Annual report

2014

BANCO POPOLARE

ANNUAL REPORT 2014

Banco Popolare Società Cooperativa

Registered office and General headquarters: Piazza Nogara, 2 - 37121 Verona
Fully paid up share capital as at 31 December 2014: Euro 6,092,996,076.83
Tax Code, VAT No. and Verona Companies' Register Enrolment No. 03700430238
Member of the Interbank Deposit Guarantee Fund and the National Guarantee Fund
Parent Company of the Banco Popolare Banking Group
Enrolled in the register of Banking Groups

OFFICERS, DIRECTORS AND INDEPENDENT AUDITORS AS AT 31 DECEMBER 2014

Board of Directors

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

(*) members of the Executive Committee

Board of Statutory Auditors

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

General Management

General Manager	Maurizio Faroni
Joint General Manager	Domenico De Angelis

Ethics and Disciplinary Committee

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

Manager responsible for preparing the Company's financial reports

Gianpietro Val

Independent Auditors

Reconta Ernst & Young S.p.A.

LETTER TO SHAREHOLDERS

Dear Shareholders,

the financial year which has just ended was characterised and conditioned by several extraordinary events, which had a significant impact on results, which recorded a loss, recognised in the financial statements, of around euro 2 billion.

This loss was generated, to a small extent, by the impact of the ongoing economic crisis on Banco's loans portfolio, and to a greater extent, by the need to change the criteria used to estimate exposure items, in order to align provisions with the estimated forecasts made during the year by the ECB as part of the "Asset Quality Review". The increased level of coverage of financial statement exposures, resulting from the cited change to estimation criteria, substantially entailed extending the criteria already adopted for prudential purposes to calculate Common Equity Tier 1 capital (CET 1 Capital) for the calculation of financial statement items. The decision to partially write down the goodwill related to financing activities, whose future profitability was reduced mainly due to the falling trend of interest rates, had an impact of around euro 300 million on the income statement. As said goodwill amounts (and those of other intangible assets) have always been wholly deducted from the calculation of regulatory capital – CET 1 Capital, this meant that although the above-cited valuation decisions had a significant impact on the income statement for 2014 and on the relative income results, they had a far lesser impact on the calculation of regulatory capital ratios and in particular on CET 1 Capital (which, in fact, fell by only euro 358 million in the fourth quarter).

Banco Popolare therefore has a particularly solid equity base, due to the substantial stability of operating income, to the containment of costs and above all to the share capital increase and Banco/Creberg merger operations promptly launched in the first few months of last year.

With regard to the beginning of this financial year, in particular, Banco has maintained a regulatory capital and a level of provisions for non performing loans, which see it positioned in the higher segment of the national banking scenario. The solidity of Banco Popolare's equity structure is further confirmed by the presence in the Securities Portfolio (mainly Government securities) of unrealised gains, not recording in the statement of financial position or income statement, of relevant amount.

Overall, these represent important and significant prerequisites to be able to immediately and decisively change course, taking advantage of both the improvement, albeit slight, in the domestic economic climate and of the difficulties, often much greater, being experienced by many competitor banks.

This scenario was disrupted by the entry into force of Italian Decree Law 3/2015, which seeks to transform the top 10 cooperative banks, and therefore, Banco Popolare first and foremost, into joint stock companies (S.p.A.).

Whatever the opinion of this decree may be, and in our case it can only be negative both in terms of method and merit, and whatever the final version resulting from its forthcoming conversion into law may be, one thing is certain, from that day, the 'life' of our bank changed profoundly and for good.

From that day, our bank, which previously could not fall into the hands of anyone, became susceptible to hostile takeovers and its autonomy, which was once guaranteed by per capita voting, became a "prize" to be earned, results on hand, day after day.
A very delicate transition phase has therefore begun, the outcome of which may either be the end of our story, if we become part of a large foreign banking group, or its continuation, although in a more challenging and dynamic context than in the past, by joining the two major Italian banking groups, which have formed in the past through the grouping of national banks with savings banks.

Achieving this second outcome is the difficult and stimulating task that Banco's directors, managers and collaborators are faced with today.

Nevertheless, to become a large independent bank, in the form of a joint stock company, we not only need to undertake intelligent business combinations able to guarantee economies of scale and purpose, but, above all, we need to considerably speed up the implementation of the guidelines of the Business Plan, to rapidly achieve a cost and revenue structure and, as a consequence, returns on capital invested, which are in line with those of the leading domestic banks. This task is particularly difficult and challenging for banks, like ours, which do not wish to disown our commercial and local identity, and which, although focused on increasingly upscaling its operations, intend to continue the "trade" of a bank which intermediates between credit and savings, increasingly guaranteeing innovative services for our business customers, particularly small and medium enterprises, for households and for organisations that operate in areas in which we have our historic roots.

To tackle this leap of quality, both in terms of strategy and operations, we have to immediately adopt an open and innovative approach, and a determined and courageous spirit; what is really needed is a joint and shared effort from all of the men and women that work for Banco Popolare. It is clear that no further sacrifice can and should be asked of our shareholders, who have suffered the downtrend in our results for many years, and who have sustained our share capital twice.

The progress that ordinary operations is starting to show, particularly as regards the cost of credit, just as the possibility that, over the year several of Banco's assets (such as the equity investment in ICBPI) may increase in value, are encouraging signs, which show us that successfully tacking the challenge we have before us is possible. It is therefore essential that 2015 marks Banco's return to profitability; however, we won't get far, if, as we said earlier, Banco is not able to move with determination and with a united front in the strategic direction indicated above. The coming months will show whether we are capable of doing this.

As the Supreme Poet, for whom we celebrate 750 years from his birth, said: here and now "Incipit vita nova!".

Verona, 4 March 2015

The Board of Directors

CONTENTS

Soc. Coop. - Registered office in Verona, Piazza Nogara, 2 - Fully paid up share capital euro 6,092,996,076.83
Tax Code, VAT No. and Verona Companies' Register Enrolment No. 03700430238
Enrolled on the Bank Register under no. 5668 - Member of the Interbank Deposit Guarantee Fund and the National Guarantee Fund
Parent Company of the Banco Popolare Banking Group - Enrolled on the Register of Banking Groups

ORDINARY AND EXTRAORDINARY SHAREHOLDERS' MEETING
NOTICE OF CALL

In accordance with art. 22 of the Articles of Association, the Ordinary and Extraordinary Shareholders' Meeting is hereby convened for Friday 10 April 2015, on first call, at 9 am, in Novara, at the administrative office of Banco Popolare in Via Negroni, 12, to discuss the following

AGENDA

ORDINARY SESSION

1) Substitution of two members of the Board of Directors pursuant to art. 29.11 of the Articles of Association; relevant and consequent resolutions
2) Report of the Board of Directors, of the Board of Statutory Auditors and of the Independent Auditors on 2014; approval of the financial statements as at 31 December 2014; presentation of the consolidated and company financial statements; consequent legal resolutions
3) Decisions relating to remuneration and incentive policies; approval of the report pursuant to legislative provisions in force
4) Adjustment of the fees of Independent Auditors Reconta Ernst & Young S.p.A., engaged to audit the accounts for 2007-2015

EXTRAORDINARY SESSION

1) Proposal to amend articles 7, 12, 20, 25, 28, 29.1, 29.2, 29.4, 29.7, 33.1, 33.2, 33.4, 38.1, 39.4, 47 and 56 of the Articles of Association and to add a new article 29.2-*bis*; relevant and consequent resolutions
2) Proposal to reduce revaluation reserves pursuant to Italian Law no. 413/1991 and Italian Law no. 72/1983, and to reduce reserves pursuant to art. 7, paragraph 3 of Italian Law no. 218/1990

If the legal quorum is not reached, the Shareholders' Meeting, again pursuant to art. 22 of the Articles of Association, it will be convened on second call on **Saturday 11 April 2015 at 8.30 am in Novara, at the "Terdoppio" Community Sports Complex, Piazzale degli Sport Olimpici, 2**, to discuss the above-indicated agenda, as per articles 24 and 25 of the Articles of Association.

In accordance with art. 23 of the Articles of Association, the Board of Directors has arranged for the activation of remote connections with the facilities indicated below, which will be equipped with the devices needed to guarantee that parties with voting rights can be identified and that communication is secure:

- **Quartiere Fieristico dell'Ente Autonomo Fiere di Verona, Viale dell'Industria – Verona;**
- **Quartiere Fieristico di Lucca, Lucca Fiere e Congressi, Via della Chiesa XXXII, Traversa I, 237 – Lucca.**

Said connections, in accordance with the cited provision of the Articles of Association, will allow Shareholders - who cannot attend the meeting at the Novara site and therefore, do not intend to speak or take part in discussions - to follow the proceeds of the Meeting in any event, and vote when voting takes place.

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

ATTENDANCE OF MEETINGS AND REPRESENTATION

In accordance with art. 23 of the Articles of Association, the Meeting may be attended by Shareholders who have been enrolled in the Shareholders' Register for at least 90 (ninety) days and who have sent Banco Popolare the "communication" of the broker assigned under art. 83-*sexies*, paragraph 4 of the Consolidated Finance Law and art. 27 of the Joint Provision of the Bank of Italy and Consob of 22 February 2008 and subsequent amendments (the "Joint Provision"), at least 2 (two) working days before the date set for the first call, namely **by 8 April 2015**.
Shareholders whose shares have already been deposited in the file under the custody and administration of Banco Popolare or another Group bank, and which have therefore already been dematerialised, must in any event request, pursuant to art. 22 of the Joint Provision, the issue of the "communication", receiving a copy of the same, valid as a ticket for admission to the Shareholders' Meeting.

As regards Shareholders whose shares have been deposited with other authorised brokers, pursuant to the cited art. 22 of the Joint Provision, the request for the "communication" must be made **by 3 April 2015**, or another, not prior, term that may be set by the broker in compliance in any event with the provisions of art. 23 of the Articles of Association, ensuring that a copy of the same is issued. The legitimate right to attend the meeting and to vote is valid if the communications are received by Banco Popolare beyond the term of 8 April 2015, as long as before the start of the meeting's discussions.
Shareholders who are in possession of shares that have not yet been dematerialised must deliver the same to Banco Popolare or to another Group bank, or to another authorised broker, so that the same may be dematerialised and therefore request the issue of the "communication" so that they may participate in the Meeting.

Under the Articles of Association, each Shareholder has one voting right, regardless of the number of shares the same possesses.

Shareholders may be represented by other Shareholders who have a right to participate in the Meeting - on condition that the same are not a Board Member or Statutory Auditor or employee of Banco Popolare, or a member of the administrative or control bodies or an employee of companies directly or indirectly controlled by Banco Popolare, or of the independent auditors who have been assigned to audit the accounts, or the person legally responsible for auditing the accounts of Banco Popolare and who do not satisfy one of the other conditions of incompatibility provided for by law - by means of a written proxy, drawn up as per the law, the signature of which has been authenticated by a public official or by an employee of Banco Popolare or one of the cited Group banks. To this end, the proxy form included at the end of the "communication" issued to the Shareholder by one of the Group banks or by another authorised broker may be used, or the proxy form available on Banco Popolare's website (www.bancopopolare.it "*Corporate Governance – Shareholders' Meetings*" section).

Pursuant to art. 1, paragraph 1d), point no. 3 of Italian Legislative Decree no. 3 of 24 January 2015 ("Urgent measures for the banking system and investments"), amending art. 150-*bis*, paragraph 2-*bis* of Italian Legislative Decree no. 385/1993 ("Consolidated Law on Banking and Lending"), which became effective 25 January 2015 in accordance with the provisions of art. 9 of said Decree, and assuming that it will be converted into law, **a maximum of 10 proxies can be granted to a Shareholder by other Shareholders**, except in cases of legal representation. Any changes in the maximum number of proxies, as a result of other provisions in the conversion law or should the Decree not be converted into law, will be communicated to the Shareholders on a timely basis.

Under art. 26 of the Articles of Association, the Chairman of the Board of Directors, as Chairman of the Shareholders' Meeting, is fully authorised - in accordance with the Regulations of Shareholders' Meetings - to ascertain that said proxies are in order and, in general, to decide on the right of those present to participate in the Meeting, to ascertain that the same is regularly constituted and that the quorum required to pass resolutions has been reached. To this end, the Shareholders in question may deliver proxies to Banco Popolare branches **by 8 April 2015**. Any proxies submitted after said date, or at the Shareholders' Meeting must in any event be completed and authenticated as indicated above.

SUBSTITUTION OF TWO MEMBERS OF THE BOARD OF DIRECTORS

With regard to point 1) of the Agenda for the Ordinary Session, in accordance with the provisions of art. 29.11, first paragraph, of the Articles of Association, we hereby state that, as two Board Directors elected from the majority list by the Shareholders' Meeting held on 29 March 2014 must be replaced, the Shareholders' Meeting will resolved based on a relative majority without the obligation of a list, in accordance with the provisions regarding the composition of the Board set forth in art. 29.1 of the Articles of Association, under which the Board of Directors may also propose candidates, a right that the Board intends to use. Further candidates may be put forward up until the date of the Meeting; however, for organisational reasons, Banco Popolare requests applications to be submitted by 1 April 2015. The document on the quali-quantitative composition of the Board of Directors envisaged by the supervisory provisions for corporate governance of banks (Bank of Italy Circular no. 285 of 17 December 2013 and subsequent amendments) containing the "Application of supervisory provisions to the organisation and corporate governance of banks", as well as the "Regulations on the cumulative limits of offices held by Banco Popolare Group Directors" will be made available to Shareholders with sufficient notice for the submission of the above-cited applications.

INFORMATION ON SHARE CAPITAL
The share capital subscribed and fully paid up by the Company corresponds, on the date of publication of this notice, to euro 6,092,996,076.83 divided into 362,179,606 shares with no nominal value. No shares or any other securities with limited voting rights have been issued. On the date of publication of this notice, the Bank holds 99,902 treasury shares, mainly for the implementation of previous resolutions of the shareholders' meeting.

SUPPLEMENT TO THE AGENDA AND SUBMISSION OF NEW PROPOSALS FOR DISCUSSION
A number of Shareholders, representing a share of not less than 1/80 of Shareholders with voting rights, may, by means of a written request, made within ten days of the publication of this notice of call, exercise the right to add further items to the Agenda to be discussed at the Shareholders' Meeting (with the exception of topics on which the Shareholders' Meeting resolves, by law, on a proposal of the management body or on a draft or report drawn up by the

same, other than those indicated in art. 125-*ter*, paragraph 1 of the Consolidated Law on Finance), indicating the further items to be added in their request, pursuant to art. 22, paragraph 3 of the Articles of Association, or submit proposals for resolution on topics that are already on the agenda, in accordance with that envisaged by art. 126-*bis* of the Consolidated Finance Law. Those in possession of voting rights may individually submit proposals for resolution at the Shareholders' Meeting. The written request must be submitted by (i) delivering or sending the same by registered letter to the Company Secretariat of Banco Popolare in Piazza Nogara, 2 - 37121 Verona, or (ii) by e-mail to the certified e-mail address segreteria@pec.bancopopolare.it.
Shareholders that request a supplement to the list of items to be discussed or that submit proposals for resolution on topics that are already on the agenda must draw up a report illustrating the grounds for the proposals to discuss new topics or the grounds relating to further proposals for resolution submitted on topics that are already on the agenda. The report must be sent to the management body by the deadline for submission of the request for a supplement, as indicated above. The management body will make the report available to the public, together with any assessments of the same, simultaneous to the publication of the news of the supplement to the agenda or of the submission of further proposals for resolution, according to procedures envisaged by the law in force.
Signatures of shareholders must be authenticated by a notary or by employees of Banco Popolare or of Group banks authorised accordingly. The legitimation of the exercise of the right is confirmed by the deposit of a copy of the communication or certificate issued by the broker in accordance with legislation and regulations in force.
Any additions to the agenda or submissions of further proposals for resolution on topics that are already on the agenda will be notified, in the same format as prescribed for the publication of this notice of call, at least ten days prior to the date set for the Shareholders' Meeting. The further proposals for resolution on topics that are already on the agenda will be made available to the public according to legal procedures, simultaneous to the publication of the news of their submission.

DOCUMENTATION

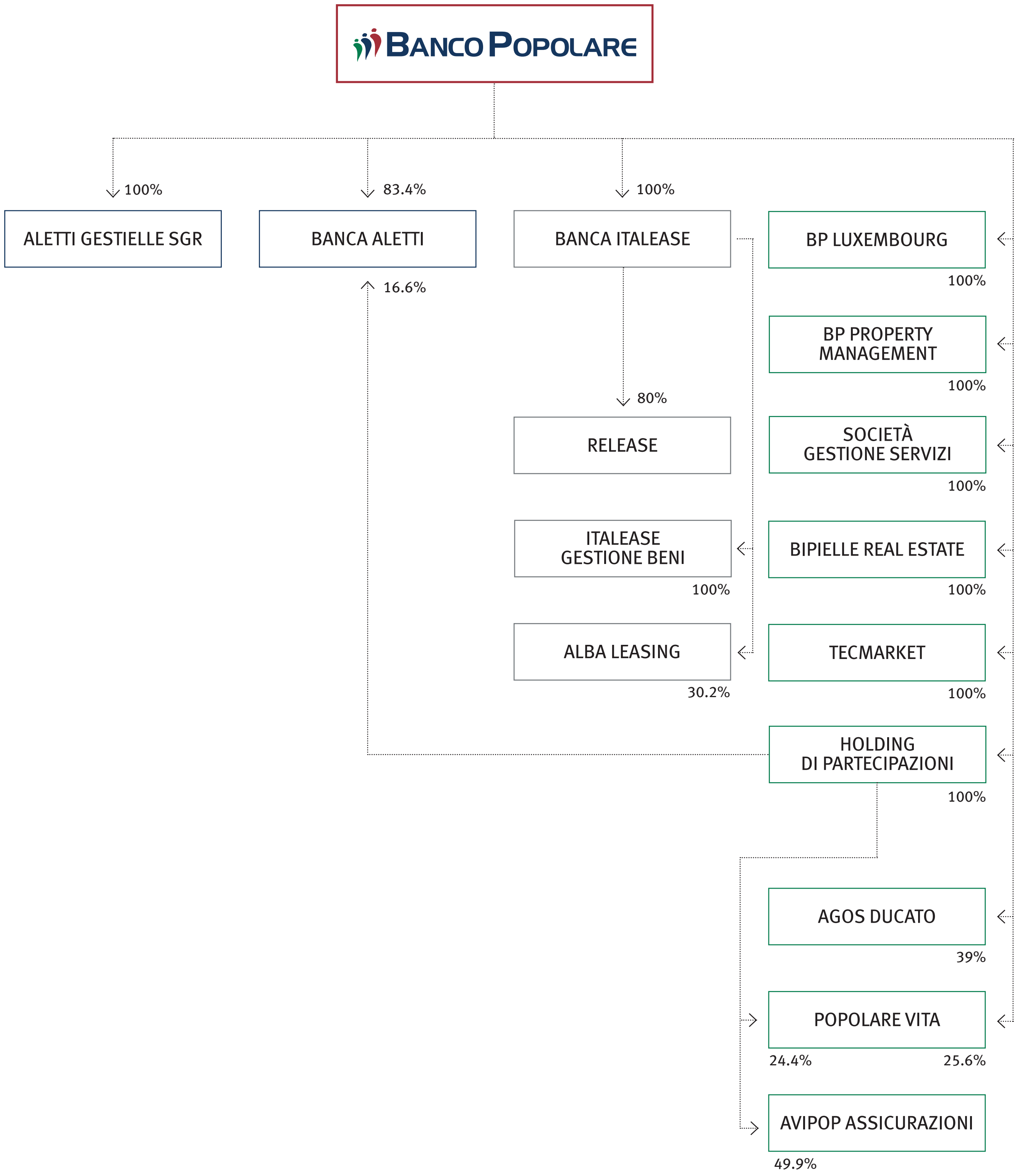
The reports of the Directors on each of the topics on the agenda as well as other documentation, including proposals for resolution, the publication of which is envisaged prior to the Shareholders' Meeting, will be made available to the public at the registered office of Banco Popolare and at Borsa Italiana S.p.A., as well as published on Banco Popolare's website (www.bancopopolare.it "*Corporate Governance – Shareholders' Meetings*" section), and on the authorised internet storage mechanism, www.1info.it, according to the terms and procedures envisaged by legislation in force. Once said deposit has been made, Shareholders have the right to obtain a copy of the above documentation.
This notice of call is published, pursuant to art. 125-*bis* of the Consolidated Law on Finance and art. 22 of the Articles of Association, in the daily newspapers "Il Sole 24 Ore" and "MF" as well as according to the methods described above.

Verona, 4 March 2015

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

REPORT ON OPERATIONS AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR

GROUP STRUCTURE: MAIN COMPANIES



GROUP STRUCTURE: BUSINESS LINES

COMMERCIAL NETWORK

BANCO POPOLARE

BPV division (North East)
BPL division (North and Centre)
BPN division (North West, Centre and South)
CB division (Bergamo)

INVESTMENT & PRIVATE BANKING ASSET MANAGEMENT

BANCA ALETTI

ALETTI GESTIELLE SGR

LEASING

BANCA ITALEASE

RELEASE

ASSOCIATED COMPANIES

- Alba Leasing

CORPORATE CENTRE AND OTHER

BANCO POPOLARE

GROUP FUNCTIONS
- Group Finance
- Securities portfolio
- Institutional funding
- Custodian bank

FOREIGN BANKS

PRODUCT AND REAL ESTATE COMPANIES

- Società Gestione Servizi
- Bipielle Real Estate

ASSOCIATED COMPANIES

- Agos Ducato
- Popolare Vita
- Avipop Assicurazioni

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

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

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

The CB division works with the trademark: Credito Bergamasco.

GROUP TERRITORIAL NETWORK

Figures as at 31 12 2014

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

TERRITORIAL DEPARTMENT
BANCO S.GEMINIANO E S.PROSPERO

Banca Popolare di Novara
Banco Popolare Siciliano

TERRITORIAL DEPARTMENT
CENTRE SOUTH (ROME)

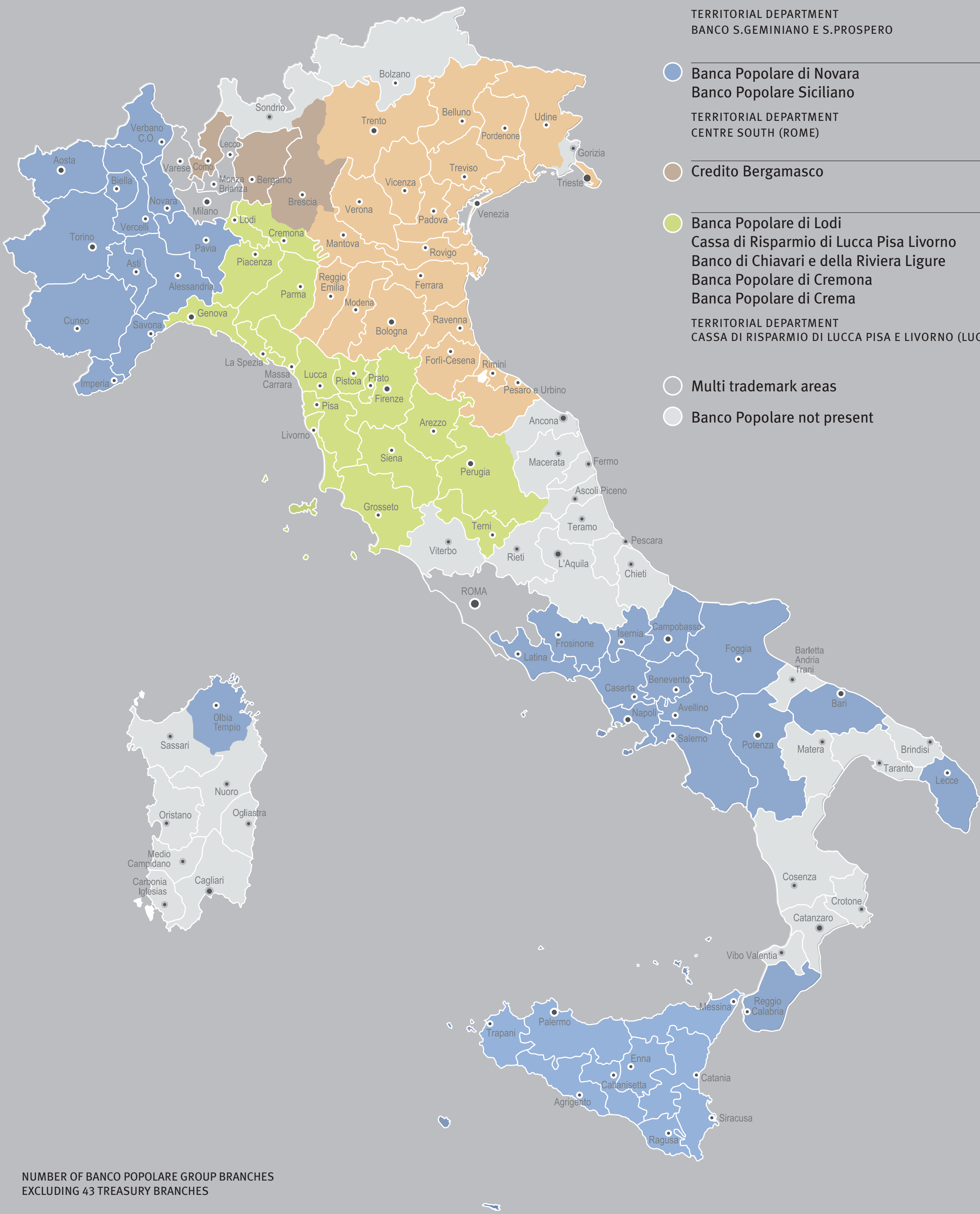
Credito Bergamasco

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

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

Multi trademark areas

Banco Popolare not present



NUMBER OF BANCO POPOLARE GROUP BRANCHES
EXCLUDING 43 TREASURY BRANCHES

Banco Popolare	1,778
Banca Aletti	34
Total	*1,812*

Banco Popolare Group Branches (*)	Number
Banco Popolare	1,778
Banca Aletti	34
Total	**1,812**

(*) Excluding 43 treasury branches

Presence abroad

Operations abroad are carried out by subsidiaries BP Luxembourg, Banca Aletti Suisse and a branch of Banco Popolare in London.
The Group's presence on markets of interest for Italian exports takes the form of Representative Offices in China (Hong Kong and Shanghai), India (Mumbai) and Russia (Moscow).

GROUP FINANCIAL HIGHLIGHTS AND ECONOMIC RATIOS

Highlights

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

(in millions of euro)	31/12/2014	31/12/2013	Change
Income statement figures			
Financial margin	1,645.6	1,619.6	1.6%
Net fee and commission income	1,385.4	1,387.1	(0.1%)
Operating income	3,385.9	3,584.6	(5.5%)
Operating expenses	(2,269.3)	(2,253.8)	0.7%
Income (loss) from operations	1,116.6	1,330.7	(16.1%)
Income (loss) before tax from continuing operations	(2,760.8)	(543.5)	407.9%
Net income (loss) without FVO	(1,919.9)	(510.5)	276.1%
FVO Impact	(26.0)	(95.8)	(72.9%)
Net income (loss)	(1,945.9)	(606.3)	220.9%

(in millions of euro)	31/12/2014	31/12/2013	Change
Statement of financial position figures			
Total assets	123,081.7	126,042.7	(2.3%)
Loans to customers (gross)	87,661.2	91,582.8	(4.3%)
Financial assets and hedging derivatives	26,190.6	24,590.1	6.5%
Shareholders' equity	8,064.2	8,173.6	(1.3%)
Customers financial assets			
Direct funding	86,513.5	90,017.7	(3.9%)
Indirect funding	66,476.0	63,843.2	4.1%
- Asset management	32,552.6	28,761.7	13.2%
- Mutual funds and SICAVs	15,539.4	12,868.2	20.8%
- Securities and fund management	6,716.1	6,530.6	2.8%
- Insurance policies	10,297.1	9,362.8	10.0%
- Administered assets	33,923.4	35,081.5	(3.3%)
Information on the organisation			
Average number of employees and other staff (*)	17,575	18,038	
Number of bank branches (**)	1,858	1,990	

(*) Weighted average calculated on a monthly basis. This does not include the Directors and Statutory Auditors of Group companies.
(**) Including treasury and foreign branches.

[1] It should also be noted that on 24 July 2014, the International Accounting Standard Board ("IASB") issued the final version of the new accounting standard "IFRS 9 – Financial Instruments". One of the changes introduced by the new standard is the elimination of income statement volatility resulting from changes in creditworthiness. The latter changes will now be recognised directly as changes in shareholders' equity, without passing through the income statement. Companies may apply this new approach for recognition of the same even before implementing the other changes introduced by the new accounting standard. The standard must be applied from 1 January 2018, however early application will be permitted as soon as the same has become part of Community regulations. The proposed presentation of income statement figures therefore anticipates the expected change in the accounting recognition of this particular phenomenon, immediately providing an income statement result that is free of the impact of changes in creditworthiness.

Financial and economic ratios and other Group figures

	31/12/2014 (*)		31/12/2013 (*)
Profitability ratios (%)			
Financial margin / Operating income	48.60%		45.18%
Net fee and commission income / Operating income	40.92%		38.70%
Operating expenses / Operating income	67.02%		62.88%
Operational productivity figures (000s of euro)			
Loans to customers (gross) per employee (**)	4,987.8		5,077.2
Annualized operating income per employee (**)	192.7		198.7
Annualized operating expenses per employee (**)	129.1		124.9
Credit risk ratios (%)			
Net bad loans / Loans to customers (net)	7.52%		6.42%
Net substandard loans / Loans to customers (net)	8.34%		7.69%
Net bad loans / Shareholders' equity	74.40%		67.64%
Capitalisation ratios (***)			
Common equity tier 1 ratio (CET1 capital ratio)	11.87%		n/a
Core tier 1 ratio	n/a		9.70%
Tier 1 capital ratio	12.26%		10.60%
Total capital ratio	14.62%		13.34%
Tier 1 capital ratio / Tangible assets	4.86%		4.22%
Other ratios			
Financial assets / Total assets	21.28%		19.51%
Derivative assets / Total assets	2.94%		3.53%
- trading derivatives / total assets	3.19%		3.63%
- hedging derivatives / total assets	3.04%		0.39%
Net trading derivatives / Total assets	2.50%		0.63%
Gross loans / Direct funding	101.33%		101.74%
Banco Popolare stock			
Number of outstanding shares	362,179,606		1,763,730,870
Official closing prices of the stock			
- Maximum	15.78	(****)	1.56
- Minimum	8.97	(****)	0.89
- Average	12.05	(****)	1.20

(*) The ratios were calculated excluding the economic effect of the FVO.
(**) Arithmetic average calculated on a monthly basis which does not include the Directors and Statutory Auditors of Group companies.
(***) From 1 January 2014, new prudential regulations ("Basel 3") came into force, therefore the capital ratios as at 31 December 2014 are not comparable to those that refer to 31 December 2013.
(****) Stock underwent a grouping operation, at a ratio of 1 new share for every 10 existing ordinary shares. Furthermore, two share capital increases were completed in the first half of the year. The prices of Banco Popolare stock prior to 31 March 2014 (start date of share capital increase and detachment of the relative rights) have been amended by applying the adjustment factor provided by Borsaitaliana (0.757143).

GROUP REPORT ON OPERATIONS

ECONOMIC SCENARIO

The international scenario

At the beginning of 2014 the majority of forecasts indicated stronger growth in both developed and newly industrialised countries; however, over the course of the year, the forecasts were downsized, and in almost all cases, with the exception above all of the United States, prospects become increasingly uncertain. It became clear early in the second half of the year that 2014, like 2013, was going to be a year of transition and not of an economic turnaround, characterised by fairly different growth rates: persistent weak growth in the Eurozone and in Japan, a slowdown in China and in numerous emerging countries and vigorous growth instead in the United States and Great Britain. Geopolitical tensions resulting from the crisis in the Ukraine and in the Middle East contributed to increasing uncertainty. In Russia, the international sanctions, combined with the sharp fall in the price of crude oil, led to a brusque halt to the economy and the collapse of the rouble, decimating the demand for its goods in the international markets, with negative repercussions for its trading partners, including, to a considerable extent, Italy. Overall, these circumstances resulted in a slight slowdown of global economic growth. Global GDP, according to initial shared estimates, has increased by 3.0%, compared to 3.1% recorded in 2013.

More specifically, based on initial estimates, in the United States, GDP rose 2.6% in the last quarter, establishing progress for the year as a whole at 2.4% (+2.2% in 2013), after a particularly good performance in the 3rd quarter (+5.0% annualised) and in the 2nd quarter (+4.6%), which more than compensated for the disappointing result in the first quarter (-2.1%). This growth was achieved due to the significant rise in private consumption, +4.3% (+2.4% in the corresponding period of 2013) and to the stability of private fixed non-residential investment, +1.9% (+3.0%). The positive trend in consumption also reflected the uptrend in the labour market: over the course of 2014, the growth in employment was on average 246 thousand jobs per month, against a monthly average of 194 thousand in 2013, while the rate of unemployment and the number of unemployed fell by 1.1% and 1.7 million respectively. In December the rate of unemployment was 5.6%. The consumer price trend, despite the significant economic recovery, continued to be widely under control: again in December, due to a sharp slowdown in energy prices, which fell 4.7% month on month, prices fell by -0.4% on a monthly basis (-0.3% in November) while the yoy figure showed a considerable slowdown compared to the previous year: +0.8% against +1.5% recorded in December 2013.

With regard to the major economies, Japan, according to initial results, appears to have closed the year with an overall increase of 0.2% in GDP compared to the previous year (+1.6% in 2013) due to the combination of an acceleration in production investment, +4.5% (0.5% in 2013) and a slowdown in private consumption, -1.1% (+2.1% in 2013). Japan benefited from the continuing highly expansive orientation of monetary policy over the year, which finally managed to boost consumer prices, bringing Japan's economy out of deflation: initial estimates indicate a rise of 2.7% in 2014 against 0.4% in 2013.
In China, the growth of GDP slowed down, falling from 7.7% in 2013 to 7.4% in 2014, the lowest growth rate for a decade. Weaker domestic demand contributed to this, not entirely offset by the positive trend of foreign demand, not to mention the continuing signs of weakness shown by the real estate sector, which in the second quarter had benefited from incentive measures. In the BRIC, India's growth did not live up to the optimistic expectations of 5.8% for the end of the 3rd quarter: draft figures available indicate a rise of 5.5% in GDP, which in any event shows an acceleration over the 4.8% recorded in 2013. This result pushed the Indian economy over that of Japan, taking 3rd place in the world classification.
The slowdown in development in emerging countries and weaker growth in industrialised economies have impacted the performance of international trading, which appears to have closed the year with an increase of 2.9%, like in 2013, while inflation suffered from the downtrend of commodity prices. More specifically, oil prices fell significantly from the beginning of the second half of the year: the price of Brent crude oil, after recording a price of 93 at the end of September, then fell from a peak of 115 in mid-June to closing the year at around 57 dollars a barrel.

The situation in Europe and Italy

After starting the year on a positive note, marked by a rise in GDP in the first quarter of 1.0% yoy (+0.2% compared to the last quarter of 2013), in the next two quarters, also following the downturn of the German economy in the second, the economy in the Eurozone lost ground and the yoy growth rate fell, recording 0.8% in both quarters (a rise of +0.1% and +0.2% respectively against the previous quarters). More specifically, draft estimates available today indicate a rise of 0.8% of GDP at year end (-0.4% in 2013), driven, as mentioned previously - mainly by private consumption, which is estimated to have risen 0.9%, while investment is estimated to have increased by 0.7%.
The continuing weak trend of the Euro was not sufficient to boost trading volumes, with falling demand from emerging economies, which continued to the end of the year. The situation was exacerbated by the cited trade sanctions adopted against Russia. Overall foreign demand, the most lively component and a growth driver, therefore slowed down, damping the stimulus to Eurozone economies. Internal demand continued to be weak: investments did not respond to the stimuli originating from exports and its trend was only sustained by consumption. The latter was boosted by the

improvement in employment figures, and by the growth of wages in real terms, made possible by the slowdown of the consumer price trend, also due to the fall in energy prices.
Inflation recorded a further fall: -0.2% yoy as at December 2014, with an average for the year of 0.5%, against 1.3% in 2013. The labour market continued to record improvements, albeit modest, and the rate of unemployment, according to initial estimates, fell from 12.0% in 2013 to 11.6% at the end of 2014.

In Italy, over the year, despite the factors of uncertainty already mentioned, which had a negative impact on international trading, the still positive performance of foreign trade continued to sustain the tone of the economy. Nevertheless, given the high margins of unused capacity, the stimulus provided by exports was not sufficient to trigger a virtuous cycle of increased investment in production. Given the uncertainty of domestic demand, particularly in the construction industry, enterprises opted to keep the production base substantially unchanged, or even to reduce it. Only the more export-oriented sectors recorded a more lively trend in renewing or extending production facilities. Household consumption, on the other hand, continued slowly along the road to recovery, which it undertook in the third quarter of 2013, although spending decisions continue to be impacted by the difficult employment situation and uncertain economic prospects. An improvement to the underlying framework was seen in the first quarter, following the appointment of the new Executive which, amongst other things, launched several measures to sustain households with medium-low incomes (the 80 euro provision).
Therefore GDP, after a marginally negative performance in the first half of the year, fell further in the third quarter by 0.1% compared to the previous quarter (-0.5% compared to the same quarter of the previous year) and estimates indicate that the fall is likely to continue in the last three months of the year. Based on estimate available today, 2014 is expected to close with a 0.4% fall in GDP, another negative figure, although less severe than the -1.9% recorded in 2013. The previously mentioned positive trend in household consumption, expected to record a 0.3% increase after three years of decline and sustained by an improvement in income in real terms, contributed to sustaining domestic demand. However, the above-cited uncertainty of the economic scenario led to a further fall in investment in machinery and equipment of -1.6%, albeit an improvement on the -3.8% recorded in 2013.
In the summer months of 2014, the number of people employed rose, albeit slightly, after several quarters of substantial stagnation. The total number of hours worked finally rose in industry in the narrow sense, and in private services. However, in the last quarter, the renewed fall in the number of people employed, combined with an increase in the supply of jobs, had a negative impact on the rate of unemployment, which for 2014 is estimated to have risen to 12.6% against 12.2% in 2013. The labour force for the year in question has risen by 0.5%.
The consumer price trend reflected the state of deflation linked to the weakness of growth: in December consumer prices were unchanged compared to the same quarter of 2013, also due to the positive trend in energy prices. Overall, the average annual rate of inflation for 2014 was +0.2%, down by one percentage point over 2013 (+1.2%).
Lastly, as regards public finances, lower spending over the year enabled a reduction of euro 3.5 billion in the cash requirement of the state sector, according to initial estimates, compared to 2013. This enabled us to comply with the 3% threshold for net indebtedness against GDP, imposed by the Fiscal Compact. Due to the significant fall in debt in December, due to the surplus recorded by the Public Administration and the fall in available liquidity of the Treasury, the debt to production ratio should have closed the year at around 131.6% against 127.9% at the end of 2013.

Monetary and economy policy interventions

Over the year, monetary policies in the United States and the Eurozone continued to maintain an expansive orientation, although the paths of the same differed. In fact, over the course of the year, the Federal Reserve, given the improvement in the employment situation and the strengthening of the US economy, started to reduce the exceptional monetary incentives related to the “Quantitative easing” (QE) programme, known as “tapering”. These measures were however implemented slowly and gradually, in order to not to impact the underlying stability of the financial markets and not to trigger sharp changes in the expectations of financial operators. From January 2014, the FED gradually reduced monthly purchases (USD 85 billion) of mortgage-backed securities (MBS) and long-term Treasury bonds, completing the programme in November. The policy interest rate in the meantime continued to fluctuate in a range of between 0 and 0.25%, as did the discount rate, which was unchanged at 0.75%.
At the same time, in the Eurozone, in order to respond to the risk of deflation in the area and to re-launch credit to sustain economic activity, the ECB assessed the adoption of ordinary and extraordinary expansive measures, in the presence of a mechanism to convey monetary incentives that is still not fully operational. A wide number of differing measures were implemented during the year. At the beginning of June, the Central Bank decided to cut the interest rate on main refinancing operations to 0.15% and to bring the interest rate on deposits to a negative -0.10%, to push banks to disburse greater credit. To increase market liquidity, it interrupted the sterilisation of the SMP (Securities Market Program) - which had an immediate impact on liquidity of around euro 160 billion - extending MRO (“main refinancing operations”) and announcing the TLTRO programme (Targeted Longer-Term Refinancing Operations), refinancing operations which seek to disburse credit to the non-financial sector of the Eurozone, extended to 2016. The first two longer-term refinancing operations, in September and December, resulted in the disbursement of funds to intermediaries of euro 82.6 billion and euro 129.8 billion respectively - of which euro 28.7 billion disbursed in both cases to counterparties of the Bank of Italy. In September, the Executive board of the ECB further reduced the official interest rates, bringing the interest rate on main refinancing operations to 0.05%, a new record low since the birth of the Euro, and that on bank deposits to -0.20%.

Furthermore, the ECB undertook to adopt new unconventional measures to fully reactivate the flow of credit to the economy and to extend the Eurosystem's statement of financial position by means of a programme to purchase - with a time horizon of at least two years - securities issued following the securitisation of bank loans to enterprise and households (Asset-Backed Securities Purchase Programme) and covered bonds (Covered Bond Purchase Programme).

Against continuing signs of falling inflation and a weak trend of credit disbursement in the Eurozone, a lively debate arose in the Eurotower on the opportunity of extending unconventional monetary policy interventions to the purchase of Government bonds of partner countries, launching so-called European Quantitative Easing (QE). The discussion saw differing opinions between several members of the Executive board, first and foremost the Germans, who were against the initiative, and the Governor, with a more positive approach, in agreement with the majority of members. The arguments against the initiative sustained that European treaties do not permit the mutualisation of risks, as well as the danger of inducing countries that must implement reforms to slow down the relative process. The arguments in favour, which are based on the obligation of the ECB to pursue its primary statutory objective of price stability against the growing risk of deflation, convinced the parties involved that the purchase of Government and public agency bonds was a way of complying with the statutory constraint as regards price stability around 2%.
However, the ECB had to find an unassailable formula to make the programme work. It was therefore conceived in such a way as not to improve - as far as possible - the solvency of Member States, nor to compensate the poor competitiveness of systems and, above all, not to be a replacement for structural reforms, taking the form of a pure and simple injection of liquidity, the majority of risks of which, 80%, fall on national central banks, while the European Central Bank would only be exposed to 20% of potential losses.

There was also considerable debate on regulatory initiatives. On the first of November 2014, the Single Supervisory Mechanism (SSM) become officially operational, a mechanism which seeks to encourage the application of a single body of prudential supervisory regulations to credit entities, with a view to improving the solidity of the banking system in the Eurozone. The transfer of the responsibility for supervising credit institutions in the Eurozone to the ECB represents the completion of the first pillar of the European Banking Union. The European Banking Union has set itself a wide number of objectives, although the most immediate one is to interrupt the vicious cycle that can be established between the banks and the sovereign debt market. In the longer term, the Banking Union is seeking to re-launch the process of European financial integration. The Single Resolution Mechanism (SRM) was also approved, the second of the three pillars of the European Banking Union, while the third pillar, the establishment of a single deposit guarantee system, has been achieved, but on a smaller scale than the initial project, as the maximum harmonisation of the functioning of national guarantee systems was retained sufficient.
The entry into operation of the SSM was preceded by an examination of the statement of financial position assets of the banks by the ECB itself through an Asset Quality Review (AQR) process. The overall assessment conducted by the European Central Bank (in coordination with national central banks) verified the solidity of the major banking institutions in Europe, to identify the presence of immediate emerging factors which put the stability of the European credit system at risk before it takes over responsibility for banking supervision in the Eurozone. The review in question was then followed by a series of stress tests, conducted by the EBA in collaboration with the European Central Bank. On the basis of the results of the stress tests, the ECB and the EBA asked several banks to strengthen their equity positions or to make greater provisions.

Financial market performance

The numerous initiatives of the ECB impacted the conditions of the money, securities and financial markets. In the face of the differences between the economic situations and the monetary policy orientations of the FED and the ECB, the European currency gradually weakened over the course of the year against the US dollar, and depreciated over 13% against the maximum levels seen in the Spring, closing the year at around 1.20, and then weakening still further in the following weeks. As a result of the numerous expansive measures set in place by the ECB over the course of 2014, and operators' increasing expectations of a QE programme in the Eurozone as well, the Treasury interest rates in the Eurozone fell even further over the year. This applied above all to the peripheral countries, where spreads against the German Bund continued to decrease, with the notable exception of that against Greek bonds, which rose sharply at the end of the year, following the calling of new elections in the country.
The yield on 10-year BTP, which fell steadily over the course of the past twelve months, recorded a low for the period of 1.9% at year end, then falling even further in January; the spread with the 10-year Bund fell in December to around 120 b.p. The relative strength of the dollar and the huge amount of liquidity on the market led to a reduction of yields on US Treasury bonds as well, with 10-year Bonds at around 2.2% at year end, despite the tapering and expectations of a rise in interest rates in 2015 policy and in spite of the robust economic recovery underway.
The huge amount of liquidity made available also impacted the stock markets, which recorded excellent progress in the United States, where the Standard & Poor's 500 index closed the year around 2,050, with an increase of over 11% with respect to the beginning of 2014. In Europe, share prices fared less well: the DAX recorded modest performance over the year (+2.7%), while the Italian market index, the FTSE-MIB, closed the year at the same levels as it opened it. The drop in perceived risk in the financial markets, reflected by the above-mentioned fall in Treasury interest rates and by the improvement in share prices, also impacted corporate bond rates, which fell further, after the excellent results of the previous year.

In the last quarter, the international financial markets, which had been relaxed for some time, returned to a relatively tense situation. Reduced economic growth and the absence of a sufficiently lively price trend, able to facilitate an end to macroeconomic imbalances, both at global and Eurozone level, were combined with, as mentioned, heightened uncertainties as to the political and financial situation in Greece. The sharp fall of oil prices contributed to this uncertain situation. Investors temporarily resumed their preference for safer securities, such as German bonds, pushing yields to new record lows, of around 0.5% at the end of the year. The spread between 10-year Italian Government bonds and German ones temporarily increased, and then started to fall again. The securities market was also fairly volatile: after having recovered in the summer from the fall triggered by the deterioration of conflicts in the Ukraine and the Middle East, from the second half of September, share prices started to fall, later recovering towards the end of the year.

Domestic banking scenario

Over the course of 2014, the demand for loans was slowed down by the consistent factors of uncertainty that enterprises had to face, exacerbated by the weakness of the construction industry, despite a relative damping of the downtrend in home prices. As mentioned, similar conditions led enterprises to postpone investment decisions, thus delaying the cycle of capital accumulation and having a negative impact on their demand for loans. The further weakening of the economy slowed the demand for working capital financing down even further. As regards households, on the other hand, the improvement in confidence which characterised the period up until after the Spring, due to the uptrend of the labour market, sustained the demand for mortgage loans.
In terms of supply, signs of improvement in conditions were seen, as well as a situation in which banks were more willing to disburse funds. Overall, the encounter between supply and demand led to a marginal increase in loans to households and non financial companies: more specifically, based on figures provided by the ABI (Italian Banking Association), the stock of bank loans at the end of December rose by 0.1% yoy, an improvement on the -0.4% recorded in November. Similar increases were recorded for all loan durations: short term loans rose by 0.08%, while medium-long term loans recorded an increase of 0.11%.

Over the period, the low profile of the domestic economic scenario continued to impact the quality of bank credit, although at a slower pace than before. In fact, while the amount of new bad loans against total loans to companies, which had reached a record high the previous year, continued to fall, figures for gross bad loans showed a further deterioration. In November, gross bad loans reached euro 181.1 billion, recording 21.1% increase yoy, while net bad loans amounted to euro 84.8 billion, up by 12.2% against the figure twelve months previously. The net bad loans to total loans ratio rose from 4.05% in November 2013 to 4.67% in November 2014.
Over the course of the year, the improved perception of Italy-risk in the interbank markets, especially after the launch of the new Executive and the economic measures implemented, led to the partial relaxation of funding constraints on both the interbank markets and as regards direct retail funding. Nevertheless, total direct funding, given by the sum of deposits and bonds fell, as at December, by 1.6% against the end of the previous year, resulting from a 3.6% rise in resident customer deposits and a -13.8% fall in bond funds.
As regards the different types of funding, current account deposits rose, at year end, by 7.9% yoy, showing the customer's greater propensity for liquidity. Term deposits, given by the sum of deposits with a fixed term and those redeemable with notice, net of those related to securitisation operations, fell by -3.3% compared with twelve months earlier, with a more marked fall in the fixed term component (-10.5%). Overall, the change in the percentages represented by bonds and deposits, in favour of the latter, together with the preference shown for current account deposits, characterised by more modest earnings, pushed down the cost of funding, eroding it over the course of the year.

Italy's lower perceived risk, combined with the expansive measures guaranteed by the ECB to revitalise the credit transmission mechanism, influenced the trend of bank interest income and expense rates. The cost of loans fell, following the fall in official rates, even though the improvement in credit conditions did not have a significant influence on smaller companies. More specifically, the average interest rate on loans in euro to retail customers and non-financial companies fell 21 b.p., from 3.82% in December 2013 to 3.61% in December 2014. The average rate on bank deposits of retail customers and non-financial business customers fell 39 b.p., from 1.88% in December 2013 to 1.49% in December 2014. This was the result of a combination of a drop of 26 b.p. of interest rates on deposits in euro (from 0.97% to 0.71%) and a fall of 28 b.p. of average interest rates on bank bonds (from 3.44% to 3.16%). Accordingly, the spread between interest income and expense rates increased by 18 b.p., recording 2.12% in December 2014 against 1.94% one year previously. The mark-up – given by the difference between the average interest rate on loans in euro to retail customers and non-financial companies and the 3-month Euribor interest rate – was substantially stable, at 353 b.p. from 354 b.p. at the end of 2013, while the mark-down – given by the difference between the 3-month Euribor interest rate and the average interest rate on deposits by private customers – fell by -141 b.p., an improvement on the fall of -160 b.p. in December 2013.

In the first half of the year, the equity situation of the banking industry finally improved due to the completion of several different share capital increases: based on consolidated half-yearly reports, in June, the Common Equity Tier 1 ratio of the five major banking groups was 12.0% on average; the new Tier 1 ratios and the total capital ratio were 12.5% and 16.2% respectively. This improvement of the equity structure means that now only two Italian banking groups are not in line with the minimum capital requirements envisaged by the European Banking Authority in conditions of stress, as part of the tests conducted jointly with the ECB and EBA, the results of which were announced towards the end of October.

Lastly, the asset management segment closed 2014 on a particularly positive note, with total net deposits of euro 128.7 billion, while Italian and foreign mutual funds amounted to euro 87.5 billion. Assets invested in open-ended Italian and foreign mutual funds amounted to euro 724.6 billion at the end of December 2014 against euro 602.0 billion one year earlier.

SIGNIFICANT EVENTS DURING THE YEAR

The main events which characterised the Group's operations and results in 2014 are without a doubt the entry into force of the new prudential supervisory provisions and the entry into operation of the Single Supervisory Mechanism (hereinafter also SSM).
As regards supervisory legislation, over the course of 2013, Community institutions approved directive 2013/36/EU, known as "CRD IV", and (EU) Regulation no. 575, known as "CRR", which transpose the standards established by the Basel Committee for bank supervision (so-called Basel 3 Framework) into the European Union. The new provisions came into force on 1 January 2014 in accordance with the instructions established by the Bank of Italy in circulars 285 ("New Supervisory Provisions for banks") 286 ("Instructions on preparing prudential reports for banks and asset management companies") published at the end of 2013. Starting from reporting as at 31 March 2014, "Own Funds" are calculated according to the new regulations.
In terms of supervision, starting from 4 November 2014, in accordance with EU Regulation no. 1024/2013, the European Central Bank (hereinafter also ECB), with the assistance of the Bank of Italy, became responsible for the prudential supervision of banks identified as "significant" in the list published by the same ECB on 4 September 2014. Banco Popolare is on said list. The impact of this very important event, which was felt even before the formal launch of the SSM, insofar as it was anticipated by the performance, by the ECB, in collaboration with national supervisory authorities, of a preventive Comprehensive Assessment exercise addressed to verifying the adequacy of the capitalisation levels of "significant" banks.
Given the above, Banco Popolare's prime objective in the first half of the year was to finalise the measures to strengthen its capital base that had already been launched at the end of the previous year and which are illustrated below.

Redemption of the convertible bond and share capital increase

At the meeting held on 24 January 2014, Banco Popolare's Board of Directors resolved to fully redeem the Banco Popolare 2010/2014 4.75% convertible bond through payment in cash. At the natural maturity date of the loan (24 March 2014) each outstanding convertible bond was therefore redeemed through payment of an amount equal to the nominal value (euro 6.15 each), for a maximum total of euro 996 million in addition to interest at the rate set out in the Regulations of the loan.
At the same meeting, the Board approved a share capital increase for a maximum amount of euro 1.5 billion, through the issue of ordinary shares to be offered under a payment option to shareholders. Furthermore, to simplify the administrative processes of managing the high number of shares issued, the Board of Directors resolved on a reverse share split of 1 new ordinary share with standard entitlement for each 10 existing ordinary shares, to be executed prior to the launch of the offer under option.

The proposed share capital increase was submitted to the Extraordinary Shareholders' Meeting on 1 March 2014, which approved the same with a large majority, assigning the Board of Directors the power, pursuant to art. 2443 of the Italian Civil Code, to increase the share capital by up to the maximum amount previously indicated, by the end of 24 months from the date of the shareholders' meeting resolution, and the power to establish, closer to the offer, the issue price of newly-issued ordinary shares, the option ratio and entitlement.
On 4 March, the Board of Directors resolved, in accordance with the resolution of the Extraordinary Shareholders' Meeting on 1 March and following the approval issued by the Bank of Italy, to proceed with the share capital increase for the total amount of euro 1.5 billion, and at a subsequent meeting held on 27 March, it approved the final conditions for the offer under option. More specifically, the Board of Directors resolved to increase the share capital, on a splittable basis, for a maximum counter value of euro 1,498,263,975 in a single tranche, to be allocated entirely to the share capital, through the issue of a maximum of 166,473,775 ordinary Banco Popolare shares to be offered under option to shareholders, at a swap ratio of 17 shares for each 18 shares held, at a price of euro 9 each, corresponding to a discount of 30.70% with respect to the "theoretical ex right price".
The new shares have standard entitlement (1 January 2014) and the same characteristics as the ordinary shares in circulation at the time of issue.

The offer under option ended on 17 April with the subscription of 99.138% of the total shares offered, at a total counter value of euro 1,485,346,797. In the space of just two days, all of the 1,519,668 rights not exercised during the option period were then also sold. The share capital increase was therefore successfully concluded on 29 April 2014 with the full subscription of the 166,473,775 shares at a total counter value of euro 1,498,263,975, without the intervention of the consortium of banks that had guaranteed the placement.

In accounting terms, the above operation led to an increase of the Group's capital resources (share capital and share premium) of euro 1,459.4 million; in actual fact, both the transaction costs directly incurred for the share capital increase and the income resulting from the sale of unopted rights, both net of the relative tax, are recognised in the share premium reserve. As at the date of this report, the cited components led to a net deduction from the share premium reserve of euro 39 million.

Share capital increase following the incorporation of the subsidiary company Credito Bergamasco

The operations, which is also illustrated in more detail in the next chapter on “Events relating to the process to simplify corporate structure and organisation”, became effective as of 1 June 2014 and entailed a further share capital increase for Banco Popolare totalling euro 300,582,215 through the issue of 19,332,744 new ordinary shares allocated to shareholders of Credito Bergamasco. In accounting terms, the cited exchange operation represents a transaction between shareholders in accordance with accounting standard IFRS 10 and therefore led to a reduction of minority shareholders’ equity (namely minority shareholders of Credito Bergamasco) and a corresponding increase in group equity of euro 289.3 million. The net transaction costs directly related to the merger operation, which amounted to euro 2.8 million, were deducted as a balancing entry from other reserves of shareholders’ equity. As a result of this operation, Common Equity Tier 1 Capital (for short CET1 Capital), a key indicator in the valuation of the level of capitalisation of a bank pursuant to Basel 3, was strengthened, as a component subject to a calculation threshold (minority shareholders’ equity) was replaced by a component which is not subject to a calculation threshold (share capital).

Bank of Italy authorisation for the use of the internal model to calculate the capital requirement for operating risk

In a notice dated 5 August 2014, the Bank of Italy informed Banco Popolare of its authorisation for the use of the internal model to calculate the capital requirement for operating risk (Advanced Measurement Approach - AMA).
Banco Popolare had submitted a formal request in April, accompanied by an implementation plan, in which the use of AMA methods is initially envisaged for the Parent Company and the subsidiaries Credito Bergamasco, Banca Aletti, SGS BP and BP Property Management, to be later extended to Aletti Gestielle SGR and to Banca Italease, on the basis of a gradual programme of application, which is envisaged to be completed by December 2015.
The authorisation has been given for individual and consolidated reporting related to 30 June 2014, enabling the weighted risk assets resulting from the assessment of the above type of risk to be reduced and therefore guaranteeing a reduction in the capital requirement, estimated to be over euro 100 million.

The Results of the Comprehensive Assessment

On 26 October 2014, the Supervisory Board and the Governing Council of the ECB approved the Final Report and Results of the Comprehensive Assessment exercise.
The publication of the results at European level by the ECB and the EBA was followed by the publication of the results of the Italian banks participating in the exercise by the Bank of Italy.
On the basis of the actual figures taken from the disclosure submitted to the markets by the Bank of Italy, Banco Popolare passed the exercise by a wide margin, obtaining the following indicators:

- CET1 ratio post AQR of 11.50% compared to a minimum threshold required of 8.0% (a surplus of +350 b.p. corresponding to over euro 1.8 billion);
- CET1 ratio post Stress Test impact conducted according to the baseline scenario of 10.26% compared to a minimum threshold required of 8.0% (a surplus of +226 b.p.);
- CET1 ratio post Stress Test impact conducted according to the adverse scenario of 8.29% compared to a minimum threshold required of 5.5% (a surplus of +279 b.p.).

As indicated by the ECB in its notice, the shortfalls that emerged as regards the equity situation of Banco Popolare as at 31 December 2013, have been totally recovered by the capital strengthening measures taken in the first half of 2014, including the share capital increase of euro 1.5 billion completed in April and the sale of the foreign subsidiary BP Croatia, finalised in April.

The results of the Comprehensive Assessment exercise with reference to Banco Popolare and the relative impact on the accounts are illustrated in detail in the section called “Results - Shareholders’ equity and solvency coefficients” in this report on operations, to which we refer.

The Comprehensive Assessment exercise, which Banco Popolare passed with flying colours, with surplus regulatory capital estimated to be around euro 1.2 billion, nevertheless represented the starting point for the supervisory activities performed by the ECB. In fact, the Supervisory Body invited the banks that participated in the exercise to conduct a careful analysis of the detailed results of the Asset Quality Review (hereinafter also AQR). Said analysis, combined with further recommendations made by the Supervisory Body and considerations on the new competitive arena in which Banco Popolare will have to operate, are behind the significant negative economic results recorded in the fourth quarter of the year and illustrated below.

The launch of the Single Supervisory Mechanism and the impact of the analysis of the Asset Quality Review results

As requested by the Supervisory Body, in the fourth quarter, after receiving details of the AQR results from the ECB, Banco Popolare conducted an in-depth analysis of the prudential adjustments totalling euro 1,603 million (gross figure before tax) emerging from the exercise. After establishing that almost all of the above-cited adjustments related to the level of coverage of credit exposures towards customers (euro 1,561 million), taking the recommendations made by the Supervisory Body into due account, the existence of a significant "regulatory shortfall" (euro 1.3 billion as at 30 September 2014) and given the new competitive scenario, it decided to make a series of interventions on the processes usually applied to classify and value loans, by adopting from the range of approaches relating to estimation processes permitted by the reference accounting standards, policies, models and valuation parameters that were partially different to those used prior to the preparation of the financial statements as at 31 December 2014. In line with that recommended by the Supervisory Body, the changes adopted were addressed to eliminating as far as possible the misalignment between valuations made for financial statement purposes and the so-called "ECB thresholds". The changes introduced, together with the usual revisions of the estimates of expected losses on loans in the light of more recent information that has become available, led to the recognition in the fourth quarter of net value adjustments on loans of euro 2.5 billion, generating, together with the recognition of the adjustments on goodwill and other assets, a net loss for the period of euro 1.8 billion, which brought the loss for the year as a whole to euro 1.9 billion.
Although the conservative valuation approach adopted had a significant negative impact on profitability for the period, it had a much lesser impact on Common Equity Tier 1 (CET1) Capital and the relative "fully phased" ratio. Against a loss in the fourth quarter of euro 1.8 billion, "fully phased" CET1 capital fell in the same period by only euro 358 million and the CET1 ratio accordingly recorded a reduction of 35 bps, settling at 11.3% against 11.7% as at 30 September 2014. This is due to the fact that credit exposures, based on prudential metrics, had already been valued at a lower level than the value allocated in the financial statements, by using the different rules envisaged by the reference accounting standards, giving rise to the so-called "shortfall". The decision to increase the level of coverage of exposures in the financial statements with the consequent negative impact on the economic result for the year was therefore significantly offset by the cancellation of the shortfall. The same principle applies, even more so, to goodwill and the other intangible assets that have always been wholly deducted from regulatory capital ratios.
In the end, the sacrifice in terms of profit resulting from the substantial full implementation of the quantitative indications emerging from the AQR, as regards valuation models – necessarily different to prudential ones – should be seen in the light of the Group's different positioning in the new supranational competitive arena. The capital base continues to be particularly solid, even after having significantly increased the average level of coverage of credit exposures relating to both non performing and performing loans.
The coverage ratio for the aggregate of non performing loans as a whole, including bad loans, which are partially derecognised, is 44.6% (showing a net increase both against the 37.6% recorded in December 2013 and against the 38.4% recorded in September 2014). The coverage ratio for performing loans also increased considerably, rising from 0.40% as at 31 December 2013 to the current 0.64%. Excluding exposures relating to repurchase agreements, securities lending and related parties from the calculation, which are substantially risk-free, the coverage ratio rises to 0.73% against 0.46% as at 31 December 2013.
The results of the Comprehensive Assessment exercise and the consequent impact on the accounts are illustrated in more detail in the section on "Results – Shareholders' equity and solvency ratios" contained in this report on operations.

The following paragraphs illustrate the other main events which characterised 2014.

Events relating to the process to simplify corporate structure and organisation

Merger of Credito Bergamasco into Banco Popolare

Verification of the Exchange ratio and decision on the formula for adjustment of the exchange ratio

Following the approval of the share capital increase of Banco Popolare described above, at the meeting of 17 February 2014, the Board of Directors assessed the impacts of the same on the Exchange Ratio and, more generally, on the merger by incorporation of Credito Bergamasco into Banco Popolare resolved previously.
Given that the final ratio could only have been expressly established at the end of the reverse share and share capital increase transactions underway at the time, after in-depth analyses conducted with the assistance of the advisor, the Board of Directors verified that the Exchange Ratio, on the assumption that the share capital increase and the related reverse share transaction are carried out, had been calculated on the basis of the following formula:

Exchange Ratio = [(1,763,730,870 + N) / 61,726,847 x 1 / 3.935] x 1 / Reverse Share Split Ratio

Where:

1) 1,763,730,870 = Banco Popolare shares issued at 14 February 2014;
2) "N" = new Banco Popolare shares issued for the share capital increase of euro 1.5 billion;
3) 61,726.847 = Credito Bergamasco shares issued at 14 February 2014;
4) 3.935 = ratio of the absolute value attributed to Banco Popolare to the absolute value attributed to Credito Bergamasco by the Board of Directors of Banco Popolare;
5) reverse share split ratio for Banco Popolare shares: corresponding to 10, i.e. 1 new ordinary share with standard entitlement for each 10 existing ordinary shares, to be executed prior to the launch of the offer under option.

The final Exchange ratio, established according to the above formula, was set by the Board of Directors of the Parent Company at a meeting held on 27 March as 1.412 ordinary Banco Popolare shares for each ordinary Credito Bergamasco share offered in exchange.
None of the Credito Bergamasco shareholders exercised their right to withdraw.

On the effective date of the merger, 1 June, Banco Popolare increased its share capital by a total amount of euro 300,582,215, through the issue of 19,332,744 new ordinary shares allocated to Credito Bergamasco shareholders. The ordinary shares of Credito Bergamasco were withdrawn from trading as of 2 June.

The finalisation of the above operation marks the completion of the project to simplify the corporate and administrative structure, launched by Banco Popolare in 2011 with the integration of the network banks into the Parent Company. The integration of Credito Bergamasco lays the foundations for the full enjoyment of the benefits resulting from the reduction of corporate complexity in term of fully rationalisation of Banco Popolare's distribution network and reduction of administrative costs, also resulting from centralising duplicate functions and tax burdens.

On 22 September, the IT migration of Credito Bergamasco to the target system of Banco Popolare was successfully completed and, on the same date, 9 branches of the Division were closed, as envisaged in the plan to rationalise the Group's branch network.

Merger of Banca Italease into Banco Popolare

In a meeting held on 1 April 2014, the Board of Directors of the Parent Company approved the proposal for the merger by incorporation of Banca Italease into Banco Popolare, made at the end of 2013. On 28 March, the Shareholders' Meeting of Banca Italease, in extraordinary session, had resolved to approve the proposed merger and therefore to proceed with the incorporation of the same into Banco Popolare.
The incorporation of Banca Italease will be performed with the simplified procedure envisaged by the Italian Civil Code for wholly-owned companies, insofar as Banco Popolare, following the transfer of the share of 14.657% of the share capital from Holding di Partecipazioni Finanziarie BP to the Parent Company finalised in April and the subsequent incorporation of Credito Bergamasco, in which Banca Italease held 2.923%, currently holds 100% of Banca Italease's share capital.
The merger of Banca Italease, which was originally expected to be legally effective from 24 November 2014, was postponed to the first quarter of 2015; it will take effect for accounting and tax purposes as of 1 January 2015.
At the same time, the integration of Banca Italease into Banco Popolare, from an organisational and IT perspective is also envisaged, through the establishment of a "Leasing Division", directly reporting to the Managing Director.

Merger of Aletti Trust into Aletti Fiduciaria

On 31 March, the merger by incorporation of Aletti Trust S.p.A. into Aletti Fiduciaria S.p.A was finalised, the merger will be effective for accounting and tax purposes as of 1 January 2014. The merger took place without an exchange ratio, or cash payment, and did not entail any share capital increase for the incorporated company, insofar as both companies are wholly owned by the parent company Banca Aletti.

Merger of RI Investimenti Due into Sviluppo Comparto 8

On 30 June, the merger by incorporation of RI Investimenti Due S.r.l. into Sviluppo Comparto 8 S.r.l. was finalised.
The merger, which took place without the exchange of shares or cash, resulted in the termination of the incorporated company, and the cancellation of its share capital; the merger will be effective for accounting and tax purposes from 1 January 2014.

Evolution of the network distribution model

In 2014, the project pertaining to the evolved form of the network distribution model, to reduce customer service costs, among other benefits, was able to provide proof of its effectiveness with the implementation of the numerous measures, including:

- the introduction of a more flexible Network distribution structure, with the use of a new "Hub and Spoke" model in about 70% of the Group Network;
- the conversion of over 110 branches into "Business Branches" and the consequent elimination of 76 Business Centres in the BPV, BPL and BPN Divisions;
- the closure of 9 Business Areas;
- the continuation of efforts to simplify and develop the "chain of responsibility" by adopting an approach of "Private Individuals" and "Enterprises", abandoning the "Retail" and "Corporate" classification and centralising the management of Large Corporate customers (national and local) with revenues exceeding euro 250 million, previously in the hands of the Business Areas of the Departments, to the Business Department at Banco Popolare's Head Office.

A project to streamline the Group's Branch Network was also undertaken, relating to the closure of 114 branches belonging to Banco's four Divisions, also considering the above-mentioned merger of Credito Bergamasco into the Parent Company.

Branches to be closed regarded those with a profile that meets one or more of the following conditions:

- territorial overlap with respect to other Group branches;
- limited contribution to net interest and other banking income, also due to its small size;
- location in isolated provinces with respect to the other branches;
- problematic credit situation.

Following the closure of these branches, in 2015, further changes were made to the network; please refer to the specific section of the Notes to the Financial Statements on significant events after the end of the year.

At the end of the project to rationalise the Group's branch network as a whole, the net reduction made over the course of 2014 was 112 branches.

Events relating to the management of investments in subsidiaries, associates and joint ventures

Sale of the subsidiary Banco Popolare Croatia

In January Banco Popolare and OTP Banka Hrvatska, a subsidiary of the Hungarian Group OTP, signed an agreement for the sale to the latter of the entire investment held by the Parent Company in the share capital of Banco Popolare Croatia d.d.

The transaction, conditional to obtaining all the necessary authorisations from the competent supervisory authorities, envisaged the payment of a consideration of around 107 million Kunas (equal to about euro 14 million) relating to the entire share held by Banco Popolare, equal to around 99% of the ordinary share capital.
At the time of the preparation of the consolidated financial statements for the year ending 31 December 2013, the assets and liabilities belonging to the Croatian subsidiary were reclassified under "Assets and relative liabilities relating to disposals" aligning their total net value to the sale price, after the relative expenses.

On 24 April 2014, after obtaining authorisation from the competent Authorities, Banco Popolare executed the contract of sale; a cash payment was received for the same. Following the sale, BP Croatia is no longer part of the Banking Group.
The operation did not have an impact on the statement of financial position or income statement for the current year.

In line with the strategies established by Group management, the above-illustrated operation completed the process of focusing on its core business of domestic banking, launched with the previous sales of subsidiaries in the Czech Republic, Romania and Hungary.

Winding-up of Group companies

On 24 January 2014, to complete the winding-up procedure, the striking off of the company Seefinanz AG in liquidation from the Commercial Register of Canton Ticino became effective. The strike-off was published in the Swiss Official Trade Journal on 29 January 2014.

On 31 March 2014, the winding-up of the associated company Phoenix S.p.A. (in liquidation), which the Parent company held a 40% stake in, was completed, following the striking off of the same from the Company Register of Verona, while in May, its 99% stake in the Irish subsidiary Royle West was wound up following the completion of the liquidation procedure.
Lastly, in June, the associated company Estates Capital Venture S.A. in liquidation, in which the Parent Company held 43.368% of share capital, was wound up, and was consequently struck off the Company Register of Luxembourg.

Sale of Eurovita Assicurazioni and Finoa

After obtaining the approval of the competent Authorities, on 30 June 2014, Banco Popolare, Aviva Italia Holding and Finoa executed the contract to sell 79.62% of Eurovita Assicurazioni S.p.A. to JCF III Eurovita Holdings S.a.r.l., a special purpose vehicle of the Private Equity Fund JC Flowers & Co LLC for a total consideration of euro 47 million.
The 77.55% stake in Eurovita's share capital, an insurance company that distributes its products through a widespread network of local and regional Italian banks, was the only significant asset of Finoa S.p.A., and was held jointly by Banco Popolare and Aviva. Banco Popolare also directly held a further share of 2.07% in Eurovita's capital.
At the same time as the sale of Eurovita, Banco Popolare and Aviva started the procedure to wind up the Joint Venture in Finoa, through the initial distribution, in July, of the available reserves, which was completed in December with the distribution of all of the residual reserves to the shareholders. The distribution of the reserves made by Finoa to shareholder Banco Popolare totalled euro 16.3 million. On 23 December, Banco Popolare then sold its shareholding in Finoa, corresponding to 50% of share capital, to Aviva Holding, at a price of euro 50 thousand.

The entire operation did not have an impact on the statement of financial position or income statement, as the value of the shareholdings in Eurovita Assicurazioni and Finoa were already aligned to the sale price, net of accessory charges.

Acquisition of equity investments for credit collection operations

Following the signature of the new Restructuring plan for the Aedes Group on 23 December 2014, Banco Popolare purchased equity investments corresponding to 100% of the share capital of Manzoni 65 S.r.l., Sviluppo Comparto 2 S.r.l. and Terme Ioniche S.r.l. from Aedes through its subsidiary company Bipielle Real Estate.
The original purchase price of the equity investments (corresponding to euro 25 thousand, euro 29 thousand and euro 16.1 million) was paid by offsetting a receivable for the same amount held by Bipielle Real Estate vis-à-vis Aedes. Said receivable had been assigned without recourse by Banco Popolare to Bipielle Real Estate on the same date.
The equity investments acquired will be included in the scope of consolidation of consolidated companies using the line-by-line method and will contribute to the consolidated financial statements starting from 31 December 2014. The operation did not have any further negative impacts on the income statement for the year with respect to the value adjustments on loans that had already been recognised.

Banco Popolare also acquired 25% of the share capital of Motia Compagnia di Navigazione S.p.A., following agreement to the closure of the "ex chapter 11" proceedings, filed with the Court of New York by Marco Polo Sea Trade BV. The allocation of the Motia shares, classified as an equity investment in an associated company, was made by means of *datio in solutum* against a loan from Banco Popolare originally for euro 25 million to Marco Polo Sea Trade, a credit position which was secured by a lien on the Motia shares.
The book value of the above-mentioned shares, also based on an evaluation made by PricewaterhouseCoopers Advisory S.p.A., corresponds to zero. The operation did not have any further negative impacts on the income statement for the year with respect to the value adjustments on loans that had already been recognised.

Other events in the year

Exercise of put option on RCS Media Group S.p.A. ordinary shares

On 18 February 2014, as a result of the Board of Directors resolution of 17 February 2014, Banco Popolare exercised the put option ("Put Option"), granted by Pandette Finanziaria S.r.l. ("Pandette") to Banco Popolare concerning the sale of 3,870,900 ordinary shares of RCS Media Group S.p.A., (the "RCS" shares) and therefore under the sale and purchase option contract signed by Banco Popolare and Pandette on 29 November 2006, and partially amended by the agreement signed on 21 February 2009. In the press release relating to the exercise of the Put Option, the sale price of RCS shares was established by Banco Popolare at euro 113.5 million. With regard to the exercise of the Put Option, and until said option is settled, Banco Popolare boasts a receivable from Pandette corresponding to the consideration for the sale of the RCS shares, recorded in the accounts under "financial assets held for trading".

In the summons notice dated 12 March 2014, Banco Popolare was summoned to appear before the court by Pandette S.r.l., which is requesting confirmation that: i) the excessively high amount charged by Banco Popolare as consideration for the transfer of the RCS shares be ascertained; (ii) the price for the transfer of the RCS Shares under the Put Option be re-established as euro 31.4 million and iii) Banco Popolare and Pandette are obliged to renegotiate the contractual terms.

Please refer to the Notes to the Financial Statements, Part B, section 12 of Liabilities for further details. Based on the opinion of external legal experts engaged to protect its interests, Banco believes that there is only a remote risk of losing the illustrated dispute, as it believes the quantification of the price that Pandette has stated it is willing to pay inconsistent and illogical. In the light of said consideration and of the valuation of the financial profile of the debtor, the receivable of euro 113.5 million has been established existing in full and as recoverable.

Upper Tier II subordinated loan “Banca Caripe Euribor 6M + 0.50% 28/09/2006 – 28/09/2016”

On 14 March 2014, the Official Receiver of Banca Tercas S.p.A. in Extraordinary Receivership, Parent Company of the Tercas Banking Group and the company that controls Banca Caripe S.p.A., holding a stake of 89.20% in the share capital of the same informed Banco Popolare, underwriter of the subordinated bond loan issued by Caripe called Upper Tier II “Banca Caripe Euribor 6M + 0.50% 28/09/2006 – 28/09/2016” (the “Bond Loan”), of the suspension of the right of payment of the Bond Loan relating to the coupon currently becoming due (entitlement 28 September 2013 - 28 March 2014).
According to the Official Receiver of Tercas, the decision not to pay Banco Popolare the interest on the current coupon was due to the serious situation of the losses recorded by Caripe as at 31 December 2013 and to the confirmation of capital ratios that are below the minimum regulatory thresholds for the continuation of banking activity.
The subordinated bond loan with a nominal value of euro 80 million is recorded in the statement of financial position under “Receivables due from banks”.

Following the finalisation of the operation that entailed Banca Popolare di Bari obtaining control of Banca Tercas, as part of a recovery plan, which also involved the Interbank Deposit Guarantee Fund, the Extraordinary Receivership procedure against Banca Tercas and the subsidiary Banca Caripe was concluded on 30 September 2014. Following said operation, the above-mentioned receivable due to Banco Popolare from Banca Caripe became legally payable, both as regards the principal and the coupons that had matured and not been paid. At the present time, negotiations are underway with the new controlling shareholder to obtain the payment of that owed by Banca Caripe.

Change in substitute tax on the revaluation of the equity interest held in the Bank of Italy

On 23 June 2014, Law no. 89 converting Italian Decree Law no. 66/2014 (“spending review”) was approved, on the basis of which the substitute tax rate for the revaluation of the stake in the Bank of Italy was re-established as 26%, with respect to that of 12% established by Italian Law no. 147/2013 and taken as reference for financial year 2013 for the recognition of tax on income generated by the above-cited revaluation.
Based on the new legislative provisions, and on the income fully recognised in the previous year, the higher amount of euro 14.5 million had to be deducted from the income statement in the second quarter of 2014. For further details, please consult the paragraph entitled “Accounting policies and uncertainties with regard to the use of estimates for drawing up the financial statements” in Part A of the Notes to the consolidated financial statements.

Agreements relating to employees

In 2014, negotiations already launched in previous years continued. The purpose of the same is to cut operating expenses, also making use of possible levers to cut labour costs by adopting measures to defend employment and with a view to generational renewal. Furthermore, these negotiations, closely related to the lines of action envisaged in the 2014-2016/2018 Business Plan, also entailed agreeing upon a series of measures that seek to achieve operating and production efficiency with a view to social sustainability in terms of the action taken vis-à-vis personnel.
The numerous agreements signed since the beginning of the year, which are contributing to meeting the above objectives are illustrated below.

Reduction of employment levels, organisational measures to rationalise the Network and to simplify the Group structure
Agreements relating to cutting the workforce made on 23 January, 31 July and 26 November, which also confirmed the use of part-time work, envisaged, on a voluntary basis, access to the extraordinary income support provisions of the sector Solidarity Fund, and the retirement of a very large category of workers (over 1000 resources), who meet the relative social security requirements, and who, with the exception of those who already left the company in 2014, will leave the company within a period of time consistent with the timing for the reduction of the workforce established in the current Business Plan.
The agreements to reduce the workforce were made alongside specific understandings relating to the social and economic repercussions on workers following the measures to reorganise the Network - both as a whole, by introducing the New Network Model, and with regard to specific production companies located in specific areas (Sicily and Rome) - where a total number of 114 branches will be gradually closed.
Measures to simplify the corporate structure, which entailed the merger of Credito Bergamasco into Banco Popolare, which has already been finalised, and that of Banca Italease, which is soon to be finalised, also entailed negotiations, with a view to harmonisation, to harmonise the economic and legislative arrangements already in place for employees that work in the companies merged, or to be merged, with those applied to Banco Popolare employees.

Recruitment/Stabilisation
The agreements reached in 2014 regarding the reduction of the workforce entail the implementation, in 2014 and 2015, of detailed plans to recruit and stabilise new young employees, setting a total maximum threshold of 325 resources once the objectives to reduce the workforce have been met, both with a view to generational renewal, and in order to better balance the territorial distribution of the workforce.

Implementation of suspension from work measures with use of the ordinary provisions of the Solidarity Fund
With regard to measures to safeguard employment, the suspension from work arrangements were agreed for the two year period 2014-2015 for all Group company employees which specifically envisages taking 2 days of compulsory suspension from work in 2014 and 1 day in 2015, as well as the option, on a voluntary basis, of taking further variable periods of suspension, based on the different categories of activation.

Company Bonus, Outstanding holiday leave, Accumulated hours and Permits for bank holidays
Although the agreement signed for the disbursement of the Company Bonus in 2015, necessarily had to take the economic situation of the industry into account, and therefore entailed a change to disbursement criteria, resulting in an average bonus which is lower than previous years, in any event it managed to ensure the payment of amounts that can still be considered reasonable.
At the same time as the Company Bonus was established, again in 2015, the full use of holiday leave, permits for bank holidays and accumulated hours is envisaged.

Supplementary welfare
Agreements relating to significant socially-oriented measures entailed the further development of the Group's complementary Welfare system, through the introduction of the so-called individual Welfare Account, related to the crediting of "figurative" amounts, both individual and corporate, with which each worker may access the following Welfare services:

- Supplementary pension arrangements
- Healthcare
- A.H. (Additional Healthcare)
- Instruction and Education.

The agreements drawn up in this regard also permitted further specific "figurative" amounts to be established, to be paid into the Welfare account and used for the above mentioned social services, benefitting from special treatment in terms of tax and social security contributions envisaged by the law.

Funded training
Again in 2014, negotiations continued with a view to funding training courses that are important and essential to the development of human capital and addressed to a very high number of workers, through a specific industry fund, called the "Bank and Insurance Company Fund".

Video surveillance systems, Traceability of bank transactions
Negotiations regarding Video surveillance and the Traceability of bank transactions entailed the establishment of the respective agreements, which are standard and apply to all Group companies, enabling the rational and non onerous compliance with the requirements of art. 4 of the Workers Statute relating to guaranteeing the remote control of working activities.

Detaxation of productivity pay
The application of the tax break (so-called "detaxation") on productivity pay, within the new limits set by the relevant legislation in force was also confirmed for 2014, with the necessary agreement of the trade union.

Bond issues

On 6 March, Banco Popolare returned to the institutional market with the very successful placement of a 5-year senior bond issue as part of the EMTN programme for the figure of euro 1.25 billion. The bond, which has a fixed-rate coupon, has a final return corresponding to the mid-swap rate plus 255 basis points. The transaction was priced at the mid-swap rate +255 basis points due to the significant demand and to the numerous orders registered.

In May, Banco Popolare placed another senior bond issue with institutional investors, maturing in January 2018, as part of the EMTN programme for the figure of euro 750 million. The operation was priced at the mid swap rate of +192 basis points (against the initial spread of 195), given the market's particular appreciation of the same.
The funds collected from the above-cited issues have been used for current operations and to further strengthen Group liquidity.

Covered Bond transactions and securitisations

For the existing Covered Bond Programmes, Banco Popolare acts as the Issuing Bank of the CB and, following the merger of Credito Bergamasco into Banco Popolare, acts as the Bank Assigning the assets (pursuant to art. 7-bis of Italian Law no. 130 of 30 April 1999) and as sole Lending Bank.

Under the Residential CB Programme, following the redemption of the Fifth Series of the CB issued, which expired on 31 December 2013, for a nominal value of euro 1.75 billion, on 8 January 2014, Banco Popolare issued the Seventh Series of CB for a nominal value of euro 1.5 billion, at a floating interest rate (3m Euribor + 100 bps) maturing on 31 March 2016. The bond was entirely subscribed by Banco Popolare and used as collateral in refinancing operations with the ECB. On 31 March 2014, the Third Series of CB issued was fully redeemed for a nominal value of euro 1.25 billion. On 19 September 2014, Banco Popolare issued the Eighth Series of CB for a notional amount of euro 1.5 billion, at a floating interest rate (3m Euribor + 100 bps) maturing on 30 September 2017. Also in this case, the bond was entirely subscribed by Banco Popolare and used as collateral in monetary policy operations. Under this Programme, the bonds issued by Banco Popolare and outstanding as at 31 December 2014 therefore amount to euro 7.45 billion (the securities are listed on the Luxembourg Stock Exchange, rating assigned by Fitch “BBB+”, while the Moody’s rating is “A3”).
On 21 May 2014, Banco Popolare and Credito Bergamasco (“Assigning Banks”) sold a new portfolio of eligible assets (the ninth) to the SPE BP Covered Bond S.r.l. with a residual debt of euro 866.3 million, comprised of residential and property mortgage loans originated by the Assigning Banks. To honour the purchase price of the loans portfolio, made on 30 June 2014, the SPE utilised available liquidity deposited in its current accounts at the London Branch of Banco Popolare. Following the latter assignment, the total residual value of the receivables sold to the Special Purpose Vehicle was euro 10.1 billion as at 31 December 2014.

Under the Commercial CB Programme, following the full redemption of the First and the Second Series of the CB issued, which expired on 31 March 2014, for a total nominal value of euro 1.7 billion, on 4 April 2014, Banco Popolare issued the Fourth Series of CB for a nominal value of euro 1.5 billion, at a floating interest rate (3m Euribor + 30 bps) maturing on 2 July 2016. Therefore, the bonds issued by Banco Popolare under this programme and outstanding as at 31 December 2014 amount to euro 1.7 billion (the securities are listed on the Luxembourg Stock Exchange, rating assigned by Moody’s “Baa2”, subscribed by Banco Popolare and used as collateral for refinancing operations with the ECB).
On 7 November 2014, Banco Popolare sold a new portfolio of eligible assets (the fifth) to the SPE BP Covered Bond S.r.l. with a residual debt of euro 215.2 million, comprised of commercial and residential landed and mortgage loans originated by Banco Popolare itself. The purchase price was paid by the SPE on 2 January 2015 by using available liquidity deposited in its current accounts at the London Branch of Banco Popolare. On the same date of 7 November 2014, Banco Popolare also repurchased a portion of mortgage loans previously sold to the SPE and not “eligible” for a total residual debt of euro 380.7 million, the payment for which was made on 2 January 2015 by offsetting the partial early repayment of the subordinated loan granted to the “Assigning Banks” to the SPE.
Lastly, in order to bring the level of cash below the threshold envisaged by Italian law on Covered Bonds, Banco Popolare asked the SPE to advance part of the subordinated loan in cash corresponding to euro 220 million, in addition to that relating to the repurchase price on the non eligible mortgage loans. The date of the early repayment was 2 January 2015.
The total residual value of the receivables sold to the Special Purpose Entity was euro 2.1 billion as at 31 December 2014.

On 21 February 2014, the rating agency Moody’s, mainly due to the change in the rating for the outlook of Italian Government bonds from “negative” to “stable”, upgraded the rating attributed to the CB issued under the Residential Programme from “Baa2” to “Baa1” and that attributed to the CB issued under the Commercial CB Programme from “Baa3” to “Baa2”; furthermore, on 12 March 2014, following several changes to the rating method adopted, Moody’s further upgraded the rating of the Residential CB Programme from “Baa1” to “A3”.

Instead, with regard to securitisation transactions, on 27 May 2014, Banco Popolare and Credito Bergamasco (“Originator Banks”) sold a new portfolio of receivables resulting from mortgage, landed, agrarian and other loans disbursed to SMEs (Small Business Enterprises) to the SPE BPL Mortgages S.r.l., with a total residual debt of around euro 1.8 billion (“BPL Mortgages 7”). To fund the purchase of the receivables, on 30 June 2014, the SPE issued three classes of Asset Backed notes with limited recourse: a class of Senior Notes for a total nominal value of euro 1.077 billion, listed on the Irish Stock Exchange, (rated “A2” by Moody’s and “A” by DBRS), a class of Mezzanine Notes for a total nominal value of euro 269.3 million, listed on the Irish Stock Exchange, (rated “Baa2” by Moody’s and “BBB (Low)” by DBRS), and a class of unrated, unlisted Junior Notes for a total nominal value of around euro 448.9 million. All of the classes of notes were underwritten by Banco Popolare. Note that in August 2014, the Senior Notes were classified as allocatable and were used by Banco Popolare for refinancing operations with the European Central Bank.

With regard to the “BP Mortgages 1” operation, in February 2014 Fitch downgraded the Senior Note (Class C Notes) from a rating of “BBB+” to “BBB” and then, in November 2014, further downgraded the Senior Note (Class C Notes) from “BBB” to “BBB-“ and downgraded the rating of the Senior Note (Class B Notes) from “AA+” to “AA”. With regard to the “BP Mortgages 2” operation, in November 2014, Fitch downgraded the Senior Note (Class B Notes) from “AA+” to “AA” and changed the outlook on Class A2 and Class C Notes from “Stable” to “Negative”. Furthermore, during the year, S&P downgraded the rating of the Senior Note (Class A Notes) relating to “BPV Mortgages” operation from “A” to “BBB”, while the rating agency Fitch instead upgraded the Class C security of the Bipitalia Residential” operation from “BBB” to “A”.

Following the downgrading of Banco Popolare in the previous year by Moody’s, in June and July 2014, with a view to maintaining the rating of the notes issued, several changes were made to the contractual documentation of the “BPL Mortgages 5”, “BPL Mortgages 6” and “Bipitalia Residential”, “BP Mortgages 2007-1” and “BP Mortgages 2007-2” operations, agreed with the relative rating agencies and with the noteholder representatives.

Rejection of refund of tax credit

On 22 July 2014, Banco Popolare was notified - by the Tax Authority - Provincial Headquarters of Novara - with 2 refund rejection notices regarding IRPEG and ILOR credit for which Banca Popolare di Novara s.c.a.r.l. had requested a refund for 1995, prior to the merger with Banca Popolare di Verona - SGSP s.c.a.r.l. which established Banco Popolare di Verona e Novara s.c.a.r.l. The credit rejected, recognised in the financial statements as at 31 December 2014 amounts to a total of euro 86.5 million, of which euro 52.6 million as principal and euro 33.9 million as interest accrued. On 5 November, the Company submitted an appeal against the refund rejection notices within the terms of the law before the competent Tax Commission, as it retains that the grounds stated by the Tax Authority are totally illegitimate and groundless.

Exposure to the Sorgenia Group

At the end of 2013, the Sorgenia Group announced to the group of banks that the market scenario had changed and that it was undergoing a situation of financial tension which meant that it was in difficulty in repaying its debts. In December 2013, Sorgenia informed the lending banks that it was drawing up a business and financial plan, with the help of its advisors, one of the aims of which was to identify ways of recapitalising and improving its economic and financial situation. The main features of the Plan, which is part of a Debt Restructuring Agreement pursuant to art. 182 bis of the Finance Law, are as follows:

- liberation from unpaid debts by the banks for a total of around euro 600 million (Banco Popolare’s share of which corresponds to around 11.6%), of which around euro 400 million by means of the assignment, without recourse of a part of the MLT receivables held by several banks against Sorgenia S.p.A. to a “Holdco” held by the banks in question, while the remainder through the conversion, by the group of banks, of medium-long term receivables into a 10-year convertible bond (as well as an option to further extend the deadline by 2 years);
- the postponement of the payment deadline to 2023 (in addition to an option of a further 2 years extension of the deadline) of the residual medium-long term debt of Sorgenia S.p.A., net of the amount of euro 600 million subject to conversion, corresponding to a total of euro 241 million;
- confirmation of the short-term credit lines for a total of around euro 344 million;
- disbursement of a new loan during the Plan for a total of euro 256 million;
- the postponement of the payment of debts due to SPE Sorgenia Power (2025 + an option of a further 2 year’s extension) and to Sorgenia Puglia (2021 + an option of a further 1 year’s extension), as well as below market level pricing.

Following the signature of the Debt restructuring agreement under art. 182 of the Italian Finance Law, on 12 November 2014, Banco Popolare purchased a share of a nominal value euro 1,665 for a total price of euro 6,660, corresponding to 16.65% of the share capital of 8 Marzo 91 s.r.l. The remaining amount of the capital was purchased by a further five banks, which signed the Restructuring Agreement, with equal shares.
When approval for the Restructuring Agreement for Sorgenia S.p.A. is received, envisaged for the first half of 2015, the company will obtain control of the same Sorgenia S.p.A., subject to the transformation of the same into a joint stock company and the subsequent issue of Participating Financial Instruments of which Banco Popolare will also be an assignee.

Banco Popolare’s exposure to the companies covered by the restructuring arrangement (namely, Sorgenia S.p.A., Sorgenia Power S.p.A. and Sorgenia Puglia S.p.A.) which as at 31 December 2014 totalled euro 157.5 million, euro 136.3 million of which in cash, euro 20.5 in unsecured loans and euro 0.7 million in derivatives. The above exposures in cash and unsecured loans have been classified as non performing restructured loans with total provisions of euro 52.4 million. The exposure relating to the liberation arrangement is that of Sorgenia S.p.A., amounting to euro 117.9 million as at 31 December 2014, euro 97.4 million of which relate to two medium-long term pool loans and euro 20.5 million to unsecured loans. The exposure to the other two companies, with total cash drawdowns of euro 38.9 million (euro +0.7 million in derivatives), instead regard the participation in two pool project financial arrangement to sustain part of the investment costs of two projects to construct thermoelectric power stations.

Change in corporate offices

The Shareholders' Meeting held on 29 March, among other resolutions, appointed the members of the Board of Directors, including the Chairman and the Deputy Chairmen, who will remain in office for the three-year period 2014-2016. The following were elected: Carlo Fratta Pasini (Chairman), Guido Castellotti (Deputy Chairman), Maurizio Comoli (Deputy Chairman), Patrizia Codecasa, Giovanni Francesco Curioni, Gianni Filippa, Andrea Guidi, Maurizio Marino, Giulio Pedrollo, Enrico Perotti, Claudio Rangoni Machiavelli, Fabio Ravanelli, Cecilia Rossignoli, Sandro Veronesi, Franco Zanetta, Cristina Zucchetti, Pier Francesco Saviotti, Maurizio Faroni, Domenico De Angelis, Enrico Fusi, Cristina Galeotti, Valter Lazzari, Daniela Montemerlo and Tommaso Zanini.

The members of the Board of Statutory Auditors were also appointed: Pietro Manzonetto (Chairman), Maurizio Calderini, Gabriele Camillo Erba, Claudia Rossi, Alfonso Sonato and, as alternate auditors, Marco Bronzato and Paola Pesci.

At the meeting held on 1 April 2014, the Board of Directors confirmed Pier Francesco Saviotti as Managing Director and appointed the members of the Executive Committee, the Internal Control and Risks Committee, the Emoluments Committee and the Appointments Committee.
It also acknowledged the resignation of Board Director Giovanni Francesco Curioni. On 29 April, to make up its quorum, the Board of Directors co-opted Luigi Corsi, who will remain in office until the next Shareholders' Meeting.

Note also that on 11 June, board director Enrico Fusi resigned; at a meeting held on 24 June, the Board of Directors resolved to co-opt Cesare Zonca, who will remain in office until the next Shareholders' Meeting.
In compliance with the provision of the Articles of Association, which came into force on 1 June 2014, raising the number of Executive Committee members from 6 to 7, at the same meeting, board director Zonca was appointed a member of said Committee.

RESULTS

Introduction

The statement of financial position and income statement schedules shown below have been reclassified, according to operating criteria, in order to provide clear indications on the trend of the Group's general performance based on the economic-financial data that can be determined rapidly and easily.
The reclassification criteria are unchanged from those as at 31 December 2013.
Note that in the statement of financial position as at 31 December 2013, the balances for asset item 20. "Financial assets held for trading" and liability item 40. "Financial liabilities held for trading", were adjusted for comparison purposes, in order to eliminate from the statement as at 31 December 2014 the infragroup dividends associated with bond issues under the fair value option. The decision to not eliminate these infragroup transactions that had previously been adopted was justified by the need to ensure a correct representation of the separation of the "banking portfolio" and the "trading portfolio" and this decision was described, along with its effects, in the specific disclosure contained in the 2013 Annual Report. As was thoroughly explained in Section A of the Notes to the consolidated financial statements in the Consolidated Financial Statements as at 31 December 2014 (to which the reader is referred for detailed information), the analyses conducted in preparing the Notes led to a decision to represent this particular category of infragroup derivative contracts differently, which were then formally cancelled. The representation of a correct separation of the "banking portfolio" and the "trading portfolio" was carried out according to various accounting methodologies.
Disclosures on the business combinations and the reclassifications made to the financial statements envisaged by Circular no. 262/05, in compliance with the requirements of Consob as per Communication no. 6064293 dated 28 July 2006 are also provided below.
A reconciliation between the reclassified income statements and that drawn up on the basis of Circular no. 262 is provided in the attachments and includes comments explaining the reclassifications made.

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

- dividends on shares classified under financial assets available for sale and assets held for trading (item 70) have been reclassified under the net financial result;
- the profits and losses on the disposal of loans, not represented by debt securities, (included in item 100) have been grouped, together with net losses/recoveries on impairment of loans, under item "Net adjustments on loans to customers";
- the profits and losses on the disposal of financial assets available for sale, receivables represented by debt securities and financial liabilities (recognised under item 100) have been stated under the net financial result. This last aggregate also includes adjustments due to impairment on debt securities classified in the loans portfolio, which in the financial statements are shown under item 130;
- recoveries on taxes and other costs (included in item 220) have been booked directly against administrative expenses, where the relative cost has been recognised, rather than being indicated in the reclassified aggregate "other net operating income";
- the amortisation of leasehold improvement costs (recorded in item 220) has been stated together with value adjustments on property and equipment and intangible assets, rather than stated together with other net operating income;
- the portion of the economic results pertaining to investee companies carried at equity (included in item 240) has been stated in a specific item which represents, together with the interest margin, the aggregate defined as the financial margin;
- the aggregate "Losses/recoveries on investments in associates and companies subject to joint control, goodwill, and other intangible assets" includes all adjustments relating to goodwill, to other intangible assets, and to investments in associates and companies subject to joint control made following annual impairment testing;
- the impact of the change in creditworthiness on financial liabilities issued by the Bank, designated at fair value (FVO), recorded under item 110, is shown as a separate item in the reclassified income statement, together with the relative tax (recognised in item 290 of the income statement).

Consolidated income statement figures

Reclassified income statement items *(in thousands of euro)*	2014	2013	Change
Interest margin	1,555,575	1,646,982	(5.5%)
Profits (losses) on investments in associates and companies subject to joint control	90,066	(27,403)	
Financial margin	**1,645,641**	**1,619,579**	**1.6%**
Net fee and commission income	1,385,447	1,387,062	(0.1%)
Other net operating income	138,888	189,184	(26.6%)
Net financial result (without FVO)	215,910	388,744	(44.5%)
Other operating income	**1,740,245**	**1,964,990**	**(11.4%)**
Operating income	**3,385,886**	**3,584,569**	**(5.5%)**
Personnel expenses	(1,432,331)	(1,446,735)	(1.0%)
Other administrative expenses	(645,094)	(667,107)	(3.3%)
Net value adjustments on property and equipment and intangible assets	(191,903)	(139,998)	37.1%
Operating expenses	**(2,269,328)**	**(2,253,840)**	**0.7%**
Income (loss) from operations	**1,116,558**	**1,330,729**	**(16.1%)**
Net adjustments on loans to customers	(3,561,431)	(1,691,418)	110.6%
Net adjustments on receivables due from banks and other assets	(39,828)	(161,464)	(75.3%)
Net provisions for risks and charges	(39,455)	(121,431)	(67.5%)
Recoveries (Losses) on investments in associates and companies subject to joint control, goodwill and other intangible assets	(239,000)	95,246	
Profits (Losses) on disposal of investments in associates and companies subject to joint control and other investments	2,345	4,789	(51.0%)
Income (loss) before tax from continuing operations	**(2,760,811)**	**(543,549)**	**407.9%**
Taxes on income from continuing operations	802,242	48,913	n.s.
Income (loss) after tax from discontinued operations	(48)	(29,595)	(99.8%)
Income (loss) attributable to minority interests	38,714	13,749	181.6%
Net income (loss) without FVO	**(1,919,903)**	**(510,482)**	**276.1%**
Change in the Bank s creditworthiness (FVO)	(38,828)	(143,154)	(72.9%)
Taxes on the change in creditworthiness (FVO)	12,840	47,341	(72.9%)
FVO Impact	**(25,988)**	**(95,813)**	**(72.9%)**
Parent Company s net income (loss)	**(1,945,891)**	**(606,295)**	**220.9%**

Reclassified consolidated income statement – Quarterly changes

Reclassified income statement items *(in thousands of euro)*	FY 2014				FY 2013			
	Q4	Q3	Q2	Q1	Q4	Q3 (*)	Q2 (*)	Q1 (*)
Interest margin	388,294	396,556	398,180	372,545	390,199	423,103	428,800	404,880
Profits (losses) on investments in associates and companies subject to joint control	24,964	24,900	20,844	19,358	6,909	(5,825)	(33,113)	4,626
Financial margin	**413,258**	**421,456**	**419,024**	**391,903**	**397,108**	**417,278**	**395,687**	**409,506**
Net fee and commission income	310,493	356,008	347,270	371,676	319,348	324,481	377,996	365,237
Other net operating income	26,300	38,504	33,452	40,632	52,202	36,381	47,976	52,625
Net financial result (without FVO)	(1,863)	23,794	105,604	88,375	120,819	96,691	94,545	76,689
Other operating income	**334,930**	**418,306**	**486,326**	**500,683**	**492,369**	**457,553**	**520,517**	**494,551**
Operating income	**748,188**	**839,762**	**905,350**	**892,586**	**889,477**	**874,831**	**916,204**	**904,057**
Personnel expenses	(376,095)	(381,999)	(330,004)	(344,233)	(416,155)	(345,066)	(337,811)	(347,703)
Other administrative expenses	(135,530)	(170,855)	(176,974)	(161,735)	(137,015)	(173,049)	(177,875)	(179,168)
Net value adjustments on property and equipment and intangible assets	(86,843)	(31,043)	(25,252)	(48,765)	(44,073)	(33,710)	(30,742)	(31,473)
Operating expenses	**(598,468)**	**(583,897)**	**(532,230)**	**(554,733)**	**(597,243)**	**(551,825)**	**(546,428)**	**(558,344)**
Income (loss) from operations	**149,720**	**255,865**	**373,120**	**337,853**	**292,234**	**323,006**	**369,776**	**345,713**
Net adjustments on loans to customers	(2,496,072)	(445,323)	(292,049)	(327,987)	(1,006,837)	(246,302)	(209,430)	(228,849)
Net adjustments on receivables due from banks and other assets	(19,328)	(8,413)	(8,606)	(3,481)	(94,978)	(6,665)	(54,074)	(5,747)
Net provisions for risks and charges	(50,628)	2,729	9,937	(1,493)	(123,130)	5,599	(4,840)	940
Recoveries (Losses) on investments in associates and companies subject to joint control, goodwill and other intangible assets	(239,000)	-	-	-	(250)	-	95,496	-
Profits (Losses) on disposal of investments in associates and companies subject to joint control and other investments	207	965	206	967	5,498	(491)	(357)	139
Income (loss) before tax from continuing operations	**(2,655,101)**	**(194,177)**	**82,608**	**5,859**	**(927,463)**	**75,147**	**196,571**	**112,196**
Taxes on income from continuing operations	804,507	59,355	(56,308)	(5,312)	231,118	(42,663)	(75,516)	(64,026)
Income (loss) after tax from discontinued operations	-	121	(109)	(60)	(26,122)	(1,535)	(2,528)	590
Income (loss) attributable to minority interests	30,028	4,632	3,382	672	24,879	441	(3,536)	(8,035)
Net income (loss) without FVO	**(1,820,566)**	**(130,069)**	**29,573**	**1,159**	**(697,588)**	**31,390**	**114,991**	**40,725**
Change in the Bank s creditworthiness (FVO)	(5,108)	3,427	(7,096)	(30,051)	(110,727)	(33,071)	(75,801)	76,445
Taxes on the change in creditworthiness (FVO)	1,529	(1,118)	2,491	9,938	36,617	10,937	25,067	(25,280)
FVO Impact	**(3,579)**	**2,309**	**(4,605)**	**(20,113)**	**(74,110)**	**(22,134)**	**(50,734)**	**51,165**
Parent Company s net income (loss)	**(1,824,145)**	**(127,760)**	**24,968**	**(18,954)**	**(771,698)**	**9,256**	**64,257**	**91,890**

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

Note that, in accordance with that envisaged by the reference international accounting standard (IFRS 3), the Banco Popolare Group's income statement includes the economic impacts deriving from the allocation of the cost of the business combination transactions (so-called Purchase Price Allocation – PPA) which took place in 2007 (merger with the Banca Popolare Italiana Group as of 1 July 2007) and 2009 (acquisition of control of the Group to which Banca Italease belongs as of 1 July 2009).

The following schedules show the impact of the above-cited business combination transactions on the income statements for 2014 and 2013. The schedules clearly show the contribution to the consolidated income statement of both the part relating to the former Italease Group and that relating to Banco Popolare as a "stand alone".
The economic impact on the interest margin is attributable to the higher value recognised at the time of PPA for receivables of Banca Popolare Italiana Group (included in the results of Banco Popolare Stand Alone) and to the lower value for the financial liabilities issued by Banca Italease (included in the results of the former Italease Group).
The economic impact on other net operating income and on value adjustments to property and equipment and intangible assets of Banco Popolare Stand Alone regards the amortisation charges for intangible assets with a definite useful life recognised at the time of PPA and the depreciation charge on the greater value of the properties acquired as part of the business combination.
The economic impact recognised in value adjustments to investments in associates and companies subject to joint control, goodwill and other intangible assets of Banco Popolare Stand Alone regards the impairment of intangible assets with a definite useful life, charged at the time of PPA.

Contribution to the Income Statement of Banco Popolare "Stand Alone" and of the former Italease Group

(in thousands of euro)	2014						
	Official Financial Statements	Banco Popolare without PPA	PPA BPI	Contribution of Banco Popolare	Banca Italease without PPA	PPA Italease	Contribution of Italease
Interest margin	1,555,575	1,517,409	524	1,517,933	40,963	(3,321)	37,642
Dividends and profit/loss from investments in associates carried at equity	90,066	90,033		90,033	33		33
Financial margin	**1,645,641**	**1,607,442**	**524**	**1,607,966**	**40,996**	**(3,321)**	**37,675**
Net fee and commission income	1,385,447	1,386,196		1,386,196	(749)		(749)
Other net operating income/expense	138,888	146,059	(29,756)	116,303	22,585		22,585
Net financial result (without FVO)	215,910	217,430		217,430	(1,520)		(1,520)
Other operating income	**1,740,245**	**1,749,685**	**(29,756)**	**1,719,929**	**20,316**	**-**	**20,316**
Operating income	**3,385,886**	**3,357,127**	**(29,232)**	**3,327,895**	**61,312**	**(3,321)**	**57,991**
Personnel expenses	(1,432,331)	(1,419,586)		(1,419,586)	(12,745)		(12,745)
Other administrative expenses net of recoveries	(645,094)	(596,142)		(596,142)	(48,952)		(48,952)
Value adjustments on property and equipment and intangible assets	(191,903)	(122,173)	(3,682)	(125,855)	(66,048)		(66,048)
Operating expenses	**(2,269,328)**	**(2,137,901)**	**(3,682)**	**(2,141,583)**	**(127,745)**	**-**	**(127,745)**
Income (loss) from operations	**1,116,558**	**1,219,226**	**(32,914)**	**1,186,312**	**(66,433)**	**(3,321)**	**(69,754)**
Net value adjustments on loans (customers)	(3,561,431)	(3,299,588)		(3,299,588)	(261,843)		(261,843)
Net value adjustments on other assets	(39,828)	(40,118)		(40,118)	290		290
Provisions for risks and charges	(39,455)	(42,067)		(42,067)	2,612		2,612
Recoveries (Losses) on investments in associates and companies subject to joint control, goodwill and other intangible assets	(239,000)	(200,000)	(39,000)	(239,000)	-		-
Profits/losses on disposal of investments in associates and companies subject to joint control and other investments	2,345	3,325	(44)	3,281	(936)		(936)
Income (loss) before tax from continuing operations	**(2,760,811)**	**(2,359,222)**	**(71,958)**	**(2,431,180)**	**(326,310)**	**(3,321)**	**(329,631)**
Taxes on income from continuing operations	802,242	668,998	23,582	692,580	108,564	1,098	109,662
Income (loss) after tax from discontinued operations	(48)	(48)		(48)	-		-
Income/loss attributable to minority interests	38,714	(345)	-	(345)	39,059	-	39,059
Net income (loss) without FVO	**(1,919,903)**	**(1,690,617)**	**(48,376)**	**(1,738,993)**	**(178,687)**	**(2,223)**	**(180,910)**
Change in the Bank's creditworthiness (FVO)	(38,828)	(38,828)		(38,828)	-		-
Taxes on the change in creditworthiness (FVO)	12,840	12,840		12,840	-		-
FVO impact	**(25,988)**	**(25,988)**	**-**	**(25,988)**	**-**	**-**	**-**
Net income (loss)	**(1,945,891)**	**(1,716,605)**	**(48,376)**	**(1,764,981)**	**(178,687)**	**(2,223)**	**(180,910)**

(in thousands of euro)	2013						
	Official Financial Statements	Banco Popolare without PPA	PPA BPI	Contribution of Banco Popolare	Banca Italease without PPA	PPA Italease	Contribution of Italease
Interest margin	1,646,982	1,603,719	3,405	1,607,124	44,039	(4,181)	39,858
Dividends and profits from investments in shareholders' equity	(27,403)	(22,820)		(22,820)	(4,583)		(4,583)
Financial margin	**1,619,579**	**1,580,899**	**3,405**	**1,584,304**	**39,456**	**(4,181)**	**35,275**
Net fee and commission income	1,387,062	1,384,501		1,384,501	2,561		2,561
Other net operating income/expense	189,184	198,000	(32,278)	165,722	23,462		23,462
Net financial result (without FVO)	388,744	395,034		395,034	(6,290)		(6,290)
Other operating income	**1,964,990**	**1,977,535**	**(32,278)**	**1,945,257**	**19,733**	**-**	**19,733**
Operating income	**3,584,569**	**3,558,434**	**(28,873)**	**3,529,561**	**59,189**	**(4,181)**	**55,008**
Personnel expenses	(1,446,735)	(1,432,038)		(1,432,038)	(14,697)		(14,697)
Other administrative expenses net of recoveries	(667,107)	(620,125)		(620,125)	(46,982)		(46,982)
Value adjustments on property and equipment and intangible assets	(139,998)	(120,522)	(3,634)	(124,156)	(15,842)		(15,842)
Operating expenses	**(2,253,840)**	**(2,172,685)**	**(3,634)**	**(2,176,319)**	**(77,521)**	**-**	**(77,521)**
Income (loss) from operations	**1,330,729**	**1,385,749**	**(32,507)**	**1,353,242**	**(18,332)**	**(4,181)**	**(22,513)**
Net value adjustments on loans (customers)	(1,691,418)	(1,464,098)		(1,464,098)	(227,320)		(227,320)
Net value adjustments on other assets	(161,464)	(161,453)		(161,453)	(11)		(11)
Provisions for risks and charges	(121,431)	(120,292)		(120,292)	(1,139)		(1,139)
Recoveries (Losses) on investments in associates and companies subject to joint control, goodwill and other intangible assets	95,246	95,246		95,246	-		-
Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments	4,789	7,173	(364)	6,809	(2,020)		(2,020)
Income (loss) before tax from continuing operations	**(543,549)**	**(257,675)**	**(32,871)**	**(290,546)**	**(248,822)**	**(4,181)**	**(253,003)**
Taxes on income from continuing operations	48,913	(30,379)	10,726	(19,653)	67,183	1,383	68,566
Income (Loss) after tax from discontinued operations	(29,595)	(29,595)		(29,595)	-		-
Income (Loss) attributable to minority interests	13,749	(2,149)	11	(2,138)	15,869	18	15,887
Net income (loss) without FVO	**(510,482)**	**(319,798)**	**(22,134)**	**(341,932)**	**(165,770)**	**(2,780)**	**(168,550)**
Change in the Bank's creditworthiness (FVO)	(143,154)	(143,154)		(143,154)	-		-
Taxes on the change in creditworthiness (FVO)	47,341	47,341		47,341	-		-
FVO Impact	**(95,813)**	**(95,813)**	**-**	**(95,813)**	**-**	**-**	**-**
Net income (loss)	**(606,295)**	**(415,611)**	**(22,134)**	**(437,745)**	**(165,770)**	**(2,780)**	**(168,550)**

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

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

- the results of disposal transactions relating to all fixed assets ((investments in associates and companies subject to joint control, property and equipment) are considered to be non-recurrent;
- gains and losses on non-current assets held for sale and discontinued operations are considered to be non-recurrent;
- the income statement components associated with improvements, reorganisations, etc. (e.g. expenses for use of the redundancy fund, leaving incentives) are considered to be non-recurrent;
- income statement components for a significant amount which are not destined to reoccur frequently (e.g. fines, impairments of fixed assets, effects associated with legislative changes, exceptional results, etc.) are considered to be non-recurrent;
- impacts on the income statement, as long as significant, resulting from valuation aspects and/or changes in parameters in the application of the valuation methods applied on an on-going basis are instead considered to be recurrent.

In the light of the above criteria and in addition to the amounts already included in items that are per se non-recurrent (e.g. profit (loss) on assets held for sale), the main non-recurrent components that influenced the Group's net result as at 31 December 2014 are as follows:

- in relation to **personnel expenses**, the recognition of an extraordinary charge (euro 138.2 million) resulting from the agreements reached with the Trade Unions at the end of July and end of November 2014, regarding the future departure of 578 resources through the use of the system's solidarity fund. On this matter, note that last year's income statement included extraordinary charges for the solidarity fund totalling euro 135.5 million, in addition to leaving incentives of euro 6.2 million. In consideration of the loss recognised in both years, the two income statements presented for comparison have benefitted from the absence or reduced amount of variable compensation;

- in relation to **other administrative expenses**, the recognition of out-of-period income generated by the non-existence of several debts amounting to euro 7 million before tax;
- in the item **value adjustments on property and equipment and intangible assets**, the recognition of value adjustments of euro 68 million, gross, due to several properties being classified as investments in order to bring their book value in line with the recoverable value estimated on the basis of the most recent appraisals. Again, with regard to value adjustments on property and equipment and intangible assets, the income statement benefited from lower amortisation of around euro 6.7 million relating to the longer useful life of applications software to align the same more closely to the actual period for which the assets are used;
- in the item **value adjustments on loans**, it is clear that the substantial amount (euro 2,496.1 million) charged in the fourth quarter of the year includes a significant non-recurrent component. This component cannot be objectively determined due to the inherent characteristics of the loan valuation process;
- in relation to **value adjustments on investments in associates and companies subject to joint control, goodwill and other intangible assets**, the entire amount is non-recurrent, consisting of impairment on goodwill for the Cash Generating Unit "Private & Investment Banking" for euro 200 million and impairment on intangible assets with definite useful life for euro 39 million;
- in the item **FVO impact**, a negative contribution of euro 38.8 million before tax, resulting from the change in the book value of own financial liabilities issued at fair value as a consequence of the change in creditworthiness with respect to the previous year. In 2013, taking into account the effect of buy-backs of Tier 1 and Tier 2 securities, the income statement for the period recorded a negative impact of euro 143.2 million before tax.
- in the item **taxes on income from continuing operations**, the charge related to the adjustment of the tax recognised on capital gains recorded by the Group in the prior year following the transaction to change the stakes held in the share capital of the Bank of Italy, as envisaged by Italian Decree Law 66/2014, which set the rate of substitute tax on the revaluation of the equity investment as 26%, compared with the rate initially established by Italian Law 147/2013 (so-called "stability law"). This higher amount of tax resulted in an extraordinary charge of euro 14.5 million.

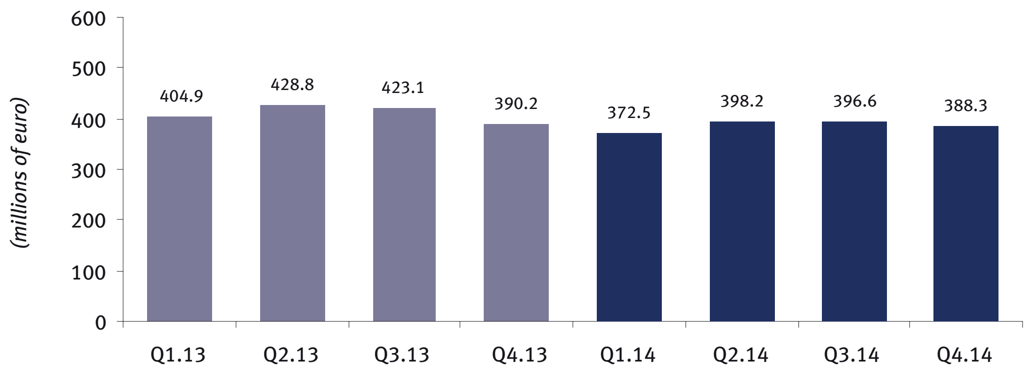
Instead, the prior year's income statement reflected, in addition to the effects noted previously of the change in the Bank's creditworthiness and the recognition of charges associated with the future departure of personnel, capital gains recorded in the item **net financial result** resulting from the buyback of financial liabilities and the early closure of the related derivatives (euro +37.6 million), from the sale of the shareholding in Azimut Holding S.p.A. included in the portfolio of assets available for sale (euro +31.3 million), as well as from the change in the stakes held in the share capital of the Bank of Italy (euro +55.2 million).
In addition, impairments that mostly regarded the investment held in a credit entity (euro -50 million) and investments in private equity funds and in similar investment vehicles classified as financial assets available for sale (euro -50.6 million) were recognised in the item **net adjustments for impairment of other assets**. The item **net provisions for risks and charges** included the estimated charge for the out-of-court settlement of the tax dispute regarding the subsidiary Banca Aletti (euro -81.5 million).
Finally, **recoveries/losses on investments in associates and companies subject to joint control** included the impact of a partial recovery on the investment in Agos Ducato for euro 105.8 million, partially offset by the loss of euro 10.5 million on the investment in Finoa.

Operating income

Interest margin

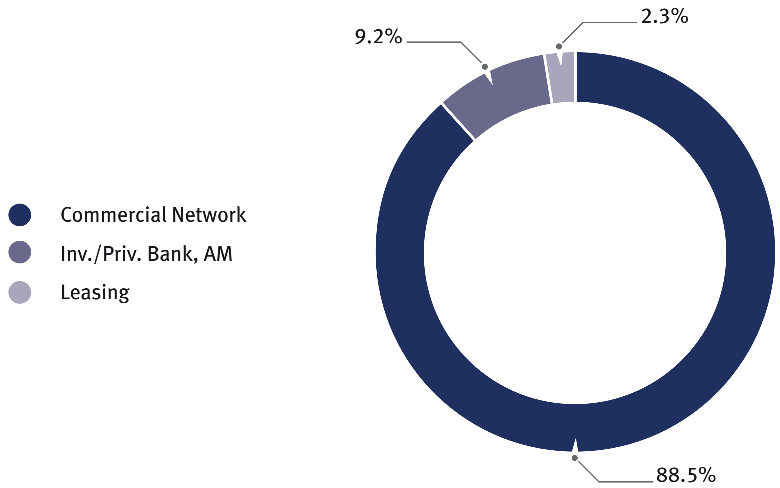
(in thousands of euro)	2014	2013	Absolute change	% change
Financial assets held for trading	208,445	291,462	(83,017)	(28.5%)
Financial assets available for sale	371,031	376,870	(5,839)	(1.5%)
Investments held to maturity	128,917	93,020	35,897	38.6%
Net interest due to banks	(46,711)	(84,818)	(38,107)	(44.9%)
Net interest due to customers	2,133,090	2,306,618	(173,528)	(7.5%)
Hedging derivatives (net balance)	75,964	119,511	(43,547)	(36.4%)
Net interest on other assets/liabilities	2,852	8,246	(5,394)	(65.4%)
Debt securities issued	(702,904)	(766,685)	(63,781)	(8.3%)
Financial liabilities held for trading	(3,043)	(604)	2,439	403.8%
Financial liabilities designated at fair value through profit and loss	(612,066)	(696,638)	(84,572)	(12.1%)
Total	**1,555,575**	**1,646,982**	**(91,407)**	**(5.5%)**

Interest margin



The **interest margin** amounted to euro 1,555.6 million, down 5.5% on the corresponding period of the previous year (euro 1,647.0 million), due to the fall in average gross loans and the negative trend in the mark-down, as a result of the considerable drop in Euribor rates. The contribution for the fourth quarter of 2014 was euro 388.3 million, down from euro 396.6 million in the third quarter, but consistent with the fourth quarter of 2013 (euro 390.2 million). Excluding the contribution from Banca Italease (which in the third quarter of 2014 included extraordinary components for euro 7.4 million), the interest margin on a quarterly basis remains essentially stable, as the reduction in the mark-up (-11 b.p.) resulting from the continued high level of competition on the lending side, was offset by a marked improvement in the mark-down (+7 b.p.) and by lower interest expense paid on institutional funding.

(in thousands of euro)	2014	2013	Absolute change	% change
Commercial Network	1,556,162	1,631,016	(74,854)	(4.6%)
Investment Banking, Private Banking, Asset Management	161,799	115,714	46,085	39.8%
Leasing	40,964	44,039	(3,075)	(7.0%)
Total business areas	**1,758,925**	**1,790,769**	**(31,844)**	**(1.8%)**
Corporate Centre and Other	(200,553)	(143,011)	(57,542)	(40.2%)
PPA	(2,797)	(776)	(2,021)	(260.4%)
Total interest margin	**1,555,575**	**1,646,982**	**(91,407)**	**(5.5%)**



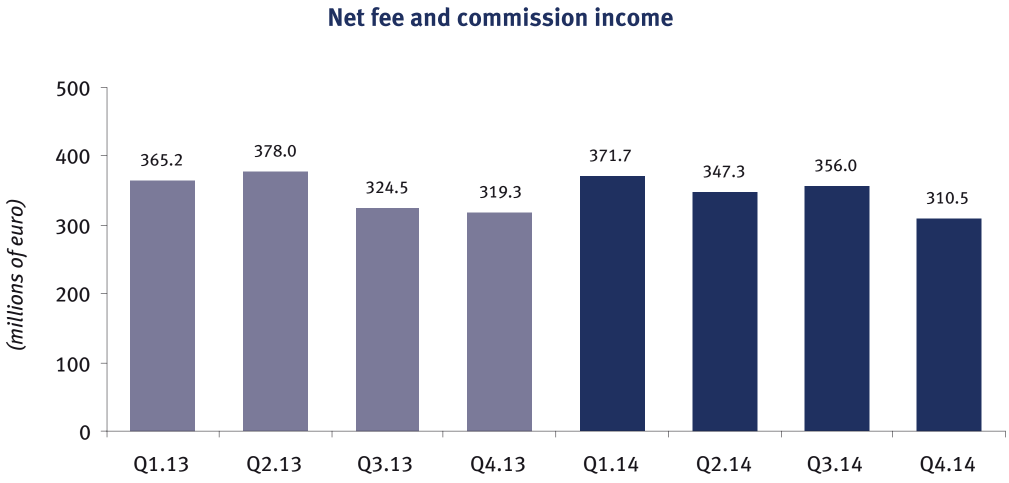
The Commercial Network, which represents around 89% of the results of the business areas, reported net interest down by 4.6%. The Commercial Network made a lower contribution to the 2014 interest margin compared to that of the previous year due to the fall in average loan volumes and the decrease of the average customer spread.
The interest margin of Investment Banking and Asset Management rose against the corresponding period of the previous year, due to the higher contribution of interest resulting from the larger securities portfolio held by the subsidiary Banca Aletti, where the liquidity received by the company for the issue of certificates is invested. The decrease in the contribution from Leasing is due to the gradual reduction in activities, in part sustained by non-recurrent income linked to the closure of securitisation transactions. The overall fall in interest rates reduced the flow of interest into the Parent Company's securities portfolio, leading to a deterioration in the interest margin of the Corporate Centre compared to the same period of 2013.

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

The item **profits (losses) on investments in associates and companies subject to joint control** amounted to euro 90.1 million, compared to euro -27.4 million recorded in the previous year (euro +25 million in the fourth quarter of 2014). The positive contribution to the result for 2014 is mainly due to equity investments held in Popolare Vita (euro +36.9 million against euro 25.4 million as at 31 December 2013), Agos Ducato (euro +39.7 million, while a negative contribution of 51.2 million was recorded in 2013), Avipop Assicurazioni (euro +12.1 million against euro 4.5 million in the previous year), and lastly Energreen (euro +1 million compared to a loss of euro 1.8 million as at 31 December 2013). The contribution from Alba Leasing was marginal, equivalent to euro -0.2 million, compared to euro -4.7 million for the previous year.

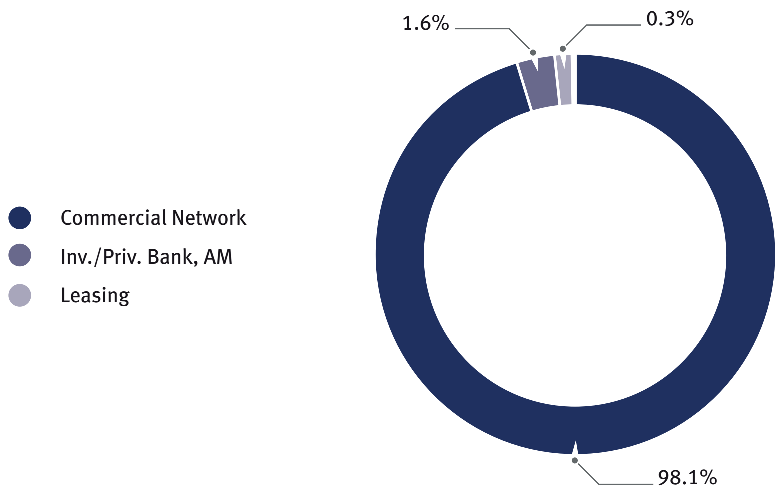
Net fee and commission income

(in thousands of euro)	2014	2013	Absolute change	% change
Management, brokerage and advisory services	663,988	639,178	24,810	3.9%
Distribution of savings products	504,154	484,944	19,210	4.0%
- Placement of securities	3,741	24,955	(21,214)	(85.0%)
- Asset management	357,915	353,343	4,572	1.3%
- Bancassurance	142,498	106,646	35,852	33.6%
Consumer credit	31,072	32,761	(1,689)	(5.2%)
Credit cards	32,783	34,234	(1,451)	(4.2%)
Custodian bank	15,456	11,188	4,268	38.1%
Trading securities, currencies and acceptance of orders	62,981	57,850	5,131	8.9%
Other	17,542	18,201	(659)	(3.6%)
Current account management and loans to customers	516,243	546,338	(30,095)	(5.5%)
Collection and payment services	122,696	123,247	(551)	(0.4%)
Guarantees given	29,585	19,735	9,850	49.9%
Other services	52,935	58,564	(5,629)	(9.6%)
Total	**1,385,447**	**1,387,062**	**(1,615)**	**(0.1%)**



Net fee and commission income amounted to euro 1,385.4 million, essentially unchanged compared to the euro 1,387.1 million recorded last year, with a contribution of euro 310.5 million in the fourth quarter of 2014, down from the figure for the third quarter (euro 356.0 million) but in line with that of the fourth quarter of 2013 (euro 319.3 million). Maintaining the level of fees and commissions that was achieved last year is entirely due to growth in income from management, brokerage and advisory services, equivalent to euro 664.0 million, up 3.9% compared to euro 639.2 million in 2013, due to the distribution of savings products and, in particular, placement of insurance products. This contribution, along with the decline in commissions paid to Bank of Italy for guarantees given against loans obtained from the ECB, offset the drop in the fee and commission income from the maintenance and management of current accounts.

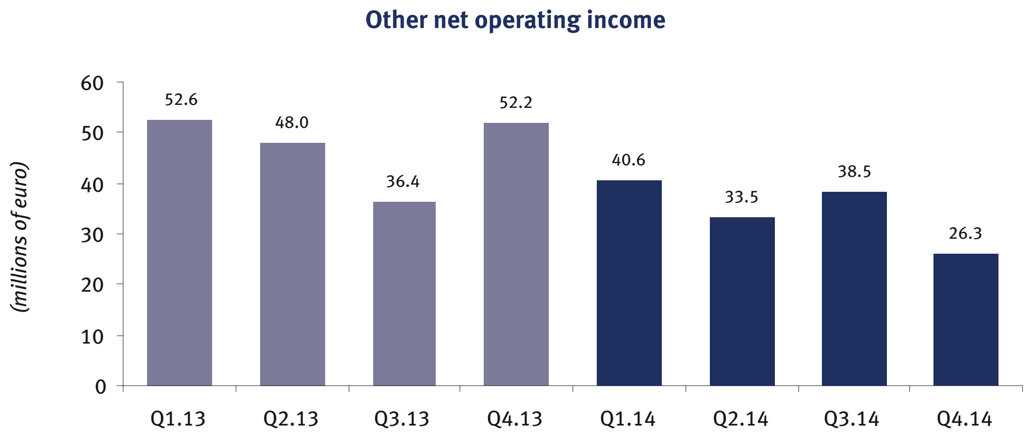
(in thousands of euro)	2014	2013	Absolute change	% change
Commercial Network	1,358,724	1,328,088	30,636	2.3%
Investment Banking, Private Banking, Asset Management	22,733	66,956	(44,223)	(66.0%)
Corporate Centre and Other	4,739	(10,543)	15,282	
Total business areas	**1,386,196**	**1,384,501**	**1,695**	**0.1%**
Leasing	(749)	2,561	(3,310)	
Total net fee and commission income	**1,385,447**	**1,387,062**	**(1,615)**	**(0.1%)**



As with the interest margin, the Commercial Network represents by far the largest source of fee and commission income, up by 2.3% compared to the previous year due to the higher volumes of investment products placed with customers. Instead, Investment Banking & Asset Management posted a decline, due to the fact that, in 2014, fees and commissions expenses that Banca Aletti paid to the Commercial Network for placement of certificates increased, consistent with increase in volumes placed, and, in part, due to commission income received in 2013 but not in 2014 relating to the role of arranger performed by the subsidiary Banca Aletti. Against lower net fee and commission income for Banca Aletti of euro 57 million, there was an increase in placement and management commissions for asset management services performed by Aletti Gestielle SGR, which recorded growth of approximately euro 13 million. The Corporate Centre posted fee and commission income as, during the year, the guarantees given by the ECB expired, with a resulting decline in the cost of fee and commission expense.

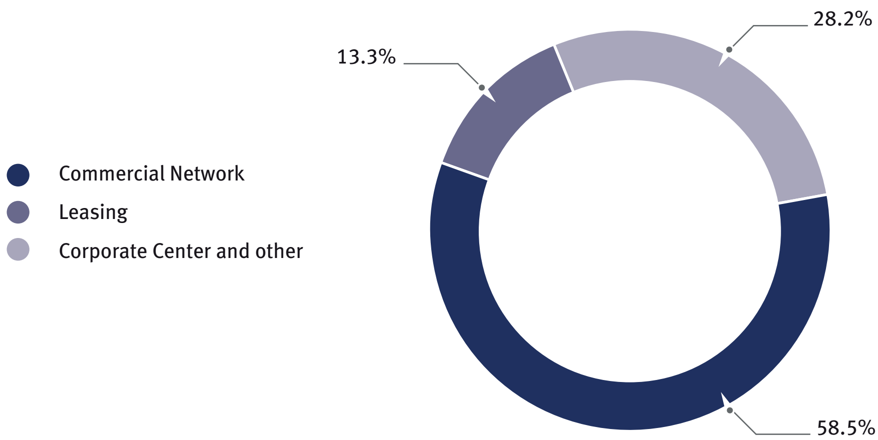
Other net operating income

(in thousands of euro)	2014	2013	Absolute change	% change
Income on current accounts and loans	99,050	149,892	(50,842)	(33.9%)
Rents receivable	52,411	56,699	(4,288)	(7.6%)
Maintenance on property and leased assets	(10,279)	(9,253)	1,026	11.1%
Other income and charges	27,462	24,124	3,338	13.8%
Subtotal	**168,644**	**221,462**	**(52,818)**	**(23.8%)**
Client relationship (PPA)	(29,756)	(32,278)	2,522	7.8%
Total	**138,888**	**189,184**	**(50,296)**	**(26.6%)**



Other net operating income was euro 138.9 million, down compared to euro 189.2 million recorded in 2013, with a contribution in the fourth quarter of euro 26.3 million compared to euro 38.5 million in the third, euro 33.5 million in the second, and euro 40.6 million in the first. This fall was substantially due to the reduction in the amount of fast-track fees charged to customers, also due to the fall in the average volume of loans.

(in thousands of euro)	2014	2013	Absolute change	% change
Commercial Network	99,143	150,127	(50,984)	(34.0%)
Leasing	22,585	23,462	(877)	(3.7%)
Corporate Centre and Other	47,844	47,576	268	0.6%
Total business areas	**169,572**	**221,165**	**(51,593)**	**(23.3%)**
Investment Banking, Private Banking, Asset Management	(928)	297	(1,225)	
PPA	(29,756)	(32,278)	2,522	7.8%
Total other net operating income	**138,888**	**189,184**	**(50,296)**	**(26.6%)**

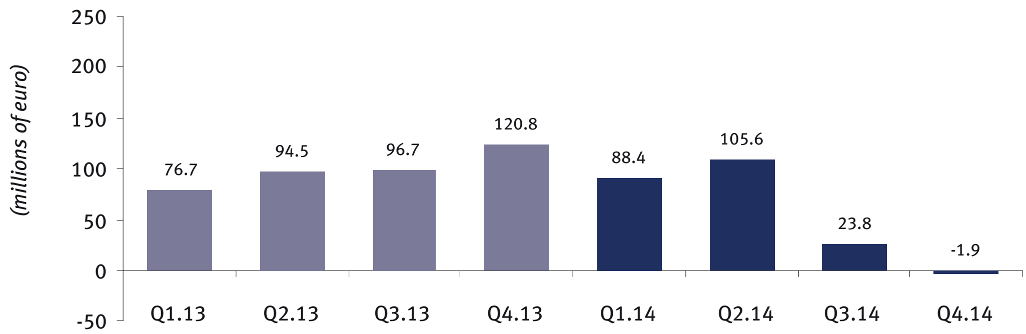


As regards the Commercial Network, the result for the year is mainly linked to fast-track fees, which were down compared to the figure recorded in the previous year. The contribution of Leasing to the consolidated result, down compared to 2013, is related to income from the rental of properties resulting from credit collection, net of charges relating to the maintenance of the same. Instead, the result of the Corporate Centre is due to amounts received from renting the properties of other Group real estate companies to third parties, as well as income from Tecmarket, the latter recording a rise compared to the corresponding period of the previous year.

Net financial result

(in thousands of euro)	2014	2013	Absolute change	% change
Dividends and similar income on financial assets	15,409	10,728	4,681	43.6%
Fair value adjustments in hedge accounting	(6,797)	(7,585)	(788)	(10.4%)
Banca Aletti	116,240	181,429	(65,189)	(35.9%)
Securities portfolio and Parent Company derivatives	91,058	204,172	(113,114)	(55.4%)
Total net of FVO	**215,910**	**388,744**	**(172,834)**	**(44.5%)**
Change in creditworthiness (FVO)	(38,828)	(143,154)	104,326	
Total	**177,082**	**245,590**	**(68,508)**	**(27.9%)**

Net Financial Result (without FVO)

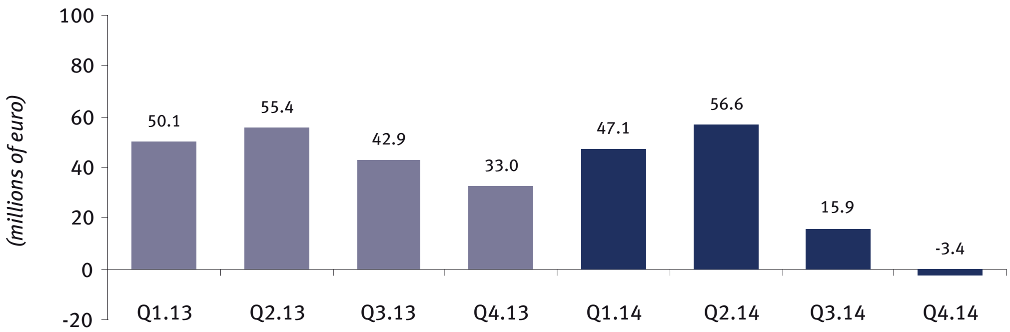


The **net financial result without FVO** was a profit of euro 215.9 million, compared with euro 388.7 million recorded for the previous year, with a contribution of euro -1.9 million in the fourth quarter of 2014.

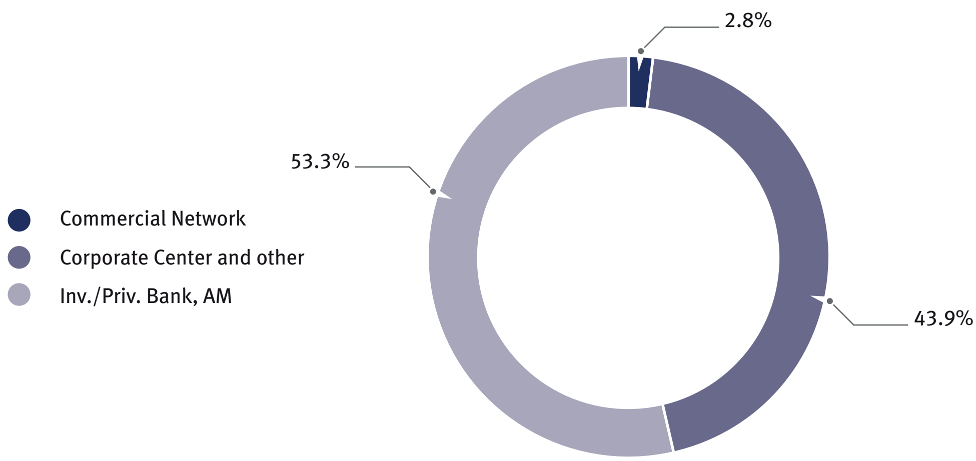
The result shows a sharp decline from the prior year, however, it should be noted that 2013 benefited both from a positive impact of euro 37.6 million due to the repurchase of financial liabilities issued by the Group, and from higher gains, totalling euro 77.6 million, generated by the sale of financial assets available for sale compared to those recognised in 2014. Moreover, the contribution provided by the operations of the subsidiary company Banca Aletti, equivalent to euro 116.2 million as at 31 December 2014, is down from euro 181.4 million for the previous year, resulting from fewer product structuring transactions due to a greater focus on asset management products and favouring a more concentrated production of issuing certificates, which result in a higher contribution of the bank at interest margin level, to the detriment of this income statement item.

The impact of the **change in the creditworthiness of liabilities issued designated at fair value (FVO)**, shown as a separate item on the reclassified income statement, due to the improvement in the creditworthiness of Banco Popolare, was negative for euro 38.8 million (euro -26.0 million after tax), with a contribution in the fourth quarter of euro -5.1 million (euro -3.6 million after tax). The impact of the FVO in 2013 was negative for euro 143.2 million (euro -95.8 million after tax).

Net financial result Banca Aletti

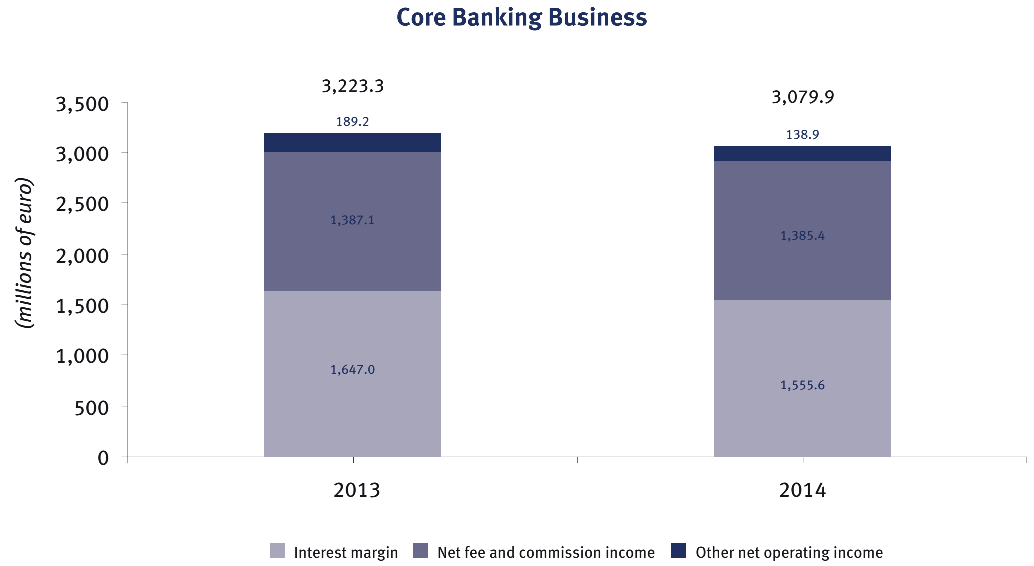


(in thousands of euro)	2014	2013	Absolute change	% change
Commercial Network	6,145	8,853	(2,708)	(30.6%)
Investment Banking, Private Banking, Asset Management	115,817	181,521	(65,704)	(36.2%)
Corporate Centre and Other	95,468	204,660	(109,192)	(53.4%)
Total business areas	**217,430**	**395,034**	**(177,604)**	**(45.0%)**
Leasing	(1,520)	(6,290)	(4,770)	(75.8%)
PPA & FVO	(38,828)	(143,154)	104,326	
Total net financial result	**177,082**	**245,590**	**(68,508)**	**(27.9%)**



The contribution of the Investment Banking segment to the consolidated net financial result, net of the change in creditworthiness of its own liabilities issued, is mostly due to the result of the subsidiary Banca Aletti, which was euro 116.2 million (euro 181.4 as at 31 December 2013). Given sales volumes of structured products and trading derivatives that were down compared to the previous year, the decline in the contribution is due to the increase of the interest margin, resulting from the decision to extend certificate issuing activities.

The fall in the contribution of the Corporate Centre to the net financial result is mainly justified by the fact that the income statement for the prior year benefited both from a positive impact of euro 37.6 million due to the repurchase of financial liabilities issued by the Group, and from higher gains generated by the sale of financial assets available for sale compared to those recognised in 2014. The lower contribution in 2014 was mitigated by the increase of capital gains generated by the Parent Company’s securities portfolio, also resulting from the narrowing of the credit risk spread for Italy which occurred in the market during the year.

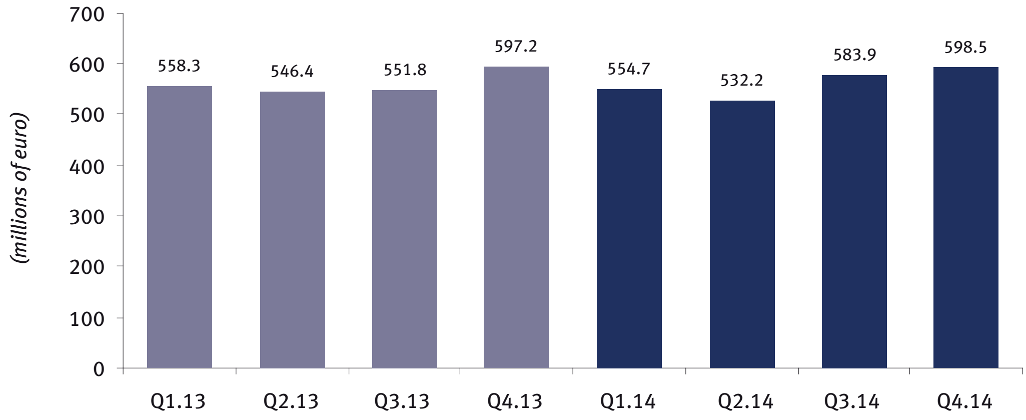


Taking only the revenues of the “core banking business” into account, represented by the sum of the aggregates relating to the interest margin, 2014 proceeds showed a decline of 4.4% compared to the previous year, while the contribution of the fourth quarter of 2014 was euro 725.1 million. The decline against 2013 is due to the lower contribution from the net financial result.

Operating expenses

(in thousands of euro)	2014	2013	Absolute change	% change
Personnel expenses	**1,432,331**	**1,446,735**	(14,404)	(1.0%)
- Leaving incentives and solidarity funds	138,242	141,656	(3,414)	(2.4%)
- Other personnel expenses	1,294,089	1,305,079	(10,990)	(0.8%)
Other administrative expenses	**645,094**	**667,107**	(22,013)	(3.3%)
- Taxes and duties	245,351	228,420	16,931	7.4%
- Services and advisory services	220,382	233,485	(13,103)	(5.6%)
- Properties	197,042	191,068	5,974	3.1%
- Postal, telephone and stationery	39,317	42,629	(3,312)	(7.8%)
- Maintenance and rentals for furniture, machines and equipment	27,690	38,154	(10,464)	(27.4%)
- Advertising and representation	22,925	22,882	43	0.2%
- Other administrative expenses	89,540	103,081	(13,541)	(13.1%)
- Recovery of expenses	(197,153)	(192,612)	4,541	2.4%
Value adjustments on property and equipment	**191,903**	**139,998**	51,905	37.1%
- Value adjustments on property and equipment	76,205	75,783	422	0.6%
- Value adjustments on intangible assets	39,262	47,089	(7,827)	(16.6%)
- Value adjustments on improvements to third party assets	8,874	10,084	(1,210)	(12.0%)
- Net losses on impairment	67,562	7,042	60,520	859.4%
Total	**2,269,328**	**2,253,840**	**15,488**	**0.7%**

Operating expenses



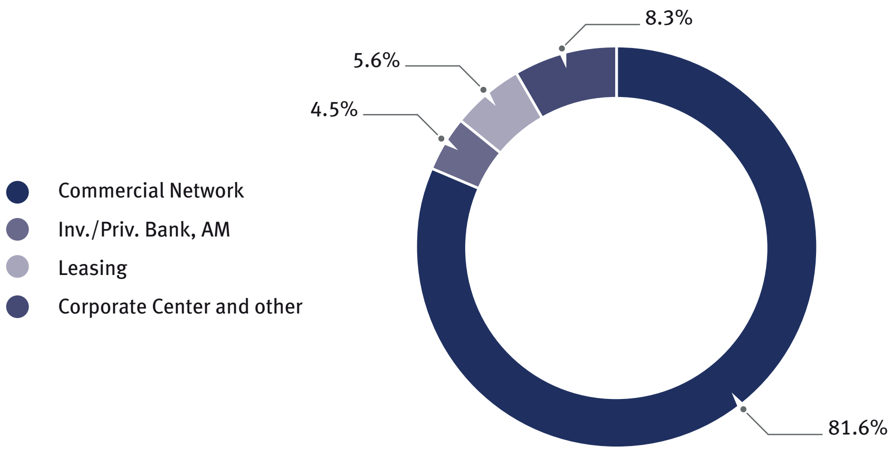
Personnel expenses were euro 1,432.3 million, with a fourth quarter contribution of euro 376.1 million, and were down 1.0% compared to euro 1,446.7 million recorded in the previous year. Expenses charged to the income statement for the year include the estimated charge for the agreement reached with the Trade Unions for the departure of 578 individuals (euro 138.2 million). The charge was partially offset by the reduction of variable pay and of other provisions at the time of preparation of last year's financial statements. In addition, the figure for 2013 included similar charges totalling euro 141.7 million for the future exit of 758 employees, which, also in that case, was partially offset by containment actions on variable pay for all employees. Considering the different net impact of the aforementioned extraordinary charges, the total cost for 2014 was essentially in line with 2013. As at 31 December 2014, the total number of employees was 17,179 "full time equivalents" (17,671 FTE as at 31 December 2013, figure made comparable for comparison purposes), compared to 17,543 FTE as at 30 September 2014.

Careful cost control measures were also implemented for **other administrative expenses**, which amounted to euro 645.1 million as at 31 December 2014, down 3.3% compared to euro 667.1 million recorded in 2013, with a fourth quarter contribution of euro 135.5 million, compared to euro 170.9 million in the third quarter. The reduction in expenses was due in part to the recognition of the non-existence of several debts provided for during the previous year, the impact of which was euro 7 million in the first quarter.

Net value adjustments on property and equipment and intangible assets for the year amounted to euro 191.9 million, compared to euro 140.0 million recorded as at 31 December 2013, with a contribution in the fourth quarter of euro 86.8 million, compared to euro 31 million in the third quarter. This annual increase is mainly due to value adjustments recorded in the fourth quarter (euro -50.4 million) and first quarter (euro -17.6 million) for several properties classified as investments. These adjustments were recognised to bring their book value in line with the recoverable value estimated on the basis of the most recent appraisals. Value adjustments due to impairment were euro 7.0 million for the previous year.
This item benefitted from the effect of the increase in the useful life of several fixed asset categories. The impact on the income statement of this adjustment recognised in the second quarter was estimated at euro 6.7 million.

Total **operating expenses** were, therefore, euro 2,269.3 million and showed an increase of 0.7% compared to euro 2,253.8 million recorded in the previous year. Excluding value adjustments of an extraordinary nature, this item shows a 2% reduction from the corresponding figure for 2013. The cost/income ratio for the period, calculated as the relationship between total operating expenses, net of extraordinary value adjustments for impairment, and total income, net of the impact of the change in creditworthiness, was 61.3%.

(in thousands of euro)	2014	2013	Absolute change	% change
Commercial Network	1,848,940	1,856,159	(7,219)	(0.4%)
Investment Banking, Private Banking, Asset Management	101,883	111,402	(9,519)	(8.5%)
Leasing	127,745	77,521	50,224	64.8%
Corporate Centre and Other	187,078	205,124	(18,046)	(8.8%)
Total business areas	**2,265,646**	**2,250,206**	**15,440**	**0.7%**
PPA	3,682	3,634	48	1.3%
Total operating expenses	**2,269,328**	**2,253,840**	**15,488**	**0.7%**



The sharp increase in operating costs for Leasing is solely attributable to the value adjustments for impairment on certain properties obtained as *datio in solutum* (transfer in lieu of payment), carried out to adjust the book value to the updated appraisal values.

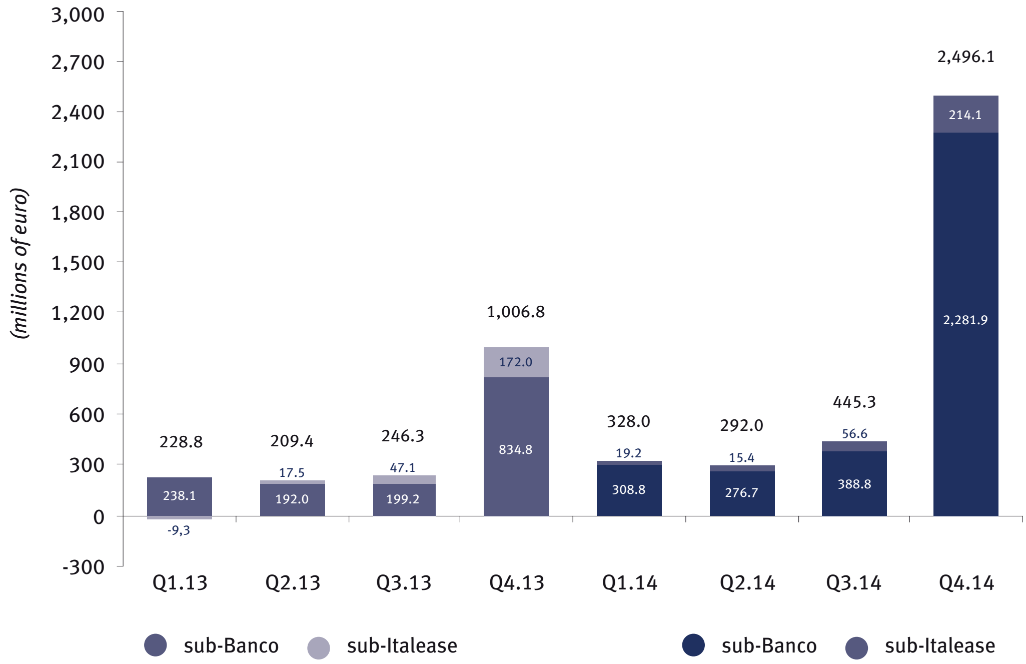
Income (loss) from operations

Thus, the income from operations amounts to euro 1,116.6 million, down compared to euro 1,330.7 million last year, a reduction of euro 214.1 million in absolute value, due to both the contraction in core revenues (and in particular to the net financial result) as well as adjustments for impairment of property and equipment.

Adjustments and provisions

(in thousands of euro)	2014	BP Stand Alone	Sub-Italease
Non performing loans	**3,407,055**	**3,089,937**	**317,118**
- Bad loans	1,766,470	1,622,500	143,970
- Substandard loans	1,314,179	1,152,459	161,720
- Restructured loans	261,676	251,205	10,471
- Past due loans	64,730	63,773	957
Performing loans	**154,376**	**166,208**	**(11,832)**
Total	**3,561,431**	**3,256,145**	**305,286**

Net adjustments on loans to customers



Net adjusments on impairment of loans to customers were euro 3,561.4 million (compared to euro 1,691.4 million last year), with a contribution in the fourth quarter of euro 2,496.1 million. The considerable amount of adjustments in the fourth quarter of 2014 is primarily explained by the decisions taken after analysing the results of the AQR exercise performed following the publication of the details by the ECB. For a more detailed discussion of the accounting impacts resulting from changes made to valuation policies, models and parameters, refer to the specific paragraph, “Results of the Comprehensive Assessment exercise: impact on the accounts (Disclosure required by Consob pursuant to art. 114, paragraph 5, of Italian Legislative Decree no. 58/98)” in this section. The cost of credit, measured by the ratio of net value adjustments on loans to gross loans, was 406 basis points YOY, compared with 185 basis points recorded last year.

In addition, the 2014 income statement included **net adjustments for impairment of other assets** for euro 39.8 million, compared to euro 161.5 million in the prior year. The adjustments regard financial assets available for sale and, more specifically shares of funds and equity investments, for euro 17.6 million, and debt instruments related to securitisation transactions included in the customer loan portfolio for euro 11.1 million.

Net provisions for risks and charges amount to euro 39.5 million (of which, euro 50.6 million for the fourth quarter against recoveries recognised in the first nine months for euro 11.1 million), compared to euro 121.4 million in 2013. The provisions were prudently allocated against outstanding legal and tax disputes.

Value adjustments on investments in associates and companies subject to joint control, goodwill and other intangible assets include impairment losses for goodwill attributed to the Cash Generating Unit “Private & Investment Banking” for euro 200.0 million. This partial impairment is the result of the annual audit of the reference macroeconomic situation. The sharp decline in interest rates and stagnation in the Gross Domestic Product have led to the use of a multi-scenario approach in performing the annual impairment test on intangible assets allocated to the CGUs. The resulting reduction in cash flows assumed in the reference scenario, in particular the most prudent scenario, along with the expected increase in the target capital thresholds for regulatory purposes, brought about a decrease in the estimated recoverable value of the CGU indicated above compared to the previous year. A similar logic rendered it necessary to recognise additional impairment on intangible assets with definite useful lives for a total of euro 39 million. In 2013, no impairment was recognised, instead the 2013 income statement benefitted from the recognition of a net recovery in investments for a total of euro 95.2 million, attributable to the investment in Agos Ducato (euro 105.8 million).

