans), classified into different risk categories according to regulations issued by the Bank of Italy, consistent with IAS/IFRS regulations, integrated with internal arrangements that set criteria and rules for the transfer of the loans to the following risk categories:

- **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. So–called "objective doubtful loans" are also included, such as loans that are overdue or overdrawn for more than 270 days and of an amount equal to or greater than 10% of the total exposure.

- **Restructured positions**. loans for which the bank (or pool of banks) agrees 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**. Exposures to borrowers that are not classified in the above risk categories which, at the end of the period, have loans that are constantly overdue or overdrawn for more than 180 days according to the relevant regulations of the Bank of Italy.

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 overdrawn for more than 180 days, which are recognised automatically.

The assets have been evaluated individually, for which there were no objective signs of impairment, are placed in groups of financial assets with similar characteristics in terms of credit risk, subsequently subjecting them to a collective or portfolio evaluation. The assets evaluated individually, for which a writedown was recorded or for which, despite evidence of impairment, no writedown was booked because of the value of outstanding guarantees, are not included in the groups used for collective writedowns.

If there is objective evidence of impairment, the amount of the writedown is equal to the difference between the carrying value of the asset at the time of the evaluation (amortised cost) and the present value of the expected future cash flows of principal and interest, calculated by applying the effective interest rate on impairment.
The expected cash flows take into account the foreseeable recovery time, the realisable value of any guarantees on the positions, any prepayments received (excluding future loan losses that have not yet arisen), and the costs that will be incurred to recover the loan. The present value of future cash flows of a collateralised financial asset reflects the cash flows that might result from the collateral, net of realisation costs, regardless of the actual probability of realisation. Cash flows related to loans that are expected to be recovered in the short term are not discounted. The original effective interest rate for each loan remains unchanged over time even in the case of a restructuring that has led to a change in the contractual rate and also when the relationship becomes, in practice, non–interest bearing from a contractual point of view. 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.

In the event of an adjustment, the carrying value of the asset is reduced by setting up an allowance for bad and doubtful accounts that offsets the value of the asset and the amount of the adjustment is booked to the income statement under "Net impairment adjustments/ write–backs of loans". If the loan is regarded as uncollectable, it is written off against the allowance. If in a subsequent period the amount of the adjustment decreases and the decrease is objectively attributable to an event that occurred after determination of the writedown, as an improvement in the creditworthiness of the borrower, the adjustment recorded previously is eliminated or reduced by booking a write–back to the income statement, though the write–back cannot in any case exceed the amortised cost that the loan would have had if no adjustments had been made previously.
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 balance sheet date under "Net impairment adjustments of loans" in the income statement.

Loans for which no objective evidence of impairment has been identified ("performing loans") are submitted to collective or portfolio evaluation.
The evaluation of performing loans (loans to borrowers who, at the balance sheet date, have not shown any specific risk of default) takes place for homogeneous categories of loans in terms of credit risk and loss rates are estimated taking into account past statistics and other elements that are observable at the valuation date, which make it possible to estimate the latent loss in value of each loan category.
For this purpose we use a model developed on the basis of risk management methodologies seeking all possible synergies (as permitted by the various regulations) with the advanced approach for evaluating the creditworthiness of a counterparty, under the current supervisory legislation. From an operational standpoint, the best possible proxy for determining the creditworthiness of a counterparty is the rating calculated by the models that we have developed and validated internally. All of the positions identified using the methods explained above are evaluated 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).

The adjustments are determined collectively and booked to the income statement. At each balance sheet and interim report date, we update the assessment with reference to the entire portfolio of performing loans as of that date and any additional adjustments or write–backs are recalculated differentially with reference to the entire portfolio.

Interest on the loans is classified in the income statement under "Interest and similar income" and is recognised on an accrual basis. Any gains and losses on disposal are reported in the income statement under "Profits (losses) on disposal or repurchase of: loans".

A similar method is used for determining specific and general write–downs against guarantees given which do not represent derivative contracts. The liabilities resulting from this valuation process are booked to "Other liabilities" in accordance with the Bank of Italy's instructions. Impairment losses on the guarantees issued and any subsequent write–backs are recognised in the income statement under "Net impairment adjustments/writebacks to: other financial activities".

Derecognition
Loans and receivables are derecognised when the right to receive cash flows from the financial asset has expired, or when all the risks and rewards associated with holding the asset in question 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 Group 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.
In such cases, the Group making the transfer recognises a liability to the buyers equal to the price received; the respective costs and revenues are recorded on the assets sold and any related liabilities.

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

Classification

In general terms the application of the fair value option is extended to all financial assets and liabilities that, if otherwise classified, would give rise to a distortion in the accounting treatment of income and shareholders' equity, as well as to all instruments that are managed and measured at fair value.

The following are therefore included in this category:

- structured instruments purchased (hybrid debt instruments whose return is linked to equity instruments, foreign exchange, credit instruments or indices), other than those allocated to trading instruments;
- debt securities not included in financial assets held for trading and subject to financial hedging for which the fair value is applied in order to reduce and/or eliminate valuation and accounting asymmetries;
- open–ended funds (including hedge funds), for which regular valuations are available from independent sources and which, not being held for short–term trading, form part of a suitably documented investment strategy, designed to achieve an overall return based on the change in the fair value of the instrument, with regular detailed reports on their performance provided to management;
- Mutual funds and equities held by funds consolidated line–by–line.

Reclassifications to other categories of financial assets are not allowed.

Recognition

The initial recognition of financial assets at fair value takes place on the settlement date of the underlying purchase transactions according to the timing provided by market practices ("regular way"). Changes in fair value between the trade date and the settlement date are booked to 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.

Measurement and recognition of components affecting the income statement

After initial recognition financial assets are valued at their current fair value.

The fair value of investments listed on 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. For more details please read paragraph 18 – Other information: Methods of determining the fair value of financial instruments.

Gains and losses realised on sale or redemption and the unrealised gains and losses arising from changes in fair value with respect to the purchase cost, determined on the basis of the weighted average cost on a daily basis, are expensed in the period in which they emerge under the item "Profits (losses) on financial assets and liabilities designated at fair value", to which are also booked the capital gains and losses on derivatives linked to the fair value option.

Under the terms of art. 6 of D.Lgs 38 of 28 February 2005, the share of operating profit, corresponding to gains recognised in the income statement, net of the related tax charge, which stems from the application of fair value to instruments other than those for trading and to foreign exchange operations and hedging instruments, is booked to a restricted reserve that is reduced by the amount of any capital gains that 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.

Interest income on debt securities is calculated on the basis of the nominal interest rate. Dividends from equities are recorded when the right to receive them arises. Interest income and dividends appear in the income statement, respectively, under "Interest and similar income" and "Dividends and similar income".

Derecognition
Financial assets at fair value are derecognised when the right to receive the cash flows from the financial asset has expired, or if substantially all the risks and benefits associated with holding that particular asset are 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. In such cases, the Group making the transfer recognises a liability to the buyers equal to the price received; the respective costs and revenues are recorded on the assets sold and any related liabilities.

6 – Hedging transactions

Classification
Risk hedging transactions are designed to neutralise potential losses on a particular item or group of items attributable to a given risk, should a specific risk actually occur. The instruments that may be used for hedging are derivatives (including purchased options) and non–derivative financial instruments, but only to hedge exchange risk. Hedging instruments are classified in the balance sheet under asset line item "80. Hedging derivatives" if positive at the balance sheet date, or under liability line item "60. Hedging derivatives", if negative.

The Group uses the following types of fair value hedges:
- micro–hedging: this aims to hedge the risk of changes in the fair value of individual assets or liabilities in the financial statements, or portions thereof, attributable to a particular risk, such as interest rate risk;
- macro–hedging: this aims to reduce fluctuations attributable to interest rate risk in the fair value of an indistinct portion (a monetary amount) of a portfolio of financial assets and/or liabilities. Net amounts corresponding to mismatches of assets and liabilities cannot be macrohedged.

Financial instruments are designated as hedging instruments only if they involve a counterparty that is external to the Group, which means that transactions between Group companies and their economic results are eliminated from the consolidated financial statements.

Recognition
Hedging derivatives are initially recognised at the trade date (the date the contract is signed).
Like all derivatives, financial derivative instruments used for hedging are initially recognised at fair value.

Measurement and recognition of components affecting the income statement
Financial derivative instruments used for hedging are measured at their current fair value. The fair value of derivatives is based on prices published by regulated markets or provided by financial markets, option pricing models or discounted future cash flow models. For more details, please read section 18 – Other information: Methods of determining the fair value of financial instruments.
Hedged positions are also carried at fair value, but only for changes in value produced by the risk being hedged (e.g. interest rate risk), "sterilising" the other risk components that are not subject to such transactions and, for hedged positions subject to the amortised cost method and involved in micro–hedging, with the contra–entry adjusting their amortised cost. In macro–hedging operations, changes in fair value of hedged positions do not involve adjusting their amortised cost, but are recognised in the balance sheet under the asset item "Fair value change of financial assets in hedged portfolios" or under the liability item "Fair value change of financial liabilities in hedged portfolios".
The accounting treatment of unrealised gains and losses corresponding to changes in fair value are different depending on the type of coverage. In particular:

- **specific fair value hedge**:
  the change in the fair value of the hedged item is connected with the change in the fair value of the hedging instrument. Such compensation is recognised through recognition in income statement item "90. Fair value adjustments in hedge accounting" of the changes in value related to the hedged item (as regards the changes produced by the underlying risk factor), and to the hedging instrument. Any difference, which represents the partial ineffectiveness of the hedge, therefore constitutes the net economic effect. Recognition in the income statement of changes in the fair value of the hedged item, attributable to the risk being hedged, also applies if the hedged item is a financial asset available for sale; if there is no hedge, this change would be booked to equity. In micro–hedging transactions, the difference between the book value of the hedged position (carried at amortised cost) at the time the hedge comes to an end and what would have been its book value if the hedge had never been activated is amortised to income over the residual life of the hedged item based on the effective rate of return. If the hedged item is sold or redeemed, the unamortised portion of fair value is recognised immediately to profit and loss;

- **generic fair value hedge**:
  changes in the fair value of assets or liabilities being hedged are recognised in income statement item "90. Net income from hedge accounting" and in the balance sheet under asset item "90. Fair value change of financial assets in hedged portfolios" or liability item "70. Fair value change of financial liabilities in hedged portfolios". If the hedging relationship no longer fulfills the conditions for hedge accounting or the hedge relationship is divested, the amount included in asset item 90 or liability item 70 is amortised to the income statement over the estimated life of the hedged items at the time of defining the general 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.

Differentials accrued on derivatives to hedge interest rate risk are recorded in the income statement under "Interest and similar income" or "Interest and similar expense" (the same as the accrued interest on the hedged positions).

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 effectiveness of the hedging relation must be tested when opened and, in the future, over its entire life.
The effectiveness of the hedge depends on the extent to which changes in the fair value of the hedged instruments or of the expected cash flows are offset by those of the hedging instrument. Effectiveness is measured by comparing the above changes, taking into account the intent pursued by the company when the hedge was put in place.
A hedge is effective (within a range of 80–125%) when the actual and expected changes in the fair value or cash flows of the hedging instrument almost completely neutralise the changes in the hedged item, for the type of risk being hedged.
Effectiveness is assessed at each annual or interim balance sheet date using:

- prospective tests: which justify the application of hedge accounting, as they demonstrate the expected efficacy;
- back tests: which show the degree of hedging effectiveness achieved in the period covered. In other words, they measure how much the results achieved differ from the perfect hedge.

Hedge accounting is discontinued in the following circumstances:
a) the hedging derivative ceases to exist or is no longer highly effective;
b) the hedged item is sold or repaid;
c) the hedge is terminated prematurely;
d) the derivative expires or is sold, terminated or exercised.

In cases a), b) and c) the derivative contract is reclassified to trading instruments (under "20. Financial assets held for trading" or "40. Financial liabilities held for trading"). In cases a), c) and d) the hedged instrument is recognised in its category with a value equal to its fair value at the time when it ceases to be effective and it goes back to being valued according to the class to which it originally belonged.

Derecognition
Financial assets and liabilities used for hedging are derecognised when the contractual rights to the cash flows from the assets expire or when the financial asset/liability is sold, transferring substantially all of the risks/benefits associated with it.

7 – Investments in associates and companies subject to joint control

Classification

Companies in which the voting rights and control over the business activities are shared equally, directly and indirectly, by the Group and by other parties are considered "subject to joint control" (or "joint ventures"). Companies are also considered as subject to joint control when, even in the absence of an equal share of voting rights, all strategic financial and operating decisions relating to the business contractually require the unanimous consent of the parties sharing control.

Associates are those companies that are subject to "significant influence", in which the parent company holds, directly or indirectly, between 20% and 50% of the voting rights. Interests of less than 20% are included in the consolidation and are only classified as investments in associates and companies subject to joint control if there are partnership agreements, under which the parent company is able to intervene in management decisions.

Interests of more than 20%, held directly or indirectly, are not considered subject to significant influence if they only give rights to a share of the return on the investments and do not give access to the strategic direction and management of the company. These companies are not consolidated and are classified as "Financial assets available for sale".

Recognition

This item includes the interests in associated companies and joint ventures;on initial recognition these investments are stated at cost.

Measurement and recognition of components affecting the income statement.

Investments in associates and companies subject to joint control are carried in the balance sheet at equity, which requires their initial recognition at cost and subsequent adjustment to calculate the the share of profits and losses realised after the acquisition. A pro–rata share of the company's operating results is recognised under "Profits (losses) on investments in associates and companies subject to joint control" in the consolidated income statement.

The value of investments in associates and companies subject to joint control is reduced by the dividends received periodically by the Group. If there are signs that the value of an investment may be impaired, an estimate of the recoverable amount of the investment is carried out, this being represented by the higher of the fair value net of costs to sell and its value in use. The value in use is the present value of the cash flows that the investment is expected to generate, including its ultimate disposal value. If the recoverable amount is less than the carrying value, the difference is reported in the consolidated income statement under item 240 "Profits (losses) on investments in associates and companies subject to joint control".

If the reasons for impairment cease to exist due to an event occurring after recognition of an impairment, write–backs are made in the consolidated income statement to the same line item 240 "Profits (losses) on investments in associates and companies subject to joint control".

Derecognition

Investments in associates and companies subject to joint control are derecognised when the contractual rights to the cash flows from the assets expire or when the investment is sold and substantially all of the risks and benefits associated with it are transferred. Instead, the investment has to be reclassified as a financial instrument in the case of partial disposal that involves the loss of significant influence or joint control.

8 – Property and equipment

Classification
The item mainly includes land and buildings for business purposes and those held for investment purposes, together with equipment, vehicles, furniture, furnishings 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 parent company and group companies.

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.

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.

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 depreciated over their estimated useful lives by adopting the straight–line method and the amount is entered under "Net adjustments/write–backs 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 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 amortisation the charge is recognised in proportion to the period the asset is effectively used.
Depreciation ceases when the asset is classified as "held for sale" or, if earlier, from the date when the asset is derecognised. 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 higher of fair value, net of any costs to sell, and the related value in use of the asset, understood as the present value of expected future cash flows generated by the asset.
Any adjustments are recorded in the income statement, under item "Net adjustments to/recoveries on 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 Group is depreciating its property and equipment over the following residual lives:
- Property: up to 30 years
- Furniture, machines, vehicles: from 3 to 10 years old
- Plant and leasehold improvements: from 3 to 12 years old

Derecognition
Property and equipment are removed from the balance sheet on disposal or when permanently withdrawn from use and therefore no future benefits are expected from their sale 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

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" under Software.

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: is represented by the future economic benefits of assets that cannot be individually identified or separately recognised in the accounts.

Recognition
Intangible assets are recorded as assets at cost, adjusted for any ancillary charges, if it is probable that future economic benefits attributable to the asset are realised and if the cost of the asset can be reliably determined and provided it consists of identifiable elements, i.e. protected by legal recognition, or negotiable separately from other assets. In the absence of these conditions, the cost of the intangible asset is expensed to income in the period incurred.

Internally produced software in the development phase is capitalised when the related cost can be reliably determined; these costs usually consist of the cost of internal staff working on the development project and any other directly related charges. If the technical feasibility of completing the related projects and their ability to generate future economic benefits fails to be demonstrated or if the cost of production cannot be determined in a reliable fashion, the costs are expensed to income.

Goodwill, which in a business combination represents the excess acquisition cost over the fair value of the assets and liabilities acquired, is recorded as a asset at the acquisition date and valued at cost.
If this difference is negative (i.e. "badwill") or if the goodwill is not justified by the future income–generating capacity of the investment, the difference is written off directly to the income statement.
Goodwill relating to equity investments carried at equity is included in the value of the investments.

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.
Goodwill is amortised on a straight–line basis (or, for intangible assets related to the enhancement of customer relationships with defined maturity, on a declining basis), which reflects the long–term use of the assets based on their estimated useful life, and is shown under "Net adjustments/writebacks to intangible assets" in the income statement.
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 "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 Units (CGU) considered in the assessment are based on customer groups and legal entities that differ from the sectors of activity, for which information is given in Part L of these financial statements.
The cash–generating unit to which the goodwill refers is identified for this purpose. The amount of any impairment is determined based

on the difference between the carrying amount of the cash–generating unit to which goodwill has been allocated and its realisable value, whichever is less. The recoverable amount is the higher of the cash–generating unit's fair value, less any costs to sell, 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 resulting adjustments are recognised in the income statement under "Goodwill impairment" and subsequent write–backs are not allowed.

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

Classification
Non–current assets held for sale and discontinued operations are classified as held for sale if their carrying value will be recovered principally through a sale rather than through their continued use. This condition is considered met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale and completion of the sale should be expected within one year of the classification.

In accordance with IFRS 5, "discontinued operations" are also accounted for; these are assets that have either been disposed of or classified as held for sale and:
- represent either a separate major line of business or a geographical area of operations;
- form part of a single co–ordinated plan to dispose of a separate major line of business or geographical area of operations;
- are a subsidiary acquired exclusively with a view to resale.

Recognition
Non–current assets held for sale and discontinued operations classified as held for sale are valued at the lower of their carrying amount and fair value, net of costs to sell.

Measurement and recognition of components affecting the income statement
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 costs to sell. In cases where the assets being sold are not fully depreciated, the depreciation process is interrupted from the time they are classified as non–current assets held for sale. Non–current assets held for sale and discontinued operations, as well as "discontinued operations" and related liabilities are shown in specific items under assets ("Non–current assets held for sale and discontinued operations") and liabilities ("Liabilities associated with non–current assets held for sale and discontinued operations").
The results of valuations, revenues, charges and profits (losses) on disposal (net of tax), of "discontinued operations" get booked to the relevant item of the income statement: "Income (loss) after tax from discontinued operations".

Derecognition
Non–current assets held for sale are eliminated from the balance sheet from the moment they are disposed of.

11 – Current and deferred taxation

"Current and deferred tax assets and liabilities" respectively include the current and deferred tax assets and current and deferred tax liabilities relating to income taxes. These are calculated in accordance with national tax laws and are recognised in the income statement on an accrual basis, in line with the recognition of the costs and revenues that generated them. An exception to this is the tax on items debited or credited directly to shareholders' equity, for which the recognition of the related tax takes place in shareholders' equity, for the sake of consistency.

Current taxation: "Current tax assets and liabilities" show the taxes payable or recoverable on the taxable result for the year. These basically relate to the taxes that will be declared in the tax return. Current taxes show the balance between current tax liabilities for the year, calculated on a conservative basis in accordance with current tax legislation, and current tax assets represented by advance payments, tax credits for withholding taxes incurred and other tax credits from previous years which we asked to offset against future taxation. Current tax assets also include tax credits for which a rebate was requested from the competent Tax Authority.

Deferred taxation: application of the tax rules to the separate financial statements leads to differences between taxable income and statutory income which may be permanent or temporary in nature. Permanent differences are definitive and consist of costs or revenues which under current tax laws may be non–deductible (totally or partially) or exempt.

Temporary differences are formed when the carrying value of an asset or liability differs from its tax value, thus giving rise to deferred tax, which is determined on the basis of the so–called "balance sheet liability method", taking account of the tax effect related to these differences, which lead to amounts that will taxable or deductible in future periods; it follows that the temporary differences can be divided into "taxable temporary differences" and "deductible temporary differences".

"Taxable temporary differences" arise when the carrying amount of an asset is higher than its value for tax purposes, or when the carrying amount of a liability is less than its value for tax purposes. These differences indicate a future increase in taxable income and consequently generate "deferred tax", as these differences result in taxable amounts in later periods to those in which they are recognised in the Bank's income statement, resulting in a deferral of taxation with respect to the period when it accrues from a statutory point of view.
"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 distribution to the 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.

"Deductible temporary differences" arise when the carrying amount of an asset is less than its value for tax purposes, or when the carrying amount of a liability is greater than its value for tax purposes. These differences indicate a future reduction in taxable income, which therefore generates "deferred tax assets" (effectively prepaid taxes), as these differences result in taxable amounts in the year they are recognised, leading to an anticipation of the tax with respect to the period when it accrues from a statutory point of view.
"Deferred tax assets" are recognised in the financial statements for all deductible temporary differences to the extent that they will probably be recovered. This probability is assessed on the ability of the company concerned, or of all the companies taking part in the Group tax regime, to generate positive taxable income against which deductible temporary differences can be offset.
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.

Deferred taxation is calculated by applying the tax rates that, according to the laws in force at the time of preparing the financial statements, will be applied in the period in which the asset will be realised or the liability 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.
The assets and liabilities booked for deferred tax assets and liabilities are systematically assessed to take into account any changes in the rules or tax rates, or any other circumstances relating to the individual Group companies.

The amount of the provision for taxation is also adjusted to meet any charges that could arise from tax assessments already notified or in any case from disputes with the tax authorities.

If deferred tax assets and liabilities relate to items affecting the income statement, the contra–entry is booked to "Taxes on income from continuing operations"; if the amount of deferred tax assets exceeds the aggregate cost for current taxes and deferred tax liabilities, a positive amount of "tax revenue" is shown in the above mentioned item of the income statement. In cases where deferred tax assets and liabilities relate to transactions that directly involved shareholders' equity (the "valuation reserves") without passing through the income statement (for example, recognition of actuarial gains or losses, and valuations of financial instruments available for sale and cash flow hedges), these are recorded with a contra–entry to the specific valuation reserves in shareholders' equity.

The deferred taxation of companies taking part in the Group tax regime is recognised on an accrual basis by the individual companies in their financial statements, as the Group tax regime can only be used to settle current tax positions.

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 of a legal nature (i.e. based on a contract, regulation or other provision of law) or implicit (i.e. arising any time the company generates an expectation in third parties that it would honour its commitments, even if not covered by legal 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.

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. The provision made to the allowance is recognised in the income statement, where the interest accruing on allowances that are subject to discounting is also recorded.
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.
If liabilities are only potential and not likely, no provision is made, but information is given in the notes, except in cases where the probability of incurring a cost is remote, or the situation is immaterial.

The allowances for risks and charges include post–employment and long–term benefits in accordance with IAS 19 and contingent liabilities in accordance with IAS 37.

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 under "Administrative expenses: a) personnel expenses", as the cost of the benefit to the employee.
Defined benefit plans are structured quite differently. In fact, in this case, the Group 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 Group in general. These plans are financed by a specific provision booked to "Allowances for risks and charges: a) post employment benefits". In this case the future benefits payable have been valued by an independent actuary using the "projected unit credit method", described in detail in chapter 18 "Other information – Termination indemnities".

Long–term benefits relate to long service bonuses due to employees and indemnities due to managers under Group companies' contractual agreements, both of which are shown under "Allowances for risks and charges: b) other allowances". 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.

”Allowances for risks and charges: b) Other allowances” also include the amounts set aside for bonuses payable to managers in cash and on deferred basis, those to cover estimated losses on lawsuits, including recovery procedures, the estimated costs of customer complaints regarding securities brokerage activities, the estimated costs of other legal obligations existing at the balance sheet date, including amounts set aside for staff severance incentives and related social security contributions, accounted for in accordance with IAS 37.

13 – Payables and securities issued

Classification

Payables and securities issued fall within the broader category of financial instruments and consist of those relationships for which the company is obliged to pay certain amounts to third parties at certain deadlines.
The items ”due to banks”, ”due to customers” and ”securities issued” include the various technical forms of interbank funding and customer deposits, repurchase agreements (forward agreements with an obligation to repurchase) and the funds raised by issuing certificates of deposit, bankers' drafts and bonds in circulation, i.e. net of any amount repurchased. ”Securities issued” also include securities that are past due but not yet reimbursed at the balance sheet date and exclude portions of debt securities issued but not yet placed with third parties. Payables also include those associated with the provision of financial services as defined in the Consolidated Banking Act and in the Consolidated Finance Act.

The preference shares (issued by ”BPM Capital I”, a BPM subsidiary resident in Delaware) and the subordinated loans are classified as financial liabilities, as their regulations require periodic coupon payments and/or mandatory redemption of capital for a fixed or determinable amount at a specified future date or give the holder the right to request a refund on or after a set date for a fixed or determinable amount.

Measurement and recognition of components affecting the income statement

After initial recognition, financial liabilities are carried at amortised cost using the effective interest rate method. Exceptions to this are short–term liabilities, where the time factor is negligible, which are recorded at the amount received and any costs are charged to the income statement on a straight–line basis over the contractual life of the liability. Note that funding instruments subject to an effective hedging relationship are evaluated according to the rules for hedging transactions.
Interest expense on debt instruments is classified as ”interest and similar expense”.
Dividends on preference shares are recorded in the income statement as interest on the basis of the effective rate of return.

Recognition

Initial recognition of these financial liabilities are on receipt of the money raised or the issuance of debt securities and is carried out based on the fair value of the liabilities, normally the amount received or the issue price, adjusted for any costs/income directly attributable to each funding transaction or issue and not reimbursed by the creditor. This does not include internal administrative expenses.
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 rest of the amount received is attributed to the conversion option and recognised in shareholders' equity under ”Reserves”.
Repurchase agreements are recorded as funding transactions for the amount paid spot.

Derecognition

Financial liabilities are derecognised when they have expired or have been extinguished. The repurchase of securities issued previously is regarded as an extinguishment of the liability or part of it. The difference between the carrying value of the liability extinguished and the amount paid for its repurchase is booked to the income statement under ”Profits (losses) on disposal or repurchase of: d) financial liabilities”.
Any repurchase of securities issued previously is recorded as a decrease in the liability item to which the issue had been booked. Replacement of these securities on the market after their repurchase is considered, for reporting purposes, as a new issue that is booked at the new placement price, with no effect on the income statement.

14 – Financial liabilities held for trading

Classification

The following items are classified in this category:

- derivative contracts held for trading (except for those designated as effective hedging instruments, recorded in liabilities under "Hedging derivatives") with a negative fair value;
- derivatives linked to assets/liabilities carried at fair value;
- the sub–items "due to banks" and "due to customers" include liabilities arising from short selling as part of securities trading.

Recognition

Initial recognition of financial liabilities held for trading takes place, for the liability in cash, on the settlement date of the underlying operations, if settled on schedule according to market practice (regular way); for derivatives, on the trade date. In the case of recognition of financial liabilities on the settlement date, any changes in fair value between the trade date and the settlement date are booked to income.

Financial liabilities held for trading are recognised on the subscription date at fair value, which generally corresponds to the amount received, without considering transaction costs or income directly attributable to the instrument concerned, which are charged directly to income.

Measurement and recognition of components affecting the income statement

Financial liabilities held for trading are measured at current fair value, with the result of the valuation being charged to income. If the fair value of a financial liability turns positive, the item is recorded as a financial asset.

Profits and losses from trading activities and gains and losses on the valuation of the trading book are recognised in the income statement under "Profits (losses) on trading".
Differentials and margins on derivatives are allocated in the income statement to "Profits (losses) on trading", except for those that are operationally linked to financial assets or liabilities carried at fair value (subject to the fair value option) or linked to financial assets or liabilities classified as held for trading and with settlement of differentials or margins with various maturities ("multiflow" contracts), which are classified in the income statement as "Interest and similar income".

Derecognition

Financial liabilities held for trading are derecognised when the contractual rights to the cash flows cease or when the liability is sold and substantially all of the risks and benefits associated with it are transferred.

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

Classification
Financial liabilities designated at fair value through profit or loss form part of this item, based on the fair value option granted to companies by IAS 39 and the case studies provided in the standard.
This category includes:

- structured instruments issued (hybrid debt instruments whose return is linked to equity instruments, foreign exchange, credit instruments or indices);
- debt securities issued by the Group not included in financial assets held for trading and subject to financial hedging for which the fair value is applied in order to reduce and/or eliminate valuation and accounting asymmetries.

Recognition
These financial liabilities are recognised at the issue date for an amount equal to their fair value, including the value of any embedded derivative, which generally corresponds to the amount received. Any transaction costs (including placement fees paid to third parties) are charged immediately to income.

Measurement and recognition of components affecting the income statement
After initial recognition financial liabilities are measured at current 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. For unquoted securities issued on an active market, the fair value is determined using valuation models and estimation methods that take into account the risk factors related to the instruments and that are based on observable market data where 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. As regards the credit spread on own issues aimed at retail customers, we are of the opinion that in valuations subsequent to their placement, it remains substantially constant from that date to the time of measurement, as these issues are due to be reimbursed at their natural maturity, from both a contractual and a commercial point of view.

Gains and losses realised on redemption and the unrealised gains and losses arising from changes in fair value with respect to the issue cost, are booked to the income statement in the period in which they emerge under the item "Profits (losses) on financial assets and liabilities designated at fair value", to which are also booked the capital gains and losses on derivatives linked to the fair value option.
Interest expense on debt instruments is classified as "interest and similar expense".

Derecognition
The repurchase of securities issued previously is regarded as an extinguishment of the liability or part of it. The difference between the carrying value of the liability extinguished and the amount paid for the repurchase is recorded in the income statement under "Profits (losses) on financial assets and liabilities designated at fair value".
Any repurchase of securities issued previously is recorded as a decrease in the liability item to which the issue had been booked. Re–placement of these securities on the market after their repurchase is considered, for reporting purposes, as a new issue that is booked at the new placement price, with no effect on the income statement.

16 – Foreign currency transactions

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 the purposes of the conversion method to be use, foreign currency assets and liabilities are divided into monetary and non–monetary items.

Monetary items consist of sums of money and assets and liabilities that express the right to receive or an obligation to pay fixed or determinable amounts of money (receivables, debt securities, financial liabilities). Non–monetary items (such as equities) are assets or liabilities that do not include the right to receive or an obligation to pay fixed or determinable amounts of money.

Recognition

Foreign currency assets and liabilities are recorded, at the time of initial recognition, in the reporting currency, by applying the spot exchange rate at the date of the underlying transactions to the foreign currency amounts.

Measurement and recognition of components affecting the income statement

At each balance sheet or interim period, foreign currency balances are valued as follows:

- monetary items are translated at the spot exchange rate at the closing date;
- non–monetary items carried at historical cost are translated at the spot exchange rate on the date of initial recognition in the financial statements (historical exchange rate);
- non–monetary items carried at fair value are translated using the spot exchange rates at the closing date.

Exchange differences that arise as a result of this process of translation into euro of assets and liabilities denominated in foreign currency, relating to monetary and non–monetary items carried at fair value are reported in the income statement item "Profits (losses) on trading", except for differences attributable to the "valuation reserves" (e.g. those of securities available for sale), which are charged directly to these reserves.

17 – Insurance assets and liabilities

Following the loss of control over the insurance companies Bipiemme Vita S.p.A. and Bipiemme Assicurazioni S.p.A., they are no longer consolidated on a line–by–line basis in the financial statements at 31 December 2011, but at equity. Following the change in consolidation method, the insurance–related items in these consolidated financial statements have zero balances.

18 – Other information

a) Other significant items in the financial statements

Cash and cash equivalents

This item includes legal currencies, including foreign banknotes and coins and demand deposits at the Central Bank of the country in which the Group operates.
This item is recorded at face value. The face value of foreign currencies is converted into euro at the spot exchange rate on the balance sheet date.

Adjustment to the value of financial assets and liabilities in hedged portfolios

These items respectively show the changes in fair value of financial assets and liabilities in hedged portfolios ("macro–hedging") against interest rate risk, based on their respective balance, whether positive or negative.

Other assets

This item shows assets that are not classifiable elsewhere on the assets side of the balance sheet. It includes items such as:

- gold, silver and precious metals;
- accrued income, other than what is capitalised to the related financial assets;
- leasehold improvements other than those related to "property and equipment", i.e. those that are not related to fixed assets that are separately identifiable. The restructuring costs of commercial property non owned by the Bank are booked to "Other assets" as required by the Bank of Italy's instructions, considering the fact that for the duration of the lease the company has control over the assets and can draw future economic benefits from them. These costs are depreciated over a period not exceeding the duration of the lease and recognised in the income statement under "Other operating expenses";
- tax debtor balances other than those included in "Tax assets" (e.g. those involved in acting as a tax withholding agent).

Employee termination indemnities

Employee termination indemnities are designated as "post–employment benefits".
Following the pension reform under Legislative Decree 252 of 5 December 2005, introduced by the 2007 Budget Law, the portions of staff termination indemnities that accrued up to 31.12.2006 remain in the company, whereas the amounts accruing from 1 January 2007 onwards can be transferred, at the employee's discretion, to supplementary pension schemes or to a treasury fund managed by INPS.
The consequence of this is that:

- The termination 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 termination 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 equal 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 in "Valuation reserves";

- the amounts accruing from 1 January 2007 are considered a "defined–contribution plan" as the company's obligation ceases when it pays the accrued indemnities to the fund chosen by the employee, so the amounts involved,which are accounted for on an accrual basis in personnel costs, are determined on the basis of the contributions payable without applying actuarial methods. Note that the termination 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.

This legislation does not apply to Group companies that had less than 50 employees at the date the reform came into effect; for these companies, the previous law remains in force, which considers employees' termination indemnities as a defined–benefit plan, the accrued amount of which has to be projected into the future to estimate the amount that will have to be paid at the time the employee leaves the company; it is then discounted using the projected unit credit method to take account of the time that will pass prior to the actual payment. The calculation only concerns the termination indemnities already accrued for periods of service already rendered and will have to take account of future wage rises.
More specifically, this method, also known as the "accrued benefit cost method" pro–rated over the years of service or as the "benefit/ years of service method", sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.
The projection of future payments (including future salary increases for whatever reason: contract renewals, inflation, career promotion, etc.) is carried out on the basis of historical statistics and analyses of the demographic curve, discounting these flows at a market interest rate. The contributions paid in each period are treated as separate units, recognised and measured individually for the purposes of determining the final obligation.
The amount recognised as a liability is therefore the present value of the liability at the balance sheet date, plus the annual interest accruing on the present value of the bank's obligations at the start of the year, calculated using the discount rate for estimating the liability for future outflows adopted at the end of the prior year, and adjusted for the portion of actuarial gains/losses.
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 line item "Valuation reserves".

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

Other liabilities

This item shows liabilities that are not classifiable elsewhere on the liabilities side of the balance sheet. It includes items such as:

- the commissions received on initial recognition of guarantees given and subsequent writedowns due to impairment of the risks guaranteed;
- accrued liabilities other than those capitalised to the related financial liabilities;
- payables associated with the payment of supplies of goods and services;
- tax creditor balances other than those included in "Tax liabilities" (e.g. those involved in acting as a tax withholding agent).

Accruals and deferrals

Accruals and deferrals for income and expenses accrued during the period on financial assets and liabilities are booked as an adjustment to the assets and liabilities to which they relate.

Valuation reserves

This item includes the valuation reserves relating to financial assets available for sale, profits (losses) on defined–benefit pension plans and the portion of the valuation reserves for investments carried at equity. They also include valuation reserves booked in application of special revaluation laws, also if "freed up" for tax purposes.

Share capital and treasury shares

This item includes the amount of shares issued net of any capital subscribed but not yet paid at the balance sheet date. The item is shown gross of any treasury shares held by the Parent Company or another Group company. Treasury shares are shown with a minus sign in a specific equity item.
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. The difference, positive or negative, between the selling price of the treasury shares and the corresponding book value is recorded as an increase or decrease in shareholders' equity under "Share premium reserve".
Transaction costs relating to an increase in capital, or other such capital transactions, are accounted for as a reduction in shareholders' equity, net of any related tax benefit. Dividends on ordinary shares are recorded as a reduction in shareholders' equity in the year in which the shareholders approve their distribution. Any interim dividends paid to shareholders are recognised in the balance sheet liability item "Interim dividends" with a minus sign.

Minority interests

This item represents the portion of the consolidated net equity attributable to shares belonging to minority shareholders, calculated on the basis of equity ratios. The amount is calculated net of any shares repurchased by consolidated companies.

Bank capitalisation instruments regulated by Decree Law 185/2008 (so–called "Tremonti Bonds")

The representation of the financial instruments foreseen in D.L. 185/2008 issued by Banca Popolare di Milano on 4 December 2009, for a total of 500 million euro, in favour of the Ministry of Economy and Finance (MEF) complies with the provisions contained in the joint document no. 3 of the Bank of Italy /Consob/Isvap of 21 July 2009, under which the economic substance of these instruments – which can be seen from the overall consideration of all the contractual terms (irredeemability, remuneration according to the performance of the issuer, absorption of losses on a going–concern basis pari passu with other shareholders, right of conversion, in favour of the company, into a fixed number of the issuer's shares) – appears to be consistent with their classification in the balance sheet as instruments representing shareholders' equity in the item "Equity instruments".

By analogy, the related costs (interest expense and ancillary charges) are booked as a reduction of shareholders' equity. In particular, the liability related to the remuneration due on the instruments in question is recorded as a contra–entry to equity reserves at the date on which the liability is considered certain and payable, in the same way as for the recognition of the liability relating to dividends whose distribution has been authorised. Similarly, the liability for ancillary charges represented by the contribution, of Euro 7.5 million, to the Guarantee Fund for loans made to small and medium–sized enterprises, referred to in art. 11 of Decree Law 185/2008, has been accounted for with the contra–entry going as a direct reduction to "Reserves" in shareholders' equity.

b) Other significant accounting treatments

Finance and operating leases

a) Group lessee companies: the lease agreements made by Group companies are all operating leases. Total payments due on contracts are accounted for in the income statement under "Administrative expenses: b) Other administrative expenses" over the life of the contracts. 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) Group lessor companies: the lease agreements made by group companies are operating 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 "Interest and similar income". Revenues from finance leases are accounted for in accordance with the provisions of the contract, using the so–called "net investment method before tax", which reflects a constant periodic rate of return.

Repurchase agreements, securities lending and carry–overs

Repurchase agreements or carry–over transactions by which the Group sells securities to third parties with the obligation to repurchase them in the future at a predetermined price are recorded in liabilities to other banks or customers, depending on the counterparty. Similarly, repurchase agreements or carry–over transactions by which the Group buys securities from third parties with the obligation to repurchase them in the future at a predetermined price are recorded in loans or advances to other banks or customers, depending on the counterparty. The difference between the spot price and forward price of these transactions is recognised as interest (income or expense depending on the circumstances) and recorded on an accrual basis over the life of the operation. Securities lending transactions where the collateral is represented by cash that remains entirely at the lender's disposal are recorded in the financial statements in the same way as repurchase agreements (see above). In the case of securities lending with collateral consisting of other securities, or without collateral, the lender and the borrower continue to recognise in their balance sheet, respectively, the security involved in the loan and the one given as a guarantee (if any). If the security being lent is sold by the borrower, the latter has to book a payable to the lender on the liabilities side of its balance sheet. If, on the other hand, it is used in repurchase agreements, the amount due to the repo counterparty is booked as a liability.

Offsetting of financial instruments

Financial assets and liabilities can be offset against each other, showing the net balance in the financial statements, when there is a legal right to compensate in this way and when there is the intention to settle the transactions for the net amount or to realise the asset and settle the liability simultaneously.

Share–based payments

Allocations of net profit

Under art. 60 (formerly art. 47) of the Parent Company's Articles of Association, as amended by the Extraordinary Meetings of Members on 25 June and 22 October 2011, an annual allocation is made to current employees – except those who hold senior management positions – or to collective funds where they are registered, of 5% of the Parent Company's pre–tax profit ("Income (loss) before tax from continuing operations"), calculated before determining this amount, unless the Meeting decides not to distribute a dividend out of earnings for the year. The amount is allocated in the form of shares that are subject to a restriction, in that the assignee cannot dispose of them for three years (for the purposes of the tax exemption); the reference value of shares granted is equal to the average stock price posted during the 30 days preceding the award.
The award is made on a scale that provides, according to union agreements, a fixed equal amount (60% of the total granted) and an amount related to length of service (for the remaining 40%).
Based on IFRS 2, the amount to be paid to employees is considered an expense for the year and recognised in the income statement under "Personnel expenses", for an amount equal to the fair value of the labour received, with the contra–entry booked to shareholders' equity.

Incentive scheme for "key personnel"

Following the issuance by the Bank of Italy of the "Supervisory Provisions concerning remuneration policies and practices and incentives in banks and banking groups" on 30 March 2011, the Parent Company has prepared an update of the "Document on remuneration and incentive policies of Banca Popolare di Milano ", approved by the Board of Directors of the Parent Company at its meeting on 7 June 2011,

and by the Members at the Ordinary General Meeting of 25 June 2011.With reference to the "key personnel" (also known as "risk takers", i.e. business managers, who can take on considerable risks), the variable element of remuneration is paid for 50% in cash and 50% in BPM shares (excluding managers who have responsibility for internal control).
As regards the portion paid in shares, the number of shares is determined by dividing the amount of the variable compensation due by the average price in the thirty days prior to the grant, also making reference for the deferred portion to the value posted in the year of settlement of the upfront allotment. As established in IFRS 2, the transaction explained in this paragraph is considered an expense for the year and recognised in the income statement under "Personnel expenses", for an amount equal to the fair value of the labour received, with the contra–entry booked to shareholders' equity.

Securitisations

The receivables involved in the securitisations completed prior to first–time adoption of international accounting standards are not recognised in the financial statements as the Group has used the exemption option provided by IFRS 1, which makes it possible not to reinstate financial assets or liabilities transferred or eliminated before 1 January 2004. The related junior notes subscribed at the time were classified as "Loans and receivables".
For operations completed after that date, the receivables are derecognised where there is a substantial retention of risks and benefits, even though formally being sold without recourse to a special purpose vehicle (SPV). This occurs, for example, if the Group subscribes to the junior tranche of securities or similar exposures, and therefore bears the risk of first loss and, in the same way, benefits from the performance of the operation. In particular, the Group retains all of the risks and benefits of securitised loans, not proceeding to their derecognition when, according to the specifications of the contracts in place, there is no change in the Group's risk and exposure to them.
The receivables are therefore maintained in the financial statements, recording a payable versus the SPV for the loan received, net of the securities issued by the company and signed by the Group that made the transfer. In the Covered Bond operations on the liabilities side of the Group's financial statements, instead of a loan as in the previous case, it is the value of the Covered Bonds issued directly by the Group that get booked.
A similar approach is taken in the previous cases in the recognition of income and costs, giving preference to substance over form.

Cost and revenue recognition

Revenues are recognised when they are earned or, in the case of the sale of goods or products, when it is probable that the future benefits will be received and these benefits can be reliably quantified, or, in the case of the provision of services, at the time when they have been rendered. In particular:

- interest is recognised on a pro–rata time basis at the contractual interest rate or at the effective rate if amortised cost is applied. Interest income (or interest expense) also includes differentials or margins, positive (or negative), accrued up to the balance sheet date on the related financial derivatives:
  a) to hedge assets and liabilities that generate interest;
  b) classified in the balance sheet in the trading book, but linked to financial assets/liabilities designated at fair value through profit and loss (under the fair value option);
  c) linked for operational purposes to assets and liabilities classified as held for trading and which provide for the settlement of differentials or margins with several maturities.
- any past due interest provided for in the contract is only recognised in the income statement when actually collected;
- dividends are recognised in the income statement in the period when their distribution is decided and shareholders gain the right to receive payment;
- net fee and commission income is recognised in the period when the services are rendered, based on contractual agreements. The fees and commissions considered in amortised cost for the purpose of determining the effective interest rate are booked as interest. In particular:
  - fees and commissions relating to syndicated loans are recognised as revenue when the organisation of the syndicated loan is completed, provided the Group 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;
- net income from trading, in addition to the recognition of capital gains/losses and trading profits/losses, include the result of valuing contracts for the purchase and sale of securities not yet settled at the balance sheet date;

- expenses are recognised in the income statement in the periods when the related revenues are recorded; costs that are not shown directly associated with revenues are charged immediately to income.

Methods of determining the fair value of financial instruments

Introduction

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.

The fair value used for measuring financial instruments is determined on the basis of the criteria explained below, which assume the use of so–called "observable" or "unobservable" inputs.
Observable inputs are parameters developed on the basis of available market data and reflect the assumptions that market participants would use when indicating a price for a particular financial instrument; unobservable inputs, on the other hand, are parameters for which no market data are available and which are therefore developed on the basis of the best information available on the assumptions that market participants would use when indicating a price for a particular financial instrument.
The fair value hierarchy, according to EC Regulation 1165/2009, Improving Disclosures about Financial Instruments (Amendments to IFRS 7 Financial Instruments: Disclosures), has to be applied to all financial instruments for which their fair value is recognised in the balance sheet. In this regard, for these instruments top priority is given to the official prices available in active markets (mark to market) and a lower priority to the use of unobservable inputs, as they are more discretionary (mark to model). The fair value is therefore determined through the use of prices obtained from financial markets in the case of instruments quoted on active markets, or, for other financial instruments, by using valuation techniques with the aim of establishing the price of a hypothetical arm's–length transaction at the valuation date, motivated by normal business considerations. These techniques are based on the following valuation approaches:
- Comparable approach: in this case the fair value of the instrument is derived from observed prices of recent transactions that occurred on active markets for instruments with similar risk characteristics, suitably adjusted to account for differences in the instruments and in market conditions. If these adjustments are significant for the determination of the overall fair value, and are based on unobservable inputs, the instrument as a whole is rated 3;
- Mark–to–model–approach: in the absence of observable transaction prices for the instrument being valued, it is necessary to adopt an assessment model which must be of proven reliability in the estimation of hypothetical "operational" prices and should therefore find broad support from market operators. The valuation model is powered by input data derived from parameters that are observable or estimated according to the assumptions made by the evaluator.

The choice between these methods is not optional, since they must be applied in the ranking that reflects the significance of the inputs used in the assessments:
- Level 1 – Quotations observed on active markets – Effective market quotes;
- Level 2 – Measurement methods based on observable market parameters – Comparable approach, Mark–to–model approach, based on observable inputs;
- Level 3 – Measurement methods based on unobservable market parameters – Mark–to–model approach, based on unobservable inputs.

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

LEVEL 1 – Quotations observed on active markets – Effective market quotes

Financial instruments have to be classified as Level 1 if they have been valued using prices quoted on active markets for identical instruments to those being evaluated, without making any adjustments.
Under IAS 39, a financial instrument is regarded as quoted on an active market when: quoted prices are readily and regularly available from a stock exchange list or through an operator, a broker, a sector company or through a quotation service, authorised agencies or regulators; and these prices represent effective market transactions taking place regularly.

If the prices quoted meet these requirements, they represent the best estimate of fair value and must therefore be used for valuing the financial instrument. From the definition contained in IAS 39, it is clear that the concept of active market depends on the individual financial instrument being valued and not the market where it is quoted.

Active markets are usually considered:
- regulated markets of securities and derivatives;
- organised trading systems;
- certain OTC electronic trading circuits, where there specific conditions are fulfilled based on the presence of a certain number of contributors with executable proposals and characterised by bid-ask spreads - i.e. the difference between the price at which the counterparty agrees to sell securities (ask price) and the price at which it agrees to buy them (bid price) - contained within a given threshold of tolerance;
- the secondary market for mutual funds, expressed by the NAV (Net Asset Value), at which the SGR issuer has to buy and sell units.

They are considered quoted on an active market (Level 1): Government securities listed on the MOT and MTS circuits; equities quoted on the MTA and Active Foreign Markets circuits; derivative financial instruments for which quotations are available on the IDEM, LIFFE, CBO, Eurexchange circuits ; non-government bonds quoted on regulated markets (MOT) and those which are identifiable continuously on the main international pricing platforms; spot foreign exchange transactions valued at the official ECB exchange rates of the day, which are considered equivalent to a price quoted on an active market; units of mutual funds whose NAV is quoted daily on or made available periodically by the operator at the intervals foreseen in the subscription contract.
If the same financial instrument is quoted on more than one active market, the quotation to be used is the one on the market that is most significant. The above considerations also apply to short positions in securities.
Conversely, all other financial instruments that do not belong to the above categories are not considered quoted on an active market.
For financial instruments quoted on active markets, the current bid price is used for financial assets and the ask price for financial liabilities, prevailing on the most advantageous market to which it has access at the end of the reporting period. In the case of financial instruments for which the bid-ask spread is scarcely significant, or assets and liabilities with characteristics that lead to offsetting positions for market risk, an average market price (or "mid price") is used (again with reference to the last day of the reference period) in place of the bid or ask price.

LEVEL 2 and 3

In the absence of quoted prices in active markets, financial instruments have to be classified in Levels 2 or 3.
Classification in Level 2 rather than Level 3 depends on the observability of significant market inputs used in determining the fair value. A financial instrument has to be classified entirely in a single level; if inputs belonging to different levels are used to value an instrument, the instrument being valued is classified at the lower level to which the significant input belongs.

LEVEL 2 – Measurement methods based on observable market parameters

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

Accordingly, Level 2 includes:

OTC financial derivatives

In addition, to determine the fair value, we also consider the credit quality of the counterparty.
The methodology used in evaluating these contracts is 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.

Non-government bonds without official prices expressed in an active market

As regards Plain Vanilla Bonds (which means that they do not have any option or derivative component), the Discounted Cash Flow (DCF) model is used, based on discounting expected future cash flows from the product in question.
As regards Structured Bonds (which means they have an option component), we proceed to a preliminary assessment of the various options using appropriate methodologies, consistent with the complexity of the product and of proven reliability in estimating values and widely used among market players. For these loans the level of the fair value hierarchy assigned to the derivative component contributes, on the basis of an analysis of significance, to the definition of the fair value hierarchy level to be assigned to the bond.

Other investment funds

The valuation of the individual units of these funds is carried out on the basis of the NAV (net asset value) if all significant inputs in the calculation process are directly or indirectly observable in the market.

LEVEL 3 – Measurement methods based on unobservable market parameters

Level 3 includes all financial instruments that are not quoted on an active market, for which the determination of fair value has to be done through valuation models that require the use of parameters that are not directly observable in the market. The assessment of the financial instrument is done by using a calculation methodology that is based on specific assumptions:

- the development of future cash-flows, possibly affected by future events to which may be attributed probabilities derived from historical experience or based on behavioural assumptions;
- the level of specific input parameters that are not quoted on active markets, which are estimated preferably on the basis of information acquired from observed market prices and spreads. If these are not available, historical data of the underlying specific risk factor or specialised research on the field are used (e.g. reports by rating agencies or leading market players).

The following are the instruments classified in this level and consequently evaluated according to the mark-to-model approach:

- debt securities. They include structured financial instruments issued directly by leading issuers, including structured credit products such as CDOs (Collateralised Debt Obligations) and credit derivatives on index tranches, ABSs (Asset Backed Securities). The fair value is determined by the DCF method of discounting expected cash flows, adjusted appropriately to reflect issuer risk;
- unquoted equities. These are essentially minority interests in unquoted financial and non-financial companies. These instruments are measured with reference to direct transactions in the same stock or similar securities observed in a reasonable period of time compared with the valuation date, the method of market multiples of comparable companies and, to a lesser extent, alternative valuation methods based on financial parameters, earnings and net assets. Securities for which it is impossible to estimate the fair value on a reasonable basis are maintained at their original purchase cost in accordance with IAS 39, paragraph AG 81.
- mutual funds. These are closed-end funds and hedge funds that do not fall into Levels 1 and 2. The fair value is determined by applying the NAV reported by the management company, as this is considered the most reliable estimate of the fair value of the instrument, being an exit value on disposal of the investment.
- OTC derivatives. these are financial derivatives valued at fair value stipulated with institutional counterparties and customers, which are valued on the basis of a variety of models, depending on the input factors (interest rate risk, volatility, currency risk, price risk, etc.) which influence their evaluation. As regards derivatives with customers, financial assets carried at fair value 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.

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

Amounts due to and from banks and customers, Securities issued

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

- for medium-term impaired loans (non-performing and doubtful loans), the fair value is determined by discounting, at a risk-free market rate, the contract flows or those quantified on the basis of repayment plans, net of forecast losses. For medium to long-term performing loans, the method used involves discounting cash flows. Contractual cash flows are weighted on the basis of PD (Probability of Default) and LGD (Loss Given Default), i.e. the rate of loss expected in the event of insolvency. 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;
- for assets and liabilities due on demand or with a short-term or indeterminate maturity, the book value is considered a reasonable approximation of fair value;
- for debt securities classified as held in the "Due from banks or customers" portfolio, the fair value is determined through the use of contributed prices in markets or by the use of valuation models, as described above for the financial assets and liabilities carried in the balance sheet at fair value.
- for the bonds valued at amortised cost, the assessment falls into Level 1 if there is a price that is considered "active market" that meets the requirements in terms of the number of price changes in a month and a minimum number of contributors; otherwise, the valuation is done by discounting the cash flows on the basis of the relevant interest rate curve.
- Subordinated bonds, on the other hand, are evaluated, where possible, on the basis of market prices, which already include an assessment of credit risk. In the absence of market prices, subordinated bonds are valued by internal models, extracting the creditworthiness through the spreads implied by similar bonds (comparable approach).

A.3 – Disclosures on fair value

A.3.1 Transfers between portfolios

On 15 October 2008 the European Commission approved Regulation no. 1004 which implemented the amendments to IAS 39 on the reclassification of financial instruments and IFRS 7 as regards the disclosure requirements.
Under this amendment, it is now possible, in certain conditions, to reclassify to another accounting category the financial instruments which, at the time of purchase, were recognised within the category of financial assets held for trading or financial assets available for sale.

In the current or prior periods, Group companies have not carried out any portfolio reclassifications of financial assets from categories measured at fair value into categories carried at amortised cost with regard to the possibilities introduced by this Regulation.

A.3.2 Fair value hierarchy

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

Accounting portfolios: breakdown by level of fair value	31.12.2011				31.12.2010			
	L1	L2	L3	Total	L1	L2	L3	Total
1. Financial assets held for trading	181,724	1,744,254	114,334	**2,040,312**	424,737	1,335,069	117,692	**1,877,498**
2. Financial assets designated at fair value through profit and loss	267,846	187,625	74,279	**529,750**	837,722	849,123	97,675	**1,784,520**
3. Financial assets available for sale	6,904,587	524,303	671,389	**8,100,279**	7,726,782	128,913	701,668	**8,557,363**
4. Hedging derivatives	–	168,244	–	**168,244**	–	75,674	–	**75,674**
Total	**7,354,157**	**2,624,426**	**860,002**	**10,838,585**	**8,989,241**	**2,388,779**	**917,035**	**12,295,055**
1. Financial liabilities held for trading	58,181	1,565,395	54,066	**1,677,642**	114,588	988,211	47,911	**1,150,710**
2. Financial liabilities designated at fair value through profit and loss	–	1,063,982	22,940	**1,086,922**	–	662,364	6,645	**669,009**
3. Hedging derivatives	–	26,759	5,124	**31,883**	–	47,224	2,070	**49,294**
Total	**58,181**	**2,656,136**	**82,130**	**2,796,447**	**114,588**	**1,697,799**	**56,626**	**1,869,013**

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

Level 3 financial assets as a whole amount to Euro 860 million and represent 7.9% of the total of financial assets carried at fair value (7.5% at 31 December 2010).
As for Level 3, financial liabilities, amounted to Euro 82 million, representing 2.9% of total financial liabilities carried at fair value (3% at 31 December 2010).

The following table shows the breakdown of financial assets carried at fair value in level 3:

Financial assets carried at fair value: breakdown by product	Debt securities	Equities	Mutual funds	Derivatives	31.12.2011	Debt securities	Equities	Mutual funds	Derivatives	31.12.2010
Financial assets held for trading	39,530	2	4	74,798	**114,334**	49,950	1	1	67,740	**117,692**
Financial assets designated at fair value through profit and loss	69,994	–	4,285	–	**74,279**	94,770	–	2,905	–	**97,675**
Financial assets available for sale	98,813	362,277	210,299	–	**671,389**	126,835	409,630	165,203	–	**701,668**
	208,337	**362,279**	**214,588**	**74,798**	**860,002**	**271,555**	**409,631**	**168,109**	**67,740**	**917,035**

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

a. Debt securities: 208.3 million euro. These are structured or subordinated debt securities issued directly by leading Italian or international banks. This aggregate includes ABSs or CDOs, or securities whose performance is linked to underlying portfolios of receivables for 53.3 million euro held by BPM Ireland.

b. Equities: 362.3 million euro. These are essentially minority interests in unquoted finance and non-finance companies. Note that for some of these financial instruments, for a total of 14.4 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: 214.6 million euro. These are:
- Closed-end property funds: 89.4 million euro;
- Closed-end funds: 120.9 million euro;
- Open-end hedge funds: 4.3 million euro.

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

d. Financial derivatives: 74.8 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 32.9% of all Level 3 financial assets), an analysis was carried out to measure their sensitivity to changes in interest rates (-/+ 12 million euro for changes in the curve of +/- 100 bps) and in credit spreads (-/+ 5.3 million euro to changes in spreads of +/- 25 bps);
- Equities and units in UCITS (representing around 42.1% and 25% respectively 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 carried at fair value (level 3)

		Financial assets				
		held for trading	designated at fair value through profit and loss	available for sale	for hedging	Total
1.	**Opening balances**	**117,692**	**97,675**	**701,668**	**–**	**917,035**
2.	**Increases**	**64,570**	**2,050**	**79,600**	**–**	**146,220**
2.1.	Purchases	783	2,000	42,123	–	44,906
2.2.	Profits booked to:	49,082	6	31,553	–	80,641
2.2.1.	Income statement	49,082	6	2	–	49,090
	– of which capital gains	*35,293*	*6*	*2*	–	*35,301*
2.2.2.	Shareholders' equity	X	X	31,551		31,551
2.3.	Transfers to other levels	3,017	–	–	–	3,017
2.4.	Other increases	11,688	44	5,924		17,656
3.	**Decreases**	**67,928**	**25,446**	**109,879**	**–**	**203,253**
3.1.	Sales	709	–	302	–	1,011
3.2.	Reimbursements	–	19,539	–	–	19,539
3.3.	Losses booked to:	34,950	5,435	96,929	–	137,314
3.3.1.	Income statement	34,950	5,435	11,585	–	51,970
	– of which capital losses	*19,774*	*5,435*	*11,584*	–	*36,793*
3.3.2.	Shareholders' equity	X	X	85,344	–	85,344
3.4.	Transfers to other levels	9,055	–	–	–	9,055
3.5.	Other decreases	23,214	472	12,648	–	36,334
4.	**Closing balances**	**114,334**	**74,279**	**671,389**	–	**860,002**

A.3.2.3 Annual changes in financial liabilities carried at fair value (level 3)

		Financial liabilities			
		held for trading	designated at fair value through profit and loss	for hedging	Total
1.	**Opening balances**	**47,911**	**6,645**	**2,070**	**56,626**
2.	**Increases**	**69,780**	**23,574**	**3,984**	**97,338**
2.1.	Issues	–	21,519	–	21,519
2.2.	Losses booked to:	62,032	1,660	3,059	66,751
2.2.1.	Income statement	62,032	1,660	3,059	66,751
	– of which capital losses	*13,957*	*1,316*	*3,059*	*18,332*
2.2.2.	Shareholders' equity	X	X	–	–
2.3.	Transfers to other levels	839	–	–	839
2.4.	Other increases	6,909	395	925	8,229
3.	**Decreases**	**63,625**	**7,279**	**930**	**71,834**
3.1.	Reimbursements	–	–	–	–
3.2.	Repurchases	–	–	–	–
3.3.	Profits booked to:	21,495	–	–	21,495
3.3.1.	Income statement	21,495	–	–	21,495
	– of which capital gains	*14,917*	–	–	*14,917*
3.3.2.	Shareholders' equity	X	X	–	–
3.4.	Transfers to other levels	2,984	6,317	–	9,301
3.5.	Other decreases	39,146	962	930	41,038
4.	**Closing balances**	**54,066**	**22,940**	**5,124**	**82,130**

Information on exposures to sovereign debt

With reference to the request received by ESMA (European Securities Markets Authority) with Communication ESMA/2011/226 of 28 July 2011 and by Consob Communication DEM/11070007 of 5 August 2011, with reference to the figures shown in the above item A.3.2.1 "Accounting portfolios: breakdown by level of fair value", the following is the BPM Group's exposure to sovereign debt, consisting mainly of Italian government securities.

The table shows the following information of the accounting portfolios by individual country:

- fair value hierarchy level;
- nominal value;
- book value at 31 December 2011;
- effect of the valuation recognised in the income statement for the period with respect to securities classified as "Financial assets held for trading" and "Financial assets carried at fair value";
- effect of the gross overall valuation recognised at the date of the balance sheet as shareholders' equity under "Revaluation reserves", in relation to securities classified as "Financial assets available for sale".

Financial assets carried at fair value: debt securities

(euro/000)

Accounting portfolios/issuers	L1				L2				L3		
	Nominal value	Book value 31.12.2011	Valuation booked to income statement	Valuation booked to shareholders' equity	Nominal value	Book value 31.12.2011	Valuation booked to income statement	Valuation booked to shareholders' equity	Nominal value	Book value 31.12.2011	Valuation booked to income statement
1. Financial assets held for trading	**31,388**	**29,890**	**(327)**	**–**	**6,384**	**4,001**	**(320)**	**–**	**2**	**2**	**–**
Italy	28,796	28,055	(33)	X	691	642	(24)	X	2	2	–
Austria	681	600	(29)	X	3,576	2,886	(178)	X	–	–	–
Argentina	1,688	998	(262)	X	2,117	473	(118)	X	–	–	–
Other countries (Mexico/ Venezuela/ Germany)	223	237	(3)	X	–	–	–	X	–	–	–
2. Financial assets designated at fair value through profit and loss	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
3. Financial assets available for sale	**7,018,026**	**6,544,657**	**–**	**–402,924**	**2,572**	**2,061**	**–**	**–42**	**5**	**5**	**–**
Italy	7,017,984	6,544,641	–	–402,921	2,520	2,052	–	–33	5	5	–
Argentina	42	16	–	–3	52	9	–	–9	–	–	–
Total	**7,049,414**	**6,574,547**	**(327)**	**–402,924**	**8,956**	**6,062**	**(320)**	**–42**	**7**	**7**	**0**

The following table shows these values restated by issuer:

Breakdown by issuer	Nominal value	Book value 31.12.2011	Valuation booked to income statement	Valuation booked to shareholders' equity
Italy	**7,049,998**	**6,575,397**	**(57)**	**–402,954**
Financial assets available for sale	7,020,509	6,546,698	–	–402,954
– of which maturing in 2012	*2,151,005*	*2,106,366*		*–17,050*
– of which maturing from 2013 to 2015	*3,201,048*	*3,040,387*		*–149,686*
– of which maturing from 2016 to 2020	*1,157,784*	*973,459*		*–162,368*
– of which maturing beyond 2020	*510,672*	*426,486*		*–73,850*
Financial assets held for trading	29,489	28,699	(57)	X
Austria	**4,257**	**3,486**	**(207)**	**–**
Financial assets held for trading	4,257	3,486	(207)	X
Argentina	**3,899**	**1,496**	**(380)**	**–12**
Financial assets held for trading	3,805	1,471	(380)	X
Financial assets available for sale	94	25	–	–12
Other countries (Mexico/Venezuela/Germany)	**223**	**237**	**(3)**	**–**
Financial assets held for trading	223	237	(3)	X
Total	**7,058,377**	**6,580,616**	**(647)**	**–402,966**

In addition to these exposures, asset item 70 "Loans to customers" includes exposures to the Italian Government and to Italian local public entities for about 205 million, not subject to specific value adjustments.

After 31 December 2011, there were tensions on financial markets that had a very negative impact on government bond prices. As a result of these events, at 29 February 2012, the potential losses on the "available-for-sale" government bond portfolio had significantly declined to 9 million euro (versus 402,954 million euro at 31 December 2011).

A.3.3 Information on the so-called "day-one profit/loss"

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

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

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

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

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

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

At 31.12.2011 the "day-one profit" - taken on the initial date of the financial instruments that have a significant model risk and/or parameters not directly observable in the market - not yet allocated to the income statement amounts to around 0.8 million. There are no "day-one losses" booked to the income statement.

Part B

Information on the balance sheet

Assets

Section 1 – Cash and cash equivalents
Line item 10

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

1.1 Cash and cash equivalents: breakdown

	31.12.2011	**31.12.2010**
a) Cash	241,315	264,208
b) Unrestricted deposits with central banks	–	–
Total	**241,315**	**264,208**

Section 2 - Financial assets held for trading
Line item 20

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

2.1 Financial assets held for trading: breakdown by product

Line items/Amounts	Level 1	Level 2	Level 3	31.12.2011	Level 1	Level 2	Level 3	31.12.2010
A. Cash assets								
1. Debt securities	**78,284**	**88,189**	**39,530**	**206,003**	**217,023**	**208,107**	**49,950**	**475,080**
1.1 Structured securities	4,257	28,586	38,341	71,184	2,909	105,783	49,561	158,253
1.2 Other debt securities	74,027	59,603	1,189	134,819	214,114	102,324	389	316,827
2. Equities	**62,813**	**–**	**2**	**62,815**	**120,325**	**–**	**1**	**120,326**
3. Mutual funds	**4,402**	**–**	**4**	**4,406**	**16,521**	**–**	**1**	**16,522**
4. Loans	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
4.1 Repurchase agreements	–	–	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–	–	–
Total A	**145,499**	**88,189**	**39,536**	**273,224**	**353,869**	**208,107**	**49,952**	**611,928**
B. Derivatives								
1. Financial derivatives:	**36,225**	**1,644,433**	**74,798**	**1,755,456**	**70,868**	**1,115,595**	**67,740**	**1,254,203**
1.1 trading	34,879	1,623,555	70,301	1,728,735	70,084	1,111,208	59,616	1,240,908
1.2 linked to the fair value option	1,346	20,878	4,497	26,721	784	4,387	8,124	13,295
1.3 other	–	–	–	–	–	–	–	–
2. Credit derivatives	**–**	**11,632**	**–**	**11,632**	**–**	**11,367**	**–**	**11,367**
2.1 trading	–	9,616	–	9,616	–	10,521	–	10,521
2.2 linked to the fair value option	–	2,016	–	2,016	–	846	–	846
2.3 other	–	–	–	–	–	–	–	–
Total B	**36,225**	**1,656,065**	**74,798**	**1,767,088**	**70,868**	**1,126,962**	**67,740**	**1,265,570**
Total (A+B)	**181,724**	**1,744,254**	**114,334**	**2,040,312**	**424,737**	**1,335,069**	**117,692**	**1,877,498**

Regarding the criteria used for determining fair value and for the classification of financial instruments in the three levels of the fair value hierarchy, please refer to Part A "Accounting Policies".
Line item "B.1.2 - Derivatives linked to the fair value option", includes the fair value of derivatives related to the instruments for which the fair value option has been adopted. These derivatives are mainly to hedge the risks inherent in the issue of bonds for which the Group has taken advantage of the fair value option according to IAS 39, paragraph 9. Such risks arise from possible fluctuations in interest rates and the presence of options that are implicit in the structured securities issued.

Breakdown of sub-item A.1.1 "Structured debt securities"

Type of securities	Level 1	Level 2	Level 3	31.12.2011	Level 1	Level 2	Level 3	31.12.2010
Reverse floaters	1,604	2,933	36,681	41,218	1,598	54	48,106	49,758
Credit linked notes	–	9,000	1,023	10,023	–	8,811	1,016	9,827
Index linked	1,963	97	89	2,149	–	3,543	439	3,982
Other	690	16,556	548	17,794	1,311	93,375	–	94,686
Total	**4,257**	**28,586**	**38,341**	**71,184**	**2,909**	**105,783**	**49,561**	**158,253**

Subordinated financial assets

A. Cash assets	Level 1	Level 2	Level 3	31.12.2011	Level 1	Level 2	Level 3	31.12.2010
1.2 Debt securities - Other								
– Issued by banks	1,983	3,648	446	6,077	3,642	5,855	5	9,502
– Issued by finance-sector companies	112	412	–	524	211	548	–	759
– Issued by insurance companies	–	–	–	–	–	24	–	24
– Issued by other companies	–	–	–	–	560	773	–	1,333
Total	**2,095**	**4,060**	**446**	**6,601**	**4,413**	**7,200**	**5**	**11,618**

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

Line items/Amounts	31.12.2011	31.12.2010
A. CASH ASSETS		
1. Debt securities	**206,003**	**475,080**
a) Governments and central banks	33,006	104,045
b) Other public entities	879	1,025
c) Banks	129,661	278,193
d) Other issuers	42,457	91,817
2. Equities	**62,815**	**120,326**
a) Banks	6,275	5,725
b) Other issuers	56,540	114,601
– insurance companies	–	502
– finance–sector companies	626	851
– non–financial companies	55,913	113,248
– other	1	–
3. Mutual funds	**4,406**	**16,522**
4. Loans	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total A	**273,224**	**611,928**
B. DERIVATIVES		
a) Banks	1,239,898	965,702
– fair value		
b) Customers	527,190	299,868
– fair value		
Total B	**1,767,088**	**1,265,570**
Total (A+B)	**2,040,312**	**1,877,498**

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

"Mutual funds": breakdown by category of open-ended funds:

Line items/Amounts	31.12.2011	31.12.2010
Equity	–	2,823
Bond/Money-market	–	6,611
Other	4,406	7,088
Total	**4,406**	**16,522**

The table provides details of table 2.2 above and illustrates the main types of investments made in mutual funds held in the trading book.

2.3 Cash financial assets held for trading: changes during the year

Change/Underlying assets	Debt securities	Equities	Mutual funds	Loans	31.12.2011
A. Opening balance	**475,080**	**120,326**	**16,522**	**–**	**611,928**
B. Increases	**38,902,670**	**1,027,537**	**762,918**	**–**	**40,693,125**
B1. Purchases	38,865,507	1,020,637	762,457	–	40,648,601
– Purchases	38,865,507	1,020,637	762,457	–	40,648,601
– Business combinations	–	–	–	–	–
B2. Positive change in fair value	2,400	906	1	–	3,307
B3. Other changes	34,763	5,994	460	–	41,217
C. Decreases	**39,171,747**	**1,085,048**	**775,034**	**–**	**41,031,829**
C1. Sales	38,974,644	1,060,483	773,326	–	40,808,453
– Sales	38,974,644	1,060,483	773,326	–	40,808,453
– Business combinations	–	–	–	–	–
C2. Reimbursement	175,831	–	–	–	175,831
C3. Negative change in fair value	18,980	6,789	1,305	–	27,074
C4. Transfer to other portfolios	–	–	–	–	–
C5. Other changes	2,292	17,776	403	–	20,471
D. Closing balance	**206,003**	**62,815**	**4,406**	**–**	**273,224**

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

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

- debt securities with embedded derivatives;
- debt securities not classified as financial assets held for trading and whose cash flows have been hedged;
- open-ended funds (including hedge funds), for which regular valuations are available from independent sources and which, not being held for short-term trading, form part of a duly documented investment strategy, designed to achieve an overall return based on the change in the fair value of the instrument itself, with regular detailed reports on their performance provided to management;
- mutual funds and equities held by consolidated funds.

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

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

Line items/Amounts	Level 1	Level 2	Level 3	31.12.2011	Level 1	Level 2	Level 3	31.12.2010
1. Debt securities	**122,054**	**159,594**	**69,994**	**351,642**	**154,439**	**713,233**	**94,770**	**962,442**
1.1 Structured securities	55,950	7,660	53,706	117,316	52,417	548,610	79,382	680,409
1.2 Other debt securities	66,104	151,934	16,288	234,326	102,022	164,623	15,388	282,033
2. Equities	**64,697**	**–**	**–**	**64,697**	**137,460**	**–**	**–**	**137,460**
3. Mutual funds	**81,095**	**28,031**	**4,285**	**113,411**	**545,823**	**135,890**	**2,905**	**684,618**
4. Loans	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
4.1 Structured	–	–	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–	–	–
Total	**267,846**	**187,625**	**74,279**	**529,750**	**837,722**	**849,123**	**97,675**	**1,784,520**
Cost	**292,620**	**203,886**	**92,659**	**589,165**	**823,143**	**838,489**	**108,492**	**1,770,124**

Regarding the criteria used for determining fair value and for the classification of financial instruments in the three levels of the fair value hierarchy, please refer to Part A "Accounting Policies".
The decrease is mainly attributable to the sale of Bipiemme Vita which at 31 December 2010 contributed 1,089 million euro to the consolidated figure.
The amounts reported as "cost" correspond to the purchase cost of financial assets held at the balance sheet date.
The remainder of the structured securities classified in level 3 includes, among other things, two Credit Link Notes for 376 thousand euro (477 thousand euro at 31.12.10) held by the Parent Company.

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

Type of transaction/ Amounts	Natural hedges	Structured financial instruments	Portfolios of financial assets managed internally on the basis of the fair value	31.12.2011	Natural hedges	Structured financial instruments	Portfolios of financial assets managed internally on the basis of the fair value	31.12.2010
1. Debt securities	**234,326**	**117,316**	**–**	**351,642**	**282,033**	**680,409**	**–**	**962,442**
1.1 Structured securities	–	117,316	–	117,316	–	680,409	–	680,409
1.2 Other debt securities	234,326	–	–	234,326	282,033	–	–	282,033
2. Equities	**–**	**–**	**64,697**	**64,697**	**–**	**–**	**137,460**	**137,460**
3. Mutual funds	**–**	**–**	**113,411**	**113,411**	**–**	**–**	**684,618**	**684,618**
4. Loans	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
4.1 Structured	–	–	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–	–	–
Total	**234,326**	**117,316**	**178,108**	**529,750**	**282,033**	**680,409**	**822,078**	**1,784,520**

The table provides details of table 3.1 above and shows the book value (fair value) of assets for which the fair value option has been adopted, distinguishing the type of use.
The amount in the "structured financial instruments" column includes specifically hedged securities of 53.285 million euro (52.417 million euro at 31.12.2010).

Subordinated financial assets

At the balance sheet date, in the portfolio of assets carried at fair value, there are subordinated securities issued by insurance companies for 23,457 thousand euro.

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

Line items/Amounts	31.12.2011	31.12.2010
1. Debt securities	**351,642**	**962,442**
a) Governments and central banks	35,269	40,393
b) Other public entities	–	–
c) Banks	222,966	773,745
d) Other issuers	93,407	148,304
2. Equities	**64,697**	**137,460**
a) Banks	10,983	19,521
b) Other issuers	53,714	117,939
– insurance companies	5,252	6,053
– finance–sector companies	461	48,946
– non–financial companies	48,001	62,940
– other	–	–
3. Mutual funds	**113,411**	**684,618**
4. Loans	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total	**529,750**	**1,784,520**

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

Mutual funds: breakdown by category of open-ended funds

Line items/Amounts	31.12.2011	31.12.2010
Bond/Money-market	21,556	192,401
Equity	56,955	339,380
Funds of funds	18,580	125,902
Other	16,320	26,935
Total	**113,411**	**684,618**

The table provides details of table 3.2 above and illustrates the main types of investments made in mutual funds held within the portfolio of financial assets carried at fair value.

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

Change/Underlying assets	Debt securities	Equities	Mutual funds	Loans	Total 31.12.2011
A. Opening balance	**962,442**	**137,460**	**684,618**	**–**	**1,784,520**
B. Increases	**109,283**	**746,653**	**183,575**	**–**	**1,039,511**
B1. Purchases	96,213	746,653	182,167	–	1,025,033
– Purchases	96,213	746,653	182,167	–	1,025,033
– Business combinations	–	–	–	–	–
B2. Positive change in fair value	1,251		1,252	–	2,503
B3. Other changes	11,819		156	–	11,975
C. Decreases	**720,083**	**819,416**	**754,782**	**–**	**2,294,281**
C1. Sales	640,707	783,277	730,151	–	2,154,135
C2. Reimbursement	44,907	–	–	–	44,907
C3. Negative change in fair value	33,812	8,934	11,117	–	53,863
C4. Other changes	657	27,205	13,514	–	41,376
D. Closing balance	**351,642**	**64,697**	**113,411**	**–**	**529,750**

Section 4 - Financial assets available for sale
Line item 40

This line item includes all the financial assets (debt securities, equities, etc) classified in the "available for sale" portfolio. Equities essentially include interests in companies which, in accordance with international accounting standards, are no longer defined as equity investments (i.e. investments in associates and companies subject to joint control).
The underlying technical forms also include assets sold that do not satisfy the requirements of IAS 39 to be eliminated from the financial statements ("sold but not eliminated") and impaired assets.

4.1 Financial assets available for sale: breakdown by product

Line items/Amounts	Level 1	Level 2	Level 3	31.12.2011	Level 1	Level 2	Level 3	31.12.2010
1. Debt securities	**6,843,859**	**524,087**	**98,813**	**7,466,759**	**7,575,460**	**113,992**	**126,835**	**7,816,287**
1.1 Structured securities	–	–	–	–	–	–	–	–
1.2 Other debt securities	6,843,859	524,087	98,813	7,466,759	7,575,460	113,992	126,835	7,816,287
2. Equities	**59,885**	**216**	**362,277**	**422,378**	**124,153**	**1,473**	**409,630**	**535,256**
2.1 Valued at fair value	59,885	216	348,898	408,999	124,153	1,473	335,838	461,464
2.2 Valued at cost	–	–	13,379	13,379	–	–	73,792	73,792
3. Mutual funds	**843**	**–**	**210,299**	**211,142**	**27,169**	**13,448**	**165,203**	**205,820**
4. Loans	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**6,904,587**	**524,303**	**671,389**	**8,100,279**	**7,726,782**	**128,913**	**701,668**	**8,557,363**

Regarding the criteria used for determining fair value and for the classification of financial instruments in the three levels of the fair value hierarchy, please refer to Part A "Accounting Policies".

At 31 December 2010, net of the portfolio of Bipiemme Vita, which contributed 2,891 million euro to the consolidated figure (of which 2,804 million euro of debt securities), financial assets available for sale amounted to 5,666 million.
The significant increase that took place in debt securities is mainly due to the acquisition of Italian government securities.

In accordance with the provisions of IAS 39 on the derecognition of financial assets, line item 1.2 "Other debt securities" also includes debt securities as part of repurchase agreements made on securities portfolio for 514.246 million euro (2,085.765 million euro at 31.12.2010).

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

Breakdown of line item 2.1. Equities carried at fair value	**% held**	**Level 1**	**Level 2**	**Level 3**	**31.12.2011**	**Level 1**	**Level 2**	**Level 3**	**31.12.2010**
Banks:		**34,865**	**–**	**241,115**	**275,980**	**47,929**	**–**	**270,906**	**318,835**
Dexia Crediop S.p.A.	10.00	–	–	80,500	80,500	–	–	106,831	106,831
Istituto Centrale delle Banche Popolari Italiane S.p.A.	4.98	–	–	51,015	51,015	–	–	40,287	40,287
CIC - Crédit Industriel e Commercial	0.93	34,205	–	–	34,205	46,123	–	–	46,123
Banca Popolare dell'Etruria	0.80	660	–	–	660	1,806	–	–	1,806
Cassa di Risparmio di Asti	20.00	–	–	109,600	109,600	–	–	123,788	123,788
Financial institutions and other companies:		**25,020**	**216**	**107,783**	**133,019**	**76,224**	**1,473**	**64,932**	**142,629**
Delmi S.p.A.	3.00	–	–	30,499	30,499	–	–	36,546	36,546
Alba Leasing S.p.A. (*)	9.83	–	–	31,358	31,358	–	–	–	–
Release S.p.A. (*)	2.92	–	–	12,204	12,204	–	–	–	–
Italy1 Investment SA	6.67	9,150	–	–	9,150	–	–	–	–
Premuda	7.19	7,290	–	–	7,290	9,774	–	–	9,774
Equinox Two 'A' (*)	5.12	–	–	5,750	5,750	–	–	–	–
SIA SpA	2.05	–	–	6,329	6,329	–	–	9,123	9,123
Risanamento	6.68	4,602	–	–	4,602	–	–	–	–
Comital-Strumenti Partecipativi	s.v.	–	–	3,883	3,883	–	–	4,175	4,175
Fiera di Milano S.p.A.	2.52	3,729	–	–	3,729	4,600	–	–	4,600
Unione Fiduciaria	14.23	–	–	3,330	3,330	–	–	4,590	4,590
Istituto Europeo Oncologico (*)	3.46	–	–	3,367	3,367	–			–
Genextra S.p.A.	4.37	–	–	1,268	1,268	–	–	1,791	1,791
Cedacri Spa	5.48	–	–	6,649	6,649		–	6,649	6,649
Expo Piemonte SpA (*)	6.65	–	–	1,134	1,134		–	–	–
Other equities		249	216	2,012	2,477	61,850	1,473	2,058	65,381
Total		**59,885**	**216**	**348,898**	**408,999**	**124,153**	**1,473**	**335,838**	**461,464**

"Other equities" at 31/12/2010 include securities held by BPM Vita for 61.6 million euro.

Breakdown of line item 2.2. Equities valued at cost	**% held**	**Level 1**	**Level 2**	**Level 3**	**31.12.2011**	**Level 1**	**Level 2**	**Level 3**	**31.12.2010**
Sesto Immobiliare	n.a.	–	–	2,845	2,845	–	–	2,845	2,845
Bank of Italy	0.29	–	–	8,724	8,724	–	–	8,724	8,724
Other equities (*)		–	–	1,810	1,810	–	–	62,223	62,223
Total	**–**	**–**	**–**	**13,379**	**13,379**	**–**	**–**	**73,792**	**73,792**

(*) at 31 December 2010 the companies were shown on line item 2.2 "Equities valued at cost".

The following table shows financial assets with a subordination clause

Subordinated financial assets

	Level 1	Level 2	Level 3	31.12.2011	Level 1	Level 2	Level 3	31.12.2010
1. Debt securities	–	–	–	–	–	–	–	–
1.2 Other debt securities	14,734	–	35,277	50,011	185,599	–	45,247	230,846
Issued by banks	14,734	–	35,277	50,011	185,599	–	45,247	230,846
Issued by finance-sector companies	–	–	–	–	–	–	–	–
Issued by insurance companies	–	–	–	–	–	–	–	–
Total	**14,734**	**–**	**35,277**	**50,011**	**185,599**	**–**	**45,247**	**230,846**

The figure at 31 December 2010 included securities of Bipiemme Vita for 167 million euro.

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

Line items/Amounts	31.12.2011	31.12.2010
1. Debt securities	**7,466,759**	**7,816,287**
a) Governments and central banks	6,546,724	6,727,205
b) Other public entities	–	6,786
c) Banks	866,301	835,543
d) Other issuers	53,734	246,753
2. Equities	**422,378**	**535,256**
a) Banks	284,746	331,366
b) Other issuers	137,632	203,890
– insurance companies	20	6,129
– finance–sector companies	53,905	61,369
– non–financial companies	83,707	85,310
– other	–	51,082
3. Mutual funds	**211,142**	**205,820**
4. Loans	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total	**8,100,279**	**8,557,363**

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

Mutual funds: breakdown by category of closed-end funds

Line items/Amounts	31.12.2011	31.12.2010
Equity	34,586	48,035
Bond/Money-market	–	–
Real estate	89,358	85,936
Other	87,198	71,849
Total	**211,142**	**205,820**

The table provides details of table 4.2 above and illustrates the main types of investments made in mutual funds held within the portfolio of financial assets available for sale.
"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.

4.3 Financial assets available for sale with specific hedge

Name	31.12.2011	31.12.2010
Banca Intesa 21.12.05/20	38,514	46,519
Total	**38,514**	**46,519**

The table shows the debt security included in financial assets available for sale which, at year-end, is subject to a specific fair value hedge for interest rate risk.

4.4 Financial assets available for sale: changes during the year

	Debt securities	Equities	Mutual funds	Loans	Total 31.12.2011
A. Opening balance	**7,816,287**	**535,256**	**205,820**	**–**	**8,557,363**
B. Increases	**5,145,834**	**56,156**	**60,705**	**–**	**5,262,695**
B1. Purchases	4,942,545	26,240	40,467	–	5,009,252
– Purchases	4,942,545	26,240	40,467	–	5,009,252
– Business combinations	–	–	–	–	–
B2. Positive change in fair value	769	11,340	20,212	–	32,321
B3. Writebacks	4,698	18,563	–	–	23,261
– booked to income statement	–	X	–	–	–
– booked to shareholders' equity	4,698	18,563	–	–	23,261
B4. Transfer from other portfolios	–	–	–	–	–
– Financial assets held for trading	–	–	–	–	–
– Investments held to maturity	–	–	–	–	–
– Investments in associates and companies subject to joint control	–	–	–	–	–
B5. Other changes	197,822	13	26	–	197,861
C. Decreases	**5,495,362**	**169,034**	**55,383**	**–**	**5,719,779**
C1. Sales	3,887,485	61,623	39,856	–	3,988,964
– Sales	1,084,423	59	13,749	–	1,098,231
– Business combinations	2,803,062	61,564	26,107	–	2,890,733
C2. Reimbursements	1,075,688	–	–	–	1,075,688
C3. Negative changes in fair value	372,506	49,602	10,542	–	432,650
C4. Writedowns for impairment	13,790	55,753	–	–	69,543
– booked to income statement	13,790	51,864	–	–	65,654
– booked to shareholders' equity	–	3,889	–	–	3,889
C5. Transfer to other portfolios	–	–	–	–	–
C6. Other changes	145,893	2,056	4,985	–	152,934
D. Closing balance	**7,466,759**	**422,378**	**211,142**	**–**	**8,100,279**

The opening and closing balances of "debt securities" include respectively 2,085.765 and 514.246 million euro of own securities used for funding repurchase agreements.

As part of debt securities, purchases refer for 4.3 billion to investments in government securities and 0.6 billion in bonds.
Given the adverse market conditions, the negative net fair value change (372.5 million) is due to the valuation at the reporting date of debt securities at market prices; the capital loss has been booked to a valuation reserve in equity.

The negative fair value changes booked to the income statement are due to the results of the impairment test carried out at the time the financial statements were being prepared. In this regard, the existence of objective evidence of impairment has been checked, in order to proceed, if this is the case, to the recognition of impairment losses, based on the criteria explained in "Part A - Accounting Policies" of these notes. In particular, as regards equities, the Group's accounting policy requires the recognition of impairment on a security in the event of a decrease in the fair value at the balance sheet date of more than 50% of the original book value or a decrease in the fair value below the original book value for a continuous period of 18 months. For the other securities, we have carried out a qualitative analysis of possible negative events, which could lead to the value of the assets not being fully recoverable.

With reference to the current year, the difficulties of the financial sector, particularly significant from the beginning of the second half because of the market crisis, have significantly influenced the results of companies in which the Group has minority shareholdings.
For some of them, there has been objective evidence of long-term impairment, which meant booking the loss to the income statement:
- **Delmi**: the writedown of Euro 25 million reflects the values of the transaction that should allow the company to sell the interest held in Transalpina di Energia S.r.l. (the holding company that owns 61% of Edison S.p.A.) to EDF S.A. and to purchase a 70% interest in Edipower S.p.A. from Edison S.p.A. and Alpiq. For the purposes of the writedown, the value of this investment was defined considering the estimate of fair value made by an independent expert for the inclusion of the interest in the financial statements of Delmi. Note that, as things stand, the entire transaction is subject to confirmation by Consob that the mandatory takeover bid price, resulting from the acquisition of Edison S.p.A. by EDF S.A., is not more than 0.84 euro per share and to approval by the pertinent Antitrust Authorities;

- **Alba Leasing**: the writedown of 4 million euro reflects a valuation of the company close to its shareholders' equity, and is justified by the losses accumulated during its start-up and uncertainty about the time needed to reach breakeven.

As regards the interest held in **Dexia Crediop**, the lower recoverable amount - estimated, with the help of an independent expert, at 23 million euro – takes account of the revised growth forecasts for the period 2012-14 developed by the company at the time of increased pressure on the Italian public debt securities and tension on liquidity for banks. Given the particular business activity performed by the company and the extraordinary nature of certain items that conditioned its results, it was decided not to consider the impairment as a permanent loss in value, booking it to an equity reserve.

As regards the interest held in **Cassa di Risparmio di Asti**, an assessment has been carried out, with the help of an independent expert, in line with the approach followed for the impairment test on goodwill (see Section 13 "Intangible assets"), taking into account the flows based on projections developed by the company. The recoverable amount for the portion held came to 110 million, compared with a carrying amount of 124 million.

To decide whether there was any impairment, it was considered that:
- the company's results have been positive over time and substantially in line with forecast;
- the decrease in value is not more than 50% of the original book value (i.e. not "significant");
- the value has fallen below the original book value for less than 18 months (i.e. not "prolonged");
- there are none of the other signs of impairment envisaged by IAS 39.

Therefore, in light of the above considerations, the negative difference - about 14 million - between the original value and the recoverable value is not an impairment loss and has been booked, net of tax, to the equity reserve for securities available for sale.

Overall, the net economic impact of adjustments (recorded in income statement item 130 b) amounts to 51.9 million , detailed in the following table.

Line items/Amounts	Gross book value	Accumulated writedowns	Net book value at 31/12/2011	Impairment writedowns booked to income statement	Writebacks for the year booked to shareholders' equity	Impairment writedowns booked to shareholders' equity
Equities:						
• CIC - Crédit Industriel et Commercial	55,282	–21,077	34,205	–8,397	–	–3,521
• Alba Leasing S.p.A.	35,388	–4,030	31,358	–4,030	–	–
• Delmi S.p.A. (*)	55,109	–22,919	30,499	–24,610	–	–
• Risanamento S.p.A. (**)	14,514	–9,912	4,602	–9,912	–	–
• Comital S.p.A.	7,451	–3,153	4,298	–323	–	–
• Fiera di Milano S.p.A.	7,646	–3,917	3,729	–547	–	–324
• Istituto Europeo di Oncologia S.r.l.	3,527	–160	3,367	–160	–	–
• Genextra S.p.A.	4,889	–3,621	1,268	–523	–	–
• Banca Popolare dell'Etruria	3,850	–3,190	660	–1,096	–	–
• Terme Acqui S.p.A.	922	–632	290	–472	–	–
• Parco Scientifico e Tecnologico Valle Scrivia S.p.A.	434	–164	270	–	–	–
• Gabetti S.p.A. (unquoted B shares)	3,523	–3,307	216	–1,257	–	–
• Gabetti S.p.A. (quoted ordinary shares)	531	–359	172	–359	–	–
• Italcom S.p.A.	608	–500	108	–	–	–
• Aedes S.p.A.	4,917	–4,861	56	–75	–	–44
• Milano Assicurazioni S.p.A.	407	–386	21	–73	–	–
• Polo Scientifico Tecnologico Lombardo S.p.A.	62	–60	2	–30	–	–
Total	**199,060**	**–82,248**	**115,121**	**(51,864)**	**–**	**–3,889**

(*) With reference to Delmi S.p.A. the impairment writedown recognized in the income statement comes for 18.563 million from the reversal to income of the negative equity reserve booked at 31.12.2010 (line item 130. "Valuation reserves"); the difference of 6.047 million has been recorded as a contra-entry to line item 40. "Financial assets available for sale".
(**) Under the restructuring plan of Risanamento S.p.A., BPM subscribed a portion of the company's increase in capital for 14.5 million euro, partly in cash and partly by converting loans. A convertible bond of 28 million euro was also subscribed by voluntary compensation of loans to the company. This security has been booked to financial assets designated at fair value through profit and loss.