During the period, **profits on disposal of investments in associates and companies subject to joint control and other investments** of euro 2.3 million were recorded (euro +4.8 million in 2013), mainly resulting from capital gains on the disposal of owned real estate (just as in the previous year).

Income (loss) before tax from continuing operations

Income (loss) before tax from continuing operations was therefore a loss of euro 2,760.8 million, compared to a gross loss of euro 543.5 million recorded in the previous year.

Other economic components of net income (loss)

Taxes on income from continuing operations generated a positive balance of euro 802.2 million, against euro 48.9 million in the previous year. The 2014 tax burden suffered the impact of higher taxation on the capital gain recorded in 2013 from the revaluation of the stakes held in the share capital of the Bank of Italy of euro 14.5 million.

Income/loss after tax from discontinued operations posted a marginal loss. As at 31 December 2013, it amounted to euro -29.6 million and included the contribution of the subsidiary BP Croatia in the process of being disposed.

Given the option of charging losses of euro 38.7 million to minority interests (in 2013, a loss of euro 13.7 million was credited to minority interests), and considering the impact of the FVO explained previously, 2014 closed with a **loss for the year** of euro 1,945.9 million, compared to a loss of euro 606.3 million recorded in the previous year.

Consolidated statement of financial position figures

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

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

Reclassified asset items *(in thousands of euro)*	31/12/2014	31/12/2013 (*)	Changes	
Cash and cash equivalents	619,529	639,632	(20,103)	(3.1%)
Financial assets and hedging derivatives	26,190,599	23,949,013	2,241,586	9.4%
Due from banks	5,058,816	3,753,227	1,305,589	34.8%
Loans to customers	79,823,603	86,148,995	(6,325,392)	(7.3%)
Investments in associates and companies subject to joint control	1,061,412	1,033,764	27,648	2.7%
Property and equipment	2,139,962	2,052,250	87,712	4.3%
Intangible assets	2,049,912	2,299,243	(249,331)	(10.8%)
Non-current assets held for sale and discontinued operations	94,308	390,860	(296,552)	(75.9%)
Other assets	6,043,545	5,134,543	909,002	17.7%
Total	**123,081,686**	**125,401,527**	**(2,319,841)**	**(1.8%)**

Reclassified liabilities and shareholders’ equity *(in thousands of euro)*	31/12/2014	31/12/2013 (*)	Changes	
Due to banks	17,383,317	17,403,066	(19,749)	(0.1%)
Due to customers, debt securities issued and financial liabilities designated at fair value through profit and loss	86,513,468	90,017,669	(3,504,201)	(3.9%)
Financial liabilities and hedging derivatives	6,650,235	4,516,607	2,133,628	47.2%
Liability provisions	1,281,459	1,287,617	(6,158)	(0.5%)
Liabilities associated with non-current assets held for sale and discontinued operations	-	275,511	(275,511)	
Other liabilities	3,176,858	3,378,404	(201,546)	(6.0%)
Minority interests	12,130	349,039	(336,909)	(96.5%)
Shareholders’ equity	8,064,219	8,173,614	(109,395)	(1.3%)
- Capital and reserves	10,010,110	8,779,909	1,230,201	14.0%
- Net income (loss)	(1,945,891)	(606,295)	1,339,596	220.9%
Total	**123,081,686**	**125,401,527**	**(2,319,841)**	**(1.8%)**

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

Reclassified consolidated statement of financial position - Quarterly changes

Reclassified asset items *(in thousands of euro)*	31/12/2014	30/09/2014 (*)	30/06/2014 (*)	31/03/2014 (*)	31/12/2013 (*)
Cash and cash equivalents	619,529	540,157	532,165	514,595	639,632
Financial assets and hedging derivatives	26,190,599	25,474,858	25,001,748	24,966,087	23,949,013
Due from banks	5,058,816	4,593,684	4,379,141	4,029,174	3,753,227
Loans to customers	79,823,603	84,042,428	84,611,341	85,517,861	86,148,995
Investments in associates and companies subject to joint control	1,061,412	1,036,910	1,012,660	1,042,598	1,033,764
Property and equipment	2,139,962	2,020,249	2,026,545	2,026,028	2,052,250
Intangible assets	2,049,912	2,295,977	2,299,414	2,299,276	2,299,243
Non-current assets held for sale and discontinued operations	94,308	94,518	107,910	390,860	390,860
Other assets	6,043,545	5,314,501	5,564,703	5,472,536	5,134,543
Total	**123,081,686**	**125,413,282**	**125,535,627**	**126,259,015**	**125,401,527**

Reclassified liabilities and shareholders' equity *(in thousands of euro)*	31/12/2014	30/09/2014 (*)	30/06/2014 (*)	31/03/2014 (*)	31/12/2013 (*)
Due to banks	17,383,317	17,501,578	16,425,720	17,595,170	17,403,066
Due to customers, debt securities issued and financial liabilities designated at fair value through profit and loss	86,513,468	85,508,719	87,060,516	89,022,246	90,017,669
Financial liabilities and hedging derivatives	6,650,235	6,556,131	5,772,995	4,910,841	4,516,607
Liability provisions	1,281,459	1,179,754	1,189,179	1,230,870	1,287,617
Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	275,422	275,511
Other liabilities	3,176,858	4,751,662	5,083,677	4,691,771	3,378,404
Minority interests	12,130	42,170	46,802	340,448	349,039
Shareholders' equity	8,064,219	9,873,268	9,956,738	8,192,247	8,173,614
- Capital and reserves	10,010,110	9,995,014	9,950,724	8,211,201	8,779,909
- Net income (loss)	(1,945,891)	(121,746)	6,014	(18,954)	(606,295)
-	**123,081,686**	**125,413,282**	**125,535,627**	**126,259,015**	**125,401,527**

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

Loan brokering activities

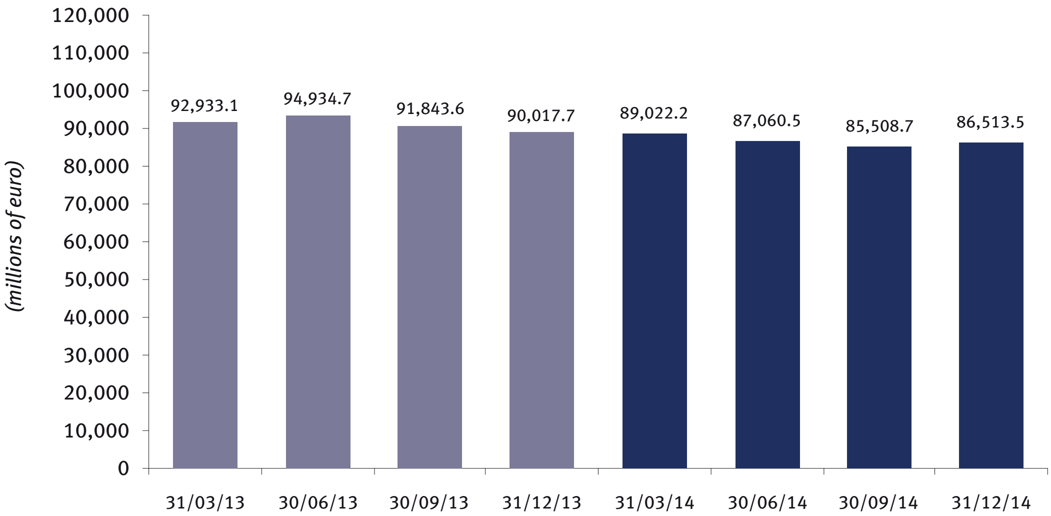
The trends in the main statement of financial position items as at 31 December 2014 are illustrated below, compared with the figures as at 31 December of the previous year.

Note that, in order to understand the contribution of Banca Italease and its subsidiaries, the analysis of the loans aggregate as at 31 December 2014 has also been broken down, separating the component relating just to companies that are part of the former Banca Italease Group from the residual component ("Banco Popolare stand-alone"). Both the aggregates have been stated before the effects of the infragroup transactions which took place between the Banco Popolare stand-alone Group companies and those of the former Banca Italease Group.

Direct funding

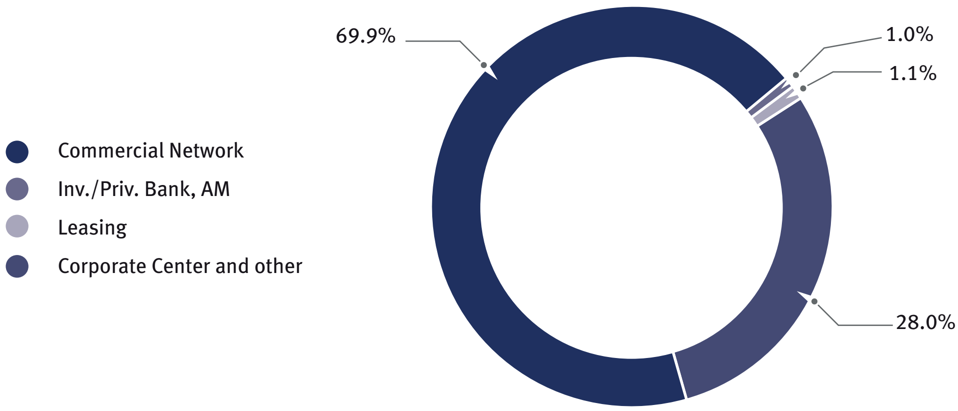
(in thousands of euro)	31/12/2014	% impact	31/12/2013	% impact	Absolute change	% change
Due to customers	**54,778,714**	**63.3%**	**47,708,195**	**53.0%**	**7,070,519**	**14.8%**
Deposits and current accounts	44,537,835	51.5%	39,664,672	44.1%	4,873,163	12.3%
- current accounts and demand deposits	40,806,181	47.2%	37,045,267	41.2%	3,760,914	10.2%
- time deposits	3,731,654	4.3%	2,619,405	2.9%	1,112,249	42.5%
Repurchase agreements	8,672,112	10.0%	6,489,066	7.2%	2,183,046	33.6%
Loans and other payables	1,568,767	1.8%	1,554,457	1.7%	14,310	0.9%
Securities	**31,734,754**	**36.7%**	**42,309,474**	**47.0%**	**(10,574,720)**	**(25.0%)**
Bonds and other securities	29,669,773	34.3%	39,763,795	44.2%	(10,094,022)	(25.4%)
Certificates of deposit	2,064,981	2.4%	2,545,679	2.8%	(480,698)	(18.9%)
Total direct funding	**86,513,468**	**100.0%**	**90,017,669**	**100.0%**	**(3,504,201)**	**(3.9%)**

Direct funding



As at 31 December 2014, direct funding totalled euro 86.5 billion, a decrease of 3.9% compared to euro 90.0 billion as at 31 December 2013, and an increase of 1.2% compared to euro 85.5 billion recorded as at 30 September 2014. The decrease over the year, linked to a corresponding decrease in asset volumes, is attributable to the decline in bond deposits (mainly retail), due to the partial substitution with other forms of funding that are less costly, and due to the repayment plan that aims to reduce the overall cost of funding. The reduction in this component was partially offset by growth in funding in the strictest sense, as represented by current accounts and deposits (+9.1% annually, +3.4% quarterly), as well as growth in repurchase agreement and securities lending transactions. Furthermore, the decline in direct funding was largely offset by the stable liquidity generated by the stock of certificates, equivalent to euro 3.8 billion in nominal value as at 31 December 2014 (euro 1.6 billion as at 31 December 2013).
Performance in the last quarter was attributable to additional growth in repurchase agreement and securities lending transactions and the increase in current accounts and deposits, which more than offset the drop in the bond component.

(in thousands of euro)	31/12/2014	% impact	31/12/2013	% impact	% change
Commercial Network	60,432,494	69.9%	61,596,899	68.4%	(1.9%)
Investment Banking, Private Banking, Asset Management	897,717	1.0%	750,740	0.8%	19.6%
Leasing	928,465	1.1%	1,145,159	1.3%	(18.9%)
Corporate Centre and Other	24,261,243	28.0%	26,531,749	29.5%	(8.6%)
Total business areas	**86,519,919**	**100.0%**	**90,024,547**	**100.0%**	**(3.9%)**
PPA	(6,451)		(6,878)		(6.2%)
Total direct funding	**86,513,468**		**90,017,669**		**(3.9%)**

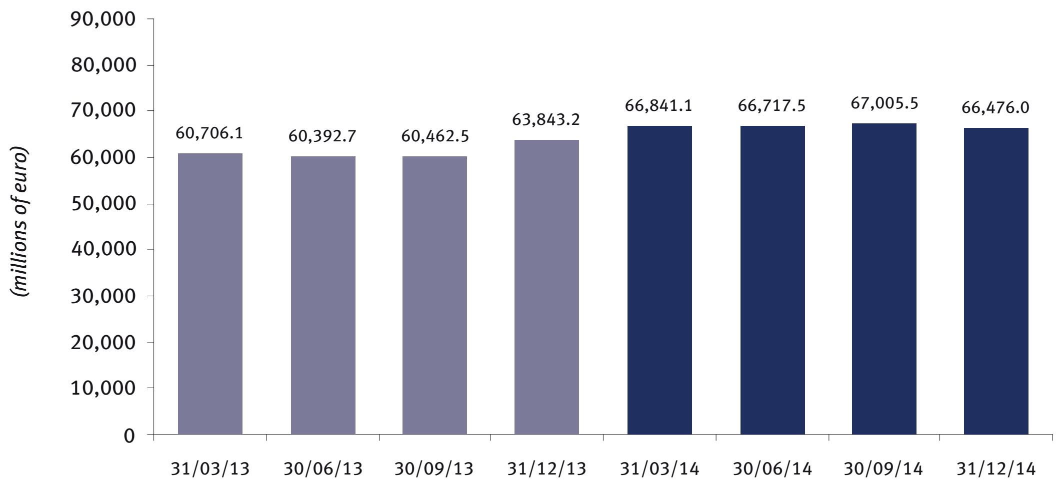


The reduction in funding related to the Commercial Network is linked to the early repayment of costly retail bond issues, only partially offset by rather significant growth in direct funding in the strictest sense (current accounts and deposits) in both the corporate and retail segment. As regards the Investment Banking & Asset Management sector, the increase was due to growth in securities lending transactions by the subsidiary Banca Aletti. Funding related to the Corporate Centre is entirely due to the liabilities issued by the Parent Company and subscribed by institutional customers, which suffered a further decrease in the year as a result of the natural maturity of bond issues, without significant new issues. Funding from Leasing was down, in line with the progressive fall in loans.

Indirect funding

(in thousands of euro)	31/12/2014	% impact	31/12/2013	% impact	Absolute change	% change
Managed assets	**32,552,617**	**49.0%**	**28,761,684**	**45.1%**	**3,790,933**	**13.2%**
- mutual funds and SICAVs	15,539,403	23.4%	12,868,210	20.2%	2,671,193	20.8%
- securities and fund management	6,716,079	10.1%	6,530,648	10.2%	185,431	2.8%
- insurance policies	10,297,135	15.5%	9,362,826	14.7%	934,309	10.0%
of which: Lawrence Life policies	*3,070,044*	*4.6%*	*2,969,010*	*4.7%*	*101,034*	*3.4%*
Administered assets	**33,923,385**	**51.0%**	**35,081,477**	**54.9%**	**(1,158,092)**	**(3.3%)**
Total indirect funding	**66,476,003**	**100.0%**	**63,843,161**	**100.0%**	**2,632,842**	**4.1%**

Indirect funding



Indirect funding totalled euro 66.5 billion, up 4.1% compared to euro 63.8 billion recorded at the beginning of the year (-0.8% compared to euro 67 billion as at 30 September 2014).
The increase recorded in 2014 is due solely to the managed assets component (+13.2% from the beginning of the year), while administered assets decreased (-3.3% from the end of 2013). The increase is substantially due to placements of shares of funds and SICAVs (+20.8% against the end of 2013) and of insurance policies (+10.0%).

On the other hand, the drop in the fourth quarter was due to administered assets, for which the value of the equity component declined, mainly due to the effect of the decline in banking share prices, including Banco Popolare shares.

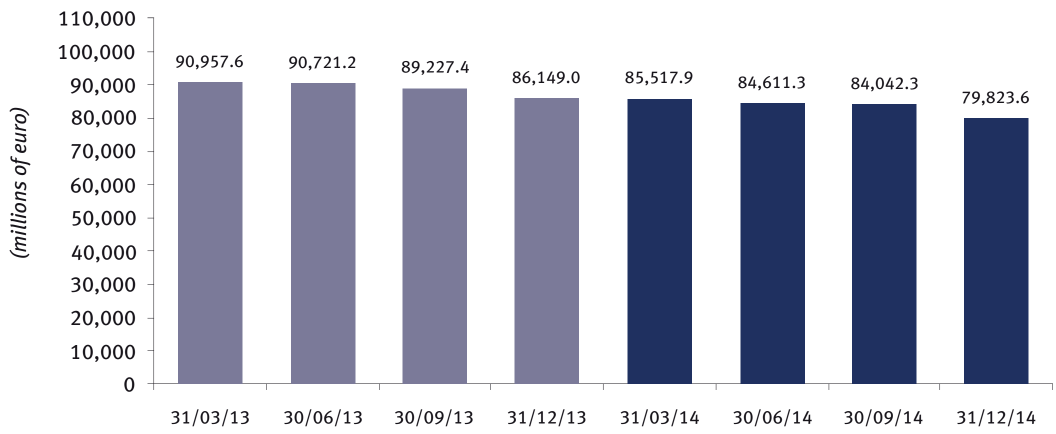
Excluding administered and managed assets deriving from institutional customers (mutual investment funds, banking foundations, merchant banks, leasing and factoring companies, SIMs (Investment management companies), SICAVs, fund management companies, insurance companies, pension funds and other welfare funds, central control authorities and banking trade associations) from the aggregate, administered and managed assets amounted to euro 57.2 billion, up euro 3 billion (+5.5%) compared to volumes as at 31 December 2013 (euro 54.2 billion).
Total administered assets, both in the form of direct and indirect funding, amounted to euro 153.5 billion, net of the direct funding underlying the insurance policies placed by the Group, essentially unchanged (-0.2%) from the figure as at 31 December 2013 (euro 153.9 billion).

Loans to customers

Banco Popolare Group

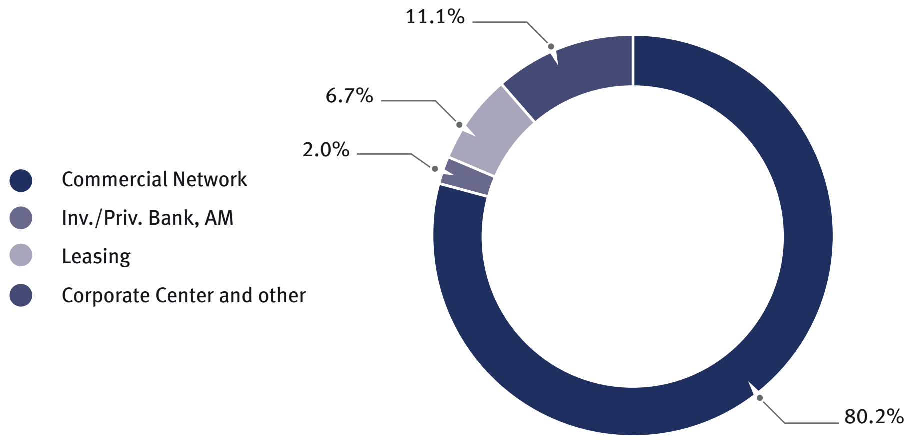
(in thousands of euro)	31/12/2014	% impact	31/12/2013	% impact	Absolute change	% change
Current accounts	11,580,020	14.5%	13,882,025	16.1%	(2,302,005)	(16.6%)
Repurchase agreements	7,203,588	9.0%	7,882,401	9.1%	(678,813)	(8.6%)
Mortgage loans	38,353,328	48.0%	40,433,913	46.9%	(2,080,585)	(5.1%)
Credit cards, personal loans and salary-backed loans	272,321	0.3%	243,721	0.3%	28,600	11.7%
Financial leases	3,868,955	4.8%	4,430,743	5.1%	(561,788)	(12.7%)
Factoring	12,529	-	19,573	-	(7,044)	(36.0%)
Other loans	17,980,188	22.5%	18,739,874	21.8%	(759,686)	(4.1%)
Debt securities	552,674	0.7%	516,745	0.6%	35,929	7.0%
Total net loans to customers	**79,823,603**	**100.0%**	**86,148,995**	**100.0%**	**(6,325,392)**	**(7.3%)**

Net loans to customers



As at 31 December 2014, total net loans were euro 79,823.6 million, down 7.3% compared to euro 86,149.0 million recorded as at 31 December 2013. The decrease regarded all types of loans, with the exception of "debt securities" and "credit cards, personal loans and salary-backed loans". Before value adjustments, Group loans amounted to euro 87,661.2 million and showed a 4.3% fall compared with euro 91,582.8 million at the start of the year (-2.5% compared to 30 September 2014).

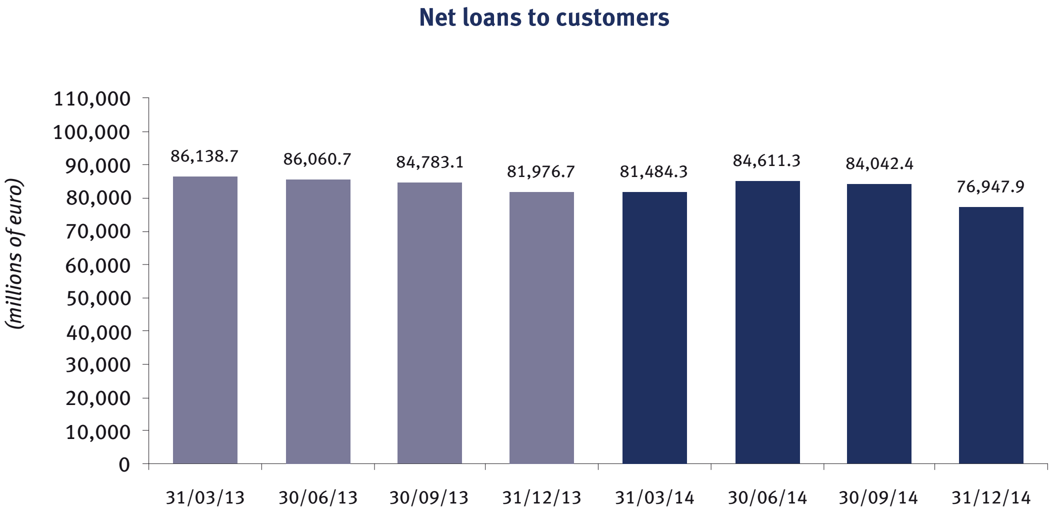
(in thousands of euro)	31/12/2014	% impact	31/12/2013	% impact	% change
Commercial Network	64,047,513	80.2%	68,353,961	79.3%	(6.3%)
Investment Banking, Private Banking, Asset Management	1,561,799	2.0%	1,840,964	2.1%	(15.2%)
Leasing	5,378,465	6.7%	6,310,705	7.3%	(14.8%)
Corporate Centre and Other	8,835,826	11.1%	9,644,673	11.2%	(8.4%)
Total business areas	**79,823,603**	**100.0%**	**86,150,303**	**100.0%**	**(7.3%)**
PPA	-		(1,308)		
Total net loans	**79,823,603**		**86,148,995**		**(7.3%)**



The contraction in gross loans for the Commercial Network is linked to both the retail and corporate segments, and is essentially due to maturities not offset by new disbursements. However, new disbursements are showing growth compared to 2013 in all three core segments. In the private segment, disbursements increased annually by 8%, or euro 1.1 billion in absolute terms, in the small business segment, the increase was 26% or euro 1.7 billion, while in the mid corporate segment, disbursements increased 89%, or euro 2.6 billion.
Leasing is represented by the loans of Banca Italease and Release, which will gradually decrease on the basis of the envisaged amortisation plans, insofar as no new disbursements are being made. As regards “Investment, Private Banking & Asset Management”, loans corresponding to euro 1,561.8 million are almost exclusively represented by securities lending and repurchase agreement transactions of the subsidiary Banca Aletti, substantially unchanged with respect to last year. Loans of the “Corporate Centre” fell due to the reduction of repurchase agreement exposures with the Clearing and Guarantee House.

Banco Popolare Group (stand-alone)

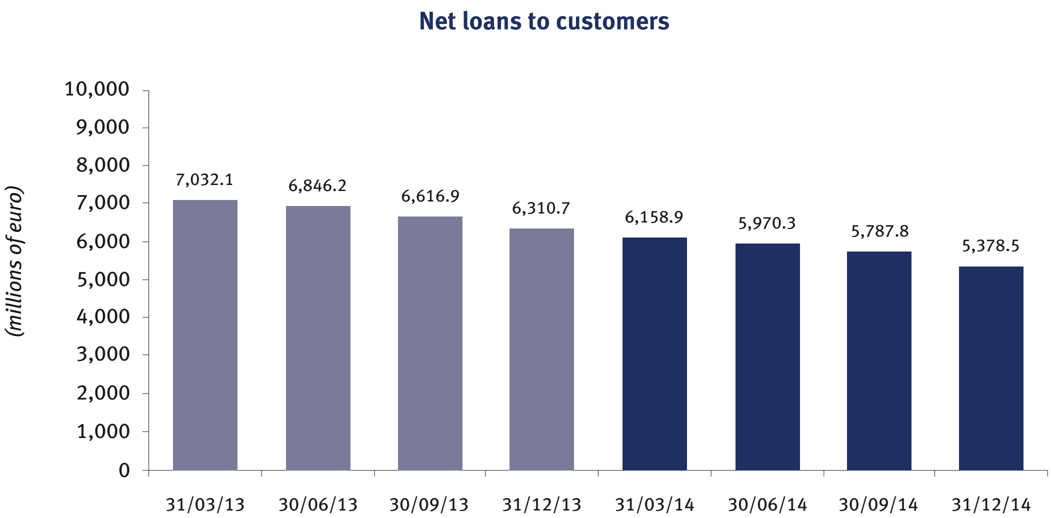
(in thousands of euro)	31/12/2014	% impact	31/12/2013	% impact	Absolute change	% change
Current accounts	11,617,892	15.1%	13,890,660	16.9%	(2,272,768)	(16.4%)
Repurchase agreements	7,203,588	9.4%	7,882,401	9.6%	(678,813)	(8.6%)
Mortgage loans	37,494,413	48.7%	39,454,007	48.1%	(1,959,594)	(5.0%)
Credit cards, personal loans and salary backed loans	272,321	0.4%	243,721	0.3%	28,600	11.7%
Factoring	12,529	-	19,573	-	(7,044)	(36.0%)
Other loans	20,048,794	26.1%	20,352,139	24.8%	(303,345)	(1.5%)
Debt securities	298,386	0.4%	134,232	0.2%	164,154	122.3%
Total net loans to customers	**76,947,923**	**100.0%**	**81,976,733**	**100.0%**	**(5,028,810)**	**(6.1%)**



Net of the total value adjustments and the contribution of Banca Italease Group, loans came to euro 76,947.9 million, down 6.1% compared to euro 81,976.7 million as at 31 December 2013 (-5.4% compared to 30 September 2014). The drop in loan volumes was reflected in all forms and, in particular, exposures on current accounts and mortgages. Before value adjustments, loans were euro 83,415.5 million as at 31 December 2014, down 3.3% from euro 86,222.6 million in December 2013.

Banca Italease Group

(in thousands of euro)	31/12/2014	% impact	31/12/2013	% impact	Absolute change	% change
Current accounts	40	-	66	-	(26)	(39.4%)
Mortgage loans	859,015	16.0%	983,109	15.6%	(124,094)	(12.6%)
Financial leases	3,929,171	73.1%	4,495,191	71.2%	(566,020)	(12.6%)
Other loans	335,951	6.2%	449,826	7.1%	(113,875)	(25.3%)
Debt securities	254,288	4.7%	382,513	6.1%	(128,225)	(33.5%)
Total net loans to customers	**5,378,465**	**100.0%**	**6,310,705**	**100.0%**	**(932,240)**	**(14.8%)**



Net loans to customers as at 31 December 2014 amounted to euro 5,378.5 million, down 14.8% compared to the end of December 2013. Before value adjustments and infragroup components, Banca Italease's loans continue to fall, from euro 7,498.7 million at the beginning of the year to the current euro 6,748.5 million (-10.0%).

Other receivables also includes receivables relating to assets under construction and those relating to assets awaiting finance leases (corresponding to euro 126.9 million) and receivables purchased without recourse (108.1 million). Debt securities, totalling euro 254.3 million, are mostly represented by junior notes and senior notes not placed on the market, corresponding to the portfolio transferred to Alba Leasing by means of an agreement on securitised loans, drawn up at the end of 2009. The agreement envisages that the above securities continue to belong to Banca Italease.

Credit quality

Banco Popolare Group

(in thousands of euro)	31/12/2014		31/12/2013		Absolute change	% change
	Net exposure	% impact	Net exposure	% impact		
Bad loans	5,999,977	7.5%	5,528,635	6.4%	471,342	8.5%
Substandard loans	6,654,817	8.3%	6,627,717	7.7%	27,100	0.4%
Restructured loans	1,251,067	1.6%	1,083,754	1.3%	167,313	15.4%
Past due loans	344,365	0.4%	773,563	0.9%	(429,198)	(55.5%)
Non performing loans	**14,250,226**	17.9%	**14,013,669**	16.3%	236,557	1.7%
Performing loans	**65,573,377**	82.1%	**72,135,326**	83.7%	(6,561,949)	(9.1%)
Total loans to customers	**79,823,603**	**100.0%**	**86,148,995**	**100.0%**	**(6,325,392)**	**(7.3%)**

(in thousands of euro)	31/12/2014				31/12/2013				Change in gross exposure	Change in gross exposure %	Change in total adjustments
	Gross exposure	Total adjustments	Net exposure	Coverage	Gross exposure	Total adjustments	Net exposure	Coverage			
a) Bad loans before derecognition of receivables relating to insolvency proceedings	14,574,974	(8,574,997)	5,999,977	58.83%	12,203,916	(6,675,281)	5,528,635	54.70%	2,371,058	19.4%	1,899,716
b) Bad loans relating to insolvency proceedings derecognised	4,048,215	(4,048,215)	-		3,299,262	(3,299,262)	-				
Bad loans after derecognition of receivables relating to insolvency proceedings (a-b)	10,526,759	(4,526,782)	5,999,977	43.00%	8,904,654	(3,376,019)	5,528,635	37.91%	1,622,105	18.2%	1,150,763
Substandard loans	9,008,435	(2,353,618)	6,654,817	26.13%	8,104,898	(1,477,181)	6,627,717	18.23%	903,537	11.1%	876,437
Restructured loans	1,714,669	(463,602)	1,251,067	27.04%	1,316,968	(233,214)	1,083,754	17.71%	397,701	30.2%	230,388
Past due loans	414,834	(70,469)	344,365	16.99%	831,334	(57,771)	773,563	6.95%	(416,500)	(50.1%)	12,698
Non performing loans	**21,664,697**	**(7,414,471)**	**14,250,226**	34.22%	**19,157,854**	**(5,144,185)**	**14,013,669**	26.85%	2,506,843	13.1%	2,270,286
Performing loans	**65,996,500**	**(423,123)**	**65,573,377**	0.64%	**72,424,980**	**(289,654)**	**72,135,326**	0.40%	(6,428,480)	(8.9%)	133,469
Total loans to customers	**87,661,197**	**(7,837,594)**	**79,823,603**	**8.94%**	**91,582,834**	**(5,433,839)**	**86,148,995**	**5.93%**	**(3,921,637)**	**(4.3%)**	**2,403,755**

Bad loans relating to debtors subject to insolvency proceedings

The Bank of Italy Circular no. 272 dated 30 July 2008 (IV update dated 18 December 2012) envisages the option to derecognise the portion of bad loans deemed unrecoverable from the accounts. The cited regulation includes the decision made by competent corporate bodies which, by means of a specific resolution, have acknowledged the non-recoverability of all or part of the loan or have ceased collection proceedings for economic reasons, as a circumstance for derecognition. Group banks exercised this option in the current year and in previous years. The derecognition regarded the part deemed non-recoverable of all receivables due from debtors, who, during the year, were subject to insolvency proceedings (bankruptcy, administrative compulsory liquidation, arrangement with creditors, extraordinary receivership of large companies in difficulty), even though the banks were regularly admitted as creditors in the insolvency proceedings for the entire amount of the receivable in question.
More specifically, in 2014, bad loans (to the extent of the part deemed non-recoverable) amounting to euro 992.7 million were derecognised. At the time of derecognition, specific adjusting entries were in place for around euro 361.6 million, following value adjustments on loans already charged to the income statement. Therefore, the derecognition resulted in charges to the income statement of around euro 631.1 million.
In 2014, insolvency proceedings involving receivables totalling euro 243.7 million were finalised, which had already been derecognised in previous years.
As a result of the above changes, as at 31 December 2014, bad loans derecognised relating to insolvency proceedings that were still under way amounted to euro 4,048.2 million.
In order to calculate the effective level of coverage of bad loans, the amount of the above-mentioned derecognised receivables must also be taken into account. The effective level of coverage of Group bad loans as at 31 December 2014 was 58.8% (54.3% as at 30 September 2014 and 54.7% as at 31 December 2013) as shown in line a) “bad loans before derecognition of receivables relating to insolvency proceedings” in the table above.

Non performing loans (bad, substandard, restructured and past due loans), net of value adjustments, amounted to euro 14,250.2 million as at 31 December 2014 and recorded a 1.7% rise with respect to euro 14,013.7 million recorded at the beginning of the year. The related trend shows net non performing loans representing a higher percentage of total net loans to customers, rising from 16.3% at the end of 2013 to 17.9% at the end of December 2014 (17.8% as at 30 September 2014); a similar increase was recorded for the percentage represented by the same before value adjustments, rising to 24.7% (22.9% as at 30 September 2014) from 20.9% at the end of 2013. Including the receivables to be derecognised, the rate of coverage of non performing loans was 44.6%, a considerable increase from on 37.6% recorded as at 31 December 2013.

More specifically, bad loans before and after value adjustments amounted to euro 10,526.8 million and euro 6,000 million respectively (+18.2% and +8.5% respectively compared to 31 December 2013), while the percentage represented by the same of total loans to customers before and after value adjustments, was 12.0% and 7.5% respectively (against 9.7% and 6.4% respectively as at 31 December 2013). Taking into account receivables for bad loans relating to debtors undergoing legal proceedings, which as at 31 December were still in progress but had already been derecognised from the accounts, the rate of coverage was 58.8%, a considerable increase from 54.7% recorded as at 31 December 2013.

Substandard loans before and after value adjustments amounted to euro 9,008.4 million and euro 6,654.8 million respectively (+11.1% and +0.4% respectively compared to 31 December 2013), while the percentage represented by the same of total loans to customers before and after value adjustments, was 10.3% and 8.3% respectively (against 8.9% and 7.7% respectively at the end of last year). The rate of coverage was 26.1%, a sharp increase from 18.2% recorded at the end of last year.

Restructured loans before and after value adjustments amounted to euro 1,714.7 million, marking a rise of 30.2% against the corresponding values for the end of 2013; after value adjustments, restructured loans amounted to euro 1,251.1 million, up 15.4% against 31 December 2013. The rate of coverage rose to 27.0%, compared to 17.7% at the end of the previous year.

Past due loans before and after value adjustments amounted to euro 414.8 million and 344.4 million respectively, and were down 50.1% and 55.5%, respectively, compared to the end of 2013. The rate of coverage was 17.0%, a marked increase from 6.9% recorded at the end of 2013.

The coverage of performing loans grew substantially, to 0.64% (0.38% as at 30 June 2014) from 0.40% as at 31 December 2013. Excluding repurchase agreements and securities lending totalling euro 7.2 billion, which represent guaranteed transactions that do not have collective adjustments, the rate of coverage of performing loans rose to 0.72% (excluding related party transactions that are essentially risk free for euro 1.1 billion, the rate of coverage rose to 0.73%).

Banco Popolare Group (stand-alone)

(in thousands of euro)	31/12/2014		31/12/2013		Absolute change	% change
	Net exposure	% impact	Net exposure	% impact		
Bad loans	4,820,356	6.3%	4,309,701	5.3%	510,655	11.8%
Substandard loans	5,312,569	6.9%	5,102,701	6.2%	209,868	4.1%
Restructured loans	1,166,982	1.5%	993,432	1.2%	173,550	17.5%
Past due loans	324,262	0.4%	669,929	0.8%	(345,667)	(51.6%)
Non performing loans	11,624,169	15.1%	11,075,763	13.5%	548,406	5.0%
Performing loans	65,323,754	84.9%	70,900,970	86.5%	(5,577,216)	(7.9%)
Total loans to customers	**76,947,923**	**100.0%**	**81,976,733**	**100.0%**	**(5,028,810)**	**(6.1%)**

(in thousands of euro)	31/12/2014				31/12/2013				Change in gross exposure	Change in gross exposure %	Change in total adjustments
	Gross exposure	Total adjustments	Net exposure	Coverage	Gross exposure	Total adjustments	Net exposure	Coverage			
a) Bad loans before derecognition of receivables relating to insolvency proceedings	12,501,396	(7,681,040)	4,820,356	61.44%	10,214,417	(5,904,716)	4,309,701	57.81%	2,286,979	22.4%	1,776,324
b) Bad loans relating to insolvency proceedings derecognised	4,048,215	(4,048,215)	-		3,299,262	(3,299,262)	-				
Bad loans after derecognition of receivables relating to insolvency proceedings (a-b)	8,453,181	(3,632,825)	4,820,356	42.98%	6,915,155	(2,605,454)	4,309,701	37.68%	1,538,026	22.2%	1,027,371
Substandard loans	7,275,675	(1,963,106)	5,312,569	26.98%	6,249,093	(1,146,392)	5,102,701	18.34%	1,026,582	16.4%	816,714
Restructured loans	1,596,896	(429,914)	1,166,982	26.92%	1,207,875	(214,443)	993,432	17.75%	389,021	32.2%	215,471
Past due loans	393,448	(69,186)	324,262	17.58%	722,396	(52,467)	669,929	7.26%	(328,948)	(45.5%)	16,719
Non performing loans	**17,719,200**	**(6,095,031)**	**11,624,169**	34.40%	**15,094,519**	**(4,018,756)**	**11,075,763**	26.62%	2,624,681	17.4%	2,076,275
Performing loans	**65,696,293**	**(372,539)**	**65,323,754**	0.57%	**71,128,089**	**(227,119)**	**70,900,970**	0.32%	(5,431,796)	(7.6%)	145,420
Total loans to customers	**83,415,493**	**(6,467,570)**	**76,947,923**	**7.75%**	**86,222,608**	**(4,245,875)**	**81,976,733**	**4.92%**	**(2,807,115)**	**(3.3%)**	**2,221,695**

Non performing loans (bad, substandard, restructured and past due loans), net of value adjustments, amounted to euro 11,624.2 million as at 31 December 2014 and recorded a 5.0% rise with respect to euro 11,075.8 million recorded at the beginning of the year. The related trend shows net non performing loans representing a higher percentage of total net loans to customers, rising from 13.5% to 15.1% (15.0% as at 30 September 2014); a similar increase was recorded for the percentage represented by the same before value adjustments, rising from 17.5% to 21.2%. Including the receivables to be derecognised, the rate of coverage of non performing loans was 46.6%, a sharp rise from 39.8% at the end of 2013.

More specifically, bad loans before and after value adjustments amounted to euro 8,453.2 million and euro 4,820.4 million respectively (+22.2% and +11.8% respectively compared to 31 December 2013), while the percentage represented by the same of total loans to customers before and after value adjustments, was 10.1% and 6.3% respectively (against 8.0% and 5.3% respectively at the end of the previous year). Taking into account receivables for bad loans relating to debtors undergoing legal proceedings, which as at 31 December were still in progress but have already been derecognised from the accounts, the rate of coverage was 61.4% (56.7% as at 30 September 2014) against 57.8% as at 31 December 2013.

More specifically, substandard loans before and after value adjustments amounted to euro 7,275.7 million and euro 5,312.6 million respectively (+16.4% and +4.1% respectively compared to 31 December 2013), while the percentage represented by the same of total loans to customers before and after value adjustments, was 8.7% and 6.9% respectively (against 7.2% and 6.2% respectively for the same period of the previous year). The rate of coverage rose to 27.0% (18.3% as at 30 September 2014), up considerably from 18.3% last year.

Restructured loans before value adjustments amounted to euro 1,596.9 million, marking a rise of 32.2% against the corresponding values for last year; after value adjustments, they amounted to euro 1,167.0 million, up 17.5% from euro 993.4 million at the end of last year. The rate of coverage rose therefore to 26.9% (22.8% as at 30 September 2014) compared to 17.8% last year.

Past due loans before and after value adjustments were euro 393.4 million and euro 324.3 million respectively, and were lower than the corresponding figures for 2013 (euro 722.4 million and euro 669.9 million respectively). The rate of coverage was 17.6%, much higher than the figure for last year of 7.3%.

The rate of coverage of performing loans was substantially unchanged at 0.57% (0.30% as at 30 June 2014) compared with 0.32% as at 31 December 2013. Excluding repurchase agreements and securities lending totalling euro 7.2 billion, which represent guaranteed transactions that do not have collective adjustments, the rate of coverage of performing loans rose to 0.64%.

Banca Italease Group

(in thousands of euro)	31/12/2014		31/12/2013		Absolute change	% change
	Net exposure	% impact	Net exposure	% impact		
Bad loans	1,179,621	21.9%	1,218,934	19.3%	(39,313)	(3.2%)
Substandard loans	1,342,248	25.0%	1,525,016	24.2%	(182,768)	(12.0%)
Restructured loans	84,085	1.6%	90,322	1.4%	(6,237)	(6.9%)
Past due loans	20,103	0.4%	103,634	1.6%	(83,531)	(80.6%)
Non performing loans	**2,626,057**	48.8%	**2,937,906**	46.6%	(311,849)	(10.6%)
Performing loans	**2,752,408**	51.2%	**3,372,799**	53.4%	(620,391)	(18.4%)
Total loans to customers	**5,378,465**	**100.0%**	**6,310,705**	**100.0%**	**(932,240)**	**(14.8%)**

(in thousands of euro)	31/12/2014				31/12/2013				Change in gross exposure	Change in gross exposure %	Change in total adjustments
	Gross exposure	Total adjustments	Net exposure	Coverage	Gross exposure	Total adjustments	Net exposure	Coverage			
Bad loans	2,073,578	(893,957)	1,179,621	43.11%	1,989,499	(770,565)	1,218,934	38.73%	84,079	4.2%	123,392
Substandard loans	1,732,760	(390,512)	1,342,248	22.54%	1,855,805	(330,789)	1,525,016	17.82%	(123,045)	(6.6%)	59,723
Restructured loans	117,773	(33,688)	84,085	28.60%	109,093	(18,771)	90,322	17.21%	8,680	8.0%	14,917
Past due loans	21,386	(1,283)	20,103	6.00%	108,938	(5,304)	103,634	4.87%	(87,552)	(80.4%)	(4,021)
Non performing loans	**3,945,497**	**(1,319,440)**	**2,626,057**	**33.44%**	**4,063,335**	**(1,125,429)**	**2,937,906**	**27.70%**	**(117,838)**	**(2.9%)**	**194,011**
Performing loans	**2,802,992**	**(50,584)**	**2,752,408**	**1.80%**	**3,435,334**	**(62,535)**	**3,372,799**	**1.82%**	**(632,342)**	**(18.4%)**	**(11,951)**
Total loans to customers	**6,748,489**	**(1,370,024)**	**5,378,465**	**20.30%**	**7,498,669**	**(1,187,964)**	**6,310,705**	**15.84%**	**(750,180)**	**(10.0%)**	**182,060**

As regards the Italease Group, consolidated gross non performing loans (bad, substandard, restructured and past due loans), net of value adjustments, amounted to euro 2,626.1 million as at 31 December 2014, down compared to euro 2,937.9 million recorded at the beginning of the year. Considering that the performing loans portfolio is in substantial run-off and therefore continuously falling, the percentage represented by non performing of total net loans to customers, rose from 46.6% at year end to 48.8% as at 31 December 2014 (a similar increase was recorded for the percentage represented by the same before value adjustments, rising to 58.5% from the previous 54.2%). The rate of coverage of non performing loans was 33.4%, compared to 27.7% at the end of 2013.

More specifically, bad loans before and after value adjustments amounted to euro 2,073.6 million and euro 1,179.6 million respectively (+4.2% and -3.2% respectively compared to 31 December 2013), while the percentage represented by the same of total loans to customers before and after value adjustments, was 30.7% and 21.9% respectively (against 26.5% and 19.3% respectively at the end of the previous year). The rate of coverage was 43.1%, up with respect to the previous year, when it was 38.7%. If properties used as collateral are taken into consideration, the rate of coverage of bad loans exceeds 100% of gross exposures.

Substandard loans before and after value adjustments amounted to euro 1,732.8 million and euro 1,342.2 million respectively (down by 6.6% and 12.0% respectively compared to 31 December 2013), while the percentage represented by the same of total loans to customers before and after value adjustments, was 25.7% and 25.0% respectively (24.7% and 24.2% respectively for the previous year). The rate of coverage was 22.5% (17.4% as at 30 September 2014) compared to 17.8% last year. If properties used as collateral are taken into consideration, the rate of coverage of gross substandard loans is close to 100%.

Restructured loans before and after value adjustments amounted to euro 117.8 million and 84.1 million respectively, a change of +8.0% and -6.9% compared to the end of the previous year. The rate of coverage was 28.6% (17.2% at the end of 2013).

Past due loans before and after value adjustments amounted to euro 21.4 million and 20.1 million respectively. The rate of coverage was 6.0%, compared to 4.9% last year.

The rate of coverage of performing loans was 1.80%, slightly lower than 1.82% as at 31 December 2013.

Financial assets

(in thousands of euro)	31/12/2014	% impact	31/12/2013 (*)	% impact	Absolute change	% change
Financial assets held for trading	4,094,962	15.6%	3,997,740	16.7%	97,222	2.4%
Financial assets designated at fair value through profit and loss	5,653	-	2,229	-	3,424	153.6%
Financial assets available for sale	13,518,168	51.6%	11,941,238	49.9%	1,576,930	13.2%
Investments held to maturity	4,948,433	18.9%	4,198,048	17.5%	750,385	17.9%
Total securities portfolio	**22,567,216**	**86.2%**	**20,139,255**	**84.1%**	**2,427,961**	**12.1%**
Derivative trading and hedging instruments	3,623,383	13.8%	3,809,758	15.9%	(186,375)	(4.9%)
Total financial assets	**26,190,599**	**100.0%**	**23,949,013**	**100.0%**	**2,241,586**	**9.4%**

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

The breakdown by type of assets is as follows:

(in thousands of euro)	31/12/2014	% impact	31/12/2013 (*)	% impact	Absolute change	% change
Debt securities	20,685,517	79.0%	18,376,850	76.7%	2,308,667	12.6%
Equity instruments	1,051,037	4.0%	884,237	3.7%	166,800	18.9%
UCIT units	830,662	3.2%	878,168	3.7%	(47,506)	(5.4%)
Total securities portfolio	**22,567,216**	**86.2%**	**20,139,255**	**84.1%**	**2,427,961**	**12.1%**
Derivative trading and hedging instruments	3,623,383	13.8%	3,809,758	15.9%	(186,375)	(4.9%)
Total financial assets	**26,190,599**	**100.0%**	**23,949,013**	**100.0%**	**2,241,586**	**9.4%**

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

The Group's financial assets as at 31 December 2014 amounted to euro 26,190.6 million, an increase from the figure of euro 23,949 million recorded as at 31 December 2013 (+9.4%). This increase was seen across all types of financial assets, particularly in the portfolio of financial assets available for sale, which recorded a rise of euro 1,576.9 million, and in the portfolio of investments held to maturity (+17.9% against the end of 2013). An analysis by asset type indicates that the increase regards almost exclusively debt securities, which as at 31 December 2014, represented over 79% of the portfolio (up from 76.7% as at 31 December 2013).

Financial assets held for trading

(in thousands of euro)	31/12/2014	% impact	31/12/2013 (*)	% impact	Absolute change	% change
Debt securities	3,378,725	47.7%	3,287,926	45.3%	90,799	2.8%
Equity instruments	445,064	6.3%	290,475	4.0%	154,589	53.2%
UCIT units	271,173	3.8%	419,339	5.8%	(148,166)	(35.3%)
Total securities portfolio	**4,094,962**	**57.9%**	**3,997,740**	**55.0%**	**97,222**	**2.4%**
Financial and lending derivatives	2,983,024	42.1%	3,267,073	45.0%	(284,049)	(8.7%)
Total	**7,077,986**	**100.0%**	**7,264,813**	**100.0%**	**(186,827)**	**(2.6%)**

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

As regards the debt securities component of financial assets held for trading, euro 1,416.1 million is represented by Italian government securities and euro 0.7 million by securities of other EU Member States, while the remainder is comprised by corporate securities issued mainly by Italian and foreign banks.

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

Financial assets designated at fair value through profit and loss

(in thousands of euro)	31/12/2014	% impact	31/12/2013	% impact	Absolute change	% change
Equity instruments	1,092	19.3%	1,130	50.7%	(38)	(3.4%)
UCIT units	4,561	80.7%	1,099	49.3%	3,462	315.0%
Total	**5,653**	**100.0%**	**2,229**	**100.0%**	**3,424**	**153.6%**

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

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

Financial assets available for sale

(in thousands of euro)	31/12/2014	% impact	31/12/2013	% impact	Absolute change	% change
Debt securities	12,358,359	91.4%	10,890,876	91.2%	1,467,483	13.5%
Equity instruments	604,881	4.5%	592,632	5.0%	12,249	2.1%
UCIT units	554,928	4.1%	457,730	3.8%	97,198	21.2%
Total	**13,518,168**	**100.0%**	**11,941,238**	**100.0%**	**1,576,930**	**13.2%**

As at 31 December 2014, the portfolio of debt securities was comprised of Italian government securities with a total book value of euro 10,098 million; the increase recorded in the period also mostly refers to government securities.
The portfolio of debt securities also includes securities of European Union Member States with a total book value of euro 103.6 million, represented by Spanish securities (nominal amount of euro 100 million) maturing in 2015. The remainder of the debt securities portfolio is comprised of securities issued by international organisations (EIB, IBRD etc.) and by corporate securities mainly represented by Italian and foreign banks.

UCIT units mainly include real estate funds of euro 35.6 million, share funds of euro 121.6 million, bond funds of euro 102.7 million and flexible funds of euro 275.1 million.

The portfolio of equity instruments is represented by investments whose value is less than 20% of the share capital of said companies, which is not considered a strategic investment by the Banco Popolare Group. The main investments in shareholdings of this nature refer to Dexia Crediop, amounting to euro 55.4 million, the Istituto Centrale delle Banche Popolari Italiane for euro 139.6 million, Palladio Finanziaria for euro 35.9 million, the investment in the Bank of Italy for euro 91.7 million, A4 Holding for euro 19.1 million, Autostrade del Brennero for euro 18.4 million, Arca SGR for euro 62.2 million, Earchimede for euro 11.6 million, Factorit for euro 18.8 million, S.A.C.B.O. for euro 29.4 million, SIA for euro 14.8 million, Seief for euro 9.4 million, Archimede 1 for euro 8.8 million, Veneto Sviluppo for euro 6.7 million, Risanamento for euro 2.8 million and lastly Banca Nuova Terra for euro 5.7 million.

Investments held to maturity

(in thousands of euro)	31/12/2014	% impact	31/12/2013	% impact	Absolute change	% change
Debt securities	4,948,433	100.0%	4,198,048	100.0%	750,385	17.9%
Total	**4,948,433**	**100.0%**	**4,198,048**	**100.0%**	**750,385**	**17.9%**

This item is almost entirely represented by Italian government debt securities and as at 31 December 2014, latent gains were around euro 283 million. The balance consists of a book value stated at amortised cost for euro 4,898 million, to which interest of euro 50 million, accrued as at 31 December 2014, should be added.

Exposure to sovereign risk

In the first half of 2014, the process of normalising and stabilising the financial situation in peripheral EU countries (so-called PIIGS) experienced a critical acceleration, indicating a turning point and the beginning of a virtuous circle: following Ireland's departure from the European Union rescue programme, Spain followed suit at the beginning of the year, and Portugal made the same decision in May. The stabilisation of financial markets in these two countries was followed by improvement in their access to foreign markets, with significant benefits for liquidity in their respective banking systems, which led authorities to request the suspension of the EU assistance programme.
Financial operators responded positively to the announcement, triggering the aforementioned virtuous circle that, due to more available liquidity in international financial markets, had positive repercussions on government debt securities in peripheral European countries. Firstly, by reducing the country risk of each and bringing about successful auctions of government bonds, with demand much greater than supply, as well as by markedly strengthening the Euro exchange rate, which against the Dollar, reached 1.3925 at the beginning of May, its highest level for the year. The improvement in the Spanish economy led to yields on the 10-year Bonos that were even lower than those of the 10-year U.S. treasury bonds. For its part, Greece has managed to re-launch itself on the international capital market with an issue of medium-long term securities, attracting demand that was significantly higher than the quantity offered. However, internal political factors then had a negative impact on the spread of Greek government bonds in the second half, differentiating Greece's performance from those of other peripheral countries.
The aforementioned factors had a catalytic and dynamic effect, and support to peripheral countries' government bonds through the Outright Monetary Transactions (OMT) plan continued, initiated by the ECB in September 2012 but never activated. The flow of capital to government bonds of these countries, characterised by particularly appealing yields, was then reflected in a generalised and almost unexciting closure of the gap with the 10-year German Bund in the first part of the year. In Italy, the appointment of the new Renzi administration, mentioned previously, and the results the European elections held in May, to the advantage of the Italian government, provided a boost to the process of convergence towards German interest rates.
Lastly, the decisions adopted by the Executive Committee of the ECB on 5 June regarding the introduction of refinancing operations, the objective of which is to disburse credit to the non-financial sector of the Eurozone, (Targeted Longer-Term Refinancing Operations, TLTRO), gave the final boost to the narrowing of spreads, fuelling expectations of the reactivation of the credit cycle and a step forward towards the more sustained economic recovery in the region.

During the second half, diminishing forecasts for economic recovery and weak inflationary dynamics led to expectations of an even more expansionary monetary policy from the ECB, which hastened to confirm its intention to use new, unconventional measures to fully reactivate the bank lending channel and sustain the EU economy.
Hence, the European Central Bank's determination kept the pressure points on treasury yields under control in peripheral countries, which are still facing significant imbalances in public accounts and weak economic growth hampered by the tax system, causing the yields of Italian government bonds to continue their downward trend for the rest of the year, even after reform measures were enacted by the government. In the meantime, the Euro exchange rate with the US Dollar began a depreciation phase, particularly beginning in September.
The absence of tangible effects on the yields of Italian government bonds after the downgrading of sovereign debt in December by Standard & Poor's in light of uncertain growth prospects, was a striking manifestation of this "protective shield" deployed by the Central Bank.
However, the volatility was still present, although at contained levels, in financial markets in the Eurozone toward the end of the year, after the announcement of political elections in Greece at the end of January. The possible repercussions of any changes in economic policies and the management of public debt generated uncertainty about the cohesion of the Eurozone. Interest rates on 3-year Greek bonds began to show high volatility, reaching more than 15%. The tensions on the spreads of peripheral countries were incited also by the violation of the 3% limit for the deficit/GDP ratio by France in the last quarter of the year. This reawakened concerns about the Italian government's ability to comply with the limit. However, the statements by the Executive to ensure that the limits would be respected

along with the agreement reached on the 2015 budget within the Eurozone at the beginning of December, both for Italy and France, dispelled these concerns.

More specifically, with regard to the trend in interest rate spreads over the year, the BTP-Bund spread, after starting the year at 202 b.p., reached its highest level of 224 b.p. in the first few weeks of the year, then began a downward trend, hitting its lowest level of 117 b.p. at the beginning of December. At the same time, the interest rates on the Bonos reached its highest level of 220 b.p. at the beginning of 2014, and then fell to its minimum of 103 b.p., at a position consistently lower than Italian interest rates (Bonos-BTP spread -14 b.p.). The fall in the spread of Portuguese securities was even more surprising, which, after having opened the year at a high of 425 b.p., then recorded a drop of more than half of the interest rate spread, recording a minimum of 193 b.p. at the beginning of June, before the difficulties of the main Portuguese bank, Banco di Santo Espirito, drove the spread up to 240 b.p. in subsequent months, closing 2014 at 215 b.p. However, Greece experienced the opposite trend: the spread against the 10-year Bund, after closing at 423 b.p. at the beginning at June, began to rise again in the second half, reaching its highest level of 908 b.p. in the final days of the year as a result of the aforementioned tensions.

The Group’s total exposure in sovereign debt securities as at 31 December 2014 was euro 16,740 million, and is provided below, broken down by country (in thousands of euro):

Countries	Debt securities	of which Parent Company	Loans	of which Parent Company	Total
Italy	16,445,111	15,659,330	157,404	156,512	16,602,515
Spain	104,292	103,637	-		104,292
Austria	1,645	-	-		1,645
Other EU Countries	1,937	-	-		1,937
Total EU Countries	**16,552,985**	**15,762,967**	**157,404**	**156,512**	**16,710,389**
USA	29,593	-	-		29,593
Argentina	60	-			60
Total other countries	**29,653**	**-**	**-**		**29,653**
Total	**16,582,638**	**15,762,967**	**157,404**	**156,512**	**16,740,042**

More specifically, the exposure is represented by:

- loans granted to the Italian State of euro 157.4 million;
- debt securities issued by central and local governments of euro 16,582.6 million, euro 16,553 million of which was issued by EU Member States. This position is held mostly by the Parent Company Banco Popolare which, as at 31 December, held a total of euro 15,763 million, euro 15,659.3 million of which related to Italian government securities.

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

Financial assets held for trading

Country	Matures by 2015	Matures between 2015 and 2020	Matures between 2020 and 2025	Matures beyond 2025	Total fair value as at 31/12/14	Total fair value by hierarchy		
						LEVEL 1	LEVEL 2	LEVEL 3
Italy	740,622	639,045	30,688	5,730	1,416,085	1,416,083		2
Spain	-		655	-	655	655		
Other EU countries		3	-		3	3		
Total	**740,622**	**639,048**	**31,343**	**5,730**	**1,416,743**	**1,416,741**	**-**	**2**
of which Parent Company	**1**	**630,267**	**34**	**7**	**630,309**	**630,307**		**2**

Financial assets available for sale

Country	Matures by 2015	Matures between 2015 and 2020	Matures between 2020 and 2025	Matures beyond 2025	Total fair value as at 31/12/14	Net AFS Reserve	Value adjustments	Total fair value by hierarchy		
								LEVEL 1	LEVEL 2	LEVEL 3
Italy	2,870,097	5,479,297	1,121,887	626,671	10,097,952	105,505	-	10,059,682	38,270	-
Spain	103,637	-	-	-	103,637	47	-	103,637	-	-
Total	**2,973,734**	**5,479,297**	**1,121,887**	**626,671**	**10,201,589**	**105,552**	**-**	**10,163,319**	**38,270**	**-**
of which Parent Company	**2,973,734**	**5,479,297**	**1,121,887**	**626,671**	**10,201,589**	**105,552**		**10,163,319**	**38,270**	

Investments held to maturity

Country	Matures by 2015	Matures between 2015 and 2020	Matures between 2020 and 2025	Matures beyond 2025	Total book value as at 31/12/14	Total fair value	Total fair value by hierarchy		
							LEVEL 1	LEVEL 2	LEVEL 3
Italy	-	4,413,361	517,712	-	4,931,073	5,214,187	5,214,187		
Other EU countries	-	3,579	-	-	3,579	3,587	3,587		
Total	**-**	**4,416,940**	**517,712**	**-**	**4,934,652**	**5,217,774**	**5,217,774**	**-**	**-**
of which Parent Company	**-**	**4,413,361**	**517,709**	**-**	**4,931,070**	**5,214,184**	**5,214,184**	**-**	**-**

Investments in sovereign debt securities of EU Member States, in terms of book value, represent 77.5% of the Group's total portfolio invested in debt securities. Around 8.6% of said investments have been allocated to the trading portfolio, 61.6% to the financial assets available for sale portfolio, while 29.8% has been classified as investments held to maturity.

Around 86% of total exposure is represented by debt securities that mature before 2020.

Exposure towards Greece, Portugal and Ireland

As regards the Group's exposure to the sovereign debt of countries defined as "euro-peripheral", note the absence of positions vis-à-vis Greece, Portugal and Ireland, while the exposure towards Spain has remained unchanged at euro 103.6 million.

Net Interbank Position

Due from banks *(in thousands of euro)*	31/12/2014	% impact	31/12/2013	% impact	Absolute change	% change
Due from central banks	**689,123**	**13.6%**	**1,190,564**	**31.7%**	**(501,441)**	**(42.1%)**
Due from other banks	**4,369,693**	86.4%	**2,562,663**	68.3%	1,807,030	70.5%
Current accounts and demand deposits	1,175,160	23.2%	517,535	13.8%	657,625	127.1%
Time deposits	1,520,630	30.1%	1,496,297	39.9%	24,333	1.6%
Repurchase agreements	1,329,019	26.3%	214,309	5.7%	1,114,710	520.1%
Debt securities	123,209	2.4%	166,871	4.4%	(43,662)	(26.2%)
Other loans	221,675	4.4%	167,651	4.5%	54,024	32.2%
Total loans (A)	**5,058,816**	**100%**	**3,753,227**	**100%**	**1,305,589**	**34.8%**

Due to banks *(in thousands of euro)*	31/12/2014	% impact	31/12/2013	% impact	Absolute change	% change
Due to central banks	**12,870,424**	**74.0%**	**13,695,100**	**78.7%**	**(824,676)**	**(6.0%)**
LTRO and TLTRO	12,029,844	69.2%	13,693,257	78.7%	(1,663,413)	(12.1%)
Other payables (overnight deposits)	840,580	4.8%	1,843	0.0%	838,737	not significant
Due to other banks	**4,512,893**	**26.0%**	**3,707,966**	**21.3%**	**804,927**	**21.7%**
Current accounts and demand deposits	1,105,356	6.4%	791,570	4.5%	313,786	39.6%
Time deposits	1,154,834	6.6%	1,033,407	5.9%	121,427	11.8%
Repurchase agreements	723,733	4.2%	849,496	4.9%	(125,763)	(14.8%)
Other payables	1,528,970	8.8%	1,033,493	5.9%	495,477	47.9%
Total payables (B)	**17,383,317**	**100%**	**17,403,066**	**100%**	**(19,749)**	**(0.1%)**
Mismatch loans/payables (A) - (B)	**(12,324,501)**		**(13,649,839)**		**(1,325,338)**	**(9.7%)**
Due to central banks: LTRO and TLTRO	**(12,029,844)**		**(13,693,257)**		**(1,663,413)**	**(12.1%)**
Interbank balance (excl. LTRO and TLTRO)	**(294,657)**		**43,418**		**(338,075)**	
Mismatch towards central banks (excl. LTRO and TLTRO)	**(151,457)**		**1,188,721**		**(1,340,178)**	
Interbank balance towards other banks	**(143,200)**		**(1,145,303)**		**(1,002,103)**	**(87.5%)**

Net interbank exposure as at 31 December 2014 amounted to -12,324.5 million, compared to the balance of -13,649.8 million at the end of last year. ECB exposure fell during the second quarter of 2014 following the repayment of LTRO loans of euro 2.8 billion, after the cancellation of covered bonds guaranteed by the State, provided as collateral for the LTRO lines of credit of nominal euro 3.1 billion. It then rose by around euro 1 billion at the end of September 2014, following the disbursement of the first instalment of the TLTRO credit lines, recording a figure of euro 12,029.8 million as at 31 December.
If net exposures towards central banks are not considered (in reality linked to the mandatory reserve), the net interbank balance towards other banks is negative, and amounts to euro -143.2 million, down compared to euro -1,145.3 million as at 31 December of last year and euro -932.8 million as at 30 September 2014.

As at 31 December 2014, the Group continues to have an excellent liquidity profile; eligible assets with the ECB, to date unused, amount to euro 14.1 billion after haircuts, exclusively represented by a risk-free portfolio of Italian government bonds (euro 17.3 billion as at 30 September 2014).
Estimates relating to the Liquidity Coverage Ratio (LCR) and NSFR (Net Stable Funding Ratio) are in line with the targets required by Basel 3, and, specifically, are above 100%.

Investments in associates and companies subject to joint control

Investments in associates and companies subject to joint control as at 31 December 2014 amounted to euro 1,061.4 million, compared with euro 1,033.8 million as at 31 December 2013.

The increase recorded in the year of euro 27.6 million includes the impact resulting from the valuation of investments in associated companies using the equity approach, relating to the share of the results recorded by associated companies in the year, which totalled a positive euro 90.1 million, to the reduction of capital of Popolare Vita (euro -51.2 million) and of Avipop Assicurazioni (euro -5.5 million) due to the distribution of dividends and to the decrease in reserves of said companies attributable to the Group of euro -5.7 million.

Property and equipment

(in thousands of euro)	31/12/2014			31/12/2013			% change
	Total	BP Stand Alone	Sub-Italease	Total	BP Stand Alone	Sub-Italease	
Property and equipment used in operations	681,009	680,531	478	709,904	709,074	830	(4.1%)
Property and equipment held for investment purposes	1,458,953	594,576	864,377	1,342,346	523,657	818,689	8.7%
Total property and equipment (item 120)	**2,139,962**	**1,275,107**	**864,855**	**2,052,250**	**1,232,731**	**819,519**	**4.3%**
Property and equipment held for sale (item 150)	94,308	20,752	73,556	92,056	20,770	71,286	2.4%
Total	**2,234,270**	**1,295,859**	**938,411**	**2,144,306**	**1,253,501**	**890,805**	**4.2%**

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

Property and equipment used in operations *(in thousands of euro)*	31/12/2014 Book value	31/12/2013 Book value
1. Owned assets	**680,681**	**709,549**
- land	219,814	223,024
- buildings	383,033	404,443
- other	77,834	82,082
2. Assets acquired under financial lease	**328**	**355**
- land	-	-
- buildings	308	322
- other	20	33
Total	**681,009**	**709,904**

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

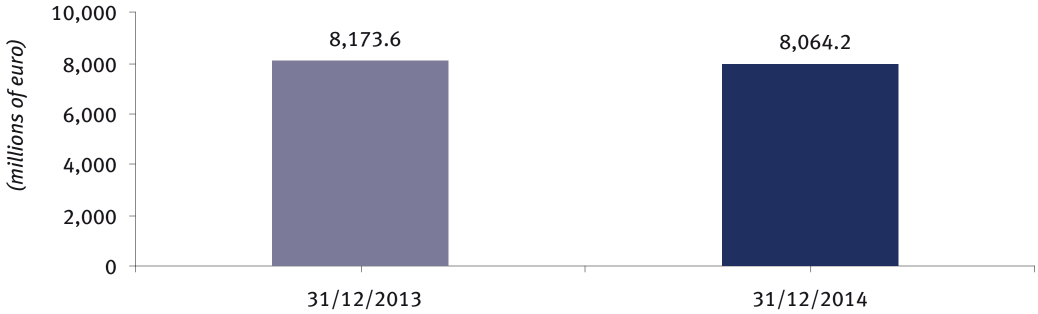
Property and equipment held for investment purposes *(in thousands of euro)*	31/12/2014		31/12/2013	
	Book value	Fair Value	Book value	Fair Value
1. Owned assets	**1,443,662**	**1,642,636**	**1,322,579**	**1,684,461**
- land	679,340	708,142	628,491	718,503
- buildings	764,322	934,494	694,088	965,958
2. Assets acquired under financial lease	**15,291**	**15,291**	**19,767**	**19,767**
- land	11,324	11,324	11,324	11,324
- buildings	3,967	3,967	8,443	8,443
Total	**1,458,953**	**1,657,927**	**1,342,346**	**1,704,228**

As at 31 December 2014, the total property and equipment held by the Group amounted to euro 2,234.3 million, up by approximately euro 90 million compared to the end of the previous year. With regards to property and equipment used in operations, the decrease of around euro 29 million is due to the normal process of depreciation. As regards property and equipment held for investment purposes, the increase of euro 116.7 million breaks down as follows: euro 114 million is due to purchases of property units by the subsidiary Release (of which euro 72.9 million for not exercising the purchase option and for the difference on contracts in dispute at the closure of transactions), as well as euro 91.1 million for the contribution of property companies acquired at the end of 2014 due to the restructuring of certain loans to struggling real estate groups. Property and equipment held for investment purposes was also subject to a value adjustment of euro 68 million on several investment properties to align their book values with the recovery value estimated on the basis of the most recent appraisals received, as well as depreciation for the year.

As regards property and equipment held for sale, as at 31 December 2014 this item included euro 94.3 million of property and equipment (essentially stable with respect to 31 December 2013), euro 73.5 million of which relates to the former Italease group (most of which regards properties resulting from credit collection activities) and euro 20.8 million to the rest of the Group (of which euro 18 million to the subsidiary Sviluppo Comparto 8).

Shareholders' equity and solvency coefficients

Consolidated shareholders' equity



The Group's consolidated shareholders' equity as at 31 December 2014, including valuation reserves and net income (loss) for the year, amounted to euro 8,064.2 million, compared to the figure at the end of 2013, of euro 8,173.6 million.
The share capital increase transaction was completed in April, which led to the recognition of an increase in shareholders' equity, net of directly attributable costs, of euro 1,459.4 million. Banco Popolare's share capital also reflected the impact resulting from the completion of the incorporation of Credito Bergamasco into the Parent Company, which entailed the issue of 19,332,744 new ordinary shares allocated to Credito Bergamasco shareholders, for a total counter value of euro 300.6 million, at a swap rate of 1.412 ordinary Banco Popolare shares for each ordinary Credito Bergamasco share presented.
The impact of the redemption of the Banco Popolare 2010/2014 4.75% convertible bond issue, which matured on 24 March, was recognised, resulting in the deduction of euro 9.1 million from the Group's shareholders' equity.
Lastly, the comprehensive income recorded in the year, in terms of the share pertaining to the Group, was a negative euro 1,848.7 million. The latter includes the loss for the year of euro 1,945.9 million, and the increase of valuation reserves of euro 97.2 million.

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

(in thousands of euro)	Financial assets available for sale	Property and Equipment	Cash flow hedges	Special revaluation laws	Actuarial gains/(losses) on defined benefit pension plans	Investments in associates carried at equity	Total
Initial balance	134,090	217	(5,860)	2,314	(39,055)	(8,210)	83,496
Increases	367,746	-	3,102	-	18,720	13,881	403,449
Decreases	(226,336)	-	(1,100)	-	(54,754)	(20,127)	(302,317)
Final balance	**275,500**	**217**	**(3,858)**	**2,314**	**(75,089)**	**(14,456)**	**184,628**

As regards in particular the valuation reserve for financial assets available for sale, the following table shows the breakdown as at 31 December 2014 compared with the figures for the previous year.

Categories	Positive reserve 2014	Negative reserve 2014	Total reserve 2014	Positive reserve 2013	Negative reserve 2013	Total reserve 2013
Debt securities	174,839	(19,111)	155,728	102,908	(67,772)	35,136
of which government securities:						
- Italian	119,356	(13,851)	105,505	74,882	(60,301)	14,581
- foreign	61	(307)	(246)	876	(598)	278
Equity instruments	104,789	(625)	104,164	77,922	(302)	77,620
UCIT units	19,194	(3,586)	15,608	29,175	(7,841)	21,334
Total	**298,822**	**(23,322)**	**275,500**	**210,005**	**(75,915)**	**134,090**

The change in valuation reserves is mostly attributable to the valuation reserve for financial assets available for sale, which rose during the year by around euro 141.4 million. More specifically, this increase is due to the debt securities portfolio (which changed from having a total positive reserve of around 35.1 million as at 31 December 2013 to a total positive reserve of euro 155.7 million as at 31 December 2014), due to the improvement in spreads during the year, from which Italian government debt securities especially benefited (which grew from a total positive reserve at the end of 2013 of euro 14.6 million to a total positive reserve of euro 105.5 million). The reserve recorded at the end of 2014 as regards Italian government securities refers mainly to BTP.
Equity instruments also recorded an increase in the valuation reserves of euro 27 million. In particular, the main positive valuation reserves on shareholdings as at 31 December 2014 refer to Arca SGR S.p.A for euro 32.9 million, S.A.C.B.O. S.p.A. for euro 20.0 million, and Autostrade del Brennero for euro 17.1 million.
As regards investments in associates and companies subject to joint control carried at equity, the increases refer mainly to valuation reserves for the associated company Popolare Vita.

Reconciliation between the Parent Company’s shareholders’ equity and net income and consolidated shareholders’ equity and net income

(in thousands of euro)	Shareholders’ equity	Net income (loss)
Balance as at 31/12/2014 as per the Parent Company s financial statements	**6,499,182**	**(2,073,653)**
Impact of the consolidation of subsidiaries	1,323,652	91,474
Impact of the valuation at net equity of associated companies	86,955	90,207
Cancellation of the dividends received during the year from subsidiaries and associates	-	(57,051)
Other consolidation adjustments	154,430	3,132
Balance as at 31/12/2014 as per the consolidated financial statements	**8,064,219**	**(1,945,891)**

Capital ratios

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

The capital ratios as at 31 December 2014 calculated according to the new regulations are as follows:

- Common Equity Tier 1 (CET1) Ratio of 11.9%;
- Tier 1 Capital Ratio of 12.3%;
- Total Capital Ratio of 14.6%.

As already mentioned, the Group’s equity position has been considerably strengthened by the share capital increase, by the change to the use of internal models to measure operating risk, and by the merger by incorporation of Credito Bergamasco into Banco Popolare.

The stake in the capital of Bank of Italy, as it represents exposures in equity instruments, has been included in risk-weighted assets (RWA).
The capital gains resulting from the revaluation of the stake according to Italian Decree-Law no. 133 of 30 November 2013, converted into Italian Law no. 5/2014 of 29 February 2014, was recognised in the calculation of CET1.

During the transition period, which is almost always envisaged until 31 December 2017, several items will be calculated or deducted at different percentages for each year. Generally, a share is attributed to Common Equity Tier 1

(CET1), while the remainder of the aggregate is split between Additional Tier 1 (AT1) and Tier 2 (T2) capital, or attributed to RWA.
A gradual process of elimination (phase-out over a period of time extended to 2021 under the "grandfathering" system) is also envisaged for equity instruments that do not fully meet the calculation requirements of the new regulations.

Based on a particularly restrictive interpretation of article 63 of the CRR by the European Banking Authority (EBA), note that all banks that up until now included subordinated instruments with a contractual option for partial repayment before the 5 year period from their issue has passed in the calculation of Tier 2 capital, now must exclude said instruments from Tier 2 capital.
The Banco Popolare Group has one instrument of this type, and has excluded the same from Own Funds effective 31 December 2014.
The CET1 and Tier 1 ratios are unchanged, while the Total Capital ratio is lower, although well below regulatory thresholds.

The minimum capital requirements for 2014 are as follows:
- a minimum Common Equity Tier 1 ratio (CET1 ratio) of: 4.5% + 2.5% Capital Conservation Buffer: "CCB";
- a minimum Tier 1 capital ratio of: 5.5% + 2.5% of CCB;
- minimum total capital ratio of: 8% + 2.5% of CCB.

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

As at 31 December 2014, the Group therefore fully complies with the above-cited capital requirements, calculated in compliance with transition provisions.

The pro-forma CET1 ratio calculated on the basis of rules that will take effect at the end of the transition period (so-called CET1 ratio fully phased) will be 11.3%.

With regard to liquidity, the Liquidity Coverage Ratio (LCR), required as coverage of short-term liquidity, and NSFR (Net Stable Funding Ratio) surpass the targets required by Basel 3, and are around 100%.
Currently, neither ratio is a mandatory requirement. In fact, note that the LCR requirement was introduced gradually beginning on 1 January 2015 (60%), while the EBA must prepare specific reports on the NSFR by 31 December 2015.

Finally, note that the Leverage Ratio was 4.9% as at 31 December 2014, while the level at full implementation is estimated at 4.6%.
Note that this ratio is currently not mandatory until 2016. The Basel Committee proposed a minimum level of 3%.

Results of the Comprehensive Assessment exercise: impact on the accounts (Disclosure required by Consob pursuant to art. 114, paragraph 5, of Italian Legislative Decree no. 58/98)

In order to ensure adequate and harmonised disclosure on the accounting impact for the year of the Comprehensive Assessment, on 30 January 2015, Consob sent a request to all participating banks to include the information illustrated below.
This disclosure supplements and updates the previous disclosure provided in the interim report on operations as at 30 September 2014.

Publication of the results of the Comprehensive Assessment exercise conducted by the European Central Bank

On 26 October 2014, the Supervisory Board and the Governing Council of the ECB approved the Final Report and Results of the Comprehensive Assessment. Said exercise was conducted by the ECB in collaboration with national supervisory authorities and consisted of the following stages:
- AQR on accounting data as at the end of 2013, which entailed a review of asset quality and verification of the adequacy of valuations of the same, as well as of guarantees and relative provisions;
- Stress Tests, conducted in close collaboration with the European Banking Authority (EBA), which reviewed the performance of bank financial statements under stress. The results of the Stress Test reflect the impact of the application of two set scenarios, called "baseline" and "adverse", which do not entail forecasts on future financial performance or on the expected capital ratios of the banks in question.

The Group passed the exercise with flying colours, due to measures taken in the first half of 2014 to strengthen its equity base:
- the CET1 ratio post-AQR was 11.50%, compared to a minimum threshold required of 8.0% (a surplus of +350 b.p. corresponding to over euro 1.8 billion);
- the CET1 ratio post-Stress Test impact conducted according to the baseline scenario was 10.26%, compared to a minimum threshold required of 8.0% (a surplus of +226 b.p.);

- the CET1 ratio post-Stress Test impact conducted according to the adverse scenario was 8.29%, compared to a minimum threshold required of 5.5% (a surplus of +279 b.p.).

More specifically, the AQR conducted as part of the Comprehensive Assessment shows “adjustments” to the figures presented in the financial statements as at 31 December 2013 for a total of euro 1,603 million before tax effects. As at 31 December 2013, the impact of the Common Equity Tier 1 amounted to euro 1,080 million. The table below provides details on the adjustments identified:

Details of the results of the Asset Quality Review: impact of adjustments to Common Equity Tier 1 Capital identified as at 31 December 2013 *amounts shown in millions of euro*	
Credit exposure - Adjustments to provisions on sampled files	451.24
Credit exposure - Provisions due to projections of findings	509.56
Credit exposure - Adjustment to provisions due to collective provisioning review	600.13
Credit Value Adjustment	10.62
Investment in Private Equity and participations - Adjustment related to fair value review	11.53
Investment Properties/ Real Estate /Other - Adjustment due to fair value review	19.89
	1,602.97
Offsetting tax impact	- 522.89
Net total impact of AQR results on CET1 Capital	**1,080.08**

The table above shows that almost all of the adjustments identified in the exercise refer to the valuation of loans to customers (euro 1,561 million, or 97.4% of the total).

Note that the amount of the adjustments identified is basically the same as the shortfall[1] that as at 31 December 2013 amounted to euro 1,336.4 million. This information is subject to periodic communication to the market as part of “Pillar III Disclosure”.

Nature of capital impacts that emerged from the Comprehensive Assessment

As specified by the ECB in its “Aggregate Report on the Comprehensive Assessment”, the Comprehensive Assessment represents an exercise whose purpose is prudential supervision, and not an exercise aimed at verifying whether accounting principles have been applied when preparing financial statements. This means that the results of the Comprehensive Assessment are not directly reflected in the financial statements of the banks that participated in this exercise. While this conclusion is extremely clear in terms of the results of the stress test, comprehension as to the results of the AQR exercise is less immediately obvious.
Even with specific reference to the latter, the ECB has however been very clear, when confirming that, as part of a series of approaches permitted by accounting standards, so-called “ECB thresholds” were established for the purpose of the exercise, intended to be univocal guidelines, privileging the adoption of stricter valuation parameters, with a view to being prudent. In its report, the ECB states that the “ECB thresholds” should not necessarily be used in preparing financial statements, allowing each bank to evaluate the possibility to reflect these adjustments in its financial statements.[2]

As previously noted in the Interim Report on Operation published on 14 November 2014, the AQR provided a series of new indications that led the Bank to immediately launch an analysis of the overall results. The objective of the analysis is to carefully review the compatibility of the prudential criteria applied by the Supervisory Authority with the accounting standards, in order to evaluate the opportunity to intervene on the credit classification and assessment processes ordinarily applied, by adopting, within the range of approaches relating to the estimation processes permitted by the reference accounting standards, valuation parameters that are partially different to those currently used, and more in line with those adopted by the ECB and by the national Supervisory Authority in conducting the AQR.

After publication of the document, the ECB returned to the issue with specific communications to banks that participated in the exercise. In these communications, the Supervisory Authority asked Banco Popolare to critically

[1] Difference between the amount of expected losses on loan exposures whose risk is measured, for prudential purposes, according to internal models (AIRB) approved by the Supervisory Authority and the book value of the value adjustments of said loans in the financial statements.
[2] “These ECB thresholds provided additional prescription to practices in a number of areas in which accounting standards allow a range of approaches but did not contradict those standards. These ECB Thresholds are not expected to be used for accounting purposes following the comprehensive assessment, and where their application has led to AQR-adjustments, it is the responsibility of participating banks to assess whether those adjustments have to be reflected in the statutory accounts. That said, the comprehensive assessment will form the basis for extensive follow-up work beyond addressing capital shortfalls. Nevertheless, a number of findings from the AQR do stem directly from adjustments in which the previous practice of participating banks was explicitly non-compliant with accounting practice. Participating banks are expected to assess these issues and reflect accounting breaches in their accounts. This process will be monitored by the Joint Supervisory Teams of the banks in question.”

review all the results from the AQR, in reference to both the quantitative results presented in the previous paragraph, as well as certain comments of a qualitative nature of which the Bank was informed in a letter dated 4 December 2014.
The Supervisory Authority requested that the competent bodies of Banco Popolare critically review the AQR results and the underlying reasons for the adjustments identified. Additionally, in its communications, the Supervisory Authority expressed its wish that, in preparing the financial statements as at 31 December 2014, the opportunity to introduce appropriate changes in valuation processes should be taken into consideration (essentially loans to customers), in order to reduce the existing misalignment between the valuations made for the financial statements and the ECB thresholds.

Findings of Banco Popolare analysis of the Asset Quality Review results

Based on the quantitative and qualitative results of the AQR communicated by the ECB, it was decided, after the closing of the third quarter, to take certain actions on the credit classification and assessment processes ordinarily applied, by adopting, within the range of approaches relating to the estimation processes permitted by the reference accounting standards, valuation parameters that are partially different to those currently used, and more in line with those adopted by the ECB and by the national Supervisory Authority in conducting the AQR, in preparing the financial statements as at 31 December 2014. This decision was taken to eliminate, to the extent possible, the amount of the misalignment between the valuations made for financial statement purposes and the ECB thresholds.

Description of the changes to the policies, procedures and parameters used in valuing loans in preparing the financial statements as at 31 December 2014

The changes introduced to the valuation processes described below, at the policy level, to the models, as well as to the valuation parameters, were clearly influenced by the analysis of the AQR results. It should be noted that these changes were decided and applied in compliance with the provisions of the reference accounting standard (IAS 39), which envisages that information, data, assessment models, parameters, estimates and assumptions on which the valuation processes are based must be reviewed with the aim of reflecting the current conditions at the valuation date, taking into consideration the external and internal context, as well as all related changes that occurred in 2014.
It should also be noted that changes described were introduced as a result of the management decisions that had objectives beyond eliminating the amount of the misalignment between the valuations made for financial statement purposes and the ECB thresholds.

Moreover, the changes introduced in valuation policies, models and parameters previously described were naturally superimposed on the normal process of reviewing loss estimates based on new information acquired as at the date the 2014 financial statements are prepared (information regarding the borrower's status, initiation of bankruptcy proceedings, updates to appraisals of guarantees, changes in the processes of loan restructurings already initiated, etc.). With specific reference to analytic valuation, it is not possible to distinguish the portion of the change in the estimate due to changes introduced to policies and parameters from that portion due to the consideration of newly available information.

More specifically:

I. Performing loans

I.a. - Change and update to parameters used in the model to calculate collective adjustments

The Probability of Default (PD) and operational Loss Given Default (operational LGD) were changed from those used in previous accounting periods in order to better reflect the current economic conditions, as indicated in the "AQR Qualitative Findings" attachment to the letter sent by the ECB dated 4 December 2014.
The Loss Confirmation Period (LCP) parameter, which aims to transform the expected loss into an incurred loss, was modified as a result of updated information on which the calculation is based.

The changes made to the valuation parameters used in the collective valuation model for performing loans resulted in charging higher value adjustments totalling euro 176 million to the income statement for the year (before tax effects).

I.b. - Extension of the application of the collective valuation model to performing unsecured loans and other irrevocable commitments to disburse funds

For the 2014 financial statements, unsecured loans and irrevocable commitments to disburse funds to performing counterparties were subject to valuation on a collective basis in order to reflect the probability of an outlay of financial resources based on similar portfolios, in line with the calculation methodology for collective value adjustments on cash exposures. This decision was also taken to provide an immediate acknowledgement of the qualitative indication developed by the ECB in the aforementioned letter.
The collective valuation conducted on these off-balance sheet exposures resulted in recognising a provision of euro 18.5 million, before tax effects, to the income statement for the year.

II. Non performing loans

II.a. - Change to a statistical/lump-sum valuation for loans that are not individually significant

The loan valuation policy was modified by defining the perimeter of loans that by nature or amount are not considered significant individually, and as such, are no longer subject to analytic valuation. The following portfolios were considered not significant on an individual basis:

- all bad loans and substandard loans whose exposure is less than or equal to euro 100,000;
- all past due loans, regardless of the amount of the outstanding exposure.

These portfolios were valued based on lump-sum statistical methodologies. More specifically, they were valued by assuming a percentage corresponding to the operational Loss Given Default (operational LGD) as the expected loss estimate.

The change made to the valuation approach resulted in higher value adjustments on loans charged to the income statement for the year totalling euro 222 million, before tax effects, compared to the existing value adjustments. The estimate refers to the date of application of the new valuation model during the fourth quarter of the year.

II.b. - Revision of the guidelines for assessing all non performing loans other than past due exposures with amounts greater than euro 100,000

Awaiting a formal subsequent amendment to internal regulations on loan valuation, the Loan Department, as part of its coordination of the valuation process for preparing the financial statements, provided operators responsible for conducting analytic valuation with guidelines that, although essentially consistent with reference internal regulations, instructed assessors to take due consideration of the effects of the changed reference scenario, particularly due to changes in macroeconomic trends, trends in real estate and manufacturing markets and indications that emerged from the analysis of the AQR results. More specifically, in reference to the latter point:

1. positions subject to CFR were carefully analysed to understand the reasons for any valuation differences expressed by the Supervisory Authority. If there were reasons that also applied as part of a valuation guided by logic that is consistent with the reference accounting standards and considering, where applicable, more information deriving from subsequent events involving these positions, the value adjustments were adapted in preparing the financial statements;
2. for positions supported by mortgage guarantees, though there are internal regulations that govern the updating of values attributed to guarantees (periodic updated of appraisal estimates and continual updating of appraisal value based on changes in prices from external providers), it was deemed appropriate to direct the assessors to take due consideration of trends in the real estate market and indications that emerged from the analysis of the AQR results. These indications were acknowledged, not only in the ordinary revision process of analytic valuations, but also in conducting a specific analysis of more significant exposures (greater than or equal to euro 10 million of total exposure), in order to evaluate possible opportunities to apply corrections that would render the updated appraisal value more in line with the presumed sale value (PSV) of the individual assets;
3. for the remaining exposures, without prejudice to the principle of analytic and independent valuation of the operator for the impaired position based on available parameters and elements, the operators responsible for the valuations were provided with the statistical information regarding the operational Loss Given Default and its minimum level resulting from the analysis of the statistical distribution of historical losses (operational LGD floor). Additionally, second-level controls were introduced for those positions that had loss estimates below those measured based on the aforementioned statistical parameters.

As previously noted, for the changes to the valuation policy described above, it is not possible, unless arbitrarily, to provide an estimate on the impact from the introduction of said changes, as they are absorbed in the ordinary process of revising estimates as part of the continuous monitoring of exposures.

II.c. - Valuation of a specific cluster of loans to be sold

The competent corporate bodies made a formal decision to reduce the amount of bad loans by selling, in a single block or multiple tranches, unsecured exposures with amounts less than euro 250,000. These loans were then segregated into a specific cluster. Given the specific objective of selling these loans, their valuation for the 2014 financial statements was conducted by applying a lump-sum write-down to the entire population based on a standard write-down percentage, calculated in reference to the Group’s historical experience in selling portfolios with similar characteristics.
The change to the valuation criteria following the decision to sell and the subsequent segregation of the loan portfolio resulted in higher value adjustments on loans of 329 million, before tax effects, charged to the income statement for the year, compared to the value adjustments existing at the date on which the decision to sell was made.

Accounting effects of the quantitative results of the Asset Quality Review

In accordance with Consob's communication of 30 January 2015, the information requested in said communication regarding the accounting effects of the AQR are provided below.

1. Credit File Review (CFR) – Reconciliation between the adjustments identified on the sample of loans that was subject to analytic valuation by the team that performed the exercise and the net value adjustments charged to the 2014 income statement for the same exposures

   From a population representing all loans attributable to the following 3 portfolios:
   - Real estate-related positions, totalling euro 19.2 billion of exposures;
   - Large SME, non-real estate positions, totalling euro 19.0 billion of exposures;
   - Large Corporate, non-real estate positions, totalling euro 13.1 billion of exposures,

   a sample of 907 exposures was extracted, which was subject to the Credit File Review, or an analytic valuation.
   From reading the analytic detail by position of the CFR results provided to the bank on 6 November 2014, it emerged that the adjustments made, equivalent to euro 451.2 million, were classified by the ECB almost entirely as adjustments due to the use of the "ECB Thresholds" and as such do not have a direct influence on the accounts.
   These exposures were subject to an independent valuation in 2014 by the bank, taking due consideration of all the additional information on the exposure's performance acquired during 2014. Based on the comparison with the details of the adjustments provided by the Supervisory Authority, it emerged that the value adjustments charged to the 2014 income statement for the exposures subject to adjustments following the Credit File Review amount to euro 700 million. These adjustments affected the income statement for the first nine months for a total of euro 263 million. The amount of the adjustments charged to the income statement for the fourth quarter was euro 437 million.
   The difference between the value charged to the income statement by the bank compared to the adjustments identified as part of the CFR is mainly due to the fact that the valuations formulated for the financial statements as at 31 December 2014 also considered information and trends in the borrowers' status that occurred after the date on which the team conducting the CFR completed their work.

2. Credit File Review - projections of findings - results and comments on the loan valuation conducted in preparing the financial statements as at 31 December 2014

   The projections of findings of the Credit File Review on the total population of the three loan portfolios indicated resulted in adjustments totalling euro 509.6 million. These projections are strictly statistical in nature and therefore the adjustment does not have a direct impact on the accounts and the financial statements.
   However, the changes introduced in the loan valuation process previously described resulted in an increase, on an annual basis, of value adjustments for non performing exposures attributable to the three portfolios selected for the CFR for a total of euro 2,352 million. Excluding the impact for the sample loan positions that were subject to adjustment described in point 1 above (euro 700 million), the increase in value adjustments resulting from the overall review of the estimate recorded in 2014 amounts to euro 1,652 million.
   Furthermore, note that the average coverage ratio of the exposures in the 3 aforementioned portfolios as at 31 December 2014 was much higher than the target average coverage ratio identified by the analysis of the AQR results, including the adjustments following the projection of findings.
   In light of the above, even though it is not possible to definitively reconcile the adjustment reported by the ECB in the AQR quantitative results, as previously explained, it can reasonably be stated that the entire adjustment was absorbed by the amount of value adjustments on loans charged to the 2014 income statement.

3. Collective provision analysis (CPA) - Results and comments on the loan valuation conducted in preparing the financial statements as at 31 December 2014

   The adjustments that emerged from the AQR exercise amount to euro 600.1 million and derive from applying the benchmark models (Challenger Model) to collective valuations of performing loan portfolios and to analytic valuations of loan portfolios in default related to SME retail customers, which were not subject to the Credit File Review. The characteristics of the Challenger Model used by the Supervisory Authorities are described in detail in the AQR Manual. It is a standardised quantitative model, which seeks to guarantee that standard criteria are applied by the Supervisory Authorities to all of the banks participating in the exercise. This model is also based on assumptions that refer to information mainly relating to 2013. This "point in time" approach is particularly prudent with regard to the specific situation of Banco Popolare, if we consider the fact that in 2013, the credit valuation process was impacted both by the economic recession and by inspections conducted by the National Supervisory Authority before the start of the Comprehensive Assessment. It should also be noted that the internal model used to calculate value adjustments on collective receivables adopted by Banco Popolare is based on an internal rating system validated by the national

Supervisory Authority as of 30 June 2012. For these reasons, the adjustments in question cannot be directly reflected in the accounts and in the financial statements.
However, note that the changes introduced in the loan valuation process previously described resulted in an increase, on an annual basis, of value adjustments for non performing exposures in the SME Retail portfolio for a total of euro 598 million. For the performing loan portfolio, the estimate of the impact of the higher value adjustments charged to the income statement for the year due to changes in the valuation parameters as described above was euro 176 million.
Furthermore, note that the average coverage ratio of the exposures in these portfolios as at 31 December 2014 was much higher than the target average coverage ratio identified by the analysis of the AQR results, including the adjustments following the CPA. Even though it is not possible to definitively reconcile the adjustment reported by the ECB in the AQR quantitative results, as previously explained, it can reasonably be stated that the entire adjustment was absorbed by the amount of value adjustments on loans charged to the 2014 income statement.

4. Level 3 fair value exposures review - Results and comments of the valuation of Level 3 assets in preparing the financial statements as at 31 December 2014

   The review of the AQR results led to total adjustments of euro 31.4 million, of which euro 11.5 million from the revision of the fair value of investments in associates and companies subject to joint control and private equity vehicles included in financial assets available for sale, and euro 19.9 million from the revision of the fair value of owned property classified as investments.
   In consideration of the insignificant amount of the adjustments, the ECB did not provide any details on these adjustments, and therefore we cannot verify whether they partially coincide with the impairments deducted from the income statement for the year by Banco Popolare based on its independent valuations. On this matter, note that euro 17.5 million was recognised in the income statement for the year for impairments on investments in associates and companies subject to joint control, as well as private equity vehicles, classified in financial assets available for sale and euro 68.0 million was recognised for owned property classified as investments. Hence, this adjustment was absorbed in the 2014 financial statements as a result of monitoring the recoverable value of these types of investments, which took into consideration all information made available until the date the financial statements were prepared.

Remedial actions undertaken or planned in order to resolve the qualitative issues communicated by the ECB in its letter of 4 December 2014

In accordance with Consob's communication of 30 January 2015, the information requested regarding the remedial actions undertaken or planned to implement the instructions provided by the ECB in the "AQR Qualitative Findings" attachment to its letter of 4 December 2014.

1. *Collective provisioning*

   The qualitative comments developed by the ECB refer to the Probability of Default (PD) and operational Loss Given Default (operational LGD) used in the collective valuation model for performing loans. More specifically, the Supervisory Authority requested the bank to apply valuation parameters that better reflect the current economic conditions.
   As previously noted, in order to prepare the financial statements as at 31 December 2014, the necessary improvements were made to make the PD and operational LGD more "point in time".
   The Group Risk Department currently has a project underway to recalibrate its internal models to measure expected loss with the aim of estimating probability of default based on more up-to-date internal data, at the same time aligning the definition of default used by the model to that which is currently envisaged in governing prudential regulations. The regulatory amendments will also be reflected in the collective valuation model for performing loans.

   Moreover, the ECB asked the bank to assess the opportunity of extending the scope of application of the collective valuation model used for "cash" performing loans to unsecured loans and irrevocable commitments to disburse funds to performing counterparties. This instruction was implemented in preparing the financial statements as at 31 December 2014, as indicated in the preceding paragraph describing changes to valuation policies, procedures and parameters.

2. *Policies, processes and accounting review – forborne loans*

   The ECB asked the bank to formalise a policy and implement processes that ensure the correct identification and management of forborne loans, consistent with the definition provided by the EBA in its Implementing Technical Standard (ITS), published in draft form on 21 October 2013 and definitively approved by the European Commission on 9 January 2015.
   On 11 November 2014, the Bank's Board of Directors resolved a new policy on "Forbearance exposures" that

assimilates the EBA's provisions. The new policy establishes the principles and the criteria to adopt for the classification of exposures as "forborne", regardless of whether they are performing or non performing. The provisions of the new policy and the consequent integration with the IT system were rendered operational beginning 28 January 2015.
In order to identify "forborne loans", the provisions of the new policy were accompanied by changes to the work flow for credit granting processes, in order to support and document the verification that the customer is experiencing financial difficulties, as well as the identification of any forbearance measures granted that form the basis of the "forborne" exposure classification.
The credit monitoring processes will be revised by 30 June 2015 in order to ensure the proper monitoring of the conditions for exiting from the "forborne" status for both performing and non performing loans.

3. *Policies, processes and accounting review – Credit File Review*

The ECB asked the bank to verify that its credit monitoring processes were able to ensure a timely classification of loans in the non-performing category and subsequent appropriate valuations of said loans. On this matter, particular attention was given to the valuation of the underlying guarantees.
With reference to the timeliness of classifications, note that during the analysis of the CFR results, it emerged that the 76 positions that were reclassified from performing to non performing were for the most part already independently classified by the bank as non performing loans, based on the bank's ordinary credit monitoring and management processes during 2014. Additionally, the analysis conducted showed that more than 50% of the exposures reclassified were justified by the concession of "forbearance measures".
The adoption of the policy and the full implementation of processes for "forborne loans" previously described will ensure a timely and proper classification of credit exposures in compliance with the new rules.

Also in the area of adequacy of the valuations, specific actions were put in place, which were described in the previous paragraph on changes made to the valuation policies, models and parameters. In reference specifically to the valuation of guarantees, note that the processes already in use envisage the automatic review every half year of the appraisal value for all properties guaranteeing disbursed loans. Additionally, a process is in place to update, every three years, the appraisal value of properties guaranteeing exposures exceeding certain thresholds.
In preparing the 2014 financial statements, the bank verified the consistency of the expected losses compared to the value of the property assets guaranteeing large exposures (non performing exposures over euro 10 million), making the appropriate variable haircuts based on the property type in order to take into consideration the specific context that currently characterises the real estate market, as described in the paragraph on changes to valuation policies, processes and parameters applied.
By 30 June 2015, the business policies will be updated to formalise the changes introduced for the valuation conducted in preparing the financial statements as at 31 December 2014 both in reference to property guaranteeing loan exposures as well as owned property classified as investments.

4. *Policies, processes and accounting review – investments in associates*

The ECB stated that the bank valued its investments in associates in compliance with the provisions of IAS 28, however, asked that the bank formalise the proper rules already adopted in a specific policy.
Hence, the drafting of the policy has already commenced; by 31 March 2015 the specific regulation is expected to be approved by the Group.

5. *Policies, processes and accounting review – provision for legal costs*

Also in this area, the ECB asked the bank to formalise in a specific policy the valuation rules and practices already adopted that envisaged, as a general rule, an analytic valuation of the individual case in function of its unique and distinctive elements.
The requested policy has already been drafted, which was absorbed in one specific Group regulation approved by the Board of Directors in its meeting of 11 November 2014.

6. *Policies, processes and accounting review – Credit Value Adjustment (CVA)*

The ECB asked the bank to review its policy for calculating the fair value of derivatives, with specific reference to the application of the CVA in determining the fair value of collateralised exposures. Hence, beginning 30 June 2014, the CVA/DVA was taken into consideration in calculating the fair value of collateralised derivatives. The Group regulation that governs the fair value calculation process (Fair Value Policy) was then updated. From the date of its introduction, the change brought about an overall positive economic effect for the Group of euro 0.5 million before tax effects.

RESULTS BY BUSINESS SEGMENT

Introduction

As at 31 December 2014 the segments are as follows:

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

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

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

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

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

The **“Leasing”** segment is made up of Banca Italease and its subsidiaries. The main companies included in this segment are:

- Banca Italease S.p.A.
- Release S.p.A.
- Italease Gestione Beni S.p.A.

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

Note that for the purpose of reconciling segment results with consolidated results the effect of the purchase price allocation of business combinations referring to the acquisition of the former Banca Popolare Italiana Group and of Banca Italease are shown separately in a specific column called “PPA – Purchase Price Allocation”. This column also includes the impact of the impairment assessed at year end of the “client relationship” totalling euro 39 million (euro 25.5 million after tax).

For a like-for-like comparison, note that the figures relating to previous periods have been recalculated on the basis of the same criteria used as at 31 December 2014, established in coherence with the characteristics of internal reporting.

	Group	Network Divisions	Investment & Private Banking, Asset Management	Leasing	PPA & FVO	Corporate Centre
Operating income						
2014	3,385,886	3,020,174	299,421	61,313	(32,553)	37,531
2013 (*)	3,584,569	3,118,084	364,488	59,189	(33,054)	75,862
Operating expenses						
2014	(2,269,328)	(1,848,940)	(101,883)	(127,745)	(3,682)	(187,078)
2013	(2,253,840)	(1,856,159)	(111,402)	(77,521)	(3,634)	(205,124)
Income (loss) from operations						
2014	1,116,558	1,171,234	197,538	(66,432)	(36,235)	(149,547)
2013 (*)	1,330,729	1,261,925	253,086	(18,332)	(36,688)	(129,262)
Net income (loss) without fvo						
2014	(1,919,903)	(1,450,603)	120,191	(178,686)	(50,599)	(360,206)
2013 (*)	(510,482)	(161,146)	70,486	(165,770)	(24,914)	(229,138)
Net income (loss)						
2014	(1,945,891)	(1,450,603)	120,191	(178,686)	(76,587)	(360,206)
2013 (*)	(606,295)	(161,146)	70,486	(165,770)	(120,727)	(229,138)
Net loans						
2014	79,823,603	64,047,513	1,561,799	5,378,465	0	8,835,826
2013	86,148,995	68,353,961	1,840,964	6,310,705	(1,308)	9,644,673
Direct funding						
2014	86,513,468	60,432,494	897,717	928,465	(6,451)	24,261,243
2013	90,017,669	61,596,899	750,740	1,145,159	(6,878)	26,531,749

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

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

Commercial Network

	2014	2013(*)	absolute change	% change
Interest margin	**1,556,162**	**1,631,016**	**(74,854)**	**(4.6%)**
Financial margin	**1,556,162**	**1,631,016**	**(74,854)**	**(4.6%)**
Net fee and commission income	1,358,724	1,328,088	30,636	2.3%
Other net operating income/expense	99,143	150,127	(50,984)	(34.0%)
Net financial result (without FVO)	6,145	8,853	(2,708)	(30.6%)
Other operating income	**1,464,012**	**1,487,068**	**(23,056)**	**(1.6%)**
Operating income	**3,020,174**	**3,118,084**	**(97,910)**	**(3.1%)**
Personnel expenses	(1,053,137)	(1,003,281)	49,856	5.0%
Other administrative expenses net of recoveries	(772,836)	(828,469)	(55,633)	(6.7%)
Value adjustments on property and equipment and intangible assets	(22,967)	(24,409)	(1,442)	(5.9%)
Operating expenses	**(1,848,940)**	**(1,856,159)**	**(7,219)**	**(0.4%)**
Income (loss) from operations	**1,171,234**	**1,261,925**	**(90,691)**	**(7.2%)**
Net value adjustments on loans (customers)	(3,231,765)	(1,424,595)	1,807,170	126.9%
Income (loss) before tax from continuing operations	**(2,060,531)**	**(162,670)**	**1,897,861**	**1166.7%**
Taxes on income from continuing operations	609,927	1,524	608,403	39921.5%
Net income (loss)	**(1,450,604)**	**(161,146)**	**1,289,458**	**800.2%**

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

Economic performance

Total operating income for the Commercial Network, compared to last year, was down 3.1%, corresponding in absolute terms to euro 97.9 million. The interest margin made a significant contribution to this drop, with a partial contribution of other operating income, which is ideally represented by the non-interest margin.

The performance of the interest margin is mostly due to the fall in the average volume of loans and to the reduction of the average customer spread.
The trend of the network's performing loans showed a downturn of 6% in terms of volume compared to the end of 2013. This fall regarded all segments (Private, Business and Large) and all types of loan, despite a significant increase in the disbursement of mortgage loans to customers (Households and Business). More specifically, disbursements of mortgage loans to customers (Private and Business) were euro 5.4 billion in 2014, against euro 3.9 billion in 2013 (+28%), of which euro 1.1 billion to Private customers (+8% compared to 2013) and euro 4.3 billion to Business customers (+57% compared to 2013). Furthermore, the number of mortgage loan agreements stipulated rose by 34% against 2013, the average amount financed was euro 95 thousand against euro 93 thousand last year, with the consequent distribution of risk and increase in the number of customers served.
Commercial strategies were addressed to the main segments of reference: Households, where medium-long term mortgage loans were granted at competitive rates, and local SMEs, also taking advantage of the ceiling made available by the European Central Bank through "TLTRO" (Targeted Longer-Term Refinancing Operations) in the fourth quarter.
Direct funding recorded a drop of 2% compared to the end of 2013. This downtrend reflects the changed funding requirements due to the above-mentioned fall in loans and is related to the action taken by the Group to balance its cost of funding profile (mainly through the use of bond issues).
Funding in the form of current accounts and demand deposits recorded an increase of 9% compared to the end of 2013, mostly achieved towards the end of the year; this situation is presumably due to the changed preferences of customers as to the allocation of their funds, given the current conditions and opportunities of the financial market.

As regards other operating income, a 2.3% increase in net fee and commission income was recorded. Net fee and commission income continued to record good levels, mainly due to the placement of investment products (certificates, mutual funds and insurance products), which offset the lower fee and commission income resulting from holding and managing current accounts and customer relationships. A reduction in the amount of fast-track fees charged to customers was also recorded, due to the fall in the average volume of loans, from the settlement of positions and from the update of pricelists and application of criteria, which sought to meet the customers' need for flexibility. This reduction is also the explanation for the fall in the other net operating income and expenses and also of the yoy drop in other operating income. Although 2014 was characterised by the gradual reduction of market rates of return, several contingent opportunities were exploited to offer customers potential higher returns.
The Commercial Network placed investment products totalling euro 14.6 billion, against euro 11.4 billion in 2013, on a comparable basis (+19%), generating revenues of euro 445 million.
Customers showed a preference, in particular, for products with an annual distribution of income (mutual funds placed for euro 5.7 billion and Segment I policies for euro 1.4 billion and Segment III for euro 2 billion) with guaranteed repayment of capital on maturity. In addition to investment products, other banking services also made a positive contribution in 2014 to the rise of the non-interest margin and, in particular: commission generated by medium-long terms loans (+21% against 2013), "Transactional Bank" commission (+2%) and commission from "Insurance Protection - stand-alone products" (+11%).

As regards operating expenses, a generalised decrease was recorded for ASA and of amortisation and depreciation, which is worth over euro 57 million due to a continuous focus on operating efficiency. More specifically, the full effect of the synergies of the new Hub & Spoke organisational model of the commercial network, became fully operational during the year, were enjoyed.
The trend of personnel expenses reflected policies to encourage retirement implemented by the company; in particular this year these policies specifically regarded commercial network personnel, with a greater impact on the sector than the previous year. If the extraordinary impact of the solidarity fund is excluded from the analysis, personnel expenses for the year would have been substantially in line with those of 2013.

By virtue of the above trends, income from operations, corresponding to euro 1,171.2 million, fell by euro 90.7 million compared to 2013, corresponding to a percentage reduction of -7.2%.

Lastly, the cost of credit contributed to the gross loss from continuing operations, which suffered from the Group's policies on provisions. During the year, the Group decided to act on the results of the AQR to the full extent and to therefore eliminate the shortfall on expected losses. This decision had the greatest impact on the Commercial Network, where the majority of the Group's customer assets are held.

Commercial business activities - Private Customers

The commercial activities of the segment in question, which is comprised of the four commercial divisions, Banca Popolare di Verona, Banca Popolare di Novara, Banca Popolare di Lodi and Credito Bergamasco (all of the stages of integration with Banco Popolare, including the legal ones, were completed in 2014), are coordinated and managed at Group level by Banco Popolare's Commercial Department.
At Parent Company level, in 2014, the Commercial Department was comprised of different macro areas:

- Commercial Planning, Customer Care, Alliance Development, which are staff functions;
- Private Customers, Business Customers, Foreign Commercial services, which are line functions. The Private and Business Customers departments replace the previous Retail and Corporate Departments, and differ from the latter because their objectives and efforts are focused on more similar types of customer. For the same reason, customers belonging to the Institutions, Religious Entities and the Third Sector are now grouped in a specific Department (Institutions, Entities and Third Sector Department) which reports directly to General Management.

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

- Commercial Planning, assists the Commercial Department in drawing up guidelines for corporate and retail commercial growth, in contributing to setting commercial objectives for private and business customers as part of the Group's budgeting processes and long-term planning;
- Customer Care, whose objective is to promote a culture of quality and external and internal customer satisfaction within the Group, by monitoring the ability of corporate functions to respond to market needs, as well as by managing banking and financial claims with a view to preserving customer loyalty and trust;
- Development and Alliances, responsible for carrying out and coordinating the activities of the Divisions and of Group Banks, with a view to developing the Group's corporate and retail customer base, as well as customer retention, in addition to identifying external partners interested in supporting the Group's growth;
- Private Customers Department, whose objective is to maximise the value creation and the economic contribution of the Private customer business at Group level (including the SBO segment - Small Business Operators, with a turnover of up to euro 100 thousand), by systematically understanding the needs of customers, overseeing the range of products offered, developing distribution channels and developing service models;
- Business Customers Department, responsible for maximising the value creation and the economic contribution of the business related to medium and large companies, at Group level;
- Foreign Commercial Services, established to oversee the range of foreign products and services, guiding the development process for new products and the development of existing ones, as well as to develop and manage relations with the Group's foreign correspondent banks.

As illustrated above, Banco Popolare's Private Customers Department oversees and coordinates, at Group level, the business areas relating to Private Customers, represented by "Private Individuals" and "SBO" - Small Business Operators.
"Private Customers" means all private parties whose personal assets are at least one million euro[1]. A further classification separate the "Affluent" segment from the "Universal" one: the first, the "Affluent" segment, encompasses customers with assets (deposits) of between euro 100 thousand and euro 1 million, or with specific financial arrangements (e.g. with loans exceeding euro 250 thousand, monthly cash flows exceeding euro 4 thousand, etc.); the second, the "Universal" customers, are those with assets of less than euro 100 thousand, and who have no financial arrangements considered "affluent". Within the above-described segmentation, different quality-based targets are also identified: shareholders, students, young people, the more senior customers etc.
The scope of the Private Customers Department also includes enterprises represented by SBO (Small Business Operators) with a turnover of up to euro 100 thousand, whose financial and operational requirements are very similar to those of private individuals.

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

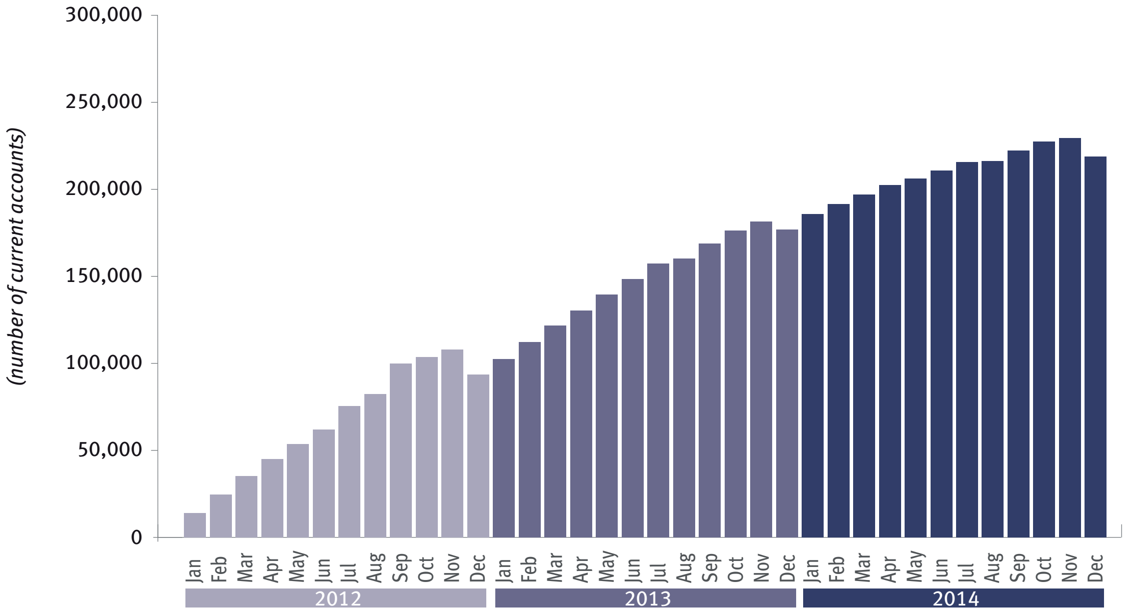
Overall, the Private Customers Department encompasses around 2.5 million customers (natural persons and companies) who are current account holders (including card accounts), distributed equally between the network divisions.
In December 2014, the customer breakdown was as follows:

Segment	% No. of customers with a Current Account
Universal	73%
Affluent	19%
SBO (Small business operators)	4%
Other segments	4%
Total Private Customers with a current account (including card accounts)	**2.5 million**

Products, services and loans for retail customers

The positive results recorded in previous years, in terms of increasing the customer base and accounts, were again confirmed in 2014, due to joint acquisition and retention efforts. As regards the first, acquisition, the Conto You continues to be the most successful account, also due to the commercial features of the same, which are particularly advantageous for specific customer targets. As regards the latter, retention, efforts to contain the number of customers closing accounts continued strong, with a focus on strengthening and stabilising customer relations. The innovative customer care project called “ThankYou”, dedicated to customers about to leave the bank, and loyalty programmes made a considerable contribution to preserving relating with a customer bracket that was potentially at risk. The results for the Private Customers Department were a total of around 200 thousand accounts opened, with an increase at year end (net balance) of around 42,000 accounts.
Between 2012 and the end of 2014, on the other hand, the net balance of accounts rose by around 220 thousand, as shown by the graph below.

Net balance number of current accounts 2012-2013-2014



Traditional current accounts and loyalty schemes for private customers

Conto You
Again in 2014, the most successful account, with around 65,000 new accounts opened. With “no account fees”, stamp duty paid by the bank until June 2015 on the current account and on the securities portfolio, and a YouCard included, the Conto You is an aggressive and effective tool to motivate and attract new customers. These special conditions are only applied to new customers, targeted by commercial campaigns and in possession of a specific coupon, which has to be handed in to the branch in question when opening a new account.

Basic account
In June, the arrangement between the Bank of Italy and ABI (Italian Banking Association) was renewed. The agreement establishes the features of the Basic Account, confirming the objective to offer the standard money management services even to target customers with limited banking requirements. The offer maintains features such as ease of use, transparency, contained costs and operational limits, and introduces some changes, which facilitate the move to a more complete current account and innovative banking services.

Accounts for young people
For many years, Banco has offered successful products to customers aged “0-11” and “12-30”. The products and the services addressed to this important target are revised each year, both in terms of the non-banking offer (specific rewards catalogue) and more traditional banking needs. Again in 2014, marketing efforts focused on improving the customer experience of these two targets: for example, a “Welcome Kit” is now also sent to the lower age range, with the idea of stimulating their curiosity right from the beginning. A series of planned activities timed to coincide with specific events that occur over the lifetime of each young person (secondary school diploma, degree, wedding etc.) also help strengthen relations with the bank, by offering opportunities and new features to our younger customers.

Programmes for shareholders
Banco Popolare has always placed special attention on its Shareholders, both by designing initiatives for local areas, and by offering dedicated products and services. With regard to the latter, the “Programma Valore” is worth mentioning. For a number of years now, Shareholders can accumulate loyalty points, which they can then spend on exciting rewards.
The catalogue is continuously revised, especially the “Hi-tech” section, with the introduction of famous brand articles, enabling the Bank to offer a range of increasingly stimulating offers. As usual, a specific mail shot is made to all Shareholders to tell them all of the new articles introduced and to remind them of how to make the best of this opportunity designed specifically for them. The option to exchange points between shareholders or with other loyalty schemes, such as for example Bruco Conto, was well-received by customers, as it enabled them to reach the threshold needed to access the best rewards more easily. The special offers and discounts envisaged for leisure time were also updated and include benefits relating to holidays and leisure time.

ThankYou
One again in 2014, the Bank focused on maximising its ability to retain customers, paying special attention to specific customer targets, in order to avoid the same leaving the bank.
Two programmes “ThankYou per Te” and “ThankYou Premium”, which have a totally new and multichannel approach, seek to strengthen relations with the Bank. All customers involved in the ThankYou programmes receive a welcome reward and, based on their loyalty and on an increase of the amount of capital they hold with the Bank, are then eligible to receive further rewards.
The integration of various communication channels proved to be a winning strategy, as customers are contacted at different instances and in different ways. In parallel to the role of branch, the “YouWeb” service allows customers to independently follow their progress in the programme and to make the most of all of the benefits.
The perception of proximity to the bank generates virtuous behaviour in customers: they make more transactions, they are more willing to sign up for new products and services, which leads to better cross-selling and capital ratios.

Passa da noi
Continuing with our focus on the customer, the “Passa da Noi” service was also updated; this service simplifies the transfer of accounts held by customers at other banks to our Bank. The process envisaged assists the customer, by relieving the same of a lot of “bureaucratic” procedures and, at the same time, facilitates the process for the branch, due to a specific procedure, which optimises the time needed. The procedure is guided by a dedicated back office, which handles the activities required. The opportunity of changing bank easily, without all of the related bureaucratic inconveniences, contributes to creating a climate of trust between customers and the Bank, and, at the same time, enables the branches to manage these transfers in a rational and organised way.

Multichannels for private customers

Banco Popolare’s multichannel business grew considerably in 2014. The greater diffusion of technological instruments and of Internet connections, combined with the ever-increasing computer literacy of the population are the factors that contributed the most to the use of online channels. In the banking sector, multichannel services are becoming increasingly important alongside the traditional role of the branch in handling relations with customers.
The table below illustrates the main figures for multichannel services.

Product/Service	End of 2014 figures	End of 2013 figures	% Change
No. of Home Banking - YouWeb/YouApp Customers	995,828	826,500	20.5
No. of YouCall - Telephone Banking Customers	893,883	709,598	26
No. of On Line Trading Customers	47,940	44,612	7.5

YouApp
YouApp is a new application which enables the customer to manage his accounts while on the move on his smartphone or tablet. This year our efforts were focused mainly on promoting this online channel. The application has received excellent feedback from our customer base both in qualitative and quantitative terms.
Over the year, the percentage use of YouApp with respect to the total number of accesses to You Services rose steadily, reaching 17%.
In absolute terms, YouApp was accessed over 1,700,000 times over the past quarter, against a total of 10,000,000.
We are therefore seeing a situation in which YouApp is being increasingly used alongside the traditional YouWeb service: thanks to the extremely complete nature of the application customers can now choose which channel they wish to use on any given occasion.

You Services
In 2014, You Services underwent some important changes, which regarded both extending the range of products and services that may be purchased online, and an increase in the number of functions available to the customer. The most important changes regard:

- opening a YouBanking current account directly from the Reserved Area of YouWeb. This option is reserved to You Services customers who do not have a current account yet (e.g. those who only have a savings account or a card account). When possible, the process envisages the use of a digital signature, which enables the opening procedure to be simplified and the time needed to manage the relative paperwork to be considerably reduced;
- the option of requesting the OTP security device. Customers who still do not have the security device can request it directly from YouWeb in the form of a card or a token. The aim is to provide all online customers with an OTP security device, with a view to harmonising browsing procedures when using You Services and therefore improve security standards to the levels envisaged by current protocols;
- booking appointment with the Branch online using the “My calendar” function. This is a new function available in YouWeb, which enables the customer to set up an appointment with his branch by directly interacting with the diary of his Branch Manager or Customer Relationship Manager. This serves a dual objective: on one hand it provides the customer with a multichannel tool to manage his requirements on the other hand, it encourages the branch to interact with the customer, offering an opportunity for contact and loyalty;
- implementation of the “simplified F24 form”. This option has been available since October, and extended the range of YouWeb services. With respect to the traditional F24 form, this new function makes it easier for the customer to fill in the information needed by showing a reduced number of fields and concentrating only on those that actually appear in the payment notice received by the customer. The implementation of this option was particularly appreciated insofar as the public administration and local entities increasing ask for payments to be made in this way;
- the extension of online trading to the Euro TLX and HiMTF markets. The implementation of this option means that customers can choose from a much wider selection of securities than before. In actual fact, the new markets make over 3,500 bond instruments available that previously could not be traded online. In turn, the bank benefits from higher trading commissions (non-interest margin) due to higher volumes negotiated and a higher turnover of portfolio securities.

Non-banking YouWin and YouShop You Services
YouWin
You Services guarantee direct and constant contact and, for this reason, are the ideal way to promote non-banking products and services for the customer’s benefit, with a view to enhancing loyalty. More specifically, customers can access YouWin directly from both YouWeb and YouApp. YouWin is a games and contests portal, which over time has gained recognition. Over the year, instant-win contests were offered, which encourage frequent accesses, creating useful opportunities for commercial contact. YouWin also confirmed its role as the point of reference for customers subscribed to the various loyalty schemes (ThankYou Premium, ThankYou PerTe, Let’s Bank) who find dedicated content, including the option of requesting the rewards reserved to them.

YouShop
YouShop is the most important new function in the non-banking range of You Services. It is a new e-commerce function, offered alongside traditional banking, whose primary objective is to acquire new customers, enhance the loyalty of existing ones and increase the non-interest margin. YouShop was launched in May by offering customers the opportunity to purchase Apple products, a brand generally known for the most exclusive, most innovative products, with a very high level of quality in the technological sphere. In December, the platform was enhanced by the addition of Kartell products, and a further development is already planned, which will integrate YouShop with the main loyalty schemes, so that customers can enjoy significant economies of scale.
The YouShop offer works in synergy with the online channels and the physical branch network: customers can choose to purchase the products selected for them online through You Services or by going to their branch where they will be assisted by their customer relationship manager. Furthermore, the platform envisages payment by bank transfer or, alternatively, an interest-free loan (annual nominal interest rate and annual percentage rate 0%). YouShop will soon

also be able to offer payment by credit card. The objective is to create a real sales portal able to generate profit in a sector, e-commerce, that has never been approached by the banking industry.
To conclude, it is also important to emphasise that YouShop is perceived by customers as a non-banking service, which adds significantly to the range of services available and this was also the reason why, in October, the Bank was nominated "Best complete account 2014" by the Financial Observatory.

YouBanking

YouBanking is the brand name of a product reserved for new customers. In 2014, it produced very good results in terms of growth.
The table below illustrates the main figures.

Total YouBanking accounts	31/12/2014	31/12/2013	31/12/2012	31/12/2011
YouBanking current accounts	47,404	27,877	10,256	1,129
YouBanking savings accounts (including RendiConto)	46,160	30,105	11,590	2,055
Other online accounts	2,224	1,264	492	121
Total	**95,788**	**59,246**	**22,338**	**3,305**

The excellent results achieved demonstrate the competitiveness of the YouBanking offer in the Italian scenario, which includes no stamp duty on the current account and portfolio which, for new accounts, has been extended to 31 December 2016.

4 years from its launch, YouBanking continues to win important awards. In 2014, in particular, it was awarded the following:

- Le Fonti International Award in the "Best Online Bank" category and in "Best Multichannel Online Bank"
- Award from the Financial Observatory in the "LowCost Account" category.

ATM

The increasing number of ATMs equipped with QuiMultibanca Plus software has made it possible to plan several projects which will see the light during 2015, but which have already been analysed and prototyped in 2014. More specifically, three projects which enhance the multichannel nature of You Services through ATMs: the dematerialisation of documents through the Personal Mail service for all ATM cardholders without You Services, the option of accessing the YouWeb address book to top up mobile phones from an ATM and, lastly, the option to change the mobile phone number recorded for You Services. The first project has positive repercussions in terms of cutting costs, the second provides a high level of integration between the channels available to the customer and the third allows the customer to do something that previously he could only do in a branch.

Contact Centre

Contact Centres provide private and business customers with active support by telephone, IVR (Interactive Voice Response), e-mail and new technologies, especially social media. The main activities in 2014 regarded:

- providing before- and after- sales support to customers with regard to YouBanking products, including finalising accounts opened online;
- the governance of some social media. This entails constant monitoring with specific regard to:
  - AppStore and Google Play, the dedicated stores where YouApp can be downloaded and where customers can write reviews which, where possible, are promptly replied to;
  - finanzaonline.com, the main Italian forum on finance, where YouBanking is present in an official capacity, with the objective of providing information and promptly answering users' questions in a clear way;
- customer assistance to support the launch of new schemes during the year;
- making "Welcome calls", after-sales assistance regarding the main packages offered to new private customers ("Premiaconto", "Conto Come Noi", "Conto Libretto", "YouBanking", "Let's Bank" and "Insieme Soci") with the objective of gauging customer satisfaction with the new account opened and, more generally, of their relationship with the bank;
- checking the level of satisfaction of customers (private and business) as regards the service received in the Branch, using the "instant feedback" approach.

The Contact Centre also:

- provides support in the placement of Ducato Personal Loans during branch events called "Ducato Family Week";
- provides support for anti-fraud services on payment cards or direct channels;
- manages reports and complaints received through the websites.

Payment instruments

Payment cards
In 2014, Banco Popolare saw number of cards increase (+7.6% against 2013), with specific reference to the innovative prepaid cards (YouCard, +30%) and debit cards (+4.5%). The number of credit cards remained substantially the same, despite the continuing economic crisis, with customers showing a tendency to rationalise their accounts, and the bank's increased focus on monitoring credit risk. Performance in terms of transaction volumes was good; in 2014 they rose for all product lines.

"YouCard"
With regard to E-money, the high level of diversity represented by YouCard was confirmed not only by its innovative concept, which has still not be copied by the competition but also by the appreciation shown by customers, proven by the number of cards (over 281,000 cards, +5.4% against 2013) and transaction volumes achieved in 2014 (+128% against 2013). In the wake of the YouCard model, in 2014, the YouCard Business was launched, details of which will be included in the Business section.

Mobile payments
In 2014, Banco Popolare paid special attention to developing mobile payments, given the increasingly widespread use of mobile phones and the Internet.
The mobile payment channel is one of the most innovative and promising in terms of increasing e-money transactions, especially for everyday payments, as a replacement for cash.
Continuing in the same direction as last year, in 2014, Banco Popolare designed further vertical solutions, with a view to gaining more experience in the mobile payment world; more specifically, it entered into partnerships with important organisations such as the Green Network Group and ATB (Azienda Trasporti Bergamo), so that bill payments, ticket purchases or parking can be managed on the basis of the use of Data Matrices and QR Codes.
In the first few months of 2015, we already plan to launch more highly innovative solutions, given the experience acquired in 2014.

Private mortgage loans

In 2014, the continuing uncertainty of the financial markets had a lesser impact on the property market than expected, so much so that disbursements of mortgage loans to private customers finally recorded an inversion of the negative trend, achieving an increase over last year of 9.5%. The recovery was substantially due to less restrictive credit policies being adopted by Credit Institutions and a rise in property sales/purchases. More specifically, the subrogation market provided a significant boost, which after several years of "hibernation", it finally reawakened, recording an increase, at industry level, of 46.3%. The trend of disbursements, albeit to a slightly lesser extent, was also positive for Banco Popolare, with an increase of 7% over last year. In 2014, total disbursements were euro 1.07 billion, with an increase in the number of agreements of 9.5%. The percentage of mortgage loans relating to new customers was again significant in 2014: 26% of total disbursements.
In terms of stock on the other hand, again as regards Banco Popolare, total mortgages loans amounted to around euro 18.045 billion (residual debt).
In a particularly complex context such as the one described above, Banco Popolare essentially sought to adapt existing products to the conditions of the new economic scenario. As in previous years, efforts continued to provide support to customers that have suffered considerably from the current economic crisis or that have been affected by natural disasters.

Last Minute Mortgage
In the second half of 2014, to continue supporting new disbursements, especially with a view to acquiring new customers, a new offer called "Last Minute Mortgage" was launched, which has a fixed interest rate and particularly advantageous conditions. The new offer envisages a fixed rate of 2.5% for the first 24 months, followed by a fixed rate of 4.00% for subsequent years and is valid for mortgage loans with terms of between 10 and 30 years. In addition to the new "Last Minute Mortgage" offer, the validity of the "Mortgage You" offer was extended; this product was also highly appreciated in 2014, so much so that disbursements for this type of mortgage loan accounted for 52% of the total. In addition to these offers, it is important to note that to increasingly meet the needs of applicants, and the requirements noted in the reference market, the maximum term of the mortgage loans offered by the Group was raised from 25 to 30 years.

Consumer credit

Again in 2014, similar to last year, the consumer credit market continued to decline - albeit to a lesser extent - due, once again, to the tendency of consumers to place more importance on saving money in the wake of the continuing crisis. In this regard, Banco was also not able to avoid the downturn, and recorded a fall of just under 10% compared to the previous year in terms of disbursements of personal loans.
Maintaining the same commercial approach as last year, also in 2014, the Banco Popolare Group continued to give priority to the specialist business lines of Agos Ducato - which disburses almost all of the personal loans granted to

customers - and to the relative finetuning and improvement of sales and after-sales models. Banco's objective is to further simplify the internal application analysis and disbursement process, at the same time optimising relations with applicants.
Again in 2014, this constant attention to meeting customer needs also led to schemes to extend the range of products offered.
More specifically, again in collaboration with Agos Ducato, a new product called "Versatilo Zero Spese" (Versatile No Fees) was created. This is a new and innovative type of loan, as all accessory charges related to the same such as stamp duty, management fees, preliminary analysis of applications have been eliminated. Substantially, all of the additional costs that are usually added to taking out and repaying a loan have been cancelled, to the benefit of customers, who only have to pay the monthly instalment.
Alongside this product, with a view to demonstrating how important its Shareholders are, Banco Popolare has given the same the option of obtaining a personal Agos Ducato loan at a low interest rate (APR) starting from 5.95%, without any preliminary analysis fees.

Savings/investment products and services

Again in 2014, market returns and spreads continued to fall sharply, which continued to improve the performance of fixed income securities (bonds). On the other hand, the share markets recorded poor performance, the Italian stock market in particular remained at the same levels as the previous year.

The search for interesting returns by customers and the economic-financial scenario favoured proposals of investment instruments with a "balanced" profile, namely products able to offer the opportunity to benefit from returns that are higher than those of the market, given that the latter are at record lows.

In summary, the Bank's commercial offer was mainly addressed to the placement of bank bonds, mutual funds, unit-linked insurance policies and certificates.

Group bond issues
In 2014, the bonds issued were addressed to Retail customers and amounted to a total of around euro 2,163 million, of which around euro 1,479 million in structured products.

As regards the placements made, our customers confirmed their preference for traditional investment products, such as fixed- and mixed-rate bonds, with maturities of between 3 and 5 years. The latter envisage a structure with the first coupons at a fixed rate and subsequent coupons indexed to the Euribor plus an additional spread, with preset minimums/maximums (cap/floor).
The Group also diversified, issuing structured bonds, including the most popular type, which envisages stepped coupons, with the option for the Bank to redeem the same before their natural maturity (step up callable). New issues, in many cases, replaced previous issued, which incorporated the early call up option for the Bank.

In line with Banco Popolare's objective to increase deposits, again in 2014, the standard offer of ordinary Group bond issues was accompanied by issues of Certificates of Deposit with maturities of between 3 and 13 months; the CD issues reached a total placement volume of around euro 1,471 million.

Other investment instruments and initiatives to benefit customers
In April, Partner/Shareholder customers were involved in the Share Capital Increase resolved upon by the Extraordinary Shareholders' Meeting for the amount of euro 1,500 million.
This operation, preceded by share grouping activities, enabled Banco Popolare to reach the capital requirement envisaged by Basel III, to improve its credit rating in order to cut the cost of market funding and to sustain the growth of the core business, strengthening investments addressed to boosting commercial activities, fully in line with the 2014-16/18 Business Plan.

As regards investments in shares and in order to meet the requests of a number of customers with the appropriate risk profile, again in 2014, the Group continued to offer these customers Aletti Certificates, namely 5-year investment certificates, linked, through various forms of protection, to the financial markets.
More specifically, products indexed to single share indices (e.g. FTSE/MIB, Eurostoxx50, Nikkei225), or to individual Italian shares, and to a greater extent, also international financial market shares (e.g. Apple, Intesa SanPaolo, MC Donald's, Axa, Royal Dutch Shell, Telefonica etc.) were placed with Retail customers, for a total of around euro 2,769 million.

The structures of the Certificates are diversified, not only in terms of the underlying instrument, but also the type of protection offered. Customers mostly directed their attention towards "Target Coupon" structures, namely with protection of capital on maturity (100% or 95%) and the opportunity to benefit from a fixed coupon on condition that the underlying instrument was periodically higher than the initial fixed value. These structures were also accompanied by:

- "Autocallable Step" certificates which offer stepped coupons as well as an early redemption option (on condition that the underlying instrument is higher than the initial value on the interim dates) and conditioned protection;
- "Coupon Premium" certificates, with the option of acknowledging high coupons and redemption of capital subject to the underlying instrument maintaining a threshold level on maturity.

Lastly, to protect both private and business customers with medium-long term loans, amortised and index-linked to the Euribor, Banco Popolare offered financial instruments to hedge possible rises in interest rates, called covered warrants.

Furthermore, at the beginning of the year, Equity Crowdfunding was implemented, namely the collection of capital, regulated by Consob, for start-up companies through on-line portal Operators.
In this regard, the Group entered into an initial arrangement with an operator called StarsUp, and during the year, this activity was also extended to other businesses and operators. With a view to managing this innovative form of business funding, Banco has also designed a new dedicated restricted current account.

Lastly, to extend the customer order execution venues for listed bond instruments, in September, the Bank joined the EuroTLX market, a multilateral trading system where over 4,000 securities are traded, including Government securities, corporate, bank and supranational bonds. In this way, the best execution of customer orders has been significantly improved, by extending the range of securities available and the liquidity of the same.

Asset management
In 2014, in line with market trends, the Group recorded excellent performance in terms of the offer of new mutual funds, in particular so-called "target maturity" funds, which envisage a placement window, periodic returns and a set maturity, usually 5 years.
During the year, around 5,545 million of this type of fund was placed with retail customers.

Part of the subscriptions of new funds was by means of switches from other funds, whose residual lives were coming close to the envisaged maturity and whose fairly positive performance suggested making a profit on the NAV of the shares.

In collaboration with Gestielle SGR, Banco Popolare placed the following products over the course of the year:

- Gestielle Cedola MultiAsset in January
- Gestielle Best Selection Equity 50 and Gestielle Cedola MultiAsset II in June
- Gestielle Cedola Dual Brand in August
- Gestielle Dual Brand Equity 30 in October.

All of these funds have a set maturity (5 years) and a decreasing risk, with the distribution of income on a half-yearly or yearly basis and a high diversification in government / corporate / emerging or high yield bonds. The coupons were partially indexed to the major European stock markets; in the second half of the year, funds that invest in prestigious third party SICAVs (Morgan Stanley) were added to the portfolio.

New service model for Standard Advice provided to Retail customers
With a view to further increasing its attention to the needs of its customers and based on the recommendations of the ESMA, after having launched a project to improve IT tools and the rules underlying the current advisory model, in December the Bank adopted the new model for standard advisory services provided to Retail investors.

The main distinguishing element of the new model is represented by the option of offering personalised advice not only on investments (as in the past), but also on disinvestment. In this regard, checks will be conducted on the financial instrument to be sold to establish whether specific parameters have been met.
In particular, as regards so-called "branded" products put up for sale, namely instruments issued by companies belonging to the Banco Popolare group and those issued by third parties and placed exclusively by group banks, checks will be made as to whether sufficient time has passed for the costs applied to have amortised and the impact (positive or negative) on the customers total equity.
In this way, sales for which a minimum sufficient amount of time has not passed will be discouraged, or those will lead to a loss for the customer, also considering the payments made in the meantime by the financial instrument.

The IT application which enables the manager to provide this advice is available throughout the sales network. This application, implemented to be directly applied to a large part of the transactions made by the customer (portfolio securities), will lead to a substantial improvement in the work of the customer manager, as well as significant added value for the service provided to the customer. By conducting further checks, such as the concentration of issuers and the excessive presence of illiquid securities, the customer manager can now properly help the investor to assess the overall breakdown of his portfolio, by comparing it with his model portfolio in coherence with the risk profile. In addition, gaps between the two portfolios are identified with a view to facilitating investment/divestment decisions.

With this application, Banco now has improved tools at its disposal to better meet the needs and the interest of its customers, at the same time facilitating the commercial efforts of Branch customer managers.

Bancassurance Life
In 2014, the Group continued to work with the joint-ventures with the Unipol Insurance Group, the life insurance company Popolare Vita and the Irish company The Lawrence Life Assurance.

Gross premiums collected recorded a significant rise of over 40% compared to 2013, rising from around euro 2,500 million to just over euro 3,400 million. Premiums were collected through the placement of Popolare Vita policies amounting to euro 2,740 million and Lawrence Life policies of euro 679 million.

As regards Popolare Vita products, collections mostly related to traditional Segment I products, with around euro 1,300 million, in line with 2013, and Multi-Segment products for just over euro 1,400 million. A five-year window policy was placed and a multi-segment policy was later added to the catalogue, again five-year, half of the premium of which is invested in a Separate Portfolio and the other half in an internal unit-linked type fund. Compared to 2013, collections of Capitalisation products (Segment V) also recorded a good increase.

A unit-linked window policy was placed through The Lawrence Life, which invests the premium in a flexible fund and envisages the distribution of capital in the first three years. The product is a full life one, but at the end of the fifth year, the investments in the fund will be divested and reinvested at the same time in monetary instruments.

As regards individual pension plans, again in 2014, pension products triggered considerable interest. Individual pension plans obtained good results with 10,324 new plans signed for a total of around euro 22 million, marking a further increase of 11% against 2013.

Bancassurance Protection
Again in 2014, protection products encountered difficulties, with volumes falling in line with the entire Italian insurance market.
Over the year, the introduction of Bank insurance specialists was completed, reaching a total of 87. In addition to being located in a branch, over the year, several specialists were dedicated to a number of branches with decidedly good results with respect to those working only in the branch assigned to them. The results of this experience led the Bank management to entrust these specialists with more of a development and advisory role in all of the branches in the area from 2015.
Over the course of 2014, the test area of the Motor project was extended. The results obtained were not significant and the project is currently under review.

Products, services and loans for SBO - Small Business Operators

With the economic scenario in 2014 still impacted by the effects of the crisis, the Banco Popolare Group continued to provide support to Small Business Operators through dedicated products, services and sales initiatives, with a view to better meet the needs of these customers.

Current accounts
In order to promptly respond to market needs, Banco Popolare continued to offer “You Business” accounts to all Small Business Operator customers. The exclusive economic conditions and the services included in the current account package offered enable all subscribers to benefit immediately from all services.
This offer was added to the “Idea” range of current accounts, which envisages a personalised account based on the business activity in question and on the different requirements and approaches when conducting bank transactions, and which also includes a “Sviluppo” version, featuring very interesting conditions, and the opportunity to judge the real quality of the service on a trial basis, before making a final decision and therefore keeping the accounts open.

Loans and lending
As regards loans and lending, in 2014, changes were made to the range of Short and Medium-Long term products addressed to SBO customers, both in terms of reducing the current prices and minimum loan amounts, as well as adding new solutions to the range designed for specific customer targets, such as for example “Orizzonte Donna” addressed to female entrepreneurs and the range of “Tourism” loans, addressed to the tourist and hotel industry.
For details of the main changes made, please refer to the “Loans and lending” section in the part on Business.

Commercial initiatives
With a view to providing better assistance to the Small Business Operators of the Banco Popolare Group, over the year, special commercial initiatives were set in place, which envisaged the offer of products and services at advantageous

conditions, differentiated by the economic sector, size and revenues of each customer; once again, the Banco Popolare group confirmed its vocation as a Local bank.

The main commercial initiatives addressed to Small Business Operators in 2014 are illustrated below:

POS scheme - acting on the dictates of the law, which from 30 June 2014, envisages an obligation for those that sell products and professional services to equip themselves with POS equipment, the Banco Popolare Group set a scheme in place which envisages the offer of a POS service at extremely favourable conditions addressed to this specific type of customer. Furthermore, during the year, a new, technologically advanced product was launched on the market called "Mobile POS", specifically designed for those that need to be paid by means of a payment card while on the move, offered in addition to the wealth of POS equipment already available to customers.

YouCard Business scheme - in the second half of 2014, "YouCard Business" was launched on the market, the first prepaid, business debit card, which enables administrative management to be optimised in an innovative way, eliminating the need for cash advances and providing a complete periodic statement. To give Small Business Operator customers the opportunity to benefit from the high technological and operational content of the new card, a special commercial campaign was designed, offering the product at extremely advantageous conditions.

Trust in Your Growth - a commercial initiative, which envisaged the disbursement of loans with payment by instalment, for a 12 month period, in order to support the financial requirements of the customer's day-to-day businesses, with a view to consolidating expected growth.

Loan for F24 Taxes and Duties - an ongoing scheme to provide support to Small Business Operators in the payment of taxes through F24 forms, at the most important tax deadlines during the year.

Insurance policies
In addition to the insurance policies reserved to SBO customers "Allrisk Commerce" and "Allrisk Business", distributed in partnership with Avipop Assicurazioni, two new types of Creditor Protection Insurance (CPI) policy were launched, addressed to the world of Short Term Loans, which complete Banco Popolare's range of CPI products.
For further details in this regard, please refer to the "Insurance policies" section of the Business part.

Commercial activities - Business Customers

Business customers, with a turnover exceeding euro 100 thousand, and current account holders, amounted to 223,185 as at 31 December 2014, with the following breakdown in the various segments:

Segment	Single customers with c/a
Large Corporate	1%
Mid Corporate	17%
Small Business	80%
Entities	1%
Other	1%
Total	**100%**

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

Mid Corporate
The Mid Corporate segment comprises individual companies or companies belonging to a group, with a turnover of between euro 5 and 350 million and total loans of the customer risk group of less than euro 50 million. In 2014, following the reorganisation of the distribution model, Mid Corporate customers continue to be handled by the Corporate customer managers who previously worked out of the Business Centres, but now work out of Business Branches.

Small Business
Small Business customers comprise companies with a turnover of between euro 0.1 and 5 million and are handled through portfolios allocated to Traditional branches or Hubs.

Entities

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

The breakdown of Customers by turnover bracket confirms the substantial concentration in the turnover bracket of between euro 0 and euro 25 million, already recorded in previous years, confirming Banco Popolare's vocation for managing medium sized businesses.

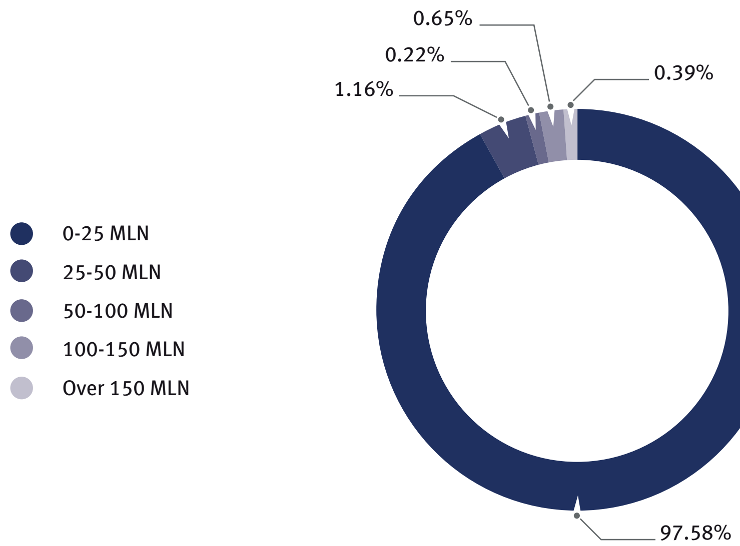


Figure 1 - Breakdown of Business customers in 2014 by turnover bracket.

As regards the breakdown of Customers by business sector, commercial and manufacturing continued to represent the largest share, followed by those related to the construction industry and to hotel and catering services.

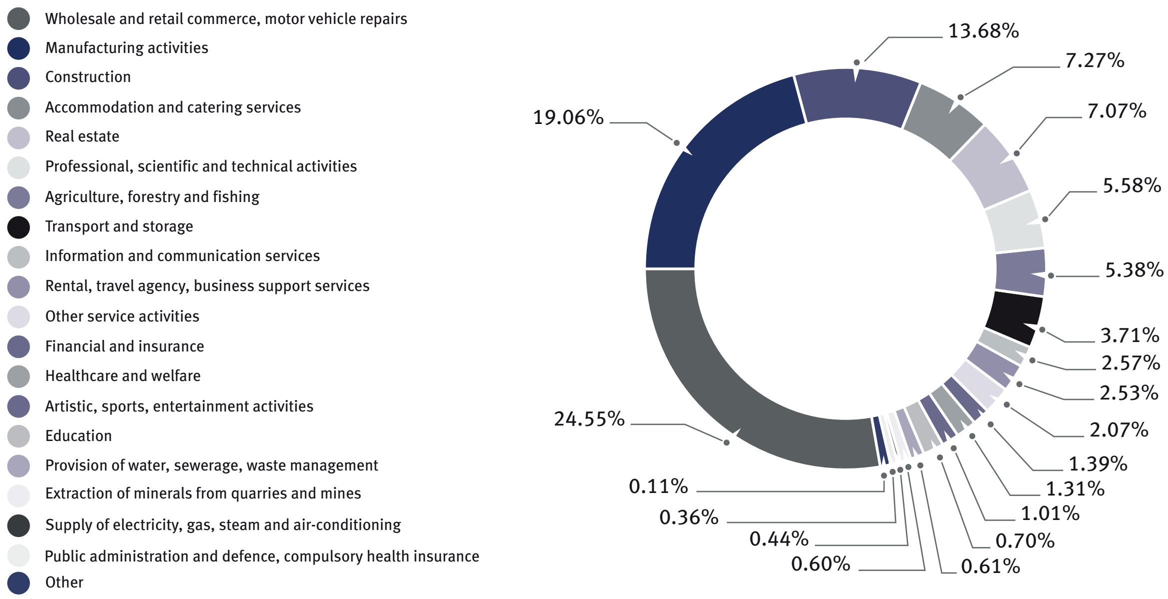


Figure 2-. Breakdown of Business Customers in 2014 by Business sector.

Products and services for the Business segments

Despite the continuing impact of the economic crisis, in 2014, the Banco Popolare Group continued to provide support to businesses through dedicated products, services and sales initiatives, with a view to continuing to meet the needs of its Customers and aimed in particular at:

- strengthening the Bank-Business partnership, confirming its role as reference bank in the areas served;
- providing support to deserving businesses at a time of economic downturn and of significant imbalances in liquidity in the industry, by encouraging access to credit to consolidate expected growth during the first signs of a recovery;
- supporting business activities focused on innovation, export, also by extending specialist advisory services.

The contents of the following paragraphs “Loans and lending” and “Insurance policies” also regards SBO Small Business Operator customers.

Current accounts

In order to promptly respond to market needs, Banco Popolare has confirmed the availability of two “different” current accounts, based on the requirements indicated by new Customers, which envisage very advantageous conditions: “Easy Business” addressed to Small Business Customers and “Corporate Service Pack Start Sviluppo” dedicated to Corporate Customers.

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

In June, the “Equity Crowdfunding Account” was launched (literally raising venture capital from the “crowd” for a share of equity), a tool designed to encourage the development of innovative start-ups through means of funding which exploits the potential of the Internet, by putting non-listed innovative businesses who need a capital contribution to launch/develop valid business products in contact with investors interested in funding business or social initiatives.

The bank handles the administrative service of collecting the funds for a business which decided to launch an offer to raise venture capital on the market, by means of subscriptions made through the online portal managed by a company enrolled on a specific register held by Consob.

Banco Popolare was the first Bank to sign a partnership agreement with a company authorised by Consob to manage the first Internet portal addressed to Equity Crowdfunding activities.

Loans and lending

Efforts continued to fine tune and develop the range of Ordinary Medium-Long Term Loans, Ordinary Short Term Loans and Italian Unsecured Loans, with the objective of offering loans, in terms of type and features, that are best suited to the needs of existing and prospective customers.

Special attention was paid to developing commercial relations in the widest sense, combining the granting of medium-long term loans with an assessment of the commercial workflows generated and channel to Banco Popolare. The “Mortgage Loan with Covenant” product, for example, combines reaching specific covenants agreed by contract by the parties with the application of a reduced spread of the loan.

To facilitate access to credit and to support the growth and development plans of its Customers in a particularly difficult economic scenario, several developments of strategic importance to the group’s commercial policies were implemented, aimed to:

- obtain “eligible” system guarantees issued by third parties to the business, for example, the Italian Government (through the Guarantee Fund for SMEs, ISMEA/SGFA and SACE) and the European Community (through the European Investment Fund - EIF);
- and/or, as a result of various agreements signed with the European Investment Bank (EIB) and the Deposits and Loans Fund (DLF), make facilitated financing available, addressed to the granting of Medium-Long Term loans.

Furthermore, Banco Popolare was the first domestic banking group to activate the “Capital Goods Ceiling” (so-called Sabatini bis), a new instrument with special terms, implemented with the “Decreto del Fare” directing towards increasing the competitiveness of the Italian production system and encouraging new investments.

In this regard, with a view to supporting the efforts of Business Managers to promote and realise schemes to sell facilitated funding instruments, specialist figures were introduced to each Territorial Department.

Again in 2014, efforts continued with relation to the subscription of the “2013 credit agreement” between ABI, Confindustria and other Trade Associations which our Group joined on 10 September 2013, and to two specific Ceilings “Unfreezing of receivables due to businesses from the Public Administration” and “Italy Investment Projects”, the objective of which is to support businesses that show positive economic prospects despite the temporary financial difficulty generated by the difficult economic scenario.

In October, Banco Popolare joined the “Targeted Longer Term Refinancing Operation” (TLTRO) programme, the extraordinary measure envisaged by the ECB to support the disbursement of loans to the real economy, resulting in the activation in October and December of two specific ceilings of euro 1 billion and 2.7 billion respectively, to transfer more liquidity needed by businesses.

As part of the Partnership Agreement signed by Banco Popolare and RetImpresa (Business Networks), loan products continued to be developed, available only to companies belonging to the Business Networks, featuring a dedicated trademark “InRete” and competitive pricing.
Special attention was paid to phenomenon of Technological Parks, which act as integrators between the need of the business segment for innovative growth, especially small and very small businesses, and the wealth of knowledge represented by Institutions of Technological and Scientific excellence, Universities and Research Centres.

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

In this regard, Banco Popolare has made a global ceiling “Orizzonte Donna” of euro 100 million available to women entrepreneurs until 31 December 2015, addressed to providing funding to businesses run by women and women freelancers, regardless of what sector they work in.
Orizzonte Donna was established as part of the Memorandum of Intent promoted by ABI, called “Memorandum of Intent for the growth of businesses with a majority female shareholding and self-employed women”, in agreement with the Ministry for Economic Development, the Department of Equal Opportunities of the Council of Ministers and the main Associations in the business world, which the Bank joined on 8 August 2014.

The new range of “Tourism” loans, dedicated to the Hotel industry, was also launched due to Banco Popolare’s presence in areas with a very high percentage of hotel and catering facilities and to the upcoming Milan Expo (May 2015).

Commercial initiatives
The Banco Popolare Group reconfirmed its vocation as a Local Bank, by setting in place a series of schemes for Business customers aimed to encourage the strong recovery and, possibly, the further development of their business activities, of which the main one is called “Trust in Your Growth”, a commercial initiative, which envisaged the disbursement of loans with payment by instalment, for a 12 month period for amounts proportional to the turnover of the deserving businesses, in order to support the financial requirements of the day-to-day business.

Agriculture
In 2014, the credit assessment procedure for agricultural enterprises was reviewed and updated; this is an innovative assessment system that takes the specific nature of businesses in this sector into account.
Banco continued to offer loan products dedicated to agricultural businesses, with particular regard to environmental protection, bio energy and high quality production.
The Advance for the annual PAC Contribution continued to be offered to Customers, thanks to collaboration between Banco Popolare, Regional Authorities and Trade Associations.
Lastly, efforts continued to sign commercial Agreements with the main parties of the agrifood chain, particularly with regard to Organisations of Producers (see “Italia Ortofrutta” Agreement and to Protection Consortia (see “Asnacodi” Agreement).

Insurance policies
Thanks to its partnership with Avipop Assicurazioni, in 2014, the Group optimised the features and the performance of the insurance policies of the “non-life” segment, confirming the validity of the range of products dedicated to its Small Business customers, namely the “Multirischi Commercio” (Allrisk Commerce), the “Multirischi Impresa” (Allrisk Business) policies.
Furthermore, in light of the high level of appreciation shown for Creditor Protection Insurance (CPI) policies, placed by the Network together with loan/mortgage loan transactions, two new types of CPI policy were issued, which considerably extends coverage options, as they are linked to short-term loans granted in the form of permanent credit lines (so-called “until revoked”) or in the form of fixed-term credit.
These policies insurance against the injury or death of the main “key figures” of a company.
In order to further extend the range of insurance products in the non-life segment for business, in November, Banco Popolare launched a new policy for the Civil Liability of Directors and Officers “D&O”, designed in collaboration with Assigeco and Lloyd’s of London.

Hedging Financial Risk
In 2014, the Banco Popolare Group closed 1,319 hedges against financial risk with Business Customers (12.2% less than last year): hedges against exchange rate risk totalled 682, corresponding to euro 499 million, while those against

interest rate risk totalled 637, corresponding to euro 493 million. In terms of the type of the same, over 95% of the transactions carried out in 2014 belonged to the Effective Hedge category and break down substantially into Fixed Rate (IRS) and Maximum Rate (CAP) for hedges against interest rate risk and Flexible Forward for hedges against exchange rate risk. As at 31 December 2014, the portfolio of active derivatives with Customers indicated the presence of 5,525 transactions (-19.6% compared to 2013) which corresponds to a notional commercial value of euro 4,985 million (-29%).

Corporate Finance

Corporate finance efforts continued also in 2014, with Banco offering structured financial services to both large and medium sized businesses.

The nature of this difficult time for the economy did not prevent Banco from operating in the area of new loans granted - also as a pool - to support investment and new initiatives, focusing on high quality projects of its Corporate Customers.

Nonetheless, efforts also regarded the management of portfolio transactions, with a view to continually optimising credit risk and monitoring returns.

The economic returns of this area, beyond the specific nature of the measures set in place, represented the lever for the overall development of relations with the customers who were the beneficiaries of this type of funding.

Transactional banking services

The following paragraphs illustrate the main projects in the transactional banking sphere in 2014, which had an impact on both Business and - for some products/services - on Private customers.

YouCard Business

In the wake of the excellent results achieved, revisiting the concept of the YouCard and extending it, over the course of 2014, a Business version of the same was introduced, a product dedicated to businesses which can be used as both a prepaid and debit card.

Designed with the objective of allowing companies to extend the scope of use of e-money, thanks to the high level of protection from risk guaranteed by this product and an innovative pricing formula, a company can now potentially allocate a YouCard Business to all interested company personnel, even at operative level and with less continuative usage needs, whereas in the past, company cards were always traditionally limited to top management.

The application procedure for the card is also particularly innovative, as it is made by the company via Banco Popolare Internet banking, as is the collection procedure, because the card can be collected in any Banco Popolare branch, regardless of where the company holds its accounts.

Physical, virtual and mobile POS

Despite an ever negative market scenario, marked by the continuing economic downturn, in 2014, Banco Popolare recorded an increase in the number of POS devices of over 8,000 units, corresponding to +10.5%, reaching a total of 85,000 POS. In terms of trading volumes, the use of domestic PagoBancomat Circuit cards increased.

Furthermore, from July, the payments system sector was enhanced by the introduction of the new YouPOS Mobile product, a mobile acceptance service, which combines the use of the widely popular smartphone, with a Mobile POS, a light and easily transportable POS, able to accept any type of card, from an ATM card to cards from international circuits, all of which is managed by a simple and intuitive app.

Thanks to YouPOS Mobile, Banco Popolare has made its range more complete, by introducing an instrument that can reach a new group of traders and professionals, who in the past were reluctant to use POS devices, also assisting them to meet the obligations envisaged by the Development Decree bis - Italian Law Decree no. 179 of 18 October 2012 - art. 15 paragraph 4, which introduces the obligation for those selling products or rendering services, including professional services, to accept payments by card from those that request it, for amounts exceeding euro 30.

In 2014, this new service recorded an excellent growth trend.

Collection and payment services: compliance with European standards (SEPA)

The process to bring the Bank’s systems and internal procedures in line with the new standards envisaged by European legislation (EU Regulation no. 260 of 2012), continued; this entails the unification of collection and payment systems within the so-called Single Euro Payments Area (SEPA).

Particular efforts were addressed to projects relating to the collection component, both through the completion of the process to migrate from RID to SEPA Direct Debit (SDD) and, above all, with the launch of the new SEDA service (Sepa Electronic Database Alignment) activated on the request of Companies (represented in particular by those with a “large turnover”) with the objective to seamlessly replace Electronic Archive Alignment procedure by changing functions and features.

In this regard, the Banca Transazionale Specialists played a fundamental role, providing direct and professional support to the customers in question - also through in-house training - with the aim of helping them to achieve this important objective with a positive approach.

“YouInvoice”

During the year (from June 2014) the obligation to invoice the Public Administration (e.g. Ministers, Higher Institutions etc.) exclusively in electronic format, came into force (based on Italian Ministerial Decree no. 55/2013). If this requirement is not met, the payment is considered not to have been made.
This change led companies, especially medium-small sized ones, to seek reliable partners to guarantee the correct organisation of the invoicing process, given the new legislative requirement.
In this regard, Banco Popolare confirms its role as forerunner in innovative on line services to support its customers, through the YouInvoice platform, a specific IT tool which enables the new legislative requirements to be met simply and effectively, at the same time making the company more efficient and optimising its administrative services.
YouInvoice was confirmed as one of the best electronic invoicing solutions available on the market, distinguishing itself for the completeness of available functions, its simplicity of use, competitive pricing and, above all, for a high quality assistance service.

“E-Billing”

The e-Billing service, through which Banco offers parties (“Billers”) the option of collecting their postal orders and/or payment notices through the bank’s channels, recorded an increase both in terms of pieces handled (+11%) and in terms of amount collected (+2%).
During the year, the CBILL service was launched which, by exploiting the multibank architecture of the CBI circuit, enables the payment, by bank draft and exclusively using on-line instruments, of bills issued by member creditors.
The launch of the CBILL service further enhances Banco Popolare’s range of e-Billing products, seeking to offer increasingly innovative solutions to support the process of sending and collecting so-called “expense accounts” (including bills) optimising the management of the same with significant functional and economic benefits for the issuers.

Multichannels for business customers: Remote Banking and Vantaggio Portal

In 2014, work continued to reorganise online services for enterprise; these efforts, which began in November 2013 with the release of the new PLUS version of the Vantaggio Online Services Portal, progressed with the gradual migration of customers subscribed to the client-server product “IBB - Internet Business Banking” to the web-based “Vantaggio” service, with a view to fully eliminating IBB at the beginning of 2015.

Another important new feature of the on-line services for business customers, entailed the introduction of strictly personal credential to access the Vantaggio Portal; this innovation will enable a remote digital signature service to be provided, which will make the remote sale of products and services possible, and the dematerialisation of the relative contractual documentation, becoming paperless.

During the year, the Vantaggio Portal was improved by the addition of functions to manage the new company cards YouCard Business. A specific Cards section has been developed, with a control panel which enables all parameters related to the functioning of each card to be administered maximum thresholds, geosafe, websafe, merchant control, calendar control).

By virtue of these upgrades and initiatives, the Vantaggio Portal recorded an increase in the number of members in 2014 (+4%).

The traditional Remote Banking services (active and passive) provided by Banco Popolare have also been updated and implemented, in line with the continuous developments of CBI - Corporate Interbanking Banking standards, in particular with regard to the new SEDA service (formerly Electronic Archive Alignment).

Foreign operations

Also in 2014, significant efforts were made to assist companies that are interested in investing in foreign markets to sustain or relaunch their businesses, marked by the continuing difficult overall economic scenario in Italy.
More specifically, Banco Popolare focused its attention on small-medium sized companies with Foreign-Goods operations, a common target for an institute such as Banco, which has close ties with its local areas.

As regards the range of services and products, work mostly focused on financing products (advances, import/export loans) and on unsecured loans (credit letters, international guarantees) with a view to making sure that the range of products always meets the needs of its customers. In addition, training courses were held to continuously improve the technical and professional preparation of personnel involved in the supply chain of products and services relating to foreign operations.

As regards financing services, in 2014, efforts to promote facilitated loans continued to be the focus of attention, to stimulate the internationalisation of SMEs.
Agreements with SACE, the public Italian company that hedges credit risk, meant that companies were able to access credit more easily thanks to the guarantees provided by SACE.

Of the products available to companies that export and that have been designed in collaboration with SACE, of particular note is a product called IT.EX, launched in 2013 which was increasingly appreciated over the course of 2014. This product was specifically designed for companies that need to find sources of financing for working capital, fund the purchase of raw materials, capital goods, semi-finished goods and any other direct cost linked to preparing goods/services that are covered by the export contracts in question.
Another service which was appreciated in 2014 by Banco's business customers who export capital goods and plant was the discount on SACE policy transfers: this regards a without recourse discount on financial documents guaranteed by a Credit Policy managed by SACE supplier.
Lastly, again as regards facilitated financing services to promote the internationalisation of small and medium enterprise, Banco now offers an unsecured medium-term mortgage loan, assisted by the Direct Guarantee of the Guarantee Fund for SMEs, a fund managed by Medio Credito Centrale, to support Italian companies that intend to expand their international business activities by investing in Italy, on condition that said investments are related to a declared internationalisation project. By virtue of the impact triggered by the guarantee given, the financial spreads are more contained for companies that intend to raise funding in this manner.
The agreement signed in 2014 between the ICE - Agency for the promotion, orientation and support of the internationalisation of Italian companies and Banco Popolare.
By signing this agreement, the ICE Agency undertook to perform a number of different activities, ranging from providing advisory services (by providing packages of services to companies such as for example seeking foreign partners, creating sales networks abroad, surveys abroad, at reasonable prices), to information services (designing country/sector presentations of interest to Banco Popolare's business customers), to news / information circulation through its websites and an exchange of links with Banco Popolare. On the other hand, Banco has the opportunity to organise events and meetings with its customers who, with the presence of ICE Agency representatives, are able to gain more knowledge in terms of approach/commercial opportunities in the countries they are most interested in.

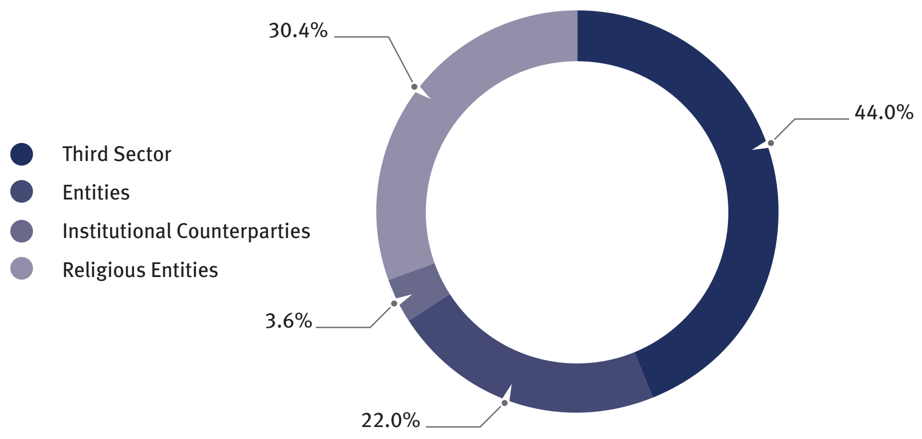
With a view to increasing its visibility as an important counterpart in the world of foreign operations - by offering customers products that are increasingly able to assimilate the continuous innovations of payments systems, operating platforms and international legislation - during the year Banco Popolare took part in high level international events such as the most important trade fairs, which are also attended by Banco Popolare's business customers.

Commercial activities, Institutional customers, Entities and the Third Sector

The coordination and commercial support for the distribution of products relating to Institutional Customers, Entities and the Third Sector, has been entrusted to Department of the same name, set in place in early 2014.

The objective of the Institutional Customers, Entities and the Third Sector is to:

- maximise the value creation and the economic contribution of the business relating to Religious Entities, Entities, Financial Institutions, Insurance companies, Non-banking finance companies and the Third Sector ("no profit" organisations) at Group level by systematically understanding the needs of customers, overseeing the range of products offered, developing distribution channels and developing service models;
- directly manage commercial relations with Banco Popolare's financial institutional customers and, at Group level, with Insurance and non-banking financial companies and Group companies;
- handle operations relating to Custodian Bank relations, in line with set service levels.



Breakdown of Institutional Customers, Entities and the Third Sector as at 31 December 2014

The following paragraphs illustrate the commercial activities carried out in 2014.

Institutional Counterparties

Institutional customers includes Insurance companies and Non-banking Finance companies, SGRs, SIMs, open and closed-end Mutual Funds, Bank Foundations, Social Security and National Insurance entities and local associations (Confidi). The Office which handles Institutional Counterparties also manages the operations performed by Banco Popolare Group Companies.

Commercial relations are managed by an “institutional counterparty manager” and are part of an organisational model which has led to greater efficiency in their management. More specifically, the services offered have been harmonised, commercial strategies have been developed for specific types of Customer, with particular emphasis on asset management (direct and administered).
Of the various commercial initiatives, we draw attention to the offer of deposit and financing services to Customers by Azimut, a leader in asset management in the sphere of Institutional Counterparties, through the creation of a dedicated business unit located in Milan and with various distribution points located throughout the country, including Florence, Naples and Rome. The cited initiative has also led to greater collaboration with Azimut, as an important supplier of liquidity for the Banco Popolare Group.

Religious Entities

As at 31 December 2014, the Religious Entities segment represented 4,185 customers with average direct deposits of euro 301 million and euro 274 million of average capital invested.

Banco Popolare’s Religious Entities Customers represented, again as at 31 December 2014, 11.4% of total Religious Entities in Italian Territories where the Banco Popolare Group is present with its own branches. The share of Dioceses, with relation to total Diocesan Curia, was 57%, which the share of Parishes is 11.2%.

The commercial initiatives relating to the development of Customers in local territories were implemented by organising specific packages dedicated respectively to:

- Dioceses, Religious foundations, Religious institutes, Religious orders, Confraternities and Congregations;
- Parishes, Catholic associations and accredited independent schools;
- Clergy (prelates, nuns and religious officials) and employees of Diocesan Curia and of other ecclesiastical institutions.

The offer envisages the following dedicated products at facilitated conditions:

- “Religious Entities Agreement” current account, with relative related services (bank transfers, utilities, payment cards, home banking through the “You Web” platform);
- Fixed and variable interest rate mortgage loans;
- Fixed and variable interest rate unsecured loans;

“Religious Entity” Customers that possess accounts under this Agreement, represented 66% of total “Religious Entity” Customers as at 31 December 2014.

The stock of mortgage and unsecured loans in place as at 31 December 2014 amounted to euro 172.2 million, distributed over 656 customers, a rise of 7.2% against 31 December 2013.

Entities

The Entities segment is comprised by the Public Administration in the strict sense (Local, Provincial and Regional Authorities, healthcare organizations and institutions etc.) and by the companies partly owned by or controlled by the same (previously municipalised). The Entities Office is in charge of the same, and provides support to Group Divisions and Departments in drawing up strategies, commercial development policies for the segment, in accordance with the guidelines established by the Parent Company.

Within the Divisions, there are Commercial Specialists for Entities, who are responsible for promoting, coordinating and assisting the Network in placing products and services dedicated to Entity Customers, which as at 31 December 2014 was represented by 3,028 customers with average invested capital of euro 1.3 billion and direct deposits of euro 1.1 billion.

As at 31 December 2014, the Banco Popolare Group handles over 1,000 Public Administration entities, in the strict sense, broken down as follows:

Type of Entity	Breakdown %
Municipalities, Unions of municipalities and Mountain communities	57.3%
Schools	39.0%
Healthcare organisations and hospitals	2.7%
Other	1.0%
Total	**100.0%**

In 2014, commercial activities were conducted in full respect of the Group's guidelines, with special attention paid to economic results, as well as:

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

Overall, 559 tenders and requests for extensions and renewals were analysed and processed, of which 110 related to new awards.

Commercial certifications

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

This important achievement has enabled the Group's Commercial Network to strengthen its ties with the local area, guaranteeing certified efficiency and service standards.

Third Sector

The commercial structure dedicated to the Customer segment known as the "Third Sector" became operational in the first few months of 2014, and initially regarded a customer base of around 6,000 customers, which represent only a limited part of the "no profit" world.
The purpose for its establishment is to provide specialist commercial support to the Banco Popolare network for a market segment known as the "Third Sector", which, based on the results of the 2011 ISTAT Census, showed sizes of lively and particularly interesting growth trends, going completely against the trend of the other national production sectors.

In this context, considering how similar the founding principles and values of Banco Popolare are to the "Third Sector" world, the structure has addressed its efforts in the following directions:

- accreditation and internal training, through participation in meetings with Banco Popolare's Territorial Consultation and Credit Committees, Committees for Development, Territorial Departments and Business Areas, to explain the characteristics of the Third Sector and the relative dedicated products;
- market surveys, design and distribution of products dedicated to the Third Sector, through the creation of a specific brand, called "INCONTRO", to which the line of products designed specifically to meet the needs of "no profit" Customers was then associated.

The main products and special terms implemented in 2014 for the Third Sector included:

- the current account product "Incontro - Light Association" directed towards voluntary associations that have a limited number of transactions;
- the current account product "Incontro - Large Association" directed towards associations that have a greater number of transactions;
- a financing product called "Incontro – Advance 5x1000", which entails advancing a sum of money corresponding to the contribution of the same name made by taxpayers to beneficiary associations at particularly advantageous conditions with highly simplified application procedures.

All of the above-mentioned products are characterised by the high level of commercial "appeal", thanks to low costs and the simplicity and clarity of the offer proposed.

As at 31 December 2014, new Customers opening accounts under these Agreements represented 68% of total accounts opened during the year.

Investment & Private Banking, Asset Management

	2014	2013			2014	2013		2014	2013	
	Investment & Private Banking, Asset Management	Investment & Private Banking, Asset Management	absolute change	% change	Inv. Banking	Inv. Banking	% change	Asset Management	Asset Management	% change
Interest margin	**161,799**	**115,714**	**46,085**	**39.8%**	**159,037**	**112,893**	**40.9%**	**2,762**	**2,821**	**(2.1%)**
Financial margin	**161,799**	**115,714**	**46,085**	**39.8%**	**159,037**	**112,893**	**40.9%**	**2,762**	**2,821**	**(2.1%)**
Net fee and commission income	22,733	66,956	(44,223)	(66.0%)	(46,726)	11,148		69,459	55,808	24.5%
Other net operating income/expense	(928)	297	(1,225)		(383)	218		(545)	79	
Net financial result	115,817	181,521	(65,704)	(36.2%)	116,240	181,429	(35.9%)	(423)	92	
Other operating income	**137,622**	**248,774**	**(111,152)**	**(44.7%)**	**69,131**	**192,795**	**(64.1%)**	**68,491**	**55,979**	**22.4%**
Operating income	**299,421**	**364,488**	**(65,067)**	**(17.9%)**	**228,168**	**305,688**	**(25.4%)**	**71,253**	**58,800**	**21.2%**
Personnel expenses	(49,133)	(56,149)	(7,016)	(12.5%)	(42,089)	(48,378)	(13.0%)	(7,044)	(7,771)	(9.4%)
Other administrative expenses net of recoveries	(51,978)	(54,296)	(2,318)	(4.3%)	(42,483)	(45,828)	(7.3%)	(9,495)	(8,468)	12.1%
Value adjustments on property and equipment and intangible assets	(772)	(957)	(185)	(19.3%)	(407)	(577)	(29.5%)	(365)	(380)	(3.9%)
Operating expenses	**(101,883)**	**(111,402)**	**(9,519)**	**(8.5%)**	**(84,979)**	**(94,783)**	**(10.3%)**	**(16,904)**	**(16,619)**	**1.7%**
Income (loss) from operations	**197,538**	**253,086**	**(55,548)**	**(21.9%)**	**143,189**	**210,905**	**(32.1%)**	**54,349**	**42,181**	**28.8%**
Net value adjustments on loans (customers)	52	(4)	56		52	(4)	0.0%	-	-	
Net value adjustments on other assets	(10,677)	(1,700)	8,977	528.1%	(10,677)	(1,700)	528.1%	-	-	
Provisions for risks and charges	(5,953)	(82,391)	(76,438)	(92.8%)	(5,892)	(80,736)	(92.7%)	(61)	(1,655)	(96.3%)
Value adjustments on goodwill and investments in associates and companies subject to joint control	(665)	(42)	623	1483.3%	(665)	-		-	(42)	
Profits/losses on disposal of investments in associates and companies subject to joint control and other investments	5	-	5		-	-		5	-	
Income (loss) before tax from continuing operations	**180,300**	**168,949**	**11,351**	**6.7%**	**126,007**	**128,465**	**(1.9%)**	**54,293**	**40,484**	**34.1%**
Taxes on income from continuing operations	(60,109)	(98,463)	(38,354)	(39.0%)	(42,552)	(81,363)	(47.7%)	(17,557)	(17,100)	2.7%
Net income (loss)	**120,191**	**70,486**	**49,705**	**70.5%**	**83,455**	**47,102**	**77.2%**	**36,736**	**23,384**	**57.1%**

The performance of the Investment, Private Banking & Asset Management sector as a whole showed a deterioration in 2014 compared to the previous year's results, with income from operations of euro 197.5 million, down by around euro 55.5 million (-21.9%) compared to the figure for 2013. This fall is due to the reduction in operating income of around euro 65 million, resulting from higher revenues from Asset Management (71.3 million in 2014 against euro 58.8 million in 2013) which were not able to offset the fall in those from Investment Banking (euro 228.2 million against euro 305.7 million in 2013), and of lower expenses of around euro 9.5 million (-8.5%) due to the fall in the variable pay of personnel. Income (loss) before tax from continuing operations for the segment instead rose slightly compared to 2013, due to the fact that there were no extraordinary expenses to provide for in 2014 (last year euro 81.5 million was allocated to provisions for risks and charges relating to a tax dispute on specific operations performed between 2005 and 2009 by the Investment Banking segment and related to single stock futures and equity instrument lending transactions with resident and non-resident counterparties), only partially offset by higher net adjustments on other assets and related to various receivables. Taking the non-deductibility of the provision for taxes made last year into account, the tax burden in 2014 is much lower than that of 2013, and therefore net income for the segment rose significantly (+70.5%).

Investment & Private Banking

Economic trend in the sector

The Investment & Private Banking carried out by the Group subsidiary Banca Aletti closed 2014 with a result that overall was better than that of the previous year (+77.2%), although total operating income was down, at euro 228.2 million (-25.3% compared to euro 305.7 million in 2013).
This total income was achieved by the following business lines: transactions in OTC derivatives, trading in listed securities and derivatives, capital market transactions and, lastly, investment management and private banking.

Transactions in OTC derivatives once again represented the business line which made the highest contribution to total income of Banca Aletti, amounting to euro 154.6 million (against euro 222.2 million last year), with placements of structured products totalling euro 7 billion (euro 9.4 billion last year).
More specifically, in 2014, the structuring of products addressed to the retail customers of the Group's commercial network (for which Banca Aletti provides both a creative service and a "ceiling-based" placement service on all product types, in order to guarantee the stability of the price during the placement windows and to free the distribution networks from the risk of unsold products) witnessed a substantial fall in the volumes of structured products with relation to the bond issues made, to the advantage, instead, of a high increase of those relating to the issue of certificates. Therefore, the operating income generated by the business line (euro 154.6 million) witnessed a greater contribution to the interest margin, which was euro 133.3 million against euro 85.1 million last year, to the detriment of the net financial result, which instead was euro 132.6 million against euro 176.3 million in 2013. The level of retrocession fees paid to Banco Popolare's distribution network for the placement of certificates issued, rose to euro 111.3 million in 2014, against euro 39.1 million last year.

Trading in listed securities and derivatives (proprietary trading, market making on single stock futures / trading and market making on government supranational and corporate bonds) generated revenues of euro 12.5 million, down compared to euro 31.6 million last year. Against an almost unchanged contribution to the interest margin in 2014 compared to 2013 (euro 28.8 and 29.6 million respectively), this operating segment recorded a negative performance in terms of net financial result, which amounted to euro -16.3 million, compared to euro +2 million last year.

Capital Markets transactions and Trading on behalf of third parties generated total operating income of approximately euro 13.9 million, a considerable increase on the result in 2013 (euro 10.7 million).

In Investment Management and Private Banking operations, operating income came to euro 42.0 million, up against the euro 37.8 million recorded last year, of which euro 3.1 million had a negative effect on the interest margin and euro 50.3 million on net fee and commission income. In particular, managed assets of Banca Aletti rose by 22.7% and generated net fee and commission income of euro 41.7 million compared to euro 31.8 in 2013.

As regards income, which fell by euro 77.4 million compared with last year, operating expenses were down in absolute terms by around euro 10 million, falling from euro 94.8 million in 2013 to euro 85.0 million in 2014, due to lower personnel expenses resulting from the absence of expenses relating to the redundancy fund (while in 2013 said expenses were present) and to the reduction in variable pay and the process to make other administrative expenses more efficient with a reduction of infragroup recoveries. Due to this trend, income from operations was euro 143.2 million, down 32.1% compared to euro 210.9 million recorded last year.
If we consider that in 2013, an extraordinary allocation to provisions for risks and charges of euro 81.5 million had to be made to settle a tax dispute with the Tax Authority relating to transactions in single stock futures and equity instrument lending transactions with resident and non-resident counterparties, carried out from 2005 to 2009, while in 2014 an adjustment was made regarding a tax credit of around euro 10.7 million due from the Swiss tax authority and allocations to provisions for risks and charges of euro 5.5 million were made, gross income from operations was euro 126.0 million and therefore in line with the euro 128.5 million recorded last year.
The different tax burden resulting from the non-deductibility of the extraordinary allocation to provisions in 2013, leads to a net result for the segment of euro 83.5 million, almost double that of euro 47.1 million recorded last year.

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

Transactions in OTC derivatives

Derivative Instruments and Structured Products - Financial Engineering

Over the course of 2014, the interest rate market demonstrated a clear downtrend, in line with the monetary transmission policies implemented by the major Central Banks.
Euro swap rates reached new lows, with rates for up to 10 years considerably below 1%; the spreads of Government and Corporate Securities fell to pre-crisis levels, boosted by the liquidity injected into the credit system by the Central banks, by the negative macroeconomic data in Europe (inflation included) and by expectations of Quantitative Easing by the ECB.

In terms of flows, market interest rates at very low levels provoked a sharp reduction in the demand for investment products, which are no longer able to guarantee attractive coupon payments for customers. Volumes fell from euro 5.7 billion in 2013 to around euro 1.4 billion. Hedge products were substantially stable, at around euro 1.3 billion.
After a first six months characterised by a slight but generalised rise in share prices and general stability in levels of volatility and implicit correlation, namely the future implicit correlation encompassed in the prices of share options, the second part of the year experienced a period of greater instability of share prices (especially European ones) recording fluctuations that were often fairly wide with an increase in levels of volatility and implicit correlation. On the derivatives market, liquidity on the forward market, volatility and implicit correlation were in any event maintained at levels able to facilitate both risk hedging through derivative instruments and the search for opportunities linked to the assumption of new risk positions.
With regard to structuring operations, the trend of renewed interest in products indexed to stock markets continued, recording a certain increase in volumes distributed by both the networks of the Banco Popolare group and by Banca Aletti's institutional customers.
Market making on regulated IDEM and SEDEX markets was stable, as was the demand for exchange rate risk hedging from corporate customers.

Corporate & Institutional Sales

Group Networks Distribution
In 2014, the distribution strategies of the Group saw continued interest in placements via "placement windows" of collective asset management products with distribution of proceeds and of Certificates.
As regards Certificates, almost euro 3 billion were placed, confirming customers' appreciation of products that enable participation in the dynamics of the stock markets while benefiting from forms of capital protection.
The continuing trends of falling yields in the bond market and of costs of funding of Credit Institutes, instead reduced the appeal of bond products, both issued by the Bank and by third parties.
As regards asset management, a considerable increase in total assets was recorded as a result of the placement of traditional bancassurance products and, in the network of private customers, the first signs of a recovery of net funding from portfolio management were seen towards the end of the year.

Corporate & Institutional Sales
The commercial strategies of the distribution networks and the portfolio decisions of institutional customers were conditioned by the gradual fall in yields from the euro, from the reduction of spreads, from a greater risk appetite and abundant market liquidity.
Trading in bonds on the secondary market was characterised by institutional investors repositioning their investments on corporate securities with higher yields compared to Government securities.
As regards the activities of the distribution networks that are not part of the group, the lower demand for direct funding instruments and the greater interest in investment in share-related products led to a rise in the placement of Certificates distributed, also through three new banking networks.
In relation to risk hedging with corporate customers, the persistent low level of short-term rates resulted in the low use of instruments to hedge liabilities indexed to floating interest rates. Specific attention continues to be focused on exposure to exchange rate risk, considering the extreme volatility of the Euro in relation to the major currencies, particularly USD.

Trading in listed securities and derivatives

Trading & Brokerage

The joint impact of the US economy in recovery and abundant global liquidity in the system pushed the value of the dollar up, leading to a revaluation of the same against both the euro and the yen.
The share markets benefited from this, finding support especially from countries with the most thriving economies.
In this market scenario, the behaviour of private customers and of the institutional investors who operate through the subsidiary Banca Aletti resulted in a significant increase of activity in the share segment, confirming the volumes of bonds recorded last year in a situation, in the latter case, of a general reduction of volumes traded.
Compared to last year, volumes brokered by the Bank rose by 32% in the MTA segment of Borsa Italiana and by 83% in the Equiduct segment of the Berlin Stock Exchange.
The Bank's share of Borsa Italiana, recorded by ASSOSIM, rose from 2.99% to 3.04%.
The increase in Banca Aletti's share in the bonds segment was more marked, again based on the survey conducted by Assosim, it rose from 5.43% recorded in 2013 to 6.08% recorded in 2014.
In this regard, note that in August, Banca Aletti extended the offer of bond securities available to its customers, by adding EuroTLX to the MOT and HI-MTF markets with the "Best Execution Dynamic" procedure, meaning that all of the execution venues available are analysed before executing the order and the best price of all of them is obtained.
The subsidiary Banca Aletti was confirmed as one of the top five national operators most active in the bonds market and one of the top ten in the share market in terms of volumes traded for third parties.
With regard to projects to extend the range of services offered to the Group's Private customers, during the year Securities Lending activities were also extended to the bond segment.

As regards trading on own account, given the relative stability of the share markets, volumes traded on the bond markets recorded a rise of over 20% against the previous year.
Based on classifications drawn up by Assosim, it appears that in the markets managed by Borsa Italiana, Banca Aletti is one of the ten most active brokers with regard to trading on own account in the “MTA” market and in the “Futures on indices” segment, and one of the top five in the “Domestic MOT” segment.

Capital Market Transactions

Equity Capital Market

In 2014, 5 listing operations on the MTA took place, against 22 carried out on the AIM Italia. In addition, 20 share capital increases for cash took place on the MTA and 10 Takeover Bids were conducted.
In this regard, the subsidiary Banca Aletti participated in the placement and guarantee consortia for the takeover bids on the shares of Anima Holding, Cerved Information Solutions, Fineco Bank, Fincantieri and Rai Way. Furthermore, it also participated in the takeover bids on the shares of Poltrona Frau, Acque Potabili, Aeroporti di Firenze, Società Aeroporti di Pisa (SAT), Cobra Automotive Technologies and Indesit, as well as in the takeover bids on shares of closed-end real estate funds Unicredit Immobiliare Uno and Atlantic 1.
In the second half of the year, the subsidiary Banca Aletti participated in the Guarantee Consortium for the share capital increase of Banca Monte dei Paschi di Siena SpA, acting as Co-Lead Manager; in the Guarantee Consortium for the share capital increase of Banca Carige SpA, acting as Co-Lead Manager; in the Guarantee Consortium for the share capital increase of Cattolica Assicurazioni Soc. Coop., acting as Joint Bookrunner.
Lastly, in November, the subsidiary Banca Aletti acted as Co-Lead Manager in the Guarantee Consortium organised for a further share capital increase of Banca Carige SpA, the execution of which is envisaged to take place in the first half of 2015.

Debt Capital Market

In 2014, the subsidiary Banca Aletti acted as Joint Bookrunner in two issues of senior unsecured bonds made by Banco Popolare and placed to institutional investors, the first of which in March, with a five-year maturity for the figure of euro 1.25 billion, the second in May, with a maturity of just under 4 years, for euro 750 million.
In addition, the subsidiary Banca Aletti acted as Co-Manager in two issues of senior bonds made by Veneto Banca with maturities of 3-5 years and the issue of a 5-year bond by ICCREA. It also acted as Co-Lead Manager in three issues of subordinated bonds by UBS, of which a subordinated Lower Tier 2 bond with a ten-year maturity and two senior bonds with a floating interest rate (2 year maturity) and fixed interest rate (7 year maturity). Both issues were placed exclusively with institutional investors.
Furthermore, over the year, the subsidiary Banca Aletti acted as Joint Arranger in two securitisation transactions for the trade receivables of Agos Ducato, for amounts of around euro 1.35 and 1.52 billion respectively, which were launched on the market in June and November.
Lastly, in October, the subsidiary Banca Aletti was selected for the first time by the Ministry of the Economy and Finance to act as Co-Dealer for the seventh issue of BTP Italia of a 6-year security index-linked to Italian inflation, issued for a total of around euro 7.5 billion.

Equity Research

In a scenario characterised by high volatility in foreign exchange rates, and in which stock markets have received significant aid from liquidity injections provided by Central Banks, in 2014 the Research Office’s operations focused on developing the hedging instruments launched last year and during the current year. The stabilisation of the number of counterparties also continued. Given the Group’s customer base, the office is continuing to cover Italian companies with low/medium capitalisation. Furthermore, marketing activities with the main counterparties continued, both through direct visits, sector-based meetings and non-deal roadshows.

Investment Management

Given the macroeconomic scenario described previously, portfolio management continued to prioritise a tactical approach, alongside strategic placements.
Share exposure was maintained for the whole year, with a higher weighting than the benchmarks, making a positive contribution to the performance of the various lines.
With regard to interest rate risk, placements were more cautious.
As regards the bond component of the portfolios, the privileged position in Italian government bonds was maintained, which continued to make a positive contribution.
The portfolios managed closed the year with overall gross performance in line or exceeding that of the benchmarks.
Products managed on a total return basis achieved positive results, around +4.6% on average.
As at 31 December 2014, assets under management totalled around euro 16,324 million, up by +24% on the figure at the end of 2013.
With regard to the composition of funding, the institutional sector continued to record positive net funding; net funding

in the Private and Retail sectors returned to positive results, due to funds from the Private sector.
With regard to the Advisory Desk service, which works with direct and accredited Private customers, as at 31 December 2014, 62 contracts were active, with a value of around euro 138 million.

Private Banking

At the end of the year, Banca Aletti recorded a global amount of “assets under management” (administered and managed) of euro 13.6 billion.
The year was characterised by strong growth in net interest and other banking income in the private segment (at Group level) compared to the average figure last year, due to the substantial stability of the non-interest margin and a significant improvement in the financial margin.
This result should be considered in a financial and market scenario characterised by a reduction of the numerous difficulties experienced in previous half years.
The constant volatility of the share market - characterised by differing performances in the major global markets - did not prevent the trend which is seeing the gradual and selective rebuilding of diversified portfolios, while not abandoning the consolidated more prudent asset positions.
In the presence of increasingly low interbank monetary interest rates, we witnessed the continuing supervision of the Italian banking system for the purpose of keeping direct retail funding volumes high, attracting short-term investments.
Nevertheless, despite the above-described situation, higher added value investment services and asset management in general recorded significant upward trends.
The year was characterised, especially in the first half, by the continuing fall in the availability of financial resources, due to the downtrend of the real economy and to the increasing selectivity of access to credit.
These factors led to the use of bank assets to fund company or real estate investments, partially offsetting the above-mentioned outflows.
Private-corporate cross selling (Pri-Corp) has reached its eighth year in collaboration with the Group’s corporate network. Despite the unfavourable economic scenario, funding flows were positive, though down compared to the past, confirming the high potential of the market over the medium term and bringing total funds to around euro 4 billion, since the start of the project (2006).
The strategic worth of the project was confirmed by the plan to relaunch Pri-Corp as one of the initiatives envisaged in the Groups 2014-16/18 Business Plan.

Asset Management

Economic trend in the sector

In 2014, the benefits of the Company’s business model were consolidated, by further boosting innovative development in terms of products, commercial relations, rationality and transparency, as well as the overall efficiency of production processes. The Company therefore reconfirmed its leading role in the Italian asset management sector. This success is due to several distinguishing factors, such as discipline in the style of management, a tactical approach to product innovation, the speed with which offer mechanisms are developed, the effectiveness of communication models and training provided to the distribution networks. These efforts reflect the more general focus on long-term results, which has always been a fundamental characteristic of Aletti Gestielle.
Over the course of the year, five new funds were placed (Gestielle Best Selection Equity 50, Gestielle Cedola Dual Brand, Gestielle Cedola MultiAsset, Gestielle Cedola MultiAsset II and Gestielle Dual Brand Equity 30), three of which are in line with the model of funds distributed in the recent past, with a fixed or variable coupon and a set investment time horizon.
At the end of the year, the new products launched during the year had reached an equity figure of euro 5.9 billion, while total AUM was euro 14.5 billion, marking an increase of 24.6% compared to 2013 (+40% for Italian funds only).
Net funding recorded in the funds established by Aletti Gestielle was a positive euro 3.4 billion.
As regards the Luxembourg SICAV managed by Aletti Gestielle (Gestielle Investment Sicav and Itafortune International Fund), at year end, they had reached an equity figure of euro 1.1 billion, down against 2013 (euro 2.1 billion).
As regards the income statement results of Aletti Gestielle for the year ending 31 December 2014, net fee and commission income increased by euro 13.7 million, rising from euro 55.8 million in 2013 to euro 69.5 million in 2014, marking an increase of 24.5%. Operating expenses fell compared to 2013, despite the significant increase in AUM, recording euro 17.5 million at year end.
Net income for the year rose 57% compared to 2013, as a result of the constant focus on containing costs and increasing AUM. The cost/income ratio for 2014 was 24.38%, an improvement on that recorded last year, which was 31.06%.
Lastly, note that as at 31 December 2014, the Banco Popolare Group was in ninth place in the ranking of asset management groups published by Assogestioni, with a market share of 2%, and total managed assets of euro 30.8 billion.

Aletti Fiduciaria

2014 was also characterised by the continuing economic crisis, which has put the country in serious difficulty.
In this context, Aletti Fiduciaria managed in any event to maintain its position as one of the main Companies in this segment, with total assets managed of around euro 1.7 billion, for around 1400 customers and over 1800 active accounts.
Note that the years which has just ended was also characterised by considerable efforts to promote protection and transmission services for personal and company equity, guaranteeing constant and highly qualified assistance to the Banca Aletti network.
The substantial stability of operations, which recorded a net profit for the year of euro 223 thousand, is confirmation that even in periods of crisis, the role assigned to Aletti Fiduciaria of qualified provider of fiduciary and trust fund services, contributes to the satisfaction of the private and corporate customers of the Banco Popolare Group.
On 31 March 2014, the merger by incorporation of Aletti Trust S.p.A. into Aletti Fiduciaria S.p.A was finalised; this operation enabled the structure of Banca Aletti's product companies to be simplified, optimising the provision of Private banking services.

Leasing

	2014	2013	Absolute change	% change
Interest margin	**40,964**	**44,039**	**(3,075)**	**(7.0%)**
Dividends and profits from investments in shareholders equity	**33**	**(4,583)**	**4,616**	
Financial margin	**40,997**	**39,456**	**1,541**	**3.9%**
Net fee and commission income	(749)	2,561	(3,310)	
Other net operating income/expense	22,585	23,462	(877)	(3.7%)
Net financial result (without FVO)	(1,520)	(6,290)	(4,770)	(75.8%)
Other operating income	**20,316**	**19,733**	**583**	**3.0%**
Operating income	**61,313**	**59,189**	**2,124**	**3.6%**
Personnel expenses	(12,745)	(14,697)	(1,952)	(13.3%)
Other administrative expenses net of recoveries	(48,952)	(46,982)	1,970	4.2%
Value adjustments on property and equipment and intangible assets	(66,048)	(15,842)	50,206	316.9%
Operating expenses	**(127,745)**	**(77,521)**	**50,224**	**64.8%**
Income (loss) from operations	**(66,432)**	**(18,332)**	**48,100**	**262.4%**
Net value adjustments on loans (customers)	(261,843)	(227,320)	34,523	15.2%
Net value adjustments on other assets	290	(11)	301	
Provisions for risks and charges	2,612	(1,139)	3,751	
Profits/losses on disposal of investments in associates and companies subject to joint control and other investments	(936)	(2,020)	(1,084)	(53.7%)
Income (loss) before tax from continuing operations	**(326,309)**	**(248,822)**	**77,487**	**31.1%**
Taxes on income from continuing operations	108,564	67,183	41,381	61.6%
Income/loss attributable to minority interests	39,059	15,869	23,190	146.1%
Net income (loss)	**(178,686)**	**(165,770)**	**12,916**	**7.8%**

Economic performance

In relation to substantially run-off assets, the leasing sector, composed of the companies of the former Italease Group, recorded total operating income of euro 61.3 million, a rise of euro 2.1 million compared to euro 59.2 million last year.
This rise is due on one hand, to the stability of the interest margin, which rose by euro 1.5 million compared to last year, even though total assets were down, due to the recognition of one-off income of around euro 7.4 million, related to the closure of securitisation operations, and on the other hand, to the lower negative contribution of the net financial result (euro -1.5 million compared to euro -6.3 million last year), which reflected the lesser impact of transactions in derivatives with customers as full and final settlement of total debt positions, and lastly by the lower negative contribution of the subsidiary Alba Leasing valued at equity (neutral in 2014 compared to euro -4.5 million in 2013).

Operating expenses (euro 127.8 million against euro 77.5 million in 2013) rose by around euro 50 million, although this increase is entirely due to higher value adjustments on repossessed properties ("datio in solutum") made to align the book value of the same with that of updated appraisals, which totalled around euro 52 million. The impact of these adjustments led to a higher loss from operations, which rose to euro 66.2 million from euro 18.3 million last year.

Also in 2014 the harsh impact of the cost of credit, amounting to euro 261.8 million (compared to euro 227.3 million in 2013), led to a significant loss for the year, amounting to euro 178.7 million.

Corporate Centre and Other

	2014	2013(*)	Absolute change	% change
Interest margin	**(200,553)**	**(143,011)**	**57,542**	**40.2%**
Dividends and profits from investments in shareholders equity	**90,033**	**(22,820)**	**112,853**	
Financial margin	**(110,520)**	**(165,831)**	**(55,311)**	**(33.4%)**
Net fee and commission income	4,739	(10,543)	15,282	
Other net operating income/expense	47,844	47,576	268	0.6%
Net financial result (without FVO)	95,468	204,660	(109,192)	(53.4%)
Other operating income	**148,051**	**241,693**	**(93,642)**	**(38.7%)**
Operating income	**37,531**	**75,862**	**(38,331)**	**(50.5%)**
Personnel expenses	(317,316)	(372,608)	(55,292)	(14.8%)
Other administrative expenses net of recoveries	228,672	262,640	(33,968)	(12.9%)
Value adjustments on property and equipment and intangible assets	(98,434)	(95,156)	3,278	3.4%
Operating expenses	**(187,078)**	**(205,124)**	**(18,046)**	**(8.8%)**
Income (loss) from operations	**(149,547)**	**(129,262)**	**20,285**	**15.7%**
Net value adjustments on loans (customers)	(67,875)	(39,499)	28,376	71.8%
Net value adjustments on other assets	(29,441)	(159,753)	(130,312)	(81.6%)
Provisions for risks and charges	(36,114)	(37,901)	(1,787)	(4.7%)
Value adjustments on goodwill and investments in associates and companies subject to joint control	(199,335)	95,288	(294,623)	
Profits/losses on disposal of investments in associates and companies subject to joint control and other investments	3,320	7,173	(3,853)	(53.7%)
Income (loss) before tax from continuing operations	**(478,992)**	**(263,954)**	**215,038**	**81.5%**
Taxes on income from continuing operations	119,180	66,560	52,620	79.1%
Income (loss) after tax on non-current assets held for sale	(48)	(29,595)	(29,547)	(99.8%)
Income/loss attributable to minority interests	(345)	(2,149)	(1,804)	(83.9%)
Net income (loss)	**(360,205)**	**(229,138)**	**131,067**	**57.2%**

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

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

Economic trend in the sector

Total operating income for the sector decreased compared to last year, mainly as a result of the lower contribution provided by the interest margin and by the net financial result, partially offset by the increased profits of investee companies carried at equity.

The overall fall in the interest margin is mostly due to performance of the operating counterparty relations underlying the funding and lending items of the commercial network.
The interest margins of the other components of the corporate centre instead were substantially stable or better. As regards the securities portfolio, the lower returns on Italian Government bonds (which represent almost the entire investment) were offset by an increase in investment volumes. Institutional funding also recorded only a slightly negative interest margin, as in the second half of the year it benefitted from a fall in assets and in the cost of funding. ECB funding instead recorded a positive trend both in terms of the fall in assets but above all due to the general scenario of lower interest rates on funding.

The Group's share of profits on investments in associates carried at equity includes the results of Agos Ducato and the bancassurance joint ventures. The higher contribution with respect to last year was mostly due to the associated company Agos Ducato (which last year had generated a pro-rata loss of euro 51.2 million, against a pro-rata profit of euro 39.7 million in 2014) and to higher positive contributions from Popolare Vita, Avipop and other minor companies, which were around euro 22 million higher than last year.

Net fee and commission income was positive, although modest, and up by around euro 15 million against last year, insofar as, during the period, Government covered bonds recorded a lower cost, following the repayment of the same from the second half of 2014 onwards, as well as the improvement in fee and commission income from custodian bank services.

Other net operating income, amounting to euro 47.8 million (compared to euro 47.6 million in 2013), was primarily sustained by the recurring contribution generated by the Group real estate and service companies. In particular, the real estate companies not assigned to manage properties deriving from lease contracts generated rents receivable of around euro 19.3 million (euro 18 million in 2012), while a considerable contribution was generated by income from services provided to third parties by Teckmarket, amounting to approximately euro 31.2 million (euro 26.3 million last year).

The net financial result did not benefit in 2014 from the positive impact of the buy back of institutional securities issued in previous years ('cash tender'), which last year had generated a total impact of euro 37.6 million. Furthermore, the capital gains on the disposal of financial assets available for sale were euro 53.8 million compared with euro 131.3 million in 2013. The impact of the trading portfolio in Italian Government securities was more consistent, generating a positive result of euro 16.5 million, against euro 0.5 million last year. The gains (losses) on other securities in the Group Finance Portfolio were in line with last year.

Operating expenses were down on last year by 8.8%. More specifically, personnel expenses were negatively impacted in both periods compared by the allocation of the cost of redundancy funds (for substantially the same amounts in both years) and leaving incentives linked to all outgoing Group resources, partially offset by the releases of provisions from previous years linked to variable pay of employees no longer due. The lower personnel expenses in 2014 compared to 2013 is due to the fact that said releases of provisions were higher in 2014, not to mention the reduction of the workforce at central office level. As a consequence, recoveries of expenses were also lower this year, resulting in a fall in the item "other administrative expenses net of recoveries". Value adjustments on property and equipment and intangible assets, amounting to euro 98.4 million, are the result of amortisation and depreciation pertaining to both the real estate companies included in the corporate centre and the software managed by the Group's operational sector, i.e., SGS BP, which were slightly higher than 2013, due to the fact that higher value adjustments to investment properties made by the real estate companies to align the book value to the value of the updated appraisals.

Given the lower overall level of income, partly offset by the fall in operating expenses, income from operations for the segment fell by around euro 20 million (-15.7%) compared to last year.

Adjustments on loans relate to the foreign banks of the Group and directional positions of the Group.
Value adjustments on other assets were much more contained than those of 2013, as the impairment of financial assets available for sale was euro 17.6 million against euro 124.4 million last year and involved the shares held in private equity funds, while adjustment on other financial transactions were euro 11.1 million against euro 36.5 million in 2013, and included, among other things, the adjustment linked to the loans for the Interbank Deposit Guarantee Fund of euro 13.5 million.
Provisions for risks and charges were affected by allocations to cover legal disputes of around euro 12 million and tax disputes of euro 20 million, while last year the impact had been linked to the allocation of charges to cover the risks of the indemnity granted to Generali Immobiliare Sgr to hold it harmless from risks of disputes initiated against it by the Tax Authority concerning the non-application of VAT on invoices for rent instalments on the properties of the Eracle Fund to the Group company BP Property Management.

The external economic scenario led to the need to make value adjustments on goodwill of around euro 200 million and, while last year a net recovery on equity investments of euro 95.3 million was recognised, euro 105.8 million of which related to the value adjustment on the book value of Agos-Ducato to the pertinent share of the shareholders' equity of the same, with the remainder related to a euro 10.5 million difference in the value adjustment on the equity investment held in Finoa S.r.l with a view to aligning the book value to the fair value, net of selling costs.

Profits on disposal of investments in associates and companies subject to joint control and other investments include the capital gains generated on the disposal of property and equipment by Italease and other real estate companies in both of the years being compared.

The more negative trend in value adjustments, provisions and impairment in the current year compared to 2013, led to a gross loss from operations for the Corporate Centre of euro 479.0 million compared to euro -264.0 million last year.

Income taxes totalled a positive euro 119.2 million (euro +66.6 million in 2013). Both of these figures included non-recurring effects, related, in the case of 2014 to higher taxation on the capital gain recorded in 2013 from the revaluation of the stakes held in the share capital of the Bank of Italy of euro 14.5 million, and in the case of 2013, to the additional IRES of 8.5% applicable to banks only in 2013.

The loss after tax on non-current assets held for sale is insignificant, while last year the same item referred to the sales of BP Croatia for euro 29.1 million and of BP Hungary for euro 0.5 million.

Considering the trends in the items described above, the Corporate Centre contributed a net loss of euro 360.2 million to the consolidated results of the Group, lower than the loss of 2013, equal to euro 229.1 million.

Group Finance

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

ALM

The decisions on interest rate management for the Banking Book, taken by the Finance Committee, aim to reduce the volatility of the economic value as a result of changes in interest rates in accordance with the provisions of the “Second Pillar” of Basel 2.
The Group uses an Asset and Liability Management (ALM) system in order to develop risk measurements and a valuation model for demand items. The model’s characteristics of stability and partial insensitivity to change in interest rates are described in the systems using a statistical/predictive model (replicating portfolio, recently updated using the mean life method).
The Group’s limits provided for low interest rate risk.
In 2014, as in the previous year, to eliminate the accounting mismatching deriving from the valuation of bonds, the Bank adopted hedge accounting for bonds classified in the accounts as “institutional or equivalent”, or the valuation of bonds whose purchase/listing price may be influenced by changes in the Bank’s creditworthiness. Hedge accounting rules have not replaced the Fair Value Option, which continues to be applied to issues classified in the accounts as “retail or equivalent”.

Funding and Liquidity

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

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

As with last year, in 2014, the Group’s liquidity position continued to be strong, with a wide liquidity buffer, which enabled it to easily manage institutional maturities and the redemptions of retail bond issues (step up callable) made during the year.
In March and May, two issues of senior public bonds were made as part of the European Medium Term Notes Programme, for euro 1.25 and 0.75 billion respectively.
In 2014, the Group further consolidated its portfolio of eligible securities, namely securities that may be used as a counterparty to guarantee marginal refinancing operations with the European Central Bank, following a series of interventions, including: (i) in January and September, the issue of two series of euro 1.5 billion each of autocovered bonds under the Covered Bonds Programme, the first of which partially replaced the euro 1.75 billion series, which matured in December 2013, (ii) in April, the issue of a series of autocovered bonds under the Commercial Covered Bonds Programme for a nominal value of euro 1.5 billion, to partially replace two series maturing in March for a total nominal value of euro 1.7 billion, (iii) in June, the performance of a self-securitisation transaction on mortgage loans disbursed to small and medium enterprise for a total value of around euro 1.8 billion.
Also in 2014, the amount of Abaco receivables assigned to the Bank of Italy to guarantee monetary policy operations was increased by around euro 0.9 billion, mostly due to the assignment of a pool of receivables made in November.
Furthermore, following the new longer-term financing operations launched by the ECB (TLTRO), the Banco Popolare Group used this form of financing for a total of euro 3.7 billion, of which euro 1 billion in September, and euro 2.7 billion in December.
In 2014, the liabilities guaranteed by the Italian State were repaid in advance, amounting to a nominal value of euro 4.7 billion and, at the same time, partial repayments of the LTRO for euro 4.3 billion were made, corresponding to the contribution of the above-mentioned covered bonds to the portfolio of eligible securities. In October, a further early repayment was made relating to the euro 1 billion LTRO, and consequently, at the end of the year, the BP Group had an

exposure in monetary policy operations with the ECB of euro 11.9 billion, comprised by euro 8.2 billion in LTRO maturing in 2015 and euro 3.7 billion in TLTRO maturing in 2018.

Capital Management and Finance Support

Capital Management was characterised mainly by the following two events:

Redemptions on maturity
As regards the Subordinated Liabilities issued by the Group, in October 2014, two Lower Tier 2 liabilities were redeemed at their natural maturity, issued respectively by Banca Italease and Banco Popolare, with a nominal value of euro 200 million in total at the time of the redemption.

Cancellation of Credit Default Swap
Following the repayment of the Premafin Finanziaria SpA loan on 8 August 2014, the Credit Default Swap was cancelled with a value date of 27 August 2014.

Management of Proprietary Portfolios

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

Positions in the HFT category
Following the fall in the levels of returns offered by the main bond instruments, particularly by Italian government securities, as regards the only exposure to sovereign debt in the trading component of the Parent Company, measures were taken to gradually reduce the amount invested in this type of financial instrument, seeking to contain the overall interest rate risk resulting from trading in bond instruments. More specifically, as regards trading strategies for minor turnovers, investments have been repositioned towards medium and long term maturities, instead of short-term ones, combined with the greater use of CCT instead of zero coupons. Furthermore, the trading strategies adopted as regards securities, were combined with the use of options and term transactions, the former used mostly to increase returns on investments by collecting premiums, and the latter to maximise the contribution of the investments to capital expenditure. The combined implementation of these strategies led to, in terms of nominal stock, a spot reduction of around euro 350 million (from just under one billion at the beginning of the year to just over euro 600 million at the end of the year), only partially offset, in terms of credit risk exposure, by an increase in the average residual life of just over 6 months (from 2 years and 9 months to 3 and 4 months). As regards the trading strategies entailing the issue of non-government bonds, a substantial increase in this exposure was recorded. With respect to the nominal stock carried forward from last year, corresponding to around euro 600 million, further net investments of around euro 500 million were made. The net increase was made by increasing both the percentage of subordinated issues with respect to those with higher seniority and those denominated in currencies other than the euro (USD and GBP) with respect to those denominated in domestic currency; it should also be noted that the increase in the stock of subordinated financial securities was mostly focused on callable Lower Tier 2 securities at floating interest rates, with an average residual life of between 3 and 4 years. Lastly, trading in share instruments generated a contained exposure to the share markets, with a limited contribution to the overall risks and margins of trading activities.

Positions in the HTM category
In 2014, investments in Italian government securities, which fall into this category, were gradually increased. More specifically, the nominal operating ceiling generally reserved to this category, corresponding to euro 4.25 billion, 4 billion of which was used at the beginning of the year for investments with an average residual life of just over 3 years and 6 months, was saturated in the first quarter, while maintaining the average residual life substantially unchanged. Subsequently, in the fourth quarter of the year, the Parent Company's Board of Directors extended the nominal ceiling to euro 6 billion; following this decision, further investments of euro 500 million were made in 10-year BTP, which did not lead to a substantial increase in the average residual life with respect to the value recorded at the beginning of the year.

Positions in the AFS category
The bond component recognised in this category was substantially increased, both in terms of nominal stock and sensitivity to market fluctuations. As regards the investment in Government securities, note that both the nominal stock and the average residual life rose considerably with respect to the figures recorded at the beginning of the year. The stock was increased by around euro 9.25 billion to euro 9.75 billion through operations which also led to a marginal increase of the average residual life from 2 years and 9 months to just over 3 years and 3 months. At the end of the year, the use of the operating ceiling, which the Board of Directors of the Parent Company had increased at the same time as that of the HTM category, to euro 10.25 billion, was around 90%. Note that during the year, the exposure to Spanish Government securities, which was already marginal at the beginning of January (euro 150 million with a short term maturity) was reduced to euro 100 million by means of disposals. Note that there are no other risk positions on peripheral European nations in the portfolio.

Positions in Mutual Investment Funds
The indirect exposure to the main financial markets, particularly the share market, was maintained substantially unchanged during the course of the year, while the instruments used to obtain this positioning were changed and, in the second half of the year, it was decided to make the portfolio more sensitive to changes in the EUR - USD exchange rate risk. The type of instruments used was significantly reorganised, resulting in a reduction of around euro 50 million in investments in funds of hedge funds, managed by the subsidiary Aletti Gestielle SGR and recorded in the CFV category of the Parent Company, in favour of mutual investment funds whose main underlying instruments are bonds and shares.

Group Treasury

Money Market
During the year, following the fall in the Group's liquidity requirements and the improvement in market conditions, the exposure towards the Central Bank was reduced to euro 11.9 billion. Liquidity management, which seeks the best market conditions by continuously optimising available collateral and which aims to diversify sources of funding as far as possible, gave priority to the domestic Repo market.
These operations were mainly conducted through CC&G in order to minimise counterparty risk.
During the year, Banco Popolare's asset collateralisation activities recorded:
- average loans of around euro 6.4 billion (+5%), of which around euro 5.9 with CC&G (+9%);
- average funding of around euro 4.9 billion (-33%), of which around euro 4.8 with CC&G (-34%) with total trading volumes of around euro 870 billion (-18%).

Foreign Exchange Market
In 2014, the foreign exchange market was characterised by differing trends, lateral movements in some currencies and interesting medium-term trends in others.
In the second half of the year, it is worth noting that the strength of the US dollar emerged against all currencies, with an appreciation of the dollar index of around 12%.
More specifically, the euro to US dollar exchange rate witnessed a year at two different speeds: in the period between January and August, the exchange rate fluctuated erratically within a range of 1.35/1.40; instead, from September, it showed a downturn, with the single currency weakening and falling close to 1.20.
The trend of the Japanese Yen was also important, the value of which fell against the euro and the US dollar following expansive monetary policy adopted by the Central Bank of Japan with a view to boosting the economy and increasing inflation.
In terms of volumes traded on the market, the results of 2013 were confirmed, with around euro 105 billion traded. The volumes resulting from commercial activities were in line with forecasts.

Companies abroad

Banco Popolare Luxembourg S.A.

2014 closed with a profit of euro 2.2 million.
The Bank conducts diversified business, characterised by deposit collection and asset management, custodian bank services and specific services for institutional customers.
Its clientele is composed of private customers with high standing, large companies and institutional customers, including several asset management companies belonging to the Group.
The positive result achieved in 2014 was due, in particular, to a policy focused on containing operating expenses, which offset the higher value adjustments on loans and the slight drop in the interest margin. Net fee and commission income was substantially stable.

Banco Popolare London Branch

In 2014, Banco Popolare's London branch continued to provide support services to Italian companies, customers of Banco Popolare, who have branches of their businesses in London, or who in any event require assistance in loco.
The London branch also handles the funding and management of several significant exposures in collaboration with the relevant units of the Group.
In 2014, the London branch made a profit of euro 12.2 million.

Real Estate Sector

Operations in the real estate sector involve the management of the Group's instrumental assets and the enhancement and disposal of non-instrumental assets.
BP Property Management is the Group company in which all service operations are concentrated relating to the management and maintenance of instrumental property assets (technical and administrative), as well as those regarding the management of rentals (receivable and payable) instrumental to the core business.
With regard to instrumental assets, the "Hub and Spoke" project was completed, which has involved the reorganisation of the geographical network according to the new distribution logic of customer service; with the change/creation of jobs in 328 branches, the last 54 of which were completed in 2014.
As regards the spin project, in 2014, 114 branches were closed, with the consequent transfer of the resources to other branches.
With a view to a more efficient use of space, and to reduce cost of managing the same, all lease contracts with third parties were renegotiated and important agreements were reached with the owners to reduce the space used or to hand over premises in advance of the agreed deadlines. In this regard, several new headquarters have been identified (the most important being that in Milan, the new head office in Via Fulvio Testi, owed or rented), in which the personnel employed at the various remote offices will be concentrated. The active management of contracts and spaces, along with the closing of several branches has resulted in a savings of euro 5 million.

During 2014 the compliance measures resulting from investigations and surveys shared with the manager of the Eracle Fund - to which some of our Group's instrumental property was contributed in 2009 - continued and most were completed.

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

Despite the downtrend of the real estate market, sales were slightly higher than last year. Given the above, work continued for the purpose of generating income from free spaces, including those deriving from the closing of branches as a result of the rationalisation of the network. In relation to the latter, legal compliance or restructuring works have been carried out and/or planned in order to legally change the official use of the premises, also based on several important preliminary lease agreements which have already been signed.

In relation to the most important income property, significant extraordinary works continued on the property in Rome owned by the subsidiary Sviluppo Comparto 8, following the renewal of the lease contract, signed at the end of 2013, with the lessee World Food Programme for an additional five years. The cost of the work, which has almost been completed, was 3.9 million, and is substantially in line with that expected.

The work to transform a plot of land owned by the subsidiary Nadir Immobiliare in Lodi has finally been concluded; this entailed the transformation of an industrial site into an area on which seven residential islands could be built. This new project called "Parco dell'Abitare" was approved by the Local Council through the adoption of the Integrated Work Plan by the Council Committee and the signature of an agreement with the Council on 19 December 2014.

The urban planning process of the subsidiary Mariner srl, owner of a property in Via Bagutta, Milan, is also well underway. On 23 December 2014, the City Council of Milan adopted the Implementation Plan which envisages the classification of the property as commercial. The property in question has a gross surface area of 4,950 square metres, 2,500 square metres of which dedicated to sales. The Agreement is expected to be signed in around one year's time.

As regards the subsidiary BRF Property spa, owner of an area in Parma, which is finalising the reclamation works and defining with the City Council the latest agreements for the creation of the Urban Development Implementation Plan, on 10 April 2014, a preliminary agreement of sale was signed for a plot of land to be used for commercial purposes with the shareholder Pizzarotti, who had simultaneously signed another agreement with Despar, which had shown an interest in purchasing it to build a commercial retail sale structure with a gross surface area totalling 4,680 square metres, 2,500 square metres of which dedicated to sales activities; the bid is subject to obtaining a larger sales area and several changes to the Urban Development Implementation Plan. The total sale value is euro 5.5 million.

A contract for the disposal of a business segment was signed on 23 June to the leaseholder Cartiera Fenili relating to the subsidiary company TT Toscana Tissue; the disposal of the business segment enable significant de-risking from a labour law, real estate and environmental perspective.

In 2014 efforts continued to focus on increasing the value and subsequently selling the shares in PMG and Liberty, acquired in 2010 as part of the wider context of a settlement agreement of the former Banca Popolare di Lodi with its former Managing Director Fiorani.

The most complex cases include the subsidiary Sviluppo Comparto 8 srl relating to the approval of the proposed project submitted to the City Council of Collegno (TO), and the changes to the Territorial Zoning Plan inserted by the City Council of Cologno Monzese (which we lodged an appeal against before the Regional Administrative Court).

As regards disputes in progress, a settlement has finally been reached for all of the outstanding positions with the Mariella Burani Group, entailing a payment by our company of around euro 500 thousand; on 19 January 2015, the settlement agreements were signed and the relative amounts were paid.

Banco Popolare and Release signed an important restructuring agreement with the Aedes Group on 4 December 2014, as part of a certified Recovery Plan pursuant to art. 67, paragraph 3, lett. c) of the Italian Bankruptcy Law, proposed by Aedes S.p.A., which owes the Group a total of around euro 168 million.
The Agreement with Banco Popolare envisages, in addition to the termination of several contracts with Release and the handover of the relative properties, the sale of the equity investments representing 100% of the share capital of Manzoni 65, SC2 and Terme Ioniche S.r.l,. all of which own properties with mortgages used to guarantee receivables of Banco Popolare, and Aedes S.p.a. taking on a part of the debt of said companies with Banco Popolare exceeding the value of the properties of the aforementioned companies, as established in the recovery plan for Aedes based on appraisals made by Cushman & Wakefield.
The price of the equity investments corresponded, for each company, to the shareholders' equity resulting from their statements of financial position as at the transfer date, adjusted by attributing the value established in the recovery plan to the properties. Said value is as follows: (i) property of Manzoni 65, euro 59.5 million; (ii) property of SC2, euro 2.7 million; (iii) properties of Terme Ioniche, euro 28.9 million.
Manzoni 65 is a real estate company, which owns a property located in Roma, fully rented to Fiat Auto S.p.A. at an annual rent of around euro 1.6 million. Sviluppo Comparto 2 (SC2) is a real estate company, which owns a plot of buildable land in Chivasso (TO). Terme Ioniche is a real estate company, which owns a hotel and residence complex in Mandatoriccio (CS) and cultivated agricultural land (olives, citrus fruit) in the same location.
On 23 December 2014, the relative purchase agreements were signed.

The management and remarketing of properties, both owned and deriving from defaulted lease contracts, on behalf of the companies in the Banca Italease sub-group is carried out by Italease Gestioni Beni (IGB).
The scenario that Italease Gestione Beni operated in during 2014 continued to be affected by the stagnant phase of the real economy, which led to the further decline of the real estate and construction market. The latter was characterised by a low number of operations, by dropping prices and volumes and by the selectivity of the credit system.
It is important to note that the products sold by Italease Gestione Beni are suffering due to the impact of additional negative factors, due to the type of assets, the specific use and conditions of maintenance of the assets on hand over by the former holder of the lease contract.
There are also objective factors that reduce the attractiveness of properties, especially those purchased for investment purposes: for example harsh taxation and the lack of a national policy linked to the redevelopment of former industrial sites.
It is also important to note the influence of the situation of rented property: the majority of assets are vacant, and this certainly penalises and does not provide incentives for investors.

In 2014, Italease Gestione Beni therefore implemented several specific initiatives, initiating numerous new rental agreements for formerly leased properties: these measures enabled management costs to be reduced as well as collect the related rentals.

By working with leading commercial networks, in 2014, Italease Gestione Beni achieved a sales plan, which entailed the sale of 44 properties, already on the books of the Sub Banca Italease Group as receivables, for the sum of around euro 20.5 million and 2 owned properties, for around one million euro.

RISK MANAGEMENT

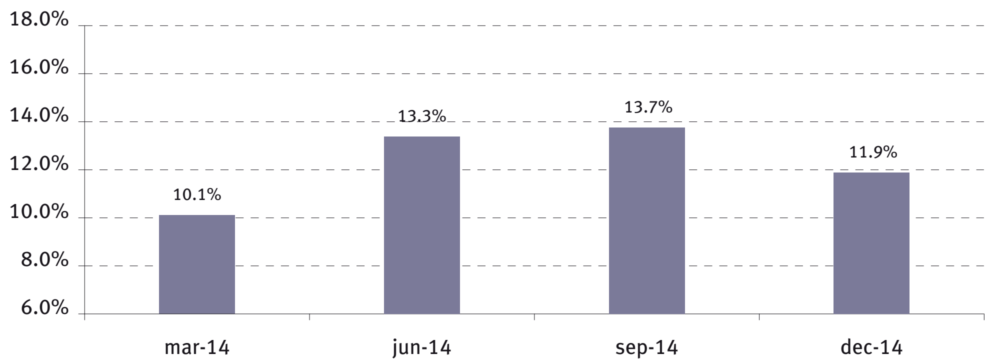
Capital adequacy and main risks

The difficult macroeconomic climate (low growth rate of the economy and consequent high rates of corporate insolvency) and continuing uncertainties in the money and financial markets continue to necessitate the strengthening of capital adequacy, constant and strict risk management and the maintenance of high reserves of liquidity.
During the year, the Group continued in its efforts to maintain a solid equity base. More specifically, in 2014, the Group took the following measures to strengthen its equity base:

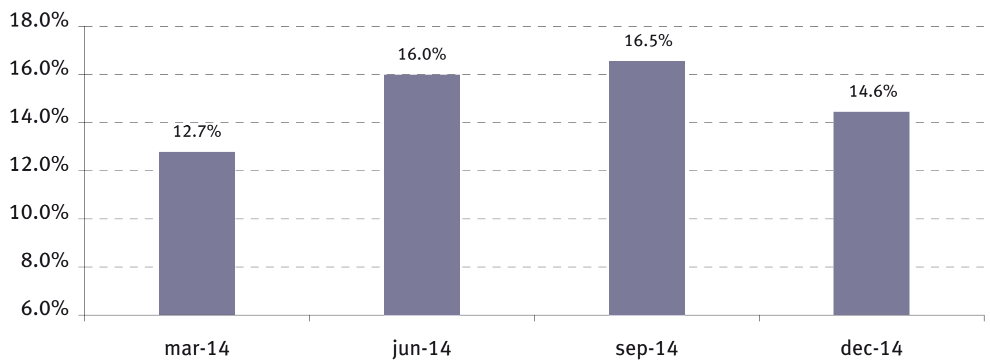
- a share capital increase for a total amount of euro 1.5 billion;
- the sale of its equity investment in Banco Popolare Croatia;
- the merger by incorporation of Credito Bergamasco into the Parent Company Banco Popolare;
- authorisation to use advanced methods to calculate capital requirements for operational risks.

Following the above-described operations, the Group's capital ratios improved significantly, recording an overall uptrend in 2014, with specific reference to the core component of capital.
As regards the last twelve months, the Common Equity Tier 1 Ratio rose from 10.1% as at March 2014 to the current 11.87%; the Tier 1 Ratio reached 12.26% (10.1% as at March 2014) and the Total Capital Ratio reached 14.62% (12.7% as at March 2014).
The fall recorded in the last quarter of the year was due to the continuing policy for the prudent increase of bad debt coverage.

Common Equity Tier 1 Ratio



Total Capital Ratio



Given the considerable regulatory changes introduced through the new rules envisaged by the Basel 3 Framework, the new values cannot be compared with those of 31 December 2013, calculated on the basis of previous prudential standards (Basel 2).

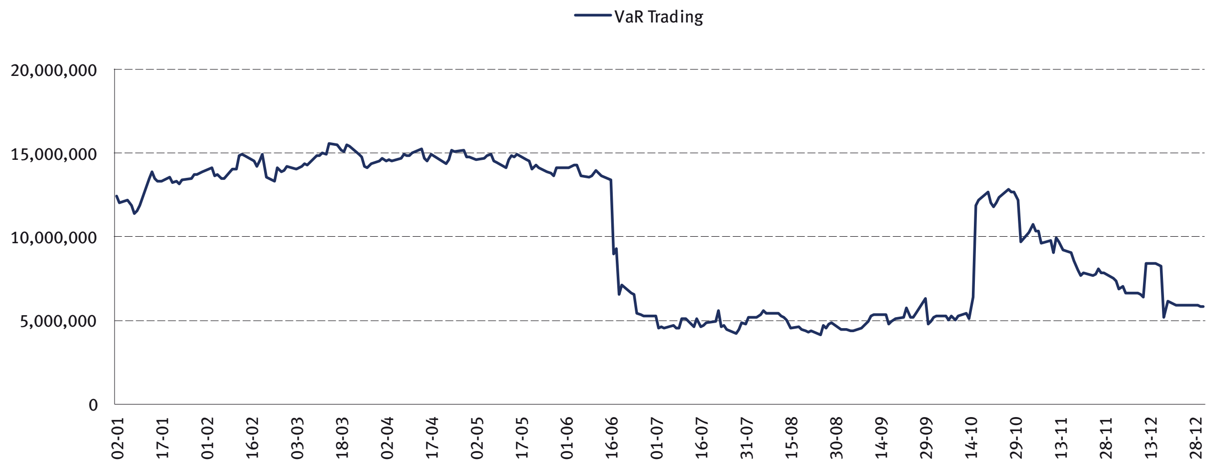
For the sake of completeness, note that as at 31 December 2013, prior to the changes in shareholders' equity and the extraordinary operations, based on Basel 2 regulations, Banco Popolare's Core Tier 1 ratio was 9.70%, the Tier 1 capital ratio was 10.60% and the Total capital ratio was 13.34%.
The further strengthening of capital requirements, envisaged by Basel 3, seeks to promote financial stability at global level. The application of Basel 3 rules will significantly improve capital base, both in qualitative terms (gradual exclusion of innovative hybrid instruments and application of deductions directly from common equity tier 1) and in quantitative terms (a minimum common equity tier 1 ratio of 4.5% plus the conservation buffer of 2.5%).
As a result of the share capital increase, the Group therefore reached a level of capitalisation, which enables it to amply meet the capital requirements envisaged after the entry into force of the new prudential supervision rules introduced as of 1 January 2014 (Basel 3). The increase in shareholders' equity will also allow Banco Popolare to reduce its costs of funding and acquire the degrees of freedom it needs to boost credit-related activities, to the advantage of retail customers and businesses in its local areas.
The merger by incorporation of Credito Bergamasco into Banco Popolare is also part of the above plan, alongside simplifying and rationalising the Group's corporate structure. From a capital perspective, the operation enabled the Group to improve its position, following the application of the provisions introduced by Directive 2013/36/EU and EU Regulation no. 575/2013 (prudential "Basel 3" regulations), containing new restrictions to the inclusion of capital held by minority Credito Bergamasco shareholders in Common Equity Tier 1 Capital.
The merger of Banca Italease, which was originally expected to be legally effective from 24 November 2014, was postponed to the first quarter of 2015; it will take effect for accounting and tax purposes as of 1 January 2015. At the same time, the integration of Banca Italease into Banco Popolare, from an organisational and IT perspective is also envisaged, through the establishment of a "Leasing Division", directly reporting to the Managing Director.
In addition to the disposal of the equity investment in Banco Popolare Croatia, the Group also obtained validation of its internal model to calculate capital requirements for operational risks;
The Group's capital also proved to be more than sufficient to successfully pass the Comprehensive Assessment exercise conducted by the ECB with the collaboration of national supervisory authorities. The capital strengthening measures already undertaken in 2014 enabled the following results to be achieved with respect to the thresholds set by the Regulator:

- asset quality review (AQR): CET1 ratio of 11.50% compared to a minimum threshold of 8.0%;
- stress test in the base scenario: CET1 ratio of 10.26% compared to a minimum threshold of 8.0%;
- stress test in the adverse scenario: CET1 ratio of 8.29% compared to a minimum threshold of 5.5%.

In a comparison with its peers, it emerges that the Banco Popolare Group has one of the most solid equity bases in the Italian panorama; it is one of the top three Italian Banking Groups in terms of capital adequacy following the Comprehensive Assessment exercise.
With a view to properly and promptly managing the risks to which it is exposed, the Banco Popolare Group uses a complex set of policies, processes, methods and tools, which are described briefly in the following paragraphs. The relative in-depth explanations are contained in the Notes to the financial statements (Part E).
As regards the processes and the tools used to manage and control the quality of the loans portfolio, a key element is represented by internal ratings calculated by models that are differentiated and estimated specifically for each customer segment. The rating represents a valuation, referring to a time horizon of 12 months, made on the basis of all reasonably accessible information, both quantitative and qualitative, expressed by means of a classification on a ranking scale, of the ability of a party to whom a loan has been granted or is to be granted to honour its contractual obligations. Rating plays a key role in loan granting, monitoring and management processes. In particular, it plays a role in deciding which the competent bodies to approve loans are, as well as on the mechanism for the automatic renewal of uncommitted credit facilities, and it contributes to guiding the decisions of loan managers when classifying positions based on their performance.
The "risk sensitive" information of loan portfolios (PD and LGD) are also useful, when drawing up the strategic plan and the budget, to establish the Group's credit policies in terms of allocation of the portfolio by sector/economic business segment and by geographic area, to address-restrict the level of concentration of the loan portfolio, as well as when establishing risk-based pricing or the budget objectives of sales managers.
Credit risk is managed by means of a portfolio risk estimation model, VaR, which is a default model, applied on a monthly basis mainly to credit exposures of Banco Popolare Group banks, with regard to performing loans, cash loans and endorsement credits, of ordinary and otherwise resident customers. This model enables operating capital absorption to be estimated, taking into account the portfolio concentration and the assumption of a joint non-fulfilment of counterparties, in a predefined context of significant macroeconomic variables. The confidence interval used is 99.9% and the time horizon of reference is one year. At the end of the model's simulation process, the maximum potential loss of the loans portfolio is broken down into the expected loss component and the unexpected loss component. For other exposures, other than performing loans of ordinary and financial resident customers, risk is managed and controlled through the use of supervisory regulatory metrics (Standard/Irb).
The Group has special organisational units in charge of the management of non performing loans, which apply predefined management and recovery methodologies that differ based on the type of loan by amount and risk profile.
The impairment of a loan refers to the possible loss of value of the loan in question due to events that occur after it has been recognised.
Non performing loans are classified according to specific criteria, based on prudence, and objective risk parameters. Value adjustments are measured on an individual basis for each single position, they are based on the criteria of

prudence in relation to the possibilities of actual recovery, also related to the existence of any collateral and they are regularly verified.
All non performing loan categories are assessed prudentially, in order to promptly and correctly recognise the consequences of a downturn in the economic scenario.
Gross non performing loans (bad, substandard, restructured and past due) amounted to euro 21,664.7 million as at 31 December 2014 and recorded a 13.1% rise with respect to the beginning of the year.
Value adjustments on non performing loans as at 31 December 2014, represented 34.2% of their total gross amount, compared to 26.9% as at 31 December 2013. For further details on non performing loans, refer to the section of this Report on Operations which comments on the main balance sheet figures.
As regards the management control of financial risk, the identification, measurement and operating control of the risk positions of Group Banks, a sophisticated position-keeping and risk control system is used, which provides a constant control over exposure levels and over the compliance with the operating limits defined by the Parent Company's Board of Directors and the Boards of Directors of Group Banks.
Financial risks are monitored on a daily basis by using deterministic indicators (sensitivity to market risk factors and referred to the issuer) as well as probabilistic indicators (Value at Risk - VaR). The VaR, which indicates the maximum potential loss associated with market movements in unexceptional conditions, represents a synthetic risk measurement. The approach used to calculate the VaR is that of historical simulation models. The values calculated are provided with a confidence interval of 99% and a time horizon of one day. The correlations used are those implicit in historical scenarios applied to estimate the empirical distribution of values in the trading portfolio.

DailyVaR BANCO POPOLARE GROUP
Regulatory trading portfolio



The most important risk component is the specific risk of debt securities, due to the presence of positions in Italian Government bonds.
As regards operational risks, with a view to ensuring a more "accurate" measurement of the exposure to these risks, the improvement of operating practices and risk measurement techniques, the medium-term reduction of the frequency and gravity of events of operating loss and the adoption of "solutions" in line with industry best practice, the Group has developed a measurement and management system (rules and processes, parties, roles and responsibilities, models and IT applications) in line with the legislative requirements envisaged for advanced AMA models.
Risk is measured by means of an internal method based on a quantitative and qualitative analysis along VaR logic. The quantitative assessment is based on internal loss data, gathered through a loss collection process. This data is combined with external loss data pertaining to the Italian banking scenario (inbound flows of the DIPO consortium, set up by the major Italian Banking Groups within the ABI - Italian Banking Association), and on data deriving from the risk self assessment, in which also qualitative information resulting from the ongoing assessment of the internal and external operational context are used.
The trend recorded in recent years in terms of operating loss, as well as the ongoing analysis of the internal and external operating context and forecasts, indicate that the production activities of the Banco Popolare Group are performed in an operating context that is retained substantially favourable.
This opinion is also confirmed, inter alia, by the downtrend recorded by operating losses between 2007 and 2014, behind which are first, second and third level controls that have been considerably strengthened over the period considered, as well as continuous measures to prevent and mitigate risk.
In line with mission of the Banco Popolare Group, which has a dominant commercial and retail orientation, the main absorption of economic capital regards the "Commercial practices" category, followed by "Litigation", which together represent the predominant portion of total risk and which, for the most part, arise in the Group's sales networks.

With reference to the category of “External Fraud”, given the tendency for criminals to adopt increasingly sophisticated techniques (e.g. identity theft, IT fraud etc.), the Group is constantly reinforcing physical and logical security, therefore containing these phenomena both in terms of frequency and the average impact on loss events of this kind.
The Group takes the measures established in the Mitigation plan (e.g. training, implementation of applications processes/procedures etc.) as protection against the main risk factors that arise.
In terms of liquidity, in addition to making the standard periodic measurements of the liquidity profile, the Banco Popolare Group became compliant with the relevant legislation by starting to report on a monthly/quarterly basis on the LCR (Liquidity Coverage Ratio) and SF (Stable Funding) indicators envisaged by the provisions of Basel 3.
In 2014, the parameters of the “behavioural” models for demand deposits were updated, where already in 2013 the new “Mean Life” modelling approach had been introduced, as well as the statistical model for the prepayment of mortgage loans, with a view to adequately assessing this behavioural option.
In 2014, in line with the approach adopted by the banking sector in continental Europe, the Group made use of the new instruments made available by the European Central Bank in order to provide liquidity to the European banking system (TLTRO).
For further information on credit, financial and operational risk, please refer to Part E in the Notes to the financial statements, which is dedicated to risk management. The same chapter also contains detailed information on structured credit products, on exposures towards Special Purpose Entities, on securitisation operations and operations in derivatives.

Outlook for Group risks and objectives

The continuing conditions of uncertainty in the economic scenario and financial markets make predicting the outlook in terms of risk a difficult task. In general terms, the Group’s objectives are to continuously monitor activities with a view to limiting the impact of potential adverse changes, including unexpected ones, in the economic scenario.
On this basis, as regards credit risk, recent performance combined with the objectives pursued in terms of the composition of loans, would suggest a substantially stable scenario in terms of risk, with reference to both performing loans and - thanks to recent allocation policies - to the non performing portfolio.
Interest rate risk continues to reflect the Group’s slightly bullish profile, which would mean that a rise in interest rates would improve its interest margin. As regards liquidity risk, the Group made efforts to strengthen its position, which, even given continuing market uncertainty as to developments of the current economic crisis, enable it to look to the future with a certain degree of confidence.
As regards operational risk, the organisational and technological measures set in place some time ago at Group level and specific measures taken to mitigate the risks implemented in recent years, which were further strengthened during the course of the past year and a half, as part of measures which resulted in the Group obtaining AMA validation for regulatory purposes, have led to an organisation and transactions with a low risk profile, confirmed by the level of operating losses recorded in the accounts relating to newly occurring risk events. We believe that this trend will continue in the near future.
With regard to the process of integration of the former Banca Italease group, the constant commitment, in terms of managing the portfolio of loans in default, reducing risk, focusing particularly on those of a high amount (so-called large risks).

SUPERVISORY, CONTROL AND SUPPORT ACTIVITIES

Human resources

Despite the continuing difficult economic and social climate within which the Banco Popolare Group operates, we have continued to invest in our human resources. The preparation, professionalism and general growth of all of our resources continue to be fundamental to successfully facing the market and its competitive challenges, for the good of our customers and stakeholders.
Management, training and development policies, as well as personnel pay policies, seek to continuously improve service quality and are accompanied by methodological tools, which over time have been innovated and developed in line with the latest trends.

Breakdown and evolution of the workforce

The breakdown of personnel by category and gender as at 31 December 2014 as regards the Banco Popolare Group is illustrated in the table below:

Categories	2014								2013	
	Men			Women			Total	of which BP	Total	of which BP
	Full time	Part time	Total	Full time	Part time	Total				
Executives	263	-	263	17	-	17	280	220	283	206
Middle Managers	5,276	11	5,287	1,708	245	1,953	7,240	6,218	7,377	5,509
White collar workers	4,720	83	4,803	3,680	1,640	5,320	10,123	8,944	10,451	8,178
Other personnel	59	2	61	2	-	2	63	34	65	46
Companies abroad	30	2	32	12	9	21	53		53	
Total no. of employees	**10,348**	**98**	**10,446**	**5,419**	**1,894**	**7,313**	**17,759**	**15,416**	**18,229**	**13,939**
Supply contracts	-	-	-	-	-	-	-	-	-	-
Total workforce	**10,348**	**98**	**10,446**	**5,419**	**1,894**	**7,313**	**17,759**	**15,416**	**18,229**	**13,939**
of which:										
apprentices	-	-	-	3	-	3	3	-	6	2
job training or new recruit contracts	2	-	2	-	-	-	2	-	4	1
permanent contracts	10,336	98	10,434	5,408	1,894	7,302	17,736	15,405	18,202	13,927
temporary contracts	10	-	10	8	-	8	18	11	17	9
supply contracts	-	-	-	-	-	-	-	-	-	-

The objectives of the Business Plan for 2014 were pursued, in addition to the figure due to normal turnover, also through subscription to the Solidarity Fund by 369 employees who met the requirements imposed by the social security reform, as well as 88 employees who accepted leaving incentives.
The significant efforts made led to the confirmation of 72 resources in the Group, plus 51 new recruits with a view to the generational turnover of the sales network.
Objectives to make the organisation more efficient in 2015 continued, in line with the trend envisaged by the Plan, by means of the voluntary retirement, for those that have already met pension requirements, new solidarity funds envisaged for 2015 and normal turnover. Furthermore, the introduction of younger people to the organisation is planned, with a view to generational turnover.
To provide an overview of the change in the number of employees, in line with FTE IAS requirements, note that in 2014, the total workforce fell from 17,670.7 as at 31 December 2013 to 17,179.4 as at 31 December 2014.

Recruitment policies and management of professional mobility

In 2014, as part of the organisational review to rationalise the Group structure, a number of resources were repositioned, in line with the Group's objectives to reduce the number of overall employees.

The main changes regarded the reorganisation of the Network structure, completed in February, which saw the implementation of the new “Hub and Spoke” model in 70% of the Group's network.
The new network structure, combined with the repositioning of the Business centres, led to the need to make several changes to better allocate resources, in line with that envisaged by the new model, and to provide training courses in order to adequately cover the new positions.

Further efforts to rationalise the structure led to the closure of 114 local branches in 2014. The approach adopted to manage the human resources involved sought to safeguard the professionalism and the personal needs of the same, also in terms of territorial mobility.

Investments in recent years in terms of training and professional growth enable the Group to increasingly promote internal resources to positions of greater responsibility.
In view of this, almost all of the resources hired in 2014 were young people in their first job, seeking to guarantee the generational turnover needed to strengthen the Commercial Network.

Resource Development, Assessment and Training

In 2014, Banco Popolare decided that it was fundamental to reconfirm the important policy to invest in Development and Training programmes, for the benefit of all Group resources.
To continue to meet the needs of our stakeholders, which include supporting the local economy, and being in touch with the local area, efforts to further improve the level of quality of training and of the expertise of all network and head office resources were intensified.
In this regard, the training provided was more specialised, based on professional profiles and on business segments, focusing on two important priorities:

- developing the managerial and leadership skills of key resources;
- increasing technical expertise in the field of credit.

The systematic analysis of the training and development requirements emerging from frequent meetings between Network Divisions and Company Departments enabled us to understand training needs and to plan the relative courses. Our objective is to harmonise and enhance a corporate culture identity, by disseminating the Group's values and strategies.
To confirm the focus on the quality of the service provided, in 2014, we successfully passed the audit for the three-year renewal of IQNET Quality certification for Development, Training and Assessment activities. This is issued by Certiquality, for the implementation of the quality system adopted in previous years, in compliance with the standards envisaged by UNI EN ISO 9001/2008.
In 2014, a total of 776,028 training hours were imparted.
The following table provides details of the number of the hours imparted, by the type of course and by the profile of attendees.

Level	Attendees	Development	Position-specific courses	Specialist skills enhancement	Central office training	Compulsory training	Project training	Training on request	Total
Executives	284	2,496	608	-	-	2,501	2,135	576	8,316
Middle Managers	7,330	39,674	24,989	200	361	175,328	90,354	18,209	349,115
Professional areas	10,097	9,285	67,324	963	368	242,767	75,631	22,258	418,597
Total	**17,711**	**51,456**	**92,921**	**1,163**	**729**	**420,596**	**168,120**	**41,044**	**776,028**

Human Resource Development
The objective of the work carried out by Human Resource Development is to enhance managerial skills; with a view to this, in 2014, several important development projects were launched:

- in May, a project entitled "+ Cooperation + Business" was launched, addressed to all central structure Managers (82 Resources).
- with regard to young people with high potential, in 2014, the classroom part of the "Master in Banking" project was completed, addressed to 98 resources working in various Group departments.
- as completion of the "Loans department professionalism" Project conducted in 2013, a training course addressed to Loans Secretarial Staff working in Business Areas.

To make a real difference to its human capital management, in 2014, numerous innovations were implemented in terms of HR processes:

- the Skills Database underwent a complete review, in order to manage and develop the wealth of expertise of Group Resources in the most effective way;
- the Performance Appraisal model was reviewed, in order to make it even more effective in terms of a source of information to support the professional growth of each Group employee.

Training
In 2014, the widespread training activities addressed to all of the Group's Human resources were mostly provided with the contribution of the team of internal teachers employed by the Training School and with the direct involvement in the classroom of the various Departments in question.

In addition to the usual training courses provided to all Group resources, training initiatives in 2014 focused on guaranteeing full support to achieving the strategic objectives outlined in the business plan and on the retraining of resources following the adoption of the new Distribution Model.
The objective of the training plan set in place to implement these initiatives, which involved over 6,000 Group resources belonging to different areas, was to prepare people to face an increasingly competitive market, which entails observing the rules characterised by the need for professionalism and ethics when dealing with customers and stakeholders, at the same time improving the quality of the service provided to the customer.
The initiatives implemented with the full collaboration of HR Development focused on:

- providing support to the key positions involved in the new distribution model;
- developing managerial expertise;
- enhancing the area of creditworthiness analysis;
- providing an adequate skill set to the new positions introduced by the model.

Another important training project undertaken in 2014 was that addressed to resources aged over 55, seeking to exploit these employees in this age bracket to their best advantage by means of a process to identify and make best use of their talents and to capitalise on the wealth of experience they have accrued.

Apprenticeships and Placements
In line with the Business Plan, employer branding continued, through participation in career days organised by Universities; furthermore, existing relations with the Placement offices of the major Italian universities were strengthened. These initiatives highlight the importance for the Group to strengthen its ties with Local Entities and the academic world. Work placements once again proved to be a useful way for young graduates and pre-graduates to obtain on-the-job training and experience in various Group companies (43 placements set in place in 2014).
The entire Group continues to adopt a standardised recruiting process, in the same way as the requirements to access the selection process have not changed. The main channels used are the internal database, agencies and headhunting agencies.

Group Pay Policies

Detailed information on pay policies and on the Group's incentive schemes is contained in the "Report on Group pay and incentive policies" prepared in accordance with that envisaged by Bank of Italy and Consob regulations. The "report on pay" contains qualitative information, reflecting the pay policies for 2015, and quantitative information, which illustrates the manner in which said policies were implemented in 2014. The qualitative part of the cited report is submitted to the approval of the shareholders' meeting.

Industrial relations

In 2014, negotiations launched in previous years continued. The purpose of the same is to cut operating expenses, also making use of possible levers to cut labour costs but adopting measures to defend employment and with a view to generational renewal. The numerous agreements signed since the beginning of the year, which are contributing to meeting the above objectives are illustrated in the section addressed to significant events occurring during the year, to which the reader should refer.

Labour disputes and disciplinary measures

In 2014, the total number of labour disputes at Group level fell compared to last year by 2.86% (from 244 as at 31 December 2013 to 237 as at 31 December 2014; in 2013, a reduction of 17.57% had been recorded compared to the previous year). The level of labour unrest was therefore in the norm, and below the industry average: this confirms the trend recorded in previous years and bears witness to the Group's focus on standards, rights and duties, which represent a cornerstone of its policy of corporate social responsibility. Labour disputes were handled, privileging, where possible, and in line with company policy, conciliation (16 disputes were settled over the course of the year); in cases in which a settlement of the dispute could not be reached, rulings were requested of the Judicial Authority, the outcome of which were in the great majority of cases, made in the company's favour (32 favourable rulings against 10 unfavourable).
Disciplinary procedures, implemented in collaboration with the HR Services of BP Divisions and Group Companies, and based on the results of assessments made by the control functions, are characterised by criteria of rigour, fairness and consistency, respecting the prerogatives and rights of employees and in compliance with the provisions of the "disciplinary code".

Group Welfare

As regards "supplementary pension arrangements", efforts to structure and rationalise the supplementary pension plans offered within the Group continued. Furthermore, with an increase in the amount of insured capital, the secondary benefits for invalidity and death, which had already been harmonised the previous year, were improved.
Pension funds currently encompass over 18,000 subscribers and administer assets of over one billion euro.

As regards "complementary healthcare", the best coverage in terms of returns were set in place to the benefit of Personnel, following the introduction of Complementary Healthcare, substantially defined over the course of the previous year.

More specifically, the Group's complementary Welfare system was enhanced in 2014, following a specific Trade Union agreement, with the introduction of the so-called Welfare Account, related to the crediting of "figurative" amounts, both individual and corporate, with which each worker may access the following social services, benefitting from the special treatment in terms of tax and social security contributions envisaged by the law for said services:

- Supplementary pension arrangements
- Healthcare
- A.H. (Additional Healthcare)
- Instruction and Education.

Health and safety

Banco Popolare considers safety and security to be fundamental to the dynamics of the operational sphere and to the considerable changes taking place in the legislative framework, which characterise the bank's current development. The approach taken is to provide support to the numerous innovative trends (channels and products), processes of change (Group distribution models and development), and legislative obligations relating to both the Bank of Italy (ref. 263) and European regulations.
Commitment to Safety and Security entails implementing new internal policies, designing adequate measures and investing in increasing the awareness of employees.

Logical security
Projects focused on protecting the identity of the internal and external parties that interact with the IT resources of the Group, and on new data protection methods, which led to targeted measures and policies that are easy to apply, combined with the use of innovative technologies such as graphometric signatures to render procedures paperless.
As regards the prevention of fraud, efforts were concentrated on continuously developing Web Banking protection, which has enabled the bank to tackle the increasing amount of fraudulent activity in this areas, and to guarantee projects for mobile banking and payments able to reduce/eliminate the effects of threats to services that are provided and are accessed from remote devices by customers. Furthermore, measures were taken to protect the use of credit cards for purchases on the Internet.

Privacy
The main project undertaken regarded implementing the technical, organisational and security measures prescribed by the Provision of the Italian Competition Authority on the circulation of banking data and the traceability of bank transactions which came into force on 30 September. Other projects undertaken focused on supporting data protection compliance methods, as part of risk management and control, and on developments regarding processing biometric data relating to graphometric signatures.

Physical security
Numerous projects were undertaken with a view to strengthening the protection systems used and, in particular, the area of deterrence, alarms and delays in opening safes. The measures implemented to prevent criminal acts were focused on enhancing recording systems, the control systems at the main entrances of branches, delayed opening custody systems for valuables and time-phased cash disbursement and lastly, alarm systems centralised in synergy with company network data.
The measures taken impacted the number of robberies, which has fallen significantly, as seen in the table below:

	2014	2013	Change 2014-2013
number of robberies	51	88	- 42.05 %
number of thefts	45	15	+ 200 %

The figures shown are in line with those of the industry.

Health and safety
As far as the number of accidents that occurred in 2014 is concerned, there were 193 accidents in total (55 of which in the workplace and 138 while commuting), down compared with last year.

	2014	2013	Change 2014-2013
accidents in the workplace	55	60	- 8.33 %
accidents while commuting and on business	138	156	- 11.54 %
Total	**193**	**216**	**- 10.65 %**

Specific training, in 2014, at Group level, entailed 40,844 training hours.
As regards the risk assessment, drawn up pursuant to Italian Legislative Decree 81/08, the company has VDU operators and night workers; in this regard 1,110 medical check-ups were conducted by Medical Officers on VDU operators and 11 check-ups were conducted on night workers.

Business Continuity
The Group is assimilating the new dictates of legislation issued by the Supervisory Authority in terms of integrating crisis and accident processes, with a view to assessing the overall impact and to guarantee consistent management of the same, proportional to the level of severity. The new provisions regard recommendations to facilitate the assessment of the actual severity of a situation in order to then set in place the available countermeasures and processes to return to normal business operations.

Internal audit

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

The Parent Company's Audit Department is directly responsible for conducting internal audits of all central and peripheral organisations of the Banking Group's Italian companies; the foreign companies belonging to the Group conduct internal audits directly, through their own autonomous structures and in compliance with the law of the respective countries in which they are located, and they are subject to the planning, coordination and control of the Parent Company Function responsible for internal auditing. More specifically, with a specific focus on the most important processes, audits were conducted on Parent Company departments, as well as on the premises of Italian and foreign subsidiaries, acting both as Parent Company Auditor and Outsourcer for internal audits.

The audits conducted in 2014, in line with the above objective, led to assessments and recommendations as regards the modus operandi and the overall system of controls, highlighting any areas for improvements. The Parent Company's Audit Department monitored the corrective measures undertaken by Company functions relating to the areas for improvement identified during the audits.

During the year, audits were conducted mainly on the following areas:

- governance and compliance, with regard to the intergroup outsourcing model, of measures in place to prevent money laundering (particularly the reliability of the organisational structure, of internal controls and the correct entry of the Single Computerised Database), as well as with regard to business continuity and health and safety in the workplace;
- credit, in particular the stages of disbursement, management and monitoring credit positions with guarantees obtained from consortia and/or state guarantees, the process of granting, managing and monitoring cash loans relating to foreign transactions, the process of disbursing and managing documentary credit and foreign unsecured loans and the process of acquiring and managing requests for advances on invoices;
- finance and the provision of investment services, with particular regard to identifying and reporting suspected Market Abuse, the securities lending process, the regulation and control of the purchase and sale of financial instruments and advisory services;
- operations, with regard to the process to draw up the consolidated financial statements and supervisory reporting, the management of real estate and of relative maintenance work, as well as passive litigation;
- information and communication technology, with specific reference to topics related to the use of internal models for operational risks, as well as the provision of services by outsourcers relating to treasury entity management.

As required by supervisory provisions, the audit was conducted on the procedures through which the compliance of remuneration with the law is ensured. The analysis confirmed the overall adequacy of pay and incentive systems with respect to Bank of Italy regulations. The results of the same were brought to the attention of the management bodies and competent services.

During the course of the year, the Audit Department also performed the activities within its scope based on the instructions contained in Prudential Supervisory regulations. In particular, specific audits were made as regards Pillar I risks (credit, operational and market), the review of the management and measurement system for said risks, as well as with regard to the review of the ICAAP process.

Audits conducted on the distribution network focussed on the operational areas managed by peripheral units and looked at the organisational processes adopted, compliance with internal regulations as well as conduct.

The service also provided continuous support to the other business functions also through participation in working and project teams. A considerable amount of assistance was provided to the Management and Control Bodies of both Banco Popolare and the other Group companies, bringing possible improvements to risk management policies, measurement tools and procedures to the attention of the same. In addition to the specific activities assigned to the Department, the same is expected to continue in its efforts to keep up-to-date with operational and legislative changes, and to implement the tools and methodologies in current use.

Compliance

The Banco Popolare Group attaches specific importance to managing the risk of non-compliance with legislation, based on the tenet that the observance of the laws and the regulations envisaged by the Supervisory Authority to safeguard substantial correctness in business relations with customers are key to the banking business, which by its own nature is founded on a relationship of trust.

The Compliance Service, established within the Risks Department is responsible for managing compliance risk. The Compliance Service is organised into functions which specialise in areas regarding:

- provision of banking services and transversal governance;
- provision of investment services;
- provision of collective asset management and fiduciary services;
- prevention of money laundering and contrasting terrorism financing.

In 2014, the activities carried out by the Compliance Service regarded all of the areas considered most important in terms of compliance risk, and, in particular the following legislative areas:

- provision of investment services, insider trading and prevention of market abuse;
- provision of collective fund management and fiduciary services;
- transparency and correctness in the provision of banking services;
- loan brokering activities;
- prevention of usury;
- insurance brokerage;
- management of conflicts of interest at different levels of the Group, both with regard to investment services and with regard to credit;
- money laundering and the fight against terrorism;
- safeguarding the protection and the confidentiality of the personal information of customers;
- coherence of the bonus and incentive system.

Furthermore, the Compliance function participated in the project to adapt to the New Prudential Supervisory Provisions issued by the Bank of Italy in July 2013, which significantly redefined the system of internal control of banks. The new regulations are based on a number of fundamental principles: maximum involvement of top management; an integrated vision of risk; the efficiency and effectiveness of controls; the application of the relative provisions depending on the size and operational complexity of the bank.

Transparency

During the year, with the support of the Compliance function, the Group continued the process of fine-tuning and further reinforcing of organisational procedures that seek to guarantee compliance with the provisions in force regarding substantial transparency and correctness when interacting with customers in the provision of banking services. The work performed regarded, among other things, overdraft charges (Commissione di Istruttoria Veloce), unilateral changes to contractual conditions pursuant to art. 118 of the Consolidated Banking Law (CBL) and the simultaneous offer of other contracts with a loan.

Patti Chiari
In 2014, as in the previous year, with a view to assessing the compliance of the Banco Popolare Group's activities, the PattiChiari Consortium continued to Monitor the Group's Commitments to Quality, mainly by means of the following methods:

- the periodic reporting of statistical data;
- the periodic reporting of claims;

Effective 1 February 2014, the second stage of the project to Simplify Commitments to Quality, which began last year, was launched. This entailed the further rationalisation of the related initiatives and compulsory fulfilment.
From October, activities relating to the management of the comparison engines "Comparing Current Accounts", "Average time required to close a current account" and several practices related to the "Transferability of Services" overseen by the Patti Chiari Consortium, to cite the Group's active commitments, were handed over to the ABI (Italian Banking Association).

Preventing Usury
In 2014, changes made to several usury processes led to the review of the Group's "Regulations on the prevention of Usury risk"; the most important change regarded arrears interest rates, for which a double check of the Annual Percentage Rate (APR) is envisaged.

MIFID
During the year, the Group continued to work on the project to improve the investment advisory process, in line with the Guidelines of the ESMA (European Securities and Markets Authority) on advice/adequacy of investment services. This project has enabled the service model to be structured in a way that increasingly meets the needs of customers, also through better knowledge of the same. More specifically, the new model envisages the provision of advisory services (and therefore an assessment of adequacy) for divestment as well as investment transactions. Following the introduction of the above-mentioned checks, the Bank will be able to advise its customers on divestment transactions, on condition that they pass an adequacy test.

At the end of December 2014, based on the MIFID questionnaire, around 865,762 customers, natural persons, holding financial instruments were "profiled".

Collective investment
As regards the asset management sector, during the year, at product-company Aletti Gestielle SGR level, the analysis of the new European AIFM regulations for alternative investment fund managers continued; implementation of the same will be completed by 30 April 2015, following the double postponement of the terms for fulfilment set by the national legislator. A similar fulfilment process was launched, and is still underway, as regards Banco Popolare in its role of custodian of alternative investment funds.
As regards Aletti Gestielle SGR, the organisational activities consequent to the assimilation of ESMA Guidelines on "Matters relating to EFTs and other UCITS issues" were completed.
As regards distribution, Banco Popolare has maintained significant synergies with the above-mentioned Asset Management Company, with a view to providing all possible information and support to its sales networks, to increasingly improve the level of knowledge of investment products with respect to the needs of Customers.

Relations with the judiciary and anti-money laundering activities
The relevant Group offices actively cooperate with the Judicial Authority and the Administrative and Tax Authorities as regards investigations, assessments, as well as requirements relating to anti-money laundering legislation.

As regards managing requests received from the Judicial Authority, in 2014, the Judicial Authority Inquiries Office received and forwarded 12,693 orders regarding 24,469 people. Furthermore, the same Office managed 3,741 requests received from Equitalia Giustizia addressed to the Single Justice Fund.
Instead, as regards requests for tax assessments received from the relevant Tax Authority Offices or from Tax Police Departments, the Tax Assessment Office processed 3,912 cases.

In 2014, there were 2,083 reports of potential suspicious transactions pursuant to art. 41 of Italian Legislative Decree 231/2007 received by Group banks and forwarded to the Financial Information Unit at the Bank of Italy.

Guarantor 2 Project
The Provision regarding "Requirements for the circulation of banking information and the traceability of bank transactions" obliges banking institutions to adopt rigorous measures (technical, organisational and procedural) so that every time a customer's information is accessed (such as a cash transaction or a simple consultation) by any bank employee, said access can be traced through a series of elements: the ID code of the employee; the date and time of the access; the code of the work station used; the customer code and the type of contractual account accessed.
With a view to implementing this provision, the Banco Popolare Group has launched the Guarantor 2 Project, which involved numerous departments within the Banking Group.
Following the signature on 28 May 2014 of the Trade Union Agreement for the application of the above-cited Provision

at Group level, specific training courses were set in place for personnel regarding the content and the implications of the same.

UNI EN ISO 9001:2008 Certifications
The Compliance Service is responsible for overseeing the process of internal implementation of Self-Regulation initiatives which the Group adheres to, including the “UNI EN ISO 9001:2008” Standard, and for monitoring the continuous fulfilment of the commitments made.
The Certification Body - in the case of the Banco Popolare Group “Certiquality S.r.l.” - conducts annual audits to validate the correct implementation and application of the Standard by the organisation that has set in place a Quality Management System (QMS).
Over the years, Banco Popolare has established two Quality Management Systems, which focus on the following areas:

- Design and provision of Treasury and Cash services through the Group’s Branch Network (Certificate Registration no. 12121/2)
- Training, development and assessment of the Banco Popolare Group’s human resources (Certificate Registration no. 16857)

Also in 2014, “Certiquality S.r.l.” judged both QMS as positive.

Technological and administrative services

Banco Popolare has entrusted the development of the Group’s applications and technologies, the robustness of the production engine, activities relating to Security, on a strict basis, and After Sales and Assistance Services to Società Gestione Servizi (hereinafter SGS).
SGS is organised into the following specialist organisational units to cover its four main areas of expertise:

- Applications Development, coordinated by General Management, which is expected to develop effective and efficient IT solutions;
- Production, responsible for the adequacy of the Group’s technological and production structure;
- Security, the first point of contact for all topics regarding safety and the physical, logical and IT security of the Group;
- After Sales and Assistance Services, covering administrative, middle and back office structures.

The robustness of the Group’s technological and IT architecture is the result of the combined efforts of Company Departments, which work together, each within its own scope of responsibility, but pursuing a common vision, objectives and seeking the advantages of synergy: economies of scale, containing costs and streamlining processes.
These elements characterise the backbone of the projects conducted within the company, providing support to commercial structures and carrying out IT work in compliance with the dictates of changes in the law.
The changing economic and political conditions of the domestic and European scenarios in which the Group operates, force it, each year, to adapt its decision-making processes underlying the development of individual projects, to the new reference framework.

Applications development

In 2014, numerous projects were dictated by changes in domestic and international legislation, which had a profound impact on branch operating processes and on the management of customer relations. Of these, we refer in particular to those relating to due diligence, tax record entries and the single computerised database.
A significant number of company projects were also undertaken, which involved changes to the entire IT system. The following are of particular note:

- the rationalisation of the branch network, with the move to the hub & spoke model, whose organisation will mean that customers can be served better and workloads and customer service can be handled with greater flexibility;
- the Banco-Credito Bergamasco merger with the related scale economies and cost synergies.

The Credit sector was highly involved in the changes rendered necessary to meet the requests of the European Central Bank.
In the first half of the year, efforts were addressed to the Asset Quality Review (ECB harmonised assessment of the state of health of the top 150 European banks) and subsequently to preparing and supporting stress testing conducted in October, through which the European Central Bank wished to monitor the stability of domestic banking systems.
The work performed and the quality of the data produced by the bank were much appreciated by the ECB, so much that the Group was considered one of the best in terms of the quality and reliability of data.
Furthermore, the credit sector was also involved in the adaptation of processes and procedures following the introduction of new classification concepts by the ECB such as the concept of forbearance as well as new policies relating to provisions for non performing loans.

Branch applications also had to be made compliant with legislative changes. In 2014, the legislative provisions of the Italian Government (Due Diligence, Single Computerised Database, Tax Records) led to projects relating to the same, which were implemented in parallel with Group projects regarding mergers and the hub & spoke organisation.
During the period, the Paperless project was also implemented, which entailed the installation of tablets for technologically advanced graphometric signatures, equipped with high levels of security, which have the same legal validity as a signature on paper. This enabled printouts of bank accounting documents to be abolished, as well as customer orders and, from 2015, also contracts, contributing, in this way, to the reduction of paper consumption (eco-sustainability project) and reducing operational risk, and at the same time facilitating document filing and retrieval.
With regard to the sphere of investments for customers, the most important project in 2014 (which will continue in 2015) regarded the new advisory model, in support of which the Advanced Advisory application was launched, which enables Banco Popolare, the first Italian bank to do so, to assess the adequacy of the customer's investments and divestments, improving the quality of the advice given to customers in strict compliance with the law. At this time, the quality of the information provided to customers with regard to their statement of financial instruments was improved.
The change in the advisory model also regarded Private customers handled by Banca Aletti, in terms of differences in the provision of advisory services, both as regards the perimeter of financial instruments, and maintaining the three types of advisory service offered to customers: basic, portfolio, investment advisory.
Furthermore, by subscribing to EuroTLX (Multilateral Trading System – MTF – which offers the opportunity to trade in a wide range of financial instruments), the Group has expanded the number of venues available for the execution of its customers' orders, guaranteeing the same greater opportunities, both in terms of the number of securities available and in terms of price, not to mention a best execution guarantee, enabling it to improve its range of trading services for private and institutional customers.
The Bank also made significant advances and innovations in the sphere of digital and e-money services. The IT service provided support to and designed particularly innovative products, from the YouCard Business, to the Mobile POS and the wallet to make payments by phone. These products and services also received public, and international, recognition, and are being rapidly adopted by an increasing number of customers. In this regard, we believe that Banco Popolare's efforts in the IT sphere are providing a tangible and visible contribution to following, and sometimes anticipating market innovations to protect our market share and to obtain that of our competitors.
In 2014, the programme for the technological renewal of branches was completed. All personal computers used at individual work stations were replaced and updated.
In December, the project that implemented Voice over IP throughout the entire Banco Popolare network was completed. This project is expected to generate significant cost savings and improvement to the quality of our telephone service.
Furthermore, investments were made to strengthen the filing infrastructure with a view to making more efficient use of space, reducing environmental impact as well as significant energy savings.

Safety and Security

Banco Popolare considers safety and security to be fundamental to the dynamics of the operational sphere and to the considerable changes taking place in the legislative framework, which characterise the bank's current development. The approach taken is to provide support to the numerous innovative trends (channels and products), processes of change (Group distribution models and development), and legislative obligations.
Commitment to safety and security entails implementing new internal policies, designing adequate measures and investing in increasing the awareness of employees.

Logical security
Projects focused on protecting the identity of the internal and external parties that interact with the IT resources of the Group, and on new data protection methods, which led to targeted measures and policies that are easy to apply.
As regards the prevention of fraud, efforts were concentrated on continuously developing web banking protection, which has enabled the bank to tackle and minimise the impact of the increasing amount of activity in this areas, and to guarantee solutions for mobile banking and payments able to reduce/eliminate the effects of threats to services that are provided and are accessed from remote devices by customers.

Privacy
The main project undertaken regarded implementing the technical, organisational and security measures prescribed by the Provision of the Italian Competition Authority on the circulation of banking data and the traceability of bank transactions which came into force on 30 September. This project required the involvement of the operational, systems-related and applications structures of SGS and the labour law, Audit ICT, Compliance, Legal and Organisation structures of the Parent Company.

Physical security
Projects undertaken during the period regarded a number of areas, with a view to strengthening the protection systems used: the measures implemented regarded in particular deterrence, with the intention of preventing criminal actions by enhancing recording systems, entrance control, custody systems for valuables and lastly, centralised alarm systems.

Health and safety
As regards health and safety in the workplace, the relevant structures implemented all measures envisaged by the specific legislation: the approach adopted seeks to fully safeguard the health, the integrity and the dignity of employees in a work environment which encourages the psycho-physical well-being of the worker.

Business Continuity
In line with the banking industry, the Group is assimilating the new dictates of legislation issued by the Supervisory authorities in terms of integrating crisis and accident processes, with a view to assessing the overall impact and to guarantee consistent management of the same, proportional to the level of severity.

After sales and assistance services

In 2014, the reorganisation of the Special Loans Department continued, with the completion of the introduction of the "Assisto" Network Service Model.
At the end of 2014, the Assisto branch assistance service was operational in all Collection and Payment Offices (8) and Special Loans Offices (5) and is also operational in four offices in the Finance department.
Management focused on "continuous improvement" as its main lever to achieve service excellence, with a view to containing costs and managing operational risk. More specifically, attention was paid to listening to the "voice of the Network" and to fine-tuning Special Loans processes.
In this regard, the Service Management platform was replaced, and a "Performance Management" environment was developed to better manage and control Network assistance services.

Technological projects and investments

Legal compliance

Italian Legislative Decree 231/2001 – Corporate administrative liability
In 2014, procedures were set in place to revise the mapping of "231 risks" and to update the organisation, management and control models of the main instrumental companies of the Group (3), of other financial companies other than banks (3) and/or belonging to the real estate sector (13), bringing the number of those equipped with a "231 system" to 25.
With a view to further strengthening this system and in line with the best practices adopted by transnational groups, specific regulations were drawn up for the prevention of public and private, active and passive, domestic and international risks of corruption. The Regulations in question (which also apply to the Group's foreign banks) include, in a document specifically dedicated to this topic, that already envisaged by the Code of Ethics and by the afore-cited "231 models" adopted by the Italian companies of the Banco Popolare Group.

Article 136 of the CBL (Consolidated Banking Law) - Obligations of bank representatives
Following the abrogation of paragraphs 2 and 2-bis of article 136 of the CBL, the Parent Company drew up and issued a corporate standard on the subject, in the form of a Regulation approved by Banco's Board of Directors and implemented by the other banks (under Italian law) and by the other Group companies interested.
The Regulation integrates and adds to the applicable Group provisions regarding activities at risk and conflicts of interest regarding Related Parties as set forth in the Bank of Italy provision (Chapter 5 of Heading V of the New Prudential Supervisory Provisions for Banks) and Related Party transactions, as set forth in Consob regulation (no. 17221 of 12 March 2010), which on this occasion were both harmonised with the new regulation.

Measures taken to comply with new Prudential Supervisory provisions for banks (15th update dated 2 July 2013 of Bank of Italy Circular no. 263/2006)
Following the 15th update of Circular 263/2006 and in compliance with the Self-Assessment Report (gap analysis) concerning measures for alignment, over the year a series of rules, particularly as regards the system of internal controls were drawn up and issued ("Regulations regarding the tasks, responsibilities, information flows and procedures for the coordination and collaboration of Control Bodies and Functions within the System of Internal Controls"), the Audit and Compliance functions ("Regulations for internal audits" and "Regulations for the management of the risk of non compliance with the law"), significant transactions ("Regulations for Significant Transactions") and outsourcing ("Regulations for the outsourcing of corporate functions").
Furthermore, guidelines for the Risk Appetite Framework were established, on the basis of which, the relative regulations will be drawn up during the current year.

Foreign Account Tax Compliance Act (FATCA)
The aim of FATCA legislation is to improve international tax compliance through the automatic exchange of information between the tax authorities from and towards the US. The automatic exchange of information takes place on a reciprocal basis. The cooperation regards accounts held in the United States by subjects resident in Italy and those held in Italy by subjects resident in the US.
Following the signature, on 10 January 2014, of the Inter-Governmental Agreement (IGA) between Italy and the United

States and of the Bill to implement said Agreement, approved by the Council of Ministers in a meeting held on 30 June 2014, the Banco Popolare Group changed its processes for opening new accounts, with a view to conducting an adequate tax due diligence on customers as prescribed by the law.
Following the approval of the Bill by the Italian Parliament and the issue of implementing Ministerial Decrees, it will be possible to organise, according to the technical rules established, the transmission and communication of the information requested by the Tax Authority.

Credit regulations and processes

Granting Loans
With a view to further increasing the use of the metrics relating to the internal credit risk measurement system, AIRB, from the beginning of 2014, loss given default (LGD) was introduced into the automatic calculations of the decision-making scope, to enable the elements that contribute to reducing the potential loss that the Bank would incur if the counterparty defaults, to be defined more accurately.
A measurement system for the loan granting process was also fine-tuned, with a view to verifying its efficiency.

Disbursement and loan products
The process and contracts relating to the release of unsecured loans to residents were revised. Furthermore, legislative and procedural measures were taken to rationalise and incorporate activities relating to advances on export contracts into the system, and to improve line controls for all advances and foreign loans.

Monitoring and managing performing loans
A new procedure to authorise overdrafts was developed and implemented, which is better suited to the structure of the Network, especially as regards the Hub & Spoke organisation. Furthermore, monitoring tools have been improved and the provisions were therefore integrated, without changing those that have already been established as regards the analysis to be conducted in the same way as that required for the granting of a loan, even though adapted to the different operating context.

Monitoring and managing problem and non performing loans
Efforts, which started in 2013, to completely review the "Monitoring and managing problem and non performing loans" process continued in 2014. In this regard, the pertinent Process Rules were updated and the new web-based procedure was integrated, called PEG - an electronic management procedure, able to provide support to management and to ensure compliance with the rules in terms of the action to take, the timing and the operational consequences.
Furthermore, work was carried out with the objective of improving the overall ability of the specialist Area Network and Divisional offices to manage the positions entrusted directly to them as well as providing active support to the Branches. More specifically, measures were taken to increase the resources in the loans offices of the Business Area and to second specialist personnel to the same from the Divisional loans offices, with a view to bringing the expertise and the decision-making processes relating to non performing loans closer to the local area.

Forbearance exposures
A new policy on "Forbearance Exposures" has been drawn up, which assimilates the provisions of the EBA and establishes the principles and the criteria to adopt for the classification of exposures as "forborne", regardless of whether they are performing or non performing, and to change the forborne classification status once it has been assigned.
The provisions of the new policy and the consequent integration with the IT system will be rendered gradually operational over the course of the first six months of 2015. In particular, in January 2015, the reference legislation was issued and IT system updates were released to identify "forborne loans".

Credit Assessment
The necessary work was carried out to ensure the IT management of the process to allocate/change loss forecasts for positions classified in non performing loans categories.
The implementations regarded identifying positions that need to be re-examined at pre-established intervals or prior to the advent of certain circumstances (serious detrimental events, significant fall in the fair value of collateral), verifying the completion of the loss forecasting review process, the automatic definition and check of the preliminary examination and proposal process, as well as the historic trend and traceability of the elements considered.
Without prejudice to said procedural implementations, from 24 November 2014, the new policy on "Credit Assessment" was applied, which redefines the process used to identify the amount of loss provisions for non performing exposures. The policy envisages different procedures depending on the status and the size of the exposure.

Other Risk Management projects

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

Compliance with the provisions introduced with the 15th update of Circular no. 263 and Circular no. 285
In September 2013, an internal project was launched to implement the provisions introduced by the Bank of Italy with the 15th update to Circular no. 263/2006 (July 2013) on the Internal Control System. This project is conducted by an inter functional Working Group, also including the Risk Management Service, set up at the Parent Company and coordinated by the Operations Department and the Organisation Department.
In 2014, the Group identified the interventions and the measures to adopt and the relative timeframe to ensure full compliance with legislative requirements.
As regards Risk management, they specifically concerned:

- establishing guidelines within the Group's Risk Appetite Framework (RAF) and illustrating the relative measures envisaged (Risk Capacity, Risk Appetite, Risk Tolerance, Risk Profile, Risk Limits);
- establishing the processes to manage, identify, analyse and assess Significant Transactions (ST) and formalising the criteria and processes in a General Regulation "Regulations for Significant Transactions (ST)";
- updating the Group's Risk Regulations - covering the overall system of risk limits - relating to the process to manage the risk of excessive financial leverage.

During the second half of 2014, in accordance with the regulatory provisions of the Bank of Italy on internal control systems, a new function dedicated to 2nd level controls was established within the Risk Management Service and became gradually operational.
The responsibilities allocated to the new function complete the Bank's credit control structure and focus on verifying the coherence of classifications, the adequacy of the credit collection process and the suitability of provisions. In the presence of problems identified but not resolved, this function then identifies the appropriate measures to take to resolve the situation and submits a request to implement them to the relevant company functions and Bodies.

The projects described are aimed to the implementation of the provisions introduced by the 15th update of Circular 263 and the full application of the regulatory provisions contained in Circular 285.

Credit Risk: introduction of the operational LGD for analytical provisioning
In 2014, Banco Popolare introduced the use of an operational LGD to calculate specific write-downs of non performing loans: specifically on Past Due, Substandard and Bad loans under set thresholds of materiality of exposure.

Liquidity Risk
In 2014, the Group focused on optimising the process to produce Basel 3 indicators, given the entry into effect of monthly/quarterly supervisory reporting from March. Note that the phase-in for the entry into force of the LCR threshold (Liquidity Coverage Ratio - short-term indicator) envisages a threshold reduced to 60% from 2015; this is expected to be increased by 10% each year until it reaches 100% in 2018.

Counterparty Risk
On completion of the first stage of the project aimed to generally reinforce the methods, processes and IT architecture, from June onwards, a Shortcut method was introduced, which has enabled the estimate of exposure to counterparty risk to be improved, with regard to counterparties with whom a "collateral agreement" has been signed (Credit Support Annex – CSA) to guarantee and mitigate risk.
The expected exposure is assessed on the basis of possible changes of the Mark to Market of the individual contracts underlying the same reference CSA, on a time horizon given by the "risk margin period" that characterises each contract.
The new measure has also been implemented to the chain of credit processes for positions held with institutional counterparties guaranteed by "collateral", by reviewing the values agreed and used, and developing tools to support monitoring activities.
The indirect membership (through Clearing Brokers) of a Clearing House for operations in OTC plain vanilla derivatives traded by Banca Aletti, enables the following objectives to be achieved:

- the mitigation of counterparty risk through netting mechanisms, leading to a reduction of credit facilities to market counterparties with regard to the plain vanilla swaps transferred into LCH;
- the reduction of capital requirements;
- compliance with the European Directive - European Market Infrastructure Regulation (EMIR);
- mitigation of operational risk.

In accordance with the Basel 3 Framework Regulation, from 30 June 2014, additional capital requirements regarding the following are to be calculated:

- own funds for the Credit Valuation Adjustment (CVA) through the adoption of the standardised method, as envisaged by (EU) Regulation no. 575/13 for banks that are not authorised to use the IMM method for counterparty risk and the internal model method for Incremental Risk Charge (IRC);

- exposures relating to operations with Qualified Central Counterparties (QCCP) by adopting the Alternative Method envisaged by art. 310 of EU Regulation no. 575/2013.

In compliance with accounting standards for the assessment and disclosure of Fair Value, the method was implemented to correctly measure the risk of counterparty/issuer insolvency, envisaging corrections to assessments linked to the credit quality of financial instruments with specific reference to OTC derivatives.
Fair Value adjustments for the risk of default include both assessments of the creditworthiness of the counterparty (subject of the Credit Value Adjustment) and changes in its creditworthiness (Debt Value Adjustment). The measurement technique also considers the possibility of default in a scenario in which the investor may default before the counterparty (bilateral formula with first to default effect).

Communication

Relations with the national and local media are an important part of the Communication activities performed in 2014.
During the year, 192 press releases were written and issued relating to price sensitive, commercial, institutional aspects or dedicated to cultural and social initiatives set in motion by Banco Popolare, also as regards the local brand names used by the sales network. Numerous press conferences were held in local areas, on the occasion of events, projects and initiatives promoted by Banco, directly or in collaboration with institutions, companies, entities and associations that operate in the various local communities.
Collaboration with radio and television broadcasters was consolidated over the course of the year. More specifically, communication on social topics and initiatives intensified, an area that Banco Popolare pays considerable attention to. At the same time, initiatives focused on offering communication opportunities and visibility to the business activities of customers and members continued, through the presentation of case histories and success stories of local small and medium enterprises.

The presence on local TV and radio stations regarded a particularly interesting project: the traditional broadcasting of market and product information to a wide audience, was boosted by that of social topics and initiatives, which distinguished Banco's presence in the local community. More specifically, collaboration with the national Rete 4 channel, in a television show called "Confessione Reporter" (Reporter Confession) entailed illustrating 5 projects undertaken by Associations and No profit organisations operating in Verona, Novara and Lodi and sustained by our Territorial Foundations.

As regards communication with members, the content of the publication called "Rivista Popolare" (Popolare Magazine) was updated and enhanced; this is a four-monthly magazine published by Banco Popolare and addressed to shareholders and customers, which has always sought, right from the beginning, to steer readers towards a "people's" approach to current affairs and news.
A newsletter called "InsiemeSoci PopUp" is also sent to shareholders, and provides timely information on the events and initiatives of the Group in the local area. In 2014, projects such as the portal reserved to shareholders, were consolidated, through which various information can be accessed regarding the Bank's activities, and continuing with the work performed in 2013, the "SociDays", days continued, with guided tours of museums, churches and places of local interest.
In 2014, a successful series of "Incontri Popolari" (Meeting the People) were held, 26 appointments over the course of the year, in 8 different cities, with the participation of almost 8 thousand people, to create and stimulate opportunities for discussion and debate, reflecting on the meaning of the adjective "popular" and to make profound, shared and positive observations on the significance that popular tradition and culture have for our communities and for the country.

As regards internal communication, BANCO&NOI flash, the on-line daily newsletter that can be accessed from the workstation of each user and that is updated several times during the same day, has become a source of information and a fundamental moment of sharing in the daily lives of the Group's employees, who particularly appreciate how quickly the information is circulated.
For retired employees, a hard-copy version of BANCO&NOI has been maintained, with content that is exclusively addressed to the Group's retirees.
Lastly, we would like to remind readers about DirettaBanco, the internal communication "channel", which enables the Group's General Management to communicate directly with the branches at times that are important to company life. Over the year, several meetings were held between top management and network managers with a view to promoting dialogue and sharing company objectives.

Over six hundred and fifty conferences were hosted, which focused, in particular, on the world of associations, of no profit companies and of voluntary bodies: Various initiatives in the "square" have seen Banco Popolare and Local Foundations involved in organising charity events: in particular, the Volunteers' Festivals, which took place in Verona, Lodi, Novara and Lucca and the "Cheese in the Square" projects, in collaboration with local consortia, with a view to showing the younger generations various dairy techniques.

From a cultural perspective, Banco provided support to “L’Estate Teatrale Veronese”, a renowned series of plays at the theatre of Verona over the summer, which has become a benchmark in the Italian artistic-cultural scene.
Lastly, Banco has been working with several local Business associations (Monza and Verona) to provide support to the project to relaunch business culture with a view to partnerships and exploiting the best positive energy.

Investor Relations

In 2014, Banco Popolare’s Investor Relations team managed a total of 139 events, usually with the involvement of Group top management, which entailed meeting with 522 investment funds (from both the stock market and the bond market), financial analysts and rating agencies. These were supplemented by 4 telephone conferences held with audio webcasts over the year to present the Group’s financial performance to the market as at 31 December 2013 and the 2014-2016/18 Business Plan, the consolidated results as at 31 March 2014, as at 30 June 2014 and as at 30 September 2014, therefore reaching a total of 143 events.

	No. of events	% of Total	No. of parties involved	% of Total
Industry conferences (stock market)(*)	6	4.3%	164	31.4%
Industry conferences (bond market)(*)	3	2.2%	23	4.4%
Roadshows (stock market)	10	7.2%	116	22.2%
- of which: Italy	*2*	*1.4%*	*21*	*4.0%*
- of which: United Kingdom	*4*	*2.9%*	*72*	*13.8%*
- of which: other European countries	*4*	*2.9%*	*23*	*4.4%*
Roadshows (bond market)	6	4.3%	72	13.8%
- of which: Italy	*1*	*0.7%*	*27*	*5.2%*
- of which: United Kingdom	*2*	*1.4%*	*27*	*5.2%*
- of which: other European countries	*3*	*2.2%*	*18*	*3.4%*
Other individual and/or group meetings, telephone conferences and video conferences (stock market)	87	62.6%	113	21.6%
Other individual and/or group meetings, telephone conferences and video conferences (bond market) (**)	15	10.8%	22	4.2%
Meetings with rating agencies (***)	12	8.6%	12	2.3%
Total	**139**	**100%**	**522**	**100%**
Presentation of Banco Popolare’s results(***)	4		4	
Total including the presentations of Banco Popolare’s results	**143**		**526**	

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

As regards the stock market, the Group attended 6 industry conferences, organised in various European cities by leading research and brokerage firms, which entailed meetings with 164 investors, corresponding to 31.4% of the total number of parties reached over the year; furthermore, the Investor Relations team coordinated 8 roadshow days in Italy as part of the share capital increase operation finalised in April 2014 (of which 2 in Italy, 4 in the United Kingdom, 1 in France and 1 in Germany) and a further 2 roadshow days in September, meeting a total of 116 investors, corresponding to 22.2% of the total number of parties with whom meetings were held over the year.
With regard to the bond market, in 2014 the Group attended 3 industry conferences, meeting with 23 investors (4.4% of the total); 6 days of roadshows addressed to this market were organised - one day in Italy, two in the United Kingdom, one in France, one in Germany and one in Austria - which entailed meeting with 72 parties (corresponding to 13.8% of the total).
Lastly, the remaining 28.1% of parties (equity and debt security investors and analysts and rating agencies) were able to communicate with Banco Popolare management on 114 other occasions (other direct meetings, teleconferences and/or video conferences).

Note that as at 31 December 2014, the Banco Popolare stock is “covered” by around 23 stock research companies and that the Investor Relations service continuously liaised with the “sell-side” analysts of these companies over the year.

OTHER INFORMATION

Members and Shareholders

Banco Popolare's share capital is held by private investors, with a high level of fragmentation, which reflects the 'popular' nature of the Group, and by institutional investors.

As at 31 December 2014, the Group had over 227,650 Members (of which 43[(1)] institutional). Of these, around 88% have deposited their shares with the Group. Members are mostly resident in the Group's four regions that represent the Group's historic roots: Veneto, Lombardy, Piedmont and Emilia Romagna. These figures demonstrate the connection between the status of member and the status of customer, which has also characterised the spirit of cooperative people's banks, the foundation for a solid loyal relationship.
If in addition to Members we also consider the around 113,400 non-member Shareholders, who held Banco Popolare shares at the end of 2014 (of which 702[1] are institutional investors), the total number of parties holding shares rises to around 335,000.

According to information published on the Consob website, one institutional investor held an investment of over 2% of Banco Popolare's share capital as at 31 December 2014, as shown in the following table.

Declarant	% held
Fondazione Cassa di Risparmio di Lucca	2.891%

(Source: Consob)

On the date of this annual report, according to information published on the Consob website (update as at 9 February 2015), in addition to Fondazione Cassa di Risparmio di Lucca, Norges Bank also holds an investment of over 2% of Banco Popolare's share capital (corresponding to 2.033%).

Banco Popolare stock

Banco Popolare's stock is listed on the Italian Stock Exchange (Borsa Italiana).
The table below summarises the weight of Banco Popolare in several of the main Italian and European indices, where the stock is listed, as at January 2015.

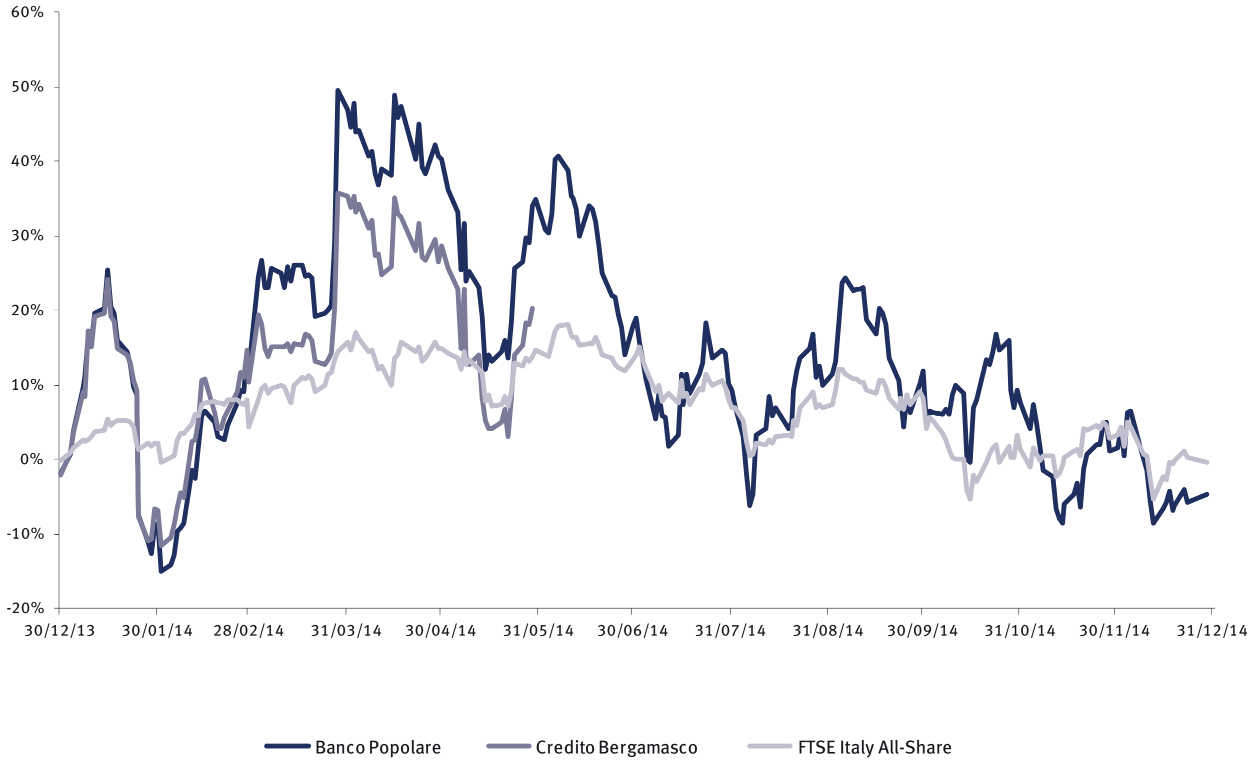
Index	% weight
FTSE Italy All-Share	1.224
FTSE Italy All-Share Banks	4.593
Euro Stoxx Index	0.107
Euro Stoxx Banks Index	0.749

NB: Figures are updated to 7 January 2015 (source: Bloomberg)

In 2014, the European stock market recording a fluctuating trend. The Euro Stoxx index closed the year slightly up (+1.6%), characterised by a bullish trend in the first six months of 2014, sustained by expectations of expansive monetary policies by the ECB for some time to come, then performance lagged in the second half of the year, when increased volatility was recorded following uncertainties linked to the worsening of the Russia-Ukraine crisis, the technical default of Argentina and growing concerns as to the economic recovery of the Eurozone.
In this context, the FTSE Italy All-Share index (the index representing the Italian stock market) closed 2014 substantially unchanged (-0.3%), while the index for the banking industry (FTSE Italy All-Share Banks), recorded a rise of +6.8%, going against the trend of the European industry index (Euro Stoxx Banks), which instead recorded a fall of -4.9%.
As regards Banco Popolare, the share closed 2014 with fall of -4.7%.
The beginning of the year was characterised by high volatility, resulting in the share recording a record low of 2014 of euro 8.90 (4 February 2014), following the announcement on 24 January 2014 of the share capital increase of euro 1.5 billion, which was then successfully completed in April. The share price then gradually rose until it reached a high for the year of euro 16.41 (1 April 2014).

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

The share then backtracked to euro 12 in May, mainly following profit-taking, then rapidly rose to around euro 15 in the first half of June.
In subsequent months, in line with the oscillating trend of European share markets, the share price fell and continued to fluctuate between euro 10 and 13. Due then to renewed fears as to Greece's stability and the fall in oil prices, which had a negative impact on the financial markets it settled around the 10 euro mark at year end, closing at euro 10.06.
The following graph shows the performance between 30 December 2013 and 30 December 2014 (on a base of 100) of the FTSE Italy All-Share index compared to Banco Popolare shares and those of Credito Bergamasco up until 30 May 2014 (last day of quotation).
Following the merger by incorporation into the Banco Popolare Holding company, which became effective on 1 June 2014, Credito Bergamasco shares were exchanged at a ratio of 1.412 ordinary Banco Popolare shares for each Credito Bergamasco share.
It is also worth noting that the Banco Popolare shares in circulation were grouped as at 10 March 2014 at a ratio of 1 new ordinary share with regular rights for 10 existing ordinary shares.



Shares issued as at 31 December 2014 numbered 362,179,606 and corresponded to a capitalisation of around euro 3.6 billion.

Group ratings

In 2014, the rating agencies changed the ratings of Banco Popolare as illustrated below.

Moody's Investors Service, following the announcement of the euro 1.5 billion share capital increase, on 31 January 2014, Moody's Investors Service upgraded the Outlook on all of Banco Popolare's ratings from negative to positive, at the same time confirming the long-term rating of Ba3 and the short-term rating of NP. Subsequently, on 29 May 2014, the same agency, as part of a systematic rating action at European level, based on its own assessment of the new model to resolve banking crises, downgraded the Outlook on Banco Popolare's long-term rating from positive to negative. The Outlook on the standalone rating continues to be positive (in this context, the rating agency refers to multiple Outlooks).

Fitch Ratings, on 19 May 2014, confirmed Banco Popolare's long and short term ratings as BBB with a negative Outlook and F3 respectively, but at the same time upgraded the Viability Rating from bbb- to bb+.

DBRS, on 15 December 2014, assigned a long and short term rating to Banco Popolare, which were respectively "BBB/R-2 (high)", with a negative Trend.

The table provides a brief comparison of the Group's ratings as at 31 December 2014 with those as at 31 December 2013.

Rating agency	Type of Rating	Rating as at 31/12/2014	Rating as at 31/12/2013
Fitch Ratings	Long term (IDR)	BBB (Negative outlook)	BBB (Negative outlook)
	Short term (IDR)	F3	F3
Moody's	Long term	Ba3 (Negative outlook)	Ba3 (Negative outlook)
	Short term	NP	NP
DBRS	Long term	BBB (Negative trend)	n.a.
	Short term	R-2 High	n.a.

The following table summarises the ratings at the end of December 2014 of the Banco Popolare Group and those assigned to its main subsidiaries, including ratings other than those for short and long-term debt.

Rating agency	Type of Rating	Banco Popolare	Banca Aletti*	Banca Italease**
Fitch Ratings	Long term (IDR)	BBB (Negative outlook)	BBB (Negative outlook)	BBB (Negative outlook)
	Short term (IDR)	F3	F3	F3
	Viability rating	bb+	n.a.	n.a.
	Support rating floor	BBB	n.a.	n.a.
	Support	2	2	2
Moody's	Long term	Ba3 (Negative outlook)		Ba3 (Negative outlook)
	Short term	NP		NP
	Bank Financial Strength Rating	E+ (Positive outlook)		E+ (Positive outlook)
DBRS	Long term	BBB (Negative trend)		
	Short term	R-2 High		
	Intrinsic Assessment	BBB Low		
	Support Assessment	SA-2		

The required ratings of Group companies that have debt issues are indicated.
Long term ratings refer to senior debt.
Notes:
** The Fitch Ratings' rating on Banca Aletti was assigned in solicited form on 19 May 2014.*
*** Both Fitch Ratings and Moody's Investors Service have announced that the institutional ratings on Banca Italease will be cancelled once the merger by incorporation into the Parent Company Banco Popolare has been finalised.*

Note that on 18 August 2014, following a request from Banco, Standard & Poor's withdrew the ratings assigned to Banco Popolare and to the subsidiary Banca Aletti[2]. At the time of the withdrawal, Banco Popolare and Banca Aletti's long and short term ratings were BB-/B, with a Negative outlook.

[2] The ratings of the subsidiary company Credito Bergamasco (BB-/B with a Negative outlook) had already been cancelled by Standard & Poor's on 17 June, following the merger of the same into the parent company Banco Popolare.

PERFORMANCE OF THE MAIN GROUP COMPANIES

In order to provide a greater level of detail, a brief description of the performance of the Group's main companies during the year is provided in the following paragraphs.
As regards the Parent Company, Banco Popolare, please refer to the separate financial statements contained in this report.

Banca Aletti

(in millions of euro)	31/12/2014	31/12/2013	Change
Income statement figures			
Interest margin	159.0	112.9	40.9%
Net fee and commission income	(46.7)	11.1	
Operating income	228.3	305.7	(25.3%)
Operating expenses	(85.0)	(94.7)	(10.3%)
Income (loss) from operations	143.3	210.9	(32.1%)
Income (loss) before tax from continuing operations	126.0	128.5	(1.9%)
Income (loss) after tax from continuing operations	83.5	47.1	77.2%
Income (loss) for the year	83.5	47.1	77.2%

	31/12/2014	31/12/2013	Change
Statement of financial position figures			
Total assets	14,467.2	12,113.7	19.4%
Loans to customers (net)	1,548.3	1,824.0	(15.1%)
Financial assets and hedging derivatives	6,792.1	6,527.8	4.0%
Shareholders' equity	836.6	754.8	10.8%
Customers' financial assets			
Direct funding	519.0	434.7	19.4%
Indirect funding	18,707.5	15,389.4	21.6%
- Asset management	16,683.9	13,599.9	22.7%
- Mutual funds and SICAVs	597.8	544.6	9.8%
- Securities and fund management	16,001.6	12,975.8	23.3%
- Insurance policies	84.5	79.6	6.1%
- Administered assets	2,023.6	1,789.5	13.1%
Information on the organisation			
Average number of employees	438.0	447.0	(2.0%)
Number of bank branches	34.0	34.0	-
Profitability ratios (%)			
Financial margin / Operating income	69.7%	36.9%	88.8%
Net fee and commission income / Operating income	(20.5%)	3.6%	
Operating expenses / Operating income	37.2%	31.0%	20.1%
ROA	0.6%	0.4%	48.4%
ROE	11.1%	6.7%	65.4%
Operational productivity figures			
Gross loans to customers per employee (€/1000)	3,534.8	4,080.5	(13.4%)
Operating income per employee (€/1000) (*)	521.2	683.8	(23.8%)
Operating expenses per employee (€/1000) (*)	194.0	212.0	(8.5%)
Capitalisation ratios (*)			
Common Equity Tier 1 ratio	33.26%	N/A	
Tier 1 capital ratio	33.26%	46.1%	
Total capital ratio	33.27%	46.1%	
Tier 1 capital ratio / Tangible assets	5.8%	6.1%	
Other ratios			
Financial assets / Total assets	46.9%	53.9%	
Derivative assets / Total assets	26.7%	32.4%	
Net trading derivatives / Total assets	(23.8%)	(9.8%)	

(*) From 1 January 2014, new prudential regulations ("Basel 3") came into force, therefore the capital ratios as at 31 December 2014 are not comparable to those that refer to 31 December 2013.

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

Aletti Gestielle SGR

(in millions of euro)	31/12/2014	31/12/2013	Changes
Income statement figures			
Operating income	71.8	58.7	22.3%
Income (loss) from operations	54.3	40.5	34.1%
Net income (loss)	36.7	23.4	56.8%
Statement of financial position figures			
Total assets	206.9	188.1	10.0%
Shareholders' equity	157.4	120.8	30.3%
Asset volumes			
Net assets of UCITs managed (*)	14,517.9	11,644.5	24.7%
Subscriptions	7,888.7	5,750.6	37.2%
Redemptions	4,493.2	2,666.8	68.5%
Other figures			
Average number of employees (**)	69	71	

(*) The figure for the previous year has been restated to enable a like-for-like comparison
(**) Arithmetic average calculated on a monthly basis. Directors and Statutory Auditors are excluded from this aggregate.

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

Banca Italease and subsidiaries

(in millions of euro)	31/12/2014	31/12/2013	Change
Income statement figures			
Financial margin	42.7	41.5	1.2
Net fee and commission income	(0.7)	2.7	(3.4)
Operating income	63.2	61.4	1.9
Operating expenses	(129.9)	(79.7)	(50.2)
Income (loss) from operations	(66.7)	(18.3)	(48.3)
Income (loss) before tax from continuing operations	(370.0)	(205.4)	(164.6)
Net income (loss)	(221.2)	(135.2)	(86.0)

(in millions of euro)	31/12/2014	31/12/2013	Change
Statement of financial position figures			
Total assets	7,378.2	8,319.1	(940.9)
Loans to customers (gross)	6,748.5	7,498.7	(750.2)
Financial assets and hedging derivatives	46.8	51.5	(4.7)
Shareholders' equity	893.6	1,114.5	(221.0)
Information on the organisation			
Average number of employees (*)	148	170	

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

Consolidated statement of financial position

(in thousands of euro)	31/12/2014	31/12/2013	Changes	
Gross non performing loans	**3,945,497**	**4,063,335**	**(117,838)**	**(2.9%)**
Bad loans	2,073,578	1,989,499	84,079	4.2%
Substandard loans	1,732,760	1,855,805	(123,045)	(6.6%)
Restructured loans	117,773	109,093	8,680	8.0%
Past due loans	21,386	108,938	(87,552)	(80.4%)
Gross performing loans	**2,803,016**	**3,435,358**	**(632,342)**	(18.4%)
Total gross exposure	**6,748,513**	**7,498,693**	**(750,180)**	**(10.0%)**
Adjustments on non performing loans	(1,319,440)	(1,081,986)	237,454	21.9%
Adjustments on performing loans	(50,584)	(62,535)	(11,951)	(19.1%)
Total net exposure	**5,378,489**	**6,354,172**	**(975,683)**	**(15.4%)**

Total consolidated gross non performing loans (comprised of bad, substandard, restructured and past due loans) fell by euro 117.8 million in 2014, decreasing from euro 4,063.3 million at the end of 2013 to euro 3,945.5 million at the end of December 2014.
With regard to levels of concentration at the end of December 2014: (i) around 51% of gross bad loans was represented by 30 economic groups (compared to 53% at the end of December 2013), (ii) around 78% of gross substandard loans was represented by 30 economic groups (compared to 75% at the end of December 2013), (iii) restructured loans were comprised by receivables from around 15 economic groups, of which the top 3 represent 63% of the category and (iv) around 94% of gross past due positions was represented by 30 economic groups (compared to 89% at the end of December 2013).

The weight of the various components of the non performing loans portfolio with respect to total loans at consolidated level and their level of coverage is illustrated below.

	31/12/2014	31/12/2013	Change
Consolidated credit quality indices			
Net Bad Loans / Loans to Customers (Net) (1)	21.93%	19.44%	12.8%
% Coverage of Bad Loans (2)	43.11%	37.93%	13.7%
Net Substandard Loans / Loans to Customers (Net) (1)	24.96%	24.43%	2.1%
% Coverage of Substandard Loans (2)	22.54%	16.35%	37.9%
Net Restructured Loans / Loans to Customers (Net) (1)	1.56%	1.42%	10.0%
% Coverage of Restructured Loans (2)	28.60%	17.21%	66.2%
Net Past Due Loans / Loans to Customers (Net) (1)	0.37%	1.63%	(77.1%)
% Coverage of Past Due Loans (2)	6.00%	4.87%	23.2%
Total Net Non Performing Loans / Loans to Customers (Net) (1)	48.83%	46.92%	4.1%
% Coverage of Non Performing Loans (2)	33.44%	26.63%	25.6%

(1) The representative % are calculated on total loans to customers
(2) The % coverage is calculated as the ratio between specific value adjustments and the same class of gross non performing loans.

The table below shows the rates of coverage through accounting hedges and those calculated also taking into account the presumed sale value (PSV) of the assets guaranteed for each category of non performing loans.
The overall coverage amounts to 103.2%, compared to 102.4% last year.

Total	Gross receivable amount	PSV and other guarantees	Fund	% Coverage by hedge accounting	% Overall Coverage 2014 (*)	% Overall Coverage 2013
Bad loans	2,073,579	1,315,235	893,958	43.1%	106.5%	106.7%
Substandard loans	1,732,761	1,355,091	390,513	22.5%	100.7%	98.6%
Restructured loans	117,774	48,544	33,687	28.6%	69.8%	69.6%
Past due loans	21,386	33,860	1,283	6.0%	164.3%	118.8%
Total Default	**3,945,499**	**2,752,730**	**1,319,441**	**33.4%**	**103.2%**	**102.4%**

(*) Calculated as the ratio of the sum of PSV and Fund to the Gross Receivable amount

Net bad loans totalled euro 1,179.6 million, substandard loans euro 1,342.2 million, restructured exposures euro 84.1 million and past due euro 20.1 million.

Consolidated income statement results

In 2014, the interest margin decreased from euro 46.1 million to euro 42.9 million, down by around 2.9%.
The figure is represented by interest income of euro 107.1 million and interest expense of euro 64.2 million. Compared to the previous year, the margin recorded: (i) a negative impact due to the change in funding conditions (estimated as euro 3.2 million) (ii) a negative impact due to the normal “time-lag” of the portfolio (euro 5.9 million), (iii) a negative impact due to higher financial expenses relating to real estate (estimated as euro 0.4 million), (iv) a positive impact due to out-of-period income relating to this item (euro 0.6 million) and (v) an extraordinary positive impact on the cost of securitisations ITA6 and ITARMBS essentially due to the effects of the 2009 agreements with Alba on the transfer of the risks and benefits of the securitised receivables, certain to materialise only when the transactions were closed (euro 5.0 million).

Losses of investments in associates and companies subject to joint control of euro 0.2 million relate to the write-down of the investment in Alba Leasing.

Other net operating income, corresponding to euro 22.8 million (against euro 23.5 million in 2013), also includes (i) rental income on owned property of euro 33.2 million, (ii) euro 8.2 million in expenses for the management of real estate assets, (iii) euro 2.4 million in expenses for the management of securities originating from settled lease contracts, (iv) euro 1.7 million in expenses for work to restore real estate, in compliance with regional legislation regarding the presence of asbestos and (v) euro 4.3 million in out-of-period income relating to settling the accounting items of customers and suppliers with a high level of seniority.

The net financial result was a loss of euro 1.5 million, comprised by (i) net losses on hedges of euro 0.8 million, (ii) net losses on trading of euro 1.4 million (iii) dividends of euro 0.7 million on the investment held in Factorit.

Operating expenses for the year amounted to euro 129.90 million, up 63.0% compared to the figure for 2013. This aggregate is comprised of euro 12.7 million in personnel expenses, euro 51.1 million in other administrative expenses and euro 66.0 million in net value adjustments on property and equipment and intangible assets.
Personnel expenses fell 13.6% following the reorganisation and restructuring of the Italease Bank Group, as well as the process of integration into the Parent Company.
Other administrative expenses amounted to euro 51.1 million (up euro 1.9 million against 2013) of which (i) euro 11.6 million in expenses for professional and legal services, net of recoveries (down euro 3.4 million compared to 2013), (ii) euro 15.9 million in taxes (up euro 4.4 million) of which euro 13.3 million in IMU/ICI on repossessed property, (up euro 4.7 million compared to 2013), (iii) euro 19.2 million in expenses for services rendered by third parties (down overall by euro 0.7 million compared to 2013), which encompass the outsourcing services of the Banco Popolare Group of euro 7.9 million and of third parties of euro 8.6 million, (iv) euro 1.1 million for expenses relating to real estate and various maintenance work (up euro 0.4 million compared to 2013) and (v) euro 3.2 million for other expenses. With regard to the higher expenses for IMU, this is due both to the increase in the number of repossessed properties, and to the implementation of voluntary disclosures on certain specific positions of a significant amount.
Net value adjustments on property and equipment and intangible assets amounted to euro 66.0 million, and primarily relate to the following adjustments: (i) write-downs of euro 51.8 million (euro 0.8 million in 2013), relating to ten properties, eight of which relating to Release and two to IGB; a write-back of euro 0.5 million was made to one property of IGB, recognised under discontinued operations; the write-down was the result of both an update of appraisals (euro 9.7 million) and the adoption of different estimation parameters on several specific properties of Release, justified by the company’s intention to take measures to encourage a quicker sale (euro 42.1 million); (ii) amortisation and depreciation totalling euro 14.2 million (euro 15.0 million in 2013), of which euro 12.6 million relating to property used for investment purposes attributable to Release.

Net value adjustment on loans, guarantees and commitments recorded a negative balance of euro 305.3 million, comprised by (i) euro 29.0 million for net write-backs relating to discounting, (ii) euro 366.0 million in net allocations for individual valuation adjustments; (iii) euro 4.4 million from derecognitions; (iv) euro 11.7 million in net collective adjustments, (v) euro 3.5 million of losses on the assignment of receivables; (vi) euro 24.4 million of recoveries from collections and (vii) euro 3.5 million in recoveries on guarantees and commitments.

Income (loss) before tax from continuing operations as at 31 December 2014 recorded a loss of euro 370.0 million, due to the significant adjustments on receivables. Taxes recorded a positive balance of euro 109.7 million. The result of the above-illustrated components, after net income pertaining to minority interests of euro 39.1 million, was a net loss of euro 221.2 million.

Relations with subsidiaries and associates

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

Treasury shares of the Parent company and of subsidiaries

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

MUTUAL AID AND SCHEMES IN THE PUBLIC INTEREST

Criteria adopted within company operations to achieve its mutual aid objectives

This paragraph is drawn up pursuant to art. 2545 of the Italian Civil Code, which provides that directors of Cooperative companies, even if the main purpose of such is not mutual aid, must, in the report to the financial statements "specifically indicate the criteria adopted within company operations to achieve its mutual aid objectives".
In this regard, on 1 June 2014, the merger by incorporation of Credito Bergamasco into Banco Popolare was finalised, the merger was effective for accounting and tax purposes as of 1 January 2014. The above-cited operation completes the project to rationalise the Group's corporate structure launched in 2011, which has entailed the incorporation of the Group's "Network Banks" into the Parent Company, enabling objectives of both efficiency and profitability to be achieved while at the same time safeguarding the trademarks and the commercial vocation of the individual banks serving the local area.

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

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

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

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

With regard to the stakeholder structure, as at 31 December 2014, Banco Popolare had over 221,000 members the majority of which resident in the five regions that represent its historic roots: Veneto, Lombardy, Piedmont, Emilia Romagna and Tuscany. 88.41% of the total number of Members have deposited their shares with the Group's territorial network, confirming the member/customer ties that characterise the spirit of cooperative people's banks as a foundation for a solid relationship of trust and loyalty. All member applications received are examined on the basis of the articles of association, of the Regulations approved by Banco's Board of Directors.

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

Ensuring compliance with the legal and statutory rules that regulate the status of member and the life of the Company is a foregone conclusion. In this perspective, Banco Popolare has always been committed to encouraging as many Members as possible to attend the important annual general meeting, with a view to upholding the principle of collective democracy and in its efforts to encourage the direct participation of Shareholders in the relative resolutions. These efforts are represented, in organisational terms, by giving the Members that participate in the Shareholders' meeting the opportunity for a large number to attend by providing adequate space and services and by enabling the same to exercise their company rights in the best way possible.
In this regard, Banco Popolare's Extraordinary Shareholders' Meeting took place in Lodi on 1 March 2014, and approved proposals to delegate the Board of Directors to increase share capital to a maximum total amount of euro 1.5 billion and to group the bank's ordinary shares at a ratio of one new ordinary share to ten existing ordinary shares.
On 29 March 2014, the annual Ordinary and Extraordinary Shareholders' Meeting of Banco Popolare was held in Verona, with the participation of 27,096 Members, of which 10,351 attended directly and 16,745 by proxy, confirming the solid tradition of wide attendance and participation that has characterised the Group's banks for decades.
Among other things, the Shareholders' Meeting approved the financial statements of Banco Popolare, appointed the members of the Board of Directors and of the Board of Statutory Auditors for financial years 2014-2015-2016 and, in the extraordinary session, approved the proposal for the merger by incorporation of Credito Bergamasco into Banco Popolare and the consequent changes to the articles of association.

Lastly, note that the Board of Directors established Novara as the venue for the Annual Shareholders' Meeting, convened, among other things, to approve the financial statements as at 31 December 2014, and that the current provisions of the articles of association envisage the option of activating more than one remote connection.