Section 6 – Due from banks
Line item 60

This line item reports unquoted financial assets (Level 2 and Level 3) due from banks (overdrafts, security deposits, debt securities, etc) that have been classified in the loan portfolio ("loans and receivables"). They include operating receivables connected with the provision of financial services. The underlying technical forms also include assets sold that do not satisfy the requirements of IAS 39 to be eliminated from the financial statements ("sold but not eliminated") and impaired assets.

6.1 Due from banks: breakdown by product

Type of transaction/Amounts	31.12.2011	31.12.2010
A. Due from central banks	**318,541**	**226,706**
1. Restricted deposits	–	–
2. Compulsory reserve	318,528	226,689
3. Repurchase agreements	–	–
4. Other	13	17
B. Due from banks	**1,785,463**	**2,261,864**
1. Current accounts and unrestricted deposits	1,219,883	1,759,700
2. Restricted deposits	258,727	259,565
3. Other loans:	299,023	237,986
3.1 Repurchase agreements	8,488	55,947
3.2 Finance leases	–	–
3.3 Other	290,535	182,039
4. Debt securities	7,830	4,613
4.1 Structured securities	–	–
4.2 Other debt securities	7,830	4,613
Total book value	**2,104,004**	**2,488,570**
Total (fair value)	**2,125,869**	**2,512,341**

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

Subordinated financial assets

There are no loans to banks with subordination clause at the balance sheet date.

Impaired assets

Type of transaction/Amounts	31.12.2011	31.12.2010
B.2 Restricted deposits	432	1,625
B.3.3 Other loans: other	–	2,800
Total	**432**	**4,425**

6.2 Due from banks with specific hedges

There are no amount due from banks with specific hedges at the balance sheet date.

6.3 Finance leases

The Group does not have any receivables under finance leases at the balance sheet date.

Section 7 – Loans to customers
Line item 70

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

7.1 Loans to customers: breakdown by product

	31.12.2011			31.12.2010		
Type of transaction/Amounts	**Performing**	**Impaired**	**Total**	**Performing**	**Impaired**	**Total**
1. Current accounts	4,554,018	534,587	**5,088,605**	4,877,897	525,493	**5,403,390**
2. Repurchase agreements	40,150	–	**40,150**	151,946	–	**151,946**
3. Mortgage loans	16,981,294	1,116,928	**18,098,222**	15,640,678	996,389	**16,637,067**
4. Credit cards, personal loans and salary assignments	1,122,802	30,998	**1,153,800**	820,695	28,295	**848,990**
5. Finance leases	353,989	36,156	**390,145**	383,870	11,411	**395,281**
6. Factoring	–	–	**–**	–	–	**–**
7. Other transactions	10,158,096	529,888	**10,687,984**	11,332,145	534,670	**11,866,815**
8. Debt securities	226,657	–	**226,657**	233,939	–	**233,939**
8.1 Structured securities	962	–	**962**	–	–	**–**
8.2 Other debt securities	225,695	–	**225,695**	233,939	–	**233,939**
Total book value	**33,437,006**	**2,248,557**	**35,685,563**	**33,441,170**	**2,096,258**	**35,537,428**
Total (fair value)	**35,706,674**	**2,248,557**	**37,955,231**	**35,226,421**	**2,096,258**	**37,322,679**

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

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

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

Subordinated financial assets

Type of transaction/Amounts	31.12.2011	31.12.2010
7. Other transactions: subordinated loans granted to insurance companies	16,512	–
8.2 Other debt securities	962	–
Total	**17,474**	**–**

Subordinated financial assets versus insurance companies at 31.12.2011 refer to:

a) a loan granted on 27/6/2003 by the Parent Company and Banca di Legnano to Bipiemme Vita S.p.A., for an original amount of 8 million euro with unspecified maturity – interest rate 12-month Euribor + 250 b.p. This loan was eliminated from the 2010 financial statements due to the line-by-line consolidation of Bipiemme Vita at that date;

b) a loan granted on 31/3/2011 to Bipiemme Vita S.p.A. by the Parent Company, for an original amount of 8 million euro, with a 5-year duration – interest rate 5-year MID SWAP + 270 b.p.

"Other debt securities" relate to the convertible loan of Pitagora, an associated company: this loan was subscribed at the end of December and reimbursement of the loan is subject to the repayment of loans received by the issuing company.

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

	Performing	Impaired	31.12.2011	Performing	Impaired	31.12.2010
• **BPM Securitisation 2 S.r.l.:**						
– carried out in 2006 for 2,011.3 million euro	627,574	36,431	664,005	765,750	39,869	805,619
– Securitisation of commercial mortgage backed securities (CMBS), carried out in 2009 for 1,291.1 million euro	–	–	–	421,358	43,475	464,833
– Securitisation of commercial mortgage backed securities (CMBS), carried out in 2011 for 974 million euro	921,688	2,639	924,327	–	–	–
• **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 1,616 million euro.	3,709,208	51,654	3,760,862	3,480,700	42,585	3,523,285
Total	**5,258,470**	**90,724**	**5,349,194**	**4,667,808**	**125,929**	**4,793,737**

During the second quarter of 2011, the Parent Company repurchased all of the receivables underlying the "self-securitisation" of commercial mortgage-backed securities (CMBS), as a result simultaneously closing the securitisation with full repayment of the securities issued.

During the fourth quarter of 2011, the Bank carried out a new "self-securitisation" of CMBS, at the same time subscribing all of the securities issued by the SPV.

For more details on these transactions, see Part E - Section 3 - Liquidity risk - Self-securitisations.

7.2. Loans to customers: breakdown by debtor/issuer

	31.12.2011			31.12.2010		
Type of transaction/Amounts	**Performing**	**Impaired**	**Total**	**Performing**	**Impaired**	**Total**
1. Debt securities	**226,657**	**–**	**226,657**	**233,939**	**–**	**233,939**
a) Governments	–	–	**–**	–	–	**–**
b) Other public entities	–	–	**–**	–	–	**–**
c) Other issuers	226,657	–	**226,657**	233,939	–	**233,939**
– non–financial companies	125,852	–	**125,852**	125,619	–	**125,619**
– finance–sector companies	26,232	–	**26,232**	35,155	–	**35,155**
– insurance companies	74,573	–	**74,573**	73,165	–	**73,165**
– other	–	–	**–**	–	–	**–**
2. Loans to	**33,210,349**	**2,248,557**	**35,458,906**	**33,207,231**	**2,096,258**	**35,303,489**
a) Governments	24,622	–	**24,622**	19,335	–	**19,335**
b) Other public entities	162,755	17,316	**180,071**	171,442	4,079	**175,521**
c) Other parties	33,022,972	2,231,241	**35,254,213**	33,016,454	2,092,179	**35,108,633**
– non–financial companies	18,993,813	1,765,313	**20,759,126**	19,993,153	1,583,329	**21,576,482**
– finance–sector companies	3,142,944	93,403	**3,236,347**	3,666,471	156,245	**3,822,716**
– insurance companies	23,956	–	**23,956**	1,071	–	**1,071**
– other	10,862,259	372,525	**11,234,784**	9,355,759	352,605	**9,708,364**
Total	**33,437,006**	**2,248,557**	**35,685,563**	**33,441,170**	**2,096,258**	**35,537,428**

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	**31.12.2011**	**31.12.2010**
1. Loans with specific fair value hedges	**14,245**	**18,739**
a) interest rate risk	14,245	18,739
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	**14,245**	**18,739**

The table shows the portion of the portfolio of loans to customers that is subject to specific hedging at the year-end. In particular, the portion subject to a specific fair value hedge for interest rate risk relates mainly to a fixed-rate mortgage loan granted by the Parent Company, which shows a residual value at the balance sheet date of 13.228 million (17.155 million at 31.12.2010). "Loans with specific fair value hedges" are stated at cost as adjusted for the fair value of the hedged risk.

As summarized in Section 5.1 of the income statement - line item 90 "Fair value adjustments in hedge accounting" - the assessment of the hedging contracts and underlying loans has resulted in recording a negative value of 87 thousand euro.

7.4 Finance leases

The information required by IAS 17, paragraph 47, is provided below.

Reconciliation between the gross investment in leases and the present value of the minimum payments due at the balance sheet date

	31.12.2011	31.12.2010
Gross investment in leases	**511,141**	**517,394**
Deferred financial income	113,000	116,379
Net investment	**398,141**	**401,015**
Unguaranteed residual value	–	–
Present value of minimum payments due	**398,141**	**401,015**
Adjustments	–7,996	–5,734
Book value: line item 5. "finance lease" of table 7.1 above	**390,145**	**395,281**
Performing	353,989	383,870
Impaired	36,156	11,411

	31.12.2011	31.12.2010
Within 1 year		
Gross investment	**14,059**	**13,510**
Present value of minimum payments due	13,885	13,282
Adjustments	–1,028	–331
Net exposure	**12,857**	**12,951**
– *of which impaired*	*2,615*	*737*
Between 1 and 5 years		
Gross investment	**99,717**	**119,298**
Present value of minimum payments due	93,251	111,412
Adjustments	–1,823	–1,544
Net exposure	**91,428**	**109,868**
– *of which impaired*	*2,634*	*1,622*
Beyond 5 years		
Gross investment	**397,365**	**384,586**
Present value of minimum payments due	291,005	276,321
Adjustments	–5,145	–3,859
Net exposure	**285,860**	**272,462**
– *of which impaired*	*30,907*	*9,052*

The lease transactions shown in the table refer to Banca di Legnano.
The finance lease portfolio involves 2,156 contracts; the investments related to properties for 86%, functional assets for 11% and motor vehicles for the remainder.

Section 8 - Hedging derivatives
Line item 80

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

8.1 Hedging derivatives: breakdown by type of hedge and level

	FV 31.12.2011					FV 31.12.2010				
	Level 1	Level 2	Level 3	*Total*	NV	Level 1	Level 2	Level 3	*Total*	NV
A. Financial derivatives	**–**	**168,244**	**–**	**168,244**	**2,558,000**	**–**	**75,674**	**–**	**75,674**	**3,200,000**
1) Fair value	–	168,244	–	168,244	2,558,000	–	75,674	–	75,674	3,200,000
2) Cash flows	–	–	–	–	–	–	–	–	–	–
3) Foreign investments	–	–	–	–	–	–	–	–	–	–
B. Credit derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1) Fair value	–	–	–	–	–	–	–	–	–	–
2) Cash flows	–	–	–	–	–	–	–	–	–	–
Total	**–**	**168,244**	**–**	**168,244**	**2,558,000**	**–**	**75,674**	**–**	**75,674**	**3,200,000**

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

Regarding the criteria used for determining fair value and for the classification of financial instruments in the three levels of the fair value hierarchy, please refer to Part A "Accounting Policies".

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

In particular, the hedging of financial assets and liabilities other than those represented by securities is handled through hedge accounting.

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

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

Transactions/Type of hedge	Specific					*Fair value*		Cash flows	Foreign
	interest rate risk	exchange rate risk	credit risk	price risk	several risks	Generic	Specific	Generic	investm.
1. Financial assets available for sale	–	–	–	–	–	X	–	X	X
2. Loans and receivables	–	–	–	X	–	X	–	X	X
3. Investments held to maturity	X	–	–	X	–	X	–	X	X
4. Portfolio	X	X	X	X	X	–	X	–	X
5. Other transactions	–	–	–	–	–	X		X	–
Total assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Financial liabilities	168,244	–	–	X	–	X	–	X	X
2. Portfolio	X	X	X	X	X	–	X	–	–
Total liabilities	**168,244**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	
1. Expected transactions	X	X	X	X	X	X	–	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	–	X	–	–

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

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

- for 67.29 million, to the positive value of financial derivatives (for a total notional value of 458 million) entered into to hedge the interest rate of "Banca Popolare di Milano subordinated (Lower Tier 2) bond loan, fixed rate 7.125%", booked to "Securities issued" on the liabilities side of the balance sheet;
- for 100.954 million, to the positive value of financial derivatives (based on the notional value of the securities issued for 2.1 billion) stipulated by BPM Covered Bond (the SPV) with external counterparties to hedge against interest-rate risk the interest payable on the fixed-rate covered bonds issued by the Parent Bank; the fixed-rate coupons of the covered bonds get transformed into floating-rate coupons at Euribor plus a spread.

The amount of 75,674 million at 31.12.2010 in the table 8.1 above relates for 6.507 million to the positive value of the derivatives stipulated by the Parent Company to hedge the interest rate risk on the core deposits for a notional of 1.2 billion euro and for 69.167 million to the positive value of the derivatives stipulated by BPM Covered Bond, based on the notional value of the securities issued as of that date for 2 billion.

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

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

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

Fair value adjustment of hedged assets/Members of the Group	31.12.2011	31.12.2010
1. Positive adjustment	**22,293**	**176**
1.1 of specific portfolios	22,293	176
a) loans	6,899	176
b) financial assets available for sale	15,394	–
1.2 overall	–	–
2. Negative adjustment	**–**	**–**
2.1 of specific portfolios	–	–
a) loans	–	–
b) financial assets available for sale	–	–
2.2 overall	–	–
Total	**22,293**	**176**

The fair value adjustment of hedged assets concerns:

- a portfolio of fixed rate government securities for a nominal value of 2.5 billion recorded in "Financial assets available for sale";
- a portfolio of mortgages with a cap option, included in "loans to customers" for a nominal value of 135.684 million.

The related hedging derivatives, which at 31 December 2011 have a negative valuation, are shown under "Hedging derivatives" on the liabilities side of the balance sheet.
Income and expenses relating to the valuation of hedging derivatives and the hedged portfolio are recognised in the income statement under "Fair value adjustments in hedge accounting".

9.2 Assets covered by macrohedges against interest rate risk

Assets hedged	31.12.2011	31.12.2010
1. Loans and receivables	135,684	53,800
2. Financial assets available for sale	2,505,000	–
3. Portfolio	–	–

The amount relating to loans refers to the hedge set up by a subsidiary on mortgage loans for a nominal value of 135.684 million euro.

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

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

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

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

Company name		Share capital in Euro/ Original currency	Registered office	Nature of holding (1)	Nature of investment		Voting rights (2)
					Holder	% held	
A	**Companies carried at equity**						
A.1	**Companies subject to joint control**						
	Unquoted financial institutions						
	1 Calliope Finance S.r.l.	600,000	Conegliano (TV)	1	Banca Popolare di Milano S.c.a r.l.	50.00	
	2 ESN North America Inc. (*)	USD 2,82	Delaware (USA)	1	Banca Akros S.p.A.	39.36	
A.2	**Associates**						
	Unquoted financial institutions						
	1 SelmaBipiemme Leasing SpA	41,305,000	Milan	2	Banca Popolare di Milano S.c.a r.l.	40.00	
	2 Aedes Bipiemme Real Estate SGR SpA	5,500,000	Milan	2	Banca Popolare di Milano S.c.a r.l.	39.00	
	3 Asset Management Holding SpA	5,605,791	Milan	2	Banca Popolare di Milano S.c.a r.l.	26.30	
					Banca di Legnano S.p.A.	10.00	
	4 Factorit SpA.	85,000,002	Milan	2	Banca Popolare di Milano S.c.a r.l.	30.00	
	5 Etica SGR SpA.	4,500,000	Milan	2	Banca Popolare di Milano S.c.a r.l.	24.44	
	6 Pitagora 1936 SpA.	9,400,000	Turin	2	Banca Popolare di Milano S.c.a r.l.	24.00	
	7 Wise Venture SGR SpA.	1,250,000	Milan	2	Banca Popolare di Milano S.c.a.r.l.	20.00	
	Unquoted insurance companies						
	8 Bipiemme Vita SpA (**)	180,500,000	Milan	2	Banca Popolare di Milano S.c.a r.l.	19.00	

Key:
(1) Nature of holding:
1. joint control
2. significant influence

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

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

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

Name	Total assets	Total revenues	Net income (loss)	Shareholders' equity	Book value		*Fair value*
					31.12.2011	31.12.2010	
A. Companies carried at equity							
A.1 Companies subject to joint control							
Unquoted financial institutions							
1. Calliope Finance S.r.l.	39,228	3,092	–1,936	–911	951	513	X
2. ESN North America Inc	$ 2,029	$ 3,849	$ –1,366	$ 1,546	471	1,017	X
A.2 Associates							
Unquoted financial institutions							
1. SelmaBipiemme Leasing S.p.A.	2,526,194	91,207	462	103,994	44,009	47,293	X
2. Aedes Bipiemme Real Estate SGR S.p.A.	9,207	5,662	921	7,103	2,771	2,715	X
3. Asset Management Holding S.p.A.	1,024,081	391,545	7,903	431,333	171,799	255,764	X
4. Factorit S.p.A.	1,693,546	86,678	9,783	166,907	54,560	52,849	X
5. Etica SGR S.p.A.	7,374	5,395	348	5,363	1,230	1,152	X
6. Pitagora 1936 S.p.A.	167,599	47,170	1,806	26,809	6,434	6,133	X
7. Wise Venture SGR S.p.A.	4,590	6,556	940	2,704	541	397	X
Unquoted insurance companies							
8. Bipiemme Vita S.p.A.	3,907,768	657,292	–51,792	–1,242	17,574	–	X
Total					**300,340**	**367,833**	**X**

The figures shown are drawn from the financial statements at 31.12.2011, 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 figures for ESN North America are expressed in thousands of USD.
The "total revenues" column shows the overall amount of income items with plus signs before income taxes.
The fair value of investments in associates is reported only for quoted companies.

10.3 Investments: changes during the year

	31.12.2011	31.12.2010
A. Opening balance	**367,833**	**141,363**
B. Increases	**60,025**	**338,069**
B.1 Purchases	–	307,696
B.2 Writebacks	–	–
B.3 Revaluations	7,174	26,068
B.4 Other increases	52,851	4,305
C. Decreases	**127,518**	**111,599**
C.1 Sales	–	–
C.2 Adjustments	84,286	–
C.3 Other decreases	43,232	111,599
D. Closing balance	**300,340**	**367,833**
E. Total revaluations	**–**	**–**
F. Total adjustments	**85,829**	**1,543**

Detail of changes during the year

B. Increases		**60,025**
B.3	**Revaluations**	**7,174**
	• Profits on investments carried at equity	7,174
B.4	**Other increases**	**52,851**
	• Book value of the 19% interest retained in Bipiemme Vita after the sale of control	52,851
C. Decreases		**127,518**
C.2	**Adjustments**	**84,286**
	• Impairment adjustment made to the investment in Asset Management Holding	83,951
	• Impairment adjustment made to the investment in ESN North America	335
C.3	**Other decreases**	**43,232**
	• Dividends paid during the year	1,460
	• Losses on investments carried at equity	11,286
	• Change in valuation reserves of investments carried at equity	30,428
	• Other changes	58
F. Total adjustments:		**85,829**
	• Asset Management Holding	83,951
	• Wise Venture SGR	1,543
	• ESN North America	335

The adjustments referred to in item C.2 are a consequence of impairment tests performed on the value of the investments.

AM Holding
The difficulties of the asset management sector, which got even worse in particular from the second half of 2011, also as a result of the crisis in financial markets, heavily influenced the evolution of AM Holding's assets under management and net inflows. It therefore became necessary to carry out an impairment test on the investment with the help of an independent expert.
The methodology applied, in line with general practice, was the Unlevered Discounted Cash Flow or "DCF" method, also taking into account the company's net financial position in assessing the value in use.
Please refer to Section 13 "Intangible Assets" for details on the rate used for discounting future cash flows.
The estimates of income development have been provided directly by the company in two hypotheses, a "base scenario" and a "best scenario", and both take into account the difficulties involved in the current context, assuming a gradual return to "normality" over the period of the Plan. Having no reason to consider one more likely than the other, we have chosen to take a straight average of the various projections.
For the definition of the discount rate we have assumed the same parameters used for calculating the cost of capital of banks, with the exception of the "beta" coefficient, for which the sample consists of 35 companies operating in the asset management sector at an international level.
In addition, to calculate the terminal value, we considered it opportune to penalise that part of the company's income that is generated by performance fees (as they are more volatile) assuming a specific beta for riskier activities, all other parameters being equal.
The pro-rata recoverable value was estimated at Euro 172 million, compared with a carrying amount of Euro 256 million.
The resulting loss of Euro 84 million was considered durable, given the continuing difficulties of the sector, and was therefore booked to income.

ESN North America

The U.S. subsidiary, which acts as a broker, trading in European equities for U.S. institutional investors and in U.S. equities for European institutional clients, has closed the last two years with a loss due to the persistently difficult conditions of equity brokerage activities, which led to a sharp drop in the trading volumes of U.S. institutional investors in shares of European companies. So, in addition to booking the Group's share of the loss for the year, we decided to eliminate the goodwill implicitly included in the value of the investment (0.3 million) by bringing it into line with the company's book net equity.

10.4 Commitments relating to investments in companies subject to joint control

We are not aware of any commitments relating to investments in companies subject to joint control at the balance sheet date.

10.5 Commitments relating to investments in companies subject to significant influence

SelmaBipiemme Leasing S.p.A.

SelmaBipiemme Leasing (hereafter "Selma") is controlled by Mediobanca through Compass.

Between BPM, Mediobanca and Compass there is a shareholder agreement lasting until 30 June 2015 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 of the commercial agreement on expiry by Selma.

These options will have to be exercised within 180 days of the event that triggers the exercise. The strike price for Compass/ Mediobanca will be equal to their pro-rata share 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 will be equal to its pro-rata share of the company's economic value determined on the basis of a method laid down in the agreement.

The agreement also includes a call option for BPM to buy Compass's 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. The strike price of the option, which will have to be exercised within 180 days of the event, will be equal to its pro-rata share of Selma's economic value determined on the basis of the method laid down in the agreement. In the event of the option being exercised, Compass will have the right to purchase, within 180 days of the transaction, the interests held by Selma as of that date in Palladio Leasing S.p.A. and Teleleasing S.p.A.

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 has kept the other 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.

Asset Management Holding S.p.A.

Following the agreements signed on 29 December 2010 between Banca Monte dei Paschi di Siena, BPM and the Clessidra Group, which led to the strategic aggregation of Anima SGR and Prima SGR, 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 a series of 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 available at 31 December 2011 and the provisional forecasts for the next two years, it is estimated that these revenues are lower than the minimum threshold set in the agreements. We therefore proceeded to make a provision for risks and charges of 30.8 million (of which 24.3 million for BPM and 6.5 for Banca di Legnano).

Bipiemme Vita

On 8 September 2011 - following the agreements signed on 19 April by Banca Popolare di Milano and the Covéa Group ("the parties") to set up a strategic partnership in bancassurance selling life and accident insurance - the Covéa Group completed its acquisition of 81% of Bipiemme Vita S.p.A., which also holds 100% of Bipiemme Assicurazioni S.p.A. for a total of 243 million. This amount was later subjected to a price adjustment calculated by an independent expert appointed jointly by the parties according to the procedure laid down in the agreements, based on the company's net equity at 31 August 2011.

The final price, which took account of changes in adjusted net equity of the subsidiary that occurred between 30 September 2010 and 31 August 2011, was set at 225.3 million, allowing BPM to recognise a gain (before charges and taxes) of 25.8 million.

This gain, net of purchase costs and tax effects - also taking into account effects arising from mergers and acquisitions - was included in the consolidated financial statements under "Income after tax from discontinued operations" for 19.8 million.

The difference from the original price agreed (243 million) is attributable to the adjustment of prices based on the recalculation of the adjusted net equity of the company; this amount, 17.7 million, was conceded to the Covéa Group which used it on 15 February 2012 to subscribe an increase in capital of Bipiemme Vita (for 21.8 million), in which BPM also participated to maintain its interest at 19%, paying 4.1 million. BPM also took part for its pro-rata share (up to a maximum of 2.3 million) in the additional increase in capital resolved which Bipiemme Vita authorised up to a maximum of 12.2 million, to be carried out, in one or more tranches, by 31 December 2012.

The price, amended as a result of the first adjustment, may be increased if certain business objectives are achieved. These have been set by Bipiemme Vita and Bipiemme Assicurazioni for the period between the financial years ended 31 December 2011 and 31 December 2020, respectively "Earn Out Vita" (for a maximum of 11.7 million) and "Earn Out Danni" (for up to 2.5 million). The calculation of any second price adjustment will take place at the end of this period, subject to renewal of the strategic partnership with the Covéa Group.

The Sale and Purchase Agreement requires BPM to pay indemnification for any losses that Bipiemme Vita should incur as a result of any default involving:

(i) securities in the trading portfolio of Italian sovereign debt;
(ii) securities of the trading portfolio of bank bonds;
(iii) securities of the investment portfolio of Greek sovereign debt (for which default also includes the restructuring of debt assuming a recovery rate of 79%).

The indemnification obligation also extends to any loss recognised when, in the event of exceptional future liquidity needs on the part of Bipiemme Vita due to extraordinary redemptions of insurance contracts outstanding at 31 August 2011, Bipiemme Vita should have to sell the securities indicated above.

Lastly, the agreements provide that in the event Bipiemme Vita should have a solvency margin of less than 118% at the date of sale, an adequate subordinated loan will be made available to restore the solvency margin to the level mentioned above. The amount of this loan, which will be for ten years with an interest rate equal to 12-month Euribor, was set at 26 million.

A prudent provision of 13.3 million was made for these commitments at 31 December 2011.

The agreements also include reciprocal options which, on the occurrence of certain extraordinary events involving one or both parties - including, for example, non-compliance and/or non-renewal of the partnership agreements (termination for breach of the partnership agreement or of the distribution arrangements), any change of control over the parties, liquidation or insolvency/bankruptcy of the parties, a decision-making stalemate regarding a proposal to wind up and liquidate Bipiemme Vita and/or Bipiemme Assicurazioni, to revoke the state of liquidation or the appointment or dismissal of liquidators (a so-called "triggering event") - BPM or the Covéa Group will, according to the party affected by the event in question, to exercise its option to acquire the other party's interest in Bipiemme Vita, or to sell its own interest to the other party. The strike price of the options is determined according to a predetermined reciprocal mechanism based on a valuation of the life and accident businesses.

For the first five years of the strategic partnership, there is provision for a penalty in favour of the Covéa Group if the option is exercised linked to certain types of triggering events originated by BPM (termination due to breach of the partnership agreement or of the distribution agreements); the amount of this penalty decreases over time from the date of signing the partnership agreementsThe agreements also include reciprocal options which, on the occurrence of certain extraordinary events involving one or both parties - including, by way of example, non-compliance and/or non-renewal of the partnership agreements (termination for breach of the partnership agreement or of the distribution arrangements), any change of control over the parties, liquidation or insolvency/bankruptcy of the parties, a decision-making stalemate regarding a proposal to wind up and liquidate Bipiemme Vita and/or Bipiemme Assicurazioni, to revoke the state of liquidation or the appointment or dismissal of liquidators (a so-called "triggering event") - BPM or the Covéa Group will, according to the party affected by the event in question, to exercise its option to acquire the other party's interest in Bipiemme Vita, or to sell its own interest to the other party. The strike price of the options is determined according to a predetermined reciprocal mechanism based on a valuation of the life and accident businesses.

For the first five years of the strategic partnership, there is provision for a penalty in favour of the Covéa Group if the option is exercised linked to certain types of triggering events originated by BPM (termination due to breach of the partnership agreement or of the distribution agreements); the amount of this penalty decreases over time from the date of signing the partnership agreements.

Section 11 – Technical insurance reserves reassured with third parties
Line item 110

11.1 Technical insurance reserves reassured with third parties: breakdown

	31.12.2011	31.12.2010
A. Accident insurance	**–**	**2,651**
A.1 premium reserves	–	989
A.2 claims reserves	–	1,662
A.3 other reserves	–	–
B. Life insurance	**–**	**2,991**
B.1 mathematical reserves	–	2,991
B.2 reserves for amounts to be paid	–	–
B.3 other reserves	–	–
C. Technical reserves when the investment risk is borne by the insured	**–**	**–**
C.1 reserves for contracts whose benefits are linked to investment funds and market indices	–	–
C.2 reserves deriving from the management of pension funds	–	–
D. Total technical insurance reserves reassured with third parties	**–**	**5,642**

The item has a zero balance as at 31 December 2011 as Bipiemme Vita has been sold in September.

11.2 Change in line item 110 "Technical insured reserves reassured with third parties"

	31.12.2011	31.12.2010
A. Accident insurance		
A.1 premium reserves		
Reserves at the end of the year	–	989
Opening reserves at the date of first-time consolidation	–	–1,064
Change in reserves	–	–75
A.2 claims reserves		
Reserves at the end of the year	–	1,662
Opening reserves at the date of first-time consolidation	–	–1,658
Change in reserves	–	4
B. Life insurance		
B.1 mathematical reserves		
Reserves at the end of the year	–	2,991
Opening reserves at the date of first-time consolidation	–	–2,763
Change in reserves	–	228
B.2 reserves for amounts to be paid		
Reserves at the end of the year	–	–
Opening reserves at the date of first-time consolidation	–	–
Change in reserves	–	–
B.3 other reserves		
Reserves at the end of the year	–	–
Opening reserves at the date of first-time consolidation	–	–
Change in reserves	–	–
Change in technical insured reserves reassured with third parties	**–**	**157**

The opening reserves for 2010 are as of 30 June 2010 (the date when Bipiemme Vita was fully consolidated for the first time), so the change in reserves relates to the second half of 2010.

Section 12 - Property and equipment
Line item 120

12.1 Property and equipment: breakdown of assets carried at cost

Assets/Amounts	31.12.2011	31.12.2010
A. Assets used in business		
1.1 owned by company	**727,621**	**739,486**
a) land	282,907	281,377
b) buildings	363,860	379,688
c) furniture	26,927	27,149
d) electronic equipment	17,871	16,730
e) other	36,056	34,542
1.2 purchased under finance lease	**–**	**–**
a) land	–	–
b) buildings	–	–
c) furniture	–	–
d) electronic equipment	–	–
e) other	–	–
TOTAL A	**727,621**	**739,486**
B. Investment property:		
2.1 owned by company	**26,810**	**17,845**
a) land	5,016	4,918
b) buildings	21,794	12,927
2.2 purchased under finance lease	**–**	**–**
a) land	–	–
b) buildings	–	–
TOTAL B	**26,810**	**17,845**
Total (A+B)	**754,431**	**757,331**

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

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

There is no property and equipment that has been measured at fair value at the balance sheet date.

12.3 Functional property and equipment: changes during the year

	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. Opening gross amount	**281,377**	**844,498**	**117,846**	**172,738**	**165,137**	**1,581,596**
A.1 Total net reductions in value	–	464,810	90,697	156,008	130,595	842,110
A.2 Net opening amount	281,377	379,688	27,149	16,730	34,542	739,486
B. Increases	**1,615**	**7,138**	**4,833**	**8,185**	**10,143**	**31,914**
B.1 Purchases	1,612	6,693	4,664	8,166	10,053	31,188
- Purchases	1,612	6,693	4,664	8,166	10,053	31,188
- Business combinations	–	–	–	–	–	–
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	3	445	169	19	90	726
C. Decreases	**85**	**22,966**	**5,055**	**7,044**	**8,629**	**43,779**
C.1 Sales	85	431	175	129	108	928
- Sales	85	431	112	102	108	838
- Business combinations	–	–	63	27	–	90
C.2 Depreciation	–	22,222	3,892	6,915	8,292	41,321
C.3 Impairment charges booked to:	–	–	286	–	–	286
a) shareholders' equity	–	–	–	–	–	–
b) income statement	–	–	286	–	–	286
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	–	313	702	–	229	1,244
D. Net closing amount	**282,907**	**363,860**	**26,927**	**17,871**	**36,056**	**727,621**
D.1 Total net reductions in value	–	482,179	89,080	155,755	138,422	865,436
D.2 Closing gross amount	**282,907**	**846,039**	**116,007**	**173,626**	**174,478**	**1,593,057**
E. Valuation at cost	**–**	**–**	**–**	**–**	**–**	**–**

12.4 Investment properties: changes during the year

Investment properties are valued at cost.

	Land	Buildings	Total
A. Opening balance	**4,918**	**12,927**	**17,845**
B. Increases	**176**	**9,855**	**10,031**
B.1 Purchases	176	9,855	10,031
B.2 Capitalised improvement expenditure	–	–	–
B.3 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	**78**	**988**	**1,066**
C.1 Sales	78	227	305
C.2 Depreciation	–	761	761
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	–	–	–
d) non-current assets held for sale and discontinued operations	–	–	–
C.7 Other decreases	–	–	–
D. Closing balance	**5,016**	**21,794**	**26,810**
E. Valuation at fair value	**6,863**	**28,112**	**34,975**

12.5 Commitments to purchase property and equipment

Contractual commitments to purchase property and equipment (unexecuted orders) amount to 2,652 million at the balance sheet date (5,847 million at 31.12.2010).

Section 13 - Intangible assets
Line item 130

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

13.1 Intangible assets: breakdown by type of assets

Assets/Amounts	Finite life	Indefinite life	31.12.2011	Finite life	Indefinite life	31.12.2010
A.1 Goodwill	**X**	**335,425**	**335,425**	**X**	**686,663**	**686,663**
A.1.1 of the Group	X	335,425	335,425	X	660,956	660,956
A.1.2 of minority interests	X	–	–	X	25,707	25,707
A.2 Other intangible assets	**93,426**	**–**	**93,426**	**186,283**	**–**	**186,283**
A.2.1 Assets valued at cost:	93,426	–	93,426	186,283	–	186,283
a) Internally generated intangible assets	634	–	634	773	–	773
b) Other assets	92,792	–	92,792	185,510	–	185,510
A.2.2 Assets carried at fair value:	–	–	–	–	–	–
a) Internally generated intangible assets	–	–	–	–	–	–
b) Other assets	–	–	–	–	–	–
Total	**93,426**	**335,425**	**428,851**	**186,283**	**686,663**	**872,946**

A.1 Goodwill

Goodwill refers to goodwill arising on the following mergers and business acquisitions:

Assets/Amounts	Goodwill at 31.12.2010	Increases	Decreases	Goodwill at 31.12.2011
Banca di Legnano and Cassa Risparmio Alessandria (*)	520.153	–	–321.194	198.959
Former Unicredit branches	107.042	–	–	107.042
Bipiemme Vita	15.367	–	–15.367	–
Banca Popolare di Mantova	13.247	–	–13.247	–
WeBank (formerly WeTrade SIM)	12.915	–	–	12.915
Banca Akros	11.726	–	–	11.726
Banca 2000	4.441	–	–	4.441
Akros Alternative Investments SGR	1.430	–	–1.430	–
Pavia branch	342	–	–	342
Total	**686.663**	**–**	**–351.238**	**335.425**

(*) As outlined below, for impairment testing we took into consideration a single CGU consisting of the company resulting from the merger of Banca di Legnano and Cassa di Risparmio di Alessandria; the initial values of goodwill previously allocated to each of the two companies have therefore been added together.

The amounts shown in the "Decreases" column relate to impairment adjustments to goodwill, with the exception of the amount relating to Bipiemme Vita, which was sold during the year.

Impairment tests on goodwill
Under IAS 36, all intangible assets with an indefinite useful life, including goodwill, should be submitted to an impairment test to verify the recoverability of the value at least once a year and, in any case, whenever there is objective evidence of circumstances that may have reduced its value. For intangible assets with a finite useful life, it is necessary to determine the possible loss of value every time there are signs of impairment.

The recoverable amount of an asset or Cash Generating Unit (CGU) is defined as the greater of its value in use (present value of future cash flows that can be generated by the asset or CGU being evaluated) and its fair value less costs to sell.

The CGU is the lowest level at which goodwill is monitored at Group level.

The accounting standards require that the impairment test is done by comparing the book value with the recoverable amount of the CGU. If it is lower than book value, an adjustment is booked to the financial statements.

Information regarding the process used to test the goodwill of the following CGUs is provided below:
1) Banca di Legnano (after the merger of Cassa di Risparmio di Alessandria);
2) Banca Popolare di Mantova;
3) WeBank;
4) Banca Akros and Akros Alternative Investments;
5) Former Unicredit branches, Banca 2000 and Pavia branch, which arose from acquisitions made by the Parent Company for which the CGU has been identified as theCommercial Banking segment.

The method adopted
In terms of methodology, the value in use of the CGU was determined using the dividend discount model (DDM), which defines the value of a company based on the flow of future dividends that the company reckons it will be able to distribute to its shareholders, discounted at a rate that reflects the specific risk on equity. This is a financial method that is commonly used in valuations.

In the version adopted, dividend yields were determined analytically over the period of time covered by the economic plans of the CGU in question, while the "terminal value" was calculated by capitalizing the "free cash flow for the shareholder in perpetuity". This flow was defined based on the net income of the last period to be analytically estimated, increased by the rate of long-term growth ("g") and reduced for absorption by the share of functional income to maintain the Tier 1 capital ratio unchanged at a suitable level over the long term.

The future cash flows were discounted using a rate that was representative of the cost of equity ("Ke"), which incorporates the various risk factors related to the business sector. Specifically, it was considered appropriate, in line with the most recent valuation practice, to use different discount rates for the flows of the explicit period of the plan and for those used to calculate the terminal value, so as to reflect the increased risk currently perceived by the operators compared with that normally found in the long term. The cost of capital used in discounting the cash flows of the explicit forecast period is the sum of:
- the risk-free interest rate for the Italian economy: the average gross yield on 10-year Treasury bonds (BTP) in the second half of 2011 (source: ECB);
- the expected additional return on a diversified equity portfolio compared with the risk-free rate of return (known as the "equity risk premium" or ERP, which is assumed to be equal to the average between the historical ERP and the prospective one - source: Damodaran) weighted for systematic risk related to the flows that are being discounted (beta relative to a sample of similar competitors).

With regard to the cost of capital used to calculate the terminal flow, the only difference concerned the risk-free rate for which we used the average gross yield on 10-year Treasury bonds for the whole of 2011 (source: ECB).
The main assumptions adopted in the calculation of the recoverable amount of the CGUs are summarised below:
- discount rate for cash flows related to the explicit period = 9.74% (with the exception of Banca Akros whose flows have been discounted at a rate of 12.04%);
- discount rate for the calculation of the terminal value = 9.11% (with the exception of Banca Akros whose flows have been discounted at 11.41%);
- nominal growth rate for the calculation of the terminal value = 2%
- Tier 1 ratio = 8%, in line with the Supervisory requirements.

The growth rate used for the terminal value ("g") is consistent with the expected inflation rate and in line with practice and the main sources (ECB, IMF); this value is the result of a consistent and prudent choice.

The results

Banca di Legnano – CR Alessandria
The recoverable amount for the purposes of the impairment test was determined, with the help of an independent expert, on the basis of the cash flows that can be produced by the CGU consisting of the new Banca di Legnano after its merger with Cassa di Risparmio di Alessandria.
To estimate the recoverable amount, the cash flows for the two major shareholdings that Banca di Legnano holds in its portfolio (AM Holding and Cassa di Risparmio di Asti) were split out from the CGU and valued separately.

The goodwill of the CGU subject to impairment comes to Euro 552 million (of which 520 million pertaining to the BPM Group), deriving from the goodwill recognised after the Parent Company's acquisition of Banca di Legnano (Euro 390 million) and CR Alessandria (a total of Euro 162 million, of which 130 million pertaining to the Group).

The book value (or ”carrying amount”) of the CGU is equal to Euro 1,463 million and has been determined as the sum of the book net equities of BDL and CRAL, including goodwill and their results of operations for the period prior to the impairment test.

The recoverable amount of the CGU is its value in use, determined on the basis of expected future cash flows for the period 2011-2015 resulting from the business plans of the two merged companies (approved by the respective Board of Directors of BDL on 22 August 2011 and of CRAL on 28 July 2011), modified to take account of cost synergies resulting from the merger and significant changes in expectations in the last quarter of 2011, particularly in relation to the macroeconomic scenario and interest rates, following the crisis financial linked to concerns about the solvency of certain Euro-zone countries. These projections have been extended until 2016 in order to assess the CGU's revenue growth capacity over time, leaving aside the current poor environment for the banking sector, characterized by a negative macroeconomic scenario and particularly volatile financial markets. The total recoverable amount has been set at Euro 1,122 million.

As a result, the impairment test revealed the need to write down the CGU's goodwill - excluding the portion attributable to minorities - by Euro 321 million.

Banca Popolare di Mantova

The recoverable amount for the purposes of the impairment test was calculated, with the help of an independent expert, on the basis of the cash flows that can be produced by the CGU represented by Banca Popolare di Mantova. The impairment test was carried out on intangible assets with indefinite useful lives (goodwill), intangible assets with finite useful lives (”core deposits”), and on the higher value of loans attributed on allocation of the purchase price.

The CGU's goodwill subject to impairment amounts to Euro 22 million (of which 13 million pertaining to the Group), being the goodwill that was recognized following the Parent Company's acquisition of Banca Popolare di Mantova.

The carrying amount of the CGU is Euro 68 million and was calculated as the net book value of Banca Popolare di Mantova, including the financial result for the period prior to the impairment test, increased by the paid goodwill, the value of the core deposits and the higher value of the loans.

The recoverable amount of the CGU, Euro 39 million, is its value in use, determined on the basis of expected future cash flows for the period 2011-2016 derived from the data included in the BPM Group's Business Plan prepared in July 2011, subsequently modified and extended to 2016 to reflect significant changes in expectations in the last quarter of 2011, particularly in relation to the macroeconomic scenario and interest rates following the financial crisis linked to concerns about the solvency of certain Euro-zone countries.

As a result, theimpairment test revealed the need to write down all of the goodwill and to adjust the value of the core deposits and loans. The overall effect of these adjustments pertaining to the Group amounted to 17.9 million (of which 13 related to the elimination of goodwill).

WeBank

For Webank, the recoverable amount for the purposes of impairment test was determined on the basis of cash flows that can be produced by the CGU represented by the Bank. The goodwill subject to impairment comes to Euro 13 million and arose from the acquisition of WeTrade SIM in previous years.
The carrying amount of the CGU is equal to 76 million and has been determined on the basis of the book net equity, including goodwill and the results of operations for the period.

The recoverable amount of the CGU, of Euro 154 million, is its value in use, determined on the basis of expected future cash flows for the period 2011-2015 derived from data included in the BPM Group's Business Plan prepared in July 2011, later amended to take account of significant changes in expectations in the last quarter of 2011, particularly in relation to the macroeconomic scenario and interest rates, following the financial crisis linked to concerns about the solvency of certain Euro-zone countries.

The impairment test did not reveal any need for a writedown.

Banca Akros and Akros Alternative

For Banca Akros, the recoverable amount for the purposes of the impairment test was determined on the basis of cash flows that can be produced by the CGU represented by the Bank. The goodwill subject to impairment amounts to Euro 12 million and arose from BPM's acquisition of the company.

The total carrying amount comes to 172 million and was determined on the basis of the book net equity, including goodwill and results of operations for the period.

The total recoverable amount of Euro 182 million, is its value in use, determined on the basis of expected future cash flows for the period 2011-2015 derived from data included in the BPM Group's Business Plan prepared in July 2011, then amended to take account of significant changes in expectations in the last quarter of 2011, particularly in relation to the macroeconomic scenario and interest rates, following the financial crisis linked to concerns about the solvency of certain Euro-zone countries.

The impairment test did not reveal any need for a writedown.

With reference to Akros Alternative Investments, the value of goodwill - amounting to Euro 1.4 million - has been adjusted to bring it into line with net equity given that - following BPM's decision to reduce investments in assets no longer considered strategic - the Company received requests in early 2012 for redemptions of Fund shares for a total of 100 million euro, representing more than half the funds under management.

Retail CGU (Unicredit branches, Banca 2000 and Pavia branch)

For goodwill related to the former Unicredit branches, Banca 2000 and the Pavia branch, the recoverable amount for the purposes of the impairment test was determined on the basis of the cash flows that can be produced by a single CGU represented by the Parent Company's entire commercial banking segment, which incorporates the results of the Bank's retail branches ("Retail CGU"). The goodwill subject to impairment comes to Euro 112 million on a consolidated level. Applying the methodology described above, based on discounting the cash flows shown in the BPM Group's Business Plan of July 2011 - later modified and extended to 2016 to reflect significant changes in expectations in the last quarter of 2011 - the recoverable amount, equal to Euro 1,523 million, is approximately 175 million more than the carrying amount of the CGU. The impairment test did not therefore reveal any need for a writedown.

Please note that, in the separate financial statements of BPM, the items of goodwill allocated to the retail CGU amounted to 145 million, as they include goodwill relating to intercompany transactions, which have therefore been eliminated in the consolidated financial statements; as a consequence, the positive difference between the recoverable amount and carrying amount of the CGU in BPM's financial statements comes to 142 million euro.

Sensitivity analysis of the results

Since the valuations are affected by the poor state of the macroeconomic and market environment that the financial sector is currently going through and the consequent difficulty in making forecasts about long-term profitability and interest rate trends, we carried out a number of sensitivity analyses, assuming variations in the main parameters used in the impairment test.

The analysis shows the effects, in terms of percentage deviation with respect to the recoverable value determined above, in the case of:

- changes in the profit figure assumed in the calculation of the terminal flow;
- changes in the risk free rate used to calculate the cost of capital of the terminal flow.

The following table shows the impact in terms of recoverable value for the Banca di Legnano/CR Alessandria CGU.

(Euro/million)

		Change in the risk free rate used for the terminal value				
Change in the profit figure for the calculation of the terminal value		**–10%**	**–5%**	**0%**	**5%**	**10%**
	–10%	–2.7%	–4.7%	–6.5%	–8.2%	–9.8%
	–5%	0.9%	–1.3%	–3.3%	–5.1%	–6.8%
	0%	4.4%	2.1%	=	–2.0%	–3.8%
	+5%	7.9%	5.5%	3.3%	1.2%	–0.7%
	+10%	11.5%	8.9%	6.5%	4.3%	2.3%

In the same way, the effects on the recoverable amount for Banca Popolare di Mantova, Webank, Banca Akros and for the Retail CGU of Banca Popolare di Milano are summarised below.

(euro/million)

	Recoverable amount for 100%	Change in the profit figure for the calculation of the terminal value		Change in the risk free rate used for the terminal value	
		–5%	+5%	–5%	+5%
Banca Popolare di Mantova	39	–5.4%	5.6%	3.6%	–3.3%
Webank	154	–5.3%	4.9%	3.2%	–3.4%
Banca Akros	182	–3.6%	3.4%	1.5%	–1.6%
CGU Retail	1,523	–6.2%	6.1%	5.3%	–5.0%

Note that the parameters and information used to verify the recoverability of goodwill (in particular, the expected cash flows and discount rates used) are significantly influenced by the general macroeconomic and market scenario which could, of course, see changes that are not predictable as of today.

A.2 Other intangible assets

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

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

	31.12.2011	31.12.2010
Core deposit:		
• former Unicredit branches	26,709	30,571
• investment in Banca Popolare di Mantova	–	4,555
Software	66,083	75,709
Intangibles relating to Bipiemme Vita	–	74,675
	92,792	**185,510**

The core deposits derive from the process of purchase price allocation in 2008:

- of the business made up of 39 branches sold to the Parent Company by the Unicredit Group: 38.294 million;
- of a controlling interest in Banca Popolare di Mantova: 5.693 million.

These assets are normally amortised over a period of 10 years.

As explained above, the impairment tests carried out on the recoverable amount of Banca Popolare di Mantova resulted in the total writedown of the residual value of the core deposits, for 3.986 million.

13.2 Intangible assets: changes during the year

	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total
		FIN	INDEF	FIN	INDEF	
A. Opening balance	**901,914**	**1,696**	**–**	**474,866**	**–**	**1,378,476**
A.1 Total net reductions in value	215,251	923	–	289,356	–	505,530
A.2 Net opening amount	686,663	773	–	185,510	–	872,946
B. Increases	**–**	**234**	**–**	**21,405**	**–**	**21,639**
B.1 Purchases	–	–	–	21,369	–	21,369
- purchases	–	–	–	21,369	–	21,369
- business combinations	–	–	–	–	–	–
B.2 Increases in internally generated intangible assets	X	234	–	–	–	234
B.3 Writebacks	X	–	–	–	–	–
B.4 Fair value increases:		–	–	–	–	–
to shareholders' equity	X	–	–	–	–	–
to income statement	X	–	–	–	–	–
B.5 Positive exchange rate adjustments	–	–	–	–	–	–
B.6 Other increases	–	–	–	36	–	36
C. Decreases	**351,238**	**373**	**–**	**114,123**	**–**	**465,734**
C.1 Sales	15,367	–	–	74,979	–	90,346
- sales	–	–	–	–	–	–
- business combinations	15,367	–	–	74,979	–	90,346
C.2 Adjustments	335,871	373	–	39,057	–	375,301
- Amortisation	X	373	–	35,071	–	35,444
- Writedowns	335,871	–	–	3,986	–	339,857
+ shareholders' equity	X	–	–	–	–	–
+ income statement	335,871	–	–	3,986	–	339,857
C.3 Fair value decreases	–	–	–	–	–	–
- 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	–	–	–	87	–	87
D. Net closing amount	**335,425**	**634**	**–**	**92,792**	**–**	**428,851**
D.1 Total net adjustments	551,122	1,295	–	321,581	–	873,998
E. Closing gross amount	**886,547**	**1,929**	**–**	**414,373**	**–**	**1,302,849**
F. Valuation at cost	**–**	**–**	**–**	**–**	**–**	**–**

Key: **FIN**: finite life **INDEF**: indefinite life

The changes described in line item C.1 sales refer to the sale of the investment in BPM Vita.

13.3 Other information

The following declarations are made as required by paragraphs 122 and 124 of IAS 38:

- there are no intangible assets that have been revalued; as a result, there are no restrictions on distributions to shareholders because of revaluation surpluses relating to intangible assets (paragraph 124, letter b) of IAS 38);
- there are no intangible assets that have been acquired under a government concession (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 3.157 million at 31.12.2011 (5.439 million at 31.12.2010) (paragraph 122, letter e) of IAS 38);
- there are no leased intangible assets.

Section 14 – Tax assets and liabilities
Asset line item 140 and liability line item 80

In accordance with IAS 12, these line items show current and deferred tax assets (asset line item 140) and current and deferred tax liabilities (liability line item 80).

14.1 Deferred tax assets: breakdown

The types of temporary differences that gave rise to the recognition of deferred tax assets are as follows:

Description	31.12.2011	31.12.2010
Deferred tax assets with contra-entry to the income statement:	**523,564**	**360,008**
Tax losses	**–**	**21,385**
Writedowns of loans to customers and banks	**299,887**	**206,878**
Other:	**223,677**	**131,745**
+ Adjustments to the value of financial assets held for trading and financial liabilities designated at fair value through profit and loss	1,359	1,398
+ Adjustments to securities issued	34,656	11,821
+ Adjustments to financial liabilities held for trading and financial liabilities designated at fair value through profit and loss	–	–
+ Impairment adjustments to guarantees given shown under other liabilities	7,882	8,039
+ Allowances for risks and charges	67,059	63,348
+ Costs mainly of an administrative nature	5,404	6,636
+ Writedowns of hedging derivatives	–	15,166
+ Other line items	107,317	25,337
Deferred tax assets with contra-entry to shareholders' equity:	**185,697**	**59,817**
– Valuation reserves and Share premium reserve:	**185,697**	**59,817**
+ Losses on financial assets available for sale	170,964	50,864
+ Actuarial gains/losses relating to payroll provisions and other line items	14,733	8,953
Total sub-items 140 b) Deferred tax assets	**709,261**	**419,825**

Under "Deferred tax assets", note on the line "Writedown of loans to customers and banks" the tax receivable for adjustments to loans to customers not deducted for tax purposes at the reporting date of these financial statements as they were in excess of the limit laid down in art. 106 of the ITCA. These adjustments will be deductible in equal instalments over the next five years.
"Other line items" include, for 55.6 million, tax assets recognised after the freeing-up of goodwill in the consolidated financial statements at 31 December 2010 through payment of a substitute tax of 26.9 million, or 16% of the value of the items of tax recognition (under art. 23, paragraphs 12-15 of Decree Law 98 of 6 July 2011, converted into Law no. 111/2011, incorporating the current provisions of art. 15 of Decree Law no. 185/2008).
"Actuarial gains/losses relating to payroll provisions and other line items" include the tax effect of approximately 6 million related to expenses incurred in connection with the increase in capital with the contra-entry booked to the "Share premium reserve".

The tax rates used for the assessment of deferred tax assets for IRES and IRAP purposes are 27.50% and 5.58% respectively.

As regards the likelihood of recovery of the deferred tax assets, please note that:

- Deferred tax assets are recognised to the extent that there is a likelihood of recovery on the basis of the company's ability to generate positive taxable income on an ongoing basis. We assessed the probability of recovery of the deferred tax assets on the basis of available information represented by the estimate of future taxable income derived from the 2012 budget and, for the years 2013-2015, from the development of expected income arising from the 2011-2015 business plan approved on 27 September 2011 by the Board of Directors of the Parent Company. The test confirmed that the temporary differences can be reabsorbed by future taxable income. Moreover, on the expected income in the years 2013-2015, under the current business plan, a stress test has been performed to take into account the effects of the difficult macroeconomic environment. The stress test has confirmed the ability to produce positive taxable income for the years under review.

■ The rule introduced by article 2 of Decree 225/2010 converted into Law no. 10/2011 and subsequent amendments (article 9 of Decree 201/2011, converted into Law no. 214/2011) requires that deferred tax assets recognized in the balance sheet on loan writedowns not yet deducted from taxable income under paragraph 3 of art. 106 of the ITCA, as well as those related to goodwill and other intangible assets, are to be converted into tax credits if the individual financial statements of the company report an operating loss (for statutory or tax purposes). This credit does not earn interest, it is not subject to the compensation limits as per art. 17 of Legislative Decree 241 of 9 July 1997 and can be ceded at its face value pursuant to art. 43-ter of Presidential Decree 602/1973. This legislation effectively eliminates the risk of potential non-recovery of these deferred tax assets, which - as can be seen from the table - make up most of the tax assets recorded in the financial statements.
The other deferred tax assets are expected to be recoverable as described above.

14.2 Deferred tax liabilities: breakdown

The types of timing differences that gave rise to the recognition of deferred tax liabilities are as follows:

Description	31.12.2011	31.12.2010
Deferred tax liabilities with contra-entry to the income statement:	**66,600**	**114,723**
+ Revaluation of financial assets held for trading and financial assets designated at fair value through profit and loss	243	1,624
+ Revaluation of hedging derivatives	32,196	7,580
+ Portion of implicit fees contained in bonds carried at fair value, reported under other liabilities	411	401
+ Portion of the provision for employee termination indemnities already recognised for tax purposes	7,075	7,233
+ Adjustments to financial liabilities carried at fair value and securities issued	–	16,133
+ Depreciation of property and equipment and amortisation of intangible assets already recognised for tax purposes	9,066	18,482
+ Other line items	17,609	63,270
Deferred tax liabilities with contra-entry to shareholders' equity:	**10,621**	**6,404**
- Valuation reserves	**10,621**	**6,404**
+ Gains on financial assets available for sale	10,189	6,024
+ Actuarial gains/losses relating to payroll provisions	432	380
Total sub-items 80 b) Deferred tax liabilities	**77,221**	**121,127**

"Other line items" also include the deferred taxation provided for during the year on realised capital gains (the tax can be paid over five years).

Unrecorded deferred tax liabilities

The Parent Company has not booked any deferred tax liabilities for the 144 million euro of reserves that it has in suspense for tax purposes on bonus issue increases in capital for 668.360 million, as no distribution is envisaged, so it is unlikely that the deferred tax would have to be paid. The amount of 668.360 million has built up over time, as follows:

354.488 million 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 million relates to an increase in capital in 2001 to raise the par value of the shares to euro 3;
1.115 million relates to Banca 2000 (now merged);
26.570 million are for Bipiemme Immobili (now merged);
251.458 million refers to an increase in capital in March 2007 to raise the par value of the shares from 3 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 million has all been transferred to share capital and is in suspense for tax purposes for an amount of 251.458 million.

The reserves in suspense for tax purposes of the Parent Company (not booked to share capital) total 18.690 million. 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 dated 21 November 2000, which allows companies to recognise for fiscal purposes the revaluation of assets reported in the financial statements, in 2000 the Parent Company decided to align the statutory and fiscal values of the buildings revalued on allocation of part of the deficit that arose on the absorption of Banca Agricola Milanese and Banca Briantea, by paying the flat-rate tax of 19% established by that law. An amount of 18.163 million, equal to the realignment made (22.423 million), net of flat-rate tax (4.260 million), 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.

14.3 Change in deferred tax assets (with contra-entry to the income statement)

	31.12.2011	31.12.2010
Opening balance	**360,008**	**290,106**
Increases	**246,783**	**133,413**
2.1 Deferred tax assets arising in the year	246,088	105,797
a) relating to prior years	–	1,483
b) due to changes in accounting policies	–	–
c) writebacks	142	–
d) other	245,946	104,314
2.2 New taxes or increases in tax rates	682	–
2.3 Other increases	13	27,616
Decreases	**83,227**	**63,511**
3.1 Deferred tax assets cancelled in the year	61,503	54,750
a) reversals	55,258	54,741
b) written down as now considered unrecoverable	6,164	–
c) change in accounting policies	–	–
d) other	81	9
3.2 Reduction in tax rates	–	–
3.3 Other decreases	21,724	8,761
Closing balance	**523,564**	**360,008**

Line item 2.1 "Deferred tax assets arising in the year d) other" includes 27.564 million related to deferred tax assets acquired by Banca di Legnano following the writedown of goodwill made by the company in its financial statements.

"Other decreases" include the effects of business combinations that occurred in the respective financial years.

14.4 Change in deferred tax liabilities (with matching entry in income statement)

	31.12.2011	31.12.2010
Opening balance	**114,723**	**41,165**
Increases	**42,896**	**96,731**
2.1 Deferred tax liabilities arising in the year	42,026	80,042
a) relating to prior years	–	5
b) due to changes in accounting policies	–	–
c) other	42,026	80,037
2.2 New taxes or increases in tax rates	870	–
2.3 Other increases	–	16,689
Decreases	**91,019**	**23,173**
3.1 Deferred tax liabilities cancelled in the year	53,148	5,667
a) reversals	53,148	5,587
b) due to changes in accounting policies	–	–
c) other	–	80
3.2 Reduction in tax rates	–	–
3.3 Other decreases	37,871	17,506
Closing balance	**66,600**	**114,723**

Line item 3.1 "Deferred tax liabilities cancelled in the year" includes 25.612 million related to the reversal of deferred tax assets recorded by Banca di Legnano as a result of the goodwill impairment charge made by the company in its financial statements.

The taxes booked during the year include the deferred taxation on the higher values shown in the consolidated financial statements following the purchase price allocation for the business combinations carried out in 2010.

Other increases and other decreases include the effects of business combinations that occurred during the respective years.

14.5 Change in deferred tax assets (with matching entry to shareholders' equity)

	31.12.2011	31.12.2010
Opening balance	**59,817**	**19,477**
Increases	**140,033**	**42,427**
2.1 Deferred tax assets arising in the year	138,768	39,036
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	138,768	39,036
2.2 New taxes or increases in tax rates	1,265	–
2.3 Other increases	–	3,391
Decreases	**14,153**	**2,087**
3.1 Deferred tax assets cancelled in the year	8,540	2,024
a) reversals	8,540	2,024
b) written down as now considered unrecoverable	–	–
c) change in accounting policies	–	–
d) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	5,613	63
Closing balance	**185,697**	**59,817**

Other increases and other decreases include the effects of business combinations that occurred during the respective years.

14.6 Change in deferred tax liabilities (with matching entry to shareholders' equity)

	31.12.2011	31.12.2010
Opening balance	**6,404**	**6,431**
Increases	**5,844**	**4,765**
2.1 Deferred tax liabilities arising in the year	5,450	2,018
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	5,450	2,018
2.2 New taxes or increases in tax rates	394	–
2.3 Other increases	–	2,747
Decreases	**1,627**	**4,792**
3.1 Deferred tax liabilities cancelled in the year	1,593	4,622
a) reversals	1,593	4,619
b) due to changes in accounting policies	–	–
c) other	–	3
3.2 Reduction in tax rates	–	–
3.3 Other decreases	34	170
Closing balance	**10,621**	**6,404**

Other increases and other decreases include the effects of business combinations that occurred during the respective years.

14.7 Other information

Information on tax disputes is provided below.

Banca Popolare di Milano

A tax assessment relating to 2001 indicated higher IRPEG for 2,679 thousand euro and higher IRAP for 372 thousand euro, plus fines, but the sentence of the Regional Tax Commission deposited on 1/4/2010 rejected the Tax Authorities' appeal, thereby cancelling the entire assessment that BPM had impugned. On 17 May 2011 the Tax Authorities appealed to the Supreme Court and BPM filed a formal defence memorandum.

Following a tax audit 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 VAT 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. Three notices of liquidation dispute the application of different rates for calculating registration tax. The other three notices recalculate goodwill. These documents claim taxes for a total of 4.091 million, of which 4.061 million in disputes concerning rates and 30 thousand euro in disputes relating to goodwill.
Appeals have duly been filed to obtain the cancellation of these claims.
On 16 May 2011, the Milan Provincial Tax Commission rejected the joint appeals for the first three notices regarding the disputes about tax rates. The Bank has appealed against this decision. In any case, for prudence sake, a provision of 4.061 million has been set aside in BPM's financial statements. The appeals regarding goodwill are still pending before the Provincial Tax Commission.

On 23 December 2011 a notice of assessment was served relating to the alleged non-implementation of VAT, for the year 2006, on fees for services rendered as the custodian bank for various mutual funds. The assessment followed the inspection conducted by the Tax Authorities at Anima SGR in 2011 on the years from 2006 to 2009, which ended with the notification of an official report of findings. With particular reference to this matter, the former BPM Gestioni SGR, now Anima SGR, was accused of non-regularisation of the service fees paid for the custodian bank service, which were considered exempt from VAT. In connection with these circumstances, as prescription for 2006 assessments approached, the Tax Authorities sent BPM a notice regarding that year, disputing the billing of fees without VAT and claiming an amount of Euro 10.419 million (3.148 million for unpaid VAT, 472 thousand euro for interest up to 31.12.2011 and 6.799 million in penalties).

The Bank's conduct is in line with that taken by the system, also based on the circulars issued by the banking industry's trade associations, ABI and Assogestioni. An appeal was filed against the assessment to the Provincial Tax Commission on 21 February 2012. For prudence sake, BPM has in any case made a provision for the tax and interest. It was not considered necessary to set aside the amount of the penalty as well: in fact, art. 6, paragraph 2, of Legislative Decree no. 462/1997 provides that penalties are not applicable in cases of regulatory uncertainty.

Cassa di Risparmio di Alessandria

During 2010, an assessment for stamp duty on the sale of a business was sent to Cassa di Risparmio di Alessandria (the seller) and to Anima SGR (the buyer). The assessment is claiming Euro 10,703 in taxes.
An appeal has been filed to cancel this claim. The Provincial Tax Commission of Milan upheld the appeal on 11 October 2011.

On 28/1/2011 CRA received notice of an alleged failure to regularise taxable transactions (financial agency services). The claim is for Euro 21,088. An appeal has been filed to cancel this claim.

WeBank

Following a tax audit on 2005 at WeBank, assessments were notified in December 2010 claiming the reduction of the tax loss (transferred to the BPM Group tax regime) for IRES purposes from Euro 4,875,120 to Euro 4,624,560 and higher IRAP for Euro 10,649, as well as related penalties and interest. Appeals have been duly filed against these claims as the Bank is convinced that they are without foundation.
An equivalent notice of assessment has been notified for 2006 as the restated loss for 2005 changed the amount that could be offset for the IRES tax loss in 2006. Consequently, higher IRES of Euro 82,685 was assessed, plus interest and penalties. An appeal has been lodged also against that assessment.

Banca Akros

In 2010 Banca Akros was served a notice of assessment, following an audit by the Tax Authorities on its 2007 tax return, alleging a failure to make tax withholdings for a total of Euro 1.6 million, excluding penalties and interest; the Bank is strongly disputing these claims, but for prudence sake has made a full provision, as there is a certain risk that the appeal may be rejected.

Section 16 - Other assets
Line item 160

This line item reports assets that are not classified elsewhere in the balance sheet. In particular, accrued income includes 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.

16.1 Other assets: breakdown

	31.12.2011	31.12.2010
Accrued income	**5,856**	**6,085**
Leasehold improvements	**25,087**	**24,072**
Other assets	**662,040**	**593,388**
Items being processed	199,366	195,614
Duty-paid paper and other instruments	8,815	7,026
Cheques drawn on third-party current accounts	70,301	80,042
Advances paid to tax authorities on behalf of others	18,085	40,120
Other tax-related items	68,147	115,944
Non-interest bearing guarantee deposits on own account	2,887	2,855
Prepayments (not capitalised)	57,391	51,698
Consolidation difference	1,351	–
Other	235,697	100,089
Total	**692,983**	**623,545**

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

Liabilities and shareholders' equity

Section 1 – Due to banks
Line item 10

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

1.1 Due to banks: breakdown by product

Type of transaction/Amounts	31.12.2011	31.12.2010
1. Due to central banks	**7,888,247**	**2,649,009**
2. Due to banks	**1,577,431**	**4,458,408**
2.1 Current accounts and unrestricted deposits	230,322	530,792
2.2 Restricted deposits	883,808	1,680,762
2.3 Loans	441,641	2,213,670
2.3.1 Repurchase agreements	140,794	1,972,928
2.3.2 Other	300,847	240,742
2.4 Payables for commitments to repurchase own equity instruments	–	–
2.5. Other payables	21,660	33,184
Total	**9,465,678**	**7,107,417**
Fair value	**9,475,948**	**7,108,047**

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

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

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

1.2 Details of line item 10 "Due to banks": subordinated loans

There are no subordinated loans due to banks at the balance sheet date, as at the end of the previous year.

1.3 Details of line item 10 "Due to banks": structured loans

There are no structured loans due to banks at the balance sheet date, as at the end of the previous year.

1.4 Due to banks with specific hedges

There are no amounts due to banks with specific hedges at the balance sheet date.

1.5 Payables for financial leases

At the date of the financial statements there are no amounts due to banks for financial leases.

Section 2 – Due to customers
Line item 20

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

2.1 Due to customers: breakdown by product

Type of transaction/Amounts	31.12.2011	31.12.2010
1. Current accounts and unrestricted deposits	18,194,160	21,049,435
2 Restricted deposits	2,488,666	1,223,727
3. Loans	685,275	706,514
3.1 Repurchase agreements	536,891	693,203
3.2. Other	148,384	13,311
4. Payables for commitments to repurchase own equity instruments	–	–
5. Other payables	30,475	838,129
Total	**21,398,576**	**23,817,805**
Fair value	**21,398,222**	**23,817,805**

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

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

The decrease in line item 5 "Other payables" is mainly attributable to the sale of Bipiemme Vita in September. At 31 December 2010 the company contributed about 810 million euro to the consolidated figure for index-linked and unit-linked capitalisation policies with risk to be borne by customers.

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

2.2 Details of line item 20 "Due to customers": subordinated loans

There are no subordinated loans due to customers at the balance sheet date, as at the end of the previous year.

2.3 Details of line item 20 "Due to customers": structured loans

There are no structured loans due to customers at the balance sheet date, as at the end of the previous year.

2.4 Due to customers with specific hedges

There are no amounts due to customers with specific hedges at the balance sheet date.

2.5 Payables for financial leases

At the date of the financial statements there are no amounts due to customers for financial leases.

Section 3 – Securities issued
Line item 30

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

3.1 Securities issued: breakdown by product

Type of security/ Amounts	Total 31.12.2011				Total 31.12.2010			
	Book value	fair value			Book value	fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. bonds	10,768,435	5,457,704	4,498,961	–	11,112,860	6,295,262	4,264,839	240,893
1.1 structured	–	–	–	–	401,449	–	–	240,893
1.2 other	10,768,435	5,457,704	4,498,961	–	10,711,411	6,295,262	4,264,839	–
2. other securities	1,863,835	–	–	1,863,835	957,286	–	–	957,286
2.1. structured	–	–	–	–	–	–	–	–
2.2 other	1,863,835	–	–	1,863,835	957,286	–	–	957,286
Total	**12,632,270**	**5,457,704**	**4,498,961**	**1,863,835**	**12,070,146**	**6,295,262**	**4,264,839**	**1,198,179**

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

With reference to line item "1.1 Structured Bonds", the elimination of the residual balance at 31.12.2011 should be considered in relation with early conversion of the "Convertendo BPM 2009/2013 6.75%" bond loan into shares. The transaction is explained in section 15 - "Shareholders' equity of the Group" of these Explanatory Notes.

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

	31.12.2011				31.12.2010			
	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	1,674,652	1,772,861	1,570,102	20,509	299,451	309,327	171,897	144,070
Of which: subordinated	*450,510*	*517,141*	*367,109*	–	*159,451*	*168,209*	*171,897*	–
• Floating rate	2,221,291	2,223,187	1,889,062	50,586	3,238,578	3,244,358	3,138,020	50,586
Of which: subordinated	*541,868*	*541,940*	*386,832*	–	*563,750*	*565,779*	*539,006*	–
Total EMTN Bonds:	**3,895,943**	**3,996,048**	**3,459,164**	**71,095**	**3,538,029**	**3,553,685**	**3,309,917**	**194,656**
Of which: subordinated	*992,378*	*1,059,081*	*753,941*	–	*723,201*	*733,988*	*710,903*	–
Covered Bond Issues								
• Covered Bonds of Banca Popolare di Milano S.c.a r.l. 15.7.2008/2011 5.5%	–	–	–	–	1,000,000	1,042,724	1,048,146	–
• Covered Bonds of Banca Popolare di Milano S.c.a r.l. 9.10.2009/17.10.2016 3.5%.	941,315	1,003,581	913,686	–	988,000	1,010,089	972,184	–
• Covered Bonds of Banca Popolare di Milano S.c.a r.l. 4.11.2010/16.11.2015 3.25%	1,018,950	1,036,141	970,847	–	750,000	731,079	733,444	–
• Covered Bonds of Banca Popolare di Milano S.c.a r.l. 18.7.2011/18.1.2014 FR%	–	–	–	–	–	–	–	–
Total covered bonds	**1,960,265**	**2,039,722**	**1,884,533**	**–**	**2,738,000**	**2,783,892**	**2,753,774**	**–**

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 Parent Company.

Of the first programme, which was approved on 11 September 2000, now expired and not renewed, the last bond of 160 million euro, called "Banca Popolare di Milano subordinated (Upper Tier 2) Rate 7.625% - 29.6.01-11" was repaid on 29 June 2011.

The second programme, which was approved on 2 December 2003 for two billion euro, was gradually increased over time to reach the amount of 10 billion euro with a resolution of the Board of Directors of the Parent Company of 22 April 2008. At the date of the financial statements there are eight Bond Loans outstanding for a total of 4.145 billion euro (3.540 billion euro at 31.12.2010), so the residual margin that can still be used amounts to 5.855 billion euro (6.460 billion euro at 31.12.2010).

The nominal value of the EMTN securities is shown net of the securities that have been repurchased by the Parent Company and other Group companies for an amount of 249 million euro (157 million euro at 31.12.2010).

Within the EMTN programme, 2011 saw repayment of the following loans:

- Banca Popolare di Milano 2005/2011 Step-up 25.01: 40 million, nominal value;
- Banca Popolare di Milano 2006/2011 TV% 16.02: 1 billion, nominal value;
- Banca Popolare di Milan 2005/2011 3.40% 30/12: 40 million, nominal value;
- Banca Popolare di Milan 2006/2011 3.40% 30/12: 40 million, nominal value;
- Banca Popolare di Milano subordinated (Upper Tier 2) Rate 7.625% - 29.6.01-11: for 160 million, nominal value.

and issued the following bonds:

- Banca Popolare di Milano 2011/2021 subordinated 7.125% 1/3: 475 million, nominal value;
- Banca Popolare di Milan 2011/2013 4% 15.04: 1.25 billion, nominal value.

Covered bonds

Under the Covered Bond programme, 2011 saw repayment of the "Banca Popolare di Milano 15.7.2008/2011 5.5%" (nominal value of 1 billion), and the issue of the following bonds:

- second tranche of "Banca Popolare di Milano 4.11.2010/16.11.2015 floating rate" bond, 350 million, nominal value;
- "Banca Popolare di Milano 18.7.2011/2014 floating rate" bond, 1 billion, nominal value. The issue was all repurchased by the Parent Company and the securities were used as collateral for refinancing operations with the European Central Bank.

The nominal value of covered bonds is shown net of the following components repurchased during the year:

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

Breakdown of line item "2.2 Other securities - other"

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

Type of security/ Amounts	31.12.2011				31.12.2010			
	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	1,362,937	–	–	1,362,937	660,902	–	–	660,902
Commercial paper	298,761	–	–	298,761	149,928	–	–	149,928
Bankers' drafts	202,137	–	–	202,137	146,456	–	–	146,456
Total	**1,863,835**	**–**	**–**	**1,863,835**	**957,286**	**–**	**–**	**957,286**

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 in 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	31.12.2011	31.12.2010	Original nominal amount issued		Bond issue price	Interest rate	Issue date/ maturity	Notes
Innovative capital instruments (Tier 1):	**282,890**	**287,941**						
Preference shares - Bpm Capital Trust I – 8.393%	70,330	73,961	160,000	Euro	100	Floating	02.07.2001 Perpetual	1
Perpetual Subordinated Fixed/Floating Rate Notes – 9%	212,560	213,980	300,000	Euro	98.955	Floating	25.06.2008 Perpetual	2
Hybrid capital instruments (Upper Tier 2):	**1,602**	**171,455**						
Banca Popolare di Milano subordinated bond loan (Upper Tier 2) rate – 7.625-29.6.01 (issued as part of the EMTN Programme)	–	168,232	160,000	Euro	99.202	7,625%	29.6.2001/11	3
Banca Popolare di Milano subordinated bond loan (Upper Tier 2) – Floating rate – 18 June 2008/2018	1,602	3,223	17,850	Euro	100	Floating	18.6.2008/18	4
Subordinated liabilities (Lower Tier 2):	**1,794,547**	**1,304,768**						
Banca Popolare di Milano subordinated bond loan (Lower Tier 2) Floating rate – 29.6.05-15 (issued as part of the EMTN Programme)	541,940	563,813	600,000	Euro	99.716	Floating	29.6.2005/15	5
Banca Popolare di Milano Subordinated bond loan (Lower Tier 2) Fixed rate 4.5% 18 April 2008/2018	275,455	278,345	252,750	Euro	100	4,50%	18.4.2008/18	6
Banca Popolare di Milano subordinated bond loan (Lower Tier 2) Floating rate 20 October 2008/2018	455,390	458,141	502,050	Euro	100	Floating	20.10.2008/18	7
Banca Popolare di Milano subordinated bond loan (Lower Tier 2) Rate – 7.125% - 01 March 2011/2021 (issued as part of the EMTN Programme)	517,141	–	475,000	Euro	99.603	7,125%	01.03.2011/21	8
Banca Popolare di Mantova subordinated bond loan – - 03/12/2004-03/12/2014 (Lower Tier 2)	4,621	4,469	5,000	Euro	100	Floating	3.12.2004/14	9
TOTAL	**2,079,039**	**1,764,164**						

1	Preference shares Bpm Capital Trust I – 8.393%	
	Issue price:	The Subordinated Bonds were issued at par, at a price of 100% of their nominal value
	Interest rate:	Fixed rate 8.393% until 2 July 2011; floating rate (Euribor + 4.70%) starting from 2 July 2011
	Quotation:	Luxembourg Stock Exchange (*)
	Early redemption clause:	These securities may be redeemed early starting from 2 July 2011, subject to authorisation from the Bank of Italy
	Subordination clause:	The preference shares have been issued with the clauses required by the Bank of Italy for inclusion in Tier 1 capital; this means that in the event the Bank goes into liquidation, the holders of such shares have priority over ordinary shareholders, but are subordinated to all other creditors.
	Other information:	The preference shares have been issued by BPM Capital I LLC (through Bpm Capital Trust I), a North American company wholly owned by the Parent Company. There is a "loss absorption" clause, whereby there is an option not to make a pay-out to employees on the preference shares if Banca Popolare di Milano does not have any distributable net earnings or if it does not pay any dividends on its ordinary shares. There is also provision for a "capital deficiency event", whereby the preference shares may be used to reinstate the Tier 1 capital ratio if it goes below 5%. Any undistributed interest may not be accumulated. 16 December 2009 was the closing date of the Public Purchase Offer (acceptance period 7 December – 16 December 2009) for the Preference Shares issued by the vehicle company BPM Capital Trust I, which obtained 55.54% acceptance for a nominal value of the securities accepting the offer of 88,866,000 euro. The repurchase price (ex-coupon) was 96%.

2	Perpetual Subordinated Fixed/Floating Rate Notes – 9%	
	Issue price:	The bonds were issued below par, at a price of 98.955% of the nominal value
	Interest rate:	Fixed rate of 9% until 25 June 2018; Floating rate (3-month Euribor + spread of 6.18%) from 25 June 2018
	Quotation:	Luxembourg Stock Exchange (*)
	Early redemption clause:	These securities may be redeemed early starting from 25 June 2018, subject to authorisation from the Bank of Italy.
	Early redemption:	The notes have been issued with the clauses required by the Bank of Italy for inclusion in Tier 1 capital; this means that in the event the Bank goes into liquidation, the holders of such shares have priority over ordinary shareholders, but are subordinated to all other creditors.
	Other information:	There is also provision for: ■ optional suspension of interest payments if the Bank does not have distributable earnings and/or has not paid dividends for the last year ended prior to the payment date of the interest; ■ obligatory suspension of interest payments in the case of a "capital deficiency event", (which takes place when the total capital ratio falls below the minimum level required by the Supervisory Authority); ■ a loss absorption clause, whereby reimbursement of the notes is suspended if a Capital Deficiency Event takes place. Any undistributed interest may not be accumulated. 16 December 2009 was the closing date of the Public Purchase Offer (acceptance period 7 December – 16 December 2009), which obtained 34.92% acceptance for a nominal value of the securities accepting the offer of 104,750,000 euro. The repurchase price (ex-coupon) was 98%.

3	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. The bond loan was repaid on maturity.

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 + 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 Group has repurchased a total nominal amount of 16,250 thousand euro.

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 Group has repurchased a total nominal amount of 58,157 thousand euro.

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 Group has repurchased a total nominal amount of 1,150 thousand euro.

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 + 0.60% until 20 October 2013, 3-month Euribor + 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 Group has repurchased a total nominal amount of 48,750 thousand euro.

8	**Subordinated bond of Banca Popolare di Milano (Lower Tier 2) – Fixed rate 7.125% 1 March 2011/2021**	
	Issue price:	The Subordinated Bonds are issued below par, at a price of 99.603% of the nominal value.
	Interest rate:	Fixed interest rate of 7.125% gross per year.
	Quotation:	Luxembourg Stock Exchange (*).
	Early redemption:	Not foreseen.
	Subordination clause:	The Subordinated Bonds are BPM's "Tier II subordinated liabilities" as classified according to the New Minimum Capital Requirement for Banks issued by the Bank of Italy. This means that if the Bank is liquidated, bondholders will only be reimbursed after all non-subordinated creditors have been satisfied, except for those with an equal or higher level of subordination compared with the Subordinated Bonds.
	Other information:	The Bond, placed with institutional investors, forms part of the multiannual Euro Medium-Term Note (E.M.T.N.) issue programme approved by the Board of Directors on 2 December 2003.
	Repurchases:	The Group has repurchased a total nominal amount of 24,490 thousand euro.

9	**Subordinated bond loan of Banca Popolare di Mantova (Lower Tier 2) – 03/12/2004-03/12/2014**	
	Issue price:	The Subordinated Bonds were issued below par, at a price of 100% of the nominal value.
	Interest rate:	– Fixed rate 2.73% the first coupon payable on 3 June 2005; – Floating rate (6-month Euribor + 0.50%) from 3 December 2005 to 3 December 2009; – Floating rate (6-month Euribor + 1%) for the period 3 June 2010-3 December 2014.
	Quotation:	Not listed.
	Early redemption:	The Bank may decide to redeem the loan early starting from the fifth year, subject to authorisation from the Bank of Italy.
	Subordination clause:	The Subordinated Bonds are BPM's "Tier II subordinated liabilities" as classified according to the New Minimum Capital Requirement for Banks issued by the Bank of Italy. This means that if the Bank is liquidated, bondholders will only be reimbursed after all non-subordinated creditors have been satisfied, except for those with an equal or higher level of subordination compared with the Subordinated Bonds.
	Repurchases:	The Group has repurchased a total nominal amount of 390 thousand euro.

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

3.3 Securities issued with specific hedges

	31.12.2011	31.12.2010
1. Securities with specific fair value hedges:	**2,556,863**	**2,783,892**
a) interest rate risk	2,556,863	2,783,892
b) exchange risk	–	–
c) various risks	–	–
2. Securities with specific cash flow hedges:	**–**	**–**
a) interest rate risk	–	–
b) exchange risk	–	–
c) other	–	–

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

The securities that have specific fair value hedges are as follows:

Loans with specific hedges:	**31.12.2011**	**31.12.2010**
Covered Bonds of Banca Popolare di Milano S.c.a r.l.	2,039,722	2,783,892
Banca Popolare di Milano subordinated bond loan (Lower Tier 2) Rate – 7.125% - 01 March 2011/2021 (issued as part of the EMTN Programme)	517,141	–
Total	**2,556,863**	**2,783,892**

As reported in Section 5.1 of the income statement, the net result of measuring hedging contracts and the underlying securities in issue generated a positive amount of 4.567 million euro, recorded in item 90 - "Fair value adjustments in hedge accounting" of the income statement.

Section 4 – Financial liabilities held for trading
Line item 40

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

4.1 Financial liabilities held for trading: breakdown by product

Type of security/Amounts	31.12.2011						31.12.2010					
	NV	FV				FV*	NV	FV				FV*
		L1	L2	L3	Total			L1	L2	L3	Total	
A. Cash liabilities												
1. Due to banks	9,428	8,997	741	18	**9,756**		6,892	7,521	107		**7,628**	
2. Due to customers	25,804	25,079	3,854	1	**28,934**		52,957	62,606	–	1	**62,607**	
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	**35,232**	**34,076**	**4,595**	**19**	**38,690**	**–**	**59,849**	**70,127**	**107**	**1**	**70,235**	**–**
B. Derivatives												
1. Financial derivatives		24,105	1,558,142	54,047	**1,636,294**			44,461	982,562	47,910	**1,074,933**	
1.1 Trading	X	21,087	1,505,217	51,783	**1,578,087**	X	X	43,106	931,994	46,889	**1,021,989**	X
1.2 Linked to the FVO	X	3,018	52,925	2,264	**58,207**	X	X	1,355	50,568	1,021	**52,944**	X
1.3 Other	X	–	–	–	–	X	X	–	–	–	–	X
2. Credit derivatives		–	2,658	–	**2,658**			–	5,542	–	**5,542**	
2.1 Trading	X	–	2,658	–	**2,658**	X	X	–	5,542	–	**5,542**	X
2.2 Linked to the FVO	X	–	–	–	**–**	X	X	–	–	–	–	X
2.3 Other	X	–	–	–	**–**	X	X	–	–	–	**–**	X
Total B	**X**	**24,105**	**1,560,800**	**54,047**	**1,638,952**	**X**	**X**	**44,461**	**988,104**	**47,910**	**1,080,475**	**X**
Total (A+B)	**X**	**58,181**	**1,565,395**	**54,066**	**1,677,642**	**X**	**X**	**114,588**	**988,211**	**47,911**	**1,150,710**	**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

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

Line item "A. Cash liabilities" includes short positions of Banca Akros amounting to 38.690 million, of which 29.164 million related to debt securities and 9.526 million related to equity securities.

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

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

At the balance sheet date, there are subordinated liabilities to banks of 219 thousand euro.

4.3 Breakdown of line item 40 "Financial liabilities held for trading": structured debts

There are no structured loans included in liabilities held for trading at the balance sheet date, as at the end of the previous year.

4.4 Trading cash financial liabilities (excluding short positions): changes during the year

	Due to banks	Due to customers	Securities issued	Total 31.12.2011
A. Opening balance	**7,628**	**62,607**	**–**	**70,235**
B. Increases	**873,958**	**2,415,052**	**–**	**3,289,010**
B1. Issues	–	–	–	–
B2. Sales	868,984	2,409,787	–	3,278,771
B3. Positive change in fair value	89	203	–	292
B4. Other changes	4,885	5,062	–	9,947
C. Decreases	**871,830**	**2,448,725**	**–**	**3,320,555**
C1. Purchases	869,662	2,443,957	–	3,313,619
C2. Reimbursement	–	–	–	–
C3. Negative change in fair value	85	290	–	375
C4. Other change	2,083	4,478	–	6,561
D. Closing balance	**9,756**	**28,934**	**–**	**38,690**

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

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

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

Type of transaction/ Amounts	31.12.2011						31.12.2010					
	NV	FV				FV*	NV	FV				FV*
		L1	L2	L3	Total			L1	L2	L2	Total	
1. Due to banks	–	–	–	–	**–**		–	–	–	–	**–**	
1.1. Structured	–	–	–	–	**–**	X	–	–	–	–	**–**	X
1.2 Other	–	–	–	–	**–**	X	–	–	–	–	**–**	X
2. Due to customers	–	–	–	–	**–**		–	–	–	–	**–**	
2.1 Structured	–	–	–	–	**–**	X	–	–	–	–	**–**	X
2.2 Other	–	–	–	–	**–**	X	–	–	–	–	**–**	X
3. Debt securities	1,058,050	–	1,063,982	22,940	**1,086,922**		658,518	–	662,364	6,645	**669,009**	
3.1 Structured	301,312	–	284,939	22,940	**307,879**	X	316,788	–	316,353	6,645	**322,998**	X
3.2. Other	756,738	–	779,043	–	**779,043**	X	341,730	–	346,011	–	**346,011**	X
Total	**1,058,050**	**–**	**1,063,982**	**22,940**	**1,086,922**		**658,518**	**–**	**662,364**	**6,645**	**669,009**	

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

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

Financial liabilities designated at fair value through profit and loss include financial liabilities represented by structured, fixed-rate bonds, which have been classified at fair value and are hedged by derivatives. This hedging concerns both the risk of changes in interest rates and the risk arising from the presence of embedded options. The Fair Value Option is used to eliminate or significantly reduce accounting mismatches, as an alternative to Hedge Accounting. Otherwise, the derivatives would still be carried at fair value, while the bonds would be recognized at amortised cost.
Derivatives used as part of the "fair value option" are classified in the trading book.
As regards the credit spread on own issues aimed at retail customers, we are of the opinion that in valuations subsequent to their placement, it remains substantially constant from that date to the time of measurement, as these issues are due to be reimbursed at their natural maturity, from both a contractual and a commercial point of view. It follows that the FV* field does not show the information requested as it is the same as the Fair Value already shown in the table.

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

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

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

Type of transaction/ Amounts	Natural hedges	Structured financial instruments	Portfolios of financial liabilities managed on the basis of the fair value	31.12.2011	Natural hedges	Structured financial instruments	Portfolios of financial liabilities managed on the basis of the fair value	31.12.2010
1. Due to banks	–	–	–	**-**	–	–	–	**-**
1.1. Structured	–	–	–	**-**	–	–	–	**-**
1.2 Other	–	–	–	**-**	–	–	–	**-**
2. Due to customers	–	–	–	**-**	–	–	–	**-**
2.1 Structured	–	–	–	**-**	–	–	–	**-**
2.2 Other	–	–	–	**-**	–	–	–	**-**
3. Debt securities	779,043	307,879	–	**1,086,922**	346,011	322,998	–	**669,009**
3.1 Structured	–	307,879	–	**307,879**	–	322,998	–	**322,998**
3.2. Other	779,043	–	–	**779,043**	346,011	–	–	**346,011**
Total	**779,043**	**307,879**	**–**	**1,086,922**	**346,011**	**322,998**	**–**	**669,009**

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

5.2 Detail of line item 50 "Financial liabilities designated at fair value through profit and loss": subordinated liabilities

There are no subordinated liabilities designated at fair value through profit and loss at the balance sheet date.

5.3 Financial liebilities designated at fair value through profit and loss; changes during the year

	Due to banks	Due to customers	Securities issued	Totale 31.12.2011
A. Opening balance	**–**	**–**	**669,009**	**669,009**
B. Increases	**–**	**–**	**708,111**	**708,111**
B1. Issues	–	–	560,520	560,520
B2. Sales	–	–	201	201
B3. Positive change in fair value	–	–	15,980	15,980
B4. Other changes	–	–	131,410	131,410
C. Decreases	**–**	**–**	**290,198**	**290,198**
C1. Purchases	–	–	–	–
– Purchases	–	–	202	202
– Business combinations	–	–	–	–
C2. Reimbursement	–	–	270,990	270,990
C3. Negative change in fair value	–	–	5,637	5,637
C4. Other change	–	–	13,369	13,369
D. Closing balance	**–**	**–**	**1,086,922**	**1,086,922**

Section 6 – Hedging derivatives
Line item 60

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

6.1 Hedging derivatives: breakdown by type of hedge and level

	31.12.2011					31.12.2010				
	Fair value				NV	Fair value				NV
	L1	L2	L3	Total		L1	L2	L3	Total	
A. Financial derivatives	**–**	**26,759**	**5,124**	**31,883**	**2,699,111**	**–**	**47,224**	**2,070**	**49,294**	**2,071,101**
1) Fair value	–	26,759	5,124	31,883	2,699,111	–	47,224	2,070	49,294	2,071,101
2) Cash flows	–	–	–	–	–	–	–	–	–	–
3) Foreign investments	–	–	–	–	–	–	–	–	–	–
B. Credit derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1) Fair value	–	–	–	–	–	–	–	–	–	–
2) Cash flows	–	–	–	–	–	–	–	–	–	–
Total	**–**	**26,759**	**5,124**	**31,883**	**2,699,111**	**–**	**47,224**	**2,070**	**49,294**	**2,071,101**

Key: NV = Notional value L.1 = Level 1 L.2 = Level 2 L.3 = Level 3

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

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

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

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

Transactions/Type of hedge	Fair value						Cash flows		Foreign investments
	Specific					Generic			
	Interest rate risk	Exchange rate risk	Credit risk	Price risk	Several risks		Specific	Generic	
1. Financial assets available for sale	5,124	–	–	–	–	X	–	X	X
2. Loans and receivables	1,015	–	–	X	–	X	–	X	X
3. Investments held to maturity	X	–	–	X	–	X	–	X	X
4. Portfolio	X	X	X	X	X	25,744	X	–	X
5. Other transactions	–	–	–	–	–	X	–	X	–
Total assets	**6,139**	**–**	**–**	**–**	**–**	**25,744**	**–**	**–**	**–**
1. Financial liabilities	–	–	–	X	–	X	–	X	X
2. Portfolio	X	X	X	X	X	–	X	–	X
Total liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Expected transactions	X	X	X	X	X	X	–	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	X	–	–

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

Specific fair value hedge

- The amount indicated in item 1. "Financial assets available for sale" refers to the negative fair value of a financial derivative taken out by the Parent Company to hedge a debt security for a notional amount of 50 million.
- The amount indicated in item 2. "Loans and receivables" refers to the negative fair value of a financial derivative taken out by the Parent Company to hedge a mortgage loan granted for a residual notional amount of 13.4 million.