Products and services offered

In this regard, again in line with the prevailing principle of mutual aid, the Group provides various forms of support to economic development and makes donations, with a focus on its Members - customers, as well as organising initiatives to enhance the social and civil community in its historic areas.
As in the past, the Group's nationwide coverage has not affected its local approach, as the way in which its banking activities are organised enables it to place a high level of attention on the local community, strengthening its local roots.
Charity events have always represented one of Banco Popolare's institutional purposes and an excellent way to pursue its objectives of mutual aid and solidarity.
Lastly, note that each year the Group issues a Social Report, which contains a detailed description of the main initiatives undertaken vis-à-vis its stakeholders, including all charity events.

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

Banco Popolare continues to be committed to the areas of its historic roots, seeking to consolidate and develop relations with the local communities, adopting the founding principles of popular credit. Achieving this objective was particularly challenging given the difficult economic climate, whose impact was felt in 2014 as well.
Banco Popolare continues to seek solutions to maintain its traditional presence and role in response to the needs of the local community, or where it is called to support initiatives or projects with this aim, but has had to handle the gradual deterioration of the socio-economic scenario, and therefore increasing requests for assistance, not to mention the scarce availability of public resources. In any event, these unfavourable conditions have not prevented Banco Popolare from responding to its best ability to all initiatives that are worth supporting, particularly those submitted by Voluntary associations that work in the socio-health or cultural sphere and that have been the most affected by the reduction of public funding.

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Banca Popolare di Verona Division

The Banca Popolare di Verona Division is comprised of two Territorial departments, Banca Popolare di Verona - which encompasses Banco San Marco and Banca Popolare del Trentino - and Banco S.Geminiano e S.Prospero, which encompasses Cassa di Risparmio di Imola. As regards donations, the BPV Division's activities are integrated, in the local communities, with those of local foundations.

Banca Popolare di Verona

Supporting education and research
Special attention is paid to schemes launched by the University, especially in the area of research, by means of the disbursement of study grants and doctorates. Of the many schemes, we would like to mention those relating to the Integrated University Hospital of Verona, entailing the establishment of 19 study grants for 2014/2015, and to the University of Verona, entailing support for 3 three-year research doctorates. Support of the "Computerisation of archaeological documents" project to map the city of Verona continued, as well as that of the "Infinitely 2014" event and of the "Gino Barbieri Business Economics and Culture Studies Centre".
Support was provided again in 2014 to the Parish Centre at Verona University for student training activities.
In addition, the Bank has contributed significantly to public and private schools of all levels and types, both for educational programmes and to maintain school buildings.
Of the many contributions made, we draw attention to those addressed to: the newspaper Verona Fedele for the organisation of a journalistic competition for high school students; the higher education institutions "Carnacina" in

Bardolino (VR) for the purchase of kitchen equipment for educational purposes and to the Don Bosco College in Pordenone to improve its educational facilities.
In addition, support was provided to the Committee for the Management of the Support Fund in Padua, for the establishment of an economic fund for accredited independent Catholic schools.

Healthcare
The many disbursements to local healthcare organisations and associations, which work in the healthcare field, enabled the purchase of healthcare equipment and instrumentation, ambulances and minibuses for the transport of the elderly and the disabled.
The largest disbursements were as follows: the contribution to the ULSS 22 in Bussolengo (VR) to help the purchase of equipment to conduct digital mammograms; the support provided to the ULSS 20 in San Bonifacio (VR) for the purchase of endoscopic equipment for the obstetrics department, and the disbursements made to the Integrated University Hospital in Verona for the purchase of equipment to assist those in intensive care and to set in place a training course for medical personnel and nurses.
The NPO F.I.T.O.T Association in Verona benefited from a disbursement for training courses for hospital medical and nursing staff, while the Rosa Gallo Association (VR) received aid for its activities to provide assistance to the sick.
Funds were also distributed to the NPO A.L.I.CE. Verona to sustain the treatment and rehabilitation of people affected by strokes; to the Il Melograno Association to support and help the families of newborn patients and to the S.O.S. – Healthcare Service in Sona (VR) for the purchase of a new multi-parameter monitor.
The NPO Orsa Maggiore in Trento received funds to purchase an ambulance, while the Il Pulcino Association in Padua received funds to support its activities to help premature babies.

Social and solidarity initiatives
The Bank has always paid special attention to associations and charity organisations that work in the social sphere.
Of the numerous contributions, the most important are illustrated below.
The Suore Orsoline Institute (VR) received funds to purchase beds for elderly and disabled nuns; the NPO Historie Foundation (VR) received a contribution to build a new centre.
Funds were also given for the charity work of the NPO Foundation of Communities in Verona (VR), the Milonga Social Cooperative (VR) and the NPO Karibuni Association (VI).
Support of the NPO Food Bank in Verona continued and of Groups of volunteers in Vicenza for the purchase of medicine and meals for those in need.
Contributions were also made to the Voluntary Association Pink Telephone (VR) to organise the international day to eliminate violence against women and to the NPO "More than a dream" Foundation for the activities of the same relating to those with intellectual disabilities.
Furthermore, the Down Syndrome Cooperative in Treviso, and the NPO Centre for life help in Padua also received funds to assist their activities.

Protecting and enhancing artistic and architectural heritage
The Bank also places significant focus on the preservation of historic - architectural assets, by seeking to enhance the historic and cultural capital that belongs to the community.
Of the numerous contributions made, we draw attention to those made to: The Parish Church of S. Martino Vescovo in Povegliano Veronese (VR) for restoration work on rooms of the "Madonna dell'Uva Secca" Sanctuary; the Parish Church of Sant'Anastasia in Verona for the restoration of the altar of the Madonna del Rosario; the Parish Church of Santissimo Nome di Maria in Verona, for restoration work to the facade and the bell tower; the Parish Church of San Giorgio Martire in Isola della Scala (VR), for the complete restoration of the church; the Parish Church of San Pietro in Vincoli in Affi (VR), for repair work to the roof and to the vault damaged in the storm in 2011; the Parish Church of San Zeno di Montagna Sant'Eurosia V.M. for the repair of the roof of the church of San Bartolomeo in Prada Bassa (VR); the Parish Church of Parona (VR) to support work seeking to eliminate architectural barriers.
Funds were also distributed to Verona City Council for work to restore the lighting of the Cross, of the Work of Don Calabria; to the Diocesan Curia in Chioggia (VE) for the restoration of the painting by Andrea Michieli (known as "il Vicentino") and to the Parish Church of Santa Fosca in Santa Maria Maggiore (TV) for work to restore the church.

Promoting culture
Of the many cultural events sponsored in 2014 by the Bank, we draw attention to contributions made: to the State Music Conservatory of Verona to support artistic production; to the Opera Don Calabria Study Centre for the project "Colle per la Famiglia"; to the Diocesan Curia in Vicenza for the organisation of the IX Biblical Festival 2014; to the Cultural Association Space & Music in Vicenza to support the season of concerts at the Teatro Olimpico; to the Social Promotion Association "La Via dei Concerti" in Trento, to promote cultural events; to the Pro Belvedere association in Treviso and to the Legal and Economic Studies Foundation in Belluno for the cultural activities performed during the year.
Again in 2014, support continued to be given to F.A.I., the Italian Fund for the Environment based in Verona, to the Literary Society of Verona, to the Academy of Agriculture, Science and Literature of Verona, to the Società Amici della Musica in Verona, to the NPO Intercultura Foundation and to the Local Centre in Verona, for a study grant.
Funds were also distributed to the Association for Antique Games of Verona for the research and dissemination of traditional games, particularly for the projects undertaken during the year.

Organisation of events, shows and publishing activities
Again in 2014, the Bank paid particular attention to the world of the theatre, by sponsoring plays and concerts of immense artistic value by renewing its contributions: to the City Council of Verona for the 2014 edition of the "Estate Teatrale Veronese" (Verona Summer Theatre); to the Verona Arena Foundation for the artistic season 2013/2014 of the Philharmonic Theatre and to the "Fondazione Atlantide Teatro Stabile" (Atlantide Permanent Theatre) of Verona to support theatre activities.
Furthermore, assistance was also provided to: the Women's Institute Don Nicola Mazza (VR) for a series of conferences; the State Music Conservatory of Verona for events and shows by its students; to the City Council of Padua for the organisation of the "Venetkens" exhibition; to the City Council of Treviso to sponsor the "Giovanni Barbisan" exhibition; to the City Council of Venice for the organisation of the Historic Regatta.
A significant amount of publishing activities took place, to support a number of initiatives, especially local ones, to assist Associations which - through publications or calendars - make their activities known to the largest number of people possible. Lastly, several contributions were made to sustain conferences and seminars organised by institutions operating in the Bank's local area, often making its own facilities available.

Sport and Leisure
The Bank has always offered its support to the world of sport, aware of its educational and social importance, particularly as regards young people and disabled athletes.
The main initiatives that received support included the renewed sponsorship of the C.U.S. Verona Rugby A.S.D. for mini-rugby and to the A.S.D. Venice marathon Club for the organisation of the non-competitive "Family Run".
Funds were also disbursed to the Italian Sports Centre to support the Handicap & Sport project - The Great Challenge and to the Recreational Centre for the Elderly in Arzignano for the purchase of equipment.

Giorgio Zanotto Foundation
In the local area, the activities of the Banca Popolare di Verona Division are integrated with those of the Giorgio Zanotto Foundation. Established in 2001, it seeks to maintain the memory and the ideals of Giorgio Zanotto alive. The latter served the city, contributing to its political and administrative life, and as Chairman of Banca Popolare di Verona, contributed to the cultural, social and economic development of Verona. The Foundation pursues objectives in the public interest, working in collaboration with public and private entities, with the specific aim of enhancing Verona and its intellectual heritage.

Social and solidarity initiatives
In the field of solidarity, the Giorgio Zanotto Foundation provided support to projects of the "More than a Dream" NPO Association, to assist children with intellectual disabilities, and to the 2014 Advent Concert promoted by AVSI, an organisation that has been engaged in projects for cooperation and development for over thirty years.
It also continues to work with the University of Verona for the accounting-financial management of the "Burundi Project", the objective of which is to train doctors and paramedics in loco to encourage the development and improvement of the healthcare culture and assistance in one of Central Africa's poorest regions.

Promoting culture
In collaboration with the European Cultural Centre Sant'Adalberto, the Foundation promoted meetings "Between the two fronts. The Centenary of the Great War", with Andrea Caspani; "Freedom and the meaning of work. The experience of Solidarnosc, a challenge for today", with Luigi Geninazzi and Sandro Chierici; "The word I am looking for. Memories of Mario Luzi", with Davide Rondoni. In collaboration with the Female University Halls of Residence Don Nicola Mazza, the Foundation provided support to a series of meetings entitled "Education, culture and the greater good"; with guests including: Massimo Cacciari, Vittorino Andreoli, Stefano Zamagni, Dario Antiseri and Pietro Ichino. We also mention meetings organised in collaboration with the Convent of San Bernardino and the Urban Vicariate of Central Verona: "From Montecassino to Afghan Buddhas", "The flavours of faith" and "Advent Meeting on the topic of the family". It also sponsored the organisation of a cycle of conferences entitled "Maria Callas. Birth of a legend", promoted by the International Festival Scaligero Maria Callas.
Lastly, the Foundation established the Cultural Association Peter Maag Fund, addressed to promoting and disseminating the work of the conductor Peter Maag.

Banco S.Geminiano e S.Prospero

Supporting education and research
Donations were made to the University of Modena and Reggio Emilia for the organisation of international conferences and studies in memory of Marco Biagi. The European Institute of Higher Education in Reggio Emilia also received funds for the launch of the new European High School; the Nursery School don Papazzoni Fondazione di Castelvetro (MO) received funds to contribute to educational activities.

Social, solidarity and healthcare initiatives
As regards initiatives in the social and solidarity sphere, in 2014, amongst others, contributions were made to the NPO Casina dei bimbi Association in Reggio Emilia and to the Circolo Arcobaleno in Modena to support its activities.

With regard to disbursements made to local health organisations and associations that operate in the healthcare sphere, we draw attention to those made to: the NPO GR.A.D.E. Association (RE) to support scientific research in the field of haematic diseases; the NPO Friends of the Heart Association in Modena for their work to prevent cardiovascular illnesses and those to the Catholic Doctors' Association in Reggio Emilia.

Promoting culture and enhancing artistic and architectural heritage
With regard to cultural and artistic promotion, in 2014, funds were distributed to: the Music Chapel of Modena Cathedral, for Modena, singing productions in 2014; to the Fabbriceria Laica Tempio B.V. Ghiara in Reggio Emilia for the organisation of the exhibition "Flowered Altars"; to the Dante Alighieri Society in Reggio Emilia, for the promotion of "Our Language"; to the Venerable Confraternity of San Geminiano for celebrations of 500 years of the miracle of San Geminiano; the Giacomo Puccini Choir School in Modena to support its activities and to the NPO Bologna Festival, to support the activities performed by young concert artists.
Of the contributions disbursed that were addressed to artistic heritage, we draw attention to those made to the Parish Church of San Pellegrino in Reggio Emilia for extraordinary maintenance work following the earthquake in 2012 and the support given to the Police Headquarters in Reggio Emilia for the rebuilding of the Immigration Office.

Organisation of events, shows and publishing activities
Again in 2014, Banco maintained its traditional support of the Theatres Foundation in Reggio Emilia for its artistic activities and of the Gioacchino Rossini Choir Association in Modena for the concert season of the Pavarotti Theatre.
Other contributions included those to the City Council of Modena for the organisation of concerts as part of the "Modenamoremio" event and to the Il Correggio Foundation in Reggio Emilia for the "Day in the honour of Correggio" exhibition.
The San Prospero Basilica in Reggio Emilia received funds as a contribution for the celebrations of the Patron Saint; the Town Council of Mirandola (MO), received funds for the publication of a book on the earthquake with images of the volunteers helping the local community.

The Banco S.Geminiano e S.Prospero Cult Foundation
In 2014, the Banco S.Geminiano e S.Prospero Cult Foundation continued to provide economic support to the work and the activities of the Dioceses of Modena-Nonantola, Reggio Emilia-Guastalla, Carpi and their branches.
The main contributions were made to:
Archdiocese of Modena-Nonantola, for work to build a new Parish centre for the community of Guiglia, to restore the Pieve di San Michele Arcangelo and the parish church of Soliera, damaged in the 2012 earthquake; maintenance work on the parish church of the Beata Vergine Mediatrice and the church of S. Benedetto Abate in Modena as well as activities for the musical and liturgical training of students from the school of white voices at the Music Chapel of Modena Cathedral and the publication "Signs of the sacred and of the human in Modena".
In the Diocese of Reggio Emilia-Guastalla, funds were disbursed for work for the restoration and structural recovery of the Episcopal Seminary of Marola and of the parish church of San Lorenzo Martire in Cerredolo; in the Diocese of Carpi, for restoration work of buildings of the A.C.E.G., an entity for catholic educational activities for young people.

Banca Popolare di Lodi Division

The activities of the BPL Division, which is split into two Territorial Departments, covers the areas of Crema, Cremona, Genoa and Chiavari, as well as the areas of the Cassa di Risparmio di Lucca Pisa e Livorno.
With regard to donations, the BPL Division works directly and through the foundations located in its areas: BPL Foundation, Popolare Crema Foundation for the Territory and Banca Popolare di Cremona Foundation.

Banca Popolare di Lodi

Initiatives in the Social, Solidarity and Healthcare spheres
2014 was also characterised by new issue of the Solidarity Certificate of Deposit called "Fare del bene a ..." (Doing good to ...), an issue that links savings to charity initiatives. This year, the beneficiaries of the funds collected were the following associations: The NPO The Samaritan, which works to support those suffering from cancer and their families; the NPO Ali d'Aquila, dedicated to helping elderly disabled people; Auser Lodigiano, a provincial network of voluntary associations, which organise and manage service facilities to help people in conditions of subjective, family and social fragility. Other initiatives were addressed to: the NPO P.I.M.E. Pontificio Istituto Missioni Estere Foundation, which provides support to those working in international cooperation, as missionaries and remote adoption; the Casa Famiglia Monte Tabor, which was offered a contribution to purchase a vehicle; the L.I.L.T. Lodi Section; to UNICEF Lodi Section; to the Progetto Insieme Association in Lodi, which collected funds to support its activities: soup kitchen, night nursery, public showers and facilities for the homeless and political refugees. As regards healthcare, the most significant contributions were made to the NPO Brianza and Milan Doctors' Association for its work to support children with psycho-physical deficits; the NPO Love Your Heart Association, a voluntary entity which promotes initiatives to prevent cardiovascular diseases.

Promoting culture and education
In 2014, significant contributions were made to: Amilcare Ponchielli Theatre Foundation in Cremona, which seeks to promote and develop all forms of musical and theatrical art; the Antonio Stradivari Museum of the Violin Association, in order to promote initiatives addressed to the Bank's shareholders/customers, such as guided tours of the museum of the lute in Cremona, exhibitions and concerts. The funds distributed to the Court of Lodi are worth mentioning, with a view to implementing a project to computerise services for the citizen; as well as the funds given to the Prefecture of Lodi to celebrate the "day of memory" through a series of activities addressed to the students of Primary Schools in the Lodi area. A number of disbursements were made to cultural projects set in place by the City Council of Lodi. For the younger, we draw attention to the funds given to the Istituto Comprensivo Riccardo Morzenti di Sant'Angelo Lodigiano to support two projects in the IT and musical animation spheres; to the Association of former students of Aselli in Cremona, to enable study grants to be disbursed; to the Archivi-amo Association in Lodi, to implement a project called "New eyes on the city", a short film competition addressed to young directors aged under 35; to the International Centre of Music Research in Piacenza, to enable the activation of the "Music camp – holidays with music in the Lodi area" addressed to young musicians; to the Town Council of Pianello Val Tidone, for the organisation of the 17th edition of the "Musical Events of Val Tidone" which each year achieves international recognition, thanks to the presence of thousands of fans, great musicians and famous singers. To safeguard our artistic, architectural and environmental heritage in local areas, we would like to mention: the contribution made to support the MilanoMontenero.com Association, an entity that works with traders in this Milan street, and which this year organised a "Cleaning Day-Via Montenero" with the aim of cleaning the shutters and the walls of graffiti; not to mention the funds given to the Town Council of Vignate for the restoration of an antique religious fresco.

Sport and Leisure
Once again this year donations were made to amateur sports associations for young people. Albeit of a modest entity, numerous different associations benefited from our sponsorship, including: the ASD Club Wasken Boys of Lodi, which promotes both multi-discipline sports activities (roller hockey, water volleyball, swimming, female volleyball, football, chess and bowls) and social activities with folkloristic events for citizens such as the "Palio di Lodi" (horse race); The Lodi Pioneers and Veterans of Sport Group, an association which works to support initiatives to promote the recognition of worthy sportsmen and women from the Lodi area. As regards cycling, we would like to mention the Livraga Ciclismo A.S.D. and the Beautiful Lodi A.S.D.; for volleyball the San Carlo Bresso A.S.D.; the Gallo Fan Club, with a view to contributing to the third edition of the "Danilo Gallinari Event", a sports event addressed to very young basketball players and their families which the well-known NBA player Danilo Gallinari takes part in. Once again, a contribution was made to support the Grest Estivi (Summer camps) organised in the local area, particularly in Senago with donations to the parish churches of S. Maria Assunta and the Beata Vergine di Fatima. Further funds were disbursed to the Friends of the Fire Department, to build a gym to be used for psycho-physical training of fire department personnel; to the C.S.I. Italian Sports Centre in Lodi, which contributed to staging, for the second consecutive year, "Play all Day", an important and now very popular sports event addressed to children and families from the Lodi area.

Banca Popolare di Lodi Foundation

The Foundation continued to provide support to projects in the spheres of instruction, recreation, social, health and welfare assistance, cult and the environment. More specifically, in 2014, 61 projects submitted through a tender process were funded and 52 projects received support through direct contributions, for a total of 113 projects. In 2014, the Bank decided to concentrate on the three most important areas of difficult in the area (Housing, Work and Food) funding 5 important projects in these three areas.

Supporting education and research
The project regarding setting up a telescope at a High School in Lodi to detect cosmic rays continued, which represents a centre of excellence in the whole of Northern Italy; work also continued to modernise facilities in local schools (Interactive whiteboards and IT equipment).
Again this year, in collaboration with the Territorial Department, Banca Popolare di Lodi continued with the "Con merito!" (With merit!) project, which has involved public and private schools in the province of Lodi, the aim of which is to promote the most deserving students that had taken their high school diploma exam in 2014 with study grants.

Healthcare
In this area, collaboration started with the Lodi Health Authority, for a project which seeks to update and recover the Tumours Register for the Lodi area. The project will last three years. The Foundation also gave its support to an important initiative addressed to the "Avoidable Delay" for cardiac diseases, donating a cardiac massage unit to Lodi Hospital. Further funding enabled Lodi Hospital to purchase a thermal cot for premature babies. The Foundation continued to support rehabilitation therapy projects in collaboration with the Il Paguro association.

Social welfare
This is the area that absorbed the majority of resources over the year. More specifically, in collaboration with the City Council of Lodi, a project was undertaken to re-use vacated homes, made available to families at low rent, and accompanied by a contribution to sustain part of the expenses relating to rent and to utilities.

As regards the right to Food, a project led by the Progetto Insieme and Famiglia Nuova projects received the Foundation's support, which seek to create a collection and distribution centre for surplus food in the local area. This important project was launched in Lodi, and is soon to be replicated in other local towns, to create a widespread solidarity network. Other important projects regard funding a citizen's after school facility to help families who are unable to help their children to do their homework and in other scholastic activities, and support to an association which manages projects to recover and reintroduce former prisoners from the Lodi prison into society.

The environment and promoting the local area
One of the most important projects approved by the Foundation's Board in 2014 regards the Cattedrale Vegetale (Plant Cathedral) in honour of the artist Mauri from Lodi, who is no longer with us. It is an arborary construction which will be the size of a cathedral. This work of art will be one of the main attractions of the city during the Expo 2015, which will take place in Milan.

Protecting and enhancing artistic heritage
Again in 2014, the Foundation decided to continue its efforts to enhance the artistic heritage of the Lodi area, by publishing a book on the Lodi Cathedral together with the publishing house Bolis, on the occasion of the 50th anniversary from its important restoration. The proceeds from the sale of the books will be devolved to the restoration of the Tabernacle of the Pallavicino, which represents an item of extremely high artistic value, and which today is preserved in the Diocesan museum of Lodi Cathedral.

Promoting culture
Cultural activities continued with the organisation, together with the Il Cittadino newspaper, of the "Festival of Social Communication" which was held in Lodi in May and which involved numerous high level speakers.
Over the course of 2014, Banca Popolare di Lodi also celebrated its 150th anniversary (1864-2014) by organising a conference to re-evoke the figure of Tiziano Zalli, promoter and founder of the first people's bank in Italy. In collaboration with Società Operaia, a book was published dedicated to the figure of Tiziano Zalli and his role as a great promoter of cooperation in the city of Lodi during the second half of 1800. The auditorium of the Bipielle Centre and the interior square of the management centre were also dedicated to Tiziano Zalli. The activities of Bipielle Art also continued by hosting numerous exhibitions organised by Lodi's cultural associations or directly by artists and initiatives linked to the Mattonelle d'Artista (artist's tiles).

Study of voluntary work
In 2014, in collaboration with Vita Makers, the Foundation commissioned and produced a small book dedicated to the value of voluntary work in the Lodi area. The study produced interesting results, quantifying the value of the voluntary work performed in the Lodi area as around euro 17 million. Around 250 associations collaborated by answering a questionnaire which enabled the data to be extrapolated and provided a very interesting overall picture.

Sport and Leisure
As in previous years, the focus on the social well-being of the community has guided the Foundation's presence in the world of sport and leisure, entailing contributions for the organisation of concerts (Atelier Chitarristico Laudense and Orchestra Esagramma), theatre shows, cultural and sports events, as well as for the improvement or the construction of recreational and sports facilities. Amongst others, in 2014 the Foundation once again sponsored the organisation of the "Art and Wine" exhibition of the municipality of Maleo and the Naturarte exhibition in Bertonico.

Banca Popolare di Cremona Foundation

In 2014, the Banca Popolare di Cremona Foundation provided its support to around forty projects, events and charity initiatives. The summary of the above shows how the welfare-healthcare area represented, for the year in question, the area to which most resources were dedicated. Contributions were made both to organisations operating in the healthcare sphere, and those seeking to support social and individual hardship. Of these, we would like to recall the following: the contribution for architectural improvements to the "Barbieri" social Cooperative in Castelleone; participation in the "Social transport and assistance" project organised by the Azienda Sociale del Cremonese; support to the social cooperative Agropolis in Cremona for the cultural sports event "Diversely equal"; support to the training and prevention project developed by the Diabetics Association - Oglio Po Vicomoscano in Casalmaggiore.
In the area of instruction and education, funds were allocated to private and public schools and educational institutions, with a special focus on innovation, sociality and inclusion. In this regard, we draw attention to: the civic education project "Little citizens grow" in the municipality of Casalmaggiore; the after-school service for children with special educational needs run by the "Sacra Famiglia" cooperative; "The digital school: new spaces for learning" initiative organised by the Istituto G. Marconi in Casalmaggiore.
With regard to support of religious entities, donations were made mainly for the rebuilding and renovation of areas to be used for aggregation, not to mention the traditional contribution to the work of Unitalsi, for the transport of the sick and pilgrims to the Sanctuary of Lourdes. Lastly, the Foundation made an important contribution to the promotion and realisation of recreative and associative activities: in the areas of sport, entertainment and folklore.

Popolare Crema Association for the territory

In 2014, the Popolare Crema Association for the Territory made 233 disbursements within its scope of activities. In the year in question, the social sphere represented the area to which the majority of economic contributions were made. In this regard, we draw attention to contributions made to: Caritas for its traditional activities; to the Parish Office for young people to provide educational/social support to families; to the City council of Crema to establish forty work grants assigned to the destitute for socially useful activities. The Association was also active in the healthcare sphere, sponsoring the provision of training courses, including a nursing course at Crema Hospital. In the cultural sphere, the most important initiatives regarded: The City council of Crema for the publication of "Insula Fulcheria", an annual publication by the Civic Museum of Crema and the Crema area; the Galmozzi Research Centre, for the publication of texts and audiovisuals on the history of Crema in '900; the Gabriele Lucchi Cultural Centre, for the concert celebrating the restoration of Crema Cathedral. The latter project was undertaken also with the contribution made in the area of the preservation of artistic heritage. Environmental protection regarded the Parco del Serio organisation, which promotes awareness of the local area through "nature camps" for children. Initiatives in the field of education included: over one hundred study grants awarded as part of the training day on saving, which has reached its third edition; support to the Istituto comprensivo di Trescore Cremasco for the "Mediaexpo" exhibition.
As regards sports, around forty associations received donations. These included the Equestrian Rehabilitation Centre, which has succeeded in maintaining its work in the field of the handicapped, despite cuts in public financing.

Banco di Chiavari e della Riviera Ligure

Banco di Chiavari e della Riviera Ligure provided support to the educational activities of the Istituto Gianelli in Chiavari and of the Istituto Comprensivo Avegno-Camogli-Recco-Uscio by providing study grants for students who have achieved excellence in their studies as well as taking an active part in school activities. It also gave its support to the City Council of Genoa, Municipio Centro Est for the organisation of the "Ricomincio da tre" (starting afresh from three), a free training course for parents regarding prevention in terms of behavioural problems and additions of their children. Also this year, the NPO "Il Porto dei Piccoli" Association in Genoa received support with the project "Il Mare a casa tua": where expert operators provide support and help entertain children undergoing treatment at home by proposing play-educational laboratories inspired by the culture of the sea. A contribution was made to the Green Cross of Chiavari, to the Red Cross of Cogorno and to the Green Cross of Santa Margherita Ligure, points of reference for emergency assistance in the local area. In the social sphere, contributions were again made to the Opera Diocesana Madonna del Bambino, Villaggio del Ragazzo di San Salvatore in Cogorno, an organisation which helps the training and entry into the world of work of disabled children and those in difficulty and to the Community of Sant'Egidio Genoa for the project to provide support for school homework for children in situations of hardship to the Tigullio Section of Anffas, whose facilities were heavily damaged by the flood, to the Istituto Il Baliatico in Chiavari, which helps destitute families with children of up to 3 years old and to several voluntary associations in the Lumarzo area. Lastly, the Bank contributed to the organisation of the National Spera Congress in collaboration with the NPO Doctors in Africa to set in place healthcare projects in African countries. As regards leisure and sport, the Bank made a series of small investments, addressed to a variety of organisations with roots in the local area: these included the Municipality of Leivi for the Oil Festival, the 500mania Genoa Auto Club for the rally of historic automobiles and the Asaj Judo Chiavari to purchase a defibrillator for the gym. As regards culture, a contribution was again made to the Palazzo Ducale Foundation of Genoa for the Lights in Via Garibaldi project, located in the heart of the historic city centre and to the Pedale e Forchetta Cultural Club for the organisation of the national literary prize "City of Chiavari".

Cassa di Risparmio di Lucca Pisa e Livorno

Education and research
The Cassa di Risparmio di Lucca Pisa Livorno made contributions in particular to initiatives related to education, by disbursing funds for study grants/sponsorships for deserving students; again in 2014, it participated in the Handicrafts and the School project, organised by Confartigianato Imprese Lucca, an annual competition established with the aim of making students in primary and secondary school aware of the professional opportunities offered by the world of handicrafts. A contribution was also made to the Pisa Rotary Club, which on the occasion of a meeting with the pianist Baharami, distributed awards to the students of the Conservatory. Funds were again disbursed to the Sante Malatesta Association in Pisa, which provides support to university students away from home in economic difficulty, and to the Parents Association of Catholic Schools in Lucca, which awarded the best students in the Province of Lucca.

Healthcare
With regard to healthcare, the Cassa di Risparmio made donations to the Misericordia di Castelnuovo Garfagnana and to the Misericordia del Barghigiano for the purchase of vehicles. It also sponsored Anfass in Lucca for the purchase of lifting equipment for wheelchairs and to the Green Cross of Lucca for the organisation of disabled transport services.

Social/solidarity initiatives
In the social sphere, the activities of the Parish Church of San Martino a Pietrasanta received support, as well as the Diocese of Livorno for the organisation of the Santa Giulia festival, the Diocese of Grosseto for the organisation of the conference on religious buildings. Further donations were made to the Lucca Tuareg Association for its annual

activities, to ARCI Project Chernobyl, for the organisation of therapeutic visits to Italy of Ukrainian children and to the ACLI Service in Prato for its annual activities.

Protecting artistic/architectural heritage
The Cassa di Risparmio di Lucca Pisa Livorno disbursed funds to the Archdiocese of Pisa for the restoration of the Church of San Paolo in Ripa d'Arno.

Promoting culture
A contribution was made to the Università delle Tre Età (University of the Three Ages) in Lerici for the organisation of annual courses. The annual activities of the G. Puccini Musical Corps also received a donation, as well as the Bramante Musical Association in Forte dei Marmi.

Organisation of events/shows and publishing activities
Donations were made to the Centre for Visual Arts in Pietrasanta for the organisation of an exhibition entitled "Lost Visions. The indiscreet attraction of a glance" dedicated to David Lynch (in Lucca) and "Shadow, Dust and a Promise of Future" (in Pietrasanta), on the occasion of the 450th anniversary of the death of Michelangelo Buonarroti. In addition, a contribution was made to the Photo-cine Association in Garfagnana for the organisation of a photographic exhibition called "L'Arte non Scolpita" (unsculptured art). Further donations were made to the First of May Committee for the organisation of the First of May event in Fornaci, and to the Vitality Project Association for the "Sentiment of Beauty" event.
As regards conferences, the Lucense Association received funds for the organisation of the International conference "Logical City Association", as did the AIDDA Association, Umbrian Delegation for the conference entitled "Simplification, opportunities for growth and guarantee of transparency", the Industrial Association of Lucca for the annual general meeting and the UNUCI Association, Lucca Section for the organisation of the annual conference. The Lucchesi nel Mondo Association received a donation to produce a publication dedicated to master "figurinai".

Sport and Leisure
Contributions were made to A.S.COM.TUR. of Lucca for the organisation of the Notte Bianca (white night) in Lucca, and to the Accademia della Fiorentina Association for the celebration of the 420th anniversary of the eviction of the butchers from Ponte Vecchio and the 140th anniversary of the Association. With regard to sports, contributions were made to the "Italian Sports Centre - Pistoia Committee", for annual activities, in particular for the organisation of the annual cross-country run.

Banca Popolare di Novara Foundation for the territory

The Banca Popolare di Novara Foundation, which has always focused on the needs of the area in which the BPN division operates, again this year provided its support to numerous initiatives which, in the various local areas, are addressed to economic, social and cultural development, with significant beneficial and long-lasting effects on the local area. We draw special attention to:

Supporting education and research
As regards education, the Foundation decided to increase its support to improving IT equipment in schools. In fact, numerous contributions were made to schools - of various levels and types - with regard to installing or updating IT equipment, in particular to purchasing interactive whiteboards and equipment for handicapped students.
Considerable attention was paid to research; therefore donations were made to the Foundation for Myotonic Diseases, which is engaged in an important project on the "Pathogenesis of insulin-resistance in myotonic dystrophies".
The Italian Heart Foundation was also retained a deserving cause. The Italian Heart Foundation is particularly active in identifying and implementing initiatives that seek to promote and disseminate studies and research in this field.

Healthcare
Healthcare was retained as a particularly important sphere. In fact, a numerous of important initiatives were set in place with a view to making hospital in the local area increasingly efficient. The A.O.U. Maggiore della Carità di Novara, thanks to the donation of the Foundation, was able to purchase two important pieces of equipment: a "Dual Heald IQ" gamma camera for the Complex Medicine Unit, an instrument able to identify the distribution of the tracer in the organism of the patient and a micro laser dissector for the Department of Translational Medicine, an important instrument to complete the platform of morphological analysis of histological preparations. The Foundation was pleased to receive and fulfil a request for collaboration from the Italian League for the Fight Against Tumours - Provincial Section of Asti - for the purchase of a system for digital video endoscopy for the Combined Ear, Nose and Throat and Cervico-Facial Surgery Unit of the "Cardinal Massai" Hospital in Asti. The support provided to the NPO New Hospital Foundation Alba-Bra deserves a mention, to equip a room where the new CAT scan instrument of the new hospital will be located, the only one in the local area. Numerous contributions were made to various organisations in order to enable them to purchase ambulances, medical equipment and to implement important projects in the healthcare sphere.

Social and solidarity initiatives
Requests were received and fulfilled from various institutions engaged in helping the poor, a category which is impacting social classes that would never have been included as poor in the past, the elderly, those that have lost their jobs, those that have been evicted and those that have been ghettoised. We draw attention to the support provided to the Daycare Centre for the Elderly don Mercoli ANSPI in Novara for the purchase of a minibus to transport the elderly who come to the Centre on a daily basis. Significant help was also given to the Diocesan Caritas of Novara to set up a laboratory to parcel up clothes. The main objective of the laboratory is the professionalisation and subsequent entry into the labour market of people (mostly women) who currently are living in a situation of hardship.
The NPO Freedom and Hope Association of Novara was also retained deserving of assistance; the association helps women who have been the victim of violence, badly treated and exploited. A contribution was also given to the NPO Gruppo Abele Association, to support their social and humanitarian initiatives. Special attention was paid to the NPO Community of Sant'Egidio Piemonte, to the Santa Lucia Community for Children, to the soup kitchens for the poor in parishes; to Centres for Advice and to Social Cooperatives.

Protecting and enhancing artistic and architectural heritage
In this sphere, contributions were made to the Diocese of Novara for the recovery and restoration of the Cathedral Church; to the Parish Church of Santi Gervaso e Protaso di Trasquera (VB) for the restoration of the roof at the Oratorio dell'Annunciata; to the Parish Church Sacro Cuore di Gesù di Vogogna (VB) for the restoration of the murals painted in the apsis and in the presbytery of the Parish church; to the Parish Church of S. Lorenzo di Livorno for the restoration of the organ.

Sport and Leisure
As in previous years, there was no lack of contributions to leisure events. These included the support to the pasSePORTout A.S.D. in Varallo (VC) for participation in the National Special Olympic Games; to the City council of Novara for the Novara Carnival; to the National Association of Chimney Sweepers of Santa Maria Maggiore (VB) for the organisation of the XXXIII International Gathering of Chimney Sweepers; to the Town council of Gattinara for the organisation of the 32nd Grape Festival in Gattinara.

Promoting culture
The support given to the City Council of Novara is worth mentioned, for the organisation of the important exhibition called "Origins". Assistance to the City Council of Vercelli continued, for the organisation of the exhibition entitled "Kandinsky – L'artista come sciamano" (Kandinsky - The artist like a shaman). Contributions were also received by: The Cultural Association Rest Art for the organisation of the Novara Jazz Festival, the Symphonic Operatic Orchestra Association Carlo Coccia for the organisation of a concert in the Basilica of San Gaudenzio in Novara. The now traditional support was again given to the NPO Coccia Theatre Foundation in Novara, for the organisation of the 2014/2015 theatre season.

Organisation of events and shows
We draw attention to the support given to the organisation of the XXII FAI day, the X edition of the Barozzi Prize, a national event, where awards are given to individuals or enterprises of absolute excellence in the local area, who have distinguished themselves in the sports and cultural spheres.

Credito Bergamasco Foundation

The Credito Bergamasco Foundation works to promote cultural, scientific and social progress in the local area and the social organisations operating there, by disseminating culture and the enhancement of artistic heritage, promoting medical/scientific research and education, supporting organisations and associations that work in the cultural, social, religious and sports spheres, with special attention focused on social solidarity.

Social and solidarity initiatives
Of the numerous contributions made over the year in the social and solidarity spheres (over 400), note that the Creberg Foundation continued to promote the "Dai credito alla solidarietà" (Give credit to solidarity) initiative in 2014 as well, a series of artistic events, established in 2005 to make single events accessible to an increasingly wider audience, at a reasonable cost, at the same time encouraging social commitment. The two editions held in 2014 entailed the organisation, in November of the Beatles Submarine show – with Neri Marcorè and Banda Osiris, stages at the Creberg Theatre in Bergamo – dedicated to the Diocese Caritas of Bergamo to support the important "Family - Work Solidarity Fund" and, in December, the Christmas Gospel concert – held at the Donizetti Theatre in Bergamo – in favour of the NPO association Intercultura, to support the establishment of study grants for training programmes abroad reserved to deserving students resident in Bergamo and the province. Other initiatives included the significant contributions made to the Community Association don Lorenzo Milani in Sorisole (BG) – which seeks to support an important and deserving project which envisages the establishment of a soup kitchen and a centre for advice at the coach station in Bergamo for the city's homeless – and to the Cappuccini Monks of Bergamo to run a soup kitchen for the poor.

Promoting culture

Over the year, the Foundation organised numerous exhibitions, both in and out of its headquarters, located in the historic Credito Bergamasco building. These included: The Italians in Paris exhibition, with painting - from private collections - by Italian artists that worked in Paris in the last decades of the 19th century and the first half of the 20th century; the René Paresce exhibition. An Italian in Paris, with paintings from the Banco Popolare collection; the exhibition - on the occasion of the 2014 edition of the ABI initiative “Invito a Palazzo” (Invitation to the Palace) - of an extraordinary selection of ancient works of art collected by Francesco Molinari Pradelli, a famous orchestra conductor, over his lifetime.

The travelling exhibition “Giobbe. La notte e il suo sole” (Job. The night and his sun), organised by the Creberg Foundation enjoyed considerable success, with works by Francesco Betti (a young artist from Bergamo), on the biblical figure of Job; over the course of the year, the exhibition travelled to four different locations in the province of Bergamo, then travelling to Verona where it was held in the charming Church of San Pietro in Archivolto. Furthermore, the Foundation also promoted the first large-scale international exhibition dedicated to Palma il Vecchio - which will be held at the Gallery of Modern and Contemporary Art in Bergamo from 13 March to 21 June 2015, on the occasion of the Expo - with a wide-ranging subject matter, designed to involve and bring together the city and the local area. In addition to the organisation of the exhibition and to the protection of local heritage, achieved by funding the complete restoration of the masterpieces of Palma in Bergamo, the Foundation also specifically supports numerous cultural projects in Bergamo and its Province.

Protecting and enhancing artistic and architectural heritage

As part of the “Grandi Restauri” (Great Restorations) project, the Creberg Foundation sponsored and managed the work to restore two masterpieces of Palma il Vecchio: the Polittico della Parrocchia di Serina (BG) and the Pala della Parrocchia di Zogno (BG). Both of these paintings were displayed to the public - during the restoration work - in the Board room, enjoying considerable appreciation from over 14,000 visitors.

Sport

Again in 2014, significant contributions were made to sponsoring initiatives in the sports and social spheres organised by numerous amateur sports societies. These societies all have deep territorial roots, a wide base of members and play an important educational and social role, addressed, above all, to children and young people. Of the various societies sponsored, we cite the Bergamo Runners, Atletica Valle Brembana - Zogno (BG), Atletica Paratico - Paratico (BS), the Bergamasca Scherma (Fencing).

OUTLOOK FOR BUSINESS OPERATIONS

The economic situation outlined in the paragraph relating to the economic scenario is characterised by differing growth rates in the various world economies. In a scenario in which, despite the fact that the economic recovery in the United States is gaining momentum, growth in Emerging countries is showing signs of difficulty and international trade is struggling to offset the weak trend of domestic growth in countries belonging to the European Monetary Union.
The absence of expectations of a more lively economic recovery at international level and in the Monetary Union is having a negative impact on the underlying tone of the Italian economy. Forecasts for 2015 envisage a modest recovery of the domestic economy, with GDP expected to increase by 0.7%. However, prospects continue to waver, because the above situation depends on the recovery of investments, which could be stimulated by domestic demand and the cost of funding. In any event, economic activity should benefit from the fall in the price of oil and from the depreciation of the Euro, as well as from measures to reduce the tax wedge set in place with the Stability Law. The Quantitative Easing Programme approved by the European Central Bank at the beginning of the year, together with numerous other expansive manoeuvres launched by the ECB in 2014, should increase the propensity of banks to disburse loans to the productions system and the reduce the cost of the same.
The risks that could compromise this scenario are mostly related to possible worsening of tension in the international financial markets. This relates to the possible deterioration of the political situation in Greece and to the crisis in Russia, as well as to a more marked weakening of the situation in the emerging economies.
The above envisaged moderate economic recovery should lead to a higher demand for loans by households, given, amongst other things, the more favourable conditions of the residential home market than in the recent past. The demand from companies, motivated to invest by the expected increase in domestic and foreign demand and by less restrictive conditions in terms of credit supply, should also strengthen.
The expansive nature of monetary policy should facilitate the expansion of bank credit, at the same time guaranteeing ample liquidity to banks, also in view of the new liquidity requirements. The improvement in country risk should further facilitate access to the domestic credit system for wholesale and foreign markets.
Nevertheless, given the modest nature of the envisaged recovery, credit quality will continue to be the subject of considerable attention. The improvement in default rates for loans, particularly those disbursed to enterprises, will be moderate and slow. Therefore, in the absence of extraordinary measures, the ratio of non performing loans to total loans will tend to rise further in the coming months.
In the light of highly expansive monetary policy, bank interest rates, both payable and receivable, appear to be destined to remain low. The margins of commercial banking activities will be positively impacted by the growth, albeit modest, of the stock of gross loans, but will remain under pressure. The mark-down will have some room for improvement, given the relative abundance of funds offered by the ECB (which gives banks the option to select the sources of funding based on their cost) and the fall in the risk premium required on issues. The average mark-up on loans will instead tend to fall, given the higher flexibility of supply and consequent competitive pressure, even with considerable attention being paid by banks to pricing, resulting from the high credit risk reflected by the greater viscosity of lending rates.
Although the operating context is set to improve, the increase of non performing loans should continue to fuel a consistent flow of adjustments to loans, although down with respect to 2014, which will still impact the profitability of the domestic banking system.
Banco forecasts a moderate increase in its stock of loans in 2015. Pressure on credit margins will be handled by attentive management of the pricing of loans, by the reduction of the cost of funding and by continuously monitoring operating costs. The implementation of projects to develop the Wealth Management segment envisaged by the Business Plan will continue, enabling commissions to be maintained at excellent levels. The extremely different measures undertaken, which have led to a significant strengthening of the levels of coverage of the credit portfolio, combined with the strengthening of equity achieved in 2014, have formed an irrefutable solid base that will enable the Group to face 2015 with positive income forecasts, in a macroeconomic scenario which is still in a state of transition, but which it is hoped will show an inversion of the trend with respect to the past.

Significant events occurring after the end of the financial year

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

Verona, 11 February 2015

The Board of Directors

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

Certification of the consolidated financial statements pursuant to art. 81-ter of Consob Regulation no. 11971 of 14 May 1999 and subsequent amendments and additions

1. The undersigned, Pier Francesco Saviotti, as Managing Director and Gianpietro Val, as Manager responsible for preparing the Company's financial reports of Banco Popolare Soc. Coop. hereby certify, also in consideration of the provisions of art. 154-bis, paragraphs 3 and 4, of Italian Legislative Decree no. 58 dated 24 February 1998:

- the adequacy in relation to the characteristics of the company and
- the effective application

of the administrative and accounting procedures for the formation of the consolidated financial statements in 2014.

2. The assessment of the adequacy and the verification of the effective application of the administrative and accounting procedures for the formation of the consolidated financial statements as at 31 December 2014 was based on an internal model set in place by Banco Popolare Soc. Coop., developed on the basis of the *Internal Control – Integrated Framework (COSO)"* and, for the IT component, the "*Control Objectives for IT and related Technology (COBIT)",* which represent the standard for the internal audit system generally accepted at international level.

3. We also hereby certify that:

3.1 the consolidated financial statements as at 31 December 2014:

a) were drawn up in compliance with the applicable international accounting standards recognised in the European Community as per EC Regulation no. 1606/2002 of the European Parliament and Commission, dated 19 July 2002;

b) comply with the results of the accounting records and journal entries;

c) are suitable for providing a true and fair view of the statement of financial position, income statement and financial situation of the issuer and of all the companies included within the scope of consolidation.

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

Verona, 11 February 2015

signed by:
Pier Francesco Saviotti
Managing Director

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

INDEPENDENT AUDITORS'REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Building a better
working world

Reconta Ernst & Young S.p.A.
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37126 Verona

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Independent auditors' report
pursuant to Article 14 and 16 of Legislative Decree n. 39 of January 27, 2010
(Translation from the original Italian text)

To the Shareholders
of Banco Popolare Società Cooperativa

1. We have audited the consolidated financial statements of Banco Popolare Società Cooperativa and its subsidiaries (the "Banco Popolare Group") as of December 31, 2014 and for the year ended, comprising the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows, and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Italian Legislative Decree n. 38/2005 is the responsibility of the Banco Popolare Società Cooperativa's Directors. 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 Directors. We believe that our audit provides a reasonable basis for our opinion.

   The consolidated financial statements of the prior year are presented for the comparative purposes. As described in the explanatory notes, Directors have restated certain comparative data related to the prior year with respect to the data previously presented, on which we issued our auditors' report dated March 6, 2014. We have examined the methods 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 and for the year ended December 31, 2014.

3. In our opinion, the consolidated financial statements of the Banco Popolare Group at December 31, 2014 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Italian 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 Banco Popolare Group for the year then ended.

4. The Directors of Banco Popolare Società Cooperativa are responsible for the preparation of the Report on Operations and the Report on Corporate Governance and Ownership Structures in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency with the financial statements of the Report on Operations and the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) presented in the Report on Corporate Governance and Ownership Structures, as required by the law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion the Report on Operations and the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) presented in the Report on Corporate Governance and Ownership Structures, are consistent with the consolidated financial statements of the Banco Popolare Group as of December 31, 2014.

Verona, March 5, 2015

Reconta Ernst & Young S.p.A.
signed by: Stefania Doretti, partner

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Asset items *(in thousands of euro)*	31/12/2014	31/12/2013 (*)
10 Cash and cash equivalents	619,529	639,632
20 Financial assets held for trading	7,077,986	7,264,813
30 Financial assets designated at fair value through profit and loss	5,653	2,229
40 Financial assets available for sale	13,518,168	11,941,238
50 Investments held to maturity	4,948,433	4,198,048
60 Due from banks	5,058,816	3,753,227
70 Loans to customers	79,823,603	86,148,995
80 Hedging derivatives	640,359	542,685
90 Fair value change of financial assets in macro fair value hedge portfolios	99,024	70,531
100 Investments in associates and companies subject to joint control	1,061,412	1,033,764
120 Property and equipment	2,139,962	2,052,250
130 Intangible assets	2,049,912	2,299,243
of which: goodwill	*1,388,895*	*1,588,895*
140 Tax assets	3,707,169	2,889,104
a) current	152,277	36,475
b) deferred	3,554,892	2,852,629
of which pursuant to Law 214/2011	3,178,998	2,496,588
150 Non-current assets held for sale and discontinued operations	94,308	390,860
160 Other assets	2,237,352	2,174,908
Total	123,081,686	125,401,527

Liability and shareholders' equity items *(in thousands of euro)*	31/12/2014	31/12/2013 (*)
10 Due to banks	17,383,317	17,403,066
20 Due to customers	54,778,714	47,708,195
30 Debt securities issued	16,709,575	20,358,100
40 Financial liabilities held for trading	6,059,513	4,069,301
50 Financial liabilities designated at fair value through profit and loss	15,025,179	21,951,374
60 Hedging derivatives	590,722	447,306
70 Fair value change of financial liabilities in macro fair value hedge portfolios	943	331
80 Tax liabilities	388,712	507,388
a) current	9,853	101,733
b) deferred	378,859	405,655
90 Liabilities associated with non-current assets held for sale and discontinued operations	-	275,511
100 Other liabilities	2,787,203	2,870,685
110 Employee termination indemnities	377,847	363,512
120 Provisions for risks and charges	903,612	924,105
a) retirement benefits and similar commitments	348,170	312,473
b) other provisions	555,442	611,632
140 Valuation reserves	184,628	83,496
160 Equity instruments	-	33,089
170 Reserves	2,263,234	2,282,069
180 Share premium reserve	1,471,870	2,091,284
190 Share capital	6,092,996	4,294,150
200 Treasury shares (-)	(2,618)	(4,179)
210 Minority interests	12,130	349,039
220 Net income (loss)	(1,945,891)	(606,295)
Total	123,081,686	125,401,527

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

CONSOLIDATED INCOME STATEMENT

Income statement items *(in thousands of euro)*		31/12/2014	31/12/2013
10	Interest and similar income	3,262,657	3,575,864
20	Interest and similar expense	(1,706,144)	(1,928,625)
30	**Interest margin**	**1,556,513**	**1,647,239**
40	Fee and commission income	1,481,223	1,504,057
50	Fee and commission expense	(95,776)	(116,995)
60	**Net fee and commission income**	**1,385,447**	**1,387,062**
70	Dividends and similar income	35,460	35,292
80	Profits (losses) on trading	138,334	184,039
90	Fair value adjustments in hedge accounting	(6,797)	(8,220)
100	Profits (losses) on disposal or repurchase of:	39,905	149,711
	a) loans	(10,923)	(8,118)
	b) financial assets available for sale	53,767	131,326
	d) financial liabilities	(2,939)	26,503
110	Profits (losses) on financial assets and liabilities designated at fair value through profit and loss	(45,725)	(129,285)
120	**Net interest and other banking income**	**3,103,137**	**3,265,838**
130	Net losses / recoveries on impairment of:	(3,586,292)	(1,839,418)
	a) loans	(3,475,759)	(1,663,349)
	b) financial assets available for sale	(17,593)	(124,395)
	d) other financial activities	(92,940)	(51,674)
140	**Net income from banking activities**	**(483,155)**	**1,426,420**
170	**Net income from banking and insurance activities**	**(483,155)**	**1,426,420**
180	Administrative expenses:	(2,280,193)	(2,310,626)
	a) personnel expenses	(1,422,627)	(1,434,642)
	b) other administrative expenses	(857,566)	(875,984)
190	Net provisions for risks and charges	(39,455)	(121,431)
200	Net adjustments to / recoveries on property and equipment	(143,767)	(82,825)
210	Net adjustments to / recoveries on intangible assets	(108,018)	(79,367)
220	Other operating income (expenses)	362,538	408,254
230	**Operating expenses**	**(2,208,895)**	**(2,185,995)**
240	Profits (losses) on investments in associates and companies subject to joint control	89,950	67,846
260	Value adjustments on goodwill	(200,000)	-
270	Profits (losses) on disposal of investments	2,461	4,786
280	**Income (loss) before tax from continuing operations**	**(2,799,639)**	**(686,943)**
290	Taxes on income from continuing operations	815,082	96,242
300	**Income (loss) after tax from continuing operations**	**(1,984,557)**	**(590,701)**
310	Income (loss) after tax from discontinued operations	(48)	(29,343)
320	**Net income (loss)**	**(1,984,605)**	**(620,044)**
330	Income (loss) attributable to minority interests	38,714	13,749
340	**Parent Company's net income (loss)**	**(1,945,891)**	**(606,295)**

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

Items *(in thousands of euro)*		31/12/2014	31/12/2013
10	**Net income (loss)**	**(1,984,605)**	**(620,044)**
	Other comprehensive income after tax without reclassification to profit or loss		
40	Defined benefit plans	(34,869)	(14,157)
60	Share of valuation reserves related to investments in associates carried at equit	(211)	(69)
	Other comprehensive income after tax with reclassification to profit or loss		
90	Cash flow hedges	2,002	3,177
100	Financial assets available for sale	136,328	165,823
120	Share of valuation reserves related to investments in associates carried at equity	(6,035)	20,785
130	**Total other comprehensive income after tax**	**97,215**	**175,559**
140	**Comprehensive Income (Items 10+130)**	**(1,887,390)**	**(444,485)**
150	Consolidated comprehensive income attributable to minority interests	38,721	10,596
160	**Consolidated comprehensive income attributable to the Parent Company**	**(1,848,669)**	**(433,889)**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

31 December 2014 *(in thousands of euro)*	Balance as at 31/12/2013	Changes in opening balance	Balance as at 01/01/2014	Allocation of net income from previous year		Changes in the year									Shareholders' equity as at 31/12/2014	Group shareholders' equity as at 31/12/2014	Minority interests as at 31/12/2014
						Changes in reserves	Operations on shareholders' equity							Comprehensive income for the year			
				Reserves	Dividends and other allocations		Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity investments				
Share Capital:	**4,387,508**	**-**	**4,387,508**	**-**		**(212)**	**1,798,846**	**-**					**(41,066)**		**6,145,076**	**6,092,996**	**52,080**
a) ordinary shares	4,387,488	-	4,387,488	-		(192)	1,798,846	-					(41,066)		6,145,076	6,092,996	52,080
b) other shares	20	-	20	-		(20)	-	-					-		-	-	-
Share premium reserve	**2,123,257**	**-**	**2,123,257**	**(580,627)**		**(611)**	**(38,787)**	**-**					**(2,362)**		**1,500,870**	**1,471,870**	**29,000**
Reserves:	**2,515,460**	**-**	**2,515,460**	**(49,400)**		**5,972**	**-**	**17**	**-**		**-**		**(239,200)**		**2,232,849**	**2,263,234**	**(30,385)**
a) retained earnings	2,472,989	-	2,472,989	(49,400)		7,446	-	17	-				(236,370)		2,194,682	2,224,975	(30,293)
b) other	42,471	-	42,471	-		(1,474)	-	-			-		(2,830)		38,167	38,259	(92)
Valuation reserves	**87,562**	**-**	**87,562**	**-**		**-**							**-**	**97,215**	**184,777**	**184,628**	**149**
Equity instruments	**33,089**	**-**	**33,089**							**(33,089)**					**-**	**-**	**-**
Treasury shares	**(4,179)**	**-**	**(4,179)**				**1,600**	**(39)**							**(2,618)**	**(2,618)**	**-**
Net income (loss) for the period	**(620,044)**	**-**	**(620,044)**	**630,027**	**(9,983)**									**(1,984,605)**	**(1,984,605)**	**(1,945,891)**	**(38,714)**
Shareholders' equity	**8,522,653**	**-**	**8,522,653**	**-**	**(9,983)**	**5,149**	**1,761,659**	**(22)**	**-**	**(33,089)**	**-**		**(282,628)**	**(1,887,390)**	**8,076,349**	**8,064,219**	**12,130**
- Group	**8,173,614**		**8,173,614**	**-**	**(1,686)**	**5,730**	**1,761,659**	**(22)**	**-**	**(33,089)**	**-**		**6,682**	**(1,848,669)**	**8,064,219**		
- minority interests	**349,039**	**-**	**349,039**	**-**	**(8,297)**	**(581)**	**-**	**-**					**(289,310)**	**(38,721)**	**12,130**		

The loss for 2013 was covered by available reserves and by the share premium reserve. Euro 591 million of said loss refers to the Parent Company Banco Popolare; for details relating to the coverage of the same, please refer to the report on operations in the 2013 Financial Statements.
During the year, Group companies made distributions outside of the Group totalling euro 10 million, of which:
- euro 7.8 million in dividends paid to third parties;
- euro 2.2 million in donations.

31 December 2013 *(in thousands of euro)*	Balance as at 31/12/2012	Changes in opening balance	Balance as at 01/01/2013	Allocation of net income from previous year		Changes in the year									Shareholders' equity as at 31/12/2013	Group shareholders' equity as at 31/12/2013	Minority interests as at 31/12/2013
						Changes in reserves	Operations on shareholders' equity							Comprehensive income for the year			
				Reserves	Dividends and other allocations		Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity investments				
Share Capital:	**4,387,698**	**-**	**4,387,698**	**-**		**-**	**-**	**-**					**(190)**		**4,387,508**	**4,294,150**	**93,358**
a) ordinary shares	4,387,676	-	4,387,676	-		-	-	-					(188)		4,387,488	4,294,150	93,338
b) other shares	22	-	22	-		-	-	-					(2)		20	-	20
Share premium reserve	**2,946,162**	**-**	**2,946,162**	**(803,103)**		**(19,389)**	**(342)**	**-**					**(71)**		**2,123,257**	**2,091,284**	**31,973**
Reserves:	**2,656,192**	**-**	**2,656,192**	**(156,496)**		**15,504**	**-**	**65**	**-**		**-**		**195**		**2,515,460**	**2,282,069**	**233,391**
a) retained earnings	2,609,810	-	2,609,810	(156,496)		19,803	-	65	-				(193)		2,472,989	2,245,079	227,910
b) other	46,382	-	46,382	-		(4,299)	-	-			-		388		42,471	36,990	5,481
Valuation reserves	**(87,997)**	**-**	**(87,997)**	**-**		**-**								**175,559**	**87,562**	**83,496**	**4,066**
Equity instruments	**33,089**	**-**	**33,089**							**-**					**33,089**	**33,089**	**-**
Treasury shares	**(4,643)**	**-**	**(4,643)**				**593**	**(129)**							**(4,179)**	**(4,179)**	**-**
Net income (loss)	**(949,597)**	**-**	**(949,597)**	**959,599**	**(10,002)**									**(620,044)**	**(620,044)**	**(606,295)**	**(13,749)**
Shareholders' equity	**8,980,904**	**-**	**8,980,904**	**-**	**(10,002)**	**(3,885)**	**251**	**(64)**	**-**	**-**	**-**		**(66)**	**(444,485)**	**8,522,653**	**8,173,614**	**349,039**
- Group	**8,612,387**		**8,612,387**	**-**	**(1,686)**	**(3,885)**	**251**	**(64)**	**-**	**-**	**-**		**500**	**(433,889)**	**8,173,614**		
- minority interests	**368,517**	**-**	**368,517**	**-**	**(8,316)**	**-**	**-**	**-**					**(566)**	**(10,596)**	**349,039**		

CONSOLIDATED STATEMENT OF CASH FLOWS

Direct method (thousands of euro)

A. Operating activities	31/12/2014	31/12/2013
1. Cash flow from operations	**2,428,082**	**2,156,137**
- Interest received (+)	3,262,657	3,575,864
- Interest paid (-)	(1,706,144)	(1,928,625)
- dividends and similar income	35,460	35,292
- net fee and commission income (+/-)	1,385,447	1,387,062
- personnel expenses	(1,403,199)	(1,413,004)
- other costs (-)	(861,902)	(879,418)
- other revenues (+)	900,729	1,312,067
- taxes	815,082	96,242
- costs/revenues after tax from discontinued operations	(48)	(29,343)
2. Cash flow from / used in financial assets	**(421,100)**	**7,574,187**
- financial assets held for trading	447,690	2,087,177
- financial assets designated at fair value through profit and loss	(20,081)	(232,912)
- financial assets available for sale	(1,594,523)	872,389
- loans to customers	2,849,314	3,669,422
- due from banks: repayable on demand	(657,625)	91,030
- due from banks: other loans	(647,645)	627,080
- other assets	(798,230)	460,001
3. Cash flow from/used in financial liabilities	**(2,467,427)**	**(5,391,942)**
- due to banks: repayable on demand	313,786	(145,135)
- due to banks: other payables	(333,535)	(24,836)
- due to customers	7,070,519	(1,809,915)
- debt securities issued	(3,648,525)	(1,793,762)
- financial liabilities held for trading	1,348,864	(1,035,758)
- financial liabilities designated at fair value through profit and loss	(6,926,195)	(884,999)
- other liabilities	(292,341)	302,463
Net cash flow from/used in operating activities	**(460,445)**	**4,338,382**

B. Investing activities		
1. Cash flow from:	**67,558**	**79,481**
- sales of investments in associates and companies subject to joint control	-	453
- sale of investments held to maturity	3,425	7,024
- sale of property and equipment	7,252	22,364
- sale of intangible assets	56,881	49,640
2. Cash flow used in:	**(1,059,399)**	**(4,440,580)**
- purchase of investments in associates and companies subject to joint control	-	(139,953)
- purchase of investments held to maturity	(792,002)	(4,155,130)
- purchase of property and equipment	(151,842)	(40,291)
- purchase of intangible assets	(115,555)	(105,206)
Net cash flow from/used in investing activities	**(991,841)**	**(4,361,099)**

C. Financing activities		
- issue/purchase of treasury shares	1,442,166	187
- issue/purchase of equity instruments	-	-
- dividend distribution and other allocations	(9,983)	(10,002)
Net cash flow from/used in financing activities	**1,432,183**	**(9,815)**
Net cash flow from/used in activities during the year	**(20,103)**	**(32,532)**

Reconciliation	31/12/2014	31/12/2013
- Cash and cash equivalents at the beginning of the year	639,632	672,164
- Net cash flow from (used in) activities during the year	(20,103)	(32,532)
Cash and cash equivalents at the end of the year	**619,529**	**639,632**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Declaration for the exemption from the obligation to publish the Consolidated Financial Statements in extensible electronic format (XBRL language)

We hereby specifically declare, without reservation, that Banco Popolare Società Cooperativa is exempt from the obligation to submit its consolidated financial statements in extensible electronic format pursuant to the provisions of art. 3 of the Council of Ministers Presidential Decree dated 10 December 2008, insofar as it is a joint stock company listed on a regulated market (Electronic Equity Market - MTA, managed by Borsa Italiana S.p.A.).

The Legal Representative
Avv. Carlo Fratta Pasini

PART A – ACCOUNTING POLICIES

A.1 - GENERAL PART

Section 1 - Statement of compliance with the international accounting standards

These consolidated financial statements, in compliance with Italian Legislative Decree no. 38 of 28 February 2005, have been drawn up according to the IAS/IFRS, issued by the International Accounting Standard Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), validated by the European Commission, as defined in EC Regulation no. 1606 of 19 July 2002.

The following documents have been used to interpret and apply the international accounting standards, although they have not been validated by the European Commission:

- Framework for the Preparation and Presentation of Financial Statements ("Framework");
- Implementation Guidance, Basis for Conclusions and any other documents prepared by the IASB or IFRIC as a supplement to issued accounting standards.

The accounting standards applied in preparing these financial statements are those in effect as at 31 December 2014 (including the SIC and IFRIC interpretation documents).

For an overview of the standards validated during 2014 or those validated in prior years, whose application is expected for 2014 (or for future years), reference is made to "Section 5 – Other Aspects", below, which also illustrates the main impacts for the Group.

Section 2 - General preparation principles

The consolidated financial statements comprise the statement of financial position, income statement, statement of comprehensive income, statement of changes in shareholders' equity, statement of cash flows and the notes to the financial statements, and are accompanied by the Directors' report on operations and on the general situation of the consolidated companies.

The financial statements and the contents of the notes to the financial statements have been prepared in keeping with the provisions of the Bank of Italy in Circular no. 262 of 22 December 2005 "Bank Financial Statements: Layouts and Rules for Preparation" and the subsequent updates (most recently, the update published on 22 December 2014). Specifically, this was a Circular issued by the Bank of Italy in exercising its powers established by the above-mentioned Legislative Decree 38/2005.

These financial statements are drawn up using the Euro as functional currency.

The amounts shown in the financial statements and the data illustrated in the tables in the notes to the financial statements are expressed in thousands of euro, unless specified otherwise.

The consolidated financial statements are drawn up clearly and provide a true and fair view of the equity and financial situation and economic result of Banco Popolare and its subsidiaries for the year. The financial statements used to prepare the consolidated financial statements are those prepared by the subsidiaries as at 31 December 2014, adjusted, if necessary, to comply with IAS/IFRS.

Should the information required by the international accounting standards and the provisions of the above-mentioned Circular be deemed insufficient to provide a true and fair view, the notes to the financial statements provide supplementary information necessary for this purpose.
If, in exceptional cases, the application of provisions envisaged by the international accounting standards is incompatible with the true and fair view of the equity and financial situation and economic result, it is not carried out. The notes to the financial statements will set forth an explanation of the reasons for any departure and its influence on the representation of the equity and financial situation and economic result.

The financial statements have been drawn up in observance of the following general principles:

- *going concern*: the financial statements have been drawn up with a view to the Group's business activities as a going-concern;
- *accrual accounting*: the financial statements have been drawn up on an accruals basis with the exception of cash flows information;
- *presentation consistency*: the presentation and classification of the items in the financial statements are consistent from one year to another unless the standard or interpretation requires a change in presentation or another presentation or classification is no longer appropriate taking into account that matters envisaged by IAS 8. In this latter case, disclosure is provided in the report with regard to the changes made with respect to the previous year;
- *materiality and aggregation*: the statement of financial position and income statement schedules are made up of items (identified by Arabic numerals), sub-items (identified by letters) and by additional detailed disclosure (the "of which" captions of the items and sub-items). The items, sub-items and related detailed disclosure represent the financial statement accounts. The financial statements are compliant with those established by the Bank of Italy in Circular No. 262 dated 22 December 2005 and subsequent amendments. Additional items can be added to the afore-mentioned financial statements if their content is not attributable to any of the items already envisaged by the schedules and only if the amounts involved are significant. The sub-items envisaged by the statements can be grouped together when one of the following two conditions applies:
  a) the amount of the sub-items is immaterial;
  b) the aggregation favours a clear financial statement presentation; in this case, the notes separately describe the sub-items that have been aggregated.

  Accounts which do not present amounts either for the year to which the financial statements refer or the previous year are not indicated in the statement of financial position or income statement;
- *predominance of substance over form*: the transactions and other events are recognised and stated in compliance with their substance and economic entity and not just their legal form;
- *offsetting*: assets and liabilities, income and expenses are not offset, unless this is permitted or required by an international accounting standard or by an interpretation of the same or the provisions set forth by the aforementioned Bank of Italy Circular;
- *comparative information*: comparative information is provided for each statement of financial position and income statement item relating to the previous year, unless an accounting standard or interpretation does not permit this or requires different presentation. The balances relating to the previous year can be appropriately adjusted, where necessary, for the purpose of ensuring the comparability of the information relating to the year underway. Any non-compatibility, adaptation or impossibility of the latter are reported and commented on in the notes.

The Notes to the financial statements are divided into sections: A-Accounting policies, B-Information on the consolidated statement of financial position, C-Information on the consolidated income statement, D-Statement of consolidated comprehensive income, E-Information on risks and relative hedging policies, F-Information on consolidated equity, G-Business combinations, H-Transactions with related parties, I-Share-based payment agreements, and L-Segment reporting.
Each part of the notes is organised into sections, and each section describes a single element of operations.

Accounting policies and uncertainties with regard to the use of estimates for drawing up the financial statements (pursuant to the provisions of IAS 1 and the recommendations set forth in the Bank of Italy/Consob/Isvap documents no. 2 of 6 February 2009 and no. 4 of 3 March 2010)

The application of certain accounting standards necessarily involves recourse to estimates and assumptions which affect the values of the assets and liabilities recorded in the financial statements and the disclosure provided with regard to the potential assets and liabilities.
The assumptions underlying the estimates made take into account all the information available as of the date of preparation of the financial statements, as well as the hypotheses considered reasonable in light to past experience and the particular moment being experienced by the financial markets. In this regard, note that the situation caused by the current economic and financial crisis has made it necessary to make assumptions concerning the future trend characterised by significant uncertainty.
Precisely in consideration of the uncertain situation, it cannot be excluded that the hypotheses adopted, however reasonable, might not be confirmed by future scenarios in which the Group finds itself operating. The results which will be achieved in the future could therefore differ from the estimates made for the purpose of drawing up the financial

statements and could consequently make adjustments necessary which at present cannot be foreseen or estimated with respect to the book value of the assets and liabilities recorded in the financial statements.
The following paragraphs illustrate the accounting policies considered most critical to the truthful and correct portrayal of the Group's equity, economic and financial situation, both in terms of the materiality of the values to be recognised in the financial statements affected by said policies and the high level of judgement required for valuations that for which management need to use estimates and assumptions, referring the reader to the specific sections of the notes to the financial statements for detailed information on the valuation processes conducted as at 31 December 2014. In this regard, note that said disclosure took the communications of the ESMA and Consob into account, on topics considered to be of most importance to the 2014 financial statements, issued for the purpose of contributing to ensuring the consistency and reliability of the information (ESMA communication "European Common Enforcement priorities for 2014 statement" dated 28 October 2014 and Consob communication no. 0003907 dated 19 January 2015).

Determination of estimated impairment losses on loans disbursed and other financial assets recognised under statement of financial position assets
Loans represent one of the valutational items most exposed to choices made by the Group in terms of disbursement and risk management and monitoring.
Value adjustments on individual loans disbursed, in fact, are estimated based on evidence arising from a careful, constant monitoring of the development of outstanding relations with borrowers and their economic and financial situation. The determination of portfolio adjustments is instead based on historical data reported in terms of probability of insolvency and the percentage of loss on non performing loans, appropriated adjusted to take current economic conditions into account, with respect to loan classes with homogeneous characteristics as compared to those under measurement at the reporting date.
When assessing the value of loans, actual data and information that is certain on the date of preparation of the financial statements are of key importance. However, there are other equally important factors, such as:

- the reference context, from a macroeconomic and legislative-regulatory perspective, which influences management's vision in terms of future expectations and rigour in the valuation process. Said context is particularly important given the prolonged nature of the current economic-financial crisis, which could entail the further deterioration of borrowers;
- the outcome of the application of models to predict the cash flows that individual borrowers (or portfolios of borrowers with similar risk profiles) will be able to pay in order to meet, wholly or in part, the obligations they have undertaken with the Group. These models are continually updated and refined in order to best represent the estimated realisable value;
- other circumstances and situations which, within the range of possible approaches relating to the estimation processes allowed by the reference accounting principles, are able to influence the estimation methods and parameters. This includes the results of the Comprehensive Assessment exercise conducted by the European Central Bank, and in particular those of the Asset Quality Review (AQR) exercise, published on 26 October 2014.

On the basis of the above-cited factors, together with the decisions taken by the Group as regards monitoring exposure, led to the improvement of the estimation methods and parameters used to measure non performing and performing loans as at 31 December 2014. Detailed information on these improvements and on the relative effects is provided in the paragraph entitled "Results of the Comprehensive Assessment exercise: impact on the accounts (Disclosure required by Consob pursuant to art. 114, paragraph 5, of Italian Legislative Decree no. 58/98)" contained in the Report on operations, to which the reader should refer. With regard to the considerations made as regards the accounting treatment of the impact, readers should refer to the paragraph below entitled "Improvements to the Group accounting policies for the valuation of credit exposures - IAS 8 framework".
In this regard, it is important to note that the protraction or worsening of the current economic-financial crisis could result in greater losses than those estimated at the time the financial statements were prepared, following a deterioration in customer credit quality.
The same considerations are valid for the financial assets represented by securities included in the loans portfolio, the valuation of which requires assessing the economic-financial situation of the issuers.

Estimated impairment losses in relation to intangible assets and investments in associates
On a yearly basis, upon preparing the financial statements, intangible assets and investments in associates recognised in the statement of financial position assets are tested for impairment. The impairment test is usually conducted by determining the value in use or the fair value of the assets and verifying that the value at which the intangible asset or investment has been recognised in the financial statements is lower than the its value in use or fair value, net of costs to sell, whichever is greater.
The financial and economic crisis that unfolded starting from 2008, has deeply changed the scenarios in which the Group operated and will operate, requiring organisational and structural measures and obliging the bank to operate in a context characterised by random margins.
Impairment testing relating to the cash generating units "Commercial Network" and "Private & Investment Banking", to which almost all intangible assets with an undefined useful life have been allocated, was conducted using the Value in Use obtained through the application of the Dividend Discount Model (DDM), based on which the value of a company depends on the dividend flows that it is capable of generating with a view to the future. In the case in point, the method

used is Excess Capital DDM, which assumes that the economic value of a company is equal to the sum of the present value of future cash flows (Expected Dividends) generated over the selected time period of planning, which can be distributed to shareholders while maintaining a suitable level of capitalisation to guarantee expected future development, and the perpetual capitalisation of the normalised dividend for the last year of the forecast, based on a payout ratio depending on profitability at full operation.
Given the continuing uncertainty of the macroeconomic and regulatory scenarios, these valuations were conducted using a multi-scenario approach, in order to take into due consideration the risk inherent to the actual implementation of the plan assumed as the basis for the impairment test.
However, it is important to note that the parameters and the information used to verify the recoverability of goodwill (particularly the cash flows envisaged for the various CGUs, as well as the discounting rates used) were heavily influenced by the macroeconomic and market situation, which could undergo changes that we are currently unable to predict.
If the recoverable value of the assets subject to impairment testing is determined on the basis of the relative fair value, it should also be noted that due to the significant and continuing volatility in the markets, it cannot be ruled out that valuations based on market parameters may fail to fully reflect the fair value of these assets.
Part B of the Notes to the Financial Statements, Section 13 - Intangible assets, provides an illustration of the main assumptions underlying the verification of the recoverability of goodwill and a sensitivity analysis of the recoverable value of the cash generating unit with respect to the valuation parameters considered most important.
As regards equity investments, note that the non availability, as at the date of preparation of the draft consolidated financial statements, of the draft financial statements of the investee companies and of their updated business plans, introduces further elements of uncertainty to the process of assessing the value of equity investments. In these circumstances, we can therefore not exclude the possibility that the value attributed to the equity investments based on the information available may, in the future, not be fully representative of their recovery value.

Determination of the fair value of financial assets and liabilities

In the event of financial instruments that are not listed on active markets or illiquid and complex instruments, adequate valuation processes need to be set in place, characterised by a certain amount of subjective judgement as regards the choice of the valuation model and of the relative input parameters, which sometimes cannot be observed in the market.
There are margins of subjectivity in the valuation with regard to whether certain parameters are observable or not, and in the consequent classification in correspondence with the fair value hierarchy levels.
For qualitative and quantitative information on the method adopted to measure the fair value of instruments recognised at fair value through profit and loss in the financial statements and for those values at amortised cost, please refer to the contents of the Notes to the Financial Statements, Part A.4 - Fair value disclosure.

Estimating impairment losses on financial assets available for sale

With regard to financial assets available for sale, identifying objective evidence of losses in a critical element, in the presence of which the reduction in the fair value must be recognised as a balancing entry in the income statement, rather than a specific reserve of shareholders' equity. With regard to equity instruments and investments in private equity funds and in similar investment vehicles, the policy approved by the Group establishes parametric thresholds connected to the significant or prolonged nature of the reduction in fair value, which, once exceeded, requires the recognition of a loss to the income statement, save for exceptional and justified circumstances. Impairment testing on financial assets available for sale is illustrated in Section 4 of Part B of Assets in these Notes to the Financial Statements.

Estimating the recoverability of deferred tax assets

The Group has significant deferred tax assets among its statement of financial position assets, mainly deriving from temporary differences between the income statement recognition date of given business costs and the date when said costs may be deducted. These deferred tax assets recognised in the statement of financial position refer to temporary differences and, to a lesser extent, to losses which may be recovered over a very long time frame. Deferred tax assets are adjusted to the extent they are deemed to be non-recoverable in relation to income prospects and the associated expected taxable income, also taking account of tax regulations, which allows the assets to be transformed into tax credits, should specific conditions be met, regardless, therefore, of the Group's ability to generate future profit. Section 14 - Tax assets and tax liabilities, contained in Part B of Assets in these Notes to the Financial Statements, provides information on the nature and on the tests conducted as regards the recognition or otherwise of deferred tax assets.

Estimating provisions for risks and charges

The companies belonging to the Group are defendants in a wide range of lawsuits and tax disputes. The complexity of the situations and corporate deals that underlie the outstanding disputes, along with the difficulties in the interpretation of applicable law, make it difficult to estimate the liabilities that may result when pending lawsuits are settled. The difficulties lie in assessing if and what may be due and how much time will elapse before liabilities materialise and are particularly evident when the proceedings are at the initial stage and/or the relative preliminary analysis is underway.
For the disclosure of the main risk positions of the Group relating to legal disputes (clawback actions and lawsuits underway) and to disputes with the Tax Authority, the reader should refer to Section 12 - Provisions for risks and charges contained in Part B of Liabilities in these Notes to the Financial Statements.

Estimating the recoverable value of real estate assets held for investment purposes

The Group possesses real estate for investment purposes, mostly originating from properties repossessed to close an original credit position (so-called "datio in solutum" - acceptance in lieu). For these assets, in the event of indicators that could potentially show an impairment loss, the recoverable value has to be established, recognising a write-down if said value should be lower than the book value. The recoverable value is estimated by means of an external appraisal, and suffers from a certain amount of subjectivity insofar as the current prices for similar assets, used as benchmark values, are subject to adjustments to reflect the specific features of each property; the fair value calculated in this way is therefore usually classified as level 3 in the fair value hierarchy, as illustrated in Part "A.4 – Fair value disclosure" in these notes to the financial statements. In this regard, we draw attention to the fact that the difficulties related to this estimation process are particularly evident in the current scenario of the Italian real estate market, where the Group's properties are located, which has been marked by a trend of falling prices and a downtrend of the number of transactions; in the future, we can therefore not exclude a potential further reduction of the recoverable value if the real estate crisis should worsen with respect to that reported at the time these financial statements were prepared.

Estimating obligations relating to employee benefits

The calculation of the liabilities associated to employee benefits, with specific reference to defined benefit plans and to long-term benefits, implies a certain degree of complexity; the outcome of actuarial assessments depend, to a large extent, on the actuarial assumptions used in both demographic terms (such as mortality rates and employee turnover) and financial terms (such as discounting rates and rates of inflation). The judgement expressed by management is therefore fundamental when selecting the most suitable technical bases for the assessment in question; said judgement is influenced by the socio-economic climate in which the Group operates, as well as the performance of the financial markets. The main actuarial assumptions and the impact of the changes occurring during the year are illustrated in sections 10 and 11 of liabilities, contained in Part B of these Notes to the Financial Statements, for Employee termination indemnities and for defined benefit company retirement plans respectively, together with a sensitivity analysis of these provisions with respect to the actuarial assumptions retained important.

The list of valuation processes shown above is included simply to provide readers of the financial statements with a better understanding of the main areas of uncertainty, and it should in no way be considered as implying that, to date, alternative assumptions can prove more appropriate. Moreover, financial statement valuations are formulated on the basis of the going concern principle: the directors have not identified any circumstances relating to operations or to the evolution of the equity and financial situation that could cast doubts as to the ability of Group companies to be able to continue to operate as usual. Disclosures on financial risks and related controls are set forth in "Part E - Information on risks and on relative hedging policies" of the Notes to the financial statements, as well as in the Group's report on operations.

Accounting treatment of the equity interest held in the Bank of Italy

As at 31 December 2014, Banco Popolare held 3,668 stakes in the share capital of the Bank of Italy, representing 1.22% of the Bank of Italy's share capital, classified under "Financial assets available for sale" and recorded in the financial statements at a value of euro 91.7 million.
Banco holds this stake following the share capital increase of the Bank of Italy in 2013, pursuant to Italian Decree Law no. 133 of 30 November 2013 ("Italian Decree Law 133/2013") converted into Italian Law no. 5 of 29 January 2014. The share capital increase, from euro 156,000 to euro 7,500,000,000 was achieved by using reserves and by issuing new shares with a nominal value of euro 25,000, which have different equity and participation rights to those associated with the stakes held up to 31 December 2013, which were cancelled.

The unique, atypical nature of the operation, also in relation to the fact that this is a government-owned entity whose governance, including that of equity investments, is mandatorily set out by the law, required that the directors, when preparing the financial statements as at 31 December 2013, use their professional judgment to establish the most correct accounting method to represent this case. More specifically, it was retained that the substantial change in the risks and the benefits associated with the stakes after Italian Decree Law 133/2013 meant that the old instruments should be cancelled (so-called derecognition), as of 31 December 2013, and at the same time the new stakes should be recognised, based on the relative fair value, pursuant to the provisions of the reference accounting standard, IAS 39. Taking the characteristics of the stakes in question into account and the relative length of time Banco intends to hold them, as at 31 December 2013, the new stakes were recognised in the portfolio of "Financial assets available for sale" at a value of euro 91.7 million, corresponding to a unit value of euro 25,000 per stake, consistent with the estimates conducted by a group of experts, shown in a public document available on the website of the Bank of Italy entitled "An update of the value of share capital stakes". Therefore, gross capital gains of euro 55.2 million were recorded under profit on financial assets available for sale in the financial statements as at 31 December 2013, corresponding to the difference between the fair value initially recognised for the new stakes and the book value of the previous stakes that were cancelled.
Considering a substitute tax rate of 12% established by Italian Law 147/2013 ("stability law"), net capital gains as at 31 December 2013 were euro 48.2 million.
As indicated in the "Significant events during the year", on 23 June 2014, Italian Law no. 89 was approved, converting Italian Decree Law no. 66 of 24 April 2014 ("spending review"), which envisaged that the substitute tax rate for the

revaluation of the stake in the Bank of Italy will be increased to 26%, which will be applied to the nominal value of the stakes, net of the amount recognised for tax purposes. Given the new legal rate, the substitute tax to be paid was recalculated in accordance with IAS 12 standard, resulting in the figure of euro 21.5 million. This resulted in a higher tax burden of euro 14.5 million with respect to the amount allocated in 2013, and said amount was deducted from the income statement in the second quarter of 2014, in line with the accounting treatment established in 2013.
In March 2014, the Supervisory Bodies highlighted the need to provide adequate disclosure on the accounting approach adopted for the operation in question, given the complex unique and atypical profile of the same, which is not expressly regulated by international accounting standards, whilst waiting to make all of the required in-depth analysis at domestic and international level.
In this regard, we would like to state that the accounting treatment of the matter in hand was submitted to the IFRS Interpretation Committee in July 2014, which, on 11 November 2014, after a period of public consultation, decided not to issue any technical resolution, as it regarded a unique case for which no different interpretations regarding the accounting treatment to be adopted in the financial statements of the companies involved in the operation emerged.
To date, therefore, we are not aware of any accounting interpretation that differs from that adopted by the Group.

Improvements to the Group accounting policies for the valuation of credit exposures - classification according to IAS 8

During the course of 2014, and in particular in the last quarter, the Group introduced a series of improvements to its policies for the valuation of credit exposures, both to reflect various management decisions regarding the loan monitoring process, and to seek to align the same as far as possible with the parameters adopted by the ECB in the Asset Quality Review exercise, incidentally also recommended by the same Supervisory Authority. Note that the latter alignment was made with the intention of guaranteeing full compliance with the provisions envisaged by the reference accounting standard IAS 39, which establishes the objectives and the general features of the impairment model, but leaves some discretion as to the valuation approaches retained to best represent “incurred” impairment losses. In this regard, we also draw attention to the deterioration of the macroeconomic scenario in 2014 and specifically in the second half of the year, with particular regard to the manufacturing and real estate sectors.
Given the materiality of the impact of the 2014 financial statements, Management paid particular attention to correctly classifying the cited improvement measures within the three cases envisaged by accounting principle IAS 8: “changes in accounting policies”, “changes in accounting estimates” and “correction of errors”. This distinction is important insofar as the accounting treatment differs: the recalculation of the initial balances for changes in accounting policies or for correction of errors and recognition in the income statement for the year for changes in accounting estimates.
Based on the analyses conducted, we retain that the changes to the policies, procedures and estimation parameters used for the valuation of credit exposures as at 31 December 2014 can be entirely classified as “changes in accounting estimates”, insofar as:

- the measurement base, represented by the “amortised cost” has not changed;
- they originated from new information acquired, related to facts or events that emerged subsequently, also as regards the use and the reliability of the information, or to new developments, meaning changes in the circumstances on which the estimate was based or on greater experience acquired after the date on which the previous financial statements were prepared (IAS 8, paragraph 5). This process is necessarily updated on a continuous basis and is based on observations of the reference context, both internal and external, with a view to obtain the best estimate of the recoverable value, an estimate which by definition encompasses several elements of uncertainty, as better illustrated in the paragraph above “Accounting policies and uncertainties with regard to the use of estimates for drawing up the financial statements”.

In this regard, note that improvements to valuation techniques have been classified as “changes in accounting estimates”, as they have envisaged the introduction of standard/one-off parameters, based on previous experience which is expected to reoccur in the future. This is consistent with that established:

- by accounting standard IAS 8, in paragraph 35, on the basis of which where it is difficult to distinguish between a change in accounting policies and a change in accounting estimates, the change is treated as a change in accounting estimates;
- by the IFRS Interpretations Committee, on the basis of which the change in accounting estimates refers to a change both of the estimation parameters used and the valuation method adopted (IFRIC Update November 2013 and March 2014).

In the light of these considerations, the effects of the cited improvements were recognised in the income statement for 2014 and more specifically under item “130. Net losses/Recoveries on impairment of a) loans, d) other financial transactions”.
A detailed disclosure on the changes introduced to the methods adopted to estimate credit exposures and the consequent effects is provided, in accordance with that envisaged in IAS 8.39 in the paragraph entitled “Results of the Comprehensive Assessment exercise: impact on the accounts (disclosure required by Consob pursuant to art. 114, paragraph 5, of Italian Legislative Decree no. 58/98)” to which the reader should refer.

Section 3 - Scope of consolidation and consolidation methods

The consolidated financial statements include the statement of financial position and income statement results of the Parent Company and its direct and indirect subsidiaries, including structured entities, in accordance with that envisaged by accounting standard IFRS 10.

The reference date of the consolidated financial statements coincides with the closure date of the financial statements of the Parent Company. In the event of subsidiary companies which end the period on a date other than that of the Parent Company, the same are consolidated on the basis of the statement of financial position and income statement drawn up as at the reference date of the consolidated financial statements. Where necessary, the financial statements of consolidated entities, possibly drawn up on the basis of different accounting criteria, are rendered compliant with the standards of the Group.

Controlled entities are consolidated from the date on which the Group acquires control, according to the purchase method, and cease to be consolidated from the moment in which a situation of control no longer exists. The existence of control is continuously assessed, when the facts and the circumstances indicate the presence of a change in one or more of the three elements representing the control requirement, illustrated in paragraph “2. Valuations and assumptions used to establish the scope of consolidation” below.

Full consolidation entails acquiring the statement of financial position and income statement aggregates of subsidiary entities “line-by-line”, a balancing entry which eliminates the investment held by the Group in the entity, and the recognition, under the appropriate items, of minority interests. More specifically, for subsidiary entities controlled by means of an equity investment, the portion of shareholders’ equity, income (loss) for the year and comprehensive income pertaining to minority interests is indicated as a separate item in the respective schedules of the consolidated financial statements (respectively in items: “210. Minority interests”, “330. Income (loss) attributable to minority interests”, “150. Consolidated comprehensive income attributable to minority interests”).
The costs and revenues of the subsidiary entity are consolidated from the date on which control was acquired. The costs and revenues of a subsidiary sold are included in the income statement up until the date of the disposal; the difference between the sale price and the book value of the net assets of the same is recognised under the income statement item “270. Profits (Losses) on disposal of investments”. In the event of the partial disposal of a subsidiary entity, which does not result in a loss of control, the difference between the sale price and the relative book value is recognised as a balancing entry of shareholders’ equity.
For further details on the accounting treatment used in the event of the acquisition of control, changes in shareholdings and loss of control, the reader should refer to the paragraph entitled “Business combinations, goodwill and changes in shareholdings” contained in Part “A.2 - Key financial statement items” in these Notes to the Financial Statements.

The assets, liabilities, off-balance sheet transactions, income and expenses relating to transactions between consolidated companies are eliminated in full. For further details on the process to cancel a specific type of derivative instrument, the reader should refer to the paragraph below “Cancellation of infragroup derivatives linked to own liabilities designated at fair value through profit and loss”.

The statement of financial position and income statement results of the consolidated companies whose operating currency is different from the Euro are converted based on the following rules:

- the statement of financial position assets and liabilities are converted at the exchange rate in effect at the end of the period;
- the revenues and costs on the income statement are converted at the average exchange rate for the period;
- all exchange rate differences resulting from the conversion are recognised in a specific and separate reserve under shareholder’s equity. Said reserve is eliminated through a concurrent debit/crediting of the income statement when the investment is disposed of.

Investments in associates and companies subject to joint control held for sale are recorded in compliance with the reference international accounting standard IFRS 5, which regulates the recording of non-current assets held for sale.

With regard to the consolidation of associates and companies subject to joint control based on the equity method, the reader should refer to Part “A.2 - Key financial statement items” in these notes to the financial statements.

Cancellation of infragroup derivatives linked to own liabilities designated at fair value through profit and loss
The adoption of the fair value option for some bond issues, as illustrated in the paragraph entitled “Financial liabilities designated at fair value through profit and loss and determination of own creditworthiness” in “Part A.2 – Key financial statement items”, necessarily implies a series of assumptions with regard to the recognition of derivatives used as operational hedges in the consolidated financial statements. For the above issues, the fair value designation is closely linked to the actual methods the Group uses to carry out its hedging strategies, managing its market exposure in “bulk” terms, not through an equivocal or determinable relation with an individual loan or with a loan portfolio. More specifically, hedges linked to the bond issues of the Group’s issuing banks are managed by the Group’s investment bank, Banca Aletti. Infragroup derivatives entered into with Banca Aletti are recorded by the latter in its “trading

portfolio” and managed in bulk along with the other trading instruments, in observance of the limits of position and risk which can be held by Banca Aletti. In general, it can be stated that:

- by adopting the fair value option, the Group’s issuing banks can represent in the accounts the operational strategy of hedging all risks associated with the bond issues. This is also be reflected in the risk exposure of the “banking portfolio”, where the issues and related hedging derivatives are classified;
- for Banca Aletti, the risk position resulting from entering into said derivatives is added to the other existing positions or to be created with market counterparties, to be managed based on a portfolio strategy, within the set risk limits. The set of those positions is recorded in the “trading portfolio”;
- at consolidated level, this means that the risks associated with the “banking portfolio” are substantially hedged, and the actual risk exposure of the Group is the exposure resulting from management by Banca Aletti.

As at 31 December 2014, consolidation procedures envisage that the derivatives stipulated between Group companies are cancelled. In order to correctly recognise the risks related to the Group’s “trading portfolio” and to the “banking portfolio”, which would change following the cited cancellation, the derivatives that Banca Aletti has ideally stipulated with the market (in its trading portfolio) to hedge the liabilities issued by the Parent Company (in its banking portfolio), must be reclassified from the “trading portfolio” to the “banking portfolio”. Essentially, said reclassification is made assuming that said derivatives correspond perfectly to those stipulated by the Parent Company, as the bulk management of risks carried out by Banca Aletti makes it impossible to accurately identify the specific derivative contracts entered into with external counterparties. Said assumption is supported by the fact that the Banca Aletti desks, which act as counterparties to the Parent Company, transfer the risks relating to the fair value option to the market, and that the potential risk position undertaken by the same, corresponds to an approved decision, which ignores the risks undertaken by entering into said derivative contracts.

1. Equity investments in exclusively controlled companies

Company name	Operational headquarters	Registered office	Type of relationship (1)	Investment relationship		% of available votes (2)
				Holder	% held	
Banco Popolare soc. coop.	Verona	Verona	Parent Company			
1. Aletti & C. Banca di Investimento Mobiliare S.p.A.	Milan	Milan	1	Banco Popolare	83.440%	100.000%
				Holding di Partecipazioni	16.560%	
2. Aletti Fiduciaria S.p.A.	Milan	Milan	1	Banca Aletti & C.	100.000%	100.000%
3. Aletti Gestielle SGR S.p.A.	Milan	Milan	1	Banco Popolare	100.000%	100.000%
4. Arena Broker S.r.l.	Verona	Verona	1	Holding di Partecipazioni	57.300%	57.300%
5. Banca Aletti & C. (Suisse) S.A.	CH - Lugano	CH - Lugano	1	BP Luxembourg	100.000%	100.000%
6. Banca Italease S.p.A.	Milan	Milan	1	Banco Popolare	100.000%	100.000%
7. Banca Italease Funding LLC	USA - Delaware	USA - Delaware	1	Banca Italease	100.000%	100.000%
8. Banca Italease Capital Trust	USA - Delaware	USA - Delaware	1	Banca Italease Funding LLC	100.000%	100.000%
9. Banca Popolare di Lodi Capital Company LLC III	USA - Delaware	USA - Delaware	1	Banco Popolare	100.000%	100.000%
10. Banca Popolare di Lodi Investor Trust III	USA - Delaware	USA - Delaware	1	B. Pop. di Lodi Cap. Co. LLC III	100.000%	100.000%
11. Banco Popolare Luxembourg S.A.	L - Luxembourg	L - Luxembourg	1	Banco Popolare	100.000%	100.000%
12. Bipielle Bank (Suisse) S.A. (in liquidation)	CH - Lugano	CH - Lugano	1	Banco Popolare	100.000%	100.000%
13. Bipielle Real Estate S.p.A.	Lodi	Lodi	1	Banco Popolare	100.000%	100.000%
14. BRF Property S.p.A.	Parma	Parma	1	Partecipazioni Italiane	51.114%	51.114%
				Banco Popolare	14.314%	14.314%
15. BP Covered Bond S.r.l.	Milan	Milan	1	Banco Popolare	60.000%	60.000%
16. BP Property Management Soc. Consortile a r.l.	Verona	Verona	1	Banco Popolare	92.309%	100.000%
				Bipielle Real Estate	4.615%	
				Banca Aletti & C.	1.000%	
				S.G.S. BP	1.000%	
				Aletti Gestielle SGR	0.538%	
				Holding di Partecipazioni	0.538%	
17. BP Trading Immobiliare S.r.l.	Lodi	Lodi	1	Bipielle Real Estate	100.000%	100.000%
18. Essegibi Promozioni Immobiliari S.p.A.	Milan	Milan	1	Italease Gestione Beni	100.000%	100.000%
19. FIN.E.R.T. S.p.A. (in liquidation)	Rome	Rome	1	Banco Popolare	80.000%	80.000%
20. HCS S.r.l.	Milan	Milan	1	Italease Gestione Beni	100.000%	100.000%
21. Holding di Partecipazioni Finanziarie Banco Popolare S.p.A.	Verona	Verona	1	Banco Popolare	100.000%	100.000%
22. Italease Finance S.p.A.	Milan	Milan	1	Banca Italease	70.000%	70.000%
23. Italease Gestione Beni S.p.A.	Milan	Milan	1	Banca Italease	100.000%	100.000%
24. Liberty S.r.l.	Lodi	Lodi	1	Banco Popolare	100.000%	55.000%

Company name	Operational headquarters	Registered office	Type of relationship (1)	Investment relationship		% of available votes (2)
				Holder	% held	
25. Lido dei Coralli S.r.l.	S.T. di Gallura (SS)	S.T. di Gallura (SS)	1	Bipielle Real Estate	100.000%	100.000%
26. Manzoni 65 S.r.l.	Milan	Milan	1	Bipielle Real Estate	100.000%	100.000%
27. Mariner S.r.l.	Lodi	Lodi	1	Bipielle Real Estate	100.000%	100.000%
28. Milano Leasing S.p.A. (in liquidation)	Milan	Milan	1	Banco Popolare	99.999%	99.999%
29. Nadir Immobiliare S.r.l.	Lodi	Lodi	1	Bipielle Real Estate	100.000%	100.000%
30. Partecipazioni Italiane S.p.A. (in liquidation)	Milan	Milan	1	Banco Popolare	99.966%	100.000%
31. P.M.G. S.r.l. (in liquidation)	Milan	Milan	1	Banco Popolare	84.000%	84.000%
32. Release S.p.A.	Milan	Milan	1	Banca Italease	80.000%	80.000%
33. Sirio Immobiliare S.r.l.	Lodi	Lodi	1	Bipielle Real Estate	100.000%	100.000%
34. Società Gestione Servizi BP Soc. Consortile p. az.	Verona	Verona	1	Banco Popolare	88.500%	100.000%
				Banca Aletti & C.	10.000%	
				Aletti Gestielle SGR	0.500%	
				Bipielle Real Estate	0.500%	
				Holding di Partecipazioni	0.500%	
35. Sviluppo Comparto 2 S.r.l.	Milan	Milan	1	Bipielle Real Estate	100.000%	100.000%
36. Sviluppo Comparto 6 S.r.l.	Lodi	Lodi	1	Bipielle Real Estate	100.000%	100.000%
37. Sviluppo Comparto 8 S.r.l.	Lodi	Lodi	1	Bipielle Real Estate	100.000%	100.000%
38. Terme Ioniche S.r.l.	Milan	Milan	1	Bipielle Real Estate	100.000%	100.000%
39. Tecmarket Servizi S.p.A.	Verona	Verona	1	Banco Popolare	100.000%	100.000%
40. Tiepolo Finance S.r.l.	Lodi	Lodi	1	Banco Popolare	60.000%	60.000%
41. Tiepolo Finance II S.r.l.	Lodi	Lodi	1	Banco Popolare	60.000%	60.000%
42. TT Toscana Tissue S.r.l.	Lodi	Lodi	1	Banco Popolare	100.000%	100.000%
43. Verona e Novara (France) S.A. (in liquidation)	F – Paris	F – Paris	1	BP Luxembourg	99.748%	99.802%
44. Bipitalia Residential S.r.l. (*)	Milan	Milan	4	Banco Popolare	4.000%	4.000%
45. BP Mortgages S.r.l. (*)	Milan	Milan	4	-	0.000%	
46. BPL Mortgages S.r.l. (*)	Conegliano V. (TV)	Conegliano V. (TV)	4	-	0.000%	
47. BPV Mortgages S.r.l. (*)	Verona	Verona	4	-	0.000%	
48. Erice Finance S.r.l. (*)	Conegliano V. (TV)	Conegliano V. (TV)	4	-	0.000%	
49. Gestielle Hedge High Volatility (**)	Milan	Milan	4	Banco Popolare	64.275%	
				Banca Aletti & C.	8.979%	
50. Gestielle Hedge Low Volatility (**)	Milan	Milan	4	Banco Popolare	53.006%	
				Banca Aletti & C.	4.490%	
51. Gestielle Hedge Multi-Strategy (**)	Milan	Milan	4	Banco Popolare	75.519%	
				Banca Aletti & C.	11.390%	
52. Gestielle Hedge Opportunity (**)	Milan	Milan	4	Banco Popolare	71.862%	
53. Italfortune International Fund Sicav (**)	L - Luxembourg	L - Luxembourg	4	Banco Popolare	88.032%	
54. Italfinance RMBS S.r.l. in liquidation (*)	Trento	Trento	4	-	0.000%	
55. Italfinance Securitisation VH 1 S.r.l. (*)	Conegliano V. (TV)	Conegliano V. (TV)	4	Banca Italease	9.900%	9.900%
56. Italfinance Securitisation VH 2 S.r.l. (*)	Conegliano V. (TV)	Conegliano V. (TV)	4	-	0.000%	
57. Leasimpresa Finance S.r.l. (*)	Conegliano V. (TV)	Conegliano V. (TV)	4	-	0.000%	
58. Pami Finance S.r.l. (*)	Milan	Milan	4	-	0.000%	

(1) Type of relationship:
1 = majority of voting rights in the ordinary shareholders' meeting
4 = other forms of control
(2) Availability of votes in the ordinary shareholders' meeting, distinguishing between actual and potential
(*) Special Purpose Entity for securitisation transactions originated by the Group.
(**) UCIT units managed by the Group.

Changes in the scope of consolidation

The changes in the scope of consolidation with respect to the situation as at 31 December 2013 are shown in the table below:

Companies consolidated line-by-line		
Companies consolidated as a result of acquisitions		%
Manzoni 65 S.r.l.		100%
Sviluppo Comparto 2 S.r.l.		100%
Terme Ioniche S.r.l.		100%
Companies no longer consolidated due to mergers		
Name of merged company	**Name of merging company**	
Credito Bergamasco S.p.A.	Banco Popolare Soc. Coop.	
Aletti Trust S.p.A.	Aletti Fiduciaria S.p.A.	
RI Investimenti Due S.r.l.	Sviluppo Comparto 8 S.r.l.	
Company no longer consolidated due to disposal		
Banco Popolare Croatia d.d.		
Companies no longer consolidated due to company liquidation		
Seefinanz S.A. (in liquidation)		
Royle West (in voluntary liquidation)		

Companies consolidated at equity	
Companies consolidated as a result of acquisitions (credit collection)	%
Motia Compagnia di Navigazione S.p.A.	25%
Company no longer consolidated due to disposal	
Finoa S.r.l.	
Companies no longer consolidated due to company liquidation	
Phoenix S.p.A. (in liquidation)	
Estates Capital Venture S.A. (in liquidation)	

For further details on the transactions described, please refer to the section in this Report on operations that illustrates the significant events that occurred during the year.

2. Valuations and assumptions used to establish the scope of consolidation

The scope of consolidation is established in accordance with the provisions contained in international accounting standard IFRS 10 “Consolidated financial statements”, which came into effect as of 2014. Based on the cited standard, the requirement of control is the basis for the consolidation of all types of entity, including structured entities, and is met when an investor simultaneously has:

- the power to direct the relevant activities of the entity;
- is exposed to or benefits from variable returns resulting from its involvement with the entity;
- has the ability to use its power to affect the amount of said returns (link between power and returns).

IFRS 10 establishes therefore that, in order to have control, the investor must have the ability to direct the relevant activities of the entity, by virtue of a legal right or of a mere state of fact, and must also be exposed to changes in the results that result from said power.
The Group therefore consolidates all types of entity when all three control elements are present.

Generally, when an entity is considered direct by virtue of voting rights, control results from holding over half of the voting rights.
In the other cases, establishing the scope of consolidation requires all factors and circumstances that give the investor the practical ability to unilaterally conduct the relevant activities of the entity (actual control). To this end, a set of factors has to be considered, such as, merely by way of example:

- the purpose and the design of the entity;
- the identification of the relevant activities and how they are managed;
- any right held by means of contractual arrangements which awards the power to direct the relevant activities, such as the power to establish the financial and operating policies of the entity, the power to exercise majority voting rights in the decision-making body or the power to appoint or remove the majority of the body with decision-making functions;
- any voting rights that may potentially be exercised and that are considered substantial;

- involvement with the entity in the role of agent or principal;
- the nature and dispersion of any rights held by other investors.

The following paragraphs provide further details on the scope of entities controlled exclusively as at 31 December 2014, broken down into companies controlled through voting rights and structured entities.

Companies controlled through voting rights
With reference to the Group's situation as at 31 December 2014, companies in which a majority of voting rights in the ordinary shareholders meeting is held are considered to be exclusively controlled, insofar as there is no evidence that other investors have the practical ability to direct the relevant activities.
As regards companies in which half or a lower amount of voting rights are held, as at 31 December 2014, there are no arrangements, statutory clauses, or situations able to establish that the Group has the practical ability to unilaterally direct the relevant activities.

Consolidated structured entities
As regards structured entities, namely entities for which voting rights are not considered relevant to establish control, such as special purpose entities and investment funds, control is retained to exist where the Group has contractual rights to manage the relevant activities of the entity and is exposed to the variable returns of the same.
As at 31 December 2014, the special purpose entities that are consolidated are represented by those established for the purpose of completing the securitisation of its own receivables; in this case, the elements retained relevant for the consolidation are represented by the purpose of said entities, by the exposure to the results of the transaction, by the ability to direct the relevant activities through servicing contracts and, lastly, by the ability to organise the liquidation of the entity.
As regards structured entities represented by mutual investment funds, the Group considers all of the facts and circumstances to establish whether it is acting as an agent or principal. The Group is retained to act as principal and therefore controls and consolidates the funds when (i) it acts as the fund manager and there are no substantial rights held by other investors; (ii) it is exposed to the variable returns of the fund, by directly holding relevant interests in addition to any other form of risk exposure related to the economic results of the fund (such as management and performance commissions); (iii) it is able to influence said returns by exercising its power as fund manager.
As at 31 December 2014, five UCITs managed by the Group company, Aletti Gestielle SGR S.p.A., were consolidated, with relation to which the Group's exposure to variable returns, mainly resulting from the interest held by the Parent Company, was retained significant. These are the Gestielle Hedge High Volatility, Gestielle Hedge Low Volatility, Gestielle Hedge Multi-Strategy and Gestielle Hedge Opportunity funds and the only "Global Total Return" segment of the Sicav Italfortune International Fund.
For further details regarding the impacts of such consolidation process of the funds refer to Part E – Section 1 – D. Disclosure on structured entities (other than companies for securitisations).

3. Investments in exclusively controlled companies with significant minority interests

As regards entities controlled by means of an equity investment, minority interest as at 31 December 2013 amounted to euro 349 million, of which euro 273.6 million referred to the subsidiary Credito Bergamasco, 22.181% of which is held by minority interest (corresponding to the stake in share capital and the availability of voting rights held by minority shareholders). This investment is the only one considered significant as at 31 December 2013 as shown in the table of "Section 16 - Minority interests" contained in Part B of liabilities in these notes to the financial statements.

Following the corporate operations performed in 2014, with specific reference to the merger by incorporation of the subsidiary Credito Bergamasco into the Parent Company, as at 31 December 2014, the share of comprehensive income charged to minority interests amounted to euro 38.7 million and is mainly represented by the respective share of losses for the year; as at the same date minority interest amounted to euro 12.1 million.
As at 31 December 2014, minority interests in subsidiary companies are not considered significant to the Group either individually or overall; therefore no disclosures are made in paragraphs 3.1 and 3.2 below.

3.1 Minority interests, voting rights available to minority interests and dividends distributed to minority interests

No disclosures are made insofar as for the Group, as at 31 December 2014, there were no minority interests considered significant.

3.2 Equity investments with significant minority interests, accounting information

No disclosures are made insofar as for the Group, as at 31 December 2014, there were no minority interests considered significant.

4. Significant restrictions

As at 31 December 2014, there are no legal or substantial constraints or restrictions able to hinder the rapid transfer of capital resources within the Group. The only restrictions are those related to legislation and regulations, which may require a minimum amount of own funds to be maintained, or to the provisions of the Italian civil code on allocatable profits and reserves.
Furthermore, we hereby state that there are no protection rights held by minority interest able to restrict the Group's ability to access or to transfer assets between Group companies or to settle Group liabilities, also with regard to the fact that, as at 31 December 2014, there are no subsidiary companies with significant minority interest, as illustrated in the paragraph above.

5. Other information

All subsidiaries draw up financial statements as at 31 December 2014, corresponding to the end date of the consolidated financial statements (and the separate financial statements of the Parent Company).

Section 4 - Events occurring after the date of the financial statements

The following paragraphs illustrate the most significant events that occurred between the date of the financial statements and the approval of the draft financial statements by the Board of Directors.

Evolution of the network distribution model

In addition to that implemented in 2014, and in line with the timing of the Project to develop the distribution model, in 2015 (effective 12 January) we proceeded with the further reduction of the number of Business Areas, in particular, cutting the current 5 areas in Sicily down to 4 and the current 4 in Rome down to 2.

Furthermore, Banco Popolare's business model was extended to the Creberg Division, identifying, in line with the features and the potential of the area, business branches where corporate activities should be concentrated, reducing the current 86 business branches of the Division to 30.

Conclusion of liquidation of investee companies

In January 2015, the liquidation of the associated company Alfa Iota 2002 S.r.l., in which Banco Popolare held a 35% stake was completed with the cancellation of the same from the Company Register. This operation will not have an impact on the statement of financial position or the income statement insofar as the consolidated book value, calculated using the equity method, was in line with the outcome of the liquidation procedure.

Securitisation transactions

On 23 January 2015, following some changes to the rating method adopted, Moody's upgraded the Senior Note of the BPL Mortgages 5 operation from "A2" to "Aa2", the Senior Note of the BPL Mortgages 6 operation from "A2" to "A1" and, with reference to the BPL Mortgages 7 operation, upgraded the rating of the Senior Note from "A2" to "A1" and of the Mezzanine Note from "Baa2" to "A3".

In January 2015, Banco Popolare, as Originator, approved several measures to support the "BP Mortgages 1" and "BP Mortgages 2" securitisation operations in order to protect the ratings of the Senior Notes issued. More specifically, among other things, the repurchase of a part of the non performing loans was approved, an option envisaged in the contract, so as to transfer the funds needed by the SPE to bring the Cash Reserves of both operations back up to the target level and to eliminate the shortfall created in the structure of the "BP Mortgages 1" operation.

Section 5 - Other aspects

Financial statements approval and publication terms

Art. 154-ter of Italian Legislative Decree 59/98 (CFL), prescribes that within one hundred and twenty days from the end of the financial year, the financial statements must be approved and the financial report consisting of the draft individual financial statements and the consolidated financial statements, the report on operations and the declaration pursuant to article 154-bis, paragraph 5, must be published.

The draft financial statements were approved by the Board of Directors on 11 February 2015 and will be submitted to the approval of the Shareholders' Meeting, on first call, on 10 April 2015.

Auditing

The individual and consolidated financial statements have been audited by Reconta Ernst & Young S.p.A. pursuant to Italian Legislative Decree 58/98, in execution of the 2007/2015 engagement assigned to this company with the shareholders' resolution of 1 April 2007. The full auditors' report, together with the annual financial report, is made available to the public, pursuant to art. 154-ter of Italian Legislative Decree 58/98.

New accounting standards or amendments to accounting standards validated by the European Commission

From 2014, several accounting standards or amendments to existing accounting standards issued by the IASB and validated by the European Commission are now mandatory; the Group has opted for the early adoption of the same in previous years. The following paragraphs provide an illustration of said standards/amendments, together with a short description of the effects and reference to the disclosure provided in these notes to the financial statements.

Regulation no. 1254 of 11 December 2012 – IFRS 10, IFRS 11, IFRS 12, amendments to IAS 27 and IAS 28 (and subsequent amendments validated with Regulation no. 313 of 4 April 2013 "transition guidance" and with Regulation no. 1174 of 20 November 2013 for subsidiaries of investment entities)
With the above Regulations, the European Commission validated several new standards and approved amendments to existing standards, also approved by the IASB in 2011 and 2012.
The objective of IFRS 10 "Consolidated Financial Statements" is to provide a single model for consolidated financial statements, which envisages control as a basis for all types of entity, as a replacement of the standards envisaged by IAS 27 "Consolidated and Separate Financial Statements" and by SIC 12 "Consolidation - Special Purpose Entities". An investor has control when it simultaneously has: power over the entity, is exposed to or benefits from variable returns resulting from the relationship with the entity and has the ability to affect those returns through power over the entity. In addition, in IFRS 10, methods for the preparation of consolidated financial statements are illustrated, which substantially represents a transposition of the criteria contained in previous standard IAS 27.
IFRS 11 "Joint Arrangements" establishes the accounting principles for entities that jointly control an arrangement and replaces IAS 31 "Interests in Joint Ventures" and SIC 13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". The standard requires the entity to establish the type of arrangement it is involved in, assessing its rights and obligations. The interests held in a joint venture, in which the parties sharing joint control have rights over the net assets of the arrangement, are recognised as an equity investment, to be valued under equity, in compliance with the new version of IAS 28. Based on the new standard, the proportional consolidation of interests in joint ventures is no longer permitted.
IFRS 12 "Disclosure of interests in other entities" is a new standard that covers disclosure requirements for all forms of interest in subsidiaries, associates, structure non-consolidated entities and joint control arrangements. The purpose of the document is to enable the presence and nature of the risks of the investment to be assessed, as well as the impact of the investment on the company's equity, financial and economic situation.
Following the introduction of new standards IFRS 10, IFRS 11 and IFRS 12, standards IAS 27 and IAS 28 were amended. More specifically, standard IAS 27, which was renamed "Separate Financial Statements", contains the principles for accounting and the disclosures to provide in separate financial statements related to investments in subsidiaries, joint ventures and associates. Standard IAS 28, renamed "Investments in Associates and Joint Ventures" outlines the accounting of investments in associates and the requirements for the application of the equity method to the accounting of investments in associates and joint ventures. The standard also provides a definition of the term "significant influence", which forms the basis for the recognition of interests in associated companies, which is substantially in line with that envisaged in the previous version of IAS 28.

The cited amendments have not had any impact on the Group insofar as on the date of initial application (1 January 2014), no change was made to the scope of consolidation resulting from the new definition of "control". Therefore no restatement of comparative balances relating to 2013 was needed.
The new information requirements introduced by standard IFRS 12, assimilated in Circular no. 262 with the update of 22 December 2014, are provided in the following parts of these notes to the financial statements:

- "Part A – Accounting policies": "Part A.1 – General part", "Part A.2 – Key financial statement items";
- "Part B – Information on the consolidated statement of financial position": "Section 10 – Investments in associates and companies subject to joint control – Item 100";
- "Part E – Information on risks and relative hedging policies": "Section 1 – Risks of the Banking Group, 1.1 Credit risk".

Regulation no. 1256 of 13 December 2012 – IAS 32

With the cited regulation, the amendments to standard IAS 32 "Financial Instruments: Presentation" approved by the IASB on 16 December 2011, were validated. This amendment introduces several paragraphs to the application guide for the standard, whose purpose is to clarify the way in which the rules in force are to be applied as regards offsetting of financial assets and liabilities in the statement of financial position, on the basis of which it is only possible to indicate the net balance when the entity currently has the legal right to offset the amounts recognised in the accounts and intends to extinguish by the net residual amount, or sell the asset and simultaneously extinguish the liabilities. More specifically, it is clarified that the right to offset must not be subject to a future condition precedent and must be legally exercisable both during the normal course of the company's business and in the event of non-fulfilment, bankruptcy or any other settlement proceeding that regards the entity and all of its counterparts.
Considering the Group's continuing operations in financial instruments and related contractual agreements, the application of the Regulation in question has not resulted in any changes compared to the previous methods for recognition of statement of financial position balances.

Regulation no. 1375 of 19 December 2013 – IAS 39

The change introduced by this regulation requires that, where a derivative which has been designated as a hedging instrument, the contract is novated from an existing counterparty to a central counterparty as a consequence of laws or regulations, this does not result in the termination of the hedging relationship, provided that any changes in the hedging instrument are limited to those necessary to substitute the counterparty. In this regard, note that said amendment is not significant for the Group, as no novation of hedging derivatives was carried out with central counterparties in 2014.

The paragraphs below illustrate the Regulations validated by the European Commission in 2014, which have not been applied in the preparation of this Financial Report, even where early application is envisaged. Preliminary analyses conducted to date have not indicated any significant impact for the Group.

Regulation no. 634 of 13 June 2014 - IFRIC 21

The interpretation provides some guidelines on the recognition in the accounts of several levies that are not covered by standard IAS 12. More specifically, the obligating event for the recognition of the liability associated with the levy is specified (such as, for example, the obligation to pay the levy is triggered when a minimum threshold of revenue is reached or by the fact that the entity will be operational at a certain future date). This interpretation is applicable at the latest from the financial year starting 17 June 2014 or subsequently: for the Banco Popolare Group, mandatory application will therefore be effective from financial year 2015.

Regulation no. 1361 of 18 December 2014 – IFRS 3, 13, IAS 40

The above regulation validated the "Annual cycle of improvements for 2011-2013" published by the IASB on 12 December 2013 as part of the ordinary activities to rationalise and clarify the international accounting standards, with a view to resolving any inconsistencies and to providing clarification on methods. The changes are applicable at the latest from the year starting 1 January 2015 or subsequently: for the Banco Popolare Group, mandatory application will therefore be effective from financial year 2015.

Regulation no. 28/2015 of 17 December 2014 – IFRS 2, 3, 8 IAS 16, 24, 37, 38, 39

The above regulation validated the "Annual cycle of improvements for 2010-2012" published by the IASB on 12 December 2013 as part of the ordinary activities to rationalise and clarify the international accounting standards, with a view to resolving any inconsistencies and to providing clarification on methods. Said regulation, which came into effect in January 2015 following its publication in the European Official Gazette, envisages the application of the changes at the latest from the financial year starting 1 February 2015 or subsequently: for the Banco Popolare Group, mandatory application will therefore be effective from financial year 2016.

Regulation no. 29/2015 of 17 December 2014 – IAS 19

The regulation introduces several amendments to IAS 19 "Employee benefits" on the accounting treatment of defined benefit plans, which envisage a contribution by the employee, based on whether the amount of the contributions depends on the number of years of service or not. Said regulation, which came into effect in January 2015 following its publication in the European Official Gazette, envisages the application of the changes at the latest from the financial year starting 1 February 2015 or subsequently: for the Banco Popolare Group, mandatory application will therefore be effective from financial year 2016.

For the sake of completeness, on the date of approval of this report, and limited to cases that potentially affect the Group, the IASB has issued the following new standards and interpretations/amendments to existing standards:

- IFRS 9 "Financial instruments" issued on 24 July 2014, which has replaced the previous versions published in 2009 and 2010 as regards "classification and measurement" and in 2013 as regards "hedge accounting". This publication marks the completion of the reform process for standard IAS 39, which breaks down into the three sections of "classification and measurement", "impairment" and "hedge accounting"; the review of macro hedge accounting rules has yet to be concluded, although is being managed under a separate project with respect to IFRS 9. In brief, the new standard introduces new rules for:
  - the classification and measurement of financial assets, based on the business model and the characteristics of the instrument;
  - a single impairment model, based on the concept of "forward-looking expected loss", with a view to guaranteeing a more immediate recognition of losses with respect to the IAS 39 "incurred loss" model, on the basis of which losses can only be recognised if there is objective evidence of impairment subsequent to the initial recognition of the asset;
  - the acknowledgement and recognition of hedge accounting relations, with the objective of guaranteeing greater alignment between the representation of hedges in the accounts and risk management logic;
  - the accounting of so-called "own credit", namely of changes in the fair value of liabilities designated under the fair value option, attributable to fluctuations of its own creditworthiness. The new standard envisages that these changes must be recognised in a net equity reserve, instead of in the income statement as envisaged instead by standard IAS 39, therefore eliminating a source of volatility from income statement results, which has become particularly evident at times of economic-financial crisis.

  The mandatory application of the standard is envisaged from 1 January 2018, with an option for the early application of the standard as a whole or of the changes relating to the accounting treatment of "own credit" for financial liabilities designated at fair value;
- Amendments to standards IFRS 10, 12 and IAS 28 issued on 18 December 2014 regarding the recognition in the accounts of investment entities;
- Amendments to standard IAS 1 issued on 18 December 2014, as part of the project to improve the financial statement presentation and disclosures, including amendments relating to displaying changes in reserves resulting from the valuation under equity of interests considered as joint control or significant influence in the statement of comprehensive income;
- Projects to improve several IFRS (2012-2014), issued on 25 September 2014;
- Changes to standards IFRS 10 and IAS 28 issued on 11 September 2014, which regulate the accounting treatment of transactions entailing selling or assigning assets between an investor and its associate or joint venture, based on whether the transaction can be considered a "business" transaction according to IFRS 3;
- Amendment to standard IAS 27 issued on 12 August 2014, according to which the option to use the net equity method in the separate financial statements to measure investments in subsidiary and associated companies and joint ventures is introduced in addition to the current cost or fair value options;
- IFRS 15 "Revenues from contracts with customers", issued on 28 May 2014;
- Amendments to standards IAS 16 and IAS 38 containing several clarifications on acceptable methods for the recognition of depreciation and amortisation of property and equipment and intangible assets, issued on 12 May 2014;
- Amendments to standard IFRS 11 relating to the accounting of joint ventures, approved on 6 May 2014.

None of the above-listed standards apply to the consolidated financial statements as at 31 December 2014, insofar as their application is conditional to EU validation, which had not yet occurred at the date of this report.

Illustration of changes to financial statements restated for comparative purposes

For comparative purposes, the figures relating to the previous year have been adjusted in order to enable a like-for-like comparison with the representation criteria adopted for the preparation of the financial statements as at 31 December 2014.
More specifically, note that the statement of financial position shows a decrease of the balance of asset item "20. Financial assets held for trading" of euro 641.1 million, and a corresponding change in liability items (item "40. Financial liabilities held for trading" net of the impact of consolidating entries recognised under item "100. Other liabilities", recorded a decrease of euro 641.3 million). More specifically, this regarded derivatives related to bond issues designated at fair value at the time of issue, stipulated between the Group's issuer banks and the subsidiary Banca Aletti, which had not been intentionally cancelled in the 2013 financial statements. The decision not to make said cancellation was due to the need to ensure the correct differentiation between the "banking portfolio" and the "regulatory portfolio"; the effects in terms of "expanding" statement of financial position balances and the consequences on the tables of the notes to the financial statements (Part E) were disclosed in last year's Consolidated Financial Statements. In-depth analysis conducted at the time of preparation of these financial statements has led us to recognise the same in a different way; in order to avoid the "expansion" of the balances, of both assets and liabilities,

and at the same time, to guarantee the correct allocation of risks between the banking and trading portfolios, we decided to cancel the infragroup derivatives and simultaneously reclassify the derivatives stipulated by Banca Aletti with the market, assuming that the same correspond perfectly with those stipulated by the Parent Company to hedge its own bond issues. For further details, refer to the specific paragraph contained in "Part A, Section 3 - Scope of consolidation and consolidation methods" in these notes to the financial statements.

A.2 - KEY FINANCIAL STATEMENT ITEMS

The financial statements as at 31 December 2014 were drawn up applying the same accounting standards used for drawing up the consolidated financial statements for the previous year, supplemented by the amendments validated and in force from 2014, as illustrated in Section 5 – Other Aspects, A.1 General Part.

The accounting standards applied are illustrated below, broken down by financial statement item.

1- Financial assets held for trading

This category exclusively contains debt securities and equity instruments, UCIT units and the positive value of derivative contracts held for trading, as well as derivatives related to assets and liabilities designated at fair value through profit and loss. Derivative contracts include those embedded in structured financial instruments that have been recognised separately from their host contract because:

- their economic characteristics and risks are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of derivative;
- the hybrid instruments to which they belong are not designated at fair value with changes in fair value through profit or loss with the related changes recorded in the income statement.

Financial assets are initially recognised on the settlement date in case of debt securities and equity instruments, and on the subscription date for derivative contracts.
Upon their initial recognition, financial assets held for trading are designated at fair value, which generally corresponds to the price paid, excluding transaction costs or revenues that are directly attributable to the financial instruments, that are recognised in the income statement. Any derivatives embedded in complex contracts, which are not closely related to their host contracts and qualify as derivatives, are separated from their host contracts and designated at fair value, while the host contracts are accounted for according to their relevant accounting standard.

Subsequent to initial recognition, financial assets held for trading are designated at fair value, with recognition of changes as a matching balance to the income statement.

To determine the fair value of financial instruments listed on an active market, market listings are used. In the absence of an active market, estimate methods and valuation models are used that take into account all the risk factors associated with the instruments and that are based on market inputs, such as: methods based on the valuation of other listed instruments that are substantially the same, discounted cash flow analysis, option pricing models, and values recognised in recent comparable transactions. Please refer to "Part A.4 – Fair value disclosure" for details on how fair value is determined.

In the event that no reliable estimate of the fair value is possible in keeping with the above guidelines, equity instruments and related derivatives are valued at cost and are written down in the event of impairment losses. Said impairment losses cannot be reversed.

Financial assets are derecognised when the contractual rights to receive the cash flows generated by the assets have expired, or when the financial assets are disposed of, and all risks and rewards of ownership of the assets have been substantially transferred.
Trading profits or losses and gains or losses as a result of the valuation of the trading portfolio are recognized in income in the item "80. Profits (losses) on trading", except for income or loss on derivatives connected with the fair value option, which are classified in item "110. Profits (losses) on financial assets and liabilities designated at fair value".

Reclassifications to other categories of financial assets (Loans, Financial assets available for sale, Investments held to maturity) are possible only in rare circumstances or if certain conditions for recognition are met as explained in the following paragraph "18- Other information, Reclassifications among financial asset portfolios (amendment to IAS 39)".

2 - Financial assets available for sale

This category includes non-derivative financial assets not designated as Loans, Assets held for trading, Investments held to maturity or Assets designated at fair value.
Specifically, this category also includes shareholdings that are not held for trading and do not qualify as investments in subsidiaries, associates and entities under joint control, including private equity investments, as well as the portion of subscribed syndicated loans that had been designated at origin as available for sale and bonds not held for trading.
Financial assets are initially recognised on the settlement date in case of debt securities and equity instruments, and on the disbursement date for other financial assets not classified as loans.
Upon their initial recognition, assets are designated at fair value, which generally corresponds to the price paid, including transaction costs or revenues that are directly attributable to the instruments. If recognition follows a reclassification of Investments held to maturity or of Financial assets held for trading, assets will be recognized at their fair value at the time of transfer, which shall represent the new amortised cost for debt securities. Recognition following a reclassification of "Financial assets held for trading" can take place only in rare circumstances and in any event only if the asset is no longer held for trading in the short term as described in the following paragraph "18 - Other information, Reclassifications among financial asset portfolios (amendment to IAS 39)", to which reference is made.

Subsequent to initial recognition, assets available for sale continue to be designated at fair value with recognition of the portion of interest resulting from the application of amortised cost in the income statement, while income or losses generated by changes in fair value are recognized in a specific shareholders' equity reserve until the financial asset is derecognised or an impairment loss is recognised, and the entire difference between the book value and the sale price or fair value is recognized through profit or loss. Please refer to "Part A.4 – Fair value disclosure" for details on how fair value is determined.

In the event that no reliable estimate of the fair value is possible, equity instruments and related derivatives are valued at cost and are written down in the event of impairment losses.
Impairment tests to assess if there is objective evidence of impairment are conducted at each balance sheet date or interim reporting date. For further details on events reflecting an impairment loss, please see the information set forth in the following paragraph "18 - Other information, Methods for determining impairment losses on financial assets".

For equity instruments, a possible sign of impairment is represented by a significant or prolonged reduction in fair value below the original book value. The Group's impairment policy thus establishes parametric thresholds (connected to the significant or prolonged nature of the reduction in fair value) which, once exceeded, requires the recognition of a loss to the income statement, save for exceptional circumstances. These thresholds have been established taking into account the specific features and distinctive nature of the various types of investment.
In particular, for equity instruments, surpassing one of the following thresholds is considered evidence of impairment:

- a reduction of fair value exceeding 30% with respect to the original book value; or
- a persistent decrease for an uninterrupted period exceeding 24 months.

In addition to direct investments in company equity (equity instruments in the strict sense), the Group also holds investments in private equity funds and in similar investment vehicles (UCIT units, SICAVs, investments in associates and companies subject to joint control or other similar structures) whose objective is to invest directly and/or through other private equity funds and corporate vehicles in equity instruments and similar instruments. As this type of investments have a medium-long time horizon, surpassing one of the following thresholds is considered evidence of impairment:

- a reduction of fair value exceeding 40% with respect to the original book value; or
- a persistent decrease for an uninterrupted period exceeding 60 months; or
- a reduction of fair value exceeding 30% and lasting for an uninterrupted period exceeding 36 months.

In the absence of a violation of the above automatic thresholds, qualitative analyses are carried out to check for impairment in case of:

- debt securities that show a decrease in fair value greater than 20% of the original book value, adjusted by the amortised cost;
- equity instruments that show a decrease in fair value greater than 20% of the original book value or lasting for more than 12 months.

In the latter cases, a difference between the fair value and the book value is not by itself sufficient to conclude that an impairment loss has occurred. This evidence is simply an initial sign of possible impairment, which must, nonetheless, be supplemented by a qualitative analysis to identify any negative events which could lead to the belief that the book value of the assets may not be fully recovered.
The impairment loss recognised following exceeding the automatic thresholds or qualitative analysis is charged to the income statement as a cost for the year. If the reasons for an impairment loss are no longer valid due to an event occurring after the impairment was originally recognised, write-backs are recognised in the income statement if referring to debt securities or loans, or to a specific shareholders' equity reserve in case of equity instruments. For debt

securities and loans, the write-backs, in any event, cannot result in a book value higher than the instrument's amortised cost in the absence of previous adjustments.
Financial assets are derecognised when the contractual rights to receive the cash flows generated by the assets have expired, or when the financial assets are disposed of, and all risks and rewards of ownership of the assets have been substantially transferred.
Financial assets available for sale can be reclassified under "Investments held to maturity", if:
- a change occurs in the intent or ability to hold the asset to maturity;
- no reliable fair value measurement is available (rare circumstances);
- the tainting rule period has expired and the portfolio of investments held to maturity can be reinstated.

It is also possible to carry out a reclassification in the "Loans" portfolio, when conditions are met as described in the following paragraph "18 - Other information, Reclassifications among financial asset portfolios (amendment to IAS 39)".

3- Investments held to maturity

This category includes debt securities with fixed or determinable payments and fixed maturity date, which the Group has the intention and ability to hold to maturity. If, as a result of a change in intention or ability it is not longer suitable to recognise an investment as held to maturity, the asset is reclassified as available for sale.

Financial assets are initially recognised on the settlement date. Upon their initial recognition, financial assets classified in this category are designated at fair value, which generally corresponds to the price paid, including any transaction costs or revenues that are directly attributable. If the recognition in this category follows a reclassification from Assets available for sale or Financial assets held for trading, the fair value of the asset at the date of reclassification is recognised as the asset's new amortised cost. For reclassifications of Financial assets held for trading, which is possible in rare circumstances, please refer to the following paragraph "18- Other information, Reclassifications among financial asset portfolios (amendment to IAS 39)".

Subsequent to initial recognition, investments held to maturity are measured at amortised cost, using the effective interest rate method. Gains or losses from changes in fair value of investments held to maturity are recognised in the income statement at the time the assets are derecognised. Impairment tests to assess if there is objective evidence of impairment are conducted at each balance sheet or interim reporting date. In case of objective evidence, the impairment is measured as the difference between the asset's book value and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the impairment loss is recognised in the income statement. If the reasons for an impairment loss are no longer valid due to an event occurring after the impairment was recognised, write-backs are recognised in the income statement.

Financial assets are derecognised when the contractual rights to receive the cash flows generated by the assets have expired, or when the financial assets are disposed of, and all risks and rewards of ownership of the assets have been substantially transferred.
The only possible reclassification out of this portfolio is to the portfolio of "Financial assets available for sale". If a significant amount of investments held to maturity are disposed of or transferred before their maturity, the entire portfolio must be reclassified to the category of financial assets available for sale and it is then prohibited to classify any assets as held to maturity for the current and next two full financial years (tainting rule), unless the sales and the reclassifications:
- are so close to maturity or to the option date of the financial asset that the fluctuations in the interest rate on the market would have no material effect on the fair value of the financial asset;
- occur after having received substantially all the original principal of the financial asset;
- are attributable to an isolated, non-recurring event, out of the company's control that could not reasonably be foreseen, for example a material downgrading of the creditworthiness of the entity which issued the financial asset.

4- Loans

Loans include loans to customers and to banks, either originated or acquired from third parties, with fixed or determinable payments, that are not listed in an active market and that were not originally designated as financial assets available for sale. Loans include trade receivables and acquired as a result of a private placement or subscription, with fixed or determinable payments, not listed on an active market. As to loans acquired without recourse, they are classified as loans, provided there are no contract provisions that significantly alter the risk exposure of the assignee company.
Cash loans include loans originated through financial leases (which, in line with IAS 17, are recognised according to the "financial method"). These also include assets waiting to be granted under financial lease, including real estate under construction. Assets waiting to be leased are recognised on stipulation of the contract, under loans for "Other

operations” and are transferred to loans for “financial leases” when the contracts begin to generate income.
This category also includes “repurchase agreements” requiring the security to be sold on expiry and “securities lending” transactions backed by the deposit of a collateral in cash which the lender has full access to. Said transactions are recognised as loans and do not give rise to any changes in the portfolio of owned securities.

Loans are initially recognised on the disbursement date or, in case of debt securities, on the settlement date, based on the fair value of the financial instrument. The recognition is usually equal to the amount disbursed, or the subscription price, including costs/income directly associated to the individual loan and that can be determined from the start of the transaction, although settled later on. Costs are excluded, that, although carrying the above characteristics, are repaid by the borrowing counterparty or fall under normal internal administrative costs.
If the recognition in this category follows a reclassification from Assets available for sale or Financial assets held for trading, the book value is equal to the fair value of the asset at the date the transfer is decided, which is recognised as the asset’s new amortised cost. For more information please refer to the following paragraph “18 - Other information, Reclassifications among financial asset portfolios (amendment to IAS 39)”.

For loans that are not negotiated at arm’s length market conditions, the fair value is determined using specific valuation techniques. The difference compared with the amount disbursed or the subscription price is recognised directly in the income statement.

After initial recognition, loans are valued at amortised cost, equal to the initial recognition value decreased/increased by repayments of principal, net losses/recoveries and the amortisation – calculated according to the effective interest rate method – of the difference between the amount disbursed and the amount repayable at maturity, typically comparable to the costs/income directly associated to the individual loan. The effective interest rate is determined by calculating the rate that is equivalent to the loan’s present value of future principal and interest cash flows, to the amount disbursed including costs/income associated with the loan. The estimate of cash flows must take into account all the contractual provisions which could influence the amounts and maturities, without considering the expected loss on the loan. This accounting method, based on a financial logic, spreads the economic effect of costs/income throughout the loan’s expected residual life. The amortised cost method is not used for short-term loans, whose limited life span makes the application of discounting immaterial. Said loans are measured at historical cost and their costs/income are recognised in the income statement on a straight-line basis throughout the loan contract life. The same measurement criterion is used for loans without a defined maturity or demand loans.

At each balance sheet or interim report date, loans are reviewed in order to identify loans that due to events occurred after their initial recognition, show objective evidence of an impairment loss, as explained in the following paragraph “18 - Other information - Methods for determining impairment losses on financial assets”. These include loans classified as bad, substandard or restructured under the current rules of the Bank of Italy, in line with IAS requirements.

These non performing loans undergo an analytical assessment process which seeks to identify expected cash flows. For some similar categories of non performing loans, the assessment processes envisage that the loss forecasts are based on a forfeit/statistical calculation method, to be applied analytically to each individual position; this regards, for example, loans for insignificant amounts or past due loans, namely loans which show uninterrupted overdrafts or late payments, automatically identified by the Group’s IT procedures, based on the cited rules of the Supervisory Authority. All adjustments made to non performing loans are reported as “Specific value adjustments”, in compliance with the provisions set forth in the Bank of Italy Circular no. 262.

The amount of the value adjustment made to each loan corresponds to the difference between the loan’s book value in the financial statements or interim report at the time of measurement (amortised cost) and the present value of expected future cash flows, using the original effective interest rate. Expected cash flows take into consideration the expected recovery time, the estimated realisable value of guarantees, and possible costs incurred to recover the credit exposure. The cash flows for loans that are expected to be recovered within a short period of time are not discounted. The original effective interest rate of each loan remains unchanged over time, unless a loan restructuring agreement has been negotiated that changes the contractual interest rate, or unless in practice the transaction bears no contractual interest.

The adjustment is posted to the income statement. The original loan value is reinstated in following financial years to the extent that the reasons for their original adjustment no longer apply, provided said valuation can be objectively correlated to an event that occurred after the adjustment. Recoveries are recognised in the income statement and in any case cannot exceed the loan’s amortised cost had no adjustments been carried out in the past.

Individual loans that give no objective evidence of impairment, that is, generally speaking, performing loans, including loans to counterparties residing in countries at risk, are subject to collective valuation. These valuations are carried out by categories of similar loans/receivables in terms of the credit risk and the related loss percentages can be estimated taking into account time series, based on elements observable as of the valuation date, which make it possible to estimate the value of the latent loss in each category of loans. With regard to the performing loans covered by internal

models for the purpose of calculating capital requirements, collective value adjustments are determined on the basis of the Basel 2 parameters used by internal models (PD and LGD), suitably adapted to provide a measurement in line with the provisions of the reference international accounting standard (IAS 39). More specifically, the expected losses, determined on the basis of the Basel 2 parameters, are adjusted to eliminate factors of a mostly prudential nature and to reflect the current market conditions as at the valuation date. In addition, a correction factor called LCP (Loss Confirmation Period) is envisaged, indicated over a year, with a view to realigning the twelve-month time horizon contained in the calculation of the "regulatory" expected loss to the actual average length of time between the deterioration of the creditworthiness of a counterparty and the classification of the same under non performing loans, based on a Group loan monitoring process, currently calibrated to identify the factors contributing to the deterioration of the exposure over a time horizon of less than one year. Standard IAS 39 requires that only latent losses should be identified, namely losses that had already occurred at the time the exposure was measured, but that have not yet been identified as part of the process to monitor the degree of risk of the specific customer, with the consequent transfer of the position from the performing loans portfolio to the non performing loans portfolio. Collective value adjustments are therefore calculated as the product of the risk factors used to meet Basel 2 requirements, suitably revised to align them to the prescriptions of IAS 39, and the loss confirmation period (LCP).
Loans sold are derecognised from financial statement assets only if the sale entails the substantial transfer of all risks and rewards associated with the loans. On the contrary, should the risks and rewards associated with the sold loans be retained, the loans will continue to be recognised under assets in the financial statements or interim reports, although from a legal point of view the loan ownership has been effectively transferred. In the event that the substantial transfer of risks and rewards cannot be verified, loans are derecognised from the financial statements or the interim reports if control of the loans has been relinquished. Otherwise, if even partial control has been retained, the loans will continue to be recognised in the financial statements and the interim reports to the extent of the Group's residual involvement, measured based on the exposure to the changes in value of the loans sold and to their changes in cash flows. Lastly, loans sold are derecognised from the financial statements or interim reports if the contractual rights to receive the relevant cash flows are retained, with the concurrent obligation to pay said flows, and nothing more, to third parties.

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

On initial recognition, financial assets are designated at fair value through profit and loss, only if:

1. they are hybrid contracts containing one or more embedded derivatives, and the embedded derivative significantly changes the cash flows that would otherwise be expected from the contract;
2. designation at fair value through profit and loss provides more reliable disclosure, as:
   i. it eliminates or considerably reduces the inconsistency in valuation, that would otherwise be caused by measuring assets or liabilities or recognising the associated gains and losses on different bases;
   ii. a group of financial assets, financial liabilities, or both is managed and its performance designated at fair value according to a documented risk management or investment strategy, and group reporting is provided internally to executives with strategic responsibilities based on this approach.

The financial assets in question are designated at fair value from initial recognition, which is carried out based on the settlement date. Initial income and expenses are immediately charged to the income statement.
Please refer to "Part A.4 – Fair value disclosure" for details on how fair value is determined.

Financial assets are derecognised when the contractual rights to receive the cash flows generated by the assets have expired, or when the financial assets are disposed of, and all risks and rewards of ownership of the assets have been substantially transferred.

6- Hedging transactions

Asset and liability items include financial hedging derivatives, which at the date of the financial statements or interim report showed a positive and negative fair value, respectively.

Hedges seek to neutralise potential losses recognisable on a given financial instrument or a group of financial instruments, attributable to a specific risk, by offsetting them with the gains recognisable on a different financial instrument or group of financial instruments in the event that said risk should actually materialise.
IAS 39 provides for the following types of hedges:

- fair value hedges, which seek to hedge exposure to changes in the fair value of a balance sheet asset or liability, attributable to a specific risk;
- cash flow hedges, which seek to hedge the exposure to changes in future cash flows attributable to specific particular risks associated with financial statement items;
- hedges of foreign currency transactions, which seek to hedge the risks of investment in a foreign company expressed in foreign currency;
- macro fair value hedging, with the goal of reducing fair value fluctuations attributable to the interest rate risk,

of monetary amounts deriving from a portfolio of financial assets and liabilities (including “core deposits”). Net amounts deriving from the mismatch of assets and liabilities cannot be subject to macro hedging.

At the level of the consolidated financial statements, only derivatives entered into with an external counterparty to the Group may be designated as hedging instruments. The results associated with internal transactions carried out between various Group entities are eliminated.
Derivatives can be designated as hedges provided that the hedging relationship between the hedged instrument and the hedging instruments is formally documented, and it is effective at the time of origination of the hedge and prospectively throughout its entire life. The hedge effectiveness depends on the extent to which the changes in the fair value or in the expected cash flows of the hedged instrument are actually offset by those of the hedging instrument. Therefore, effectiveness is measured by comparing said changes, while considering the aim pursued by the company when the hedge was established.
A hedge is effective (within the limits established as a range of 80% to 125%) when changes in the fair value (or in the cash flows) of the hedging instrument neutralise almost completely the changes in the hedged instrument attributable to the hedged risk. Hedging effectiveness is assessed at each balance sheet date or interim reporting date, using:

- prospective tests, that justify the application of hedging accounting in that they demonstrate its expected effectiveness;
- retrospective tests, demonstrating the hedge’s actual effectiveness achieved over the period being examined. In other words, these tests measure how far the actual results deviate from perfect hedging.

Should the above tests fail to confirm the effectiveness of the hedging, both retrospectively and prospectively, hedge accounting, as described above, is discontinued. In this case, the hedging derivative contract is reclassified under instruments held for trading. The hedged instrument is recognised in its specific category at a value equal to its fair value at the time effectiveness ceased, and returns to being measured based on the criteria in use in its original category.

Hedging derivatives are designated at fair value. In particular:

- for fair value hedges, the changes in fair value of the hedged element are offset by the changes in fair value of the hedging instrument. Said offsetting is recognised by charging the changes in value referring both to the hedged element (referring to the changes generated by the underlying risk factor), as well as to the hedging instrument to the income statement. Any resulting difference, which represents the partial ineffectiveness of the hedge, represents the net effect on the income statement. The recognition of fair value changes through profit or loss referring to the hedged element, attributable to the risk being hedged, is applied even if the hedged element is a financial asset available for sale; in the absence of a hedge, said change would be recognised as a matching entry to shareholders’ equity;
- for cash flow hedges, the portion of changes in the fair value of the derivative that are determined to be an effective hedge is recognised directly at equity, while it is recognised through profit and loss only when changes in cash flows to be offset arise in the hedged item. The portion of gains or losses of the hedging instrument that is considered ineffective is charged to the income statement. Said portion is equal to any difference between the cumulative fair value of the hedging instrument and the cumulative fair value of the hedged instrument. In any event, the fluctuations in fair value of the hedged item and the related hedge must lie within the 80%-125% range;
- hedges of investments in foreign currency are accounted for using the same method as for cash flow hedges.

Hedging financial assets and liabilities are derecognised when the contractual rights to receive the cash flows generated by the assets have expired, or when the financial assets/liabilities are disposed of, and all risks and rewards of ownership of the assets have been substantially transferred.

7- Investments in associates and companies subject to joint control

This item includes investments in associates or companies subject to joint control, which are carried at equity.
Associates are companies which are not subsidiaries, on which the Group has a significant influence. The company exercises a significant influence in all cases where it holds 20% or more of voting rights in the investee, and, irrespective of the shareholding percentage, whenever it has the power to participate in business and financial decisions of the investees, without, however, controlling the same.
Companies subject to joint control are enterprises where the joint control is based on a contract or other agreement whereby it is necessary to obtain the unanimous consensus of all the parties sharing the control to make strategic financial and operating decisions.

Financial assets are initially recognised on the settlement date. Upon their initial recognition, financial assets classified in this category are carried at cost, including any goodwill paid for at the time of acquisition, which, therefore, is not independently, separately recorded. The book value is subsequently increased or decreased to reflect the share of profit or loss of the investees attributable to the Group generated after the acquisition date, as a matching entry to the consolidated income statement item “240. Profits (Losses) on investments in associates and companies subject to joint

control". Dividends received from investees are deducted from the book value of the investees.
Should it be necessary to carry out adjustments due to changes in shareholders' equity of the investee that have not been recognised in the investee's income statement (for ex. as a result of the designation at fair value of financial assets available for sale, as a result of the valuation of actuarial gains/losses on defined benefit plans), the share of the above changes attributable to the Group is recognised directly in the shareholders' equity item "140. Valuation reserves".
When applying the equity approach, the most recent available financial statements of the associated company or company subject to joint control are used, suitably adjusted to take into account any significant events or transactions that have taken place between the last available financial statements of the investee company and the reference date of the consolidated financial statements. If the investee company adopts accounting standards that are different to those of the Group, changes are made to the financial statements of the investee.

If there is evidence that the value of an investment may be impaired, the recoverable value of the investment is estimated, which is the higher of the fair value, net of costs to sell, and the value in use. The value in use is calculated by discounting the future cash flows that the investment could generate, including the final disposal value of the investment. An impairment loss is recognised to the income statement if the book value, including goodwill, is lower than the recoverable value. If the reasons for an impairment loss are no longer valid due to an event occurring after the impairment was recognised, write-backs are recognised in the income statement, up to the amount of the impairment previously recognised.
Financial assets are derecognised when the contractual rights to receive the cash flows generated by the assets have expired, or when the financial assets are disposed of, and all risks and rewards of ownership of the assets have been substantially transferred.

8- Property and equipment

Property and equipment include land, operating property, real estate investments, technical plant, furniture, fittings and equipment of any type. This is property and equipment held to be used for the production or provision of goods and services, to be rented to third parties, or for administrative use, and are expected to be used for more than one period. Property and equipment also include assets related to finance lease contracts which returned to the company's ownership following the termination of the contracts and the concurrent closure of the original credit position. This item also includes assets used under finance lease contracts, provided that the legal ownership of the assets rests within the leasing company.
Said item also includes leasehold improvements and incremental expenses incurred on third party assets, whenever they are identifiable and distinguishable tangible assets. More specifically, these are costs to renovate rented property, sustained to render them suitable for their intended use. These costs are classified in the specific category to which they refer (e.g. technical plant, equipment).
Property and equipment are initially carried at cost, which includes the purchase price and all accessory charges directly attributable to the acquisition of the asset and bringing it to working conditions. Extraordinary maintenance costs entailing an increase in future economic benefits are included in the asset's book value, while other ordinary maintenance costs are charged to the income statement.
Property withdrawn following the closure of the original credit position ("*datio in solutum*" - transfer in lieu of payment) will be recognised at the lower of the gross loan value recognised at the time of withdrawal of the asset, and:

1) the "market value" deriving from a specific appraisal, if the property is not expected to be classified under "non-current assets held for sale and discontinued operations" within a short time;
2) the "immediate sale value" derived from a specific appraisal, which adjusts the "market value" with a view to sale in a quite short-term time frame, when it is known at the termination date that the property will be subsequently allocated under "non-current assets held for sale and discontinued operations";
3) the price during trading, if on initial recognition concrete negotiations for sale are in course, demonstrated by commitments undertaken by the interested parties to the negotiations.

Property and equipment, including "non-operating" property, are carried at cost, less any depreciation and impairment.
Property and equipment are systematically depreciated throughout their useful life, using the straight-line method, with the exception of:

- land, whether purchased separately or as part of the value of the buildings standing on it, in that land has an unlimited life. If its value is embedded in the value of the buildings built on it, in virtue of the application of the component approach, land is considered a separate asset from the building. The separation of the value of the land and the value of the building is based on appraisals by independent experts;
- works of art, because the useful life of a masterpiece cannot be estimated and its value normally is destined to increase with time.

At each balance sheet or interim reporting date, if there is any indication that an asset may be impaired, the asset's book value is compared with its recoverable amount, that is, equal to the higher of the asset's fair value, net of costs to sell, and its value in use, understood as the present value of future cash flows originated by the asset. Any adjustments are charged to the income statement. Whenever the reasons for the impairment loss are no longer valid, recoveries are recognised, which must not exceed the asset's value had no impairment taken place in the past, net of accrued depreciation.

Property and equipment is derecognised from the statement of financial position at the time of disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal.

9- Intangible assets

Intangible assets are non-monetary, identifiable and non-physical assets, owed to be used on a long-term basis. Intangible assets are carried at cost, adjusted to account for accessory charges, only if it is likely that the future economic benefits attributable to the asset will be realised, and if the cost of the asset can be reliably determined. Otherwise, the cost of the intangible asset is recognised in the income statement during the year it was incurred.
Intangible assets include goodwill, which is the difference between the price paid for a business combination and the fair value of the net identifiable assets purchased, as illustrated in greater detail in paragraph "18 – Other information, Business combinations, goodwill and changes in interest holdings."
Goodwill is not amortised, but must be regularly tested for impairment to verify the adequacy of its book value.
Specifically, goodwill must be tested any time there is evidence of impairment, and in any case at least once a year. To this end, the cash-generating unit to which the goodwill is allocated is identified. The amount of any impairment is determined based on the difference between the book value of the goodwill and its recoverable amount, if lower. Said recoverable amount is equal to the higher of the fair value of the cash-generating unit, net of costs to sell, and its value in use. The value in use is the present value of future cash flows expected from cash-generating units to which goodwill was allocated. The resulting adjustments are charged to the income statement. No subsequent recoveries can be recognised.

Other intangible assets are recognised as such if they are identifiable and originate from legal or contract rights.
The cost of intangible assets is amortised on a straight-line basis over their useful life. If the useful life is undefined, no amortisation is carried out, only periodic assessments of the adequacy of the book value. At each balance sheet date or interim reporting date, if there is evidence of impairment, the asset's recoverable amount is estimated. The amount of the loss, recognised in the income statement, is equal to the difference between the asset's book value and recoverable value.

Intangible assets are derecognised from the statement of financial position at the time of disposal or when no future economic benefits are expected from it.

10- Non-current assets held for sale and discontinued operations and liabilities associated with non-current assets held for sale and discontinued operations.

Non-current assets and liabilities held for sale and discontinued operations are classified under this item. Classification under this item is possible when the sale is considered to be highly probable. Specifically, these assets/liabilities are designated at the lower of the book value and their fair value, net of costs to sell. If the non-current assets held for sale can be amortised/depreciated, the amortisation/depreciation process ceases from the year the assets are classified under non-current assets held for sale and discontinued operations. The associated income and charges are recognised in the income statement in a separate item net of the tax effect when they refer to discontinued operations. In this case the same income statement information is disclosed in a separate item also for the comparative periods shown in the financial statements.

11- Current and deferred taxation

These items include current and deferred tax assets, and current and deferred tax liabilities relating to income taxes.

Income taxes, calculated in compliance with current tax regulations, are accounted for based on the accrual principle, consistent with the recognition of the costs and revenues that generated the taxes in the financial statements. Therefore, this represents the tax charge, equal to the balance of current taxes and deferred tax assets and liabilities, relating to the income for the year. Income taxes are charged to the income statement, with the exception of those relating to items charged or credited directly to shareholders' equity, as they as well are consistently recognised directly through shareholders' equity.

In particular, current tax liabilities (assets) for the current and previous years reflect the amount of income taxes that are expected to be paid (recovered) to/from the tax authorities, based on a prudent estimate, applying the tax rates and tax regulations in force at the reporting date (interim reporting). Current tax assets and liabilities are shown as a net balance in the statement of financial position, in case the settlement is executed based on the net balance, owing to the existence of a legal right to offsetting.

Deferred tax assets and liabilities are calculated based on temporary differences arising between the tax values of the individual assets and liabilities and their book values, without any time limits.
Deferred tax assets are recognised in the financial statements or the interim reports when it is probable that they can be recovered, which is assessed based on the ability of the company concerned and of the Group, as a result of the "tax consolidation" scheme, to continue to generate positive taxable income in future financial years, also taking account of the tax provisions in force at all times, such as art. 2, paragraph 55 et seq. of Italian Decree Law no. 225/2010, which permits the transformation of certain deferred tax assets that meet specific conditions, into credits. Deferred tax liabilities are recognised in the financial statements or interim reports, with the sole exceptions of assets recognised in the financial statements at an amount higher than the value recognised for tax purposes and of reserves subject to tax on distribution, where it is reasonable to believe that no operations will be performed deliberately that would trigger taxation.
Recognised deferred tax assets and liabilities are systematically measured to account for any changes in regulations or tax rates, as well as for any changes in the subjective positions of the Group companies.

12- Provisions for risks and charges

Provisions for risks and charges consist of liabilities whose amount or expiry are uncertain, and are recognised in the financial statements only if:

- there is a current obligation (legal or implicit) as a result of a past event;
- it is likely that an outflow of resources will be required to produce economic benefits to settle the obligation;
- the amount of the probable future outflow can be reliably estimated.

Provisions for risks and charges include provisions for long-term benefits and post-employment benefits covered by IAS 19 as well as provisions for risks and charges covered by IAS 37.
Provisions for risks and charges do not include write-downs due to impairment of guarantees given, and equivalent credit derivatives under IAS 39, recognised under "Other liabilities".
The sub-item "other provisions for risks and charges" includes allocations for possible losses on lawsuits, including clawback actions, estimated outlays for customer complaints regarding securities brokerage, tax disputes as well as a reliable estimate of other outlays due to any other legal or implicit obligation outstanding at the balance sheet or interim reporting date.
Whenever the time factor is significant, provisions are discounted using current market rates. The effect of discounting is recognised in the income statement, as is the increase in provisions as a result of the passing of time.
The provisions allocated are re-examined at each date of the financial statements and adjusted to reflect the best current estimate. When the outflow of resources to produce economic benefits to settle the obligation is unlikely, the allocation is reversed.

In addition, each provision must be used to pay for outlays for which the provision itself had been originally set aside.
As explained in the paragraph below "18- Other information, Employee termination indemnities and other employee benefits", the sub-item "company retirement plans and similar obligations" includes defined-benefit plans, namely pension funds backed by a capital repayment and/or return guarantee in favour of beneficiaries. Benefits to be paid in the future are measured by an external actuary, using the "projected unit credit method", as required by IAS 19.

13- Payables and debt securities issued

The items "Due to banks", "Due to customers" and "Debt securities issued" include various forms of interbank and customer loans and funding carried out through certificates of deposit and bonds outstanding, net of any repurchased amount. These also include loans recorded by lessees as part of financial leases, as well as repurchase agreements and securities lent against collateral in cash, which the lender has full access to.

These financial liabilities are initially recognised when the amounts collected are received or the debt securities are issued. Initial recognition is carried out based on the fair value of the liabilities, generally equal to the amount received or the issue price, plus any additional costs/income directly attributable to the individual funding or issue transaction and not paid back by the lending counterparty. Internal administrative costs are excluded.
Repurchase agreements with the obligation to repurchase are recognised as funding transactions for the amount paid spot.

Subsequent to initial recognition, financial liabilities are measured at amortised cost, using the effective interest rate method. Short-term liabilities are an exception, if the time factor is immaterial. They are stated at their received value and any incurred costs are charged to the income statement on a straight-line basis over the contractual life of the liability. Moreover, funding instruments under an effective hedge are measured based on the standards envisaged for hedging transactions.

For structured instruments, provided that the requirements under IAS 39 are met, the embedded derivative is separated out from the host contract and designated at fair value as a trading liability. In this case, the host contract is recognised at amortised cost.

Financial liabilities are derecognised from the financial statements or interim reports when expired or cancelled. Derecognition also takes place in the event of repurchases of securities issued. The difference between the book value of liabilities and the purchase price paid is recorded in the income statement. The subsequent placement of own securities following their repurchase is considered as a new issue, recognised at the new placement price, with no effects on the income statement.

14- Financial liabilities held for trading

This item includes the negative amount of trading derivative contracts designated at fair value and cash financial liabilities held for trading.
It also includes the negative valuations of derivatives associated with the assets and liabilities designated at fair value through profit and loss, embedded derivatives, which were separated from their host financial instruments under IAS 39, as well as liabilities originating from technical overdrafts generated by securities trades.

Initial recognition is based on the fair value of liabilities, that generally corresponds to the collected amount, excluding transaction costs or income directly associated with the instruments, which are directly charged to the income statement.
Please refer to "Part A.4 – Fair value disclosure" for details on how fair value is determined.

Gains and losses from changes in fair value and/or from the sale of trading instruments are recognised in the income statement.
Financial liabilities are derecognised from the financial statements or interim reports when expired or cancelled.
Trading profits or losses and gains or losses as a result of the valuation of the trading portfolio are recognized in income in the item "80. Profits (losses) on trading", except for income or loss on derivatives connected with the fair value option, which are classified in item "110. Profits (losses) on financial assets and liabilities designated at fair value".

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

On initial recognition, financial liabilities are designated at fair value through profit and loss only if:

1. they are hybrid contracts containing one or more embedded derivatives, and the embedded derivative significantly changes the cash flows that would otherwise be expected from the contract;
2. or designation at fair value through profit and loss provides more reliable disclosure, as:
    i. it eliminates or considerably reduces the inconsistency in valuation, that would otherwise be caused by measuring assets or liabilities or recognising the associated gains and losses on different bases;
    ii. a group of financial assets, financial liabilities, or both is managed and its performance designated at fair value according to a documented risk management or investment strategy. Group disclosure is provided internally, on this basis, to executives with strategic responsibilities.

The financial liabilities in question are designated at fair value from initial recognition. Initial income and expenses are immediately charged to the income statement.
Financial liabilities are derecognised from the financial statements or interim reports when expired or cancelled. For financial liabilities represented by securities issued, derecognition is carried out also in case or repurchase: the difference between the book value of liabilities and the purchase price is recorded in the income statement. The subsequent placement of own securities following their repurchase is considered as a new issue, recognised at the new placement price, with no effects on the income statement.
For more details on the scope of Group liabilities under the fair value option and the method used to determine fair value and quantify its creditworthiness, please refer to paragraph "18 – Other information, and the subsequent "Part A.4 - Fair value disclosure".

16- Foreign currency transactions

Upon initial recognition, foreign currency transactions are recorded in the functional currency, and the exchange rate applied to the amount expressed in foreign currency is the one in effect at the date of the transaction.

At each balance sheet date, items expressed in foreign currencies are measured as follows:

- cash items are translated at the exchange rate in effect at the closing date;
- non-cash items carried at their historical cost are translated at the exchange rate in effect at the transaction date;
- non-cash items designated at fair value are translated at the exchange rate in effect at the closing date.

Exchange rate differences originated by the settlement of cash items, or by the translation of cash items at rates other than the initial ones, or by the conversion of the previous financial statements, are charged to the income statement at the time they arise.

When a gain or loss from a non-cash item is carried at equity, the relevant exchange rate difference is also carried at equity. Conversely, when a gain or loss is recognised in the income statement, the associated exchange rate difference is also recognised in the income statement.

17- Insurance assets and liabilities

No insurance companies are included in the scope of consolidation.

18- Other information

a) Contents of other financial statement items

Cash and cash equivalents

This item includes legal tender, including foreign banknotes and coins and demand deposits with the Central Bank of the country or countries where the Group operates through its companies or branches.
The item is recognised at face value. The face value of foreign currencies is translated into Euro at the closing exchange rate at the period-end date.

Fair value change of financial assets and financial liabilities in macro fair value hedge portfolios

These items include, respectively, changes in financial assets or liabilities subject to macro hedging of interest rate risk, based on the respective balance, whether positive or negative.

Other assets

This item includes assets not attributable to the other statement of financial position asset items. For example, this item may contain:

a) gold, silver and precious metals;
b) accrued income other than that capitalised on the related financial assets;
c) any inventories of assets according to the definition of IAS 2;
d) receivables associated with providing non-financial goods or services.

Leasehold improvements and incremental expenses incurred on third party assets other than those attributable to the item “property and equipment” are also included, insofar as they cannot be separated from the assets to which they refer and therefore cannot be used independently (e.g. building work). These costs are recognised under other assets because the lease contract represents a form of control over the assets for the lessee, the use of which is expected to produce economic benefits. These costs are recognised to the income statement in the shortest period between that in which the improvements and the additional expenses may be used and the residual duration of the rental agreement, including the renewal period, if there is evidence in this regard.

These may also include any remainders (of the “borrower’s balance”) of items in transit or suspended not attributed to the specific accounts, because they are of immaterial amounts.

Other liabilities

This item records liabilities not attributable to the other statement of financial position liability items.
For example, this item contains:

a) payment agreements that under IFRS 2 must be classified as payables;
b) the initial recognition of guarantees given and the equivalent credit derivatives under IAS 39, as well as the subsequent write-downs due to their impairment;
c) payables associated with the payment of non-financial goods or services received;
d) accrued liabilities other than those to be capitalised on the related financial liabilities.

Employee termination indemnities and other employee benefits

According to IAS 19, employee termination indemnities represent a “post-employment benefit”.

Following the supplementary pension reform, under Italian Legislative Decree no. 252 of 5 December 2005, new regulations were introduced for employee termination indemnities accrued beginning from 1 January 2007, recognised for accounting purposes.
In particular, for companies which had at least 50 employees in 2006, from an accounting perspective, employee termination indemnities accrued from 1 January 2007 are considered a “defined contribution plan”; the charge is limited to the benefits established under the Italian Civil Code, without applying any actuarial methodology.
Otherwise, the provisions for employee termination indemnities accrued up to 31 December 2006 will continue to be accounted for as a “defined benefit plan”.
In general terms, the “post-employment plans” - which include, beyond the Provisions for employee severance indemnities, Pension funds - are classified into two categories, “defined benefits” and “defined contributions” on the basis of the relative characteristics.
More specifically, in defined contribution plans, the cost is represented by contributions accrued during the year, since the company only has the obligation to pay the contributions defined by contract to a fund, and has therefore no legal or implicit obligation to pay other amounts in addition to said contributions in the event that the fund does not have sufficient assets to pay all the benefits to employees.
In defined benefit plans, the actuarial and investment risk, namely the risk that contributions are insufficient or that the assets in which contributions are invested do not generate a sufficient return, is borne by the company. The liability is calculated by an external actuary using the “Projected unit credit method” On the basis of the cited method, all future disbursements have to be estimated on the basis of demographic and financial assumptions, and are then discounted to take into account the time that will pass before the actual payment, and to be re-proportioned on the basis of the ratio of the years of service accrued and the theoretical seniority estimated at the time the benefit is disbursed. The actuarial value of the liability calculated in this way must then be adjusted by the fair value of any assets underlying the plan (net liabilities/assets).
The actuarial gains and losses that originate from changes in the previous actuarial assumptions, as a result of the actual experience or as a result of changes to the actuarial assumptions themselves, lead to the re-measurement of the net liability and are recognised as a balancing entry of a net equity reserve. Said gains and losses are recorded in the “Statement of comprehensive income”.
The “Projected unit credit method” described above, is also used to measure long-term benefits, such as “seniority bonuses” awarded to employees. Unlike that described for “defined benefit plans”, actuarial gains and losses relating to the measurement of long-term benefits are recognised immediately in the income statement.

Valuation reserves

This item includes valuation reserves for financial assets available for sale, foreign investment hedging, cash flow hedging, and for foreign currency translation differences, as well as for “individual assets”, discontinued operations, the portion of valuation reserves of investments carried at equity and actuarial gains (losses) on defined benefit plans. It also includes the revaluation reserves recognised in compliance with special revaluation regulations, also if subject to “tax exemption”.

Share capital and treasury shares

Share capital includes common and preferred stock issued by the bank net of any capital already subscribed but not yet paid up at the balance sheet or interim reporting date. This item includes any treasury shares held by the bank. The latter are shown with a minus sign in the same item under balance sheet liabilities.
The original cost of repurchased treasury shares and the gains or losses originated by their subsequent sale are recognised as changes to shareholders’ equity.
Transaction costs relating to operations on share capital, such as share capital increases, are recorded as a decrease in shareholders’ equity, net of any related tax benefits.

Minority interests

This item shows the portion of consolidated shareholders’ equity attributable to shares owned by minority shareholders, calculated based on “equity ratios”. The amount is calculated net of any treasury shares repurchased by consolidated companies.

b) Illustration of other significant accounting treatments

Dividends and revenue recognition

Revenues are recognised when they are received or, on any event, when it is likely that future benefits will be received and these benefits can be reliably quantified. In particular:

- default interest, if provided for by contract, is recorded in the income statement only when actually collected;
- dividends are recognized in the income statement when the legal right to collect them ensues, and, therefore, when their distribution is resolved;

- revenues from the brokerage of trading financial instruments are recognised in the income statement at the time of contractual settlement of the transaction, based on the difference between the price paid or collected and the fair value at which the instrument is recorded, using valuation techniques that are based on the most favourable input parameters observable on the market. The resulting fair value is then adjusted to take account of the recoverability risk of any margins (Credit Valuation Adjustment and Debt Valuation Adjustment), as described in the paragraph below “Part A.4 - Fair value disclosure”;
- gains deriving from financial instruments whose fair value cannot be determined based on observable market parameters are distributed over time taking into account the instrument’s nature and life (for example, capital guaranteed or capital protected products);
- for bond issues designated at fair value that are not listed on active markets, the valuation technique used to calculate the fair value takes a spread adjustment as an adjustment factor to discount cash flows, with the goal of sterilising, from the issue date, the profits implicit in the contractual conditions of the bonds, net of the related transaction costs.

Share-Based Payments

Share-based payments are payments made to employees, as a consideration for work performed, based on capital shares, that may, for example, consist of the assignment of:
- stock options;
- stock grants.

Considering how difficult it is to directly estimate the fair value of work received in exchange for the assignment of shares, it is possible to indirectly measure the value of services received, by referring to the fair value of the equity-linked instruments at their assignment date. The fair value of payments settled through the issue of shares is recognised as “Personnel expenses”, with a matching entry as an increase in “Reserves”, based upon the accrual principle.
In detail, when assigned shares cannot be immediately “used” by employee, but can be used when the employee has completed a given term of service, the company shall pay the cost as a consideration for the service provided throughout the vesting period.

Securitisations

On first-time adoption of the international accounting standards, the Group made use of the option not to recognise in the financial statements assets underlying securitisations performed before 1 January 2004, which had been derecognised based on the previous accounting standards. As a result, only the subscribed securities are shown under balance sheet assets of the transferring bank. Exceptions to this rule are the securitisations originated by the companies in the former Banca Italease Group, which was consolidated line-by-line from the second half of 2009 following the acquisition of control. For these securitisations, the choices made at the time by the acquired companies involved the recording of the assets underlying the securitisations, even if they were finalised prior to 1 January 2004 and derecognised based on the previous accounting standards. It should be noted that the last securitisation performed before 2004 of the former Banca Italease expired throughout 2014, therefore as at 31 December 2014 there are no more securitisations outstanding.
For transactions finalised after the above mentioned date, the loans sold are not derecognised from the financial statements of the originator bank if a substantial amount of risks and benefits is still retained, although formally they have been sold without recourse to a special purpose entity. This may occur, for example, when the bank subscribes tranches of Junior notes or similar exposures, as in this case it shall bear the risk of the initial losses, and likewise it shall benefit from the return on the transaction. Consequently, the receivables continue to be recognised in the separate financial statements of the bank as “Assets sold and not derecognised”; the amount collected from the transfer is recognised as a balancing entry to the payable owed to the SPE, net of the securities subscribed by the assigning banks.
In the consolidated financial statements, the main impact of any consolidation of the SPE and of the relative capital from the securitisation, pursuant to IFRS 10, is that the securities issued by the SPE and subscribed by entities not belonging to the Group are recorded in the Balance Sheet. For the purposes of Part E of these notes to the consolidated financial statements, the receivables transferred as part of securitisation transactions are considered “Assets sold and not derecognised”, unless the originator Group banks have not subscribed, from the issue date, all of the liabilities issued by the SPE (so-called self-securitisation transactions).

Off-balance sheet credit exposures - guarantees given and commitments

Off-balance sheet credit exposures represented by the guarantees given and by irrevocable commitments to disburse funds, give rise to provisions, to the extent to which an outflow of economic resources to fulfil the legal obligation is considered likely. Said exposures undergo a process of analytical assessment, if there is a high probability of default of individual positions; otherwise, the provision is calculated on a collective basis, taking into account the probability of loss of a portfolio of similar securities. The procedure for making a collective estimation of performing off-balance sheet exposures is conducted by applying the same criteria used for the collective assessment of receivables, taking a conversion factor into account. As indicated in the paragraph entitled “12 - Provisions for risks and charges”, the provisions contained in Circular no. 262 envisage that the funds relating to the write-down of guarantees given and commitments to disburse funds must be recognised under statement of financial position item "100. Other liabilities"; the balancing entry is the income statement item "130 d) Net losses/recoveries on impairment of other financial transactions".

Reclassifications among financial asset portfolios (amendment to IAS 39)

On 13 October 2008, the IASB approved amendments to IAS 39 and IFRS 7, validated along a fast-track procedure by the European Commission on 15 October 2008 with Regulation no. 1004/2008.
Based on said amendments, under given circumstances it is now possible to reclassify financial instruments recognised as "Financial assets held for trading" or "Financial assets available for sale" when purchased, into another accounting category. Prior to said amendments, the general rule prohibited reclassifications to other categories, with the exception of reclassifications between "Financial assets available for sale" and "Investments held to maturity", as previously described under said categories of financial assets.
Based on the provisions of paragraphs 50D and 50E of the new version of IAS 39, the following financial instruments may be reclassified:

- financial instruments, other than derivatives, previously classified as financial assets held for trading. As a result of the adoption of the "fair value option", financial instruments in the category "Financial assets designated at fair value through profit and loss" cannot be reclassified. The new accounting category of allocation is "Loans". To qualify for reclassification, at the reclassification date, the financial instrument must meet the prescribed requirements to be classified in the "Loans" portfolio, and the company must no longer intend to trade the financial instruments being reclassified, having decided to hold them for the foreseeable future or to maturity;
- non-derivative financial instruments classified as "Financial assets available for sale" can be reclassified to the accounting category "Loans" if at the reclassification date the financial instrument met the definition of "Loans" and the company now intends to and can hold the instrument for the foreseeable future or to maturity.

Any other non-derivative debt or equity instrument can be reclassified from the category "Financial assets held for trading" to the category "Financial assets available for sale" or from the category "Financial assets held for trading" to "Investments held to maturity" (debt instruments only), whenever said instruments are no longer held for trading in the short term. However, this is permitted only in rare circumstances, as illustrated in paragraph 50 B.

The reclassified financial asset is recorded in its new category ("Loans", "Investments held to maturity", "Financial assets available for sale") at its fair value on the reclassification date, representing the new cost or amortised cost.
Once reclassified, financial instruments shall comply with the measurement and recognition rules of the category of allocation, without prejudice to that specified below. Therefore, the effective rate of return must be determined calculated to be used as of the reclassification date for assets valued at amortised cost.
For reclassified assets, any future positive change in cash flows contributes to the determination of the effective interest rate at the date the projection is revised, and shall be accounted for throughout the instrument's residual life instead of changing the asset's book value with a matching entry in the income statement, as envisaged for non-reclassified assets.
Vice versa, any subsequent reductions in estimated cash flows as of the reclassification date shall comply with prior regulations, meaning they shall be immediately charged to the income statement in the event of impairment.
Gains and losses that were previously suspended in equity reserves for Financial assets available for sale, if referring to an instrument with a fixed maturity shall be amortised over the entire investment term according to the amortised cost principle. Vice versa, if the instrument has no fixed maturity (for ex. perpetual instruments), it shall remain suspended in the equity reserve until sold or cancelled.
In the event of reclassification of the financial asset, up until its cancellation, it is necessary to report the consequent effects and those that would have arisen in the absence of the reclassification, as explained in the following sub-section "A.3 – Disclosure on transfers between portfolios of financial assets"

Business combinations, goodwill and changes in interest holdings

A business combination involves the union of businesses or separate business activities in a single entity obliged to draw up financial statements.
A combination may give rise to an investment relationship between the purchasing Parent Company and the subsidiary acquired. In such circumstances, the purchaser applies standard IFRS 3 in the consolidated financial statements while in the separate financial statements the interest holding acquired as an investment in the subsidiary is recorded, applying accounting standard IAS 27 "Separate financial statements".
A combination may also envisage the purchase of the net assets of another entity, including any eventual goodwill, or the acquisition of the capital of another entity (mergers, conferrals, business segment acquisitions). A combination of this type does not translate into an investment relationship similar to that between the parent and subsidiary company and therefore in this case accounting standard IFRS 3 applies also in the separate financial statements of the purchaser.

Business combinations are recorded using the purchase method, on the basis of which the identifiable assets acquired and the identifiable liabilities undertaken, including any potential ones, must be recorded at the respective fair values as of the acquisition date.
With regard to each business combination, the minority interests can be recorded at fair value or in proportion to the portion held in the identifiable net assets of the company acquired.
Any excess in the transferred price with respect to the fair value of the identifiable net assets is recorded as goodwill and allocated, as of the acquisition date, to the individual cash generating units, or groups of cash generating units which should benefit from the synergies of the combination, irrespective of the fact that the other assets and liabilities of the entity acquired are assigned to these units or groups of units.
If the transfer price is lower than the fair value of the identifiable net assets, the difference is recorded immediately in the income statement as revenue in the item “Other operating income”, after having carried out a new measuring aimed at assessing the correct identification processes for all the activities acquired and the liabilities undertaken.

The price transferred in a business combination equates to the fair value, as of the acquisition date, of the assets transferred, the liabilities incurred and the equity instruments issued by the purchaser in exchange for obtaining control over the entity acquired. The price which the purchaser transfers in exchange for the entity acquired includes any asset or liability emerging from an agreement on the potential price, to be recorded as of the acquisition date on the basis of the fair value. Changes to the transferred price are possible if they derive from additional information on events or circumstances which existed as of the acquisition date and are recognisable within the business combination measuring period (or rather within twelve months of the date of acquisition, as will be specified further on). Any other change which derives from events or circumstances subsequent to the acquisition, such as for example that acknowledged to the seller linked to achievement of specific income-related performances, must be recognised in the income statement.

Identification of the fair value of the assets and liabilities must be finalised definitively within a maximum period of twelve months as from the acquisition date (measuring period).

The costs relating to the acquisition, which include brokerage commission, advisory, legal, accounting and professional costs, general administrative expenses, including those for the upkeep of an acquisitions office, are recorded in the income statement at the time they are incurred, with the exception of the costs for issuing shares and debts securities which are recorded on the basis of the matters laid down by standards IAS 32 and IAS 39.

If control is achieved by means of subsequent acquisitions (business combinations carried out in several phases), the shareholding previously held is measured at fair value as of the acquisition date and the difference with respect to the previous book value must be recorded in the income statement. With regard to these combinations, the goodwill shall be determined by the surplus of the transferred prices increased by the fair value of the interest previously held with respect to the fair value of the identifiable net assets of the acquired entity.

Once control has been obtained and the acquisition method previously described applied, any further increase or decrease in the shareholding in a subsidiary company which continues be controlling is recorded as a transaction between shareholders. Therefore, the book value of the group and minority shareholders’ equity must be adjusted to reflect the changes in the holding in the subsidiary. Any difference between the value for which the minority interests are adjusted and the fair value of the price received or paid must be recorded directly in the group shareholders’ equity.

In the presence of an event that results in a loss of control, the effect to be recognised in the income statement is equal to the difference between (i) the sum of the fair value of the price received and of the fair value of the residual interest held and (ii) the prior book value of the assets (including goodwill), of the liabilities of the subsidiary, and any minority shareholder’s equity. The amounts previously recognised in the statement of comprehensive income (such as for example the revaluation reserves of financial assets available for sale) must be recorded in compliance with the matters required in the event that the parent company has directly disposed of the assets and the related liabilities (by means of reclassification in the income statement or under retained earnings).

The fair value of any shareholding held in the former controlling investment must be considered equal to the fair value at the time of initial recognition of a financial asset on the basis of IAS 39, or, if appropriate, equal to the cost at the time of initial recognition in an associated company or a jointly-controlled entity.

Transactions achieved for reorganisation purposes, between two or more businesses or corporate assets forming part of the Banco Popolare Group, are not considered to be business combinations. The international accounting standards do not in fact discipline the transactions under joint control, which are recorded with continuity at purchase values in the financial statements of the purchaser, if they do not present a significant influence on future cash flows. This is in compliance with the matters envisaged by IAS 8 par.10, which requires, in the absence of a specific standard, that use of one’s own judgement when applying an accounting standard be adopted for the purpose of providing relevant, reliable, prudent disclosure which reflects the economic essence of the transaction.

Methods for determining impairment losses on financial assets

At each balance sheet date, all financial assets, except those designated at fair value through profit or loss, are subject to impairment testing to verify whether there is objective evidence of impairment that may compromise the recoverability of the investment.
In detail, the objective evidence of impairment affecting an asset or a group of financial assets can be associated with the following negative events:

- significant financial difficulties experienced by the issuer or the borrower;
- breach of contract, for example a default or failure to make payment of interest or principal when due;
- giving the beneficiary an allowance, that the bank took in consideration primarily for economic or legal reasons related to the beneficiary's financial difficulties, and which otherwise would not have been granted;
- likelihood that the borrower may file for bankruptcy or other financial restructuring procedures;
- disappearance of an active market related to the financial asset in question due to the issuer's financial difficulties. However, the disappearance of an active market caused by the fact that the company's instruments are no longer publicly traded is not evidence of a reduction in fair value;
- events that point at a significant decrease in the issuer's future cash flows (which include the general local or domestic economic conditions in which the issuer operates).

Furthermore, objective evidence of impairment for an investment in an equity instrument may materialise in the event of the following additional negative events:

- significant changes negatively affecting the technological, economic or regulatory environment in which the issuer operates, indicating that the investment can no longer be recovered;
- a prolonged or significant reduction in fair value below the purchase price.

In the event that objective impairment occurs as a result of one or more events that occurred after the initial recognition of the asset, it is necessary to calculate the impairment loss, according to different rules for financial instruments measured at amortised cost or assets designated at fair value with changes carried at equity.
With regard to the determination of impairment losses, please refer to that described for "Investments held to maturity", "Due from banks and customers" for assets valued at amortised cost, and "Financial assets available for sale" for assets designated at fair value with a matching entry in a specific equity reserve.

Financial liabilities designated at fair value through profit and loss and determination of own creditworthiness

To obtain funding, the Group issues different types of bonds, both at a fixed rate and structured types (index-linked to share components, to exchange rates, to interest rate structures, inflation rates or similar indices). The risks resulting from said issues are hedged by the Group, as part of its overall market risk management, also by means of entering into derivative contracts.

From an accounting perspective, some of these contracts are designated as hedges according to the rules of Hedge Accounting, and in particular of the "fair value hedge", as illustrated in paragraph "6 - Hedging transactions"; in particular, these are hedges of bond issues addressed to institutional customers and bond issues of the subsidiary company Banca Italease, which has been included in the scope of consolidation of the Group since the second half of 2009.

For hedges that are not eligible for the rules of Hedge Accounting, asymmetric accounting would be created, resulting from the different measurement criteria applied to the bond issue - valued at amortised cost - and to the operational hedge derivative instrument - measured at fair value. The Group overcomes this asymmetry by designating bond issues subject to operational hedging at fair value (so-called "Fair Value Option") In addition to simplifying the administrative and accounting management of hedges, with specific reference to structured issues, the adoption of the Fair Value Option instead of hedge accounting, is closely linked to the actual methods Group uses to carry out its hedging policies, by managing its market exposure globally and not through a discrete relation with the issued bond. In actual fact, the Group's operating model envisages that the market risks related to the issues of Group banks are managed by Banca Aletti, as investment bank, which acts as the counterparty for the hedge derivatives stipulated by the issuing banks. The risks undertaken in this way by Banca Aletti are managed jointly with the other derivatives, in place or to be set in place, according to an overall "portfolio" approach, which seeks to pursue a given risk/return profile which is compatible with the risk limits established.
Unlike Hedge Accounting, whose accounting rules require that only fair value changes attributable to the hedged risk be recognised on hedged instruments, the Fair Value Option requires the recognition of all fair value changes, irrespective of the hedged risk factor that generated them, including the issuer's credit risk, to the extent that market participants consider it an important factor in determining the exchange price of a hypothetical exchange transaction. Please refer to "Part A.4 – Fair value disclosure" for details on how fair value and the relative hierarchy are determined.

More specifically, for issues addressed to the Group's retail customers, the fair value measurement is made on the basis of the prices observed in the system of organised exchange of Group securities, which confirm the credit spreads in place on the issue date.

For issues addressed to institutional customers, the valuation method is based on a cash flow discounting model, which considers both the curve of risk-free interest rates and the creditworthiness curve of Banco Popolare, both observed on the reference date of the valuation. The creditworthiness curve is plotted by maximising the use of observable market parameters considered significant, based on the related liquidity; as at 31 December 2014, in line with the previous year, these parameters were identified in the Credit Default Swap (CDS) curve in Banco Popolare's name, as a function of the level of subordination of the issue and the maturity date. The impact resulting from the change in the Bank's creditworthiness, between the issue date and the valuation date, is quantified by calculating the difference between the fair value obtained, considering all risk factors to which the bond is exposed, including credit risk, and the fair value obtained considering the same factors, with the exclusion of the change in credit risk arising during the period.
With regard to the potential volatility of economic results related to changes in own creditworthiness, highlighted by the economic and financial crisis underway since 2008, issues of this type, made from the second half of 2009, are usually recognised according to Hedge Accounting rules. Otherwise, the Fair Value Option rules are applied to prior issues, as the designation is irrevocable; these issues represent the main source of volatility of the economic results attributable to Banco Popolare's creditworthiness.

With regard to recognition criteria for statement of financial position and income statement components, note that, in accordance with the provisions of Circular no. 262:

- derivatives that are associated operationally to liabilities designated at fair value are classified as "Financial assets held for trading" or "Financial liabilities held for trading";
- the spreads and the margins accrued on the derivatives up until the valuation date are recorded, depending on the balance, under "interest income" or "interest expense", consistent with the accrual recorded for the bond issues subject to operational hedges;
- the profits and losses resulting from the disposal or valuation of both bond issues under the Fair Value Option, and of the related derivatives, are recognised under the income statement item "110. Profits (losses) on financial assets and liabilities designated at fair value".

A.3 - DISCLOSURE ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

A.3.1 Reclassified financial assets: book value, fair value and effects on the comprehensive income

On 15 October 2008, the European Commission approved Regulation no. 1004 by means of which the amendments to IAS 39 were acknowledged with reference to the reclassification of financial instruments, and to IFRS 7 with regard to the related disclosure obligations.
On the basis of this amendment, it is therefore possible to reclassify in another category - in the presence of specific conditions – financial instruments recorded, at the time of purchase, within the sphere of the category of financial assets held for trading or the category of financial assets available for sale, as described in detail in the above "Part A.2", to which reference is made for further information.

On the basis of the afore-mentioned legislative changes:

- during the meeting held on 28 October 2008, Banco Popolare's Management Board resolved to reclassify certain financial assets not listed on active markets held by the Bank for trading purposes, taking into account that the crisis situation which characterised the world financial markets would not have permitted it to reasonably pursue the objectives which had justified the recognition of said financial instruments in the category of financial assets held for trading forcing the same to be held for the foreseeable future or until maturity. As permitted by the amendment of IAS 39, due to the exceptional situation, the transfer was essentially carried out on the basis of the prices as at 1 July 2008, since the reclassification was resolved before 1 November 2008;
- during 2009, Efibanca's Board of Directors resolved the reclassification of the UCIT units held in closed-end private equity funds from the "Financial assets held for trading" portfolio to the "Financial assets available for sale" portfolio. This reclassification was carried out on a similar basis to other investments of this type held, which Efibanca had already placed in item "40 – Financial assets held for sale", given the stability of this type of investment, also taking into account that the world financial market crisis would not have made it possible for these instruments to be traded in the short-term. Since this transfer was resolved after 1 November 2008, the book value in the pertinent accounting category is represented by the fair value as at 30 June 2009, or rather as of the date when the related transfer was resolved, as envisaged by the reference accounting standards. Note that the cited positions were recorded in Banco Popolare's assets portfolio following the merger by incorporation of the subsidiary company Efibanca, effective for accounting purposes as of 1 January 2011.

In 2014, no further reclassifications of the portfolio took place.

The following table shows the book value of the reclassified assets remaining as at 31 December 2014, the relative fair value, the income components recorded in the period and the economic impact that would have been recorded in the same period if the transfer had not been carried out.

Type of financial instrument	Source portfolio	Target portfolio	Book value as at 31.12.2014	Fair value as at 31.12.2014	Income items in absence of the transfer (before tax)		Income items registered in the year (before tax)	
					Valutational	Other	Valutational	Other
Debt securities	Financial assets held for trading (item 20)	Due from banks (item 60)	24,477	24,085	1,216	265	-	640
Debt securities	Financial assets held for trading (item 20)	Loans to customers (item 70)	73,369	73,206	2,665	1,210	-	1,313
UCIT units	Financial assets held for trading (item 20)	Financial assets available for sale (item 40)	68	68	68	10	-	10
Total			**97,914**	**97,359**	**3,949**	**1,485**	**-**	**1,963**

Debt securities

As at 31 December 2014, the reclassified portfolio represented by "Debt securities" was comprised of 3 securities from corporate issuers, banks and financial institutions, and 3 Asset Backed Securities (ABS).
The change occurring in 2014, which was a loss of euro 5.3 million in nominal value, was mainly due to the sale of an ABS in the first half of the year for euro 4.1 million and to the inherent change relating to the partial redemption of ABS for the remaining euro 1.2 million.

The book value of the position in debt securities as at 31 December 2014 amounted to euro 97.9 million (euro 102.2 million as at 31 December 2013) and their fair value came to euro 97.3 million (euro 98.3 million as at 31 December 2013).

More specifically, as regards the ABS, the reclassified positions, with a counter value as at 31 December 2014 on the financial statements of euro 14.8 million (nominal value of euro 14.9 million) belong to the senior class, namely the category of securities with contractual right of priority for the payment of the principal and interest. The underlying instruments are generally represented by residential mortgage loans of European countries.
With reference to the corporate securities, outstanding with a par value of euro 85 million, corresponding to a book value of euro 83 million, they are mainly made up of issues from leading banks and financial institutions in Europe (70.6%), and Italy (29.4%); there is no position in structured credit securities. More specifically, 41% of these securities are represented by plain vanilla issues (namely non-structured issues subject to only interest rate/counterparty risk) while the remainder is represented by subordinated issues.

The valuation at amortised cost rather than at fair value, had an overall positive effect of euro 0.6 million, compared to a positive euro 4 million as at 31 December 2013 (as emerges from the difference between the "Book value as at 31/12/2014" column and the "Fair value as at 31/12/2014"). More specifically, this effect is the result of:

- the failure to recognise net gains due to the adjustment to fair value of euro 4.1 million; gains which would have been recorded if the securities had stayed in the assets held for trading portfolio;
- the recognition of income items represented by additional interest income due to the application of the amortised cost to the reclassified assets of euro 4.7 million.

In terms of the impact on the comprehensive income for the year, the reclassification resulted in the recording of:

- additional interest income due to the application of amortised cost of 0.7 million;
- a lower positive result by 4.1 million, which would have been credited to the income statement if the transfer had not taken place, and which results from the valuation, from trading activities and from the redemption of the securities.

Therefore, the income statement result as at 31 December 2014 was euro 3.4 million lower than it would have been in the absence of the reclassification from the financial assets held for trading portfolio to the loans portfolio (equal to the difference between the "Income items registered in the year" column and the "Income items in the absence of transfer" column).

UCIT units

As at 31 December 2014, the residual book value of the UCIT units transferred was euro 68 thousand (euro 177 thousand as at 31 December 2013). The difference in value compared to the previous year is due to partial redemptions made during the year of euro 187 thousand, with the recognition of a profit of euro 10 thousand, as well as the fair value measurement of the units held for a total of euro 68 thousand.

A.3.2 Reclassified financial assets; effects on the comprehensive income before reclassification

Under IFRS 7, in the year of the reclassification it is required to disclose the effects on comprehensive income before reclassification. In this regard, it is noted that during 2014 no transfers of portfolios were carried out, and, therefore, there is no disclosure to be provided.

A.3.3 Transfers of financial assets held for trading

For the reasons underlying the reclassification, please refer to the previous paragraph A.3.1.
In addition, note that at the time when Banco Popolare had carried out the reclassification, the IASB had expressly considered the deterioration of the world's financial markets that had occurred during the third quarter of 2008 as an example of "rare circumstances", as stated in their press release of 13 October 2008.

A.3.4 Effective interest rate and cash flows expected from reclassified assets

There is no disclosure to make as no portfolio reclassification was made in 2014.

A.4 – FAIR VALUE DISCLOSURE

QUALITATIVE INFORMATION

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market operators, under current market conditions on the valuation date in the main market or in a more advantageous market (exit price).
To measure the fair value of (financial and non-financial) assets and liabilities, IFRS 13 establishes a three-tiered fair value hierarchy, based on the observability or otherwise of market parameters:

1. **Listed prices taken from active markets (Level 1)**
   The valuation is made on the basis of listed (non-adjusted) prices in active markets for identical assets or liabilities.
2. **Valuation methods based on observable market parameters (Level 2)**
   The valuation of the financial instrument is based on prices which can be taken from market listings for similar assets or by means of valuation techniques in relation to which all the significant factors, including the lending and liquidity spreads, are taken from observable market data. This level implies reduced elements of discretion in the valuation since all the parameters pertain to the market (for the same security and for similar securities) and the calculation methods make it possible to replicate listings present on active markets.
3. **Valuation methods based on market parameters which cannot be observed (Level 3)**
   The determination of the fair value resorts to valuation techniques which are based, to a significant extent, on significant inputs which cannot be inferred from the market and therefore involve estimates and assumptions by management.

The methods to determine the fair value are illustrated below:
- for financial instruments measured in the financial statements at fair value;
- for financial instruments measured at amortised cost;
- for non-financial assets represented by the real estate investments held by the Group.

Financial assets/liabilities held for trading, Financial assets/liabilities designated at fair value through profit and loss, Financial assets available for sale, Hedging derivatives

For these financial instruments designated at fair value in the financial statements, the Banco Popolare Group has established a "fair value policy", which assigns the maximum priority to the prices listed on active markets and lower priority to the use of inputs which cannot be observed, in line with the above-described fair value hierarchy. More specifically, this policy defines:
- the rules to identify market data, the selection/hierarchy of information sources and the price configurations needed to measure the value of the financial instruments in active markets, classified as level 1 of the fair value hierarchy ("Mark to Market Policy");

- the valuation techniques and the relative input parameters in all cases in which the Mark to Market Policy cannot be adopted ("Mark to Model Policy").

Mark to Market

To determine fair value, the Group uses information based on market data, whenever available, obtained from independent sources, insofar as this is considered to be the best evidence of fair value. In this case, the fair value is the market price of the same instrument assessed, meaning without changes in or restructuring of the instrument, which can be taken from the listings expressed by an active market (and classified as level 1 in the fair value hierarchy). A market is considered active when transactions are performed with sufficient frequency and at sufficient volumes to provide information that can determine a price on a constant basis. The following are generally considered active markets:

- regulated securities and derivative markets, with the exception of the "Luxembourg" stock market;
- organised trading systems;
- certain OTC electronic trading networks (e.g. Bloomberg), when given circumstances are in place based on the presence of a certain number of contributors with executable offers, characterised by bid-ask spreads – i.e., the difference between the price a seller is offering for a security (ask price) and the price a buyer is willing to pay (bid price) – falling within a given tolerance threshold;
- the secondary market for UCIT units, expressing the official NAV (Net Asset Value), based on which the issuing asset management company guarantees the settlement of the units in a short time frame. This regards, in particular, open-ended, harmonised UCIT units, characterised, by type of investment, by high levels of transparency and liquidity.

Mark to Model

When the Mark to Market policy is not applicable, because there are no prices directly observable on active markets, it is necessary to use valuation techniques that maximise the use of information available on the market, based on the following valuation approaches:

1. *Comparable approach*: in this case the instrument's fair value is derived from the prices observed in recent transactions in similar instruments on active markets, suitably adjusted in the instruments and in the market conditions;
2. *Valuation Model*: in the absence of observable transaction prices for the instrument being measured or similar instruments, it is necessary to apply a valuation model. The model must provide proven reliability in estimating hypothetical "operational" prices and therefore must be generally accepted by market participants.

In particular:

- debt securities are measured by discounting expected cash flows, suitably adjusted to account for issuer risk;
- unlisted equity instruments are measured by referring to direct transactions of the same security or similar securities observed over a suitable time frame as compared to the valuation date, using the comparably company market multiples method, and subordinately using financial, income and equity valuation methods;
- investments in UCIT units other than open-ended harmonised ones, are measured on the basis of the NAV made available by the fund administrator or by the management company. These investments typically include private equity funds, real estate funds and hedge funds.
- derivative contracts are measured based on multiple models, depending on the input factors (interest rate risk, volatility, exchange rate risk, price risk, etc.) which affect their valuation, taking account of several fair value adjustments as described in the paragraph below entitled "A.4.1 Fair value levels 2 and 3: valuation techniques and input used". In order to discount future cash flows, the Banco Popolare Group uses the OIS ("Overnight Indexed Swap") curve, considered as the expression of a risk-free rate.

This was classified in level 2 instead of level 3 as significant inputs used for the purpose of determining the fair value were observed on the market. A financial instrument must be classified in its entirety in a single level. Therefore, when the measurement technique uses input from multiple levels, the entire measurement must be classified in the level of the hierarchy where the lowest level of input is classified, where it is deemed significant for calculating the fair value as a whole.

The following types of investment are normally considered as level 2:

- OTC financial derivatives whose fair value is obtained through pricing models, which may use both observable and non-observable input. However, the latter parameters are judged to be insignificant in calculating the overall fair value;
- equity instruments that are not listed on active markets, measured using market multiple techniques, referring to a selected sample of companies that are comparable to the company being valued, or measured based on actual transactions executed in a time frame that is reasonably near the reference date;
- third party or own debt securities that are not listed on active markets, whose input, including credit spreads, is taken from market sources;

- hedge funds featuring significant transparency and liquidity, measured based on the NAV provided by the management company/fund administrator.

The following financial instruments are generally considered level 3:

- hedge funds characterised by significant levels of illiquidity, and for which the process to evaluate the equity of the fund requires a considerable amount of assumptions and estimates. The fair value is measured on the basis of the NAV. Said NAV may be suitably corrected to account for the fund's diminished liquidity, i.e., the period of time between the date of the request for redemption and that of the actual redemption, as well as for possible exit commissions relating to the investment;
- real estate funds measured on the basis of the last available NAV;
- private equity funds measured on the basis of the last available NAV, adjusted if necessary to take into account events that were not recognised in the measurement of the price or to reflect a different valuation of the assets underlying the fund in question;
- illiquid stock for which no recent or comparable transactions have been observed, usually measured on the basis of the equity model;
- debt securities characterised by complex financial structures, for which sources that are not publicly available are usually used; these are non-binding quotations and moreover not corroborated by market data;
- debt securities issued by parties in financial difficulty, for which the management has to use its own judgement to establish the "recovery rate", as no significant prices can be observed on the market.

Due to and from banks and customers, Debt securities issued, Investments held to maturity

For the other financial instruments recognised at amortised cost and substantially classified as due to and from banks or customers, debt securities issued or investments held to maturity, fair value was determined for reporting purposes in the Notes to the financial statements, as required by the applicable accounting standard IFRS 7. In particular:

- for performing medium/long-term loans, fair value is determined using an approach based on risk aversion: expected cash flows, suitably adjusted for expected losses (PD and LGD), are discounted based on a risk-free market rate, plus a component considered as expressing risk aversion (risk aversion premium), in order to take into account other factors in addition to expected loss; The fair value determined in this manner is classified in the hierarchy under level 2 or level 3, based on the significance of the non-observable parameters (PD, LGD and risk aversion premium);
- for "non performing" medium/long-term loans (bad loans, substandard loans, past due, restructured loans), the fair value is taken as the book value and is classified under level 3 of the fair value hierarchy. For those exposures, the exit price is significantly influenced by the predictions of impairment, which are the fruit of a subjection valuation, expressed by the manager of the position, with regard to the recovery rate and the related timing. As a result of this, the consideration of the evolution of market interest rates is deemed to be an insignificant factor in determining fair value;
- for assets and liabilities on demand or with a short-term maturity, the book value at which they are recognised is considered a good approximation of fair value. These include all operating receivables and payables relating to the provision of financial operations and services. The fair value determined in this manner is generally classified under level 2 of the fair value hierarchy;
- for bonds measured in the financial statements at amortised cost, fair value is measured by referring to existing list prices on an active market or using a valuation technique of discounting the bond's cash flows based on the specific interest rate curve, suitably adjusted to account for changes in own creditworthiness, whenever this is considered a material factor by market participants, as described in the paragraph entitled "Financial liabilities designated at fair value through profit and loss and determination of own creditworthiness" contained in part "A.2 - Key financial statement items". For information concerning the fair value hierarchy, refer to the above description of assets and liabilities designated at fair value through profit and loss;
- for debt securities classified in the portfolio of "Investments held to maturity" or "Due from banks or customers", even following a portfolio reclassification, the fair value is measured by using prices obtained on active markets or valuation models, as described above for financial assets and liabilities designated at fair value through profit and loss.

Non-financial assets – Real estate investments held for investment purposes (ex IAS 40)

These are real estate investments (IAS 40) mainly deriving from loan recovery operations, valued at cost, for which, pursuant to the above standard, it is necessary to provide fair value disclosure in the notes to the financial statements.
As indicated above, the applicable accounting standard for fair value measurement, IFRS 13, envisages a three-tier fair value hierarchy, based on whether the input can be observed, irrespective of the valuation techniques used, as described below.
The fair value is mainly determined through external appraisals, which use current prices of similar assets (value per square metre, prices for similar transactions) as a benchmark. Adjustments are usually made to this value to reflect the specific characteristics of the asset subject to valuation. These can include, by way of example, its geographic and

commercial position, accessibility and infrastructures present, the urban planning context, its maintenance status, size, any appurtenances and the state of external/internal plant. In the event of situations in which the asset is difficult to sell, further prudential adjustments may be made to align to the sale policies that company management intends to pursue. By way of said adjustments, the fair value obtained in this way is classified as level 3 in the fair value hierarchy, insofar as it significantly depends on the estimates made by the management, which are necessarily characterised by elements of judgment and subjectivity.
There may be cases, which, however are considered insignificant, where the fair value of real estate investments may be considered at level 2, as they are determined based on parameters considered observable on active markets. In these cases a sufficient volume of transactions must exist, occurring in a recent time frame with respect to the valuation date, and no significant adjustments may have been made, due to the considerable similarity between the unit to be valued and the units subject to the cited transactions. This may be the case for sales prices per square metre or rental costs for properties considered equivalent due to their intrinsic characteristics and location (ex. residential units in a building/area with a sufficient number of comparable units or an office located in a business district with several similar buildings containing comparable offices).
IFRS 13 assumes that the current use of the asset is the highest and best use of said asset, unless the market or other factors suggest that the market participants may use the asset differently in order to maximise its value. For certain real estate investments, the determination of the fair value thus takes account of potential “redevelopment” of the current use of the property, where there is evidence to support the fact that the market participants consider said potential future development in determining the transaction price.

A.4.1 Fair value levels 2 and 3: valuation techniques and input used

For assets and liabilities designated at fair value on a recurring basis, for which there are no prices directly observable on active markets, the fair value must be determined using the “Comparable Approach” or the “Model Valuation”, as described in the previous paragraph. Note that for the Banco Popolare Group, the only items designated at fair value on a recurring basis are financial assets and liabilities, as illustrated below.

Debt securities
These are measured by discounting expected cash flows (Discounted Cash Flow Method), suitably adjusted to account for issuer risk. For structured securities, it is necessary to measure the optional component, also taking account of suitable spreads to reflect the liquidity risk and model risk which may characterise such structures.

Unlisted equity instruments
These are measured by referring to direct transactions of the same security or similar securities observed over a suitable time frame as compared to the valuation date, using the comparably company market multiples method, and subordinately using financial, income and equity valuation methods.

Investments in UCIT units, other than open-ended harmonised UCIT
These are measured on the basis of the NAV made available by the fund administrator or by the management company. These investments typically include private equity funds, real estate funds and hedge funds.

Over The Counter (OTC) Derivatives
These are measured on the basis of multiple models, depending on the input factors (interest rate risk, volatility, exchange rate risk, price risk, etc.) which affect their valuation. The values obtained using the valuation models, based on risk-free rates OIS curve), are adjusted to take account of certain fair value adjustments factors, in order to best reflect the sale price of an actually possible market transaction. These factors are specifically model risk, liquidity risk and counterparty risk, illustrated here below.

Model risk: this adjustment is made to cover the risk that the pricing models, though validated, may generate fair values not directly observable or not immediately comparable with market prices. In general, this is the case for structured products, whose valuation is highly complex and for which the break down into elementary components which can be “summed” (host instrument and embedded derivative) may generate imprecisions in the valuation, or in the event of pricing algorithms or types of pay-offs that are particularly “exotic”, which do not have a suitable degree of dissemination on the market, or in the presence of models that are highly sensitive to variables that are difficult to observe on the market.

Liquidity risk: this adjustment is made to take account of the size of the “bid/ask spread”, i.e., the actual cost of unfreezing positions in OTC derivatives in markets with low efficiency. The effect of the liquidity risk adjustment is greater the more the product is structured, due to the related hedging/unfreezing costs, where the valuation model is not sufficiently confirmed and disseminated among operators, because this makes the valuations more random.

Counterparty risk. Adjustments for counterparty risks on performing derivatives are made to reflect both:
- the counterparty’s credit risk, known as the Credit Valuation Adjustment (CVA);
- the risk of non-fulfilment of one’s own contractual obligations (“own credit risk”), known as the Debit Valuation Adjustment (DVA).

The consideration of own credit risk in the designation of a financial liability at fair value is consistent with the valuation made for an entity that holds the same instrument as a financial asset, and is expressly envisaged by IFRS 13 ("non-performance risk").

CVA and DVA are determined for each separate legal entity belonging to the Group, on the basis of the expected future exposure generated by the derivative contracts, the probability of default (PD) of the parties, and the relative losses (LGD). More specifically, the calculation of expected exposure takes into account the effects resulting from the existence of "netting and collateral agreements", which are able to mitigate counterparty risk. For the Group, these "collateral agreements" are presented by "Credit Support Annex" (CSA contracts stipulated with the counterparties, whose derivative transactions are regulated by the "ISDA Master Agreement", on the basis of which the parties must pay real financial guarantees, based on the overall mark to market performance of the derivatives underlying the same CSA. When estimating PD, maximum use of market parameters is made, referring to Credit Default Swap quotations, where available, against internal parameters.
More specifically, the model to calculate CVA/DVA envisages that, for each derivative, counterparty risk must correspond to the sum of the following two components:

- "Bilateral CVA": which is the potential loss in the event that the future exposure is positive for the Group, adjusted to account for the possibility that the Group may default before the counterparty;
- "Bilateral DVA": which seeks to recognise the benefit in the event that it does not meet its contractual obligations, of the expected exposure is negative for the Group. Said benefit is then mitigated to account for the probability that, during the transaction, the counterparty may default before the Group.

The table below summarises the main types of derivatives existing in the Group, mainly attributable to positions held by Banca Aletti and by the Parent Company, indicating the related valuation models and main input:

Derivative category	Product	Valuation models	Main input of the model
Financial derivatives on interest rates	Swap	Discounted Cash Flow	Interest rate curves, interest rate volatility, interest rate correlation
	Cap - Floor	Black and Scholes - Analytical	
	European Swaption	Black and Scholes - Analytical	
	Bermuda Swaption	Hull-White one-factor mixture – Trinomial tree	
	CMS Spread Option	Kirk - Analytical	
	Bond Option	Black and Scholes - Analytical	
	Bond Futures option	Binomial tree	
Derivatives on inflation rates	Swap, Cap - Floor	Lognormal Forward Inflation Model - Analytical	Interest rate and inflation rate curves, Interest/inflation rate, volatility/correlation, calibrated on market prices
Derivatives on shares / equity indices / exchange rates	Single asset plain vanilla options	Black and Scholes - Analytical	Equity/forex volatility, interest rate and exchange rate curves, spot prices of equity indices, dividends, repo rates
	Single asset American options	Black and Scholes – Binomial tree (equity) – finite differences (forex)	
	Exotic options	Black and Scholes – Monte Carlo	Equity/forex volatility, interest rate and exchange rate curves, spot prices of equity indices, dividends, repo rates, correlations
	European options on baskets	Black and Scholes /Black and Scholes Mixture - Analytical	
	American Barrier Options and Spread Options	Local Volatility – Monte Carlo	
	American Barrier Options on exchange rate	Trinomial tree	
	Autocallable options	Hybrid Black and Scholes, two-factor Hull and White – Monte Carlo	Equity/forex/interest rate volatility, correlations, interest rates, exchange rates, spot prices of equity indices, dividends, repo rates
	Dividend Swap	Discounted Cash Flow - Analytical	Interest rates, exchange rates, dividends, repo rates
Credit derivatives	Credit Default Swap	Discounted Cash Flow - Analytical	Interest rates, Credit Default Swap curve

The techniques, the parameters for determining the fair value, and the criteria for assignment under the fair value hierarchy are defined and formalised in a specific fair value policy adopted by the Banco Popolare Group. The reliability of the fair value measurements is also guaranteed by the verifications carried out by a Risk Management department. This department, which is independent from the Front Office units that hold the positions, periodically reviews the list of pricing models to be used under the Fair Value Policy: these models must represent market standards or best practices and the related calibration techniques must guarantee a result in line with valuations capable of reflecting the "current market conditions". In detail, to correctly determine the fair value, each product is associated to a pricing model generally accepted by the market and selected based on the characteristics and market variables underlying

said product. For highly complex products or in the event that the existing valuation model for the products is deemed lacking or inadequate, an internal process is launched to supplement the current models. Based on this process, the Risk Management department conducts an initial stage of validation of the pricing models, which may be native to the position keeping system or issued by a specific internal department. This is followed by another stage conducted by the same department, to guarantee constant reliability of the previously validated model.
In detail, the validation aims at verifying the theoretical robustness of the model through independent repricing, possible calibration of the parameters and comparison with counterparties' prices. If the validation is successful, the use of the models is still subordinate to approval by specific internal committees of the Group. Following the validation stage, continuous revision is planned in order to confirm the accuracy and adherence to the market of the pricing models used by the Group, through suitable actions, if necessary, on the models and the related underlying theoretical assumptions. In order to cover the risk that the pricing models, though validated, may generate fair values not immediately comparable with market prices, a suitable adjustment will be made for "Model risk", as described above.

A.4.2 Processes and sensitivity of valuations

The non-observable parameters able to influence the measurement of the instruments classified as level 3 are mainly represented by:

- the estimates and the assumptions underlying the models used to measure the investment in equity instruments and UCIT units. For these investments, no quantitative sensitivity analysis of the fair value was conducted, with respect to the change in non-observable inputs, insofar as the fair value was acquired from external sources without making any adjustment or was generated by a model with specific inputs (for example, the company's capital values) and for which alternative values cannot be reasonably envisaged.
- from the recovery rate of the exposures indirectly held vis-à-vis Icelandic banks, underlying certain insurance policies. In quantitative terms, a one percentage point increase/decrease of the recovery rate leads respectively to an increase or decrease in the fair value corresponding to around euro 1.4 million.

A.4.3 Fair value hierarchy

For the purpose of preparing the disclosure on transfers between levels set out in the following paragraphs A.4.5.1, A.4.5.2 and A.4.5.3, it is noted that, for securities in the hierarchy as at 31 December 2014 which had a different level of fair value than as at 31 December 2013, it was assumed that the transfer between levels occurred with regard to the balances at the beginning of the reference period.

A.4.4 Other information

For the disclosure concerning the highest and best use required by IFRS 13, refer to the information at the bottom of table A.4.5.4, relating to the item "property and equipment held for investment purposes".
It must also be specified that the Group did not use the option of measuring the fair value at overall portfolio level, in order to fully recognise the counterparty risk associated with positions in derivative contracts grouped in the same "Credit Support Annex" - CSA agreement, as described in the paragraph above entitled "A.4.1 Fair value levels 2 and 3: valuation techniques and input used". In this case, the counterparty risk associated with the single derivative is determined on the basis of its marginal contribution to the expected net exposure generated by all contracts stipulated with a specific counterparty within the same CSA.

QUANTITATIVE INFORMATION

A.4.5 Fair value hierarchy

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

As established by the previously cited standard IFRS 13, recurring valuations refer to those assets or liabilities measured at fair value in the statement of financial position, on the basis of that envisaged or permitted by the relevant international accounting standards. In this regard, note that for the Banco Popolare Group, the only assets and liabilities measured at fair value on a recurring basis are financial assets and liabilities, as shown in the table below:

Assets/Liabilities measured at fair value *(in thousands of euro)*	31/12/2014			31/12/2013		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	4,181,090	2,873,273	23,623	3,439,822	3,795,090	29,901
2. Financial assets designated at fair value through profit and loss	3,614	1,592	447	-	1,740	489
3. Financial assets available for sale	12,520,601	342,430	655,137	10,840,391	644,048	456,799
4. Hedging derivatives	-	640,359	-	-	542,685	-
5. Property and equipment	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	**16,705,305**	**3,857,654**	**679,207**	**14,280,213**	**4,983,563**	**487,189**
1. Financial liabilities held for trading	177,325	5,882,145	43	165,679	3,903,491	131
2. Financial liabilities designated at fair value through profit and loss	12,419,882	2,605,297	-	16,804,245	5,147,129	-
3. Hedging derivatives	-	590,722	-	-	447,306	-
Total	**12,597,207**	**9,078,164**	**43**	**16,969,924**	**9,497,926**	**131**

Financial assets

The financial instruments valued on the basis of prices pertaining to active markets (Level 1) or determined on the basis of observable market parameters (Level 2) represent 96.8% of total financial assets designated at fair value (97.6% as at 31 December 2013).
The instruments valued significantly on the basis of non-observable parameters (Level 3) represent a marginal share (3.2% slightly up against 2.4% in 2013) of total financial assets designated at fair value through profit and loss, 96.5% of which are financial assets available for sale.
These financial assets, whose book value as at 31 December 2014 was euro 679.2 million, are represented by the following types of investment:

- unlisted equity instruments of euro 534.5 million, mostly valued on the basis of internal equity models;
- UCIT units of euro 103.3 million, represented by private equity funds (euro 44 million), real estate funds (euro 35.8 million) and hedge funds (euro 23.5 million) characterised by a certain level of illiquidity, and for which the process to evaluate the equity of the fund requires a considerable amount of assumptions and estimates;
- debt securities of euro 41.4 million. Euro 22 million of these investments is represented by several index-linked policies of UGF Assicurazioni and Eurovita Assicurazioni, placed by the Banco Popolare Group, whose underlying securities were issued by Icelandic banks (Landsbanki Islands, Glitnir Banki, Kaupthing Bunadarbanki). More specifically, the Group acquired the cited instruments following a public offer of exchange, launched in 2010, used to propose that holders of the above index-linked policies exchange the same with zero coupon senior bonds issued by Banco Popolare, and a possible cash settlement. As at 31 December 2014, the nominal value of these policies is euro 137 million; the book value, which depends on the recovery rate and on the time required to recover the underlying assets, has been estimated to be in the range of 6%-30% for each security. In 2014, 2 securities belonging to class A/A1 (or senior) were purchased, issued by the SPE Sunrise Srl as part of securitisation transactions relating to consumer loans sold to Agos Ducato Spa, whose fair value in December 2014 was measured as euro 18.2 million.

Financial assets include euro 3,623.4 million in derivative instruments held for trading and hedging. In particular:

- listed derivatives (futures and options) corresponding to euro 194.2 million, are measured on the basis of the prices provided by the Clearing Houses (level 1);
- Over The Counter (OTC) derivatives, which amount to euro 3,429.2 million, are measured on the basis of models, which use observable market parameters to a significant extent, or on the basis of prices originating from independent sources (level 2).

Financial liabilities

Financial liabilities held for trading are essentially represented by derivative instruments, whose fair value has been obtained by means of valuation techniques which use observable market parameters to a significant extent (level 2). The positions indicated in correspondence with level 3 refer to a limited number of agreements relating to options sold linked to guaranteed capital asset management schemes.
Financial liabilities designated at fair value are represented by own bond issues subject to hedging by means of derivative instruments, for which the fair value option has been activated. More specifically, the securities classified as level 1, which as at 31 December 2014 represented 82.6% of the total liabilities measured at fair value (item 50 of statement of financial position liabilities), refer to bonds placed with retail customers, for which listings present on the organised trading system relating to Group securities, considered an active market, were used. For further details on the method for determining the financial liabilities under the fair value option, reference should be made to the paragraph above entitled "Financial assets/liabilities held for trading, Financial assets/liabilities designated at fair value through profit and loss, Financial assets available for sale, Hedging derivatives" in Part A - Fair value disclosure" in these notes to the financial statements.

Transfers between fair value levels (Level 1 and Level 2)

During 2014, the following assets and liabilities were transferred from level 1 to level 2:

- financial assets held for trading of euro 0.9 million (value at the beginning of the year);
- financial assets available for sale of euro 28.9 million (value at the beginning of the year);

The transfers refer to a limited number of positions, relating to debt securities, for which the conditions envisaged by the Group Fair Value Policy for a listing expressed by an active market had not been met, unlike the situation at the beginning of the year.

In the same period, the following assets/liabilities were transferred from level 2 to level 1:

- financial assets held for trading of euro 167.5 million (value at the beginning of the year);
- financial assets available for sale of euro 33.6 million (value at the beginning of the year);
- financial liabilities designated at fair value through profit and loss of euro 949 million (value at the beginning of the year).

As regards assets, it should be noted that the transfers regard debt securities, for which as at 31 December 2014, the conditions envisaged by the Group Fair Value Policy to be classified as level 1 were fulfilled, insofar as the prices recorded on active markets were able to be used.
With reference to financial liabilities, the transfers regard bond issues made by the Group for which the listing on the organised trading system relating to Group securities was granted during 2014.

Impact of the Credit Value Adjustment (CVA) and of the Debit Value Adjustment (DVA) on the fair value determination of derivative financial instruments

Based on the method illustrated in the paragraph above entitled "A.4.1 Fair value levels 2 and 3: valuation techniques and input used", as at 31 December 2014, adjustments for counterparty risk for derivative financial instruments corresponded to the sum of the following components:

- "Bilateral CVA", which entailed a cumulative loss, in terms of lower assets/higher liabilities, of euro 11.5 million;
- "Bilateral DVA", which entailed a cumulative benefit, in terms of higher assets/lower liabilities, of euro 5.2 million.

As at 31 December 2014, cumulative CVA/DVA adjustments therefore totalled a negative euro 6.3 million (as at 31 December 2013, the balance of said adjustments was a negative euro 13.4 million).

A.4.5.2 Annual changes in assets designated at fair value on a recurring basis (level 3)

(in thousands of euro)	Financial assets held for trading	Financial assets designated at fair value through profit and loss	Financial assets available for sale	Hedging derivatives	Property and equipment	Intangible assets
1. Opening balance	**29,901**	**489**	**456,799**	**-**	**-**	**-**
2. Increases	**4,158**	**133**	**247,820**	**-**	**-**	**-**
2.1 Purchases	1,224	-	33,185	-	-	-
of which: for business combinations	-	-	-	-	-	-
2.2 Profits charged to:	2,421	133	45,317	-	-	-
2.2.1 Income statement	2,421	133	1,633	-	-	-
of which: capital gains	2,301	78	-	-	-	-
2.2.2 Shareholders' equity	X	X	43,684	-	-	-
2.3 Transfers from other levels	-	-	169,297	-	-	-
2.4 Other increases	513	-	21	-	-	-
3. Decreases	**(10,436)**	**(175)**	**(49,482)**	**-**	**-**	**-**
3.1 Sales	(10,108)	(49)	(21,287)	-	-	-
of which: for business combinations	-	-	-	-	-	-
3.2 Redemptions	(15)	-	(5,835)	-	-	-
3.3 Losses charged to:	(313)	(122)	(19,453)	-	-	-
3.3.1 Income statement	(313)	(122)	(14,292)	-	-	-
of which: capital losses	(313)	(1)	-	-	-	-
3.3.2 Shareholders' equity	X	X	(5,161)	-	-	-
3.4 Transfers to other levels	-	-	(2,774)	-	-	-
3.5 Other decreases	-	(4)	(133)	-	-	-
4. Closing balance	**23,623**	**447**	**655,137**	**-**	**-**	**-**

Over the year, assets designated at fair value Level 3 on a recurring basis recorded an increase of euro 192 million (+28.3%) related mainly to the transfer from level 2 to level 3 of several minority shareholdings, the fair value of which cannot be considered a market price or determined to a large extent by inputs recognised by the market.

A.4.5.3 Annual changes in liabilities designated at fair value on a recurring basis (level 3)

(in thousands of euro)	Financial liabilities held for trading	Financial liabilities designated at fair value through profit and loss	Hedging derivatives
1. Opening balance	**131**	**-**	**-**
2. Increases	**-**	**-**	**-**
2.1 Issues	-	-	-
of which: for business combinations	-	-	-
2.2 Losses charged to:	-	-	-
2.2.1 Income statement	-	-	-
of which: capital losses	-	-	-
2.2.2 Shareholders' equity	x	x	-
2.3 Transfers from other levels	-	-	-
2.4 Other increases	-	-	-
3. Decreases	**(88)**	**-**	**-**
3.1 Redemptions	-	-	-
of which: for business combinations	-	-	-
3.2 Buy-backs	-	-	-
3.3 Profits charged to:	(88)	-	-
3.3.1 Income statement	(88)	-	-
of which: capital gains	-	-	-
3.3.2 Shareholders' equity	x	x	-
3.4 Transfers to other levels	-	-	-
3.5 Other decreases	-	-	-
4. Closing balance	**43**	**-**	**-**

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

(in thousands of euro)	31/12/2014				31/12/2013			
	Book value	FV Level 1	FV Level 2	FV Level 3	Book value	FV Level 1	FV Level 2	FV Level 3
1. Investments held to maturity	4,948,433	5,231,547	-	-	4,198,048	4,304,078	-	-
2. Due from banks	5,058,816	166,914	4,892,731	953	3,753,227	153,690	3,598,211	1,255
3. Loans to customers	79,823,603	94,284	69,277,602	15,651,758	86,148,995	86,827	75,707,481	14,815,990
4. Property and equipment held for investment purposes	1,458,953	-	-	1,657,927	1,342,346	-	-	1,704,228
5. Non-current assets held for sale and discontinued operations	70,266	-	-	70,266	369,088	-	282,804	86,284
Total	**91,360,071**	**5,492,745**	**74,170,333**	**17,380,904**	**95,811,704**	**4,544,595**	**79,588,496**	**16,607,757**
1. Due to banks	17,383,317	-	17,383,317	-	17,403,066	-	17,403,066	-
2. Due to customers	54,778,714	-	54,773,337	-	47,708,195	-	47,686,278	-
3. Debt securities issued	16,709,575	14,009,555	3,202,996	-	20,358,100	16,658,067	4,123,671	-
4. Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	-	274,458	-	274,458	-
Total	**88,871,606**	**14,009,555**	**75,359,650**	**-**	**85,743,819**	**16,658,067**	**69,487,473**	**-**

Assets and liabilities not designated at fair value

For the criteria used to determine the fair value and the levels of financial assets and liabilities valued at cost or for which fair value disclosure is required, reference should be made to the content of the paragraphs above "Due to and from banks and customers, Debt securities issued, Investments held to maturity" and "Non-financial assets – Real estate investments held for investment purposes (ex IAS 40) in Part A - Fair value disclosure" in these notes to the financial statements.

Almost all investments held to maturity (99.7%) refer to Italian government bonds held by the Parent Company, of which 89.5% maturing in between 1 and 4 years, and the remaining 10.5% maturing in 10 years.

96.7% of assets posted under Due from banks and 81.5% of assets under Loans to customers are classified under level 2. Level 3 loans to customers substantially include non performing loans and a limited number of performing loans, for which the impact of non-observable parameters for measuring fair value was deemed insignificant.

The fair value of real estate investments (IAS 40) was fully classified under level 3 of the fair value hierarchy, considering the distinctive features of each property. Note that those properties are mainly attributable to positions of the former Banca Italease Group ("datio in solutum"). These include two properties whose fair value was measured by taking account of the possibility of generating economic benefits through the highest and best use of the asset. In this case, the estimated realisable value of the properties is understood as the maximum amount which may be paid by potential buyers interested in implementing construction works which, generally, involve the demolition (where necessary) of the existing property and the subsequent construction of a building for a different purpose. Thus, the costs for demolition and construction of the new building and the expected revenues from the sale of the properties to be built have been quantified, and the expected cash flows have been discounted. The book value of said assets amounted to euro 7.5 million, while the fair value came to euro 7.9 million.

Measurement of assets and liabilities at fair value on a non-recurring basis

As at 31 December 2014, the only items measured at fair value on a recurring basis related to properties held for sale, pursuant to IFRS 5, for a total of euro 70.3 million, mostly referring to Banca Italease (fair value considered to be level 3).

A.5 Disclosure on "day one profit/loss"

Pursuant to IFRS 7 paragraph 28, as regards the Bank's financial instruments, options sold relating to capital-guaranteed portfolios have been identified, for which there is a difference between the fair value measured upon initial recognition (transaction price) and the amount determined at that same date using the "Day 1 Profit" valuation technique. In view of the type of products, the fact that input parameters are not observable and no reference prices exist for similar products on an active market, the difference was distributed pro-rata temporis, as described in "Part A – Accounting policies" in the paragraph "Dividends and revenue recognition". As at 31 December 2014, the amount recognised in the income statement under "Profits (losses) on trading" was a profit of euro 88 thousand; the residual difference still to be recognised amounts to euro 43 thousand.

PART B – INFORMATION ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

Section 1 - Cash and cash equivalents - Item 10

1.1 Cash and cash equivalents: breakdown

(in thousands of euro)	31/12/2014	31/12/2013
a) Cash	619,529	639,632
b) Demand deposits with Central Banks	-	-
Total	**619,529**	**639,632**

Section 2 - Financial assets held for trading - Item 20

2.1 Financial assets held for trading: breakdown by product

(in thousands of euro)	31/12/2014			31/12/2013		
	L1	L2	L3	L1	L2	L3
A Cash assets						
1. Debt securities	3,326,244	52,479	2	2,758,931	528,993	2
1.1. Structured securities	445,506	18,882	-	126,669	141,369	-
1.2. Other debt securities	2,880,738	33,597	2	2,632,262	387,624	2
2. Equity instruments	445,048	-	16	290,457	-	18
3. UCIT units	215,603	31,965	23,605	206,033	183,425	29,881
4. Loans	-	-	-	-	-	-
4.1. Repurchase agreements	-	-	-	-	-	-
4.2. Other	-	-	-	-	-	-
Total A	**3,986,895**	**84,444**	**23,623**	**3,255,421**	**712,418**	**29,901**
B Derivatives						
1. Financial derivatives	194,195	2,788,829	-	184,401	3,082,655	-
1.1 Trading	194,195	2,358,833	-	184,401	2,545,917	-
1.2 Under the fair value option	-	421,668	-	-	525,673	-
1.3 Other	-	8,328	-	-	11,065	-
2. Credit derivatives	-	-	-	-	17	-
2.1 Trading	-	-	-	-	17	-
2.2 Under the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	**194,195**	**2,788,829**	**-**	**184,401**	**3,082,672**	**-**
Total (A+B)	**4,181,090**	**2,873,273**	**23,623**	**3,439,822**	**3,795,090**	**29,901**

The item "Financial trading derivatives" includes the credit from exercising the put option granted by Pandette Finanziaria S.r.l. (Pandette) to Banco Popolare, concerning the sale of 3,870,900 ordinary shares of RCS Media Group S.p.A. amounting to euro 113.5 million. Pandette failed to pay to purchase price of said shares at settlement and summoned Banco Popolare to appear in court. For more information on pending legal disputes, refer to the Section 12 under Liabilities in these Notes to the Financial Statements.

The table below presents the breakdown of UCIT units.

(in thousands of euro)	31/12/2014	31/12/2013
a) Share Funds	5,714	4,108
b) Balanced Funds	-	-
c) Bond Funds	372	719
d) Liquidity Funds	67,216	77,140
e) Flexible Funds	140,287	245,403
f) Hedge Funds	55,599	89,932
g) Real Estate Funds	1,985	2,037
Total	**271,173**	**419,339**

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

(in thousands of euro)	31/12/2014	31/12/2013
A CASH ASSETS		
1. Debt securities	3,378,725	3,287,926
a) Governments and Central Banks	1,416,810	1,607,076
b) Other public entities	2,297	2,632
c) Banks	1,203,008	1,197,227
d) Other issuers	756,610	480,991
2. Equity instruments	445,064	290,475
a) Banks	59,417	43,318
b) Other issuers:	385,647	247,157
- insurance companies	44,225	14,787
- financial companies	5,364	4,206
- non-financial companies	336,058	227,667
- others	-	497
3. UCIT units	271,173	419,339
4. Loans	-	-
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
Total A	4,094,962	3,997,740
B DERIVATIVES		
a) Banks		
- fair value	2,088,777	2,419,937
b) Customers		
- fair value	894,247	847,136
Total B	2,983,024	3,267,073
Total (A+B)	7,077,986	7,264,813

2.3 - Cash financial assets held for trading: annual changes

(in thousands of euro)	Debt securities	Equity instruments	UCIT units	Loans	Total
A. Opening balance	**3,287,926**	**290,475**	**419,339**	**-**	**3,997,740**
B. Increases	**61,260,273**	**3,163,259**	**70,496**	**-**	**64,494,028**
1. Purchases	61,045,552	3,036,000	62,937	-	64,144,489
of which: for business combinations	-	-	-	-	-
2. Increases in fair value	92,463	8,766	6,558	-	107,787
3. Other increases	122,258	118,493	1,001	-	241,752
C. Decreases	**(61,169,474)**	**(3,008,670)**	**(218,662)**	**-**	**(64,396,806)**
1. Sales	(58,896,726)	(2,955,541)	(92,959)	-	(61,945,226)
of which: for business combinations	-	-	-	-	-
2. Redemptions	(2,091,766)	-	-	-	(2,091,766)
3. Decreases in fair value	(9,533)	(20,559)	(1,560)	-	(31,652)
4. Transfers to other portfolios	-	-	-	-	-
5. Other decreases	(171,449)	(32,570)	(124,143)	-	(328,162)
D. Closing balance	**3,378,725**	**445,064**	**271,173**	**-**	**4,094,962**

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

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

(in thousands of euro)	31/12/2014			31/12/2013		
	L1	L2	L3	L1	L2	L3
1 Debt securities	-	-	-	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2 Equity instruments	-	1,074	18	-	1,112	18
3 UCIT units	3,614	518	429	-	628	471
4 Loans	-	-	-	-	-	-
4.1 Structured	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total	**3,614**	**1,592**	**447**	**-**	**1,740**	**489**
Cost	**3,547**	**10,535**	**5,533**	**-**	**9,450**	**8,215**

“Equity instruments” usually include certain insurance contracts, which are correlated to the performance of the equity instrument, and designed to build up the funding required to pay out supplementary pension benefits to some executives upon their retirement. The fair value designation of this investment is linked to the cost of employee benefits to be recognized under retirement benefits in compliance with IAS 19.

The table below presents the breakdown of UCIT units.

(in thousands of euro)	31/12/2014	31/12/2013
a) Share Funds	3,907	306
b) Balanced Funds	-	-
c) Bond Funds	-	-
d) Liquidity Funds	-	-
e) Flexible Funds	-	-
f) Hedge Funds	518	628
g) Real Estate Funds	136	165
Total	**4,561**	**1,099**

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

(in thousands of euro)		31/12/2014	31/12/2013
1	**Debt securities**	**-**	**-**
	a) Governments and Central Banks	-	-
	b) Other public entities	-	-
	c) Banks	-	-
	d) Other issuers	-	-
2	**Equity instruments**	**1,092**	**1,130**
	a) Banks	10	10
	b) Other issuers:	1,082	1,120
	- insurance companies	1,064	1,102
	- financial companies	-	-
	- non-financial companies	-	-
	- others	18	18
3	**UCIT units**	**4,561**	**1,099**
4	**Loans**	**-**	**-**
	a) Governments and Central Banks	-	-
	b) Other public entities	-	-
	c) Banks	-	-
	d) Other parties	-	-
Total		**5,653**	**2,229**

3.3 Financial assets designated at fair value through profit and loss: annual changes

(in thousands of euro)		Debt securities	Equity instruments	UCIT units	Loans	Total
A	**Opening balance**	**-**	**1,130**	**1,099**	**-**	**2,229**
B	**Increases**	**-**	**37**	**80,810**	**-**	**80,847**
	1. Purchases	-	-	48,365	-	48,365
	(of which for business combinations)	-	-	-	-	-
	2. Increases in fair value	-	29	1,203	-	1,232
	3. Other increases	-	8	31,242	-	31,250
C	**Decreases**	**-**	**(75)**	**(77,348)**	**-**	**(77,423)**
	1. Sales	-	-	(76,232)	-	(76,232)
	(of which for business combinations)	-	-	-	-	-
	2. Redemptions	-	(75)	-	-	(75)
	3. Decreases in fair value	-	-	(389)	-	(389)
	4. Other decreases	-	-	(727)	-	(727)
D	**Closing balance**	**-**	**1,092**	**4,561**	**-**	**5,653**

Section 4 - Financial assets available for sale - Item 40

4.1 Financial assets available for sale: breakdown by product

(in thousands of euro)		31/12/2014			31/12/2013		
		L1	L2	L3	L1	L2	L3
1	Debt securities	12,038,754	278,228	41,377	10,472,725	398,613	19,538
	1.1 Structured securities	-	7,831	529	-	-	-
	1.2 Other debt securities	12,038,754	270,397	40,848	10,472,725	398,613	19,538
2	Equity instruments	6,200	64,202	534,479	10,615	245,435	336,582
	2.1 Designated at fair value	6,200	64,202	527,095	10,615	245,435	329,066
	2.2 Valued at cost	-	-	7,384	-	-	7,516
3	UCIT units	475,647	-	79,281	357,051	-	100,679
4	Loans	-	-	-	-	-	-
Total		**12,520,601**	**342,430**	**655,137**	**10,840,391**	**644,048**	**456,799**

The exposure in debt securities totals euro 12,358.4 million (euro 10,890.9 million last year) and is almost entirely represented by bonds issued by Governments and banks. With regard to hedging interest rate risk, undertaken to obtain absolute returns on short term interest rates, please refer to the following table "4.3 Financial assets available for sale subject to micro hedging".

Equity instruments and UCIT units (level 3) include shareholdings which cannot be classified as controlling, associated or joint control, and certain private equity funds.
More specifically, level 3 equity instruments include the stake held in the share capital of the Bank of Italy of euro 91.7 million, in the Istituto Centrale delle Banche Popolari of euro 139.6 million, in Palladio Finanziaria of euro 35.9 million, in Arca SGR of euro 62.2 million and in Dexia Crediop of euro 55.4 million.
Level 1 UCIT units are represented exclusively by open-ended harmonised funds, for which a daily NAV is always available.

The table below presents the breakdown of UCIT units.

(in thousands of euro)		31/12/2014	31/12/2013
a)	Share Funds	163,343	171,010
b)	Balanced Funds	18,763	29,552
c)	Bond Funds	102,667	117,083
d)	Liquidity Funds	-	-
e)	Flexible Funds	234,501	107,674
f)	Hedge Funds	-	-
g)	Real Estate Funds	35,654	32,411
Total		**554,928**	**457,730**

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

(in thousands of euro)		31/12/2014	31/12/2013
1	**Debt securities**	**12,358,359**	**10,890,876**
	a) Governments and Central Banks	10,231,182	9,326,888
	b) Other public entities	5,944	5,966
	c) Banks	1,581,513	1,187,522
	d) Other issuers	539,720	370,500
2	**Equity instruments**	**604,881**	**592,632**
	a) Banks	294,191	292,494
	b) Other issuers:	310,690	300,138
	- insurance companies	20	1,244
	- financial companies	120,335	84,427
	- non-financial companies	190,284	214,407
	- others	51	60
3	**UCIT units**	**554,928**	**457,730**
4	**Loans**	**-**	**-**
	a) Governments and Central Banks	-	-
	b) Other public entities	-	-
	c) Banks	-	-
	d) Other parties	-	-
Total		**13,518,168**	**11,941,238**

4.3 Financial assets available for sale subject to micro hedging

(in thousands of euro)		31/12/2014	31/12/2013
1	**Financial assets subject to micro fair value hedging**	**2,081,852**	**2,492,503**
	a) interest rate risk	2,081,852	2,492,503
	b) price risk	-	-
	c) exchange rate risk	-	-
	d) credit risk	-	-
	e) multiple risks	-	-
2	**Financial assets subject to micro cash flow hedging**	**-**	**-**
	a) interest rate risk	-	-
	b) exchange rate risk	-	-
	c) other	-	-
Total		**2,081,852**	**2,492,503**

Assets subject to micro hedging include government bonds hedged through “Interest Rate Swap” contracts and funded through “structured repos” (for a nominal value of euro 100 million). For detailed information on this type of transaction and on the relative accounting of the same, refer to the paragraph entitled “disclosures on ‘structured repo’ transactions” contained in Part E of these notes to the consolidated financial statements.

4.4 Financial assets available for sale: annual changes

	(in thousands of euro)	Debt securities	Equity instruments	UCIT units	Loans	Total
A	**Opening balance**	**10,890,876**	**592,632**	**457,730**	**-**	**11,941,238**
B	**Increases**	**6,743,539**	**61,896**	**579,115**	**-**	**7,384,550**
	1. Purchases	6,063,831	17,568	537,445	-	6,618,844
	(of which for business combinations)	-	-	-	-	-
	2. Increases in fair value	264,493	40,945	12,446	-	317,884
	3. Recoveries	-	97	-	-	97
	- charged to the income statement	-	X	-	-	-
	- charged to shareholders equity	-	97	-	-	97
	4. Transfers from other portfolios	-	-	-	-	-
	- Financial assets held for trading	-	-	-	-	-
	- Investments held to maturity	-	-	-	-	-
	5. Other increases	415,215	3,286	29,224	-	447,725
C	**Decreases**	**(5,276,056)**	**(49,647)**	**(481,917)**	**-**	**(5,807,620)**
	1. Sales	(3,633,109)	(20,923)	(469,012)	-	(4,123,044)
	(of which for business combinations)	-	-	-	-	-
	2. Redemptions	(1,271,903)	-	-	-	(1,271,903)
	3. Decreases in fair value	(46,188)	(17,122)	(5,222)	-	(68,532)
	4. Write-downs due to impairment	(40)	(10,440)	(7,331)	-	(17,811)
	- charged to the income statement	(40)	(10,222)	(7,331)	-	(17,593)
	- charged to shareholders equity	-	(218)	-	-	(218)
	5. Transfers to other portfolios	-	-	-	-	-
	6. Other decreases	(324,816)	(1,162)	(352)	-	(326,330)
D	**Closing balance**	**12,358,359**	**604,881**	**554,928**	**-**	**13,518,168**

Impairment testing on financial assets available for sale

For these financial statements, the Group conducted an in-depth valuation of its portfolio of financial assets available for sale (AFS), to identify any impairment indicators, which would then lead to write-downs on the income statement corresponding to the difference between the fair value and the book value of the financial assets. The impairments found in 2014 on financial assets available for sale totalled euro 17.5 million (euro 124.4 million as at 31 December 2013), booked to item 130 b) of the income statement.

Equity instruments and UCIT units

In line with last year, the valuation of the equity instruments classified in the financial statements as financial assets available for sale was conducted on the basis of the specific impairment policy adopted by the Group. This policy envisages, *except in* exceptional *circumstances*. parametric thresholds for equity instruments, which, once exceeded, led to the write-down.

These thresholds have been established taking into account the specific features of the various types of investment. In addition to direct investments in company equity in the strict sense, shares in private equity funds and in similar investment vehicles (UCIT units, SICAVs, investments in associates and companies subject to joint control or other similar structures) whose mission is to invest directly and/or through other private equity funds and other corporate vehicles, are also considered equity instruments. Said Private Equity assets are characterised by a medium-long term time horizon: the underlying investments are actually made, on average, over a five/seven year period and the relative divestments require at least three years.

As illustrated in “Part A – Accounting policies”, impairment must be recognised when any of the following conditions occur

- for share/equity investments in the strict sense:
  - a reduction of fair value exceeding 30% with respect to the original book value; or
  - a persistent decrease for an uninterrupted period exceeding 24 months.

- for investments in private equity assets:
  - a reduction of fair value exceeding 40% with respect to the original book value; or
  - a persistent decrease for an uninterrupted period exceeding 60 months; or
  - a reduction of fair value exceeding 30% and lasting for an uninterrupted period exceeding 36 months.

This latter type of investment, classified in the portfolio of “Financial assets available for sale”, recorded a book value of euro 136.9 million as at 31 December 2014, and the relative valuation reserves, before tax, amounted to a positive euro 6.4 million (corresponding to the imbalance formed by negative reserves of euro 3.4 million and positive reserves of euro 9.8 million).

The main adjustments recorded in 2014 on share/equity investments in the strict sense and on investments in private equity assets, as illustrated above, are listed below:

- I.L.P. III S.C.A. – SICAR for euro 7.1 million;
- Earchimede for 3.4 million;
- Gabetti Property Solutions for 2.3 million;
- Palladio Finanziaria for 1.5 million.

Section 5 - Investments held to maturity - Item 50

5.1 Investments held to maturity: breakdown by product

(in thousands of euro)	31/12/2014				31/12/2013			
	Book Value	Fair Value			Book Value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1 Debt securities	4,948,433	5,231,547	-	-	4,198,048	4,304,078	-	-
1.1 Structured	-	-	-	-	-	-	-	-
1.2 Other	4,948,433	5,231,547	-	-	4,198,048	4,304,078	-	-
2 Loans	-	-	-	-	-	-	-	-
Total	**4,948,433**	**5,231,547**	**-**	**-**	**4,198,048**	**4,304,078**	**-**	**-**

The segment of investments held to maturity is almost entirely comprised of Italian Government securities purchased by the Parent Company following the specific resolutions of the Board of Directors from February 2013. The increase recorded in 2014 refers to the purchase of BTP. As at 31 December 2014, the book value of the securities in the portfolio was euro 4,898 million, with instalments maturing of around euro 50.7 million.

5.2 Investments held to maturity: breakdown by debtor/issuer

(in thousands of euro)	31/12/2014	31/12/2013
1 **Debt securities**	**4,948,433**	**4,198,048**
a) Governments and Central Banks	4,934,696	4,191,753
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	13,737	6,295
2 **Loans**	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
Total	**4,948,433**	**4,198,048**
Total Fair Value	**5,231,547**	**4,304,078**

5.3 Investments held to maturity subject to micro hedging

There were no investments held to maturity subject to micro hedging during the year in question, or at the end of the previous one.

5.4 Investments held to maturity: annual changes

	(in thousands of euro)	Debt securities	Loans	Total
A	**Opening balance**	**4,198,048**	**-**	**4,198,048**
B	**Increases**	**866,579**	**-**	**866,579**
	1. Purchases	792,002	-	792,002
	(of which for business combinations)	-	-	-
	2. Recoveries	-	-	-
	3. Transfers from other portfolios	-	-	-
	4. Other increases	74,577	-	74,577
C	**Decreases**	**(116,194)**	**-**	**(116,194)**
	1. Sales	-	-	-
	(of which for business combinations)	-	-	-
	2. Redemptions	(3,425)	-	(3,425)
	3. Value adjustments	-	-	-
	4. Transfers to other portfolios	-	-	-
	5. Other decreases	(112,769)	-	(112,769)
D	**Closing balance**	**4,948,433**	**-**	**4,948,433**

Section 6 - Due from banks - Item 60

6.1 Due from banks: breakdown by product

Transaction type/ Amounts *(in thousands of euro)*	31/12/2014				31/12/2013			
	Book value	FV			Book value	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Due from central banks	**689,123**	**32,953**	**656,170**	**-**	**1,190,564**	**10,768**	**1,179,796**	**-**
1. Time deposits	-	X	X	X	-	X	X	X
2. Mandatory reserves	656,170	X	X	X	1,179,796	X	X	X
3. Repurchase agreements	-	X	X	X	-	X	X	X
4. Other	32,953	X	X	X	10,768	X	X	X
B. Due from banks	**4,369,693**	**133,961**	**4,236,561**	**953**	**2,562,663**	**142,922**	**2,418,415**	**1,255**
1. Loans	4,246,484	109,876	4,135,693	953	2,395,792	120,052	2,270,015	1,255
1.1 Current accounts and demand deposits	1,175,160	X	X	X	517,535	X	X	X
1.2 Time deposits	1,520,630	X	X	X	1,496,297	X	X	X
1.3 Other loans:	1,550,694	X	X	X	381,960	X	X	X
- Repurchase agreements	1,329,019	X	X	X	214,309	X	X	X
- Financial leases	2,619	X	X	X	7,212	X	X	X
- Other	219,056	X	X	X	160,439	X	X	X
2. Debt securities	123,209	24,085	100,868	-	166,871	22,870	148,400	-
2.1 Structured securities	-	X	X	X	-	X	X	X
2.2 Other debt securities	123,209	X	X	X	166,871	X	X	X
Total	**5,058,816**	**166,914**	**4,892,731**	**953**	**3,753,227**	**153,690**	**3,598,211**	**1,255**

For an analysis of non-performing assets, refer to table A.1.1 “Distribution of financial assets by portfolio and credit quality (book values)” in part E of the Notes to the consolidated financial statements.
Item 2.2 Other debt securities includes subordinated securities issued by Italian and foreign banks for a nominal value of euro 125 million, recognised in the financial statements for euro 123.2 million and a fair value equal to the nominal value.

6.2 Due from banks subject to micro hedging

There are no receivables due from banks subject to micro hedging.

6.3 Financial leases

	31/12/2014						31/12/2013					
	Non performing loans	Minimum payments			Gross investment		Non performing loans	Minimum payments			Gross investment	
		Equity	of which guaranteed residual value	Interest		of which non-guaranteed residual value		Equity	of which guaranteed residual value	Interest		of which non-guaranteed residual value
- On demand	-	40	23	4	44	-	-	172	-	8	180	-
- Up to 3 months	-	66	-	12	78	-	-	376	-	21	397	-
- From 3 months to 1 year	-	196	7	44	240	-	-	4,178	3,081	67	4,245	-
- From 1 year to 5 years	-	1,040	-	166	1,206	-	-	1,073	30	196	1,269	-
- Over 5 years	-	1,235	551	43	1,278	-	-	1,508	550	73	1,581	-
- Undefined term	-	-	-	-	-	-	-	-	-	-	-	-
Net total	**-**	**2,577**	**581**	**269**	**2,846**	**-**	**-**	**7,307**	**3,661**	**365**	**7,672**	**-**

The financial lease transactions shown in the table relate to operations of Banca Italease and Release.
The minimum payments refer exclusively to instalments for performing loans due after the reference date of the financial statements.

Section 7 - Loans to customers - Item 70

The credit valuations conducted in 2014 were affected by a series of improvements to policies and estimation parameters, both to reflect various management decisions regarding the loan monitoring process, and to seek to align the same as far as possible with the parameters adopted by the ECB in the Asset Quality Review exercise. For further details, the reader should refer to the paragraph entitled “Results of the Comprehensive Assessment exercise: impact on the accounts (disclosure required by Consob pursuant to art. 114, paragraph 5, of Italian Legislative Decree no. 58/98)” contained in the Report on Operations, as well as that illustrated in “Part A - Accounting policies” with regard to the considerations made for the accounting treatment of the consequent impact, classified as “changes in accounting estimates”.

7.1 Loans to customers: breakdown by product

Transaction type/ Amounts *(in thousands of euro)*	**31/12/2014**						**31/12/2013**					
	Book value			**Fair Value**			**Book value**			**Fair Value**		
	Performing	**Non-performing**		**L1**	**L2**	**L3**	**Performing**	**Non-performing**		**L1**	**L2**	**L3**
		Purchased	**Other**					**Purchased**	**Other**			
Loans	**65,020,705**	**-**	**14,250,224**	**29,790**	**68,880,753**	**15,557,682**	**71,618,582**	**-**	**14,013,668**	**24,339**	**75,275,122**	**14,803,061**
1 Current accounts	9,421,563	-	2,158,457	X	X	X	11,477,226	-	2,404,799	X	X	X
2 Repurchase agreements	7,203,588	-	-	X	X	X	7,882,401	-	-	X	X	X
3 Mortgage loans	31,660,614	-	6,692,714	X	X	X	34,043,463	-	6,390,450	X	X	X
4 Credit cards, personal loans and salary-backed loans	255,158	-	17,163	X	X	X	220,359	-	23,362	X	X	X
5 Financial leases	1,902,802	-	1,966,153	X	X	X	2,276,203	-	2,154,540	X	X	X
6 Factoring	12,015	-	514	X	X	X	18,953	-	620	X	X	X
7 Other loans	14,564,965	-	3,415,223	X	X	X	15,699,977	-	3,039,897	X	X	X
Debt securities	**552,674**	**-**	**-**	**64,494**	**396,849**	**94,076**	**516,745**	**-**	**-**	**62,488**	**432,359**	**12,929**
8 Structured securities	-	-	-	X	X	X	5,037	-	-	X	X	X
9 Other debt securities	552,674	-	-	X	X	X	511,708	-	-	X	X	X
Total	**65,573,379**	**-**	**14,250,224**	**94,284**	**69,277,602**	**15,651,758**	**72,135,327**	**-**	**14,013,668**	**86,827**	**75,707,481**	**14,815,990**

Note that the Group did not purchase any non performing loans.

Euro 349.6 million of sub-item “Debt securities” refers to ABS securities relating to securitisation transactions, of which:

- euro 95.4 million refers to issues relating to third party transactions;
- euro 254.2 million refers to securities resulting from securitisations originated by the Banco Popolare Group, against assets that have been fully eliminated from the financial statements. More specifically, said securities refer to positions relating to the former Banca Italease Group, whose recognition results from the cancellation of the underlying receivables, the risks and benefits of which were transferred to Alba Leasing under the “Agreement on securitised receivables”.

For further details, refer to Part E, Section 1, “C. Securitisation transaction”.

The item also includes euro 203 million of other securities issued by financial companies and in particular includes subordinated securities amounting to euro 73.8 million, euro 50 million of which issued by Agos Ducato and euro 23.7 million by UGF Unipol.

7.2 Loans to customers: breakdown by debtor/issuer

(in thousands of euro)	31/12/2014			31/12/2013		
	Performing	Non-performing		Performing	Non-performing	
		Purchased	Other		Purchased	Other
1 **Debt securities**	**552,674**	**-**	**-**	**516,745**	**-**	**-**
a) Governments	-	-	-	-	-	-
b) Other public entities	-	-	-	-	-	-
c) Other issuers	552,674	-	-	516,745	-	-
- non-financial companies	-	-	-	5,292	-	-
- financial companies	528,852	-	-	487,712	-	-
- insurance companies	23,822	-	-	23,741	-	-
- others	-	-	-	-	-	-
2 **Loans to:**	**65,020,705**	**-**	**14,250,224**	**71,618,582**	**-**	**14,013,668**
a) Governments	155,815	-	1,589	124,771	-	9
b) Other public entities	341,729	-	18,236	508,506	-	8,552
c) Other parties	64,523,161	-	14,230,399	70,985,305	-	14,005,107
- non-financial companies	36,524,803	-	12,330,986	41,494,686	-	12,087,889
- financial companies	10,039,367	-	170,698	10,710,765	-	223,767
- insurance companies	41,977	-	-	124,761	-	35
- others	17,917,014	-	1,728,715	18,655,093	-	1,693,416
Total	**65,573,379**	**-**	**14,250,224**	**72,135,327**	**-**	**14,013,668**

7.3 Loans to customers subject to micro hedging

(in thousands of euro)	31/12/2014	31/12/2013
1 **Receivables subject to micro fair value hedging:**	**37,234**	**220,274**
a) interest rate risk	37,234	220,274
b) exchange rate risk	-	-
c) credit risk	-	-
d) multiple risks	-	-
2 **Receivables subject to micro cash flow hedging:**	**-**	**-**
a) interest rate risk	-	-
b) exchange rate risk	-	-
c) other	-	-
Total (book value)	**37,234**	**220,274**

7.4 Financial leases

	31/12/2014						31/12/2013					
	Non performing loans	Minimum payments			Gross investment		Non performing loans	Minimum payments			Gross investment	
		Equity	of which guaranteed residual value	Interest		of which non-guaranteed residual value		Equity	of which guaranteed residual value	Interest		of which non-guaranteed residual value
- On demand	1,815	14,378	969	3,728	18,106	-	77	17,044	319	4,516	21,560	-
- Up to 3 months	35,995	36,331	3,471	9,592	45,923	-	30,460	43,667	2,740	11,489	55,156	-
- From 3 months to 1 year	547,214	156,845	29,171	37,889	194,734	-	774,968	182,184	19,081	45,208	227,392	-
- From 1 year to 5 years	592,914	621,967	66,209	155,504	777,471	-	1,332,554	722,177	95,911	181,356	903,533	-
- Over 5 years	788,215	1,074,432	529,124	114,253	1,188,684	-	7,002	1,251,675	603,278	149,399	1,401,075	-
- Undefined term	-	-	-	-	-	-	9,479	82,211	81,674	374	82,585	-
Net total	**1,966,153**	**1,903,953**	**628,944**	**320,966**	**2,224,918**	**-**	**2,154,540**	**2,298,958**	**803,003**	**392,342**	**2,691,301**	**-**

The financial lease transactions shown in the table relate to operations of Banca Italease and Release.
The minimum payments refer exclusively to instalments for performing loans due after the reference date of the financial statements; as regards those with an undefined term, the figure includes term contracts awaiting redemption.

Section 8 - Hedging derivatives – Item 80

8.1 Hedging derivatives: breakdown by hedge type and level

(in thousands of euro)	31/12/2014				31/12/2013			
	Fair Value			NV	Fair Value			NV
	L1	L2	L3		L1	L2	L3	
A) Financial derivatives	**-**	**640,359**	**-**	**11,438,527**	**-**	**542,685**	**-**	**11,628,722**
1. *Fair Value*	-	640,359	-	11,438,527	-	542,685	-	11,628,722
2. Cash Flows	-	-	-	-	-	-	-	-
3. Foreign investments	-	-	-	-	-	-	-	-
B) Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. *Fair Value*	-	-	-	-	-	-	-	-
2. Cash Flows	-	-	-	-	-	-	-	-
Total	**-**	**640,359**	**-**	**11,438,527**	**-**	**542,685**	**-**	**11,628,722**

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

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

(in thousands of euro)	Fair Value						Cash Flows		Foreign Investments
	Micro					Macro	Micro	Macro	
	Interest rate risk	Exchange risk	Credit risk	Price risk	Multiple risks				
1 Financial assets available for sale	6,732	-	-	-	-	X	-	X	X
2 Loans	-	-	-	X	-	X	-	X	X
3 Investments held to maturity	X	-	-	X	-	X	-	X	X
4 Portfolio	X	X	X	X	X	-	X	-	X
5 Other loans	-	-	-	-	-	X	-	X	-
Total assets	**6,732**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1 Financial liabilities	632,358	-	-	X	-	X	-	X	X
2 Portfolio	X	X	X	X	X	-	X	-	X
Total liabilities	**632,358**	**-**	**-**	**X**	**-**	**-**	**-**	**-**	**X**
1 Expected transactions	X	X	X	X	X	X	-	X	X
2 Portfolio of financial assets and liabilities	X	X	X	X	X	1,269	X	-	-

Section 9 - Fair value change of financial assets in macro fair value hedge portfolios - Item 90

9.1 - Fair value change of hedged assets: breakdown by hedged portfolios

(in thousands of euro)	31/12/2014	31/12/2013
1 Positive change	**99,024**	**70,531**
1.1 In specific portfolios:	99,024	70,531
a) loans	99,024	70,531
b) financial assets available for sale	-	-
1.2 Overall	-	-
2 Negative change	**-**	**-**
2.1 In specific portfolios:	-	-
a) loans	-	-
b) financial assets available for sale	-	-
2.2 Overall	-	-
Total	**99,024**	**70,531**

The fair value change of financial assets in macro hedge portfolios refers to changes in fair value, attributable to fluctuations in interest rates relating to several customer loans, the amount of which is shown in table 9.2 below.
The related hedging derivatives, which show a negative value as at 31 December 2014, are shown in the item 60 “Hedging derivatives” under liabilities.
Income and charges from the valuation of hedging derivatives and the hedged portfolio are recognised under item 90 “Fair value adjustments in hedge accounting”.

9.2 Assets subject to macro interest rate risk hedging

(in thousands of euro)	31/12/2014	31/12/2013
1 Loans	1,164,758	1,539,373
2 Financial assets available for sale	-	-
3 Portfolio	-	-
Total	**1,164,758**	**1,539,373**

The amount of loans subject to macro hedging was euro 1,164.8 million. More specifically, this regards a portfolio of fixed interest rate mortgage loans, recorded in the financial statements under “loans to customers”. During the year, no new hedges of this type were set in place; the change in assets subject to hedging with respect to the previous year is due to the normal development of the amortisation plans of the loans, already envisaged when the hedge was set in place.

Section 10 - Investments in associates and companies subject to joint control – Item 100

As at 31 December 2014, the book value of “Investments in associates and companies subject to joint control” was euro 1,061.4 million, referring to:

- significant equity investments of euro 996.3 million (as shown, by individual equity investment, in table 10.2 below);
- non-significant equity investments of euro 65.1 million (as shown, overall, in table 10.4 below);

The scope of “significant equity investments” was established on the basis of the materiality of the book value of the investment and the share in the investee’s assets with respect to the same items in the consolidated financial statements.

10.1 Equity investments: information on investment relationships

Company name	Registered office	Operational headquarters	Type of relationship (a)	Investment relationship		% of available votes
				Holder	% held	
A. Companies subject to joint control						
N/A						
B. Companies subject to significant influence						
1. Agos Ducato S.p.A.	Milan	Milan	1	Banco Popolare	39.000%	39.000%
2. Alba Leasing S.p.A.	Milan	Milan	1	Banca Italease	30.151%	30.151%
3. Alfa Iota 2002 S.r.l. (in liquidation)	Milan	Milan	1	Banco Popolare	35.000%	35.000%
4. Aosta Factor S.p.A.	Aosta	Aosta	1	Banco Popolare	13.793%	20.690%
			1	Banca Italease	6.897%	
5. Arcene Immobili S.r.l. (in liquidation)	Lodi	Lodi	1	Banco Popolare	50.000%	50.000%
6. Arcene Infra S.r.l. (in liquidation)	Lodi	Lodi	1	Banco Popolare	50.000%	50.000%
7. AviPop Assicurazioni S.p.A.	Milan	Milan	1	Holding di Partecipazioni	49.999%	49.999%
8. Bussentina S.c.a.r.l. (in liquidation)	Rome	Rome	1	Bipielle Real Estate	20.000%	20.000%
9. Energreen S.A.	L - Luxembourg	L - Luxembourg	1	Banco Popolare	45.000%	45.000%
10. GEMA Magazzini Generali BPV - BSGSP S.p.A.	Castelnovo Sotto (RE)	Castelnovo Sotto (RE)	1	Banco Popolare	33.333%	33.333%
11. HI-MTF SIM S.p.A.	Milan	Milan	1	Banca Aletti	25.000%	25.000%
12. Immobiliare Centro Milano S.p.A.	Milan	Milan	1	Release	33.333%	33.333%
13. Immobiliare Marinai d'Italia S.r.l.	Lodi	Lodi	1	Banco Popolare	23.188%	23.188%
14. Motia Compagnia di Navigazione S.p.A.	Venezia	Venezia	1	Banco Popolare	25.000%	25.000%
15. Popolare Vita S.p.A.	Verona	Verona	1	Banco Popolare	25.612%	50.000%
				Holding di Partecipazioni	24.388%	
16. Renting Italease S.r.l.	Rome	Rome	1	Italease Gestione Beni	50.000%	50.000%
17. S.E.T.A. Società Edilizia Tavazzano S.r.l. (in liquidation)	Milan	Milan	1	Banco Popolare	32.500%	32.500%
18. Soc. Coop. fra le Banche Pop. "L.Luzzatti" S.c.r.l.	Rome	Rome	1	Banco Popolare	26.693%	26.693%
19. Tre Pi S.r.l. (in liquidation)	Rome	Rome	1	Banco Popolare	20.000%	20.000%

(a) Type of relationship:
1 = investment in share capital

10.2 Significant equity investments: book value, fair value and dividends received

Company name	Book value	Fair Value	Dividends received
A. Companies subject to joint control			
N/A			
B. Companies subject to significant influence			
Agos Ducato S.p.A.	595,055	-	-
Alba Leasing S.p.A.	118,841	-	-
Popolare Vita S.p.A.	282,368	-	51,167
Total	**996,264**	**-**	**51,167**

No disclosure has been made in the “Fair value” column insofar as there are no listed investments (IFRS 12.20), just as there is no investee company measured at fair value, considered as an expression of the relative recovery value, after impairment (IAS 36.130).
Note also that the dividends received over the year have been used to reduce the book value of the equity investment (as illustrated in “Part A - Accounting policies” in these notes to the financial statements), insofar as the profits which they originated from were recognised in the financial statements as at 31 December 2013 due to the valuation at net equity.

10.3 Significant equity investments: accounting information

The table below shows the figures extracted from the draft financial statements as at 31 December 2014 approved by the Board of Directors and provided by associated companies or, where not available, by the most recent statements of financial position (related to 100% of the equity investment and not to the percentage held by the Group, as envisaged by accounting standard IFRS 12). Note that the valuation at net equity was made on the basis of these figures.

Company name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Interest margin	Value adjustments and recoveries on property and equipment and intangible assets	Income (Loss) before tax from continuing operations	Income (Loss) after tax from continuing operations	Income (loss) after tax from discontinued operations	Net income (loss) for the year (1)	Other comprehensive income components after tax (2)	Comprehensive income (3) = (1) + (2)
A. Companies subject to joint control														
N/A														
B. Companies subject to significant influence														
Agos Ducato S.p.A.	X	15,174,609	1,987,126	15,200,464	385,119	1,508,741	X	X	97,513	98,602	-	98,602	2,102	100,704
Alba Leasing S.p.A.	X	4,558,529	274,282	4,400,699	33,346	109,776	X	X	2,767	1,496	-	1,496	(138)	1,358
Popolare Vita S.p.A.	X	8,323,220	78,087	7,834,477	17,265	3,252,125	X	X	77,248	61,181	-	61,181	(23,283)	37,898

Reconciliation between net assets and the book value of investees in the financial statements

	Net assets (*)	% investment	Net assets held	Goodwill	Other adjustments	Book value
A. Companies subject to joint control						
N/A						
B. Companies subject to significant influence						
Agos Ducato S.p.A.	1,576,152	39.000%	614,699	-	(19,644)	595,055
Alba Leasing S.p.A.	398,766	30.151%	120,232	-	(1,391)	118,841
Popolare Vita S.p.A.	549,565	50.000%	274,783	10,647	(3,062)	282,368

(*) corresponding to the sum of the "Financial assets", "Non-financial assets" net of "Financial liabilities", "Non-financial liabilities" indicated in table 10.3 above.

Agos Ducato is a financial company controlled by the international group Crédit Agricole through Crédit Agricole Consumer Finance. The company operates in the retail customer credit market by disbursing loans mostly addressed to the purchase of goods and services and personal loans.
Popolare Vita S.p.A. is a bancassurance company which operates in the life insurance sector, controlled by Unipol Gruppo Finanziario S.p.A. The company provides, under exclusive contract, the Banco Popolare Group network with life insurance products of Unipol Group.
Alba Leasing operates in the leasing sector and was established from the restructuring of the former Banca Italease group. The company has the purpose of granting leasing loans which are placed through the banking channel, including the Banco Popolare Group network.

10.4 Non-significant equity investments: accounting information

The following table contains accounting information, shown cumulatively by type of investment relationship, regarding companies not subject to significant influence, extracted from the latest financial statements or the latest accounting reports available and calculated with reference to the investment held by the Group, as envisaged by accounting standard IFRS 12.

	Book value of the investment	Total assets	Total liabilities	Total revenues	Income (Loss) after tax from continuing operations	Income (Loss) after tax from discontinued operations	Net income (Loss) for the year (1)	Other comprehensive income components after tax (2)	Comprehensive income (3) = (1) + (2)
A. Companies subject to joint control									
N/A									
B. Companies subject to significant influence	65,148	685,985	587,756	138,157	12,077	-	7,831	(5)	7,826

10.5 Investments in associates and companies subject to joint control: annual changes

(in thousands of euro)	31/12/2014	31/12/2013
A. Opening balance	**1,033,764**	**847,506**
B. Increases	**96,385**	**299,585**
B.1 Purchases	-	139,953
B.2 Recoveries	-	105,793
B.3 Revaluations	-	-
B.4 Other increases	96,385	53,839
C. Decreases	**(68,737)**	**(113,327)**
C.1 Sales	-	(453)
C.2 Adjustments	-	-
C.3 Other decreases	(68,737)	(112,874)
D. Closing balance	**1,061,412**	**1,033,764**
E. Total revaluations	-	-
F. Total adjustments	**(625,921)**	**(626,854)**

Over the course of 2014, no equity investments were purchased or sold; the change refers solely to the updating of the valuation of participations carried at equity. More specifically:

- the other increases include profits attributable to the Group resulting from the valuation of participartions carried at net equity, for a total amount of euro 90.4 million (details are shown in Section 16 of the income statement). The positive changes in reserves of companies carried at equity, attributable to the Group, are also included in such item for a total amount of euro 6 million;
- the other decreases include losses attributable to the Group resulting from the valuation of participartions carried at net equity, for a total amount of euro 0.4 million (details are shown in Section 16 of the income statement). The negative changes in reserves of the same companies carried at equity, attributable to the Group, area also included in such item, for a total amount of euro 5.7 million, and the resulted impact of euro 56.7 million relating to the distribution of dividends.

The impairment tests conducted with regard to the book value of investments in associates and companies subject to joint control as at 31 December 2014 did not indicate the need to make any value adjustments.

10.6 Valuations and assumptions to establish the existence of joint control or significant influence

Significant influence means having the power to participate in the operating and financial decisions of the entity, by virtue of the voting rights held, or in the event of special contractual agreements, as also illustrated in "Part A - Accounting policies" in these notes to the financial statements. As at 31 December 2014, the scope of companies subject to significant influence related to companies in which voting rights of 20% or more are held, without however having the power to exclusively direct the relevant activities of the entity, as shown in table 10.1 above.

As at 31 December 2014, there were no entities subject to joint control, namely entities for which the unanimous consensus of all the parties sharing the control has to be obtained to make strategic financial and operating decisions.

In this regard, it should be noted that to establish the type of control of the bancassurance companies Popolare Vita S.p.A. and Avipop Assicurazioni S.p.A., required numerous elements of judgement, due to the complex value generation structure. More specifically, the decision relating to classification of the aforementioned participations in the scope of "significant influence" was adopted after having taken into account, and given an adequate weighting, to the following factors:

- the relevant activities that generate the variable returns of the company, which are represented by the structuring of insurance products and the management of the relative risks by the insurance partner and the distribution products activities, managed by the Banco Popolare Group;
- the complex governance structure established by shareholder agreements, which give specific voting rights to shareholders on certain specific topics, relating both to mere protection rights and to rights considered substantial in terms of directing the relevant activities of the company;
- way-out mechanisms, resulting from the combination of the put option held by the insurance company and the call option held by Banco Popolare, which have been retained in any event not substantial insofar as they cannot be exercised at the present time. For more information on the commitments made by Banco Popolare as regards the option granted, please refer to the content of paragraph 10.8 below.

10.7 Commitments relating to investments in companies subject to joint control

There are no investments in companies subject to joint control.

10.8 Commitments relating to investments in companies subject to significant influence

Commitments deriving from consumer credit agreements with Crédit Agricole

Banco Popolare signed a shareholders' agreement with Crédit Agricole Consumer Finance - CACF (Crédit Agricole Group) which entered into force on 22 December 2008. Under this agreement, among other things, if, within a business combination project with other banks which control a company operating in consumer credit or in another manner, it acquires a company operating in the afore-mentioned sector, it must offer Agos Ducato the new entity directly or indirectly acquired at market price. In the event that the Bank has not transferred the new entity to third parties in the meantime and has not renewed the commercial agreements signed with Agos Ducato on their second expiry, CACF will have the right to purchase from the Bank, which will be legally required to sell, 5% of the share capital of Agos Ducato at nominal value.

Commitments deriving from bancassurance agreements

Commitments to UnipolSAI

The clauses in the shareholders' agreements assign control of Popolare Vita to UnipolSAI (now part of the UGF Group) and involve the granting of a put option to UnipolSai and a call option to Banco Popolare in the event that the partnership is wound up. Specifically, according to the provisions of the shareholders' agreement, UnipolSAI may resell its 50% plus one share in the share capital of Popolare Vita to Banco Popolare, if one of the following occur:

- change of control of Banco Popolare;
- violation of the exclusive rights granted by Banco Popolare under the distribution agreement and/or serious violations of said agreement;
- Banco Popolare's failure to renew the distribution agreement;
- Popolare Vita's failure to renew the distribution agreement as a result of a decision taken through favourable vote of the board directors designated by the Company, provided that at the expiry date of the distribution agreement (31/12/2017) the amount of premiums issued is 20% lower than that set forth in the Business Plan (underperformance);
- Holding di Partecipazioni Finanziarie BP (or another Banco Popolare Group company) ceases to own an investment of at least 50% of the company's share capital less one share.

Market conditions have significantly changed from those at the time the shareholders' agreements were signed. The most recent three-year plan approved by Popolare Vita's Board of Directors actually forecasted lower amounts of premiums issued than those indicated in the business plan used as reference at the time of signature of the agreements.
If the option is exercised, the value of the sale will be determined by an independent expert appointed by the parties, using current market methods.
The distribution agreement between Popolare Vita and Banco Popolare's networks has a term of ten years (expires on 31 December 2017), and can be renewed for additional periods of 5 years.

Commitments to Aviva Italia Holding

Banco Popolare and Aviva Italia Holding have signed a shareholders' agreement to govern the business aspects of their partnership and the corporate governance rules of Avipop Assicurazioni. The agreement also envisages the granting of a put option to Aviva Italia Holding and a call option to Banco Popolare in the event that the partnership is wound up. Specifically, according to the shareholders' agreement, Aviva Italia Holding may resell its 50% (plus one share) of the share capital of Avipop Assicurazioni to Banco Popolare, if one of the following occur:

- change of control of Banco Popolare;
- serious violation by Banco Popolare of the exclusive rights granted by the distribution agreement;
- Banco Popolare's failure to renew the distribution agreement;
- Avipop Assicurazioni's failure to renew the distribution agreement as a result of a decision taken through favourable vote of the board directors designated by the Company, provided that at the expiry date of the distribution agreement (31/12/2017) the amount of premiums issued is 70% lower than that set forth in the Business Plan (underperformance);
- the entry into force of a law and/or the issue of a provision, before the first expiry of the Agreement, which eliminates the exclusivity restriction provided by the distribution agreement;
- the issue of a provisions which, before the first expiry of the Agreement, requires that Banco Popolare distribute insurance products in the protection segment with parties other than Avipop Assicurazioni;
- underperformance (understood as the achievement of a total volume of product sales - before redemptions - in any period of three years starting from 1 January 2009, lower than 20% in terms of value of premiums collected, than that set forth in the business plan for the same three-year period).

If the option is exercised, the value of the sale will be determined using current market methods, by an independent expert appointed by the parties.
The distribution agreement between Avipop Assicurazioni and Banco Popolare's networks has a term of ten years (31 December 2017), and can be renewed for additional periods of 5 years.

10.9 Significant restrictions

For equity investments subject to significant influence, there are no significant restrictions to the transfer of funds as regards companies of the Banco Popolare Group, with the exception of those related to legislation and regulations, which may require a minimum amount of own funds to be maintained, or the provisions of the Italian civil code on allocatable profits and reserves.

10.10 Other information

Criteria used for determining the recoverable value of the investments in associates and companies subject to joint control for the purpose of drawing up the financial statements as at 31 December 2014

To quantify impairment, the book value of the investment was compared with its recoverable value. Based on the provisions of IAS 36, the recoverable value is the higher of fair value net of costs to sell and value in use. The results of the valuations conducted on the main equity investments.

Bancassurance companies
As regards the valuation of the investments held in Popolare Vita and Avipop Assicurazioni, refer to that set forth in Section 13 below.

Energreen SA
On the date of preparation of these financial statements, the associated company had not prepared its draft financial statements as at 31 December 2014. The valuation of the equity investment based on the equity method was therefore conducted on the basis of the most recent statement of financial position sent by the associated company and referring to 30 June 2014. Given that the equity investment shows a book value of 34.4 million, that is euro 5.8 million higher than the Group's share of the associated company's shareholders' equity, a valuation was conducted to determine its recoverable value on the bais of methodology adopted over the past years and on a going concern basis. The latter was calculated using the adjusted net equity method. More specifically, the statutory shareholders' equity as at 30 June 2014 of Energreen SA was adjusted to the fair value of the associated company Veronagest S.p.A., the main asset of the Luxembourg entity. Veronagest was valued in line with 2013 based on the market multiples method applied to the consolidated figures for the past twelve months (second half of 2013 and first half of 2014).

Section 11 - Technical reserves borne by reinsurers – Item 110

The Group does not hold investments in insurance companies.

Section 12 - Property and equipment - Item 120

As at 31 December 2014, property and equipment amounted to euro 2,140.0 million, compared with euro 2,052.3 million recorded in the previous year.

12.1 Property and equipment used in operations: breakdown of assets carried at cost

Assets / Values *(in thousands of euro)*	31/12/2014	31/12/2013
1. Owned assets	**680,681**	**709,549**
a) land	219,814	223,024
b) buildings	383,033	404,443
c) furniture	39,257	41,654
d) electronic equipment	33,237	30,573
e) other	5,340	9,855
2. Assets acquired under financial lease	**328**	**355**
a) land	-	-
b) buildings	308	322
c) furniture	-	-
d) electronic equipment	-	-
e) other	20	33
Total	**681,009**	**709,904**

12.2 Property and equipment held for investment purposes: breakdown of assets carried at cost

Assets / Values *(in thousands of euro)*	31/12/2014				31/12/2013			
	Book value	Fair Value			Book value	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Owned assets	**1,443,662**	**-**	**-**	**1,642,636**	**1,322,579**	**-**	**-**	**1,684,461**
a) land	679,340	-	-	708,142	628,491	-	-	718,503
b) buildings	764,322	-	-	934,494	694,088	-	-	965,958
2. Assets acquired under financial lease	**15,291**	**-**	**-**	**15,291**	**19,767**	**-**	**-**	**19,767**
a) land	11,324	-	-	11,324	11,324	-	-	11,324
b) buildings	3,967	-	-	3,967	8,443	-	-	8,443
Total	1,458,953	-	-	1,657,927	1,342,346	-	-	1,704,228

12.3 Property and equipment used in operations: breakdown of revalued assets

The Group does not hold property and equipment designated at fair value through profit and loss.

12.4 Property and equipment held for investment purposes: breakdown of assets designated at fair value through profit and loss

The Group does not hold property and equipment designated at fair value through profit and loss.

12.5 Property and equipment used in operations: annual changes

(in thousands of euro)	Land	Buildings	Furniture	Electrical equipment	Other	Total
A) Gross opening balance	**223,542**	**699,450**	**268,720**	**459,202**	**132,562**	**1,783,476**
A.1 Total net impairment	(518)	(294,685)	(227,066)	(428,629)	(122,674)	(1,073,572)
A.2 Net opening balance	**223,024**	**404,765**	**41,654**	**30,573**	**9,888**	**709,904**
B) Increases:	**408**	**8,792**	**16,724**	**27,506**	**3,611**	**57,041**
B.1 Purchases	-	8,785	7,357	18,772	1,321	36,235
(of which for business combinations)	-	-	-	-	-	-
B.2 Capitalised leasehold improvement costs	-	-	-	-	-	-
B.3 Recoveries	-	-	-	-	-	-
B.4 Increases in fair value charged to:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Exchange gains	-	-	2	3	-	5
B.6 Transfers from properties held for investment purposes	-	-	-	-	-	-
B.7 Other increases	408	7	9,365	8,731	2,290	20,801
C) Decreases	**(3,618)**	**(30,216)**	**(19,121)**	**(24,842)**	**(8,139)**	**(85,936)**
C.1 Sales	-	(6)	(461)	(1,848)	(2,304)	(4,619)
(of which for business combinations)	-	-	-	-	-	-
C.2 Depreciation	-	(22,182)	(11,493)	(17,441)	(1,870)	(52,986)
C.3 Adjustments for impairment charged to:	-	-	-	(13)	-	(13)
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	(13)	-	(13)
C.4 Decreases in fair value charged to:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to:	(734)	(1,970)	-	-	-	(2,704)
a) property and equipment held for investment purposes	(734)	(1,970)	-	-	-	(2,704)
b) non-current assets held for sale and discontinued operations	-	-	-	-	-	-
C.7 Other decreases	(2,884)	(6,058)	(7,167)	(5,540)	(3,965)	(25,614)
D) Net closing balance	**219,814**	**383,341**	**39,257**	**33,237**	**5,360**	**681,009**
D.1 Total net impairment	518	316,168	245,261	476,836	76,703	1,115,486
D.2 Gross closing balances	**220,332**	**699,509**	**284,518**	**510,073**	**82,063**	**1,796,495**
E) Valuation at cost	-	-	-	-	-	-

12.6 Property and equipment held for investment purposes: annual changes

(in thousands of euro)	Land	Buildings	Total
A) Opening balance	**639,815**	**702,531**	**1,342,346**
B) Increases	**88,049**	**136,002**	**224,051**
B.1 Purchases	75,487	119,339	194,826
(of which for business combinations)	27,380	51,839	79,219
B.2 Capitalised leasehold improvement costs	-	4	4
B.3 Increases in fair value	-	-	-
B.4 Recoveries	134	345	479
B.5 Exchange gains	-	-	-
B.6 Transfers from properties used in operations	734	1,970	2,704
B.7 Other increases	11,694	14,344	26,038
C) Decreases	**(37,200)**	**(70,244)**	**(107,444)**
C.1 Sales	(275)	(2,358)	(2,633)
(of which for business combinations)	-	-	-
C.2 Depreciation	-	(23,219)	(23,219)
C.3 Decreases in fair value	-	-	-
C.4 Losses on impairment	(31,986)	(36,042)	(68,028)
C.5 Exchange losses	-	-	-
C.6 Transfers to other portfolios of assets	(1,292)	(1,908)	(3,200)
a) properties used in operations	-	-	-
b) non-current assets held for sale	(1,292)	(1,908)	(3,200)
C.7 Other decreases	(3,647)	(6,717)	(10,364)
D) Closing balance	**690,664**	**768,289**	**1,458,953**
E) Designation at fair value through profit and loss	**719,466**	**938,461**	**1,657,927**

Losses on impairment result from the adjustment in the book value of several properties, to the lower recoverable value resulting from the most updated appraisals obtained.

12.7 Commitments to purchase property and equipment

There are no commitments to purchase property and equipment.

Section 13 - Intangible assets - Item 130

13.1 Intangible assets: breakdown by type of assets

(in thousands of euro)	31/12/2014		31/12/2013	
	Defined term	Undefined term	Defined term	Undefined term
A.1 Goodwill	**X**	**1,388,895**	**X**	**1,588,895**
A.1.1 pertaining to the Group	X	1,388,895	X	1,588,895
A.1.2 attributable to minority interests	X		X	
A.2 Other intangible assets	**438,817**	**222,200**	**488,148**	**222,200**
A.2.1 Assets carried at cost:	438,817	222,200	488,148	222,200
a) Internally generated intangible assets	-	-	-	-
b) Other assets	438,817	222,200	488,148	222,200
A.2.2 Assets designated at fair value through profit and loss:	-	-	-	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	-	-	-	-
Total	**438,817**	**1,611,095**	**488,148**	**1,811,095**

Intangible assets with undefined term are represented by goodwill and trademarks, for which impairment tests were conducted as illustrated in paragraph 13.1.1 below.
Intangible assets with defined term include intangibles of euro 257.4 million and relating to the valuation of Client Relationships, acquired as part of the Banca Popolare Italiana Group business combination transaction; the remainder mainly relates to software.

13.1.1 Undefined term intangible assets: impairment testing

Generally, impairment testing is one of the most complex and critical aspects of business management. The current scenario has increased this complexity. In particular, we draw attention to the fact that the current financial market and economic crisis makes it extremely difficult to conduct impairment testing. The tests are supposed to be conducted in a context in which impairment assumptions have a prevalently external nature and impact all businesses (systemic nature). This is the opposite of ordinary situations in which impairment assumptions have a prevalently internal nature (insofar as they are triggered by specific risks that regard clearly-defined businesses) and where the test is the tool through which management acknowledges that it can no longer achieve the objectives it set previously.

Pursuant to IAS 36, all undefined term intangible assets must undergo impairment testing at least once a year to verify the recoverability of their value. The Group has decided to conduct impairment testing as at 31 December of each year, and in any event in the presence of loss indicators.

If it is not possible to directly determine the recoverable value of the specific intangible asset recognised in the financial statements, the recoverable value of the cash generating unit to which the asset belongs must be estimated. With specific reference to goodwill, paragraph 80 of the aforementioned accounting standard specifies that for impairment testing, at the acquisition date, goodwill acquired through a business combination must be allocated to each of the acquirer's cash generating units or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.
Each unit or group of units to which the goodwill is so allocated shall:

(a) represent the lowest level within the entity at which the goodwill is monitored for internal management purposes;
(b) not be larger than an operating segment determined in accordance with IFRS 8 "Operating Segments".

To identify cash generating units (CGU) to which assets subject to impairment testing are to be allocated, the potential units identified must generate significant cash flows that are independent from those deriving from other potential units identified.

On the basis of these definitions, as at 31 December 2014, the CGU identified with undefined term intangible assets that must undergo impairment testing are as follows:

- Commercial Network CGU - It is comprised (i) of the Network Divisions resulting from the merger by incorporation of the Network Banks into Banco Popolare (ii) by the Large Corporate Department and (iii) by the Institutions, Entities and Third Sector Department;
- Private & Investment Banking CGU - It includes Banca Aletti and its subsidiary Aletti Fiduciaria as the activities carried out by the investee company is ancillary to the controlling company's activities;
- Bancassurance Life CGU - Refers to Popolare Vita, a company that operates in the Life Bancassurance segment;
- Bancassurance Protection CGU - Refers to Avipop Assicurazioni, a company that operates in the Bancassurance Protection segment.

The CGUs identified are consistent with the Board of Directors' strategic vision for the Group and is unchanged from those used for impairment testing in preparing the financial statements as at 31 December 2013.

The following paragraphs illustrate the methods and the assumptions used for impairment testing which was conducted on the basis of:

- the instructions of international accounting standard IAS 36;
- the recommendations issued in a joint letter signed by the Bank of Italy, Consob and Ivass dated 3 March 2010;
- the main suggestions contained in a document issued by the Italian Valuation Body (I.V.B.) entitled "impairment tests on goodwill at times of financial and real crises" dated 14 June 2012;
- the recommendations issued by Consob in communication no. 3907 of 19 January 2015.

The procedure and the valuation parameters for the impairment testing of goodwill and the other intangible assets with undefined useful lives were approved autonomously by the Board of Directors in advance of approval of the draft financial statements for 2014, as required by the aforementioned Supervisory Authorities.

A. Method to calculate the book value of individual CGUs

In line with the 2011-2013 financial statements, a method based on operational measurements was used to calculate the book value of the Commercial Network CGU. To this end, the book value was calculated as the sum of the following:

- Common Equity Tier 1 capital (CET1), namely the minimum capital against weighted risk assets relating to the CGU, in line with Basel 3 regulations, which will come into force in the reference cash flow period;
- goodwill and other intangible assets both defined and undefined term associated to the CGU;
- other assets representing elements to deduct for the purpose of calculating the above-mentioned Common Equity Tier 1 capital.

For the remaining CGUs, which correspond to one or more legal entities, the reference value has been specifically established as the sum of the book values of the company's statement of financial position assets and liabilities, of goodwill and of other intangible assets, both defined and undefined term associated to the CGUs.

The following table shows the reference values of the individual CGUs as at 31 December 2014, indicating the relative intangible assets with undefined term to be subject to impairment testing allocated to each CGU in line with that carried out as at 31 December 2013:

C.G.U. *(in millions of euro)*	Reference value	of which: goodwill	of which: trademarks
Commercial Network	2,817	616	222
Private & Investment Banking	1,713	897	-
Bancassurance Life	311	25	-
Bancassurance Protection	96	51	-
Total	**4,937**	**1,589**	**222**

Management believes that these reference values for the CGUs are consistent with the calculation methodologies of the respective recoverable values described below.

B. Criteria used to determine the recoverable value of CGUs

Based on international accounting standards, the amount of any impairment is determined by the difference between the book value of the CGU, calculated on the basis of the above-described criteria, and its recoverable value, if lower. Recoverable value is defined as the higher between:

- Value in Use, namely the present value of future cash flows that are envisaged to result from the continuous use of a specific asset or from a CGU;
- Fair Value, less selling costs, namely the amount that could be obtained from the sale of an asset, in an arm's length transaction between informed and willing parties.

B.1. Commercial Network CGU and Private & Investment Banking CGU

Impairment testing relating to the Commercial Network and Private & Investment Banking CGUs was conducted using the Value in Use obtained through the application of the Dividend Discount Model.
According to the Dividend Discount Model (DDM), the value of a company is based on the dividend flows that it is capable of generating in the future. In the case in point, the method used is Excess Capital DDM, which assumes that the economic value of a company is equal to the sum of the present value of future cash flows (Expected Dividends) generated over the selected time period of planning, which can be distributed to shareholders while maintaining a suitable level of capitalisation to guarantee expected future development, and the perpetual capitalisation of the normalised dividend for the last year of the forecast, based on a payout ratio depending on profitability at full operation. The application of the DDM entails the use of the following formula:

$$W = \sum_{k=0}^{n} \frac{D_k}{(1+i)^k} + TV + SA$$

where:
W = General value of economic capital
i = Cost of own capital (Ke)
Dk = Dividends that can be distributed in an explicit period with a level of capitalisation in line with current regulations
n = Number of years of the explicit period
TV = Residual value or Terminal value calculated as the present value of a perpetual yield represented by the average sustainable Dividend for the years subsequent to the explicit planning period
SA = Value of any surplus assets

In analytical terms, the Terminal Value is calculated as follows:

$$TV = \frac{D_{n+1}}{i-g}(1+i)^{-n}$$

where:
Dn+1 = Average sustainable dividend expected after the explicit planning period
g = Expected long-term growth rate of the dividend after the explicit planning period. This growth rate should refer to the nominal long-term growth rate of the economy. In fact, it is prudentially assumed that in the long term, each sector and each company in the sector will converge towards a growth rate equal to that of the economy as a whole
i = Cost of own capital (Ke)

B.1.1 - Estimated cash flows

The Plan approved on 27 February 2014 incorporates a significantly different macroeconomic scenario from that which subsequently occurred and which is expected in the upcoming years. Hence, the currently available forecasts are characterised by extreme uncertainty. The uncertainty surrounding future scenarios regards, among other things, exchange rate turbulence, the impact of the collapse of energy prices, the intensity and the repercussions of the ECB's Quantitative Easing programme, the time needed for short/medium/long term interest rates to normalise, the dynamics of the real economy, the demand for credit from the banking system and developments in legislation and in the supervisions of the Controlling Authorities. In this context, the medium-term scenarios are not very reliable and consequently it is extremely difficult, if not impossible, at least at this stage, to update the 2014/2016-2018 plan that continues to represent the Group's strategic direction and its business mix. Banco Popolare's Board of Directors has therefore limited itself to approving only the 2015 consolidated budget.
In light of the above and consistent with standard practice for valuation exercises conducted in contexts characterised by a high level of uncertainty, it was deemed appropriate to adopt a prudential multi-scenario approach, as was done for impairment testing in 2011 and 2012.
As impairment testing requires reference to be made to projected cash flows with a time horizon beyond one year, economic-financial forecasts were developed beginning from the 2015 consolidated budget for the Commercial Network CGU and the Private & Investment Banking CGU. Each forecast was developed in reference to two distinct scenarios. When developing the scenarios, more importance was given to external sources of information. The above-cited cash flow forecasts do not include benefits relating to restructuring that the Group has not yet undertaken, nor those related to the improvement or optimisation of business returns. The assumptions underlying the scenarios adopted and the cash flows obtained were submitted to the approval of the Board of Directors before the approval of the Impairment Test.
Specifically, the following forecasts were developed for the Commercial Network CGU: i) a forecast with the "Prometeia" scenario as the underlying assumption, drawn up on a time horizon of 2015-2017 starting from and based on the 2015 budget and the expected increase of the main statement of financial position and income statement variables stated in the "Forecast Report of Bank Balances" published by Prometeia in October 2014, ii) a forecast with the "Prudential" scenario as the underlying assumption, drawn up on the same time horizon, but prudently halving the growth trends of the various statement of financial position and income statement variables indicated by Prometeia in its forecasts. The values of the "Prometeia" forecast were given a weighting of 1/3, while the values of the "Prudential" forecast were given a weighting of 2/3.
The following scenarios were developed for the Private & Investment Banking CGU: i) a "Base" forecast drawn up on the time horizon of 2015-2017, with a linear extension of the 2015 budget, drawn up on an analytical basis in line with the Prometeia scenario, ii) a "Prudential" forecast, drawn up on the same time horizon in line with the "Prudential" forecast of the Commercial Network CGU. The values of the "Base" forecast were given a weighting of 1/3, while the values of the "Prudential" forecast were given a weighting of 2/3.
The cash flows that may be distributed in the explicit period (Dk) were calculated based on the 2015-2017 statement of financial position-income statement figures of the CGUs, taking into account a minimum level of capital estimated on the basis of a Common Equity Tier 1 (CET1) target of 10%, representing the best estimate of the minimum capital level that the ECB will require the Group to meet on an ongoing basis to complete the Supervisory Review and Evaluation Process (SREP) conducted on Banco Popolare.
To estimate the terminal value, the average sustainable dividend after the explicit period was calculated as a function of expected profitability in the long term. The latter was estimated in reference to a long-term growth rate equivalent to the nominal growth rate of the economy at 2%.

B.1.2.- Cash flow discounting rates

To discount the dividends that may be distributed to shareholders, a Cost of Capital was used, consistent with the return required of investments with characteristics similar to those of the asset under analysis. The Cost of Capital (Ke) was calculated on the basis of the Capital Asset Pricing Model (CAPM), according to which the returns on a high-risk business must be equal to the sum of a no-risk rate and a risk premium (R_f) and a risk premium (R_m-R_f), as a function of the specific level of risk of the business:

$$K_e = R_f + \beta \times (R_m - R_f)$$

More specifically, the no-risk component (R_f), which encompasses in any event the so-called "Country Risk" is calculated, in line with the 2013 Test, using the 1-year average yield of 10-year Italian government bonds (BTP).
The beta (ß) coefficient measures the risk of the specific business or of the operating sector in terms of the correlation between the effective yield of a share and the overall yield of the reference market.
More specifically, in line with the 2013 Test, the following were used:
a) for the Commercial Network CGU: the indicator relating to a sample of comparable companies (listed Italian banks) recorded by Bloomberg;
b) for the Private and Investment Banking CGU: the average indicator of a sample of companies operating in the Investment Banking segment recorded by Bloomberg.
The coefficient was measured on a daily basis for a time horizon of 5 years.
A market risk premium (R_m-R_f) of 5% was calculated, in line with measurement practices.

B.2 CGUs operating in the Bancassurance segment

With regard to Bancassurance Life and Protection CGUs, note that the related recoverable value was identified by applying the Appraisal Value valuation model (method commonly used to value Insurance Companies and, specifically, for those operating under bancassurance agreements). Based on this method, the value of a company is defined as the sum of the following components: i) Adjusted Shareholders' Equity (ASE), determined on the basis of the book value of the shareholders' equity, appropriately adjusted to discount statement of financial position assets and liabilities to current market values and/or estimates; ii) Value In Force (VIF, generally estimated only for life insurance companies), determined on the basis of actuarial methodologies as the present value of net income to be generated by the existing portfolio at the reference date of the valuation, net of reinsurance, tax, associated operating expenses and figurative charges deriving from keeping the capitalisation levels necessary to meet existing supervisory requirements in force; iii) value referring to future new business (Goodwill), corresponding to the present value of net income to be generated by the new subscribed business, determined on the basis of actuarial methodologies similar to those used to calculate VIF. The present value was estimated using a cost of capital calculated according to the previously illustrated CAPM method, using the average indicator relating to a sample of companies operating in the Insurance sector estimated by Bloomberg as the Beta coefficient, measured on a daily basis on a time horizon of five years, in line with the 2013 Test.

C. Overview of the methods used and the main valuation parameters

The following table summarises the methods used to calculate the recoverable value and the main parameters:

C.G.U.	Criteria to calculate recoverable value	Discounting rate "Ke"	Growth rate of terminal value "g"
Commercial Network	Value in use – Dividend Discount Model	8.15%	2.00%
Private & Investment Banking	Value in use – Dividend Discount Model	8.91%	2.00%
Bancassurance Life	Value in use – Appraisal Value	8.74%	2.00%
Bancassurance Protection	Value in use – Appraisal Value	8.74%	2.00%

D. Summary of results

On the basis of the guidelines illustrated, the impairment test as at 31 December resulted in the recognition of impairment solely in reference to the value of goodwill allocated to the Private & Investment Banking CGU for a total of euro 200 million.
As stated in Part A of these notes, given the particularly uncertain market and regulatory situation, it cannot be excluded that the assumptions made, however reasonable and prudent, may not be confirmed by future scenarios in which the Group finds itself operating.

E. Sensitivity analysis

In compliance with IAS 36, a sensitivity analysis was conducted on the parameters used for the valuation, in order to verify changes in the recoverable values.
More specifically, the gap between the recoverable value and the reference book value was analysed in the event that the growth rate (g) and/or the cost of capital (Ke) rose or fell with respect to the rates actually used;

Commercial Network CGU
Growth rate of terminal value "g"/Discounting rate "ke"
(difference between recoverable value and reference *value in millions of euro*)
(percentage of value in use)

		(Ke)			
		8.15%		9.78%	
(g)	1.50%	854	23.3%	-71	-2.6%
	2.00%	1,011	26.4%	0	0%
	2.50%	1,196	29.8%	81	2.8%

Private & Investment Banking CGU
Growth rate of terminal value "g"/Discounting rate "ke"
(difference between recoverable value and reference *value in millions of euro*)
(percentage of value in use)

		(Ke)			
		8.91%		9.51%	
(g)	1.50%	-243	-16.5%	-316	-22.6%
	2.00%	-200	-13.2%	-281	-19.6%
	2.50%	-150	-9.6%	-241	-16.4%

A sensitivity analysis was also conducted on the same Commercial Network and Private & Investment Banking CGUs, changing the income flows considered in the forecasts and the CET1 target ratio, the results of which are partially summarised in the tables below:

Commercial Network CGU
% change in net profit / target CET1
(difference between recoverable value and reference value in millions of euro)
(percentage of value in use)

		(CET1 Target Ratio)			
		10.0%		13.9%	
(%income)	+5%	1,246	30.7%	236	7.7%
	0%	1,011	26.4%	0	0%
	-5%	776	21.6%	-236	-9.2%

Private & Investment Banking CGU
% change in net profit / target CET1
(difference between recoverable value and reference value in millions of euro)
(percentage of value in use)

		(CET1 Target Ratio)			
		10.0%		11.0%	
(%income)	+5%	-140	-8.9%	-177	-11.5%
	0%	-200	-13.2%	-236	-16.0%
	-5%	-260	-17.9%	-296	-20.9%

F. Intrinsic signs of impairment

As at 31 December 2014, consolidated shareholders' equity was euro 8,064 million, while the market capitalisation as at 10 February 2015 was euro 4,043 million. Therefore, there remains a significant misalignment, even if the tangible shareholders' equity as at 31 December 2014 of euro 6,014 million is used as a reference. The impairment test was conducted taking the existence of external impairment indicated above into due account. The reasons for this misalignment essentially lie in the profound repercussions of the global economic crisis which hit the banking sector with particular force, penalised by low interest rates and a considerable increase in the cost of credit resulting from the financial difficulties suffered by corporate and retail customers due to the economic crisis. In this regard, note that market values are the result of assessments of the financial community, assessments which, by their very nature, remain focused on short-term targets and estimates, which are therefore not able to fully reflect the company's medium/long term growth potential. Instead, valuations expressed for the purpose of drawing up these financial statements are the result of extrapolating the economic value of the CGUs based on their specific income generation capacity, which is not fully recognised by the financial markets. This assessment expresses itself over a wider period than that adopted by the financial community and leaves aside the singular nature of the current economic-financial context, even if taken into due account.

Lastly, note that, as an additional guarantee, an independent expert (KPMG Corporate Finance) issued a fairness opinion on both the adequacy of the valuation methods adopted by the Group, that were judged to be reasonable and not arbitrary, as well as on the correct application of the same.

13.2 Intangible assets: annual changes

(in thousands of euro)		Goodwill	Other intangible assets				Total
			Internally generated		Other		
			DEF	UNDEF	DEF	UNDEF	
A.	**Opening balance**	**4,744,723**	**-**	**-**	**1,323,853**	**222,200**	**6,290,776**
	A.1 Total net impairment	(3,155,828)	-	-	(835,705)	-	(3,991,533)
	A.2 Net opening balance	**1,588,895**	**-**	**-**	**488,148**	**222,200**	**2,299,243**
B.	**Increases:**	**-**	**-**	**-**	**115,568**	**-**	**115,568**
	B.1 Purchases	-	-	-	115,555	-	115,555
	(of which for business combinations)	-	-	-	-	-	-
	B.2 Increases in internal intangible assets	X	-	-	-	-	-
	B.3 Recoveries	X	-	-	-	-	-
	B.4) Increases in fair value		-	-	-	-	-
	- at equity	X	-	-	-	-	-
	- through profit and loss	X	-	-	-	-	-
	B.5) Exchange gains	-	-	-	12	-	12
	B.6) Other increases	-	-	-	1	-	1
C.	**Decreases**	**(200,000)**	**-**	**-**	**(164,899)**	**-**	**(364,899)**
	C.1 Sales	-	-	-	(56,881)	-	(56,881)
	(of which for business combinations)	-	-	-	-	-	-
	C.2 Adjustments	(200,000)	-	-	(108,018)	-	(308,018)
	- Amortisation	X	-	-	(69,018)	-	(69,018)
	- Write-downs	(200,000)	-	-	(39,000)	-	(239,000)
	+ shareholders equity	X	-	-	-	-	-
	+ income statement	(200,000)	-	-	(39,000)	-	(239,000)
	C.3 Decreases in fair value	-	-	-	-	-	-
	- at equity	X	-	-	-	-	-
	- through profit and loss	X	-	-	-	-	-
	C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
	C.5 Exchange losses	-	-	-	-	-	-
	C.6 Other decreases	-	-	-	-	-	-
D.	**Net closing balance**	**1,388,895**	**-**	**-**	**438,817**	**222,200**	**2,049,912**
	D.1 Total net adjustments	(3,291,609)	-	-	(875,792)	-	(4,167,401)
E.	**Gross closing balance**	**4,680,504**	**-**	**-**	**1,314,609**	**222,200**	**6,217,313**
F.	Valuation at cost	-	-	-	-	-	-

Purchases of other intangible assets mainly include new applications developments to improve organisational efficiency, sales initiatives and legislative changes.
Item C.2 Adjustments - Amortisation, in addition to the amortisation of software, also includes the share of amortisation relating to the Client Relationships acquired through business combinations amounting to euro 29.8 million, while the remainder refers to the process of amortisation of applications software.
Item C.2 Adjustments - Write-downs, includes the income statement adjustments made on goodwill of euro 200 million, following the results of the impairment test illustrated above, and of euro 39 million on the cited Client Relationships, following the adjustment of the residual recoverable value of the specific defined life intangible to Fair Value.

13.3 Other information

As at 31 December 2014 there were no commitments relating to intangible assets.

Section 14 - Tax assets and liabilities – Item 140 under assets and Item 80 under liabilities

As at 31 December 2014, current tax assets amounted to euro 152.3 million, euro 106.3 million of which related to IRES credit and euro 46 million to IRAP credit.

14.1 Deferred tax assets: breakdown

(in thousands of euro)	IRES	IRAP	Other	31/12/2014	31/12/2013
A) Matching balance to the Income Statement					
Write-downs of receivables deductible in coming years	2,025,166	211,324	-	2,236,490	1,471,113
Allocations and adjustments deductible in coming years	116,019	763	-	116,782	113,281
Book values lower than the tax values recognised following the fair value designation of financial assets through profit and loss	42,480	689	1,160	44,329	41,838
Personnel expenses and allocations to employee termination indemnities deductible in coming years	116,773	-	-	116,773	89,323
Value adjustments on real estate deductible in coming years	39,501	44	-	39,545	29,881
Costs deductible in coming years resulting from exemptions for goodwill and other intangible assets	778,651	168,130	-	946,781	1,031,799
Tax losses carried forward	1,309	-	-	1,309	1,309
Other cases of misalignment between book and tax values	1,494	371	262	2,127	10,317
Total A	**3,121,393**	**381,321**	**1,422**	**3,504,136**	**2,788,861**
B) Matching balance to Shareholders' Equity					
Designation at fair value through profit and loss of financial assets					
Book values lower than the tax values recognised from the fair value designation of financial assets available for sale through profit and loss	11,535	2,649	13	14,197	37,562
Other cases of misalignment between book and tax values	34,502	2,057	-	36,559	26,206
Total B	**46,037**	**4,706**	**13**	**50,756**	**63,768**
Total (A+B)	**3,167,430**	**386,027**	**1,435**	**3,554,892**	**2,852,629**

Deferred tax assets which are a balancing entry to the Income Statement as at 31 December 2014 include the deferred tax effects on consolidation entries for a total of euro 7 million.

14.2 Deferred tax liabilities: breakdown

(in thousands of euro)	IRES	IRAP	Other	31/12/2014	31/12/2013
A) Matching balance to the Income Statement					
Book values exceeding tax values recognised following the fair value designation of financial instruments through profit and loss	2,084	-	-	2,084	3,723
Book values exceeding tax values recognised following the process of tax amortisation of goodwill and other intangible assets	13,439	2,563	-	16,002	13,868
Book values exceeding tax values recognised following value adjustments calculated solely for tax purposes	11,942	1,140	-	13,082	12,031
Capital gains taxable in coming years	7,836	-	-	7,836	11,754
Book values exceeding tax values recognised following the Purchase Price Allocation carried out for business combination transactions	160,276	30,741	-	191,017	217,661
Other cases of misalignment between book and tax values	37,114	6,096	-	43,210	78,205
Total A	**232,691**	**40,540**	**-**	**273,231**	**337,242**
B) Matching balance to Shareholders Equity					
Book values exceeding tax values recognised following the fair value designation of financial assets available for sale through profit and loss	81,950	22,635	-	104,585	67,374
Other cases of misalignment between book and tax values	1,043	-	-	1,043	1,039
Total B	**82,993**	**22,635**	**-**	**105,628**	**68,413**
Total (A+B)	**315,684**	**63,175**	**-**	**378,859**	**405,655**

Other deferred tax liabilities which are a matching balance to the Income Statement as at 31 December 2014 include the deferred tax effects on consolidation entries for a total of euro 37.6 million (of which euro 32 million for IRES and euro 5.6 for IRAP).

14.3 Changes in deferred tax assets (as a matching balance to the income statement)

(in thousands of euro)	2014	2013
1. Opening amount	**2,788,861**	**2,683,317**
2. Increases	**1,111,548**	**583,535**
2.1 Deferred tax assets recorded during the year	1,098,314	581,557
a) referring to previous years	11,489	7,571
b) due to changes in accounting criteria	-	-
c) recoveries	7,987	-
d) other	1,078,838	573,986
2.2 New taxes or increases in tax rates	-	366
2.3 Other increases	13,234	1,612
(of which for business combinations)	-	-
3. Decreases	**(396,273)**	**(477,991)**
3.1 Deferred tax assets cancelled during the year	(180,877)	(166,550)
a) reversals	(136,262)	(135,971)
b) write-downs due to unrecoverability	(33,753)	(368)
c) due to changes in accounting criteria	-	-
d) other	(10,862)	(30,211)
3.2 Decreases in tax rates	(3)	-
3.3 Other decreases	(215,393)	(311,441)
a) transformation into tax credits pursuant to law 214/2011	(203,428)	(310,756)
b) other	(11,965)	(685)
(of which for business combinations)	-	-
4. Closing amount	**3,504,136**	**2,788,861**

Information on deferred tax assets (DTA), on transformable DTA and on assessments of recoverability

As at 31 December 2014, deferred tax assets totalled euro 3,554.9 million (euro 2,852.6 million as at 31 December 2013).

In 2014, deferred tax assets recorded a significant increase mainly due to changes made by Italian Law no. 147/2013 ("2014 Stability Law") regarding the tax treatment of value adjustments on loans.
For IRES purposes, the changes imposed by the 2014 Stability Law, article 106 TUIR (Italian Consolidated Income Tax Law) envisage that net value adjustments on loans to customers, may be deducted over a five year period on a straight line basis, compared to the previous system that permitted the deductibility of the net value adjustments exceeding the threshold of 0.30% of loans recorded in the financial statements over an 18 year period.
For IRAP purposes, the most important change regards the deductibility in fifths of value adjustments on loans, while previously said "adjustments" could not be deducted. At Group level, the DTA for IRAP recognised with regard to the value adjustments deferred to subsequent years amount to euro 211.3 million (of which euro 191.5 million relates to the Parent Company).

With regard to the recognition of deferred tax asset and their maintenance on the financial statements, it is important to note several important changes to tax legislation which, envisaging the transformation of deferred tax assets into tax credit in specific circumstances, introduced a procedure to recover "additional" and "supplementary" deferred tax assets in order to ensure their "re-absorption" regardless of their ability to generate future income ("tax capability") by the Group.

First of all, it is worth recalling the provisions of article 2, paragraphs 55 to 58 of Italian Decree Law 225/2010 ("2010 Milleproroghe Decree") which introduced the option of transforming deferred tax assets (hereinafter DTA) into tax credit in the event that a "statutory loss" is recorded.

The DTA recorded in the financial statements are encompassed by this option, with relation both to write-downs of receivables not yet deducted pursuant to art. 106, paragraph 3 of the Italian Consolidated Income Tax Law (TUIR), and to the value of goodwill and of other intangible assets pursuant to art. 103 of the TUIR, the negative components of which are deductible in subsequent tax years.

Subsequently, Italian Law no. 214 of 22 December 2011 - hereinafter "Law 214/2011" with the conversion of the provisions contained in Italian Decree Law 201/2011 ("Rescue Italy Manoeuvre") made important changes to the regulations for the transformation of DTA, extending the scope of application to the case in which a "tax loss" is recorded in terms of IRES.

Lastly, the changes introduced by Italian Law no. 147/2013 (so-called 2014 Stability Law) extended the transformation of the IRAP DTA allocated, both for the portion of value adjustments on loans and for the portion of amortisation of goodwill and of other intangible assets deferred to subsequent years in the event that a loss at financial statement level is recorded and a "net negative value of production" for IRAP purposes.

Therefore, in the event that a statutory loss is recorded, or a tax loss or a net negative value of production for IRAP purposes is recognised, the deferred tax assets for both IRAP and IRES referring to tax adjustments on loans not yet deducted from taxable income and the IRES and IRAP DTA relating to the value of goodwill and of other intangible assets, whose negative components may be deducted over several tax years are transformed into tax credit pursuant to the provisions of Italian Law no. 214 of 22 December 2011.

The following table shows changes in deferred tax assets that may be transformed into tax credit pursuant to Italian Law 214/2011.

14.3.1 Changes in deferred tax assets pursuant to Italian Law 214/2011 (as a matching balance to the income statement)

(in thousands of euro)	2014	2013
1. Opening amount	**2,496,588**	**2,358,200**
2. Increases	**938,805**	**456,988**
(of which for business combinations)	-	-
3. Decreases	**(256,395)**	**(318,600)**
3.1 Reversals	(52,967)	(7,745)
3.2 Transformation into tax credit	(203,428)	(310,756)
a) resulting from losses for the year	(203,420)	(310,756)
b) resulting from tax losses	(8)	-
3.3 Other decreases	-	(99)
(of which for business combinations)	-	-
4. Closing amount	**3,178,998**	**2,496,588**

As at 31 December 2014, the deferred tax assets that meet the requirements of Italian Law 214/2011 for transformation into tax credit corresponded to euro 3,179 million, of which euro 2,851.9 million was attributable to the Parent Company.

The table below summarises the "Transformable DTA" recognised in the financial statements, referring to the different tax provisions that generated them:

Type of asset underlying the transformable DTA	31/12/2014		31/12/2013	
	Total Transformable DTA	of which relating to the Parent Company	Total Transformable DTA	of which relating to the Parent Company
Write-downs of receivables under paragraph 3, art. 106 TUIR (Italian Consolidated Income Tax Law)	2,232,216	1,908,397	1,464,789	1,032,221
Amortisation of "goodwill" under paragraphs 3 and 3-bis of art. 103 TUIR (Italian Consolidated Income Tax Law)	804,688	801,428	889,706	874,630
Amortisation of "other intangible assets" under paragraphs 1 and 3-bis of art. 103 TUIR (Italian Consolidated Income Tax Law)	142,094	142,094	142,093	142,093
Total	**3,178,998**	**2,851,919**	**2,496,588**	**2,048,944**

The DTA transformed into tax credit in 2014 totalled euro 203.4 million, of which euro 167.5 million related to the Parent Company.

As regards the DTA transformed, art. 9 of Italian Law 214/2011 establishes that "negative components corresponding to the deferred tax assets transformed into tax credit are not deductible".
This means that in calculating the current IRES and IRAP of the individual companies involved, decreases relating to the assets that generated the deferred taxes in question were neutralised by an amount of tax corresponding to the DTA transformed.

Given that the deferred tax assets recorded in the consolidated financial statements mainly originate from deductible temporary differences relating to write-downs of receivables exceeding the immediate deductibility threshold envisaged by tax legislation with reference to credit and financial entities only (2,232.2 million) and to deductible temporary differences relating to goodwill and other intangible assets (946.8 million), as shown in table "14.3.1 Changes in deferred tax assets pursuant to Italian Law 214/2011 (as a matching balance to the income statement)", the legislative changes illustrated actually eliminate the risk of their non-recovery.

Instead, as regards residual deferred tax assets, corresponding to euro 375.9 million, their recognition in the financial statements is strictly dependent on the Group's "tax capability".

At IRES level, it should be noted that at present, the Banco Popolare Group has never closed a financial year with a tax loss for IRES at consolidated level. Furthermore, even if one year taxable income for IRES were negative (tax loss), pursuant to the new article 84, paragraph 1, of Italian Presidential Decree no. 917 of 22 December 1986, the tax loss could be recovered without any time restriction.
Furthermore, both the consolidated 2014-2016/2018 business plan and the 2015 budget forecast taxable income for

IRES in the future, which will enable the residual DTA to be fully recovered.

In terms of IRAP, the merger by incorporation of the Network Banks completed in 2011 and the recent incorporation of Credito Bergamasco in June 2014 resulted in an increase of the taxable income (value of production) of Banco Popolare. The level of taxable income for IRAP purposes which is expected to be generated in future years by the individual companies means that it is likely that the full amount of the residual DTA recorded in the financial statements will be recovered.