Generic fair value hedge

The amount indicated in item 4. "Portfolio" refers for 18.975 million to the negative fair value of derivatives taken out by the Parent Company to cover the interest rate risk of a portfolio of fixed-rate bonds included in "Financial assets available for sale" for a notional amount of 2.5 billion, and for 6.769 million to the negative value of derivatives taken out by a subsidiary to hedge the interest rate on mortgages for a notional amount of 135.683 million.

The prospective and retrospective tests performed during 2011 in accordance with the rules laid down in IAS 39 have confirmed the effectiveness of the hedges.
For more information on the financial assets and liabilities covered, please refer to the detailed tables presented in this part (Part B) of the Explanatory Notes, in the sections relating to balance sheet items in which there are items being hedged.

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

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

7.1 Fair value change of financial liabilities in hedged portfolios

Fair value adjustment of hedged assets/Amounts	31.12.2011	31.12.2012
1. Positive adjustment of financial liabilities	38,798	5,198
2. Negative adjustment of financial liabilities	–	–31,996
Total	**38,798**	**–26,798**

This item refers to the fair value adjustment made to the "core deposits" for which a generic fair value hedge was arranged using derivatives. During 2011, the hedges were closed and the amount reported at 31 December 2011 represents the residual value of the effective portion of the hedge on the date of revocation, which will be released to income on a pro-rata basis up to the original maturity of the hedging transactions.

7.2 Financial liabilities covered by macrohedges against interest rate risk: breakdown

Fair value adjustment of hedged assets/Amounts	31.12.2011	31.12.2010
Due to banks	–	–
Due to customers	–	2,400,000
Securities issued	–	–
Financial liabilities held for trading	–	–
Financial liabilities designated at fair value through profit and loss	–	–
Total	**–**	**2,400,000**

The amount stated at 31 December 2010 represents the value of the "core deposits" being generically hedged.

Section 8 – Tax liabilities
Line item 80

This section has been commented on in Section 14 on the assets side of the balance sheet, Part B - Information on the balance sheet in these explanatory notes.

Section 10 – Other liabilities
Line item 100

This item shows liabilities that are not classifiable elsewhere on the liabilities side of the balance sheet.

10.1 Other liabilities: breakdown

Description/Technical forms	31.12.2011	31.12.2010
Payables for the deterioration in:	**38,159**	**39,510**
Guarantees given	38,159	39,510
Share-based payments	**–**	**10,177**
Accrued liabilities	**48**	**61**
Other liabilities	**936,373**	**1,222,920**
Guarantee deposits received from third parties	6,676	9,606
Amounts payable to tax authorities on behalf of others	92,912	148,315
Amounts payable to tax authorities on own account	13,631	26,261
Adjustments for illiquid items concerning the portfolio	6,334	178,755
Amounts available to customers	95,850	155,228
Items being processed	414,908	360,251
Due to suppliers	109,067	124,819
Due to social security authorities	36,334	37,089
Personnel expenses	68,161	83,739
Deferred income (not capitalised)	1,643	4,071
Consolidation difference	–	3,843
Other	90,857	90,943
Total	**974,580**	**1,272,668**

Section 11 – Employee termination indemnities
Line item 110

11.1 Employee termination indemnities: changes during the year

	31.12.2011	31.12.2010
A. Opening balance	**155,347**	**176,337**
B. Increases	**7,512**	**9,061**
B.1 Provision for the year	7,466	7,252
B.2 Other increases	46	1,809
C. Decreases	**19,515**	**30,051**
C.1 Indemnities paid	14,134	25,301
C.2 Other decreases	5,381	4,750
D. Closing balance	**143,344**	**155,347**

Items B.2 "Other increases" and C.2 "Other decreases" include the actuarial gains and losses booked as a result of the expert appraisal carried out by an independent actuary with the contra-entry going to the "valuation reserve - actuarial gains (losses) on defined-benefit pension plans". The item C.2 "Other decreases" includes the effects of business combinations that occurred during the respective periods.

11.2 Other information

As described in Part A - Accounting policies, following the reform of supplementary pensions (Decree 252 of 5 December 2005, introduced by the Budget Law 2007) for Group companies with over 50 employees, the termination indemnities only refer to the portion accrued up to 31.12.2006, while the amounts 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 provision of the year does not therefore include the amounts that are paid to supplementary pension schemes or to the treasury fund at INPS as a result of that reform of the pension system. In this case, the amounts of employee termination indemnities accruing from 1 January 2007 are considered a "defined-contribution plan" and are accounted for under "personnel expenses - termination indemnities" on the basis of the contributions due without applying actuarial methods, with the contra-entry going to "Other liabilities" in the balance sheet or as an outflow of cash.
The termination 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 termination 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).
For companies with less than 50 employees the previous law remains in force, which considers employees' termination indemnities as a defined benefit plan, the accrued amount of which continues to be valued through the actuarial method known as the "projected unit credit method" explained in Part A "Accounting Policies".
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 actuarial valuation of termination indemnities by an independent actuary is carried out according to the "accrued benefit" method using the "Projected Unit Credit" as required by IAS 19, and is based on the following main demographic, economic and financial assumptions.

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 31.12.2010).

Economic assumptions: inflation was estimated at 2% (in line with 31.12.2010).

Section 12 – Allowances for risks and charges
Line item 120

12.1 Allowances for risks and charges: breakdown

Line items/Amounts	31.12.2011	31.12.2010
1. Post-employment benefit obligations	**80,438**	**85,681**
2. Other allowances for risks and charges	**253,015**	**191,410**
2.1 legal disputes	76,369	28,960
2.2 personnel expenses	89,950	124,814
2.3 other	86,696	37,636
Total	**333,453**	**277,091**

Allowances for risks and charges: detail

Line items/Amounts	31.12.2011	31.12.2010
1. Post-employment benefit obligations:	**80,438**	**85,681**
• **Pension funds:**	**14,692**	**16,031**
• **Supplementary pension funds:**	**64,820**	**68,720**
■ Banca Popolare di Milano	42,564	44,541
■ Cassa di Risparmio di Alessandria	22,256	24,179
• **Other pension funds**	**926**	**930**
2. Other allowances for risks and charges:	**253,015**	**191,410**
2.1 legal disputes:	**76,369**	**28,960**
• provisions for estimated losses from legal disputes	76,369	28,960
2.2 personnel expenses:	**89,950**	**124,814**
• Solidarity Fund	56,731	90,052
• long-service bonuses	13,459	14,041
• indemnities specifically for managers	16,237	17,413
• estimated losses arising from disputes with employees	795	237
• other charges	2,728	3,071
2.3 other:	**86,696**	**37,636**
• recovery procedures	13,326	17,179
• charity and social fund	723	2,628
• miscellaneous charges	72,647	17,829
Total	**333,453**	**277,091**

12.2 Allowances for risks and charges: changes during the year

	Pension funds	Other allowances	Total
A. Opening balance	**85,681**	**191,410**	**277,091**
B. Increases	**8,957**	**130,133**	**139,090**
B.1 Provision for the year	3,609	127,074	130,683
B.2 Changes due to the passage of time	3,615	2,799	6,414
B.3 Changes due to changes in the discount rate	–	–	–
B.4 Other increases	1,733	260	1,993
C. Decreases	**14,200**	**68,528**	**82,728**
C.1 Utilizations of the year	13,066	56,082	69,148
C.2 Changes due to changes in the discount rate	–	57	57
C.3 Other decreases	1,134	12,389	13,523
D. Closing balance	**80,438**	**253,015**	**333,453**

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.

d) Cassa di Risparmio di Alessandria supplementary pension fund

This is a non-autonomous defined-benefit plan that supplements (or replaces only in specified circumstances) the state pension. The beneficiaries of this plan consist only of former retired employees and their survivors. The amount provided in the financial statements represents the mathematical reserve calculated on an actuarial basis.

2. Change in provisions during the year

Changes in the provisions for post-employment benefits are shown in table 12.2.

The items B.4 "Other increases" and C.3 "Other decreases" are mainly attributable to actuarial gains and 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

With reference to defined-benefit supplementary pensions, the determination of the actual values required by the application of IAS 19 "Employee Benefits" is performed by an independent actuary. The following are the actuarial assumptions (demographic, financial and economic) used for each fund.

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 31.12.2010.

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 31.12.2010.

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 31.12.2010.

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% (in line with 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).

d) Supplementary pension plan of Cassa di Risparmio di Alessandria

Demographic assumptions: the probabilities taken from ISTAT's mortality tables for the year 2007 were used.

Financial assumptions: the valuations were carried out based on an interest rate of 4.5%, which corresponds to a real discount rate of 2.45%; this looks about right for internal management of the financial resources attributed to the defined-benefit section.

Economic assumptions: a staged rate of future annual increase in pensions was assumed using a method based on "pension records". An annual rate of long-term price inflation was assumed to be 2%, in line with the rate used the previous year.

12.4 – Allowances for risks and charges – other allowances

"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 Group companies (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.
We would also point out that it includes the 40 million euro provision made by the Parent Company during the current year for the Convertendo Bond.
In this regard, it should be noted that on 24 January 2012 Banca Popolare di Milano received a summons for a class action pursuant to art. 140-bis of Legislative Decree no. 206/2005 ("Consumer Code"), promoted by nine bondholders and the National Federation of Consumers and Users ("Federconsumatori"), in relation to the placement of the "Convertendo 2009-2013 6.75%" bond.
In a nutshell, the action is based on the assumption that during the placement to the public of the Convertendo bond, BPM failed to observe the provisions of law relating to disclosure obligations to customers, or, more generally, the existing law on financial intermediation (the so-called "MiFID").
The first hearing for the assessment of eligibility of this class action will be held on 23 May 2012.
The Parent Company is of the opinion that not all of the conditions for eligibility of a class action exist; consequently, it believes that the obligation deriving from this summons is unlikely to arise.
However, given the possibility of similar reconciliations in the future, the Parent Company has decided for prudence sake to make a provision that is considered appropriate to cover the estimated risk arising from the problems connected to placement of the Convertendo bond.

2.2. personnel expenses: this covers mainly the charges relating to:

- employees entitled to the "Solidarity Fund", the current value of which was determined by applying the 2-year swap rate (1.3085%);
- the bonuses to be paid to employees who reach certain periods of service laid down in the various in-house labour agreements;
- the indemnities specifically reserved 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 2010.

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 line item mainly comprises:

- an estimate of the obligations arising from recovery procedures against Group companies 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;
- provisions made for contractual commitments relating to:
- sale of Anima Sgr, illustrated in section 10 "Investments in associates and companies subject to joint control", for 30.8 million;
- sale of Bipiemme Vita, illustrated in section 10 "Investments in associates and companies subject to joint control", for 13.3 million;
- sale of the custodian bank activities to the BNP Paribas Group. This agreement establishes, inter alia, with reference to the ten years after the end of the contract, the price may be subject to adjustment based on the balance sheet of the business being sold, from time to time updated as specified in the agreement and based on the achievement of certain levels of annual revenue. According to the projection of figurative annual revenue, which is lower in 2012 than what is foreseen in the contract, we decided to make a provision in the financial statements of 1.5 million;
- tax disputes for 9.0 million.

Section 13 – Technical reserves
Line item 130

13.1 Technical reserves: breakdown

	Direct business	Indirect business	31.12.2011	31.12.2010
A. Accident insurance	**–**	**–**	**–**	**3,534**
A.1. premium reserves	–	–	–	1,318
A.2. claims reserves	–	–	–	2,216
A.3. other reserves	–	–	–	–
B. Life insurance	**–**	**–**	**–**	**3,007,655**
B.1. mathematical reserves	–	–	–	3,038,643
B.2. reserves for amounts to be paid	–	–	–	17,390
B.3. other reserves	–	–	–	–48,378
C. Technical reserves when the investment risk is borne by the insured	**–**	**–**	**–**	**297,274**
C.1. reserves for contracts whose benefits are linked to investment funds and market indices	–	–	–	297,274
C.2. reserves deriving from the management of pension funds	–	–	–	–
D. Total technical reserves	**–**	**–**	**–**	**3,308,463**

The item has a zero balance as at 31 December 2011 as Bipiemme Vita has been sold in September.

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

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

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

		31.12.2011	31.12.2010
Share capital	**euro**	**2,865,708,586.15**	**1,660,220,780**
No. of ordinary shares		**3,229,621,379**	**415,055,195**
With nominal value of: Euro each (implied par value)		–	4
Of which no. of treasury shares		**1,377,575**	**487,473**

Share capital: at the date of the financial statements the share capital of the Parent Company is fully subscribed and paid in and amounts to 2,865,708,586.15 and consists of 3,229,621,379 ordinary shares with implicit par value, given by the ratio between the total amount of the share capital and the number of outstanding shares, of 0.887 euro; the shares have no restrictions or privileges, and each share has the same rights in terms of dividends and repayment of capital.

Treasury shares: at the date of the financial statements there are 1,377,575 shares in portfolio.

Increase in share capital for payment and early maturity of the "Convertendo BPM 2009/2013 6.75%" bond.
On 25 June 2011 the Extraordinary General Meeting of the Members of the Parent Company resolved to grant the Board of Directors a mandate under art. 2443 of the Italian Civil Code to increase the share capital on a cash basis, in one or more tranches, during a period of 12 months from the date of this resolution, up to a maximum of 1.2 billion euro, including any share premium, by issuing ordinary shares to be offered for payment under option to the shareholders and the holders of the bonds of the "Convertendo BPM 2009/2013 – 6.75%" convertible bond loan, giving the Board the widest possible powers to establish, as the occasion arises and in compliance with the above limits, the methods, terms and conditions of the increase in capital, including the issue price of the new shares and the date from which they enjoy rights.

- The same General Meeting of Members also approved - to the approval of a similar resolution by an imminent Bondholders' Meeting - the amendment to the regulation governing the "BPM Convertendo Bond 2009/2013 – 6.75%" to reduce the maturity date of the Bond by 1 June 2012 and to reduce the single conversion price from 6 euro to not less than 2.71 euro, resulting in an increase in the number of shares to service the bond from 67,670,533 to a maximum of 149,824,059;
- the Board of Directors' proposal to eliminate the express nominal value of the shares in line with the provisions of art. 2346 of the Civil Code.

On 27 October 2011, in execution of the mandate granted to it by the Extraordinary General Meeting of 25 June 2011 and following the resolutions passed by the Board of Directors on 25 August 2011 and 27 September 2011, the Management Board decided the definitive conditions of the increase in capital.
In particular, the Board established the issue price at Euro 0.30 for a maximum of 2,664,736,714 ordinary shares without par value, for a maximum amount of Euro 799,421,014.20 to be booked entirely to share capital to be offered under option to the shareholders and to the holders of the "Convertendo BPM 2009/2013 – 6,75%" bond loan at the starting date of the subscription period. The transaction of increase in share capital started on 31 October 2011 and ended on 22 December 2011 with the subscription of 2,664,736,714 shares with normal dividend rights and the same characteristics as the existing shares.

On 22 December 2011, the General Meeting of the Bondholders of the "Convertendo BPM 2009/2013 - 6.75%" Bond approved the proposal to restructure the loan:
- the maturity date of the loan and therefore the date of the automatic conversion of bonds into newly issued BPM ordinary shares was brought forward from 1 June 2013 to 29 December 2011;
- the reduction of the minimum conversion price from 6.00 euro to 2.71 euro with a consequent revision of the maximum conversion ratio of 16.667 new BPM shares for each bond to 36.9 new BPM shares for each bond.

The bonds reached maturity on 29 December 2011 and have been redeemed through automatic conversion into 149,807,045 newly issued BPM ordinary shares, at an issue price of Euro 2.71 each, i.e. for a total of Euro 405,977,091.95. At the same time, the bondholders received payment of the interest accrued from the last payment date, i.e. from 1 June 2011 until the new maturity date of 29 December 2011, amounting to 3.88356 euro per bond.

As required by IAS/IFRS, all expenses incurred in relation to the increase in share capital, net of the related tax effects have been deducted from the total amount of the increase. The amount - a total of 22.018 million - was booked as a decrease in the "Share premium reserve".

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

Line items/Types	Ordinary	Other
A. Shares in issue at the beginning of the year	**415,055,195**	**–**
– entirely freed up	415,055,195	–
– not entirely freed up	–	–
A.1 Treasury shares (–)	–487,473	–
B.2 Shares in issue: opening balance	**414,567,722**	**–**
B. Increases	**2,820,468,436**	**–**
B.1 New share issues	2,814,566,184	–
– for payment:	2,814,566,184	–
– of business combinations	–	–
– on conversion of bonds	149,829,470	–
– on exercise of warrants	–	–
– other	2,664,736,714	–
– bonus issues:	–	–
– to employees	–	–
– to directors	–	–
– other	–	–
B.2 Sale of treasury shares	130,006	–
B.3 Other increases	5,772,246	–
C. Decreases	**6,792,354**	**–**
C.1 Cancellation	–	–
C.2 Purchase of treasury shares	6,629,802	–
C.3 Disposal of businesses	–	–
C.4 Other decreases	162,552	–
D. Shares outstanding: closing balance	**3,228,243,804**	**–**
D.1 Treasury shares (+)	1,377,575	–
D.2 Shares in issue at the end of the year	**3,229,621,379**	**–**
– entirely freed up	3,229,621,379	–
– not entirely freed up	–	–

Line item A. Shares in issue at the beginning of the year. This represents the number of shares of Banca Popolare di Milano outstanding at 1.1.2011, of 415,055,195 with par value of Euro 4 each, corresponding the Euro 1,660,220,780 of share capital.

Line item A.1 Treasury shares. The above number of shares outstanding at 1.1.2011 includes 487,473 treasury shares, representing the balance of the shares purchased under the buy-back programme of up to 4,875,000 shares, launched at the time by the Board of Directors following a resolution of the General Meeting of Members of 19 April 2008 and from time to time used to allocate shares to employees in 2009 (2,459,820) and 2010 (1,927,707) in relation with the amount they are entitled to under art. 47 of the Articles of Association then in force.

Line item B.1 New share issues. The number includes 2,814,566,184 shares issued as part of the share capital increase for payment (2,664,736,714) reported in sub-item "other" and the shares issued on conversion of the "Convertendo BPM 2009/2013 – 6.75%" bond (149,829,470), reported in the sub-item "conversion of bonds"; more specifically, this last number is given by the sum of 22,425 shares issued following the conversion of the bond during the year and 149,807,045 shares issued as a result of early repayment of the bond on 29 December 2011.

Line items B.2 Sale of treasury shares – B.3 Other change – C.2 Purchase of treasury shares – C.4 Other decreases. These items represent the dynamics of purchases/sales of treasury shares during the year. In particular:

- according to the resolution of the General Meeting of Members of 30 April 2011 approving the allocation of the 2010 net profit, 4,487,269 shares (of par value Euro 4 each) were granted to employees in relation to the amount they are entitled to under art. 47 of the Articles of Association then in force; these shares were granted to employees at their "normal" value (i.e. at the average share price recorded during the 30 days prior to the assignment) of Euro 2.268 per share, for a total of Euro 10,177,128.32. For this purpose, 487,473 shares already in the Parent Company's portfolio have been used (included, as we said, in item A.1) in addition to 4,125,002 shares purchased during the second quarter of 2011 (included in item C.2), using the available portion of the "reserve for treasury shares". The other 125,206 shares not assigned to employees were sold in May 2011 (and therefore included under item B.2);
- later - based on the "Document on the Remuneration and Incentive Policies of the BPM Group", approved by the Board of Directors of the Parent Company and then by the General Meeting of Members on 7 and 25 June 2011 respectively - a total of 1,284,977 shares of Banca Popolare di Milano were assigned to "key personnel" of BPM (1,122,388) and of the Group's commercial banks (162,589) in order to give them 50% of the variable element of their bonus in shares; these shares were granted to employees at their "normal" value (i.e. at the average share price recorded during the 30 days prior to the assignment) of Euro 0.286 per share, for a total of Euro 367,503.42. For this purpose, we used part of the 2,500,000 shares purchased in the fourth quarter (included in item C.2), again using the available portion of the "reserve for treasury shares";
- the item C.4 "Other decreases" includes shares arising from the conversion of bonds held in the Parent Company's portfolio.

Line item D.1 Treasury shares. The 1,377,575 treasury shares represent the balance at 31.12.2011 remaining after the various purchases and sales of treasury shares, as described above.

Item D.2 Shares in issue at the end of the period. This represents the number of shares of Banca Popolare di Milano outstanding at 31.12.2011, a total of 3,229,621,379 (including 1,377,575 treasury shares), whose "implicit" value is 0.887 euro per share, giving a total share capital of Euro 2,865,708,586.15.

15.3 Share capital: other information

The Parent Company's share capital is variable and is represented by shares without an express nominal value, in accordance with the resolution of the general meeting held on 25 June 2011.
The Management Board can buy or reimburse shares of the Parent Company according to current regulations, within the limits of distributable earnings and unrestricted reserves in the latest approved financial statements, allocated for this purpose by the Members in General Meeting.
The provision for the purchase of treasury shares amounts to Euro 19,484,887 and is available for Euro 18,632,958, as adjusted for the value of the 1,337,575 treasury shares held in portfolio at the balance sheet date.
The shares are lodged from their origin and by agreement among the members as privileged surety in favour of the Parent Company 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 Parent Company serves formal notice of the breach on the shareholder concerned. The excess shares must be sold within a year of such notice; after this deadline, the related rights pertaining to these shares are acquired by the Bank until their disposal. This limit does not apply to mutual investment funds; the relevant limits in such cases are those imposed by the rules of the fund concerned.
The shares cannot be split. In the event that the shares are owned jointly, the rights of the joint owners have to be exercised by a common representative.
Dividends not claimed within five years from the date they become payable fall are absorbed by the Company.

15.4 Reserves: other information

Valuation reserves:

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

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

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

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

15.5 Equity instruments: breakdown and changes during the year

Equity instruments: changes during the year	31.12.2011	31.12.2010
A. Opening balance	**500,000**	**500,000**
B. Increases	**–**	**–**
B.1 Other increases	–	–
C. Decreases	**–**	**–**
C.1 Other decreases	–	–
D. Closing balance	**500,000**	**500,000**

This item includes the financial instruments (Tremonti bonds) issued on 4 December 2009, (art. 12 Decree 185/08) in favour of the Economy and Finance Ministry to improve the Group's regulatory capital and provide support for economic development with special attention for SMEs.

Section 16 – Minority interests
Line item 210

16.1 Minority interests: breakdown

Line items/Amounts	31.12.2011	31.12.2010
1. Share capital	17,709	49,445
2. Share premium reserve	18,297	60,274
3. Reserves	16,155	22,632
4. Treasury shares	–	–
5. Valuation reserves	2,832	2,850
6. Equity instruments	–	–
7. Minority interests	–6,871	5,150
Total	**48,122**	**140,351**

16.2 Valuation reserves: breakdown

Line items/Elements	31.12.2011	31.12.2010
1. Financial assets available for sale	524	725
2. Property and equipment	–	–
3. Intangible assets	–	–
4. Hedging of foreign investments	–	–
5. Cash flow hedges	–	–
6. Foreign exchange differences	–	–
7. Non-current assets held for sale	–	–
8. Actuarial gains (losses) on defined-benefit pension plans	–416	–599
9. Special revaluation laws	2,724	2,724
Total	**2,832**	**2,850**

Other information

1. Guarantees given and commitments

Transactions	31.12.2011	31.12.2010
1) Financial guarantees	571,214	633,582
a) Banks	55,976	51,380
b) Customers	515,238	582,202
2) Commercial guarantees	3,288,150	3,379,758
a) Banks	80,412	72,515
b) Customers	3,207,738	3,307,243
3) Irrevocable commitments to grant finance	7,195,323	8,387,387
a) Banks	1,049,451	472,581
i) certain to be called on	424,451	472,581
ii) not certain to be called on	625,000	–
b) Customers	6,145,872	7,914,806
i) certain to be called on	577,046	171,563
ii) not certain to be called on	5,568,826	7,743,243
4) Commitments underlying credit derivatives: sale of protection	231,259	237,348
5) Assets pledged in guarantee for third-party obligations	5,859	6,175
6) Other commitments	325,315	325,052
Total	**11,617,120**	**12,969,302**

The amount of "guarantees given" is stated at nominal value net of any drawdowns and any adjustments.
"Financial guarantees given – banks" also include the commitments undertaken versus the Interbank Deposit Guarantee Fund.
The "irrevocable commitments to grant finance" are stated on the basis of the commitment given less the sums already disbursed and any adjustments. They exclude commitments arising from derivative contracts.
The "irrevocable commitments to grant finance" which are certain to be called on include forward and spot purchases of securities awaiting settlement and loans and deposits to be made on a specified future date.
"Commitments underlying credit derivatives: sales of protection" refer to the notional amount of such commitments, less the sums already disbursed and any adjustments.

2. Assets pledged as guarantees for own liabilities and commitments

Portfolio	31.12.2011	31.12.2010
1. Financial assets held for trading	74,815	97,459
2. Financial assets designated at fair value through profit and loss	98,952	47,600
3. Financial assets available for sale	6,351,414	4,178,163
4. Investments held to maturity	–	–
5. Due from banks	–	–
6. Due to customers	4,424,867	4,328,904
7. Property and equipment	–	–

Guaranteed funding transactions

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

At the date of the financial statements, there are no repurchase agreements carried out with securities deriving from reverse repurchase agreements.

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

- "BPM 23.12.2011-23/3/2012 4%" bonds guaranteed by the Government, for a nominal value of 1.5 billion;

- the following covered bonds:
  - "BPM CB 18.7.2011-18.1.2014 TV ", for nominal 1 billion;
  - "BPM CB 9.10.2009-17.10.2016 3.50%", for nominal 46.135 million;
  - "BPM CB 4.11.2010-16.11.2015 3.25%", for nominal 69 million.

In addition, the following have been provided as collateral: "BPM Securitisation 15.01.06/43 floating rate" bonds, arising from the securitisation carried out by the Parent Company in 2006, for a nominal value of 114.843 million.

3. Information on operating leases

The assets leased basically consist of:
– POS equipment;
– central computer;
– motor vehicles under long–term rental contracts;
– machinery – hardware.

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 lease of the Central computer will expire on 31 March 2013.
The computer lease forms part of an omnicomprehensive contract with IBM for the integrated management of various services, including the help desk, inventory, hardware logistics and maintenance, server and notes administration, etc.
Motor vehicles under long-term rental contracts are leased for a contractual term of 36-48 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 2011, operating lease instalments amounted to 6.467 million (6.387 million in 2010).

Future operating lease payments fall due as follows:

Leased assets	Up to 1 year	Between 1 and 5 years	Beyond 5 years	31.12.2011
POS	2,740	3,569	–	6,309
Central computer	2,910	522	–	3,432
Vehicles	1,613	1,741	–	3,354
Machinery - hardware	76	20	–	96
Total	**7,339**	**5,852**	**–**	**13,191**

5. 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	Amount
1. Execution of instructions on behalf of customers	**168,343,946**
a) Purchases	84,862,607
1. settled	84,692,676
2. not settled	169,931
b) Sales	83,481,339
1. settled	83,323,444
2. not settled	157,895
2. Portfolio management	**708,241**
a) individual	708,241
b) collective	–
3. Custody and administration of securities	**68,953,539**
a) Third-party securities on deposit as custodian bank (excluding portfolio management schemes)	–
1. Securities issued by companies included in the scope of consolidation	–
2. Other securities	–
b) third-party securities held on deposit (excluding portfolio management schemes): other	32,414,886
1. Securities issued by companies included in the scope of consolidation	6,015,819
2. Other securities	26,399,067
c) third-party securities deposited with third parties	27,547,022
d) portfolio securities deposited with third parties	8,991,631
4. Other transactions	**23,792,711**
1. Collection of receivables on behalf of third parties: debit and credit adjustments	15,713,092
a) debit adjustments	8,196,680
1. Current accounts	39,588
2. Central portfolio	8,157,092
3. Cash	–
4. Other accounts	–
b) credit adjustments	7,516,412
1. Current accounts	37,524
2. Presenters of notes and documents	7,476,075
3. Other accounts	2,813
2. Other transactions	8,079,619
a) collection of notes and other instruments on behalf of third parties	8,079,619

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 (trading for and on behalf of third parties). The amount of such transactions was as follows:

a) Purchases	**18,933,396**
1. settled	18,929,510
2. not settled	3,886
b) Sales:	**18,348,399**
1. settled	18,347,217
2. not settled	1,182

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 b) also includes securities received from third parties to guarantee lending transactions, for which the Group banks 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 Group handles collection on behalf of third parties, must only be recorded in the balance sheet (as cash, loans to 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.

Part C

Information on the consolidated income statement

Section 1 – Interest
Line items 10 and 20

1.1 Interest and similar income: breakdown

Description/Technical forms	Debt securities	Loans	Other transactions	2011	2010
1. Financial assets held for trading	13,771	–	–	13,771	29,665
2. Financial assets designated at fair value through profit and loss	14,842	–	–	14,842	21,481
3 - Financial assets available for sale	180,271	–	–	180,271	44,459
4. Investments held to maturity	–	–	–	–	–
5. Due from banks	141	46,033	–	46,174	39,772
6. Loans to customers	9,300	1,217,942	–	1,227,242	995,964
7. Hedging derivatives	X	X	74,833	74,833	67,946
8. Other assets	X	X	2,803	2,803	4,627
Total	**218,325**	**1,263,975**	**77,636**	**1,559,936**	**1,203,914**

The increase in this line item, which has gone from 1,204 million to 1,560 million euro, was due largely to the increase in investments in government securities classified as "Financial assets available for sale" and to the rise in interest earned on loans.

Line item 1. "Financial assets held for trading: other transactions" in 2010 included positive margins related to derivative contracts linked for operational purposes with financial assets and liabilities at fair value (under the fair value option) for 14.995 million. In 2011 the balance is negative and is shown in interest expense, line item 5. "Financial liabilities held for trading: other transactions".

Line items 4 and 5 "Due from banks" and "Loans to customers" show, in the "Debt securities" column, the interest income on own securities not quoted on active markets, classified in these portfolios. The "Loans" column also includes interest income accrued on repurchase agreements used for lending purposes.

Interest, other than that reported in line item 130. "Writebacks", accrued during the year on "impaired" positions, totals 33.306 million (28.938 million at 31.12.2010). This interest, calculated on financial assets valued at amortised cost according to the effective interest rate method, are reported in the various columns according to the technical form that gave rise to the interest. Any past due interest provided for in the contract is only recognised in the income statement when actually collected.

1.2 Interest and similar income: differentials on hedging transactions

Line items	2011	2010
A. Positive differentials on hedging transactions	136,087	101,825
B. Negative differentials on hedging transactions	(61,254)	(33,879)
C. Balance (A-B)	**74,833**	**67,946**

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

1.3 Interest and similar income: other information

1.3.1 Interest income on financial assets in foreign currency

Line items/Amounts	2011	2010
On financial assets in foreign currency	17,358	16,192

"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

Interest income from finance leases amounts to 11.557 million (9.106 million at 31.12.2010).

1.4 Interest and similar expense: breakdown

Description/Technical forms	Payables	Securities	Other transactions	2011	2010
1. Due to central banks	(47,050)	X	–	(47,050)	(2,885)
2. Due to banks	(44,684)	–	–	(44,684)	(35,409)
3. Due to customers	(200,559)	X	–	(200,559)	(112,295)
4. Securities issued	X	(418,276)	–	(418,276)	(288,051)
5 Financial liabilities held for trading	–		(2,759)	(2,759)	(1,414)
6. Financial liabilities designated at fair value through profit and loss	–	(21,817)	–	(21,817)	(30,804)
7. Other liabilities and provisions	X	X	(20)	(20)	(15,706)
8. Hedging derivatives	X	X	–	–	–
Total	**(292,293)**	**(440,093)**	**(2,779)**	**(735,165)**	**(486,564)**

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

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

Line item 5. "Financial liabilities held for trading", in the "Other transactions" column, shows a net negative balance of 0.806 million (1.049 million in 2010) which relates to differentials and positive/negative margins on derivatives operationally linked to financial assets and liabilities classified in the trading book and which accrue interest. These are multiflow derivatives (interest rate swaps) connected to fixed rate debt securities classified as held for trading, and the net balance of negative differentials on derivative contracts operationally linked to financial liabilities designated at fair value through profit and loss (under the fair value option) for a total of 1.953 million (in 2010, this item was positive).

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

In line item 7. "Other liabilities and provisions", the amount for 2010 mainly refers to interest paid in relation to the tax settlement for the 2004-2008 tax periods.

In line item 8. "Hedging derivatives", the "Other transactions" column shows a zero balance, as the difference between the positive and negative differentials related to derivatives classified as hedges according to the hedge accounting rules is positive. Consequently, this balance is shown in the table 1.1 "Interest and similar income: breakdown" and details are given in Table 1.2 "Interest and similar income: differentials on hedging transactions" of this section.

1.5 Interest and similar income: differentials on hedging transactions

The balance of interest on differentials in hedging transactions at 31 December 2011 is positive. For details please see table 1.2 above.

1.6 Interest and similar expense: other information

1.6.1 Interest expense on foreign currency liabilities

Line items/Amounts	2011	2010
On foreign currency liabilities	(7.767)	(7.983)

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

There are no interest expense on finance leases.

Section 2 – Commission
Line items 40 and 50

2.1 Fee and commission income: breakdown

Type of service/Amounts	2011	2010
a) guarantees given	**32,493**	**31,816**
b) credit derivatives	**–**	**–**
c) management, dealing and advisory services:	**205,591**	**306,821**
1. trading of financial instruments	23,603	23,152
2. currency trading	8,376	8,272
3. portfolio management	3,867	7,154
3.1 individual	3,394	3,806
3.2 collective	473	3,348
4. custody and administration of securities	13,506	12,498
5. custodian bank	126	8,734
6. placement of securities	83,726	173,130
7. receipt and transmission of instructions	26,806	31,530
8. advisory services	6,123	2,608
8.1 on investments	–	–
8.2 on financial structure	6,123	2,608
9. distribution of third-party services	39,458	39,743
9.1 portfolio management	6,391	7,298
9.1.1 individual	6,391	7,298
9.1.2 collective	–	–
9.2. insurance products	29,011	27,940
9.3 other products	4,056	4,505
d) collection and payment services	**121,242**	**118,716**
e) servicing for securitisation transactions	**–**	**–**
f) factoring services	**–**	**–**
g) tax collection services	**–**	**–**
h) management of multilateral trading systems	**–**	**–**
i) management of current accounts	**120,148**	**129,104**
j) other services	**117,365**	**98,554**
Total	**596,839**	**685,011**

The decline in commission income was due mostly to lost revenue from reduced sales of securities to third parties.

2.2 Fee and commission income: product and service distribution channels

Channels/Amounts	2011	2010
a) at own branches:	**125,755**	**218,808**
1. portfolio management	3,867	7,154
2. placement of securities	82,614	172,060
3. distribution of third-party services and products	39,274	39,594
b) door-to-door:	**1,295**	**1,215**
1. portfolio management	–	–
2. placement of securities	1,111	1,066
3. distribution of third-party services and products	184	149
c) other distribution channels:	**1**	**4**
1. portfolio management	–	–
2. placement of securities	1	4
3. distribution of third-party services and products	–	–

2.3 Fee and commission expense: breakdown

Services/Amounts	2011	2010
a) guarantees received	**(849)**	**(708)**
b) credit derivatives	**(58)**	**(627)**
c) management and dealing services:	**(21,162)**	**(23,738)**
1. trading of financial instruments	(11,196)	(9,906)
2. currency trading	(5)	(6)
3. portfolio management:	(454)	(856)
3.1 own portfolio	(454)	(856)
3.2 third-party portfolio	–	–
4. custody and administration of securities	(4,492)	(5,103)
5. placement of financial instruments	(2,922)	(5,782)
6. door-to-door sales of financial instruments, financial products, and services	(2,093)	(2,085)
d) collection and payment services	**(31,028)**	**(31,279)**
e) other services	**(20,535)**	**(17,892)**
Total	**(73,632)**	**(74,244)**

Section 3 – Dividend and similar income
Line item 70

3.1 Dividend and similar income: breakdown

Line items/Income	Dividends	Income from mutual funds	2011	Dividends	Income from mutual funds	2010
A. Financial assets held for trading	4,298	657	4,955	82,588	435	83,023
B. Financial assets available for sale	7,444	2,616	10,060	7,132	1,576	8,708
C. Financial assets designated at fair value through profit and loss	18,462	–	18,462	4,956	–	4,956
D. Investments in associates and companies subject to joint control	–	X	–	–	X	–
Total	**30,204**	**3,273**	**33,477**	**94,676**	**2,011**	**96,687**

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

4.1 Profits (losses) on trading: breakdown

Transactions/Element of income	Unrealised gains (A)	Trading profits (B)	Losses (C)	Trading losses (D)	Net income (loss) (A+B) – (C+D)
1. Financial assets held for trading	**15,942**	**49,652**	**(38,461)**	**(55,433)**	**(28,300)**
1.1 Debt securities	2,453	30,129	(19,136)	(24,695)	(11,249)
1.2 Equities	1,229	18,327	(6,926)	(30,396)	(17,766)
1.3 Mutual fund shares	1	460	(1,305)	(302)	(1,146)
1.4 Loans	–	–	–	–	–
1.5 Other	12,259	736	(11,094)	(40)	1,861
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**	**(3,827)**
4. Derivatives	**1,307,413**	**1,399,954**	**(1,185,515)**	**(1,442,699)**	**81,768**
4.1 Financial derivatives	1,295,121	1,395,005	(1,176,256)	(1,436,129)	80,356
– On debt securities and interest rates	1,130,260	920,393	(1,104,954)	(905,018)	40,681
– On equities and stock indices	157,257	467,174	(63,499)	(524,448)	36,484
– On currency and gold	X	X	X	X	2,615
– Other	7,604	7,438	(7,803)	(6,663)	576
4.2 Credit derivatives	12,292	4,949	(9,259)	(6,570)	1,412
Total	**1,323,355**	**1,449,606**	**(1,223,976)**	**(1,498,132)**	**49,641**

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

1. **Financial assets held for trading**: The sub–item "1.5 Other" includes the profits and losses from trading in currency, gold and other precious metals.

3. **Other financial assets and liabilitie**s: 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	**2011**	**2010**
A. Income relating to:		
A.1 Derivatives with fair value hedges	187,235	29,095
A.2 Financial assets with fair value hedges	25,016	2,101
A.3 Financial liabilities with fair value hedges	–	79,552
A.4 Cash flow hedges	–	–
A.5 Foreign currency assets and liabilities	–	–
Total income from hedging activities (A)	**212,251**	**110,748**
B. Charges relating to:		
B.1 Derivatives with fair value hedges	(28,347)	(81,438)
B.2 Financial assets with fair value hedges	(567)	(491)
B.3 Financial liabilities with fair value hedges	(182,187)	(30,654)
B.4 Cash flow hedges	–	–
B.5 Foreign currency assets and liabilities	–	–
Total charges from hedging activities (B)	**(211,101)**	**(112,583)**
C. Fair value adjustments in hedge accounting (A-B)	**1,150**	**(1,835)**

The table shows the net result of the fair value adjustments in hedge accounting. It therefore shows the realised income items booked to the income statement and arising from valuation of hedged assets and liabilities and the related derivative contracts, including any exchange differences. During the year, other hedging operations were carried out to hedge against adverse changes in interest rate risk, especially for bonds classified as available for sale and securities issued and classified under item 30 "Securities issued" on the liabilities side of the balance sheet.
For information on the hedging derivatives, whose income and expenses must be entered on lines A.1 and B.1 of this table, please refer to Section 8 "Hedging derivatives - Line item 80" in assets and Section 6 "Hedging derivatives - Line item 60" of liabilities in Part B of these explanatory notes.
For more information on hedged financial assets and liabilities, please refer to the detailed tables set out in Part B of these explanatory notes, in the sections relating to balance sheet items in which there are items being hedged.

The table below shows the details of net income items.

Fair value adjustments in hedge accounting: details of income items

Line items/Amounts	Income	Expenses	2011 Net result	Income	Expenses	2010 Net result
1 Derivatives for fair value hedges:						
• Interest rate risk	187,235	(28,347)	**158,888**	29,095	(80,545)	**(51,450)**
• Exchange rate risk				–	(893)	**(893)**
• Credit risk	–	–	–	–	–	–
• Price risk	–	–	–	–	–	–
• Several risks	–	–	–	–	–	–
2. Financial assets with fair value hedges:						
• Specific hedges	2,899	(567)	**2,332**	1,925	(491)	**1,434**
• Generic hedges	22,117	–	**22,117**	176	–	**176**
3 Financial liabilities with fair value hedges:						
• Specific hedges	–	(113,370)	**(113,370)**	47,556	(25,456)	**22,100**
• Generic hedges	–	(68,817)	**(68,817)**	31,996	(5,198)	**(26,798)**
4 Financial derivatives for cash flow hedges:						
• Expected transactions	–	–	–	–	–	–
• Foreign investments	–	–	–	–	–	–
• Exchange rate risk	–	–	–	–	–	–
5 Foreign currency assets and liabilities:						
• Assets in foreign currency	–	–	–	–	–	–
• Liabilities in foreign currency	–	–	–	–	–	–
Total	**212,251**	**(211,101)**	**1,150**	**110,748**	**(112,583)**	**(1,835)**

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

Breakdown	2011 Net result	2010 Net result
Assets:		
• Debt securities available for sale	**(3,174)**	**(204)**
• Due from banks	–	–
• Loans to customers	**(243)**	**(259)**
Liabilities and shareholders' equity		
• Bonds in circulation	**4,567**	**(1,372)**
Net result of fair value adjustments in hedge accounting	**1,150**	**(1,835)**

The amount shown under "Loans to customers" relates for 87 thousand euro to the specific hedging of a loan made by the Parent Company and for 156 thousand euro to the generic hedging of a subsidiary's loans.

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

6.1 Profits (losses) on disposal/repurchase: breakdown

Description/Element of income	2011			2010		
	Profits	Losses	Net result	Profits	Losses	Net result
Financial assets						
1. Due from banks		–	–		–	–
2. Loans to customers	237	(339)	(102)		(8,184)	(8,184)
3. Financial assets available for sale	7,828	(23)	7,805	12,884	(566)	12,318
3.1 Debt securities	4,066	(2)	4,064	11,879	(276)	11,603
3.2 Equities	14	(20)	(6)	1,005	(195)	810
3.3 Mutual fund shares	3,748	(1)	3,747		(95)	(95)
3.4 Loans	–		–	–	–	–
4. Investments held to maturity	–	–	–	–	–	–
Total assets	**8,065**	**(362)**	**7,703**	**12,884**	**(8,750)**	**4,134**
Financial liabilities						
1. Due to banks	–	–	–	–	–	–
2. Due to customers		–	–	1,899	–	1,899
3. Securities issued	22,609	(375)	22,234	4,345	(364)	3,981
Total liabilities	**22,609**	**(375)**	**22,234**	**6,244**	**(364)**	**5,880**
Total	**30,674**	**(737)**	**29,937**	**19,128**	**(9,114)**	**10,014**

The table shows the result of selling financial assets other than those held for trading and those designated at fair value, and the result of repurchasing own financial liabilities.
The repurchase of the Bank's own financial liabilities is treated in exactly the same way as an early cancellation of the financial instrument and the consequent realization of profits or losses at the time of repurchase.
As regards financial liabilities, the profit of 22.609 million is attributable to repurchases by Group companies of bonds issued by the Parent Company.

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

Line items/Amounts	2011			2010		
	Profits	Losses	Net result	Profits	Losses	Net result
1. Due from banks:	**–**	**–**	**–**	**–**	**–**	**–**
Loans	–	–	–	–	–	–
Debt securities	–	–	–	–	–	–
2. Loans to customers:	**–**	**–**	**–**	**–**	**–**	**–**
Loans	237	(298)	(61)	–	(8,156)	(8,156)
Debt securities	–	(41)	(41)	–	(28)	(28)
Total	**237**	**(339)**	**(102)**	**–**	**(8,184)**	**(8,184)**

The profits and losses on loans refer to the non-recourse sale of impaired loans in the current year and the previous one.

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 result (A+B)–(C+D)
1. Financial assets	**2,503**	**5,359**	**(53,863)**	**(40,488)**	**(86,489)**
1.1 Debt securities	1,251	5,359	(33,812)		(27,202)
1.2 Equities	–		(8,934)	(27,204)	(36,138)
1.3 Mutual fund shares	1,252		(11,117)	(13,284)	(23,149)
1.4 Loans	–	–	–	–	–
2. Financial liabilities	**5,714**	**5,639**	**(15,904)**	**–**	**(4,551)**
2.1 Debt securities	5,714	5,639	(15,904)		(4,551)
2.2 Due to banks	–	–	–	–	–
2.3 Due to customers	–	–	–	–	–
3. Financial assets and liabilities in foreign currency: foreign exchange differences	**X**	**X**	**X**	**X**	**–**
4. Credit and financial derivatives	**20,007**	**16,840**	**(11,507)**	**(9,979)**	**15,361**
Total	**28,224**	**27,838**	**(81,274)**	**(50,467)**	**(75,679)**

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

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

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

8.1 Net losses/recoveries on impairment to loans: breakdown

Transactions/Element of income	Adjustments			Writebacks				2011	2010
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Other		A	B	A	B		
A. Due from banks	–	(1,221)	(88)	–	304	–	340	(665)	(2,081)
– Loans	–	(1,221)	(88)	–	304	–	340	(665)	(2,081)
– Debt securities	–	–	–	–	–	–	–	–	–
B. Loans to customers	(112,014)	(385,452)	(63,042)	16,708	59,139	–	2,797	(481,864)	(236,229)
– Loans	(112,014)	(385,452)	(63,042)	16,708	59,139	–	2,797	(481,864)	(236,229)
– Debt securities	–	–	–	–	–	–	–	–	–
C. Total	**(112,014)**	**(386,673)**	**(63,130)**	**16,708**	**59,443**	**–**	**3,137**	**(482,529)**	**(238,310)**

Key: A = for interest B = Other writebacks

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

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

Transactions/Income elements	Adjustments		Writebacks		2011	2010
	Specific		Specific			
	Write-offs	Other	A	B		
A. Debt securities	–	(13,790)	–	–	(13,790)	–
B. Equities	–	(51,864)	X	X	(51,864)	(15,691)
C. Mutual fund shares	–	–	X	–	–	–
D. Loans to banks	–	–	–	–	–	–
E. Loans to customers	–	–	–	–	–	–
F. Total	**–**	**(65,654)**	**–**	**–**	**(65,654)**	**(15,691)**

Key: A = for interest B = Other writebacks

The specific adjustments on debt securities relate to the subsidiary BPM Ireland.

Specific value adjustments relate to the write-offs and writedowns made to the investments held in the following companies:

Specific adjustments	2011	2010
• Delmi S.p.A.	(24,610)	–
• Risanamento	(9,912)	(8,395)
• Credit Industriel et Commercial	(8,397)	–
• Alba Leasing S.p.A.	(4,030)	–
• Gabetti S.p.A. – class B shares	(1,257)	–
• Banca Popolare dell'Etruria	(1,096)	(2,094)
• Comital S.p.A.	(323)	(2,277)
• Gabetti S.p.A.	–	(1,324)
• Genextra S.p.A	(523)	(581)
• Fiera di Milano S.p.A.	(547)	(430)
• Gabetti S.p.A. – ordinary shares	(359)	–
• Coronet S.p.A.	–	(286)
• Istituto Europeo di Oncologia S.r.l.	(160)	–
• Aedes S.p.A.	(75)	–
• Terme Acqui	(472)	–
• Milano Assicurazioni S.p.A.	(73)	(80)
• Polo Scientifico Tecnologico Lombardo S.p.A.	(30)	–
• Mid Industry	–	(224)
Total	**(51,864)**	**(15,691)**

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

At the date of the financial statements there are no investments held to maturity.

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

Transactions/Income elements	Adjustments			Writebacks				2011	2010
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Other		A	B	A	B		
A. Guarantees given	(1,160)	(3,361)	(376)	–	3,746	–	351	(800)	1,854
B. Credit derivatives	–	–	–	–	–	–	–	–	–
C. Commitments to disburse funds	–	–	–	–	–	–	–	–	–
D. Other information	–	–	–	–	–	–	–	–	–
E. Total	**(1,160)**	**(3,361)**	**(376)**	**–**	**3,746**	**–**	**351**	**(800)**	**1,854**

Key: A = for interest B = Other writebacks

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

Section 9 – Net insurance premiums
Line item 150

This item has a zero balance as Bipiemme Vita was sold on 8 September 2011; The comparative figures for 2010 have been included in Item 310, "Income (loss) after tax from discontinued operations" as they have been restated as assets held for sale in accordance with IFRS 5.

Section 10 – Other net insurance income (expense)
Line item 160

This item has a zero balance as Bipiemme Vita was sold on 8 September 2011; The comparative figures for 2010 have been included in Item 310, "Income (loss) after tax from discontinued operations" as they have been restated as assets held for sale in accordance with IFRS 5.

Section 11 – Administrative expenses
Line item 180

11.1 Personnel expenses: breakdown

In addition to personnel expenses, 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 group companies;
- 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/Sectors	2011	2010
1) Employees	**(638,209)**	**(680,190)**
a) wages and salaries	(431,274)	(451,262)
b) social security charges	(124,311)	(128,191)
c) employee termination indemnities	(29,188)	(29,086)
d) pension costs	–	–
e) charge to employee termination indemnities	(7,466)	(7,111)
f) charge to provision for post employment benefits:	(7,224)	(6,970)
– defined contribution	–	–
– defined benefit	(7,224)	(6,970)
g) payments to external supplementary pension funds:	(12,745)	(12,143)
– defined contribution	(12,745)	(12,143)
– defined benefit	–	–
h) costs associated with share–based payments	(368)	(10,177)
i) other staff benefits	(25,633)	(35,250)
2) Other personnel	**(5,428)**	**(9,847)**
3) Directors and Statutory Auditors	**(6,988)**	**(7,122)**
4) Retired personnel	**–**	**–**
Total	**(650,625)**	**(697,159)**

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

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

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

Sub-item h) "costs associated with share-based payments" refers to the portion reserved to employees of the Parent Bank, except for those who hold top management positions, in compliance with the new wording of art. 47 of the Articles of Association, amended by the Extraordinary General Meeting of Members on 25 June 2011 (now art. 60 based on the Articles of Association approved by the Extraordinary General Meeting of Members held on 22 October 2011). This portion is equal to 5% of the pre-tax profit of the Parent Company (i.e. "income before tax from continuing operations") calculated prior to the amount to be determined, unless the general meeting decides not to distribute dividends on the net income for the year. This amount is paid in the form of shares, which will be subject to a three-year retention period before the assignee can dispose of them. The reference value of the shares is equal to the average market price recorded during the 30 days preceding the assignment.
The new wording of former art. 47 of the Articles of Association has eliminated the remuneration of 0.25% of income before tax that was set aside each year for the Parent Company's Board of Directors. Just for 2011, the Directors in office up to 22 October 2011 were paid fees of 17 thousand euro.

Having said this, it is worth pointing out that, in view of the loss posted in 2011, there is no requirement to set aside a portion of earnings for the employees.

The amount of 368 thousand euro shown on this line refers to the incentive system for "key personal" paid in BPM shares in 2011 for the work they performed in 2010. For further details, please see Part I "Share-based payments".

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

Line item 3) "Directors and Statutory Auditors" comprises the remuneration of the Group company Directors for 5.562 million (5.658 million in 2010) and Statutory Auditors for 1.426 million (1.464 million in 2010).

11.2 Average number of employees, by level

Line items	**2011**	**2010**
Employees	**7,848**	**8,029**
a) managers	204	211
b) officials	3,040	3,103
– of which: 3rd and 4th level	1,673	1,696
c) other employees	4,604	4,715
Other personnel	**129**	**199**
Consultants and temps	129	199
Total	**7,977**	**8,228**

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	**31.12.2011**	**31.12.2010**
Employees	**8,357**	**8,406**
a) managers	196	208
b) officials	3,117	3,133
– of which: 3rd and 4th level	1,673	1,695
c) other employees	5,044	5,065
Other personnel	**110**	**196**
Consultants and temps	110	196
Total	**8,467**	**8,602**

The number of employees includes 1,134 part-timers (1,131 at 31.12.2010), with an incidence of 13% 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.

11.3 Defined-benefit pension plans: total costs

	2011	2010
– pension cost:	**(3,610)**	**(3,355)**
– BPM supplementary pension plan	(3,610)	(3,355)
– plan of the former Banca popolare Bologna e Ferrara	–	–
– plan of the former Banca popolare Agricola Milanese	–	–
– pension plan of Cassa Risparmio Alessandria	–	–
– interest expense:	**(3,614)**	**(3,615)**
– BPM supplementary pension plan	(1,805)	(1,768)
– plan of the former Banca popolare Bologna e Ferrara	(720)	(708)
– plan of the former Banca Agricola Milanese	(1)	(1)
– pension plan of Cassa Risparmio Alessandria	(1,088)	(1,138)
Total	**(7,224)**	**(6,970)**

Composition of "actuarial gains (losses) posted to shareholders' equity"

Line items	**31.12.2010**	**Change**	**31.12.2011**
BPM supplementary pension plan	(12,968)	(1,468)	(14,436)
Plan of the former Banca popolare Bologna e Ferrara	(7,355)	305	(7,050)
Plan of the former Banca popolare Agricola Milanese	(2)	1	(1)
Pension plan of Cassa Risparmio Alessandria	(4,767)	560	(4,207)
Total actuarial gains (losses)	**(25,092)**	**(602)**	**(25,694)**

11.4 Other staff benefits

"Other staff benefits" include the amount of 1.214 million for non-recurring charges related to the "Solidarity Fund for income support" of Banca Popolare di Milano, Banca di Legnano and Cassa di Risparmio di Alessandria, In 2010, this charge of 5.666 million included the additional cost compared with the commitment taken on in 2009 as a result of the introduction of Decree 78 of 31/05/2010, converted into Law 122 of 20/07/2010, which extended up to a maximum of 12 months the period between achieving the pension requirement and effective payment of the pension.
"Other staff benefits" mostly refer to amounts paid to adjust the managers' indemnity fund, contributions towards the running of staff canteens, long-service bonuses and the cost of subsidised-rate loans given to employees.

11.5 Other administrative expense: breakdown

Description/Technical forms	2011	2010
IT expenses	**(70,811)**	**(73,129)**
Maintenance and rent of hardware and software and data transmission	(59,873)	(62,941)
Services rendered by Group companies	–	–
ATM running costs	(1,221)	(1,854)
Outsourced IT services	(9,717)	(8,334)
Expenses for buildings and furniture	**(59,942)**	**(61,960)**
Property leases	**(43,496)**	**(43,027)**
Rents paid	(42,683)	(42,626)
Office machine lease charges	(813)	(401)
Other expenses	**(16,446)**	**(18,933)**
Maintenance	(10,269)	(12,409)
Cleaning	(6,177)	(6,524)
Purchases of assets and non-professional services	**(75,036)**	**(84,935)**
Telephone and postage	(15,922)	(18,741)
Sub-contract work	(20,240)	(24,119)
Security and cash counting services	(11,556)	(13,674)
Electricity, heating and water	(13,219)	(13,972)
Transport	(6,535)	(6,356)
Stationery and printing	(5,565)	(5,842)
Removals and porterage	(1,299)	(1,501)
Subscriptions to newspapers and magazines	(700)	(730)
Purchases of professional services	**(38,514)**	**(41,411)**
Professional fees	(24,322)	(24,753)
Legal expenses and company information	(13,980)	(16,433)
Directors' and statutory auditors' fees	(212)	(225)
Insurance premiums	**(3,965)**	**(4,810)**
Advertising expenses	**(28,319)**	**(26,787)**
Indirect taxes and duties	**(91,081)**	**(77,635)**
Other	**(12,179)**	**(12,548)**
Charity	(2,655)	(4,240)
Membership fees	(3,172)	(3,562)
Other	(6,352)	(4,746)
Total	**(379,847)**	**(383,215)**

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

12.1 Net provisions for risks and charges: breakdown

Description/Technical forms	2011	2010
Provisions	**(122,611)**	**(20,958)**
Legal disputes	**(57,846)**	**(9,140)**
Other risks and charges	**(64,765)**	**(11,818)**
– Provision for recovery procedures	(3,771)	(3,063)
– Provision for tax disputes	(7,681)	(342)
– Provision for other future charges	(53,313)	(8,413)
Reallocations	**10,983**	**9,815**
Legal disputes	**6,094**	**4,133**
Other risks and charges	**4,889**	**5,682**
– Provision for recovery procedures	2,654	5,417
– Provision for tax disputes	–	89
– Provision for other future charges	2,235	176
Total	**(111,628)**	**(11,143)**

Net provisions for risks and charges concern the risk related to ongoing legal disputes, and others, to cover any loss that might arise in connection with contractual disputes of a commercial nature.
"Provisions for the year" include the changes accrued during the year, due to the approach of the presumed maturity of the expected liability on provisions that have been discounted to reflect the financial component related to the passage of time.
In relation to the economic impact of changes in provisions for risks and charges, see the commentary to Table 12.2, "Allowances for risks and charges: changes during the year" of Section 12 "Allowances for risks and charges" in the liabilities of Part B of these Explanatory Notes; for the breakdown of the amounts charged to the "Provision for other future charges", please refer to paragraph 12.4 of the same section.

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

13.1 Net adjustments/writebacks to 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	(42,082)	(286)	–	(42,368)
– Used in business	(41,321)	(286)	–	(41,607)
– For investment	(761)	–	–	(761)
A.2 Purchased under finance lease	–	–	–	–
– Functional	–	–	–	–
– For investment	–	–	–	–
Total	**(42,082)**	**(286)**	**–**	**(42,368)**

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

A.1 Owned property and equipment	2011	2010
– used in business	(41,607)	(40,090)
– for investment	(761)	(636)
Total	**(42,368)**	**(40,726)**

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

14.1 Net adjustments to/recoveries on intangible assets: breakdown

Asset/Element of income	Amortisation (A)	Impairment adjustments (B)	Writebacks (C)	Net income (loss) (A+B–C)
A. Intangible assets				
A.1 Owned by company	(35,444)	(3,986)	–	(39,430)
– Internally generated	(373)	–	–	(373)
– Other	(35,071)	(3,986)	–	(39,057)
A.2 Purchased under finance lease	–	–	–	–
Total	**(35,444)**	**(3,986)**	**–**	**(39,430)**

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

A.1 Intangible assets owned	2011	2010
– Internally generated	(373)	(376)
– Other	(39, 057)	(34,252)
Total	**(39,430)**	**(34,628)**

Impairment adjustments relate to the writedown of the core deposits of Banca Popolare di Mantova.

Section 15 – Other operating expenses/income
Line item 220

15.1 Other operating expenses: breakdown

Element of income/Amounts	2011	2010
Leasehold improvements recorded under "Other assets"	(4,521)	(4,823)
Other operating expenses	(12,421)	(176,977)
Total	**(16,942)**	**(181,800)**

In 2010 the line item "Other operating expenses" included the non-recurring charge of 162 million related to the tax settlement for the fiscal periods 2004-2008.

15.2 Other operating income: breakdown

Element of income/Amounts	2011	2010
Recovery of taxes	71,843	60,863
Rental and leasing income	7,151	7,157
Income and IT services rendered to:	56	53
Group companies	0	–
Third parties	56	53
Recharge of costs	22,492	28,563
On deposits and overdrafts	8,564	14,553
Other	13,928	14,010
Other income	17,733	12,864
Total	**119,275**	**109,500**

	2011	2010
Total other operating expenses/income (line item 220)	**102,333**	**(72,300)**

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

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

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

Element of income/Sectors	2011	2010
1) Jointly controlled entities		
A. Income	438	1
1. Revaluations	438	1
2. Profits on disposal	–	–
3. Writebacks	–	–
4. Other income	–	–
B. Charges	(546)	(208)
1. Writedowns	(211)	(208)
2. Impairment charges	(335)	–
3. Losses on disposal	–	–
4. Other charges	–	–
Net income (loss)	**(108)**	**(207)**
2) Companies subject to significant influence		
A. Income	6,845	2,140
1. Revaluations	6,736	2,139
2. Profits on disposal	–	1
3. Writebacks	–	–
4. Other income	109	–
B. Charges	(95,027)	(2,069)
1. Writedowns	(11,076)	(2,056)
2. Impairment charges	(83,951)	–
3. Losses on disposal	–	(13)
4. Other charges	–	–
Net income (loss)	**(88,182)**	**71**
Total	**(88,290)**	**(136)**

The "revaluations" and "writedowns" lines show the adjustments to investments in associates and companies subject to joint control to the corresponding portion of their net equity at the balance sheet date. The amount of 11.075 million on line 2) B.1 relates for 9.083 million to the writedown of Bipiemme Vita and for 1.992 million to that of SelmaBipiemme Leasing.
As regards the impairment adjustments, the amounts refer to:

- "jointly controlled entities": ESN North America for 0.335 million;
- "companies subject to significant influence": Asset Management Holding S.p.A. for 83.951 million.

See Section 10 "Investments in associates and companies subject to joint control" for details of the methods used to calculate these impairment adjustments.

Section 18 – Goodwill impairment
Line item 260

18.1 Goodwill impairment: breakdown

The impairment tests on the recoverability of goodwill resulted in adjustments of 335.871 million euro.

For a description of the methods of performing impairment tests on goodwill, see "Part B - Section 13 - Intangible assets" of these explanatory notes.

Section 19 – Profits (losses) on disposal of investments
Line item 270

19.1 Profits (losses) on disposal of investments: breakdown

Element of income/Sectors	2011	2010
A. Buildings	841	86
– Profits on disposal	841	86
– Losses on disposal	–	–
B. Other assets	(12)	54,945
– Profits on disposal	34	55,033
– Losses on disposal	(46)	(88)
Net result	**829**	**55,031**

In 2010, the profits on disposal of other assets all refer to the Parent Company's capital gain on the sale of the custodian bank business.

Section 20 – Taxes on income from continuing operations
Line item 290

20.1 Taxes on income from continuing operations: breakdown

Element of income/Sectors	2011	2010
1. Current taxes (–)	(134,311)	(98,645)
2. Change in prior period income taxes (+/–)	7,977	4,594
3. Reduction in current taxes (+)	–	–
4. Change in deferred tax assets (+/–)	187,756	60,631
5. Change in deferred tax liabilities (+/–)	5,275	(53,215)
6. Income taxes for the year (–) (–1+/–2+3+/–4+/–5)	**66,697**	**(86,635)**

The change in deferred tax assets is shown in asset section 14 of the Notes and is largely attributable to the deferred tax assets recorded on impairment adjustments to loans, the process of freeing up goodwill for tax purposes carried out by the Parent Company and the deferred tax assets acquired by Banca di Legnano following the writedown of goodwill made by the company in its financial statements.

Section 21 – Income (loss) after tax from discontinued operations
Line item 310

21.1 Income (loss) after tax from discontinued operations: breakdown

Element of income/Sectors	2011	2010
1. Income	374,657	627,547
2. Charges	(407,843)	(644,575)
3. Result of valuations of a group of associated assets and liabilities	5,810	27,223
4. Profits (losses) on disposal	38,450	205,424
5. Taxes	8,401	(3,073)
Net income (loss)	**19,475**	**212,546**

21.2 Details of income taxes relating to disposal groups of assets and liabilities

	2011	2010
1. Current taxation (–)	367	2,183
2. Change in deferred tax assets (+/–)	9,611	(9,978)
3. Change in deferred tax liabilities (–/+)	(1,577)	4,722
4. Income taxes for the year (–1 +/–2 +/–3)	**8,401**	**(3,073)**

Section 22 – Minority interests
Line item 330

22.1 Breakdown of line item 330 "Minority interests"

Net income (loss) attributable to minority interests relates to the following consolidated companies:

Company	2011	2010
Net income (loss) from continuing operations attributable to minority interests	**(6,871)**	**(708)**
■ Cassa di risparmio di Alessandria	(2,374)	(2,473)
■ Banca Popolare di Mantova	(4,514)	(213)
■ Banca Akros	48	1,095
■ Banca di Legnano	–	851
■ Other companies	(31)	32
Net income (loss) from discontinued operations attributable to minority interests	**–**	**5,858**
■ Banca di Legnano	–	4,572
■ Cassa di risparmio di Alessandria	–	311
■ Anima SGR	–	975
Total	**(6,871)**	**5,150**

Section 23 – Other information

Further information on the 2011 results is provided in the section of the report on operations on the various business segments.

Section 24 – Earnings per share

The new international accounting standards (IAS 33) stress the importance of the "profit per share" ratio – commonly known as "EPS – earnings per share" –, making its disclosure compulsory:
■ "Basic EPS", calculated by dividing the net income attributable to the holders of the ordinary shares of the Parent Company by the weighted average number of ordinary shares outstanding during the period;
■ "Diluted EPS", calculated by dividing the net income by the weighted average number of ordinary shares outstanding during the period as adjusted for the dilutive effect of all potential shares, i.e. those financial instruments and/or contracts which give their owners the right to obtain ordinary shares.
The profit (or loss) from continuing operations during the year and the profit (or loss) from discontinued operations are shown separately.

24.1 Average number of ordinary shares

The average number of ordinary shares used in the calculation of EPS (763,106,258) has been determined taking into account:
■ the number of ordinary shares outstanding during the period, adjusted by the number of treasury shares held, multiplied by a time–weighting factor;
■ the number of potential shares on conversion of the "Convertendo BPM 2009/2013" bond on the basis of the minimum conversion price of 6 euro per share for the period 1/1 – 21/12/2011 and on the basis of the conversion price of 2.71 euro, as amended by the General Meeting of Bondholders from 22/12 to 29/12/2011, the day of early conversion of the bond loan. The weighted average was calculated on the basis of the bonds outstanding during the period multiplied by 16.67 up to 21.12.2011 (conversion ratio corresponding to the conversion price of 6 euro) and by 36.9 from 22/12 to 12/29/2011 (conversion ratio corresponding to the conversion price of 2.71 euro).

For the purposes of calculating the weighted average number of shares used as the denominator in calculating diluted EPS, no account was taken of:

- the number of shares potentially available from the subscription of the Financial Instruments issued under art. 12 D.L. 185/2008 ("Tremonti Bonds") because they do not have any dilutive effect. The potential ordinary shares arising from this instrument do in fact have an anti–dilutive effect as their conversion would decrease the loss per share;
- the warrants issued in conjunction with the "Convertendo BPM 2009/2013" bond as they do not have any dilutive effect as the strike price is higher than the average market price of the shares.

So the total number of shares used to calculate Diluted EPS is the same as was used to calculate Basic EPS.

The loss for the year 2011 used as the numerator for the calculation of Basic (and Diluted) EPS has been decreased by the interest expense charged to the income statement, net of related taxes, in relation to the "Convertendo BPM 2009/2013" bond and does not take account of the amount of interest to be paid on the "Tremonti Bonds", as nothing was due for the current year.
The net profit 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 2010/2013 bond loan" and decreased by the amount set aside to pay the interest on the "Tremonti Bonds".

Basic and diluted EPS are therefore as follows:

Net income per share attributable to the Group

(euro)

	2011	2010
Basic EPS from continuing operations	(0,793)	(0,263)
Basic EPS from discontinued operations	0,026	0,441
Basic EPS	(0,767)	0,178
Diluted EPS from continuing operations	(0,793)	(0,263)
Diluted EPS from discontinued operations	0,026	0,441
Diluted EPS	(0,767)	0,178

Part D

Total consolidated comprehensive income

Analytical statement of consolidated comprehensive income

Line items		Gross amount	Income tax	Net amount
10.	**Net income (loss) for the year**	**X**	**X**	**(621,204)**
	Other income statement items			
20.	Financial assets available for sale:	(380,100)	121,417	(258,683)
	a) change in fair value	(407,102)	123,750	(283,352)
	b) reversal to income statement	26,982	(3,087)	23,895
	– impairment adjustments	23,261	(1,624)	21,637
	– gains/losses on disposal	3,721	(1,463)	2,258
	c) other changes	20	754	774
80.	Non-current assets held for sale:	17,269	(5,551)	11,718
	a) change in fair value	(10,183)	3,844	(6,339)
	b) reversal to income statement	27,452	(9,395)	18,057
	c) other changes	0	0	0
90.	Actuarial gains (losses) on defined benefit plans	3,386	(948)	2,438
100.	Share of valuation reserves connected with investments carried at equity:	(46,207)	15,779	(30,428)
	a) change in fair value	(46,207)	15,779	(30,428)
	b) reversal to income statement	0	0	0
	– impairment adjustments	0	0	0
	– gains/losses on disposal	0	0	0
	c) other changes	0	0	0
110.	**Total income statement items**	**(405,652)**	**130,697**	**(274,955)**
120.	**Total comprehensive income (Line items 10+110)**			**(896,159)**
130.	**Total consolidated comprehensive income of minority interests**			**7,003**
140.	**Total Parent Company's consolidated comprehensive income**			**(889,156)**

(*) Parent Company's net income (loss)	*(614,333)*
Minority interests	*(6,871)*
Net income (loss) for the year	*(621,204)*

Part E

Information on risks and related hedging policies

Introduction

Unless indicated otherwise, the information contained in Section 1 "Risks of the Banking Group" only refers to the banking group.

The figures are shown prior to elimination of intercompany transactions with other consolidated companies not included in the Banking Group and conventionally also include assets and liabilities of banking, financial and near-banking joint ventures in proportion to the interest held.

Companies consolidated line-by-line but not included in the banking group are BPM Securitisation 2 and the funds managed by Akros Alternative Investments SGR, which are over 50% held by the Parent Company or by subsidiary companies (Fondo Akros Dynamic, Fondo Akros Market Neutral, Fondo Akros Long/Short Equity, Fondo Akros Absolute Return).

The joint ventures are Calliope Finance and ESN North America which are carried at equity in the consolidated financial statements.

Please note that the figures contained in the other sections of these notes (in part B and C) include the figures of companies which are not part of the banking group and exclude the figures relating to the joint ventures.

2. The risk monitoring and control process

As regards the role of the Corporate Bodies laid down by the Supervisory Rules, the Group Regulations give the Supervisory Board responsibility for strategic supervision of the Parent Company, with the task of setting strategic guidelines for the management and control of risks, with a view to achieving an integrated and coherent risk management policy that at the same time takes into account the type of operations and associated risk profile of each Group company.

The monitoring and control of risk is delegated to the Risk Management function. The person responsible for this function is the Chief Risk Officer, who has the task of ensuring, at Group level, the monitoring of risk and implementation of the following processes:
- risk management, understood as the identification, measurement, evaluation, monitoring, reporting, control and mitigation of the risks to which the Group is exposed;
- assessing the adequacy of capital and liquidity, in relation to the Group's risk appetite and risk profile and the macroeconomic and market conditions.

Moreover, the Parent Company:
- ensures that the same methods, measurement criteria and control tools are used throughout the Group and that they are suitable for the type and size of the risks being assumed;
- 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 Parent Company's main governance and control bodies and to the Internal Auditing Department, in accordance with the instructions issued by the Supervisory Authority.

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 Internal Control and Audit Committee;
- the Internal Audit function.

As regards the principal risks to which the Group is exposed, for credit, counterparty and concentration risk, the Parent Company ensures that a Group lending and credit management policy is defined and adopted, that "significant exposures" are monitored centrally and that the overall quality of the loan and commitment portfolio is kept under control. The Parent Company is also responsible for building and maintaining the internal rating system, which is currently used in various processes: granting credit, credit risk monitoring and measurement, calculating portfolio adjustments, measuring risk-adjusted performance, defining risk-adjusted pricing and for ICAAP (Internal Capital Adequacy Assessment Process).

In matters of financial risks, the Management Board of the Parent Company identifies and authorises the Group companies that can assume and manage its own financial risks in compliance with the limits established by the Parent Company.

The limit system for other types of portfolio is organised as follows:

- company limits, meaning the maximum exposure that a group company may assume for financial risks; these macro-limits are established for each company by the Management Board of the Parent Company;
- directional limits, meaning the allocation of company limits to individual portfolios, to be defined in specific Regulations for Financial Operations for each group company.

The Group's ALM (Asset & Liability Management) Committee ensures the monitoring of operational limits and the coordination of investment policies in the Group's financial assets, as well as the implementation of the liquidity policy and the monitoring and management of exposure to interest rate risk on the banking book.

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 for managing liquidity;
- monitoring earnings performance and compliance with the operating limits attributed to the individual business units of Group companies;
- approving new banking book investments, within the limits established by the Management Board;
- monitoring the activities of Asset & Liability Management and defining corrective policies to balance the exposure of the banking book to interest rate risk for the Group as a whole and for the individual companies.

As regards operational risk, the Parent Company has responsibility for setting up the system of operational risk management and control, this being understood as a structured series of processes, functions and resources for the identification, measurement, valuation and control of operational risk. The Parent Company's Risk Management Department supervises activities in the field of operational risk and coordinates the Operational Risk Managers of the various Group banks from a functional point of view through the Parent Company's Operational Risk Sector.

Through the Risk Management function, the Parent Company ensures the measurement, monitoring and management of the Group's capital resources to comply with the regulatory obligations of the First and Second Pillar of Basel 2.
In particular, centralised control over the Group's capital adequacy, which involves comparing the amount of available capital with the capital requirements deriving from the risks to which the Group is exposed, on an actual and prospective basis, in conditions of normality and of stress, is carried out through the Internal Capital Adequacy Assessment Process, as required by the "New Minimum Capital Requirements for Banks" (Circular 263/2006 and subsequent updates).
The Parent Company also performs continuous measurement, monitoring and management of the consolidated capital ratios, defining their target levels in the medium term in line with the evolution of regulatory requirements and with the credit rating assigned to it by the agencies.

As regards the Second Pillar, in April 2011, the BPM Group sent its ICAAP report to the Bank of Italy based on the situation at 31 December 2010, whereas the prospective assessment was based on the situation at 31 December 2011.

Lastly, as regards the requirements of the Third Pillar, the Bank published its report disclosing details of risk monitoring and management on its website by the same deadline as publication of the 2011 financial statements. A Third Pillar report will be published at least once a year.

Section 1 – The Banking Group's risks

1.1 – 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, in compliance with the guidelines contained in the Group's strategic plan, are based on rules of prudent management.
They are implemented through the processes of disbursing, managing and monitoring credit for which specific activities are required and special instruments made available for controlling the risk that varies according to the circumstances of the market and business sector and type of individual borrower.
At each company in the Group, the lending activity is supervised by a specific function dedicated to credit disbursement and control by means of well identified and suitably empowered structures as part of a system of discretional decision-making limits established by the Management Board 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 internal rating system is an integral part, to set up the dossier, determine credit-worthiness and, more generally, to follow the relationship over time.
The credit "chain" for 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.
Ratings can only be changed by "raters" specifically appointed for this purpose, who do not have any power of approval for loans. Any change that upgrades or downgrades the rating developed by the model is limited to within a certain range, it has to be motivated and usually has to be attributable to particular circumstances that have not be adequately reflected by the statistical models or in the presence of events involving particularly high risk.

1.2 Management, measurement and control system

For assessing creditworthiness, the BPM Group uses an internal rating system (IRS) which has been developed over the last ten years. From a quantitative point of view, the Group has implemented statistical models for calculating the ratings to be given to counterparties split into four customer macrosegments based on turnover and/or size of credit line: Individuals, Small Businesses, SMEs 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.

The estimate of the risk parameters was updated in 2011: for the Probability of Default (PD), the historical depth of the data was increased to include a period of eight years (2003-2010) 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.

During the credit granting stage, whether as a first-time credit facility or for the renewal/review of a revocable line of credit, the rating is one of the key elements in defining which body has decision-making power: with the completion of the proposal according to the outcome of the customer assessment and the amount/category of risk of the loan being proposed, the system automatically assigns the decision-making level required for approval. It also has an influence on how the automatic renewal mechanism is applied to revocable positions.

Usually, subject to changes in the lending rules, the assignment to a particular decision-making body takes place as follows:
- with a rating in the "low risk" area, the decision can be taken at a local level, providing the amounts are below the assigned limits; otherwise, the decision is passed 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, i.e. the possibility to ask for a change in the applicant's rating or that of any guarantors, providing there is good reason and adequate documentation, after the assignment of a definitive rating by the structure responsible for this (a structure with no decision-making powers that is also involved in the monitoring of the performing loan portfolio), 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 the process of granting of credit to counterparties within the "Businesses" segments (Corporates, SMEs and Small Businesses) as defined on the basis of size thresholds in the annual process of segmentation, a central role was given to the use of ratings, with the aim of providing users with all relevant information on the relationship:
- details of all of the elements that led to the definitive rating;
- the visibility of the historical rating for the last 12 months;
- details of the reasons for exclusion from the rating calculation (financial statements too remote in time, qualitative questionnaire expired, etc.).

In addition to applying common rules over the granting of credit (e.g. external negative deeds control, internal risk situations, etc.), the rating also constitutes an essential element in assessing a customer, so it is not allowed to go ahead with a preliminary investigation if any of the elements needed to calculate the rating is missing, both for the applicant and for any guarantors.
Such requests are evaluated by specialist raters in the Credit and Loans Function, who do not have decision-making power in the lending process; the evaluation and assignment of the definitive rating is entirely up to the raters, who can refuse or accept the change.
The decision to provide an override function exclusively for these segments depends on the desire to take into account information contributed by sector experts to integrate the automatic rating with non-standard data of a qualitative nature.

During the fourth quarter of 2011, as already provided for the Individuals segment, it was decided to apply automatic renewal of consecutive lines of credit to Small Business customers in order to relieve the sales network from administrative activities.
For consecutive lines of credit of a customer in the Small Business segment to be automatically renewed, however, all the following requirements have to be satisfied simultaneously:
- the Small Business customer has to be included in the Retail Branch portfolio;
- the customer has to have had a low risk rating for at least 6 consecutive months;
- any overdue loans or loans falling due in the following month have to be within the approval limit of the Branch Manager according to the current powers delegated by the Credit Line Regulations.

In any case, Small Business positions already under automatic renewal in the previous period and all positions of the SME or Corporate segment are excluded from automatic renewal.

The credit granting process: Individuals segment

As regards the Individuals Segment, the process of granting credit differs during the investigatory phases depending on the product that the customer has requested (overdraft, mortgage or personal loan).
The dossier includes not only the acceptance rating, but also an internal behavioural analysis, if one has been carried out, ("performance rating"), as well as the application of common rules over the granting of credit (e.g. external negative deeds control, internal risk situations, limits on the ratio between repayments and income, the presence of residual debt on the building, limits on the "loan to value", the maximum age of the applicant, etc.).

The process of renewal/review of the credit line granted to individuals provides for the use of the performance rating system as a support in determining:
- automatic renewal (without any change in existing credit lines);
- risk analysis during the preliminary investigation.

Credit monitoring process
Control over the credit risk in individual 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.

As part of this process, it is also possible to change a rating (known as an "override"), a faculty that is assigned to a specific function without decision-making powers, which is involved in monitoring the performing loan portfolio. Rating changes can take place on the initiative of this structure when risk situations clearly arise without having been flagged by the performance control systems, or to update a rating when information has not been processed in the right way by the automatic rating systems. Rating changes can also be requested by the managers of the relationship as part of the processes of confirmation or revision of credit lines, which are then assessed by the monitoring structure. It can only intervene for companies and has to stay within a specific variation range.
The Parent Company 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

The Parent Company requests guarantees against credit risk on a selective basis according to the customer's credit rating. In this case, granting the loan depends on obtaining the guarantee. Guarantees are either secured, particularly by mortgages and securities, or unsecured.

In the case of mortgages, the value of registration is equal to:
- one and a half times the amount of funding granted for any length of time to individuals (twice in case of taking on a mortgage on the subdivision of a building loan);
- twice the amount of funding granted for any length of time to companies.

In 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.

To monitor the value of properties lodged in guarantee, the Group has defined a process with the following features:
- survey of the properties in a specific guarantee management procedure;
- geographical location by recording the so-called cadastral microzone (according to the Land Register);
- automatic revaluation by means of an algorithm 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 Group uses the "canalisation process" for mortgage loans of the Individual segment, based on the following requisites:
- completion of the appraisal of residential property through a request/receipt application integrated into the investigation process;
- standardisation of the acquisition process;
- automatic integration of the appraisal data in the guarantee management procedure.

In order to ensure effective acquisition of guarantees, the Group has defined the general requisites to be submitted to control with regard to personal guarantees, property guarantees and financial pledges (cash and cash equivalents).

In May 2011, the Parent Company set up an interdepartmental taskforce to handle the massive task of verifying the mortgage guarantees linked to a substantial proportion of the mortgage loans granted to Individuals. This involves the collection, completion and electronic filing of all documentation concerning the guarantees backing mortgage loans with subsequent alignment of the information contained in the database if it is found to be inconsistent with the paperwork. About 60% of the work expected to be completed in the first half of 2012 had been done by the end of 2011.

1.4 Impaired financial assets

A specialist unit in the Credit and Loans Function will have the task of checking credit positions and identifying problem loans; 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 Company'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

Tables A.1.1. and A.1.2 comprise both the figures related to companies belonging to the banking group and to other consolidated companies; they also include, conventionally, a proportion of the assets and liabilities of the Group's banking, financial and instrumental joint ventures (Calliope Finance S.r.l. and ESN North America Inc.).

These tables only include the figures related to companies belonging to the Banking Group (conventionally including, as mentioned above, a proportion of the assets and liabilities of the Group's banking, financial and instrumental joint ventures).

A.1.1 Distribution of credit exposures by originating portfolio and credit quality (book value)

Portfolio/quality	Banking group					Other companies		Total
	Non performing loans	Doubtful loans	Restructured positions	Overdue positions	Other assets	Impaired	Other	
1. Financial assets held for trading	1,243	1,289	3,840	–	1,965,570	–	1,149	1,973,091
2. Financial assets available for sale	–	–	–	–	7,466,759	–	–	7,466,759
3. Investments held to maturity	–	–	–	–	–	–	–	–
4. Due from banks	432	–	–	–	1,844,603	–	259,413	2,104,448
5. Loans to customers	685,211	797,817	740,057	24,088	33,437,006	–	–	35,684,179
6. Financial assets designated at fair value through profit and loss	–	–	5,414	–	308,294	–	37,934	351,642
7. Financial assets due for disposal	–	–	–	–	–	–	–	–
8. Hedging derivatives	–	–	–	–	168,244	–	–	168,244
Total 31.12.2011	**686,886**	**799,106**	**749,311**	**24,088**	**45,190,476**	**–**	**298,496**	**47,748,363**
Total 31.12.2010	**469,740**	**892,214**	**694,426**	**47,356**	**42,263,963**	**–**	**4,347,609**	**48,715,308**

"Financial assets held for trading" include 1.231 million euro of "non-performing loans" related to bonds issued by the Lehman group and 12 thousand euro to bonds issued by Landsbanki.

A.1.2 Distribution of credit exposures by originating portfolio and credit quality (gross and net amounts)

Portfolio/quality	Impaired assets			Performing			Total
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	Net exposure
A. Banking group							
1. Financial assets held for trading	6,905	533	6,372	X	X	1,965,570	1,971,942
2. Financial assets available for sale	–	–	–	7,466,759	–	7,466,759	7,466,759
3. Investments held to maturity	–	–	–	–	–	–	–
4. Due from banks	9,787	9,355	432	1,845,151	548	1,844,603	1,845,035
5. Loans to customers	3,122,567	875,394	2,247,173	33,692,576	255,570	33,437,006	35,684,179
6. Financial assets designated at fair value through profit and loss	15,526	10,112	5,414	X	X	308,294	313,708
7. Financial assets due for disposal	–	–	–	–	–	–	–
8. Hedging derivatives	–	–	–	X	X	168,244	168,244
Total A	**3,154,785**	**895,394**	**2,259,391**	**X**	**256,118**	**45,190,476**	**47,449,867**
B. Other companies included in the scope of consolidation							
1. Financial assets held for trading	–	–	–	X	X	1,149	1,149
2. Financial assets available for sale	–	–	–	–	–	–	–
3. Investments held to maturity	–	–	–	–	–	–	–
4. Due from banks	–	–	–	259,413	–	259,413	259,413
5. Loans to customers	–	–	–	–	–	–	–
6. Financial assets designated at fair value through profit and loss	–	–	–	X	X	37,934	37,934
7. Financial assets due for disposal	–	–	–	–	–	–	–
8. Hedging derivatives	–	–	–	X	X	–	–
Total B	**–**	**–**	**–**	**X**	**–**	**298,496**	**298,496**
Total 31.12.2011	**3,154,785**	**895,394**	**2,259,391**	**X**	**256,118**	**45,488,972**	**47,748,363**
Total 31.12.2010	**2,785,496**	**681,760**	**2,103,736**	**X**	**196,127**	**46,611,572**	**48,715,308**

The following table shows the aggregate of "Loans to customers" (item 5 of the previous table, in the "net performing exposures" column), the values of loans subject to renegotiation in collective agreements and other exposures, as requested by the Bank of Italy in its communication of 16 February 2011. Overdue positions for both groups are broken down by maturity.

	Up to 1 month (*)	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 months to 1 year**	**Beyond 1 year**	**Total**
Loans being renegotiated	235,399	12,386	3,793	290	645	252,513
Other performing loans	1,685,800	150,787	97,275	152,178	12,458	2,098,498

(*) The balance of "Other exposures up to 1 month" also includes loans with one instalment overdue by 1 day.

A.1.3 Banking Group – Cash loans and off-balance sheet exposures to banks: gross and net amounts

Types of exposure/amounts	Gross exposure	Specific adjustments	General adjustments	Net exposure
A. CASH EXPOSURES				
A) Non-performing loans	9,799	9,355	X	444
B) Doubtful loans	–	–	X	–
C) Restructured positions	–	–	X	–
D) Overdue positions	–	–	X	–
E) Other assets	3,062,700	X	548	3,062,152
Total A	**3,072,499**	**9,355**	**548**	**3,062,596**
B. OFF-BALANCE SHEET EXPOSURES				
A) Impaired	3	3	X	–
B) Other	1,415,093	X	205	1,414,888
Total B	**1,415,096**	**3**	**205**	**1,414,888**
Total (A+B)	**4,487,595**	**9,358**	**753**	**4,477,484**

A.1.4 Banking Group - Cash loans to banks: changes in gross impaired exposures

Description/Categories	Non-performing loans	Doubtful loans	Restructured positions	Overdue positions
A. Gross exposure as of 1.01.2011	**9,539**	**–**	**5,000**	**–**
– including exposures sold but not eliminated	–	–	–	–
B. Increases	**260**	**–**	**–**	**–**
B.1 transfers from performing positions	–	–	–	–
B.2 transfers from other categories of impaired exposures	–	–	–	–
B.3 other increases	260	–	–	–
C. Decreases	**–**	**–**	**5,000**	**–**
C.1 transfers to performing positions	–	–	3,149	–
C.2 write-offs	–	–	1,851	–
C.3 collections	–	–	–	–
C.4 recovery through disposals	–	–	–	–
C.5 transfers to other categories of impaired exposures	–	–	–	–
C.6 other decreases	–	–	–	–
D. Closing gross exposure as of 31.12.2011	**9,799**	**–**	**–**	**–**
– including exposures sold but not eliminated	–	–	–	–

A.1.5 Banking Group - Cash loans to banks: changes in total adjustments

Description/Categories	Non-performing loans	Doubtful loans	Restructured positions	Overdue positions
A. Total writedowns as of 1.1.2011	**7,902**	**–**	**2,200**	**–**
– including exposures sold but not eliminated	–	–	–	–
B. Increases	**1,453**	**–**	**–**	**–**
B.1 adjustments	1,221	–	–	–
B.2 transfers from other categories of impaired exposures	–	–	–	–
B.3 other increases	232	–	–	–
C. Decreases	**–**	**–**	**2,200**	**–**
C.1 writebacks	–	–	349	–
C.2 writebacks on collection	–	–	–	–
C.3 write-offs	–	–	1,851	–
C.4 transfers to other categories of impaired exposures	–	–	–	–
C.5 other decreases	–	–	–	–
D. Total writedowns as of 31.12.2011	**9,355**	**–**	**–**	**–**
– including exposures sold but not eliminated	–	–	–	–

A.1.6 Banking Group - Cash loans and off-balance sheet exposures to customers: gross and net amounts

Type of exposure/amounts	Gross exposure	Specific adjustments	General adjustments	Net exposure
A. Cash exposures				
a) Non-performing loans	1,294,877	608,435	X	686,442
b) Doubtful loans	987,880	190,063	X	797,817
c) Restructured positions	830,021	84,550	X	745,471
d) Overdue positions	26,546	2,458	X	24,088
f) Other assets	40,545,100	X	255,570	40,289,530
Total A	**43,684,424**	**885,506**	**255,570**	**42,543,348**
B. Off-balance sheet exposures				
a) Impaired	499,620	14,617	X	485,003
b) Other	10,561,785	X	14,918	10,546,867
Total B	**11,061,405**	**14,617**	**14,918**	**11,031,870**
Total (A+B)	**54,745,829**	**900,123**	**270,488**	**53,575,218**

A.1.7 Banking Group - Cash loans to customers: changes in gross impaired exposures

Description/Categories	Non-performing loans	Doubtful loans	Restructured positions	Overdue positions
A. Gross exposure as of 1.01.2011	**955,597**	**1,021,614**	**737,649**	**49,967**
– including exposures sold but not eliminated	66,472	76,422	–	1,230
B. Increases	**610,690**	**1,226,500**	**267,710**	**198,477**
B.1 transfers from performing positions	19,180	1,068,567	39,558	161,419
B.2 transfers from other categories of impaired exposures	563,847	98,710	113,020	31,444
B.3 other increases	27,663	59,223	115,132	5,614
C. Decreases	**271,410**	**1,260,234**	**175,338**	**221,898**
C.1 transfers to performing positions	–	466,473	–	124,749
C.2 write–offs	206,040	16,243	125	–
C.3 collections	63,069	127,802	98,128	5,773
C.4 recovery through disposals	117	–	–	–
C.5 transfers to other categories of impaired exposures	2,183	638,312	75,150	91,376
C.6 other decreases	1	11,404	1,935	–
D. Closing gross exposure as of 31.12.2011	**1,294,877**	**987,880**	**830,021**	**26,546**
– including exposures sold but not eliminated	60,424	46,072	–	1,471

A.1.8 Banking Group - Cash loans to customers: changes in total adjustments

Description/Categories	Non-performing loans	Doubtful loans	Restructured positions	Overdue positions
A. Total writedowns as of 1.1.2011	**487,494**	**132,618**	**47,222**	**2,661**
– including exposures sold but not eliminated	14,628	3,523	–	45
B. Increases	**369,830**	**139,345**	**46,173**	**236**
B.1 adjustments	325,762	138,923	32,881	236
B.2 transfers from other categories of impaired exposures	38,095	422	3,180	–
B.3 other increases	5,973	–	10,112	–
C. Decreases	**248,889**	**81,900**	**8,845**	**439**
C.1 writebacks	28,977	18,923	5,699	439
C.2 writebacks on collection	13,872	8,049	–	–
C.3 write–offs	206,040	16,243	125	–
C.4 transfers to other categories of impaired exposures	–	38,676	3,021	–
C.5 other decreases	–	9	–	–
D. Total writedowns as of 31.12.2011	**608,435**	**190,063**	**84,550**	**2,458**
– including exposures sold but not eliminated	15,487	1,726	–	31

A.2 Classification of exposures on the basis of external and internal rating

A.2.1 Distribution by cash loans and "off-balance sheet" exposures by class of external rating

Exposures (in thousand of euro)	Class of external rating (1)						Without rating	Total 31.12.2011
	1	2	3	4	5	6		
A. Cash loans	**632,360**	**9,624,910**	**655,061**	**19,179**	**89,266**	**374**	**35,644,897**	**46,666,047**

"Without rating" is mainly attributed to loans to customers, to which an internal rating is assigned.