14.4 Changes in deferred tax liabilities (as a matching balance to the income statement)

(in thousands of euro)	2014	2013
1. Opening amount	**337,242**	**381,387**
2. Increases	**4,181**	**5,709**
2.1 Deferred tax liabilities recorded during the year:	4,178	5,670
a) referring to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	4,178	5,670
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	3	39
(of which for business combinations)	-	-
3. Decreases	**(68,192)**	**(49,854)**
3.1 Deferred tax liabilities cancelled during the year:	(68,005)	(49,785)
a) reversals	(65,693)	(42,890)
b) due to changes in accounting criteria	-	-
c) other	(2,312)	(6,895)
3.2 Decreases in tax rates	(3)	-
3.3 Other decreases	(184)	(69)
(of which for business combinations)	-	-
4. Closing amount	**273,231**	**337,242**

14.5 Changes in deferred tax assets (as a matching balance to shareholders' equity)

(in thousands of euro)	2014	2013
1. Opening amount	**63,768**	**140,469**
2. Increases	**21,328**	**8,137**
2.1 Deferred tax assets recorded during the year	21,309	8,133
a) referring to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	21,309	8,133
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	19	4
(of which for business combinations)	-	-
3. Decreases	**(34,340)**	**(84,838)**
3.1 Deferred tax assets cancelled during the year	(34,340)	(84,262)
a) reversals	(34,340)	(83,871)
b) write-downs due to unrecoverability	-	(391)
c) changes in accounting criteria	-	-
d) other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	-	(576)
(of which for business combinations)	-	-
4. Closing amount	**50,756**	**63,768**

14.6 Changes in deferred tax liabilities (as a matching balance to shareholders' equity)

(in thousands of euro)	2014	2013
1. Opening amount	**68,413**	**68,725**
2. Increases	**37,353**	**1,291**
2.1 Deferred tax liabilities recorded during the year:	36,308	1,269
a) referring to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	36,308	1,269
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	1,045	22
(of which for business combinations)	-	-
3. Decreases	**(138)**	**(1,603)**
3.1 Deferred tax liabilities cancelled during the year:	(97)	(1,035)
a) reversals	(97)	(747)
b) due to changes in accounting criteria	-	-
c) other	-	(288)
3.2 Decreases in tax rates	-	-
3.3 Other decreases	(41)	(568)
(of which for business combinations)	-	-
4. Closing amount	**105,628**	**68,413**

14.7 Other information

Group tax situation

For an assessment of the risks relating to litigation in progress with the Tax Authority and relative developments in 2014 (new disputes that have emerged or disputes concluded and/or settled), please refer to the content of Section 12 - Provisions for risks and charges – Item 120 of liabilities, where the allocations made to liabilities judged to be likely are made, pursuant to the provisions of accounting standard IAS 37.

The National Tax Consolidation Scheme

Banco Popolare and the subsidiaries listed below have opted for the national tax consolidation scheme under Articles 117 to 129 of Italian Presidential Decree no. 917 of 22 December 1986. This option, valid for the tax period 2013-2015, refers to all Group Companies which meet the requirements of the aforementioned regulations and, specifically:

1. Aletti Fiduciaria S.p.A.;
2. Aletti Gestielle SGR S.p.A.;
3. Banca Aletti & C. S.p.A.;
4. Banca Italease S.p.A.;
5. Bipielle Real Estate S.p.A.;
7. BP Property Management s.c.r.l.;
8. BP Trading Immobiliare S.r.l.;
9. BRF Property S.p.A.;
9. Holding di Partecipazioni Finanziarie BP S.p.A.;
10. Italease Gestione Beni S.p.A.;
11. Lido dei Coralli S.r.l.;
12. Mariner S.r.l.;
13. Nadir Immobiliare S.r.l.;
14. P.M.G. S.r.l;
15. Release S.p.A.;
16. Sirio Immobiliare S.r.l.;
17. Società Gestione Servizi BP S.c.p.A.;
18. Sviluppo Comparto 6 S.r.l.;
19. Sviluppo Comparto 8 S.r.l.;
20. Tecmarket Servizi S.p.A.;
21. Toscana Tissue S.r.l.

During the year, following the extraordinary merger operations, the following companies are no longer included in the scope of consolidation:

- Credito Bergamasco S.p.A., insofar as incorporated into Banco Popolare Soc. Coop. effective for tax purposes as of 1 January 2014;
- Aletti Trust S.p.A., insofar as incorporated into Aletti Fiduciaria S.p.A. effective for tax purposes as of 1 January 2014;
- RI. Investimenti 2 S.r.l., insofar as incorporated into Sviluppo Comparto 8 S.r.l. effective for tax purposes as of 1 January 2014.

The advantages of exercising the national consolidation option in 2014 are mainly linked:

- to the fact that taxes are levied on one single taxable income, resulting from the summation of the taxable income of the companies listed above that exercised the option;
- to the possibility of offsetting the non-deductible portion of interest expense against the possible Gross Operating Income availability (G.O.I.), pertaining to other companies of the Group, under art. 96, paragraph 4) TUIR (Italian Consolidated Income Tax Law). G.O.I. is the core business gross operating income calculated as the difference between the value of production and the cost of production under letters A) and B) of art. 2425 of the Italian Civil Code, excluding depreciation of property and equipment and amortisation of intangible assets and finance lease payments for capital goods;
- to the full deductibility of interest expense of banks and other financial entities, accrued against entities participating in the tax consolidation, up to the total amount of interest expense accrued by the participating entities in favour of entities not included in the tax consolidation.

The adoption by Banco Popolare Soc. Coop. of Group taxation along with the subsidiary companies results in an expansion of its administrative liabilities, summarised as follows:

- exclusive liability for the fulfilment of duties associated with the calculation of the group's total consolidated income;
- joint liability for any increased tax, fines and interest on the total taxable income of each consolidated company;
- joint liability with all the relevant companies for the failure to pay amounts due based on the consolidated income tax return.

To this end, and in compliance with the regulatory changes in force, Banco prepared the "consolidation agreements" governing its relations with the subsidiaries that joined the consolidated taxation treatment scheme. The agreements were approved by the individual Boards of Directors.

There are no associates for which we opted for the fiscal transparency regime under articles 115 and following of Italian Presidential Decree 917-1986.

Section 15 - Non-current assets held for sale and discontinued operations and related liabilities – Item 150 under assets and Item 90 under liabilities

15.1 Non-current assets held for sale and discontinued operations: breakdown by type of assets

(in thousands of euro)	31/12/2014	31/12/2013
A. Individual assets		
A.1 Financial assets	-	-
A.2 Investments in associates and companies subject to joint control	-	16,000
A.3 Property and equipment	94,308	92,056
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
Total A	**94,308**	**108,056**
of which valued at cost	**24,042**	**21,772**
of which designated at fair value 1	**-**	**-**
of which designated at fair value 2	**-**	**-**
of which designated at fair value 3	**70,266**	**86,284**
B. Discontinued operations		
B.1 Financial assets held for trading	-	34,535
B.3 Financial assets available for sale	-	13,855
B.5 Due from banks	-	44,408
B.6 Loans to customers	-	180,141
B.8 Property and equipment	-	6,931
B.9 Intangible assets	-	2,326
B.10 Other assets	-	608
Total B	**-**	**282,804**
of which valued at cost	**-**	**-**
of which designated at fair value 1	**-**	**-**
of which designated at fair value 2	**-**	**282,804**
of which designated at fair value 3	**-**	**-**
C. Liabilities related to individual assets held for sale		
C.3 Other liabilities	-	1,053
Total C	**-**	**1,053**
of which valued at cost	**-**	**1,053**
of which designated at fair value 1	**-**	**-**
of which designated at fair value 2	**-**	**-**
of which designated at fair value 3	**-**	**-**
D. Liabilities related to discontinued operations		
D.1 Due to banks	-	14,965
D.2 Due to customers	-	236,177
D.6 Provisions	-	20,310
D.7 Other liabilities	-	3,006
Total D	**-**	**274,458**
of which valued at cost	**-**	**-**
of which designated at fair value 1	**-**	**-**
of which designated at fair value 2	**-**	**274,458**
of which designated at fair value 3	**-**	**-**

Non-current assets held for sale include euro property and equipment (euro 92.1 million as at 31 December 2013), and include properties of Banca Italease amounting to euro 70 million acquired following the full and final settlement of debt positions and recognised under this item following the approval of resolutions regarding their sale; euro 18 million refers to properties of Sviluppo Comparto 8 and euro 3.6 million to Italease Gestione Beni.

As at 31 December 2013, discontinued operations referred to the investee company Banco Popolare Croatia, the sale of which was finalised in 2014.

15.2 Other information

There is no other information to report.

15.3 Information on investments in companies subject to significant influence, not carried at equity

There are no investments in companies subject to significant influence which are not carried at equity classified as held for sale.

Section 16 - Other assets – Item 160

16.1 Other assets: breakdown

(in thousands of euro)	31/12/2014	31/12/2013
Due from Tax Authority (not classifiable under tax assets)	751,885	785,234
Receivables for the disposal of assets and the provision of services	23,724	30,654
Other income to be received	11,810	34,636
Cash and other values on hand	70,309	73,724
Items being processed	536,752	444,054
Items in transit between branches	143,841	87,043
Securities and coupons to be settled	44,922	54,335
Other operations to be settled	-	9,496
Leasehold improvements	56,020	51,537
Accrued income and prepayments not attributable to a specific item	31,073	23,224
Other items	567,016	580,971
Total	**2,237,352**	**2,174,908**

"Due from Tax Authority" mainly includes tax credit for VAT. Other receivables included in this item are the principal and the interest relating to tax credit for direct, indirect taxes, receivables relating to activities as withholding agent and other tax items not recognised under item 140 "Tax assets".
This item includes IRPEG and ILOR credits for which Banca Popolare di Novara s.c.a r.l. had requested a refund for 1995, prior to the merger with Banca Popolare di Verona – SGSP s.c. a r.l. that established Banco Popolare di Verona e Novara s.c. a r.l., for which the Tax Authority - Provincial Headquarters of Novara announced its rejection of the reimbursement claim on 22 July 2014, claiming the probative documentation submitted was not sufficient to support the request. The credits amount to a total of euro 86.5 million, euro 52.6 million of which as principal and euro 33.9 million of which is interest accrued. Banco Popolare retains that the grounds stated by the Tax Authority are totally illegitimate and groundless, and therefore submitted an appeal to the competent Tax Commission within the terms set by law.
This item also includes euro 36.4 million of tax credit on foreign dividends, the reimbursement of which has been requested of the Swiss Tax Authority by the subsidiary Banca Aletti in application of the rules envisaged for agreements against double taxation. The credit refers to 2008, 2009, 2013 and 2014. With reference to the refunds requested of the Swiss Tax Authority, note that in the last few months of 2013, the Swiss Tax Authority approved the refunds for 2006, 2007, 2010, 2011 and 2012, while it reserved judgement as to the right of a refund relating to credit 2008 and 2009. At the end of 2014, as the Bank has not received any further answer, it asked the Swiss Tax Authority to make a formal ruling, as this step is required before the proceedings can be brought before the competent Swiss judge. In this regard, the Bank has received the support of specific legal and tax opinions from leading Italian and Swiss tax advisors, which retain the requests for refunds to be valid and justified. Nevertheless, solely with a view to lowering the amount, the opportunity of seeking a possible settlement of the dispute with the Swiss Tax Authority has been considered, as settling the dispute out of court is in any event retained as preferable to facing the costs, the lengthy period involved and the undeniable uncertainties of a dispute.

"Items being processed" mainly includes amounts waiting to be recorded and various suspended amounts, as well as debits not yet due to be charged to customer current accounts and received by external companies, relating to the domiciliation of bills not yet charged to customer current accounts insofar as not yet due.

The item "Leasehold improvements" includes the costs capitalised relating to work carried out in branches which are located in third party properties, net of the depreciation charge calculated on the basis of the duration of the rental agreement.

"Other items" includes "Assets pertaining to the pension fund" of euro 252.7 million relating to assets invested in the various lines of investment of defined internal contribution Pension Funds; the corresponding liabilities are illustrated in section 12 "Provisions for risks and charges". The item also includes assets for Check Truncation transactions of euro 65.8 million, amounts charged to customers in January 2015 for the stamp duty on financial products and for rental instalments totalling around euro 122.3 million and other receivables of Banca Italease from the "Single Justice Provision" relating to an amount paid to obtain the return of properties under seizure orders of euro 17.3 million and relating to amounts subject to a preventive seizure order of euro 7.9 million.

LIABILITIES

Section 1 - Due to banks – Item 10

1.1 Due to banks: breakdown by product

(in thousands of euro)	31/12/2014	31/12/2013
1. Due to central banks	**12,870,424**	**13,695,100**
2. Due to banks	**4,512,893**	**3,707,966**
2.1 Current accounts and demand deposits	1,105,356	791,570
2.2 Time deposits	1,154,834	1,033,407
2.3 Loans	2,229,890	1,846,328
2.3.1 repurchase agreements	723,733	849,496
2.3.2 other	1,506,157	996,832
2.4 Payables for commitments to repurchase own equity instruments	-	-
2.5 Other payables	22,813	36,661
Total	**17,383,317**	**17,403,066**
Fair Value - Level 1	**-**	**-**
Fair Value - Level 2	**17,383,317**	**17,403,066**
Fair Value - Level 3	**-**	**-**
Total Fair Value	**17,383,317**	**17,403,066**

"Due to central banks" includes euro 12 billion of Long Term Refinancing Operations (LTRO) with the European Central Bank (euro 13.7 billion as at 31 December 2013).
The sub-item "repurchase agreements" includes transactions in "structured repos" (in the sense of transactions realised with the same counterparty) for a nominal value of euro 100 million. For detailed information on the characteristics of the cited transactions and on the relative accounting of the same, refer to the paragraph entitled "Disclosures on 'structured repo' transactions" contained in Part E of these notes to the financial statements.

1.2 Breakdown of item 10 "Due to banks": subordinated loans

At the reporting date, similarly to the end of the previous year, there are no subordinated loans payable to banks.

1.3 Breakdown of item 10 "Due to banks": structured debts

As at 31 December 2014, as in the previous reporting period, there are no debts which did not required the separation of the included derivatives in compliance with IAS 39 (so called structured debts).

1.4 Due to banks subject to micro hedging

At the reporting date, in line with last year, there are no amounts due to banks subject to micro hedging.

1.5 Financial lease payables

(in thousands of euro)	31/12/2014			31/12/2013		
	Minimum payments		Gross investment	Minimum payments		Gross investment
	Principal	Interest		Principal	Interest	
Financial lease payables						
Up to 3 months	120	42	162	116	48	164
From 3 months to 1 year	364	128	492	352	137	489
From 1 year to 5 years	5,009	589	5,598	5,494	828	6,322
Over 5 years	-	-	-	-	-	-
Undefined term	-	-	-	-	-	-
Total	**5,493**	**759**	**6,252**	**5,962**	**1,013**	**6,975**

Section 2 - Due to customers – Item 20

2.1 Due to customers: breakdown by product

(in thousands of euro)	31/12/2014	31/12/2013
1. Current accounts and demand deposits	40,806,181	37,045,267
2. Time deposits	3,731,654	2,619,405
3. Loans	9,109,101	6,576,640
3.1 repurchase agreements	8,672,112	6,489,066
3.2 other	436,989	87,574
4. Payables for commitments to repurchase own equity instruments	-	-
5. Other payables	1,131,778	1,466,883
Total	**54,778,714**	**47,708,195**
Fair Value - Level 1	**-**	**-**
Fair Value - Level 2	**54,773,337**	**47,686,278**
Fair Value - Level 3	**-**	**-**
Total Fair Value	**54,773,337**	**47,686,278**

Over the year, structured repurchase agreements (in the sense of transactions realised with the same counterparty) were concluded for a total nominal value of euro 350 million.

2.2 Breakdown of item 20 “Due to customers”: subordinated loans

At the reporting date there are no material subordinated loans payable to customers.

2.3 Breakdown of item 20 “Due to customers”: structured debts

As at 31 December 2014, as in the previous reporting period, there are no debts which did not required the separation of the included derivatives in compliance with IAS 39 (so called structured debts).

2.4 Due to customers subject to micro hedging

At the reporting date, in line with last year, there are no amounts due to customers subject to micro hedging.

2.5 Financial lease payables

(in thousands of euro)	31/12/2014			31/12/2013		
	Minimum payments		Gross investment	Minimum payments		Gross investment
	Principal	Interest		Principal	Interest	
Financial lease payables						
Up to 3 months	-	-	-	-	-	-
From 3 months to 1 year	-	-	-	-	-	-
From 1 year to 5 years	200	-	200	226	-	226
Over 5 years	-	-	-	-	-	-
Undefined term	-	-	-	-	-	-
Total	**200**	**-**	**200**	**226**	**-**	**226**

Section 3 - Debt securities issued – Item 30

3.1 Debt securities issued: breakdown by product

(in thousands of euro)	Total				Total			
	31/12/2014				31/12/2013			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds:	14,644,594	14,009,555	1,138,015	-	17,812,421	16,658,067	1,577,991	-
1.1 structured	25,011	-	24,687	-	1,062,652	1,037,497	32,639	-
1.2 other	14,619,583	14,009,555	1,113,328	-	16,749,769	15,620,570	1,545,352	-
2. Other securities:	2,064,981	-	2,064,981	-	2,545,679	-	2,545,680	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	2,064,981	-	2,064,981	-	2,545,679	-	2,545,680	-
Total	**16,709,575**	**14,009,555**	**3,202,996**	**-**	**20,358,100**	**16,658,067**	**4,123,671**	**-**

During the year, debt securities issued recorded a decrease: this item fell from euro 20,358.1 million at the end of last year to euro 16,709.6 million as at 31 December 2014. The main reason for the decrease of this aggregate is the gradual redemption of bonds issued by Banco Popolare and by Banca Italease, which have reached their natural maturity.
Securities issued includes the Covered Bonds issued by Banco Popolare, the book value of which amounts to euro 4,248.6 million (against 5,223.1 million as at 31 December 2013). In line with the instructions of the Supervisory Authority, this category includes funding repurchase agreements, amounting to euro 811.6 million, carried out with leading counterparties, whose underlying assets are represented by the Covered Bonds.
The sub-item “Level 1 structured securities” at 31 December 2013 included the book value of the convertible bond issued by Banco Popolare in 2010 net of the optional component separated out and shown under item 160 of Liabilities “Equity instruments”; this bond was redeemed at maturity in March 2014.

3.2 Breakdown of item 30 “Debt securities issued”: subordinated securities

At the reporting date, subordinated debt securities issued amounted to euro 3,302.3 million (euro 3,322 million at the end of 2013).

In 2014, a subordinated loan with a nominal value of euro 50 million, issued by Banco Popolare and a subordinated loan with a nominal value of euro 150 million issued by Banca Italease were wholly redeemed as they had reached their contractual maturity.
Trading in instruments issued by the Bank was extremely limited, following the provisions introduced by Delegated Regulation 241/2014 by the European Commission.
The amount of equity instruments was also unchanged (additional Tier 1 own funds) repurchased but not cancelled, belonging to the Preferred Securities issue of euro 150 million, placed through a foreign SPE and guaranteed by Banca Italease (ISIN: XS0255673070).
As regards the latter issue, as in the past four financial years, again in 2014, the four quarterly coupons were not paid, as the conditions which allow their cancellation, according to the contractual and supervisory regulations, continue to be met.
The rating of Caa3 awarded to said issue by Moody’s was confirmed.
During the year, no eligible subordinated instruments were issued pursuant to EU Regulation 575/2013 (CRR), nor were any operations performed that changed the stock of securities issued.

The characteristics of the subordinated loans included in calculations for regulatory purposes are set forth in Part F – “Information on consolidated equity”.

3.3 Breakdown of item 30 “Debt securities issued”: securities subject to micro hedging

(in thousands of euro)	31/12/2014	31/12/2013
1. Payables subject to micro fair value hedging:	**12,939,339**	**13,242,680**
a) interest rate risk	12,939,339	13,242,680
b) exchange rate risk	-	-
c) multiple risks	-	-
2. Payables subject to micro cash flow hedging:	**-**	**-**
a) interest rate risk	-	-
b) exchange rate risk	-	-
c) other	-	-
Total	**12,939,339**	**13,242,680**

Section 4 - Financial liabilities held for trading – Item 40

4.1 Financial liabilities held for trading: breakdown by product

(in thousands of euro)	31/12/2014					31/12/2013				
	NV	FV L1	FV L2	FV L3	FV*	NV	FV L1	FV L2	FV L3	FV*
A. Cash liabilities										
1. Due to banks	79	213	-	-	213	197	421	-	-	421
2. Due to customers	140	115	-	-	115	3,502	8,757	-	-	8,757
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	**219**	**328**	**-**	**-**	**328**	**3,699**	**9,178**	**-**	**-**	**9,178**
B. Derivatives										
1. Financial Derivatives		176,997	5,871,947	43			156,501	3,893,764	131	
1.1 Trading	X	176,963	5,795,147	43	X	X	156,499	3,746,453	131	X
1.2 Under the fair value option	X	-	63,961	-	X	X	-	130,891	-	X
1.3 Other	X	34	12,839	-	X	X	2	16,420	-	X
2. Credit derivatives		-	10,198	-			-	9,727	-	
2.1 Trading	X	-	10,198	-	X	X	-	9,727	-	X
2.2 Under the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**176,997**	**5,882,145**	**43**	**X**	**X**	**156,501**	**3,903,491**	**131**	**X**
Total (A+B)	**X**	**177,325**	**5,882,145**	**43**	**X**	**X**	**165,679**	**3,903,491**	**131**	**X**

FV = Fair value
FV = Fair value calculated excluding changes in value due to changes in the issuer s creditworthiness with respect to the issue date*
NV = Nominal Value
L1 = Level 1
L2 = Level 2
L3 = Level 3

The item “Cash liabilities – due to customers” exclusively includes technical overdrafts on listed shares issued by other companies, of the subsidiary Aletti & C. Banca di Investimento Mobiliare S.p.A..

Derivatives under fair value option are represented by derivatives that are operationally linked to issues of bonds where the Group implemented the fair value option, in compliance with IAS 39, paragraph 9.

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

At the reporting date, similarly to the end of the previous year, there are no subordinated financial liabilities.

4.3 Breakdown of item 40 "Financial liabilities held for trading": structured debts

As at 31 December 2014, as in the previous reporting period, there are no debts which did not required the separation of the included derivatives in compliance with IAS 39 (so called structured debts).

4.4 Cash financial liabilities (excluding "technical overdrafts") held for trading: annual changes

There are no cash financial liabilities held for trading, as amounts due to banks and customers are fully represented by technical overdrafts.

Section 5 - Financial liabilities designated at fair value through profit and loss – Item 50

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

(in thousands of euro)	31/12/2014					31/12/2013				
	NV	FV			FV*	NV	FV			FV*
		L1	L2	L3			L1	L2	L3	
1. Due to banks	-	-	-	-	-	-	-	-	-	-
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	-	-	-	-	X	-	-	-	-	X
2. Due to customers	-	-	-	-	-	-	-	-	-	-
2.1 Structured	-	-	-	-	X	-	-	-	-	X
2.2 Other	-	-	-	-	X	-	-	-	-	X
3. Debt securities	15,015,301	12,419,882	2,605,297	-	15,055,507	22,041,638	16,804,245	5,147,129	-	22,020,539
3.1 Structured	528	-	1,908	-	X	1,186,709	290	1,251,715	-	X
3.2 Other	15,014,773	12,419,882	2,603,389	-	X	20,854,929	16,803,955	3,895,414	-	X
Total	**15,015,301**	**12,419,882**	**2,605,297**	**-**	**15,055,507**	**22,041,638**	**16,804,245**	**5,147,129**	**-**	**22,020,539**

FV= Fair value
FV = Fair value calculated excluding changes in value due to changes in the issuer s creditworthiness with respect to the issue date.*
NV= Nominal Value
L1= Level 1
L2= Level 2
L3= Level 3

Financial liabilities designated at fair value through profit and loss refer to plain vanilla bond issues which are fixed-rate or linked to equity instruments, exchange rates, inflation rates or interest rate structures, which are hedged using derivative instruments. The use of the fair value option meets the need to cancel or significantly reduce accounting asymmetry, as an alternative to hedge accounting. Otherwise, derivatives would be valued at fair value in any event, while the bond loans would be recognised at amortised cost.
For the scope of securities under the fair value option and the method used to determine fair value and quantify changes in creditworthiness, please refer to "Part A – Accounting policies – A.2 Key financial statement items, 18 – Other information, Methods for determining the fair value of financial instruments".

Effect of the change in the Bank's creditworthiness on financial liabilities designated at fair value through profit and loss

Due to the change in Banco Popolare's creditworthiness with respect to the issue date of the financial liabilities designated at fair value through profit and loss outstanding as at 31 December 2014, the latter as a whole are recorded at a lower value than the issue value, corresponding to euro 30.3 million (compared with euro 69.2 million as at 31 December 2013).
The fall in cumulative gains as at 31 December 2014 compared to the end of the previous year had a negative economic impact of euro 38.8 million (euro -26 million after tax), attributable to the change in creditworthiness.
As creditworthiness is measured on the basis of market quotations of Banco Popolare's Credit Default Swap (CDS) curve, the negative impact on the income statement is mainly due to the improvement of the CDS curve with respect to the end of the previous year.

The following table shows the cumulative effects of the change in the Bank's creditworthiness from the issue date of the loan, recorded in total on the income statement:

Creditworthiness effect *(in thousands of euro)*	31/12/2014	31/12/2013
Cumulative gains / (losses)	30,336	69,165
Profits (losses) on creditworthiness change	(38,828)	(143,154)

It should be noted that the net cumulative gains recorded as at 31 December 2014 due to the changes in the Bank's creditworthiness, which led to a lower book value of liabilities, are expected to have a negative impact on future income statements to the extent that the liabilities will not be repurchased at prices in line with the recorded book value.
For the sake of completeness, note that, based on the supervisory regulations in force, the net cumulative gains attributable to the worsening of creditworthiness do not contribute to the calculation of own funds, as a result of the application of prudent filters. The above gains also constitute non-distributable profits or reserves pursuant to the provisions of art. 6 of Italian Legislative Decree no. 38 of 28 February 2005.

5.2 Breakdown of item 50 "Financial liabilities designated at fair value through profit and loss": subordinated liabilities

As at 31 December 2014 financial liabilities designated at fair value through profit and loss with subordination clauses amounted to euro 228.8 million, compared with euro 222.1 million in the previous year.

The characteristics of the subordinated loans included in calculations for regulatory purposes are set forth in Part F – "Information on consolidated equity".

5.3 Financial liabilities designated at fair value through profit and loss: annual changes

(in thousands of euro)	Due to banks	Due to customers	Debt securities issued	Total
A. Opening balance	**-**	**-**	**21,951,374**	**21,951,374**
B. Increases:	**-**	**-**	**2,814,666**	**2,814,666**
B.1 Issues	-	-	2,300,527	2,300,527
B.2 Sales	-	-	-	-
B.3 Increases in fair value	-	-	169,608	169,608
B.4 Other increases	-	-	344,531	344,531
C. Decreases	**-**	**-**	**(9,740,861)**	**(9,740,861)**
C.1 Purchases	-	-	(1,307,570)	(1,307,570)
C.2 Redemptions	-	-	(7,769,706)	(7,769,706)
C.3 Decreases in fair value	-	-	(54,928)	(54,928)
C.4 Other changes	-	-	(608,657)	(608,657)
D. Closing balance	**-**	**-**	**15,025,179**	**15,025,179**

Section 6 - Hedging derivatives – Item 60

6.1 Hedging derivatives: breakdown by hedge type and level

(in thousands of euro)	Fair value 31/12/2014			NV 31/12/2014	Fair value 31/12/2013			NV 31/12/2013
	L1	L2	L3		L1	L2	L3	
A) Financial derivatives	**-**	**590,722**	**-**	**4,698,899**	**-**	**447,306**	**-**	**5,947,626**
1. Fair Value	-	590,722	-	4,698,899	-	447,306	-	5,947,626
2. Cash Flows	-	-	-	-	-	-	-	-
3. Foreign investments	-	-	-	-	-	-	-	-
B) Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Fair Value	-	-	-	-	-	-	-	-
2. Cash Flows	-	-	-	-	-	-	-	-
Total	**-**	**590,722**	**-**	**4,698,899**	**-**	**447,306**	**-**	**5,947,626**

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

6.2 Hedging derivatives: breakdown by portfolio hedged and hedge type

(in thousands of euro)	Fair Value						Cash Flows		Foreign investments
	Micro					Macro	Micro	Macro	
	Interest rate risk	Exchange risk	Credit risk	Price risk	Multiple risks				
1. Financial assets available for sale	431,499	-	-	-	-	X	-	X	X
2. Loans	8,269	-	-	X	-	X	-	X	X
3. Investments held to maturity	X	-	-	X	-	X	-	X	X
4. Portfolio	X	X	X	X	X	103,464	X	-	X
5. Other loans	-	-	-	-	-	X	-	X	-
Total Assets	**439,768**	**-**	**-**	**-**	**-**	**103,464**	**-**	**-**	**-**
1. Financial liabilities	41,212	-	-	X	-	X	-	X	X
2. Portfolio	X	X	X	X	X	-	X	6,278	X
Total Liabilities	**41,212**	**-**	**-**	**X**	**-**	**-**	**-**	**6,278**	**X**
1. Expected transactions	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	-	X	-	-

Section 7 - Fair value change of financial liabilities in macro fair value hedge portfolios – Item 70

7.1 Fair value change of hedged financial liabilities

(in thousands of euro)	31/12/2014	31/12/2013
1. Positive change in financial liabilities	943	331
2. Negative change in financial liabilities	-	-
Total	**943**	**331**

7.2 Liabilities subject to macro interest rate risk hedging: breakdown

(in thousands of euro)	31/12/2014	31/12/2013
1. Due to customers	-	-
2. Debt securities issued	-	-
3. Subordinated liabilities	-	-
4. Financial liabilities	-	-
5. Portfolio	115,000	115,000
6. Due to banks	-	-
Total	**115,000**	**115,000**

Section 8 - Tax liabilities – Item 80

This section was commented on in Section 14 of statement of financial position assets in Part B – Information on the statement of financial position, of these notes to the financial statements.

Section 9 - Liabilities associated with non-current assets held for sale and discontinued operations – Item 90

The information in this section was shown in Section 15 of statement of financial position assets in Part B – Information on the statement of financial position, of these notes to the financial statements.

Section 10 - Other liabilities – Item 100

10.1 Other liabilities: breakdown

(in thousands of euro)	31/12/2014	31/12/2013
Due to Tax Authority (not classifiable under tax liabilities)	160,892	160,630
Due to personnel	108,818	78,810
Due to Social Security	5,538	8,201
Trade payables	124,430	151,056
Payables for sundry items due to the Tax Collection Service	5	22,308
Items in transit between branches not yet allocated to destination accounts	19,485	32,385
Amounts available to be paid to third parties	216,033	191,199
Bank transfers to be cleared	449,637	325,872
Items relating to securities transactions	38,528	208,489
Other items being processed	267,204	315,905
Adjustments for illiquid items in portfolio	620,022	857,924
Accrued liabilities and deferred income not attributable to a specific item	25,501	32,314
Other items	751,110	485,592
Total	**2,787,203**	**2,870,685**

The item “Due to Tax Authority (not classifiable under tax liabilities)” includes net tax liabilities such as VAT payable, withholdings on interest expense and income from employed work and similar, withholdings and other tax items not recognised under item 80 “Tax liabilities”.
The item “Due to personnel” mainly comprises charges relating to holidays accrued and not taken, to hours banked and not used and relative mandatory social security contributions.
The item “Bank transfers to be cleared” mainly regards UNIPAY bank transfers to be credited.
“Items relating to securities transactions” is comprised of securities cash purchase and sale transactions made between the end of one year and the beginning of the next.
“Adjustments for illiquid items in portfolio” includes mismatches of bills in the portfolio (“Portfolio of minority interests” and “Own portfolio”).
“Other items” is mainly comprised of the following sub-items: “Hedging of risks for guarantees given and commitments” for euro 106.8 million and “Other items” of euro 644.3 million. This latter category includes liabilities relating to electronic money relating to prepaid cards issued by Banco Popolare amounting to euro 87.5 million, payments relating to the Direct Debit SEPA circuit of euro 193.4 million, collections from F24 proxies and former S.A.C. of around euro 63 million, well as the effects of the line-by-line consolidation of several mutual funds managed by Aletti Gestielle, totalling euro 232.7 million. Specifically, these are funds in which the Group holds a majority of assets, for

which the net asset value (NAV) of the funds was consolidated, recognising the NAV not attributable to the Group under other liabilities. This share refers to the funds Gestielle Hedge Low Volatility (79.2 million), Gestielle Hedge Multi Strategy (12 million), Gestielle Hedge Opportunity (8.9 million), Gestielle Hedge High Volatility (6.3 million) and Italfortune International Fund Sicav (8.2 million).

Section 11 - Employee termination indemnities – Item 110

11.1 Employee termination indemnities: annual changes

(in thousands of euro)	2014	2013
A. Opening balance	**363,512**	**364,699**
B. Increases	**44,996**	**30,276**
B.1 Provisions for the year	44,765	29,123
B.2 Other increases	231	1,153
C. Decreases	**(30,661)**	**(31,463)**
C.1 Benefits paid	(27,316)	(29,506)
C.2 Other decreases	(3,345)	(1,957)
D. Closing balance	**377,847**	**363,512**

Item B.1 “Provisions for the year” includes charges of euro 10.9 million recorded under item 180 a) “administrative expenses: personnel expenses” on the income statement, while the remainder includes net actuarial losses, amounting to euro 33.8 million, charged as a balancing entry to shareholders’ equity, net of the relative tax, and reported in the statement of comprehensive income for the year.

11.2 Other information

As described in “Part A – Accounting policies”, following the reform of supplementary pension plans, employee termination indemnities in this financial statement item (for companies with an average of at least 50 employees during 2006, which represents almost all Group companies) refers only to the portion accrued up to 31 December 2006.
For these companies, therefore, the provisions do not include the portions which, as a result of the reform, have been paid to supplementary pension plans or to the Italian Social Security Institution (INPS) Treasury Fund. The portions of employee termination indemnities accrued from 1 January 2007 are classified as “defined-contribution plans” and are recognised under personnel expenses in the sub-item “employee termination indemnities”, based on the contributions due, without applying actuarial calculation methods, as an offset to the recognition of “Other liabilities” on the statement of financial position, or to an outflow of cash or cash equivalents.

Main actuarial assumptions

The actuarial valuation of employee termination indemnities was carried out by an independent external actuary, based on the "accrued benefits" method, using the "Projected Unit Credit" criterion as per IAS 19. The following table shows the main demographic, economic and financial assumptions used for the valuation as at 31 December 2014 compared to that as at 31 December 2013.

Main actuarial assumptions for the valuation of employee termination indemnities	
Demographic assumptions (2014-2013):	
Employee mortality rate	RG48 Survival Table used by the State General Accounting Office
Frequency and amount of advances on employee termination indemnities	Determined based on historical experience according to seniority of services: with reference to advances following the first, it has been established that 10% of employees who requested the first advance also request a second, 6 years from the first; as for the amount of advances, an amount of 70% has been assumed for the first and 45% for the second request
Frequency of turnover	Determined based on historical experience according to age and gender
Probability of retiring	On reaching the first retirement requirement according to the provisions of General Mandatory Insurance
Financial assumptions (2014-2013):	
Yearly discounting rate	**31/12/2014:** 0.91% equal to the Iboxx Corporate AA 7-10 Y rate, with duration equal to the average duration of all benefits paid to employees of companies belonging to the Group (social security, employee termination indemnities and seniority bonuses), corresponding to 9.5 years. **31/12/2013:** 2.50% equal to the Iboxx Corporate AA 7-10 Y rate, with duration equal to the average duration of all benefits paid to employees of companies belonging to the Group (social security, employee termination indemnities and seniority bonuses), corresponding to 9 years.
Annual inflation rate	**31/12/2014:** 0.60% for 2015, 1.20% for 2016, 1.50% for 2017 - 2018, 2% from 2019 on. The resulting annual revaluation rates for employee termination indemnities will be 75% of the respective inflation rates increased by 1.5 percentage points (1.95% for 2015, 2.4% for 2016, 2.625% for 2017 - 2018 and 3% from 2019 onwards) **31/12/2013:** 2%. The resulting annual revaluation rate for employee termination indemnities is 3%
Substitute tax rate	**31/12/2014:** 17% on the basis of Italian Law no. 190, paragraph 623 of 23 December 2014 **31/12/2013:** 11%

Actuarial gains/losses recognised in the statement of comprehensive income

As illustrated in paragraph 11.1 above, the changes to certain actuarial assumptions for the valuation of employee termination indemnities as at 31 December 2014, with respect to the previous year, led to an overall increase in the fund of euro 33.8 million, corresponding to the sum of:

- net actuarial gains of euro 4.8 million, due to past experience, namely the differences between current demographic actuarial assumptions and what actually occurred;
- net actuarial losses of euro 38.6 million, due to changes in financial assumptions. More specifically, this breaks down into a loss of euro 47.3 million due to the change in the discounting rate, a gain of euro 3.5 million due to the change in the inflation rate and a gain of euro 5.2 million due to the change in the substitute tax rate.

As regards the discounting rate, which is one of the most important assumptions used in measuring obligations related to defined benefit plans, we referred to the yields of companies with "AA" ratings, considered the best indication of yields of high quality companies. In fact, the reference accounting standard, IAS 19, states that this rate must reflect the value over time of cash, but not the entity's specific credit risk, nor actuarial risk or investment risk, or even the risk that, in the future, the real figures may differ to the actuarial assumptions made. The standard also establishes that this rate must be calculated with reference to market returns as at the closing date of the year, of stock of leading companies in the country in which the entity operates (so-called "High Quality Corporate Bond Yield") and, alternatively, in the absence of a market for said securities, with reference to the returns of the government bonds market. More specifically, we referred to the "Iboxx Corporate AA" index, provided by info provider Markit, with a reference time horizon of 7-10 years, in line with the average duration of defined benefit plans. The reduction of the discounting rate by 159 basis points (0.91% as at 31 December 2014 against 2.5% as at 31 December 2013) is solely due to market changes, insofar as the reference parameter as at 31 December 2014 is the same as that used in the previous year.
As regards the rate of inflation, note that the change in the same was taken from the "2014 Economy and Finance Document - September 2014 Update Section II-Tab II.1 issued by the MEF and from "Medium-long term trends of the pension and welfare-healthcare system - Report no. 15" published by the State General Accounting Office, in accordance with the guidelines for actuarial valuations of pension funds dictated by the Association of Actuaries.
Lastly, note that liabilities for obligations in favour of employees fell by euro 5.2 million as at 31 December 2014, following the Italian stability law issued in 2014, which changed the substitute tax rate for the valuation of employee termination indemnities, which from 1 January 2015 was 17% compared to the previous rate of 11%. Pursuant to that envisaged in paragraph 76 of IAS 19, the rise in substitute tax has been classified under financial assumptions and the

resulting gains have been recorded as a balancing entry in shareholders' equity.

Sensitivity analysis

As required by IAS 19, we conducted a sensitivity analysis of the obligation to the employee termination indemnity with respect to the actuarial assumption retained to be most significant, with a view to showing how the financial statement liability would change as a result of reasonably possible fluctuations of each of the actuarial assumptions. More specifically, the following table shows the changes in the employee termination indemnity, in the event that the discounting and inflation rates rise or fall by 50 basis points, as well as assuming a higher turnover rate, corresponding to 1% of the parameters actually used.

(in thousands of euro)	Change in TFR (employee termination indemnities) in absolute terms (*)	Change in TFR (employee termination indemnities) in percentage terms
Change in actuarial assumptions:		
- Discounting rate:		
+0.5%	- 14,938	-3.96%
-0.5%	+15,932	+4.23%
- Inflation rate:		
+0.5%	+ 9,665	+2.56%
-0.5%	- 9,348	-2.48%
- Turnover rate:		
+1%	- 2,731	-0.72%

(*) the (+) sign indicates an increase of the indemnity, the (-) sign indicates a decrease of the indemnity.

Section 12 - Provisions for risks and charges – Item 120

12.1 Provisions for risks and charges: breakdown

(in thousands of euro)	31/12/2014	31/12/2013
1. Company retirement plans	348,170	312,473
2. Other provisions for risks and charges	555,442	611,632
2.1 legal disputes	168,170	162,225
2.2 personnel expenses	295,401	233,444
2.3 other	91,871	215,963
of which: for tax disputes	*30,262*	*134,692*
Total	**903,612**	**924,105**

Company retirement plans

Retirement plans are represented by:

- defined benefit plans, with a value of euro 95.4 million, details of which are contained in paragraph 12.3 below;
- defined contribution plans, with a value of euro 252.8 million, related to internal provisions.

As regards defined contribution plans, it should be noted that the Group's only obligation is to make payments into a defined contribution plan on a contractual basis; the Group is not exposed to any other risk, even if the plan has insufficient assets to pay the benefits to employees. In line with the provisions of Circular no. 262, the liabilities recognised under this item refer only to those plans classified as internal, pursuant to social security law, namely to plans established by the individual company through the formation of a separate and autonomous asset pool, with the effects set forth in art. 2117 of the Italian Civil Code. As a balancing entry to said obligation, the corresponding assets included in the plan are shown under "Other assets", and are addressed exclusively to meeting the indemnities of the plan.

In compliance with the provisions of Circular no. 262, the financial statement attachments show the statement of "internal plans".

Provisions for risks and charges - legal disputes

Other provisions for risks and charges include sub-item 2.1 "*legal disputes*" which refers to provisions for clawback actions of euro 18.7 million (euro 29.6 million as at 31 December 2013) and those for other pending proceedings for the remainder, corresponding to euro 149.5 million (euro 132.6 million as at 31 December 2013).

Risks related to existing legal disputes

The Group operates in a legal and regulatory scenario, which exposes it to a wide variety of legal proceedings, relating, for example, to the conditions applied to its customers, to the nature and characteristics of the products and financial services it sells, to administrative irregularities, to clawback actions for bankruptcies, and to labour law disputes. The relative risks undergo a specific analysis by the Group, with a view to make specific allocations to provisions for risks and charges, if the disbursement is retained likely, on the basis of the information available on each occasion. As indicated in "Part A – Accounting policies" of these notes to the financial statements, the complexity of the situations and of corporate operations which are behind disputes imply considerable elements of subjective judgment, which may regard both what may be due and whether it is due and how much time will elapse before liabilities materialise.
The following paragraphs illustrate the main legal disputes in progress at the end date of the financial statements, characterised by highly complex profiles and/or significant potential outlay, merely for the purpose of illustrating the maximum risk exposure, regardless of the Group's opinion as the likelihood of losing the dispute. For many of these proceedings, the Group actually believes that the risk profiles of the same are limited and therefore, as they regard possible liabilities, it has not made any allocation to provisions; with regard to liabilities considered probable, a disclosure of said judgment and on the amount of the allocation made is provided only if this will not prejudice the outcome of the dispute with the counterparty, in court or as regards the settlement. In this regard, we must emphasise that, although the estimates made by the Group are retained reliable and compliant with the dictates of the reference accounting standards, we cannot however exclude that the costs to settle disputes may not be significantly higher than the allocations made.

Area S.p.A. dispute
In July and September 2009, Banco Popolare (and others) were summoned, by means of separate actions brought by two separate groups of former shareholders of Area S.p.A..
In the first proceedings, 42 plaintiffs and 39 other parties requested that the defendants be ordered to pay compensation of euro 19.11 million, on the assumption of an alleged agreement between the former Banca Popolare di Lodi (BPL) S.c.a.r.l. and Banca Intesa S.p.A., which would have led among other things to the exclusion of Area S.p.A.'s minority shareholders, without the payment which would have been due on exercise of the right to withdraw as a consequence of the merger of Area S.p.A. in Bipielle Investimenti S.p.A..
In the second proceedings, 76 plaintiffs requested the sentencing of Banco Popolare, the former BPL S.p.A. and its former managing director, Mr. Gianpiero Fiorani, subject to ascertaining the alleged criminal liability of the latter and liability pursuant to Article 5 of Italian Legislative Decree No. 231/2001 of the two banks, to compensate the alleged damages of euro 25.2 million, inferring the same profiles as the first proceedings.
On 20 January 2010, Banca Intesa San Paolo summoned BPL and Mr. Fiorani in proceedings filed by 9 plaintiffs to extend the sentence to the Bank. In these proceedings, an order to pay alleged damages of euro 1.7 million was requested for the same reasons as the previous two cases.
The three proceedings were concluded, with an order of the Milan Court, which in judgements dated 8-9 May 2013, totally rejected the demands made by the plaintiffs, ordering the same to pay legal expenses; the rulings relating to the first two proceedings have been appealed against by several of the plaintiffs, while the ruling of the third proceeding has been final.
Based on external legal advice, Banco Popolare believes the adversary claims are groundless.

Raffaele Viscardi S.r.l.
The law suit, notified on 30 April 2009 and which has a petitum of around euro 46 million, concerns the operations of a branch in Salerno relating to the granting of agricultural loans to the plaintiff company, which alleges that it was led to subscribe Banco Popolare bonds to guarantee the sums disbursed and claims damages to its image due to reporting in the Italian Central Credit Register.
Based on external legal advice, Banco Popolare believes the adversary claims are groundless.

Pandette S.r.l.
In a notice dated 13 March 2014, Banco Popolare was summoned to appear before the court by Pandette S.r.l.. The dispute originates from a put and call option contract for no. 25,300,000 shares of RCS Mediagroup S.p.A., signed by the former Banca Popolare Italiana and Pandette in 2006, and amended at the beginning of 2009 with the last exercise period set as February 2014. Following two different extraordinary transactions on the share capital of the RCS Mediagroup in 2007 and 2013, the number of shares covered by the option contract fell to 3,870,900.
In the summons, Pandette is requesting confirmation that (i) the price for the transfer of the RCS Shares covered by the Put Option is euro 31,418,985.27 against the claim of Banco of euro 113,473,670.55, (ii) the cost of the service due from Pandette for the transfer of the RCS shares is excessively high and (iii) Banco Popolare and Pandette have an obligation to renegotiate the terms of the contract.

Also based on the firm opinions of its legal counsel, Banco Popolare believes that the adversary claims are groundless and has taken measures to safeguard against further credit claims.

Gruppo Perna-IT Holding Spa in Extraordinary Receivership-PA Investments in Extraordinary Receivership

In a notice dated 1 July 2014, IT Holding Spa, in extraordinary receivership, summoned Banco Popolare to appear before the court, as well as the former board directors and statutory auditors of the same IT Holding, the former board directors of the parent company PA Investments S.A. and the independent auditors KPMG and Reconta Ernst & Young. In the Proceedings, Banco (the incorporating company of Efibanca S.p.A.) is accused of having planned and implemented, in collaboration with the board directors of IT Holding and of PA Investments, a series of allegedly prejudicial operations, related to the acquisition of Gianfranco Ferrè S.p.A., which is alleged to have contributed to the deterioration of the company's financial situation, and is requested to be ordered to pay compensation for damages of not less than euro 144 million, together with the other accused parties.
On the basis of substantially similar arguments, in a notice dated 29 July 2014, PA Investments, in extraordinary receivership, summoned Banco Popolare to appear before the court, together with the former board directors of the same PA Investments, requesting Banco to be ordered to pay compensation for damages of not less than euro 128 million, together with the other accused parties.
After an overall assessment of the agreements and the documents submitted to the court, Banco Popolare believes it has a valid case to argue against the accusations made.

Maflow SpA in Extraordinary Receivership

In a notice dated 14 April 2014, Maflow S.p.A., in extraordinary receivership, summoned Banco Popolare before the court, requesting: (i) a court order, together with others, to pay compensation for damages of euro 199 million, corresponding to the financial difficulties of Maflow, as calculated by the counterparty; (ii) a court order to return the amount allegedly received by Banco unlawfully from loans granted to Maflow from establishment to default. The above is all based on the assumption that Banco played a dominant role by influencing the financial management of Maflow.
Banco Popolare believes that these requests are entirely spurious, based on a reconstruction of the facts that is as far from reality as any proper legal standing.

Potenza Giovanni

This dispute stems from relations between the former ICCRI and a company called CRIA and regards the renovation of a large building complex in Milan. In 1984, ICCRI granted various credit facilities, all secured with mortgages. The shareholder of CRIA at the time was Giovanni Potenza, who, due to economic difficulties being experienced by the company, agreed with ICCRI to transfer 87% of the company's shareholding to IMMOCRI (ICCRI's real estate company) by means of a shareholder's agreement.
Following the sale of the real estate assets of CRIA to the Norman Group, Mr. Giovanni Potenza filed, starting on 22 November 2001, a series of lawsuits to demonstrate the damages incurred by the sale of said real estate assets by ICCRI and IMMOCRI at a price he retained as inadequate, as well as to obtain the annulment of the settlement agreements between the Norman Group and ICCRI and of the relative contract of sale of the assets.
Pending the outcome of the civil court of first instance, the plaintiff also initiated criminal proceedings accusing officials of ICCRI and associated companies of extortion. The accusations were then dismissed by the Public Prosecutor's Office.
An appeal has been made against the sentence of the court of first instance in 2009, which ruled in favour of the Bank and ordered the plaintiff to pay legal expenses.
Based on external legal advice, Banco Popolare believes it is likely that the ruling of the first instance will be confirmed.

Administrative Proceedings

On 17 July 2014, Banco Popolare received a formal written notice, insofar as jointly and severally obliged with those potentially responsible for the infringement, regarding the alleged infringement of anti-money laundering legislation (Italian legislative Decree no. 231/2007). The accusation regards the failure to report a transaction retained as suspicious, following inspections conducted by the Finance Police; the matter in question dates back to 2009 and regards the paying in of 41 non-transferrable banker's drafts for a total amount of euro 10,052,000.
With the support of various external legal advisors, Banca Popolare has made the appropriate risk assessments.

Ittierre S.p.A.

The company was placed under extraordinary receivership. By means of a summons, both the former BPL and the former Banca Popolare di Novara S.p.A. ("BPN") were requested to return, pursuant to art. 67 of the Finance Law, the total sum of euro 16.6 million for the principal creditor and euro 4.9 million for the secondary creditor. An objection was raised as to the erroneous duplication of the request, which in reality referred to the same current account migrated from BPL to BPN following the swap of branches. Furthermore, the grounds of the request were challenged, due to the imprecision of the same insofar as the counterparty had not specified which remittances were being disputed. As regards the former BPN dispute, the judge is currently being replaced, as regards the other, a court-appointed expert witness in accounting has been admitted even though the judge had previously denied the petition of the first instance.

Send S.r.l.
The company went bankrupt in 2009. The receivable results from a pool operation of euro 49.5 million with the Unicredit head office, addressed to the construction of a shopping centre in Vicenza and secured by a mortgage at the same level on the property complex funded. Banco's share was 28.80%. The pool receivables (and therefore also Banco's) have been regularly admitted to the bankruptcy proceedings due to the mortgage privilege.
Recently the bankruptcy receiver filed a claim for damages against the Pool Banks for the amount of the loan, the first hearing will be in 2015.

Criminal proceeding relating to Banca Italease
In the ruling of the court of first instance on 27 February 2014, Banca Italease was found guilty in its capacity as liable administratively as per Italian Legislative Decree No. 231/2001 and as the civilly liable party in the criminal proceedings relating to the former members of the Executive Committee for the crime of false company communication regarding the approval of the 2008 half-yearly financial statements of the Bank. The ruling ordered the payment of a fine of euro 450 thousand, the confiscation of the sum of around euro 59 million and compensation of damages to be paid to several of the civil parties for a total of around euro 1.8 million. Banca Italease appealed against the ruling of the court of first instance insofar as it believes it has valid arguments to refute that established in the court of first instance.

Civil proceedings relating to Banca Italease

Kevios
By means of summons served on 18 December 2009, Kevios S.p.A. summoned Banca Italease before the Milan Court, so as to obtain the upholding of the request for compensation of damages of around euro 65 million, founded essentially on the alleged existence of numerous cases represented therein: abuse of economic dependence, abuse of the law and contractual breach, primarily attributable to the Bank.
In a ruling dated 26 June 2013, the Court of Milan rejected the requests of the plaintiff company as groundless, ordering the same to pay the legal expenses of the Bank. An appeal was submitted against the first instance sentence.
Based on external legal advice, Banca Italease believes it is likely that the favourable ruling of the first instance will be confirmed.

Bankruptcy of Dimafin S.p.A.
The insolvent company Dimafin has asked the Court of Rome to declare the null and void and/or to revoke the "termination agreement by mutual consent" signed on 16 June 2010 by Dimafin, Mercantile Leasing (incorporated into Banca Italease) and Release related to the finance lease contract for the property located in Palazzo Sturzo in Rome.
By virtue of the annulment request, the Judge has been asked to declare that the original finance lease contract is fully in force and effective for the parties, therefore condemning the defendants to immediately make the property available again or, if this is not possible, to pay a corresponding amount in cash, as well as return all instalments of the commercial lease received or to be received as of 1 July 2010.
In a ruling dated 22 April 2013, the Court of Rome rejected the requests made by the Insolvent company, ordering it to pay legal expenses. An appeal was submitted against the first instance sentence.
Based on external legal advice, Banca Italease believes that the dispute has a low risk profile.

With regard to the criminal proceedings for fraudulent bankruptcy and preferential bankruptcy relating to the default of the Di Mario group, on 20 June 2012, Banca Italease received a seizure notice for euro 7.9 million, corresponding to the sum that is presumed to be preferential or groundless with relation to a mortgage loan granted in 2009 by Banca Italease, in a pool with Unicredit and Cassa di Risparmio di Bolzano, to Raetia SGR, the contract of which was assigned to Release.
Also in this case, our legal counsel believes that the accusations made against the defendants are groundless and, therefore, the Bank has no liability under art. 2049 of the Italian civil code.

Furthermore, between the end of December 2013 and the beginning of January 2014, the following notices were served:

- four summons to Banca Italease from the insolvent companies of the Dimafin Group requesting compensation of damages and/or clawback actions for bankruptcy totalling euro 98 million jointly with other banks and companies that are not part of the Banco Popolare Group;
- two warning notices to Banca Italease and Release from Raetia and from the Cassa di Risparmio di Bolzano regarding requests for compensation of damages. Raetia's claim, addressed to 11 counterparties not part of the Banco Popolare Group, held jointly responsible, amounts to a total of euro 95 million, that of the Cassa di Risparmio di Bolzano addressed to 11 counterparties not part of the Banco Popolare Group, held jointly responsible, amounts to a total of euro 17.2 million. At present, the share of the petitum pertaining to Group companies has not been defined and no judgement has been passed on the matter.

On 10 November 2014, Banca Italease and other parties received a further summons relating to three separate financial lease agreements stipulated with Di Mario Group companies (Dimafin Spa and Dimatour). In this case, the plaintiff company, Bankruptcy of Diemme Costruzioni Spa, is requesting the annulment of the purchase agreement regarding a group of properties located in Pomezia, as well as the invalidity of the leasing agreements related to the same, and therefore the repayment of the total amount of euro 21.2 million by Banca Italease. The first hearing has been postponed to 25 June 2015.

Given the complexity of the dispute, which incidentally also involves other banks and companies that are not part of the Banco Popolare Group, based on the opinion of external legal counsel, the risk of losing the above-indicated disputes should be classified as possible.

Bankruptcy of S.E.R.
The insolvent company S.E.R. summoned a series of entities including Mercantile Leasing (incorporated into Banca Italease) seeking to obtain the declaration of invalidity, and, therefore, the unenforceability against the bankruptcy estate, of the transfer deed regarding the property named “Palazzo Sturzo”, entered into between S.E.R., at the time not subject to bankruptcy proceedings, and the Partito Popolare, as well as the transfer deeds which followed, including that which was entered into between Mercantile Leasing, Dima Costruzioni and Dimafin (value of the property around euro 50 million).
The Court of Appeal in Rome, in a ruling dated 6 September 2013, confirming the ruling of the court of first instance, fully rejected the bankruptcy application, ordering it to pay legal expenses. An appeal has been submitted to the Supreme Court.
Based on external legal advice, and also on the outcome of the rulings of the court of first and second instance, Banca Italease believes that the dispute has a low risk profile.

Provisions for risks and charges – personnel expenses

Sub-item “2.2 personnel expenses” amounts to a total of euro 295.4 million and is mostly comprised of Solidarity Funds allocated over the years, which has a total residual amount, to date unused, of around euro 243 million, of which euro 25 million to loyalty bonuses, euro 5.5 million to managerial retention expenses, euro 8.1 million to leaving incentives still not utilised and a further euro 2.5 million to expenses for the renewal of the company agreement.

Provisions for risks and charges – other

Sub-item “2.3 Other” amounts to a total of euro 91.9 million (euro 216 million as at 31 December 2013); the fall with respect to last year is due to the settlement of several disputes with the Tax Authority, the payments for which, made during the year, were substantially in line with the amount of the relative provisions in place as at 31 December 2013.

As at 31 December 2014, this item was mostly comprised of provisions for the probable payment of:
- disputes with the Tax Authority (euro 30.3 million);
- the expenses resulting from procedures to wind up equity investments (euro 6.6 million);
- the expenses that are expected to be incurred due to the decision to close several branches as part of the plan to reorganise the network (euro 3.8 million);
- the guarantee granted to Generali Immobiliare Italia SGR, as illustrated below.

Generali Immobiliare Italia SGR
On 5 November 2013, Banco Popolare had received a letter from Generali Immobiliare Italia SGR, the manager of the closed-end mutual property investment fund reserved to qualified investors called the “Eracle Fund”, regarding the completion of a tax assessment of the same. The management company had stated that the inspectors had claimed the alleged failure to apply VAT to the lease agreements in place between the Mutual Investment Fund “Eracle” and BP Property Management for tax years 2009 until 25 June 2012. The VAT claim amounted to a total of euro 35.1 million. In its letter, the management company advised that indemnity would have been sought from the Banco Popolare Group for any liability incurred by the Fund and by the management company itself. The letter from Generali Immobiliare Italia SGR is based on the guarantees made by Banco Popolare to the above-mentioned management company at the time of the assignment of the properties owned by the subsidiary Immobiliare BP s.r.l to the above Eracle Fund and the subsequent signature of the lease agreements between the Fund and the subsidiary BP Property Management. In 2014, the dispute with the Tax Authority - Regional Headquarters of Friuli Venezia Giulia, in an agreement between Generali Immobiliare Italia SGR and Banco Popolare, also representing its subsidiaries, was settled. The settlement establishes that Generali Immobiliare Italia SGR pays the VAT due for tax years 2010, 2011 and 2012 on behalf of the Eracle Fund amounting to euro 24.7 million in total, plus interest of euro 2.9 million. By virtue of the guarantee given by Banco Popolare, in 2015, Generali Immobiliare Italia SGR will exercise its right to reclaim the IVA from BP Property Management with relation to the amount of euro 24.7 million, and to enforce the guarantee made by Immobiliare BP (now incorporated into Bipielle Real Estate S.p.A.) to obtain indemnity for the amount paid in interest. As BP Property Management is a consortium, it will in turn organise for the VAT claimed to be recharged to the shareholders to which it provides services, including the Parent Company.
From last year, allocations for the same amount have been made to other provisions for risks and charges to cover the liabilities that Group companies will be exposed to.

The following paragraphs illustrate the main tax disputes in progress as at 31 December 2014, which have led to the recognition of allocations to provisions for risks and charges of euro 30.1 million, in addition to the amount of euro 7.5 million already deducted from the income statement in previous years. Note that the disclosure on the opinion as to whether individual disputes are like to be lost and/or as to the amount of the allocation has been omitted as retained prejudicial to the outcome of the dispute, as permitted by accounting standard IAS 37.

Risks associated with current disputes with the Tax Authority

Banco Popolare, the companies that merged to form the same, the incorporated subsidiary companies and the subsidiary companies underwent various inspections by the Tax Authority in 2014 and in previous years. These activities concerned the taxable income declared for the purpose of income tax, VAT, registration tax, and more generally the manner in which the tax legislation in force at the time was applied. As a consequence of said inspections, the Banco Popolare Group is involved in numerous legal proceedings.

The potential liabilities relating to tax disputes underway that involve Banco Popolare and its subsidiaries amounted as at 31 December 2014 to euro 483.7 million, of which euro 394.9 million relate to notices of assessment, tax demands and payment notices and euro 88.8 million relate to formal reports on findings served. In this regard, note that the estimate of said potential liabilities relating to the notices of assessment does not usually consider any interest, while the estimate of potential liabilities relating to formal reports on findings does not usually include interest or fines, insofar as they are not indicated in the latter document.

As at 31 December 2013, the claims of the Tax Authority resulting from the notices of assessment and the formal reports on findings served amounted to euro 478.3 million.

<u>Developments in 2014</u>

The following paragraphs provide an illustration of the disputes that arose during the year.

New disputes that emerged in the period and/or developments of existing disputes following formal reports on findings served
During the period, potential liabilities rose by euro 130.5 million.

The main increase, corresponding to euro 89.5 million relates to new formal reports on findings, notices of assessment and notifications of fines. The main potential liabilities estimated on the basis of the claims made by the Tax Authority relate to:

- the receipt on 25 June 2014 of a new formal report on findings on conclusion of the inspection relating to tax year 2010, launched on 21 June 2013, and subsequently extended to tax years 2009, 2011 and 2012. The claim contained in the formal report on findings amounts to a total of euro 20.3 million (euro 4.8 million of which relates to 2009) and mostly regards the alleged failure to apply (and consequently to pay) withholding tax at source, as set forth in art. 26, paragraph 5 of Italian Presidential Decree 600, on the interest due from the former Banca Popolare di Lodi spa to foreign SPEs resident in the American State of Delaware. Note in this regard that the use of foreign SPEs represented, prior to the "reform of corporate law" implemented by Italian Legislative Decree no. 6 of 17 January 2003, the only way that banks could issue so-called preference shares, namely the hybrid equity instruments, which Banca Popolare Italiana actually issued in 2000 and 2005 with the specific authorisation of the Bank of Italy to strengthen its equity position. On 22 December 2014, the Tax Authority followed up on the above-cited formal report on findings by issuing a notice of assessment for 2009 only in which, in addition to confirming the claim for the payment of withholding tax of euro 4.8 million, also establishes a fine of euro 10.6 million. The Tax Authority's claims, therefore, currently provisionally amount to a total of euro 30.9 million. Note that the contention originates from the mere reclassification of the legal nature of the relations between the banks and the foreign special purpose entities from deposits in funding. The claims made can also be classified as part of a series of assessments that the Tax Authority is conducting against the banking system as a whole, given that all of the banks that issued preference shares before the reform of corporate law, adopted the same frameworks and the same interpretations. The decisions made by Tax Commissions on appeals submitted by other Italian banks indicate rulings that are constantly in favour of the Tax Authority in terms of the fact that the withholding taxes are due. However, the same rulings have always excluded the application of fines.
- the notices of assessment relating to IRES and IRAP taxes for 2009 served to Banco Popolare (as incorporating company of the former Banca Popolare di Lodi spa, of the former Credito Bergamasco spa and of the former Efibanca spa) at the end of the fourth quarter. The claim amounts to a total of euro 58.4 million. The findings originate from the alleged incorrect application of the reference accounting standards regarding the valuation of financial liabilities designated at fair value (the bond issues made by the banks and placed with retail customers for which the fair value option was exercised at the time of the issue). More specifically, the decision taken at the time of the preparation of the 2009 financial statements is being disputed, in which the criteria for determining the fair value of the above-cited bond issues was changed from a mark-to-model approach to a mark-to-market one.

This change was in line with that envisaged by the reference international accounting standard, which privileges the application of the mark-to-market insofar as, as specified in paragraph AG 69 of IAS 39, the best indication of fair value is the existence of "official quotations in an active market". Precisely in 2009, the Banco Popolare Group set in place, through its subsidiary company Banca Aletti, an organised system to trade the securities issued by Group companies, called the "MTG Group Securities Market". The establishment of this market had been recommended by Consob to guarantee the improved liquidity of these financial instruments; the market represents an efficient organised trading system on the basis of which Banca Aletti has undertaken to continually disclose the quantity and the relative purchase price of the bond issues issued by group companies. Given the existence of prices that can be found on the basis of the transactions performed on the above-cited MTG, and based on that indicated by the reference accounting standards and the internal regulations of the Group, in 2009, all Group banks changed their method for determining the fair value of their bond issues designated at fair value placed with retail customers, using the MTG prices as reference. This change, which was fully illustrated in all of the financial statements of Group banks, was considered correct by all of the internal and external auditing bodies. Note in this regard that all of the financial statements in question have been regularly certified by the respective independent auditing companies, who have issued reports that do not highlight any exceptions. By contrast, the Tax Authority retains that the MTG at that time could not be considered an active market and that therefore the valuation of the above-cited bond issues should have continued to have been made applying the previous mark-to-model approach. The higher taxable income identified by the Tax Authority originates from the fact that, while the mark-to-model approach adopted up until the 2008 financial statements included changes in the creditworthiness of the issuer banks when determining the fair value, the prices adopted on the MTG did not and continue not to take this aspect into account. Note in this regard that this results from a specific decision taken by the Group to protect retail customers who, after having subscribed to a Group bond issue, then decide to sell it. It should also be noted that the contention made by the Tax Authority is also simply a question of accrual accounting. In fact, in its findings, the Tax Authority limits itself to disputing that 2009 is the right year for recovering the higher taxes paid by Group companies in previous years with regard to the deterioration of its creditworthiness, which started from the breakout of the financial crisis at the end of 2008. Lastly, it should be noted that the notices of assessment in question do not result from findings formulated in previous formal reports on findings. More specifically, the notices of assessment refer to the inspections that led to the formal reports on findings being served to the afore-mentioned companies on 23 July 2012, 24 July 2012 and 28 September 2012 respectively. These formal reports on findings, however, did not include any finding relating to adjustments of the tax returns contained in the assessment notices served on 23 December 2014. In the light of the above, we believe that we have valid grounds on which to refute the claims made by the Tax Authority.

- the settlement notice served to Banca Italease spa, in which it is alleged to have failed to apply registration tax of 0.50% on a guarantee to third parties stipulated abroad (euro 0.2 million).

In addition to the above, euro 41.0 million of the increase in liabilities is due to disclosure aspects resulting from the notices of assessment received in 2014, which following the formal reports on findings already in existence at the beginning of the year. This change incidentally represents the algebraic balance of the increases in liabilities resulting from the application of fines (not indicated in the Formal Report on Findings - FRF) and decreases resulting from findings indicated in the FRF which the Tax Authority decided not to dispute when drawing up the notices of assessment and which consequently were removed from the list of potential liabilities (such as, for example, the assessment notice served on 23 December 2014 for the former Efibanca dispute illustrated below).

Disputes concluded and/or settled during the period

The management of disputes in progress at the beginning of the year enabled the amount of potential liabilities as at the beginning of the year to be reduced by euro 125.1 million.

The decrease results:

- mainly, for the figure of euro 121.5 million, to the settlement, under article 15, paragraph 2 bis of Italian Legislative Decree 218/97 of the notices served to Banca Aletti regarding tax years 2005 to 2009. The settlement finalised is in line with the conditions proposed by the Regional Headquarters of Lombardy and by the Central Assessment Headquarters of the Tax Authority regarding all of the tax years under inspection. A specific allocation to the provision for risks and charges made in previous years was used to honour said payment. The surplus provision recorded (corresponding to euro 0.6 million) was booked to the income statement.
- the finalisation of further out-of-court settlements reached with the Tax Authority amounting to euro 2.1 million. More specifically, several disputes regarding the applicability for VAT purposes of fee and commission income on custodian bank services (euro 1.6 million) and the dispute regarding the formal report on findings dated 23 July 2012 regarding tax year 2009 served to the incorporated company Banca Popolare di Lodi Spa (euro 0.5 million) were settled.
- by the extinguishment of several disputes relating to the failure to pay substitute tax under articles 15 of Italian Presidential Decree 601/1973 on loans stipulated abroad amounting to euro 1.2 million. The settlement notices appealed against before the relevant Provincial Tax Commissions were cancelled by the

Office following an internal review, before the hearing of the first instance.
- the settlement of a dispute relating to the recovery of taxes for a higher IRAP rate applicable to the taxable income generated in the Veneto region, pending against former Credito Bergamasco Spa for 2006 amounting to euro 0.3 million. The Regional Tax Commission of Milan issued a favourable final judgement for said dispute.

For the sake of completeness of information, note that:
- the tax inspection that started on 12 February 2014 by the Tax Authority - Provincial Headquarters of Lodi on the subsidiary company Bipielle Real Estate and relating to tax year 2009 was concluded on 28 March 2014. The dispute was settled immediately by complying with the formal report on findings pursuant to article 5-bis of Italian Legislative Decree No. 218/1997. The settlement entailed a total cost of euro 0.4 million, which was charged to the income statement for the first quarter;
- the tax inspection that started on 19 March 2014 by the Tax Authority - Regional Headquarters of Lombardy on the former subsidiary company Italease Network spa and relating to tax year 2009 was concluded on 25 July 2014. The formal report on findings indicates limited insignificant amounts. This dispute was also settled immediately by complying with the formal report on findings pursuant to article 5-bis of Italian Legislative Decree No. 218/1997.
- the tax inspection that started on 18 July 2013 by the Tax Authority - Regional Headquarters of Veneto on the subsidiary company BP Property Management and relating to tax years 2009 and 2010 was concluded on 27 October 2014. The formal report on findings indicates limited insignificant amounts. This dispute was also settled immediately by complying with the formal report on findings pursuant to article 5-bis of Italian Legislative Decree No. 218/1997.

<u>Details of disputes unresolved as at 31 December 2014</u>

Due to the developments illustrated in the paragraph above, the main tax disputes unresolved as at 31 December 2014 (potential liability equal to or exceeding euro 1 million) are as follows:

Disputes relating to Banco Popolare
- Banco Popolare (former Banco Popolare di Verona e Novara Soc. Coop.) - tax demands regarding IRAP tax paid to the Regional headquarters for Veneto and to that for Tuscany in tax years 2003, 2004, 2005 and 2006. The claims refer to the application of the ordinary rate of 4.25% to the net value of production resulting from business activities performed in Veneto, and for 2004 only in Tuscany, instead of the higher rate of 5.25% and amount to a total of euro 20.7 million. The tax demands have been contested. With regard to the various tax years, different rulings have been made at different levels of the court system. As regards tax years 2003 and 2004, a ruling of the Provincial Tax Commission totally in favour of Banco Popolare was then followed by a ruling of the Regional Tax Commission, which partially admitted the claims of the Tax Authority, retaining a rate of 4.75% to be applicable. The outcome is still pending, awaiting the ruling of the Supreme Court. With regard to tax year 2005, the Provincial Tax Commission rejected Banco Popolare's appeal, while in a ruling dated 10 March 2011, the Regional Tax Commission partially admitted the appeal and declared that the fines requested were not due. An appeal has been submitted to the Supreme Court. With regard to the tax demand for tax year 2006, in a ruling dated 17 May 2011, the Provincial Tax Commission partially admitted the appeal and declared that the fines requested were not due. The Regional Tax Commission confirmed the ruling of the court of first instance, therefore cancelling the tax claim relating higher IRAP regarding the Tuscany Regional Authority. An appeal has been submitted to the Supreme Court.
- Banco Popolare (former Banca Popolare Italiana Soc. Coop.) - notice of correction regarding the registration tax applicable to the disposal of a business segment in 2004 between Banca Eurosistemi S.p.A. (later incorporated into Banca Popolare Italiana Soc. Coop.) and Banca Popolare di Lodi Soc. Coop.. The claim resulting from the correction of the value of the business segment amounts to euro 7.4 million. The appeals submitted to the Provincial and Regional Commissions have been rejected. An appeal submitted to the Supreme Court is still pending.
- Banco Popolare (formerly Banca Popolare Italiana Soc. Coop.) - notice of settlement regarding registration tax relating to the reclassification of the disposal of a portfolio of securities made in 2002 between Cassa di Risparmio di Pisa and Banca Popolare Italiana as a business segment disposal. The claims amount to euro 14.5 million. In a ruling dated 18 October 2011, the Regional Tax Commission of Florence fully upheld the appeal submitted by Banco Popolare. An appeal submitted to the Supreme Court is still pending.
- Banco Popolare (former Banca Popolare Italiana Soc. Coop.) - notices of assessment relating to tax year 2005 regarding the claimed non-deductibility for IRES and IRAP purposes of costs and value adjustments to receivables relating to facts or actions classified as offences (it regards offence of false corporate reporting, obstacles to supervision and market turbulence alleged to have been committed by Banca Popolare Italiana with relation to the attempted takeover of Banca Antonveneta). The claims amount to euro 170.5 million. In separate rulings filed on 15 October 2014, no. 8562 (IRES) and no. 8561 (IRAP), the Provincial Tax Commission of Milan, Section 22, fully rejected the appeals submitted by the Bank, although providing no reasons underlying its confirmation of the tax claim. We have appealed against the above ruling to the Regional Tax Commission of Lombardy. In this regard, it should be noted that the valuation of the relative

potential tax liabilities has not been affected by the above rulings. In fact, these rulings can be rebuked from a number of perspectives. First of all, the grounds of the rulings are totally insufficient/superficial. More specifically, after having correctly established that the fundamental requirements for doubling the terms for the assessment is the existence of prerequisites for a compulsory criminal complaint for one of the offences envisaged by cited Italian legislative decree no. 74, the Company's petition was rejected without any explanation as to the grounds for such, where, in the case in hand, the cited prerequisites underlying the obligation to make a criminal complaint did actually exist. Secondly, also with regard to the merits of the dispute, the Judges of the first instance made a ruling based on statements that were clearly unsuitable to provide (valid) grounds for the case. The appeals were rejected without even one word as to the reasons why, in the case in hand, the negative components relating to the tax charges would represent - as expressly requested by the new law - costs sustained for the purchase of goods and services directly used to commit the crimes with criminal intent with regard to which criminal action was taken against several top management figures of the former BPI. An appeal was presented to the Regional Tax Commission.

- Banco Popolare (former Banca Popolare Italiana Soc. Coop.) - notices of assessment served on 22 December 2014 relating to the formal report on findings dated 30 June 2011 for tax years 2006-2009. These notices also regard the claimed non-deductibility for IRES and IRAP purposes of costs retained as relating to facts or actions classified as offences. More specifically, they regard value adjustments on loans already disputed with reference to tax year 2005. Said value adjustments, although recognised by Banco Popolare in its financial statements for 2005, were deductible on a straight line basis over the following 18 financial years pursuant to the version in effect at the time of art. 106, paragraph three, of Italian Presidential Decree no. 917 of 22 December 1986. The notices of assessment services therefore dispute the claimed non-deductibility of the quotas of the above-cited adjustments on loans deducted in 2006, 2007, 2008 and 2009. The claims amount in total to euro 15.8 million. An appeal to the Provincial Tax Commission is currently being prepared.
- Banco Popolare (formerly Efibanca Spa) – notices of assessment served on 23 December 2014 relating to the formal report on findings dated 28 September 2012. The main finding that referred to the recovery of just IRES tax relating to the negative income components recognised in the 2008 income statement against the fair value valuations of financial liabilities issued before 1 January 2007, was not confirmed in the notice of assessment. We therefore presume that the Tax Authority considered the observations stated in the brief submitted by Banco Popolare following receipt of the formal report on findings, and abandoned the finding. The claim, including taxes and fines, amounts to euro 1.7 million, against euro 8.5 million requested for higher taxes only in the formal report on findings. The main remaining finding regards a matter of interpretation relating to the tax classification of amounts distributed to Efibanca in 2009 by a Luxembourg Sicar, which Efibanca considered taxable as dividends. An instance for compliance has been submitted to encourage the re-examination of the above-mentioned finding by the Tax Authority before filing formal proceedings.
- Banco Popolare (former Banca Popolare di Novara, former Banca Popolare di Verona SGSP, former Efibanca) - settlement notices regarding the alleged failure to pay substitute tax on loans pursuant to art. 15 of Italian Presidential Decree 601/1973 on several deeds stipulated abroad. The claim amounts to euro 2.6 million. Appeals have been submitted to the Relevant Provincial Tax Commissions.
- Banco Popolare (former Banca Popolare di Novara spa) – various settlement notices concerning the alleged failure to pay registration tax on finalised deeds related to the operation to restructure the debt of an Italian industrial group. Note in this regard that the claim amounts to euro 0.6 million and has been cancelled following an internal review conducted by the Office in January 2015.
- Banco Popolare - formal report on findings served on 25 June 2014 which contains, relating to tax years 2010, 2011 and 2012, allegations of the failure to apply the withholding tax set forth in art. 26, paragraph 5 of Italian Presidential Decree 600, to interest due on deposits made by foreign subsidiaries resident in the US State of Delaware of amounts received from the placement of the preference shares issued. The claims amount to euro 15.5 million (this amount is net of the withholding tax related to 2009 of euro 4.8 million, transferred to the assessment notice dated 22 December 2014, together with the relative fines of euro 10.6 million, as illustrated below). Considering the "system" nature of the proceedings and the outcomes, which are continually not in favour of the taxpayer, based on rulings made to date by Provincial Tax Commissions, the opportunity of seeking an out-of-court settlement will be evaluated.
- Banca Popolare - Notice of assessment and formal written notice of the sanctions, served on 22 December 2014, which contains findings relating to the failure to apply withholding tax contained in the formal report on findings dated 25 June 2014 regarding tax year 2009. The claims amount to euro 15.4 million. The same considerations already stated with regard to similar disputes relating to tax years 2010, 2011 and 2012 illustrated above, also apply here.
- Banco Popolare - notices of assessment served on 23 December 2014 regarding 2009 for the former subsidiaries Banca Popolare di Lodi, Credito Bergamasco and Efibanca. The total claim amounts to euro 58.5 million and has already been extensively illustrated in the paragraph above. Appeals will be submitted to the relevant Provincial Tax Commissions.

Disputes relating to the subsidiary company Banca Italease

- Banca Italease – Settlement notices to recover the mortgage and cadastral taxes on a loan stipulated in

2006. The claim amounts to a total of euro 3.2 million. The appeal submitted by Banca Italease was upheld in the first and second instance. The Attorney General submitted an appeal to the Supreme Court. The Bank has submitted the relative counter-appeal.

- Banca Italease – Formal report on findings dated 30 November 2012 relating to tax years 2007 and 2008 regarding costs relating to facts or actions that are considered offences (it regards offence of false corporate reporting, obstacles to supervision and market turbulence alleged to have been committed by Banca Italease with regard to the incorrect recognition of counterparty risk in derivative contract transactions performed in 2007). The claim amounts in total to euro 73.1 million. In January 2013, defensive briefs were submitted pursuant to article 12 of Italian Law no. 212 dated 27 July 2000. The assessment notices served in December 2014 did not contain the cited findings. We could therefore presume that the Tax Authority considered the observations stated in the brief submitted by Banco Popolare following receipt of the formal report on findings, and abandoned the finding.
- Banca Italease Spa - Notices of assessment following the formal report on findings dated 30 November 2012 - tax years 2007, 2008 and 2009 regarding the redetermination of loan ceilings of 0.30%, and for 2009 only to the relevance for tax purposes of a fund taxed at the time of the share capital increase of Release, with transfer of the business division. The claim amounts in total to euro 40.2 million. An appeal to the Provincial Tax Commission is currently being prepared.
- Banca Italease – Notice of assessment and formal written notice of the sanctions, which contains findings relating to the failure to apply withholding contained in the formal report on findings dated 30 November 2012 regarding tax year 2007. The claim amounts in total to euro 3.2 million. In January 2013, appeals were submitted against the above documents, which are now pending before the competent Provincial Tax Commission. The Tax Authority appeared before the court to submit its counter arguments.
- Banca Italease – Notice of assessment and formal written notice of the sanctions, which contains findings relating to the failure to apply withholding contained in the formal report on findings dated 30 November 2012 regarding tax year 2008. The claim amounts in total to euro 3.9 million. In January 2013, appeals were submitted against the above documents, which are now pending before the competent Provincial Tax Commission.
- Banca Italease – Notice of assessment and formal written notice of the sanctions, which contains findings relating to the failure to apply withholding contained in the formal report on findings dated 30 November 2012 regarding tax year 2009. The claim amounts in total to euro 0.6 million. An appeal has been submitted to the Provincial Tax Commission.
- Banca Italease – Various settlement notices concerning the alleged failure to pay registration tax on finalised deeds related to the operation to restructure the debt of an Italian industrial group. The claim amounts to a total of euro 3.1 million, euro 2.9 million of which was cancelled following an internal review.

Disputes relating to other subsidiary companies

- Bipielle Real Estate Spa - settlement notice for registration tax regarding the reclassification of a business segment conferral involving Reti Bancarie Holding (later incorporated into Banca Popolare Italiana Soc. Coop.). The claim amounts to euro 13.6 million. The Provincial and Regional Commissions ruled in favour of the subsidiary company Bipielle Real Estate. The Tax Authority has appealed to the Supreme Court. A counter-appeal has been submitted.
- Bipielle Real Estate Spa - notices of assessment regarding VAT and IRAP taxes for tax year 2005 served to Basileus S.r.l., (a subsidiary company sold in 2008, for which Bipielle Real Estate is fiscally liable for the years prior to the disposal). The claims amount to euro 11.3 million. In January 2012, the ruling of the Lodi Provincial Tax Commission was filed. The ruling annulled the notices of assessment issued against the Company, ordering the Office to pay legal expenses. In a ruling issued in May 2013, the Regional Tax Commission of Milan, changing the ruling in the first instance, upheld the appeal submitted by the Tax Authority, confirming all of the claims. An appeal has been submitted to the Supreme Court.
- Aletti Fiduciaria Spa - notice to recover taxes due by the fiduciary company pursuant to the personal liability of the shareholder under art. 36, paragraph 3, of Italian Presidential Decree no. 602/1973. The claim amounts to euro 7.9 million. The company's appeal was fully upheld in the first and second instance. In January 2013, the Tax Authority appealed to the Supreme Court.

The list of existing disputes shown above does not include tax disputes regarding the applicability of VAT to custodian bank fees received by the Group as out-of-court settlements are current being negotiated for the same. The residual liability that the Group is expected to incur is estimated to be euro 0.2 million and is covered by a specific allocation to the provision for risks and charges.

Classification and valuation of potential liabilities in accordance with the provisions of accounting standard IAS 37

In the light of the successful outcomes in the courts of first instance and/or the existence of valid grounds on which to challenge the claims made by the Tax Authority with regard to proceedings underway and also considering the specific opinions issued by authoritative external studios, the potential liabilities classified as possible but unlikely amount to a total of euro 446.1 million.
The potential liabilities classified as probable amount in total to euro 37.6 million and have already been fully debited

from the income statement when the tax demands received were paid (euro 7.5 million) or are entirely covered by allocations to provisions for risks and charges.
Lastly, with regard to all of the disputes illustrated above, we would like to state that as at 31 December 2014, tax credit amounting to euro 43.9 million was due from the Tax Authority, following payments made provisionally for the assessment notices served. In this regard, we must emphasise that said payments are not retained such as to impact the risk of losing the disputes, which have been valued on the basis of the provisions of IAS 37: in fact, these amounts are paid as part of an automatic mechanism, which is unrelated to the groundlessness or otherwise of the related tax claims.

Inspections underway as at 31 December 2014

As at 31 December 2014, no inspections were in progress against Banco Popolare or its subsidiaries.

12.2 Provisions for risks and charges: annual changes

(in thousands of euro)	Retirement plans	Other Provisions	Total
A. Opening balance	**312,473**	**611,632**	**924,105**
B. Increases	**57,765**	**254,489**	**312,254**
B.1 Provisions for the year	6,732	237,697	244,429
B.2 Changes over time	1,961	1,172	3,133
B.3 Changes due to changes in the discounting rate	13,762	1,287	15,049
B.4 Other increases	35,310	14,333	49,643
C. Decreases	**(22,068)**	**(310,679)**	**(332,747)**
C.1 Uses during the year	(15,851)	(223,044)	(238,895)
C.2 Changes due to changes in the discounting rate	-	(19)	(19)
C.3 Other decreases	(6,217)	(87,616)	(93,833)
D. Closing balance	**348,170**	**555,442**	**903,612**

Provisions mainly include those relating to employees (e.g. production bonuses) that cannot be considered certain (and therefore payable), recognised as a balancing entry to the income statement item “Personnel expenses”. This figure includes the year’s allocations for commitments made regarding the use of the Solidarity Fund for the banking sector of euro 137.9 million.
Item C.1 “Uses during the year” includes uses relating to the payment of the aforementioned personnel expenses and following the clawbacks closure and other proceedings for which specific allowances were registered.

12.3 Defined benefit company retirement plans

1. Illustration of the characteristics of plans and related risks

With regard to defined benefit supplementary pension plans, which as at 31 December 2014 amounted to around euro 95.4 million, the calculation of present values as required by IAS 19 “Employee benefits” is carried out by an independent Actuary.
The definition of financial forecast assumptions led to the adoption of a discounting rate of 0.91% (as at 31 December 2013 it was 2.5%) and an inflation rate which rises, reaching 2% from 2019 (as at 31 December 2013, the inflation rate was considered constant and equal to 2%), as illustrated in detail in paragraph “*4. Description of the main actuarial assumptions” below.* The method and the demographic economic and financial technical basis adopted differ from plan to plan. The technical-financial management system adopted for these valuations is full capitalisation.

Group defined benefit plans are broken down into internal and external plans.
Internal plans refer to the following Group companies:
- Banco Popolare: Former Banca Popolare Italiana (BPI) Plan and plans for which the Parent Company guarantees defined benefits to a group of retired former executives. For greater details on these plans, refer to the specific illustrative section in the Parent Company’s financial statements;
- Banco Popolare: Cassa di Risparmio di Lucca Pisa Livorno Plan, regarding the incorporation of Cassa di Risparmio di Lucca Pisa Livorno;
- Banco Popolare: Former Iccri – BFE (Eurosistemi) Pension Plan;
- Banco Popolare: donations resolved upon by the Board of Directors for employees of the former Credito Bergamasco;
- Banca Italease: Banca Italease Group plan.

External plans regard the Pension plan for Credito Bergamasco employees (formerly TIA) and the Pension Plan for employees of the Banco Popolare Group, which collects funds for retired employees inherited from the former BPVN S.c.a.r.l.

The statement of Banco Popolare's internal plans is shown as an attachment to the Parent Company's separate financial statements.

2. Change during the year in net liabilities (assets) relating to defined benefit plans and repayment rights

		Pension plan for Banco Popolare personnel	Pension plan for Italease Group personnel	31/12/2014
A.	**Opening balance**	**77,430**	**9,116**	**86,546**
B.	**Increases**	**16,810**	**1,733**	**18,543**
	B.1 Pension cost associated with current service	51	2	53
	B.2 Financial charges due to the passage of time	1,632	191	1,823
	B.3 Other actuarial losses	2,905		2,905
	B.4 Losses due to changes in the discounting rate	12,222	1,540	13,762
	B.5 Other increases			
C.	**Decreases**	**(8,830)**	**(835)**	**(9,665)**
	C.1 Uses during the year	(5,550)	(540)	(6,090)
	C.2 Changes due to changes in the discounting rate			
	C.3 Other actuarial profits	(3,280)	(295)	(3,575)
	C.4 Other decreases			
D.	**Closing balance**	**85,410**	**10,014**	**95,424**

The book value of the defined benefit pension plans as at 31 December 2014 was euro 95.4 million, corresponding to the actuarial value of the liabilities, adjusted by the plan assets, the fair value of which amounted to euro 1.6 million, as indicated in paragraph 3 below.

Net actuarial losses totalled euro 13.1 million (corresponding to the sum of items B.3, B.4 and C.3 shown in the table above) and were attributable to the following:

- the reduction of the discounting rate by 159 basis points, which led to a loss of euro 13.8 million;
- the fall in the inflation rate up to 2019, which led to a gain of euro 2.5 million;
- past experience, namely to differences between previous actuarial assumptions and what actually occurred, which led to the recognition of a net loss of euro 1.8 million.

3. Information on the fair value of plan assets

According to IAS 19, plan assets are those held by an entity (a plan) that is legally separate from the entity that draws up the financial statements (external plan) and that may be used exclusively to pay or allocate benefits for employees and which are not available to the creditors of the entity that draws up the financial statements. Based on this definition, existing plan assets are those held by the Pension Plans for the employees of Credito Bergamasco and to a much lesser extent those relating to the Pension Plan for Banco Popolare Group employees. These assets are the result of the investment of the periodic partial loan that the Bank grants to the plans to cover the payments envisaged by the same. The value of these assets as at 31 December 2014 was euro 1.7 million against euro 2.7 million in December 2013; the reduction with respect to the opening balance is mainly due to higher divestments required to cover the obligations envisaged by the plans (euro 2.7 million) with respect to the payments made to the plans (euro 1.6 million). As at 31 December 2014, assets were almost all represented (79.9%) by government securities, in particular, 59% by Italian Government securities, 14% by foreign government debt securities and 6.9% by foreign supranational debt securities; the remainder (20.1%) was comprised of 8.6% in harmonised E.t.f. on equity instruments and 11.5% by liquidity.
For the sake of completeness, note that there are several insurance plans, classified under item "30 Financial assets designated at fair value through profit and loss", the objective of which is to provide the funds needed to pay the indemnities of the plans set in place for several executives (called the "S.I.PRE. plan" and for the chairman, the fair value of which, as at 31 December 2014, was euro 1 million, in line with last year's balance.

4. Description of the main actuarial assumptions

	31/12/2014		31/12/2013	
	Internal pension plan	External pension plan	Internal pension plan	External pension plan
Discounting rate	0.91%	0.91%	2.50%	2.50%
Inflation rate:				
2015	0.60%	0.60%	2.00%	2.00%
2016	1.20%	1.20%	2.00%	2.00%
2017-2018	1.50%	1.50%	2.00%	2.00%
from 2019	2.00%	2.00%	2.00%	2.00%

With regard to the financial assumptions used to discount company pension plans, refer to the comments contained in "Section 11 - Employee termination indemnities – Item 110" above.

5. Information on the amount, timing and uncertainty of cash flows

As required by IAS 19, we conducted a sensitivity analysis of the obligation relating to pension plans with respect to the actuarial assumption retained to be most significant, with a view to showing how the financial statement liability would change as a result of reasonably possible fluctuations of each of the actuarial assumptions. More specifically, the following table shows the changes in the pension plans, in the event that the discounting and inflation rates rise or fall by 50 basis points with respect to the parameters actually used.
More specifically, the book value of the plans for which the sensitivity analysis was conducted was euro 94.1 and represents almost all defined benefit plans.

(in thousands of euro)	Change in defined benefit plans in absolute terms (*)	Change in defined benefit plans in percentage terms
Change in actuarial assumptions:		
- Discounting rate:		
+0.5%	-4,562	-4.85%
-0.5%	+4,995	5.31%
- Inflation rate:		
+0.5%	+4,516	4.80%
-0.5%	-4,246	-4.51%

(*) the (+) sign indicates an increase of the indemnity, the (-) sign indicates a decrease of the indemnity.

6. Plan relating to several employers

There are no plans of the types indicated.

7. Defined benefit plans that share the risk between jointly-controlled entities

There are no plans of the types indicated.

12.4 Provisions for risks and charges – other provisions

For the disclosure relating to provisions for risks and charges - other provisions, please refer to the content of the paragraph above 12.1 "Provisions for risks and charges: breakdown".

Section 13 - Technical reserves – Item 130

The Group does not hold investments in insurance companies included in the scope of consolidation.

Section 14 - Redeemable shares – Item 150

14.1 Redeemable shares: breakdown

The Group did not hold redeemable shares at the date of the financial statements or at 31 December 2013.

Section 15 - Group Shareholders' Equity - Items 140, 160, 170, 180, 190, 200 and 220

15.1 Share capital and treasury shares: breakdown

The share capital as at 31 December 2014 was 6,093 million and consisted of 362,179,606 ordinary shares (1,763,730,870 ordinary shares at the end of 2013).
The share capital increase transaction was completed in April, which led to the recognition of an increase in shareholders' equity, net of directly attributable costs, of euro 1,459.4 million. For further details on the transaction, please refer to the section in this Report on Operations that illustrates the significant events that occurred during the year.
Furthermore, note that in order to simplify the administrative processes of managing the high number of shares issued,

a reverse share split of 1 new ordinary share with standard entitlement for each 10 existing ordinary shares, was executed during the year.
Banco Popolare's share capital also reflected the impact resulting from the completion of the incorporation of Credito Bergamasco into the Parent Company, which entailed the issue of 19,332,744 new ordinary shares allocated to Credito Bergamasco shareholders, for a total counter value of euro 300.6 million, at a swap rate of 1.412 ordinary Banco Popolare shares for each ordinary Credito Bergamasco share presented.

The item "treasury shares" is represented by no. 99,902 shares of the Parent Company, with a book value of 2.6 million.

15.2 Share capital – Number of Parent Company shares: annual changes

Items / Types	31/12/2014	
	Ordinary	Other
A. Shares issued at the beginning of the year	**1,763,730,870**	**-**
- fully paid-in	1,763,730,870	
- not fully paid-in	-	-
A.1 Treasury shares (-)	(1,598,392)	
B.2 Shares issued: opening balance	**1,762,132,478**	**-**
B. Increases	**187,310,609**	**-**
B.1 New issues	185,806,519	-
against payment	166,473,775	-
- business combinations	-	-
- conversion of bonds	-	-
- exercised warrants	-	-
- other	166,473,775	-
scrip issue	19,332,744	-
- to employees	-	-
- to directors	-	-
- other	19,332,744	-
B.2 Sale of Treasury shares	1,504,090	-
B.3 Other increases	-	-
C. Decreases	**(1,587,363,383)**	**-**
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	(5,600)	-
C.3 Business transfers	-	-
C.4 Other changes	(1,587,357,783)	-
D. Shares issued: closing balance	**362,079,704**	**-**
D.1 Treasury shares (+)	99,902	-
D.2 Shares issued at the end of the year	362,179,606	-
- fully paid-in	362,179,606	-
- not fully paid-in	-	-

15.3 Share capital: other information

Ordinary shares do not have a nominal value. Said shares only have an implicit value resulting from the ratio between the total amount of share capital and the number of outstanding shares. In any event, the implicit book value of shares cannot be under euro 2.

15.4 Retained earnings: other information

(in thousands of euro)	31/12/2014	31/12/2013
a) Legal reserve	518,441	518,441
b) Statutory reserve	754	415
c) Other retained earnings	1,705,780	1,726,223
Total	**2,224,975**	**2,245,079**

15.5 Other information

Item 160 Equity instruments fell to zero during the year following the redemption of the "Banco Popolare 2010-2014 4.75% convertible with right to repayment in shares" convertible bond.

Section 16 - Minority interests – Item 210

16.1 Breakdown of item 210 “minority interests”

Company name	2014	2013
Investments consolidated with significant minority interests		
1. Credito Bergamasco	-	273,637
Other investments	12,130	75,402
Total	**12,130**	**349,039**

Minority interests amount to euro 12.1 million, against euro 349 million recorded as at 31 December 2013. The fall in this item is mainly due to the incorporation of Credito Bergamasco into the Parent Company, which as at 31 December 2013, had a 77.819% investment in the same.

16.2 Equity instruments: breakdown and annual changes

There are no financial instruments issued by Group companies which are not fully owned.

Other information

1. Guarantees given and commitments

(in thousands of euro)	31/12/2014	31/12/2013
1) Financial guarantees given	1,738,548	1,871,940
a) Banks	635,615	719,255
b) Customers	1,102,933	1,152,685
2) Commercial guarantees given	3,620,581	4,384,482
a) Banks	264,024	270,234
b) Customers	3,356,557	4,114,248
3) Irrevocable commitments to disburse funds	6,400,433	3,188,183
a) Banks	224,835	258,383
i) certain to be utilised	223,881	243,919
ii) uncertain to be utilised	954	14,464
b) Customers	6,175,598	2,929,800
i) certain to be utilised	3,478,274	194,121
ii) uncertain to be utilised	2,697,324	2,735,679
4) Commitments underlying credit derivatives: protection sales	-	-
5) Assets pledged to secure third party obligations	17,869	17,929
6) Other commitments	267,658	321,230
Total	**12,045,089**	**9,783,764**

2. Assets pledged to secure own liabilities and commitments

(in thousands of euro)	31/12/2014	31/12/2013
1. Financial assets held for trading	353,393	552,197
2. Financial assets designated at fair value through profit and loss	796,235	218,232
3. Financial assets available for sale	5,209,366	4,634,444
4. Investments held to maturity	4,655,296	3,319,218
5. Due from banks	393,657	296,632
6. Loans to customers	16,212,702	13,606,312
7. Property and equipment	-	-
Total	**27,620,649**	**22,627,035**

Amounts due to customers to secure own liabilities and commitments include mortgages transferred to the vehicle company BP Covered Bond to guarantee the holders of covered bonds issued by the Parent Company, for a book value of euro 12,151 million, as described in detail in paragraph E.4 – Banking Group - Covered Bonds, in Part E - Section 1 of these Notes to the financial statements.

As regards the assets pledged to secure the funding obtained from the ECB, please refer to the content of the notes to the financial statements of the Parent Company. The notes to the financial statements of the Parent Company also illustrate the details of the assets pledged to secure funding transactions, that are not shown elsewhere in the statement of financial position assets (and therefore are not shown in table "2. Assets pledged to secure own liabilities and commitments"). More specifically, this regards securities of securitisation transactions originated by the Group, its own issues of covered bonds repurchased and securities that have become available through loan repurchase agreements.

3. Information on operating leases

There were no material assets or liabilities under operating leases as at 31 December 2014.

4. Breakdown of investments associated with unit-linked and index-linked policies

As at 31 December 2014, the Group did not hold any investments associated with unit or index-linked policies.

5. Management and brokerage on behalf of third parties

(in thousands of euro)	Amount
1. Order execution on behalf of customers	
a) Purchases	11,484,545
1. settled	11,399,418
2. not settled	85,127
b) Sales	13,193,715
1. settled	13,107,727
2. not settled	85,988
2. Portfolio management	
a) individual	16,294,268
b) collective	-
3. Custody and safekeeping of securities	
a) third party securities in custody: associated with custodian bank services (excluding portfolio management)	13,472,684
1. securities issued by consolidated companies	1,352,304
2. other securities	12,120,380
b) other third party securities in custody (excluding portfolio management): other	58,878,279
1. securities issued by consolidated companies	18,837,005
2. other securities	40,041,274
c) third party securities deposited with third parties	57,182,345
d) proprietary securities deposited with third parties	40,186,496
4. Other transactions	-

The item "portfolio management" represents the total amount, at market value, of assets managed on behalf of other parties, excluding the liquidity component.
The securities under item "custody and safekeeping of securities" are recognised at their nominal value. These exclude the securities under portfolio management pursuant to point 2.

Financial assets and liabilities netted in the statement of financial position or subject to master netting arrangements or similar agreements

This section contains the disclosure required by accounting standard IFRS7 regarding the "netting of financial assets and liabilities" for financial instruments:

- which have been netted in the statement of financial position according to IAS 32;
- which could potentially be netted, in the event of certain conditions, but are shown as open balances on the statement of financial position insofar as regulated by "master netting arrangements or similar agreements" which however do not meet the criteria established by IAS 32 for statement of financial position netting.

When providing disclosure of said arrangements, the standard also requires the effect of real financial collateral (including cash collateral) received and pledged to be considered.
In this regard, based on an analysis conducted of the Group, there are no netting arrangements in place, therefore the balances on the statement of financial position must be netted according to that required by IAS 32, as shown the columns entitled "Amount of financial asset/liability netted in the statement of financial position" in tables 6. and 7. below, which are empty.
As regards instruments that could potentially be netted, in the event of certain conditions, and that should be included in tables 6 and 7 below in the columns "Related amounts not subject to statement of financial position netting", the Group has the following arrangements in place:

- for derivative instruments: "ISDA Master Agreement" and netting arrangements with clearing houses;

- for repurchase agreements: “Global Master Repurchase Agreements (GMRA)” and netting arrangements with the “Clearing and Guarantee House (CC&G);
- for securities lending transactions: “Global Master Securities Lending Agreements (GMSLA)”.

As regards financial derivatives, both used for trading and hedging, note that:
- those with a positive fair value total euro 3,623.4 million (shown under items 20 and 80 of assets in the statement of financial position), euro 2,972.8 million of which assisted by netting agreements (82% in percentage terms) as indicated in table 6 (column a);
- those with a negative fair value total euro 6,649.9 million (shown under items 40 and 60 of liabilities in the statement of financial position), euro 2,648.5 million of which assisted by netting agreements (39.8% in percentage terms) as indicated in table 7 (column a); Positions that are not subject to netting arrangements refer mainly to certificates contracts subscribed by customers issued by the subsidiary company Banca Aletti, which as at 31 December 2014, reported a fair value of euro 3,718.3 million.

With regard to securities lending transactions, note that in the following tables 6 and 7 are indicated the transactions that envisage the payment of cash collateral for which the lender has full access to, insofar as these are the only transactions that are shown on the statement of financial position. In order to reconcile the statement of financial position balances of securities lending transactions and repurchase agreements covered by netting arrangements or similar, note that the cited transactions are shown under “Repurchase agreements” shown in correspondence with the tables containing the breakdown of amounts due from and due to banks and customers, depending on the type of counterparty, contained in Part B – Information on the Consolidated Statement of Financial Position. The relative measurement criterion is amortised cost.

For the purpose of completing tables 6. and 7. below, in line with IFRS 7 and with the instructions contained in Circular no. 262, note that:
- the effects of the potential netting of statement of financial position values of financial assets and liabilities are indicated in column (d) “Financial instruments”, together with the fair value of the real financial collateral represented by securities;
- the effects of the potential netting of the exposure with the relative cash collateral are shown in column (e) “Cash deposits received/pledged as collateral”.

These effects are calculated for each individual counterpart assisted by a master netting arrangement to the extent of the net exposure indicated in column (c).

Based on the above completion instructions, netting arrangements between financial instruments and the relative financial collateral enable the credit/debt exposure towards the counterparty to be significantly reduced, as indicated in column (f) “Net amount” indicated in tables 6. and 7. below.

6. Financial assets netted in the statement of financial position or subject to master netting arrangements or similar agreements

Type *(in thousands of euro)*	Gross amount of financial assets	Amount of financial liabilities netted in the statement of financial position	Net amount of financial assets shown on the statement of financial position	Related amounts not netted in the statement of financial position		31/12/2014	31/12/2013
				Financial instruments	Cash deposits received as collateral	Net amount	Net amount
	(a)	(b)	(c=a-b)	(d)	(e)	(f=c-d-e)	
1. Derivatives	2,972,753	-	2,972,753	2,134,003	672,579	166,171	104,300
2. Repurchase agreements	7,303,782	-	7,303,782	7,303,782	-	-	-
3. Securities lending	1,245,823	-	1,245,823	1,187,975	-	57,848	90,642
4. Other	-	-	-	-	-	-	-
Total 31/12/2014	**11,522,358**	**-**	**11,522,358**	**10,625,760**	**672,579**	**224,019**	**X**
Total 31/12/2013 (*)	**11,185,120**	**-**	**11,185,120**	**10,263,741**	**726,437**	**X**	**194,942**

(*) The figures have been restated to provide a like-for-like comparison in order to include repurchase agreement transactions with CC&G

7. Financial liabilities netted in the statement of financial position or subject to master netting arrangements or similar agreements

Type *(in thousands of euro)*	Gross amount of financial liabilities	Amount of financial assets netted in the statement of financial position	Net amount of financial liabilities shown on the statement of financial position	Related amounts not netted in the statement of financial position		31/12/2014	31/12/2013
				Financial instruments	Cash deposits used as collateral	Net amount	Net amount
	(a)	(b)	(c=a-b)	(d)	(e)	(f=c-d-e)	
1. Derivatives	2,648,494	-	2,648,494	2,114,229	491,075	43,190	28,803
2. Repurchase agreements	10,027,287	-	10,027,287	10,027,287	-	-	-
3. Securities lending	215,617	-	215,617	206,194	-	9,423	13,923
4. Other	-	-	-	-	-	-	-
Total 31/12/2014	12,891,398	-	12,891,398	12,347,710	491,075	52,613	X
Total 31/12/2013 (*)	10,096,433	-	10,096,433	9,704,238	349,469	X	42,726

(*) The figures have been restated to provide a like-for-like comparison in order to include repurchase agreement transactions with CC&G

8. Securities lending

The following table shows the Group's securities lending transactions (active and passive), broken down by type of security (government securities, bank securities, other), by market counterparty (banks, financial intermediaries, customers), by the relative category (loan guaranteed by cash or by other securities).
These transactions are mostly performed by the Group company Banca Aletti: the securities borrowed, are usually used in mirror securities lending transactions (where the Group acts as lender) or as the underlying instruments of repurchase funding agreements.
Note that securities lending transactions that envisage the payment of cash collateral for which the lender has full access to, are recognised in the statement of financial position under due to/from banks or customers, in correspondence with the "repurchase agreement" category. Securities lending transactions whose collateral is represented by other securities are not stated in the statement of financial position, but are shown under off-statement of financial position exposures, for the relative counterparty risk.

(in thousands of euro)	Type of security (nominal value as at 31/12/2014)		
	Government securities	Bank securities	Other securities
Securities received as a loan with collateral in the form of cash from			
a) Banks		562	5,148
b) Financial intermediaries	800,144	253,070	140,341
c) Customers	7,667	1,100	969
Total	**807,811**	**254,170**	**141,310**
Securities loaned with collateral in the form of cash to			
a) Banks	52,200	60,447	9,834
b) Financial intermediaries		13,452	31,201
Total	**52,200**	**73,899**	**41,035**
Securities loaned with collateral in the form of securities to			
a) Banks	258,300	2,000	5,400
b) Financial intermediaries	37,300	26,400	106,801
Total	**295,600**	**28,400**	**112,201**

9. Disclosure on jointly controlled operations

As at the date of the financial statements, like last year, there are no arrangements in force that can be classified as "joint operations" under accounting standard IFRS 11, on the basis of which the parties which have joint control have rights to the assets and obligations on the liabilities relating to the arrangement.

PART C – INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

Section 1 - Interest – Items 10 and 20

1.1 Interest and similar income: breakdown

(in thousands of euro)	Debt securities	Loans	Other transactions	2014	2013
1. Investments held for trading	76,557	-	131,888	208,445	291,462
2. Financial assets designated at fair value through profit and loss	-	-	-	-	-
3. Financial assets available for sale	371,031	-	-	371,031	376,870
4. Investments held to maturity	128,917	-	-	128,917	93,020
5. Due from banks	5,600	63,608	203	69,411	86,178
6. Loans to customers	6,041	2,395,897	2,890	2,404,828	2,600,075
7. Hedging derivatives	X	X	75,964	75,964	119,418
8. Other assets	X	X	4,061	4,061	8,841
Total	**588,146**	**2,459,505**	**215,006**	**3,262,657**	**3,575,864**

The item “financial assets held for trading - other loans” includes the spreads or the positive margins on derivative contracts operationally related to financial assets and liabilities designated at fair value through profit and loss (fair value option), as well as those operationally related to financial assets and liabilities held in the trading portfolio.

(in thousands of euro)	2014	2013
Interest on performing loans	2,806,780	3,164,759
Interest on loans classified as non performing"	455,877	411,105
Total	**3,262,657**	**3,575,864**

1.2 Interest and similar income: differences relating to hedging transactions

(in thousands of euro)	2014	2013
A. Positive differences relating to hedging transactions	217,355	248,532
B. Negative differences relating to hedging transactions	(141,391)	(129,114)
C. Balance (A-B)	**75,964**	**119,418**

1.3 Interest and similar income: other information

1.3.1 Interest income on currency financial assets

(in thousands of euro)	2014	2013
Interest income on currency assets	24,196	28,893

1.3.2 Interest income on financial lease transactions

(in thousands of euro)	2014	2013
Interest income on financial lease transactions	69,889	75,045

1.4 Interest and similar expense: breakdown

(in thousands of euro)	Debts	Securities	Other operations	2014	2013
1. Due to central banks	21,736	X	-	21,736	75,750
2. Due to banks	41,105	X	52,343	93,448	94,896
3. Due to customers	271,738	X	-	271,738	293,457
4. Debt securities issued	X	702,904	-	702,904	766,685
5. Financial liabilities held for trading	-	-	3,043	3,043	604
6. Financial liabilities designated at fair value through profit and loss	-	612,066	-	612,066	696,638
7. Other liabilities and funds	X	X	1,209	1,209	595
8. Hedging derivatives	X	X	-	-	-
Total	**334,579**	**1,314,970**	**56,595**	**1,706,144**	**1,928,625**

1.5 Interest and similar expense: differences relating to hedging transactions

Reference is made to the table in point 1.2 in that the balance of differences is positive for 2014 as for 2013.

1.6 Interest and similar expense: other information

1.6.1 Interest expense on currency liabilities

(in thousands of euro)	2014	2013
Interest expense on currency liabilities	3,532	3,697

1.6.2 Interest expense on currency liabilities for financial lease transactions

(in thousands of euro)	2014	2013
Interest expense on financial lease transactions	39	111

Section 2 - Net fee and commission income and expense – Items 40 and 50

2.1 Fee and commission income: breakdown

(in thousands of euro)	2014	2013
a) guarantees given	54,118	61,178
b) credit derivatives	-	-
c) management, brokerage and advisory services:	705,605	681,983
1. financial instrument trading	17,781	13,609
2. currency trading	2,659	2,673
3. portfolio management	131,224	114,215
3.1 individual	33,559	36,105
3.2 collective	97,665	78,110
4. custody and safekeeping of securities	7,250	9,009
5. custodian bank	15,456	11,188
6. placement of securities	251,522	288,920
7. receiving and sending orders	52,003	49,105
8. advisory activities	1,232	1,444
8.1 on investments	1,232	1,444
8.2 on financial structure	-	-
9. distribution of third party services	226,478	191,820
9.1 portfolio management	3,168	2,420
9.1.1 individual	-	-
9.1.2 collective	3,168	2,420
9.2 insurance products	142,498	106,646
9.3 other products	80,812	82,754
d) collection and payment services	130,137	131,789
e) servicing for securitisation transactions	579	652
f) services for factoring transactions	-	-
g) tax office services	-	-
h) activities for the management of multilateral exchange systems	-	-
i) maintenance and management of current accounts	186,225	193,403
j) other services	404,559	435,052
Total	**1,481,223**	**1,504,057**

The sub item c) 6. "placement of securities", refers for 247.8 million to commission income generated by the placement of UCIT units, mainly attributable to products managed by the company of the Group, Aletti Gestielle SGR (220.5 million).

The sub-item j) "other services" includes commissions relating to cashpoint and credit card services of euro 50.5 million (euro 50.8 million as at 31 December 2013), the consideration for making funds available (Consideration for Credit Availability) of euro 280.6 million (euro 293.6 million in the previous year) and fee and commission income on loans to customers of euro 49.4 million (euro 59.4 million in 2013).

2.2 Fee and commission expense: breakdown

(in thousands of euro)	2014	2013
a) Guarantees received	24,533	41,443
b) Credit derivatives	-	-
c) Management and brokerage services:	41,604	42,801
1. financial instrument trading	9,030	7,537
2. currency trading	432	-
3. portfolio management:	11	23
3.1 own	11	23
3.2 delegated by third parties	-	-
4. custody and safekeeping of securities	5,836	4,835
5. placement of financial instruments	24,234	27,230
6. door-to-door sales of financial instruments, products and services	2,061	3,176
d) Collection and payment services	7,441	8,542
e) Other services	22,198	24,209
Total	**95,776**	**116,995**

The sub item c) 5. “placement of financial instruments”, refers to commission expense paid to the external commercial network for the placement of UCIT units, mainly attributable to products managed by the company of the Group, Aletti Gestielle SGR.

The sub-item e) “other services” includes commissions relating to cashpoint and credit card services of euro 13.4 million (euro 13.9 million as at 31 December 2013) and commissions on lease transactions of euro 3 million (euro 5 million in the previous year).

Section 3 - Dividends and similar income – Item 70

3.1 Dividends and similar income: breakdown

(in thousands of euro)	2014		2013	
	Dividends	Income from UCIT units	Dividends	Income from UCIT units
A. Financial assets held for trading	18,684	1,174	24,616	701
B. Financial assets available for sale	14,326	1,276	9,315	660
C. Financial assets designated at fair value	-	-	-	-
D. Investments in associates and companies subject to joint control	-	X	-	X
Total	33,010	2,450	33,931	1,361

Section 4 - Profits (losses) on trading – Item 80

4.1 Profits (losses) on trading: breakdown

(in thousands of euro)	Capital gains (A)	Profits on trading (B)	Capital losses (C)	Losses on trading (D)	Income (loss) (A+B)-(C+D)
1. Financial assets held for trading	**118,272**	**185,812**	**(121,086)**	**(57,103)**	**125,895**
1.1 Debt securities	102,809	71,538	(97,453)	(35,594)	41,300
1.2 Equity instruments	8,757	111,972	(20,559)	(18,939)	81,231
1.3 UCIT units	6,706	1,129	(3,074)	(2,521)	2,240
1.4 Loans	-	-	-	-	-
1.5 Other	-	1,173	-	(49)	1,124
2. Financial liabilities held for trading	**9**	**35**	**-**	**(35)**	**9**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	9	35	-	(35)	9
2.3 Other	-	-	-	-	-
3. Other financial assets and liabilities: exchange rate differences	**X**	**X**	**X**	**X**	**(41,075)**
4. Derivatives	**2,709,996**	**4,262,287**	**(3,087,453)**	**(3,887,892)**	**53,505**
4.1 Financial derivatives:	2,705,867	4,255,170	(3,082,825)	(3,876,909)	57,870
- On debt securities and interest rates	2,185,953	3,442,796	(2,382,465)	(3,224,641)	21,643
- On equity instruments and share indices	519,914	811,280	(700,316)	(651,135)	(20,257)
- On currencies and gold	X	X	X	X	56,567
- Other	-	1,094	(44)	(1,133)	(83)
4.2 Credit derivatives	4,129	7,117	(4,628)	(10,983)	(4,365)
Total	**2,828,277**	**4,448,134**	**(3,208,539)**	**(3,945,030)**	**138,334**

Section 5 - Fair value adjustments in hedge accounting – Item 90

5.1 Fair value adjustments in hedge accounting: breakdown

(in thousands of euro)	2014	2013
A. Revenues relating to:		
A.1 Fair value hedging derivatives	140,941	257,625
A.2 Hedged financial assets (fair value)	276,793	155,631
A.3 Hedged financial liabilities (fair value)	92,261	425,513
A.4 Financial hedging derivatives of the financial flows	-	-
A.5 Assets and liabilities in foreign currency	-	-
Total revenues of hedging activities *(A)*	**509,995**	**838,769**
B. Expenses relating to:		
B.1 Fair value hedging derivatives	(220,085)	(320,303)
B.2 Hedged financial assets (fair value)	(117,320)	(368,900)
B.3 Hedged financial liabilities (fair value)	(179,387)	(157,786)
B.4 Financial hedging derivatives of the financial flows	-	-
B.5 Assets and liabilities in foreign currency	-	-
Total hedging expense *(B)*	**(516,792)**	**(846,989)**
C. Fair value adjustments in hedge accounting *(A-B)*	**(6,797)**	**(8,220)**

Section 6 - Profits (losses) on disposal/repurchase – Item 100

6.1 Profits (losses) on disposal/repurchase: breakdown

(in thousands of euro)	2014			2013		
	Profits	Losses	Income (loss)	Profits	Losses	Income (loss)
Financial assets						
1. Due from banks	213	-	213	-	-	-
2. Loans to customers	7,508	(18,644)	(11,136)	7,921	(16,039)	(8,118)
3. Financial assets available for sale	57,105	(3,338)	53,767	142,591	(11,265)	131,326
3.1 Debt securities	27,014	(1,103)	25,911	42,570	(9,845)	32,725
3.2 Equity instruments	3,392	(1,096)	2,296	92,012	(990)	91,022
3.3 UCIT units	26,699	(1,139)	25,560	8,009	(430)	7,579
3.4 Loans	-	-	-	-	-	-
4. Investments held to maturity	-	-	-	-	-	-
Total Assets	**64,826**	**(21,982)**	**42,844**	**150,512**	**(27,304)**	**123,208**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities issued	-	(2,939)	(2,939)	33,487	(6,984)	26,503
Total Liabilities	**-**	**(2,939)**	**(2,939)**	**33,487**	**(6,984)**	**26,503**

Item 2. Loans to customers includes gains on disposal of securities included in the loans portfolio of euro 4.1 million, deriving from the repurchase of bond issues linked to securitisation SPEs subject to consolidation. The remaining portion, consisting of a net loss of euro 15.2 million, refers to the sale to third parties of non performing loans of small amounts.

Profits on disposal of financial assets available for sale deriving from debt securities mainly refer to Italian Government bonds. Note that the gains on equity instruments last year included the capital gains generated by the sale of Azimut Holding of euro 31.3 million and the change in the stakes held in the share capital of the Bank of Italy of euro 55.2 million.

The net result of the repurchase of debt securities issued in 2013 was a profit of euro 26.5 million and included the impact of the repurchase of Tier 1 and Tier 2 bonds issued by the Group of euro 29.3 million, net of the relative accessory charges, recorded under item 30 of statement of financial position liabilities.

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

7.1 Net change in value of financial assets/liabilities designated at fair value through profit and loss: breakdown

(in thousands of euro)	Capital gains (A)	Profits on disposal (B)	Capital losses (C)	Losses on disposal (D)	Income (loss) (A+B)-(C+D)
1. Financial assets	**1,487**	**842**	**(1,706)**	**(726)**	**(103)**
1.1 Debt securities	-	-	-	-	-
1.2 Equity instruments	30	8	-	-	38
1.3 UCIT units	1,457	834	(1,706)	(726)	(141)
1.4 Loans	-	-	-	-	-
2. Financial liabilities	**55,865**	**85,189**	**(175,592)**	**(9,223)**	**(43,761)**
2.1 Debt securities	55,865	85,189	(175,592)	(9,223)	(43,761)
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities in foreign currency: exchange rate differences	**X**	**X**	**X**	**X**	**(253)**
4. Credit and financial derivatives	**71,193**	**19,989**	**(87,850)**	**(4,940)**	**(1,608)**
Total	**128,545**	**106,020**	**(265,148)**	**(14,889)**	**(45,725)**

This item includes the net result of bonds for which the fair value option was used, in the same way as the result of their hedging derivatives. In this case, the use of the fair value option has satisfied the need to reduce the accounting asymmetry which would otherwise result from assessing the financial liabilities issued at amortised cost and the related hedging derivatives at fair value.
The effect resulting from the change in the creditworthiness of Banco Popolare was also considered in determining the fair value of the financial liabilities. Following the improvement of the creditworthiness of Banco Popolare compared to the previous year, a negative impact for a total amount of 38.8 million was registered in the income statement. For further details, reference is made to section 5 of liabilities in the statement of financial position of these notes to the financial statements, in relation to “Financial liabilities designated at fair value”.

Section 8 - Net losses/recoveries on impairment – Item 130

8.1 Net losses on impairment of loans: breakdown

(in thousands of euro)	Value adjustments			Recoveries				2014	2013
	Specific		Collective	Specific		Collective			
	Write-offs	Other		A	B	A	B		
A. Due from banks	-	-	-	-	28	-	291	319	(534)
- Loans	-	-	-	-	28	-	291	319	(534)
- Debt securities	-	-	-	-	-	-	-	-	-
B. Loans to customers:	(608,082)	(3,276,668)	(226,798)	309,351	312,800	-	13,319	(3,476,078)	(1,662,815)
Non performing loans purchased	-	-	X	-	-	X	X	-	-
- Loans	-	-	X	-	-	X	X	-	-
- Debt securities	-	-	X	-	-	X	X	-	-
Other loans	(608,082)	(3,276,668)	(226,798)	309,351	312,800	-	13,319	(3,476,078)	(1,662,815)
- Loans	(608,082)	(3,276,668)	(222,044)	309,351	312,800	-	13,319	(3,471,324)	(1,662,815)
- Debt securities	-	-	(4,754)	-	-	-	-	(4,754)	-
C. Total	**(608,082)**	**(3,276,668)**	**(226,798)**	**309,351**	**312,828**	**-**	**13,610**	**(3,475,759)**	**(1,663,349)**

A = From interest
B = Other recoveries

The credit valuations conducted in 2014 were affected by a series of improvements to policies and estimation parameters, both to reflect various management decisions regarding the loan monitoring process, and to seek to align the same as far as possible with the parameters adopted by the ECB in the Asset Quality Review exercise. For further details, the reader should refer to the paragraph entitled “Results of the Comprehensive Assessment exercise: impact on the accounts (disclosure required by Consob pursuant to art. 114, paragraph 5, of Italian Legislative Decree no. 58/98)” contained in the Report on Operations, as well as that illustrated in “Part A – Accounting policies” with regard to the considerations made for the accounting treatment of the consequent impact, classified as “changes in accounting estimates”.

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

(in thousands of euro)	Value adjustments Specific		Recoveries Specific		2014	2013
	Write-offs	Other	A	B		
A. Debt securities	-	(40)	-	-	(40)	(2,608)
B. Equity instruments	-	(10,222)	X	X	(10,222)	(86,125)
C. UCIT units	-	(7,331)	X	-	(7,331)	(35,662)
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	**-**	**(17,593)**	**-**	**-**	**(17,593)**	**(124,395)**

A = From interest
B = Other recoveries

Net losses on equity instruments also include write-downs of the book value of the investments in Earchimede of euro 3.4 million, in Gabetti Property Solutions of euro 2.3 million and in Palladio Finanziaria of euro 1.5 million, while net losses on UCIT units include the write-downs of private equity funds, on the basis of the rules set out in the strict internal valuation policy.

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

In 2014 and in the previous year, there were no value adjustments to investments held to maturity.

8.4 Net losses on impairment of other financial transactions: breakdown

(in thousands of euro)	Value adjustments			Recoveries				Total 2014	Total 2013
	Specific		Collective	Specific		Collective			
	Write-offs	Other		A	B	A	B		
A. Guarantees given	(460)	(68,428)	(18,500)	-	16,755	-	-	(70,633)	(28,613)
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	-	-	-	-	-	-	-
D. Other loans	(513)	(21,741)	(418)	-	365	-	-	(22,307)	(23,061)
E. *Total*	**(973)**	**(90,169)**	**(18,918)**	**-**	**17,120**	**-**	**-**	**(92,940)**	**(51,674)**

A= From interest
B= Other recoveries

Item A. Guarantees given - Net losses - On portfolio refers to the allocation made in relation to the stock of performing unsecured loans. In fact, as already described, for the 2014 annual report, the performing unsecured loans and irrevocable commitments to disburse funds to performing counterparties have been valuated using the collective valuation model to reflect the probability of disbursement of financial resources on the basis of homogeneous portfolios, in line with the methodology used for the calculation of the collective provisions for the cash exposures.
Such decision has also been taken in order to reflect the qualitative indications provided by the ECB.
The specific value adjustments and recoveries relating to the same item refer to unsecured loans linked to non-performing exposures.

Item D. Other transactions – Specific – Other includes the value adjustments to interest accrued on securities posted to loans to customers, deriving from securitisation transactions which led to a derecognition of the receivables for an amount of euro 11 million, as well as the value adjustment to other receivable not related to lending activity of euro 10.3 million.

Section 9 - Net premiums – Item 150

This item is not considered relevant for the Group.

Section 10 - Net other income and expense from insurance activities – Item 160

This item is not considered relevant for the Group.

Section 11 - Administrative expenses – Item 180

11.1 Personnel expenses: breakdown

(in thousands of euro)	2014	2013
1) Employees	1,408,179	1,420,093
a) wages and salaries	900,189	912,255
b) social security contributions	233,701	234,610
c) employee termination indemnities	46,621	50,040
d) social security expenditure	2,601	1,786
e) provision to employee termination indemnities	10,958	12,774
f) provision to pension fund and similar commitments:	8,470	8,864
- defined contribution	6,811	6,574
- defined benefit	1,659	2,290
g) payments to external supplementary pension plans:	23,274	24,230
- defined contribution	23,274	24,230
- defined benefit	-	-
h) costs deriving from payment agreements based on own equity instruments	(25)	247
i) other employee benefits	182,390	175,287
2) Other personnel in service	5,893	5,850
3) Directors and auditors	11,567	11,911
4) Retired personnel	241	430
5) Charge-back of expenses for employees seconded to other companies	(3,448)	(3,726)
6) Charge-back of expenses for third party employees seconded to the bank	195	84
Total	**1,422,627**	**1,434,642**

11.2 Average number of employees by category

	2014	2013
Employees	17,474	17,926
a) executives	283	304
b) total middle managers	7,273	7,445
of which: 3rd and 4th level	3,682	3,623
c) other employees	9,918	10,177
Other personnel	101	112
Average number of personnel	**17,575**	**18,038**

The average number of employees does not include directors and auditors. In the case of part-time employees, it is conventionally considered to be 70 percent.

11.3 Defined benefit company retirement plans: costs and revenues

(in thousands of euro)	2014	2013
a) Pension cost associated with current service	53	46
b) Pension cost associated with past service	-	-
c) Financial charges	1,606	1,964
d) Expected rate of return on plan assets	-	278
e) Actuarial gains and losses	-	-
f) Gains and losses from impairments or settlements	-	2
Total	**1,659**	**2,290**

11.4 Other employee benefits

The item related to other employee benefits is indicated in the previous table 11.1, point “i) other employee benefits” of euro 182.4 million, whereas the corresponding amount in 2013 was euro 175.3 million. This amount refers to contributions to canteen expenses, costs for insurance policies taken out in favour of employees, costs for employee professional refresher courses and loyalty bonuses, as well as the cost of leaving incentives provided during the year totalling euro 138.2 million (euro 135.5 million last year).

11.5 Other administrative expenses: breakdown

(in thousands of euro)	2014	2013
a) expenses relating to real estate:	197,042	191,121
- rentals and maintenance of premises	156,390	144,965
- cleaning expenses	11,526	11,620
- energy, water and heating	29,126	34,536
b) indirect taxes and duties	245,351	228,560
c) postal charges, telephone charges, printed materials and other office expenses	39,317	42,634
d) maintenance and rentals for furniture, machines and plants	27,690	38,168
e) professional and consulting services	77,067	90,358
f) fees for surveys and information	9,256	5,842
g) value supervision and escorting	13,627	12,987
h) services from third parties	143,315	143,378
i) advertising, representation and gifts	22,925	22,882
l) insurance premiums	12,254	10,998
m) transport, hiring and travel	32,269	39,890
n) other costs and sundry expenses	37,453	49,166
Total	**857,566**	**875,984**

Section 12 - Net provisions for risks and charges – Item 190

12.1 Net provisions for risks and charges: breakdown

(in thousands of euro)	Provisions	Reallocation of surpluses	2014	2013
Net provisions for risks and charges:	(94,613)	55,158	(39,455)	(121,431)
a) legal disputes	(60,267)	25,151	(35,116)	(1,848)
b) personnel expenses	(67)	356	289	12
c) other	(34,279)	29,651	(4,628)	(119,595)
Total	**(94,613)**	**55,158**	**(39,455)**	**(121,431)**

As at 31 December 2013, row c) other had also included the allocation made against the liabilities that had been considered likely to emerge from the enforcement of the guarantee issued by Banco Popolare to Generali Immobiliare Italia SGR as regards tax findings formulated against the above-mentioned management company regarding the failure to apply VAT to rent instalments that the Eracle Fund, managed by the management company, invoices to the Group company BP Property Management, as well as provisions recognised by Banca Aletti against the expense originating from the decision to settle the dispute with the Tax Authority out of court.

Section 13 – Net value adjustments to/recoveries on property and equipment - Item 200

13.1 Net value adjustments to property and equipment: breakdown

(in thousands of euro)	Depreciation (a)	Losses on impairment (b)	Value recoveries (c)	Net result (a+b-c)
A. Property and equipment				
A.1 Owned	(73,889)	(68,041)	479	(141,451)
- Used in operations	(52,826)	(13)	-	(52,839)
- For investment	(21,063)	(68,028)	479	(88,612)
A.2 Acquired under financial lease	(2,316)	-	-	(2,316)
- Used in operations	(160)	-	-	(160)
- For investment	(2,156)	-	-	(2,156)
Total	**(76,205)**	**(68,041)**	**479**	**(143,767)**

Section 14 – Net value adjustments to/recoveries on intangible assets – Item 210

14.1 Net value adjustments to intangible assets: breakdown

(in thousands of euro)	Amortisation (a)	Losses on impairment (b)	Value recoveries (c)	Net result (a+b-c)
A. Intangible assets				
A.1 Owned:	(69,018)	(39,000)	-	(108,018)
- internally generated	-	-	-	-
- other	(69,018)	(39,000)	-	(108,018)
A.2 Acquired under financial lease	-	-	-	-
Total	**(69,018)**	**(39,000)**	**-**	**(108,018)**

Section 15 - Other operating expenses and income – Item 220

15.1 Other operating expenses: breakdown

(in thousands of euro)	2014	2013
a) expenses on leased assets	10,279	9,627
b) depreciation of expenses for leasehold improvements	8,874	10,084
c) other	42,766	41,379
Total	**61,919**	**61,090**

The item “others” includes the costs of legal settlements that exceed the provisions for risks allocated of euro 13.2 million, operating losses relating to branch operations (theft, fraud, robberies and other damages) of euro 6.5 million, operating costs incurred by non-financial subsidiaries and out-of-period expenses for the remainder. The item also includes the costs incurred by Italease regarding receivables assigned without recourse or whose risks and benefits have been transferred to Alba Leasing, which are promptly charged back (with other operating income) to the above company.

15.2 Other operating income: breakdown

(in thousands of euro)	2014	2013
a) income on current accounts and loans	99,050	149,892
b) tax recovery	170,869	164,972
c) recovery of expenses	31,899	31,171
d) rents receivable on real estate	52,411	56,699
e) other	70,228	66,610
Total	**424,457**	**469,344**

The sub-item “income on current accounts and loans” refers to the “commissione di istruttoria veloce” (fast track fee) introduced by Italian Decree Law no. 201 of 6 December 2011, converted by Italian Law no. 214/2011.
Recovery of expenses mainly includes the recovery of legal expenses of euro 24.9 million (euro 26.0 million in the previous year) and recoveries of personnel expenses of euro 5.6 million (euro 3.5 million in 2013).
The sub-item “others” is mostly comprised of out-of-period income resulting from the collection of sums originating from settlements and various recoveries. It also includes income relating to Banca Italease for the charge back of costs incurred with regard to the receivables assigned without recourse or whose risks and benefits were transferred to Alba Leasing.

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

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

(in thousands of euro)	2014	2013
1) Jointly controlled companies		
A. Income	-	-
1. Revaluations	-	-
2. Profits on disposal	-	-
3. Recoveries	-	-
4. Other income	-	-
B. Expenses	-	-
1. Write-downs	-	-
2. Losses on impairment	-	-
3. Loss on disposal	-	-
4. Other expenses	-	-
Net income (loss)	**-**	**-**
2) Companies subject to significant influence		
A. Income	90,423	136,287
1. Revaluations	90,423	30,491
2. Profits on disposal	-	3
3. Recoveries	-	105,793
4. Other income	-	-
B. Expenses	(473)	(68,441)
1. Write-downs	(357)	(57,894)
2. Losses on impairment	-	(10,547)
3. Loss on disposal	(116)	-
4. Other expenses	-	-
Net income (loss)	**89,950**	**67,846**
Total	**89,950**	**67,846**

The items Revaluations and Write-downs include profits and losses, respectively totalling 90.4 million (of which 36.9 million for Popolare Vita, 39.7 million for Agos Ducato, euro 12.1 million for Avipop Assicurazioni and euro 1 million for Energreen) and euro -0.4 million (of which -0.2 million for Alba Leasing and -0.2 million for Immobiliare Marinai d'Italia), resulting from the net equity valuation of investments subject to significant influence.

Section 17 - Profit (loss) designated at fair value on property and equipment and intangible assets – Item 250

17.1 Profit (loss) designated at fair value (or revalued value) on property and equipment and intangible assets: breakdown

The Group does not hold property and equipment or intangible assets designated at fair value through profit or loss or revalued.

Section 18 – Value adjustments on goodwill – Item 260

18.1 Value adjustments on goodwill: breakdown

The results of tests on the recoverability of the goodwill recorded in the financial statements did not result in value adjustments for 2014 of euro 200 million.

For a description of how impairment testing on goodwill is conducted, please refer to the content of section 13 – Intangible assets, in part B of these notes to the consolidated financial statements.
Please refer to the content of Part A – Accounting policies for a description of the way in which losses on impairment of goodwill is calculated.

Section 19 - Profits (losses) on disposal of investments – Item 270

19.1 Profits (losses) on disposal of investments: breakdown

(in thousands of euro)	2014	2013
A. Properties	2,094	6,497
- Profits on disposal	2,310	6,731
- Losses on disposal	(216)	(234)
B. Other assets	367	(1,711)
- Profits on disposal	1,628	626
- Losses on disposal	(1,261)	(2,337)
Net income (loss)	**2,461**	**4,786**

The gains on disposal of "Other assets" refer mainly to the disposals during the year of assets deriving from financial lease, relating to the sub-group Italease.

Section 20 - Taxes on income from continuing operations – Item 290

20.1 Taxes on income from continuing operations: breakdown

(in thousands of euro)		2014	2013
1.	Current taxes (-)	(173,426)	(356,187)
2.	Changes in current taxes of prior periods (+/-)	(528)	(7,059)
3.	Decreases in current taxes for the year (+)	7,772	-
3.bis	Decreases in current taxes for the year due to tax credit pursuant to Law 214/2011 (+)	203,428	310,756
4.	Change in deferred tax assets (+/-)	714,006	104,617
5.	Change in deferred tax liabilities (+/-)	63,830	44,115
6.	**Income taxes for the period (-) (-1 +/- 2 + 3 +/- 4 +/- 5)**	**815,082**	**96,242**

Income taxes for the period include the negative non-recurring impact of euro 14.5 million resulting from the recalculation of substitute tax on the higher values recognised in the 2013 financial statements relating to the stake in the Bank of Italy. Italian Decree Law no. 66/2014 (spending review) converted, with amendments into Italian Law no. 89/2014 reviewed the tax treatment of stakes in the Bank of Italy, envisaging the application of a substitute tax of 26% with respect to the previous rate of 12%.

20.2 Reconciliation between theoretical tax expense and actual tax expense of the financial statements

IRES	2014		2013	
Income (loss) before tax from continuing operations		**(2,799,639)**		**(686,943)**
Negative components of gross profit definitively not relevant (+)		**383,991**		**450,305**
non-deductible interest expense	80,106		93,160	
capital losses on disposal and on measurement of investments / AFS	11,346		153,291	
non-deductible taxes other than income taxes (net of the deductible portion of IMU property tax)	22,338		24,437	
losses on non-deductible receivables	2,527		1,948	
administrative expenses with limited deductibility	7,217		9,563	
other non-deductible expenses	31,476		40,394	
impairment of goodwill	200,000		-	
losses of companies abroad	2,074		1,356	
provisions for tax disputes	7,940		110,689	
other	18,967		15,467	
Positive components of gross profit definitively not relevant (-)		**(103,705)**		**(239,571)**
non-relevant portion of gains on disposal and on measurement of investments / AFS	(91,273)		(167,449)	
non-relevant portion of dividends before consolidation entries	(63,394)		(77,011)	
cancellation of infragroup dividends	57,051		78,865	
impact of consolidation of infragroup investments in associates and companies subject to joint control	(1,996)		(1,973)	
revaluation of stakes in the share capital of Bankitalia subject to 12% substitute tax pursuant to art. 1, paragraph 143 of Law 147/2013	-		(55,218)	
other	(4,093)		(16,785)	
Final increases not related to gross profit components (+)		**50**		**508**
other	50		508	
Final decreases not related to gross profit components (-)		**(207,545)**		**(175,644)**
deductible donations made though special fund set up during profit distribution	-		(2,368)	
recovery of infragroup interest expense deductibility for tax consolidation scheme	(11,563)		(23,058)	
lump-sum deduction of 10% IRAP and IRAP deduction on employee costs	(59,015)		(62,014)	
share of income subsidisable for ACE (Aid for Economic Growth)	(123,804)		(67,545)	
other	(13,163)		(20,659)	
IRES calculation base to income statement		**(2,726,848)**		**(651,345)**
IRES nominal rate	**27.50%**		**27.50%**	
Actual IRES		**749,883**		**179,120**
IRES tax rate		**26.78%**		**26.07%**

IRAP	2014		2013	
Income (loss) before tax from continuing operations		**(2,799,639)**		**(686,943)**
Negative components of gross profit definitively not relevant (+)		**1,604,686**		**1,621,957**
non-deductible interest expense	81,983		98,355	
non-deductible portion of depreciation on assets used in operations	73,519		18,855	
other non-deductible administrative expenses	135,005		131,993	
personnel expenses net of allowed deductions (decrease in tax wedge, the disabled, etc.)	972,773		947,381	
other value adjustments pursuant to item 130 Income Statement (including net adjustments on loans for 2012)	51,993		214,922	
net provisions for risks and charges	52,442		113,523	
other operating expenses	19,953		16,190	
losses on investments in associates and companies subject to joint control	-		69,056	
non-relevant losses on the disposal of investments	930		1,559	
impairment of goodwill	200,000		-	
losses of companies abroad	2,074		1,356	
impact of consolidation of infragroup investments in associates and companies subject to joint control				
other	14,014		8,767	
Positive components of gross profit definitively not relevant (-)		**(254,669)**		**(420,298)**
profits on investments in associates and companies subject to joint control	(90,423)		(135,944)	
non-relevant portion of dividends before consolidation entries	(45,608)		(56,618)	
cancellation of infragroup dividends	57,051		78,865	
other operating income	(122,599)		(178,041)	
non-relevant profits on disposal of investments	(5)		(258)	
impact of consolidation of infragroup investments in associates and companies subject to joint control	(1,996)		(2,520)	
revaluation of stakes in the share capital of Bankitalia subject to 12% substitute tax pursuant to art. 1, paragraph 143 of Law 147/2013	-		(55,218)	
other	(51,089)		(70,564)	
Final increases not related to gross profit components (+)		**-**		**90,989**
other	-		90,989	
Final decreases not related to gross profit components (-)		**(31,768)**		**(45,692)**
others (mainly recapture of non-relevant negative components from previous years)	(31,768)		(45,692)	
IRAP CALCULATION BASE TO INCOME STATEMENT		**(1,481,390)**		**560,013**
IRAP weighted average nominal rate	**5.39%**		**5.19%**	
Actual IRAP		**79,883**		**(29,065)**
IRAP tax rate		**2.85%**		**-4.23%**

Non-relevant IRES and IRAP and other taxes	2014		2013	
Total impact		**14,685**		**53,813**
IRES - Current, pre-paid and deferred taxation of prior periods	32		(23,303)	
IRES - additional 8.5%	-		(21,051)	
IRAP - Current, pre-paid and deferred taxation of prior periods	757		(1,245)	
Taxes on the profits of companies consolidated line-by-line	-		(204)	
Foreign taxes	(998)		(1,304)	
Higher substitute tax from 12% to 26% on the Bank of Italy revaluation under art. 44 of Italian Decree Law 66/2014	(14,476)		(6,706)	
		-0.52%		**-7.83%**

Total taxes on gross profit	2014		2013	
Total IRES + IRAP + Other taxes		**815,081**		**96,242**
Overall tax rate		**29.11%**		**14.01%**

Section 21 - Income (loss) after tax from discontinued operations – Item 310

21.1 Income (loss) after tax from discontinued operations: breakdown

(in thousands of euro)	2014	2013
1. Income	-	27,011
2. Expenses	-	(56,026)
3. Result of measurements of group of assets and related liabilities	-	-
4. Profit (loss) on disposal	(48)	(94)
5. Taxes and duties	-	(234)
Income (loss)	**(48)**	**(29,343)**

This item, both for the current year and for 2013, includes the contribution to the income statement of the subsidiary BP Croatia, classified as a discontinued operation as at 31 December 2013 and finally sold in 2014.

21.2 Breakdown of income taxes relating to discontinued operations

(in thousands of euro)	2014	2013
1. Current taxation (-)	-	(6)
2. Change in deferred tax assets (+/-)	-	(233)
3. Change in deferred tax liabilities (-/+)	-	5
4. Income taxes for the year (-1 +/- 2 +/- 3)	**-**	**(234)**

Section 22 - Net income (loss) attributable to minority interests – Item 330

22.1 Breakdown of item 330 "Net income (loss) attributable to minority interests"

Company name	2014	2013
Investments consolidated with significant minority interests		
1. Credito Bergamasco	-	(396)
Other investments	(38,714)	(13,353)
Total	**(38,714)**	**(13,749)**

Section 23 - Other information

There is no other important information to report in addition to what was already indicated in the previous sections.

Section 24 - Earnings per share

	31 December 2014			31 December 2013		
	Annualised attributable result (euro)	Weighted average of ordinary shares	EPS (euro)	Annualised attributable result (euro)	Weighted average of ordinary shares (*)	EPS (euro)
Basic EPS	(1,945,891,425)	299,291,673	(6,502)	(606,295,146)	176,373,081	(3,438)
Diluted EPS	(1,945,891,425)	299,291,673	(6,502)	(606,295,146)	176,373,081	(3,438)

(*) the figures of the weighted average of ordinary shares have been restated to provide a like-for-like comparison.

24.1 Average number of ordinary shares with diluted capital

Note that as at 31 December 2014, Basic EPS coincides with Diluted EPS: an "anti-dilutive" effect was recorded for the only active instrument with potential diluting effects, represented by the "Banco Popolare 2010/2014 4.75%" convertible bond issue, which was redeemed on maturity on 24 March 2014.

24.2 Other information

There is no other important information to report in addition to what was already indicated in the previous sections.

PART D – STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

Analytical statement of consolidated comprehensive income

Items *(in thousands of euro)*	Gross amount	Income tax	Net amount
10 Net income (loss)	**X**	**X**	**(1,984,605)**
Other comprehensive income after tax without reclassification to profit or loss:			
20 Property and equipment	-	-	-
30 Intangible assets	-	-	-
40 Defined benefit plans	(48,068)	13,199	(34,869)
50 Non-current assets held for sale:	-	-	-
60 Share of valuation reserves related to investments in associates carried at equity:	(290)	79	(211)
Other comprehensive income after tax with reclassification to profit or loss:			
70 Foreign investment hedges:	-	-	-
a) changes in fair value	-	-	-
b) reclassification to profit or loss	-	-	-
c) other changes	-	-	-
80 Exchange rate differences:	-	-	-
a) changes in fair value	-	-	-
b) reclassification to profit or loss	-	-	-
c) other changes	-	-	-
90 Cash flow hedges:	3,102	(1,100)	2,002
a) changes in fair value	3,102	(1,100)	2,002
b) reclassification to profit or loss	-	-	-
c) other changes	-	-	-
100 Financial assets available for sale:	194,987	(58,659)	136,328
a) changes in fair value	249,352	(76,120)	173,232
b) reclassification to profit or loss			
- losses on impairment	(121)	8	(113)
- profit (loss) on disposal	(54,244)	17,888	(36,356)
c) other changes	-	(435)	(435)
110 Non-current assets held for sale:	-	-	-
a) changes in fair value	-	-	-
b) reclassification to profit or loss	-	-	-
c) other changes	-	-	-
120 Share of valuation reserves related to investments in associates carried at equity:	(9,782)	3,747	(6,035)
a) changes in fair value	(9,782)	3,747	(6,035)
b) reclassification to profit or loss			
- losses on impairment	-	-	-
- profit (loss) on disposal	-	-	-
c) other changes	-	-	-
130 Total other comprehensive income	**139,949**	**(42,734)**	**97,215**
140 Comprehensive Income (Items 10+130)			**(1,887,390)**
150 Consolidated comprehensive income attributable to minority interests			38,721
160 Consolidated comprehensive income attributable to the Parent Company			**(1,848,669)**

PART E – INFORMATION ON RISKS AND RELATIVE HEDGING POLICIES

The document containing the information referring to the Banco Popolare Group and related to capital adequacy, exposure to risk and the general characteristics of the systems set in place to identify, measure and manage risk (the so-called "Pillar III"), in compliance with the circular of the Bank of Italy no. 285 of 17 December 2013 and specifically Part Eight of CRR EU Regulation no. 575/2013, is made available under the provisions of the regulations in the Investor Relations section of the web site www.bancopopolare.it.

Section 1 refers exclusively to the Banking Group, unless otherwise expressly indicated. The tables show figures gross of relations with other consolidated companies.

Section 1 - Risks of the Banking Group

The Banco Popolare Group and the companies that belong to the same seek to respect criteria of prudence and reduced exposure to risk in their business activities, as regards:
- the need for stability in the exercise of banking activities;
- the profiles of its investors;
- its cooperative origins and the values of cooperative lending (credito popolare).

The Group's overall propensity to risk is measured summarily by identifying, within the Group's capital assets (own funds/regulatory capital), a capital component that is not exposed to risk-taking (unexpected losses), but that is used to pursue medium-long term business continuity, the gradual strengthening of capital and the maintenance of business flexibility (so-called strategic capital reserve), as well as the capital coverage of impacts caused by the occurrence of severe, but plausible situations of stress (so-called stress capital).
In line with its own propensity to risk, the Group and its subsidiaries pursue the following policies in particular: the distribution of credit risk, in line with the objective of mainly lending to small and medium enterprises and retail customers, market risk-taking in relation to commercial requirements as well as to property investment opportunities, close monitoring of liquidity for the purpose of ensuring the ability to promptly deal with expected and unexpected financial requirements as well as the exclusion of risks unrelated to core business activities and the accurate assessment of initiatives that entail new types of risk.
In order to adequately pursue these objectives, generally focused on prudent management, the risk governance process is based on specific organisational measures (regulations, systems, processes, resources, etc.) and on the availability of adequate capital coverage, as well as on an overall system of company values and incentives (for example, risk-based incentive systems), and on a selected organisational model, all of which contribute to reducing exposure to risk or to minimising its impacts. In particular, the Group continues to provide specific training and extensive dedicated training, also for the purpose of disseminating and promoting a solid and robust risk culture throughout the bank. In recent years, we would like to mention, in particular, several schemes, targeted to all Group personnel, carried out through specific training courses (both classroom-based and online) on subjects such as operating risks (in the wider framework of AMA validation), compliance, security, administrative liability of banks, MiFID regulations, anti-money laundering, and CAI (Interbank Register of Bad Cheques and Payment Cards) regulations, as well as occupational health and safety.
The Group boasts an organizational structure, corporate processes, human resources and skills that are well suited to guarantee the identification, monitoring, control and management of the various risks that characterise its business activity, with the objective of protecting the Group's equity financial solidity and reputation against undesired events.
Within the Group, the operational undertaking of corporate risks is specifically disciplined by the system of risk limits. With the exception of liquidity risk (for which a "maturity ladder" is used), the limits are defined in terms of VaR (Value at Risk) and represent the maximum level of potential losses which it is believed can be sustained on a consistent basis with the risk-return profile chosen by the Group. Responsibility for observance of each limit is assigned to specific corporate functions/bodies which govern the operational leverages and determine the dynamics of the risks.
This system of limits breaks down as follows:
- an overall risk limit, measured with reference to all significant risks the Group is exposed to;
- limits for the main types of Group risks (credit risk, counterparty risk, trading book market risk, banking book market risk, operating risk, interest rate risk on the banking portfolio and liquidity risk);
- maximum loss limits applicable to market risk;
- operational and supervisory indicators to monitor liquidity risk;
- prudential limits for risk assets with related parties.

The specific limits for each type of risk are also structured into detailed sub-limits which refer, according to the type of risk, to the individual legal entity, to positions in debt securities (CFV, AFS, HTM, L&R), and to the main risk factors (human resources, operating procedures, execution of processes, system functioning and the weight of external

factors). This categorisation complies with the need to allow improved monitoring and to a more efficient handling of risks by the parties responsible. Accordingly, the limits undertake operational leverage validity as well.
With regard to the liquidity risk, the exposure limits are defined by means of the structure of the maturity ladder, where the future cash flows generated by the expiry of the financial and loan brokerage transactions are placed within the corresponding time brackets. Net requirements are established by means of the algebraic sum of expected in- and out-flows of liquidity. The purpose of liquidity risk limits is to verify the ability of available liquid reserves to ensure coverage of net liquidity requirements. Maximum limits are also envisaged for the concentration of funding by counterparty and wholesale source.
The system of limits (overall and specific) is also supported by detailed operational limits, specific to risk type, which envisage the use of statistical and traditional indicators (e.g. sensitivity and stop loss limits), calculated with reference to given organisational units (e.g. the Investment Bank desks that manage market risk) or specific operating areas (e.g. limits relating to the financial risks of foreign banks), as well as clearly identified risk components (e.g. the risk of concentration of exposures within credit risk).
The process to establish the overall system of limits entails continuous verification and review/recalibration usually on an annual basis, at the same time as the review of the strategic plan and/or as the formulation of the new budget, as well as in the case of events able to substantially change exposure to risk and/or available capital.
It should also be noted that with reference to that envisaged in Heading V, Chapter V of Circular 263/2006 “New prudential supervisory provisions for banks”, as of December 2012, the Group has adopted a system of limits for propensity to risk, relating to its risk exposure towards Related Parties (company representatives, subsidiaries or companies subject to significant influence, relative related parties).

The Group is exposed to the following types of risk when conducting its traditional business activities:

- credit and counterparty risk; this category also includes concentration risk and residual risk;
- market risk;
- operating risk;
- interest rate risk of the banking portfolio;
- liquidity risk;
- business risk;
- risk relating to equity instruments in the banking portfolio;
- strategic risk;
- reputational risk;
- securitisation risk;
- real estate risk;
- goodwill risk;
- compliance (or non-conformity) risk;
- risk from defined benefit pension plans.

The following additional risks are considered significant and are assessed/examined in more depth (in terms of monitoring and managing the same):

- country risk;
- transfer risk;
- basis risk;
- IT risk;
- risk of excessive financial leverage.

Country, transfer, basic, excessive financial leverage and IT risks are specifically referred to in the 15th update of Circular no. 263/2006 (July 2013) and in Circular no. 285 of 17 December 2013.

Stress testing

The Group has used a detailed stress testing system for some time, understood as the set of quantitative and qualitative techniques used by the bank to assess its vulnerability to exceptional, but plausible events.
Stress tests aim to assess the effects on the bank’s risks of specific events (sensitivity analysis) or of joint movements in a set of economic-financial variables in the event of adverse scenarios (scenario analysis), or with reference to individual risks (specific stress tests) or several risks together (joint stress test).
These tests allow identification of the risk factors that contribute more than others to this negative result and consequently allow implementation of loss-limiting strategies when these scenarios occur.
The Group uses these tools to support other risk management and measurement techniques, with a view to:

- providing a prospective view of risks and their economic and financial impacts;
- overcoming the limits of the risk management models based on historical data (i.e., the HVaR model with reading of the last 250 observations);
- providing input data for capital and liquidity planning processes, also with a view to defining the portion of capital reserves (difference between Regulatory Capital and the total amount of Economic Capital) suitable to cover the negative impacts of applying the stress tests;

- providing indications of a bank's level of risk "tolerance";
- assessing the development of risk mitigation and recovery plans in certain stress situations.

The stress testing methods described above are applied as part of the Group ICAAP process, for the purpose of a more comprehensive, accurate assessment of future capital adequacy.
Defining capital reserves within Group equity that not only ensures coverage of current and future risks, but also guarantees capital reserves that can be used for other purposes is an essential, mandatory condition for covering model risk and the impacts of stress tests, supporting the Group's current operations and operating strategies, as well as specifically ensuring long-term operational continuity.

Other risks

In addition to credit risk, market risk, liquidity risk and operating risk, which are illustrated extensively in the following paragraphs, the Banco Popolare Group has identified and monitors the following other risks.

Strategic risk: is the risk of a fall in income or capital as a result of changes in the competitive scenario or of wrong strategic business decisions, of an inappropriate implementation of strategic decisions, of a poor reaction or failure to react to changes in the competitive scenario. For example, the risk may come from unexpected changes in the key indices used as reference for the strategic plan (for example projected levels of GDP or inflation, retail customers' savings, expected corporate investments in different economic sectors or geographical areas, etc.), different to market expectations, leading to a positive effect on the Group's expected results, which then may not actually be fully achieved.
The constant monitoring of operating performance, of the company's key financials and of all the other important variables, whether the same are internal or external to the Group, allows this risk to be reduced to a minimum, making it possible to take timely corrective action and/or make adjustment should competitive or market circumstances change.

Reputational risk: is the risk of a fall in income or capital as a result of a negative perception of the bank's image in the eyes of customers, counterparties, bank shareholders, investors or supervisory authorities, as a result of specific critical events impacting, for example, specific operational areas, products or processes. The Banco Popolare Group makes a special effort to constantly improving its image and consolidating its reputation, and it implements a preventive policy on various fronts, in particular:

- customer protection, by guaranteeing an adequate information flow that enables them to make informed financial decisions;
- attentive and incisive verification, not only formal, of the coherence of operational procedures and company conduct with external and internal regulations and policies.

Strategic risk and reputational risk are characterized by the fact that they are risk classes that are mainly monitored by group structures, through the application of experimental assessment methodologies, also regarding their quantitative assessment.

Business risk: is the risk of incurring losses, in terms of a decrease in expected net interest and other banking income (net of the impact of credit and market risks), due to changes in the macro- or micro-economic environments, leading to a fall in volumes and/or margin squeeze, that may reduce the bank's ability to make profit.
In particular, the Group is exposed to the risk of fluctuations of commission income from investment services. This risk is managed and minimized through commercial policies and measures aimed at building customer loyalty, so as to render the provision of services stable and profitable, and at maintaining a high value added and innovative offer of products and services, in line with our customers' present and future needs.

Risk relating to equity instruments in the banking portfolio: is the current or future risk of a change in fair value resulting from market volatility or the situation of individual issuers. The equity instruments in question are equity instruments available for sale (AFS) and investments in associates and companies subject to joint control (item 100 of Balance Sheet Assets in the consolidated financial statements). Equity investments subtracted from the calculation of Regulatory Capital and those held in individual Group companies are excluded from the scope of calculation of the risk, as specific risk assessment models are already applied to the same.

Real estate risk: is the risk of a fall in the market value of proprietary real estate assets, as a result of price changes on the Italian real estate market. This risk is monitored by specific technical structures set up within the Group.

Securitisation risk: is the risk that the economic substance of a securitisation transaction is not fully reflected in risk assessment and management decisions. To manage this risk, Banco has set up a specialised structure in charge of defining securitisation transactions relating to its own assets. Among other things, this structure is in charge of selecting the portfolio to be disposed, of defining the structure to be adopted and of reviewing the documents prepared by the assigned lawyer.

Compliance (or non-conformity) risk: is the risk of incurring administrative and legal sanctions as a result of the non-conformity of internal regulations (and corporate procedures) with external regulations, and of corporate governance codes and internal codes of conduct. Compliance risk also arises in situations of non-conformity that may cause material financial losses and reputational damage. For further information on the work performed by the Group's Compliance functions, please refer to the specific paragraph in the Report on Operations.

Goodwill risk: is the present or future risk that the value of the goodwill recorded in the financial statements is higher than that which can actually be realised.

Risk from defined benefit pension plans: is the risk that, as regards defined benefit pension plans, the contributions paid in/allocated are not sufficient to cover the benefits guaranteed in relation to unexpected demographic trends (so-called actuarial risk) and/or that the assets in which said contributions have been invested fail to make sufficient returns (so-called financial risk), with consequent additional amounts to be paid by the bank.

Country risk: is the risk of losses caused by events that occur in a country other than Italy. The concept of country risk is wider than that of sovereign risk as it refers to all exposures regardless of the nature of the counterparties, which may be natural persons, enterprises, banks or the public administration.

Transfer risk: is the risk that a bank, with exposure towards a party with funding in a currency different to that of its main source of income, incurs losses due to the difficulty of the debtor to convert its currency into the currency of the exposure.