The risk classes for external ratings indicated 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 initial signs of 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
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Class 7	Class 8	Class 9	31.12.2011
A. Cash loans	**2,610,298**	**4,144,156**	**6,469,030**	**5,763,659**	**4,544,945**	**1,955,220**	**1,725,887**	**613,540**	**494,226**	**28,320,961**
Companies	353,334	594,388	1,703,335	2,018,959	1,440,499	362,976	471,615	x	x	6,945,106
SMEs	1,015,532	1,263,737	2,124,341	1,439,634	1,363,210	681,244	543,807	266,312	228,775	8,926,592
Small Businesses	224,433	381,189	756,333	682,867	711,503	554,242	472,307	140,237	128,146	4,051,257
Individuals	1,016,999	1,904,842	1,885,021	1,622,199	1,029,733	356,758	238,158	206,991	137,305	8,398,006
C. Guarantees given	**540,029**	**681,593**	**854,439**	**609,390**	**309,053**	**120,468**	**149,454**	**13,656**	**12,883**	**3,290,965**

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 contain the exposures to borrowers with a higher credit quality, whereas the latter classes show the exposures of a lower quality.

Line item "A. Cash exposures" refers only to "Loans to customers", excluding "Impaired assets", "repurchase agreements" and loans to governments and public entities. The figures refer to commercial banks of the Group. The amounts reported include portfolio adjustments.

Line item "C. Guarantees given" exclude "Guarantees given to impaired customers". The figures refer to commercial banks of the Group. 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				
					CLN	Other derivatives				Government and Central Banks	Other public entities	Banks	Other parties	
		Property	Securities	Other secured guarantees		Government and Central Banks	Other public entities	Banks	Other parties					
1. Guaranteed cash exposures	**367,132**	**–**	**352,095**	**–**	**–**	**–**	**–**	**10,000**	**–**	**–**	**–**	**–**	**–**	**362,095**
1.1. totally guaranteed	348,573	–	351,234	–	–	–	–	–	–	–	–	–	–	351,234
– of which impaired	–	–	–	–	–	–	–	–	–	–	–	–	–	–
1.2. partly guaranteed	18,559	–	861	–	–	–	–	10,000	–	–	–	–	–	10,861
– of which impaired	–	–	–	–	–	–	–	–	–	–	–	–	–	–
2. Guaranteed off-balance sheet exposures	**310,466**	**–**	**–**	**285,265**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**285,265**
2.1. totally guaranteed	53,965	–	–	53,965	–	–	–	–	–	–	–	–	–	53,965
– of which impaired	–	–	–	–	–	–	–	–	–	–	–	–	–	–
2.2. partly guaranteed	256,501	–	–	231,300	–	–	–	–	–	–	–	–	–	231,300
– 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				
					CLN	Other derivatives				Government and Central Banks	Other public entities	Banks	Other parties	
		Property	Securities	Other secured guarantees		Government and Central Banks	Other public entities	Banks	Other parties					
1. Guaranteed cash exposures	**22,002,015**	**17,075,194**	**238,961**	**385,416**	**–**	**–**	**–**	**–**	**–**	**–**	**12,863**	**192,465**	**3,355,532**	**21,260,431**
1.1. totally guaranteed	20,289,754	16,603,712	174,592	322,403	–	–	–	–	–	–	6,887	136,041	3,046,119	20,289,754
– of which impaired	1,230,655	1,058,587	3,454	4,294	–	–	–	–	–	–	–	1,733	162,587	1,230,655
1.2. partly guaranteed	1,712,261	471,482	64,369	63,013	–	–	–	–	–	–	5,976	56,424	309,413	970,677
– of which impaired	198,338	105,134	2,783	7,441	–	–	–	–	–	–	–	1,007	37,065	153,430
2. Guaranteed off-balance sheet exposures	**3,174,304**	**1,601,468**	**40,414**	**255,311**	**–**	**–**	**–**	**–**	**–**	**–**	**10**	**11,320**	**937,105**	**2,845,628**
2.1. totally guaranteed	2,260,565	1,372,951	16,500	152,562	–	–	–	–	–	–	10	8,240	710,302	2,260,565
– of which impaired	166,362	152,134	180	2,022	–	–	–	–	–	–	–	–	12,026	166,362
2.2. partly guaranteed	913,739	228,517	23,914	102,749	–	–	–	–	–	–	–	3,080	226,803	585,063
– of which impaired	58,601	13,004	259	698	–	–	–	–	–	–	–	1,049	4,818	19,828

B. Distribution and concentration of credit exposures

B.1 Segment distribution of cash and "off-balance sheet" exposures to customers

	Government and Central Banks			Other public entities			Finance-sector companies		
Exposures/Counterparties	**Net exposure**	**Specific value adjustments**	**Portfolio adjustments**	**Net exposure**	**Specific value adjustments**	**Portfolio adjustments**	**Net exposure**	**Specific value adjustments**	**Portfolio adjustments**
A. Cash exposures									
A.1 Non-performing loans	–	–	X	–	–	X	2,788	19,412	X
A.2 Doubtful loans	–	–	X	14,159	11,000	X	61,819	18,887	X
A.3 Restructured positions	–	–	X	2,145	66	X	28,493	5,292	X
A.4 Overdue positions	–	–	X	12	–	X	149	56	X
A.5 Other exposures	6,604,351	X	–	163,634	X	25	3,347,459	X	13,248
Total A	**6,604,351**	**–**	**–**	**179,950**	**11,066**	**25**	**3,440,708**	**43,647**	**13,248**
B. Off-balance sheet exposures									
B.1 Non-performing loans	–	–	X	–	–	X	30	–	X
B.2 Doubtful loans	–	–	X	176	–	X	54,093	986	X
B.3 Other impaired assets	–	–	X	–	–	X	17,392	–	X
B.4 Other exposures	683,550	X	–	39,615	X	16	1,434,291	X	2,729
Total B	**683,550**	**–**	**–**	**39,791**	**–**	**16**	**1,505,806**	**986**	**2,729**
Total (A+B) 31.12.2011	**7,287,901**	**–**	**–**	**219,741**	**11,066**	**41**	**4,946,514**	**44,633**	**15,977**
Total (A+B) 31.12.2010	**5,141,195**	**–**	**–**	**275,352**	**126**	**7**	**7,161,545**	**36,210**	**7,442**

	Insurance companies			Non-financial companies			Other parties		
Exposures/Counterparties	**Net exposure**	**Specific value adjustments**	**Portfolio adjustments**	**Net exposure**	**Specific value adjustments**	**Portfolio adjustments**	**Net exposure**	**Specific value adjustments**	**Portfolio adjustments**
A. Cash exposures									
A.1 Non-performing loans	–	–	X	475,712	398,317	X	207,942	190,706	X
A.2 Doubtful loans	–	–	X	566,126	140,414	X	155,713	19,762	X
A.3 Restructured positions	–	–	X	714,833	79,192	X	–	–	X
A.4 Overdue positions	–	–	X	15,091	1,585	X	8,836	817	X
A.5 Other exposures	126,757	X	–	19,110,127	X	199,703	10,937,202	X	42,594
Total A	**126,757**	**–**	**–**	**20,881,889**	**619,508**	**199,703**	**11,309,693**	**211,285**	**42,594**
B. Off-balance sheet exposures									
B.1 Non-performing loans	–	–	X	13,029	2,015	X	18,162	243	X
B.2 Doubtful loans	–	–	X	59,505	1,176	X	1,578	138	X
B.3 Other impaired assets	–	–	X	320,982	10,050	X	56	9	X
B.4 Other exposures	57,073	X	–	7,860,036	X	11,709	472,302	X	464
Total B	**57,073**	**–**	**–**	**8,253,552**	**13,241**	**11,709**	**492,098**	**390**	**464**
Total (A+B) 31.12.2011	**183,830**	**–**	**–**	**29,135,441**	**632,749**	**211,412**	**11,801,791**	**211,675**	**43,058**
Total (A+B) 31.12.2010	**208,800**	**–**	**–**	**30,751,366**	**469,248**	**169,861**	**10,822,874**	**184,838**	**28,728**

B.2 Geographical distribution of cash and "off-balance sheet" exposures to customers

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	682,990	596,340	3,173	6,582	279	4,693	–	820	–	–
A.2 Doubtful loans	795,685	189,845	142	18	–	–	1,990	200	–	–
A.3 Restructured positions	745,471	84,550	–	–	–	–	–	–	–	–
A.4 Overdue positions	24,087	2,458	1	–	–	–	–	–	–	–
A.5 Other exposures	39,730,987	247,897	437,043	2,111	90,800	5,502	5,605	59	25,095	1
Total	**41,979,220**	**1,121,090**	**440,359**	**8,711**	**91,079**	**10,195**	**7,595**	**1,079**	**25,095**	**1**
B. Off-balance sheet exposures										
B.1 Non-performing loans	31,221	2,258	–	–	–	–	–	–	–	–
B.2 Doubtful loans	115,252	2,290	100	10	–	–	–	–	–	–
B.3 Other impaired assets	338,422	10,059	8	–	–	–	–	–	–	–
B.4 Other exposures	10,133,259	10,115	333,975	4,801	79,611	2	–	–	22	–
Total	**10,618,154**	**24,722**	**334,083**	**4,811**	**79,611**	**2**	**–**	**–**	**22**	**–**
Total 31.12.2011	**52,597,374**	**1,145,812**	**774,442**	**13,522**	**170,690**	**10,197**	**7,595**	**1,079**	**25,117**	**1**
Total 31.12.2010	**52,905,000**	**886,047**	**1,063,585**	**9,102**	**334,659**	**1,139**	**1,918**	**21**	**55,970**	**151**

B.3 Geographical distribution of cash and "off-balance sheet" exposures to banks

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	–	–	444	7,827	–	1,528	–	–	–	–
A.2 Doubtful loans	–	–	–	–	–	–	–	–	–	–
A.3 Restructured positions	–	–	–	–	–	–	–	–	–	–
A.4 Overdue positions	–	–	–	–	–	–	–	–	–	–
A.5 Other exposures	2,173,094	19	838,585	470	44,273	48	2,330	6	3,870	5
Total	**2,173,094**	**19**	**839,029**	**8,297**	**44,273**	**1,576**	**2,330**	**6**	**3,870**	**5**
B. Off-balance sheet exposures										
B.1 Non-performing loans	–	–	–	–	–	–	–	–	–	–
B.2 Doubtful loans	–	–	–	–	–	–	–	–	–	–
B.3 Other impaired assets	–	3	–	–	–	–	–	–	–	–
B.4 Other exposures	626,836	21	736,196	48	35,526	–	11,857	4	4,473	132
Total	**626,836**	**24**	**736,196**	**48**	**35,526**	**–**	**11,857**	**4**	**4,473**	**132**
Total 31.12.2011	**2,799,930**	**43**	**1,575,225**	**8,345**	**79,799**	**1,576**	**14,187**	**10**	**8,343**	**137**
Total 31.12.2010	**1,890,561**	**2,682**	**1,135,794**	**7,171**	**91,330**	**1,541**	**10,785**	**20**	**6,996**	**10**

B.4 Significant exposures

	31.12.2011	31.12.2010
a) Nominal amount	8,511,016	9,290,078
b) Weighted amount	764,030	1,763,380
c) Number	3	7

The measurement was carried out on the basis of the latest updates of Circular 263, ruling from 31 December 2010, 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 consolidated 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, the following are reported as significant exposures:
- Exposures to the Italian government for securities in portfolio with a nominal value of 6.7 billion euro and a weighted value of 1.3 million;
- Exposures to a leading Italian banking group for a nominal value of 912 million euro and a weighted value of 542 million;
- Exposure to Asset Management Holding for a nominal value of 871 million and a weighted value of 221million; this exposure relates for 172 million to the investment in the company which has a weighted value of zero, as it has already been deducted from regulatory capital, and for the rest to the loans granted to the company.

C. Securitisation transactions and disposal of assets

C.1 Securitisation transactions

Qualitative information

Securitisation transactions of the Parent Company

In 2006 the Parent Company finalised the securitisation operation which involved transferring without recourse, as permitted by Law 130 of 30 April 1999, a portfolio of around 2,011.3 million euro in performing loans to BPM Securitisation 2 S.r.l. These loans refer to property and other secured loans given by the Parent Company itself and backed by first-degree mortgages. For further details, reference should be made to BPM's 2011 financial statements.

As regards the presentation of this operation from an accounting point of view, the notes issued by BPM Securitisation 2 are shown in the consolidated financial statements in item 30 "Securities issued", net of the securities repurchased by the Parent Company.

At the date of the financial statements the securitisation transaction is represented as follows:

Euro/000

	31.12.2011	31.12.2010
Principal balance sheet aggregates		
Loans to customers	664,005	805,619
Due from banks (cash and cash equivalent of the special purpose vehicle)	54,745	66,796
Securities issued	510,204	633,972
Economic result of the operation	**12,242**	**19,841**

Other securitisation transactions

The loan book and financial assets designated at fair value through profit and loss include certain securities attributable to securitisations by third-party issuers. These investments are of relatively modest amounts and constitute a residual alternative form of loan diversification.

Quantitative information

C.1.1 Exposures arising from securitisation transactions broken down by quality of the underlying assets

Quality of underlying assets/Exposures	Cash exposures					
	Senior		Mezzanine		Junior	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. With own underlying assets:	**114,715**	**115,125**	**50,401**	**50,639**	**15,832**	**15,833**
a) Impaired	–	–	–	–	–	–
b) Other	114,715	115,125	50,401	50,639	15,832	15,833
B. With underlying assets of third parties:	**73,107**	**67,382**	**4,750**	**4,181**	**–**	**–**
a) Impaired	–	–	–	–	–	–
b) Other	73,107	67,382	4,750	4,181	–	–

Quality of underlying assets/Exposures	Guarantees given						Lines of credit					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. With own underlying assets:	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) Impaired	–	–	–	–	–	–	–	–	–	–	–	–
b) Other	–	–	–	–	–	–	–	–	–	–	–	–
B. With underlying assets of third parties:	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) Impaired	–	–	–	–	–	–	–	–	–	–	–	–
b) Other	–	–	–	–	–	–	–	–	–	–	–	–

Gross and net exposures shown in this table - with reference to own securitisations where the assets sold have remained in the balance sheet of the Parent Company - relate to the "retained risk" measured as the difference between the assets sold and the corresponding liabilities at the sale date (July 2006) and at the reference date of the financial statements.

As regards item A. "Own underlying assets", the amounts shown relate to the "BPM Securitisation 2" operation and are represented as follows:

- the senior exposures include the Class A2 notes issued by the special purpose vehicle and repurchased by the Parent Company from 2008 to the balance sheet date. During 2011, the Parent Company did not purchased other tranches of A2 class notes and there have been reimbursements of the notes already held for around 28 million euro;
- mezzanine exposures include Class C notes issued by the special purpose vehicle and repurchased by BPM Ireland at the sale date and then sold to the Parent Company in March 2007;
- Junior exposures are represented by the share held by BPM Securitisation 2 and destined to absorb the first losses.

The exposures to third-party securitisations are for cash and are represented by securities issued by third-party vehicle companies, as detailed in table C.1.3.

C.1.2 Exposures deriving from the main "own" securitisations broken down by type of asset securitised and by type of exposures

Type of securitised asset/ Exposures	Cash exposures						Guarantees given						Lines of credit					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks
A. Completely cancelled from the financial statements	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
B. Partially cancelled from the financial statements	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
C. Not cancelled from the financial statements	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
C.1 BPM Securitisation 2 S.r.l.	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
– Residential mortgage	115,125	–	50,639	–	15,833	–	–	–	–	–	–	–	–	–	–	–	–	–

The table shows the exposures incurred by the Group in respect of each own securitisation, also indicating the contractual forms applicable to the assets sold. The "Adjustments/writebacks" column shows any adjustments and writebacks for the year, as well as writedowns and revaluations recognised in the income statement or directly to an equity reserve.

C.1.3 Exposures arising from the main securitisation transactions of "third parties" broken down by type of securitised asset and by type of exposures

Type of 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.	4,911	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
– Mortgage loans	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
A.2 Asset Back J 13 TV	20,385	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
– Receivables	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
A.3 Pharmafin 3 cl. A	39,410	–5,144	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
– Receivables	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
A.4 Pharmafin 3 cl. B	2,676	–310	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
– Receivables	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
A.5 Pharmafin 3 cl. C	–	–	4,181	–568	–	–	–	–	–	–	–	–	–	–	–	–	–	–
– Receivables	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–

The amounts in the "book value" column include accrued interest. The "Adjustments/Writebacks" column reports gain/losses recorded in the income statement.

C.1.4 Exposures to securitisation broken down by portfolio and by type

Exposures/portfolio	Financial assets held for trading	Financial assets designated at fair value through profit and loss	Financial assets available for sale	Investments held to maturity	Receivables	31.12.2011	31.12.2010
1. Cash exposures	–	46,267	–	–	25,296	71,563	107,007
– "Senior"	–	42,086	–	–	25,296	67,382	92,552
– "Mezzanine"	–	4,181	–	–	–	4,181	14,455
– "Junior"	–	–	–	–	–	–	–
2. Off-balance sheet exposures	–	–	–	–	–	–	–
– "Senior"	–	–	–	–	–	–	–
– "Mezzanine"	–	–	–	–	–	–	–
– "Junior"	–	–	–	–	–	–	–

The table shows the exposures taken on by the Group in respect of each third-party securitisation and the portfolios in the financial statements to which these assets have been allocated.

C.1.5 Total amount of securitised assets underlying junior securities or other forms of credit support

Assets/Amounts	Traditional securitisations	Synthetic securitisations
A. Own underlying assets:	**664,005**	**–**
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	664,005	–
1. Non-performing loans	24,515	–
2. Doubtful loans	11,287	–
3. Restructured positions	–	–
4. Overdue positions	629	–
5. Other assets	627,574	–
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. In any case, the company has been consolidated on the basis of "continuing involvement".

C.1.7 Servicing activities - Collections of securitised receivables and reimbursement of securities issued by the special purpose vehicle

Special purpose vehicle	Securitised assets (at the end of period)		Collections of receivables during the year		Percentage of securities reimbursed (at the end of period)					
					Senior		Mezzanine		Junior	
	Impaired	Performing	Impaired	Performing	Impaired assets	Performing assets	Impaired assets	Performing assets	Impaired assets	Performing assets
BPM Securitisation 2 S.r.l.	36,431	627,574	1,939	160,714		68,24%		0%		0%

C.2 Disposal of assets

C.2.1 Financial assets sold but 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			Investments held to maturity			Due from banks			Loans to customers			Total	
	A	**B**	**C**	**A**	**B**	**C**	**A**	**B**	**C**	**A**	**B**	**C**	**A**	**B**	**C**	**A**	**B**	**C**	**31.12.2011**	**31.12.2010**
A. Cash assets	**37,851**	**–**	**–**	**–**	**–**	**–**	**514,246**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**664,005**	**–**	**–**	**1,216,102**	**2,940,029**
1. Debt securities	16,261	–	–	–	–	–	514,246	–	–	–	–	–	–	–	–	–	–	–	530,507	2,133,160
2. Equities	21,590	–	–	–	–	–	–	–	–	X	X	X	X	X	X	X	X	X	21,590	1,250
3. Mutual funds	–	–	–	–	–	–	–	–	–	X	X	X	X	X	X	X	X	X	–	–
4. Loans	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	664,005	–	–	664,005	805,619
B. Derivatives	**–**			**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**–**	**–**
Total 31.12.2011	**37,851**	**–**	**–**	**–**	**–**	**–**	**514,246**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**664,005**	**–**	**–**	**1,216,102**	**–**
of which impaired	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	***36,431***	**–**	**–**	***36,431***	**–**
Total 31.12.2010	**48,645**	**–**	**–**	**–**	**–**	**–**	**2,085,765**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**805,619**	**–**	**–**	**–**	**2,940,029**
of which impaired	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	***39,869***	**–**	**–**	**–**	***39,869***

Key:
A = Financial assets sold and fully recognised (book value);
B = Financial assets sold and partially recognised (book value);
C = Financial assets sold and partially recognised (full value).

The table shows the book value of financial assets sold but not eliminated and partially or fully recognised as assets in the balance sheet.
Line 1. "Debt Securities" in the "Financial assets held for trading" and "Financial assets available for sale" columns only includes securities sold as part of repurchase agreements;
Line "2. Equities" under " Financial assets held for trading" includes securities used for securities lending transactions.
The amount shown in line 4. "Loans" refers to the loans involved in the "BPM Securitisation 2" securitisation without derecognition carried out by the Parent Company in 2006.

C.2.2 Financial liabilities for financial assets sold but not cancelled

Liabilities/Asset portfolio	Financial assets held for trading	Financial assets designated at fair value through profit and loss	Financial assets available for sale	Investments held to maturity	Due from banks	Loans to customers	Total
1. Due to customers	**16,214**	**–**	**520,523**	**–**	**–**	**–**	**536,737**
a) for assets fully recognised	16,214	–	520,523	–	–	–	536,737
b) for assets partially recognised	–	–	–	–	–	–	–
2. Due to banks	**21,791**	**–**	**–**	**–**	**–**	**–**	**21,791**
a) for assets fully recognised	21,791	–	–	–	–	–	21,791
b) for assets partially recognised	–		–	–	–	–	–
3. Securities issued	**–**	**–**	**–**	**–**	**–**	**510,204**	**510,204**
a) for assets fully recognised	–	–	–	–	–	510,204	510,204
b) for assets partially recognised	–	–	–	–	–	–	–
Total 31.12.2011	**38,005**	**–**	**520,523**	**–**	**–**	**510,204**	**1,068,732**
Total 31.12.2010	**49,045**	**–**	**2,122,878**	**–**	**–**	**633,972**	**2,805,895**

The table shows the book value of financial liabilities recorded as the contra-entry of financial assets sold and not eliminated, partially or fully, from the assets side of the balance sheet. These are liabilities for repurchase agreements and the "BPM Securitisation 2" securitisation of performing loans. With reference to this operation, the amount in the "Loans to customers" column is shown net of the value of the Class A2 Notes issued by the vehicle company and repurchased by BPM for about 115 million.

C.3 Covered bond transactions

Guaranteed Bank Bonds ("covered bond") issue programme

On 13 November 2007 the Board of Directors of the Parent Company BPM authorised a 10-year Programme, with annual issues of Guaranteed Bank Bonds ("covered bonds") for a maximum of 2 billion euro per year and a maximum total amount of 10 billion euro, based on the sale of mortgage loans originated by BPM to a special purpose vehicle. The programme was extended during 2010 to the mortgage loans originated by Banca di Legnano.

At the date of these consolidated financial statements, the Group approved the issue of four series of covered bonds, for a total of 4.1 billion euro, following the assignment without recourse to the special purpose vehicle "BPM Covered Bond S.r.l." of four portfolios for a total of 4.8 billion of performing loans (known as the "cover pool").
In 2011, under the programme, the "Banca Popolare di Milano Scarl 15.7.2008/2011 5.5%" loan was repaid for a nominal amount of 1 billion euro. At the date of these consolidated financial statements, there are four series of covered bonds outstanding, for a total of 3.1 billion euro, of which the latest issue for 1 billion euro (BPM 18.7.2011/18.1.2014 FR%) has all been repurchased by the Parent Company and the related securities have been used for refinancing operations with the European Central Bank.
For further details on the evolution of the Covered Bond programme, please refer to the corresponding section of the Notes to the Financial Statements of the Parent Company.

As regards the accounting treatment of this operation in the consolidated financial statements:
- mortgage loans sold to the special purpose vehicle remain in the sub-item "Mortgage loans" as they have been sold to a company included in the scope of consolidation;
- the covered bonds are reported under securities issued and their book value includes the valuation effects of the hedge accounting (fair value hedge);
- the Covered Bond Swap contracts between the Special Purpose Vehicle (SPV) and the market counterparties outside the Group are shown in item 80 "Hedging derivatives" under assets and item 60 "Hedging derivatives" under liabilities.

The consolidated income statement consists of the following elements:

- line item Interest income reports interest on mortgage loans sold (Cover Pool);
- "Interest expense" shows the interest on the Covered Bonds issued at a fixed rate;
- "interest" includes differentials on the hedging derivative (which transforms the interest rate of the covered bonds from fixed to floating);
- line 90 "net income from hedging" shows the fair value change of the hedging contract and of the item being hedged.

At the balance sheet date, the securitisation is represented in the financial statements of the BPM Group as follows:

(euro/000)

Line items	31.12.2011	31.12.2010
Principal balance sheet aggregates		
Loans to customers: Cover Pool	3,760,862	3,523,285
Due from banks: cash and cash equivalent of the special purpose vehicle	161,814	151,032
Financial assets available for sale	307,116	–
Hedging derivatives receivable: Covered Bond Swap between BPM Covered Bond and market counterparties	100,955	69,167
Hedging derivatives payable: Covered Bond Swap between BPM Covered Bond and market counterparties	–	17,971
Securities issued: Covered Bonds issued	2,039,722	2,783,891
Economic result of the operation	**78,316**	**55,989**

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:	**3,760,862**	**–**
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	3,760,862	–
1. Non-performing loans	20,422	–
2. Doubtful loans	30,462	–
3. Restructured positions	–	–
4. Overdue positions	770	–
5. Other assets	3,709,208	–
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.	51,654	3,709,208	1,516	528,674		0%

D. Banking Group - Credit risk measurement models

The internal rating models refer to four ordinary customer segments, classified according to the following parameters:

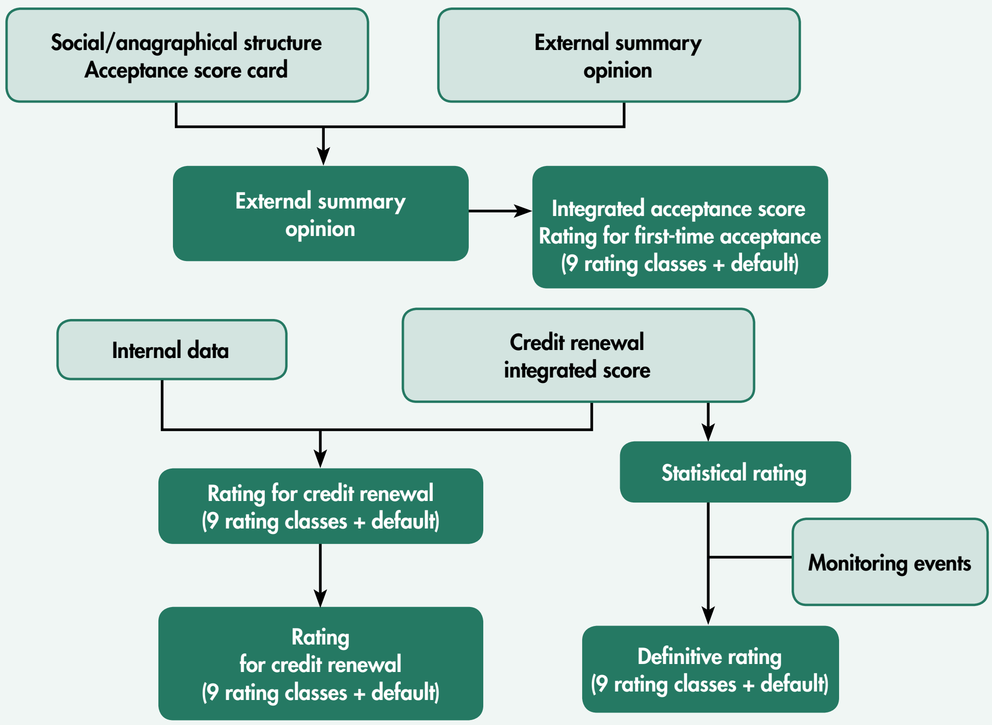
- **Individuals** (consumer households);
- **Small Businesses**: this portfolio includes all Small Businesses in the form of companies, partnerships, one-man firms, micro-businesses and individuals with VAT number with a turnover of less than 5 million euro who have been granted lines of credit of up 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 corporate firms with a turnover (or equivalent parameter) 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 events, split into negative acts, CR risk indicators relating to the borrower (kept on the Central Risk File) and early warning signals; when they take place, the system automatically proposes a downgrade of the rating, based on a series of rules that assess the extent of the anomaly in relation to the value of the counterparty's rating. The 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) at 1 year based on the Group's past experience.



As regards the **Small Business** segment, the internal rating system consists of the following modules:

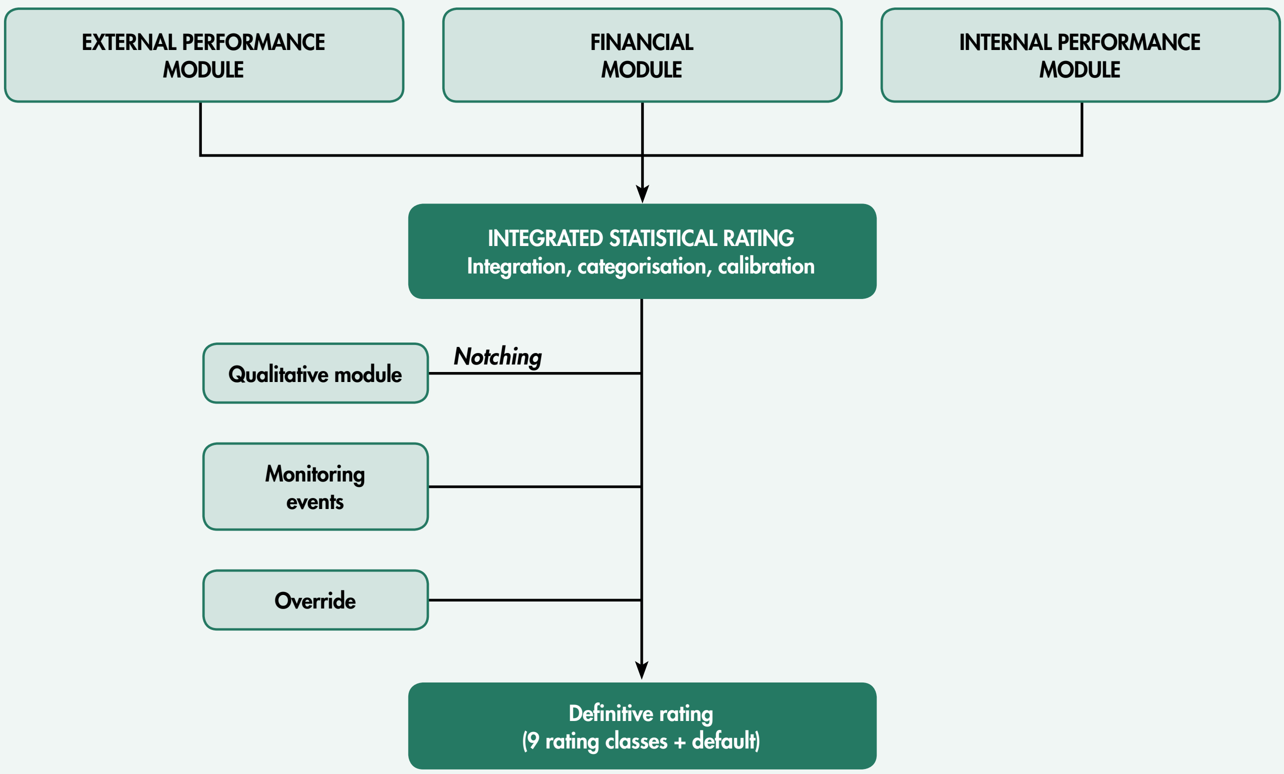
- **the financial module**, based on information acquired from financial statements and tax returns, broken down by companies, other entities with full accounting records and those with simplified accounting records;
- **the internal performance module**, designed to observe the credit behaviour of the counterparty versus the Group by means of aggregate information by risk category;
- **the external performance module**, designed to observe the behaviour of the counterparty versus the banking system, developed on the basis of information deriving from the census of exposures kept at the 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, based on the Group's historical data.

The following elements get added to the rating:

- **the 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 events**, split into negative acts, CR risk indicators and early warning signals relating to the borrower; when they take place, the system automatically proposes a downgrade of the rating resulting from the integration of the statistical rating and the qualitative questionnaire, based on a series of rules that assess the extent of the anomaly in relation to the value of the counterparty's rating. The proposal to downgrade by the monitoring system is subject to approval by the dedicated structure;
- **override**, a change in the rating produced by the process described up to this point, based on discretional assessments made by the relationship managers and suitably approved by a structure with no decision-making powers, which is also involved in monitoring of the performing loan portfolio. An override can also take place on the initiative of this monitoring structure.

The following is a graphical summary of the model's structure:

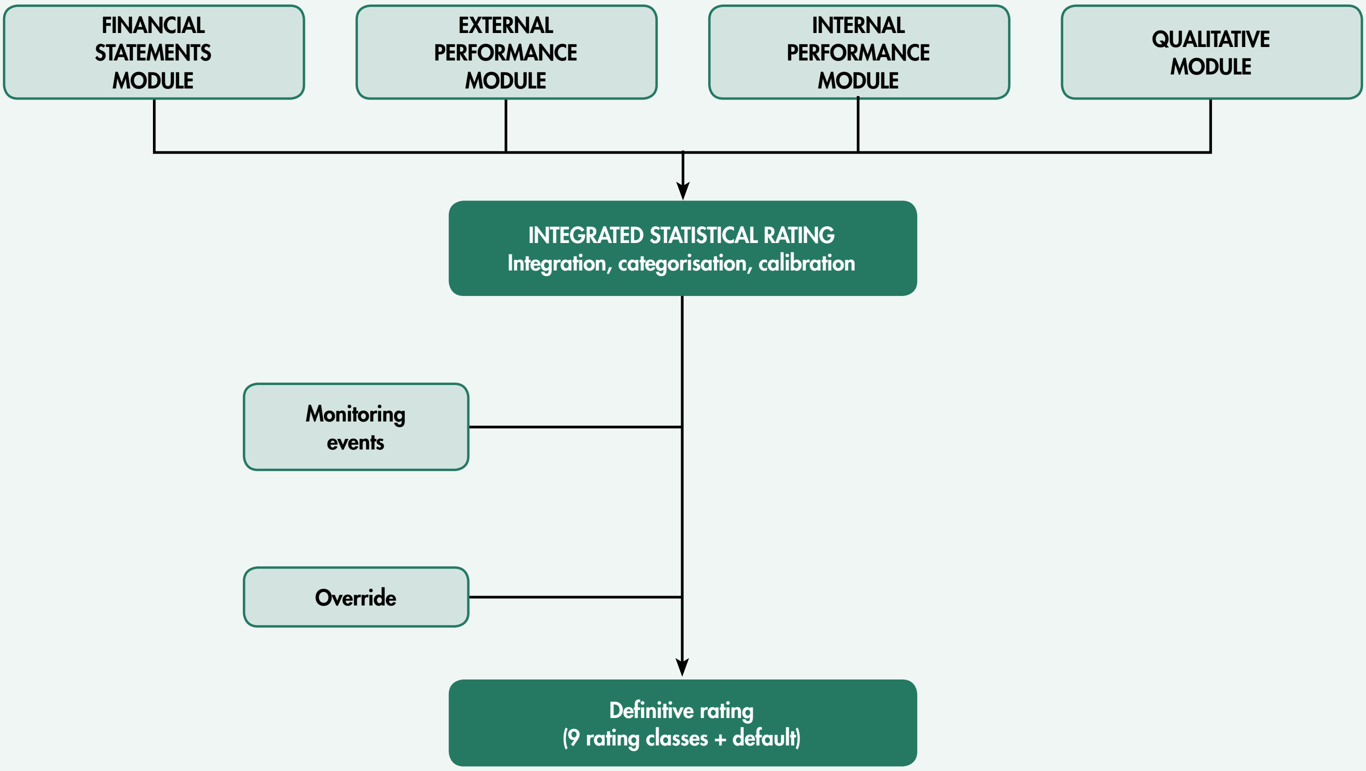


For an estimate of the probability of default of counterparties in the **SME** segment, the BPM Group uses a model that consists of various elementary modules, which are suitably combined in such a way as to produce a first-time rating or a performance rating, according to the type of information available, both expressed on a scale of 1 (best) to 9 (worst) to which is associated a probability of default (PD) over a time horizon of one year, based on the Group's historical data.

The elementary modules making up the model are as follows:
- **the financial statement module**, for an assessment of the figures in the financial statements, developed by an external provider (Centrale dei Bilanci - the Central Financial Statements File);
- **the internal performance module**, designed to observe the credit behaviour of the counterparty versus the Group by means of aggregate information by risk category;
- **the external performance module**, designed to observe the behaviour of the counterparty versus the banking system, developed on the basis of information deriving from the census of exposures kept at the Centrale Rischi (Central Risk File - CR);
- **the qualitative modul**e, 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 by a structure with no decision-making powers, which is also involved in monitoring of the performing loan portfolio. An override can also take place on the initiative of this monitoring structure.

The model can be represented graphically as follows:



The elementary modules that make up the internal rating model for the **Companies** segment are as follows:

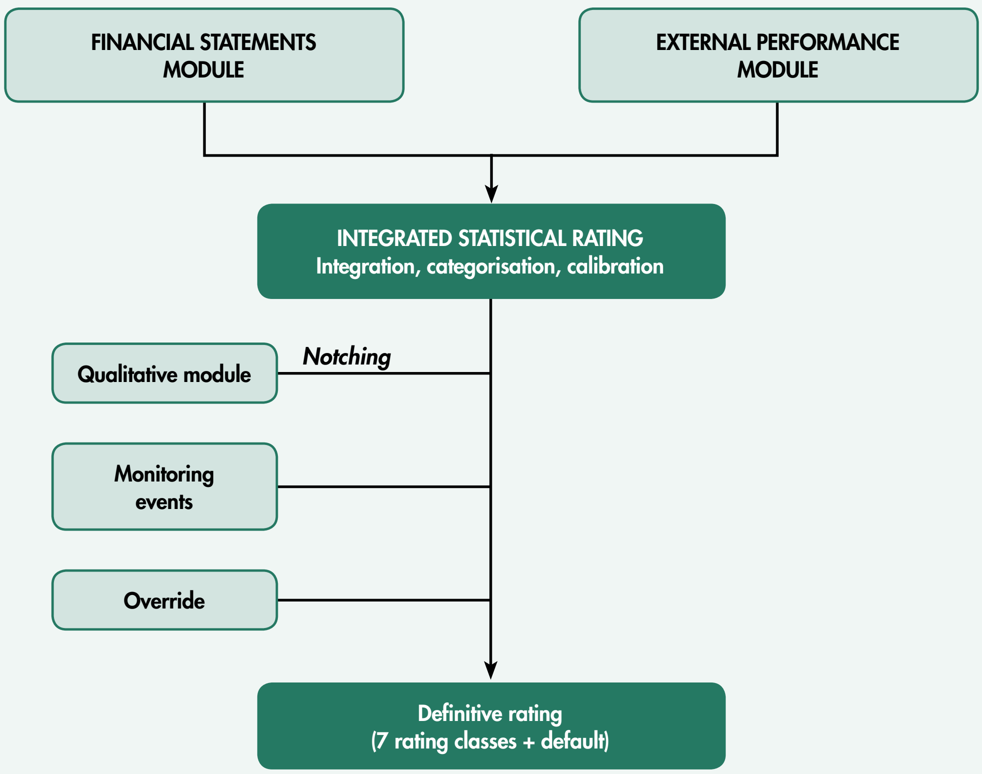
- **the financial statement module**, developed by an external provider (the Central Financial Statement File) with statistical methods using system data;
- **the external performance module**, designed to observe the behaviour of the counterparty versus the banking system, developed on the basis of information deriving from the census of exposures kept at the Central Risk File - CR.

The results of these various modules are then combined by statistical techniques to produce an integrated statistical score; this score is categorised in seven rating classes numbered from 1 (best) to 7 (worst), to each of which is associated a probability of default (PD) at 1 year 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 events**, split into negative acts, CR risk indicators and early warning signals relating to the borrower; they propose a downgrade of the statistical rating based on a series of rules that assess the extent of the anomaly in relation to the value of the counterparty's rating. The proposal to downgrade by the monitoring system is subject to approval by the dedicated structure;
- **override**, a change in the rating produced by the process described up to this point, based on discretional assessments made by the relationship managers and suitably approved by a structure with no decision-making powers, which is also involved in monitoring of the performing loan portfolio. An override can also take place on the initiative of this monitoring structure.

The model can be represented graphically as follows:



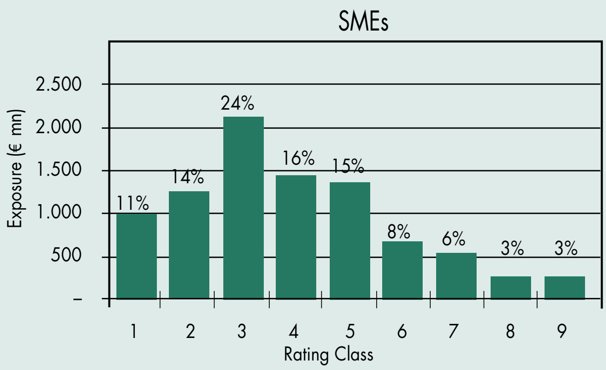
Running the internal rating models is the responsibility of the Parent Company's Risk Management Department, which performs the following activities:

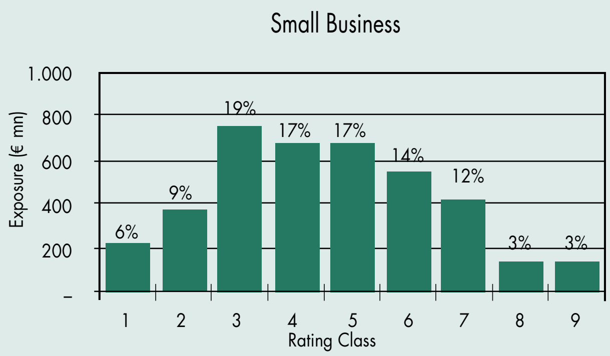
- developing and maintaining the internal rating models and estimating the probability of default (PD), the loss given default (LGD) and the exposure at default (EAD);
- monitoring unrated positions and rating distribution in order to monitor the reasons for exclusions from the rating calculation and any peculiarities in the rating distribution;
- analysing the performance of the rating and LGD models that also involve analyses of backtesting on the individual rating elements;
- production of management reports to the Management Board, the Supervisory Board and the various committees of the Parent Company, as well as the Board of Directors of the Group's commercial banks.

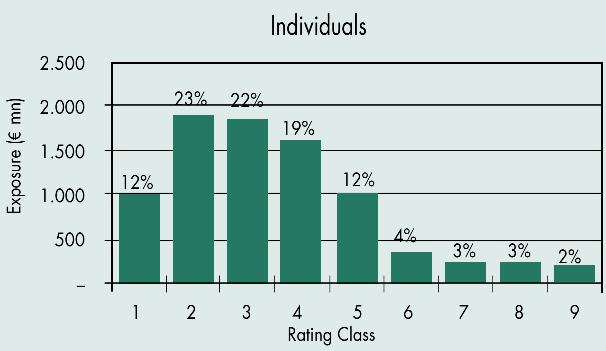
The following is the situation of performing loans (prior to impairment adjustments) split between the four customer segments subject to internal rating models for the Group's five commercial banks (Banca Popolare di Milano, Banca di Legnano, Cassa di Risparmio di Alessandria, Banca Popolare di Mantova and Webank).

(Amounts in millions of Euro)	Dec–11		Sep–11		Jun–11		Mar–11	
Segment	**amount**	**weighting %**	**amount**	**weighting %**	**amount**	**weighting %**	**amount**	**weighting %**
Companies	8,110	26.2%	8,177	26.2%	8,312	26.8%	8,369	27.2%
SMEs	9,445	30.5%	9,829	31.5%	9,919	32.0%	10,160	33.0%
Small Businesses	4,233	13.7%	4,224	13.5%	4,136	13.3%	4,055	13.2%
Individuals	9,221	29.7%	8,972	28.8%	8,647	27.9%	8,208	26.7%
Total	**31,009**	**100%**	**31,203**	**100%**	**31,014**	**100%**	**30,792**	**100%**

The following charts show the subdivision within each segment of the Group's five commercial banks of the various grades of credit quality in terms of the amounts disbursed and still outstanding at 31 December 2011. The x axis shows the rating classes by declining credit quality: the first rating classes contain the exposures to borrowers with a higher credit quality, whereas the latter classes show the exposures of a lower quality.







1.2. Banking Group – Market risk

General common aspects of the market risk management processes adopted by the BPM Group

1. Organisational aspects

The role of strategic supervision is attributed for the whole of the BPM Group to the Parent Company's Board of Directors. It establishes the guidelines for risk management and control for each of the banks in the Group, so as to create an integrated management policy, while at the same time taking account of the each bank's specific risk profiles and the extent to which they are interconnected.
In the field of financial risk, BPM's Board of Directors establishes the Group's propensity for risk and the related macro–limits (corporate limits), delegating to the individual Group companies to define their own policies and limits (management limits) in compliance with the general guidelines.
In the BPM Group, financial assets are split between the trading portfolio and the banking book, these two portfolios being broken down as follows:

1. **The trading book** includes financial instruments held with a view to benefiting in the short term from positive changes between buy and sell prices through directional and absolute yield strategies and managing position books as market maker";

2. **The banking book** consists of:
- positions traded for cash management purposes, by investing in government securities and/or securities of primary banking issuers, in order to have "easily negotiable assets" or those that are considered "eligible assets" for refinancing transactions with the Central Bank;
- traded securities to be used for guarantee and/or repo transactions with customers;
- positions that are invested long–term with a view to obtaining stable returns over time with a low level of volatility;
- derivatives traded on behalf of customers (so–called "balanced trades") without keeping position books open;
- treasury and forex portfolio and financial instruments traded with a view to covering the interest rate mismatch caused by the commercial banks' funding and lending activities (Asset & Liability Management – ALM).

The new Group Regulation established that Banca Akros, the Group's investment bank, is the only company of the BPM Group authorised to manage the trading book.

The banking book, on the other hand, has been assigned to the Parent Company, to the other commercial banks of the Group, to BPM Ireland and to other companies authorised to take on financial risk.

However, it is worth pointing out that the portfolios allocated to the subsidiary banks involve very minor amounts compared with the ones mentioned above. These positions are not concentrated in the Parent Company as they are held for specific needs and purposes of the individual banks, or for purposes directly linked to the business.
For example, the securities portfolio of the subsidiary banks is largely made up of debt securities to be used for guarantees or for repo transactions with their own customers or of equities held mainly for strategic or institutional/instrumental purposes.

Operating limits have been redetermined in line with the types of portfolio assigned. The following types of 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 Company. 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 funds;
- 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

2.1 Commercial banks and BPM Ireland

The portfolio managed by the commercial banks and by BPM Ireland is subject to monitoring and reporting by the Parent Company's Risk Management Department.

The Parent Company'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.

2.2 Banca Akros

As regards market risk, over the years the Bank has developed its own quantitative and organisational model (i.e. an internal model) for measuring market risk. The main indicator used to quantify risk is Value–at–Risk (VaR), calculated according to the Montecarlo method. This method involves estimating the distribution of potential profits and losses by recalculating the value of the portfolio according to the various simulated risk factor scenarios generated according to the dynamics of volatility and correlation implicit in the historical trend of the factors. The estimate of the maximum potential loss is identified on the basis of a suitable percentile of the distribution. The contribution made by historical correlations gives rise to the so–called "diversification effect", according to which the economic effects of changes in individual market variables on the portfolio can, to a certain extent, offset each other, compared with the situation in which these variables are considered separately.

The main types of risks that this method identifies are:
- delta risk (price sensitivity of a financial instrument to risk factors), that is:
  - price risk, in the case of the equity market;
  - interest rate risk, in the case of fixed or floating rate positions;
  - exchange risk, in the case of the forex market;
- gamma risk (sensitivity to the delta factor of a financial instrument to the underlying risk factors);
- vega risk (price sensitivity of a financial instrument to the volatility of risk factors);
- rho risk (price sensitivity of a financial instrument to interest rate risk);
- theta risk (price sensitivity of a financial instrument to the passage of time).

It is not permitted to assume market risk in relation to the trend in commodities or other factors that risk having a significant impact, for which the Bank does not have systems or models that have been checked and convalidated by the Pricing and Market Risk Control Model Validation Office.

The individual financial contracts are represented in the VaR model on a "full evaluation" basis, i.e. by a series of theoretical evaluation models implemented in the risk calculation model. The non–linear "partial revaluation" method is used in a limited number of cases (involving a small number of options, for which the non–linear partial revaluation model makes it possible to represent the payoffs of the options in a way that is reasonably complete, up to the second order including cross gamma risks). Certain plain vanilla options with baskets of equities as their underlying are also handled using the same method of partial revaluation.
The pricing models are subjected to checks to ensure that they have been formulated correctly in theory, that correct input data is used and that the numerical results obtained are reasonable. The checks carried out are documented in specific manuals.

The parameters of the VaR model are:
- historical period used for estimating volatility and empirical correlations: 12 months (252 observations);
- confidence interval: 99%, unilateral;
- holding period: 1 day;
- weighting factor: 0.992;

The historical series of risk factors are updated on a daily basis. The 10–day VaR calculation is estimated by applying the scaling of the square root law, but is also done for the purpose of verifying the prudence of this approach on the capital requirement, a direct calculation of the extent of risk–taking by adopting the log yields obtained over a 10–day time frame.

Starting with the supervisory report of June 2007, following recognition by the Bank of Italy, Banca Akros now uses its own internal model based on VaR metrics also to determine the capital requirement for the following market risks that derive from trading:
- generic and specific risk on equities;
- generic risk – debt securities;
- position risk on investments in mutual fund units (excluding investments in Hedge Funds);
- exchange risk on all assets/liabilities in the financial statements.

The calculation of the capital requirements for market risk, and for the risk factors mentioned above, is therefore carried out on the basis of the internal model ("regulatory VaR") and the results it produces for three portfolios: fixed income, equity and FX.
The prudential capital requirements for the specific risk component on debt securities and credit default swap contracts (single name and index), which was not mentioned in the risks discussed previously, is calculated on the basis of the Standardised Approach. For the same reason, the credit derivative book is excluded from the internal model used for calculating minimum capital requirements. Similar considerations apply to the residual market risk generated by the transactions carried out by the Bank's Treasury Department (repurchase agreements and securities lending).

For internal purposes, the Pricing Validation and Market Risk Control Office has developed an extension to the regulatory model to include the specific risk component of debt securities ("Credit Spread VaR") in the measurement of market risk. This extended version of the VaR model makes it possible to quantify the contribution made by issuer risk to the expected daily stop–loss limit. The specific risk is mapped against the series of curves of the bond credit spread of the debt issuers present in the portfolio, obtained by inverting the prices of the more liquid bonds listed on active markets. A series of generic credit spread curves has also been defined, split by rating and business sector, as a proxy for those issuers to which a specific credit spread cannot be attributed. The historical series of issuer curves are updated on a daily basis. Quantification of the credit spread VaR is carried out using the same approach as for other risk factors (Montecarlo simulation of the expected scenarios), including the effects of diversification on the portfolio implicit in the historical trends in credit spreads.

In order to keep separate the risk perimeters of the two measurements (regulatory VaR, calculated on the recognised risk factors, and internal VaR, calculated on the extended perimeter which includes the credit spreads), a parallel organisational and IT procedure to the one used for regulatory VaR has been created. This procedure also involves mapping the positions of the risk factors represented by the risk curves of the individual issuers and preparing reports on the portfolio VaR including the credit spread factor. The output reports generated by the model on this specific development reflect similar developments made for regulatory VaR and filed away to create a historical record in the risk repository.

1.2.1 Interest rate risk and price risk – regulatory trading book

Qualitative information

A. General aspects

A.1 Sources of interest rate risk

The 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

A.2.1 Banca Popolare di Milano

The "price risk" is mainly generated by positions in derivatives of the "portable alpha" type, in portfolio with a notional value of around 15 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 with a view to long–term investment, the objective being to generate returns that are not related to market trends or volatility. It is worth remembering that while the previous system of operating limits gave the Finance Director an operating mandate of 200 million euro as a portfolio limit for portable alphas, the Parent Company does not intend to continue with this way of operating, so these positions will be allowed to lapse when they expire (in 2012) without them being renewed.

A.2.2 Banca Akros

Price risk is generated by the equities trading portfolio. The main types of financial instruments traded are: equities, options on individual shares or equity indices, both regulated and OTC, Futures with underlying securities or equity indices and, on a residual basis, OTC financial instruments on mutual funds.
This activity, which mainly relates to the domestic equity market, can be split essentially into three parts:
- market making on regulated and OTC equity derivatives (single stock and index), through which the pertinent desk offers its quotations in electronic form on regulated markets (Italian Stock Exchange and Eurex) or off–market. The execution of instructions from customers and counterparties, through which it is possible take advantage of market opportunities of relative value and event as part of the dynamic management of the risks that are typical of the portfolio (delta risk, covered principally by buying and selling underlying equities, vega risk, gamma risk, rho and theta risk). The price risk taken on lies within the operating limits established by the Board of Directors;
- arbitrage or "spread" strategies between regulated and OTC derivatives on equity indices or between equity indices and stocks. this activity is carried on through directional and optional trading strategies on the underlying financial instruments, within established operating limits;
- management of OTC derivatives index–linked to baskets of equities, listed international stockmarket indices (individual or in baskets) and mutual funds.

A.3 Objectives and strategies underlying trading activity

A.3.1 Commercial banks

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 debt securities issued by issuers with a high (i.e. "investment grade") credit standing.

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.

A.3.2 Banca Akros

Trading in interest rate derivatives is designed to optimise the flows generated by the need on the part of institutional customers (banks, funds, insurance companies, leasing and consumer credit companies) and corporate customers to hedge their interest rate risk in directional terms and/or in terms of volatility, taking on the risk in a proprietary sense, handling it with dynamic hedging strategies. The Bank operates prevalently as a market maker on first and second generation OTC derivatives, principally on the Euro and, to a lesser extent, the US dollar curves. The overall management of risks deriving from positions in interest rate derivatives also envisages recourse to trading in government or supranational securities listed on the MTS or traded on multilateral trading systems, of regulated futures on short– and medium/long–term interest rates and regulated and OTC options on the same interest rate futures. The pricing models used for valuing OTC derivatives are subject to validation ("model testing") by the Pricing and Market Risk Control Model Validation Office, which also attests to the reliability of the market parameters used as input to the models for calculating the daily mark–to–market adjustments to transactions.

B. Management processes and methods of measuring interest rate risk and price risk

B. 1 Internal processes for managing and controlling interest rate risk

Reference should be made to the section entitled "General common aspects of the market risk management processes adopted by the BPM Group".

B. 2 Internal management processes and methods of measuring price risk

Reference should be made to the section entitled "General common aspects of the market risk management processes adopted by the BPM Group".

B. 3 Methods used to analyse sensitivity to interest rate risk

B.3.1 Banca Popolare di Milano and BPM Ireland

For BPM and BPM Ireland, the main indicators used to measure exposures to interest rate risk are interest rate sensitivity and credit spread sensitivity, which measure the change in the fair value of the portfolio in predetermined scenarios of variances in interest rates and widening/narrowing of credit spreads.

B.3.2 Banca Akros

For the measurement of exposures to interest rate risk, the main indicator is portfolio VaR, calculated both with regulatory parameters, to determine the maximum potential loss relating to generic risk and volatility, and in the version extended to include issuer specific credit spread VaR risk, so as to take account of credit spreads as well. Alongside this, we also use analyses of sensitivity to risk factors of rate, volatility and credit spread curves when debt securities and credit derivatives are involved, as well as stress tests on this portfolio.

B. 4 Methods used for the analysis of price risk

B.4.1 Banca Popolare di Milano

The Parent Company has not developed any models for analysing sensitivity to price risk; monitoring the risk of the portfolio subject to price risk does in fact take place when we analyse the performance of individual positions. In any case, it is worth remembering that, as we said in the previous point entitled "Sources of price risk and objectives and strategies underlying trading assets", the Parent Company intends to maintain this portfolio to maturity, at which point it will not be renewed.

B.4.2 Banca Akros

Banca Akros measures the price risk (or equity risk) of the trading portfolio through an estimate of the daily value at risk, using the methods already discussed (see "General common aspects of the market risk management processes and measurement methods adopted by the BPM Group"). In particular, the VaR model used identifies both the generic component of price risk and the specific one due to the individual risk factors (equities), taking account of the non–linear dynamics caused by the portfolio of equity options (gamma factor); it also measures the element of risk due to the volatility of individual share prices, as well as the other risks involved in derivative transactions.

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	On demand	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	**–**	**135,650**	**15,617**	**24,548**	**42,481**	**8,326**	**6,390**	**–**
1.1 Debt securities	–	101,394	15,617	24,548	42,481	8,326	6,390	–
1.2. Other assets	–	34,256	–	–	–	–	–	–
2. Cash liabilities	**–**	**49,958**	**4,354**	**107**	**16,431**	**1,655**	**577**	**–**
2.1 Repurchase agreements	–	44,500	–	–	–	–	–	–
2.2. Other liabilities	–	5,458	4,354	107	16,431	1,655	577	–
3. Financial derivatives	**15,976,655**	**83,486,259**	**24,555,138**	**16,586,025**	**40,385,573**	**13,199,069**	**3,162,345**	**–**
3.1 With underlying security	*7,594*	*18,375,738*	*4,559,170*	*2,749,982*	*373,600*	*7,316*	*39,661*	–
– options	7,594	241,736	105,485	225,520	61,875	–	2,422	–
+ long positions	–	151,033	52,870	112,896	46,165	–	1,211	–
+ short positions	7,594	90,703	52,615	112,624	15,710	–	1,211	–
– other derivatives	–	18,134,002	4,453,685	2,524,462	311,725	7,316	37,239	–
+ long positions	–	8,977,096	2,314,588	1,261,327	159,698	3,793	19,023	–
+ short positions	–	9,156,906	2,139,097	1,263,135	152,027	3,523	18,216	–
3.2 Without underlying security	*15,969,061*	*65,110,521*	*19,995,968*	*13,836,043*	*40,011,973*	*13,191,753*	*3,122,684*	–
– options	3,170,118	1,015,536	832,043	392,379	6,199,289	1,984,674	617,510	–
+ long positions	1,430,876	248,056	566,120	196,526	3,479,739	915,120	269,337	–
+ short positions	1,739,242	767,480	265,923	195,853	2,719,550	1,069,554	348,173	–
– other derivatives	12,798,943	64,094,985	19,163,925	13,443,664	33,812,684	11,207,079	2,505,174	–
+ long positions	6,287,309	32,101,807	9,098,365	7,170,491	16,478,798	6,128,371	1,245,146	–
+ short positions	6,511,634	31,993,178	10,065,560	6,273,173	17,333,886	5,078,708	1,260,028	–

1. Regulatory trading book: distribution by residual duration (repricing date) of the financial assets and liabilities in cash and financial derivatives

Currency: Euro

Type/residual duration	On demand	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	**–**	**135,650**	**15,617**	**24,548**	**42,481**	**8,162**	**5,058**	**–**
1.1 Debt securities	–	101,394	15,617	24,548	42,481	8,162	5,058	–
1.2. Other assets	–	34,256	–	–	–	–	–	–
2. Cash liabilities	**–**	**49,958**	**4,354**	**107**	**16,431**	**1,655**	**577**	**–**
2.1 Repurchase agreements	–	44,500	–	–	–	–	–	–
2.2. Other liabilities	–	5,458	4,354	107	16,431	1,655	577	–
3. Financial derivatives	**15,951,673**	**66,741,406**	**22,080,920**	**14,475,387**	**39,684,167**	**13,171,782**	**3,126,486**	**–**
3.1 With underlying security	*6,474*	*9,354,528*	*2,721,558*	*1,330,559*	*266,747*	*6,231*	*39,354*	–
– options	6,474	149,901	57,077	112,269	48,695	–	2,422	–
+ long positions	–	77,545	19,296	64,211	41,430	–	1,211	–
+ short positions	6,474	72,356	37,781	48,058	7,265	–	1,211	–
– other derivatives	–	9,204,627	2,664,481	1,218,290	218,052	6,231	36,932	–
+ long positions	–	4,695,292	1,396,300	563,583	99,755	3,105	18,881	–
+ short positions	–	4,509,335	1,268,181	654,707	118,297	3,126	18,051	–
3.2 Without underlying security	*15,945,199*	*57,386,878*	*19,359,362*	*13,144,828*	*39,417,420*	*13,165,551*	*3,087,132*	–
– options	3,146,932	1,015,536	832,043	392,379	6,176,103	1,984,674	617,510	–
+ long positions	1,415,419	248,056	566,120	196,526	3,472,010	915,120	269,337	–
+ short positions	1,731,513	767,480	265,923	195,853	2,704,093	1,069,554	348,173	–
– other derivatives	12,798,267	56,371,342	18,527,319	12,752,449	33,241,317	11,180,877	2,469,622	–
+ long positions	6,286,984	28,316,443	8,815,439	6,770,838	16,186,872	6,114,011	1,227,370	–
+ short positions	6,511,283	28,054,899	9,711,880	5,981,611	17,054,445	5,066,866	1,242,252	–

1. Regulatory trading book: distribution by residual duration (repricing date) of the financial assets and liabilities in cash and financial derivatives

Currency: US Dollars

Type/residual duration	On demand	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	**–**	**–**	**–**	**–**	**–**	**164**	**1,332**	**–**
1.1 Debt securities	–	–	–	–	–	164	1,332	–
1.2. Other assets	–	–	–	–	–	–	–	–
2. Cash liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2. Other liabilities	–	–	–	–	–	–	–	–
3. Financial derivatives	**23,862**	**12,287,979**	**1,894,871**	**1,906,517**	**357,735**	**16,433**	**35,818**	**–**
3.1 With underlying security	–	*7,179,088*	*1,703,164*	*1,311,244*	*103,694*	*975*	*266*	–
– options	–	44,914	42,520	91,746	11,241	–	–	–
+ long positions	–	29,009	30,077	35,705	3,740	–	–	–
+ short positions	–	15,905	12,443	56,041	7,501	–	–	–
– other derivatives	–	7,134,174	1,660,644	1,219,498	92,453	975	266	–
+ long positions	–	3,418,617	844,408	641,720	59,264	620	133	–
+ short positions	–	3,715,557	816,236	577,778	33,189	355	133	–
3.2 Without underlying security	*23,862*	*5,108,891*	*191,707*	*595,273*	*254,041*	*15,458*	*35,552*	–
– options	23,186	–	–	–	23,186	–	–	–
+ long positions	15,457	–	–	–	7,729	–	–	–
+ short positions	7,729	–	–	–	15,457	–	–	–
– other derivatives	676	5,108,891	191,707	595,273	230,855	15,458	35,552	–
+ long positions	325	2,494,414	93,863	338,412	122,929	7,729	17,776	–
+ short positions	351	2,614,477	97,844	256,861	107,926	7,729	17,776	–

1. Regulatory trading book: distribution by residual duration (repricing date) of the financial assets and liabilities in cash and financial derivatives

Currency: Pounds Sterling

Type/residual duration	On demand	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	–	–	–	–	–	–	–	–
1.2. Other assets	–	–	–	–	–	–	–	–
2. Cash liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2. Other liabilities	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**1,343,143**	**133,755**	**40,086**	**984**	**5**	**41**	**–**
3.1 With underlying security	–	*557,415*	*51,720*	*25,643*	*558*	*5*	*41*	–
– options	–	39,575	3,199	15,409	–	–	–	–
+ long positions	–	38,222	2,085	9,286	–	–	–	–
+ short positions	–	1,353	1,114	6,123	–	–	–	–
– other derivatives	–	517,840	48,521	10,234	558	5	41	–
+ long positions	–	194,092	37,539	10,234	303	–	9	–
+ short positions	–	323,748	10,982	–	255	5	32	–
3.2 Without underlying security	–	*785,728*	*82,035*	*14,443*	*426*	–	–	–
– options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
– other derivatives	–	785,728	82,035	14,443	426	–	–	–
+ long positions	–	378,797	41,339	11,025	213	–	–	–
+ short positions	–	406,931	40,696	3,418	213	–	–	–

1. Regulatory trading book: distribution by residual duration (repricing date) of the financial assets and liabilities in cash and financial derivatives

Currency: Swiss Francs

Type/residual duration	On demand	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	–	–	–	–	–	–	–	–
1.2. Other assets	–	–	–	–	–	–	–	–
2. Cash liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2. Other liabilities	–	–	–	–	–	–	–	–
3. Financial derivatives	**1,120**	**1,060,926**	**4,822**	**45,587**	**10,884**	**10,815**	**–**	**–**
3.1 With underlying security	*1,120*	*408,141*	–	*21,636*	140	71	–	–
– options	1,120	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	1,120	–	–	–	–	–	–	–
– other derivatives	–	408,141	–	21,636	140	71	–	–
+ long positions	–	243,552	–	13,011	111	39	–	–
+ short positions	–	164,589	–	8,625	29	32	–	–
3.2 Without underlying security	–	*652,785*	*4,822*	*23,951*	*10,744*	*10,744*	–	–
– options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
– other derivatives	–	652,785	4,822	23,951	10,744	10,744	–	–
+ long positions	–	309,408	842	15,290	4,113	6,631	–	–
+ short positions	–	343,377	3,980	8,661	6,631	4,113	–	–

1. Regulatory trading book: distribution by residual duration (repricing date) of the financial assets and liabilities in cash and financial derivatives

Currency: Yen

Type/residual duration	On demand	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	–	–	–	–	–	–	–	–
1.2. Other assets	–	–	–	–	–	–	–	–
2. Cash liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2. Other liabilities	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**1,184,936**	**308,056**	**44,105**	**329,342**	**10**	**–**	**–**
3.1 With underlying security	–	*527,971*	*24,674*	*24,634*	–	10	–	–
– options	–	3,105	2,689	5,735	–	–	–	–
+ long positions	–	2,016	1,412	3,333	–	–	–	–
+ short positions	–	1,089	1,277	2,402	–	–	–	–
– other derivatives	–	524,866	21,985	18,899	–	10	–	–
+ long positions	–	258,127	10,339	13,694	–	5	–	–
+ short positions	–	266,739	11,646	5,205	–	5	–	–
3.2 Without underlying security	–	*656,965*	*283,382*	*19,471*	*329,342*	–	–	–
– options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
– other derivatives	–	656,965	283,382	19,471	329,342	–	–	–
+ long positions	–	352,802	105,979	13,795	164,671	–	–	–
+ short positions	–	304,163	177,403	5,676	164,671	–	–	–

1. Regulatory trading book: distribution by residual duration (repricing date) of the financial assets and liabilities in cash and financial derivatives

Currency: Canadian Dollars

Type/residual duration	On demand	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	–	–	–	–	–	–	–	–
1.2. Other assets	–	–	–	–	–	–	–	–
2. Cash liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2. Other liabilities	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**319,799**	**7,946**	**8,000**	**202**	**–**	**–**	**–**
3.1 With underlying security	–	*99,127*	*2,623*	4,000	*202*	–	–	–
– options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
– other derivatives	–	99,127	2,623	4,000	202	–	–	–
+ long positions	–	46,620	–	4,000	101	–	–	–
+ short positions	–	52,507	2,623	–	101	–	–	–
3.2 Without underlying security	–	*220,672*	*5,323*	*4,000*	–	–	–	–
– options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
– other derivatives	–	220,672	5,323	4,000	–	–	–	–
+ long positions	–	108,361	2,700	4,000	–	–	–	–
+ short positions	–	112,311	2,623	–	–	–	–	–

1. Regulatory trading book: distribution by residual duration (repricing date) of the financial assets and liabilities in cash and financial derivatives

Currency: Other currencies

Type/residual duration	On demand	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	–	–	–	–	–	–	–	–
1.2. Other assets	–	–	–	–	–	–	–	–
2. Cash liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2. Other liabilities	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**548,070**	**124,768**	**66,343**	**2,259**	**24**	**–**	**–**
3.1 With underlying security	–	*249,468*	*55,431*	*32,266*	*2,259*	*24*	–	–
– options	–	4,241	–	361	1,939	–	–	–
+ long positions	–	4,241	–	361	995	–	–	–
+ short positions	–	–	–	–	944	–	–	–
– other derivatives	–	245,227	55,431	31,905	320	24	–	–
+ long positions	–	120,796	26,002	15,085	164	24	–	–
+ short positions	–	124,431	29,429	16,820	156	–	–	–
3.2 Without underlying security	–	*298,602*	*69,337*	*34,077*	–	–	–	–
– options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
– other derivatives	–	298,602	69,337	34,077	–	–	–	–
+ long positions	–	141,582	38,203	17,131	–	–	–	–
+ short positions	–	157,020	31,134	16,946	–	–	–	–

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	Great Britain	Germany	Poland	France	Other countries	
A. Equities	**48,017**	**18,164**	**442**	**4,093**	**819**	**804**	**2**
– long positions	39,453	18,164	442	4,093	450	211	2
– short positions	8,564	–	–	–	369	593	–
B. Purchases/sales of equities not yet settled	**4,034**	**62**	**54**	**–**	**653**	**–**	**–**
– long positions	802	–	–	–	245	–	–
– short positions	3,232	62	54	–	408	–	–
C. Other derivatives on equities	**91,253**	**–**	**14,310**	**–**	**3,539**	**80**	**1,976,366**
– long positions	37,022	–	11,936	–	1,206	80	721,125
– short positions	54,231	–	2,374	–	2,333	–	1,255,241
D. Derivatives on equity indices	**52,492**	**–**	**158,704**	**–**	**–**	**–**	**979,589**
– long positions	48,579	–	91,627	–	–	–	596,393
– short positions	3,913	–	67,077	–	–	–	383,196

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

3.1 Interest rate risk

3.1.1 Banca Popolare di Milano

The exposure to interest rate risk of the Parent Company also includes the bond portfolio classified under securities at line items 30 "Financial assets designated at fair value through profit and loss" and 40 "Financial assets available for sale" in the balance sheet; which, even though they form part of the banking book for supervisory reporting purposes, is treated as part of the risks of the trading book as they share risk measurement systems and operational responsibility.

The bulk of the bond portfolio is composed of securities belonging to line item 40. "Financial assets available for sale", whose duration (defined as the weighted average maturity compared with the timing of the cash flow profile) at the end of December 2011 amounted to 1.97 years.

As regards the sensitivity analysis of BPM's securities portfolio (including the related hedging swaps), understood as the change in value of the portfolio when faced by a parallel and uniform shift of the interest rate curve by one percentage point (100 bps), at year end a figure of –167.1 million euro was recorded in the event of a rise in interest rates, an increase over the figure recorded at the end of 2010, namely –145.5 million.

The following table shows the sensitivity trend during the course of 2011.

BPM – Sensitivity of the fair value of the securities portfolio and related hedging swaps to a change in interest rates (in millions of Euro)

	Total securities + hedging swaps				
Change in rates	**End of 2011**	**Average**	**Min**	**Max**	**End of 2010**
+100 bps	–167.1	–150.2	–172.8	–113.1	–145.5
–100 bps	173.3	155.6	117.1	179.3	150.1

the sensitivity of the portfolio of interest rate derivatives (to mitigate the variability of the interest margin of the banking book) at the end of the period, based on a parallel shift in the rate curve of +/– 100 basis points, shows a sensitivity of 5.5 million euro in the case of a rate increase and of –3.5 million euro in the case of a decrease of 100 basis points in the rate curve.

BPM – Sensitivity of the fair value of the derivatives portfolio to changes in interest rates (in millions of Euro)

	other derivatives				
Change in rates	**End of 2011**	**Average**	**Min**	**Max**	**End of 2010**
+100 bps	5.5	–144	–261.1	8.2	–20.8
–100 bps	–3.5	150.6	–6.8	272.4	21.4

The following table shows the trend in the overall sensitivity of the securities portfolio and related hedging swap and derivatives during 2011.

BPM – Total sensitivity of the fair value of the securities derivatives portfolio to changes in interest rates (in millions of Euro)

Change in rates	End of 2011	Average	Min.	Max.	End of 2010
+100 bps	–161.6	–294.2	–434	–104.9	–166.3
–100 bps	169.8	306.2	110.3	451.6	171.5

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 6,240 million euro.

BPM – Effect of a+/–100 change in the rate curve on: (in millions of Euro)

Rate change	Operating income	Shareholders' equity	Result for the year
+100 bps	–3.6	–163.5	Same effect as that on interest margin net of the related tax effect
–100 bps	3.7	169.6	

As regards credit spread sensitivity, given a 25 bps increase in credit spreads, the potential change in the value of the portfolio is around –53.9 million euro.

The following table shows the trend during the year in credit spread sensitivity given changes in credit default spreads of +/– 25 b.p.

BPM – Sensitivity of the portfolio with changes in credit spread (in millions of Euro)

Widening of credit spreads	Credit spread sensitivity				
	End of 2011	Average	Min	Max	End of 2010
+25 bps	–53.9	–47.9	–55.8	–35.0	–43.0
–25 bps	54.4	48.3	35.4	56.3	43.3

BPM – Effects of a +/–25 bps change in credit spreads on: (in millions of Euro)

Widening of credit spreads	Operating income	Shareholders' equity	Result for the year
+25 bps	–1.2	–52.8	Same effect as that on interest margin net of the related tax effect
–25 bps	1.2	53.3	

The trend in credit spreads showed a certain volatility during 2011. 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), posted a closing level for the first half of the year in line with the 2010 closure (going from 104.95 bps at the end of December 2010 to 173.5 bps at the end of 2011).
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 2011 at a slightly higher level than at the beginning of the year (670.4 bps at 30.12.2011 compared to 437.5 bps at 31.12.2010).

3.1.2 BPM Ireland

As for the Parent Company, the description of the exposure to interest rate risk also includes the bond portfolio classified under line items 30 (financial assets designated at fair value through profit and loss) and 40 (financial assets available for sale) in the balance sheet.

BPM Ireland has been allocated a portfolio of floating rate notes and/or asset swaps, mainly issued by banks, with a view to obtaining a stable contribution margin over time, represented by a positive spread of the security's coupon compared with a base rate, generally 3– or 6–month Euribor. The book value of the securities portfolio and of the related derivatives amounts to 401 million euro at 31 December 2011 (525.3 million at the end of 2010).

The principal elements in the portfolio are:

- floating–rate securities of 182.5 million euro, classified under financial assets available for sale, which are represented by securities mostly issued by Italian banks;
- asset swaps of 199 million euro (to which have to be added operating hedges of –33.9 million euro); these are fixed–rate securities to which an interest rate swap is connected with a view to reducing the interest rate risk by swapping the fixed rate with a floating rate. These are mostly issues made by leading Italian and international banks;
- structured credit securities, 7.1 million; this is a security whose performance is linked to an underlying credit fund;
- asset backed securities (ABS) are shown in the financial statements for an amount of 46.3 million. These are securities whose performance is linked to an underlying portfolio of receivables and/or securities.

The net loss from banking activities deriving from the bond portfolio and related credit and financial derivatives (total of line items 80, 100 and 110 in the income statement) comes to –13.1 million euro.
Bonds classified under line item 40 "Financial assets available for sale" also show a loss in 2011 of 0.8 million euro with an impact on the related valuation reserve in equity.

The following are the main sensitivity indicators, both for a change in rates and for a change in credit spreads. These indicators do not include liquidity risk.
the sensitivity to a +100 bps change in the rate curve amounts to –1.28 million euro, whereas with a 25 bps increase in credit spreads, the potential change in the fair value of the portfolio comes to –3.1 million euro. This reflects the low impact of interest rate risk, given that this is a portfolio made up of floating rate notes and asset swaps (fixed rate securities swapped into floating rate).
The main risk factors, on the other hand, are liquidity risk, credit spread variability and issue risk.

BPM Ireland – Sensitivity of the fair value of the portfolio to changes in interest rates

(in millions of Euro)

Trend in interest rates	Interest Rate Sensitivity				
	End of 2011	Average	Min	Max	End of 2010
+100 bps	–1.28	–1.36	–1.46	–1.28	–1.6
–100 bps	1.28	1.36	1.28	1.46	1.6

BPM Ireland – Effect of a+/–100 change in the rate curve on:

(in millions of Euro)

Change in rates	Interest Rate Sensitivity		
	Interest margin	Shareholders' equity	Result for the year
+100 bps	–0.96	–0.32	Same effect as that on interest margin net of the related tax effect
–100 bps	0.95	0.32	

BPM Ireland – Sensitivity of the fair value of the portfolio to changes in credit spreads

(in millions of Euro)

Widening of credit spreads	Interest Rate Sensitivity				
	End of 2011	Average	Min	Max	End of 2010
+25 bps	–3.10	–3.61	–4.15	–3.10	–4.5
–25 bps	3.14	3.66	3.14	4.21	4.6

BPM Ireland – Effects of a +/–25 bps change in credit spreads on:

(in millions of Euro)

Widening of credit spreads	Interest Rate Sensitivity		
	Interest margin	Shareholders' equity	Result for the year
+25 bps	–2.45	–0.65	Same effect as that on interest margin net of the related tax effect
–25 bps	2.49	0.65	

3.1.3 Banca Akros

3.1.3.1 Trend in market risk

During 2011, the regulatory Value at Risk for market risks included in the internal model and adopting the standard parameters (holding period 1 day and a confidence interval of 99 per cent) averaged around 713 thousand euro. This value is slightly higher than last year, in which it had recorded a daily average VaR of 687 thousand euro (+4%).
The range of variation in the measurement of risk goes from 247 thousand euro to 1.276 thousand euro (from 255 thousand euro to 1.693 million in 2010), corresponding to a use of the internal operational limit of regulatory VaR varying between a minimum of 9% and a maximum of 47% (from 9% to 62% in 2010).

The trend over time in the measurement of risk in the first part of the year was relatively stable; with the exception of the first few days of the year, the VaR remained around an average value of just under 900 thousand euro, showing a moderate downward trend during the month of June and a rapid increase at the last few days of the first half, due to an increase in the risk on certain directional positions on interest rates. In the early days of the third quarter there was a rapid reduction in the amount of the maximum expected loss, thanks to a withdrawal from risk–free interest rate risk exposures due to a deterioration in the sovereign debt crisis, which affected Italian government bond issues in particular. This phase was followed in September by a limited recovery in risk appetite that led the regulatory VaR during this period to take on values similar to those observed during the first half of the year. From November, when there was another bout of market crisis, another withdrawal from directional exposures led the regulatory VaR to contract significantly, reaching values in a range of 300–400 thousand euro, these being the lowest levels for the entire year (the figure at 30 December 2011 was 395 thousand euro).

The main levels of regulatory VaR (average, maximum, minimum and period–end) for 2011, both for the entire trading portfolio and for the areas of risk into which it is split, are shown in the following table. The diversification effect is quantified for average and year–end VaR, given that these figures are comparable. The same table shows the number of exceptions found in relation to regulatory VaR, that is events in which the loss actually recorded exceeded the loss estimate calculated the previous day.

99% – 1 *Day* – 2011	Area Fixed income	Area Equity	Area FX	Effect Diversific.	Risk Total
Average VaR EUR (000)	653	296	126	–362	713
Max VaR EUR (000)	1,268	725	346	(*)	1,276
Min VaR EUR (000)	189	109	34	(*)	247
Last VaR EUR (000)	372	113	49	–140	395
No. of exceptions	22	0	19		14

(*) The diversification effect is quantified only for the measurement of average and last VaR and not for those of maximum and minimum VaR, as these figures refer to different days.

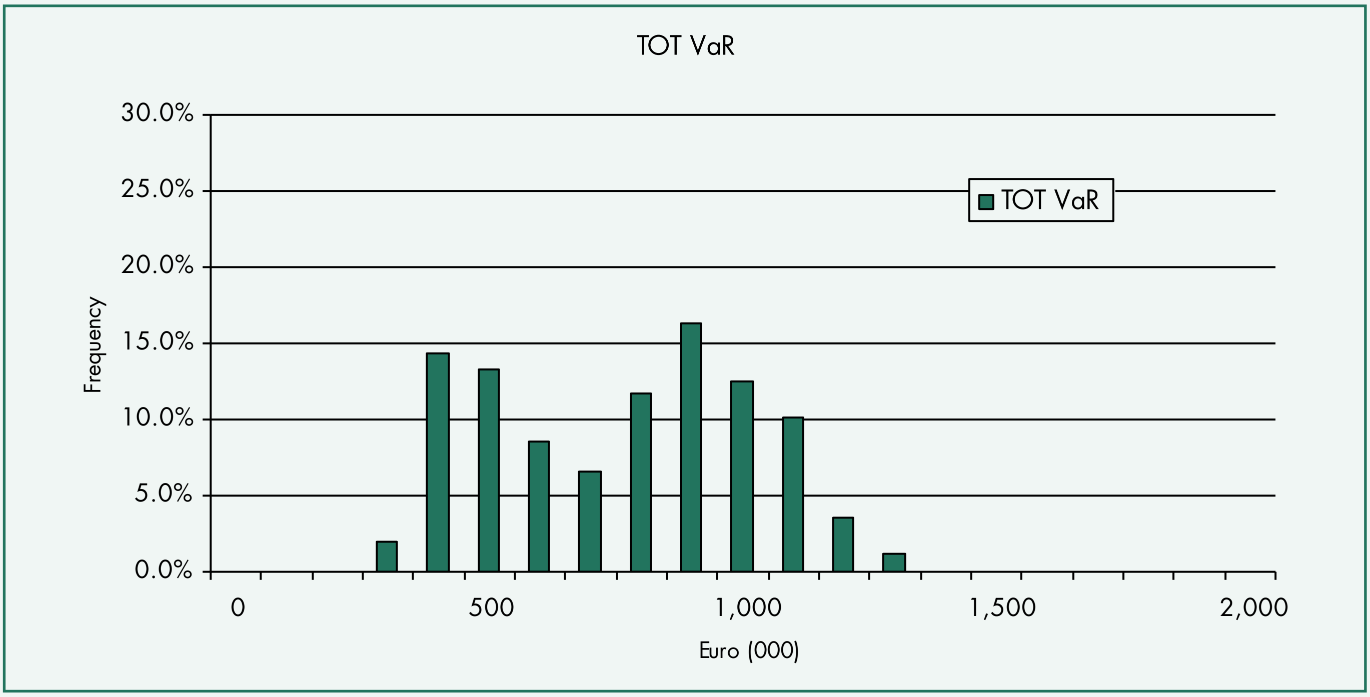
Figures of regulatory VaR related to 2010 have been reported for comparison purposes.

99% – 1 Day – 2010	Area Fixed Income	Area Equity	Area FX	Effect Diversific.	Risk Total
Average VaR EUR (000)	619	288	167	–387	687
Max VaR EUR (000)	1,383	1,718	514	(*)	1,693
Min VaR EUR (000)	258	126	19	(*)	255
Last VaR EUR (000)	574	176	115	–291	574
No. of exceptions	12	4	5		8

(*) The diversification effect is quantified only for the measurement of average and last VaR and not for those of maximum and minimum VaR, as these figures refer to different days.

The breakdown of regulatory VaR into three areas of risk ("Fixed Income", "FX and FX derivatives" and "Equity") shows that, similarly to the previous year, the most significant contribution in 2011 was generated by the Fixed Income sector: the average daily VaR of the "Fixed Income" Risk Area in 2011 amounted to 653 thousand euro, compared with 619 thousand euro in 2010 (+6%). So the trading book still has a significant exposure to interest rates, mainly because of market making on OTC derivatives and Eurobonds and proprietary trading. There was a declining trend for the daily VaR of the "FX and FX derivatives" Area compared with the previous year, which went on average from 167 thousand euro in 2010 to 126 thousand euro in 2011 (–25%). The high volatility expressed in the currency market, a reflection of the tensions generated by the crisis of the Euro, has suggested reducing the amount of risk assumed on directional foreign exchange positions. The average daily contribution to the risk of the trading book coming from the "Equity" Area amounted to 296 thousand euro, compared with the equivalent measurement in 2010, which came to 288 thousand euro (+2%). The relatively small risk assumed on the equity portfolio is influenced by the persistence of lower operations in this segment due to a lack of risk appetite on the part of customers (both institutional and private) in relation to the domestic and European equity segment, which is still subject to uncertainty and volatility due to concerns about international economic growth.
Comparing the figures between the two years shows that the stability in assuming market risks, which was observed at the total regulatory VaR level over the previous year, can also be seen for the two main asset classes (Fixed Income and Equity).
The average contribution from the diversification effect, measured as the difference between total regulatory VaR and undiversified VaR by risk area, is almost unchanged from the previous year, going from –387 thousand in 2010 to –362 thousand in 2011 (–6%). As was reasonable to expect, the compensation between risks also reflects a certain stability in the extent and distribution of risk between asset classes from one year to the next.

The next graph shows the frequency distribution of the daily VaR values for the entire trading book posted during 2011.



It is also useful from an operational point of view to compare the measurement of regulatory VaR at current conditions with the corresponding stressed measurement. The element that differentiates the current VaR compared with the stressed VaR is, primarily, the time period over which the two measurements are calculated, while the perimeter of the portfolio risk is common to both. Direct comparison between the two figures therefore makes it possible to readily identify the contribution to risk that could result from a significant deterioration in market conditions, all other positions being equal. This makes it possible to overcome the intrinsic limit in the measurement of VaR which is to base future estimates of correlations and volatility on a relatively recent time window, leading potentially to an underestimation of the prospective risk when applied during a period of moderate volatility.
The average value of the stressed regulatory VaR for 2011 amounted to 1.167 million, equivalent to about +64% compared with the unstressed measurement. The range of variation in the stressed VaR went from 646 thousand to 2.099 million euro. Based on these figures, one would deduce that, in the case of a strong deterioration of market conditions, the same portfolio would see an average increase in the expected loss of around 2/3 compared with the one measured in current conditions. The trend in the relationship between the stressed measure and the current one showed that, with the exception of only three days, the VaR under stress was always higher than the current one, consistent with the assumption that, for all the risk factors being considered, the historical period used to calculate the stressed VaR represents the scenario of greatest severity, also with respect to the current difficult conditions.

The measurement of credit spread VaR has been adopted for management purposes to quantify the maximum loss expected for the trading portfolio (on an holding periodof 1 day and a confidence interval of 99%) with respect to all underlying market risks of the portfolio, including issuer risk, as well as regulatory factors.

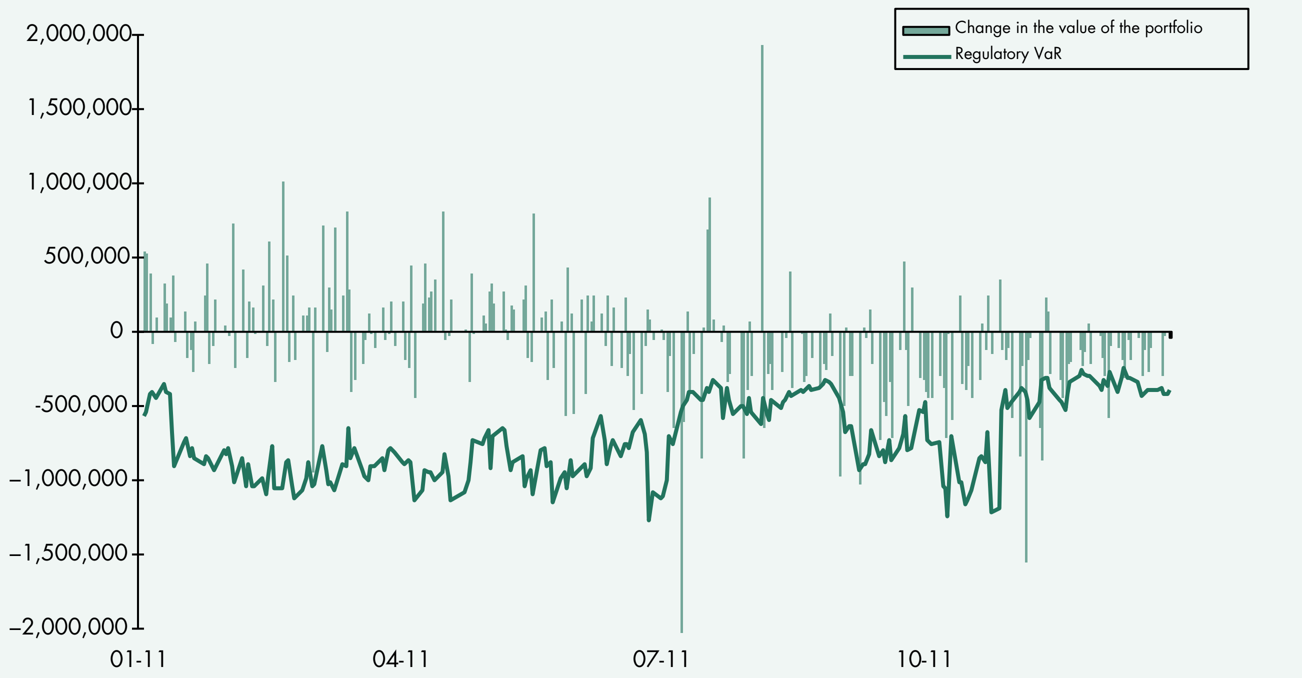
The average value of credit spread VaR in 2011 amounted to 899 thousand euro, having fluctuated between a maximum of 1.979 million euro and a minimum of 569 thousand euro. The assumption of risk associated with fluctuations in credit spreads originates mainly on the cash component determined by the portfolio of government and corporate debt securities (banks in particular), against which there are the hedges made using credit derivatives. The latter are represented by single name credit default swaps or CDS index contracts to purchase protection to cover part of the issuer risk generated by the securities component. The estimated expected daily loss due only to fluctuations in credit spreads came on average to 954 thousand euro (maximum of 1.565 million, minimum of 443 thousand).
After having followed an almost constant trend during the first half of the year, hovering around an average value of 750 thousand euro, the trend in the level of credit VaR increased steadily during the first few days of July, coinciding with the onset of the worst of the sovereign debt crisis, assuming values of between 1.0 and 1.2 million. A further and more rapid increase was recorded in September, when the credit VaR reached its maximum value of around 2.0 million. Subsequently, following significant reductions in the trading book positions, the risk measurement quickly returned to the levels of the first half of the year and then fell gradually, except for a brief period in the first half of November, end the year at around 650 thousand euro.

The average maximum expected loss under conditions of stress ("stressed credit spread VaR"), in 2011, amounted to 1.627 million, corresponding to a greater risk than the current credit spread VaR of 118%. This comparison indicates that the average volatility and correlations for the whole of 2011 on which the estimates of Value at Risk were based expressed conditions with room for a further deterioration. During November and December 2011, the current credit spread VaR repeatedly exceeded the stressed credit spread VaR. These events occurred at the worst of the sovereign debt crisis, so in the presence of particularly large and repeated daily variations in credit spreads. This event is interpreted as an indicator of a market scenario that is comparable, if not even more severe, than the one adopted for calculating the stressed measurement. In fact, if you include the element of risk due to credit spreads and the typical composition of the trading portfolio, the events of the last quarter of 2011 may represent a market scenario of even greater severity than the market crisis of 2008. For the review of the scenario used for calculating the stressed credit spread VaR, we need to wait for conditions to become more stable, in order to identify properly the time frame that circumscribes the new stress scenario.