Basis risk: within market risk, basis risk is the risk of losses caused by mismatches between the values of positions with opposite signs, which are similar but not identical. When considering this risk, banks must pay special attention; by calculating the capital requirement for the position risk according to the standardised approach, they can offset the positions in one or more equity instruments included in a share index with one or more positions in futures/other derivatives related to said index or they can offset opposite positions in futures on share indices, which are not identical in terms of maturity, composition or both.

Risk of excessive financial leverage: is the risk that a particularly high level of indebtedness with respect to own funds makes the bank vulnerable, meaning that corrective measures need to be adopted as regards the business plan, including the sale of assets, recognising losses, which could result in value adjustments to the remaining assets as well.

IT risk: is the risk of incurring economic losses, reputational damage and the loss of market share related to the use of Information and Communication Technology - ICT).

Risks associated with shareholding caps and with the exercise of voting rights

Art. 30 of the Consolidated Banking Law states that in a cooperative bank (banca popolare) no-one may possess an interest exceeding 1% of the share capital (and the articles of association may also establish lower thresholds, although no lower than 0.5%); UCITS are subject to the limits set by their own specific regulations. Should Banco Popolare determine that said threshold has been exceeded, and in any case within the terms envisaged by provisions in force, it must immediately notify the shareholder and the intermediary of said infringement. The shares exceeding the threshold must be transferred within one year of the notice, after which time the relevant capital rights accrued are acquired by Banco Popolare.
Art. 30 of the Consolidated Banking Law states that the shareholders of cooperative banks are entitled to only one vote, irrespective of the number of shares they hold. Furthermore, art. 23 of the Articles of Association states that each Shareholder - on condition that the same are not a Board member or Statutory auditor, or employee of Banco Popolare, or a member of the administrative or control bodies or an employee of companies directly or indirectly controlled by Banco Popolare, or of the independent auditors who have been assigned to audit the accounts, or the person legally responsible for auditing the accounts of Banco Popolare and that do not satisfy one of the other conditions of incompatibility provided for by law - may represent not more than two other Shareholders at a Shareholders' Meeting, by means of a proxy.
In addition, note that in the Official Gazette dated 24 January 2015, Italian Legislative Decree no. 3 of 24 January 2015 was published ("Urgent measures for the banking system and investments"). The Decree will take effect from 25 January 2015, and will be submitted to the Chambers for conversion into law; this process may entail significant changes to the provisions contained in the same.
This Legislative Decree (art. 1) envisages considerable changes to the regulation of cooperative banks, contained in Italian Legislative Decree no. 385 of 1 September 1993 (CBL), with regard to which we draw attention to the following:
A) general rules pertaining to cooperative banks, through the addition, in article 29 of the CBL of the following further provisions: (i) a new paragraph 2-bis, according to which the assets of a cooperative bank may not exceed the threshold of euro 8 billion, calculated at consolidated level in the case of a parent company; (ii) a new paragraph 2-ter, by virtue of which, if said threshold is surpassed, the Board of Directors of the cooperative bank are bound to convene a

shareholders' meeting to resolve on the matter. If within one year of surpassing said threshold, the assets have not been brought to below the same, and the company has not been transformed into a joint stock company or liquidated, based on the circumstances and the extent by which the threshold has been surpassed, the Bank of Italy may issue a prohibition to enter into new transactions pursuant to article 78 of the CBL, or may implement the measures envisaged by national law on the extraordinary administration of banks (articles 70-77 CBL), or it may submit a proposal to the European Central Bank to revoke authorisation to engage in banking activity and to the Ministry of the economy and finance for administrative compulsory liquidation, without prejudice to the powers attributed to the Bank of Italy by the CBL to intervene and to grant sanctions; (iii) a new paragraph 2-quater, which prescribes that the Bank of Italy may dictate implementing provisions for art. 29 of the CBL, as amended. As a further amendment to art. 29, the text also envisages the abrogation of the current paragraph 3, under which the competent corporate bodies of cooperative banks may appoint the management and control bodies.
B) changes to regulations regarding transformations and mergers of cooperative banks, through the replacement of the entire wording of art. 31 of the CBL with provisions according to which resolutions for transformations into joint stock companies or mergers that result in joint stock companies must be passed by the formation and decision-making quorums prescribed by the same regulation; in the case of withdrawal, the regulation established in art. 28, amended, (according to which the right to reimbursement is restricted in accordance with that envisaged by the Bank of Italy, also as a departure from the law, where the shares must be included in the calculation of the bank's primary quality regulatory capital);
C) the rewording of art. 150-bis CBL (transitory and final provisions regarding cooperative banks), according to which: (i) the list of Italian Civil Code provisions applicable to cooperative banks has been amended; (ii) a provision, which marks a departure from the rules of the Italian Civil Code regarding cooperatives, which prescribes that the articles of association of cooperative banks must establish the maximum number of proxies that may be conferred by a member, specifying that, in any event, said number may not be less than 10 or more than 20.
For the initial application of the Decree, cooperative banks are bound to comply with the new general rules, and namely the new wording of art. 29 CBL within 18 months from the entry into force of the above-mentioned implementing provisions to be issued by the Bank of Italy.

The internal risk control system

The entire risk management and control process is coordinated by Banco Popolare, in its dual capacity as Parent Company and entity in which all the functions of mutual interest to the Group are located.
The Board of Directors has a fundamental role in the management and control of risk, at Group level, as it decides the strategic direction, approves risk management policies and assesses the level of efficiency and adequacy of the system of internal controls, in particular with regard to risk control. The Board of Directors resolves on changes to be made to the Group's risk regulations in relation to changes in management and in the reference market. The Board of Directors of subsidiary companies, on the basis of Group guidelines, establish management and operational procedures for their company risks.
As regards preparatory and advisory activities relating to the internal control and monitoring of corporate risks, the Board of Directors of the Parent Company has the support of the Committee for Internal Control and Risks, set up within the same. The Group Risk Committee, which is made up of the Managing Director and representatives of the Parent Company's main departments, assists the Parent Company's Board of Directors and the individual Boards of Directors in formulating risk policies and takes action to correct situations that do not comply with said policies.
The Board of Statutory Auditors oversees the effectiveness and adequacy of the system of risk management and control, as well as internal auditing and the working and adequacy of the entire system of internal control.

As envisaged by prudential supervision, the internal control system of a banking intermediary must envisage, in addition to the line controls made by operating structures and incorporated in procedures (first level controls), the presence of specific organisational units, dedicated to second level (Risk Management and Compliance) and third level (Audit) controls.

The **Risks Department**, the organisational unit that reports directly to Banco Popolare's Managing Director, oversees, at Group level and in an integrated way, risk management, measurement and control processes, compliance risk, the process of validating internal risk measurement models and the legal support and advisory process for the Parent Company and for Group Companies. The Risks Department and its internal structures are independent from operational functions and activities.
More specifically, the organisational structures that play a lead role in risk management are the Risk Management Service and the Compliance Service; these are responsible for coordinating the following activities:

Risk Management Service:

- identifying, measuring and managing credit risk, contributing to the calculation of the corresponding minimum capital requirements and establishing, managing and optimising the Internal Rating System; developing and maintaining methods, models and measurement metrics for credit risk, with particular reference to internal models used to calculate risk factors (PD, LGD and EAD), as well as credit risk from an operational approach (credit-VaR);

- identifying, measuring and managing market risk; establishing measurement methods, verifying reliability periods, proposing and monitoring operating thresholds; validating pricing models and processes for financial instruments and contributing to the calculation of minimum capital requirements; identifying, measuring and managing counterparty risk; managing the risks of customers to whom the Group provides investment services and distributes financial products;
- establishing and developing methods to identify, assess, monitor and report transformation risks (interest rate and liquidity risk), identifying and establishing appropriate operating thresholds; measuring and managing said risks; preparing adequate reports for the Company's decision-making bodies and for the Companies monitored;
- identifying, measuring, monitoring, managing and mitigating operating risk; developing and updating methods, models and measurement metrics for operating risk at consolidated and individual level, from a regulatory and management perspective; establishing minimum capital requirements; identifying and establishing appropriate operating thresholds; formulating proposals for mitigation measures;
- estimating overall risk exposure; assessing the Group's current and future capital adequacy (ordinary and stressed); proposing objectives and thresholds in terms of overall risk; identifying and modelling risk, even new types of risk; coordinating disclosure processes (financial statements, Third pillar, rating agencies); assessment of significant transactions;
- checking the performance monitoring of exposures classified as performing and non performing loans, checking the consistency of classifications, the adequacy of the credit collection process and the adequacy of provisions.

The Risk Management Service also guarantees the development and continuous improvement of the methods, models and metrics for the measurement of risks, also through projects to implement and enact advanced models, to align with the standards that are gaining recognition at international level over time, to implement supervisory regulations and directives, and to develop increasingly effective controls.
The Service is responsible for managing, measuring and controlling risk (the so-called risk management function) relating to the Parent Company, as well as on behalf of the Group's Italian banks and other companies by virtue of specific outsourcing contracts. Risk Management policy is developed through the Group Risk Committee and the Finance and ALM Committee of the Parent Company. The Finance and ALM Committee meets periodically and oversees market, interest rate and liquidity risk management measures, defining the Group's funding policies.
The current organisational structure of the Risk Management Service includes four in-line functions (Credit Risk, Market Risk, Operating Risk, Interest Rate and Liquidity Risk) and a Function (Credit Monitoring and Control) and an Office reporting to the Manager (Risk Integration).

Compliance Service:

- assisting top management and Group companies to identify, assess, mitigate, manage and monitor the compliance risk of the activities performed by the Group's banking, financial and special purpose entities;
- ensuring the coordination and supervision of all of Banco's compliance activities as well as those of Group Banks/Companies;
- ensuring the compliance of the decisions taken by Banco's Management Bodies with legislation;
- managing conflicts of interest, prevention of usury and money laundering risk at Group level;
- verifying the coherence of the company's bonus system with objectives to comply with the relevant regulations, articles of association, codes of ethics and of conduct;
- setting in place periodic information flows to top management, to internal bodies and to the services involved, that are able to represent the main risks of non compliance with the law that Parent Company and Group Banks/Companies are bound to observe.

Again as regards internal control, the Bank has established an Internal Validation Service (reporting to the Risks Management Department), responsible for the processes to validate the Banco Popolare Group's risk measurement and management systems. These activities are performed independently both by the functions in charge of risk measurement and management and by the internal audit function.
The service is responsible for continuously and interactively validating risk measurement and management systems in order to assess their adequacy with respect to legislative requirements, operational needs as well as those of the relevant market.
Therefore, the following activities are considered to be exclusive to the Internal Validation function:

- validation, with a view to assessing the adequacy of risk measurement and management systems with respect to legislative requirements, operational needs as well as those of the relevant market and to formulating an opinion as to the overall performance of the above-cited systems, their regular functioning, their effective use in the various management areas, also by identifying any problem areas and any improvements needed;
- periodic analyses, with a view to verifying performance, calibrating parameters, and, in general, checking the correct functioning of risk measurement and management systems, as well as the execution of benchmarking and stress testing;
- periodic issue of recommendations to the functions involved in the risk measurement and management

processes regarding performance and the functioning and the use of risk measurement and management systems;
- validation of internal capital measurements for all important risks quantified in the ICAAP through internal methods;
- transmission of a periodic report to the Internal Audit Function, to the Risks Committee, to the Committee for Internal Control and Risks and to the Board of Statutory Auditors;
- preparation of validation reports to be submitted to the Board of Directors and to the Board of Statutory Auditors to assist resolutions declaring the compliance of risk measurement and management systems to legislative requirements and therefore in the application to the Bank of Italy to use the same to calculate capital requirements;
- preparation of the annual validation report, indicating any problem areas and/or areas for improvement as regards risk measurement and management systems, to be submitted to the Development Functions, to the Internal Audit Function and to Corporate Bodies.

Internal auditing of the Banco Popolare Group is carried out by Banco Popolare's **Audit Department**, both by coordinating with local structures (foreign companies) and by conducting auditing and monitoring exercises - in loco and remotely - at the Group Banks and Product Companies, under a specific outsourcing contract, namely as Parent Company. The Group's Audit Department reports hierarchically to the Managing Director and also reports to the Chairman of the Board of Directors. For further information on the activities performed by the Internal Audit function, refer to the corresponding section in the Report on Operations.
For further information on the internal control system, on the legal auditing of accounts and on the certification of the compliance of accounting documents, ledgers and accounting entries with legal requirements by the Manager responsible for preparing the Company's financial reports, refer to the Report on corporate governance and shareholding structure.

The Internal Basel Project

Credit and market risk

On 18 May 2012, Banco Popolare received the authorisation of the Supervisory Authority for the adoption of its own internal models for the regulatory measurement of credit risk and market risk for figures as at 30 June 2012.
In the provisions of its authorisation, the Supervisory Authority indicated the minimum consolidated level of capital requirement against First Pillar risks, which may not be lower than 85% (floor) of the standard capital requirement calculated according to the Supervisory Instructions for Banks in force up until 2006 (so-called "Basel 1").

In terms of **credit risk**, the authorisation regards the advanced internal rating models (PD, for both monitoring and acceptance, and LGD) regarding loans to corporate and retail customers of Banco Popolare and Credito Bergamasco.
The standard regulatory approach will continue to be adopted, for prudential reasons, for loans portfolios that are not included in the scope of first validation A-IRB, including those relating to Banca Aletti and to former Banca Italease Group companies.
In 2013, Banco Popolare concluded that expressly requested by the Supervisory Authority in the letter authorising the use of internal models, by introducing, as of December 2013, a new rating scale, thus eliminating the previous dual system of a Master Scale and Local Scales and the LGD within approval processes.
In addition, a plan for the development of internal rating models has been prepared and submitted to the Supervisory Authority relating to the segments and companies that have not been included in the scope of validation. The exposures included in the Roll Out are specifically:
- PD and LGD models: with regard to Banca Aletti, the release of both the PD model (for "first acceptance" and under monitoring) and the LGD model is envisaged by 2015, while as regards the companies of the former Italease Group, the release of the PD model (for "first acceptance" and under monitoring) and the LGD one is envisaged by 2017;
- model to estimate "Exposure at Default" (EAD): the release of the model for all Group banks (Banco Popolare, Banca Aletti, companies of the former Italease Group - Banca Italease and Release) is envisaged from 2016 and not beyond 2017;
- credit exposures towards supervised intermediaries: the release of PD, LGD and EAD models for Banco Popolare, Banca Aletti and the former Italease Group is envisaged by the end of 2017.

As regards **market risk** the Banco Popolare Group has obtained the authorisation of the Supervisory Authority to use an internal model to calculate capital absorption for the trading portfolios of Banca Aletti and of the Parent Company.
The scope of application is the generic and specific risk of equity instruments, the generic risk of debt securities and the risk relating to UCIT units. The remaining market risks will continue to be measured using the "standard" approach and a Roll Out is not envisaged.

Operating Risk

As regards **operating risk**, in the second half of 2012, a project called "Operational Risk - AMA" was launched, with a view to adopting, at consolidated level, the AMA method for the calculation of capital requirements for operating risk. The level of development achieved by the Group in the management of operating risk, also as a result of the measures implemented in 2013 and 2014, therefore enabled it to obtain the approval of the Bank of Italy, on 5 August 2014, for the use of advanced supervisory methods (AMA – Advanced Measurement Approach), from Supervisory Reporting from 30 June 2014 for Banco Popolare companies (including the former subsidiary Credito Bergamasco incorporated in June 2014), Banca Aletti, SGS BP and BP Property Management. The other Group companies will adopt the BIA (Basic Indicator Approach) method for reporting, in line with the adoption of the combined use of AMA/BIA, which envisages for the latter, if they do not surpass established materiality thresholds, the permanent use of the basic method (PPU, partial permanent use). In this regard, the Group has agreed with the Bank of Italy to extend the use of AMA methods (roll-out plan) to Aletti Gestielle and Banca Italease, for Supervisory Reporting which is expected to start as of 31 December 2015.

More specifically, in 2014, the Group implemented the following measures:

- it consolidated the new decentralised operating risk management system, launched in 2013, by introducing "new" specialist positions (ORM Contacts) in charge of local management in Central Departments and the Commercial Network;
- it continued to rationalise the processes used to collect internal loss data from the Commercial Network and Central Departments, and make the same more efficient, also by adapting the IT infrastructure, as well as through special training/information courses provided by ORM staff (centralised and decentralised) to the personnel in charge of recording operating losses;
- it implemented the corrective measures requested by the Bank of Italy at the pre-validation stage, both as regards the processes/risk management component, and as regards the model;
- it consolidated and further strengthened the 2014 campaign relating to the Risk Self Assessment process, which is conducted using a set of questionnaires given to business owners, with a view to assessing the Group's future exposure to operating risk;
- the new continuous assessment process became fully operational, on a quarterly basis, the aim of which is to investigate and assess the exposure to operating risk, specifically referring the development of the internal and external operating scenarios and the vulnerable areas relating to the most significant operating risk events;
- it continuously updated, again for the purpose of configuring the overall risk management framework, the Internal Regulations of the Operational Risk Measurement and Management System, and adapted the related process regulations;
- it further extended the circulation of management and operating reporting, by creating and generating, in particular, a quarterly management report for the individual Divisions of the Banco Popolare Network;
- the final AMA calculation model, validated by the Supervisory Authority, was implemented, characterised by the adoption of solutions based on principles that are simple to apply, transparent, use robust and conservative methods, and adopt familiar statistical tools that are widely used in literature and that are not discretional;
- as of reporting dated 31 December 2014, it updated the method to calculate the relevant Indicator used in the BIA and TSA calculation methods, as envisaged in Community Regulation 575/2013;
- it continued to expand IT architecture, achieving the integration of all functions to store and process operating loss data, with applications tools which enable the offices in charge of risk management to perform use-tests.

1.1 CREDIT RISK

QUALITATIVE INFORMATION

1. General aspects

Credit risk is the risk that a Group borrower (including therein counterparties to financial transactions in OTC derivatives – in this case, it is more correct to speak of counterparty risk) fully or partially fails to fulfil his obligations or that the creditworthiness of the same deteriorates, resulting in damage to the Group. In the area of credit risk, concentration risk is also important. This risk derives from exposure to counterparties, to a group of related counterparties insofar as they operate in the same economic sector or conduct the same business activity or belong to the same geographic area.

The Banco Popolare Group pursues lending policy objectives that seek to:
- support the growth of the business activities operating in its market territories, with a strong customer relationship focus on small and medium sized companies, as well as on retail customers;
- diversify its portfolio, limiting loan concentration on single counterparties/groups, on single sectors of economic activity or geographical areas;
- adopt a homogeneous and univocal credit management model based on rules, methodologies, processes, IT procedures and internal regulations harmonised and standardised across all Group Banks.

The credit portfolio monitoring, carried out by the Parent Company's Loans Department, is focused on the performance analysis of risk profile of economic sectors, geographical areas, customer segments and types of granted credit lines, as well as on other analysed spheres of action, allowing the definition of possible corrective actions at central level. Reports are produced periodically and submitted to the Management Bodies of the Parent Company.

2. Credit risk management policies

2.1 Organisational aspects

As credit intermediation is a core activity of the Group, it is exposed to the risk that granted loans are not paid back, either partially or in full, by borrowers when due. This risk is sensitive to the performance of the domestic and international economic scenario, structural and technological changes in the borrowing companies, changes in the competitive position of the counterparties, structural macroeconomic factors, and other external factors such as regulatory and legal requirements.
The organisational model of the Group with respect to its lending activity complies with the following principles:
- the Parent Company guarantees a consistent management, planning, coordination and control of the credit process and of the associated credit risks for the banks and product companies, by defining policies, procedures and processes, assessment criteria, adequate organisational, operational, IT and training tools and making sure that they are adopted by the companies of the Group;
- the banks and operating companies of the Group autonomously assess and approve the loans they grant directly, i.e., within the present limits established by the Parent Company, and retain the ownership of the relationships and of the related profit and risk components;
- the banks and operating companies cooperate with the Parent Company to prepare lending regulations, procedures and instruments, by contributing their know-how and expertise deriving from their direct relationships with customers and their lending activities on the territory.

With the aim of optimising credit quality and minimising the global credit risk cost for both the Group and the single companies, under the Group organisational model the Parent Company's Loans Department is in charge of developing lending activities and loan policy guidelines for the banks and companies of the Group.
To fully implement the Group lending model, the subsidiary banks and companies actively:
- adopt the criteria, instruments and procedures to analyse creditworthiness and the method to assess loans in keeping with the instructions issued by the Parent company;
- ensure the constant compliance with the overall and individual ceilings fixed for "large risks", both at single unit and at Group level;
- define the structure of the decision-making bodies and of internal power delegation mechanisms in compliance with the Parent Company instructions;
- ensure the monitoring of borrowers and customers in general, by performing the first level controls in keeping with the Parent Company instructions.

With respect to the procedures to assess creditworthiness, and the approval and management of positions, each lending company adopts its own structure of decision-making bodies and defines the delegated powers to authorise loans, in keeping with the guidelines issued by the Parent Company.

The autonomy levels of decision-making bodies are defined in terms of credit line towards the risk group. The rating, up to predefined amounts, shall define who is authorised to approve the loan.
Guidelines have been set at Group level, defining how to behave with respect to credit risk-taking, to avoid excessive concentrations, limit potential losses and guarantee credit quality. In particular, in the loan approval phase, the Parent Company exercises its role of management, direction and support for the Group by defining:

- lending rules, regulating credit risk-taking modalities with respect to customers;
- the lending ceiling, that is, the global limit for loans that Group companies can grant to larger risk groups;
- the prior approval on the total amount of loans that can be granted to a single customer or a group of customers borrowing from the Banco Popolare Group.

2.2 Management, measurement and control systems

The Banco Popolare Group makes use of an elaborate set of instruments to monitor credit portfolio quality. Their calculation is based on models that are differentiated and estimated specifically for each customer segment (large corporate, mid corporate plus, mid corporate, small business, retail and banks).
Rating plays a key role in loan granting, monitoring and management processes: more specifically, if positions appear to have conflicting ratings, the Rating Desk is requested to examine them and to assess the possible change of the rating in question (override process). The rating plays a role in deciding which are the competent bodies to approve loans, as well as on the mechanism for the automatic renewal of uncommitted credit facilities, and it contributes to guide the decisions of loan managers when classifying positions based on their performance.

The procedure supporting the monitoring of non performing loans intercepts the causes that could potentially result in positions becoming problematic at a later stage, identifying them in advance. There are multiple signals that differ depending on the gravity of the situation, and their correct interpretation enables the phenomenon of credit impairment to be avoided and to take a course of action to remove the causes.
With respect to retail customers, a specific process is in place, supported by an IT procedure, which sets out precise actions along well defined timings to bring the position back to performing and to recover the defaulted amount.
As to the internal lending limits of the Banco Popolare Group, in addition to the compliance with risk concentration limits defined by supervisory regulations, whenever a preset loan threshold is exceeded in case of major customers, the Group Loans Department must resolve maximum ceilings or the Parent Company’s competent boards must express their opinion thereon.

The Parent Company also decides the ‘country’ classification and the Group-wise maximum exposure level for each country.

Portfolio risk monitoring is based on a default model that is applied on a monthly basis mainly to credit exposures of the Banco Popolare Group, with regard to performing loans, cash loans and endorsement credits, of resident customers. For further details on the general features of this model, refer to paragraph “D. Banking group - Credit risk measurement models”.
For exposures - other than performing loans with ordinary and financial resident customers - risk is controlled through the use of supervisory regulatory metrics (Standard/Irb).

In 2014, work to implement and monitor credit policy guidelines continued. The purpose of these guidelines for the development and reorganisation of the credit portfolio is to improve its risk-return ratio and to contain the cost of credit risk, in line with the target risk profile defined by company bodies, the available capital and the planned economic and financial objectives.

2.3 Credit risk mitigation techniques

The Group has always kept a watchful eye on the acquisition of loan collaterals and securities, i.e. the use of applications and techniques that mitigate credit risk. When deemed necessary, the typical bank guarantees are acquired, namely mortgages on properties, collaterals on securities in addition to personal guarantees issued by the guarantors.
In general, the decision on the acquisition of a guarantee is based on the customer’s creditworthiness and on the characteristics of the transaction. Following this analysis, it may be deemed appropriate to obtain additional guarantees to mitigate credit risk, considering the estimated recoverable value offered by the collateral.
The system for the recording of collateral property used to guarantee lending transactions, which also enables the property to be periodically evaluated, has been consolidated.
The value of the financial collaterals is constantly and automatically monitored, enabling a comparison between the present value of the collateral and the initial one, and to allow the manager to act promptly in the event that the collateral incurs a significant impairment loss.
As regards collateral represented by a pledge on securities, an automatic warning system is in place, which is triggered when impairment goes beyond a certain threshold value, reporting the same to the customer relationship manager so that the same may take prompt action.
With regard to derivative transactions with market counterparties, we favour entities with which we have entered into

agreements requiring the provision of collateral, especially ISDA - Credit Support Annex, so as to obtain a significant credit risk mitigation.

2.4 Non performing financial assets

Special dedicated units within the Group are in charge of managing non performing loans, which operate by means of predefined management and recovery methods that differ depending on the type of loan by amount and risk profile, supported by suitable dedicated procedures.
In 2014 a new specialist procedure was released called PEG (Electronic Management Procedure), which means that a fair part of the process which involves several people handling the same position can now be managed automatically.
Non performing loans are classified according to specific criteria, based on prudence, and objective risk parameters, also taking account of the continuous evolution of legal regulations.
A new company policy has been in place since 24 November 2014, which redefines the criteria used to estimate expected losses for non performing loans. The new method identifies the specific level of risk of each position based on the amount of the exposure, the general technical category, the type of customer as well as the nature of the guarantee used to secure the loan.

This criterion uses the LGD (Loss Given Default) parameter, the application of which differs depending on the status and the extent of the exposure: with regard to these exposures, the manager in charge of the same may propose increases to the expected losses calculated automatically.
In general, non performing loans include loans that give rise to a severely abnormal evolution of the business relations between the customer and the Group banks, serious irregularities found in the reports to the Central Credit Register, a worrying situation of financial accounts, the onset of adverse events that may restrict the creditworthiness, decrease the value of the guarantees or impair the loan. Value adjustments are measured on an individual basis for each single position, they are based on the criteria of prudence in relation to the possibilities of actual recovery, also related to the existence of any collateral and they are regularly verified.

In particular, all non-performing positions are managed by a specific unit within the Parent Company's Loans Department, which applies specialist management processes depending on the characteristics of the loan, to improve the possibility of recovery and to optimise the ratio between costs and collection percentages. As a result, the activity is oriented towards an economic result, by favouring, whenever possible, out-of-court settlements and focusing on timely and rapid recovery.

QUANTITATIVE INFORMATION

A. Credit quality

The credit valuations conducted in 2014 were affected by a series of improvements to policies and estimation parameters, both to reflect various management decisions regarding the loan monitoring process, and to seek to align the same as far as possible with the parameters adopted by the ECB in the Asset Quality Review exercise. For further details, the reader should refer to the paragraph entitled “Results of the Comprehensive Assessment exercise: impact on the accounts (disclosure required by Consob pursuant to art. 114, paragraph 5, of Italian Legislative Decree no. 58/98)” contained in the Report on Operations, as well as that illustrated in “Part A – Accounting policies” with regard to the considerations made for the accounting treatment of the consequent impact, classified as “changes in accounting estimates”.

A.1 Non performing and performing loans: amounts, value adjustments, trends, economic and geographical breakdown

A.1.1 Breakdown of financial assets by portfolio and credit quality (book value)

(in thousands of euro)	Banking group						Other companies		Total
	Bad loans	Substandard loans	Restructured loans	Past due non performing loans	Past due performing loans	Other assets	Non performing	Other	
1. Financial assets held for trading	98	36,592	8,293	818	90	6,288,254	-	27,604	6,361,749
2. Financial assets available for sale	626	-	530	-	-	12,357,203	-	-	12,358,359
3. Investments held to maturity	-	-	-	-	-	4,948,433	-	-	4,948,433
4. Due from banks	733	220	-	-	2,000	4,205,568	-	850,295	5,058,816
5. Loans to customers	5,999,977	6,654,817	1,251,067	344,365	2,496,892	63,075,223	-	1,262	79,823,603
6. Financial assets designated at fair value through profit and loss	-	-	-	-	-	-	-	-	-
7. Financial assets held for disposal	-	-	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	579,196	-	61,163	640,359
Total (31/12/2014)	**6,001,434**	**6,691,629**	**1,259,890**	**345,183**	**2,498,982**	**91,453,877**	**-**	**940,324**	**109,191,319**
Total (31/12/2013)	**5,530,803**	**6,682,645**	**1,086,198**	**777,304**	**3,432,743**	**95,186,885**	**-**	**306,315**	**113,002,893**

The figures in this table referring to the Banking Group are indicated excluding all the intragroup relations, including the relations with other consolidated companies.

A.1.2 Breakdown of exposures by portfolio and credit quality (gross and net values)

(in thousands of euro)	Non performing assett			Performing			Total
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	
A. Banking group							
1. Financial assets held for trading	122,472	(76,671)	45,801	X	X	6,288,344	6,334,145
2. Financial assets available for sale	1,156	-	1,156	12,357,203	-	12,357,203	12,358,359
3. Investments held to maturity	-	-	-	4,948,433	-	4,948,433	4,948,433
4. Due from banks	17,895	(16,942)	953	4,207,568	-	4,207,568	4,208,521
5. Loans to customers	21,664,697	(7,414,471)	14,250,226	65,995,238	(423,123)	65,572,115	79,822,341
6. Financial assets designated at fair value through profit and loss	-	-	-	X	X	-	-
7. Financial assets held for disposal	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	X	X	579,196	579,196
Total A	**21,806,220**	**(7,508,084)**	**14,298,136**	**87,508,442**	**(423,123)**	**93,952,859**	**108,250,995**
B. Other consolidated companies							
1. Financial assets held for trading	-	-	-	X	X	27,604	27,604
2. Financial assets available for sale	-	-	-	-	-	-	-
3. Investments held to maturity	-	-	-	-	-	-	-
4. Due from banks	-	-	-	850,295	-	850,295	850,295
5. Loans to customers	-	-	-	1,262	-	1,262	1,262
6. Financial assets designated at fair value through profit and loss	-	-	-	X	X	-	-
7. Financial assets held for disposal	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	X	X	61,163	61,163
Total B	**-**	**-**	**-**	**851,557**	**-**	**940,324**	**940,324**
31/12/2014	**21,806,220**	**(7,508,084)**	**14,298,136**	**88,359,999**	**(423,123)**	**94,893,183**	**109,191,319**
31/12/2013	**19,351,632**	**(5,274,682)**	**14,076,950**	**91,527,002**	**(300,764)**	**98,925,943**	**113,002,893**

The figures in this table referring to the Banking Group are indicated excluding all the intragroup relations, including the relations with other consolidated companies.

Disclosure on “performing forborne exposure” and “past due performing loans”

Past due performing loans
The following table provides an analysis of performing loans based on the amount of time for which is past due, in line with the requirements of accounting standard IFRS 7. In this regard, note that the amount indicated in correspondence to the various time brackets of the past due exposures refers to the total exposure of the loan and not to the portion overdue and not paid, which could represent an insignificant share of the loan. In addition, it must be noted that the number of days overdue has been calculated on the basis of the provisions of the Supervisory Authority which, for certain collective forbearance agreements, envisage a block of the calculation of the days for which the exposure remains in the past due status for the entire period of effectiveness of the suspension.

Performing forborne exposure by virtue of collective agreements or granted by the individual bank
The table also shows forborne exposures following agreements made by the Group independently, or by virtue of collective agreements, the conditions and functioning of which are regulated by law, internal protocol or conventions stipulated by Trade Associations or Federations and which still exist as at 31 December 2014.
More specifically, forborne exposures are those characterised by “measures of tolerance” granted to customers in financial difficulty (so-called exposures subject to “forbearance” measures). The indicated in the table corresponds to the total exposure of the relationship, irrespective of the actual amount of the moratorium granted (one or more instalments).
When identifying the exposures in question, reference is made to the Implementing Technical Standard (ITS) published by the EBA in draft form on 21 October 2013, and finally approved by the European Commission on 9 January 2015. The cited document contains the definitions of “Forborne” and “Non performing” exposures with the objective of achieving a harmonised classification at European level; said definitions were used as reference in the Asset Quality Review, as recommended by the same EBA.
In order to assimilate the provisions of the EBA, the Parent Company’s Board of Directors resolved on 11 November 2014 a policy on “Forbearance Exposures” has been drawn up, which establishes the principles and the criteria to adopt for the classification of exposures as “forborne”, regardless of whether they are performing or non performing. The provisions of the new policy and the consequent integration with the IT system, rendered operational in January following the approval of the Community Regulation, will be fully applied over the course of 2015. For further details, the reader should refer to the paragraph entitled “Results of the Comprehensive Assessment exercise: impact on the accounts (disclosure required by Consob pursuant to art. 114, paragraph 5, of Italian Legislative Decree no. 58/98)” contained in the Report on Operations.
It should also be noted that, following the above-cited approval, on 20 January 2015, the Supervisory Authority published an update to Circular no. 272, in which the prudential criteria to apply are defined, for the purpose of classifying credit quality, as of 1 January 2015. More specifically, the exposure categories “performing loans”, “bad loans”, “substandard loans”, “past due/overdrafts non performing”, “restructured” will be replaced by the new categories “performing”, “bad loans”, “probable default”, “past due/overdraft non performing”, with relation to which evidence of “forborne” exposures will be required across the board. The new criteria will also be applied in financial statements disclosures: as illustrated in Part A – Accounting policies” of these notes to the financial statements, the identification of non performing loans on the financial statements will be made on the basis of the rules established by the Bank of Italy, as considered consistent with those of international accounting standards IAS/IFRS.

Breakdown of past due and forborne exposure – net exposure *(in thousands of euro)*	31/12/2014					
	Not past due	Past due up to 3 months	Past due from 3 to 6 months	Past due from 6 months to 1 year	Past due over 1 year	Total
Performing forborne exposure under collective agreements:						
1. Financial assets held for trading	-	-	-	-	-	-
2. Financial assets available for sale	-	-	-	-	-	-
3. Investments held to maturity	-	-	-	-	-	-
4. Due from banks	-	-	-	-	-	-
5. Loans to customers	49,185	-	-	-	-	49,185
6. Financial assets designated at fair value through profit and loss	-	-	-	-	-	-
7. Financial assets held for disposal	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-
Total performing forborne exposure under collective agreements	**49,185**	**-**	**-**	**-**	**-**	**49,185**
Performing forborne exposure granted by the bank:						
1. Financial assets held for trading	-	-	-	-	-	-
2. Financial assets available for sale	-	-	-	-	-	-
3. Investments held to maturity	-	-	-	-	-	-
4. Due from banks	-	-	-	-	-	-
5. Loans to customers	450,679	47,286	19,409	33,406	-	550,780
6. Financial assets designated at fair value through profit and loss	-	-	-	-	-	-
7. Financial assets held for disposal	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-
Total performing forborne exposure granted by the bank	**450,679**	**47,286**	**19,409**	**33,406**	**-**	**550,780**
Other performing loans:						
1. Financial assets held for trading	6,315,858	21	46	23	-	6,315,948
2. Financial assets available for sale	12,357,203	-	-	-	-	12,357,203
3. Investments held to maturity	4,948,433	-	-	-	-	4,948,433
4. Due from banks	5,055,863	2,000	-	-	-	5,057,863
5. Loans to customers	62,576,621	1,794,111	378,581	213,492	10,607	64,973,412
6. Financial assets designated at fair value through profit and loss	-	-	-	-	-	-
7. Financial assets held for disposal	-	-	-	-	-	-
8. Hedging derivatives	640,359	-	-	-	-	640,359
Total other performing loans	**91,894,337**	**1,796,132**	**378,627**	**213,515**	**10,607**	**94,293,218**
Total 31/12/2014	**92,394,201**	**1,843,418**	**398,036**	**246,921**	**10,607**	**94,893,183**
Total 31/12/2013	**95,493,201**	**2,375,027**	**540,721**	**481,180**	**35,815**	**98,925,944**

In this regard, it should be noted that the amount of the forborne exposures under collective agreements, recorded in the notes to the financial statements last year and amounting to euro 1,314.4 million, referred to the entire amount granted, regardless of whether the financial difficulty requirement was fulfilled or not, in accordance with the provisions of the previous version of Circular no. 262. The same figure, in 2014, was euro 1,111.6 million.

A.1.3 Banking Group – Cash and off-statement of financial position exposures to banks: gross and net values

(in thousands of euro)	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure
A. Cash exposures				
a) Bad loans	17,637	(16,904)	X	733
b) Substandard loans	258	(38)	X	220
c) Restructured loans	-	-	X	-
d) Past due loans	-	-	X	-
e) Other assets	6,986,939	X	-	6,986,939
Total A	**7,004,834**	**(16,942)**	**-**	**6,987,892**
B. Off-statement of financial position exposures				
a) Non performing	-	-	X	-
b) Other	2,411,656	X	(84)	2,411,572
Total B	**2,411,656**	**-**	**(84)**	**2,411,572**
Total A + B	**9,416,490**	**(16,942)**	**(84)**	**9,399,464**

A.1.4 Banking Group – Cash exposures to banks: changes in gross non performing loans

(in thousands of euro)	Bad loans	Substandard loans	Restructured loans	Past due loans
A. Gross exposure: opening balance	**25,244**	**-**	**-**	**-**
- of which: exposures sold not derecognised	-	-	-	-
B. Increases	**-**	**258**	**-**	**-**
B.1 Inflows from performing loans	-	258	-	-
B.2 Transfers from other categories of non performing loans	-	-	-	-
B.3 Other increases	-	-	-	-
C. Decreases	**(7,607)**	**-**	**-**	**-**
C.1 Outflows to performing loans	-	-	-	-
C.2 Write-offs	(6,804)	-	-	-
C.3 Repayments	-	-	-	-
C.4 Gains on disposals	(719)	-	-	-
C.4 bis Losses on disposal	-	-	-	-
C.5 Transfers to other categories of non performing loans	-	-	-	-
C.6 Other decreases	(84)	-	-	-
D. Gross exposure: closing balance	**17,637**	**258**	**-**	**-**
- of which: exposures sold not derecognised	-	-	-	-

A.1.5 Banking Group – Cash exposures to banks: changes in total value adjustments

(in thousands of euro)	Bad loans	Substandard loans	Past due loans	Past due loans
A. Total adjustments: opening balance	**23,989**	**-**	**-**	**-**
- of which: exposures sold not derecognised	-	-	-	-
B. Increases	**-**	**38**	**-**	**-**
B.1 value adjustments	-	38	-	-
B.1 bis losses on disposal	-	-	-	-
B.2 transfers from other categories of non performing loans	-	-	-	-
B.3 other increases	-	-	-	-
C. Decreases	**(7,085)**	**-**	**-**	**-**
C.1 recoveries from valuation	-	-	-	-
C.2 recoveries from repayment	-	-	-	-
C.2 bis profits on disposal	(212)	-	-	-
C.3 write-offs	(6,804)	-	-	-
C.4 transfers to other categories of non performing loans	-	-	-	-
C.5 other decreases	(69)	-	-	-
D. Total adjustments: closing balance	**16,904**	**38**	**-**	**-**
- of which: exposures sold not derecognised	-	-	-	-

A.1.6 Banking Group – Cash and off-statement of financial position exposures to customers: gross and net values

Portfolios / Quality (in thousands of euro)	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure
A. CASH EXPOSURES				
a) Bad loans before derecognition of receivables relating to insolvency proceedings	14,575,600	(8,574,997)	X	6,000,603
b) Bad loans relating to insolvency proceedings derecognised	4,048,215	(4,048,215)	X	-
c) Bad loans after derecognition of receivables relating to insolvency proceedings (a-b)	10,527,385	(4,526,782)	X	6,000,603
d) Substandard loans	9,114,863	(2,381,193)	X	6,733,670
e) Restructured loans	1,715,199	(463,602)	X	1,251,597
f) Past due non performing loans	414,834	(70,469)	X	344,365
g) Other assets	85,703,427	X	(423,123)	85,280,304
Total A	**107,475,708**	**(7,442,046)**	**(423,123)**	**99,610,539**
B. OFF-STATEMENT OF FINANCIAL POSITION EXPOSURES				
a) Non performing	744,193	(161,975)	X	582,218
b) Other	11,144,737	X	(18,547)	11,126,190
Total B	**11,888,930**	**(161,975)**	**(18,547)**	**11,708,408**
Total A + B	**119,364,638**	**(7,604,021)**	**(441,670)**	**111,318,947**

Bad loans relating to debtors subject to insolvency proceedings

The Bank of Italy Circular no. 272 dated 30 July 2008 (IV update dated 18 December 2012) envisages the option to derecognise the portion of bad loans deemed unrecoverable from the accounts. The cited regulation includes the decision made by competent corporate bodies which, by means of a specific resolution, have acknowledged the non-recoverability of all or part of the loan or have ceased collection proceedings for economic reasons, as a circumstance for derecognition. Group banks exercised this option in the current year and in previous years. The derecognition regarded the part deemed non-recoverable of all receivables due from debtors, who, during the year, were subject to insolvency proceedings (bankruptcy, administrative compulsory liquidation, arrangement with creditors, extraordinary receivership of large companies in difficulty), even though the banks were regularly admitted as creditors in the insolvency proceedings for the entire amount of the receivable in question.
More specifically, in 2014, bad loans (to the extent of the part deemed non-recoverable) amounting to euro 992.7 million were derecognised. At the time of derecognition, specific adjusting entries were in place for around euro 361.6 million, following value adjustments on loans already charged to the income statement. Therefore, the derecognition resulted in charges to the income statement of around euro 631.1 million.
In 2014, insolvency proceedings involving receivables totalling euro 243.7 million that had already been derecognised in previous years were finalised.
As a result of the above changes, as at 31 December 2014, bad loans derecognised relating to insolvency proceedings that were still under way amounted to euro 4,048.2 million.
In order to calculate the effective level of coverage of bad loans, the amount of the above-mentioned derecognised receivables must also be taken into account.

As at 31 December 2014 the exposures subject to agreements with creditors to be defined and/or on a going concern basis are classified as non performing loans and valued consistently, in line with the specifications of the Bank of Italy in its letter to the entire banking system of 11 February 2014.

A.1.7 Banking Group – Cash exposures to customers: changes in gross non performing loans

(in thousands of euro)		Bad loans before derecognition (*)	Bad loans after derecognition	Substandard loans	Restructured loans	Past due loans
A.	**Gross exposure: opening balance**	**12,220,451**	**8,921,190**	**8,173,272**	**1,316,968**	**831,334**
	- of which: exposures sold not derecognised	268,024	267,886	180,754	4,437	11,037
B.	**Increases**	**3,324,117**	**3,324,117**	**4,869,396**	**1,111,161**	**605,457**
	B.1 Inflows from performing loans	437,491	437,491	3,420,158	533,736	484,754
	B.2 Transfers from other categories of non performing loans	2,415,292	2,415,292	811,353	272,981	5,292
	B.3 Other increases	471,334	471,334	637,885	304,444	115,411
C.	**Decreases**	**(968,969)**	**(1,717,921)**	**(3,927,805)**	**(712,930)**	**(1,021,957)**
	C.1 Outflows to performing loans	(12,287)	(12,287)	(586,477)	(138,866)	(130,691)
	C.2 Write-offs	(453,554)	(1,202,506)	(61,731)	(20,314)	(2,031)
	C.3 Repayments	(407,785)	(407,785)	(723,076)	(297,381)	(123,334)
	C.4 Gains on disposals	(6,641)	(6,641)	(5)	(1,708)	-
	C.4.bis Losses on disposal	(42,755)	(42,755)	-	-	-
	C.5 Transfers to other categories of non performing loans	(7,929)	(7,929)	(2,476,893)	(254,219)	(765,877)
	C.6 Other decreases	(38,018)	(38,018)	(79,623)	(442)	(24)
D.	**Gross exposure: closing balance**	**14,575,599**	**10,527,386**	**9,114,863**	**1,715,199**	**414,834**
	- of which: exposures sold not derecognised	171,715	171,381	70,371	1,356	6,611

(*) The column shows bad loans including the part of the receivable retained non-recoverable, relating to debtors subject to insolvency proceedings still under way, which have been derecognised in advance (with respect to the date of closure of the insolvency proceedings).

A.1.8 Banking Group – Cash exposures to customers: changes in total value adjustments

(in thousands of euro)		Bad loans before derecognition (*)	Bad loans after derecognition	Substandard loans	Restructured loans	Past due loans
A.	**Total adjustments: opening balance**	**6,691,153**	**3,391,891**	**1,508,815**	**233,214**	**57,771**
	- of which: exposures sold not derecognised	83,782	83,644	31,932	142	225
B.	**Increases**	**2,788,498**	**2,788,498**	**1,575,748**	**354,923**	**80,574**
	B.1 value adjustments	2,046,282	2,046,282	1,471,437	287,789	79,004
	B.1 bis losses on disposal	11,284	11,284	901	6,396	-
	B.2 transfers from other categories of non performing loans	409,535	409,535	83,896	60,132	647
	B.3 other increases	321,397	321,397	19,514	606	923
C.	**Decreases**	**(904,655)**	**(1,653,607)**	**(703,370)**	**(124,535)**	**(67,876)**
	C.1 recoveries from valuation	(290,433)	(290,433)	(137,200)	(35,428)	(8,968)
	C.2 recoveries from repayment	(90,955)	(90,955)	(33,775)	(24,896)	(367)
	C.2 bis profits on disposal	(2,538)	(2,538)	(1)	(862)	-
	C.3 write-offs	(496,309)	(1,245,261)	(61,731)	(20,314)	(2,031)
	C.4 transfers to other categories of non performing loans	(3,089)	(3,089)	(452,983)	(42,742)	(55,396)
	C.5 other decreases	(21,331)	(21,331)	(17,680)	(293)	(1,114)
D.	**Total adjustments: closing balance**	**8,574,996**	**4,526,782**	**2,381,193**	**463,602**	**70,469**
	- of which: exposures sold not derecognised	59,537	59,203	8,018	135	720

(*) The column shows value adjustments including those relating to bad loans of debtors subject to insolvency proceedings still under way, which have been derecognised in advance (with respect to the date of closure of the insolvency proceedings) with reference to the part retained non-recoverable.

A.2 Classification of exposures based on internal and external ratings

A.2.1 Banking Group - Breakdown of cash and "off-statement of financial position" exposures by external rating classes

Exposures (in thousands of euro)	External rating classes							
	AAA/AA-	A+/A-	BBB+/BBB-	BB+/BB-	B+/B-	Lower than B-	Unrated	Total
A. Cash exposures	6,732,342	514,559	20,082,526	794,342	410,775	50,158	78,781,960	107,366,662
B. Derivatives	74,794	531,253	169,340	14,649	3,417	474	793,756	1,587,683
B.1 Financial derivatives	74,794	531,253	169,340	14,649	3,417	474	793,756	1,587,683
B.2 Credit derivatives	-	-	-	-	-	-	-	-
C. Guarantees given	1,137	165,550	642,364	188,024	57,238	-	4,304,815	5,359,128
D. Commitments to disburse funds	3,396,008	84,721	99,883	35	22,471	-	2,792,548	6,395,666
E. Other	62	59,237	452,758	2,719	-	-	260,539	775,315
Overall total	10,204,343	1,355,320	21,446,871	999,769	493,901	50,632	86,933,618	121,484,454

In line with the provisions contained in the Bank of Italy Circular no. 262, the exposures indicated in this table include exposures in UCIT units and the counterparty risk related to Securities Financial Transactions (SFT), limited to transactions granting or assuming securities or goods on loan. As indicated in said Circular, this table matches the exposures indicated in the above tables A.1.3 and A.1.6, with the exception of UCIT units.
The Banco Popolare Group adopts the creditworthiness assessments issued by the following External Credit Assessment Institutions (ECAI): Standard & Poor's ratings Services, Moody's Investors Service, Fitch Ratings.
The aforesaid agencies are valid for all the banks belonging to the Group. It should be noted that, if there are two assessments of the same customer, the more prudential assessment is adopted; in the case of three assessments, the intermediate one is adopted.

The table connecting the classes of risk with the ratings of the agencies used is shown below.

CLASS	Fitch Ratings	Moody's	Standard & Poor's
AAA/AA-	from AAA to AA-	from Aaa to Aa3	from AAA to AA-
A+/A-	from A+ to A-	from A1 to A3	from A+ to A-
BBB+/BBB-	from BBB+ to BBB-	from Baa1 to Baa3	from BBB+ to BBB-
BB+/BB-	from BB+ to BB-	from Ba1 to Ba3	from BB+ to BB-
B+/B-	from B+ to B-	from B1 to B3	from B+ to B-
Lower than B-	CCC+ and lower	Caa1 and lower	CCC+ and lower

A.2.2 Banking Group - Breakdown of cash and “off-statement of financial position” exposures by internal rating classes

The exposures to customers shown in tables A.2.2 are assigned, with the exception of that indicated in the Banks schedule, the ratings also used to calculated capital requirements for credit risk, limited to that included in regulatory portfolios Corporate and Retail.
Specifically with regard to business customers, four distinct rating models have been developed, based on the following customer segments: Large Corporate, Mid Corporate Plus, Mid Corporate and Small Business – and one for private customers. The counterparty rating system includes twelve rating classes for each single segment (eleven performing classes and one default). These are organised below by risk level.

Due from banks *(in thousands of euro)*	Internal rating classes									
	AAA	AA	A	BBB	BB	B	CCC	Default	Unrated	Total
A. Cash exposures	-	857,472	2,023,612	1,768,045	1,074,473	49,814	-	953	1,213,523	6,987,892
B. Derivatives	-	62,093	500,381	105,079	4,225	475	-	-	215,971	888,224
B.1 Financial derivatives	-	62,093	500,381	105,079	4,225	475	-	-	215,971	888,224
B.2 Credit derivatives	-	-	-	-	-	-	-	-	-	-
C. Guarantees given	-	12,016	20,782	42,733	544,529	37	-	-	279,542	899,639
D. Commitments to disburse funds	-	3,308	-	576	49,820	-	-	-	1,108	54,812
E. Other	-	27,357	488,479	5,968	14,232	-	-	-	30,673	566,709
Overall total	-	962,246	3,033,254	1,922,401	1,687,279	50,326	-	953	1,740,817	9,397,276

Loans to customers *(in thousands of euro)*	Internal rating classes							
	Low	Medium-low	Medium	Medium-high	High	Default	Unrated	Total
A. Cash exposures	14,349,682	14,808,794	12,697,719	8,282,869	2,523,343	11,340,474	1,046,877	65,049,758
B. Derivatives	32,438	58,586	166,781	59,954	4,177	45,506	29,963	397,405
B.1 Financial derivatives	32,438	58,586	166,781	59,954	4,177	45,506	29,963	397,405
B.2 Credit derivatives	-	-	-	-	-	-	-	-
C. Guarantees given	1,254,943	790,106	959,878	552,510	39,299	368,783	96,188	4,061,707
D. Commitments to disburse funds	977,666	506,194	542,417	276,289	36,907	149,274	71,622	2,560,369
E. Other	1,364	5,468	473	2,114	1	54	2,124	11,598
Total segmented exposures	16,616,093	16,169,148	14,367,268	9,173,736	2,603,727	11,904,091	1,246,774	72,080,837
Total unsegmented exposures	-	-	-	-	-	3,008,363	36,229,747	39,238,110
Total	16,616,093	16,169,148	14,367,268	9,173,736	2,603,727	14,912,454	37,476,521	111,318,947

Loans to customers Breakdown by segment (*in thousands of euro*)	Internal rating classes							
	Low	Medium-low	Medium	Medium-high	High	Default	Unrated	Total
Large Corporate	945,965	1,542,776	991,727	858,623	32,510	423,587	111,744	**4,906,932**
Mid Corporate Plus	1,121,564	2,403,306	2,181,305	1,855,120	166,978	2,014,566	230,312	**9,973,151**
Mid Corporate	2,287,406	1,764,965	4,220,720	3,178,071	517,666	3,505,736	390,618	**15,865,182**
Small Business	5,110,809	2,491,009	5,816,595	1,966,924	1,051,762	4,118,312	443,072	**20,998,483**
Private	7,150,350	7,967,092	1,156,921	1,314,999	834,811	1,841,889	71,027	**20,337,089**
Total segmented exposures	**16,616,094**	**16,169,148**	**14,367,268**	**9,173,737**	**2,603,727**	**11,904,090**	**1,246,773**	**72,080,837**

A.3 Breakdown of guaranteed exposures by type of guarantee

A.3.1 Banking Group - Guaranteed exposures to banks

(*in thousands of euro*)	Value of net exposure	Collateral guarantees (1)				Personal guarantees (2)									Total (1)+(2) 31/12/2014
						Credit derivatives					Endorsement credits				
							Other derivatives								
		Real estate mortgages	Real estate financial leases	Securities	Other collateral guarantees	CLN	Governments and central banks	Other public entities	Banks	Other parties	Governments and central banks	Other public entities	Banks	Other parties	
1. Guaranteed cash exposures:	**1,409,595**	**-**	**1,467**	**1,337,604**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**77,956**	**1,417,027**
1.1. fully guaranteed	1,409,595	-	1,467	1,337,604	-	-	-	-	-	-	-	-	-	77,956	1,417,027
- of which non performing loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2. partially guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non performing loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Guaranteed off-statement of financial position exposures:	**590,840**	**-**	**-**	**69,074**	**522,380**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,616**	**-**	**593,070**
2.1. fully guaranteed	342,464	-	-	69,074	297,610	-	-	-	-	-	-	-	1,616	-	368,300
- of which non performing loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2. partially guaranteed	248,376	-	-	-	224,770	-	-	-	-	-	-	-	-	-	224,770
- of which non performing loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**2,000,435**	**-**	**1,467**	**1,406,678**	**522,380**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,616**	**77,956**	**2,010,097**

A.3.2 Banking group - Guaranteed exposures to customers

(in thousands of euro)	Value of net exposure	Collateral guarantees (1)				Personal guarantees (2)									Total (1)+(2) 31/12/2014
						Credit derivatives					Endorsement credits				
							Other derivatives								
		Real estate mortgages	Real estate financial leases	Securities	Other collateral guarantees	CLN	Governments and central banks	Other public entities	Banks	Other parties	Governments and central banks	Other public entities	Banks	Other parties	
1. Guaranteed cash exposures:	**60,004,309**	**81,575,584**	**3,844,548**	**9,484,946**	**3,182,909**	**-**	**-**	**-**	**-**	**865**	**49,852**	**115,055**	**94,009**	**47,118,802**	**145,466,570**
1.1. fully guaranteed	57,623,976	81,303,158	3,242,536	9,263,514	3,101,886	-	-	-	-	865	49,852	110,405	88,309	46,450,755	143,611,280
- of which non performing loans	10,977,486	17,828,620	1,366,186	281,448	559,867	-	-	-	-	-	210	52,982	2,670	15,324,134	35,416,117
1.2. partially guaranteed	2,380,333	272,426	602,012	221,432	81,023	-	-	-	-	-	-	4,650	5,700	668,047	1,855,290
- of which non performing loans	1,357,218	249,876	601,627	71,136	8,848	-	-	-	-	-	-	1,450	200	398,352	1,331,489
2. Guaranteed off-statement of financial position exposures:	**5,552,666**	**1,026,215**	**-**	**3,520,540**	**306,096**	**-**	**-**	**-**	**-**	**-**	**-**	**3,963**	**17,926**	**2,926,124**	**7,800,864**
2.1. fully guaranteed	5,083,027	1,019,587	-	3,489,997	172,605	-	-	-	-	-	-	3,679	15,415	2,782,653	7,483,936
- of which non performing loans	110,263	86,067	-	4,169	7,974	-	-	-	-	-	-	-	-	424,005	522,215
2.2. partially guaranteed	469,639	6,628	-	30,543	133,491	-	-	-	-	-	-	284	2,511	143,471	316,928
- of which non performing loans	18,478	2,434	-	1,163	1,478	-	-	-	-	-	-	-	-	8,270	13,345
Total	**65,556,975**	**82,601,799**	**3,844,548**	**13,005,486**	**3,489,005**	**-**	**-**	**-**	**-**	**865**	**49,852**	**119,018**	**111,935**	**50,044,926**	**153,267,434**

B. Breakdown and concentration of exposures

B.1 Banking Group - Breakdown by sector of cash and "off-statement of financial position" exposures to customers (book value)

(in thousands of euro)	Governments and central banks			Other public entities			Financial companies			Insurance companies			Non-financial companies			Other parties		
	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
A. Cash exposures																		
A.1 Bad loans	-	-	X	2,188	1,848	X	50,106	71,039	X	-	-	X	4,932,749	3,726,360	X	1,015,560	727,535	X
A.2 Substandard loans	1,589	620	X	16,048	1,882	X	53,376	18,740	X	-	-	X	6,019,972	2,249,064	X	642,685	110,887	X
A.3 Restructured loans	-	-	X	-	-	X	65,834	39,866	X	-	-	X	1,165,674	423,111	X	20,089	625	X
A.4 Past due non performing loans	-	-	X	-	-	X	1,500	289	X	-	-	X	300,443	62,606	X	42,422	7,574	X
A.5 Other loans	16,726,641	X	692	433,332	X	1,365	12,977,097	X	13,076	326,261	X	226	36,917,852	X	328,368	17,899,121	X	79,396
Total	**16,728,230**	**620**	**692**	**451,568**	**3,730**	**1,365**	**13,147,913**	**129,934**	**13,076**	**326,261**	**-**	**226**	**49,336,690**	**6,461,141**	**328,368**	**19,619,877**	**846,621**	**79,396**
B. Off-statement of financial position exposures																		
B.1 Bad loans	-	-	X	-	-	X	168	300	X	-	-	X	47,140	72,251	X	1,687	906	X
B.2 Substandard loans	-	-	X	38	24	X	919	40	X	-	-	X	345,356	51,680	X	10,101	155	X
B.3 Other non performing assets	-	-	X	-	-	X	777	1,195	X	-	-	X	174,860	35,393	X	1,173	30	X
B.4 Other loans	295,559	X	-	45,040	X	104	3,885,080	X	464	7,885	X	37	6,111,694	X	17,460	597,450	X	4,542
Total	**295,559**	**-**	**-**	**45,078**	**24**	**104**	**3,886,944**	**1,535**	**464**	**7,885**	**-**	**37**	**6,679,050**	**159,324**	**17,460**	**610,411**	**1,091**	**4,542**
31/12/2014	**17,023,789**	**620**	**692**	**496,646**	**3,754**	**1,469**	**17,034,857**	**131,469**	**13,540**	**334,146**	**-**	**263**	**56,015,740**	**6,620,465**	**345,828**	**20,230,288**	**847,712**	**83,938**
31/12/2013	**15,528,570**	**1**	**326**	**584,968**	**2,471**	**1,313**	**13,327,202**	**124,216**	**8,277**	**224,563**	**4**	**8,579**	**61,698,472**	**4,564,626**	**235,470**	**21,096,756**	**651,555**	**46,637**

B.2 Banking group - Geographical breakdown of cash and “off-statement of financial position” exposures to customers (book values)

(in thousands of euro)	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF WORLD	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. Cash exposures										
A.1 Bad loans	5,983,402	4,418,580	12,440	98,441	3	1,797	3,835	735	922	7,230
A.2 Substandard loans	6,648,967	2,332,566	49,021	34,304	33,016	10,834	2,113	3,349	553	140
A.3 Restructured loans	1,219,241	460,003	10,911	2,000	-	-	-	-	21,445	1,599
A.4 Past due non performing loans	344,212	70,449	153	20	-	-	-	-	-	-
A.5 Other loans	83,379,767	413,283	1,429,106	3,160	408,026	492	48,450	6,127	14,955	61
Total	**97,575,589**	**7,694,881**	**1,501,631**	**137,925**	**441,045**	**13,123**	**54,398**	**10,211**	**37,875**	**9,030**
B. Off-statement of financial position exposures										
B.1 Bad loans	48,994	73,458	-	-	-	-	-	-	-	-
B.2 Substandard loans	353,508	51,852	2,906	47	-	-	-	-	-	-
B.3 Other non performing assets	176,809	36,619	-	-	-	-	-	-	-	-
B.4 Other loans	10,567,169	18,355	364,596	4,240	7,757	6	5	-	3,180	6
Total	**11,146,480**	**180,284**	**367,502**	**4,287**	**7,757**	**6**	**5**	**-**	**3,180**	**6**
31/12/2014	**108,722,069**	**7,875,165**	**1,869,133**	**142,212**	**448,802**	**13,129**	**54,403**	**10,211**	**41,055**	**9,036**
31/12/2013	**109,435,040**	**5,434,062**	**2,299,279**	**173,955**	**568,606**	**17,032**	**66,953**	**9,940**	**90,643**	**8,494**

In greater detail, Italian exposures are broken down by geographic area as shown in the table below:

(in thousands of euro)	North-West ITALY		North-East ITALY		Central ITALY		South-Islands ITALY	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. Cash exposures								
A.1 Bad loans	2,296,375	1,822,153	1,494,278	873,919	1,590,182	1,044,931	602,567	677,577
A.2 Substandard loans	3,402,873	1,242,553	1,138,520	434,119	1,513,390	476,773	594,184	179,121
A.3 Restructured loans	608,726	153,271	383,741	223,972	165,130	62,718	61,644	20,042
A.4 Past due non performing loans	152,555	32,207	72,099	14,797	86,690	16,036	32,868	7,409
A.5 Other loans	28,249,789	185,093	18,623,811	116,414	32,839,164	78,339	3,667,003	33,437
Total	**34,710,318**	**3,435,277**	**21,712,449**	**1,663,221**	**36,194,556**	**1,678,797**	**4,958,266**	**917,586**
B. Off-statement of financial position exposures								
B.1 Bad loans	17,772	13,663	9,718	9,627	12,486	47,805	9,018	2,363
B.2 Substandard loans	99,598	20,149	81,135	9,613	156,050	19,376	16,725	2,714
B.3 Other non performing assets	83,166	17,031	31,265	11,197	61,779	8,189	599	202
B.4 Other loans	3,078,020	7,938	2,432,464	5,900	4,852,171	3,984	204,514	533
Total	**3,278,556**	**58,781**	**2,554,582**	**36,337**	**5,082,486**	**79,354**	**230,856**	**5,812**
31/12/2014	**37,988,874**	**3,494,058**	**24,267,031**	**1,699,558**	**41,277,042**	**1,758,151**	**5,189,122**	**923,398**
31/12/2013	**40,866,123**	**2,407,399**	**25,592,419**	**1,068,747**	**37,264,156**	**1,248,299**	**5,712,342**	**709,621**

B.3 Banking group - Geographical breakdown of cash and “off-statement of financial position” exposures to banks (book values)

(in thousands of euro)	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF WORLD	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. Cash exposures										
A.1 Bad loans	-	-	733	16,904	-	-	-	-	-	-
A.2 Substandard loans	-	-	-	-	-	-	220	38	-	-
A.3 Restructured loans	-	-	-	-	-	-	-	-	-	-
A.4 Past due non performing loans	-	-	-	-	-	-	-	-	-	-
A.5 Other loans	4,170,813	-	2,556,504	-	233,718	-	22,768	-	3,136	-
Total	**4,170,813**	**-**	**2,557,237**	**16,904**	**233,718**	**-**	**22,988**	**38**	**3,136**	**-**
B. Off-statement of financial position exposures										
B.1 Bad loans	-	-	-	-	-	-	-	-	-	-
B.2 Substandard loans	-	-	-	-	-	-	-	-	-	-
B.3 Other non performing assets	-	-	-	-	-	-	-	-	-	-
B.4 Other loans	547,243	-	625,305	2,349	65,826	-	49,772	-	20,636	-
Total	**547,243**	**-**	**625,305**	**2,349**	**65,826**	**-**	**49,772**	**-**	**20,636**	**-**
31/12/2014	**4,718,056**	**-**	**3,182,542**	**19,253**	**299,544**	**-**	**72,760**	**38**	**23,772**	**-**
31/12/2013	**5,590,543**	**201**	**2,662,634**	**24,079**	**371,848**	**-**	**97,967**	**-**	**34,741**	**-**

B.4 Large exposures (according to supervisory provisions)

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

As regards this item, recognition will be made of the amount (unweighted and weighted values) and the number of “risk positions” which represent a “large exposure” according to the provisions of Circular no. 286 of 17 December 2013 “Instructions for the preparation of prudential reports for banks and securities brokerage companies” issued by the Bank of Italy.

The exposure of an entity towards a customer or a group of related customers is considered a large exposure when its value is equal to or exceeds 10% of the eligible capital of the entity (“CRR”, article 392).

Considering the effect of exemptions and of credit risk mitigation, large exposures must in any event respect the threshold of 25% of the entity’s eligible capital.

As at 31 December 2014, eligible capital coincides with the amount of Own Funds.

On the basis of the new regulations, on the same date, 9 risk positions classified as “large risks” were recognised with a total amount (“unweighted” exposure) of euro 45,412 million, corresponding to a weighted exposure of 4,307 million.
The main Groups indicated as “Large exposures” are:

- London Stock Exchange Group plc for euro 19,362 million (euro 960 million considering the weighting factors and the exemptions under art. 400 CRR) mostly comprised of repurchase agreements with the Clearing and Guarantee House;
- the Ministry of the Treasury for euro 17,001 million (euro 1 million considering the weighting factors and the exemptions under art. 400 CRR) mostly comprised of Government securities in the portfolio;
- the Tax Authority for euro 2,203 million (euro 61 million considering the weighting factors and the exemptions under art. 400 CRR) mostly comprised of tax-related entries.

The remaining 6 positions regard Public Entities, Banking Groups, Central Banks, Subsidiaries of Central Administrations.

Each of the positions reported is fully within the threshold of 25% of eligible capital.

	31/12/2014	31/12/2013
a) Amount (book value) (*)	45,411,577	19,947,725
b) Amount (weighted value) (*)	4,307,458	2,699,206
c) Number	9	5

(*) in thousands of euro

C. Securitisation transactions

This section illustrates the Group’s exposure in terms of securitisations, both those in which the Group acts as Originator to conclude its transactions, and those in which the Group acts as an investor.
More specifically, with regard to third-party securitisations, illustrated in table C.3 below, the book value amounts to euro 113.6 million and represents the Group’s only exposure in structured credit securities issued by third parties (in percentage terms equal to around 0.5% of the total investment held by the Group in debt securities). Part of these exposures were reclassified as at 30 September 2008 from the “Financial assets held for trading” to the “Loans to customers” portfolio, as described in Part A – Accounting policies, “A.3 - Disclosure of transfers between portfolios of financial assets”; as at 31 December 2014, the book value of securities of this type, subject to reclassification, amounted to euro 14.8 million.

C.1 Securitisation transactions

QUALITATIVE INFORMATION

The instrument of securitisation has been gradually replaced by the issue of Covered Bonds, as illustrated in the paragraph below entitled “E.4 Banking Group – Covered Bond Transactions”. In addition, from the end of 2012, the only securitisation transactions performed by the Group are classified as “originated securitisation transactions”, insofar as the Group entirely purchased the securities issued by the SPE up until the issue date, for the sole purpose of using them as collateral in loans with market counterparties or with the ECB. The disclosure of these transactions, in line with the provisions of Circular no. 262 is provided in the following paragraph on Liquidity risk.

The following table shows a list of all of the securitisation transactions originated by the Banco Popolare Group (including originated transactions) existing as at 31 December 2014 (17 transactions through 12 SPEs):

	SPE	Originator	Securities issue date	Transaction	Type of securitisation
Securitisations not derecognised from the financial statements					
	Banco Popolare Group				
1.	BP Mortgages S.r.l.	Banco Popolare (former BPN and former Credito Bergamasco)	June 2007	BP Mortgages 2	Performing residential mortgage loans
2.	BP Mortgages S.r.l.	Banco Popolare (former BPV) (1)	March 2007	BP Mortgages 1	Performing residential mortgage loans
3.	Bipitalia Residential S.r.l.	Banco Popolare (former Crema, former BPL, former CR Lucca) (1)	June 2004	Residential	Performing residential mortgage loans
	Former Italease Group				
4.	Italfinance Securitization Vehicle 2 S.r.l	Banca Italease	March 2007	ITA 9	Performing leases
5.	Leasimpresa Finance S.r.l	Banca Italease	October 2006	Leasimpresa 2	Performing leases
6.	Italfinance Securitization Vehicle S.r.l	Banca Italease	December 2005	ITA 8	Performing leases
7.	Erice Finance S.r.l	Banca Italease	December 2005	ITA BEI	Performing leases
8.	Italease Finance S.p.A	Banca Italease	March 2005	ITA 7	Performing leases
Securitisations fully derecognised from the financial statements					
	Banco Popolare Group				
9.	Tiepolo Finance II S.r.l.	Banco Popolare (formerly SGC BP) (2)	April 2003	Tiepolo 2	Bad mortgage and ordinary loans
10.	Tiepolo Finance S.r.l.	Banco Popolare (former BPL, former CR Lucca)	June 2001	Tiepolo	Bad mortgage and ordinary loans
	Former Italease Group				
	Italfinance Securitization Vehicle 2 S.r.l	Banca Italease	March 2007	ITA 9	Performing leases
	Leasimpresa Finance S.r.l	Banca Italease	October 2006	Leasimpresa 2	Performing leases
	Italfinance Securitization Vehicle S.r.l	Banca Italease	December 2005	ITA 8	Performing leases
	Erice Finance S.r.l	Banca Italease	December 2005	ITA BEI	Performing leases
	Italease Finance S.p.A	Banca Italease	March 2005	ITA 7	Performing leases
Originated securitisations not derecognised from the financial statements					
	Banco Popolare Group				
11.	BPL Mortgages S.r.l.	Banco Popolare (Banco Popolare and former Credito Bergamasco)	June 2014	BPL Mortgages 7	Performing residential and commercial mortgages
12.	BPL Mortgages S.r.l.	Banco Popolare (Banco Popolare and former Credito Bergamasco)	March 2013	BPL Mortgages 6	Performing residential and commercial mortgages
13.	BPL Mortgages S.r.l.	Banco Popolare (Banco Popolare and former Credito Bergamasco)	December 2012	BPL Mortgages 5	Performing residential mortgage loans
14.	BPV Mortgages S.r.l.	Banco Popolare (former BPV, former BPN, former BPL and former Credito Bergamasco)	June 2009	BPV Mortgages	Performing residential mortgage loans
	Former Italease Group				
15.	Italfinance Securitization Vehicle 2 S.r.l	Banca Italease	January 2009	ITA 11	Performing leases
16.	Pami Finance S.r.l	Banca Italease	October 2008	Quicksilver	Performing leases
17.	Italfinance Securitization Vehicle 2 S.r.l	Banca Italease	May 2008	ITA 10	Performing leases
Originated securitisations derecognised from the financial statements					
	Former Italease Group				
	Italfinance Securitization Vehicle 2 S.r.l	Banca Italease	January 2009	ITA 11	Performing leases
	Pami Finance S.r.l	Banca Italease	October 2008	Quicksilver	Performing leases
	Italfinance Securitization Vehicle 2 S.r.l	Banca Italease	May 2008	ITA 10	Performing leases

(1) Note that following the reorganisation of branches on 1 August 2011, the former Credito Bergamasco, now Banco Popolare, had joined the transaction.
(2) Following the merger of SGC BP S.C. p.A. into Banco Popolare on 1 November 2012.

As illustrated in "Part A – Accounting policies", the securitisation transactions performed by the Group are not eligible for derecognition insofar as the Group maintains the risks and the benefits.
The only securitisation transactions that are "fully derecognised from the financial statements" refer to:

- securitisations that had been finalised prior to 2004, and for which the possibility under IFRS 1 not to "recognise" the assets based on international accounting standards was opted, except for those of the former Italease Group, whose last securitisation transaction with recognition has been expired during 2014. As a result, the financial statements show the subscribed securities and any guarantees and commitments to disburse funds, adequately measured to reflect the P&L performance of the underlying assets;
- transactions of the former Italease Group referring to the portfolio of securitised loans whose risks and benefits have been transferred to Alba Leasing under the "Agreement on securitised loans".

Performance of securitisation transactions

Bipitalia Residential
In October 2014, the rating agency Fitch upgraded the Class C security of the operation from "BBB" to "A".

BP Mortgages 1
Pursuant to the First Demand Guarantee agreement, the amount of the collateral deposited by Banco Popolare was revised in July 2014, totalling euro 11.4 million.

In February 2014, Fitch downgraded the Class C security from "BBB+" to "BBB". Subsequently, in November 2014, Fitch further downgraded the Class C security from "BBB" to "BBB-" and downgraded the rating of the Class B security from "AA+" to "AA".

BP Mortgages 2
Pursuant to the First Demand Guarantee agreement, the amount of the collateral deposited by Banco Popolare was revised in July 2014, totalling around euro 15 million.

In November 2014, Fitch downgraded the Class B security from "AA+" to "AA" and changed the outlook on Class A2 and Class C from "Stable" to "Negative".

With regard to both the BP Mortgages 1 and BP Mortgages 2 operations, due to the rise of loans classified as "Delinquent" and "Default" under the Prospectus, with the consequent increase of the amounts to be paid to cover the repayment of the principal of the outstanding security, the Cash Reserve was used at each Payment Date until it became zero for the BP Mortgages 1 operation and had fallen significantly for the BP Mortgages 2 operation; for this reason, several structural measures are being assessed to support these operations.

Following the downgrading of the Servicer Banco Popolare in the previous year by rating agency Moody's, several changes were made to the contractual documentation of the Bipitalia Residential, BP Mortgages 1 and BP Mortgages 2 operations, in agreement with the rating agencies and with the noteholder representatives. Among these, the Servicing Contract was amended, with a view to lowering the minimum rating required of the Servicer Banco Popolare for the appointment of the Back-up Servicer and a Back-up Servicer Facilitator was appointed. Following these contractual amendments, the rating of the securities issued was confirmed.

BPL Mortgages 5 and BPL Mortgages 6
Following the downgrading of the Servicer Banco Popolare in the previous year by rating agency Moody's, several changes were made to the contractual documentation of the BPL Mortgages 5 and BPL Mortgages 6 operations, in agreement with the rating agencies and with the noteholder representative. Among these, the Servicing Contract was amended, with a view to lowering the minimum rating required of the Servicer Banco Popolare for the appointment of the Back-up Servicer and BNP Paribas Securities Services, London branch, a bank which complies with the contractual requirements, was appointed as "Additional Transaction Bank" to hold the Collection Account, replacing Banco Popolare. Following these contractual amendments, the rating of agencies Moody's and DBRS of the securities issued was confirmed.

BPV Mortgages
Due to the rise in mortgages loans classified as in default, with a consequent increase of the amounts to be paid to redeem the capital of the outstanding securities, on the last Interest Payment Date of 22 January 2015, a payable for the non-redemption of securities of euro 182.9 million was generated.

In March 2014, S&P, which had assigned the rating to the operation, downgraded the senior class A security from "A" to "BBB".

Italease Finance S.p.A 2004-1 (ITA6)
In April 2014, the securitisation transaction ITA6 was unwound, and the existing Junior securities were redeemed.
On 8 April 2014, Banca Italease purchased the portfolio of remaining loans from the SPE Italease Finance. On 14 April 2014, the SPE redeemed the securities still outstanding and entirely subscribed by Banca Italease.

Italease Finance S.p.A 2005-1 (ITA7)
In September 2014, the Senior notes issued under the originated securitisation ITA7 were fully redeemed. Following the full redemption of the senior notes, in October 2014, the swap entered into at the time by the special purpose entity and BNP Paribas (front swap) and the swap between the latter and Banca Italease Spa (back to back) to hedge interest rate risk were terminated.

Erice Finance (ITABEI)
In December 2013, following the full redemption of the Class A1 Notes and in consideration of the fact that the remaining series of notes were entirely subscribed by Banca Italease, the rating assigned to the notes by Moody's was removed. Furthermore, in March 2014, several changes were made to the contractual documentation of the transaction, with a view to reducing the target value of the cash reserve ("Debt Service Reserve Amount"). In this way, a part of the sums allocated to this reserve were released and used to pay the principal of the Class A2 Notes, which were fully redeemed on the interest payment date of 21 March 2014, and of Class B Notes (Mezzanine Notes).

"ITA8" Transaction
In June 2014, Moody's upgraded the Mezzanine Notes of the "ITA8" transaction, in particular:
- Series 1-B Notes rose from "Ba3" to "Ba2";
- Series 1-C Notes rose from "B2" to "Ba3";
- Series 1-D Notes rose from "B3" to "Ba3".

In December 2014, Standard&Poor's downgraded the rating of the Senior Notes of the "ITA8" transaction from "AA" to "AA-".

"ITA9" Transaction
In June 2014, Moody's upgraded the Mezzanine Notes of the "ITA9" transaction, in particular:
- Series 2007-1-B Notes rose from "Ba3" to "Ba2";
- Series 2007-1-C Notes rose from "B2" to "B1";
- Series 2007-1-D Notes rose from "B3" to "B2".

In December 2014, Fitch upgraded the Series 2007-1D Notes of the Mezzanine Notes of the "ITA9" transaction, bringing the rating from "B" to "B+".

"LEASIMPRESA 2" Transaction:
In June 2014, Moody's upgraded the Senior Notes of the "Leasimpresa 2" transaction, bringing the rating from "Baa2" to "A3", and the Mezzanine Notes. In particular:
- Series 2006-B Notes rose from "Ba1" to "Baa2"
- Series 2006-1-C Notes rose from "Ba2" to "Baa3".

In December 2014, Standard&Poor's downgraded the Senior Notes of the "Leasimpresa 2" transaction from "AA" to "AA-".

Securitisations not derecognised from the financial statements

BP Mortgages 2 (June 2007)

On 22 June 2007, Banca Popolare di Novara, now Banco Popolare (by virtue of the merger that took place on 27 December 2011) and Credito Bergamasco, now Banco Popolare (following the merger on 1 June 2014) sold landed residential mortgage loans and residential mortgage loans backed by a voluntary mortgage on the property to the SPE BP Mortgages S.r.l.. The portfolio sold amounted to euro 1,610 million; on 29 June 2007, the SPE issued four classes of rated securities that were placed with institutional investors and two classes of unrated junior securities subscribed by the Originators; all of the classes of securities were listed on the "Irish Stock Exchange". The Originator Banks, now only Banco Popolare, acted as Servicers and managed the loan collection.

Loan breakdown by originator

Bank	Value 31/12/2014 (1)	Portfolio % 31/12/2014	Value 31/12/2013 (1)	Portfolio % 31/12/2013	Value at 22/06/2007	Portfolio % 22/06/2007
Banco Popolare (*)	**581,359**	**100.00%**	**664,001**	**100.00%**	**1,609,819**	**100.00%**
Banco Popolare	581,359	100.00%	417,025	62.80%	826,811	53.60%
Banco Popolare (formerly Creberg)	-	-	246,976	37.20%	747,008	46.40%

(1) The amounts indicated represent performing, substandard, past due, restructured and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.
(*) For comparative purposes, the figures of previous periods have been aggregated to take into account the merger by incorporation of the Credito Bergamasco into Banco Popolare finalised on 1 June 2014.

Issue characteristics

Classes	Type	Issue value	Value at 31/12/2014	Interest rate	Maturity	Rating Moody's/S&P/ Fitch
A1	Senior	147,300	-	Euribor 3 months + 0.07%		
A2	Senior (1)	1,382,000	433,452	Euribor 3 months + 0.13%	July 2044	A2/A+/AA+
B	Mezzanine	28,200	28,200	Euribor 3 months + 0.25%	July 2044	Baa1/A+/AA
C	Mezzanine (1)	36,200	36,200	Euribor 3 months + 0.66%	July 2044	Baa3/BBB/BBB
M1	Junior (2)	8,639	8,639	Euribor 3 months + 2% + Additional return	July 2044	unrated
M2	Junior (3)	7,479	7,479	Euribor 3 months + 2% + Additional return	July 2044	unrated
	Total	**1,609,818**	**513,970**			

(1) *Following their placement on the market, Banco Popolare purchased Senior securities amounting to a nominal value of euro 655.8 million and mezzanine securities for a nominal value of euro 11.4 million.*
(2) *The class M1 junior security was subscribed by Banca Popolare di Novara, now Banco Popolare; following the branch swap on 1 August 2011, a share corresponding to a nominal value of euro 50 thousand had been subscribed by Creberg, now Banco Popolare.*
(3) *The class M2 junior security was subscribed by Creberg, now Banco Popolare; following the branch swap on 10 December 2012, a share corresponding to a nominal value of euro 950 thousand had been subscribed by Banco Popolare.*

Following the merger by incorporation of Credito Bergamasco into Banco Popolare, with legal effect from 1 June 2014, as at 31 December 2014, both junior notes have been fully subscribed by Banco Popolare.

Accessory financial transactions

To immunise the interest rate risk to which the SPE is exposed owing to the mismatch between the securitised mortgage rates and the yield of the issued bonds, the Originator Banks entered an Interest Rate Swap agreement with the SPE, with Banca Aletti as intermediary. In relation to the performance of the securitisation transaction, with specific reference to the increase in default mortgages, which led to the use of cash reserve, in 2011 the Originator Banks granted Subordinated Loans for a total of euro 21.8 million. From the payment date in July 2012, the Cash Reserve has been used in part, falling below the target level of euro 19.3 million and as at 31 December 2014 amounted to euro 8.6 million.

BP Mortgages 1 (March 2007)

On 16 March 2007, Banca Popolare di Verona, now Banco Popolare (by virtue of the merger on 27 December 2011), acting as Originator Bank, sold landed and residential mortgage loans to the SPE BP Mortgages S.r.l. for euro 1,476 million; on 11 April 2007, the SPE issued four classes of rated securities that were placed with institutional investors and one class of unrated junior securities subscribed by the Originator; all classes of securities were listed on the Luxembourg Stock Exchange. The Originator Bank acted as Servicer and managed the collection of receivables.

Loan breakdown by originator

Bank	Issue 31/12/2014 (1)	Portfolio % 31/12/2014	Issue 31/12/2013 (1)	Portfolio % 31/12/2013	Issue 16/03/2007	Portfolio % 16/03/2007
Banco Popolare (*)	**401,200**	**100.00%**	**471,041**	**100.00%**	**1,476,589**	**100.00%**
Banco Popolare	401,200	100.00%	466,245	98.98%	1,476,589	100.00%
Banco Popolare (formerly Creberg) (2)	-	-	4,796	1.02%	-	-

(1) *The amounts indicated represent performing, substandard, past due, restructured and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.*
(2) *Following the reorganisation of branches on 1 August 2011, Credito Bergamasco, now Banco Popolare had joined the transaction.*
(*) *For comparative purposes, the figures of previous periods have been aggregated to take into account the merger by incorporation of the Credito Bergamasco into Banco Popolare finalised on 1 June 2014.*

Issue characteristics

Classes	Type	Issue value	Value at 31/12/2014	Interest rate	Maturity	Rating Moody's/S&P/ Fitch
A1	Senior	202,700	-	Euribor 3 months + 0.06%		
A2	Senior (1)	1,172,650	288,992	Euribor 3 months + 0.13%	April 2043	A2/A+/AA+
B	Mezzanine	25,300	25,300	Euribor 3 months + 0.19%	April 2043	A3/A+/AA
C	Mezzanine	32,600	32,600	Euribor 3 months + 0.48%	April 2043	Baa3/BBB/BBB-
M	Junior (2)	14,500	14,500	Euribor 3 months + 2.5% plus Additional return	April 2043	unrated
	Total	**1,447,750**	**361,392**			

(1) Following their placement on the market, Banco Popolare purchased senior securities amounting to a nominal value of euro 389.6 million. and mezzanine securities for euro 8.3 million.
(2) The junior securities were subscribed by Banca Popolare di Verona now Banco Popolare; following the branch swap on 1 August 2011, a share corresponding to a nominal value of euro 200 thousand was subscribed by Creberg, now Banco Popolare, which had joined the transaction.

Accessory financial transactions

To immunise the interest rate risk to which the SPE is exposed owing to the mismatch between the securitised mortgage rates and the yield of the issued bonds, the Originator Bank entered an Interest Rate Swap agreement with the SPE, with Banca Aletti as intermediary. In relation to the performance of the securitisation transaction, with specific reference to the increase in default mortgages, which led to the use of cash reserve, in 2011 Banco Popolare granted a Subordinated Loan for the amount of euro 17.5 million. The gradual increase of mortgage loans in default made it necessary to draw down the cash reserve, which went down to zero again in July 2014.

Bipitalia Residential

In first half of 2004, several network banks, Banca Popolare di Lodi, Cassa di Risparmio Lucca Pisa Livorno and Banca Popolare di Crema, now Banco Popolare (by virtue of the merger on 27 December 2011), finalised a securitisation transaction, by selling performing residential landed mortgage loans for a value of about 1 billion, to the SPE Bipitalia Residential S.r.l., which financed the purchase by issuing bonds. Within the securitisation transaction, Banco Popolare also acted as Servicer of the portfolio, using Creberg, now Banco Popolare (following the merger on 1 June 2014) as Sub Servicer and Società di Gestione Crediti BP S.c.p.A., now Banco Popolare, as Special Servicer to manage past due loans.

Loan breakdown by originator

Bank	Value 31/12/2014 (1)	Portfolio % at 31/12/2014	Value 31/12/2013 (1)	Portfolio % at 31/12/2013	Value at 17/05/2004	Portfolio % at 17/05/2004
Banco Popolare (*)	**123,074**	**100.00%**	**145,552**	**100.00%**	**1,002,490**	**100.00%**
Banco Popolare	123,074	100.00%	144,519	99.29%	1,002,490	100.00%
Banco Popolare (formerly Creberg) (2)	-	-	1,033	0.71%	-	-

(1) The amounts indicated represent performing, substandard, past due, restructured and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.
(2) Following the reorganisation of branches on 1 August 2011, Credito Bergamasco, now Banco Popolare had joined the transaction.
(*) For comparative purposes, the figures of previous periods have been aggregated to take into account the merger by incorporation of the Credito Bergamasco into Banco Popolare finalised on 1 June 2014.

Issue characteristics

Classes	Type	Nominal issue value	Value at 31/12/2014	Interest rate	Maturity	Rating Fitch / Moody's
A1	Senior	230,000	-			
A2	Senior (1)	733,000	76,687	Euribor 3 months + 0.175%	December 2040	AA+/A2
B	Mezzanine	16,000	16,000	Euribor 3 months + 0.30%	December 2040	AA+/A2
C	Mezzanine	19,000	19,000	Euribor 3 months + 0.80%	December 2040	A/Baa1
D	Junior	4,500	4,500	2.0 % plus Additional return	December 2040	unrated
	Total	**1,002,500**	**116,187**			

(1) Banco Popolare purchased Senior securities amounting to a nominal value of euro 40 million.

The senior and mezzanine securities were placed on the market with institutional investors and listed on the Luxembourg Stock Exchange; the Junior securities were subscribed by the Originator Banks, now only Banco Popolare, on a pro-rata basis with respect to the portfolio sold.

Accessory financial transactions

Within the finalisation of the transaction, Banco Popolare granted a limited recourse mortgage loan of euro 12 million, used by the SPE to set up the Cash Reserve. Upon issuing the notes, the SPE signed an “Interest Rate Swap” agreement with a third party, to hedge against the risk of mismatch between the rates of the securitised mortgages and the yield of the issued bonds.

Securitisations fully derecognised from the financial statements

The main securitisation transactions that have been fully derecognised from the financial statements are illustrated below, for which the Bank applied the exemption envisaged by IFRS 1 not to recognise transferred assets.

Tiepolo Finance 2

On 30 December 2002, SGC BP S.C.p.A., now Banco Popolare, by virtue of the merger that took place on 1 November 2012, performed a securitisation of bad mortgage and ordinary loans, through the assignment of the same to the SPE Tiepolo Finance 2 S.r.l. The loans, which on the assignment date amounted to euro 486 million, amounted to euro 27.5 million as at 31 December 2014 (euro 30.2 million as at 31 December 2013). With regard to the transaction, Società di Gestione Crediti BP S.C.p.A, now Banco Popolare, acted as Servicer. On 30 April 2003, the SPE funded the purchase of the loans through the issue of bonds encompassing: Senior class A and B securities, fully redeemed, mezzanine class C securities amounting to euro 151 million held by Banco Popolare, which as at 31 December 2014 had been fully written down, and Junior class D securities amounting to euro 150 million, held by third parties. Note that the contractual maturity of both the Class C Mezzanine Notes and the Class D Junior Notes is 31 October 2015. Furthermore, as regards the performance of the transaction, the coupons due were written down by euro 10.7 million (the residual value of the coupons due and not paid was euro 20 million).

Tiepolo Finance

In 2000, several network banks, Banca Popolare di Lodi and Cassa di Risparmio Lucca Pisa Livorno, now Banco Popolare (by virtue of the merger that took place on 27 December 2011), carried out the securitisation of bad mortgage and ordinary loans; more specifically, on 30 December 2000, the non-performing loans were sold to the SPE Tiepolo Finance S.r.l, which funded the purchase of the same by issuing bonds on 29 June 2001. As regards the transaction, Banco Popolare, acted both as Servicer, managing the collection of loans, and as Cash Manager, hiring Società di Gestione Crediti BP S.C.p.A, now Banco Popolare, as Sub-Servicer for past due loans. The loans that at the selling date amounted to euro 153.5 million, as at 31 December 2014 amounted to 5.8 million (euro 6.2 million as at 31 December 2013). Banco Popolare holds the junior securities (class C), the value of which is euro 50.5 million, fully written down. As regards the performance of the transaction, the coupons due were written down by euro 380 thousand (the residual value of the coupons due and not paid was euro 1.3 million); furthermore, Banco Popolare is also due the sum of euro 2.8 million from the SPE, which will be repaid over the course of future years with the revenues deriving from the loans still held by the SPE.

QUANTITATIVE INFORMATION

C.1 Banking group - Exposures resulting from securitisations classified by underlying asset quality

Underlying asset quality / Exposures *(in thousands of euro)*	CASH EXPOSURES					
	Senior		Mezzanine		Junior	
	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure
A. With proprietary underlying assets	**287,374**	**287,374**	**122,884**	**112,167**	**603,134**	**602,753**
a) non performing			32,517	21,800	1,866	1,485
b) other	287,374	287,374	90,367	90,367	601,268	601,268
B. With third-party underlying assets	**33,040**	**33,040**	**-**	**-**	**85,365**	**80,611**
a) non performing						
b) other	33,040	33,040			85,365	80,611

Guarantees given and credit lines are omitted as not present.

C.2 Banking group - Exposures resulting from main "proprietary" securitisations broken down by type of securitised asset and by type of exposure

Type of securitised asset / Exposure *(in thousands of euro)*		CASH EXPOSURES					
		Senior		Mezzanine		Junior	
		Book value	Adjustments / recoveries	Book value	Adjustments / recoveries	Book value	Adjustments / recoveries
A.	**Fully derecognised**	**-**	**-**	**37,908**	**(10,717)**	**242,489**	**(381)**
A.1	Tiepolo 1 - bad loans			2,824		1,485	(381)
A.2	Tiepolo 2 - bad loans			21,800	(10,717)		
A.3	ITA 8 - performing lease loans					7,607	
A.4	ITA 9Bei - performing lease loans			13,284		21,545	
A.5	Leasimpresa2 - performing lease loans					20,918	
A.6	ITA 9 - performing lease loans					21,796	
A.7	ITA 10 - performing lease loans					41,922	
A.8	Quick Silver - performing lease loans					44,671	
A.9	Ita 11 - performing lease loans					82,545	
B.	**Partially derecognised**	**-**	**-**	**-**	**-**	**-**	**-**
C.	**Not derecognised**	**287,374**	**-**	**74,259**	**-**	**360,264**	**-**
C.1	Residential 2004 - residential mortgages	3,847		12,176		13,535	
C.2	BP Mortgages March 2007 - mortgage loans	90,967		21,907		66,583	
C.3	BP Mortgages June 2007 - mortgage loans	192,560		28,613		108,976	
C.4	ITA 7 - performing lease loans					5,371	
C.5	ITA 8 - performing lease loans					35,635	
C.6	ITA 9Bei - performing lease loans		-	11,563		77,269	
C.7	Leasimpresa2 - performing lease loans					7,882	
C.8	ITA 9 - performing lease loans					45,013	

Guarantees given and credit lines are omitted as not present.

As the "ITA 10", "ITA 11" and "Quicksilver" transactions are originated securitisations, only the values of the securities recognised in the assets referring to the derecognised portfolio of securitised loans are considered, as the risks and benefits of the same have been transferred to Alba Leasing under the "Agreement on securitised loans".

C.3 Banking group - Exposures resulting from main "third-party" securitisations broken down by type of securitised asset and by type of exposure

ISIN Code	Underlying asset type / Exposures *(in thousands of euro)*	CASH EXPOSURES					
		Senior		Mezzanine		Junior	
		Book value	Adjustments / recoveries	Book value	Adjustments / recoveries	Book value	Adjustments / recoveries
ES0312885017	BANCAJA 6 A2 EUR /36	5,443	-				-
	Mortgage loans						
IT0005027401	SUNRISE A 14-31 TV classe A	14,221	-				-
	Personal Loans						
IT0005068314	SUNRISE A 14-31 TV classe A1	4,003	-				-
	Personal Loans						
IT0005022915	BNT PORT 14-42 TV		-			80,611	(4,754)
	Mortgage loans						
ES0371622004	CEDULAS TDA EUR TV16	5,952	-				-
	Other						
ES0338450002	TDA IBERCAJA 35 TV	3,421	-				-
	Mortgage loans						

Total exposure to these products amounts to euro 113.6 million (euro 19.9 million as at 31 December 2013).
As regards this increase:

- euro 80.6 million of the same is due to the Note issued by the SPE BNT Portfolio SPV Srl as part of the loan securitisation transaction of Banca della Nuova Terra. For further details please refer to the information contained in table C.6 below;
- euro 18.2 million is due to the senior tranche (A/A1) of the Notes issued by Sunrise Srl, namely by the SPE through which the sale of consumer loans by Agos Ducato Spa was finalised.

Guarantees given and credit lines are omitted as not present.

C.4 Banking group - Exposures resulting from securitisations classified by portfolio and by type

Exposure / portfolio *(in thousands of euro)*	Financial assets held for trading	Financial assets designated at fair value through profit and loss	Financial assets available for sale	Investments held to maturity	Loans	31/12/2014	31/12/2013
1. Cash exposures	**-**	**-**	**18,224**	**-**	**375,824**	**394,048**	**433,907**
- Senior			18,224		14,816	33,040	32,231
- Mezzanine					37,908	37,908	82,752
- Junior					323,100	323,100	318,924
2. Off-statement of financial position exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Senior						-	
- Mezzanine						-	
- Junior						-	

C.5 Banking group - Total amount of securitised assets underlying junior securities or other forms of credit support

Assets / Values *(in thousands of euro)*	Traditional securitisations	Synthetic securitisations
A. Proprietary underlying assets:	**1,586,719**	**-**
A.1 Fully derecognised	272,494	X
1. Bad loans	31,490	X
2. Substandard loans	-	X
3. Restructured loans	-	X
4. Past due loans	-	X
5. Other assets	241,004	X
A.2 Partially derecognised	-	X
1. Bad loans	-	X
2. Substandard loans	-	X
3. Restructured loans	-	X
4. Past due loans	-	X
5. Other assets	-	X
A.3 Not derecognised	1,314,225	-
1. Bad loans	114,280	-
2. Substandard loans	42,235	-
3. Restructured loans	788	-
4. Past due loans	4,340	-
5. Other assets	1,152,582	-
B. Third-party underlying assets:	**75,859**	**-**
1. Bad loans	19,616	-
2. Substandard loans	9,123	-
3. Restructured loans	202	-
4. Past due loans	-	-
5. Other assets	46,918	-

C.6 Banking group - Shareholdings in special purpose entities for securitisation

The following paragraphs indicate which special purpose entities have been involved with companies of the Banking Group in structuring activities and in which the Group holds a shareholding.
More specifically, as regards the SPE created to conclude its own securitisation transactions; as described in "Part A – Accounting policies", "3. Scope of consolidation and methods", the separate equity of the same is consolidated insofar as the Group holds the contractual rights to manage the relevant activities of the entity and is exposed to the variable returns of the same, regardless of voting rights (with the exception of the securitisations made through the SPE Tiepolo Finance and Tiepolo Finance II). With regard to securitisations which are included in the "Framework agreement on securitisations" entered into with Alba Leasing, the consolidation refers only to the portfolio assets and liabilities transferred to the SPE, for which Banca Italease continues to maintain the risks and the benefits.
In addition, a shareholding is also held in Banca Nuova Terra Portfolio SPV. As this SPE was established in 2014 in order to finalise the securitisation of agrarian loans belonging to Banca della Nuova Terra, funded through the issue of a single tranche of notes for a nominal value of euro 397.8 million, subscribed by the Shareholder Banks of Banca Nuova Terra, which include Banco Popolare (which has a 19.61% stake in the latter). Based on the agreements reached, the Parent Company subscribed the above-cited note for a nominal value of euro 84.6 million, recognised in the financial statements in the portfolio of "Loans to Customers"; as at 31 December 2014, this note has recorded an impairment loss of euro 4.8 million, as indicated in table C.3 above. The liquidity obtained by Banca Nuova Terra following the cited transaction enabled it to repay the loans it had with the shareholder banks.
The above-cited transaction represents the first step towards transforming Banca Nuova Terra into a financial company and its subsequent voluntary winding up.

The following table illustrates the overall assets and liabilities included in the separate equity of the SPE.

Name of Securitisation / Name of SPE	Registered office	Consolidation	Assets			Liabilities		
			Loans	Debt securities	Other	Senior	Mezzanine	Junior
Tiepolo Finance S.r.l.	Lodi, Via Polenghi Lombardo,13	Supervisory (*)	5,754	-	689	-	-	50,672
Tiepolo Finance II S.r.l.	Lodi, Via Polenghi Lombardo,13	Supervisory (*)	27,548	-	1,966	-	152,830	150,549
Bipielle Residential S.r.l.	Milan, via Tortona, 25	Accounting	115,761	-	21,781	76,687	35,000	4,500
BP Mortgages mar 2007	Milan, via Gustavo Fara, 26	Accounting	402,394	-	29,878	289,114	57,950	14,575
BP Mortgages giu 2007	Milan, via Gustavo Fara, 26	Accounting	583,718	-	46,689	433,634	64,472	16,185
BNT PORTFOLIO SPV S.R.L.	Milan, via Checov n. 50/2	no	356,697	-	24,438	-	-	397,800
Italease Finance - ITA 7	Milan, via Fulvio Testi, 75	Supervisory (*) and accounting	30,625	-	-			
Italease Finance Securitisation VH - ITA 8	Conegliano V. (TV), via Vittorio Alfieri,1	Accounting	67,851	-	-	30,467	10,557	11,320
Erice Finance - ITA 9BEI	Conegliano V. (TV), via Vittorio Alfieri,1	Accounting	183,918	-	-		32,303	5,200
Italease Finance Securitisation VH 2 - ITA 9	Conegliano V. (TV), via Vittorio Alfieri,1	Accounting	218,173	-	-	142,082	53,099	16,272
Leasimpresa Finance - Leasimpresa 2	Conegliano V. (TV), via Vittorio Alfieri,1	Accounting	101,853	-	-	53,358	8,178	17,200
Italease Finance Securitisation VH 2 - ITA 10	Conegliano V. (TV), via Vittorio Alfieri,1	Accounting	143,984	-	-			147,483
Italease Finance Securitisation VH 2 - ITA 11	Conegliano V. (TV), via Vittorio Alfieri,1	Accounting	258,543	-	-			253,705
Pami Finance - Quicksilver	Milano, Foro Buonaparte, 70	Accounting	98,727	-	-			64,728

(*) *The supervisory consolidation of the SPE relates only to the financial statements of the SPE and not to the separate equity of the securitisation.*

C.7 Banking group - Special purpose entities for securitisations not consolidated

No disclosure is provided as all of the SPEs for securitisation are consolidated in the accounts. As regards the Tieopolo Finance and Tiepolo Finance II transactions, for which the exemption of not recognising the loans sold was applied in accordance with IFRS 1, please refer to the information on separate equity shown in table C.9 below.

C.8 Banking group - Servicer activities – collection of securitised loans and redemption of securities issued by the special purpose entity for securitisations

Servicer	SPE	Securitised assets (end-of-period)		Loan collections in the year		Percentage of redeemed securities (end-of-period)					
						Senior		Mezzanine		Junior	
		Non performing	Performing	Non performing	Performing	Non performing assets	Performing assets	Non performing assets	Performing assets	Non performing assets	Performing assets
Banco Popolare	Tiepolo Finance	5,414		1,142		100.00%		100.00%			
Banco Popolare	Tiepolo II	26,076		4,000		100.00%					
Banco Popolare	Residential	11,560	107,415	1,448	27,375		91.43%				
Banco Popolare	BP Mortgages (March 07)	57,601	358,521	2,934	58,671		78.99%				
Banco Popolare	BP Mortgages (June 07)	92,482	515,476	3,448	66,365		71.66%				
Banca Italease	Italease Finance - ITA 6	-	-	76	1,236		100.00%		100.00%		100.00%
Banca Italease	Italease Finance - ITA 7	9,098	15,760	1,711	18,513		100.00%		100.00%		100.00%
Banca Italease	Italease Finance Securitisation VH - ITA 8	17,431	45,987	1,971	27,691		96.82%		96.47%		
Banca Italease	Erice Finance - ITA 9BEI	60,265	113,494	5,021	37,483		100.00%		65.19%		
Banca Italease	Italease Finance Securitisation VH 2 - ITA 9	24,139	194,825	7,860	50,915		90.15%		88.20%		
Banca Italease	Leasimpresa Finance - Leasimpresa 2	24,428	75,241	3,019	44,249		94.27%		89.73%		
Banca Italease	Italease Finance Securitisation VH 2 - ITA 10	4,273	34,286	546	6,442		100.00%				27.50%
Banca Italease	Italease Finance Securitisation VH 2 - ITA 11	13,675	67,270	1,100	14,943		100.00%				30.80%
Banca Italease	Pami Finance - Quicksilver	13,967	32,004	1,582	10,934		100.00%				74.87%

C.9 Banking group - Special purposes entities for securitisations consolidated

The following information only refers to SPEs of the Banking Group and a summary of the figures relating to the separate equities of the securitisation transactions.
The figures relating to securitisation transactions that are consolidated in the accounts are provided in table C.6 above.

Company name	Registered office
Tiepolo Finance S.r.l.	Lodi – Via Polenghi Lombardo no. 13
Tiepolo Finance II S.r.l.	Lodi – Via Polenghi Lombardo no. 13
Italease Finance S.p.A.	Milan – Via Sile no. 18

Summary table of securitised assets and issued securities (by single SPE owned by the Banking Group)

Tiepolo Finance S.r.l.

(in thousands of euro)	31/12/2014	31/12/2013
A. Securitised assets	**5,754**	**6,240**
1) Loans	5,754	6,240
- bad loans	5,754	6,240
- other loans		
2) Securities		
3) Other assets		
B. Use of available funds from loan management	**689**	**735**
1) Available funds on current account	526	572
2) Other loans		
3) Repurchase agreements		
4) Other assets	163	163
C. Issued securities	**50,500**	**50,500**
1) “Class A” securities		
2) “Class B” securities		
3) “Class C” securities	50,500	50,500
D. Loans received		
1) Securities lending		
2) Subordinated loan		
E. Other liabilities	**22,202**	**22,550**
1) Accrued liabilities	238	262
2) Other liabilities	21,964	22,288
F. Interest expense on issued securities	**381**	**379**
G. Fees and commissions borne by the transaction	**199**	**226**
1) Servicing fees	65	91
2) Other services	134	135
H. Other expenses	**963**	**774**
1) Other interest expense	155	207
2) Other expenses	105	241
3) Adjustments on loans	703	326
I. Interest generated by securitised assets		
L. Other revenues	**1,360**	**1,360**
1) Interest income	1	16
2) Other revenues	1,359	1,344

Tiepolo Finance 2 S.r.l.

(in thousands of euro)	31/12/2014	31/12/2013
A. Securitised assets	**27,548**	**30,227**
1) Loans	27,548	30,227
- bad loans	27,548	30,227
- other loans		
2) Securities		
3) Other assets		
B. Use of available funds from loan management	**1,966**	**3,262**
1) Available funds on current account	1,941	3,236
2) Other loans		
3) Repurchase agreements		
4) Other assets	25	26
C. Issued securities	**301,030**	**301,030**
1) "Class A" securities		
2) "Class B" securities		
3) "Class C" securities	151,000	151,000
4) "Class D" securities	150,030	150,030
D. Loans received		
1) Securities lending		
2) Subordinated loan		
E. Other liabilities	**106,536**	**97,253**
1) Accrued liabilities	2,349	2,299
2) Other liabilities	104,187	94,954
F. Interest expense on issued securities	**13,809**	**13,759**
G. Fees and commissions borne by the transaction	**262**	**266**
1) Servicing fees	197	204
2) Other services	65	62
H. Other expenses	**2,318**	**1,896**
1) Other interest expense		
2) Other expenses	608	538
3) Adjustments on loans	1,710	1,358
I. Interest generated by securitised assets		
L. Other revenues	**3,129**	**2,804**
1) Interest income	85	45
2) Other revenues	3,044	2,759

Italease Finance S.p.A - ITA 6 – transaction closed during the year

(in thousands of euro)	31/12/2014	31/12/2013
A. Securitised assets	**-**	**11,510**
A1) loans	-	10,663
A2) securities	-	-
A3) other	-	847
B. Use of available funds from loan management	**-**	**1,523**
B1) debt securities	-	-
B2) equity instruments	-	-
B3) other (time deposits)	-	1,523
C. Issued securities	**-**	**3,041**
C1) Senior securities	-	-
C2) Mezzanine securities	-	-
C3) Junior Securities - unrated	-	3,041
D. Loans received	**-**	**-**
E. Other liabilities	**-**	**9,992**
F. Interest expense on issued securities	**6,045**	**1,891**
G. Fees and commissions borne by the transaction	**16**	**49**
G1) servicing fees	1	6
G2) other services	15	43
- for corporate service	3	10
- for the representative of the security holders	6	7
- for payment services	2	6
- for quotation and rating services	-	6
- for computation agent service	4	15
H. Other expenses	**35**	**37**
- on swap basis	-	-
- for administrative procedures	35	37
- for losses on loans	-	-
I. Interest generated by securitised assets	**162**	**252**
L. Other revenues	**5,934**	**1,725**
- recoveries on loans	5,934	1,677
- generated from use of funds	-	-
- generated by basis swaps	-	48

Italease Finance S.p.A - ITA 7

(in thousands of euro)	31/12/2014	31/12/2013
A. Securitised assets	**30,625**	**49,540**
A1) loans	30,625	49,533
A2) securities	-	-
A3) other	-	7
B. Use of available funds from loan management	**4**	**3,252**
B1) debt securities	-	-
B2) equity instruments	-	-
B3) other (time deposits)	4	3,252
C. Issued securities	**-**	**16,424**
C1) Senior securities - AA/A2 rating (1)	-	13,193
C2) Mezzanine securities - AA/A2 - A+/A3 rating (1)	-	2,406
C3) Junior Securities - unrated	-	825
D. Loans received	**-**	**-**
E. Other liabilities (accrued liabilities and deferred income)	**30,629**	**36,368**
F. Interest expense on issued securities	**578**	**1,851**
G. Fees and commissions borne by the transaction	**92**	**94**
G1) servicing fees	11	17
G2) other services	81	77
- for corporate service	10	10
- for the representative of the security holders	10	10
- for payment services	6	6
- for quotation and rating services	20	19
- for computation agent service	35	33
H. Other expenses	**695**	**149**
- on swap basis	19	63
- for administrative procedures	113	85
- for capital losses	563	-
I. Interest generated by securitised assets	**1,073**	**822**
L. Other revenues	**290**	**1,272**
- interest generated from use of funds	-	-
- recoveries	290	1,272

D. Disclosure on structured entities (other than companies for securitisations)

D.1 Structured entities consolidated
As at 31 December 2014, the only structured entities, other than SPE for securitisations, consolidated in the accounts (but not for supervisory purposes) are represented by investment funds managed by Group companies, for which the Group is retained to act as "principal", as described in "Part A – Accounting policies" in these notes to the financial statements.
The contribution to the consolidated financial statements amounts to euro 312.2 million in terms of total net assets; the portion held by third parties, corresponding to euro 114.5 million, was recognised under item "100. Other liabilities" insofar as the investment does not originate from a share-based relationship.
In this regard, note that there are not contractual agreements to provide funding to the cited entities.

D.2 Structured entities not consolidated

D.2.1 Structured entities consolidated for supervisory purposes
As at 31 December 2014 there is no disclosure to make.

D.2.2 Other structured entities
The Group holds interests in investment funds (funds and SICAVs), primarily to satisfy its investment needs. For the total exposure of said investments, refer to the details provided along with tables containing the breakdown for items 20, 30 and 40 of assets of the statement of financial position, in Part B of these notes to the financial statements.

In reference to these investments, the only structured entities not controlled by voting rights or similar, in which the Group's involvement goes beyond a mere stakeholding, are funds managed by the Group company, Aletti Gestielle SGR. These funds are not consolidated if the involvement is such that the Group can be considered as operating in the

role of "agent". For a description of the consolidated funds in which the Group acts as "principal", refer to the discussion in paragraph D.1 above.
As at 31 December 2014, the book value of the shares held in funds managed by the Group and not consolidated amounts to euro 189.4 million. The total shareholders' equity of these funds (or "Net asset value") is euro 1,298.4 million. More specifically, these investments were classified in the "Financial assets available for sale" portfolio for euro 185.3 million and in the "Financial assets designated at fair value through profit and loss" portfolio for euro 4.1 million. These values are deemed to reflect the maximum exposure to the risk of loss, as there are no contractual agreements to provide financial support to these funds.

Additionally, note that the Group's net revenues from managing and placing investment funds amounts to euro 321.2 million, of which euro 296.5 million refers to the placement of funds and SICAVs managed by the Group company, as shown in the table below:

(in thousands of euro)	2014
Net fee and commission income for managing collective portfolios	97,654
- of which for UCIT units managed by Aletti Gestielle SGR	*97,654*
Net fee and commission income for placing UCIT units	223,547
- of which for UCIT units managed by Aletti Gestielle SGR	*198,807*

For further information on the Group's asset management of collective portfolios, refer to the discussion in the report on operations, in the paragraphs "Results by business segment" and "Performance of the main Group companies".

E Sale transactions

A. Financial assets sold and not fully derecognised

QUALITATIVE INFORMATION

As at 31 December 2014, transfers that did not result in the derecognition from the financial statements of the underlying financial assets were represented by:

- Securitisations of loans (corresponding to euro 1,392.2 million) almost entirely related to customers;
- Repurchase agreements on securities held in the proprietary portfolio, mainly classified in the HTM category, for the residual amount.

With regard to repurchase agreements, the reason why the security underlying the same was not "derecognised" is due to the fact that the bank substantially retains all of the risks and benefits associated to the security, as it has an obligation to repurchase it at term at a price established contractually. The securities transferred continue therefore to be recognised in the relative accounting portfolios; the consideration of the transfer is recognised under due to banks or to customers, depending on who the counterparty is.
In this regard, it is noted that in the following tables are not included the repurchase agreements on securities not recorded in the statement of financial position, if these came from reverse repurchase agreements (refer to paragraph "Other operations" included in Part B of the Notes to the financial statements.
As regards the securitisation transactions illustrated in paragraph "C.1 Securitisation transactions", the reason why the same are not "derecognised" is due to the subscription, by the Group, of the tranche of junior securities or of similar exposures, which entail a risk of initial losses and, equally, the benefit associated to the return on the portfolio of assets transferred. These assets were transferred without recourse and therefore are not freely available to the assignor bank; by means of a servicer contract, the bank maintains a commitment to provide a service of management, administration, collection and recovery of the loans on behalf of the SPE.
Following the transfer, the consideration received is recognised as a balancing entry to the recognition of a payable to the SPE, net of the tranche of securities subscribed or of uses in the form of liquid funds provided to the SPE as payments of the principal. The payable due to the SPE, recognised in this way, will decrease by virtue of the amounts collected by the originator acting as "servicer", and transferred to the same SPE.
Due to the consolidation of the SPE's assets, the latter liability is not shown in the consolidated financial statements; otherwise, the outstanding securities issued by the SPE and not subscribed by Group companies would be recorded under liabilities.

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QUANTITATIVE INFORMATION

E.1 Banking group - Financial assets sold and not derecognised: book value and full value

(in thousands of euro)	Financial assets held for trading			Financial assets designated at fair value through profit and loss			Financial assets available for sale			Investments held to maturity			Due from banks			Loans to customers			TOTAL 31/12/2014	TOTAL 31/12/2013
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C		
A. Cash assets																				
1. Debt securities	131,432	-	-	-	-	-	650,281	-	-	4,655,296	-	-	24,477	-	-	-	-	-	5,461,486	4,674,526
2. Equity instruments	36,023	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	36,023	27,878
3. UCIT units	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	37	-	-	1,392,141	-	-	1,392,178	1,719,826
B. Derivatives	-	-	-	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	-	-
31/12/2014	**167,455**	-	-	-	-	-	**650,281**	-	-	**4,655,296**	-	-	**24,514**	-	-	**1,392,141**	-	-	**6,889,687**	X
of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	181,643	-	-	181,643	X
31/12/2013	**212,113**	-	-	-	-	-	**1,100,637**	-	-	**3,319,218**	-	-	**25,273**	-	-	**1,764,989**	-	-	X	**6,422,230**
of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	325,912	-	-	X	325,912

A = financial assets sold and fully recognised (book value)
B = financial assets sold and partially recognised (book value)
C = financial assets sold and partially recognised (full value)

E.2 Banking group - Financial liabilities associated with financial assets sold and not derecognised: book value

This table shows the liabilities recognised under "due to customers" or "due to banks" relating to transfers of financial assets that have not entailed in full derecognition from the financial statements, as shown at the foot of table C.2.1. above.
More specifically, note that the liabilities associated to the assets transferred for securitisation transacions are included in "due to customers", insofar as they are transactions performed through SPEs, subject to consolidation, but not part of the Banking Group.

(in thousands of euro)	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. Due to customers	**123,803**	-	**422,169**	**4,914,597**	**14,796**	**693,120**	**6,168,485**
a) relating to fully recognised assets	123,803	-	422,169	4,914,597	14,796	693,120	6,168,485
b) relating to partially recognised assets	-	-	-	-	-	-	-
B. Due to banks	**428**	-	**157,985**	**55,095**	-	-	**213,508**
a) relating to fully recognised assets	428	-	157,985	55,095	-	-	213,508
b) relating to partially recognised assets	-	-	-	-	-	-	-
C. Debt securities issued	-	-	-	-	-	-	-
a) relating to fully recognised assets	-	-	-	-	-	-	-
b) relating to partially recognised assets	-	-	-	-	-	-	-
Total 31/12/2014	**124,231**	-	**580,154**	**4,969,692**	**14,796**	**693,120**	**6,381,993**
Total 31/12/2013	**152,579**	-	**982,053**	**3,092,946**	**169,898**	**1,434,504**	**5,831,980**

E.3 Banking group - Sale transactions associated with liabilities with exclusive recourse to the assets sold: fair value

This table shows the fair value of the assets and associated liabilities relating exclusively to securitisation transactions insofar as they are considered the only cases that the Group possesses in which the transferee, namely the SPE, has exclusive recourse to the assets transferred, as in reality they represent the only cash flows available for the payment of the securities issued.

(in thousands of euro)	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 (fair value)		Loans to customers (fair value)		TOTAL 31/12/2014	TOTAL 31/12/2013
	A	B	A	B	A	B	A	B	A	B	A	B		
A. Cash assets														
1. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Equity instruments	-	-	-	-	-	-	X	X	X	X	X	X	-	-
3. UCIT units	-	-	-	-	-	-	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	37	-	1,503,968	-	1,504,005	2,686,964
B. Derivatives	-	-	X	X	X	X	X	X	X	X	X	X	-	-
Total Assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**37**	**-**	**1,503,968**	**-**	**1,504,005**	**2,686,964**
C. Liabilities related to														
1. Due to customers	-	-	-	-	-	-	-	-	16	-	693,120	-	X	X
2. Due to banks	-	-	-	-	-	-	-	-	-	-	-	-	X	X
3. Debt securities issued	-	-	-	-	-	-	-	-	-	-	-	-	X	X
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**16**	**-**	**693,120**	**-**	**693,136**	**1,058,377**
Net Value at 31/12/2014	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**21**	**-**	**810,848**	**-**	**810,869**	**X**
Net Value at 31/12/2013	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,057**	**-**	**1,627,530**	**-**	**X**	**1,628,587**

A = financial assets sold and fully recognised (book value)
B = financial assets sold and partially recognised (book value)

B. Financial assets sold and fully derecognised with recognition of continuous involvement

The case in point is not present for the Group at the date of the financial statements.

E.4 Banking group - Covered bond transactions

Covered bond issue programme

QUALITATIVE INFORMATION

Strategic goals

The Covered Bonds issue is part of the Group's strategic plan, and represents a tool to diversify sources of funding, to reduce the relative cost and to extend the maturities of liabilities. In 2010, at Group level, a long-term programme was launched that envisaged the issue of Covered Bonds ("Residential CB"). The Programme was renewed and extended from the initial euro 5 billion to 10 billion in February 2011. On 13 December 2011, Banco Popolare's Board of Directors approved the implementation of a Commercial CB Programme, the total nominal value of which is euro 5 billion.
Under these Programmes, Banco Popolare acts as the Issuing Bank of the CB and, following the merger of several network banks on 27 December 2011, and of Credito Bergamasco, on 1 June 2014, also acts as the Bank Assigning the assets pursuant to art. 7-bis of Italian Law no. 130 of 30 April 1999 and as Lending Bank.

Programme structure

The Programmes are implemented through the assignment without recourse to BP Covered Bond S.r.l. ("Special Purpose Entity" enrolled in the list set forth in article 106 of the Consolidated Banking Law, in which Banco Popolare holds a 60% stake) by several Banks of the Banco Popolare Group, Banca Popolare di Verona S.G.S.P S.p.A, Banca Popolare di Novara S.p.A., Banca Popolare di Lodi S.p.A., Cassa di Risparmio Lucca Pisa Livorno S.p.A. and Credito Bergamasco S.p.A., now all Banco Popolare Soc. Coop. ("Assigning Banks") of the relative monetary receivables relating to mortgage loans with the characteristics set forth in art. 2, paragraph 1, letter a) of Italian MEF (Mortgage Loans) Decree for the Residential CB Programme, while for the Commercial CB Programme, of residential and commercial landed loans and/or mortgage loans with the characteristics set forth in art. 2, paragraph 1, letters (a) and (b) of Italian MEF Decree.

Subordinated loan

In connection with the sale of the assets, the "Assigning Banks", now just Banco Popolare, granted, each for what is of direct concern, a Subordinated Loan in favour of the SPE in order to provide it with the necessary financial resources to acquire the relevant loans (except in the case in which the SPE pays directly for the assets purchased); the SPE must repay the subordinated loans on the last date of final repayment or the extended redemption date of the CB, in compliance with the applicable priority and within the limits of the funds available, without prejudice to the fact that, at each interest payment date, the subordinate loan may be repaid in advance provided that the principal amount of the loan is equal or higher than the residual debt of the Covered Bonds issued and that the tests contemplated by the regulations and by contract are observed. Interest is paid on the subordinated loans of the Residential CB Programme at a rate equal to the average interest rate of the CB Series issued, plus a periodic yield equal to the excess spread generated by the structure; for the Commercial CB Programme, the periodic yield is equal to the excess spread generated by the structure.

Bond Issues

The Programmes are structured so that Banco Popolare transfers the benefits and the costs associated with the issue of the CB to the Assigning Banks on the basis of its percentage share in the transaction. More specifically, for the Residential CB programme, this took place by Banco Popolare subscribing bonds issued by Credito Bergamasco or granting loans, with characteristics in line with those of the Series of Covered Bonds issued, while for the Commercial CB Programme, it entailed Banco Popolare granting an infragroup credit line (interbank deposits).
By virtue of the merger of Credito Bergamasco into Banco Popolare, finalised on 1 June 2014, the contracts drawn up between Banco Popolare and Credito Bergamasco were terminated in order to transfer the benefits and costs relating to the issue of the CB to the latter.

Derivative Contracts

In relation to the issue of CB, the SPE currently has three derivative contracts on interest rates called "Mortgages Pool Swaps" and eight contracts called "Covered Bond Swaps" (the latter only in the base of fixed-rate CB issues) to mitigate the interest rate risk related to the collections deriving from the cover pool and the coupon payments relating to the CB which must be made by the Issuer but which must be paid by the SPE in case of default of the Issuer. At consolidated level, the purpose of "Covered Bond Swaps" is to neutralise the exposure of the fixed-rate Covered Bond issue to interest-rate risk.

Guarantees

The SPE, in order to guarantee the repayment of the Covered Bonds should Banco Popolare not fulfil its obligations to pay, has issued an unconditional and irrevocable primary guarantee valid for separate assets for the benefit of the investors that will subscribe the Covered Bonds. The guaranteed amount is equal to total interest and principal that must be paid to the investors on each class of Covered Bond. The regulations require that the integrity of the guarantee should be ensured during the life of the Covered Bonds and to this end, the structure of the Programme contemplates a series of tests on the portfolio. The tests are carried out quarterly by the Group Finance Service, while the Risk Management Service verifies the same at least every six months. The accuracy of the tests is also verified, at the time of issue of the separate series of CB and subsequently on a quarterly basis, by an external party, the Asset Monitor which, in accordance with Supervisory Regulations, must be an Independent Auditor; the Internal Audit service verifies the adequacy of the checks made internally at least once a year. The management of the portfolio during the life of the Programme is regulated by a Cover Pool Administration Agreement, signed by the SPE, by Banco Popolare (as Assigning Bank and Issuer), by the Representative of Covered Bondholders and by the Asset Monitor.

Testing effectiveness

The following tests are conducted to assess the effectiveness of the overall portfolio and of the portfolio sold by each "Assigning Bank":
- the Nominal Value Test, which verifies that the nominal value of the residual loans in the portfolio sold is higher than the nominal value of the CB that have not been redeemed at that date;
- the NPV Test, which verifies that the present value of the residual loans in the portfolio sold is higher than the present value of the CB that have not been redeemed at that date;
- the Interest Coverage Test, which verifies that the interest collected and to be collected, net of the costs of the SPE, is higher than the interest to be paid to the holders of CB.

If the requirements of all of the tests are met, payments may be made in accordance with the "order of payment". In accordance with contractual documentation, the asset coverage test must also be conducted, with a view to maintaining a certain level of over-collateralisation, which is the maximum ratio between the CB issued and the assets sold. The infringement of the regulatory and contractual tests leads to an obligation for the "Assigning Banks", now only Banco Popolare, to add to the portfolio.

Collection and administrative management services

The collection and management of the loans sold is carried out by each "Assigning Bank", now just Banco Popolare, which acts as servicer; the amounts collected are paid into accounts in the name of the SPE opened with Banco Popolare (Interim Account Bank), and transferred on a daily basis to the accounts of the SPE opened with Banco Popolare London Branch (Transaction Account Bank). Banco Popolare also acts as administrative servicer, namely it provides administrative services and fulfils tax-related requirements on behalf of the SPE.

QUANTITATIVE INFORMATION

Commercial CB Programme

Over the course of previous years, the "Assigning Banks" sold the SPE, four portfolios of mortgage loans and to pay the purchase price of the mortgage loans (with the exception of a part of the third and the entire fourth portfolio, which the SPE paid for using the available liquidity deposited in its current accounts), the SPE utilised a Subordinated loan granted by the "Assigning Banks". On 7 November 2014, following the signature of the relative sales agreements, Banco Popolare sold a new portfolio (the fifth) comprised of eligible assets originating from commercial and residential landed and mortgage loans with a residual total debt of euro 215.2 million. To honour the purchase price of the fifth portfolio, made on the Guarantor Payment Date of 2 January 2015, the SPE utilised available liquidity deposited in its current accounts. Furthermore, on the same date of 7 November 2014, Banco Popolare also repurchased a portion of mortgage loans previously sold to the SPE and no longer "eligible" for a total residual debt of euro 380.7 million, the payment for which was made on 2 January 2015 by offsetting the partial early repayment of the subordinated loan granted to the "Assigning Banks" to the SPE.

The table below shows the overall value of the loans sold to the SPE as at 31 December 2014:

Bank	Value as at 31/12/2014 (1)	Portfolio % as at 31/12/2014	Value as at 31/12/2013 (1)	Portfolio % as at 31/12/2013
Banco Popolare (*)	**2,134,200**	**100.00%**	**2,632,881**	**100.00%**
Banco Popolare	2,134,200	100.00%	2,264,281	86.00%
Banco Popolare (formerly Creberg)	-	-	368,600	14.00%

(1) The amounts indicated represent performing, substandard, past due, restructured and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.
(*) For comparative purposes, the figures for FY 2013 have been aggregated to take into account the merger by incorporation of the Credito Bergamasco into Banco Popolare finalised on 1 June 2014.

The table below shows non performing loans:

Bank	Value as at 31/12/2014	Portfolio % as at 31/12/2014	Value as at 31/12/2013	Portfolio % as at 31/12/2013
Banco Popolare (*)	**74,632**	**100.00%**	**116,448**	**100.00%**
Banco Popolare	74,632	100.00%	94,899	81.50%
Banco Popolare (formerly Creberg)	-	-	21,549	18.50%

(*) For comparative purposes, the figures for FY 2013 have been aggregated to take into account the merger by incorporation of the Credito Bergamasco into Banco Popolare finalised on 1 June 2014.

In 2014, the mortgage loans portfolio generated collections totalling euro 370.5 million, of which euro 329.8 million represented the principal and euro 40.7 million represented the interest.

Bonds issued by Banco Popolare

Banco Popolare issued four Series of CB under the Commercial CB Programme, listed on the Luxemburg Stock Exchange. The bonds were entirely subscribed by Banco Popolare and used as collateral in ECB refinancing operations. Overall, the bonds issued by Banco Popolare under this Programme correspond to euro 3,400 million, of which euro 900 million refer to the First Series and euro 800 million to the Second Series, both redeemed on maturity as at 31 March 2014; therefore, securities issued and outstanding at 31 December 2014 amounted to euro 1,700 million. In particular:

Issue date	Series	Notional value	Coupon	Maturity	Price Issue (flat quotation)	Moody's Rating
31/07/2013	3rd Series	200,000	Eur 3M + 30 bps	30/09/2015	100.00	Baa2
04/04/2014	4th Series	1,500,000	Eur 3M + 30 bps	02/07/2016	100.00	Baa2
		1,700,000				

Other information

In February 2014, the rating agency Moody's, mainly due to the change in the rating for the outlook of Italian Government bonds from "negative" to "stable", upgraded the rating of the Programme from "Baa3" to "Baa2". In March 2014, the contractual documentation was amended in order to move the "Guarantor Payment Date", as of June 2014, from the last day of March, June, September and December to 2 April, 2 July, 2 October and 2 January of each year respectively. In July 2014, the prospectus for the Programme underwent its annual renewal.

Residential CB Programme

Over the course of previous years, the "Assigning Banks" sold the SPE eight portfolios of mortgage loans and, on 21 May 2014, following the signature of the relative sales agreements, Credito Bergamasco, now Banco Popolare, sold a new portfolio of eligible assets (the ninth) with a residual total debt of around euro 866.3 million, comprised of residential and property mortgage loans. To pay the purchase price of the loans (with the exception of the entire sixth and ninth portfolio and a part of the seventh, which the SPE paid using the available liquidity deposited in its current accounts), the SPE utilised a Subordinated revolving loan granted by the "Assigning Banks" for an amount equal to the purchase price of said portfolios.

The table below shows the overall value of the loans sold to the SPE as at 31 December 2014:

Bank	Value as at 31/12/2014 (1)	Portfolio % as at 31/12/2014	Value as at 31/12/2013 (1)	Portfolio % as at 31/12/2013
Banco Popolare (*)	**10,143,572**	**100.00%**	**10,203,673**	**100.00%**
Banco Popolare	10,143,572	100.00%	8,704,595	85.31%
Banco Popolare (formerly Creberg)	-	-	1,499,078	14.69%

(1) The amounts indicated represent performing, substandard, past due, restructured and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.
(*) For comparative purposes, the figures for FY 2013 have been aggregated to take into account the merger by incorporation of the Credito Bergamasco into Banco Popolare finalised on 1 June 2014.

The table below shows non performing loans:

Bank	Value as at 31/12/2014	Portfolio % as at 31/12/2014	Value as at 31/12/2013	Portfolio % as at 31/12/2013
Banco Popolare	**322,442**	**100.00%**	**229,299**	**100.00%**
Banco Popolare	322,442	100.00%	194,126	84.66%
Banco Popolare (formerly Creberg)	-	-	35,173	15.34%

(*) For comparative purposes, the figures for FY 2013 have been aggregated to take into account the merger by incorporation of the Credito Bergamasco into Banco Popolare finalised on 1 June 2014.

In 2014, the mortgage loans portfolio generated collections totalling euro 1,135.4 million, of which euro 882.3 million represented the principal and euro 253.1 million represented the interest.

Bonds issued by Banco Popolare

As part of the Residential CB Programme, Banco Popolare issued eight Series of CB, listed on the Luxembourg Stock Exchange, and one unlisted Registered Covered Bond; these bonds were subscribed by institutional investors or by Banco Popolare. Overall, the bonds issued by Banco Popolare amounted to euro 10,450 million, of which euro 1,750 million refer to the Fifth Series redeemed on maturity as at 31 December 2013, and euro 1,250 million refer to the Third Series redeemed on maturity as at 31 March 2014; therefore, securities issued and outstanding at 31 December 2014 amounted to euro 7,450 million. In particular:

Issue date	Series/Tranche	Notional value	Coupon	Maturity	Price Issue (flat quotation)	Fitch/ Moody's Rating
03/03/2010	1st Series 1st Tranche (1)	1,000,000	3.625%	31/03/2017	99,401	BBB+/A3
05/08/2010	1st Series 2nd Tranche (2)	400,000	3.625%	31/03/2017	100,432	BBB+/A3
16/09/2010	2nd Series 1st Tranche (3)	800,000	3.250%	30/09/2015	99,897	BBB+/A3
21/10/2010	2nd Series 2nd Tranche	150,000	3.250%	30/09/2015	100,138	BBB+/A3
24/01/2011	Registered CB (4)	100,000	5.250%	03/04/2029	96,590	BBB+/A3
14/03/2011	4th Series 1st Tranche (5)	1,250,000	4.750%	31/03/2016	99,526	BBB+/A3
30/06/2011	2nd Series 3rd Tranche (2)	300,000	3.250%	30/09/2015	96.00	BBB+/A3
20/10/2011	4th Series 2nd Tranche (2)	300,000	4.750%	31/03/2016	100,133	BBB+/A3
05/04/2013	6th Series 1st Tranche (7)	150,000	4.000%	31/03/2023	99,482	BBB+/A3
08/01/2014	7th Series 1st Tranche (6)	1,500,000	Eur 3M + 100 bps	31/03/2016	100.00	BBB+/A3
19/09/2014	8th Series 1st Tranche (6)	1,500,000	Eur 3M + 100 bps	30/09/2017	100.00	BBB+/A3
		7,450,000				

(1) On 30 September 2011, Banco Popolare purchased a nominal of euro 5.8 million and on 2 December 2011 a nominal of euro 8.8 million, on 4 July 2012 a nominal of euro 20 million, on 18 September 2012 a nominal of euro 3 million, on 21 September 1012 a nominal of euro 10 million.
(2) The bonds were entirely subscribed by Banco Popolare, which used them for a REPO transaction.
(3) On 6 August 2012, Banco Popolare purchased a nominal of euro 11 million and on 28 September 2012 a nominal of euro 7 million.
(4) The bonds were placed in the form of a private placement with market investors.
(5) On 16 November 2011, Banco Popolare purchased a nominal of euro 9 million and on 2 December 2011 a nominal of euro 8 million.
(6) The bonds were entirely subscribed by Banco Popolare and used as collateral in refinancing operations.
(7) The securities were subscribed by Banca Generali S.p.A.

Other information

In February 2014, the rating agency Moody's, mainly due to the change in the rating for the outlook of Italian Government bonds from "negative" to "stable", upgraded the rating attributed to the CB issued under the Residential Programme from "Baa2" to "Baa1"; furthermore, in March 2014, following several changes to the rating method adopted, Moody's further upgraded the rating of the Programme from "Baa1" to "A3". In July 2014, the prospectus for the Programme underwent its annual renewal.

Accounting representation

In the consolidated financial statements, all the companies taking part in Issue programmes ("Assigning Banks", now only Banco Popolare, Issuing Parent Company and SPE) are part of the Group and are consolidated line-by-line.
The accounting representation of the main asset items related to the issue of Covered Bonds is provided below:

- the mortgage loans sold by the Assigning Banks to the SPE continue to be recognised in the assets of the Statement of Financial Position under item 70 "Loans to customers", while the relative interest income is booked to the Income Statement under item 10 "Interest and similar income". As at 31 December 2014, the book value of mortgage loans under the Residential CB Programme was euro 10,018 million and euro 2,133 million under the Commercial CB Programme. This amount is subject to specific evidence among "Assets pledged to secure own liabilities and commitments" among Other information contained in Part B – Information on the Statement of financial position of these notes to the financial statements.
- The CB issued are recorded under debt securities issued (item 30 of Liabilities) and valued according to fair value hedge accounting rules with the hedging derivative of the interest-rate risk signed by the SPE ("Covered Bond Swap"). The issued securities also comprise the loan transaction by means of repurchase agreements on the series of re-acquired Covered Bonds previously described, in line with the clarifications provided in this regard by the Supervisory Body. As at 31 December 2014 the book value of the CB issued, net of relative repurchases, and considering the previously described repurchase agreements, amounted to euro 4,248.6 million.

F. Banking group - Credit risk measurement models

To measure the portfolio credit risk, the Risk Management Service avails itself of an econometric model fed by an extensive set of data and risk variables.

By resorting to Credit-VaR metrics, the model defines the distribution probability of losses in the loan portfolio for performing loans, cash loans and endorsement credits to resident retail and financial customers. The distribution is used for measuring the maximum potential loss along an annual timeframe and with a specific level of confidence.
In particular, to calculate the distribution, the model's processing engine uses a "MonteCarlo" simulation approach, which simulates a sufficiently high number of scenarios to produce a good empirical approximation of the theoretical distribution of loan portfolio losses.
The calculation of the maximum potential loss, which can be broken down in the classical Expected Loss and Unexpected Loss (Economic Capital), is affected by the concentration risk (generated by large exposures to single counterparts – name concentration – or types of peer counterparts in terms of geographical areas and/or industries, whose creditworthiness depends on one or more systematic factors – industry concentration) and by the systematic risk (generated by the impact of unexpected changes in macroeconomic factors on the probability of default of the single counterparts).
In addition to the loan portfolio concentration level, the impact of the above components on credit risk depends also on the structure of the correlation matrix of the probabilities of default, which is estimated by using a quantitative stress testing model (developed and updated in-house), which can link the decay rates of peer counterparts in terms of industry and geographical areas to a set of "first level" (international and national) and "second level" (regional) economic and financial factors.
Finally, the portfolio model is periodically stress tested to verify how sensitive the credit risk of the Group portfolio is to extreme changes (albeit plausible) of one (so called sensitivity analysis) or more (so called scenario analysis) economic and financial factors.

As at 31 December 2014, the expected loss, calculated on the scope of validation of Basel 3 (for which Banco Popolare has been authorised by the Bank of Italy to use internal rating systems to calculate capital requirements on credit risk) corresponded to 0.53% of the exposure in default, while the economic capital (measured using the C-Var method) amounted to 1.89% of the exposure in default.

Internal models to estimate PD-Probability of Default and LGD-Loss Given Default have undergone a process of internal validation by the Risks Department and a third level control by the Audit Department: the outcome of these processes is illustrated in specific reports, submitted to the Corporate Bodies and to the Bank of Italy.

1.2 BANKING GROUP - MARKET RISKS

1.2.1 Interest rate risk and price risk - regulatory trading portfolio

QUALITATIVE INFORMATION

A. General aspects

Market risk is the risk that the Group may generate less revenues than expected, or suffer from the impairment of balance sheet items or capital losses from financial positions held, due to sharp and adverse changes in market conditions, in particular interest rates, share prices, exchange rates, and the associated volatilities and correlations (generic risk), or due to events that may impair the issuer's redemption capability (specific risk). Market risks can materialize both with regard to the trading book, which includes trading instruments and the associated derivative instruments, and with regard to the banking book, which includes all financial assets and liabilities other than those included in the trading book.

The organisational model adopted by the Banco Popolare Group for the trading portfolios exposed to interest rate risk and price risk requires the centralisation:

- of the management of Treasury and of Proprietary Portfolio positions in Group Finance. The latter coordinates:
  - the management of short term liquidity and interest rate risk and exchange risk positions within the Group;
  - the optimisation of the overall risk/return profile, by diversifying risks across different asset classes of financial instruments;
- in the subsidiary Banca Aletti of the risk positions and the operating flows associated with securities, currency, OTC derivative trading and other financial assets. In addition to this, there are the main interest rate risk exposures from the trading portfolio of Banca Aletti relating to operations both on money markets, and the associated listed or plain vanilla derivatives (covered by the Trading & Brokerage Service), both on the markets of listed and OTC derivatives, and OTC structured products (covered by the Structured Products Service).

This model does not include the former Banca Italease Group, as there are no significant positions that may affect market risk.
Additional positions are assigned to the Finance Department of the Parent Company, relating to treasury bonds deposited as security, residual positions deriving from trading activities that cannot be immediately transferred to Banca Aletti because they do not meet the minimum amount requirements contemplated by market settlement systems. Finally, there are additional positions that, from an operating point of view, are considered an investment-trading, but from an accounting viewpoint are classified in the banking portfolio.

Group Finance Portfolio

Within the Group Finance of the Banco Popolare Group, we can identify two main types of trading operations (according to supervisory classifications):

- the investment portfolio of Banco Popolare that represents the major source of generic interest-rate risk and credit spread risk of the Parent Company, that are recorded in the IAS accounting category Held-For-Trading, and it is almost completely a bond portfolio. At the end of 2014, the bond portfolio of Banco Popolare had a nominal value of around euro 1,773 million, made up by about 55% of Financial securities and the remainder primarily by Italian Government bonds. The total interest rate risk sensitivity (delta) at year-end, calculated assuming a parallel change in the interest-rate curve of 1 basis point, is about euro -310,000, and derives from a prevalence of long exposures over short exposures on the different nodes of the Euro interest rate curve.
  This portfolio also presents an overall exposure to credit spread risk of about euro -430,000 considering a 1 basis point shock. Around 55% of this exposure relates to Financial securities and the remainder primarily to Italian Government bonds.
- the Banco Popolare Treasury portfolio contained no securities at the date of the financial statements.

The price risk on the share portfolio has an exposure that is below euro 100 million.

The Banco Popolare Group's Financial risk positions are monitored on a daily basis to verify their compliance with the operating thresholds set by the Board of Directors on the entire portfolio and on the single underlying assets.

Trading portfolio of Banca Aletti, held as part of its investment banking activities

In its capacity as Group investment bank, the subsidiary Banca Aletti holds a trading portfolio whose main exposures to the interest-rate risk are linked to trades on the money market, with the associated listed or plain vanilla derivatives covered by the Fixed Income Function of the Trading & Brokerage Service, as well as on the markets of derivatives and OTC structured product and listed derivatives, covered by the Structured Products Fixed Income Function of the Structured Product Service.
In particular:

- the investment bond portfolios and the associated listed derivatives, held by the Fixed Income Function, which are characterised by a prudent interest-rate risk management; in particular, with regard to year-end positions, the portfolio had a nominal value of about euro 950 million, allocated in Italian Government and financial securities (90%) and the remainder in corporate securities. This generated total exposure to interest rate risk of about euro -90,000, assuming a parallel change in the interest-rate curve of 1 basis point. This portfolio also includes positions deriving from trades on the Group Securities Market, namely the Group's organised trading facility for the management of the secondary markets of non-structured securities issued by the Group, amounting to about euro 40 million. The overall exposure to credit spread risk is around euro -20,000 considering a 1 basis point shock, resulting mainly from the securities portfolio;
- transactions in structured instruments and listed and unlisted derivatives, including trades on the secondary market of structured products issued or sold by the banks of the Group. The destructuring of complex transactions based on the underlying enables the centralised management of the interest rate, exchange rate and price risks within the specific Offices of the Bank's Structured Products Service, which use sophisticated position keeping systems. The total interest rate sensitivity (delta) at year-end, net of long and short positions on the various currencies and nodes of the interest curves amounted to about euro 125,000, assuming a parallel change in the interest rate curve of 1 basis point. This exposure also depends on the Structured bond portfolio of about euro 1,270 million, including those deriving from trades on the Group Securities Market of euro 430 million.

The main exposures to the equity risk are related to trades on cash markets and associated listed or plain vanilla derivatives, covered by the Equity Proprietary Trading Function, as well as on the derivatives and OTC structured products market and the listed derivatives market covered by the Equity Structured Products Function.
In particular:

- equity portfolios with their listed derivatives, held for trading by the Equity Proprietary Trading Function, in its capacity as market maker on single Stock Futures and as Specialist (continuous exposure to purchase/sale proposals) are characterised by limited overnight net daily exposures. Transactions in structured instruments and listed and unlisted derivatives are handled by the Equity Structured Products Function. The destructuring of complex operations based on the underlying enables the centralised management of the interest rate, exchange rate and price risks within the specific Offices of the Function, which use a sophisticated position keeping system specialised in interest rate, exchange rate and price risks. The system is integrated with pricing models and risk measurement (Greeks) developed in-house and validated by a specific Model Validation Group coordinated by the Parent Company's Risk Management Function, under the supervision of academic experts. At year-end, the total price risk exposure of the derivative portfolio of the Structured Products Function is equivalent to a short position of less than euro 10 million, net of hedges with derivatives and cash financial assets.

Banca Aletti's risk positions are monitored on a daily basis to verify their compliance with the operating thresholds set by the Board of Directors on the entire portfolio and on the single underlying assets.

Additional residual portfolios of Banco Popolare monitored and managed by Banca Aletti or by the Parent Company's Finance Department

The Internal Regulation on Risk Positions fixes the operational limits in terms of stock, interest-rate risk sensitivity, asset allocation with respect to the type of issuer and related creditworthiness, as well as concentration on single names and rating class. These ceilings are monitored by the Market Risk Function on a daily basis. Daily and period reports provide an account of this activity and of the held exposures.
For additional information, please refer to the specific paragraph below dealing with risk management and measurement processes.

B. Interest-rate risk and price risk management process and measurement methods

The function in charge of controlling the financial risk management for all the Banks of the Group with the aim of identifying the type of risks, define the methods to measure risks, control limits at strategic level and verify the consistency between trade limits and the risk/return targets assigned, is the Market Risk Function.
For Banca Italease, given the reduced tangibility of the portfolio, risk monitoring is carried out using the standard method envisaged by supervisory regulations.
In particular, for the identification, measurement, management and operating control of the risk positions of Group Banks, the Parent Company's Finance Department and Banca Aletti make use of a sophisticated position keeping and risk control system that provide a constant control over exposure levels and over the compliance with the operating limits defined by the Parent Company's Board of Directors and the Boards of Directors of Group Banks.
Risk control for trading activities in listed and unlisted derivatives and in structured products is based on a specific application specialising in interest/exchange rate derivatives and equity instruments.
In case of very complex and innovative structures, these models are complemented by pricing and sensitivity measurement models developed in house and certified by the Risk Management Service of the Parent Company.
This position keeping system is automatically fed by market platforms and by the sales networks in case of operations in cash and in listed derivatives. It is constantly aligned with accounting procedures and guarantees the constant measurement and control of position indicators, sensitivity and operational results. The position keeping system is also closely integrated with the Value at Risk control systems, developed by the Market Risk Function.
Financial risks are monitored on a daily basis by using deterministic indicators (sensitivity to market risk factors) as well as probabilistic indicators (VaR).
In particular, these indicators are considered the most appropriate instruments to ensure an effective and precise measurement and control of market risks generated by exposures to complex derivatives, also from a regulatory standpoint.
Value at Risk (VaR), which indicates the maximum potential loss associated with market movements in unexceptional conditions, represents a synthetic risk measurement. The method used to calculate the VaR belongs to the historical simulation VaR models. The values are calculated with a confidence level of 99% and a time horizon of one day. The observation period is 250 days. The correlations used are those implicit in historical scenarios applied to estimate the empirical distribution of values in the trading portfolio.
The current model covers generic risk, with the interest-rate risk, exchange-rate risk, equity risk and specific risk both of debt securities (separately measured as specific VaR) and of equity instruments (included, with the generic component, in the estimate of the equity VaR).
VaR reports are prepared, through which monitoring is ensured at Group level, at single bank level, by organisational unit, and by trading portfolio.
Said reports are sent to the Bank Head Office, the Finance Department of the Parent Company and to the Audit Department.

During 2014, the Group continued to constantly improve market risk management, from a technological and methodological point of view, as well as with regard to organisational processes.
The Group uses a validated internal model for the quantification of the minimum capital requirements for market risk. The validation of the internal model was obtained for the scope that includes interest rate risk, equity risk, exchange rate risk and credit spread risk, as well as the benefit of correlation between risks. Correlation and dividend risks are also included.
The capital requirement is also calculated by adding the Stressed VaR measured to the VaR. The former is based on the same methodological framework as the VaR, but it considers changes of the parameters in particularly stressed market circumstances. The period chosen considers the shocks recorded between 1 April 2008 and 31 March 2009.

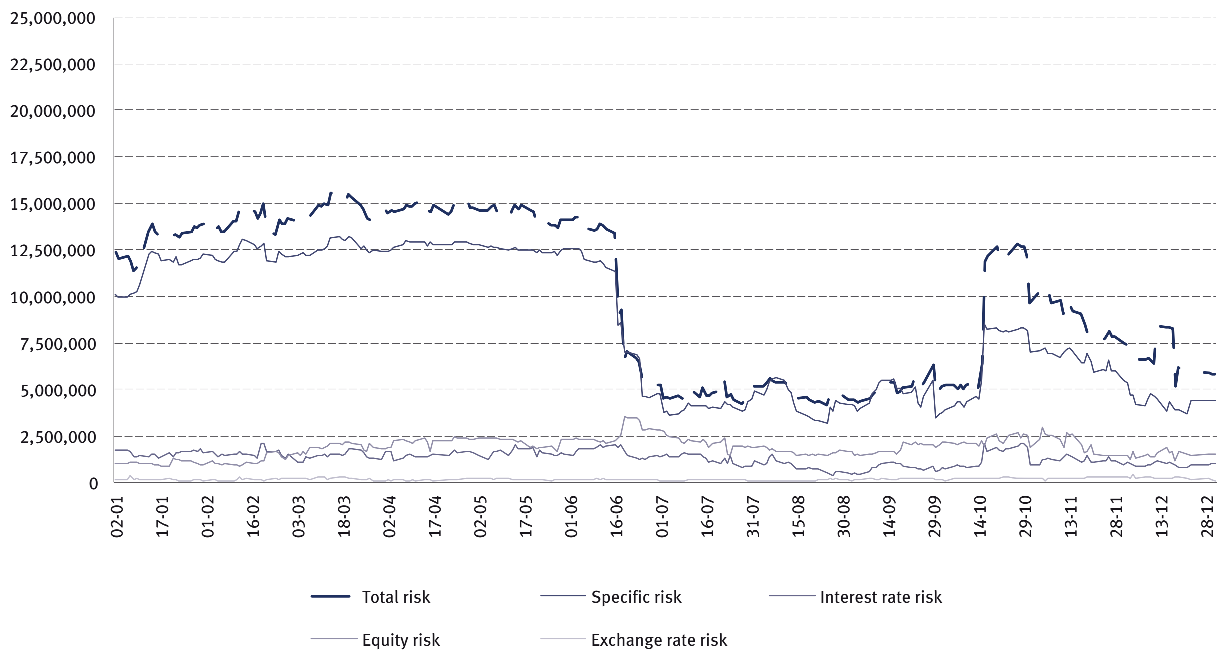
QUANTITATIVE INFORMATION

Regulatory trading portfolio: internal models and other sensitivity analysis methods

The Value at Risk (VaR) measurement considers interest rate risk, equity risk, exchange rate risk and credit spread risk, as well as the benefit of correlation between risks. Correlation and dividend risks are also included.

The graph and table below show the trend of VaR data for 2014, referring to the regulatory trading portfolio of the Banco Popolare Group. The figures shown do not include the portfolios of the former Italease Group.

DailyVaR and VaR by risk factor
BANCO POPOLARE GROUP: Trading portfolio



(in millions of euro)	2013	2014	average	maximum	minimum
Interest rate risk	1.686	0.993	1.324	2.128	0.399
Exchange rate risk	0.133	0.081	0.186	0.421	0.067
Equity risk	0.837	1.550	1.879	3.553	0.864
Dividends and Correlations	0.318	0.609	0.692	1.193	0.217
Total uncorrelated	2.974	3.233			
Diversification effect	-0.842	-0.653			
Total Generic Risk	**2.133**	**2.580**	**3.057**	**5.870**	**1.467**
Specific Risk Debt Securities	**10.488**	**4.399**	**8.401**	**13.212**	**3.223**
Combined Risk	**12.473**	**5.813**	**9.977**	**15.538**	**4.159**

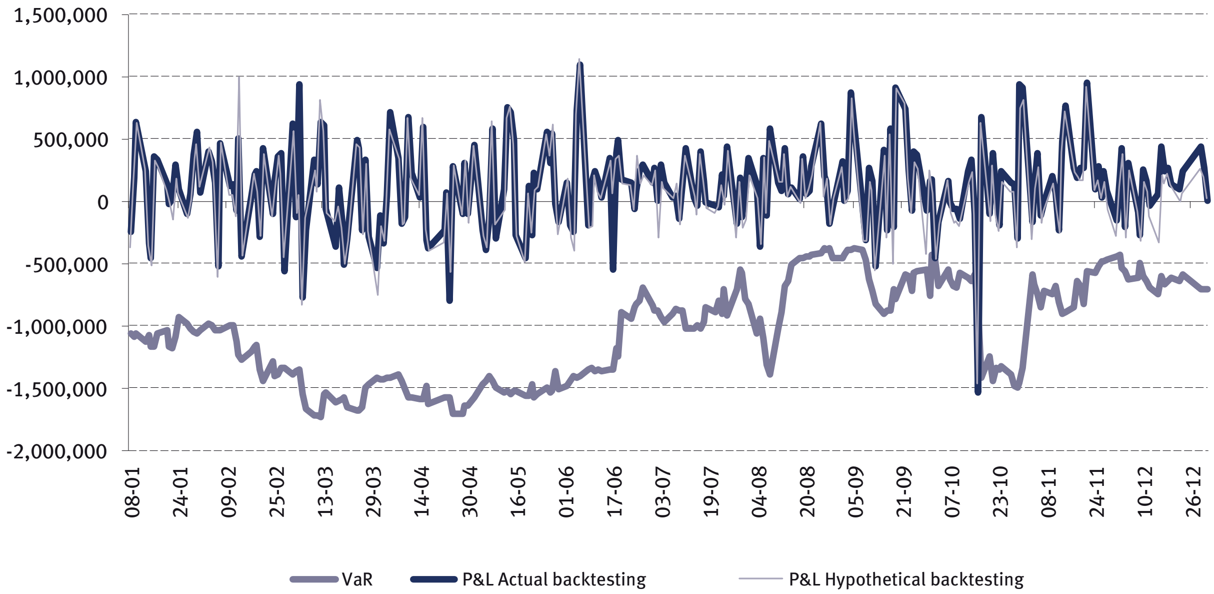
The table shows that the most important risk component is the specific risk of debt securities, due to the presence of positions in Italian Government bonds. Changes in these securities can be attributed to the Group's overall risk trend, which at the end of the year was around the minimum value.

Following the validation of the internal model for the calculation of the capital requirement relating to market risks, backtesting is conducted on a daily basis, with a view to verifying the solidity of the VaR model adopted. These tests are conducted on the regulatory trading portfolio of Banco Popolare and of Banca Aletti.

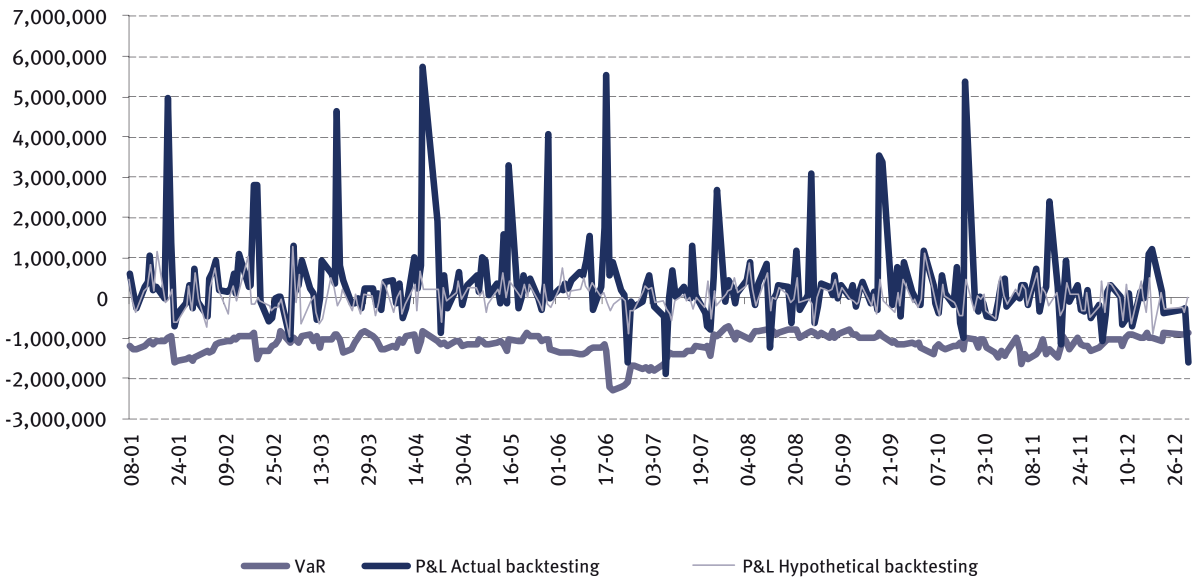
The graphs below show the backtesting relating to the VaR method, calculated on the generic risk of debt securities, generic and specific equity risk, interest rate risk and exchange rate risk.

For backtesting purposes, as envisaged by supervisory regulations in force, we used the equally-weighted VaR measurement instead of using a decay factor used in operational approaches.

Backtesting of Banco Popolare



Backtesting of Banca Aletti



Note that in the period in question, the number of exceptions (losses exceeding the VaR estimate) was in line with the level of confidence used (the estimate at 99% implies that an exception is verified in 1% of the remaining cases: therefore over a 250 day period, this result is expected on 2-3 working days).

1.2.2 Interest rate and price risk – Banking portfolio

QUALITATIVE INFORMATION

A. General issues, management procedures and interest rate risk and price risk measurement methods

The interest rate risk borne by the Banco Popolare Group in correlation with its banking portfolio is mainly associated with the core activity performed by the bank acting as an intermediary in the process of transformation of maturities. In particular, the issue of fixed rate bonds, the granting of fixed rate commercial loans and funding from demand checking accounts represent a fair value interest rate risk; floating rate financial assets and liabilities represent a cash flow interest rate risk.
The Parent Company's Interest Rate and Liquidity Risks function is in charge of measuring and controlling the interest rate risk inherent in the banking portfolio, and it performs this function also on behalf of the banks and financial subsidiaries. This activity is performed on a monthly basis to verify that the limits in interest income or economic value of equity changes are complied with.
The structure in charge of managing the interest rate risk is the Parent Company's ALM function, which carries out this task also on behalf of the banks and subsidiary financial companies, and pursues the optimisation of the economic return from the bank's commercial activity in compliance with the set interest rate risk exposure limits.
In order to achieve its objective, this structure analyses exposure to interest rate risk by means of reports generated by the Asset & Liability Management procedure, to identify mismatches, in terms of repricing, between deposit and lending items, also in the light of off-balance sheet hedging transactions already set in place and to identify what new measures should be taken, if any.
Also in 2014, the Group reported a substantially closed structural mismatch, although slightly "asset-sensitive", partially mitigated by the profile of the companies of the former Banca Italease Group, especially Banca Italease and Release, which have a slightly "liability sensitive" risk profile.
In 2014, the parameters of the "behavioural" models for demand deposits were updated, where already in 2013 the new "Mean Life" modelling approach had been introduced, as well as the statistical model for the prepayment of mortgage loans, with a view to adequately assessing this behavioural option.
As regards the methods used to estimate the risk of the banking portfolio, reference is made to what is indicated in a subsequent paragraph of this section dedicated to internal models and other analyses methods of sensitivity.
Alternative assets (funds of hedge funds) that are held for the strategic purpose of making the overall portfolio market neutral, are exposed to the price risk. We also have a portfolio consisting of minority interests, classified as financial assets available for sale.
As regards the methods used to estimate the risk of such assets, reference is made to what is indicated in the prior section whose subject matter is the trading portfolio, with reference to internal models and other analyses methods of sensitivity.

B. Fair value hedging

The risk management policy adopted by the Banco Popolare Group to comply with the requirements of the relevant Regulations, seeks to stabilise net interest income and economic value in the event of interest rate changes. Over time, this has entailed hedging both fixed-rate and structured bond issues, transferring the risk to the market through specific hedges set up with OTC contracts (mainly IRS and interest rate options). Similarly, the Group has set in place, at different times, but for the same purpose, several macro hedges by means of OTC contracts to transform a part of fixed-rate loans disbursed to customers into floating rate transactions. All of these hedging transactions are performed through Banca Aletti.

As regards the accounting treatment of these hedging relations, the Group has adopted the fair value option for bond issues placed with ordinary customers, and the accounting rule of fair value hedges for bond issues placed with institutional investors and for loans to customers; both procedures seek to ensure a consistent accounting treatment with hedging derivatives, that are necessarily measured at fair value. For further details, reference is made to "Section A – Accounting policies" and to the comment to table "50. Financial liabilities measured at fair value" -"Section B – Information on the Consolidated Balance Sheet" of these notes to the consolidated financial statements.
The price risk of the alternative assets portfolio is monitored on a daily basis and is not hedged.

C. Cash flow hedging

In order to stabilise the cost of its floating rate deposits and reduce the asset mismatches, the Banco Popolare Group resorted to swap hedges called macro cash flow hedges.
The existing hedges have a total capacity in the notional amount of floating rate loans.

QUANTITATIVE INFORMATION

1. Banking portfolio: breakdown by residual maturity (by repricing date) of financial assets and liabilities

Currency of denomination: Euro *(in thousands of euro)*	On demand	Up to 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Between 5 and 10 years	Over 10 years	Undefined term
1. Cash assets	**54,947,679**	**12,953,749**	**4,579,705**	**4,735,324**	**17,712,290**	**3,175,395**	**4,009,748**	**1,825**
1.1 Debt securities	97,663	1,742,507	1,372,740	1,361,524	10,823,522	1,195,422	1,351,294	-
- with early redemption option	3	168,486	95,301	-	1,698	-	61,016	-
- others	97,660	1,574,021	1,277,439	1,361,524	10,821,824	1,195,422	1,290,278	-
1.2 Loans to banks	505,158	2,085,620	132,099	1,173,389	433	-	58	-
1.3 Loans to customers	54,344,858	9,125,622	3,074,866	2,200,411	6,888,335	1,979,973	2,658,396	1,825
- c/a	10,895,184	46,049	49,054	180,047	461,116	245	1	-
- other loans	43,449,674	9,079,573	3,025,812	2,020,364	6,427,219	1,979,728	2,658,395	1,825
- with early redemption option	31,593,148	3,054,904	1,292,962	503,190	2,287,042	1,565,841	2,434,734	-
- others	11,856,526	6,024,669	1,732,850	1,517,174	4,140,177	413,887	223,661	1,825
2. Cash liabilities	**43,599,960**	**32,166,251**	**4,319,920**	**4,148,455**	**15,327,984**	**2,247,371**	**167,094**	**-**
2.1 Due to customers	40,558,282	9,929,888	1,382,136	1,635,724	359,258	24,951	58,943	-
- c/a	38,043,522	821,206	187,629	137,013	40,000	-	-	-
- other payables	2,514,760	9,108,682	1,194,507	1,498,711	319,258	24,951	58,943	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	2,514,760	9,108,682	1,194,507	1,498,711	319,258	24,951	58,943	-
2.2 Due to banks	2,938,361	13,693,570	49,965	-	418,825	5,835	5,000	-
- c/a	619,365	-	-	-	-	-	-	-
- other payables	2,318,996	13,693,570	49,965	-	418,825	5,835	5,000	-
2.3 Debt securities	97,595	8,542,793	2,887,819	2,512,731	14,549,901	2,216,585	103,151	-
- with early redemption option	-	2,424,322	110	553	1,749,894	27,338	2,126	-
- others	97,595	6,118,471	2,887,709	2,512,178	12,800,007	2,189,247	101,025	-
2.4 Other liabilities	5,722	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	5,722	-	-	-	-	-	-	-
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	-	-	-	80,000	25,000	20,000	-	-
+ short positions	-	-	-	80,000	25,000	20,000	-	-
- Other derivatives								
+ long positions	1,264,000	5,451,162	936,433	613,589	21,691,919	1,141,234	100,000	-
+ short positions	1,278,479	24,618,155	1,936,279	214,902	1,508,785	589,593	1,052,143	-
4. Other off-statement of financial position transactions								
+ long positions	2,302,112	3,486,662	111,617	87,526	114,338	39,148	12,143	-
+ short positions	6,140,602	12,943	-	-	-	-	-	-

Currency of denomination: currencies other than Euro *(in thousands of euro)*	On demand	Up to 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Between 5 and 10 years	Over 10 years	Undefined term
1. Cash assets	**292,393**	**562,141**	**135,664**	**21,245**	**86,211**	**14**	**32,675**	**-**
1.1 Debt securities	21	-	-	-	37,981	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	21	-	-	-	37,981	-	-	-
1.2 Loans to banks	116,968	69,744	-	1,821	-	13	-	-
1.3 Loans to customers	175,404	492,397	135,664	19,424	48,230	1	32,675	-
- c/a	38,089	-	-	-	-	1	-	-
- other loans	137,315	492,397	135,664	19,424	48,230	-	32,675	-
- with early redemption option	100	665	146	5,976	-	-	-	-
- others	137,215	491,732	135,518	13,448	48,230	-	32,675	-
2. Cash liabilities	**1,673,637**	**327,216**	**12,802**	**10,584**	**15,494**	**-**	**-**	**-**
2.1 Due to customers	1,653,374	28,967	11,828	10,544	15,494	-	-	-
- c/a	1,653,287	28,480	11,828	10,544	177	-	-	-
- other payables	87	487	-	-	15,317	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	87	487	-	-	15,317	-	-	-
2.2 Due to banks	20,255	250,391	-	-	-	-	-	-
- c/a	222	-	-	-	-	-	-	-
- other payables	20,033	250,391	-	-	-	-	-	-
2.3 Debt securities	8	47,858	974	40	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	8	47,858	974	40	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	6,616	-	-	-
3.2 Without underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	61	-	1,209	-	-	-	-
+ short positions	-	61	-	-	-	-	-	-
4. Other off-statement of financial position transactions								
+ long positions	20,298	39,839	5,343	-	61	-	-	-
+ short positions	31,112	-	34,428	-	-	-	-	-

2. Banking portfolio: internal models and other sensitivity analysis methods

The Group makes use of an Asset & Liability Management procedure to measure on a monthly basis the impact ("sensitivity") from changes in the interest rate structure on the expected net interest, dividend and similar income and on the economic value of capital related to the banking portfolio.
With regard to the expected net interest, dividend and similar income, the ALM system estimates its changes on a one year horizon in the assumption of deterministic shocks of the interest rate curves (bps increases/decreases applied to all the interest rate curves as if it were a sudden, single and parallel change), and shocks to adjust to the forward rates implied in money market rates, and again shocks from projections that reflect alternative scenarios. Estimates are based on the assumption that the capital structure remains unchanged in terms of aggregate assets and liabilities, as well as in terms of financial characteristics (rates, spreads, duration).
With regard to the economic value of capital, the same assumptions on the interest rate curve changes are applied, measuring the change in present value of all transactions and comparing it with the economic value of capital.
A third probability indicator was introduced in the capital adequacy assessment (ICAAP process), which measures the value at risk based on the VaR methodology on a time horizon of 12 months and a confidence ratio of 99.9%. This

indicator is subject to a maximum, also in terms of each individual company, and is monitored on a monthly basis.
Shown below are the main sensitivity data of the Group referring to 2014 compared with 2013, with regard to the banking book:

Risk ratios (%)	FY 2014				FY 2013	
	31 December	Average	Maximum	Minimum	31 December	Average
For shift of + 100 bp						
Financial margin at risk / Financial margin	1.0%	0.6%	3.0%	-1.2%	0.1%	2.2%
Economic value at risk / Economic value of capital	-0.2%	-1.0%	0.2%	-1.8%	0.3%	-0.6%
For shift of - 100 bp						
Financial margin at risk / Financial margin	-0.2%	-0.2%	0.4%	-0.9%	-0.1%	-1.3%
Economic value at risk / Economic value of capital	-1.6%	-0.4%	0.5%	-1.6%	-0.4%	0.5%

According to normal operating procedures, Banco Popolare conducts periodic stress tests (based on the value prospective) applying instant and parallel shocks to the interest rate curves for the currencies of the items in the banking portfolio. Furthermore, on implementation of the ICAAP, the impact of extreme, but plausible, changes in risk factors on VaR is assessed, from the prospective of capital adequacy.
With regard to the banking portfolio, the Group also evaluates its exposure to the risk of default and to the migration of the rating class of debt securities classified as AFS, L&R and HTM using an Incremental Risk Charge (IRC) method. Analyses are currently underway to assimilate the indications envisaged by the European Fundamental Review directive of March 2014. In particular, as regards the specific risk of debt securities, they envisage a measurement method based on the use of the VaR spread plus a component of Incremental Default Risk (previous IRC model for the default component only).

The most important factor that impacted risk in 2013 was the increased volatility of credit spreads, which had repercussions on the specific debt securities risk component, in particular Government securities. Assets in the Debt securities AFS Portfolio of the Banco Popolare Group totalled euro 16,850 million as at 31 December 2014, of which euro 14,730 was represented by Italian Government securities.

Price risk monitoring and control activities for the funds of hedge funds banking portfolio are based on an internal VaR model. The risk is estimated by tying each fund to a combination of risk factors representing the management strategies (as well as a factor that can represent the relative specific risk component).
The price risk of the equity securities classified as assets available for sale is not subject to specific monitoring for the time being.

The “backtesting” results are not shown because the banking portfolio is valued at amortised cost and is therefore not covered by a specific process of evaluation of the management P&L, and therefore, of ex-post income components with which to compare the ex-ante risk estimates.

1.2.3 Exchange rate risk

QUALITATIVE INFORMATION

A. General issues, management procedures and exchange rate risk measurement methods

Exchange rate risk management is centralised at the Treasury for Group Finance operations and at the Equity Structured Products Function for Banca Aletti. Exposures for Banco Popolare’s Treasury had a value of around euro 6 million, while with respect to Banca Aletti’s forex derivative trading, positions of under euro 3 million in value were recorded.

As regards the methods used to measure and control the exchange rate risk generated by the trading portfolio, reference is made to the section “Interest rate risk and price risk – Regulatory trading portfolio”. As with the other risks, the adopted methods are not used to calculate capital requirements.

B. Exchange rate risk hedging

Exchange rate risk positions are monitored on a daily basis and are hedged so as to meet the Risk limits provided for each function.

QUANTITATIVE INFORMATION

1. Breakdown by currency of assets and liabilities and of derivatives

(in thousands of euro)	Currencies					
	US Dollar	Japanese yen	GB pound	Swiss franc	Chinese Renminbi	Other currencies
A. Financial assets	**968,606**	**17,270**	**118,722**	**199,363**	**1,708**	**18,005**
A.1 Debt securities	208,121	41	32,736	-	-	214
A.2 Equity instruments	37,629	-	-	24,820	1,415	845
A.3 Loans to banks	55,209	11,411	3,718	104,161	293	10,316
A.4 Loans to customers	667,647	5,818	82,268	70,382	-	6,630
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**14,864**	**722**	**4,491**	**58,125**	**-**	**5,289**
C. Financial liabilities	**1,272,999**	**204,693**	**341,102**	**57,292**	**78**	**163,573**
C.1 Due to banks	270,521	-	10	10	-	107
C.2 Due to customers	954,721	204,693	341,039	57,258	78	162,420
C.3 Debt securities	47,757	-	53	24	-	1,046
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**19,989**	**99**	**1,271**	**760**	**128**	**1,806**
E. Financial derivatives						
- Options						
+ long positions	116,607	1,431	14,813	-	-	5,261
+ short positions	155,959	3,895	7,954	15,000	-	231
- Other						
+ long positions	957,149	320,995	287,468	148,255	128	323,781
+ short positions	690,341	101,096	81,614	323,925	199	184,650
Total assets	**2,057,226**	**340,418**	**425,494**	**405,743**	**1,836**	**352,336**
Total liabilities	**2,139,288**	**309,783**	**431,941**	**396,977**	**405**	**350,260**
Mismatch (assets - liabilities)	**(82,062)**	**30,635**	**(6,447)**	**8,766**	**1,431**	**2,076**

2. Internal models and other sensitivity analysis methods

The exchange rate risks generated by the trading portfolio and the banking book are monitored through an internal VaR model extensively described in section "Interest rate risk and price risk – Regulatory trading portfolio", where the values assumed by this indicator are shown.

1.2.4 Derivative instruments

QUALITATIVE INFORMATION

Given the operations in derivatives, the Banco Popolare Group introduced specific and robust validation and control processes of the pricing models and the related market parameters.

Validation and control process of Market Parameters

The Banco Popolare Group adopted a Fair Value Policy defining the accounting rules to be used to value market parameters. To comply with this Policy, a strict process was put in place to count, validate and control the market parameters used to measure the market value and to estimate the risk of derivative positions. This process is carried out by the Parent Company's Risk Management Service.

In particular, this process regulates:

- the constant update of the Parameter Manual, containing the main parameters used and their most significant features, and the definition of the source;
- the constant update of parameter control methods;
- the daily validation and control of the listed parameters, automatically fed by external info-providers;
- the daily validation and control of illiquid parameters, from an accounting and management viewpoint.

In order to support control activities, the Group introduced a state of the art application (fed by the front office system and, for benchmarking purposes, by alternative and highly specialised info-providers) to monitor over time the performance of the parameters, featuring the statistical analysis of variations and operating warnings.

Validation and control process of Pricing Models of OTC derivative products

The Banco Popolare Group deals with OTC derivative instruments, and in order to measure them, it uses quantitative pricing models in line with market best practices already available in the Front Office application, or, for particular structures, models developed by Banca Aletti's financial engineering.
In order to ensure a precise and strict control over the adoption of new pricing models – be they market or in-house developed models - a validation process is in place, with the following features:

- activation of the Model validation Group, made up of the heads of the various corporate functions and coordinated by the Parent Company's Risk Management Service;
- model validation based on strict consistency and robustness tests, conducted with the support of academic experts;
- official validation of new models by the Product Innovation Committee, with the collaboration of key corporate managers.

Note that, based on the current prudential policy pursued by the Group, innovative financial instruments can be entered only after a thorough analysis of the reliability and accuracy of their pricing models.

A limited number of OTC derivatives associated with matched trading, for which the related fair values are hardly reproducible by in-house developed theoretical models, due to their high complexity.
However, it is important to note that the Banco Popolare Group is not exposed to market risk in connection with these products, as matched trading does not ever entail the operator being exposed to risk positions. In order to correctly quantify the counterparty risk and give a correct accounting measurement, for these contracts the valuation is based upon information obtained from external contributors, through non-public sources. The percentage represented by these instruments will gradually decrease over time as contracts expire and due to the prudential policy cited above.

QUANTITATIVE INFORMATION

The table below illustrates the fair value of derivative positions of Banca Aletti (excluding forex futures transactions), with the corresponding pricing model in use. In its capacity as investment banking of the Banco Popolare Group, Banca Aletti manages the market risk associated with derivative trading.

Aggregate *(fair value in thousands of euro)*		Number of Contracts/lots (in units)	Fair Value	Positive fair value	Negative fair value
Total		**221,751**	**(3,434,706)**	**3,855,636**	**(7,290,342)**
of which:	Listed derivatives	212,847	17,233	194,195	(176,962)
of which:	Certificates measured with proprietary models of the Front Office system	-	-	-	-
of which:	Certificates measured with internal models developed by Banca Aletti's finance engineering	182	(3,697,885)	20,413	(3,718,298)
of which:	OTC derivatives measured with proprietary models of the Front Office system	8,158	158,705	3,301,282	(3,142,577)
of which:	OTC derivatives measured with internal models developed by Banca Aletti's finance engineering	558	87,241	335,863	(248,622)
of which:	OTC derivatives measured by external contributors	6	-	3,883	(3,883)

A. FINANCIAL DERIVATIVES

A.1 Regulatory trading portfolio: year-end notional and average values

Underlying assets / Types *(in thousands of euro)*	Total 31/12/2014		Total 31/12/2013	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
1. Debt securities and interest rates	111,998,799	15,119,027	185,478,124	7,762,455
a) Options	49,897,048	61,774	57,573,018	24,844
b) Swap	62,101,751	12,005,998	127,905,106	183,000
c) Forward	-	-	-	-
d) Futures	-	3,051,255	-	7,554,611
e) Other	-	-	-	-
2. Equity instruments and share indices	8,375,524	7,068,191	10,496,058	4,963,508
a) Options	7,881,166	6,928,517	10,410,208	4,828,347
b) Swap	494,358	-	85,850	-
c) Forward	-	-	-	-
d) Futures	-	139,674	-	135,161
e) Other	-	-	-	-
3. Currencies and gold	2,415,226	-	1,904,463	36,662
a) Options	559,058	-	584,052	36,662
b) Swap	62,080	-	47,774	-
c) Forward	1,794,088	-	1,272,637	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	-	-	-	3,939
5. Other underlying assets	-	-	-	-
Total	**122,789,549**	**22,187,218**	**197,878,645**	**12,766,564**
Average values	**164,515,238**	**16,503,695**	**205,429,210**	**10,766,025**

A.2 Banking portfolio: year-end notional and average values

A.2.1 Hedging

Underlying assets / Types *(in thousands of euro)*	31/12/2014		31/12/2013	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	16,137,426	-	17,576,348	-
a) Options	125,000	-	175,000	-
b) Swap	16,012,426	-	17,401,348	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity instruments and share indices	-	-	-	-
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currencies and gold	-	-	-	-
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	-	-	-	-
5. Other underlying assets	-	-	-	-
Total	**16,137,426**	**-**	**17,576,348**	**-**
Average values	**16,444,619**	**-**	**18,203,880**	**-**

A.2.2 Other derivatives

Underlying assets / Types *(in thousands of euro)*	31/12/2014		31/12/2013	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	15,206,596	-	20,416,489	-
a) Options	20,685	-	62,833	-
b) Swap	15,185,911	-	20,353,656	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity instruments and share indices	10,000	-	2,464,210	-
a) Options	10,000	-	2,464,210	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currencies and gold	6,677	-	5,826	-
a) Options	-	-	-	-
b) Swap	6,616	-	5,824	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	61	-	2	-
4. Commodities	-	-	-	-
5. Other underlying assets	-	-	6,000	-
Total	**15,223,273**	**-**	**22,892,525**	**-**
Average values	**19,647,486**	**-**	**24,976,084**	**-**

A.3 Financial derivatives: gross positive fair value – breakdown by products

Portfolios / Types of derivatives *(in thousands of euro)*	Positive fair value			
	31/12/2014		31/12/2013	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading portfolio:	**2,081,865**	**309,929**	**3,107,711**	**199,224**
a) Options	705,512	194,270	771,619	198,853
b) Interest rate swap	1,348,067	115,502	2,322,386	56
c) Cross currency swap	4,203	-	2,766	-
d) Equity swap	2,328	-	562	-
e) Forward	21,755	-	10,378	-
f) Futures	-	157	-	315
g) Other	-	-	-	-
B. Banking portfolio - hedging derivatives	**579,196**	**-**	**464,493**	**-**
a) Options	-	-	1,724	-
b) Interest rate swap	572,464	-	462,769	-
c) Cross currency swap	6,732	-	-	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking portfolio - other derivatives	**470,770**	**-**	**591,346**	**-**
a) Options	650	-	46,342	-
b) Interest rate swap	470,059	-	544,573	-
c) Cross currency swap	61	-	431	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**3,131,831**	**309,929**	**4,163,550**	**199,224**

A.4 Financial derivatives: gross negative fair value - breakdown by products

Portfolios / Types of derivatives *(in thousands of euro)*	Negative fair value			
	31/12/2014		31/12/2013	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading portfolio:	**2,054,047**	**3,917,930**	**2,828,020**	**1,716,397**
a) Options	1,036,184	3,875,692	1,114,776	1,715,274
b) Interest rate swap	996,074	42,081	1,702,397	807
c) Cross currency swap	-	-	605	-
d) Equity swap	312	-	404	-
e) Forward	21,477	-	9,838	-
f) Futures	-	157	-	316
g) Other	-	-	-	-
B. Banking portfolio - hedging derivatives	**590,722**	**-**	**447,306**	**-**
a) Options	-	-	-	-
b) Interest rate swap	590,722	-	447,306	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking portfolio - other derivatives	**71,031**	**-**	**140,924**	**-**
a) Options	-	-	42	-
b) Interest rate swap	70,707	-	140,882	-
c) Cross currency swap	324	-	-	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**2,715,800**	**3,917,930**	**3,416,250**	**1,716,397**

A.5 OTC financial derivatives: regulatory trading portfolio – notional values, positive and negative gross fair values by counterparty - contracts not included in netting agreements

Contracts not included in netting agreements *(in thousands of euro)*	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1) Debt securities and interest rates							
- notional value	-	8,293	33,434	338,737	-	4,760,794	2,687,791
- positive fair value	-	194	1,208	2,856	-	254,516	2,915
- negative fair value	-	-	175	640	-	590	33,402
- future exposure	-	4	57	67	-	19,586	888
2) Equity instruments and share indices							
- notional value	-	-	12,500	1,066	30,400	5,166	289,749
- positive fair value	-	-	-	-	157	1,220	-
- negative fair value	-	-	-	-	1,655	-	68,160
- future exposure	-	-	750	-	912	327	4,620
3) Currencies and gold							
- notional value	-	-	2,047	118,978	-	676,952	176,116
- positive fair value	-	-	-	5,450	-	13,773	64
- negative fair value	-	-	1	836	-	19,500	171,372
- future exposure	-	-	20	1,190	-	5,096	63
4) Other values							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.6 OTC financial derivatives: regulatory trading portfolio – notional values, positive and negative gross fair values by counterparty - contracts included in netting agreements

Contracts included in netting agreements *(in thousands of euro)*	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1) Debt securities and interest rates							
- notional value	-	-	86,276,676	17,495,974	397,100	-	-
- positive fair value	-	-	1,086,440	294,736	-	-	-
- negative fair value	-	-	1,201,493	248,630	3,943	-	-
2) Equity instruments and share indices							
- notional value	-	-	6,444,153	1,195,391	397,100	-	-
- positive fair value	-	-	360,694	34,218	-	-	-
- negative fair value	-	-	202,048	64,841	25,406	-	-
3) Currencies and gold							
- notional value	-	-	1,362,844	78,290	-	-	-
- positive fair value	-	-	21,814	1,610	-	-	-
- negative fair value	-	-	8,815	2,540	-	-	-
4) Other values							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

A.7 OTC financial derivatives: banking portfolio – notional values, positive and negative gross fair values by counterparty – contracts not included in netting agreements

Contracts not included in netting agreements *(in thousands of euro)*	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1) Debt securities and interest rates							
- notional value	-	-	4,871,961	-	-	-	-
- positive fair value	-	-	144,946	-	-	-	-
- negative fair value	-	-	184	-	-	-	-
- future exposure	-	-	2,608	-	-	-	-
2) Equity instruments and share indices							
- notional value	-	-	-	-	-	-	5,000
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3) Currencies and gold							
- notional value	-	-	-	-	-	-	61
- positive fair value	-	-	-	-	-	-	61
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
4) Other values							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.8 OTC financial derivatives: banking portfolio – notional values, positive and negative gross fair values by counterparty – contracts included in netting agreements

Contracts included in netting agreements *(in thousands of euro)*	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1) Debt securities and interest rates							
- notional value	-	-	22,844,851	3,627,210	-	-	-
- positive fair value	-	-	713,503	191,206	-	-	-
- negative fair value	-	-	524,969	136,242	-	-	34
2) Equity instruments and share indices							
- notional value	-	-	5,000	-	-	-	-
- positive fair value	-	-	250	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
3) Currencies and gold							
- notional value	-	-	6,616	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	324	-	-	-	-
4) Other values							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

A.9 Residual life of OTC financial derivatives: notional values

Underlying assets / Residual life *(in thousands of euro)*		Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A.	**Regulatory trading portfolio**	**38,761,703**	**70,632,709**	**13,395,137**	**122,789,549**
A.1	Financial derivatives on debt securities and interest rates	33,549,354	65,147,170	13,302,275	111,998,799
A.2	Financial derivatives on equity instruments and share indices	3,021,316	5,261,346	92,862	8,375,524
A.3	Financial derivatives on exchange rates and gold	2,191,033	224,193	-	2,415,226
A.4	Financial derivatives on other values	-	-	-	-
B.	**Banking portfolio**	**2,773,016**	**26,519,591**	**2,068,092**	**31,360,699**
B.1	Financial derivatives on debt securities and interest rates	2,762,955	26,512,975	2,068,092	31,344,022
B.2	Financial derivatives on equity instruments and share indices	10,000	-	-	10,000
B.3	Financial derivatives on exchange rates and gold	61	6,616	-	6,677
B.4	Financial derivatives on other values	-	-	-	-
31/12/2014		**41,534,719**	**97,152,300**	**15,463,229**	**154,150,248**
31/12/2013		**59,891,039**	**156,998,347**	**21,458,132**	**238,347,518**

A.10 OTC financial derivatives: counterparty risk/financial risk - Internal models

The Banco Popolare Group does not use EPE internal models validated by supervisory authorities to calculate the capital requirement for the counterparty risk.
For management and capital adequacy assessment (ICAAP process), it uses an internal model to estimate the exposure to risk related to the Basel 2 component on over the counter (OTC) derivative trading.
This model makes use of internal market risk estimate methods to determine the potential short term evolution of the fair value of positions, and it incorporates the benefits of market correlations and the impacts of guarantee agreements. Internal PD and LGD estimates and the IRB-related weighting formulas for credit risks are then applied, when available, to the resulting future exposures.
As regards calculating the exposure to risk on repurchase agreements (SFT), an internal model is not currently used. The calculation and the weighting of the exposure for capital absorption purposes are regulated by CRM rules - the integral method with regulatory adjustments. The weighting of the exposure depends on the merit class of the counterparty.
The additional risk components envisaged by Basel 3 against CVA Risk and that of trading with Central Counterparties, are measured using the standard methods envisaged by EU Regulation 575.
The maximum risk level is currently assigned at both overall Group level, and at individual Group company level for Banca Aletti and for the Parent Company Banco Popolare, in accordance with the above measurement mechanism. Said maximum level is monitored on a monthly basis.

B. CREDIT DERIVATIVES

B.1 Credit derivatives: year-end notional and average values

Types of transactions *(in thousands of euro)*	Regulatory trading portfolio		Banking portfolio	
	On a single subject	On several subjects (basket)	On a single subject	On several subjects (basket)
1. Protection purchases				
a) Credit default products	265,766	-	-	-
b) Credit spread products	-	-	-	-
c) Total rate of return swap	-	-	-	-
d) Others	-	-	-	-
Total 31/12/2014	**265,766**	**-**	**-**	**-**
Average values	**280,527**	**-**	**3,683**	**-**
Total 31/12/2013	**367,076**	**-**	**5,292**	**-**
2. Protection sales				
a) Credit default products	-	-	-	-
b) Credit spread products	-	-	-	-
c) Total Rate of return swap	-	-	-	-
d) Others	-	-	-	-
Total 31/12/2014	**-**	**-**	**-**	**-**
Average values	**-**	**-**	**-**	**-**
Total 31/12/2013	**-**	**-**	**-**	**-**

B.2 OTC credit derivatives: positive gross fair value – breakdown by products

Portfolios / Types of derivatives *(in thousands of euro)*	Positive fair value	
	31/12/2014	31/12/2013
A. Regulatory trading portfolio	**-**	**3**
a) Credit default products	-	3
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Others	-	-
B. Banking portfolio	**-**	**14**
a) Credit default products	-	14
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Others	-	-
Total	**-**	**17**

B.3 OTC credit derivatives: negative gross fair value – breakdown by products

Portfolios / Types of derivatives *(in thousands of euro)*	Negative fair value	
	31/12/2014	31/12/2013
A. Regulatory trading portfolio	**10,198**	**9,727**
a) Credit default products	10,198	9,727
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Others	-	-
B. Banking portfolio	**-**	**-**
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Others	-	-
Total	**10,198**	**9,727**

B.4 OTC credit derivatives: (positive and negative) gross fair values by counterparty – contracts not included in netting agreements

The case in point is not present for the Group; therefore, this table is omitted.

B.5 OTC credit derivatives: (positive and negative) gross fair values by counterparty – contracts included in netting agreements

Contracts included in netting agreements *(in thousands of euro)*	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
Regulatory trading							
1) Protection bought	-	-	156,234	119,730	-	-	-
- notional value	-	-	150,766	115,000	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	5,468	4,730	-	-	-
2) Protection sales	-	-	-	-	-	-	-
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
Banking portfolio							
1) Protection bought	-	-	-	-	-	-	-
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
2) Protection sales	-	-	-	-	-	-	-
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

B.6 Residual life of OTC credit derivatives: notional values

Underlying assets / Residual life (in thousands of euro)		Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A.	**Regulatory trading portfolio**	50,000	215,766	-	265,766
A.1	Credit derivatives with qualified reference obligation	-	20,000	-	20,000
A.2	Credit derivatives with unqualified reference obligation	50,000	195,766	-	245,766
B.	**Banking portfolio**	-	-	-	-
B.1	Credit derivatives with qualified reference obligation	-	-	-	-
B.4	Credit derivatives with unqualified reference obligation	-	-	-	-
31/12/2014		50,000	215,766	-	265,766
31/12/2013		205,292	167,076	-	372,368

B.7 Credit derivatives: counterparty risk/financial risk – Internal models

The internal model used for estimating the counterparty risk of derivative instruments for management purposes is also applied to the credit derivatives in the portfolio.

C. FINANCIAL AND CREDIT DERIVATIVES

C.1 OTC financial and credit derivatives: net fair values and future exposure by counterparties

(in thousands of euro)	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1) Financial derivatives - bilateral agreements							
- positive fair value	-	-	343,836	117,686	-	-	-
- negative fair value	-	-	295,797	113,022	29,719	-	34
- future exposure	-	-	163,796	33,818	-	-	-
- net counterparty risk	-	-	197,542	37,581	-	-	-
2) Credit derivatives - bilateral agreements							
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
- net counterparty risk	-	-	-	-	-	-	-
3) Cross product agreements							
- positive fair value	-	-	251,077	60,749	-	-	-
- negative fair value	-	-	59,047	742	-	-	-
- future exposure	-	-	184,995	24,899	-	-	-
- net counterparty risk	-	-	168,696	21,548	-	-	-

1.3 BANKING GROUP - LIQUIDITY RISK

QUALITATIVE INFORMATION

A. General aspects, management processes and measurement methods of the liquidity risk

Liquidity risk is generated by the time mismatch between expected cash in- and out-flows even in a very short time horizon. In addition to the difficulty/impossibility of hedging such mismatches, the liquidity risk can also entail an interest rate risk caused by the need to raise/lend funds at unknown rates that could be potentially unfavourable.
In 2014, in addition to making the standard periodic measurements of the liquidity profile, the Banco Popolare Group became compliant with the relevant legislation by starting to report on a monthly/quarterly basis on the LCR (Liquidity Coverage Ratio) and SF (Stable Funding) indicators envisaged by the provisions of Basel 3.
The Group's liquidity risk limits system envisages a first-level control represented by the system that monitors and controls the cumulative liquidity mismatch on the basis of the recommended by the supervisory authority, and ten-day monitoring of operating liquidity - generated by mismatches of the banking portfolio as a whole - for the following timeframes: 14 days, 1 month, 3 months, 6 months and 12 months.
The Funding and Liquidity Function of the Group Finance Service is in charge of monitoring operating liquidity risk limits, according to the supervisory measurement system, as a first-level control; the Interest Rate and Liquidity Risk Function of the Risk Management Service is in charge of second-level controls, as well as monitoring mismatches of operating liquidity through the Asset & Liability Management procedure also used to measure interest rate risk.
The daily, precise and constant measurement of the counterbalancing capacity plays an important role in assessing the Group's liquidity risk. The counterbalancing capacity is a reserve of rapidly available liquidity, corresponding to the financial asset instruments eligible for refinancing with the European Central Bank, after the required haircuts have been applied.
In addition to the stress scenarios used in calculating the LCR, whose method already required the application of stress scenarios, the Group conducts specific, periodic stress tests based on scenarios pertaining to the main financial statement items. These include scenarios constructed in line with the recommendations of the Basel Committee, the Financial Services Authority and a scenario based on reverse stress test logic (applied to retail demand funding).
In 2014, in line with the approach adopted by the banking sector in continental Europe, the Group made use of the new instruments made available by the European Central Bank in order to provide liquidity to the European banking system (TLTRO).

QUANTITATIVE INFORMATION

1. Time distribution of financial assets and liabilities by residual contract maturity

Currency of denomination: Euro *(in thousands of euro)*	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 month and 3 months	Between 3 months and 6 months	Between 6 months and 1 year	Between 1 year and 5 years	Over 5 years	Undefined term	Total
Cash assets	**28,210,972**	**299,129**	**237,994**	**1,830,806**	**3,780,755**	**4,250,998**	**9,179,864**	**33,812,075**	**24,628,872**	**646,644**	**106,878,109**
A.1 Government securities	3,119	-	-	50,052	845,065	890,745	1,878,162	10,021,248	1,967,456	-	15,655,847
A.2 Other debt securities	94,251	-	11,784	39,113	113,619	62,149	433,732	2,914,854	762,612	2,030	4,434,144
A.3 UCIT units	763,253	-	-	-	-	-	-	-	-	-	763,253
A.4 Loans:	27,350,349	299,129	226,210	1,741,641	2,822,071	3,298,104	6,867,970	20,875,973	21,898,804	644,614	86,024,865
- Banks	492,549	218,057	44,181	914,978	234,368	129,632	1,174,126	47,145	1,236	640,557	3,896,829
- Customers	26,857,800	81,072	182,029	826,663	2,587,703	3,168,472	5,693,844	20,828,828	21,897,568	4,057	82,128,036
Cash liabilities	**42,435,743**	**2,979,261**	**1,033,872**	**9,427,670**	**7,202,311**	**2,684,460**	**4,998,750**	**28,299,458**	**2,776,740**	**17,476**	**101,855,741**
B.1 Deposits	40,882,463	152,673	244,041	573,140	600,048	1,110,621	1,600,137	100,990	25,235	-	45,289,348
- Banks	1,603,532	-	35,190	352,503	18,721	-	-	-	-	-	2,009,946
- Customers	39,278,931	152,673	208,851	220,637	581,327	1,110,621	1,600,137	100,990	25,235	-	43,279,402
B.2 Debt securities	88,066	23,782	52,073	465,340	1,238,702	1,082,379	3,070,492	21,971,023	2,506,884	17,476	30,516,217
B.3 Other liabilities	1,465,214	2,802,806	737,758	8,389,190	5,363,561	491,460	328,121	6,227,445	244,621	-	26,050,176
"Off-statement of financial position" transactions	**11,546**	**-**	**53**	**2,895**	**9,526**	**157,397**	**7,072**	**225,125**	**165,467**	**-**	
C.1 Financial derivatives with exchange of capital											
- Long positions	78	462,631	43,131	77,219	217,680	177,017	171,783	1,095,591	-	1,622	2,246,752
- Short positions	355	580,204	752,687	123,697	157,545	127,728	174,973	408,242	13,177	2,554	2,341,162
C.2 Financial derivatives without exchange of capital											
- Long positions	3,012,764	-	-	17	2,357	1,782	883	155,713	20,312	-	3,193,828
- Short positions	5,770,173	-	-	195	2,355	5,048	3,127	-	-	-	5,780,898
C.3 Deposits and loans to be received											
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds											
- Long positions	164,936	3,422,370	7,403	13,664	31,854	180,807	301,381	745,036	1,296,253	155,024	6,318,728
- Short positions	5,994,113	176,963	-	5,783	-	-	-	247	64	155,024	6,332,194
C.5 Financial guarantees given	11,546	-	53	2,843	3,576	148,560	4,878	15,682	73,562	-	260,700
C.6 Financial guarantees received	-	-	-	52	5,950	8,837	2,194	209,443	91,905	-	318,381
C.7 Credit derivatives with exchange of capital											
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital											
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	10,109	-	-	-	-	-	-	-	-	-	10,109

Currency of denomination: US Dollar *(in thousands of euro)*	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 month and 3 months	Between 3 months and 6 months	Between 6 months and 1 year	Between 1 year and 5 years	Over 5 years	Undefined term	Total
Cash assets	**173,896**	**26,343**	**44,556**	**83,441**	**218,934**	**50,302**	**31,777**	**274,556**	**135,700**	**1**	**1,039,506**
A.1 Government securities	-	-	-	625	-	-	5	29,745	79	-	30,454
A.2 Other debt securities	21	17,214	-	-	17,850	192	652	140,285	8,326	1	184,541
A.3 UCIT units	4,978	-	-	-	-	-	-	-	-	-	4,978
A.4 Loans:	168,897	9,129	44,556	82,816	201,084	50,110	31,120	104,526	127,295	-	819,533
- Banks	38,022	675	9,934	241	8,955	-	823	-	-	-	58,650
- Customers	130,875	8,454	34,622	82,575	192,129	50,110	30,297	104,526	127,295	-	760,883
Cash liabilities	**984,446**	**19,220**	**3,740**	**61,747**	**172,801**	**9,853**	**6,556**	**14,636**	**149**	**-**	**1,273,148**
B.1 Deposits	964,930	19,188	3,740	59,883	127,261	9,117	6,556	89	149	-	1,190,913
- Banks	66,562	17,711	2,471	46,166	117,841	-	-	-	-	-	250,751
- Customers	898,368	1,477	1,269	13,717	9,420	9,117	6,556	89	149	-	940,162
B.2 Debt securities	-	-	-	1,800	45,222	736	-	-	-	-	47,758
B.3 Other liabilities	19,516	32	-	64	318	-	-	14,547	-	-	34,477
"Off-statement of financial position" transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
C.1 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-	
- Long positions	371	349,330	355,877	73,562	139,130	68,631	95,156	7,158	-	618	1,089,833
- Short positions	43	326,602	35,631	38,729	133,907	127,667	135,431	34,361	272	1,648	834,291
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-	
- Long positions	45,085	-	-	-	-	-	-	-	-	-	45,085
- Short positions	385,194	-	-	33	-	-	-	114	-	-	385,341
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-	
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-	
- Long positions	2,863	-	49	6,167	5,694	4,228	79	1,762	75	5,708	26,625
- Short positions	13,581	7,262	-	-	-	-	-	-	-	5,708	26,551
C.5 Financial guarantees given	15	-	-	-	-	-	-	-	-	-	15
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-	
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-	
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	89	-	-	-	-	-	-	-	-	-	89

Currency of denomination: Japanese yen *(in thousands of euro)*	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 month and 3 months	Between 3 months and 6 months	Between 6 months and 1 year	Between 1 year and 5 years	Over 5 years	Undefined term	Total
Cash assets	**11,671**	**14**	**36**	**348**	**4,595**	**1,208**	**-**	**492**	**-**	**-**	**18,364**
A.1 Government securities	-	-	-	-	-	1,088	-	-	-	-	1,088
A.2 Other debt securities	-	-	-	-	-	-	-	40	-	-	40
A.3 UCIT units	-	-	-	-	-	-	-	-	-	-	-
A.4 Loans:	11,671	14	36	348	4,595	120	-	452	-	-	17,236
- Banks	11,412	-	-	-	-	-	-	-	-	-	11,412
- Customers	259	14	36	348	4,595	120	-	452	-	-	5,824
Cash liabilities	**204,693**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**204,693**
B.1 Deposits	204,693	-	-	-	-	-	-	-	-	-	204,693
- Banks	-	-	-	-	-	-	-	-	-	-	-
- Customers	204,693	-	-	-	-	-	-	-	-	-	204,693
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-	-
"Off-statement of financial position" transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
C.1 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-	
- Long positions	-	53,828	220,822	4,304	2,734	37,940	2,166	632	-	-	322,426
- Short positions	-	84,137	5,430	959	5,410	4,024	2,947	2,084	-	-	104,991
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-	
- Long positions	21,347	-	-	-	-	-	-	-	-	-	21,347
- Short positions	11,011	-	-	-	-	-	-	-	-	-	11,011
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-	
- Long positions	-	34,428	-	-	-	-	-	-	-	-	34,428
- Short positions	-	-	-	-	-	34,428	-	-	-	-	34,428
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-	
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-

Currency of denomination: Swiss franc ***(in thousands of euro)***	**On demand**	**Between 1 and 7 days**	**Between 7 and 15 days**	**Between 15 days and 1 month**	**Between 1 month and 3 months**	**Between 3 months and 6 months**	**Between 6 months and 1 year**	**Between 1 year and 5 years**	**Over 5 years**	**Undefined term**	**Total**
Cash assets	**81,991**	**151**	**3,105**	**53,400**	**13,723**	**9,407**	**1,465**	**6,068**	**5,360**	**-**	**174,670**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-	-
A.3 UCIT units	-	-	-	-	-	-	-	-	-	-	-
A.4 Loans:	81,991	151	3,105	53,400	13,723	9,407	1,465	6,068	5,360	-	174,670
- Banks	53,223	-	-	49,939	-	-	998	-	-	-	104,160
- Customers	28,768	151	3,105	3,461	13,723	9,407	467	6,068	5,360	-	70,510
Cash liabilities	**55,744**	**-**	**761**	**11**	**-**	**258**	**518**	**-**	**-**	**-**	**57,292**
B.1 Deposits	55,744	-	761	11	-	234	518	-	-	-	57,268
- Banks	10	-	-	-	-	-	-	-	-	-	10
- Customers	55,734	-	761	11	-	234	518	-	-	-	57,258
B.2 Debt securities	-	-	-	-	-	24	-	-	-	-	24
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-	-
"Off-statement of financial position" transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
C.1 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-	
- Long positions	-	132,536	-	83	83	15,552	-	15,000	-	-	163,254
- Short positions	-	139,546	151,530	27	33,288	118	-	-	-	-	324,509
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-	
- Long positions	4,511	-	-	-	-	-	-	-	-	-	4,511
- Short positions	125,734	-	-	-	-	-	-	-	-	-	125,734
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-	
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-	
- Long positions	361	-	-	-	-	-	-	-	2	22	385
- Short positions	363	-	-	-	-	-	-	-	-	22	385
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-	
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-	
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-

Currency of denomination: GB pound *(in thousands of euro)*	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 month and 3 months	Between 3 months and 6 months	Between 6 months and 1 year	Between 1 year and 5 years	Over 5 years	Undefined term	Total
Cash assets	**7,373**	**16**	**451**	**1,142**	**2,810**	**289**	**550**	**58,639**	**46,075**	**-**	**117,345**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	158	-	507	26,147	4,242	-	31,054
A.3 UCIT units	-	-	-	-	-	-	-	-	-	-	-
A.4 Loans:	7,373	16	451	1,142	2,652	289	43	32,492	41,833	-	86,291
- Banks	3,718	-	-	-	-	-	-	-	-	-	3,718
- Customers	3,655	16	451	1,142	2,652	289	43	32,492	41,833	-	82,573
Cash liabilities	**334,952**	**68**	**291**	**-**	**1,413**	**270**	**3,365**	**770**	**-**	**-**	**341,129**
B.1 Deposits	334,951	68	291	-	1,360	270	3,365	770	-	-	341,075
- Banks	10	-	-	-	-	-	-	-	-	-	10
- Customers	334,941	68	291	-	1,360	270	3,365	770	-	-	341,065
B.2 Debt securities	-	-	-	-	53	-	-	-	-	-	53
B.3 Other liabilities	1	-	-	-	-	-	-	-	-	-	1
"Off-statement of financial position" transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
C.1 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-	
- Long positions	-	31,488	207,883	32,474	10,644	5,092	6,759	-	-	1,962	296,302
- Short positions	36	7,359	7,062	27,631	37,306	269	3,818	-	64	20	83,565
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-	
- Long positions	10,869	-	-	-	-	-	-	-	-	-	10,869
- Short positions	30,157	-	-	-	-	-	-	-	-	-	30,157
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-	
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-	
- Long positions	-	-	-	-	-	9	-	-	201	2,488	2,698
- Short positions	137	45	-	-	-	-	-	-	-	2,452	2,634
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	41,775	-	41,775
C.7 Credit derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-	
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-	
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-

Currency of denomination: Chinese Renminbi *(in thousands of euro)*	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 month and 3 months	Between 3 months and 6 months	Between 6 months and 1 year	Between 1 year and 5 years	Over 5 years	Undefined term	Total
Cash assets	**293**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**293**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-	-
A.3 UCIT units	-	-	-	-	-	-	-	-	-	-	-
A.4 Loans:	293	-	-	-	-	-	-	-	-	-	293
- Banks	293	-	-	-	-	-	-	-	-	-	293
- Customers	-	-	-	-	-	-	-	-	-	-	-
Cash liabilities	**78**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**78**
B.1 Deposits	78	-	-	-	-	-	-	-	-	-	78
- Banks	-	-	-	-	-	-	-	-	-	-	-
- Customers	78	-	-	-	-	-	-	-	-	-	78
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-	-
"Off-statement of financial position" transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
C.1 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-	
- Long positions	-	128	-	-	-	-	-	-	-	-	128
- Short positions	-	199	-	-	-	-	-	-	-	-	199
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-	
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-	
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-	
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-	
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-	
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-

Currency of denomination: other currencies *(in thousands of euro)*	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 month and 3 months	Between 3 months and 6 months	Between 6 months and 1 year	Between 1 year and 5 years	Over 5 years	Undefined term	Total
Cash assets	**13,845**	**-**	**67**	**747**	**154**	**1**	**1,946**	**776**	**14**	**-**	**17,550**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	122	81	-	-	203
A.3 UCIT units	-	-	-	-	-	-	-	-	-	-	-
A.4 Loans:	13,845	-	67	747	154	1	1,824	695	14	-	17,347
- Banks	10,302	-	-	-	-	-	-	-	13	-	10,315
- Customers	3,543	-	67	747	154	1	1,824	695	1	-	7,032
Cash liabilities	**159,359**	**153**	**29**	**-**	**1,228**	**2,511**	**235**	**88**	**1**	**-**	**163,604**
B.1 Deposits	159,359	153	1	-	464	2,294	194	88	1	-	162,554
- Banks	107	-	1	-	-	-	1	-	-	-	109
- Customers	159,252	153	-	-	464	2,294	193	88	1	-	162,445
B.2 Debt securities	-	-	28	-	764	217	41	-	-	-	1,050
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-	-
"Off-statement of financial position" transactions											
C.1 Financial derivatives with exchange of capital											
- Long positions	-	131,709	164,041	13,991	7,041	3,132	5,726	3,423	-	-	329,063
- Short positions	-	128,878	32,559	4,705	4,025	13,223	1,491	-	16	-	184,897
C.2 Financial derivatives without exchange of capital											
- Long positions	3,462	-	-	-	-	-	-	-	-	-	3,462
- Short positions	2,962	-	-	-	-	-	-	-	-	-	2,962
C.3 Deposits and loans to be received											
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds											
- Long positions	-	-	-	-	-	1,889	-	-	16	36	1,941
- Short positions	-	1,890	-	-	-	-	-	-	-	36	1,926
C.5 Financial guarantees given	5	-	-	-	-	-	-	340	1,343	-	1,688
C.6 Financial guarantees received	-	-	-	-	-	-	371	340	-	-	711
C.7 Credit derivatives with exchange of capital											
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital											
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-

As described in Part E – Section 1 – Risks of the Banking Group – 1.1 Credit Risk - C. Securitisation transactions, as a result of "originated securitisations" generated by Banks or Group Companies, Banco Popolare and Banca Italease subscribed securities eligible for refinancing with the ECB or for repurchase agreements with market counterparties. The originated securitisations outstanding at 31 December 2014 are shown below.

Originated securitisations

Securitisation of mortgage, landed, agricultural and other loans disbursed to small and medium enterprises (SME) – S.P.E. BPL Mortgages (June 2014)

The securitisation transaction was originated by Banco Popolare Soc. Coop and by Credito Bergamasco, now Banco Popolare (following the merger on 1 June 2014) and entailed two stages: on 10 May 2014, the Originator Banks sold landed, mortgage, agricultural and unsecured loans disbursed to small and medium enterprises (Small Business Enterprises - SME) to the SPE BPL Mortgages S.r.l. for a value of euro 1,801.3 million and on 30 June 2014, the SPE issued three classes of bonds.
In the transaction, the Originator Banks, now only Banco Popolare, acted as Servicers, managing the collection of the receivables; Banco Popolare also acted as Interim Account Bank and Cash Account Bank.

Loan breakdown by Originator

Bank	Value 31/12/2014 (1)	Portfolio % 31/12/2014	Value 11/05/2014	Portfolio % 11/05/2014
Banco Popolare (*)	**1,418,462**	**100.00%**	**1,801,310**	**100.00%**
Banco Popolare	1,418,462	100.00%	1,487,212	82.56%
Banco Popolare (formerly Creberg)	-	-	314,098	17.44%

(1) The amounts indicated represent performing, substandard, past due, restructured and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.
(*) For comparative purposes, the figures of previous periods have been aggregated to take into account the merger by incorporation of the Credito Bergamasco into Banco Popolare finalised on 1 June 2014.

Issue characteristics

On 30 June 2014, three classes of ABS securities were issued: one class of rated senior notes and one class of rated mezzanine notes, both listed on the Irish Stock Exchange and one class of unrated unlisted junior notes; all classes of securities were subscribed by Banco Popolare. The securities had the following features: Class A Securities (senior notes), bonds with a yield linked to the 3-month Euribor plus 30 basis points spread per annum, issued at par for a nominal amount of 1,077.4 million (rating "A" DBRS and "A2" Moody's, quarterly coupon, due November 2054); class B securities (mezzanine notes), bonds with a yield linked to the 3-month Euribor plus 80 basis points spread per annum, issued at par for a nominal amount of 269.3 million (rating "BBB (Low)" DBRS and "Baa2" Moody's, quarterly coupon, due November 2054); class B securities (junior notes), bonds with a yield equal to the Additional Return, issued at par for a nominal amount of 448.9 million. Note that in August 2014, the senior notes were classified as allocatable and were used by Banco Popolare for refinancing operations with the European Central Bank. During the year senior notes worth about euro 294.5 million were redeemed, and the residual value at 31 December 2014 was euro 782.8 million.

Accessory financial transactions

The structure of the transaction envisages the establishment of a Cash Reserve of euro 80.8 million, constituted - at the date of issue of the securities - mainly through the disbursement of a subordinated loan totalling euro 76.9 million by Banco Popolare.

Securitisation of landed, mortgage, agricultural and unsecured loans disbursed to small and medium enterprises (SME) – S.P.E. BPL Mortgages (March 2013)

The securitisation transaction was originated by Banco Popolare Soc. Coop and by Credito Bergamasco, now Banco Popolare (following the merger on 1 June 2014) and entailed two stages: on 16 February 2013, the Originator Banks sold landed, mortgage, agricultural and unsecured loans disbursed to small and medium enterprises (Small Business Enterprises - SME) to the SPE BPL Mortgages S.r.l. for a value of euro 5,262.6 million and on 11 March 2013, the SPE issued two classes of bonds.
In the transaction, the Originator Banks, now only Banco Popolare, acted as Servicers, managing the collection of the receivables; Banco Popolare also acted as Interim Account Bank and Transaction account bank.

Loan breakdown by Originator

Bank	Value 31/12/2014 (1)	Portfolio % at 31/12/2014	Value 31/12/2013 (1)	Portfolio % at 31/12/2013	Value at 16/02/2013	Portfolio % at 16/02/2013
Banco Popolare (*)	**3,294,492**	**100.00%**	**4,118,660**	**100.00%**	**5,262,631**	**100.00%**
Banco Popolare	3,294,492	100.00%	3,419,366	83.02%	4,319,428	82.08%
Banco Popolare (formerly Creberg)	-	-	699,294	16.98%	943,203	17.92%

(1) The amounts indicated represent performing, substandard, past due, restructured and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.
(*) For comparative purposes, the figures of previous periods have been aggregated to take into account the merger by incorporation of the Credito Bergamasco into Banco Popolare finalised on 1 June 2014.

Issue characteristics

On 11 March 2013, two classes of ABS securities were issued: one class of rated senior notes listed on the Irish Stock Exchange and one class of unrated junior notes; both classes of securities were subscribed by Banco Popolare and by Credito Bergamasco, now Banco Popolare, for an amount proportional to the portfolio sold. The securities had the following features: Class A Securities (Senior notes), bonds with a yield linked to the 3-month Euribor plus 60 basis points spread per annum, issued at par for a nominal amount of 3,307.3 million (rating "A" DBRS and "A2" Moody's, quarterly coupon, due November 2056); Class B securities (Junior notes), bonds with a yield equal to the Additional Return, issued at par for a nominal amount of 1,942.5 million. Following the merger by incorporation of Credito Bergamasco into Banco Popolare, as at 31 December 2014, both classes of notes had been subscribed by Banco Popolare. During the year senior notes worth euro 934.7 million were redeemed, and the residual value at 31 December 2014 was euro 1,457.3 million. The senior notes were used by Banco Popolare for refinancing operations with the European Central Bank.

Accessory financial transactions

The structure of the transaction envisages the establishment of a Cash Reserve of around euro 157.5 million, constituted - at the date of issue of the securities - mainly through the disbursement of a subordinated loan totalling euro 151 million by Banco Popolare.

Securitisation of residential landed and mortgage loans – S.P.E. BPL Mortgages (December 2012)

The securitisation transaction was originated by Banco Popolare and Credito Bergamasco, now Banco Popolare (following the merger on 1 June 2014) and involves the assignment of an initial portfolio and a further portfolio. On 17 November 2012, the Originator Banks sold an initial portfolio of performing residential landed and mortgage loans to the SPE BPL Mortgages S.r.l. for a value of euro 2,505.2 million and on 21 December 2012, the SPE issued two classes of bonds. On 9 March 2013 the Originator Banks assigned a second portfolio of residential mortgage loans for a value of euro 1,088 million, funded on 28 March 2013 ("Notes Increase Date") through the increase in the amount of principal of partly paid notes issued by the Company in December 2012.
In the transaction, the Originator Banks, now only Banco Popolare, acted as Servicers, managing the collection of the receivables; Banco Popolare also acted as Interim Account Bank and Transaction account bank.

Loan breakdown by Originator

Bank	Value 31/12/2014 (1)	Portfolio % 31/12/2014	Value 31/12/2013 (1)	Portfolio % at 31/12/2013
Banco Popolare (*)	**3,019,656**	**100.00%**	**3,281,883**	**100.00%**
Banco Popolare	3,019,656	100.00%	2,762,685	84.18%
Banco Popolare (formerly Creberg)	-	-	519,199	15.82%

(1) The amounts indicated represent performing, substandard, past due, restructured and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.
(*) For comparative purposes, the figures of previous periods have been aggregated to take into account the merger by incorporation of the Credito Bergamasco into Banco Popolare finalised on 1 June 2014.

Issue characteristics

On 21 December 2012, two classes of ABS securities were issued: one class of rated senior notes listed on the Irish Stock Exchange and one class of unrated junior notes; both classes of securities were subscribed by Banco Popolare and by Creberg, now Banco Popolare, for an amount proportional to the portfolio sold. The securities had the following features: Class A Securities (Senior notes), bonds with a yield linked to the 1-month Euribor plus 30 basis points spread per annum, issued at par for a nominal amount of 1,701.3 million (rating "A" DBRS and "A2" Moody's, quarterly coupon, due October 2058); Class B securities (Junior notes), bonds with a yield equal to the Additional Return, issued at par for a nominal amount of 800.6 million. At the Notes Increase Date of 28 March 2013 the amount of securities subscribed by the Originator Banks was increased by an amount of euro 739.1 million for senior notes and euro 347.8 million for junior notes. Total senior notes issued and subscribed by the Originator Banks thus amounted to euro 2,440.4 million, while total junior notes issued and subscribed by the Originator Banks amounted to euro 1,148.5 million. Following the merger by incorporation of Credito Bergamasco into Banco Popolare, as at 31 December 2014, both classes of notes had been fully subscribed by Banco Popolare. During the year senior notes worth euro 314 million were redeemed, and the residual value at 31 December 2014 was euro 1,845.7 million. The senior notes were used by Banco Popolare for refinancing operations with the European Central Bank.

Accessory financial transactions

The structure of the transaction envisages the establishment of a Cash Reserve of euro 64 million, constituted mainly through the disbursement, which took place on 21 December 2012, of a subordinated loan totalling euro 60 million by the Originator Banks.

BPV Mortgages S.r.l. (June 2009)

Since the end of 2007, several network banks, Banca Popolare di Novara, Banca Popolare di Verona, Banca Popolare di Lodi, now Banco Popolare (following the merger on 27 December 2011) and Credito Bergamasco, now Banco Popolare (by virtue of the merger on 1 June 2014), sold several portfolios of performing residential mortgage loans to BPV Mortgages S.r.l.; at the end of the warehousing phase, the transaction was restructured in order to obtain a public rating. On the finalisation date of the transaction, the portfolios sold amounted to euro 1,044.9 million. The Originator Banks, now only Banco Popolare, acted as Servicers and managed the loan collection.

Loan breakdown by Originator

Bank	Value 31/12/2014 (1)	Portfolio % 31/12/2014	Value 31/12/2013 (1)	Portfolio % 31/12/2013	Residual debt at 16/06/2009	Portfolio % 16/06/2009
Banco Popolare (*)	**742,007**	**100.00%**	**782,539**	**100.00%**	**1,044,891**	**100.00%**
Banco Popolare	742,007	100.00%	723,758	92.49%	972,589	93.08%
Banco Popolare (formerly Creberg)	-	-	58,781	7.51%	72,302	6.92%

(1) The amounts indicated represent performing, substandard, past due, restructured and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.
(*) For comparative purposes, the figures of previous periods have been aggregated to take into account the merger by incorporation of the Credito Bergamasco into Banco Popolare finalised on 1 June 2014.

Issue characteristics

On 16 June 2009, two classes of ABS securities were issued: senior notes listed on the Dublin Stock Exchange, entirely subscribed by Banco Popolare and used in a Repos transaction, and unrated junior notes, subscribed on a pro-rata basis by the Originator Banks, now just Banco Popolare. The securities had the following features: Class A Securities (senior), bonds with a yield linked to the 6-month Euribor plus 60 basis points spread per annum, issued at par for a nominal amount of 1,027.9 million (rating “BBB” Standard & Poor’s, six-month coupon, due July 2054); the residual value of the bonds as at 31 December 2014 was around euro 609 million; class B Securities (junior), bonds with a yield equal to the Additional Return, issued at par for a nominal amount of 128.4 million (unrated, due December 2054), subscribed on a pro-rated basis by the Originator Banks, now only Banco Popolare.

Accessory financial transactions

Upon issuing the notes, the SPE signed an “Interest Rate Swap” agreement with a third party, to hedge against the risk of mismatch between the rates of the securitised mortgages and the yield of the issued bonds. To hedge the risk of possible periods of illiquidity, the structure envisages a Credit Reserve of euro 20 million, which was fully used during last year, in relation to an increase in mortgage loans classified as in default and a Liquidity Reserve that at 31 December 2014 amounted to around euro 8 million.

Disclosure on "Structured Repo" transactions

As at 31 December 2014, the Group's exposure in structured repos amounts to euro 100 million in nominal value, and refers to two transactions stipulated with a leading bank counterparty and having Spanish government securities as the underlying asset, of which euro 50 million maturing in January 2015 and the remaining euro 50 million in April 2015. The above-cited transactions were undertaken at economic conditions in overall alignment with market conditions on the stipulation date. Note that, during 2014, no new transactions were finalised, while certain transactions in place as at 31 December 2013 were terminated due to natural expiry, for a nominal value of euro 400 million.

From an accounting perspective, the repos are recognised as payables, while the underlying securities, which are not derecognised, as classified in the "Financial assets available for sale" portfolio and managed according to the fair value hedge regime, with the related interest rate risk hedge, as shown in the table below:

(in thousands of euro)		31/12/2014	31/12/2013
item	**(A) Assets**		
40	Financial assets available for sale	100,617	510,713
item	**(B) Liabilities**		
10	Due to banks	(100,000)	(150,000)
20	Due to customers	-	(350,000)
60	Hedging derivatives	(549)	(12,768)
	(A)-(B) = Equity mismatch of the contracts of the structure	**68**	**(2,055)**

While the Group does not hold any significant positions in structured repos, in order to provide complete disclosure, a description of the transactions and the Group's accounting treatment is provided below.

Description of "Structured Repo" transactions

"Structured Repos" are defined as transactions in which the purchase of a security is funded by means of a repurchase agreement until the maturity of said security. In particular, the transactions stipulated by the Group envisage that:

- on the initial settlement date, the Group sells government securities to the counterparty, undertaking to repurchase them on maturity at a set price;
- periodically, the counterparty sends the Group the coupons received by the security on the date on which they are actually collected, while the Group pays the counterparty the cost of funding agreed for the funds received;
- on the final settlement date, which corresponds to the maturity date of the security, the counterparty delivers the security to the Group in exchange for the consideration agreed (for an amount corresponding to the repurchase price);
- in the event of the insolvency of the issuer of the security before the maturity date ("credit event"), the repurchase agreement transaction will be terminated in advance. In this case, after receiving the agreed consideration from the Group, the counterparty is bound to deliver the security to the same, or another security of the same issuer, with the same nominal value and similar features ("Cheapest to deliver" clause). Said selection and delivery is disciplined by the definitions envisaged in the ISDA Master Agreement, which regulates transactions on the credit derivatives to which the Repurchase agreement refers.

As the transactions performed by the Group regarded fixed-rate government securities, the risk of price fluctuation, attributable to interest rate risk, was hedged by means of an Interest Rate Swap contract (so-called Asset Swap transaction), with the same counterparties of the Repurchase agreement. In this way, the Group is only exposed to the risk of default of the government security underlying the transaction.

The above-described operation is represented by the following separate transactions:

- the purchase of a debt security issued by a sovereign state;
- the stipulation of an Interest Rate Swap contract to hedge the interest rate risk of the debt security cited above;
- the stipulation of a Repurchase agreement (repo), which envisages the sale by the Group of the same security at a spot price, with a forward repurchase obligation, corresponding to the maturity of the security.

Each transaction is regulated by legally separate, autonomous and independent contracts; the considerations envisaged by the contracts are, for example, settled separately without any form of offsetting.

Accounting treatment

The accounting treatment adopted by the Group is illustrated below, in compliance with the provisions established by international accounting standards (IAS 39):

- the purchase of the government security was classified in the portfolio of "Financial assets available for sale", in line with the purpose of the same. For this portfolio, the measurement in the financial statements is at fair value, with recognition of changes in fair value in a specific equity reserve (Valuation reserve), with the exception of that stated in the point below;
- the interest rate swap contract was classified in the accounts as a "hedge instrument" in a "fair value hedge" of the government security ("hedged item"), In this case, the change in the fair value of the derivative instrument is offset by the change in the fair value of the hedged item. Said offset is recognised by charging the changes in value to the income statement, referring:
  - to the hedging derivative;
  - to the hedged item, only as regards the changes in fair value attributable to the risk hedged.

  Therefore, the change in the fair value of the government security due to fluctuations of the interest rate is recognised in the income statement;

- the spot sale of the government security envisaged by the Repo agreement did not entail any "derecognition" of the security in the financial statements, insofar as the Group substantially maintains all of the risks and benefits associated with the security, as it has an obligation to repurchase the same at maturity, at a pre-set price. The repurchase agreement transaction was recognised as a payable, due to banks or customers depending on the counterparty, with recognition *pro rata temporis* of the maturing accruals. Special attention was paid to the "cheapest to deliver" clause, namely the possibility of receiving a security from the counterparty different to that of the repurchase transaction agreement, in the case of a "credit event" of the issuer of the security, with the consequent early termination of the same repurchase transaction agreement. According to IAS 39, the above case does not lead to the derecognition of the security, insofar as "continuing involvement" is still considered valid even if the security delivered is different, as long as it substantially has the same features. In this regard, the following is an excerpt from the Application Guidance, paragraph AG 51 b): Repurchase agreements and securities lending - assets that are substantially the same. *"If a financial asset is sold under an agreement to repurchase the same or substantially the same asset at a fixed price or at the sale price plus a lender's return or if a financial asset is borrowed or loaned under an agreement to return the same or substantially the same asset to the transferor, it is not derecognised because the transferor retains substantially all the risks and rewards of ownership".*

In conclusion, we retain that the above-illustrated treatment, namely the classification of the government security in the portfolio of "Financial assets available for sale", applying hedge accounting rules to interest rate risk, on one hand, and recognising the payable for the funding received, on the other, fully represents all of the risks to which the Group is exposed, also taking into account the existence of separate, independent contracts. More specifically, we deem that the measurement at fair value of the security, on the basis of quotations from active markets (level 1 in the fair value hierarchy envisaged by IFRS 7), is able to reflect any deterioration of issuer risk. Lastly, note that for assets of this nature, impairment tests are conducted to assess if there is objective evidence of impairment at the closing date of the financial statements (or interim reporting date).

The following tables provide information and encumbered and unencumbered assets, in accordance with the compilation rules provided for in Circular no. 262.

2 Disclosure on encumbered assets recognised in the financial statements

Type	Encumbered		Unencumbered		31/12/2014	31/12/2013
(in thousands of euro)	Book Value	Fair Value	Book Value	Fair Value	Total Book Value	Total Book Value
1. Cash and cash equivalents	-	X	619,528	X	619,528	639,600
2. Debt securities	10,355,562	10,624,956	10,978,876	10,992,256	21,334,438	19,121,830
3. Equity instruments (*)	40,147	40,147	1,007,981	1,007,981	1,048,128	890,488
4. Loans	27,230,448	X	58,033,545	X	85,263,993	90,015,291
5. Other financial assets (*)	622,054	X	4,963,439	X	5,585,493	6,356,493
6. Other non-financial assets	27,988	X	9,814,991	X	9,842,979	9,435,679
Total 31/12/2014	**38,276,199**	**10,665,103**	**85,418,360**	**12,000,237**	**123,694,559**	**X**
Total 31/12/2013	**29,874,934**	**8,327,551**	**96,584,447**	**12,894,228**	**X**	**126,459,381**

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

The figures shown in the table refer to the aggregate of the companies belonging to the Banking Group, which as at 31 December 2014, recorded total consolidated assets of euro 123,695 million. Companies not belonging to the Banking Group also contribute to the Group's total consolidated assets of euro 123,081 million, the amount of which, net of infragroup transactions, is negative euro 614 million and mainly relates to unencumbered assets.
Encumbered assets recognised in the financial statements include:

- securities used as collateral for lending transactions of euro 11,010.5 million, mainly underlying the pooling mechanism with central banks or repurchase agreement transactions (Repo);
- loans granted to the SPV BP Covered Bond for euro 12,151 million, which is entirely as a guarantee of the covered bonds subscribed by the market or repurchased by the Bank and used as a guarantee for loans received. Specifically, the repurchased covered bonds amount to euro 5,789.1 million, as shown in the table below in encumbered owned assets not recognised in the financial statements (of which euro 4,789.1 million underlying loans obtained from the central bank);
- loans granted to the SPVs BPL Mortgages and BPV Mortgages, for securitisation transactions of euro 8,474.6 million. The senior tranches fully repurchased by the Parent Company are used for lending transactions with the ECB for a nominal value of euro 4,085.9 million, as shown in the following table;
- loans granted to the securitisation SPVs for euro 1,691.5 million. The securities issued by the SPV and subscribed by the Group are used for lending transactions with the ECB for euro 195.2 million, as shown in encumbered assets in the following table;
- loans established as guarantees for lending transactions with central banks (Abaco) for euro 3,948.5 million;
- collateral deposits placed at clearing system or placed for the market value of OTC derivatives for euro 964.9 million.

3 Disclosure on encumbered owned assets not recognised in the financial statements

Type (in thousands of euro)	Encumbered	Unencumbered	31/12/2014 Total	31/12/2013 Total
1. Financial assets	**14,947,591**	**18,026,707**	**32,974,298**	**34,598,648**
- Securities	14,947,591	18,026,707	32,974,298	28,231,408
- Other	-	-	-	6,367,240
2. Non-financial assets	-	-	-	-
Total 31/12/2014	**14,947,591**	**18,026,707**	**32,974,298**	**X**
Total 31/12/2013	**14,535,878**	**20,062,770**	**X**	**34,598,648**

In addition to the assets described in the preceding paragraph, which are mostly used as guarantees for ECB loans amounting to euro 12 billion, encumbered owned assets not recognised in the financial statements include primarily the securities underlying repurchase agreement transactions (Repo), whose availability was acquired through reverse repurchase agreement transactions.
Unencumbered assets include securities issued and repurchased by the Group and not used as collateral, as well as securities acquired through reverse repurchase agreement transactions and freely withdrawn.

1.4 BANKING GROUP - OPERATING RISKS

QUALITATIVE INFORMATION

A. General aspects, management processes and measurement methods of operating risk

Type of risk

Operating risk is the risk of suffering losses caused by inadequacy or failure attributable to procedures, human resources and internal systems, or caused by external events.
The strategic and reputational risks do not belong to this type of risk, while the legal risk is, considered as the risk of infringing laws and other regulations in force, of failing to comply with contract and extra-contract liabilities, as well as other litigations that may arise with counterparties in the course of business activities.

Risk sources

The main sources of operating risk are: the low reliability of operational processes - in terms of effectiveness/efficiency - internal and external frauds, operational mistakes, the qualitative level of physical and logical security, inadequate IT structure compared to the size of operations, the growing recourse to automation, the outsourcing of corporate functions, a limited number of suppliers, changes in strategies, incorrect personnel management and training policies and finally social and environmental impacts.

Risk management model and organisational structure

Also in compliance with the relevant regulations, the Banco Popolare Group adopted an operating risk management model that illustrates the management methods and the people involved in risk identification, measurement, monitoring, mitigation and reporting. In particular, the model refers to centralised oversight functions (governance and control functions) and decentralised oversight functions (coordinators and ORM contacts, which are specifically involved in the key processes of collecting operating loss data, continuously assessing the operating scenario and forecasting exposure to risk).
This model is governed by specific Group Regulations approved by the Corporate Bodies.
For the operating risk identification and measurement phases, the Banco Popolare Group defined an internal method based on a quantitative and qualitative analysis along a VaR logic.
The quantitative assessment is based on internal loss data, gathered through a loss collection process. This data is combined with external loss data pertaining to the Italian banking scenario (inbound flows of the DIPO consortium, set up by the major Italian Banking Groups within the ABI - Italian Banking Association), and on data deriving from the risk self assessment, a structured process involving the heads of the various organisational structures. The purpose of this component is to complement the available quantitative data, in particular in case no historical loss data exist that may indicate the risk level associated with specific events (primarily related to low frequency and high impact events) or when certain corporate processes or operations are being revised in such a way as to change their risk exposure, and in general a prospective outlook is assigned to the global assessments. The qualitative findings of the continuous monitoring and assessment of the internal and external operating scenarios are also used in this process.
The Banco Popolare Group adopts a reporting model, organised in a management information system, addressed to Corporate Bodies and Top Management (significant losses and relative recoveries, overall risk assessment, capital absorption and risk management policies adopted and/or planned), and in an operating reporting system (operating losses recorded), with a view to adequately managing risk in the relative areas.

For further information on developments achieved by Banco Popolare Group in 2014, please refer to the paragraph of these notes to the financial statements, dedicated to the Internal Basel Project.

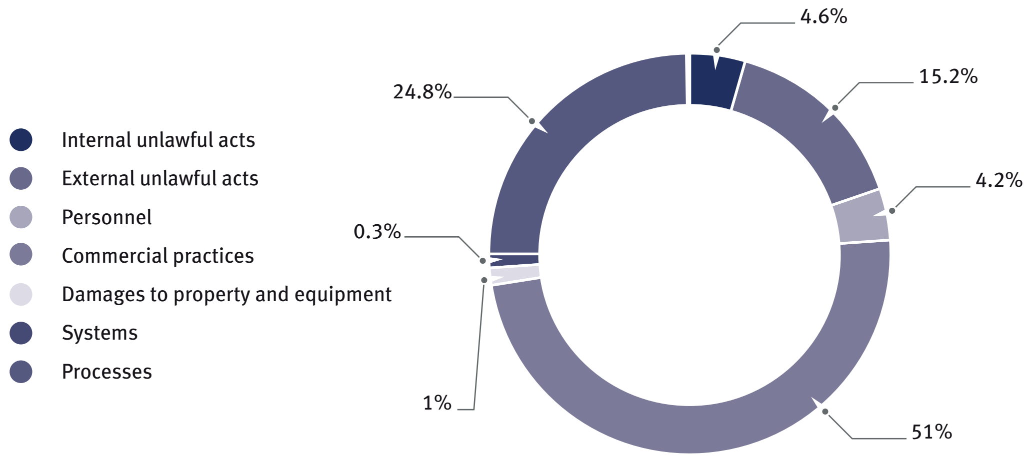
In order to calculate the capital requirement against operating risk, the Group adopted the standardized regulatory approach envisaged by supervisory provisions (combined with the basic method for companies not significant in size) up until the Supervisory report as at 31 March 2014.
In a letter dated 5 August 2014, the Bank of Italy approved the use of advanced supervisory methods (AMA – Advanced Measurement Approach), from the Supervisory Report dated 30 June 2014 for Banco Popolare companies (including the former subsidiary Credito Bergamasco that was incorporated in June 2014), Banca Aletti, SGS BP and BP Property Management. The other Group companies will adopt the BIA (Basic indicator approach) method for reporting, in line with the adoption of the combined use of AMA/BIA, which envisages for the latter, if they do not surpass established materiality thresholds, the permanent use of the basic method (PPU, partial permanent use). In this regard, the Group has agreed with the Bank of Italy to extend the use of AMA methods (roll-out plan) to Aletti Gestielle and Banca Italease, for Supervisory Reporting which is expected to start as of 31 December 2015.

QUANTITATIVE INFORMATION

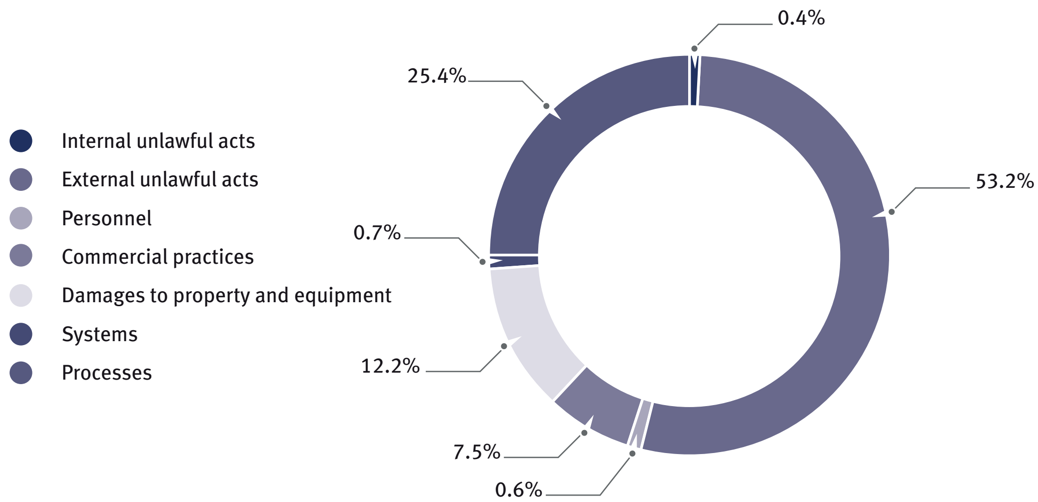
With regard to sources of operating risk, an analysis was conducted covering operating risk events, with gross losses through profit or loss greater than or equal to euro 200 (minimum reporting threshold), with a recording date on or before 1 January 2007.
The loss data in question, recorded in the Group’s Loss Collection operational archive, is broken down by type of event, an can be filtered by impact and number of events, in line with the event classification scheme prescribed by the Regulator.

Percentage of operating losses by type of event (recording from 01 January 2007 – 31 December 2014)

Breakdown by impact on the income statement



Breakdown by number of events



Looking at the diagrams, we can see that the dominant categories in terms of gross loss having an impact on the income statement regard:

- commercial practices, with losses resulting from the non-fulfilment of professional obligations towards customers, or due to the nature or features of a product or service rendered;
- processes, with losses due to shortcomings in the settlement of transactions or in process management, as well as losses due to relations with commercial counterparties, sales agents and suppliers;
- external unlawful acts, with losses due to fraud, misappropriation or infringement of laws by parties external to the bank.

Section 2 - Insurance company risks

The Group has a 50% investment in the insurance companies AviPop Assicurazioni and Popolare Vita, given the bancassurance agreements signed with the Aviva Group and the Fondiaria SAI Group.
Said investments fall within the scope of consolidation of companies valued at net equity and are shown in the consolidated assets under Investments in associates and companies subject to joint control.

With regard to this type of risks, the weight of the above companies on total consolidated assets is of little significance.

Section 3 - Other company risks

No significant additional risks are reported for the remaining companies falling within the consolidation scope that are neither part of the Banking Group nor of insurance companies. As regards the Group’s real estate companies, including those acquired following credit restructuring arrangements, note that the book value at which said real estate is recognised is consistent with the value stated in specific surveys and valuations. The risk of impairment of real estate is in any event covered by a specific capital requirement - in terms of credit risk - which the Group calculates in accordance with regulatory methods. Furthermore, on an annual basis (when the assessment of internal capital adequacy takes place - ICAAP), Risk Management uses internal operational methods to establish the adequacy of the regulatory capital requirement vis-à-vis real estate risk.

PART F – INFORMATION ON CONSOLIDATED SHAREHOLDERS' EQUITY

Section 1 - Consolidated shareholders' equity

A. QUALITATIVE INFORMATION

Company shareholders' equity is made up of the sum of the balances of the following statement of financial position liabilities:

- Capital net of repurchased treasury shares
- Share premium reserve
- Reserves
- Valuation reserves
- Equity instruments
- Net income (loss)

The information concerning the methods followed by the Group to pursue its asset management objectives is provided in the following sub-section 2.3.

B. QUANTITATIVE INFORMATION

The consolidated shareholders' equity as at 31 December 2014 totalled 8,076.3 million (of which 8,064.2 million pertaining to the Group and 12.1 million pertaining to minority shareholders) reporting a net decrease of 446.4 million compared to the consolidated shareholders' equity as at 31 December 2013 amounting to 8,522.7 million (of which 8,173.6 pertaining to the Group and 349.1 pertaining to minority shareholders).

B.1 Consolidated shareholders' equity: breakdown by type of company

(in thousands of euro)	Banking group	Insurance companies	Other companies	Netting and adjustments on consolidation	31/12/2014
Share Capital	6,144,070	-	1,006	-	6,145,076
Share premium reserve	1,500,870	-	-	-	1,500,870
Reserves	2,193,728	-	15,241	23,880	2,232,849
Equity instruments	-	-	-	-	-
(Treasury shares)	(2,618)	-	-	-	(2,618)
Valuation reserves	185,931	-	(1,154)	-	184,777
- Financial assets available for sale	277,032	-	(1,532)	-	275,500
- Property and equipment	-	-	378	-	378
- Intangible assets	-	-	-	-	-
- Foreign investment hedges	-	-	-	-	-
- Cash flow hedges	(3,858)	-	-	-	(3,858)
- Exchange rate differences	-	-	-	-	-
- Non-current assets held for sale	-	-	-	-	-
- Actuarial gains (losses) on defined benefit pension plans	(75,101)	-	-	-	(75,101)
					-
- Share of valuation reserves related to investments in associates carried at equity	(14,456)	-	-	-	(14,456)
					-
- Special revaluation laws	2,314	-	-	-	2,314
Income (loss) for the year (+/-) attributable to the Group and to minority interests	(1,979,448)	-	(3,387)	(1,770)	(1,984,605)
Shareholders' equity	**8,042,533**	**-**	**11,706**	**22,110**	**8,076,349**

B.2 Valuation reserves of financial assets available for sale: breakdown

(in thousands of euro)	Banking group		Insurance companies		Other companies		Netting and adjustments on consolidation		31/12/2014		31/12/2013	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	178,211	(22,482)	-	-	-	-	-	-	178,211	(22,482)	104,085	(68,950)
2. Equity instruments	105,419	(992)	-	-	-	-	-	-	105,419	(992)	83,635	(669)
3. UCIT units	20,725	(3,849)	-	-	(1,532)	-	-	-	19,193	(3,849)	25,369	(4,298)
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-
Total	**304,355**	**(27,323)**	**-**	**-**	**(1,532)**	**-**	**-**	**-**	**302,823**	**(27,323)**		
Total t-1	**213,051**	**(72,188)**	**-**	**-**	**38**	**(1,729)**	**-**	**-**			**213,089**	**(73,917)**

B.3 Valuation reserves of financial assets available for sale: annual changes

(in thousands of euro)	Debt securities	Equity instruments	UCIT units	Loans
1. Opening balance	**35,135**	**82,966**	**21,071**	**-**
2. Positive changes	**295,881**	**42,255**	**24,528**	**-**
2.1 Fair value increases	264,491	40,946	14,791	-
2.2 Transfer of negative reserves to the income statement	2,521	97	1,516	-
- due to impairment	-	97	-	-
- on disposal	2,521	-	1,516	-
2.3 Other changes	28,869	1,212	8,221	-
(of which for business combinations)	-	-	-	-
3. Negative changes	**(175,287)**	**(20,794)**	**(30,255)**	**-**
3.1 Fair value decreases	(46,188)	(17,122)	(7,566)	-
3.2 Losses on impairment	-	(218)	-	-
3.3 Transfer of positive reserves to the income statement: on disposal	(40,810)	(172)	(17,299)	-
3.4 Other changes	(88,289)	(3,282)	(5,390)	-
(of which for business combinations)	-	-	-	-
4. Closing balance	**155,729**	**104,427**	**15,344**	**-**

B.4 Valuation reserves for defined benefit plans: annual changes

(in thousands of euro)	31/12/2014
1. Opening balance	**(40,232)**
2. Positive changes	**19,895**
2.1 Profits due to changes in financial assumptions	-
2.2 Other actuarial profits	5,605
2.3 Other changes	14,290
3. Negative changes	**(54,764)**
3.1 Losses due to changes in the financial assumptions	(49,845)
3.2 Other actuarial losses	(3,648)
3.3 Other changes	(1,271)
4. Closing balance	**(75,101)**

Section 2 - Own funds and capital adequacy ratios

2.1 Scope of application of regulations

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

As part of the overall process to revise and simplify the regulations for banking supervision, on 17 December 2013, the Bank of Italy published the new circular 285 (“Supervisory provisions for banks”) which almost completely replaces the previous circular 263 of 27 December 2006 (“New prudential supervisory provisions for banks”).
On the same date, the Bank of Italy also regulated prudential supervision reporting on an individual and consolidated basis for banks and asset management companies, by virtue of the new circular 286 (“Instructions for preparing prudential reports for banks and asset management companies”) which fully replaces, for banks, the previous circular 155 (“Instructions for preparing reports on regulatory capital and prudential ratios”). More specifically, Circular 286 sets out reporting formats regarding:

- harmonised reports: own funds, credit and counterparty risk (including securitisations, Credit Valuation Adjustment e Central Counterparties “CCP”), market risk, operating risk, large exposures, overall equity position, liquidity risk monitoring and financial leverage;
- non-harmonised reports: related parties.

Following these important legislative changes, the capital ratios as at 31 December 2014 are not comparable to those that refer to 31 December 2013.

Note that the new regulations contained in the Single Rulebook envisage a period of transition for the gradual introduction of several new rules (so-called “phase-in”). The estimates of capital ratios that the Group is assumed to have at the end of the transition period are called “Basel 3 Fully Phased”.

During the transition period, which is generally envisaged until 31 December 2017, several items will be calculated or deducted at different percentages for each year. Generally, a share is attributed to Common Equity Tier 1 (CET1), while the remainder of the aggregate is split between Additional Tier 1 (AT1) and Tier 2 (T2) capital, or attributed to RWA.
A gradual process of elimination (phase-out over a period of time extended to 2021 under the “grandfathering” system) is also envisaged for equity instruments that do not fully meet the calculation requirements settled by the new regulations.

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

- internal system to measure credit risk relating to corporate and retail customers, according to the advanced approach (Advanced IRB), to calculate the relative consolidated and separate capital requirements.
  The model applies at individual level to Banco Popolare Soc. Coop.
- internal model to measure market risk (generic and specific on equity instruments, generic on debt securities and position-related for UCIT units) to calculate the relative separate and consolidated capital requirements.
  The model applies at individual level to Banco Popolare Soc.Coop. and to Banca Aletti S.p.A.
- internal model to measure operating risk to calculate the relative separate and consolidated capital requirements.
  The model applies at individual level to Banco Popolare Soc.Coop., to Banca Aletti S.p.A., to SGS BP Soc. cons., and to BP Property Management Scarl.

As envisaged by regulations, in the provisions of its authorisation, the Supervisory Authority indicated the minimum consolidated level of capital requirement against credit, market, counterparty and operating risks as 85% (floor) of the capital requirement calculated according to the provisions of the Supervisory Instructions for banks in force up until 2006 (so-called “Basel 1”).

As required by Circular no. 285, the prudential scope of consolidation includes banking and financial companies and special purpose entities belonging to the Banking group. These companies are consolidated on a line-by-line basis.

There are no restrictions or constraints to the transfer of equity resources between companies of a Banking group.

Cooperative banks, regulated by the Consolidated Banking Law (“CBL”) are considered cooperative by art. 27, par. 1 of the CRR.

2.2. Own funds of the bank

A. QUALITATIVE INFORMATION

In accordance with the CRR and Circular no. 285, the amount of own funds held by a bank breaks down as follows: (i) common equity Tier 1; (ii) additional Tier 1; (iii) Tier 2;

Innovative and non-innovative equity instruments, hybrid capitalisation instruments and subordinated assets, held in other banking and financial companies not belonging to the Group, are deducted from said aggregates according to set percentages.

Equity investments, held in other banking and financial companies not belonging to the Group, and deferred tax assets (DTA) which are based on future profits and originate from temporary differences, are deducted to the extent of the percentage that exceeds specific exemption thresholds. The exempted percentage is weighted at 250% in risk weighted assets (RWA).

Also equity investments in insurance companies and subordinated liabilities issued by the same companies are deducted, if calculated by the issuer for regulatory capital purposes, as well as other elements linked to the calculation of capital requirements.

With specific reference to portfolios for which credit risk is measured using internal models, the surplus of expected losses with respect to total value adjustments (so-called shortfall) is also deducted. The shortfall is determined separately for “exposures in default status” with respect to “other exposures”.

Specific prudential filters are applied to safeguard the quality of the Own Funds and to reduce their potential volatility as a result of the adoption of international accounting standards IFRS/IAS.

Minority interests (so-called minority shareholders’ equity) are admissible only as regards the portion that covers the risk actually assumed by the aforementioned shareholders. Up until 31 December 2017, the remaining share may be partially included in the calculation.

With regard to the stake in the capital of the Bank of Italy, as this relates to exposures in equity instruments, they have been weighted and included in RWA.
The capital gains resulting from the revaluation of the stake according to Italian Decree-Law no. 133 of 30 November 2013, converted into Italian law no. 5/2014 of 29 February 2014, was recognised in the calculation of CET1.

Pursuant to that envisaged by art. 33, letters b) and c) of the CRR and of Circular no. 285, the impact resulting from changes in creditworthiness recognised in the accounts against financial liabilities designated at fair value and existing derivative contracts, are not included in own funds.

Communication regarding the prudential filters of the “Financial assets available for sale” portfolio

With effect from 30 June 2010, the Group had adopted the approach envisaged by the Bank of Italy Provision dated 18 May 2010, which allows the share of valuation reserves relating to debt securities issued by the central government authorities of countries belonging to the European Union, held in the “Financial assets available for sale” portfolio to be excluded from the calculation of the regulatory capital.
More specifically, in alternative to the “asymmetrical” approach (complete deduction of net losses from Tier 1 capital and partial inclusion for the 50% of net gains in Tier 2 capital) already envisaged by Italian legislation, the above-mentioned Provision had acknowledged the possibility of fully neutralising the gains and losses recorded in revaluation reserves (“symmetrical” approach). This option could only be exercised if the same option was extended to all securities of this type held in the cited portfolio, applied as a standard by the whole Group and maintained constant over time.
In this regard, note that, pursuant to the note of issue of the new Circular no. 285 of the Bank of Italy, the Banco Popolare Group has confirmed the exercise of this option. This option shall remain in force until the European Commission adopts new regulations approving the application of IFRS 9 in substitution of IAS 39.
As at 31 December 2014, the change in the reserves of the securities issued by Central Government authorities of countries belonging to the European Union was a positive euro 95 million; if this approach had not been adopted, said change would have resulted in an increase of around euro 47.5 million in “Tier 2 capital”, in the presence of overall positive reserves on debt securities which could be calculated for only 50% according to the transition regime introduced by (EU) Regulation no. 575/2013 of the European Parliament and Council (“CRR”) and implemented with the Bank of Italy circular no. 285 of 17 December 2013.

1. Common Equity Tier 1 capital (CET1)

CET1 is primarily made up of paid-up capital, share premium reserves, net of prudential filters and regulatory deductions.

The following main aggregates are deducted from CET1:
- goodwill and other intangible fixed assets,
- the surplus between expected losses and value adjustments (so-called shortfall),
- significant investments in the CET1 instruments of other parties in the financial sector (for the part exceeding the exemption threshold),
- deferred tax assets which are based on future profits and originate from temporary differences (for the part exceeding the exemption threshold).

2. Additional Tier 1 capital (AT1)

AT1 is primarily made up of innovative and non-innovative equity instruments, net of regulatory deductions.
Among the positive elements, it includes the eligible share of 5 innovative and non-innovative “preference share” equity instruments.
An early redemption option is present in all 5 equity instruments, after 10 years of the issuance, subject to the prior authorisation of the Bank of Italy.
Among them, 2 innovative capital instruments were issued by foreign subsidiaries set-up “ad hoc” (Special Purpose Entities).
The latter have signed special agreements with the Parent Company (on-lending) for the transfer of the collected sums, in similar conditions and with the same subordination constraints of placed securities.

All the innovative and non-innovative instruments of the Banco Popolare Group, existing as at 31 December 2014, are subject to transitional regulations (grandfathering clause) which means that they can continue to be calculated, reducing them by 10% each year, reaching zero as at 31 December 2021.

The following main aggregates are deducted from AT1 (for the remaining shares attributed to Tier 1 during the transition period and up to the full extent of AT1):

- the surplus between expected losses and value adjustments (so-called shortfall),
- significant investments in the CET1 instruments of other parties in the financial sector (for the part exceeding the exemption threshold),
- deferred tax assets which are based on future profits and originate from temporary differences (for the part exceeding the exemption threshold).

3. Tier 2 capital (T2):

Tier 2 capital is primarily made up of subordinated liabilities issued, to the extent of the eligible percentage according to the legislation referred to above, net of regulatory deductions.

For all eligible liabilities, subordination requires that, in the event of liquidation or receivership, the holders of these securities be repaid only after all other creditors with higher claim have been repaid.
Early repayments, for all subordinated liabilities are subject to the prior authorisation of the Bank of Italy.
The main contractual characteristics of the above mentioned instruments are described in the following tables.

Tier 2 capital also includes any surplus value adjustments with respect to expected losses, up to a threshold of 0.6% of RWA for credit risks calculated using internal models.

The following aggregates are deducted from Tier 2 capital (for the residual amounts attributed to Tier 2 during the transition period):

- the surplus between expected losses and value adjustments (so-called shortfall),
- significant investments in the CET1 instruments of other parties in the financial sector (for the part exceeding the exemption threshold),
- deferred tax assets which are based on future profits and originate from temporary differences (for the part exceeding the exemption threshold).

Significant investments in the Tier 2 instruments of other parties in the financial sector are also deducted from Tier 2 capital.

Details of the equity instruments included in the Additional Tier 1 capital calculation are provided below.

ISIN	Issuer	type	issue date	maturity date	currency	interest rate	issued amount (in mln €)	contribution to regulatory capital (in mln €)	Method of repayment	current coupon
XS0304963373	Banco Popolare Soc.Coop.	pref	21/06/2007	21/06/2100	euro	6.756% fixed yearly until June 2017 then 3m Euribor + 188 bp	104.95	104.80	After prior approval of the Bank of Italy, bullet repayment upon maturity or early redemption option after 10 years from issuance	Yearly
XS0304963290	Banco Popolare Soc.Coop.	pref	21/06/2007	21/06/2100	euro	6.156% fixed yearly until June 2017 then 3m Euribor + 228 bp	51.45	51.25	After prior approval of the Bank of Italy, bullet repayment upon maturity or early redemption option after 10 years from issuance	Yearly
IT0004596109	Banco Popolare Soc.Coop.	pref	29/03/2010	29/03/2049	euro	9% fixed yearly until March 2020 then 3m Euribor + 665 bp	25.00	25.00	After prior approval of the Bank of Italy, bullet repayment upon maturity or early redemption option after 10 years from issuance	Yearly
XS0223454512	BANCA POPOLARE DI LODI INVESTOR TRUST III	pref	30/06/2005	30/06/2049	euro	6.742% fixed yearly until June 2015 then 3m Euribor + 525 bp	500.00	247.98	After prior approval of the Bank of Italy, bullet repayment upon maturity or early redemption option after 10 years from issuance	Yearly
XS0255673070	BANCA ITALEASE CAPITAL TRUST	pref	06/06/2006	06/06/2049	euro	Floating 3m Euribor + 130 bp until June 2016 then 3m Euribor + 230 bp	150.00	17.51	After prior approval of the Bank of Italy, bullet repayment upon maturity or early redemption option after 10 years from issuance	Quarterly

Illustrated below is a detailed listing of subordinated liabilities included in the Tier 2 capital calculation.

ISIN	Issuer	type	issue date	maturity date	currency	interest rate	issued amount (in mln €)	contribution to regulatory capital	Method of repayment	coupon
XS0256368050	Banco Popolare Soc.Coop.	sub	15-Jun-2006	15-Jun-2016	euro	3m Euribor + 40 bp until June 2011 then 3m Euribor + 100 bp	107.80	31.24	early redemption option from 15 June 2011 after prior approval of the Bank of Italy	Quarterly
XS0276033510	Banco Popolare Soc.Coop.	sub	22-Nov-2006	22-Nov-2016	euro	3m Euribor + 45 bp until November 2011 then 3m Euribor + 105 bp	137.70	52.16	early redemption option from 22 November 2011 after prior approval of the Bank of Italy	Quarterly
XS0284945135	Banco Popolare Soc.Coop.	sub	8-Feb-2007	8-Feb-2017	euro	3m Euribor + 35 bp until February 2012 then 3m Euribor + 95 bp	81.65	-	early redemption option from 8 February 2012 after prior approval of the Bank of Italy	Quarterly
XS0215451559	Banco Popolare Soc.Coop.	hybrid	23-Mar-2005	23-Mar-2015	euro	4.625% fixed on a yearly basis	292.30	12.12	Bullet repayment upon maturity	yearly
XS0451531346	Banco Popolare Soc.Coop.	sub	9-Sep-2009	9-Sep-2016	euro	5.70% fixed on a yearly basis	50.00	16.91	Bullet repayment upon maturity	yearly
XS0464464964	Banco Popolare Soc.Coop.	sub	12-Nov-2009	22-Nov-2016	euro	5.473% fixed on a yearly basis	141.50	52.82	Bullet repayment upon maturity	yearly
XS0481740438	Banco Popolare Soc.Coop.	sub	26-Jan-2010	26-Jan-2015	euro	4.4% fixed on a yearly basis	53.00	0.75	Bullet repayment upon maturity	yearly
XS0504893701	Banco Popolare Soc.Coop.	sub	28-Apr-2010	28-Apr-2017	euro	4.75% fixed on a yearly basis	100.00	45.90	Bullet repayment upon maturity	yearly
XS0555834984	Banco Popolare Soc.Coop.	sub	5-Nov-2010	5-Nov-2020	euro	6% fixed on a yearly basis	710.03	703.56	Bullet repayment upon maturity	yearly
XS0632503412	Banco Popolare Soc.Coop.	sub	31-May-2011	31-May-2021	euro	6.375% fixed on a yearly basis	318.47	314.57	Bullet repayment upon maturity	yearly
IT0004966823	Banco Popolare Soc.Coop.	sub	18-Nov-2013	18-Nov-2020	euro	5.5% fixed on a yearly basis	799.89	-	In 5 equal yearly instalments from 18 November 2016	yearly
XS0259400918	Banca Italease	sub	28-Jun-2006	28-Jun-2016	euro	3m Euribor + 55 bp until June 2011 then 3m Euribor + 115 bp	125.00	34.45	early redemption option from 28 June 2011 after prior approval of the Bank of Italy	Quarterly

B. QUANTITATIVE INFORMATION

	BREAKDOWN OF OWN FUNDS	Total 31/12/2014
A.	Common Equity Tier 1 capital (CET1) before the application of prudential filters	8,014,895
	of which CET1 instruments subject to transitional provisions	-
B.	CET1 prudential filters (+/-)	(33,487)
C.	CET1 before items to be deducted and before the effects of the transitional regime (A +/- B)	7,981,408
D.	Items to be deducted from CET1	(2,555,027)
E.	Transitional regime - Impact on CET1 (+/-), including minority interest subject to transitional provisions	267,564
F.	Total Common Equity Tier 1 capital (CET1) (C - D +/- E)	5,693,945
G.	Additional Tier 1 capital (AT1) before items to be deducted and before the effects of the transitional regime	452,781
	of which AT1 instruments subject to transitional provisions	*442,803*
H.	Items to be deducted from AT1	-
I.	Transitional regime - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 by virtue of transitional provisions	(264,502)
L.	Total Additional Tier 1 capital (AT1) (G - H +/- I)	188,279
M.	Tier 2 capital (T2) before items to be deducted and before the effects of the transitional regime	1,368,142
	of which T2 instruments subject to transitional provisions	*116,969*
N.	Items to be deducted from T2	(47,800)
O.	Transitional regime - Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 by virtue of transitional provisions	(185,210)
P.	Total Tier 2 capital (T2) (M - N +/- O)	1,135,132
Q.	Total own funds (F + L + P)	7,017,356

The legislative changes introduced by the relevant legislation, effective as of 1 January 2014, mean that a comparison with the figures relating to 31 December 2013 cannot be made.

Note that as at 31 December 2014, the comparison between the value of Expected Losses relating to portfolios whose credit risk is measured using internal models and the value of Total Value Adjustments recognised in the financial statements, shows a surplus of the latter with respect to expected losses. Said surplus has been included in the calculation of Tier 2 capital up to the 0.6% threshold of risk weighted assets relating to loans portfolios whose risk is measured using internal models.

From 31 December 2014, based on a restrictive interpretation of the provisions of article 63 of the CRR provided by the European Banking Authority (“EBA”), the subordinated loan IT0004966823 with a total nominal value of euro 799.9 million, issued by Banco Popolare on 18 November 2013 and maturing on 18 November 2020 was considered as wholly ineligible in the calculation of Tier 2 capital.

2.3 Capital Adequacy

A. QUALITATIVE INFORMATION

Under the prudential regulatory provisions, the total capital requirement is the sum of the capital requirements required as a result of the credit, counterparty, market and operating risks.
These requirements in turn are the result of the sum of the individual requirements of the companies belonging to the Supervisory Group, stripped of the intercompany relations.

Following prudential regulatory instructions referring to 30 June 2012, the Banco Popolare Group was authorised by the Bank of Italy to use internal systems (Advanced IRB) to calculate capital requirements for credit and market risks, as better illustrated in paragraph 2.1 above.
With regard to exposures other than measured by the new internal models, which originate from credit and counterparty and market risk, the Group continues to adopt the respective “standard approaches”.

With regard to operating risk, the Group adopted the “combined approach”, as most Group companies had obtained, as of 30 June 2014, authorisation to use advanced internal models (AMA), while the remaining minor Companies used the “base approach”.

The capital management policies of the Banco Popolare Group aim, on the one side, at guaranteeing that the capital base be consistent with the total risk measure, with regulatory constraints, with the target rating and with corporate development plans, and, on the other side, at optimising the capital makeup, namely the set of elements making up regulatory capital, by selecting a mix of suited financial instruments to minimise the cost of capital.

B. QUANTITATIVE INFORMATION

	Categories/amounts	Unweighted amounts 31/12/2014	Unweighted/ required amounts 31/12/2014
A.	**Risk assets**		
A.1	**Credit and counterparty risk**		
	1. Standardized method	47,585,061	23,393,848
	2. Method based on internal ratings		
	2.1 Basic	-	-
	2.2 Advanced	74,490,574	16,947,779
	3. Securitisations	125,776	205,202
B.	**Regulatory capital requirements**		
B.1	**Credit and counterparty risk**		**3,243,746**
B.2	Credit valuation adjustment risk		**36,732**
B.3	Settlement risk		-
B.4	**Market risk**		
	1. Standardized method		67,983
	2. Internal models		91,996
	3. Concentration risk		-
B.5	**Operating risk**		
	1. Basic method		27,459
	2. Standardized method		-
	3. Advanced method		371,025
B.6	**Other calculation elements**		
B.7	**Total prudential requirements**		**3,838,941**
C.	**Risk assets and capital ratios**		
C.1	Risk-weighted assets		47,986,763
C.2	Common Equity Tier 1 capital/Risk-weighted assets (CET1 capital ratio)		11.87%
C.3	Tier 1 capital/ Risk-weighted assets (Tier 1 capital ratio)		12.26%
C.4	Total own funds/Risk-weighted assets (Total capital ratio)		14.62%

The legislative changes introduced by the relevant legislation, effective as of 1 January 2014, mean that a comparison with the figures relating to 31 December 2013 cannot be made.

In accordance with Chapter 2, paragraph 7, part F, of Circular no. 262 of the Bank of Italy (“Bank financial statements: layout and compilation rules”), in standardised methods, the “unweighted amounts” correspond to the value of the exposure including prudential filters, risk mitigation techniques and credit conversion factors.
As regards the method based on internal ratings, the “unweighted amounts” correspond to the value of the exposure “at the time of default” (EAD “Exposure At Default”) and, in the case of guarantees given and commitments to disburse funds, they also take Credit Conversion Factors (CCF) into account.

The unweighted exposure to securitisations (A.1, point 3 in the table) is the sum of the nominal amounts of all junior, mezzanine and senior securities held in the portfolios of Group companies, net of the securities held relating to so-called originated securitisations.

As already mentioned in the Group Report on Operations, the equity position has been considerably strengthened by the share capital increase, by the change to the use of internal models to measure operating risk and by the merger by incorporation of Credito Bergamasco into Banco Popolare.

As at 31 December 2014, the capital ratios are considerably higher than the minimum requirements envisaged by the legislation in force on said date:

- Common Equity Tier 1 ratio: “CET1 ratio”): the ratio is 11.87% compared to a minimum threshold of 7% (4.5% + Capital Conservation Buffer: “CCB” of 2.5%);
- Tier 1 ratio: the ratio is 12.26% compared to a minimum threshold of 7% (5.5% + CCB of 2.5%);
- Total Capital ratio: the ratio is 14.62% compared to a minimum threshold of 10.5% (8% + CCB of 2.5%).

For the sake of completeness of information, note that EU Regulation no. 1024 of 15 October 2013 awards the European Central Bank the power to request supervised banks to maintain an amount of own funds that is higher than the minimum capital requirements established by the law in force. As at the date of preparation of this Annual Report, the ECB had not informed Banco Popolare of its final decision as regards the minimum capital ratios that the Group will be obliged to comply with. Based on available information, we believe that the Group's capital is more than sufficient to comply with any more stringent requirements that the Supervisory Body may impose on the Group, on completion of the Supervisory Review and Evaluation Process (SREP) conducted on Banco Popolare.

Lastly, note that the pro-forma CET1 ratio calculated on the basis of rules that will take effect at the end of the transition period (so-called CET1 ratio fully phased) will be 11.3%.

PART G – BUSINESS COMBINATIONS REGARDING COMPANIES OR DIVISIONS

Section 1 - Transactions achieved during the year

1.1 Business combinations

As illustrated in the Report on Operations in the section on significant events during the year, after the signature of the new Restructuring plan for the Aedes Group on 23 December 2014, Banco Popolare purchased equity investments corresponding to 100% of the share capital of Manzoni 65 S.r.l., Sviluppo Comparto 2 S.r.l. and Terme Ioniche S.r.l. from Aedes through its subsidiary company Bipielle Real Estate.
The total purchase price of the equity investments was paid by offsetting a receivable for the same amount held by Bipielle Real Estate vis-à-vis Aedes. Said receivable had been assigned without recourse by Banco Popolare to Bipielle Real Estate on the same date.

In accordance with the IFRS 3 reference accounting standard, the cost of the operation must be allocated, within the maximum period of twelve months from the date of acquisition, to assets, liabilities and potential liabilities of the acquired subject identifiable on the acquisition date and designated at the respective fair values.

In the case in question, the cost of acquiring the shareholdings totalled euro 16,169 thousand, euro 15,930 thousand related to Terme Ioniche, euro 127 thousand to Sviluppo Comparto 2 and euro 112 thousand to Manzoni 65.
Against this cost, the book value of the shareholders' equity of the companies acquired amounts to 5,765 thousand. The difference of 10,404 thousand was allocated to a property owned by the subsidiary Terme Ioniche, whose fair value was determined on the basis of an expert evaluation.

In addition to the operations described above, note that, following agreement to the closure of the "ex chapter 11" proceedings, filed with the Court of New York by Marco Polo Sea Trade Bv., Banco Popolare acquired 25% of the share capital of Motia Compagnia di Navigazione S.p.A. As regards this investment in an associated company, carried at equity, no differences between the book value and the fair value of the assets and liabilities recorded in the financial statements of the investee emerged.

The table below contains some details of the above-illustrated operations:

(in thousands of euro)	Date of operation (1)	Cost of operation (2)	Total equity interest acquired (%) (3)	Total Group revenues (4)	Group net profit/loss for the year (5)
Terme Ioniche S.r.l.	23/12/2014	15,930	100%	126	(1,261)
Sviluppo Comparto 2 S.r.l.	23/12/2014	127	100%	-	79
Manzoni 65 S.r.l.	23/12/2014	112	100%	1,577	297

(1) Date on which control was acquired
(2) Cost including already accounted for accessory charges
(3) Percentage of voting equity interests acquired
(4) Value of production in FY 2014
(5) Results in FY 2014

Other business combinations

As illustrated in Part A of these notes to the consolidated financial statements, Section 3 – Scope of consolidation and consolidation method, in 2014 a number of mergers were formalised under the Group's reorganisation plan.
More specifically, on 1 June, the merger by incorporation of Credito Bergamasco S.p.A into the Parent Company Banco Popolare was finalised; also in June, the merger by incorporation of RI Investimenti Due S.r.l into Sviluppo Comparto 8 S.r.l came into effect, while on 31 March, the subsidiary company Aletti Trust was incorporated into Aletti Fiduciaria S.p.A.
These business combinations were accounted for with continuity of values, since they were combinations among companies under joint control, as described in the accounting policies in Part A of these notes to the consolidated financial statements.

Section 2 - Business combinations after the reporting period

2.1 Business combinations

As illustrated in greater detail in the section regarding significant events occurring during the year, in April, the proposal for the merger by incorporation of Banca Italease into the Parent Company Banco Popolare, made at the end of 2013, was approved. The operation was originally expected to become legally effective as of November 2014, but this has now been postponed to the first quarter of 2015.
This business combination will be accounted for with continuity of values, since it is a combination between companies under joint control, and does have an impact on the Group's statement of financial position.

Section 3 – Retrospective adjustments

Since the economic effects of the allocation of the cost of the business combinations carried out during the period described above were recognised at the moment of acquisition of control of the entities being combined, it is not necessary to carry out the restatement of the interim reports before the reporting date of these financial statements.

PART H - TRANSACTIONS WITH RELATED PARTIES

1. Information on compensation to directors and executives with strategic responsibilities

This information relates to those who, directly or indirectly, have the power and the responsibility to plan, manage and control the business activities of Group companies.
The table below summarises the compensation paid to directors, statutory auditors and executives with strategic responsibilities (general managers and other executives meeting the above characteristics).
In total, 290 assignments were entrusted to 193 people (including 42 executives).

(in thousands of euro)	2014	2013
Total gross compensation FY 2014	**20,879**	**20,481**
of which:		
Non-executive directors and Statutory auditors	5,983	6,775
Non-employee executive directors	3,455	3,108
Employees	11,441	10,598
Short term benefits (e.g., car, lodging, accident insurance policy, medical assistance)	68	158
Post-employment benefits (e.g., pension fund, supplementary pension scheme)	75	142
Long-term benefits (if any)	-	-
Employee termination benefits (e.g., employee termination indemnities, other benefits)	-	153
Share-based payments (e.g., stock options/stock grants assigned during the year, share-based bonuses)	-	-

2. Information on transactions with related parties

Banco Popolare has adopted the "Applicable regulations of the notion of related parties pursuant to international accounting standard IAS 24". These "Regulations", which are valid for Banco Popolare and for all Group companies, are based on the following operating criteria to identify related parties:

Subsidiary companies: i) Companies in which the majority of votes that may be exercised in an Ordinary Shareholders' Meeting are held, or sufficient votes are held to be able to exercise a dominant influence in the Shareholders' Meeting. In order to apply the above, votes held by Subsidiaries, Trustees and intermediaries are also counted: instead, votes held on behalf of third parties are not counted; ii) Companies which are under dominant influence by virtue of specific contractual obligations;
Associated companies: Companies in which a significant influence is held. Significant influence is assumed when at least one fifth of voting rights at the Ordinary Shareholders' Meeting may be exercised, or one tenth if the company has shares listed on a regulated market;
Executives with strategic responsibilities: the members of the Board of Directors and the standing members of the Board of Statutory Auditors of the Parent Company and of Group companies; the General Manager, the Joint General Manager and/or Deputy General Managers, the heads of the Parent Company Divisions; the Executives who cover senior roles as per the Articles of Association (for example the Manager responsible for preparing the Company's financial reports, the Head of the internal auditing division, the Chief Risk Officer, the Compliance Manager, the Risk Manager); any additional department heads may be identified by the Board of Directors;
Close family members of Executives with strategic responsibilities: this only refers to family members able to influence (or be influenced by) the Executive with strategic responsibilities in his/her relations with Banco Popolare or Group Companies; the following are presumed to be as such, unless otherwise declared in writing by the Executive, under the latter's own responsibility and containing adequate and analytical justification of the reasons that exclude the possibility of any influence: spouses, common law spouses (including cohabitants whose status is not revealed in the family status certificate), offspring of the party, of the spouse or common law spouse, individuals dependent on the party, the spouse or common law spouse. Any other individual which the party believes may influence them (or be influenced by them) in their dealings with the bank or the other Group companies is also a related party;
Companies associated to executives with strategic responsibilities and their close family members: the following entities are considered to be related parties, those in which executives with strategic responsibilities or their close family members: have control pursuant to Article 2359 of the Italian Civil Code, or at least 20% of the voting rights which can be exercised during ordinary shareholders' meetings, or 10% if the company has shares listed on organised markets, or they hold the office of Chairman of the Board of Directors, Managing Director or representative endowed with powers of authority;
Group pension funds: the pension funds for Group employees and any other related body;
Holders of a significant investment: UCIT organisations, or any other expressly authorised party, who act as a shareholder and who possess an interest greater than 5% in the share capital of Banco Popolare. Parties not belonging to the Group who hold an interest greater than 2% in other Group companies are also considered to be related parties. The company's Board of Directors can change this percentage both upwards and downwards, providing justification in relation to the significance of the investment/investment in an associate.

Financial and commercial transactions between subsidiary companies and those subject to significant influence and joint control.

Financial and commercial transactions with related parties fall within the sphere of ordinary operations and have been conducted as arm's length transactions.

The tables below indicate the statement of financial position and income statement transactions as at 31 December 2014 with the companies subject to significant influence, the joint ventures, management with strategic responsibilities (which include audit bodies) and other related parties.

(in thousands of euro)	Entities exercising significant influence (1)	Associated companies	Joint ventures	Executives with strategic responsibilities	Other related parties	TOTAL	% of consolidated total
Financial assets held for trading	-	5,938	-	-	2,592	8,530	0.12%
Financial assets available for sale	-	-	-	-	1,427	1,427	0.01%
Loans to customers	-	1,226,815	-	11,726	182,412	1,420,953	1.78%
Other assets	-	6,177	-	-	-	6,177	0.06%
Due to customers	-	153,949	-	12,517	375,299	541,765	0.99%
Debt securities issued	-	1,527	-	2,403	22,920	26,850	0.16%
Financial liabilities held for trading	-	29,349	-	-	-	29,349	0.48%
Financial liabilities designated at fair value through profit and loss	-	-	-	1,449	3,173	4,622	0.03%
Other liabilities	-	1,172	-	147	438	1,757	0.04%
Guarantees given and commitments	-	122,585	-	196	89,160	211,941	1.76%

(1) Funds or other authorised parties who act as a Shareholder and who possess a shareholding greater than 2% of the share capital

(in thousands of euro)	Entities exercising significant influence (1)	Associated companies	Joint ventures	Executives with strategic responsibilities	Other related parties	TOTAL	% of consolidated total
Interest margin	-	15,286	-	(46)	687	15,927	1.02%
Net fee and commission income	-	182,198	-	1	16	182,215	13.15%
Administrative expenses/recoveries of expenses	-	1,837	-	(17,072)	(260)	(15,495)	0.68%
Other costs / revenues	-	(11,353)	-	19	-	(11,334)	0.43%

(1) Funds or other authorised parties who act as a Shareholder and who possess a shareholding greater than 2% of the share capital

Other transactions with other related parties

The table below discloses other transactions – supplies of goods and services and transactions on real estate – entered into with related parties, shown in the above table under "executives with strategic responsibilities" and "other related parties".

(in thousands of euro)	Purchases and sales of goods and services	Rentals receivable	Rentals payable
a) Directors	-	-	-
b) Executives with strategic responsibilities	-	19	-
c) Close family members of the parties in letters a) and b)	-	-	-
d) Subsidiary, associated company or subject to significant influence by the parties in letters a) and b)	790	1,911	-

Other information

With reference to paragraph 8 of art. 5 "Disclosures to the public on related party transactions" of the Consob Regulation containing provisions for related party transactions (adopted by Consob with resolution no. 17221 of 12 March 2010 and then amended with resolution no. 17389 of 23 June 2010), the following paragraphs illustrate the most important transactions conducted in 2014.

Originated securitisation transaction of a portfolio of loans disbursed to SMEs
The transaction, resolved by the Board of Directors on 28 April 2014, regards a securitisation transaction called BPL Mortgages Series 7, the subject of which is mortgage loans and loans assisted by real and personal guarantees

disbursed by BP and by Creberg to small and medium enterprises. BP finances the senior securities issued as part of the securitisation transaction in bilateral market transactions or with the ECB following the admission of the same senior securities to the list of eligible assets for Eurosystem transactions. The aim of the transaction is therefore to strengthen Group's liquidity position.
On 10 May 2014, a loans portfolio was sold, resulting from mortgage, landed, agrarian and other loans disbursed to SMEs for a counter value of around euro 1.8 billion (of which around euro 1.48 billion originated by Banco Popolare and euro 313.58 million by Credito Bergamasco).
On 30 June 2014, the SPE issued three classes of Asset Backed Securities: Class A securities (Senior Securities) with a rating of "A" from Moody's and "A" from DBRS for a counter value of around euro 1.08 billion, Class B Securities (Mezzanine Securities) with a rating of "Baa3" from Moody's and "BBB (low)" from DBRS for a counter value of euro 269.3 million and Class C securities (Junior Securities) without a rating, for a nominal value of around euro 449 million.
Banco Popolare also disbursed a subordinated loan to the SPE BPL Mortgages s.r.l. on 30 June 2014 with a counter value of euro 76.9 million.
All classes of notes were subscribed by Banco Popolare; in August 2014, the Senior Notes were classified as allocatable and were used for refinancing operations with the European Central Bank.

Covered Bond Issue Programme of the Banco Popolare Group - Assignment of the ninth portfolio of residential mortgage loans and issue of further series of Covered Bonds
The operation, approved by the Board of Directors on 28 April 2014, regards the sale of the ninth portfolio of residential mortgage loans to BP Covered Bond and the issue of subsequent series of securities for a maximum amount of around euro 2.5 billion, as part of the CB Programme. The sale will enable the liquid assets deposited in the accounts of the SPE (corresponding to around euro 1.5 billion) to be reduced, by increasing the residual debt of the cover pool, in order to meet the provisions of Italian legislation on CB, according to which the value of additional eligible assets (cash, deposits etc.) in the structure must not exceed 15% of the overall portfolio.
On 10 May 2014, the sale of the ninth portfolio of assets was finalised, for a total residual debt of around euro 866 million (around euro 742 million of which originated by Banco Popolare and around euro 124 million by Credito Bergamasco). The purchase price was paid by using the available liquidity deposited in accounts opened at the London Branch of Banco Popolare.
On 19 September 2014, the eighth series of CB was issued for the amount of euro 1.5 billion. The securities were subscribed by Banco Popolare and used in refinancing operations with the ECB.

Merger by incorporation of Credito Bergamasco Spa into Banco Popolare Soc. Coop.
The operation regarded the integration of Banco Popolare Soc. Coop. and Creberg SpA, achieved through the incorporation of Creberg into Banco Popolare. The Merger had been prepared, pursuant to art. 2501-quater, second paragraph of the Italian Civil Code, on the basis of the interim financial statements as at 30 June 2013 of Banco Popolare and of Creberg, approved by the respective Board of Directors on 27 August 2013 and on 26 August 2013. The proposed merger was approved by the Shareholders' Meeting of Banco Popolare on 29 March 2014 and was executed on 1 June 2014. Full details of the operation are provided in the chapter of the Report on Operations regarding significant events occurring during the period.

Merger by incorporation of Banca Italease S.p.A into Banco Popolare Soc. Coop.
The operation regarded the integration of Banco Popolare Soc. Coop. and Banca Italease S.p.A., achieved through the incorporation of Banca Italease into Banco Popolare, according to the simplified procedure envisaged by art. 2505 of the Italian Civil Code for wholly-owned companies, and in particular, on the assumption that by the date of signature of the merger agreement, Banco Popolare would hold 100% of Banca Italease's share capital; said full acquisition took place in 2014.
In a meeting on 1 April 2014, Banco Popolare's Board of Directors resolved to approve the proposed merger and therefore to approve the merger by incorporation of "Banca Italease S.p.A." into "Banco Popolare - Società Cooperativa", the execution of which is envisaged during the first few months of 2015. Full details of the operation are provided in the chapter of the Report on Operations regarding significant events occurring during the period.

Release S.p.A. - revision of credit lines
The operation, finalised in January 2014, regarded the assignment of credit lines of euro 430 million to Release Spa by Banco Popolare, following the cancellation of credit lines of euro 495 million granted to the same by Banca Italease SpA. The operation relates to the incorporation of Banca Italease into Banco Popolare and therefore to the transfer of the credit lines granted by Banca Italease to its subsidiaries to the Parent Company.

Alba Leasing SpA – revision and restructuring of credit lines
The operation, resolved by the Board of Directors on 13 May 2014, regards the restructuring of the credit lines granted to Alba Leasing, a company in which the bank currently has an equity investment of 30.15%, for a total of euro 410 million, as part of a revision of the total amount of loans granted, reduced from euro 716 to 689 million.

Issue by Banco Popolare Soc. Coop. of Bonds subscribed by Banca Aletti
The operation in question regards the issue of bonds of Banco Popolare, subscribed by Banca Aletti, using liquidity resulting from funding collected from the issue of Certificates. The operation was approved, in the form of a one-year

framework resolution, at the Board Meeting held on 12 November 2013, and later integrating with the Board resolution passed on 22 July 2014, which raised the annual ceiling from euro 2.5 billion to euro 4.2 billion (from November 2013 to November 2014) for the issue by Banco Popolare of bonds to be offered entirely for subscription to Banca Aletti at the same spread as the funding of the Certificates issued by Banca Aletti, whose economic conditions, on each occasion, are in line with those applied to retail products for so-called “fresh” funding.
A board resolution on 11 November 2014 approved the renewal of the above-mentioned framework resolution, for the period between December 2014 and December 2015, for a maximum amount of euro 4.5 billion at the same conditions envisaged in the previous resolution.
For the Banco Popolare Group, this transaction is part of a strategy to diversity sources of funding and to stabilise the liquidity profile by lengthening the maturities of the funding in question, also meeting customer requirements by extending the range of products.
As at 31 December 2014, Banco Popolare, had made 75 bond issues for a total of euro 3,021,022,000.

Residential CB Programme of the Banco Popolare Group - Issue of additional series of Covered Bonds
The transaction, resolved by the Board of Directors on 12 November 2013, regards the issue of one or more new series of securities, to be carried out under the Residential CB Programme.
The transaction envisages that when the Series V securities issued in November 2011 for a nominal value of euro 1.75 billion reach maturity on 31 December 2013, the total portfolio assigned to the SPE BP Covered Bond post-redemption, Banco Popolare will be able to issue one or more series of securities, for a maximum amount of around euro 3 billion. These securities may be placed with investors or be subscribed by BP, to be used in refinancing operations on the market or with the ECB.
On 8 January 2014, the seventh series of CB was issued for a notional amount of euro 1.5 billion. The securities were subscribed by Banco Popolare and used in refinancing operations with the ECB.

Commercial CB Programme of the Banco Popolare Group - Measures to reduce the share of additional eligible assets in the Cover Pool
The transaction, resolved by the Board of Directors on 14 October 2014, regards implementing several measures as part of the Covered Bond issue programme of Banco Popolare, regarding mortgage and landed loans on commercial and residential property (the “Commercial CB Programme”).
The measures seek to bring the level of cash below the threshold envisaged by Italian legislation on CB, according to which the value of additional eligible assets (cash, bank securities and deposits) in the separate portfolio must not exceed 15% of the Cover Pool (hereinafter “legislative threshold”).
More specifically, in order to bring the level of cash below the legislative threshold for the test in December 2014, and also to enable this level to be maintained in the future, the following measures have been identified:

i. the sale by Banco Popolare (hereinafter “BP”) to BP Covered Bond Srl (the “Special Purpose Entity” or “SPE”) of a fifth portfolio of eligible assets, the consideration for which will be paid by the latter in cash;
ii. the repurchase by BP of a share of the mortgage loans sold to the SPE, which may no longer be classified as “eligible” by means of the partial early extinguishment of the subordinated loan;
iii. the partial early repayment in cash of the subordinated loan for an additional amount with respect to that in point ii), needed to bring the level of cash below the legislative threshold.

With reference to point (i), on 7 November 2014, the sale of the fifth portfolio of assets was finalised, for a total residual debt of around euro 215.2 million. The purchase price was paid by using the available liquidity deposited in accounts opened at the London Branch of Banco Popolare.
The sale price was calculated in accordance with the Supervisory Instructions of the Bank of Italy.
With regard to the second point (ii), on the same date of 7 November 2014, Banco Popolare repurchased a share of the mortgages sold to the SPE no longer considered “eligible” for the amount of around euro 380.7 million; as said loans portfolio could no longer be included in the calculation of the Cover Pool guaranteeing the CB for the purpose of checking the level of overcollateralisation, it was repurchased by Banco Popolare. The payment of the price for the non-eligible mortgage loans was made on 2 January 2015 by offsetting it against the partial early repayment of the subordinated loan granted by the assigning banks to BP Covered Bond for the payment of the purchase price of the loans sold to the SPE on each occasion.
Lastly, with regard to the third measure envisaged in point (iii), in order to bring the level of cash below the legislative threshold, the SPE made a further partial early repayment of the subordinate loan for an additional amount to that illustrated in point (ii) above, specifically for the amount of euro 220 million. The date of the early repayment was 2 January 2015.

PART I – SHARE-BASED PAYMENT AGREEMENTS

1. Description of share-based payments agreements

Share allocation plans addressed to executive members of the Management Board/Board of Directors and to executives of particular importance to the Banco Popolare Group

At a meeting held on 25 March 2011, the Supervisory Board approved the 2011 pay policies which, amongst other things, envisage the use of Banco Popolare shares as a form of payment of part of the bonus on achievement of the company objectives included in incentive systems. In a meeting held on 25 March 2011, the Management Board resolved to submit a share allocation plan addressed to employees and executives identified as among the “key personnel” to the approval of the Shareholders’ Meeting, based on the provisions of the Bank of Italy as regards remuneration and incentive policies for banks, within the 2011 incentive system, as well as the treasury shares purchase programme for the purposes of the Plan. On 30 April 2011, the Ordinary Shareholders’ Meeting approved the aforementioned Plan, assigning the Management Board all the powers necessary for effectively implementing the same and authorised the purchase of treasury shares to serve the Plan.

By implementing this Plan, Banco Popolare aimed to bring the manner in which bonuses of the incentive systems for employees and executives identified as belonging to the “key personnel” category are disbursed in line with the provisions of the Bank of Italy on remuneration and incentive policies for banks, with specific reference to the prevision that at least 50% of the bonus attributed under said systems must be paid in shares or related instruments.

Furthermore, the Plan seeks to converge management objectives with the interests of shareholders, rewarding the creation of value in the medium-long term by increasing the value of Banco Popolare’s shares, enhancing the loyalty of the Group’s strategic resources at the same time. Lastly, it is worth noting that under certain conditions, the Plan enables an economic benefit to be enjoyed by both employees - as shares are not subject to social security contributions - and the company, which is not bound to pay said social security contribution and therefore cuts costs.

Pursuant to art. 2357 of the Italian Civil Code, articles 132 of Italian Legislative Decree no. 58 of 24 February 1998 and 144-bis of the Issuers’ Regulations, as well as the provisions of (EC) Regulation no. 2273/2003 of 22 December 2003, between 3 and 6 October 2011, a total of 1,400,000 shares were purchased to serve the Plan, with an investment of euro 1,735,342.

Following the results achieved, which led to the activation of the incentive system, and the individual performance of the assignees, in a meeting held on 20 March 2012, the Board of Directors resolved to allocate a total of 1,143,733 shares. The portion of shares assigned to the short-term bonus, corresponding to an initial 683,327 shares (60% of the total), was made available with the allocation of 536,863 shares to 13 assignees in March 2014 (the reduced number of shares is due to the waiver of the Managing Director and of another employee who left the company). The portion of shares relating to the deferred bonus, corresponding to 460,406 shares (40% of the total), will mature in 2015, on condition that the specific parameters set in accordance with Supervisory instructions are met, and will be made available to beneficiaries in 2016.
The number of shares was calculated by taking the arithmetic average of the official prices of the share recorded in the month prior to 30 April 2011 as the unit reference price.
On 17 February 2014, the Board of Directors approved the 2014 remuneration policies, confirming the allocation to those classified as the “most important personnel” of a portion of the bonus resulting from the incentive system, of no less than 50% of the total, in the form of ordinary Banco Popolare shares.
All managers, the potential beneficiaries of the share option plan, however indicated that they would waive the portion of the incentive system bonus to be allocated in shares, therefore the relative proposal regarding the Share option plan was not submitted to the approval of the Shareholders’ Meeting on 29 March 2014.

Integration of existing Share allocation plans addressed to employees of the Banco Popolare Group as part of Company Bonuses for 2009-2010 and 2011 envisaged by the National Collective Labour Agreement

At a meeting held on 15 March 2013, the Board of Directors resolved to submit the integration of existing Share allocation plans addressed to employees of the Banco Popolare Group as part of the company bonuses envisaged by the national collective labour agreement for the credit sector relating to 2009-2010 and 2011, approved by the Shareholders’ Meeting on 24 April 2010 and on 21 April 2012 respectively, to the Ordinary Shareholders’ Meeting for approval, with a view to establishing the unitary valuation criterion for the Banco Popolare shares to be allocated free of charge as an additional bonus ("Additional Bonus") to entitled employees. As part of said plans, approval had also been given for the allocation to each employee who maintained possession of the shares received as a bonus ("Bonus") for three years from the date of assignment, of an additional amount of shares, corresponding to 5% of the monetary value of the part of the bonus paid in Shares.

On 20 April 2013, the ordinary Shareholders' Meeting approved the above-mentioned integration and resolved to establish the unitary valuation criterion for the additional shares to be assigned to entitled employees as the arithmetic average of the official share prices recorded in the month prior to the date of assignment of the Additional Bonus.

The first free assignment of the additional amount of shares was made, as regards the 2009 company bonus, in June 2013. The number of shares to be allocated was established on 24 June 2013, on the basis of the arithmetic average of the official prices recorded in the month prior to the assignment of the bonus in question, as euro 1.070.

More specifically, a total of 233,774 shares were allocated to 3,261 Group employees, which represents almost all of the beneficiaries of the Bonus, in service as at the date of assignment of the Additional Bonus.

Note that, following resolutions passed by the Shareholders' Meeting on 1 March 2014, on 10 March 2014 Banco Popolare ordinary shares were grouped at a ratio of 1 new share for each 10 existing ordinary share.

In June 2014, the second allocation was made, relating to the 2010 company bonus (paid in June 2011). The number of shares allocated was established on 26 June 2014, on the basis of the arithmetic average of the official prices recorded in the month prior to the assignment of the bonus in question, as euro 13.8642.

More specifically, a total of 7,348 shares was allocated to 1,556 Group employees.

The shares used for the Additional Bonus relating to the 2009 company bonus, paid in 2010, and to the 2010 company bonus, paid in 2011, were taken from the so-called "stock of shares" approved by the afore-mentioned Shareholders' Meeting, in an ordinary session on 20 April 2013.

Subsequent assignments will be made, indicatively, in June 2015 for the 2011 bonus.

PART L – SEGMENT REPORTING

Disclosure on operating segments was prepared in compliance with IFRS 8, which requires the operating segments to be identified on the basis of the systems used by Top Management to make operating decisions. Therefore, the identification of the operating segments and the disclosure presented in this paragraph are based on the internal reporting used by the Top Management in order to allocate resources to the different segments and assess their performance.

Criteria for the identification and aggregation of the operating segments

As regards criteria for the identification and aggregation of the operating segments, refer to the section in the report on operations called "Results by business area"

Segment results – income statement figures

31 December 2014 (in thousands of euro)	Total	Commercial Network	Invest. Bank, Priv. Bank., Asset Man.	Leasing	Corporate Centre and Other	PPA & FVO
Interest margin	1,555,575	1,556,162	161,799	40,964	(200,553)	(2,797)
Dividends and results from investments in associates carried at equity	90,066	-	-	33	90,033	
Financial margin	**1,645,641**	**1,556,162**	**161,799**	**40,997**	**(110,520)**	**(2,797)**
Net fee and commission income	1,385,447	1,358,724	22,733	(749)	4,739	-
Other net operating income	138,888	99,143	(928)	22,585	47,844	(29,756)
Net financial result	215,910	6,145	115,817	(1,520)	95,468	-
Other operating income	**1,740,245**	**1,464,012**	**137,622**	**20,316**	**148,051**	**(29,756)**
Operating income	**3,385,886**	**3,020,174**	**299,421**	**61,313**	**37,531**	**(32,553)**
Personnel expenses	(1,432,331)	(1,053,137)	(49,133)	(12,745)	(317,316)	-
Other administrative expenses	(645,094)	(772,836)	(51,978)	(48,952)	228,672	-
Net value adjustments on property and equipment and intangible assets	(191,903)	(22,967)	(772)	(66,048)	(98,434)	(3,682)
Operating expenses	**(2,269,328)**	**(1,848,940)**	**(101,883)**	**(127,745)**	**(187,078)**	**(3,682)**
Income (loss) from operations	**1,116,558**	**1,171,234**	**197,538**	**(66,432)**	**(149,547)**	**(36,235)**
Net adjustments on loans (customers)	(3,561,431)	(3,231,765)	52	(261,843)	(67,875)	-
Net value adjustments on other assets	(39,828)	-	(10,677)	290	(29,441)	-
Net provisions for risks and charges	(39,455)	-	(5,953)	2,612	(36,114)	-
Recoveries (Losses) on investments in associates and companies subject to joint control and goodwill	(239,000)		(665)	-	(199,335)	(39,000)
Profits (Losses) on disposal of investments in associates and companies subject to joint control and other investments	2,345	-	5	(936)	3,320	(44)
Income (loss) before tax from continuing operations	**(2,760,811)**	**(2,060,531)**	**180,300**	**(326,309)**	**(478,992)**	**(75,279)**
Taxes on income from continuing operations	802,242	609,927	(60,109)	108,564	119,180	24,680
Income (loss) after tax on non-current assets held for sale	(48)	-	-	-	(48)	-
Minority interests	38,714	-	-	39,059	(345)	-
Income (loss) for the year without FVO	**(1,919,903)**	**(1,450,604)**	**120,191**	**(178,686)**	**(360,205)**	**(50,599)**
Change in the Bank's creditworthiness (FVO)	(38,828)	-	-	-	-	(38,828)
Taxes on change in the Bank's creditworthiness (FVO)	12,840	-	-	-	-	12,840
FVO Impact	**(25,988)**	**-**	**-**	**-**	**-**	**(25,988)**
Parent Company's net income (loss)	**(1,945,891)**	**(1,450,604)**	**120,191**	**(178,686)**	**(360,205)**	**(76,587)**

31 December 2013 (*) (in thousands of euro)	Total	Commercial Network	Invest. Bank, Priv. Bank., Asset Man.	Leasing	Corporate Centre and Other	PPA & FVO
Interest margin	1,646,982	1,631,016	115,714	44,039	(143,011)	(776)
Dividends and results from investments in associates carried at equity	(27,403)	-	-	(4,583)	(22,820)	
Financial margin	**1,619,579**	**1,631,016**	**115,714**	**39,456**	**(165,831)**	**(776)**
Net fee and commission income	1,387,062	1,328,088	66,956	2,561	(10,543)	-
Other net operating income	189,184	150,127	297	23,462	47,576	(32,278)
Net financial result (without FVO)	388,744	8,853	181,521	(6,290)	204,660	-
Other operating income	**1,964,990**	**1,487,068**	**248,774**	**19,733**	**241,693**	**(32,278)**
Operating income	**3,584,569**	**3,118,084**	**364,488**	**59,189**	**75,862**	**(33,054)**
Personnel expenses	(1,446,735)	(1,003,281)	(56,149)	(14,697)	(372,608)	-
Other administrative expenses	(667,107)	(828,469)	(54,296)	(46,982)	262,640	-
Net value adjustments on property and equipment and intangible assets	(139,998)	(24,409)	(957)	(15,842)	(95,156)	(3,634)
Operating expenses	**(2,253,840)**	**(1,856,159)**	**(111,402)**	**(77,521)**	**(205,124)**	**(3,634)**
Income (loss) from operations	**1,330,729**	**1,261,925**	**253,086**	**(18,332)**	**(129,262)**	**(36,688)**
Net adjustments on loans (customers)	(1,691,418)	(1,424,595)	(4)	(227,320)	(39,499)	-
Net value adjustments on other assets	(161,464)	-	(1,700)	(11)	(159,753)	-
Net provisions for risks and charges	(121,431)	-	(82,391)	(1,139)	(37,901)	-
Recoveries (Losses) on investments in associates and companies subject to joint control and goodwill	95,246		(42)		95,288	-
Profits (Losses) on disposal of investments in associates and companies subject to joint control and other investments	4,789	-	-	(2,020)	7,173	(364)
Income (loss) before tax from continuing operations	**(543,549)**	**(162,670)**	**168,949**	**(248,822)**	**(263,954)**	**(37,052)**
Taxes on income from continuing operations	48,913	1,524	(98,463)	67,183	66,560	12,109
Income (loss) after tax on non-current assets held for sale	(29,595)	-	-	-	(29,595)	-
Minority interests	13,749	-	-	15,869	(2,149)	29
Income (loss) for the year without FVO	**(510,482)**	**(161,146)**	**70,486**	**(165,770)**	**(229,138)**	**(24,914)**
Change in the Bank's creditworthiness (FVO)	(143,154)		-	-	-	(143,154)
Taxes on change in the Bank's creditworthiness (FVO)	47,341		-	-	-	47,341
FVO Impact	**(95,813)**	**-**	**-**	**-**	**-**	**(95,813)**
Parent Company's net income (loss)	**(606,295)**	**(161,146)**	**70,486**	**(165,770)**	**(229,138)**	**(120,727)**

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

Segment results – statement of financial position figures

31 December 2014 (in thousands of euro)	Commercial Network	Invest. Bank, Priv. Bank., Asset Man.	Leasing	Corporate Centre and Other	PPA	Total
Loans to customers	64,047,513	1,561,799	5,378,465	8,835,826	-	79,823,603

31 December 2013 *(in thousands of euro)*	Commercial Network	Invest. Bank, Priv. Bank., Asset Man.	Leasing	Corporate Centre and Other	PPA	Total
Loans to customers	68,353,961	1,840,964	6,310,705	9,644,673	(1,308)	86,148,995

31 December 2014 (in thousands of euro)	Commercial Network	Invest. Bank, Priv. Bank., Asset Man.	Leasing	Corporate Centre and Other	PPA	Total
Due to customers, debt securities issued and financial liabilities designated at fair value through profit and loss	60,432,494	897,717	928,465	24,261,243	(6,451)	86,513,468

31 December 2013 *(in thousands of euro)*	Commercial Network	Invest. Bank, Priv. Bank., Asset Man.	Leasing	Corporate Centre and Other	PPA	Total
Due to customers, debt securities issued and financial liabilities designated at fair value through profit and loss	61,596,899	750,740	1,145,159	26,531,749	(6,878)	90,017,669

31 December 2014 *(in thousands of euro)*	Commercial Network	Invest. Bank, Priv. Bank., Asset Man.	Leasing	Corporate Centre and Other	PPA	Total
Investments in associates and companies subject to joint control subject to significant influence	-	35,884	124,709	899,793	1,026	1,061,412

31 December 2013 *(in thousands of euro)*	Commercial Network	Invest. Bank, Priv. Bank., Asset Man.	Leasing	Corporate Centre and Other	PPA	Total
Investments in associates and companies subject to joint control subject to significant influence	-	30,088	124,102	878,548	1,026	1,033,764

Note that the majority of the assets and operating income were generated in Italy, confirming the deep-seated presence in the national territory, considered to be the Group's primary sphere of operations.
The weight of the activities and operating income generated abroad is significantly lower than 5% threshold.

ATTACHMENTS

Reconciliation between the items in the consolidated income statement and the reclassified consolidated income statement schedule as at 31 December 2014

	Reclassified income statement items *(in thousands of euro)*	31/12/2014	Reclassifications and FVO		Reclassified schedule
10	Interest and similar income	3,262,657			
20	Interest and similar expense	(1,706,144)	(938)	a)	
	Interest margin				1,555,575
	Profits (losses) on investments in associates and companies subject to joint control		90,066	b)	
	Income (loss) from investments in associates and companies subject to joint control carried at equity				90,066
	Financial margin				**1,645,641**
40	Fee and commission income	1,481,223			
50	Fee and commission expense	(95,776)			
	Net fee and commission income				1,385,447
220	Other operating expenses / income	362,538	(223,650)	c)	
	Other net operating income				138,888
	Interest and similar expense		938	a)	
70	Dividends and similar income	35,460	-		
80	Profits (losses) on trading	138,334	-		
90	Fair value adjustments in hedge accounting	(6,797)			
100	Profits (losses) on disposal or repurchase	39,905	14,967	d)	
	Net losses / recoveries on impairment				
110	Profits (losses) on financial assets and liabilities designated at fair value	(45,725)	38,828	e)	
	Net financial result				215,910
	Other operating income				**1,740,245**
	Operating income				**3,385,886**
180 a)	Personnel expenses	(1,422,627)	(15,319)	g)	(1,432,331)
			5,615	c)	
180 b)	Other administrative expenses	(857,566)	197,153	c)	(645,094)
			15,319	g)	
200	Net value adjustments to / recoveries on property and equipment	(143,767)			
210	Net value adjustments to / recoveries on intangible assets	(108,018)	59,882	c)	
	Net value adjustments on property and equipment and intangible assets			-	(191,903)
	Operating expenses				**(2,269,328)**
	Income (loss) from operations				**1,116,558**
	Profits (losses) on disposal or repurchase		(14,967)	d)	
130	Net losses / recoveries on impairment	(3,586,292)	-		
	Net adjustments on loans to customers		-		(3,556,677)
	Net adjustments on receivables due from banks and other assets				(44,582)
190	Net provisions for risks and charges	(39,455)	-		(39,455)
240	Profits (losses) on investments in associates and companies subject to joint control	89,950	(89,950)	b)	
260	Value adjustments on goodwill	(200,000)	(39,000)	c)	
	Recoveries (losses) on investments in associates and companies subject to joint control, goodwill and other intangible assets				(239,000)
270	Profits (losses) on disposal of investments	2,461	(116)	b)	
	Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments				2,345
	Income (loss) before tax from continuing operations		**-**		**(2,521,811)**
290	Taxes on income from continuing operations	815,082	(12,840)	e)	
	Taxes on income from continuing operations				802,242
310	Income (loss) after tax from discontinued operations	(48)			
	Income (loss) after tax from discontinued operations				(48)
330	Income (loss) attributable to minority interests	38,714			
	Income (loss) attributable to minority interests				38,714
	FVO Impact		**(25,988)**	**e)**	**(25,988)**
	Parent Company's net result	**(1,945,891)**	**-**		**(1,945,891)**

The letters shown beside the column "Reclassifications and FVO" have been included for the purpose of better understanding of the reclassifications carried out.
This column indicates the reclassifications made to show figures after the impact of the change in creditworthiness on

own financial liabilities designated at fair value through profit and loss (FVO). This reclassification was made in order to permit a better and more immediate comprehension of the contribution to the financial result.
In addition, it is noted that:

- the item **"Interest margin"** includes the items recognised for interest income and expense (items 10 and 20), adjusted by the figurative cost relating to the financing of the financial assets acquired for the achievement of structured financial products intended for trading, reclassified from the item interest expense to the net financial result, equal to euro 0.9 million;
- the item **"Income (loss) from investments in associates and companies subject to joint control carried at equity"** shows the portion of the economic results pertaining to investee companies carried at equity (included in item 240 of euro 90.0 million and euro 0.1 million in item 270) totalling a profit of euro 90.1 million, and together with the interest margin, the aggregate is defined as the **"Financial margin"**;
- the item "**Other net operating income"** is represented by the financial statement item "220 Other operating expense/income", with the recoveries on indirect taxes, legal fees and other expenses, totalling euro 197.1 million, separated out, which, for reclassification purposes are shown in the item "Other administrative expenses" and separated out from mentor costs of euro 5.6 million classified in "Personnel expenses". The item in question also does not include the amortisation charges on costs for improvements to third party assets of euro 8.9 million (recognised in the reclassified item "Net value adjustments on property and equipment and intangible assets") and does include value adjustments to intangible assets with a definite useful life (client relationship) of euro 29.8 million (taken from item 210 of the official schedule). The effect of the aforementioned reclassifications was euro 223.6 million.
- the item **"Personnel expenses"** is represented by the financial statement item "180 a) Personnel expenses" and by several charges functionally related to personnel, amounting to euro 15.3 million, recognised in the statement of financial position under item 180 b) "Other administrative expenses" and by mentor costs of euro 5.6 million, recorded under item "220 Other operating expense/income", as described above;
- the income statement item **"Net financial result"** includes dividends on shares classified under financial assets available for sale and financial assets held for trading (item 70), the "Profits (losses) on trading" (item 80), the "Fair value adjustments in hedge accounting (item 90), and the "Profits (losses) on financial assets and liabilities designated at fair value through profit and loss" (item 110). It also includes "Profits (losses) on disposal or repurchase" (item 100), with the exception of the profit of euro 15.0 million relating to the disposal of loans not represented by debt securities, classified in the operational aggregate "Net adjustments on loans to customers" and the figurative cost of euro 0.9 million for the creation of structured products as described in the item relating to the "Interest margin". Overall, the aforementioned reclassifications amount to a positive figure of euro 15.9 million. The net financial result is represented, as mentioned above, after the impact of the FVO, which as at 31 December 2014 amounted to euro 38.8 million;
- the item **"Other administrative expenses"** is represented by the financial statement item 180 b), net of recoveries on indirect taxes, legal fees and other expenses, totalling euro 197.1 million, included in the item "220 Other operating expense/income", as described above, and of several charges functionally related to personnel, amounting to euro 15.3 million, recognised in the reclassified item "Personnel expenses";
- the item **"Net value adjustments on property and equipment and intangible assets"** equals the statement of financial position items 200 and 210, gross of the portion of amortisation on costs for improvements to third party assets, for euro 8.9 million, recognised in the item "220 Other operating expense/income" and net of the adjustments to intangible assets with definite useful lives (client relationship), grouped in the reclassified aggregate "Other net income from operations", for euro 29.8 million. Impairment on intangibles with a defined useful life (client relationship) of euro 39.0 million has also been deducted from this item, grouped under the reclassified aggregate "Recoveries (losses) on investments in associates and companies subject to joint control, goodwill and other intangible assets". The overall effect of the aforementioned adjustments on the aggregate was a positive figure of euro 59.9 million.
- total **"Net adjustments on loans to customers"** and **"Net adjustments on receivables due from banks and other assets"** starts from item 130 of the income statement "Net losses / recoveries on impairment". Specifically, "Net adjustments on loans to customers" include the value adjustments on exposures classified in the portfolio of loans to customers, on guarantees, commitments and credit derivatives (included in the aforementioned item 130), and includes the loss on disposal of loans, amounting to euro 15.0 million (included in item 100). The aggregate "Net adjustments on receivables due from banks and other assets" includes the net adjustments for impairment of exposures classified in the portfolio "due from banks", "financial assets available for sale" and other transactions (included in item 130);
- **"Recoveries (losses) on investments in associates and companies subject to joint control, goodwill and other intangible assets"** corresponds to item 260 of the official income statement and to item 240 net of the portion of the income statement results pertaining to investee companies carried at equity (totalling euro 90.0 million), recorded under the classified item "Income (loss) from investments in associates carried at equity", also include the impairment on intangibles with a defined useful life (client relationship) of euro 39.0 million;
- **"Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments"** correspond to item 270 of the official income statement and to the net income on the disposal of investments carried at equity (which represents one of which of item 240 of the official income statement), net of euro 0.1 million reclassified under "Income (loss) on investments in associates and companies subject to joint control carried at equity".

Country by Country reporting

The Country by country reporting, introduced with art. 89 of Directive 2013/36/EU (“CRD IV”), assimilated into Italian law with the 4th update of the Bank of Italy circular no. 285 of 17 December 2013 (Part One, Heading III, chapter 2), envisages an annual obligation to provide information with reference to letters a), b),c), d), e) and f) of art. 89 of the CRD IV with reference to the situation as at 31 December 2014.

To this end, the information required is reported, broken down by each letter.

A) Name of companies established and nature of activities

The activities performed by the Banco Popolare Group are illustrated in the table below, which refers to that indicated in art. 317 of EU Regulation no. 575/2013 of the European Parliament and Council (CRR), supplemented with further specific activities.
These activities are grouped according to prevalence criteria, with the “business segments” which, in brief, refer to the internal operating structure of the Group and are referred to in the Report on Operations (paragraph “Results by business segment” and also in “Part L - Segment reporting” of the Notes to the Consolidated Financial Statements as at 31 December 2014.

Taken from CRR: par 4, art. 317, Table 2		Banco Popolare Group business segments			
Business line	List of activities	Commercial and distribution (Branch Networks)	Invest. Bank, Priv. Bank., Asset Man.	Leasing	Corporate Centre and Other
Financial business services (corporate finance)	Underwriting commitment for financial instruments or placement of financial instruments based on an irrevocable commitment	✔	✔		
	Services related to the underwriting commitment	✔	✔		
	Advice on investments	✔	✔		
	Research on investments and financial analysis and other forms of general advice regarding transactions in financial instruments	✔	✔		
Trading and sales	Trading on own behalf		✔		✔
	Receiving and sending orders regarding one or more financial instruments		✔		
	Order execution on behalf of customers		✔		
	Placement of financial instruments without an irrevocable commitment		✔		
	Management of multilateral trading systems		--		
Retail brokerage (Activities with natural persons or with SMEs that meet the criteria set forth in article 123 for the class of retail exposure)	Receiving and sending orders regarding one or more financial instruments	✔	✔		
	Order execution on behalf of customers	✔	✔		
	Placement of financial instruments without an irrevocable commitment	✔	✔		
Commercial banking services	Collection of deposits or other redeemable funds	✔			✔
	Securities lending transactions	✔			✔
	Financial leases	✔		✔	
	Issue of guarantees and unsecured guarantees	✔			✔
Retail banking (Activities with natural persons or with SMEs that meet the criteria set forth in article 123 for the class of retail exposure)	Collection of deposits or other redeemable funds	✔			
	Securities lending transactions	✔			
	Financial leases	✔		✔	
	Issue of guarantees and unsecured guarantees	✔			
Payments and settlements	Payment services	✔			
	Issue and management of payment instruments	✔			
Agency services	Custody and administration of financial instruments on behalf of customers, including custody and related services such as the management of cash/real guarantees		✔		✔
Asset management	Portfolio management		✔		
	Management of UCITS		✔		
	Other forms of portfolio management		✔		
Other support services and activities	Management of treasury and funding on own account				✔
	Portfolio management for investments in associates and companies subject to joint control				✔
	Management of IT activities				✔
	Management and maintenance of real estate assets				✔

With regard to the main content, the business segment:

- **"Commercial and Distribution"**, includes the management and sale of banking and financial products and services and loan brokerage activities addressed to both retail (private individuals and small businesses) and corporate customers. These activities are mostly conducted by the Parent Company Network Divisions;
- **"Investment Banking, Private Banking, Asset management"**, includes the structuring of financial products, access to regulated markets, the support and development of specialist financial services for private customers (e.g. individual portfolios) and the promotion and management of funds and SICAV. These activities are conducted by specialist Group companies, such as Aletti & C. Banca d'Investimento Mobiliare, Aletti Fiduciaria and Aletti Gestielle SGR;
- **"Leasing"**, includes the management and administration of financial lease agreements set in place by the former Banca Italease Group;
- **"Corporate Centre and Other"**, includes activities relating to the operational sphere, the governance processes of the various Group entities and business support. These activities are mostly conducted by the central structures of the Parent Company, by Società Gestione Servizi BP and by the Group's real estate companies.

To a marginal extent with respect to the Group's total volumes, certain retail activities included in the above classifications are also conducted by foreign subsidiaries: Banco Popolare Luxembourg SA (deposit collection and asset management, custodian bank services and specific services for institutional customers), Banca Aletti & C. (Suisse) SA (specialist financial services for private customers) and the London Branch of Banco Popolare (loans and services for Banco Popolare's companies). With reference to 31 December 2014, the weight of foreign activities was less than 5%, both in terms of total consolidated assets, and total consolidated income.

B) Turnover

The turnover refers to Net interest and other banking income, set forth in item 120 of the consolidated income statement, which as at 31 December 2014 amounted to euro 3,103.1 million (euro 3,265.8 million as at 31 December 2013). See in this regard the Consolidated Income Statement for 2014.

C) Number of employees on a full time equivalent basis

In terms of full time equivalent employees, the figure as at 31 December 2014 was 17,179 (17,671 as at 31 December 2013), also including CoCoPro contracts and Placements.

D) Profit or loss before tax

The Group's loss before tax corresponds to the sum of items 280 and 310 of the consolidated income statement, which is euro 2,799.7 million (euro 716.3 million as at 31 December 2013). See in this regard the Consolidated Income Statement for 2014.

E) Tax on profit or loss

The tax on the Group's loss for 2014 corresponds to the amount shown in item 290 of the consolidated income statement, which is a positive figure of euro 815.1 million (as at 31 December 2013, the corresponding amount was a positive euro 96.2 million).). See in this regard the Consolidated Income Statement for 2014.

F) Public subsidies received

The Banco Popolare Group has not received subsidies from Public Administrations in 2014 or in previous years. In this regard, note that, as regards the subsidies in question, in compliance with the provisions envisaged for the preparation of this report, the operations undertaken with the central banks for the purpose of financial stability or operations whose objective is to facilitate the transmission mechanism of monetary policy are excluded.

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