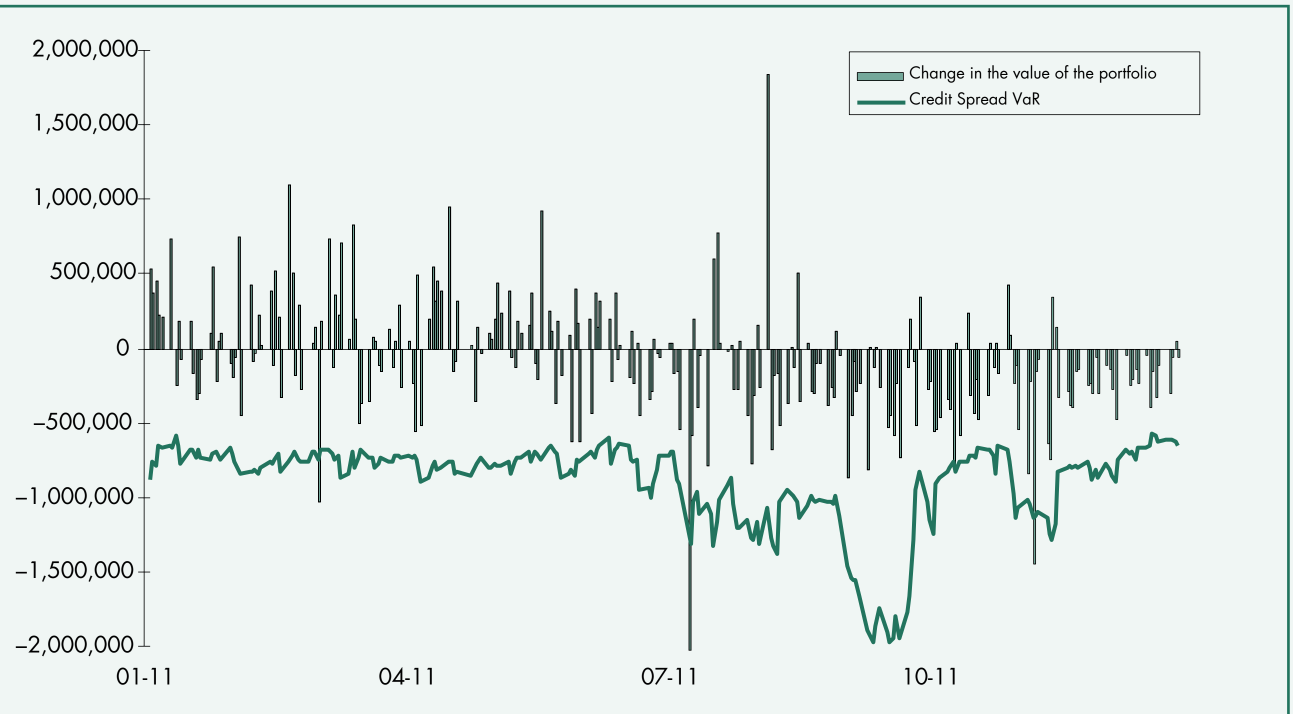
Comparing the metrics of the regulatory VaR and the credit spread VaR, we can see that the maximum daily loss estimated on the measurement extended to issuer risk is, on average, 26% greater than the one that only includes general risks (899 thousand euro compared with 713 thousand euro), already considering the effects of diversification between risks. This figure shows that the average net impact of specific risk on debt securities for the trading book of Banca Akros is one quarter of the VaR related only to general risks. The effect of statistical compensation between the issuer risk and the other general risks taken on can be appreciated when one considers that, on average, only one VaR component of specific risk is comparable with the average value of the full measurement (954 thousand euro of only issuer risk compared with 899 thousand euro). Thanks to the diversification benefit, the net contribution of issuer risk to total risk is reduced significantly, while constituting a significant fraction (about one fourth) of the total risk being measured. To date, for the calculation of the prudential requirement, the capital attracted only by issuer risk is determined according to "Standardised Approach".

Retrospective backtesting of regulatory VaR, related to the entire trading portfolio, in 2011 showed fourteen events exceeding the maximum daily loss based on the model that does not include issuer risk (eight in 2010). An examination of the portfolios and the performance of risk variables at these events, which are concentrated in the second half of the year, indicates that, with the exception of only two cases, the excess of the estimate of maximum expected loss is concomitant with similar deviations observed on the fixed income portfolio, which also have an impact on the entire portfolio, resulting in overruns.

The following chart gives a comparison between the regulatory VaR at the end of the day and daily changes in portfolio value of the next business day.



Moving on to look at the results of backtesting compared with the extended measurement of credit risk VaR (i.e. including issuer risk in both factors) in four cases there remains an overrun of the maximum expected loss. While one of these overruns was marginal (2.3% of the maximum estimated loss), it is reasonable to say that this result is in line with expectations based on the assumptions of the VaR model extended to specific risk.



In these cases, the maximum loss overruns were caused by the extent of the credit spread movements. In the days of maximum tension in the markets, credit spreads showed extremely large daily changes, events which had a very low probability (known as "fat tails").

The outcomes of stress testing the trading portfolio, carried out at least once a week, are regularly combined with the results of the VaR model so as to identify any weaknesses in the portfolio that fall outside the potentialities of the VaR measurement. Our analysis of the results focuses, on the one hand, on the ability of the Bank's regulatory capital to absorb any potential losses and, on the other, on possible measures to reduce these risks, if they are deemed appropriate or otherwise necessary to preserve the capital. The tests were conducted with reference to the entire trading portfolio and to the sub–portfolios, on average on a weekly basis, and the results were integrated into the internal reporting system.

The types of stress scenarios can be grouped into three classes: historical scenarios, hypothetical scenarios and specific scenarios.
The specific stress scenarios are designed to identify the particular vulnerabilities of the portfolio by measuring the effect on income that arises from a change in the level of individual risk factors or groups of homogeneous risk factors, while leaving the other risk factors the same.In the case of equities, specific sensitivity analyses are applied to the prices of individual securities in the portfolio in a range of values from –25% to +25% of the current level and the implied volatilities by imposing non–parallel and parallel movements of the surface (flattening, steepening, inversion, bending). Price–volatility stress testing is performed to capture the effects of the joint movement of these two variables. The specific interest rate curve scenarios relate to the curves denominated in Euro and USD, for which movements are performed by parallel displacement (+ and – 50 bps), non–parallel displacement (steepening, flattening, inversion) and rotation around a nodal point, the latter indicating a situation of increased short–term rates and, at the same time, reduced long–term rates (up–down tilting, down–up tilting).

During 2011, within specific scenarios, the most unfavourable were the specific type in which significant enlargements of credit spreads were assumed even for investment grade issuers, particularly those with good credit ratings (AA or less), accompanied by a flight–to–quality for other risk factors.
Other potentially negative scenarios are represented by some specific non–parallel movements of the interest rate curve (tilting) and, in a limited number of cases, by substantial idiosyncratic shocks on certain equities. Generally speaking, the results of historical and hypothetical scenarios are less drastic, often with potential losses on certain sub–portfolios being partially offset by gains on others. The effects of partial compensation between potential gains and losses, partly due to the assumptions made regarding the correlations between risk factors in the scenarios, make it possible to identify areas where the portfolio may be vulnerable when faced with anomalous events, quite apart from any favourable effects of simultaneous movements between market variables.

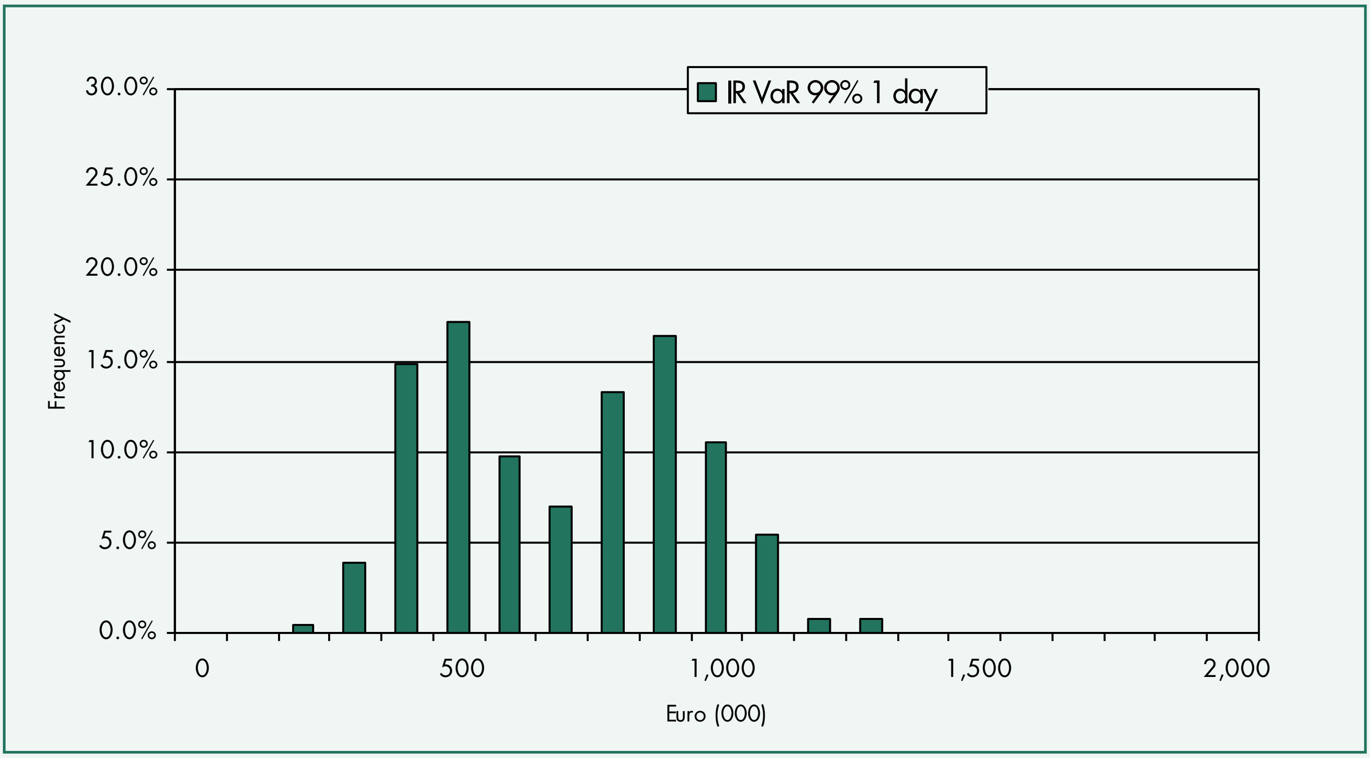
3.1.3.2 Trend in interest rate risk

The following table shows the average, maximum, minimum and the last VaR for 2011, with the equivalent figures for the previous year alongside them. This comparison shows the reduction in risk measured by VaR in the two years that we mentioned previously.

99% – 1 Day	FIXED INCOME 2011	FIXED INCOME 2010
Average VaR EUR (000)	653	619
VaR Max Eur (000)	1,268	1,383
VaR Min Eur (000)	189	258
Last VaR Eur (000)	372	574
No. of exceptions	22	12

Backtesting carried out on the fixed income portfolio has detected twenty-two events in which the actual loss exceeded the expected value estimated ex-ante on the basis of the risk perimeter validated for regulatory purposes. In most cases the reasons are the same as mentioned above when commenting on the overruns of total VaR (see "Backtesting of the trading portfolio"), or sudden enlargements of credit spreads of corporate and sovereign issuers, events that the measurement of regulatory VaR does not take into account.

The next chart shows the corresponding frequency distribution of the daily figures for VaR.



The stress tests to which the sub-portfolio is submitted, assessing it against extreme market scenarios, have – as mentioned previously – shown a number of negative results in scenarios where credit spreads widen for ratings equal to or lower than AA. As regards the movements in risk–free rates, the most penalising results came at the time of hypothetical non–parallel shocks in the interest curve for the Euro, particularly for movements in the Euro curve and at the time of greater imbalance between short– and long–term exposures. To mitigate the risk curve, where appropriate, partial hedging positions have been taken via short and long term futures

3.1.3.3. Trend in price risk

Banca Akros measures the price risk (or equity risk) of the trading portfolio through an estimate of the daily value at risk, using the methods already discussed (see "General common aspects of the market risk management processes and measurement methods adopted by the BPM Group"). In particular, the VaR model used identifies both the generic component of price risk and the specific one due to the individual risk factors (equities), taking account of the non–linear dynamics caused by the portfolio of equity options (gamma factor); it also measures the element of risk due to the volatility of individual share prices, as well as the other risks involved in derivative transactions.

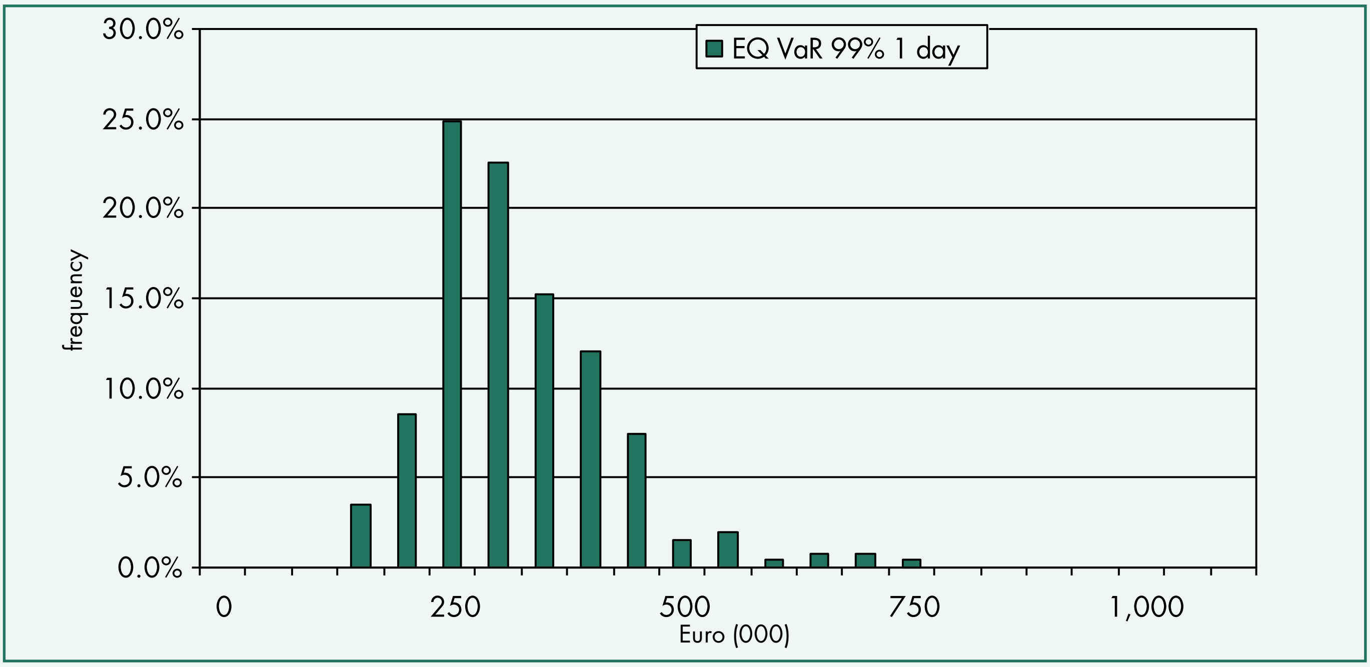
In addition to the maximum limit of VaR, the operating limit of daily maximum loss (the so–called "stop–loss") is effectively adopted to control the economic results of the area. Alongside these two limits, the following indicators and related limits are also used for a detailed and effective measurement of risk:

- overall directional exposure to equity risk and on individual shares/equity indices/mutual funds, both "overnight" and "intraday";
- positive and negative gamma risk, on an overall basis and by individual security/index or mutual funds; and accumulated limit only of the negative gamma positions;
- positive and negative vega risk, on an overall basis or by individual share/index, differentiated according to contractual durations of the options and by underlying share/index;
- portfolio rho risk;
- theta risk.

The following table shows the average, maximum, minimum and year-end VaR for 2011, together with the corresponding amounts for the same period of the previous year.

99% – 1 *Day*	**EQUITY 2011**	**EQUITY 2010**
Average VaR EUR (000)	296	288
VaR Max Eur (000)	725	1,718
VaR Min Eur (000)	109	126
Last VaR Eur (000)	113	176
No. of exceptions	0	4

The distribution of daily values of VaR, as shown below, is concentrated, for more than 80% of the measurements, between 250 and 450 thousand euro, showing a stability of risk assumed by the portfolio during 2011.



Retrospective backtesting with respect to the Regulatory VaR, related to this risk area, found no exceptions in 2011.
Specific stress tests on the price and volatility of the individual stocks showed, in certain cases and for a limited number of days, negative results associated with potential and instantaneous shocks of a considerable size. The potential losses in value, compared with the corresponding levels of VaR, were not such that the Bank had to intervene by changing its exposures.

1.2.2. Interest rate risk and price risk – Banking book

Qualitative information

A. General aspects, management processes and methods of measuring interest rate risk and price risk

Interest rate risk is substantiated in the potential impact that unexpected changes in market interest rates have on current earnings (cash flow risk) and the Group's shareholders' equity (fair value risk). This risk occurs typically on positions in the banking book, namely

- customers' loans and deposits;
- own bonds;
- own issues for institutional investors;
- interbank operations;
- operations with the European Central Bank (OMA);
- hedging derivatives.

Interest rate risk is therefore measured from the point of view of both income statement and the balance sheet.

From the point of view of the income statement, interest rate risk arises from the possibility that an unexpected change in interest rates generates a reduction in net interest income, and hence in Group profits. This risk depends, therefore, on:

- a shift in the time structure of loans and deposits in the case of fixed-rate items;
- a misalignment of the review periods of rate conditions in the case of floating-rate items.

From the point of view of the balance sheet, interest rate risk arises from the possibility that an unexpected change in interest rates generates a decrease in the values of all balance sheet items, destabilising the Group's capital.

The main sources of interest rate risk can be schematised as follows:

- repricing risk: risk arising from timing mismatches in maturities and repricing of assets and liabilities; the main features of this type of risk are:
  - yield curve risk: risk resulting from exposure of balance sheet items to changes in slope and shape of the yield curve;
  - basis risk: risk from imperfect correlation in the variations of the rates earned and paid on different instruments, even with similar repricing structures;
- optionality risk: risk resulting from embedded options in the banking book items.

The BPM Group monitors - both at consolidated level and at the level of individual legal entity - the banking book's exposure to adverse changes in interest rates, in terms of both the income statement and the balance sheet.
Measuring the interest rate risk on the banking book is done using integrated methods of Asset and Liability Management. In particular, the risk measurements used are:

- the change in interest margin expected as a result of a parallel shock on the spot rate curve of +/-100 basis points (earnings perspective);
- the change in economic value as a result of a parallel shock on the spot rate curve of +/-200 basis points (capital perspective), as defined in the Second Pillar of Basel II.

The impact on the interest margin is due to the reinvestment/ refinancing at new market conditions of the principal amount due (reinvestment/ refinancing risk) and to the change in the coupon element (repricing risk, only for floating rate operations). The impact on the interest margin is obtained by mapping the items at the actual dates at risk, or the date of payment of principal amounts for fixed rate transactions and the next repricing date after the cut-off for floating rate transactions.
This approach, known as the repricing gap, implies the adoption of a time horizon (known as the "gapping period"), of one year according to market best practices.

The impact on the economic value is measured according to a full evaluation approach, or as the change in fair value of the items mapped in each time band following a parallel shock in the curve of spot rates.

The methodologies used for analysing sensitivity to interest rate risk also include behavioural modelling of demand deposits and prepayments of the mortgage portfolio.

As for the modelling of demand deposits, the BPM Group adopts statistical models able to grasp both the persistence of volumes over time and the responsiveness of rates to market conditions; in particular:

- the volume analysis model makes it possible to represent the element of aggregate demand items considered stable as a portfolio of amortizing to maturity items;

- The rate analysis model makes it possible to identify the proportion of demand items that react to movements in a market parameter considered significant and to measure the time needed to make the adjustment (viscosity effect).

These models have been run on historical data from 2002 to 2011.

Lastly, the risk of prepayment on the mortgage portfolio is measured through a CPR-type model (Constant Prepayment Rate), which estimates a prepayment rate for each time band, based on historical data updated to 2011.

B. Fair value hedging

Since 2009, a Hedge Accounting Policy drawn up by the Parent Company is in force. It defines the methodology and the organisational process for managing hedges of interest rate risk, with particular reference to the players involved, the definition of roles and responsibilities and the description of planned activities and mapping processes.

This policy also gives the Parent Company the responsibility for managing the interest rate risk of the BPM Group's banking book, both as regards monitoring the exposure and compliance with the operational limits and for its management and hedging activities.

The responsibility for managing interest rate risk and hedging activities is centralized in the Parent Company's Asset and Liability Management (ALM) Committee, for any legal entity included in the scope of the policy (which excludes Banca Akros).

The ALM Committee establishes guidelines for active management of the assets and liabilities side of the financial statements and sets up all interest rate risk hedging transactions. Such hedging transactions, as approved by the ALM Committee, are carried out by a desk at the ALM & Funding Department of Banca Popolare di Milano. This department has also been delegated the power to implement operating hedging strategies, taking positions on the interest rate curve with a view to reducing the exposure to the interest rate risk generated by the Bank's commercial activities in deposits and loans.

Hedging of interest rate risk has the objective of protecting the banking book from changes in the fair value of deposits and loans due to movements in the interest rate curve or to reduce the variability of cash flows related to a particular asset or liability.

The main types of hedge derivatives used are represented by Interest Rate Swap (IRS), Overnight Indexed Swap (OIS), Cross Currency Swap (CCS) and options on interest rate (cap, floor, collar).

The hedging activity carried on by the BPM Group is reflected in the books (hedge accounting) in two ways:

- micro fair value hedge: hedging of the fair value of assets or liabilities specifically identified and represented mainly by bonds issued or purchased;
- macro fair value hedge: hedging of homogeneous pools of assets or liabilities not individually identifiable and represented mainly by loans to ordinary customers.

C. Cash flow hedging

According to the IFRS rules, the BPM Group does not have any cash flow hedges.

D. Hedging of foreign investments

The BPM Group has no foreign investment hedges.

Quantitative information

1. Banking book: distribution by residual duration (repricing date) of financial assets and liabilities

Summary table

Type/residual duration	On demand	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	**14,335,756**	**15,113,829**	**4,752,646**	**2,612,430**	**5,365,378**	**2,377,035**	**1,199,354**	**156**
1.1 Debt securities	8,842	1,057,804	1,162,907	1,896,795	3,109,835	680,059	87,580	–
1.2 Loans to banks	1,166,902	586,056	79,747	8	–	432	–	–
1.3 Loans to customers	13,160,012	13,469,969	3,509,992	715,627	2,255,543	1,696,544	1,111,774	156
– on current account	4,942,166	–	–	–	–	132,305	–	–
– other loans	8,217,846	13,469,969	3,509,992	715,627	2,255,543	1,564,239	1,111,774	156
2. Cash liabilities	**23,308,257**	**9,458,133**	**2,045,347**	**1,651,923**	**6,248,156**	**1,431,768**	**412**	**–**
2.1 Due to customers	18,849,099	1,096,216	855,654	888,308	147,133	–	–	–
– on current account	17,679,246	587,665	839,444	877,011	138,966	–	–	–
– other payables	1,169,853	508,551	16,210	11,297	8,167	–	–	–
2.2 Due to banks	4,291,718	4,804,337	198,424	–	100,000	–	–	–
– on current account	49,270	–	–	–	–	–	–	–
– other payables	4,242,448	4,804,337	198,424	–	100,000	–	–	–
2.3 Debt securities	167,440	3,557,580	991,269	763,615	6,001,023	1,431,768	412	–
2.4. Other liabilities	–	–	–	–	–	–	–	–
3. Financial derivatives	**498,573**	**3,213,186**	**103,055**	**298,826**	**5,183,441**	**1,098,843**	**1,380,040**	**–**
3.1 With underlying security	–	239,490	2,500	90,500	14,706	–	–	–
– options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
– other derivatives	–	239,490	2,500	90,500	14,706	–	–	–
+ long positions	–	171,098	2,500	–	–	–	–	–
+ short positions	–	68,392	–	90,500	14,706	–	–	–
3.2 Without underlying security	498,573	2,973,696	100,555	208,326	5,168,735	1,098,843	1,380,040	–
– options	186,983	168,801	78,639	152,803	2,703,954	1,048,843	1,380,040	–
+ long positions	50,251	154,601	62,615	118,937	1,616,541	378,665	478,422	–
+ short positions	136,732	14,200	16,024	33,866	1,087,413	670,178	901,618	–
– other derivatives	311,590	2,804,895	21,916	55,523	2,464,781	50,000	–	–
+ long positions	–	701,375	16,639	19,807	2,141,531	–	–	–
+ short positions	311,590	2,103,520	5,277	35,716	323,250	50,000	–	–

1. Banking book: distribution by residual duration (repricing date) of financial assets and liabilities

Currency: Euro

Type/residual duration	On demand	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	**14,310,484**	**14,773,805**	**4,700,528**	**2,603,867**	**5,365,378**	**2,376,601**	**1,199,354**	**156**
1.1 Debt securities	8,842	1,035,948	1,162,907	1,889,732	3,109,835	680,057	87,580	–
1.2 Loans to banks	1,150,325	526,825	79,747	8	–	–	–	–
1.3 Loans to customers	13,151,317	13,211,032	3,457,874	714,127	2,255,543	1,696,544	1,111,774	156
– on current account	4,939,118	–	–	–	–	132,305	–	–
– other loans	8,212,199	13,211,032	3,457,874	714,127	2,255,543	1,564,239	1,111,774	156
2. Cash liabilities	**23,167,000**	**9,177,816**	**1,978,875**	**1,651,923**	**6,248,156**	**1,431,768**	**412**	**–**
2.1 Due to customers	18,725,017	1,096,216	855,654	888,308	147,133	–	–	–
– on current account	17,555,164	587,665	839,444	877,011	138,966	–	–	–
– other payables	1,169,853	508,551	16,210	11,297	8,167	–	–	–
2.2 Due to banks	4,274,543	4,525,584	132,480	–	100,000	–	–	–
– on current account	32,781	–	–	–	–	–	–	–
– other payables	4,241,762	4,525,584	132,480	–	100,000	–	–	–
2.3 Debt securities	167,440	3,556,016	990,741	763,615	6,001,023	1,431,768	412	–
2.4. Other liabilities	–	–	–	–	–	–	–	–
3. Financial derivatives	**498,573**	**3,213,186**	**103,055**	**298,826**	**5,183,441**	**1,098,843**	**1,380,040**	**–**
3.1 With underlying security	–	239,490	2,500	90,500	14,706	–	–	–
– options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
– other derivatives	–	239,490	2,500	90,500	14,706	–	–	–
+ long positions	–	171,098	2,500	–	–	–	–	–
+ short positions	–	68,392	–	90,500	14,706	–	–	–
3.2 Without underlying security	498,573	2,973,696	100,555	208,326	5,168,735	1,098,843	1,380,040	–
– options	186,983	168,801	78,639	152,803	2,703,954	1,048,843	1,380,040	–
+ long positions	50,251	154,601	62,615	118,937	1,616,541	378,665	478,422	–
+ short positions	136,732	14,200	16,024	33,866	1,087,413	670,178	901,618	–
– other derivatives	311,590	2,804,895	21,916	55,523	2,464,781	50,000	–	–
+ long positions	–	701,375	16,639	19,807	2,141,531	–	–	–
+ short positions	311,590	2,103,520	5,277	35,716	323,250	50,000	–	–

1. Banking book: distribution by residual duration (repricing date) of financial assets and liabilities

Currency: US dollar

Type/residual duration	On demand	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	**8,965**	**304,854**	**50,872**	**7,965**	**–**	**434**	**–**	**–**
1.1 Debt securities	–	21,856	–	7,063	–	2	–	–
1.2 Loans to banks	3,198	52,557	–	–	–	432	–	–
1.3 Loans to customers	5,767	230,441	50,872	902	–	–	–	–
– on current account	1,632	–	–	–	–	–	–	–
– other loans	4,135	230,441	50,872	902	–	–	–	–
2. Cash liabilities	**125,043**	**276,956**	**66,451**	**–**	**–**	**–**	**–**	**–**
2.1 Due to customers	107,904	–	–	–	–	–	–	–
– on current account	107,904	–	–	–	–	–	–	–
– other payables	–	–	–	–	–	–	–	–
2.2 Due to banks	17,139	275,413	65,944	–	–	–	–	–
– on current account	16,453	–	–	–	–	–	–	–
– other payables	686	275,413	65,944	–	–	–	–	–
2.3 Debt securities	–	1,543	507	–	–	–	–	–
2.4. Other liabilities	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
– options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
– other derivatives	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	–	–	–	–	–	–	–
– options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
– other derivatives	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–

1. Banking book: distribution by residual duration (repricing date) of financial assets and liabilities

Currency: Pounds Sterling

Type/residual duration	On demand	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	**2,652**	**2,123**	**47**	**–**	**–**	**–**	**–**	**–**
1.1 Debt securities	–	–	–	–	–	–	–	–
1.2 Loans to banks	1,553	1	–	–	–	–	–	–
1.3 Loans to customers	1,099	2,122	47	–	–	–	–	–
– on current account	1,055	–	–	–	–	–	–	–
– other loans	44	2,122	47	–	–	–	–	–
2. Cash liabilities	**5,438**	**2,155**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Due to customers	5,438	–	–	–	–	–	–	–
– on current account	5,438	–	–	–	–	–	–	–
– other payables	–	–	–	–	–	–	–	–
2.2 Due to banks	–	2,155	–	–	–	–	–	–
– on current account	–	–	–	–	–	–	–	–
– other payables	–	2,155	–	–	–	–	–	–
2.3 Debt securities	–	–	–	–	–	–	–	–
2.4. Other liabilities	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
– options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
– other derivatives	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	–	–	–	–	–	–	–
– options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
– other derivatives	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–

1. Banking book: distribution by residual duration (repricing date) of financial assets and liabilities

Currency: Swiss Franc

Type/residual duration	On demand	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	**1,285**	**21,420**	**1,170**	**–**	**–**	**–**	**–**	**–**
1.1 Debt securities	–	–	–	–	–	–	–	–
1.2 Loans to banks	1,246	1	–	–	–	–	–	–
1.3 Loans to customers	39	21,419	1,170	–	–	–	–	–
– on current account	–	–	–	–	–	–	–	–
– other loans	39	21,419	1,170	–	–	–	–	–
2. Cash liabilities	**3,846**	**21**	**21**	**–**	**–**	**–**	**–**	**–**
2.1 Due to customers	3,841	–	–	–	–	–	–	–
– on current account	3,841	–	–	–	–	–	–	–
– other payables	–	–	–	–	–	–	–	–
2.2 Due to banks	5	–	–	–	–	–	–	–
– on current account	5	–	–	–	–	–	–	–
– other payables	–	–	–	–	–	–	–	–
2.3 Debt securities	–	21	21	–	–	–	–	–
2.4. Other liabilities	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
– options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
– other derivatives	–	–	–	–	–	–	–	–
+ long positions	–		–	–	–	–	–	–
+ short positions	–	–	–		–	–	–	–
3.2 Without underlying security	–	–	–	–	–	–	–	–
– options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
– other derivatives	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–

1. Banking book: distribution by residual duration (repricing date) of financial assets and liabilities

Currency: YEN

Type/residual duration	On demand	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	**3,905**	**10,851**	**29**	**598**	**–**	**–**	**–**	**–**
1.1 Debt securities	–	–	–	–	–	–	–	–
1.2 Loans to banks	2,165	5,989	–	–	–	–	–	–
1.3 Loans to customers	1,740	4,862	29	598	–	–	–	–
– on current account	360	–	–	–	–	–	–	–
– other loans	1,380	4,862	29	598	–	–	–	–
2. Cash liabilities	**1,732**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Due to customers	1,732	–	–	–	–	–	–	–
– on current account	1,732	–	–	–	–	–	–	–
– other payables	–	–	–	–	–	–	–	–
2.2 Due to banks	–	–	–	–	–	–	–	–
– on current account	–	–	–	–	–	–	–	–
– other payables	–	–	–	–	–	–	–	–
2.3 Debt securities	–		–	–	–	–	–	–
2.4. Other liabilities	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
– options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
– other derivatives	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	–	–	–	–	–	–	–
– options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
– other derivatives	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–

1. Banking book: distribution by residual duration (repricing date) of financial assets and liabilities

Currency: Canadian Dollars

Type/residual duration	On demand	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	**675**	**1**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Debt securities	–	–	–	–	–	–	–	–
1.2 Loans to banks	675	1	–	–	–	–	–	–
1.3 Loans to customers	–	–	–	–	–	–	–	–
– on current account	–	–	–	–	–	–	–	–
– other loans	–	–	–	–	–	–	–	–
2. Cash liabilities	**370**	**870**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Due to customers	370	–	–	–	–	–	–	–
– on current account	370	–	–	–	–	–	–	–
– other payables	–	–	–	–	–	–	–	–
2.2 Due to banks	–	870	–	–	–	–	–	–
– on current account	–	–	–	–	–	–	–	–
– other payables	–	870	–	–	–	–	–	–
2.3 Debt securities	–	–	–	–	–	–	–	–
2.4. Other liabilities	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
– options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
– other derivatives	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	–	–	–	–	–	–	–
– options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
– other derivatives	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–

1. Banking book: distribution by residual duration (repricing date) of financial assets and liabilities

Currency: Other currencies

Type/residual duration	On demand	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	**7,790**	**775**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Debt securities	–	–	–	–	–	–	–	–
1.2 Loans to banks	7,740	682	–	–	–	–	–	–
1.3 Loans to customers	50	93	–	–	–	–	–	–
– on current account	1	–	–	–	–	–	–	–
– other loans	*49*	*93*	–	–	–	–	–	–
2. Cash liabilities	**4,828**	**315**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Due to customers	4,797	–	–	–	–	–	–	–
– on current account	4,797	–	–	–	–	–	–	–
– other payables	–	–	–	–	–	–	–	–
2.2 Due to banks	31	315	–	–	–	–	–	–
– on current account	31	–	–	–	–	–	–	–
– other payables	–	315	–	–	–	–	–	–
2.3 Debt securities	–	–	–	–	–	–	–	–
2.4. Other liabilities	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
– options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
– other derivatives	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	–	–	–	–	–	–	–
– options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
– other derivatives	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–

2. Banking book: internal models and other methodologies used for sensitivity analysis

As described in the methodological section, the exposure to interest rate risk in terms of profitability is measured by the change in the interest margin expected over a period of one year following a parallel shock on the spot rate curve of +/-100 basis points.
At 31 December 2011, this change is estimated at +61 million euro given a rate increase of 100 basis pointsand of -48 million euro given a reduction of the same size.

The exposure to interest rate risk from a capital point of view is measured by the maximum absolute change in economic value (fair value) following a parallel shock on the spot rate curve of +/-200 basis points.
At 31 December 2011, this change is estimated at +1 million euro given a rate increase of 200 basis pointsand of -36 million euro given a reduction of the same size.

As indicated in the reference standard, in the case of downward scenarios the application of an implicit floor equal to zero ensures that rates can not turn negative.

Price risk

The portfolio exposed to risk price at 31 December 2011 amounts to 811.6 million euro and is made up of:
- equities for 64.7 million euro and mutual funds for 113.4 million euro, classified under item 30 "Financial assets designated at fair value through profit and loss";
- equities for 422.4 million euro and mutual funds for 211.1 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.

1.2.3 – Exchange risk

Qualitative information

A. General aspects, management processes and methods of measuring exchange risk

Banca Popolare di Milano

The Parent Company's forex operations are substantially limited to servicing the needs of the commercial functions.
Foreign exchange activities are limited to transactions involving currency gains (interest margin or commissions and fees collected in foreign currency) and foreign banknotes for the purchase and sale of currency by the branch network.
There is also a forex brokerage service for customers, but without keeping significant position books open.

Banca Akros

Exchange rate risk is managed internally by a specific desk , where forex and forex derivative transactions are also focused with a view to hedging the currency exposure of any of the Bank's assets.

A.1 Sources of exchange rate risk

The main sources of exchange rate risk are:
- loans and deposits in foreign currency with corporate and/or retail customers;
- purchases of securities and/or equity investments and other financial instruments in foreign currency;
- trading in foreign notes;
- receipt and/or payment of interest, dividends, administrative expenses, etc.;
- at Banca Akros, the forex desk and the currency operations of the other desks.

A.2 Internal processes for managing and controlling exchange rate risk

Banca Popolare di Milano

The 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 the front-office application (Kondor+).

Banca Akros

Banca Akros assumes exchange risk within the established operating limits.
The principal indicator of exposure to exchange rate risk is the VaR of the FX Area, which includes analysing the sensitivity to exchange rate and interest rate risk, the risk of volatility and the effect of non-linear trends by the options portfolio (gamma and vega risk), using the methods explained above (see "General common aspects related to the management processes and methods adopted by the Bank").

Together with VaR, a particularly important operating limit is the daily stop-loss, which is a limit set on the daily maximum loss, used to maintain direct control over the desk's economic results. Other risk indicators, to which the related limits are associated, are:
- nominal exposure to exchange risk, differentiated by currency, overnight and intraday (delta factor, in the case of options);
- exposure to gamma and vega risk, differentiated by currency;
- theta risk relating to the entire portfolio.

B. Exchange rate risk hedging

The exchange rate risk generated by loans and deposits on the banking books of the commercial banks and by investing in securities and/or equity investments is systematically hedged by carrying out funding (and/or lending) transactions in the same currency.
The forex position created by income flows in foreign currency (interest income/expense, fees and commissions) and foreign banknote transactions with customers tend to be hedged by carrying out forex transactions in the reverse direction.

Quantitative information

1. Distribution by currency of assets, liabilities and derivatives

Line items	Currency					
	US Dollars	Pound	Yen	Canadian Dollars	Swiss Francs	Other Currencies
A. Financial assets	**373,096**	**22,987**	**15,383**	**676**	**23,875**	**12,665**
A.1 Debt securities	28,921	–	–	–	–	–
A.2 Equities	6	18,165	–	–	–	4,100
A.3 Loans to banks	56,187	1,554	8,154	676	1,247	8,422
A.4 Loans to customers	287,982	3,268	7,229	–	22,628	143
A.5 Other financial assets	–	–	–	–	–	–
B. Other assets	**8,215**	**7,893**	**2,326**	**962**	**3,800**	**1,644**
C. Financial liabilities	**468,450**	**7,593**	**1,732**	**1,240**	**3,888**	**5,143**
C.1 Due to banks	358,496	2,155	–	870	5	346
C.2 Due to customers	107,904	5,438	1,732	370	3,841	4,797
C.3 Debt securities	2,050	–	–	–	42	–
D. Other liabilities	**–**	**–**	**–**	**–**	**–**	**–**
E. Financial derivatives	**5,860,441**	**908,167**	**596,934**	**229,939**	**587,028**	**404,280**
- Options	299,825	25,215	11,272	–	–	2,531
+Long positions	158,775	16,624	6,762	–	–	1,587
+Short positions	141,050	8,591	4,510	–	–	944
- Other derivatives	5,560,616	882,952	585,662	229,939	587,028	401,749
+Long positions	2,763,352	431,845	293,242	115,041	294,216	197,725
+Short positions	2,797,264	451,107	292,420	114,898	292,812	204,024
Total assets	**3,303,438**	**479,349**	**317,713**	**116,679**	**321,891**	**213,621**
Total liabilities	**3,406,764**	**467,291**	**298,662**	**116,138**	**296,700**	**210,111**
Difference (+/-)	**–103,326**	**12,058**	**19,051**	**541**	**25,191**	**3,510**

2. Internal models and other methodologies for the sensitivity analysis

2.1. Banca Popolare di Milano

BPM did not use internal sensitivity analysis models for exchange risk.
The Parent Company's forex operations are substantially limited to servicing the needs of the commercial functions.
Moreover, in the supervisory reports of 2011, the capital requirements for exchange rate risk were always equal to zero as the net forex position was always below 2% of regulatory capital.

2.2. Banca Akros

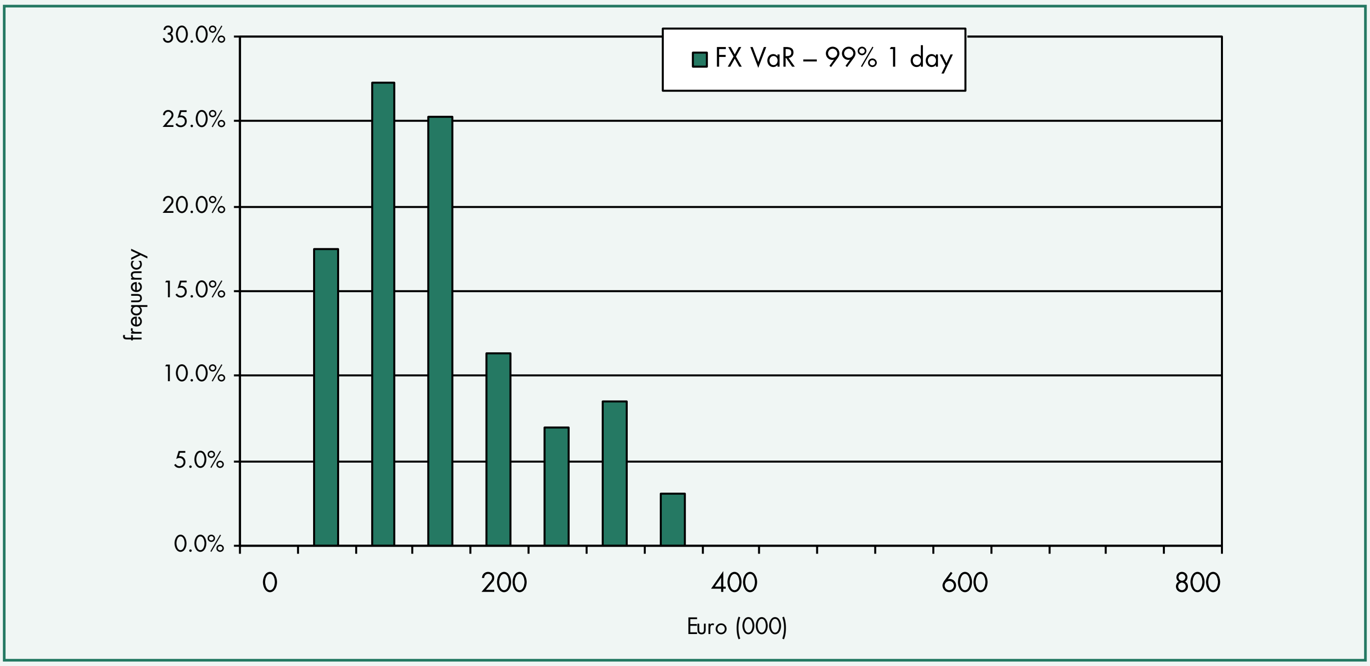
Banca Akros uses its own internal model based on VaR metrics also to calculate the exchange risk

The following table shows the average, maximum, minimum and VaR at the end of 2011, together with the corresponding amounts for the previous year.

99% – 1 Day	EXCHANGE RATE RISK 2011	EXCHANGE RATE RISK 2010
Average VaR EUR (000)	126	167
Max VaR EUR (000)	346	514
Min VaR EUR (000)	34	19
Last VaR EUR (000)	49	115
No. of exceptions	19	5

The contribution of the FX portfolio to the overall risk of the trading book is lower. The volatility of exchange rates as a consequence of the strong financial turmoil that accompanied the sovereign debt crisis has remained high. This context has suggested a reduction in the risk taken on by the portfolio, which also derives from some directional positions taken with the aim of profiting from short-term trends in major cross exchange rates (U.S. dollar, Swiss franc and Japanese yen and their quotations against the Euro).

The following chart shows the frequency distribution of daily VaR measurements during 2011, which is largely concentrated in the 50-200 thousand euro interval.



Retrospective tests on this area of risk showed up nineteen exceptions to the VaR during 2011. Overruns of the maximum expected loss are attributable, in certain cases, to severe daily hikes in spot exchange rates (mainly the Euro against the U.S. dollar and Swiss franc), of a size likely to go beyond the confidence limit defined for the model. In certain cases where the maximum expected loss was exceeded were due to movements in the long end of the Euro/USD volatility curve, while in other cases the exception was due to a break in the correlation between interest rates, spot exchange rates and volatility in relation to Euro exposures against the U.S. dollar.

The stress tests carried out on the forex sector did not produce any significantly unfavourable result.

1.2.4 – Derivatives

A. Financial derivatives

As regards OTC derivatives, leaving aside which portfolio they were held in, average notionals in 2011 came to 71,551 million euro relating to interest rate swaps, 8,050 million euro of cap/floor options and options on debt securities, 5,511 million euro of options on equities and indices and 380 million euro of exchange rate options and 609 million euro of derivatives on commodities.

A.1 Regulatory trading book: notional values at the end of period

Underlying assets/Type of derivatives	31.12.2011		31.12.2010	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**74,418,409**	**11,400**	**72,016,226**	**1,711,650**
a) Options	7,827,632		8,082,033	1,400,000
b) Swap	66,590,777		63,934,193	–
c) Forward	–		–	–
d) Futures	–	11,400	–	311,650
e) Other	–		–	–
2. Equities and stock indices	**4,621,733**	**797,985**	**6,399,691**	**866,320**
a) Options	4,621,733	749,350	6,399,691	777,448
b) Swap	–	–	–	–
c) Forward	–	–	–	–
d) Futures	–	48,635	–	88,872
e) Other	–	–	–	–
3. Currency and gold	**13,455,852**	**–**	**11,536,133**	**–**
a) Options	585,274	–	174,323	–
b) Swap	12,412,756	–	10,889,896	–
c) Forward	457,822	–	471,914	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
4. Commodities	**667,872**	**–**	**550,784**	**–**
5. Other underlyings	**–**	**–**	**–**	**–**
Total	**93,163,866**	**809,385**	**90,502,834**	**2,577,970**

A.2 Banking book: notional values at the end of period and average notional values

A.2.1 Hedging

Underlying assets/Type of derivatives	31.12.2011		31.12.2010	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**5,257,112**	**–**	**5,271,101**	**–**
a) Options	110,222	–	47,000	–
b) Swap	5,146,890	–	5,224,101	–
c) Forward	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
2. Equities and stock indices	**–**	**–**	**–**	**–**
a) Options	–	–	–	–
b) Swap	–	–	–	–
c) Forward	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
3. Currency and gold	**–**	**–**	**–**	**–**
a) Options	–	–	–	–
b) Swap	–	–	–	–
c) Forward	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
4. Commodities	**–**	**–**	**–**	**–**
5. Other underlyings	**–**	**–**	**–**	**–**
Total	**5,257,112**	**–**	**5,271,101**	**–**

A.2.2 other derivatives

Underlying assets/Type of derivatives	31.12.2011		31.12.2010	
	Over the counter	Central counterparties	*Over the counter*	Central counterparties
1. Debt securities and interest rates	**1,154,031**	**–**	**1,084,594**	**–**
a) Options	33,392	–	–	–
b) Swap	1,120,639	–	1,084,594	–
c) Forward	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
2. Equities and stock indices	**–**	**–**	**–**	**–**
a) Options	–	–	–	–
b) Swap	–	–	–	–
c) Forward	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
3. Currency and gold	**–**	**–**	**–**	**–**
a) Options	–	–	–	–
b) Swap	–	–	–	–
c) Forward	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
4. Commodities	**–**	**–**	**–**	**–**
5. Other underlyings	**–**	**–**	**–**	**–**
Total	**1,154,031**	**–**	**1,084,594**	**–**

The figures in the table relate to financial derivatives linked to the fair value option.

A.3 Financial derivatives: positive gross fair value – breakdown by products

Portfolio/Type of derivatives	Positive fair value			
	31.12.2011		31.12.2010	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book:	**1,701,940**	**25,868**	**1,183,071**	**57,971**
a) Options	232,701	25,868	200,621	57,971
b) Interest Rate Swap	1,167,224	–	812,561	–
c) Cross Currency Swap	283,315	–	149,962	–
d) Equity Swap	–	–	–	–
e) Forward	9,157	–	9,561	
f) Futures	–	–	–	–
g) Other	9,543	–	10,366	–
B. Banking book - hedging	**168,244**	**–**	**75,674**	**–**
a) Options	–	–	–	–
b) Interest Rate Swap	168,244	–	75,674	–
c) Cross Currency Swap	–	–	–	–
d) Equity Swap	–	–	–	–
e) Forward	–	–	–	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
C. Banking book – other derivatives	**25,375**	**–**	**11,361**	**–**
a) Options	1,737	–	–	–
b) Interest Rate Swap	23,638	–	11,361	–
c) Cross Currency Swap	–	–	–	–
d) Equity Swap	–	–	–	–
e) Forward	–	–	–	–
f) Futures	–	–	–	–
Total	**1,895,559**	**25,868**	**1,270,106**	**57,971**

A.4 Financial derivatives: negative gross fair value – breakdown by products

Portfolio/Type of derivatives	Negative fair value			
	31.12.2011		31.12.2010	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book:	**1,557,494**	**20,030**	**1,007,680**	**42,237**
a) Options	134,375	20,030	120,561	42,237
b) Interest Rate Swap	1,145,258	–	720,031	–
c) Cross Currency Swap	254,248	–	143,209	–
d) Equity Swap	–	–	–	–
e) Forward	13,916	–	13,450	–
f) Futures	–	–	–	–
g) Other	9,697	–	10,429	–
B. Banking book - hedging	**31,883**	**–**	**49,294**	**–**
a) Options	3,617	–	348	–
b) Interest Rate Swap	28,266	–	48,946	–
c) Cross Currency Swap	–	–	–	–
d) Equity Swap	–	–	–	–
e) Forward	–	–	–	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
C. Banking book – other derivatives	**54,881**	**–**	**51,589**	**–**
a) Options	–	–	–	–
b) Interest Rate Swap	54,881	–	51,589	–
c) Cross Currency Swap	–	–	–	–
d) Equity Swap	–	–	–	–
e) Forward	–	–	–	–
f) Futures	–	–	–	–
Total	**1,644,258**	**20,030**	**1,108,563**	**42,237**

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 arrangements	Government and Central Banks	Other public entities	Banks	Finance-sector companies	Insurance companies	Non-financial companies	Other parties
1) Debt securities and interest rates							
– notional value	–	434,025	407,640	790,479	62,951	1,639,373	161,497
– positive fair value	–	11,317	402	18,358	–	61,649	6,990
– negative fair value	–	–18,776	–24,415	–1,912	–28,921	–1,837	–4,691
– future exposure	–	2,054	1,394	1,226	–	8,543	640
2) Equities and stock indices							
– notional value	–	–	24,048	68,900	54,405	18,238	116,381
– positive fair value	–	–	25	25,477	–	1,493	16,498
– negative fair value	–	–	–32	–	–3	–953	–4,460
– future exposure	–	–	721	3,907	–	302	5,639
3) Currency and gold							
– notional value	–	–	5,731,251	23,266	620	279,663	606,312
– positive fair value	–	–	166,873	593	4	3,850	8,465
– negative fair value	–	–	–165,717	–40	–	11,433	9,667
– future exposure	–	–	54,299	233	6	1,021	5,723
4) Other instruments							
– notional value	–	–	–	–	–	–	10,185
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
– future exposure	–	–	–	–	–	–	1,019

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 arrangements

Contracts that form part of compensation arrangements	Government and Central Banks	Other public entities	Banks	Finance-sector companies	Insurance companies	Non-financial companies	Other parties
1) Debt securities and interest rates							
– notional value	–	–	59,177,910	10,674,156	–	1,063,700	6,678
– positive fair value	–	–	899,009	212,388	–	24,275	366
– negative fair value	–	–	–957,325	–154,339	–	–49,165	–
2) Equities and stock indices							
– notional value	–	–	3,184,087	974,757	93,862	1,330	85,725
– positive fair value	–	–	33,327	74,256	–	60	4,644
– negative fair value	–	–	–10,259	–204	–2,134	–	–5,990
3) Currency and gold							
– notional value	–	–	4,214,940	1,944,320	–	642,188	13,292
– positive fair value	–	–	79,595	39,847	–	11,433	590
– negative fair value	–	–	–62,040	–31,456	–	–11,570	–
4) Other instruments							
– notional value	–	–	436,316	138,119	–	83,252	–
– positive fair value	–	–	85	–	–	71	–
– negative fair value	–	–	–71	–	–	–84	–

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 arrangements

Contracts that do not form part of compensation arrangements	Government and Central Banks	Other public entities	Banks	Finance-sector companies	Insurance companies	Non-financial companies	Other parties
1) Debt securities and interest rates							
– notional value	–	–	6,411,143	–	–	–	–
– positive fair value	–	–	193,619	–	–	–	–
– negative fair value	–	–	–86,764	–	–	–	–
– future exposure	–	–	39,073	–	–	–	–
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 arrangements

Contracts that form part of compensation arrangements	Government and Central Banks	Other public entities	Banks	Finance-sector companies	Insurance companies	Non-financial companies	Other parties
1) 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 OTC financial derivatives: notional values

Underlying/Residual life	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A. Regulatory trading book:	**40,569,856**	**38,101,020**	**14,492,990**	**93,163,866**
A.1 Financial derivatives on debt securities and interest rates	25,263,775	35,220,363	13,934,271	74,418,409
A.2 Financial derivatives on equities and stock indices	1,483,025	2,579,989	558,719	4,621,733
A.3 Financial derivatives on exchange rates and gold	13,299,560	156,292	–	13,455,852
A.4 Financial derivatives on other instruments	523,496	144,376	–	667,872
B. Banking book	**153,923**	**5,484,346**	**772,874**	**6,411,143**
B.1 Financial derivatives on debt securities and interest rates	153,923	5,484,346	772,874	6,411,143
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 31.12.2011	**40,723,779**	**43,585,366**	**15,265,864**	**99,575,009**
Total 31.12.2010	**40,256,435**	**37,618,471**	**18,983,623**	**96,858,529**

A.10 OTC financial derivatives: Counterparty risk/Financial risk – Internal models

BPM, BPM Ireland and the Group's commercial banks do not use EPE-type internal models.
Banca Akros, as explained in section 1.2.1., has been authorised by the Bank of Italy to use an internal model for market risks for supervisory purposes. Information on the internal model is provided in section 1.2.1. "Interest rate risk and price risk – Regulatory trading book" and 1.2.3. "Exchange rate risk".

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	
	on a single subject	on several subjects (basket)	on a single subject	on several subjects (basket)
	Notional value	Notional value	Notional value	Notional value
1. Purchases of protection				
a) Credit default products	118,000	190,580	10,000	–
b) Credit spread products	–	–	–	–
c) Total rate of return swap	–	–	–	–
d) Other	–	–	–	–
Total 31.12.2011	**118,000**	**190,580**	**10,000**	**–**
AVERAGE AMOUNTS	**150,000**	**193,170**	**11,225**	**–**
Total 31.12.2010	**182,000**	**195,760**	**12,100**	**–**
1. Sales of protection				
a) Credit default products	56,000	172,580	–	–
b) Credit spread products	–	–	–	–
c) Total rate of return swap	–	–	–	–
d) Other	–	–	–	2,679
Total 31.12.2011	**56,000**	**172,580**	**–**	**2,679**
AVERAGE AMOUNTS	**108,500**	**123,170**	**–**	**2,595**
Total 31.12.2010	**111,000**	**123,760**	**–**	**2,588**

B.2 OTC credit derivatives: positive gross fair value – breakdown by products

Portfolio/Type of derivatives	Positive fair value	
	Total 31.12.2011	Total 31.12.2010
A. Regulatory trading book	**9,616**	**10,521**
a) Credit default products	9,616	10,521
b) Credit spread products	–	–
c) Total rate of return swap	–	–
d) Other	–	–
B. Banking book	**4,260**	**3,100**
a) Credit default products	2,016	846
b) Credit spread products	–	–
c) Total rate of return swap	–	–
d) Other	2,244	2,254
Total	**13,876**	**13,621**

B.3 OTC credit derivatives: negative gross fair value – breakdown by products

Underlying assets/Type of derivatives	Negative fair value	
	Total 31.12.2011	Total 31.12.2010
A. Regulatory trading book	**2,658**	**5,542**
a) Credit default products	2,658	5,542
b) Credit spread products	–	–
c) Total rate of return swap	–	–
d) Other	–	–
B. Banking book	**–**	**–**
a) Credit default products	–	–
b) Credit spread products	–	–
c) Total rate of return swap	–	–
d) Other	–	–
Total	**2,658**	**5,542**

B.4 OTC credit derivatives: positive and negative gross fair values by counterparty - contracts that do not form part of compensation arrangements

Contracts that do not form part of compensation arrangements	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	–	–	10,000	–	–	–	–
– positive fair value	–	–	2,016	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
2) Sale of protection							
– notional value	–	–	811	1,868	–	–	–
– positive fair value	–	–	376	1,868	–	–	–
– negative fair value	–	–	–	–	–	–	–

B.5 OTC credit derivatives: positive and negative gross fair values by counterparty - contracts that form part of compensation arrangements

Contracts that form part of compensation arrangements	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	–	–	259,140	49,440	–	–	–
– positive fair value	–	–	8,484	662	–	–	–
– negative fair value	–	–	–677	–74	–	–	–
2) Sale of protection							
– notional value	–	–	201,980	26,600	–	–	–
– positive fair value	–	–	425	45	–	–	–
– negative fair value	–	–	–1,708	–199	–	–	–
Banking books							
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	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A. Regulatory trading book:	**129,520**	**407,640**	**–**	**537,160**
A.1 Credit derivatives with qualified reference obligation	122,520	407,640	–	530,160
A.2 Credit derivatives with unqualified reference obligation	7,000	–	–	7,000
B. Banking book	**1,868**	**10,811**	**–**	**12,679**
B.1 Credit derivatives with qualified reference obligation	1,868	10,811	–	12,679
B.2 Credit derivatives with unqualified reference obligation	–	–	–	–
Total 31.12.2011	**131,388**	**418,451**	**–**	**549,839**
Total 31.12.2010	**34,100**	**592,297**	**811**	**627,208**

C. Financial and credit derivatives

C.1 Financial and credit derivatives: net fair values and future exposure by counterparty

	Government 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	–	–	308,148	172,490	–	16,151	2,905
– negative fair value	–	–	–267,056	–26,180	–2,134	–39,874	–3,187
– future exposure	–	–	268,624	82,197	–	13,146	1,937
– net counterparty risk	–	–	350,840	143,699	–	28,950	3,974
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	–	–	–	–	–	–	–

The line item "1) Bilateral financial derivative agreements" include credit derivatives.
The sub-item "net counterparty risk" shows the balance between the positive fair value, increased by the future credit exposure and decreased by the current value of any cash collaterals received.

1.3 – Banking group – Liquidity risk

Qualitative information

A. General aspects, management processes and methods of measuring liquidity risk

A.1 Sources of liquidity risk

Liquidity risk is the risk that the BPM Group may not be able to meet its definite and foreseeable payment commitments with reasonable certainty. Normally, two types of liquidity risk are identified: **Funding Liquidity Risk**, i.e. the risk that the Group may not be able to meet its payment commitments and obligations efficiently because of an inability to raise funds without jeopardising its normal business activity and/or its financial situation; **Market Liquidity Risk**, i.e. the risk that the Group may not be able to liquidate an asset without incurring a capital loss because of the limited depth of the market and/or as a result of the timing with which it is necessary to carry out the transaction. In this second definition, liquidity risk comes very close to traditional market risk. The main difference between the two types of risk lies in the fact that while market risk measures the sensitivity of 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

During 2011 the Group has updated the BPM Group Liquidity Policy, in which the following has been defined:
- Liquidity risk governance model;
- responsibilities of the corporate bodies and business functions;
- the threshold of tolerance to liquidity risk;
- the tools for managing and monitoring liquidity risk;
- the tools for mitigating liquidity risk;
- the Contingency Funding Plan;
- guidelines for defining and monitoring the Funding Plan.

Liquidity risk governance model
Liquidity governance is centralised at the Parent Company. Operative management of liquidity is coordinated by the Parent Company on a centralised basis, subject to appropriate exemptions, with part of liquidity management being done on a decentralised basis at the individual Group companies.

Responsibilities of corporate and business functions
Responsibilities of corporate and business functions
The policy identifies the role and responsibilities of the corporate bodies involved in liquidity governance and management.
In particular:
- the Management Board of the Parent Company sets the threshold of tolerance to liquidity risk and is responsible for maintaining a level of liquidity consistent with this threshold. It is responsible for setting governance policies and management processes related to liquidity risk; more in general, it also approves the methods of managing and monitoring liquidity risk;
- The Group ALM Committee is responsible for managing operational and structural liquidity and the related risk in the states of "normality", "observation" and "stress" as defined in the Contingency Funding Plan;
- The Group's Liquidity Crisis Committee is responsible for managing operational and structural liquidity in a state of "crisis", with the aim of restoring liquidity to a state of "normality";
- the Supervisory Board of the Parent Company is responsible for ensuring the adequacy and compliance of the process of managing, monitoring and controlling liquidity risk with respect to the legislative requirements and in accordance with the tasks assigned to it by the Company's Articles of Association.

The Group has also defined the roles and responsibilities of the corporate functions involved in the process of managing and monitoring liquidity risk, such as the operational functions (finance, treasury, commercial network), the control functions (risk management, internal audit) and the function in charge of processing the pricing system for the internal transfer of funds.

Threshold of tolerance to liquidity risk
The threshold of tolerance to liquidity risk is understood as the maximum risk exposure considered to be sustainable in the context of the "normal course of business" (going concern), integrated with stress scenarios. It is defined in terms of limits on a set of indicators that must be respected in both short- and long-term liquidity management.

Tools for managing and monitoring liquidity risk

The liquidity risk is monitored through the following instruments:

- Operative maturity ladder: this report provides the liquidity requirement for a time horizon of up to twelve months, aggregating imbalances between cash inflows and outflows that occur in different time zones and adding to this the balance of eligible assets with the central bank, i.e. that can be used for repurchase agreements;
- Structural maturity ladder: this report aims to monitor the maintenance of an adequate ratio between long-term assets and liabilities, i.e. to limit the exposure to refinancing for maturities over twelve months. The relationship between sources and uses of liquidity and the degree of maturity transformation are also monitored;
- Early Warning Indicators (EWI) for any liquidity tensions. We have identified a set of indicators for early detection of potential tensions in the Group's liquidity position. They provide market indicators and internal indicators, i.e. based on specific indicators of the Group's liquidity situation. Monitoring these indicators, in addition to allowing for timely identification of the deterioration of certain key variables, helps to determine the status of the liquidity situation between "normality", "observation", "stress" and "crisis";
- stress tests of the Group's ability to withstand adverse scenarios.

Tools for mitigating liquidity risk:

As tools for mitigating liquidity risk, the liquidity policy requires the Group to keep an adequate amount of cash reserves to maintain an liquidity profile that is consistent with the threshold of tolerance to this kind of risk, compliance with specific limits placed on certain variables, both operational and structural, and an appropriate diversification of funding sources.

Contingency Funding Plan

The Contingency Funding Plan is an integral part of the policy and sets out to protect the Group and the individual Group companies from situations of crisis of different magnitudes. The Contingency Funding Plan describes a series of non-binding actions and provides a range of possible steps that can be taken to overcome the crisis.

In particular: it describes:

- the mechanism for activating the states of "observation", "stress" and "crisis";
- identification of the functions involved and their responsibilities;
- possible action plans with an indication of the estimated cash recoverable by each of them;
- communication management in cases of stress and crisis.

Quantitative information

The net interbank position at 31 December 2011 shows a negative balance (net borrowing) of Euro 7,362 million, which compares with a negative balance in September 2011 of Euro 5,365 million and of Euro 4,619 million in December 2010.

This trend is mainly due to the significant growth in net financial assets during the year, an increase of around 2 billion euro, for investments in government bonds, and a reduction in direct deposits (- Euro 630 million).

It should however be noted that much of the interbank exposure, approximately Euro 7.5 billion out of a total of Euro 9.7 billion, is used in open market operations (OMO) with the European Central Bank, compared with Euro 2.6 billion in 2010.

Excluding these operations, and adjusting Euro 302.5 million due from banks for the amounts booked to this item in the financial statements of BPM Securitisation 2 and BPM Covered Bond - since this is temporary liquidity due to be transferred out in the short term - the **net interbank position** at 31 December 2011 was essentially zero, compared with negative positions at the end of 1.2 billion in September 2011 and of 1.1 billion at the end of 2010.

The following is an analysis of the main financial obligations maturing over the next twelve months.

Main financial liabilities in maturity – management figures (millions of Euro)

	01/12	02/12	03/12	04/12	05/12	06/12	07/12	08/12	09/12	10/12	11/12	12/12	Total
Certificates of Deposit and Commercial Papers (wholesale)		200	100										**300**
Securities issued (senior, subordinated, covered bonds)			542	69					717			55	**1,383**
Securities issued (retail issues)	117	93	9	29	10	36	13	15	18	12	220	14	**585**
Certificates of deposit (retail)	180	206	189	215	172	89	14	1	71	87	69	55	**1,347**
Total	**296**	**499**	**840**	**313**	**182**	**125**	**27**	**16**	**806**	**99**	**289**	**125**	**3,615**

Conventionally, based on IFRS 7, callable instruments have been considered as falling due at the first call date foreseen in the issue regulations.

Looking at the operating liquidity requirement for the next 12 months (so at the same level of customer loans and deposits), the decalage of 3.6 billion euro is amply covered by the portfolio of financial assets eligible for refinancing with the ECB, on the one hand, and by the expected renewal on maturity of the liabilities represented by the retail issues placed by the commercial network, on the other.

Self-securitisations

At the date of this report, two self-securitisations have been carried out: the first in March 2009, which was then withdrawn in the first half of 2011; the second one in December 2011.

Securitisation of mortgages and issue of Asset Backed Securities (ABS)
In December 2011 the Parent Company completed a securitisation of mortgages with a view to issuing Asset Backed Securities (ABS). This operation was carried out through a sale without recourse to the vehicle company BPM Securitisation 2 Srl (which had already acted as the issuer in the securitisation launched in July 2006 and still outstanding) of a portfolio of performing loans for a total of 974 million euro, deriving from commercial loans secured by first mortgages and unsecured loans granted by BPM.

For more information please read the financial statements of the Parent Company.

At the date of the financial statements the securitisation transaction is represented as follows:

(euro/000)

Line items	31.12.2011	31.12.2010
Principal balance sheet aggregates		
Loans to customers:	924,327	464,833
Due from banks:	85,937	845,965
Economic result of the operation	**6,493**	**18,022**

The balance sheet and income statement figures for 2010 relate to the operation completed in 2009 and withdrawn in the first half of 2011.
The balance sheet figures for 2011 refer to the new transaction, completed in December 2011.
The income statement results for 2011 refer for 10,194 thousand euro to the operation completed in 2009 (and withdrawn in the first half of 2011) and -3,701 thousand euro to the new operation, completed in December 2011.

Quantitative information

1. Distribution of financial assets and liabilities by residual contractual duration.

Summary table

Type/Time bands	On demand	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	**12,353,693**	**326,401**	**114,380**	**604,958**	**1,612,077**	**1,548,076**	**4,154,653**	**12,854,597**	**13,689,913**	**319,930**
A.1 Government securities	5,377	–	–	–	203,989	128,559	1,769,862	3,288,443	1,172,657	–
A.2 Other debt securities	5,774	2,597	798	12,892	311,327	58,152	119,508	789,827	337,351	1,246
A.3 Mutual funds	484,831	–	–	–	–	–	–	–	–	–
A.4 Loans	11,857,711	323,804	113,582	592,066	1,096,761	1,361,365	2,265,283	8,776,327	12,179,905	318,684
– Banks	*1,168,436*	*185,700*	*1*	*8,264*	*184*	*49,188*	*15,806*	*39,347*	*56,006*	318,528
– Customers	*10,689,275*	*138,104*	*113,581*	*583,802*	*1,096,577*	*1,312,177*	*2,249,477*	*8,736,980*	*12,123,899*	*156*
Cash liabilities	**26,869,759**	**939,663**	**103,212**	**713,322**	**1,469,699**	**1,598,891**	**2,046,455**	**8,224,204**	**2,365,130**	**–**
B.1 Deposits	18,275,358	379,973	68,145	523,686	678,680	1,034,736	886,749	247,682	27	–
– Banks	*80,099*	*365,533*	*42,050*	*438,357*	*203,647*	*198,424*	–	100,000	–	–
– Customers	*18,195,259*	*14,440*	*26,095*	*85,329*	*475,033*	*836,312*	*886,749*	*147,682*	*27*	–
B.2 Debt securities	4,940	34,737	33,448	164,860	778,115	546,114	1,146,921	7,898,523	2,305,451	–
B.3 Other liabilities	8,589,461	524,953	1,619	24,776	12,904	18,041	12,785	77,999	59,652	–
Off–balance sheet transactions	**9,400,950**	**6,704,377**	**1,514,764**	**7,263,880**	**5,967,547**	**5,254,009**	**3,677,682**	**3,253,637**	**928,275**	**208,560**
C.1 Financial derivatives with exchange of capital	–	*6,169,589*	*1,514,544*	*7,217,503*	*5,816,130*	*4,725,309*	*2,857,959*	*424,346*	*48,760*	–
+ long positions	–	2,992,191	756,508	3,639,823	2,912,309	2,452,318	1,429,024	231,754	24,906	–
+ short positions	–	3,177,398	758,036	3,577,680	2,903,821	2,272,991	1,428,935	192,592	23,854	–
C.2 Financial derivatives without exchange of capital	*3,193,186*	*110,296*	–	60	*483*	6,644	20,619	–	–	–
+ long positions	1,604,446	68,124	–	30	483	389	280	–	–	–
+ short positions	1,588,740	42,172	–	30	–	6,255	20,339	–	–	–
C.3 Deposits and loans to be received	*377,810*	387,542	–	–	–	–	–	–	–	–
+ long positions	9,732	377,810	–	–	–	–	–	–	–	–
+ short positions	368,078	9,732	–	–	–	–	–	–	–	–
C.4 Irrevocable commitments to grant finance	*5,829,643*	*33,687*	212	*46,262*	*150,799*	*521,808*	*798,741*	*2,821,916*	*877,520*	*208,560*
+ long positions	550,816	272	212	46,262	150,799	509,848	751,441	2,651,785	877,520	104,280
+ short positions	5,278,827	33,415	–	–	–	11,960	47,300	170,131	–	104,280
C.5 Financial guarantees given	*311*	*3,263*	8	*55*	*135*	*248*	*363*	*7,375*	*1,995*	–

1. Distribution of financial assets and liabilities by residual contractual duration.

Currency: Euro

Type/Time bands	On demand	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	**12,328,134**	**260,785**	**95,036**	**523,992**	**1,547,483**	**1,494,478**	**4,151,441**	**12,629,362**	**13,687,367**	**319,930**
A.1 Government securities	5,377	–	–	–	203,989	128,559	1,769,862	3,288,443	1,171,153	–
A.2 Other debt securities	5,774	2,597	798	12,892	311,327	42,829	119,508	776,231	337,351	1,246
A.3 Mutual funds	484,827	–	–	–	–	–	–	–	–	–
A.4 Loans	11,832,156	258,188	94,238	511,100	1,032,167	1,323,090	2,262,071	8,564,688	12,178,863	318,684
– Banks	*1,151,609*	*132,464*	*1*	*2,271*	*184*	*49,188*	*15,806*	*39,347*	*55,574*	318,528
– Customers	*10,680,547*	*125,724*	*94,237*	*508,829*	*1,031,983*	*1,273,902*	*2,246,265*	*8,525,341*	*12,123,289*	*156*
Cash liabilities	**26,728,502**	**825,249**	**93,045**	**562,018**	**1,465,269**	**1,532,419**	**2,046,455**	**8,224,204**	**2,365,130**	**–**
B.1 Deposits	18,134,787	265,647	58,095	372,405	675,586	968,792	886,749	247,682	27	–
– Banks	*63,610*	*251,207*	*32,000*	*287,076*	*200,553*	*132,480*	–	100,000	–	–
– Customers	*18,071,177*	*14,440*	*26,095*	*85,329*	*475,033*	*836,312*	*886,749*	*147,682*	*27*	–
B.2 Debt securities	4,940	34,649	33,331	164,837	776,779	545,586	1,146,921	7,898,523	2,305,451	–
B.3 Other liabilities	8,588,775	524,953	1,619	24,776	12,904	18,041	12,785	77,999	59,652	–
Off–balance sheet transactions	**9,216,447**	**3,859,261**	**610,660**	**3,548,267**	**2,963,174**	**3,333,898**	**2,203,399**	**3,068,621**	**926,311**	**208,560**
C.1 Financial derivatives with exchange of capital	–	*3,324,473*	*610,440*	*3,501,890*	*2,811,757*	*2,805,198*	*1,383,676*	*299,480*	*47,282*	–
+ long positions	–	1,636,339	317,926	1,707,311	1,509,965	1,450,311	646,327	165,176	24,033	–
+ short positions	–	1,688,134	292,514	1,794,579	1,301,792	1,354,887	737,349	134,304	23,249	–
C.2 Financial derivatives without exchange of capital	*3,125,733*	*110,296*	–	60	*483*	*6,644*	20,619	–	–	–
+ long positions	1,570,505	68,124	–	30	483	389	280	–	–	–
+ short positions	1,555,228	42,172	–	30	–	6,255	20,339	–	–	–
C.3 Deposits and loans to be received	*377,810*	387,542	–	–	–	–	–	–	–	–
+ long positions	9,732	377,810	–	–	–	–	–	–	–	–
+ short positions	368,078	9,732	–	–	–		–	–	–	–
C.4 Irrevocable commitments to grant finance	*5,712,593*	*33,687*	212	*46,262*	*150,799*	*521,808*	*798,741*	*2,761,766*	*877,034*	*208,560*
+ long positions	522,609	272	212	46,262	150,799	509,848	751,441	2,591,635	877,034	104,280
+ short positions	5,189,984	33,415	–	–	–	11,960	47,300	170,131	–	104,280
C.5 Financial guarantees given	*311*	*3,263*	8	*55*	*135*	*248*	*363*	*7,375*	*1,995*	–

1. Distribution of financial assets and liabilities by residual contractual duration.

Currency: USA Dollar

Type/Time bands	On demand	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	**9,035**	**63,210**	**17,541**	**70,424**	**59,579**	**52,061**	**2,035**	**193,522**	**2,546**	**–**
A.1 Government securities	–	–	–	–	–	–	–	–	1,504	–
A.2 Other debt securities	–	–	–	–	–	15,323	–	13,596	–	–
A.3 Mutual funds	4	–	–	–	–	–	–	–	–	–
A.4 Loans	9,031	63,210	17,541	70,424	59,579	36,738	2,035	179,926	1,042	–
– Banks	*3,244*	*52,556*	–	–	–	–	–	–	*432*	–
– Customers	*5,787*	*10,654*	*17,541*	*70,424*	*59,579*	*36,738*	*2,035*	*179,926*	*610*	–
Cash liabilities	**125,042**	**111,075**	**10,167**	**151,304**	**4,409**	**66,451**	**–**	**–**	**–**	**–**
B.1 Deposits	124,356	110,987	10,050	151,281	3,094	65,944	–	–	–	–
– Banks	*16,453*	*110,987*	*10,050*	*151,281*	*3,094*	*65,944*	–	–	–	–
– Customers	*107,903*	–	–	–	–	–	–	–	–	–
B.2 Debt securities	–	88	117	23	1,315	507	–	–	–	–
B.3 Other liabilities	686	–	–	–	–	–	–	–	–	–
Off–balance sheet transactions	**150,240**	**1,986,648**	**546,602**	**2,904,850**	**2,657,750**	**1,757,943**	**1,358,008**	**168,073**	**1,813**	**–**
C.1 Financial derivatives with exchange of capital	–	*1,986,648*	*546,602*	*2,904,850*	*2,657,750*	*1,757,943*	*1,358,008*	*121,707*	*1,327*	–
+ long positions	–	938,392	251,246	1,546,585	1,253,063	904,981	709,076	64,904	796	–
+ short positions	–	1,048,256	295,356	1,358,265	1,404,687	852,962	648,932	56,803	531	–
C.2 Financial derivatives without exchange of capital	*46,974*	–	–	–	–	–	–	–	–	–
+ long positions	*22,995*	–	–	–	–	–	–	–	–	–
+ short positions	*23,979*	–	–	–	–	–	–	–	–	–
C.3 Deposits and loans to be received	–	–	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–	–	–
C.4 Irrevocable commitments to grant finance	*103,266*	–	–	–	–	–	–	*46,366*	*486*	–
+ long positions	28,207	–	–	–	–	–	–	*46,366*	*486*	–
+ short positions	75,059	–	–	–	–	–	–	–	–	–
C.5 Financial guarantees given	–	–	–	–	–	–	–	–	–	–

1. Distribution of financial assets and liabilities by residual contractual duration.

Currency: Pound Sterling

Type/Time bands	On demand	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	**2,670**	**1,136**	**95**	**167**	**753**	**47**	**–**	**–**	**–**	**–**
A.1 Government securities	–	–	–	–	–	–	–	–	–	–
A.2 Other debt securities	–	–	–	–	–	–	–	–	–	–
A.3 Mutual funds	–	–	–	–	–	–	–	–	–	–
A.4 Loans	2,670	1,136	95	167	753	47	–	–	–	–
– Banks	*1,569*	*1*	–	–	–	–	–	–	–	–
– Customers	*1,101*	*1,135*	*95*	*167*	*753*	*47*	–	–	–	–
Cash liabilities	**5,438**	**2,155**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
B.1 Deposits	5,438	2,155	–	–	–	–	–	–	–	–
– Banks	–	*2,155*	–	–	–	–	–	–	–	–
– Customers	*5,438*	–	–	–	–	–	–	–	–	–
B.2 Debt securities	–	–	–	–	–	–	–	–	–	–
B.3 Other liabilities	–	–	–	–	–	–	–	–	–	–
Off–balance sheet transactions	**2,241**	**312,202**	**23,773**	**273,764**	**139,014**	**56,989**	**28,978**	**558**	**46**	**–**
C.1 Financial derivatives with exchange of capital	–	*312,202*	*23,773*	*273,764*	*139,014*	*56,989*	*28,978*	*558*	*46*	–
+ long positions	–	122,968	21,664	160,564	60,319	43,368	19,883	303	*9*	–
+ short positions	–	189,234	2,109	113,200	78,695	13,621	9,095	255	*37*	–
C.2 Financial derivatives without exchange of capital	*2,241*	–	–	–	–	–	–	–	–	–
+ long positions	*1,311*	–	–	–	–	–	–	–	–	
+ short positions	*930*	–	–	–	–	–	–	–	–	–
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. Distribution of financial assets and liabilities by residual contractual duration.

Currency: Swiss Franc

Type/Time bands	On demand	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	**1,313**	**547**	**1,220**	**1,594**	**2,591**	**1,461**	**578**	**31,713**	**–**	**–**
A.1 Government securities	–	–	–	–	–	–	–	–	–	–
A.2 Other debt securities	–	–	–	–	–	–	–	–	–	–
A.3 Mutual funds	–	–	–	–	–	–	–	–	–	–
A.4 Loans	1,313	547	1,220	1,594	2,591	1,461	578	31,713	–	–
– Banks	*1,274*	–	–	*1*	–	–	–	–	–	–
– Customers	*39*	*547*	*1,220*	*1,593*	*2,591*	*1,461*	*578*	*31,713*	–	–
Cash liabilities	**3,846**	**–**	**–**	**–**	**21**	**21**	**–**	**–**	**–**	**–**
B.1 Deposits	3,846	–	–	–	–	–	–	–	–	–
– Banks	*5*	–	–	–	–	–	–	–	–	–
– Customers	*3,841*	–	–	–	–	–	–	–	–	–
B.2 Debt securities	–	–	–	–	*21*	21	–	–	–	–
B.3 Other liabilities	–	–	–	–	–	–	–	–	–	–
Off-balance sheet transactions	**15,665**	**415,846**	**37,230**	**120,138**	**76,166**	**4,302**	**23,951**	**13,924**	**71**	**–**
C.1 Financial derivatives with exchange of capital	–	*415,846*	*37,230*	*120,138*	*76,166*	*4,302*	*23,951*	*140*	*71*	–
+ long positions	–	238,434	–	36,744	31,501	528	15,290	*111*	*39*	–
+ short positions	–	177,412	37,230	83,394	44,665	3,774	8,661	*29*	*32*	–
C.2 Financial derivatives without exchange of capital	*1,881*	–	–	–	–	–	–	–	–	–
+ long positions	*974*	–	–	–	–	–	–	–	–	–
+ short positions	*907*	–	–	–	–	–	–	–	–	–
C.3 Deposits and loans to be received	–	–	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–	–	–
C.4 Irrevocable commitments to grant finance	*13,784*	–	–	–	–	–	–	*13,784*	–	–
+ long positions	–	–	–	–	–	–	–	*13,784*	–	–
+ short positions	*13,784*	–	–	–	–	–	–	–	–	–
C.5 Financial guarantees given	–	–	–	–	–	–	–	–	–	–

1. Distribution of financial assets and liabilities by residual contractual duration.

Currency: Yen

Type/Time bands	On demand	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	**3,920**	**–**	**488**	**8,778**	**1,622**	**29**	**599**	**–**	**–**	**–**
A.1 Government securities	–	–	–	–	–	–	–	–	–	–
A.2 Other debt securities	–	–	–	–	–	–	–	–	–	–
A.3 Mutual funds	–	–	–	–	–	–	–	–	–	–
A.4 Loans	3,920	–	488	8,778	1,622	29	*599*	–	–	–
– Banks	*2,170*	–	–	*5,989*	–	–	–	–	–	–
– Customers	*1,750*	–	*488*	*2,789*	*1,622*	*29*	*599*	–	–	–
Cash liabilities	**1,732**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
B.1 Deposits	1,732	–	–	–	–	–	–	–	–	–
– Banks	–	–	–	–	–	–	–	–	–	–
– Customers	*1,732*	–	–	–	–	–	–	–	–	–
B.2 Debt securities	–	–	–	–	–	–	–	–	–	–
B.3 Other liabilities	–	–	–	–	–	–	–	–	–	–
Off–balance sheet transactions	**10,665**	**46,977**	**232,382**	**286,198**	**21,315**	**26,571**	**25,188**	**–**	**10**	**–**
C.1 Financial derivatives with exchange of capital	–	*46,977*	*232,382*	*286,198*	*21,315*	*26,571*	*25,188*	–	*10*	–
+ long positions	–	15,483	133,936	123,969	8,297	12,581	17,110	–	*5*	–
+ short positions	–	31,494	98,446	162,229	13,018	13,990	8,078	–	5	–
C.2 Financial derivatives without exchange of capital	*10,665*	–	–	–	–	–	–	–	–	–
+ long positions	*5,876*	–	–	–	–	–	–	–	–	–
+ short positions	*4,789*	–	–	–	–	–	–	–	–	–
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. Distribution of financial assets and liabilities by residual contractual duration.

Currency: Canadian Dollars

Type/Time bands	On demand	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	**691**	**–**	**–**	**1**	**–**	**–**	**–**	**–**	**–**	**–**
A.1 Government securities	–	–	–	–	–	–	–	–	–	–
A.2 Other debt securities	–	–	–	–	–	–	–	–	–	–
A.3 Mutual funds	–	–	–	–	–	–	–	–	–	–
A.4 Loans	691	–	–	1	–	–	–	–	–	–
– Banks	*691*	–	–	*1*	–	–	–	–	–	–
– Customers	–	–	–	–	–	–	–	–	–	–
Cash liabilities	**370**	**870**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
B.1 Deposits	370	870	–	–	–	–	–	–	–	–
– Banks	–	*870*	–	–	–	–	–	–	–	–
– Customers	*370*	–	–	–	–	–	–	–	–	–
B.2 Debt securities	–	–	–	–	–	–	–		–	–
B.3 Other liabilities	–	–	–	–	–	–	–	–	–	–
Off–balance sheet transactions	**5,514**	**63,561**	**23,009**	**2,444**	**13,478**	**5,323**	**4,000**	**202**	**–**	**–**
C.1 Financial derivatives with exchange of capital	–	*63,561*	*23,009*	*2,444*	*13,478*	*5,323*	*4,000*	*202*	–	–
+ long positions	–	32,029	8,582	1,186	7,644	2,700	4,000	101	–	–
+ short positions	–	31,532	14,427	1,258	5,834	2,623	–	101	–	–
C.2 Financial derivatives without exchange of capital	*5,514*	–	–	–	–	–	–	–	–	–
+ long positions	*2,666*	–	–	–	–	–	–	–	–	–
+ short positions	*2,848*	–	–	–	–	–	–	–	–	–
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. Distribution of financial assets and liabilities by residual contractual duration.

Currency: Other currencies

Type/Time bands	On demand	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	**7,930**	**723**	**–**	**2**	**49**	**–**	**–**	**–**	**–**	**–**
A.1 Government securities	–	–	–	–	–	–	–	–	–	–
A.2 Other debt securities	–	–	–	–	–	–	–	–	–	–
A.3 Mutual funds	–	–	–	–	–	–	–	–	–	–
A.4 Loans	7,930	723	–	2	49	–	–	–	–	–
– Banks	*7,879*	*679*	–	*2*	–	–	–	–	–	–
– Customers	*51*	*44*	–	–	*49*	–	–	–	–	–
Cash liabilities	**4,829**	**314**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
B.1 Deposits	4,829	314	–	–	–	–	–	–	–	–
– Banks	*31*	*314*	–	–	–	–	–	–	–	–
– Customers	*4,798*	–	–	–	–	–	–	–	–	–
B.2 Debt securities	–	–	–	–	–	–	–	–	–	–
B.3 Other liabilities	–	–	–	–	–	–	–	–	–	–
Off–balance sheet transactions	**178**	**19,882**	**41,108**	**128,219**	**96,650**	**68,983**	**34,158**	**2,259**	**24**	**–**
C.1 Financial derivatives with exchange of capital	–	*19,882*	*41,108*	*128,219*	*96,650*	*68,983*	*34,158*	*2,259*	*24*	–
+ long positions	–	*8,546*	*23,154*	*63,464*	*41,520*	*37,849*	*17,338*	*1,159*	*24*	–
+ short positions	–	*11,336*	*17,954*	*64,755*	*55,130*	*31,134*	*16,820*	*1,100*	–	–
C.2 Financial derivatives without exchange of capital	*178*	–	–	–	–	–	–	–	–	–
+ long positions	119	–	–	–	–	–	–	–	–	–
+ short positions	*59*	–	–	–	–	–	–	–	–	–
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	–	–	–	–	–	–	–	–	–	–

1.4 – Banking group – Operational risk

Qualitative information

A. General aspects, management processes and methods of measuring operational risk

Main sources of operational risk

In line with the "New Minimum Capital Requirements for Banks" issued by the Bank of Italy, operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. This type includes losses due to frauds, human resources, breakdown of operations, non-availability of systems, breach of contract, natural disasters and legal risks, whereas strategic risk and reputational risk are excluded.

The supervisory regulations also say that banks have to equip themselves with operational risk management systems that are suitable for their size and risk profile and able to guarantee the identification, measurement, monitoring and control of such risk over time.

Unlike credit and market risk, operational risk is not taken on by the Group on the basis of strategic decisions, as it is inherent in its operations, being omnipresent.

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.

From this point of view, Banca Popolare di Milano at Group level has taken steps

- to define and formalise a model for governing operational risk and guidelines for the entire system of operational risk management;
- to regulate in accordance with company rules the duties and responsibilities assigned the various functions involved, giving a detailed description of their activities;
- to prepare suitable periodic reports for top management of the individual banks and for the Parent Company's corporate bodies on operational risk and operating losses;
- to evaluate the adequacy and effectiveness of the system implemented by defining operating criteria and methods.

Model of Governance

For the management of the Group's operational risk, it was decided to adopt a centralised model of governance at the Parent Company which provides for the definition of principles and methodologies that are common to all of the banks.

The model assigns to Banca Popolare di Milano, as the Parent Company, the task of coordinating and supervising all of the operating activities carried on by the individual banks in the Group;

- a strategic level involving the Management Board, the Supervisory Board, the Internal Control and Audit 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 and support carried out by means of questionnaires sent to the Process Owner by Operational Risk Management,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 Group's activities to the regulatory lines of business for the calculation of the individual and consolidated capital ratio;
- the implementation of a system of periodic reporting 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.

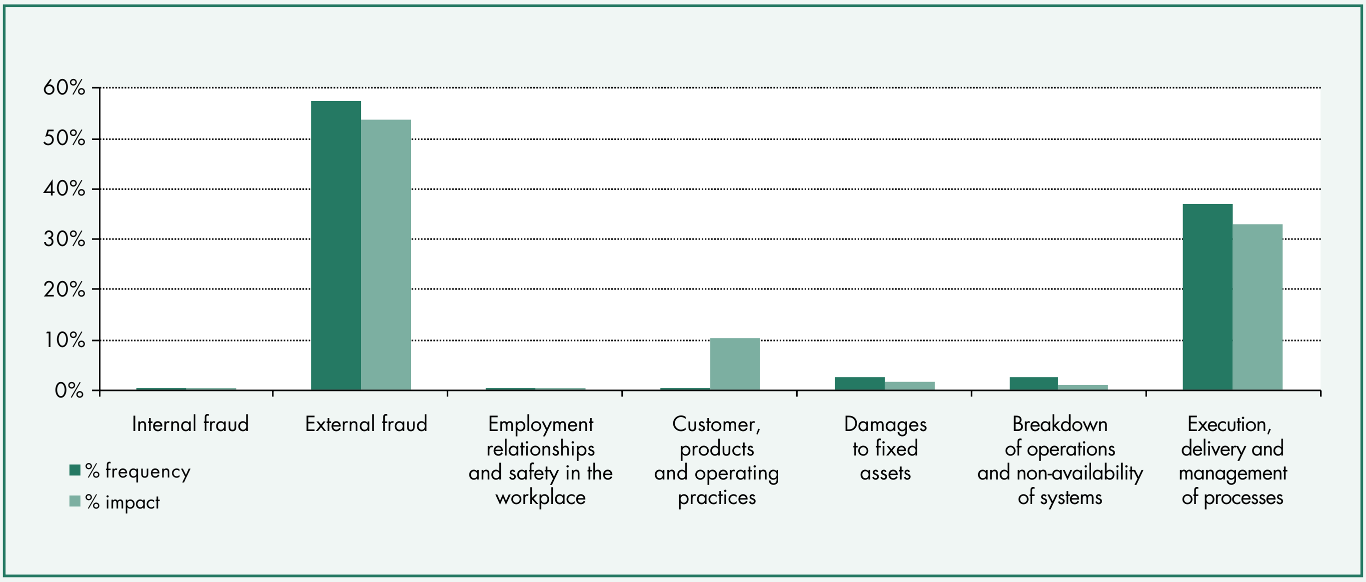
Loss data collection

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, has been installed at the other banks so that all of the steps in this process can be handled more efficiently. The new procedure was in use at Banca Popolare di Milano, Banca Popolare di Mantova, WeBank, Banca di Legnano and Cassa di Risparmio di Alessandria.

Through the reporting system, the loss data is reviewed and analysed on a quarterly basis by top management of the Parent Company. This information is then included in the reports prepared for the Board of Directors of BPM and of the other banks within the scope of application of the TSA model.

During 2011, the main source of operating losses was the category entitled "External fraud" both in terms of frequency and impact, followed by "Errors in execution, delivery and management of processes". Other sources of operating losses lie in the categories "Customers, products and operating practices", "Damages to fixed assets" and "Breakdown of operations and IT systems".

Percentage distribution of losses of the BPM Group in 2011



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 main 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 in previous years, in 2011 we completely revised the methodological approach of the Risk Self Assessment model; in particular, as regards the area of business, financial and commercial processes, the whole system is based on a much more detailed detection of corporate processes and the elementary risks associated with them. In 2012, this approach will be extended to the lending process and to the governance and support process (including information technology).

The model used for assessing "residual risk" considers the evaluations of both economic and reputational impact expressed by the process owners, taking into account the design and evaluation of internal controls in defence of individual risks.

Lastly, in order to target risk mitigation measures in the best way possible, we have identified and investigated in detail the causes of the risks assessed during the Risk Self Assessment.

Quantitative information

Important lawsuits pending

Legal risk can derive from a failure to comply with laws, regulations or directives from the Supervisory Authorities or from unfavourable changes in the legislative framework. The impact of this risk may take the form of fines or other sanctions or it may involve the Group in legal proceedings. So in principle, it concerns all corporate functions that are affected by legislative, regulatory and other legal provisions.

Banca Popolare di Milano

The lawsuits outstanding at 31 December 2011 mostly fall into three categories:

- **erroneous application of interest rates**: there are 176 lawsuits outstanding for which 6.8 million euro has been provided for possible losses;
- **operational errors in the provision of services to customers**: there are 278 lawsuits outstanding for which 14.6 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 13 million Euro for the 208 lawsuits that are outstanding.

For details of the provision of 40 million made in relation to the "Convertendo 2009-2013 6,75%" bond, please refer to the liabilities Section 12 "Provisions for risks and charges" in the Explanatory Notes.

Banca di Legnano

The lawsuits outstanding at 31 December 2011 fall into three categories:

- **erroneous application of interest rates**: there are 18 lawsuits outstanding for which 304 thousand Euro has been provided in previous years for possible losses;
- **operational errors in the provision of services to customers**: there are 5 lawsuits outstanding for which 16 thousand Euro has been provided in previous years for possible losses;
- **lawsuits for financial claims**: these are disputes associated with financial advisory activities (documentary errors, incorrect information on financial risks, etc.). In this last case, 271 thousand euro has been provided for possible losses in the 4 lawsuits outstanding.

Cassa di Risparmio di Alessandria

The lawsuits outstanding at 31 December 2011 mostly fall into three categories:

- **erroneous application of interest rates**: there are 18 lawsuits outstanding for which 557 thousand Euro has been provided in previous years for possible losses;
- **operational errors in the provision of services to customers**: there are 15 lawsuits outstanding for which 350 thousand euro has been provided in previous years for possible losses;
- **lawsuits for financial claims**: these are disputes associated with financial advisory activities (documentary errors, incorrect information on financial risks, etc.). In this last case, 366.5 thousand euro has been provided for possible losses in the 16 lawsuits outstanding.

Banca Akros

In previous years, in its normal business activity, Banca Akros has suffered a limited number of claims from customers; the lawsuits outstanding are largely to do with trading in financial instruments. The bank is opposing these claims.

Suitable risk provisions have been set up to cover the cost of such disputes, claims and fees for the assistance of external professionals. Specific provisions made over the years for potential losses on disputes and lawsuits against the company, including claims for damages, action taken in court and out of court, claims from customers and counterparties, including the related legal expenses, amount to 3.8 million Euro at 31 December 2011. Banca Akros uses qualified staff and external advisors to handle disputes.

Banca Popolare di Mantova

Lawsuits outstanding at 31 December 2011 are of the following kinds:

- **operational errors in the provision of services to customers**: there are 3 lawsuits outstanding for which 9 thousand euro has been provided in previous years for possible losses;
- **lawsuits for financial claims**: there are 2 lawsuits outstanding for which 9 thousand euro has been provided for possible losses.

WeBank

Lawsuits outstanding at 31 December 2011 are of the following kinds:

- **operational errors in the provision of services to customers**: there are 11 lawsuits pending for which provisions of 408 thousand euro have been made;
- **lawsuits for financial claims**: there are 5 lawsuits for which 164 thousand euro have been provided.

Part F

Information on consolidated capital

Section 1 – Consolidated capital

A. Qualitative information

Capital management involves a range of policies and decisions needed to define its size, as well as the best combination of the various alternative capitalisation instruments to ensure that the capital and consolidated ratios of the BPM Group are consistent with the risk profile taken on in full compliance with the requirements of the Supervisory Authority.

As regards the policies adopted regarding compliance with the capital adequacy requirements, as well as the policies and processes adopted in the field of capital management, reference should be made to Section 2 below, entitled "Regulatory capital and capital adequacy ratios".

B. Quantitative information

B1. Consolidated capital: breakdown by type of company

Equity line items	Banking group	Insurance companies	Other companies	Eliminations and consolidation adjustments	Total	of which Group	of which minority interests
Share capital	2,883,408	–	10	–	**2,883,418**	2,865,709	17,709
Share premium reserve	185,204	–	–	–	**185,204**	166,907	18,297
Reserves	1,480,334	–	–	–	**1,480,334**	1,464,179	16,155
Equity instruments	500,000	–	–	–	**500,000**	500,000	–
(Treasury shares)	–852	–	–	–	**–852**	–852	–
Valuation reserves:	–364,289	–	–	–	**–364,289**	–367,121	2,832
– Financial assets available for sale	–325,423	–	–	–	**–325,423**	–325,947	524
– Property and equipment	–	–	–	–	**–**	–	–
– Intangible assets	–	–	–	–	**–**	–	–
– Hedging of foreign investments	–	–	–	–	**–**	–	–
– Cash flow hedges	–	–	–	–	**–**	–	–
– Foreign exchange differences	–	–	–	–	**–**	–	–
– Non–current assets held for sale and discontinued operations	–	–	–	–	**–**	–	–
– Actuarial gains (losses) on defined–benefit pension plans	–20,800	–	–	–	**–20,800**	–20,384	–416
– Share of valuation reserves connected with investments carried at equity	–34,232	–	–	–	**–34,232**	–34,232	–
– Special revaluation laws	16,166	–	–	–	**16,166**	13,442	2,724
Net income (loss) (+/–) pertaining to the Group and minority interests	–621,204	–	–13,021	13,021	**–621,204**	–614,333	–6,871
Shareholders' equity	**4,062,601**	**–**	**–13,011**	**13,021**	**4,062,611**	**4,014,489**	**48,122**

B2. Valuation reserves of financial assets available for sale: breakdown

	Banking group		Insurance companies		Other companies		Eliminations and consolidation adjustments		Total		
Assets/Amounts	**Positive reserve**	**Negative reserve**	**Positive reserve**	**Negative reserve**	**Positive reserve**	**Negative reserve**	**Positive reserve**	**Negative reserve**	**Positive reserve**	**Negative reserve**	**Total**
1. Debt securities	231	–332,884	–	–	–	–	–	–	231	–332,884	**–332,653**
2. Equities	43,426	–40,621	–	–	–	–	–	–	43,426	–40,621	**2,805**
3. Mutual funds	13,102	–8,677	–	–	–	–	–	–	13,102	–8,677	**4,425**
4. Loans	–	–	–	–	–	–	–	–	–	–	**–**
Total 31.12.2011	**56,759**	**–382,182**	**–**	**–**	**–**	**–**	**–**	**–**	**56,759**	**–382,182**	**–325,423**
Total 31.12.2010	**50,930**	**–117,721**	**38,445**	**–50,159**	**–**	**–**	**–**	**–**	**89,375**	**–167,880**	**–78,505**

B3. Valuation reserves of financial assets available for sale: changes during the year

	Debt securities	Equities	Mutual funds	Loans
1. Opening balance:	**–103,425**	**25,300**	**–380**	**–**
2. Positive changes	**149,007**	**32,913**	**25,363**	**–**
2.1 Increases in fair value	765	11,340	20,212	–
2.2 Transfer of negative reserves to income statement	11,717	18,563	26	–
- for impairment	4,698	18,563	–	–
- on disposal	7,019	–	26	–
2.3 Other change	136,525	3,010	5,125	–
3. Negative changes	**–378,235**	**–55,408**	**–20,558**	**–**
3.1 Decreases in fair value	–375,388	–53,493	–10,490	–
3.2 Impairment adjustments	–	–	–	–
3.3 Reversal to income statement from positive reserves: on disposal	–66	–	–3,258	
3.4 Other change	–2,781	–1,915	–6,810	–
4. Closing balance	**–332,653**	**2,805**	**4,425**	**–**

The changes referred to in sections 2.3 and 3.4 relate primarily to the tax effects attributable to the changes indicated in the remaining sub-items.

Section 2 – Regulatory capital and capital adequacy ratios

2.1 Scope of application of the regulation

The Bank of Italy in its Circular no. 263 of 27 December 2006 ("New Minimum Capital Requirements for Banks") and subsequent updates, redesigned the rules on the capital adequacy of banks and banking groups, implementing the EC Directives on the capital adequacy of financial intermediaries: New Basel Capital Accord ("Basel 2").
The new structure of the minimum capital rules is based on three Pillars:

- Pillar 1 highlights the importance of measuring risks and capital, envisages compliance with minimum capital requirements to cope with some of the main types of risks faced by the banking and financial sector (credit, counterparty, market and operational); To this end, there is provision for alternative methods of calculating capital requirements with various levels of complexity in the measurement of risk and the type of organisation needed to keep them under control.
- Pillar 2 requires financial intermediaries to adopt a strategy and process of control over capital adequacy, both current and prospective, emphasising the importance of governance as an element of fundamental importance, also from the point of view of the Supervisory Authority, which is responsible for checking the reliability and fairness of this internal assessment;
- Pillar 3 introduces obligations to publish information on capital adequacy, risk exposure and the general characteristics of the systems used to identify, measure and manage such risks.

The instructions on consolidated regulatory capital and capital ratios are applied to the Parent Company and to the other banking, financial and near-banking companies in which 20% or more of the share capital is held with voting rights at ordinary general meeting. Given that the scope of consolidation for financial statements purposes is wider than that used to calculate the regulatory capital and capital adequacy ratios at a Group level, the calculation only includes the elements that relate to the banking, financial and near-banking companies. Moreover, the banking and financial joint ventures (carried at equity in the consolidated financial statements) have been consolidated on a proportional basis in the calculation of Group regulatory capital and capital ratios.

The calculation of regulatory capital and of significant exposures is carried out starting from the consolidated number of the Banking Group, whereas the capital requirements needed to cover the various types of risk (credit, counterparty, market) are determined as the sum of the individual requirements of the entities forming part of the scope of consolidation (net of intercompany balances). The capital requirement for operational risk is calculated by using a combination of the Standardised Method and the Basic Method, as explained below.

2.2 Bank regulatory capital

A. Qualitative information

Regulatory capital represents the first line of protection against the risks involved in the overall banking business and represents the first parameter of reference for assessments regarding bank solidity.
This is made up of the sum of base (Tier I) capital - included 100% in the calculation - and supplementary (Tier II) capital, which is allowed up to the limit of Tier I capital, net of certain deductions.
To take account of the impact of applying international accounting standards on the calculation of regulatory capital, certain "prudential filters" were introduced; these are applied to the figures in the IAS/IFRS financial statements so as to safeguard the quality of the regulatory capital and reduce the potential volatility brought about by introducing these new standards.
Generally speaking, the approach recommended by the Basel Committee and by the Committee of European Banking Supervisors (CEBS), for activities other than trading, provides for 100% deduction of any capital losses resulting from measurement at fair value from Tier I capital and the partial inclusion of any capital gains resulting from measurement at fair value in Tier II capital (this is called the "asymmetric approach").
Moreover, on 18 May 2010 the Bank of Italy partially revised this approach in line with the adjustments made by the other main EU countries, giving banks the chance to completely neutralise capital gains and losses, but only on the securities issued by the Central Administrations of countries belonging to the European Union and included in the portfolio of financial assets available for sale.
The BPM Group decided to take advantage of this option granted by the Bank of Italy, thereby neutralising the gains and losses (booked from 1 January 2010) on the securities issued by the Central Administrations of countries belonging to the European Union and included in the portfolio of financial assets available for sale. This option has been applied in the calculation of consolidated regulatory capital and in the individual regulatory capitals of Group banks from 30 June 2010. At 31 December 2011 - the capital losses not deducted from consolidated Tier I capital amount to Euro 269 million.
In December 2010 the Bank of Italy issued various updates to Circular 263; in particular, for regulatory capital the changes concerning innovative and non-innovative capital instruments have been adopted. The innovative instruments issued by the Parent Company (both directly and through Bpm Capital I) prior to the introduction of the new rules are subject to transitional instructions (so-called "grandfathering"), which make it possible continue including them in regulatory capital.

From Tier I and Tier II capital get subtracted, 50% each, the "items to be deducted", namely equity interests, as well as - if they have the characteristics for being included in the regulatory capital of the issuers - innovative and non-innovative capital instruments, hybrid capitalisation instruments and subordinated instruments held by banks, finance-sector companies and insurance companies.
The 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.

In consolidated regulatory capital, each line item of Tier I and Tier II capital includes a portion that belongs both to the Banking Group and to minority interests.

Based on the rules as they stand, the BPM Group's regulatory capital at the balance sheet date is made up as follows:

- **Tier 1 capital**
  - **Positive elements**: paid-in share capital, share premium reserve, reserves, 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. 12 D.L. 185/2008 ("Tremonti Bonds");
  - **Negative elements**: treasury shares, goodwill and other intangible assets, loss for the period, loss for the period of minority interests;
  - **Negative prudential filters of Tier 1 capital**: negative reserves on securities held for sale and capital resources involved in forward purchase commitments;
  - **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**
  - **Positive elements**: reserves from the revaluation of property and equipment and securities available for sale, innovative capital instruments that cannot be included in Tier I capital, hybrid capitalisation instruments and Tier II subordinated liabilities;
  - **Prudential filters of Tier 2 capital**: the excluded portion of positive reserves on securities available for sale and capital resources involved in forward purchase commitments;
  - **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 consolidated regulatory capital is reported below:

	31.12.2011	**31.12.2010**
A. Tier 1 capital before the application of prudential filters	**3,657,993**	**2,755,569**
B. Prudential filters of Tier 1 capital:	449,901	389,041
B.1 Positive IFRS prudential filters (+)	500,000	500,000
B.2 Negative IFRS prudential filters (–)	–50,099	–110,959
C. Tier 1 capital inclusive of items to be deducted (A + B)	**4,107,894**	**3,144,610**
D. Items to be deducted from Tier 1 capital	–169,641	–264,073
E. Total Tier 1 capital (C – D)	**3,938,253**	**2,880,537**
F. Tier 2 capital before the application of prudential filters	**1,657,343**	**1,452,765**
G. Prudential filters of Tier 2 capital:	–3,040	–476
G.1 Positive IFRS prudential filters (+)	–	–
G.2 Negative IFRS prudential filters (–)	–3,040	–476
H. Tier 2 capital inclusive of items to be deducted (F + G)	**1,654,303**	**1,452,289**
J. Items to be deducted from Tier 2 capital	–169,641	–264,073
L. Total Tier 2 capital (H – I)	**1,484,662**	**1,188,216**
M. Items to be deducted from total Tier 1 and 2 capital	–	–56,155
N. Regulatory capital (E + L – M)	**5,422,915**	**4,012,598**
O. Tier 3 capital	–	–
P. Regulatory capital including Tier 3 capital (N + O)	**5,422,915**	**4,012,598**

Composition of consolidated regulatory capital at the respective dates:

TIER 1 CAPITAL	31.12.2011	31.12.2010
Positive elements	**4,774,060**	**3,688,799**
Share capital	2,883,408	1,709,656
Share premium reserve	185,204	249,913
Reserves	1,443,825	1,445,778
Innovative capital instruments	261,623	261,489
Net income for the year attributed to regulatory capital	–	21,963
Prudential filters of Tier 1 capital:	**500,000**	**500,000**
Financial instruments as per Art. 12 of D.L. 185/2008	500,000	500,000
Negative elements	**–1,116,067**	**–933,230**
Treasury shares or quotas	–852	–1,850
Goodwill	–400,585	–818,208
Other intangible assets	–93,426	–111,304
Loss for the year attributed to the regulatory capital	–614,333	–
Loss for the year pertaining to minority interests	–6,871	–1,868
Negative prudential filters of Tier 1 capital:	**–50,099**	**–110,959**
Negative reserves on securities available for sale	–50,099	–32,858
Capital resources involved in forward purchase commitments	–	–78,101
Tier 1 capital inclusive of items to be deducted	**4,107,894**	**3,144,610**
Items to be deducted from Tier 1 capital	**–169,641**	**–264,073**
50% of equity interests in banks and financial institutions that exceed 10% of the investee's capital	–169,641	–174,485
50% of investments in insurance companies	–	–89,588
Total Tier 1 capital	**3,938,253**	**2,880,537**

TIER 2 CAPITAL	**31.12.2011**	**31.12.2010**
Positive elements	**1,657,343**	**1,452,765**
Valuation reserves: property and equipment	16,166	16,166
Valuation reserves: securities available for sale	6,080	922
Innovative capital instruments that cannot be included in Tier 1 capital	–	–
Hybrid capital instruments	–	159,159
Tier 2 subordinated liabilities	1,635,097	1,276,518
Negative elements		
Prudential filters of Tier 2 capital:	**–3,040**	**–476**
Excluded portion of positive reserves on securities available for sale.	–3,040	–461
Capital resources involved in forward purchase commitments	–	–15
Tier 2 capital inclusive of items to be deducted	**1,654,303**	**1,452,289**
Items to be deducted from Tier 2 capital	**–169,641**	**–264,073**
50% of equity interests in banks and financial institutions that exceed 10% of the investee's capital	–169,641	–174,485
50% of investments in insurance companies	–	–89,588
Total Tier 2 capital	**1,484,662**	**1,188,216**
Total items to be deducted from Tier 1 and 2 capital (*)	**–**	**–56,155**
Equity investment in Bipiemme Vita	–	–48,155
Subordinated liabilities issued by Bipiemme Vita	–	–8,000
Total regulatory capital	**5,422,915**	**4,012,598**
Tier 3 capital	–	–
Total regulatory capital including Tier 3	**5,422,915**	**4,012,598**

(*) Investments and subordinated liabilities issued by insurance companies purchased by the Bank before 20 July 2006.

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.

Bond	31.12.2011		Original nominal amount issued	Bond issue price	Interest rate	Issue date/ maturity	Early redemption from
	Book value	Contribution to regulatory capital					
Tier 1 capital							
Innovative capital instruments (Tier 1): (*)	**282,890**	**261,623**					
Preference shares - Bpm Capital Trust I – 8.393%	70,330	69,207	160,000 Euro	100	Var.le	02.07.2001 Perpetual	02.07.2011
Perpetual Subordinated Fixed/Floating Rate Notes – 9%	212,560	192,416	300,000 Euro	98.955	Var.le	25.06.2008 Perpetual	25.06.2018
Tier 2 capital							
Hybrid capital instruments (Upper Tier 2):							
Banca Popolare di Milano (Upper Tier 2) subordinated bond – Floating rate – 18 June 2008/2018 (**)	1,602	–	17,850 Euro	100	Var.le	18.06.2008/18	n. p.
Subordinated liabilities (Lower Tier 2) (***):	**1,794,547**	**1,635,097**					
Subordinated bond of Banca Popolare di Milano (Lower Tier 2) Floating rate – 29.6.05-15	541,940	480,000	600,000 Euro	99.716	Var.le	29.06.2005/15	29.6.2010
Subordinated bond of Banca Popolare di Milano (Lower Tier 2) Fixed rate 4.5% 18 April 2008/2018	275,455	251,532	252,750 Euro	100	4.50	18.04.2008/18	n.p.
Subordinated bond of Banca Popolare di Milano (Lower Tier 2) Floating rate 20 October 2008/2018	455,390	453,470	502,050 Euro	100	Var.le	20.10.2008/18	20.10.2013
Banca Popolare di Milano subordinated bond loan (Lower Tier 2) Fixed rate – 7.125% (issued as part of the EMTN Programme)	517,141	447,095	475,000 Euro	99.603	7.125	01.03.2011/21	n.p.
Subordinated bond of Banca Popolare di Mantova – 03/12/2004-03/12/2014 (Lower Tier 2)	4,621	3,000	5,000 Euro	100	Var.le	03.12.2004/14	3.12.2009

(*) Innovative capital instruments can be included in Tier 1 capital for an amount not exceeding 15% of the Tier 1 capital (including the innovative instruments), before subtracting the items to be deducted; the portion exceeding that limit can be included in Tier 2 capital.
(**) Not included in the calculation as more than 10% repurchased.
(***) Subordinated liabilities can be included up to a limit of 50% of Tier 1 capital. gross of items to be deducted. At 31 December 2011 the amount is completely calculable in the regulatory capital.

2.3 Capital adequacy

A. Qualitative information

The capital ratios are determined according to the method foreseen in the Basel 2 Capital Accord, adopted by the Bank of Italy in its Circular no. 263 of 27 December 2006.

Based on the instructions of the Supervisory Authority, banks and banking groups have to maintain an amount of regulatory capital that is higher than the total minimum capital requirement (this being the sum of the requirements for credit and counterparty risk, market risk and operational risk). Banks belonging to banking groups that do not show capital deficits at a consolidated level can reduce their individual capital requirement by 25%. Given that this condition has been satisfied, BPM and the other banks in its Group can apply this reduction.

Credit and counterparty risk
The capital requirement for credit and counterparty risk is 8% of risk-weighted assets. This risk is determined on the basis of the standardised approach.

Market risks
The total capital requirement for market risk is the sum of the requirements calculated for regulatory position risk, concentration risk, exchange rate risk and commodity risk.
The Standardised Approach is used by the BPM Group, except for Banca Akros which from 2007 has been authorised by the Bank of Italy to use internal models.

Operational risk
The capital requirement for operational risk is calculated by using a combination of the Standardised Method and the Basic Method. According to the Standardised Approach, the capital requirement is determined by applying distinct regulatory coefficients to the three-year average of operating income for each line of business foreseen in the regulations. In BPM's case, this method is applied to consolidated operating income (excluding Banca Popolare di Mantova and WeBank). The Basic Approach, which provides for a capital requirement of 15% of the three-year average of operating income, is applied to the consolidated operating income of the non-banking companies and to Banca Popolare di Mantova and WeBank.

The following coefficients take on particular importance for the assessment of capital solidity:
- The Tier 1 capital ratio, represented by the ratio between Tier 1 capital and total risk-weighted assets;
- The Core Tier 1 capital ratio, represented by the ratio between Tier 1 capital (net of innovative capital instruments) and total risk-weighted assets;
- The Total capital ratio, represented by the ratio between regulatory capital and total risk-weighted assets.

Specific ("add-on") requirements of the Bank of Italy
Following its inspection of the Parent Company, the Bank of Italy asked for the following urgent measures to be applied in the calculation of our capital requirements from 30 June 2011:
1. the ineligibility of mortgages on residential and non-residential buildings;
2. a one-third increase in the weighting normally used for loans to construction companies, property companies and real estate funds;
3. a 100% increase in the capital requirement for operational risk.

In the calculation at 31 December 2011, applying these measures (see point 1) led to the non-application of the benefits in terms of a lower weighting for mortgage-backed loans, which meant reallocating them to the "companies and other entities" and "retail exposures" portfolios. An increase in risk-weighted assets of 2.503 billion euro, which corresponds to a higher capital requirement of 200 million euro.
The higher requirement as a result of these measures (points 2 and 3) was disclosed as a "specific capital requirement" and reported in the following table under sub-item "B.5 Other calculation elements". At 31 September this requirement amounts to 433 million euro (which corresponds to risk-weighted assets of 5.416 billion euro) and is attributable for 217 million euro to the higher weighting of loans to the property sector and 216 million for the doubling of the requirement for operational risk.
Overall, implementation of these measures involved an increase in risk-weighted assets of 7,919 million euro, which corresponds to a higher capital requirement of 633 million euro.

As a result of the above matters, our capital ratios at 31 December 2011 were as follows:
- Core Tier 1 capital ratio of 8.02% (7.1% at 31.12.2010);
- Tier 1 capital ratio of 8.60% (7.8% at 31.12.2010);
- Total capital ratio of 11.84% (10.8% at 31.12.2010).

The impact of the higher requirements requested by the Bank of Italy is estimated at 168 basis points on the Core Tier 1 Capital Ratio, 180 basis points on the Tier 1 Capital Ratio and 247 basis points on the Total Capital Ratio. Note that these additional requirements of the Bank of Italy may be reviewed once the measures required by the Supervisory Authority have been adopted and once the weaknesses mentioned in the inspection report have been resolved.

After deducting the portion absorbed by credit and counterparty risk, market risk, operational risk and the specific requirements of the Bank of Italy, the Group's surplus capital amounts to 1.758 billion euro.

B. Quantitative information

The following table shows the situation of the capital requirements at 31 December 2011.
Following the instructions provided by the Bank of Italy in the 14th update to Circular 155 ("Instructions for preparing reports on regulatory capital and prudential ratios"), from 31 December 2011 unweighted amounts related to the risk assets are reported net of relationships between companies included in the consolidation. The figure for 31 December 2010 is calculated - in accordance with the regulations then in force - gross of intercompany transactions. The weighted amounts are, of course, always expressed net of intercompany transactions.

Categories/amounts	**Non-weighted amounts**		**Weighted/required amounts**	
	31.12.2011	**31.12.2010**	**31.12.2011**	**31.12.2010**
A. RISK-WEIGHTED ASSETS				
A.1 Credit and counterparty risk	**54,257,383**	**58,343,330**	**37,203,196**	**33,644,703**
1. Standardised approach	54,185,820	58,236,323	37,168,647	33,569,072
2. Method based on internal ratings	–	–	–	–
2.1 Basic	–	–	–	–
2.2 Advanced	–	–	–	–
3. Securitisations	71,563	107,007	34,549	75,631
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			**2,976,256**	**2,691,576**
B.2 Market risk			**39,212**	**45,722**
1. Standardised approach			13,765	32,290
2. Internal models			25,317	13,090
3. Concentration risk			130	342
B.3 Operational risk			**216,584**	**225,443**
1. Basic approach			10,956	13,883
2. Standardised approach			205,628	211,560
3. Advanced approach			–	–
B.4 Other prudential requirements			**–**	**–**
B.5 Other calculation elements (*)			**433,272**	**–**
B.6 Total minimum requirements			**3,665,324**	**2,962,741**
C. RISK ASSETS AND CAPITAL ADEQUACY RATIOS				
C.1 Risk-weighted assets (**)			**45,816,550**	**37,034,274**
C.2 A) Tier 1 capital (net of innovative capital instruments)/Risk-weighted assets (Core Tier 1 capital ratio)			**8.02%**	**7.07%**
C.2 B) Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)			**8.60%**	**7.78%**
C.3 Regulatory capital including Tier 3/Risk-weighted assets (Total capital ratio)			**11.84%**	**10.83%**

(*) This item includes specific capital requirements required by the Bank of Italy.
(**) Risk-weighted assets (Line item C.1) are the product of total minimum capital requirements and the reciprocal of the obligatory minimum ratio for credit risk, namely 8%.

Part G

Business combinations

Section 1 – Transactions carried out during the year

1.1 Business combinations

During the year no business combinations within the scope of IFRS 3 were completed.

1.2 Other information on business combinations

1.2.1 Annual changes in goodwill

Assets/Amounts	Goodwill at 31.12.2010	Increases	Decreases	Goodwill at 31.12.2011
Banca di Legnano and Cassa Risparmio Alessandria (*)	520,153	–	–321,194	198,959
Former Unicredit branches	107,042	–	–	107,042
Bipiemme Vita	15,367	–	–15,367	–
Banca Popolare di Mantova	13,247	–	–13,247	–
WeBank (formerly WeTrade SIM)	12,915	–	–	12,915
Banca Akros	11,726	–	–	11,726
Banca 2000	4,441	–	–	4,441
Akros Alternative Investments SGR	1,430	–	–1,430	–
Pavia branch	342	–	–	342
Total	**686,663**	**–**	**–351,238**	**335,425**

(*) As mentioned in the Explanatory Notes – Assets – Section 13 "Intangible assets", for the purposes of impairment testing a single CGU was considered, consisting of the company resulting from the merger of Banca di Legnano and Cassa di Risparmio di Alessandria; the initial values of goodwill previously allocated to each of the two companies have therefore been added together.

The amounts shown in the "Decreases" column relate to impairment adjustments to goodwill, with the exception of the amount relating to Bipiemme Vita, which was sold during the year.

Section 2 – Transactions carried out after the end of the year

2.1 Business combinations

No combinations involving companies or businesses have been carried since the end of the year within the scope of IFRS 3.

As for "business combinations between entities under common control", which do not fall within the scope of IFRS 3, by convention information is given in this section. So we can mention here the merger of Cassa di Risparmio di Alessandria with Banca di Legnano, carried out by deed signed on 7 February 2012.

Also following the indications of the Supervisory Authority on the need to carry out a radical simplification of the BPM Group, on 27 September 2011, the Board of Directors of BPM, as the Parent Company, authorised the start of proceedings that led to the merger referred to above.
Therefore, during the respective meetings of 28 and 29 September, the Board of Directors of CRAlessandria and Banca di Legnano approved the merger plan, specifically establishing the exchange ratio (based on appraisals carried out by independent experts) as 3.95 shares of Banca di Legnano for each share of Cassa di Risparmio di Alessandria.

In order to implement this project - and, more generally, to facilitate a more radical simplification of the Group's structure in the future - specific agreements have been reached with both the Fondazione CRAlessandria and with the Crédit Mutuel/CIC Group.

In particular - following a resolution by the Board of Directors and the favourable opinion of BPM's Related Parties Committee regarding the Bank's interest in carrying out this operation, as well as the appropriateness and substantial fairness of the related conditions - on 9 September 2011 an agreement was finalised with the Fondazione CRAlessandria, based on the following points:

- the purchase by Cassa Risparmio di Alessandria of the building owned by the Fondazione, which presently hosts CRAL's registered office, at a price (determined on the basis of two specific appraisals and confirmed by another independent expert) of Euro 27 million;
- purchase by BPM of 100 units of IDeA I Fund of Funds, a closed-end mutual fund, carried at net asset value (NAV) for a total of Euro 2 million;
- the payment to Fondazione CRAlessandria of Euro 19 million in exchange for the right, established in the Articles of Association, to veto extraordinary transactions, to be submitted to the shareholders' meeting of CRAlessandria;
- granting by BPM to the Fondazione of an option to purchase - to be exercised within 36 months from the merger - a quota of the share capital of the company resulting from the merger to enable the Fondazione to own up to 5.50% of the share capital;
- confirmation of the right of the Fondazione to designate its own representative on the Boards of Directors of BPM and Banca Akros, and to appoint a Deputy Chairman in the new entity resulting from the merger of CRAlessandria with Banca di Legnano.

Lastly, in order to allow BPM to limit as much as possible any constraints that may hinder or make more difficult any future negotiations for the sale to third parties of the quota that BPM will hold the new Banca di Legnano, on 11 January 2012, we agreed with Fondazione CRAlessandria to enter into an agreement amending the agreement of 9 September 2011. In particular, the agreement envisaged, among other things, the "right of co-sale" ("tag along") to the Fondazione CRAlessandria and the "right to drag" ("drag along") in favour of BPM in the case of a sale to third parties of the stake held by Fondazione CRAlessandria.

Subsequently, during the meeting of 4 October 2011, BPM's Board of Directors reviewed the expression of interest by CIC in the sale of its 6.49% stake in Banca di Legnano. Having evaluated the adequacy of the price compared with market values and BPM's specific interest in buying this stake, also to facilitate the pending merger between Banca di Legnano and CRAlessandria, the Board voted unanimously to send CIC a firm offer of Euro 100 million. The transaction was completed on 10 October, allowing BPM to achieve 100% ownership of Banca di Legnano with a modest impact of 5 basis points on the Core Tier I Ratio.
This transaction does not have any impact on the general agreements pending between the Crédit Mutuel/CIC Group and the BPM Group, except for the elimination of all of CIC's preceding rights over Banca di Legnano, including its right to veto extraordinary transactions to be submitted to the shareholders' meeting and the right to nominate its own representative on the Board of Directors of Banca di Legnano.

On 16 January 2012, Banca di Legnano and Cassa di Risparmio di Alessandria held an Extraordinary Shareholders' Meeting and approved the merger. The absorption of Cassa di Risparmio di Alessandria S.p.A. by Banca di Legnano S.p.A., both controlled by Banca Popolare di Milano S.c.a.r.l., was signed on 7 February 2012 with effect toward third parties from 11 February 2012 and accounting and tax effects from 1 January 2012.
The merging company, Banca di Legnano, has increased its share capital from Euro 472,573,272 to Euro 531,089,559 by issuing 58,516,287 new ordinary shares of par value Euro 1 each, to be allocated to shareholders of the merged company, Cassa di Risparmio di Alessandria, at a ratio of 3.95 newly issued Banca di Legnano S.p.A. ordinary shares for each share of Cassa di Risparmio di Alessandria S.p.A., to be cancelled as a result of the merger.

Based on this exchange ratio, the share capital after the merger of Banca di Legnano S.p.A. was subscribed 97.8% by Banca Popolare di Milano S.c.a.r.l. and 2.2% by Fondazione CRAlessandria.

Part H
Related party transactions

1. Information relating to the remuneration of key management personnel

The remuneration for the year of the directors and statutory auditors of the Group are recorded in income statement item 180 a) "Personnel expenses" and amounted to 5.562 million for directors (5.658 million in 2010) and 1.426 million for the statutory auditors (1.464 million in 2010).

Information relating to the remuneration of key management personnel

The information required by paragraph 16 of IAS 24 is provided below in relation to managers belonging to the senior management teams of group companies and of the Parent Company.

	2011	**2010**
Salaries and other short-term benefits	8,201	12,337
Bonuses and other incentives with share-based payments [1]	230	16
Post-employment benefits [2]	734	942
Termination benefits [3]	3,142	1,709

[1] The amount for 2011 represents the fair value of BPM shares awarded by way of bonus linked to performance in 2010. The amount for 2010 represents the value of the shares granted as an allocation to the employees of the Parent Company, pursuant to art. 47 of the Articles of Association (now art. 60).
[2] Represents the annual charge to the employee termination indemnities and pension fund
[3] This represents the indemnities paid to the General Manager of the Parent Company who left during the period.

2. Related party disclosures

For further details on the procedures governing related party transactions, please refer to the specific section in the Parent Company's report on operations.

A. Joint ventures and companies subject to significant influence

Line items	31.12.2011			31.12.2010		
	Joint ventures	Company subject to significant influence	Total	Joint ventures	Company subject to significant influence	Total
Balance sheet: assets	**18,540**	**843,457**	**861,997**	**21,458**	**817,885**	**839,343**
Financial assets held for trading	–	12,828	**12,828**	–	6,913	**6,913**
Loans to customers	18,540	830,629	**849,169**	21,458	810,972	**832,430**
Balance sheet: liabilities	**4,783**	**325,780**	**330,563**	**4,733**	**14,852**	**19,585**
Due to customers	4,783	64,818	69,601	4,733	14,580	**19,313**
Securities issued	–	**119,410**	**119,410**	–	–	**–**
Financial liabilities held for trading	–	28,941	28,941	–	272	**272**
Financial liabilities designated at fair value through profit and loss	–	**112,611**	**112,611**	–	–	**–**
Balance sheet: guarantees and commitments	**770**	**125,885**	**126,655**	**–**	**9,656**	**9,656**
Guarantees given	770	125,885	**126,655**	–	9,656	**9,656**
Commitments	–	–	**–**	–	–	**–**
Income statement	**741**	**99,920**	**100,661**	**1,456**	**22,654**	**24,110**
Interest income	836	19,846	**20,682**	1,432	7,167	**8,599**
Interest expense	**(12)**	(5,353)	**(5,365)**	–	(433)	**(433)**
Fee and commission income	38	84,782	**84,820**	72	15,453	**15,525**
Fee and commission expense	(121)	**–**	**(121)**	(48)	–	**(48)**
Recharge of personnel expenses for staff seconded to third parties	**–**	224	**224**	–	171	**171**
Other operating income	**–**	421	**421**	–	296	**296**

B. Other related parties

The following table reports transactions and balances between group companies and members of the Management Boards and of the Supervisory Board and of the Boards of Directors and of Statutory Auditors, as well as key management personnel of group companies, and other parties related to them.

Management Board and Boards 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	4,856	1,049	1,979	36,610
	Drawdowns	3,523	998	1,684	27,337
Deposits		5,233	243	6,968	3,319
Indirect deposits (at market value)		17,308	38,024	32,431	48,361
Assets under management (at market value)		7,376	20	2,165	18
Guarantees given		–	–	–	2,256
Interest income		134	34	48	901
Interest expense		(88)	(6)	(91)	(21)
Commission and other income		93	4	29	59
Amounts recognised for professional and consultancy services		–	–	–	–

Supervisory Board		Members	Companies controlled by members of the Board	Relatives of members of the Board	Companies controlled by relatives of members of the Board
Loans	Granted	2,452	–	239	155
	Drawdowns	2,291	–	142	–
Deposits		1,234	–	618	31
Indirect deposits (at market value)		750	–	225	–
Assets under management (at market value)		400	–	511	–
Guarantees given		–	–	7	–
Interest income		42	–	4	–
Interest expense		(21)	–	(2)	–
Commission and other income		10	–	14	2
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	82	–	9	–
	Drawdowns	22	–	1	–
Deposits		541	–	140	–
Indirect deposits (at market value)		721	–	42	–
Assets under management (at market value)		17	–	–	–
Guarantees given		–	–	–	–
Interest income		–	–	–	–
Interest expense		(15)	–	(1)	–
Commission and other income		4	–	1	–
Amounts recognised for professional and consultancy services		(5)	–	–	–

General Management		Members of General Management	Companies controlled by members of General Management	Relatives of members of General Management	Companies controlled by relatives of members of General Management
Loans	Granted	1,763	–	839	61
	Drawdowns	1,068	–	740	27
Deposits		2,243	–	580	–
Indirect deposits (at market value)		3,051	–	331	–
Assets under management (at market value)		572	–	353	1
Guarantees given		–	–	–	–
Interest income		21	–	21	2
Interest expense		(39)	–	(7)	–
Commission and other income		4	–	5	3
Amounts recognised for professional and consultancy services		–	–	–	–

Proportion of related party transactions

On the basis of Consob Communication DEM/6064293 of 28.7.2006 and in addition to the requirements of the international accounting standard on "Related party disclosures" (IAS 24), we also provide information on related party transactions or balances as classified by IAS 24, and their impact on the balance sheet and income statement of the Group.

Impact of related party transactions or balances on:	31.12.2011			31.12.2010		
	Book value	Related parties		Book value	Related parties	
		Absolute amount	%		Absolute amount	%
Asset line items:						
20. Financial assets held for trading	2,040,312	12,828	0.6	1,877,498	6,913	0.4
70. Loans to customers	35,685,563	887,002	2.5	35,585,503	848,739	2.4
Liabilities:						
20. Due to customers	21,398,576	90,751	0.4	23,865,880	48,390	0.2
30. Securities issued	12,632,270	119,410	1.0	12,070,146	0	n.s.
40. Financial liabilities held for trading	1,677,642	28,941	1.7	1,150,170	272	n.s.
50. Financial liabilities designated at fair value through profit and loss	1,086,922	112,611	10.3	669,009	0	n.s.
Income statement line items:						
10. Interest and similar income	1,559,936	21,889	1.4	1,203,914	8,849	0.7
20. Interest and similar expense	(735,165)	(5,656)	0.8	(486,564)	(588)	0.1
40. Fee and commission income	596,839	85,048	14.2	685,011	15,736	2.3
50. Fee and commission expense	(73,632)	(121)	0.2	(74,244)	(48)	0.1
180. Administrative expenses (*)	(1,030,472)	219	n.s.	(1,080,374)	171	n.s
220. Other operating expenses/income	102,333	421	0.4	72,300	296	0.4

(*) The amount reported versus related parties is the balance between the recovery of expenses relating to Group personnel seconded to associates and administrative expenses versus other related parties.

Part I
Share-based payments

A. Qualitative information

1. Description of share-based payments

Allocations of net profit
Under art. 60 (formerly art. 47) of the Parent Company's Articles of Association, as amended by the Extraordinary Meetings of Members on 25 June and 22 October 2011, an annual allocation is made to current employees - except those who hold senior management positions - or to collective funds where they are registered, of 5% of the Parent Company's pre-tax profit ("Income (loss) before tax from continuing operations"), calculated before determining this amount, unless the Meeting decides not to distribute a dividend out of earnings for the year. The amount is allocated in the form of shares that are subject to a restriction, in that the assignee cannot dispose of them for three years (for the purposes of the tax exemption); the reference value of shares granted is equal to the average stock price posted during the 30 days preceding the award.
The award is made on a scale that provides, according to union agreements, a fixed equal amount (60% of the total granted) and an amount related to length of service (for the remaining 40%).
Based on IFRS 2, the amount to be paid to employees is considered an expense for the year and recognised in the income statement under "Personnel expenses", for an amount equal to the fair value of the labour received, with the contra-entry booked to shareholders' equity.

Incentive scheme for "key personnel":
following the issuance by the Bank of Italy of the "Supervisory Provisions concerning remuneration policies and practices and incentives in banks and banking groups" on 30 March 2011, the Parent Company has prepared an update of the "Document on remuneration and incentive policies of Banca Popolare di Milano ", approved by the Board of Directors of the Parent Company at its meeting on 7 June 2011, and by the Members at the Ordinary General Meeting of 25 June 2011.

With regard to so-called "key personnel" (or "risk takers", i.e. managers who can take significant risks) and the variable element of remuneration, which is designed to recognise merit and the results achieved, the Parent Company has established an incentive system based on effective and lasting results, which also takes into account the risks assumed, laying down a number of parameters to which recognition of bonuses is subject (so-called "access gates"); there is also an after-the-event correction mechanism which makes payment of the deferred elements of the incentives subject to the ability to maintain over time some of the parameters set at a higher level than the "gate" parameter in the year that the incentive originally accrues.
The bonus pool for the key personnel of each Group company is defined at individual company level depending on the extent to which specific targets are reached in terms of profit and growth, risks assumed and the qualitative objectives established each year. Use is also made of periodic analyses of market pay trends that take into consideration the competitors that each Group company has to deal with on a day-to-day basis.

The variable element of remuneration is paid as follows: 50% in cash and 50% in BPM shares (excluding managers who have responsibility for internal control).
As regards the portion paid in shares, the number of shares is determined by dividing the amount of the variable compensation due by the average price in the thirty days prior to the grant, also making reference for the deferred portion to the value posted in the year of settlement of the upfront allotment . 60% of the share element is attributed to the beneficiary upfront in the year after the accrual period (the so-called "year of settlement"), but with a retention period of two years, while 40% of the shares is deferred in equal parts over a period of three years from the year after that of settlement, with a retention period of one year, and is subject to the after-the-event correction mechanism referred to above.
60% of the cash element is paid in the year of settlement, while the other 40% is deferred over a period of three years from the year following the settlement, and is also subject to the after-the-event correction mechanism.
The shares used to service the plan are acquired gradually by the Management Board of the Parent Company in accordance with the law; alternatively, the shares held in portfolio may be allocated.
Dividends may not be distributed on the deferred shares before the end of the deferral period.
As established in IFRS 2, the transaction explained in this paragraph is considered an expense for the year and recognised in the income statement under "Personnel expenses", for an amount equal to the fair value of the labour received, with the contra-entry booked to shareholders' equity.

For the "heads of internal control functions", for which the objectives assigned are exclusively professional and consistent with the responsibilities entrusted to them, bonuses are only paid in cash as share-based incentives are necessarily related to the company's results. The amount, which cannot exceed 50% of their gross annual salary, is allocated 60% in the year after the year of settlement (the one in which the bonus accrues), while the other 40% is split equally over three years after the settlement period. The deferred portion will be paid if the individual professional objectives assigned to the beneficiary have been achieved at least up to the level set, but also in the years between that settlement of the variable element and payment of the deferred portion.

B. Quantitative information

2. Other information

Given the negative result of the Parent Company, there are not the conditions foreseen by art. 60 of the Articles of Association for the assignment to employees of the share of profits normally reserved for them.

As regards the incentive system for key personnel, the bonus for 2010 to be paid in BPM shares in 2011 has been booked to personnel expenses in sub-item h) "costs associated with share-based payments" and amounts to 368 thousand euro.

Part L
Share based payments

Consolidated results by business segment

This section presents the consolidated results broken down by business segment on the basis of IFRS 8 "Operating Segments".

Primary reporting by business segment

The definition of the activities carried out by each BPM Group company represents the basis for their allocation to the relevant business segment. Broad customer groupings have been identified with regard to the numerous types of customer served by the Group, particularly by its retail banks which use a model that splits customers into different groups. These groupings have similar characteristics in terms of:

- type of products provided;
- distribution channels;
- risk-return profiles.

The method used for segmenting customers is based on qualitative and quantitative criteria; in particular, as regards corporate customers, the reference parameter is represented by the following turnover thresholds:

- retail customers, up to Euro 5 million;
- lower corporate, over Euro 5 million and up to Euro 25 million;
- middle corporate, over Euro 25 million and up to Euro 50 million;
- upper corporate, over Euro 50 million and up to Euro 250 million
- large corporate, over Euro 250 million.

The customer segmentation model is also consistent with the principle used for allocating them to portfolios, adopted for setting commercial policies and representing the basis for management reporting.

The following segments have therefore been identified and reported:

- ***"Commercial banking"***: this contains the results of private, small and medium business customers of the Group's "retail", "lower corporate" and "middle corporate" Group banks together with those of Banca Akros. In addition, this segment contains the results of the private banking business (previously carried out by Bipiemme Private Banking SIM, absorbed by the Parent Company in 2010) and the amounts related to WeBank. Lastly, this segment also includes the financial statements figures of ProFamily;

- ***"Corporate banking"***: this contains amounts relating to upper corporate and large corporate customers mainly related to the Parent Company;

- ***"Treasury & Investment banking"***: this contains the results of managing the bank's own securities portfolio, trading on its own account in securities and foreign exchange and treasury activities. This segment not only reports the financial activities typifying the Group's commercial banks but also the results of Banca Akros, a Group's investment bank, and of BPM Ireland and Tirving;

- ***"Wealth management"***: this contains the results relating to the Group's asset management companies (Akros Alternative Investments SGR and BPM Fund Management, put in liquidation on 30 November 2011);

- **"Other activities"**: this segment reports the results of Ge.Se.So. (a company which manages company canteens);

- ***"Corporate center"***: this covers services relating to the Group operations, its role as the receptacle for the investments portfolio, the subordinated liabilities and all the other assets and liabilities not allocated to the other business segments and as the counterparty to all the figurative/standard effects. The following companies are classified in this segment: BPM Capital I, BPM Luxembourg and the two vehicles BPM Securitisation 2 and BPM Covered Bond, which were set up for the loan securitisations and the covered bond issue programme, respectively, as well as the figures for the four hedge funds managed by Akros Alternative Investments SGR, whose NAV is included in the Investment Banking segment of the Parent Company.

For the purpose of reconciling the segment results and the consolidated results, please note that:

- the methods used for measuring the quantitative information shown below are the same as those used for management reporting purposes, which are also in line with the accounting policies applied in drawing up the consolidated financial statements;
- lastly, note that the main schedule also provides for the disclosure of eliminations between segments, which are shown in the column entitled "Cross-segment eliminations", as well as consolidation adjustments, which are shown in the column entitled "Other adjustments", and the results of the companies valued according to the equity method;
- it was not necessary to prepare the reconciliation schedule as there were no other reconciling items between the sum of the pre-tax results of the segments and the consolidated book result.

Definition of content

With reference to the information reported in the primary reporting formats, it is to be noted as follows:

- "interest margin" is determined according to the model of internal transfer rates used to measure the operating performances of all the centres of responsibility of the individual legal entities belonging to the Group;
- "indirect costs" contain an allocation of overheads based an internal cost-allocation model, which makes it possible to identify the business and service units and the relationships between them, so as to recognise their exchanges of value and put a price on them. The revenues and costs to be allocated, calculated in this way, are included in internal revenues and costs;
- "segment income (loss) before tax from continuing operations" is obtained by deducting segment costs from segment revenues, including the effect of figurative income and expenses. The sum of all of the segment results is the same as the corresponding line item in the consolidated income statement;
- the balance sheet figures are those reported at the period end. Liabilities are stated net of share capital, reserves and net profit for the year.

A. Segment quantitative information

A.1 Segment results

The results by business segment are reported below:

- ***"Commercial banking"***, with a segment result gross of taxes of Euro 261.5 million, a decrease of Euro 190.7 million on the previous year deriving from:
  - **operating income** for Euro 1,099.6 million, with a rise of Euro 15.1 million versus the previous year. This increase is largely due to a higher interest margin (+84.0 million euro compared with comparative figure) thanks to a considerable improvement in the mark-down (+19 bps) and the growth in average funding volumes, which amply offset the fall in non-interest margins (-68.9 million euro) as a result of fewer placements of other issuers' bonds;
  - **operating expenses** have declined by Euro 18.5 million, mainly due to a decrease in personnel expenses as a result of the decrease in Group staff;
  - **net impairment adjustments to loans** Euro 426.0 million, have increased by Euro 224.3 million, with respect to the previous year;
  - **goodwill impairment** of Euro 334.4 million as a result of the process of verifying the value of goodwill related to the CGUs included in the Commercial Banking segment, in particular:

1) the new Banca di Legnano after its merger with Cassa di Risparmio di Alessandria, based on the resolutions passed by the boards of directors of both companies in September 2011 and completed on 11 February 2012 (effective for accounting and tax purposes from 1 January 2012);
2) Banca Popolare di Mantova;
3) WeBank
4) the former Unicredit branches, Banca 2000 and Pavia branch, which derive from business combinations made by the Parent Company for which the autonomous CGU has been identified as the Commercial Banking segment.

This verification process showed adjustments to goodwill of the CGUs represented by the new Banca di Legnano and Banca Popolare di Mantova for Euro 321.2 million and Euro 13.2 million, respectively (see section 13 "Intangible Assets" of Part B of the Explanatory Notes to the Financial Statements - Balance Sheet - Assets).

■ ***"Corporate banking"***: contributes with a pre–tax result of Euro 143.3 million, which shows a rise of Euro 21.2 million (+17.3%) with respect to the comparative figure. This positive result comes from the good trend in operating margin (+ Euro 28.8 million), which benefits from the improvement in interest margin (+ Euro 25.5 million) thanks to a better mark–up, as well as the positive trend in non–interest margin (+ Euro 3.4 million);

■ ***"Treasury & Investment banking"***: this contributes a pre–tax profit of Euro 75.7 million, a decrease of Euro 33.9 million on the same period last year. The positive result in interest margin (+ Euro 82.5 million on the previous year, attributable to an increase in the securities held in portfolio) was not enough to offset the negative result of banking activities (– Euro 132.2 million compared with 2010).
This last reduction was influenced by the following factors:

- –43.4 million euro) attributable to the lower results of Banca Akros. In the latter case, the reduction in results is due to the general contraction in work flows from institutional clients, with negative repercussions specifically on market making . The bond segment was affected in particular by the poor performance of government securities and by the widening of spreads on many bond issues caused by the crisis in the so–called "peripheral sovereign states";
- –24.3 million of higher losses on the debt security portfolio of Bpm Ireland, which also includes the reversal to the income statement from the negative valuation reserve for securities classified as "financial assets available for sale". Again in this case, the losses are due to enlargement of credit spreads;
- –60.9 million euro relating to the securities portfolio of the Parent Company, that are impacted in particular by the losses on UCITS.

■ ***"Wealth management"***: this reports a loss of Euro 0.6 million, a decrease of Euro 3.3 million, primarily due to lower income before taxes of Euro 2 million on the part of BPM Fund Management, due to the closure in 2011 of the fund managed by the company and the goodwill impairment of Euro 1.4 million arising from the impairment testing of the CGU Akros Alternative Investments;

■ ***"Other Activities"***: at present this segment only includes Ge.se.so;

■ ***"Corporate center"***: reports a loss of Euro 230.8 million, a decreased compared with the previous year. Besides the increased cost of institutional funding, whose mark–down during the year implies an increase in the negative contribution to net interest income of Euro 40 million, the following matters have also contributed to the deterioration in the 2011 result compared with the previous year:

- the increase in provisions for risks and charges, which reached Euro 100.3 million versus Euro 0.1 million in 2010 (see section 12 **"Allowance for risks and charges"** in the liabilities section of Part B of these notes);
- **writedowns** of 51.8 million euro, due to the deterioration in value of equity investments classified as available for sale;
- **writedowns** of 86.8 million euro, mostly stemming from the impairment test on equity investments (see section 10 "Investments in associates and companies subject to joint control" in Part B of these notes – Balance Sheet – Assets).

Segment income statement

amounts (euro/000)

	Commercial Banking	Corporate Banking	Treasury & Investment Banking	Wealth Management	Other activities	Corporate Center	Cross segment eliminations	Other adjustments	Total companies
A. 2011									
Interest margin	608,033	184,203	136,696	69	9	–104,464	2,051	–1,826	824,771
Service income	490,917	69,055	21,901	3,652	2,079	7,115	–28,586	–7,915	558,218
Profit/losses from financial management	630	0	–15,381	–1	0	75,772	0	–88,046	–27,026
Profits (losses) on investments in associates and companies subject to joint control	0	0	0	0	0	0	0	–4,113	–4,113
Operating income	**1,099,580**	**253,258**	**143,216**	**3,720**	**2,088**	**–21,577**	**–26,535**	**–101,900**	**1,351,850**
Direct costs	–460,620	–8,787	–58,306	–2,916	–2,000	–539,633	26,535	779	–1,044,948
Of which personnel expenses:	*–389,792*	*–6,469*	*–32,161*	*–1,957*	*–1,840*	*–216,600*	*–1,806*	*0*	*–650,625*
Indirect costs	–474,416	–41,661	–6,245	0	0	522,322	0	0	0
Operating expenses	**–935,036**	**–50,448**	**–64,551**	**–2,916**	**–2,000**	**–17,311**	**26,535**	**779**	**–1,044,948**
Operating result	**164,544**	**202,810**	**78,665**	**804**	**88**	**–38,888**	**0**	**–101,121**	**306,902**
Net impairment adjustments to loans, financial and other assets	–426,043	–59,536	–2,193	0	0	–105,128	0	–2,159	–595,059
Profits (losses) on investments in associates and companies subject to joint control and sale of investments	0	0	–790	0	0	–86,802	0	4,244	–83,348
Goodwill impairment	–334,441	0	0	–1,430	0	0	0	0	–335,871
Extraordinary tax items	0	0	0	0	0	0	0	0	0
Income (loss) before tax from continuing operations	**–595,940**	**143,274**	**75,682**	**–626**	**88**	**–230,818**	**0**	**–99,036**	**–707,376**
B. 2010									
Operating income	**1,084,519**	**224,420**	**191,502**	**5,951**	**2,128**	**92,070**	**–29,127**	**–107,333**	**1,464,130**
Operating expenses	**–953,569**	**–60,093**	**–76,080**	**–3,233**	**–2,047**	**–34,187**	**29,127**	**394**	**–1,099,688**
Net impairment adjustments to loans, financial and other assets	–201,734	–42,230	–5,799	0	0	–12,823	0	6,803	–255,783
Profits (losses) on investments in associates and companies subject to joint control and sale of investments	0	0	–1	0	0	289,521	0	–234,501	55,019
Goodwill impairment	0	0	0	0	0	0	0	0	0
Extraordinary tax items	0	0	0	0	0	–178,469	0	0	–178,469
Income (loss) before tax from continuing operations	**–70,784**	**122,097**	**109,622**	**2,718**	**81**	**156,112**	**0**	**–334,637**	**–14,791**
Change A – B									
Operating income	**15,061**	**28,838**	**–48,286**	**–2,231**	**–40**	**–113,647**	**2,592**	**5,433**	**–112,280**
Operating expenses	**18,533**	**9,645**	**11,529**	**317**	**47**	**16,876**	**–2,592**	**385**	**54,740**
Net impairment adjustments to loans, financial and other assets	–224,309	–17,306	3,606	0	0	–92,305	0	–8,962	–339,276
Profits (losses) on investments in associates and companies subject to joint control and sale of investments	0	0	–789	0	0	–376,323	0	238,745	–138,367
Goodwill impairment	–334,441	0	0	–1,430	0	0	0	0	–335,871
Extraordinary tax items	0	0	0	0	0	178,469	0	0	178,469
Income (loss) before tax from continuing operations	**–525,156**	**21,177**	**–33,940**	**–3,344**	**7**	**–386,930**	**0**	**235,601**	**–692,585**

Segment balance sheet

amounts (euro/000)

	Commercial Banking	Corporate Banking	Treasury & Investment Banking	Wealth Management	Other activities	Corporate Center	Cross segment eliminations	Other adjustments	Total companies
A. 31 December 2011									
Total assets	**25,809,280**	**10,406,501**	**12,649,347**	**4,202**	**1,228**	**11,496,308**	**–456,137**	**–7,979,702**	**51,931,027**
of which investments carried at equity	*0*	*0*	*0*	*0*	*0*	*300,340*	*0*	*0*	*300,340*
Total liabilities (*)	**–26,751,904**	**–1,150,818**	**–11,564,520**	**–1,072**	**–1,002**	**–15,232,942**	**456,137**	**6,377,704**	**–47,868,417**
B. 31 December 2010									
Total assets	**23,504,990**	**11,595,528**	**9,578,667**	**4,383,540**	**1,217**	**13,288,410**	**–253,207**	**–8,141,705**	**53,957,440**
of which investments carried at equity	*0*	*0*	*0*	*0*	*0*	*367,833*	*0*	*0*	*367,833*
Total liabilities (*)	**–26,149,190**	**–1,716,581**	**–9,039,425**	**–4,193,467**	**–1,003**	**–15,408,226**	**253,207**	**6,280,762**	**–49,973,923**
Change A – B									
Total assets	**2,304,290**	**–1,189,027**	**3,070,680**	**–4,379,338**	**11**	**–1,792,102**	**–202,930**	**162,003**	**–2,026,413**
of which investments carried at equity	*0*	*0*	*0*	*0*	*0*	*–67,493*	*0*	*0*	*–67,493*
Total liabilities (*)	**–602,714**	**565,763**	**–2,525,095**	**4,192,395**	**1**	**175,284**	**202,930**	**96,942**	**2,105,506**

(*) not including shareholders' equity

Certification of the consolidated financial statements pursuant to art. 81-ter of Consob Regulation no. 11971 dated 14 May 1999 and subsequent additions and amendments

1.Piero Luigi Montani, as Managing Director and Chief Executive Officer, and Roberto Frigerio, as the Financial Reporting Manager of Banca Popolare di Milano S.c.a.r.l., certify, taking into account art. 154-bis, para. 3 and 4, of Decree 58 of 24 February 1998:

- the adequacy in relation to the characteristics of the company and
- the effective application

of the administrative and accounting procedures for the preparation of the consolidated financial statements during the course of 2011.

2. The assessment of adequacy of the administrative and accounting procedures as a basis for the formation of the consolidated financial statements at 31 December 2011 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 consolidated 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 and of the companies included in the consolidation.

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 and of the other companies included in the consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Milan, 27 March 2012

The Managing Director and CEO	The Financial Reporting Manager
Piero Luigi Montani	Roberto Frigerio

Attachments to the consolidated financial statements

Reconciliation between the consolidated balance sheet and the consolidated reclassified balance sheet (euro/000)

Reclassified consolidated balance sheet line items			Consolidated balance sheet line items	31.12.2011	30.09.2011	31.12.2010
Cash and cash equivalents				**241,315**	**216,048**	**264,208**
	Line item	10	Cash and cash equivalents	241,315	216,048	264,208
Financial assets designated at fair value and hedging derivatives:				**10,860,878**	**10,750,844**	**12,295,231**
	Line item	20	Financial assets held for trading	2,040,312	2,274,432	1,877,498
	Line item	30	Financial assets designated at fair value through profit and loss	529,750	629,075	1,784,520
	Line item	40	Financial assets available for sale	8,100,279	7,636,919	8,557,363
	Line item	50	Investments held to maturity	0	0	0
	Line item	80	Hedging derivatives	168,244	200,513	75,674
	Line item	90	Fair value change of financial assets in hedged portfolios (+/–)	22,293	9,905	176
Due from banks				**2,104,004**	**1,277,583**	**2,488,570**
	Line item	60	Due from banks	2,104,004	1,277,583	2,488,570
Loans to customers				**35,685,563**	**36,209,485**	**35,537,428**
	Line item	70	Loans to customers	35,685,563	36,209,485	35,537,428
Fixed assets				**1,483,622**	**1,927,934**	**1,998,110**
	Line item	100	Investments in associates and companies subject to joint control	300,340	416,552	367,833
	Line item	120	Property and equipment	754,431	739,493	757,331
	Line item	130	Intangible assets	428,851	771,889	872,946
Technical insurance reserves reassured with third parties				**0**	**0**	**5,642**
	Line item	110	Technical insurance reserves reassured with third parties	0	0	5,642
Non–current assets held for sale and discontinued operations				**0**	**0**	**0**
	Line item	150	Non–current assets held for sale and discontinued operations	0	0	0
Other assets				**1,555,645**	**1,386,806**	**1,368,251**
	Line item	140	Tax assets	862,662	759,538	744,706
	Line item	160	Other assets	692,983	627,268	623,545
Total assets				**51,931,027**	**51,768,700**	**53,957,440**
Due to banks				**9,465,678**	**6,642,569**	**7,107,417**
	Line item	10	Due to banks	9,465,678	6,642,569	7,107,417
Due to customers				**21,398,576**	**23,579,501**	**23,817,805**
	Line item	20	Due to customers	21,398,576	23,579,501	23,817,805
Securities issued				**12,632,270**	**12,869,968**	**12,070,146**
	Line item	30	Securities issued	12,632,270	12,869,968	12,070,146
Financial liabilities and hedging derivatives:				**2,835,245**	**2,739,866**	**1,842,215**
	Line item	40	Financial liabilities held for trading	1,677,642	1,623,953	1,150,710
	Line item	50	Financial liabilities designated at fair value through profit and loss	1,086,922	1,055,571	669,009
	Line item	60	Hedging derivatives	31,883	19,569	49,294
	Line item	70	Fair value change of financial liabilities in hedged portfolios (+/–)	38,798	40,773	–26,798
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				**1,059,850**	**1,750,320**	**1,395,439**
	Line item	80	Tax liabilities	85,270	119,220	122,771
	Line item	100	Other liabilities	974,580	1,631,100	1,272,668
Provisions for specific use				**476,797**	**391,213**	**432,438**
	Line item	110	Employee termination indemnities	143,344	151,756	155,347
	Line item	120	Allowances for risks and charges	333,453	239,457	277,091
Technical reserves				**0**	**0**	**3,308,463**
	Line item	130	Technical reserves	0	0	3,308,463
Capital and reserves				**4,628,822**	**3,613,164**	**3,737,196**
	Line item	140	Valuation reserves	–367,121	–239,493	–92,298
	Line item	150	Redeemable shares	0	0	0
	Line item	160	Equity instruments	500,000	500,000	500,000
	Line item	170	Reserves	1,464,179	1,503,447	1,481,484
	Line item	180	Share premium reserve	166,907	188,923	189,639
	Line item	190	Share capital	2,865,709	1,660,287	1,660,221
	Line item	200	Treasury shares (–)	–852	0	–1,850
Minority interests (+/–)				**48,122**	**135,227**	**140,351**
	Line item	210	Minority interests (+/–)	48,122	135,227	140,351
Net income (loss) (+/–)				**–614,333**	**46,872**	**105,970**
	Line item	220	Net income (loss) (+/–)	–614,333	46,872	105,970
Total liabilities and shareholders' equity				**51,931,027**	**51,768,700**	**53,957,440**

Reconciliation between the consolidated income statement and the consolidated reclassified income statement

(euro/000)

Reclassified consolidated income statement line items			Consolidated income statement line items	2011	2010
Interest margin				**824,771**	**733,227**
	Line item	10	Interest and similar income	1,559,936	1,203,914
			Interest and similar income	**1,559,936**	**1,203,914**
	Line item	20	Interest and similar expense	(735,165)	(486,564)
	(–) Line item	*20*	*(partial) Interest expense on tax settlement*	–	*15,877*
			Interest and similar expense	**(735,165)**	**(470,687)**
Non-interest margin				**527,079**	**730,903**
Net fee and commission income				**523,207**	**610,767**
	Line item	40	Fee and commission income	596,839	685,011
			Fee and commission income	**596,839**	**685,011**
	Line item	50	Fee and commission expense	(73,632)	(74,244)
			Fee and commission expense	**(73,632)**	**(74,244)**
Other income				**3,872**	**120,136**
Profits (losses) on investments carried at equity				**(4,113)**	**(124)**
	(+) Line item	240	(partial) - Profits (losses) on investments in associates and companies subject to joint control (carried at equity)	(4,113)	(124)
Net income from banking activities				**(27,026)**	**86,008**
	Line item	70	Dividend and similar income	33,477	96,687
			Dividends	**33,477**	**96,687**
	Line item	80	Profits (losses) on trading	49,641	(9,897)
			Profits (losses) on trading	**49,641**	**(9,897)**
	Line item	90	Fair value adjustments in hedge accounting	1,150	(1,835)
			Profits (losses) on hedging	**1,150**	**(1,835)**
	Line item	100	Profits (losses) on disposal or repurchase of:	29,937	10,014
	Line item		*a) loans*	*(102)*	*(8,184)*
	Line item		*b) financial assets available for sale*	*7,805*	*12,318*
	Line item		*c) investments held to maturity*	–	–
	Line item		*d) financial liabilities*	*22,234*	*5,880*
	(–) Line item	100	a) Profits (losses) on disposal or repurchase of loans	102	8,184
			Profits/losses on disposal or repurchase of financial assets/liabilities	**30,039**	**18,198**
	Line item	110	Profits (losses) on financial assets and liabilities designated at fair value	(75,679)	(1,454)
			Profits (losses) on financial assets/liabilities designated at fair value	**(75,679)**	**(1,454)**
	(+) Line item	130	b) Net losses/recoveries on impairment: financial assets available for sale	(65,654)	(15,691)
			Net losses/recoveries on impairment: financial assets available for sale	**(65,654)**	**(15,691)**
Other operating expenses/income				**35,011**	**34,252**
	Line item	220	Other operating expenses/income	102,333	(72,300)
	(–) Line item	220	(partial) - Recoverable portion of indirect taxes	(71,843)	(60,863)
	(+) Line item	220	(partial) - Depreciation of leasehold improvements	4,521	4,823
	(–) Line item	190	(partial) – Insurance sector contribution	–	–
	(–) Line item	190	(partial) - Extraordinary tax items	–	162,592
Operating income				**1,351,850**	**1,464,130**
Administrative expenses:				**(958,629)**	**(1,019,511)**
a) personnel expenses				*(650,625)*	*(697,159)*
	Line item	180	a) Personnel expenses	(650,625)	(697,159)
b) other administrative expenses				*(308,004)*	*(322,352)*
	Line item	180	b) Other administrative expenses	(379,847)	(383,215)
	(+) Line item	*220*	*(partial) - Other operating charges/income (recoverable portion of indirect taxes)*	*71,843*	*60,863*
Net adjustments to property and equipment and intangible assets				**(86,319)**	**(80,177)**
	Line item	200	Net adjustments to/recoveries on property and equipment	(42,368)	(40,726)
	Line item	210	Net adjustments to/recoveries on intangible assets	(39,430)	(34,628)
	(+) Line item	*220*	*(partial) - Other operating charges/income (depreciation of leasehold improvements)*	*(4,521)*	*(4,823)*
Operating expenses				**(1,044,948)**	**(1,099,688)**
Operating profit				**306,902**	**364,442**

(cont.)

Reconciliation between the consolidated income statement and the consolidated reclassified income statement

(euro/000)

Net adjustments for impairment of loans and other activities				**(483,431)**	**(244,640)**
	Line item	130	Net losses/recoveries on impairment:	(548,983)	(252,147)
	Line item		a) loans	(482,529)	(238,310)
	Line item		b) financial assets available for sale	(65,654)	(15,691)
	Line item		c) investments held to maturity	0	0
	Line item		d) other financial activities	(800)	1,854
	(+) Line item	*100*	*a) Profits (losses) on disposal or repurchase of loans*	*(102)*	*(8,184)*
	(–) Line item	*130*	*b) Net losses/recoveries on impairment: financial assets available for sale*	*65,654*	*15,691*
Net provisions for risks and charges				**(111,628)**	**(11,143)**
	Line item	190	Net provisions for risks and charges	(111,628)	(11,143)
Profits (losses) from equity and other investments				**(419,219)**	**55,019**
	Line item	240	Profits (losses) on investments in associates and companies subject to joint control	(88,290)	(136)
	Line item	250	Valuation differences on property, equipment and intangible assets measured at fair value	0	0
	Line item	260	Goodwill impairment	(335,871)	0
	Line item	270	Profits (losses) on disposal of investments	829	55,031
	(–) Line item	*240*	*(partial) - Profits (losses) on investments in associates and companies subject to joint control (carried at equity)*	*4,113*	*124*
Extraordinary tax items				**0**	**(178,469)**
	(+) Line item	*20*	*(partial) Interest expense on tax settlement*	*0*	*(15,877)*
	(–) Line item	*190*	*(partial) - Extraordinary tax items*	*0*	*(162,592)*
Income (loss) before tax from continuing operations				**(707,376)**	**(14,791)**
Taxes on income from continuing operations				**66,697**	**(86,635)**
	Line item	290	Taxes on income from continuing operations	66,697	(86,635)
Income (loss) after tax from continuing operations				**(640,679)**	**(101,426)**
Income (loss) after tax from discontinued operations				**19,475**	**212,546**
	Line item	310	Income (loss) after tax from discontinued operations	19,475	212,546
Net income (loss)				**(621,204)**	**111,120**
Minority interests				**6,871**	**(5,150)**
	Line item	330	Minority interests	6,871	(5,150)
Parent company's net income (loss)				**(614,333)**	**105,970**

Consolidated reclassified income statement, net of non-recurring transactions – quarter by quarter

Line items	2011											
	Fourth quarter			Third quarter			Second quarter			First quarter		
	Net income (loss)	Net income (loss) from non-recurring transactions	Net income (loss) from recurring transactions	Net income (loss)	Net income (loss) from non-recurring transactions	Net income (loss) from recurring transactions	Net income (loss)	Net income (loss) from non-recurring transactions	Net income (loss) from recurring transactions	Net income (loss)	Net income (loss) from non-recurring transactions	Net income (loss) from recurring transactions
Interest margin	**204,565**	**0**	**204,565**	**203,947**	**0**	**203,947**	**208,985**	**0**	**208,985**	**207,274**	**0**	**207,274**
Non–interest margin:	**91,345**	**(38,400)**	**129,745**	**105,259**	**0**	**105,259**	**156,462**	**0**	**156,462**	**174,013**	**0**	**174,013**
– Net fee and commission income	121,007	0	121,007	124,143	0	124,143	132,902	0	132,902	145,155	0	145,155
– Other income:	(29,662)	(38,400)	8,738	(18,884)	0	(18,884)	23,560	0	23,560	28,858	0	28,858
– Profits (losses) on investments carried at equity	*(7,428)*	*0*	*(7,428)*	*(498)*	*0*	*(498)*	*270*	*0*	*270*	*3,543*	*0*	*3,543*
– Net income from banking activities	*(34,048)*	*(38,400)*	*4,352*	*(27,307)*	*0*	*(27,307)*	*17,630*	*0*	*17,630*	*16,699*	*0*	*16,699*
– Other operating charges/income	*11,814*	*0*	*11,814*	*8,921*	*0*	*8,921*	*5,660*	*0*	*5,660*	*8,616*	*0*	*8,616*
Operating income	**295,910**	**(38,400)**	**334,310**	**309,206**	**0**	**309,206**	**365,447**	**0**	**365,447**	**381,287**	**0**	**381,287**
Administrative expenses:	(222,806)	(287)	(222,519)	(229,346)	(927)	(228,419)	(260,729)	0	(260,729)	(245,748)	0	(245,748)
a) personnel expenses	*(140,397)*	*(287)*	*(140,110)*	*(163,717)*	*(927)*	*(162,790)*	*(175,606)*	*0*	*(175,606)*	*(170,905)*	*0*	*(170,905)*
b) other administrative expenses	*(82,409)*	*0*	*(82,409)*	*(65,629)*	*0*	*(65,629)*	*(85,123)*	*0*	*(85,123)*	*(74,843)*	*0*	*(74,843)*
Net adjustments to property and equipment and intangible assets	(26,053)	0	(26,053)	(20,207)	0	(20,207)	(20,128)	0	(20,128)	(19,931)	0	(19,931)
Operating expenses	**(248,859)**	**(287)**	**(248,572)**	**(249,553)**	**(927)**	**(248,626)**	**(280,857)**	**0**	**(280,857)**	**(265,679)**	**0**	**(265,679)**
Operating profit	**47,051**	**(38,687)**	**85,738**	**59,653**	**(927)**	**60,580**	**84,590**	**0**	**84,590**	**115,608**	**0**	**115,608**
Net adjustments for impairment of loans and other activities	(303,809)	0	(303,809)	(66,585)	0	(66,585)	(70,604)	0	(70,604)	(42,433)	0	(42,433)
Net provisions for risks and charges	(110,099)	(87,500)	(22,599)	816	0	816	(1,420)	0	(1,420)	(925)	0	(925)
Profits (losses) from equity and other investments	(420,026)	(419,822)	(204)	0	0	0	506	0	506	301	0	301
Extraordinary tax items	0	0	0	0	0	0	0	0	0	0	0	0
Income (loss) before tax from continuing operations	**(786,883)**	**(546,009)**	**(240,874)**	**(6,116)**	**(927)**	**(5,189)**	**13,072**	**0**	**13,072**	**72,551**	**0**	**72,551**
Taxes on income from continuing operations	116,697	89,377	27,320	(15,200)	255	(15,455)	(3,982)	0	(3,982)	(30,818)	0	(30,818)
Income (loss) after tax from continuing operations	**(670,186)**	**(456,632)**	**(213,554)**	**(21,316)**	**(672)**	**(20,644)**	**9,090**	**0**	**9,090**	**41,733**	**0**	**41,733**
Income (loss) after tax from discontinued operations	104	104	0	26,045	26,045	0	(7,971)	(7,971)	0	1,297	1,297	0
Net income (loss)	**(670,082)**	**(456,528)**	**(213,554)**	**4,729**	**25,373**	**(20,644)**	**1,119**	**(7,971)**	**9,090**	**43,030**	**1,297**	**41,733**
Minority interests	8,877	(74)	8,951	(530)	21	(551)	(710)	3	(713)	(766)	2	(768)
Parent company's net income (loss)	**(661,205)**	**(456,602)**	**(204,603)**	**4,199**	**25,394**	**(21,195)**	**409**	**(7,968)**	**8,377**	**42,264**	**1,299**	**40,965**

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 Company and those rendered to other companies of the BPM Group.

SERVICES RENDERED TO THE PARENT COMPANY

Type of service	Service provided by	Fees (euro/000)
Audit	Reconta Ernst & Young S.p.A.	541
Certification services (*)	Reconta Ernst & Young S.p.A.	114
Other services (**)	Reconta Ernst & Young S.p.A.	1,509
Total		**2,164**

(*) Certification services mainly involve comfort letters relating to the EMTN programme and the Covered Bond Issuance Programme.
(**) The amount includes fees for activities as part of the increase in share capital.

SERVICES PROVIDED TO COMPANIES OF THE BPM GROUP

Tipologia di servizi	Soggetto che ha erogato il servizio	Fees (euro/000)
Audit (*)	Reconta Ernst & Young S.p.A.	1,206
Certification services		–
Other services (**)	Reconta Ernst & Young S.p.A.	31
Total		**1,237**

(*) These include the expenses involved in auditing the mutual funds and the separate insurance operations.
(**) These are fees for audits conducted on the leasing segment of Banca di Legnano.

List of significant shareholdings in unlisted companies pursuant to article 126 of CONSOB Regulation 11971 of 14 May 1999

Pursuant to article 126 of CONSOB Regulation 11971 of 14 May 1999 on the disclosure of significant interests and the transparency of shareholder agreements, the following list reports the companies in which the Group holds more than 10% of the voting rights.

Subsidiary and associated companies included in the scope of consolidation

	Company name	Registered office	Holder	Voting rights (1)
	Parent Company			
	Banca Popolare di Milano S.c.a r.l.	Milan		
A.	**Subsidiaries**			
1	Banca di Legnano S.p.A.	Legnano (MI)	Banca Popolare di Milano S.c.a r.l.	100.00
2	Cassa di Risparmio di Alessandria S.p.A.	Alessandria	Banca Popolare di Milano S.c.a r.l.	80.00
3	Banca Akros S.p.A.	Milan	Banca Popolare di Milano S.c.a r.l.	56.89
			Banca di Legnano S.p.A.	40.00
4	Banca Popolare di Mantova S.p.A.	Mantua	Banca Popolare di Milano S.c.a r.l.	61.39
5	Akros Alternative Investments SGR S.p.A.	Milan	Banca Akros S.p.A.	100.00
6	WeBank S.p.A.	Milan	Banca Popolare di Milano S.c.a r.l.	100.00
7	BPM Ireland Plc.	Dublin	Banca Popolare di Milano S.c.a r.l.	99.99
8	BPM Fund Management Ltd. in liquidation	Dublin	Bpm Ireland Plc.	100.00
9	BPM Capital I Llc.	Delaware (USA)	Banca Popolare di Milano S.c.a r.l.	100.00
10	BPM Luxembourg S.A.	Luxembourg	Banca Popolare di Milano S.c.a r.l.	99.00
			Banca Akros S.p.A.	1.00
11	ProFamily S.p.A.	Milan	Banca Popolare di Milano S.c.a r.l.	100.00
12	Ge.Se.So. S.r.l.	Milan	Banca Popolare di Milano S.c.a r.l.	100.00
13	BPM Covered Bond S.r.l.	Rome	Banca Popolare di Milano S.c.a r.l	80.00
B	**Companies subject to joint control**			
1	Calliope Finance S.r.l.	Conegliano (TV)	Banca Popolare di Milano S.c.a r.l.	50.00
2	ESN North America Inc.	Delaware (USA)	Banca Akros S.p.A.	39.36
C	**Companies subject to significant influence**			
1	SelmaBipiemme Leasing S.p.A.	Milan	Banca Popolare di Milano S.c.a r.l.	40.00
2	Aedes Bipiemme Real Estate SGR S.p.A.	Milan	Banca Popolare di Milano S.c.a r.l.	39.00
3	Asset Management Holding S.p.A.	Milan	Banca Popolare di Milano S.c.a r.l.	26.30
			Banca di Legnano S.p.A.	10.00
4	Factorit S.p.A.	Milan	Banca Popolare di Milano S.c.a r.l.	30.00
5	Etica SGR S.p.A.	Milan	Banca Popolare di Milano S.c.a r.l.	24.44
6	Pitagora 1936 S.p.A.	Turin	Banca Popolare di Milano S.c.a r.l.	24.00
7	Wise Venture SGR S.p.A.	Milan	Banca Popolare di Milano S.c.a.r.l.	20.00
8	Bipiemme Vita S.p.A.	Milan	Banca Popolare di Milano S.c.a r.l.	19.00

Key: (1) Voting rights at Ordinary General Meetings.

Other equity investments in which the interest exceeds 10%

Name	Registered office	% voting rights	Holder
Cassa di Risparmio di Asti S.p.A.	Asti	20.00	Banca di Legnano S.p.A.
Stellina 10 S.r.l.	Milan	19.00	Banca Popolare di Milano S.c.a r.l.
Gal Borba Due Leader S.r.l.	Ponzone (AL)	15.00	Cassa di Risparmio di Alessandria S.p.A.
Otto Valli S.c.a r.l.	Ponzone (AL)	15.00	Cassa di Risparmio di Alessandria S.p.A.
G.R.O.U.P. S.r.l.	Milan	14.29	Banca Akros S.p.A.
Unione Fiduciaria S.p.A.	Milan	14.23	Banca Popolare di Milano S.c.a r.l.

Minority investments in which Banca Popolare di Milano holds voting rights of 10% of share capital or more

Name	Registered office	% voting rights	Reason for holding voting rights
Artapes Fitco S.r.l.	Milan	100.00	Collateral
Oltrecaffè S.r.l.	Milan	100.00	Collateral
Istituto Lombardo per la Medicina Iperbarica S.r.l.	Milan	92.73	Collateral
Medical Consulting Centre S.r.l.	Milan	51.28	Collateral
Abitare Cernusco S.r.l.	Milan	11.35	Collateral

Minority investments in which Banca di Legnano holds voting rights of 10% of share capital or more

Name	Registered office	% voting rights	Reason for holding voting rights
Newcam 96 S.r.l.	Genoa	100.00	Collateral

Investments of more than 10% in the following companies, currently in liquidation and valued at zero, are included in "Financial assets available for sale - Equities":

Companies in liquidation	Registered office	% voting rights
Ricostruzioni Ansa S.r.l. – in liquidation	Milan	100.00
Immobiliare Zenith Terza S.r.l. – in liquidation	Milan	100.00
Leasing Levante S.p.A. – in liquidation	Bari	14.29
Emprimer S.p.A. – in liquidation	Milan	12.26

Report of the Independent Auditors on the consolidated financial statements

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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 consolidated financial statements of Banca Popolare di Milano S.c. a r.l. and its subsidiaries (the "Bipiemme Group") as of and for the year ended December 31, 2011, comprising the consolidated balance sheet, the consolidated income statement, the statement of consolidated comprehensive income, the changes in shareholders' equity, the consolidated statement of cash flows and the related consolidated 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 Board. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit 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 consolidated 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 of the accounting principles applied and the reasonableness of the estimates made by Management Board. We believe that our audit provides a reasonable basis for our opinion.

   The consolidated financial statements of the prior year are presented for comparative purposes. As described in the explanatory notes, Management Board restated certain comparative data related to the prior year with respect to the data previously presented, on which we issued our auditors' report dated April 12, 2011. We have examined the method used to restate the comparative financial data and the information presented in the explanatory notes in this respect, for the purpose of expressing our opinion on the consolidated financial statements as of December 31, 2011 and for the year then ended.

3. In our opinion, the consolidated financial statements of the Bipiemme Group at December 31, 2011 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 the Bipiemme Group for the year then ended.

4. The Management Board 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 of the information presented 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) 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

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recommended by CONSOB. In our opinion, the Report on operations and the information presented 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) in the Report on Corporate Governance and Ownership Structure, are consistent with the consolidated financial statements of Bipiemme Group at December 31, 2011.

Milan, April 5, 2012

Reconta Ernst & Young S.p.A.
Signed by: Massimo Colli, Partner

Report of the supervisory board to the General Meeting of Members of Banca Popolare di Milano S.c.a r.l.

(prepared pursuant to art. 153, paragraph 1 of D.Lgs 58 of 24 February 1998 and art. 51, paragraph 1, letter h) of the Articles of Association)

Members,
with this Report - prepared pursuant to art. 153, paragraph 1 of D.Lgs 58 of 24 February 1998 (CFA) and art. 51, paragraph 1, letter h) of the Articles of Association, and taking into account the recommendation of Consob Communication 1025564 of 6 April 2001 (and subsequent updates) – the Supervisory Board of Banca Popolare di Milano would like to inform you about its supervisory activities with reference to the year ended 31 December 2011 (in particular, the period for which it has actually been in office), about any omissions or wrongful acts that the Supervisory Board considers within its sphere of competence.
The Supervisory Board has carried out the task of supervision required by law and by the Articles of Association, according to the Standards of Conduct for Statutory Auditors recommended by the Italian Accounting Profession (represented by the Consiglio Nazionale Dottori Commercialisti & Esperti Contabili).

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Banca Popolare di Milano profoundly changed its system of governance in 2011, adopting the "two-tier" system of management and control. This system, which was introduced into Italian law with the Company Law Reform of 2003, has as its main characteristic the presence of two bodies that take the place of the Board of Directors and the Board of Statutory Auditors: the Supervisory Board and the Management Board. The former is elected by the General Meeting of Members and appoints the members of the Management Board, approves the separate and consolidated financial statements and carries out control functions; the Management Board is responsible for running the business.
The new model of governance, bearing in mind the cooperative nature of the Bank, is aimed at ensuring greater separation of the Bank's management with respect to the shareholder base, in order to strengthen management's independence and efficiency in the interest of all of the shareholders.
The Report on Corporate Governance and Ownership Structure of the Bank - published together with the financial statements - provides detailed information on the system of corporate governance adopted by BPM.

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The General Meeting of Members of the Bank held on 22 October 2011 appointed the Supervisory Board, consisting of 19 members (including the Chairman and two Deputy Chairmen), for the period 2011-2013. After its appointment, the Supervisory Board ensured that its members met the legal and regulatory requirements of professionalism, integrity and independence for holding office, in compliance with the law and the Articles of Association.
As a result of that assessment, the Supervisory Board found that 12 members are independent in terms of the Code of Conduct, while 9 members are listed in the Register of Auditors and have at least three years audit experience, meaning that it complied with the composition requirements laid down in the Articles of Association.
Within the Supervisory Board, the Committees required by law and the Articles of Association have been created, as have the specific commissions with investigative and propositional powers for specific areas of activity (see below).

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In compliance with Consob Communication 1025564 of 6 April 2001 and subsequent updates, specific information on the supervisory activities performed by the Supervisory Board during 2011 are provided in the order suggested by Consob.

1. During 2011, the Supervisory Board attended all meetings of the Management Board through the Internal Control and Audit Committee.
The Supervisory Board has monitored compliance with the law, the Articles of Association and the principles of good management, acquiring information on the activities undertaken by the Bank and its subsidiaries, as well as on major transactions in terms of their impact on the assets and liabilities, financial position and results of the Bank and the Group as a whole.
In fact, we can assure you that all major transactions carried out during the year by the Bank and its subsidiaries have been performed in accordance with the law and the Articles of Association, entirely in the Company's interests; based on information obtained from the Management Board pursuant to art. 150 CFA, these transactions were not manifestly imprudent, risky, in conflict of interest, contrary to the resolutions passed by the General Meeting or, in any case, such as to compromise the integrity of the Company's assets.

Among the most significant extraordinary transactions, which are described in the separate and consolidated financial statements for 2011 prepared by the Management Board, we would mention the following:

- given the indications of the Supervisory Authority on the need to carry out a radical simplification of the Group, in 2011 we initiated proceedings to merge Cassa di Risparmio di Alessandria with Banca di Legnano. Both companies are controlled by Banca Popolare di Milano; the merger deed was signed on 7 February 2012 with accounting and tax effects from 1 January 2012 and effect toward third parties from 11 February 2012. The post-merger share capital of Banca di Legnano SpA has been subscribed 97.8% by Banca Popolare di Milano Scarl and 2.2% by Fondazione Cassa di Risparmio di Alessandria;

- The Management Board met on the same day that it was appointed and confirmed the validity of BPM's Business Plan 26-2013/2015, which had already been approved by the Board of Directors and announced to the market on 20 July 2011; at a subsequent meeting on 27 October 2011, it decided the final conditions of the imminent increase in capital, based on the mandate granted by the Extraordinary General Meeting on 25 June 2011. The result of the increase in share capital has therefore seen the market subscribe a total of 2,505,321,460 shares representing 94.02% of all the shares on offer for Euro 751,596,438; the additional 159,415,254 shares not placed on the market, were subscribed by the syndicate; at the end of this operation, the Bank's share capital had been increased by 2,664,736,714 shares for a total of Euro 799,421,014.20;

- On 22 December 2011, the General Meeting of the Bondholders of the "Convertendo BPM 2009/2013 - 6.75%" Bond approved the proposal to restructure the loan. This operations was originally proposed on 25 June 2011 by the Extraordinary General Meeting of Members (when it was up to them to do so). In particular, the Bondholders' Meeting decided to bring forward the maturity date of the Bond and, consequently, to anticipate automatic conversion of the bonds from 1 June 2013 to 29 December 2011, reducing the Minimum Conversion Price from Euro 6.00 to Euro 2.71. with a consequent revision of the maximum conversion ratio of 16.667 new BPM shares for each bond to 36.9 new BPM shares for each bond. Following this change, the outstanding bonds of the"BPM Convertendo 29/2011 - 6.75%" bond loan on 29 December 2011 reached maturity and were redeemed through automatic conversion into 149,807,045 newly issued BPM ordinary shares, at an issue price of Euro 2.71 each, i.e. for a total of Euro 405,977,091.95. Therefore, at the end of 2011, the share capital of BPM is equal to Euro 2,865,708,586.15 split into 3,229,621,379 ordinary shares with no par value.

2/3. The Supervisory Board has established a sub-committee, called the Related Parties Committee, to express its opinions on transactions to be carried out with related parties (and on the procedures adopted by the Bank in this area).
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.
In fact, except as specified in the pertinent chapter below, there were no atypical or unusual transactions during 2011 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' Regulations in force at the time; also subject to board resolution – i.e. approved by an unanimous vote of Directors and with the required agreement of the audit committee – are the transactions carried out directly or indirectly with persons that fall into the field of application of art. 136 of the CBA.
As a non-recurring related party transaction, note that during the year 2011, as part of the merger between the subsidiaries Banca di Legnano S.p.A. and Cassa di Risparmio di Alessandria S.p.A., Bipiemme e Fondazione Cassa di Risparmio di Alessandria (a related party under the internal procedure) signed an agreement which involved the disposal by the "Fondazione" of certain assets, including a shareholder agreement containing arrangements for the governance of BPM Group companies. The transaction was submitted for review by BPM's Related Parties Committee (at the time, a sub-committee of the Board of Directors), which issued a favourable opinion on it, particularly with respect to the Bank's interest in completing the transaction, as well as the appropriateness and substantial fairness of its terms and conditions.
For further details on related party transactions, please refer to the information provided by the Management Board in the financial statements.
The Report on Corporate Governance explains the monitoring, reporting and decision-making procedure adopted by the Bank for carrying out transactions with related parties.

4. As regards relations with the independent auditors, the General Meeting of Members of BPM on 21 April 2007 appointed Reconta Ernst & Young S.p.A. for the years 2007-2015 to audit the separate financial statements of the Bank, the consolidated financial statements and the interim report of the BPM Group. The independent auditors, with whom the Supervisory Board, has had regular meetings, also through its sub-committees, issued their reports on the separate and consolidated financial statements for

2011 as of 5 April 2012; they contain the required certificates of compliance of the financial reports and of the fact that the report on operations is consistent with the financial statements; they do not contain any qualifications or issues of note worth highlighting.

5. On 28 March 2012, the Supervisory Board received a letter signed by five members wanting to report a matter under art. 2408 of the Civil Code, relating to the composition of the Internal Control Committee.

6. No complaints were made to the Supervisory Board during 2011.

7/8. In addition to the audit fee of 541 thousand euro for the year, the Parent Company have paid the auditors, Reconta Ernst Young SpA, and the other companies in its network - as defined in art. 1 of Legislative Decree 39/2010 - the following additional fees for 2011 (excluding out-of-pocket expenses and VAT), in compliance with the law:

- certification services (which mainly concern issuing comfort letters relating to the EMTN Programme and the Covered Bond Issue Programme): 114 thousand euro;

- other services and projects (fees for work performed as part of the increase in share capital): 1,509 thousand euro.

In addition to the fees listed above, with reference to the tasks assigned to other companies in the BPM Group (again excluding out-of-pocket expenses and VAT), the independent auditors and the companies forming part of its network have been given the following assignments:

- audit (including the expenses involved in auditing the mutual funds and the separate insurance operations): 1,206 thousand euro;

- other services (fees for audits conducted on the leasing business of Banca di Legnano): 31 thousand euro.

Details of these fees are repeated in an attachment to the financial statements as required by art. 149-duodecies of Consob's Issuers' Regulations.
The Supervisory Board has received annual confirmation regarding the independence of the auditors in accordance with art. 17 of Legislative Decree 39/2010. No critical issues arose with regard to the auditors' independence.
The Supervisory Board has received, under article 17 of Legislative Decree 39/2010, the report on key matters arising from the audit and on significant weaknesses in the internal control system in relation to the financial reporting process. This report confirms that no significant weaknesses in the internal control system in relation to the financial reporting process arose during the audit of the separate and consolidated financial statements at 31 December 2011.

9. During 2011 the Supervisory Board did not issue any opinions.

10. The Supervisory Board, which was appointed by the General Meeting of Members on 22 October 2011, as mentioned previously, has held 6 meetings during 2011.
While respecting the principle of collegiality in the performance of its duties, the Supervisory Board has established various sub-committees with propositive, consultative and investigatory functions in accordance with the provisions of the Articles of Association, taking into account the provisions of the Bank of Italy on this topic and in compliance with the recommendations contained in Borsa Italiana's Code of Conduct: these are the Internal Control and Audit Committee, the Nominations Committee, the Remuneration Committee (required by the Articles of Association), as well as specific commissions that focus on particular issues (e.g. "Budget" and "Charity"). In March 2012 the Related Parties Committee was also set up.
These committees have been established to enable the Supervisory Board to take decisions with greater knowledge of the facts and are made up of more than three members, as recommended by the Code of Conduct.
The Internal Control and Audit Committee, set up as part of the Supervisory Board, held 7 meetings during 2011. The Chairman of the Internal Control and Audit Committee has kept the Supervisory Board constantly updated on its activities and any issues that have arisen during its work, which have then been reported to the Board.
The Nominations Committee held 2 meetings during 2011, whereas the Remuneration Committee did not hold any meetings.
The Management Board held 11 meetings during 2011. The members of the Internal Control and Audit Committee were also present at these meetings in accordance with art. 52 of the Articles of Association (at least one committee member has to be present).
Please refer to the Report on Corporate Governance for further information on the activities of these Committees.

11/12. The Supervisory Board has monitored compliance with the law and the principles of good management, also through the acquisition of suitable information.
The Supervisory Board has been informed by the Internal Control and Audit Committee with regard to any profiles that are in urgent need of change at both a cultural and organisational level, for which the Bank is already preparing to take action, closely monitored by the Committee.
Given the changes in corporate governance which are also changing the corporate structure, the Committee will express its opinion as appropriate on the effectiveness and efficiency of the system of internal controls once the actions identified by the Bank have been better defined.

13/14. The Supervisory Board, with the help of the Internal Control and Audit Committee, ensures the adequacy and efficiency of the internal control and accounting systems, and the latter's reliability in providing a true and fair view of the results of operations. In this context, the Committee has carried out the following activities in its own sphere of competence and as part of its overall activities since it was set up:

- preparation of the internal regulation governing the activities of the Committee and of a work plan to organise its activities;
- met with the Head of the Audit Function, the Chief Risk Officer, the Head of the Compliance Function and the Risk Manager;
- discussed the audit approach in detail with the Head of Internal Audit;
- examined the information flows received from the Internal Auditing Department and Head of Compliance Department;
- examined, together with the Supervisory Board (as per D.Lgs 231/2001), the stage of completion of the initiatives on anti-money laundering and established an information flow to this body for the timely exchange of information relevant to the performance of its duties;
- met with the Financial Reporting Manager as per L. 262/2005;
- monitored the status of implementation of the corrective measures to resolve the matters raised by the Bank of Italy's inspectors;
- met the Independent Auditors Reconta Ernest & Young and the heads of the audit and compliance functions at certain subsidiaries;
- examined the "New model for the financial advisory service" in detail;
- updating, by the Head of Compliance, on the checks carried out on the investment advisory service and on implementation of the measures adopted and communicated to Consob following its observations;
- various meetings with the Credit and Loans Department to have a detailed and analytical overview of the trends in non-performing loans, provisions and adjustments and to check the current policies and methods applied;
- a meeting with the Risk Management Function to verify the criteria for assessment, management, measurement and monitoring of credit risk, also to examine the performance of the models and the estimation of probability of default.

The Managing Director/Chief Executive Officer and the Financial Reporting Manager have issued the certification required under Article 154-bis of the CBA on the accounting disclosures contained in the separate and consolidated financial statements for 2011.
The Internal Control and Audit Committee has regularly reported to the Supervisory Board on its activities.

15. We have no comments to make on the adequacy of the instructions issued to subsidiaries in order to acquire the information flows necessary to ensure timely fulfillment of all legal obligations.

16. During the course of regular exchanges of information pursuant to art. 150, D.Lgs. 58/1998 between the Supervisory Board - also through the Internal Control Committee - and the Independent Auditors, no major issues arose.

17. BPM adheres to the Code of Conduct for Listed Companies promoted by Borsa Italiana SpA and in 2011 has again prepared the required Report on Corporate Governance and Ownership Structure, drawn up also pursuant to art. 123-bis of CFA. This report provides an analysis of the system of corporate governance adopted by BPM, detailing how the Code is applied in practice, reporting - according to the principle of "comply or explain" - on the principles that have been adopted and those which the Bank has decided not to adopt, even only in part.

18. From the supervisory work that it has carried out, the Supervisory Board has not identified any omissions, irregularities or wrongdoing worthy of mention to the Members. The Supervisory Board has also made use of the powers to convene the General Meeting of Members or the Management Board.

19. The Bank's Supervisory Board has no suggestions to make pursuant to art. 153, paragraph 2, CFA on the Management Board's proposal to cover the loss for the year.

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During the meeting of 2 April 2012, having heard the opinion of the Remuneration Committee, the Bank's Supervisory Board approved the "Report on Remuneration and Incentive Policies" (prepared in accordance with the Supervisory Provisions of the Bank of Italy of 30 March 2011 and art. 123 ter, CFA, published in accordance with the procedures laid down by law), the contents of which will be presented for approval by the General Meeting of Members called for 27/28 April 2012 (at first and second calling).

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Lastly, the Supervisory Board would like to inform the General Meeting of Members that during the meeting of 12 April 2012, while monitoring compliance with the law, having seen the documents and information provided, it resolved to approve:

- the reports on operations;
- the separate financial statements of Banca Popolare di Milano S.c.a r.l., including the proposal to cover the loss for the year to be submitted to the General Meeting of Members, and the consolidated financial statements of the BPM Group.

Milan, 12 April 2012

The Supervisory Board

Point 2 on the agenda for the Ordinary General Meeting

Examination of and resolutions relating to the remuneration policies

Report on remuneration and incentive policies

(prepared in accordance with the instructions of the Bank of Italy of 30 March 2011 and pursuant to art. 123–ter, D.Lgs. 58/98)

Remuneration policies of personnel of the BPM Banking Group

1. Introduction

This regulation governs the remuneration policy adopted by the Banca Popolare di Milano Banking Group (BPM Banking Group, hereinafter "the Group") for its personnel in accordance with the current supervisory regulations laid down by the Bank of Italy and by Consob and by the Articles of Association of the banks and companies that make up the Group.

The regulation defines a system of remuneration and incentives of Group personnel in line with BPM's strategies, objectives and long-term results, suitably adjusted to take into account all risks involved and in line with the levels of capital and liquidity needed to cope with the activities undertaken and able to avoid distorted incentives that could lead to regulatory violations and excessive risk-taking. In this context, these regulations require, inter alia, that the variable element of remuneration is sustainable with respect to the financial position of the Group as a whole and of the banks and companies that make it up, and that it does not limit their ability to maintain or to achieve an adequate level of capitalisation.

2. Definitions

For the purpose of this regulation, the following words have the following meanings:

- Parent Company, Banca Popolare di Milano, Parent Company of the BPM Banking Group;
- Group Banks/Companies or Banks/Companies that make up the Group mean Banca Popolare di Milano, Banca Popolare di Mantova, Banca di Legnano, Banca Akros and its subsidiary Akros Alternative Investments SGR, Banca WeBank and ProFamily;
- Subsidiary Banks/Companies of the Group mean Banca Popolare di Mantova, Banca di Legnano, Banca Akros and its subsidiary Akros Alternative Investments SGR, WeBank and ProFamily;
- Group Banks/Companies or Banks/Companies that make up the Group in a start-up phase mean ProFamily and WeBank;
- Internal Control Functions of the Parent Company means the Compliance function, the Internal Audit function, the Human Resources function, the Risk Management function and the Financial Reporting Manager;
- remuneration means any form of payment or fixed or variable benefit, paid directly or indirectly - in cash, securities or other fringe benefits - by the Banks/Companies of the Group in exchange for the performance of work or professional services rendered by the personnel. This excludes payments or fringe benefits granted to personnel on a non-discretionary basis, which fall within a general policy of the Group and which do not produce effects in terms of hiring incentives or risk control (e.g. indemnities);
- fixed annual salary (FAS) means the gross fixed annual element of employees' remuneration, which for the Parent Company is the sum of their thirteen monthly salaries under the National Labour Contract and the three typical fixed elements of remuneration (company salary supplement, winter indemnity and productivity bonus) and for subsidiary Banks/Companies of the Group the sum of their thirteen monthly salaries under the National Labour Contract and any typical elements of remuneration that may be considered fixed. For certain key positions the fixed element of remuneration can be determined on the basis of specific individual contracts signed with the Banks/Companies that make up the Group;

(1) "Supervisory Provisions concerning remuneration policies and practices and incentives in banks and banking groups" of 30.3.2011 and "Financial statements 2011: distribution of profits and payment of remuneration" of 2.3.2012.
(2) In particular, Article 123-ter of Legislative Decree 58/1998 (Consolidated Finance Act) and Article 84-ter of the Issuers' Regulations (Consob Resolution 11971/1999 and subsequent amendments).

- variable element of remuneration (or "bonus") means any form of payment or benefit of varying amounts awarded to the staff during their employment contract or in the event of it being terminated, including any payments related to staying with the company ("retention bonus") - regardless of whether they are linked to performance objectives - or, in exceptional cases, attributed to new employees only for the first year of employment ("welcome bonus"). We have also included any fees paid in the event of early termination of employment, in addition to the severance pay provided by law and labour contracts currently in force;
- total gross salary (TGS) means the sum of all payments received during the year prior to the year in which this policy is applied for the first time;
- deferral means any kind of postponement, over a set period of time, of the payment of the variable element of remuneration compared with the year of accrual;
- "income before tax from current operations in recurring activities" means the figure reported in the "Reclassified income statement net of non-recurring transactions" (as required by Consob Communication DEM/6064293 of 28.7.2006) of the consolidated financial statements and of the financial statements of the individual Banks/Companies that make up the Group. The above-mentioned figures are calculated without taking into account any capital gains arising from the measurement of financial liabilities at fair value;
- "State aid" means any extraordinary public assistance that benefits the Group, which includes the securities issued pursuant to Article 12 of Decree Law 185/2008 (the so-called "Tremonti Bonds").

3. Decision-making processes and control over the remuneration system

3.1 The decision-making process of the remuneration system

The decision-making process for defining the system of remuneration of BPM Banking Group personnel is regulated as follows:

a) the Managing Director and Chief Executive Officer (MD & CEO) of the Parent Company makes proposals to the Management Board:

- on the general policies for the development, management and remuneration of personnel of the Parent Company and of the Group's subsidiary banks/companies;
- on the emoluments of the members of General Management of the Parent Company.

Furthermore, in determining the fixed individual compensation, the MD & CEO defines the economic position of the staff at all levels, including managers (except for the members of General Management), in compliance with the remuneration and incentive systems in force at the time;

b) the Management Board of the Parent Company:

- submits for the approval of the Parent Company's Supervisory Board the policies for the remuneration of Group personnel and freelancers, making proposals to the Supervisory Board for the remuneration report required by art. 123-ter of Legislative Decree 58/1998;
- defines, also on the proposal of the MD & CEO, guidelines for the staff remuneration policy of the Parent Company and of the Group's subsidiary Banks/Companies and for the general human resources policies for the Group in line with the objectives of its long-term plans and budgets;
- defines, also on the proposal of the MD & CEO, the total provision and criteria for applying the bonus system for senior managers in charge of business functions;
- determines the total annual resources ("bonus pool") to be allocated for payment of the variable element of the annual remuneration of each of the categories of staff of the Parent Company;
- determines within the ambit of the "bonus pool" of each of these staff categories, the annual amount of the variable element of remuneration to be paid to the individual beneficiaries ("annual bonus") belonging to these categories and verifies that the access conditions have been fulfilled ("access gates");
- determines with reference to the Parent Company's personnel, the amount of the retention bonuses, welcome bonuses and

compensation paid in the event of early termination of employment;

- defines, on the proposal of the MD & CEO, the emoluments for the members of General Management of the Parent Company;
- defines the emoluments for the members of the Supervisory Board in accordance with Legislative Decree 231/2001;
- ensures that the systems of remuneration and incentives for employees and freelancers comply with the rules and principles laid down by the Supervisory Authorities;

c) the Remuneration Committee of the Parent Company presents proposals and opinions to the Supervisory Board and, if appropriate, to the Management Board of the Parent Company:

- on the fixed remuneration of the members of the Management Board of the Parent Company (Chairman, MD & CEO, Directors assigned to sub-committees or commissions, and Directors with special duties, responsibilities and powers);
- on the remuneration of those in charge of internal control functions;
- on the remuneration policies for the members of the Management Board to be submitted for approval by the General Meeting of Members;
- on the remuneration policies of the personnel of the Group and of the Banks/Companies that make it up, as well as of freelancers;
- on the determination of the total annual resources ("bonus pool") to be allocated for payment of the variable element of the annual remuneration of the members of the Management Board and each of the categories of staff of the Parent Company;
- on the determination within the ambit of the "bonus pool" of the members of the Management Board and of each of the staff categories mentioned previously, the annual amount of the variable element of remuneration to be paid to the individual beneficiaries ("annual bonus") belonging to these categories and verifies that the access conditions have been fulfilled ("access gates");
- on the determination - with regard to personnel of the Parent Company and, where applicable, to the members of the Management Board - of retention bonuses, welcome bonuses and compensation paid in the event of early termination of employment);

d) the Supervisory Board of the Parent Company on the proposal of the Remuneration Committee:

- approves the fixed remuneration of the members of the Management Board of the Parent Company (Chairman, MD & CEO, Directors assigned to sub-committees or commissions, and Directors with special duties, responsibilities and powers);
- submits the remuneration policies for the members of the Parent Company's Management Board for approval by the General Meeting of Members;
- approves the remuneration policies of the personnel of the Group and of the Banks/Companies that make it up, as well as of any freelancers;
- approves the remuneration report required by art. 123-ter of Legislative Decree 58/1998;
- determines the total annual resources ("bonus pool") to be allocated for payment of the variable element of the annual remuneration of the members of the Management Board;
- determines within the ambit of the Management Board's "bonus pool" the annual amount of any variable element of remuneration to be paid to the individual beneficiaries ("annual bonus") and verifies that the access conditions have been fulfilled ("access gates");
- determines with reference to the Parent Company's Management Board, the amount of any additional payments (e.g. retention bonuses, welcome bonuses) and any compensation to be paid in the event of early termination of employment;
- provides each year to the Members at the General Meeting the information required on implementation of the system of remuneration of the Parent Company's personnel and the results of its audit checks;

e) the General Meeting of Members of the Parent Company:

- establishes the fixed elements of remuneration for the members of the Supervisory Board, including the remuneration of those with specific responsibilities in accordance with the Articles of Association, as well as the attendance fees for taking part in meetings of the Supervisory Board, Management Board and the Supervisory Board's various sub-committees and commissions;
- approves - and reviews at least once a year - the remuneration policies for members of the Management Board and Supervisory Board, as required by applicable law and the Supervisory Provisions in force at the time;
- approves, for matters within its sphere of competence, the remuneration report required by art. 123-ter of Legislative Decree 58/1998, with particular reference to the procedures used for the adoption and implementation of the policies in question;
- approves any share-based payment plans in favour of the members of the Management Board, Supervisory Board, employees or freelancers;

f) the Board of Directors of each Group bank/subsidiary in accordance with the remuneration policies of the Group:

- submits for the approval of the Shareholders' Meeting the remuneration policies for the personnel of the Bank/Company, as well as of any freelancers already approved by the Parent Company;
- determines the total annual resources ("bonus pool") to be allocated for payment of the variable element of the annual remuneration of each of the categories of staff of the Bank/Company;
- determines within the ambit of the "bonus pool" of each of these staff categories, the annual amount of the variable element of remuneration ("annual bonus") to be paid to the individual beneficiaries belonging to these categories and verifies that the access conditions have been fulfilled ("access gates");
- determines with reference to the personnel of the Bank/Company, the amount of the retention bonuses, welcome bonuses and compensation to be paid in the event of early termination of employment;
- provides each year to the Shareholders' Meeting the information required on implementation of the system of remuneration of the personnel of the Bank/Company and the results of its audit checks.

3.2 Process of control of the remuneration system

The process of control of the system of remuneration of Group personnel is regulated as follows:

a) control of regulatory compliance. This control function is delegated to the Group Compliance function, which verifies the extent to which the provisions of this Regulation are consistent with legal and supervisory requirements and with those of the Parent Company's Articles of Association;

b) control of operational compliance. This control is delegated to the appropriate function of the Parent Company or of the individual subsidiary banks/companies of the Group (if it exists), which verifies the compliance of the activities carried out to implement the remuneration policies by the Banks/Companies that make up the Group with the same activities provided for in the legal and supervisory requirements referred to in paragraph a). Based on any deviations, and depending on how significant they are, the function expresses an opinion on compliance risk, ranking it on one of four levels: low, partially low, prevalently high, high;

c) operational compliance checks on administrative, managerial and operational processes. These checks are designed to verify compliance of the activities carried out in the individual business processes pertaining to the staff - of the Banks/Companies that make up the Group - who are beneficiaries of the variable element of remuneration with the same activities provided by the legal and supervisory requirements governing such processes. These checks are delegated to the appropriate function of the Parent Company or of the individual subsidiary Banks/Companies of the Group (if it exists). Based on any deviations between the activities carried out and those required, and depending on how significant they are, the function expresses an opinion on compliance risk, ranking it on one of four levels: low, partially low, prevalently high, high;

d) internal audit. This activity is assigned to the Group Internal Audit function, which verifies the actual performance of these checks on regulatory and operational compliance.

The Compliance and Internal Audit functions of the Parent Company or, if they exist, of each Group company, to the extent of their sphere of competence, bring to the attention of the Supervisory Board of the Parent Company the results of the checks indicated in paragraphs a), b), c) and d) above with reference to the Banks/Companies that make up the Group, together with proposals for action to eliminate any weaknesses found. With regard to the subsidiary Banks/Companies of the Group, this information is also provided to their respective Boards of Directors.

The Supervisory Board verifies, through the Internal Control and Audit Committee, the operational compliance of the processes pertaining to the Management Board of the Parent Company and of the Board of Directors of the other Banks/Companies of the Group, and of the processes pertaining to the individual control functions of the Parent Company and of the other Banks/Companies of the Group.

The Parent Company's Remuneration Committee assists the Supervisory Board and Management Board, each within their respective spheres of competence, in supervising and monitoring, as well as updating the rules and principles adopted for the remuneration policies, in order to ensure their compliance with all regulations. In particular:

- it verifies correct application of the remuneration system for those in charge of internal control functions in conjunction with the Internal Control and Audit Committee;
- it verifies practical application of the remuneration policy adopted by the Management Board, as well as for managers with strategic responsibilities;
- it ensures effective involvement of the pertinent corporate functions in the process of preparing and monitoring the remuneration policies and practices;
- it monitors application of the Supervisory Board's resolutions concerning remuneration; as well as implementing the decisions taken by the Management Board, checking effective achievement of the performance objectives, the coherence of the incentive system and risk management;
- it provides appropriate feedback on its activities to the Supervisory Board.

The Parent Company's Supervisory Board evaluates the relevance of any weaknesses found by the control process described above in order to provide immediate information to the Bank of Italy.

4. Identification of "key personnel"

For the purposes of recognition of the variable element of remuneration referred to in paragraph 5.1, the identification of "key personnel," or categories of persons whose occupation has or may have a significant impact on the risk profile of the Group and of the individual Banks/Companies that make it up, is based on the operational and organisational characteristics of the Group and its individual components and the level of risk contributed by each of them.

In particular, at least once a year and with reference to the determination of the variable element of remuneration of Group employees and freelancers, the Human Resources function of the Parent Company identifies the "key personnel" of each of the Banks/Companies that make up the Group, using the first two criteria of importance listed below (responsibility and hierarchical levels, remuneration).

In cases where it is necessary to analyse the level of risk (the third criterion), the Parent Company's Human Resources function collaborates with the Organisation function, the Risk Management function, the Corporate Governance function and the Head of Department of the person in question, to consider the extent to which the person is able to take significant risks, also in relation to the propensity and level of acceptance of risk of each of the Banks/Companies that make up the Group and of the Group taken as a whole.

The task of identifying the key personnel of each of the Banks/Companies that make up the Group is carried out in collaboration with the respective functions of these Banks/Companies, if they exist.

Once this identification process has been completed, the Human Resources function of each of the Banks/Companies making up the Group formalizes the process that it has followed and gives the results (i.e. prepares a list of those considered "key personnel" for the current year).

The Human Resources function also prepares individual communications for each of the persons identified, giving the reasons why they have been considered part of the company's "key personnel". These communications have to signed by the Head of the Human Resources function of each Bank/Company making up the Group and by the person concerned, to show that they have read it. The Parent Company's Human Resources function prepares the communications for the members of General Management and to the Managing Directors of the subsidiary Banks/Companies of the Group.

The Compliance function makes sure that all of the above activities comply with current regulatory provisions.

The Internal Audit function checks that the process has been implemented correctly according to the original plan.

To summarise, the process of identifying key personnel is based on the recognition and assessment of the individual positions (responsibilities, hierarchical levels, activities, operating powers, etc..), which are essential for assessing the importance of each person in terms of risk-taking. The identification of key personnel is therefore based on the following criteria of importance:

1. Responsibilities and hierarchical levels. In this regard, those who meet the organisational/hierarchical requirements expressly envisaged in the relevant regulatory provisions are identified as "key personnel";

2. Remuneration. According to the provisions, those whose total gross salary does not exceed 200,000 euro per year and whose variable element does not exceed 20% of total gross earnings are excluded from the definition of "key personnel" ;

3. Riskiness. In cases where the remuneration exceeds at least one of the thresholds mentioned in paragraph 2 above - i.e. where a person receives total compensation in excess of 200,000 euro per year or whose variable element of remuneration exceeds 20% of their total remuneration, even if this is less than 200,000 euro per year - an analysis is performed of the activities carried out by the person concerned in relation to the organisational structure to which they belong. If the person concerned belongs to Support Departments (i.e. those corporate structures not directly involved in "business" activities, such as IT) and within such structures does not hold positions which could involve taking significant risks for the Bank/Company to which they belong or for the Group as a whole, they are not considered part of "key personnel".
In cases where a person belongs to Business Departments (such as, for example, the Territorial Districts, Private Banking, Companies, Credit and Loans, Finance), they are considered part of "key personnel" if they hold positions of responsibility or, acting independently, could involve taking significant operational, credit, counterparty or market risks for the Bank/Company to which they belong or for the Group as a whole. If these conditions are not fulfilled, the person is not classified as part of "key personnel".
For the purpose of the analysis of activities, it also takes note of the assessment of the level of potential risk associated with the organisational structure to which they belong in relation to operational, credit, counterparty and market risk for the Bank/ Company or for the Group as a whole.
This analysis of activities is also carried out in relation to freelancers of the Banks/Companies making up the Group, in order to assess whether they should be considered as part of "key personnel" if they are able to take on risk positions for the Bank/ Company or for the Group as a whole.
Lastly, if a person participates with the right to vote at meetings of the Committees of the Banks/Companies that make up the Group and the Committee is able to authorise the taking on of significant risk for that Bank/Company or for the Group as a whole (e.g. the Credit and Loans Committee or the Risk Committee), then that person is considered part of "key personnel".

On the basis of the three criteria of importance mentioned above, the following have been identified by the relevant internal functions of the Parent Company and/or the subsidiary Banks/Companies of the Group involved in this process (Human Resources, Corporate Governance, Risk Management, Organisation, Compliance and Internal Audit) as "key personnel":

a) members of the Parent Company's Management Board, including the MD & CEO;
b) members of the Institutional Bodies of the subsidiary Banks/Companies of the Group;
c) Managing Directors, General Managers, Co-General Managers and Deputy General Managers of the Parent Bank and of the subsidiary Banks/Companies of the Group;
d) managers of the main lines of business, corporate functions, geographical areas of the Parent Bank and of the subsidiary Banks/Companies of the Group;
e) managers and high-level personnel of the internal control functions of the Parent Company and of the subsidiary Banks/ Companies of the Group (if appointed);
f) other risk-taking managers of the Parent Bank and of the subsidiary Banks/Companies of the Group.

5. Characteristics of the remuneration system

5.1 Elements of remuneration

The system of remuneration of Group personnel includes:

1) a fixed element of remuneration that is decided:
- for the members of the Parent Company's Supervisory Board by the Ordinary General Meeting of Members in accordance with the Articles of Association;
- for members of the Parent Company's Management Board by the Supervisory Board in accordance with the Articles of Association;
- for members of the Board of Directors and Statutory Auditors of the subsidiary Banks/Companies of the Group by the Ordinary Shareholders' Meeting in accordance with their Articles of Association;
- for employees of the Parent Company and of the subsidiary Banks/Companies of the Group by their employment contracts;

2) a variable element of remuneration ("bonus") determined for the "key personnel" indicated in paragraph 4 above and for the other employees of the Parent Company and the subsidiary Banks/Companies of the Group as laid down in the following paragraphs.

They cannot use personal hedging or insurance strategies with regard to their remuneration or any other aspects that could alter or invalidate the effects of the alignment to risk inherent in their remuneration arrangements.

Only for employees of Banca Popolare di Milano, Banca Popolare di Legnano and Banca Popolare di Mantova, there is a variable element linked to the performance bonus, as established in their supplementary labour contracts.

Only for personnel of the Parent Company in accordance with art. 60 of its Articles of Association, to current employees, except for those in top management positions, is reserved each year - unless the General Meeting decides not to distribute a dividend out of earnings - an amount equal to 5% of the '"Gross Profit" (defined as "income before tax from continuing operations" calculated before determining the amount concerned), payable in shares of the Parent Company subject to a three-year retention period for the beneficiary;

3) that the competent Bodies of the Parent Company and of the subsidiary Banks/Companies of the Group can, in exceptional circumstances, award one-off bonuses, which are considered in the calculation of the ratio between the variable element of remuneration and the total gross salary as per section 5.3. Such bonuses are subject to the rules for variable elements of remuneration;

4) that the personnel of the Parent Company and of the subsidiary Banks/Companies of the Group do not receive compensation for the positions that they hold on behalf of the Group in the corporate bodies of companies in which the Parent Company has an interest, directly or indirectly. These fees are paid over in full to the Bank/Company to which the person belongs by the company in which the position is held.

5.2 Determination of the "bonus pool" for the variable element of remuneration

5.2.1 Determination of the "bonus pool" at Group Banks/Companies, other than those in a start-up phase

For the Banks/Companies that make up the Group, other than those in a start-up phase, the total annual amount of resources to be allocated to payment of the variable element of employees' remuneration (excluding retention bonuses, welcome bonuses and any one-off bonuses awarded in exceptional circumstances) (collectively known as the "bonus pool") is determined according to the competences indicated in paragraph 3.1 above by the Management Board or by the Supervisory Board of the Parent Company and by the Board of Directors of each subsidiary Bank/Company in accordance with the criteria established below.

For each year the total amount of the bonus pool of each of the aforementioned Banks/Companies can in no case exceed the limit of 40% of "income before tax from current operations in recurring activities" as budgeted by each of these Banks/Companies. The total amount of each bonus pool is calculated taking into account, among other things, the capitalisation and liquidity objectives of the Banks/Companies in question. The percentage defined by each Bank/Company of the Group is subject to prior approval by the Parent Company.

The Management Board of the Parent Company (in accordance with paragraph 3.1 above) and the Board of Directors of each subsidiary Bank/Company of the Group, establish the percentage of the bonus pool as determined above to be allocated to each of the categories of "key personnel", as identified in paragraph 4 above, and to the other employees. A similar activity is performed by the Supervisory Board of the Parent Company (in accordance with paragraph 3.1 above) as regards the percentage of the bonus pool to be allocated to BPM's Management Board.

This procedure does not apply to any members of the Parent Company's Management Board whose bonuses are already established in their individual employment contracts. In particular, each variable element provided in the individual contracts cannot exceed 50% their Fixed Annual Remuneration. However, the sum of the variable elements can exceed this limit of 50%. Bonuses must be paid in ways that comply with the supervisory instructions regarding methods of payment and deferral.
The said individual employment contracts also govern the relationships between the Parent Company and the members of the Management Board as regards compensation in the event of resignation or dismissal without just cause or if their employment ceases because of a takeover bid.

The bonus pool of each of these Banks/Companies has applied to it a correction factor, which depends on the ratio between the "income before tax from current operations in recurring activities" shown in the income statement and the equivalent amount budgeted for each year of reference. The correction factors to be applied are shown in the following table.

Ratio of Actual income/Budgeted income	**Correction factor to be multiplied by the Bonus Pool**
< 60%	0%
≥ 60% and < 70%	Same % as the ratio
≥ 70% and < 100%	Actual income/Budgeted income
≥ 100%	100%

If the Group benefits from State aid, the various categories of "key personnel" referred to in paragraph 4a) will not be awarded any bonus pool, unless this is justified [4].

5.2.2 Determination of the bonus pool at Group Banks/Companies that are in a start-up phase

At the Banks/Companies that make up the Group which are in a start-up phase, the total annual amount of "bonus pool" to be allocated to payment of the variable element of employees' remuneration (excluding retention bonuses, welcome bonuses and any one-off bonuses awarded in exceptional circumstances) is determined by the Board of Directors of such Banks/Companies based on a percentage of total gross compensation of the entire staff of the Bank/Company concerned, which cannot in any case exceed 50%. The total amount of the bonus pool is calculated taking into account, among other things, the capitalisation and liquidity objectives of the Banks/Companies in question. The percentage defined by each Bank/Company of the Group is subject to prior approval by the Parent Company.
The bonus pool of each of these Banks/Companies has applied to it a correction factor, which depends on whether the budget foresees a profit or not.
Assuming that the budgeted result is a profit, the correction factor is the ratio between the "income before tax from current operations in recurring activities" shown in the income statement and the equivalent amount budgeted for each year of reference.

(3) The remuneration paid under the Management By Objectives (MBO) scheme for the staff of each Bank/Company cannot exceed the bonus pool defined by that Bank/Company.
(4) Such as in the case of corporate officers who have replaced those in office when the State aid was acquired.

The correction factors to be applied are shown in the following table.

Ratio of Actual income/Budgeted income	Correction factor to be multiplied by the Bonus Pool
< 60%	0%
≥ 60% and < 70%	80% of the ratio of Actual income/Budgeted income
≥ 70% and < 100%	Same % as the ratio of Actual income/Budgeted income
≥ 100%	100%

Assuming that the budgeted result is a loss ("loss before tax from current operations in recurring activities") the sequence of the correction factors is inverted, as shown in the following table.

Ratio of Actual loss/Budgeted loss	Correction factor to be multiplied by the Bonus Pool
> 140%	0%
> 130% and ≤ 140%	80% of the ratio of Actual loss/Budgeted loss
> 100% and ≤ 130%	Same % as the ratio of Actual loss/Budgeted loss
≤ 100%	100%

If the Group benefits from State aid, the various categories of "key personnel" referred to in paragraph 4a) will not be awarded any bonus pool, unless this is justified (5).

5.3 Determination of the "annual bonus" of the variable element of remuneration

Within the ambit of the annual bonus pool of each of the categories of "key personnel" and of the other employees, the annual amount of the variable element of remuneration to be paid to the individual beneficiaries ("annual bonus") of the Parent Company of the subsidiary Banks/Companies of the Group cannot exceed 50% of their total gross salary, excluding the personnel of the internal control functions that form part of the "key personnel" for whom it cannot exceed 30% of their total gross salary.

5.4 Link between "annual bonus" and results

Recognition of the "annual bonuses" to the personnel of all the Banks/Companies that make up the Group is subject to full compliance with the set conditions of access (known as "access gates") represented:

1) for the "key personnel" in categories a), b), c), d) and f) of paragraph 4 above, by indicators of profitability, capital adequacy and liquidity at a Group consolidated level (consolidated ratios), and by specific opinions on compliance risk (high, prevalently high, partially low, low) assigned with reference to the administrative, management and operating processes (or stages of such processes) attributable to each beneficiary of the bonuses. In the case of Management Board members who have an individual contract that includes variable remuneration, the indicators are defined each year by the relevant bodies with reference to the objectives assigned to these Board Members;

2) for the "key personnel" in category e) of paragraph 4 above, by the specific opinions on compliance risk (high, prevalently high, partially low, low) assigned with reference to the control processes (or stages of such processes) attributable to each beneficiary of the bonuses. The opinion is expressed by the Supervisory Board through the Internal Control and Audit Committee.

The consolidated ratios, which constitute "access gates" for the personnel indicated in point 1) above, are as follows:

a) "RORAC", which measures the Group's ability to generate income against the risks taken on, as measured by the regulatory capital requirements for so-called "first pillar risks" (credit, counterparty, market and operational risk). This coefficient is the ratio between the percentage of '"income before tax from current operations in recurring activities" for the year, and an amount equal to the straight average of the total figures for the consolidated capital requirements mentioned above for the four quarters of the same year;

(5) Such as in the case of corporate officers who have replaced those in office when the State aid was acquired.

b) The "Tier 1 Capital Ratio," which measures the adequacy of the Group's capital resources of better quality compared with the amount needed to cover the capital requirements arising from its exposure to credit, counterparty, market and operational risk. This coefficient is given by the ratio at 31 December of the year in question between the Group's Tier 1 capital and an amount equal to 12.5 times the total value of the Group's regulatory capital requirements for credit, counterparty, market and operational risk;

c) "Loans/Stable Deposits," which measures the ability of available financial resources to cover the liquidity needs of the Group's operations. This coefficient is given by the ratio at 31 December of the year in question between the annual average balances of the Group's "Total Ordinary Loans" and "Stable Deposits". Both of these aggregates are produced by the "Redban" procedure, which is handled by the Parent Company's Management Accounting function.

For recognition of the "annual bonus" for each year for the personnel mentioned in point 1) above, the following four conditions must be satisfied simultaneously:

a) RORAC (indicator equal to or higher than budget);
b) "Tier 1 Capital Ratio" equal to or greater than 9%;
c) "Loans/Stable Deposits" (indicator not higher than budget);
d) opinion on compliance risk low or partially low. The process for formulating this opinion, together with the Group processes involved, will be governed by the Group Controls Regulation. The opinion is expressed by the Supervisory Board regarding the processes defined each year by the Management Board.

Regarding the "other employees", those working for the Parent Company and for the other Banks/Companies of the Group who are not considered "key personnel", the "access gates" to the bonus system must first be proposed by the above Banks/ Companies to the Parent Company and validated by its pertinent governing bodies.

For recognition of the "annual bonus" for each year for the personnel mentioned in point 2) above, only the following condition must be satisfied:

a) opinion on compliance risk low or partially low in relation to the processes handled by the employees in question. This judgment is made by the Supervisory Board.

5.5 Payment of the "annual bonus"

The "annual bonus" (including "retention bonuses") of "key personnel" of the Banks/Companies that make up the group is divided into:

- an annual up-front instalment, equal to 60% of the bonus, to be paid by the end of the first half of the year after that of accrual;
- three annual instalments, amounting in total to 40% of the bonus, each of equal amount, deferred over a three-year period and each to be paid by the end of the first half of each year of assignment.

For the "key personnel" other than those in the category mentioned in paragraph 4e), 50% of both the up-front instalment and the deferred instalments of the bonus have to be paid in shares of the Parent Company, subject to a retention period (i.e. a ban on selling them until the end of the period) of two years from their assignment or, for the instruments being deferred, for one year from their assignment. To this end, the number of shares of the Parent Company to be assigned is calculated on the basis of their "normal value" measured in the year in which the up-front instalment is allocated, "normal value" being understood as the average price of the abovementioned shares during the thirty days prior to the allocation.

The shares needed to support this plan are purchased each year following a specific resolution passed by the Management Board of the Parent Company, so that the beneficiaries can be assigned shares that are held in portfolio. Any dividends due to the shares held for the plan (both the up-front instalment and the deferred instalments) cannot be distributed before the end of the deferral period.

For the "key personnel" in the category mentioned in paragraph 4e) above, the full amount of the bonus is paid only in cash.

Payment of the annual bonus due to the other employees of Banks/Companies that make up the Group, including the welcome bonus, takes place in a lump sum by the end of July of the year after that of accrual.

5.6 The "malus" and "claw-back" mechanisms

Payment of each of the deferred instalments of the bonus is subject to compliance with the "access gates" and related benchmarks (budget or as indicated in paragraph 5.4) of the year for which the up-front instalment of the variable element of remuneration is recognised; these benchmarks must be met for the year preceding the year of liquidation of each deferred instalment. The after-the-event correction system, represented by the "malus" clause ("malus" being the opposite of "bonus"), is a mechanism that operates during the period of deferral before actual disbursement of the bonus arrears.

The "malus" mechanism is also applied to "key personnel" of the internal control functions, limited to their specific "access gate" (an opinion on compliance risk) for each of the years prior to that of payment of the deferred instalments.

These mechanisms are also applied to the members of the Management Board in the terms established in their individual employment contracts.

Neither the up-front nor the deferred instalments of the bonus are paid in the event of termination of employment (except for retirement, death or specific provisions contained in individual contracts) of the claimants or any fraudulent conduct on their part prior to the date of payment. In this latter case, instalments already paid also have to be returned (under the "claw-back" clause).

5.7 Compensation for severance

In the event of early termination of employment the amount of any emoluments provided for in the contracts of the "key personnel" identified in paragraph 4 above may not exceed the limit of 24 months of their total gross remuneration.

Payment of these emoluments is subject to compliance with the criteria laid down in each collective and individual employment contracts.

As for payments of severance payments to members of the Management Board, they are subject to supervisory regulations on remuneration policies.

5.8 Remuneration of freelancers

5.8.1 Remuneration of freelancers working for the Parent Company

Generally speaking, the Parent Company does not provide an incentive scheme for freelancers, with the exception of the financial advisors.
They are paid on a commission basis, governed by standard scales approved by the Central Commercial Department and an integral part of the Agency Mandate. At the time of recruitment, the Agency Mandate is accompanied by a Supplementary Letter, which may eventually provide for an incentive in the form of a one-off extra commission. This one-off incentive mechanism, provided only during the initial period of office and limited to a maximum of 24 months, is in line with the Bank of Italy's instructions on remuneration schemes, thereby avoiding incentives that could lead to regulatory violations or excessive risk-taking for the Parent Company or the Group.

5.8.2 Remuneration of freelancers working for Banca Akros and its subsidiary Akros Alternative Investments

Banca Akros and Akros Alternative Investments have:

- financial advisors working on a commission basis, who are not included in the incentive scheme;
- other freelance workers who are included in the incentive system and, where the necessary conditions are met, form part of the "key personnel" according to the remuneration policy of the company and of the Group, which also complies with current regulations.

5.8.3 Remuneration of freelancers working for ProFamily

To distribute its products, ProFamily makes use of bank or financial intermediaries, as well as having a number of sales outlets with its own employees: a) Group banks ("captive" network); b) financial agents; c) suppliers of contracted goods and/or services.

The compensation that ProFamily pays freelancers who sell loans is structured as follows:

- for the "captive" network, the fees are regulated by a distribution agreement that provides for recognition of a commission calculated as the difference between the net annual percentage rate (APR) of the loan and a guaranteed minimum rate (calculated on the basis of ProFamily's costs). The presence of any additional services sold to the customer generates an additional fee for the intermediary;
- financial agents receive a fee calculated on the basis of the volumes handled and the quality of the loan portfolio developed. There are additional fees if ancillary services are sold;
- suppliers of contracted goods and/or services are paid a commission. This fee can be calculated in various ways, for example: a) as the difference between the return on the loan and the "threshold return" defined by the commercial network; b) as a percentage of the interest earned; c) as a percentage of the loan principal; d) as a fixed amount for each dossier.

5.8.4 Remuneration of freelancers working for WeBank

To support its operations (especially during the start-up phase) WeBank uses a variety of suppliers, usually companies, but sometimes independent professionals, self-employed people or single owner businesses.

In these cases, the remuneration policy provides for a fixed fee in relation to the type of services provided, taking into account the fee scales of any current or future professional associations foreseen in the agreements concluded by the Parent Company's Central Buying Office.

Financial advisors work for WeBank on the basis of an agency relationship. Their activities consist of marketing WeBank's securities trading service and banking products. They do not do any consulting.

The financial advisors are paid - as per their agency contract - with commissions that are proportional to the number of customers acquired and the amount of trading that they do.

The only element of a financial advisor's remuneration therefore consists of the commission for the work performed on behalf of WeBank.

Commissions are usually paid at the end of each month, based on the work carried out by the financial advisor during the previous month.

Attachment to the document "Remuneration policies of personnel of the BPM Banking Group"
Key personnel of the BPM Group

a) Members of the Management Board of the Parent Company, including the Managing Director

b) Members of the Institutional Bodies of Group Banks/Subsidiaries

c) Managing Directors, General Managers, Co-General Managers and Deputy General Managers of the Parent Bank and of Group Banks/Subsidiaries

d) Managers of the main lines of business, corporate functions, geographical areas of the Parent Bank and of Group Banks/Subsidiaries

BPM	Manager of the Alm Funding Department
BPM	Corporate Banking Manager
BPM	It Manager
BPM	Loan Disbursement Manager
BPM	Area 1 Manager
BPM	Area 2 Manager
BPM	Central Sales Manager
BPM	Private Banking Manager
BPM	Central Credit and Loans Manager
Profamily	Head of it Organization snd Processing
Profamily	Head of Market
Profamily	Head of Distribution
BDL	Sales Manager
BDL	Credit snd Loans Manager
Akros	Head of Private Banking
Akros	Head of Corporate Banking
Akros	Head of Trading & Treasury
Akros	Head of Brokerage

e) Managers and key personnel of internal control functions of the Parent Company and of Group Banks/Subsidiaries (if appointed)

BPM	Personnel Manager
BPM	Central Resources & Organization Manager
BPM	Internal Auditing Manager
BPM	Network Control Compliance Manager
BPM	Deputy General Manager - Financial Reporting Manager
BPM	Chief Risk Officer
BPM	Accounting and Financial Reporting Manager
Webank	Personnel, Administration and Control Management
Webank	Compliance Management
Profamily	Head of Credit, Legal and Regulatory Issues
Bdl	Internal Control Manager
Bdl	Legal and Corporate Affairs and Compliance Manager
Bdl	Personnel Manager
Akros	Head of Audit
Akros	Head of Market, Operational and Liquidity Risk Control
Akros	Head of Compliance, Legal and Documentation
Akros	Head of Management, Administration & Financial Control

f) Other risk-taking managers of the Parent Bank and of the Group Banks/Subsidiaries

BPM	Deputy Loan Disbursement Manager
BPM	Investments, Regulatory Consulting and Corporate Affairs Manager
BPM	Organization Manager
BPM	Deputy Planning & Management Accounting Manager
BPM	International Affairs Manager
BPM	Loan Disbursement Officer
BPM	Investment Centre Manager

Document on remuneration and incentive systems and practices

Section 1: Definition and implementation of the Remuneration Policies

Introduction

The document on remuneration and incentive systems and practices (the "Document") provides information designed to increase the awareness of stakeholders with respect to the remuneration policies, practices and results achieved, demonstrating their consistency with the business strategy and corporate performance, and with a responsible compensation policy and sound risk management.

This Document, which has been prepared according to the Instructions of the Bank of Italy dated 30 March 2011, entitled "Supervisory Provisions concerning remuneration policies and practices and incentives in banks and banking groups", is presented to the Ordinary General Meeting of Members on 28 April 2012 and contains a statement of how the remuneration policies adopted by the resolution of the General Meeting on 25 June 2011 have been implemented; it also contains a detailed description of the changes that are being made to existing policies and practices.

On 22 October 2011, by resolution of the Extraordinary General Meeting, Banca Popolare di Milano Scarl, hereafter "the Bank", "BPM" or "the Parent Company", adopted the so-called "two-tier model" of corporate governance and control. As a result of that decision, the Bank found it necessary to amend the remuneration and incentive policies adopted by the previous resolution by adopting a new document entitled "Remuneration policies of personnel of the BPM Banking Group" (hereinafter, "Policies 2012").

This document has also been drawn up in accordance with art. 123-ter Consolidated Finance Act (CFA), in compliance with art. 84-quater of Consob Resolution 11971/1999.

This implementation document for the remuneration and incentive policies and any compensation plans foreseen by art. 114 bis CFA, as attached, will be published on the Company's website www.bpm.it.

1. Definition of remuneration

For the purposes of this document:

- Remuneration means any form of payment or fixed or variable benefit, paid directly or indirectly - in cash, securities or other fringe benefits - by the Banks/Companies of the Group in exchange for the performance of work or professional services rendered by the personnel. This excludes payments or fringe benefits granted to personnel on a non-discretionary basis, which fall within a general policy of the Group and which do not produce effects in terms of hiring incentives or risk control;

- Fixed annual salary (FAS) means the gross fixed annual element of employees' remuneration, which for the Parent Company is the sum of their thirteen monthly salaries under the National Labour Contract and the three typical fixed elements of remuneration (company salary supplement, winter indemnity and productivity bonus) and for subsidiary Banks/Companies of the Group the sum of their thirteen monthly salaries under the National Labour Contract and any typical elements of remuneration that may be considered fixed. For certain key positions the fixed element of remuneration can be determined on the basis of specific individual contracts signed with the Banks/Companies that make up the Group;

- Variable element of remuneration (or "bonus") means any form of payment or benefit of varying amounts awarded to the staff during their employment contract or in the event of it being terminated, including any payments related to staying with the company ("retention bonus") - regardless of whether they are linked to performance objectives - or, in exceptional cases, attributed to new employees only for the first year of employment ("welcome bonus"). We have also included any fees paid in the event of early termination of employment, in addition to the severance pay provided by law and labour contracts currently in force;

- Total gross salary (TGS) means the sum of all payments received during the year prior to the year in which this policy is applied for the first time.

2. Role of the Corporate Bodies

"Policies 2012" reflect the changes that have taken place in the model of governance and control adopted by the Bank, which means that the roles and responsibilities of the Bank's corporate bodies are different from what they were in 2011.

In accordance with the Articles of Association adopted by the Bank and with "Policies 2012", the roles of the various corporate bodies involved in preparing, approving and implementing the remuneration policy are explained below.

2.1. Responsibilities of the General Meeting of Members

The General Meeting of the Members:

- establishes the fixed elements of remuneration for the members of the Supervisory Board, including the remuneration of those with specific responsibilities in accordance with the Articles of Association, as well as the attendance fees for taking part in meetings of the Supervisory Board, Management Board and the Supervisory Board's various sub-committees and commissions;
- approves, and reviews at least annually, the remuneration policies for the members of the Management Board and Supervisory Board, as required by applicable law and the Supervisory Provisions in force at the time;
- approves, for matters within its sphere of competence, the remuneration report required by art. 123-ter of Legislative Decree 58/1998, with particular reference to the procedures used for the adoption and implementation of the policies in question;
- approves any share-based payment plans in favour of the members of the Management Board, Supervisory Board, employees or freelancers.

2.2. Responsibilities of the Supervisory Board

On the proposal of the Remuneration Committee, the Supervisory Board:

- approves the fixed remuneration of the members of the Management Board of the Parent Company (Chairman, Managing Director and Chief Executive Officer, Directors assigned to sub-committees or commissions, and Directors with special duties, responsibilities and powers);
- submits the remuneration policies for the members of the Parent Company's Management Board for approval by the General Meeting of Members;
- approves the remuneration policies of the personnel of the Group and of the Banks/Companies that make it up, as well as of any freelancers;
- approves the remuneration report required by art. 123-ter of Legislative Decree 58/1998;
- determines the total annual resources ("bonus pool") to be allocated for payment of the variable element of the annual remuneration of the members of the Management Board;
- determines within the ambit of the Management Board's "bonus pool" the annual amount of any variable element of remuneration to be paid to the individual beneficiaries ("annual bonus") and verifies that the access conditions have been fulfilled ("access gates");
- determines with reference to the Parent Company's Management Board, the amount of any additional payments (e.g. retention bonuses, welcome bonuses) and any compensation to be paid in the event of early termination of employment;
- provides each year to the Members at the General Meeting the information required on implementation of the system of remuneration of the Parent Company's personnel and the results of its audit checks.

2.3. Responsibilities of the Management Board

The Management Board:

- submits for the approval of the Parent Company's Supervisory Board the policies for the remuneration of Group personnel and freelancers, making proposals to the Supervisory Board for the remuneration report required by art. 123-ter of Legislative Decree 58/1998;
- defines, also on the proposal of the Managing Director and Chief Executive Officer, guidelines for the staff remuneration policy of the Parent Company and of the Group's subsidiary Banks/Companies and for the general human resources policies for the Group in line with the objectives of its long-term plans and budgets;
- defines, also on the proposal of the Managing Director and Chief Executive Officer, the total provision and criteria for applying the bonus system for senior managers in charge of business functions;
- determines the total annual resources ("bonus pool") to be allocated for payment of the variable element of the annual remuneration of each of the categories of staff of the Parent Company;
- determines within the ambit of the "bonus pool" of each of these staff categories, the annual amount of the variable element of remuneration to be paid to the individual beneficiaries ("annual bonus") belonging to these categories and verifies that the access conditions have been fulfilled ("access gates");
- determines with reference to the Parent Company's personnel, the amount of the retention bonuses, welcome bonuses and compensation paid in the event of early termination of employment;
- defines, on the proposal of the Managing Director and Chief Executive Officer, the emoluments for the members of General Management of the Parent Company;
- defines the emoluments for the members of the Supervisory Board in accordance with Legislative Decree 231/2001;
- ensures that the systems of remuneration and incentives for employees and freelancers comply with the rules and principles laid down by the Supervisory Authorities.

2.4. Responsibilities of the Remuneration Committee

The Remuneration Committee presents proposals and opinions to the Supervisory Board and, if appropriate, to the Management Board of the Parent Company:

- on the fixed remuneration of the members of the Management Board of the Parent Company (Chairman, Managing Director and Chief Executive Officer, Directors assigned to sub-committees or commissions, and Directors with special duties, responsibilities and powers);
- on the remuneration of those in charge of internal control functions;
- on the remuneration policies for the members of the Management Board to be submitted for approval by the General Meeting of Members;
- on the remuneration policies of the personnel of the Group and of the Banks/Companies that make it up, as well as of freelancers;
- on the determination of the total annual resources ("bonus pool") to be allocated for payment of the variable element of the annual remuneration of the members of the Management Board and each of the categories of staff of the Parent Company;
- on the determination within the ambit of the "bonus pool" of the members of the Management Board and of each of the staff categories mentioned previously, the annual amount of the variable element of remuneration to be paid to the individual beneficiaries ("annual bonus") belonging to these categories and verifies that the access conditions have been fulfilled ("access gates");
- on the determination - with regard to personnel of the Parent Company and, where applicable, to the members of the Management Board - of retention bonuses, welcome bonuses and compensation paid in the event of early termination of employment.

2.5. Responsibilities of the Managing Director and Chief Executive Officer

The Managing Director and Chief Executive Officer makes proposals to the Board of Management:

- on the general policies for the development, management and remuneration of personnel of the Parent Company and of the Group's subsidiary banks/companies;
- on the emoluments of the members of General Management of the Parent Company.

Furthermore, in determining the fixed individual compensation, the Managing Director and Chief Executive Officer defines the economic position of the staff at all levels, including managers (except for the members of General Management), in compliance with the remuneration and incentive systems in force from time to time.

2.6. Control Functions

The process of control of the system of remuneration of Group personnel is regulated as follows:

- Control of regulatory compliance. This control function is delegated to the Group Compliance function, which verifies the extent to which the provisions of this Regulation are consistent with legal and supervisory requirements and with those of the Parent Company's Articles of Association;
- Control of operational compliance. This control is delegated to the appropriate function of the Parent Company or of the individual subsidiary banks/companies of the Group (if it exists), which verifies the compliance of the activities carried out to implement the remuneration policies by the Banks/Companies that make up the Group with the same activities provided for in the legal and supervisory requirements referred to in paragraph a). Based on any deviations, and depending on how significant they are, the function expresses an opinion on compliance risk, ranking it on one of four levels: low, partially low, prevalently high, high;
- Operational compliance checks on administrative, managerial and operational processes. These checks are designed to verify compliance of the activities carried out in the individual business processes pertaining to the staff - of the Banks/Companies that make up the Group - who are beneficiaries of the variable element of remuneration with the same activities provided by the legal and supervisory requirements governing such processes. These checks are delegated to the appropriate function of the Parent Company or of the individual subsidiary Banks/Companies of the Group (if it exists). Based on any deviations between the activities carried out and those required, and depending on how significant they are, the function expresses an opinion on compliance risk, ranking it on one of four levels: low, partially low, prevalently high, high;
- Internal audit. This activity is assigned to the Group Internal Audit function, which verifies the actual performance of these checks on regulatory and operational compliance.

The Compliance and Internal Audit functions of the Parent Company, to the extent of their sphere of competence, bring to the attention of the Supervisory Board of the Parent Company the results of the checks indicated in paragraphs a), b), c) and d) above with reference to the Banks/Companies that make up the Group, together with proposals for action to eliminate any weaknesses found. With regard to the subsidiary Banks/Companies of the Group, this information is also provided to their respective Boards of Directors.

The Supervisory Board verifies, through the Internal Control and Audit Committee, the operational compliance of the processes pertaining to the Management Board of the Parent Company and of the Board of Directors of the other Banks/Companies of the Group, and of the processes pertaining to the individual control functions of the Parent Company and of the other Banks/Companies of the Group.

The Parent Company's Remuneration Committee assists the Supervisory Board and Management Board, each within their respective spheres of competence, in supervising and monitoring, as well as updating the rules and principles adopted for the remuneration policies, in order to ensure their compliance with all regulations and:
- it verifies correct application of the remuneration system for those in charge of internal control functions in conjunction with the Internal Control and Audit Committee;
- verify the practical application of the remuneration policy adopted by the Management Board, as well as for managers with strategic responsibilities;
- ensures the effective involvement of the pertinent corporate functions in the process of preparing and monitoring of remuneration policies and practices;
- monitors the application of Supervisory Board's resolutions concerning remuneration; as well as implementing the decisions taken by the Management Board, checking effective achievement of the performance objectives, the coherence of the incentive system and risk management;
- it provides appropriate feedback on its activities to the Supervisory Board.

The Parent Company's Supervisory Board evaluates the relevance of any weaknesses found by the control process described above in order to provide immediate information to the Bank of Italy.

3. Principles and Purposes

Banca Popolare di Milano adopts remuneration systems that do not conflict with the healthy and prudent management of risk, or with the long-term strategies of the business. To this end, the "Policies 2012" document defines a system of remuneration and incentives of Group personnel in line with BPM's strategies, objectives and long-term results, suitably adjusted to take into account all risks involved and in line with the levels of capital and liquidity needed to cope with the activities undertaken and able to avoid distorted incentives that could lead to regulatory violations and excessive risk-taking. In this context, these regulations require, inter alia, that the variable element of remuneration is sustainable with respect to the financial position of the Group as a whole and of the banks and companies that make it up, and that it does not limit their ability to maintain or to achieve an adequate level of capitalisation.

In addition, the remuneration systems are consistent with the objectives and co-operative values that have inspired the Bank, in line with the tradition of Italian co-operative banks. The daily activities of the Bank's personnel are in fact essential and fundamental for the achievement of such important objectives as sustaining growth over the long term, adequately remunerating Members, creating job opportunities, remaining a point of reference for the economic and social development of the territories served, supporting non-profit activities, and enhancing and strengthening relations with Members, customers and stake-holders in general.

The effective management of human resources, which includes the application of appropriate remuneration policies, is especially important for the harmonious and efficient pursuit of these objectives: this is because the Bank must not only attract, develop and retain personnel with the abilities and professional skills needed to sustain growth over the long term, but also create a working environment that encourages the sharing, development and communication of a business culture founded on the co-operative values and social responsibilities felt by the Bank, in the tradition of Italian co-operative banks.

4. Description of the policies regarding fixed and variable elements of remuneration - 2011

Following publication of the Bank of Italy's "Supervisory Instructions regarding the Remuneration and Incentive Policies and Practices of Banks and Banking Groups" of 30 March 2011, the Bank has updated its remuneration policies to bring them into line.
In this context, the Bank has also made use of the law firm Pavia e Ansaldo.
This section describes the ways in which the Bank has implemented in 2011 the "Document on the Remuneration and Incentive Policies of the BPM Group", approved by the General Meeting of 25 June 2011, taking into account any variable elements of remuneration that accrued in 2010 and were paid in 2011.

4.1. Remuneration paid to the members of the Corporate Bodies in 2011

In addition to reimbursement of out-of-pocket expenses, the Bank's directors, independent or otherwise, received different amounts of fixed remuneration for being members of the Board of Directors and Executive Committee, as approved by the Assembly.
The Directors also received attendance fees for attending meetings of the Board of Directors and of its Sub-Committees and Commissions established pursuant to paras. 7 and 8 of art. 36 and art. 38.
Directors who are also members of the Supervisory Board 231/2001 (SB) received additional compensation consisting of a fixed element of remuneration and attendance fees to the extent determined by the Board of Directors.
Additional compensation was also foreseen for the Directors with "special duties" in the bank (Chairman, Deputy Chairman, Director in charge of supervising the internal control system). This additional compensation was decided by the Board of Directors - acting on a proposal of the Remuneration Committee and after hearing the opinion of the Board of Statutory Auditors - taking into account the responsibilities, commitment and role as representative of the Bank involved in each position.
See Table 1.1 of this document for details.
The Directors were not paid any special amounts for termination of office or termination of employment.
Nor were they assigned non-monetary benefits or insurance coverage, for pension or other purposes, other than those indicated in the tables provided in this document.

In addition to reimbursement for any out-of-pocket expenses incurred, the acting members of the Board of Statutory Auditors received the fixed remuneration decided at the General Meeting, different amounts being awarded to the Chairman and to the other Statutory Auditors. The Statutory Auditors also received attendance fees for attending meetings of the Board of Directors, Executive Committee and the Board's Sub-Committees or Commissions established according to the Articles of Association and for participating in meetings of the Bank's Supervisory Body pursuant to Legislative Decree 231/2001. The members of the Board of Statutory Auditors are not involved in any share-based compensation arrangements or bonus plans linked to the Bank's financial results.
See Table 1.1 of this document for details.
The members of the Board of Statutory Auditors were not paid any special amounts for termination of office or termination of employment.
Nor were they assigned non-monetary benefits or insurance coverage, for pension or other purposes, other than those indicated in the tables provided in this document.
During 2011, for the period between 22 October 2011 and 31 December 2011, the members of the Supervisory Board - as approved by the General Meeting on 22 October 2011 following adoption of the two-tier model of administration and control - were paid, in addition to the reimbursement of expenses incurred, a different amount of fixed remuneration according to the positions that they hold on the Supervisory Board (Chairman, Deputy Chairman and Supervisory Board Member) and on the Internal Control and Audit Committee (Chairman and Committee Member); they were also awarded an attendance fee which is not cumulative if several meetings are held on the same day, for attending each meeting of the Supervisory Board, Management Board and the various Board Sub-Committees and Commissions established under arts. 52 and 53 of the current Articles of Association.
In line with the Bank of Italy's regulations on this topic, variable elements of remuneration are not envisaged for members of the Supervisory Board.
As approved by the Supervisory Board on the proposal of the Remuneration Committee, members of the Management Board who do not have an individual contract are awarded - for 2011, in proportion to the period of office (from 26 October 2011 to 31 December 2011) - different amounts of fixed remuneration according to their positions on the Management Board (Chairman and Board Member), whether or not they are executive or non-executive directors, as well as reimbursement of expenses incurred for the purpose of their office. They are also awarded an attendance fee for attending meetings of the Management Board and of its Sub-Committees and Commissions.

4.2. Remuneration of "key personnel" for 2010, paid in 2011

When implementing EC Directive 2010/76/CE of 14 December 2010 (the Capital Requirements Directive, also referred to as "CRD III"), the Parent Company's Remuneration Committee analysed the main innovations contained in it compared with the existing situation and drew up an initial update of the remuneration policies.
As part of this, the Parent Company carried out a thorough analysis of its organisational structure. Based on this analysis, the Bank identified, at the date of approval of Policy 2011 (25 June 2011) the so-called "key personnel" of the Group, (also known as "risk takers" i.e. managers who are in a position to take significant risks).
For its activities in 2010, the Parent Company decided to adopt an incentive system that would limit the proportion of variable compensation as foreseen in the Policy 2011 document of 25 June 2011, as well as a mechanism of partial deferral of the variable element.
Variable compensation has therefore been split into two parts: a part to be paid in the year after the accrual period, i.e. in 2011; and a part, equal to 40% of the total variable remuneration to be deferred over the three years 2012-2014 and subject to an after-the-event correction mechanism to reflect the performance levels achieved, net of any risks undertaken during the deferral period (the part that would be paid providing the person continues to work for the Bank).
Accordingly, once this system had been approved, during 2011 the "key personnel" had access to the incentives linked to the objectives achieved in 2010.
As regards the remuneration received in 2011, we would point out that, based on the incentive scheme described above, "key personnel" have been paid the up-front portion of variable pay for 2010.
As regards the first of the three deferred instalments of the variable element of remuneration for the year 2010, see paragraph 4.3.1., which explains the after-the-event correction mechanism that has been applied from 2011.

4.3. Remuneration for 2011

The Bank has decided to link the variable element of pay to an incentive scheme that differs by corporate population groups, depending on their level of responsibility.
The Bank carried out a thorough analysis of its organisational structure and of the characteristics of its subsidiaries, assessing above all the degree of risk that they have contributed to the Group. Based on this analysis and with regard to its own staff, the Bank has identified the following persons as its "key personnel":

- 2 members of BPM's General Management;
- 3 managers of BPM's main lines of business, corporate functions and geographical areas;
- 6 managers and high-level personnel of the internal control functions;
- 12 other BPM managers who take risks ("other risk takers”).

4.3.1. Remuneration of "key personnel" not involved in internal control functions

The following parameters have been set for gaining access to the incentives (so-called "Access Gates"), which are valid for "key personnel":

- A gross RORAC (Return On Risk Adjusted Capital) higher than the daily average 3-month interbank offered rate at the end of the current financial year. The RORAC has been calculated as the ratio between: the income (loss) before tax from continuing operations and the average value of total minimum capital requirements for credit, counterparty, market and operational risk calculated at the end of each half-year.
- A consolidated Core Tier 1 ratio at the end of 2011 higher than the minimum regulatory levels based on the Basel III rules.
- A ratio of funding/average consolidated annual loans to customers of more than 103%.

With reference to 2011, RORAC did not exceed the set threshold, which meant that neither the up-front portion nor the deferred portion of the variable element of remuneration for 2011 were paid.
With reference to 2010, the after-the-event correction mechanism of the deferred variable element envisaged payment of the first deferred annual portion if the average RORAC for 2010 and 2011 was higher than the required minimum parameter (or "gate") for 2011.
Since the average RORAC for 2010-2011 was lower than the threshold for 2011, the first of the three instalments of deferred variable remuneration related to 2010 has not been paid, in line with the provisions of “Policy 2011”.

Two terminations of office or of employment took place during 2011. In one case, special agreements were reached which involved exceeding the normal indemnity limit of 24 months' salary.
No non-monetary benefits or insurance coverage, for pension or other purposes, were assigned, other than those provided for in the supplementary contract for bank employees. Non-monetary (or "fringe") benefits were foreseen for "key personnel”. The value of these benefits for tax purposes is shown in the tables attached to this document.

4.3.2. Remuneration of managers and high-level personnel of internal control functions

The Group's "gate" objectives (gross RORAC and consolidated Core Tier 1 ratio), or the third "entrance gate" valid for each individual Group company, are not applied to the Managers and high-level personnel of internal control functions.
The size of the variable element to be allocated to each person identified in this category, for both the up-front and the deferred part, is therefore calculated at the end of the process of performance evaluation and considering the achievement of their individual professional objectives. Assessing achievement of these objectives is up to the Internal Control and Audit Committee, which then gives its opinion, case by case, to the Remuneration Committee.

The maximum amount of any variable element of remuneration cannot exceed the limits laid down in the Policy 2011 document of 25/06/2011 and can only be paid in cash.
The deferral of any variable portion will be over three years, from 2013, to the extent of 40% of the variable element provided for and in equal annual instalments. The deferred portion will be paid if the individual professional objectives assigned to the beneficiary have been achieved at least up to the level set, but also in the years between accrual of the variable element and payment of the deferred portion.

4.3.3. Remuneration of the Parent Company's staff not identified as "key personnel”

For other employees, BPM has adopted an incentive scheme that provides for quantitative and qualitative objectives that were assigned at the beginning of 2011 (to the individual or the team) depending on their level in the organisation. The incentive is calculated at the end of the year on the basis of a target incentive, established at role level for members of staff with individual objectives and at grade level for those with team objectives, and achievement of the objectives.

As regards 2011, no variable element of remuneration could be paid, as the Bank did not achieve the minimum required amount of Net Income from Continuing Operations excluding extraordinary items and dividends/losses from equity investments (the so-called "Total Bank Adjusted NICO") according to the Resolution of the Board of Directors of 3 May 2011.

Only for personnel of the Company in accordance with art. 60 of its Articles of Association, to current employees, except for those in top management positions, is reserved each year - unless the General Meeting decides not to distribute a dividend out of earnings - an amount equal to 5% of the '"Gross Profit" (defined as "income before tax from continuing operations" calculated before determining the amount concerned), payable in shares of the Company subject to a three-year retention period for the beneficiary.

4.3.4. Other types of remuneration for "key personnel”

The members of Group management receive no fees for directorships held in Group companies held directly or indirectly by the Bank as they are paid over to the company to which the person belongs by the company in which the position is held.

5. Lines of development of the 2012 remuneration policies

In view of the drafting in 2012 of new Group Remuneration Policies and adoption of the two-tier system of governance, which took place on 22 October 2011, the following is an explanation of the lines of development of the measures envisaged in 2012 to implement the "Remuneration policies of personnel of the BPM Banking Group" (or "Policies 2012"), approved by the Supervisory Board on 27 April 2012.

5.1. Remuneration of members of the Management and Supervisory Boards

The fixed element of remuneration is determined:

- for the members of the Supervisory Board by the Ordinary General Meeting of Members in accordance with the Articles of Association;
- for members of the Management Board by the Supervisory Board in accordance with the Articles of Association.

The members of the Supervisory Board - as approved by the General Meeting on 22 October 2011 following adoption of the two-tier model of administration and control - are paid, in addition to the reimbursement of expenses incurred, a different amount of fixed remuneration according to the positions that they hold on the Supervisory Board (Chairman, Deputy Chairman and Supervisory Board Member) and on the Internal Control and Audit Committee (Chairman and Committee Member). They are also awarded an attendance fee which is not cumulative if several meetings are held on the same day, for attending each meeting of the Supervisory Board, Management Board and the various Sub-Committees and Commissions established under arts. 52 and 53 of the current Articles of Association.
In line with the Bank of Italy's regulations on this topic, variable elements of remuneration are not envisaged for members of the Supervisory Board.
As regards the members of the Management Board, any bonuses are determined by the Supervisory Board or established in their individual employment contracts. In particular, each variable element provided in the individual contracts cannot exceed 50% their Fixed Annual Remuneration. However, the sum of the variable elements can exceed this limit of 50%. Bonuses must be paid in ways that comply with the supervisory instructions regarding methods of payment and deferral; the indicators are defined each year by the relevant bodies with reference to the objectives assigned.
The said individual employment contracts also govern the relationships between the Bank and the members of the Management Board as regards compensation in the event of resignation or dismissal without just cause or if their employment ceases because of a takeover bid.
As approved by the Supervisory Board on the proposal of the Remuneration Committee, members of the Management Board who do not have an individual contract are awarded - for 2011-12, in proportion to the period of office - different amounts of fixed remuneration according to their positions on the Management Board (Chairman and Board Member), whether or not they are executive or non-executive directors, as well as reimbursement of expenses incurred for the purpose of their office; they are also awarded an attendance fee for attending meetings of the Management Board and of its Sub-Committees and Commissions.

5.2. Remuneration for 2012

5.2.1. 5.2.1. Remuneration of "key personnel"

On the basis of the criteria of importance discussed in Policies 2012, the following have been identified by the relevant internal functions of the Parent Company involved in this process (Human Resources, Corporate Governance, Risk Management, Organisation, Compliance and Internal Audit) as "key personnel" of the Bank:

- members of the Management Board of the Parent Company, including the Managing Director and Chief Executive Officer;
- managers of the main lines of business, corporate functions and geographical areas of the Parent Bank;
- managers and key personnel of internal control functions of the Parent Company;
- other risk-takers of the Parent Bank.

The following parameters have been set for gaining access to the incentives (so-called "Access Gates"), which are valid for "key personnel", being indicators of profitability, capital adequacy and liquidity at a Group consolidated level (consolidated ratios), namely:

- Actual RORAC, namely the ratio between the percentage of '"income before tax from current operations in recurring activities" for the year, and an amount equal to the straight average of the total figures for the consolidated capital requirements mentioned above for the four quarters of the same year, which has to be equal to or higher than the RORAC laid down in the budget;
- The actual Tier 1 Capital ratio, which is given by the ratio at 31 December of the year in question between the Group's Tier 1 capital and an amount equal to 12.5 times the total value of the Group's regulatory capital requirements for credit, counterparty, market and operational risk, which has to be equal to or higher than 9%;
- Actual Loans/Stable Deposits, given by the ratio at 31 December of the year in question between the annual average balances of the Group's "Total Ordinary Loans" and "Stable Deposits" (both of these aggregates are produced by the "Redban" procedure, which is handled by the Company's Management Accounting function), which must not be higher than the budgeted figure.

The recognition of the "annual bonus" is also subject to the specific opinions on operational compliance risk (high, high prevalence, partially low, low) assigned. In particular, for an annual bonus to be paid, the opinion on operational compliance risk has to be "low" or "partially low”. The process for formulating this opinion, together with the Group processes involved, will be governed by the Group Controls Regulation. The opinion is expressed by the Supervisory Board regarding the processes defined each year by the Management Board.

The total annual amount of resources to be allocated to payment of the variable element of employees' remuneration (excluding retention bonuses, welcome bonuses and any one-off bonuses awarded in exceptional circumstances) (collectively known as the "bonus pool") is determined by the Management Board in accordance with the criteria established below. In particular, for 2012 the total amount of the bonus pool can in no case exceed the limit of 40% of "income before tax from current operations in recurring activities" as budgeted. The total amount of the bonus pool is calculated taking into account, among other things, the capitalisation and liquidity objectives of the Bank.

The bonus pool has applied to it a correction factor, which depends on the ratio between the "income before tax from current operations in recurring activities" shown in the income statement and as budgeted for each year of reference. The correction factors to be applied are shown in the following table.

Ratio of Actual income/Budgeted income	Correction factor to be multiplied by the Bonus Pool
< 60%	0%
≥ 60% and < 70%	Same 80% as the ratio of Actual income/Budgeted income
≥ 70% and < 100%	Same % as the ratio of Actual income/Budgeted income
≥ 100%	100%

The annual amount of the variable element of remuneration to be paid to the individual beneficiaries ("annual bonus") of the Parent Company cannot exceed 50% of their total gross salary, excluding the personnel of the internal control functions that form part of the "key personnel".
The "annual bonus" (including any "retention bonuses") of "key personnel" is divided into:

- an up-front fee, equal to 60% of the "bonus", to be paid before the end of July 2013;
- three annual instalments, amounting in total to 40% of the bonus, each of equal amount, deferred over a three-year period and each to be paid by the end of July of each year of assignment (2014, 2015, 2016).

For the "key personnel" other than those involved in internal control functions, 50% of both the up-front instalment and the deferred instalments of the bonus have to be paid in BPM shares, subject to a retention period (i.e. a ban on selling them until the end of the period) of two years from their assignment or, for the instruments being deferred, of one year from their assignment. To this end, the number of shares to be assigned is calculated on the basis of their "normal value" measured in 2013, "normal value" being understood as the average price of the above mentioned shares during the thirty days prior to the allocation.

Payment of each of the deferred instalments of the bonus is subject to compliance with the "access gates" and related benchmarks of the year for which the up-front instalment of the variable element of remuneration is recognised; these benchmarks must be met for the year preceding the year of liquidation of each deferred instalment.
Neither the up-front nor the deferred instalments of the bonus are paid in the event of termination of employment (except for retirement, death or specific provisions contained in individual contracts) of the claimants or any fraudulent conduct on their part prior to the date of payment. In this latter case, instalments already paid also have to be returned (under the "claw-back" clause).

In the event of early termination of employment the amount of any emoluments provided for in the contracts of the "key personnel" may not exceed the limit of 24 months of their total gross remuneration. Payment of these emoluments is subject to compliance with the criteria laid down in each collective and individual employment contracts.
As for payments of severance payments to members of the Management Board, they are subject to supervisory regulations on remuneration policies.
No insurance coverage, for pension or other purposes, have been assigned, other than those that are obligatory. Fringe benefits, on the other hand, are foreseen.

5.2.2. Remuneration of managers and high-level personnel of internal control functions

For "key personnel" involved in internal control functions, the annual bonus is subject only to the opinion of operational compliance risk given by the Supervisory Board through the Internal Audit and Audit Committee, with reference to the control processes (or stages) attributable to each beneficiary of the bonus.
The bonus is payable only in cash and subject to the "malus" mechanism only for the opinion of operational compliance risk for each of the years preceding payment of the deferred instalments.
For the staff of the internal control functions that form part of "key personnel", the annual bonus due to the individual beneficiaries cannot exceed 30% of total gross salary.

5.2.3. Remuneration of the Parent Company's staff not identified as "key personnel"

The fixed element of remuneration is determined for employees of the Parent Company by the employment contracts applied.
As regards the access gates to the incentive scheme, they will be proposed and validated by the competent bodies.
Also for the staff of the Parent Company not identified as "key personnel", the maximum amount of the variable element of remuneration does not exceed 50% of their total gross salary. There is also the variable element linked to the performance bonus incorporated in the supplementary contract.
Under art. 60 of the Parent Company's Articles of Association, to current employees, except for those in top management positions, is reserved each year - unless the General Meeting decides not to distribute a dividend out of earnings - an amount equal to 5% of the "Gross Profit" (defined as "income before tax from continuing operations" calculated before determining the amount concerned), payable in shares of the Parent Company subject to a three-year retention period for the beneficiary.
Payment of the annual bonus due to other staff for 2012, as well as the welcome bonuses, will take place in a lump sum before the end of July 2013.

5.2.4. Other types of remuneration for "key personnel"

The personnel of the Parent Company do not receive compensation for the positions that they hold on behalf of the Group in the corporate bodies of companies in which the Parent Company has an interest, directly or indirectly. These fees are paid over in full to the company to which the person belongs by the company in which the position is held.
Any "retention bonuses" for "key personnel" are counted as part of their variable remuneration, so as to verify compliance with the limits, and paid in the same way as the "annual bonus".
In exceptional cases, new employees can be awarded a guaranteed "welcome bonus" as part of their variable remuneration, but only for the first year. Any welcome bonuses for financial year 2012 will be paid in a lump sum by the end of July 2013.
There is also the variable element linked to the performance bonus incorporated in the supplementary contract.

Section 2: Analytical description of the remuneration paid

Table 1.1 – Remuneration to members of administrative and control bodies, and general managers.
Remuneration paid to members of the Board of Directors – Board of Statutory Auditors – Supervisory Board

Name and Surname	Office	Period in office	End of office	Fixed remuneration (1)	Attendance fees (2)	Remuneration for attending committee meetings (2)	Non-equity variable compensation		Benefits in kind (4)	Other remuneration (5)	Total	Fair value of equity compensation	Termination or severance benefits
							Bonuses and other incentives	Profit sharing (3)					
Massimo Ponzellini	Chairman of the Board of Directors and Member of the Executive Committee	01-01-11/22-10-11	22/10/11										
Remuneration received from BPM				548,333	11,750			16,667	2,635		579,385	n.a.	n.a.
Remuneration from subsidiaries and associates				–	–	–	–	–	–	–	–	n.a.	n.a.
Total				**548,333**	**11,750**	**–**	**–**	**16,667**	**2,635**	**–**	**579,385**		
Artali Mario	Deputy Chairman of the Board of Directors and Member of the Executive Committee	01-01-11/22-10-11	22/10/11										
Remuneration received from BPM				131,667	13,500	–		16,667	2,635	–	164,469	n.a.	n.a.
Remuneration from subsidiaries and associates				94,068	2,500	–	–	–	–	–	96,568	n.a.	n.a.
Total				**225,735**	**16,000**	**–**	**–**	**16,667**	**2,635**	**–**	**261,037**		
Graziano Tarantini	Deputy Chairman of the Board of Directors and Member of the Executive Committee	01-01-11/22-10-11	22/10/11										
Remuneration received from BPM				131,667	13,750	–		16,667	2,635		164,719	n.a.	n.a.
Remuneration from subsidiaries and associates				157,000	3,500						160,500	n.a.	n.a.
Total				**288,667**	**17,250**	**–**	**–**	**16,667**	**2,635**	**–**	**325,219**		
Antoniogiorgio Benvenuto	Member of the Board of Directors	01-01-11/22-10-11	22/10/11										
Remuneration received from BPM				26,667	5,500	9,500		16,667	1,756		60,090	n.a.	n.a.
Remuneration from subsidiaries and associates											–	n.a.	n.a.
Total				**26,667**	**5,500**	**9,500**	**–**	**16,667**	**1,756**	**–**	**60,090**		
Francesco Bianchi	Member of the Board of Directors and of the Executive Committee	01-01-11/30-03-11	30/03/11										
Remuneration received from BPM				14,500	1,250						15,750	n.a.	n.a.
Remuneration from subsidiaries and associates				8,534	750						9,284	n.a.	n.a.
Total				**23,034**	**2,000**	**–**	**–**	**–**	**–**	**–**	**25,034**		
Giovanni Bianchini	Member of the Board of Directors Member of the Supervisory Board	01-01-11/22-10-11 22-10-11/31-12-11	22/10/11 2013										
Remuneration received from BPM				36,256	13,350	12,500		16,667	1,756		80,529	n.a.	n.a.
Remuneration from subsidiaries and associates				10,082	1,500				–		11,582	n.a.	n.a.
Total				**46,338**	**14,850**	**12,500**	**–**	**16,667**	**1,756**	**–**	**92,111**		

Table 1.1 – Remuneration to members of administrative and control bodies, and general managers.

Remuneration paid to members of the Board of Directors – Board of Statutory Auditors – Supervisory Board

Name and Surname	Office	Period in office	End of office	Fixed remuneration (1)	Attendance fees (2)	Remuneration for attending committee meetings (2)	Non-equity variable compensation		Benefits in kind (4)	Other remuneration (5)	Total	Fair value of equity compensation	Termination or severance benefits
							Bonuses and other incentives	Profit sharing (3)					
Giuseppe Coppini (8)	Member of the Board of Directors	01-01-11/22-10-11	22/10/11										
	Deputy Chairman of the Supervisory Board	22-10-11/31-12-11	2013										
Remuneration received from BPM				51,598	16,450	14,500		16,667	1,756	–	100,971	n.a.	n.a.
Remuneration from subsidiaries and associates				85,000	14,700				–		99,700	n.a.	n.a.
Total				**136,598**	**31,150**	**14,500**	**–**	**16,667**	**1,756**	**–**	**200,671**		
Enrico Corali	Member of the Board of Directors and of the Executive Committee	01-01-11/22-10-11	22/10/11										
Remuneration received from BPM				39,667	14,250			16,667	1,756		72,340	n.a.	n.a.
Remuneration from subsidiaries and associates				134,445	8,250				–		142,695	n.a.	n.a.
Total				**174,112**	**22,500**	**–**	**–**	**16,667**	**1,756**	**–**	**215,035**		
Claudio Danelon	Member of the Board of Directors	01-01-11/22-10-11	22/10/11										
Remuneration received from BPM				26,667	5,000	4,250		16,667	1,756		54,340	n.a.	n.a.
Remuneration from subsidiaries and associates											–	n.a.	n.a.
Total				**26,667**	**5,000**	**4,250**	**–**	**16,667**	**1,756**	**–**	**54,340**		
Franco Debenedetti	Member of the Board of Directors	01-01-11/27-06-11	27/06/11										
Remuneration received from BPM				16,000	3,000			10,000	305		29,305	n.a.	n.a.
Remuneration from subsidiaries and associates											–	n.a.	n.a.
Total				**16,000**	**3,000**	**–**	**–**	**10,000**	**305**	**–**	**29,305**		
Franco Del Favero	Member of the Board of Directors and of the Executive Committee	01-01-11/22-10-11	22/10/11										
Remuneration received from BPM				48,333	5,500			16,667	1,756		72,256	n.a.	n.a.
Remuneration from subsidiaries and associates				6,100	1,000						7,100	n.a.	n.a.
Total				**54,433**	**6,500**	**–**	**–**	**16,667**	**1,756**	**–**	**79,356**		
Carlo Dell'Aringa	Member of the Board of Directors and of the Executive Committee	01-01-11/22-10-11	22/10/11										
	Member of the Supervisory Board	22-10-11731-12-11	2013										
Remuneration received from BPM				44,922	13,300			16,667	1,756		76,645	n.a.	n.a.
Remuneration from subsidiaries and associates				16,667	2,000						18,667	n.a.	n.a.
Total				**61,589**	**15,300**	**–**	**–**	**16,667**	**1,756**	**–**	**95,312**		

Table 1.1 – Remuneration to members of administrative and control bodies, and general managers.

Remuneration paid to members of the Board of Directors – Board of Statutory Auditors – Supervisory Board

Name and Surname	Office	Period in office	End of office	Fixed remuneration (1)	Attendance fees (2)	Remuneration for attending committee meetings (2)	Non-equity variable compensation		Benefits in kind (4)	Other remuneration (5)	Total	Fair value of equity compensation	Termination or severance benefits
							Bonuses and other incentives	Profit sharing (3)					
Carlo Frascarolo	Member of the Board of Directors	12-05-11/22-10-11	22/10/11										
Remuneration received from BPM				14,667	7,500			10,000	1,698		33,865	n.a.	n.a.
Remuneration from subsidiaries and associates				117,121	5,000						122,121	n.a.	n.a.
Total				**131,788**	**12,500**	**–**	**–**	**10,000**	**1,698**	**–**	**155,986**		
Roberto Fusilli	Member of the Board of Directors	01-01-11/22-10-11	22/10/11										
Remuneration received from BPM				26,667	14,000	5,000		16,667	1,756		64,090	n.a.	n.a.
Remuneration from subsidiaries and associates				39,554	8,000				–		47,554	n.a.	n.a.
Total				**66,221**	**22,000**	**5,000**	**–**	**16,667**	**1,756**	**–**	**111,644**		
Piero Lonardi	Member of the Board of Directors and of the Executive Committee Member of the Supervisory Board	01-01-11/22-10-11 22-10-11/31-12-11	22/10/11 2013										
Remuneration received from BPM				57,922	8,200	4,000		16,667	1,756		88,545	n.a.	n.a.
Remuneration from subsidiaries and associates				16,163	3,000						19,163	n.a.	n.a.
Total				**74,085**	**11,200**	**4,000**	**–**	**16,667**	**1,756**	**–**	**107,708**		
Giovanni Massimello	Member of the Board of Directors	26-07-11/22-10-11	22/10/11										
Remuneration received from BPM				8,000	1,750				1,337		11,087	n.a.	n.a.
Remuneration from subsidiaries and associates											–	n.a.	n.a.
Total				**8,000**	**1,750**	**–**	**–**	**–**	**1,337**	**–**	**11,087**		
Marcello Priori (7)	Member of the Board of Directors and Director Responsible for Supervising the Internal Control System Member of the Supervisory Board	01-01-11/22-10-11 22-10-11/31-12-11	22/10/11 2013										
Remuneration received from BPM				36,256	11,800	60,253		16,667	1,756		126,732	n.a.	n.a.
Remuneration from subsidiaries and associates				96,836	4,250						101,086	n.a.	n.a.
Total				**133,092**	**16,050**	**60,253**	**–**	**16,667**	**1,756**	**–**	**227,818**		
Leone Spozio	Member of the Board of Directors	01-01-11/22-10-11	22/10/11										
Remuneration received from BPM				26,667	13,250	7,500		16,667	1,756		65,840	n.a.	n.a.
Remuneration from subsidiaries and associates											–	n.a.	n.a.
Total				**26,667**	**13,250**	**7,500**	**–**	**16,667**	**1,756**	**–**	**65,840**		

Table 1.1 – Remuneration to members of administrative and control bodies, and general managers.

Remuneration paid to members of the Board of Directors – Board of Statutory Auditors – Supervisory Board

Name and Surname	Office	Period in office	End of office	Fixed remuneration (1)	Attendance fees (2)	Remuneration for attending committee meetings (2)	Non-equity variable compensation		Benefits in kind (4)	Other remuneration (5)	Total	Fair value of equity compensation	Termination or severance benefits
							Bonuses and other incentives	Profit sharing (3)					
Tamburini Jean–Jacques (6) (8)	Member of the Board of Directors and Director Responsible for Supervising the Internal Control System	01-01-11/22-10-11	22/10/11										
	Member of the Supervisory Board	22-10-11/31-12-11	2013										
Remuneration received from BPM				49,256	6,500			16,667	1,756		74,179	n.a.	n.a.
Remuneration from subsidiaries and associates				16,164	750				–		16,914	n.a.	n.a.
Total				**65,420**	**7,250**	**–**	**–**	**16,667**	**1,756**	**–**	**91,093**		
Zefferino Michele	Member of the Board of Directors and of the Supervisory Committee	01-01-11/22-10-11	22/10/11										
	Member of the Supervisory Board and of the Supervisory Committee	22-10-11/31-12-11	2013										
Remuneration received from BPM				36,256	8,200	5,250		16,667	1,756	23,500	91,629	n.a.	n.a.
Remuneration from subsidiaries and associates				71,144	8,000					9,664	88,808	n.a.	n.a.
Total				**107,400**	**16,200**	**5,250**	**–**	**16,667**	**1,756**	**33,164**	**180,437**		
Messina Salvatore Rino	Chairman of the Board of Statutory Auditors	01-01-11/22-10-11	22/10/11										
Remuneration received from BPM				133,333	36,250	13,000			1,756	2,250	186,589	n.a.	n.a.
Remuneration from subsidiaries and associates									–		–	n.a.	n.a.
Total				**133,333**	**36,250**	**13,000**	**–**	**–**	**1,756**	**2,250**	**186,589**		
Bellavite Pellegrini Carlo	Auditor	01-01-11/22-10-11	22/10/11										
Remuneration received from BPM				106,667	29,750	4,000			1,756		142,173	n.a.	n.a.
Remuneration from subsidiaries and associates				15,000	400				–		15,400	n.a.	n.a.
Total				**121,667**	**30,150**	**4,000**	**–**	**–**	**1,756**	**–**	**157,573**		
Castoldi Enrico (8)	Auditor	01-01-11/22-10-11	22/10/11										
	Member of the Supervisory Board	22-10-11/31-12-11	2013										
Remuneration received from BPM				80,000	36,450	3,250			1,756	–	121,456	n.a.	n.a.
Remuneration from subsidiaries and associates				91,587	27,000						118,587	n.a.	n.a.
Total				**171,587**	**63,450**	**3,250**	**–**	**–**	**1,756**	**–**	**240,043**		
Salvatori Stefano	Auditor	01-01-11/22-10-11	22/10/11										
Remuneration received from BPM				106,667	31,250	4,750			1,756	–	144,423	n.a.	n.a.
Remuneration from subsidiaries and associates				34,014	14,250						48,264	n.a.	n.a.
Total				**140,681**	**45,500**	**4,750**	**–**	**–**	**1,756**	**–**	**192,687**		

Table 1.1 – Remuneration to members of administrative and control bodies, and general managers.

Remuneration paid to members of the Board of Directors – Board of Statutory Auditors – Supervisory Board

Name and Surname	Office	Period in office	End of office	Fixed remuneration (1)	Attendance fees (2)	Remuneration for attending committee meetings (2)	Non-equity variable compensation		Benefits in kind (4)	Other remuneration (5)	Total	Fair value of equity compensation	Termination or severance benefits
							Bonuses and other incentives	Profit sharing (3)					
Ezio Simonelli (6)	Auditor	01–01–11/22–10–11	22/10/11										
	Member of the Supervisory Board	22–10–11/31–12–11	2013										
Remuneration received from BPM				80,000	30,000	3,250			1,756	–	115,006	n.a.	n.a.
Remuneration from subsidiaries and associates				20,000	5,250						25,250	n.a.	n.a.
Total				**100,000**	**35,250**	**3,250**	**–**	**–**	**1,756**	**–**	**140,256**		
Filippo Annunziata (6) (8)	Chairman of the Supervisory Board	22–10–11/31–12–11	2013										
Remuneration received from BPM				38,356	2,700				–		41,056	n.a.	n.a.
Remuneration from subsidiaries and associates											–	n.a.	v
Total				**38,356**	**2,700**	**–**	**–**	**–**	**–**	**–**	**41,056**		
Umberto Bocchino (7)	Deputy Chairman of the Supervisory Board	22–10–11/31–12–11	2013										
Remuneration received from BPM				24,931	7,200	11,507			–	450	44,088	n.a.	n.a.
Remuneration from subsidiaries and associates											–	n.a.	n.a.
Total				**24,931**	**7,200**	**11,507**	**–**	**–**	**–**	**450**	**44,088**		
Maurizio Cavallari	Member of the Supervisory Board	22–10–11/31–12–11	2013										
Remuneration received from BPM				9,589	2,700				–		12,289	n.a.	n.a.
Remuneration from subsidiaries and associates				26,245	5,250				–		31,495	n.a.	n.a.
Total				**35,834**	**7,950**	**–**	**–**	**–**	**–**	**–**	**43,784**		
Stefania Chiaruttini (7)	Member of the Supervisory Board	22–10–11/31–12–11	2013										
Remuneration received from BPM				9,589	4,050	5,753			–		19,392	n.a.	n.a.
Remuneration from subsidiaries and associates											–	n.a.	n.a.
Total				**9,589**	**4,050**	**5,753**	**–**	**–**	**–**	**–**	**19,392**		
Federico Fornaro (7)	Member of the Supervisory Board	22–10–11/31–12–11	2013										
Remuneration received from BPM				9,589	5,850	5,753			–		21,192	n.a.	n.a.
Remuneration from subsidiaries and associates				10,043	2,000						12,043	n.a.	n.a.
Total				**19,632**	**7,850**	**5,753**	**–**	**–**	**–**	**–**	**33,235**		
Francesco Giaretta	Member of the Supervisory Board	22–10–11/31–12–11	2013										
Remuneration received from BPM				9,589	2,700	–			–		12,289	n.a.	n.a.
Remuneration from subsidiaries and associates				28,288	5,500				–		33,788	n.a.	n.a.
Total				**37,877**	**8,200**	**–**	**–**	**–**	**–**	**–**	**46,077**		

Table 1.1 – Remuneration to members of administrative and control bodies, and general managers.

Remuneration paid to members of the Board of Directors – Board of Statutory Auditors – Supervisory Board

Name and Surname	Office	Period in office	End of office	Fixed remuneration (1)	Attendance fees (2)	Remuneration for attending committee meetings (2)	Non-equity variable compensation		Benefits in kind (4)	Other remuneration (5)	Total	Fair value of equity compensation	Termination or severance benefits
							Bonuses and other incentives	Profit sharing (3)					
Mario Benito Mazzoleni (8)	Member of the Supervisory Board	22-10-11/31-12-11	2013										
Remuneration received from BPM				9,589	2,700	–			–		12,289	n.a.	n.a.
Remuneration from subsidiaries and associates				8,132	1,000				–		9,132	n.a.	n.a.
Total				**17,721**	**3,700**	**–**	**–**	**–**	**–**	**–**	**21,421**		
Maria Luisa Mosconi (6)	Member of the Supervisory Board	22-10-11/31-12-11	2013										
Remuneration received from BPM				9,589	2,700	–			–		12,289	n.a.	n.a.
Remuneration from subsidiaries and associates									–		–	n.a.	n.a.
Total				**9,589**	**2,700**	**–**	**–**	**–**	**–**	**–**	**12,289**		
Mauro Paoloni (7)	Member of the Supervisory Board	22-10-11/31-12-11	2013										
Remuneration received from BPM				9,589	6,300	5,753			–		21,642	n.a.	n.a.
Remuneration from subsidiaries and associates									–		–	n.a.	n.a.
Total				**9,589**	**6,300**	**5,753**	**–**	**–**	**–**	**–**	**21,642**		
Ulrich Weiss (6)	Member of the Supervisory Board	22-10-11/31-12-11	2013										
Remuneration received from BPM				9,589	1,800				–		11,389	n.a.	n.a.
Remuneration from subsidiaries and associates											–	n.a.	n.a.
Total				**9,589**	**1,800**	**–**	**–**	**–**	**–**	**–**	**11,389**		

Nota

(1) The fixed portion of remuneration calculated on a time basis over the effective period of 2011 in which office was held.
Attendance fees are shown separately in the next column.

We summarise below the approved annual remuneration for the various positions:

Board of Directors

- Chairman: 658,000
- Deputy Chairman: 158,000
- Member of the Executive Committee: 58,000
- Member of the Board of Directors: 32,000

The Director responsible for supervising the internal control system also receives additional annual remuneration of 60,000 euro.

Table 1.1 – Remuneration to members of administrative and control bodies, and general managers.

Remuneration paid to members of the Board of Directors – Board of Statutory Auditors – Supervisory Board

Board of Statutory Auditors
– Chairman: 100,000
– Auditor: 80,000

The members of the Board of Statutory Auditors, who are no longer in office following the change in the system of corporate governance approved by the General Meeting of Members of 22 October 2011, were paid the entire fee established by the General Meeting up to the date of expiry of their mandate (approval of the 2011 financial statements)

Supervisory Board
– Chairman: 200.000
– Deputy Chairman: 130,000
– Member of the Supervisory Board: 50,000

(2) The "Attendance fees" column shows the fees for attending meetings of the sub-committees previously set up by the Board of Directors.

The column entitled "Fees for participation in Committees" indicates the remuneration provided for the Director responsible for supervising the internal control system, as well as the portion attributable to members of the Supervisory Board's Internal Control and Audit Committee (equal to 60,000 euro per annum for the Chairman and 30,000 euro per year for the other members).

An attendance fee will only be paid for taking part in meetings of the Supervisory Board's sub-committees if they meet on a different date from the Supervisory Board.

(3) The "Profit sharing" column shows the time-based payment of Euro 20 thousand assigned to members of the Board of Directors to replace their previous emolument, as per art. 47 of the Articles of Association, amended by the General Meeting of Members of 25 June 2011.

(4) Non-cash benefits include the portion of the insurance premium paid by the Bank for non-occupational injuries treated as a fringe benefit to the beneficiary for tax purposes.

(5) Other remuneration includes the fees paid to members of the Supervisory Committee or for attending its meetings.

(6) Members of the Nominations Committee
(7) Members of the Internal Control and Audit Committee
(8) Members of the Remuneration Committee

Table 1.1 – Remuneration to members of administrative and control bodies, and general managers.

Management Board

Name and Surname	Office	Period in office	End of office	Fixed remuneration (1)	Attendance fees (2)	Remuneration for attending committee meetings (2)	Non-equity variable compensation		Benefits in kind (4)	Other remuneration (5)	Total	Fair value of equity compensation	Termination or severance benefits
							Bonuses and other incentives	Profit sharing (3)					
Andrea C. Bonomi	Chairman	26–10–11/31–12–11	2013	108,493	4,950						113,443	n.a.	n.a.
Davide Croff	Executive Director	26–10–11/31–12–11	2013	41,589	4,500						46,089	n.a.	n.a.
Claudio De Conto (2)	Director	26–10–11/31–12–11	10–01–2012	27,123	4,950						32,073	n.a.	n.a.
Alessandro Foti	Director	26–10–11/31–12–11	2013	27,123	4,950						32,073	n.a.	n.a.
Dante Razzano	Executive Director	26–10–11/31–12–11	2013	41,589	4,500						46,089	n.a.	n.a.

Notes

(1) On 27 March 2012 the Supervisory Board decided - for 2011 and 2012 - the following annual remuneration payable to members of the Management Board (excluding the Managing Director and Chief Executive Officer whose compensation was approved on 10 January 2012):

– Chairman: 600,000
– Executive Directors: 230,000
– Directors: 150,000

This will also include an attendance fee of Euro 450 for attending meetings of the Management Board and of its sub-committees.

The amounts shown in the table reflect the of the above remuneration pertaining to 2011. A lump sum of 200,000 euro, as well as a portion of the attendance fees, has been provided for in the 2011 financial statements, until such time that the resolution authorising these amounts is passed.

(2) Resigned on 10.1.2012 following the appointment of the Managing Director and Chief Executive Officer

Table 1.1 – Remuneration to members of administrative and control bodies, and general managers.

Remuneration to members of administrative and control bodies, and general managers

(A)	(B)	(C)	(D)	(1)	(2)	(3)		(4)	(5)	(6)	(7)	(8)
Name and surname	Office	Period in office	End of office	Fixed remuneration	Remuneration for attending committee meetings	Non-equity variable compensation (i)		Benefits in kind	Other remuneration	Total	Fair Value of Equity Compensation	Termination or severance benefits
						Bonuses and other incentives	Profit sharing					
Enzo Chiesa	Co-General Manager	1/1/2011 – 16/5/2011	16/5/2011									
	General Manager	17/5/2011 – 31/12/2011	7/2/2012									
(I) Remuneration in the company that prepares the financial statements				921,831.35	–	77,743.00	–	118,342.39	–	1,117,916.74	83,391.68	–
(II) Remuneration from subsidiaries and associates												
(III) Total				**921,831.35**	**–**	**77,743.00**	**–**	**118,342.39**	**–**	**1,117,916.74**	**83,391.68**	**–**
Fiorenzo Dalu	General Manager	1/1/2011 – 3/5/2011	03/05/11									
(I) Remuneration in the company that prepares the financial statements				372,917.82	–	–	–	12,231.97	–	385,149.79	–	3,141,797.20
(II) Remuneration from subsidiaries and associates												
(III) Total				**372,917.82**	**–**	**–**	**–**	**12,231.97**	**–**	**385,149.79**	**–**	**3,141,797.20**

Notes
(i) The remuneration reported relate to bonuses paid in 2011 with reference to 2010.

Table 1.2 – Remuneration paid to other managers with strategic responsibilities

(A)	(B)	(C)	(D)	(1)	(2)	(3)		(4)	(5)	(6)	(7)	(8)
Number of persons	**Office**	**Period in office**	**End of office**	**Fixed remuneration**	**Remuneration for attending committee meetings**	**Benefits in kind**		**Benefits in kind**	**Other remuneration**	**Total**	**Fair Value of Equity Compensation**	**Termination or severance benefits**
						Bonuses and other incentives	**Profit sharing**					
1	Deputy General Manager (ii)	1/1/2011 – 31/12/2011										
1	Managing Director of AM Holding Chairman of Anima	1/1/2011 – 31/12/2011										
1	Heads of the Credit & Loans Division Chief Risk Officer	1/1/2011 – 2/10/2011 3/10/2011 – 31/12/2011										
1	Head of the Commercial Division	1/1/2011 – 30/9/2011 1/10/2011 – 31/12/2011										
(I) Remuneration in the company that prepares the financial statements				1,779,597.38	–	171,051.00	–	63,079.81	–	2,013,728.19	100,070.78	–
(II) Remuneration from subsidiaries and associates												
(III) Total				**1,779,597.38**	**–**	**171,051.00**	**–**	**63,079.81**	**–**	**2,013,728.19**	**100,070.78**	**–**

Notes

(i) The remuneration reported relate to bonuses paid in 2011 with reference to 2010.

(ii) Although identified as "key personnel" as responsible for internal control functions, the Deputy General Manager is shown in this table in accordance with the "Regulation of the BPM Group on related party transactions and rules of conduct regarding the interests of directors and managers".

Table 1.3 – Remuneration paid to “risk takers” not included in the application of art. 123 ter, CFA

(A)	(B)	(C)	(D)	(1)	(2)	(3)		(4)	(5)	(6)	(7)	(8)
Number of persons	Office	Period in office	End of office	Fixed remuneration	Remuneration for attending committee meetings	Non-equity variable compensation (i)		Benefici non monetari	Other Remuneration	Total	Fair value of equity cpmpensation	Termination or severance benefits
						Bonuses and other incentives	Profit sharing					
8	Managers	1/1/2011 – 31/12/2011										
1	Deputy Manager	1/1/2011 – 31/12/2011										
2	Heads of Department	1/1/2011 – 31/12/2011										
1	staff function for General Management	1/1/2011 – 30/4/2011										
1	Co-General Manager of Profamily	1/1/2011 – 31/12/2011										
(I) Remuneration in the company that prepares the financial statements				2,924,621.45	-	318,801.20	-	112,695.29	-	3,356,117.94	150,106.81	333,000.00
(II) Remuneration from subsidiaries and associates												
(III) Total				**2,924,621.45**	**-**	**318,801.20**	**-**	**112,695.29**	**-**	**3,356,117.94**	**150,106.81**	**333,000.00**

Notes

(i) The remuneration reported relate to bonuses paid in 2011 with reference to 2010.

Remuneration paid to “risk takers” (not included in the application of art. 123 ter, CFA)

(A)	(B)	(C)	(D)	(1)	(2)	(3)		(4)	(5)	(6)	(7)	(8)
Number of persons	**Office**	**Period in office**	**End of office**	**Fixed remuneration**	**Remuneration for attending committee meetings**	**Non-equity variable compensation (i)**		**Benefici non monetari**	**Other Remuneration**	**Total**	**Fair value of equity cpmpensation**	**Termination or severance benefits**
						Bonuses and other incentives	**Profit sharing**					
8	Managers	1/1/2011 – 31/12/2011										
1	Deputy Manager	1/1/2011 – 31/12/2011										
2	Heads of Department	1/1/2011 – 31/12/2011										
1	staff function for General Management	1/1/2011 – 30/4/2011										
1	Co-General Manager of Profamily	1/1/2011 – 31/12/2011										
(I) Remuneration in the company that prepares the financial statements				2,924,621.45	–	318,801.20	–	112,695.29	–	3,356,117.94	150,106.81	333,000.00
(II) Remuneration from subsidiaries and associates												
(III) Total				**2,924,621.45**	**–**	**318,801.20**	**–**	**112,695.29**	**–**	**3,356,117.94**	**150,106.81**	**333,000.00**

Notes
(i) The remuneration reported relate to bonuses paid in 2011 with reference to 2010.

Table 3 A – Incentive plans based on financial instruments, other than stock options, for members of the administrative body, general managers and other managers with strategic responsibilities (i)

Incentive plans for the General Managers

			Financial instruments assigned in previous years and not vested during the year		Financial instruments assigned during the year					Financial instruments vested during the year and not attributed	Securities vested during the year and attributable		Financial instruments for the year
(A)	(B)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)				
Name and surname	**Office**	**Plan**	**Number and type of financial instruments**	**Vesting period**	**Number and type of financial instruments**	**Fair value at assignment date**	**Vesting period**	**Date of assignment**	**Market price on assignment**	**Number and type of financial instruments**	**Number and type of financial instruments**	**Value at the date of maturity**	**Fair value**
Enzo Chiesa	General Manager												
(I) Remuneration in the company that prepares the financial statements		2010			BPM shares 437,063	138,986.03	2011 – 2014	23/12/11	0.318	BPM shares 0	BPM shares 0		83,391.68
(II) Remuneration from subsidiaries and associates													
(III) Total						**138,986.03**						–	**83,391.68**
Fiorenzo Dalu	General Manager												
(I) Remuneration in the company that prepares the financial statements		2010			BPM shares 0								
(II) Remuneration from subsidiaries and associates													
(III) Total						–						–	–

Notes

(i) The remuneration reported relate to bonuses paid in 2011 with reference to 2010.

Table 3 A – Incentive plans based on financial instruments, other than stock options, for members of the administrative body, general managers and other managers with strategic responsibilities (i)

Incentive plans for Managers with strategic responsibilities

			Financial instruments assigned in previous years and not vested during the year		Financial instruments assigned during the year					Financial instruments vested during the year and not attributed	Securities vested during the year and attributable		Financial instruments for the year
(A)	(B)	(1)											
Number of persons	Office	Plan	Number and type of financial instruments	Vesting period	Number and type of financial instruments	Fair value at assignment date	Vesting period	Date of assignment	Market price on assignment	Number and type of financial instruments	Number and type of financial instruments	Value at the date of maturity	Fair value
1	Deputy General Manager												
1	Managing Director of AM Holding Chairman of Anima												
1	Heads of the Credit and Loans Division Chief Risk Officer												
1	Head of the Commercial Division Central Sales Manager												
(I) Remuneration in the company that prepares the financial statements		2010			BPM shares 524,478	166,784.00	2011 – 2014	23/12/11	0.318	BPM shares 0	BPM shares 0		100,070.78
(II) Remuneration from subsidiaries and associates													
(III) Total						**166,784,00**						—	**100,070,78**

Notes

(i) The remuneration reported relate to bonuses paid in 2011 with reference to 2010.

Tabella 3 A – Monetary incentive plans for members of the administrative body, general managers and other managers with strategic responsibilities (i)

Incentive plans for other "risk takers"

			Financial instruments assigned in previous years and not vested during the year		Financial instruments assigned during the year					Financial instruments vested during the year and not attributed	Securities vested during the year and attributable		Financial instruments for the year
(A)	(B)	(1)											
Number of persons	Office	Plan	Number and type of financial instruments	Vesting period	Number and type of financial instruments	Fair value at assignment date	Vesting period	Date of assignment	Market price on assignment	Number and type of financial instruments	Number and type of financial instruments	Value at the date of maturity	Fair value
8	Managers												
1	Deputy Manager												
2	Heads of Department												
1	staff function for General Management												
1	Co-General Manager of Profamily												
(I) Remuneration in the company that prepares the financial statements		2010			BPM shares 786,707	250,172.83	2011 – 2014	23/12/11	0.318	BPM shares 0	BPM shares 0		150,106.81
(II) Remuneration from subsidiaries and associates													
(III) Total						**250,172.83**						—	**150,106.81**

Notes
(i) The remuneration reported relate to bonuses paid in 2011 with reference to 2010.

Table 3 B – Monetary incentive plans for members of the administrative body, general managers and other managers with strategic responsibilities (i)

Incentive plans for the General Managers

(A)	(B)	(1)	(2)			(3)			(4)
Name and surname	Office	Plan	Bonus for the year			Bonus of previous years			Other bonuses
			(a) Payable/Paid	(b) Deferred	(c) Deferral period	(a) No longer payable	(b) Payable/Paid	(c) Still deferred	
Enzo Chiesa	General Manager								
(I) Remuneration in the company that prepares the financial statements		2010	75,000.00	50,000.00	2012 – 2014	–	–	–	2,743.00
(II) Remuneration from subsidiaries and associates			–	–	–	–	–	–	–
(III) Total			**75,000.00**	**50,000.00**	–	–	–	–	**2,743.00**
Fiorenzo Dalu	General Manager								
(I) Remuneration in the company that prepares the financial statements		2010	–	–	–	–	–	–	–
(II) Remuneration from subsidiaries and associates									
(III) Total			–	–		–	–	–	–

Notes
(i) The remuneration reported relate to bonuses paid in 2011 with reference to 2010.

Table 3 B – Monetary incentive plans for members of the administrative body, general managers and other managers with strategic responsibilities (i)

Incentive plans for managers with strategic responsibilities

(A)	(B)	(1)	(2)			(3)			(4)
Number of persons	Office	Plan	Bonus for the year			Bonus of previous years			Other bonuses
			(a)	(b)	(c)	(a)	(b)	(c)	
			Payable/Paid	Deferred	Deferral period	No longer payable	Payable/Paid	Still deferred	
1	Deputy General Manager								
1	Managing Director of AM Holding Chairman of Anima								
1	Heads of the Credit & Loans Division Chief Risk Officer								
1	Head of the Commercial Division Central Sales Manager								
(I) Remuneration in the company that prepares the financial statements		2010	162,000.00	108,000.00	2012 – 2014	–	–	–	9,051.00
(II) Remuneration from subsidiaries and associates									
(III) Total			**162,000.00**	**108,000.00**		**–**	**–**	**–**	**9,051.00**

Notes

(i) The remuneration reported relate to bonuses paid in 2011 with reference to 2010.

Table 3 B – Monetary incentive plans for members of the administrative body, general managers and other managers with strategic responsibilities (i)

Incentive plans for other "risk takers"

(A)	(B)	(1)	(2)			(3)			(4)
Number of persons	Office	Plan	Bonus for the year			Bonus of previous years			Other bonuses
			(a) Payable/Paid	(b) Deferred	(c) Deferral period	(a) No longer payable	(b) Payable/Paid	(c) Still deferred	
8	Managers								
1	Deputy Manager								
2	Heads of Department								
1	staff function for General Management								
1	Co-General Manager of Profamily								
(I) Remuneration in the company that prepares the financial statements		2010	300,576.20	177,050.80	2012 – 2014	–	–	–	18,225.00
(II) Remuneration from subsidiaries and associates									
(III) Total			**300,576.20**	**177,050.80**		**–**	**–**	**–**	**18,225.00**

Notes
(i) The remuneration reported relate to bonuses paid in 2011 with reference to 2010.

Table 3 B – Monetary incentive plans for members of the administrative body, general managers and other managers with strategic responsibilities (i)

Incentive plans for managers of internal control functions (ii)

(A)	(B)	(1)	(2)			(3)			(4)
Number of persons	Office	Plan	Bonus for the year			Bonus of previous years			Other bonuses
			(a)	(b)	(c)	(a)	(b)	(c)	
			Payable/Paid	Deferred	Deferral period	No longer payable	Payable/Paid	Still deferred	
5	Managers								
(I) Remuneration in the company that prepares the financial statements		2010	123,000.00	82,000.00	2012 – 2014	–	–	–	8,235.00
(II) Remuneration from subsidiaries and associates									
(III) Total			**123,000.00**	**82,000.00**		**–**	**–**	**–**	**8,235.00**

Notes
(i) The remuneration reported relate to bonuses paid in 2011 with reference to 2010.
(ii) At the time this table was prepared, the amount of the incentive for the year 2011, which will be reported in 2012, was not known.

Table 4 – Investments held by the Members of the administrative and control bodies and by the General Managers

			31.12.2010	increases (*)	decreases	31.12.2011
Supervisory Board	Filippo Annunziata	BPM	1,000 (1)	5,520		6,520
	Umberto Bocchino	BPM	1,000 (1)	5,520		6,520
	indirect ownership	*BPM*	*0 (1)*	*100,000*		*100,000*
	Giuseppe Coppini	BPM	1,500	34,060		35,560
	indirect ownership through spouse	*BPM*	*300*	*1,656*		*1,956*
	Giovanni Bianchini	BPM	1,898	16,795		18,693
	indirect ownership through spouse	*BPM*	*952*		*952*	*0*
	Enrico Castoldi	BPM	56	276		332
	Maurizio Cavallari	BPM	816 (1)	4,416		5,232
	indirect ownership through spouse	*BPM*	*250 (1)*	*1,380*		*1,630*
	Stefania Chiaruttini	BPM	100 (1)			100
	Carlo Dell'Aringa	BPM	1,000	5,520		6,520
	Federico Fornaro	BPM	500 (1)	2,760		3,260
	Francesco Daniele Giaretta	BPM	677 (1)	5,015		5,692
	Piero Lonardi	BPM	14,010	113,355		127,365
	indirect ownership	*BPM*	*100*	*552*		*652*
	Mario Benito Mazzoleni	BPM	14,013 (1)	92,619		106,632
	indirect ownership through spouse	BPM	5,000 (1)	31,595		36,595
	Maria Luisa Mosconi	BPM	1,000 (1)	5,520		6,520
	Mauro Paoloni	BPM	100 (1)			100
	Marcello Priori	BPM	5,680	50,661		56,341
	indirect ownership through spouse	*BPM*	*414*	*8,653*		*9,067*
	Ezio Simonelli	BPM	16,612	91,632		108,244
	indirect ownership through spouse	*BPM*	*10,000*	*155,200*		*165,200*
	Jean-Jacques Tamburini	BPM	1,100	33,266		34,366
	Fritz Ulrich Weiss	BPM	1,000 (1)	17,500		18,500
	Michele Zefferino	BPM	6,852	44,257		51,109
	indirect ownership through spouse	*BPM*	*532*	*2,898*		*3,430*
Management Board	Andrea C. Bonomi	BPM	1,000 (2)	5,520		6,520
	Davide Croff	BPM	2,000 (2)			2,000
	Alessandro Foti	BPM	500 (2)	2,760		3,260
	Dante Razzano	BPM	1,000 (2)			1,000
Board of Directors	Massimo Ponzellini	BPM	7,530			7,530 (3)
	Mario Artali	BPM	5,000			5,000 (3)
	indirect ownership through spouse	*BPM*	*2,100*			*2,100 (3)*
	Graziano Tarantini	BPM	7,384			7,384 (3)
	indirect ownership through spouse	*BPM*	*307*			*307 (3)*
	Antoniogiorgio Benvenuto	BPM	1,000			1,000 (3)
	Francesco Bianchi	BPM	200			200 (4)
	Enrico Corali	BPM	120			120 (3)
	Claudio Danelon	BPM	8,100			8,100 (3)
	indirect ownership through spouse	*BPM*	*1,100*			*1,100 (3)*
	Franco Debenedetti	BPM	200			200 (5)
	Franco Del Favero	BPM	9,900			9,900 (3)
	indirect ownership through spouse	*BPM*	*300*			*300 (3)*
	Carlo Frascarolo	BPM	5,000 (6)			5,000 (3)
	Roberto Fusilli	BPM	16,049	6,500		22,549 (3)

Table 4 – Investments held by the Members of the administrative and control bodies and by the General Managers

cont.			31.12.2010	increases (*)	decreases	31.12.2011
	Giovanni Massimello	BPM	450 (7)			450 (3)
	indirect ownership through spouse	*BPM*	*100 (7)*			*100 (3)*
	Leone Spozio	BPM	10,727	1,728		12,455 (3)
Acting Statutory Auditors	Salvatore Rino Messina	BPM	1,000			1,000 (3)
	Carlo Bellavite Pellegrini	BPM	1,700			1,700 (3)
	indirect ownership through spouse	*BPM*	*500*			*500 (3)*
	Stefano Salvatori	BPM	1,100			1,100 (3)
Alternate Statutory Auditors	Emilio Cherubini	BPM	5,000	1,000		6,000 (3)
	Enrico Radice	BPM	13,880			13,880 (3)
	Luca Zanzottera	BPM	100 (8)			100 (3)
	Giorgio Zoia	BPM	7,010			7,010 (3)
General management	Fiorenzo Dalu	BPM	21,906	1,033		22,939 (9)
	indirect ownership through spouse	*BPM*	*1,082*			*1,082 (9)*
	Enzo Chiesa	BPM	15,189	477,999 (10)		493,188
	Roberto Frigerio	BPM	4,656	40,079		44,735
	indirect ownership through spouse	*BPM*	*1,000*	*7,582*		*8,582*
Central Management (11)		BPM	15,890	379,874 (10)		395,764
	indirect ownership through spouse	*BPM*	*6,041*	*11,043*		*17,084*

1) position as of 22.10.2011, date from which office held

2) position as of 26.10.2011, date from which office held

3) position as of 22.10.2011, date of leaving office

4) position as of 30.3.2011, date of leaving office

5) position as of 27.6.2011, date of leaving office

6) position as of 12.5.2011, date from which office held

7) position as of 26.7.2011, date from which office held

8) position as of 30.4.2011, date from which office held

9) position as of 3.5.2011, date of leaving office

10) including shares deriving from the 2010 "bonus"

11) including three managers

(*) Any shares deriving from the automatic conversion of the "Convertendo BPM 2009/2013 6.75% bond are also included.

Section 3: Results of the checks carried out by the control functions

1. Results of checks carried out by the Internal Audit Function

The reports submitted by the Internal Audit Department to the competent corporate bodies relate to the checks carried out, directly or indirectly, in accordance with current legislation.
The new "Supervisory provisions on remuneration policies and practices and incentives in banks and banking groups," issued by the Bank of Italy on 30 March 2011 state that "the internal control functions of banks work together, each within their respective sphere of competence, and - in the field of investment services and activities - according to the criteria of the Joint Communication of the Bank of Italy and Consob on 8 March 2011, to ensure the adequacy and compliance with this legislation of the remuneration policies and practices adopted and their proper functioning" and that "The internal audit function verifies, among other things, at least once a year, that the remuneration practices and policies approved comply with this regulation.
The evidence found and any anomalies must be drawn to the attention of the bodies and functions responsible for adopting any necessary corrective measures, who assess their significance for the purpose of reporting promptly to the Bank of Italy. The outcome of the checks performed must be reported each year to the General Meeting … [omissis]…".

It should be noted that:

- for Banca Popolare di Milano, WeBank and ProFamily, the Internal Audit Department has collaborated with Deloitte ERS Srl, having activated a mechanism that prevents the items analysed being traced to individual employees;
- for Banca Popolare di Mantova, the Internal Audit Department has performed checks directly;
- for Banca di Legnano and Cassa di Risparmio di Alessandria, checks were carried out by the Banca di Legnano's Controls Department;
- for Banca Akros, checks were carried out by the law firm Pavia e Ansaldo.

The main audit findings on the amounts paid to employees and directors in 2011 and with reference to the documents on remuneration and incentive policies applicable from time to time are as follows.

For **Banca Popolare di Milano**, the analyses ascertained a general correspondence of the methods of running the remuneration and incentive scheme adopted by the Bank in 2011 with the Bank's internal regulations. However, it is considered appropriate to draw attention to the fact that there is a need to:

- define, implement and formalise the system of allocating objectives, performance measures and incentives with regard to key personnel;
- review the way that termination indemnities are managed, in order to permit more timely compliance with internal regulations;
- activate and formalize internal processes designed to:
  - ensure accurate mapping of key personnel over the course of time;
  - monitor the achievement of objectives at an aggregate level;
  - establish a link between the budgeting process and the quantification of bonus payments.

For **WeBank**, the checks ascertained an overall compliance of the measures taken by the Bank in 2011 with the internal regulations.

For **ProFamily**, the checks ascertained an overall compliance of the measures taken by the Bank in 2011 with the internal regulations.

The comments made with regard to BPM are also largely valid for **Banca Popolare di Mantova** as well, given that its model is the same as that of BPM, though obviously much smaller in scale; in addition, these is a need to define the remuneration policy to be applied to the only manager not identified as "key personnel".

For **Banca di Legnano**, the checks ascertained an overall compliance of the measures taken by the Bank in 2011 with the internal regulations. Given the fact that Banca di Legnano's model matches that of BPM, some of the comments made with regard to BPM are also valid for Banca di Legnano.

For **Cassa di Risparmio di Alessandria**, the checks ascertained an overall compliance of the measures taken by the Bank in 2011 with the internal regulations.

For **Banca Akros**, the checks ascertained an overall compliance of the measures taken by the Bank in 2011 with the internal regulations.

The Internal Audit Department, using the methods explained above, has also conducted an analysis of the gaps that exist between the internal regulations and the Bank of Italy's instructions dated 30 March 2011, entitled "Supervisory provisions on remuneration policies and practices and incentives in banks and banking groups". The document presented by the Internal Audit Department to the pertinent corporate bodies summarise its findings for:

- Banca Popolare di Milano (together with Banca di Legnano and Banca Popolare di Mantova)
- WeBank
- ProFamily
- Banca Akros

Overall, the main recommendations made for the purpose of drafting the new Document on the Remuneration and Incentive Policies of the Group are:

- to define and formalise the remuneration and incentive policies for employees and operators of the external distribution networks;
- to formalise the criteria for identifying "key personnel";
- to adapt the document to the new system of corporate governance;
- to define timely criteria for the determination and measurement of the objectives of "key personnel";
- to provide a correction mechanism for the variable part of remuneration that also takes capital ratios into account;
- to consider including correction mechanisms for risks taken, also in the remuneration of management in the event of termination of employment.

2. Results of checks carried out by the Compliance Function

There appears to be a good level of supervision of compliance with the Bank of Italy's rules reviewed here, in the same way as the analysis of the Parent Company's document.

In accordance with current regulations, the fixed and variable elements of remuneration are regulated separately, linking the latter to an incentive scheme that differs by corporate population groups, depending on their level of responsibility and on the roles that can take significant risks for the Bank.

In this regard, the Process of Identification of "key personnel" through the adoption of the criteria prescribed by the regulations of the Supervisory Authority, linked to certain essential elements (responsibility, hierarchical levels, activities, operating powers, etc. ...) to evaluate, as mentioned above, the importance of each person in terms of the assumption of significant risks for the Bank ("risk takers"), a category that does not include those whose total gross annual remuneration, including discretionary pension benefits, does not exceed 200,000 euro and, at the same time, the variable part does not exceed 20%.

Again with reference to risk takers, there has been compliance in the setting of percentages, with reference to the total gross salary, with regard to the maximum amount that is attributable to the variable element and, as regards key personnel other than those involved in internal control functions (whose bonus is only paid in cash), its composition in shares of the Parent Company.

In this context, there has been adequate provision for the payment of an up-front portion (60%) and a deferred portion (40%) that is spread over a three-year period in equal parts, by subjecting the up-front portion to a retention period that must not be less than two years from their assignment, while for the deferred portion, not less than one year from their assignment.

Still with regard to key personnel, there is also a mechanism for correcting the deferred elements after the event, under which such elements are paid subject to compliance with the same "access gates" and related benchmarks for the year in respect of which the up-front share of the variable element of remuneration is recognised.
These benchmarks must be met for the year preceding the year of liquidation of each deferred instalment.
This after-the-event correction system is a mechanism that operates during the period of deferral before actual disbursement of the bonus arrears.
This mechanism is also applied to "key personnel" of the internal control functions, limited to their specific "access gate" (an opinion on compliance risk) for each of the years prior to that of payment of the deferred instalments.

Another condition is that the beneficiary still has to be working for the BPM Group at the time that the deferred portion is paid.
Lastly, there is a "claw-back" mechanism, which suspends payment of the variable element, both for the up-front portion and for the deferred portion, in the event of serious violations by the beneficiary which are relevant from a disciplinary point of view and/or that have caused damage to the Company.

Each of the categories of personnel of the Parent Company and its subsidiaries (risk takers and other personnel) gets assigned a total annual amount to be allocated to payment of the variable element of remuneration ("bonus pool") determined by the Management Board of the Parent Company and by the Board of Directors of each Bank/Subsidiary of the Group.

These "bonus pools" are expressed by setting specific percentages of "income before tax from current operations in recurring activities" as budgeted by each of the Banks that make up the Group.
These percentages, which are used to determine the total amount of each category's bonus pool, are set taking into account the capitalisation and liquidity objectives of the Banks concerned.

Recognition of these annual bonuses to key personnel of the Banks/Companies that make up the Group, is also subject to full compliance with predefined economic parameters, the so-called "access gates", consisting of certain consolidated coefficients described in detail in the above mentioned Document, with the exception of those involved in internal control functions, for whom:
– are considered only specific opinions of operational compliance risk (high, prevalently high, partially low, low) assigned with reference to the control processes (or stages) attributable to each beneficiary of the bonus, without applying "access gate" objectives as they are linked to results of an economic nature;
– payment of the variable element takes place exclusively in cash as financial instruments are inherently related to the company's results;
– the proportion of the variable element has been increased to the maximum of 30% of total gross salary (it is 50% for the other risk takers).

As regards "other employees", those working for the Parent Company and for the other Banks/Companies of the Group who are not considered "key personnel", the "access gates" to the bonus system will be proposed by the above Banks and Companies to the Parent Company and validated by its governing bodies.

Lastly, it will be up to the internal audit function (according to the Bank of Italy) to verify correct implementation of the provisions of the Policy.

Milan, 2 April 2012

The Supervisory Board

Point 3 on the agenda
for the Ordinary General Meeting

Appointment for the three years from 2012 to 2014, of the members of the Arbitration Committee, pursuant to art. 55 of the Articles of Association.
Related resolutions.

Members,

We would remind you that today's General Meeting marks the end of the three-year term of office of the acting and alternate members of the Arbitration Committee.

Under art. 55 of the Articles of Association, the General Meeting is therefore called upon to appoint three acting and two alternate Arbitrators, from among the Members who are valid candidates, for the three-year period 2012-2014.

Once it has been appointed, the Committee will elect its own Chairman.

Note that all of the Arbitrators may be re-elected. It is also considered appropriate to propose, as long-standing practice, a flat-rate reimbursement of expenses for each member of the Arbitration Committee of Euro 6,000 gross for the whole period 2012-2014.

Milan, 27 March 2012

The Management Board

Point 4 on the agenda for the Ordinary General Meeting

Proposals to amend the Regulations for General Meetings.
Related resolutions.

Proposals to amend the Regulations for General Meetings. Related resolutions.

Members,

As a result of the amendments to the Articles of Association in order to adopt the "two-tier" system of administration and control, approved by the Extraordinary General Meeting of Members of 22 October 2011, the Regulations for General Meetings also have to be revised.

The text of the proposed amendments is shown below in order to bring the Regulations for General Meetings into line with the current text of the Articles of Association:

Current text	Proposed text
Art. 2, paragraphs 1, 2 and 3	**Art. 2, paragraphs 1, 2 and 3**
1. The methods and terms for attending General Meetings, including linked locations for remote participation using electronic means as per art. 29 of the Articles of Association (hereafter, "linked locations"), are to be indicated in the Notice of Calling published by the Board of Directors in accordance with the law and the Articles of Association. Unless stated otherwise, the provisions of these Regulations referring to the General Meeting or "meeting location" are to be applied in the same way as to the "main location", understood as the place indicated in the notice of calling where the Chairman and the Secretary are present, and to "linked locations". The "linked locations" are located in the three provincial capitals where the majority of members reside (or in nearby towns) more than 150 km from the Bank's head office. However, at the time that the individual General Meetings are called, the Board of Directors will be able to exclude one or more of these linked locations by a resolution supported by objective reasoning and approved by at least 15 Directors.	1. The methods and terms for attending General Meetings, including linked locations for remote participation using electronic means as per art. 29 of the Articles of Association (hereafter, "linked locations"), are to be indicated in the Notice of Calling published ~~by the Board of Directors~~ in accordance with the law and the Articles of Association. Unless stated otherwise, the provisions of these Regulations referring to the General Meeting or "meeting location" are to be applied in the same way as to the "main location", understood as the place indicated in the notice of calling where the Chairman and the Secretary are present, and to "linked locations". The "linked locations" are located in the three provincial capitals where the majority of members reside (or in nearby towns) more than 150 km from the Bank's head office. ~~However, at the time that the individual General Meetings are called, the Board of Directors will be able to exclude one or more of these linked locations by a resolution supported by objective reasoning and approved by at least 15 Directors~~. **By a resolution supported by objective reasoning and approved with the favourable vote of 4/5 of the directors present, it will be possible to exclude one or more of these linked locations at the time that the individual General Meetings are called**.
2. The following are entitled to attend General Meetings: ■ Members who satisfy the conditions laid down in art. 13 of the Articles of Association; ■ Directors; ■ members of the Board of Statutory Auditors; ■ members of General Management.	2. The following are entitled to attend General Meetings: ■ Members who satisfy the conditions laid down in art. 13 of the Articles of Association; ■ ~~Directors~~ **members of the Management Board**; ■ members of the ~~Board of Statutory Auditors~~ **Supervisory Board**; ■ members of General Management.
3. General Meetings can be attended, without any right to speak or to vote, by professionals, consultants, experts, financial analysts, qualified journalists and persons other than Members, if expressly authorised by the Board of Directors or by the Meeting's Chairman. Those who are accredited to follow the proceedings, must identify themselves to officers of the Company	3. General Meetings can be attended, without any right to speak or to vote, by professionals, consultants, experts, financial analysts, qualified journalists and persons other than Members, if expressly authorised by the ~~Board of Directors~~ **Management Board** or by the Chairman of the Meeting. Those who are accredited to follow the proceedings, must identify themselves

at the entrance and collect a special mark to be exhibited on request.

to officers of the Company at the entrance and collect a special mark to be exhibited on request.

Article 3, paragraph 2

2. "Non-Member" representatives are not eligible for office.

Article 3, paragraph 2

2. "Non-Member" representatives are not eligible for office **in those cases where the law and the Articles of Association require candidates to be Members of the Bank**.

Article 4, paragraph 1

1. Every member entitled to attend meetings can, in accordance with the Articles of Association, represent by proxy not more than three other members and proxies cannot be given to persons who are not allowed to be proxyholders under the applicable regulations.

Article 4, paragraph 1

1. Every member entitled to attend meetings can, in accordance with the Articles of Association, represent by proxy not more than ~~three~~ **five** other members and proxies cannot be given to persons who are not allowed to be proxyholders under the applicable regulations.

Article 7

In the event of a contestation of the right to attend the General Meeting, also on a remote basis, the matter is to be decided, irrevocably, by the Chairman of the Meeting, helped if necessary by the Deputy Chairman (or Chairmen) of the Board of Directors, by the Chairman of the Board of Statutory Auditors and/or by other persons that he trusts.

Article 7

In the event of a contestation of the right to attend the General Meeting, also on a remote basis, the matter is to be decided, irrevocably, by the Chairman of the Meeting, helped if necessary by the Deputy Chairman (or Chairmen) of the ~~Board of Directors~~ **Supervisory Board** by the Chairman of the ~~Board of Statutory Auditors~~ **Management Board** and/or by other persons that he trusts.

Article 15

The members of the Board of Directors and the Statutory Auditors can ask to join the debate and, on the Chairman's invitation, the managers of the Bank and the directors and managers of Group companies can also take the floor.

Article 15

The members of the ~~Board of Directors~~ **Management Board** and ~~the Statutory Auditors~~ **members of the Supervisory Board** can ask to join the debate and, on the Chairman's invitation, the managers of the Bank and the directors and managers of Group companies can also take the floor.

Article 21, paragraphs 1, 2 and 4

1. In accordance with the Articles of Association, Directors and Officers are elected by secret ballot, without prejudice to the provisions of art. 50 of the Articles of Association.

2. Lists for the election of Directors and Statutory Auditors have to be presented according to the methods and terms laid down in the Articles of Association. The presenters of a list have the right to designate a representative, and a possible substitute, to act as scrutineer in accordance with art. 27 below. This has to be done in writing and at the same time that the list is presented.

(...)

Art. 21, paragraphs 1, 2 and 4

1. In accordance with the Articles of Association, a secret ballot is held for the appointment of board members and officers, without prejudice to the terms of art. ~~50~~ **63** of the Articles of Association **as well as art. 47 of the Articles of Association regarding the favourable vote of lists presented by UCITS, for the purpose of calculating 2% of the share capital**.

2. Lists for the election of ~~Directors and Statutory Auditors~~ **members of the Supervisory Board** have to be presented according to the methods and terms laid down in the Articles of Association. The presenters of a list have the right to designate a representative, and a possible substitute, to act as scrutineer in accordance with art. 27 below. This has to be done in writing and at the same time that the list is presented.

(...)

4. If the Meeting has to appoint Directors pursuant to art. 33 of the Articles of Association, each candidate has to be presented by at least 300 Members or by Members representing in total at least 0.5% of the share capital, who have been included in the Register of Members for at least ninety days, who can prove their right to attend and to vote at General Meetings in accordance with current regulations.

Each member can present candidatures up to the maximum number of Directors to be elected. If this rule is not complied with, the Member's signature will not be taken into account for any candidate.

The proposed candidatures, signed by those presenting them, have to be deposited at the Bank's head office at least 13 days prior to the date of the Meeting at first calling, accompanied by:
1) each candidate's curriculum vitae;
2) 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.

If Directors belonging to minority lists have to be replaced, candidates are chosen automatically from those who were on the same list as the Director being replaced and who have confirmed in writing at least thirteen days prior to the date of the Meeting that they accept their candidacy, together with the declarations that there are no reasons for ineligibility or incompatibility, and that they meet the requirements prescribed by current regulations or by the Articles of Association for holding office.

The provision of article 50 of the Articles of Association regarding the replacement of the Directors remains in force.

4. **Without affecting the automatic replacement mechanism envisaged in the Articles of Association**, Iif the Meeting has to appoint ~~Directors~~ **members of the Supervisory Board** pursuant to art. ~~33~~ **48** of the Articles of Association, each candidate has to be presented by at least 300 Members or by Members representing in total at least 0.5% of the share capital, who have been included in the Register of Members for at least ninety days **from the date of the General Meeting at first calling**, who can prove their right to attend and to vote at General Meetings in accordance with current regulations. **UCITS may also submit candidatures, providing they hold at least 0.5% of the share capital and can document their possession at the time of submission of the candidatures in the prescribed manner**.

Each member **or UCITS** can present candidatures up to the maximum number of ~~Directors~~ **members of the Supervisory Board** to be elected. If this rule is not complied with, the Member's signature will not be taken into account for any candidate.

The proposed candidatures, signed by those presenting them, have to be deposited at the Bank's head office at least 13 days prior to the date of the Meeting at first calling, accompanied by:
1) each candidate's curriculum vitae;
2) 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 **all or some of the Directors** meet the requirements prescribed by law or by the articles of association for holding office.

~~If Directors belonging to minority lists have to be replaced, candidates are chosen automatically from those who were on the same list as the Director being replaced and who have confirmed in writing at least thirteen days prior to the date of the Meeting that they accept their candidacy, together with the declarations that there are no reasons for ineligibility or incompatibility, and that they meet the requirements prescribed by current regulations or by the Articles of Association for holding office.~~

The provision of article ~~50~~ **63** of the Articles of Association regarding the replacement of ~~the Directors~~ **the members of the Supervisory Board** remains in force.

Article 25

The forms for the election:
1. of the Board of Directors and of the Board of Statutory Auditors show the lists of candidates as foreseen by the Articles of Association. Members vote by marking exclusively the list of candidates that they intend to vote without cancelling any names or adding other ones.

2. of the Arbitration Committee show the general list of candidates in alphabetical order. Voting takes place by marking exclusively the box of each of the chosen candidates up to the total number

Article 25

The forms for the election:
1. of the ~~Board of Directors and of the Board of Statutory Auditors~~ **Supervisory Board** show the lists of candidates as foreseen by the Articles of Association. Members vote by marking exclusively the list of candidates that they intend to vote without cancelling any names or adding other ones.

2. of the Arbitration Committee show the general list of candidates in alphabetical order. Voting takes place by marking exclusively the box of each of the chosen candidates up to the total number

of candidates to be elected.	of candidates to be elected.
3. of the Directors to be replaced in accordance with art. 33 of the Articles of Association, show the general list in alphabetical order.	3. ~~of the Directors~~ **of the members of the Supervisory Board** to be replaced in accordance with art. ~~33~~ **48** of the Articles of Association, show the general list in alphabetical order.
If Directors belonging to minority lists have to be replaced, the list will only include candidates mentioned therein who have confirmed their candidature. Voting takes place by marking exclusively the box of each of the chosen candidates up to the total number of candidates to be elected.	~~If Directors belonging to minority lists have to be replaced, the list will only include candidates mentioned therein who have confirmed their candidature. Voting takes place by marking exclusively the box of each of the chosen candidates up to the total number of candidates to be elected.~~
Where necessary, the list will be integrated up to the number of Directors to be replaced with other names drawn at random from among all non-elected candidates belonging to other minority lists who have been candidates with the forms referred to in art. 21 paragraph 4 and who have confirmed their candidature at least one day prior to the date of the draw.	~~Where necessary, the list will be integrated up to the number of Directors to be replaced with other names drawn at random from among all non-elected candidates belonging to other minority lists who have been candidates with the forms referred to in art. 21 paragraph 4 and who have confirmed their candidature at least one day prior to the date of the draw.~~
(...)	(...)
Article 26	**Article 26**
On the ballot cards, the order of printing the lists is drawn for in advance by persons appointed by the Chairman of the Board of Directors, in the presence of a list representative, if one is available, or by one of the sponsoring Members.	On the ballot cards, the order of printing the lists is drawn for in advance by persons appointed by the Chairman of the ~~Board of Directors~~ **Supervisory Board**, in the presence of a list representative, if one is available, or by one of the sponsoring Members.
Article 27	**Article 27**
Once the Chairman has declared the secret ballots closed, the forms have to be counted at the central polling station and minutes prepared for each position to record the election results and the candidates elected: – for the Board of Directors and the Board of Statutory Auditors as indicated in the Articles of Association. – for the office of Arbitrator according to the highest number of votes obtained individually. – for the office of Director as indicated in art. 33 of the Articles of Association, according to the highest number of votes obtained individually.	Once the Chairman has declared the secret ballots closed, the forms have to be counted at the central polling station and minutes prepared for each position to record the election results and the candidates elected: – for ~~the Board of Directors and the Board of Statutory Auditors~~ **the Supervisory Board** as indicated in the Articles of Association. – for the office of Arbitrator according to the highest number of votes obtained individually. – for the office of ~~Director~~ **member of the Supervisory Board** as indicated in art. ~~33~~ **48** of the Articles of Association, according to the highest number of votes obtained individually.
The counting of votes and drafting the minutes is done by the scrutineers appointed by the General Meeting, if necessary with the help of technical support personnel. These activities are performed in the presence of the Directors who were not candidates, if necessary appointed by the Board of Directors to supervise the voting, of the List Representatives and of any Observers designated by the Notary Public acting as the Secretary to the Meeting.	The counting of votes and drafting the minutes is done by the scrutineers appointed by the General Meeting, if necessary with the help of technical support personnel. These activities are performed in the presence ~~of the Directors~~ **of the Members of the Supervisory Board** who were not candidates, if necessary appointed by the ~~Board of Directors~~ **Supervisory Board** to supervise the voting, of the List Representatives and of any Observers designated by the Notary Public acting as the Secretary to the Meeting.

* * *

Members,
For the reasons mentioned above, the Management Board would like to propose that you pass the following resolution:
"The Ordinary General Meeting of the Members of Banca Popolare di Milano:

- having heard and approved the Report of the Management Board;

resolves

- to approve the amendments to arts 2, 3, 4, 7, 15, 21, 25, 26 and 27 of the Regulations for General Meetings, as proposed by the Management Board;
- to delegate the Chairman of the Management Board and the Managing Director and Chief Executive Officer, severally, all of the powers to execute this resolution in accordance with the provisions of law and to make any changes, amendments and additions to the resolution of the General Meeting as may be required by the Judicial or Supervisory Authority".

Milan, 27 March 2012

The Management Board

Resolutions

The Ordinary General Meeting of the Members of Banca Popolare di Milano was held on 28 April 2012, under the chairmanship of Filippo Annunziata, at MiCo Milano Congressi FieraMilanoCity, Via Gattamelata, 5, in Milan.

Item 1 on the agenda

L'Assemblea dei Soci – preso atto che il bilancio dell'esercizio 2011 della Banca chiude con una perdita netta di Euro 505.468.754,58 – ha deliberato a maggioranza (967 voti favorevoli, 26 voti contrari e 3 astenuti):

■ Having acknowledged that the Bank's 2011 financial statements closed with a net loss of Euro 505,468,754.58, the General Meeting of the Members approved by a majority (.... votes in favour, ... votes against and ...... abstentions):
■ to approve coverage of the loss of Euro 505,468,754.58, from which has to be subtracted the amount freed up from the restricted reserve as per art. 6 of Decree 38/2005 of Euro 3,239,481.20, for a total of Euro 502,229,273.38, using the following reserves:

- Unrestricted reserve: Euro 39,984,957.26;
- Reserve as per art. 13, c. 6, D.Lgs. 124/93: Euro 527,111.51;
- Merger surplus: Euro 37,090,634.54;
- Statutory reserve. Euro 424,626,570.07;

■ to empower the Management Board, up to the next General Meeting, to manage the "reserve for treasury shares" and therefore 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 market, 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 sell shares to employees at prices, even below market value, to be fixed from time to time at the Board's discretion.

Item 2 on the agenda

After having taken note of the contents of the "Report on remuneration and incentive policies" and related disclosures provided herein, as well as the results of checks carried out by the internal audit and compliance functions, the General Meeting of the Members approved by a majority (.... votes in favour, ... votes against and ...... abstentions), pursuant to art. 26 of the Articles of Associations, the remuneration policies in favour of the Management Board and Supervisory Board and voted, pursuant to art. 123-ter, paragraph 6, of the CFA, in favour of the "Report on remuneration and incentive policies" for those matters that fall within the sphere of competence of the Meeting.

Item 3 on the agenda

The General Meeting of the Members, pursuant to art. 55 of the Articles of Association, appointed - until the approval of the 2014 financial statements - Onofrio Amoruso Battista, Italo Ciancia and Anna Maria Sanchirico as arbitrators, and Guido Mina and Giancarlo Tarantola as alternate arbitrators, also approving a flat-rate reimbursement of expenses for each member of the Arbitration Committee of Euro 4,000 gross per year.

Item 4 on the agenda

The General Meeting of the Members approved by a majority (.... votes in favour, ... votes against and ...... abstentions):
■ the amendments to arts. 2, 3, 4, 7, 15, 21, 25, 26 and 27 of the Regulations for General Meetings, as proposed by the Management Board;
■ the proposal to delegate the Chairman of the Management Board and the Managing Director & CEO, severally, all of the powers to execute this resolution in accordance with the provisions of law and to make any changes, amendments and additions to the resolution of the General Meeting as may be required by the Judicial or Supervisory Authority.

BPM Group branch network

Head Offices and General Management

● **Banca Popolare di Milano S.c. a r.l.**
Milan (20121)
Piazza Filippo Meda, 4

▲ **Banca Popolare di Mantova S.p.A.**
Mantua (46100)
Viale Risorgimento, 69

◆ **Banca di Legnano S.p.A.**
Legnano (20025)
Largo Tosi, 9

■ **Cassa di Risparmio di Alessandria S.p.A.**
Alessandria (15100)
Piazza della Libertà, 20/21/22/22A

Banca Akros S.p.A.
Milan (20149)
Viale Eginardo, 29

WeBank S.p.A.
Milan (20146)
Via Massaua, 2

N.B. - The symbol beside each italian retail branch indicates the bank that it belong to.

● **Banca Popolare di Milano S.c. a r.l.**
▲ **Banca Popolare di Mantova S.p.A.**
◆ **Banca di Legnano S.p.A.**
■ **Cassa di Risparmio di Alessandria S.p.A.**

Italy Retail Branches

Piedmont

Turin

- Headquarters Corso Matteotti 8

Branches in Turin

231	Corso Vercelli 109
232	Corso Sebastopoli 202/b
233	Corso Regina Margherita 262
234	Corso Benedetto Croce 27

Other branches in province of Turin

Alpignano	Via Cavour 34/D
Chieri	Via Roma 4
Chivasso	Via Galileo Ferraris 1
Ciriè	Via Roma 17
Grugliasco	Via Aldo Rossi 6
Moncalieri	Corso Roma 25
Nichelino	Via Torino 170
Settimo Torinese	Piazza del Campidoglio 25

Alessandria

- Headquarters Piazza della Libertà 20/22

Branches in Alessandria

1004	Via Milano 83
1005	Via Marengo 116
1007	Viale Milite Ignoto 40
1023	Piazza Garibaldi 26
1052	Via Piacenza 29
1063	Via Bergamo 71/73
1068	Via Venezia 10
1070	Spalto Marengo 46

Other Branches in Province of Alessandria

Acqui Terme	Corso Bagni 102/106
Acqui Terme/1	Via Amendola 31
Alice Bel Colle	Via Roma 3
Arquata Scrivia	Piazza Bertelli 14
Basaluzzo	Piazza Garibaldi 3
Bergamasco	Via Roma 54
Borghetto Borbera	Via Roma 124
Borgo S.M.	Piazza V. Emanuele 5
Bosio	Piazza Repubblica 11
Cantalupo Ligure	Via Umberto I 33
Capriata d'Orba	Via della Piazza 2
Carpeneto	Piazza del Municipio 14
Casale Monferrato	Via Roma 29
Casale Monferrato/1	Via Rosselli 5
Cassine	Via del Ponte 5
Castelceriolo	Via Sale 32
Castellazzo Bormida	Via XXV Aprile 1
Castelletto d'Orba	Via Cortella 2
Castelnuovo Scrivia	Piazza V. Emanuele II 2
Cerrina Monf.	Via Nazionale 36/A
Felizzano	Via Matteotti / Via Veneto
Frugarolo	Via Matteotti 49
Gabiano	Via V. Veneto 12
Gavi	Piazza Dante 3/R
Masio	Piazza Borgo Nuovo 1/2
Molino dei Torti	Via Roma/P.zza Don Milanese
Novi Ligure	Corso Marenco 57
Novi Ligure/1	Via Mazzini 50/A
Ovada	Corso Saracco 6
Oviglio	Via V. Emanuele 11
Pontecurone	Via Roma 51
Ponzone	Piazza Italia 4
Pozzolo F.ro	Via Roma 71/ Piazza IV Novembre
Predosa	Piazza Matteotti 23
Quargnento	Piazza 1° Maggio 3
Quattordio	Piazza S. Pietro 1
Rivalta Bormida	Via Roma 80
San Giorgio Monf.	Asti–Casale Monferrato 150
San Giuliano Vecchio	Via Piacenza 29
San Salvatore Monf.	Via Avalle 1
Serravalle Scrivia	Via Novi 43
Sezzadio	Piazza Mercato 2
Solero	Piazza della Libertà 2
Spinetta Marengo	Via Genova 127
Tortona	Via Emilia 11
Tortona / 2	Corso Romita 47/49
Tortona / 3	Loc. San Guglielmo 3/13
Valenza	Corso Garibaldi 46/48
Valenza / 1	Circ. Ovest – Centro Coinor
Valenza / 2	Viale Repubblica 68

Province of Asti

Asti	Corso Alessandria (ang. Piazza 1° Maggio)
Asti / 1	Corso Torino 42–44

Italy Retail Branches

Canelli	Via Solferino 2
Moncalvo	Piazza Carlo Alberto 7
Nizza	Via C. Alberto/ Da Bormida
Villanova d'Asti	Piazza Marconi 18

Province of Cuneo

Alba	Corso Piave 16/a
Bra	Via Trento e Trieste 4
Savigliano	Piazza del Popolo 36

Province of Novara

Novara	Via Biandrate 4/6
Novara Ag. A	Corso Torino 26
Arona	Via Matteotti 12/14
Bellinzago Novarese	Via della Libertà 101
Borgo Ticino	Via Vittorio Emanuele II 29
Borgomanero	Via Benefattori
Caltignaga	Piazza dei Martiri
Cameri	Via Matteotti 43/45
Galliate	Via March. Bianca di Caravaggio 9
Gozzano loc. Baraggia	Via De Gasperi 53
Paruzzaro	Via Roma 10
Pombia	Via Stazione
Trecate	Via Gramsci 62

Province of Verbania – Cusio Ossola

Domodossola	Corso F. Dissegna 6/8
Gravellona Toce	Corso Roma 90
Omegna	Via Rodari 12
Stresa	Via Principessa Margherita 45
Verbania	Piazza G. Matteotti 10 – loc. Intra

Province of Vercelli

Vercelli	Via Balbo 7
Crescentino	Via Mazzini 107
Trino V.se	Piazza Audisio 4

Liguria

Province of Genoa

Genoa	Via Brigata Liguria 112
Campo Ligure	Vicolo del Gelsomino 3
Chiavari	Via Delpino 4
Rapallo	Lungomare V. Veneto 26
Ronco Scrivia	Via Roma 19

Province of Savona

Savona	Via Cristoforo Astengo 19/R
Alassio	Via Leonardo Da Vinci 182
Albenga	Via Papa Giovanni XXIII 100/A
Carcare	Via Naronti 6
Loano	Via Roma 228
Varazze	Via Carattino 28–29

Province of Imperia

Imperia	Via Belgrano 6
Sanremo	Via Nino Bixio 11

Lombardy

Milan

Headquarters P.zza Meda 4

Branches in Milan

1	Viale Corsica 31
2	Via Melchiorre Gioia 47
3	P.le Cadorna 14/16
4	Corso Buenos Aires 36
5	P.le Medaglie D'oro 1
6	Via S. D'acqisto 4
7	Corso Genova 29
8	Corso Plebisciti 19
9	Corso Buenos Aires 79
10	Via F. Turati 26
11	Piazza R. Wagner 15
12	Via Vertoiba 2
13	Via Padova 204
14	Via G. Bodoni 1
15	Via A. Astesani 46
16	Via Pontaccio 23
17	Corso Sempione 32/a
18	Via Meravigli 2
19	P.le Lagosta 9
20	Via L. Montegani 2
21	Corso di Porta Vittoria 28
23	Viale Piave 28
24	Via G. Ripamonti 114
25	Via Capo Palinuro 2
26	Piazza Duca D›aosta 8/2

Italy Retail Branches

•	27	Piazza Napoli 16
•	28	Via P. Rubens 7
•	29	Via S. Pianell 52
•	30	Viale Monza 169
•	31	Via C. Farini 81
•	32	Via G.B. Cassinis 15
•	33	Via Ronchi 2
•	34	Via Lorenteggio 16
•	35	Via Delle Ande 5
•	36	Via Caroncini 6
•	37	Via Cadore 43
•	38	Via Novara 101
•	39	Viale Abruzzi (ang. V. d'Aosta 11)
•	40	Via Bovisasca 173
•	41	Via Washington 95
•	42	Via Fiamma 17
•	43	Via dei Missaglia 63
•	44	Via Cenisio 14
•	45	Via Massara De Capitani 3
•	46	Via Volvinio 33
•	47	Piazza Sicilia 7
•	48	Via Padova 96
•	49	Via Ferrieri 16
•	313	Viale Coni Zugna 6
•	321	Corso Lodi 83
•	338	Corso Indipendenza 5
•	339	Via E. Motta 6
•	340	Via Venini 60
•	341	Via B. Maderna 2
•	342	Piazza Pompeo Castelli 12
•	344	P.le Stuparich 8
•	346	Via Pelizza Da Volpedo 12
•	347	Via Meda 36
•	348	Via Amadeo
•	349	Via Vincenzo Monti 41
•	350	Via E. Pellini 1
•	351	Via Bessarione 46
•	352	Via Gallarate 101
•	353	Viale Boezio 2
•	354	Via Orsini 18
•	355	Via Capecelatro 30
•	356	Viale Vallazze 11
•	357	Via Val Maira 62
•	358	Viale Suzzani 250
•	359	Via Meucci 91
•	360	Via F.lli Zoja 43
•	378	Corso Sempione 27
•	379	Viale Certosa 130
•	389	Via Osma (ang. Via Trenno 12)
•	412	Via Salvini 1
•	466	Via Savona 61
•	479	Via Ettore Ponti 21
•	500	Via Mazzini 9
•	501	Corso europa 2
•	502	Corso Manusardi 3
•	503	Via Burlamacchi 2
•	504	Piazza Lima 2
•	505	Via Romagnoli 1
•	506	Viale Monza 259
•	507	P.zza Dergano 9
•	508	Via Faruffini 3
•	509	Via Paolo Sarpi 4
•	512	Viale Padova 282
•	513	P.le Accursio 18
•	514	Via De Marchi 45
•	515	Via Adriano 96/G
•	516	Via Arsia 7
•	517	P.zza Scolari 2
•	518	Via Val di Sole 22
•	519	Viale Sarca 191
•	586	P.zza Bruzzano 4
•	587	Via Zurigo 14
•	791	Via Massaua 4
◆	80	Via Verdi 6
◆	90	Viale Certosa 269/271
◆	100	Via Pellegrino Rossi 91
◆	105	Via Pavia 2

Webank (virtual branch) Via Massaua 4

Branches in Province of Milan

•	Abbiategrasso	Via Binaghi 4
◆	Abbiategrasso	Via Mentana
•	Agrate Brianza	Via Lecco 2
•	Aicurzio	Via Croce 22
◆	Arconate	Contrada S. Eusebio 26
◆	Arluno	Via Martiri della Libertà
•	Arcore	Via A. Casati 42
•	Arese	Via Resegone 5
•	Assago	Strada IV Pal. A7 Milanofiori
•	Baranzate	Viale Milano 240

Italy Retail Branches

●	Bareggio	Via Novara (ang. Via Falcone)
●	Barlassina	Corso Milano 55
●	Basiglio	Pal. Galilei – Via G. Sforza
●	Bellusco	Via Castello 13
●	Bernareggio	Via F. Prinetti 23
●	Besana Brianza	Via S. Caterina (ang. Bellavista)
●	Besana Brianza	Via Pascoli
●	Biassono	Via Cesana–Villa (ang. V. Tintori)
●	Boffalora Ticino	Piazza IV Giugno (ang. Via Cavour)
●	Bollate	Viale Milano 240
●	Bollate	Via Primo Levi 10
●	Bollate	Via Cesare Battisti 2
◆	Bollate	Via degli Alpini 4/8
◆	Bovisio Masciago	Corso Italia 43
●	Bresso	Via Vittorio Veneto 13
◆	Bresso	Via Vittorio Veneto 55/5
●	Brugherio	Via L. Teruzzi N. 15
●	Buccinasco	Via Emilia 5/G
●	Buccinasco	Via Roma 9
◆	Buscate	Piazza San Mauro
●	Busnago	Via San Rocco 12
◆	Busto Garolfo	Via Cadorna
●	Cambiago	Via Garibaldi 2
◆	Canegrate	Piazza Matteotti 16
●	Carate	Piazza IV Novembre 15
●	Casarile	Via Binasco 70
●	Casorezzo	Piazza San Giorgio 24
●	Cassano D'Adda	Via di Vona 37/a
●	Cassano D'Adda	Via Cimbardi 1/b
●	Cassina De' Pecchi	Via Roma N. 55
●	Castano Primo	Via Tadino (ang. Via Magenta)
●	Cernusco sul Naviglio	P.zza Gavazzi
●	Cerro Maggiore	Via S. Carlo 21
●	Cesano Boscone	Via Milano 13
◆	Cesate	Via Romanò 18
●	Cinisello Balsamo	Viale Rinascita 36
●	Cinisello Balsamo	Via Garibaldi 97
●	Cinisello Balsamo	Via M. Viganò de Vizi
●	Cologno Monzese	Viale Liguria 1
●	Cologno Monzese	Via Galvani 24
●	Concorezzo	Via Don A. Girotti 8
●	Corbetta	Via C. Cattaneo 25
◆	Corbetta	Piazza del Popolo

●	Cormano	Via XXIV Maggio 1
●	Cormano	Via Caduti Della Libertà
◆	Cormano	Via Papa Giovanni XXIII
●	Cornaredo	Via Garibaldi 45/47
●	Corsico	Piazzale della Pianta 8
●	Corsico	Via Cavour 48 (ang. Via Mazzini)
●	Corsico	Piazza Cavour 48
◆	Cuggiono	Via Beolchi
●	Cusago	Via Libertà 23 (ang. Via Dante)
●	Cusano Milanino	Via XXIV Maggio 2
●	Gaggiano	Via Carroccio 27
●	Garbagnate Milanese	Via Garibaldi 183/185 Loc. S. Maria Rossa
●	Garbagnate Milanese	Via G. Verdi 1
●	Garbagnate Milanese	Via per Cesate (ang. Via dei Platani)
◆	Garbagnate	Via Varese
●	Gorgonzola	Via Serbelloni 21
◆	Inveruno	Piazza San Martino 5
●	Lacchiarella	Via Isonzo 15
◆	Lainate	Piazza Vittorio Emanuele
◆	Lazzate	Via San Lorenzo 4
●	Legnano	Via Nino Bixio 16/A
◆	Legnano	Largo Tosi 9
◆	Legnano/A	Via Leonardo da Vinci 1
◆	Legnano/C	Piazza del Popolo 13
◆	Legnano/D	Via Girardi
◆	Legnano/E	Via XXIX Maggio
◆	Legnano/G	Corso Sempione 47
◆	Legnano/H	Via Sardegna (ang. Via Liguria)
●	Liscate	Via IV Novembre 2
●	Magenta	Via A. Volta 1
◆	Magenta	Via Volta (ang. Via Pusteria)
●	Magnago	Piazza D'Armi 27
◆	Marcallo c. Casone	Via Roma 74
●	Mediglia	Frazione Bettolino Via Orione 2/b
●	Mediglia	Via I Maggio 5
●	Melegnano	Via Vittorio Veneto 95
●	Melegnano	Via Sandro Pertini 2
●	Melzo	P.zza della Vittoria 2
●	Mesero	Via Roma 5
◆	Nerviano	Piazza della Vittoria 17
◆	Nerviano/A	Via San Francesco 8

Italy Retail Branches

●	Novate Milanese	Via Vittorio Veneto 20
●	Novate Milanese	Via Baranzate 39
◆	Novate Milanese	Via Matteotti 20
●	Opera	Via Mazzini 2 (ang. Via Cavour)
●	Opera	Frazione Noverasco
●	Ossona	Piazza Litta 8
●	Paderno Dugnano	Via Rotondi 49
●	Paderno Dugnano	Via Italia 96 (Incirano)
●	Pantigliate	Via Risorgimento 61
●	Parabiago	Via S.Antonio 9
◆	Parabiago	Piazza Maggiolini
◆	Parabiago/A	Via C. Battisti
●	Pero	Via Alessandrini 1
◆	Pero (Loc. Cerchiate)	Via Cavallotti 1
●	Peschiera Borromeo	Via Liberazione 41
●	Peschiera Borromeo	Fraz. Bettola – Via Dante 2
●	Pieve Emanuele	Via Roma 18
●	Pieve Emanuele	Via Curiel 4
●	Pioltello	Via Monza 49 (Limito)
●	Pioltello	Via C. Colombo 12
◆	Pogliano Mil.se	Via Monsignor Paleari 48
●	Pozzuolo Martesana	Via IV Novembre 34
●	Pregnana Milanese	Via Giovanni XXIII 47
◆	Rescaldina	Via Bossi 56
◆	Rescaldina/A	Via Varesina 3
●	Rho	Via Madonna 32
●	Rho	Fiera Milano Polo Esterno Rho
◆	Rho	Via Meda 9/11
◆	Rho/A	Via Gandhi (Loc. Mazzo)
●	Robecchetto con Induno	Via Arese 11
●	Robecco sul Naviglio	P.zza XXI Luglio 6
●	Rozzano	Viale Lombardia 54
●	San Donato Mil.se	Via Kennedy 12/14
◆	San Giorgio su Legn.	Via Manzoni 22/B
●	San Giuliano Mil.se	Via Rizzi 1
●	San Giuliano Mil.se	Viale Milano 10/12
●	San Giuliano Mil.se	Via Indipendenza 7 (Borgolombardo)
●	San Vittore Olona	Via Matteotti 4
◆	San Vittore Olona	Via Europa 2
●	Santo Stefano Ticino	Via Trieste 18
●	Sedriano	Via De Amicis 33
◆	Sedriano	Via Papa Giovanni XXIII
●	Segrate (Linate)	c/o Aereoporto di Linate
●	Segrate	Quartiere S. Felice
●	Segrate (Redecesio)	Via delle Regioni 40

◆	Senago	Via Volta 77
●	Sesto San Giovanni	Piazza IV Novembre 28
●	Sesto San Giovanni	Viale Matteotti 489
●	Sesto San Giovanni	Viale Matteotti 191
●	Sesto San Giovanni	Viale Edison 50
●	Settimo Milanese	Via A. Manzoni 1
●	Settimo Milanese	Via Silone 2 (Seguro)
●	Seveso	P.zza L. da Vinci 1
◆	Seveso	Via Monti (ang. Via Giani)
●	Solaro	Via Roma 27
◆	Solaro (Loc. Brollo)	Piazza Grandi 48
●	Sulbiate	Via A. Mattavelli 2
●	Trezzano S/Naviglio	Via Leonardo da Vinci 97
●	Trezzo sull'Adda	Via Jacopo da Trezzo 16
◆	Turbigo	Via Allea Comunale
●	Usmate Velate	Via Manzoni 12
●	Usmate Velate	Via Roma 66
●	Vanzaghello	Via Roma 35
◆	Vanzago	Via Matteotti 4
●	Vaprio D'Adda	Via Marconi 29
●	Varedo	Via Umberto I 126
●	Varedo	Via Dante 4
●	Varedo	Viale Brianza 126
●	Verano Brianza	Via Massarani 12
●	Vignate	Via Roma 25
●	Villasanta	Piazza Martiri della Libertà 13
●	Vimercate	Via Piazza Roma 1
●	Vimercate	Via Eritrea 18 (Ruginello)
●	Vimodrone	Via S. Ambrogio 64
●	Vittuone	Via Villoresi 4
●	Vittuone	Largo Industria 18
●	Zibido San Giacomo	Via Lenin 11
◆	Bollate	Via degli Alpini 4/8
◆	Castano Primo	Corso S. Rocco 3
◆	Cesano Maderno	Via Molino Arese 59
◆	Cinisello Balsamo	Via Frova 36
◆	Garbagnate Mil. / A	Via Garibaldi 183/185

Province of Bergamo

●	Bergamo	Via Papa Giovanni XXIII 104
●	Bergamo	Borgo S. Caterina 68
●	Bonate Sopra	Piazza V. Emanuele 8
●	Bottanuco	Via S. Giorgio 1
●	Brembate	Via V. Veneto 17
●	Canonica D'Adda	Via Matteotti 15
●	Cologno al Serio	Via Crema 1

Italy Retail Branches

Dalmine	Via Mazzini 17
Grumello del Monte	Via europa 1
Leffe	Via Dante 27
Osio Sotto	Corso Vittorio Veneto 51
Romano di Lombardia	Via C. Pagliarini 34
Seriate	Via Nazionale 32
Solza	Via Leonardo da Vinci
Trescore Balneario	Via Marconi 5
Treviglio	Via F. Filzi 18/A
Verdellino	Via D. Alighieri (ang. Principe Amedeo)
Villa d'Adda	Via Case nuove 19
Zanica	Via Roma 9/B

Province of Brescia

Brescia	Via S.Martino della Battaglia
Brescia	Via V. Veneto 3/A angolo Via Monte Nero
Castenedolo	Via Patrioti (c/o Parcheggio)
Desenzano del Garda	Viale Motta 105
Gussago	Via De Gasperi 25
Orzinuovi	Piazza dell'Aeronautica
Salò	Via F. Zane 4
Travagliato	Piazza della Pace 18

Province of Como

◆ Como	Viale Innocenzo XI 13
◆ Como / A	Via G. Albertolli 5
Albese con Cassano	Piazza Volta 6
◆ Appiano Gentile	Via Giovanni Falcone 8
Arosio	Via G. Oberdan 5
◆ Bregnano	Via Milano 4/c
Cantù	Piazza Garibaldi 9
Erba	Via Plinio 18
◆ Faloppio	Via Veneto 30
◆ Fenegrò	Via Roma 47
◆ Fino Mornasco	Via G. Garibaldi 144
◆ Limido Comasco	Via Roma 2
◆ Lomazzo	Via Trento 7F
◆ Luisago	Via IV Novembre 38
Lurago d'Erba	Via Roma
◆ Lurate Caccivio	Via Unione 26
Mariano Comense	Via Pace (ang. Viale Brianza)
Mozzate	Via Rosselli 9
Orsenigo	Via Simone da Orsenigo 2
◆ Rovellasca	Via Carugo 41
◆ Uggiate Trevano	Via V. Veneto 2
◆ Vertemate con Minoprio	Via Guaita 18

Province of Cremona

Cremona	Piazza 4 Novembre 10
Crema	Via Matteotti 16/18
Rivolta D'Adda	Via Fabio Filzi N. 5

Province of Lecco

Lecco	Via Dante 32
Annone di Brianza	Via S.Antonio 16
Barzago	Via Rimembranze 6
Barzanò	Via L.Manara 16/18
Calco	Largo Pompeo 4/b
Calolziocorte	Corso Dante 55
Carenno	Via G.Verdi 1
Casatenovo	Via A.Manzoni 3
Casatenovo (Rogoredo)	Via Volta Rogoredo 42
Cassago Brianza	Via Cascina Nuova 2
Cernusco Lombardone	Via Lecco 7
Cremella	P.zza Don Colombo 1
Dolzago	Via Bettolino 10
Imbersago	Via Castelbarco 23/b
Lomagna	Via Milano 2
Mandello Lario	Via Pra Magno 11
Merate	Via Vigano' 2/4
Maresso	Via A.Manzoni 15
Missaglia	Via U.Merlini 3
Montevecchia	Via Bergamo 20
Olgiate Molgora	Via Roma 31
Paderno D'Adda	Via Manzoni 1
Robbiate	Via Indipendenza 42
Rogeno	Via Cesare Battisti 24
Sirtori	Via Prevosti 1
Valgreghentino	Via F.lli Kennedy 131
Valmadrera	Corso Promessi Sposi 19
Verderio Inferiore	Via Tre Re 19
Verderio Superiore	Viale Rimembranze 2
Viganò	Via Risorgimento 14

Province of Lodi

Lodi	Viale Agnelli 27
Codogno	Via Giuseppe Verdi 47 (ang. Via Andrea Costa)
Sant'Angelo Lodigiano	Via Mazzini 71

Italy Retail Branches

Province of Mantua

▲	Mantua Headquarters	Piazza Martiri di Belfiore 7
▲	Mantua	Viale Risorgimento 86
▲	Mantua (Cittadella)	Via Verona 28
▲	Mantua	Piazza Vilfredo Pareto 10
▲	Asola	Via Garibaldi 20
▲	Bagnolo S. Vito	Via Roma 75
▲	Castiglione d. Stiviere	Via Dunant 17/b
▲	Cerese di Virgilio	Via Cisa 95/G
▲	Goito	Piazza degli Alpini 2
▲	Guidizzolo	Via Rodella 10
▲	Levata di Curtatone	Via Levata 52
▲	Pegognaga	Via Chiaviche 17
▲	Poggio Rusco	Via Matteotti 157
▲	Porto Mantovano	Via F.lli Kennedy 12–14
▲	Suzzara	Viale Virgilio 12
▲	Viadana	Via M. D'Azeglio 1/5/7
▲	Virgilio	Via Cisa 95/G
▲	Volta Mantovana	Via Salvo D'Acquisto, 4

Province of Monza Brianza

●	Monza Headquarters	P.zza Carducci 6
●	Monza Ag. 1	Via Arosio 1 (ang. Corso Milano)
●	Monza Ag. 2	Via Manara 16
●	Monza Ag. 3	Via Romagna 38
●	Monza Ag. 4	Via Boito 68
●	Monza Ag. 5	Viale Foscolo 18
●	Carnate	Via Volta 22
●	Carnate	Via Pace 2
●	Ceriano Laghetto	Piazza Diaz 22
●	Cesano Maderno	Corso della Libertà 22
●	Cogliate	Via Card. Minoretti 31
●	Cornate d'Adda	Via G. Marconi 10
●	Desio	Via Garibaldi 4
●	Giussano	Via IV Novembre 116
●	Lentate sul Seveso	Via Roma 31
●	Limbiate	Via Garibaldi 10
●	Limbiate	Via Pasubio 2
◆	Limbiate	Via Beccaria 1
●	Lissone	Piazza Italia 1
●	Macherio	Via Visconti di Modrone
●	Meda	Corso G. Matteotti 14
●	Meda	Via Tre Venezie 90/92
●	Muggiò	Via Buozzi (ang. Via Italia)
●	Nova Milanese	Via Diaz (ang. Via Rimembranze)
●	Ornago	Via Kennedy 2
●	Roncello	Via Manzoni 17
●	Ronco Briantino	Via S. Antonio 8
●	Seregno	Via S. Valeria
●	Seregno	Via Montello 1
●	Seveso	Piazza L. da Vinci 1
●	Sulbiate	Via A. Mattavelli 2
●	Usmate Velate	Via Manzoni 12
●	Usmate Velate	Via Roma 66
●	Varedo	Via Umberto I 126
●	Varedo	Viale Brianza 126
●	Varedo	Via Dante 4
●	Verano Brianza	Via Massarani 12
●	Villasanta	Piazza Martiri della Libertà 13
●	Vimercate	Piazza Roma 1
●	Vimercate	Via Eritrea 18 (Ruginello)

Province of Pavia

●	Pavia	Via Riviera 35
●	Pavia Ag. 2	Corso Cairoli 54/56
●	Bereguardo	Via S. Antonio 17
●	Casei Gerola	Piazza Meardi 6 (ang. V. Mazzini)
●	Casorate Primo	Via S. Agostino 63
●	Casteggio	Via Torino 18
●	Cervesina	Via Roma 4
●	Mede	Piazza Amisani 5/6
●	Mortara	Corso Garibaldi 90
●	Stradella	P.zza Vittorio Veneto 10
●	Torrazza Coste	Via Cadelazzi 4
●	Vidigulfo	Via Roma 32
●	Vigevano	P.zza Ducale 3
●	Voghera	Piazza C. Battisti 10
●	Voghera	Via Emilia 149

Province of Varese

●	Varese	Via Avegno 4
●	Varese	Via Sanvito Silvestro 43/A
◆	Varese Fraz. Avigno	Via Saffi 88
●	Arcisate	Via G. Matteotti 13
◆	Angera	Via Diaz 9
◆	Arcisate	Via Matteotti 23
◆	Azzate	Via Piave 91
●	Besnate	Largo Brianzoni

Italy Retail Branches

◆	Besozzo	Piazza 1° Maggio 11
◆	Buon Gesù	Via don Minzoni 2
●	Busto Arsizio	Via Crespi 1/bis
●	Busto Arsizio	Via Milazzo 15
◆	Busto Arsizio	Via F.lli d'Italia 6
◆	Busto Arsizio / A	Viale Rimembranze 34
◆	Busto Arsizio / B	Via Burattana 1 (Borsano)
◆	Cardano al Campo	Via Roma 72
◆	Caronno Pertusella	Via Italia 266
●	Caronno Varesino	Via Castiglioni 1
◆	Cascina Buon Gesù	Via Don Minzoni 2
◆	Casorate Sempione	Via G. Marconi 1
●	Cassano Magnago	Via 5 Giornate 25
◆	Cassano Magnago	Via IV Novembre 74
◆	Castellanza	Via della Chiesa 6
◆	Castellanza / A	Via Giovanni XXIII 11
◆	Castiglione Olona	Via Conte L. Castiglioni 2
●	Cavaria	Via Scipione Ronchetti 71
●	Cislago	Piazza E. Toti Angolo Piazza Castelbarco
◆	Cocquio Trevisago	Via G. Verdi 29
◆	Cuasso al Monte	Via Madonna 2
◆	Fagnano Olona	Via della Vittoria (ang. Via Marconi)
●	Ferno	Via Marco Polo 1
◆	Ferno	Via Trieste 27
●	Gallarate	Via G. Verdi 8
●	Gallarate	Via Checchi 21 Arnate
●	Gallarate	Corso Sempione 9/A
◆	Gallarate	Via Noè 45/47
◆	Gavirate	Via 4 Novembre 25
●	Gerenzano	Via XX Settembre 32/34
●	Gorla Maggiore	Piazza Martiri della Liberta'
◆	Gorla Minore	Via Vittorio Veneto 45
●	Lonate Pozzolo	Aeroporto Malpensa Cargo
◆	Luino	Piazza Libertà
◆	Malnate	Via Martiri Patrioti 1
●	Oggiona S. Stefano	Via Volta 118
◆	Origgio	P.zza IV Novembre
◆	Samarate	Via Veneto (ang. Via Trento)
●	Saronno	Piazza De Gasperi 26
●	Saronno	Via Leonardo da Vinci
●	Saronno	Via Larga 22
●	Saronno	Via G. Mazzini16/18
◆	Saronno	Piazza De Gasperi 26
◆	Sesto Calende	Piazzale Balzarini 3 Frazione Abbazia
◆	Solbiate Arno	Via Agnelli 2 (ang. Via Castello 1/3)
◆	Solbiate Olona	Piazza Marconi 7
●	Somma Lombardo	Aeroporto della Malpensa
◆	Somma Lombardo	Via Milano 44
●	Sumirago	Via Piave 2
●	Tradate	Via V. Veneto (ang. Via Dante)
●	Tradate Ag. 2	Via Albisetti 13
●	Uboldo	Via Italia 17/b
●	Vedano Olona	P.zza S. Maurizio 3
◆	Vergiate	Via Don Locatelli 10

Veneto

Province of Padua

●	Padova	Via Giotto 19

Province of Treviso

●	Treviso	Via Orleans 2

Province of Venice

●	Venice (Mostre)	Via T. Tasso 48/A

Province of Verona

●	Verona	Via Paglieri 4
●	Verona	Corso Porta Nova 33
●	Verona	Via IV Novembre 15
●	S. Bonifacio	Via Camporosolo 11/A
●	Villafranca di Verona	Corso Garibaldi 87

Province of Vicenza

●	Vicenza	Viale San Lazzaro 120

Friuli Venezia Giulia

Province of Udine

●	Udine	Via Poscolle 67

Italy Retail Branches

Emilia Romagna

Bologna

Headquarters	Via de Carbonesi 11

Branches in Bologna

202	Via Degli Artieri 2
203	Via G. Amendola 12/a
204	Via S. Vitale 89
205	Via Emilia Ponente 207
206	Via G. Marconi 3
207	Via A. Righi 18
208	Via D. Guerrazzi 32
209	Via di Corticella 184/3
210	Via Toscana 26
211	Via Guerrini 2
212	Via Massarenti 204
467	Via Emilia Levante N. 164
1028	Via Enrico Mattei 106
1029	Via Ferrarese 3
1030	Via Firenze 4
1031	Via G. Mazzini 91/H

Other Branches in Province of Bologna

Bentivoglio	Via G. Marconi 58/a
Casalecchio di Reno	Via G. Marconi 11–13
Crespellano	Via Provinciale 347
Granarolo dell'Emilia	Via Cadriano 43
San L. di Savena	Via Emilia 175
Zola Predosa	Via Risorgimento 188/190

Province of Ferrara

Ferrara	Via Cairoli 26
Ferrara	Via Bologna 415
Argenta	Via G. Matteotti 31/b
Cento	Corso del Guercino 16
Codigoro	Via IV Novembre 30
Comacchio (Lido Estensi)	Via G. Pascoli 61
Poggio Renatico	Via Cantone 14/A

Province of Forlì

Forlì	Via Pedriali 2

Province of Modena

Modena	Via Emilia Est 31

Province of Parma

Parma	Via Garibaldi 12

Province of Ravenna

Ravenna	Via Diaz 30

Province of Reggio Emilia

Reggio Emilia	Piazza Prampolini 1

Tuscany

Firenze

Headquarters	Piazza S. Maria Maggiore 1

Branches in Florence

241	Via Accolti 23
323	Via di Novoli 62/D
369	Via Sette Santi 3
488	Via F. Redi 57/D

Branch in Province of Florence

Scandicci	Via Donizetti 24

Province of Prato

Prato	Via Carlo Marx 1

Marche

Province of Pesaro

Pesaro	Via Mameli 70

Lazio

Rome

Headquarters	P.le Flaminio 1

Branches in Rome

252	Via V. Veneto 1
253	Via G. F. Ingrassia 2
254	Via Ugo Ojetti 74
255	Via A. Baldovinetti 156
256	Via Gualtiero Serafino 2/A
257	Viale Franceschini 58

Italy Retail Branches

258	Via Caio Manilio 42
259	Via Garigliano 92
260	Via Cassia 901/I
261	Largo Delpino 6
262	Via Gregorio XIII 72
263	Via Portuense 100/Abcd
264	Via Casilina 1875/B
309	Via G. Vitelli 14
322	Via A. Piola Caselli 52
325	Via dell'Imbrecciato 134
327	Via Pollenza
328	Piazza Hazon (ang. V. Fiume B.)
329	Via di Tor Sapienza 82
330	Via Satrico 18/20
331	Via Appia Nuova 447
332	Piazza dei Vocazionisti 9/10
333	Viale dei Traghetti 87
334	Via Giulio Cesare 173/175
374	Via Molise 2
436	Via Appia Nuova Km. 10.300
441	Via del Tritone 177
443	Via Anagnina 372 (Loc. Morena)
447	Corso d'Italia 32/f
448	Via Gregorio VII 105
452	Via A. De Pretis 74/e
455	Via Gadames 27
458	Via G Branca 25/33 (ang. Via P. Querini)
460	Via Gaverina 2
462	Via Leonardo Bufalini 1/A angolo Via Casilina
474	Viale Partenope N. 68 (ang. Via Marcianise)
495	P.zza Monteleone di Spoleto 26/29
582	Viale del Caravaggio 133
589	Via Matté Tracco 104
1051	Viale Liegi 41 – Roma
1001	Via Boccea 206
1002	Eur - Piazza L. Sturzo 29
1003	Piazzale Ardigò 43/47
1004	Via A. Criminali 52
1005	Via Bianchini 74
1006	Via della Giustiniana 219
1007	Via Nomentana 128
1008	Via Pan 38
1009	Via Pietro Maffi 151
1010	Via Rapagnano 103
1011	Via U. Giordano 82
1012	Via Isole del Capo Verde 18
1013	Via Carlo Alberto 2

Other Branches in Province of Rome

Albano Laziale	Via del Mare (Pavona)
Anzio	Viale G. Marconi 165
Anzio	Via Nettunense Km 35.500
Ardea	Via S. Lorenzo Km 40
Canale Monterano	Corso della Repubblica 6
Ciampino	Via Quattro Novembre 45
Fiumicino	Via Anco Marzio 44
Fiumicino	Viale Bramante 52
Fiumicino	Via della Scafa 143–B
Frascati	Viale Letizia Bonaparte 1
Genazzano	Via Trento Trieste 40
Grottaferrata	Via Roma 9
Ladispoli	Viale Mediterraneo 23
Marino	Piazza Matteotti
Marino	Via Appia Nuova 94 (Frattocchie)
Marino	Viale della Repubblica 76 (S.M. d. M.le)
Mazzano Romano	Piazza Giovanni XXIII 12
Montelanico	Via G. Mazzini 79
Nazzano	Largo Dante Alighieri 2
Nerola	Via dei Lavoratori snc
Ostia	Via Fiamme Gialle 18
Pomezia	Via del Mare
Ponzano Romano	Piazza Salvo D'Acquisto
San Vito Romano	Via Borgo Mario Theodoli 21
Sant'Oreste	Piazza Principe di Piemonte 1
Tolfa	Viale Italia 2
Valmontone	Via S. Antonio 13 ang. Via Molino
Velletri	Via G. Oberdan 2

Abruzzo

Province of Pescara

Pescara	Corso V. Emanuele II 149/151

Molise

Province of Campobasso

Termoli	Corso F.lli Brigida 114

Italy Retail Branches

Campania

Naples

•	Naples	Piazza Salvo D'Acquisto 40
•	Naples Ag. 2	Via Solimena 105/b

Puglia

Province of Bari

•	Bari	Via Patignani 80/82
•	Bari	Via M.L. King 84/86
•	Bari Ag. 3	Viale Einaudi 36
•	Altamura	Piazza Zanardelli 26
•	Andria	Via A. De Gasperi 2
•	Barletta	Via Libertà 38
•	Bisceglie	Via De Gasperi 68
•	Bitonto	Via XXVI Maggio 1734 19
•	Canosa di Puglia	Via Oberdan 41
•	Corato	Via Armando Diaz 16
•	Molfetta	Via Amedeo 52
•	Trani	Piazza Gradenico 18

Foggia

•	Foggia	P.zza U. Giordano 18
•	Ag. 1	Via Telesforo 48
•	Ag. 2	Viale Michelangelo (angolo Via G. Di Vittorio)

Branches in Province of Foggia

•	Accadia	Via Bonito 7
•	Apricena	Via A. Moro
•	Ascoli Satriano	Via S.maria Del Popolo 1/3
•	Bovino	Via Indipendenza 12
•	Cagnano Varano	Via Marconi 6/8
•	Carapelle	Piazza A. Moro
•	Cerignola	Corso Garibaldi 46
•	Chieuti	Corso Skanderberg 12
•	Lucera	Via Zuppetta 36
•	Manfredonia	Via Tribuna 65/67
•	Manfredonia-Siponto	Via G. Di Vittorio 66
•	Mattinata	Via V. Veneto 23
•	Monte Sant'Angelo	Piazza Roma 4
•	Orsara di Puglia	Via Ponte Capo
•	Orta Nova	Via Pietro Nenni 53
•	Peschici	Corso Garibaldi 57
•	Poggio Imperiale	Piazza Imperiale 2
•	S. Giovanni Rotondo	Piazza europa
•	San Marco in Lamis	Via della Vittoria 5
•	San Paolo di Civitate	P.zza A. Moro 7
•	San Severo/1	Via Minuziano 118
•	San Severo/2	Via T. Masselli 10 (ang. Curtatone)
•	Sannicandro Garganico	Via Corso Garibaldi 19/A
•	Torremaggiore	Piazza Della Repubblica 58
•	Trinitapoli	Corso Trinità 13
•	Vieste	Via Madonna della Libertà 27

Large Corporate Branches	**n. 4**
SME Units	**n. 10**
Private Banking Centres	**n. 15**

Investments and Corporate Affairs Office
of Banca Popolare di Milano

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